

F16-F20 Strategic Business Plan Executive Review

VIP International



A WORLD OF ENTERTAINMENT.™



Contents

F16-F20 Strategic Business Plan



• Executive Summary	Page 3
– Market Overview	Page 4
– Business Overview	Page 8
– Expectations	Page 11
• Critical Issues and Business Strategies	Page 13
– Critical Issues Summary	Page 14
– State of the market	Page 15
– Credit and liquidity	Page 17
– Competition	Page 18
– Sales team strength	Page 20
– Brand Awareness	Page 22
• Financial Section	Page 23

Executive Summary



Market Overview (1)

Executive Summary



The prevailing feature of the current international market place is uncertainty.

- Since the commencement of their term approximately 2 years ago, the Chinese central government has embarked on a sustained 'anti-corruption' campaign.
- Government is also trying to close down the uncontrolled outflow of currency, and the "underground banking system" that supports it. This has also brought attention to the use of China Union Pay cards to access money overseas.
- The most recent development was an announcement that authorities are taking a stand against foreign casinos seeking to attract business out of China. This announcement was made about 1 month ago (and likely contributed to the softer than expected CNY period).
- These policy statements have been underlined by a series of high profile arrests and executions.
- ***All this at a time when Chinese economic growth is at its lowest for 15 years, and economists are predicting a dramatic correction to real estate backed credit and liquidity.***

Market Overview (2)

Executive Summary



The effect of all of this has been:

- Players (especially high value players) are choosing not to demonstrate “conspicuous consumption” (particularly by gambling).
- Junkets are being much more cautious about moving funds across borders.
- Macau based junkets are consolidating and / or closing junket rooms following the dramatic declines in the VIP market there.
- Constraints on liquidity and the junket financing system have brought pressure to Crown’s debt collection outcomes and debt write off expense rate.
- Competition for business amongst our expanding competitor set has increased. More casinos are chasing a declining market.

However, in a difficult market, opportunities are available:

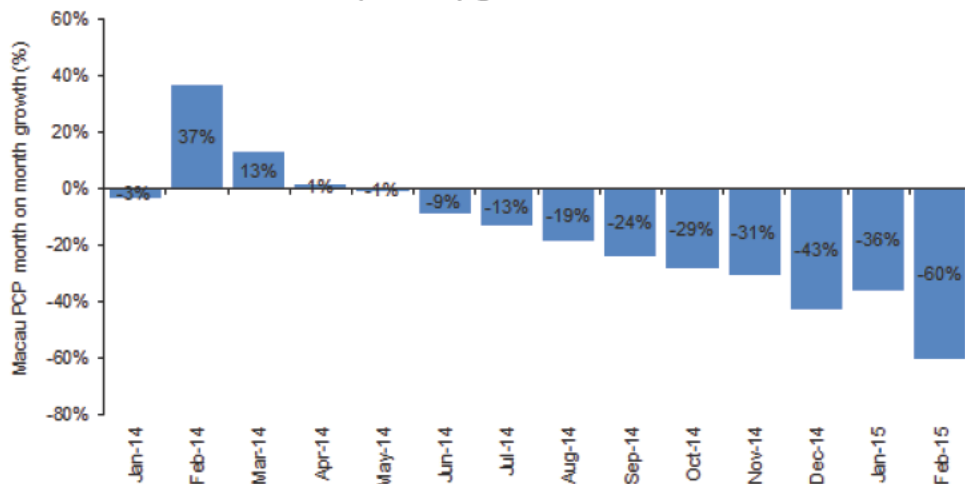
- Some customers *are* choosing to continue to gamble, but at locations other than Macau or Singapore.
- The global market contraction has been offset in Australia by some high end customers choosing to visit here instead of Macau or Singapore, which has delivered strong growth to both Crown and Echo.

Market Overview (3)

