



COVID exposes for Tabcorp

Company/ASX Code	Tabcorp Holdings (TAH)
AGM date	20 October 2020
Time and location	10am AEDT online
Registry	Link
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Michael Muntisov assisted by Christine Lai
Pre AGM Meeting?	Yes with Chair, Paula Dwyer, Director Steven Gregg, Company Secretary, Chris Murphy, Manager Investor Relations Chris Richardson and Manager Michael Patron

Note: The individual(s) (or their associates) involved in the preparation of this voting intention do not have a shareholding in this company.

Item 1	Consideration of financial report
ASA Vote	No vote required

Summary of ASA Position

Financial Performance:

Tabcorp is a gambling entertainment company in the ASX Top 100 which operates wagering and media businesses around the racing industry, gaming machines and keno-lotteries. It has long term government licences to operate in many parts of its business.

In FY20, COVID had a dramatic impact on the financial performance of the company due to the mandatory shutdown of TAB outlets and pubs and clubs, and the reduction in sporting events on which to bet. This most affected the wagering and the gaming services business. In contrast the lotteries business showed continued growth, as most lottery outlets (newsagents) remained open and an improved digital take up was achieved.

As a result, revenues were down 5%, Earnings before interest tax (EBIT) was down 30% (excluding significant items). Statutory Net Profit After Tax (NPAT) was a loss of \$870m (FY19:\$361m) due to writing down the carrying value of the wagering and gaming services businesses. Total dividend was 11 cents per share (cps) down from 22 cps, with no dividend paid in the second half.

Key Events:

The effect of the COVID pandemic was clearly the biggest influence on Tabcorp's results. This has prompted an operational review of the Gaming Services business, and a three year, enterprise-wide optimisation program has commenced.

Board and management changes:

At last year's AGM, the long-term chair Paul Dwyer announced that she would retire before the end of her term. She will step down at the end of 2020. Director Steven Gregg will take on the Chair role.

It was announced in July 2020 that CEO David Attenborough will be retiring in the first half of 2021.

Further, the annual report also announced that one-term director Vicki McFadden would retire at the AGM.

Two new directors were appointed during the year. More about them in the relevant items below.

Governance and Transparency:

Tabcorp is one of the largest political donors in the ASX. After lobbying by the ASA, Tabcorp disclosed political donations totalling \$190,000, in this year's Annual Report.

ASA Focus Issues:

In August 2020, Tabcorp announced and successfully completed a 1 for 11 pro-rata accelerated renounceable entitlement offer (PAITREO) "to strengthen the balance sheet in these uncertain times". A PAITREO ensures that retail shareholders are not disadvantaged versus institutional shareholders in the capital raising. Participation rate was about 44%. All shareholders who did not participate, for whatever reason, received the 'retail premium' of 6c per share.

Tabcorp has 38% female directors versus the ASA guideline of 30%. However, with two female directors leaving the Board by years end, the percentage will fall to 17%.

It has a policy which aims to achieve at least 40% female Non-Executive Directors by the end of FY23 and 40% of females in senior leadership positions by the end of FY21.

Tabcorp has a policy for "skin in the game" for Senior Management and Board that is consistent with ASA's preferred position

Tabcorp calculates equity remuneration at "face" value which is in line with ASA's preferred approach.

Summary

(As at FYE)	2020	2019	2018	2017	2016	2015
NPAT (\$m)	-870	363	29*	-21	170	334
UPAT (\$m)	271	398	279*#	179	186	171
Share price (\$)	3.35	4.45	4.46	4.37	4.57	4.55
Dividend (cents)	11	22	21	25	24	50 (20c underlying)
TSR (%)	-22%	5%	7%	1%	6%	52%
EPS (cents)	-43	18	1.9	-2.5	20	42
CEO total remuneration, actual (\$m)	\$2.5m	\$2.7m	\$4.1m	\$4.9m	\$3.5m	\$3.0m

*Includes part year Tatts contribution. #restated to reflect AASB15

For 2020 the CEO's total actual remuneration was **28 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2a	Re-election of Bruce Akhurst as a Director
ASA Vote	For

Summary of ASA Position

Bruce Akhurst has been a director of Tabcorp since July 2017. He has a background in Economics and Law. His executive experience includes Group Managing Director and Group General Counsel roles at Telstra.

He is currently a director of Vocus Ltd, and holds a number of directorships in private companies and Not-for-Profits.

ASA proposes to vote in favour of Mr Akhurst's re-election.

Item 2b	Election of Anne Brennan as a Director
ASA Vote	For

Summary of ASA Position

Anne Brennan was appointed to the Board in July 2020. She has an accounting background, has held senior executive roles including as CFO at CSR, and has considerable corporate governance experience including deputy chair at gambling company Echo Entertainment.

Her current director workload is significant being on the Boards of ASX-listed Argo Investments, Charter Hall Group, Spark Infrastructure and Nufarm. With her roles on the Boards of Rabobank, and NSW Treasury Corporation, her director workload is in excess of ASA guidelines.

We raised this issue at the pre-AGM meeting with the company and a separate meeting was held with Ms Brennan. She assured us that she will be retiring from Nufarm at their next AGM and from one other Board within the next 12 months. That being the case, her workload would drop to the ASA limit.

As a result, the ASA proposes to vote in favour of Ms Brennan's election.

Item 2c	Election of David Gallop as a Director
ASA Vote	For

Summary of ASA Position

David Gallop has been a director of Tabcorp since July 2020. He has a legal background, and extensive executive experience in the sporting sector. He was CEO of the NRL for ten years followed by seven years as CEO of Football Federation Australia.

He brings to the Board experience in sports administration, media rights and broadcasting, digital content delivery, and customer experience.

