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Tabcorp

13 February 2019

Tabcorp 2018/19 First Half Results

Group Overview

- Strong group results
  - Revenues up 6.1% and EBITDA up 9.0% (vs pro-forma pcp):
    - Strong Lotteries & Keno performance from game innovation, and digital and retail growth
    - Wagering results reflect increased investment in customer generosities and UBET underperformance pre-transition to full TAB offering
    - Gaming Services made good progress on contract renewals and new venue sign-ups
    - Operating expenses reduction driven by synergy benefits

- Interim dividend 11.0 cents per share, fully franked

- Integration targets upgraded
  - Target now $130m-145m EBITDA synergies and business improvements in FY21. Cost synergies target upgraded to $95m (from $80m)
  - Delivered $24m EBITDA synergies and business improvements in 1H19
  - Set to deliver $55m in FY19 (previously $50m)

- Digitalisation accelerated
  - Lotteries digital turnover up 63.5% vs pcp; now 21.5% of total turnover
  - Wagering digital turnover up 11.6% vs pcp; TAB up 15.3%
  - TAB digital commissions model implemented across retail network

- Key regulatory changes
  - Synthetic lottery products prohibited from 9 January 2019
  - Wagering point of consumption tax (POCT) commenced 1 October 2018 in Queensland and 1 January 2019 in Victoria, NSW, WA and ACT. Commenced 1 July 2017 in SA

- Building a strong risk-aware and performance culture
  - Continued investment in highest levels of regulatory compliance and responsible gambling
  - Launched new group-wide purpose ‘Excitement with Integrity’

1H19 Results Overview

- Statutory results
  - Revenues $2,787.4m, up 108.3%
  - NPAT $182.5m, up from $24.6m in pcp
  - EPS 9.1 cents per share, up from 2.6 cents per share in pcp
  - Results include significant items expense after tax of $18.3m from Tatts combination, comprising implementation costs $12.3m and Racing Queensland arrangements $6.0m[1]

- Results from continuing operations before significant items
  - Revenues $2,787.4m, up 108.3%
  - EBITDA $554.3m, up 91.1%
  - NPAT $210.6m, up 105.3%
  - EPS 10.5 cents per share, down from 10.8 cents per share in pcp

- Results from continuing operations before significant items vs pro-forma pcp[2]
  - Revenues $2,787.4m, up 6.1%
  - EBITDA $554.3m, up 9.0%
  - EBIT $404.7m, up 11.3%

[1] Refer Appendix 1 of the 2018/19 First Half Results Presentation for details of Significant Items including Racing Queensland arrangements.
[2] Pro-forma results for 1H18 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 period.

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GROUP RESULTS[1]

$m	1H19	1H18	Change on pcp
Revenues	2,787.4	1,338.1	>100.0%
Variable contribution	1,013.3	579.6	74.8%
Operating expenses	(459.0)	(289.5)	58.5%
EBITDA from continuing operations before significant items	**554.3**	**290.1**	91.1%
D&A	(149.6)	(98.8)	51.4%
EBIT from continuing operations before significant items	**404.7**	**191.3**	>100.0%
Interest	(96.3)	(38.7)	>100.0%
Tax expense	(97.8)	(50.0)	95.6%
NPAT from continuing operations before significant items	**210.6**	**102.6**	>100.0%
Significant items (after tax)[2]	(18.3)	(5.1)	>100.0%
NPAT from discontinued operations[3]	(9.8)	(72.9)	86.6%
Statutory NPAT	**182.5**	**24.6**	>100.0%

1. Comparative period results include 18 days contribution from Tatts from 14 December 2017.
2. Significant items (after tax) of $18.3m relates to Tatts Group combination, comprising implementation costs $12.3m and Racing Queensland arrangements $6.0m. Refer Appendix 1 of the 2018/19 First Half Results presentation for further details.
3. Sun Bets ceased trading in July 2018.

BUSINESS RESULTS (vs PRO-FORMA PCP)[1]

1H19 ($m)	Lotteries & Keno	Change on pcp	Wagering & Media	Change on pcp	Gaming Services	Change on pcp	Group[2]	Change on pcp
Revenues	1,409.2	18.1%	1,221.8	(3.8%)	155.8	(4.0%)	2,787.4	6.1%
Variable contribution	365.5	18.4%	498.4	(3.8%)	147.9	(4.5%)	1,013.3	3.1%
Operating expenses	(113.3)	3.9%	(267.8)	(4.0%)	(74.1)	(0.8%)	(459.0)	(3.2%)
EBITDA	**252.2**	26.3%	**230.6**	(3.7%)	**73.8**	(8.0%)	**554.3**	9.0%
D&A	(42.1)	(0.2%)	(71.0)	(2.9%)	(36.4)	21.3%	(149.6)	3.1%
EBIT	**210.1**	33.4%	**159.6**	(4.1%)	**37.4**	(25.4%)	**404.7**	11.3%
VC / Revenue (%)	25.9%	0.0%	40.8%	0.0%	94.9%	(0.6%)	36.4%	(1.1%)
Opex / Revenue (%)	8.0%	(1.1%)	21.9%	0.0%	47.6%	1.6%	16.5%	(1.5%)
EBITDA / Revenue (%)	17.9%	1.3%	18.9%	0.1%	47.4%	(2.1%)	19.9%	0.5%
EBIT / Revenue (%)	14.9%	1.7%	13.1%	(0.1%)	24.0%	(6.9%)	14.5%	0.6%

1. Pro-forma results for 1H18 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 period.
2. Business results do not aggregate to Group total due to intercompany eliminations and unallocated items. 1H19 unallocated items $2.4m expense: new Brisbane office lease costs $2.8m, other expenses $2.0m, Jumbo Interactive income $2.4m. (1H18 unallocated items $10.4m expense).

