



ASX Announcement

20 August 2018

Elanor Investors Group delivers strong earnings growth

FY18 Core Earnings up 28%

Elanor Investors Group (“ENN” or “Group”) is pleased to announce its financial results for the financial year ended 30 June 2018 (period).

Highlights

- Core Earnings for the period of \$16.27 million, a 28.4% increase on FY17 (FY17: \$12.67 million)
- Distributions for the period of 15.77 cents per security, an increase of 23.4% on FY17 (FY17: 12.78 cents per security), reflecting a payout ratio of 90% of Core Earnings. Distribution for 2HFY18 of 8.61 cents per security (2HFY17: 5.01 cents per security).
- 58.8% increase in funds under management during the year (\$401 million), from \$681.6 million to \$1,082.6 million. Recurring management fees increased 28% on a comparable period basis.
- Balance sheet re-positioned with significant growth capital from recycled investments and available debt facilities.
- The establishment of four new managed funds during the period:
 - Elanor Metro and Prime Regional Hotel Fund (“EMPR”) (a multi-asset fund comprising 3 hotels in NSW and ACT) with a gross asset value of \$80.2 million as at 30 June 2018;
 - Bluewater Square Syndicate (“Bluewater”), acquiring the Bluewater Square shopping centre in Redcliffe, QLD, with a gross asset value of \$53.7 million as at 30 June 2018;
 - Belconnen Markets Syndicate (“Belconnen”), acquiring the Belconnen Markets site in the ACT, with a gross asset value of \$48.1 million as at 30 June 2018; and
 - WorkZone West Syndicate (“WorkZone”), acquiring the WorkZone West commercial property in Perth, WA, with a gross asset value of \$130.3 million as at 30 June 2018.
- The acquisition of the Campus DXC commercial property in Felixstow, SA, into the Elanor Commercial Property Fund (“ECPF”), with a gross asset value of \$36 million as at 30 June 2018.
- The acquisition of the Gladstone Square and Moranbah Fair shopping centre assets into the Elanor Retail Property Fund (ASX: ERF), with a combined gross asset value of \$56.6 million as at 30 June 2018.
- During the year the Group made co-investments of \$28 million in funds managed by Elanor.
- Sale of the Merrylands property for \$36 million in June 2018, generating a net profit after tax of \$10.5 million.
- Divestment on behalf of capital partners of the 193 Clarence Street hotel for \$30 million in May 2018, and the Bell City property for \$157 million (settlement occurred on 3 August 2018).
- NTA per security of \$1.63 as at 30 June 2018 on the basis of equity accounting Elanor Hospitality and Accommodation Fund (“EHAF”), EMPR and Bluewater.



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- Successfully raised \$60 million unsecured 5 year 7.1% p.a. fixed rate notes (“Corporate Notes”) in two tranches. The Corporate Notes provide medium term, non-dilutive capital that will be used in conjunction with available bank facilities to fund the Group’s medium term growth.
 - Gearing for the Group² increased to 22.1% as at 30 June 2018 from 4.2% as at 30 June 2017. The Group remains conservatively geared.

Commenting on the result, ENN CEO, Glenn Willis, said: “We are pleased with our strong Core Earnings result of 17.52 cents per security for the financial year to 30 June 2018. We are particularly pleased with the material growth in our funds and investments under management to \$1.2 billion, and the substantial strengthening of both our capital partner base and our investment management leadership team.

Growing earnings from funds management is a key focus of the business and we are pleased with the Group’s growth in funds under management and recurring management fee income of 58.8% and 28% respectively over the comparative period.”

John Cootes Furniture

Following a strategic review of the deteriorating trading and financial performance of the John Cootes Furniture (“JCF”) business in June 2018, the Group has determined to exit the business, either through a sale of an orderly closure. As a result, the Group’s financial statements for the period classify the JCF business as a discontinued operation, and accordingly, a provision for discontinued operations of \$18.3 million has been recognised.

This provision reflects trading losses of the JCF business for the financial year of \$2.2 million after tax, and further write-down of tangible and intangible assets of the JCF business of \$16.1 million after tax.

