



Annual General Meeting

30 November 2015



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Chairman's Address



Industry Perspective



- Favourable economic conditions lead to record volume of hotel sales and strong competition for quality hotels, particularly in NSW
- Consolidation continues across the market
- Demand is strongest for scalable venues with strong cash flow that can provide a diversified gaming, leisure and entertainment offering
- Gaming continues to be a critical performance driver and in NSW YOY growth has averaged approx. 5% from FY10 – FY14 and this trend is expected to continue
- Local community identity important – **House of Brands** rather than a **Branded House**
- The market is setting new benchmarks – Lantern must transform and be positioned as a leader in its total customer offer



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2015 Results – Key Take-outs Overall



Unacceptable financial performance – challenging year

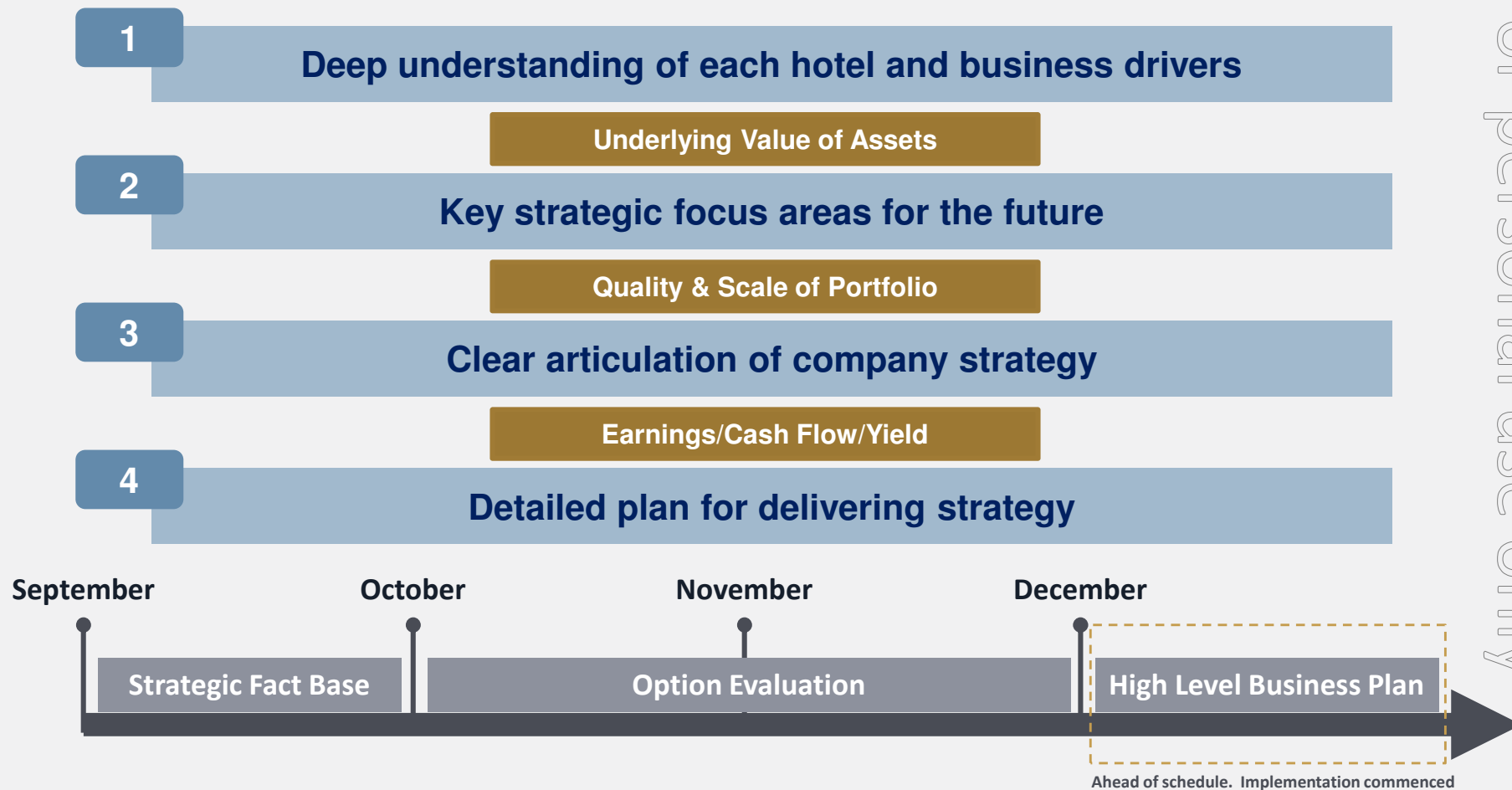
- Overall loss of \$8.9m compared to a loss of \$2.2m in the PY. This is primarily due to lower than expected operating performance resulting in a write down in the value of assets
- Operating revenue and Group EBITDA have improved when compared to PY. This is primarily due to the acquisition of the Crown, Exchange and Waterworks hotels over the past two years. The EBITDA margin has increased from 13.6% to 14.5%
- Significant non-recurring costs impacted performance – mainly legal and restructuring expenses
- Finance costs decreased as the PY contained a \$1.4m payout of interest rate swaps. Generally finance costs remained unacceptably high due to swaps that were entered into in 2007
- Shortfall in working capital leading to cash flow challenges
- ROCE has been below expectations and future deployment of capital will be prioritised according to the transformation plan. Investment hurdle rates will also be put in place

