HOTEL PROPERTY INVESTMENTS

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Hotel Property Investments Limited (ASX Code: HPI)
Chairman's AGM address

Ladies and Gentleman,

Introduction

As you all know 2021 financial year has been an exceptionally challenging year for many Australians and whilst we are now seeing significant improvements in the percentage of population being vaccinated against the disease, COVID-19 has impacted our people, our business and our tenants, and may continue to do so over the next few years.

HPI has proven its resilience in this challenging environment with growth in distributions and in the number of investment properties as reflected in the strong financial results of the Group.

The key highlights for the year are:

- Acquired nine freehold pubs;
- In November 2020, raised $48 million from equity markets;
- Commenced a development at Ferry Road, Southport
- Increased tenant and geographic diversity;
- Invested into the existing portfolio under the QVC Capex program, resulting in improved underlying business performance and investment property valuation gains;
- The business model proved to be resilient during COVID-19; and
- Initiated our ESG project and we are in the process of formulating our approach and reporting framework.

Acquisitions

Throughout the course of the FY21 financial year HPI acquired the following freehold pubs:

In Queensland:

- The Jubilee Tavern, Airlie Beach;
- Capella Hotel, Capella;
- Grand Hotel and Commercial Hotel, both in Clermont;
- Mango Hill Tavern, Mango Hill;
- Surfair Beach Hotel, Marcolla; and

- White Bull Tavern and Commonwealth Hotel, both in Roma.

HPI also acquired our first Victorian asset, the Summer Hill Hotel in Reservoir.

All nine pubs were acquired progressively throughout the year for a total price of $103m (including costs) for cap rates between 5.6% - 9%.

Equity raise

The Group received strong support from both institutional and retail investors raising a total of $48 million in November 2020. Demand was such that both investor groups were scaled back in order to balance investor appetite with appropriate distribution performance.

An institutional placement raised $40 million (pre costs) and $8 million (pre costs) was raised via a Security Purchase Plan, all at an issue price of $3.04 per security. The proceeds were used to fund the acquisitions previously mentioned.

Increase in underlying investment property revenue

Rent and outgoings recovery revenue increased by 11.2% during the 2021 financial year.

This was attributable to a 2.5% increase in rental income from properties that were consistently held for the full FY20 and FY21 period and the impact of recently acquired properties.

Increase in fair value of the investment property portfolio

Financial Year 2021 saw a significant increase in the amount and volume of commercial property transactions which resulted in an overall tightening of property capitalisation rates. Consequently, the average capitalisation rate across the HPI portfolio decreased from 6.1% to 5.9% as assessed by independent valuers and Directors under HPI's valuation policy, resulting in a significant fair value gain of approximately $51 million during the year.

Challenging operational environment due to COVID-19

The 2021 financial year saw a significant change in the approaches taken by different state governments to limit the spread of COVID-19. All Australian states implemented restrictions on pubs and hotels to some degree, which significantly affected the operations of our tenants. Although the restrictions and closures have not materially impacted the financial performance of the HPI Group in the year to 30 June 2021, any ongoing interruptions to our tenants' business may affect future financial years.

Fortunately, HPI's assets are primarily located in Queensland which has been relatively much less impacted by COVID than most other Australian states.

However, there have been two primary areas of impact on the Group's business and results due to COVID-19:

<u>Agreement to defer a portion of rent payments</u>

The Group reached a commercial agreement with Queensland Venue Company to defer part of the rent for the period April 2020 to September 2020 totalling approximately $7.5 million, excluding GST. The deferred rent is being repaid in full to the Group between February 2021 and June 2022. As at 30 June 2021 around $5.7 million (exc. GST) was still deferred and is being repaid in accordance with the agreed terms.

<u>Rent abatement for some specialty tenants</u>

The Group agreed to abate approximately $0.1 million (<1% of total FY21 rental income) from specialty tenancies as a result of the impact COVID-19 has had on their businesses.

Our goal was to give these small businesses the opportunity to survive the period of reduced trade associated with the pandemic and it is pleasing to note that all tenants have re-commenced trading.

Financial Results

For the year ended 30 June 2021 HPI achieved a group statutory profit after tax of $84.7 million which included $60.1 million revenue from tenants, a $51 million fair value gain on investment properties, Property Outgoing Costs of $9.5 million, Management and Trust Expenses of $4.4 million, and Financing Expenses of $12.5 million. AFFO or Adjusted Funds from Operations was $32.5 million (an increase of 7.3% on FY20) and 100% was distributed to Security Holders.

At 30 June 2021 the HPI Group's net assets were $575 million representing net assets per security of $3.30 compared to $3.01 for the prior year.

Distributions

For the year ended 30 June 2021 the Group paid an interim distribution from trading operations of 9.6 cents and a final distribution of 9.7 cents for a total of 19.3 cents per security.

Capital management

As at 30 June 2021 the Group's gearing of 37.8% was within the Board's target range of 35% to 45%. At that date there was approximately $40 million headroom available within the Group's loan facilities.

Business strategies and FY22 to date

The Group has been active since June 2021 and has acquired two assets and implemented a lease harmonisation program with our principal tenant. The total investment in these transactions was $75 million.

In conjunction with these transactions the Group:

- refinanced a portion of bank debt via issuance of an additional $80 million into the USPP market; and
- raised additional equity of $50 million via an institutional placement and $8.9 million from a Security Purchase Plan in September 2021.

The Group will continue to pursue acquisition opportunities which meet its investment criteria, namely that target properties be in good condition, in key regional or metropolitan locations with potential for long term growth and leased to experienced tenants on favourable lease terms.

The Group continues to maintain a strong relationship with our principal tenant that creates mutually beneficial outcomes and opportunities.

Consequently, the FY22 distribution guidance is reaffirmed at 20.5 cents per security, barring any unforeseen events and no material change in market conditions.

Thank you, I will now move to the Formal Business of today's Meeting.

Raymond Gunston

Hotel Property Investments Limited Chairman

This ASX announcement was authorised by the Chair of the Hotel Property Investments Limited Board.

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