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360 Capital REIT (ASX: TOT) – FY2020 Results

31 August 2020

Substantial balance sheet capacity, refining investment focus to real estate equity

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360 Capital FM Limited as Responsible Entity for the 360 Capital REIT (the “Fund” or “TOT”) is pleased to announce its financial results and operational update for the year ended 30 June 2020.

FY20 Key Highlights

- Completed merger with URB Investments Limited (URB), contributing to the increase of gross assets of TOT to \$161.7m
- Completed institutional placement of \$10.8m in October 2019
- Achieved an average Internal Rate of Return (IRR) of 16.3% on exited loan investments
- Active management of TOT’s loan portfolio resulted in \$63.1m in loan repayments during the reporting period and a further \$27.9m post period
- Acquired 23 apartments in Gladesville, NSW at -20.0% below valuation and commenced sales campaign, TOT has now exchanged contracts for the sale of 14 apartments at an average premium of 23.8% to purchase price
- Provided \$33.7m of project and corporate funding to Velocity Property Group (ASX:VP7) and in joint-venture with TGP, acquired a 19.9% holding

Key financial results highlights for the year ended 30 June 2020

- Statutory net profit of \$10.4m up 37% pcp reflecting gain on URB acquisition
- Operating profit of \$7.7m down -4% on pcp due to TOT not deploying cash balances
- Statutory earnings per security (EPS) of 9.6cps down -14% on pcp
- Operating EPS of 7.1cps down -40% on pcp due to TOT not deploying cash balances
- Distributions per security (DPS) of 9.0cps in line with forecasts
- NTA per security of \$1.13

COVID-19 Impacts

As a result of COVID-19, TOT ceased its lending activities and shifted management’s focus to converting outstanding loan positions and assets to cash. Given the market volatility and economic uncertainty the Responsible Entity took a conservative approach with a focus on capital preservation. TOT reduced its capital investment into new opportunities for most of 2H20, impacting earnings for FY20.



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Refined Investment Strategy

Given the Responsible Entity's opinion we had been in the late stages of the real estate cycle, TOT's focus over the past three years had been real estate debt investing. The self-liquidating nature of these loans and their relatively short tenor has allowed TOT to build a substantial cash balance in excess of \$90m, with a further \$9.4m of assets contracted for sale.

TOT has refined its focus to investing in real estate equity, across both corporate and direct asset opportunities. The rationale for refining TOT's strategy is:

- COVID-19 will likely lead to volatility in commercial real estate values over the near-term creating greater opportunity for investment and potential capital growth;
- Potential deterioration of economic and real estate fundamentals provides opportunistic investors like TOT with an attractive entry point for long-term capital growth; and
- TOT leverages 360 Capital Group's 15-year real estate track record and experience, allowing TOT to partner with third party capital to access larger, higher quality transactions.

TOT's objective of providing regular quarterly distributions in line with passive earnings and reinvestment of active earnings remains unchanged, with a five-year track record of consistent quarterly distributions, averaging 9.8cps per annum.

Merger with URB Investments (URB)

TOT completed the merger with URB in December 2019, with all assets being absorbed by the Fund. TOT had sold the majority of URB's listed equities portfolio prior to the COVID-19 market sell-off, having sold \$20m in line with holding values. Post period, TOT exchanged contracts for the sale the Penrith shopping centre asset in line with book value. The only remaining URB investment is the \$3.2m investment in Home HQ Artarmon which is deemed non-core.

Gladesville Apartment Sales Campaign

TOT has now exchanged contracts for the sale of 14 apartments, at an average premium of 23.8% to the November 2019 purchase price. Whilst transaction volumes have slowed, TOT is confident of selling the remaining apartments over FY21.

Velocity Property Group (ASX: VP7)

360 Capital Group (ASX: TGP) and TOT jointly purchased a 19.9% stake in Velocity Property Group (ASX: VP7) alongside a TOT loan to VP7 of \$33.7m. During the 6 months to 30 June 2020, the Board of VP7 undertook a rationalisation and de-gearing programme. VP7 has indicated it will repay TOT's corporate loan investment through the proceeds of development site sales.

Capital Management

In October 2019, TOT issued 9.14m stapled units at \$1.18 per unit to institutional investors raising circa \$10.8m. The allotment of new stapled units was completed on 21 October 2019. The proceeds were allocated to fund the lending activities and replenishing working capital.



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The Fund also issued 64.25m stapled units under scheme of arrangement in relation to the acquisition of URB. The scheme was implemented on 20 December 2019 and the ASX trading of the new units commenced on 23 December 2019.

During the year, the Fund bought back 4.82m securities at an average price of \$1.07 reflecting a –5.3% discount to NTA¹ and 8.4% distribution yield².

In order to actively manage TOT's capital base, in April 2020 TOT gained securityholder approval for the on-market buyback of up to 20.0% of the ordinary securities on issue.

Outlook and Guidance

TOT's strategy has evolved from a pure total return focus to that of providing regular quarterly distributions in line with the Fund's passive earnings and reinvestment of the TOT's active earnings.

Potential deterioration of economic and real estate fundamentals provides opportunistic investors like TOT with an attractive entry point for long-term capital growth.

Given TOT's significant cash balance, TOT is not providing forecast Operating Earnings guidance for FY21. At this stage TOT is forecasting a distribution of 1.50cps for the September 2020 quarter and will provide updated earnings and distribution guidance prior to December 2020.

Authorised for release by Tony Pitt, Managing Director 360 Capital FM Limited.

More information on TOT can be found on the ASX's website at www.asx.com.au using ASX code "TOT", at our website www.360capital.com.au, by calling the TOT investor line:1300 082 130 or by emailing investor.relations@360capital.com.au

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About 360 Capital REIT (ASX: TOT)

The Fund has a diversified portfolio of investments across real estate equity, debt and real estate based operating businesses with a demonstrated track record of consistent quarterly distributions, averaging 9.8cps per annum over five years through a selective and disciplined investment philosophy, combined with access to real estate-based investment opportunities available to TOT through the 360 Capital Group, the manager of the Fund.

About 360 Capital Group (ASX: TGP)

360 Capital Group is an ASX-listed, investment and funds management group, focused on strategic and active investment management of alternative assets. Led by a highly experienced team, the Group operates in Australian and global markets investing across real estate, public and private equity and credit strategies. We partner with our stakeholders to identify, invest and realise on opportunities.

¹ Based on discount to 30 June 2020 NTA of \$1.13 per security

² Based on annualised FY20 DPS/average buy back price