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## **ASX ANNOUNCEMENT 20 February 2019**

### **ASPEN GROUP LIMITED (ASX: APZ) Investment Management Proposals - Update**

The Independent Board Committee (**IBC**) comprising Clive Appleton (Chairman) and Guy Farrands (Non-Executive Director) provide investors with a summary of the key issues with respect to the investment management proposals received from Discovery Holiday Parks Pty Ltd (**Discovery**) and Mill Hill Capital Pty Ltd (**MHC**) in the table below.

The IBC notes both proposals remain non-binding and indicative and there is no certainty that either proposal will lead to a binding proposal.

In the IBC's view, the proposals involve differing future business strategies:

- Discovery involves a continuation of the current strategy, exemplified by the current Aspen portfolio
- MHC involves a potential broadening of the current strategy into other types of affordable accommodation and associated development

Furthermore, the proposals have different cost structures associated with them. A comparison of the proposals based only on the fee structures would be incomplete and misleading.

The IBC would like to emphasise that the choice of manager is a very important one for securityholders. Following implementation of an external management proposal, Aspen will be heavily reliant on the services of the external manager. Changing external managers, if ever required, is very difficult.

To evaluate the relative merits of both proposals, the IBC will take into consideration the proposed contractual commercial terms, as well as qualitative factors, and consider those versus the status quo.

## Commercial terms

Key term	MHC proposal	Discovery proposal
<b>Fee arrangements</b>		
Base management fee	2.25% per annum of Total Book Equity up to the first \$115m and 1.25% per annum of the Total Book Equity in excess of \$115m	1.90% per annum of Total Book Equity up to the first \$115m and 1.15% per annum of the Total Book Equity in excess of \$115m
Upfront payment	Nil	A\$350,000 paid by Discovery to Aspen, fully offset by Aspen's likely redundancy costs
Project management fee	7% of total project costs relating to all projects and capital improvements	5% of total project costs relating to all projects and capital improvements
Performance fee	0.5% per annum of Total Book Equity, subject to a Total Accumulated Return hurdle rate of 8% per annum from a starting price of \$1.19 per security	Nil
Reimbursements	Reimbursement of all reasonable expenses	Same
<b>Other commercial arrangements</b>		
Term and termination	Ability to terminate without cause with 6 months' notice, subject to paying actual costs incurred as a result of termination up to \$500,000	Same

Standstill	None (although subject to Corporations Act takeover provisions)	Standstill to remain in place during term of management and for a further 18 months after termination
Growth / investment opportunities	Aspen to be offered the right to acquire at least 50% of opportunities in the affordable accommodation sector	<p>Aspen to be offered the right to acquire</p> <ul style="list-style-type: none"> <li>- 100% of any MHE/permanent park opportunity</li> <li>- At least 50% of any tourist park opportunity</li> <li>- Up to \$25 million of Discovery assets within 12 months, subject to the approval of Discovery's board</li> </ul>

## Qualitative Factors

Status quo	MHC proposal	Discovery proposal
<ul style="list-style-type: none"> <li>• Higher, less efficient cost structure</li> <li>• Maximum flexibility in event of a corporate transaction</li> <li>• Lack of catalyst to close gap between security price and NTA</li> <li>• Continue to focus on growth opportunities in the manufactured home space</li> <li>• Unlikely to be able to pursue growth strategies until cost of capital improves</li> <li>• Growth likely limited to growth in average weekly earnings</li> <li>• Potential to re-orient the management team to a more entrepreneurial growth focus</li> </ul>	<ul style="list-style-type: none"> <li>• Deep property and ASX listed equity market expertise</li> <li>• Manager alignment of interest through 23.2% interest in Aspen</li> <li>• Lower cost than status quo but higher than Discovery proposal</li> <li>• Lower risk in transitioning to external management role</li> <li>• No specific caravan park experience prior to Aspen</li> <li>• Will offer to employ most current Aspen employees including head office staff</li> <li>• Track record of successful property ventures, including in affordable housing</li> <li>• Continue to focus on growth opportunities in the manufactured home space</li> <li>• No change in ability to facilitate a corporate transaction</li> </ul>	<ul style="list-style-type: none"> <li>• Leading caravan park manager</li> <li>• No equity ownership in Aspen and therefore less alignment of interest</li> <li>• Lowest cost proposal. Likely to be able to deliver revenue and expense synergies from existing caravan park portfolio</li> <li>• Limited focus on manufactured housing</li> <li>• Better able to facilitate growth in the caravan park portfolio rather than manufactured homes</li> <li>• Management of Aspen assets would be absorbed into Discovery so there would be no dedicated team focused on Aspen</li> <li>• Less experience in managing an ASX listed entity</li> <li>• Higher risks in transitioning to manager role</li> </ul>

	<ul style="list-style-type: none"> <li>• MHC's broader opportunity focus and development capability offers the potential for higher growth</li> </ul>	<ul style="list-style-type: none"> <li>• Discovery is a competitor to Aspen in the caravan park space and will have full access to Aspen's information</li> <li>• May deter third parties from considering corporate transactions with Aspen</li> <li>• Previously undertook a hostile takeover of Aspen Parks Property Fund</li> <li>• Growth expected to be limited to caravan opportunities</li> </ul>
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The IBC will be seeking feedback from securityholders as it forms a view as to its recommendation of any binding proposal which may eventuate. Any binding proposal will be conditional upon the approval of Aspen Group securityholders at an extraordinary general meeting.

The IBC remains focused on closing the gap between Aspen Group's security price and net asset value, as such, continues to actively explore alternative strategic initiatives in conjunction with the proposed externalisation of management including seeking proposals for a broader control transaction and/or wind-up of the Aspen Group.

The IBC will keep the market informed of material developments as appropriate.

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