



VILLAGE ROADSHOW

1 November 2019

VILLAGE ROADSHOW LIMITED CHAIRMAN'S ADDRESS TO 2019 AGM

Before moving to the formal business of today's meeting, I would like to comment on the Company's performance during the 2019 financial year and provide a brief update on our current trading.

The Group delivered earnings before interest, tax, depreciation and amortisation excluding material items and discontinued operations, or "EBITDA", of \$124.9 million for the year ended 30 June 2019, compared to \$90.9 million in the prior year. A growth of over 37% year on year.

Attributable net profit after tax before material items and discontinued operations, or "NPAT" for the year was \$20.6 million, compared to a loss of \$7.3 million in the prior year.

Fundamentally, this has been due to the delivery of outstanding customer experiences, higher theme park ticket yields, first class staff and control of costs. The recovery in normalised earnings reflects our commitment to the careful execution of our operating strategy as our divisions focus on their core businesses.

The Theme Parks division saw EBITDA improve 100%, underpinned by the successful execution over the last two years of a high-yield ticket strategy at the Gold Coast theme parks which has resulted in a 25% increase in ticket yields. Dynamic marketing has been critical to differentiating our parks in the market, and demonstrating the exceptional value in our offering. This, combined with initiatives driven by Project Voice, which focuses on the Voice of the Customer and the Voice of the Employee have been key to the success. Appropriately planned capital expenditure and an outstanding calendar of events ensures there is always something new and dynamic happening at the parks.

While the deployment of capital in the 2019 financial year focused on a number of attractive but low-cost initiatives, this year sees the start of construction of *The New Atlantis* precinct at Sea World which will be completed over the next 18 months, which incorporates three outstanding new rides to reinvigorate this wonderful park. The first ride, *Vortex*, will be installed and launched in the first quarter of 2020.

The 2020 financial year has started well, with first quarter admissions up on the prior corresponding period. We will continue to focus on driving our business through delivering outstanding guest experiences, supported by key marketing initiatives such as our recently launched master brand campaign.

Looking to our other theme park operations, guest satisfaction at Topgolf on the Gold Coast has been outstanding, however the 2019 financial year EBITDA of \$3.6 million was below

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our expectations. Management are continuing to fine-tune the wage model and service delivery to maximise spend and optimise the labour mix.

At Wet'n'Wild Las Vegas, a new management team and operational strategy has been implemented, and in China we have kept strictly to our policy of no capital investment. We successfully delivered the opening of Lionsgate Entertainment World on 31 July 2019. We continue to pursue other opportunities for consulting and management operating agreements in Asia. We expect this part of the business to be at least break even in the future.

After a strong first half, the 2019 financial year results for Cinema Exhibition fell slightly short of the previous year due to variable film product performance and there was lower screen advertising than the prior year which has now recovered to previous levels.

The division's focus on driving customer loyalty and rewarding customers has continued to deliver. The introduction of \$15 tickets all day, every day for **V rewards** loyalty members in August 2018 make movies more affordable for many people. This has driven increased guest satisfaction, and a 30% increase in the membership base from the 2018 financial year to the 2019 financial year close. This provides exceptional direct marketing opportunities and builds loyalty to Village Cinemas.

Importantly, the Exhibition division is committed to refurbishment, redesign and dynamic refashioning of premier cinema sites, with a focus on opportunities with new food and beverage concepts. This will see an increase in capital expenditure beginning in the 2020 financial year. The industry experience is that this capital expenditure will deliver a return and is expected to contribute to earnings in the 2021 financial year and beyond.

Cinema Exhibition has had a good start to the 2020 financial year, with *Spiderman: Far from Home*, *The Lion King* and more recently, *Joker*, which has outperformed expectations. While it is too early to predict the full year national box office, there is an exciting line up of films into the rest of the 2020 financial year, with titles such as *Star Wars: The Last Jedi*, *Birds of Prey*, *Wonder Woman: 1984* and *Frozen II*.

