



# Crown Resorts Limited

Chief Executive Officer's Report  
February 2020

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## SECTION 1 – EXECUTIVE SUMMARY

### Trading Update

Overall, we were very satisfied with the performance of the Local businesses through to the middle of January. The combined Local businesses were on track to achieve budget for the year. This was despite a substantial shortfall in Melbourne Local Tables, largely down to low hold (bad luck).

Program Play in Melbourne has continued to struggle with significant headwinds as previously reported. The shortfall against budget for Melbourne Program Play (at theoretical) explains almost all of the Group's current shortfall to Budget and decline against last year. This has been further exacerbated by the recent international travel restrictions. Perth Program Play, although a much smaller business, is in line with expectations.

Unfortunately, the impact of the novel coronavirus (2019-nCoV) (**coronavirus**) has had a significant impact on visitation and volumes across the board, particularly in Melbourne, from mid-January. The early impact in Perth has mainly been felt in local tables with the rest of the business largely unaffected to date.

In Melbourne, the Local Business had performed to expectations with the key exception of Local Tables where poor hold has cost us \$13.1m in contribution for the YTD to the end of January. This has been despite volumes tracking in line with budget and up 5% on last year. The poor hold in local tables combined with the recent coronavirus impact has overall Melbourne Local Contribution below budget by \$8.1m (2.5%) and below last year by \$13.2m (4.1%) for the YTD to 31 January.

The Perth Local business continues to perform well with the January YTD result trading above budget by \$7.8m or 6.0% and slightly down on last year by \$1.2m or 0.9%. The Machines business in particular is trading well, with revenue up 3.4% on budget and 5.6% on last year YTD. Tables revenue was tracking slightly below last year but well above budgeted expectations, however, the impact of the coronavirus has seen volumes drop circa 15% on current trend. The non-gaming areas are all trading above budget YTD.

Program Play volumes in Melbourne have been very soft with turnover of \$12.9b through to 31 January vs budget of \$21.8b and last year's \$19.9b. Perth Program Play has been steady with turnover volumes slightly above budget and last year YTD albeit off a very low base.

Aspinalls has seen low volumes over the last three months. YTD EBITDA of \$2.7m is \$0.7m below budget. Win rate has been favourable during the year, with actual EBITDA of \$6.8m YTD.

Digital is on track. Throughout the year, Betfair has struggled with taxes, increased competition from illegal offshore operators and the cancellation of Hong Kong racing product. Despite these issues, Betfair has achieved budget in three of the last four months.

DGN is performing ahead of budget and is making good progress on delivering two new products to grow its presence in the high growth social games market.

Corporate costs are above budget YTD and will continue to exceed budget for the remainder of the year due to costs from the NSW Public Inquiry and the sharp increase in the cost of D&O insurance.

Overall the current full year forecast is \$751m EBITDA (at 1.35% win rate) with downside risk associated with the novel coronavirus. We are currently developing a new full year forecast although this is challenging as the magnitude of the impact of coronavirus and its duration are

difficult to predict. Market consensus EBITDA at present is \$757 m although this will move down as we update the market on expected corporate costs this week and as analysts begin to factor in the effect of coronavirus.

At actual, EBITDA is \$35m ahead of budget and \$40m ahead of last year at the end of January, with above theoretical results at all three properties.

### **Novel Coronavirus**

As directors are aware, on 30 January 2020, the World Health Organization (WHO) declared the coronavirus outbreak a Public Health Emergency of International Concern.

In response, the Australian Government imposed a travel ban on foreign nationals (other than Australian citizens, permanent residents and their immediate family members) from mainland China to Australia from 1 February 2020 to 21 February 2020 (this will continue to be reviewed and could be extended).

The outbreak has had an impact on Crown as a result of reduced visitation from Chinese tourists and the local population avoiding crowded places.

The Risk Management Committee and the Occupational Health and Safety Committee received detailed briefings on the outbreak which led to the establishment of a dedicated Steering Committee to oversee Crown's planning and responses processes in relation to the Coronavirus. In addition, Crown is in the process of engaging Professor Charles Guest, former Chief Health Officer for both Victoria and the ACT and currently Professor of Epidemiology and Preventive Medicine at Monash University, to advise Crown in this respect. A detailed Coronavirus Readiness Plan is in the process of being prepared.

A detailed update on this matter is included at Agenda Item 5 and, Damir Kucan, Executive General Manager Human Resources Crown Perth, who has been nominated to lead the Steering Committee has been invited to address the meeting.

As the majority of the supply chains for our Sydney development are supported by Chinese manufacturing we have been assessing the impact on the planned opening date and construction activities. In summary, the current impact has been assessed as being manageable for the hotel portions of the project given the advanced nature of the fit out and the fact that most items were procured before the end of the last year. The supply chain exposures are largely focused around the Chinese Restaurant, Japanese, Italian and Core restaurant on level 24 as these venues were the last ones to be designed and approved. These venues all rely on materials sourced from China and the logistical issues associated with supporting the site build out are currently being reviewed. At this stage the 7 December 2020 handover of the venues appears achievable although there is no longer any remaining schedule contingency.

### **Brand Committee**

The Brand Committee's last meeting was held on 30 January 2020 and, following the board and senior executive changes, the Committee has been converted to a non-active Committee with oversight of the relevant matters having been delegated to the Chief Executive Officer with the Committee available on an as needs basis.

## ILGA Inquiry

As the Board is aware, the first hearing was held on 21 January 2020. Directors have been separately provided with a summary of that hearing and a further update on the ILGA Inquiry is included at Agenda Item 7.1.

REDACTED - PRIVILEGE



## Black Economy Taskforce

On 24 October 2019, the *Currency (Restrictions on the Use of Cash) Bill 2019* passed the House of Representatives. The Bill has now been introduced to the Senate.

