

# MEDIA RELEASE

Tabcorp

14 August 2019

## Tabcorp 2018/19 Full Year Results

### STRONG GROUP RESULT REFLECTS COMPELLING INVESTMENT FUNDAMENTALS

- Strong group result**
  - Revenue up 8.7% and EBITDA up 7.6% (vs pro-forma pcp):
    - Positive step change in performance, with record Lotteries & Keno result from successful game portfolio initiatives, strong growth in digital and retail channels and favourable jackpots
    - Wagering & Media results reflect the incomplete status of integration and the heightened investment in maintaining active customer numbers during business transformation
    - Gaming Services made good progress on contract extensions and consolidated under the MAX brand
- Increased dividend**
  - Full year dividend of 22.0 cents per share, including final dividend of 11.0 cents per share, fully franked
  - Increase of 4.8% on pcp
- Integration delivering benefits**
  - Successful year with significant cost savings realised ahead of plan
  - Delivered \$64m EBITDA synergies and business improvements in FY19
  - Initiatives in place to deliver FY20 EBITDA target of \$90m
  - On track to deliver FY21 total EBITDA target of \$130m-\$145m
- Digital experience accelerated**
  - Lotteries digital turnover up 73.5% vs pro-forma pcp, now 23.5% of total turnover
  - Wagering digital turnover up 7.7% vs pro-forma pcp; TAB up 11.2%, now 44.6% of total turnover
  - New omni-channel model being rolled out with Lotteries' retail partners, subject to regulatory approval
- Well positioned for long-term profitable growth**
  - Customer-led omni-channel strategy focused on optimising our diverse and unique assets
  - Customer focus enhanced by investments in product innovation, data, digital and retail modernisation
  - Continued investment in compliance, risk management and responsible gambling initiatives
  - Disciplined management of operating expenses, capital investment and balance sheet

### FY19 RESULTS OVERVIEW

		VS REPORTED PCP <sup>1,2</sup>	VS PRO-FORMA PCP <sup>3</sup>
<b>REVENUE</b>	<b>\$5,482.2M</b>	<b>UP 45.9%</b>	<b>UP 8.7%</b>
<b>EBITDA</b>			
(CONTINUING OPERATIONS BEFORE SIGNIFICANT ITEMS)	<b>\$1,064.7M</b>	<b>UP 38.4%</b>	<b>UP 7.6%</b>
<b>NPAT</b>			
(CONTINUING OPERATIONS BEFORE SIGNIFICANT ITEMS)	<b>\$397.6M</b>	<b>UP 42.5%</b>	
(STATUTORY)	<b>\$362.5M</b>	<b>WAS \$28.7M</b>	
<b>EPS</b>			
(CONTINUING OPERATIONS BEFORE SIGNIFICANT ITEMS) <sup>1,2</sup>	<b>19.7 cps</b>	<b>UP 4.7%</b>	
(STATUTORY)	<b>18.0 cps</b>	<b>WAS 1.9cps</b>	

- Significant items (after tax) of \$25.3m comprise benefits from ACTTAB POCT compensation of \$10.6m offset by Tatts Group combination expenses regarding implementation costs \$24.1m and Racing Queensland arrangements \$11.8m. Refer Appendix 2 in 2018/19 Full Year Results Presentation
- FY18 has been restated to reflect Sun Bets as a discontinued operation
- Pro-forma results for FY18 include adjustments to Tabcorp's reported results to facilitate examination of the financial performance of the combined group as if the Tatts combination had been in place for the full year

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## FY19 GROUP RESULTS

\$m	FY19	vs Statutory pcp <sup>1</sup>		vs Pro-forma pcp <sup>2</sup>	
		FY18	Change	FY18	Change
<b>Revenues</b>	<b>5,482.2</b>	<b>3,757.3</b>	<b>45.9%</b>	<b>5,045.3</b>	<b>8.7%</b>
Variable contribution	1,979.2	1,501.1	31.9%	1,904.4	3.9%
Operating expenses	(914.5)	(731.6)	25.0%	(915.2)	(0.1%)
<b>EBITDA before significant items</b>	<b>1,064.7</b>	<b>769.5</b>	<b>38.4%</b>	<b>989.2</b>	<b>7.6%</b>
D&A	(304.1)	(247.3)	23.0%	(293.6)	3.6%
<b>EBIT before significant items</b>	<b>760.6</b>	<b>522.2</b>	<b>45.7%</b>	<b>695.6</b>	<b>9.3%</b>
Interest	(190.2)	(118.6)	60.4%		
Tax expense	(172.8)	(124.5)	38.8%		
<b>NPAT before significant items</b>	<b>397.6</b>	<b>279.1</b>	<b>42.5%</b>		
Significant items (after tax) <sup>3</sup>	(25.3)	(127.0)	(80.1%)		
NPAT from discontinued operations <sup>4</sup>	(9.8)	(123.4)	(92.1%)		
<b>Statutory NPAT</b>	<b>362.5</b>	<b>28.7</b>	<b>&gt;100.0%</b>		