Executive Summary



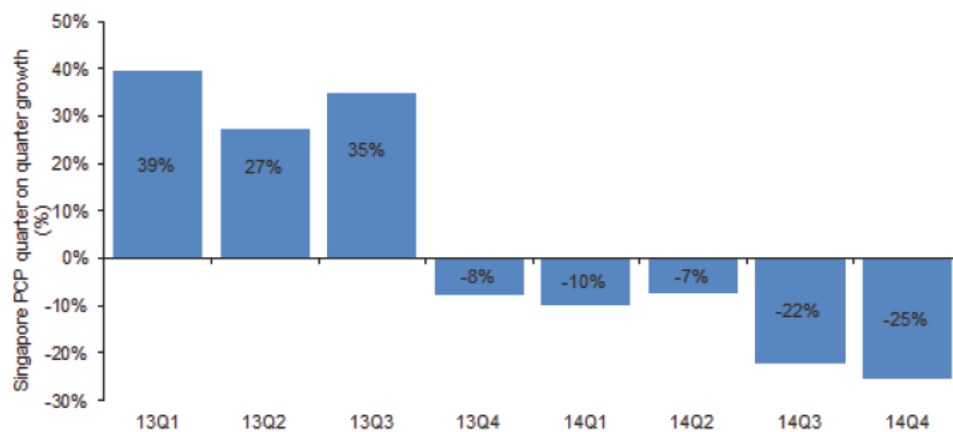
Macau month on month (annual) growth %



Uncertainty has resulted in the Macau and Singapore market rapidly contracting

- The most recent data from Macau shows a VIP reduction of close to **60% in February**.

Singapore month on month (annual) growth %



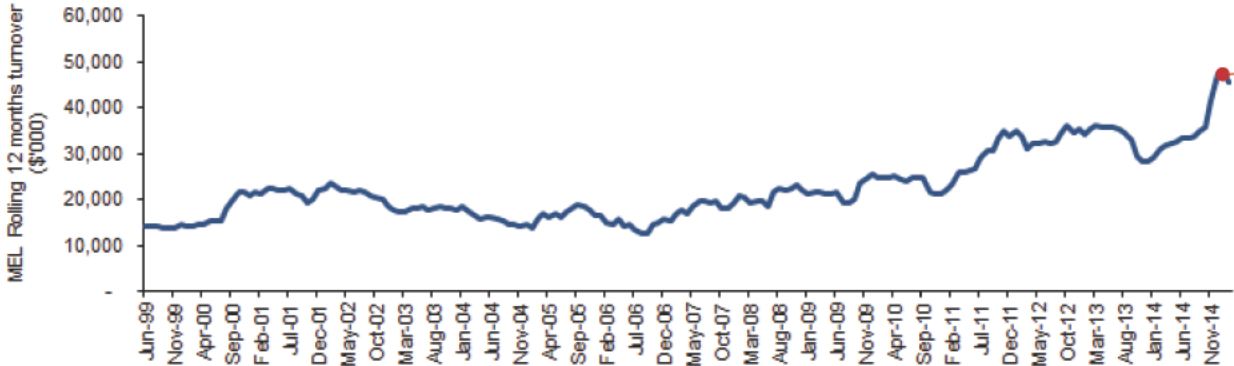
- Singapore is also declining with the latest data (December 2014) indicating a year on year decline of 25% (on a worsening trend)

Market Overview (4)

Executive Summary

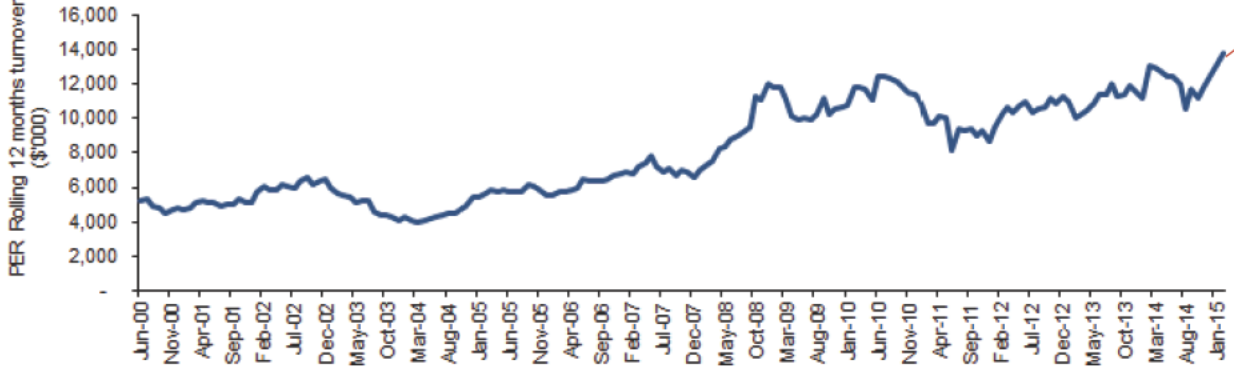


Melbourne rolling 12 months turnover



High water mark of \$47.8 billion in January 2015

Perth rolling 12 months turnover



High water mark of \$13.8 billion in February 2015

Business Overview (1)

