Lantern hotels

General Meeting of Lantern Real Estate Trust

Annual General Meeting of Lantern Hotel Group Limited

25 October 2016

Chairman’s Address

2016 Full Year Results

Transformation plan has delivered a strong turnaround

- Profit for the year of approximately $7.0m compared to a loss of approximately $8.9m for the prior year
- Securityholders benefit from the turnaround via the payment of distributions amounting to 2.5c per security
- Improved security price

Potential Sale of Property Portfolio

Board considered various options

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- Retaining and investing in the core hotels
- Creating further scale through the acquisition of further hotels that meet the strategic criteria of the Group
- A sale of the Group, or the business and assets of the Group
- Expanding the current divestment programme to include the core hotels

Potential Sale of Property Portfolio

Advantages of the proposed Sell Down Resolution

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- The Group is currently sub-scale.
- The Core hotels have historically been under invested. Even following an investment programme, the Group would still be sub-scale.
- Gaming led hotels that meet the stated strategic criteria for the Group are rarely placed on the market, and if they are they tend to be fully priced.
- The Group's core hotels are highly sought after gaming led hotels and therefore may achieve sale values well above book value.
- You may receive cash distributions in excess of the current ASX trading price in the event a successful sell down of all properties is achieved.

Potential Sale of Property Portfolio

Potential distributions

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- Refer to the table in the Explanatory Notes to the Sell Down Resolution which shows potential distributions per security based on various scenarios for the sale of the remaining hotels
- Combined premium to book value of 14.6% achieved from the sale of non-core hotels to date
- Sale of remaining hotels is expected to achieve at least the same combined premium to book value

Potential Sale of Property Portfolio

Unanimous support

- The Directors' unanimously recommend that Securityholders vote in favour of the Sell Down Resolution

CEO’s Address

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Transformation Plan

Key focus areas

- Resolution of legacy issues including
  - ✓ stabilising the capital structure and improving the financial strength of the Group, including refinancing the primary debt facility and the termination of the out of the money interest rate swaps;
  - ✓ improving operational team capability and productivity; and
  - ✓ improving communication and transparency with Securityholders
- Improve EBITDA of core gaming led hotels
- Implementation of divestment programme for non-core hotels

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Stapled Entity Consolidated	First half: 6 months to December FY2016 $'000	First half: 6 months to December FY2015 $'000	First half: Change %	Second half: 6 months to June FY2016 $'000	Second half: 6 months to June FY2015 $'000	Second half: Change %	Full year: Total FY2016 $'000	Full year: Total FY2015 $'000	Full year: Change %
Revenue for core hotels [(1)]									
Gaming	9,240	8,192	12.8%	9,487	7,993	18.7%	18,727	16,185	15.7%
Beverage	6,647	6,631	0.2%	6,451	6,136	5.1%	13,098	12,767	2.6%
Food	2,093	1,869	12.0%	1,689	1,801	(6.2%)	3,782	3,669	3.1%
Other	517	486	6.4%	545	453	20.3%	1,062	939	13.1%
Total revenue for core hotels	**18,497**	**17,178**	**7.7%**	**18,172**	**16,383**	**10.9%**	**36,669**	**33,560**	**9.3%**
EBITDA for core hotels [(1)]	**4,583**	**4,200**	**9.1%**	**4,879**	**3,514**	**38.8%**	**9,462**	**7,714**	**22.7%**
EBITDA margin for core hotels	***24.8%***	***24.4%***		***26.8%***	***21.4%***		***25.8%***	***23.0%***	
EBITDA for non-core hotels [(2)]	640	766	(16.4%)	268	161	66.5%	908	927	(2.0%)
EBITDA for divested hotels [(3)]	1,233	1,344	(8.3%)	559	1,055	(47.0%)	1,792	2,399	(25.3%)
Total hotel EBITDA	**6,456**	**6,310**	**2.3%**	**5,706**	**4,730**	**20.6%**	**12,162**	**11,040**	**10.2%**
Central support services expenses	(1,307)	(1,288)	1.5%	(1,263)	(1,499)	(15.7%)	(2,570)	(2,787)	(7.8%)
Operating EBITDA	**5,149**	**5,022**	**2.5%**	**4,443**	**3,231**	**37.5%**	**9,592**	**8,253**	**16.2%**
Rental income [(4)]	1,273	1,271	0.2%	1,306	1,371	(4.7%)	2,579	2,642	(2.4%)
Corporate & fund expenses	(1,012)	(1,133)	(10.7%)	(1,666)	(1,402)	18.8%	(2,678)	(2,535)	5.6%
Group EBITDA	**5,410**	**5,160**	**4.8%**	**4,083**	**3,200**	**27.6%**	**9,493**	**8,360**	**13.6%**

