

Ironbridge



RECREATIONAL TOURISM GROUP Investment Report

1. Summary of the Deal



On 21 June 2004, Ironbridge led the NZ\$50m management buyout of ACB Holdings Limited ("ACB") from a group of private investors. ACB was at the time the leading operator of backpacker complexes in New Zealand with

over 1,200 beds across four complexes in Auckland, Queenstown, Paihia and Rotorua.

In July 2006, Ironbridge merged the ACB business with that of Base Backpackers, its major competitor at the time, to form Recreational Tourism Group ("RTG"). In doing so, it became the largest provider of backpacker accommodation and travel services across Australia and New Zealand.

In November 2007, RTG purchased Brisbane's most popular and well known hostels, Palace Central and Palace Embassy. The acquisition also incorporated the "Down Under Bar", an icon of the Australian backpacker bar scene.

RTG has continued to invest in expanding its network with the opening in December 07 of a new 130 bed hostel and bar complex in Taupo, New Zealand and in July 08 of a new 250 bed hostel and bar complex in Wanaka, New Zealand.

RTG now operates 5 hostels in Australia and 8 in New Zealand operating under the "BASE" brand, 13 bars, and a national chain of 25 Backpackers World Travel retail travel shops throughout Australia.

The new BASE network is now very significant and a clear market leader, incorporating 4100 beds.

RTG's strategy is to continue to roll out its successful backpacker formats across Australia, New Zealand and, ultimately, the South Pacific.

2. Background

Tourism in Australia and New Zealand is a significant industry with a one of the highest rates of backpacker travellers in the world. This is driven by an increasing number of young people taking time out, assisted by cheaper "round the world" airfares.

Backpacking is now being adopted by more nationalities, once traditionally a UK/Irish pastime, and growth has been fuelled by Australia and New Zealand's attractiveness as holiday destinations and reputation for low cost, safe travel. Backpacking now encompasses people of all ages, with varying levels of spending power, creating a demand for clean, secure, modern hostels which still facilitate social interaction. Backpackers will pay a premium for this type of accommodation and the Base offering is specifically designed to satisfy this need.

While the backpacker industry across Australia and New Zealand is large and developed, it is still highly fragmented and largely owner operated. This results in significant variances in quality and standards across different hostels. RTG has created the only truly trans-tasman, national group of hostels offering consistent standards and facilities under a common brand that backpackers have come to know and trust.

RTG specifically develops or operates large

backpacker complexes which have the critical mass to offer a range of ancillary services and can offer low cost, clean, high quality, safe accommodation at competitive prices.

Management believes that an attractive opportunity exists to further develop and enhance its network of high quality backpacker complexes through both organic growth and acquisition of suitable properties in ANZ.

3. The Business



RTG operates 8 hostels in New Zealand and 5 in Australia in the following locations

New Zealand

- Auckland Central Backpackers (“ACB”)
- Paihia
- Rotorua Hot Rocks
- Taupo
- Wanaka
- Wellington
- Christchurch
- Queenstown

Australia

- Sydney
- Melbourne
- Brisbane Embassy
- Brisbane Palace
- Magnetic Island

Revenue is generated from accommodation, bars, internet cafes and from the commission generated from the sale of travel packages, work placement and activities throughout Australia and New Zealand.



RTG has actively pursued growth in the BASE network through its recent hostel development and acquisition initiatives, including the following:

Acquisition of Palace Brisbane

In November 2007, RTG purchased Brisbane’s most popular and well known hostels, Palace Central and Palace Embassy.

Enjoying the best positions in town, Palace Central and Embassy have become an integral part of RTG’s network, given their prime location in one of the key gateway cities for Australia.

Both properties have been refurbished to incorporate key aspects of the Base brand.

The Down Under Bar at the Central property has been expanded to cater for a larger capacity and funky new en-suite rooms are to be added to the Embassy to appeal to a broader cross section of travelers, whether they are independent or short stay domestic clients.

Opening of Taupo



In December 2007, RTG opened its new luxury 150 bed backpacker hostel in Taupo, New Zealand.

