

5 October 2021

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

The company will hold its Annual Shareholders Meeting at **1.00pm Friday 29 October 2021**.

It will be a virtual meeting.

You can join the meeting at

<https://apps.online.computershare.com/MeetingsShareholderWeb/FindMeeting?Country=NZ>

### ***Company Overview***

The company operates casinos in Auckland, Hamilton, Queenstown, and Adelaide. It also has an online casino. It has 309 gaming tables, 3456 electronic gaming machines and 331 automated gaming tables. It operates 18 restaurants and 15 bars, and its hotels provide 755 rooms. It employs 4259 staff. The Adelaide expansion project opened in December 2021.

The company is building The New Zealand International Convention Centre in Auckland. This project has been subject to a major fire and various other setbacks and is now expected to be completed by December 2027.

Covid-19 impacted its operations with international visitor numbers down 95%, Auckland hotel occupancy down 38% and Sky Tower visitors down 71%.

During the year Bruce Carter retired from the Board and Silvana Schenone, Julian Cook and Chad Barton were appointed Directors.

### ***Current Strategy***

The company's medium-term strategy is to create sustainable shareholder returns and enhanced social and sustainable initiatives critical to the long-term viability and success of SkyCity.

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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	G	See comments below.
Director share ownership	G	See comments below.
Executive Remuneration	G	See comments below.
Golden parachutes/handshakes	A	See comments below.
Director Independence	G	Good disclosure
Board Composition	A	See comments below.
Director Tenure	G	See comments below..
ASM Format	G	See comment below.
Company Sec independence	A	Not disclosed.

**Directors Fees:** While disclosure is generally clear, there is no disclosure as to whether retirement benefits are available for Directors or whether Directors receive any remuneration via share options. NZSA appreciates the clear disclosure around additional benefits paid to Directors, including benefits paid prior to their appointment as directors.

**Director Share Ownership:** NZSA encourages director share ownership but does not generally support a compulsory requirement for directors to own shares as this places a ‘wealth barrier’ to director diversity. Sky City strongly encourages its directors to own shares in the company and provides clear guidelines as to the level and timing of ownership, a framework supported by NZSA.

**Executive Remuneration:** NZSA notes and appreciates the company’s commitment to gender pay equality, as discussed in the company’s annual report. We also note the comprehensive disclosure of remuneration applicable for other senior executives.

For FY2021, the company CEO (Michael Ahearne) does not receive a short-term incentive (STI) as part of his employment, as the company re-aligns itself to medium and longer-term performance goals. An STI scheme remains in place for other executives and employees, although shareholders have been considered in the level of STI awarded. NZSA notes the ‘deferred equity’ approach to STI, with a portion of STI being paid as share performance rights.

The CEO – and other executives – participate in a long-term incentive (LTI) award scheme. This is based on shares (not options) purchased by participants and awarded based on a 3 year performance period. Sky City clearly discloses the measurement groups, weightings, targets and achievement levels of the LTI scheme, a disclosure appreciated by NZSA. The measurement is based on total shareholder return and a ‘comparator group’ with relevant NZ and Australian companies.

We note that the company offers interest-free loans to executives to enable the initial purchase of these shares, which are then held in trust by an independent trustee.

We note that no LTI was awarded to the CEO in 2021, although he received an award under the LTI scheme in relation to his previous COO role.

NZSA also appreciates disclosure of the notice periods associated with the CEO’s contract.

**Golden parachutes/handshakes:** We note that the CEO received 166k Sky City shares as a condition of commencing the CEO role. He had previously been Sky City’s Chief Operating Officer. NZSA does not generally support ‘joining payments’, although recognise that the lack of a short-term incentive may have been reflected in this approach.

There is no disclosure as to whether any additional termination benefits are payable.

**Director Tenure:** NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that allow effective knowledge transfer in the event of succession. While not an issue currently, we note the three recent appointments made in 2021 implies that the company will need to manage succession planning carefully in future to ensure that a risk of sudden knowledge loss is minimised.

We note that one director, Sue Suckling, has served on the Board for more than 9 years, a general benchmark for succession planning. NZSA appreciates clear signals from companies in relation to succession, in order to ensure long-term governance sustainability.

**Board Composition:** The company discloses a ‘collective’ skills matrix outlining how the Board matches the skills required to govern the company, although an ‘individual’ matrix is not disclosed. We note that the company does not participate in the IoD’s “Future Directors Programme”; given the scale and status of Sky City, NZSA feels that participation would support the development of emerging directors within New Zealand (although we do recognise the current challenges faced by the company).

We note that the Chair, Rob Campbell, holds a number of other governance roles in NZX-listed and non-listed organisations. We have discussed this with Rob previously, and believe that he has demonstrated his capacity to manage the required workload.

**ASM Format:** While NZSA prefers ‘hybrid’ ASM’s (ie, physical and virtual) as a way of promoting shareholder engagement while maximising participation, we understand the company’s approach in planning a virtual-only meeting given the current Covid-19 restrictions across New Zealand.

