Tabcorp

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TABCORP HALF YEAR RESULTS PRESENTATION SCRIPT

Attached is the script in relation to the presentation delivered at 10.00am (Melbourne time) today regarding Tabcorp Holdings Limited's (**Tabcorp**) results for the half year ended 31 December 2020. A copy of the presentation webcast is available on Tabcorp's website at www.tabcorp.com.au.

The information contained in the attached document should be read in conjunction with today's announcement of Tabcorp's half year results (and associated materials) and Tabcorp's most recent Annual Report.

This announcement was authorised for release by David Attenborough, Managing Director and Chief Executive Officer.

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TABCORP HOLDINGS LIMITED 1H21 RESULTS CALL SCRIPT – 17 FEBRUARY 2021

SLIDE 1 – INTRODUCTION (David Attenborough)

Good morning and welcome to Tabcorp's first half results call for the six months to 31 December 2020. I'm David Attenborough, CEO of Tabcorp, and joining me on this call are:

- Adam Newman, our Chief Financial Officer
- Sue van der Merwe, our MD of Lotteries & Keno
- Adam Rytenskild, our MD of Wagering & Media
- And Paul Carew, our COO of Gaming Services

Given the lockdown in Victoria, we are in separate locations. Adam Rytenskild and I are in Sydney, Sue van der Merwe is in Brisbane, while Adam Newman and Paul Carew are calling in remotely from Melbourne.

We'll be taking you through the presentation lodged with the ASX this morning, which should run for about 25 minutes and we'll then be happy to take your questions.

I also draw your attention to the standard disclaimers set out in the investor presentation. In addition, we are not making any forecasts today in respect of H2.

SLIDE 3 – STRONG RECOVERY IN PROGRESS (David Attenborough)

First to Slide 3, which provides our reflections on the half, which obviously occurred against the backdrop of COVID-19.

The Lotteries & Keno business not only demonstrated its resilience, but its performance has been excellent across its portfolio of games. This reflects strong execution by the team in its approach to refreshing games and rejuvenating the player experience.

This business has delivered CAGR in EBIT of 13.6% since our combination with Tatts in 2017 and made up circa two-thirds of Tabcorp's EBIT in the half.

Our other two businesses faced greater challenges in these difficult times, with our Wagering & Media and Gaming Services retail operations facing major COVID-19 disruptions.

Many hotels, clubs and TAB agencies were trading under restrictions or even closed in the half.

This reduced revenues and earnings, but we're pleased with how our teams managed the business through this disruption and continued to deliver for our customers.

Our Wagering & Media business is in a very competitive market, but it's now better positioned than at any time since merger to perform and benefit from our investments in digital, data personalisation and media.

We've done a lot of work over the past 12 months to reduce costs, preserve cash and strengthen the balance sheet, including the capital raising, and this has improved the group's financial position.

We are resuming the payment of dividends under our reset dividend policy – with today's announcement of a 7.5 cents per share interim dividend.

The final part of the integration of Tabcorp and Tatts will also be completed this half with delivery of the retail venue uplift in UBET states. This brings this complex program to an end, and our current run rate will deliver $95 million of annual cost synergies this financial year.

Therefore, it's no surprise that we're seeing interest in our Wagering & Media business at this time. Recent results have been impacted by COVID-19, the risks from integration are now materially behind us and the benefits of recent investments in Wagering & Media are not yet fully reflected in earnings. I'll say more on this later.

So, with the worst of the COVID-19 disruptions likely to be behind us and the businesses well positioned, we're feeling positive about the second half.

I'll now hand you to our CFO Adam Newman to talk you through our Group financials.

SLIDE 4 – 1H21 (GROUP RESULT) (Adam Newman)

Thanks David and good morning.

Moving to slide 4 now, the group recorded NPAT before significant items of $207 million in the half and Statutory NPAT of $185 million.

