



Lottery business boon for Tabcorp

Company/ASX Code	Tabcorp Holdings/TAH
AGM date	24 October 2019
Time and location	10am Amora Jamison Hotel Sydney
Registry	Link
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Michael Muntisov assisted by John Whittington
Pre AGM Meeting?	Yes with Chair, Paula Dwyer, Director Steven Gregg, Company Secretary, Chris Murphy, and Manager Investor Relations Chris Richardson

Item 1	Consideration of financial report
ASA Vote	No vote required

Summary of ASA Position

Financial Performance:

Tabcorp is a gambling entertainment company in the ASX Top 100 which operates wagering and media businesses around the racing industry, gaming machines and keno-lotteries. It has long term government licences to operate in many parts of its business.

In financial year 2019 (FY19), the results compared to pro-forma performance of Tabcorp and Tatts combined in FY18 showed that revenues were up 8.7%, Earnings before interest tax depreciation and amortisation (EBITDA) up by 7.6% (excluding significant items). Statutory Net Profit After Tax (NPAT) was \$363m (FY18: \$29m, impacted by SunBets write-off and the closure of Luxbet). Total dividend was 22 cents per share (cps) up from 21 cps.

The results benefitted from an unusual string of large jackpots in the lotteries business.

Key Events:

The ongoing integration of the Tatts business was the focus for the year. The target synergies from the integration was upgraded to \$130-\$145m from \$130m.

Digital and mobile offering is experiencing faster growth than its traditional channels.

Board and management changes:

The long-term incumbent CFO, Damien Johnston, retired, and Mr Adam Newman will replace him in October 2019.

Governance and Transparency:

Tabcorp is one of the largest political donors listed on the ASX. In FY19 political donations totalled \$258,000, up by 55% compared to FY16. Further, the amount of donations is not disclosed in the Annual Report and the transparency and access to information regarding the donations is poor. This was raised with Tabcorp at the pre-AGM meeting, and Tabcorp undertook to review their disclosure practices. ASA prefers a policy of no political donations.

ASA Focus Issues:

Tabcorp has 25% female directors versus ASA guideline of 30%. It has a policy which aims to achieve at least 40% female Non-Executive Directors by the end of FY23 and 40% of females in senior leadership positions by the end of FY21. The ASA notes that the same issue was highlighted in 2018 as well. Tabcorp has a policy for "skin in the game" for Senior Management and Board that is consistent with ASA's preferred position.

Tabcorp allocates equity remuneration at "face" value which is in line with ASA's preferred approach.

No LTI (Long-Term Incentive) grants vested this year.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	363	29*	-21	170	334
UPAT (\$m)	398	279*#	179	186	171
Share price (\$)	4.45	4.46	4.37	4.57	4.55
Dividend (cents)	22	21	25	24	50^
TSR (%)	5%	7%	1%	6%	52%
EPS (cents)	18	1.9	-2.5	20	42
CEO total remuneration, actual (\$m)	2.7	4.1	4.9	3.5	3.0

*Includes part year Tatts contribution. #restated to reflect AASB15 Revenue from Contracts with Customers ^20c underlying

For 2019 the CEO's total actual remuneration was **31 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2a	Re-election of Paula Dwyer as a Director
ASA Vote	For

Summary of ASA Position

Paula Dwyer has been a director of Tabcorp for 14 years and Chair for 8 years. Tabcorp claim that her current tenure as director should be reset to the time of the casino demerger in 2011 when there were changes to the Board and a new CEO appointed.

The ASA's nominal guideline for Chair tenure is not more than 10 years.

Ms Dwyer has indicated her intention to retire by no later than the 2021 AGM, right at the recommended tenure limit.

Given that Director Switkowski has also indicated he intends to retire by the 2020 AGM, the Board believe an additional term for the chair will aid in smooth succession of directors.

It is a critical time for Tabcorp as the combination with Tatts is bedded down by the 2021 target, and so Board continuity is important.

Ms Dwyer's director workload has dropped significantly in the last two years and she now only retains one other directorship (ANZ) which means she has the capacity to adequately fulfil the Chair role at this critical time in the business.

For these reasons, the ASA intends to vote in favour of Ms Dwyer's appointment.

Item 2b	Re-election of Justin Milne as a Director
ASA Vote	For

Summary of ASA Position

Mr Milne has been a director of Tabcorp for 8 years. The ASA has previously flagged concerns about Mr Milne's excessive workload. In the last year or so he stepped down as Chair of the ABC under controversial circumstances and has relinquished most of his other Board roles. His only other relevant directorship at present is of the NBN Co., which resolves the question over his current workload.

