

# ASX Announcement



## **LANTERN HOTEL GROUP (ASX:LTN)**

11 September 2014

### Progress Update

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Please see attached presentation.

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Update

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**The group has made significant headway in achieving its goals set out in the strategic review completed in December 2011**



**We are making solid progress however there is still much to do**

# Where We Started



In June 2012 we started with a core portfolio of operating assets which had suffered during a protracted period of receivership and pre-receivership under-investment. The venues were run down and generally in poor condition.

The venues were also expensive to operate as a result of dysfunctional and inefficient equipment and poorly trained staff working in uncomfortable conditions.

The Group had limited centralised compliance systems, marketing, website and group culture.

These issues have been addressed and we now have a platform capable of supporting sustainable growth.

# Summary of Journey to Date



Since Lantern commenced operating the hotels, we have expensed/invested approximately \$15 million on existing hotels both stabilising the portfolio and building a platform to support sustainable long term growth. We have:

- Brought all hotels up to industry leading compliance standards, fixed all structural issues, installed ambient temperature control and ensured the building infrastructure and backbones are solid and can support growth
- Installed kitchens in all but one venue and significantly improved the quality of the food offering
- Completed full renovations of Ambarvale, Bowral, Commodore, Uncle Bucks, General Gordon and Lawson Park
- Commenced works at Crown and Dolphin
- Completed partial works at El Toro, Five Dock and Courthouse pending completion of more holistic redevelopments
- Invested in modernising gaming systems and upgrades
- Focused on staff quality and service standards

# Summary of Journey to Date



The group is well positioned for growth from both the existing portfolio and via acquisitions.

A disciplined approach in respect of acquisitions has been maintained – we are currently in discussions on a number of pre-screened quality assets. Expansion via acquisition will continue to spread the fixed cost of head office and assist in neutralising the over hedged swap position.

In addition to the enhancements to the operating assets, the group:

- Realised the full value of the Panthers assets which represented over one third of the group's total assets, significantly strengthening the balance sheet
- Bought back 88.7 million securities representing approximately 9% of the securities outstanding

# Progress to Date



What we said we would do	What we've done
Change responsible entity	Completed Dec 2011
Undertake strategic review	Completed Dec 2011
Create platform to enable establishment of integrated operating business via stapling and internalisation	Completed April 2012
Raise capital to support move to integrated operating business model	Completed June 2012
Re-staple (via acquisition from receiver) Icon portfolio to create initial operating platform.	Completed June 2012
Transition business model from a passive landlord to an integrated operating business	Re-stapled 2 additional tenant positions during FY12

# Progress to Date



What we said we'd do	What we've done
Implementation of capital works program to stabilise the operating portfolio.	Commenced significant refurbishments across the entire portfolio. First phase completed at Bowral, Commodore, Uncle Bucks, General Gordon, Ambarvale and Lawson Park. All other venues stabilised.
Transition from a passive landlord to a integrated hotel owning and operating group.	Re-stapled the Bowral Hotel leasehold position in October 2012.
Stabilise the balance sheet.	Restructure of Panthers investment completed August 2012 setting up path to realisation.  Full recovery of this investment completed February 2013.
Rebranding	Completed November 2012.
Restructure funding arrangements.	Completed with extension in tenor and flexible acquisition funding in place supporting expansion of business.
Active capital management.	Buy back announced and 9% of outstanding securities bought back.



# Progress to Date



What we said we'd do	What we've done
Grow via disciplined acquisitions	Maintained discipline - Acquired Crown Hotel - October 2013.
Improve operating asset capacity	Completion of full refurbishments at Ambarvale, Bowral, Commodore, General Gordon, Lawson Park and Uncle Bucks. Renovations started at Dolphin and Crown. All assets have been stabilised.
Holistic redevelopment plans for Five Dock and El Toro being considered	Five Dock now finalised. Development Approval expected to be sought this calendar year. El Toro still under consideration.
Ongoing capital management	A selective off-market buyback opportunity is being pursued requiring regulatory approval. If the off-market buyback is unable to be implemented we will revert to on-market buybacks as an alternative.
Exit of New Zealand	Sold 3 of the 6 remaining New Zealand assets.

