

Redcape Hotel Group (unlisted fund)

Asset Management

Investor update
December 2023

The Fund's portfolio of 31 hotels across Australia's east coast is valued at \$1.3 billion¹.

1. As at 31 December 2023.

IMPORTANT INFORMATION

This update has been prepared by MA Hotel Management Pty Ltd ACN 619 297 228 (Manager or MAHM), the appointed Manager of the Redcape Hotel Group (Redcape or the Fund)¹ and is subject to the disclaimer at the end of this document. Redcape Hotel Group Management Ltd ACN 610 990 004 (AFSL 505932) is the responsible entity of the Fund (Responsible Entity).

The Fund comprises the Redcape Hotel Trust I ARSN 629 354 614 (Trust I) and Redcape Hotel Trust II ARSN 629 354 696 (Trust II). Redcape Hotel Group Management Ltd ACN 610 990 004 (AFSL 505932) is the responsible entity of Trust I and Trust II. The Fund is a stapled group comprising both Trust I and Trust II.



Investment overview

Redcape aims to provide investors with regular cash distributions and potential capital growth from a diversified portfolio of high-quality hotels/pubs. Central to this strategy is the Fund's ongoing reinvestment in its venues to unlock the potential growth opportunities within the portfolio.

Key fund highlights

Like-for-like² (LFL) revenue for the December 2023 quarter was \$91.3 million which was 1.3% above the prior December. Active management of operating margins and a reduction in expenses increased LFL venue earnings³ to \$26.0 million, which was a 3.0% increase on the December 2022 result. This supported a Fund distribution of 2.0 cents per unit (CPU) for the quarter, up from 1.7 cents (+17.6%) per unit in the quarter before.

Over the six months to December 2023, the Manager successfully contracted to sell seven assets for over \$157 million, representing a variety of venue styles and locations in Queensland and NSW, and extended a \$250 million debt facility that was due to expire in September 2024 by approximately three years.

These results significantly strengthen the Fund's balance sheet and assist the reinstatement of the Fund's Liquidity Facility, enabling withdrawals to be processed under the terms of the Fund's Product Disclosure Statement in the June 2024 quarter. To appropriately manage the Fund's ongoing working capital requirements and to ensure withdrawals can be met in an orderly fashion, the Responsible Entity is proposing to limit withdrawals to an amount of up to \$10 million per quarter during the 2025 financial year.⁴

In addition to the Fund's sale transactions, seven Fund assets were independently valued during the quarter. In total, the 14 assets were either contracted for sale or independently valued. This represented approximately 40% of the overall Fund and provided contemporary data to assist the Responsible Entity's valuation review process. As noted in prior updates, market conditions in NSW over the last 12 months due to economic factors and the uncertainty created by potential changes to gaming regulations have led to some expansion of yields in NSW. While there was some variance in yield between the NSW and Queensland assets, on a combined basis, the divested assets were transacted on a 2.3% premium to the Directors' Valuation.

The Responsible Entity has reviewed the value of the Fund's portfolio generating a Directors' Net Asset Value (NAV) per unit of \$1.50 on 31 December 2023. Directors' valuations are based on a combination of independent

Key Fund metrics (December 2023)⁵

Directors' hotel portfolio value	\$1,300 million
Directors' NAV	\$648.2 million
Directors' NAV per unit	\$1.4951
Number of assets	31
Underlying earnings per unit	2.46cpu
Distribution per unit	2.00cpu
Directors' Gearing	43.9%
ICR Ratio (LTM)	2.12x

Investment Management



CHRIS UNGER

Head of MA Hotel Management



DANIEL HARGRAVES

Fund Manager

valuations undertaken per the Fund's Valuation Policy and recent market evidence, including the Fund's recent sales activity.

The NAV reflects a 7.5% capitalisation rate which is approximately a 100bps expansion from the market peak and we believe fairly reflects current market conditions based on concluded transactions. The Manager expects capitalisation rates to broadly stabilise from here and venue earnings to underpin performance.

On 31 December 2023, the Fund had net debt of \$603.0 million and \$38.6 million in cash and cash equivalents resulting in a Directors' Gearing Ratio of 43.9%. This aligns with the outcome of the Responsible Entity's valuation review and reflects current market evidence.

To mitigate the impact of further adverse movements in interest costs, the Fund has a variety of interest rate hedges in place covering a total of \$561.2 million or approximately 90% of total debt.

2. Like-for-like (LFL) venues include all venues that were operating during the entire period and excludes any venues that were acquired or divested.