Group revenues only declined 1.5% despite the impact of COVID-19, however the significantly lower Gaming Services revenues largely flowed through to VC, resulting in Group VC being down 7.1%.

The significant items are outlined in more detail in Appendix 1. Please note the $69 million after tax profit on the sale of our Jumbo shareholding was offset by an ATO amended assessment relating to the tax treatment of licence fees Tatts incurred in 2016 which relates to NSW gaming machine monitoring. We've lodged an objection against this assessment.

There were also $22 million in one-off costs associated with Racing Queensland arrangements, Tatts combination implementation costs and restructuring charges. The Racing Queensland top-up payment was the final one made, with the minimum fee obligation arrangements ending 31 December 2020.

SLIDE 5 - EARNINGS MATERIALLY IMPACTED BY COVID-19 (Adam Newman)

Slide 5 bridges between 1H21 EBITDA and the prior period. The first half continued to be materially impacted by venue closures and other COVID-19 restrictions, especially in Gaming Services here in Victoria.

There was also good discipline around cost control in the half that helped soften the impact on earnings.

SLIDE 6 – OPTIMISATION PROGRAM (Adam Newman)

Moving to slide 6. As David mentioned, we have now materially completed the Tatts integration and expect the costs to implement will be at or below $130 million, down from the previously advised $135 million.

As integration has been winding down, we have been moving into the next phase of optimisation to further reduce costs and simplify the business.

This program of work has the focus and support of the executive leadership team. In the first half gross EBIT savings of $8 million were delivered with costs to implement of $2 million, excluding redundancy charges. We are targeting $20 to 25 million in gross savings for the full year.

Our baseline for measuring savings is FY20 adjusted to remove COVID-19 impacts and other non-recurring items.

The larger savings initiatives in the first half included significant restructuring in Gaming Services which Paul will talk to later, the impact of the announced reseller changes in L&K and on-going agency rationalisation within Wagering.

In the second half optimisation activities will be on-going in Gaming Services and we will continue to see further benefits from agency rationalisation. We'll continue refining our operating model and complete a review of procurement category spend.

We'll now take you through the results for each of the three businesses and I'll hand you to our MD of Lotteries & Keno, Sue van der Merwe.

SLIDE 9 – LOTTERIES & KENO (Sue van der Merwe)

Thanks Adam and I'll start on slide 9.

The result for Lotteries & Keno demonstrates continuation of the strong momentum we've built in recent years across our portfolio of games. The strategic and deliberate actions the team takes to drive performance are delivering across our key metrics.

Well executed game changes to Set for Life and Saturday Lotto, active management of jackpot games and a solid foundation of base games has the business in a strong position with a well-balanced revenue portfolio and healthy distribution channels.

Revenue and earnings growth was delivered notwithstanding a tough comp that included record Powerball runs at $110 million and $150 million.

A continued focus on customer experience, brand and channel meant the business was well positioned to respond to the impacts of COVID-19.

Digital growth in excess of 20% and improved reseller arrangements lifted margins while the resilience of the retail channel underpinned a strong revenue result.

SLIDE 10 - LOTTERIES & KENO (Sue van der Merwe)

The charts on Slide 10 illustrate the extent of the jackpot variance on the pcp with almost $550 million less in prize offers across major jackpots and half the number of jackpots at $50 million or more. Additionally, Saturday Lotto's major annual event fell in January this year as opposed to December in FY20.

Against this backdrop the first half result is quite remarkable.

The value of the balanced portfolio approach, investing in building powerful brands and our relentless pursuit to excel in customer experience and engagement through all of our channels is clearly evident.

On a like-for-like basis, turnover across each of the games was up over 20%. Instant Scratch-Its growth of 39% is a standout, as is the Set for Life and Saturday Lotto result.

Through the pandemic we've seen a shift to lotteries across the gambling entertainment and discretionary expenditure categories.

Digital continues to grow strongly accounting for almost a third of all Lotteries turnover. The addition of PayPal as a payment option for customers aided conversion rates.

