

11 September 2017

TABCORP PROVIDES UPDATE ON COMBINATION WITH TATTS

Tatts shareholder meeting convened

Tabcorp Holdings Limited (**Tabcorp**) notes the announcement by Tatts Group Limited (**Tatts**) on Friday 8 September 2017 that the Supreme Court of Victoria has made orders to convene a meeting of Tatts shareholders on Wednesday 18 October 2017 to consider and vote on the proposed combination of Tabcorp and Tatts (together, the **Combined Group**) via a Scheme of Arrangement (**Transaction**).

Tatts has released details of the Scheme meeting, including the Scheme Booklet and the Independent Expert's Report on the ASX.

Transaction update

Following the release of the Scheme Booklet by Tatts, Tabcorp is pleased to provide an update on the Transaction.

Tabcorp's Chairman, Paula Dwyer, said:

"The release of the Scheme Booklet represents another important step towards creating a world-class, diversified gambling entertainment group that is expected to deliver substantial financial and other benefits for both Tabcorp and Tatts shareholders, customers, business partners and other stakeholders.

"Together we will be well placed to pursue more investment and innovation across all our businesses, including best-in-class digital products and experiences.

"With substantially all pre-implementation regulatory approvals now in place, we look forward to continuing to work with Tatts to successfully complete the Transaction and are expecting implementation to take place in November 2017."

AustralianSuper, one of Tatts' largest shareholders, has indicated that it continues to support the Transaction and that it intends to vote its Tatts shares in favour of the Transaction, in the absence of a superior proposal and subject to there being no material adverse change in circumstances.

Independent Expert's Report

Independent Expert Grant Samuel was appointed by the Tatts Board to prepare an Independent Expert's Report in relation to the Transaction, which is included as an annexure to the Scheme Booklet.

The Independent Expert has concluded that the Transaction is in the best interests of Tatts shareholders, in the absence of a superior proposal. The Independent Expert referred to the fact that the value of Tatts shareholders' collective interest in the Combined Group will be greater than their contribution of value to the Combined Group, and the terms of the Transaction provide a meaningful premium and payment for synergies and business improvements.

Tabcorp has calculated the implied value of the scheme consideration (based on the Independent Expert's fundamental value of Tabcorp and Tatts plus a notional value for synergies and business improvements and less transaction costs), as \$4.25 to \$4.67 per Tatts share.¹ This value includes \$0.47 per Tatts share of value in relation to the expected synergies and business improvements (assuming these benefits are realised in full, of which there is no guarantee) and net of one-off integration costs.² This valuation range represents a significant premium over the Independent Expert's fundamental value of Tatts shares on a standalone basis of \$3.68 to \$4.00 per Tatts share.³

The Independent Expert's Report in the Scheme Booklet has indicated that the Transaction is expected to be c.22% EPS and DPS accretive for Tatts shareholders on a FY17 pro forma basis (post buyback and before applicable significant items, and assuming synergies and business improvements are realised in full, of which there is no guarantee).⁴

Synergies and business improvements

Tabcorp continues to expect the Transaction to deliver at least \$130m p.a. of EBITDA from synergies and business improvements.

Tabcorp expects that the Transaction will deliver at least \$80 million p.a. of EBITDA in operational expenditure synergies, which are expected to be derived from:

- Consolidation of wagering functions (at least \$19 million p.a. of EBITDA)
- Technology integration and systems optimisation (at least \$24 million p.a. of EBITDA)
- Corporate cost rationalisations (including property and field services savings) (at least \$37 million p.a. of EBITDA)

Tabcorp also expects the Transaction to deliver significant wagering business improvements from optimising the performance of UBET's fixed odds wagering business and driving turnover growth across the UBET business through a number of initiatives. Tabcorp also expects the Transaction to deliver Keno business improvements in Tatts' South Australian Keno business.

In addition to the expected synergies and business improvements of at least \$130 million p.a. of EBITDA, it is expected that approximately \$10 million p.a. of capital expenditure synergies will be available to the Combined Group through the rationalisation of wagering systems development functions.

The Transaction also creates a pathway to national pari-mutuel pooling (which would require racing industry and regulatory approvals).

It is anticipated that the delivery of the full 'run-rate' of at least \$130 million p.a. of EBITDA from expected synergies and business improvements will be realised in the first full year following completion of the integration of the businesses. Integration of Tatts and Tabcorp is expected to take approximately two years to complete from the date of implementation, subject to the receipt of necessary regulatory approvals.

The incremental one-off costs and capital expenditure associated with integration to achieve synergies and business improvements is estimated to be approximately \$119 million (post-tax).