# Operating Performance Insights

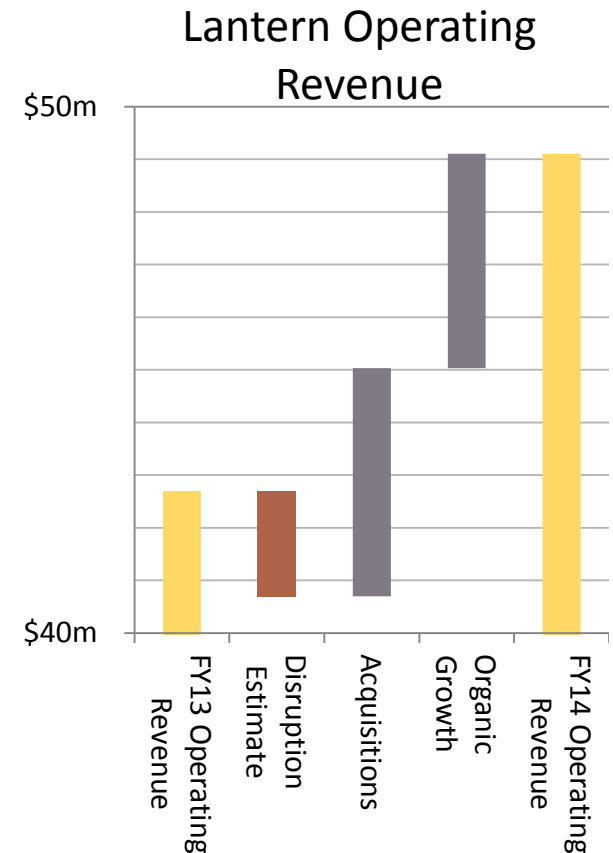


Across the group, revenue from operating assets increased \$6.4 million or 15% in FY14.

\$4.3 million of this increase was due to acquisitions since June 2012 and we estimate around \$4 million was due to the growth from completed venues (headline growth was materially impacted by the negative impact of disruption in multiple venues whilst capital works were being completed).

Ongoing focus on incremental improvement of gross profit resulting in a 3.4 percentage point increase from 56.8% in June 2012 to 60.2% for the year ending June 2014. This remains an active focus area and incremental improvement is expected to be achieved in the current financial year.

EBITDA on a like-for-like basis remained relatively flat due to the negative impact flowing from disruption associated with the ongoing capital works program.



# Future Direction



Operating performance in completed venues has responded favourably (as expected) to the capex program and free cash generation is consistently improving.

To provide some context, the venues that have completed their first phase of capital works are delivering strong growth - EBITDA for these venues in the 3 months to June 2014 was 48% greater than the prior corresponding period.

This was driven by 20% revenue growth, gross profit increasing by 1.6 percentage points and improved operational efficiencies.

This strong performance was offset by the negative impact of the ongoing capital works program in other parts of the portfolio.

# Future Direction



We expect that we will continue to see growth in revenue and enhanced earnings from the completed venues as they grow into capacity. This growth is expected to occur over a period of two to three years post completion at each venue.

Operating costs in venues where capital works are being completed are abnormally high due to maintenance of core staffing levels, focus on over servicing and forward staffing on completion to support expected growth.

We have adopted this strategy in order to ensure the service proposition is not compromised, to enhance customer satisfaction, to providing staff training and to enhance the group's employee culture.

Operating costs in completed venues are expected to reduce as a percentage of revenue during the course of FY15.

# Current Year Focus



- Incremental margin improvement.
- Optimising growth and operating performance from completed venues.
- Continued reinvestment in the existing portfolio (majority considered expansionary in nature).
- Acquisitions – disciplined approach being maintained but strong pre-screened quality pipeline.
- Finalise exit from New Zealand.
- Ongoing capital management via buybacks.