

CEO's Address



Lantern Hotel Group Limited Annual General Meeting 30 November 2015

CEO's Address

Thank you John, and good morning ladies and gentlemen. My name is John Osborne and I have recently been appointed as CEO.

2015 Results

As the Chairman mentioned FY15 was a challenging year for Lantern. The overall financial performance was below expectations.

On a same hotels basis operating revenue and EBITDA improved marginally when compared to PY, albeit this improvement was off a low base.

The new hotels, namely Waterworks and Exchange earnings are lower than expected, however the addition of these hotels has resulted in overall growth in both revenue and EBITDA.

Rental income has reduced due to the sale of two NZ hotels.

Central support services expenses, excluding non-recurring items such as legal fees and restructuring expenses, have reduced marginally when compared to the PY and management believes that these expenses can be further reduced in line with industry benchmarks during FY16.

The decrease in the same hotels total assets is predominantly due to a \$8.2m write down in value across a number of hotels resulting from lower than expected earnings.

Lantern has deployed approximately \$13m in capital expenditure over the past 3 years. This investment has produced an annualised return of 4.9% which the Board and management considers to be below expectations.

The majority of the capital expenditure has been deployed to improve relatively low margin food and beverage facilities and increased revenue in these areas has not translated into profit so the return on capital expenditure employed is below expectations at this stage.

Management believes that a renewed focus on improving the performance of the Group's gaming operations along with a focus on making food and beverage more profitable will lead to improved returns in the future.

Transformation Strategy

The Lantern Transformation Strategy adopts the principles of Stabilise, Transform, Invest, with some of the elements of each strategic theme overlapping.

The strategy can be summarised as follows:

- **Stabilising the capital structure will support implementation of the strategic and operational plans**
 - Lantern wants to be in the business of owning and operating scalable, multi-faceted hotels with the potential for each hotel to achieve a sustainable 6 figure EBITDA
 - The transformation strategy will see the business focus on delivering a competitive gaming product and a diverse range of food, beverage and entertainment products at a core portfolio of hotels
 - A core portfolio of hotels that are scalable with gaming potential is already in place
 - The sale of non-core hotels and assets will provide capital for investment aligned to the strategy
- **Lantern will focus on operational excellence**
 - Build a culture that promotes innovation, accountability, problem solving and teamwork
 - Retain and attract the best people with emphasis on developing talent from within the business
 - Improve the performance of the core portfolio of hotels, which will deliver a higher overall EBITDA from fewer hotels
 - **House of Brands** rather than a **Branded House**
 - Reduce central and corporate expenses

- **Investment aligned to the strategy will drive further growth into the future and deliver improved return to securityholders**
 - Lantern is currently sub-scale
 - Capital is required in the right areas to improve the performance of the core portfolio of hotels
 - Acquire additional hotels consistent with the strategy and aligned to our strengths (once the core portfolio of hotels are growing and meeting expectations)
 - Reduce debt
 - A portfolio of core, strong performing hotels, and surplus capital from non-core divestments will position Lantern for growth

The Opportunity is Gaming Led

The core portfolio of scalable hotels have the potential to deliver considerably better EBITDA. The majority of the Group's gaming machines are located at these hotels.

We will get gaming right at these hotels and at the same time provide a diverse range of food, beverage and entertainment and leisure products and services.

These hotels will underpin a significant period of growth for Lantern.

Lantern management will be striving to achieve the best product, best facilities and great service across all revenue areas including gaming operations.

Update on Non-Core Asset Sales

As previously advised to the market and in keeping with Lantern's strategic direction, Lantern has appointed agents to assist it with the divestment of three non-core hotels including the Brisbane in Perth, WA the Alberts in Palmerston North, NZ and the Dolphin in Surry Hills, Sydney.

The Brisbane and Alberts are owned but not operated by Lantern and the Dolphin is owned and operated by Lantern.

All of these hotels have attracted strong interest to date and the sale process for all three hotels is currently still running.

Looking Forward – Exciting Future

Lantern has a core portfolio of scalable hotels with potential to achieve significant growth.

Lantern management has commenced implementing its 3 year transformation plan with the key objectives being to:

- Improve the performance of the core portfolio of scalable hotels with initial emphasis on gaming;
- Stabilise the capital structure;
- Divest the non-core hotels in a strong market;
- Acquire additional hotels that fit the strategy;
- Attract and retain the best people with emphasis on developing people from within the business.

EBITDA is expected to improve in FY16 and once Lantern has transformed its business it will be well placed to explore further options for growth and to become a leading leisure and hospitality group.

Thank you and I will now hand back to the Chairman.