



The New Lott—gaming’s good guys

Company/ASX Code	The Lottery Corporation (TLC)
AGM date	Tuesday 8 November 2022
Time and location	10am (Brisbane time) Boulevard Auditorium, Brisbane Convention and Exhibition Centre
Registry	Link Market Services
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Kelly Buchanan assisted by Noel Ambler and Mike Stalley
Pre AGM Meeting?	Yes with Chair Steven Gregg, Chair of Rem Committee Harry Boon, Head of Shareholder Relations Chris Richardson and Michael Patron, General Manager – Performance, Rewards, Systems & Analytics

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Summary of issues for meeting

This company is well governed and we can find few issues that don’t conform to ASA guidelines. As it only operated as a stand-alone company for one month following the de-merger from Tabcorp (TAH) we will have a better idea of financial performance next year.

Proposed Voting Summary

No.	Resolution description	
1	Financial Report and Other Reports	No vote required
2(a)	Re-election of Anne Brennan as a Director	For
2(b)	Election of Doug McTaggart as a Director	For
2(c)	Election of John O’Sullivan as a Director	For
2(d)	Election of Megan Quinn as a Director	For
3	Appointment of Auditor	For
4	Adoption of Remuneration Report	For
5	Grand of Performance Rights to Managing Director and Chief Executive Officer Ms Sue van der Merwe	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

Non-Current Assets total \$7,510.6m, including licencing \$750.7m and intangibles of \$2,230.6m. Current liabilities of \$966.3 includes payables of \$599.9m for prizes to be paid. Non-Current Liabilities include \$2,389.2 of debt. Net Equity is \$242.8m. These material amounts show transactions peculiar to this industry which were well explained in our meeting with the company.

Governance and culture

Overall this company is very well governed and it complies with most Australian Shareholders' Association guidelines. The directors and shareholder relations department actively engaged with your monitor and have been very helpful.

Financial performance

The company only operated as a stand-alone business for one month this financial year (FY). However, the company has provided twelve months of financial information for the Lotteries business and one month of information for the Keno business which is also now part of TLC. These will provide a baseline for future financial performance comparisons.

Key events

In June 2022, Tabcorp (TAH) completed its demerger which saw The Lottery Corporation (TLC) become a stand-alone company. TAH continues on with sports betting, gaming, TABs, etc., and TLC now operates lotteries and keno in pubs and clubs. This is its first year of operation.

Key Board or senior management changes

Steven Gregg, former Chairman of TAH joined the board of TLC as its Chairman. Former TAH directors Anne Brennan and Harry Boon also joined the TLC board which will likely also have three more new directors. Doug McTaggart, John O'Sullivan, and Megan Quinn currently act as "Observers" while awaiting regulatory and ministerial approval. Sue van der Merwe, former CEO of TAH, joined the company as Managing Director and CEO. TAH's former Chief Legal and Risk Officer Patrick McGlinchey and TAH's former CFO, Adam Newman, also joined TLC. Other former TAH employees, Callum Mulvihill and Andrew Shepherd were promoted to the KMP roles at TLC of Chief Commercial Operations Officer and Chief Customer & Marketing Officer respectively.

Summary

(As at FYE)	2022
NPAT (\$m)	\$346.6
UPAT (\$m)	N/A
Share price (\$)	\$4.52
Dividend (cents)	0
Simple TSR (%)	N/A
EPS (cents)	\$0.156
CEO total remuneration, actual (\$m)	\$2.071

The Lottery Corporation (TLC) demerged from Tabcorp (TAH) effective 1 June 2022. Figures above include earnings for the Lotteries business for twelve months and the Keno business for one month following its acquisition in connection with the demerger.

Election or re-election of directors

The former Chairman of TAH Steven Gregg joined the board of TLC as did NEDs Anne Brennan and Harry Boon. The board is currently composed of three Non-Executive Directors (NEDs), three Observers and one executive director. It is anticipated that the three Observers will become NEDs once ministerial and regulatory approvals are received. Of the seven directors, two NEDs are females as is the executive director. A majority of the directors can be considered 'independent'.

Anne Brennan was appointed to the board of TLC in May 2022 following on from her position as a NED of TAH which she held since 2020. She has a background in accounting and has served as a NED of many ASX listed companies. Currently she holds NED positions with four ASX listed companies and three non-listed entities. At TLC she is Chair of the Audit Committee and a member of the Risk and Compliance, People and Remuneration, and Nominations committees. Currently she holds shares in TLC to the value of **less than 25% of her NED fees** and we encourage her to increase her shareholding to further bring her interests into line with other shareholders.

