



# donaco

**INTERNATIONAL**

**30 June 2019**

**Full Year Results Presentation**

**28 August 2019**

# Key Points

- **Donaco clears the decks under new Board and management**
  - Statutory loss of (\$194.0) million; Underlying net profit of \$9.2 million
  - Statutory result includes (\$200.1) million non-cash impairment charge, attributed to the Star Vegas casino license impairment of (\$186.6) million, interactive gaming platform (\$3.7) million, and trade and other receivables (\$9.8) million
  - Underlying NPAT of \$9.2 million excludes (\$200.1) million non-cash impairment charge, legal fees of (\$2.5) million, and net foreign exchange loss of (\$0.6) million
- **New CEO appointment and Board changes to provide a fresh start for Donaco**
  - Paul Arbuckle appointed as CEO. More than 30 years' experience in casino gaming businesses in Australia and Asia
  - Joey Lim and Benjamin Lim removed as directors of the Company at July 2019 extraordinary general meeting
  - Board renewal process is now complete, with the appointment of four new non-executive Directors
- **New management team has had an immediate positive impact on operations**
  - Star Vegas and Aristo have recorded significantly improved results in July 2019
- **Mega Bank loan refinancing completed in June 2019**
  - Improved repayment terms and covenants relaxed
- **Litigation against Thai vendor to continue**
  - Cambodian lease arbitration decision being challenged in Phnom Penh Appeals court
  - Singapore arbitration claim now valued by expert witnesses at USD240 million. Hearing to resume in November 2019
- **Financial position remains solid**
  - Positive operating cash flow of \$25.5 million
  - Ongoing debt reduction, with Mega Bank loan significantly reduced to USD22.8 million (USD40.0m in pcp)

# CEO appointment to revitalise Star Vegas and Aristo

- **Donaco appointed Paul Arbuckle as Chief Executive Officer of the Company on 11 June 2019**
  - Paul has more than 30 years' experience in casino gaming businesses in Australia and Asia
  - Most recent role was Chief Operating Officer at Star Gold Coast, owned by The Star Entertainment Group Limited (ASX:SGR)
    - Responsible for 2600 employees covering all operating divisions, including Gaming, Food and Beverage, Hotel Operations, Entertainment and VIP services, Government Relations & Compliance
    - Managed the financial performance of the Star Gold Coast, including full profit and loss, revenue, cost and EBITDA responsibility across all divisions
  - Five years at Resorts World Sentosa in Singapore, owned by Genting Singapore Limited
  - Previous leadership roles at Tabcorp, Burswood, Showboat Australia and Zagame Corporation

**Paul's appointment is a crucial step in the Board's plan to provide a fresh start, revitalise the Star Vegas and Aristo businesses, and restore value for shareholders**

# Board renewal process completed

- **Four new non-executive Directors appointed to strengthen Donaco's Board**
  - The Board was significantly occupied during FY19 by ownership and control issues, including: the appointment of receivers over the Lim family shares; the termination of Joey Lim's executive position; the application made by Joey Lim to the Takeovers Panel; and the removal of Joey Lim and Benjamin Lim as Directors
  - FY19 financial results also reflect the lack of effective management and leadership under former executive team
- **David Green appointed as an independent non-executive Director on 10 April 2019**
  - David has extensive experience in the gaming industry, specifically in Cambodia and Vietnam
  - Former partner of PwC's Gaming Practice in Macau
  - Advised Macau SAR Government on liberalisation and regulation of the casino industry
- **Leo Chan and Kurkye Wong of Argyle Street Management appointed as non-executive Directors on 13 August 2019**
  - ASM's subsidiary On Nut Road Limited acquired a relevant interest in 158.6 million DNA shares
  - Mr Chan has more than 13 years' experience in making and managing investments throughout Asia
  - Mr Wong previously worked at KPMG and FTI Consulting in Hong Kong
- **Yugo Kinoshita appointed as an independent non-executive Director on 15 August 2019**
  - Yugo is a Global CEO of Aruze Gaming America, a global entertainment company that designs, develops, manufactures, distributes and services slot machines and other gaming devices for world-wide casino market
  - Responsible for corporate strategy and finance department, led the company to a 15% increase in revenue and 9% decrease in expenses in last 12 months

