



ALE Property Group

FY18 Full Year Results - 8 August 2018

Contents

- Highlights
- FY18 Results
- Properties and Development Updates
- Capital Management
- FY19 Outlook
- Attractive Investment Proposition
- Attachments



Crows Nest Hotel, Sydney, NSW



Group Highlights

Year to 30 June 2018

Property Portfolio

\$1,136.3m

Statutory property values

4.98%

Average capitalisation rate

10.3 years

Weighted average lease expiry

1.9%

CPI Income growth

100%

Occupancy

Capital Structure

41.6%

Gearing

3.7 years

Average debt maturity

7.4 years

Hedge maturity

4.26%

All up cash interest rate

Baa2

Investment grade rating

Equity Performance

\$29.0m

Distributable profit

20.80 cps

Distribution

100%

Distribution tax deferred

\$1,094.3m

ASX market capitalisation

20.1% p.a.

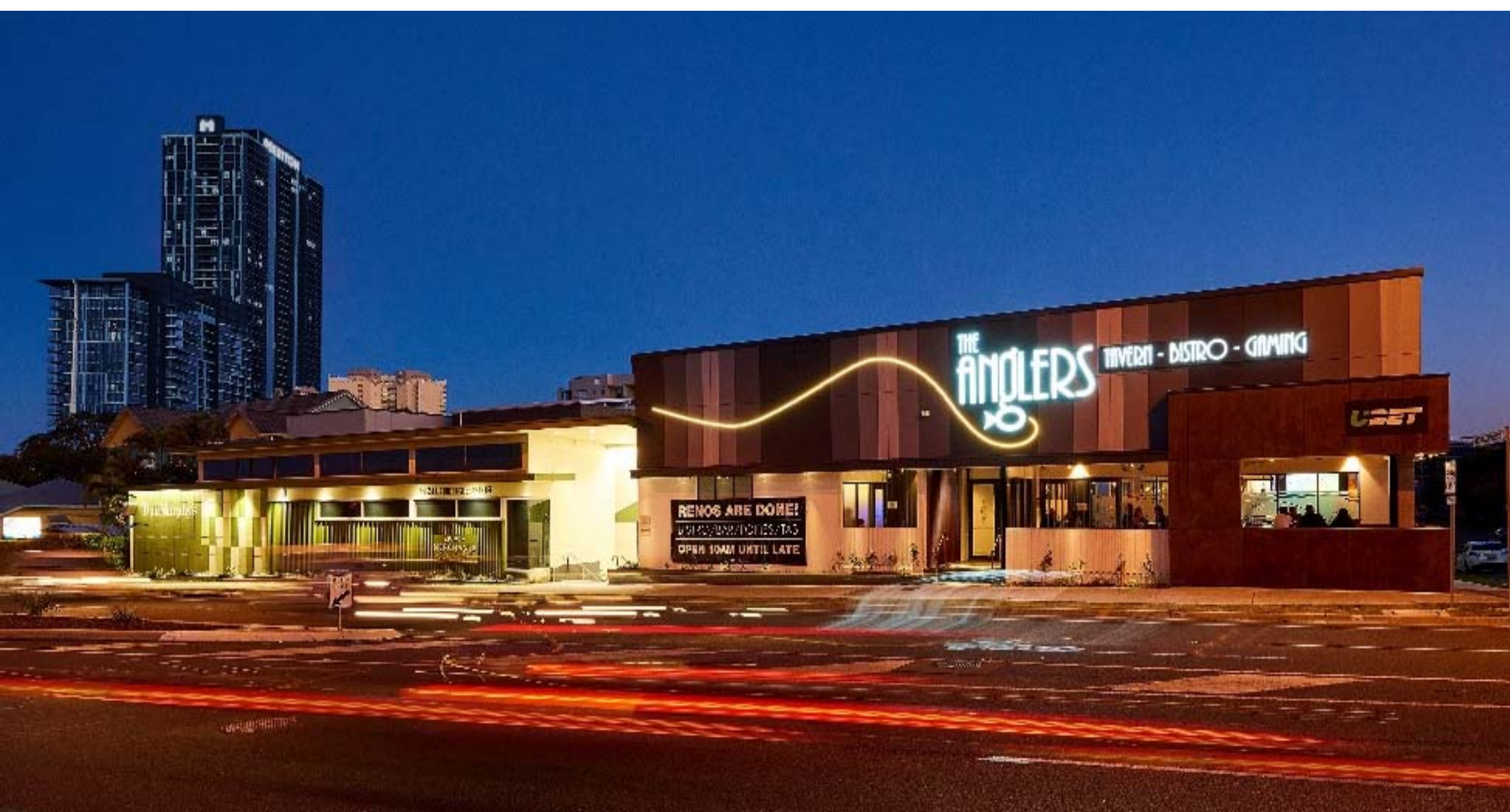
Three year total return

Capitalisation rates, lease terms, interest rates, maturity terms and rental growth rates are all weighted averages

Specific definitions are on other pages or in the statutory accounts

Results are for the year ending or as at 30 June 2018

In addition to the weighted average lease expiry term, there are four 10 year options for ALH to extend (83 of 86 properties)



Financial Results

Year to 30 June 2018



Financial and Property Highlights

Year to 30 June 2018



Profit

- Distributable profit of \$29.0m
- Net profit after tax (IFRS) of \$75.1m



Growing Distributions

- Full year distribution of 20.80 cps
- Up 2.0% on previous corresponding period (pcp)
- In line with guidance and 100% tax deferred



Consistent Outperformance

- \$1.00 investment in Nov 2003 IPO
- \$18.33 accumulated value at 30 June 2018 2003, equivalent to 22.0% p.a. total return
- Outperformed both AREIT 300 and All Ords over past 1, 3, 5, 10 and 15 years



Property Revenue

- \$58.1m, up 1.9% on pcp
- Driven by annual CPI rent increases



Property Valuations

- Total property values increased by 5.0% to \$1,136.3m
- Average adopted cap rate decreased to 4.98%
- DCF methodology valuations of 35 properties equivalent to a 4.29% cap rate at June 2018
- Demand for pub property investments remains strong



