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## **MERGER OF FOLKESTONE EDUCATION TRUST WITH FOLKESTONE SOCIAL INFRASTRUCTURE TRUST**

### **Key Summary**

Folkestone Investment Management Limited ("FIML"), in its capacity as responsible entity of Folkestone Education Trust ("FET") (ASX:FET), today announced a proposal that, if approved and implemented, would result in FET merging with Folkestone Social Infrastructure Trust ("FST") (ASX:FST) ("Proposal").

The merger of FET and FST is designed to provide the following benefits to FET:

- increases FET's portfolio of early learning properties from 354 to 401 and the combined value from \$471 million to \$545 million<sup>1</sup>;
- increases the FY15 forecast second half distribution by 0.1 cents per unit to 6.45 cents per unit (accretion of 1.6%) resulting in an annual forecast of 12.8 cents per unit (FY15 first half distribution of 6.35 cents per unit);
- increases the pro-forma NTA<sup>2</sup> per unit from \$1.53 to \$1.56, an accretion of 2.0%;
- increases FET's market capitalisation and enhances liquidity;
- reduced transaction cost base through lower stamp duty rates applicable to the merger compared to an outright purchase on market; and
- the Proposal does not require additional capital from FET's investors or financiers.

The Board of FIML believes that the Proposal is consistent with FET's overall strategy of acquiring portfolios and individual assets that add to earnings, portfolio quality and both tenant and geographic diversification.

### **Offer Terms**

FIML has entered into a Merger Implementation Deed with Folkestone Real Estate Management Limited ("FREML"), the responsible entity of FST, in relation to the Proposal. The Proposal will be subject to approval by FST Unitholders at a scheme meeting to be held on 19 December 2014.

The Proposal provides FST Unitholders at the Record Date<sup>3</sup> with:

- 1.32 New FET Unit for every one FST Unit ("Scheme Consideration"), equating to an implied value of \$2.47 per FST Unit<sup>4</sup>; and
- \$0.675 in cash for every 1 FST Unit ("Implementation Distribution")

collectively, the "Transaction Value".

The Implementation Distribution will be funded out of available cash reserves and the sale of FST's Unitholding in FET.

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<sup>1</sup> Includes 3 early learning centres that FET has under contract to sell

<sup>2</sup> Based on the audited balance sheet as at 30 June 2014 with adjustments made to reflect material changes since 30 June 2014

<sup>3</sup> The Record Date for determining FST Unitholder entitlements under the scheme and to the Implementation Distribution is expected to be 31 December 2014

<sup>4</sup> Based on the closing price of FET units as at 12 November 2014 of \$1.87



FET believes that the Proposal is compelling for FST Unitholders. Based on the closing price of FET units as at 12 November 2014 of \$1.87, the trading day prior to this announcement, the Transaction Value represents an implied value of \$3.14 per FST Unit. The Transaction Value represents a premium of:

- 15.6 per cent premium to the closing price of FST Units of \$2.72;
- 16.1 per cent premium to the 30 day VWAP of FST Units of \$2.71;
- 16.2 per cent premium to the 90 day VWAP of FST Units of \$2.71; and
- 4.8 per cent premium to the FST's pro forma 30 June 2014 NTA of \$3.00.

### **Merger Impact Attributable to FET Unitholders**

The proposed merger metrics attributable to FET Unitholders are as follows:

- FY15 forecast second half distribution to increase by 0.1 cents per unit to 6.45 cents per unit (accretion of 1.6%) resulting in an annual forecast of 12.8 cents per unit (FY15 first half distribution of 6.35 cents per unit);
- FET NTA will increase by 3 cents per FET unit an accretion of 2.0%; and
- FET gearing will reduce slightly from 31.0% to 30.4%, within FET's stated gearing range of 30% to 40%.

Strategically, FET will acquire, subject to the scheme being implemented, 47 early learning properties and 1 medical centre, increasing the number of properties owned by FET to 402 (351 in Australia and 51 in New Zealand). FET considers FST's holding in the Folkestone CIB Fund ("FCIB"), which holds a portfolio of police stations and courthouses, as well as the Melton Medical Centre to be non-core, and whilst seeking to maximise their value will assess the disposal of these assets over time.

Mr Vic Cottren, Independent Chairman of FET said: "The merger of FET and FST provides a highly attractive value proposition for both FET and FST Unitholders. This transaction is accretive to FET and reinforces FET as the leading owner of early learning properties in Australia."

"We also believe the Proposal has significant benefits for FST Unitholders as it significantly increases their exposure to a diversified portfolio of quality early learning properties, improves their growth prospects through the FET development pipeline, provides lower cost of management and an increase in scale and liquidity."

### **FIML Corporate Governance**

The FIML Board has adopted a formal corporate governance protocol (as has the board of FREML) which documents the procedures for the proper management of conflicts in considering and negotiating the Proposal.

### **Independent Directors representing FST Recommendation**

The FREML Independent Directors representing FST, who were appointed to the special sub-committee convened by the FREML Board to consider the Proposal on behalf of FREML, ("Independent Directors representing FST") under the corporate governance protocols have unanimously recommended the Proposal to FST Unitholders, in the absence of a superior offer and subject to an independent expert concluding that the Proposal is fair and reasonable and in the best interests of FST Unitholders.



## Merger Implementation Deed

A copy of the Merger Implementation Deed between FIML and FREML will be uploaded on the ASX Market Announcements Platform shortly. As is customary, the conditions precedent to implementation of the Proposal are included in the Merger Implementation Deed.

## Explanatory Memorandum and Investor Meeting

The Proposal is subject to approval at a meeting of FST Unitholders. It is expected that the notice of meeting and the accompanying Explanatory Memorandum including the Independent Expert Report will be sent to FST Unitholders on 25 November 2014 and that the FST Unitholders' meeting will be held on 19 December 2014. If the Proposal is approved, it is expected that it will be implemented on 6 January 2015. The FST Explanatory Memorandum will also be available to FET Unitholders via the ASX Market Announcements Platform.

## Indicative Timetable

Event	Date
Transaction announcement	13 November 2014
Explanatory memorandum available	25 November 2014
FST Unitholder meeting to consider the scheme	19 December 2014
Record Date for determining entitlements to Scheme Consideration and Implementation Distribution	31 December 2014
Implementation Date	6 January 2015

## Further Information

FET Investors who have questions before the FST Explanatory Memorandum is available, are invited to contact FET Investor Relations on +61 3 8601 2668.

For further enquiries, please contact:

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## About Folkestone Education Trust

The Folkestone Education Trust is the largest Australian ASX listed (ASX:FET) real estate investment trust (A-REIT) that invests in early learning properties. [www.educationtrust.folkestone.com.au](http://www.educationtrust.folkestone.com.au)

## About Folkestone

Folkestone (ASX:FLK) is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone's funds management platform, with over \$800 million under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while its on balance sheet activities focus on value-add and opportunistic (development) real estate investments. [www.folkestone.com.au](http://www.folkestone.com.au)