# Redcape Hotel Group

## Redcape Announces Full-Year FY19 Results

28 August 2019

Redcape Hotel Group Management Ltd, Responsible Entity of the Redcape Hotel Group (ASX: RDC) ("Redcape" or "Group"), today announced the Group's full-year distributable earnings in line with the PDS guidance driven by portfolio expansion and enhancement, and like-for-like revenue growth supported by strong food and beverage sales.

### FY19 Highlights

- FY19 pro forma distributable earnings[1] of $46.5m or 8.80cps in line with PDS guidance
- Distributions of 8.75cps [2] equating to a 7.85% [3]yield
- Proforma operating EBITDA[4] up +21.3% on FY18 (-2.6% vs PDS guidance), driven by venue acquisitions and like-for-like[5] ("LFL") revenue growth
- LFL Revenue grew +3.3% on FY18
- Statutory net loss after tax of $4.9m
- Portfolio value of $1.08b
- Net Asset Value at $1.14 per stapled security underpinned by valuations uplift of $14.6m[6] over the full year
- Gearing[7] of 38.0% at the lower end of target range of 35% - 45%

Redcape CEO, Dan Brady, said the "Group performed strongly in a soft consumer market, underscoring the defensive nature of the business."

"We have achieved a great deal in our first year as a listed entity – we acquired six venues, invested $21.6m in growth capex, increased food and beverage sales, and contained costs ahead of forecast," Mr Brady said.

"Redcape is very well positioned for the future, with a high-quality portfolio of venues in strategic locations, a strong pipeline of growth opportunities and a robust balance sheet to support that growth."

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[1] Distributable Earnings defined as pro forma NPAT adjusted for non-cash items such as fair value adjustments, depreciation and amortisation and other unrealised and non-recurring items less maintenance capex. Refer to page23 of the Management presentation for reconciliation.
[2] Cumulative distributions over FY19 includes pre-IPO distributions. See Redcape IPO PDS for further details.
[3] Based on RDC share price as at 28 June 2019.
[4] Pro forma operating EBITDA defined as Earnings Before Interest, Tax, Depreciation and Amortisation, impairment charges and fair value adjustments. Refer to page 22 of the' FY19 Results Presentation' for a reconciliation of pro forma to Statutory results.
[5] Like for Like ("LFL") revenue growth is based on venues that traded for the full year F18 and F19 and thus excludes any part year acquisitions.
[6] Uplift measured against previous valuations plus growth capital expenditure over the financial year. Statutory valuation uplift of $20.5m (excluding Belrose divestment reversal) over the financial year is higher due to treatment of depreciation expense and maintenance capital expenditure.
[7] Gearing defined as total borrowings less cash as a percentage of total assets less cash.

**About Redcape Hotel Group (Redcape)**

Redcape is one of Australia's leading pub and hotel operators. The Redcape portfolio comprises 32 quality hotels (31 freehold and one leasehold) strategically located across New South Wales and Queensland and has a clear focus on delivering excellent and responsible service, maintaining high quality facilities, advancing the training and development of its people and contributing positively to the communities in which it operates. www.redcape.com.au

*Redcape Hotel Group Management Ltd (ACN 610 990 004) (AFSL 505932) is the responsible entity of Redcape Hotel Trust I (ARSN 629 354 614) and Redcape Hotel Trust II (ARSN 629 354 696) (together "Redcape" or "Redcape Hotel Group"). Moelis Australia Hotel Management Pty Ltd (ACN 619 297 228) is the appointed investment manager and hotel operator of Redcape.*

Redcape paid distributions of 8.75cps for the year consistent with PDS guidance. Distributable earnings for the year came in at 8.80cps in line with the PDS forecast range of 8.80-9.00cps.

Trust manager, Moelis Australia Hotel Management Pty Ltd (MAHM), waived $1.5m of hotel operating fee to support Redcape during the period, demonstrating an alignment of long-term interest to Securityholders.

## Operating Performance

Redcape is a highly cash generative business with operating cash flows in FY19 of $36.0m.

Total revenue for the year increased +17.4% and pro forma operating EBITDA increased +21.3% over the prior corresponding period underpinned by the acquisition of six venues and solid like for like revenue growth.