Sound Capital Position

- Gearing at low of 41.6%
- Next debt maturity in August 2020



Distributable Profit

Year to 30 June 2018

Millions	June 18	June 17	Comments
Revenue from properties	\$58.1	\$57.0	▪ Driven by annual CPI based rent increases
Other revenue	\$1.0	\$1.3	▪ Lower cash balances and lower interest rates
Borrowing expense	\$22.0	\$21.8	▪ Small increase in borrowings. All interest rates are fixed
Management expense	\$5.7	\$5.2	▪ Additional costs to prepare for FY19 rent reviews
Land tax expense	\$2.4	\$2.2	▪ Land tax for QLD properties only. Increasing property values
Distributable Profit ¹	\$29.0	\$29.1	
Distributable Profit (cps) ²	14.83c	14.87c	
Distribution (cps)	20.80c	20.40c	▪ In line with guidance. 5.97 cps paid from capital

1. Distributable Profit excludes non-cash accounting items – see full reconciliation to IFRS Net Profit.

2. 195.8 million securities were on issue as at both dates above

3. Rounding differences may arise

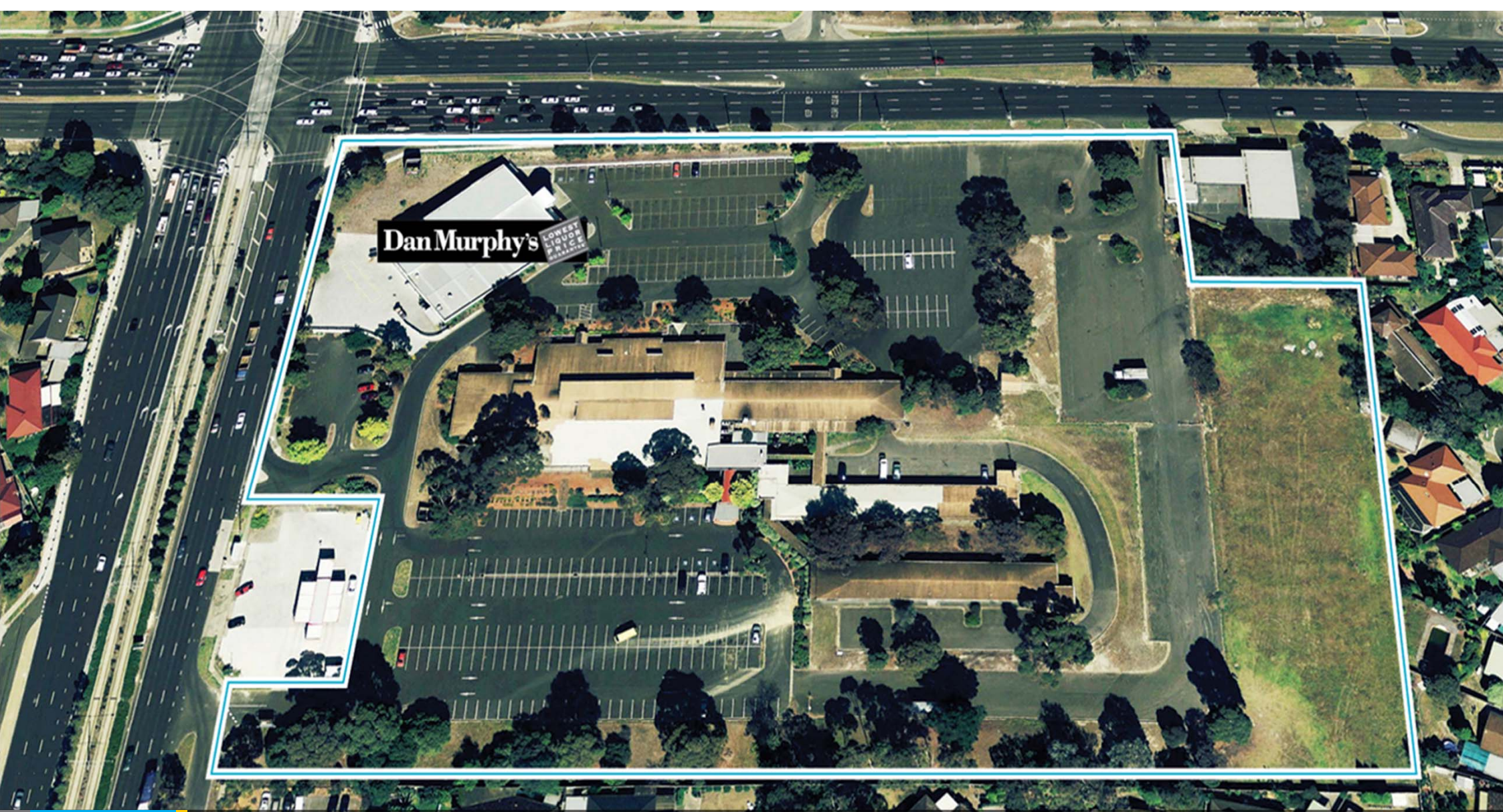


Net Profit (IFRS) and Distributable Profit

Year to 30 June 2018

Millions	June 18	June 17
Total Revenue	\$59.1	\$58.3
Total Other Income (Fair value increments to investment properties and derivatives)	\$54.3	\$103.9
Total Expenses	(\$38.3)	(\$32.2)
Income tax expense	(\$0.0)	(\$0.0)
Net Profit after income tax (IFRS)	\$75.1	\$130.0
Add back non cash items:		
Fair value (increments) to investment properties	(\$54.3)	(\$89.6)
Fair value (increments)/decrements to derivatives	\$4.7	(\$14.3)
Employee share based payments	\$0.2	\$0.2
Non-cash finance costs	\$3.2	\$2.7
Income tax expense	\$0.0	\$0.0
Distributable Profit	\$29.0	\$29.1

ALE has a policy of paying distributions which are subject to the minimum requirement to distribute taxable income of the trust under the Trust Deed. Distributable Profit is a non-IFRS measure that shows how free cash flow is calculated by ALE. Distributable Profit excludes items such as unrealised fair value (increments) / decrements arising from the effect of revaluing derivatives and investment property, non-cash expenses and non-cash financing costs. The reconciliation between Operating Profit before Tax and Distributable Profit has not been audited or reviewed by KPMG. Rounding differences may arise in the above table.



