

▶ 2018

Village Roadshow Limited

Annual Report



VILLAGE ROADSHOW LIMITED

► Introduction



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Village Roadshow was founded by Roc Kirby in Melbourne, Australia in 1954 and has been listed on the Australian Securities Exchange since 1988 (ASX: VRL). Since these humble beginnings, VRL has become a leading entertainment company with strong cashflow generating businesses and well recognised brands. Village Roadshow holds a diversified portfolio of assets including Theme Parks, Cinema Exhibition, Film Distribution and Marketing Solutions, entertaining millions of people annually.

Theme Parks

Village Roadshow has been involved in theme parks since 1989, is Australia's leading theme park developer and owner, and is one of the pre-eminent theme park operators in the world. In Australia, this includes Warner Bros. Movie World, Sea World, Wet'n'Wild Gold Coast, Paradise Country, Australian Outback Spectacular, Sea World Resort and the recently opened Topgolf, all on Queensland's Gold Coast. Village Roadshow Theme Parks ("VRTP") also operates and has majority ownership in Wet'n'Wild Las Vegas. VRTP has a program of development including Topgolf in Australia and theme park management opportunities in Asia.

Cinema Exhibition

Cinema Exhibition is where Village Roadshow started, with its first drive-in cinema opening in 1954. Today Village Roadshow jointly owns and operates a combined 704 screens at 74 sites operating predominantly in Australia. VRL continues to drive and embrace innovation, with 3D blockbuster movies and premium cinema concepts including Gold Class, ▼max, ▼premium, and ▼Junior. VRL is continuing to invest in the expansion of premium cinema concepts and new entertainment offerings and developments in new population growth areas.

Film Distribution

Originally started by Village Roadshow in the late 1960's, VRL's Film Distribution division ("Roadshow") is Australasia's largest independent distributor of theatrical films to cinemas. The business also distributes movies and television series in Australia and New Zealand across physical and digital platforms. The division has long standing distribution agreements with key film suppliers including Warner Bros., ABC, BBC, Relativity and Village Roadshow Pictures. A proud, passionate and active supporter of Australian film and television, Roadshow's strategy of investing in original content creation includes through Roadshow Rough Diamond, BlinkTV, and a 31% interest in FilmNation.

Marketing Solutions

VRL's Marketing Solutions division is one of the leading businesses delivering consumer incentive programs, with head offices in Australia and the UK. Edge and Opia focus on digital platforms and rewards and the division works with some of the world's largest brands to differentiate themselves and engage with key audiences.

► To Our Shareholders

► Reflecting on 2018

The Board of Directors of Village Roadshow Limited (“the Company” or “VRL”) reports the results for the financial year ended 30 June 2018 (“FY2018” or “current year”).

The Company delivered an attributable profit after tax of \$0.2 million for FY2018 after profits from material items of \$7.5 million, compared to an attributable net loss of \$66.7 million after losses from material items of \$90.3 million for the financial year ended 30 June 2017 (“FY2017” or “prior year”).

Earnings before interest, tax, depreciation and amortisation excluding material items and discontinued operations (“EBITDA”) for the current year was \$90.9 million (\$136.3 million in the prior year).

VRL’s attributable loss after tax before material items and discontinued operations (“NPAT”) was \$7.3 million, (\$23.6 million profit in the prior year).

A number of key external factors significantly impacted VRL’s major divisions which adversely affected VRL’s FY2018 performance.

The Company’s Australian theme parks continued to be impacted by the Dreamworld tragedy. As happened in similar tragedies overseas, attendance has suffered in the short term. In addition, the FY2018 full year result reflected lower than expected attendances over the Easter school holidays in April 2018, which coincided with the Commonwealth Games.

The Cinema Exhibition division experienced soft trading in the first half of FY2018 due to the underperformance of key titles, which was partially offset by blockbuster releases in the last quarter of FY2018.



Robert G. Kirby
Executive Chairman



Graham W. Burke
Chief Executive Officer

The Film Distribution division was impacted by the underperformance of certain titles and the ongoing decline of the physical DVD market as it transitions to a digital universe.

VRL undertook a number of proactive steps during FY2018 to strengthen its balance sheet:

- Sale of VRL’s 50% interest in its Singapore Cinema Exhibition business;
- Sale and leaseback of freehold land at Oxenford, Queensland;
- Sale of Wet’n’Wild Sydney; and
- Entitlement offer supported by Village Roadshow Corporation shareholders, launched in July 2018.

