TRANSCRIPTION OF H1 FY24 RESULTS CALL

Company: **The Star Entertainment Group Limited**

Date: **29/02/2024**

Time: **10am AEDT**

[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to The Star Entertainment Group Limited first half FY2024 Results Conference Call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Robbie Cooke, MD and CEO. Please go ahead.

Robbie Cooke: Thank you. Good morning, welcome and thanks for joining the Star's half year results call for FY24. I'm here with Christina Katsibouba, our Group CFO, and Giovanni Rizzo, our Head of Investor Relations. The plan this morning is to spend about 30 minutes or so running through our results. We'll talk to the slide pack we released this morning, and then we'll take questions. So, if that works for everybody, we'll get started. If you could turn to slide 3 of the pack, if you have it handy, please.

We introduced our strategic North Star in the half. It redefines our vision of the team for the future of The Star. With the damage to our social license caused by the acts of the past, it was the right time to clearly articulate our commitment to providing our entertainment, gaming and leisure experiences in a safe, responsible and ethical way, focusing our entire team on safer gambling and good business practices.

Our cultural renewal and uplift process is a multi-year journey. At its heart, it's reaching a place where everybody on our team is empowered to speak up and challenge, operating from the mindset of should we, not just could we, in making day to day business and operational decisions. In a snapshot, this sums up the way The Star does and will continue to operate in the future.

Turning to slide 4, despite the challenges of the past year, we continue to work hard to ensure we restore our suitability and earn back trust. This has seen a number of key regulatory-related milestones being achieved in the half year, including receiving, in early August 2023, the final root cause analysis report from Deloitte looking at the fundamental causes of the failings identified in the Gotterson and Bell reviews. This report was commissioned by the Company in December 2022.

[We] received at the end of June last year an extensive culture review report from the highly credentialled and respected, The Ethics Centre. This report was also commissioned by The Star in December 2022. All recommendations made in this report are being implemented. Of note, we delivered at the beginning of

October 2023 a detailed multi-year Remediation Plan through our New South Wales and Queensland regulators. Pleasingly, the Queensland Attorney General approved our plan in November 2023 under the provisions of the *Queensland Casino Control Act*. I do highlight that there is no equivalent legislation requirement in New South Wales for the regulator to approve our Remediation Plan.

Amongst other things, our plan will deliver the required uplift to our risk management, it will embed greater accountability and more robust governance across the entirety of The Star. Our key focus this half is on delivering as many milestones from our Remediation Plan as rapidly as possible without compromising quality so as to return The Star to suitability in New South Wales and Queensland.

Finally, on 19 February we received notification from the New South Wales Independent Casino Commission that it had appointed Mr Adam Bell SC to reside over an inquiry to assist the Commission in forming a view as to what, if any, action it should take in respect of The Star Sydney's license prior to the end of the Manager's appointment on 30 June 2024. We welcome the second Bell inquiry, which will provide an objective forum to demonstrate our capability of returning to suitability, with particular reference to the actions that we've put in place since the first Bell report was issued. We will fully participate in the inquiry in an open, transparent and facilitative manner, as you would expect.

Turning to slide 5, as a team we have, without reservation, acknowledged and accepted the failures of the past as identified in the Bell and Gotterson reviews. We fully appreciate the responsibilities involved in holding our licenses and have taken significant steps to transform our way of doing business, our leadership and our culture. As a team, we are united in our commitment to earn back the trust and confidence of our community, including our regulators, government, shareholders, team members and guests. We have made good progress in our transformation journey in the last 12 months, acknowledging there is still a lot to be done.

Remediation above all else has been our number one priority in the half year. To this end, I'd like to highlight a few of the significant steps we've taken. Firstly, and as I've mentioned, our Remediation Plan was approved in Queensland on 23 November 2023. This plan will track and hold us accountable to our multi-year program of key workstreams and milestones. We've expanded our AML team from 26 to 115 full-time employees. We've more than quadrupled our Safer Gambling Team, with 82 full-time employees, up from 18. We have introduced expanded time-play management rules to increase guest engagement on safer gambling matters.

