



Falling Star – will it get the sparkle back?

Company/ASX Code	The Star Entertainment Group (SGR)
AGM date	Thursday 28 October 2021
Time and location	11am by Virtual videoconference facility
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Carol Limmer assisted by Gary Burton
Pre AGM Meeting?	Yes, with Board Chair John O’Neill and Chair of Remuneration Committee Sally Pitkin

The individual(s) (or their associates) involved in the preparation of these voting intentions have a shareholding in this company.

Summary of issues for meeting

Due to various recent media reports SGR is currently under close scrutiny in relation to possible serious compliance issues concerning criminal links, money laundering and foreign influence. Also, law enforcement and regulatory sources are said to have indicated Austrac was building a strong case against SGR and that the company would face significant penalties next year.

SGR has issued an announcement through the ASX stating that it considers that a number of assertions within media reports are misleading. Further SGR has stated that it will take appropriate steps to address all allegations with relevant state and federal regulators and authorities, including Mr Adam Bell SC who is undertaking a regular review of The Star Sydney in accordance with the Casino Control Act 1992 (NSW).

Following the media reports and notification of investigation by NSW Independent Liquor & Gaming Authority SGR share price has dropped significantly – by 23% in one day on 11 October and at the same time Market Cap fell by \$1bn. On 12 October there was another announcement from SGR to ASX. SGR refuted media reports saying that report prepared by KPMG in 2018 were kept secret and not adequately acted on. Also, SGR said that review details and resulting reports were shared with AML/CTF regulator, AUSTRAC and referred to in a statement by SGR to the Bergin enquiry.

Further, SGR said that this information was also provided to the independent reviewer conducting subsequent review to inform assessments undertaken in that next review in 2020-2021. SGR has stated that reports from independent reviews of SGR’s AML/CTF Program and information relating to implementation of improvement programs and current practices would be provided to Mr Bell SC. ASX Announcements from SGR are available on their website. Have noted a bit of a bounce back in SGR’s share price following their announcement.

The media reports on allegations/investigations are still surfacing. Maybe a bit to play out yet.

SGR has notified ASA of an error in their remuneration report in relation to shareholding of KMP Greg Hawkins (Chief Casino Officer, NSW). He had moved some shares into his custodian account which were not picked up when remuneration report calculations were being done. He still meets SGR's minimum shareholding requirement.

The business of forthcoming AGM Meeting also includes a conditional spill resolution which will only be put to the Meeting if at least 25% of the votes cast in relation to adoption of the Remuneration Report are against its adoption. This follows on from a first strike on the Remuneration Report last year.

Aside from this special resolution, there are proposed re-elections of two Directors (Sally Pitkin and Ben Heap), the 2021 Remuneration Report and proposed LTI grant to MD & CEO, Matt Bekier.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

SGR is currently Eastern seaboard based and known particularly for running casinos in Sydney, Brisbane and Gold Coast. However, locations in Sydney and Gold Coast have extensive entertainment precincts and SGR is building a new \$2.2bn precinct at Queens Wharf in Brisbane. The new Brisbane property will have a 99 year licence and exclusivity period of 25 years. Due to Covid the Brisbane development is currently four months behind schedule and the company is trying to pick up time. The first stage will likely open in March 2022. Sydney property has exclusivity on gaming machines until 2041.

SGR has Hong Kong based joint venture partners who bring complementary skills and assets (development, retail/distribution, hospitality and capital) to the partnership. The 7 year partnership is said to continue to be operating well. The successful bid for the 2032 Olympics will enhance the international and domestic tourism of Brisbane and Gold Coast and probably Australia more generally. These Qld businesses have been faring better over past year as Sydney property has been subjected to longer lockdown periods due to Covid. After a lockdown commencing in late June Star Sydney has re-opened on 11 October 2021 within current government Public Health restrictions.

SGR has not had the 'high rollers' coming from China (border restrictions and also China/Australian government tensions) but SGR has been executing a strategy for a few years now to diversify across the international VIP Rebate business with aim of growing growth in other Asian sources, on-line capability and the Premium Mass business.

Their main competitor, Crown, has been the subject of ongoing enquiry in all their precincts and to date has not been able to open their Sydney casino operations. Some sort of merger with all or part of Crown is still a possibility but neither party has made any commitment at this stage.

