



2016 Full Year Results Presentation

22 August 2016

Highlights



- The transformation plan initiated in December 2015 is proving to be very successful, driving a high performance culture and strong earnings growth, which in turn is enhancing security holder value
- Very strong June half year with operating revenue and EBITDA for the core hotels improving by 10.9% and 38.8% respectively when compared to the PCP
- The momentum achieved in the June half is continuing into the new financial year
- Security holders benefit from the successful turnaround via a special distribution of 2 cents per security paid subsequent to the end of the financial year on 10 August 2016
- The programme for the divestment of non-core hotels is nearing completion. When all contracted sales are finalised Lantern will have realised approximately \$43m at a premium to book value of 14%
- Reduced debt resulting in a low gearing level and a strong balance sheet providing a solid platform for active capital management, growth and/or other strategic alternatives
- Re-financing of the primary debt facility completed prior to year end

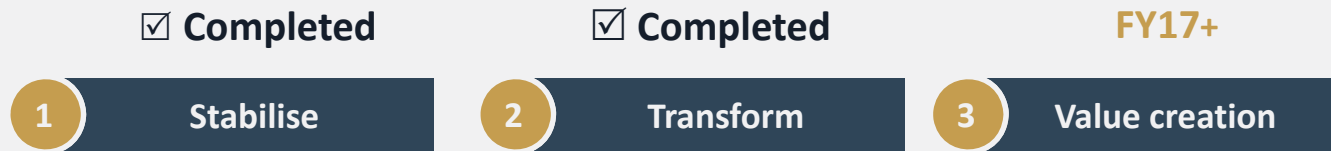
Transformation Plan on Track




Successful implementation of the transformation plan during the June half, with benefits continuing into FY17



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 Capital structure <ul style="list-style-type: none"> Stabilised debt arrangements Commenced the divestment process for non-core assets 	<ul style="list-style-type: none"> Prepare the business for growth Continue the divestment of non-core assets 	<ul style="list-style-type: none"> Active capital management Development and acquisition Other strategic alternatives
 Value proposition <ul style="list-style-type: none"> Implement culture of operational excellence 'Lantern Way' Implemented a gaming focus 	<ul style="list-style-type: none"> Stop the losses in food Focus on gaming 	<ul style="list-style-type: none"> Invest further in gaming and operational excellence initiatives
 People <ul style="list-style-type: none"> Established benchmarks and KPIs Set foundations for open communication 	<ul style="list-style-type: none"> Remuneration linked to strategy Sense of urgency culture 	<ul style="list-style-type: none"> Talent identification, acquisition and retention programme

Transformation plan has delivered significantly improved EBITDA, a stable capital structure and a 2c special distribution. Future focus on enhancing security holder value.

2016 Full Year Results

Transformation plan has delivered significantly improved EBITDA



Stapled Entity Consolidated	First half			Second half			Full year		
	6 months to December	6 months to December	Change %	6 months to June	6 months to June	Change %	Total	Total	Change %
	FY2016 \$'000	FY2015 \$'000		FY2016 \$'000	FY2015 \$'000		FY2016 \$'000	FY2015 \$'000	
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%
<i>EBITDA margin for core hotels</i>	<i>24.8%</i>	<i>24.4%</i>		<i>26.8%</i>	<i>21.4%</i>		<i>25.8%</i>	<i>23.0%</i>	
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

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2016 Full Year Results

Net profit before significant items for the June half reflects the improved capital structure



Stapled Entity Consolidated	First half		Second half		Full year	
	6 months to December	6 months to December	6 months to June	6 months to June	Total	Total
	FY2016 \$'000	FY2015 \$'000	FY2016 \$'000	FY2015 \$'000	FY2016 \$'000	FY2015 \$'000
Group EBITDA	5,410	5,160	4,083	3,200	9,493	8,360
Depreciation and amortisation ⁽¹⁾	(1,546)	(1,630)	(2,028)	(1,842)	(3,574)	(3,472)
Net interest expenses ⁽¹⁾⁽²⁾⁽³⁾	(3,028)	(3,224)	(1,259)	(3,282)	(4,287)	(6,506)
Tax expense	-	-	-	(108)	-	(108)
Net profit before significant items⁽⁴⁾	836	306	796	(2,032)	1,632	(1,726)
<i>Net profit before significant items per security (cents)</i>	<i>0.09</i>	<i>0.03</i>	<i>0.09</i>	<i>(0.23)</i>	<i>0.18</i>	<i>(0.20)</i>

Notes:

1. Includes amounts associated with discontinued operations
2. The net interest expense is lower in the June half of FY2016 due to the removal of the out of the money interest rate swaps in the December half
3. Interest expense is shown net of interest income, and excludes the change in the fair value of interest rate swaps (classified as a significant item)
4. Refer to Appendix 1 for a reconciliation of net profit before significant items to the reported net profit

2016 Full Year Results

Strong turnaround in June half

38.8% growth in core hotels EBITDA over PCP



- Commenced implementation of the transformation plan in December 2015, focused on developing a portfolio of core, strong performing hotels that provide a platform for growth and enhancing security holder value
- The June half has seen a significant improvement in the performance of the core hotel portfolio when compared to the PCP:
 - ✓ Total operating revenue up by 10.9%
 - ✓ Gaming revenue up by 18.7%
 - ✓ EBITDA up by 38.8%
- The positive momentum achieved in the performance of the core hotels is continuing into the new financial year
- The electronic gaming machine (EGM) replacement programme continues to drive improved performance with approximately 50% of the EGM's in the core hotels having been replaced during the June half. By 30 August 2016 the current EGM replacement programme will be completed, replacing 64% of EGM's in the core hotels
- Operational efficiency measures implemented during the June half have improved overall operating margins