ALE's Property Portfolio

High Quality, Well Located and Development Potential



Pub Property Portfolio

ALH Continues To Perform Strongly

ALH: Australia's largest pub operator

- ~ 330 licensed venues
- ~ 550 liquor outlets
- ~ 2,000 short stay rooms
- ALH is 75% owned by Woolworths and 25% by the Bruce Mathieson Group
- Woolworths is Australia's largest liquor retailer
- ALE owns 26% of ALH's operated venues
- ALH itself owns around 45 pub properties



ALH FY17 Revenue

- \$4,256m
- Up 3.7% on pcp

ALH FY17 EBITDAR

- \$803m
- Up 13.0% on pcp
- 18.9% of revenue



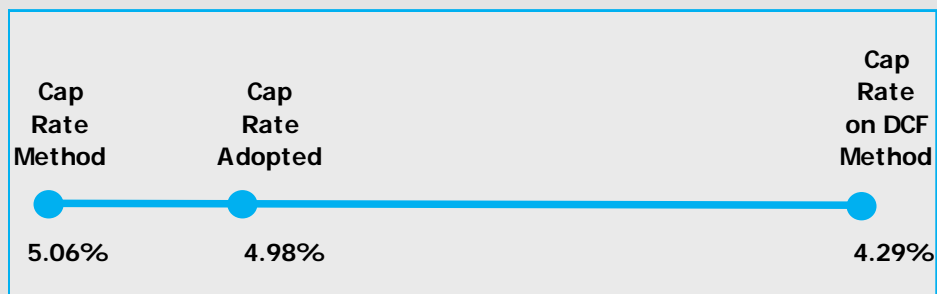
Source: ALH accounts



Pub Property Portfolio

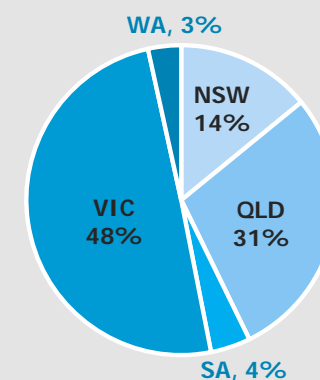
30 June 2018 Valuations

- Valuations increased by \$54.7m (or 5.0%)
- Average adopted cap rate reduced to 4.98%
- Independent DCF valuations of 35 properties are equivalent to a cap rate of 4.29%
- Valuers included HTW, Savills, CBRE and Opteon
- Valuers' adopted cap rates reflect a blend of cap rate and discounted cash flow (DCF) methodologies



Portfolio composition as at 30 June 2018

State	Properties	Value (m)	Average Value (m)	WACR*
NSW	10	\$156.4	\$15.6	4.96%
QLD	32	\$361.4	\$11.3	4.81%
SA	7	\$40.8	\$5.8	5.13%
VIC	33	\$546.0	\$16.5	5.04%
WA	4	\$31.7	\$7.9	5.93%
Total	86	\$1,136.3	\$13.2	4.98%



Geographic Diversity

Geographic percentages represent book values in each State

* WACR: Weighted Average Capitalisation Rate



Pub Property Portfolio

Layers of Value



Current Income

- 100% of the properties are leased to ALH, Australia's largest pub operator
- Long term triple net leases (83 of 86 properties)
- Properties have operated in current locations as pubs for more than 60 years on average



