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Operator: Thank you for standing by, and welcome to the SkyCity Entertainment annual results conference call. All participants are in listen-only mode. All participants are in listen-only mode. There will be a presentation, followed by a question-and-answer session. If you wish to ask a question, you'll need to press the star key, followed by the number one, on your telephone keypad. I would now like to hand the conference over to Mr Graeme Stephens, CEO. Please go ahead.

Graeme Stephens: Hi, and welcome to all of you. Thanks for joining. I'll assume most if not all of you have got a copy of the presentation that was released earlier in the day. So I'm going to flip through that, not page by page, but trying to take you through the highlights. In the room with me, I've got Rob Hamilton, our CFO. I've got Michael Ahearne, our COO, and they'll chip in and be available during Q&A, and Ben Kay, who is familiar to most of you.

If I start with the key achievements, the way we're looking at the year gone by is, yeah, we're pretty happy with where we've come out, and we call out a solid performance in the local business. That's always the important feature of our lives, is how the local property is doing, and this year it's been supplemented by a growth in IB turnover, and we'll talk a bit to that shortly. So I think a key feature for me in all of it is probably Auckland's performance, and happy with that.

We are happy that we can point to $450 million now raised from asset sales, including the deal to sell the main site car parks, which we announced as being unconditional last week. So very lowly geared, gearing at 1.5 times pre the main site car park sales, so that will come down when those proceeds come in, and we're very conscious of being lowly geared. We'll talk a bit to that.

That does lead us to an ongoing focus on efficient capital allocation, given that we're under-levered, and we are going to continue with our buyback and continue to evaluate other opportunities, perhaps to efficiently allocate capital, but as a minimum, immediately continue with a buyback program previously announced.

Strategically, our major projects in Auckland and Adelaide are progressing, and we expect completion by the end of calendar 2020. Staying in the strategic space, we've launched now the online casino that we've spoken about in previous calls that went live towards the end of last week and quite a big milestone for us to be segueing into that space. We'll talk

a bit about that. On the sustainability front, some really good progress on the year gone by on a number of initiatives, a slide to come on that, but really solid progress on that, which I'm very happy about.

When it comes to actual numbers, I'm going to flip to the revenue breakdown by business, and again, Auckland delivering just under 4% growth at a revenue level, Hamilton pretty solid, and we've got to keep pointing to Hamilton being capacity constrained, so it had a record year last year, pretty solid performance in the year gone by. Queenstown, looking pretty good at EBITDA level and obviously small enough that anything makes a difference there, up or down, and Adelaide, delivering a flat performance under some fairly trying circumstances down there with a construction that is literally a few metres from the perimeter of the property on three sides. So Adelaide, holding its own through that construction.

The normalised IB comes in a lot higher this year than last, because we had turnover all the way up at 14 billion, and we are quick to point out the low win rate, which we would assume has generated some of that turnover. We assume that our customers prefer playing with winnings and would play longer with winnings than if they're losing, so we quickly acknowledge that in our turnover number, it's probably a little high as a result of a low win rate on our side of the fence.

But when you look at normalised revenue, IB making a decent contribution, and I want to pause there at the line total normalised revenue, continuing operations. We've tried to give you a snapshot of the like for like, what our business is going forward relative to what it was last year, and at a revenue level we delivered 5% growth. We then obviously have got Darwin coming into the numbers. We only had Darwin for three-quarters of the year gone by, and it was in for the full year prior, and then there's a host of adjustments between normalised and reported that we would normally have and always will have, I guess, the adjustment from the IB side of the business in the year gone by because of the success, if you like, in implementing a lot of our strategic stuff and sales being part of that.

We've got quite a bit of noise, if you like, between normalised and reported. I'm going to ask Rob Hamilton shortly to take you through that. If I turn to EBITDA by business, perhaps the only point to emphasise again is taking into the total normalised EBITDA from continuing operations, which is just under 4% up year on year, and that's trying to give you some guidance as to what the underlying business is doing at an EBITDA level. Think about it, go back a year to the outlook statement that we put out at the beginning of the

year. If it wasn't me, it would have definitely been Ben calling out modest growth, and for those of you who know Ben, you should now know modest means around about 3.5%, 3% to 4%, anything up to 5%, potentially.

So I think Ben would say he called it at the beginning of the year, if you're looking at the ongoing operations. I'm going to ask Rob Hamilton to chip in at this stage, because there are an abnormally number of adjustments that we've had to exercise some judgment around. He's obviously at the core of that, and we tried to set it out logically, but I think it's helpful if he takes you through.

Rob Hamilton: Thanks, Graeme. As Graeme noted, we do have a relatively complex set of accounts, as reported. We've had three asset sales, we've had some accounting standards and we've had some significant tax events, which have all led to non-GAAP adjustments, which are consistent with our board policy.

We've tried to present the normalised results on the same basis as FY18 and prior years in order to provide a sensible like-for-like comparison for the market. We've also provided significant disclosure on the rationale and the impacts of the changes in the back of the pack and in our annual report. The adjustments fall into four broad buckets.

