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**FOLKESTONE FY15 RESULTS – STRONG RESULTS ACROSS FUNDS MANAGEMENT AND DEVELOPMENT**

- Net profit after tax of \$7.0 million<sup>1</sup>, up 122.6% on FY14
- Earnings per share of 1.1 cents, up 57.1% on FY14
- Net asset value per share of 17.5 cents, up 21.5% on FY14
- Funds under management of \$917 million, up 12.8% on FY14
- Successfully raised \$42 million from a Placement and Entitlement offer
- Launched the Folkestone Truganina Development Fund
- Folkestone Social Infrastructure Trust merged with the Folkestone Education Trust
- Acquired interests in three new development opportunities
- Secured strong pre-sales across the active developments
- Completed development of Stage 1 at Millers Junction and entered into JV for Stage 2

Folkestone (FLK: ASX) today announced a net profit after tax for the year ended June 2015 of \$7.0 million<sup>1</sup> compared to a net profit after tax of \$3.2 million in the prior corresponding period, a 123 per cent increase over the period. This represents basic earnings per share of 1.1 cents, compared with 0.7 cents per share for the prior corresponding period.

Folkestone's Managing Director, Mr Greg Paramor said "the strong result in FY15 was driven through the focused execution on our strategy to deliver real estate wealth solutions by growing our funds management platform and undertaking quality residential and non-residential developments on our balance sheet."

**FINANCIAL RESULTS**

Folkestone's full year result includes the following material items:

- \$5.9 million of recurring fee income and cost recoveries generated from funds management;
- \$3.1 million in trust distributions from Folkestone's holding in the Folkestone Education Trust (ASX: FET);

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<sup>1</sup> The net profit after tax for the Consolidated Group in FY15 was \$8.2 million. The Consolidated Group includes Folkestone West Ryde Development Fund ("Fund") even though Folkestone only owns 50 per cent of the units in the Fund. The Consolidated Group's net profit after tax includes a net profit after tax contribution of \$2.4 million from the Fund relating to its share of development profits recognised during the period, net of fund administration costs. 50 per cent of the net profit after tax from the Fund (\$1.2 million) is attributable to the other unitholders in the Fund. Therefore, Folkestone's net profit after tax after adjusting for 50 per cent of the Fund's profit is \$7.0 million.

- \$3.0 million share of development profits realised to date from the West Ryde development project, net of Fund administration costs (50 per cent of which is attributable to Folkestone);
- \$1.2 million in equity raising fees generated from the Potters Northside and Truganina projects;
- \$1.1 million share of development profits from Folkestone's 50 per cent interest in the Potters Grove Officer project joint venture;
- \$1.0 million in acquisition fees and due diligence fees generated from the successful establishment of the Folkestone Truganina Development Fund and acquisitions made by the Folkestone Education Trust ("FET");
- \$0.9 million net contribution from Folkestone's Altona North project based on the completion of the Stage 1 development, sale of land to ALDI, part reversal of the impairment of the Stage 2 land (\$0.8 million) being developed in joint venture with Wilmac Properties, part reversal of the impairment of the Stage 3 land (\$1.1 million) and expensing of the sub-lease payments in relation to the lease held over the land adjoining the Stage 3 land;
- \$0.2 million disposal fee generated from the sale of the Folkestone Social Infrastructure Fund's self-storage facility;
- (\$0.7) million impairment provision against the Company's investment in the Karratha project; and
- \$2.2 million net income tax benefit resulting from the re-recognition of \$13.6 million of carried forward tax losses (\$4.1 million tax-effected) which had previously been de-recognised in prior reporting periods.

Folkestone's balance sheet is in excellent shape with more than \$26 million in cash available giving it significant capacity to fund new business opportunities across both its funds management platform and on-balance sheet direct investments. Folkestone's gearing at 30 June 2015 was 15 per cent<sup>2</sup>.

Folkestone's net asset value (NAV) was 17.5 cents per share at 30 June 2015, up from 14.4 cents per share at 30 June 2014. Net tangible asset (NTA) backing was 15.4 cents per share at 30 June 2015 compared with 11.7 cents per share at 30 June 2014. During the reporting period, Folkestone successfully completed a \$42.0 million capital raising which contributed to the 3.7 cent increase in NTA per share from 30 June 2014.

