

EVENT

HOSPITALITY & ENTERTAINMENT

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**CHAIRMAN'S ADDRESS
TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS
FRIDAY 19 OCTOBER 2018**

Ladies and Gentlemen,

It is a pleasure to welcome all shareholders and visitors back to Event Cinemas George Street for this Annual General Meeting of Event Hospitality & Entertainment Limited.

The 2018 Annual Report, which includes the financial statements for the year ended 30 June 2018, was released to shareholders in September 2018. The Group's total net profit after tax for the year was \$111.9 million compared to \$110.8 million in the previous year, a marginal increase of 1%, whilst the normalised result after tax increased 9% to \$124.3 million. The normalised result for 2018 was one of the highest in the Group's 108 year history, second only to the 2016 year.

The Board was pleased to approve a final fully franked dividend for the year of 31 cents per share. The total fully franked dividend was 52 cents per share, an increase of 1 cent over the prior year. Shareholders will note that, since 2001, the total dividend has increased from 10 cents to the current 52 cents per share. The Board has chosen to maintain a dividend policy that is mindful of the needs and expectations of shareholders, and also provides for expansion opportunities for the businesses and continuity of earnings for both shareholders and the Group.

The Group's total cash balance at 30 June 2018 was \$95 million with total debt outstanding of \$375 million which positions us with a modest gearing level and with significant headroom in terms of available facilities. The Board continues to review, assess and monitor appropriate capital management initiatives and strategies. This program is managed within the context of maintaining a strong balance sheet and maximising sustainable and long-term total return to shareholders.

In line with this strategy the Group has progressed plans for a number of owned properties that may be suited to future redevelopment. These include the properties located at 458-472 George Street, Sydney, which were acquired in 2017. Subject to council approval, the planned redevelopment of these properties will integrate with the State and Gowings buildings and include an extension of the QT Sydney hotel. Other properties identified for potential future development include 525 George Street, Sydney, adjoining this building, Rydges Melbourne, and 100 Cable Street, Wellington, adjacent to the QT Museum hotel. In addition, a number of upgrades and improvements are planned at the Group's Thredbo Alpine Resort and other identified hotel properties. Jane will have more to say about these opportunities later in the meeting.

The Group has been guided by the third edition of the ASX Corporate Governance Council's Principles and Recommendations during the year, and the Corporate Governance Statement has been published on the Group's website. This statement sets out the corporate governance practices and procedures and should assist shareholders in understanding and appreciating the importance placed by the Board upon good corporate governance.



The Board, and committees of the Board, remain committed to ensuring that the Group's corporate governance practices are consistent with the Principles and Recommendations.

The Board also focuses on maintaining an appropriate approach to remuneration, and details of this approach are dealt with in the Annual Report. In particular, the Group's policies are designed to, as far as possible, ensure that the remuneration package is reflective of an employee's duties and responsibilities and to enable the Group to attract, motivate and retain high calibre executives. To this end a number of senior executive appointments have been instigated by the CEO.

As noted in the Annual Report, the Nomination and Remuneration Committee has undertaken an external review of the Group's incentive arrangements, including consideration of the current structure and long term incentive hurdles to ensure that they remain appropriate for the Group and consistent with current market practice. Following this review, and in the context of the property development opportunities mentioned earlier, the Nomination and Remuneration Committee is considering the implementation of an appropriate incentive hurdle linked to the successful delivery of the Group's major property developments.

Ladies and gentlemen, as mentioned in previous years, the business segments in which the Group operates are at times volatile and always subject to varying degrees of change. Your Board and management continue to focus on optimising the Group's position so it can take advantage of appropriate opportunities as they arise. I should mention that, as the Company continues its growth through significant property initiatives, the returns on these investments will be longer coming by virtue of the nature of the developments. The Company may also be undertaking some of these activities in partnerships where we believe such an approach brings benefits both financial and in access to industry experience. Event has always prided itself on the strength of its balance sheet which is underpinned by premium property holdings. Our upcoming developments will further enhance this key attribute of our company.

I and the Board acknowledge the considerable efforts of the CEO since her appointment in July 2017 and the many exciting developments that have already been implemented over the last year and further opportunities for future growth identified by Jane. To the rest of the executive team and all Group employees I extend our thanks for their collective and personal efforts. We are proud to have such a depth of experience and recognise the contribution you have made which has enabled our growth. This growth would not have been possible without your contribution.

I would also like to thank my co-directors for their efforts during the year and, again, our 6,500 shareholders for your on-going support.

I will now ask Jane to present her address. Thank you.

Alan Rydge
Chairman

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CHIEF EXECUTIVE OFFICER'S ADDRESS TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS FRIDAY 19 OCTOBER 2018

Thanks Alan and good morning Ladies and Gentlemen.