The first is revenue adjustments as a result of the introduction of IFRS 15, which in terms of revenue accounting, has the impact of treating IB commissions as a negative revenue adjustment as opposed to an expense, which we have done in prior years, so that's one. We also typically report gaming GST in our normalised revenue, so that we are consistent with how our peers across Australia present their numbers.

The second is the standard IB normalisation [unclear] of theo win rate. The third bucket arises out of various transactions during the year. The loss or - the Darwin sale resulted in an overall loss, which is mainly attributable to writing the foreign currency translation reserve deficit after earnings. The Federal Street car park sale, where we achieved roughly a $17 million gain on sale, various revaluations of our Auckland properties, which we have acquired over the past 18 months as part of our strategic initiatives, and the Auckland car park concession sale.

While we don't have the expected gain on sale from that transaction in FY19 - that will be in FY20 - there are some deferred tax changes, which do affect our results in FY19. The fourth bucket is other tax events. There's the ATO settlement, which we called out in the first half, and more recently we have recognised a $1.9 million benefit from moving the [ALP], one of our Australian entities, outside of the New Zealand tax group. It's a one-off

benefit we've received. We have decided to normalise that out to provide a like-for-like comparison with our numbers going forward.

When you boil all of the adjustments down, virtually all of the difference at the EBITDA and NPAT level is actually due to the IB normalisation to theo. All of the other adjustments largely offset each other, so that's one way of thinking about it. Graeme, pass back to you.

Graeme Stephens: Thanks, Rob. I'm looking at the page result commentary, and I think I'll just call out at a group level some of the features. So normalised NPAT, so that's including Darwin in there, up 1.9%. It is a record for the company. We're not calling it out loudly against the backdrop of the IB turnover. Reported NPAT is down, but for a whole host of reasons, as Rob's just talked you through. So normalised NPAT up 1.9%. Perhaps at an NPAT level, a more meaningful number we'd try to present to you is if we take Darwin out of the numbers and also adjust for the increase in effective tax rate, which is in our normalised numbers, we called out a year ago $6.5 million of extra tax coming our way as a consequence of some changed legislation.

We have incurred that extra tax, $6.5 million, and it's in our normalised numbers. We haven't adjusted that out. That is a changed landscape, which is our new world. So if we take out Darwin and adjust for that, just to show you what the like-for-like would be, the normalised NPAT's up 7.5% on the prior period, again, some sort of look through to what the underlying business has been doing, the underlying business that we're going to be operating going forward.

Maybe calling out some of the specifics in Auckland, we benefited in this past period from a strong performance, very strong performance again in EGMs and in our ATG business, and you'll recall that we had a strong performance in 2018. So this is an aspect to the business that has really done well. If we look at us versus the market in Auckland, the stats that are starting to come out would indicate, again, we're doing really well in relation to that market by a multiple of some distance. Recent stuff a week or so ago after the last quarter indicated we grow at 10% - we've grown at 10% versus just over 1% for the local market outside of the casino.

So that's definitely a good result, and coming off the back of the same sort of initiatives that we've called out before, looking at floor mix, marketing initiatives, better utilisation of smoking terraces. The same sort of reasons are continuing to yield results for us. If I go next to corporate cost, maybe calling some stuff out there, we've got pretty good cost

control we think in the corporate cost space. It is up year on year, and we would point to the ongoing investment in ICT as being a big contributor to that. We beefed up our marketing functions and once again, I highlight a corporate bonus that's starting to return to normal.

If you look over recent years, it wasn't really much of a bonus paid at all in '17. In '18, the bonus was taken entirely in shares over a three-year vesting period and in '19, you're starting to see some sort of return to normality there. If we look at bonuses over the last couple of years, there's no increase from normal to normal.

If I then dwell quickly on things like the preopening costs that form part of our corporate costs and others, as these projects get closer to completion, NZICC, Horizon and in time, Adelaide, you're going to see a ramp up of preopening costs. The interest expense I guess we should call out again, as we've done on previous calls. There's a degree of benefit from the fact that we're capitalising interest as these projects are still under construction, and that'll come back when these projects open, and I think we flagged that in the past.

Called out the tax, which has now increased to 29% from 26%. That's in our normalised numbers and a feature of our life going forward. On the dividend capital management, the dividend has been kept the same, and we've decided to continue with the capital management in the form of the share buyback over the next couple of months and see where we get to on that. We've got authority to go up to around about $125 million, 5% or so of the shares in issue. We bought about $40 million of that before ceasing it a few weeks back, and we're going to resume and see where we can come out in the next few months.

[Unclear] a little more on capital allocation, we've previously put out our framework for how we prioritise capital. Obviously, first and foremost, stay in business. Then we look at how we might grow the business through investing. We look at debt repayments next, distributions in the form of dividends and capital returns. We again have a fairly conservative approach to life when it comes to maintaining our credit ratings, the discipline we apply to projects we're going to invest into and we flagged historically the internal benchmarks we use, 12% post-tax IRR, 9% post-tax [rate]. We had another look at our WAC, for what it's worth, with interest rates and yields coming down, and concluded that although it might be a little lower in the current world, we're going to maintain these hurdles. The shift down wasn't significant enough to justify dropping them.

