

## A digitally driven year

**Brisbane, 18 August 2016** – Powerful digital sales growth coupled with superb lotteries performance underwrote another successful year for Australia’s largest non-casino gambling group. Tatts reported a 4.4% lift in Group revenues reaching \$2.93 billion and delivered a 3.8% lift in after tax profits to \$263.4 million (on a continuing operations basis). At a statutory level, after tax profit was down 7.2% to \$233.8 million impacted by the Group’s long running and now concluded pokies compensation litigation, and the loss arising on the sale of its UK slots operation, Talarius.

Tatts’ lotteries operation continued to go from strength-to-strength, posting record breaking results across the board - with revenue, EBITDA, EBIT, operating margins and jackpots at all-time highs. Lotteries revenue was up 8.2% to \$2.14 billion across the portfolio of games, but notably getting a boost from the very strong jackpot run in Oz Lotto and Powerball which peaked with 45 jackpots at or above the influential \$15 million level (compared with 34 in the prior year). EBIT increased 11.3%, reaching a high of \$320.0 million from a 15.0% margin (up from 14.5% last year).

The Group’s digital initiatives gained great traction with lotteries’ digital sales lifting by an unprecedented 32.2% and wagering, not far behind, increasing 22.5%. This category leading performance saw Tatts generate 30.2% of its wagering sales and 13.5%<sup>1</sup> total lotteries sales via its digital channel. This follows three years of intense focus by the Group in improving its customers digital journey, being more effective in online marketing, and unlocking the value in its large online audience across both wagering and lotteries.

UBET contributed its first full reporting year, with the brand in-market for just on 14 months. Encouragingly, and for the first time since the Group’s acquisition of Tote Tasmania in FY13, the wagering business returned to turnover growth, with turnover up 4.1% (compared to a 0.9% decline in FY15). As flagged in June 2016, UBET’s blended win-rate was 14.8% (compared to 16.0% in FY15) reflecting the provision of promotional offers and loyalty rewards, the continuing migration of customers from the tote to lower yielding fixed-price betting, and UBET offering pricing more responsive to the market. As a result, revenue was down 3.6% at \$609.9 million. EBIT of \$115.7 million was generated and while this result was down on FY15 (\$135.9 million), UBET remains the second largest wagering operator by revenue and the third most profitable (at EBIT level) when compared to the extensive competitor pack.

Tatts’ renamed gaming operation, MAX, was awarded the exclusive right in the year to monitor all hotel and club based gaming machines in New South Wales until 2032, together with a one-year extension to its current monitoring arrangements until November 2017. The Group’s UK based slots business, Talarius, was divested after it was successfully returned to profitability since FY14. The repositioning of this operation created a highly attractive asset in the very competitive UK market and ultimately provided a path to maximising shareholder value releasing £111 million on divestment.

On the basis of the healthy performance in the year and maintaining its commitment to a high dividend payout ratio, Tatts’ Board has determined a final dividend of 8.0 cents per share – taking the total dividend paid in respect of FY16 to 17.5 cents, an increase of 6.1% over the prior year and representing a 97.3% payout of continuing operations profits.

### FY16 Headlines

- \* Continuing operations NPAT up 3.8% to \$263.4m and statutory NPAT down 7.2% to \$233.8m
- \* 30.2% of all wagering sales online (FY15: 25.7%) – 22.5% growth
- \* 13.5%<sup>1</sup> of all lotteries sales online (FY15: 11.1%) – 32.2% growth
- \* 45 jackpots at \$15m or more - average \$28.8m 1<sup>st</sup> division jackpot (FY15: 34 with average \$25.3m)
- \* Wagering 4.1% turnover growth achieved (FY15: 0.9% decline)
- \* Won the exclusive monitoring rights to circa 97,000 gaming machines in NSW until 2032
- \* Launch of the first new draw lottery game in Australia in 20 years, Set for Life
- \* Release of Tatts’ first lotteries dedicated app
- \* Launch of national umbrella lottery brand, ‘the Lott’
- \* Divestment of UK slots operation, Talarius
- \* New 20-year exclusive NT wagering retail licences issued

### Summary of Results (for more detail see Appendix A)

|   | FY16              | FY15              | % change* |
|---|-------------------|-------------------|-----------|
| Revenue and other income                  | \$2,928.1 million | \$2,803.9 million | ↑ 4.4%    |
| EBITDA                                    | \$494.8 million   | \$491.0 million   | ↑ 0.8%    |
| EBIT                                      | \$419.6 million   | \$414.1 million   | ↑ 1.3%    |
| Profit before tax (continuing operations) | \$378.5 million   | \$363.3 million   | ↑ 4.2%    |
| NPAT (continuing operations)              | \$263.4 million   | \$253.9 million   | ↑ 3.8%    |
| NPAT (statutory)                          | \$233.8 million   | \$252.0 million   | ↓ 7.2%    |

\* Percentages based on full reported numbers (i.e. non-rounded source data).

