

# Folkestone

Funds Management

## Australian Education Trust (ASX : AEU)



Financial Results Presentation  
30 June 2013

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## **Nick Anagnostou**

Chief Executive Officer

## **Travis Butcher**

Chief Financial Officer

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# Performance Overview

## About AET

The Australian Education Trust (“AET or Trust”) aims to provide Unitholders with a secure, growing income stream and long-term capital growth through investing in education related direct property predominantly in the early learning sector.

## Key Highlights for the Year

- FY13 Distribution of 10.7 cpu
- Underlying distributable income increased by \$1.2 million or 6.7% on the previous corresponding period (“pcp”)
- Refinanced AET on improved terms at a significantly lower cost of debt from February 2013
- 8.2% average increase achieved on independent property valuations undertaken during the year
- NTA \$1.33 up by 9.9% on pcp
- Unit price increase from \$1.02 at 30 June 2012 to \$1.39 at 30 June 2013, up 36.3%
- Total return for Unitholders of 46.8% (Capital 36.3% and Income 10.5%) during the year to 30 June 2013
- AET trading at 4.5% premium to NTA as at 30 June 2013
- FY14 distribution of approximately **12.0 cpu**

# Financial Results to June 2013

For the year ended	June 2013	Change from June 2012	
Operating Revenue	\$41.0m	↑	2%
Operating Expenses	\$11.4m	↑	8%
Finance Costs	\$10.6m	↓	11%
Distributable Income	\$19.0m	↑	7%
Distribution	10.7 cpu	↑	7%
Net profit <sup>1</sup>	\$39.7m	↑	71%
As at	June 2013	Change from June 2012	
Total Assets	\$368.5m	↑	3%
Borrowings <sup>2</sup>	\$125.8m	↓	6%
NTA per unit	\$1.33	↑	10%
Unit price	\$1.39	↑	36%
Gearing <sup>3</sup>	34.1%	↓	9%

<sup>1</sup> Refer to page 15 of the Annual Report for a reconciliation between distributable income and net profit

<sup>2</sup> Borrowings includes cash overdraft

<sup>3</sup> Gearing is calculated by borrowings / total assets

# Capital Management - Banking

## As at 30 June 2013

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Debt Facility Limit	\$124 million
Debt Drawn Amount	\$123 million
Overdraft Facility	\$10 million
Overdraft Facility Drawn Amount	\$2.8 million
Facility Maturity	February 2016
LVR Covenant	Current LVR of 35.3% v covenant of 50%
ICR Covenant	ICR for the 6 months ended 30 June 2013 of 3.4x v covenant of 2.0x
Cost of Debt	Effective from end of February 2013. Overall cost of debt is 6.2% pa including amortisation of borrowing costs

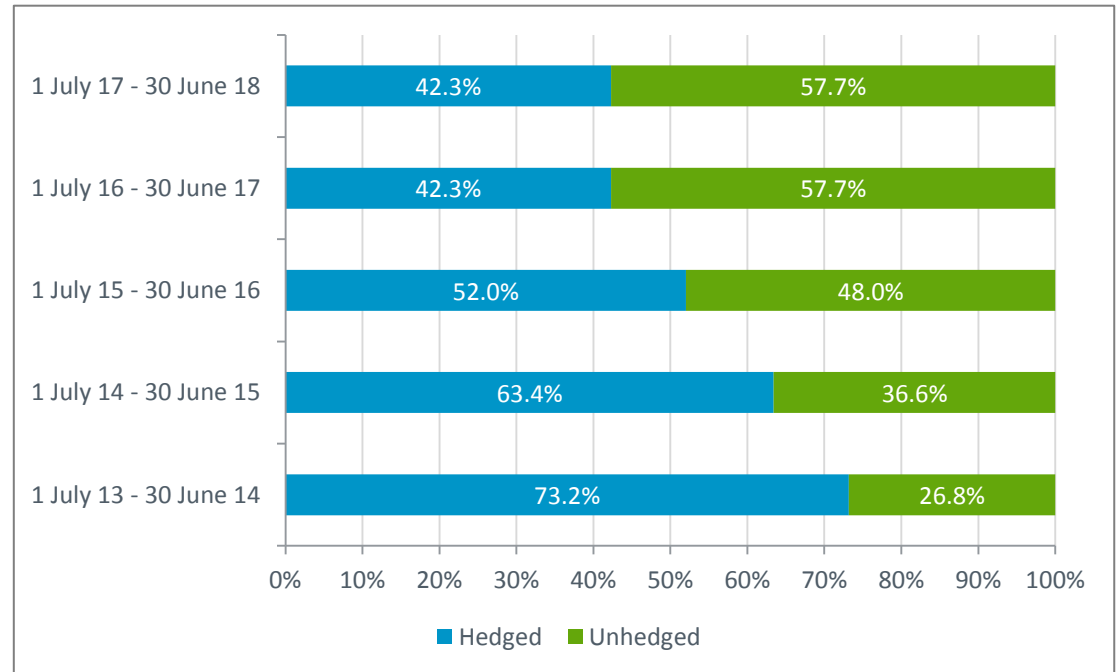
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- Refinanced AET's debt facility for three years through to February 2016
- Significantly improved terms and conditions
- Margin reduction of 20%
- Overdraft facility (\$10 million) in place to ensure optimal working capital solution

# Capital Management - Hedging

- As at 30 June 13, AET had hedged \$90 million or 73% of its term debt
- Restructured hedge book in February 13 by combining existing hedged positions and new longer-term positions into a new blended position
- New blended hedged rate of 4.3% pa
- Staggered hedging positions through to June 2018 with 73% hedged through to June 14
- Average hedged positions of 55% through to June 2018
- Introduced flexibility to the hedging arrangements

Hedging Profile  
(based on debt of \$123.0 million as at 30 June 2013)



# Property Portfolio – Key Metrics

	No. of Properties	Carrying Value \$m's	Current Rent (pa) \$m's <sup>1</sup>
Australia	269	320.0	31.3
New Zealand	55	45.6	3.9 <sup>2</sup>
Available For Sale / Lease	2	1.2	-
<b>Total Properties as at 30 June 2013</b>	<b>326</b>	<b>366.8</b>	<b>35.2</b>

- 326 properties, 271 in Australia and 55 in New Zealand
- WALE of 8.2 years
- Passing yield of 9.3%
- Rental growth averaged 2.7% during the year
- Like for like growth in assets of 5.7%

<sup>1</sup> Includes head-lease rent on leasehold properties of \$1.1m

<sup>2</sup> Based on NZD rent of \$4.7 million at an exchange rate of 1.1803 as at 30 June 2013

# Property Portfolio – Valuations

- Properties independently valued on a 3 year rolling basis
- 138 properties independently valued increased by an average of 8.2%
- Strong growth in NSW, VIC and WA
- NZ valuation increase driven by positive valuation growth but overwhelmingly by positive exchange rate movements from previous valuation
- Directors valuations adopted for a further 117 properties (Queensland and leasehold properties excluded) to reflect rent increases and exchange rate movements

## Independent Valuations

	No. of Properties Valued	Carrying Value \$m's	% Movement
NSW/ACT	39	\$48.3	+11%
QLD	35	\$42.3	+2%
VIC	30	\$42.1	+6%
New Zealand	22	\$22.4	+16%
WA	6	\$7.8	+15%
SA	6	\$6.1	+10%
<b>Total</b>	<b>138</b>	<b>\$169.0</b>	<b>+8%</b>