Turning now to the results for the 2018 year, Group revenue was down 1% year on year to \$1.3 billion, Group EBITDA was up 10% to \$268 million, whilst normalised profit before interest, tax, and individually significant items was up 12% year on year to \$190 million, the highest in the Company's history.

We had growth across our Hotels and Resorts, Entertainment New Zealand, and Thredbo divisions, whilst Entertainment Australia and Germany had a tougher year but traded relatively in line with the markets they operate in.

In Entertainment Australia, market box office was down 5% overall and the Group's performance was in line with the market. The top 50 films, which generated 75% of box office, were only \$1.2 million behind the top 50 in the prior year but the films outside of the top 50 were down 16%. We achieved strong growth in spend per head, which was up 4.3%, but due to the decline in market box office our revenue was down 3.4%. Earnings were further impacted by increased electricity costs and new cinemas opened during the year which were still in the initial growth phase.

The Top 5 titles at the Australian Box Office during the year grossed \$244.5 million and included:

- *Avengers: Infinity War* (\$61.7 million) – up 51% on the previous *Avengers* title;
- *Star Wars: The Last Jedi* (\$58.0 million);
- *Jumanji: Welcome to the Jungle* (\$48.6 million);
- *Black Panther* (\$40.7 million); and
- *Deadpool 2* (\$35.5 million).

During the year, we opened four new cinemas including Event Cinemas in Smithfield Cairns, Palmerston Darwin and Whitford in Perth, and Village Plenty Valley which opened in April 2018. These sites contributed negatively to earnings in this financial year. Given Australia is a mature cinema market, it will take longer for these investments to deliver a positive contribution and all measures are in place to aim to achieve this.

We were pleased with the growth in food and beverage spend per head, which was up 4.3% with a focus on our core range of popcorn, coke and ice cream, whilst online food and beverage sales grew 31%. Our premium and value strategy is also delivering good results with an increase of 8% in the percentage of customers choosing our premium Vmax and Gold Class offerings. Our Cinebuzz loyalty program members in Australia grew 33% to two million active members through enhancements in the program, and more than 60% of all transactions and 80% of online transactions are now conducted by Cinebuzz members. This means we have a direct relationship with a large proportion of our customer base to drive visitation and spend.

Entertainment New Zealand experienced growth in normalised profit of 11% driven by good cost control and an uplift in merchandising spend per admission of 3.5%.



In contrast, earnings from Entertainment Germany declined by 11%. This was primarily impacted by the cyclical release disruption caused by the staging of the FIFA World Cup in 2018. This disruption consistently occurs every two years due to the popularity of the World Cup and European Championships, during which time German cinema attendances are significantly impacted. This is further compounded by a reduction in major films released by distributors during this period. The German market also experienced record warm weather towards the end of the financial year which further reduced cinema attendances. Pleasingly, merchandising profit per admission increased by 7%, whilst the Group continued to grow loyalty program members which were up 28% year on year.

The Hotel business delivered a strong result up 31% on the prior year. New hotels, including QT Queenstown and a full year of QT Melbourne and Rydges Geelong, contributed 56% of this growth whilst the remainder was from underlying growth in owned hotel performance.

Each of the Group's hotel brands delivered growth in a key metric of revenue per available room ("revpar"), as demand levels remained close to all-time highs for the majority of the markets in which we operate including Sydney, Melbourne and Queenstown which drive the majority of our owned hotel earnings.

The Hotels also benefited from strong growth in conference and events revenues and margin improvements from all departments, particularly from food and beverage in the Group's QT hotels.

Whilst the management services agreement for the Art Series Hotels ended in October 2017, we were able to add a number of new hotels to the managed portfolio which will more than offset previous earnings from Art Series. These new hotels include Rydges Mackay Suites, Rydges Newcastle, Rydges Tailm Bend South Australia and The Victoria Hotel in Melbourne.

Normalised profit from the Thredbo Alpine Resort increased 20% (up \$3,651,000) after an outstanding 2017 snow season, which benefitted from good snowfall in September 2017 resulting in a 40% increase in skiers in that month and an overall increase in visitation of 12% for the 2017 season. Summer revenues continue to grow, underpinned by growth in mountain biking with total summer revenue up 19% year on year.

Earnings from the Group's property division were strong, assisted by a fair value adjustment of \$5.75 million in relation to the investment properties. Rental property revenue also increased due to a full year of income from the two properties located at 458-472 George Street, Sydney which were acquired in May 2017 and are currently leased to several retail and commercial tenants. We also obtained updated independent valuations for the Group's properties at 30 June 2018 and the total fair value of the portfolio has increased to \$2 billion, which favourably compares to the book value of \$1.2 billion. Our property portfolio provides excellent opportunities for future growth.

