



## Reels Keep Rolling on ALL Gaming Machines

<b>Company/ASX Code</b>	Aristocrat Leisure Ltd/ALL
<b>AGM date</b>	Thursday 20 February 2020
<b>Time and location</b>	11am at Aristocrat H/O, Pinnacle Office Park, North Ryde NSW
<b>Registry</b>	Boardroom Ltd
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Carol Limmer
<b>Pre AGM Meeting?</b>	Yes, with Chair of HR and Remuneration Committee, Ms Kathleen Conlon, and Corporate General Counsel & Company Secretary, Mr Richard Bell

### Governance and Culture

Aristocrat Leisure (ALL) has recently introduced a policy for all Non-Executive Directors (NEDs) to accumulate a minimum shareholding equivalent to the value to their annual base fee.

Each year the company holds 3 Board meetings overseas and 4 in Australia with meetings going for 3 to 4 days. The Board takes opportunities at time of these meetings to engage with employees, customers, suppliers and other stakeholders.

3 of the 6 NEDs are female.

Due to the large number of jurisdictions in which ALL operates, they are very conscious of governance, risk and compliance. Likewise, culture is an important aspect for ALL. ALL also regards culture as critical in terms of attraction and retention of talent in a very competitive recruitment environment. Building on progress made in 2018, further sustainability disclosures were published on the ALL website. ALL has notified that in addition to updating/expanding existing content on topics such as responsible gameplay and employee relations, ALL also reported for first time on topics such as energy and environment (including climate related issues), community and society and ethical sourcing. Increased reporting is expected to be able to be included on energy, and diversity and inclusion in 2020.

### Key Board and Senior Management

Mr NG Chatfield took on the role of Chair following Dr I Blackburne stepping down from the role as well as the Board at the last AGM.

The Board has continued to implement an orderly Board renewal process with the nomination of Mr Philippe Etienne as a NED (Elect) on 1 October 2019 and then appointed to the Board in November 2019 (his appointment is subject to Election at AGM). Mr Steve Morro has announced his intention to retire as a NED at conclusion of AGM. He will continue his association with ALL as a

consultant to management. With Mr Morro's departure, Mr Pat Ramsay will assume the role of Lead US Director. ALL is looking to recruit another US-based Director.

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

### **Summary of ASA Position**

ALL regards itself as a technology company. It is essentially a slot machine manufacturer. ALL's principal activities continue to be the design, development and distribution of gaming content, platforms and systems, including electronic gaming machines, casino management systems and, increasingly, digital social games. The acquisitions of Plarium Global Ltd (free-to-play, social and web based gamed game developer) and Big Fish Games Inc (global publisher of free-to-play games with focus on specific game segments) in past couple of years have added to their Digital Segment. In a geographic sense the major part of revenue is sourced from the Americas, particularly USA. Total Revenue of \$4.4bn is split between Americas 44.3%, Digital 40.7%, ANZ 10.4% and International Class 111 at 4.6%.

ALL operates in 332 licensed jurisdictions, 80 countries and has 6,400 employees.

ALL has very few retail shareholders. Whilst majority of revenue is US-based they still remain listed on Australian Stock Exchange. Overseas shareholding is gradually increasing but currently sits at about 30%. The company will continue consider whether to list in USA but has no current intentions.

### **Financials**

Financial performance was again good overall. Operating revenue was up to \$4,397.4 m and record net profit after tax (NPAT) (\$894.4m), earnings per share (EPS) (\$140.2c) and dividend (56c) all also increased by 13.5 %, 22.9 % and 21.7 % respectively. Dividends are franked at 100%. Market Capitalisation is \$21,525m. Net Debt/Capital is 50.9%. ALL has experienced consecutive profit increases for some years now.

ALL also has strong cash flows and a relatively good Balance Sheet position.

The company has many positives including their global portfolio of licences, a broad suite of products and strong intellectual property. However, there is intense competition, as well as potential for swings in game popularity, gambler taste, customer venue finances and regulatory regimes.

Their various strategic initiatives continue to be well-managed.

