

19 February 2020

ASX Market Announcements
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

Tabcorp 2019/20 First Half Results

GROUP RESULT DRIVEN BY EXCELLENT LOTTERIES PERFORMANCE

- **Group** revenue up 4.4% and EBITDA¹ up 2.1% vs pcp
- **Interim dividend** maintained at 11.0 cps, fully franked
- **Integration** in the final phase:
 - EBITDA benefits expected to be \$100m in FY20 (previously \$90m)
 - On track to deliver FY21 target of \$130m-\$145m in recurring EBITDA benefits
 - Total one-off integration costs expected to be \$135m pre tax (previously \$95m)
- Step change in **Lotteries & Keno** performance sustained with another excellent result; strong growth in both digital and retail; more than 300,000 new registered customers in the past six months
- **Wagering & Media** core TAB business competing well while also transforming in a soft market; uplift in UBET performance anticipated once customers benefit from access to the full TAB offering post integration
- **Gaming Services** business under review to improve performance, including capital efficiency, and realise full potential

¹ EBITDA from continuing operations before significant items.

Tabcorp Holdings Limited	Level 21, Tower 2 727 Collins Street Melbourne VIC 3008	GPO Box 1943 Melbourne VIC 3001	tabcorp.com.au ABN 66 063 780 709
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GROUP RESULTS

\$m	1H20	1H19	Change
Revenues	2,913.9	2,790.2	4.4%
Variable contribution	1,029.7	1,017.0	1.2%
Operating expenses	(433.2)	(432.9)	0.1%
EBITDA before significant items	596.5	584.1	2.1%
D&A	(192.3)	(174.8)	10.0%
EBIT before significant items	404.2	409.3	(1.2%)
Interest	(94.8)	(105.0)	(9.7%)
Tax expense	(95.9)	(96.8)	(0.9%)
NPAT before significant items	213.5	207.5	2.9%
Significant items (after tax) ¹	(14.7)	(18.3)	(19.7%)
NPAT from discontinued operations	-	(9.8)	100.0%
Statutory NPAT	198.8	179.4	10.8%

Notes:

1. Significant items (after tax) of \$14.7m comprise Tatts Group combination expenses regarding implementation costs \$11.0m and Racing Queensland arrangements \$8.2m, partly offset by the benefit from ACTTAB POCT compensation tax refund \$4.5m.

BUSINESS RESULTS ¹

1H20	Lotteries & Keno		Wagering & Media		Gaming Services		Group	
	\$m	Change	\$m	Change	\$m	Change	\$m	Change
Revenues	1,584.3	12.4%	1,179.5	(3.7%)	149.0	(4.4%)	2,913.9	4.4%
Variable contribution	413.0	13.0%	472.7	(5.9%)	142.0	(4.0%)	1,029.7	1.2%
Operating expenses	(118.1)	6.2%	(238.9)	(3.9%)	(76.1)	6.9%	(433.2)	0.1%
EBITDA	294.9	16.0%	233.8	(7.8%)	65.9	(14.1%)	596.5	2.1%
D&A	(49.1)	12.1%	(95.3)	7.0%	(44.6)	14.1%	(192.3)	10.0%
EBIT	245.8	16.8%	138.5	(15.8%)	21.3	(43.4%)	404.2	(1.2%)
VC / Revenue %	26.1%	0.2%	40.1%	(0.9%)	95.3%	0.4%	35.3%	(1.1%)
Opex / Revenue %	7.5%	(0.4%)	20.3%	-	51.1%	5.4%	14.9%	(0.6%)
EBITDA / Revenue %	18.6%	0.6%	19.8%	(0.9%)	44.2%	(5.0%)	20.5%	(0.4%)
EBIT / Revenue %	15.5%	0.6%	11.7%	(1.7%)	14.3%	(9.8%)	13.9%	(0.8%)
Capex	30.6	>100.0%	81.0	60.4%	40.4	(12.4%)	152.0	39.4%

Notes:

1. Business results do not aggregate to Group total due to intercompany eliminations and unallocated items. 1H20 unallocated items \$1.4m EBIT loss includes Jumbo Interactive income \$1.9m, offset by property impairments on assets acquired as part of the combination with Tatts Group which are now held for sale (\$3.3m) (1H19 unallocated items \$3.2m EBIT loss)

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MANAGING DIRECTOR & CEO COMMENTARY

“Tabcorp’s diversified group of businesses delivered a solid overall result in the first half of FY20. We grew group revenues by 4.4% in an environment of soft discretionary spending, while undertaking significant integration activity. We also welcomed another 300,000 active registered customers during the period,” Tabcorp Managing Director and CEO David Attenborough said.

“Another excellent Lotteries & Keno result drove the Group’s earnings growth, and this business continues to go from strength to strength. Lotteries’ digital turnover was up almost 40% with retail up over 5%, evidence of how favourably customers and retail partners are responding to our integrated omni-channel strategy.