# Star Vegas – Update on Legal Matters

## **Cambodian lease arbitration**

- Arbitrator ruled that Lee Hoe Property was entitled to terminate the lease due to unpaid rent, despite the fact that Lee Hoe Property acted to prevent Donaco from paying the rent. Despite this, Donaco continued to approve and set aside the monthly rent, and has paid it in full to the Banteay Meanchey Court of First Instance for collection by Lee Hoe Property
- The arbitration award cannot be enforced until registered with a court, and can be set aside
- Donaco is appealing the decision, and certain procedural aspects, to the Appeal Court in Phnom Penh
- The lease states that upon termination, Donaco must be paid compensation for the value of buildings and fixtures (currently valued at USD33 million)

## **Singapore damages arbitration**

- Donaco's primary legal claim is in the Singapore arbitration, where the Company is seeking damages from the Thai vendor of the Star Vegas business. Two expert valuation witnesses have now valued Donaco's claim at approximately USD240 million
- The oral evidentiary hearing was held over a two week period commencing on 29 July 2019. The hearing was not completed, and a further hearing period of one week has been set down to commence on 25 November 2019
- The Singapore arbitration proceedings are confidential, and so the Company is not able to provide further details about the cause of the delay
- Donaco continues to press its claim forward with maximum efficiency and diligence

## **Other Cambodian legal claims**

- No significant developments in the other frivolous and vexatious claims in the Cambodian courts

# Group Financial Performance Summary

All figures in AUD (millions)	FY19	FY18
<b>Group Revenue</b>	86.3	92.6
<i>Star Vegas</i>	64.7	66.6
<i>Aristo International Hotel</i>	21.6	25.9
<i>Corporate Operations</i>	0.0	0.0
<b>EBITDA</b>	29.6	42.4
<i>Star Vegas</i>	26.4	38.7
<i>Aristo International Hotel</i>	10.8	14.5
<i>Corporate Operations</i>	(7.7)	(10.8)
<b>Statutory NPAT</b>	(194.0)	(124.5)
<b>Underlying NPAT<sup>1</sup></b>	9.2	18.3

- Group Revenue down to \$86.3 million
- Star Vegas impacted by competition from the nearby Winsor, Paramax and the new Galaxy casinos in Poipet
- Increased VIP turnover and visitation at Star Vegas were offset by unfavourable junket deals signed by former management, which are now being renegotiated
- Star Vegas experienced lower VIP win rate of 2.69%, vs 2.85% theoretical win rate (3.00% in pcp)
- Revenue at Aristo impacted by reduced visitation in July-August 2018. Significant improvement seen in the June 2019 quarter, with 17.5k average monthly visitors (13.2k in pcp)
- Aristo win rate of 2.09% (1.91% in pcp)
- Significant cost reductions in Corporate Operations, due to reduced marketing spend and tighter control of entertainment expenses

<sup>1</sup> FY18 excludes Star Vegas casino license impairment; warrant revaluation; and net forex gain

<sup>1</sup> FY19 excludes Star Vegas casino license impairment, plus impairment of interactive gaming platform, and trade & other receivables; legal fees; and net forex loss

# Non-Recurring Items

All figures in AUD (millions)	FY19	FY18
Star Vegas licence impairment	(186.6)	(143.9)
Interactive gaming platform	(3.7)	-
Legal costs	(2.5)	-
Trade & other receivables	(9.8)	-
Warrant Revaluation	-	0.7
Net Foreign Exchange Gain/(Loss)	(0.6)	0.3
<b>Total</b>	<b>(203.2)</b>	<b>(142.9)</b>

- The impairment charge for the Star Vegas casino license determined by the Board for FY19 is \$186.6 million
  - The carrying value of the casino license as at 30 June 2019 is now \$75.1 million
- \$9.8 million in trade and other receivables has been written off
- \$3.7 million of interactive gaming platform set-up costs has also been written off, as this business is under review
- Legal costs of \$2.5 million caused by the disputes with the Thai vendor of the Star Vegas business

# Group Balance Sheet

All figures in AUD (millions)	FY19	FY18	% Change
Cash and cash equivalents	27.4	47.1	(42%)
PP&E	168.0	162.2	4%
Intangibles (including licences)	77.6	254.1	(69%)
Other Assets	5.5	14.8	(63%)
<b>Total Assets</b>	<b>278.4</b>	<b>478.1</b>	<b>(42%)</b>
Borrowings	35.9	70.4	(49%)
Trade and other payables	44.2	34.7	28%
Other liabilities	2.6	3.3	(20%)
<b>Net Assets</b>	<b>195.6</b>	<b>369.7</b>	<b>(47%)</b>