The Senate had previously referred the provisions of the Bill to the Economics Legislation Committee for inquiry and report by 7 February 2020. The reporting date for the inquiry has subsequently been amended to 28 February 2020. There are indications that members of the Coalition Government are concerned about the potential economic impact of the proposed Bill and may look to challenge its implementation.

On 25 October 2019, the Federal Government released the draft Rules. The Rules specify the types of transactions that are exempt from the cash payment limit. As expected, an exemption was included for payments that must be reported by an entity under AML/CTF legislation. As a result, as the legislation is currently drafted, casinos will be exempt from the scope of the cash payment limit.

## Financing Arrangements

Entry into the new syndicated facility has been delayed as a result of reviews which a number of banks were undertaking of their relationships with casinos and gaming entities. ANZ has requested the inclusion of a review event in respect of certain regulatory outcomes which management is in the process of negotiating. Our other proposed lead arranger, NAB, has indicated that a new financial covenant (specifically, a new Senior Debt/EBITDA ratio of 3.5x) would be necessary in the current market. Subject to the outcome of those negotiations, it is anticipated that a bank presentation will be held with the documentation to be finalised shortly thereafter. Please refer to Agenda Item 9 for a more detailed update on this matter.

Aspers is continuing its discussions with NatWest and Barclays in relation to its proposed refinancing but is waiting to see whether the proposed sale of the Aspers provincial businesses can be successfully concluded (see below).

REDACTED - PRIVILEGE

## UK Sales Process

### *Aspinalls*

Crown has been progressing discussions with Suncity and has been negotiating a draft term sheet outlining the key aspects of the proposed transaction with an indicative purchase price of £50.75 million (on a cash free and debt free basis) with Crown to retain all cash and receivables associated with Aspinalls.

In relation to the proposal from CST, Crown did not receive a revised proposal outlining a proposed price nor the proposed terms on which CST would be willing to transact.

A more detailed update on this potential sale is included at Section 4 of this Report.

### *Aspers*

Aspers is currently in discussions with Trans World Hotels & Entertainment, A/S (**TWH**), a subsidiary of Far East Corporation, around the terms of a potential purchase and TWH are in discussions with various banks about financing the potential purchase. It is contemplated that Aspers will permit TWH to proceed to detailed due diligence on the businesses with a view to identifying whether it is possible to agree the terms of a transaction. We have recently heard from TWH that it is experiencing difficulty in gaining support from its parent for the transaction.

Damian Aspinall, last week also indicated that, given continued challenges around the market and regulatory environment in the UK, it is his view we should look to exit all the Aspers properties including Stratford. He has commenced discussions with the adviser who was acting for Aspers on the sale of the Provincial Estate to determine an approach to the sale of the entire portfolio.

A more detailed update on this potential sale is included at Section 4 of this Report.

## DGN

DGN contribution year-to-date is currently 8% above budget, driven by an above budget performance from the "Lucky Time Slots" (LTS) application. Whilst recent monthly performance has been softer, the business is tracking to hit budget for the full year.

The social casino space is experiencing a more challenging operating environment with greater competition and growing user acquisition costs. Download growth has stagnated, with revenue growth driven by improved monetisation of the existing user base.

A strategic decision was made to begin development on new products which sit outside of the traditional social casino slots space. Termed 'casual' games, this genre has a greater broad-based appeal and has shown greater user and revenue growth relative to the traditional social casino space. Two games are currently under development. "Game 3" will be a hybrid game which leverages some of the social casino content from LTS, whilst "Game 4" will be a purely 'casual' game. The first playable versions are currently under development, with soft launches targeted for the middle of this year.

Work is also continuing on the acquisition of the remaining 15% in DGN Games held by DGN Holding (a company majority owned and controlled by the current DGN CEO, Damon Gura) and the proposed restructuring of the DGN Games intellectual property.

Crown currently holds 85% of DGN Games, with the remaining 15% held by DGN Holding. Consistent with the update provided to the Board in December 2019, agreement in principle has been reached with Damon to acquire DGN Holding's 15% interest for US\$5.7m. The documentation to effect the acquisition is with Damon for review and it is expected that it will be implemented in the next few weeks.

Work is also continuing on the proposed internal restructure of DGN with it being proposed that DGN Games assign the intellectual property associated with OVS and LTS from DGN Games, LLC (a US entity) and Winners Club Limited (a Maltese entity) respectively to Sociologic (an Israeli entity). The consolidation of intellectual property into Israel would enable DGN to simplify the DGN Games legal structure given that all personnel and assets/earnings of the business would be consolidated into one operating entity. DGN Games, however, will continue to contract with the various platforms (AppStore, Google, Facebook, Amazon) on behalf of Sociologic due to the practical difficulty of moving those contractual relationships to Sociologic.

It is expected that this restructure will be implemented in the next few weeks.

