

ALE Property Group

11th Annual General Meeting – 6 November 2014



Crows Nest Hotel, Crows Nest, Sydney, NSW

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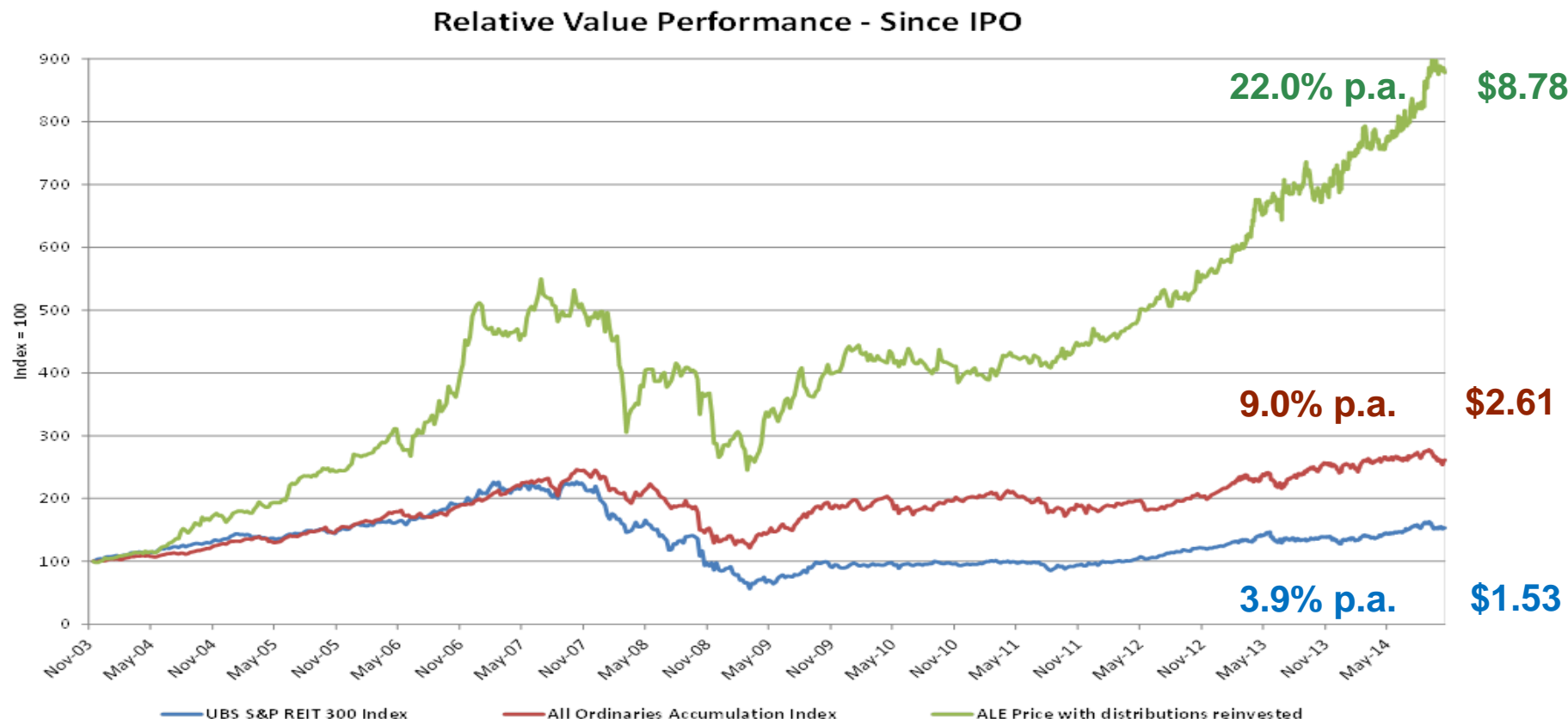
ALE Property Group

Growing Securityholder Value – Consistently

- **High quality properties**
- **Low risk capital structure**
- **Growing, long term and secure rental income**
- **Positive prospects for market rent review upside**
- **Highly experienced and well credentialed Board**
- **Experienced management team**
- **One of lowest management expense ratios in AREIT sector**
- **Consistent strategy to grow distributions and securityholder value**

