



ALE Property Group

Annual General Meeting – 29 October 2019

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Crows Nest Hotel, Sydney, NSW



Group Highlights

Year to 30 June 2019

Property Portfolio

\$1,163.2m

Statutory property values

5.09%

Average property yield

9.3 years

Weighted average lease expiry

4.5%

Passing rental growth

100%

Occupancy

Capital Structure

41.5%

Gearing

2.7 years

Average debt maturity

6.4 years

Hedge maturity

4.26%

All up cash interest rate

Baa2

Investment grade rating

Equity Performance

\$28.3m

Distributable profit

20.90 cps

Distribution

81.32%

Distribution tax deferred

\$998.4m

ASX market capitalisation

20.1% p.a.

16 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 2019

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 2019



Property Highlights

Year to 30 June 2019



Property Revenue

- \$60.2m, up 3.7% on pcip
- 10% rent increases on 36 properties
- 43 other properties are subject to determination



Property Valuations

- Total property values increased by 2.4% to \$1,163.2m (average yield of 5.09%)
- DCF methodology valuations of 34 properties equivalent to a 4.61% yield
- Demand for pub property investments remains strong



Financial Highlights

Year to 30 June 2019



Profit

- Distributable profit of \$28.3m
- Net profit after tax (IFRS) of \$26.6m



Consistent Outperformance

- \$1.00 investment in Nov 2003 IPO.
\$17.44 of accumulated value at 30 June 2019, equivalent to 20.1% p.a. total return
- Outperformed both AREIT 300 and All Ords over past 5, 10 and 16 years