The \$2.2 million after tax loss of the JCF business has been incorporated into the Group’s Core Earnings for the period. If this result was excluded, Core Earnings for the period would be 14% higher. No further impact to Core Earnings from the JCF business is anticipated in future periods.

The impact of the provision for discontinued operations of \$16.1 million on the Group’s net tangible assets (“NTA”) has been to reduce NTA by 7% as at 30 June 2018.

Summary of Financial Results

Statutory net loss after tax for the financial year of \$9.9 million. The statutory net loss after tax incorporates the \$18.3 million provision for discontinued operations, and \$9.3 million of transaction and establishment costs associated with the establishment of EMPR and Bluewater.

Adjusted net profit after tax from continuing operations of \$14.4 million on the basis of equity accounting the Group’s co-investments in funds managed by Elanor, including EHAF, EMPR and Bluewater.

Core Earnings for the year of \$16.27 million (FY17: \$12.67 million), or 17.52 cents per security. Core Earnings reflects distributions received / receivable from the Group’s co-investments in funds managed by Elanor. This is consistent with the way the Group measures the performance of its co-investments.

ENN has declared a final distribution of 8.61 cents per security for the half year to 30 June 2018 (to be paid on 4 September 2018).

² On the basis that EHAF, EMPR and Bluewater were equity accounted, not consolidated



NTA per security of \$1.63 as at 30 June 2018, on the basis that EHAF, EMPR and Bluewater are equity accounted, not consolidated.

A summary of the key financials and a reconciliation of statutory earnings to Core Earnings for the period to 30 June 2018 is as follows:

Statutory financial results	Group 30 June 2018	Group 30 June 2017
Net profit / (loss) after tax from continuing operations (\$'000)	8,417	11,626
Net profit / (loss) after tax from continuing operations (\$'000) (EHAF, EMPR and Bluewater equity accounted)	14,397	11,400
Core Earnings (\$'000)	16,270	12,670
Distributions payable to security holders (\$'000)	14,642	11,403
Core Earnings per stapled security (cents)	17.52	14.20
Core Earnings per weighted average stapled security (cents)	17.84	14.49
Distributions (cents per stapled security)	15.77	12.78
Net tangible assets (\$ per stapled security)	2.36	1.96
Net tangible assets (\$ per stapled security) (EHAF, EMPR and Bluewater equity accounted)	1.63	1.66
Gearing (net debt / total assets less cash) (%)	38.5	21.15
Gearing (net debt / total assets less cash) (%) (EHAF, EMPR and Bluewater equity accounted)	22.1	4.24

Reconciliation of Core Earnings	Group 30 June 2018 \$'000	Group 30 June 2017 \$'000
Statutory net profit / (loss) after tax	(9,911)	11,626
Adjustment to remove the impact of consolidation of EHAF, EMPR and Bluewater	9,870	(3,880)
Adjustment to include the impact of accounting for EHAF, EMPR and Bluewater using the equity method	(3,891)	3,654
Adjusted net profit / (loss) after tax	(3,932)	11,400
Adjustment to exclude discontinued operations	18,328	-
Loss from JCF business trading for the period	(2,238)	-
Adjusted Group net profit after tax	12,158	11,400
<i>Adjustments for items included in statutory profit / (loss)</i>		
Increase in equity accounted investments to reflect distributions received / receivable	5,937	190
Adjustment on realisation of equity accounted investment	(77)	-
Building depreciation expense	134	324
Straight lining of rental expense	5	20
Gain on asset disposals	2,258	-
Holdback of Merrylands net profit after tax	(10,452)	-
Net cash received from Merrylands sale	4,547	-
Amortisation amounts	1,941	826
Tax adjustments	(181)	(90)
Core Earnings	16,270	12,670



A summary of the key balance sheet items as at 30 June 2018 is as follows:

Balance Sheet Summary²	30 June 2018	30 June 2017
Total Assets (\$'000)	241,956	188,966
Borrowings (\$'000)	59,555	21,763
Net Assets (\$'000)	152,815	155,898
Gearing (Net Debt / Total Assets less cash)	22.1%	4.24%
Number of securities on issue (million)	93,016	89,224
Net asset value per security (\$)	1.64	1.75
Net tangible assets per security (\$)	1.63	1.66

Operational Update³

Funds Management

ENN's Funds Management division delivered an EBITDA contribution to Core Earnings of \$10.6 million (FY17 \$11.3 million). In FY18 acquisition fees totalled \$4.0 million, compared to \$2.7 million in FY17. In FY18 performance fees totalled \$0.3 million, compared to \$4.2 million in FY17. During the year the Group generated recurring asset management fees of \$9.4 million, up from \$7.3 million in FY17.

