



THE STAR

ASX RELEASE

16 February 2016

The Star Entertainment Group Limited (ASX: SGR) today announced its half year results for the period ended 31 December 2015¹. Key highlights include:

- Statutory NPAT of \$60 million, down 37.9% on the prior comparable period (**pcp**), impacted by a low win rate in the International VIP Rebate business
- Normalised² NPAT before significant items of \$142 million, up 26.1% on the pcp
- Strong 1H FY2016 result on all key operating fundamentals
 - Normalised gross revenue of \$1,238 million, up 6.7% on the pcp
 - Operating expenses³ of \$470 million, up 3.2% on the pcp, reflective of the continued growth in the domestic business
 - Normalised EBITDA of \$310 million, up 18.6% on the pcp
- Strong growth across the domestic gaming business, particularly at The Star Sydney
 - Domestic tables revenue up 12.3% across the Group on the pcp
 - Slots revenue up 7.4% across the Group on the pcp
- Actual results negatively impacted by a low win rate in the International VIP Rebate business of 0.88% (1.33% in 1H FY2015)
 - Actual gross revenue of \$1,107 million, down 2.6% on the pcp
 - Actual EBITDA (excluding significant items) of \$193 million, down 19.9% on the pcp
- In light of the historic average win rate for the International VIP Rebate business falling below 1.43%, the normalisation rate will be reduced to 1.35% for the 2016 full year results
- 1H FY2016 Normalised EBITDA would be \$293 million (up 19.7% on the pcp on a like for like basis) when applying the new normalisation rate of 1.35%
- Interim dividend of 5.5 cents per share fully franked, up 10.0% on the pcp, reflects the strong underlying operational momentum that is continuing into early 2H FY2016
- Continued effective credit risk management and collections performance. Net International VIP Rebate business receivables⁴ greater than 30 days of \$15.9 million consistent with levels at June 2015, but down \$5.5 million on the pcp
- Contractual close reached with the Queensland Government for the delivery of the Queen's Wharf Brisbane project and good progress made on all other strategic priorities in 1H FY2016.

Chairman, John O'Neill AO, said "1H FY2016 was another good performance period for the Group with continued improvement in the underlying earnings and progress made on all strategic priorities.

¹ This media release should be read in conjunction with The Star Entertainment Group Limited's Half Year 2016 Results Presentation and Directors' Report and Financial Report for the half year ended 31 December 2015.

² Normalised results reflect the underlying performance of the business as they remove the inherent volatility of the International VIP Rebate business. Normalised results are adjusted using an average win rate of 1.43% of actual turnover, unless otherwise stated.

³ Operating expenses exclude gaming taxes, levies and commissions and significant items.

⁴ Reflects level of receivables after provisioning, excluding unpresented cheques (returned cheques only) and credit not yet due.

We have declared an interim dividend of 5.5 cents per share for the first half of the financial year, up 10.0% on the prior period, reflecting the improved performance and financial position of the company and the underlying momentum that is continuing into 2H FY2016. The Star Sydney has led that sustained momentum as it delivers robust returns on the original \$870 million transformation investment at the property. Those investments continue now at a substantial level on a Group wide basis.

"Significant progress has been made to establish and/or deliver on plans across all three of The Star Entertainment Group's Integrated Resorts to position them as high quality, large scale tourist destinations. During 1H FY2016 the Group, along with our Destination Brisbane Consortium partners Chow Tai Fook Enterprises and Far East Consortium, reached contractual close with the Queensland Government on the Queen's Wharf development. This exciting partnership with the Queensland Government to develop and operate arguably the most significant project in the history of the Brisbane CBD is an important strategic step for The Star Entertainment Group and secures the company's long-term position in the Brisbane market.

We are also making progress on our plans to continue to expand and improve our properties in Sydney and the Gold Coast. We have also advanced discussions with our Destination Brisbane Consortium partners to secure additional joint venture development opportunities at our Sydney and Gold Coast properties."

Performance overview

Actual gross revenue of \$1,107 million was down 2.6% on the pcp, with strong revenue growth generated in the domestic gaming businesses offset by a low win rate in the International VIP Rebate business for the period. Normalised revenues grew 6.7% to \$1,238 million for 1H FY2016, up from \$1,160 million in 1H FY2015. Revenue growth was driven by a combination of improved marketing, loyalty program and sales activity, improved product offering and stronger macro-economic conditions in each of the Group's markets.

Operating expenses of \$470 million were up 3.2% on the pcp, driven by increased volumes in the business, particularly in the domestic gaming segments. There were no significant operating expense items within the period. The prior period results contain \$1.0 million of significant items in relation to the gain on the sale of Jupiters Townsville (a pre-tax gain of \$8.0 million) and costs incurred in connection with the Queen's Wharf Brisbane competitive bid process (\$9.0 million).