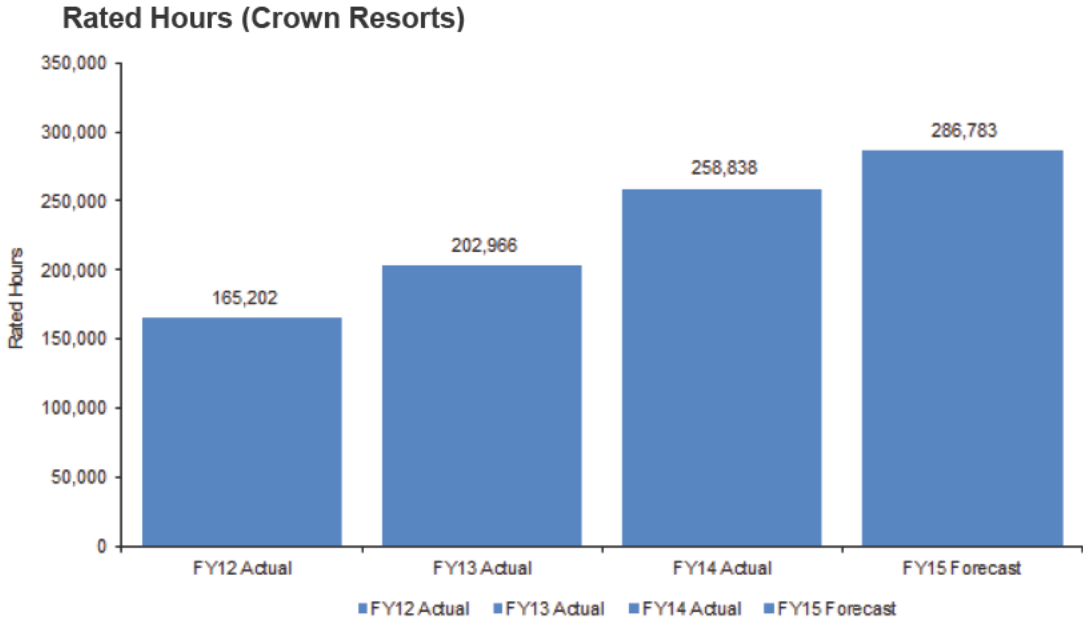
Executive Summary



Our FY15 has been characterised by:

1. Increasing activity levels, partially offset by diluted player value.

- An increase in rated hours.
- Slight erosion in the quality of player across the 'base' business.



Business Overview (2)

Executive Summary



FY15 at Crown has been characterised by (Cont.):

2. Very strong contribution from the top end

- Picking up a small number of very high value players who have produced extremely high turnover volumes.

Top Player Turnover levels							
FY14 Feb YTD Turnover (\$m)				FY15 Feb YTD Turnover (\$m)			
Name	Key Player	Premium Player	Total	Name	Key Player	Premium Player	Total
Total	3,123	3,265	6,388	Total	8,981	4,049	13,030

Business Overview (3)

Executive Summary



Profit impacts of the previous across FY15 include:

The Good:

- All time record high levels of turnover.

The Challenges:

- High rated hours from lower value players – bringing pressure to overheads.
- Higher uncollected debt balances, debt collection and debt write off costs.
- Higher office running costs and jet fleet operation costs given increasing US\$.

Expectations (1)

Executive Summary



Near term future expectations are very uncertain.....

- FY16 expectations will logically be a function of two key variables, each being more difficult than usual to predict:
 1. The size of the international VIP baccarat market, and
 2. The share of that market that places to Australia and to Crown

Could be tough...

- The size of the market will depend on the length and depth of the current decline. When it bottoms out, how deep that trough falls, and what the growth out the other side looks like.
- The market is contracting rapidly at a time when new supply is coming on line, including Solaire phase 2, COD Manila, Galaxy phase 2 and Macau Studio City.
- Competition for the diminishing market will increase from both existing and new properties, bringing pressure to margins.

Could be good...