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Undertaken a Strategic & Operational Roadmap Review -To Improve Performance



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New Board – Key Achievements



Completed strategic and operational review

- Commenced implementation of the transformation plan
- Commenced building a new team including the appointment of a CEO
- Implemented more transparent reporting and regular communication
- Have strengthened processes and systems including approval of capital expenditure and authority levels for the signing of contracts



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New Board – Key Achievements

Continue to deal with a number of legacy issues including

- Lending arrangements
 - Improved extremely challenging working capital position
 - Continue to retain the support of our lenders
- Contracts
 - El Toro sale – have conducted a full review of the contract and processes
- Productivity
 - Reducing central support services and corporate expenses



Prime Minister Malcolm Turnbull celebrating Melbourne Cup at the Commodore Hotel

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Buy-back Transaction Not Proceeding



As announced to the ASX on Friday 27 November, Lantern is of the view that the proposed buy-back is not capable of being implemented and has entered into a release with the parties to the Deed of Settlement due to the relevant circumstances, including:

- Conditions precedent set out in the Deed of Settlement have not been satisfied including that the consent of Lantern's financier has not been obtained and that the securityholder approval of 31 July 2014 is not valid as it is more than 12 months old
- The extremely challenging financial position of Lantern at the time of the change to the Lantern Board in June 2015 and the unacceptable financial performance of Lantern since the Deed of Settlement was signed in April 2014
- The strategic review of Lantern's business since the change in the Lantern Board in June 2015 and the change in strategy from that of the previous Board when the Deed of Settlement was signed in April 2014
- That Lantern does not have sufficient funds available to pay for the buyback
- Millinium's opposition to the buy-back and their position that the terms of the buy-back have not been agreed between Millinium and Lantern
- The Lantern Board's belief that Lantern could not presently compel Millinium to participate in a buy-back on particular terms
- The continued time and resources required to be expended by Lantern on the buy-back and the distraction to the Lantern Board and management at a time when pressing operational, financial and strategic issues are facing Lantern

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Period of Stability Required



Management need to get back into the rhythm of running the business by creating a performance culture

- Razor sharp focus is required to stabilise the business and to implement the transformation plan
- The sale of non-core assets will, in part, facilitate targeted investment in core assets
- A period of stability will enable Lantern to retain and attract the best people who will be accountable for creating one of Australia's leading leisure and hospitality groups



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Looking Forward



Lantern is well placed to deliver growth and an exciting investment opportunity for securityholders by being disciplined and focussed

