



22 August 2019

APN PROPERTY GROUP ANNOUNCES STRONG FY2019 PROFIT RESULT EXCEEDING ORIGINAL GUIDANCE AND DIVIDEND INCREASED 22%

FY2019 Achievements

- Operating Earnings¹ up 12% to \$9.2 million (FY2018: \$8.2 million), with 99% of earnings generated from recurring sources
- Operating Earnings 2.94 cents per share (cps), exceeding top end of guidance range
- Statutory net profit after tax up 7% to \$14.5 million (FY2018: \$13.6 million)
- Funds Under Management (FUM) up \$127 million or 5% to \$2.9 billion
- Strong and flexible balance sheet with net tangible assets of \$126.1 million and cash of \$15.7 million; NTA per share of 40.2 cents (up 7% versus FY2018)
- Strong results including asset acquisitions, material leasing and asset improvement projects across \$1.2 billion of direct property funds
- Final dividend (fully franked) increased 50% or 0.50 cents to 1.50 cps (45% franked), total FY2019 dividends to 2.75 cps in total (70% franked), increase of 22% on FY2018

Funds Under Management, Profit and Dividends Increased

APN Property Group Limited (ASX: APD) (APN or the Group) today reported a statutory net profit after tax for FY2019 of \$14.5 million, an increase of 7% compared to the prior corresponding period (pcp). Operating Earnings¹ per share was 2.94 cents, an increase of 12% and exceeding the top end of the Group's market original guidance range.

The Board has declared a final dividend of 1.50 cent per share (45% franked), up 50% or 0.50 cents from the prior year, to be paid on 26 September 2019 to those shareholders registered as at 9 September 2019. Dividends for FY2019 total 2.75 cents per share (of which 1.925 cps fully franked and 0.825 cps unfranked), a 22% increase over FY2018.

APN's Chief Executive Officer, Mr Tim Slattery, said "APN has delivered a strong set of results for the 2019 financial year with a 12% increase in our operating earnings to 2.94 cents per share with nearly all (99%) of our income being generating from recurring sources. This is our sixth successive year of recurring income growth and we are delighted to have increased our dividend again.

Our team has delivered strong risk adjusted returns for the investors in our funds, as a direct outcome of active and diligent management of our assets which has included over 50 leasing transactions over in excess of 13,000 square metres of lettable area over the year.

¹ Operating earnings is an unaudited performance metric used by the Group as a key measurement of underlying performance. It adjusts statutory profit for certain non-operating items recorded in the income statement including discontinued operations, business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

APN is in an excellent position – with strong investment performance, well capitalised funds with strong continuing earnings growth and acquisition potential and an attractive set of market dynamics including an investment environment continuing to seek sustainable income streams.

We are delighted to see our strategy continuing to deliver earnings growth and value for our shareholders and we remain in a strong financial position with net tangible assets per share in excess of 40 cents and approximately \$16 million in cash.

The Market and the Ongoing Need for Income from Property

Today's current market environment with the Reserve Bank of Australia's cash interest rate at 1.00% per annum and the 10 Year Australian Commonwealth Government Bond yield delivering investors less than 1.00% pa highlights investors' need for reliable cash income streams. APN's 'Property for Income' products are exceptionally well positioned to meet this need. We increasingly see investors, whether institutional or retail, uncertain of the length and amount of funding required to meet retirement needs and as a result focused on capital preservation and 'living off one's income'. While risk and return profiles remain different between asset classes, a high quality commercial property portfolio financed with a sensible level of debt generating a cash income yield of 4-6 % over the cash rate offers an attractive proposition for these investors. We therefore continue to believe the company is well positioned to grow further.

Funds and Performance Continue to Deliver Strong Risk Adjusted Returns

At an operational level, APN's funds have continued strong income-focused returns as a result of active management. The APN AREIT Fund, APN's largest single fund which is 'benchmark unaware' and which aims to deliver 110% of the AREIT index's distribution yield delivered a 10.2% return for the year. This Fund marked its 10 year anniversary from its inception in January 2009 and has delivered annualised returns since this time of 14.0%. Another key achievement for the year was the successful transition of the Securities' Team's leadership from Michael Doble to Pete Morrissey which we are pleased to report has occurred smoothly and with strong support from our investors.

In 2011, the company launched an equivalent, income-focused listed property securities fund focused on Singapore, Hong Kong and Japan. Over half of the world's population lives in the Asian region and analysis from The Brookings Institution (2018) concluded that 9 out of 10 of the next 1 billion members of the world's middle class would be based in Asia. Long term GDP growth has been a strong positive indicator of real estate investment performance and the APN Asian REIT Fund has delivered 28.9% over the year to June 2019 and 15.5% per annum since its inception in July 2011. Both of these funds deliver distribution yields in excess of 5% pa (at June 2019) and pay distributions monthly.

