

# Redcape Hotel Group

1H19 Results Presentation • 20 February 2019



# Agenda

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- 1 Overview of 1H19 Results
- 2 Financial Results
- 3 Portfolio Overview
- 4 Key Priorities and Outlook
- 5 Appendices



# 1 OVERVIEW OF 1H19 RESULTS

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# 1H19 HIGHLIGHTS

## FINANCIAL PERFORMANCE

**\$32.4m Operating EBITDA<sup>1</sup>**  
13.8% increase on 1H18 driven by acquisitions

**4.3cps 1H19 Distributable Earnings<sup>2</sup>**  
8.8-9.0 cps full year forecast

**4.4cps 1H19 Distributions<sup>4</sup>**  
8.75 cps FY19 forecast

## CAPITAL MANAGEMENT

**\$1.13 NAV**  
per stapled security

**37.5% Gearing<sup>3</sup>**  
Lower end of 35%-45% target range

**3.8x Interest Coverage Ratio<sup>5</sup>**  
Cash generative business

## PORTFOLIO

**\$1.1bn Portfolio Value**  
32 venues across NSW and QLD

**Acquired 6 New Venues**  
Improved portfolio quality  
One disposal at premium to book value

**Accretive Capex Opportunities**  
\$10m invested in 1H FY19

Notes:

1. Operating EBITDA defined as earnings before interest, taxation, depreciation, amortisation, impairment charges and fair value adjustments
2. Distributable Earnings defined as NPAT adjusted for non-cash items such as fair value adjustments, depreciation and amortisation and other unrealised and non-recurring items less maintenance capex
3. Gearing defined as total borrowings less cash as a percentage of total assets less cash
4. Cumulative distributions over 1H19 including pre-IPO distributions – see November 2018 Redcape IPO PDS for further details
5. Interest Cover Ratio (ICR) calculated as Operating EBITDA / net finance costs less amortisation of borrowing costs (on a 12 month rolling basis)

# KEY ACHIEVEMENTS

## IPO

- Successfully completed the IPO of Redcape Hotel Group on 30 November 2018

## Core Business

- Strong revenue (+17.5%) and Operating EBITDA (+13.8%) growth predominately driven by acquisitions
- 1H FY19 venue performance was in line with expectations with a strong first quarter and a more variable second quarter
- Modest \$5.9m<sup>1</sup> net uplift in valuations at December 2018 vs IPO independent valuations

## Growth Capital Expenditure

- Major refurbishment of Leumeah Hotel (~\$4.9m) repositioning the venue in the local community
- Eastwood Hotel relaunched January 2019 after a material refurbishment (~\$4.2m) was completed
- Commenced Cabramatta Inn (~\$7.0m) refurbishment with target completion in June 2019
- Relocated Redcape's head office (Moelis Australia Hotel Management) to Minskys Hotel in Cremorne

## Acquisitions

- Reviewed in excess of 15 venues for acquisition with a disciplined approach to assessing opportunities
- Acquisition of six of these venues totalling \$158m with all acquired off-market

## Disposals

- Divested the Belrose Hotel for \$20m representing a 5.1% premium to book value

Notes:

1. Uplift measured against previous valuations plus growth capital expenditure during the period. Statutory valuation uplift of \$7.1m is higher due to the statutory treatment of depreciation expense and maintenance capital expenditure

## 2 FINANCIAL RESULTS

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# DISTRIBUTABLE EARNINGS

## COMMENTARY

- Operating EBITDA increased materially over the prior corresponding period (+13.8%) predominately due to the acquisition of new venues
- Venue performance was strong over the first quarter with some variability experienced late in the second quarter
- Increased finance costs due to partially funding the settlement of the new acquisitions
- Maintenance capex spend of \$2.2m with focus on electronic gaming machine renewal
- 1H FY19 Distributable Earnings of 4.3cps in line with expectations (49% of FY19 forecast<sup>2</sup>)
- 1H19 and 1H18 Distributable Earnings are not directly comparable due to pre-IPO transactions including capital raisings and acquisitions, re-instatement of growth capital expenditure programme, seasonality and timing differences