Furthermore, VRL implemented initiatives in FY2018 which delivered cost savings of \$8m on an annualised basis, including operational and efficiency cost savings (“OneCo”).

VRL has a clear objective to drive earnings and free cash flow, supported by the new ticketing strategy at the Theme Parks division and a sharp focus on operating costs and capital expenditure.

VRL’s Board is committed to shareholder value. The Board has not declared a final FY2018 dividend. The Directors intend to reinstate the payment of dividends as soon as it is deemed appropriate.

A summary of key financial details is presented in the 5 Year Financial Summary on page 79.



► Theme Parks

FY2018 was an important and necessary transition and reset year for Village Roadshow Theme Parks ("VRTP") with a new ticketing strategy implemented in December 2017, shifting VRTP from a discounted volume based business to a higher yielding value based operation. VRTP delivered an FY2018 EBITDA result of \$38.3 million, compared to \$55.9 million in the prior year.

With the removal of the discount resellers from the market effective 30 June 2018, overall ticket sales revenue is expected to continue to increase. There is a strong indication that the Gold Coast Theme Parks have returned to a positive trajectory, as evidenced by the best month of July on record in terms of ticket sales, followed by strong trading in August.

The DC Rivals HyperCoaster is the LONGEST, FASTEST and HIGHEST in the Southern Hemisphere and has been a strong drawcard to driving ticket sales.

This recovery is expected to gain further momentum in the year ending 30 June 2019 ("FY2019") assisted by Topgolf, which launched successfully in June 2018, a new creative marketing campaign and the addition of lower cost new attractions to enhance guest appeal.

A number of projects were completed during the current year, enhancing the guest experience. These included the birth and arrival of the new Polar Bear Cub *Mishka*, the new

splash zone, *Castaway Bay - The Reef*, a new seal show and new Nickelodeon product, *Paw Patrol*.

In September 2017 the Southern Hemisphere's largest HyperCoaster opened at **Warner Bros. Movie World**. The *DC Rivals HyperCoaster* is the **LONGEST, FASTEST** and **HIGHEST** in the Southern Hemisphere and has been a strong drawcard to driving ticket sales.

Sea World Resort had a strong year and performed well above the prior year, with its conference centre continuing to outperform expectations.

VRTP's special events performed strongly in FY2018 with *Carnivale* at **Sea World** outperforming expectations with its new Light Laser Show, and *Fright Nights* and *White Christmas* at Warner Bros. Movie World delivering record results.

Supporting the Gold Coast parks was the ongoing strong performance by **Paradise Country**, which delivered a result in line with the prior year and **Village Roadshow Studios**, which continued its successful run with the completion of *Aquaman*, its usage during the 2018 Commonwealth Games, and the commencement of filming of *Dora the Explorer*.

A new TV marketing campaign featuring Sally Pearson launched in June 2018, aimed at engaging the core Gold Coast market and showcasing the enhanced customer value to VRTP guests and annual pass holders as part of VRTP's customer-led focus.

Images: Left to right – Village Roadshow Theme Parks Ambassador - Sally Pearson and *DC Rivals HyperCoaster* at Warner Bros. Movie World



In Asia, VRTP has two key projects in China reflecting management operating agreements and no equity investment. VRTP is responsible for operating China's first Wet'n'Wild branded theme park, **Wet'n'Wild Mission Hills**, which opened successfully in April 2018 in Haikou on Hainan Island.

VRTP is also consulting on the development of Lionsgate Entertainment World at Novotown on Hengqin Island, themed around some of Lionsgate's key franchises, such as *The Hunger Games* and *Twilight*. VRTP will also manage its operations after opening, expected in calendar year 2019.

The sale and long term leaseback of the Company's land at Oxenford, Queensland, which was completed in December 2017, is treated as a finance lease in accordance with accounting standards, and the Company has not recorded a profit on sale in its reported results.

VRTP is in a strong position to face short term challenges and drive its continued recovery

Wet'n'Wild Sydney was sold to Parques Reunidos on 29 June 2018, with proceeds being used to reduce VRL's group debt on completion in early October 2018.

Wet'n'Wild Las Vegas (50.09% owned by VRL) was adversely impacted by a shortened holiday season and an unfavourable heatwave during the peak season. This seasonal water park delivered FY2018 EBITDA of \$2.4 million (\$3.5 million in the prior year).