- Comparative period results include contributions from Tatts from 14 December 2017 and have been restated to reflect Sun Bets as a discontinued operation
- Pro-forma results for FY18 include adjustments to Tabcorp's reported results to facilitate examination of the financial performance of the combined group as if the Tatts combination had been in place for the full year
- Significant items (after tax) of \$25.3m comprise benefits from ACTTAB POCT compensation of \$10.6m offset by Tatts Group combination expenses regarding implementation costs \$24.1m and Racing Queensland arrangements \$11.8m. Refer Appendix 2 in the 2018/19 Full Year Results Presentation
- Sun Bets ceased trading in July 2018

## FY19 GROUP AND BUSINESS RESULTS (vs PRO-FORMA PCP)<sup>1,2</sup>

FY19	Lotteries & Keno		Wagering & Media		Gaming Services		Group	
	\$m	Change	\$m	Change	\$m	Change	\$m	Change
<b>Revenues</b>	<b>2,864.9</b>	<b>22.8%</b>	<b>2,312.2</b>	<b>(3.6%)</b>	<b>304.0</b>	<b>(3.5%)</b>	<b>5,482.2</b>	<b>8.7%</b>
Variable contribution	741.9	22.1%	944.3	(5.0%)	290.0	(3.7%)	1,979.2	3.9%
Operating expenses	(232.9)	9.4%	(528.3)	(2.5%)	(150.3)	0.8%	(914.5)	(0.1%)
<b>EBITDA</b>	<b>509.0</b>	<b>28.9%</b>	<b>416.0</b>	<b>(7.9%)</b>	<b>139.7</b>	<b>(8.1%)</b>	<b>1,064.7</b>	<b>7.6%</b>
D&A	(83.8)	(0.7%)	(144.2)	(0.4%)	(73.2)	12.4%	(304.1)	3.6%
<b>EBIT</b>	<b>425.2</b>	<b>36.9%</b>	<b>271.8</b>	<b>(11.5%)</b>	<b>66.5</b>	<b>(23.5%)</b>	<b>760.6</b>	<b>9.3%</b>
VC / Revenue %	25.9%	(0.2%)	40.8%	(0.6%)	95.4%	(0.2%)	36.1%	(1.6%)
Opex / Revenue %	8.1%	(1.0%)	22.8%	0.2%	49.4%	2.1%	16.7%	(1.4%)
EBITDA / Revenue %	17.8%	0.9%	18.0%	(0.8%)	46.0%	(2.3%)	19.4%	(0.2%)
EBIT / Revenue %	14.8%	1.5%	11.8%	(1.0%)	21.9%	(5.7%)	13.9%	0.1%

- Pro-forma results for FY18 include adjustments to Tabcorp's reported results to facilitate examination of the financial performance of the combined group as if the Tatts combination had been in place for the full year
- Business results do not aggregate to Group total due to intercompany eliminations and unallocated items. FY19 unallocated items \$2.9m EBIT loss includes new Brisbane office lease costs \$5.8m, partially offset by Jumbo Interactive income \$3.0m (FY18 unallocated items \$8.8m EBIT loss)

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## MANAGING DIRECTOR AND CEO COMMENTARY

“Tabcorp delivered a strong Group result in the first full year of the combined Tabcorp and Tatts business, reflecting the compelling logic of the combination and the benefits of diversification and scale,” Tabcorp Managing Director and CEO, David Attenborough said.

“The record performance of the Lotteries & Keno business was the highlight. We have been focused on driving sustainable growth through investments in our digital and retail channels, as well as game innovation. The new Powerball game reinvigorated the Australian lottery market, delivering bigger jackpots more often. This helped drive an increase of 600,000 active registered players and had positive revenue impacts on other lottery games.

“In Wagering & Media the focus in FY19 was the effective integration and transformation of the business. This program is on track to have UBET fully aligned with the superior TAB customer experience in the second half of FY20. Pleasingly, active customer numbers were maintained during this period of significant change and TAB’s digital growth continued. Gaming Services substantially completed its integration and consolidated its operations under the MAX brand.

“The integration program is delivering for shareholders and we are ahead of schedule on delivering the cost synergies. Our progress in this regard helped to keep our overall expense line flat year on year, in line with our plan. The integration program yielded \$64m of EBITDA from synergies and business improvements in FY19 and we are on track to deliver our FY21 EBITDA target of between \$130m and \$145m.

“We know many shareholders value the high payout and consistency of Tabcorp’s franked dividends and are pleased to be delivering a fully franked full year dividend of 22.0 cents, up 4.8% on the pcp.”

## LOTTERIES & KENO

Lotteries & Keno revenues were \$2,864.9m, up 22.8% vs pro-forma pcp. EBITDA was \$509.0m, up 28.9% vs pro-forma pcp.

This positive step change in performance was driven by continued game innovation, and upweighted investment in technology and data-led capability. Digital turnover was up a record 73.5%, representing 23.5% (FY18: 16.8%) of total Lotteries turnover and digital momentum is continuing. Retail turnover grew 17.7%.

