



24 August 2017

## **FY2017 OPERATING EARNINGS<sup>1</sup> \$7.3 MILLION UP 95%**

### **FY2017 Achievements**

- Operating Earnings<sup>1</sup> \$7.3 million up 95% from \$3.8 million<sup>2</sup> in the prior corresponding period (pcp)
- Pro-forma<sup>3</sup> Operating Earnings 2.35 cents per share (cps) up 90% from 1.24 cps in pcp
- Statutory net profit after tax of \$10.7 million vs \$49.7 million pcp (pcp includes discontinued Healthcare Operations)
- Funds under Management<sup>4</sup> (FuM) up \$409 million or 18.6% to \$2.6 billion<sup>5</sup>
- The pre-IPO APN Retail Property Fund launched and successfully transitioned to form part of the \$308 million<sup>5</sup> ASX listed Convenience Retail REIT
- Strong and flexible balance sheet with net assets of \$111.9 million, including cash of \$18.6 million
- Final dividend (fully franked) increased 0.25 cents to 0.75 cps, ahead of guidance and taking FY2017 dividends to 2.00 cps in total (fully franked)

APN Property Group Limited (ASX: APD) (APN or the Group) today reported a statutory net profit for FY2017 of \$10.7 million. Pro-forma<sup>3</sup> Operating Earnings<sup>1</sup> per share (after adjusting for the impact of the 10 cent special dividend paid 18 October 2016) was 2.35 cents, an increase of 90% over the prior corresponding period (pcp).

The directors have declared a fully franked final dividend of 0.75 cents per share, up 0.25 cents on guidance and the prior corresponding period (pcp) dividend, to be paid on 28 September 2017 to those shareholders registered as at 11 September 2017. Dividends for the year therefore total 2.00 cents per share fully franked, a 14% increase over FY2016.

APN's Chief Executive Officer, Mr Tim Slattery, said "2017 has been a great year for APN measured on several fronts, with contributions across each part of the business helping deliver a 90% increase in our operating profit to 2.35 cents per share. We are pleased to see the results of a simple but deliberate strategy designed to expand the scale of the business with growth in funds under management to \$2.6 billion completing five years of annual compound growth in excess of 18%.

"The quality of APN's earnings has also been a key area of focus and a solid result has been delivered, with over 96% of earnings generated from recurring sources. We have grown the business without significantly increasing its risk profile or that of our funds, which remain well capitalised for further growth with modest levels of debt, and high quality and well located underlying property portfolios with robust occupancy and leasing metrics.

<sup>1</sup>: Operating Earnings is an unaudited after tax metric used by management as the key performance measurement of underlying performance of the Group. Where necessary, prior comparative period information has been restated to classify Healthcare Operations as a discontinued operation. It also makes adjustments for certain non-operating items recorded in the income statement including minority interests, discontinued operations (Europe and Healthcare), business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

<sup>2</sup>: Restated to classify Healthcare Operations as a discontinued operation following this segment's divestment on 27 June 2016.

<sup>3</sup>: Pro-forma Operating Earnings represents Operating Earnings per share adjusted to exclude the impact of the 10 cps special dividend paid on 18 October 2016.

<sup>4</sup>: From continuing operations, on a like for like basis excluding FuM attributable to the Healthcare Operations (Generation Healthcare REIT).

<sup>5</sup>: Includes \$113 million of assets in Convenience Retail REIT which are contracted but not scheduled to settle until up to 31 October 2017. Excluding these assets FuM increase is \$296 million, a 13.5% increase to \$2.5 billion

“Over the year our team delivered strong risk adjusted investment performance for the investors in our funds, with recognition by independent research ratings, awards and most significantly additional investment from our clients.

“In terms of individual achievements, the Industria REIT management team led by Alex Abell have delivered exceptionally strong asset management and leasing results (over 24,000 sqm of leasing completed) which delivered in excess of \$30 million of additional value for IDR’s investors at 30 June for NTA growth over the year of over 23%.

“The successful ASX listing of Convenience Retail REIT (CRR) completed in July was also a key achievement. APN’s newest listed fund will have over \$300 million in assets, a long lease profile with a WALE in excess of 13 years, and a 6.50% starting cash distribution yield at 30% gearing. CRR provides an excellent long term income profile and growth potential through our ongoing partnership with Puma Energy.

“In the Securities division our team continued to execute its income-focused investment process successfully, with long term as well as new wholesale equity raising channels delivering over \$200 million in net fund inflows for the year.

“Despite the competitive environment, we remain optimistic on our ability to source and capitalise upon opportunities and to actively add value for our investors including through the use of our balance sheet as have recently done. We are paying close attention to the management of risk across the business given the strength in some parts of the commercial property sector and regulatory changes affecting capital flows. However we believe that well located property investments which are appropriately financed and offer attractive cash income yields will continue to be well supported by a broad range of investors both domestically and internationally.”

## **Financial Results**

Operating earnings<sup>1</sup> for the year totalled \$7.3 million and included the following highlights:

- A 16.7% increase in net funds management income to \$16.4 million, driven by increased FuM in the Industria REIT and Direct Property Divisions. The quality of this revenue continues to improve, with over 96% now representing recurring income from base management and related ongoing fees;
- Co-investment & rental income increased to \$6.6 million, following the deployment of additional capital in Industria REIT and the APN Retail Property Fund (one of the precursor funds to Convenience Retail REIT). Subsequent to year end, a further \$16.7 million has been invested in Convenience Retail REIT, taking APN’s co-investment stake to over 12%; and
- The costs of operating our funds management platform increased \$0.4 million to \$12.5 million compared to the pcp. Modest investment in our capabilities and growth in employment costs, including the establishment of a new share based long term incentive plan for a small number of employees, have been partially mitigated by the renegotiation and extension of APN’s office lease and successful efforts to restrain other controllable operating costs.

