



Sale of Casino Precincts to HPF Investor Presentation

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Transaction Overview

Overview	<ul style="list-style-type: none">▪ Tsogo will dispose of 7 premium casino precincts (Montecasino; Gold Reef City; Silverstar; Suncoast; Blackrock; Emnotweni and The Ridge) to Hospitality▪ Hospitality will lease the casino precincts to Tsogo under triple-net leases<ul style="list-style-type: none">• 20 year minimum lease period• Annual escalations at CPI• Rental review conducted on 1 Apr 2025 and every 5 years thereafter with reference to the underlying casino precincts EBITDAR
Sale Consideration and Funding	<ul style="list-style-type: none">▪ Sale consideration = R23 billion<ul style="list-style-type: none">• Based on an initial rental of R1.94 billion and an agreed forward yield of 8.45%▪ Hospitality funding<ul style="list-style-type: none">• Equity = R15.0 billion (Tsogo subscribes for 1.2 billion new Hospitality shares at R12.50 per share)• Debt = R8.1 billion (combination of new bank debt and new notes issued under Hospitality's DMTN programme) utilised to settle existing Tsogo debt
Unbundling	<ul style="list-style-type: none">▪ Tsogo has undertaken to distribute its entire shareholding (c.87%) in Hospitality to its shareholders as soon as possible following the implementation of the transaction
Timing	<ul style="list-style-type: none">▪ 21 Sep 2018: Circular and revised listing particulars made available▪ 23 Oct 2018: General meeting to vote on the transaction▪ 1 Mar 2019: Anticipated effective date▪ 1 May 2019: Anticipated unbundling of Hospitality shares by Tsogo

Transaction Rationale

▪ Tsogo Sun Holdings

- Casino regulatory risks including increased taxes and smoking regulations, etc. have been applied to both casino and hotel trading resulting in an undervaluation of the group
- By restructuring the group into a Propco (HPF) and Opco (Gaming & Hotel) structure, shareholders will be able to diversify their holdings on their risk appetite through holding:
 - HPF shares which provide more stable and predictable distributions
 - Tsogo shares which are more exposed to the risks and opportunities of the gaming and hotel industries and the South African macro-economic climate
- On a sum-of-parts valuation, the Tsogo (Opcos) shares plus the HPF (Propco) share is anticipated to be worth more than what a Tsogo share is currently worth, unlocking value for Tsogo shareholders

▪ Hospitality Property Fund

- The increased scale of HPF should provide access to global property indices, foreign investors, increased liquidity and potential re-rating of the share

Transaction Risks

▪ Tsogo Sun Holdings

- Fixed leases significantly increase the proportion of fixed costs in relation to variable costs in the Gaming Opco
- Opcos will become more heavily geared towards the economic environment and become significantly more volatile
- Opcos will not have the balance sheet to make significant investments locally or offshore in either hotels or gaming
- Splitting the mid-cap Tsogo Sun share into two small caps and a REIT may result in reducing the number of potential investors due to investment mandates

▪ Hospitality Property Fund

- HPF becomes highly exposed to the financial well-being of Tsogo as Tsogo would be HPF's most significant tenant (approximately 85% of rentals)

Transaction Mechanics

- 1
 - Tsogo undertakes an internal restructuring
 - The casino precincts are packaged into two wholly-owned subsidiaries - Listed Investments and Cassava

- 2
 - Hospitality subscribes for shares worth R23 billion in Merway
 - Hospitality uses an intra-day bridge loan and R8.1 billion raised with bank debt/new notes issues under Hospitality DMTN programme to advance the R23 billion to Merway

- 3
 - Merway acquires the entire issued share capital of Listed Investments and Cassava for R23 billion

- 4
 - The vendors (various Tsogo subsidiaries) use the proceeds to:
 - subscribe for shares in Hospitality worth R15.0 billion; and
 - settle existing debt of R8.1 billion

