



ASX Release

24 August 2022

360 Capital REIT (ASX:TOT)

Modern Portfolio, Record Profit and Earnings

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360 Capital FM Limited as Responsible Entity for the 360 Capital REIT ("TOT") is pleased to announce its financial results and operational update for the financial year ended 30 June 2022.

FY22 Key highlights

- Simplified the balance sheet of TOT with the disposal of \$27.6m¹ of non-core assets completed as part of TOT's transition to an A-REIT
- On 28 January 2021, TGP and TOT entered into a Memorandum of Understanding (MOU) with a Charter Hall Group (ASX:CHC) managed partnership comprised of Dutch pension fund PGGM (PGGM) and Charter Hall Group;
- The MOU facilitated the Charter Hall Partnership to make a non-binding indicative offer to IAP Board to purchase all of the IAP securities on issue (including TOT's and 360 Capital Group (ASX:TGP) holdings totalling approximately 135.4 million securities) for \$1.90 per security plus pay the March 22 distribution (\$0.0467 per security);
- As part of the MOU, TOT purchased a portfolio of 3 modern buildings in IAP totalling \$257.5 million and portfolio WALE of approximately 7.8 years;
- The Proposal was implemented on 15th July 2022 and delivered a 32% pre-tax Internal Rate of Return on TOT's \$123.2m investment and increase forecast operating earnings per security for FY22 by 308% over the prior comparable period;
- On 20 June 2022, TOT entered into a MOU with a New Zealand based purchaser to dispose of its 50% interest in PMG Holdings Limited. The purchase price was NZ\$22.0 million with the sale completing on 19th August 2022. The sale has delivered TOT a 22% IRR over the 17-month investment.

Key financial highlights for the financial year ended 30 June 2022

- Statutory net profit of \$33.7m up 265% on pcp
- Operating profit of \$35.5m up 314% on pcp
- Statutory earnings per security (eps) of 24.0cps up 258% on pcp
- Operating eps of 25.3cps up 308% on pcp
- Fully franked distributions per security (dps) of 6.0cps in line with guidance and pcp

Irongate Transaction

The strategy of investing in Irongate Group (ASX:IAP) was to give TOT a portfolio of direct assets in line with its strategy of becoming a pure A-REIT. TOT made its initial investment in IAP in January 2021, acquiring a 9.2% interest, subsequently TOT and TGP acquired a further 10.7%, taking the combined holding to 19.9% at an average entry price of \$1.41.

Between 18 October 2021 and December 2022, TOT and TGP with ESR made 3 indicative non-binding proposals between \$1.60 and \$1.72 per IAP security, before the IAP Board finally rejected the last proposal on 12 January 2022.

¹ Includes post period disposal of TOT's 50% ownership of PMG Holdings Limited
360 Capital FM Limited ABN 15 090 664 396 (AFSL 221474) as responsible entity of the 360 Capital Active REIT ARSN 602 303 613 and the 360 Capital Passive REIT ARSN 602 304 432.



Following IAP rejections, 360 Capital Group (ASX: TGP) (TGP), 360 Capital REIT and Charter Hall Group (ASX: CHC) (Charter Hall) entered into a Memorandum of Understanding (MOU) under which Charter Hall submitted an indicative and non-binding proposal to acquire all of the stapled securities in Irongate including TOT's and TGP's combined 19.9% stake, by way of an agreed trust scheme, and to sell to TGP and TOT certain assets of Irongate.

Following a period of due diligence, Charter Hall announced that a Charter Hall managed partnership comprising Dutch pension fund PGGM and Charter Hall had entered into a Scheme Implementation Agreement (SIA) with Irongate to acquire all IAP stapled securities by way of inter-conditional trust schemes, subject to certain conditions. Under the terms of the SIA, Irongate securityholders receive \$1.90 cash per IAP stapled security and were entitled to retain the distribution for the period ending 31 March 2022 of up to 4.67 cents per IAP stapled security.

On 15 July 2022, the Scheme was implemented, and the sale proceeds were paid to the securityholders, with TOT receiving cash consideration of \$165.3 million for its 86.98 million IAP stapled securities on 15 July 2022. The transaction had an operating gain of \$41.7 million for TOT and a 32% Internal Rate of Return (IRR) p.a.

The cash consideration along with a new debt facility entered into in July 2022 was used to acquire below properties:

- 38 Sydney Ave, Forrest ACT for a gross purchase price of \$81.7 million;
- 510 Church Street, Cremorne VIC for a gross purchase price of \$135.0 million (50% of ownership); and
- 34 Southgate Ave, Cannon Hill QLD for a gross purchase price of \$40.8 million

Sale of PMG Funds

In February 2021, TOT entered into a 50% joint venture with PMG Group (PMG) for consideration of NZ\$17.5 million. PMG is a New Zealand based diversified commercial real estate funds management business, established in 1992. As part of the simplification of TOT's investment portfolio, TOT proposed to sell its 50% interest in PMG to TGP at a cash consideration of NZ\$21.9 million, however prior to the approval and completion of this transaction TOT received an alternative proposal to acquire its stake in PMG.

