

## Lotteries + Online + UBET = Another great year for Tatts

**Brisbane, 20 August 2015** – Another record lotteries performance, great online traction in both wagering and lotteries and prudent cost management, saw the Group deliver a 25.7% surge in statutory after tax profit and a very healthy 12.9% profit increase on a continuing operations basis. All delivered while undertaking the heavy lifting associated with the re-launch of the Group's wagering operation as UBET.

The Group's lotteries business had an outstanding year, where despite a softer jackpot environment, revenues were up 2.8% to \$1.98 billion. The business showed true operational leverage expanding on this revenue increase to deliver an impressive 5.9% lift in EBIT (\$287.5 million). This was achieved while also preparing for the launch of 'Set for Life' (our first new draw lottery game since 1996), expanding the footprint of 'Lucky Lotteries' beyond its NSW and ACT homeland, and successfully integrating Victorian Instant Scratch-Its back into the fold.

Traction in the Group's digital channels continued to build, with our substantial combined lotteries and wagering database (2.9 million) starting to be utilised – a unique asset with potential for cross marketing between product streams and a national reach. Lotteries delivered an exceptional 20.9% lift in online sales and is now powering 11.1% of its sales online (FY14: 9.4%). Wagering's digital outcomes were also excellent growing 12.5% with online sales penetration at 25.7% (FY14: 22.9%).

Wagering revenue was down 1.5% at \$632.9 million this year, with UBET only launching in the closing months of FY15. Not unexpectedly, the pack of European and domestic bookmakers remained as competitive as ever, and this, coupled with a necessary easing in our marketing activity leading into the new brand launch had an impact on revenue performance. Wagering EBITDA was down 4.5% in line with the flagged reinvestment in Tatts' wagering operations, and reflecting an operating margin consistent with the level indicated a year ago. The initial consumer response to UBET (launched 30 April 2015), its marketing actions and the digital and retail initiatives undertaken, has been very pleasing.

The Group has entered the new financial year well with momentum continuing, kick-started by a strong run of lottery jackpots at the influential \$15 million or more threshold (8 vs 5 in the same period last year). While still early days, this provides a great foundation for the year ahead.

On the basis of the strong performance in the year and maintaining its commitment to high dividend payouts, Tatts' Board has determined a final dividend of 7.5 cents per share – taking the total dividend paid in respect of FY15 to 16.5 cents, an increase of 22.2% over the prior year and representing a 95.1% payout of statutory profits.

### FY15 Snapshot

- \* Statutory net profit after tax up 25.7% to \$ \$252.0m or up 12.9% on a continuing operations basis to \$255.8m
- \* UBET launched 30 April 2015 – pleasing initial customer response
- \* Contractual and legislative actions required to enshrine new Queensland wagering structure completed
- \* 34 jackpots at \$15m or more - average \$25.3m Division 1 jackpot (FY14: 36 average \$25.7m)
- \* 11.1% of all lotteries sales online (FY14: 9.4%) (excluding SA) – 20.9% growth
- \* 25.7% of all wagering sales online (FY13: 22.9%) – 12.5% growth
- \* Instant Scratch-Its returned to our Victorian product line up
- \* Lucky Lotteries launched into Queensland, Victoria, Tasmania and the Northern Territory
- \* Regulatory approvals achieved for launch of first new lottery draw game in 20 years – 'Set For Life'
- \* Exceptional growth in the Tatts.com app – now downloaded on 735,000 devices (FY14: 332,000)
- \* Convenience fuel outlets - expanding our full lotteries offering to another 54 outlets
- \* Talarius powering – EBIT up 51.7% – second year of positive profit contribution since acquisition

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

|   | FY15              | FY14              | % change* |       |
|---|-------------------|-------------------|-----------|-------|
| Revenue and other income                  | \$2,919.9 million | \$2,868.3 million | ↑         | 1.8%  |
| EBITDA                                    | \$507.4 million   | \$498.4 million   | ↑         | 1.8%  |
| EBIT                                      | \$420.3 million   | \$414.5 million   | ↑         | 1.4%  |
| Profit before tax (continuing operations) | \$366.1 million   | \$326.6 million   | ↑         | 12.1% |
| NPAT (continuing operations)              | \$255.8 million   | \$226.6 million   | ↑         | 12.9% |
| NPAT (statutory)                          | \$252.0 million   | \$200.4 million   | ↑         | 25.7% |

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

## Commentary

Tatts this morning reported a strong 2015 full year result – underwritten by a record-beating lotteries performance, great online traction in both wagering and lotteries, and prudent cost control throughout its operations.