- 5
 - In preparation for unbundling, the vendors dispose of their Hospitality shares to TSH

- 6
 - Listed Investments and Cassava amalgamate into HPF Properties

- 7
 - TSH unbundles its Hospitality shares to its shareholders

Lease Terms

Lease type and duration	<ul style="list-style-type: none"> ▪ Each casino precinct will be let to Tsogo in terms of a triple net lease ▪ Each head lease is for an initial period enduring to 31 Mar 2023, whereafter the lease may be terminated by either party on 15 years' written notice
Rent	<ul style="list-style-type: none"> ▪ Initial aggregate base rental payable for the seven precincts is R1.94 billion per annum ▪ Rental escalating annually at CPI. The first escalation date is 1 April 2019
Rental reviews	<ul style="list-style-type: none"> ▪ On 1 Apr 2025 and every 5 years thereafter, the rental payable shall be reviewed and re-calculated for the immediate subsequent 5 year period ▪ The re-calculated rental shall equal the lesser of the aggregate escalated base rental and 70% (1.4:1 – EBITDAR to rent ratio) of the aggregate casino portfolio EBITDAR for the previous year escalated at the escalation rate. Any adjustment will be subject to a 2.5% threshold ▪ On the first and second anniversaries of any rental review date, the parties will review the current rental against the aggregate escalated base rental in order to possibly re-set the rental payable upward (with the aggregate escalated base rental as a maximum)
Alterations and/or additions	<ul style="list-style-type: none"> ▪ At the cost of Tsogo ▪ Right of first refusal for any material improvements to Hospitality ▪ Any earnings stemming from any material improvement(s) shall be included for purposes of calculating casino precinct EBITDAR, regardless of who paid for the improvement(s)
Operating plant	<ul style="list-style-type: none"> ▪ Ownership remains with Tsogo until termination of the head lease(s) in question
Maintenance	<ul style="list-style-type: none"> ▪ Maintenance of Casino Precinct and operating plant to an upmarket casino standard at the cost of Tsogo
Termination	<ul style="list-style-type: none"> ▪ 15 years written notice post 1 Apr 2023 by either party ▪ 5 years written notice in the event of two consecutive downward rental resets (either entire casino portfolio or specific precinct(s) causing the downward re-sets) ▪ Tsogo has the right to waive a downward re-set to prevent termination

Casino Precincts Overview

	Montecasino	Suncoast	Gold Reef City	Silverstar	Emnotweni	The Ridge	Blackrock
Description							
	Mixed-use entertainment destination incorporating a wide variety of entertainment facilities. The precinct also includes an office component	The premier entertainment destination in the KwaZulu-Natal province located close to the landmark Moses Mabhida stadium	Mixed-use entertainment precinct, which is home to the popular Lyric and Barnyard theatres	The precinct is a comprehensive entertainment and conferencing venue which caters to the western Gauteng region	Dedicated gaming complex, adjacent to the Riverside Mall shopping centre	Prime entertainment destination in the eMalahleni area, which is also adjacent to The Highveld Mall	Mixed-use precinct which is located in the largest town in KwaZulu-Natal, which is also the Northern Natal government hub
Location	Fourways, GP	Durban, KZN	Johannesburg, GP	Muldersdrift, GP	Nelspruit, MP	eMalahleni, MP	Newcastle, KZN
Opened	2000	2002	2000	2008	1997	1998	2006
Casino licensee	Tsogo	Tsogo	Tsogo	Tsogo	Tsogo	Tsogo	Tsogo
Casino tables	82	57	51	30	19	19	10
Casino slots	1 700	1 622	1 600	900	425	436	300
Built-up area (m ²)	109 053	40 967	43 216	31 873	17 545	18 764	9 649
Retail GLA (m ²)	31 519	11 350	10 505	12 644	40	3 310	733
Office GLA (m ²)	25 700	-	-	-	-	-	-
Hotels	3	1	1	1	2	2	1
Hotel rooms	619	165	38	34	224	175	80

