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Mantra Group

Ala Moana acquisition and equity raising

18 May 2016

MANTRA GROUP | PEPPERS | mantra | BreakFree

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MANTRA GROUP

Executive Summary

Peppers Soul, Surfers Paradise

EXECUTIVE SUMMARY

Acquisition

- Mantra Group via a wholly owned subsidiary has entered into an agreement to acquire ALM Management Services LLC (“ALMMS”), a limited liability company in Hawaii, which operates the Ala Moana Hotel, Honolulu (“Ala Moana”) and to acquire associated real estate (“Managers Lots”) at Ala Moana (together, the “Ala Moana Acquisition”)
  - Purchase price of US$52.5mm (approximately A$71mm[1]), excluding transaction costs (subject to certain customary completion adjustments)
  - Attractive and substantial property in Honolulu that provides a platform for further expansion into a new and attractive offshore market
  - 1,086 keys under management
- Ala Moana Acquisition is consistent with Mantra Group’s strategy to selectively expand its presence in key offshore regions via attractive and complementary new properties
- Operating model is attractive and similar to the MLR businesses that Mantra Group currently operates

1) Assuming AUD/USD exchange rate of 0.735

EXECUTIVE SUMMARY (CONT.)

Equity Raising

- Mantra Group is launching an equity raising to fund the Ala Moana Acquisition and to provide Mantra Group with additional capital to fund pipeline opportunities that meet Mantra Group's key investment criteria
  - Fully underwritten institutional placement of approximately 27.0mm shares to raise approximately $100mm (at the underwritten floor price of $3.70) (the "Placement")
  - Non-underwritten share purchase plan ("SPP") (together with the Placement, the "Equity Raising")

Financial impact

- The impact of the Ala Moana Acquisition and the Placement is expected to be accretive to Underlying EPS (excluding transaction costs) in FY2017
- Improved balance sheet flexibility providing additional capacity to fund pipeline of opportunities both in Australia and offshore

Trading Commentary

- Mantra Group reconfirms FY2016 guidance provided on 19 February 2016 of EBITDAI, NPAT and NPATA of between $88.5mm – 90.5mm, $41.5mm – 43mm and $44.2mm - 45.7mm respectively
- Guidance excludes the impact of the Ala Moana Acquisition that is expected to settle end of July 2016, as well as any additional conditional or uncontracted properties as at the date of this presentation and any transaction costs associated with FY2016 acquisitions

Ala Moana Acquisition

Ala Moana Hotel, Honolulu

ALA MOANA ACQUISITION SUMMARY

Acquisition

- Mantra Group, via a wholly owned subsidiary has agreed to acquire ALMMS and the Managers Lots for US$52.5mm (excluding transaction costs and subject to customary completion adjustments). ALMMS operates Ala Moana Hotel, including the following assets held by ALMMS (and a related company, ALM LLC);
  - High performing condominium hotel business (1,086 keys participating out of a total of 1,176 keys participating in the letting pool)
  - Freehold title to reception, administration areas, and all car parking
  - Freehold title to 6 food and beverage outlets
  - Freehold title to 9 function rooms, totalling 1,350m^2
- The Ala Moana Acquisition is expected to complete end of July 2016, subject to certain customary completion adjustments and conditions

ALA MOANA ACQUISITION SUMMARY

Strategic Rationale

- The Ala Moana Acquisition is consistent with Mantra Group's strategy to selectively expand its presence in key offshore regions via attractive and complementary new properties in destinations favoured by Australian travellers and travellers from other key international markets
- Property is located in Honolulu, Hawaii which has consistently been a strong performer as a holiday and business events destination. Honolulu is Hawaii's most popular tourism precinct with proven appeal to United States domestic, Australian, European and Asian visitor markets
- Provides Mantra Group with expanded footprint in key new offshore market
- Significant investment opportunity given scale with 1,086 keys under management
- Ala Moana's occupancy is underpinned by corporate, military and aircrew contracts
- Strong fundamental investment metrics based on the property's current trading performance and forecast returns
- The desirability of a condominium hotel operating model, which is favourable to Mantra Group as the operator given it affords Mantra Group full operating control
  - Well aligned with Mantra Group's strategy and business expertise and a model that Mantra Group is familiar with, through its numerous MLR businesses, with the key difference being that the real property is under the control of a board, of which Mantra Group appoint 5 of the 7 board seats