Future Income

- Rents are expected to increase at market rent reviews in 2018 and 2028



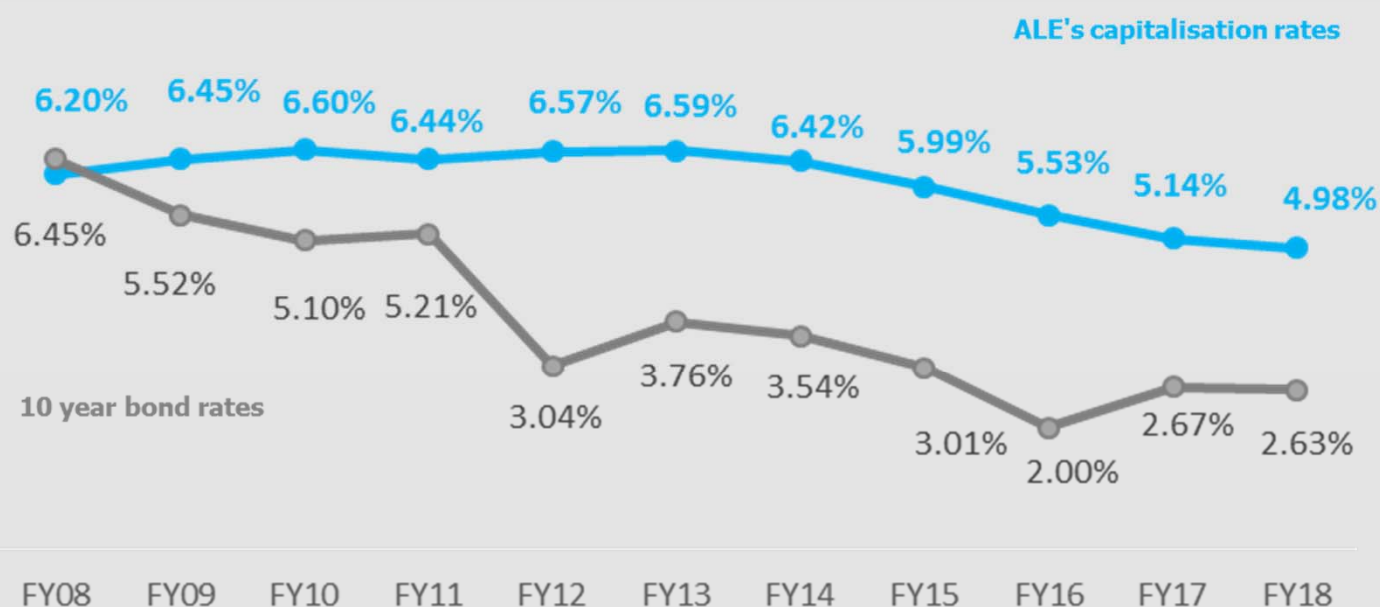
Long Term Value

- 95 hectares of land
- 90%+ of the properties are located in capital or major cities
- Strategically important sites for ALH
- ALE and ALH continue to explore development opportunities together for mutual benefit
- Mixed and alternate use opportunities exist in the longer term



ALE's Property Portfolio

Capitalisation and Bond Rate Movements



Movements in ALE's average capitalisation rates are currently being driven by factors beyond the movements in bond rates. Improvements to properties that enhance earnings and shorter timeframes to rent reviews are both positive contributions to value.



Case Studies – Property Development by ALH

Miami Tavern, Gold Coast, QLD



Current Hotel



New Dan Murphy's

- Acquired hotel in 2003 for \$4.1m at a cap rate of 8.4%
- New Dan Murphy's opened December 2017
- Acquired adjoining property in April 2018 for \$1.4m to facilitate longer term development opportunities
- Valued June 2018 at \$14.9m at a cap rate of 4.9%
- Refurbishment of the hotel to be completed over the next year



Case Studies – Property Development by ALH

Gepps Cross Hotel, Adelaide, SA



Developed Hotel



New Dan Murphy's

- Acquired hotel for \$2.2m in 2003 at a cap rate of 9.9%
- ALH joined forces with Coopers Brewing to create Adelaide's first Coopers Alehouse
- Hotel substantially reconstructed and reopened in May 2016
- New Dan Murphy's opened December 2017
- Valued June 2018 at \$8.2m at a cap rate of 3.7%

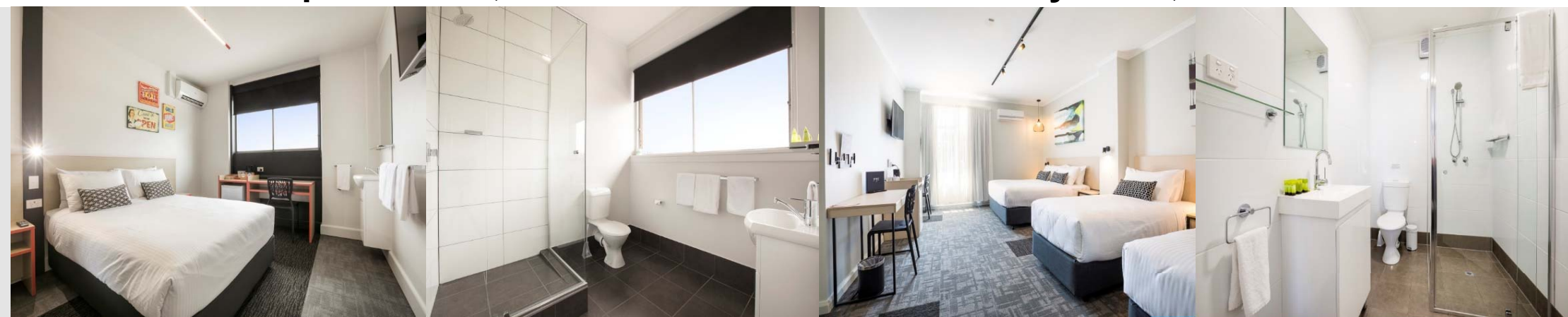


Case Studies – Property Development by ALH

497 Rooms of Short Stay Accommodation

Camp Hill Hotel, Brisbane

Finsbury Hotel, Adelaide



Reactivated Accommodation

- ALH launched “Nightcap Hotels” in April 2018
- Continuing to renovate and reopen three / four star short stay accommodation
- ~ 2,000 rooms are currently offered at 95 of ALH’s operating hotels
- 497 of those rooms are located across 27 of ALE’s properties. Up from 428 at June 2017
- Recent reactivations or additions at ALE’s properties at Camp Hill, QLD and Finsbury, SA
- Positive operational and revenue synergies between new accommodation and the existing range of onsite pub entertainment offerings





Case Studies – Melbourne Metro Rail Project

Young & Jackson Hotel, Melbourne, VIC



Young and Jackson Hotel and the Melbourne Metro Rail Project

- Melbourne metro rail project operational by 2026
- New Town Hall Station to surround hotel
- ~ 6,700 walking entries and exits forecast in both AM and PM peaks
- Station access from both Flinders and Swanston Streets
- Dialogue with Cross Yarra Partnership and Rail Projects Vic continues
- Metro is expected to be operational by 2026



