

12 October 2023



## **SkyCity Entertainment Limited (SKC)**

The company will hold its Annual Shareholders Meeting at **11.00am Friday 27 October 2023**.

The location is **SkyCity Theatre, Level 3, SkyCity Auckland, Corner of Wellesley and Hobson Streets, Auckland**.

You can also join the meeting online [here](#).

### ***Company Overview***

The company operates casinos in Auckland, Hamilton, Queenstown, and Adelaide. It also has an online casino. It has 307 gaming tables, 3,456 electronic gaming machines and 378 automated gaming tables. It operates 19 restaurants and 12 bars, and its 3 hotels provide 755 rooms. It employs 4,559 staff.

The company is building The New Zealand International Convention Centre (ICC) in Auckland. This project has been subject to a major fire and various other setbacks and is now expected to be completed by 2024 (for the new Horizon Hotel) and 2025 (for the ICC) - ahead of government-contracted timelines of 2026/27.

David Attenborough was appointed to the Board in March 2023 whilst Silvana Schenone retired from the Board on the same date. Donna Cooper is standing for election at the ASM.

On 7 December 2022, the Australian Transaction Reports and Analysis Centre (AUSTRAC) commenced civil penalty proceedings in the Federal Court of Australia against SkyCity Adelaide for alleged serious and systemic non-compliance with the Anti-money Laundering and Counter Terrorism Financing Act 2006 (AML Act). Each of the contraventions alleged by AUSTRAC attracts a maximum civil penalty of between A\$18 million and A\$22.2 million per contravention. As AUSTRAC alleges that SkyCity Adelaide contravened the AML Act on an innumerable number of occasions, it is not possible to determine a maximum penalty for the alleged breaches. The company has made a provision of A\$45 million in the FY23 accounts and impaired the Adelaide Casino License by A\$45.6 million.

On 4 September 2023, the company announced that the Department of Internal Affairs (DIA) was making an application to the Gambling Commission to temporarily suspend its casino operator's licence for a period *"in the range of 10 days"*. The license applies to the Auckland, Hamilton, and Queenstown casinos. The application has been made following a complaint made in February 2022 to the Department by a former customer who gambled at the SkyCity Auckland casino over the period from August 2017 to February 2021. The Secretary of the Department states in the application the company did not comply with requirements in its SkyCity Auckland Host Responsibility Programme relating to detection of incidences of continuous play by the customer.

### **Current Strategy**

The company completed a strategy ‘refresh’ in June 2022, with a new corporate purpose statement of “*We are trusted to create vibrant places for gaming, entertainment and hospitality in New Zealand and Australia*”. This integrates the business strategy with environmental, social, and governance considerations, as they apply to SKC’s stakeholder groups.

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## Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

## Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	A	See below.
Director share ownership	G	See below.
Executive Remuneration	G	See below.
Golden parachutes/handshakes	G	See below.
Director Independence	G	All Directors are independent.
Board Composition	A	See below.
Director Tenure	G	See below.
ASM Format	G	Hybrid. See below.
Independent Advice for the Board and Risk Management	G	See below.

**Directors Fees:** We note that the [Board Charter](#) allows the payment of Director fees “in cash or shares”. NZSA does not support the payment of director fees in shares, except in some circumstances which do not apply to Sky City. It is unclear from the table of payments made to directors as to whether this represents cash or cash / shares, but discussions with SKC have confirmed that all Director Fees are paid in cash.

**Director Share Ownership:** Directors are encouraged (but not compelled) to accumulate the equivalent of one year’s fees over their first two years and in subsequent years apply a further 15% of their base fee each year to additional shares.

While NZSA encourages share ownership by independent directors, it does not support compulsion as this reduces the pool of available directors, may compromise independence, and removes the ‘market signal’ associated with share purchases.

We note that the timeframe of two years to achieve the suggested target implies a 50% purchase rate, meaning that a board applicant would require existing wealth to serve on the Board unless discretion is granted. NZSA does not believe that ability is defined solely by wealth.

