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Tabcorp

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TABCORP ANNOUNCES INTENTION TO DEMERGE LOTTERIES & KENO, CREATING TWO MARKET LEADING COMPANIES

Tabcorp Holdings Limited (**Tabcorp**) today announces that it intends to undertake a demerger of its Lotteries & Keno business[1]. The decision to pursue a demerger follows the conclusion of a comprehensive strategic review of all relevant structural and ownership options to maximise value for shareholders, as announced on 29 March 2021.

The demerger will create two standalone, market leading ASX-listed companies with distinct operating profiles, strategies and growth opportunities.

- **Lotteries & KenoCo** (comprising Lotteries & Keno): Australia's leading lottery operator with licences to operate in all Australian states and territories except Western Australia. Licensee of Keno products to venues across NSW, Victoria, Queensland, South Australia and the ACT (including a digital licence).
  Chair designate: Steven Gregg; CEO designate: Sue van der Merwe[2]

- **Wagering & GamingCo** (comprising Wagering & Media and Gaming Services): TAB, Australia's leading omni-channel wagering operator; Sky, a multi-venue, multi-channel racing and sports broadcaster; international businesses in the US and Europe, which are well established, profitable and growing; and MAX, Australia's largest gaming services provider.
  Chair designate: Bruce Akhurst; CEO designate: Adam Rytenskild[2]

Following the demerger, both businesses will benefit from:

- focused management and optimised capital structures;
- increased scale and diversification already achieved through the combination with Tatts Group;
- adopting a more focused operating profile more aligned to its core operations;
- the ability to participate in future M&A activity; and
- access to new investors with different investment preferences and ESG criteria.

A demerger will also provide shareholders with:

- the ability to value each business on a standalone basis, with a potential market re-rating of each business; and
- potential upside from any future domestic regulatory reform and international expansion opportunities in Wagering & Media.

[1] Demerger subject to shareholder, court, regulatory and other approvals.

[2] All appointments subject to formal Board approvals and all necessary regulatory approvals.

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Both companies are expected to have strong balance sheets to support their growth. Tabcorp has reached preliminary agreement with holders of its US Private Placement (USPP) notes that would result in these notes being allocated to Lotteries & KenoCo from the demerger date[3]. Lotteries & KenoCo is targeting an investment grade credit rating with a strong BBB band and Wagering & GamingCo is targeting credit metrics consistent with an investment grade credit profile.

Tabcorp Chairman Steven Gregg and the current Board of Directors of Tabcorp will oversee the implementation of the demerger, and David Attenborough will remain as Managing Director and CEO of Tabcorp until the demerger is completed.

Tabcorp is targeting completion of the demerger by the end of June 2022, subject to all relevant approvals[1].

Tabcorp Chairman commentary

Tabcorp Chairman Steven Gregg said: "Following a thorough and rigorous assessment of all relevant structural and ownership options, the Tabcorp Board of Directors has concluded that a demerger of the Lotteries & Keno business is the optimal and most certain path to maximise value for Tabcorp shareholders.

"The foundations have been laid for Lotteries & KenoCo and Wagering & GamingCo to deliver long term growth. The Tabcorp and Tatts integration has set up both businesses to benefit from enhanced scale and diversification.

"The two businesses are expected to be leaders in their respective markets, creating great experiences for millions of customers. They will both build on their heritage of sharing the benefits of their commercial success with governments, the racing industry, licensed venues, newsagents and other retail and business partners.

"Lotteries & KenoCo offers infrastructure-like qualities, with low capital intensity and upside from continuing digital growth. It is underpinned by its scale, portfolio of exclusive and/or long-dated state licences and attractive financial profile. It has a track record of strong and resilient cash flow generation, driven by its well-balanced portfolio of games, growing digital sales penetration and extensive retail footprint.

"Wagering & GamingCo will have national scale and reach, organic growth options, and potential upside from any future domestic structural reform and further international expansion. Wagering & Media has undergone a significant transformation and now has an omni-channel offering geared to create the best customer experience across all channels. Following the operational review of Gaming Services, which is being implemented, the business will continue as the largest gaming services provider in Australia with a simplified business model and streamlined operating cost base."

[3] Subject to satisfaction of certain conditions.

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Strategic review process and engagement with bidders

The strategic review process assessed and evaluated all relevant structural and ownership options, including a demerger, a sale of one or more of Tabcorp's businesses and the retention of the status quo with a disciplined approach to driving growth.

As part of this process, Tabcorp engaged with all bidders for its Wagering & Media business.

In the case of Entain and Apollo, this process included the provision of information, management presentations and engagement in relation to their proposed strategies for navigating the complex regulatory and other commercial approvals required. Both parties confirmed their respective previously indicated offer prices. In the case of BetMakers, Tabcorp will continue discussions in relation to potential commercial opportunities in international markets.

The Board has carefully considered the proposals for the sale of the Wagering & Media business and concluded that a demerger of Lotteries & Keno is the optimal, and most certain, path to maximise the value of both businesses for Tabcorp shareholders.

There are various complex legislative[4], regulatory, competition[5], racing industry[6] and other third party approvals required to effect any potential sale of the Wagering & Media business. The process for, and likelihood of, obtaining these approvals is uncertain and expected to take an extended period of time.

Notwithstanding the approvals required to effect any potential sale of the Wagering & Media business and the decision to pursue a demerger, Tabcorp remains open to future engagement with bidders on revised proposals that deliver sufficient value and certainty for Tabcorp shareholders.

Implementation and next steps

If the demerger is implemented, Tabcorp shareholders will receive Lotteries & KenoCo shares in proportion to their existing shareholding in Tabcorp, while also retaining their existing Tabcorp shares. The Board intends to facilitate the demerger of Lotteries & Keno into a separate ASX-listed entity (Lotteries & KenoCo), while Wagering & Media and Gaming Services will remain in the existing listed Tabcorp entity (Wagering & GamingCo).

The demerger is expected to be implemented through a court-approved Scheme of Arrangement. Tabcorp will now commence engagement with relevant regulatory bodies and stakeholders in relation to the required approvals and consents.

Tabcorp is also engaging with the Australian Tax Office in relation to demerger tax relief for the distribution of Lotteries & KenoCo shares to Tabcorp shareholders as part of the demerger. There are currently no expected impediments to obtaining this tax relief.

4 Legislative change to the NSW Totalizator Act (and related legislation) would be required to allow any bidder to acquire more than 10% of the shares in either the NSW Licensee (TAB Limited) or Tabcorp Holdings Limited.

5 See merger clearance requirements under s 50 of the Australian Competition and Consumer Act 2010.

6 The Company has various agreements with the Racing Industry in key states which include change of control provisions. These provisions would be triggered by any sale of the Wagering & Media business.

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On preliminary estimates, the demerger process is expected to incur between $225m-$275m in one-off separation costs and c.$40m-$45m per annum of ongoing incremental costs, pre-mitigation.

Tabcorp intends to provide further updates at its 2020/21 full year results announcement on 18 August 2021 and at its annual general meeting on 19 October 2021.

For further information in relation to the proposed demerger, please refer to the presentation lodged with the ASX today entitled '*Strategic review conclusion and intention to demerge Lotteries & Keno*'.

This announcement was authorised for release by the Tabcorp Board.

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