Images: Left to right – Mishka at Sea World and Topgolf Gold Coast

VRTP is in a strong position to face short term challenges and drive its continued recovery, with recent results supporting VRTP management's confidence around the revised pricing strategy and customer focussed enhancements. The division is focussed on using guest feedback to prudently target capital spend including lower cost attractions which enhance guest appeal.

New attractions in FY2019 include the launch of the next generation *Scooby Doo Coaster*, a brand new show at **Australian Outback Spectacular**, *Heartland*, incorporating advanced technology, and the new *Shaun the Sheep* attraction at Paradise Country.

Despite the prudent approach to capital investment, an uncompromising approach to safety is integral to the guest experience and the Village Roadshow Theme Parks brand.

It is expected, based on trading to date in the new financial year, that the division will deliver an FY2019 EBITDA result which is a substantial improvement on FY2018.

VRTP's new landmark entertainment attraction, **Topgolf**, opened successfully on the Gold Coast in June 2018 with strong attendances and forward bookings to date. The business is focussed on continuing to refine its service level to ensure it provides the ultimate guest experience.

VRTP has the exclusive rights for the Topgolf concept in Australia and continues to explore attractive sites for Topgolf locations in other major Australian cities.



► Cinema Exhibition

The Cinema Exhibition division delivered an EBITDA result of \$58.1 million in FY2018 (\$76.6 million in the prior year). The full year result was primarily impacted by the underperformance of key titles across the August to November 2017 period, in addition to soft carry over product from June, 2017. Top titles in FY2018 included *Avengers: Infinity War*, *Star Wars: The Last Jedi*, *Jumanji: Welcome to the Jungle*, *Incredibles 2* and *Black Panther*.

Softer admissions were partially offset by higher spend per person compared to the prior year, driven by the division's successful and continued focus on, and expansion of, enhanced food and beverage offerings, including gourmet popcorn.

In addition to the new Plenty Valley site in Melbourne's north, two new cinemas within the Australian Theatres Joint Venture with Event Hospitality and Entertainment also opened successfully during the year: Whitford (in Western Australia) and Palmerston (in Northern Territory).

The Cinema Exhibition division has a clear strategy to position itself as a destination of choice

FY2018 also saw the continued rollout of **Junior** in Victoria with four new locations opening (Fountain Gate, Knox, Sunshine and Plenty Valley). This concept has exceeded expectations, driving increased average ticket price, spend per person and admissions. The year has also benefitted from the successful launch of an exciting new immersive seating concept **4DX** at Century City Walk in Victoria.

Images: Left and right – Village Cinemas

The Cinema Exhibition division has a clear strategy to position itself as a destination of choice through a diverse offering of exceptional experiences which are complemented by high standard traditional cinemas.

These concepts, including **Gold Class**, **max**, **premium** and **Junior**, appeal to specific market segments and give Village Cinemas a competitive advantage over other offerings in the market.

The sale of the Company's 50% owned Golden Village Cinemas in Singapore was completed in October 2017, with equity accounting ceasing from the end of May 2017.

iPic Entertainment ("iPic") successfully listed on NASDAQ in February 2018, raising US\$15 million. Post the equity raising VRL's contingent liability relating to this business has reduced from US\$24.2 million to US\$5.6 million. iPic will utilise the capital raised to continue its development plans to reach critical mass.

VRL's ownership of iPic following the listing is 25%, which was valued at approximately US\$22.6 million as at 30 June 2018. VRL carries this investment at nil in its accounts due to equity accounting requirements under accounting standards.

FY2019 has opened with positive results from *Ant-man* and the *Wasp*, *Mamma Mia! Here We Go Again*, *Crazy Rich Asians* and strong carryover from June, including *Jurassic World: Fallen Kingdom* and *Incredibles 2*. Key titles for the balance of FY2019 include *Avengers 4*, *Aladdin*, *Ralph Breaks the Internet*, *Fantastic Beasts: The Crimes of Grindelwald*, *Mary Poppins Returns* and *Captain Marvel*.

In FY2019, VRL expects to see the Australian box office largely in line with FY2018.



