



23 February 2016

The Manager  
Company Announcements Office  
ASX Limited  
Level 4, Exchange Centre  
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Sydney NSW 2000

## **APN PROPERTY GROUP LIMITED REPORTS \$16.0 MILLION NET PROFIT FOR THE PERIOD ENDED 31 DECEMBER 2015**

### **Achievements**

- Statutory net profit of \$16.0 million, up 87% from \$8.5 million in the prior comparative period (pcp)
- Operating Earnings<sup>1</sup> of \$7.2 million, up \$3.3 million compared to the pcp (2.41 cents per share (cps))
- Diluted earnings per share up from 4.03 cents to 5.37 cents on increased issued capital
- Funds under Management<sup>2</sup> (FuM) up \$152 million to \$2.4 billion
- FY2016 Operating Earnings<sup>1</sup> guidance upgraded from 2.00 – 2.30 cps to 3.20 – 3.50 cps
- 1.25 cps interim dividend (fully franked) declared, distribution reinvestment plan activated

APN Property Group Limited (ASX: APD) is pleased to announce a statutory net profit attributable to equity holders of \$16.0 million for the 6 months ended 31 December 2015, up from \$8.5 million in the prior comparative period.

Mr Chris Aylward, Executive Chairman said “APN has recorded a strong start to this financial year, despite recent domestic and global economic headwinds that have created heightened market volatility. Our results reflect APN’s strong underlying business fundamentals and those of the funds that we manage, and as a result I am pleased to report that the shares granted to Tim Slattery and Michael Groth in May 2014 under the APN Employee Performance Securities Plan have now fully vested.”

“The Real Estate Securities business continues to report good performance, ratings and solid net inflows. Generation Healthcare REIT delivered outstanding performance and results for its investors and Industria’s team successfully leased over 22,300 sqm of space in the period, significantly enhancing its lease expiry profile and occupancy metrics. As a result of our efforts over the past 3 years, APN is very well placed to meet the challenges ahead and the opportunities we expect to come our way”, Mr Aylward added.

<sup>1</sup>: Operating Earnings is an unaudited after tax measurement used by management as the key performance measure of the underlying performance of the Group. It adjusts for certain items recorded in the income statement including minority interests, discontinued operations and the fair value movements on the Group’s co-investments.

<sup>2</sup>: From continuing operations, including \$439 million in relation to Generation Healthcare REIT that is managed via a joint venture that is currently 67.5% owned by APN.

## Financial Results

Operating earnings<sup>1</sup> increased to \$7.2 million, up by 85% versus the pcp. Contributing to this result was:

- Higher average FuM balances compared to the pcp delivering an 11% increase in net fund management fees to \$6.5 million. Net inflows into APN's Real Estate Securities business, combined with an increase in property valuations across the direct property funds and property acquisitions undertaken by Generation Healthcare REIT have all contributed to the increased revenue;
- Asset and project management fees increased to \$1.7 million from \$0.9 million in the pcp as value adding services across the managed direct real estate portfolio, including Generation Healthcare REIT's organic pipeline, were delivered;
- Increased co-investment stakes and income from property acquired to seed new managed fund products contributed to co-investment income increasing to \$2.5 million and net income of \$0.4 million from direct property assets;
- Net performance and transaction fees benefited from a material performance fee from Generation Healthcare REIT following its 19.1% total return outperformance versus its benchmark over the period, and \$1.0 million of profit share income from the Newmark APN Auburn Property Fund; and
- Operating costs increased \$0.9 million compared to the pcp, including 'one-off' incremental employee incentives associated with the early vesting of a share based incentive scheme (\$0.4 million), marginally higher employment costs including variable compensation, recruitment costs and investment in marketing and operations to position the Group's Real Estate Securities business to compete for new investment mandates.

APN's statutory profit after tax of \$16.0 million for the half year was driven by material unrealised mark to market gains from its co-investment stakes in Generation Healthcare REIT and Industria REIT that totalled almost \$8.8 million after tax. APN's total co-investment stakes are now valued at \$85.1 million (net of \$9.9 million (before tax) attributable to our joint venture partners), up from a net \$58.1 million at 30 June 2015. A new \$10.0 million unsecured debt facility (fully drawn at 31 December 2015 and maturing in November 2016) was obtained during the period to further support APN's co-investing strategy.