Mr Milne has experience in information technology, media, digital innovation, marketing and customer experience, public policy, strategic and commercial acumen and governance. This experience, especially in digital IT is seen as an important element of Tabcorp's future growth strategy.

Recognising his relevant experience as well as the fact that some long serving directors will be retiring in the next two years, retaining Mr Milne would most likely be in the best interest of shareholders. Therefore, the ASA proposes to vote in favour of Mr Milne's re-election.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Tabcorp overhauled their remuneration structure this year as they received a ‘first strike’ last year. Table 2 in their Remuneration report is a good summary of the concerns expressed by shareholders on remuneration and how Tabcorp has responded.

The ASA welcomes the reduction in Director Fees which were raised inappropriately last year. The reduced fees are now benchmarked to the appropriate ASX25-75 level. There has also been a reduction in the Key Management Personnel’s maximum opportunity award for the short-term incentive (STI) from 200% to 150%.

The remuneration scheme meets a number of criteria favoured by ASA including:

- Total remuneration at risk of greater than 50% (53% at target, see table below)
- Face value is used to determine number of performance rights granted
- 50% of the STI is in the form of deferred equity
- There are two performance measures for the Long-Term Incentive (LTI) (Relative total shareholder return (TSR) (75%), and Achievement of Synergies (25%))
- Provision of an actual ‘take home’ table (Table 13 in Remuneration Report)

Remuneration targets for the CEO in FY19 are summarised below. Actual received was \$2.73m. The LTI rights granted in 2015 were tested this year and failed to vest, so the CEO received no benefit from the rights grant. As a result of the financial performance this financial year, an average of 89% of target STI payments were made to Key Management Personnel.

	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.00	40%	2.0	25%
STI - Cash	0.75	15%	1.5	18.75%
STI - Equity	0.75	15%	1.5	18.75%
LTI	1.5	30%	3.0	37.5%
Total	5	100%	8	100%

Areas for improvement include:

- The STI criteria are not fully stated and weighted
- The LTI performance period of 3 years is less than the ASA guideline of at least 4 years
- Lack of transparency on calculation of synergies achieved

The remuneration report itself is easier to read than last year and has some useful graphics (Diagram 3) which helps put the STI awards into perspective.

Overall, the ASA is satisfied that Tabcorp has adequately responded to shareholder's concern over remuneration, and although there are some areas for improvement, the ASA proposes to vote in favour of this resolution.

Item 4	Approval of LTI grant to CEO David Attenborough
ASA Vote	For

Summary of ASA Position

The LTI is designed to incentivise management to grow the company and its performance over the long term. This year no LTI grants from 2015 vested because Relative TSR over the 3-year performance period failed to meet the threshold measure (46th percentile was achieved vs the threshold of 50th percentile).

The proposed equity rights grant to the CEO is valued at \$3.0m (at face value) if all performance measures are met over the next 3 years. As mentioned earlier, the ASA prefers a longer performance period.

There are two performance measures. One is a TSR measure relative to a set of relevant ASX peers which carries a weighting of 75%. The other is the achievement of Tabcorp/Tatts combination synergies of at least \$130m pa by 2021, which carries a weighting of 25%. No rights related to the synergy measure will vest if \$130m pa is not achieved and all will vest if an undisclosed 'stretch' synergy target is achieved.

The ASA would like to see more transparency on the synergy measure.

Overall the two measures proposed are suitable, and the quantum of award is consistent with benchmark companies. The ASA proposes to vote in favour of this resolution.

Item 5	Spill resolution (conditional item)
ASA Vote	Against

Summary of ASA Position

This item is only relevant if more than 25% of shareholders vote against the Remuneration Report in Item 3, thereby triggering the ‘second strike’. The implication of a second strike is that shareholders get the opportunity to vote on whether to spill all Board positions (hence this item).

If this occurs and more than 50% of shareholders vote in favour of a spill (this resolution) then Tabcorp would be required to call an extraordinary general meeting of shareholders to elect directors (existing directors can be re-elected if they choose to stand).

The ASA believes that Tabcorp has responded adequately to the first strike. If a second strike does occur, we do not believe that a spill would be in the best interest of shareholders as it would be very disruptive to the business at an important time. The ASA proposes to vote against this resolution if it is put to the meeting.

Note: The individual(s) (or their associates) involved in the preparation of this voting intention do not have a shareholding in this company.

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