We've introduced standardised exclusions and exclusion revocation processes across the Group. On 30 June 2023, we replaced all our Sydney internal controls, a project completed in eight months by around 150 of our team members and involving more than 540 unique controls. Alongside this, we've been working with the Queensland Office of Liquor and Gaming Regulations to help with our Queensland internal controls. We've also commenced an organisational lease structure designed to create a simpler framework, with more decision-making power at a property level while maintaining appropriate oversight from a Group level.

The entire Board of The Star has been replaced with all current Independent Non-Executive Directors joining the Board as Directors since 1 July 2022. We continue to refresh our Senior Leadership Team, with seven new key external appointments on my team, including the recent appointments of our new CEO for Sydney, our new CEO for Brisbane, our new Group Chief Audit Officer and our new Group General Counsel.

Turning to slide 6, we made significant progress in the half, resolving a number of major business challenges. This has included entering into binding documentation to give effect to the amended duty arrangements agreed with the current New South Wales government. We appreciate the constructive engagement with New South Wales Treasury in this process, and of our union, the United Workers' Union, in relation to the jobs guarantee. These new arrangements will protect the jobs of our Sydney team and enable us to continue the important ongoing work required to restore The Star Sydney to suitability.

Also, the Destination Brisbane Consortium, of which we own 50%, entered into a settlement with Multiplex to resolve a long-running dispute between Multiplex and DBC. This was a significant and positive step, removing considerable uncertainty and distraction and enabling the Project Team to now focus solely on the delivery of the Queen's Wharf Precinct, which is expected to have a phased opening from August this year.

In September 2023, we successfully conducted a $750 million equity raise, and secured $450 million in new debt facilities, comprising of $150 million four-year revolving credit facility, and a $300 million four-year term line. This re-financing and further capital structure initiatives have provided The Star with a significantly strengthened balance sheet, with increased financial flexibility to address known and expected liabilities over the medium term and help finance the ongoing needs of the business and expected joint venture contributions. Our next debt maturity now occurs in FY28 under these new arrangements.

Two additional matters will continue into the second half of FY24 and beyond, namely our AUSTRAC proceedings. The Star filed a statement of admissions and factual contentions on 10 November 2023. AUSTRAC and The Star are continuing a dialogue to focus on narrowing the issues in dispute. We filed further admissions on 12 February 2024, and the parties are due to file a joint list of issues requiring agreement, as well as a list of topics for expert evidence by 8 March. Confidential settlement discussions are continuing with AUSTRAC.

The second matter relates to our class actions. Four separate proceedings were commenced in the Supreme Court of Victoria alleging misleading and deceptive conduct in relation to the disclosures made to the market. In September 2023, the Court ruled that one plaintiff's firm would be granted carriage of the proceedings. The other three proceedings were permanently stayed. The Star will defend the class action, with our defence due for filing on 12 March 2024. There is also the ASIC action against a number of former Directors and Executives. I stress that The Star is not a party to those proceedings.

Turning now to slides 7 and 8, and we all know the casino regulatory environment has changed following the findings of the Bergin Inquiry and the Bell and Gotterson reviews. In New South Wales, carded play and cash limits have been legislated for implementation from August this year. We've already commenced a trial involving 51 poker machines and eight gaming tables at The Star Sydney.

In relation to our casino licenses, the term of the appointment of the manager for our Sydney casino was extended to 30 June 2024. The New South Wales Independent Casino Commission has advised that it intends this to be the final extension of the manager's term subject to the outcome of the second Bell Inquiry, which has been recently initiated, as I mentioned.

In Queensland, the suspension of our Queensland casino license has been deferred until 31 May 2024 to give The Star an opportunity to further remediate its operations. The term of the appointment of Special Manager in Queensland is extended by 12 months to 8 December 2024.

