

Good afternoon and welcome to the Peermont 2nd quarter 2013 Results Conference Call

My name is Anthony Puttergill, CEO of Peermont and with me I have Grant Robinson, our Group Financial Director.

We will be discussing our quarterly report for the three and six months ended 30 June 2013 that was released on Wednesday evening 28 August 2013, for distribution through the clearing systems, to investors listed on our mailing list and on our website.

Since our discussion may contain certain forward-looking information, it should be qualified by the factors referred to in our quarterly report, 2012 annual integrated report as well as in the "Risk Factors" section of our website.

Due to the recent developments reported in the media relating to our capital restructure and refinancing, we thought it appropriate to cover this first today.

Peermont released a statement on Bloomberg and to investors this morning confirming that we have terminated discussions with Grand Parade Investments Limited (which we will refer to as GPI). GPI was previously involved in discussions with Peermont and its stakeholders to procure a strategic interest in the group. We terminated discussions after GPI advised us that they were unlikely to obtain the required levels of shareholder support for the deal parameters previously negotiated in the non-binding MOU.

As previously reported, the group is in an advanced stage of negotiations with its stakeholders and third party funders in order to recapitalise its balance sheet through the refinancing of its Senior Secured Notes and restructuring of the capital structure of the group (the "Recapitalisation").

Since the potential GPI investment was not intended to be applied to the refinancing of our SSNs, an investment by GPI in the group was never a requirement to successfully complete the Recapitalisation.

The group continues to negotiate the key terms of, and documentation for, the Recapitalisation with its stakeholders and third party funders.

There can be no assurance that any of these efforts will lead to a definitive agreement and / or successful completion of the Recapitalisation or any other transaction involving the group's capital structure."

Now turning back to our results for the quarter and half year.

In summary, for the quarter:

1. Total revenues increased by 7.9% to R745.9 million from R691.4 million in the same quarter of 2012;
2. EBITDA increased by 8.5% to R276.7 million from R255.0 million in 2012. LTM EBITDA is now over R1,1 billion and now stands at R1 115.6 million for the 12 months to 30 June 2013;
3. Our EBITDA margin improved slightly to 37.1% as compared to 36.9% in the same quarter of 2012.

For the six months to June 2013, as compared to the first half of 2012:

1. Total revenues increased by 9.6% to R1 485.5 million; and
2. EBITDA at R549.4 million increased by 11.2%;
3. EBITDA margin improved to 37.0% as compared to 36.4% in the same period of 2012.

Our credit ratios, calculated with our usual adjustments, are as follows:

1. Net cash pay debt/LTM EBITDA is 4.5 times;
2. Total net debt through the PIK Notes/LTM EBITDA is 6.4 times; and
3. The estimated LTM EBITDA/historic net cash interest expense is 1.4 times.

As regards the macroeconomic environment in SA, economic growth remains sluggish and is reported at 2.0% year-on-year for the second quarter of 2013 compared to 1.9% year-on-year for the first quarter of the year. The SA Reserve bank growth forecasts have been trimmed downwards from 2.4% to 2.0% for 2013 and to 3.3% and 3.6% for 2014 and 2015 respectively. The headline inflation rate was impacted by the weakening of the Rand against the US Dollar and fuel price increases, and was reported at 6.2% for July 2013, breaching the upper limit of the target range of 3 – 6% for the first time since April 2012. CPI is expected to peak in August and average around 5.7% for 2013.

Turning to the gaming industry, gaming revenues in Gauteng, South Africa's largest gaming market (based on levies paid by casinos on weekly gaming revenues), increased by 7.1% for the second quarter of 2013, as compared to 6.0% for the first quarter of 2013.

As regards Peermont's revenue growth, Emperors Palace revenues for the quarter increased by 6.9%, driven by growth in gaming revenues of 8.5%. The balance of our operations generated revenue growth of 9.4% with strong contributions from our Botswana, Mmabatho Palms and Frontier properties. The collective revenues from operations other than Emperors Palace grew to R283.9 million for the quarter, comprising approximately 38% of group revenues.

Overall hotel trends in South Africa showed growth of 5.1% in RevPAR for Q2 of 2013. Our hotels generated rooms revenue of R79.7 million, an increase of 9.6%. All of our properties reported growth in rooms revenue for the quarter. Taking into account the recent increase in competition in the Gaborone hotel market, our Botswana properties performed particularly well with growth of 6.7% in Pula terms (11.7% in Rand terms). Overall hotel and resort revenue for the group grew by 8.0% for the quarter.

From an overall monthly group revenue perspective:

1. Within the second quarter, all three months showed positive revenue growth with 5.1% in April, 8.5% in May and 9.5% in June, respectively.
2. In July, revenue remained flat with an increase of 0.4% compared to July 2012. The growth for the month is slightly skewed due to the fact that July 2013 had one less Sunday as compared to July 2012.
3. August thus far is showing an increase in revenues of approximately 12.1% as compared to the same period last year.

I will now take you briefly through the operating performance points for the quarter:

Emperors Palace: Total revenues for the quarter increased by 6.9% to R462.0 million from R432.0 million in Q2 2012.

