

## MEDIA RELEASE

11 February 2015

### SKYCITY Entertainment Group Limited

#### Interim Results for six months to 31 December 2014

##### Result Highlights:

- Normalised revenue up 9.2% to \$510.0 million, normalised EBITDA up 3.1% to \$154.4 million and normalised NPAT up 0.3% to \$66.6 million
- Continued strong growth in Auckland across all business segments, with normalised revenue up 17.2% and normalised EBITDA up 15.0%
- Strong growth in group-wide International Business with turnover and normalised revenues up 83.6% and normalised EBITDA up 133.9%
- Return to revenue and EBITDA growth in Hamilton
- Redevelopment of existing Adelaide Casino now complete, but as foreshadowed performance significantly impacted by disruption
- EBITDA growth achieved in Darwin despite challenging local market
- Momentum of 1H15 continues into January 2015, with group normalised revenues up 23.2% and International Business actual win rate back above theoretical
- Interim dividend maintained at 10 cents per share

SKYCITY Entertainment Group Limited (NZX:SKC) today announced its interim results for the six months ended 31 December 2014.

Normalised revenue (including gaming GST) was up 9.2% to \$510.0 million and normalised EBITDA up 3.1% to \$154.4 million. Normalised Net Profit After Tax (NPAT) of \$66.6 million was up marginally on the previous corresponding period.

Reported NPAT for the half year was \$54.6 million, down 10.6% on the previous corresponding period, primarily due to the below theoretical win rate in the International Business over the period of 1.04%. After a strong January 2015, the actual group-wide IB win rate is now above theoretical at 1.50%.

SKYCITY Chief Executive Nigel Morrison says that the interim results for FY15 are pleasing, with strong momentum in the Group's core businesses.

"We have continued to achieve strong growth in our Auckland and International Business. This reflects the investment in both businesses over the past few years, and it is exciting to see the returns now being achieved. We have also returned Hamilton to growth and continued to achieve EBITDA growth in Darwin, despite the challenging local market in the Northern Territory.

"Auckland continued the momentum of 2H14 and delivered strong growth across gaming and non-gaming businesses. The ongoing success of SKYCITY's widely-lauded restaurants on Federal Street, high average occupancies in our SKYCITY Hotel and Grand Hotel and significant growth in Sky Tower visitation and Convention Centre bookings have contributed to Auckland's pleasing results.

"As was foreshadowed at our Annual Meeting in October 2014, the disruption to trading from the redevelopment of the Adelaide Casino over this period has been significant, with normalised Adelaide EBITDA down 27.4%. As a result, EBITDA growth across the Group has been curtailed over this period. The A\$50 million redevelopment of the Adelaide Casino was finally completed with the opening of Madame Hanoi, and Adelaide management are now firmly focused on returning the property to growth."

Depreciation and amortisation was up \$5.0 million on a normalised basis due primarily to higher depreciation on recent capital investment in Auckland and Adelaide, and increased amortisation of the Adelaide Casino licence value. Corporate costs were also higher in the interim period due mainly to the reversal of executive incentive accruals in FY14, increased sponsorship commitments and the cost of the branding campaign in New Zealand. Interest costs and tax expense were both stable relative to the previous comparable period.

### **International Business**

SKYCITY's International Business delivered record activity during the interim period, with turnover across all properties nearly doubling to \$4.7 billion and normalised EBITDA up 133.9% to \$14.5 million.

Growth in International Business turnover was underpinned by the success of an expanded sales and marketing team, increased recognition of the Group's Horizon brand and offering, higher table differential levels introduced in FY14, a strong focus on direct relationships with the Group's VIP customers and continued growth in the number of Asian VIP customers visiting New Zealand.

Mr Morrison says SKYCITY is really starting to see the benefits of its significant investment in the Horizon product across the Group.

"There is potential for further significant growth in the International Business and hence SKYCITY will continue to invest prudently to provide better VIP customer experiences and also achieve attractive returns," he says.

The average actual win for the interim period was 1.04% versus the theoretical win rate of 1.35%. However, a strong performance from the International Business in January has resulted in the average year-to-date win rate increasing back above theoretical to 1.50% as at 31 January 2015.

### **Auckland**

SKYCITY Auckland, the Group's largest property, was again the standout performer, with normalised revenues rising 17.2% to \$302.5 million and normalised EBITDA up 15.0% to \$124.3 million over the period. This significant growth continues the positive momentum exhibited during 2H14, and means that Auckland has now delivered four consecutive quarters of EBITDA growth.

Revenue and EBITDA growth was achieved across all business activities. Notable improvements were achieved in the gaming business, driven by the continued appeal of the VIP rooms, including the new Baccarat and Black rooms, loyalty programmes and marketing initiatives.

In addition, the revitalised Federal Street precinct and both SKYCITY Auckland hotels continued to be very popular and reflected the benefits of being able to offer world-class integrated casino and entertainment facilities to local and international customers.

