

FOLKESTONE HALF YEAR RESULTS – 31 DECEMBER 2016

- Statutory net profit after tax of \$3.2 million, up 6.0% on HY16
- Statutory earnings per share of 2.2 cps, up 5.6% on HY16
- Net asset value (NAV) per share of 96.7 cents, down 2.3% from 30 June 2016
- Gearing of 8.7%, up from 4.2% at 30 June 2016
- Funds under management of \$1.2 billion, up 12.6% in HY17
- FLK's first Seniors Living Fund closed oversubscribed
- Strong sales across active development projects
- Acquired a 50% interest in a circa 142 room hotel development in Green Square, Sydney
- FLK maintains dividend guidance of a fully franked dividend of 2.625 cps in respect of FY17 assuming no material change in market conditions

FINANCIAL RESULTS

Folkestone (ASX:FLK) today announced a statutory net profit after tax for the six months ended 31 December 2016 of \$3.19 million, an increase of 6.0 per cent over HY16. Normalised net profit after tax¹ was \$3.25 million, an increase of 2.3 per cent over HY16.

Statutory earnings per share are 2.2 cents compared to 2.0 cents for HY16. Normalised earnings per share are 2.2 cents compared to 2.2 cents for HY16.

Folkestone's Managing Director, Mr Greg Paramor, said "Folkestone's result for the first half of FY17 reflects positive contributions from both our funds management platform and our on-balance sheet development activities. We have a number of transactions that are underway, which, due to timing will now contribute to earnings in the second half of FY17."

	HY16 \$m	HY17 \$m
Statutory NPAT	3.02	3.19
Adjustments		
Due Diligence Costs on Transactions Not Proceeding	0.24	-
Establishment Costs - Property Management	-	0.09
Tax Impact of the Above	(0.07)	(0.03)
Normalised NPAT	3.19	3.25

¹ The normalised figures are non-statutory amounts and in Folkestone's view better reflect the underlying operating performance of the business. Normalised net profit after tax is arrived at after adjusting the Group's statutory NPAT in HY16 relating to \$0.24 million in due diligence costs associated with transactions not proceeding and in HY17 relating to \$0.09 million in establishment costs from the implementation of an internal property management team.

ASSET BACKING

Folkestone's net asset value (NAV) was 96.7 cents per share at 31 December 2016, down from 98.9 cents per share at 30 June 2016. Net tangible asset (NTA) backing was 91.6 cents per share at 31 December 2016 down from 93.6 cents per share at 30 June 2016. The primary reason for the decline in NAV and NTA per share in the current reporting period was a 4.9 per cent decline in the value of Folkestone's 12.3 per cent holding in the Folkestone Education Trust (ASX:FET) which, as a listed entity, is marked to market at each reporting date².

BALANCE SHEET

Folkestone's balance sheet is in good shape with \$11.8 million in cash reserves and an undrawn facility of \$12.5 million, providing the Company with financial flexibility to take advantage of new investment opportunities when they arise. Gearing remains low despite increasing from 4.2 per cent at 30 June 2016 to 8.7 per cent³ at 31 December 2016.

FUNDS MANAGEMENT DIVISION

Folkestone's funds management division is a specialist real estate funds manager for private clients and select institutional investors. During HY17, Folkestone increased its funds under management from \$1.1 million to \$1.2 billion, an increase of 12.6 per cent compared to 30 June 2016 and 23.0 per cent compared to HY16.

Total funds management revenue was \$7.5 million down 0.3 per cent on HY16 (HY16 was boosted by a \$1.6 million performance fee from the West Ryde Development Fund).

Key features of the HY17 result are:

- a 20.6 per cent increase in recurring fee income and cost recoveries to \$3.7 million;
- a 138.5 per cent increase in transaction fees to \$1.4 million inclusive of a \$0.6 million acquisition fee in respect of the Folkestone Seniors Living Fund No.1;
- a 1.5 per cent increase in distributions from FLK's co-investment in the ASX listed Folkestone Education Trust to \$2.2 million; and
- no performance fees were generated in HY17.

All of Folkestone's listed, unlisted and A-REIT securities funds have outperformed their benchmarks.

In July 2016, Folkestone announced that it had established the Folkestone Seniors Living Fund No.1 (FSLF1) to acquire Watermark Castle Cove, an award winning retirement living community on Sydney's lower north shore. The acquisition of Watermark Castle Cove comprised a 100 per cent interest in 50 existing independent living apartments (ILAs) and 8 ILAs under construction which are to be paid for on completion (including sale of ILAs). FSLF1 acquired a 100 per cent interest in adjacent land for development of up to 21 ILAs on terms whereby part of the consideration is contingent on completion and sale of the ILAs and the development is undertaken in a 50/50 joint venture with the Watermark Partnership.