Depreciation and amortisation expense of \$83 million was up 6.1% on the pcp, reflective of the continuing capital investment across the Group, as well as acceleration of depreciation of some assets as the execution of development works continue at The Star Sydney and Jupiters Gold Coast. Finance costs of \$23 million were down 11.0% on the pcp.

Normalised EBITDA (excluding significant items) of \$310 million was up 18.6% on the pcp. Normalised EBITDA margin of 25.0% is up from 22.5% for the pcp as a result of solid expense management across the Group, offset by higher average gaming taxes at The Star. Normalised EBITDA has been calculated applying a 1.43% win rate to actual VIP turnover in the period, consistent with the prior year. In light of the historic average win rate for the International VIP Rebate business falling below 1.43%, the normalisation rate will be reduced to 1.35% for the 2016 full year results. 1H FY2016 Normalised EBITDA would be \$293 million (up 19.7% on the pcp on a like for like basis) when applying the new normalisation rate of 1.35%.

Normalised NPAT (assuming a 1.43% win rate), excluding significant items, was \$142 million, up 26.1% on the pcp.

Statutory Net Profit After Tax (NPAT) was \$60 million, down 37.9% on the pcp.

Statutory Earnings Per Share were 7.3 cents, down 38.1% on the pcp. An interim dividend per share of 5.5 cents fully franked was declared, up 10.0% on the pcp and reflecting a payout ratio of 75.3% of

statutory NPAT. The higher than target payout ratio reflects the strong underlying operational momentum that is continuing into early 2H FY2016. Net debt⁵ was \$504 million as at 31 December 2015 (up from \$400 million as at 30 June 2015), with \$445 million in undrawn facilities and an average drawn debt maturity of 3.7 years. Operating cash flow before interest and tax was \$191 million (1H FY2015 \$264 million) with an EBITDA to cash conversion ratio of 99%.

The Star Sydney

Normalised EBITDA was \$223 million, up 21.7% (actual \$91 million, down 43.7%) on the pcp.

Normalised revenue performance at The Star Sydney was strong with normalised gross revenue of \$885 million, up 7.9% on the pcp. Actual gross revenue of \$738 million was down 7.2% on the pcp, with solid volume growth across all lines of business offset by a low actual win rate in the International VIP Rebate business. Domestic gross gaming revenue was up 14.1% on the pcp with strong growth across both tables and slots, up 14.9% and 12.4% respectively. Electronic gaming machine market share for Q1 FY2016 was 9.5% versus 8.6% in Q1 FY2015, with this segment achieving gross revenue growth of 12.8% in 1H FY2016 on the pcp. Non-gaming cash revenue was up 7.9% on the pcp despite disruption from the hotel and buffet refurbishments in the period (gross non-gaming revenue up 9.7% on the pcp). Taxes, levies, rebates and commissions of \$350 million were down 1.0% on the pcp as a result of the low win rate in the International VIP Rebate business. The Star Sydney's average non-rebate tax rate was 31.6%, up from 29.9% in the pcp (top marginal tax rate of 50.0%). The higher average non-rebate tax rate had an impact of \$8 million in the period. Operating expenditure of \$297 million (up 5.8% on the pcp) is reflective of the increased volumes in the domestic business. Normalised EBITDA margin of 25.2% was up on the pcp (22.3% for 1H FY2015) demonstrating solid expense management throughout the business.

Queensland casinos (Jupiters Gold Coast and Treasury Brisbane)

Normalised EBITDA was \$87 million, up 11.2% (actual \$102 million, up 28.1%) on the pcp.

Queensland experienced solid normalised revenue performance for 1H FY2016, with gross revenue up 3.8% to \$353 million (actual \$370 million, up 8.2%) on the pcp, despite disruption from capital works. The domestic gaming business was up 4.2% on the pcp, with growth across table and slots, up 6.0% and 2.9% respectively. Non-gaming revenue for 1H FY2016 was impacted by disruption across the non-gaming facilities at Jupiters Gold Coast and the impact of three months of Jupiters Townsville revenues in the pcp (gross non-gaming revenue down 0.3% on the pcp). Taxes, levies, rebates and commissions were up 8.6% on the pcp for the Queensland business driven by increased domestic and International VIP Rebate business gaming throughout the period. Operating expenditure of \$173 million across the Queensland properties was down 1.0% on the pcp.

Normalised EBITDA margin of 24.6% for 1H FY2016 (23.0% for 1H FY2015) was the result of good expense management, as well as solid revenue growth across the domestic and International VIP Rebate businesses throughout the period.

International VIP Rebate business

The results of the International VIP Rebate business are embedded in the segment results above. International VIP Rebate business turnover was \$23.6 billion, up 1.5% versus pcp following a particularly strong 1H FY2015. International VIP Rebate business actual win rate of 0.88% was below both the pcp of 1.33% and normalised rate of 1.43%. Normalised International VIP Rebate business revenue was \$338 million (up 1.7% on the pcp), compared to actual International VIP Rebate business revenue of \$207 million (down 32.9% on the pcp).

