



Fprop plc

THINKING FROM FIRST PRINCIPLES

First Property Group plc

Redleaf Capital Markets Day: “Breaking the Mould”

The Shard, Floor 24, 32 London Bridge Street, SE1 9SG

28 February 2017



Ben Habib, MA (Cantab)

- Founded First Property Group plc in 2000.
- Managing Director of a private property development company, JKL Property Ltd, from 1994 - 2000.
- Finance Director of PWS Holdings plc, a FTSE 350 Lloyds reinsurance broker, from 1989.
- Started his career in corporate finance in 1987 at Shearson Lehman Brothers.
- Educated at Rugby School and Cambridge University.

- **We typically target high yielding property:**
 - Property is illiquid – but rental **income** mitigates this;
 - In the long run **income**, not increases in value, largely determines total returns (source: IPD);
 - Values are better protected if investments yield a high **income**. **Income** dampens capital value volatility;
 - High levels of **income** enable returns to be enhanced by leverage.

- **SUSTAINABILITY OF INCOME IS THEREFORE A PRIORITY!**

- A fundamental approach to investing: consensus does not justify chasing a theme;
- Flexibility in the light of market changes;
- An active approach to asset management where possible.
- **THINKING FROM FIRST PRINCIPLES!**

2001

Event:	Interest rates cut following 9/11 despite no economic slowdown
Opportunity:	Enabled development type returns to be earned from investment
Fprop response:	Establishment of fund management business
Result:	First three funds (all invested in UK) earned an aggregate IRR of 23% pa

2005

Event:

Dramatic increase in property values from 2001.

Extract from 2005 report & accounts (CEO statement):

“As many shareholders will be aware, the commercial property investment market in the UK has risen sharply over the last few years and a large proportion of properties for sale are, in our view, overvalued.”

Opportunity:

Sell!

Fprop response:

Largely exited the UK commercial property market; commenced investment in Poland

Result:

Capital preservation

2008

Event:	Credit crunch had not yet reached CEE
Opportunity:	Prepare for its arrival
Fprop response:	Reversed our asset management policy of waiting until lease expiry to renew leases
Result:	>70% (by value) of leases extended beyond 2012 with rents increased by some 3% pa across our portfolio

2009

Event: Nadir of credit crunch: UK commercial property values had fallen c50%

Opportunity: Return to investment in UK

Fprop response: To establish a new UK fund (£100m)

Result: Earned resilient high income returns for our fund (happy clients have since extended life of fund)

2013

Event:	Introduction of Permitted Development Rights (PDR) PLUS measures to boost demand for housing
Opportunity:	Capital gain from vacant office properties
Fprop response:	Reversed our investment policy on income and raised fund of £40 million for an office/ PDR fund
Result:	Fund earned 53% ROE (net after fees) and 98% pa IRR



Purchase price (Aug-2014)	£7.80m
Sale price (Mar-2015)	£18.30m
Use class	B1(a) office
Area (ft²)	67,743 ft ²
Additional rental income	£0.30m
Net profit	£9.20m
ROE (net)	112.3%
Equity multiple (net)	2.1x
Aggregate net IRR of PDR fund	97.9%

Background:

- Acquired off market for less than half that paid in 2007
- Low price due to high vacancy rate and poor rental prospects as offices
- Had not been considered it may qualify for conversion using PDR

Business plan:

- 100% vacancy achieved by March 2015
- Obtain PDR for conversion to residential use
- Sell to a developer with the benefit of planning consent and vacant possession
- Realising 112.3% return on equity.

2016

Event:	Brexit vote => weakness in and bifurcation of UK commercial property market
Opportunity:	Acquire institutional property at higher yields
Fprop response:	Recommended to a client to increase its investment mandate
Result:	Acquired c£50m of commercial property in 2H 2016 at relatively high yields and at c10% discount to levels we would have expected prior to referendum