Keno, too, was a solid contributor to the half. Digital growth was very strong, and the retail channel rebounded well once venue restrictions were eased.

SLIDE 11 - LOTTERIES & KENO (Sue van der Merwe)

Slide 11 provides some insight into the positive performance of Set For Life and Saturday Lotto since we introduced the product changes to these games.

The suite of carefully considered and researched changes were borne from a deep understanding of our players' motivations and extensive product knowledge, and were developed internally by the team.

The changes delivered benefits for our players and reinforced the unique market position for each game. Customers have clearly responded favourably with strong sales uplifts and price retention figures. These were then further buoyed by category shifts and a surge in interest in lotteries.

SLIDE 12 - LOTTERIES & KENO (Sue van der Merwe)

Slide 12 takes to you to our focus areas for FY21 across the game portfolio, customer experience and distribution.

Consistent with our ongoing product development roadmap we have again turned our attention to the jackpot part of our portfolio and are exploring a potential change to Oz Lotto.

Our Instant Scratch-Its brand is an important differentiator in the portfolio as the only physical and retail-only product. It has a demographic appeal skewed younger than most draw games and a sophisticated product segmentation model drives development of the ticket range.

We're planning for The Lott app to be in the Google Play store within the second half and we will complete the final stage of our omni-channel rollout as we implement the model in South Australia. This will allow retailers to earn digital commissions and deliver benefits to our customers.

Thanks for the opportunity to take you through our performance today and I'll now hand you to Adam Rytenskild, the MD of our Wagering & Media business.

SLIDE 13 – WAGERING & MEDIA (Adam Rytenskild)

Thanks, Sue.

For our Wagering & Media business, the key things to note are:

1. Underlying earnings performance was solid for the first half. COVID-19 was a significant disruption and we managed it well.
2. We are a stronger digital business, but we have more to do and will continue to improve the offer. This will accelerate now that integration is materially complete.
3. The team is confident and focused for the second half and beyond; we now have a much improved platform for growth.

Turning to slide 13.

Our retail channel was severely impacted, especially in Victoria where many of our 700 venues were closed for most of the half; and have been closed again this week.

Given these impacts, it was good to deliver a solid result. Ex Victoria, revenues grew 5%. Retail bounced back well as it re-opened and we continue to have good digital momentum.

We've quantified an unfavourable net impact to earnings of circa $25 million taking into account the retail closures and the data centre outage, and then partially offset by the favourable US election result. That was our biggest ever fixed odds book and Joe Biden's win was a positive result.

We also continued to make good progress on cost, with opex down $8 million on the pcp.

SLIDE 14 – WAGERING & MEDIA (Adam Rytenskild)

On to slide 14, which outlines how we navigated the COVID-19 effects. It's important to remind you of the unique nature of our business in the Australian market, given our multi-channel network, the more complex regulatory environment we operate in and narrower margins.

In that context, COVID-19 was more favourable for our digital-only, Northern Territory-licensed competitors.

However, our digital and customer growth was strong and account customer retention was a record. Digital was 61% of our business in the half and we did $5 billion of digital sales.
Our digital share was lower during the period. However, I don't believe this is a proxy for future share. This was a very abnormal period with unprecedented disruptions to our business. We are now a better business with integration largely done, significant improvements made over the last two years and great customer initiatives to come.

It's been a tough six months, but I'm pleased with the competitive resilience of the business and how we've responded to COVID-19.

Regarding yields and generosities. Generosities increased significantly during the period. We were deliberate in our approach to strike the best balance between customer growth and financial performance. It's something we carefully balance given our narrow margins.

Net yields were impacted, but it helped customer acquisition, as well as retention in the days following the data centre outage. Our new data and personalisation capability is playing an increasingly important role in how we interact with customers.

While we will continue to make the business more digitally competitive, it also needs to be supported by reforms that level the playing field and assist the wagering industry's sustainability. The increase in the Point of Consumption Tax in Victoria was another step towards addressing the inequities of racing industry funding. However substantial inequities remain.

