

19 August 2020

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

Tabcorp 2019/20 Full Year Results

DIVERSIFIED PORTFOLIO HELPING TO MANAGE CURRENT MARKET CHALLENGES

Group revenue down 4.8% and EBITDA¹ down 11.5% vs pcp primarily due to COVID-19:

- Strong Lotteries performance – like-for-like sales up c.15-30% during COVID-19 restrictions
- Wagering & Media, Keno and Gaming Services heavily impacted by retail closures in 2H20
- Competitive intensity and structural change impacted Wagering & Media

Statutory net loss after tax of \$870m includes a non-cash goodwill impairment charge of \$1,090m relating to the Wagering & Media and Gaming Services businesses

No final dividend for FY20 as previously announced, interim dividend was 11.0cps, fully franked

Tabcorp is proactively responding to the COVID-19 pandemic with a set of actions to:

- Prioritise the safety and wellbeing of our people and partners
- Maintain continuity of operations
- Control costs, preserve cash and maximise financial flexibility

Tabcorp today announced a \$600m underwritten pro-rata accelerated renounceable entitlement offer of 1:11 @ \$3.25 per share

Tabcorp/Tatts integration substantially complete:

- Migration of UBET account customers to TAB digital platform now complete
- Cost synergies on track (FY20: \$86m in EBITDA benefits)
- Revenue synergies measurement not meaningful due to the effects of COVID-19
- One-off costs incurred to 30 June 2020: \$103m pre-tax

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	FY20	FY19	Change
Revenues	5,224	5,488	(4.8%)
Variable contribution	1,799	1,986	(9.4%)
Operating expenses	(804)	(862)	(6.7%)
EBITDA before significant items	995	1,124	(11.5%)
D&A	(399)	(348)	14.7%
EBIT before significant items	596	776	(23.2%)
Interest	(193)	(208)	(7.2%)
Tax expense	(132)	(172)	(23.3%)
NPAT before significant items	271	396	(31.6%)
Significant items (after tax) ¹ – goodwill impairment	(1,090)	-	NM
Significant items (after tax) ¹ – other	(51)	(25)	>100.0%
NPAT from discontinued operations	-	(10)	(100.0%)
Statutory NPAT	(870)	361	NM

1. Significant items (after tax) of \$1,141m comprise impairments of goodwill to Wagering & Media \$905m and Gaming Services \$185m, and asset impairments and onerous contract \$19m, Tatts Group combination implementation costs \$18m and Racing Queensland arrangements \$19m, partly offset by the benefit from ACTTAB POCT compensation tax refund \$5m. Refer Appendix 1 in the Investor Presentation.

BUSINESS RESULTS^{1,2}

	Lotteries & Keno		Wagering & Media		Gaming Services		Group	
	\$m	Change	\$m	Change	\$m	Change	\$m	Change
Revenues	2,917	1.8%	2,084	(10.1%)	221	(27.3%)	5,224	(4.8%)
Variable contribution	761	2.6%	825	(13.2%)	210	(27.6%)	1,799	(9.4%)
Operating expenses	(219)	(4.4%)	(454)	(7.3%)	(126)	(12.5%)	(804)	(6.7%)
EBITDA	542	5.7%	371	(19.5%)	84	(42.5%)	995	(11.5%)
D&A	(100)	14.9%	(196)	8.9%	(98)	24.1%	(399)	14.7%
EBIT	442	3.8%	175	(37.7%)	(14)	(>100.0%)	596	(23.2%)

- All amounts are before significant items. Business results do not aggregate to Group total due to intercompany eliminations and unallocated items. FY20 unallocated items \$7m EBIT loss includes Jumbo Interactive income (\$3m) and deposit proceeds from the sale of a corporate property (\$1m), offset by property impairments on assets acquired as part of the combination with Tatts Group (\$5m), Gaming Services review costs (\$2m), bushfire donation (\$2m) and expenses incurred in relation to the disposal of a former Tatts UK business, Talarius, in 2016 (\$2m). (FY19 unallocated items \$2m EBIT).
- Change reflects movement vs pcp.