3. Venue earnings before interest, tax, depreciation, amortisation, management fees and expenses.

4. For further details, please refer to the Fund's 22 December 2023 continuous disclosure notice to investors mafinancial.com/invest/real-estate-and-hospitality/redcape-hotel-group/strategic-review-liquidity-facility-and-asset-sales-update

5. Figures have been determined with reference to unaudited management accounts.

Fund performance⁶

(as at 31 December 2023)

Total investment performance⁷ for the Fund is summarised as follows:

	6 months (%)	1 year (%)	3 years (% p.a.)	Since inception (% p.a.) ⁸
Distribution return	2.1%	4.6%	5.9%	6.6%
Growth return	-11.5%	-15.3%	7.0%	6.4%
Total return	-9.4%	-10.7%	12.9%	13.0%

Returns reflect the value of a continuing investor's investment assuming the reinvestment of all distributions and are calculated per the Financial Services Council (FSC) guidelines (MA Financial Group is a member of the FSC). Past performance is not a reliable indicator of future performance.

Operating update

Like-for-like, venue revenue for the period was 1.3% above the December 2022 quarter result. This is a positive outcome and reflects the benefit of MA Hotel Management's (MAHM) operating initiatives to counter the impact of the prevailing economic environment.

Compared to the prior December 2022 quarter, food and beverage (F&B) channels contributed \$17.5 million (+3.3% LFL) and gaming contributed a total of \$54.8 million (+0.7% LFL). Retail liquor contributed a total of \$14.6 million which was generally in line with the prior corresponding period.

LFL venue operating expenses for the Group were \$22.7 million for the quarter, which was generally in line with the prior December 2022 period.

The Manager's strategies to improve procurement outcomes and lower direct expenses provided venue earnings⁹ of \$27.0 million for the period. This equated to a 3.0% increase (LFL) on the prior December 2022 quarter.

In addition to its operating initiatives, the Manager has agreed to reduce fees associated with the Hotel Operator Agreement for a term of 12 months from 1 January 2024 by an annualised amount of approximately \$4.3 million. The fee reduction equates to a one cent per unit cost saving for the Fund.¹⁰

For the December quarter, Publihc active member visitations averaged approximately three visits per month with an average spend of \$75 per visit which remains consistent with the prior quarter.

Redcape's Publihc program continues to support change for good programs, pledging an additional ~\$143,000 to a variety of community causes during the period.

Investment capital forecast

Due to liquidity constraints throughout 2023 requiring prudent capital management, the Responsible Entity limited investment in growth capital projects. However, in accordance with the Group's capital management plan, the recent asset sales are expected to provide the Fund with sufficient working capital to reinstate growth capital initiatives that align with the Fund's earnings growth objectives.

MAHM has a proven record of reinvestment in assets to enhance operating performance and long-term value. For the 2024 calendar year, the Manager proposes to invest approximately \$20 million in growth capital projects across eight venues. These projects have been prioritised based on a target minimum investment return of 15%¹¹ and provide sustainable support for earnings growth.

The projects are predominantly cosmetic enhancements catering to changing customer needs. The Manager expects to complete these projects in reasonably short time frames, thereby minimising disruptions to venue operations and trade, delivering a return on investment in 2025.



6. Performance is shown for information purposes only. Past performance is not a reliable indicator of future performance. Performance fees may impact total return performance.

7. Returns reflect the value of a continuing investor's investment assuming the reinvestment of all distributions and is calculated in accordance with the Financial Services Council (FSC) of which MA Financial Group is a member.

8. The Fund's inception date is 10 July 2017.

9. Venue earnings before interest, tax, depreciation, amortisation, management fees and expenses.

10. The reduction in the Hotel Operator fee is not a permanent change to the fee formula, rather it is a discount that will be applied pro-rata each month during the 2024 calendar year. Fees foregone by the Manager while the discount is in place will be waived, and the agreement to discount the Hotel Operator fee will be reviewed annually until Fund earnings exceed 10 cents per unit.

11. The return on growth capital investment is the incremental EBITDA uplift over 60 months (including any downturn in venue trade during the construction period) divided by capital invested.

Outlook

Heading into 2024, the Fund is in a strong position to deliver long-term value to investors. Despite challenges from a slowing Australian economy, impacted by high interest rates and reduced household spending, there are positive signs. The rate of inflation is seemingly decreasing, and the monetary policy tightening cycle is expected to end within the next 12 months. A potential reduction in rates by the Reserve Bank of Australia (RBA) in late 2024 could ease cost-of-living pressures. Coupled with resilient economic indicators and a robust labour market, the Manager anticipates better operating conditions for hospitality venues.

The Fund's balance sheet has been strengthened by the asset sales and the recent three-year extension of the debt facility that had been due to expire in September 2024. This not only provides funding for investment in growth projects but also provides liquidity for investors seeking redemptions. The reduction in the interest cover ratio and interest rate hedges on approximately 90% of Fund debt better aligns with the current economic climate. The implementation of strategic operational plans and the progression of the growth project pipeline are expected to drive earnings growth and increase long-term asset value.