<sup>1</sup> Consistent with prior years this excludes South Australia, if South Australia is included, online sales grew 33.0% and represent 12.7% vs 10.4% in FY15

## Commentary

Tatts this morning reported a 4.4% lift in Group revenues reaching \$2.93 billion. This translated to a 3.8% lift in net profit after tax (NPAT) on a continuing operations basis of \$263.4 million. At a statutory level, NPAT was down 7.2% to \$233.8 million impacted by the Group's long running and now concluded pokies compensation litigation, and the loss arising on the sale of Tatts' UK slots operation.

In announcing the result Robbie Cooke, Tatts' Managing Director and CEO, said

*"Our lotteries operation delivered record results, our digital initiatives over the last few years are now driving exceptionally strong sales growth, a number of our key licences and authorities to operate were re-secured, UBET proved its ability to attract customers in a crowded market returning to turnover growth, and we successfully launched several new brands and products. All-in-all, our business renewal program is delivering, it positions us well for future growth, and has at its core a focus on maximising value from our unique portfolio of gambling assets."*

In commenting on the traction the Group's digital initiatives had achieved in the year Cooke said:

*"It is really satisfying to see the digital initiatives we implemented over the last few years now driving strong sales outcomes. We have put together an expert team of digital marketers and empowered them with market-leading technology solutions. This has been a multi-year exercise and is now demonstrating the value of the investment made with our strongest ever digital sales growth in lotteries, lifting 32.2% to now represent 13.5%<sup>1</sup> of lotteries sales. Equally impressive is the outstanding 22.5% lift in wagering digital sales which saw us transact a record 30.2% of our wagering sales via our digital channel."*

In discussing the Group's lotteries performance he said:

*"The Group's lotteries operation was the standout performer in FY16. Across the board, this business achieved record-breaking performances with revenue, EBITDA, EBIT, operating margins, digital sales, and jackpots, all at all-time highs. This outstanding performance was the result of the many innovations put in place over the past three years, including new products, game re-configuration and positioning, focus on the digital channel, improved customer relationship management actions, and excellent brand, promotional and retail positioning of all Tatts' lottery products."*

On UBET's performance Cooke continued:

*"Our Wagering operation 'clocked up' its first full reporting year operating under the new UBET banner, and pleasingly saw momentum return to the business. For the first time since FY13 when we acquired Tote Tasmania, we achieved turnover growth demonstrating our ability to attract customers to the UBET brand and product offering. In no small way this performance was driven by our digital initiatives. UBET also achieved cut-through in the important area of brand awareness and customer loyalty."*

In relation to the Group's gaming operations now known as MAX, he said:

*"For the third consecutive year, Maxgaming (our monitoring and value-add services division) increased revenue and achieved a solid lift in EBIT. Bytecraft (the unit's 'break and fix' service operation), having undergone a business restructure over prior years, demonstrated the benefit of that strategy by improving profitability in FY16."*

Cooke noted the year had seen some significant and positive legislative and regulatory developments:

*"The Federal government should be commended for its decision to retain the provisions of the Interactive Gambling Act to stamp out 'click-to-call' in-play betting products and other illegal betting activities. We have been concerned for some time about the behaviour of a number of foreign and domestic betting operators using tricky means to circumvent, at the very least, the spirit of Australian laws and community expectations. The Government has drawn a line in the sand and demonstrated its commitment to Australian jobs, Australian businesses, and Australian values over companies based in offshore tax havens, such as Gibraltar, that engage in predatory and exploitative behaviour, while returning virtually nothing to the broader Australian economy."*

*The other positive development is the awakening of state and territory governments to the taxation leakage occurring with certain betting companies operating out of virtually tax free jurisdictions. When considering the \$1.4 billion in lotteries and wagering tax and duty Tatts pays to state and territory governments and industry partners, it is an issue of significance to the fiscal position of these jurisdictions if other operators are circumventing the tax and duty system for their own financial benefit, and/or deceiving customers as to the nature of their product offering. While pertinent to race and sports betting this is equally applicable to synthetic lotteries."*

<sup>1</sup> Consistent with prior years this excludes South Australia, if South Australia is included, online sales grew 33.0% and represent 12.7% vs 10.4% in FY15

In commenting on the Group's transactional activities in the year Cooke commented:

