

## Tatts Group Announces Full-year Results

### “An Outstanding Year”

**Brisbane – 22 August 2013:** Tatts Group Limited’s (ASX: TTS) full-year results released today highlight the strong trading performance of Tatts’ largest divisions, with lotteries revenue up 13.6% and wagering revenue up 5.2%. This continues the growth trends seen at half-year.

With only 46 days’ contribution in the year from Tatts’ now discontinued Victorian pokies business, comparisons with last year’s reported results are distorted.

After tax profits from Tatts’ continuing operations (ex Victorian pokies) lifted an impressive 40.8% to \$227.4 million from revenues of \$2.95 billion (up 11.0%). This result lifts to \$247.3 million (from revenues of \$3.12 billion) when the 46 days’ contribution from the discontinued pokies operations is included. Of course when compared to FY12, which benefited from a full-year contribution from the Group’s pokies operation, net profit after tax declined 22.5%.

On the back of this strong result Tatts determined a final dividend of 7.5 cents per share taking the full-year dividend to 15.5 cents per share – amounting to a 95.1% payout of profits from continuing operations.

### Summary of Results (for more detail see Appendix A)

#### Results presented on a “statutory basis” (including Victorian pokies operations):

	FY13	FY12	% change*
Revenue	\$3,115.9 million	\$3,901.9 million	↓ 20.1%
EBITDA	\$544.1 million	\$650.2 million	↓ 16.3%
EBIT	\$441.9 million	\$549.8 million	↓ 19.6%
NPAT (statutory)	\$247.3 million	\$319.1 million	↓ 22.5%

#### Results presented on a “continuing operations basis” (excluding Victorian pokies operations):

	FY13	FY12	% change*
Revenue	\$2,948.8 million	\$2,656.9 million	↑ 11.0%
EBITDA	\$490.2 million	\$415.6 million	↑ 17.9%
EBIT	\$406.1 million	\$324.6 million	↑ 25.1%
NPAT (continuing operations)	\$227.4 million	\$161.5 million	↑ 40.8%

\*Percentages based on full reported numbers (i.e. non-rounded source data).

### FY13 Highlights

- ★ Record lotteries revenue of \$2.01 billion (up 13.6%) - driven by a continuing strong run of jackpots and SA Lotteries contribution
- ★ 35.2% growth in lotteries online sales (excluding SA Lotteries) – representing 8.2% of all lotteries sales (6.6% in FY12)
- ★ Successful integration of SA Lotteries – contributed \$24.8 million EBITDA from 11 December 2012
- ★ Wagering revenue up 5.2% to \$655.7 million – benefiting from improved win rates and Tote Tasmania contribution
- ★ Fixed price betting continues to power ahead – record sales exceeding \$1 billion
- ★ 21.5% growth in online wagering sales – representing 20.2% of all wagering sales (16.9% in FY12)
- ★ Redesign of organisational structure, ongoing review of brand and retail positioning and focus on product innovation
- ★ Full-year result benefited from one off \$16.2 million tax benefit from Golden Casket tax claim
- ★ Compensation claim lodged following expiry of Victorian Gaming Operator Licence

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## Commentary

Tatts today reported a statutory full-year result of \$247.3 million in after tax profits for FY13 (FY12: \$319.1 million). This result was driven by strong revenue growth from the Group's two largest divisions - with lotteries revenue up 13.6% and wagering revenue up 5.2%. This performance flowed through to an impressive 33.0% uplift in lotteries EBIT and an equally compelling 25.4% lift in wagering EBIT. Unsurprisingly, Group net profit after tax when compared to FY12, declined 22.5% due to the now discontinued Victorian pokies operation only contributing for 46 days in FY13 compared to a full-year contribution in FY12. Commenting on the result, Tatts' Managing Director, Robbie Cooke said:

*"FY13 was an outstanding year for Tatts with our continuing operations performing ahead of expectations. When looking back to February at the time of our half-year results, we were cautioning against simply extrapolating our 6-month performance and growth rates. Back then we saw a real challenge in duplicating the exceptional run of jackpots achieved, and in beating the lift from our first year's contribution from Tote Tasmania, which we were about to cycle over in March 2013 on the acquisition anniversary. The reality has been much stronger than our expectations in February, with our second-half result not disappointing in the slightest."*

