

# FOLKESTONE EDUCATION TRUST

Full Year Results  
ASX:FET

30 June 2016



Folkestone  
EDUCATION TRUST

# CONTENTS

**Nick Anagnostou**  
Chief Executive Officer

**Travis Butcher**  
Chief Financial Officer

Full Year Performance Review 3

FET's Performance 4

FET's Strategy 5

The Childcare Equation 6

Financial Results & Capital  
Management 8

Operational Performance 12

Childcare Market 20

Outlook 22

Appendices 24

Directory 36



**Folkestone**  
EDUCATION TRUST

# FULL YEAR PERFORMANCE REVIEW

## FY16 - EXECUTION DRIVING OUTPERFORMANCE

**\$106.8m**

Net Profit  
+20.5%



**\$34.5m**

Dist. Income  
+16.2%



**14.0cpu**

EPU<sup>1</sup>  
+5.3%



**13.4cpu**

Distribution  
+4.7%



**\$2.14**

NTA Per Unit  
+17.6%



**34.8%<sup>2</sup>**

Total Return



### PORTFOLIO MANAGEMENT

Portfolio Growth & Reweighting

**\$26.3m**

Developments Completed

**16.4%**

Margin on Completed Developments

**18**

Developments Contracted

**\$109.9m**

Acquisition / Development Pipeline

### ASSET MANAGEMENT

Systematically Adding Value

**8.2yrs / 99.5%**  
WALE / Occupancy

**+\$72.8m / -70 bps**

Increase in Valuations / Yield Compression

**5.5%**

Average Increase on 65 Market Reviews

**61 of 69**

5 Year Options Renewed

### CAPITAL MANAGEMENT

Maximising Unitholder Value

**4 yrs**  
Average Debt Maturity

**4.5% pa**  
Cost of Debt

**26.6%**  
Gearing

**53%**  
Average Hedged Debt until FY21

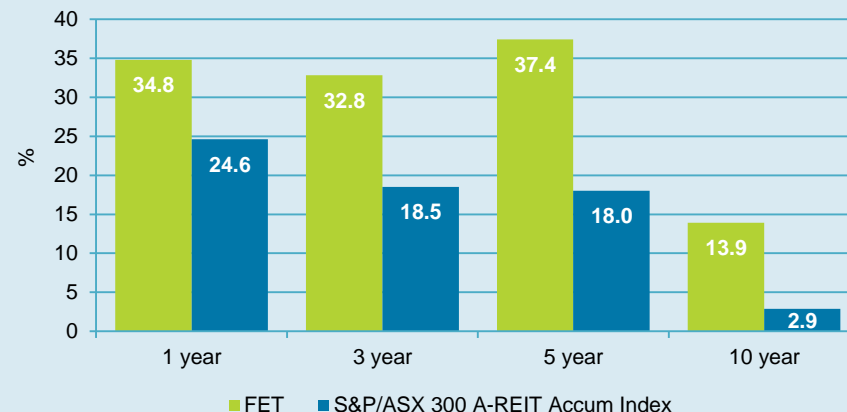
<sup>1</sup> Distributable income divided by the weighted average number of units on issue

<sup>2</sup> UBS Australian A-REIT Month in Review – June 2016

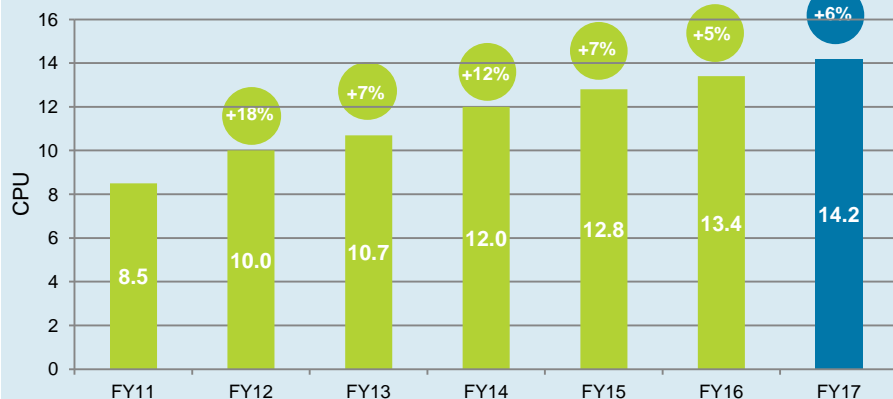
# FET's PERFORMANCE

- Continued performance driven by execution of a well-formulated and clear strategy
- FET has significantly outperformed the S&P/ASX300 A-REIT Accumulation Index across 1, 3, 5 and 10 year periods
- FET ranked 5th over 1 year and 3 years and 1st over 5 years and 10 years<sup>1</sup>
- Distribution growth – average 8.9% p.a. since 2011
- NTA growth - average 12.6% p.a. since 30 June 2011

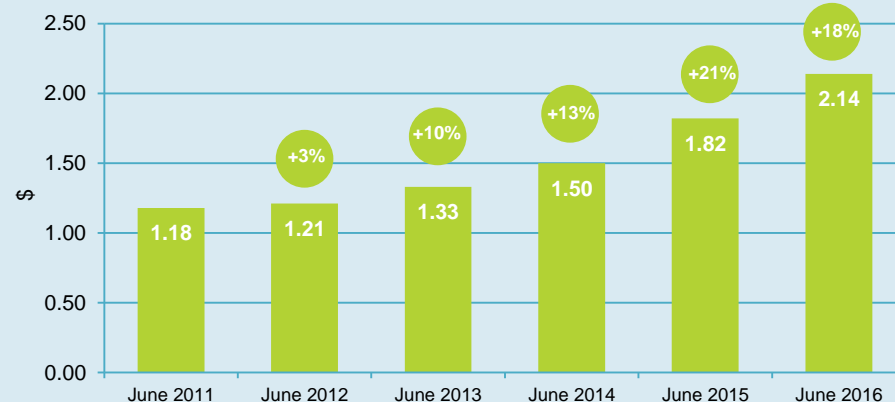
**FET TOTAL RETURN PERFORMANCE VS S&P/ASX 300 A-REIT INDEX: TO 30 JUNE 2016**



**DISTRIBUTION GROWTH CPU: FY11– FY17**



**NTA GROWTH \$ PER UNIT: June 2011 – June 2016**



<sup>1</sup> UBS Australian REIT Month in Review – June 2016

## To Provide Investors With Secure And Growing Long Term Cash-Flows With The Potential For Capital Growth

### PORTFOLIO MANAGEMENT

### ASSET MANAGEMENT

### CAPITAL MANAGEMENT

#### FET's Intellectual Property & Industry Knowledge

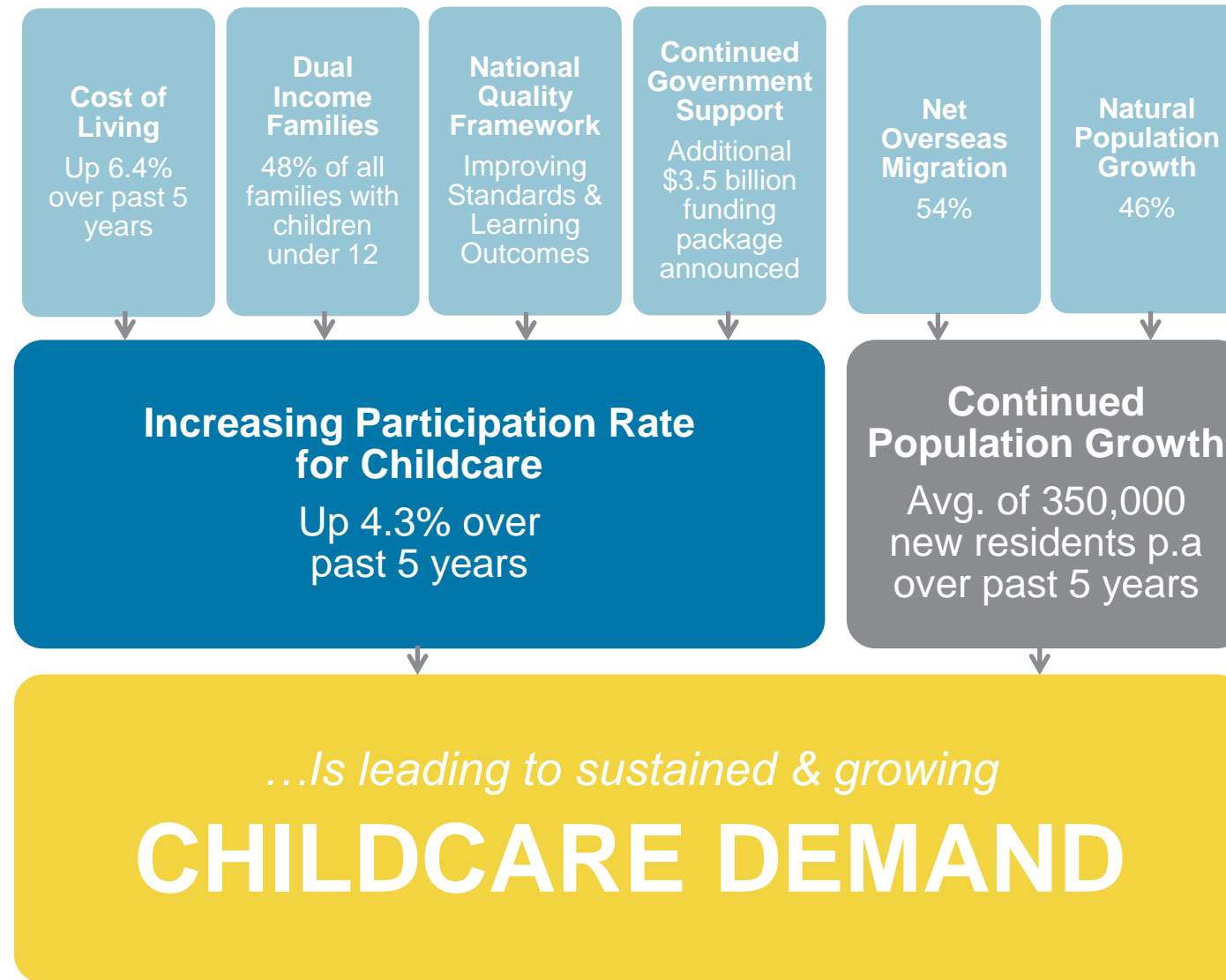
#### Disciplined Strategy Provides Long Term Benefits