Capital Management



Capital Management

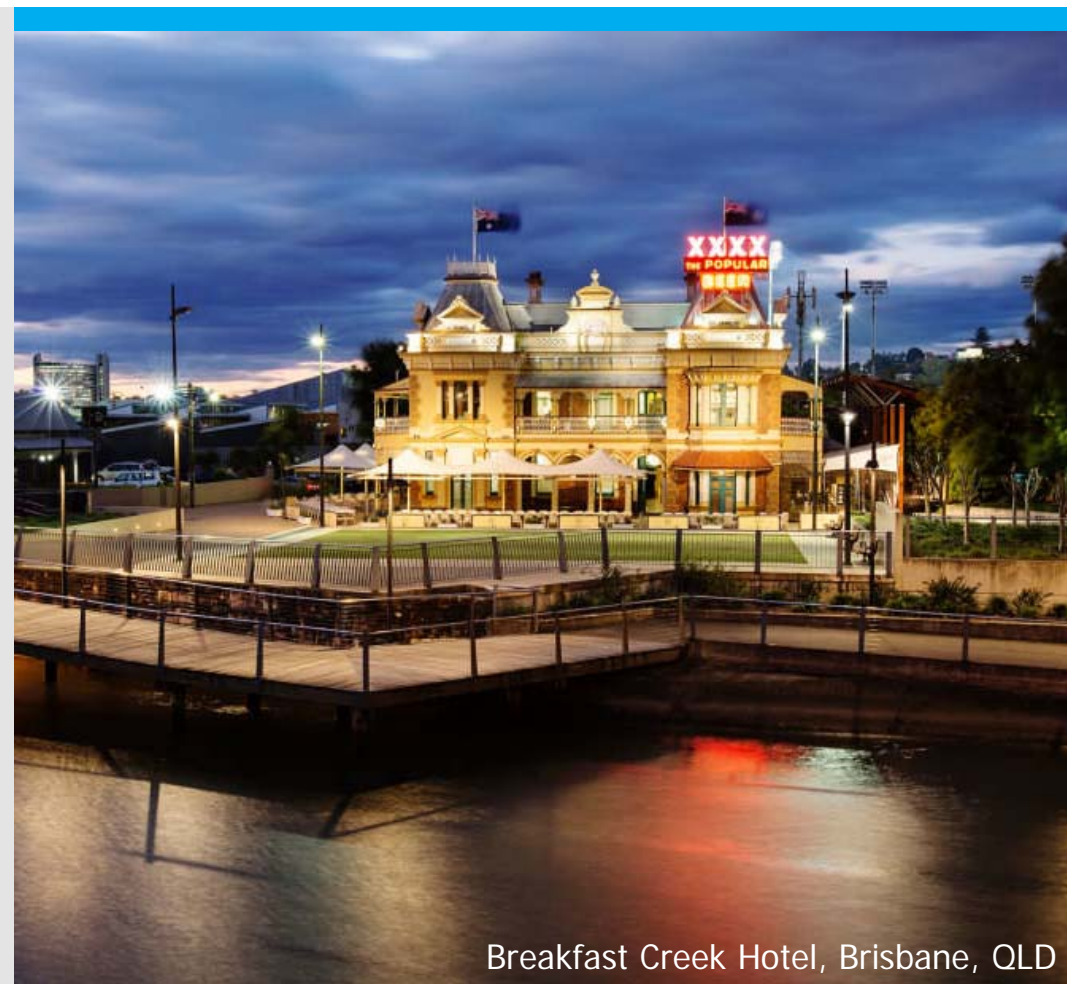
A Sound Debt Capital Structure

Capital management priorities

- Managing refinancing and interest rate risk
- Growing securityholders' distributions

Capital structure with positive features

- Investment grade credit rating of Baa2 (stable)
- Next debt maturity in August 2020
- Debt maturities diversified over the next 5.4 years
- 100% of forecast net debt hedged over the next 7.4 years
- All up cash interest rate of 4.26% fixed until August 2020
- Gearing at low of 41.6% (42.7% at June 2017)
- Interest cover ratio well above covenant level at 2.6 times