US Net Lease REITS

- In the US market, there are at least 3 REITS that focus on triple net leases within the gaming, hospitality and entertainment sector
 - VICI Properties Inc (IPO date – February 2018)
 - MGM Growth Properties LLC (IPO date – 2015)
 - Gaming & Leisure Properties Inc (IPO date – 2013)
- These three US Gaming REITS have features that are similar to Project Aurora:
 - Property assets transferred from a gaming operator into a REIT and leased back
 - Triple net leases, with the tenant also responsible for ongoing capex
 - Initial lease terms of 10 – 15 years followed by multiple long-term renewal options
 - Rental escalations linked to inflation
 - EBITDAR or revenue-to-rent ratio covenants or triggers
 - Tenant's performance is guaranteed by the gaming operator

VICI™



MGM GROWTH
PROPERTIES™



GAMING & LEISURE
PROPERTIES, INC



Tsogo Post Sale and Unbundling (Rm)

	F'18 Reported	HPF Deconsoli- dation	Gaming leases and debt	F'18 Illustrative	Exceptional Items	F'18 Normalised
Income	13 975	(402)	-	13 573		13 573
Net gaming win	7 940	-	-	7 940		
Revenue		-	-			
Rooms	3 160	-	-	3 160		
F&B	1 561	-	-	1 561		
Rental income	549	(402)	-	147		
Other	765	-	-	765		
Ebitdar	5 271	(362)	-	4 909		4 909
LTI expense	24	-	-	24		24
Property rentals	(282)	(464)	(1 842) ⁽¹⁾	(2 588)		(2 588)
Amortisation & depreciation	(912)	76	53	(783)		(783)
Exceptional items	(439)	196	-	(243)	243	-
Net finance costs	(1 157)	164	743	(250)		(250)
Associates and JVs	63	-	-	63	(15)	48
Taxation	(410) ⁽²⁾	158	308	56 ⁽²⁾	(350) ⁽²⁾	(294)
Non-controlling interests	(187)	166	-	(21)		(21)
Attributable earnings	1 971	(66)	(738)	1 167	(122)	1 045
Adjustments	(5)	(117)	-	(122)		-
Adjusted earnings	1 966	(183)	(738)	1 045	(122)	1 045

Note: Assuming transaction on 1 April 2017 and excluding once off items

⁽¹⁾ R1 944 million rental used in proforma's in the circular. Discounted by CPI for the adjustment above

⁽²⁾ Includes a R307 million deferred tax release which will not repeat in future years

Tsogo Post Sale and Unbundling (Rm)

	F'18 Reported	HPF Deconsoli- dation	The sale, subscription & debt	Goodwill derecognition & impairments	Deferred tax & transaction costs	F'18 Illustrative
Assets						
Property, plant and equipment	16 038	(3 558)	(4 867)	-	-	7 613
Investment properties	5 255	(5 101)	-	-	-	154
Goodwill and other intangible assets	6 507	-	-	(2 758)	-	3 749
Cash and cash equivalents	2 778	(390) ⁽¹⁾	-	-	(13)	2 375
Other assets	3 202	(177)	-	-	-	3 025
Total assets	33 780	(9 226)	(4 867)	(2 758)	(13)	16 916
Equity						
Ordinary share capital and premium	6 636	-	-	-	-	6 636
Other reserves	(2 040)	(870)	-	-	-	(2 910)
Retained earnings	6 280	(3 123)	3 185	(2 758)	107	3 691
Non-controlling interests	3 318	(3 036)	-	-	-	282
Total equity	14 194	(7 029)	3 185	(2 758)	107	7 699
Liabilities						
Interest bearing borrowings	15 315	(1 948)	(8 052)	-	-	5 315
Other liabilities	4 271	(249) ⁽¹⁾	-	-	(120)	3 902
Total liabilities	19 586	(2 197)	(8 052)	-	(120)	9 217
Total equity and liabilities	33 780	(9 226)	(4 867)	(2 758)	(13)	16 916