Distributions

- Full year distribution of 20.90 cps
- 81.32% tax deferred



Sound Capital Position

- Gearing at historic low of 41.5%
- Next debt maturity in August 2020

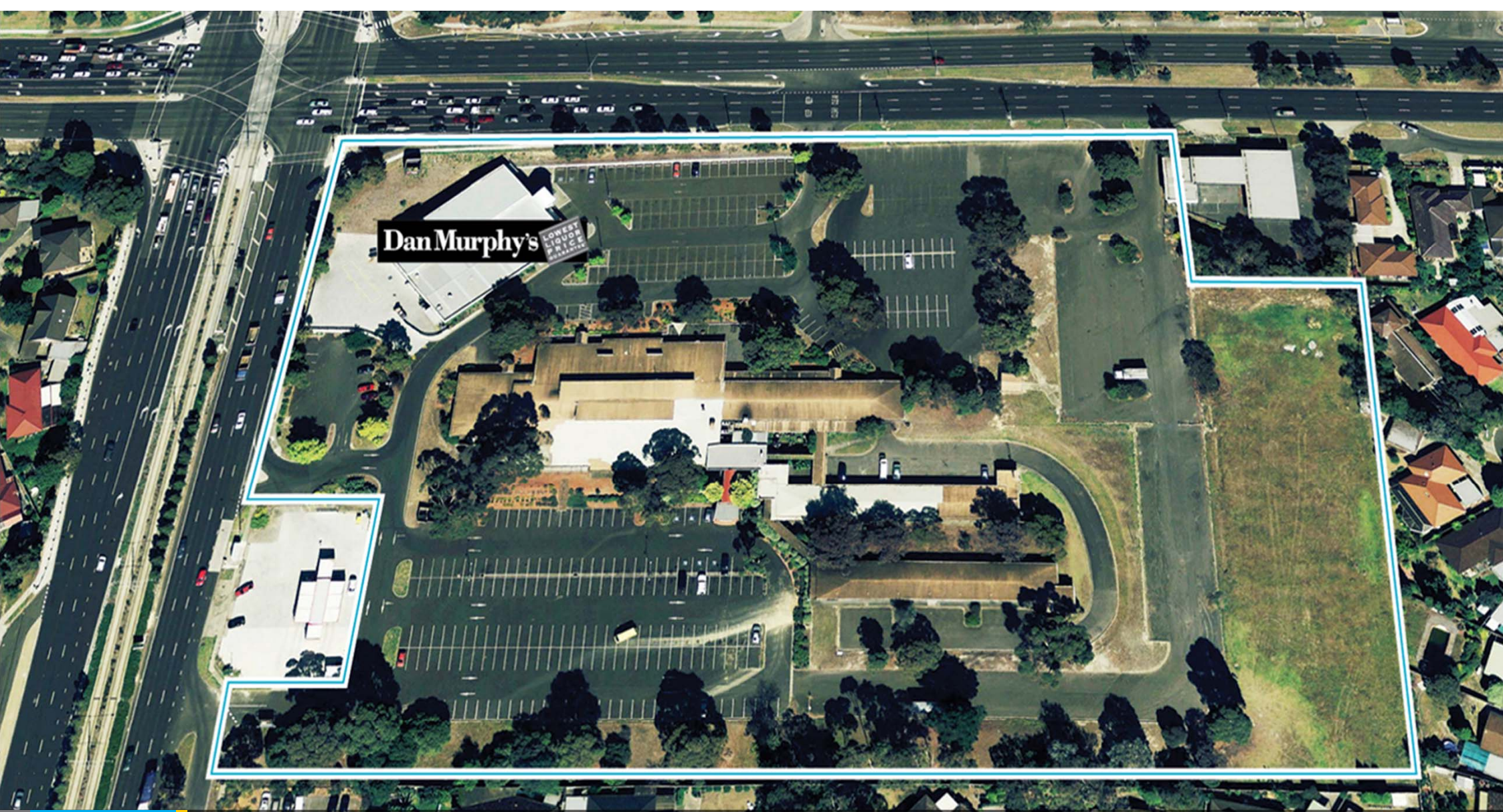


Distributable Profit

Year to 30 June 2019

Millions	June 19	June 18	Comments
Revenue from properties	\$60.2	\$58.1	▪ 3.7% increase. Increases of 10% for 36 properties from Nov 2018
Other revenue	\$0.8	\$1.0	▪ Lower cash balances and lower interest rates
Borrowing expense	\$22.2	\$22.0	▪ Fixed interest rates on 100% of debt facilities
Management expense	\$7.6	\$5.7	▪ Includes \$3.1m of one-off costs associated with rent reviews
Land tax expense	\$2.9	\$2.4	▪ Land tax for QLD properties only at an increased rate
Distributable Profit ¹	\$28.3	\$29.0	▪ Impacted by (one-off) rent reviews expenses and land tax
Distributable Profit (cps) ²	14.45c	14.83c	
Distribution (cps)	20.90c	20.80c	▪ In line with guidance. 6.45 cps paid out of capital and cash reserves

1. Distributable Profit excludes non-cash accounting items
2. 195.8 million securities were on issue as at both dates above
3. Rounding differences may arise



ALE's Property Portfolio

High Quality, Well Located and Development Potential



Pub Property Portfolio

Endeavour and ALH Merger and Separation from Woolworths (WOW)

ALH: Australia's largest pub operator

- 328 licensed venues
 - > 1,000 bars & night clubs
 - 295 venues with restaurants or bistros
 - > 60,000 meals a day
- 599 liquor outlets
- 2,000 rooms across 96 locations
- WOW shareholders to vote 16 Dec 19 on merger of ALH and Endeavour Drinks. To be Australia's largest drinks and hospitality business and named Endeavour Group: 1,904 venues / outlets



ALH

- FY19 \$4.67 billion of turnover
- FY19 \$583m of EBITDA

Endeavour Group

- Following merger, WOW intends to pursue a separation by demerger or value-accretive alternative. Aims to complete during CY20
- FY19 \$10.33 billion of turnover
- FY19 \$0.95 billion of EBITDA
- In event of a demerger, Group's capital structure targeting investment grade rating