- Cash position of A\$27.4 million at 30 June 2019
- Movements in PP&E and Intangibles reflect foreign exchange adjustments and impairment to the Star Vegas casino licence
- Reduction in borrowings reflects ongoing principal repayments under the Mega Bank loan facility
  - Net Debt to equity reduced to 4.3% from 6.3% previously

# Cash flow

All figures in AUD (millions)	FY19	FY18
Cash flow from Operations	26.2	34.6
Cash flow from Investing	(5.6)	(5.7)
Cash flow from Financing	(39.7)	(48.0)
Net Increase (decrease)	(19.2)	(19.1)
Cash at end of the year	27.4	47.1

- Group continues to produce positive operating cashflow of \$26.2 million
- Cash outflow from financing of (\$39.7 million) relates primarily to the Mega Bank principal repayments and interest payments

# Star Vegas – Profit & Loss

All figures in Thai Baht (millions)			
	FY19	FY18	% Change
<b>Total Revenue</b>	1,492.7	1,673.0	(10.8%)
- Net Gaming Revenue	1,368.5	1,519.7	(9.9%)
- Non-Gaming Revenue	124.2	153.3	(19.0%)
<b>Operating Expenses</b>	(882.5)	(702.4)	25.6%
<b>EBITDA</b>	610.2	971.1	(37.2%)
<b>Normalised EBITDA</b>	741.8	901.3	(17.7%)
<b>Property Level NPAT</b>	113.3	785.2	(85.6%)
VIP Gross Win rate	2.69%	3.00%	(10.4%)

- VIP Turnover increased by 76%, due to full year impact of junkets brought in to replace those poached by the Thai vendor in FY18
- Junket commissions and profit sharing increased by 62%, due to higher VIP turnover
- Gaming revenue fell 9.9%, due to:
  - Lower VIP gross win rate of 2.69% (was 3.0% in FY18)
  - Competition from the nearby Winsor, Paramax and the new Galaxy casinos in Poipet
  - Increase in junket commissions and profit sharing
  - Unfavourable profit sharing arrangements, which are now being renegotiated by new management, to improve outcomes for Donaco
- Operating Expenses up 26%, due to replacement of staff that were poached by the Thai vendor, and hiring of staff for online gaming platform
- Property level EBITDA down 37%, reflecting higher profit sharing commissions and lower VIP win rate
- Normalised EBITDA down 18%, after adjusting for win rates

# Star Vegas – Operational highlights



Key operational metrics (THB millions)	FY19	FY18
VIP Table Game Turnover	81,370	46,171
Gross Gaming Revenue – Table Games	2,595	1,831
Gross Gaming Revenue – Slot Machines	776	1,028
Net Gaming Revenue	1,369	1,520
Non-Gaming Revenue	124	154
VIP Gross Win Rate	2.69%	3.00%
Casino Visitors	1.64m	1.47m
Average Visitors / Day	4,494	4,037

# Star Vegas – Results Commentary and Update



- VIP turnover in June half improved by 21% on December half, to THB 44.5 billion
- Slot machine revenue decreased by 25%, due to increased competition in the Poipet area
- All staff that were poached by the Thai vendor in FY18 have been replaced
- Interactive gaming relaunched with new technical platform and new marketing partners in August 2019. Contributed to the increase in operational costs with hiring of additional staff, and is currently marginally loss making
- Cambodia has indicated that no new online gaming licences will be issued, and current licences may not be renewed. All current online gaming licences are due for renewal in January 2020
- Accordingly the online gaming business is under review
- New management team has begun implementing changes to improve the business
  - Focused on improving the quality of junkets and profit sharing arrangements
  - Immediate positive impact on results, with Star Vegas recording EBITDA of USD1.74m in July 2019 (vs. loss of USD0.5m in pcpr)

