

Frenzy for large jackpots powers TLC returns

Company/ASX Code	The Lottery Corporation Limited/TLC
AGM time and date	Tuesday, 10am 1 October 2024
Location	Melbourne, The Events Centre, Tower 2, Level 5, 727 Collins St
Registry	Link Market Services
Type of meeting	Physical with webcast (pre-submitted web questions only)
Monitor	David Loosemore assisted by Alison Prentice
Pre-AGM Meeting	Yes with Doug McTaggart (Chairman) and Director Harry Boon (Remuneration Chair)

Monitor Shareholding: The individuals involved in the preparation of this voting intention have a beneficial shareholding in this company.

1. How we intend to vote

No.	Resolution description	
1	Financial Statements and Reports	No vote required
2	a) Election of Mr Stephen Morro b) Re-election of Dr Doug McTaggart c) Re-election of Ms Megan Quinn	For For For
3	Adoption of Remuneration Report	For
4	Grant of Performance Rights to MD & CEO	For
5	Renewal of Proportional Takeover Provisions	For

There is a webcast but online questions can only be submitted prior to the meeting.

2. Summary of Issues and Voting Intentions for AGM

- Fiscal Year 2024 (FY24) earnings growth exceeded initial expectations mainly due to enthusiastic customer responses to larger jackpots.
- ASA supports the AGM resolutions. The AGM is being held away from Brisbane head office, in Melbourne, and would be better run as a hybrid meeting (questions during the meeting will only be taken from the floor). ASA has pointed out to the company that the Board skills matrix could identify individual directors and we would prefer that a director increases her shareholding for investor alignment.

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

3. Matters Considered

Accounts and reports

The Lottery Corporation (TLC) demonstrates a robust track record in managing lotteries and Keno across Australia, holding long-term licenses in all states except Western Australia. However, long-term growth prospects appear constrained, as evidenced by a high dividend payout ratio relative to operating profits. The company's return on equity remains elevated, primarily driven by the derecognition of substantial intangible assets upon demerger and a substantial debt load, which is underpinned by resilient cash flows.

FY24 marked a recovery phase from the previous year, bolstered by the strong performance from popular high-value Oz Lotto and Powerball draws.

TLC is positioned to bid for any new or extension of lottery licences such as possibly in Victoria. This would require a capital outlay that would potentially dilute the current return on capital.

Financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	414.0	264.8	346.6	N/A	N/A
UPAT (\$m)	411.8	339.4	373.2	N/A	N/A
Share price (\$)	5.07	5.13	4.52	N/A	N/A
Dividend (cents)	18.5	15.0	N/A	N/A	N/A
Simple TSR (%)	2.4	16.8	N/A	N/A	N/A
EPS (cents)	18.6	11.9	15.6	N/A	N/A
CEO total remuneration, actual (\$m)	2.599	1.896	2.071	N/A	N/A

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Governance and culture

From reports and meetings, TLC shows a culture of openness and respect for all its stakeholders and demonstrates a commitment to good governance practices.

The Corporate Governance Statement includes a skills matrix for directors, categorising their technical skills and experience as High, Practiced, or Awareness. (Note: Last year's matrix used "Developed" or not Developed.) However, the skills matrix has limitations:

1. It does not identify individual directors.
2. The matrix provides limited information on how specific directors up for election contribute to the Board's overall skillset.

ASA believes this approach offers limited value to shareholders in objectively assessing individual directors' skills and experience. For a more comprehensive evaluation, shareholders are advised to refer to:

1. Director summaries in the Annual Report.
2. Information provided in the Notice of Meeting for the directors that are subject to election.

These sources offer more detailed and useful insights into each director's qualifications and potential contributions to the Board, that could have also been provided in the skills matrix.

This was raised with TLC, which advised in the pre-AGM meeting that the Board was concerned that identifying strengths of individual directors could result in third party reports holding individual directors responsible for TLC outcomes, rather than the Board of Directors, which is accountable as a whole. However, individual strengths of directors are identified as noted above, but just not in the skills matrix.

Key events

The Federal Government has initiated a review into the regulation of online keno and foreign-matched lotteries. This review aims to address concerns about online gambling harms and assess the impact of these products on the community, including vulnerable Australians and small businesses. The implications for TLC have not yet been determined, but it might limit the incursions in recent years of foreign lottery sales.