Cooke continued:

*"After tax profits from our continuing operations lifted 40.8% and reached \$227.4 million – the performance from our continuing operations is viewed as providing a more meaningful comparative. It shows how our business will look on a go-forward basis with the final curtain now drawn on our Victorian pokies business (on 15 August 2012). After tax-profits on a statutory basis, which includes the 46 day contribution from Victorian pokies, reached \$247.3 million. This statutory result when compared to the prior year has, of course, declined (down 22.5%). This is entirely due to FY12 having the benefit of a full year of contribution from pokies whereas the FY13 period had that contribution for a mere 46 days."*

More detailed commentary with respect to each of the Group's operations is set out below.

## Lotteries

With strong sales across the portfolio of our games in the prior financial year delivering double-digit revenue and profit growth, our FY12 lotteries result was never going to be an easy beat. This backdrop makes our performance in FY13 all the more convincing, with an exceptionally strong performance at all levels in our lotteries operation – culminating in revenue growth of 13.6% and flowing through to a phenomenal 33.0% lift in EBIT. Even discounting the extra benefit provided by SA Lotteries, EBIT grew an impressive 21.8%.

The jackpot run in FY13 played in our favour with 39 jackpots at or above \$15 million in the year compared with 22 in FY12.

The standout games for the year were Powerball and Oz Lotto. Oz Lotto benefited from a jackpot run in October and November 2012 which peaked at an Australian record \$112 million on Melbourne Cup day. Powerball underwent a pricing and game re-structure in the year. These changes were designed to produce more regular jackpots and increase the number of winners with the addition of an extra prize division. These changes were successfully implemented and well accepted by our players – this was assisted by the \$60 million Powerball jackpot that followed the relaunch in March 2013.

At the time of acquisition of the management rights for SA Lotteries, we flagged that our lotteries EBITDA could reach \$300 million in FY14. The Group has virtually achieved this objective effectively one year earlier than anticipated with EBITDA of \$294.6 million being achieved in FY13. Integration of

the SA Lotteries operations was completed within six months of assuming the management responsibilities and the lottery technology systems will be converted to TattsTech in the fourth quarter of FY14.

Our strong FY13 performance also rewarded the 4,200 plus agents selling our products. The growth accomplished in our sales resulted in an additional amount of \$57.7 million in commission being distributed to our agents.

Our continued investment in the Tatts.com website is also starting to deliver results with growth of 35.2% achieved through the online lottery sales channel. Online sales now represent 8.2% of all sales (excluding SA Lotteries)(FY12: 6.6%).

## Wagering

In a year when corporate bookmakers made front page news for their aggressive television marketing campaigns, Tatts continued to consolidate its position through strong growth in fixed-price betting and improved win rates for both fixed-price and pari-mutuel betting without adopting the aggressive unprofitable marketing tactics of some competitors. Our retail network of more than 1,260 venues and 117 race clubs remains a very powerful sales generator and positions us well to market our wagering product in a more rational and profit-focused manner going forward.

Wagering revenue grew 5.2% in FY13. This revenue growth did benefit from a full-year's contribution from Tote Tasmania however we cycled over the acquisition anniversary in the third quarter (27 March 2013). This revenue growth translated to strong EBITDA and EBIT growth of 20.7% and 25.4% respectively. Tote Tasmania has performed to our acquisition model targets for the year and win rates now match those achieved in our other wagering markets.

Wagering sales from fixed-price betting increased by 16.0% and for the first time fixed price sales exceeded \$1 billion for a year. A portion of this growth reflects the growing appetite from some customers for our fixed odds offering over our pari-mutuel product – the substitution effect is visible in the corresponding reduction (2.0%) in our pari-mutuel sales.

Innovation in our wagering offering will be critical to our continuing success. In recognition of this we are engaged in a program to better position the Group to outperform – included in this is a brand revitalisation program that will seek to align our brands in retail, online and traditional media. Furthermore, our current retail and online wagering platforms are undergoing development to continue to position the Group to compete with the current best of breed platforms offered globally. We are seeing strong growth in our online channel (sales up 21.5%) with 20.2% of our wagering sales now being delivered online (16.9% in FY12).

