TULLY HEARD CONSULTING

TULLY HEARD UPDATE **2018**

Our mission is to drive a professional and data-driven approach to the establishment, development and operation of hospitality and hospitality-related assets to derive high levels of value for our clients and their customers.

What we have experienced in 2018.
What we're seeing within and around hospitality and the registered club industry.

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Tully Heard update 2018

As financial year 2018 has now closed we thought it might be a good time to give a brief update on what we have experienced in 2018 and what we're seeing within and around hospitality and the registered club industry.

Hospitality – what have we seen…

More growth in more casual venues (cafes, fast-casual and casual dining) likely at the expense of more formal restaurants without a point of difference and/or competitive moat. Trends will always be changing but this might be a macro headwind which will continue to be difficult to navigate for more expensive, less-frequented and less-accessible restaurants. Over in the US, craft beer growth is slowing as it starts to find some maturity with fresh, healthy and authentic ubiquitous words when targeting Millennial consumers. While quick-service is up and down, fast-casual brands focusing on this (e.g. Sweetgreen) are gaining market share. London is, or at least is becoming the new New York and with the opening of Eataly World Bologna there will be more AUS operators visiting Europe than perhaps the US for the first time in a long time in the coming years.

Sweetgreen Harvard Square – see how Subway did not keep up

Stocakade Brew Co. new Marrickville brewpub – these initiatives are a necessity to connect to consumers in a crowding craft beer market.

Liquor consumption continues to evolve with growing value and falling volume; people spending more per drink but drinking less. Retail liquor data shows the success of mid-strength (Iron Jack with lots of advertising dollars) and the continuing growth of genuine craft beer (M&A for big brewers) at the expense of mainstream beer and maybe now even mainstream craft beer (there were 30 craft brewers in AUS in 2006, a bit over 10 years later there are now 16 times that). Craft six pack sales over cartons, rose and growth in $20 to $30 wine bracket and some innovation in RTDs (infusions, convenience) is winning now.

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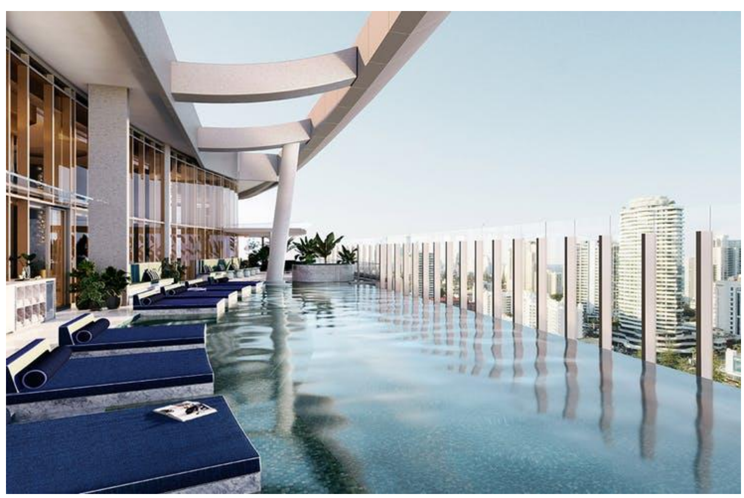
In-home food delivery while a tough business model with ultra-skinny margins and hyper-competition, **continues to experience exponential growth** and is emerging as a strong competitor (maybe against ourselves) for on-premises F&B. Millennials — adults under 35 — have increased spending on eating out by 37% (2011 to 2017) from $73 to $100. As we cook less & less, and out households become smaller why would this change? We're all working out how to operate this part of our business profitably, without significantly cannibalising existing sales and without compromising on quality once food has left the kitchen.

More aggressive promotions, better brands, rapid fulfillment but also a tough business model

By September 2017 Myer had reduced total floor space by 24,368 SQMs with its market cap down from $2.4Bn in 2009 to $400M in 2018.

Bricks & mortar retail is seeing lots of activity to green-up shopping centre spaces including evolution of F&B offers to capture fresh and healthy. Offsetting structural (online & more in-home entertainment) and cyclical (e.g. fast-fashion) changes continues to be challenging as more traditional brick & mortar operators shrink very large footprints (eg Myer, David Jones) creating headaches for owners. This is all while legacy franchisee food operators are seeing already skinny margins erode mirroring footfall declines. This is likely to intensify F&B competition with more F&B going where retail once was.

The likely clampdown on out-bound Chinese high-rollers to AUS may be the reason for more aggressive targeting of suburbs closer to the Sydney Casino (e.g. inner west Sydney). But the opening of Star's Gold Coast 6 star hotel might give a window into where this operator is heading in Sydney. Hotel gaming continues to climb in the vast majority of areas while clubs have experienced a very flat period. Perhaps accessibility/convenience, sometimes more aggressive gaming room management and more relevant F&B might be driving some of this.