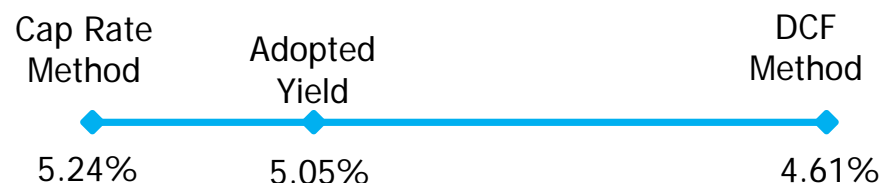


Pub Property Portfolio

30 June 2019 Valuations

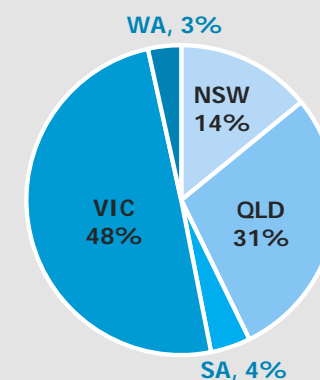
- 4.5% increase in passing net rent to \$59.2m was driven by a 10% increase for 36 properties
- Valuations increased by \$26.6m (or 2.4%)
- Average adopted yield of 5.09% (FY18: 4.98%)
- Independent valuations by Savills and CBRE
- Independent DCF valuations of 34 properties are equivalent to a cap rate of 4.61% (FY18: 4.29%)
- Valuers' adopted yields reflect a blend of cap rate and discounted cash flow (DCF) methodologies

For the representative sample of 34 properties



Portfolio composition as at 30 June 2019

State	Properties	Value (m)	Average Value (m)	WAY*
NSW	10	\$162.3	\$16.2	5.11%
QLD	32	\$365.0	\$11.4	5.02%
SA	7	\$41.9	\$6.0	5.07%
VIC	33	\$562.2	\$17.0	5.06%
WA	4	\$31.8	\$8.0	6.22%
Total	86	\$1,163.2	\$13.5	5.09%



Geographic Diversity

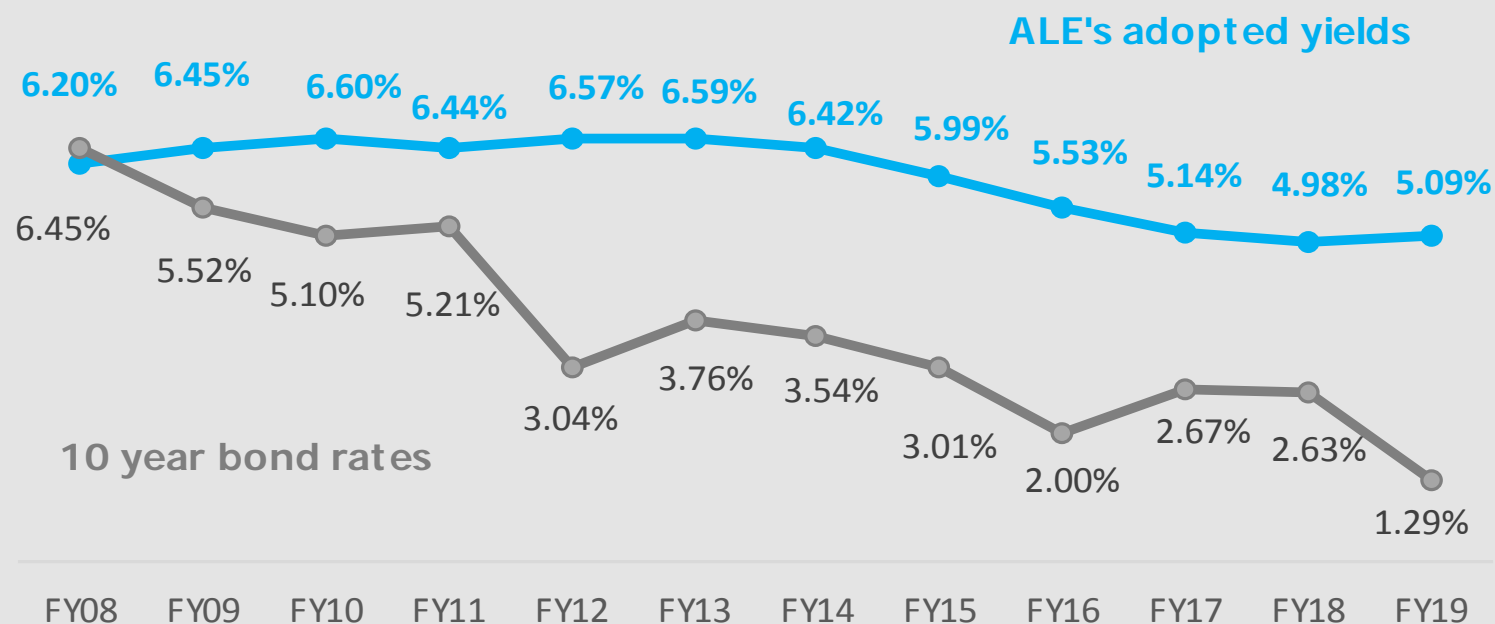
Geographic percentages represent book values in each State

