

3 April 2020

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**AUSTRALIA**

**RE: SKYCITY ENTERTAINMENT GROUP LIMITED (SKC)  
COVID-19 STAFF UPDATE AND CHANGE OF SENIOR MANAGER**

Please find **attached** an update from SkyCity Entertainment Group Chief Executive Officer, Graeme Stephens, provided to all SkyCity staff today outlining the impact of COVID-19 and the changes being implemented to minimise the impact. These changes include significantly reducing capital expenditure and minimising operating costs, including the immediate restructure of the SkyCity management team and salaried employee base.

As part of the management restructure and for the purposes of NZX Listing Rule 3.20.1, Peter Alexander will step down from the role of Chief Property Officer and leave the company effective from 2 July 2020.

Please note that the update is not intended to provide a forecast or guidance on revenue or earnings for the 2020 financial year. The company is continuing to assess the operational and financial impacts of COVID-19 and the closure of SkyCity's properties in New Zealand and Adelaide, South Australia. The SkyCity Board of Directors is closely involved with the SkyCity management team in monitoring the evolving situation and, in addition to weekly update meetings, is scheduled to formally meet on 21 April 2020. SkyCity will update the market as new material information becomes available.

**For more information, please contact:**

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Authorised by:

A handwritten signature in blue ink, appearing to read 'Jo Wong', with a stylized, cursive script.

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## **MARKET RELEASE**

### **SkyCity Entertainment Group Limited (SKC.NZX/SKC.AX)**

3 April 2020

#### **Staff Update from Graeme Stephens (Chief Executive)**

##### **Overview**

The COVID-19 crisis has caused an unprecedented impact on people, businesses and the global economy. In the short term, we are all dealing with the immediate impact of shutdowns and the uncertainty of containing the disease to save lives. SkyCity is fully supportive of the initiatives being taken by the New Zealand and Australian Governments and will play whatever role it can to assist in dealing with the current crisis. We all believe that the virus will ultimately pass and that we can then start to return to “normality”. None of us, however, know what “normal” will look like, or when it will happen - but it is reasonable to assume that it will take some time.

At present, all casinos, hotels, restaurants, bars and attractions are closed across the five SkyCity properties in New Zealand and Adelaide, South Australia. We have over 5,000 people on our payroll and we are a tight knit team – even more so after dealing with the fire at the New Zealand International Convention Centre (**NZICC**) late last year. During the closure, we face almost \$90 million in lost revenue per month whilst still incurring significant costs such as utilities, lease payments and labour, with labour costs alone around \$20 million per month.

This is a storm we could, and would, weather if we were to reopen within a few months in a pre COVID-19 world. Unfortunately, the impact of COVID-19 is not limited to the short-term consequences of closure. Even when we fully open, we reasonably expect that weaker economies, lower personal disposable income and changed entertainment habits, as well as longer term travel restrictions, will result in us recommencing as a smaller, domestically focused business. Our International Business activities might recover reasonably quickly once travel restrictions are lifted, but the parts of our business driven by corporate travel and by tourism, such as our hotels and the Sky Tower, will take longer to recover.

Given that our business has fundamentally changed for the foreseeable future, we need to take action now to address this. We have conducted an intensive evaluation of our strategic options and will be implementing a wide range of changes across all our businesses to reduce our operating costs and preserve funding liquidity. Our objective is to right-size and refocus the business now so that it is sustainable through the crisis. When

we reopen, our business will already be tailored to the market we are operating in, and we expect it to grow again as our economy recovers.

### **Cost Saving Initiatives**

The changes being implemented include significantly reducing capital expenditure and minimising operating costs, including restructuring the management team and salaried employee base immediately. It is also highly likely that we will have to reduce our rostered (waged) workforce in the coming months.

The relatively easy decisions have revolved around reducing costs that are not directly related to people, and these include:

#### *Reducing Capital Expenditure*

- A \$15 million reduction in stay-in-business capital expenditure for the remainder of the financial year ending 30 June 2020 (**FY20**), with the remaining stay-in-business capital expenditure in FY20 relating solely to essential ICT projects that can be continued remotely and to Adelaide master plan projects
- Except for the NZICC and Horizon Hotel project, all capital development projects in New Zealand have been put “on hold” at least until our properties reopen. Some of these circa 50 different small capital projects could assist our return to profitable operations and may be able to continue in an Alert Level 2 or Level 3 environment
- No work is currently possible on the NZICC and Horizon Hotel project. This means that payments for this project will be delayed, which is helpful to our debt position

It is worth noting that, for now, the Adelaide expansion and master plan projects are continuing as construction is deemed an essential service in Australia. However, should this status change and the construction site shut down, then the budgeted capital expenditure will cease as well as several related work streams that are required to complete those projects.