## Gaming Solutions

Maxgaming, Bytecrafter and Talarius were at the end of the year brought under the control of one Chief Operating Officer to drive a sharing of skills, knowledge and technology across these three related operations. It is expected that this approach will, over time, result in operating efficiencies and more strategic decision making.

**Maxgaming** is the Group's gaming venue services division. This business is founded upon the provision of Government mandated electronic monitoring systems to gaming machine venues in New South Wales, Queensland and the Northern Territory. The operation leverages this network and the associated infrastructure to provide additional value-adding services to its contracted venues.

Operating in a dynamic market place, Maxgaming's success has depended on its ability to evolve and respond to the changing gaming landscape and the arising product opportunities. This has seen a reduced reliance on revenue generated from linked jackpot services in FY13 as this product continues to decline in popularity (as stand-alone alternatives have gained traction), and the operation forging new product opportunities. The new product initiatives in FY13 have included the launch of the innovative and popular MaxConnect (which provides gaming venues with a customer relationship management system integrated with customer promotional vouchering system), along with the continued rollout of Vector touch screens (a player loyalty system) and ticket-in-ticket-out technology.

In addition to pursuing new product opportunities for revenue growth, the Maxgaming team has been successful in responding to its marketplace by adjusting the cost base of the business to protect profit margins. Despite the slight revenue decline of 1.3% in FY13 due to the decline in linked jackpots, the operation delivered EBIT growth of 8.1% in the year.

**Bytecraft** grew revenues in FY13 by 11.7% driven largely by a full-year's contribution from a five-year Australia-wide public pay-phone network maintenance contract. This contract generated in excess of \$25 million in revenue for the Group in the year.

The implementation of this significant contract did require a level of start-up investment. This along with switching over to directly servicing Victorian gaming machine venues (following the discontinuation of our Victorian pokies operation) and the cessation of a number of expired contracts, resulted in Bytecraft incurring new contract and restructuring charges to align the business with its new contract base. For these reasons, the strong revenue growth of 11.7% did not translate into profit for the year. The business has now been repositioned for the new contract base, which should see the operation return to profitability in FY14.

**Talarius** grew its total revenue for FY13 by 12.8% and its EBITDA by 10.8%. In constant currency, revenue grew by 12.0% and EBITDA grew by 18.7%. This is a very pleasing result for a division that has operated in an economy in recession, and ever changing tax arrangements. We are confident that this business will continue to trend upwards as the economy in the UK improves and regulations remain constant with the recent changes in tax legislation yielding a positive impact for the operation.

The key strategies for this business in FY13 were:

- ★ Right sizing the gaming machine estate to reduce overlap venues;
- ★ implementing a "no-frills" operating model for lower performing venues;
- ★ trialling extended opening times for certain high performing venues;
- ★ retail property refurbishment in venues with revenue uplift potential;
- ★ continuing cost control;
- ★ aligning the operation with the use of Group developed technology in the UK.

## Discontinued Operation – Victorian Pokies

Revenue and other income of \$190.7 million and EBIT of \$35.8 million was derived from 46 days of our Victorian pokies operation trading and revenue from the monitoring transition operations that ceased on 15 February 2013.

Included in EBIT was the profit on sale of gaming machines for \$23.6 million partially offset by the goodwill write-off of \$15.6 million. The Group's exit from its Victorian gaming machine operations is now complete.