2016 Full Year Results

Cost base has been rationalised



- Central support services (CSS) expenses for the June half reduced by 15.7% when compared to the PCP reflecting cost reductions during the full year
- Corporate and fund expenses for the June half are higher than the PCP due to a number of one off costs associated with the restructuring and transformation of the group operations
- An ongoing focus on cost control is being maintained across the group



Waterworks Hotel, Botany



Five Dock Hotel, Five Dock

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Financial position

Balance sheet strengthened



	30 June 2016 \$'000	31 December 2015 \$'000	30 June 2015 \$'000
Cash	12,011	4,681	3,611
Assets of discontinued operations ⁽¹⁾	18,601	29,260	5,740
Other current assets	1,890	2,990	2,694
Total current assets	32,502	36,931	12,045
Investment properties ⁽²⁾⁽³⁾	16,250	26,993	26,963
Other non-current assets	97,233	116,024	142,191
Total non-current assets	113,483	143,017	169,154
Total assets	145,985	179,948	181,199
Current borrowings	14,149	67,396	72,340
Liabilities of discontinued operations ⁽¹⁾	472	658	-
Other current liabilities	7,675	9,258	15,728
Total current liabilities	22,296	77,312	88,068
Non-current borrowings	26,267	12,700	-
Other non-current liabilities	2,200	1,689	4,879
Total non-current liabilities	28,467	14,389	4,879
Total liabilities	50,763	91,701	92,947
Net assets	95,222	88,247	88,252

Notes:

1. Relate to assets and liabilities associated with assets held for sale at each balance date
2. Reduction in investment properties reflects a write down of the carrying value of the Brisbane and Central Hotels (\$5.3m), sale of the GPO Hotel (\$4.1m) and the transfer of the Central Hotel to discontinued operations (\$2.5m), offset by the write up of Uncle Bucks Retail (\$1.1m)
3. Uncle Bucks Retail has been reclassified to investment properties from PPE, including comparatives

- 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 year end
- Low gearing level and a strong balance sheet provides a solid platform for active capital management, growth and/or other strategic alternatives

Divestment of Non-Core Hotels

\$43m in proceeds at 14% 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	Expected Sept 2016
Courthouse	\$6.25m	Expected Oct 2016
Central		Sale process underway

- The divestment programme commenced in November 2015 and is nearing completion
- Completed and contracted sales expected to realise approximately \$43m which represents a premium to book value of 14%
- Following completion of all contracted sales Lantern will own nine hotels including seven owned and operated core hotels and two non-core hotels that are owned by Lantern and operated by others
- The remaining non-core hotels include the Central hotel in Bundaberg and the Brisbane Hotel in Perth
- A sale process is underway for the Central Hotel in Bundaberg
- A decision has been made to retain the Brisbane Hotel in Perth for the foreseeable future. Holding this hotel presents a better financial outcome for Lantern than selling it in the current Perth market

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Ongoing Focus Areas

Maintain momentum and grow



- The transformation plan has been successfully implemented resulting in a core portfolio of performing hotels and a strong balance sheet
- The platform for growth is in place:
 - Maintain the momentum, improving the trading performance of the core hotels including continuing to invest in the EGM replacement programme
 - Invest to refurbish and modernise the core hotels with emphasis on achieving ROI benchmarks set by the Board
 - Active capital management
 - Identify and evaluate strategic alternatives
- The sale of the non-core hotels will continue



Crown Hotel, Surry Hills



General Gordon Hotel, Sydenham

Capital management

Balancing the need to invest and providing returns to security holders



- The balance sheet strength, driven by the sale of hotels and improved operating performance, has allowed for a return of capital to security holders of 2c per security, paid on 10 August 2016
- As further funds are realised from future non-core hotel sales, after an appropriate amount is applied to debt, the Board will consider the options available. These options may include further special distributions to security holders, debt reduction or investing in existing and other hotels
- The Board will continue to review the ongoing approach to capital management, including the payment of regular distributions from the operating profits of future periods, taking into account the completion of the programme for the divestment of non-core hotels, the performance of the core hotels and alternative uses for capital
- To provide greater clarity, the Board has formalised Lantern's Distribution Policy, which is intended to provide a return to security holders relative to profit. The Board's policy is to maintain a distribution payout ratio of between 50% and 80% of net profits before significant items, subject to Lantern's financial position

Appendix 1

Reconciliation of reported results



Stapled Entity Consolidated	First half		Second half		Full year	
	6 months to December FY2016	6 months to December FY2015	6 months to June FY2016	6 months to June FY2015	Total FY2016	Total FY2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net profit before significant items	836	306	796	(2,032)	1,632	(1,726)
Change in fair value of PPE	(470)	-	-	(7,325)	(470)	(7,325)
Change in fair value of investment properties ⁽¹⁾	(420)	(37)	(4,167)	613	(4,587)	576
Write off of goodwill	(1,116)	-	-	(2,500)	(1,116)	(2,500)
Change in fair value of interest rate swaps	1,239	695	-	510	1,239	1,205
Profit/loss on sale of fixed assets ⁽²⁾	(33)	(3)	10,456	2,502	10,423	2,499
Non-recurring costs	-	-	-	(1,524)	-	(1,524)
Other items	(137)	(158)	22	68	(115)	(90)
Reported profit/(loss) after tax	(101)	803	7,107	(9,688)	7,006	(8,885)

Notes:

1. The June half of FY2016 includes the write down of the Brisbane and Central Hotels, offset by the write up of Uncle Bucks Retail
2. Profit/loss on sale of fixed assets in the June half of FY2016 includes the sale of hotels and the loss on disposal of other asset replacements, including EGM's

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