- Identify high success locations through proprietary modelling of demographic trends
- Focus on sites within a ~20km radius of CBD and rapidly expanding growth areas
- Focus on new developments which drive earnings growth, asset quality & development profits
- Deliver quality centres with leading edge designs in high demand locations that childcare operators compete for
- Construction of FET 'IP' & Development Management capability mitigates risk, increases quality of outcomes through greater control

- Adherence to FET's "best site, best lease, best operator" criteria
- Maintain key lease features
  - long term commitments
  - triple net leases
  - annual escalations
  - provision of security
  - centre operating data
- Pro-active management of existing properties including asset recycling to generate profit, minimise obsolescence and optimise quality
- Zero incentives/high land value component
- FET's reputation as Landlord of choice for future opportunities

- Maintain strong capital position with a 'through the property cycle view'
- Maintain balance sheet flexibility to provide capacity to fund new opportunities
- Diversification of maturity risk profile
- Hedging strategy focussed on mitigating of interest rate risk through economic cycles
- Manage costs effectively

# THE CHILDCARE EQUATION



**Childcare in Australia is vital to the economy through..**

- ✓ Removing barriers to entry to employment & increasing the size of the labour pool
- ✓ Positively contributing to economic growth
- ✓ Providing long term net savings to Government

Source: ABS, Early Childhood and Child Care Summary June Quarter 2011-15, Folkestone

# CONTINUED DEMAND FOR CHILDCARE

## FET TO CONTINUE UTILISING DEMOGRAPHICS TO IDENTIFY HIGH SUCCESS LOCATIONS

FET forecast  
~60,000 more  
children  
utilising LDC  
by 2020<sup>1</sup>

Higher  
demand for  
centres in high  
population  
growth  
locations

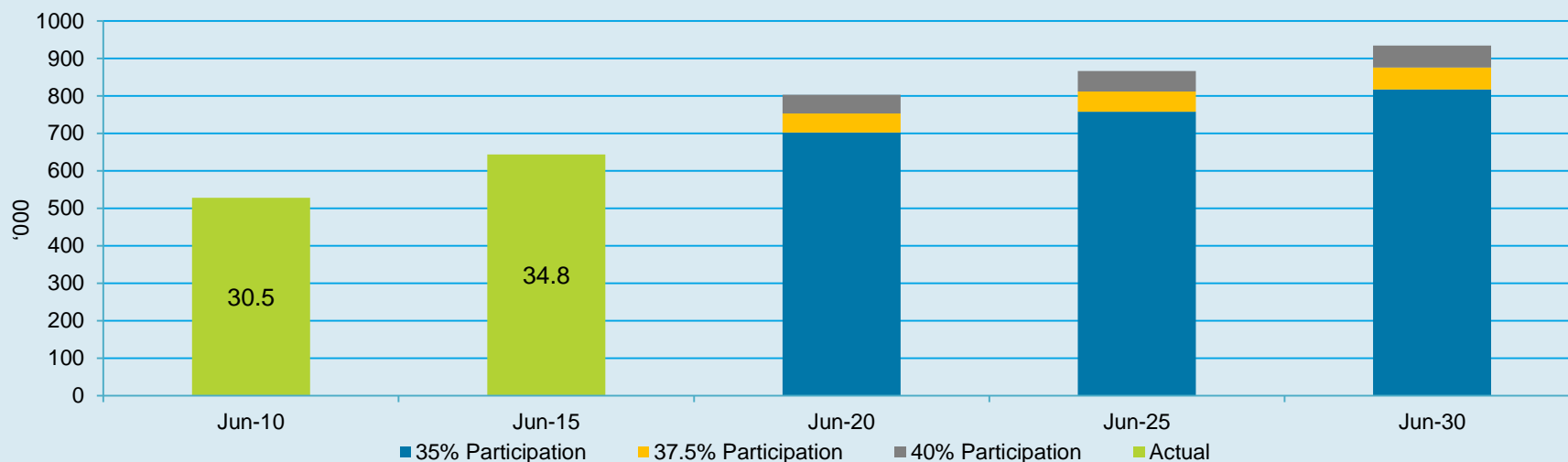
New centres  
required in  
under supplied  
locations

Childcare  
Demand is  
isolated to  
small  
catchments of  
~1km radius

It's the  
customers, not  
the tenants  
who dictate  
location, unlike  
commercial  
space

Over / under  
supply is  
isolated. The  
'ripple' effect of  
over supply is  
limited

NUMBER OF CHILDREN FORECAST TO UTILISE LDC: JUNE 2010 – JUNE 2030



<sup>1</sup>Population forecast based on ABS Population Projections

Source: Population Projections Australia 3222.0 ABS, Early Childhood and Child Care Summary June Quarter 2011-15, Folkestone



# FINANCIAL RESULTS & CAPITAL MANAGEMENT

Only About Children, Cheltenham, VIC



Folkestone  
EDUCATION TRUST



# FINANCIAL RESULTS - YEAR TO 30 JUNE 2016

- Statutory profit increase of \$18.2m or 20.5%
- Distributable income increase of \$4.8m or 16.2%
- EPU growth of 5.3%
- DPU growth of 4.7% based on FY16 distribution of 13.4 cpu
- Strong balance sheet metrics with total assets of \$753.6m (increase of 15.1%) and a decline in gearing to 26.6%
- Growth in NTA per unit of \$0.32 or 17.6%

## Key Financial Metrics

For the Year Ended 30 June	2016	2015	% Change
Statutory Profit (\$m)	106.8	88.6	20.5
Distributable Income (\$m)	34.5	29.7	16.2
Earnings Per Unit – EPU (cpu) <sup>1</sup>	14.0	13.3	5.3
Distribution Per Unit – DPU (cpu)	13.4	12.8	4.7



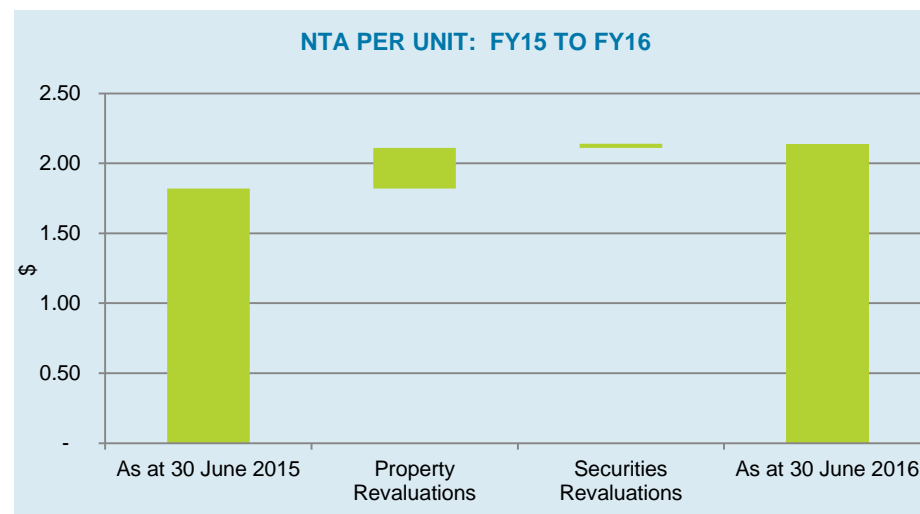
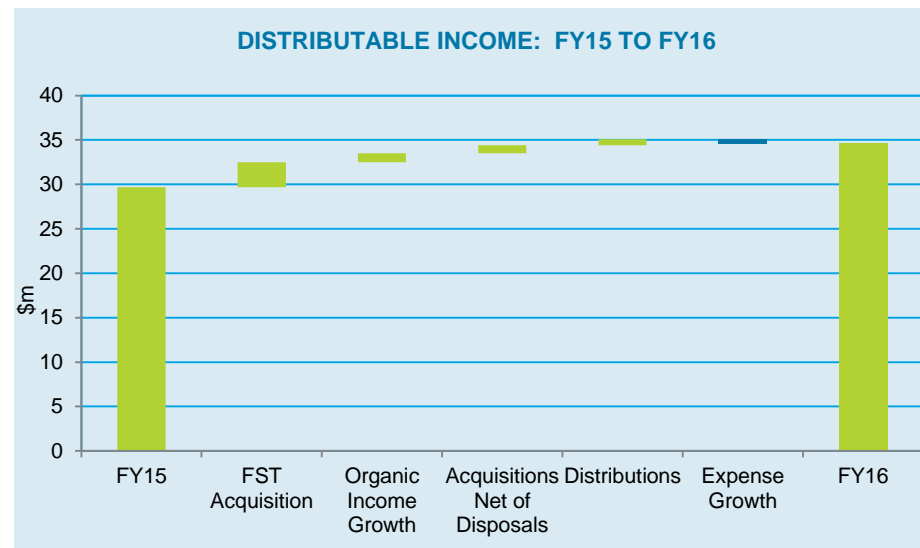
As at	June 16	June 15	% Change
Total Assets (\$m)	753.6	654.5	15.1
Investment Properties (\$m)	719.5	627.3	14.7
Borrowings (\$m)	200.4	193.2	3.7
NTA per Unit (\$)	2.14	1.82	17.6
Gearing (%)	26.6	29.5	(2.9)

