

28 February 2020

## **Donaco EBITDA up 7% to \$13.8 million for 6 months to December**

Donaco International Limited (ASX:DNA) has announced its results for the 6 months ended 31 December 2019 (H1 FY20).

### **Result Summary**

- Statutory loss of A\$(1.5) million compared to A\$(36.8) million in the pcp
  - Underlying NPAT of \$4.3 million excludes non-cash impairment of the Star Vegas casino license of \$4.0 million, the non-recurring expenses of \$1.7 million and net exchange loss of \$0.1 million
  - The previous period non-recurring items of A\$39.5 million included a A\$38.2 million non-cash impairment of casino license, non-recurring costs of A\$0.8 million and net exchange loss of A\$0.5 million
- Board and Management continues the focus on operational improvements at both venues:
  - New slot machines introduced at Star Vegas on better terms
  - Tight expense controls being maintained
- Litigation matters involving the Thai vendor have been suspended for two months as a settlement is negotiated
- Board and senior management changes following the AGM
  - New Chairman, Mel Ashton, and two non-executive directors, Rod Sutton and Simon Vertullo, have been appointed with experience in business turnarounds, restructuring and performance management
  - Senior management transition with a new CEO to be appointed following the resignation of Paul Arbuckle and transition period until 4 June 2020
  - A new CFO, Gordon Lo, and Company Secretary, Marika White, have been appointed
- Immediate Board priorities
  - Negotiation of a settlement with Thai Vendor of Star Vegas business
  - Seeking access to financing to support payment obligations and working capital requirements
  - Continuing to tighten controls over operational and corporate expenses
- Group EBITDA increased to \$13.8 million in the 6 months versus \$12.9 million in the pcp
  - Star Vegas contributed \$11.7m (\$13.2 million in pcp) impacted by increased competition partially offset by strong win rate
  - Aristo EBITDA increased to \$4.6 million from \$2.7 million driven by higher revenues and strong visitation in the period
  - Covid-19 outbreak in China is impacting Aristo visitation in H2
- Donaco financial position remains solid
  - Strong operating cash flow of A\$7.6 million versus A\$2.5 million in pcp
  - The Megabank debt is down 23% to \$24.1 million from \$31.4 million in pcp
  - Net Debt down to A\$3.0 million from A\$8.6 million in pcp

Donaco has reported a net loss after tax of A\$(1.5) million for the 6 months ended 31 December, and results were consistent with the recent trading updates. This period included a \$4.0 million non-cash impairment charge on the value of the Star Vegas casino license related to the online gaming license cancellation, and a two month litigation suspension was agreed by all parties to allow time to negotiate a settlement to all the outstanding litigation matters that are underway with the Thai vendor.

The group recorded a reported EBITDA of \$13.8 million (A\$12.9 million in pcp) with an improvement in the performance of Aristo EBITDA (\$4.6 million vs \$2.7 million previously), and a modest decline in the Star Vegas contribution (\$11.7 million versus \$13.2 million previously).

### **Board and management changes**

Following the AGM held in November last year there have been a number of senior board and management changes.

A new Chairman, Mel Ashton, and two non-executive directors, Rod Sutton and Simon Vertullo, have been appointed to the board. These individuals come with experience in business turnarounds, restructuring and performance management.

Mr Kurkye Wong and Mr Leo Chan have been appointed as Executive Directors of the company and will work on legal, operational, financial and strategic matters for the company.

The current CEO, Paul Arbuckle, tendered his resignation by providing a 6 month notice period which extends to 4 June 2020. An executive search is currently underway for a new CEO.

Gordon Lo has been appointed as the CFO and Marika White has been appointed as the Company Secretary.

Commenting on the Board's immediate priorities, Chairman Mel Ashton said;

"The Board has identified some priorities to focus on in the near term, the first being the settlement of litigation against the Thai Vendor of the Star Vegas, where we are seeking to achieve a fair outcome, in a timely manner.

"The Board is aware that the liquidity of the Company may tighten from the closure of the border crossing between China and Vietnam in January due to the outbreak of COVID-19. Accordingly, Donaco is seeking to access financing to support payment obligations and working capital requirements of the Company.

