

## CROWN CONTRACTS COVID CONSEQUENCES

<b>Company/ASX Code</b>	Crown Resorts/CWN
<b>Thursday 22 October</b>	10:00 am Thursday 22 October 2020
<b>Time and location</b>	On-Line AGM
<b>Registry</b>	Computershare
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Geoffrey Bowd
<b>Pre AGM Meeting?</b>	With Ken Barton – CEO & Managing Director, Alan McGregor – Chief Financial Officer, Mary Manos – General Counsel and Company Secretary, Lauren Harris – Legal Counsel & Assistant Company Secretary, Mathew Young – Manager Strategy & Investor Relations.

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

The Annual Report describes the scope of Crown Resorts' (Crown) entertainment and gaming activities which except for a relatively small exposure in the UK are in Australia. Crown's financial risk and corporate governance profile has changed significantly during 2019-2020 and subsequently through July to October.

### COVID Pandemic

The consequences of the pandemic had an extraordinary impact on the financial result - an 80% fall in profit, and, on shareholder return. The share price hovered at or above \$12 until February but fell rapidly to a low of \$6 in March. It has bounced around \$9 since June. A final dividend was not paid. Total shareholder return was minus 20%.

In March 2020 Crown was directed to close its casino activities and many other non-essential activities. Crown had access to and utilised Jobkeeper but it was not possible to retain a normal presence in casino areas and 95% of the workforce, over 11,500 employees, were stood down. Crown made an ex gratia 2 weeks pay to all full and part-time employees and a \$1000 lump sum to casuals.

Gaming activities and the majority of food and beverage venues re- opened in Crown Perth on 27 June and results for the first quarter exceed last year. Melbourne remains closed.

We believe that restricted activity and cash flow have been well managed and that Crown is prepared for the recovery challenges such as re-employment when Melbourne re-opens and the new Crown Sydney operations commence in December.

### The NSW Independent Liquor and Gaming Authority (ILGA) Inquiry.

The ILGA Inquiry will, inter alia, recommend if Crown remains suitable to hold a restricted gaming license for the new Sydney VIP casino. This is a significant reputational risk and other

recommendations are likely to lead to change. The ASA considers that an exceptional standard of probity is fundamental within Crown’s Board and management culture to validate Crown’s social license to operate gaming activities. This is consistent with shareholder interest.

While it is appropriate to await the findings of the Inquiry and Crown’s response, directors and executives have admitted that there have been failings in risk management and governance. One focus of the Inquiry has been upon the influence of the Consolidated Press Holdings (CPH -James Packer) major shareholding in Crown. The ASA has repeatedly stated that the weighting of the non-independent CPH representation on the Crown Board and management structures was poor governance.

Shareholder interests now focus on the future and actions to be taken. The ASA welcomes the appointments of an independent non-executive Chairman, an independent non-executive Deputy Chairman, and a Chief Executive Officer and Managing Director who is independent of CPH.

Crown are recruiting for a newly created role of Head of Compliance and Financial Crimes which will report direct to the Board and all activity with junket operators has been suspended.

The Chairman’s and CEO’s reports emphasise corporate governance, co-operation with regulatory investigations and a focus on enhancing compliance and governance process. The Chairman has stated “there is more work to be done”.

### Financial Performance

Casino activities provide the major source of revenue and profitability. Crown’s results reflect the impact of closures and restrictions due to the COVID pandemic.

The Chairman and Managing Director express cautious optimism about the future for all operations. Future dividends are subject to review of Crown’s future financial position

### Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	79.5	401.8	558.9	1,866.1	948.8
UPAT (\$m)	161.0	368.6	386.8	343.1	406.2
Share price (\$)	9.67	12.45	13.5	12.28	12.61
Dividend (cents)	30	60	60	143	72.5
TSR (%)	- 20	-3	15	12	4
EPS (cents)	11.74	59.07	81.16	257.03	130.26
CEO total remuneration, actual (\$m) *	2.6	4.1	3.7	3.0	5.7

\* For 2020 the CEO’s total actual remuneration was **28 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

### Other Significant Events

The Board approved the appointment of KPMG as the new statutory auditor from 1 July 2020 replacing Ernst Young, subject to obtaining the necessary approvals.

Balance sheet management: Crown entered into a total \$560m new bilateral facilities with banks and a further \$450 m project finance facility to support the construction of Crown Sydney. No covenant waivers were required for 30 June 2020 and an agreement has been secured for a waiver of banking covenants related to 31 December 2020 testing.

Crown acquired the 50% interest held by the Schiavello Group in the One Queensbridge development site in Melbourne which is a long-term strategic opportunity for a hotel.

### **Key Board or Senior Management changes**

Geoffrey Dixon retired as a director 24 October 2019.

Helen Coonan was appointed Chairman and John Horvath Deputy Chairman on 24 January 2020, following the resignation of John Alexander as Executive Chairman.

John Alexander has remained on the Board as an Executive Director but will not seek re-election at the 2020 AGM.

Ken Barton was appointed Managing Director and Chief Executive Officer on 24 January 2020, with the position of Managing Director becoming effective 3 March 2020 following the necessary regulatory approvals.

Alan McGregor was appointed Chief Financial Officer 13 March 2020, succeeding Ken Barton. The appointment became effective on 20 August 2020 following the necessary regulatory approvals.

### **Board Commentary**

Following the AGM there will be the Managing Director and nine non-executive directors - six independent and three non-independent representing CPH. 30% are female and independent.

Crown does not have a 'skin in the game' policy for directors or executives; it is an outlier in a profile of ASX 100 companies. Four directors do not hold shares. Helen Coonan purchased 10,000 shares in February 2020.