11 Years of Equity Performance

\$8.78 of Accumulated Value



ALE : \$1.00 invested in 2003. \$8.78 of accumulated market value¹

1. Includes equity market price as at 20 October 2014 and reinvestment of distributions and 2009 renunciation payment

Financial Highlights

Full Year to 30 June 2014

- FY14 distributable profit of \$31.2m or 15.96 cps
 - distributable profit reduced by one-off refinancing expense of 0.9 cps
- FY14 distribution of 16.45 cps
 - exceeded guidance of at least 16.35 cps
 - 96.43% tax deferred and 3.57% CGT concessional
 - fully funded out of current and prior year accumulated distributable profits
- \$335m AMTN refinancing and hedge restructure ensures strong capital position
 - maturity dates now diversified over next three, six and nine years
 - simplified debt structure includes just two types of fixed rate bonds
 - lower base interest rates fixed and simplified hedging for 8.4 years
 - savings from all up interest rate of 4.35% p.a. that is fixed until Aug 2017

Property Highlights

Full Year to 30 June 2014

- Property revenue of \$54.7m, up \$1.4m vs pcg
- 86 properties' statutory valuations increased by 5.14% to \$821.68m due to
 - CPI rental growth of 2.25%
 - average capitalisation rate reduced from 6.59% to 6.42%
 - QLD land tax reductions
- All independent (DCF) valuations assumed a 10% capped increase in 2018 rent
- Weighted average lease expiry of around 14 years
- Portfolio value includes future market rent reviews arising from enhanced ALH profit
 - significant capital expenditure by ALH at the properties
 - Victorian gaming changes continue to provide materially positive impact
 - ALH's FY14 EBITDAR increased 6.6% across all 320+ pub operations
 - potential for further valuation uplift from 2028 open market rent review