He holds no other Board directorships at present.

The ASA proposes to vote in favour of Mr Gallop's election.

Item 3	Adoption of Remuneration Report
ASA Vote	For

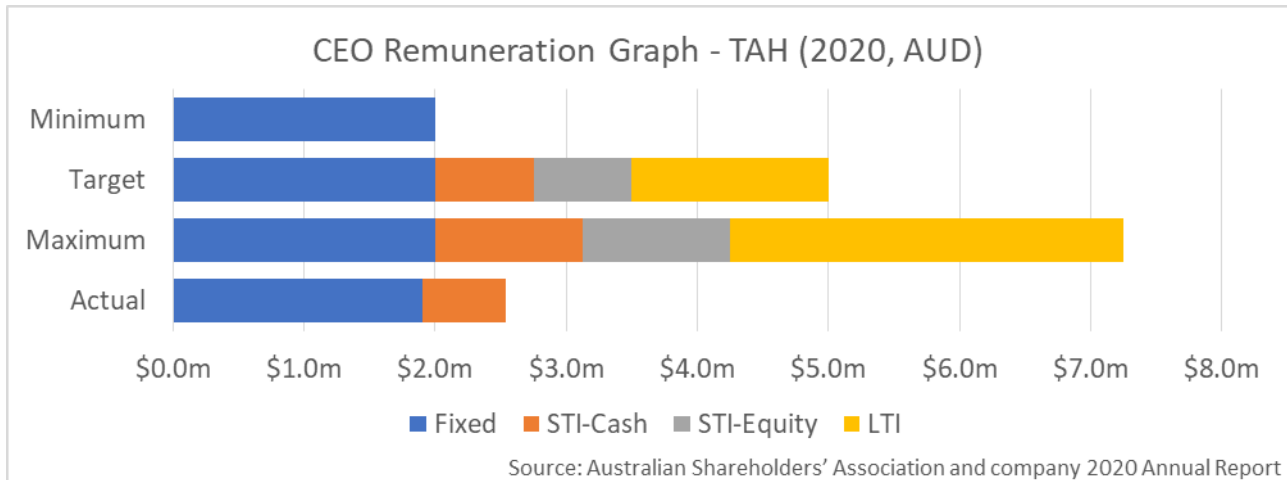
Summary of ASA Position

The report deals with remuneration outcomes for the Financial Year 2020. Tabcorp's remuneration scheme meets a number of criteria favoured by ASA including:

- Total remuneration at risk of greater than 50% (60% at target, see table below)
- Face value is used to determine number of performance grants
- 50% of the Short Term Incentive (STI) is in the form of deferred equity
- There are two performance measures for the Long Term Incentive (LTI) (Relative TSR (75%), and Achievement of Synergies (25%). The latter to be replaced by ROIC from FY21)
- Provision of an actual 'take home' table (Table 9 in Remuneration Report)

Remuneration targets for the CEO in FY20 are summarised below. Actual received was \$2.54m. The LTI rights granted in 2016 were tested this year and failed to vest, so the CEO received no benefit from the rights grant. As a result of the financial performance this FY, zero Short Term Incentive payments were made. (The STI payment shown on the chart was for outcomes from FY19)

	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.00	40%	2.0	27%
STI - Cash	0.75	15%	1.125	16%
STI - Equity	0.75	15%	1.125	16%
LTI	1.5	30%	3	41%
Total	5	100%	7.25	100%



Fixed remuneration for the Board and CEO were reduced for the fourth quarter of the financial year due to the impacts of COVID. For the quarter only, the Board reduced its fees by 10% and the CEO's fixed component by 20%.

Areas for improvement in Tabcorp's remuneration plan include:

- The LTI performance period of 3 years is less than the ASA guideline of at least 4 years

The remuneration report itself is easy to read and has some useful graphics (Diagram 2 and section 7(f)) which helps put the STI awards into perspective.

Overall, the ASA is satisfied that Tabcorp remuneration framework has responded appropriately to the financial circumstances, and although there are some areas for improvement, the ASA proposes to vote in favour of this resolution.

Item 4	Approval of LTI performance rights to CEO David Attenborough
ASA Vote	For

Summary of ASA Position

This item is for the grant of equity rights for the CEO's Long Term Incentive (LTI) component of his FY21 remuneration package. The LTI is designed to incentivise management to grow the company and its performance over the long term.

The proposed equity rights grant to the CEO is valued at \$3.0m (at face value) if all performance measures are met over the next 3 years. As mentioned earlier the ASA prefers a longer performance period.

There are two performance measures. One is a Total Shareholder Return measure relative to a set of relevant ASX peers which carries a weighting of 75%. The other is a new measure introduced this year of Return on Invested Capital (ROIC) which carries a weighting of 25%. No rights related to the ROIC measure will vest if an average ROIC return of 7.1% pa is not achieved, and all will vest if an 8.4% pa or better is achieved. The target figures have been derived from broker estimates. We are unable to establish whether these targets are reasonable or not, and this is a concern.

A broader issue is whether any rights should be granted at all, given that the CEO has announced his retirement effective from early 2021. In this case he will qualify for rights proportional to his term of service during the 3-year performance period, which we estimate to be around a quarter of the granted rights.

This approach is not unusual for “good” leavers. The issue was discussed at the pre-AGM meeting with Tabcorp. Their reasoning was that the departing CEO was incentivised to build a growth platform for the next three years, and he would qualify only for the pro-rata rights based on actual service.

Even though the ASA has some reservations, we are satisfied that, on balance, this is acceptable, and will vote in favour of this resolution. We will be asking the company at the AGM whether a 4-year LTI performance period will form part of the new CEO’s remuneration as this will influence our vote next year.

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