

CEO's Address



Lantern Hotel Group Limited Annual General Meeting 25 October 2016

CEO's Address

Thank you Graeme, and good morning to you all.

As Graeme mentioned we commenced implementation of the transformation plan from November 2015 which has resulted in a very strong turnaround in the Group's financial performance.

In essence the transformation plan included three major work-streams as follows:

1. The resolution of a number 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.
2. Improving the EBITDA of the core gaming led hotels; and
3. Divesting the non-core hotels.

I will now focus on the improved EBITDA of the core gaming led hotels and the divestment of the non-core hotels.

For personal use only

2016 FULL YEAR RESULTS

We achieved a strong turnaround in the June half with operating revenue and EBITDA for the core hotels improving by 10.9% and 38.8% respectively when compared to the prior corresponding period. This includes the Commodore Hotel, which is now classified as a non-core hotel.

The electronic gaming machine (EGM) replacement programme along with an improved customer experience has been the key driver of the turnaround. Gaming revenue in the core hotels for the June half improved by 18.7% when compared to the prior corresponding period, with approximately 50% of the EGM's in the core hotels having been replaced by 30 June 2016.

A concerted effort to reduce the central support services expenses resulted in a 15.7% reduction in these expenses during the June half when compared to the prior corresponding period.

An ongoing focus on reducing central support services expenses is in place with significant savings achieved since 30 June 2016.

The debt reduction programme has reduced gross debt from approximately \$80m at 31 December 2015 to approximately \$40m at 30 June 2016 with net debt at 30 June 2016 being approximately \$28m.

The primary debt facility was refinanced prior to 30 June 2016. This along with low gearing levels and a strong balance sheet has provided a solid platform for active capital management and for the Board to consider the various strategic options outlined in Graeme's address.

SEPTEMBER QUARTER TRADING UPDATE

The strong turnaround is continuing in the September quarter with operating revenue, gaming revenue and EBITDA for the core hotels improving by 17.3%, 27.5% and 34.5% respectively when compared to the prior corresponding period.

The EGM replacement programme has continued, supporting the continued strength of the gaming results, with 61% of EGM's replaced since the implementation of the transformation plan in November 2015.

Gross debt at 30 September 2016 was approximately \$45m with net debt being approximately \$35m. The increase in both gross and net debt from 30 June 2016 has arisen from the payment of the special distribution in August 2016 amounting to \$17.7m, although this has been offset by the proceeds from non-core hotel sales of approximately \$10m and the profits generated from operations.

DIVESTMENT OF NON-CORE HOTELS

The programme for the divestment of non-core hotels that commenced in November 2015 has been very successful.

As at the date of the AGM the Group has divested six hotels, and has entered into binding contracts for the sale of a further four hotels with completion of these contracts expected by the end of January 2017.

Following the completion of all contracted sales Lantern is expected to realise approximately \$69m from the divestment of its non-core hotels since November 2015, at a combined premium to book value of approximately 14.6%.

The Group's remaining six hotels following the completion of the contracted sales are:

- Ambarvale Hotel, Ambarvale;
- Crown Hotel, Surry Hills;
- Five Dock Hotel, Five Dock;
- General Gordon Hotel, Sydenham;
- Uncle Bucks Hotel, Mt Druitt, including the adjacent retail premises owned by the Group and leased to a number of tenants; and
- Waterworks Hotel, Botany.

ONGOING FOCUS AREAS

To ensure that the momentum achieved is maintained we intend to focus on the following areas:

- actively manage capital including the payment of distributions to Securityholders;
- continued evaluation of strategic alternatives; and
- until implementation of the proposed Sell Down Strategy, continue to improve the trading performance of the core hotels.

THANK YOU

I would like to thank Securityholders for the positive feedback provided to me in relation to the more open and transparent communication that we have endeavoured to deliver during the course of the last year.

I would also like to thank the entire Lantern team for their dedication and hard work during the year and acknowledge that the outstanding results that we have achieved are directly attributable to their hard work and commitment.

My final vote of thanks goes to John Murphy who tendered his resignation as Chairman in June 2016. John's contribution was a major factor in the turnaround.

ENDS: