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2024 Annual General Meeting Chief Executive Officer and Managing Director's address

Thank you, Giselle. Good morning, everyone, and welcome to the Hotel Property Investments 2024 Annual General Meeting. My name is John White, Chief Executive Officer and Managing Director of HPI.

I am honoured to be here today, addressing you, our Securityholders, so early in my tenure as Chief Executive Officer and Managing Director of HPI. I would like to thank the Board for their support and guidance to me and the broader HPI team during this recent transition. It is greatly appreciated.

It has been just over two months since joining HPI as CEO. In that time, I have prioritised connecting with our investors, tenants, and partners, listening to their perspectives on our business. It is clear to me that HPI's assets are unique, highly cash generative and well positioned to thrive.

The Board has tasked me with building on this strong foundation, and together we are implementing a refreshed strategy designed to deliver long-term value and growth for you, our Securityholders.

FY24 Review

Despite challenging capital market conditions, investment demand for pubs remained strong, underpinning valuations. The HPI team delivered a robust FY24 result, achieving growth in adjusted funds from operations and distributions, an impressive outcome given the higher interest rate environment. Higher variable interest costs have been a significant factor in AREIT performance over the past few years. During the year, approximately 65% of our debt was at fixed rates or hedged and, subsequent to year end we have put in place an additional $100 million of hedging, resulting in approximately 90% of forecast drawn debt being hedged until May 2025.

The Group was proactive in recycling assets and enhancing existing ones to drive value. These portfolio movements strengthened certainty around HPI's future rental cashflows, extended lease tenures through various lease renewals, de-risked the portfolio through selected venue sales, and further solidified HPI's relationship with the Australian Venue Company (AVC). As at 30 June, the portfolio was 100% occupied with a long weighted average lease expiry of 9.1 years, with an additional average 19.3 years of available options and steady contracted rental growth.

Portfolio and trading update

HPI has started the new financial year on a strong footing, upgrading its FY25 distribution guidance from 19.5 cps to 19.7 cps. We recently declared a distribution of 6.5 cps, payable on or around 20 November. This upgrade is primarily driven by our recent refinancing, which has provided an additional $100 million in debt capacity and forecast annual cost savings of approximately $1.1 million. As part of the refinancing, we successfully diversified our lending base and introduced new lenders to our portfolio.

Our pub portfolio continues to perform strongly, maintaining 100% occupancy. Our refurbishment program remains active, with recent works completed at the Berserker Hotel in Rockhampton and ongoing projects at the Everton Park Hotel and Grafton Hotel. A major redevelopment at the Leichhardt Hotel has also commenced, following demolition.

The pub transaction market remains highly liquid, with pub capitalisation rates staying tight relative to other subsectors, underscoring the sector's attractiveness. As of 30 June 2024, HPI's capitalisation rate was 5.5%, reflecting the portfolio's strong fundamentals and remaining well below the capitalisation rate implied by the Charter Hall and Hostplus offer of approximately 5.7%.

Response to Charter Hall / Hostplus Offer

Many Securityholders have expressed that the takeover offer is opportunistic and materially undervalues HPI across multiple metrics. This offer comes when the outlook for REITs is improving, with growing consensus that interest rates have peaked and that central banks worldwide may soon begin reducing official rates. In an environment where rates are expected to decline, low-risk assets like HPI's pubs, with long-term leases and attractive lease structures, are well-positioned to deliver robust performance and distribution growth.

This opportunistically timed offer fails to compensate HPI Securityholders for the improved market outlook. Furthermore, it provides no premium to HPI's Net Tangible Assets (NTA). Historically, since 2014, ASX-listed REIT transactions involving a change of control have transacted at a substantial premium to NTA. The Offer's implied valuation for HPI's portfolio stands at a significant discount compared to similar pub portfolios.

HPI Strategy Update

I'm proud to announce HPI's vision, "To be Australia's premier ASX-listed owner of pub assets." We aim to achieve this by providing investors with secure income sourced from important community assets run by sector-leading operators, with significant scope for distribution and capital growth.