Further details and commentary is included in the Appendices

<sup>1</sup> Distributable income divided by weighted average number of units

# PROFIT & NTA CONTRIBUTIONS

- Improvement in FY16 distributable income due to:
  - full year contribution of \$2.8m from FST transaction in FY16 compared to six months in FY15
  - organic income growth of 2.8% (\$1.0m increase)
  - increased income from acquisitions / developments less disposals (\$0.9m increase)
  - increased distributions from security portfolio (\$0.7m increase)
- Growth in NTA per unit of \$0.32 primarily due to:
  - property revaluations of \$72.8m or \$0.29 per unit
  - security revaluation increases of \$6.8m or \$0.03 per unit

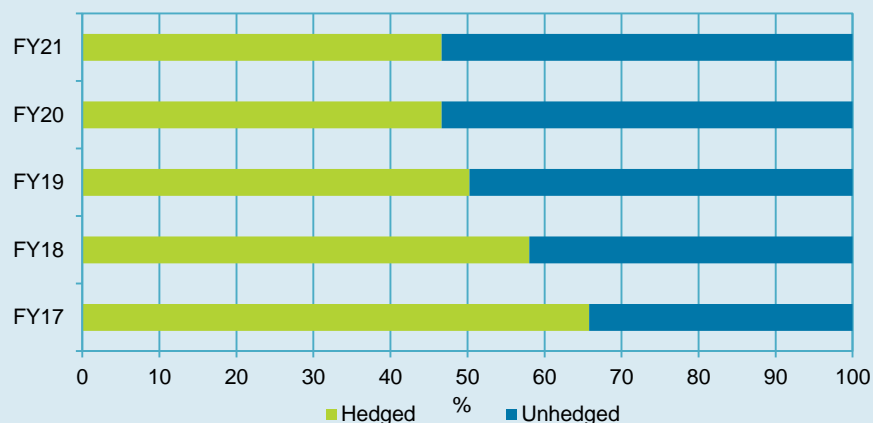


# CAPITAL MANAGEMENT – DEBT & HEDGING

- New bilateral facilities with HSBC and ANZ with maturities of June 2019 (50%) and June 2021 (50%)
- Undrawn facility of \$34.0m which will be utilised to fund the development pipeline
- A further \$50m uncommitted facility is available under the existing documentation
- As at 30 June 2016, FET had hedged \$127m (66%) of the debt at a fixed rate of 3.27% pa for FY17

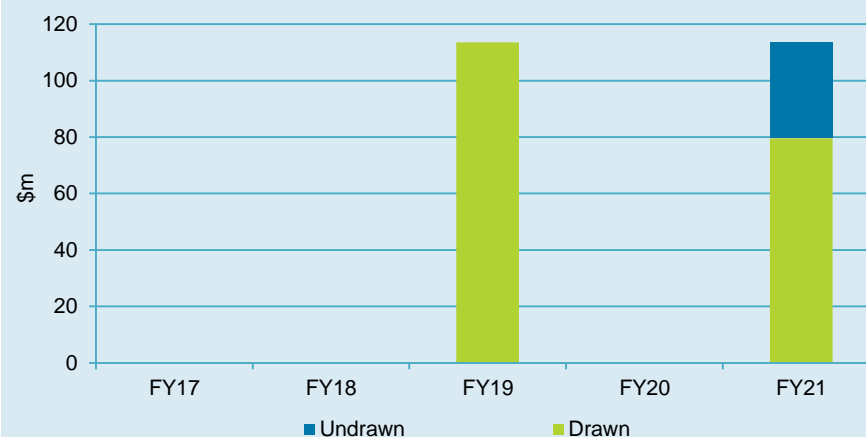
As at 30 June	2016	2015
Debt Facilities Limit (\$m)	227.0	207.3
Debt Drawn Amount (\$m)	193.0	190.0
Overdraft Facilities (\$m)	10.0	12.0
Facilities Maturity	50% - June 19 50% - June 21	June / July 2017
ICR (x)	5.1	4.6
Cost of Debt (% p.a.)	4.5	4.6
All-in Cost of Debt <sup>1</sup> (% p.a.)	4.8	5.0
Average Interest Rate Hedged (%)	53	52
Average Hedged Rate (% p.a.)	3.27	3.64
Average Hedging Maturity (years)	2.8	2.8

**HEDGING PROFILE: BASED ON DEBT OF \$193.0M  
AS AT 30 JUNE 2016**



<sup>1</sup> Includes amortisation of deferred borrowing costs

**DEBT MATURITY PROFILE: FY17 – FY21**





# OPERATIONAL PERFORMANCE



Folkestone  
EDUCATION TRUST

Only About Children, Camberwell, VIC

# PORTFOLIO MANAGEMENT

## PRO-ACTIVE MANAGEMENT OF EXISTING ASSETS COMPLIMENTED BY ASSET RECYCLING

6 assets sold at a 25.3% premium to FY15 carrying value<sup>1</sup>

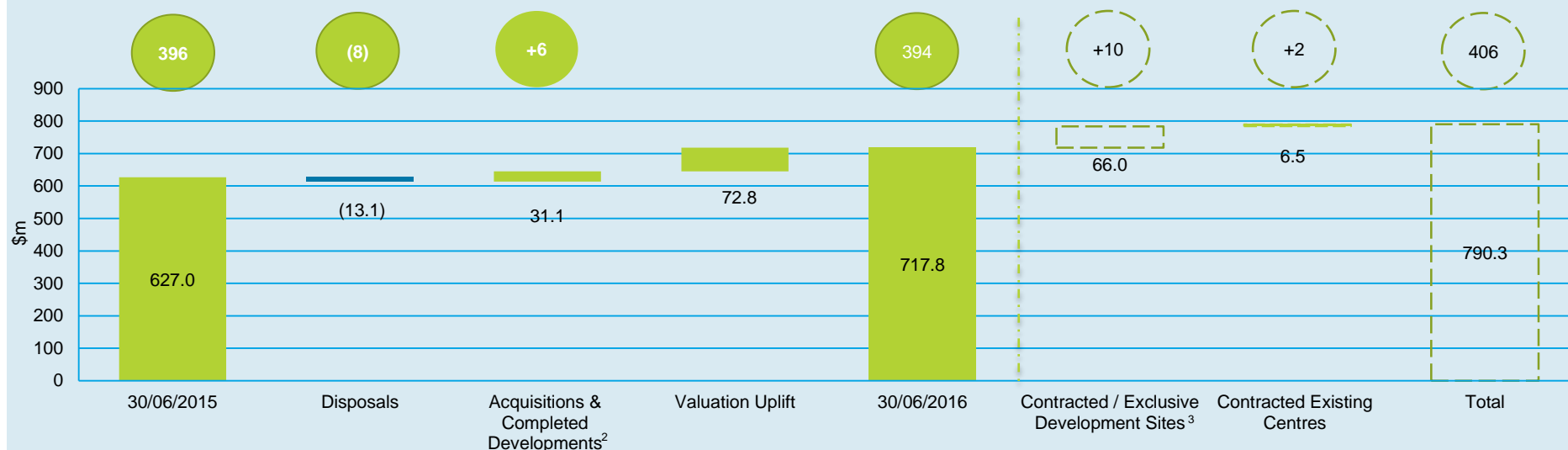
2 operating centres and 4 development sites acquired

70bps / +\$72.8m improvement on FY15  
Overall portfolio yield 7.3%

394 properties \$717.8m total carrying value as at 30 June 2016

Forecast value of \$790.3m on completion of developments and settlement of existing centres

### VALUE AND NUMBER OF INVESTMENT PROPERTIES



<sup>1</sup> Excludes 2 development sites sold

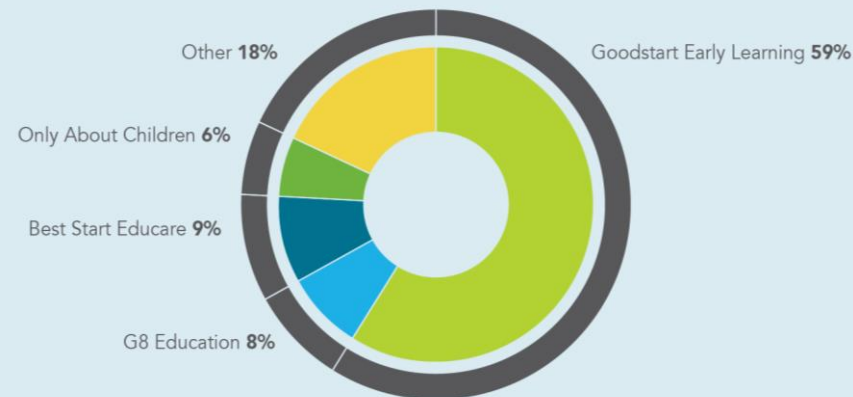
<sup>2</sup> Includes construction costs on properties owned at 30 June 2015