As outlined in the FY2014 results the 1.43% win rate was selected based on the historic experience in The Star Entertainment Group's International VIP Rebate business. The Star Entertainment Group committed to monitor win rate trends in the International VIP Rebate business, as well as customer

⁵ Net debt is shown as interest bearing liabilities less cash and cash equivalents less net position of derivative financial instruments. Derivative financial instruments reflect the position of currency swaps entered into for the USPP debt and interest rate hedges.

behaviours that impact win rates over time, and update the win rate if a view is formed that it is no longer an appropriate normal win rate for the business. The average win rate for the International VIP Rebate business has now fallen below the rate of 1.43%. Given the reduced win rate over the last two years, the normalised win rate will be adjusted down to 1.35% for the 2016 full year results, in line with our win rate experience and consistent with the Australia and New Zealand market practice.

Net receivables past due not impaired greater than 30 days of \$16 million were consistent with levels at 30 June 2015. Gross trade receivables (before provisions) of \$132 million were up 22.6% from the \$108 million at 30 June 2015 due to player activity late in the period.

Trading update and outlook for 2H FY2016

Trading levels in early 2H FY2016 have remained unchanged from previous months. Gross revenue, excluding International VIP Rebate business is showing consistent volume levels to those experienced in 1H FY2016. The International VIP Rebate business performance year to date is tracking in line with management's expectations, with growth comparison to the prior year difficult given the timing of Chinese New Year.

Disruption from capital investment works across the gaming and non-gaming business will have some impact on revenues and earnings as works progress at The Star Sydney and Jupiters Gold Coast throughout 2H FY2016.

Capital expenditure for FY2016 is expected to be in the range of \$275 million - \$325 million, in line with prior guidance, excluding any capital expenditure or payments to the Queensland Government in relation to Queen's Wharf. The majority of growth and maintenance activities for 2H FY2016 will relate to the execution of expansion plans at The Star Sydney and Jupiters Gold Coast.

Managing Director and Chief Executive Officer, Matt Bekier said: "The second half of the financial year is off to a solid start with early 2H FY2016 showing momentum consistent with 1H FY2016.

"The Star Entertainment Group has the following five priorities for 2H FY2016:

- Continue to improve earnings across the Group through a focus on operations and improved efficiency;
- Deliver on the next stage of the capital development programs at Queen's Wharf Brisbane, Jupiters Gold Coast and The Star Sydney;
- Seek out and secure additional development opportunities at the Sydney and Gold Coast properties in partnership with Chow Tai Fook Enterprises and Far East Consortium;
- Implement the next stage of the brand and loyalty program strategy; and
- Commence the implementation of a customer service improvement program across the Group."

The full 2016 financial year result may be impacted by a number of factors (which may be material in nature) including general macro-economic conditions, potential hold and win rate volatility in the private gaming room and International VIP Rebate business, level of debt or provisions, success of the company's marketing programs and any uncertainty related to the regulatory environment.

For more information:

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The Star Entertainment Group half year results to 31 December 2015

Statutory		
Statutory revenue	\$1,053.3 million, down 3.2%	
EBITDA	\$192.6 million, down 19.6%	
EBIT	\$109.9 million, down 32.0%	
NPAT	\$60.3 million, down 37.9%	
Earnings Per Share	7.3 cents, down 38.1%	
Normalised (Underlying)		1.43% Win Rate
Revenue	\$1,237.8 million, up 6.7%	\$1,219.0 million, up 6.8%
- The Star Sydney	\$884.8 million, up 7.9%	\$866.9 million, up 8.1%
- Queensland Casinos	\$353.0 million, up 3.8%	\$352.1 million, up 3.7%
EBITDA	\$309.9 million, up 18.6%	\$293.0 million, up 19.7%
- The Star Sydney	\$223.1 million, up 21.7%	\$206.9 million, up 23.8%
- Queensland Casinos	\$86.9 million, up 11.2%	\$86.0 million, up 10.9%
EBIT	\$227.2 million, up 23.9%	\$210.3 million, up 26.1%
- The Star Sydney	\$172.1 million, up 26.3%	\$156.0 million, up 29.9%
- Queensland Casinos	\$55.1 million, up 16.9%	\$54.3 million, up 16.4%
NPAT	\$142.1 million, up 26.1%	\$130.2 million, up 29.2%
Dividend per share		
Interim dividend per share (fully franked)	5.5 cents	
Balance sheet		
Gross Debt	\$830.6 million	
Net Debt	\$503.9 million	
Net Debt/EBITDA ⁶ (actual)	1.3x (based on 12 month trailing EBITDA)	

⁶ EBITDA excludes significant items