



CROWN RESORTS LIMITED
Meeting of the Board of Directors
Wednesday, 11 November 2020 at 2.00pm
by videoconference



Crown Resorts Limited
(ABN 39 125 709 953)

Meeting of the Board of Directors to be held by videoconference on
Wednesday, 11 November 2020 at 2.00pm

RESTRICTED AGENDA

1. **ILGA Inquiry Update**
2. **Future Junket Relationships**
3. **Other Business**



AGENDA ITEM 1:
ILGA Inquiry Update



AGENDA ITEM 2:
Future Junket Relationships



Crown Resorts Limited

Memorandum

To: The Board of Directors
From: Alan McGregor and Xavier Walsh
Date: 10 November 2020
Subject: **Future Junket Relationships**

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Dear Directors

In August 2020, the Board resolved to suspend all junket relationships until 30 June 2021, pending further consideration as to whether (and if so on what basis) it would re-engage with Junkets in the future.

This has involved two interrelated streams of work:

- a consideration of whether Crown should re-engage with junkets in the future; and
- if such a re-engagement were to occur, a consideration of what processes or steps would need to be in place for approving and reviewing junkets and obtaining the best possible information in relation to junket operators and their associates.

This paper has been prepared at the request of the Board, and reflects management's assessment of the alternatives described above, and advances a recommendation that Crown permanently cease dealing with all junkets, on the terms further expanded on below.

RECOMMENDATION

It is recommended that each of Crown Melbourne, Crown Sydney and Crown Perth:

1. permanently cease dealing with all junkets, subject to the eventuality in 2; and
2. only recommence dealing with a Junket Operator if that junket Operator is licensed or otherwise approved by the gaming regulator in the State in which it operates.

In connection with this recommendation, management has undertaken a careful evaluation of the business impacts that will likely arise if it is adopted. The broad effect of the recommendation will be that the VIP business will require significant restructuring and will generate overall lower profits over the plan period, but on the other hand the implementation of the recommendation would substantially reduce the risk of Crown dealing with unsuitable counterparties.

Set out below is an outline of the considerations and financial impacts in support of the recommendation.

JUNKET DUE DILIGENCE PROCESSES

In Victoria, Western Australia and New South Wales, Junket Operators are not required to be formally approved by the regulator in the respective States. Instead, the casino operator is required to conduct probity and due diligence checks to confirm the suitability of a prospective Junket Operator prior to entering into any agreement.

A key area of focus in the Inquiry has been Crown's historical junket due diligence and probity processes.

During the junket suspension period, Crown has been progressing a number of workstreams that would be necessary to support any re-engagement of junkets in the future. Those workstreams have included:

- Considering elements that would need to be included in a new junket approval process (including Deloitte recommendations and additional measures);
- Broadening ECDD to the same level for all junket related parties (representatives, financiers and principals);
- Information sharing protocols and MoU with relevant law enforcement agencies; and
- Development of specific Financial Crimes department within Crown.

Management consider that these workstreams would deliver material improvements to Crown's processes, however it is not possible to say that they would **eliminate all risks** associated with dealing with junkets. Crown's capacity to gather information and intelligence will never perfectly match that of a law enforcement agency or a regulator.

JUNKET REGULATION OPTIONS

As part of its junket review, Crown has been giving close consideration to how junkets are dealt with and approved in other regulated jurisdictions.

For example, in Singapore, a regime exists where all junkets (or International Marketing Agents as they are described under the Singapore Casino Control Regulations) are required to be licensed by the Casino Regulatory Authority.

This is a matter which we expect the Inquiry to consider and it is possible that the Inquiry may make a recommendation to ILGA to adopt a similar regime in New South Wales.

It is also possible that other models may be recommended to ILGA, such as a more comprehensive and prescriptive process for casino operators to approve junkets which is subject to approval by ILGA in the form of detailed and comprehensive Internal Control Statements.

In the event a regime of this type existed, the assessment of the suitability of a particular junket would be supported by the investigative and information gathering powers of a licensing body, therefore further minimising risk to Crown and the regulator.

ANALYSIS OF BUSINESS IMPACT

Overall impact

Crown has undertaken a careful evaluation of the business impacts that will likely arise in the event that Crown determines to cease dealing with junkets in accordance with the above recommendation. For the purpose of this analysis, Management have assumed that this decision would result in no junket activity given the uncertainty associated with the any necessary regulatory change.