## EQUITY RAISING

In the December quarter 2014, Folkestone successfully completed a \$42.0 million equity raising at 20.0 cents per share which comprised:

- a \$15.8 million placement to existing and new institutional investors; and
- a 1.0 for 4 non-renounceable entitlement offer to existing eligible shareholders to raise \$26.2 million.

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<sup>2</sup> All debt, with the exception of the facility for the FET units is held at the project level in special purpose vehicles. On a look through basis, the gearing is at 22 per cent.



Mr Paramor said “we were extremely pleased with the support from our existing shareholders and a number of new institutional investors. The equity raising allowed Folkestone to increase its strategic holding in the ASX listed Folkestone Education Trust, the largest owner of early learning centre properties in Australia, and to continue to execute on our strategy across both our funds management platform and on-balance sheet developments.”

## FUNDS MANAGEMENT DIVISION

Folkestone’s funds management division is a specialist real estate funds manager for private clients and select institutional investors. Since June 2014, Folkestone’s funds under management increased from \$813 million to \$917 million. During FY15, Folkestone’s real estate funds management activities generated a profit before the allocation of head office costs of \$7.2 million, up from \$7.0 million in FY14 and its co-investment in FET generated a profit of \$2.6 million (nil in FY14).

The following is a summary of the key achievements across the platform in FY15:

### Folkestone Real Estate Income Fund at Altona North

The Folkestone Real Estate Income Fund at Altona North entered into an agreement in November 2013 to acquire, on a fund through basis from Folkestone, Millers Junction Home, a large format retail centre anchored by Bunnings and including Officeworks, JB Hi-Fi Home, Repco, PETstock, petVET and the Pitstop Café. Millers Junction Home was completed in September 2014. The Fund acquired Millers Junction Home for \$30.4 million (excluding transaction costs) and the final payment was made to Folkestone in November 2014.

### Folkestone Real Estate Income at Oxley

The Folkestone Real Estate Income Fund at Oxley acquired a 7,095 square metre neighbourhood retail centre in Oxley, Brisbane in April 2014. Folkestone underwrote the Fund Offer of \$20.6 million, with the final proceeds raised from investors received in September 2014, at which time, the last of Folkestone's underwriting units were redeemed.

### Folkestone West Ryde Development Fund

The Folkestone West Ryde Development Fund is undertaking, in a 50/50 joint venture with the Toga Group, a residential development project located in West Ryde, Sydney known as Central Square. Central Square was launched in November 2013 and as at 30 June 2015, construction of the project had been completed and approximately 28 per cent of the 229 apartments (64 apartments) had settled. The balance of apartments (165 apartments) have been sold with 157 apartments settled since 30 June 2015 and the final 8 apartments are to be settled in the next few weeks.

The forecast equity internal rate of return (IRR) has been upgraded from 18.0 per cent per annum<sup>3</sup> to more than 30 per cent per annum<sup>3</sup> and the forecast return on equity has increased from 32 per cent<sup>3</sup> to more than 50 per cent<sup>3</sup>. The increased forecast returns have been driven by the replacement of the 22 commercial suites, an increase in the number of apartments from 205 to 229, higher than anticipated sales revenue, together with an 8 month

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<sup>3</sup> Post fees, pre-tax.

reduction in the project's timeframe. Folkestone co-invested \$8.7 million in the Fund (50 per cent of the Fund).

### **Folkestone Education Trust**

The ASX Listed Folkestone Education Trust (ASX:FET) continued to deliver on its strategy of owning a quality portfolio of early learning centres with an active period of acquisitions, developments and the disposal of a number of smaller centres and its successful merger with the Folkestone Social Infrastructure Trust in January 2015.

FET generated a total return of 35.8 per cent in FY15 substantially outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned 20.2 per cent.

Folkestone continued to acquire a strategic stake in FET during FY15 and as at 30 June 2015 held 12.8 per cent of FET units on issue (excluding units held in FET by the Folkestone Maxim A-REIT Securities Fund). Folkestone generated an unrealised gain of \$4.5 million after tax on its investment in FET during FY15.