In the 2019 financial year, the Film Distribution division saw key theatrical titles including *Aquaman* and *A Star is Born* released in the first half, with a weaker second half. The division was also impacted by the ongoing decline in the physical DVD market.

While the distribution industry has seen structural changes, Roadshow's exposure across the entire product lifecycle maximises revenue opportunities, including in the growing digital space. Into the future, Roadshow has a strategy of more targeted and flexible film acquisitions. Further, the division stands to benefit from recent market consolidation and hence a less competitive environment for film product acquisitions. Roadshow also has a low-cost "risk-averse" approach to content creation. While only a small contributor today, there is potential for growth as the demand for content, particularly local content, continues to increase with the growth of Netflix type streaming services.

While the first quarter of the 2020 financial year was impacted by softness in the release schedule, October saw the release of *Joker*, starring Joaquin Phoenix, followed by *Hustlers*, both of which have outperformed expectations. A hit driven business, the financial results of Roadshow will depend on the performance of titles through the balance of the year. The theatrical line-up includes *Birds of Prey*, *Wonder Woman 1984*, *Miss Fisher and the Crypt of Tears*, and *The Gentlemen*.

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The Marketing Solutions division was impacted by lower promotional activity in the 2019 financial year. The sale of the Australian component of this business, Edge, to Blackhawk announced in August 2019 has been completed with net proceeds from the sale to be used to repay debt. This leaves UK-based Opia, a specialist promotional services agency. Key clients include HP, Samsung, LG, Microsoft and Google. The long-term priorities for this business are to further develop the UK and European customer base and expand into new opportunities in the US and South Africa. Current trading indicates an improvement in earnings in the 2020 financial year.

Our commitment to cost reduction saw financial year 2019 corporate overheads significantly lower than the prior year. Costs are, however, expected to increase in the 2020 financial year with additional IT costs, and the reinstatement of senior executive bonuses if the relevant KPIs are met. This will of course mean VRL will have achieved a positive result for all shareholders.

Prudent capital control and free cash flow generation remains a priority, with capital expenditure over the short to medium term approximately in line with depreciation and amortisation of \$70 – 75 million.

With debt reduced to a conservative level, the focus remains on careful capital management, the delivery of outstanding experiences and driving sustainable earnings and free cash flow.

Village Roadshow is committed to increasing shareholder value and the Board intends to continue paying dividends, subject to performance continuing to meet expectations and available free cash flow.

I would like to take a moment to recognise the incredible contribution of our retiring CEO, Graham Burke. I will not dwell on all he has achieved over the decades, except to say, Graham is the very personification of what is the whole Village Roadshow Group today. The Board looks forward to Graham remaining on the board as a Non-Executive Director, where his extraordinary industry knowledge and deep and respected relationships will continue to benefit the incredible business which he has led so passionately for many years.

With the turnaround underway, Clark Kirby is uniquely qualified to continue and further enhance the execution of the strategy when he commences as CEO in 2020. Clark brings his own experience to the role, including learnings gained as he has led the successful Theme Parks turnaround over the last two and a half years.

The Board would like to formally welcome Peter Tonagh, who joined us during the year, and whose appointment has seen the Board return to a majority of independent directors. Peter has quickly demonstrated his excellence in the board room and will be a great asset to the company. The Board has committed to the appointment of an Independent Chairman, and is well into the search process, which is expected to be completed by early 2020.

We remain committed to operating our businesses in an environmentally and socially responsible manner, whilst continuing to maximise long term shareholder value.

Let me restate that with a resurrected strong balance sheet, a return to profitability and dividends, the Board is pleased with this renewed momentum of our Village Roadshow company. Looking into the future, we are excited we are part of the heart and soul of the experience economy. The world recognises that rather than traditional consumption of

goods, there are far more growth opportunities in delivering experiences. This is what we do very, very well.

Before we move on, I must thank our dedicated, loyal and passionate staff, management, and Board, whose ongoing commitment continues to drive us into the future. I would also like to thank our customers and shareholders for their ongoing support as we strive to deliver exceptional experiences every day.

Thank you. Now to the business of the meeting.

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