As at 31 December 2015, net tangible assets after Minority Interests (MI) totalled \$101.2 million or 33.5 cents per share, including \$23.9 million of direct property assets (partially financed by secured non-recourse financing of \$11.6 million) for the proposed APN Convenience Retail Property Fund.

## Funds under Management

FuM from continuing operations was \$2.4 billion at 31 December 2015, up 7% compared to 30 June 2015. The highlights for the year included:

### ▪ Real estate securities

Real estate securities (RES) FuM increased 8% to \$1.3 billion as at 31 December 2015, led by solid investment demand for the APN AREIT Fund. Volatile equity markets and the recent strong AREIT market performance have contributed to a slowing, but healthy, average net inflows of \$13 million per month for the APN AREIT Fund. The APN AREIT Fund continues to achieve high investment research ratings and is well represented across major approved product lists, platforms and wraps. APN Asian REIT Fund's net inflows have remained small, while APN's Property for Income Fund's net outflows continue to reduce as expected.

### ▪ Generation Healthcare REIT

Generation Healthcare REIT (GHC) delivered its investors a strong financial result for the half year ended 31 December, reporting a 28% increase in underlying net operating income to \$10.8 million, a 5.2% increase in distributions to 4.42 cents per unit and a total return (unit price movement, assuming reinvestment of distributions) of 26.3% for the period. FuM increased to \$439 million and significant progress was made in delivering on GHC's \$221 million organic growth pipeline (GHC's share circa \$105 million). Financial close and construction commenced at the Casey Stage 2 and Frankston Private Hospital expansion projects and the planning application for the circa \$62 million Epworth Freemasons Clarendon Street expansion projects (a 50/50 joint venture with the Epworth Foundation) was lodged during the period.

▪ **Industria REIT**

FuM increased to \$425 million as at 31 December 2015 following increased property valuations. Industria REIT's (IDR) security price performed strongly over the period, increasing to \$2.14 at 31 December 2015. Management's resolute focus on leasing and assets management delivered positive results, maintaining the momentum from 30 June 2015. Portfolio occupancy and weighted average lease term were further enhanced by 2.5 percentage points to 94.5% and 0.5 years to 5.3 years as at 31 December. Industria's full year guidance has been narrowed from 15.00 – 15.80 to 15.20 – 15.60 cents per security.

▪ **Direct Funds**

FuM increased to \$204 million as at 31 December 2015 compared with \$199 million at 30 June 2015. The APN Steller Development Fund was launched during the period, successfully raising \$18.1 million to undertake up to 6 identified inner south east Melbourne medium density residential projects. The launch of the APN Convenience Retail Property Fund which was to include a property leased to Masters (guaranteed by Woolworths) has been temporarily deferred while it is reconfigured to exclude this asset. This property will be retained on APN's balance sheet and either held or sold (to a third party or contributed to a new Fund).

**Dividends**

The Board has declared an interim dividend of 1.25 cents per share (fully franked) in line with the prior corresponding period and has also activated APN's dividend reinvestment plan (DRP). The DRP will allow investors to acquire additional shares, without brokerage costs, at a 5.0% discount to the average of the daily VWAP for the 10 business days commencing the second business day after the dividend record date. Elections to participate in the DRP must be made by 17 March 2016 and will be paid on 12 April 2016 to shareholders registered as at 16 March 2016.

**Strategy**

APN continues to remain focused on its strategy of building scale and efficiency across our existing business that will deliver long term sustainable earnings growth. Delivering strong investment performance and service in new and existing products to our investors is essential. APN remains committed to co-investing in the funds that we manage, providing a clear alignment of interests with investors to our funds. APN continues to utilise its balance sheet to make co-investments and seed new fund opportunities that will, over time, allow capital to be further recycled into new opportunities. Our rigorous and disciplined investment approach to evaluating all property investment and new product opportunities is the foundation of our business.

**Outlook and guidance**

As previously announced, Operating Earnings<sup>1</sup> guidance for FY2016 has been upgraded from 2.00 to 2.30 cents per share to 3.20 to 3.50 cents per share (subject to a continuation of the current market conditions). This includes only previously announced transaction and performance fees. Forecast funds management fees from new funds are only included in this guidance following the successful completion of that fund's equity raising. The final dividend (fully franked) is currently forecast to be 0.25 cents per share.

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**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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