

## **Tatts Group Limited - 2017 Annual General Meeting Chairman's and Managing Director/CEO's Address**

Attached are copies of the Chairman's and Managing Director/Chief Executive Officer's addresses to be presented at Tatts Group Limited's Annual General Meeting, commencing at 1.30pm (Brisbane time), Tuesday 12 December 2017.

A copy of the presentation which accompanies these addresses will follow.

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**TATTS GROUP LIMITED**  
**ABN 19 108 686 040**  
**ANNUAL GENERAL MEETING**  
**12 DECEMBER 2017**

**CHAIRMAN AND MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER AGM**  
**SPEECHES**

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Good afternoon Ladies and Gentlemen and welcome to the Tatts Group 2017 Annual General Meeting. My name is Harry Boon, and I am Chairman of your Company, Tatts Group Limited.

This meeting is also being video webcast live, so a warm welcome to everyone watching online and a reminder that all the presentations being given today are available on our corporate website, [tattsgroup.com](http://tattsgroup.com).

As it is past the appointed time and a quorum is present, I now declare this meeting of members of Tatts Group Limited open. Before we proceed, I ask that you please turn off or silence your mobile phones and also remind you that the use of recording equipment is prohibited at this AGM. Thank you.

The Notice of Meeting and the Annual Report were sent to shareholders and the ASX on 27 October 2017 and I will take the Notice as being read.

**INTRODUCTION**

The 2017 financial year was a period of considerable change at Tatts. While advancing the Tatts/Tabcorp merger, we secured the exclusive lotteries licence in Victoria for a further 10 years, implemented key operational initiatives in our lotteries, wagering and gaming businesses, and increased the traction now entrenched in our digital channels.

Going into the expected merger with Tabcorp, we are well positioned for future business success as a combined entity as evidenced by our strong after-tax profit of \$220.5 million. This result, while down 5.7% on last year, was after absorbing significant merger costs of \$23 million, bearing the negative impact of poor weather on the racing calendar, and carrying a substantial 'hit' to revenue and profit from only 31 major jackpots compared to 45 last year.

On a continuing operations basis (before merger costs), we reported an equally robust result of \$244.6 million after tax.

In this environment, group revenues pulled back 5.1% to \$2.78 billion and the Tatts team did a great job in reducing expenses before merger costs by 4.9% or \$118.4 million lower than last year.

**REGULATORY ENVIRONMENT**

Our licenced lottery operations contribute over \$1.1 billion each year in state and territory lotteries taxes that help fund our important community facilities, like hospitals, schools and roads.

Synthetic lotteries make no such contributions and pay no lotteries taxes, and we are pleased to see the regulatory momentum building in all states towards legislating against synthetic lotteries. Synthetic lotteries operate under a complex insurance policy model with equally complex terms and conditions, especially for larger prize payouts. They do not offer real money-backed major prize pools with payouts that are guaranteed, as our licenced lotteries products do.

It is hoped that the current wave of regulatory momentum will result in synthetic lotteries being legislated out of the Australian lotteries environment in the near future.

Compliance with our licences and the vast array of legislation, regulations, rules and agreements underlying those licences, and compliance with the broader regulatory environment in Australia is critical to our business sustainability. Equally important is understanding, and being responsive to, the broader economic, social and community issues impacting government policy. I would like to commend our team at Tatts for their tireless efforts in working towards compliance in everything we do and assure shareholders that risk and compliance are critical areas of focus for the Board and management.

## **MOVING TO OUR PROPOSED MERGER WITH TABCORP**

Over the last 14 months the merger activity has consumed a considerable amount of your directors' and management's time, resources, attention and effort. This is the unavoidable reality of such transformational initiatives which will serve the long term best interests of our shareholders. From the outset in engaging with Tabcorp we recognised the substantial benefits the merger would bring, but we also understood the need to anticipate and prepare for all possible scenarios and outcomes. This was never going to be a straight forward or fast process. In this context, the professionalism, resilience and focus of the entire Tatts team throughout this process has been nothing short of outstanding.

The proposed merger with Tabcorp will bring together two highly complementary businesses and a deep pool of talent from within each organisation, ensuring that the combined entity is well positioned to invest, innovate and compete in a rapidly evolving environment.

The Scheme of Arrangement meeting where shareholders will be given an opportunity to discuss and vote on the proposed merger will follow at 3 pm today after the conclusion of this AGM. Should shareholders vote in favour of the Scheme, then we expect the merger to be implemented on 22 December 2017.

## **TABLING OF FINANCIAL REPORTS, DIRECTORS' REPORT AND AUDITORS REPORT**

We can now turn to the first item of ordinary business, which is the tabling of the Group's financial reports and the directors' and auditors' reports. These reports were lodged with the ASX on 17 August 2017 and sent to shareholders on 27 October 2017. As the Corporations Act does not require a vote on these reports, they will be tabled, but will not be the subject of a resolution. I now table the Financial Report of the Company and its controlled entities for the year ended 30 June 2017, together with the related Directors' Report and Auditor's Report.