# Aristo International Hotel – Profit & Loss

All figures in RMB			
(millions)	FY19	FY18	% Change
<b>Total Revenue</b>	105.8	131.8	(20%)
- Net Gaming Revenue	60.5	71.4	(15%)
- Non-Gaming Revenue	45.3	60.4	(25%)
<b>Operating Expenses</b>	52.5	58.1	(10%)
<b>EBITDA</b>	52.2	71.8	(27%)
<b>Normalised EBITDA</b>	81.5	151.3	(46%)
<b>Property Level NPAT</b>	20.6	38.0	(46%)
VIP Gross Win rate	2.09%	1.91%	10%

- Gaming revenue declined 15%, and non-gaming revenue was down 25%
  - Visitation up 16% to 178k patrons, with significant increases in the June 2019 half offsetting the weak start to the December 2018 half
  - VIP table game turnover down 54%, due to weak start to the year
  - VIP win rate of 2.09% was above last year's win rate of 1.91%, but below the 2.85% theoretical win rate
- Property level EBITDA down 27%, due to lower VIP turnover and win rate
  - Business has recovered in second half with EBITDA of RMB 38.7 million in line with pcp
- Normalised EBITDA down 46%, after applying the theoretical win rate, due to lower VIP turnover
- Property level NPAT down 46%
- New management has had an immediate positive impact on results, with the Aristo recording EBITDA of USD1.6m in June 2019, and USD1.5m in July 2019

# Aristo International Hotel – Operational highlights



Key operational metrics		
(RMB millions)	FY19	FY18
VIP Table Game Turnover	6,017	13,170
Main Hall Turnover	348	492
Gross Gaming Revenue – Table Games	175.1	296.2
Gross Gaming Revenue – Slot Machines	8.9	14.2
Net Gaming Revenue	60.5	71.4
Non-Gaming Revenue	45.3	60.4
VIP win rate	2.09%	1.91%
Casino Visitors	177,694	153,167
Average Visitors / Day	487	419

# Outlook

- **New management team initiating a number of operational improvements at Star Vegas and Aristo**
  - Star Vegas has seen a significant improvement in July 2019, due to changes by new management
    - Star Vegas July VIP turnover increased by 39% versus pcp, despite increased competition in the Poipet area
    - Solid VIP win rate of 3.57%, and reduced opex, led to July EBITDA of USD1.74 million (pcp loss of USD0.5 million)
  - Strong momentum at Aristo sets up for FY20 rebound
    - Aristo generated EBITDA of USD 1.6 million in June and USD 1.5 million in July, on solid VIP win rates
    - Recovery in turnover and visitation provide a positive outlook for FY20
- **Litigation**
  - Multiple legal actions are in progress involving the Star Vegas vendor. Donaco remains confident in its position
  - The arbitration hearing in Singapore for the USD240 million damages claim will continue on 25 November 2019
  - The Cambodian lease arbitration decision is being challenged in the Appeal Court in Phnom Penh
- **Capital management**
  - Mega Bank loan refinancing completed in June 2019, with improved repayment terms and covenants relaxed
  - Mega Bank loan reduced to USD22.8 million, with next principal repayment of USD5 million due in December 2019
- **Strategic Review**
  - This process has been on hold pending the resolution of ownership and control issues, and the appointment of the new CEO and Board members
  - New management team focused on improving operational performance, with immediate positive results
  - New Board will consider strategic initiatives if they are beneficial to shareholders

# APPENDIX – FY19 Financial performance



# Property Performance (Normalised and Actual)

	FY19 Normalised			FY19 Actual		
All figures in AUD (millions)	Star Vegas	Aristo	Total	Star Vegas	Aristo	Total
<b>Total Revenue</b>	70.3	27.7	98.0	64.7	21.6	86.3
- Net Gaming Revenue	64.9	18.5	83.5	59.3	12.3	71.6
- Non-Gaming Revenue	5.4	9.2	14.6	5.4	9.2	14.6
<b>Operating Expenses</b>	(38.3)	(10.7)	(49.0)	(38.3)	(10.7)	(49.0)
<b>Property level EBITDA</b>	32.1	16.8	49.0	26.4	10.8	37.3
<b>Property level NPAT</b>	10.6	9.2	19.8	4.9	4.2	9.1