There is also possibility of SGR being granted licence for another 1,000 gaming machines for Sydney (coming from Regional NSW). Among new initiatives in Sydney are Sovereign Room and refurbished Oasis Room,, new Italian restaurant given high rating and hosting of award winning musical 'Hamilton'.

Governance and culture

SGR has a comprehensive Corporate Governance Statement and this year has issued their first stand-alone Sustainability Report with both accessible on its website (<https://www.starentertainmentgroup>). They have made significant commitments in climate related areas as well as people diversity. There is 33% female NED participation on the Board and a similar percentage of female KMPs. They have large community donation commitment.

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

Majority of their workforce has been stood down at various times in past two years (up to 9,500) and in some cases for lengthy periods. SGR did receive Job Keeper payment from government and have stated that those monies have all gone into employee support. They have topped up government payments to staff and been closely monitoring the level of employee engagement and general well-being of their people. SGR has a good relationship with unions.

There is a minimum shareholding policy in place for NEDs as well as for CEO/MD and his direct reports.

SGR has said that they will keep under notice the option of holding future AGMs on a hybrid basis ie both live and online.

Financial performance

There was Normalised Group Revenue of \$1.56bn, EBITDA of \$430m and NPAT of \$116m. Statutory NPAT was \$58m. COVID-19 related property shutdowns, operating restrictions and border closures materially impacted revenues and earnings.

Qld properties fared better than Sydney due mainly to more extended lockdowns in the latter. Gold Coast financial performance was best of the three. When open in Qld the revenue trends were fairly consistent with 1st Half FY2021.

Group slots revenue in 2nd half FY2021 was up 4% on comparative period in FY2019. Likewise, Group loyalty gaming revenue was up 4% for same two half years.

There was strong cost control and margin expansion. Operating expenses were down 11% on pcp to \$740m, down 30% on FY2019. \$50m fixed cost reduction program progressed with full run-rate to be realised in FY2022.

Balance Sheet position improved with Net Debt reduced by \$211m during the period. Net debt/EBITDA declined to 2.7x, substantial liquidity on hand (\$492m). Capex was also down. Significant growth investments continuing to plan – Queens Wharf and Gold Coast Towers.

Asset Sales are progressing with VIP assets, realising \$35m during the year and an additional jet to be sold in FY2022. SGR is in due diligence for sale of an interest in Brisbane Treasury buildings, targeting a sale agreement in 1st half FY2022 as well as initiating a formal process for sale and leaseback (or something similar) of a minority holding in The Star Sydney property.

The Lending Covenant with Banks has influenced non-payment of dividends – no dividends for past 18 months. SGR is currently hopeful that a dividend will be paid in 2nd half FY2022.

The Share price at year end was \$3.69 and has progressively declined more recently to current price of \$3.21.

See Table below for more details.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	57.9	-94.6	198	148.1	264.4
UPAT (\$m)	116.4	120.8	224	258	214.5
Share price (\$)	3.69	2.84	4.12	4.93	5.05
Dividend (cents)	NIL	10.5	20.5	20.5	16.0
Simple TSR (%)	29.9	-26.0	-12.0	1.0	-4.0
EPS (cents)	6.1	-10.3	21.6	17.5	32.0
CEO total remuneration, actual (\$m)	1.729	2.385	3.33	4.375	1.695

Notes:

No vesting of 2017 LTI.

No STI awarded in 2019 nor 2021.

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

For 2021, the CEO's total actual remuneration was 18.5 times the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics). For November 2020, the Full-time adult average weekly total earnings (annualised) was \$93,444 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

Item 2	Re-election of Dr Sally Pitkin AO as a Director
ASA Vote	For

Summary of ASA Position

Dr Pitkin served on the Board for nearly 7 years and currently chairs the Remuneration Committee as well as being member of Audit and People, Culture & Social Responsibility Committees). She has over 25 NED experience across wide range of industries in private and public sectors, including in gaming industry. She is Chair of Super Retail Group and NED at Link Admin. Holdings Ltd.

She has a PHD (Governance), Bachelor and Masters of Law, FAICD and AO).

Holds 45,900 shares in SGR.

