



## Australian Education Trust (ASX:AEU)

**Financial Results**  
**30 June 2011**

8 August 2011

# AGENDA

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# Overview – Key Metrics & Achievements



## Full Year Highlights

- FY11 was two distinctive half year periods for AET
- FY11 Net Operating Profit up 69% from pcp
- Upgraded FY12 forecast distribution
- Decreased the cost of debt with a new 3 year debt facility
- Recommenced distributions
- Successful 3-for-10 Rights Issue raising \$30.4 million
- Significant reduction in gearing over the year and increased Interest Cover margin
- Re-rate AET to investors with a stronger balance sheet and outlook
- Major tenant's preliminary financial performance strong
- 48% annual increase in unit price to 30 June 2011
- Market capitalisation up from \$72.8m to \$140.4m as at 30 June 2011

# Financial Results – Profit & Loss

- Net operating profit increased by \$4.4 million or 69% to \$10.8 million
- Improvement in performance driven through reduction in operating expenditure as AET returned to normal operations
- Reduction in finance costs of \$3.3 million reflects lower level of borrowings. This was partially offset by higher financing costs in first half of FY11
- Significant reductions in RE remuneration and legal expenses totalling \$1.6 million

**Table 1: Consolidated Income Statement**

(\$m's)	Year Ending 30 June 2011	Year Ending 30 June 2010
<b>Revenue</b>		
Lease income	33.1	33.4
Property outgoings recoverable	5.2	4.9
Other income	0.6	0.6
	<b>38.9</b>	<b>38.9</b>
<b>Expenses</b>		
Finance costs	16.7	20.0
Property outgoings	8.2	7.6
Responsible entity's remuneration	1.9	2.7
Legal expenses	0.4	1.2
Other expenses	0.9	1.0
	<b>28.1</b>	<b>32.5</b>
<b>Net Operating Profit</b>	<b>10.8</b>	<b>6.4</b>

# Financial Results – FY11 Half Year Analysis

- FY11 is a story of two halves with debt refinancing at 31 December 2010
- Cost of debt of 9.7% pa in first half compared with second half of 8.0% pa post refinancing
- Debt reduced by \$37m during the year largely due to the Rights Issue in April
- Other operating expenses increased in H2 mainly due to higher non-recoverable property outgoings and valuation fees

**Table 2: Consolidated Income Statement**

(\$m's)	H1- Old Financing	H2 – New Financing	Year Ending 30 June 2011
<b>Revenue</b>	<b>19.4</b>	<b>19.5</b>	<b>38.9</b>
<b>Expenses</b>			
Finance costs	9.9	6.8	16.7
Other operating expenses	5.3	6.1	11.4
	<b>15.2</b>	<b>12.9</b>	<b>28.1</b>
<b>Net Operating Profit</b>	<b>4.2</b>	<b>6.6</b>	<b>10.8</b>
<b>Distributions (cpu)</b>	<b>Nil</b>	<b>4.25</b>	<b>4.25</b>

# Financial Results – Reconciliation to Statutory Profit

- Largely non-cash accounting adjustments of \$8.5m of which \$5.8m related to H1 (primarily due to close out of US Noteholders)
- Only \$1.2m is a cash loss of which \$0.5m relates to sale of investment properties and \$0.7m relates to close out of surplus FX contracts
- A total of 80 properties were valued during the year and valuation adjustments made due to movement in NZ exchange rate and diminishing leasehold assets

**Table 3: Reconciliation to Statutory Profit**

Year ending 30 June (\$m's)	2011
<b>Net Operating Profit</b>	<b>10.8</b>
Lease income adjustments	0.4
Net revaluation decrement of investment properties	(2.8)
Realised gains / (losses) on sale of investment properties	(0.5)
Realised / unrealised foreign exchange gains / (losses)	(2.8)
Realised / Unrealised losses on derivative financial instruments	(2.8)
<b>Statutory Profit</b>	<b>2.3</b>