We have introduced time play management for our guests across all our properties in the half to increase guest engagement on safer gambling matters. As we'll discuss later in today's presentation, the required uplift in our controls has had an impact on our revenue at all three properties.

We also note the need for government to ensure policy initiatives in relation to safer gaming and financial crime that have driven the carded play and cash limit initiatives, needs to be deployed state-wide if the desired policy objectives are to be achieved. A shift of patronage from the casinos to pubs and clubs would be a policy failure. Neutrality in operating conditions within Queensland and New South Wales is essential.

Turning to slide 10, in terms of our operating results, we are now seeing gaming revenue reflecting implementation of the necessary uplift in our controls environment, which has seen all three properties record higher rates of exclusions and impact from time play management on visitation levels, and an impact from the temporary suspension of certain complementary services and benefits in premium gaming areas. There are additional factors specific to each individual property that have also had an impact on revenue.

This includes in Sydney, increased competition, on the Gold Coast, as is the case for all operators on the coast, the market is dealing with lower tourism numbers following the post-COVID surge and the rediscovery of international travel by Australian holidaymakers. In Brisbane, the CBD is experiencing softness generally, with market occupancy rates in the 70% range, and across New South Wales and Queensland, consumer discretionary activity is impacted by higher interest rates and inflationary pressures. These factors contributed to a 15% reduction in net revenue for the half, compared with the prior corresponding period.

This lower revenue, together with an uplift in our cost base and higher regulatory cost and enhanced control environment, increased employee BA rates, higher New South Wales casino duty rates, offset to an extent by savings generated from our $100 million cost-out program, has seen our Group EBITDA decrease by

43.1% to $114 million for the half. NPAT for the period on a normalised basis was $25 million, with significant items of only $16.5 million, compared to the $1.4 billion last year. Our statutory NPAT was $9 million.

Christina will talk to our results in more detail shortly, but in brief, I'll just run through each of our operations' performance, and starting with Sydney on page 12, as mentioned earlier, all our properties have been impacted by the necessary implementation of uplifted controls, which have resulted in increased guest exclusions and the time play management of guests. There is also an impact for most of the period from certain operating restrictions impacting our customer experience, principally the cessation of complementary drinks in our private gaming rooms, reducing the performance of both our EGMs and table games in those facilities.

Competition from Crown in the Sydney market for table games had an impact on table revenue, while our market share shift to pubs and clubs had an impact on EGM revenue, as did consumer discretionary spending softness. Overall revenue from our Sydney gaming and non-gaming activities was $450 million, down 17% on the prior corresponding period. Gaming revenue was down 19%, with table games down 21% and EGMs down 16%.

Our premium gaming rooms have seen a significant decline in visitation, with gaming tables in premium rooms showing a 51% decline, and EGMs in premium rooms showing a 23% decline. Operating costs of $287 million were down 7%, and we've reduced $37 million in normalised EBITDA from our Sydney operations.

Turning to the Gold Coast and on slide 13. On the whole, the same factors impacting our Sydney property, other than the complementary drinks, were also evident in our Gold Coast operations. The unique factor was lower tourism numbers following the post-COVID surge, as I mentioned, as a result of the rebound in outbound international travel. Revenue from our Gold Coast gaming and non-gaming activities was $238 million, down 14% on a PCP. Gaming revenue was down 17%, with table games down 23% and EGMs down 15%.

Our premium gaming areas, similar to Sydney, have also seen a significant decline in visitation, with table games in premium rooms showing a 58% decline, and EGMs in premium rooms showing a 20% decline. Operating costs of $153 million were down 5%, driven by the cost-out program, slightly offset by higher employee EBA rates, and compliance and remediation costs. Our Gold Coast operation produced $45 million in normalised EBITDA, down 33% on the PCP.