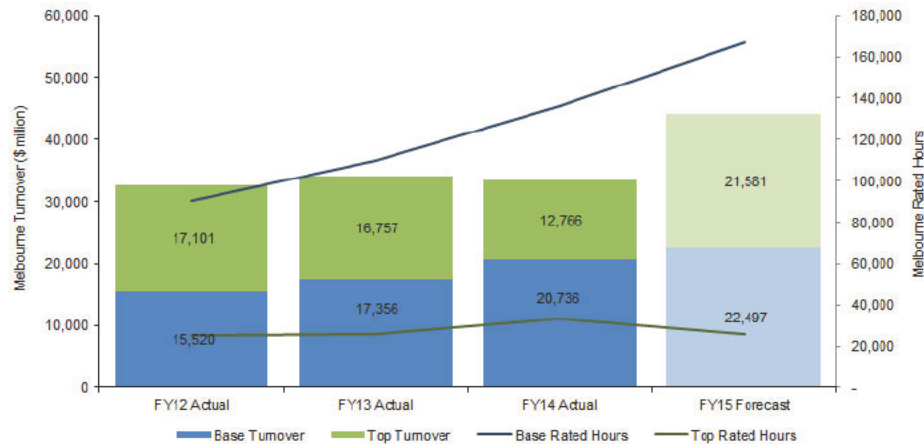
- There is no telling whether the phenomenon of customers visiting Australia in preference to Macau and Singapore will continue, or if it does, for how long and by how much. If the recent pattern continues, results will continue to be strong.

Expectations (2)

Executive Summary



Melbourne turnover and rated hours (top versus base)

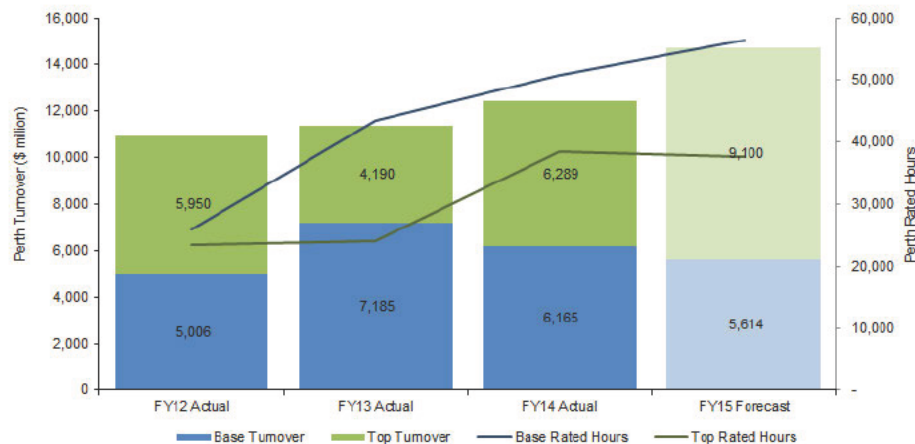


It all depends on what the top end brings:

The critical contribution by a small number of players is volatile and unpredictable

- Crown's business relies heavily on the contribution made by a small number of high value players. If that contribution is strong, then results will be good (as in FY15). If not, results will disappoint.
- The 'Top' category includes the 10 highest turnover customers or junkets year on year (FY15 forecast has been extrapolated based on Feb-15 YTD results)

Perth turnover and rated hours (top versus base)



Critical Issues & Business Strategies



Critical Issues Summary

Critical Issues & Business Strategies



Rank	Critical Issue	Overview
1	State of the market	<ul style="list-style-type: none"> • Significant uncertainty, market in freefall; • Chinese Government anti-corruption' campaign; • Some volume benefit to Crown but the outlook is unclear.
2	Credit and liquidity	<ul style="list-style-type: none"> • Constraints on liquidity and the junket financing system; • Debt recovery concerns due to currency regulations and higher debt amounts issued by competitors.
3	Competition	<ul style="list-style-type: none"> • New casinos, in convenient locations, with new product, are chasing a declining market; • Aggressive pricing bringing pressure on margins.
4	Sales Team Strength	<ul style="list-style-type: none"> • Essential to Crown's success; • Continued training and support required.
5	Brand Awareness	<ul style="list-style-type: none"> • New Chinese customers in particular confuse or aren't aware of the Crown brand; • Sydney attracts visitation due to its iconic tourism status.

State of the market (1)

Critical Issues & Business Strategies



Critical Issue #1: State of the market

Overview

- The uncertainty surrounding the current political, policy, and macroeconomic environment is having a significant impact on global VIP market performance;
- Following the worst year for Macau VIP volumes, future expectations are very unclear. With each monthly decline exceeding the prior month, there is no knowing when the declines will cease and bring growth back to the Macau VIP market. The ongoing corruption crackdown in China and weakening economic conditions in China, on top of the weakening results are causing analyst to adjust (downwards) market expectations after each monthly performance update.