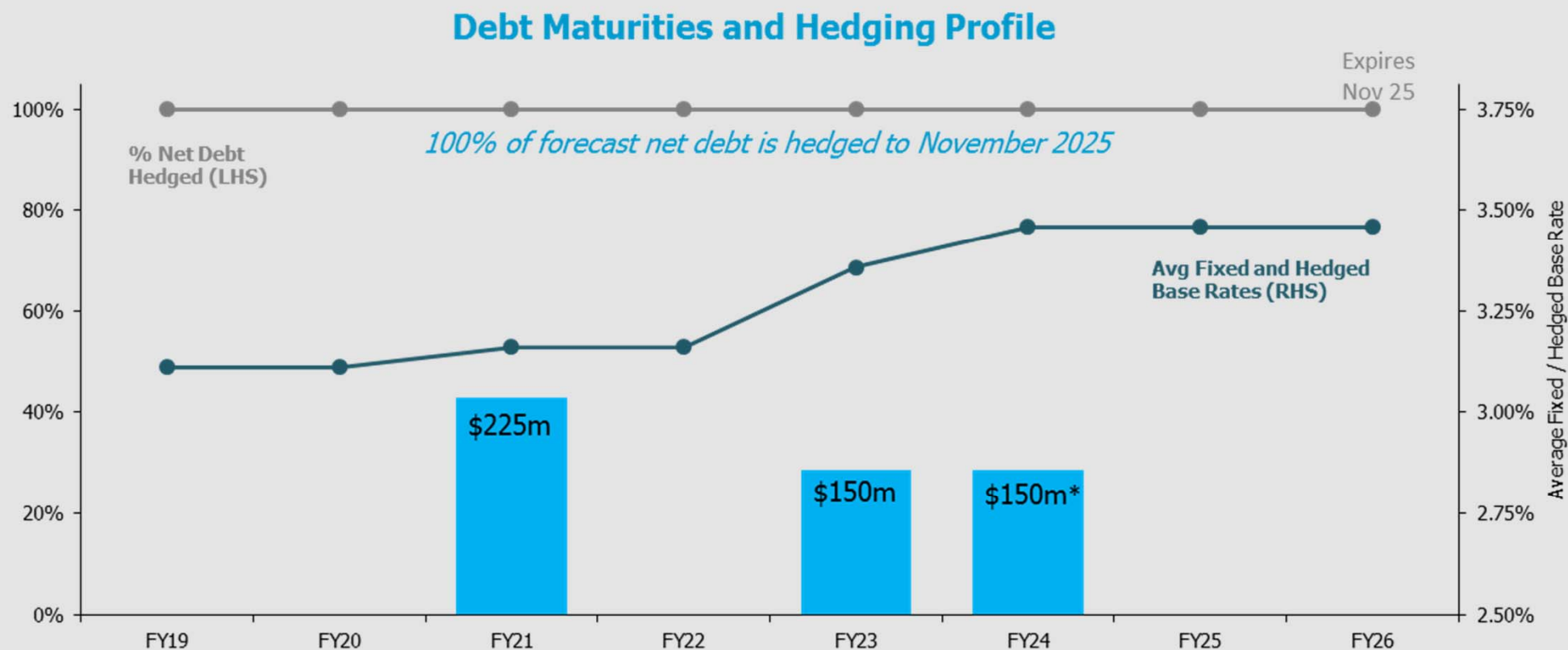


Breakfast Creek Hotel, Brisbane, QLD



Capital Management

Diversified Debt Maturities And Long Term Hedging



* balance escalates with CPI



Note: Base interest rates exclude credit margins



Capital Management

June 2018 Debt Capital Structure

As at 30 June 2018

Debt Facility	Issue Rating	Face or Indexed Value (m)	Base Rate	Issue Margin	All Up Fixed Cash Rate	Scheduled Maturity	Remaining Term (Years)
AMTN (Unsecured)	Baa2	\$225	3.50%	1.50%	5.00%	20 Aug 2020	2.2
AMTN (Unsecured)	Baa2	\$150	2.50%	1.50%	4.00%	20 Aug 2022	4.2
CIB (Secured)	AAA / Aaa	\$151	3.20%	0.20%	3.40%	20 Nov 2023	5.4
Total and Averages		\$526	3.13%	1.13%	<u>4.26%</u>		3.7
Cash on Deposit		(\$46)					
Total Net Debt		\$480					

- Base Rate for CIB is a real interest rate. The balance of the CIB escalates with CPI
- Debt amounts are gross and exclude reductions for any unamortised borrowing costs
- All up fixed cash rates apply until the AMTN and CIB maturity dates, after which the base interest rates are hedged until November 2025 on around 100% of ALE's forecast net debt amounts
- Fixed rate and forward start hedging facilities provide an average total hedging term of 7.4 years on 100% of forecast net debt
- Hedging facilities were \$10.1m out of the money as at 30 June 2018
- Cash balance includes \$8.4m for debt service reserve security, \$20.5m for Sept 2018 distribution and \$2.0m reserve for AFSL requirements



Capital Management

Substantial Covenant Headroom

Key Capital Management Metrics

- Substantial headroom to all debt covenants continues
- AMTN covenant defined gearing of 41.6% (FY17 42.7%)
- Headroom to AMTN covenant of 60% gearing equates to:
 - 31% (approx.) reduction in property values
 - Expansion in average cap rate from current 4.98% to 7.26%
 - ALE's average capitalisation rates have not exceeded 6.57% since 2006
- Gearing covenant for AMTN of 60% relates to distribution stopper and 65% relates to default
- Interest cover ratio at 2.6 times compares favourably to AMTN covenant at 1.5 times



Outlook and Strategy



Outlook

Certainty of Earnings With Long Term Upside



QLD Land Tax

- Increase in land tax rate
 - rate increased from 2.0% to 2.5%
 - reduces FY19 earnings by around \$700k or 0.38 cents per security



FY19 Market Rent Reviews

- Passing rent is materially less than ALE's view of market rent
- Extent of the difference between passing and market rent is not evenly spread across the portfolio
- Rents may increase or decrease by up to 10% for individual properties



- As previously foreshadowed, ALE is confident of a positive result but may not necessarily receive a full 10% increase for all properties
- Rent review process has commenced
- Too early to know the timing or the quantum of the rent review outcomes
- The outcomes will be subject to commercial negotiation and/or formal determination



2028 Market Rent Reviews

- Open market rent review where full extent of the difference will be realised in each of the properties' rents



Outlook – Market Rent

Market Rent Reviews and Lease Renewals

Hotel	Next Rent Review Date	Rent* (\$m)	Next Renewal Date	Renewal Term (Years)	Lease Type, Review and Renewal Details **
Berwick, VIC	Jun 2018	1.20	Jun 2028	10	Standard lease. To be included with Nov 2018 reviews
Camp Hill, QLD	Nov 2018	0.30	Nov 2028	10	Standard lease. 10% increase already agreed
Gepps Cross, SA	Nov 2018	0.22	Nov 2028	10	Standard lease. 10% increase already agreed
74 Hotels	Nov 2018	50.04	Nov 2028	10	74 Standard leases
Pelican Waters, QLD	Dec 2018	0.50	Dec 2028	10	Standard lease
Four Mile Creek, QLD	Jun 2019	0.46	Jun 2029	10	Standard lease. Minimum ratchet and maximum 10%
Noosa Reef, QLD	Jun 2019	0.72	Jun 2029	10	Standard lease
Brass Monkey, WA	Jun 2020	0.58	Jun 2020	5	Review with minimum ratchet and maximum open
Pritchard's, NSW	Sep 2020	1.73	Sep 2020	10	Increase at fixed 3%
Balmoral, WA	Feb 2023	0.48	Feb 2023	5	2018 renewal agreed by ALH. CPI increase to apply
Burleigh Heads, QLD	Nov 2023	0.78	Nov 2033	10	Standard lease
Narrabeen Sands, NSW	Jun 2024	0.82	Jun 2034	10	Standard lease
Anglers Arms, QLD	Nov 2028	0.63	Nov 2028	10	Standard lease. Nov 2018 increase of 10% occurred June 2017
Total Rent		58.46			

* June 2018 rent amounts before deducting land tax for QLD properties. ** Standard leases review to market between Jun 2018 and Jun 2024 and may increase or decrease by up to 10% from preceding year's rent. The first of four 10 year options for ALH to renew occur between 2028 and 2034. Three non-standard leases relate to Balmoral, Brass Monkey and Pritchard's.