Dr Pitkin is well qualified as a Director of SGR and has not to date been formally implicated in recent significant media allegations etc Voting Intention is proposed as 'For' at this stage.

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Item 3	Re-election of Mr Ben Heap as a Director
ASA Vote	Undecided

Summary of ASA Position

Mr Heap has been on the Board for 3 and 1/2 years. He currently chairs the Risk & Compliance Committee and is also member of Audit and People, Culture & Social Responsibility Committees. He has wide-ranging experience in asset and capital management in the finance and in technology and digital businesses. Is a Founding Partner of H2 Ventures and Chair of CBA New Digital Businesses and NED at Colonial First State, President of Gymnastics Aust, NED of Redbubble Ltd and member of Government's Fintech Advisory Group. Was previously an executive at UBS and TAB Ltd.

He has a Bachelor of Commerce (Finance) and Bachelor of Science (Mathematics).

Holds 40,000 shares in SGR.

Whilst Mr Heap is well qualified as a Director of SGR and has not to date been formally implicated in recent significant allegations he does chair the Risk & Compliance Committee - member since FY19 and Chair since March 2021. At this stage, and pending any further information in relation to allegations, the Voting Intention proposal is 'Undecided'.

Item 4	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Last year ASA did not support the Remuneration Report and SGR incurred a 1st strike on remuneration with a 45% Vote Against. Shareholder feedback included concern over the Board's use of discretion to allocate restricted share awards under the STI Plan due to SGR receiving government subsidies in form of JobKeeper payments.

Due to impact of COVID 19 on financial results, the target setting process for FY 2021 STI was delayed until December 2020 so that reliable information was available. SGR has indicated that targets were set which balanced the interests of shareholders and employees. SGR did not reach the financial gateway under FY 2021 STE and Board resolved not to make awards.

The FY 2017 LTI was tested during the year and did not vest. The FY 2018 LTI will be tested prior to the AGM.

SGR is introducing a new STI design for FY 2022 for which there has been an extensive prior review. There will be a mix of financial and non-financial measures, Company performance now accounts for 80% of overall STI award for Executive KMP with the capacity to pay maintained through a higher weighting on NPAT metric at 50% of total award. Group Regulatory & Risk Management and Employee Engagement are being introduced, each with 10% weighting. Individual performance accounts for 20% of the overall STI award for Executive KMP.

The LTI allocation is calculated on a Face Value and has a 4 year timeframe with 3 measures each accounting for a third. The percentile for vesting for TSR at 50% is the 50th percentile. The other 2

measures (ROIC and EPS) also have 50% at the threshold. The vesting level could be more rigorous but otherwise all quite reasonable.

In view of SGR taking the feedback from last year into consideration and changes made in remuneration it is proposed to support adoption of the Remuneration Report.

Both Statutory and Actual Remuneration are included in the Annual Report.

ASA proposes to support this resolution.

Item 5	Approval of LTI grant to CEO/Managing Director, Mr Matt Bekier
ASA Vote	For

Summary of ASA Position

See also details under Item 4 above and in Appendix 1.

The Fixed component of Mr Bekier's remuneration at \$1.7289 for FY 22 is again unchanged from past few years. STI Performance Target is also set at that amount with maximum potential of 150%.

LTI maximum potential is also unchanged at \$2.9m.

FY 2017 LTI was tested during the year and it did not vest. The 2018 LTI will be tested prior to the AGM.

He did not receive a STI payment in 2021.

Mr Bekier holds 2,936,077 Performance Rights, 1,008,905 Ordinary Shares and 273,903 Restricted Shares.

ASA proposes to support this resolution.

Item 6	Conditional Spill Resolution
ASA Vote	Against

Summary of ASA Position

Generally, ASA opposes Spill Motions as it is a dramatic step to take, as opposed to just sending a message on Remuneration policies. We are not opposing the rem report as positive changes have been made to Remuneration policies. Therefore, the ASA vote would be AGAINST if a Spill Motion goes forward.

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Appendix 1 Remuneration framework detail

CEO rem. Framework for FY2021	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.729	27	1.729	24
STI - Cash	1.153	18	1.729	24
STI - Equity	0.576	9	0.865	12
LTI	2.900	46	2.900	40
Total	6.358	100.0	7.222	100