On 20 June 2022, TOT entered into a Memorandum of Understanding with a New Zealand based purchaser for the disposal of TOT's 50% interest in PMG Holdings Limited at a slight premium to TGP's proposal, the purchaser was granted a six-week exclusivity period.

On 29 July 2022, the Fund entered into an unconditional Share Sale Agreement with a consortium consisting of existing PMG management and a New Zealand based private equity firm for the disposal of TOT's 50% interest in PMG. The purchase price was NZ\$22.0 million, plus 50% of PMG's NTA, with exchange and completion occurring on 29 July 2022, as part of the sale NZ\$17.0 million of the consideration was deferred with final payment received on 19 August 2022.

The benefits to TOT of the sale included:

- The sale delivered TOT with a gross pre-tax profit of \$3.9 million and generated an IRR of 22%;
- Provided TOT with A\$21.2m of capital to be redeployed² in the acquisition of the IAP portfolio;
- Simplified the investment portfolio, removing an unlisted active/operating business from portfolio;
- Improved transparency of investments for securityholders;
- Positions TOT to be a more traditional A-REIT comparable with its peer set; and
- Crystallised an intangible asset, allowing funds to be deployed into a high quality, modern portfolio

² Purchase consideration plus NTA adjustment less estimated tax payable



Property Portfolio

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TOT has acquired three, modern assets with a WALE of 7.8 years and average age of 2 years. Post COVID occupiers are demanding higher quality, new assets with sustainability credentials and significant tenant amenity. This is evidenced by the quality of tenant covenants in all three assets with over 85.2% of rental income derived from either government or publicly listed companies and an average rental review across the portfolio of approximately 3.0%.

TOT's direct property portfolio comprises:

38 Sydney Avenue, Canberra, ACT

38 Sydney Avenue, refurbished in 2018, is an A-grade office building comprising 8,885 sqm lettable area across 4 levels of office accommodation, ground floor retail and 82 car parks. The gross purchase price was \$81.7 million. The major tenant is the Australian National Audit Office which occupies 54.6% of the lettable area with a lease expiring in December 2034. The property has a 9.0-year WALE and weighted average rent reviews of 3.5% p.a. The building has a NABERS Energy rating of 4.5 stars and NABERS Water rating of 5 stars.

510 Church Street, Cremorne, VIC

510 Church Street is a brand-new A-grade office building comprising 19,805 sqm of lettable area across 9 levels of office accommodation, ground floor retail and 145 car parks. The gross purchase price was \$135.0 million for a 50% ownership share. The property has a diverse tenant mix, a 7.1 year WALE and weighted average rent reviews of 3.0% p.a. The property was constructed to achieve a 5 Star NABERS Energy Rating and 5 Star Green Star Design Rating.

34 Southgate Avenue, Cannon Hill QLD

34 Southgate Avenue is a brand-new A-grade office building comprising 3,585 sqm of lettable area across 3 levels of commercial accommodation and 153 car parks. The building and tenant fit out works are due to be completed in September 2022, subsequent to this TOT is contracted to acquire the building for \$40.8 million. The whole property is leased to Michael Hill Jewellers (ASX:MHJ) for 10 years with 3.0% fixed annual rent reviews. The building is designed to achieve a 5 Star NABERS Energy Rating.

Franking Credits

TOT is a stapled security with its holding in IAP securities along with its interest in PMG Funds were held in the active trust. Primarily as a result of the profits on the sale of IAP securities and PMG, TOT has franking credits of approximately 10.0cps, which translates to approximately 30.0cps of fully franked distributions.

TOT will distribute taxable income generated from the property portfolio and supplement the 6.0cps with a franked distribution (estimated to be fully franked in FY23) providing TOT investors with a tax benefit (grossed up distribution estimated to be approximately 8.0cps equivalent) when compared to similar yielding traditional A-REITs.

Capital Management

As part of the acquisition of property portfolio, TOT has entered into a new 3-year facility with a major Australian bank. The facility limit is \$105 million and will be drawn to approximately \$80.3 million upon settlement of the Cannon Hill property (on or before 30 September 2022). TOT has forecast an all-in cost of debt of 4.25% over FY23 and as interest rates normalise TOT will implement a hedging strategy as part of its overall capital management strategy.



To maintain balance sheet flexibility, TOT has undertaken approximately \$27.6 million of non-core asset sales and will continue its Distribution Reinvestment Plan over the course of FY23.

In line with fee structures of comparable A-REITs, the Responsible Entity has agreed to waive ongoing Performance Fees subject to relevant change of control provisions (as defined under TOT's constitution).

Outlook and Guidance

The direct property portfolio was chosen for its defensive qualities being modern well leased assets in core metropolitan locations with strong tenant covenants and built-in rental growth. The key operational focus for the portfolio over FY23 is the leasing of the rental guarantee space at 38 Sydney Ave and 510 Church Street.

TOT provides FY23 distribution guidance of 6.0cps, paid quarterly which is expected to be fully franked.

For further information in relation to the proposal please contact either

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About 360 Capital REIT (ASX: TOT)

The Fund has a demonstrated track record of consistent quarterly distributions, through a selective and disciplined investment philosophy, combined with access to real estate investment opportunities available to TOT through the 360 Capital Group, the manager of the Fund.
