



# Tabcorp (TAH AU)

Australian wagering monopoly recovering from COVID-19, helped by new regulation



ASIAN  
CENTURY  
STOCKS

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# Summary

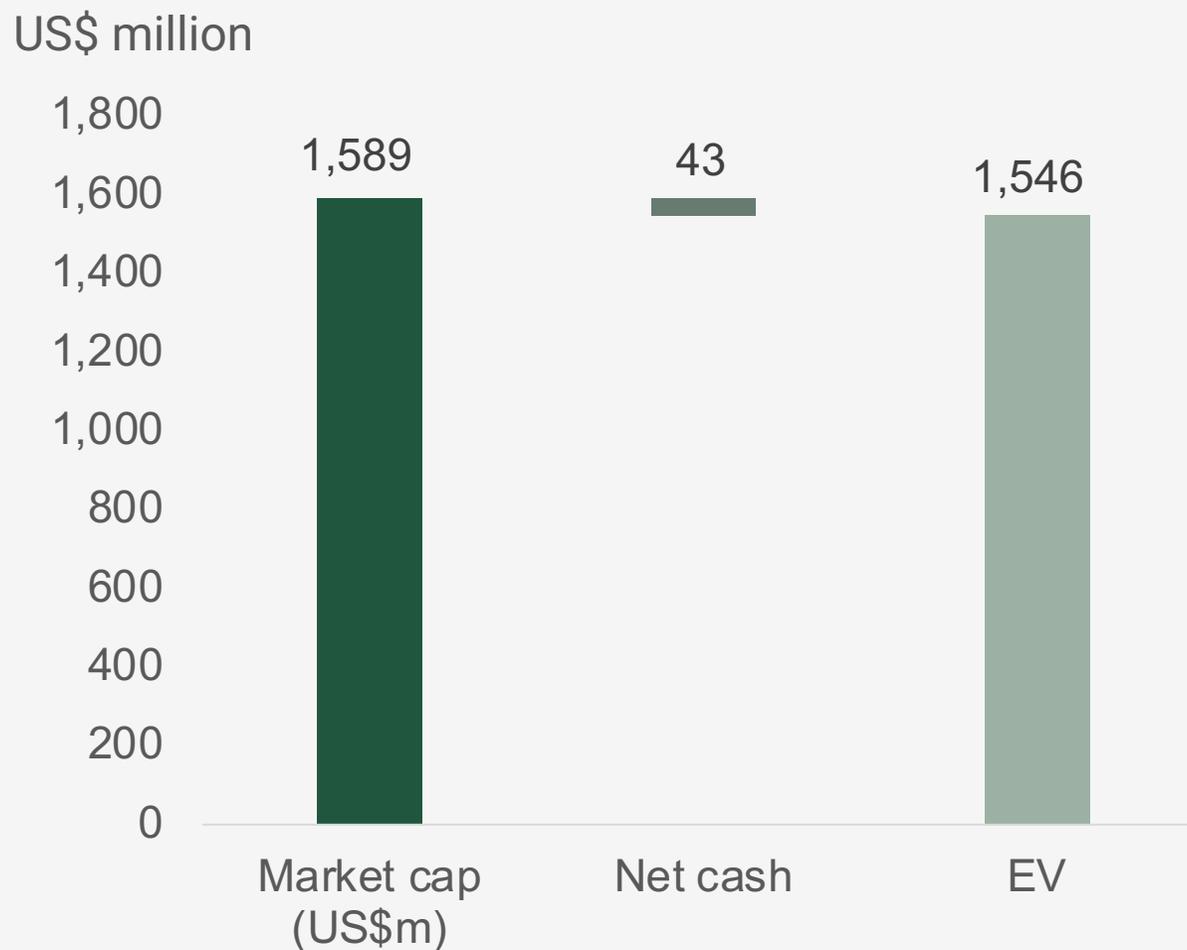


1. Tabcorp is the second-largest operator in Australia's wagering industry, with 4,300 venues offering punters the ability to bet on horse races and other wagers. It holds exclusive retail and totalisator licenses across all Australian states and territories, except Western Australia.
2. The company in its current form was created through the demerger from The Lottery Corporation (TLC AU) on 24 May 2022. Most investors preferred to reinvest their capital into the lottery business, as it's seen as a higher quality business. The assets remaining with Tabcorp include the wagering business, related media operations and an electronic gaming machine service operation. Crucially, almost all of Tabcorp's previous debt moved to the new lottery entity, leaving Tabcorp virtually debt-free.
3. Superficially, it looks like Tabcorp is a troubled business. Government mandated store closures related to COVID-19 put a dent in Tabcorp's earnings. Digital competitors and Northern Territory bookmakers have been able to offer gamblers better odds since they're not burdened with Tabcorp's higher taxes and product fees.
