



THE STAR

ASX Announcement

13 February 2023

EARNINGS UPDATE AND OUTLOOK

- **The Star provides unaudited 1H FY23 earnings update and FY23 earnings outlook.**
- **Anticipated non-cash impairment resulting from potential NSW casino duty rate increases and regulatory reviews.**
- **Discussions ongoing with NSW Government on the proposed NSW casino duty rates.**

The Star Entertainment Group Limited (ASX code: SGR) (**The Star**) announces that (**The Star** or **Group**) provides the following update on operating conditions and outlook for the remainder of the 2023 financial year.

1H FY23 EARNINGS UPDATE

As disclosed in November 2022, 1H FY23 earnings have been impacted by operational changes arising from the Bell and Gotterson Reviews, a step-up in remediation costs and increased competition in Sydney.

Whilst The Star's Queensland Casinos performed strongly in the period, the operating environment for The Star Sydney has been more challenging.

1H FY23 revenue performance across the Group was as follows:

- **The Star Gold Coast** – domestic revenue was up 30% on pre-COVID levels¹, achieving its highest revenue result on record;
- **Treasury Brisbane** – domestic revenue was up 9% on pre-COVID levels, with record performance across slots, main gaming floor tables and hospitality; and
- **The Star Sydney** – domestic revenue was down 13.5% on pre-COVID levels.

Overall, Group revenue was down 1% on pre-COVID levels.

The Star Sydney trading performance has been adversely impacted by several factors, in particular by increased operating restrictions from mid-September following the Bell Review and amendments to the NSW Casino Control Act. This saw an increase in the number of excluded patrons and a reduced level of complimentary services and benefits in private gaming areas (impacting both slots and table games performance). The Star has also been impacted by increased competition since the opening of Crown Sydney in August 2022.

Further, and consistent with the Group's ongoing remediation actions, The Star has continued to invest in improved compliance capabilities and incurred remediation costs of ~\$20m in 1H FY23. This included a significant increase in headcount including the use of 'surge' third party consultants to improve compliance processes as the Group seeks to return to licence suitability.

Subject to completion of the auditor review process and finalisation of the financial statements for 1H FY23, The Star expects to report underlying EBITDA of \$195 million to \$205 million in 1H FY23.

¹ Based on the comparable period in FY19. Refer to the 'Important notes' at the end of this announcement.

The 1H FY23 underlying EBITDA will exclude provisions for fines and one-off legal costs which will be treated as significant items.

The Company will provide more detailed commentary on trading performance and operating conditions with its 1H FY23 results release.

FY23 EARNINGS OUTLOOK

Based on current trading performance and the outlook for the remainder of the second half, the Group now expects to report underlying EBITDA of \$330 million to \$360 million for the year ending 30 June 2023.

The end of year position will be dependent upon a number of factors which are uncertain at this time, including regulatory settings relating to complimentary services in The Star Sydney's private gaming areas, the level of inbound international tourism, and general consumer discretionary spending behavior.

This guidance includes estimated remediation costs of \$35 million to \$45 million in FY23, of which approximately 50% are expected to be recurring from FY24 (as disclosed at the AGM in November 2022).

This guidance is provided on the basis that market conditions and the regulatory environment do not materially change.

While remediation remains the key focus, in order to respond to the current trading environment, The Star intends to implement a number of focused operational initiatives designed to improve its trading performance. These initiatives are expected to contribute only marginally in the last quarter of the FY23 period, and no impact is assumed in the above guidance for FY23. On an annualised basis, these initiatives are estimated to contribute in the order of \$40 million to the Group's operating performance.

These initiatives are expected to include:

- replacing contractor 'surge' resourcing with full time resources;
- uplifting The Star Sydney's performance;
- implementing measures to improve The Star Sydney's operating efficiency and cost control;
- enhancing the customer experience at The Star Sydney; and
- actions to respond to the Group's competitive position in Sydney including loyalty benefits and pricing.

NON-CASH IMPAIRMENT

Due to the impact of operational changes implemented following the Bell Review, amendments to the NSW Casino Control Act as well as the potential for an increase in NSW casino duty rates starting in FY24, The Star is anticipating a non-cash impairment charge in relation to its NSW business in the range of \$400 million to \$1.6 billion in its 1H FY23 results.

The high end of this range is based on the implementation of NSW casino duty rate increases as proposed by the NSW Government on 17 December 2022 (as discussed below). The low end of the range assumes no change in NSW casino duty rates.

NSW CASINO DUTY RATES

The Star and the NSW Government are in discussions on the implementation of the proposed changes to NSW casino duty rates.

The Star understands the proposed changes will require legislation to be passed by the NSW Parliament, unless the NSW Government and The Star reach agreement.

If implemented in their current form, the proposed duty rate increases would have a significant adverse impact on the profitability of The Star Sydney, further compounded by the changing operating and competitive environment as described above.

In this scenario, The Star intends to undertake an urgent review of The Star Sydney's operating model and assets, with a view to maximising value for the group's shareholders.

In the meantime, The Star will continue its discussions with the NSW Government.

COMMENTARY

Group CEO and Managing Director Robbie Cooke said: "We have been pleased with the ongoing strength of trading across our Queensland based properties, while trading at The Star Sydney has been impacted by operational changes associated with the outcome of the Bell Review as well as competition from Crown Sydney.

Whilst the outcome of recent regulatory and legislative developments remains uncertain, we have taken a prudent approach to assessing the carrying value of our assets, which has resulted in a non-cash impairment charge which will be recognised in our 1H FY23 results.

We are engaged in constructive discussions with the NSW Government in relation to the proposed casino duty rate changes.

We are singularly focused on working with our regulators and the NSW Manager and Queensland Special Manager to remediate our businesses, as we seek to return to suitability. Our key priority is to regain the trust of our community and demonstrate to our regulators that we are suitable to hold our casino licences. Aligned to that, we continue to support the NSW Premier's initiatives around cashless gaming and improved harm minimisation across the industry."

Authorised by:

Board of Directors

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IMPORTANT NOTES:

Basis of preparation and non-IFRS information

- Information in this announcement is provided as at the date of the announcement unless specified otherwise. It should be read in conjunction with The Star's other disclosures made via the ASX.
- The Star's financial results are reported under International Financial Reporting Standards (IFRS). This announcement may include certain non-IFRS measures including normalised results, which are used internally by management to assess the performance of the business.
- Non-IFRS measures, 1H FY23 earnings update and current trading FY23 results to date have not been subject to audit or review.
- Queensland results referred to in this announcement relate to The Star Gold Coast and Treasury Brisbane segments as reported in The Star's financial reports. Comparatives are generally to the prior corresponding period unless otherwise stated; pre-COVID refers to the relevant period in 2019.

Forward looking information

- This announcement includes forward looking statements and references which, by their very nature, involve inherent risks and uncertainties. These risks and uncertainties may be matters beyond The Star's control and could cause actual results to vary (including materially) from those predicted. Forward looking statements are not guarantees of future performance. Past performance information in this announcement is provided for illustration purposes only. It is not indicative of future performance and should not be relied upon as such.
- This announcement does not take into consideration any individual investor's circumstances. The Star recommends investors make their own assessments and seek independent professional advice before making investment decisions.