ASX ANNOUNCEMENT

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The Manager
Australian Securities Exchange

Half Year Results to 31 December 2019

ALE Property Group (ASX: LEP), the owner of Australia's largest portfolio of freehold pub properties, announced an increase in distributable profit of 11.5% to $15.6 million and distribution of 10.45 cents per security for the half year to 31 December 2019.

Highlights:

- Distributable profit increased 11.5% to $15.6 million, up from $14.0 million due to higher property revenue and reduced rent review costs
- Distribution of 10.45 cents per security, unchanged from the previous corresponding period (pcp)
- Net profit after tax of $20.5 million reflecting an increase in property values and derivative liabilities
- Directors' valuation of 86 properties increased by 0.8% to $1,172.1 million
- Average adopted property yield remained unchanged at 5.09% and passing net rents increased by 0.8%
- Independent valuers view of capitalisation rates, rents and values for both pub and quality leased properties remains largely unchanged
- Capital position remains strong with net gearing at historical low of 41.1%
- Refinancing plans for $225 million debt maturing in August 2020 are well advanced
- Future distributions and capital management policy to be reviewed following completion of 2018 rent review
- 2003 IPO investment in ALE of $1.00 has an accumulated value at 31 December 2019 of $19.54 or a total return of 20.2% p.a.
- Outperformed AREIT 300 Index for periods including 1, 3, 5, 10 and 16 years since ALE's IPO.

Results for Half Year Ending 31 December 2019

A summary of the results is provided in the table below:

$ Millions	Dec 19	Dec 18	Change
Revenue from properties	**$30.7**	$29.7	$1.0
Other revenue	**$0.2**	$0.4	($0.2)
Borrowing expense	**$11.0**	$11.1	0.1
Management expense	**$2.6**	$3.5	$0.9
Land tax expense	**$1.7**	$1.5	($0.2)
Distributable Profit [1]	**$15.6**	$14.0	$1.6
Distributable Profit (cps)	**7.99c**	7.16c	0.83c
Distribution (cps)	**10.45c**	10.45c	-

Rounding differences may arise

The difference between the distribution and distributable profit per security for the period is to be paid from cash reserves and undrawn facilities. Distributable profit excludes non-cash accounting items. The following factors resulted in distributable profit increasing by 11.5% to $15.6 million for the half year:

- 3.4% increase in rental income due to the following:
    - 1.7% CPI rent increases on 40 properties
    - full period impact of a 10% increase in November 2018 on 36 of those 40 properties
    - rent remained unchanged for the other half of properties awaiting determination
- reduction in costs associated with the rent review submissions from $1.3 million to $0.2 million
- partly offset by an increase in Queensland land tax expense due to a rate increase from 2.5% to 2.75%.

Accounting Result

ALE's reported net profit after tax (NPAT) of $20.5 million for the six months to 31 December 2019 is higher than previous corresponding period, substantially related to the increase in property values in the current period due to CPI rent increases for 40 of the 86 properties.

NPAT differs from Distributable Profit due the impact of non-cash adjustments for movements in the value of the properties and interest rate derivatives, and items such as amortisation of pre-paid financing costs and CIB accumulating indexation. A full reconciliation of accounting profit to distributable profit has been provided in the Directors' Report.[1]

2018 Rent Review

ALE's first major rent review for 79 of our 86 investment properties is progressing towards conclusion. As previously advised, a 10% rent increase was agreed with ALH on 36 properties in the December 2018 half year period.

ALE expects that the results of the rent determination process for the remaining 43 properties to be issued in the current half year. The determination outcome will see the passing rent for those 43 individual properties increase or decrease by up to 10%. The results of the determinations will be backdated to 4 November 2018, including the impacts of the November 2019 CPI reviews.

Of the remaining seven properties in ALE's portfolio, four properties have later review dates, including two that have received CPI increases in the current period, and three properties have non-standard leases.

The following table provides additional information around the types of leases and status of the rent reviews:

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	26.49	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	0.46	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	0.60	Jun 2020	5	Minimum ratchet and maximum open. Renewed to Jun 2025
Pritchard's, NSW	Sep 2020	1.84	Sep 2020	10	Increase at fixed 3%
Balmoral, WA	Feb 2023	0.52	Feb 2023	5	Greater of CPI and 7% of Turnover
Burleigh Heads, QLD	Nov 2023	0.81	Nov 2033	10	Standard lease
Narrabeen Sands, NSW	Jun 2024	0.83	Jun 2034	10	Standard lease
Anglers Arms, QLD	Nov 2028	0.66	Nov 2028	10	Standard lease. Increase of 10% occurred at Jun 2017
36 Hotels	Nov 2028	26.88	Nov 2028	10	Standard leases. Increase of 10% agreed at Nov 2018
Total Rent		61.51			

* 31 December 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 gross passing rent of $0.08m. It is excluded from the above rent amounts.

Statutory Property Valuations

The independent valuers advised that it was not unreasonable for the Directors to apply the same individual adopted yields that prevailed at June 2019 when valuing the properties at 31 December 2019.

Accordingly, the Directors' valuations increased by 0.8% to $1,172.05 million, reflecting:

- 86 properties passing net rent increasing 0.8% to $59.62 million of which:
    - 43 properties that remain subject to rent determinations where rent remained unchanged;
    - other properties which received CPI rent reviews during the half year averaged 1.7%; and
- a weighted average adopted property yield of 5.09%, which remained unchanged from 30 June 2019.

When assessing statutory valuations at June 2019 the valuers applied both traditional capitalisation rate and discounted cash flow (DCF) based valuation methods. The weighted average adopted property yield reflected a combination of these methods but continued to place significant emphasis upon the traditional capitalisation rate approach.