Finally, turning to Brisbane and slide 14, the Treasury Brisbane has also been impacted by the necessary implementation of uplift in controls. A more significant factor impacting revenue in Brisbane was increased competition from those larger pubs and clubs that initiated renovation projects, introduced loyalty programs, and invested in greater promotional activity. Coupled with this, the subdued visitation to the Brisbane CBD following COVID continued, with general CBD occupancy rates hovering around the 70% level.

Overall, Brisbane revenue from our gaming and non-gaming activities was $178 million, down 10% on the PCP. Gaming revenue was down 10%. Gaming revenue from our main gaming floor showed strong resilience, with EGM revenue up on the prior corresponding period and total revenue only slightly down. Non-gaming revenue also held up well in the period, generating $17.1 million compared to $17.6 million in the PCP, which had benefited from strong hotel occupancy levels.

Operating costs of $101 million were flat on the prior corresponding period, reflecting the benefits of the cost-out program offset by higher activity levels and the investment in management capability ahead of the opening of Queen's Wharf Brisbane. Queen's Wharf is expected to commence its staged opening from August 2024, and as such, had no other impact on the half's results.

I now hand over to Christina to provide some in-depth commentary on our financial performance and balance sheet, and then I'll come back and conclude with some comments on our key areas of focus for the current year and our performance year to date. So, over to Christina.

Christina Katsibouba: Thank you, Robbie. Moving to slide 16, as Robbie has covered revenue performance, I will focus on cost. Operating expenditure across the Group of $542 million was down $28 million, or 5%, on the first half of FY23. The cost reduction program is the main driver of this reduction. This reduction has been partially offset by increases in enterprise bargaining agreement wage rates and investment in risk controls and compliance resources in compliance with the remediation program.

Depreciation and amortisation decreased by 38% on the reduced asset base following impairments in FY23. Normalised net funding costs decreased by 45% as a result of the debt restructure and proceeds from the equity raised.

Turning to the balance sheet on slide 17, cash increased as a result of the $750 million capital raising and the $450 million debt refinancing, which was partially offset by the repayment of the debt. The Company had a net cash balance of $171 million at 31 December.

CapEx for the half year was $33.6 million and depreciation was $62.2 million. The decrease in income tax receivable relates to a $15 million refund for prior year income taxes.

Provisions decreased by $71.2 million, primarily due to the financial instalments - sorry, the final instalments for each of the NICC and OLGR fines, which were paid in December. Other liabilities increased primarily from $56 million in proceeds from the sale of the Sheraton Mirage in the Gold Coast. This will be recognised against the investment pending the finalisation of the tax calculations.

On slide 18, the cash flow, you will see here we have included a waterfall on the sources and uses of funds, reconciling from an opening net debt position of $595 million to a closing net cash position of $171 million. The key elements include the equity raised, the establishment of a new syndicated loan as well as their associated costs. Net cash derived from operations from $132 million, and we have separately shown the payment of fines, proceeds from the sale of the Sheraton and joint venture contributions.

Moving to slide 19, all previous existing debt has been repaid and cancelled, with $450 million of new debt facility secured, including a more flexible covenant package and ensuring no debt matures until FY28, as Robbie mentioned. The facility includes a $150 million four year resolving credit facility and a $300 million four-year term loan with the flexibility to further optimise this structure over time as operating uncertainties are resolved. Dividend payments remain suspended until the adjusted net leverage ratio is below 1.5 times, AUSTRAC proceedings are resolved, and the refinancing is complete for Queen's Wharf Brisbane.

On slide 20, for CapEx and joint venture contributions, you'll see capital expenditure of $33.6 million in the first half was significantly below depreciation and amortisation, as I mentioned. CapEx guidance for the full year is revised to a range of $80 million to $100 million, with depreciation and amortisation expected to be between $130 million and $140 million for the full year.

