



Flat Results for Jumbo and some improvements needed to Remuneration Structure going forward

Company/ASX Code	Jumbo Interactive Limited / JIN
AGM date	Thursday 29 October 2020
Time and location	11:30am
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Steven Mabb assisted by Kelly Buchanan and Anton Dmytriyev
Pre AGM Meeting?	Yes, with Chair Susan Forrester

Please note any potential conflict as follows: The individual involved in the preparation of this voting intention has a shareholding in this company.

Item	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Jumbo Interactive (JIN) operates an innovative platform which powers the Ozlotteries.com site and enables JIN to have exclusive distribution agreements with leading lottery companies. The website provides Australian lottery players with a convenient service where they can buy a range of domestic lottery games, including Powerball, TattsLotto and OzLotto lotteries. The revenue model consists of an upcharge of around 10% of the retail price of lottery tickets and around 9% agent margin from the lottery operator.

They recently extended their reseller agreement with Tabcorp until 2030, providing more certainty to future revenue and earnings, albeit at a reduced margin to the previous agreement. In addition a terms sheet has just been signed with Lotterywest, where JIN will receive a service fee for all customers it onboards to the platform in WA, which provides some more certainty around WA revenue in the short term.

JIN's FY20 result exceeded management's guidance and it was positive to note an increase in customer numbers which suggests JIN is taking market share from other lottery outlets.

The balance sheet looks strong at the end of FY20 with no debt, around \$72 m in cash and \$78 m in net equity.

Governance and culture

The Board is undergoing positive changes with more experienced Directors joining. In 2019, two new Board members were added with over 20 years' experience in relevant fields. One of the five board members were female at FY20 end, however, with the introduction of the newly appointed chair, the Board now has two female directors. The company has created multiple new policies in 2020 to maintain the "culture across the organization of acting lawfully, ethically and responsibly." The company has introduced a code of conduct, whistle blower policy and anti-bribery and corruption policy to encourage employees to report wrongdoings and disclosable matters within the company. Additionally, the company has introduced the share trading policy for Directors, key management personnel and other staff and to not contravene the Corporations Act.

Financial performance

Revenue for FY20 increased by 9.1% to \$71.1m. Net Profit After Tax (NPAT) is down 2% to \$25.8m. However, the underlying NPAT is up 0.2%. EPS is down 0.6% in FY20.

Total shareholder return was negative 52% for FY20, however 5 year total shareholder return has been very strong at 108% p.a.

Key events

- **Acquisition** - Gatherwell Limited (29 November 2019) for \$10million which is the largest external lotteries manager to local authorities in the UK.

Key Board or senior management changes

Professor Sharon Christensen and Mr Giovanni Rizzo were added as independent Directors in 2019.

Ms Susan Forrester AM was appointed to the Board as non-executive Director and Chair in September 2020, replacing previous chair David Barwick. Susan has experience as chair and non-executive director for multiple ASX-listed companies for over 10 years including G8 Education, Over the Wire Holdings and Viva Leisure, with strengths in strategy and governance within industries that are growing and changing rapidly,

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	25.88	26.42	12.13	5.64	4.67
UPAT (\$m)	26.46	26.42	11.75	7.60	7.32
Share price (\$)	9.58	20.15	5.00	2.66	1.30
Dividend (cents)	35.5	36.5	18.5	8.5	7.0
TSR	-52%	294%	90%	101%	56%
EPS (cents)	42.0	42.5	21.9	16.7	11.6
CEO total remuneration, actual (m)	\$1.301	\$1.315	\$0.972	\$0.737	\$0.588

For 2020, the CEO's total actual remuneration was 14.2 times Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 1	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

CEO rem. framework	Target* \$k	% of Total	Max. Opportunity \$k	% of Total
Fixed Remuneration	800	50%	800	50%
STI - Cash	200	12.5%	200	12.5%
STI - Equity	200	12.5%	200	12.5%
LTI	400	25%	400	25%
Total	1.600	100%	1.600	100%

The remuneration structure for Key Executive Management personnel (KMP) is made up of four parts –

Fifty per cent is paid as fixed remuneration (not “at risk”) which includes base salary and super and is benchmarked at the 25th percentile of a group of ASX300 peers and reviewed annually.

Twenty-five per cent is a short term incentive (STI) which is “at risk” and comprises a 50% cash component and 50% in restricted equity, deferred for 2 years. It is awarded based on a mix of

financial and non-financial metrics including growth in underlying NPAT on a sliding scale from 6% upwards, at least one EPS accretive acquisition, at least one new ticket reseller agreement, product user satisfaction rating, no breaches of data or regulations and a staff morale survey.

Twenty-five per cent is a long term incentive (LTI) which is “at risk” and is paid in restricted equity at 100%, based on 3 year performance metrics. The current metric is the JIN share price outperforming the ASX All Ords total return index, based on 15 years history.

The final component is a minimum shareholding requirement comprising fully paid ordinary shares, at 100% of total remuneration opportunity within 5 years. We raised with the Chair that we see this as a policy rather than a part of remuneration.

Overall the current remuneration plan doesn’t comport to ASA guidelines, particularly given the current size and maturity of the company. In particular we note despite UPAT only rising 1% in FY20 vs. the minimum stated metric of 6%, KMP received 50% of STI. We also don’t believe 12.5% of STI being linked to at least one business EPS accretive acquisition being made, is ideal as it may lead to poor acquisitions in the long term. The report is also difficult to interpret as the statutory table shows “short term employee benefits” rather than “Fixed Remuneration”, “STI” and “LTI” and the calculations for the Options and Rights granted are complex and listed in another later section of the annual report.