<sup>3</sup> Includes forecast construction costs

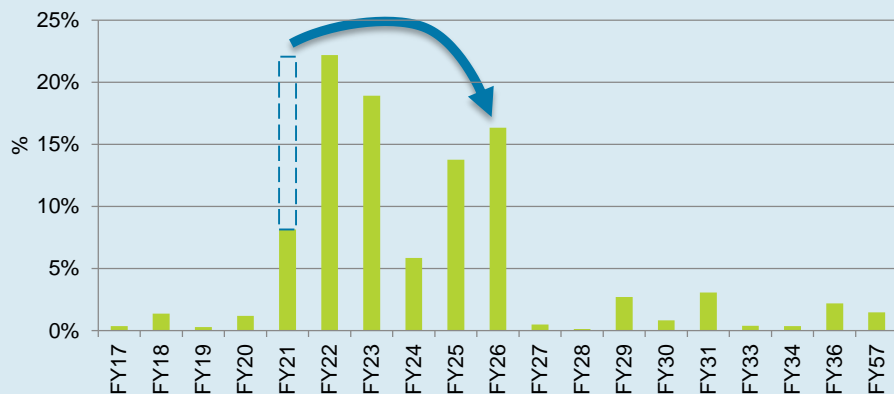
# REAL ESTATE PORTFOLIO – ASSET MANAGEMENT

- WALE improved from 7.9 years at FY15 to 8.2 years at FY16
- 99.5% occupancy
- 61 of 69 options renewed - management are in negotiations for the remaining 8 assets to provide the best outcome to the fund
- 65 market reviews achieved 5.5% increase overall – 4.7% increase (capped) and 8.3% increase (uncapped)
- Y-o-Y rental growth of 2.8%, up 0.4% on FY15

TENANT PROFILE BY % OF ANNUAL RENT: JUNE 2016

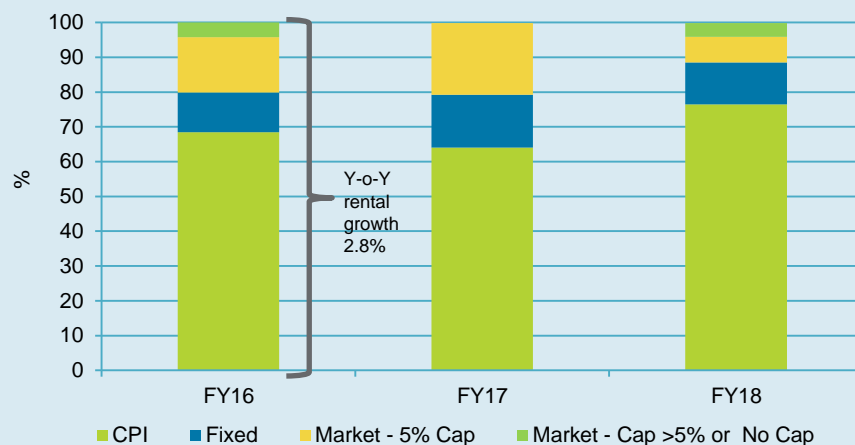


LEASE EXPIRY PROFILE BY % OF ANNUAL RENT: 2017 – 2057\*



\*As at 30 June 2016

ANNUAL RENT REVIEW PROFILE BY % OF RENT\*\*

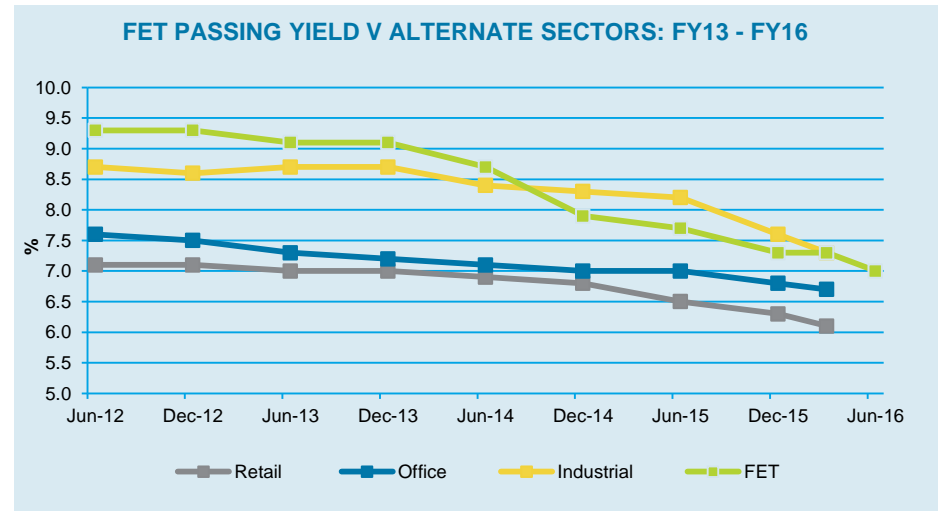


\*\* Excludes current development sites

# REAL ESTATE PORTFOLIO – VALUATIONS

- Properties independently valued on a rolling 3 year basis, supplemented with Director's valuations which are reflective of the parameters provided by the independent valuations
- Overall portfolio yield 7.3%, 70bps firming on portfolio passing yield at 30 June 2015
- Average yield on independent valuations 7.0% and 7.1% on Director's valuations
- Strong growth continues in Eastern seaboard states driven largely by yield compression and rental growth

INDEPENDENT VALUATIONS	NO. VALUED	CARRYING VALUE (\$m)	MOVEMENT (%)	YIELD (%)
NSW/ACT	25	45.6	15.2	6.6
QLD	54	95.2	11.3	7.2
VIC	22	52.0	17.6	6.3
SA	6	8.8	16.8	8.0
WA	4	6.7	11.4	7.7
New Zealand	9	8.8	10.9	7.3
<b>Total Freehold</b>	<b>120</b>	<b>217.1</b>	<b>13.8</b>	<b>6.9</b>
Leasehold	5	1.9	2.4	16.7
<b>TOTAL</b>	<b>125</b>	<b>219.0</b>	<b>13.7</b>	<b>7.0</b>



\* FET yields based on freehold properties held since 2012

Source: MSCI IPD, Folkestone

DIRECTOR VALUATIONS*	NO. VALUED	CARRYING VALUE (\$m)	MOVEMENT (%)	YIELD (%)
NSW/ACT	49	104.8	10.1	6.8
QLD	75	136.4	15.4	7.4
VIC	31	61.7	9.0	6.7
SA	12	15.9	17.0	7.7
WA	10	16.9	8.7	7.5
TAS/NT	4	7.1	9.4	7.4
New Zealand	42	53.0	11.6	7.1
Commercial	1	11.4	6.4	6.3
<b>TOTAL</b>	<b>224</b>	<b>407.2</b>	<b>11.9</b>	<b>7.1</b>

\* Excludes two vacant properties and one completed development



# FET'S PORTFOLIO STRATEGY

## FET TARGETS DEVELOPMENT SITES WITHIN A ~20KM RADIUS OF CBD AND RAPIDLY EXPANDING GROWTH AREAS

### Inner Metro Opportunities

- **6 of the top 25\*** fastest growing LGA's in metropolitan areas (within 20 kms of CBD)
- Young professionals and families, with higher incomes are wanting to live close to employment hubs (CBDs and inner city activity nodes)
- Conversion of former commercial sites to residential and medium density housing
- Scarcity of land and locational complexities in some inner metro locations are preventing the supply of childcare services from meeting demand

#### FET Strategy

- **9 of 18** current development sites within 20 kms of Melbourne and Sydney CBDs
- Continue to target new builds and conversions of existing buildings in inner metro locations

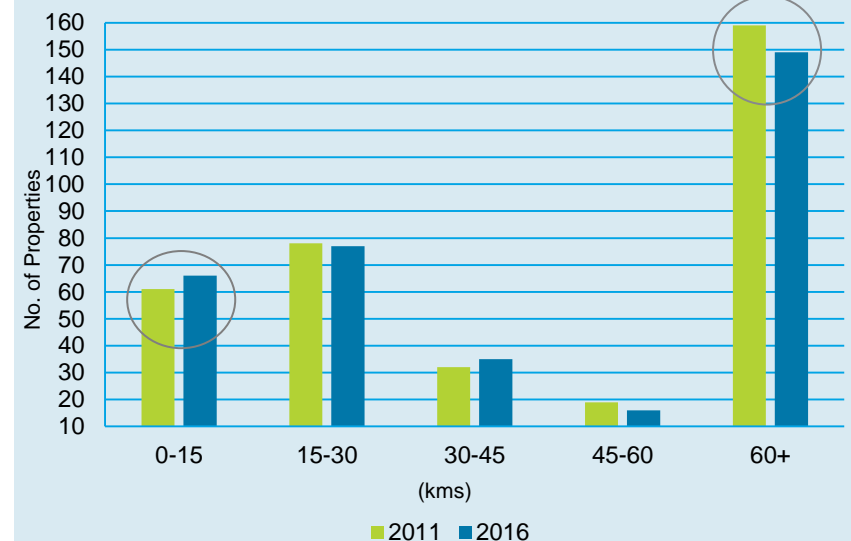
### Growth Area Opportunities

- **17 of the 25\*** fastest growing LGA's in outer metropolitan growth areas
- Greater emphasis on the provision of community infrastructure, including childcare, within masterplanned communities
- Younger families are drawn to growth areas due to the affordability of real estate
- Dual income families are increasingly required, correlating in higher demand for childcare services

#### FET Strategy

- **9 of 18** current development sites are within growth areas
- Continue to target new construction in locations with appropriate demographic and economic conditions

FET CENTRES DISTANCE TO CAPITAL CITY\*\*:  
2011 and 2016



Source: Folkestone

\*The two LGA's not positioned within growth areas or inner metro locations are in regional localities