The opportunity:

- The poor state of the Macau and Singapore markets has allowed Crown to secure new customers and additional volumes (as a portion of Macau business is shifting to other regions) it is unclear whether these relatively isolated events will continue into FY16, but to the extent that it does, opportunities for continued growth are good;

State of the market (2)

Critical Issues & Business Strategies



Business Strategies

1. Unlock the Platform Junkets

- Identify and collaborate with key credit worthy 'platform junkets' who are prepared and able to finance players when Crown is not. This provides the sales team a 'fall-back' position for when new (or existing) customers present credit barriers.
- These junkets can also provide a marketing channel and access to new customers for Crown to.

Credit and liquidity

Critical Issues & Business Strategies



Critical Issue #2: Credit and liquidity

Overview

- Cross border currency movement restrictions creates significant business financing and debt collection issues;
- Increased issuance of credit by competitors continues to create repayment delays and defaults;
- General economic liquidity has diminished, particularly in China.

Business Strategies

2. Reduce Debt Risk

- Identify a method to secure debts against assets in China and repatriate funds once assets are liquidated;
- Improve documentation to ensure complete understanding by customers (i.e. Interest charges, multilingual documents);
- Expand sources of customer intelligence to assess credit worthiness;
- Complete set up of Macau banking facility .

Competition (1)

Critical Issues & Business Strategies



Critical Issue #3: Competition

Overview

- Additional supply from the Philippines, Korea and Macau;
- Convenience of new supply relative to the Asian focused market;
- Market leading quality of new supply (technology / fit out);
- Aggressive pricing from local competitors (Sky City and to a lesser extent Echo.)

Business Strategies

3. Peak the Peaks

- Ensure capacity (including recently added salons in Mahogany Room and Level 29) is maximised over the four peak periods (October, Christmas, Chinese New Year, May Day).
- Additionally yield peak periods optimally by:
 - Planning compelling on-property programming and events;
 - Developing high quality peak period invitations;
 - Lead up customer roadshows targeting high value and high yielding customers.

Competition (2)

Critical Issues & Business Strategies



Business Strategies

4. Fill the troughs

- Fully leverage differentiating local events such as Spring Racing Carnival and Australian Open
- Enhance promotions offered during non-peak period (i.e. Perth Baccarat, Goldenball).

5. Innovate our product

- Introduce remote betting (scheduled to be fully operational by December 2015);
- Enhance the gaming experience by;
 - Increasing gaming flexibility (i.e. sharing squeezing cards, no pre approval requirement for changing bets if cards have not been touched);
 - Introducing next generation technologies (i.e. Eforms, electronic buy in/settlement, push messaging on junket results)

6. Enhance service

- Increase the size and strength of the on-property hosting team;
- Capitalise on the recruitment of Maxwell Wang (VP – Lifestyle Marketing) regarding investment, migration, and education opportunities);
- Activate Crownforce for the service teams;
- Investigate the viability of a regional based service team to align with the sales team.

Sales Team Strength

Critical Issues & Business Strategies



Critical Issue #4: Sales Team Strength

Overview

- Due to head office's limited ability to communicate directly with new and existing customers, the effectiveness of the sales team is essential in Crown's success;
- Ongoing rationalisation of team members is required to ensure optimal output;
- Continued training and support will improve efficiency, confidence, and productivity.

Business Strategies

7. Improve sales team productivity

- Retain qualified recruitment firm to scour for recruits;
- Implement the sales ipad application to assist in customer sales meetings;

Sales Team Strength

Critical Issues & Business Strategies



Critical Issue #4: Sales Team Strength

Business Strategies

7. Improve sales team productivity (cont.)

- Ensure CrownForce becomes a part of daily workflow to improve accountability and visibility;
- Investigate a cross property hosting model between Melbourne and Perth;
- Create a three month 'Crown Sales University' in Hong Kong focusing on Sales Operations, Developing Plans, Sales Calls and Shadowing. This initiative will:
 - Accelerate on-boarding and training of talent;
 - Ensure consistent standard of knowledge across the sales team;
 - Provide an ability to assess the sales team and provide certification.

Brand Awareness

Critical Issues & Business Strategies



Critical Issue #5: Brand Awareness

Overview

- Crown's brand presence in Asia needs strengthening.
- The Crown brand is still confused with other brands.
- Legal constraints prevent us from marketing gaming in most of Asia.
- To the extent that Australia exists in gaming customers awareness, Sydney's iconic destination status sees them capturing much of the new 'walk in' business.

