



Jumbo has renegotiated the Tabcorp agreement and is positioning itself for the future.

Company/ASX Code	Jumbo Interactive Limited / JIN
AGM date	Thursday 28 October 2021
Time and location	11:00 am
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Paul Donohue & Steven Mabb
Pre AGM Meeting?	Yes, with Susan Forrester AM (Chair) and Sharon Christensen (NED)

Please note any potential conflict as follows: The individuals involved in the preparation of this voting intention have no shareholdings in this company.

Item	Consideration of reports
ASA Vote	No vote required

Summary of ASA Position

Jumbo Interactive (JIN) makes most of its revenue reselling tickets in Tabcorp lotteries such as Powerball and OzLotto through the www.ozlotteries.com website. This part of the business is, conceptually, the same as a newsagent selling lotto tickets with a percentage of the ticket price going to the reseller. A much smaller share of their revenue comes from reselling tickets in charity lotteries.

The software that supports these online sales is now offered to lottery operators such as LotteryWest in WA and charities such as Mater Foundation, Endeavour Foundation and Deaf Services in a Software as a Service (SaaS) model under the 'Powered by Jumbo' product name.

A third part of the business, Managed Services, provides 'lottery in a box' solutions to charities which do not have the capacity or inclination to run a lottery. This segment's geographic reach will be extended by acquisitions of similar businesses overseas; Gatherwell in the UK (Nov 2019) and Stride in Canada (Aug 2021).

In August 2020, Jumbo renegotiated their reseller agreement with Tabcorp for a further ten years. While this gave them certainty over their biggest revenue stream, the new contract offers less favourable terms for JIN. It includes a service fee which rises from 1.5% of subscription ticket price

(effectively Jumbo's purchase price) in FY21 to 4.65% in FY24. If the value of Tabcorp ticket purchases is in excess of \$400m in any financial year, the service fee on the excess will be 4.65%. The deal also includes a once only 'agreement extension fee' of \$15m which is now being amortised.

Jumbo management are confident that increased adoption of online lotteries and their superior player experience compared to their competitors will increase total transaction value (TTV) enough to offset the less attractive aspects of the Tabcorp deal. Reorganising the company to provide alternative revenue streams (SaaS and Managed Services) and overseas growth opportunities should reduce Jumbo's reliance on Tabcorp.

FY21 was a complex year with the Tabcorp agreement, LotteryWest moving to a lower margin arrangement, the introduction of intra company charges to use the SaaS platform, the impact of COVID (both positive and negative) and lower than normal jackpots which are a major driver of TTV. Consequently, the results are hard to compare to last year on a line by line basis. However, the bottom line is that group revenue is up 17% (vs 9% in FY20) and Statutory Net Profit After Tax is up 4% (vs -2% in FY20).

The balance sheet remains strong at the end of FY21 with no debt and \$63m in cash after paying \$15m to Tabcorp.

Governance and culture

The board is now smaller and more focussed than it was in FY20 with a mix of skills and experience covering gaming, finance, law and innovation with a strong corporate governance theme. The board is now equally balanced by gender.

During the year, Jumbo reviewed and recalibrated their risk appetite including a comprehensive review of their governance policy framework and tax management policies. A new role, Head of Compliance, Risk and Internal Audit was created reporting directly to the Chair of the Audit and Risk Management Committee. This role is filled by Lauren Hook, previously at Virgin Australia.

A dedicated company secretary position was created rather than the previous arrangement where this role was performed by one of the board members. This role is filled by Graeme Blackett. He has been a Chartered Secretary for over 25 years, including holding company secretarial and governance roles with the NRMA Group, Reckon Limited, Westfield Group, AMP, ASIC and the National Australia Bank.

ASA members will be pleased to hear that a Head of Investor relations was also appointed. This role is filled by Jatin Khosla, previously Executive Manager, Investor Relations at Suncorp Group.

The company's commitment to Environmental, Social, and Governance (ESG) issues is evidenced by their new Corporate Responsibility Framework, which is currently under development and will align to standards such as the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB).

JIN's operations and policies are environmentally friendly, and they have ambitions to be carbon neutral although no goals were committed to in the annual report.

Jumbo operates in a regulated industry and has procedures and monitoring technology in place to ensure compliance with the responsible gambling regulations.

Financial performance

Margins from the Tabcorp business have been reduced under the new agreement. Revenue for FY21 increased by 17.1% to \$83.3m. Statutory NPAT is up 4.2% to \$26.9m. Underlying NPAT, which excludes significant, non-recurring, non-operating items, is up 7.1%. Underlying Earnings per Share is up 6.8%.