Base Taupo is a purpose built luxury budget hostel with an ideal central location and stunning Lake Taupo and mountain views. It is just seconds from the lakefront and has transport, cafés & shops on its doorstep.

Base Taupo, is designed with the traveler in mind, boasting an ideal location right in the centre of town, superior facilities, comfy beds and great value for money.

Opening of Wanaka

In July 2008, RTG completed building works for a new luxury BASE hostel and bar in Wanaka, New Zealand.

The hostel is in a prime CBD location with 250 beds and is designed to cater predominantly to the ski market. Most rooms have lake or mountain views, with a large number having ensuite facilities.

Refurbishment and expansion of Hot Rock Rotorua

In November 08, RTG commenced an extensive refurbishment of rooms and bathrooms at the Hot Rocks Rotorua hostel.

The refurbishment is due to be completed in early 2009 and will add an additional 60 beds capacity to the existing hostel for a total capacity of 200 beds.

Refurbishment of Globe Bar

In November 2008, RTG commenced an upgrading of facilities at the Globe Bar, its iconic Auckland backpacker bar attached to the ACB hostel. The refurbishment includes new bathrooms, more seating, improved street access and greater ventilation and has doubled the bars capacity.

Development of Wellington Bar

Development of Wellington Bar RTG is in the planning phase to move and upgrade existing bar facilities in its Wellington hostel from an existing basement facility to a prime street level location.



Due to be finished in 2009, the new bar will be located in a beautiful heritage environment, the site of the former Wellington post office, with a new attached garden bar facility.

National Internet Network

During 2008, RTG implemented state of the art internet and wi-fi facilities throughout its network of hostels providing to ensure that it continues to provide travellers with the latest in communication technology.



4. Transaction Rationale

Leading market position RTG is the leading "for profit" chain of backpacker complexes in Australia & New Zealand.

Growing market Growth is driven by an increasing number of young people taking time out and by Australia and New Zealand's reputation for safe and low cost travel.

Large but fragmented industry The backpacker market in Australia & New Zealand is very large, attracting over 800,000 backpackers per annum.

Backpacker visitors to Australia are up 8,000 year-on-year according to the Tourism Australia International Visitor Survey results released in September 2008.

The total number of backpackers in Australia for the year-ending June 30, 2008 rose to 564,000, staying an average 70 nights and spending A\$5,485, meaning the sector is now worth more than \$3 billion to the Australian economy annually.

The biggest source market was the United Kingdom, with 124,000 visitors, followed by Germany (52,000), the US (48,000), New Zealand (42,000), Japan (32,000) and Korea (30,000).

In New Zealand, for the year ending July 2008, backpacker nights rose to 4.78m from 4.59m, an increase of 2.5% compared to the prior year. The NZ backpacker market is currently estimated to number 229,000 persons per annum.

Notwithstanding the significant size of the market and good growth, the market is still very fragmented which should continue to offer good opportunities for market share gains at the expense of smaller operators.

Good asset backing

RTG has significant tangible operating assets, largely made up of freehold property assets.

Internal growth opportunities

RTG has several new projects underway to expand its existing operations, at a low marginal cost, to capitalise on demand for beds, bars and for ensuite rooms.

Strong Management

RTG has a highly regarded management team who are considered the most experienced in the industry. The team's extensive knowledge of trends in the Australian and New Zealand backpacking and youth travel markets has been a key element to the success and continued growth of the business.

In February 2009, RTG further strengthened this team with the appointment of Nick Thomas as Group CEO. Nick brings a wealth of experience and knowledge of the international travel and tourism sector to

RTG, forged over a 25 year career. The majority of his career has been spent with STA Travel (the largest student travel business in the world) where he has held various senior roles, the most recent being President of STA Travel North America and before that Managing Director of STA Travel Australia & New Zealand.

Good exit opportunities

We believe RTG is an attractive candidate for an IPO or would represent a strategic entry point into an important tourism market for an international or local acquirer.

<http://www.stayatbase.com/>