ALE's Value Proposition



- High quality pub property portfolio
- Triple net leases to ALH, Australia's largest pub operator
- Long leases over strategically important property with terms averaging 10.3 years plus options
- Current total property rent is substantially below market level
- Potential opportunities from increased utilisation of land and further development of properties
- Investment grade and low risk capital structure
- Aim to increase annual distributions by at least CPI
- FY19 distribution is expected to be at least 50% tax deferred
- Distributions and capital management policy to be reviewed following completion of 2018 rent review

Note: Forecast FY19 tax deferred distribution assumes no material changes to property portfolio or capital structure



ALE's FY18 Results

Results Materials



ALE Property Group will release the following 2018 reporting materials:

- FY18 Annual Review aleproperty2018.reportonline.com.au
- FY18 Annual Report aleproperty2018.reportonline.com.au
- FY18 Property Compendium aleproperties.com.au

ALE's website contains all the results materials alegroup.com.au

ALE's website also includes new video tour above and through the Gepps Cross Hotel, Adelaide, SA

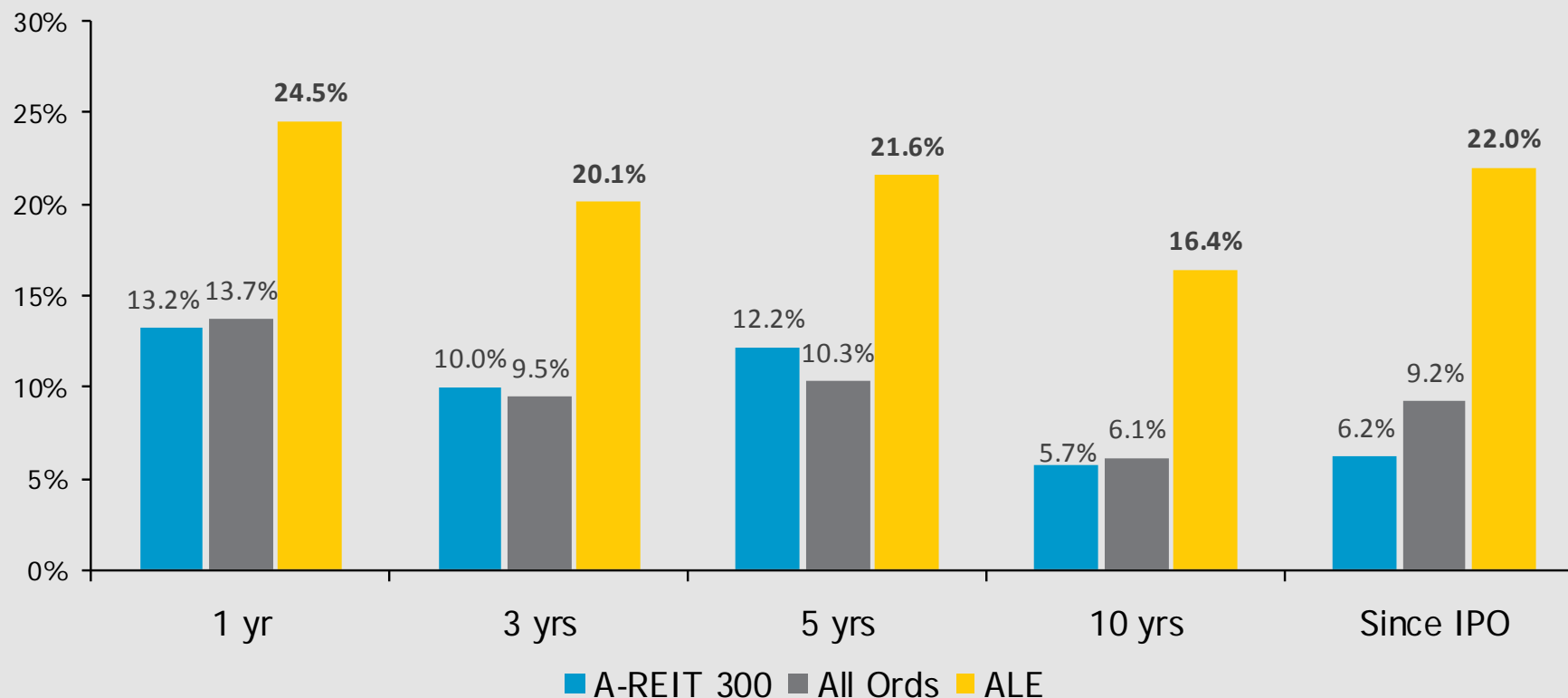


Attachments

ALE's 15 Years of Equity Performance

Outperformance

Total Return



- Total return is the annual compound return (IRR) for the number of years ending 30 June 2018
- Includes ASX market price of \$5.59 as at 30 June 2018 and reinvestment of distributions and 2009 renunciation payment
- ALE, All Ordinaries Accumulation Index and UBS S&P REIT 300 Index data sourced from ASX, UBS and ALE
- **An investment in ALE at IPO in 2003 of \$1.00 has accumulated value at 30 June 2018 of \$18.33**



June 2018 Results

Key Metrics

As at	June 2018	June 2017	Change
86 properties total value	\$1,136.3m	\$1,080.2m	5.2%
Gearing ¹	41.6%	42.7%	(1.1%)
Net assets	\$620.1m	\$586.0m	5.8%
Net assets per security	\$3.17	\$2.99	5.8%
Price as premium to NTA ²	76.3%	56.2%	23.1%
Market Capitalisation ²	\$1,094.3m	\$914.2m	19.7%

1. AMTN covenant gearing = (Total Borrowings – Cash) / (Total Assets – Cash) for ALE DPT. Excludes derivatives values, deferred tax assets and unamortised borrowing costs
This ratio is considered most relevant to securityholders as it is the debt covenant that has the least headroom available