Our unique pub assets are difficult to replicate and possess long-term strategic value. They feature attractive double-net lease structures, with rent escalations typically set at twice the CPI rate or 4%, whichever is lower. Also, a key point of difference versus other property leases, is that the operating business of the pubs and bottle shops (under the majority of leases), including the liquor and gaming licences reverts to the landlord at lease expiry, providing protection and strategic upside.

Our internalised management structure ensures a cost-efficient model, maximising distributions to Securityholders. Additionally, our robust capital position grants us flexibility to expand the portfolio and capitalise on growth opportunities as they emerge.

I'll talk to our growth drivers later in my presentation, but it is important to note, that HPI remains AVC's preferred real estate partner, as evidenced by growth in the capex program executed to date and we are in advanced discussions to formalise our relationship into a binding agreement.

HPI's strategy since listing in 2013 has evolved from an externally managed, Wesfarmers/Coles leased REIT to an internally managed, private equity controlled, best in class operator, which has delivered significant improved performance across our venues. Our growth strategy reflects an extension of initiatives commenced from lease extensions and rent resets in 2019/20.

We've categorised our growth strategy into three broad themes. 1) Existing Portfolio, 2) Growth levers and 3) Optimisation. I will address each in turn.

Our existing portfolio provides a highly secure income profile with attractive lease structures, which will become more valuable in a cooling inflation environment. Many of the initiatives I am outlining today are aimed at extending the 9.4 year weighted average lease term.

Our growth levers include our ongoing collaboration with AVC which continues to unlock opportunities for venue enhancements, increasing the likelihood that tenants will exercise lease renewal options, thereby providing income certainty. We will continue to roll out the rentalised capex program across the balance of the portfolio which has yet to be refurbished.

Additionally, our growth strategy underscores our active approach to portfolio management, creating value through multiple channels, including asset recycling, as well as selective acquisitions and divestments. The Group is currently in advanced discussions regarding six acquisition sites and we hold a right of first refusal over three assets being redeveloped by AVC. Our approach to acquisitions is disciplined and measured, ensuring that transactions are accretive for Securityholders.

Many of our sites are land-rich, offering potential for additional use cases and development opportunities. Across the portfolio, site utilisation, as defined by building footprint as a percentage of the site area is around 41%. The Group is actively exploring a range of value-adding initiatives, including quick service restaurants, short term accommodation or apartment developments, embedded networks, electric vehicle charging stations, and signage with leading companies in their respective fields. This represents a significant source of value creation for HPI Securityholders, with an indicative capital spend of $84 million identified in projects at initial feasibility stage, each with a targeted IRR above 15%.

As an example of the larger opportunities that exist in the portfolio, vacant land at the Crown Hotel in Lutwyche, Brisbane has the capacity to develop a 12-storey tower of 63 apartments.

In Toowong, behind the Regatta Hotel, over 8,000 square metres of residential or short term stay accommodation could be developed.

Similarly, the Leichhardt Hotel in Rockhampton offers an office or dual key accommodation potential behind the pub redevelopment.

Each of these opportunities could be monetised via the sale of a development approved site, development management agreement or joint venture with a specialist developer.

Finally, portfolio optimisation is also an important lever for HPI. Asset recycling opportunities, including the strategic sale of assets to release capital is part of our ongoing capital management approach, that will improve portfolio quality, as is the ongoing diversification, extension and reduction in our cost of capital, where we have $60 million of dry powder to deploy after repaying a USPP tranche maturing in August 2025.

The Group is also exploring the possibility of capital partnerships, with initial discussions already in progress with an experienced pub operator through a capital light investment in Freehold Going Concern assets, driving returns on invested capital.

Our unique pub assets offer a range of strategic options to drive value creation. By leveraging the distinctiveness of our sites, focusing on site intensification, acquisitions and venue enhancements, we will continue to target returns that exceed HPI's weighted average cost of capital.

Outlook

As we look ahead, I want to reaffirm our commitment to enhancing value for you, our Securityholders. As outlined today, we have a range of value creating initiatives underway to deliver value for Securityholders. We are poised to leverage our unique asset portfolio and strategic partnerships to navigate the exciting pub market landscape. Our proactive growth strategy, combined with a robust financial position, positions HPI for further success.

I invite you to share in this journey with us as we continue to enhance our portfolio and create opportunities for growth.

Thank you for your trust and support. I look forward to working together to build a strong future for HPI.

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

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