Total shareholder return for FY21 was 82%, a dramatic turnaround from last year's negative 50%. Over the last five years, TSR has been approximately 60% p.a.

Key events

- First year operating under the new Tabcorp agreement with reduced margins.
- Reorganised into three clear operating segments, Lottery Retailing, SaaS & Managed Services.
- Introduced an intra company charge for use of the Powered by Jumbo (PBJ) platform. This reduced profit in Lottery Retailing but increased profit in SaaS.
- Nov 2020: Granted a remote gambling software licence by the UK Gambling Commission.
- Dec 2020: Transferred Western Australia's LotteryWest customers from Lottery Retailing to SaaS resulting in a drop in margin for these customers from ~20% to 9.5%.
- Feb 2021: Managed Services signed its first two Australian charity customers, Paralympics Australia and St John Ambulance (VIC).
- Aug 2021: Acquired Stride Management, a Canadian lottery operator for \$11.7m. Subject to Canadian regulatory approval.

Key Board or senior management changes

There has been significant, positive change in Board composition since FY20 with David Barwick (previous Chair and Non-Executive Director) and Bill Lyne (previous Company Secretary & and Non-Executive Director) both retiring after long tenures.

Susan Forrester AM was appointed as the new Chair in September 2020. She has a wealth of experience having served as Chair and Non-Executive Director on multiple ASX listed companies over a decade. Some of her other commitments include Over the Wire Holdings (ASX:OTW) and Plenti Group (ASX:PLT). She has previous board experience with National Veterinary Care, Xenith IP, G8 Education and Viva Leisure.

Jumbo Interactive's Founder and CEO, Mike Veverka remains on the board as do Sharon Christensen and Giovanni Rizzo who were both appointed in 2019.

Key Management Personnel are largely unchanged from FY20 with the exception of Brian Roberts, previously President of North American operations who is expected to retire by the end of calendar year. Brian's responsibilities have been handed over to Richard Bateson.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	26.96	25.88	26.42	12.13	5.64
UPAT (\$m)	28.35	26.46	26.42	11.75	7.60
Share price (\$)	17.77	9.58	20.15	5.00	2.66
Dividend (cents)	35.0	35.5	36.5	18.5	8.5
TSR	82%	-52%	294%	90%	101%
EPS (cents)	45.4	42.0	42.5	21.9	16.7
CEO total remuneration, actual (\$m)	\$1.390	\$1.301	\$1.315	\$0.972	\$0.737

For 2021, the CEO's total actual remuneration of \$1.39m was 15.4 times Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics). The percentage of CEO remuneration that is performance based increased from 21.5% in FY20 to 37.4% in FY21.

Item 1	Re-election of Director – Professor Sharon Christensen
ASA Vote	For

Summary of ASA Position

Professor Christensen was appointed to the Board as an independent non-executive Director in September 2019. She is also the Chair of the newly formed People and Culture Committee and a member of the Audit and Risk Management Committee. Sharon has over 30 years of commercial, legal and regulatory experience and is a research leader in regulatory responses to digital innovation and disruption.

In the two years she has been on the Jumbo board she has accumulated 3,550 JIN shares which, at the FY closing price, represented 51% of her total remuneration. We would like to see her increase this to 100% of one year's remuneration in due course.

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO Remuneration Framework

	Target \$k	% of Total	Max. Opportunity \$k	% of Total
Fixed Remuneration	800	50%	800	50%
STI - Cash	200	12.5%	200	12.5%
STI - Equity	200	12.5%	200	12.5%
LTI	400	25%	400	25%
Total	1,600	100%	1,600	100%

The remuneration structure for Key Executive Management Personnel (KMP) has four parts:

- 50% is paid as fixed remuneration (FR) which is not “at risk” and includes base salary and superannuation.
- 25% is a short-term incentive (STI) which is “at risk” and subject to performance conditions described below. It is paid as 50% cash component and 50% restricted equity, deferred for 2 years with a clawback mechanism.
- 25% a long-term incentive (LTI) which is “at risk” and subject to performance conditions described below. It is paid as 100% restricted equity, deferred for 3 years with a clawback mechanism.
- The final component is a minimum shareholding requirement (MSR) which require the KMP to acquire a shareholding equivalent to 100% of total remuneration opportunity within 5 years. This is more a condition of employment than a remuneration policy.

Collectively, fixed remuneration, short-term incentive and long-term incentive are referred to as Total Remuneration Opportunity (TRO)

The STI hurdles have improved since FY20 and are better aligned with shareholder outcomes. 50% of STI is based on growth in Underlying NPAT with a sliding scale from 6% to 20%+ growth. The non-financial hurdles relate to domestic and international TTV or revenue growth, specific details related to Lotterywest or Gatherwell and improvements in ESG governance. The STI pool is based on growth in Underlying NPAT compared to the prior financial year.