Doug McTaggart has been appointed to the board as an Observer and will become a NED pending regulatory and ministerial approvals. He formerly served as CEO of QIC Limited, chairman of Spark Infrastructure, and was a Dean and Professor of Economics at Bond University. He currently serves as NED of Suncorp Group.

John O'Sullivan has been appointed to the board as an Observer and will become a NED pending regulatory and ministerial approvals. John background is in law specialising in corporate, finance, M&A and he was General Counsel of Commonwealth Bank. He also served as NED of AMP Limited from June 2018 to April 2022.

Megan Quinn has been appointed to the board as an Observer and will become a NED pending regulatory and ministerial approvals. She is a recognized global brand, digital transformation and multi-channel expert. She currently serves as NED at Reece Limited, Invocare Limited and City Chic Collective Limited.

Appointment of Auditor

The Company appointed Ernst & Young as the External Auditor in May 2022 and it now seeks shareholder approval for that appointment which approval is required by the Corporations Act at its first AGM. Ernst & Young is also the auditor for TAH.

Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO

The company's remuneration structure is generally well laid out and aligns management's interests with those of shareholders. However, we believe it could be improved. We would prefer the LTI measurement periods be lengthened to four years instead of three. As well we would like to see the STI hurdles being clarified so shareholders could judge whether the hurdles are achievable as well as sufficiently challenging.

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Appendix 1 Remuneration framework detail

CEO rem. Framework for FYXX	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	\$1,500,000	33.3%	\$1,500,000	22.2%
STI - Cash	\$750,000	16.7%	\$1,125,000	16.7%
STI - Equity	\$750,000	16.7%	\$1,125,000	16.7%
LTI	\$1,500,000	33.3%	\$3,000,000	44.4%
Total	\$4,500,000	100%	\$6,750,000	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. No grant of LTI's were made for FY22 as the company was only in operation for about one month. The company seeks shareholder approval for of the issue of securities to the Managing Director for FY23.

TLC demerged from TAH and effectively traded for only one month of FY22. Its FY22 remuneration scheme followed the TAH scheme. The company has flagged that it will also be largely adopted for FY23, subject to shareholder approval at its November AGM.

Prior to the demerger TAH provided a non-statutory voluntary disclosure of actual take home pay for executives and we are pleased that TLC intends to adopt that practice in next year's Annual Report when TLC will have been listed for a full twelve months.

At "Target" the CEO's FR/STI/LTI percentages are 33.3%/33.3%/33.3%. At "Maximum" her opportunities are 22.2%/33.3%/44.4%. Both scenarios result in a 60-70% 'at risk' component of remuneration nicely aligning her interests with those of shareholders. One half of STI is deferred into equity for two years. LTI is tested over three years; however, ASA prefers the testing period to be over four years.

The company uses a financial gateway for payment of STI, that is, the company must achieve a minimum Group EBIT hurdle before any STI will be paid. Unfortunately, actual STI hurdles are not clear. Shareholders can't tell whether their executives are being asked to climb great mountains or step over molehills.

LTI rights will be granted at face value and measured over three years. For the current year the company will use only one performance measure being Relative Total Shareholder Return (rTSR). The company anticipates that two performance hurdles will be used next year, rTSR and a Return on Invested Capital measure. A future ROIC target cannot currently be determined due to the absence of a comparable opening balance sheet as at 30 June 2021.

The CEO owned \$1.7m in shares at reporting date giving her sufficient skin in the game. Pleasingly, the company has an Executive Shareholding Policy whereby the CEO is

required to hold the equivalent of 200% of the value of her fixed remuneration in TLC shares within five years from her appointment. Other executives are required to hold 100%

The CEO's outcomes for FY22 include her eleven months as CEO of the previously demerged company. She earned her fixed rem of \$1.5m plus 105% of her target opportunity (\$571,190). Of this, 25% that relates to her TAH employment (11/12 months) and 50% that relates to her TLC employment (1/12 months) is deferred into Restricted Shares of TLC for two years. Pleasingly the shares were purchased on market rather than being issued. No LTI was paid by TLC for this FY.

TAH NED fees were adopted by TLC and are in line with companies of a similar size. However, one might expect that directors of TLC would be paid a bit less than as NEDs of TAH considering they are now overseeing a smaller and less complex business. Cash fees decreased in July 2021 (FY22) by 0.5% to absorb the corresponding SGC rate increase and will once again decrease by 0.5% in FY 23.

The Remuneration Report for TLC is reasonably well presented and aligns with nearly all of ASA's guidelines on remuneration and we will vote in favour.