The LTI is awarded on a 3 year performance period where ASA prefers 4 years. The LTI metric is based on JIN share price vs the All Ords index over a 15 year period, so it is unusual and somewhat complicated. We recommended it be updated to adopt TSR as one metric, which would achieve a similar aim to the current goals around share price outperformance. We recommend LTI’s are measured over 4 years, have at least two hurdles one of which is TSR and no payment is made if TSR is negative.

Currently the company’s remuneration structure allows for options to be awarded to KMP at the discretion of the board and not necessarily based on any performance criteria. These options can also be awarded to family members of KMP. This structure is open to possible abuse and dilution of shareholders with no accountability or metrics. The company issues share based compensation, where ASA prefers them to be bought on market, to avoid dilution of other shareholders. Pleasingly though the Chair confirmed no discretionary options were paid in FY20 and it is the company’s intention to phase out this system in the next year or two.

In relation to the fourth pillar of the remuneration framework, we are pleased that that the CEO and founder, Mike Veverka, holds a significant stake in the company at around 15% of the shares on issue. Other Directors all hold around \$25 000 in shares but none are yet at a minimum of 100% of annual fees, which we prefer within 3 years of becoming a Director. The company does have a policy that within 5 years all Directors hold at least 100% of annual fees in shares. Pleasingly the new Chair has quickly established a holding of over \$90 000.

Looking at the total KMP remuneration in FY20 \$3.501 million was awarded vs FY19 which was \$3.434 million, despite TSR declining 52% year over year and NPAT and EPS declining slightly YOY.

In summary the company’s remuneration structure is inconsistent with ASA guidelines and in some ways is not in the best interest of retail shareholders. We had a very constructive meeting with the new Chair and have shared that going forward we would like to see the majority of STI’s be based on quantifiable and disclosed performance metrics and where non-financial hurdles are

used, no STI's should be paid unless the financial hurdles are met. We would like to see the improvements listed above to the LTI structure, plus the removal of the ability to award options without performance hurdles. These suggested improvements going forward would align management and shareholder goals and interests much more closely. We would then be happy to support the remuneration report going forward, all else being equal.

Item 2	Re-election of Giovanni Rizzo as a Director
ASA Vote	For

Summary of ASA Position

Mr Giovanni Rizzo was appointed to the Board as an independent non-executive Director in January 2019.

Mr Rizzo has over 20 years experience in various management roles of listed lottery, casino and electronic gaming machine businesses in South Africa, Canada and Australia. Most recently, Giovanni was Head of Investor Relations at Tatts Group Limited. Mr Rizzo holds a Bachelor of Commerce (Honours) in Finance and Audit and is a Chartered Accountant in Australia, New Zealand and South Africa.

He does not yet have one year of base fees in shares however does hold approx. \$25 000 as of September 2020.

Item 3	Election of Susan Forrester AM as a Director
ASA Vote	For

Summary of ASA Position

Ms Susan Forrester was appointed to the Board as a Chair of the Company, member of the Company's Nomination & Remuneration Committee and a member of the Audit & Risk Management in August 2020.

She has extensive experience in the professional services and finance industries and in 2019 was awarded a Member (AM) in the General Division of the Order of Australia for significant service to business through governance and strategic roles and as an advocate for women.

She is currently a Director at G8 Education (GEM), Over the Wire Holdings (OTW) and Viva Leisure (VVA). So while this is a significant workload we view her appointment as a positive move as the company matures and she should hopefully help improve governance moving forward.

Item 4	Issue of STI Management Rights under the Remuneration Framework to KMP
ASA Vote	For

Summary of ASA Position

50% of STI rights are to be awarded with half being paid in cash and the other half in performance rights, which vest after 1 year and the sale of these shares is restricted for a further year. These rights are based on the 10 day VWAP period up to June 30 2020. We will support the issue of these shares in FY20 but going forward would like to see the financial hurdle of NPAT growth being met before any rights are awarded.

Item 5	Issue of LTI Management Rights under the Remuneration Framework to KMP
ASA Vote	For

Summary of ASA Position

LTI rights are based on a 3 year period and are priced based on the 10 day VWAP period up to June 30 2020, with the performance metric being JIN share price outperforming the All Ordinaries index over an extended period. As this did not occur no rights were exercised for FY20. Going forward would like to see the financial hurdle simplified to be TSR and a second suitable financial metric being met before any rights are awarded.

Item 6	Issue of STI Director Rights to a Director
ASA Vote	For

Summary of ASA Position

50% of STI rights are to be awarded with half being paid in cash and the other half in performance rights, which vest after 1 year and the sale of these shares is restricted for a further year. These rights are based on the 10 day VWAP period up to June 30 2020. We will support the issue of these shares in FY20 but going forward would like to see the financial hurdle of NPAT growth being met before any rights are awarded.

Item 7	Issue of LTI Director Rights to a Director
ASA Vote	For

Summary of ASA Position

LTI rights are based on a 3 year period and are priced based on the 10 day VWAP period up to June 30 2020, with the performance metric being JIN share price outperforming the All Ords index over an extended period. As this did not occur no rights were exercised for FY20. Going forward would like to see the financial hurdle simplified to be TSR and a second suitable financial metric being met before any rights are awarded.

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