## DISTRIBUTABLE EARNINGS STATEMENT

\$m	1H19	1H18	% change
Gaming revenue	90.7	76.8	18.1%
On-premise revenue	26.8	20.1	33.5%
Off-premise revenue	24.8	24.1	2.8%
Corporate revenue	0.3	0.3	(13.0%)
<b>Total revenue</b>	<b>142.6</b>	<b>121.3</b>	<b>17.5%</b>
Cost of sales	(67.6)	(58.9)	14.8%
<b>Gross profit</b>	<b>75.0</b>	<b>62.4</b>	<b>20.1%</b>
<i>Gross profit margin</i>	52.6%	51.4%	+1.2%
Venue expenses	(35.0)	(27.4)	27.8%
Management fees	(7.6)	(6.6)	15.8%
<b>Operating EBITDA</b>	<b>32.4</b>	<b>28.4</b>	<b>13.8%</b>
Net finance costs	(8.2)	(7.0)	17.1%
Maintenance capital expenditure	(2.2)	(2.1)	3.4%
Other non-cash items	(0.1)	0.1	(212.7%)
<b>Distributable Earnings (\$m)</b>	<b>21.9</b>	<b>19.4</b>	<b>12.5%</b>
<b>Distributable earnings per security (cents)</b>	<b>4.3</b>	<b>4.8</b>	
<b>Distribution per security (cents)</b>	<b>4.4</b>	<b>4.4</b>	

### Notes:

- Refer to reconciliation to statutory income statement on slides 19 and 20
- Based on the lower end of forecast FY19 Distributable Earnings range of 8.8-9.0cps as per the Redcape PDS dated 1 November 2018

# BALANCE SHEET

## COMMENTARY

- Net Assets increased by \$2.3 million underpinned by valuations
- NAV of \$1.13 per security in line with the PDS
- Increase in Property Assets predominately reflects growth capital expenditure invested during the period and net revaluation uplift
- Gearing of 37.5% at lower end target range of 35%-45%
  - Current intention to retain gearing at lower end of target range
- \$48 million of facility headroom at 31 December 2018

## BALANCE SHEET

\$m	31-Dec-2018 Statutory	30-June-2018 PDS Pro Forma	% change
Cash	21.6	35.1	(38.5%)
Property Assets <sup>1</sup>	1,057.4	1,043.9	1.3%
Other assets	28.6	26.3	8.7%
<b>Total assets</b>	<b>1,107.5</b>	<b>1,105.2</b>	<b>0.2%</b>
Borrowings	428.3	434.9	(1.5%)
Other liabilities	56.0	49.3	13.5%
<b>Total liabilities</b>	<b>484.3</b>	<b>484.2</b>	<b>0.0%</b>
<b>Net Asset Value</b>	<b>623.3</b>	<b>620.9</b>	
<b>Stapled securities on issue</b>	<b>551.5</b>	<b>551.5</b>	
<b>NAV per security</b>	<b>1.13</b>	<b>1.13</b>	
<b>Gearing</b>	<b>37.5%</b>	<b>37.4%</b>	

### Notes:

1. Property Assets comprise PPE of \$466.6 million and intangible assets of \$590.8 million per statutory accounts

# 3 BUSINESS OVERVIEW

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# REDCAPE VISION

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Our vision is to shape and nurture sociable and sustainable communities, and create opportunities for growth and empowerment

We are a growth company with a strong capital structure, industry leading systems and processes, capable people and a stable earnings base underpinned by owning its real estate.

By leveraging off the expertise and leadership provided by Moelis Australia Hotel Management (MAHM) growth will be achieved by having a portfolio of assets that are driven by a great culture, a winning strategy and a high level of skill within the people running the assets.