Note: Assuming transaction on 31 March 2018

⁽¹⁾ R373 million cash deposits included in other liabilities in the circular reallocated to cash and cash equivalents

Funding Covenants Post Sale and Unbundling (Rm)

	F'18 Reported	HPF Deconsoli- dation	The sale, subscription & debt	Transaction costs	F'18 Illustrative
Tsogo Sun					
Net debt	12 537	(1 545)	(8 052)	(13)	2 927
Ebitda	4 989	(826)	(1 842)		2 321
Debt : Ebitda	2.5				1.3
Funding covenant	3.0				3.0
HPF					
Gross debt	1 936		8 052		9 988
Investment properties	12 534		23 007		35 542
LTV	15.4%		35.0%		28.1%
Funding covenant	40.0%				40.0%

Financial Impact of the Transaction on Tsogo Shareholders

- Following the transaction and unbundling shareholders will receive taxable distributions from a REIT rather than dividends out of post tax profits for approximately 45% of the group distributions
 - The impact on shareholders depends on their tax status
 - Interest on borrowings to acquire REIT shares is deductible against the taxable distributions
- Cash distributions from the group will increase as most of the REIT distributable earnings will be distributed in addition to the dividends from the Gaming and Hotel Opcos
 - Dividend policy for the Gaming and Hotel Opcos to be finalised dependent on growth prospects
- The disposal of the assets results in additional cash tax of approximately R41m per year due to the loss of § 13quin and § 13bis allowances which will reduce profits and distributions
- The impact of the unbundling depends on the tax status of the shareholder
 - The distribution in specie of 918 million HPF shares
 - Will be subject to dividends tax unless it is exempt in terms of §10(1)(k)(i) of the ITA
 - Will be at a base cost equal to the market value of an HPF share on the date of distribution
 - The unbundling of 620 million HPF shares
 - Will not be subject to dividends tax
 - Will be at a base cost calculated in terms of the apportionment formula included in §46 of the ITA on the shareholders' base cost of their Tsogo shares



Appendix A

Casino Precincts

Montecasino

▪ Precinct Overview

- The Montecasino precinct is a premier mixed-use entertainment destination which includes gaming, leisure, retail, restaurant and hotel facilities
- The Privé, in the main casino area, offers various slots and tables that cater to the more discerning gamer with private and semi-private gaming rooms
- Situated on the corner of William Nicol Drive and Witkoppen Road, the precinct enjoys good access via the Sandton road network
- There is a good mix of restaurants and fast food outlets, with both national franchises as well as independent operators
- There are three hotels on the Precinct: the Palazzo, the Southern Sun Montecasino and the SunSquare Montecasino
- Ancillary entertainment offerings in the precinct include the Teatro and Pieter Toerien theatres, the second largest movie house in the country with 15 cinemas and The Magic Company



Key Metrics

Casino tables	82
Casino slots	1 700
Gross built-up area (m ²)	109 053
Retail GLA (m ²)	31 519
Office GLA (m ²)	25 700
Hotel rooms	619

Suncoast

▪ Precinct Overview

- Suncoast Casino and Entertainment World enjoys an attractive location close to the Moses Mabhida and Kings Park stadiums
- The precinct is currently undergoing a redevelopment which started in 2016 and is expected to be completed at the end of 2018
- The redevelopment is expected to attract more high-end demand and will add additional retail space
- The Privé in the main casino area caters to the more discerning gamer and also includes private gaming areas
- The movie theatre in the precinct has the highest occupancy rate in South Africa
- There are two hotels in the precinct: Suncoast Towers and the SunSquare Suncoast



Key Metrics

Casino tables	57
Casino slots	1 622
Gross built-up area (m ²)	40 967
Retail GLA (m ²)	11 350
Office GLA (m ²)	-
Hotel rooms	165