\*\*Source: MacroPlan Dimasi

# DEVELOPMENT PIPELINE

## DEVELOPMENT PIPELINE CONTINUES TO GROW

Total development pipeline value **\$103.4m**

**14 new sites** added with an end value of **\$71.6m**

11 sites are **DA approved** and under construction or soon to commence

2 sites no longer proceeding & were **sold above** book values

**50%** developments inner metro\* locations  
50% within growth areas

TOTAL DEVELOPMENT SITES PIPELINE – EXPECTED COMPLETION VALUE \$M AS AT 30 JUNE 2016



\*Within 20km of the Central Business District

# FY16 COMPLETED DEVELOPMENTS

## FOLKESTONE HAS DELIVERED ON TIME AND ON BUDGET

16.4%  
margin  
on  
costs

Armadale VIC – Completed July 15



7.5%  
yield on  
costs

Nedlands WA – Completed October 15



\$26.3m  
completion  
value

Epping VIC – Completed December 15



Turrumurra NSW – Completed June 16



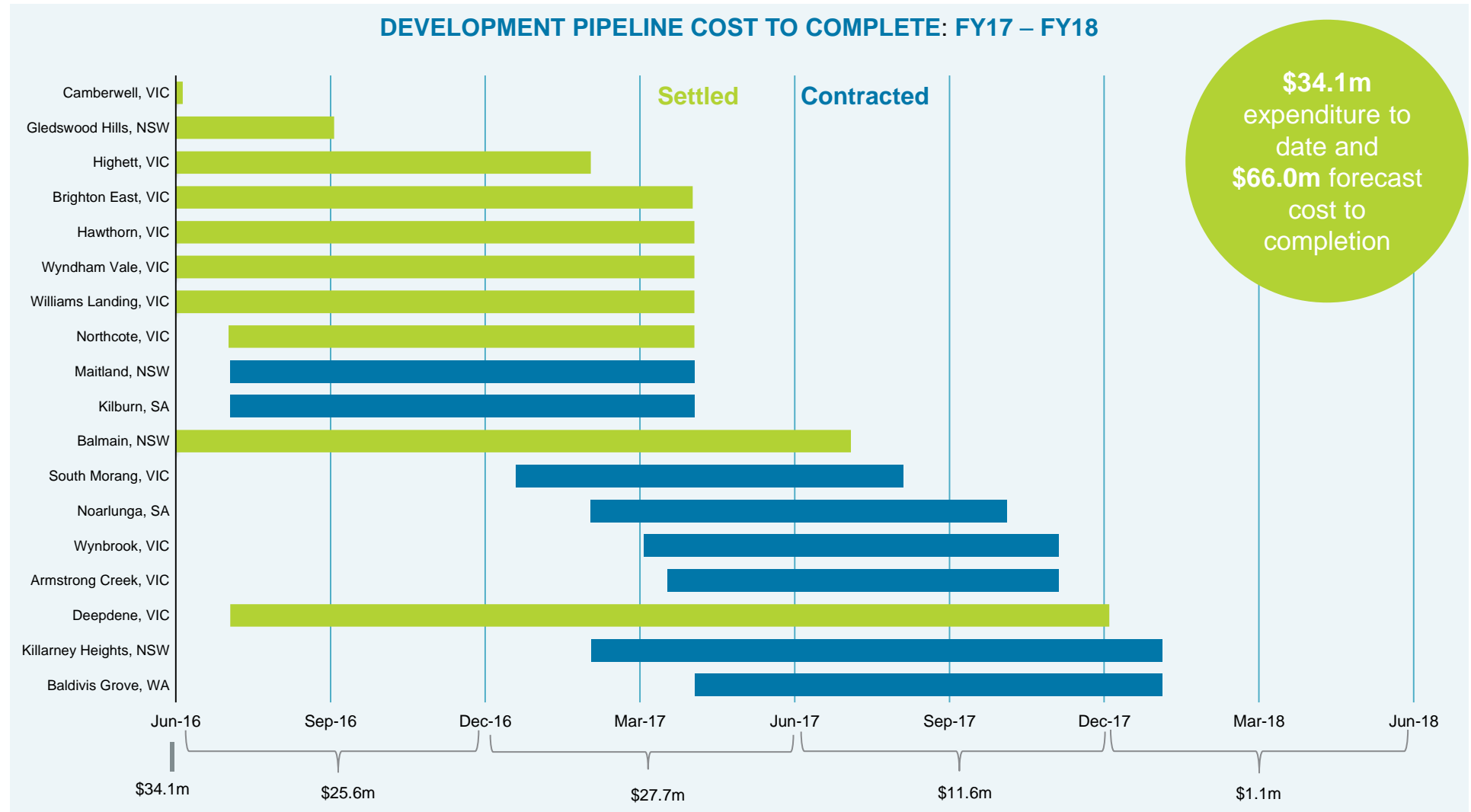
Cheltenham VIC – Completed June 16



Lyndhurst VIC – Completed June 16



# CURRENT DEVELOPMENTS







# CHILDCARE MARKET



Folkestone  
EDUCATION TRUST

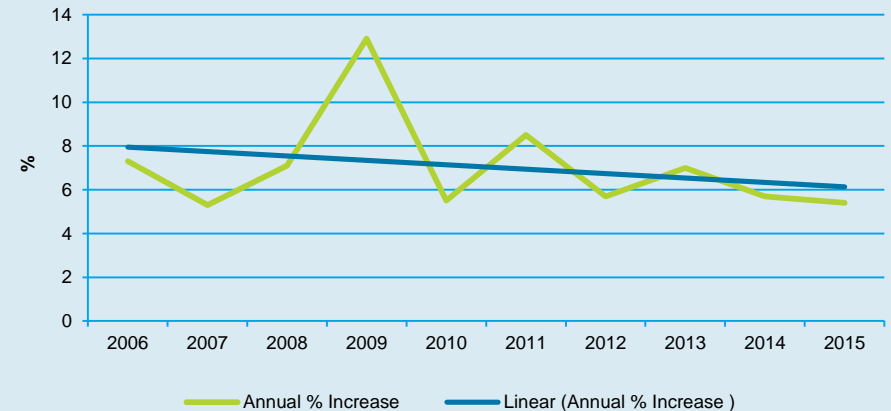
## Operator Environment

- Business multiples remain buoyant, driven by strong demand for centres/businesses
- Approximately 6,723 long day care centres (LDC) as at June 2015 in Australia<sup>1</sup>, an increase of 1.8% since the June 2014
- Approximately 34.8% of children in Australia aged 0-5 years utilises long day care, an increase of 4.3% since the June 2010 quarter
- Daily fees increased on an average of 5.0% p.a. for the period from the June quarter 2014 to the June quarter 2015<sup>1</sup>
- New educator ratios were implemented, to the majority, from 1st January 2016 under the National Quality Framework (NQF) – since commencement of the NQF, 67% of long day care services have achieved a quality rating<sup>2</sup>
- Overall, centre profitability has increased on previous years as per data provided by FET tenants

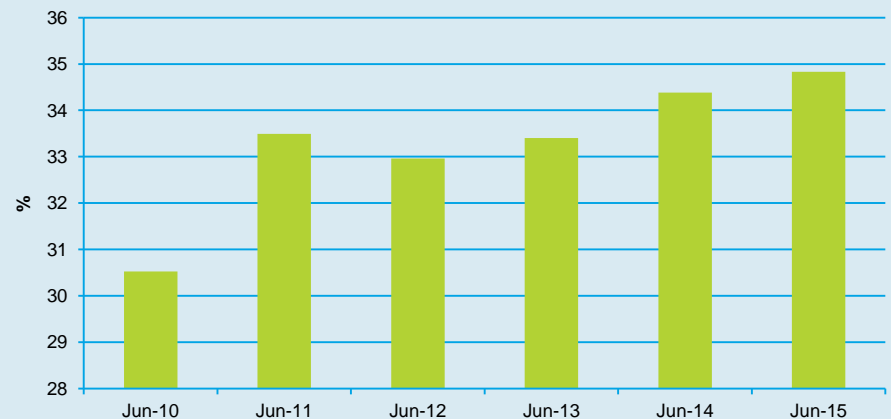
<sup>1</sup> Department of Education and Training Administrative Data

<sup>2</sup> NQF Snapshot Q1 2016, May 2016

**% CHANGE TO LDC FEES:  
JUNE QUARTER 2006 TO JUNE QUARTER 2015**



**LONG DAY CARE PARTICIPATION RATES: 2010 - 2015**



Source: Department of Education and Training Administrative Data

# OUTLOOK



Eclipse Early Learning, Lyndhurst, VIC



Folkestone  
EDUCATION TRUST



## Favourable Industry Conditions

Underlying demand for childcare usage to continue due to population growth and increased utilisation  
Demand from investors for childcare properties to remain strong  
Further property yield compression expected

### PORTFOLIO MANAGEMENT

**10**  
Developments Expected  
to be Completed

Continued Portfolio Growth and Network  
Optimisation

Disposal of Small Number of Non-core  
Properties Into Strong Investor Market

### ASSET MANAGEMENT

**101**  
Market Reviews in FY17

**97**  
Option Renewals in FY17

**100%**  
Target Occupancy

### CAPITAL MANAGEMENT

**34%**  
of Debt Subject to Variable Interest Rates  
in FY17

**\$34 m**  
Undrawn Facility  
Providing Capacity to Fund Growth

**26.6%**  
Gearing Below 30-40% Range

**FY17 Distribution Guidance of 14.2 cpu  
Increase of 6% on FY16**

# APPENDICES



Folkestone  
EDUCATION TRUST

Only About Children, Cheltenham, VIC

# INCOME STATEMENT

- Statutory profit of \$106.8m, up 20.5% on pcg:
  - distributable income of \$34.5m, an increase of 16.2% on pcg
  - acquisitions (FST and property) and rental growth have grown lease income by \$5.4m or 11.5% on the pcg
  - expense growth of 10.4% due to increase in portfolio size
  - statutory profit includes property valuations, mark-to-market (MTM) adjustments of hedges, capital items or non-recurring items
  - yield compression and rental growth combine to contribute \$72.8m in property revaluations
- FY16 distribution of 13.4 cents per unit, an increase of 4.7% on pcg