4. Now that Tabcorp has become an independent entity with a new management team, things are starting to change:
  - Omicron may have led to herd immunity, with COVID-19 becoming an endemic disease. Further shutdowns of retail outlets are becoming less likely.
  - Tabcorp is pushing hard for regulation to equalise the playing field, with new regulation in Queensland, NSW and ACT helping Tabcorp gain share
  - The introduction of a more customer-focused organisation, and a completely new wagering app will help Tabcorp become more competitive
5. The current enterprise value is around AU\$2.3 billion, for a forward-looking EV/Sales multiple of 0.9x vs the peer group's 2.5x. Apollo recently bid AU\$4.0 billion for Tabcorp, though any takeover would have to go through several regulatory hurdles. Similar transactions have taken place at 10x EV/EBITDA, which would suggest an A\$5.0 billion valuation.
6. The key risks are from online competition, an upcoming 2024 license renewal in the state of Victoria as well as any delays in the recovery from COVID-19.



# Tabcorp has a clean balance sheet

- Share price: AU\$1.04
- Shares outstanding: 2,280 million
- Market cap: US\$1,589 million
- Net cash: US\$43 million
- Enterprise value: US\$1,546 million
  
- Daily trading volume: US\$9 million



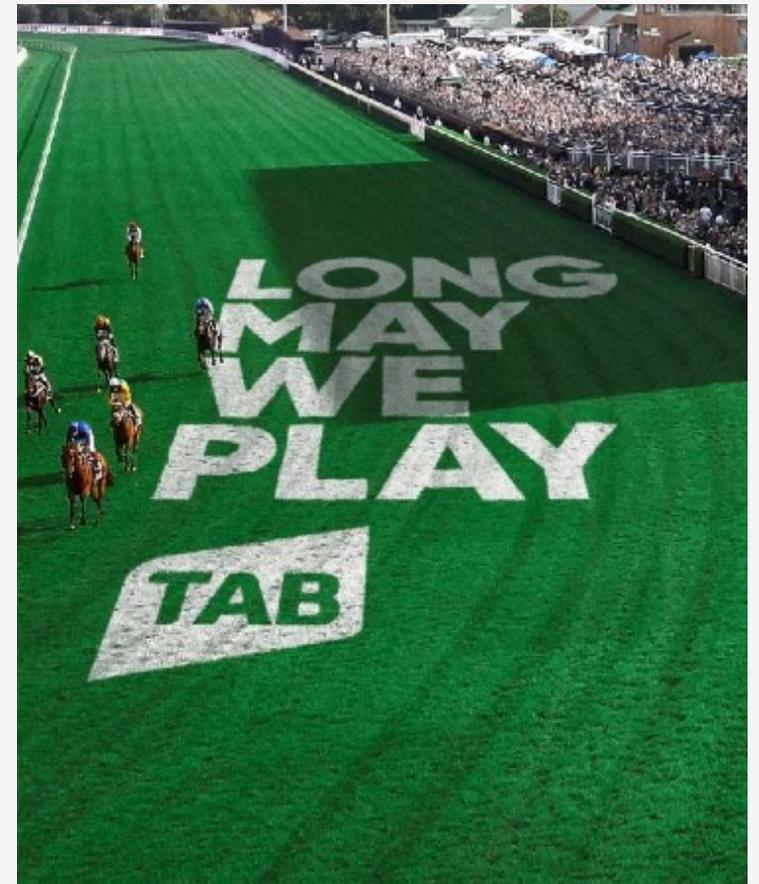
\* AU\$ = Australian Dollar. AU\$/US\$ = 1.49

