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MA Redcape Hotel Fund

Asset Management

Investor update
March 2024

The Fund aims to provide investors with regular cash distributions and capital growth over the investment term by investing in and actively managing a diversified portfolio of high-quality hotels with the potential for refurbishment or redevelopment to increase land utilisation.

Key fund highlights

- **The Responsible Entity declared a distribution of 2.0 cents per unit for the March quarter and the Manager is making good progress on its targeted strategy to return distributions to 10 cents per annum in the near term. Distributions of 2.25 cpu are targeted for the June 2024 quarter.**
- The Fund successfully completed the sale of the Shafston Hotel in Brisbane in the quarter.
- In April, the Fund completed the sale of the Crescent Hotel in Fairfield and the acquisition of the Criterion Hotel in the Sydney CBD. The strategy of selling a Western Sydney freehold hotel and purchasing a higher yielding, more diversified, leasehold asset is aimed at enhancing distributions and further diversifying revenue streams.
- Trading performance continued to improve across the March 2024 quarter with like-for-like[1] venue earnings[2] of $22.4 million[3] up 1.7% on the prior year, reflecting an improvement in venue earnings margins. Assisted by the Manager's fee concession, total operating[4] EBITDA was $17.9 million, up 2.6% on the prior March quarter.
- Growth capex works were undertaken on the Lakeview Hotel in Shellharbour and The Sun Hotel in Townsville in FY23 and both venues are performing well and are expected to deliver the targeted return on capital (over 15% pa[5]) and incremental annualised earnings ($4.0 million).
- The first tranche of the calendar 2024 growth capital program will commence in the June quarter, with $15 million capex targeting a return on capital of over 20% pa.[5]
- An updated Fund Product Disclosure Statement (PDS) was issued on 2 April 2024 and the Fund is now open for new applications.
- The Distribution Reinvestment Plan (DRP) will re-open for the June quarter distribution. Prior elections to participate in the DRP remain in place.[6]

Key Fund metrics (as at 31 March 2024)	
Portfolio value	$1,282.7 million
Portfolio NAV	$646.2 million
Portfolio NAV per unit	$1.4904
Weighted portfolio cap rate	7.48%
Number of assets	31
Underlying Earnings per unit	2.09 cents
Distribution per unit	2.00 cents
Net debt	$598.8 million
Cash & cash equivalents	$27.1 million
Portfolio gearing	44.2%
ICR ratio LTM	2.15x
% of drawn debt hedged	89.6%
Distribution Reinvestment Plan (DRP)[7]	On

Investment Management

CHRIS UNGER
Head of MA Hotel Management

1. Like- for-like venues include all venues that were operating during the entire period and excludes venues that were acquired or divested.
2. Venue earnings before interest, tax, depreciation, amortisation, management fees and group expenses.
3. All reported financials are management accounts and are based on unaudited accounts.
4. Venue earnings before interest, tax, depreciation, amortisation.
5. The return on growth capital investment is the annual incremental EBITDA after hotel operator fees and interest costs at maturity (typically after one year) divided by capital invested. These are targets only. Refer to the Product Disclosure Statement for further information with respect to growth capital expenditure.
6. For further information about the DRP, which provides new units at a 2.5% discount to the prevailing Unit Price, see section 6.3 of the PDS.
7. DRP will re-open for the June quarter end distribution.

Operating performance and outlook

The contemporary trading environment presents as stable and in-line with internal forecasts.

Customers remain value-conscious and continue to visit venues regularly and consistently. After a softer trading period in January (-6.8%[8] and cycling a strong prior year), the February and March months saw strong venue earnings growth year on year (+4.1% and +6.3% respectively).

Gaming and food sales are trending steadily (+0.3% and -1.0% year on year respectively for the quarter), as is weekday bar trading. Weekend bar trading in many venues was soft over the quarter resulting in revenue down 6.3% for the quarter. The convenience takeaway liquor sales environment is currently challenging across the sector, and this is being seen in the Fund's venues, down 7.1% for the quarter.

Cost management is on track and reductions in costs are being realised across the Fund. While utilities and statutory costs such as rates and land tax have increased, controllable costs are seeing reductions, and this is expected to continue.

The like-for-like venue earnings margin improved to 27.8% for the quarter, up from 26.9% in the prior year.

The Responsible Entity is targeting a distribution of 2.25 cpu[9] for the June quarter (up 12.5% from the prior quarter).

Seven further independent valuations were completed in the quarter. The venues were valued within 2% of their aggregate holding value, and this takes the number of venues independently valued in the last six months to fourteen with a further ten in progress. These latest valuations will be reflected in the April 30, 2024 NAV.

Fund performance[10]

(as at 31 March 2024)

Total investment performance[11] for the Fund is summarised as follows:

	6 months (%)	1 year (%)	3 years (% p.a.)	Since inception (% p.a.)[12]
Distribution return	2.39%	4.42%	5.79%	6.56%
Growth return	-11.45%	-16.09%	6.90%	6.11%
Total return	-9.07%	-11.66%	12.69%	12.67%

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.

8. Like-for-like venue earnings.
9. This is a target only and is subject to trading performance over the quarter meeting the Manager's expectations.
10. Performance is shown for information purposes only. Past performance is not a reliable indicator of future performance. Performance fees may impact total return performance. 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.
11. 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.
12. The Fund's inception date is 10 July 2017.

