

SkyCity Entertainment Group 2023 Annual Meeting

Michael Ahearne – Chief Executive Officer's Address

Introduction

Good morning everyone, and welcome to our 2023 Annual Meeting.

As you will be aware, I have notified the Board of my intention to step down as the Chief Executive Officer at the end of March 2024. I have decided the time has come for me and my family to return to Europe.

It has been a privilege to lead the SkyCity Entertainment Group over the last few years, particularly through the challenges of COVID-19, leading enhancements in our capabilities in customer care, and establishing SkyCity's online strategy. I am particularly proud of the improvements we have made throughout our business to enhance our host responsibility and anti-money laundering and counter terrorism financing (**AML/CFT**) capabilities - this work is ongoing as we are committed to continuously improving our capabilities in these areas.

There is still much more to be done in the next six months until I step down as Chief Executive Officer.

Regulation

As Julian mentioned, over the last financial year there has been continued increased regulatory scrutiny of the gaming sector in both New Zealand and Australia which has significantly increased the risk profile of our industry. We recognise this increased scrutiny is now a permanent feature, and to manage and mitigate this heightened level of risk we have a continuous improvement mindset to ensure SkyCity provides safe and responsible gaming and hospitality experiences and environments for its people and customers.

Across the Group over FY23, we have further enhanced and invested in our internal AML/CFT and host responsibility resourcing and capability, processes, and systems. These enhancements have increased the underlying cost base, but it is essential that these areas of our business are resourced appropriately. In FY23, one-off and ongoing group compliance costs totalled \$18 million and we ended the year with over 80 staff employed in these roles, which is close to triple the amount three years ago.

We are continuing to explore available technology solutions where possible to improve our ability to prevent and minimise harm from problem gaming. For example, mandatory carded play is likely to be a requirement of our casino operations in the future and we are actively investigating options to implement this across our properties.

The Department of Internal Affairs' (**DIA**) application to temporarily suspend SkyCity's casino operator's licence in New Zealand is currently before the Gambling Commission for hearing and determination, as outlined earlier by Julian.

SkyCity has implemented in 2022 several significant enhancements to our facial recognition technology systems on the Auckland and Hamilton gaming floors to monitor for continuous presence and continuous play for both carded and uncarded players. We believe this enhancement, in addition to a range of other host responsibility measures, will assist us to better detect incidences of continuous play by customers.

We are continuing to work constructively with AUSTRAC in relation to the civil penalty proceedings filed against SkyCity Adelaide Pty Limited (**SkyCity Adelaide**) in December 2022 with a view to coming to an agreed position to be put to the Court if possible or, at least, significantly narrowing the issues.

The SkyCity Adelaide team is also working closely with Kroll, the independent expert recently appointed to review SkyCity Adelaide's AML/CFT and host responsibility enhancement programmes and report back to the South Australian Liquor and Gambling Commissioner on the implementation of those programmes and SkyCity Adelaide's compliance with its AML/CFT and gambling harm minimisation obligations.

Now we will hear from Carolyn Kidd, our recently appointed Chief Risk Officer, about some of the enhancements we have made in these areas

[Video plays]

Results

Turning now to our results and the strong recovery in earnings achieved across the Group in FY23.

After three years of significant disruptions to SkyCity's operations, our normalised earnings for the financial year ended 30 June 2023 were back above pre COVID-19 levels on a like for like basis:

- Group normalised earnings before interest, taxes, depreciation and amortisation (**EBITDA**) of \$310 million was up 125% on the prior year, and Group reported EBITDA of \$165.9 million was up 71% on the prior year;
- Group reported net profit after tax (**NPAT**) of \$8 million compares to a loss of \$33.6 million in the prior year, whilst normalised Group NPAT was a pleasing \$138.8 million.

The significant difference between normalised and reported earnings primarily reflects the impact of the Adelaide casino licence impairment of \$49.7 million and the \$49 million provision for a potential civil penalty and associated legal costs payable by SkyCity Adelaide in relation to the AUSTRAC proceedings.

During the past financial year, we restructured our International Business operations, disestablishing a number of roles and integrating the remaining roles into the Auckland and Adelaide teams, as this will be a significantly reduced business going forward.

The New Zealand operations performed very strongly driven by robust growth in electronic gaming machine revenues, which are back above pre COVID-19 levels, and a strong rebound in non-gaming revenues as visitors return to our precincts. Table games performance recovered in the last quarter of FY23 as the easing of staff shortages allowed us to increase opening hours to meet the strong demand. Our hospitality portfolio also benefited from increased opening hours in response to the growth in demand from both the domestic and international tourist markets.

Operating margins in the second half of the year more closely represent the ongoing running of the business with more normal opening hours and staff recruitment. The revised operating model we have implemented across the Auckland business will allow us to maintain strong EBITDA margins, helping absorb the impacts of the current high-cost inflationary environment we are facing.