<b>Item 2a</b>	<b>Re-election of Ms Jane Halton as a Director</b>
<b>ASA Vote</b>	<b>FOR</b>

### **Summary of ASA Position**

Jane Halton was appointed as an independent non-executive director in May 2018 and sits on three Crown Board Committees, chairing two of them. Ms Halton had 33 years of experience in the Australian Government public service including Department Secretary positions. She brings financial, risk management, information technology, human resources and public relations skills.

Ms Halton is a director of one other ASX company, ANZ, and has an extensive list of other non ASX commercial engagements, one of which is Chairman and Director of The Coalition of Epidemic Preparedness Innovations (Norway). Having a director with a professional appreciation of epidemiology at this time is fortuitous.

Ms Halton holds 948 shares.

We supported the appointment of Ms Halton in 2018 as being a welcome Board renewal and strengthening the balance of independence. Notwithstanding evidence at the ILGA Inquiry we support Ms. Halton's re-election noting her short tenure and for ongoing Board probity and stability.

<b>Item 2b</b>	<b>Re-election of Professor John Horvath AO as a Director</b>
<b>ASA Vote</b>	<b>AGAINST</b>

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

John Horvath was appointed as an independent director in September 2010, Deputy Chairman in January 2020 and sits on four Crown Board Committees, chairing two of them. Professor Horvath is not a director of any other ASX company. He has an impressive experience profile with ongoing activity in advisory and executive roles in medicine.

Professor Horvath does not hold any Crown Resort shares.

Professor Horvath has a relatively long tenure as an independent director. The ASA has supported previous re-elections of Professor Horvath, but we now believe that he has an accountability for failures in governance which have been admitted in evidence before the ILGA Inquiry.

<b>Item 2c</b>	<b>Re-election of Mr Guy Jalland as a Director</b>
<b>ASA Vote</b>	<b>AGAINST</b>

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

Guy Jalland was appointed as a non-executive non-independent director of Crown in April 2018. He is the Chief Executive Officer of CPH and represents the majority interest of CPH (James Packer) in Crown. At the 2019 AGM the ASA opposed the election of John Poynton as we believed that CPH had adequate representation. This consideration remains and it is not evident as to what else Mr Jalland brings to the Board in the interests of all shareholders. We believe that Mr Jalland has an accountability for failures in governance which have been admitted in evidence before the ILGA Inquiry.

Mr. Jalland does not hold any Crown shares.

<b>Item 3</b>	<b>Election of Mr Bryan Young as a Director</b>
<b>ASA Vote</b>	<b>AGAINST</b>

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

Based upon the information available the ASA supports the Board's decision not to endorse this nomination.

<b>Item 4</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>FOR</b>

### **Summary of ASA Position**

#### **Board Fees**

Base Board fee increases during the year reflected changes in the Board structure but remain within the Non-Executive Directors fee cap.

In response to the COVID impact, Non- Executive Directors and certain senior executives took a 20% reduction in fees from the period 16 April 2020 to 30 June 2020.

On stepping down as Executive Chairman Mr. Alexander's base salary remained at \$3,543,930 with no material change in additional benefits. The ASA considers that this was an excessively generous 12 months contract in view of his significantly reduced responsibility.

#### **Fixed Remuneration.**

Senior executives did not receive an increase in fixed remuneration.

#### **Short Term Incentives**

The STI is derived from the Annual Business Plan and Budget to align to outcomes with shareholder value. At the 2019 AGM the ASA commended the significant improvement in the structure and reporting of STIs and this presentation remains for the 2020 report.

All STI bonus is paid in cash and the ASA has pressed its objection to this. Although cash remains we welcome that from the 2021 financial year 50% of bonus for the CEO will be deferred one year and 25% for other senior executives.

As financial performance objectives were not achieved for the 2020 financial year no STI bonus was paid to Senior Executives.

#### **Long Term Incentive LTI.**

Crown's core LTI is the 2017 Senior Executive Incentive Plan. The ASA has, with reservation, accepted this at previous AGMs. The outcomes are aligned to shareholder's interest as vested awards will be the margin between the market price and exercise price (a February 2017 Volume Weighted Average Price (VWAP) of \$11.43 plus a fee).

The sunset for this plan is 2021. The share price will have to be higher than \$12.14 to be of value to participants. The current share price is approx. \$9.00

Crown also has a Crown Digital Senior Executive Incentive, similar to the above plan but with an exercise price of \$1.45 which was the market price of a Crown Digital Holding share at the grant date (an unlisted wholly owned subsidiary).

The sunset for this plan is 2021. The value per Crown Digital Holding share will have to be higher than \$1.54 to be of value to participants.

## Resolution.

The ASA commend the continued improvement STI accountability and integrity evidenced that no STI bonuses have been awarded and a hurdle still has to be met for LTI bonuses. We are critical of the contract for Mr Alexander but with an overall consideration support the resolution.

### CEO Remuneration Structure

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	3.000	56	3.000	56
STI - Cash	1.800	33	1.800	33
STI - Equity	0	0	0	0
LTI	0.615	11	0.615	11
Total	5.415	100	5.415	100

<b>Item 5</b>	<b>Appointment of Auditor of the Company</b>
<b>ASA Vote</b>	<b>FOR</b>

### Summary of ASA Position

This appointment was made following a competitive tender process. An ASA policy guideline encourages the rotation of auditors and the Crown Resorts have noted the feedback from shareholders and specific concern from ASA about past ratios of non-audit fees

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The individual involved in the preparation of this voting intention has no shareholding in this company.

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