The Board has not had the individual properties independently revalued as at 31 December 2019.

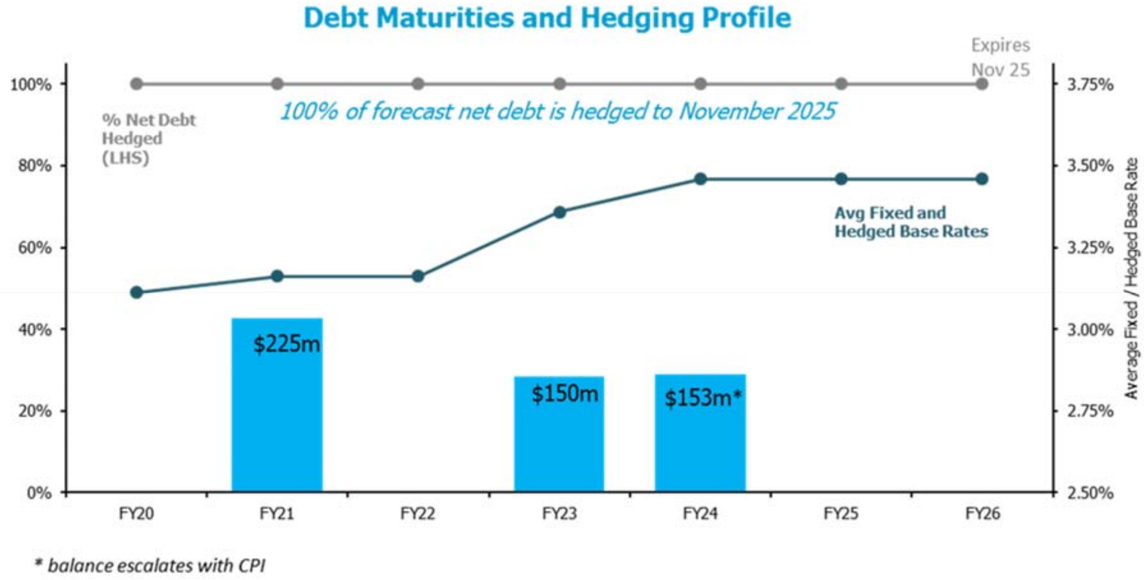
Capital Management

ALE's capital position remains strong.

ALE's debt capital structure is currently characterised by the following positive features:

- Investment grade credit rating of Baa2 (stable)
- Next debt maturity in August 2020
- Debt maturities diversified over the next 3.9 years
- 100% of forecast net debt hedged over the next 5.9 years
- All up cash interest rate of 4.26% fixed until August 2020
- Net gearing at historical low of 41.1% (41.6% at June 2019)
- Interest cover ratio at 2.7 times (2.5 times at June 2019).

The chart below demonstrates the stability of ALE’s debt capital structure. ALE has two types of fixed rate debt instruments: Capital Indexed Bonds (CIB) and Australian Medium Term Notes (AMTN).



In keeping with ALE’s proactive policy of reducing refinancing risk and increasing the certainty of future distributions, forward start interest rate hedging on 100% of ALE’s net debt to November 2025 remains in place.

ALE’s debt facilities include a number of market standard covenants. ALE currently enjoys significant headroom to all of them. The total value of ALE’s properties would need to fall in value by around 33% or $390 million before breaching the nearest covenant.

ALE has other short term debt facilities of $20m that are currently undrawn.

ALE’s Performance

A $1.00 investment in ALE at the time of the ASX listing around 16 years ago, with reinvested distributions, would have an accumulated value of $19.54 as at 31 December 2019. This is equivalent to a 20.2% p.a. total return.

As indicated by the chart below, over the past one, three, five, 10 and 16 years to 31 December 2019, ALE has delivered total returns that have outperformed the S&P/ASX 300 AREIT index.

1. Total return is the annual compound return (IRR) for the period shown
2. Includes equity market price of $5.61 as at 31 December 2019 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

Distribution Payment

The distribution of 10.45 cents per stapled security will be paid on 5 March 2020 to holders on ALE's register as at 5.00pm on 31 December 2019.

FY20 Outlook

The rent review determinations are expected to be issued during the current half of FY20.

ALE's FY20 distributable profit is expected to be influenced by a range of factors including:

- final outcome of the 2018 rent reviews, for which ALE remains confident of a positive result;
- materially lower rent review costs than the $3.1 million incurred in FY19; and
- impact of refinancing of the $225 million debt scheduled to mature in August 2020. ALE is in the advanced stages of planning for the refinancing and expects the all up interest rate on the new debt facility will be materially lower than the 5.0% rate on the existing facility. The impact on FY20 will also be determined by the timing of the refinancing.

ALH, as part of Endeavour Group, is expected to separate from Woolworths during CY20.

As previously advised, following the issue of the rent review determinations, the Board will review the appropriateness of the group's distribution and capital management policy. In doing so the Board will take into account the results of the rent review, the implications for our property valuations, the prevailing property and capital market conditions and the expectations of our securityholders.

Australian Bushfires

To date, none of ALE's properties have been damaged by the recent bushfires that have occurred in many locations across Australia. We note that all of ALE's properties continue to be fully insured by ALH and are predominantly located in Australia's capital cities.

Our thoughts are with each of the many communities impacted by these devastating bushfires.

- Ends -

Further Notes

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. AMTN covenant gearing = (Net Finance Debt – Cash) / (Total Assets – Cash – Deferred Tax Assets). This ratio is considered, in the opinion of the Directors, most relevant to securityholders as it is the debt covenant that is most relevant for assessing the headroom available.
2. Accumulated value includes security price of $5.61 at 31 December 2019 plus reinvestment of all distributions and renunciation payments since ALE's 2003 listing.

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