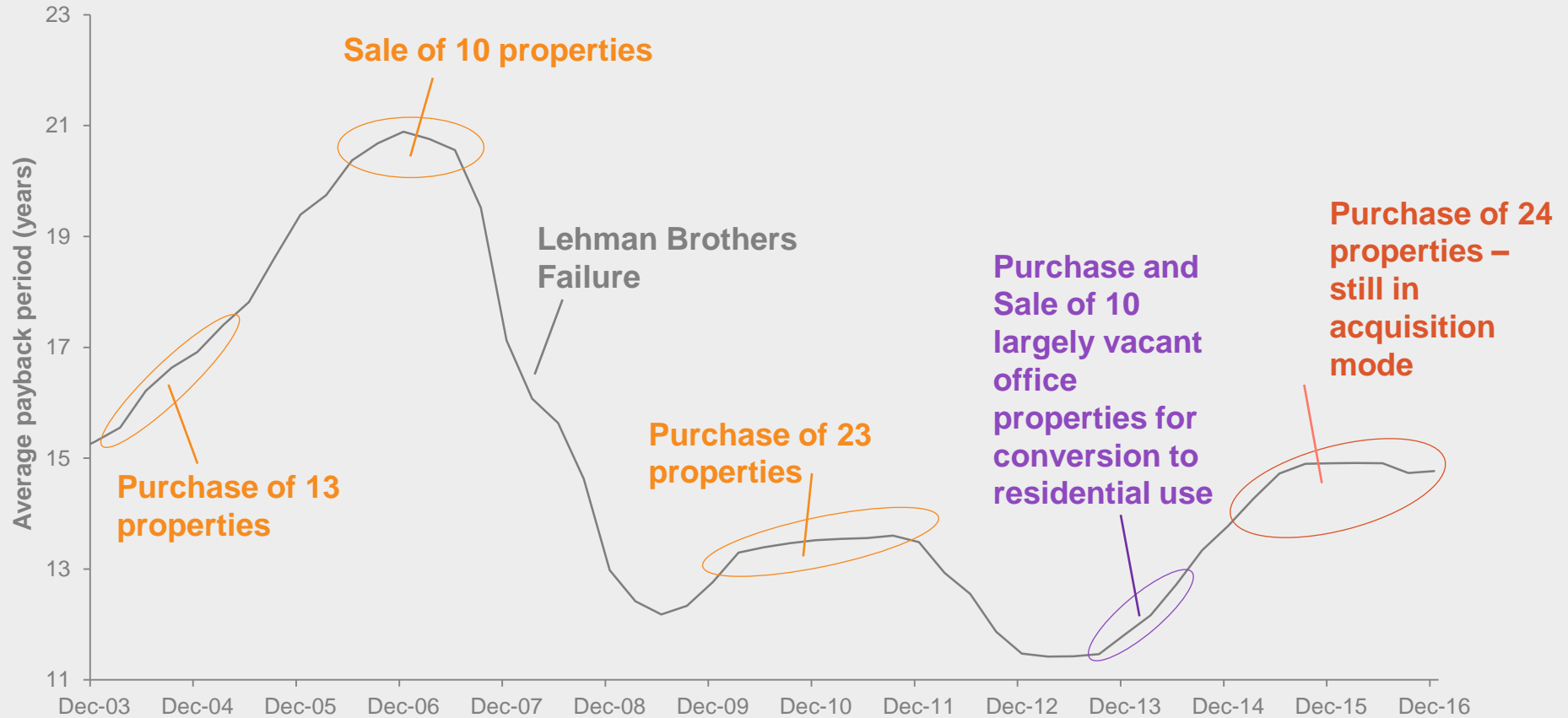
Purchase price	£23m
Net initial yield (NIY) at purchase	6.6%
NIY post sale of adjacent unit	6.9%
Net Income*	£1.48m p.a.
WAULT to breaks*	15.4 yrs
Gross Internal Area*	138,000 ft ²

