



Crown Resorts Limited

Memorandum

To: The Board of Directors

From: Alan McGregor and Xavier Walsh

Date: 14 January 2021

Subject: **Overseas Sales Team**

At the Board of Directors meeting on 11 November 2020 it was recommended that Crown permanently cease dealing with all junkets subject to consultation with gaming regulators in Victoria, Western Australia and New South Wales. The recommendation was adopted by the Board and, after consultations, the decision to cease dealing with junkets announced to the ASX on 17 November 2020.

A board paper in support of the above recommendation included a financial analysis with an assumption that the existing Hong Kong office would be closed and that the overseas employee based sales model revert to a local Melbourne based model. This paper further advances that assumption and recommends the permanent closure of Crown's overseas offices in Hong Kong and Auckland (New Zealand has similar restrictions on promotion of overseas gambling as some other countries), as well as the cessation of employment of overseas domiciled sales team employees.

The remaining areas of the VIP International business are based in Australia (largely in Melbourne). Restructure of these areas will involve reduction in headcount and integration of remaining staff into the local businesses. Given the current JobKeeper program, uncertain local demand and a desire to get as many local Crown employees back to work following COVID-19, it is proposed we address the structure of the Australian based functions of the VIP International business early in 2021.

The paper also outlines more detail regarding the proposed Melbourne based model.

This paper predominantly addresses the major ongoing labour cost in the VIP International business, namely the overseas sales team. Other aspects of the VIP International business including the support functions in Melbourne as well as certain assets employed in the VIP International business will be subject to further review in early 2021.

RECOMMENDATION

It is recommended that:

1. Overseas offices in Hong Kong and Auckland be closed;
2. Crown cease to employ overseas domiciled employees. Those employees currently eligible to legally work in Australia may be offered roles based in Australia (subject to suitable roles being

available in the new structure. Limited exceptions may also be made to sponsor key positions);
and

3. Overseas markets will be serviced by employees based in Australia, who will travel into the market to manage customer relationships under a new operating model (**the Melbourne model**).

In connection with this recommendation, management has undertaken an evaluation of the business impacts that will likely arise if these recommendations are adopted.

Set out below is an outline of the current international sales team structure for both VIP International and Gaming Machines. There is also a Hotel sales employee based in Hong Kong. It should be noted that the closure of the offices and cessation of overseas domiciled employees has not been proposed solely for financial reasons, but based on an acknowledgement of the changing risk appetite with respect to Crown's overseas markets.

CURRENT INTERNATIONAL VIP SALES TEAM STRUCTURE

The current VIP International sales team operating model is an in-market one with sales team employees predominantly domiciled within the markets they service. Employees also undertake travel to other cities within their markets.

17 employees are domiciled in the following cities:

- Hong Kong (office) - 10 including Compliance and Administration
- Taipei - 1
- Singapore - 3
- Kuala Lumpur - 1
- Melbourne - 2

Each market is serviced by either a Vice-President – International Sales or Director – International Sales reporting through to a Senior Vice-President – International Sales (SVP). There is one SVP – International Sales for North-east Asia (Hong Kong, Macau and Taiwan) and one SVP – International Sales for South-east Asia (Singapore, Malaysia, Thailand, Vietnam and Indonesia). Both SVPs are based in the Hong Kong office.

The employees operate in accordance with the VIP International operating procedures previously authorised by the Board.

It should be noted that the business also had an employee located in Jakarta who relocated to Australia in mid 2020 and a consultant in Macau performing administrative functions until that arrangement was terminated in December 2020 (the arrangement was managed via a third party).

CURRENT GAMING MACHINES INTERNATIONAL SALES TEAM STRUCTURE

The current Gaming Machines International sales team operating model is a mix of an in-market and “fly in” model with nine sales team employees domiciled in the following cities:

- Hong Kong (office) - 1
- Singapore - 1
- Penang - 1
- Auckland (office) - 3 including 2 Table Games Domestic team members
- Melbourne - 3

Each market is serviced by Business Development Managers who report through to either the Vice-President – North Asia or Vice-President South-East Asia. Both VPs are domiciled in Australia and report through to a Senior Vice-President International Gaming Machines.

The International Gaming Machine employees also adhere to the approved VIP International operating procedures.

CURRENT ACTIVITIES

In late March 2020 Crown's overseas staff (both Tables and Gaming Machines) were stood down to two days per week and primarily confined their activities to staying in touch with customers, sending them small amenities and discussing debt repayments (where appropriate). In mid-November 2020, all overseas staff were instructed to cease any proactive contact with customers and only respond to customer initiated contact but avoid any discussion of visits to Crown.

MELBOURNE BASED MODEL

Under the proposed Melbourne model, a new position of Head of VIP Sales (or similar title) is proposed. This position will report through to the Chief Executive Officer – Crown Melbourne.