The VIP international sector has, for some time, been making a small and declining contribution to Crown Resort's EBITDA. The trend through to 2020 is summarised in the following table:

	F16	F17	F18	F19	F20
Crown Resorts normalised EBITDA	855.8	828.0	878.3	802.1	503.8
VIP Contribution:					
- Melbourne	110.1	36.2	84.6	50.1	-18.5
- Perth	-1.4	0.3	7.2	-0.3	5.5
Total	108.7	36.5	91.8	49.9	-13.0
	12.7%	4.4%	10.5%	6.2%	-2.6%

The EBITDA contribution from the VIP international sector is largely attributable to earnings generated through junket players. In recent years, approximately 80% of Crown's VIP international revenue was derived from junkets. However, this is a low margin segment as approximately 60% of junket revenue is paid by way of commission to the Junket Operators. Revenue from this sector has been declining in recent years.

Management already anticipates that with the impact of the pandemic on travel, pre-pandemic trends of reduced international VIP activity and the likely adverse effect of these events on the financial position of junkets, VIP volumes would be substantially below prior periods in any event.

In considering the financial impact of Management's recommendation, an analysis has been prepared assessing the financial impact over the F22 to F25 Plan period of no junket activity relative to the Plan presented to the Board in June 2020.

The key assumptions contained in this financial analysis are as follows:

- All three of Crown's Australian properties no longer accept junket play, adopting a premium player only model;
- No impact on Crown Aspinalls has been assumed as Aspinalls cannot accept junket play currently;
- Some limited natural uplift of premium play volumes is assumed due to the transfer of some junket players who are past visitors (and who pass relevant KYC and ECDD checks) to the properties;
- All current outstanding junket debts are written off as non-collectable (one-off financial impact);
- Crown's three private jets are sold with any future jet travel requirements met via private charter (one-off financial impact);
- The existing Hong Kong office is closed and the overseas based sales model reverts to a local Melbourne based model;

- The reduction in junket player visitation numbers will have some negative financial consequences on areas of the local business including premium gaming, premium F&B and Crown Towers hotel; and
- A significant reduction in labour required across the Group (one-off financial impact of redundancies).

A summary of the financial impact is set out below.

Ongoing operational impact

A financial analysis of the no junket model compared to the Plan presented to the Board in June 2020 is included at **Appendix 1**.

This analysis indicates that:

- the impact of assuming no junket activity over the course of the Plan period (F22 – F25) is a reduction in Theoretical EBITDA of [REDACTED] representing [REDACTED] of Crown's overall Theoretical EBITDA for the period;
- This represents property contribution impacts of [REDACTED] for Melbourne, [REDACTED] for Perth and [REDACTED] for Sydney, which includes the impact of lower VIP volumes on the respective local businesses, particularly premium hotels and F&B as described above;
- the VIP business will generate substantially lower revenues, albeit at higher margins due to the lower commission structure;
- as international travel recovers, a business wholly dedicated to premium direct customers who satisfy the relevant KYC and ECDD checks, appropriately sized, makes modest profits across Australian resorts of between [REDACTED] in F22 growing to around [REDACTED] in F25;
- a substantial reduction in fixed costs will occur. The model includes the sale of all three jets, closure of the overseas Hong Kong office and a substantial reduction in staff numbers; and
- Some one-off adjustments will be required to take into account outstanding debts, redundancy costs and impairment of the assets to be rationalised.

In relation to the analysis above, there are likely to be material downside risks to the original VIP volume projections in the Plan presented to the Board in June 2020 for the following reasons:

- International travel restrictions are likely to extend;
- A prolonged downturn in gambling revenues throughout the Asian region is likely to occur; and
- Ongoing regulatory uncertainty in North Asia, for example recent reports in relation to the proposed further restriction on marketing activity in China

Therefore, the original forecast contribution for VIP is unlikely to reach the Plan total of [REDACTED] across the F22-F25 period, meaning the financial impact of a decision to no longer deal with junkets is likely to be substantially less than the [REDACTED] described above.

One-off financial impact

The table below summarises the one-off costs expected to be incurred as a result of the proposed no junket model. [REDACTED] This is after utilising the One-off Event Provision (Catastrophe Reserve) of [REDACTED] held at the Crown Resorts level. Under the proposed no junket model, no One-off Event Provision would exist as there would be no risk of major junket defaults.

The utilisation of the entire One-off Event Provision of [REDACTED] leaves Crown exposed to additional credit losses in Crown Aspinalls with current net debt levels of [REDACTED]. Further debt write offs in Crown Aspinalls will be reviewed at the half year.

Further commentary regarding jet valuation estimates and redundancies are included in the footnotes below.

