



**The Star light starting to flicker again after big COVID 'blackout'**

<b>Company/ASX Code</b>	The Star Entertainment Group/SGR
<b>AGM date</b>	Thursday 22 October 2020
<b>Time and location</b>	11am AEDT – Virtual on- line
<b>Registry</b>	Link Market Services
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Carol Limmer assisted by Gary Barton
<b>Pre AGM Meeting?</b>	Yes, with Chair John O'Neill and Chair of Remuneration Committee Sally Pitkin

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

**Summary of ASA Position**

SGR is an Australian Eastern Seaboard based company which is known particularly for running casinos in 3 Australian locations (Sydney, Brisbane and Gold Coast) but it has a portfolio of high-quality tourism, entertainment and other gaming assets. For example, as well as casinos there are theatres, high end market retail shops, restaurants/cafes to suit a range of customers, hotels and residential apartments in their precincts.

Their growth strategy is strongly supported by their partnerships with Hong Kong based joint venture partners of about 6 years duration. Their partners bring complementary skills and assets (Development, Retail/Distribution, Hospitality and Capital) which work well.

SGR has indicated that they actively connect with both major sides of politics in relation to its various precincts.

SGR and its Hong Kong based partners have committed about \$4.5bn to reinvigorate tourism in SE Qld. SGR has told the Qld government that by 2038 developments on Gold Coast will deliver \$2.2bn masterplan, 9,000 construction jobs, 2800 operational jobs, 650 additional hotel rooms and 2000 luxury apartments. SGR does not have exclusivity on Gold Coast but Qld government has confirmed that there are currently no intentions of reviving process for a new integrated resort, including a 2<sup>nd</sup> casino.

The Queen's Wharf development in Brisbane is huge and well advanced. When it replaces the current Treasury property Queen's Wharf will have a 99 year licence with exclusivity period of 25 years.

In Sydney there is currently a proposal for an additional 2 high rise towers in its Pyrmont precinct – again these developments will create additional jobs, hotel rooms, apartments and other facilities (eg more retail, food and casino facilities) and assist NSW government in extending the city to Darling Harbour/Pyrmont areas. The new Sovereign Room for VIPs has been delivered on time and on budget and is proving very popular and, whilst there is a 2500/3000 capacity, at present the maximum allowable is 300.

SGR is well known in relation to high roller gamblers from China but has for the past 4 years been executing on a diversification strategy across the International VIP Rebate business with the main aim being to drive ongoing growth in other Asian market sources, on-line capability and the Premium Mass business.

Their main competitor is Crown which has a significant presence in Melbourne and will in a few months be established in the Sydney area. The new (standout) Crown building is expected to open in December. Crown is the subject of a current Enquiry and as an outcome from that could possibly face some licence restrictions. Crown has certainly been subject to a large amount of negative media. Any licensing restrictions from the Enquiry would have some positive impacts for SGR.

There is talk of government introducing cashless slot machines and individuals having a card similar to the NSW Opal travel card. These would be topped up with cash similarly to the travel card. People, particularly those with addiction issues, could self-bar themselves from gaming machines via the card.

SGR will continue to be the exclusive casino provider of electronic gaming machines.

SGR took a significant revenue and profit hit from Covid 19 in March when their facilities closed down due to government restrictions. Facilities began to re-open (with some restrictions including numbers for social distancing reasons and border closures – both domestic and international) from early June. There was further re-opening from early July with larger numbers allowed but still with set maximum of patrons, spatial distancing etc. With China there is the border restriction but also tensions between Chinese and Australian governments.

To date there has been one known Covid incident (in Sydney) involving one person only (which is being contested by SGR). They have thorough Covid security procedures in place at their various precincts and some of these will become 'the norm' for the future.

### **Governance and culture**

SGR has a most comprehensive/informative Corporate Governance Statement on its website. The Annual Report (AR) provides a lot of good information on Sustainability objectives and achievements at the company ( see <https://www.starentertainmentgroup>. For details on climate-related risk assessment work see <https://www.starentertainmentgroup.com.au/climate-change-risk-assessment>.

SGR is recognised as a global leader in Casino and Gaming industry sector of Dow Jones Sustainability Index for 4<sup>th</sup> year in a row, ranked 2<sup>nd</sup> in Australia and 25<sup>th</sup> globally on 2019 Refinitiv Diversity and Inclusions Index, released their first Climate-related Disclosures Report, reduced their carbon emissions by 12.6% in FY20, has commitment to net-zero carbon emissions by 2030, have Green Star and NABERS across 50% of their portfolio and are involved in a range of community activities.

There are measurable objectives in place in relation to Gender Diversity and Equality in their Workforce. There is 33% female NED participation on their Board.

SGR has a long-standing commitment to responsible gambling and harm minimisation in relation to gambling.

With many of their employees (about 95%) being stood down from work when Covid 19 restrictions were first introduced SGR were pro- active in supporting their workforce (eg beyond Job Seeker and also immediately gave all staff 2 weeks Pandemic leave – cost about \$18m) and are monitoring the level of employee engagement on an ongoing basis. Fortunately, their strong support for employees means that Leadership are seen as caring.