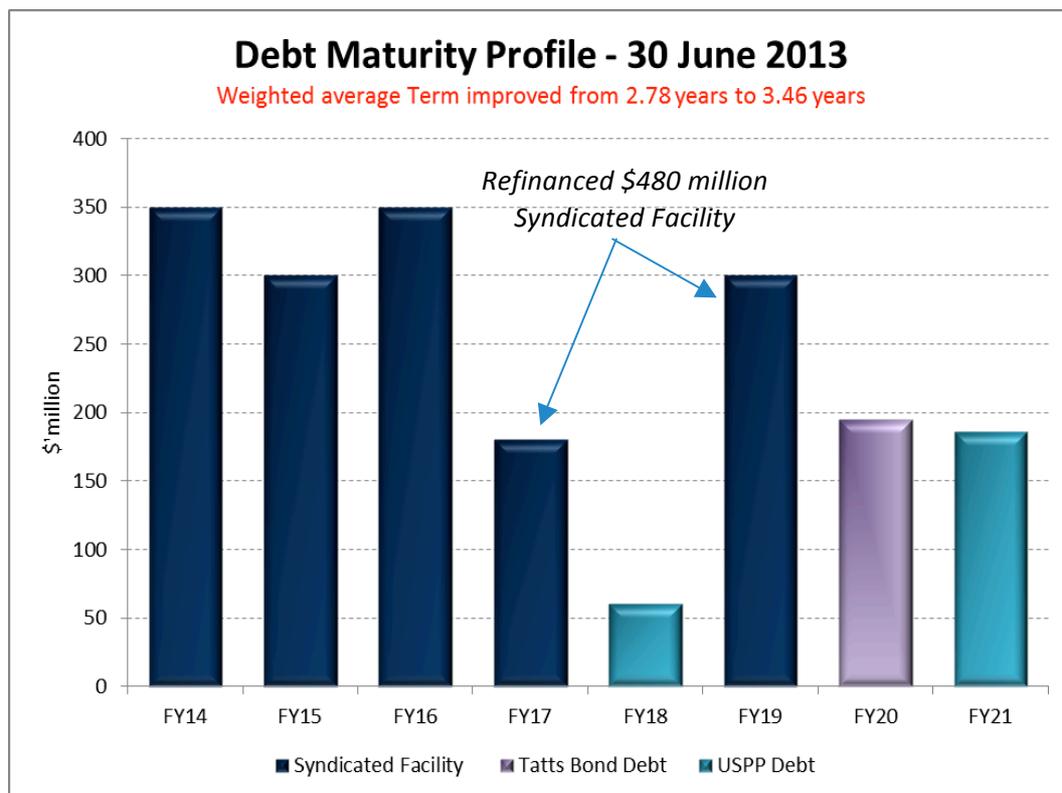
In May 2013, the Victorian Treasurer determined to impose a \$42.6 million Health Benefit Levy on Tatts for its pokies operations conducted in FY13. The Levy imposed being well in excess of the \$29 million in EBITDA generated by Tatts in the 46 days this business operated in FY13. Legal proceedings are in progress in relation to this matter with the Victorian Supreme Court, on 24 June 2013, having set aside the Victorian Treasurer's determination. The Treasurer has appealed this decision however we do not yet know when the appeal will be heard.

With proceedings not yet finalised, the results include a provision for the Victorian Government's Health Benefit Levy of approximately \$7 million – calculated on a pro-rata basis referable to the 46 days in which the pokies business operated in FY13.

Tatts' claim for compensation from the Victorian Government following the expiry of its Gaming Operator Licence is currently set to be heard in the Victorian Supreme Court in February 2014.

## Corporate

Following the debt funding of the acquisition of the management rights for the SA Lotteries, the Group has successfully refinanced two bank loan tranches of \$480 million which were due to expire in March and June 2013. These tranches were replaced with new facilities totalling \$480 million - structured with three and five year maturities. This action has improved the Group's debt maturity profile from 2.78 years to 3.46 years as shown below.



Careful management of our balance sheet and cash flows has seen our net debt to EBITDA ratio at 30 June 2013 reach 2.68 times - below the expected level (2.80 times) we flagged post acquisition of the

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SA Lotteries management rights. Interest cover at 4.91 times demonstrates that the Group remains well within “investment grade” metrics.

Capex for the year reached \$60.1 million (FY12: \$66.6 million) and reflected the continuing investment in our network including the rollout of the lottery system terminal replacement program in Queensland. Depreciation and amortisation from continuing operations was \$84.1 million for the year (FY12: \$91.0 million) and includes \$20.0 million of amortisation of licences and rights to operate.