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MANAGING DIRECTOR & CEO COMMENTARY

Tabcorp Managing Director and CEO David Attenborough said: “The COVID-19 pandemic has been very challenging for Tabcorp’s people, partners and customers, and materially impacted our FY20 results.

“However, the strength of our diversified gambling entertainment Group, and the value of our investments in integration and digital transformation, have been clearly demonstrated by our Lotteries business delivering a strong performance and the digital growth in both Wagering and Keno.

“COVID-19 restrictions meant that hotels, clubs and TAB agencies were closed for significant periods of time during FY20. This has heavily impacted our Wagering & Media, Gaming Services and Keno operations. We continue to support our venue partners and have waived more than \$100m in fees to date. We are focused on ensuring that together we emerge strongly in the post COVID-19 environment.

“Our people and partners, including the racing industry and major sports leagues, have done an extraordinary job to maintain COVIDSafe continuity of service. This has given Australians the chance to enjoy, watch and bet on racing and the games they love, from their home or, as restrictions allow, their local venue.

“We also recognise that this has been a difficult year for shareholders, with no final dividend as previously announced. We have taken action to reduce costs, preserve cash and ensure we have strength and flexibility in our balance sheet. We have also commenced a three-year, enterprise-wide optimisation program designed to deliver significant cost savings and enhanced operational capability.”

BUSINESS UNIT COMMENTARY

LOTTERIES & KENO

Lotteries & Keno revenues were \$2,917m, up 1.8%, and EBITDA was \$542m, up 5.7%. The strong performance was achieved despite cycling 49 OzLotto and Powerball jackpots of \$15m or more in FY19 versus 39 in FY20.

The Lotteries result reflects investments in digital and retail channels and the evolution of Tabcorp’s game portfolio to appeal to a diverse and growing customer base. An extra 400,000 Australians became active registered Lotteries players during FY20, taking the total to 3.7 million.

Powerball turnover grew 16%, highlighting its increasing appeal since its 2018 game change, while Set For Life turnover grew 21% - evidence of the benefit of game modifications, including the new Division 2 prize introduced in March.

Lotteries’ retail distribution partners, such as newsagents and convenience stores, largely continued trading during the COVID-19 lockdown periods. Retail turnover declined 4% in FY20, while digital turnover grew strongly and accounted for 28% of total Lotteries turnover (FY19: 23.5%).

Despite strong digital performance, Keno full year revenues declined 14.3%, largely due to the COVID-19 enforced shutdown of clubs and hotels in NSW, Queensland and Victoria during 2H20.

The strong Lotteries performance helped the Group deliver \$2.005bn in state taxes and levies to state and territory governments.

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WAGERING & MEDIA

Wagering & Media revenues were \$2,084m, down 10.1%, and EBITDA was \$371m, down 19.5%. The Wagering and Media business continued to invest in its digital transformation and substantially completed the integration of the UBET business.

However, it was heavily impacted by the COVID-19 enforced closures and restrictions on retail operations across all states and territories at different times from 23 March 2020. COVID-19 has accelerated the channel shift to digital. The business was also impacted by the suspension of domestic and international sport.

Tabcorp's digital wagering turnover grew 3.8% in FY20 to \$7.1bn, and retail turnover declined 27.9% to \$5.4 bn. This is the first time digital turnover has exceeded retail turnover in Tabcorp's Wagering business across a full year.

The migration of UBET customers to a single TAB digital platform was completed post year-end, finalising a significant milestone for the Tabcorp and Tatts integration. Ex-UBET customers now have access to a more attractive portfolio of products and services including Venue Mode (digital in-venue betting) and extra tote and fixed odds options. This paves the way for the required lift in competitiveness.

In Media, Tabcorp recently completed a vision and content deal with Major League Baseball. This complements existing NBA and NFL partnerships and helps position TAB and Sky as Australia's 'home of US sport'. It was part of several actions taken to improve competitiveness, including strengthening TAB's value proposition and enhancing personalisation in customer marketing.