## Director Valuations

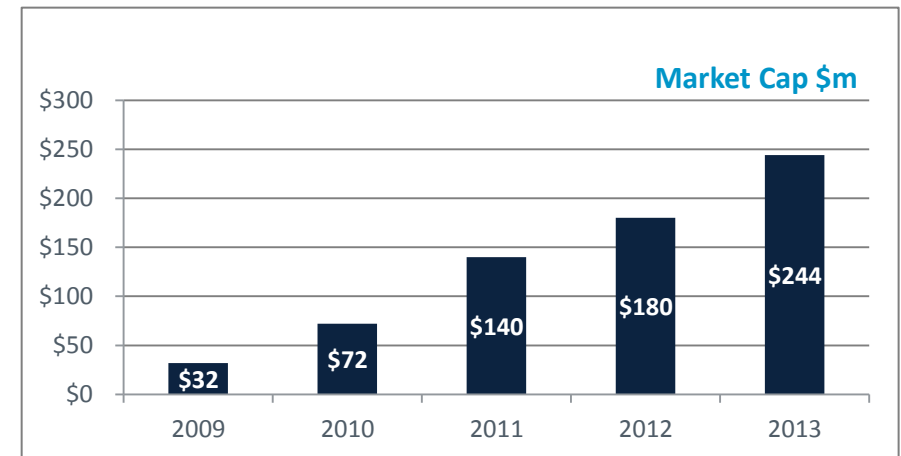
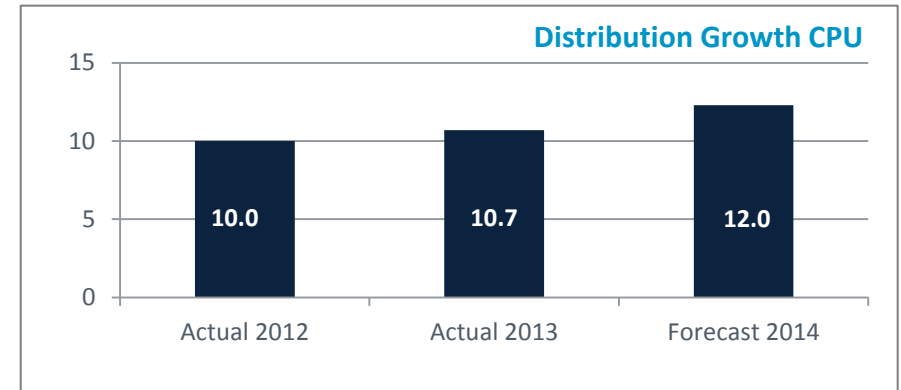
	No. of Properties Valued	Carrying Value \$m's	% Movement
NSW/ACT	39	\$43.5	+4%
VIC	30	\$41.9	+3%
New Zealand	33	\$23.6	+16%
SA	12	\$11.6	+3%
WA	4	\$4.4	+5%
<b>Total</b>	<b>117</b>	<b>\$125.0</b>	<b>+6%</b>



# FY13 Deliverables

## Financial

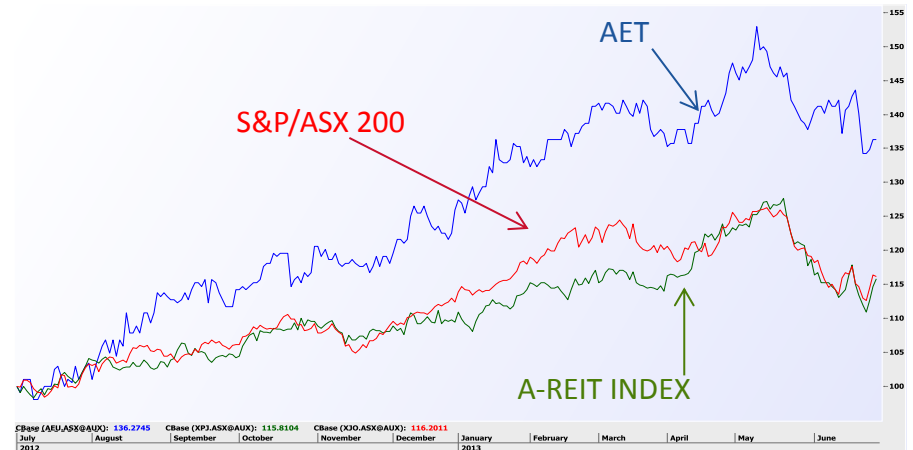
- Increase in FY13 distribution by 7%
- Increase in NTA by ~10%
- Reduction in gearing to 34% (Cov 50%)
- Increase in ICR to 3.4x (Cov 2.0x)
- Increase in market capitalisation by ~\$64 million
- Now trading at premium to NTA
- Disciplined management of expenses



