



Important Notice

This presentation has been prepared by Hotel Property Investments Limited as Responsible Entity of the Hotel Property Investments Trust. All reasonable care has been taken in preparing the information provided in this presentation, however no representation or warranty, express or implied is made as to the fairness, accuracy, completeness or correctness of the information.

The information provided in this presentation should be considered together with the financial statements for the period and previous periods, ASX announcements and other information available on the HPI website.

The information provided in this presentation is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. The information provided is general information only and does not take into account the investment objectives, personal circumstances or particular needs of any particular person. Any forward looking statements, forecasts or prospects are by their nature subject to uncertainties and contingencies, many of which will be outside the control of the HPI Group or HPI Limited.

Before making an investment decision, HPI Limited recommends that you conduct your own due diligence, and consult with your own personal advisors as to the application of the information provided in this presentation to your own investment objectives, personal circumstances or particular needs.



Key Messages June 2016

As at 30 June 2016

1. Statutory Profit ↑ 70% to \$60.1 million (2015: \$35.4 million)
2. Distribution ↑ 12% to 18.3 cents per share (2015: 16.3 cents)
3. FY17 Distribution Guidance ↑ of 6.6% to 19.5 cents per share
4. Property Valuation ↑ \$33 million (2015: \$18 million) or 6% to \$597 million
5. Management and RE internalised on 1 July 2016 following grant of AFSL
6. Sold the Payneham Tavern in June 16 on 6% Cap Rate for \$10 million, with settlement in September 2016.

Key Metrics

As at 30 June 2016

<u>Key Metrics</u>	<u>30-Jun-16</u>	<u>30-Jun-15</u>
Investment Property (incl Asset held for sale)	\$596.6 m	\$564.2 m
Number Of Pubs	44	44
Loans Drawn	\$246.6 m	\$251.1 m
Cash On Hand	\$2.3 m	\$4.6 m
Gearing	40.8%	43.6%
WACR	7.28%	7.42%
WALE (years)	7.0	7.9
Average Length of Option Period (years)	24.3	24.4
Occupancy	100%	100%
Net Assets per security	\$2.28	\$2.07

Property Highlights

Property valuations continue to rise

- Properties valued at \$596.6m and Weighted Average Cap Rate 7.28% (2015: 7.42%)
- Pub rents escalated at an average 3.9% in accordance with lease terms
- HPI's WACR lags the market in line with valuation policy
- Fair Value gain during the year of \$32.6m
 - \$22m from rental increases
 - \$10.6m from contraction in cap rates on 15 properties independently valued in December 2015 (average contraction 41 bps)
 - Next independent valuations at 31 Dec 2016
- Property Management
 - Payneham Tavern (Sth Australia) sold for \$10m reflecting a 6% cap rate, with settlement in September 16
- HPI will continue to consider Acquisition, Divestment and Development opportunities

Capital Management

As at 30 June 2016

CAPITAL MANAGEMENT	<u>30-Jun-16</u>	<u>30-Jun-15</u>
Drawn Debt	\$246.6 m	\$251.1 m
Net Debt (Drawn Debt less Cash)	\$244.4 m	\$246.6 m
Loan Facility Limit	\$270.0 m	\$270.0 m
Weighted Average Debt Term to Maturity	2.5 yrs	3.5 yrs
Gearing	40.8%	43.6%
% Hedging of Drawn Debt	51%	46%
Gearing Policy	40% - 50%	40% - 50%
Hedging Policy	approx 50%	approx 50%

- Natural de-leveraging as property values rise with escalating rents¹ reduces risk.

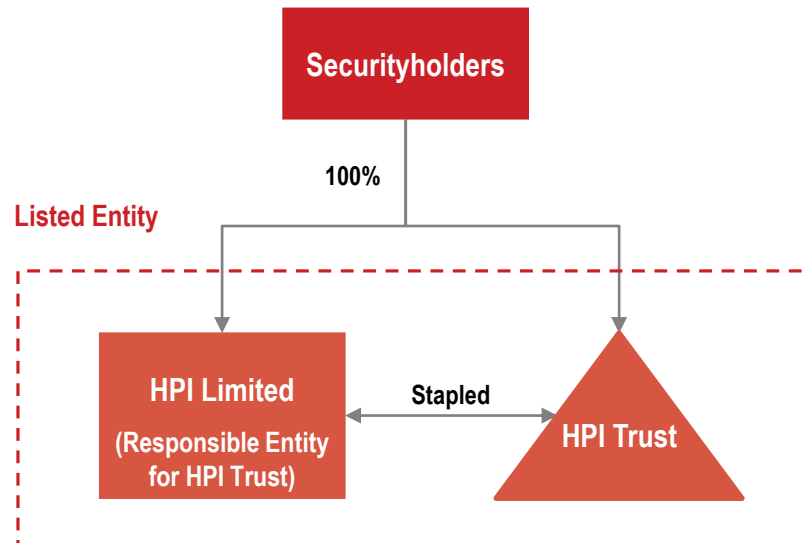
¹ Assuming constant Cap Rates

Internalisation – Simplified HPI Structure

As at 1 July 2016

HPI has internalised management and HPI Limited has become the Responsible Entity for the Trust

