Australian Shareholders' Association

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Gaming wheels are rolling well at Aristocrat although 'play' on Playtech was unsuccessful

Company/ASX Code	Aristocrat Leisure Ltd (ALL)
AGM date	24 February 2022
Time and location	11am Virtual – on line
Registry	Boardroom Ltd
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Carol Limmer assisted by Sue Erbag
Pre AGM Meeting?	Yes with Board Director & Chair of HR & Rem. Committee, Ms Kathleen Conlon and Kristy Jo, Company Secretary.

The individual(s) (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

ALL made a bid of Pounds Sterling 4bn to take over UK based Playtech. The company has been forced to abandon its bid after the target's shareholders rejected the deal. ALL was going to use this plan to capitalise on North American online gambling gold rush. It would have given ALL an advantage in the quickly expanding US market. ALL CEO has said that a certain group of shareholders had a blocking stake and refused to engage with Playtech or ALL – This materially impacted on the prospects for success of ALL's offer which had been recommended by the Playtech Board. ALL cannot now make another offer for Playtech for 12 months. So this has forced ALL to have a rethink for the future. CEO has indicated that the company is not necessarily in a hurry to plug the Playtech-sized hole in its current portfolio but, going forward, can consider other mergers/acquisition opportunities. ALL will continue seeking to identify opportunities similar to Playtech.

ALL has said publicly that their focus is now shifting to accelerating plans for alternative online RMG (real money gambling) scaling options and continuing to execute their growth strategy in a way that is consistent with their rigorous investment criteria, high regulatory standards and integrity.

The $1.3bn equity raising by way of an underwritten pro rata accelerated entitlement offer with rights trading to partly finance the proposed acquisition of Playtech was successfully completed on 17 November 2021. This leaves ALL with cash reserves for other M & A s, investment in further organic growth or some return of capital to shareholders (although more immediate concern would be maintain and getting further competitive market positioning.

ALL see Hybrid AGM Meetings as the way to go in the future.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

ALL regards their company as a technology company with their main activities being design, development and distribution of gaming content, platforms and systems. This includes electronic gaming machines, casino management systems and in recent years digital social games.

The major part of their revenue is sourced from Americas, particularly USA. ALL operates in 326 licensed jurisdictions, over 100 countries and has over 7,000 employees. The company is dominant in the gaming machine market and very conscious of need to continue investing in technology and talent to remain competitive and to differentiate itself in the market.

Their strategy is well articulated.

Governance and culture

Due to the large number of jurisdictions in which ALL operates and the strict requirements from various regulators ALL is very conscious of governance, risk and compliance management. The company also has a strong regard for culture, particularly as it is seen as important in terms of attracting and retaining people in the global environment in which their business is conducted. They have good employee assistance available and access to training and personal development. ALL has gained good employee engagement results.

ALL is conscious of the need to maintain strong compliance and probity awareness is 'embedded' in all employees.

All continues to update/expand their content on issues such as responsible gaming as well as considering the increasing level of interest by stakeholders in areas such as energy and environment. They keep focussed on all elements of ESG.

ALL has 50% female NEDs on their Board of 6 directors who have a good mix of skills and experience. There is a policy regarding NEDs maintaining 'skin in the game' with shareholdings.

The Annual Report details comprehensively ALL's main risks with description of each and the management and mitigation strategies applied. These are subject to revision each year. Briefly, the current identified principal risks are – Business Resilience – Responding in the face of a Pandemic or Unplanned Operational Incident; Customer – Maintaining & Growing Gaming Customer Market Share; People – Attraction & Retention of Talent; Health & Safety – Maintaining the Health and Well-being of Our People; Cyber Security – Securing & Controlling Information Assets; Data Privacy – Protecting Sensitive Consumer and Employee Data; Global Supply Chain – Managing Global Supply Constraints; Social Responsibility – Maintaining our Social Licence to Operate; Economic & Industry Conditions – Responding to Macro & Gaming Industry Conditions; Geopolitical – Operating in Unstable Geopolitical Environments; Market & Technology Disruption – Responding to Market Disruption; Laws & Regulations – Maintaining Compliance in a Changing Gaming and Non-Gaming Regulatory Environment; Distribution Platforms – Over-Reliance on 3rd Party Distribution Platforms; Intellectual Property – Protecting our Intellectual Property.

Key Board or senior management changes - Announcement of the resignation of CFO, Julie Cameron – Doe was made in December 2021. Ms Cameron-Doe is leaving after over 8 years with the company and 4 of those years being as CFO. She is working through her 6 month contractual notice period and supporting an orderly transition process before taking up a new role as CFO at Wynn Resorts Ltd.

