

13 October 2022



SkyCity Entertainment Group Limited (SKC)

The company will hold its Annual Shareholders Meeting at **1.00pm Friday 28 October 2022**.

It is a virtual only meeting. You can 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 309 gaming tables, 3451 electronic gaming machines and 378 automated gaming tables. It operates 17 restaurants and 15 bars, and its hotels provide 755 rooms. It employs 3,923 staff.

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 2024 (for the new Horizons Hotel) and 2025 (for the ICC). This is ahead of government-contracted timelines of 2026/27.

It continued to be a challenging year with the Auckland property closed due to Covid for 107 days and Hamilton closed for 65 days. In April the company announced it had completed a €25m investment in Gaming Innovation Group Inc (GiG) and was now that company's largest independent shareholder. In July the company announced the South Australian gaming regulator was commencing an independent review of the Adelaide casino.

During the year Rob Campbell retired from the Board and as Chair, replaced by Julian Cook. The company announced that Jennifer Owen will retire from the Board at the ASM, and Sue Suckling will retire in early 2023. Kate Hughes and Glenn Davis have been appointed to the Board.

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"*. 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	Directors are encouraged but not required to own shares.
Executive Remuneration	A	See below.
Golden parachutes/handshakes	G	See below
Director Independence	G	All Directors are independent.
Board Composition	A	See below.
Director Tenure	A	See below.
ASM Format	R	Virtual only. See below.
Independent Advice for the Board	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 not defined solely by wealth.

Executive Remuneration: For FY22 the CEO was paid a base salary in cash, an annual share entitlement of \$500,000 and a one-off award of 3.9 million share rights that vest over the next 3 and 4 years, dependent on the CEO remaining with the company.

The company notes that “*This offer was made to Mr Ahearne in lieu of an allocation under the 2018 SkyCity Executive Long Term Incentive Plan for the financial year ended 30 June 2022.*”

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 company is adopting a new short-term incentive (STI) and long-term incentive (LTI) plan for FY23. We will look for fulsome disclosure around the STI and LTI next year. We note that the summary description provided on the STI scheme in the Annual Report (pg 97 and pg 100-102), if implemented,

would largely comply with NZSA policy. We will continue to look for a weighting towards LTI, including a component of absolute total shareholder return, to better align with the long-term interests of shareholders.

For FY22, we note that the level of incentive paid to the CEO is similar to the level of base salary, a position supported by NZSA.

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 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.

There have been significant changes to the company's Board over the last year. With the exception of Sue Suckling and Jennifer Owen, all directors have been appointed between 2021-2022. Sue Suckling was appointed in 2011 and has signalled her retirement in early 2023. Jennifer Owen is retiring at the ASM.

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.

ASM Format: NZSA prefers 'hybrid' ASM's (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation. We are unclear as to any reason why Sky City would choose not to hold a physical component as part of its shareholder meeting.

Independent Advice for the Board: 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.

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.

The Board Charter stipulates that Directors are entitled to seek independent external advice at Sky City’s expense, with the prior approval of the Chair. The internal audit plan is overseen by the Audit Committee, although it is unclear as to the extent to which other internal assurance staff have unfettered access to the Board.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
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. Notwithstanding audit tenure, NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

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.

Sky City is one of the few companies that provides comprehensive disclosures in relation to both the gender pay gap and ethnic pay gap within its workforce, together with a comparison with national averages for each of Australia and New Zealand.

We also note the company’s climate-related disclosures. NZSA believes this will serve the company well as the Climate-related disclosures regime comes into force in FY23. NZSA is close to releasing an *Environmental Sustainability* policy, that takes a broader approach to the disclosure of environmental risks and opportunities and their impacts. We will also begin to apply this policy to our assessments from FY23.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Good disclosure.
Capital Raise process	n/a	<i>n/a if no capital raised</i>
Takeover or Scheme	n/a	<i>n/a if no takeover</i>

Sky City's share price fell from \$3.27 to \$2.75 (as of 5th October 2022) over the last 12 months – a 16% decline. This compares favourably with the NZX 50 which declined by 17% in the same period. The capitalisation of SKC is \$2.1b placing it 24th out of 130 companies on the NZX by size and makes it a large company.

Metric	2020	2021	2022	Change
Revenue	\$1,125m	\$952m	\$641m	-33%
Operating Revenue	\$642m	\$713m	\$556m	-22%
EBITDA	\$348.3m	\$317.3m	\$97m	-69%
NPAT	\$235.3m	\$156.1m	-\$33.6m	n/a
EPS ¹	\$0.309	\$0.205	-\$0.04	n/a
PE Ratio	10	15	n/a	
Capitalisation		\$2.5b	\$2.1b	-16%
Current Ratio	0.32	1.04	1.21	17%
Debt Equity	0.94	0.70	0.75	7%
Operating CF	\$120.2m	\$288.2m	\$91.1m	-68%
NTA Per Share ¹	\$1.03	\$1.32	\$1.25	-6%
Dividend Per Share ¹	\$0.139	\$0.097	\$0.00	n/a

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

SKC faced continued disruption in 2022 with SkyCity Auckland being closed for an unprecedented 107 days during the financial year. As a result, most metrics declined as compared with the prior period.

Total revenues dropped by 33% to \$641m, and operating revenues declined by 22% to \$556m. This contributed to a large 69% fall in EBITDA to \$97m and SKC delivered statutory NPAT of **-\$33.6m**, a reduction on last year's NPAT of \$156.1m.

EPS for the year were **-\$0.04** and as a consequence, SKC again suspended the payment of dividends. When paid, dividends are normally fully imputed. Operating Cashflows were also down by 68% to \$91.1m.

The company is, however, in a sound financial position with a current ratio of 1.21 indicating the ability to meet short term requirements when they fall due, and a manageable debt-equity ratio of 0.75. Net debt levels remained stable during the year. SKC are well positioned to expand or invest should they wish to do so.

NTA per share fell slightly to \$1.25 and SKC trade at a 121% premium to NTA.

Page 27 of an [investor presentation](#) released on the 25th August, provided outlook for FY23, where assuming no significant changes to the operating environment, SKC is expecting normalised group EBITDA at pre covid levels.

Resolutions

1. To elect Kate Hughes as an Independent Director.

Kate Hughes was appointed to the Board in September 2022 and is therefore required to offer herself for election. She holds board and committee roles across a diverse portfolio, including the Victorian Department of Health, SuniTAFE and Lower Murray Water. She also holds committee roles with two Commonwealth regulators, Comcare Authority, and the Australian Prudential Regulation Authority.

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

2. To elect Glenn Davis as an Independent Director.

Glenn Davis was appointed to the Board in September 2022 and is therefore required to offer himself for election. He is currently the Chair of ASX-listed companies Beach Energy Limited and iTech Minerals Limited. He is also chair of a number of large private companies with broad board experience over many years in the manufacturing, resources, retail, property, seafood, and primary production industries.

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

3. 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 26 October 2022.**

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

The Team at NZSA