* WAY: Weighted Average Adopted Yield



ALE's Property Portfolio

Property Yield and Bond Rate Movements



- Over the last twelve years long term bond rates have fallen by around 516 basis points. ALE's adopted yields have only fallen by around 111 basis points. It is notable that the spread has expanded materially over the past financial year
- A sustained spread between yields and bond rates would also provide positive support to value
- Improvements to properties that enhance tenant earnings and shorter timeframes to 2028 open rent reviews are both positive contributions to value



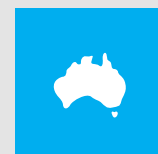
ALE's Property Portfolio

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 operating in current locations as pubs for an average 60+ years



Potential Long Term Value

- 95 hectares of land
- 90%+ of the properties are located in capital or major cities
- Strategically important sites for ALH
- Mixed and alternate use opportunities exist in the longer term



Future Increases In Income

- 2028 provides opportunity for open and uncapped review of rents



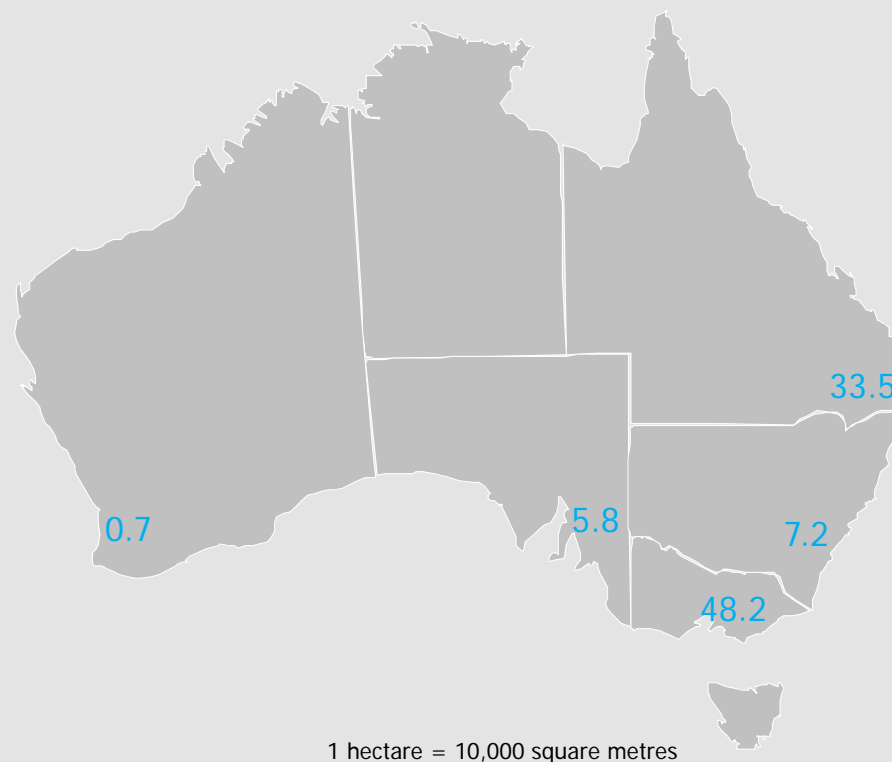
Property Portfolio Characteristics

Significant land holdings

- 90%+ of land located in Australian capitals and major cities
- \$1.16 billion of book value is based on passing rental income
- 86 properties occupy a land area of 95.4 hectares
- Average property size of 1.1 hectares
- Average book value of \$1,220 per square metre of land
- Average 25% of each property is occupied by pub and retail liquor buildings (balance is car parking and vacant land)
- All development opportunities are subject ALH's lease rights and require ALE and ALH to agree