- Staff employed directly by HPI Limited, aligning management and investors' interests
- Removes complexity and reduces perceived risk from the HPI business
- Annual cost saving and positions HPI to create future value for Investors



Outlook and strategic agenda

1. Continuing strong performance of HPI properties in the Qld gaming rankings, underpinning HPI's average 3.9% annual rental increases and strong growth in distributions
2. Active portfolio management to maximise value for securityholders.
3. Continue to review debt financing arrangements to achieve optimal cost, tenor, structure and flexibility
4. Independent valuation of a further 1/3rd of properties in December 2016 with potential to see further reduction in WACR
5. Leverage internalisation of Management and the Responsible Entity function and reduce MER to create value for securityholders



Financials – June 2016



Al Fresco dining refurbishment, The Cleveland Sands Tavern, Cleveland, Brisbane

Net Profit for the year ended 30 June 2016 up 70%

Consolidated Income Statement

<u>P&L in \$ millions</u>	<u>30-Jun-16</u>	<u>30-Jun-15</u>
Income		
Net rental income (excl. straight line lease adj)	43.7	40.7
Operating expenses		
Non-recoverable property expenses	-2.6	-2.6
Management fees ¹	-2.2	-1.6
Trust expenses ²	-2.2	-1.8
Total expenses	-6.9	-6.0
Operating profit	36.8	34.7
P&L on Disposal of Assets	0.0	-0.1
Fair value adj and realised loss on hedging ³	1.0	-7.0
Fair value gain on investment property	32.6	18.0
EBIT	70.4	45.7
Net interest expense	-10.2	-10.2
Net profit before tax	60.1	35.5
Tax	0.0	0.0
Net Profit after tax	60.1	35.4

Minor addition differences may arise due to rounding to \$M's

¹ Includes \$0.4m one-off costs of Management and Responsible Entity internalisation

² Includes \$0.4m non-recurring costs incurred relating to successful AFSL application and other advisory costs

³ Hedge accounting was adopted on 1 July 2015. The Mark to Market value of hedging to that date is being amortised over the remaining term of the hedges

Distributions for the year ended 30 June 2016 up 12%

Consolidated Distribution Statement

<u>DISTRIBUTIONS in \$ millions</u>	<u>30-Jun-16</u>	<u>30-Jun-15</u>
Statutory NPAT for the period	60.1	35.4
Amortisation adjustment	0.3	0.2
Fair Value adjustments	-33.6	-11.0
Distributable earnings	26.8	24.7
Maintenance capex	-0.5	-0.9
One off cost of Management Internalisation	0.4	0.0
AFFO (Adj Funds From Ops)	26.7	23.8
Stapled Securities at end of period (million)	146.1	146.1
AFFO per stapled security (cents)	18.3	16.3
Distribution declared per stapled security (cents)	18.3	16.3

Minor addition differences may arise due to rounding to \$M's

100% of AFFO is paid out as Distributions

Balance sheet at 30 June 2016

Consolidated Balance Sheet

BALANCE SHEET in \$ millions	<u>30-Jun-16</u>	<u>30-Jun-15</u>
Current Assets		
Cash	2.3	4.6
Other current assets	0.8	1.1
Total Current Assets	3.1	5.7
Non Current Assets		
Investment property / Property held for sale	596.6	564.2
Other non current assets	0.2	0.2
Total Non Current Assets	596.8	564.4
Total Assets	599.8	570.1
Liabilities		
Current Liabilities		
Payables, Accruals, Other current liabilities ¹	16.5	14.9
Non Current Liabilities		
Borrowings ²	246.0	250.2
Other non current liabilities	4.0	3.0
Total Liabilities	266.4	268.1
Net Assets	333.4	302.0

Minor addition differences may arise due to rounding to \$M's

¹ Current Liabilities includes Provision for Distribution, which will be drawn from funds previously repaid under HPI's revolving loan facility

² Borrowings shown on balance sheet are drawn borrowings less \$0.667 million (Jun-15: \$0.91 million) of capitalised debt establishment fees

Appendices



Bistro refurbishment, The Cleveland Sands Tavern, Cleveland, Brisbane

Large Scale Venues leased to Coles & ALH

- 44 Pubs
- Avg \$1m Rent p.a
- \$597 m portfolio
- Portfolio highly strategic to tenants
- Land 359,000 m²
- Bldgs 125,000 m²
- Attractive Lease
- 3.9% p.a avg pub Rent increase
- WALE 7 yrs and avg 24.3 yrs of options
- High exposure to Gaming
- **Businesses revert to landlord at end of lease**