We remain committed, as we flagged, for a while now to a minimum $0.20 dividend,

expecting that to grow once the major projects are completed. If we take that framework and look at where we are right now, yeah, it's been a topic for some debate in the last couple of weeks and months, and particularly with the car park deal looking like it was going to close.

Our immediate priority has to be to complete the major projects, so that's the Adelaide and convention centre projects here, and those are comfortably funded from existing debt facilities, so no issues there. We are evaluating a number of future growth investments, some of them which if they were to go ahead would be quite large, whether that's hotels or development at Auckland. There's some quite big stuff that we're evaluating, but none of it's going to happen in the next year or two in all likelihood, certainly not in the next year or so.

So no heavy lifting in future growth. We've realised significant capital. I'm looking at $450 million by the time the car park deal settles in the near term, and so our gearing is low, 1.5 times before receiving the $220 million from that deal, and we drop out at the bottom of our framework saying therefore we guided to return capital to shareholders, and that is leading to the share buyback program being reinstituted. I would flag that we acknowledge we are probably on the conservative side of life in not doing more right now. That's a conscious decision taken after some debate, just given the outlook for the world, for New Zealand, for economies everywhere, it does look more challenging.

We're a conservative company by nature, and we just felt we should watch what's happening in that space impact, if any, on our numbers over the next year. We've got the buyback program going. We consciously under geared and just feel that let's see where we stand during the course of the next year. There's always the ability to do more, and our capital allocation framework probably indicates we're down in the bucket of returning capital for some time unless one of the big projects were to come off, which doesn't look like here in the next year.

So a conscious positioning to be probably a little conservative in a world which we just think justifies that stance at the moment, and maintaining the yield with the existing dividend, that yield is about a 5% after-tax yield on our current share price, if you gross it up with all the imputation credits, pre-tax yield, it's a 7% yield pre-tax, and we think that's pretty good yield in the world today. Our sense is investors are increasingly looking for yield, and we'd characterise ourselves, we're very downside protected, conservative and a good yield player for the time being until those bigger projects come off and we can start

to show more growth.

I'm going to flick through the deck, pausing briefly while I'm on it on debt and debt maturity. We have a bit of debt maturing next year, and we'll probably start some work, Rob and the team, in the next couple of months to replace that in a very lowly geared environment anyway, but we'll be out in the market looking to replace it, probably or possibly let's say with another New Zealand senior bond issue.

That takes me to the outlook. We try to set the new base for you in a world that's been a bit complicated by all of our deals, so the first slide on our outlook is trying to take you from where we finished the year gone by to what base you should have as a comparator for the year we're going into. So the EBITDA level, once you've adjusted for Darwins and car parks and convention centres that are closing in the near term, we reckon $303 million of EBITDA is probably where you should set your base, and at an NPAT level, going through the same level of adjustments, the normalised level will be coming out at 150-ish, 151 of NPAT is where you should set the base, having adjusted for the structural changes in the business.

Off that base, I flagged we do see more challenges in the domestic and international economic environment, and to be fair, that's all stuff we're reading and trying to interpret more than what we're expecting in our day-to-day business at present. But we think we've got to take some cognizance of signals that are out there that it's going to be a little more challenging. Despite that, we do expect to get some growth in our group normalised EBITDA on the like-for-like comparative that we've spelled out for you, and we're guiding towards group normalised NPAT to be flat on a like-for-like basis. There are some cost pressures we're dealing with. I'll dwell on costs a little now perhaps, actually.

So yeah, our [unclear] NPAT, growth at EBITDA and a comment on where we stand to date is trading in line with those expectations, good start in Auckland, and in the IB world, pleased to report that our win rate is above theoretical, so the pendulum does swing, so yeah, so a good start in both IB and in Auckland. Our CapEx just as from guidance we expect to stay in line on our stay in business CapEx of around 80, and we've got quite a big year ahead of us, with the big projects starting to complete.

I think at that stage, I wanted to talk quickly on costs. We've obviously taken note of cost-cutting initiatives elsewhere in our industry, in more than one place, and asked ourselves the question, is there more we can take out? I think we've done a lot consistently over the years to remain lean, and so we don't see low-hanging fruit in our

world to cut costs. If I look at corporate costs as an example, I would say over the last two years we did a [cut] that took out about 20% of our corporate costs as people have left and not been replaced and roles have been increased. We've replaced that cost with other things that are focused on sustainability, on marketing, for example. So you're not seeing the in and the out, but the out has been on the order of about 20%.

At unit level, if you look at our margins, they're pretty good, and we adjust for things like gaming tax and trying to interpret a like-for-like against our peer group. There's no obviously low-hanging fruit, but it is an absolute focus for us in the environment that we're in. If I flick to some of the strategic stuff, operationally, in Auckland, we're going to be managing a bit of disruption whilst we renovate and significantly enhance our VIP offering for slots and tables, and that's not IB. That's either the local VIP or what we would call interstate business coming from places like Australia, so that's a couple of months' worth of disruption which we're having to manage, and hopefully we can without any significant impact. The consequence of our investment is into our premium gaming we expect to obviously be beneficial once that's done and dusted in the early part of 2020.