ALL is looking to increase their Board from the current 6 directors.

Financial Performance

See also table below.

Since year end the Share Price has declined from $46.76 to just over $41 but still considerably up on FY 2020 which was $29.85. Financial performance has been quite strong with NPAT being $496.2m better than previous year and Fully Franked Dividend is 41 cents per share compared with 10 cents for FY 200. Likewise, EPS and TSR have shown considerable improvement. ALL has good Operating Cash Flow position with lower leverage and available liquidity for M & A and continued investment. All up, their performance in the past 12 months has been very good and has shown a strong recovery since last year.

Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	853.3	357.1	752.8	542.6	495.1
UPAT ($m)	962.3	476.6	894.4	655.3	543.7
Share price ($)	46.76	29.85	30.60	28.44	21.00
Dividend (cents)	41.0	10.0	56.0	46.0	34.0
Simple TSR (%)	58.0	-2	10	38	35
EPS (cents)	133.8	56.0	118.0	96.5	77.5
CEO total remuneration, actual ($m)	7.53	4.46	5.33	4.3	3.2

For 2021, the CEO's total actual remuneration was 80.6 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Note - For May 2021, the Full-time adult average weekly total earnings (annualised, original) was $93,444 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings".

Note – The CEO and many of the other employees are based offshore where the average weekly earnings may be different.

Note – In FY20 the CEO took a 30% cut in pay from May to September 2020. No STI payment was made in FY20.

Item 2	Re-election of Mrs Arlene Tansey as a Director
ASA Vote	For

Summary of ASA Position

Mrs Tansey was appointed to the ALL Board in July 2016 and re-elected in 2019. She chairs the Audit Committee and is a member of the Regulatory & Compliance Committee.

She is formally well qualified.

She has over 30 years' experience as a senior executive in business, corporate and investment banking and financial services gained in Australia and USA as well as having extensive experience as a company director.

Mrs Tansey is currently a NED at TPG Telecom Ltd, Wise Tech Global Ltd, Lendlease Investment Management & Infrastructure NSW and former director of Adelaide Brighton and Healius Ltd. Is also a Board Member of Australian National Museum.

Mrs Tansey holds 4,750 shares in ALL.

ASA intends to support her re-election.

Item 3	Re-election of Mrs Sylvia Summers Couder
ASA Vote	For

Summary of ASA Position

Mrs Summers Couder was appointed to ALL Board in August 2016 and re-elected in 2020. She is a member of the Audit and People & Culture Committees.

She is formally well qualified.

She has over 40 years' experience as a senior executive in the high- tech industry, being a former CEO of Trident Microsystems Inc and held a number of senior management positions in research & development, operations and marketing. Mrs Summers Couder has worked in USA, Asia and Europe and currently resides in USA.

She has extensive experience as a company director, having been a NED of 7 publicly traded US companies and NED of Alcatel-Lucent SA and Headwaters Inc. She is currently a NED of Semtech Corp.

Mrs Summers Couder holds 10,650 shares in ALL.

ASA intends to support her re-election.

Item 4	**Approval for Grant of Performance Share Rights to the CEO & MD under the Long Term Incentive Plan (LTIP)**
ASA Vote	**For**

Summary of ASA Position

The proposal is that 99,320 Performance Share Rights (PSR**s)** at Face Value of USD 3.3m (AUD 4.6m) be granted to CEO & MD.

See also the table in the Appendix.

ASA has voted against proposed LTI allocation for past few years, with the grant carrying a 24.42 % vote against at the 2020 AGM. Main concern for ASA was the terms of the LTIP, particularly when taken in the context of CEO's overall quite high remuneration as well as the FY20 performance being somewhat down and obviously a disappointment to many shareholders.

As disclosed last year, there were special Equity Grants to key executives but this excluded the CEO.

The 2019 LTIP targets have been tested and award given at 67.9%.

Their performance since last year has certainly been strong. P.40 of Annual report well sets out the remuneration outcomes in FY 21 and alignment to business strategy and Group performance in Profitability & Financial Performance, Growing Adjacent Opportunities, Sustainable Core Growth, Risk management, Product Quality & Innovation, Great game Content & Customer Centric Culture and Leadership Effectiveness & High Performing People & Culture.

CEO, Mr Croker, has 502,675 fully paid ordinary shares, 145,313 LTIP PSRs which may vest after Sept 2022 and 137,905 which may vest after Sept 2023 as well as 19,457 STIP PSRs which may vest after Sept 2022 and 19,488 which may vest after Sept 2023. Therefore, he has good 'skin in the game'.