Ladies and Gentlemen, it is now my pleasure to hand over to Robbie Cooke, who will provide you with his report as Managing Director and CEO.

## **ROBBIE COOKE, MANAGING DIRECTOR AND CEO**

Thanks Harry and good afternoon ladies and gentlemen.

When I spoke to you at our Annual General Meeting back in October last year I must admit I thought that was the 'final curtain'. Then at our half-year results in February this year I thought surely we were done. When we got to our full-year results back in August I really thought that was the last tour.

So, it is a somewhat unexpected pleasure to be back one last time (I think) and to have the chance to talk to you about what is this country's best gambling business.

Over the last five years my brilliant team here at Tatts has, I hope you will agree, delivered for our shareholders. Back five years ago when I started my second tour of duty with the Group, our market capitalisation was \$4.2 billion. I am pleased to say yesterday our market capitalisation lifted above \$6.7 billion.

But most significantly our business is performing superbly – this will be evident when I take you through a summary of our trading performance for the first five months of this financial year a little later on.

This excellent performance has been achieved notwithstanding the considerable uncertainty the current merger activity has personally meant for many of my team and the time, energy and effort it has consumed. I am pleased to tell you that, as we promised some 14 months ago, people here at Tatts just got on with it. We have continued to run our business in our usual 'lean', 'nimble' and 'hands on way' to drive the best possible outcomes for you, our shareholders.

If shareholders this afternoon approve the merger, I can categorically say we are handing over to Tabcorp a suite of businesses that are in excellent shape.

It is a somewhat bitter sweet moment to be leaving the business at this point in the journey. However, I know the combination with Tabcorp is absolutely the right next step to enable our company to compete in what is an ever-consolidating global gambling marketplace. Some of you who have an eye to the offshore markets will have seen in recent days both Ladbrokes and GVC have announced a potential tie-up which will create a geographically diverse \$9.4 billion behemoth.

Scale, together with the operational diversity offered by having wagering, lotteries and gaming businesses under one ownership, are outcomes this merger delivers. Importantly this merger will well position the combined group to compete in the future.

So whilst it is a sad moment for me to leave such a great business and a team that I have enjoyed immensely putting together and working with over the last 5 years, it is from a business perspective the right strategic next step. Financially, from a Tatts shareholder perspective, the deal structure offered by Tabcorp delivers a significant premium in exchange for certain outcomes for Tabcorp – in recommending the deal your Board has focused on the right considerations.

So for one last time, I would like to highlight some of the key achievements as a team we have delivered at Tatts over the last 5 years, these achievements I think affirm the great position our business is in today:

**Securing our licences** - At the start of 2013, we had numerous licences due for renewal. This included:

- our wagering retail exclusivity in Queensland;
- our gaming machine monitoring licence in New South Wales;
- our Victorian lotteries licence and
- our Northern Territory totalisator licence.

Each and every one of these licences was key to Tatts and losing any one of them could have resulted in a significant loss of shareholder value. We have been running non-stop for the past 5 years working to secure these licences and it gives me great pleasure to leave the business with all these licences and rights secure for the long-term.

Tatts, without a shadow of a doubt, has the strongest and longest-dated portfolio of gaming licences of any gaming business in Australia.

**Organisational structure** - We redesigned our organisational structure to breakdown divisional silos headed up by six individual CEOs. In place of this we established three key operational units (lotteries, wagering and gaming) managed by three COOs initially, with a fourth added this year in the charities arena which I will discuss later.

The ambition was to achieve a more focused and unified group in which common and shared expertise could be more readily accessed by and across the whole business. We now have teams in each division that are recognised as industry leaders in their respective fields.

**Bench-strength** – A number of gaps in resourcing and skills were revealed in our organisational “bench” review in 2013. To address these gaps, we significantly expanded each of our digital, online marketing, and bookmaker teams whilst also expanding our wagering marketing team.

We scaled up our customer relationship management team and consolidated it at a Group level to operate across both wagering and lotteries. We also refined our technology team’s resourcing, structure and delivery approach which has better positioned us to respond to our dynamic market-place.

**Brand + retail re-positioning** – A strategically significant project was undertaken to provide a clearer retail brand position for our lotteries, wagering and gaming operations and to enable the Group to work more effectively across all our points of distribution. We made significant changes across all our business units not only in terms of brand, but also in relation to all our points of customer interaction - including our physical retail network and our retailing presentation.