The new Powerball game delivered bigger and more frequent jackpots, and more winners overall, leading to increased customer demand. Active registered players were up 22.2% to 3.3m, positively impacting revenues for other games. In addition, Lotteries & Keno revenues were supported by particularly favourable jackpot runs for Lucky Lotteries and Oz Lotto, which together added c.\$30 million of incremental EBIT.

A new omni-channel model was introduced for lottery retailers during the year and will commence in most jurisdictions next week, subject to regulatory approvals. The model will deliver greater alignment between lottery retailers and Tabcorp’s digital growth strategy.

## WAGERING & MEDIA

Wagering & Media revenues were \$2,312.2m, down 3.6% vs pro-forma pcp. EBITDA was \$416.0m, down 7.9% vs pro-forma pcp.

Tabcorp significantly increased its investment in maintaining active customer numbers in FY19 during a period of integration and transformation. TAB competed well with active customer numbers up 2.5% to 538,000.

TAB turnover growth of 1.3% translated to a revenue decline of 3.6% due to the step-up in customer generosity and lower gross yields. Turnover in the ex-UBET business (Queensland, Tasmania, South Australia and Northern Territory) was down 9.5%, largely as a result of the legacy offering. UBET revenues declined 7.2%, with the better revenue performance relative to turnover indicating early benefits from consolidation of our fixed odds teams and better yield management. The transition of UBET to the full TAB offering is progressing well and is on track for completion during FY20.

During the year TAB launched products such as Same Game Multi, Trio and Odds & Evens, as well as Venue Mode, which gives participating account customers offers that can only be accessed in TAB retail venues. This is an example of Tabcorp using its retail network as a point of difference to create unique, digitally-led retail experiences.

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## **GAMING SERVICES**

Revenues in Gaming Services, which now operates under the umbrella MAX brand, were \$304.0m, down 3.5% vs pro-forma pcp. EBITDA was \$139.7m, down 8.1% vs pro-forma pcp.

The Gaming Services structure was simplified into two units during FY19: MAX Venue Services (venue solutions, gaming systems and support services) and MAX Regulatory Services (monitoring and related services). Initiatives in FY19 were centred on creating a sustainable base for the future.

MAX Venue Services revenues were \$208.9m, down 4.8% vs pro-forma pcp. The decline in MAX Venue Services revenues was largely due to the expiry of some contracts in Victoria. Good progress was made on contract extensions with 40% of Victorian electronic gaming machines (EGMs) now contracted beyond 2022, albeit on lower margins. There were 730 new EGMs signed during the year in Victoria and NSW bringing the total under contract to 10,090.

MAX Regulatory Services revenues were \$95.1m, in line with pro-forma pcp.

## **DIVIDEND**

Tabcorp has announced a fully franked final dividend of 11.0 cents per share, taking the full year dividend to 22.0 cents per share. This represents a payout ratio of 100% of NPAT before significant items, amortisation of the Victorian wagering and betting licence and PPA, in line with stated policy. The final dividend is payable on 20 September 2019 to shareholders on the register at 22 August 2019. The ex-dividend date is 21 August 2019. The Dividend Reinvestment Plan will operate for the final dividend, without any discount. The FY20 dividend payout ratio target is 100% of NPAT before significant items, amortisation of the Victorian wagering and betting licence and PPA.

## **INTEGRATION**

The integration of Tabcorp and Tatts is ahead of schedule and delivering benefits for shareholders. Tabcorp delivered \$64m in EBITDA from cost synergies and business improvements in FY19, which exceeds the revised mid-year target of \$55m. The \$64m was comprised of \$57m in cost synergies and \$7m in revenue synergies. The revenue synergies were primarily from fixed odds yield improvement initiatives in the ex-UBET business. Initiatives are in place to deliver the FY20 EBITDA target of \$90m. Tabcorp continues to target between \$130m and \$145m in EBITDA from cost synergies and business improvements in FY21, as announced at the half-year results.

## **CONCLUSION**

Mr Attenborough said: "The first full year of the Tabcorp-Tatts combination has delivered strong revenue and earnings growth. Integration is on track, with most activities to be completed by the end of FY20.

"Through the Tabcorp-Tatts combination we have created a strong and diversified portfolio of high-quality businesses across Lotteries & Keno, Wagering & Media and Gaming Services. Our businesses have a clear set of priorities to build on their competitive advantages and drive long-term profitable growth.

"Our biggest business - Lotteries & Keno - is positioned for sustainable growth as a result of investments in game innovation and technology and data capability. The priorities in Wagering & Media are to complete the UBET/TAB integration, implement a new data platform and further digitalise venues. Gaming Services is prioritising the extension of existing contracts, expanding its offer and entering new markets.

"We remain focused on generating attractive and sustainable shareholder returns over the long term, as well as delivering benefits for our partners, customers and the community. Finally, we will continue to invest in compliance, risk management and responsible gambling across all of our operations as we aim to deliver on our purpose of 'Excitement with Integrity'."

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