#### **Litigation Update – privileged and confidential**

REDACTED - PRIVILEGE







## SECTION 2 – FINANCIAL UPDATE

31 JANUARY 2020 YTD

	Normalised Result					Crown Group \$'000	Adjustment \$'000	Significant Items \$'000	Actual Crown Group \$'000
	Crown Melbourne \$'000	Crown Perth \$'000	Crown Aspinalls \$'000	Wagering & Online \$'000	Unallocated \$'000				
<b>Operating revenue</b>									
Main floor tables	453,520	112,974	-	-	-	566,494	-	566,494	
Main floor machines	283,640	168,663	-	-	-	452,303	-	452,303	
VIP program play	182,040	43,073	29,976	-	-	255,089	88,304	343,393	
Wagering & Non gaming	288,185	177,452	696	65,888	295	532,515	-	532,515	
<b>Operating revenue (excl comps)</b>	<b>1,207,385</b>	<b>502,162</b>	<b>30,673</b>	<b>65,888</b>	<b>295</b>	<b>1,806,402</b>	<b>88,304</b>	<b>1,894,706</b>	
Operating expenses	(895,321)	(360,993)	(28,022)	(49,041)	(32,803)	(1,366,179)	(10,312)	(1,376,491)	
<b>Earnings before interest, tax, depreciation and amortisation "EBITDA"</b>	<b>312,064</b>	<b>141,168</b>	<b>2,651</b>	<b>16,847</b>	<b>(32,508)</b>	<b>440,223</b>	<b>77,992</b>	<b>518,215</b>	
Depreciation and amortisation	(104,514)	(48,997)	(2,667)	(5,284)	(3,765)	(165,227)	-	(165,227)	
<b>Earnings before interest and tax "EBIT"</b>	<b>207,550</b>	<b>92,172</b>	<b>(16)</b>	<b>11,563</b>	<b>(36,273)</b>	<b>274,996</b>	<b>77,992</b>	<b>352,988</b>	
Equity accounted share of associates' net profit/(loss)						7,292	-	7,292	
Net interest income/(expense)						1,474	-	1,474	
Significant items						-	(937)	(937)	
Income tax benefit/(expense)						(84,538)	(22,982)	(107,239)	
<b>Profit/(loss) after tax</b>						<b>199,224</b>	<b>55,010</b>	<b>253,577</b>	
Non-Controlling Interest						(485)	-	(485)	
<b>Profit/(loss) attributable to equity holders of the Parent</b>						<b>198,738</b>	<b>55,010</b>	<b>253,092</b>	

The above table reflects Crown's year to date financial results by key operating segments. Normalised EBITDA is \$440.2m, with Actual EBITDA of \$518.2m. Crown's year to date normalised NPAT is \$198.7m, with Actual NPAT of \$253.1m.

	FINANCIAL YEAR TO DATE						
	Actual	Budget	Variance		Last Year	Variance	
	Jan-20 \$'000	Jan-20 \$'000	F/(U) \$'000	F/(U) %	Jan-19 \$'000	F/(U) \$'000	F/(U) %
<b>EBITDA @ Theoretical</b>							
Melbourne - Local	311,436	319,570	(8,135)	(2.5%)	324,646	(13,210)	(4.1%)
Melbourne - VIP Program	628	39,663	(39,035)	(98.4%)	43,406	(42,778)	(98.6%)
Crown Melbourne	312,064	359,233	(47,170)	(13.1%)	368,052	(55,988)	(15.2%)
Perth - Local	138,009	130,224	7,785	6.0%	139,180	(1,171)	(0.8%)
Perth - VIP Program	3,159	3,291	(131)	(4.0%)	(3,944)	7,103	180.1%
Crown Perth	141,168	133,514	7,654	5.7%	135,236	5,932	4.4%
Crown Aspinalls	2,651	3,333	(682)	(20.5%)	5,369	(2,718)	(50.6%)
Wagering & Online	16,847	16,949	(102)	(0.6%)	9,171	7,676	83.7%
Corporate	(32,508)	(29,976)	(2,532)	(8.4%)	(32,199)	(309)	(1.0%)
<b>TOTAL EBITDA @ Theoretical</b>	<b>440,223</b>	<b>483,054</b>	<b>(42,832)</b>	<b>(8.9%)</b>	<b>485,629</b>	<b>(45,407)</b>	<b>(9.4%)</b>
Depreciation	(165,227)	(160,343)	(4,883)	(3.0%)	(163,427)	(1,799)	(1.1%)
Interest	1,474	1,392	82	5.9%	(9,364)	10,838	115.7%
Taxation	(84,538)	(97,061)	12,523	12.9%	(96,467)	11,929	12.4%
Equity Accounted Results	7,292	8,411	(1,119)	(13.3%)	7,896	(604)	(7.7%)
Minority Interest	(485)	(400)	(85)	(21.2%)	627	(1,112)	(177.4%)
<b>Crown NPAT @ Theoretical</b>	<b>198,738</b>	<b>235,052</b>	<b>(36,314)</b>	<b>(15.4%)</b>	<b>224,894</b>	<b>(26,156)</b>	<b>(11.6%)</b>

<b>EBITDA @ Actual</b>							
Crown Melbourne	380,318	359,233	21,085	5.9%	341,431	38,887	11.4%
Crown Perth	146,750	133,514	13,235	9.9%	155,532	(8,782)	(5.6%)
Crown Aspinalls	6,807	3,333	3,475	104.3%	4,735	2,072	43.8%
Wagering & Online	16,847	16,949	(102)	(0.6%)	9,171	7,676	83.7%
Corporate	(32,508)	(29,976)	(2,532)	(8.4%)	(32,199)	(309)	(1.0%)
<b>TOTAL EBITDA @ Actual</b>	<b>518,215</b>	<b>483,054</b>	<b>35,161</b>	<b>7.3%</b>	<b>478,670</b>	<b>39,544</b>	<b>8.3%</b>
<b>Crown NPAT @ Actual before significant items</b>	<b>253,748</b>	<b>235,052</b>	<b>18,696</b>	<b>8.0%</b>	<b>219,960</b>	<b>33,788</b>	<b>15.4%</b>

Normalised YTD NPAT of \$198.7m is \$36.3m (15%) below budget and \$26.2m (12%) below last year. YTD reported NPAT before significant items of \$253.7m is \$18.7m (8%) above budget and \$33.8m (15%) above last year.

Group YTD theoretical EBITDA of \$440.2m is \$42.8m (9%) below budget and \$45.4m (9%) below last year.

- **Crown Melbourne's** theoretical YTD result is due to below budget VIP Program Play contribution (\$39.0m or 98%) and a below budget local contribution (\$8.1m or 3%). Program play turnover of \$12.9b is 41% below budget. The below budget local result is attributable to Table Games (\$11.0m or 6% below budget) and Hotels (\$0.3m or 1% below budget), partially offset by Gaming Machines (\$2.1m or 2% above budget) and savings in Support Departments. Crown Melbourne's theoretical YTD result is \$56.0m (15%) below last year (Local -\$13.2m or -4%, VIP -\$42.8m or -99%).