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MANAGING DIRECTOR AND CEO COMMENTARY

"Tabcorp delivered a strong financial result in 1H19 on the back of the diversification benefits from the combination with Tatts," Tabcorp Managing Director and CEO, David Attenborough said.

"We have created a sustainable and diversified gambling entertainment company, with the scale to invest and grow. Our focus is on ensuring a strong and aligned risk-aware and performance culture centred around our new purpose of 'Excitement with Integrity'.

"The integration program is progressing well, and we have upgraded our synergy targets. We delivered $24 million of EBITDA from synergies and business improvements in 1H19 and are set to deliver $55 million in FY19, up from our previous target of $50 million.

"The performance of Lotteries was the standout in 1H19. The strong performance was driven by digital growth and game innovation, including bigger and more frequent Powerball jackpots.

"TAB's active customer numbers and turnover grew in a market in which there was a significant increase in customer generosities. UBET will be a different business in FY21 and has commenced its transition to the full TAB offering.

"Gaming Services performed to plan and is making good progress on venue sign-ups and contract extensions.

"The commencement of point of consumption taxes in four jurisdictions in 2019, and the prohibition of synthetic lottery products, creates a more sustainable gambling environment.

"Tabcorp is well positioned for 2019 and beyond."

LOTTERIES & KENO

Lotteries & Keno revenues were $1,409.2m, up 18.1% vs pro-forma pcp. EBITDA was $252.2m, up 26.3% vs pro-forma pcp.

Lotteries revenues were $1,292.8m, up 19.6% supported by game initiatives and ongoing investment in digital. The result was also helped by favourable jackpots.

Digital turnover was up 63.5% and now represents 21.5% of total Lotteries turnover, while retail turnover grew 11.0%.

The major change to Powerball delivered the planned benefits, with bigger and more frequent jackpots driving sales momentum. Big jackpots such as the $100m event in August 2018 helped drive customer acquisition. There are now 2.98m active registered players, up 13% on the pcp.

Keno revenues were $116.4m, up 3.7% vs pro-forma pcp. Keno Mega Millions launched in Victoria in September. Digital turnover accounted for 5.5% of total Keno turnover.

WAGERING & MEDIA

Wagering & Media revenues were $1,221.8m, down 3.8% vs pro-forma pcp and EBITDA was $230.6m, down 3.7% vs pro-forma pcp.

TAB grew customers and turnover in highly competitive market conditions as operators aggressively chased market share in advance of the introduction of further point of consumption taxes. TAB grew its active customer base by 6.7% to 533,000 as it focused on customer acquisition and retention.

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TAB turnover growth of 2.2% translated to a revenue decline of 3.1% due to a significant increase in generosities and lower fixed odds yields.

UBET revenues declined 7.3%. This is evidence of a business in pre-transition to the full TAB offering, which will see more products and services introduced to align the customer experience.

GAMING SERVICES

Gaming Services revenues were $155.8m, down 4.0% vs pro-forma pcp. EBITDA was $73.8m, down 8.0%, vs pro-forma pcp.

The Gaming Services structure was simplified into two units: Regulatory Services (monitoring and related services) and Venue Services (TGS, gaming systems and support services). Reporting is now along these lines and both will operate under the umbrella MAX brand.

Regulatory Services revenues were $48.6m, down 1.2% vs pro-forma pcp. Venue Services revenues were $107.2m, down 5.2%. As flagged at the FY18 results, Venue Services results were impacted by the expiry of some venue contracts. However, 730 new electronic gaming machines (EGMs) were contracted during the period, including additional Pegasus Leisure Group venues.

Progress continues to be made on long-term TGS contract extensions with one-third of the Victorian network now contracted beyond 2022, albeit on lower margins. There are now 8,350 contracted EGMs in Victoria and 1,900 in NSW.

DIVIDEND

Tabcorp has announced a fully franked interim dividend of 11.0 cents per share, payable on 13 March 2019 to shareholders on the register at 19 February 2019. The ex-dividend date is 18 February 2019. The FY19 dividend payout ratio target is 100% of NPAT before significant items, amortisation of the Victorian wagering and betting licence, and purchase price accounting. The Dividend Reinvestment Plan will operate for the interim dividend, without any discount.

INTEGRATION

The delivery of EBITDA synergies and business improvements from the integration of Tabcorp and Tatts is progressing well. $24m in EBITDA from cost synergies and business improvements was delivered in 1H19, underpinned by an organisational restructure and IT and fixed odds bookmaker consolidation. Tabcorp is set to deliver $55m of EBITDA from synergies and business improvements in FY19 (previously $50m). The overall FY21 target is now between $130m and $145m.

CONCLUSION

Mr Attenborough said: “The integration of Tabcorp and Tatts is delivering, with synergy targets upgraded. We are forging a strong and engaged team with a refreshed purpose, ‘Excitement with Integrity’.

“Our priority is to drive business performance through continued investment in customer experience, product and digital innovation.

“We will also continue to invest in ensuring the highest levels of regulatory compliance. Recent regulatory reforms create a fairer playing field. We welcome these changes, which make our sector more sustainable.

“Finally, we will maintain a disciplined approach to operating expenditure, capital investment and balance sheet management with a focus on driving sustainable shareholder returns.”

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