## Financial Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	699.9	542.6	495.1	350.2	191.5
UPAT (\$m)	840.4	655.3	543.7	398.2	NA
Share price (\$)	30.60	28.44	21.0	15.81	17.00
Dividend (cents)	56.0	46.0	34.0	25.0	187
TSR (%)	46	38	35	87	-50
EPS (cents)	130.3	96.5	77.5	55.1	30.1
CEO total remuneration, actual (\$m)	5.3	4.3	3.20	6.8	NA

- 2016 remuneration figure relates to previous CEO
- 100% of Performance Share Rights (PSRs) have vested in years 2016 to 2019. PSRs are calculated with inclusion of share price growth.
- For 2019 the CEO's total actual remuneration was 60 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

<b>Item 2</b>	<b>Resolution 1 to 4 - Re-election/Election of Ms K Conlon, Mrs S Summers Couder, Mr P Ramsay and Mr P Etienne</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

#### Resolution 1 - Re-Election of Ms K Conlon

Appointed to Board in February 2014. Member of Strategic Risk and Audit Committees and Chair of HR & Remuneration Committee.

Holds BEc and MBA qualifications.

NED of REA Group and Lynas Corp Group, member of Chief Executive Women and AICD (incl their Corporate Governance Committee), former NED of CSR Ltd and former Partner & Director of Boston Consulting Group.

Well qualified and experienced – ASA supports her re-election.

#### Resolution 2 – Re-Election of Mrs S Summers Couder

Appointed to Board in September 2016. Member of Audit and HR & Remuneration Committees and Chair of Strategic Risk Committee.

Holds Dip Electrical Engineering and Masters in Electrical Engineering & Computer Sciences, Cycle de Perfectionnement Option (Equivalent MBA) qualifications.

NED of Semtech Corporation, former NED of Alcatel Lucent SA and Headwaters Inc and former CEO of Trident Microsystems Inc.

Well qualified and experienced – ASA supports her re-election.

### **Resolution 3 – Re-Election of Mr P Ramsay**

Appointed to Board in October 2016. Member Strategic Risk and Audit Committees and Chair, Regulatory & Compliance Committee.

Holds BA, Economics and MBA qualifications.

Consultant, EPR Properties (publicly traded REIT), Board of Trustees for Meadows School (Las Vegas, USA), Executive Committee Member for the TPC Shriners Hospital, former NED of VizExplorer, former Chief Digital Officer of ALL and former CEO of Multimedia Games as well as various senior roles at Caesars Entertainment.

With Mr S Morro stepping down from Board at AGM Mr Ramsay will take up role of Lead US Director.

Well qualified and experienced – ASA supports his re-election.

### **Resolution 4 – Election of Mr P Etienne**

Appointed to Board in November 2019 (up for election at this AGM). Member of HR & Remuneration and Regulatory & Compliance Committees.

Holds Grad Dip Marketing, BSc and MBA qualifications.

Chairman, ANZ Terminals, NED of Lynas Corp and Cleanaway Waste Management Ltd, former MD & CEO of Innovia Security P/L, former NED of Sedgman Ltd and various senior executive roles at Orica Ltd.

Well qualified and experienced and has complementary skills for Board (seasoned international business leader, good NED experience and possesses Strategic and technology skills and international perspectives. ASA supports his election to the ALL Board.

<b>Item 3</b>	<b>Resolution 5 – Approval for grant of Performance Share Rights (PSRs) to CEO and MD under the Long Term Incentive (LTI) Program</b>
<b>ASA Vote</b>	<b>Against</b>

### **Summary of ASA Position**

The proposal is for 145,313 PSRs at value of \$3m allocated using Face Value calculation methodology.

ASA voted Against proposed LTI allocation last year with the grant carrying a 26.51 % vote against. CEO was granted 116,390 PSRs last year with that allocation being based on a Face Value approach. His Fixed Remuneration was \$1.66m (including \$37,939 in relocation type costs) with short-term incentive (STI) at target of 100% and maximum of 200%. STI for the year was \$2.022m. There is a 50% deferral on STI payment, 50% for 1 year and 50% for 2 years. STI potential is high but aligns with the advice ALL receive for their US based people (CEO is US based) for variable pay (both STI and LTI).