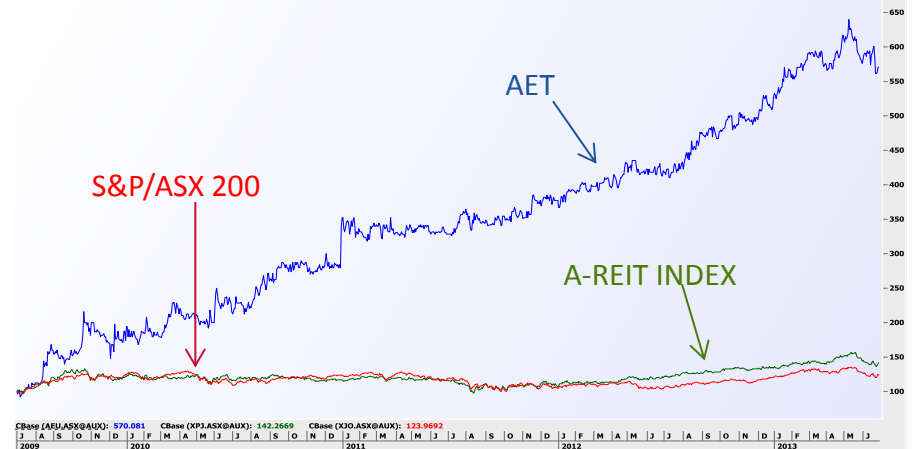
# Market Performance

- Since June 2012 the total return for AET was 47%, an outperformance over the A-REIT & S&P/ASX 200 index
- Effective rental nature of AET's leases minimises volatility in rents and need for capital to sustain rental and capital values
- AET unit price performance based upon predictability of earnings, long WALE, predictable costs and limited capex

AET Unit Price v S&P/ASX 200 and A-REIT Index Last 12 months



AET Unit Price v S&P/ASX 200 and A-REIT Index Last 5 Years



# Priorities & Strategy

## Priorities

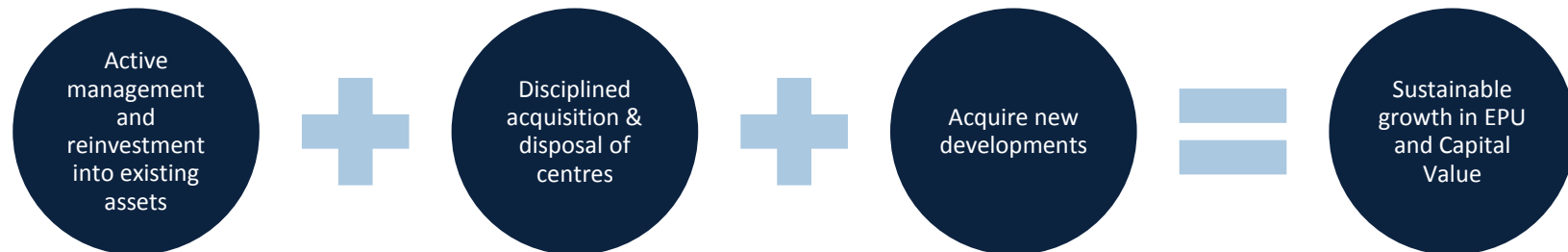
- To continue to be recognised as the leading provider of early learning and education accommodation
- Strengthen AET's brand as the leader in the early learning sector and education sector
- Optimise an already quality portfolio through active asset management to provide future growth in income and value
- To be the partner of choice for early learning and education operators
- Actively enhance the portfolio and its future prospects through sensible capital allocation and re-allocation