Success will materialise through non-linear growth in on-premise revenue, a controlled cost base, highly accretive deployment of capital, sensible acquisition and divestment of assets with longer term growth coming through integrated development of the organisations underutilised real estate holdings.

Innovation in key areas of customer management, staff training and development, facility modernisation and culture that prioritises a 'care' for people will further support the growth ambition.

# REDCAPE OVERVIEW

## BUSINESS OVERVIEW

<b>SECTOR</b>	<ul style="list-style-type: none"><li>▪ Hotel or Pub industry</li><li>▪ High barriers to entry</li><li>▪ Regulated assets</li></ul>
<b>VENUES</b>	<ul style="list-style-type: none"><li>▪ 32 high quality assets</li><li>▪ Hard to replicate portfolio in strategic locations</li></ul>
<b>OWNERSHIP</b>	<ul style="list-style-type: none"><li>▪ 32 Hotels (Pubs) comprising of:<ul style="list-style-type: none"><li>- 31 operating businesses + real estate</li><li>- 1 leasehold operating business</li></ul></li></ul>
<b>MANAGEMENT PLATFORM</b>	<ul style="list-style-type: none"><li>▪ Industry leading management platform</li><li>▪ Value creation through capital deployment, portfolio management and operational enhancements</li></ul>

## AUSTRALIAN DISTRIBUTION



# 1H19 ACQUISITIONS

<p>Sun Hotel</p>	<p>July 2018 (\$20m)</p>	<ul style="list-style-type: none"> <li>▪ Located in Townsville, the Sun is situated on a major arterial road ~4km from the Townsville CBD and 2.5km from Redcape’s Hermit Park Hotel</li> <li>▪ High yielding asset</li> <li>▪ Opportunities for accretive growth capital deployment</li> </ul>
<p>Vauxhall Inn</p>	<p>August 2018 (\$40m)</p>	<ul style="list-style-type: none"> <li>▪ Strategic acquisition complementing Redcape’s existing portfolio</li> <li>▪ Located in Granville, the venue is situated across two lots totalling approximately 3,400sqm which benefit from major arterial frontage and a substantial car parking area</li> <li>▪ Possible alternate use site (current site utilisation 30%)</li> <li>▪ Operational and accretive growth capital deployment</li> </ul>
<p>Australian Hotel &amp; Brewery (“AH&amp;B”)</p>	<p>August 2018 (\$48m)</p>	<ul style="list-style-type: none"> <li>▪ High quality food and beverage focused venue underpinned by an established craft beer brewery</li> <li>▪ Potential for AH&amp;B craft beer to be distributed across the Redcape On and Off-Premise network</li> <li>▪ Situated in Sydney’s high growth North West corridor, approximately 45km to the CBD and 20km from Parramatta</li> <li>▪ Accretive growth capital opportunities</li> </ul>
<p>South Coast Portfolio (three venues)</p>	<p>December 2018 (\$50m)</p>	<ul style="list-style-type: none"> <li>▪ High quality regional assets, close to Sydney</li> <li>▪ Diversified businesses in attractive locations</li> <li>▪ Attractive entry yield with platform synergies and growth capital opportunities</li> </ul>



# 1H19 MAJOR REFURBISHMENT PROJECTS

## EASTWOOD HOTEL

- Completed January 2019
- Works included gaming room, public bar and external beer garden
- Significant trade disruption during refurbishment which took 11 months
- Venue performance is expected to improve post summer trade and relaunch
- Target 5-year IRR of 20%<sup>1</sup>



## LEUMEAH HOTEL

- Completed October 2018
- Venue was repositioned including expanded food and beverage offering, new gaming room and public bar
- Venue performance continues to gain momentum and is trading ahead of expectations
- Target 5-year IRR over 30%<sup>1</sup>



## CABRAMATTA INN

- Commenced September 2018
- Objective is to deliver a market leading premier venue to the local community
- Expanded food and beverage, public bar and gaming offering
- Substantial project (~\$7.0m budget) on schedule for completion in June 2019
- Target 5-year IRR of 35%<sup>1</sup>