As at 30 June 2019. All areas are estimates and rounded approximations only

Total Land Holdings – 95 hectares





History of Property Development

Development for mutual benefit



Redeveloped Hotels



Additions of Dan Murphy's

- Development highlights across 86 properties over the past 16 years
 - 10 substantial reconstructions
 - 24 significant refurbishments
 - 24 Dan Murphy's additions
- In addition, regular maintenance obligations exist for ALH
- Significant development expenditure and earnings accretion for ALH
- All earnings from all activities are included for rent review purposes, irrespective of the funding source for the additional leasehold improvements



Case Studies – Property Development by ALH

Miami Tavern, Gold Coast, QLD



Current Hotel

- Acquired hotel in 2003 for \$4.1m at a cap rate of 8.4%
- Acquired adjoining property in April 2018 for \$1.4m to facilitate longer term development opportunities
- New Dan Murphy's added FY18
- Valued June 2019 at \$14.6m² at adopted yield of 5.17%
- Refurbishment of the beachside Bar and Bistro areas will be completed during FY20



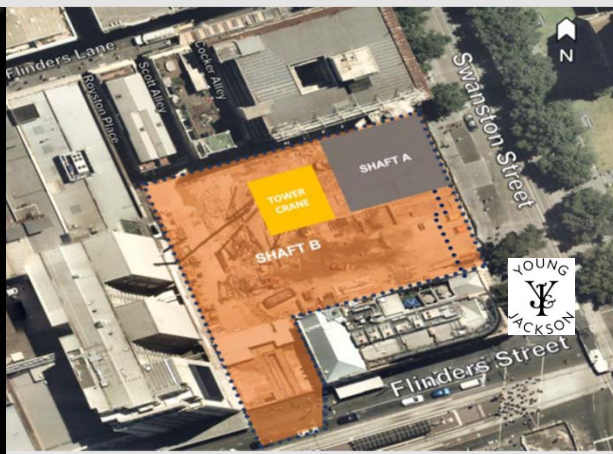
Refurbished Hotel¹

1. Artist's impression
2. Includes adjacent lot purchased in April 2018



Case Studies – Melbourne Metro Rail Project

Young & Jackson Hotel, Melbourne, VIC



Young and Jackson Hotel and the Melbourne Metro Rail Project

- New Town Hall Station to surround hotel
- Works around the hotel are progressing
- Dialogue with Cross Yarra Partnership and Rail Projects Vic continues
- ~ 6,700 walking entries and exits forecast in both AM and PM peaks
- Station access from either side of the hotel on both Flinders St and Swanston St
- Metro is expected to be operational by 2026



