(NZX: AUG) NZX Announcement
13 November 2017

Steady half year earnings through transformation phase

Augusta Capital Limited ("Augusta") is pleased to announce its financial results for the interim period ended 30 September 2017.

During the period under review earnings from funds under management continued to rise, under a transformation of the company's balance sheet to become New Zealand's leading property funds management specialist.

Key Highlights include:

- NPAT of $2.28 million, a decrease of 57% against the prior corresponding period – related to lower re-valuation gains on directly held property assets and a write-down of the investment in NPT Limited.
- Adjusted funds from operations (AFFO)* were 2% lower than the prior corresponding period at $3.94 million – representing a pay-out ratio of 61%.
- Augusta increased its stake in NPT Limited from 9.26% to 18.85%.
- Two new syndications were completed, involving the acquisition of 33 Broadway, Newmarket, Auckland and an Australian commercial property located in Nudgee Road, Brisbane. This represented ~$103 million in new equity raisings.
- Four of the five assets held within the Augusta Value Add Fund are now unconditionally sold.
- Completion of the sale of Augusta House, being the first of four settlements at the Finance Centre, creating further balance sheet capability.
- Net Asset Value (NAV) per share is 97 cents, reflecting a write-down in value of the NPT stake.

*The AFFO reconciliation is represented on page 4 of the interim report. AFFO is a non-GAAP financial information metric and the reconciliation outlines the differences between the Group profit under GAAP and the AFFO reported.

Augusta Capital Chairman, Paul Duffy, says the FY18 interim result provides the market further evidence of how the company is moving to establish a more sustainable earnings profile under a funds management model.

"A reduction in net rental income has been replaced by investment management income. Recurring management fees are increasing and the managed portfolio is growing with the launch of new syndications during the period.

"Re-valuation gains going forward will not be a primary driver of growth. This is being actively replaced by earnings derived from funds under management. Augusta today manages approximately $1.7 billion of assets and is focussed on diversifying its product offerings.

"The transformational period will generate some expected earnings volatility, but the current market environment is creating opportunities to further progress the transition," says Duffy.

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Two new deals were completed during the period, including 33 Broadway in Newmarket Auckland, with $103 million of new equity raisings from a range of new and existing investors. This generated $4.18 million of offeror and underwrite fees – down from $4.75 million in the prior corresponding period, but ahead of the company's historical run rate.

Gross management fees were $3.9 million – a 9% increase on the prior corresponding period generated by the net growth in the funds management business. Active management of assets within the managed portfolio is creating divestment opportunities that have and will continue to crystallise some strong gains for our investors. We are also very pleased with the reinvestment rates that have followed these divestments.

Investment asset income of $1.03 million was derived from positions taken in the Value Add Fund and NPT Limited as well as 33 Broadway Trust. Only $0.18 million was recorded for the prior corresponding period.

"We are co-investing in the product we are bringing to market, creating a clear and long-term alignment of interest with our investors," said Augusta's Managing Director, Mark Francis.

Corporate costs increased 12% from $3.95 million to $4.44 million as investments in operational and staffing capability were made to deliver on new funds management initiatives.

Funding costs increased by $0.23 million, primarily due to higher facility fees incurred in respect to the underwriting and then holding of units in the 33 Broadway Trust, which were more than offset by the distribution yield derived from holding those units.

Balance sheet update

The company balance sheet reflects the changing nature of Augusta's business, and is being used to facilitate new funds management initiatives.

Group gearing based on drawn debt was 21% of gross asset value as at 30 September 2017 based on the reported balance sheet. On a net debt basis gearing is 13.3% - with sufficient room to continue facilitating initiatives in growing funds under management.

Following the divestment of the Finance Centre in Auckland, capital will be released to grow the funds management business, and will include:

- Acquisition of fund management initiatives;
- Warehoused assets – creating a pipeline for new product;
- Underwriting capability in respect to new offers; and
- The ability to invest in new products or investments which are managed by Augusta to create an alignment of interests.

Revaluation adjustments were lower as the Finance Centre revaluation in the prior corresponding period reflected the terms of the unconditional sale and purchase agreement, which shareholders approved in July 2016. The deferred settlements mean that no further independent market valuations are to be recorded.

As Augusta's funds management business is carried on the balance sheet at cost net of impairment and cannot be revalued to market the company does not expect there to be material valuation movements reflected in the reported financial statements in the future, once directly held assets are exited.

Investment assets such as the stakes in NPT Limited and the Value Add Fund will however continue to be revalued at each reporting date to fair value.

Investment in 33 Broadway Trust

The 33 Broadway Trust investment was $10.4 million at balance date and is now $1.6 million as at 10 November 2017. Augusta has progressively sold down this investment on the secondary market after subscribing for $28.35 million on settlement at 30 June 2017. A final announcement will be made once the sale of the remaining units has settled.

Outlook

Augusta is focussed on materially growing funds under management by delivering positive results for investors. The early investment performance of the Value Add Fund and overall managed portfolio are testament to this.

Sourcing a greater diversity of quality assets for investors means Augusta is considering a range of options, including creating product using its own balance sheet capability.

The company will continue to invest in resourcing capability to grow the managed portfolio and recurring earnings, as well as effectively transition the business.

The Board and management believe the current market represents a number of further opportunities for existing managed investment schemes to consider divestment opportunities, and to recycle their capital into new initiatives. Augusta has been active in this space, and will continue to be in the near to medium term.

The launch of new investment initiatives is a focus of the strategic plan. Augusta is looking to broaden our product offering, but also diversify away from just single asset property syndication in time. There are a number of opportunities in the pipeline, which we expect to launch within the next 6-12 months.

Augusta's near term strategic operating priorities include:

- Realising further opportunities to manage funds.
- Launch of sector specific funds to further diversify product offerings.
- Ongoing measured expansion into Australia.
- Obtain a new funding structure that is more aligned to the future balance sheet.
- Continuing to pursue an active asset management strategy, both on the acquisition and divestment front.

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