► Film Distribution

The Film Distribution division (“**Roadshow**”) delivered an EBITDA of \$13.8 million after a challenging FY2018 (\$21.2 million in the prior year). The division was negatively impacted by the underperformance of key titles and the ongoing decline of the physical (DVD and Blu Ray) market and piracy. Back catalogue and TV titles in the physical market have been particularly impacted by the growth in subscription video on demand (“SVOD”).

Roadshow Rough Diamond’s first production, *Romper Stomper*, launched with critical acclaim on Stan during the year

The Australian transactional digital market for content continues to grow, and the division is well positioned to take advantage of this growth, with multiyear supply deals with key SVOD platforms Stan and Netflix. However, the growth in the digital market has not been sufficient to offset the decline in revenue from the DVD sector.

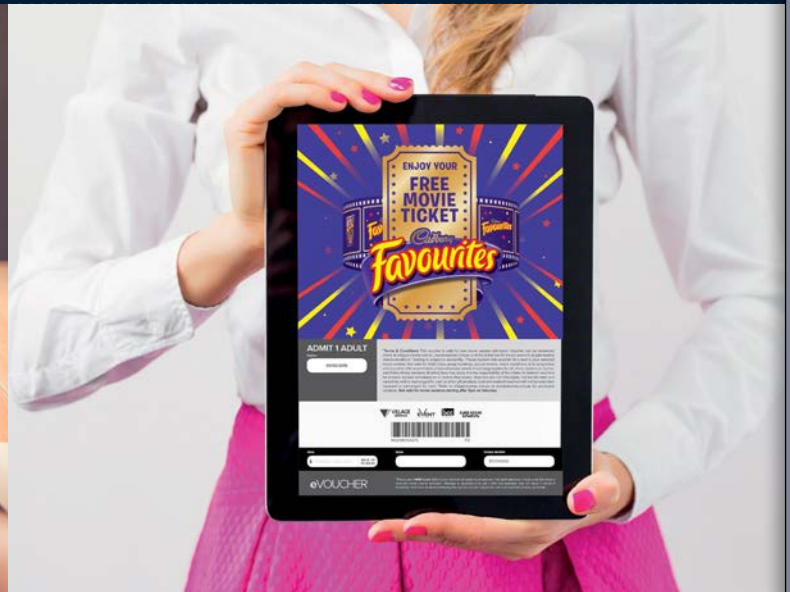
Roadshow Rough Diamond’s first production, *Romper Stomper*, launched with critical acclaim on Stan during the year with a second project, *Australian Gangster*, to screen on Channel 7.

In addition, the division’s investment in **FilmNation** continues to provide positive exposure to an international sales and production company.

VRL is actively taking steps to reduce film piracy. FY2018 saw real progress in the fight against piracy as the new Australian legislation led to the blocking of 450 pirate sites, and a further 100 sites were blocked in September 2018.

Roadshow has a strong slate of titles in FY2019, headlined by *Fantastic Beasts: Crimes of Grindelwald*, *Aquaman*, the much anticipated *A Star is Born*, as well as new releases from major TV franchises.

Roadshow’s FY2019 EBITDA will primarily depend on film performance.



► Marketing Solutions

The Marketing Solutions division has continued to invest in and develop its cutting edge technical platform capabilities

The Marketing Solutions division delivered EBITDA of \$8.3 million for FY2018 (\$9.8 million in the prior year) as the division invested in resources to support international expansion and future growth.

The Marketing Solutions division has continued to invest in and develop its cutting edge technical platform capabilities to deliver highly scalable and increasingly integrated promotional solutions. This will support geographic expansion into the USA, the broader European region and Asia and drive the growth profile of the business.

Edge has seen a continued demand for Card products and growth in Digital reward content and recurring promotions with key clients. Edge has progressed with its expansion into Asia with a new office in Singapore. Going forward, Asia will form a key part of Edge's growth.

The transformation of Edge into a business built around innovative incentive technologies is laying a strong foundation for local and international growth. Edge plans to strengthen its position in all markets by continuing to invest in promotional platforms, data analytics and connective capabilities.

Opia continued its longstanding relationships with key multinational clients during the year including HP, LG, Samsung and the company's agency business with Odeon Cinemas in the UK. In the USA, Opia successfully negotiated a Microsoft Worldwide Service Agreement, positioning the business as a preferred provider of sales promotions.

Opia will continue to grow its existing customer base in the UK and Europe, and to extend its geographical reach through developing long-term relationships with blue-chip multinational customers. The business is also developing its product offerings and looking to extend its activity into other sectors such as fast moving consumer goods and mobile phones.