This growth was achieved despite a small number of the initial acquisitions taking longer than expected to integrate into the portfolio.

Cost savings offset downward pressure on gaming margin as a result of increased player win rates.

Redcape's existing portfolio performed well on a like for like basis achieving +3.3% revenue growth, demonstrating the strength and defensive characteristic of the business.

This strong operating result was attained against the backdrop of variable trading conditions across the FY19 period predominately due to macro-economic factors leading to weaker consumer sentiment.

## Property Portfolio

Redcape acquired six venues over the period and invested $21.6m in growth capex, including major refurbishments of the Leumeah Hotel, Eastwood Hotel and Cabramatta Hotel. Both measures have enhanced the quality of the portfolio, diversifying earnings and laying a strong platform to drive future earnings growth.

Consistent with the strategy of portfolio optimisation through recycling capital into higher-growth opportunities, Redcape divested the Belrose Hotel in Sydney's Northern Beaches during the period at a $1.0m premium to book value.

Of the 32[8] venues, 31 are Freehold Going Concern assets which provide refurbishment growth opportunities, a valuable land bank and the flexibility to consider alternative use developments on underutilised sites to augment the hotels' underlying profitability and unlock latent land value.

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[8] Excludes the post reporting period exchange of contracts to acquire the Eden Brewhouse, Redbank Plains.

A combination of independent and Director's valuations were completed during the period resulting in a net uplift of $14.6m[9] to the portfolio.

Post the end of the financial year, Redcape exchanged contracts to acquire the Eden Brewhouse Redbank Plains Queensland as part of the ongoing portfolio optimisation program.

## Capital Management

Post the reporting period, the Group successfully refinanced a $503m[10] debt facility with enhanced terms, an extension of tenor to a weighted average of four years, and an expanded lender group with four financiers now in place versus three previously.

As a result of closing out the existing hedge program and the refinance, we expect the all-in interest costs to improve ~100 bps from September 2019.

Redcape's balance sheet has been strengthened by the increase in property asset values, which predominantly reflects our investment in refurbishments and uplift in valuations.

As at 30 June 2019, gearing stood at 38.0%[11] which is at the lower end of our target band of 35%-45% and interest coverage ratio stood at 3.95 times[12].

## Outlook

Commenting on the outlook, Mr Brady said: "We are confident in Redcape's ability to deliver solid earnings growth. We have a defensive operating business in a sector with high regulatory and capital investment barriers to entry which enables the business to have strong cashflows and revenue growth."

"Our portfolio is difficult to replicate, comprising of strategically located, high-quality assets, many of which are on sites we own and are underutilised, providing an opportunity to unlock value through alternate land use."

Redcape expects FY20 distributable earnings to be greater than 9.0cps[13]. Distributions are expected to be maintained at 8.75cps, equating to a 7.85%[14] yield. The pay-out ratio is to be consistent at 90- 100% of distributable earnings. Like-for-like revenue growth is expected to track above CPI.

[9] Uplift measured against previous valuations plus growth capital expenditure over the financial year. Statutory valuation uplift of $20.5m (excluding Belrose divestment reversal) over the financial year is higher due to treatment of depreciation expense and maintenance capital expenditure.
[10] Includes $3.0m ancillary facility.
[11] Gearing defined as total borrowings less cash as a percentage of total assets less cash.
[12] Interest Cover Ratio calculated as Operating EBITDA/Net finance costs, less amortisation of borrowing costs (on a 12-month rolling basis).
[13] Subject to no material change in economic conditions, no change to management fee construct and/or portfolio numbers.
[14] Based on RDC share price as at 28 June 2019.

- Ends –

For information please contact:

Investor Enquiries
Bianca Vlasic
Redcape Hotel Group
(02) 9719 4088 (Australia)
006129719 4088 (International)

Media Enquiries
Matt Gregorowski
Citadel-MAGNUS
+61 (0)422 534 755

Management will present FY19 Results via a live audio webcast. Details provided below;

Date: Wednesday 28th August
Time: 11am
Webcast URL https://webcast.openbriefing.com/5397



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