FY14 Results

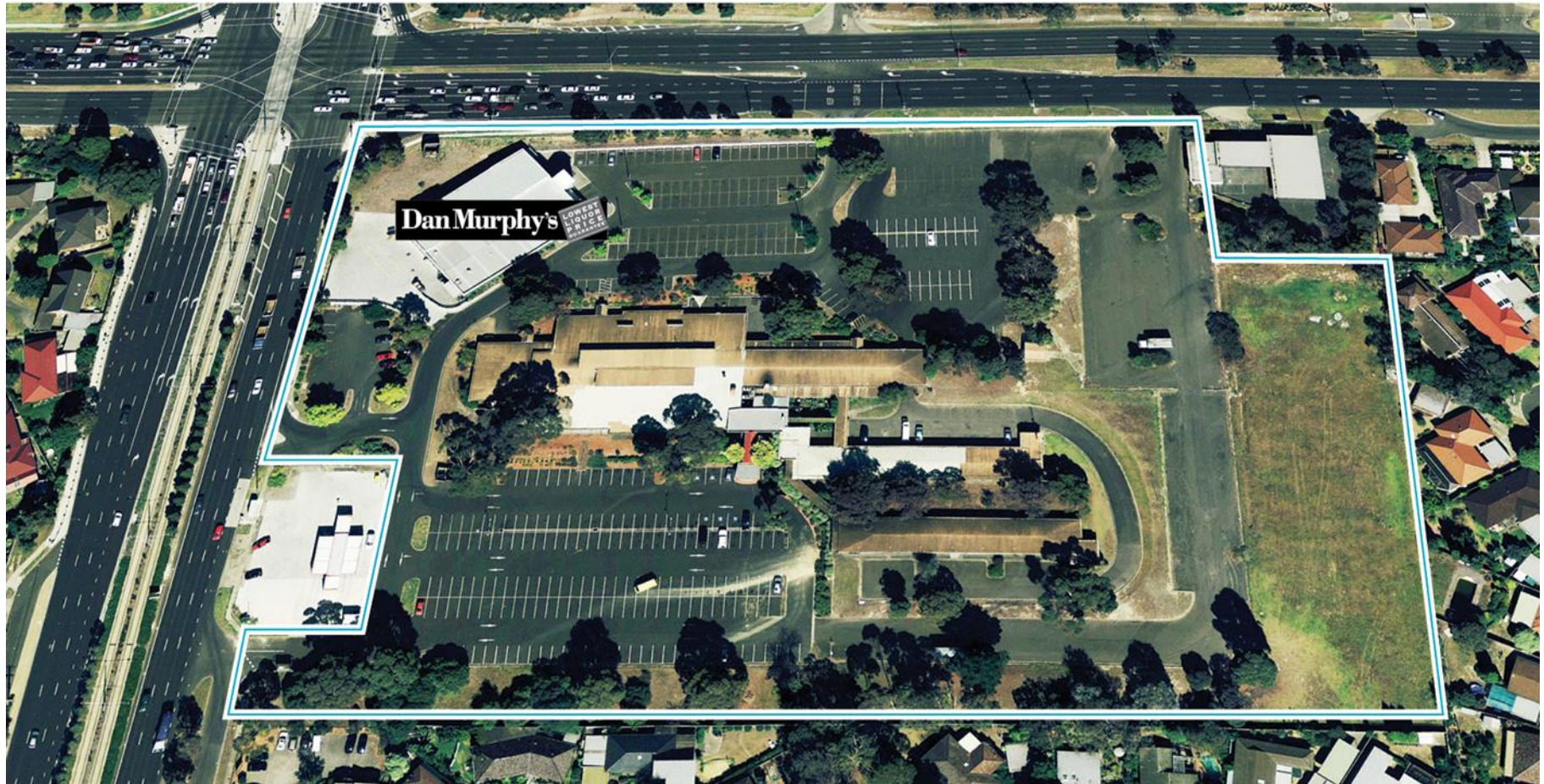
Distributable Profit

Millions	FY14	FY13	Comments
Revenue from Properties	\$54.7	\$53.3	➤ CPI based rent increase and other income
Other Revenue	\$2.2	\$2.8	➤ Reduced average cash balances and deposit rates
Borrowing expense	\$19.0	\$17.8	➤ Includes expected one off CMBS prepayment cost of \$1.7m
Management expense	\$4.6	\$4.3	➤ Remains one of lowest expense ratios in AREIT sector
Land tax expense	\$2.1	\$2.3	➤ Land tax for QLD properties only. Successful objections
Distributable Profit ¹	\$31.2	\$31.7	➤ In line with expectations after one off prepayment cost
Funds From Operations (FFO)	\$31.2	\$31.7	➤ Equal to distributable profit
Securities on Issue	195.7	194.2	➤ Increase from September 2013 DRP. Now suspended
Distributable Profit (cps)	15.96c	16.32c	➤ In line with expectations after one off prepayment cost
Distribution (cps)	16.45c	16.00c	➤ Exceeded guidance of 16.35c. Additional 0.49c paid from prior period accumulated distributable profits

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

ALE's Properties

High Quality, Well Located and Significant Development Potential



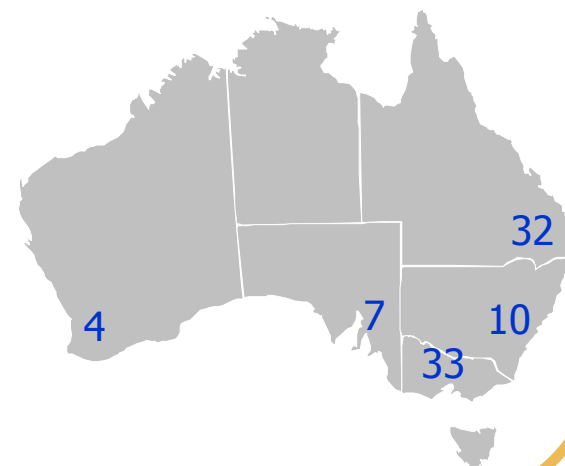
Burvale Hotel, Melbourne, VIC

High Quality Property Portfolio

Summary of Portfolio and Leasing Arrangements

- ALE (ASX:LEP) is the largest freehold owner of pubs in Australia
- Owns 86 pub freehold properties across the mainland capital cities
- Long term favourable lease structure provides security of income growth
 - 25 year initial term with average 14 years remaining
 - 83 properties on triple-net¹ leases
 - four options for ALH to extend lease by up to 40 years
- 100% occupancy / 0% vacancy
- Favourable rental outlook backed by ALH's capital expenditure
- 100% leased to ALH who is
 - Australia's leading pub operator
 - 75% owned by Woolworths Limited
 - owner of licences and certain development rights

ALE's 86 Pubs in Australia



1. Three of the 86 properties are on double-net leases

High Quality Property Portfolio

Consistent Strategy Driving Growth in Securityholder Returns

- ALE has a strong understanding of the high quality pub property market in Australia including lease arrangements and the drivers and risks to valuation
- Based on this capability, ALE has implemented a disciplined and consistent approach to both small and larger scale acquisition and disposal opportunities
- ALE actively reviews opportunities which meet its portfolio criteria
- Over the past eleven years ALE has acquired \$100m of properties at an average cap. rate of 7.2% and sold \$137m of properties at an average cap. rate of 6.1%
- Shepparton Hotel in regional Victoria was sold during FY14 at 6.3% cap rate as ALH wished to combine the property with its sale of the operating business
- ALE keenly bid for the ALH portfolio of 54 hotels in June 2014 but was unsuccessful at the expression of interest price we offered

High Quality Property Portfolio - Valuations

30 June 2014 Valuations

- Valuations increased 5.14% over the year
- Cap. rate reduced from 6.59% to 6.42% – within range of 6.1% and 6.6% since 2006
- Valuations substantially exclude significant capital expenditure by ALH
- Diversity of property values across the portfolio ranging from \$2.1m to \$21.2m with an average of \$9.6m. Value range is liquid through the cycle and highly marketable to investors.

Portfolio breakdown by geography (as at June 2014)

	Number of properties	Value (\$m)	Average Value (\$m)	WACR	Geographic Diversity By Value
NSW	10	113.9	11.4	6.56%	<p>WA, 3% NSW, 14% QLD, 30% SA, 4% VIC, 49%</p>
QLD	32	240.9	7.5	6.33%	
SA	7	33.6	4.8	6.52%	
VIC	33	406.0	12.3	6.41%	
WA	4	27.3	6.8	6.75%	
Total	86	821.7	9.6	6.42%	

Properties

November 2014 Rent Reviews

- 79 of ALE's 87 properties rents were reviewed at November 2014 in line with state based CPI
- Weighted average CPI result for 79 properties of 2.24% was broadly in line with the national average
- Passing rent (before deducting QLD land tax) increases by around \$1.1m to \$55.6m
- Any changes to the value of the properties will be confirmed following further discussions with ALE's independent valuers and announced during December 2014

Case Study – Property Redevelopment by ALH

Hamilton Hotel, Hamilton, Brisbane, QLD



2003



2014

- Located between Airport and CBD on Brisbane River, near Breakfast Creek Hotel
- Acquired for \$6.6m in 2003 at cap rate of 7.0%
- ALH spent ~ \$13m in 2009 to reconstruct hotel and add Dan Murphy's
- Valued at June 2014 at \$9.6m at cap rate of 6.01% (limited recognition of capex)
- Market rent reviews due in 2018 (10% collar) and 2028 (open)

ALE Property Group

Capital Management



Young & Jackson Hotel, Melbourne CBD, VIC

Capital Management

Strategic Objectives Met

- **ALE's capital management strategy is focussed on reducing refinancing risk, while delivering consistent growth in distributions**
- During FY14 ALE met its objectives through a debt refinancing which:
 - simplified the capital structure even further
 - transacted at one of the low points in the credit market since 2007
 - retained long term and cost effective CIBs
 - diversified and extended the debt maturity profile
 - established a presence in a more liquid and flexible debt capital market
 - reduced the credit margins materially over the next six years
 - maintained a long term and 100% fixed / hedged base interest rate profile