Operational Improvements

- Mantra Group has identified a number of initiatives that it expects to improve current operational performance of Ala Moana (consistent with those initiatives undertaken for previously announced acquisitions during 2015) through its integration into the Mantra Group portfolio, including:
  - Improving occupancy from current level of 75%
  - Improving RevPAR
  - Implementing operational improvements and achieving cost savings in underperforming areas of the business
  - Transition onto Mantra Group's IT and distribution systems, with transitional arrangements expected to be in place during FY2017

ALA MOANA ACQUISITION SUMMARY (CONT.)

Financial Impact

- Purchase price of approximately US$52.5mm (approximately A$71mm[1]), excluding transaction costs (subject to customary completion adjustments)
- Ala Moana Acquisition is expected to contribute approximately US$7mm in Underlying EBITDAI in the first full year of ownership, before synergies from operational improvements
  - Forecast to provide a material uplift in earnings in Mantra Group's Resorts segment
  - Based on current forecasts and successful integration into Mantra Group's current portfolio, Ala Moana is expected to represent the single largest Underlying EBITDAI contribution across Mantra Group properties in FY2017
  - Ala Moana represents one of the major identified pipeline opportunities that management have been pursuing for FY2017
- The impact of the Ala Moana Acquisition and the Placement is expected to be accretive to Underlying EPS (excluding transaction costs) in FY2017

Accounting for Ala Moana Acquisition

- Transaction structured as a business combination with acquisition related transaction costs written off (approximately US$1.5mm / A$2.0mm)
- Purchase Price accounting to be finalised during FY2017
- Approximately US$31mm of purchase price attributable to property, plant & equipment, of which approximately US$10mm is land
- Transaction costs will impact FY2017 statutory EBITDAI given timing of settlement is post 30 June 2016

1) Assuming AUD/USD exchange rate of 0.735

ATTRACTIVE AND COMPLEMENTARY PROPERTY

MANTRA GROUP

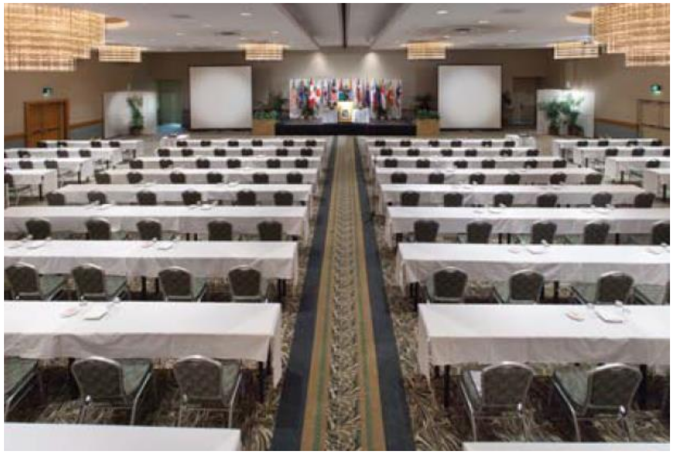


Ala Moana Hotel	
Location	Honolulu, Hawaii
Model	Condominium hotel (similar to MLR business model)
Tenure	Mantra Group will have control of the hotel operations
Keys	1,086 keys in letting pool (1,176 rooms in building)
Freehold title	23 Managers Lots (including reception, 6 food & beverage outlets, 9 conference rooms and all car parking)
Capex responsibility	The Ala Moana property has undergone a refurbishment in 2015, with the property currently in good condition. Mantra Group will typically be responsible for upgrades to real estate and internal upgrades to real property it owns. The capital expenditure costs associated with the building generally will be funded through charges levied on lot/apartment owners
Surroundings	Strategic positioning adjacent to the Ala Moana shopping centre, Hawaii Convention Centre, plus proximity to Waikiki and Honolulu's financial district