**Digital** – Digital is a key distribution channel for both our lotteries and wagering operations. Providing online and mobile products that are easy to use and intuitive was crucial for our future success and provided an opportunity to grow our sales beyond accepted norms of the past.

We invested in building the Group’s capabilities in this extremely important area and now have a technology architecture that provides flexibility and capability to be customer centric and responsive.

The fruits of this work can be seen from our UBET App, The Lott App and our new lotteries and wagering websites. In 2013 the Group was not a player of any note in the extremely important areas of search engine marketing and search engine optimisation. 5 years later and this position has completely changed.

We now consistently rank first in terms of lottery key word searches on Google. We also actively compete in the wagering space - we organically feature in the top search results for both lotteries and wagering key words.

However the best measure of our success in the digital arena is shown in the chart displayed which shows the remarkable lift in digital sales over the last 5 years in both wagering and lotteries. Digital sales in lotteries have lifted from 6.6% of sales 5 years ago to a category leading 16.4% today. Our wagering operation was achieving 16.9% of sales digitally 5 years ago and that is now at 34.3%. These outcomes are testament to the success of our approach and investment in our digital channels.

**Product development + innovation** – We placed a re-energised focus on product innovation and improvement across lotteries, wagering and gaming. Just some of the key product innovations introduced in lotteries over the past 5 years are:

- The launch of Set For Life – the first new lottery draw game released in Australia in 20 years.
- The extension of the Lucky Lotteries into all states of Australia – this game was previously only available in New South Wales and ACT.
- Innovation in the ticket design and retail display for our Instant Scratch-Its range.
- Roll-out of lotteries into convenience fuel outlets.

Our wagering business certainly did not stand still either with numerous new innovations introduced, including:

- The roll-out of class leading cash handling self-service terminals.
- Integrating an automated bookmaking platform to provide significantly expanded and enhanced markets (both pre-match and in-play).
- Introduction of the UBET rewards program.
- A first to market digital product called UBET Tappy that allows digital customers to bet with cash rather than through an account.

In gaming the team has developed and rolled out a new generation monitoring platform which services more than 95,000 gaming machines in more than 2,500 clubs and hotels in New South Wales. This monumental project was a commitment under our new licence and involved a cross functional team of over 130 people across our Brisbane, Sydney and Melbourne operations.

**New charities business unit** - We also established a new charitable games operating unit in 2017, known as George2, which is specifically focused on fund raising activities for the charitable and not-for-profit sector. This division launched a world-first white label charity lottery platform called Play for Purpose. Play For Purpose aims to reform a significant part of the charity fundraising sector to make sure more funds flow through to the causes intended.

**Jumbo Interactive** - We expanded our decade-long commercial relationship with Jumbo Interactive Limited with a 5-year extension and expansion of our existing lottery reseller agreements. As part of these arrangements, we also agreed to subscribe for a shareholding

in Jumbo (approximately 13%). This strategic investment is currently \$7.1 million or 46% up on our capital outlay.

**Exit sub-scale UK operation** – The long held but unprofitable UK gaming asset, Talarius, after 3 years of intense effort was successfully repositioning and achieved profitability. This facilitated the exit of what was a sub-scale and non-core asset through the sale of the business to a large international gaming group. We generated net proceeds of \$210 million which allowed us to repay all existing sterling denominated debt.

Now before I hand back to Harry I would like to update you on our trading performance to the end of November and I am happy to report that our strong start to the year has continued through to 30 November 2017. Our first five months of the year produced a 17.7% increase in continuing operations NPAT (before significant items) against the pcg.

Group revenues for the first five months were up 6.1%, benefiting primarily from strong lotteries jackpot performance, whilst expenses (before significant items) were well controlled. These factors in combination saw Tatts deliver an impressive 10.6% lift in EBITDA, and as mentioned, a 17.7% increase in continuing operations NPAT (before significant items).

In closing I would like to take this final opportunity to thank each and every team member at Tatts who have contributed to the success of the business detailed to you today. FY17 highlighted the strength of this team from winning our bid for the Victorian lotteries licence for a further 10 years; successfully undertaking the roll out of our new monitoring platform for the +95,000 gaming machines in New South Wales; doing all things possible to beat FY16's record lottery result; opening 321 refurbished UBET outlets under our retail renewal program; installing 2,229 new wagering point of sale terminals; commissioning 268 UBET cash handling self-service terminals; launching our new charitable games operating unit to further lift our contribution to good causes; and a plethora of other business initiatives, all made for an extremely busy and exciting year.

I can say with no equivocation the team at Tatts has been operating at maximum capacity. We have absolutely not allowed the uncertainty that the merger has brought to disturb our momentum.

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These addresses will be webcast live on Tatts Group Limited's website at [www.tattsgroup.com](http://www.tattsgroup.com) from 13:30 (Brisbane time) and will be archived on the website for viewing later today.