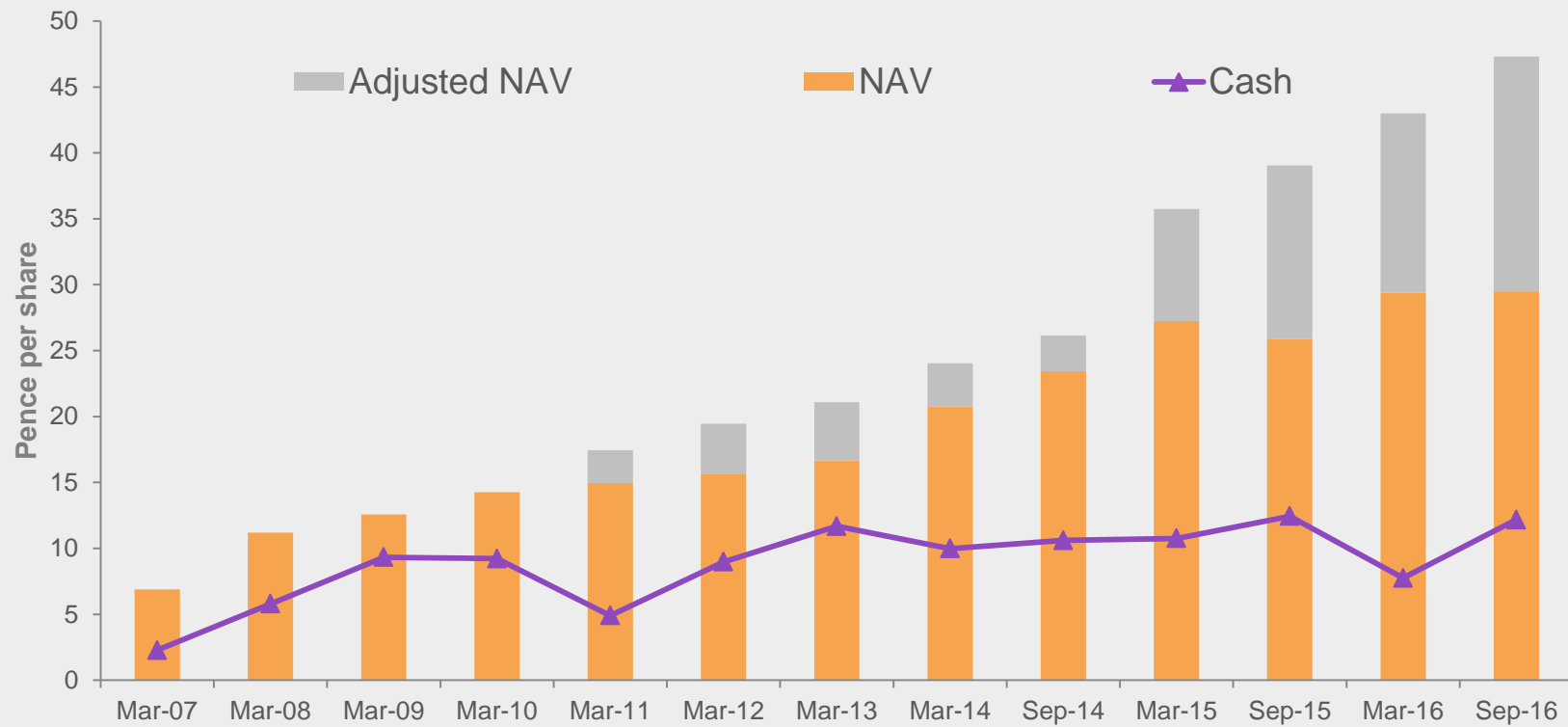
* = Post sale of adjacent unit (see value add comment below).