## Strategy

- Provide sound foundations for continued sustainable growth through:
  - portfolio enhancement through active acquisition and disposal of assets
  - effective capital management
  - maintaining a strong operational capability and market interaction
  - active engagement with operators/tenants
- Continue proactive asset management to drive portfolio performance
- New opportunities consistent with the Trust's specialised early learning/education focus and return profile
- Reconsider branding given specialist position and focus within Social Infrastructure sector
- Remain 'true to the label'

# Foundation Built on Capability

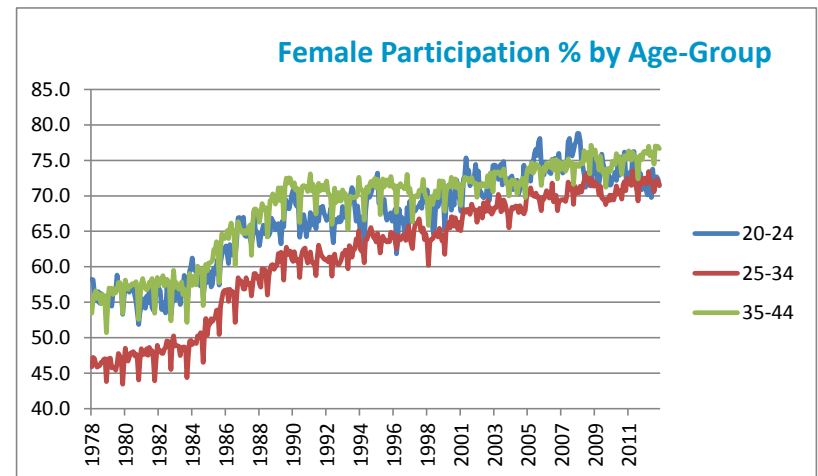
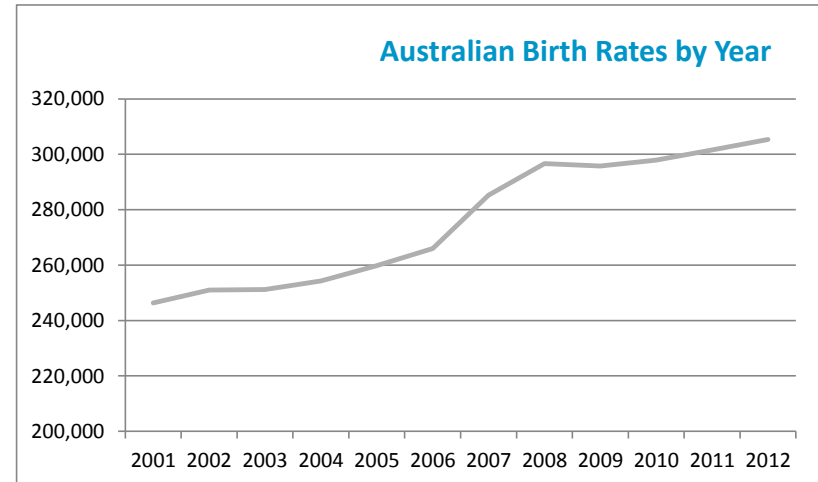
- Dedicated team with significant sector knowledge, research and experience
- Built on relationships with operators and partners to achieve premium results
- Focus on optimum outcomes, not just meeting expectations
- Increased support from the wider Folkestone team with specific real-estate, investment and funds management experience
- Disciplined, transparent and straightforward approach to business



# Investing in the Early Learning Sector

The key drivers of the early learning sector:

- Demand for childcare services remain strong
- Population of children less than 5 years in the catchment area of a centre drives occupancy and profitability
- Birth rate has grown steadily with 2012 birth rate at an all time high
- Increased female participation in the labour force, supporting demand for long day care
- Recognition of social and educational benefits of early learning in children aged between 1-5