Income Statement for the Year	June 2016 (\$m)	June 2015 (\$m)
Lease Income	52.4	47.0
Property Outgoings	8.0	7.0
Other Income	1.7	0.7
<b>Total Operating Income</b>	<b>62.1</b>	<b>54.7</b>
Finance Costs	10.0	9.4
Property Outgoings	11.8	10.4
Responsible Entity's Remuneration	4.0	3.4
Other Expenses	1.8	1.8
<b>Total Operating Expenses</b>	<b>27.6</b>	<b>25.0</b>
<b>Distributable Income</b>	<b>34.5</b>	<b>29.7</b>
Net Revaluation Increment Of Properties	72.8	59.2
MTM Adjustments Of Hedging Positions	(2.4)	(2.0)
Gain On Sale Of Investment Properties	2.0	3.2
Merger Costs	-	(1.4)
Other	(0.1)	(0.1)
<b>Statutory Profit<sup>1</sup></b>	<b>106.8</b>	<b>88.6</b>
<b>Earnings - EPU<sup>2</sup> (cpu)</b>	<b>14.0</b>	<b>13.3</b>
<b>Distribution - DPU (cpu)</b>	<b>13.4</b>	<b>12.8</b>

<sup>1</sup> Excludes a gain of \$6.8m (FY15: loss of \$1.0m) in relation to fair value adjustments of securities

<sup>2</sup> Distributable income divided by the weighted average number of units on issue

# BALANCE SHEET

- Strong balance sheet:
  - property revaluations of \$72.8m driven by yield compression and rent escalations
  - property acquisitions / construction costs of \$32.7m across 2 operating centre acquisitions and development site programme
  - property disposals of \$13.1m (carrying value at 30 June 2015) in relation to the settlement of 6 properties resulting in a \$2.0m profit
  - securities include investment in listed Arena REIT of \$20.6m and unlisted FCIB of \$10.7m
  - negative mark-to-market impact of derivatives of \$7.7m due to declining interest rates
- NTA per unit increased 17.6% to \$2.14 per unit on pcg
- Gearing reduced to 26.6%



Balance Sheet as at	June 2016 (\$m)	June 2015 (\$m)
Cash	0.8	1.0
Investment Properties – To Be Sold	-	6.0
Investment Properties – Improved Properties <sup>1</sup>	687.2	585.9
Investment Properties – Development Sites	32.4	35.4
Securities	31.3	24.4
Other Assets	1.9	1.8
<b>Total Assets</b>	<b>753.6</b>	<b>654.5</b>
Trade And Other Payables	7.4	3.8
Distribution Payable	8.4	8.1
Borrowings <sup>2</sup>	198.3	192.3
Derivative Instruments	7.7	5.3
<b>Total Liabilities</b>	<b>221.8</b>	<b>209.5</b>
<b>Net Assets</b>	<b>531.8</b>	<b>445.0</b>
<b>No Of Units</b>	<b>248.2</b>	<b>245.2</b>
<b>NTA Per Unit (\$)</b>	<b>2.14</b>	<b>1.82</b>
<b>Gearing<sup>3</sup> (%)</b>	<b>26.6</b>	<b>29.5</b>

<sup>1</sup> Includes \$1.7m (30 June 15: \$0.3m) of transaction costs in relation to properties not settled

<sup>2</sup> Borrowings as at 30 June 2016 include loans of \$193.0m and overdraft of \$7.4m, less unamortised transaction costs of \$2.1m

<sup>3</sup> Gearing is calculated by borrowings and bank overdraft / total assets



- **394** properties, triple net leases, net effective rents
- Land rich – **88.4** ha of land (including 9.6 ha in NZ)
- Enhanced tenant register – **29** tenants and growing
- **7.0%** passing freehold yield
- Folkestone CIB Units and Melton Medical Centre were acquired as part of the FST acquisition in January 2015
  - both assets are performing well with value adding initiative's underway
  - since acquisition, these two investments have increased in value by \$5.7m or 22.5%

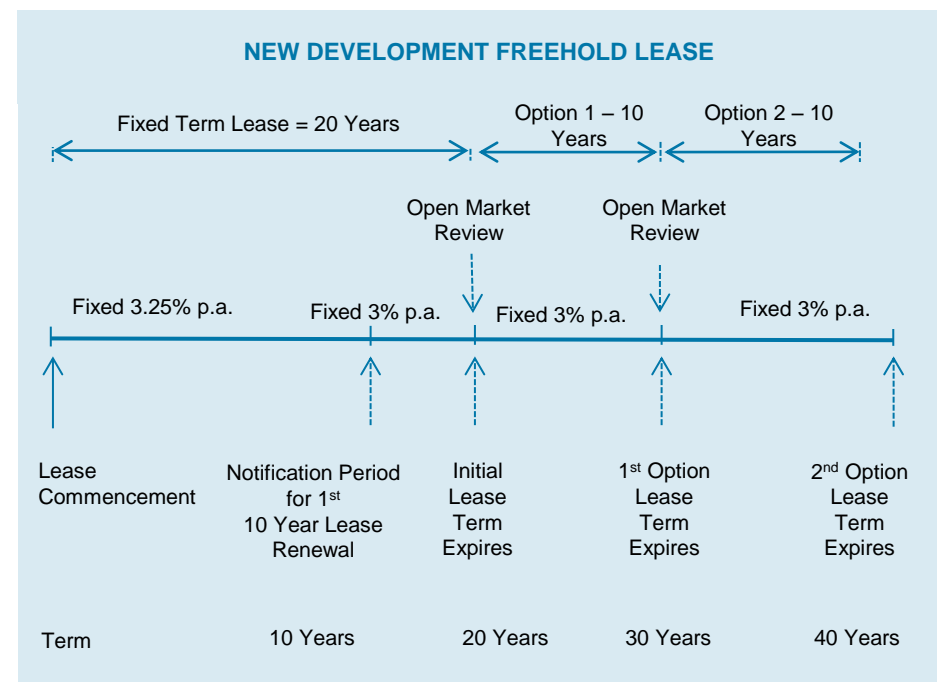
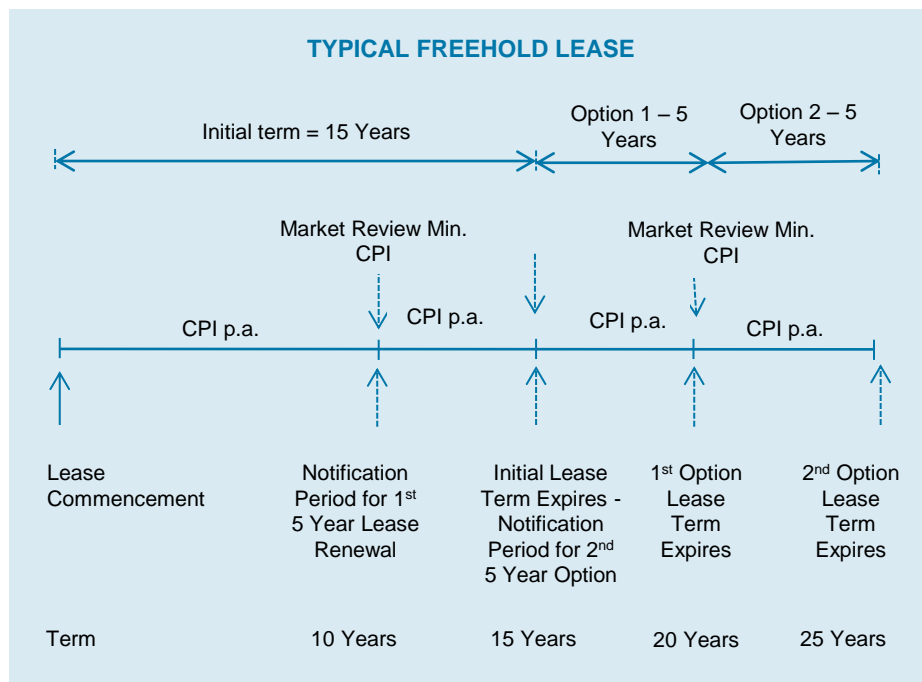


As at 30 June 2016	No.	Value (\$m)	% of Total Assets	Passing Yield (%)
ACT/NSW	76	156.7	21.8	6.7
QLD	131	238.0	33.2	7.4
VIC	57	130.7	18.2	6.6
SA	18	24.7	3.4	7.9
WA	15	27.2	3.8	7.5
TAS/NT	4	7.1	1.0	7.4
New Zealand	51	61.8	8.6	7.2
<b>Total Freehold</b>	<b>352</b>	<b>646.2</b>	<b>90.0</b>	<b>7.0</b>
Leasehold	33	27.8	3.9	13.7
<b>Total Operating</b>	<b>385</b>	<b>674.0</b>	<b>93.9</b>	<b>7.3</b>
Developments	8	32.4	4.5	
Medical	1	11.4	1.6	6.3
<b>Total</b>	<b>394</b>	<b>717.8</b>	<b>100</b>	<b>7.3</b>