Capital Management

Refinancing Process

- Over an 18 month period investigated a wide range of debt markets and met 60+ investors
 - Syndicated bank debt in Australian and Asian markets
 - CMBS in Australian and European markets
 - Capital Indexed Bonds in Australian market
 - Listed and unlisted ALE Notes 3 in Australian and Asian markets
 - US Private Placements in the American market
- Ultimately dual tracked both ATMN and USPP
 - Positive response received from meeting around 25 USPP investors (US pension funds)
 - Fully documented both marketing and legal documentation for both markets
 - Ultimately AMTN was more favourable on price and terms for ALE's preferred tenor
 - For ALE's future long term debt requirements, USPP market remains a very viable option

Capital Management

Investment Grade Rating and Refinancing

- Investment grade credit rating of Baa2 assigned by Moody's to ALE DPT
- Significant refinancing was completed on 29 May 2014
- Issue of \$335m of Australian Medium Term Notes (AMTN) included:
 - 3.25 year notes of \$110m at 1.30% margin
 - 6.25 year notes of \$225m at 1.50% margin
- Proceeds progressively applied to full repayment of existing facilities at higher credit margins:
 - \$160m of CMBS (repaid June 2014 with penalty for early prepayment)
 - \$165m of ALE Notes 2 (exercised redemption right at August 2014)
 - restructure and termination of associated interest rate hedging facilities
- Base interest rates on 100% of ALE's net debt remains fixed or hedged for average 8.4 years