Perhaps just calling out our brand refresh, we haven't made a big song and dance about that, but new brand out there, can I emphasise low-cost implementation and caveman approach to rollout. Nothing changed at midnight that didn't have to or couldn't change with ease, and we're replacing stuff as and when it needs replacing anyway, but a nice new brand that it's I think more reflective of what we are and the direction we're travelling in, a dynamic entertainment company. Personally, when I look at the old logo and the new one, the old one does look a bit dated, and as I say, calling out enhanced focus, as we should, on cost in the world that we're in.

When it comes to optimising our existing portfolio, I think we've delivered on everything we said we were going to on our capital lighter approach, Darwin gone, Fed Street car park's gone. I haven't spoken yet about the ongoing development and feasibility analysis for our Auckland master planning. We've relocated out of Fed House. For those of you who have visited us there, we are now in the AA Building, which we acquired some time ago, and that enables us to look at the footprint, including Federal House, for future redevelopment. That's work well advanced and lots of good thought going into it, but no buttons getting pushed for at least a year or two ahead of us as we fine-tune, no big buttons, anyway, as we fine-tune our thinking there.

We continue to flag that for some of the really heavy lifting, I think we're probably looking

for a development partner to help us unlock that value. We continue evaluating opportunities Hamilton and Queenstown. We've acquired the land in Queenstown. We've always felt there's a better use for the riverbank opportunity that we have in Hamilton. We're looking at options for hotels and feasibilities and other forms of investment there. It looks as if regulatory change is going to have to take place for us to really deliver what we'd like to, and that's a discussion we haven't yet started with our regulator here, but we probably will commence within the next couple of months.

Convention Centre and Horizon hotel projects, we have guided over the last few months to Convention Centre opening second half of 2020. That's calendar 2020, and there's a subtle change in wording to towards the end of second half. I guess the good news is we are down to months and trying to guess which month it's going to open in, and for anyone living in Auckland, you can't help but notice the progress on site. It's looking pretty good now. The implication of that subtle change of months might be that we aren't confident enough to go ahead with conference bookings that are currently open to us in October/November. We are likely to shift those to the early part of 2021, purely because I think we want to have a high degree of confidence in our ability to meet those commitments and deliver a high standard of convention.

So we're in the cusp of trying to make calls like that, but overall, the project advancing and I think we can say we'll complete now during 2020. Adelaide expansion, on time, on budget, all going very well at this stage and long may that last for anyone going to Adelaide. Again, the façade's going on, the gold façade, a very good relationship with the contractor. The opening completion on their side, still 26 September 2020, which means the opening is expected during October, and there's the T20 World Cup event down there we want to be open for.

The adjacent car parks are under construction, beyond our control but we watch it and engage where we can with Walker Corporation and looking like they will complete there or thereabouts in conjunction with us. The regulatory review, we expect some conclusion to that by the end of this year and expect that note acceptance will be part of that, and saying in Adelaide, in the old building, we're now pretty advanced with the Guardsman, which is a food and beverage bar with a few slot machines in it that will open in a couple of months from now.

We look to growing and diversifying our earnings. We touched briefly on the online casino. We can take questions on that shortly, but up and running, and at last count, I think I'm

ahead of Rob Hamilton on who's losing the most, but that's to be expected, but we're in business. Our hotel strategy, quite narrowly focussed on evaluating hotel opportunities on our existing precincts for the time being, but we are moving ahead to try and restructure our assets, so we can put hotels in one bucket and start to disclose hotel performance. It's an asset class which is in demand and I think separately categorising it and it's all property backed enables investors to start placing a value on the hotels that we have and may have in the future, and a brief mention of some of the really exciting non-gaming attractions that are coming.

All Blacks start moving into our old convention centre in November, Weta not long after them. Together with the Sky Tower, we're starting to create a must-see destination in Auckland. Brief touch on sustainability, which remains really core to our social licence to operate and part of our business we really do focus on with an eye on the medium and long term. In the culture and character goals that we've set for ourselves, focussing on our staff, we've launched New Values, and that's not a glib change of name. We've been through a hell of a process with our staff on that to get their view on what they like and what they want and why they want to come to work at SkyCity. We've also undertaken the first increase to $20 by 2020. That's our minimum wage commitment that we made a year or two ago.

When it comes to our customers, I've touched on the brand relaunch, but we're also doing quite a lot of work in the host responsibility space. It's a space we've got to keep upping our game in, and we've been trialling for some time facial recognition, which we're now going live with, which will really up our ability to identify harm and manage it properly. In the digital space, quite a lot happening that's not going to evidence itself in the year ahead. I would think as the IT program still just finishes off the tech debt piece, catching up on the past, but quite a lot happening behind the scenes to then benefit from that work in the digital space.