“This was a challenging half for our Wagering & Media business. TAB is competing well while also transforming in a soft market. The ex-UBET business does not yet have the broader set of products or services to win customers in a highly competitive environment. However, the integration of TAB and UBET is in its final phase and we look forward to providing the superior TAB experience to customers in Queensland, South Australia, Tasmania and the Northern Territory. We remain excited by the opportunity for this business once fully integrated.

“Gaming Services’ performance was unsatisfactory. We are reviewing this business to improve performance and realise its full potential.

“We are in the final phase of the long and complex process that has been the Tabcorp-Tatts integration and remain on track to deliver our FY21 target of EBITDA synergies and business improvements of between \$130m and \$145m.”

BUSINESS UNIT COMMENTARY

LOTTERIES & KENO

Lotteries & Keno revenues were \$1,584.3m, up 12.4% and EBITDA was \$294.9m, up 16.0%. The step change in Lotteries performance through FY19 continued with another excellent result in 1H20 driven by active management of the game portfolio, and digital and retail growth.

Lotteries’ omni-channel strategy gathered momentum in the half. Digital turnover grew 39.8% (representing 26.7% of total Lotteries turnover, versus 15.6% of total Lotteries turnover just two years ago). Retail turnover grew 5.2%.

Investments in personalised marketing and strong jackpot activity, including a record \$150m Powerball jackpot, helped drive customer acquisition. The business now has 3.6m active registered customers, having acquired 300,000 in the period.

Keno revenues grew 0.9% despite cycling high jackpot activity in the pcp.

The healthy performance of the Lotteries and Keno business drove a \$101.5 million increase in group taxes and levies paid to state and territory governments by Tabcorp, which totaled \$1,094.0m in 1H20.

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WAGERING & MEDIA

Wagering & Media revenues were \$1,179.5m, down 3.7% and EBITDA was \$233.8m, down 7.8%. The result reflects a business navigating a large and complex integration and transforming its offer in a softer market.

Tabcorp's digital wagering turnover was down 4.9%, and retail turnover declined 9.0%.

However, based on aggregated data from industry partners which represents approximately one-third of the wagering market, TAB's account (digital and call centre) turnover share grew in a declining market.

A focus in the half was continuing to prepare for the UBET to TAB customer migration. Another priority was directing investment to areas such as customer care and compliance. Operating expenses were down 3.9% even after the additional investment in these areas.

Customers have responded positively to recent innovations such as digital in-venue betting, which experienced 20.7% turnover growth vs the pcp. Initiatives to engage customers digitally in hotels, clubs, racetracks and TAB agencies are part of Wagering & Media's strategy to use Tabcorp's unique assets to provide differentiated customer experiences.

In Media, vision deals with the NBA and NFL through Sky helped drive sports turnover growth.

GAMING SERVICES

Gaming Services revenues were \$149.0m, down 4.4% and EBITDA was \$65.9m, down 14.1%.

MAX Venue Services revenues were \$102.0m, down 4.9%, impacted by contract expiries, contract extensions at lower daily rates and reduced project work. The result also reflects the non-renewal of a Telstra service contract and pending expiry of NSW Statewide Linked Jackpots following a NSW Government decision. In November, MAX secured the necessary approvals to enter the Queensland market, complementing the existing approvals in Victoria, NSW and the ACT.

MAX Regulatory Services revenues were \$47.0m, down 3.3%, impacted by reduced project work.

An operational and strategic review of the business has commenced.

DIVIDEND

Tabcorp has announced an interim dividend of 11.0 cents per share fully franked, in line with the pcp. The interim dividend is payable on 18 March 2020 to shareholders on the register at 25 February 2020. The Dividend Reinvestment Plan will operate for the interim dividend, without any discount. The FY20 dividend payout ratio target is 100% of adjusted NPAT (NPAT before significant items, amortisation of the Victorian wagering and betting licence and Purchase Price Accounting).

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INTEGRATION

The Tabcorp-Tatts integration remains on track to deliver between \$130m and \$145m of EBITDA synergies and business improvements in FY21. In the half an incremental \$24m of EBITDA vs pcp was delivered from initiatives including the full insourcing of data centre and retail network management, and call centre consolidation.

Total implementation costs are expected to be \$135m (pre tax) versus the previous guidance of \$95m (pre tax). The increase reflects the deployment of additional resources to manage the increased complexity and associated risk to ensure the successful migration of UBET customers to the TAB platform.

As integration nears completion, the Group's focus will shift towards business optimisation and the delivery of associated cost savings.

CONCLUSION AND PRIORITIES

"We are in the final phase of integration and look forward to realising the full benefits of the combination for shareholders, industry partners and customers over coming years," Mr Attenborough said.

"We will continue to strengthen our unique omni-channel model, with investments in personalisation, product innovation, digital capability and retail modernisation. In addition, we will advance the company's strategic agenda in 2H20. This includes the review of Gaming Services and preparing for a business optimisation program.

"We will also continue to embed the delivery of responsible entertainment in line with our vision to be the trusted gambling entertainment company. As part of this we have increased our support of the racing industry to drive the highest standards of animal welfare. We are also investing in capability that raises the bar on responsible gambling with a trial of artificial intelligence technology to improve age verification in TAB agencies."

This announcement was authorised for release by the Tabcorp Board.

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