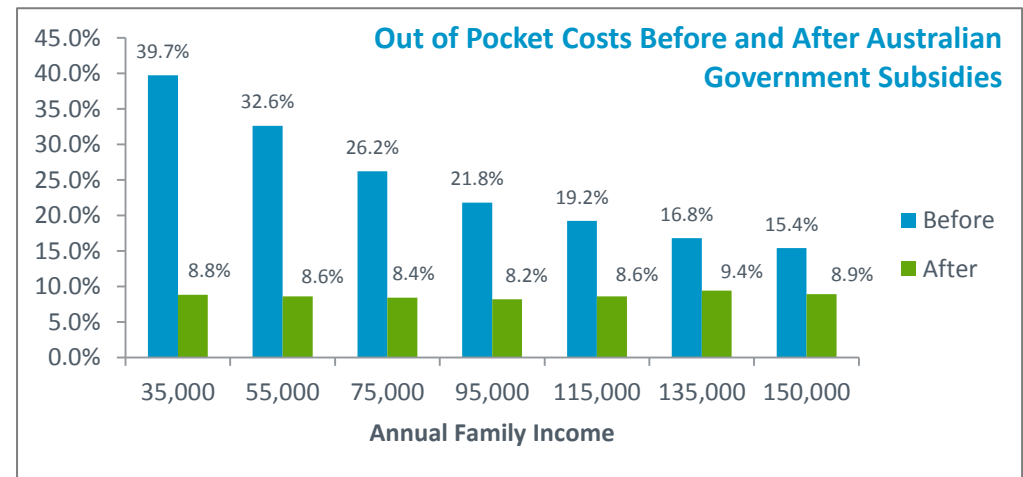
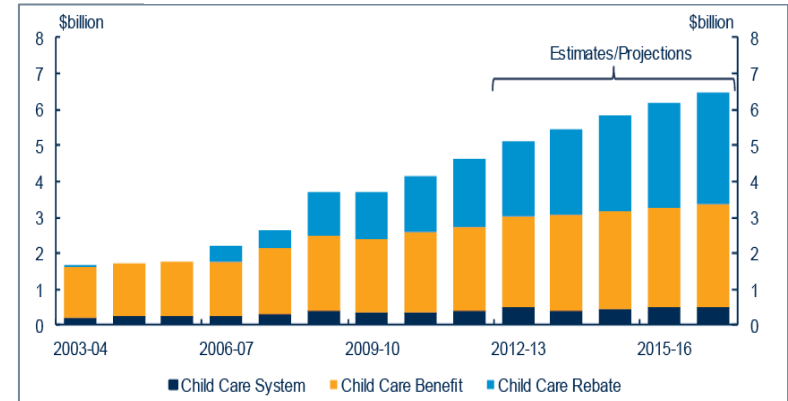


Source: Department of Education, Employment and Workplace Relations  
ABS 3301.0 – Births, Australia, 2011

# Investing in the Early Learning Sector (continued)

- Government spending, largely through the Child Care Benefit and Child Care Rebate schemes continues to grow with spending expected to be in excess of \$6 billion in 2017
- Affordability is a key driver of early learning with government subsidies driving the affordability and demand

Commonwealth Spending on the Child Care System and Child Care Assistance: 2003 - 2017



Source: Department of Education, Employment and Workplace Relations

# FY14 Outlook

## Portfolio Income

- Sustainable increases through predominantly CPI based annual indexation
- Focus on growth in income for FY14 and beyond through investment and re-investment

## Growth

- Disciplined and sensible asset acquisitions and disposals to enhance the portfolio and as a catalyst for future growth

## Capital Management

- Current blended hedge rate of 4.3% pa with potential for term extension

## Asset Values

- Potential for further cap rate compression together with indexed rental growth

## Sector Engagement

- Continued sector and industry engagement as Australia's leading provider of early learning accommodation