ATTRACTIVE AND COMPLEMENTARY PROPERTY





MARKET SNAPSHOT

- Oahu (Hawaii's main island, on which Honolulu is situated) attracts approximately 5 million visitors per annum
- One of the strongest performing hotel markets in the US, due to
  - Limited supply growth, with only four hotels entering the Honolulu market since 2010, adding less than 1,000 rooms to overall supply
  - Global aviation access
  - Proximity to growing Asian visitor markets
- RevPAR across Oahu hotels has grown 12.4% per annum between 2010 and 2015
  - Occupancy across Oahu hotels approximately 85% in 2015 (vs. 84% in 2014)
  - RevPAR across Oahu hotels approximately US$187 in 2015 (vs. US$180 in 2014)
- Honolulu (on Oahu's south shore), consistently a strong performer as a holiday and business events destination with proven appeal to United States domestic, Australian, European and Asian visitor markets

Peppers Docklands, Melbourne

EQUITY RAISING DETAILS

Offer size	• Fully underwritten institutional Placement of approximately 27.0mm shares to raise approximately $100mm (at the underwritten floor price of $3.70) • Non-underwritten SPP to eligible shareholders in Australia and New Zealand, up to $15,000 per shareholder
Issue price	• Underwritten floor price of $3.70 per new share under the Placement with final issue price determined via a bookbuild (“Placement Price”) • Underwritten floor price represents a 7.7% discount to the closing price on 17 May 2016 • SPP issue price at (i) lower of Placement Price and (ii) a 1% discount to the 5 trading day VWAP of Mantra Group shares on the ASX up to and including the date the SPP is scheduled to close
Ranking	• New shares will rank equally with existing Mantra Group shares
Adviser and Underwriter	• Highbury Partnership Pty Limited – Mantra Group’s financial adviser • Macquarie Capital (Australia) Limited and UBS AG, Australia Branch – Joint Lead Managers and Joint Underwriters of the Placement

Sources and Uses*

Sources	A$mm	Uses	A$mm**
Placement	$100mm	Ala Moana approximate purchase price (excluding transaction costs and subject to customary completion adjustments)	$71mm
		Capital to fund pipeline opportunities	$25mm
		Estimated costs associated with the Ala Moana Acquisition and Equity Raising	$4mm
Total sources	**$100mm**	**Total uses**	**$100mm**

Note: * Based on underwritten floor price and excludes any proceeds raised under the SPP **Figures are approximate and assuming AUD/USD exchange rate of 0.735

EQUITY RAISING TIMETABLE

Tuesday, 17 May 2016	• Record date for SPP (7pm Sydney time)
Wednesday, 18 May 2016	• Trading halt (before market) • Bookbuild conducted for the Placement
Thursday, 19 May 2016	• Announcement of completion of Placement (pre-market) • Trading halt lifted (before market)
Monday, 23 May 2016	• Settlement of new shares issued under the Placement
Tuesday, 24 May 2016	• Allotment and normal settlement trading of new shares under the Placement
Wednesday, 25 May 2016	• SPP opens and documentation mailed out
Wednesday, 8 June 2016	• SPP closes (5pm Sydney time) • Last day (inclusive) for which 5 trading day VWAP is calculated for determining the SPP issue price (as referred to on slide 15)
Wednesday, 15 June 2016	• Allotment of new shares under the SPP

Note: Dates and times are indicative only and subject to change without notice. Mantra Group reserves the right to alter the dates in this presentation at its discretion and without notice, subject to the ASX Listing Rules and Corporations Act 2001 (Cth). All dates are in 2016 and refer to Sydney, Australia time.

Key Risks and Selling Jurisdictions

Peppers Soul, Surfers Paradise

KEY RISKS

This section outlines some of the key risks associated with an investment in Mantra Group shares, together with risks relating specifically to the Ala Moana Acquisition and participation in the Placement and SPP. This is not an exhaustive list of the relevant risks and the risks set out below are not in order of importance.