Capital Management

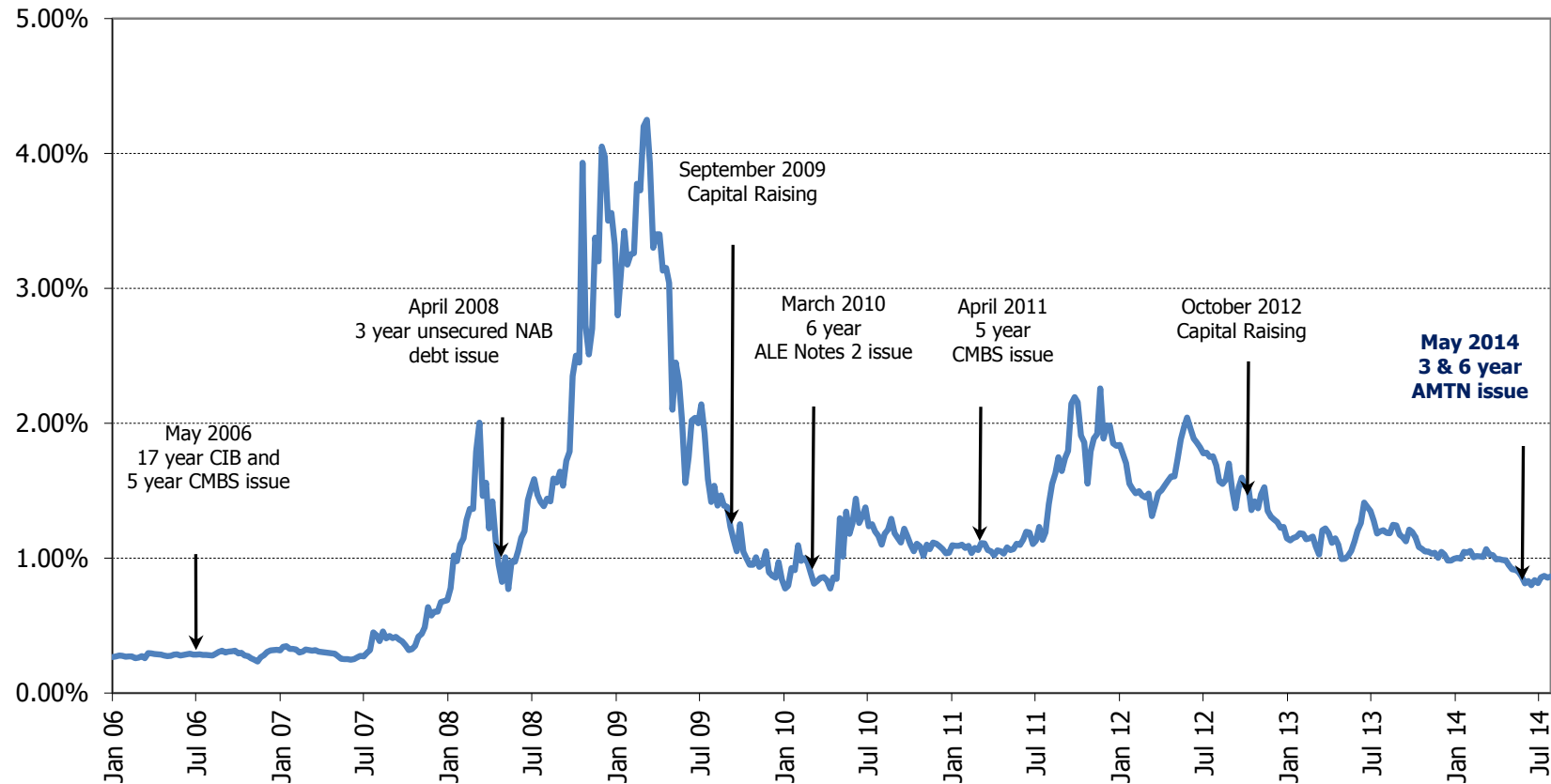
AMTN Refinancing – Notable Features

- Largest AMTN issue by an AREIT since 2011
- For Baa2 / BBB rated issuers, the AMTN was at the time of issue the
 - second largest ever inaugural issue by an AREIT
 - lowest ever credit margin for an unsecured issue with a 6+ year term
- Now trades in secondary markets in line with higher rated issuers
- Only dual tranche AMTN by an Australian corporate issuer in year to May 2014
- Significant demand (around \$650m) from around 40 investors was scaled to deliver a very competitive outcome
- Allocations made to quality Australian and Asian fixed interest investors, many of whom have participated in a range of ALE debt issues since 2003
- Unique market terms including buy back rights for ALE at anytime during the bond term
- UBS and Citi acted as joint lead managers.