The Group’s statutory profit after tax of \$10.7 million includes unrealised mark-to-market gains on co-investments of \$2.2 million and realised gains on sale of investment properties (7-Eleven Eagleby and Service Centre South Nowra) of \$0.9 million.

APN’s balance sheet remained strong and flexible over the year. Net tangible assets per share increased by 2 cents, after adjusting for the payment of the special dividend of 10 cps, to 35.1 cents and included over \$18.0 million of cash at 30 June. Borrowings were modest at \$10.5 million and were limited in recourse to the one remaining investment property at South Nowra, valued at \$24.2 million.

## **Funds under Management**

FuM from continuing operations increased 13.5% to \$2.5 billion, or 18.6% to \$2.6 billion including \$113 million of properties contracted to be acquired by Convenience Retail REIT but not scheduled for settlement until 31 October 2017.

## Divisional review

### *Real Estate Securities (RES)*

#### Highlights

- Average net inflows across AREIT strategy of \$17 million per month
- Wholesale mandate strategy gained momentum with over \$57 million of second half net inflows via Colonial First State (CFS) mandate
- Expanded offshore product accessibility through February 2017 launch of the New Zealand APN AREIT PIE Fund

RES FuM was steady at \$1.5 billion. Net inflows for the AREIT strategy was strong at \$202 million, despite volatile equity markets and unfavourable mark-to-market portfolio adjustments of \$144 million.

The inclusion of the APN CFS AREIT Fund in CFS model portfolios during the second half of the year delivered significant net inflows of \$57 million (included above), further diversifying the reach of the very successful AREIT Fund strategy.

Major research house ratings were maintained for all products and progress was made on pursuing several new initiatives, including the successful establishment of the APN AREIT PIE Fund for the New Zealand wrap and platform market.

### *Industria REIT (IDR)*

#### Highlights

- WesTrac Newcastle acquired for \$159 million
- \$85 million in new equity raised
- FY2017 cash earnings growth 3.4%
- NTA growth over FY2017 23.6%

FuM increased 51.7% to \$640 million following the \$159 million acquisition of WesTrac Newcastle in September 2016 and strong property revaluations.

The acquisition of the WesTrac asset delivered a 'best-in-class' facility to IDR's property portfolio, improving all property metrics, and received significant support from the capital markets with \$85 million in equity and \$50 million in new debt secured.

As at 30 June 2017 occupancy remains solid at 95% and, with a WALE of 7.6 years and a simple and transparent investment proposition, IDR is well positioned for investors looking for dependable lower risk income yields.

### *Direct Funds (Direct)*

#### Highlights

- Successful establishment of the pre-IPO APN Retail Property Fund
- Post balance date IPO of the \$308 million Convenience Retail REIT (comprising APN Retail Property Fund, APN Property Plus Portfolio and additional properties)

FuM increased 56.1% to \$320 million at 30 June 2017, following the successful launch of the pre-IPO APN Retail Property Fund. This fund acquired a \$106.1 million portfolio of petrol stations and built on APN's long dated experience in this sector.

On 28 June 2017, the proposal to establish Convenience Retail REIT (CRR) was launched, combining APN Retail Property Fund with APN Property Plus Portfolio (PPP) and an additional \$113.2 million of new assets.

Subsequent to 30 June 2017, approximately \$133.2 million in new equity was raised via the IPO of CRR from which cash was provided to PPP investors who required liquidity.

## Strategy and capital management

The Group's overarching focus remains on maximising returns for shareholders. This is achieved by building scale and efficiency across our existing platform, leveraging the extensive real estate expertise across the organisation and utilising the Group's strong and flexible balance sheet to secure new and enhance existing products and investment strategies. APN remains disciplined and focused when assessing all opportunities to ensure that attractive risk adjusted returns can be delivered for our investors.

This approach has delivered clear results for shareholders. The pre-IPO APN Retail Property Fund was successfully launched and subsequent to 30 June 2017 successfully transitioned, together with the APN Property Plus Portfolio fund, to form part of the \$308 million ASX listed Convenience Retail REIT.

## Guidance

Operating Earnings after tax guidance of 2.35 to 2.65 cps is forecast for FY2018. In accordance with our earnings guidance practice, only transactions which have been completed or are sufficiently certain are reflected in this guidance. FY18 dividend guidance is 2.00 cps, fully franked.

This guidance is based on a continuation of the regulatory environment and current market conditions, particularly the Australian listed and unlisted property markets.

**ENDS**

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## NOTES

### Forward looking statements

This release contains forward-looking statements, estimates and projections, which are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors many of which are beyond APN Property Group's control and which may cause actual results to differ materially from those expressed in the statements contained in this announcement.

### About APN Property Group

APN Property Group Limited (ASX code: APD) is a specialist real estate investment manager. Since 1996, APN has been actively investing in, developing and managing real estate and real estate securities on behalf of institutional and retail investors. APN's focus is on delivering superior investment performance and outstanding service. Performance is underpinned by a highly disciplined investment approach and a deep understanding of commercial real estate.

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