Turning to our communities, we have tried to take and I think are taking a leadership position on climate change in New Zealand, and looking to do the same in Adelaide. South Australia is looking to do some good stuff in that space, and we are anxious to play our part in it. Then a strategy determined that's starting to get rolled out, and that's how we look at our supply chain, ethical sourcing, local procurement wherever possible, we finalised the strategy there. So that's probably a lot of actual implementation in the year ahead, now that we know the sort of stuff we want to do.

I think a good place for me to stop and open to questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two, and if you're on a speaker phone, please pick up the handset to ask your question. Your first question comes from Chelsea Leadbetter with Forsyth Barr. Please go ahead.

Chelsea Leadbetter: (Forsyth Barr, Analyst) Thanks, and hi, Graeme and team. I guess if I can start, firstly coming back to the outlook commentary and appreciate you've given us some high-level comments, but perhaps digging a bit more firstly on Auckland and what you're thinking about for the year ahead. You have commented on disruption, clearly. Just trying to understand where the modest underlying earnings growth, where you think that might come from.

Graeme Stephens: I think it's time you heard from Michael. I think that he's the one driving that business, and we're comfortable with the outlook, but Michael, why don't you…

Michael Ahearne: Look, I'd characterise that we had a pretty strong performance in our overall gaming business in the year gone by, and we're working to deliver that. I think it's fair to say that EGMs are stronger than tables structurally, and we probably continue to expect to see that, and probably the other category of gaming product ATGs, we're seeing some - the automated table games. We're seeing some nice growth in that category and some movement of what would be traditional table players away from tables into ATGs.

So I'd say that's where we'd see growth. I think the hotel business, which is the big contributor of our - in contribution in Auckland - the market in Auckland has become far more challenging in terms of supply and as continued additional supply we would expect in the market. We've competed very well in that market, but it's a market where we see pressure, particularly on rate. I think occupancy will be fine, but rate - our costs, even, that we have, we have cost pressure in our business. We're doing a lot of work to offset that, but that continued focus will be there.

Chelsea Leadbetter: (Forsyth Barr, Analyst) So if you sum that up, it's really about continuing what we've seen this year, but particularly some strong continuation in the EGMs and ATG space to offset some of those headwinds.

Graeme Stephens: I think I'd also call out the Auckland Convention Centre as closing, which we've highlighted that and on the first page of our whole statement just to give you

an idea as to the impact there. That does flow through into Auckland, so it's important you factor that into your year-on-year comparison, Chelsea. Also, as called out, we're looking to develop level eight and nine of our existing property to develop new premium gaming rooms for both EGMs and tables.

We've seen - Michael, we've seen good growth in our premium end of the business, and in FY19 we expect there to be more opportunity in that as we go forward, particularly once those new facilities are open.

I think that's right, so the challenge is to not have disruption impact as for the few months that we're renovating it up there, and obviously quite a we initiatives in place on that, and then a high degree of confidence that once those new facilities open, they're going to be very well received. It's quite a step change to our product, and we have been benefiting at the high end of our local business.

I think, Chelsea, the question we ask ourselves, which I think you're trying to get to, is how sustainable is the growth in EGMs, and we had a great year this year. We had a great year the previous year. How long can that run last? The feeling is there are new products coming out that are going to be good for casinos, with the right denoms and a couple of other things like that, and the mass is stuff that we think our customers like.

We're able to be fairly nimble in floor mix. The games that have gone well to date continue to go well, so we have a reasonable expectation of our EGM business growing, but every year, the [base] gets higher. I think if you go back to '19, I didn't really call it out, but we weren't that lucky on our tables, not just in IB but across the business. Not a feature worth calling out, but on balance of probabilities, we'd hope for a little more luck and hold at our tables, so there's probably more upside than downside in that world.

You mix it all together, if we can hold our own in the hotel space, F&B has done pretty well, hang in for the new facilities for the local VIP, which is early next year, manage the disruption between, that's guiding us to a degree of confidence or certainly an expectation that we should be able to go up like-for-like.

Chelsea Leadbetter: (Forsyth Barr, Analyst) Okay, no, appreciate that, and I guess similar thematic but turning to Adelaide, just trying to understand a little bit more around what you're factoring into your guidance in terms of cost efficiencies and improved gaming activity, what that actually means that's going to drive that?

Graeme Stephens: So Adelaide undertook a restructure, and in its normalised numbers, I

think I called out there's about just under $2 million, 1.7 of one-off restructuring cost, so we should start to now get the benefit of that saving coming through, so that's an immediate help to EBITDA at Adelaide. We are seeing improved performance out of the property in recent months. Too early to put that down to anything in particular. We did replace a general manager there. We called that out or made an announcement to the market on that a couple of months ago. David Christian, who was running Darwin, is now running - back running Adelaide, and seems to be having a good impact. We won't credit him with it all just yet, but - so we think he can have a positive impact.