² FET's Unit price at 30 June 2016 was \$2.67 and at 31 December 2016 was \$2.54. As at 27 February 2017, FET's Unit price was \$2.74.

³ All debt, with the exception of a \$25.0 million facility (drawn to \$12.5 million at 31 December 2016) is held at the project level in special purpose vehicles. On a look through basis, the gearing is at 15.3 per cent.

Folkestone underwrote \$19.7 million of the initial \$25.7 million offer by way of a short-term loan to the FSLF1 with the capital raising closing oversubscribed in September 2016. Folkestone has co-invested \$2.5 million (10.0 per cent) in FSLF1. The Fund has a target fund raising of up to \$60 million to enable it to acquire further assets consistent with its investment mandate. FSLF1 has a target forecast equity IRR of 15.0 per cent per annum (pre-tax, net of fees) on drawn equity over the seven year life of the Fund.

Mr Paramor said “our entry into the seniors living sector is an extension of our strategy to expand our real estate related social infrastructure platform. Australia’s ageing demographic and growing recognition of seniors living communities as a lifestyle choice will underpin demand in this sector going forward.”

The largest fund managed by Folkestone, the ASX listed Folkestone Education Trust (ASX: FET) increased its gross assets by 10.0 per cent to \$829.1 million in the six months to 31 December 2016 and 17.0 per cent over the year. FET continued its active management of its portfolio with the acquisition of two new centres and six development sites for new centres, five year options were exercised at 39 centres and market rent reviews were completed at 64 centres resulting in an average increase of 4.9 per cent over the prior year’s rental income. FET’s distribution for the half year was 7.1 cents per unit, up 6.0 per cent on the previous year.

DIRECT INVESTMENTS - DEVELOPMENTS

During HY17, Folkestone continued to execute its strategy for existing on-balance sheet developments and securing new development opportunities that can be sold down to Folkestone managed funds.

Folkestone’s development division generated a net development profit⁴ of \$2.8 million, up 8.1 per cent on HY16 (HY16 was boosted by a \$3.3 million share of development profits pre-tax, net of fund administration costs from the West Ryde Development Fund as Folkestone held a 50 per cent interest in the Fund).

Key features of the HY17 results are:

- a positive contribution in net development profits of \$2.1 million in HY17 from Millers Junction Business (via Folkestone’s 51.0 per cent interest in the joint venture), Officer Northside (via Folkestone’s 50.0 per cent interest in the joint venture) and Truganina (via Folkestone’s 18.8 per cent interest in the Folkestone Truganina Development Fund);
- \$0.7 million in preferred equity interest in HY17, up 84.2 per cent on HY16 from five projects (Officer Northside, South Dural, Hornsby, Wollert and Green Square) and other sundry loans;
- continued strong sales and settlements in respect of our residential land projects and enterprise park projects in Melbourne; and
- the completion of the Potter’s Grove, Officer residential land subdivision project.

⁴ Net of all project costs incurred during the period and includes development profit, fees, preferred equity income, impairments and rental expenses on operating leases.



Mr Paramor said “we continue to secure strong pre-sales across our active residential and enterprise park developments. In particular, our residential land projects continue to perform well. This is exemplified by the strong pre-sales recorded at Folkestone’s newest residential development, Amber at Wollert, which launched in November 2016 in Melbourne’s northern growth corridor. The project, being undertaken in joint venture with ID_Land, was launched in November 2016 and as at 31 December 2016, 65 pre-sales had been achieved, with a further 50 pre-sales achieved to 27 February 2017. Our two residential developments in Officer, in Melbourne’s south-east are now sold out, while our residential land subdivision at Truganina in Melbourne’s western growth corridor has captured almost twice the budgeted sales since launching in November 2015”.

In November 2016, Folkestone entered into a joint venture with Furnished Property to develop a circa 142 room hotel at Green Square, Sydney.

Mr Paramor said “Folkestone’s interests in the Wollert residential land subdivision and the Green Square hotel development are being warehoused on our balance sheet with the intention to sell down part of our interests into two new funds that are expected to be launched in the second half of FY17. This is consistent with our strategy to secure quality investment opportunities that can be later sold down to Folkestone managed funds.”

ENTERPRISE PARKS - FUNDS EMPLOYED AS AT 31 DECEMBER 2016: \$7.8M

Folkestone’s three Enterprise Parks, located in Melbourne at Altona North, Knoxfield and Nunawading are all in 50/50 joint ventures with Wilmac Properties. The total end value of circa \$114 million (Folkestone’s share \$57 million) will provide positive profit contributions over the next three years.