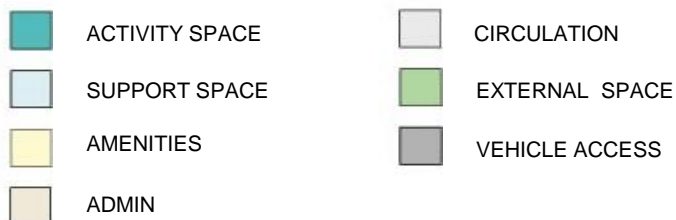
As at 30 June 2016	Value (\$m)	% of Total Assets	Description
Folkestone CIB Units	10.7	1.4	15% ownership of a wholesale trust that owns 9 police stations and 2 courthouses leased to the Victorian government
Arena REIT Units	20.6	2.7	4.5% interest in ARF which invests predominantly in childcare
<b>Total</b>	<b>31.3</b>	<b>4.1</b>	

# TYPICAL FREEHOLD LEASE

- Triple net leases, all costs including outgoings, insurance, property management and general expenses are payable by the tenant
- Typical lease term of 15 years plus 2 five year options (exercisable by tenant)
- Rental growth indexed annually to CPI with a market review at year 11
- Most leases have a 5 year notice period for option take-up by tenants
- Redecoration / refurbishment requirement by tenant every 5 years



# TYPICAL NEW FET CHILDCARE CENTRE



- Market leading designs across all new development sites, led by a specialised internal development team
- North facing activity rooms and outdoor play areas
- Clerestory windows to achieve natural lighting to interior spaces
- Generous, flexible and functional storage areas
- Administrative areas clustered for efficiencies
- Interactive kitchens with centre operations
- Central entry location for efficient circulation
- Safe entry paths from access points
- Compliance with all relevant ratios and legislation

## **CHILD TO SPACE RATIOS**

**INTERNAL ACTIVITY ROOM**  
3.25 m<sup>2</sup>/ CHILD

**EXTERNAL PLAY SPACE**  
7.0 m<sup>2</sup>/ CHILD

## **CARER RATIO (VIC)**

AGE 0-3 = 1:4 CHILDREN  
AGE 3-5 = 1:11 CHILDREN



# ACQUISITION CASE STUDY

## TURRAMURRA, NSW

- Affluent location on Sydney's north shore, with an undersupply of quality childcare
- Redevelopment of an existing building, completed in June 2016
- Innovative and modern design, with extensive use of timber and glass providing dedicated childcare spaces for children of each age group
- Delivered a strong return to FET of 7.2% yield on cost

## LOCATION ATTRIBUTES

- Established residential infill site within a high end socio-economic area adjoining Pymble and St Ives
- Close proximity to local primary schools (both public and private) within a convenient residential location for drop-off and pick-up
- Walking distance to Pymble Public School
- Turramurra Station and Turramurra commercial precinct within 1.5kms

## Key Statistics

Operator	Only About Children
Number of Long Day Care Places	87
Land Area (sqm)	2,245
Rent (\$) (p.a.)	391,500
Lease Term (years)	20
Options (years)	2 x 10
Annual Reviews (%)	3.25
Approximate Value (\$m)	5.6
Yield on Cost (%)	7.2
Median House Price (\$m)	1.8



# ACQUISITION CASE STUDY

## WYNDHAM VALE, VIC

- Acquired in September 2015 with completion forecast for early 2017
- DA approved and currently under construction, with a premium operator secured
- Infill site within rapidly growing outer suburban area – the City of Wyndham has grown by 50,000 people over the past five years
- Innovative and modern design reflecting FET's focus on creating quality childcare environments

## LOCATION ATTRIBUTES

- Corner site with high exposure to passing traffic
- The recently opened Wyndham Vale Train Station is 1.5kms to the north west
- Over 3,500 dwellings approved each year within the catchment
- 80 babies are born each week within the City of Wyndham
- Jobs growth – over 50,000 jobs will exist within a 10 minute drive of the site by 2050

## Key Statistics

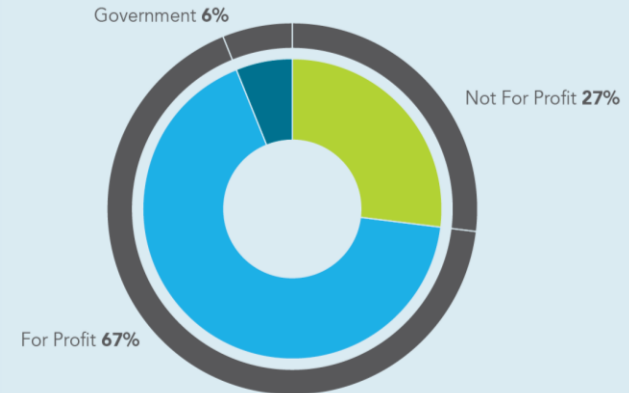
Operator	Little Learning School
Anticipated Number of Long Day Care Places	124
Land Area (sqm)	2,491
Rent (\$) (p.a.)	297,600
Lease Term (years)	15
Options (years)	2 x 5
Annual Reviews (%)	3.25
Anticipated On Completion Value/Yield (\$m)	4.25 / 7.0
Forecast Yield on Cost (%)	8.1
Population Growth Forecast 2016 to 2036 (%)	183



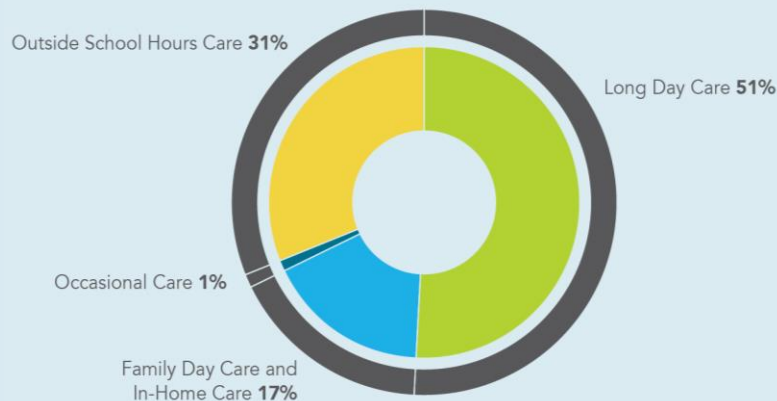
# CHILDCARE MARKET IN AUSTRALIA

- 6,723 long day care centres as at June 2015 (LDC) in Australia<sup>1</sup>, an increase of 1.8% since the June 2014<sup>1</sup>
- For profit sector continues to grow market share – now 67%
- For the June 2015 quarter, 1.2m children attended approved child care, up 5.4% since the June quarter 2014<sup>1</sup>
- Australia's largest operator, Goodstart Early Learning has a 9.6%<sup>2</sup> market share followed by G8 Education Limited with a 7.3%<sup>3</sup> market share

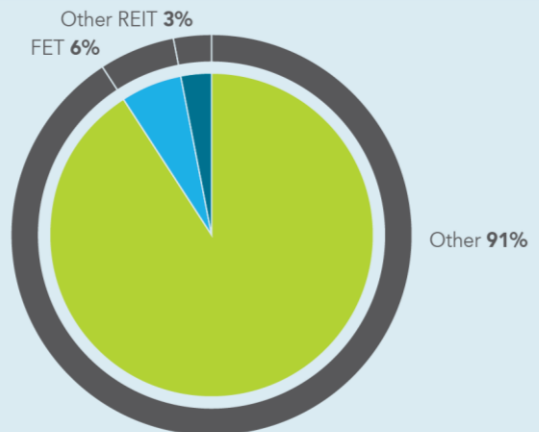
LONG DAY CARE OPERATORS BY TYPE: OCTOBER 2014<sup>4</sup>



CHILDREN USING CHILDCARE, JUNE 2015 QUARTER<sup>1</sup>



KEY LONG DAY CARE LANDLORDS: JUNE 2015<sup>1</sup>



<sup>1</sup> Department of Education and Training Administrative Data

<sup>2</sup> Goodstart June 2015 Annual Report

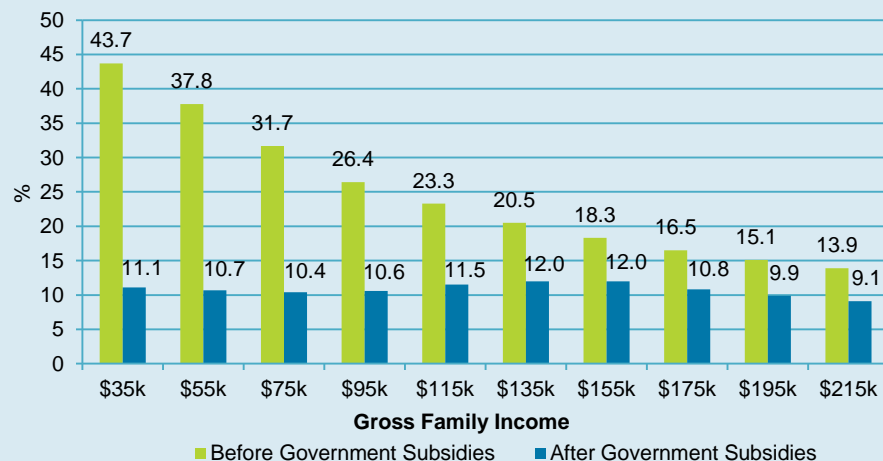
<sup>3</sup> G8 June 2015 Annual Report

<sup>4</sup> Productivity Commission Inquiry Report October 2014

# CHILDCARE MARKET IN AUSTRALIA - GOVERNMENT FUNDING

- From July 2018, the Child Care Subsidy will replace the Child Care Benefit and the Child Care Rebate with a single, means-tested payment to better support families with access to affordable childcare
- Increased funding of \$3.5 billion to be committed by the Government to the industry over the next 4 years, with the majority of the funding increase to be available from July 2018
- This funding will increase, with projected government expenditure by 2021-22 of \$11.1 billion
- Out of pocket costs are expected to fall, particularly for families on incomes below \$120,000 per annum
- This is expected to drive the female workforce participation rate which will positively contribute to Australia's economic growth
- Modelling completed by PwC in 2016 project long term net savings to Government of \$4.7 billion by 2050<sup>1</sup>