JV equity contributions paid in the half were $14 million relating to Gold Coast Tower 2. Full year contributions are projected to be approximately $174 million for this financial year. The majority relates to DBC. The FY25 investments into the joint ventures are expected to be $227 million. Again, the majority relates to Brisbane for the remainder of the cost to complete. Thank you, Robbie, back to you.

Robbie Cooke: Thanks, CK. If you can turn to slides 22 and 23, I'll talk a little about our performance in January this year and provide some insights relevant to considering the remainder of the financial year. Trading in January, while slightly down on January 2023, was broadly consistent with the fourth quarter of FY23 and with the first half of FY24. I

n particular, Sydney EBITDA was down only 1.3%. Gold Coast EBITDA was down 4.2%. Brisbane EBITDA was down a more substantial 20%, albeit off a small base, and clearly showing the impact of the lower CBD visitation rates and competition from pubs and clubs that have undergone significant investment to compete more aggressively in the Queensland market, as I mentioned earlier on. At a Group level, EBITDA was down 6.5%.

In considering the remainder of FY24, note should be had of the fact that our remediation costs for the full year expected to be around $45 million, with half 2 costs higher than half 1, due to the ramp-up in resourcing following the approval of the Remediation Plan in the latter part of the first half. Also, it should be noted Sydney Star casino resumed providing complementary benefits in our Sydney private gaming rooms, and that occurred from November 2023.

The $20 million monthly EBITDA run rate we presented at our AGM last year was sustained for the remainder of the first half and into January. This is also in line with what we achieved in the fourth quarter of FY23. This is a positive sign for the business, following all the challenges and changes in our control environment, competition and other significant challenges the business has faced. It sets a good base for the future as we work towards suitability and focus on lifting our operational performance.

I also stress that whilst a good EBITDA run rate of $20 million has been maintained in January, we are expecting a seasonally lower performance for the remainder of the financial year, as per normal.

Finally, and turning to slide 24, I'd like to touch on our key priorities for the remainder of the year ahead. First and most significantly, as a team, we will continue to have the comprehensive focus on the remediation actions contained in our Remediation Plan, doing all possible towards returning to suitability in Sydney and Queensland. Our key focus is on delivering the milestones scheduled in our Remediation Plan, with a drive to achieve these milestones as rapidly as possible without compromising quality.

We note that ultimately, it will be for the relevant regulator in each of our jurisdictions to make its own assessment of the adequacy of the completion of our milestones.

Without diminishing our remediation focus, we will also fully engage, as I mentioned previously, in the Bell Inquiry, in an open, transparent and facilitative manner, to seek to demonstrate our capability of remaining suitability in New South Wales.

Given the significant impact to our earnings in the first half, we will focus on management of the competitive environments in both Sydney and Queensland and seek regulatory and government understanding of the need to adopt neutrality in relation to safer gambling and financial crime policy settings within those markets.

We will seek a resolution of our AUSTRAC proceedings in the half to close out a further significant impact on our business caused by the acts of the past.

The preparation for the opening of the amazing Queen's Wharf Brisbane is also one of our key priorities. We are just six months away from the phased opening of Queen's Wharf, a transformational property ultimately with four hotels offering 1,000 rooms, luxury retail, more than 50 restaurants, bars and cafes, a 1,500-person ballroom, an amazing sky deck, and 7.5 hectares of public space. This project will transform Brisbane's leisure and entertainment offering.

We've taken possession of several dining, entertainment and gaming areas on levels 5 and 6 of the main development and have bumped in the gaming equipment and the dining entertainment areas of those floors. Already, we have secured over $20 million in forward bookings for our event centre, clearly displaying the potential of this property.

The other major development initiative in train is the delivery of the next component of our Gold Coast master plan, Tower 2. Construction has reached level 42 of a total of 65 levels. We've demonstrated the success of adding additional room capacity on the coast, and we look forward to the contribution of Tower 2 when completed in FY25. With that, I'll hand back to the operator to moderate the Q&A session.

Robbie Cooke: Thanks, all.

[END OF TRANSCRIPT]