# Financial Results – Balance Sheet

- Total assets decreased by \$15.1m due to sale of properties and reduction in cash balances
- Borrowings reduced from \$179.4m to \$140.0m with proceeds from property sales and Rights Issue
- Number of units increased by 40.4m due to Rights Issue entitlement offer
- Gearing reduced to 40.7%

**Table 4: Financial Comparison 2010/2011**

Year Ending	June 2011	June 2010	Variance
Total Assets	\$353.9m	\$369.0m	(4.1%)
Investment Property	\$344.1m	\$352.3m	(2.3%)
Borrowings <sup>1</sup>	\$140.0m	\$179.4m	(22.0%)
Net Assets	\$206.9m	\$183.3m	+12.9%
Units on Issue as at End of Period	175.5m	134.9m	+30.1%
Gearing <sup>2</sup>	40.7%	50.9%	(10.2%)
NTA per unit	\$1.18	\$1.36	(13.2%)

1. 30 June 2010 - Based on conversion of foreign currency borrowings at hedged exchange rates

2. Gearing is calculated by borrowings / investment properties

## ► Key Banking Terms

**Table 5: Debt Facility Key Commercial Terms**

<b>Original Facility Limit</b>	\$180m (As at 30 June 2011 reduced to \$142m)
<b>Drawn Amount</b>	\$140m as at 30 June 2011
<b>Facility Term</b>	3 Years expiring December 2013
<b>Financiers</b>	NAB & ANZ (50% equal share)
<b>Security</b>	First ranking mortgages over each freehold property
<b>Margins</b>	Scale of margins dependant upon the Trust's LVR position
<b>Maximum Loan to Value Ratio</b>	55% of Freehold & 50% of Leasehold Interests
<b>Interest Cover Ratio</b>	Not to be less than 1.4x for FY11 and 1.6x for FY12 and beyond measured on a six monthly basis
<b>Alternate Use Ratio</b>	Debt is not to exceed 100% of Alternate Use Values for portfolio
<b>Interest Rate Hedging</b>	Interest rate hedging in place for 86% of current drawn debt of \$140m. A \$60 million interest rate swap at a fixed rate of 5.63% pa. A \$60m cap/collar arrangement that has a cap of 6% pa (maximum amount payable) and a floor of 4.9% pa (minimum amount payable) of which a premium is payable of approximately \$150,000 pa.



# Portfolio Summary

- 193 leases to GoodStart – pooled bank guarantee of approx \$12.9 million extending to 2035
- Spread of risk – 26 tenants
- WALE of 10 years
- Vacancy of 1%
- Operating properties includes 31 leasehold properties with a value of \$19.4 million

**Table 6: Portfolio**

<b>As at 30 June 2011</b>	<b>Prop No's</b>	<b>Carrying Value \$000's</b>	<b>Current Rent (pa) \$000's</b>	<b>% of Rent</b>
<b>Operating Properties</b>				
Australia - Tenanted by GoodStart	193	219,462	21,564	64%
Australia - Other Tenants	78	82,095	8,524	25%
New Zealand – Tenanted by ABC NZ	56	40,014	3,498	11%
<b>Sub-Total</b>	<b>327</b>	<b>341,571</b>	<b>33,586</b>	<b>100%</b>
<b>Non-income Producing Properties</b>				
Available For Sale / Lease	5	1,831	-	-
Settled on 20 July 2011	1	700	-	-
<b>Total Properties</b>	<b>333</b>	<b>344,102</b>	<b>33,586</b>	<b>100%</b>

# Portfolio Performance

- Key performance criteria highlights stable nature of portfolio
- Decrease in value of Investment Properties mainly due to the sale of 8 properties
- Stabilisation in property yields over the 12 month period
- Property yield is calculated as passing rent/last valuation
- Increased occupancies generally across the portfolio and sector
- Alternative use value of assets at 57% of going concern value.  
\* Excludes leasehold values

**Table 7: AET Portfolio Performance**

Year Ending	June 2011	June 2010
Value of Investment Property (Operating Properties)	\$341.6m	\$346.5m
Number of Properties	333	340
Annualised Net Rental Income	\$33.6m	\$32.7m
Property Yield – Freehold Properties	9.3%	8.9%
Property Yield – Leasehold Properties	15.0%	13.6%
Total Property Yield	9.6%	9.2%
Vacancy Rate (excluding development sites)	0.9%	1.8%
Alternative Use Value of Assets	57%*	N/A
Weighted Average Lease Expiry (“WALE”)	10.0	10.8

