

Tatts receives indicative proposal from financial consortium to acquire 100% of Tatts Group

Brisbane, 14 December 2016 – Tatts Group Limited (**Tatts**) announces that it has received an unsolicited confidential, non-binding, indicative and conditional proposal from four financial investors (together, the **Pacific Consortium**) to acquire 100% of Tatts for a combination of cash and scrip consideration (the **Indicative Proposal**).

The Pacific Consortium comprises First State Superannuation Scheme, Morgan Stanley Infrastructure Inc., as adviser to and manager of North Haven Infrastructure Partners II LP, one or more affiliates of Kohlberg Kravis Roberts & Co. L.P., and Macquarie Corporate Holdings Pty Limited.

Key terms of the Indicative Proposal and its underlying financial assumptions and conditions are outlined in the attached appendix.

Receipt of the Indicative Proposal follows a prior period of engagement by Tatts with certain members of the Pacific Consortium who undertook preliminary due diligence on Tatts in mid-2016. Tatts ceased discussions with those parties prior to entering into the agreement with Tabcorp Holdings Limited (**Tabcorp**) to combine the two companies via a Tatts scheme of arrangement, which was announced on 19 October 2016 (**Proposed Tabcorp Merger**).

Tatts has not yet formed a view on how the Indicative Proposal compares to the Proposed Tabcorp Merger. The Tatts Board and its advisers will assess the Indicative Proposal including its terms, underlying financial assumptions and conditions, and will provide a further update on the outcome of that review as soon as practicable.

In the meantime, the Directors of Tatts continue to believe the Proposed Tabcorp Merger is in the best interests of Tatts shareholders and unanimously recommend the Proposed Tabcorp Merger, in the absence of a superior proposal and subject to an independent expert concluding the Proposed Tabcorp Merger is in the best interests of Tatts shareholders.

In the event of any material developments in relation to either the Indicative Proposal or the Proposed Tabcorp Merger, Tatts will make a further announcement. In the meantime, shareholders do not need to take any action in response to the Indicative Proposal and should not assume that the Indicative Proposal will result in an offer or transaction.

The Tatts Board remains fully committed to acting in the best interests of, and maximising value for, Tatts shareholders.

APPENDIX:

**PACIFIC CONSORTIUM INDICATIVE PROPOSAL KEY TERMS,
UNDERLYING KEY FINANCIAL ASSUMPTIONS AND KEY CONDITIONS**

KEY TERMS

- Proposed transaction to be executed via two parallel Tatts schemes of arrangement, one for the separation of Tatts' wagering & gaming businesses (**Wagering & Gaming Co**) from Tatts, and the second for the 100% acquisition of Tatts which will comprise Tatts' lottery businesses (**LotteryCo**)
- Pacific Consortium's total indicative value per Tatts share of \$4.40 to \$5.00 comprised of:
 - \$3.40 in cash; plus
 - one share in Wagering & Gaming Co, which the Pacific Consortium values at \$1.00 to \$1.60 per share as described below
- Pacific Consortium's indicative valuation of Wagering & Gaming Co:
 - \$1.00 per share reflects the Pacific Consortium's view of a standalone trading value for Wagering & Gaming Co of 11.7x and FY16 EBITDA of \$158m (calculated as Wagering & Gaming Co standalone FY16 EBITDA of \$201m less \$44m of assumed corporate overheads) and net debt of \$378m
 - \$1.60 per share reflects the Pacific Consortium's view of the full synergy value of Wagering & Gaming Co if acquired by a strategic party, which is based on Tabcorp's three month trading multiple of 9.5x FY16 EBITDA and Wagering & Gaming Co EBITDA of \$288m (calculated as Wagering & Gaming Co standalone FY16 EBITDA of \$201m less \$44m of assumed corporate overheads, plus \$130m of additional synergies as identified by the Tabcorp Merger Proposal) and net debt of \$378m
- Cash consideration of \$3.40 includes \$3.105 cash, a \$0.20 fully franked special dividend, and \$0.095 fully franked interim dividend
- Wagering & Gaming Co to be listed on ASX, if not sold to a strategic party in parallel
- Proposed transaction to be financed through a combination of equity and debt
 - The Pacific Consortium has aggregate equity commitments totalling \$3.4bn (subject to the Key Conditions outlined below) and indicative financing support from banks for the remainder of the funding needed
- Wagering & Gaming Co to have \$378m drawn debt and \$139m undrawn facilities to fund the remaining CMS licence payments in NSW
 - Drawn debt to include transaction costs and any break fee payable under the Tabcorp Merger Proposal

UNDERLYING KEY FINANCIAL ASSUMPTIONS

- 1,468,519,481 fully paid Tatts ordinary shares on issue, no options over unissued shares and deferred share rights over 467,866 unissued shares which will vest on a change of control
- Current level of net debt is no greater than disclosed net debt as at 30 June 2016 of \$1,041m and no material negative change to capital structure
- Wagering & Gaming Co is allocated \$378m of net debt and has FY16 EBITDA of \$158m (calculated as standalone FY16 EBITDA of \$201m less \$44m of assumed corporate overheads)
- LotteryCo FY17 EBITDA of \$353.6m
- Tatts has already paid the \$135m upfront payment to the Queensland Government prior to 30 June 2016, or that the assumed FY17 EBITDA for LotteryCo of \$353.6m includes the 'Periodic Operator Fee expense'
- Tatts' Victorian licence is renewed on materially the same terms as its existing licence
- Prize reserve funds and unclaimed prize funds are at a normalised level at completion
- No material off balance sheet liabilities, underestimated liabilities, undisclosed material contingencies or liabilities, or pending and/or outstanding litigation processes, or other liabilities due to non-compliance with applicable law
- Tatts not being in breach of financing arrangements or material contracts
- No dividends being declared until the closing of the proposed transaction other than as set out in the Indicative Proposal
- Tatts publicly available information being accurate and complete

KEY CONDITIONS

- Final approval of each Pacific Consortium member following completion of satisfactory due diligence including accounting, tax, commercial, legal and regulatory matters
 - Assuming timely access to necessary diligence materials, the Pacific Consortium anticipates completing its due diligence within six weeks of commencement
- Unanimous recommendation from Tatts' Board to enter into the proposed schemes
- Access to key members of Tatts' management team
- Agreeing scheme implementation agreement(s) on customary terms substantially similar to those agreed with Tabcorp under the Tabcorp Merger Proposal
- Agreeing appropriate transitional services agreement(s) between LotteryCo and Wagering & Gaming Co
- The Indicative Proposal is not conditional on ACCC approval but would be subject to other regulatory approvals