Capital Management



Capital Management

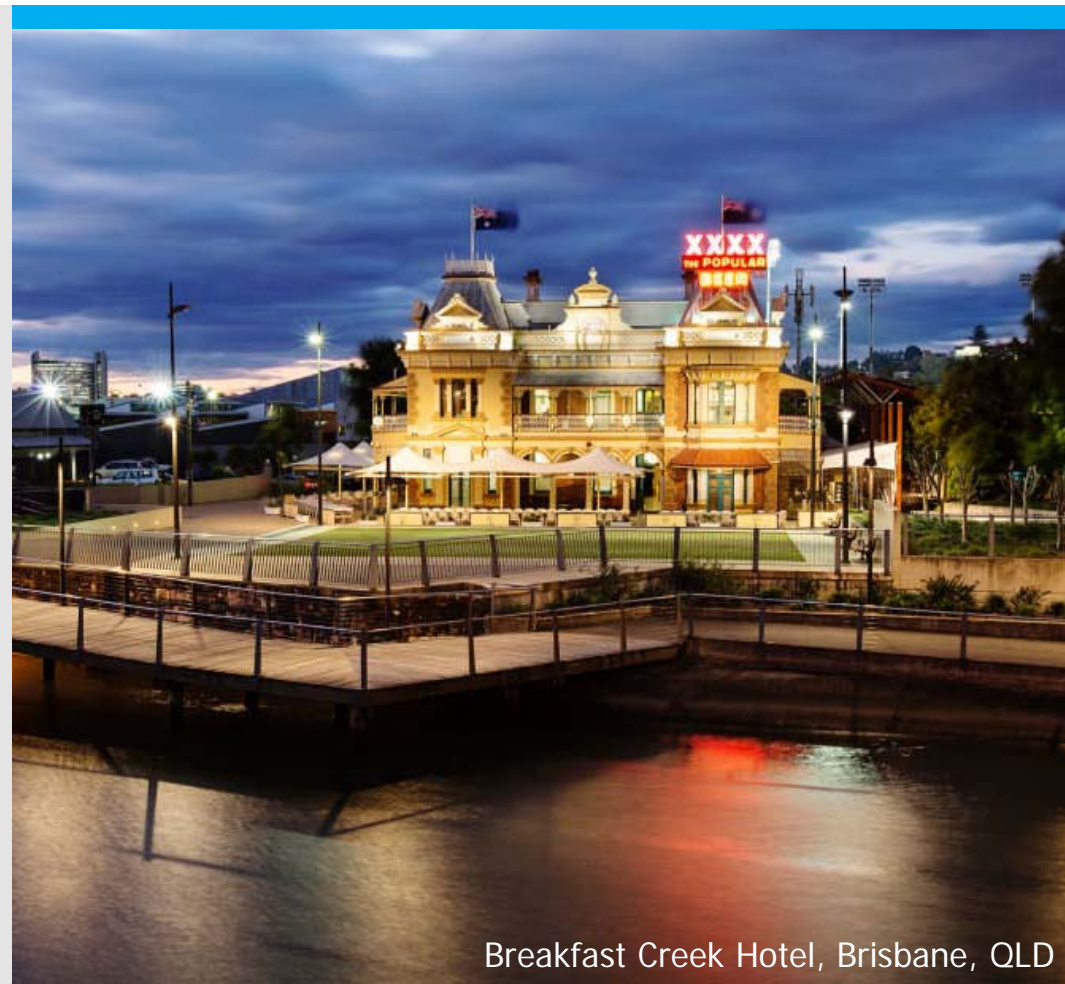
A Sound Debt Capital Structure

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 4.4 years
- 100% of forecast net debt hedged over the next 6.4 years
- All up cash interest rate of 4.26% fixed until August 2020
- Gearing at historic low of 41.5% (41.6% at June 2018)
- Interest cover ratio at 2.5 times (2.6 times at June 2018)