Notes:

1. Core hotels represent Ambarvale, Commodore, Crown, Five Dock, General Gordon, Uncle Bucks & Waterworks
2. Non-core hotels represent Courthouse, Exchange & Lawson Park. Contracts for the sale of these hotels are due to complete between July to October 2016
3. Divested hotels represent Bowral (sold Jun-16), Dolphin (sold Mar-16) & El Toro (sold Feb-16). The sale of these hotels during the period means year on year comparisons are not relevant
4. Includes amounts associated with discontinued operations

2016 Full Year Results

Transformation plan has delivered a strong turnaround

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- Gross bank debt has reduced from approximately $80m at 31 December 2015 to approximately $40m at 30 June 2016
- Net debt as at 30 June 2016 of approximately $28m
- Re-financing of the primary debt facility was completed prior to financial year end
- Low gearing level and a strong balance sheet provides a solid platform for active capital management and other strategic alternatives

2017 September Quarter

Momentum continuing

Stapled Entity Consolidated	First quarter 3 months to September FY2017 $'000	3 months to September FY2016 $'000	Change %
Revenue for core hotels [(1)]			
Gaming	5,852	4,591	27.5%
Beverage	2,534	2,339	8.3%
Food	498	645	(22.8%)
Other	275	235	17.0%
Total revenue for core hotels	**9,159**	**7,810**	**17.3%**
EBITDA for core hotels [(1)]	2,855	**2,122**	**34.5%**
EBITDA margin for core hotels	*31.2%*	*27.2%*	
EBITDA for non-core and divested hotels [(2)(3)]	301	1,088	(72.3%)
Total hotel EBITDA	**3,156**	**3,210**	**(1.7%)**
Central support services expenses	(631)	(644)	(2.0%)
Operating EBITDA	**2,525**	**2,566**	**(1.6%)**
Rental income [(4)(5)]	508	632	(19.6%)
Corporate & fund expenses	(743)	(373)	99.2%
Group EBITDA	**2,290**	**2,825**	**(18.9%)**

Notes:
1. Core hotels represent Ambarvale, Crown, Five Dock, General Gordon, Uncle Bucks and Waterworks
2. Non-core and divested hotels represent all hotels divested prior to 30 September and the Courthouse and Commodore (reclassified from a core hotel during the period)
3. The sale of hotels means year on year comparisons are not relevant
4. FY2016 includes amounts associated with discontinued operations
5. Includes Uncle Bucks retail income

2017 September Quarter

Net debt reflects distribution payments and non-core hotel sales

- Net debt at 30 September 2016 has increased to approximately $35m arising from:
  - ➢ the payment of the special distribution in August 2016; offset by
  - ➢ the proceeds from non-core hotel sales; and
  - ➢ profits generated from operations

Divestment of Non-Core Hotels

$69m in proceeds at 14.6% premium to book value

Hotel	Price	Settlement
Waikanae, NZ (surplus land)	NZ$200k	Completed Feb 2016
Albert, NZ	NZ$3.4m	Completed Feb 2016
Dolphin	$11.15m	Completed Mar 2016
GPO	$5.25m	Completed Jun 2016
Bowral	$6.35m	Completed Jun 2016
Exchange	$6.625m	Completed Aug 2016
Lawson Park	$4.05m	Completed Sept 2016
Courthouse	$6.25m	Expected Nov 2016
Commodore	$14.5m	Expected Dec 2016
Brisbane	$9.5m	Expected Dec 2016
Central	$1.95m	Expected Jan 2017

- The divestment programme commenced in November 2015
- Completed and contracted sales expected to realise approximately $69m which represents a premium to book value of 14.6%
- 10 non-core hotels have been divested in 10 months
- Following completion of all contracted sales, expected to be in January 2017, Lantern will own and operate six gaming led hotels

Ongoing Focus Areas

- Actively manage capital including the payment of distributions to Securityholders
- Continued evaluation of strategic alternatives
- Until implementation of the proposed Sell Down Strategy, continue to improve the trading performance of the core hotels

Disclaimer

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