The Fund has consistently delivered a strong return for investors, with a total return of 13.0% per annum since its inception in July 2017. Redcape is managed by a highly experienced team and benefits from a well-diversified portfolio. The Manager continues to explore capital recycling opportunities to position the Fund for sustainable growth as the current economic cycle turns.

MAHM focuses on maximising venue and Fund performance, aiming to deliver superior long-term returns and position the Fund as the first choice for investors seeking exposure to Australia's hospitality sector.



12. Unaudited management accounts

13. Unaudited management accounts

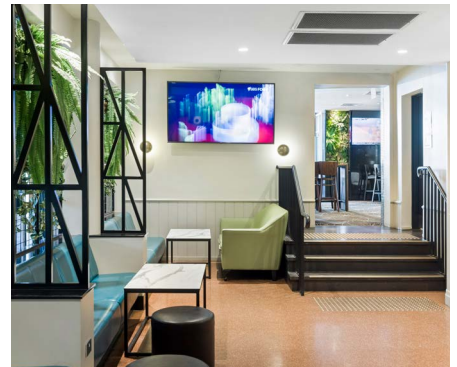
Financial Performance Summary

December Quarter 2023

Income Statement ¹²	\$ million
Revenue	96.1
Cost of sales	(44.5)
Gross Profit	51.5
Gross Profit %	53.6%
Employment costs	(15.0)
Other operating costs	(11.0)
Management fees	(4.9)
Operating EBITDA	20.6

Distribution Statement ¹²	\$ million
Operating EBITDA	20.6
Cash interest expense	(8.5)
Maintenance capital expenditure	(0.6)
Other cash and non-cash items	(0.9)
Underlying earnings	10.6
Underlying earnings per unit (cents)	2.5
Distribution	8.7
Distribution per unit (cents)	2.0

Balance Sheet Summary ¹³	\$ million
Cash	38.6
Property Assets	1,080.8
Other Assets	66.9
Total Assets	1,186.3
Borrowings	(642.4)
Other Liabilities	(122.6)
Total Liabilities	(765.0)
Net Assets – Statutory	421.3
Directors Adjustments	226.9
Net Asset Value – Directors	648.2
Securities on issue	433.6
NAV (\$ / unit)	1.4951
Gearing – Directors	43.9%





RG46 Statements

The latest RG46 Statement is available at the Fund's [website](#).

More information

For more information speak to your financial adviser.

CONTACT DETAILS

T 02 8288 5594

E clientservices@MAFinancial.com
MAFinancial.com/invest

IMPORTANT INFORMATION

Redcape Hotel Group Management Ltd ACN 610 990 004 (AFSL 505932) (Responsible Entity) is the responsible entity of the Redcape Hotel Group (which comprises the stapled trusts being the Redcape Hotel Trust I ARSN 629 354 614 and Redcape Hotel Trust II ARSN 629 354 696) (Fund) and the issuer of the units in the Fund. The information contained in this document is general only and has been prepared without taking into account your objectives, financial situation or needs. Before making any investment decision you should consider obtaining professional investment advice that takes into account your personal circumstances and should read the current product disclosure statement (PDS) of the Fund. The PDS for the Fund is available at mafinancial.com/asset-management/retail-funds/redcape-hotel-group/. Neither the Responsible Entity nor any member of the MA Financial Group Limited guarantees repayment of capital or any particular rate of return from the Fund. All opinions and estimates included in this document constitute judgments of the Responsible Entity as of the date of this document and are subject to change without notice.

Past performance is not a reliable indicator of future performance. The value or return of an investment will fluctuate and an investor may lose some or all of their investment. Whilst the Responsible Entity believes the information contained in these materials are based on reliable information, no warranty is given to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Statements contained

in this document that are not historical facts are based on expectations, estimates, projections, opinions and beliefs of the Responsible Entity as of the date of this document. Such statements involve known and unknown risks, uncertainties and other factors, and should not be relied upon in making an investment decision. These views may not necessarily reflect the views of any other entity in the MA Financial Group Limited. Any references in this document to targeted or projected returns of the Fund are targets only and may not be achieved. Investment in the Fund is subject to risk including possible delays in payment or loss of income and principal invested. This information is intended for recipients in Australia only.

The Responsible Entity's address is Level 27, Brookfield Place, 10 Carrington Street, Sydney NSW 2000. The Responsible Entity, its related bodies corporate, the Responsible Entity's directors and employees and associates of each may receive remuneration in respect of advice and other financial services provided by the Responsible Entity. The Responsible Entity has entered into various arrangements with MA Hotel Management Pty Ltd ACN 619 297 228 in connection with the management of the Fund. In connection with these arrangements, MA Hotel Management Pty Ltd ACN 619 297 228 may receive remuneration or other benefits in respect of the financial services it provides. This document is issued by the Responsible Entity on a confidential basis and no part of this material may be reproduced or disclosed, in whole or in part without the prior written consent of the Responsible Entity.