#### *Minimising Other Operating Costs*

- Other operating costs (excluding labour costs) across all properties and corporate functions have been reviewed and all non-essential costs eliminated for the remainder of FY20
- Executive salary cuts ranging from 20%-40% have been volunteered by the leadership team at Group and property level for the remainder of FY20. The Chief Executive, Chief Financial Officer and Chief Operating Officer’s salaries will be cut by 40% for the remainder of FY20 (see further detail below)
- The SkyCity Board of Directors has also volunteered to cut its fees for the remainder of FY20 by 50%

The incredibly hard decisions have revolved around our people. The entertainment business typically attracts passionate people and we have thousands of them from very diverse backgrounds. SkyCity people work hard, they always go the extra mile, and many have been with us for years. But, unfortunately, we are not going to be able to retain all of them. We are determined to try and maintain our culture and values through this period

and how we treat our people, those that are having to leave and those that remain, has been front of mind.

Our workforce is made up of salaried and waged employees. The New Zealand Government's Wage Subsidy Scheme is providing significant assistance in being able to retain our lower level waged staff in New Zealand for as long as the subsidy is in place. We have asked waged staff to cut to 80% of normal wages and, on this basis, we can carry their cost. Those not wishing to reduce wages have been offered the option of voluntary redundancy. This provides us with some time to assess how the impact of COVID-19 evolves. Based on our current assessment of the likely operating environment, were it not for the subsidy we would be forced to make some 700 waged people redundant now in order to right-size our labour workforce for the future.

For our salaried employees in New Zealand, the subsidy is less meaningful and, consequently, we will need to reduce our headcount to a level more commensurate with our anticipated levels of trade once we reopen. This will lead to redundancies for approximately 200 of our people and we will be starting this process with immediate effect.

In Australia, around 90% of our workforce has been stood down and no decisions have yet been made about potential redundancies. We welcome the Australian Government's new JobKeeper payment scheme and expect to access this scheme for all our Australian staff. We still expect to complete the new Adelaide expansion in the reasonably near term and reopen (still on track for later this year) as a significant employer.

We have restructured the senior leadership team and the role of Chief Property Officer, held by Peter Alexander, has been made redundant. It will be some years before we can invest into the vision that Peter has helped to develop for our property portfolio, but it remains as significant latent value for the company to unlock at the relevant time. In regard to the other members of the leadership team, the Board has endorsed my view that they individually and collectively contribute the critical skills that will steer the company through this phase. Myself and our leadership team have volunteered to take significant reductions in salary for the remainder of FY20 which will be used to establish an Employee Hardship Fund of around \$1 million to initially assist those of our departing New Zealand employees who find themselves in financial difficulties that can't fully be addressed by their redundancy payments. Other SkyCity staff members will also be able to voluntarily contribute to the Fund.

Beyond financial assistance, we are also committed to supporting our departing staff as they transition out of the business. We have collaborated with essential service providers in the healthcare and grocery sectors, where employment demand has increased, to set up the Keep New Zealand Working job portal, and will offer free independent services, such as out-placement assistance, counselling support and budgeting advice.

If our view of the future state of the business remains unchanged over the next three months, then we will also be forced to take action to reduce our waged staff as identified above. The fully implemented cost reduction plan for salaried and waged staff will impact around 900 people and generate labour savings of close to \$50 million per annum – a reduction of some 20%, which aligns with the currently anticipated reduced business

activity over the next 12-18 months. The estimated cost of the redundancies is \$11 million. We will review our outlook as the crisis evolves and may need to make further changes, especially if our properties remain closed beyond 30 June 2020 and/or travel restrictions remain in place for an extended period.

### **In Conclusion**

This is an incredibly stressful time for everyone and we are trying to provide our staff with certainty as quickly as we can. We are doing what it takes to ensure that our business survives for the long term and continues to provide a great place to work and a place to which thousands of our customers can return in the future.

I would like to thank our Chairman and Board for their support and counsel as we make decisions in unprecedented circumstances. The wider leadership team has worked extremely hard to redefine our strategic direction and to prepare our business for the new normal. I am proud of their efforts. My thoughts are with the majority of the SkyCity team that are desperately wanting to help but cannot. I very much look forward to the day when we can unite in a positive and constructive environment and rebuild our business.

We will continue to provide further updates as new material information becomes available.

**ENDS**