Gold Reef City

▪ Precinct Overview

- Gold Reef City is located in an old, established suburb 10km south of the Johannesburg CBD
- Also located on the premises is the well-known Apartheid Museum, which is independently managed from the casino itself
- The precinct provides a full entertainment offering including gaming, leisure, retail, restaurant and hotel facilities
- The Privé offers a mix of slots and tables and caters to the more discerning gamer
- Restaurants in the precinct include a good mix of national franchises and independent operators, with some being operated by Tsogo
- The precinct includes a Southern Sun hotel



Key Metrics

Casino tables	51
Casino slots	1 600
Gross built-up area (m ²)	43 216
Retail GLA (m ²)	10 505
Office GLA (m ²)	-
Hotel rooms	38

Silverstar

■ Precinct Overview

- The Silverstar Casino precinct is located in the mature and established suburb of Muldersdrift
- The Privé in the main casino area offers a mix of slots and tables, with a semi-private area that includes tables and slots
- The casino targets the West Rand area, with the majority of patrons residing within a 15-km radius
- The precinct also offers corporate event venues which are located in the casino and also has banqueting facilities
- There is a Southern Sun Hotel in the precinct



Key Metrics

Casino tables	30
Casino slots	900
Gross built-up area (m ²)	31 873
Retail GLA (m ²)	12 644
Office GLA (m ²)	-
Hotel rooms	34

Emnotweni

■ Precinct Overview

- The Emnotweni Precinct forms part of an expanding commercial node in Mbombela (formerly Nelspruit) which has seen much new development in recent years
- The precinct adjoins the popular Riverside Mall, and therefore the food and beverage offerings within the actual casino complex is limited
- Ancillary entertainment offerings are provided in space rented from Riverside Mall and therefore do not form part of the casino complex
- The precinct offers a large corporate event venue known as The Arena, which is located inside the casino
- There are two hotels on the precinct: a Southern Sun Hotel and a StayEasy Hotel



Key Metrics

Casino tables	19
Casino slots	425
Gross built-up area (m ²)	17 545
Retail GLA (m ²)	40
Office GLA (m ²)	-
Hotel rooms	224

The Ridge

▪ Precinct Overview

- The Ridge Precinct is located in an area of eMalahleni (formerly Witbank) which has seen a large amount of development in recent years
- The precinct is adjacent to The Highveld Mall and therefore the food and beverage offerings within the actual casino complex is limited
- The food and beverage offerings that are currently in the casino complex are all operated by Tsogo Sun
- The precinct also offers a 1 000 seater venue that is used to host live shows and events
- Ancillary entertainment offerings include a movie theatre, The Magic Company and open-air Putt-Putt course
- There are two hotels in the precinct: the Southern Sun Ridge and a StayEasy Hotel



Key Metrics

Casino tables	19
Casino slots	436
Gross built-up area (m ²)	18 764
Retail GLA (m ²)	3 310
Office GLA (m ²)	-
Hotel rooms	175

Blackrock

▪ Precinct Overview

- Blackrock Casino is located in Newcastle which is the largest town in KwaZulu-Natal
- A portion of the precinct has recently been renovated
- The property also has four corporate event venues
- Newcastle has limited hotel supply, and the Garden Court is one of the few branded hotels in the node