Key board or senior management changes

Non-executive director (NED) Doug McTaggart was elected Chairman in March this year, following the retirement of Steven Gregg as director and Chair, in a move to manage his workload on taking the role of Chair at Westpac.

Sustainability/ESG

TLC's social licence to operate the lotteries and keno is critical, and it has a comprehensive sustainability strategy to achieve a positive impact, despite being in the business of gambling.

In consultation with key researchers, TLC has developed various intervention measures for harm minimisation. It also has programs in place for data protection and cybersecurity. TLC contributes to the community through taxes, donations and commissions to newsagents. Due to its low capital intensity, its environment footprint is low, and it has a plan to achieve net zero emissions by 2030.

4. Rationale for Voting Intentions

Item 2(a) Election of Mr Stephen Morro as Director (for)

Stephen Morro was appointed as NED on 11 December 2023 (previously an observer) and stands for election.

He has over 30 years' experience in gaming and entertainment industry including 10 years as NED at Aristocrat Leisure Ltd from 2010 to 2020. He is NED of Light and Wonder and appears to have sufficient time to fulfil his duties. He holds a Bachelor of Arts – Business Administration and contributes to the Board with his gaming and entertainment industry experience and leadership in ASX-listed companies.

Item 2(b) Re-election of Dr Doug McTaggart as Director (for)

Doug McTaggart has been a NED of TLC since October 2022 and was elected Chairman by the board in March 2024 when Steven Gregg moved to Chairman of Westpac. Following his appointment he retired as NED at Suncorp Group. He is also Chairman of Indigenous Business Australia Asset Management. He appears to have sufficient time to fulfil his duties.

Dr McTaggart has an extensive experience as a NED and contributes to the Board as leader in finance, treasury, risk and compliance, notably CEO of Queensland Investment Corporation, Queensland State Government Under Treasurer, a member of the Council of Australian Governments and Professor of Economics at Bond University. He holds a Master of Arts (Economics) PhD and is a Life Fellow of the Australian Institute of Company Directors.

Item 2(c) Re-election of Ms Megan Quinn as Director (for)

Megan Quinn was appointed as a NED of TLC in October 2022. She is also a NED of Reece Ltd and City Chic Collective Ltd and a former NED of Invocare Ltd. She appears to have sufficient time to fulfil her duties.

Ms Quinn is identified as contributing experience in customer focus, innovation, global brand, digital transformation and experience as an NED to the Board. She co-founded international online retailer Net-a-Porter and has more than 30 years' experience as a leader across a range of industries. Ms Quinn is a Graduate Member of the Australian Institute of Company Directors.

Megan Quinn holds shares to the value of less than a quarter of her Non-executive Director (NED) fees and we encourage her to increase her shareholding to further bring her interests into line with other shareholders and the TLC policy on Directors increasing shareholding over time.

Item 3 Adoption of Remuneration Report (for)

TLC's remuneration structure is generally well laid out from page 54 in the Annual Report and appears to align management's interests with shareholders. The CEO's compensation is about average for companies of a similar size in the Australian market, consistent with an improvement of company performance over the past year. The Board has used considered judgement to award 108 % of target, which is supported.

The STI hurdles are described in detail from page 61 in the scorecard assessment of the Remuneration report including EBIT threshold gateway, individual key performance indicators, and a sustainability modifier.

ASA policy favours LTI measurement periods of four or five years instead of TLC’s three, but there is an additional one-year holding lock that would operate as a clawback if adverse events occur during the fourth year justifying a clawback (eg misconduct or termination for cause).

Item 4 Grant of Performance Rights to Managing Director and Chief Executive Director (for)

The first LTI performance measure is relative TSR against other companies in the ASX100 excluding metals, mining and energy. In FY24, an addition provision added was a positive absolute TSR gateway. In FY25, TLC Board has adopted a second financial measure being Return on Invested Capital (ROIC). Last year the ROIC measure was considered and not adopted by the Board due to concern over goodwill accounting and that limitations of EPS would not adequately measure the performance. With encouragement from shareholders, it is now included, with the condition that the Board would use judgement if the measure was impacted by an event such as a licence acquisition. Supported.

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Appendix 1 Remuneration framework detail

CEO rem. Framework for FY25	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.550	33%	1.550	22%
STI - Cash	0.776	17%	1.164	17%
STI - Equity	0.776	17%	1.164	17%
LTI	1.550	33%	3.110	46%

Total	4.652	100.0%	6.988	100%
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The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.
 *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration framework set a maximum opportunity amount, but not all.