Gaming revenue for the quarter increased by 8.5% to R386.1 million. The growth in GGR is mainly a result of growth in the overall Gauteng gaming market with our market share (based on gaming levies paid by casinos on weekly gaming revenues) being maintained at approximately 23.5% for the quarter as compared to 23.6% for Q2 2012.

This was an eventful quarter for Emperors Palace, mainly due to the installation of the Bally gaming system during March and April, as well as the foiled robbery at the end of April. The launch of the Club Lounge at the D'oreale Grande in May 2013 was well received by our customers but will take some time to maximise rate. While the installation of the Bally Gaming system negatively impacted revenues in April, due to the down time while machines were converted and tested over a two week period, the system has since bedded down and we have started make to use of its promotional features, to the benefit of our customers.

In light of these events, we are satisfied with the growth of 8.5% in gaming revenues.

While the average daily number of vehicles through the gate decreased by approximately 3.7% as compared to the same quarter in 2012, the average spend per visitor has increased by approximately 12.6% (based on 2.3 visitors per vehicle).

Hotel and resort revenues remained relatively flat at R75.9 million for the quarter. Rooms revenue increased by 6.6% to R35.5 million for the three months compared to the same period in 2012 due to increased average room rates, specifically at the Peermont Mondior and Peermont Metcourt hotels with increases of 21.9% and 11.5% respectively. The increase in average room rates was partially offset by a decrease in room occupancy levels to 81.0% for the quarter from 84.9% in the same period last year.

The growth in rooms revenue was offset by a decline in food and beverage revenue. The performance for the quarter can be attributed to high conferencing revenues generated in the prior year period.

Cash costs increased by 5.4% to R301.4 million for the quarter. Employee costs increased by 6.6%, largely due to annual salary increases. VAT and Gaming levies increased by 7.4% as a result of GGR growth and consumables and services costs increased by 5.4%, resulting mainly from inflationary increases. Promotions and marketing costs were reduced by R2.2 million or 6.1% as compared to the prior year.

The revenue growth and control over cash costs translated into EBITDA growth of 9.5% for the quarter at EP. The EBITDA margin increased from 34.0% in the same period last year to 34.8% for the current quarter.

As regards our other group operations, it was a relatively good quarter overall with revenue growth of 9.4% and EBITDA growth of 7.2%. After a poor first quarter, our Botswana operations bounced back in the second quarter by actively pursuing corporate and government business and grew revenue by 18.4% in Rand terms. EBITDA increased by 15.2% for the quarter. Cash costs for our Botswana properties are still being impacted by the additional performance rental provided for in respect of the Gaborone International Convention Centre.

The rest of our South African operations generated overall revenue growth of 6.2% or R11.8 million and EBITDA grew by 5.1% or R4.4 million. In particular, our Frontier and Mmabatho Palms operations delivered good performances during the quarter.

Frontier generated growth of 13.6% in revenue and 15.8% in EBITDA. The revenue growth was driven by a 14.2% increase in gaming revenues to R13.7 million. Hotel and resort revenues increased by 10.0% to R2.2 million as the property benefited from food and beverage revenues generated through various conferences, functions and events hosted at the property.

After difficult trading conditions experienced in 2012, Mmabatho Palms showed some level of recovery and generated revenue growth of 10.3% or R2.6 million for the quarter.

I will now hand you over to Grant Robinson to deal with details of the cash flows, treasury activities and capital expenditures in the quarter.

Thereafter, I will cover recent developments.

I will now hand you over to Grant Robinson

Good afternoon

Finance income increased from R35.8 million for the six months to June 2012 to R820.1 million in 2013. In 2013 the Rand weakened from R11.09 to R12.94 against the Euro, resulting in a mark-to-market gain of R809.0 million on the derivative instruments utilised to hedge the future coupon payments and the Senior Secured Notes liability recorded at June 2013.

This can be compared to the R25.5 million gain on translation of the Senior Secured Notes liability recorded at June 2012, which resulted from the Rand strengthening from R10.44 to R10.38 in the first six months of the year.

Finance costs for the six months ended June 2013 reflected an increase of R950.0 million from the prior period.

The exchange rate movements explained earlier resulted in a R766.3 million foreign exchange loss on the restatement of the SSN liability for the six months to June 2013, compared to the gain recorded at June 2012 under financial income.

The remaining increase comprises increased interest accruals on other liabilities such as the SSNs and the deeply subordinated shareholder loans.

The taxation and deferred taxation credit of R116.5 million relates mainly to the effect of deferred taxation credits as a result of estimated taxation losses arising at Peermont and certain of its subsidiaries. The deferred taxation charge in the prior year was a result of the increase in the taxation rate applied to capital gains in South Africa from an effective 14.0% to 18.7% as announced by the Minister of Finance in February 2012.

Cash inflows from operating activities for the six months were R521.2 million compared to R500.1 million in the comparative period in 2012. This translates into a cash conversion to EBITDA ratio of 65.3%. The cash conversion ratio for the year to date was negatively affected by increased replacement capital expenditure incurred in the first half of the year, mainly in relation to the implementation of the new gaming system.