During the year both of APN's listed direct property REITs to ensure that the connection to APN was clear and that the funds had full benefit of APN's market presence as manager and a significant co-investor.

APN Industria REIT (ASX: ADI) was listed in 2013 with \$378 million of office and industrial assets and since that time its portfolio has been built to \$739 million in value. APN's team had a particularly active year on Industria's leasing program, successfully completing 53 leasing transactions with tenant retention of 87%. These results demonstrate APN's hands on approach to managing our real estate and a high level of engagement with the businesses which occupy our properties. APN Industria REIT acquired four properties during the year and raised \$50 million in new equity in a very well supported transaction.

APN Convenience Retail REIT (ASX: AQR) delivered a total return for the year of 23.7% and delivered earnings (Funds From Operations) of \$17.0 million, 4.3% ahead of its Initial Public Offering forecast. The Fund's portfolio increased in value over the year by 5.3% to \$358 million. The fund continues to offer investors a long 11.7 year average lease term and a portfolio leased to leading international and Australian non-discretionary retailers.

In our direct property activities APN successfully completed the APN Steller Development Fund with an expected total return of approximately 38% and an equity IRR of approximately 17%. During the year the \$24 million APN Nowra Property Fund was successfully launched, offering investors a 12 year weighted average lease expiry backed by a Woolworths Limited guarantee and a 7.80% pa initial equity distribution yield.

In March 2019 the APN Regional Property Fund was recapitalised and extended for a further five year term. The Fund owns two A-Grade office buildings in Newcastle, NSW independently valued at \$52 million. APN's assessment of the opportunity was that it represented attractive value at a rate of \$5,493 per square metre of lettable area compared to other A-Grade office markets.

Growth Opportunities and Outlook

In the period, our team was very active in the analysis and origination of new direct property opportunities while maintaining a disciplined approach to our acquisition criteria. Consistent with having a long term view, we will continue to be patient in the identification of new opportunities. However, we are increasingly confident that the number and availability of attractive acquisition opportunities will increase over the next year.

We are currently working on three new funds in both the Securities and Direct property areas of the business which we expect to introduce to investors over FY2020.

Dividend Sustainability and Guidance

The Board has declared a final dividend of 1.50 cents per share which will be 45% franked, bringing the total dividend for the year to 2.75 cents per share (70% franked).

The Board has issued guidance to the market that its view is that the dividend is sustainable at this level for the foreseeable future (based on current market conditions). As part of this, the Board expects to pay a dividend for the full year of 2.75 cents per share which will be partially franked.

The Board has determined to issue dividend guidance in place of its previous practice of issuing operating earnings guidance having reviewed market practice and what it believes will be most useful for investors.

Stapling Proposal

As outlined in the October 2018 explanatory materials, the Board believes it is in the company's interests to convert itself into a stapled structure. At the 2018 APD Annual General Meeting, shareholders approved the establishment of a stapled structure by 30 June 2019 subject to the satisfaction of certain conditions including the receipt of an appropriate class ruling from the Australian Taxation Office. In May 2019 APN advised that it would not receive the necessary ruling by 30 June 2019 and therefore the stapling proposal would not be implemented by the shareholder approval sunset date of 30 June 2019.

The APD Board intends to continue to work towards the restructure of APD into a stapled group. This will require further approval from shareholders prior to implementation, as well as ASIC relief or approval. Subject to receiving any necessary relief and approvals, the Board's objective is for the restructuring to occur by 31 December 2019.

Conference call

APN will hold a group investor conference call at 11:00am (AEST) today, 22 August 2019.

Dial in details: Participants can dial +61 2 9007 3187 or 1800 870 643 (toll free) to join the call. When prompted, please enter Conference ID: 10001563

To bypass the operator and gain immediate access to the event participants can preregister:
<https://s1.c-conf.com/diamondpass/apn-10001563-invite.html>

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For further information, please contact:

Tim Slattery
Chief Executive Officer
T +613 8656 1000
E tim.slattery@apngroup.com.au

Michael Groth
Chief Financial Officer
T +613 8656 1000
E mgroth@apngroup.com.au

NOTES

Forward looking statements

This release contains forward-looking statements, estimates and projections, which are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors many of which are beyond APN Property Group's control and which may cause actual results to differ materially from those expressed in the statements contained in this announcement.

About APN Property Group

APN Property Group Limited (ASX code: APD) is a specialist real estate investment manager. Since 1996, APN has been actively investing in, developing and managing real estate and real estate securities on behalf of institutional and retail investors. APN's focus is on delivering superior investment performance and outstanding service. Performance is underpinned by a highly disciplined investment approach and a deep understanding of commercial real estate.

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