Marketing Solutions is expected to achieve EBITDA growth in FY2019.

Images: Left to right – Opia and Edge



► Corporate & Other

Total net Corporate & Other costs for the 12 months ended 30 June 2018 were \$31.7 million, and EBITDA for Corporate was a \$22.2 million loss, compared to a \$21.5 million EBITDA loss in the prior corresponding period.

The investment in Digital & IT Development in FY2018 was \$5.4 million, marginally down from \$5.7 million in the prior year due to lower staffing costs and savings on data services and external consulting costs.

The Company's FY2018 attributable profit from material items after tax of \$7.5 million included gains on disposal of investments and businesses of \$156.9 million and impairment and other non-cash adjustments of \$167.4 million.

During FY2018, \$227.9 million of debt was repaid (total debt drawn was \$401.9 million at 30 June 2018). While VRL remains in compliance with its debt covenants on the VRL group finance facility, the Board continues to work on initiatives aimed at reducing gearing.

The group will remain focussed in FY2019 on cost control and judicious capital expenditure spending

Shareholders strongly supported the Entitlement Offer in July 2018 which, together with the other proactive steps by the Board outlined above, reduced the Company's debt levels significantly.

The group will remain focussed in FY2019 on cost control and judicious capital expenditure spending, with capital expenditure expected to be significantly lower than the prior year.

Additional cost savings are anticipated in FY2019 as further efficiency initiatives are implemented under the OneCo business transformation project, which is aimed at bringing together functions in core divisions and transforming VRL into a more integrated company.

The Board is committed to ensuring that the Company's remuneration arrangements meet the needs of the business and shareholder expectations. The Company has implemented changes to the remuneration framework commencing in FY2019 to ensure even clearer alignment of executive interest with those of shareholders, including a 25% reduction in base remuneration for Executive Directors and in fees for Non-Executive Directors. The Company's FY2018 Remuneration Report commences on page 19.

VRL continues to operate its businesses in an environmentally and socially responsible manner whilst continuing to maximise long term shareholder value. The Company continues its sustainability initiatives in its operating businesses and also remains a firm supporter of charitable and community involvement endeavours. Summarised information and reporting on these matters is available on the Company's website at www.villageroadshow.com.au.

Images: Left to right – Seal Guardians seal show and The Reef – Castaway Bay splash zone at Sea World



► In Conclusion

VRL's Chief Executive Officer, Mr Graham Burke said:
"Our clear goals are to sell tickets and drive free cash flow while bringing to bear laser focus on operating costs and capital expenditure."

The essence of VRL is going out. Disruption from the internet challenges large sectors of commerce and in particular areas of retail and media. While people may want savings and the convenience of shopping at home, they will always want to go out for entertainment. VRL's primary businesses are going out experiences whether it be at theme parks, cinemas or the exciting Topgolf concept which opened on the Gold Coast in June, 2018

VRL's Executive Chairman, Mr Robert Kirby said: "The extraneous factors that contributed to our headwinds such as the Dreamworld effect, is now a nightmare of the past. There are strategies in place to correct the effect of other external factors as well as our new growth initiative of Topgolf."

VRL's Executive Chairman, Mr Robert Kirby said:
"The extraneous factors that contributed to our headwinds such as the Dreamworld effect, is now a nightmare of the past. There are strategies in place to correct the effect of other external factors as well as our new growth initiative of Topgolf."

On behalf of the Board we wish to thank the Company's dedicated, talented and loyal staff and management for their outstanding contributions during the year.

VRL's Chief Executive Officer, Mr Graham Burke said: "Our clear goals are to sell tickets and drive free cash flow while bringing to bear laser focus on operating costs and capital expenditure."

We thank all our customers for their continued support and we thank you, our shareholders, for your support throughout the year.

ROBERT G. KIRBY

GRAHAM W. BURKE

Images: Left to right – Junior and Topgolf Gold Coast

ADDITIONAL INFORMATION (continued)

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Investor Inquiries

To ensure shareholders and other interested parties can keep up to date on the Company, Village Roadshow Limited's website contains information on the Company including its business unit profiles, result announcements, stock exchange releases and other information for investors. The site can be accessed at www.villageroadshow.com.au

Please contact the Company's share registry for all inquiries on your Village Roadshow shareholding, such as confirmation of shareholding details and change of address advice.

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