The Melbourne Local Business was tracking well through to the end of December (below budget by \$3.2m or 1.1%) with the only negative impact to the business being a soft hold in local tables costing \$11.1m in contribution for the half despite tables volumes being up 1% on budget and 4% on the prior year. Unfortunately, January featured more bad luck in local tables with a further \$2.0m in contribution impact exacerbated by the significant impact of the coronavirus outbreak through the last week in January which should have been a very strong start to Lunar New Year. At 31 January, Local Business was below budget by \$8.1m or 2.5%. The variance to last year was expected due to the prior period featuring strong hold in local gaming combined

with a couple of key changes in Food & Beverage with the closure of Club 23 and transfer of TWR to R Bar (Rockpool Group) in the current year.

Machines in particular has performed strongly YTD, with revenue up 2.0% on budget and 4.5% on last year. By comparison, the Victorian network (ex-Crown) was down 0.8% over the corresponding period. Crown's rolling 12-month market share has grown from around 14.3% in August last year to 15.1% now.

Table Games contribution has now fallen well below budget YTD 31 January, down \$11.0m or 5.5%, with poor hold costing \$13.1m in contribution YTD. The early impacts of the coronavirus have been most keenly felt in this area of Melbourne's operation. Volumes were slightly up on budget by 0.3% and above last year by 5.1%.

Food & Beverage YTD January was trading in line with budget with Hotels slightly down on budget for the period. Ongoing softness in the VIP Gaming market has impacted Crown Towers' villas and premium rooms occupancy and rate and, to a lesser extent, premium restaurants trade. The later start to the Australian Open impacted Hotel results as it led to a weaker third week of the month combined with the clash with the opening week of Lunar New Year. The bushfire and coronavirus issues also impacted Hotels with a number of cancellations and lower demand from domestic and international markets.

The Melbourne Program Play volumes have been very soft with turnover of \$12.9b through to 31 January vs budget of \$21.8b and last year's \$19.9b. The business is being impacted by a number of significant issues with further impacts evolving due to recent international travel restrictions.

- **Crown Perth's** theoretical YTD result is due to an above budget local contribution (\$7.8m or 6%), partially offset by a below budget VIP Program Play contribution (\$0.1m or 4%). VIP turnover of \$3.1b is 5% above budget. The above budget local result is attributable to Gaming Machines (\$2.7m or 2% above budget), Food & Beverage (\$1.7m or 12% above budget), Conventions & Entertainment (\$0.5m or 11% above budget) and Hotels (\$2.1m or 8% above budget). Table Games was slightly below budget (\$0.1m or 0.3%). Crown Perth's theoretical YTD result is \$5.9m (4%) above last year (Local -\$1.2m or -1%, VIP +\$7.1m or +180%).

The Perth Local Business is performing well. The January YTD result is still slightly behind the prior year, although the year on year comparisons are steadily improving. The Machines business in particular is trading well, with revenue up 3.4% on budget and 5.6% on last year. Tables revenue is now tracking slightly below last year but well above budgeted expectations although we expect this trend to slip due to the impact of the coronavirus. The non-gaming areas are all trading above budget YTD.

Table Games contribution was below budget YTD January by \$0.1m or 0.3% and below last year by \$4.6m or 9.7%. Stronger results on the main floor were driven by good hold, continued optimisation of table hours and uplift in visitation. The Premium Table Games market remains challenged with contribution \$1.3m (38.8%) below budget and \$2.4m (54.4%) below last year. Table Game spend / hour rates remain subdued at 5% below the prior year reflecting the ongoing economic challenges in WA. Lunar New Year late January 2020 trade was heavily impacted by the coronavirus with volumes down circa 15% on expectations.

Gaming Machines has performed strongly with January YTD contribution above budget by \$2.7m or 2.4% and above last year by \$4.3m or 3.8%. The rated Gaming Machines membership base has maintained a stable level of visitation with the local premium market showing some recovery. Increased engagement of customers from the premium tiers remains an on-going priority via direct marketing, targeted VIP events, exclusive promotions and jackpots and refining the experience in the premium gaming assets.

Food & Beverage January YTD was above budget \$1.7m or 12.1% but below last year by \$0.7m or 4.5%. Conventions & Entertainment was above budget by \$0.5m or 10.5% but below last year by \$0.3m or 5.1%. Both areas have benefited from strong patronage to the Theatre show Book of Mormon and the pop-up Shakespeare globe.

Hotels' YTD January contribution was \$2.1m or 8.4% above budget and \$1.6m or 6.3% above last year. Both occupancy and average rate metrics are tracking above budget and last year YTD. Hotels have continued to see improved visitation driven by a strong stadium events program at the start to the year with Manchester United and the Bledisloe Cup. This continued into the summer seasonal period with positive group volumes and bolstered leisure demand, both in occupancy and average rate.

Program Play volumes have been steady with turnover of \$3.1b through to 31 January vs budget of \$2.9b and last year's \$2.6b.

- **Crown Aspinalls'** YTD turnover of £1.4b is 26% below budget with an above budget theoretical win rate due to a favourable mix of play (higher than expected roulette play). The YTD favourable variance from theoretical is £2.3m at a win rate of 1.50%.
- **Wagering & Online's** result includes above budget results in DGN (\$0.6m), partially offset by below budget results in Betfair (\$0.5m).
- **Corporate costs** of \$32.5m are \$2.5m (8%) unfavourable to budget due to legal costs relating to the ILGA inquiry and higher insurance costs. YTD **net interest** of \$1.5m is \$0.1m favourable to budget.