Subject to appropriate returns and assessing market conditions at the time of development, these opportunities include:

- 458-472 George Street, Sydney, which will include retail (36 metre street frontage on a prime section of George Street), an extension of the QT hotel specifically rooms, adding conference and events facilities which the hotel currently does not have, and a commercial tower which will be developed in a joint venture arrangement;
- 525 George Street, Sydney, which currently forms part of this George Street cinema complex and may be developed as a mixed use cinema, residential and hotel development. This site is currently operating two Vmax cinemas and some smaller screens and can be better leveraged;
- a potential major expansion of Rydges Melbourne including rooms and conference and event space;

- incremental development at Thredbo as we need to create more capacity to grow, including a proposed gondola to replace Merritt's chairlift together with upgrades of Merritt's Mountain House and the facilities at Friday Flat; and
- a potential mixed use cinema, hotel and residential development at 100 Cable Street in Wellington, New Zealand, adjacent to QT Wellington.

Other recent or planned hotel developments include:

- QT Perth which opened in August 2018 and is trading in line with expectations. In the long term, we believe in the Perth market. However at this point in the cycle, Perth is a tough market with negative market revpar growth forecasted for the next three years. As a result, it will take at least three years for this investment to generate a positive contribution to earnings. We are very pleased with the food and beverage offering at QT Perth. This aspect of the hotel has been instantly well received by locals with very good reviews by critics including a 17/20 ranking and quote that "A Star is Born".
- Atura Adelaide Airport opened in September 2018 connected to the Adelaide Airport. Whilst the property will take time to contribute positively to earnings, early day trading is in line with expectations. This hotel is also supported by a great working relationship with Adelaide Airport and has been supported strongly by the local market.
- At QT Wellington, the Gallery floor featuring 18 new guest rooms, each decorated by a unique NZ artist, will open in November.
- Expansion of the conference space at QT Melbourne is being planned and an upgrade of Rydges Townsville's conference centre is currently underway.
- Across our managed portfolio, the 38 room extension of Rydges Campbelltown will be completed in November and the 140 room Rydges Wellington Airport opens in December. Plans are also well advanced for a 44 room extension of Rydges Latimer Christchurch.

Other upgrades, planned to be completed in stages over the next few years include:

- At Rydges Queenstown a conference centre refurbishment and Guest room upgrade.
- At QT Gold Coast we are planning on completing the conversion of this hotel to the full QT standard by upgrading the pool area, conference centre areas and rooms.
- At QT Canberra we are planning an upgrade of the conference centre area which is the largest in the Canberra hotel market.
- A complete refurbishment and potential extension of Rydges North Sydney which has not had a major upgrade since construction 45 years ago but remains one of our most profitable Sydney properties.
- Also, at Rydges Melbourne, a key contributor to the Group, we are planning an upgrade and potential extension of rooms and conference area.

We have increased our focus on growth of our managed hotel portfolio with some pleasing results. Since July we have secured a full management agreement with Rydges Darwin Central. In addition, we have entered into new service agreements with The Hermitage Aoraki Mount Cook, The Ultimo Hotel in Sydney and the Pensione and the All-Suites hotels in Perth, which will join the portfolio in this second quarter. We look forward to announcing more management agreements in the near future.

Across the cinema group, we opened Event Cinemas Coomera earlier this month and Event Cinemas Kawana is due to open next month. These new eight-screen complexes include some of our latest cinema concepts. These concepts have been fully defined, prototyped and tested over the past nine months and will build on our strategy of offering multiple experiences under one roof. The new Vmax three-tiered seating design offering daybeds, recliners and premium lounge seats in the same cinema, providing more choice for customers and commercially, a better return from each screen.

Further to this, we have launched 4DX, a revolutionary cinematic experience. 4DX stimulates all of the five senses with moving seats and special effects such as wind, fog, water and scents which synchronise with the action on screen to fully immerse the audience in the movie.

The overall aim is to deliver a greater return from underutilised cinema space and to build on the superior experience of watching movies in a cinema.

Given the importance of food and beverage earnings to a cinema, we have also launched Parlour Lane, an owned premium popcorn range, which is already delivering incremental returns from this category.

For cinemas, we believe in the strong returns from upgrading key cinema locations with more premium experiences. However, given the maturity of the cinema market in Australia, we will be very selective in any new future developments.

For the Group and within each division we are focussed on three strategic priorities for our operating businesses;

1. Growing existing revenue, through smarter pricing, better sales practices and a focus on high margin products;
2. Maximising asset performance, by innovating and upgrading priority locations, investing in key property developments and acquiring new assets which deliver immediate positive yield and have the potential to be developed into hotels. We are divesting underperforming assets including QT Port Douglas which has been negatively contributing for many years. In addition, we have decided to close some underperforming cinemas including Cairns City and Darwin City.