2. Based upon security price of \$5.59 as at 30 June 2018 and \$4.67 as at 30 June 2017

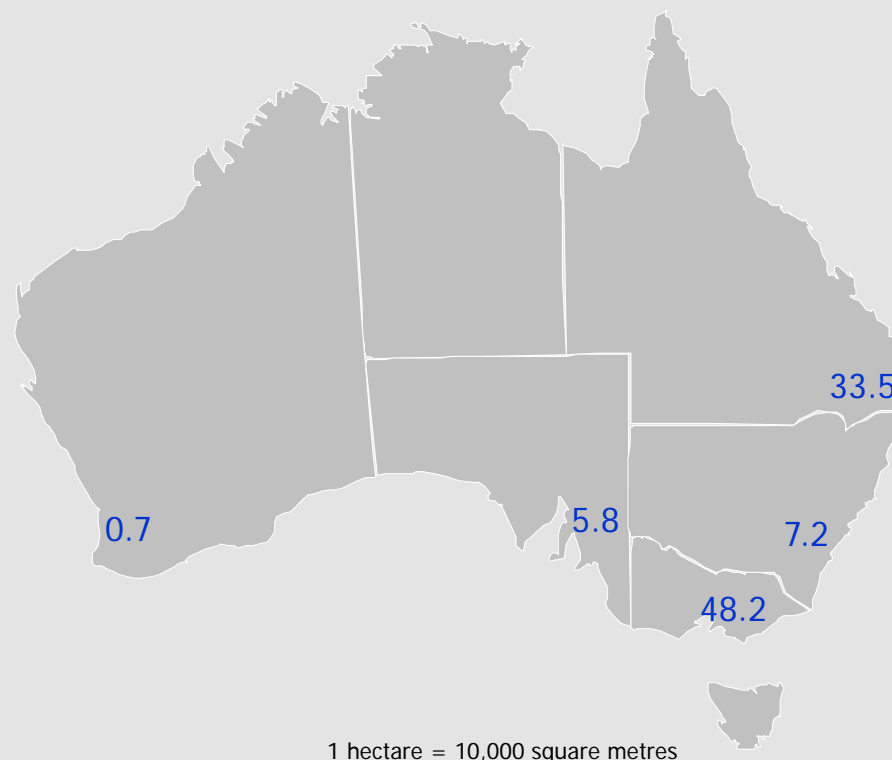


Property Portfolio Characteristics

Significant land holdings

- 90%+ of land located in Australian capitals and major cities
- \$1.14 billion of book value is based on passing rental income
- 86 properties occupy a land area of 954,000 square metres
- Average property size of 11,000 square metres
- Average book value of \$1,200 per square metre of land
- Book values also include value of buildings / long term leases
- Average 25% of each property is occupied by pub and retail liquor buildings (balance is car parking and vacant land)
- Further opportunities to develop and expand existing hotels
- Complementary higher and better use options are available
- All development opportunities are subject ALH's lease rights and require ALE and ALH to agree

Total Land Holdings – 95 hectares



1 hectare = 10,000 square metres

As at 30 June 2018. All areas are estimates and rounded approximations only



ALE's Property Portfolio

Discounted Cash Flow (DCF) Valuations

- Independent valuers applied both traditional capitalisation rate and discounted cash flow (DCF) methods in determining June 2018 valuations of a representative sample of 35 properties
- Statutory valuation capitalisation rate of **4.98%** reflects a combination of methods but continues to place significant emphasis upon the traditional capitalisation rate method
- The valuers' DCF valuation results were equivalent to an average capitalisation rate of **4.29%** based on the following weighted average assumptions:
- ALE noted that the valuers' assumed EBITDAR growth rate was below forecasted inflation levels and significantly lower than the rates historically achieved by ALH
- Also noted that ALE's average capitalisation rates during most of the last ten years have been materially lower than the assumed terminal capitalisation rate of 6.3%



Note: See ASX announcement dated 7 June 2018 for more details

Tenant's EBITDAR Growth Rate	1.4% p.a. (nominal / including CPI)
2028 Terminal Capitalisation Rate	6.3% (1.3% premium to current rates)
11 Year Discount Rate	7.7% p.a. (nominal / including CPI)



Corporate Governance



Director Appointment

- Michael Triguboff joined as non-executive director in February 2018
- Nominee director of Caledonia (Private) Investments, ALE's largest securityholder



Director Retirement

- James McNally retires 8 August 2018 having served as a Director since 2003 when ALE was first listed on the Australian Securities Exchange
- The Board and management team acknowledge and thank James for his long standing service and very positive contribution and wishes him well



Board and Management

Board of Directors

- Board of Directors have extensive experience covering property, finance, risk management, compliance and capital management



Robert Mactier

Chairman & Non-Executive Director

- Appointed as a non-executive director in November 2016 and Chairman in May 2017



Andrew Wilkinson

Managing Director & CEO

- Appointed CEO in November 2003 and Managing Director in November 2004



Pippa Downes

Non-Executive Director

- Appointed as a non-executive director in November 2013



Paul Say

Non-Executive Director

- Appointed as a non-executive director in September 2014



Nancy Milne

Non-Executive Director

- Appointed as a non-executive director in February 2015



Michael Triguboff

Non-Executive Director

- Appointed as a non-executive director in February 2018

Senior Management Team

- Experienced and stable management team



Andrew Wilkinson

Managing Director & CEO

- Appointed CEO in November 2003 and Managing Director in November 2004



Andrew Slade

Capital Manager

- Andrew joined ALE in July 2005



Don Shipway

Asset Manager

- Don joined ALE in September 2010



Michael Clarke

Company Secretary & Finance Manager

- Michael joined ALE in October 2006

Disclaimer

This presentation has been prepared by Australian Leisure and Entertainment Property Management Limited (ALEPML) ABN 45 105 275 278 for general information purposes only, without taking into account any potential investors' personal objectives, financial situations or needs. Before investing in securities issued by entities managed by ALEPML, you should consider your own objectives, financial situation and needs or you should obtain financial, legal and/or taxation advice.

Past performance information provided in this presentation may not be a reliable indication of future performance. Information, including forecast financial information, in this presentation should not be considered as a recommendation in relation to holding, purchasing or selling shares, securities or other instruments of entities managed by ALEPML. Due care and attention has been exercised in the forecasts and any variation may be materially positive or negative.

This information contained herein is current as at the date of this presentation.

© ALE Property Group