EBITDA generated an additional R56 million in cash. This was offset by an increased utilisation of cash in working capital of R34 million in 2013 year to date, mainly related to higher cash outflows for bonus payments and a lower value of accruals raised as compared to the prior period. These movements account for the bulk of the change in cash generated.

The taxation payments for both reported periods are for certain of our subsidiaries e.g. PGSH, PGMKZN and PGB where taxation flows continue to be incurred.

The finance expenses paid relate mostly to the SSN coupon payment of R362.5 million and the Deferred Hedging Loan interest payment of R30.0 million, both paid in April 2013.

Net capital expenditure for the three months was R156.7 million. This includes R71.5 million on computer software and equipment on installation of the new gaming system. R5.5 million was spent on expansion capital expenditure.

During the current period net cash outflows from financing activities amounted to R14.4 million. This consisted mainly of R4.2 million on the normal redemption of debt by Head office and PGEFS and R11.3 million relating to the redemption of the non-controlling shareholder's portion of the preference shares in PGB. The PGB preference shares are now redeemed in full.

At 30 June 2013 the group had drawn R120.1 million against the RCF, offset by cash balances held of R116.9 million. Details of R60.7 million included in the reported cash balance, but not available to the group for third party cash flows, are detailed later in the call.

Our net replacement capital expenditures in the six months ended 30 June 2013 and 2012 were R151.2 million and R83.9 million respectively, representing approximately 10.2% and 6.2% of total revenue for those periods. We expect the 2013 replacement capital expenditure to be approximately 7% of revenue for 2013.

Our replacement capital expenditure during the year to date consisted of approximately R44.8 million spent on slots replacement throughout the group; R71.5 million on computer software and equipment on installation of the new gaming system; P4.5 million (R5.2 million) relating to refurbishment at the Metcourt Hotel in Francistown and the Grand Palm in Gaborone; and the balance on normal replacement capital expenditure. In 2012 our replacement capital expenditure consisted of approximately R33.1 million spent on slots replacement throughout the group; R17.2 million on equipment in preparation for the new gaming system; P2.6 million (R2.9 million) on the refurbishment at the Metcourt hotel in Francistown; and the balance on normal replacement capital expenditure.

Our expansion capital expenditure for the six months ended 30 June 2013 was R5.5 million including R3.3 million spent on the Club Floor Lounge at Emperors Palace; R1,0 million on a restaurant and bar at Rio; and P1,0 million (R1,2 million) on the chinese restaurant and spa at the Grand Palm resort.

At 30 June 2013, of the R550.0 million available under our RCF, R59.0 million of the facility had been utilised to provide guarantees to various gambling boards, suppliers and financial institutions, and an additional R120,1 million was drawn in cash. This was offset by cash held of R116,9 million. Cash included in the reported balances but not available to the group consists of approximately R30.0 million required for operational and cash floats and R30.7 million held on behalf of trust beneficiaries. After adjusting for the above, capacity of R370.9 million under the RCF and cash of R56.2 million was available for group requirements at 30 June 2013.

While we are currently not forecasting any cash utilisation of the RCF as at December 2013, we are in advanced discussions with senior debt funders regarding a new RCF facility of R250m, to be introduced as part of the overall senior debt refinancing package currently being negotiated with local banks.

At this point, I'm handing you back to Anthony to take us through the final section dealing with recent developments.

Thank you Grant. I will now update you on other recent developments.

Firstly, with regards to the planned development of the Thaba Moshate Hotel Casino and Convention Resort in Burgersfort, Peermont is currently engaging the Limpopo Gambling Board to finalise the licence conditions and the wording and timing of construction guarantees. The Board is satisfied with the Senior Counsel opinions obtained regarding the outstanding litigation matters relating to the land earmarked for the development of the casino and other facilities. We intend to commence construction once the casino licence conditions have been finalised with the Limpopo Gambling Board and final shareholder approvals have been obtained. The projected construction cost has been increased by R40 million to provide for an increase in the number of rooms being planned for the hotel and is currently estimated to be c. R325 million.

Secondly, PGNW has entered into an agreement to dispose of the Taung leasehold property and related assets for a consideration of R5,0 million. The purchase consideration has been received and the transfer of the property is expected to be concluded in the coming months, following the completion of an outstanding condition precedent. The disposal of the Taung stand-alone hotel is not expected to have a significant impact on our results, however it will enable management to increase focus on our more profitable properties.

Lastly, the roll-out of the Bally gaming system across the group still continues according to plan. Since the system went live at Emperors Palace in March, it has now also been implemented at Khoroni in May and at Rio in July. Our three remaining properties are scheduled to follow later during the year and early in 2014.

I would like to end off by recapping the main points of our performance for the quarter as follows:

1. Total revenues increased by 7.9% to R745.9 million from R691.4 million in the same quarter of 2012;
2. EBITDA increased by 8.5% to R276.7 million from R255.0 million in 2012. LTM EBITDA now stands at R1 115.6 million for the 12 months to 30 June 2013;
3. Our EBITDA margin improved slightly to 37.1% as compared to 36.9% in the same quarter of 2012.

That brings me to the end of our presentation and I will now open the line for questions.