No Junket Model - One-off Financial Impact	\$m	\$m
Debt write-off:		
Total Junket Gross Debt	[REDACTED]	
Doubtful Debt Provision	[REDACTED]	
One-off Event Provision	[REDACTED]	
Additional Debt write off required	[REDACTED]	[REDACTED]
Loss on Disposal of 3x Jets (Estimate)¹		[REDACTED]
Redundancy Costs (Estimate)²		[REDACTED]
Total one-off costs		[REDACTED]

1. The expected sale price of the jets has been estimated based on like aircraft currently for sale with sale prices usually advertised in US dollars. As a result, Crown will be exposed to foreign exchange movements as well so the [REDACTED] should be viewed as an estimate only.
2. The redundancy costs are an estimate based on a high-level review of the VIP labour model. There could be further exposure to redundancies for front line staff such as Dealers but this is largely dependent on the numbers of employees returning to work post the COVID closure, how many transfer to Sydney, and how we might vary the current EA arrangements with the Union.

OTHER CONSIDERATIONS

- The reduction in Gaming EA employees will further impact upon Crown's commitments arising from the Crown Melbourne Enterprise Agreement relating to moving part time staff to full time and increasing part time bands. This will likely necessitate further Union consultation and negotiation;
- The Crown Melbourne Consolidated Casino Agreement includes a clause as follows:

"the Company will endeavour to maintain the Melbourne Casino as the dominant Commission Based Player Casino in Australia" (ref clause 22.1(ra)(ii));

If our key competitor, the Star, were to continue dealing with junkets long term, this may necessitate discussion with the Victorian Government in relation to the application of this clause noting that it does not specifically relate to junket business. However, the decision whether Crown should cease dealing with junkets in the way recommended is one for Crown to make.

- Further review will be undertaken to consider the most appropriate and efficient use of Crown's VIP assets including Gaming Salons, Crown Towers Villas and the Capital golf course;
- Crown Melbourne's smoking exemption only applies to Crown's "High Roller Rooms". The relevant legislation (Tobacco Act 1987) defines a High Roller Room as "a room in a casino that is

used substantially for gaming by international visitors to the casino.” (ref section 3E). This may need further review; and

- A carrying value assessment reflecting the revised earnings projections will need to be undertaken for each CGU (Melbourne, Perth and Sydney) to determine whether there is any impairment. Whilst Melbourne has plenty of headroom, the reduction in volumes may impact Sydney and, to a lesser extent, Perth.

Kind regards

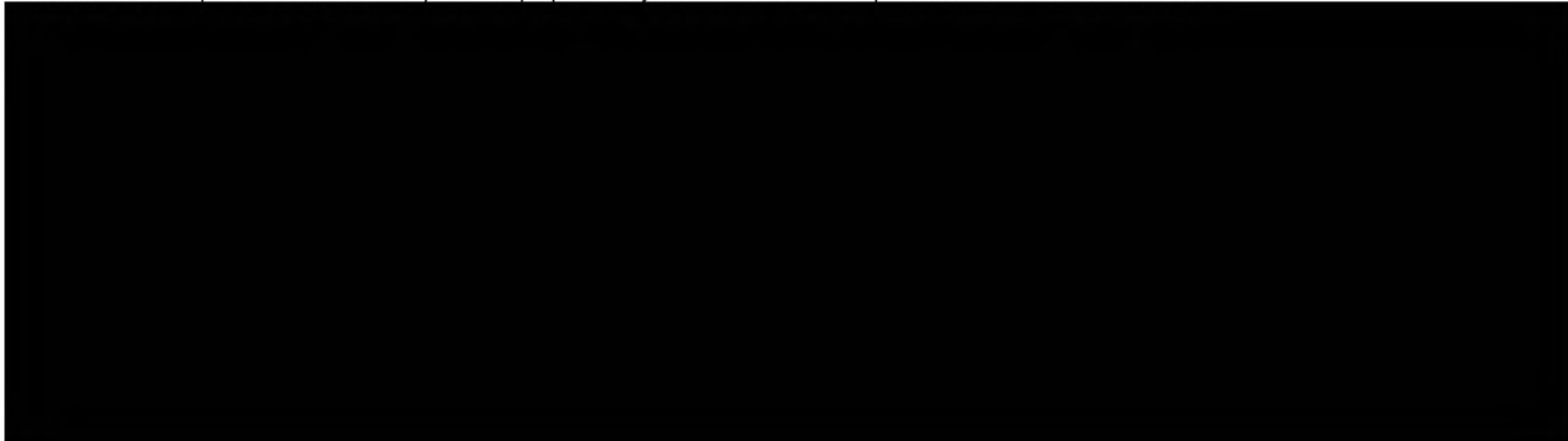
Alan McGregor
Chief Financial Officer

Xavier Walsh
Chief Operating Officer, Crown Melbourne

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Appendix 1

The table below represents a financial analysis of the proposed no-junket model vs the Plan presented to the Board in June 2020.





AGENDA ITEM 3:
Other Business