### **Folkestone Truganina Development Fund**

The Folkestone Truganina Development Fund is undertaking, in a 80/20 joint venture with ID\_Land, the development of a 52.5 hectare residential master planned community in Truganina, one of Melbourne's fastest growing corridors. The project, known as Elements, comprises the creation of approximately 690 residential lots and a 3.1 hectare town centre on land at Dohertys Road, Truganina. The land is being acquired on deferred terms with the final land payment due in October 2016. The project was launched in November 2014, and as at 30 June 2015, the joint venture had secured almost double the number of pre-sales forecast in the Base Case Feasibility. The first parcel of land for the development of Stages 1 and 2 of the project was settled in May 2015. Construction commenced during the June 2015 quarter with the first settlements forecast to commence in late 2015.

Folkestone underwrote the Fund Offer of \$18.25 million with the capital raising closing oversubscribed in March 2015. Folkestone has co-invested \$3.43 million (18.76 per cent) in the Fund. The Fund has a forecast equity IRR of 18 per cent per annum<sup>4</sup> on drawn equity, and a forecast return on equity of 77 per cent<sup>4</sup> over 4.5 years.

### **DIRECT INVESTMENTS**

During FY15, Folkestone's real estate development activities generated a net profit before the allocation of head office costs of \$5.6 million, up from \$2.1 million in FY14.

Mr Paramor said "During the year, we completed Millers Junction Home which is a great example of how we can use our balance sheet to manufacture high quality real estate for our funds management platform."

"By partnering with best of breed developers, Folkestone has been able to expand its balance sheet activities across more projects, sectors and locations. In FY15 we acquired interests in a commercial development in Knoxfield, a residential land sub-division in Truganina, one of Melbourne's fastest growing corridors (which is in a Folkestone managed

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<sup>4</sup> Pre-tax, net of fees.



fund that Folkestone has co-invested in), a second residential land sub-division in Officer known as Potters Northside, in Melbourne's south-east corridor and a mixed-use development adjacent to a major Sydney train station" said Mr Paramor.

Folkestone's existing on-balance sheet development book has a forecast completion value of more than \$1.0 billion (\$450 million FLK share) and we have 5 projects under exclusive due diligence comprising more than \$1.3 billion (more than \$650 million FLK share) in forecast completion value.

The following is a brief summary on the key achievements across Folkestone's Direct Investments in FY15:

### **Millers Junction, Altona North**

In September 2014, Folkestone completed the development of Stage 1 of the project which had previously been pre-sold to the Folkestone Real Estate Income Fund at Altona North. The final payment to Folkestone by the Fund for the development was made in November 2014. Stage 1 comprised a large format retail centre called Millers Junction Home. The Centre is anchored by Bunnings and includes Officeworks, together with JB Hi-Fi Home, Repco, PETstock, petVET and Pitt Stop Café.

In September 2014, Folkestone entered into a 50/50 joint venture with Wilmac Properties to develop Stage 2 of Millers Junction. The joint venture will develop approximately 60 strata style office/warehouse mews on the 2.6 hectare site with an anticipated end value of approximately \$30.0 million. As at 30 June 2015, 21 sales had been secured, representing 31 per cent of the project's forecast sales revenue. Construction will commence in September 2015.

In December 2014 Folkestone settled the sale of 8,063 square metres of land to ALDI Stores for a 1,600 square metre supermarket which adjoins the Stage 1 development.

In May 2015 Folkestone entered into a call option agreement with BWP Trust to purchase the former Bunnings site adjacent to Millers Junction. Subject to planning approval, the 3.4 hectare parcel will be consolidated with Folkestone's existing Stage 3 land holding of 4.4 hectares to create a substantial development opportunity which will include traditional retail, large format retail and social infrastructure investments. In line with Folkestone's strategy of growing its funds management platform, Folkestone expects to establish a fund to own the completed development in Stage 3 as Folkestone did when it developed Millers Junction Home for the Folkestone Real Estate Income Fund at Altona North.

### **Potters Grove, Officer**

Potters Grove, Officer is a 14.1 hectare site located in the Cardinia Shire, in south-east Melbourne. Potters Grove is a 50/50 joint venture between Folkestone and ID\_Land.

As at 30 June 2015, 198 lots had been settled and 100 of these were settled during the current reporting period. A further 5 lots have settled and 33 lots are contracted for sale but are yet to settle. Only 4 lots are to be sold to complete the project. Folkestone's total investment return is expected to be \$4.5 million which represents an forecast equity IRR of 27.2 per cent.