Capital Management

AMTN executed at one of the low points in the credit market since 2007

iTraxx Credit Index

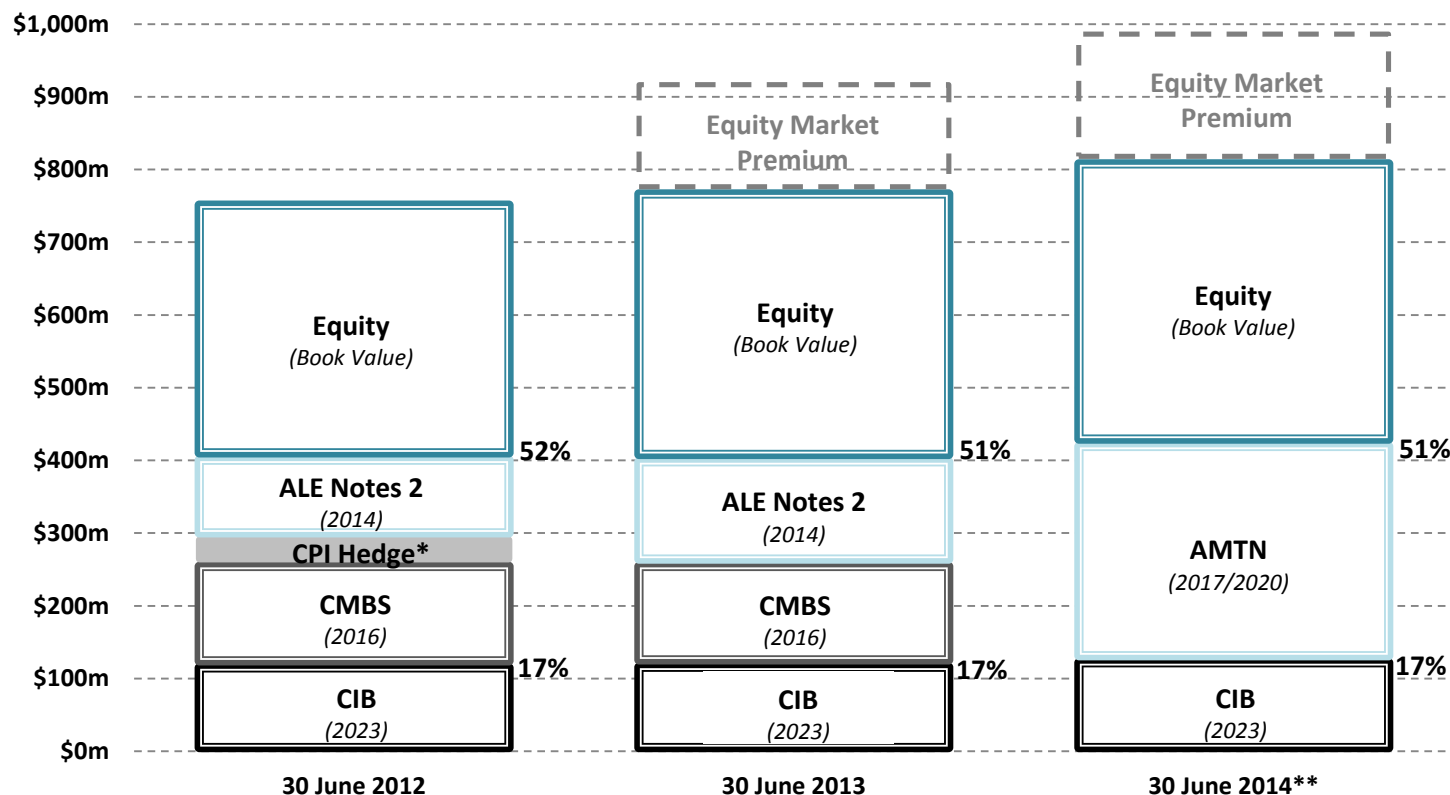


Source: ALE and Bloomberg

Capital Management

Capital Structure

ALE's capital structure has become increasingly simple



- Equity Market Premium represents the difference between the market capitalisation based value and book value of ALE
- Covenant gearing percentage levels at both the secured and total net debt levels are indicated above

* CPI Hedge accumulated indexation. ** After ALE Notes 2 redemption (expected August 2014)

Capital Management

Capital Structure

Debt Facility	Issue Rating	June 14 Amount (\$M)	Base Rate	Issue Margin	All Up Fixed Rate	Scheduled Maturity	Remaining Term (Years)
AMTN (Unsecured)	Baa2	\$110	2.95%	1.30%	4.25%	Aug 2017	2.8
AMTN (Unsecured)	Baa2	\$225	3.50%	1.50%	5.00%	Aug 2020	5.8
CIB (Secured)	AAA / Aaa	\$141	3.20%	0.20%	3.40%*	Nov 2023	9.0
Total and Averages		\$476	3.28%	1.07%	<u>4.35%</u>		6.1
(Cash) on Deposit		(\$47)					
Total Net Debt		\$429					

* Base Rate for CIB is a real rate. The balance of the CIB escalates at CPI

- Above amounts exclude \$102.6m of remaining ALE Notes 2 and the cash to be used to fund redemption on 20 August 2014
- Fixed rate and interest rate hedging facilities provide a weighted average hedging term of 8.8 years
- Net debt is fully fixed / hedged to November 2022. The fixed rates apply until the AMTN maturity dates, after which the base interest rates are hedged at 3.83% p.a. Overall hedging values are currently \$3.9m in the money
- Cash balance above includes \$8.39m held in debt reserve as security for the CIB, \$16.1m for September 2014 distribution and \$2.0m reserve for AFSL regulatory requirements