Business Strategies

8. Improve customer communications

- Implement regular junket / sub agent / key player roadshows;
- Implement a digital and social media campaign to strengthen communication directly with customers;
- Ensure ongoing in-market executive travel.

Financial Section



Key F16 Budget assumptions

Financial Section



The following key assumptions underpin the FY16 budget

- The general VIP global market does not decline materially from the current position;
- Margin erosion of 0.005% due to increased competition;
- \$8.5 billion of turnover will be generated on tie baccarat in Melbourne;
- High end customers continue to visit to offset the general market decline (recent patterns continue);
- Our current credit management practices result in a doubtful debt cost of below 3% of win;
- The proposed platform junket strategy gains traction and delivers growth.
- Relief from gaming tax for 'Lucky Money' gaming vouchers.

Melbourne Operating Budget

Financial Section



MELBOURNE INTERNATIONAL GAMING	FY16 Budget \$'000	FY15 Forecast \$'000	Variance \$'000	Variance %	FY14 Actual
Turnover	40,000,000	44,078,519	(4,078,519)	(9.25%)	33,499,621
Theo Win	560,000	617,099	(57,099)	(9.25%)	468,995
% Turnover	1.40%	1.40%			1.40%
Commissions & Discounts	280,041	314,859	34,818	11.06%	239,026
% Turnover	0.70%	0.71%			0.71%
Complimentaries	26,635	29,593	2,958	10.00%	25,880
% Turnover	0.07%	0.07%			0.08%
Gaming Tax	54,758	61,716	6,958	11.27%	46,915
% Win	9.78%	10.00%			10.00%
Direct Contribution	198,566	210,931	(12,366)	(5.86%)	157,173
% Turnover	0.50%	0.48%			0.47%
Provision for Doubtful Debts	16,800	18,513	1,713	9.25%	15,681
% Win	3.00%	3.00%			3.34%
Super Tax	0	0	0		15,779
% Win	0.00%	0.00%			3.36%
Overheads	73,311	67,722	(5,589)	(8.25%)	55,005
% Win	13.09%	10.97%			11.73%
Net Contribution	108,455	124,696	(16,241)	(13.02%)	70,708
% Turnover	0.27%	0.28%			0.21%

Perth Operating Budget

Financial Section



PERTH INTERNATIONAL GAMING	FY16 Budget \$'000	FY15 Forecast \$'000	Variance \$'000	Variance %	FY14 Actual
Turnover	17,850,000	14,714,048	3,135,952	21.31%	12,454,144
Theo Win	249,900	205,997	43,903	21.31%	174,358
% Turnover	1.40%	1.40%			1.40%
Commissions & Discounts	148,682	121,520	(27,161)	(22.35%)	97,677
% Turnover	0.83%	0.83%			0.78%
Complimentaries	13,888	11,470	(2,417)	(21.08%)	10,458
% Turnover	0.08%	0.08%			0.08%
Gaming Tax	29,988	24,935	(5,053)	(20.26%)	20,923
% Win	12.00%	12.10%			12.00%
Direct Contribution	57,343	48,071	9,272	19.29%	45,301
% Turnover	0.32%	0.33%			0.36%
Provision for Doubtful Debts	7,497	6,180	(1,317)	(21.31%)	5,895
% Win	3.00%	3.00%			3.38%
Overheads	41,120	36,054	(5,066)	(14.05%)	36,670
% Win	16.45%	17.50%			21.03%
Net Contribution	8,726	5,837	2,889	49.49%	2,735
% Turnover	0.05%	0.04%			0.02%

Roll Forward Analysis - Melbourne

Financial Section



	(\$'000)
MELBOURNE	
FY15 Theo Net Contribution	124,696
Program Direct Contribution:	
- Junkets	(8,330)
- Premium	(4,035)
Doubtful Debts	1,713
Overheads	
- Mahogany Room	(2,543)
- Marketing & Events	(774)
- Overseas Offices	(139)
- Forex Gain	(766)
- VIP Commercial	(778)
- Private Jets / Others	(589)
FY16 Budget Net Contribution	108,455

Roll Forward Analysis - Perth

Financial Section



	(\$'000)
PERTH	
FY15 Theo Net Contribution	5,836
Program Direct Contribution:	
- Junkets	7,369
- Premium	1,903
Doubtful Debts	(1,317)
Overheads	
- Pearl Room	(1,156)
- Marketing & Events	(2,583)
- Overseas Offices & Aircraft Ops	(1,266)
- Forex Gain	86
- Others	(146)
FY16 Budget Net Contribution	8,726



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