The real focus in Adelaide is to try and get back EGM business. It is - we acknowledge it's going to be challenging while the construction is there, but so given the step change in cost base, early signs in the last couple of months and just the straight need to drive better performance in Adelaide, we're going to back a team to deliver year-on-year performance that's better…

Rob Hamilton: And the Guardsman.

Graeme Stephens: Sorry, yeah, Rob's highlighting the Guardsman as another product offering. The Guardsman will open in a couple of months. We're hoping that will generate extra business, in particular on game days in Adelaide. So a few levers for David to pull, no shortage of pressure that he's got to show some improvement and he understands that, and I guess all of that guiding us to say, you've got to go up.

Chelsea Leadbetter: (Forsyth Barr, Analyst) Okay, and just last question in terms of the NZICC and Adelaide preopening costs, so the $8 million that you're guiding to, is that something I should think about as an ongoing cost going forward when those projects - it's not a one-off in nature or anything like that? So you're going to have to try and get earnings to cover that when the NZICC opens?

Graeme Stephens: Look, absolutely, so at the moment you're incurring the costs without the asset, and those costs will ramp up a bit ahead of us. If there's delays in the Convention Centre, then we'll be delaying employing people, so the trick is we've got to employ - between the Auckland developments and the Adelaide ones, it's about 1500 people, so it's not a small number. We've got to find them, employ them, train them. We've got to find the senior people that are going to lead them, and the trick is to do it with enough time that they can get on with it right, but not so much time that we've got people hanging around, costing us money but with no revenue being generated.

So we're trying to read those tea leaves on when is the actual opening of the Convention

Centre minus a couple of months, when do we need to staff up. But I think a feature of the year ahead is going to be an increase in those preopening costs and then ultimately yes, once the assets are opened, they should be offset by revenue.

Chelsea Leadbetter: (Forsyth Barr, Analyst) Okay, thanks for that.

Operator: Thank you. Your next question comes from Marcus Curley with UBS. Please go ahead.

Marcus Curley: (UBS, Analyst) Good afternoon, guys. Just a few from me. Just wondered if you could talk about your confidence in growing VIP turnover this year, obviously against the backdrop of our - I suppose, as you say, a comp that was supported by a low win rate. What's happening in terms of player acquisitions, your confidence levels against the backdrop of what looks still to be a relatively hard VIP Asia-Pac market?

Graeme Stephens: Yeah, look, I'll start and Rob can finish. The area reports into Rob. I think to start with, if we could do the same again, not necessarily grow the turnovers but do the same again, that will be a reasonable achievement, given the fact it's being supported by reasonably low win rates. So assuming a normal win rate, doing the same turnover I think we'd be quite happy with.

We have invested into sales, marketing people that are starting to get a bit of traction now. We do not have enhanced facilities in the year ahead and will have them in the year after that, so that's trajectory for growth over the medium term. It's obviously a really tough space to predict. I'd point to the fact that the bulk of our business is still coming from direct play, so we know the players, and that's useful in the sense of you know them and you can expect them to come back.

The downside of that is we've been trying to widen our customer base and getting to know players and more and more players, that takes time. We have a higher proportion of our play coming out of direct play, and that might be useful in the year ahead. We're not quite sure what's going to happen in the world of junkets. No one's raised Crown, but it's difficult to ignore the media and related responses in the case of Crown over the last couple of weeks, and we're not sure what that means for us. So that's just added another layer of uncertainty in a world which is inherently difficult to predict.

But we're doing - we put the Crown thing to one side, I think we're doing a lot proactively to grow that business responsibly, and we still turn away a lot more people than we take, so we have had a pretty conservative attitude to it, and we're not going to change that.

And in all of it, when you're in the business world, well, if you did it this year, well, you're expected to do at least that again next year, and that's the target we've set for the team, and it's not a ridiculous target. Rob, do you want to add?

Rob Hamilton: Yeah, look, I think you've covered most of the key points. When we have invested in the business to achieve some growth, and I think we've done that in both FY18 and FY19, even if you adjust for some additional turnover from the relatively low win rate, I think we're yet to realise the full benefit of that investment. Clearly, we've engaged some more people in our sales team. They're starting to hit their straps.

We significantly upped our service levels. We've got some more work to do in Adelaide in terms of consistency of our service levels there. We have taken a little bit of share in the broader Australia/New Zealand VIP markets over the past 12 months, and we still continue to be a relatively small player in the overall market. So as I say, I think we're yet to realise the full benefits from some of the changes we have made and will make going forward, and just to emphasise that we are less reliant on junkets.

We have seen an increase in the number of customers through our IB rooms in FY19. We remain very comfortable with our internal processes as they relate to betting customers and complying with the AML processes, et cetera, and we continue to take a relatively conservative approach in the business, recognising that it is most certainly the highest-risk part of our business.

Marcus Curley: (UBS, Analyst) Okay, thanks. Could you talk a little bit about the NZICC capital costs? I suppose my interpretation is that you're saying not materially above the $700 million number after allowing for the penalty payments received, so in essence, I assume that's what you're saying is the penalty payments are effectively mostly offsetting any cost inflation that you've seen on the $700 million? When do you think you'll be able to finalise that number in terms of the outcome of Fletcher's?