Capital Management

Covenant Headroom

- Substantial headroom to all debt covenants continues to apply
- Covenant gearing at 51.7% (FY13 50.9%) is in target range of 50-55%
- Headroom (at June 2014) to AMTN gearing covenant of 60.0% equates to:
 - 103 bps expansion in average cap rate (from 6.42% to 7.45%) or
 - 13.8% or \$115m reduction in property values
 - average cap rates have moved within range of 6.07% and 6.60% since 2006
 - headroom provides some capacity to add to AMTN issuance
- AMTN gearing covenant of 60% relates to distribution stopper and 65% to default
- Interest cover ratio (at June 2014) of 2.48 times compares to AMTN covenant at 1.50 times
 - 100% of net debt hedged until Nov 22 and next debt maturity is \$110m in Aug 2017

FY15 Outlook



FY15 Outlook

Discipline Provides Certainty with Upside

- During the period ALE's properties demonstrated their quality by increasing in value
- Lower base interest rates and credit margins locked in for the long term
- Interest expenses fixed at all up cash rate of 4.35% p.a. until Aug 2017 when only 23% of total debt is due for refinancing
- Positive outlook for future market rent increases
 - 2018 - independent valuers are assuming 10% increases
 - 2028 - portfolio value analysis provides a range of outcomes
- ALE continues to review acquisitions that meet disciplined strategy and criteria

ALE aims to grow distributions by at least CPI

- FY15 distribution guidance of 16.45 cps (FY14) plus at least CPI
- FY15 distribution is expected to be at least 75% tax deferred
- Significant savings realised from the AMTN refinancing will largely replace the now fully amortised hedging benefits that reduced interest expenses over recent years
- All guidance assumes the existing portfolio, hedging and capital structure continues
- Guidance is also subject to consultations ALE will conduct with larger and smaller securityholders around future gearing levels
 - gearing may fall materially if property revaluations are positively impacted by future CPI based rent increases and any uplift (of up to 10%) from the 2018 market rent reviews
 - ALE could either maintain or allowing gearing to fall over the next four to five years
 - options include increased distributions, security buybacks and debt funded acquisitions

ALE's Investment Proposition

- **High quality asset portfolio** with broad geographic and valuation diversification
- **Triple net leases** to tenant that is **75% owned by Woolworths** Limited
- **Long average lease term of 14 years**, with annual CPI increases and options provides **secure and stable income and capital growth**
- Portfolio **under rented** according to independent valuers and a range of indicators provides **10% rent upside potential at 2018 rent review**
- **Low risk capital structure** with average debt maturity of 6.1 years and average hedging maturity of 8.4 years
- **Expected distribution yield of at least 5.4%¹** for FY15

1. Based upon security price of \$3.13 as at 5 November 2014 and FY15 distribution guidance of at least 16.45 cents per security plus assumed CPI of 2.5%

Attachments



Stamford Hotel, Melbourne, VIC

About ALE

ALE & ALH: A Quality and Sustainable Pub Landlord and Tenant Arrangement

- Quality locations
- Long term history of pub operation
- Capital city located properties
- Low building to land utilisation = spare land
- Investment grade tenant with strong commitment to pub operations
- Profitable tenant with capacity and willingness to fund capital expenditure
- Rents that are below market rent levels driven by operator's strong profit profile
- Strong assignment and gaming transfer protections for landlord
- Triple net lease structure that encourages property improvements by tenant
- Cross defaulting leases that maximise tenant compliance across the portfolio



About ALH

A Strong and Performing Tenant

- Nov 2004 Woolworths / Mathieson JV acquired ALH - 135 licensed venues for \$1.33 billion
- ALH now operates more than 320 licensed venues and over 460 retail liquor outlets across Australia, including BWS and Dan Murphy's
- For FY14 the ALH Group reported EBITDAR of \$743m, up 6.6% on FY13
- Woolworths operates more than 1,400 retail liquor outlets across Australia with liquor sales for the year to 30 June 2014 of \$7.4 billion
- ALH is Australia's leading pub operator on any measure



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