# Lease Structure & Vacancy Profile

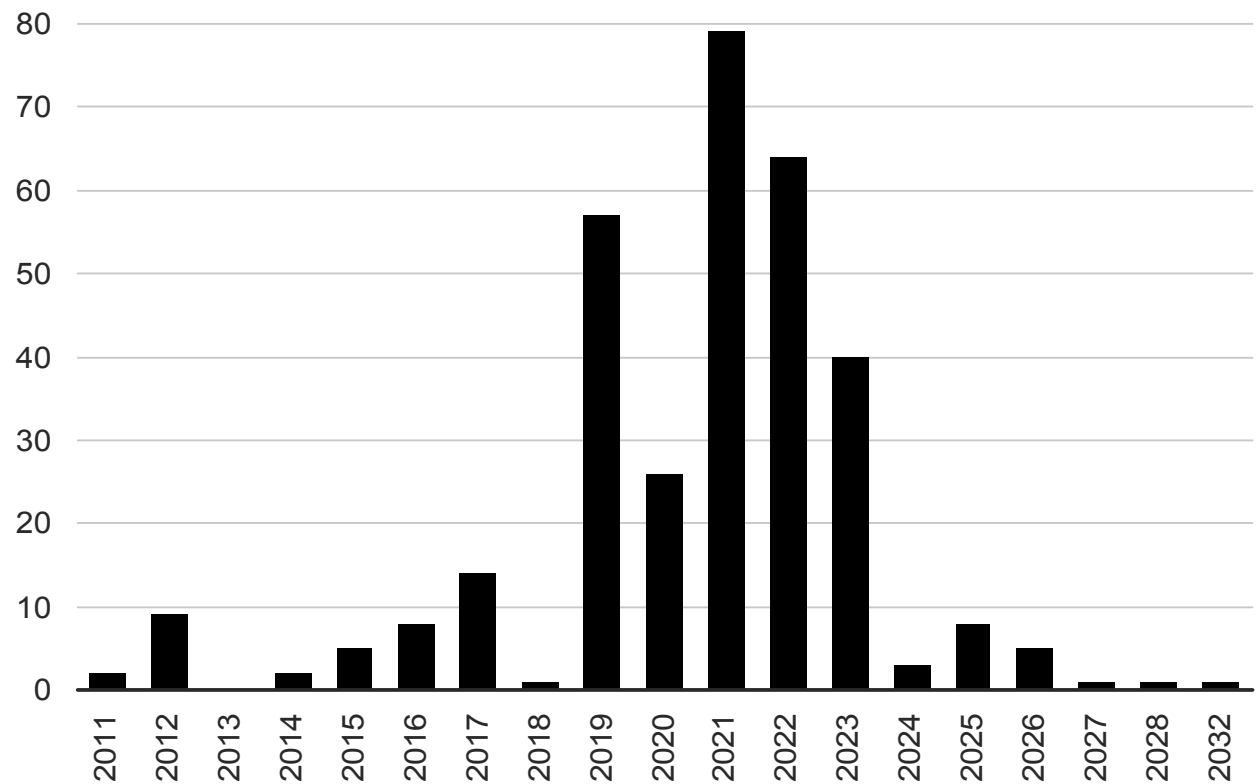
## Lease Structure

- Triple Net Lease Structure
- Average commencing lease term 15 years
- Rental growth indexed annually to CPI
- Almost all leases have a 5 year notice period regarding option take-up
- Refurbishment provision every 5 years
- Operating properties – 296 Freehold, 31 Leasehold

## Occupancy Profile

- Existing vacancy of 1%
- 2012 potential vacancies include guaranteed rent flow to 2014
- No significant vacancy until 2019
- Weighted Average Lease Expiry of 10 years at 30 June 2011