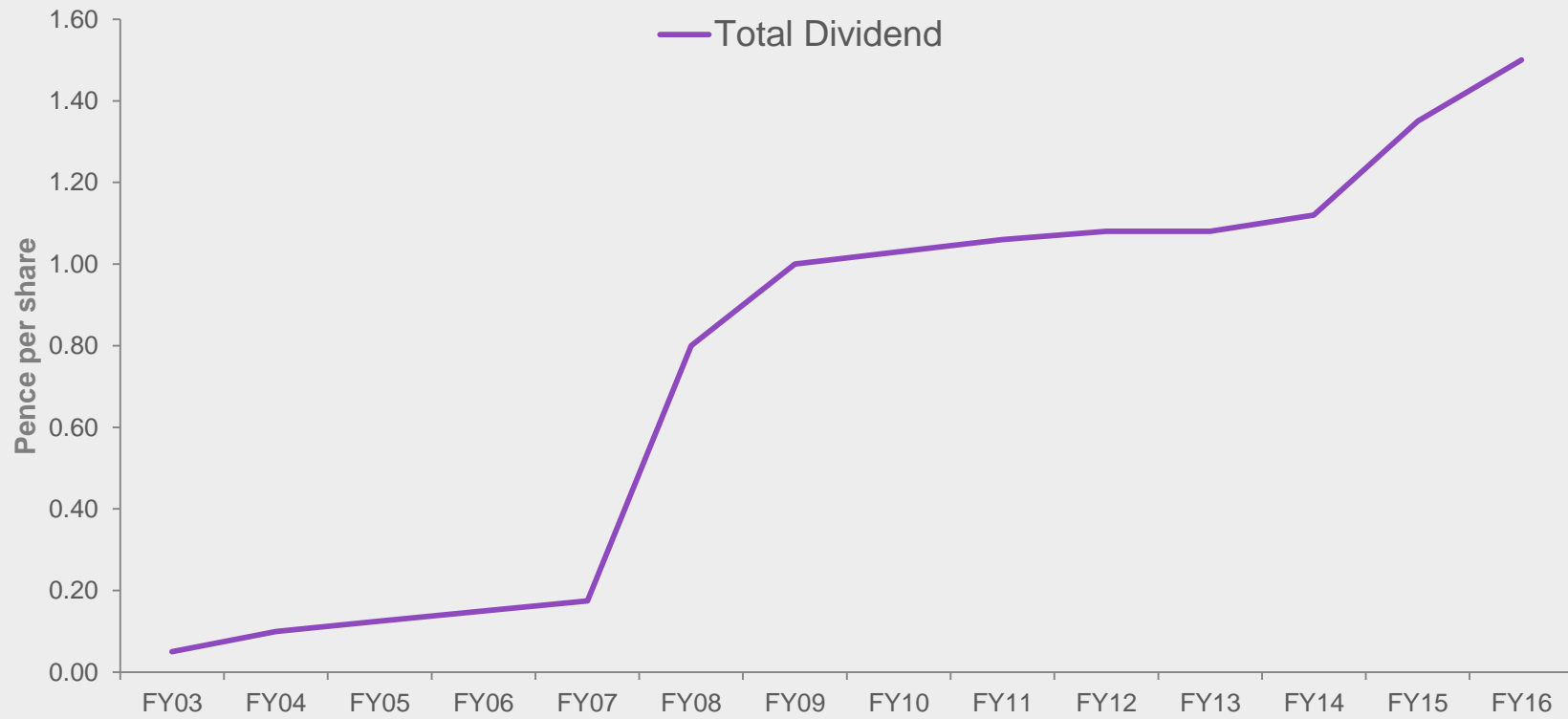
- Well-performing retail and leisure scheme in Southampton;
- Anchored by The Range and Lidl until 2034 and 2038, respectively;
- Good tenant mix & long dated income (fixed uplifts).