**Executive Remuneration:** The CEO is paid a base salary and a short-term incentive both in cash and a long-term incentive by way of Restricted Share Rights.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with each component for any award.

The weightings and measures of the STI are disclosed. The target payment is \$750,000 - however the CEO recommended to the Board that he and the other senior executives should have a 25% reduction due to the AUSTRAC investigations referred to above.

The weighting and measures of the LTI are disclosed. 50% of the shares are allocated on an absolute Total Shareholder Return (TSR) and 50% based on a comparator NZX and ASX company group performance. The assessment is over a three-year period.

For FY23, the STI was 40% of the total incentive value received. NZSA considers the weighting to LTI appropriate.

*Golden parachutes/handshakes:* NZSA is pleased to see the clear disclosure offered by Sky City in relation to notice periods severance terms associated with the CEO. There is, however, no disclosure of any termination payments associated with severance. The disclosure implies that a redundancy provision could apply.

*Board Composition:* Whilst there is a skills matrix it does not attribute skill sets to individual Directors to demonstrate how they contribute to the governance of the company.

The company does not participate in the IoD's Future Director (or similar) programme designed to develop and mentor the next generation of Directors. NZSA expect NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

The nature of the company's board indicates a commitment to thought, experiential and social diversity.

*Director Tenure:* NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

We note that Sue Suckling who has served since 2011 and had intended to retire in early 2023 is standing for re-election at the ASM. The other Board members were appointed in 2021, 2022 and 2023.

We commented last year *"This will leave SKC with a 'new' Board that places a high degree of reliance on knowledge transfer as part of its planned succession. NZSA believes that most shareholders will require assurance that this process has been managed effectively."*

Sue Suckling's re-election will provide the opportunity for an orderly transfer of institutional knowledge and support for the other Board members. We note that on September 28<sup>th</sup>, the company received relevant regulatory approvals for Donna Cooper to join the Board.

*Independent Advice for the Board & Risk Management:* NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

Board members can access external independent advice with the prior approval of the Chair. It is not clear if the company has an internal audit function and if this reports to the Audit and Risk Committee. It is not clear if other internal assurance roles have unfettered access to Board members.

Sky City offers comprehensive disclosure of the key strategic, climate, business, operational and financial risks that impact the business, as well as mitigations. There is also thorough disclosure of its risk management and governance processes. We note that the company now has a separate “Risk and Compliance Committee”, a position supported by NZSA in the context of the key risks applicable to Sky City and the recent actions by AUSTRAC and DIA.

### **Audit**

NZSA assessment against its key policy criteria is summarised below:

<b>Policy Theme</b>	<b>Assessment</b>	<b>Notes</b>
Audit independence	G	Good disclosure.
Audit rotation	A	See below.

**Audit Rotation:** Whilst the company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, it does not disclose if the Audit Firm is rotated at 10 years. NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

### **Environmental Sustainability**

NZSA assessment against its key policy criteria is summarised below:

<b>Policy Theme</b>	<b>Assessment</b>
Approach	G
Sustainability Governance	G
Strategy and Impacts	G
Risk and Opportunity	A
Metrics and Targets	G
Assurance	A

**Overall approach:** SkyCity has been an early adopter of non-financial reporting, beginning with Corporate Social Responsibility Reporting in 2014 and utilising a Global Reporting Initiative (GRI) framework for their Annual Reports since 2018. While the company provides comprehensive disclosures, we note with interest that its disclosure relating to external assurance or review of environmental statements has *reduced* in recent years.

**Sustainability Governance:** SkyCity discloses their Board skills matrix in their Corporate Governance Statement. It shows the collective self-assessed competence rating of the Board in 18 skills areas, including Sustainability, they have expertise in. They also have established a Climate Change Working Group.