Figure 1: Lease Expiry Schedule



# Lease Structure & Vacancy Profile

- 327 operating properties 271 in Australia and 56 New Zealand
- Broad geographic spread minimising risk
- Properties are typically standalone and purpose built childcare properties
- Properties located at high flow-through traffic locations primarily in metropolitan and major regional areas
- Strong demand continuing driven by continued government support, growing demand for labor and a shortage of childcare places

Figure 2: Geographic Distribution



# Management Initiatives

## Short Term Focus

- Continue to undertake initiatives to increase distributions
- Continue to re-introduce a stabilised AET to a large array of retail and institutional investors
- Management of our interest in the sale of ABC New Zealand
- Sale/leasing of remaining surplus assets (5)

## Medium Term Focus

- Primarily through merger activity, carefully explore suitable opportunities for AET with a preference for quality real estate and backed by well capitalised tenants
- Minimise the yield premium investors seek when investing in AET through wider marketing
- Continue high level of disclosure and investor interaction

## Austock Group's Commitment to AET

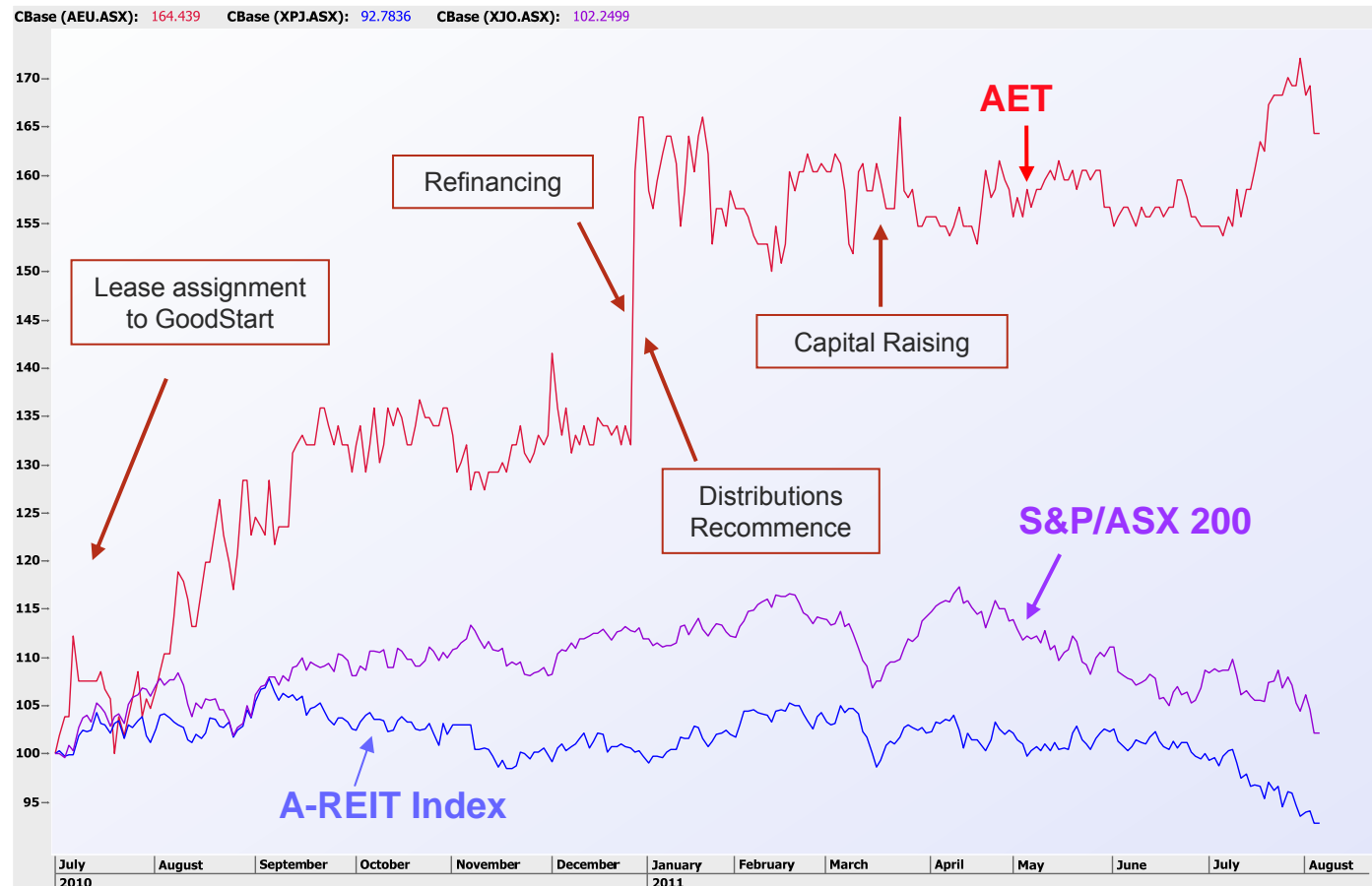
- Contributed substantial resources, at its own expense, to the management of AET over and above that of our peers
- Strengthened and supported the management team significantly to ensure the best possible outcomes for Unitholders