Mr Morrison says it is pleasing to see SKYCITY Auckland now starting to see the benefit and returns on the significant investment it has made in the facilities at Auckland over the past few years.

“The strong growth in Auckland is a direct result of continued good management, value-adding investment and positive external factors which remain supportive of our underlying business.

“Auckland continues to be an economic powerhouse, with the city recently achieving an annualised figure of two million visitors for the first time. Auckland is also benefitting from a substantial increase in major events such as the ASB Classic, Heineken Open, Auckland NRL Nines, Cricket World Cup, FIFA Under-20 World Cup and large music concerts. These appeal to both local residents and tourists and are hugely beneficial for the local economy and local businesses,” he says.

## **Hamilton**

SKYCITY Hamilton returned to revenue and EBITDA growth in the interim period, with a strong second quarter. Normalised revenue was up 1.2% to \$25.2 million and normalised EBITDA increased 6.5% to \$9.8 million.

The improved performance achieved at SKYCITY’s Hamilton property was underpinned by 6.3% growth in gaming machine revenues, and also benefitted from a revitalised marketing and loyalty programme, the success of new VIP gaming spaces and a strong focus on cost management.

SKYCITY Hamilton is well placed to benefit from the Hamilton City Council’s River Plan Project, given the property’s ideal location and proximity to the planned tourism infrastructure investment.

## **Queenstown**

The combined performance of SKYCITY Queenstown and SKYCITY Wharf was disappointing. Normalised revenues were down 1.5% to \$6.6 million and normalised EBITDA was down \$0.5 million to \$0.5 million.

The focus for Queenstown moving forward remains on growing International Business in this world-renowned tourist location.

## **Adelaide**

As previously advised the Adelaide Casino was significantly impacted by the disruption of the redevelopment works. Normalised revenue increased 4.7% to A\$73.1 million but normalised EBITDA (before branding project costs) declined 27.4% to A\$13.5 million.

The decline in EBITDA margins was primarily due to reduced visitation during the disruption, higher costs associated with the launch of new gaming and food and beverage facilities, increased marketing spend during the redevelopment phase, and relatively high fixed labour costs over the period.

The A\$50 million redevelopment of the existing Adelaide Casino has now been completed and the previous disruption has come to an end. The revitalised property now offers a significantly improved main gaming floor experience for customers, new cashless gaming technology and two signature restaurants – Sean Connolly’s *Sean’s Kitchen* and *Madame Hanoi*, with Nic Watt. Adelaide Casino also has outstanding new premium and VIP gaming facilities that will enable the property to compete with its regional peers for the first time.

Mr Morrison says the Adelaide Casino management team is now firmly focused on returning the property to sustainable growth heading in to 2H15.

“SKYCITY remains committed to transforming the Adelaide Casino into a world-class integrated casino and entertainment destination. We continue to develop plans for the broader expansion of the Adelaide Casino and look forward, as an essential first step, to reaching agreement with Walker Corporation, in the near term, on the lease of up to 1,000 car parks in the adjacent Festival Plaza development,” says Mr Morrison.

## **Darwin**

SKYCITY Darwin achieved EBITDA growth over the interim period despite modest revenue growth, Australian economic headwinds and a challenging local market. Normalised revenue was marginally up to A\$73.1 million and normalised EBITDA increased 2.9% to A\$21.6 million.

The performance was primarily driven by robust growth in local table games, significant growth in International Business turnover and a strong focus on cost and subsidy management.

While SKYCITY Darwin is facing increased competition from the local pubs and clubs due to recent regulatory changes, the outlook for the property remains positive. SKYCITY Darwin is an increasingly attractive destination for Asian VIP customers and further investments are also being made in the new ‘Aces’ Sports Bar, the soft refurbishment of the main gaming floor and the redevelopment of the Sunset Restaurant.

## **January 2015 Trading Update**

January trading has seen a continuation of the momentum exhibited during 1H15. Revenue and EBITDA growth was achieved in all properties, with strong performances from Auckland and International Business.

Auckland continued its strong growth across all business activities, with normalised revenues up 33.9% to \$56.5 million. With the construction now at an end at Adelaide Casino, the property is starting to show early signs of recovery with normalised revenue up 2.2% on the previous corresponding period and margins lifting relative to 1H15. International Business delivered turnover during the month of \$925 million at win rates well above theoretical.

Mr Morrison says that the outlook for SKYCITY remains positive. In particular, the macroeconomic outlook in Auckland continues to be favourable with a large pipeline of major events and Chinese New Year celebrations starting in late February.

## **NZICC**

Mr Morrison noted that SKYCITY continues to work closely with the New Zealand Government on the New Zealand International Convention Centre to build a landmark development for Auckland that will generate significant economic benefits for the city and for New Zealand.