With LTI there are 3 Performance Hurdles viz total shareholder return (TSR) (30%), Adjusted EPS (30%) and Individual Performance (3-year consistent level of performance) which is 40%. They have now changed the Adjusted EPS (EPSA) to EPS. However, their 3-year Performance Period for the hurdles is still in place as is 50% award at median TSR attainment. (Comparator Group is S&P/ASX100). The EPS component is fairly rigorous as is the Individual Performance component but this last component which has a service based aspect does not align with ASA guidelines. ALL has stated that in the Technology sector over 80% in USA have Time-Based LTIs and generally LTIs are 'in the money' at lower levels of performance in USA as compared to Australia.

The CEO holds 315,611 PSRs and 306,227 ordinary shares.

2017 LTIs vested at 100%.

Whilst appreciating the USA remuneration situation, overall, ASA doesn't consider we can support incentives paid for staying in the job.

<b>Item 4</b>	<b>Resolution 6 – Approval of SuperShare Plan</b>
<b>ASA Vote</b>	<b>For</b>

#### Summary of ASA Position

This is being proposed to shareholders as it is a requirement under Californian USA regulations for Share plans for employees based in that State (ALL has a large number employed there eg Big Fish).

The plan is global. It provides opportunity for employees to invest up to 20% of after-tax remuneration and ALL gives a proportionate number (one for every share purchased) of additional rights to receive fully paid ordinary shares for no additional consideration.

Full details are provided in the notice of meeting (NOM).

<b>Item 5</b>	<b>Resolution 7 – Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

#### Summary of ASA Position

For LTI details – See Item 3 Above. On positive note ALL has adopted the following-

- After feedback from stakeholders have transitioned from a Relevant EPSA to a Relevant EPS hurdle with LTIs.

- Introduced retrospective disclosure of the actual quantitative STI targets set by Board together with disclosure of actual performance against targets.
- Expanding disclosures on methodologies relating to target setting, including how hurdles are set to ensure challenging stretch targets as well as factors RR & Remuneration Committee and Board take into account in setting stretch targets.
- Strengthening clawback provisions that apply to unvested and vested incentives and including additional governance features into process of testing incentive grants to continue to ensure a link between remuneration and risk.
- Implementing minimum shareholding policy for NEDs.

Also, there is 50% deferral on STI payments – half for 1 year and half for 2 years. With LTIs Face Value approach is used.

However, as noted under Item 3 with LTIs there is a performance period of 3 years only for LTIs, 50% vesting at median for TSR and 40% of allocation is based on Individual Performance – whilst this requires sustained performance 3 years it is still to some degree based on time served. While understanding that they compete against some global technology type companies for talent, remuneration is not only high but LTIs are essentially drip fed on an annual basis – ie allocation set at Year 1 and a percentage is vested each year for 3 years (which aligns with their major US-based competitors).

AT the pre-AGM ASA representatives queried whether the PSRs could have a holding lock for a further year but ALL said that to do this would require a larger LTI allocation up front to meet their competitive remuneration situation.

Last year ASA voted against the Remuneration Report with 8.03% overall vote against.

It is proposed that ASA again vote against the Report based on conflict with ASA Guidelines.

#### Remuneration framework

CEO	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Rem	1.63	24	1.63	19
STI – Cash	0.815	12	1.63	19
STI – Equity	0.815	12	1.63	19
LTI	3.54	52	3.54	42
<b>TOTAL</b>	<b>6.8</b>	<b>100</b>	<b>8.43</b>	<b>100</b>

<b>Item 6</b>	<b>Resolution 8 – Renewal of Proportional Takeover Approval Provisions</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Under Corporations Act, proportional takeover approval provisions expire three years from adoption/renewal and then may be renewed. ALL's proportional provisions will cease to operate from February 2020 and so company is seeking shareholder approval. The proposed provisions are identical to those previously adopted by the company.

Whilst similar takeover approval provisions have been in effect there have been no full or proportional bids for ALL. Therefore, there are no examples to review advantages/disadvantages against. However, potential advantages/disadvantages for shareholders are shown in NOM.

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