During HY17 Folkestone recognised \$1.1m in development profits in respect of the Millers Junction Business project at Altona North. Settlement of the Nunawading site occurred in September 2016. Strong pre-sales continued across all three projects with a total of 71 pre-sales in HY17, taking the total pre-sold to 132, representing 55 per cent of the total stock secured as at 31 December 2016. We continue to pursue other sites in Melbourne focussing on key strategic locations to scale the business.

RESIDENTIAL LAND - FUNDS EMPLOYED AS AT 31 DECEMBER 2016: \$17.1M

Folkestone’s residential land projects (Potters Grove and Potters Northside in Officer, south-east Melbourne, Elements in Truganina, western Melbourne⁵ and Amber, Wollert in Melbourne’s rapidly growing northern growth corridor) are all in joint venture with ID_Land. All corridors continue to experience favourable demand. During HY17, 209 lots were pre-sold and 93 lots were settled across the four projects.

Folkestone’s strategy to buy land, where possible, on flexible, deferred terms enhances its capital structure and reduces debt generating capital efficient, staged profit delivery. Introducing investors through its unlisted funds platform once planning approval has been granted, provides Folkestone with an opportunity to earn rezoning fees and generate development returns on its co-investment in our funds, thereby creating an alignment with investors with a lower risk.

⁵ Folkestone holds a 18.8 per cent interest in the Folkestone Truganina Development Fund.

In February 2017, Folkestone received confirmation that the Amber, Wollert project, located within the Wollert Precinct Structure Plan (PSP) had received Government approval. The project will deliver circa 550 residential lots, with an end value of approximately \$137 million. The land is being acquired on deferred terms with a series of payments between December 2015 and 2019. Now that approval has been granted, Folkestone will launch the Folkestone Wollert Development Fund in the coming weeks and seek to raise circa \$23.5 million for an 80 per cent interest in the project. Both Folkestone and ID_Land who currently have a 50/50 interest in the project will sell down part of their interest to the Fund, with each retaining a 20 per cent interest in the project. Folkestone's interest will be in the form of a co-investment in the Fund.

RETAIL/COMMERCIAL - FUNDS EMPLOYED AT 31 DECEMBER 2016: \$8.3M

During HY17, Folkestone continued master planning of its retail neighbourhood activity centres at Altona North (Stage 3) and Truganina in Melbourne. In August 2016, Folkestone received unanimous support from Hobsons Bay City Council for the development of Altona North Stage 3 and the proposal has been referred to the State Government with a decision expected by mid 2017.

HOTELS - FUNDS EMPLOYED AT 31 DECEMBER 2016: \$10.6M

In November 2016, Folkestone announced that it had entered into a 50/50 joint venture with Furnished Property to develop a 142 room hotel at Green Square, Sydney. The site, at 18 O'Riordan Street, Alexandria, is located within the \$13 billion, 278 hectare Green Square Urban Regeneration Area ('GSURA') and is strategically located approximately 100 metres from the Green Square Train Station. The Sydney Airport Domestic and International Terminals are two and three stops respectively to the south with Central Station, one stop to the north. Green Square is one of the most significant urban transformation programs under construction in Australia, revitalising the industrial edge of Sydney's inner south into a vibrant global village.

Folkestone intends to launch the Folkestone Green Square Hotel Fund in the June 2017 quarter, to raise circa \$22.5 million of third party capital which, together with construction finance, will fund the development of the hotel on a fund-through basis reducing Folkestone and Furnished Property's funds employed to develop the hotel. The Fund will own the hotel long-term.

OUTLOOK

Folkestone is well placed to continue to build sustainable growth across its funds management and development divisions.

Folkestone is on track to launch two new funds, being the Folkestone Wollert Development Fund and the Folkestone Green Square Hotel Fund in the second half of FY17. In addition, Folkestone is in due diligence on a number of opportunities that will either be acquired on balance sheet and sold down at a later date to Folkestone funds, or acquired directly by new funds established by Folkestone.

Folkestone's low gearing, combined with its cash on hand and its ability to recycle capital from projects that are earmarked for new funds or are nearing completion, provides the

Group with velocity of capital and significant flexibility to continue to execute on its strategy.

Mr Paramor said “we will continue to look for investment opportunities across the residential, non-residential and social infrastructure sectors where the projects offer the potential for attractive risk-adjusted returns, can be acquired and/or developed using efficient capital structures (i.e. staged land payments or deferred settlement terms), and where appropriate, undertaken in joint venture with quality partners and held in Folkestone managed funds.”

Folkestone confirms that its current intention is to pay a fully franked dividend of 2.625 cents per share in respect of FY17, an increase of 5.0 per cent on the FY16 dividend assuming no material change in market conditions.

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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 \$1.2 billion 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