- May need to get smaller (in number of venues) before growth can be realised. Initially improved overall EBITDA from fewer venues
- Lantern is focussed on
 - Providing an exceptional leisure and entertainment experience for its customers that is tailored to the local environment
 - Delivering the most efficient management expense ratio in the sector
 - Implement systems to improve customer experience and loyalty
 - Delivering a disciplined approach to the deployment of capital including a focus on ROCE



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CEO's Address



2015 Results – Key Take-outs



Same and New Hotels Performance - overall results are below expectations

- Same hotels operating revenue and EBITDA improved marginally off a low base compared to PY
- New hotels earnings at the Waterworks and Exchange hotels are lower than expected
- Rental income has reduced compared to the PY due to the sale of two NZ hotels
- Central support services expenses, excluding non-recurring items, 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
- Decrease in 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

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2015 Results – Key Take-outs

ROCE



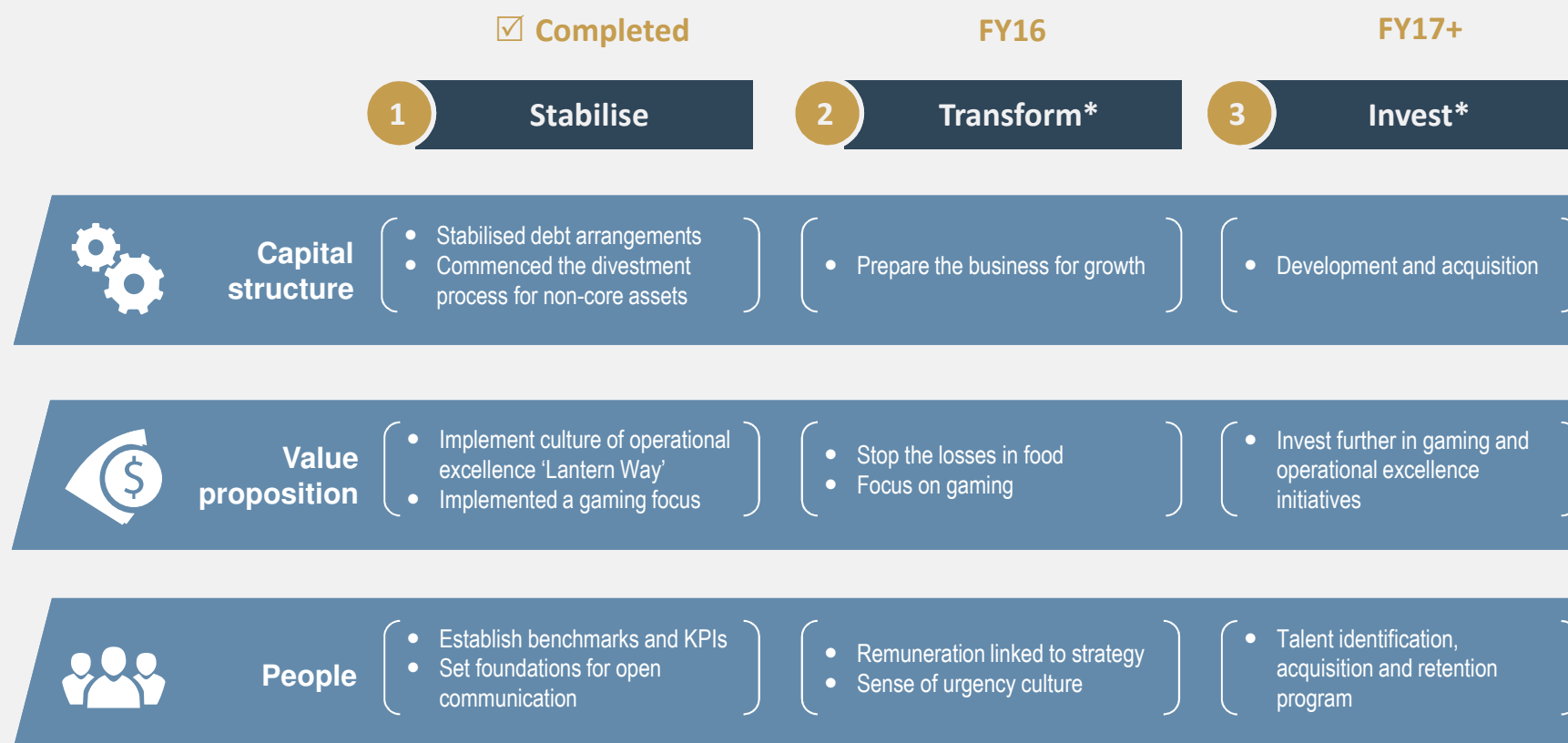
\$13m of capital expenditure over 3 years with an annualised return of 4.9% is below expectations