Notes:

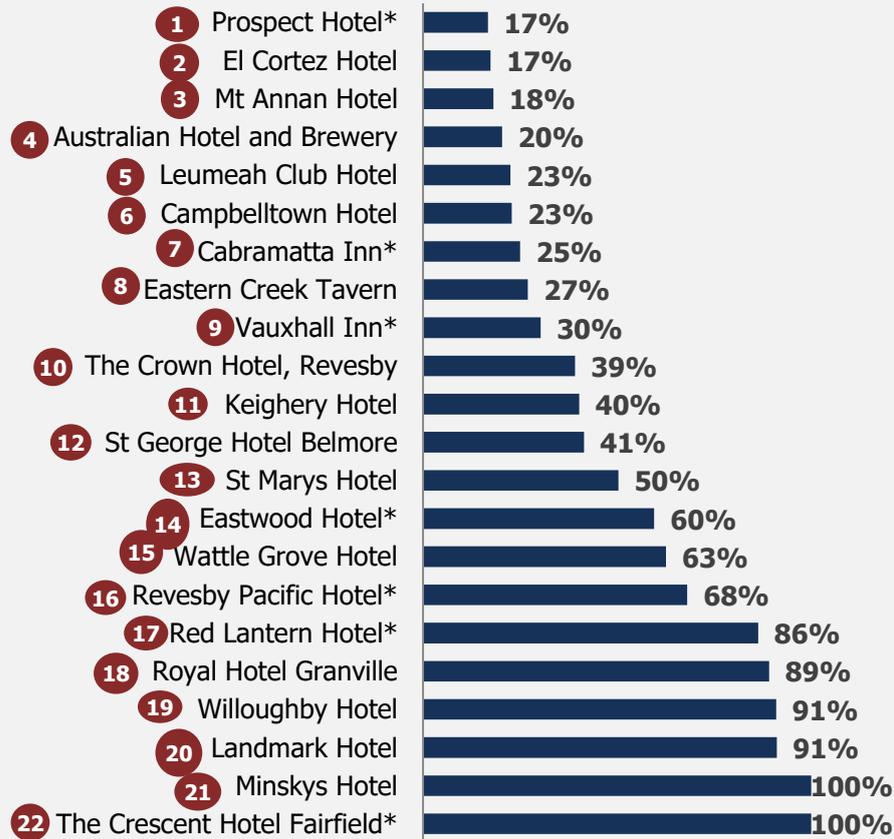
1. Target internal rate or returns (IRR) based on 5 year project feasibility