“Constructive discussions with the Crown regarding funding the additional costs of the NZICC project over and above SKYCITY’s contractual obligation of \$402 million are continuing. SKYCITY remains focussed on building, developing and operating the NZICC and we are committed to achieving a solution that preserves value for our shareholders and allows us to move forward with this much needed facility,” Mr Morrison says.

## Debt Funding

SKYCITY is progressing various funding initiatives to refinance the upcoming maturity of \$88.2 million of US Private Placement senior notes in March 2015 and \$76.5 million of capital notes in May 2015.

SKYCITY has already received credit approval to extend the term of its bank facilities, and has achieved significant future interest savings in the process. Plans to undertake a New Zealand issue of senior bonds prior to the maturity of the existing SKYCITY capital notes are also well advanced.

These funding initiatives will also lock-in current interest rates, extend the debt maturity profile and maintain SKYCITY's current debt funding headroom of approximately \$300 million.

## Dividend

SKYCITY announced an interim dividend of 10 cents per share, which is payable on 2 April 2015. The dividend will be 25% franked in Australia but not imputed in New Zealand.

The Dividend Reinvestment Plan will not be available for this interim dividend given the ongoing negotiations with the Crown on the NZICC funding.

Mr Morrison also confirmed that SKYCITY is committed to its existing dividend policy for the foreseeable future. "We believe this dividend policy offers our shareholders an attractive yield and is sustainable going forward," he says.

**ENDS**

### **Notes to editors:**

- *For the full interim results for 1H15 or to view CEO Nigel Morrison's presentation, please visit this link: <http://stagingconnections.org/fy15-interim-result>.*
- *All numbers in this media release are unaudited.*
- *Further information on adjustments between normalised and reported information is available in SKYCITY's investor presentation at: <http://ir.skycityentertainmentgroup.com>.*

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## Appendix

### Reconciliation between reported and normalised financial information

	1H15				1H14			
	Revenue \$m	EBITDA \$m	EBIT \$m	NPAT \$m	Revenue \$m	EBITDA \$m	EBIT \$m	NPAT \$m
<b>Normalised</b>	<b>510.0</b>	<b>154.4</b>	<b>111.2</b>	<b>66.6</b>	<b>467.0</b>	<b>149.8</b>	<b>111.6</b>	<b>66.4</b>
Adelaide redevelopment costs	-	(1.5)	(1.5)	(1.0)	-	(1.6)	(1.6)	(1.1)
NZICC interest and other costs	-	(0.3)	(0.3)	(2.3)	-	-	-	(1.1)
Strategic projects	-	-	-	-	-	(0.3)	(0.3)	(0.2)
Restructuring costs	-	(0.5)	(0.5)	(0.4)	-	(1.1)	(1.1)	(0.8)
Auckland project costs	-	(0.2)	(0.2)	(0.1)	-	(0.6)	(1.6)	(1.2)
Profit from sale of Christchurch	-	-	-	-	-	-	-	1.0
<b>Total Adjustments</b>	<b>-</b>	<b>(2.5)</b>	<b>(2.5)</b>	<b>(3.8)</b>	<b>-</b>	<b>(3.6)</b>	<b>(4.6)</b>	<b>(3.4)</b>
<b>Adjusted</b>	<b>510.0</b>	<b>151.9</b>	<b>108.7</b>	<b>62.8</b>	<b>467.0</b>	<b>146.2</b>	<b>107.0</b>	<b>63.0</b>
International Business at Theoretical	(14.5)	(11.1)	(11.1)	(8.2)	(1.9)	(2.6)	(2.6)	(1.9)
<b>Reported</b>	<b>495.5</b>	<b>140.8</b>	<b>97.6</b>	<b>54.6</b>	<b>465.1</b>	<b>143.6</b>	<b>104.4</b>	<b>61.1</b>

SKYCITY's objective of producing normalised financial information is to provide data that is useful to the investment community in understanding the underlying operations of the Group.

Gaming revenue figures reflect gaming win (inclusive of gaming GST). This facilitates Australasian comparisons and is consistent with the treatment adoption by major Australian casinos.

Non-gaming revenues are net of GST.

Total revenues are gaming win plus non-gaming revenues.

Key Adjustments are:

- Adelaide redevelopment costs – Structural redundancies and launch costs for new facilities (Sean's Kitchen, Black Room)
- NZICC – Interest on purchase of New Zealand International Convention Centre (NZICC) land bank (calculated using the Group's average cost of debt of 6.7% on an average balance of \$83m) and other costs specific to this project
- Strategic project costs - Brisbane, Gold Coast and other miscellaneous items
- Restructuring costs – Costs associated with changing the staffing structures under an approved restructuring plan
- Auckland project costs – Project, pre-opening and launch costs related to Auckland facilities such as the Federal Street launch. 1H14 includes Sugar Club, Fed Deli, Masu and the new gaming rooms

IB win rate at 1.04% for 1H15 (1H14: 1.28%).

Normalisation adjustments have been calculated in a consistent manner in 1H15 and 1H14.