Status of regulatory approvals and indicative implementation timetable

Tabcorp is very well progressed in obtaining the necessary regulatory, industry and government approvals required to implement the Transaction.

The Australian Competition Tribunal (**Tribunal**) granted authorisation for the Transaction on 22 June 2017. The Australian Competition and Consumer Commission (**ACCC**) and CrownBet Pty Ltd (**CrownBet**) subsequently applied to the Federal Court of Australia (**Federal Court**) for judicial review of the Tribunal's authorisation. The Full Court of the Federal Court heard both the ACCC's and CrownBet's applications on 28 and 29 August 2017 and the parties are currently awaiting the Federal Court's decision. Tabcorp remains confident that the Tribunal's authorisation will be upheld.

Tabcorp has now received substantially all of the pre-implementation regulatory and other approvals required to implement the Transaction (including regulatory approvals from Queensland, South Australia, Victoria, NSW and Northern Territory, and required change of control consents from Racing Queensland and South Australia Racing). Tabcorp expects to receive the remaining required pre-implementation approvals before the scheduled date of the Scheme Meeting.

The Second Court Hearing in relation to the Transaction is expected to take place on 24 October 2017, with implementation of the Transaction expected to take place on 1 November 2017.

Footnotes

- 1 Calculated by Tabcorp based on the Independent Expert's pro forma fundamental value of the Combined Group and Tatts shareholders' expected share of the Combined Group (58.4%), plus the cash consideration to Tatts shareholders, of \$5,612 to \$6,230 million (see Section 9.2.2 of the Independent Expert's Report in the Scheme Booklet), plus the notional value of synergies and business improvements as stated in the Independent Expert's Report in the Scheme Booklet of 60 cents per Combined Group share (which assumes synergies and business improvements are realised in full, of which there is no guarantee) (see Section 9.2.3(iii) of the Independent Expert's Report in the Scheme Booklet), plus an adjustment for Tatts shareholders' share of the impact of the total transaction costs expected to be incurred post 30 June 2017 of \$102 million (see Section 12.5(G)(3) of the Scheme Booklet). Fundamental value represents a 100% (control) value and does not represent a value at which shares in the Combined Group would be expected to trade. Please refer to Section 7.1 of the Independent Expert's Report in the Scheme Booklet for further details on fundamental value.
- 2 Calculated by Tabcorp based on the notional value of synergies and business improvements as stated in the Independent Expert Report of around 60 cents per Combined Group share (which assumes synergies and business improvements are realised in full, of which there is no guarantee)—see Independent Expert Report Section 9.3.3(iii). Notional value calculated by the Independent Expert as \$130 million (estimated synergies and business improvements) multiplied by an estimated EBITDA multiple of 10x less estimated integration costs net of tax benefits (\$119 million) divided by shares on issue in the Combined Group (2,010 million shares). The EBITDA multiple used in the estimate of the notional value is a blended rate reflecting the mix of businesses of the Combined Group. It compares to the FY17 EBITDA multiples at which Tatts and Tabcorp are currently trading (15.3x and 9.3x respectively). Tatts shareholders share of synergies is based on their expected share of the Combined Group (58.4%), divided by 1,469 million Tatts shares on issue.
- 3 Calculated by Tabcorp based on the Independent Expert's standalone fundamental value for Tatts equity (excluding synergies and business improvements) of \$5,410 to \$5,867 million (see Section 7.2 of the Independent Expert Report) divided by 1,469 million Tatts shares on issue. Fundamental value represents a 100% (control) value and does not represent a value at which shares of Tatts would be expected to trade. Please refer to Section 7.1 of the Independent Expert's Report in the Scheme Booklet for further details on fundamental value.
- 4 As stated in Section 9.3.2(iv) of the Independent Expert's Report in the Scheme Booklet. Tatts earnings per share (EPS) and dividends per share (DPS) pro forma accretion has been calculated at 0.905 Tabcorp shares for every Tatts share, being the sum of the scrip consideration of 0.80 Tabcorp shares plus 42.5 cents cash reinvested in Tabcorp shares at a price of \$4.05 per Tabcorp share. Pro forma EPS and DPS impact presented after synergies and business improvements (assuming they are realised in full, of which there is no guarantee), before applicable significant items and after \$500 million share buyback. Following implementation, Tabcorp's current intention is to undertake a share buyback of up to \$500 million. Any such share buyback is subject to Tabcorp Board approval and market conditions. Assuming no share buyback, pro forma FY17 EPS and DPS accretion to Tatts shareholders is 19.1% and 18.9% respectively, before significant items and assuming synergies and business improvements are realised in full of which there is no guarantee.

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