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Aristocrat Leisure (ALL) 2018 AGM voting intentions

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Company/ASX Code :	Aristocrat Leisure Limited (ALL)
Registry :	Boardroom Pty Ltd
Poll/Show of Hands :	Poll on all items
Webcast :	Yes
Venue :	11 am, Aristocrat HO Building A, Pinnacle Office Park North Ryde, New South Wales
Monitor :	Ms Carol Limmer
AGM Details / NoM :	Thursday 22nd February, 2018

New CEO, continued growth through acquisitions, again seeking increase in fee cap for NEDs

This company is monitored by Carol Limmer, assisted by Sue Erbag. The monitors held a pre-AGM meeting with Chair of Human Resources and Remuneration Committee, Kathleen Conlon and Company Secretariat

Item 1 Consideration of accounts and reports

ASA Position

Aristocrat (ALL) has put in another good financial performance and continued on their acquisition trail including increase in digital business. NPAT and cash generation have increased and ALL has reduced debt and is holding a strong balance sheet position. Share price, (unfranked) dividends and EPS have also risen. Digital business continues to grow in strength, with revenue up approx. 40%. Whilst all geographic areas have fared well, USA is still their largest contributor to revenue and profit and currently represents best area for future growth. The company anticipates continued growth over 2018 year.

Not Applicable

A snapshot of business (with previous year in brackets) is Revenue \$2.45bn (\$2.1bn), Licensed Jurisdictions 291 (240), Countries 100 (90) and Employees 3640+ (3200+).

In October 2017 ALL completed 100% acquisition of Platinum Global Ltd for up-front cash payment of USD500 cash (subject to some adjustments). At end of November ALL signed agreement to acquire 100% of Big Fish Games Inc. for purchase price of USD990m (subject to regulatory approvals).

At this stage ALL has no plans for capital raisings.

Board renewal is continuing with Ms R V Dubs stepping down and the proposed appointment of Mr N Chatfield. Directors are based in a variety of locations both in Australia and offshore with USA being main part of business. With recent changes, 3 of the 8 directors are female. Board meetings are held in various locations – Australia and overseas. The opportunity is taken for directors to meet with customers, staff, suppliers etc in conjunction with Board meetings.

Directors have reasonable equity holdings.

(As at FYE)	2017	2016	2015
NPAT (\$m)	495.1	350.5	191.5
NPATA (\$m)	543.7	398.2	N/A
Share price (\$)	21	15.81	8.61
Dividend (cents)	34	25	17
TSR (%)	296.07	263	50
EPS (cents)	77.5	55.1	30.1
CEO total remuneration, actual (\$m)**	See below	6.8	N/A

• NPATA 543.4 (2017) and 398.2 (2016)

**For CEO, the 2016 number was for the previous CEO. New CEO, who was an internal appointment, commenced in March 2017 so his actual remuneration would also reflect about 6 months in his previous role at ALL. In March his potential at target remuneration was AUD 2.7m and then from October ALL notified the market that, in conjunction with his relocation to USA, it had been increased to USD 4.4m ie about AUD 5.7m. This includes increases in STI and LTI potential.

Item 2 Appointment of Mr N Chatfield

ASA Position

Mr Chatfield is well qualified academically and has over 30 years' experience as a senior executive in business, gained in Australia and USA. He has extensive company director experience – currently chairman of Seek Ltd and Costa Group and is a director at Transurban. Mr Chatfield has notified that he will be retiring from his chairmanship at Seek Ltd in 2018.

He is seen as having good credentials for board role at ALL.

For

Item 3 Increase in NEDs' Fee Cap

ASA Position

The current maximum fee cap is \$2.75m which is already relatively high. This amount was only approved in 2016. ALL is now 2 years later seeking a further increase of \$450k to take the cap to \$3.2m.

Fees paid are \$460k for Chairman, \$215k for each NED with an additional \$40k for Lead US Director and additional \$25k for Committee Chairs. US based directors are paid in USD converted at a rate of AUD \$1 to USD \$1.

For

Amount paid to NEDs for the year was nearly \$2.52m.

Among reasons for the proposed increase is flexibility (eg in recruiting new global NEDs, increased workload (growth and possibly more complexity in the business) and the travel involved for its NEDs. It is noted that in the past year there have been 15 board meetings in addition to committee meetings. This proposal seems reasonable.

Item 4 Approval for grant of PSRs to CEO, Mr T Croker

ASA Position

Mr Croker commenced in March 2017 (was an internal appointment) on a package of AUD 1.1m Fixed, AUD600k at Target (maximum AUD 1.2m) STI and AUD 1.1m LTI. Then in October, and in conjunction with relocation to USA, ALL announced to the market that this had increased to USD 1.1m, USD 1.1m at Target (maximum USD 2.2m) and USD 2.2m LTI. This is a Total at Target of USD 4.4m (ie about AUD 5.6m) or Total potential of USD 5.5m (ie about AUD7m).

Against

The remuneration actually paid for past year reflects only part year as CEO eg Fixed was AUD 881.6k and STI was AUD 414.375k Cash and 414.375k Deferred (STI paid at 170% of target) PLUS LTI (116,304 PSRs vested).

What is now being proposed at the AGM is an allocation of 136,383 PSRs. The allocation is based on a Face Value of \$20.57 per share as at end of September, converting the Face Value into USD at rate of 0.7842 and then dividing the LTI opportunity by the Face Value (with rounding down to nearest dollar). This reflects the USD LTI of 2.2m above.

His remuneration is said to reflect USA market remuneration arrangements for the sector in which ALL operates.

It is difficult to assess Mr Croker's worth relative to ALL's overall performance as he has only been in the role for a relatively short period. Additionally, as part of the transitional arrangements the previous CEO was still in ALL in a more consultancy type role for a

period.

Aside from the high potential remuneration being applied to Mr Croker by ALL, ASA has concerns about 40% of LTI being Service only based (the remainder is divided between Relative TSR and EPSA), there is a 3 year performance period (ASA's preference is 4 years) and ASA would prefer a more rigorous vesting scale (at present 50% is awarded at 50th Percentile).

Similarly to previous year an AGAINST vote will be made.

Item 5 Remuneration report

ASA Position

Whilst there is a lot of information in the remuneration report there is no table explicitly setting out the actual remuneration of CEO (and other Senior Executives). ALL indicated that they would give consideration to this as part of 2017 reporting.

Please also refer to commentary around the CEO's remuneration in the item above.

Against

CEO and other Senior Executives are mainly based in USA and remuneration is/will be more US market based. Proxy advisors are said to be comfortable with ALL's reasoning.

There are some good points to the remuneration structure such as STI deferral, use of financial gateway for STI payments and use of face value in LTIs. However, there are some aspects not favoured by ASA, the main ones being use of a service only condition, LTI being over 3 years and a relatively generous vesting scale for the LTI. On balance, last year we voted in favour of the Remuneration Report on the basis of ALL being asked to reconsider the 3 year timeframe and use of service only condition and the TSR vesting scale on the LTIs. We had also asked for a Table clearly setting out Actual Remuneration. This has not eventuated. However, in pre AGM meeting ALL has indicated that the issue of a table for Actual Remuneration will be reviewed for 2018.

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