GAMING SERVICES

Gaming Services revenues were \$221m, down 27.3% and EBITDA was \$84m, down 42.5%.

The business was heavily impacted by the temporary closure of venues from 23 March 2020, which reopened in June in all states bar Victoria under strict social distancing protocols. Gaming Services revenues were also impacted in the first half by contract expirations, contract extensions at lower daily rates, reduced project work and the non-renewal of a Telstra service contract.

Tabcorp suspended all material fees for venues during the period in which they were not trading and took other measures in response to venue closures such as the temporary standing down of most of its workforce and reducing operating and capital expenses.

An operational review of the Gaming Services business has been completed and is being implemented to deliver a simplified operating structure and reduce costs. The strategic review, which was announced in February 2020, has been paused because of COVID-19.

DIVIDEND

As disclosed on 19 May 2020, the Tabcorp Board resolved not to pay a final dividend in relation to FY20. This was part of securing agreement from Tabcorp's lenders for waivers and adjustments to leverage and interest cover covenants in relation to the 30 June 2020 and 31 December 2020 testing dates.

The future payout ratio target is 70%-80% of NPAT (before significant items) on the resumption of dividends.

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INTEGRATION & OPTIMISATION

The Tabcorp-Tatts integration is substantially complete, following the migration of UBET customers to the TAB digital platform. Wagering call centres and other infrastructure have also been consolidated as part of this program.

The integration is on track to deliver \$95m in EBITDA from cost synergies in FY21. The COVID-19 impacts on Tabcorp's revenue base means that revenue synergies measurement is now not meaningful. Delivering the final business improvement initiatives, such as the retail uplift, remains a key priority.

One-off costs incurred to 30 June 2020 are \$103m (pre-tax) and total implementation costs are still expected to be \$135m (pre-tax).

With the integration program substantially complete, the Group is embarking upon a three-year enterprise-wide optimisation program to deliver significant cost savings and enhanced operational capability. Key focus areas include: operating model changes; process simplification and re-design; data and digitisation improvements; and maximising value from our vendor spend and property footprint.

CONCLUSION AND PRIORITIES

Group revenues in July 2020 were up 2.8% on the pcp. In terms of Tabcorp's three business units, Lotteries & Keno revenues were up 4.7%, Wagering & Media revenues were up 6.8% and Gaming Services revenues were down 52.2%.¹

"There continues to be uncertainty associated with COVID-19 in terms of both the severity and duration of the impact. Our focus is on positioning Tabcorp to emerge strongly in the post COVID-19 environment," Mr Attenborough said.

"It remains a challenging time, especially for the Victorian community which is in the middle of a difficult Stage 4 lockdown. Our priority is to navigate the pandemic by executing strategies that support our people, partners and customers, while maximising value for our shareholders.

"With the integration of Tatts substantially complete, we are focused in FY21 on capturing the value from the digital opportunity across Lotteries, Keno and Wagering and on unlocking the value of a more competitive TAB."

This announcement was authorised for release by the Tabcorp Board.

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1. Movement is vs pcp (July 2019). Amounts derived from unaudited monthly management accounts. The information is for a single month and is provided for information purposes only. Particularly given the extraordinary current situation pertaining to COVID-19 and the resultant uncertainty, they should not be extrapolated beyond the month or considered indicative of future performance.

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IMPORTANT NOTICES

This announcement contains certain “forward-looking statements”. The words “expect”, “anticipate”, “estimate”, “intend”, “believe”, “guidance”, “should”, “could”, “may”, “will”, “predict”, “plan” and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies that are subject to change without notice and involve known and unknown risks and uncertainties and other factors that are beyond the control of Tabcorp, its directors and management. This includes statements about market and industry trends, which are based on interpretations of current market conditions.

You are strongly cautioned not to place undue reliance on forward-looking statements, including in respect of Tabcorp’s FY21 financial outlook, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic.

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