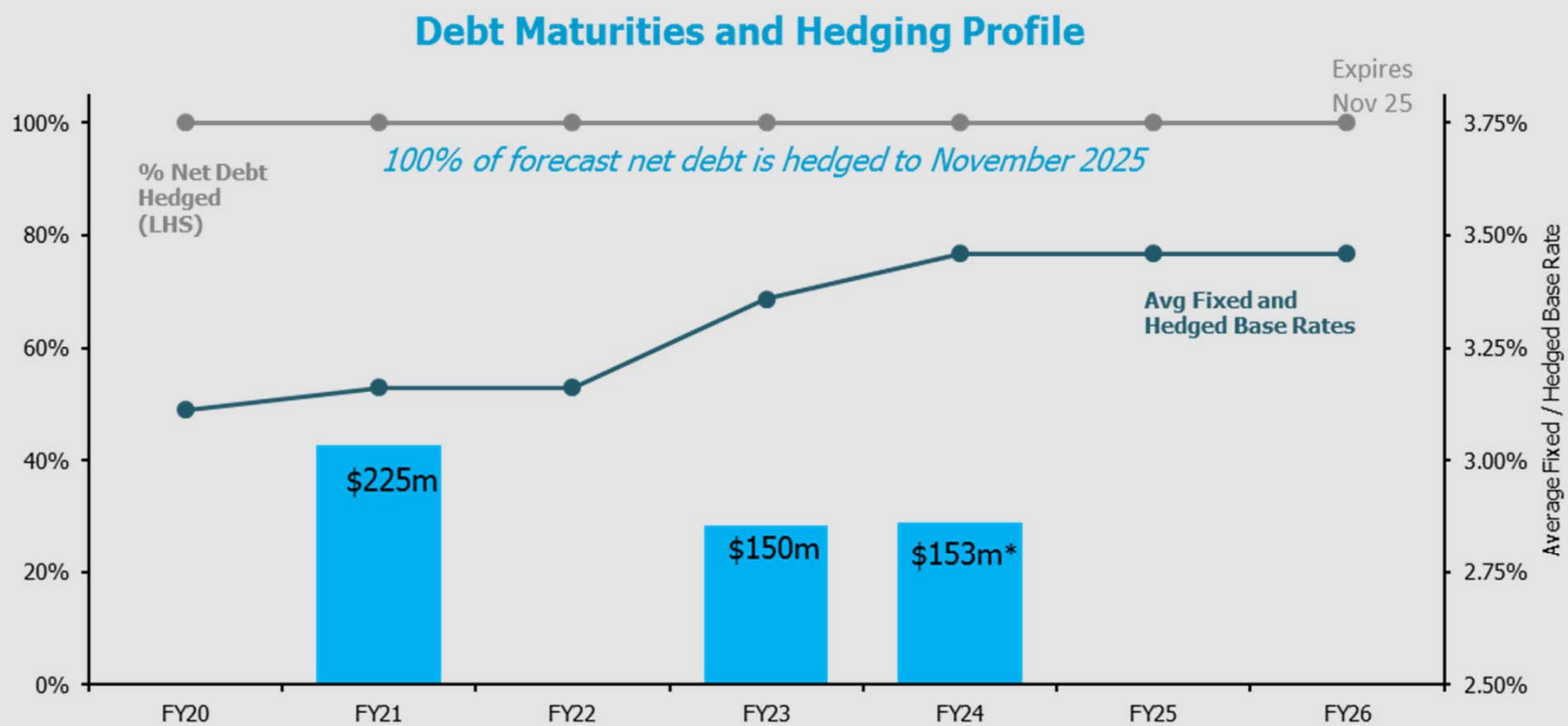


Breakfast Creek Hotel, Brisbane, QLD



Capital Management

Diversified Debt Maturities And Long Term Hedging



* balance escalates with CPI



Note: Base interest rates exclude credit margins



Capital Management

June 2019 Debt Capital Structure

As at 30 June 2019

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	1.2
AMTN (Unsecured)	Baa2	\$150	2.50%	1.50%	4.00%	20 Aug 2022	3.2
CIB (Secured)	AAA / Aaa	\$153	3.20%	0.20%	3.40%	20 Nov 2023	4.4
Total and Averages		\$529	3.13%	1.13%	<u>4.26%</u>		2.7
Cash on Deposit		(\$33)					
Total Net Debt		\$496					