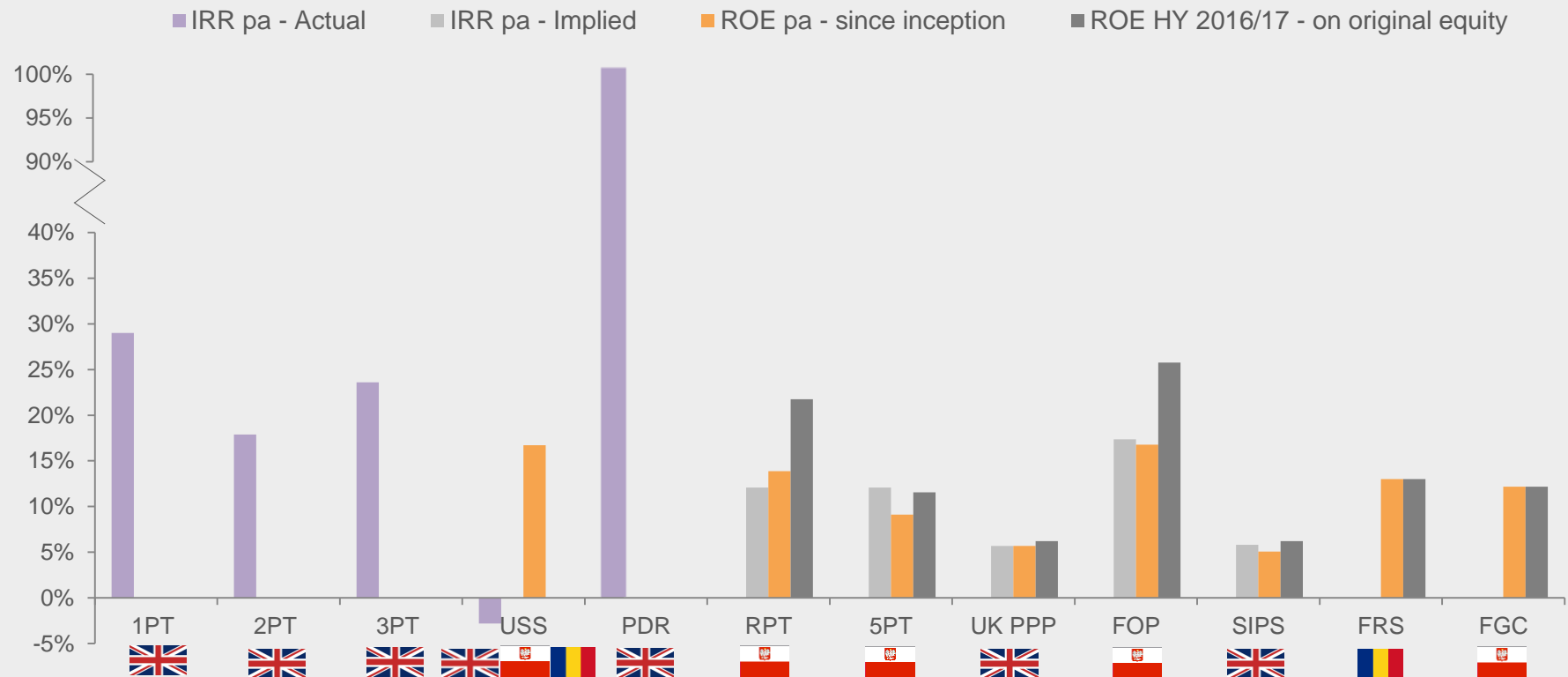
Value add

- Fprop improved the purchase yield from 6.6% to 6.9% by the simultaneous sale of part (an adjacent standalone retail warehouse let to Jewson) at 5.25% NIY (c14% capital gain) which also elongated the WAULT and improved the tenant covenant profile
- Evidences BIFURCATED market between value of larger institutional and smaller lot sizes.









- Implied IRR calculations use NAVs as at 30-Sep-2016.
- No Implied IRR generated for Fprop Romanian Supermarkets (FRS) or Fprop Galeria Corso (FGC) as not long enough period since inception.
- ROE's since inception are calculated using average pre-tax income per FY ÷ original shareholders' equity employed.
- ROE's for 2016/17 HY are calculated using annualised pre-tax income for FY period ÷ by original equity employed.

Looking ahead

Events:

- Interest rates to stay low
- Institutions remain nervous of Brexit
- UK economy to remain relatively robust
- Planning regime to remain pro-development

Opportunity:

- Buy institutional property and offices

1. Expertise:

- Experienced, nimble management team;
- Excellent investment track record: 24% annualised growth in net assets between Apr-2008 and Sep-2016;
- Ranked No.1 vs MSCI's Investment Property Databank Central & Eastern European Benchmark.
- **Reliable earnings:** Diversified income streams from investment returns and fund management fees;
- Very nearly ALL profits are of a recurring nature;
- Cash generative with a strong balance sheet;
- Progressive dividend policy. Currently circa three times covered by earnings.

3. Growth:

- In-built growth in net assets from high return on equity invested;
- All fund management clients have had good experiences - should lead to more fund management contracts;
- £14m of cash available for future deals;
- Operationally geared – can take on new business without material increases in overheads.

4. Geographically diversified:

- Operations in UK, Poland and Romania;
- All three countries performing well economically and amongst the highest growth areas in Europe;
- Mix of jurisdictions provides a natural hedge for Brexit volatility.

Appendix

First Property Group plc is an award winning AIM listed co-investing property fund manager with operations in the United Kingdom and Central Europe. Around one third of its shares are owned by the management team and their families.

Its focus is on higher yielding commercial property with sustainable cash flows. The company is flexible and takes an active approach to asset management. Its earnings are derived from:

➤ **Fund management:**

Via its FCA regulated and AIFMD approved subsidiary, First Property Asset Management Ltd (FPAM), which earns fees from investing for third parties in property. FPAM currently manages ten funds which are invested across the United Kingdom, Poland and Romania.