YTD reported NPAT before significant items of \$253.7m is \$18.7m (8%) above budget and includes a net favourable normalisation adjustment of \$55.0m (net of income tax). The combined favourable variance from theoretical for the Australian casinos is \$51.7m (net of income tax), with YTD win rates on VIP Program Play of 2.12% at Crown Melbourne and 0.96% at Crown Perth. Crown Aspinalls' favourable variance from theoretical is \$3.3m (net of income tax) at a win rate of 1.50%. YTD Crown Sydney pre-opening costs of \$0.9m have been classified as a significant item.

## SECTION 3 – AUSTRALIAN RESORTS

### 1. Review of Australian Resorts

#### 1.1. Australian Resorts Initiatives

An update is set out below on a number of the Australian Resorts initiatives which have been considered by the Board (some requiring Regulatory approval and / or capital funding) and identified to underpin growth in the local businesses in the coming years:

- **Crown Rewards** initiatives continue to focus on re-engaging inactive members, maintaining engagement with active members through a solid promotional calendar and building the new Lifecycle Management Capability (see below). The reactivation program continues to deliver, averaging circa \$1m of incremental revenue per month with interstate and regional activities driving the bulk of the uplift. These and other initiatives have helped grow active members by 6% YTD in Melbourne and 5% YTD in Perth.
- **Lifecycle Management (LCM) project** (\$4.1m across Melbourne and Perth) is in train to enable personalised, automated, trigger-based offers to active Crown Rewards members to drive compelling reasons to visit based on their likely preferences.

Project delivery broadly splits into building the automated journeys to trigger communications and offers and building the underlying technical capabilities to enable delivery. Key workstreams include building the data infrastructure, enabling fulfilment of hotel offers and integrating direct mail channels. Progress to date is as follows:

- Ten automated journeys are now in market with four of these delivered over the December to January period as the project gathers pace;
- Notable new journeys over the December to January period include Interstate onboarding targeting 14k new interstate members each year, new onboarding journeys for other Rewards member sign-ups and a reactivation journey in Melbourne to automate reactivation activities for lapsed customers;
- Hotel fulfilment capabilities have been delivered which will allow automation of hotel offers which is especially important for Interstate and Regional member campaigns. The first hotel offers to members through automated journeys will go to market in February;
- The ability to automatically deliver promotional points offers straight to membership cards (currently this requires a visit to a VIK or Crown Rewards' desk) is currently being developed with anticipated delivery to market in February creating a better customer experience and also allowing promotions to non-gaming customers;
- Significant progress has been made in delivering new data capability to better facilitate analysis and journey targeting.

## 1.2. Crown Melbourne Initiatives

An update on the Crown Melbourne projects is set out below:

- Conversion of Club 23 into premium gaming (\$6.7m) was completed in late December. The area has been renamed Mahogany Suite and opened on 1 January for the local Black tier, Interstate and International customers. Trading is in line with budgeted expectations.
- A re-lay of the Main Floor Central area was completed allowing an additional eight Roulette tables to be offered on the major east-west corridor of the Main Gaming Floor. Acceleration of the machine refresh program providing additional, new and market-leading product (\$7.0m), is well underway with 580 of the 750 F20 target reached during December 2019;
- Mahogany Lounge (\$8.0m), the Premium non-smoking Gaming Machines offering, formerly JJ's, was completed and opened on 19 December with initial customer feedback being very positive. Trading is in line with budgeted expectations;
- Conversion of Pit 30 into an expanded Black Tier Slots area (\$3.4m), commenced 28 January with expected completion by the end of Q4;
- Further expansion of Teak Room non-smoking offering (\$1.7m) has been completed and opened on 8 August 2019;
- Creation of dedicated gaming areas in the west end and central areas of the Main Gaming Floor for Dragon Link/Cash product (Dragon Den) was completed and opened during H1 F20.
- Reduction in minimum domestic front money to attract more interstate customers (reduced from \$25k to \$10k) has been implemented resulting in an additional 688 Gaming Machines programs and an additional 131 Table Games programs year-on-year;
- Monthly dinners being hosted in regional Victoria with over 200 members hosted following the expansion of the sales team focus into regional Victoria;
- Ability to market to international machines customers outside of Hong Kong (progressively from H1 F20). Malaysia based South East Asia sales team member commenced in late November.

The focus in Melbourne remains on driving the local market, with a particular emphasis on local gaming combined with some key initiatives in the Food & Beverage space to drive an uplift in volume, particularly Bars. In addition to promotional offers and events, initiatives specific to local gaming, include:

- Crown's installation of the popular Aristocrat Lightning Link and Dragon Link / Cash product has increased further to over 900 units and remains the largest single site installation in the world;

- Other new machine product recently launched and expanded includes Scarab (IGT), Repeat Fever (Konami), and Welcome to Fantastic Jackpots (Aristocrat). Each of these have launched successfully and continue to perform well;
- The F20 H1 Product Refresh Plan is well underway with 580 of the targeted 750 new machines installed by 31 December with the remaining 170 to be installed in the coming months.

The following initiatives are currently under development:

- A new eTG Quartz terminal from leading global eTG manufacturer SG is expected to enter the gaming floor in Q3 F20. The terminal offers customers an improved user interface for play on multigame semi-automated Table Games;
- Conversion of Pit 30 to an expanded Black and Ultra Black Gaming Machine offer is underway with the launch planned for Q4 F20;
- Virtual Card Project development continues with the objective being to have a virtual card within the Crown Rewards App and the Apple / Android wallets that will allow customers to use their phone to tap instead of the magnetic stripe card, the current plan has the initial trial and roll-out to occur in Crown Perth during F21.