Funds under management grew 58.8% to \$1,082.6 million as at 30 June 2018 from \$681.6 million as at 30 June 2017.

During the year ended 30 June 2018 the Group completed the following funds management initiatives:

- The establishment of Elanor Metro and Prime Regional Hotel Fund, a multi-asset hotel fund. EMPR acquired Ibis Styles Eaglehawk, Byron Bay Hotel and Apartments and Ibis Styles Canberra in November 2017. These acquisitions established the fund which had a gross asset value of \$80.2 million as at 30 June 2018.
- The Bluewater Square Syndicate was established in October 2017, acquiring the Bluewater Square Shopping Centre in Redcliffe QLD, with a gross asset value of \$53.7 million as at 30 June 2018.
- Campus DXC was acquired by the Elanor Commercial Property Fund in May 2018, with a gross asset value of \$36 million as at 30 June 2018.
- In June 2018, the Group completed the acquisition of the Belconnen Markets site in Belconnen, ACT into the Belconnen Markets Syndicate, with a gross asset value of \$48.1 million as at 30 June 2018.

² This summary is based on ENN's adjusted consolidated balance sheet to reflect EHAF, EMPR and Bluewater on an equity accounted basis, not consolidated.

³ The operational update reflects financial information on the basis of equity accounting the Group's co-investments in funds managed by Elanor, including EHAF, EMPR and Bluewater. The resultant EBITDA results are adjusted to show distributions received / receivable from co-investments rather than equity accounted results. This is consistent with each segment's contribution to Core Earnings.



- The WorkZone West Syndicate was established in June 2018, acquiring the WorkZone West Commercial property in Perth, WA, with a gross asset value of \$130.3 million as at 30 June 2018.

During the year, the Group completed two asset divestments on behalf of its capital partners with the sale of 193 Clarence Street hotel for \$30 million in May 2018, and the Bell City property for \$157 million. Settlement of the Bell City property was completed on 3 August 2018.

ENN's strong investment track record and growing investor base continues to be evidenced by the demand from investors for ENN's newly established funds. Elanor has a scalable real estate funds management platform with significant capacity for growth. The Group continues to invest in senior experienced asset and capital origination talent and has strengthened its asset management capabilities during the period. This, coupled with the Group's available capital, positions the Group strongly to grow its funds management business.

The Group has a strong investment pipeline.

Hotels, Tourism and Leisure

ENN's Hotels, Tourism and Leisure division generated an EBITDA contribution to Core Earnings of \$7.7 million for the year (FY17: \$7.9 million). Hotels, Tourism and Leisure EBITDA includes the results of Featherdale Wildlife Park, Ibis Styles Canberra Eaglehawk Hotel (until 31 October 2017, when it was sold to EMPR) and Ibis Styles Albany Hotel. The EBITDA contribution from these assets reflects a significant period on period increase for the comparative period of ownership.

Hotels, Tourism and Leisure EBITDA contribution to Core Earnings also includes distributions received / receivable from the Group's co-investment in funds managed by the Group of \$2.9 million for the year ended 30 June 2018 (\$2.6 million for the comparative period).

The table below sets out the assessed value of each investment portfolio property at 30 June 2018.