Graeme Stephens: Yeah, look, I'm glad you asked. Sorry, I meant to cover it up front. What we've done here is repeat previous guidance, so to recap that guidance, the project budget's $703 million, and what we said I think the last time we reported was there's a specific issue relating to aluminium composite panel, ACP, which had a rough indicative cost of around $25 million, and we're arguing over that and who gets to pay for it.

I would flag on the positive, it'll be - I think I can say the first new build that is entirely absent of any ACP, so we're glad we made the decision. I'm reading stuff in Australia, for example, where existing buildings are having to replace cladding. We took a decision to

take the hit upfront while we were building, so it was a good decision, but there's $25 million of cost we flagged over and above the $703 million and we flagged an argument around that. Then what we said is, other than that, we don't see any material additional costs for ourselves.

I think the message we're trying to send and hopefully was heard is 703 plus 25, 725-ish, and in relation to 725-ish, we can't see anything material. And material would be anything up to 5%, if we're trying to give some guidance. I can't - and we're saying we're still of that view, so within those parameters, we don't see us having to spend any more. We're absolutely actively engaged with Fletcher's, trying to square away the many issues that arise on a contract of this nature. It's not only ACP.

As to when we conclude that, it could be once complete. It could be in advance. We're engaged. I engage them on a weekly basis, partly to monitor progress and partly to clear the air on some of this stuff. I'd describe the engagement as constructive. There's no doubt on both sides we want to get the thing built and finished. So whether we find a settlement before, during or just after - I don't think it'll be long after, but tough to put timing to it, but we're happy with the guidance we've given on our likely total investments.

Marcus Curley: (UBS, Analyst) So how does the $40 million of penalty payments back to [unclear].

Graeme Stephens: Yeah, sorry. So the way we are looking at the $40 million, $39.5 million in LDs, which we've collected, is a large chunk of that will go to funding our additional costs. We've got genuinely additional costs. Every month that runs, just like Fletcher's have got running costs, so have we, and those costs are not only the people directly involved from our side on the project, but things like insurance. They're costs that run [unclear], we're saying we've taken that, and a large chunk of it will offset additional costs that weren't part of the $703 million. If there's any spare change left, that'd be nice and would factor into if we pay up a little to settle some claims, we've probably got a bit of spare change in that at the end.

But I think treating those LDs as offsetting genuine additional costs is probably your safest bet.

Marcus Curley: (UBS, Analyst) Okay, and then finally, Graeme, I suppose not a lot of discussion around concrete decisions on the hotel investment. Have you consciously put this on the backburner a little, or am I reading too much into it?

Graeme Stephens: No. I think that's probably right. Conscious or unconscious, we've prioritised on more strategic things right now. We've raised more than enough capital out of those for the time being. At the same time, our plans for the hotels under our control are taking a little longer and require regulatory change in the case of Hamilton and Queenstown, if they were to ever happen. So we'd like to do hotels in both. We need some regulatory shift in both, and it's a little opaque as to how long that will take once we commence a process, and we haven't commenced a process to engage with our regulator.

So I guess a longer timeframe around the hotels, including the extra one we might still build in Auckland and a nearer-term focus on asset sales and strategic stuff that is more important, no burning need for the capital right now. So perhaps less urgency around the hotel strategy, in concept, no real change. We are going to - I think as I said earlier, try and restructure the group, like literally legally, so that we've got entities owning hotels and management companies in place and an ability to put out our existing hotel earnings and revenue in a way where you can start to interpret it a bit better with proper cost allocations.

That's all work that will happen in the next - within the next financial period, but materially increasing the number of hotels, other than the Horizon and the Adelaide ones, which are - they're going to open next year, that's a year or two away. We keep discussions going with potential investors, but yeah, probably a lack of urgency in the sense that we don't need it right now, but no lack of work happening behind the scenes to make sure we're ready for it.

Another way to look at it is every - with a hotel development, taking it from plans to a hole in the ground, then a hole in the ground to something above ground and then opening and then trading it, each step of the way, you add value. We've got enough capacity on our balance sheet to move ahead with projects like Hamilton and Queenstown, subject to regulatory approval. The longer we actually develop on our own, the more value we create, so another reason not to be pushing ahead if we don't need the capital right now is we're creating value as we go.

Marcus Curley: (UBS, Analyst) Right, and maybe just a really quick one, Rob, can you give us an update of where you sit with the Adelaide EGM licences? The ones that you need for the expansion.

Rob Hamilton: Yep, we don't need to buy any more licences, so we have more than enough to take us through for the expansion at this stage. So we have the ability to have

up to 1500 EGMs in Adelaide. I think off the top of my head, Michael, correct me if I'm wrong, we've got just over 1000 EGM licences, and we've had between 700 and 750 machines on the floor during the last financial year.

Michael Ahearne: That's - I would characterise what we need is higher win per unit rather than more machines. We've got plenty - we'll have plenty of machines in Adelaide.