- 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 6.4 years on 100% of forecast net debt
- Hedging facilities were \$34.7m out of the money as at 30 June 2019
- Cash balance includes \$8.4m for debt service reserve security, \$20.4m for Sept 2019 distribution and \$2.0m reserve for AFSL requirements



Outlook and Strategy



Outlook

Future income profile pending rent review determinations



Rent Reviews

- 10% rent increases agreed for 36 properties
- Remaining 43 properties subject to independent and binding determinations
- ALE lodged comprehensive submissions with independent determining valuers
- Total passing rent is materially less than ALE's view of uncapped rent
- Extent of the difference between passing and uncapped rent not evenly spread across portfolio
- Non-recurring FY19 rent review submission costs of \$3.1m reflect the commitment of time, resources and external experts to the process



Rent Outlook

- Rents may increase or decrease by up to 10% for remaining 43 determinations. Range of 86 properties' gross passing rent
 - Worst case \$58.5m (no change)*
 - Best case \$63.7m (+8.9%)*
- ALE remains confident of a positive result
- Determination results for all 43 properties are to be announced at the same time and are currently anticipated late CY19
- Rent review determination results will be back dated to 4 Nov 2018

* Note: Changes are in comparison to the gross passing rent before any Nov 2018 rent increases are applied. Best case is less than + 10% as seven of the 86 properties are not included in CY18 rent reviews



Rent Reviews

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. In progress
40 Hotels	Nov 2018	26.99	Nov 2028	10	42 standard leases. In progress
Pelican Waters, QLD	Dec 2018	0.50	Dec 2028	10	Standard lease. In progress
Four Mile Creek, QLD	Dec 2018	0.63	Dec 2028	10	Standard lease. Minimum ratchet and maximum 10%. In progress
Noosa Reef, QLD	Jun 2019	0.72	Jun 2029	10	Standard lease
Brass Monkey, WA	Jun 2020	0.59	Jun 2020	5	Minimum ratchet and maximum open
Pritchard's, NSW	Sep 2020	1.78	Sep 2020	10	Increase at fixed 3%
Balmoral, WA	Feb 2023	0.52	Feb 2023	5	Greater of CPI and 7% of Turnover as maximum open
Burleigh Heads, QLD	Nov 2023	0.80	Nov 2033	10	Standard lease
Narrabeen Sands, NSW	Jun 2024	0.83	Jun 2034	10	Standard lease
Anglers Arms, QLD	Nov 2028	0.64	Nov 2028	10	Standard lease. Increase of 10% occurred June 2017
36 Hotels	Nov 2028	25.76	Nov 2028	10	34 standard leases. Increase of 10% agreed. 2 pre-agreed
Total Rent		60.96			

* June 2019 gross passing rent amounts before deducting land tax for QLD properties. 79 of ALE's 86 properties were subject to the CY18 rent reviews

** Standard leases review to market between Jun 2019 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 standard leases occur between 2028 and 2034. The three non-standard leases are Balmoral, Brass Monkey and Pritchard's.

*** Property adjoining Miami Hotel, QLD receives a rent of \$0.08m which is excluded from the above rent amounts.



ALE's Value Proposition



- National portfolio of 86 pub properties
- High quality pub properties mostly located in capital cities
- Triple net leases to ALH, Australia's largest pub operator
- Long term leases over strategically important property
- Weighted average lease expiry of 9.3 years plus four 10 year options to renew
- Investment grade and low risk capital structure
- FY19 distribution of 20.90 cps was 81.32% tax deferred

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