As a result of a strategic review of the Group assets where we determined that Cinestar offers no economies of scale for our other cinema businesses, we announced that we are exploring options for our German cinema exhibition division. With the strong pipeline of development opportunities that we have shared today, we believe we can crystallise greater value for shareholders by investment in these to deliver long term growth and optimise value for shareholders. We are working with Rothschild & Co as our financial advisors on determining the right option. We are making good progress and will update the market in due course. It is a priority to ensure we get the best return from our portfolio of assets;

3. Our third goal is focussed on business transformation which means reducing duplication, increasing automation and increasing our digital capability and performance.

I will now comment on the current year and our performance over the first quarter.

The PBIT result for the quarter was 26.6% below the prior year's comparable quarter, predominately due to a very weak overall cinema market in Germany. The German market box office was down 20%, the lowest box office since 2005, due to the continued impact of the FIFA World Cup and the extreme warm weather that included what has been reported as one of the warmest July's on record, and warm weather continued in August and September. However, we have traded broadly in line with market and the factors within our control have been well managed.

Other impacts to the first quarter PBIT included an incremental bonus expense as a result of the record 2018 PBIT year and new openings including QT Perth and Atura Adelaide.

Adjusting for these factors, we are pleased that the comparative quarter trading is up 2.4% on the prior record year.

Looking ahead, the total market box office in Australia and New Zealand has started well, up 4.9% and 9.1% respectively. The short-term outlook for the Exhibition Group looks challenging with a comparatively weaker line-up for the important Christmas period. Whilst we have solid titles in *Bumblebee*, *Aquaman*, *Mary Poppins*, *Ralph Breaks the Internet* and *How to Train Your Dragon 3*, last year's line-up appears comparatively stronger. This year we have an increase in the number of family titles being released including *Aladdin*, *Toy Story 4*, *The Secret Life of Pets 2*, *Dumbo*, *How To Train Your Dragon 3*, *Mary Poppins Returns* and *Ralph Breaks The Internet*. The family market typically attracts a lower average ticket price, less preference for premium cinema experiences and a lower transaction spend on food and beverage. However, we have solid strategies in place to aim to improve on these factors.

Whilst it is too soon to evaluate the second half line up, we should benefit from the first stand-alone *Captain Marvel*, the sequel to the hugely successful *Avengers Infinity Wars*, and we are also excited to screen *Alita: Battle Angel* the hotly anticipated action film produced by James Cameron bringing his ground breaking and highly improved CGI technologies from *Avatar* to this project, and the long-awaited new *Toy Story 4*.

It is also important to highlight that the Virtual Print Fee ("VPF") revenue which has had a positive contribution over the past seven years has now ceased in Australia and there will be a decline in income from these arrangements of approximately \$4.4 million in New Zealand and Germany this year.

In Hotels, Melbourne, Queenstown and Sydney continue to be the strongest markets in Australia and New Zealand. While occupancy levels remain high in these key markets, (Melbourne 85.8%, Queenstown 81.5%, and Sydney 85.5%), additions to hotel rooms supply is slowing growth. The Sydney market has started softer than the prior year with market revpar down 5.4%. A considerable proportion of our hotel earnings are derived from Sydney and these market factors have impacted the start to the year. In addition, whilst QT Perth and Atura Adelaide Airport are trading in line with expectations, they will negatively contribute to earnings in this financial year. However, we remain confident in our brands and focussed on our ability to generally outperform revpar performance in the markets in which we operate.

Moving on to Thredbo, which has experienced a solid winter trading season and we expect to deliver a good result. We are also anticipating growth in the summer season with the new seven kilometre mountain bike "Easy Rider" trail from the top of Gunbarrel Chairlift to Friday Flat.

The industries we operate in will continue to fluctuate with market and weather conditions and the strength of the film line up. However, we are focussed on continual improvement across all areas we can control.

We have had several years of growth driven by acquisition of assets and underpinned by a strong property portfolio which has benefited from a favourable market. A large proportion of our investment has been focussed on expanding cinemas and the redevelopment, where viable, of a few older cinema properties into great QT hotels.

In the short term, the priority for investment is to upgrade our most profitable assets which are in need of improvement to ensure we have a solid foundation in place.

In the medium term, our investment will be refocussed towards our property development opportunities to generate strong future growth.

We will continue to generate strong cash flows and maintain a strong balance sheet.

We will also be ready to acquire assets when the value is right and continue to be patient in this approach.

I would now like to take the opportunity to acknowledge and thank our capable and experienced team who have underpinned our growth and will do so into the future.

I also want to recognise all of our staff for their commitment to delivering the best customer experiences every day as this is what counts the most.

I would also like to thank you all for your support and interest in attending this morning.

To end, I would like to show you a video that highlights our strong pipeline of future development opportunities, introduce you to QT Perth and Atura Adelaide, provides an insight into our new cinema concepts, and present highlights of upcoming movie titles.

Jane Hastings
Chief Executive Officer