Key strategies

The sale of Crescent Hotel in Fairfield ($47.5 million[13]) and the acquisition of the Criterion Hotel in the Sydney CBD ($22.35 million[14]) completed after the quarter in April and will be accretive to the Fund's financial metrics. The Fund completed the transactions with a largely neutral operating EBITDA outcome, reducing debt by approximately $20 million and improving credit metrics and underlying earnings[15], supporting future distribution growth for investors.

The Manager is making good progress on its strategic plan to restore distributions to 10cpu per annum in the near term. Key initiatives include recycling assets for greater yielding opportunities, delivering growth capex to venues for incremental earnings increases and optimising current operations. The Manager is actively pursuing numerous initiatives aimed at both revenue generation and cost reductions across the portfolio. The operating nature of the asset base provides the Manager with the ability to add value in this way.

The growth capital pipeline is a key component of the strategy to improve Fund distributions. As previously disclosed in prior updates, the Manager is currently preparing for commencement of a $15 million tranche of venue refurbishments which will be focussed on five[16] venues and expected to realise over 20%[17] return on capital at maturity. It is anticipated $20 million will be deployed across the current calendar year with a similar target return profile.

The updated PDS was issued on 2 April 2024 and provides that redemption requests received prior to the notification closing date of 16 May 2023 for the quarter ending 30 June 2023 will be prioritised (Priority Requests). No new redemption requests will be accepted until the Priority Requests have been paid out in full. Refer to the redemption section of the PDS for further details on this priority arrangement. The Fund continues to manage capital in such a way to ensure that Priority Requests are met in an orderly manner for the 2025 financial year.

The Manager is working with the State Government's Independent Panel on Gaming Reform to commence a cashless gaming technology trial at Willoughby Hotel in the June quarter.

Case study: The Sun Hotel refurbishment

A key component of the Fund's long-term success has been the ability to invest growth capital in venues over time in way that incrementally increases earnings.

As a venue matures post refurbishment, typically over five to seven years and in some cases longer, opportunities for further incremental growth in earnings and return on capital present.

Due to the quality and densely populated locations of the hotels in the Fund, these opportunities repeatedly present across the portfolio as capital matures, enabling continued growth in earnings.

The Manager maintains a pipeline of projects that fulfil this strategy.

In 2022, after a difficult post-COVID period and significant flooding before that, the Responsible Entity approved the Manager to embark on a capital project at The Sun Hotel in Townsville.

A popular community venue for locals, The Sun offered potential for growth through investments to improve and modernise the aesthetic and customer experience.

A six-month full venue refurbishment project commenced in July 2022 costing $4.2 million.

Since completion of the refurbishment in December 2022, performance of the venue has been progressively building. It has seen average weekly EBITDA increase from $24.3k in the six months prior to the project to $38.8k in the nine months ending March 2024, providing an annualised 18.3%[18] return on capital.

13. Less transaction costs and at the Portfolio Valuation it would have been ascribed had it not been held for sale at the December 2023 valuation review based on similar assets.
14. Plus transaction costs.
15. Approximate .25 cents per unit on an annualised basis based on pro forma forecasts.
16. St Marys Hotel, Prospect Hotel, Campbelltown Hotel, Landmark Hotel and Cedars Tavern.
17. The return on growth capital investment is the annual incremental EBITDA after hotel operator fees and interest costs at maturity (typically after one year) divided by capital invested. These are targets only. Refer to the Product Disclosure Statement for further information with respect to growth capital expenditure.
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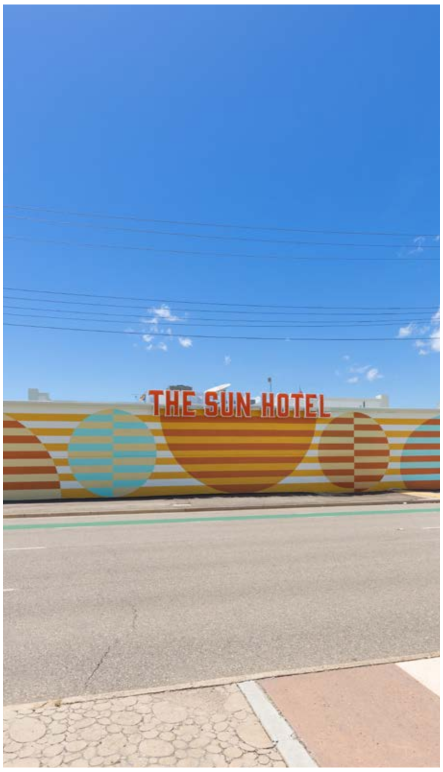
THE SUN HOTEL


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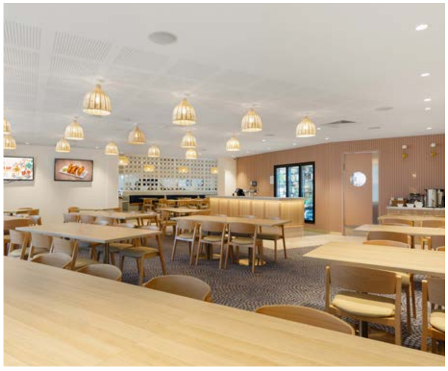


THE EASTWOOD HOTEL


AUSTRALIAN BREWERY

More information

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IMPORTANT INFORMATION

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