There is a minimum shareholding policy in place for NEDs as well as for the CEO & MD and executives reporting to him.

### **Financial performance**

In the 1st half of FY20 business performance at all sites was progressing well but then in March the Pandemic hit – this was devastating for business and their people. Revenue and profit were significantly impacted and at that time about 95% of employees were stood down. From June with re-opening on a limited basis the profit began to become a little more positive but VIP business will remain challenging. 7,000 people are now employed across their sites.

An Interim Dividend of 10.5c per share fully franked was paid but after financial impact from Covid 19 in 2<sup>nd</sup> half of FY20 the Board took decision not to pay a Final Dividend.

Share price has declined. At 30 June was \$2.84 compared with \$4.12 at same time previous year. More recently it has moved up to \$3.16.

The NPAT for FY20 was LOSS \$94.6m compared with PROFIT \$198 for the prior year.

SGR has \$700m in cash and undrawn debt thanks to \$200m in extra debt facility secured in April.

The current gaming tax arrangements have been extended and will apply in FY21. For domestic gaming revenues (excluding domestic rebate) up to \$780m a 27.5% will apply. Above \$780m increasing marginal tax rates will apply. SGR has agreed with NSW Government that flat domestic gaming tax rates will apply for 20 years from 1 July 2021. These are detailed on their website.

### **Key Board or senior management changes**

Mr Zlatko Todorevski retired from the Board on 31 August to take up CEO and MD role at Boral.

During the year Mr Harry Theodore was appointed to the CFO role, replacing Mr Chad Barton.

## Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	-94.6	198	148.1	264.4	194.4
UPAT (\$m)	120.8	224	258	214.5	194.0
Share price (\$)	2.84	4.12	4.93	5.05	5.40
Dividend (cents)	10.5	20.5	20.5	16.0	13.0
TSR (%)	-26.0	-12.0	1.0	-4.0	26.0
EPS (cents)	-10.3	21.6	17.5	32.0	23.6
CEO total remuneration, actual (\$m)	2.385***	3.33**	4.375	1.695*	4.03

\* No LTI awarded in 2017

\*\* No STI awarded in 2019

\*\*\* Due to COVID- 19 there was 40% reduction in Fixed Remuneration from 1 April to 30 June 2020

For 2020, the CEO's total actual remuneration was 25.9 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was \$91,983 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

<b>Item 2</b>	<b>Re-election of Mr John O'Neill as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr O'Neill has been a NED at SGR since 2011 and is currently the Board Chair and an ex-officio member of all Board Committees.

He has an Order of Australia, Diploma of Law, is a Foundation Fellow of AICD and holds French decoration of Chevalier de la Legion d'Honneur.

Mr O'Neill was formerly MD and CEO of Australian Rugby Union Ltd, CEO of Football Federation Aust, MD and CEO of State Bank of NSW, Chair of Aust. Wool Exchange Ltd, Director of Tabcorp Holdings Ltd, Chair of Events NSW and Director of Rugby World Cup Ltd. He is currently Chair of Qld Airports Ltd and a member of the Advisory Council of China Matters. He is also a member of 2032 Brisbane Olympic Bid Advisory Board.

He holds 133,800 shares in SGR.

ASA intends to vote for Mr O'Neill's re-election.

<b>Item 3</b>	<b>Re-election of Ms Katie Lahey as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Ms Lahey has been a NED at SGR since 2013. She chairs the People, Culture and Social Responsibility Committee and is a member of the Risk & Compliance and Remuneration Committees.

She holds BA (1<sup>st</sup> Class Honours) and MBA.

Ms Lahey is currently a Director of Carnival Aust. and is a member of the national Indigenous Culinary Institute Advisory Board. She previously chaired Carnival Aust. and Korn Ferry International and was on boards of David Jones Ltd, Aust. Council Major Performing Arts, Hills Motorway Ltd, Aust. Post and Garvan Research Foundation.

With extensive background in retail, tourism and entertainment sectors as well as having been a CEO in public and private sectors she brings a range of skills and experience to the Board.

She holds total of 56,907 shares in SGR, having just recently bought an additional 10,000 shares.

ASA intends to vote for Ms Lahey's re-election.

<b>Item 4</b>	<b>Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.7289 *	35	1.7289	24
STI - Cash	1.153	23	1.7289	24
STI - Equity	.576	12	.865	12
LTI	2.900	30	2.900	40
Total	6.3579	100	7.223	100

- \* There was a 40% reduction in Fixed Rem for the period from 1 April to 30 June (due to Covid 19 impacts). With this decrease the amount would be \$1.356861

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

\*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

There is a letter from Chair of The Remuneration Committee in the AR summarising their approach to remuneration and special considerations in relation to the Covid pandemic.

The Remuneration Report is comprehensive and includes Actual as well as the mandatory Statutory remuneration details.