After tax profits on a statutory basis surged 25.7% to \$252.0 million, translating on a continuing operations basis to a very healthy and more representative 12.9% profit lift to \$255.8 million. This was achieved despite lower lottery jackpots, a more competitive wagering landscape, the business digesting major changes under its ongoing renewal program, complexities associated with a number of new products and initiatives being rolled-out, and the wagering operation re-launched as UBET.

In announcing the result Robbie Cooke, Tatts' CEO and Managing Director, said:

*“The 2015 financial year was a great one for Tatts. Our lotteries business booked a record profit result, our digital initiatives gained strong traction both in wagering and lotteries and, at the latter part of the year, this was sealed off with the successful re-launch of our wagering operation as UBET.”*

In discussing the Group's lotteries performance he said:

*“Lotteries had an outstanding year – growing revenues 2.8% to \$1.98 billion, no small feat given the softer jackpot run in the year. The hidden gem in this performance was the operational leverage the business displayed – growing the 2.8% revenue increase to a 5.9% lift in EBIT to produce a record \$287.5 million result.*

*Impressively this was achieved while delivering a full pipeline of initiatives. ‘Lucky Lotteries’ was expanded beyond its NSW and ACT homeland. In Victoria we integrated Instant Scratch-Its back into the fold, with sales outcomes lifting above pre-Tatts levels. Getting set for the launch of our first new draw lottery game since 1996 capped off the year – ‘Set for Life’ went live on 3 August 2015 and is delivering on its promise, with a younger audience and very strong online sales above 20% – an exceptional outcome.”*

Cooke noted online outperformance was a feature of the result:

*“Our online efforts are starting to benefit from the unique, and to date largely untapped, opportunity that exists in owning combined lotteries and wagering operations. We have a significant (2.9 million) collective customer database with national reach, which is fertile ground for customer acquisition via cross-marketing between product streams.*

*It was exciting to see the sales traction achieved in our digital channels. These sales contributed significantly to our result in the year. We saw an exceptional 20.9% lift in online sales for lotteries with 11.1% of our sales now online compared with 9.4% last year. Wagering's digital growth rate was also excellent at 12.5%, with 25.7% of its sales now occurring online compared with 22.9% a year ago.*

*We have the bench strength in the team to continue driving our digital ambitions covering the full spectrum of development, online marketing, social, analytics and CRM.”*

Commenting on the game-changing launch of the new wagering brand, UBET, he continued:

*“Wagering was a huge area of focus in the year leading to the launch of UBET on 30 April 2015. While early days, the consumer response to UBET has been very pleasing. Our marketing actions are achieving cut through with brand awareness levels tracking ahead of our targets. Our digital assets have been well received in the market and continue to evolve. Our ground-breaking and category-leading next generation retail stores have already shown, albeit on a small scale, that potential exists to dramatically alter ‘bricks and mortar’ retail performance. The opportunity exists to leverage the advantages offered by this exclusive presence in Queensland, South Australia, Tasmania and the Northern Territory. To-date, this has been a much under-exploited part of our armoury.*

*In addition to these digital assets and the next generation retail presence, our wagering team are now armed with a unified brand, an expanded product offering, and a funded and coordinated marketing capability.*

*From a technology perspective we have also embarked for the first time on rapid prototyping – trialing products in the field. ‘UBET Live’, an innovative in-venue in-play betting module, is the showcase of this approach.*

*We are now well positioned to start fighting back in this highly competitive space, and the next 24 months presents an exciting stage in the evolution of our wagering operation.”*

It was noted that the Group's multifaceted gaming operations all contributed positively in the year:

*"All three gaming businesses made positive contributions to the year's result. Talarus delivered another strong performance with revenue up 5.6% on a same currency basis. Maxgaming grew both revenues and EBIT reflecting retention of market share, price increases and value-add product sales. While Bytecrafter saw a return to positive EBIT contribution following its business turn around program implemented in FY13."*

In discussing the Group's outlook Cooke said:

*"The momentum built in FY15 has continued into the new financial year, kick-started with a strong run of lottery jackpots at the influential \$15 million threshold or more – with 8 jackpots so far this year at that level compared with 5 last year. While still early days this provides a solid foundation for the year ahead.*

*We are at the start of a 24-month journey in wagering with the initiatives taken to reposition our operation. We are focused on building the brand and driving online outcomes, both of which are performing to expectation. This will be supplemented by the rollout of 50 next generation retail outlets prior to the end of the calendar year.*

*The list of initiatives and innovations for the current year is no less ambitious than that delivered in FY15.*

*In lotteries we are developing a network-wide omni-channel approach to unify our customer experience through all our touch points. This will coincide with a new suite of digital assets and a next generation lottery retail format. The expansion of our lotteries offering into more convenience fuel outlets will commence in September. 'Set for Life' enters the sales mix this year and sales to date have been encouraging. This game is, as expected, displaying stronger participation in the younger demographic and is generating strong online sales.*

*In gaming, the team is developing a portal to deliver enhanced gaming venue business intelligence, along with a number of innovative features for venues including an online store for the purchase of gaming products.*

*In wagering we will continue to be active in the market, building the UBET brand position nationally through traditional media, online and through affiliate arrangements – we have no expectation that the competitive landscape will soften. With a well resourced digital team, and a fully enabled fixed-price team, our focus now is on further developing the digital assets we have established to position UBET as the market leader."*

## **Dividend**

With the benefit of the strong result and maintaining the commitment to consistently high payout ratios, Tatts' Board has determined a final dividend of 7.5 cents per share – taking the total dividend paid in respect of the 2015 financial year to 16.5 cents, an increase of 22.2% over the prior year.

The Group's dividend reinvestment plan (**DRP**) will operate in relation to this dividend. However in light of the overall financial position and balance sheet strength, no discount will be offered in relation to shares acquired under the **DRP**.

## **Further Detailed Analysis**

**FOR MORE DETAIL AND DISCUSSION ON TATTS GROUP'S RESULTS PLEASE REFER TO THE MANAGING DIRECTOR'S REPORT CONTAINED IN THE ANNUAL REPORT RELEASED TO ASX TODAY AND AVAILABLE ON TATTSGROUP.COM**

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**APPENDIX A**

|   | FY15<br>\$'million | FY14<br>\$'million |          | % change     |
|---|--------------------|--------------------|----------|--------------|
| <b>Total revenue and other income</b>               | <b>2,919.9</b>     | <b>2,868.3</b>     | <b>↑</b> | <b>1.8%</b>  |
| Government share                                    | (1,293.5)          | (1,289.9)          | ↑        | 0.3%         |
| Venue share/commission                              | (417.0)            | (413.1)            | ↑        | 0.9%         |
| Product and program fees                            | (203.1)            | (187.2)            | ↑        | 8.5%         |
| Other expenses                                      | (498.9)            | (479.7)            | ↑        | 4.0%         |
| <b>Total expenses</b>                               | <b>(2,412.5)</b>   | <b>(2,369.9)</b>   | <b>↑</b> | <b>1.8%</b>  |
| <b>EBITDA</b>                                       | <b>507.4</b>       | <b>498.4</b>       | <b>↑</b> | <b>1.8%</b>  |
| Depreciation and amortisation                       | (87.1)             | (83.9)             | ↑        | 3.8%         |
| <b>EBIT</b>   | <b>420.3</b>       | <b>414.5</b>       | <b>↑</b> | <b>1.4%</b>  |
| Net interest  | (54.2)             | (87.9)             | ↓        | 38.4%        |
| <b>PBT</b>  | <b>366.1</b>       | <b>326.6</b>       | <b>↑</b> | <b>12.1%</b> |
| Income tax  | (110.3)            | (100.0)            | ↑        | 10.3%        |
| <b>Net profit after tax (continuing operations)</b> | <b>255.8</b>       | <b>226.6</b>       | <b>↑</b> | <b>12.9%</b> |
| Loss from discontinued operations                   | (3.8)              | (26.2)             | ↓        | 85.4%        |
| <b>Net profit after tax (statutory)</b>             | <b>252.0</b>       | <b>200.4</b>       | <b>↑</b> | <b>25.7%</b> |