We're focused on ensuring the conditions we operate under and the strategic choices we make in the future enable us to be more competitive and sustainable.

Complementing this is our risk, compliance and responsible gambling approach. We're focused to ensure we deliver sustainable earnings in a category, and particularly for us a business, that will continue to be scrutinised for the way it manages customers.

SLIDE 15 – WAGERING & MEDIA (Adam Rytenskild)

Slide 15 details our accelerating pipeline of CX initiatives to give customers more of what they want. With integration materially behind us it clears the pathway for more innovation going forward.

Some call outs.

We've recently extended NSW thoroughbred racing's media rights to 2035, underpinning Sky's commercial model and strategy to be the aggregator of premium racing content. This is on top of Queensland's media rights being extended to 2030 and in Victoria we have renewed thoroughbred digital rights and are well progressed on renegotiating retail rights.

We traditionally under-index on sport which we've been addressing to attract a new and broader base of customers who are then introduced to a wider range of products. We have particularly focused on US sport. We want TAB to be famous for being the Home of US Sport and that's backed by our NBA, MLB and NFL partnerships. US sport now makes up 25% of our sports turnover.

Our strategy of transforming the retail experience continues to be well received by punters. Digital-in-venue turnover (ex-Victoria) was up more than 50% year-on-year. And in the ex-UBET states it was up 115%. We will continue to innovate in this space to take the experience to the next level.

We are thinking differently about optimising the retail network coming out of COVID-19. One of the things we are trialling is a cashless retail offering. We have rationalised our agency network and we'll continue to think prudently about this part of the footprint.

Enhancing our product portfolio is a key focus. Our Same Game Multi turnover and revenue was up more than 300% year-on-year and now represents over 20% of digital sports revenue.

We've got a big tote innovation coming this half and it will be supported by the personalised tote offers we have launched off the back of our new data capability. We're also still committed to national pooling, have scoped the technical build and continue to work through potential solutions with the racing industry.

SLIDE 16 – WAGERING & MEDIA (Adam Rytenskild)

Moving to slide 16.

When TAB and UBET came together we set out to integrate and then transform the business with a truly combined digital and retail offer, backed by a cutting-edge personalisation platform and leaner, more efficient base.

There is always more to do; but the transformation has made TAB a more sustainable and better business. The digital offering has improved and we're better placed to take advantage of our unique position in market. We're now in the most competitive position we've been in since the merger and we would not have weathered the COVID-19 disruption if that was not the case.

There is obviously much speculation regarding the Wagering & Media business in the market. While the Board works through that, the team is focused on the business and continuing to build on the platform we have created over the last two years. The team believes in a bright future for this business, and are not at all surprised in the level of interest currently being shown by external parties.

I will now hand over to Paul Carew, the Chief Operating Officer of Gaming Services.

SLIDE 17 – GAMING SERVICES (Paul Carew)

Thanks Adam. I'll start on Slide 17. For Gaming Services, the period continued to be heavily impacted by COVID-19. Gaming venues that were open traded with density restrictions and in greater Melbourne, venues only re-opened in November. Victoria represents around 30% of Gaming Services revenue.

As we said at the full year, we suspended fees to venues that were shut, notwithstanding any contractual obligations they may have had with us. Fees have been progressively returning to pre-COVID-19 levels once venues re-opened. The decision did wipe out the majority of earnings in the half but as a major industry player we took the position that it was the right thing to do. In all states we have returned to billing at 100% of usual rates, except Victoria which is at 75% and will likely go to 100% by the fourth quarter.

The gaming market is buoyant at the moment, even though less than 100 per cent of machines are operational. Customers clearly want to continue to patronise their local venues.

As well as managing through COVID-19, the emphasis was on the turnaround plan to improve things like the business' cost structure and capital intensity. We've got good traction and I'll cover this in more detail on the next slide.