- The majority of capital expenditure has been deployed to improve the food and beverage facilities
- Improved food and beverage revenue has not translated into profit so the return on this capital expenditure is below expectations at this stage
- Management believes that a renewed focus on improving the performance of gaming along with a continued focus on making food and beverage more profitable will lead to improved returns



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Transformation Strategy



*Some elements of the strategic themes may overlap

Transformation Strategy



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

'Before lantern Hotels can invest in the future management must first stabilise the capital structure and transform the core business. This may mean the business needs to shrink before it can grow'

John Osborne, CEO

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Transformation Strategy



Investment aligned to 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 with 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

'When Lantern delivers on its transformation objectives, the business will be prepared for growth, and have earned the right to invest'

John Osborne, CEO



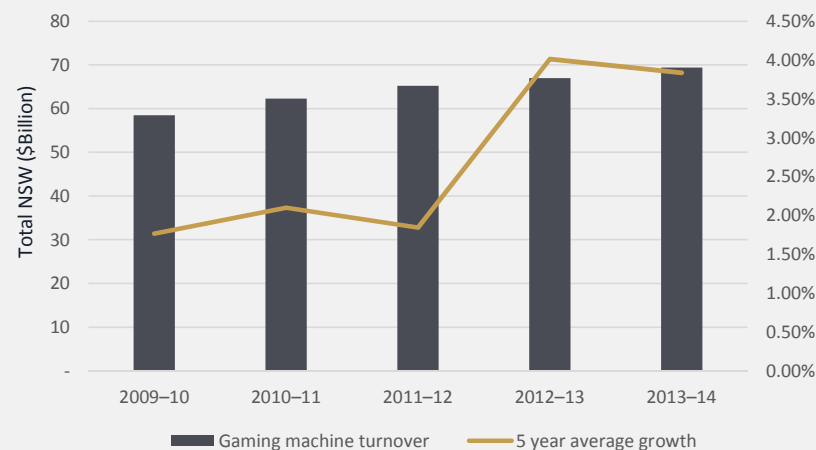
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The Opportunity is Gaming led



- Our core portfolio of scalable hotels have the potential to deliver considerably better EBITDA
- The majority of the Group's gaming machines are located in 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
- These hotels will underpin a significant period of growth for Lantern
- **Best product, Best facilities and Great service**

Hotel	NSW Ranking		Change
	2010 Jun Qtr	2015 Jun Qtr	
Ambarvale	148	243	-95
Crown	78	221	-143
Five Dock	59	120	-61
General Gordon	144	212	-68
Uncle Bucks	96	231	-135
Waterworks	217	304	-87



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Update on Non Core Asset Sales



The Alberts Hotel, Palmerston North, NZ



The Dolphin Hotel, Surry Hills, Sydney



The Brisbane Hotel, Perth, WA

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Looking Forward - Exciting Future



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

- Lantern management has commenced implementing the 3 year transformation plan
 - 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
- Immediate improvement in EBITDA expected during FY16/17
- Once Lantern has transformed its business it will be well placed to explore further options for growth
- Leading leisure and hospitality group



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