# Property Portfolio - Tenant Profile – Appendix 1

- AET's properties are leased to 27 tenants
- The not-for-profit group Goodstart Early Learning ("Goodstart") is the tenant of 193 of AET's properties. Goodstart is the largest operator of early learning centres in Australia with 655 centres
- Other tenants leasing 10 or more centres are: G8 Education, Mission Australia, Nurture One and Kidicorp
- Asset spread and geographic diversification provides overall stability to the portfolio
- AET holds approximately \$20 million of bank guarantees, most on a 'pooled guarantee' basis from its tenants

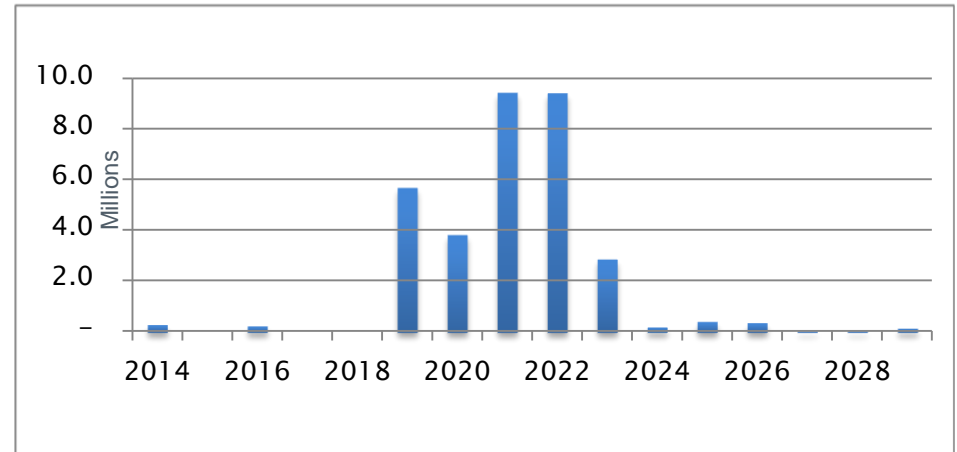




# Property Portfolio – Lease Profile – Appendix 2

- Triple net leases (ex land tax)
- 5 year tenant refurbishment provisions
- Typical early learning centre:
  - initial lease term 15 years plus two 5 year options
  - 5 year notice period to take-up options
- 99% occupancy
- No significant expiry until 2019

Expiry Profile by Annual Rent



# QUESTIONS

# Further Information & Disclaimer

Australian Education Trust  
ASX Code: AEU  
Website: [www.educationtrust.com.au](http://www.educationtrust.com.au)

Responsible Entity:  
Folkestone Investment Management Limited  
ABN: 46 111 338 937 AFSL: 281544  
Level 12, 15 William Street  
Melbourne Vic 3000

#### Independent Board of Directors:

Vic Cottren - Chairman & Independent Non-Executive Director  
Michael Johnstone - Independent Non-Executive Director  
Grant Hodgetts - Independent Non-Executive Director  
Nick Anagnostou – Executive Director

#### Senior Management:

Nick Anagnostou – Chief Executive Officer  
Travis Butcher - Chief Financial Officer

#### Company Secretary:

Scott Martin

#### Investor Relations:

Lula Lioffi  
Phone: +61 3 8601 2668  
Email: [llioffi@folkestone.com.au](mailto:llioffi@folkestone.com.au)

#### Registry:

Boardroom Pty Limited  
PO Box R67, Royal Exchange NSW 1223  
Telephone: 1300 131 856 or +61 2 9290 9600  
E-mail: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)  
Website: [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

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#### Folkestone Limited

Level 10, 60 Carrington Street  
Sydney NSW 2000  
T: +612 8667 2800  
[www.folkestone.com.au](http://www.folkestone.com.au)

#### Folkestone Investment Management Limited

Level 12, 15 William Street  
Melbourne, VIC 3000  
T: +613 8601 2092  
[enquiries@folkestone.com.au](mailto:enquiries@folkestone.com.au)