The Head of VIP Sales will oversee International Sales for all gaming product (Tables and Gaming Machines).

The proposed model will see sales team employees responsible for specific markets and service Premium direct customers in those markets regardless of product preference. This differs from the current model. For example, currently a Singapore based Gaming Machines customer relationship would be managed by the Business Development Manager – International (a member of the Gaming Machines team) whilst a Premium Table Games customer of equivalent value in the same market would be managed by the International Sales Manager in the VIP International team.

Melbourne based sales team members would fly to their various regions of responsibility to meet directly with Premium based customers on a periodic basis.

ANALYSIS OF BUSINESS IMPACT

Overall impact

An evaluation of the business impacts that will likely arise from the move to the Melbourne model has been undertaken (and was also included in the November 2020 board paper).

It is expected that, with the impact of the pandemic on travel and pre-pandemic trends of reduced international VIP activity, VIP volumes will be substantially below prior periods irrespective of any actions Crown takes.

In considering the financial impact of the above recommendation, the following assumptions are made:

- The existing Hong Kong and Auckland offices are closed;
- All overseas domiciled employees are made redundant (unless relocated to Australia);
- Under the Melbourne model, sales team employees are responsible for selling all Crown Resorts properties to both Premium Table Games and Gaming Machine customers.

Ongoing operational impact

Key ongoing assumptions:

- There are some savings from removal of duplication of roles from the current model where multiple business units service the same markets. Labour savings are estimated at \$2.0m to \$2.2m p.a.

- Whilst in recent years, the Junket business accounted for ~80% of VIP International revenue, much of this revenue was delivered from a relatively small number of key junket players with much of the customer relationship managed in conjunction with the junkets.
- Under the Melbourne model, it is expected that revenue per customer will be significantly smaller, albeit, at a higher margin.
- Consequently, some major markets such as Hong Kong, Macau and Singapore may require an increased sales presence, based out of Melbourne. The model assumes a minimum number of headcount initially with scope to expand as markets recover.
- No additional office expenses are required in Melbourne as sales team members are incorporated into existing office space within Crown Melbourne. Consequently, annual savings of approximately \$0.6m will be achieved following the closure of the Hong Kong office.
- Travel and entertainment costs are assumed to be neutral. Under the overseas model, travel is more frequent but for shorter periods. Under the proposed Melbourne model, it is expected that travel is less frequent but for longer periods.
- As international travel recovers, it is expected that the VIP International business wholly dedicated to premium direct customers will generate contribution of approximately \$7m in F22, growing to around \$30m in F25.

One-off financial impact

The table below summarises the one-off costs expected to be incurred as a result of the proposed closure of the overseas offices and the likely redundancy payments to employees impacted by this decision. Redundancy costs are an estimate based on a high-level review of the VIP International and Gaming Machines sales models.

Key assumptions:

Closure of offices - One-off Financial Impact ¹	\$m	\$m
Hong Kong office closure (lease termination)	0.4	
Auckland office	0.1	
Redundancy Costs (Estimate)	3.3	
Total one-off costs		3.8

1. The redundancy costs include \$1.3m in estimated compensation for Retention bonus and a further allowance to facilitate the finalisation of Deeds from each employee.

OTHER CONSIDERATIONS

The redundancy of overseas based employees needs to be handled delicately. Many are long standing employees with a significant knowledge of the markets in which they operate. They hold sensitive customer databases and Crown Resorts owned equipment. Due consideration needs to be given to ensure that individual employee welfare is considered, and that Crown's intellectual property is protected. We believe it is necessary to engage a third party to manage logistics around closure of the offices and recovery of physical assets and proprietary information.

Other areas of the current VIP International business that are outside the scope of this paper will be addressed early in 2021, including:

1. Structural changes in the following areas resulting from the transition of the existing VIP International business into a purely sales function:

- Incorporating the VIP Marketing function back into Marketing;
- Incorporating Credit into Australian Resorts Finance;
- Incorporating Commercial Finance into Crown Melbourne Gaming Finance;
- Consolidating the VIP International Service team into the existing teams in Melbourne and Perth.

Consideration will also be given to folding the Domestic Sales function into the VIP International sales structure. Currently, domestic sales reports to the EGMs of Table Games and Gaming Machines in Melbourne.

Work on the above changes will be undertaken in early 2021 (subsequent to the proposed overseas office closures, if approved) and communicated to the Board accordingly. It is anticipated that a further reduction in staffing levels will be an outcome of the above structural changes.

2. Determining whether the operating protocols in each market remain appropriate (Herbert Smith Freehills have been engaged to provide that advice);
3. Determining the best course of action with respect to the jets (which will be the subject of a subsequent Board paper); and
4. Further review will be undertaken to consider the most appropriate and efficient use of Crown's other VIP assets including Gaming Salons, Crown Towers Villas and the Capital golf course.

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