Attractive lease terms

Summary of a typical Tenant lease

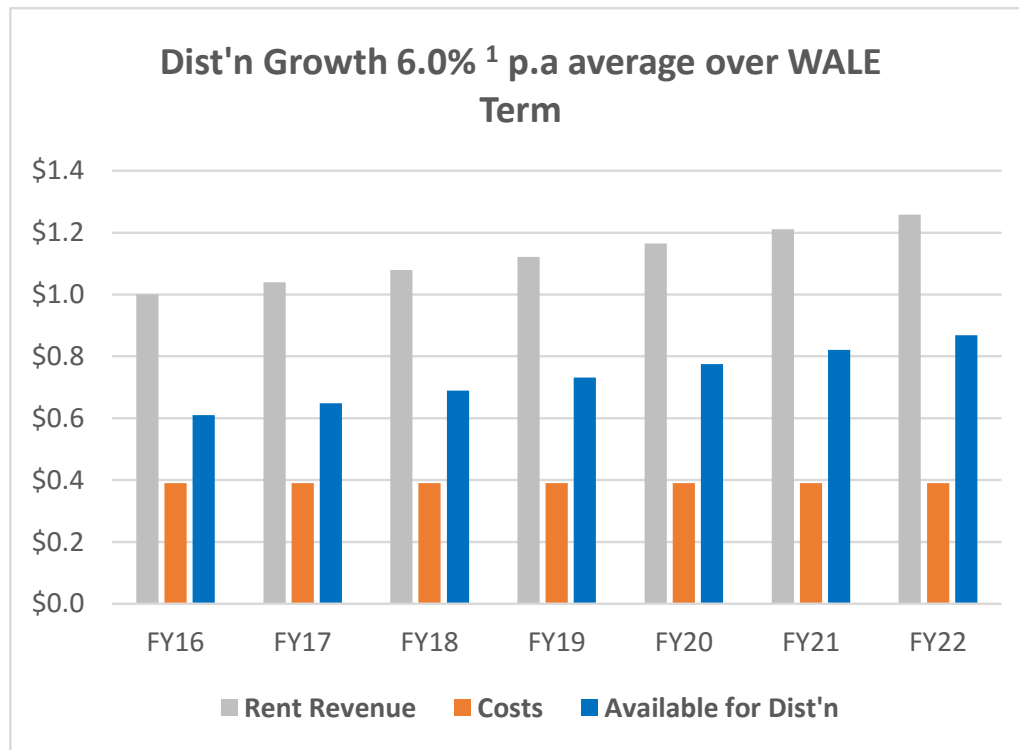
Lease term	<ul style="list-style-type: none"> 15/20 years initial term with options extending an average 24 years Remaining WALE of 7 years (at 30 June 2016)
Rent reviews	<ul style="list-style-type: none"> Average annual pub rent increase 3.9% p.a (40 of 44 at fixed 4% p.a)
Outgoings	<ul style="list-style-type: none"> Majority of outgoings recoverable from tenants including rates, utilities, insurances, but excluding Qld land tax.
Structural Repairs Only	<ul style="list-style-type: none"> Tenant's obligation: Responsible for preventative maintenance of building structure and all plant & equipment, and keeping the property in good repair HPI's obligation: Structural (or part) replacement where repair is no longer economical or practicable. Eg: roof, car park, air conditioning, electrical switchboard, fire services
Development opportunity	<ul style="list-style-type: none"> Development opportunities exist within portfolio, but substantially subject to HPI's and the Tenant's agreement. HPI cannot be compelled to carry out any redevelopment works
Reversion of Licenses	<ul style="list-style-type: none"> HPI retains the rights over all but one liquor licence Over 1,350 (out of approx. 1700) gaming authorities associated with the Pubs revert to HPI on expiry or termination of the lease HPI typically has the option to purchase any additional gaming licenses used in respect of the Pubs.

Recap - Investment Proposition

- Owner of large scale gaming venues leased to Coles & ALH
- Premium hotel assets whose underlying value grows with gaming
- Secure income underpinned by long term leases
- Distribution yield circa 6% with growth underpinned by contracted rental increases averaging 3.9%
- Investment property portfolio value growing as cap rates tighten and rentals grow
- Additional long term value associated with development potential and strategic value of liquor and gaming licences
- Tenant's business is a contingent asset which reverts to the landlord at the end of the lease
- Low risk capital structure with balance sheet flexibility
- Active portfolio management to drive further security holder value
- Attractive risk-return profile for a Wesfarmers bond-like security (A- rating)
- Experienced Board and management

Distribution Growth

- Strong annual distribution growth expected driven by the majority of leases with contracted rental increases of 4% p.a (average annual rent increase 3.9%)



1. Annual growth of a marginal \$1 on assumption of constant costs and contracted rental growth

