

Pacific Consortium Revised Proposal not Superior

Brisbane, 28 April 2017 – Tatts Group Limited (**Tatts**) has completed its full assessment of the revised, non-binding, indicative and conditional proposal from the Pacific Consortium¹ to acquire 100% of Tatts for a headline value of \$4.21 cash per Tatts share (**Revised Indicative Proposal**).²

This assessment has been undertaken in accordance with legal requirements, including the requirements prescribed in the Merger Implementation Deed (**MID**) entered into with Tabcorp Holdings Limited (**Tabcorp**) on announcing the proposed merger on 19 October 2016 (**Proposed Tabcorp Merger**). The relevant provisions of the MID are discussed below.

Tatts' Board has determined that the Revised Indicative Proposal is not a Superior Proposal (as defined in the MID) and cannot reasonably be expected to result in a Superior Proposal when compared to the Proposed Tabcorp Merger. In these circumstances, Tatts is unable to provide due diligence or engage with the Pacific Consortium.

Accordingly Tatts' Board continues to believe that the Proposed Tabcorp Merger is in the best interests of Tatts shareholders and unanimously recommends the Proposed Tabcorp Merger in the absence of a Superior Proposal and subject to an independent expert concluding that the Proposed Tabcorp Merger is in the best interests of Tatts shareholders.

In the event of any material developments in relation to the Revised Indicative Proposal, the Proposed Tabcorp Merger, or the receipt of any other bona fide competing proposal, Tatts will make a further announcement.

The Board remains fully committed to acting in the best interests of, and maximising value for, Tatts shareholders.

Tabcorp Merger Implementation Deed

Under the terms of the MID, Tatts is restricted from participating in discussions or providing due diligence access in relation to any competing proposal unless it first determines that the competing proposal may reasonably be expected to result in a "Superior Proposal" when compared to the Proposed Tabcorp Merger.

¹ The Pacific Consortium comprises four financial investors, First State Superannuation Scheme, Morgan Stanley Infrastructure Inc., as adviser to and manager of North Haven Infrastructure Partners II LP, one or more affiliates of Kohlberg Kravis Roberts & Co. L.P., and Macquarie Corporate Holdings Pty Limited.

² The key terms and conditions of the Revised Indicative Proposal were set out in Tatts' ASX announcements of 19 April 2017 and 24 April 2017.

Under the MID, to qualify as a “Superior Proposal” first requires the Tatts Board to conclude that the Revised Indicative Proposal would (if completed substantially in accordance with its terms) “*likely be more favourable*” to Tatts shareholders as a whole than the Proposed Tabcorp Merger. This necessitates an assessment of all terms and conditions and other aspects of the Revised Indicative Proposal including any timing considerations, any conditions precedent, or any other matters affecting the probability of the Revised Indicative Proposal being completed.

It should be noted that these restrictions and other exclusivity provisions in the MID are in line with market practice for a transaction of this type, and absent these provisions, the Proposed Tabcorp Merger would not have been initiated.

Assessment of Revised Indicative Proposal

Tatts undertook a detailed assessment of the Revised Indicative Proposal including obtaining written advice from its legal and financial advisers. A number of quantitative and qualitative factors were considered by Tatts and its advisers in their relative assessment of each proposal, including but not limited to:

- the headline value of the Revised Indicative Proposal of \$4.21 (which is not adjusted for either risk of, or time to, completion) compared to the current market value of \$4.47³ per Tatts share;
- the fundamental control value per Tatts share compared to the headline value of the Revised Indicative Proposal (\$4.21);
- the implied value per Tatts share under the Proposed Tabcorp Merger derived from various recent Tabcorp share prices (which reflect a market-based, risk and time adjusted view of the value of the Proposed Tabcorp Merger), versus the headline value of the Revised Indicative Proposal (\$4.21). This exercise was undertaken on a net present value (**NPV**) basis reflecting Tatts’ view of the expected completion timeframe for the Revised Indicative Proposal;
- the implied value per Tatts share based on Tatts’ view of the expected trading value of Tabcorp shares under a range of outcomes if the Proposed Tabcorp Merger is completed versus the headline value of the Revised Indicative Proposal (\$4.21). This exercise was undertaken on a NPV basis reflecting Tatts’ view of the expected completion timeframes for each transaction;
- the ability to pay fully-franked dividends to Tatts shareholders between signing and closing under each proposed transaction and the value implications arising;

³ Based on Tatts closing share price on ASX on 27 April 2017.



For personal use only

- the potential risks associated with the current Australian Competition Tribunal process in relation to the Proposed Tabcorp Merger;
- the potential risks associated with approvals required from various industry bodies, State and Territory Governments, and wagering, monitoring and lotteries regulators under both proposed transactions;
- the potential tax implications and general risks for all shareholders associated with scrip consideration versus the certainty of cash;
- the conditionality of the Revised Indicative Proposal, most notably in relation to Tatts' Victorian Lottery Licence; and
- general market volatility and industry risk.

These and other factors, taken together from a Tatts shareholder perspective, informed the Tatts Board's determination in respect of the Revised Indicative Proposal relative to the Proposed Tabcorp Merger.