Face Value is used in allocation methodology for LTIP PSRs. There are 3 Performance Hurdles for the PSRs viz TSR – 30%, EPS – 30% and Individual Performance (referred to as 'OKR') – 40%. The last mentioned is based on a balanced scorecard approach – achieving or outperforming against objectives and key result areas over entire course of 3year performance period ie non achievement in 1 year results in ALL PSRs under that hurdle not vesting. With the TSR hurdle 50% vesting occurs at Median performance – this component could be more rigorous.

Item 5	Approval of the Aristocrat Equity Scheme
ASA Vote	For

Summary of ASA Position

This Equity Scheme is an employee equity incentive program designed to provide eligible employees with opportunity to acquire an ownership interest in ALL, providing rights to acquire shares (or an equivalent cash amount) under The Plan. ALL also offers other awards (eg special equity awards) providing PSRs as determined by the Board from time to time under the Plan. The purpose of this Plan and other awards offered under the Plan is to attract, motivate and retain eligible employees, to provide an incentive to drive continuing improvement in performance and to align their interests with those of shareholders.

Participants in ALL LTIP are not eligible to participate. The terms and conditions are governed by Rules established in August 2019 for employees.

To offer awards under this Plan to employees in California, USA there are certain securities law requirements which must be met. This includes shareholder approval. The approval must also be obtained every 10 years.

More comprehensive details of the Plan are set out in the Notice of Meeting.

ASA intends to support this proposal.

Item 6	Approval of the Remuneration Report
ASA Vote	For

Summary of ASA Position

See also comments under proposed LTI Grant to CEO – Item 4.

Last year ASA voted proxies against the Remuneration Report as it did the previous year but most shareholders were happy with it and it carried a 92% FOR vote. On the other hand, there was a high vote against the CEO's LTI allocation (which may have been influenced by the overall relatively weak performance of ALL, including decline in share price and dividend.

As disclosed last year, there were special Equity Grants to key executives, excluding the CEO, to address what was seen as an intensively competitive market for talent in their industries and fact that main competitors (and US Market generally) are seen as having opportunities at a quantum of 2 to 3 times fixed remuneration (ie much higher than the Australian market). First tranche was paid at year end with all strategic objectives being met as well as success in maintaining majority of key talent. Further details are on pp43 & 44 of Annual Report. There have not been any similar special grants this year.

ALL's remuneration arrangements are comprehensively covered in the Annual Report which is headed up by a letter from the People & Culture Committee Chair. This mentions the strong performance for the year and includes performance highlights – achievement of enhanced market position in North America Gaming Ops with a strong average fee per day and sustained momentum globally on Gaming Outright Sales markets, further growth in Digital, organic growth with continued investment in D&D and User Acquisition and maintenance of good operating cash flows and recurring revenues, prudent cost management and robust balance sheet. ALL also had pleasing employee engagement results. This has all led to generally strong STI and LTI outcomes.

Initial STI targets were revised at half year when higher than expected venues and casinos were opening globally and there was stronger than expected consumer sentiment and economic conditions. Even with the revised assumptions ALL experienced strong product performance and customer engagement with STI outcomes of between 170% and 191% STI target awards. All this was reached within a period of much disruption.

ALL does have-

- Retrospective disclosure of the actual targets set by the Board and actual performance against those targets.
- Disclosures on methodologies relating to target setting, including how hurdles are set to ensure challenging stretch targets.
- Clawback provisions.
- 50% deferral into equity on STI payments, half for 1 year and half for 2 years.

Item 7	**Approval to Increase the Non-Executive Directors' Fee Cap**
ASA Vote	**For**

Summary of ASA Position

ALL is seeking to increase the Cap from A $3.2m to $4.0m.

The last increase to the fee pool was approved at the 2018 AGM – a time when ALL was half the size it is today. Their strong growth across core and adjacent markets since then is said to have resulted in increased workload and responsibilities of the Board and its Committees. ALL anticipates that the workload will continue to increase over coming years. Whilst the Playtech bid fell through it is likely that a 'replacement' will be identified to fill this vacancy.

Other reason given are consideration of competitiveness of fees and need to have flexibility to attract global directors (including up to 2 new NEDs for the Board) and facilitate orderly Board succession planning in the future.

Overall, this proposal is considered reasonable and ASA intends to support the resolution.

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Appendix 1
Remuneration framework detail

CEO rem. Framework for FY2022	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.90	22.00	1.90	20.0
STI - Cash	1.05	12.00	2.10	20.0
STI - Equity	1.05	12.00	2.10	20.0
LTI	4.60	54.00	4.60	40.0
Total	8.60	100.0	10.70	100.00

The figures in the Annual Report and NOM are in USD. These have been converted to approx. AUD.