"The third priority is to maintain and further tighten the control of operational and corporate expenses, to improve efficiencies across the business and also to bring the conditions around contracts with third party vendors on to more commercial terms."

### **Operational Performance**

Commenting on the operational performance for the period, CEO Paul Arbuckle said;

"Despite the significant changes that have occurred at the board and management level, the businesses continue to operate profitably. Whilst the key metrics at Star Vegas showed declines in VIP turnover and slot machine revenues, this occurred in a period of transition as Donaco moved to put its junket operators on standardised contracts, and as we saw increased competition throughout the Poipet strip. The

introduction of new gaming machines in January has seen an improvement in the gaming machine revenues in that month.

“The Aristo continued its strong performance for the 6 months ending December 2019, with increases in visitations generating increased VIP and main hall turnover, and increased gaming and non-gaming revenues.

“We recently announced that the impact of COVID-19 during February, has been significant on the Aristo, as visitation has dropped significantly with travel from China being curtailed. We expect these conditions to continue until travel restrictions are removed and will tightly manage expenses at the venue throughout this period. The impact is far less noticeable at Star Vegas, although we will also take a cautious approach at that venue and keep a tight rein on expenditure.”

### **Update on Legal Matters**

The board has agreed to suspend all litigation matters with the Thai vendor for a period of two months as negotiations towards a settlement proceed.

Donaco will provide an update on these matters following these negotiations.

### **Venue Performances**

#### **Star Vegas**

- Net Gaming Revenue down 18% to THB 531.5 million
- Non-Gaming Revenue down 8% to THB 108.7 million
- EBITDA down 19% to THB 255.5 million
- Normalised EBITDA down 77% to THB 75.6 million
- VIP Gross Win rate 3.51% compared to 2.81% in pcp

Donaco CEO Paul Arbuckle said:

“Our results were impacted by increased competition in the Poipet area and the transitioning work we have undertaken to standardize junket contracts. We did benefit from a strong win rate in relation to the VIP play which assisted the results.

“We have introduced new gaming machines on more favourable terms from the machine providers, and these have shown an improved performance in our gaming machine revenues during January.

“We maintained tight control of our operating expenses, which reduced by 9% compared to the previous corresponding period.

“We are assessing the impact of COVID-19 on the DNA Star Vegas business, and are therefore adopting a cautious approach in the short term. We will continue to tightly manage our expenses over the next few months.”

#### **Aristo International Hotel**

- Net Gaming Revenue up 42% to RMB 27.0 million
- Non-Gaming Revenue up 33% to RMB 24.1 million
- EBITDA up 74% to RMB 23.5 million

- VIP Gross Win rate 2.15%, compared to 2.20% in pcq

Commenting on the performance at Aristo, CEO Paul Arbuckle said:

“Aristo produced a strong performance in the 6 month period having fully recovered from the challenges faced in the previous corresponding period.

“Net gaming revenue increased by 42% to RMB 51.1 million during the December 2019 half, with strong improvements in both VIP and Main Hall Turnover, while Non-gaming Revenue also increased 33% to RMB 24.1 million.

“As we reported previously, the outbreak of COVID-19 in China resulted in a 75% decline in our daily patronage at the Aristo during February, compared to our performance in January, as a result of the partial closure to the border crossing. We have arranged for many of our staff at the venue to take unpaid leave, deferred capital expenditure and reduced our headcount, as we manage our costs throughout this period.”

#### **Outlook for FY20**

Mr Arbuckle concluded, “We are being cautious about the impact of COVID-19 on our results in the second half. We will tightly manage our expenses over this period until normal border operations are restored at Lao Cai.

“We continue to maintain a solid financial position, and have recorded a strong improvement in our operating cash flow to produce \$7.6 million versus \$2.5 million in the previous corresponding period. We have also continued to reduce the Mega Bank debt which has fallen to \$24.1 million as at the end of December, as we continue to pay down debt.

“The new board is actively negotiating with the Thai vendor to resolve the outstanding litigation matters and this is expected to result in an outcome over the next couple of months.”

*Authorised by the Board*

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