Key Metrics

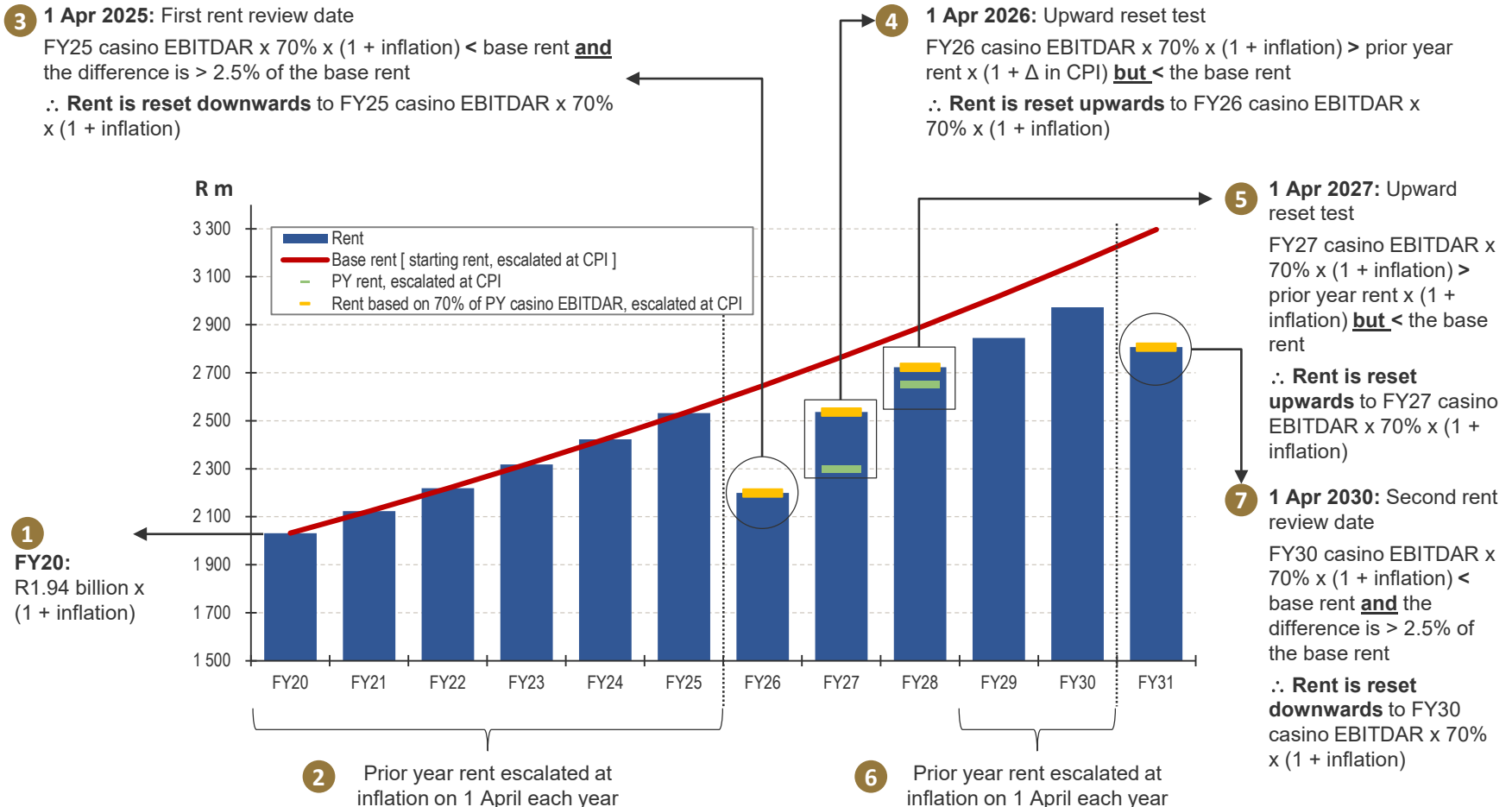
Casino tables	10
Casino slots	300
Gross built-up area (m ²)	9 649
Retail GLA (m ²)	733
Office GLA (m ²)	-
Hotel rooms	80



Appendix B

Rental Reset Example

Rental Reset Example



(1) The forecast assumes an inflation rate of 4.50% (mid-point of the SA Reserve Bank's target range)

(2) The resets shown in this example are theoretical, for illustrative purposes only, and do not represent any kind of forecast