Additional risks not presently known to Mantra Group, or that are not presently considered by Mantra Group to be material, may also become important factors that adversely affect Mantra Group. If any of the following risks materialise, Mantra Group's business, financial condition and financial performance, and the price of its shares may be adversely affected. Investors should note that the occurrence or consequences of some of the risks described in this section are partially or completely outside of the control of Mantra Group, its directors and senior management.

In deciding whether to participate in the Placement or the SPP, you should read this presentation in its entirety and carefully consider the risks outlined in this section. You should also read this presentation in conjunction with Mantra Group's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange ("ASX"), which are available at www.asx.com.au and you should also consider consulting your financial or legal adviser so as to ensure you fully understand the terms of the Placement and the SPP and the inherent risks.

Transaction specific risks

Risk	Explanation
Reliance on information provided for due diligence	• Mantra Group has undertaken and is continuing to undertake a due diligence review in respect of the Ala Moana Acquisition, including in relation to the contractual arrangements relating to the properties and other assets held by ALM Management Services LLC and ALM LLC. Despite taking reasonable efforts, Mantra Group has not been able to verify the accuracy, reliability or completeness of all the information provided against independent data. • There is a risk that information provided by the Seller (including financial information) was incomplete, inaccurate or unreliable and there is no assurance that the due diligence was conclusive or identified all material issues in relation to Ala Moana's business. Limited contractual representations and warranties have been obtained from Ala Moana in respect of the adequacy and accuracy of the materials disclosed during the due diligence process.
Completion risk	• Completion of the Ala Moana Acquisition is conditional on certain matters (including assignment of liquor licence, counterparty consents and other similar entities' consents and completion of satisfactory due diligence) which are considered by Mantra Group to be customary conditions for a transaction of this nature and Mantra Group anticipates that the conditions will be able to be satisfied in the required timeframes. • There is a risk that any condition may not be able to be satisfied or waived and that completion of the acquisition may be delayed or cancelled. It is also possible that a party may seek to terminate the acquisition agreement if certain events occur. • If the Ala Moana Acquisition fails to complete, Mantra Group will need to consider alternative uses for the proceeds of the equity raising or options for returning capital. Failure to complete the acquisition may have an adverse impact on Mantra Group's financial performance, financial position and its share price.

KEY RISKS (CONT.)

Transaction specific risks

Risk	Explanation
Analysis of acquisition opportunity and realisation of synergies	• It is possible that the financial, operational, business and or other analysis undertaken by Mantra Group in relation to the Ala Moana Acquisition, as well as its best estimates and forecasts, are inaccurate or are not realised in due course (for example, if Mantra Group is unable to appropriately integrate Ala Moana's properties into its own portfolio or realise any operating improvements due to factors within or outside its control – for example by fluctuations in the USD/AUD exchange rate. • To the extent that actual results achieved by Ala Moana are weaker than those indicated by Mantra Group's analysis and forecasts, there is a risk that this may have an adverse impact on Mantra Group's financial position and financial performance and its share price.
Assumed liabilities	• As Mantra Group are acquiring the shares in ALM Management Services, Mantra Group will assume the liabilities of ALM Management Services, including in respect of any actual contingent liabilities associated with ALM Management Services' past operations. This includes exposure to possible taxation or legal claims. These potential liabilities formed part of Mantra Group's due diligence review and were sought to be addressed through specific drafting and the warranties and indemnities that have been provided in the acquisition agreement. • There is a risk that potential liabilities were not uncovered as part of Mantra Group's review and Mantra Group may assume these liabilities, which may materialise and have an adverse impact on its financial position, financial performance and its share price. There is also a risk that new liabilities arise post-acquisition which may be outside of Mantra Group's control and are not covered by warranties or indemnities.
Equity raising dilution risk	• If shareholders do not participate in the SPP then their percentage shareholding in Mantra Group will be diluted. Even if a shareholder does take up their full entitlement under the SPP, its percentage shareholding in Mantra Group will be diluted by the Placement and may also be diluted by the SPP because participation is limited to a fixed amount and shareholders are not entitled to participate in the SPP on a pro rata basis relative to their existing shareholdings.
Equity raising underwriting risk	• Mantra Group has entered into an Underwriting Agreement under which the underwriters have agreed to fully underwrite the Placement. If certain conditions are not satisfied or certain events occur under the Underwriting Agreement, the underwriters may terminate the Underwriting Agreement. This may have a material impact on the proceeds raised under the Placement, and Mantra Group may need to find alternative financing in order to complete the Ala Moana Acquisition.
Currency risk	• The actual returns received by Mantra Group in relation to the Ala Moana Hotel and Managers Lots may be materially impacted by fluctuations in the AUD/USD exchange rate, and forecast returns may not be able to be achieved as a result of exposure to exchange rate movements.

