# JOINT STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

## OPERATIONS

The 2023 financial year began with a great deal of uncertainty. The recovery in trading volumes post the Covid-19 pandemic, which first started gaining momentum in FY22 Q3 but was brought to a sudden halt by the impact of the discovery of the Omicron variant and the subsequent *red listing* of South Africa in FY22 Q4. While the *red listing* was lifted quite quickly, the damage to that summer season was done. Fortunately, although FY23 Q1 was subdued, the balance of the year resumed the path to recovery and ended up surpassing all expectations, particularly in the second half of the year. Overall occupancy of 51.5% for the year is the result of FY23H1 occupancy at just over 46% and FY24H2 occupancy at just under 57%. Due to the group's high level of operational gearing, the second half consequently produced much higher profitability and pleasingly adjusted HEPS for the year, which at 30cps is above the pre-Covid adjusted HEPS of 26cps, albeit that the month of March 2020 was already heavily impacted by the pandemic.

Following the implementation of the separation agreement with TSG, reported on in the prior year, the level of third-party management fees is less material to the group and 81 of our 95 hotels are now operated for our own account and the balance for external owners. This has given us the opportunity to revisit our segmental reporting and we now show regional revenue and profitability by province with the smaller provinces aggregated and Africa, the Sandton Consortium and the hotels we lease to external parties still disclosed separately.

This new disclosure reveals that all regions performed substantially better than the prior year as the recovery was experienced across the board. The Western Cape is the group's largest region in terms of Ebitdar and has experienced a strong recovery in international inbound tourism and event-related visitors. KwaZulu-Natal continued to perform well on the back of local travel, eventing and government-related business, a trend also seen in the Mpumalanga, Eastern Cape, Northern Cape, Free State and Limpopo provinces. Gauteng has recovered well relative to FY22 but certain hotels in outer Sandton and Rosebank are still well below pre-Covid-19 levels as new supply and a general lack of corporate travel is experienced.

In all regions the group has maintained the cost efficiency brought about by the substantial restructuring over the last two years and Ebitdar of R1 436 million was above the R1 352 million reported for FY20 despite occupancy being some 8 percentage points lower compared to FY20.

**Left: John Copelyn,** *Non-executive Chairman*
**Right: Marcel von Aulock,** *Chief Executive Officer*

SOUTHERN SUN HAS AN IRREPLACEABLE PORTFOLIO OF HOTELS ACROSS THE COUNTRY. OUR CURRENT ENTERPRISE VALUE (MARKET CAPITALISATION PLUS NET DEBT) REPRESENTS A SUBSTANTIAL DISCOUNT TO THE FAIR MARKET VALUE OF OUR PROPERTIES AND AN EVEN GREATER DISCOUNT TO THEIR REPLACEMENT VALUE. IN ADDITION TO MAINTAINING THE EFFICIENCIES WE HAVE ACHIEVED, THE GROUP HAS ADOPTED A MORE INWARD FOCUSED STRATEGY AND WILL BE LARGELY ALLOCATING AVAILABLE CAPITAL, BOTH FINANCIAL AND HUMAN, TO OUR EXISTING PORTFOLIO.

During FY23, the group has implemented two transactions previously reported to shareholders which has resulted in an aggregate reduction in the group's gearing levels by R947 million, strengthening the balance sheet and positioning the group to maximise benefits from the recovery in trading.

The first of these transactions is the implementation of the transaction with TSG, referred to above, on 30 September 2022 which culminated in the termination of the various management and licensing agreements in respect of 15 hotels owned by TSG, the acquisition by the group of the Southern Sun Mbombela and StayEasy Mbombela hotels and related assets and net cash proceeds to the group of R257 million.

As part of the approvals required to implement the TSG transaction, shareholders also approved the group's name change to Southern Sun, the final step in our rebranding process. Southern Sun is a well-known brand with more than 50 years of heritage and, having navigated the worst of the pandemic, the transaction with TSG presented the ideal opportunity to re-establish ourselves as the leading hospitality group in southern Africa and create excitement and optimism among our employees, suppliers and guests, all of whom continue to support us and have embraced the rebranding as a natural fit for the group.

The second transaction was the disposal of the group's Southern Sun Ikoyi hotel in Ikoyi, Nigeria to Kasada for US$32 million and the assumption by the buyer of US$11 million net debt in country. A portion of the proceeds was used to settle the remaining US$7 million debt that the group had in Mauritius and the balance was repatriated to South Africa and used to settle local debt.

These transactions combined with better than expected trading, resulted in a year-end net debt position of some R1.3 billion, significantly down from R3.3 billion at the start of the pandemic. The group's debt package has been favourably refinanced and all covenants normalised.

Trading volumes are expected to continue to recover and we are focusing on yielding rate where possible, while still ensuring we offer great value to our customers. The challenges we face are numerous and well documented, including load shedding and the cost of diesel, high interest rates, poor business confidence and large-scale municipal dysfunctionality across the country.

However the FY24 calendar has a number of large events including the upcoming BRICS summit in Johannesburg, multiple sporting events from the Netball World Cup, club and test rugby, to the world table tennis championship and the second ePrix scheduled to return to Cape Town. International visitors are showing good demand for the summer season and South Africa continues to be a popular destination for the European and US market, and so despite the challenges we remain optimistic for the year.

Southern Sun has an irreplaceable portfolio of hotels across the country. Our current enterprise value (market capitalisation plus net debt) represents a substantial discount to the fair market value of our properties and an even greater discount to their replacement value. In addition to maintaining the efficiencies we have achieved, the group has adopted a more inward focused strategy and will be largely allocating available capital, both financial and human, to our existing portfolio.

We are planning a number of refurbishments and product refreshments over the next few years to ensure our product remains best in class and supports our desire to drive above-inflationary rate increases.

Some highlights include:

- The bedroom refurbishment at the Southern Sun Rosebank to align with the look-and-feel of the refurbished lobby which was launched as part of the hotel's rebranding to a Southern Sun in February 2020
- The refurbishment of the bedrooms and corridors at the Southern Sun Sandton (recently rebranded from Holiday Inn) following the restaurant upgrade and the introduction of a higher level suite offering
- A substantial upgrade of the conference areas, corridors, bedrooms and lobby area of the Southern Sun Cullinan, our flagship hotel in the brand as well as the extension of the pool deck, and
- Mock-ups and design work for refurbishment at Southern Sun Bloemfontein, Southern Sun Mbombela and Southern Sun Newlands, among others.

This physical investment is supported by a focus on service delivery in all hotels across all departments, where the people of Southern Sun follow the commitments to customers, suppliers and colleagues to be consistent, be present and show respect. We continue to invest in training and development programmes across all levels of the business.

In addition to investing in our physical product we have taken advantage of the discount at which we trade, to invest in our business and have cumulatively repurchased just under 100 million ordinary shares representing some 6.7% of the company's issued share capital for a total investment of some R430 million.

## APPRECIATION

Our sincere gratitude goes to the people of Southern Sun for their continued support and dedication to our values. We also want to thank the group's stakeholders and financiers for their support during the last few difficult years and through the recovery.

**John Copelyn**
*Non-executive Chairman*

**Marcel von Aulock**
*Chief Executive Officer*