**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 comment below.

**Audit Rotation:** Whilst the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose whether the Audit Firm is rotated at 10 years. In common with many other NZX-listed companies, it also does not disclose the appointment date of the Audit Firm or the Lead Audit Partner.

**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 policy is that companies should not make donations to political parties. We expect disclosure to this effect, even if none have been made.

### Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Generally good disclosure
Capital Raise process	A	See comments below

**Capital Raise process:** During the FY2020 and FY 2021 year, SKC raised capital by way of a \$180 million Placement (FY 2020) and a \$50 million Share Purchase Plan (FY2021). NZSA's preferred method is a renounceable rights offer to allow shareholders to maintain their proportionality or derive some value from the sale of rights.

**Metrics Overview:** Sky City's share price rose from \$2.98 to \$3.15 (as of September 30<sup>th</sup>) over the last 12 months – a 6% increase. This compares unfavourably with the NZX 50 which increased by 12% in the same period. The **Performance Factor** for SKC is 0.49.

Metric	2021	2020	Change
Revenue	\$952m	\$1,125m	-15%
Operating Revenue	\$713m	\$642m	11%
EBITDA	\$317.3m	\$348.3m	-9%
NPAT	\$156.1m	\$235.3m	-34%
EPS <sup>1</sup>	\$0.205	\$0.309	-34%
PE Ratio	15	10	
Current Ratio	1.04	0.32	225%
Debt Equity	0.70	0.94	-26%
Operating CF	\$288.2m	\$120.2m	140%
NTA Per Share <sup>1</sup>	\$1.32	\$1.03	28%
Dividend Per Share <sup>1</sup>	\$0.097	\$0.139	-30%

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

Sky City have had a disruptive 18 months since the onset of covid related restrictions, their business model relying on movement of people and the ability to be inside venues. In addition, SKC rely on the ability of tourists to enter the country to patronage their facilities.

Total **revenues** dropped by 15% to \$952m, but pleasingly for SKC operating revenues were up by 11% to \$713m and EBITDA only declined by 9% to \$317.3m. SKC delivered statutory **NPAT** of \$156.1m a decline of 34% on 2020.

EPS for the year were \$0.205 and SKC resumed the payment of dividends after dividends were suspended in FY 20. A dividend of \$0.097 was declared. Dividends are fully imputed. Operating Cashflows were strong with an improvement of 140% to \$288m.

The company is in a sound financial position with a current ratio of 1.04 indicating the ability to meet short term requirements when they fall due, and a debt equity ratio of 0.70. This is down 26% from 2020. During the year the company retired \$96m of net debt. Short term debt was reduced by \$216m, conversely long-term debt increased by \$158m. They are well positioned to expand or invest should they wish to do so.

The shares trade on a PE of 15 and the NTA for SKC is \$1.32 per share. The shares trade at a large premium to their NTA. Outlook for FY22 was provided on page 35 in an investor presentation on 25<sup>th</sup> August 2021 and can be found here: <http://nzx-prod-s7fsd7f98s.s3-website-ap-southeast-2.amazonaws.com/attachments/SKC/377917/353082.pdf>

## **Resolutions**

### **1. To elect Silvana Schenone as an Independent Director.**

Silvana Schenone was appointed to the Board in June 2021 and is therefore required to offer herself for election. She is a corporate partner at MinterEllisonRuddWatts in Auckland where she leads the firm's Corporate division. She is a founding member of OnBeingBold and a Board member of the New Zealand Takeovers Panel. Silvana was a corporate lawyer at Sullivan & Cromwell LLP in New York and prior to that at Cariola Diez Perez-Cotapos in Chile.

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

### **2. To elect Julian Cook as an Independent Director.**

Julian Cook was appointed to the Board in June 2021 and is therefore required to offer himself for election. He is the former Chief Executive Officer of Summerset Group Holdings. Prior to becoming Chief Executive Officer in 2014, he was Summerset's Chief Financial Officer. He is currently a Director of WEL Networks Limited.

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

### **3. To elect Chad Barton as an Independent Director.**

Chad Barton was appointed to the Board in June 2021 and is therefore required to offer himself for election. He is currently the Interim Chief Financial Officer of Nuix Limited, an ASX-listed global software company, and was the Chief Financial Officer of ASX-listed companies The Star Entertainment Group Limited from 2014 to 2019 and Salmat Limited from 2009 to 2014. Prior to this, he was Chief Financial Officer of the Australia and New Zealand business of Electronic Data Systems from 2006 to 2009. He is currently a director of NeuRA (Neuroscience Research Australia) Foundation.

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

**4. 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 **1.00pm Wednesday 27 October 2021.**

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

**STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY**

**MAKE YOUR VOTE COUNT!**

**Details on the NZSA website.**

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

**The Team at NZSA**