➤ **Group Properties:**

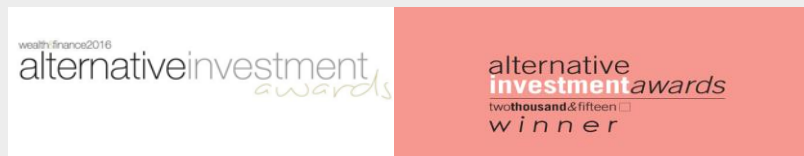
Principal investments by the Group to earn a return on its own capital, usually in partnership with third parties. Investments include eleven directly held properties in Poland and Romania (including five held by Fprop Opportunities plc [FOP], in which the Group is currently the majority shareholder), and interests in seven other funds managed by FPAM.



FPAM funds rank No.1 versus MSCI's Investment Property Databank (IPD) Central & Eastern European (CEE) Benchmark for the ten years from the commencement of its operations in Poland in 2005 to 31 December 2015, and for the annualised periods from 2005 to the end of each of the years between 31 December 2008 and 31 December 2015.



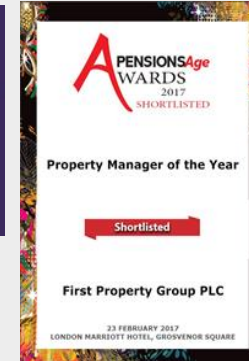
Best Property Fund Manager 2016 – Winner



Best Direct Property Fund Manager 2016 - UK



Shortlisted:



Non-Executive Chairman — Alasdair Locke, MA (Oxon)

Alasdair began his career in banking. In 1982 he established a Singapore-based business providing finance for and investing in shipping and offshore oil service companies, which was subsequently acquired by Henry Ansbacher & Co Ltd.

On his return to the UK he established Abbot Group plc in 1990, which he took public in 1995. Upon its sale to private equity in 2008 Abbot Group was one of the leading oil drilling, engineering and contracting businesses in the world, with approximately 8,000 employees in over 20 countries and an annual turnover of cUS\$1.8 billion. The equity value of the disposal was in excess of £900 million.

Alasdair maintains a wide portfolio of business interests including insurance, retailing and petroleum. He is also Chairman of Argenta Holdings plc, an unlisted holding company which trades in Lloyds of London and Non-Executive Chairman of Hardy Oil & Gas plc.



Independent Non-Executive Director — Peter Moon, BSc (Econ)

Peter retired as Chief Investment Officer of Universities Superannuation Scheme (USS) in 2009 following a career steeped in the UK investment management industry. Aside from his 17 year tenure at USS, he was a member of the National Association of Pension Funds (NAPF) Investment Committee from 1990-1995, and adviser to Lincolnshire County Council, Middlesbrough Borough Council and the London Pension Authority. Earlier roles included Chief Investment Officer with British Airways Pensions and investment management positions at National Provident Institution, Slater Walker and the Central Board of Finance of the Church of England.

Peter is also non-executive chairman of Scottish American Investment Company plc and Bell Potter (UK) Limited and the senior non-executive director at Gresham House plc and a non-executive director of JPMorgan Asian Investment Trust plc. He is a former non-executive director of MBNA Europe and former non-executive chairman of Arden Partners plc.



Group Chief Executive & FPAM Chief Investment Officer — Ben Habib, MA (Cantab)

Ben founded and is CEO of First Property Group plc, an award winning commercial property fund manager with operations in the United Kingdom and Central Europe.

Prior to setting up First Property, Ben was Managing Director of a private property development company, JKL Property Ltd, from 1994 - 2000. He started his career in corporate finance in 1987 at Shearson Lehman Brothers. In 1989 he was appointed Finance Director of PWS Holdings plc, a FTSE 350 Lloyds reinsurance broker.

He was educated at Rugby School and Cambridge University.



Group Chief Financial Officer & Company Secretary — George Digby, BA (Hons), ACA

George joined Fprop in 2003 following a five year period of running a private accountancy consultancy. Between 1989 and 1998 he was FD of Fired Earth plc, overseeing its listing on the London Stock Exchange, a tripling of its turnover, and a doubling of its pre-tax profits. He qualified with Price Waterhouse in 1981, followed by positions with Collins Publishers and Nikon UK Ltd.

At Fprop he has overseen a rapid expansion of the fund management division, particularly from 2005, including the development of the Polish operations. He now oversees the financial accounting and reporting for 41 separate Group and underlying fund companies, incorporated both in the UK and Europe.



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