*Note: numbers may not add due to rounding*

**Currency Conversions:**

FY19: 1 AUD = 0.7156 USD; 23.10 THB

FY18: 1 AUD = 0.7753 USD; 25.17 THB

# FY19 – Group Financial Performance Summary

All figures in AUD	NORMALISED RESULTS			ACTUAL RESULTS		
	FY19	FY18	% Change	FY19	FY18	% Change
<b>Operating Revenue</b>	98.0	105.7	(7%)	86.3	92.6	(7%)
Property Level EBITDA	49.0	65.3	(25%)	37.3	53.2	(30%)
Corporate Costs	(7.7)	(10.8)	(29%)	(7.7)	(10.8)	(29%)
<b>= Group EBITDA</b>	<b>41.2</b>	<b>54.5</b>	<b>(24%)</b>	<b>29.6</b>	<b>42.4</b>	<b>(30%)</b>
Net Interest income and Finance costs	(6.4)	(10.1)	(36%)	(6.4)	(10.1)	(36%)
Other income	0.0	1.0	(100%)	0.0	1.0	(100%)
Non-recurring items	(203.2)	(143.9)	41%	(203.2)	(143.9)	41%
Depreciation & Amortisation	(10.1)	(10.0)	1%	(10.1)	(10.0)	1%
Income tax expense	(4.6)	(6.3)	(28%)	(3.6)	(3.7)	(2%)
Minority Interest	(0.2)	(0.3)	(27%)	(0.2)	(0.3)	(27%)
<b>= Net Profit After Tax (incl. non-recurring items)</b>	<b>(183.3)</b>	<b>(115.0)</b>	<b>59%</b>	<b>(194.0)</b>	<b>(124.5)</b>	<b>56%</b>
<b>= Net Profit After Tax (excl. non-recurring items)</b>	<b>19.9</b>	<b>27.8</b>	<b>(28%)</b>	<b>9.2</b>	<b>18.3</b>	<b>(50%)</b>

Note: numbers may not add due to rounding

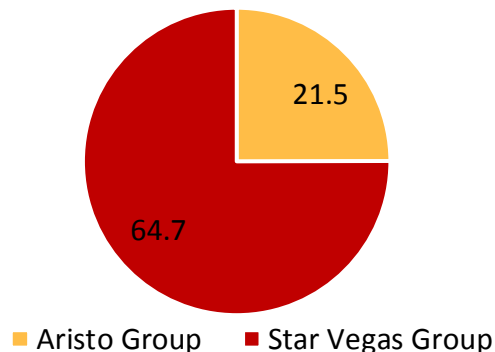
**Currency Conversions:**

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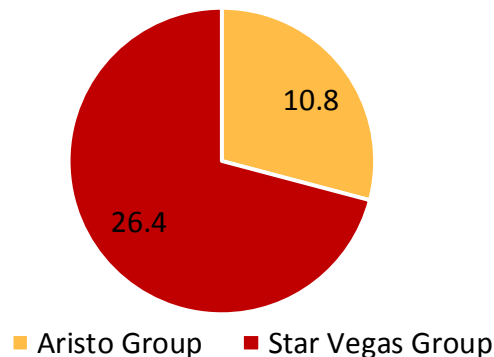
FY18: 1 AUD = 0.7753 USD; 25.17 THB

# Two strategically located leisure and entertainment businesses

FY19 Revenue (A\$ millions)



FY19 EBITDA (A\$ millions)



## Star Vegas

- Large and profitable Poipet casino hotel
  - 385 guest rooms
  - Multiple restaurants, shops, health spa, pool
  - Non-gaming revenues growing
- Substantial casino facilities
  - 170 gaming tables, predominantly baccarat
  - 1,007 Electronic Gaming Machines (EGMs), of which 338 are owned outright and 669 under profit share deals
  - Wagering and online gaming licences

## Aristo International Hotel

- Five star luxury resort
- 400 guest rooms; additional 28 rooms fitted out for recreational facilities (health spa and nightclub)
- Five restaurants, swimming pool, gym, spa, tennis courts
- Retail shop leases
- Boutique gaming facilities
  - Multiple gaming tables, primarily baccarat
  - 68 electronic gaming machine positions, with 44 linked jackpot slot machines, and 24 electronic roulette seats, with license allowing up to 300 EGMs

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**Normalised results adjust the revenue received from the VIP table games business, by applying a theoretical win rate of 2.85% to VIP rolling chip turnover. This provides a more accurate guide to the underlying operating performance of the VIP table games business, which can experience significant volatility over shorter periods. This is consistent with the practice of Asian listed gaming operators.**

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