Graeme Stephens: Maybe a slight segue off that point, Marcus, is we haven't got all of the products we're entitled to have in Auckland on the floor, so trying to come back to one of Chelsea's questions earlier, how do we keep growth going, part of our master plan creates more space within our red line for more gaming, and we don't have all the product on the floor at the moment.

So we've got the ability to incrementally improve Auckland for some time to come.

Marcus Curley: (UBS, Analyst) Great. Thanks.

Operator: Thank you. Your next question comes from Wade Gardiner with Craigs Investment Partners. Please go ahead.

Wade Gardiner: (Craigs Investment Partners, Analyst) Hi, guys. Just clarifying what you were saying before about when you were talking about the improvement in EGMs and the good growth from ATGs, and some of that came from table players. So where are the ATGs actually reported? Are they reported under machines or under tables, and if under machines, does that mean that it's essentially cannibalising some of your table play? And therefore, what's the true underlying growth in the EGMs that you've got from other factors?

Rob Hamilton: Wade, Rob here. In terms of how they're split, we have two types of ATGs. We have what we call a FATGs or fully automated and the SATGs, the semi-automated. The difference is the semis have a live dealer and are classified as a table game for regulatory purposes. We classify the FATGs under EGMs, so they're fully automated, and we classify the SATGs under table games.

We have seen good growth in our ATGs over the past 12 months. We've had a new manager out of Australia focussing on that product, and we've seen good growth, particularly on the FATG side of things, so that comes through and is reflected in our tables performance. If you take out the SATG performance, our tables - pure tables is slightly down year on year, predominantly volume or drop driven as opposed to hold.

We expect to see further growth in the SATGs as we go forward. I think as Michael called

out earlier, we don't achieve the same level of win that we do from our ATG products as our competitors in Australia do, so we do see that as an area of upside. Michael, do you want to comment any further on the ATGs specifically?

Michael Ahearne: Yeah, look, if you look at on our floors, we've introduced ATGs into new areas on our floors, so back of our rooms, VIP rooms and other areas, so actually the unit number actually hasn't increased. It's how we've actually managed product and deployed it and deployed it across the floor that changed and that's allowing growth across the board there. So we expect to see that continue.

Rob Hamilton: So in terms of your specific issue, I don't think we've seen any cannibalisation of the EGM product at all. I think the EGM growth has been very good, as Michael and Graeme have called out. What we may have seen at the margin, and it's really at the margin, is a shift from the live tables to the automatic tables, and if - we're geared up to benefit from that if that trend continues.

Graeme Stephens: I think, again, it's a product that only we have. It's great to see it starting to take off. It hasn't been material enough to separately disclose. In time, maybe it becomes separately disclosed, but it's really good to see some growth coming out of that, because it's the only place in town to play on them. So if we can get to the same levels of win that Australia's experienced with that product, we'll be very happy.

Rob Hamilton: Yeah, ATGs are still less than 5% of our total win in Auckland on the gaming floor.

Wade Gardiner: (Craigs Investment Partners, Analyst) Okay. Next question, can you just explain or give a bit of clarity around your approach to funding? If you look at your guidance for next year, 5 million of interest expense and 40 capitalised, it's 45 million on debt levels that should average out somewhere around the 500 million level. So you're talking 8% or 9%. What should we see going forward?

Rob Hamilton: I think we've got our biggest CapEx load falls in FY20, Wade, so I think you might need to have a quick look at your debt level numbers. Assuming we complete the full buyback, which will take us from $39 million to date up to a circa 125, and with the CapEx that we're forecasting for FY20, we expect our debt levels to be up around $800 million towards the end of the year and for our gearing to peak in S&P terms at a little under 2.5 times at the end of FY20.

So we still have - so I think on that basis, our average interest rate, using your

calculations, should come down. We still have some legacy US private placement notes on issue. They've got [US$100] expires in March 2021, and they've got an interest rate in the high eights, unfortunately still sitting out there, so we're quite keen to move on those, but we're not in a position to do so yet. Clearly, our marginal cost of borrowing under our bank facilities, and if we're to do another New Zealand bond, is significantly lower than what you suggested.

You look at where our New Zealand bond is trading at the current time, and it's around the low to mid threes. It gives you a rough idea.

Wade Gardiner: (Craigs Investment Partners, Analyst) Okay. I'll come back to that, being I still think it's a bit high, but anyway, we'll talk about that later.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Stephens for closing remarks.

Graeme Stephens: Look, thanks again for joining. I think we had a clash with Tabcorp, so for those of you who prioritised us, it's appreciated. I think we're going to catch up with a lot of you over the next days and weeks, and by the time we finish seeing you guys, the Rugby World Cup won't be far enough, and you've got enough accents on the phone to know that there's a winner amongst us. Possibly the last thing I'll call out actually before I close is the fact that our annual report is live and available, and I should really recognise the individuals here, probably led by our General Counsel, Jo Wong, for the effort that went into making that thing happen simultaneously with everything else. So move quickly, grab a copy now. There's lots of good stuff in there, and make sure you've read it before we see you. Catch up soon. Thanks.

End of Transcript