Club Industry Observations

A lot has been written about **Mounties Harbord** development and the great hospitality product they've delivered while ensuring a large development profit win-fall for the Club. Similar to **Revesby Workers retail development and Bankstown Sports office tower**, clubs applying this type of thinking, on a relevant and appropriate scale to their operation should see continued longevity in the club model for some time.

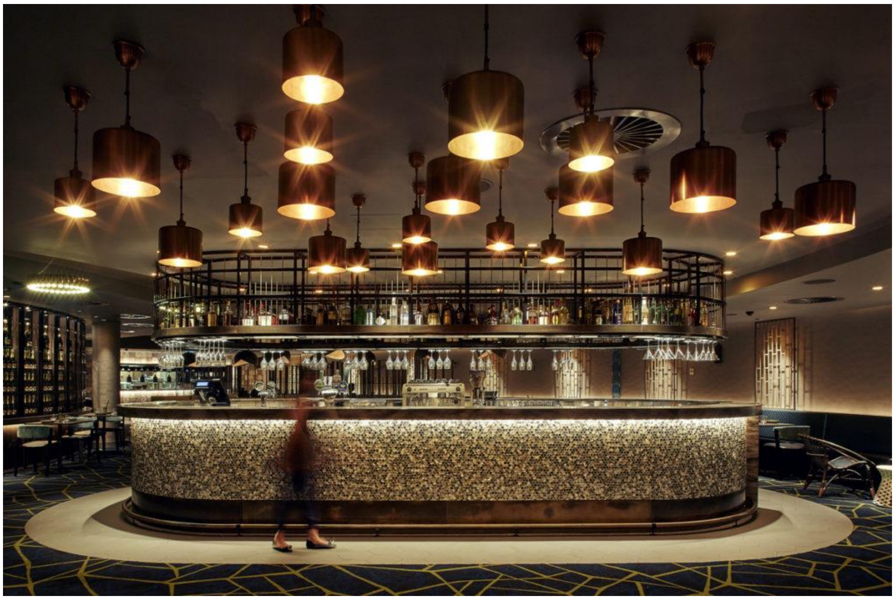
Right: Revesby Village Centre adjoins the Club with easy access, ample parking and neighbourhood style services.

Construction commenced on Arthur Laundy's new brewpub in Badgery's Creek in May 2018, at completion it will house gaming, large F&B, on-site brewery and functions plus a large car park.

We're aware of large clubs continuing to try to push into the **outer western suburbs growth areas** looking for opportunities for new club developments. Recognising shifting demographics in their own markets and the higher likelihood of more traditional club consumers in these areas, these clubs are putting an emphasis on strategic initiatives which reach consumers they know how to sell to. The very high likelihood of further government infrastructure investment in these areas will only hasten these efforts.

More recognition from clubs that the time is now to **maximise land holdings** for development is something we're also seeing more of. As a little more pressure is being felt with stagnating gaming revenue but climbing operating costs, understanding there is a possible window to develop sites to hedge against these changes appears a solid strategic action from these clubs. As the industry continues to rationalise and consolidate we expect to see more and more of this through either part divestment, JVs or where enough resources, club developers themselves.

Gosford RSL $32M redevelopment artist impression



Left: Kyubi in Campbelltown Catholic Club delivering a casino-experience in western Sydney and supplementing a destinational experience with accommodation, entertainment and leisure

There seems to be more awareness of the **importance of good food product**, whether it's the growth in awareness of the Chef's Table initiative, demonstrable successful examples that clubs can provide highly competitive F&B products or recognition that clubs probably need to make this a core competency, there seems to be more initiatives occurring in this space.

What we've been doing in FY18

We welcomed **Scarlett Nalpas** from European leisure/shopping centre developer Unibail-Rodamco (recent acquirers of Westfield) joining and assisting us complete a number of master planning engagements. We also delivered "turnkey" venue launches (e.g. The Fernery Mosman) and bespoke strategic advice (future planning for gaming downturn) amongst other engagements in our busiest year to date.

Scarlett was the PM for the Pavilion 6 urban farm and F&B rooftop - Paris Congress and Exhibition Centre

2018 also saw us move into some advisory work for **shopping centre developers** and owners and this has provided some valuable exposure to what have been and continue to be large competitors for clubs.

Left: Westfield Chermside recently won design awards for its F&B precinct. .

Our wholesale (**CLUBCO**) business has shown promising signs particularly in the last quarter of FY18 with a number of new customers seeing the savings benefits and convenience of the platform. Our own venue, acre eatery continues to grow 24mths in and we will be excited to announce new venues in the coming months slated to open in 2019.

We'd like to take this opportunity to thank our clients, customers and employees for their support in financial year 2018 and we look forward to doing our best to continue to add value in 2019.

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