During the past financial year, we recognised an impairment of the SkyCity Adelaide casino licence of \$49.7 million following the completion of an independent valuation of the Adelaide cash generating unit. This reflects the significant reduction in the International Business operations plus the higher level of operating environment risk resulting from heightened uncertainties in the Australian gaming sector that could have future implications for SkyCity Adelaide. Examples of the heightened level of risk we face is the reduced appetite of the banking sector in Australia to provide both funding and transactional banking services to the gaming sector, which could also likely result in higher costs being incurred by SkyCity.

In response to these difficult operating conditions, we have restructured the Adelaide business, disestablishing a number of positions, changing the operating hours for table games in particular and implementing other cost and revenue efficiencies. There is a lot of work that still needs to be done in Adelaide and, whilst the current operating environment remains challenging, the Adelaide team is very focused on finding the best solutions.

Balance Sheet/Financing

Moving on to our balance sheet. The Group ended the FY23 financial year with a healthy level of liquidity headroom of close to \$600 million which will help us to manage our future commitments and any uncertainties associated with the heightened level of risk in the sector.

The Group's strong debt gearing ratio of 1.5 times as at 30 June 2023 was well within the requirements of our financiers and in alignment with the Group's investment-grade credit rating.

Now you are going to hear from Callum Mallet, our New Zealand Chief Operating Officer, and David Christian, our Australian Chief Operating Officer, with an update on our various properties.

[Video plays]

I think it is really important to acknowledge the important role that SkyCity plays in the communities that we operate in. We are very proud of the deep and extensive relationships we have with a wide range of organisations. In particular, over the last financial year:

- the SkyCity New Zealand Community Trusts approved a record \$5.3 million in grants to 122 different community organisations in New Zealand; and
- contributions were made to support the recovery of communities affected by Cyclone Gabrielle and the numerous extreme weather events experienced in the Auckland region earlier this year.

The SkyCity Online Casino business contributed strongly to Group earnings despite a decline in EBITDA from the previous year. This was due to the New Zealand market continuing to be aggressively targeted by offshore operators in breach of local marketing regulations. SkyCity does not operate in this way and has lost market share over the year.

We continue to advocate for the introduction of online gaming regulation that is appropriate for the New Zealand online gaming industry and are encouraged by the National Party's tax policy that includes provision for an online gaming tax and the associated regulation that would be required to enable this.

Online remains a strategic growth opportunity for SkyCity and we will continue to actively engage with a wide range of stakeholders to further progress the potential regulation of the online gaming market in New Zealand. There are obvious benefits to both the community – from a harm minimisation perspective - and Government revenue opportunities that would come from the imposition of a taxation regime.

We will be working closely with the DIA and the new Minister to understand what the new regime will look like and how it will be implemented.

Trading Update and Outlook

I would now like to provide an update on trading given we are more than three months into the new financial year.

We started FY24 with good performance in July and August, particularly in Auckland driven by the positive impact of the FIFA Women's World Cup competition. This was probably masking weaker domestic spend due to the uncertain economic environment, which became more apparent in September trading.

Without the benefit of any significant events, Adelaide was impacted by the broader economic conditions as persistent inflation and cost of living pressures impacted consumer sentiment and spending.

We remain positive about prospects for the summer tourism season in New Zealand with cruise ship visits and increased international aircraft capacity expected to support strong growth in tourist arrivals and the potential recovery in the domestic economy.

We are well advanced in our planning for the opening of the Horizon Hotel in March 2024 and are very excited about this addition to our Auckland hotel portfolio, which will be followed by the opening of the New Zealand International Convention Centre in 2025.

Growth in SkyCity's New Zealand businesses will be underpinned by strong demographic and economic drivers, particularly with the forecast increase in international tourism.

In summary, we continue to see a modest year-on-year increase in normalised EBITDA for FY24 as we indicated at the FY23 result announcement - noting this assumes the integration of the Auckland car park earnings for the second half of the year but does not include any potential impact from the DIA's application to temporarily suspend our New Zealand casino operator's licence.

Concluding Remarks

When I look back over FY23, there are a number of accomplishments I am particularly proud of – these are:

- the recovery in earnings from the key operating divisions of the Group, with more growth to come;
- our ability to recruit high quality staff to fill the significant number of vacancies we had at the beginning of the year;
- the improvements we have made in our AML/CFT and host responsibility capabilities;
- the ongoing enhancements we have made to the entertainment offering across all of our properties; and
- our ongoing involvement in the communities in which we operate.

As this is my final Annual Meeting, I personally wanted to say thank you to the SkyCity whānau, our Board and Management team, and our incredible staff for their resilience and ongoing commitment to SkyCity.

I would also like to thank our shareholders for their support over my time as Chief Executive Officer. I have thoroughly enjoyed my interactions with many of you and appreciated the feedback, questions and comments you have given me.

And to our other external stakeholders – from our regulators, financiers, suppliers through to our customers – SkyCity does not exist without you.

I believe SkyCity has a very positive outlook and is well positioned to take advantage of an improvement in the economy and the projected growth in tourism as we look towards the opening of the Horizon Hotel and then the New Zealand International Convention Centre. The company has an exciting future ahead of it and I would like to wish you all the very best.