The LTI structure is unchanged since FY20.

Last year's annual report said KMP FR would be frozen 'in light of the significant challenges that COVID-19 is posing to the Australian economy and in recognition of the hardship that many of our customers may be facing'. This year's report shows executive KMP FR is unchanged as announced however board members were awarded a \$25K FR increase upon advice from independent remuneration advisors, Crichton + Associates. This reflects additional duties for each board member arising from the resignation of two board members.

Board and executive KMP are required to establish a minimum shareholding equal to 100% of their TRO within 5 years. The CEO and those executive KMP who have been with Jumbo for some time have holdings well above the benchmark as does the Chair, Susan Forrester. More recent KMP are accumulating holdings with only Giovanni Rizzo lagging. He holds 27% of TRO after 2½ years based on the share price on 30th June 2021.

Last year the ASA voiced some concerns about the company's remuneration structure noting it was inconsistent with ASA guidelines and, in some ways, not in the best interest of retail shareholders. Some of these issues remain unresolved.

- The LTI is awarded on a 3 year performance period where ASA prefers 4 years.
- The LTI has only one hurdle where ASA prefers at least two. The LTI metric seems overly complicated and could be simplified to Total Shareholder Return (TSR).
- New shares are issued for STI & LTI where ASA prefers to buy on market to avoid dilution.

However, there has been some positive changes.

- The STI hurdle of an EPS accretive business acquisition has been replaced with measures relating to revenue and TTV growth.
- Board discretion for awarding STI & LTI remains however the wording has been changed to suggest the discretion would only be used to reduce incentives rather than to award them when they were not warranted.

While the ASA has some reservations on the remuneration framework we are encouraged by the positive improvement and are hopeful all ASA recommendations will be considered when the framework comes up for review on 30 June 2022.

Item 3	Issue of STI Director Rights to Mike Veverka
ASA Vote	For

Summary of ASA Position

Three STI hurdles were fully cleared: Lotterywest agreement, improved ESG governance & integration of Gatherwell. Three hurdles were either partially or completely missed: underlying NPAT (80%), international agreements (13%) and domestic agreements (0%).

After factoring in the weightings, the board determined that 80% of the Financial STI and 45% of the Operational STI were met and 62.5% of the maximum STI should be awarded.

Half of this incentive is payable in cash with the remaining portion payable in the form of restricted rights which vest after one year and the sale of these shares is restricted for a further year. These rights are based on the 10-day VWAP period up to June 30, 2021. New shares will be issued for STI however ASA prefers to buy on market to avoid dilution.

Item 4	Issue of LTI Director Rights to Mike Veverka
ASA Vote	For

Summary of ASA Position

LTI rights are exercisable into shares three years after being granted if the JIN share price outperforms the 15-year average of the ASX 'total return' All Ordinaries index (XAOA:ASX) and the executive remains employed by the Group at the vesting date.

As mentioned in previous financial years, ASA would prefer the financial hurdle was simplified to just TSR and a second suitable financial metric. New shares will be issued for LTI however ASA prefers to buy on market to avoid dilution.

Item 5	Issue of Special LTI Director Rights to Mike Veverka
ASA Vote	For

Summary of ASA Position

This resolution relates to special LTI Director Rights awarded to the CEO in recognition of his contribution to renegotiation of Jumbo's reseller agreement with Tabcorp. These rights were also awarded to executive KMP although that award is not subject to a shareholder vote.

There can be no doubt that renegotiating the Tabcorp reseller agreement was of significant strategic importance to Jumbo. Although the new agreement is on less favourable terms than its predecessor, it provides clarity on Jumbo's largest income stream for the next decade.

The ASA agrees those involved in the successful negotiations deserve financial recognition but held reservations about the need for special LTI rights, preferring that the agreed STI/LTI framework be used. However, the Jumbo board were able to address these concerns.

The Tabcorp agreement did not require renewal until May 2022, but negotiations were brought forward to remove uncertainty. This meant that an event expected in FY22 actually occurred in FY21. Consequently, there was no explicit mention in the FY21 STI / LTI hurdles.

It could be argued that the Tabcorp agreement fell under the domestic reseller agreement metric which the board deemed not met this year resulting in forfeiture of its associated 12.5% of STI. However, the strategic nature of the deal was better aligned to an LTI reward, hence the issue of special LTI rights to the Executive KMP, including the CEO.

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