# Unit Price Performance & Comparisons

## Positive Financial Performance

- Unit price recovery, a validation of the improved confidence in AET
- AET outperformed the total ASX200 and A-REIT 2011 indices by 46% and 55% respectively, with the unit price increasing from 54 cents to 80 cents for the year
- Increased liquidity and demand for the units a good outcome of the capital raising

Figure 3: AET Unit Price Performance FY11



Source: IRESS

## ► Stable Industry Outlook

- Strong Government support for the sector continues. Current focus on encouraging greater female participation in the workplace will reinforce the importance of childcare
- Childcare is traditionally not a discretionary spending item for most families
- Increasing cost of housing and living expenses now requires a 2nd wage to supplement family incomes for many
- Increasing occupancy levels are strengthening the industry after a difficult 3 year period
- Social infrastructure perceived to be more resilient to market fluctuations
- Government policy - no means tests on childcare rebates - a positive outcome for the industry

**Increasing demand for childcare is expected due to continued population growth, an increasing demand for labour and increasing housing and living expenses.**



## Upgraded FY12 distribution forecast of 9.0 cpu

- Increased distribution forecast from 8.8 cpu to 9.0 cpu
- Lower interest rate forecasts than previously modelled
- All in cost of debt of 8.6% based on a BBSW rate of 5.0%. This includes underlying interest rates, bank's margin, hedging arrangements and amortisation of capitalised transaction costs
- Hedging arrangements provide a cap and collar arrangement across the debt allowing for some rise and fall in interest rates
- Australian Revenue (90% of total revenue) – CPI estimated at 2.5%
- New Zealand Revenue (10%) – CPI estimated at 3.0% (Exchange Rate est. 1.30)
- FY12 forecast is based on on-going tenant performance
- Forecast FY12 ICR is 2.4x
- AET will continue to payout all net operating profit to Unitholders



- **Why AET is a positive investment vehicle**
- Key metrics such ICR and LVR now have significant headroom
  - Limited vacancy of 1% (excluding two development site assets)
  - Weighted Average Lease Expiry at 30 June 2011 of 10 years
  - Limited capex exposure given mainly triple net leases
  - Stable banking arrangements and predictable income profile
  - Portfolio enhanced by spread of risk with 26 tenants
  - Simple and uncomplicated business model with proven underlying property values
  - Broad geographic spread minimising risk
  - Smaller properties are inherently more liquid than larger investments
  - Stable investment market for childcare centres

# Outlook

- AET is now strongly positioned with a stable and predictable income stream and forecast quarterly distributions for the financial year ending 2012 of **9.0 cents per unit**
- We expect that the demand for childcare will continue given continuing population growth will assist in driving the industry over the coming years
- Management continues to:
  - Promote AET as a simple and uncomplicated business model to a wider cross section of investors
  - Carefully explore appropriate new opportunities that add long term Unitholder value
  - Maintain a business model based on transparency and value add initiatives

**AET will continue to pursue its investment strategy in the social infrastructure sector and examine means to enhance returns and Unitholder value**

## Q&A

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