**Strategy and Impact:** SkyCity acknowledges that while “not being a major emitter of greenhouse gas emissions, we recognise the role that we need to play in reducing our impacts”. As part of this, they have refocused their strategy from offsetting carbon footprint to reducing them across its own footprint. They have also disclosed a short-term Sustainability Implementation Plan.

**Risk and Opportunity:** SkyCity discloses their major physical and transition environmental-related risks, but they are yet to disclose any associated opportunities.

**Metrics and Targets:** The company has disclosed their Scope 1-3 GHG emissions with comparative data consecutively since FY2020, meeting the requirements of Toitū Carbonreduce. They disclose environmental and non-environmental targets associated with their level of progress.

**Assurance:** Intriguingly, SkyCity used to provide an Independent ‘Limited Assurance Statement’ for their Sustainability Reporting from 2018, but since 2022, no longer does so. There is only assurance of particular parts of their sustainability reporting by Toitū Envirocare. NZSA prefers to see limited assurance provided for all environmental statements made within an issuer’s reporting.

***Ethical and Social***

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	A	Not disclosed if donations were made.

**Political Donations:** NZSA expects disclosure as to the status and amount of political donations, even where none have been made.

***Financial & Performance***

Policy Theme	Assessment	Notes
Capital Management	G	
Takeover or Scheme	n/a	

Sky City’s share price fell from \$2.72 to \$1.91 (as of 26<sup>th</sup> September 2023) over the last 12 months – a 30% decline. This compares unfavourably with the NZX 50 which rose by 1% in the same period. The capitalisation of SKC is \$1.5b placing it 26<sup>th</sup> out of 128 companies on the NZX by size and makes it a large company.

Metric	2020	2021	2022	2023	Change
Revenue	\$1,125m	\$952m	\$641m	\$925m	44%
Operating Revenue	\$642m	\$713m	\$556m	\$856m	54%
EBITDA	\$348.3m	\$317.3m	\$97m	\$166m	71%
NPAT	\$235.3m	\$156.1m	-\$33.6m	\$7.9m	n/a
EPS <sup>1</sup>	\$0.309	\$0.205	-\$0.04	\$0.01	n/a
PE Ratio	10	15	n/a	182	
Capitalisation		\$2.5b	\$2.1b	\$1.5b	-30%
Current Ratio	0.32	1.04	1.21	0.92	-24%
Debt Equity	0.94	0.70	0.75	0.87	17%
Operating CF	\$120.2m	\$288.2m	\$91.1m	\$280m	207%
NTA Per Share <sup>1</sup>	\$1.03	\$1.32	\$1.25	\$1.27	2%
Dividend <sup>1</sup>	\$0.139	\$0.097	\$0.00	\$0.12	n/a

<sup>1</sup> per share figures based off actual shares at balance date (not weighted average)

FY 23 was a year where normality prevailed for SKC as covid disruptions were eliminated. This saw a rise in revenue, profit and other metrics we follow.

Total revenues rose 44% to \$925m, and operating revenues rose 54% to \$856m. This contributed to a large 71% rise in EBITDA to \$166m. SKC delivered statutory NPAT of \$7.9m which is a considerable turnaround on last year's loss. Notwithstanding, this result is still far below what could be expected in a normal operating environment - see years 2020 and 2021 in the table above.

We note that FY23 was adversely impacted by a provision for regulatory penalties of \$49m. NZSA appreciates that this is likely to create some uncertainty both for future earnings and the share price. We note the company has taken steps to improve its risk management and control functions over the last 18 months.

EPS for the year were \$0.01 and a resumption to profitability saw a resumption in dividend payments. Fully imputed dividends of \$0.12 were paid for FY23, based on a significant increase in operating cashflows to \$280m.

The company is, however, in a sound financial position and has the ability to meet requirements when they fall due with a manageable debt-equity ratio of 0.87. Long-term interest-bearing debt levels rose by \$74m to \$526m. SKC are well positioned to expand or invest should they wish to do so.