### **Potters Northside, Officer**

In August 2014, Folkestone acquired, in a 50/50 joint venture with ID\_Land, a call option over 8 hectares of land in Officer, south-east Melbourne.

The land is located on the northern side of the Princes Highway in Officer, diagonally opposite Folkestone and ID\_Land's current 240 lot residential land sub-division project known as Potters Grove. The zoned site has been purchased on deferred terms with development planning currently underway. Settlement of the first tranche of land (3.6 hectares) was completed on 25 August 2015.

The project comprises approximately 140 lots with an estimated end value of \$28 million. The joint venture commenced marketing of Potters Northside in March, 2015 and has secured pre-sales ahead of budget. Development is expected to commence in the first half of FY16.

### **Lyon Group Joint Venture, North West Sydney**

In December 2014, Folkestone entered into a 50/50 joint venture with the Lyon Group Australia, a leading Sydney developer, to develop a strategically located, mixed use site opposite a key train station in Sydney's north-west. As at 30 June 2015, the joint venture had secured a land area of 2,865 square metres and is seeking to consolidate further land adjoining the existing properties to unlock a significant mixed-use development opportunity, subject to planning approval in this key location.

### **1464 Ferntree Gully Road, Knoxfield**

In May 2015, Folkestone entered into a second 50/50 joint venture with Wilmac Properties to develop approximately 88 strata office/warehouse/retail mews in Knoxfield, Victoria. Knoxfield is 27 kilometres south-east of the Melbourne CBD and the site lies within an established business park precinct with excellent access to the Eastlink and M1 Motorways.

The Knoxfield site has been acquired on deferred settlement terms (April 2016). A planning application was lodged in June 2015 and marketing of the project commenced in July 2015.

### **The Ranges, Karratha**

Stage 1 of The Ranges comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with pool and BBQ facilities. Stage 1a comprising 41 villas opened for occupation in December 2012. Stage 2 comprises a further 7.1 hectares of land zoned for urban development.

In August 2014, the joint venture secured a finance facility for the development of Stage 1b (32 villas). Construction of Stage 1b was substantially completed at 30 June 2015 with settlements expected to occur in the September 2015 quarter. All lots within Stage 1b have been pre-committed with Folkestone agreeing to take three villas.

Folkestone has a 25 per cent interest in the project. Folkestone completed a review of the carrying value of its investment in this project and in response to the current economic conditions in the region, has made a \$0.7 million provision against the carrying value of its equity investment in the project. As at 30 June 2015, Folkestone had \$3.5 million in preferred equity loans to the joint venture in addition to its \$1.2 million equity investment.

## OUTLOOK

Folkestone is well placed with a strong balance sheet, a funds management platform that spans listed and unlisted real estate funds and a development pipeline across residential and non-residential projects, to grow earnings and create long-term value for its shareholders.

Looking forward, Folkestone will continue to be disciplined in seeking new investment opportunities that offer appropriate risk-adjusted returns and will focus on:

- the east coast markets for both residential and non-residential investment opportunities;
- delivering on our development pipeline which has an end value of more than \$1.0 billion (\$450 million FLK share) and securing more than \$1.3 billion (more than \$650 million FLK share) currently under exclusive due diligence;
- expanding our exposure to the real estate related social infrastructure space, especially early learning and seniors living as the demographic tailwinds are compelling;
- identifying specific investment opportunities, that for various reasons may be mispriced or we see an opportunity that others haven't assessed, to add value;
- seeking opportunities where we can manufacture quality investment product rather than relying on entering a competitive tender process to acquire completed assets on market; and
- undertaking accretive, opportunistic development acquisitions for Folkestone's on-balance sheet investments and to seed and/or co-invest in development funds.

Since the recapitalisation of the Company in March 2011, the Company has focussed on increasing its recurring income so that it provides a stable funding source for the payment of the fixed operating costs of the business. Given the growth in our recurring income, our strong balance sheet and assuming no material change in market conditions, we are pleased to announce that Folkestone expects to pay a fully franked dividend of at least 0.5 cents per share in respect of FY16.

### **GREG PARAMOR AO**

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### **GARRY SLADDEN**

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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 \$917 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)