### 1.3. Crown Perth Initiatives

An update on the Crown Perth projects is set out below:

- Reduction in gaming machine spin rates from five seconds to three seconds: approved by the Regulator, with first game, namely Konami's All Aboard, now at 150 units, with a further 10 games, across multiple manufacturers up for approval in the February Commission meeting;
- Debit Card Chip Facility at the table and / or Ticket Redemption Terminal (TRT): approved by the Regulator but awaiting approval to proceed with a trial. Live trial of the ACS PlayOn cashless functionality currently in various properties, across both the Nevada and Tribal Gaming jurisdictions (since 2016 in the latter);
- Enabling cash withdrawals from the Cage and F&B outlets: Approved by the Regulator and already activated and averaging over \$300k per week (expectation was circa \$150k);
- Increasing the Pearl Room guest policy to three, from the previous limitation of one, for Platinum and Black tier members: Approved by the Regulator and in operation;
- Allowing gaming in non-gaming areas, such as Convention space: still subject to Regulator approval;
- Electronic table games expansion and enhancement via the introduction of 50c minimum bets and the imminent roll-out of 'Business Class' gaming experience: currently a work in progress.

In addition to the work described above, the focus also remains on continuing to identify initiatives, events and promotions to drive volume, particularly in Local Gaming. Key initiatives and issues are as follows:

- Continued optimisation of table open hours which has so far yielded reductions of over 15,000 open hours per annum (5% reduction since the same time last year);
- High margin eTGs continue to increase traction aided by lowering the price point to 50 cents, yielding an increase in games played by over 30% through an increase in patron hours accessing the new price point, albeit with a decline in average bet of circa 15%. The outcome has been a broader customer base, whilst retaining strength of high value customers who are attracted by the privacy and efficiency of the game;
- Re-positioning of Pearl Room is now largely complete, having undertaken a loyalty threshold reset, an enhancement of the room environment for non-smoking, dining and decor, an improved marketing offer and service model within a more segmented product layout solution. Initial results have seen machine activity improve over 10% relative to Budget and the prior year;
- Aristocrat's Lightning Link has been further delayed and is now expected to be delivered to the Perth market in early Q4 F20, with an increased denomination mix and broadened title options. Dragon Link opportunities have commenced discussion as a result of the new regulatory regime pertaining to game design, however, is not anticipated for release until H2 F21;
- Email collection continues to grow, following a recent focus of the Rewards Team. Over 90% of new sign-ups are providing email addresses as preferred contact, enabling more frequent, timely and relevant offers to reach market, with email capture now at 50% of active players;
- The Perth hotels market remains subdued with the influx of additional inventory adding pressure to overall occupancy levels and in particular average rate decline. The latest suite of openings include:
  - Ibis Styles 252 rooms, 4 Star, opened September 2019;
  - Art Series 250 rooms, 4.5 Star, opened October 2019;
  - Ritz Carlton 205 rooms, 5 Star, opened 15 November 2019;
  - Novotel Perth 488 rooms, 4/4.5 Star, opened December 2019;
  - Doubletree by Hilton Perth Waterfront hotel 160 rooms, 4/4.5 Star, scheduled to open Q3 F20
  - Park Regis (Subiaco) 168 rooms, 4.5 star, due to be open Q3 F20.

Crown Perth Hotels continue to significantly outperform the market.



## 2. Legal and Regulatory Matters

### 2.1. Australian Resorts

#### *Joint AML/CTF Program*

Operational implementation of the components of the Joint AML/CTF Program will be progressively implemented during 2020. The new Group GM-AML has identified some areas for focus and will table a detailed implementation plan, noting any proposed changes to the plan, at the next AML/CTF Compliance Committee.

Subject to the progress of the implementation of the Joint AML/CTF Program, Crown is planning to have an Independent Review of Part A of the Joint AML/CTF Program conducted in mid-2020 by a big four consulting/audit firm.

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**2.2. Crown Melbourne**

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### **2.3. Crown Perth**

#### *Cashless – Use of EFTPOS*

Crown Perth continues to finalise an implementation plan for the use of EFTPOS (debit only) within the casino, which has recently included the incorporation of key responsible gambling recommendations of Professor Alex Blaszczynski.

The plan was referred to Crown Resorts Responsible Gambling and Crown Resorts Risk Management Committees who have determined it is appropriate to defer implementation to a later date.

## **3. HR Initiatives**

### **3.1. Australian Resorts**

#### *Indigenous Employment Programme (IEP)*

The IEP at 31 January 2020 has 194 Indigenous Australians employed across Crown Melbourne (111) and Crown Perth (83) bringing the total number of Indigenous Australians hired through the program to 912. The IEP Manager for Crown Sydney has also been hired and will commence on 10 February 2020, attending Corporate Induction in Melbourne and spending three days with the Melbourne HR Team.

#### *Workplace Gender Equity*

The Crown Gender Action Plan (GAP) was published on the Crown Resorts website and promoted across both properties on 10 December 2019. Further promotion activities and events will continue to drive awareness of the GAP over the coming months.

Crown Resorts will be participating in the T20 International Women's Day event on 8 March and will take this opportunity to further promote our work towards Gender Equity. This coincides with International Women's Day.

#### *Crown College International (CCI)*

To date, CCI has received 528 applications. 24 applications have been received for future intake and 29 student applications are still in the pipeline through to January 2021.

47 new international students from 18 different countries commenced in January which was the College's biggest intake to date.

CCI will be hosting the delegation from a Thai college, Choburi Technology College in February. The delegation is interested in collaboration with CCI to support student mobility between the two colleges. The interest was generated through the AUSTRade tour to Thailand that Crown representatives participated in last year as part of the ASEAN Tourism and Hospitality Education and Training showcase. AUSTRade are continuing to support the venture and will also be in attendance with the delegation.

CCI's social media presence has continued to grow and paid Facebook campaigns in 2019 increasing by over 2,700 new followers and 1,300 new page likes. CCI also launched its own Instagram page which now has 500 followers since launching in November 2019.