# GREATER SYDNEY LAND BANK

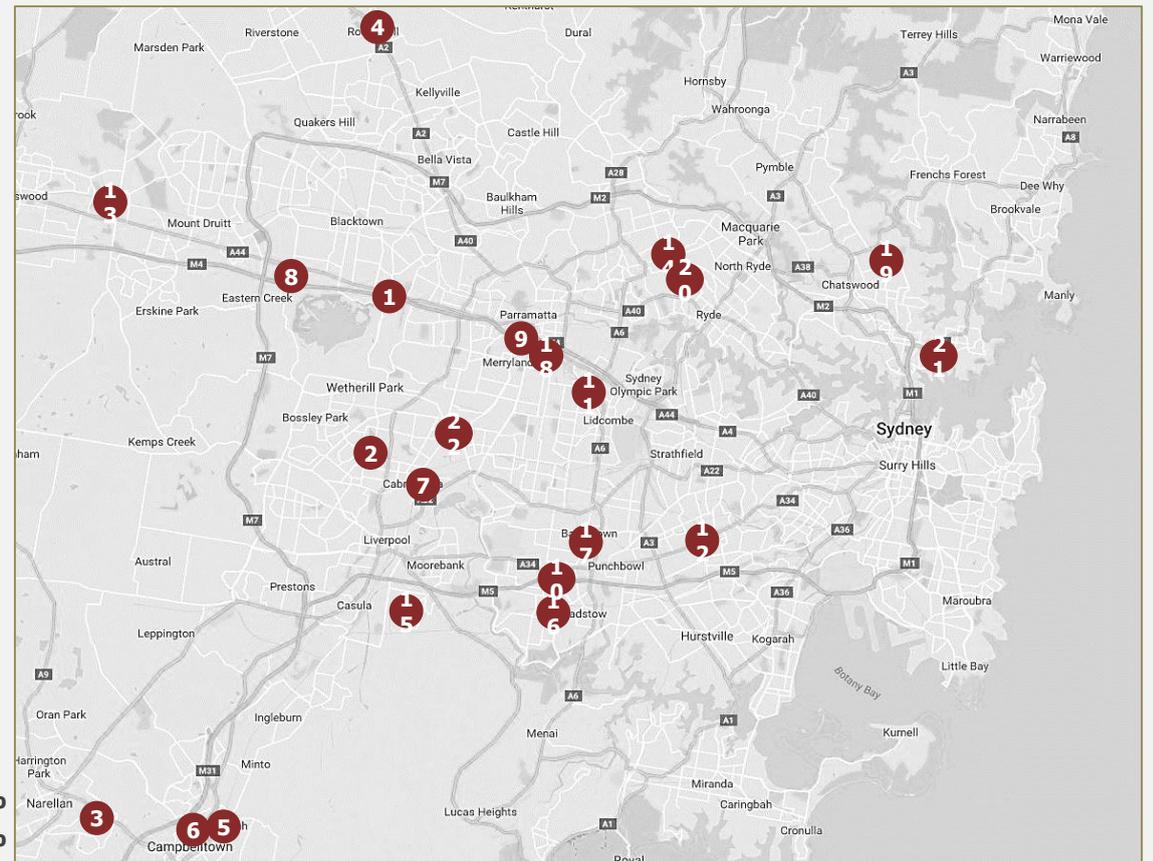
## COMMENTARY

- Redcape owns 22 freehold assets in Greater Sydney or 87% of the portfolio by value
- Across the portfolio, only ~27%<sup>1</sup> of total site area is covered by building which potentially provides opportunities to unlock value through redevelopment
- Alternate use opportunities identified and under feasibility assessment
- Many venues are located on transport nodes or areas with dense population and growth forecasts
- Unique portfolio that is difficult to replicate

## LAND UTILISATION



## GREATER SYDNEY LAND BANK



Notes:

- 1. Average land utilisation calculation excludes strata titled assets.
- \* Excludes air rights.

# 4 KEY PRIORITIES AND OUTLOOK

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# KEY PRIORITIES

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Redcape aims to deliver on its strategy of being a growth company with a strong capital structure, industry leading systems and processes, capable people and a stable earnings base underpinned by real estate ownership

## Operations

- Market leading customer technologies
- Talent management
- Operational optimisation
- Efficiencies gained by enhanced system deployment
- Additional value derived from management platform capability

## Capital Management

- Maintain gearing at the lower end of the target band of 35-45% (currently 37.5%)
- Optimising Redcape's debt facility
- Optionality for Redcape security buy-back

## Portfolio Management

- Optimise portfolio by recycling capital into higher growth opportunities
- Implement "pathway to growth" strategy for each asset
- Capital allocation to growth initiatives
- Acquire undervalued assets which align with Redcape's acquisition criteria