## Dividend

With the benefit of the strong full-year result Tatts’ Board announced a final dividend of 7.5 cents per share (FY12: 12.0 cents). This dividend reflects the first dividend payment without any contribution from Pokies. The final dividend takes the full-year dividend for the Group to 15.5 cents per share (FY12: 23.0 cents) and represents a payout ratio of 95.1% on profit from continuing operations. The Group has a track record of strong dividend payout ratios and the current intention of the Board is to maintain that record.

## Outlook

The Group’s start to the year has been positive overall, with the first month of trading comfortably outperforming July 2012. Looking at our two major areas of operation specifically:

- **Lotteries** - The Group’s lotteries operation has had an excellent start to the year with 2 Jackpots over \$15 million in July (Oz Lotto reached \$50 million and Powerball hit \$30 million). More generally, this business will continue to receive a “first-year lift” through most of the half from SA Lotteries (which commenced contributing to the Group in December 2012). Further in considering the likely first-half performance for lotteries it would, perhaps, be unreasonable to expect a similar jackpot run to the levels experienced in the first-half of FY13.
- **Wagering** - Our wagering operation has had a little more subdued start to the year, with weather and a run of favorites in football winning their events and this dampening our performance. In addition the business is now cycling over the lift achieved last year from the acquisition of Tote Tasmania. Despite this slower start and the more challenging comparative, we believe the initiatives in train from a branding, product, online and marketing perspective will position the business for a year of solid profit growth.

Overall we consider the outlook for the Group in FY14 to be positive, whilst remaining ever vigilant to consumer sentiment and competitor activities.

# MEDIA RELEASE

22 August 2013



For further detail please refer to the Directors Report and the Financial Statements released today to the ASX and available at [Tattsgroup.com](http://Tattsgroup.com).

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**Media enquiries (to the CEO or CFO) please contact:**

**Carolyn Prendergast**  
Corporate Communications Manager

**Ph:** (07) 3435 4543  
**Mob:** 0409 910 561  
**E:** [carolyn.prendergast@tattsgroup.com](mailto:carolyn.prendergast@tattsgroup.com)

**Analysts and institutions (for queries directed to the CEO, CFO and GM – Investor Relations) please contact:**

**Kim Lindsay**  
Executive Assistant to CEO

**Ph:** (07) 3435 4478  
**Mob:** 0400 516 401  
**E:** [kim.lindsay@tattsgroup.com](mailto:kim.lindsay@tattsgroup.com)

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## Appendix A

	FY13 \$'000	FY12 \$'000	% change	
<b>Total revenue (from continuing operations)</b>	<b>2,948.8</b>	<b>2,656.9</b>	<b>↑</b>	<b>11.0%</b>
Government share	(1,376.4)	(1,265.6)	↑	8.8%
Venue share/commission	(414.2)	(359.0)	↑	15.4%
Product and program fees	(191.5)	(193.2)	↓	0.9%
Other expenses from continuing operations	(476.5)	(423.4)	↑	12.6%
<b>Total expenses (continuing operations)</b>	<b>(2,458.6)</b>	<b>(2,241.2)</b>	<b>↑</b>	<b>9.7%</b>
<b>EBITDA (from continuing operations)</b>	<b>490.2</b>	<b>415.6</b>	<b>↑</b>	<b>17.9%</b>
Depreciation	(84.1)	(91.0)	↓	7.6%
<b>EBIT (from continuing operations)</b>	<b>406.1</b>	<b>324.6</b>	<b>↑</b>	<b>25.1%</b>
Interest income	3.7	5.2	↓	29.3%
Finance costs	(106.7)	(104.5)	↑	2.2%
<b>NPBT (from continuing operations)</b>	<b>303.1</b>	<b>225.4</b>	<b>↑</b>	<b>34.5%</b>
Income tax	(75.7)	(63.8)	↑	18.5%
<b>NPAT (from continuing operations)</b>	<b>227.4</b>	<b>161.5</b>	<b>↑</b>	<b>40.8%</b>
NPAT (profit from discontinued operations*)	19.9	157.6	↓	87.4%
<b>NPAT (statutory basis)</b>	<b>247.3</b>	<b>319.1</b>	<b>↓</b>	<b>22.5%</b>

\*Discontinued operations - Tatts Pokies operation

Percentages based on full reported numbers (i.e. non-rounded source data).