#### *Crown College Institute of Higher Education (CCIHE)*

The CCIHE application moved to the Substantive Assessment stage which included a site visit from the regulator, Tertiary Education Quality and Standards Agency (TEQSA). It also consisted of a full day audit followed by a series of meetings with the Academic Board, Governance and Strategic Council.

#### *Crown Pride*

Crown Melbourne Pride network represented Crown at this year's Midsumma Fair day for the second year in a row. The feedback from employees and external community members attending this event was very positive.

Crown Melbourne has also confirmed eight dates to host with the Gay and Lesbian Organisation of Business and Enterprise (GLOBE) networking events for 2020 in Crown Promenade Tonic Bar. Crown will also sponsor, for the second year, the GLOBE Community Awards which will be held later this year.

Crown is preparing to participate in the 2020 Australian Workplace Equality Index (AWEI) survey for the third time and the AWEI employer submission for the second time for Crown Resorts.

#### *CROWNability*

There are currently a total of 303 employees and contractors in the CROWNability program across both properties, with 143 direct employees and 1 contractor at Crown Melbourne and 154 direct employees and 5 contractors at Crown Perth as at 30 January 2020.

#### *Hospitality Disability Network Launch*

The Hospitality Disability Network of Western Australia (HDNWA) pilot program was launched at Crown Perth on 3 December 2019. In recognition of the International Day of People with Disabilities, West Australian Deputy Premier Roger Cook MLA, officially launched the HDNWA together with Damir Kucan, Executive General Manager Human Resources, Crown Perth and also Chairperson of the HDNWA.

The HDNWA was developed to foster a community of like-minded companies with a collective commitment to create job opportunities and pathways into employment for people with disability. Patron for International Day of People with Disability 2019, and three-time Paralympic gold medallist, Kurt Fearnley AO, spoke at the launch and endorsed the HDNWA as a unique opportunity to support Western Australians living with a disability.

#### *Internship Pilot – Table Games*

CROWNability in partnership with Table Games are working together to introduce Internships, to provide valuable and real working experiences. Most recently we have

developed a partnership with UWA where eligible students will take part in a 13-week internship.

### 3.2. Government Relations

A number of meetings and tours have taken place over the last month with various Parliamentarians and their officers together with Regulator and Stakeholder representatives as follows:

- The Victorian Shadow Minister for Police and Emergency Services received a security briefing and tour;
- The Parliamentary Secretary for Multicultural Affairs, Josh Bull MP, helped launch the Lunar New Year;
- The Chair of the CFA, Greg Smith AM, Melbourne Lord Mayor, Sally Capp and Parliamentary Secretary for Police and Emergency Services attended the Anthony Callea Bushfire Concert;
- The Victorian Upper House MP from the Transport Matters Party, Rod Barton, is scheduled to tour Crown Melbourne in February;
- Victoria Responsible Gambling Foundation (VRGF) Members are scheduled to tour in March.

Since the commencement of this initiative in late 2018, we have undertaken approximately 20 tours for Members of Parliament.

### 3.3. Crown Melbourne

#### *Industrial Relations*

**Crown Melbourne Limited EA** – The ballot for the proposed new agreement closed on 21 January. Of the 5,279 employees eligible to vote, 3,438 or 65% of employees participated. 3,178 or 92% voted in favour of the agreement. In accordance with requirements, the new agreement will be lodged with the Fair Work Commission (FWC) for approval within 14 days. The FWC is currently taking at least four weeks to review and assess agreements for compliance and Better Off Overall Test purposes. The agreement formally commences seven days from the date of approval by the FWC. We are also in the process of reviewing and preparing for implementation of the terms and changes arising from the new agreement. The union has requested that the first wage increase (payable from 15 April 2019) be paid in advance of the FWC approving the agreement, to which we have agreed and are determining the appropriate timing.

**Property Services EA** – no recent developments due to key union officials being on leave over the Christmas / New Year period. A wage offer of 4%, 3%, 3% and 3% was accepted by the union bargaining representatives, but not supported by a majority of employees who are still pressing for the payment of a licence allowance to be paid to electricians and plumbers. This claim is the key outstanding matter. The current agreement nominally expired on 30 June 2019.

**3.4. Crown Perth**

*Industrial Relations*

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**3.5. Crown Sydney**

*Industrial Relations*

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## SECTION 4 – UK BUSINESSES

### 1. Crown Aspinalls

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**2. Aspers**

*Sale of the Provincial Business*

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## SECTION 5 – BETFAIR

### 1. Business Update

The development of Betfair's new Mobile product is progressing well. The 'discovery' phase of the project is close to completion and the build (Sprint 1) has commenced this week (ahead of schedule). Our approach is to run fast to get working software into customers' hands by early April 2020 to then enable further iteration before a scaled up roll out in September 2020.

Mobile, along with enhanced Seeding; scaled up data led Marketing; and customer Pricing review, are the four key areas identified as growth drivers for the remainder of F20 and in to F21.

### 2. Trading Update

For the year-to-date 31 January 2020, total Revenue finished 1.5% up on last year and 10% down against budget. Exchange Revenue was in-line YoY and declined 12% on budget as challenges are being seen across VIP segments. Premium Charge finished 13% up YoY, 48% up against budget primarily due to activity from our #1 customer.

The decision to stop offering Hong Kong racing after three meetings is forecast to cost \$2.4m versus F20 EBITDA budget. Management continue to work through other levers to address this shortfall.

YTD EBITDA hit \$10.8m (-\$0.5m/-5% to budget). The primary driver for this result against budget was the revenue performance, missing operating revenue by \$5.6m, which translates to a \$3.1m miss at EBITDA. This has been partially offset by the Premium Charge performance (+\$1.6m), plus savings across foreign exchange (+\$0.6m), leases being recognised below EBITDA (+\$0.4m), payroll with delayed recruitment (+\$0.5m), and product mix aligning to more favourable products (lower product fee events +\$0.7m).