# OUTLOOK

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## COMMENTARY

- Post a very busy first half including the acquisition of six venues, the relocation of Redcape's head office and the IPO, Redcape management is focused internally on optimising the performance of the portfolio including the integration and optimisation of the six new venues and delivering existing refurbishment projects
- Strong first quarter performance followed by some variable trade at certain venues late in 1H19 extending into the current period
- During the period, refurbishment venues (Leumeah, Eastwood and Cabramatta) have been impacted by capital works and we are looking forward to positive trading performance as these venues re-establish their position in their local markets
- Management have implemented several operating initiatives aimed at optimising venue performance and minimising the overall impact that a softer economic environment might have on Redcape's financial performance
- Redcape's real estate backed operating business is uniquely placed to continue to deliver strong cash flows that underpin consistent and growing distributions in addition to potential upside from the well located and underutilised land bank
- **We reconfirm the IPO PDS FY19 forecast for Distributable Earnings of 8.8-9.0cps and FY19 Distributions of 8.75cps subject to no material change in market conditions**

# 5 APPENDICES

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# 1H19 INCOME STATEMENT

\$m	1H19	1H18	% change
Revenue	142.6	121.3	17.5%
Cost of sales	(67.6)	(58.9)	14.8%
<b>Gross profit</b>	<b>75.0</b>	<b>62.4</b>	<b>20.1%</b>
Employment costs	(19.2)	(14.3)	33.7%
Other operating costs	(15.8)	(13.0)	21.2%
Management fees	(7.6)	(6.6)	15.8%
Venue acquisition costs	(7.6)	(29.4)	(74.1%)
Gain / (loss) on the sale of non-current assets	0.6	(0.2)	(341.9%)
Gain / (loss) on asset revaluation	(5.8)	-	-
Depreciation	(5.2)	(4.6)	12.7%
Net finance costs	(8.4)	(7.5)	13.0%
<b>Subtotal</b>	<b>5.9</b>	<b>(13.2)</b>	<b>(144.9%)</b>
Listing costs and performance fee	(20.6)	-	-
<b>Loss before income tax</b>	<b>(14.6)</b>	<b>(13.2)</b>	<b>10.8%</b>
Tax benefit / (expense)	3.0	0.2	1143.7%
<b>Statutory NPAT</b>	<b>(11.6)</b>	<b>(13.0)</b>	<b>(10.3%)</b>
<b>Total comprehensive income</b>	<b>(0.4)</b>	<b>38.1</b>	<b>(101.0%)</b>

# DISTRIBUTABLE EARNINGS RECONCILIATION

## COMMENTARY

- Distributable Earnings per stapled unit of 4.3cpu and distribution of 4.4cpu for the half year to 31 December 2018
- Statutory NPAT adjusted for:
  - Various accounting non-operating items totalling \$12.8 million
  - Transaction costs and performance fees of \$20.6 million
  - Net other adjustments of \$0.1 million reflecting non-cash items recognised within statutory NPAT

## DISTRIBUTABLE EARNINGS

\$m	1H19	1H18	% change
Statutory NPAT	(11.6)	(13.0)	(10.3%)
<i>Add / (Deduct) non-cash &amp; non-operating items</i>			-
Venue acquisition costs	7.6	29.4	(74.1%)
Gain / (loss) on the sale of non-current assets	(0.6)	0.2	(341.9%)
Gain / (loss) on asset revaluation	5.8	-	-
Depreciation	5.2	4.6	12.7%
Listing costs and performance fee	20.6	-	-
Tax benefit / (expense)	(3.0)	(0.2)	1143.7%
Amortisation of borrowing costs	0.2	0.5	(58.5%)
Maintenance capital expenditure	(2.2)	(2.1)	3.4%
Other non-cash items	(0.1)	0.1	(212.7%)
<b>Distributable Earnings</b>	<b>21.9</b>	<b>19.4</b>	<b>12.5%</b>
<b>Distribution</b>	<b>22.2</b>	<b>17.6</b>	<b>26.1%</b>
Payout ratio	101.4%	90.5%	12.1%
<b>Distributable earnings (cpu)</b>	<b>4.3</b>	<b>4.8</b>	
<b>Distribution (cpu)</b>	<b>4.4</b>	<b>4.4</b>	

Weighted average units on issue	506.5	401.8
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Thank you.



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