The CEO and other senior executives all took a cut in Fixed Rem from 1 April to 30 June (ie 3 months). For the CEO it was 40%. The NEDs have borne a 50% reduction for the same period.

The Group went to the market during FY20 for remuneration advisory services and PwC were re-appointed as the Group's independent external remuneration consultants. No remuneration recommendations as defined by the Corporations Act were provided by PwC. For FY21 the Remuneration Committee is reviewing the operation of the STI to determine whether the plan design, including gateway measures, remain appropriate and fit for purpose.

SGR regularly benchmarks Fixed Annual Remuneration (FAR) to the market. Again, there is no change to FAR this year.

With STI, the maximum for CEO is 150% of FAR. Two thirds of any award is paid in cash and the other third is deferred into equity with shares vesting after one year. It would be preferable to have a larger portion deferred into equity and a longer deferral period but do acknowledge that there is a higher focus on LTI than STI in at risk/variable portion of remuneration.

Face value is used in calculating the number of Performance Rights under the LTI. The performance period is 4 years. Performance hurdles are TSR (33.3%), EPS (33.3%) and ROIC (33.4%). Vesting hurdles could be more rigorous (eg with TSR there is 50% vesting at the 50<sup>th</sup> percentile).

There are clawback provisions.

SGR did not meet the financial gateway under the STI. However, as a special matter, the Board decided to make limited equity awards under the FY20 STI. The rationale for exercise of discretion and details of the awards made are set out in Section 4.4 of the AR. The Board stated that it undertook a rigorous process to ensure exercise of discretion was in best interests of SGR. This included considering ASIC guidelines, getting external advice and reviewing range of information on performance pre and post Covid restrictions. SGR considered impact on SGR's operations, team members, shareholders, guests and other stakeholders. Management's response to the pandemic, including delivery of significant milestones critical for future success and shareholder value creation, in spite of challenging environment, were also considered. The Board considered the aim of the STI ie reward participants for achievement of strategy and operational goals, as well as to retain talent. The last point is pertinent from SGR's viewpoint in relation to forthcoming opening of Crown in Sydney, particularly as a number of their talented people are Sydney based. It was decided to create a limited pool, determined as percentage of the on-target STI amount, and assess individual performance against scorecard metrics and performance during critical time of pandemic. For MD & CEO and Executive Committee, 40% of STI on-target amount was approved with MD & CEO receiving 48%. For the other 775 STI participants (including a large number of frontline managers) 60% was approved. The amounts were awarded in equity only with a one year retention restriction.

However, on the other side, some shareholders could well take view that with decrease in share price and dividends, the loss in NPAT plus the support provided by Government in form of Job Keeper that it would not be appropriate to make the discretionary payments under the STI arrangements when the financial gateway was not met.

ASA has decided not to support adoption of the Remuneration Report.

The FY16 award under the LTI was tested for vesting during the year and did not vest. The FY17 LTI will be tested for vesting in October 2020 and outcomes will be notified prior to the AGM.

<b>Item 5</b>	<b>Issue of Ordinary Shares to the MD &amp; CEO, Mr Matt Bekier</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

This resolution is for approval of equity arrangements for the deferral of the entire STI, with nil being paid in cash. We support the resolution. Usually one third only is deferred where as ASA preference would be for a larger proportion to be deferred and for a longer deferral period.

<b>Item 6</b>	<b>Grant of Performance Rights to the MD and CEO, Mr Matt Bekier</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

##### **See also comments under Item 4.**

The Fixed component of Mr Bekier's remuneration of \$1.728m is for FY 21 again unchanged from past few years. Performance target is also set at that amount with a maximum potential of 150%. LTI maximum potential is also unchanged at \$2.9m. As mentioned above, Face Value allocation methodology is used and there is a four year performance period.

The FY16 LTI was tested during the year with no award being given. The FY17 LTI will be tested in October and outcomes will be notified prior to AGM.

He did not receive a STI payment in FY 19.

Mr Bekier holds 2,535,329 Performance Rights and 1,008,905 Ordinary Shares.

ASA proposes to support this resolution.

<b>Item 7</b>	<b>Amendments to Constitution</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

The current SGR Constitution was adopted on listing of the Company in 2011 and was last amended in 2017 following shareholder approval at the 2017 AGM.

SGR has recently undertaken a review of the Constitution and proposes a number of amendments consistent with the Corporations Act and ASX Listing Rules and which seek to achieve efficient and flexible administration of the Company and to enable greater participation by, and engagement with, shareholders at general meetings.

The proposed changes are clearly and comprehensively set out in the NOM.

It is proposed to support this resolution.

<b>Item 8</b>	<b>Renewal of Proportional Takeover Provisions in Constitution</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Under the Constitution and section 648G of the Corporations Act, the proportional takeover provisions in Rule 79 (**Proportional Takeover Approval**) of the Constitution automatically lapse after three years. They were last renewed at 2017 AGM. The background to this proposal are clearly and comprehensively covered in the NOM. It is non-controversial.

It is proposed to support this resolution.

#### **ASA Disclaimer**

*This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:*

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

*This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.*