NTA per share rose slightly to \$1.27 and SKC trade at a reduced 51% premium to NTA.

[Page 29](#) of an investor presentation released in conjunction with their annual results, provided outlook for FY24, the company say they are cautiously optimistic and expect a modest increase in normalised year on year EBITDA.

On 4 September 2023, the company announced that the Department of Internal Affairs (DIA) was making an application to the Gambling Commission to temporarily suspend its casino operator's licence for a period "in the range of 10 days".

The share register is reasonably widely held with the top 20 holders owning 64% of the company.

## **Resolutions**

### **1. To elect David Attenborough as an Independent Director.**

David Attenborough was appointed to the Board in March 2023 and is therefore required to offer himself for election. He has over 12 years' experience at ASX-listed Tabcorp Holdings Limited as Chief Executive Officer and Managing Director. Prior to joining Tabcorp, he was Chief Executive Officer (South Africa) of Phumelela Gaming and Leisure and previously held senior roles with a variety of casino and racing organisations. David is currently a Director of Host-Plus Pty Limited, an Australian-based superannuation fund. David holds an MBA from Henley Business School and a Bachelor of Science (Honours) from the University of Exeter and is a graduate of the Australian Institute of Company Directors.

We will vote undirected proxies **IN FAVOUR** of this resolution.

### **2. To elect Donna Cooper as an Independent Director.**

Donna has over 25 years' experience in the financial services industry, most recently as Chief Executive Officer of TSB Bank Limited. Prior to this, she was Chief Executive Officer of The Warehouse Financial Services Group and Managing Director and General Manager New Zealand of Baycorp (NZ) Limited. She has also held a number of senior executive roles with American Express International over a 10-year period in New Zealand, Australia, India, and the United Kingdom. Donna is currently a member of the New Zealand Institute of Directors and a member of the Global Women's Leadership Network. Donna holds a Master of Arts in International Business from the Rennes School of Business, France, and a Bachelor of Business from the Auckland University of Technology

We will vote undirected proxies **IN FAVOUR** of this resolution.

### **3. To re-elect Sue Suckling as an Independent Director.**

Sue Suckling was appointed to the Board in May 2011. She is currently the Chair of the Insurance & Financial Services Ombudsman Scheme Commission, Jacobsen Holdings Limited, 5th Element Limited, Rubix Limited, Jade Software Corporation Limited, Taska Prosthetics Limited and Boulcott



Hospital. Sue is a Chartered Fellow of the New Zealand Institute of Directors and a Companion of the Royal Society of New Zealand and holds an OBE for her contribution to New Zealand business.

If she is re-elected, we would expect this to be her last term having served 15 years on the Board.

We will vote undirected proxies **IN FAVOUR** of this resolution, noting that we expect her re-election will provide an opportunity to successfully manage knowledge transfer.

**4. To increase the Directors Fee Pool by \$100,000 (6.9%) from \$1,440,000 to \$1,540,000.**

The current Fee Pool was approved by shareholders at the 2018 ASM. The full details of the proposal are set out in the Notice of Meeting.

The increase will provide the Board with sufficient headroom to appoint a seventh non-executive director over the coming year and to meet the fees payable to the independent non-executive directors on the separate SkyCity Adelaide Pty Limited Board and any additional or ad-hoc Board Committee fees.

The increase will **not** be used to increase the existing non-executive director fees. The Board intends proposing an increase to Directors Fees and will put a resolution to the 2024 ASM.

NZSA believes the strengthening of the separate Board for SkyCity Adelaide is appropriate in the current regulatory environment in Australia.

We will vote undirected proxies **IN FAVOUR** of this resolution.

**5. That the Board is authorised to fix the auditor's remuneration for the coming year.**

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

***Proxies***



**You can vote online or appoint a proxy at <https://www.investorvote.com.au/>**

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **11.00am Wednesday 25 October 2023.**

**Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.**

**The Team at NZSA**