### 3. Legal and Regulatory

#### *Implementation of National Consumer Protection Framework (NCPF) Measures*

As previously reported, new requirements in relation to customer activity statements will be implemented by the end of May 2020. Betfair's regulator, the Northern Territory Racing Commission (**NTRC**), is yet to publish a copy of its draft requirements. Once the draft requirements are published, Betfair (and the other members of Responsible Wagering Australia (**RWA**)) will consult with the NTRC and provide feedback.

Once the new requirements in relation to customer activity statements are finalised, Betfair will need to arrange for the necessary changes to be made to its desktop website. This will involve the signing of a 'Statement of Work' with Paddy Power Betfair Plc (**PPB**).

As noted above, Betfair is in the process of building a new mobile app (**New App**). This New App will be owned and controlled by Betfair (rather than PPB). Betfair needs to ensure that the New App complies with all NCPF requirements.

During January 2020, Betfair: (a) liaised with PPB in relation to the development work that will need to be completed by the end of May 2020; and (b) briefed the company that is developing the New App on all NCPF requirements.

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#### ***Use of credit cards for gambling transactions***

As previously reported, on 5 December 2019, the Australian Banking Association (ABA) published a 'Consultation Paper', seeking views on the use of credit cards for gambling. The ABA posed certain questions including:

- *'Should the use of credit cards for gambling be restricted or prohibited?'*
- *'If so, should the restriction or prohibition apply to all forms of gambling?'*

It is noted that approximately 26.5% of the monies being deposited by our customers are coming from credit cards.

Betfair is in the process of preparing a detailed written submission in response to the Consultation Paper and will lodge its submission before the 4 March 2020 deadline. In summary, Betfair will submit that:

- as a betting exchange operator, its business model is very different to that of the corporate bookmakers (i.e. we want our customers to win);
- many of Betfair's successful/profitable VIP customers use credit cards to deposit into their Betfair accounts;
- customers of a betting exchange should be able to deposit via credit card; and
- if a prohibition is implemented, there should be a 'carve out' for betting exchange operators.

## SECTION 6 – NET DEBT AND CASH FLOW

Net Debt Movements	YTD 09/02/2020	Forecast 30/06/2020
<b>Opening Net Debt (excl. Working Capital Cash)</b>	<b>(86.6)</b>	<b>(86.6)</b>
Theoretical EBITDA	451.5	755.6
Add/(Less): Variance from Theo	78.6	78.6
Reported EBITDA	530.2	834.2
Working Capital Movements	11.2	(8.6)
Crown Melbourne Maintenance Capital Expenditure	(44.1)	(66.5)
Crown Perth Maintenance Capital Expenditure	(16.6)	(33.6)
Crown Aspinalls Capital Expenditure	(0.3)	(1.3)
Betfair Capital Expenditure	(1.2)	(5.3)
DGN Capital Expenditure	(6.1)	(10.1)
Net Interest	(27.1)	(52.8)
Taxation Payments	(58.3)	(64.8)
<b>Cashflow from Operating Activities</b>	<b>387.7</b>	<b>591.1</b>
<b><i>Growth Capital Expenditure and Investments</i></b>		
Crown Sydney Capital Expenditure	(301.2)	(558.6)
Crown Australian Resorts Major Projects Capital Expenditure	(13.2)	(36.0)
Queensbridge	(79.1)	(87.0)
Other	(3.1)	(6.1)
Dividends Received from Associates	4.3	8.2
<b>Cashflow from Investing Activities</b>	<b>(392.3)</b>	<b>(679.4)</b>
<b>Net Cashflow</b>	<b>(4.7)</b>	<b>(88.3)</b>
Dividends Paid	(203.1)	(406.3)
Lease Liability Movement	(57.4)	(58.0)
MTM of Subordinated Notes/Foreign Debt	-	-
<b>Closing Group Net Debt (excl. Working Capital Cash)</b>	<b>(351.8)</b>	<b>(639.2)</b>
<b>Closing Group Net Debt (30 June 2019 Plan Update)</b>		<b>(519.4)</b>

Net debt at 9 February 2020 was \$351.8m (excluding working capital cash of \$148.4m), comprising gross debt of \$870.8m and closing available cash of \$519.0m. Forecast net debt at 30 June 2020 of \$639.2m is expected to be \$119.8m higher than budget, after adjusting for the actual final F19 net debt position.

The key reasons for forecast closing net debt as at 30 June 2020 being higher than budget are:

- F20 EBITDA is forecast to be \$9.1m higher than budget due to above theoretical win rates at Crown Melbourne (\$67.8m), Crown Perth (\$6.7m) and Crown Aspinalls (\$4.1m) and higher forecast theoretical EBITDA at Crown Perth (\$6.4m). This is partially offset by lower forecast theoretical EBITDA at Crown Melbourne (\$62.3m) and higher corporate costs (\$14.5m) due to increased insurance costs, legal fees associated with the ILGA inquiry, forecast costs of the Brand campaign and the donation made to the Bushfire Appeal.
- The forecast includes the unbudgeted payment of \$85.0m for the acquisition of Queensbridge Street land from Schiavello, including stamp duty and other costs (of which \$79.1m has been paid).
- Included in the gross debt forecast are lease liabilities of \$52.1m associated with the new Leases accounting standard. This was not reflected in the budget due to uncertainty around the lease position at 1 July 2019.
- Taxation payments include the \$11.8m payment made to the ATO in October for the settlement of the Cannery tax dispute, which was not reflected in the original budget.
- Crown Sydney capital expenditure is forecast to be \$17.7m lower than budget, reflecting updated timing of payments as the project nears completion.

Total liquidity at 9 February 2020 was \$722.5m, taking into account available unused facilities of \$203.5m and available cash of \$519.0m (excluding \$148.4m of working capital cash).