*"We maintained a disciplined approach in managing our portfolio of gambling assets, perhaps best demonstrated by the strategy we implemented in relation to our UK slots operation, Talarius. With a single-minded focus, we turned this long-term loss making operation around, achieving a first-time positive contribution in FY14, and building on this performance over the following two years. Our strategy and patience in repositioning this business created a highly attractive asset in the extremely competitive UK gambling market. This ultimately provided a path to maximising shareholder value, with net proceeds of £111 million being released on divestment.*

*The sale of Talarius also delivered on our strategy to transform our gaming division into a pure B2B business, predominantly focused on providing gaming monitoring and other services to gaming operators. This has culminated in the launch of our new gaming brand, MAX, in August 2016. In parallel, we have been carefully assessing opportunities to extend our gaming operation's B2B footprint, which explains the exclusive confirmatory due diligence process being undertaken in relation to Intralot's Victorian and New Zealand monitoring businesses.*

*Transactionally, our logic in initiating the nil-premium merger of equals discussions with Tabcorp in mid-2015, was the product of our quest for shareholder value creation, given the significant efficiencies the combination was capable of releasing. The additional attraction from the merger was the potential for the enlarged entity to embark on meaningful business expansion activities outside the Australian marketplace."*

Discussing the Group's outlook Cooke said:

*"Consistent with our approach over past years we are not providing specific profit guidance for FY17. However, in terms of how trading has commenced for the new financial year, and matters relevant in considering our FY17 outlook, we do make the following observations and comments.*

*Trading in the first month of FY17 is trending positively. Lotteries is cycling over a very strong FY16. July 2016 has delivered 3 jackpots at or above the influential \$15 million mark compared with 5 in July last year. The average first division jackpot value is lower at \$20 million, compared with \$26 million in July 2015.*

*UBET achieved turnover growth of 3.1% in July 2016 and a blended win-rate of 15.3% compared with 15.1% in the same month last year. EBITDA margin in the month was 23.5% compared with 19.9% in July 2015.*

*Our MAX businesses are performing on trend with July last year."*

## Dividend

With the benefit of the strong result the Tatts Board determined a final dividend of 8.0 cents per share—taking the total dividend paid in respect of the 2016 financial year to 17.5 cents representing a 97.3% payout of our profits on a continuing operations basis and 109.6% payout on a statutory basis. The Group has re-instated the dividend reinvestment plan for the final dividend, however due to the strength of the balance sheet, has decided not to offer a discount.

## Further Detailed Analysis

**FOR MORE DETAIL AND DISCUSSION ON TATTS GROUP'S RESULT PLEASE REFER TO THE MANAGING DIRECTOR'S REPORT CONTAINED IN THE ANNUAL REPORT RELEASED TODAY AND AVAILABLE ON [TATTSGROUP.COM](http://TATTSGROUP.COM)**

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**APPENDIX A**

|  | FY16<br>\$'million | FY15<br>\$'million |          | % change    |
|--|--------------------|--------------------|----------|-------------|
| <b>Total revenue and other income</b>                    | <b>2,928.1</b>     | <b>2,803.9</b>     | <b>↑</b> | <b>4.4%</b> |
| Government share   | (1,370.9)          | (1,271.5)          | ↑        | 7.8%        |
| Venue share/commission                                   | (436.7)            | (417.0)            | ↑        | 4.7%        |
| Product and program fees                                 | (202.7)            | (203.1)            | ↓        | 0.2%        |
| Other expenses   | (423.0)            | (421.3)            | ↑        | 0.4%        |
| <b>Total expenses</b>                                    | <b>(2,433.3)</b>   | <b>(2,312.9)</b>   | <b>↑</b> | <b>5.2%</b> |
| <b>EBITDA</b>  | <b>494.8</b>       | <b>491.0</b>       | <b>↑</b> | <b>0.8%</b> |
| Depreciation   | (75.2)             | (76.9)             | ↓        | 2.2%        |
| <b>EBIT</b>  | <b>419.6</b>       | <b>414.1</b>       | <b>↑</b> | <b>1.3%</b> |
| Interest income  | 5.3                | 7.4                | ↓        | 29.0%       |
| Finance costs  | (46.4)             | (58.3)             | ↓        | 20.5%       |
| <b>PBT</b>   | <b>378.5</b>       | <b>363.3</b>       | <b>↑</b> | <b>4.2%</b> |
| Income tax   | (115.1)            | (109.4)            | ↑        | 5.2%        |
| <b>Net profit after tax (from continuing operations)</b> | <b>263.4</b>       | <b>253.9</b>       | <b>↑</b> | <b>3.8%</b> |
| Loss from discontinued operations                        | (29.6)             | (1.9)              | ↑        | 1,480.6%    |
| <b>Net profit after tax (statutory basis)</b>            | <b>233.8</b>       | <b>252.0</b>       | <b>↓</b> | <b>7.2%</b> |