Carrying Value of Properties	2018	2017
	\$'m	\$'m
Featherdale Wildlife Park	39.0	39.0
Ibis Styles Eaglehawk Hotel	-	20.0
Ibis Styles Albany Hotel	5.3	5.3
Total	44.3	64.3

The carrying value of the Group's Hotels, Tourism and Leisure co-investments as at 30 June 2018, using the equity method, is as follows:

Carrying Value of Co-Investments	2018	2017
	\$'m	\$'m
Elanor Hospitality and Accommodation Fund	23.9	19.4
Elanor Metro and Prime Regional Hotel Fund	18.3	-
Bell City Fund	11.7	11.8
193 Clarence Hotel Syndicate	-	1.1
Total	53.9	32.3

ENN continues to consider a range of opportunities in the Hotels, Tourism and Leisure sector.



Real Estate

ENN's Real Estate portfolio generated an EBITDA contribution to Core Earnings of \$2.0 million for the year (FY17: \$0.8 million).

Real Estate originates investment and fund management assets. The current investment portfolio comprises investments in Elanor Retail Property Fund (ASX: ERF), Elanor Commercial Property Fund, Limestone Street Centre Syndicate, Hunters Plaza Syndicate, Belconnen Markets Syndicate, Bluewater Square Syndicate and Belconnen Markets Syndicate. Real Estate manages each of these syndicates.

The carrying value of these investments as at 30 June 2018, using the equity method, is as follows:

Carrying Value of Co-Investments	2018	2017
	\$'m	\$'m
Elanor Retail Property Fund (ASX: ERF)	34.2	31.0
Bluewater Square Syndicate	9.3	-
Elanor Commercial Property Fund	0.7	0.5
Hunters Plaza Syndicate	1.2	-
Belconnen Markets Syndicate	0.2	-
Limestone Street Centre Syndicate	1.4	1.4
Total	47.0	32.9

Core Earnings reflects distributions received / receivable from ENN's co-investment in Real Estate Funds which totalled \$3.1 million for the year (FY17: \$1.8 million).

Special Situations Investments

John Cootes Furniture

Special Situations Investments contains the John Cootes Furniture business and the property associated with John Cootes Furniture business at Merrylands.

Special Situations generated an EBITDA contribution to Core Earnings for the period of \$10.7 million (FY17: \$1.3 million). This result includes the before tax profit from the sale of the Merrylands property as well as the pre-tax trading losses from the John Cootes Furniture business for the year to 30 June 2018.

Following a strategic review of the deteriorating trading and financial performance of the John Cootes Furniture business in June 2018, the Group has determined to exit the business, either through a sale of an orderly closure. As a result, the Group's financial statements for the period classify the JCF business as a discontinued operation, and a provision for discontinued operations of \$18.3 million has been recognised accordingly.

This provision reflects trading losses of the JCF business for the financial year of \$2.2 million after tax, and further write-down of tangible and intangible assets of the JCF business of \$16.1 million after tax.

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Merrylands Property

In June 2018, the Group sold the Merrylands property for \$36 million. The sale of the property generated a net profit after tax of \$10.5 million. The transaction has contributed \$4.5 million to the Group's FY18 Core Earnings, based on the net cash received in respect of the financial year to 30 June 2018. This follows the Group entering into vendor financing arrangements with the purchaser from settlement for 80% of the \$36 million consideration, for approximately 12 months.

Outlook

The Group's core strategy will remain focused on growing funds management earnings and actively managing its investment portfolio. The Group has a number of funds management opportunities under consideration across all sectors of focus. The Group will continue to focus on increasing income from its managed funds, seeding new managed funds with Group owned investments, and co-investing with external capital partners.

Elanor is committed to growing its funds management business by acquiring quality assets based on the Group's investment philosophy and criteria. The Group has a strong pipeline of potential funds management opportunities. Furthermore, the Group is actively pursuing opportunities in new real estate sectors and continuing to explore strategic opportunities to deliver its growth objectives.

Please refer to the presentation and financial statements lodged with ASX today for further details regarding ENN's FY18 result.

Investor Briefing

Elanor Investors Group will be holding an Investor Briefing Conference Call on 20 August 2018 at 10:00am, to present and discuss the Group's FY18 results. The Conference details are:

Dial In: 1800 123 296 or +61 2 8038 5221

Conference ID: 7659018

Commencement: 10:00am AEST

For further information regarding this announcement please contact:

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