KEY RISKS (CONT.)

Risks specific to Mantra Group

Risk	Explanation
Exposure to a downturn in general economic conditions or reduced demand in the travel or tourism industries	• Demand for accommodation at Mantra Group's properties may be impacted by reduced demand in the travel or tourism industries in the specific regions/sectors in which Mantra Group operates, or more generally across Australia or abroad. • This may be caused by events such as a general economic downturn, a movement in the value of the Australian dollar relative to international currencies, a terrorist attack, a major weather event, or events affecting the aviation industry (in particular, low cost airline carriers operating in Australia and airline operators reducing or changing flights to and from international destinations in which Mantra operate properties).
Loss of contractual rights to provide accommodation or related services at key properties in Mantra Group's portfolio	• The effectiveness of Mantra Group's operating structures depends on the quality and duration of Mantra Group's contractual rights to provide accommodation or related services at the properties, and the maintenance of strong relationships with property owners (for example, lessors or individual apartment owners under Management Letting Right (MLR) and/or the condominium hotel arrangements). • There is a risk that contractual arrangements are terminated early or not renewed because of a default by Mantra Group (for example, if it does not satisfy change of control obligations) or otherwise.
Risks specific to the operating structures used to operate the properties in Mantra Group's portfolio	• MLR operating structures are generally subject to increased regulation, which may impose limits on duration of contracts with apartment owners or provide for termination or forced sale rights to remove letting agents. • Lease operating structures require Mantra Group to pay significant rental payments regardless of the level of occupancy at the leased property. If these payments are increased at the end of the lease term this may adversely impact Mantra Group's profitability in respect of that property. In addition, Mantra Group may not retain a property if it becomes uneconomical due to increased lease costs, which would have an adverse effect on its revenues.
Reduction in the reputation and value of brands	• Any reduction in the value or reputation of any of Mantra Group's three key brands could have a significant impact on its business. This may be caused by a reduction in customer satisfaction with Mantra Group's services or through actions of Mantra Group's partners or third parties which may affect public trust or perception of Mantra Group's brands.
Exposure to changes in government regulation	• The regulation of the accommodation industry (including strata laws, agency laws and building regulations) in Australia and international locations where Mantra Group operates hotels may become subject to higher levels of regulation. This may result in higher compliance costs or capital expenditure requirements for Mantra Group to meet higher regulatory standards. • Mantra Group is subject to a number of licensing regimes (including as a letting agent and liquor licensing requirements). Any breaches of licence by Mantra Group or its representatives could impact on the reputation and value of its business. • Changes in foreign ownership laws of countries within which Mantra owns property could impact on Mantra Group's ability to retain ownership of that property.

KEY RISKS (CONT.)