In terms of extensions to the remaining Victorian EGM contracts, COVID-19's uncertainty has made it difficult to meaningfully engage with venues and progress new extensions.

SLIDE 18 – GAMING SERVICES (Paul Carew)

Slide 18 takes you through the key initiatives of the five-point turnaround plan. It delivered $3 million in savings in 1H21 with 70 roles removed from the business, as well as rationalisation of the property footprint and fleet. This will deliver $9 million in savings on an annualised basis and forms part of the 3S work.

We've also completed leadership team changes and put in place a simpler operating structure.

We're currently focusing on the review of the Technical Services function - that's where a lot of the cost base is. We're looking at optimising field operations, streamlining supply chain processes and the operating model, and improving client management. Basically, simplifying the way we deliver and allowing us to focus on the areas that add the most value.

There's more to do but the overall turnaround program is delivering what it needs to at this stage so we can lift performance and profitability. I'll now hand back to Adam Newman.

SLIDE 20 - CAPITAL MANAGEMENT (Adam Newman)

Thanks Paul. We'd now like to look at capital management on slide 20.

You'll remember at the full year result we announced revisions to our key capital management targets regarding gearing and dividends.

We also undertook a $600 million equity capital raising. Those funds were used to pay down existing, drawn syndicated debt facilities and a USPP note that matured in December.

I'm pleased to say that, as at 31 December, our gearing was 2.8x, comfortably within the new target range of 2.5 – 3.0x. That was assisted by some deferrals of lottery taxes, however we are confident of remaining within the target range at year end, even after those deferred lottery taxes have been fully repaid.

We understand how important dividends are to our shareholders, so as David mentioned, we are pleased the Board has approved the resumption of dividends. The 7.5 cents fully franked dividend represents 80% of NPAT before significant items, payable on 17 March to shareholders registered on 23 February.

Finally, in relation to capex, with lower capex in the first half primarily due to COVID-19 and actions taken to optimise our spend, we now expect full year total capex to come in at around $180 million to $190 million.

Depreciation and amortisation will consequently be a little lower than earlier expectations and is now anticipated to be around $380 million to $390 million for FY21.

I will now hand back to David for his concluding remarks.

SLIDE 22 – CONCLUSION (David Attenborough)

Thanks Adam and thanks also to Sue, Adam and Paul for taking you through the performance of our businesses.

So, as we conclude on Slide 22, we would like to leave you with a few final points.

The first is that we are in a much stronger financial position as a result of the various actions we took last year and our strong operational cash flows.

Secondly, all three businesses are well positioned for the second half.

Lotteries & Keno has entered the second half with strong momentum, with excellent performance across the whole portfolio, and accelerated jackpot sequences activated.

Wagering & Media has essentially completed its integration, largely transformed its TAB and Sky businesses and is focused on continuing to develop the digital-in-venue offer, sports and racing media content and personalised customer experiences.

And as licensed venues are returning to a more normal state across the country, Gaming Services' cash flows are also progressively returning towards pre-COVID-19 levels.

We'll also expect increased benefits across all three businesses from our optimisation program.

We would like to acknowledge the significant impact COVID-19 has continued to have on our people and our partners. It continues to be challenging, as the current Victorian experience tells us, so we'd like to thank them for their commitment to helping Tabcorp to deliver excitement with integrity.

We're committed to working with our venue and industry partners to reinvigorate their venues and racetracks and help them reconnect with our customers.

Finally, there has been considerable commentary in the market about our Wagering & Media business. We have confirmed that we have received a number of proposals and unsolicited approaches in relation to a potential transaction involving this business.

The details of these approaches and proposals remain confidential. They are indicative and non-binding in nature. They are also highly conditional and subject to numerous requirements such as due diligence, financing and various regulatory and racing industry approvals.

The Board will take the appropriate time to carefully consider all of the relevant issues and strategic options that arise in respect of these matters.

Thank you and we're now happy to take your questions.

ENDS