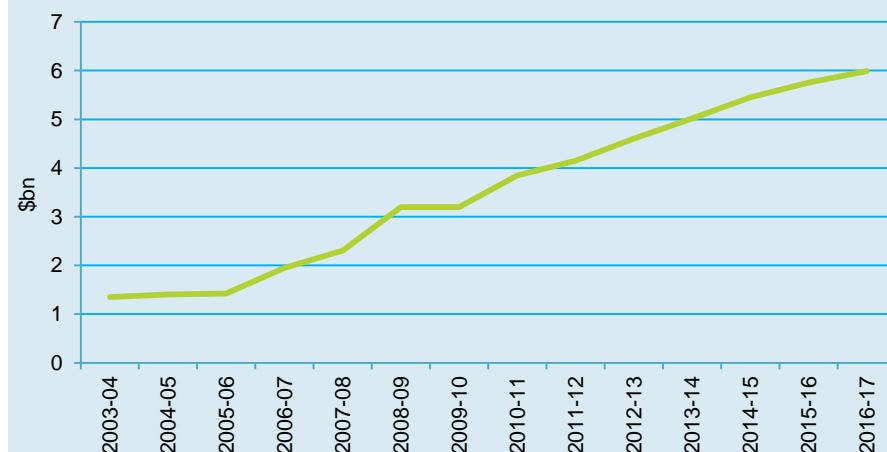
**OUT-OF-POCKET COSTS FOR 1 CHILD IN LDC BEFORE & AFTER GOVERNMENT SUBSIDIES: MARCH QUARTER 2015**



Source: Department of Education and Training Administrative Data

<sup>1</sup>. Economic impacts of the proposed Child Care Subsidy, PWC, February 2016

**GOVERNMENT FUNDING INCREASING: 2003-04 TO 2016-17**

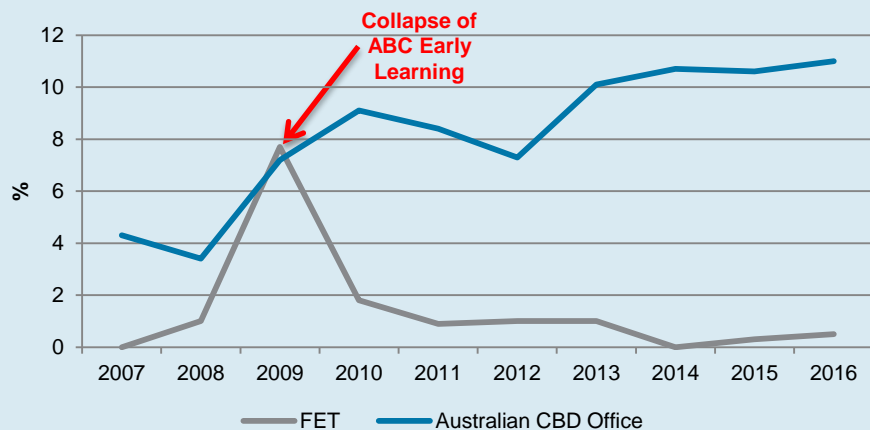


Source: MyChild

# WHAT MAKES FET DIFFERENT TO OTHER A-REITS?

	Childcare	Commercial
Typical Lease term	15 years	5 years
Lease Type	Triple Net (All insuring & maintaining)	Rent plus outgoings
Incentives	Nil	Required for every transaction including tenant retention - can be up to 40% of net rent
Underlying land value as a % of Investment Value	Metro:70-80%	Metro:30-35%
Vacancies/Supply	FET has a 0.5% vacancy rate.	Australian office market has a 10.5% vacancy rate <sup>1</sup>
Tenant/Property Goodwill value	Lease inherently linked to the value and goodwill of the operators business	Commercial tenants can be relatively transient and deal driven in relation to their accommodation requirements
Availability of alternate premises	Limited	Significant
Financial impact on changing premises	Potential loss of business value/goodwill	No impact on value
Capex	Nil – Triple Net Lease	Significant, base building services upgrades required after 10 years

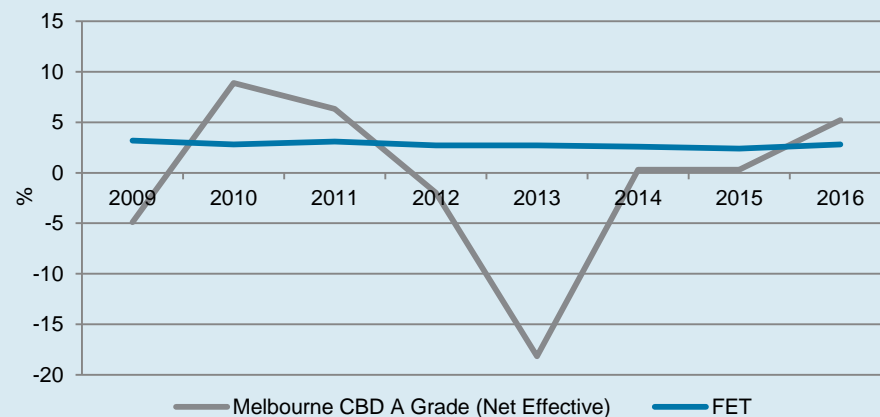
VACANCY RATES: JULY 2007 – JULY 2016



Source: Property Council of Australia Office Market Report July 2016

<sup>1</sup>Property Council of Australia Office Market Report July 2016

RENTAL GROWTH RATES: JUNE 2009 – JUNE 2016



Source: FET and Urbis



# KEY STATISTICS

	FY13	FY14	FY15	FY16
NTA (\$)	1.33	1.50	1.82	2.14
NTA Growth (Annualised) (%)	9.9	12.8	21.3	17.6
Weighted Average Passing Yield (%)	9.3	9.0	8.0	7.3
Weighted Average Lease Expiry (Years)	8.2	8.0	7.9	8.2
% Of Lease Income Expiring In Next 5 Years	1.7	3.4	5.6	11.3
Like-for-like Rental Growth (%)	2.7	2.6	2.4	2.8
Major Customer % Of Income (Goodstart) (%)	64	59	63	59
<b>Geographic Spread (% Rental Income)</b>				
• NSW/ACT	28.0	28.9	26.2	25.8
• QLD	28.1	30.6	37.5	35.5
• VIC	22.1	19.9	16.9	19.8
• WA	3.2	2.8	3.7	3.9
• SA	6.6	6.5	6.0	5.3
• TAS/NT	0.7	0.6	1.1	1.0
• NZ	11.3	10.7	8.6	8.7
<b>Market Rent Reviews</b>				
Completed Number	6	8	54	65
Weighted Average Rental Growth (%)	5.1	6.1	4.3	5.5
<b>Capital Management</b>				
Gearing (%)	34.1	31.7	29.5	26.6
Weighted Average Cost Of Debt (%)	6.2	5.6	4.6	4.5
Weighted Average Debt Maturity (Years)	2.6	2.9	1.9	4.0
Interest Cover Ratio (X)	3.4	4.6	4.6	5.1

Source: Company Data

# DIRECTORY

## FOLKESTONE EDUCATION TRUST

ASX Code: FET

[www.educationtrust.folkestone.com.au](http://www.educationtrust.folkestone.com.au)

## RESPONSIBLE ENTITY

Folkestone Investment Management Limited

ABN: 46 111 338 937 AFSL: 281544

Level 14, 357 Collins Street

Melbourne VIC 3000

## INDEPENDENT BOARD OF DIRECTORS

Chairman

Grant Hodgetts

Independent Non-Executive Director

Vic Cottren

Independent Non-Executive Director

Michael Johnstone

Executive Director

Nick Anagnostou

## SENIOR MANAGEMENT

Chief Executive Officer

Nick Anagnostou

Chief Financial Officer

Travis Butcher

## COMPANY SECRETARY

Scott Martin

Telephone: +61 3 9046 9910

## INVESTOR RELATIONS

Lula Liossi

Telephone: +61 3 9046 9946

[lliossi@folkestone.com.au](mailto:lliossi@folkestone.com.au)

## REGISTRY

Boardroom Pty Limited

P.O. Box R67, Royal Exchange NSW 1223

Telephone: 1300 737 760 or +61 2 9290 9600

[enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

[www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

**DISCLAIMER:** This presentation has been published for information purposes only. The information contained in this presentation is of a general nature only and does not constitute financial product advice. This presentation has been prepared without taking account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on this presentation, consider its appropriateness, having regard to their own objectives, financial situation and needs. You should consult a professional investment adviser before making any decision regarding a financial product.

In preparing this presentation the author has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which has otherwise been reviewed in preparation of the presentation. The information contained in this presentation is current as at the date of this presentation and is subject to change without notice. Past performance is not an indicator of future performance. Neither Folkestone Limited, nor any of their associates, related entities or directors, give any warranty as to the accuracy, reliability or completeness of the information contained in this presentation. Except insofar as liability under any statute cannot be excluded, Folkestone Limited and its associates, related entities, directors, employees and consultants do not accept any liability for any loss or damage (whether direct, indirect, consequential or otherwise) arising from the use of this presentation. If a product managed by Folkestone Limited or its associates is acquired, Folkestone Limited or its associates and related entities may receive fees and other benefits.



**Folkestone**  
EDUCATION TRUST