Risks specific to Mantra Group

Risk	Explanation
Limited development options and reduced ability to respond to changing demand	• Because of the limited supply of new properties in the Australian accommodation industry, there is a risk that Mantra Group may not be able to sufficiently grow its business or may face increased costs in doing so. The limit of supply in certain regions or sectors may also impact Mantra Group's ability to respond to changes in demand.
Reduction in the integrity or effectiveness of technology systems or distribution channels	• Mantra Group's business depends on the maintenance, development and effectiveness of its technology systems (in particular, its centralised MG-Res distribution platform). • Mantra Group's technology could experience technical problems or expansion costs or become obsolete as technology develops. This may limit its effectiveness or require additional investment. Any failure of online technology (such as third party booking systems) to secure customer privacy/information could also impact Mantra Group's business.
Loss of key management personnel and ability to access quality new staff	• The loss of any of Mantra Group's key management personnel or a delay in their replacement could impact Mantra Group's business. Due to a shortage of appropriately skilled workers in the accommodation industry, Mantra Group may not be able to find appropriate replacements for departing staff members or effectively expand its workforce to support growth. This may impact the quality of services it provides and the value of its business.
Restrictions imposed under its debt facility and refinancing risk	• Under Mantra Group's principal debt facility ("Facility"), Mantra Group is one of the guarantors and security is granted over the Mantra Group's assets. The Facility includes a number of covenants and undertakings. If an event of default occurs, Mantra Group may be restricted from paying dividends to shareholders or may be required to sell its assets. • There is a risk that Mantra Group may not be able to refinance its debt under the Facility on favourable terms (or at all) once it falls due.

KEY RISKS (CONT.)

General risks

Risk	Explanation
General market and share price risks	• There are general risks associated with any investment in the share market. The price of Mantra Group shares may increase or decrease due to a number of factors. Those factors include fluctuations in domestic or global financial markets and general economic conditions, including interest rates, inflation rates, exchange rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation, the removal or inclusion of Mantra Group from market indices, and the nature of markets in which Mantra Group operates. These factors may cause the price of Mantra Group shares to trade below the price at which they are offered under the Placement and SPP, notwithstanding Mantra Group's financial or operating performance.
Sell-down by existing shareholders	• There is a risk that existing substantial shareholders (including directors or senior management) may seek to sell-down their shareholdings. A significant sale of shares, or a perception that a sell-down may occur, could adversely affect the price of Mantra Group shares.
Tax/accounting	• Australian and other international countries' (where Mantra Group operate hotels) accounting standards and tax laws (including GST and stamp duties), or the way they are interpreted, are subject to change from time to time, which may impact Mantra Group's financial position or performance. • Taxation arrangements between Australia and America may change which in turn could affect the repatriation of funds from America to Australia.
Litigation	• Legal proceedings and claims may arise from time to time in the ordinary course of Mantra Group's business and may result in high legal costs, adverse monetary judgments and/or damage to Mantra Group's reputation which could have an adverse impact on Mantra Group's financial position and financial performance and the price of its shares.

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- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

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i. to "professional clients" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation);
ii. to fewer than 150 natural or legal persons (other than "professional clients"); or
iii. in any other circumstances provided that no such offer of securities shall result in a requirement for the registration, or the publication by the Company, of a prospectus pursuant to the Norwegian Securities Trading Act of 29 June 2007

GLOSSARY

Glossary	
Average Room Rate	ARR measures the total average room revenue received per occupied room per day throughout the period. It is used as a metric to compare relative profitability of the accommodation industry and is one of the inputs used to calculate RevPAR along with Occupancy
EBITDAI	Earnings before interest, tax, depreciation, amortisation and impairment
FY	Year ending 30 June
MLR	Management Letting Right
NPAT	Net Profit After Tax
NPATA	Net Profit After Tax adjusted to add back expense relating to amortisation of lease rights
Occupancy	Measures the average number of rooms that have been utilised compared to the total average available rooms throughout the period. It is used as a metric to compare relative profitability of the accommodation industry and is one of the inputs used to calculate RevPAR along with Average Room Rate
RevPAR	Measures the total average room revenue received per room available throughout the period. It can also be calculated by taking the average occupied room rate and multiplying by the occupancy rate. It is used as a metric to compare relative profitability of the accommodation industry
Underlying Earnings Before Interest Tax Depreciation, Amortisation and Impairment (Underlying EBITDAI)	Statutory EBITDAI excluding transaction costs incurred in respect of acquisitions completed in relevant FY period
Underlying Earnings Per Share (Underlying EPS)	Statutory Earnings Per Share excluding transaction costs incurred in respect of acquisitions completed in relevant FY period


Peppers Broadbeach, Gold Coast