## Business overview

Tabcorp



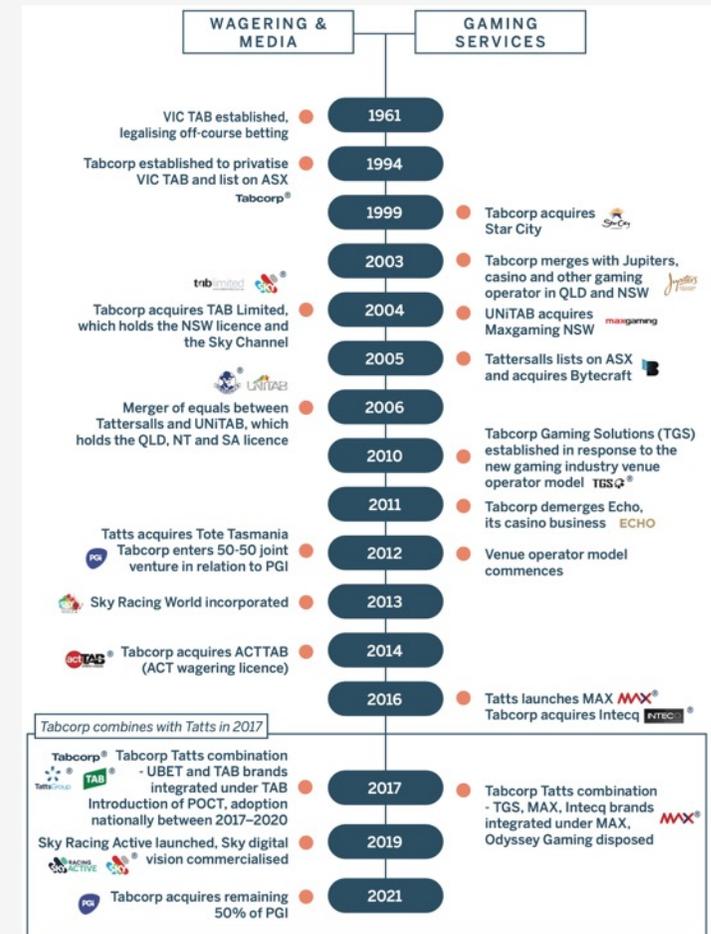
- Tabcorp is Australia's largest gambling company with a 57% market share and significant presence in the key states of New South Wales and Victoria. It relies on government-issued licenses from each state to run its business. The company has a headcount of 3,357 employees.
- The business grew from a government-run "totalisator business" in Victoria in 1961 called the "Totalisator Agency Board" (TAB). Since then, it has slowly consolidated most of the industry.
- Today, Tabcorp has 4,257 on-course and retail venues under the "TAB" brand offering wagers on horse races, sports games, etc. These venues take in 1.1 billion bets annually across over roughly 1.9 million wagering customers and 783,000 digital customers.
- Tabcorp's retail venues were hit by online competition during COVID-19. During the recent pandemic period, close to 2/3 of wagering turnover came from digital channels.



# Victoria's "Totalisator Agency Board" consolidated Australia's horse race wagering industry into a single entity called Tabcorp



- Tabcorp was created in **1961**, when Australia's Victoria state established its "Totalisator Agency Board" (TAB) to legalise off-course totalisator betting. Totalisator betting – also known as "tote" – is a device used at race tracks to calculate and display odds or payoffs for each horse. TAB was at the time fully owned by the Victorian government.
- In **1994**, Tabcorp listed on the ASX
- The acquisition of Star City Holdings – owner of a casino in Sydney – took place in **1991**
- Structured Data Systems which had developed wagering and Keno systems was acquired in **2000**
- Tabcorp merged with Jupiters in **2003**.
- In **2004**, Tabcorp took over Sky Channel, a TV channel used to show horse races and the same year it also entered the New South Wales wagering market.
- Tabcorp's gaming services business was launched in **2010** as "Tabcorp Gaming Solutions" (TGS), now renamed MAX.
- In **2011**, Tabcorp spun off its casino operations, and listed under the name of "Echo Entertainment"
- In **2014**, Tabcorp consolidated Canberra's monopoly wagering operator ACTTAB into the business
- In **2017**, Tabcorp merged with Tatts Group, a company that had operating a similar wagering business in Queensland as well as lotteries businesses in New South Wales and Tasmania. Tatts' UBET operations were rebranded as TAB in **2020**.
- Finally, in May **2022**, Tabcorp's lottery and Keno division was spun off as a separate entity called The Lottery Corporation under the ticker TLC AU.

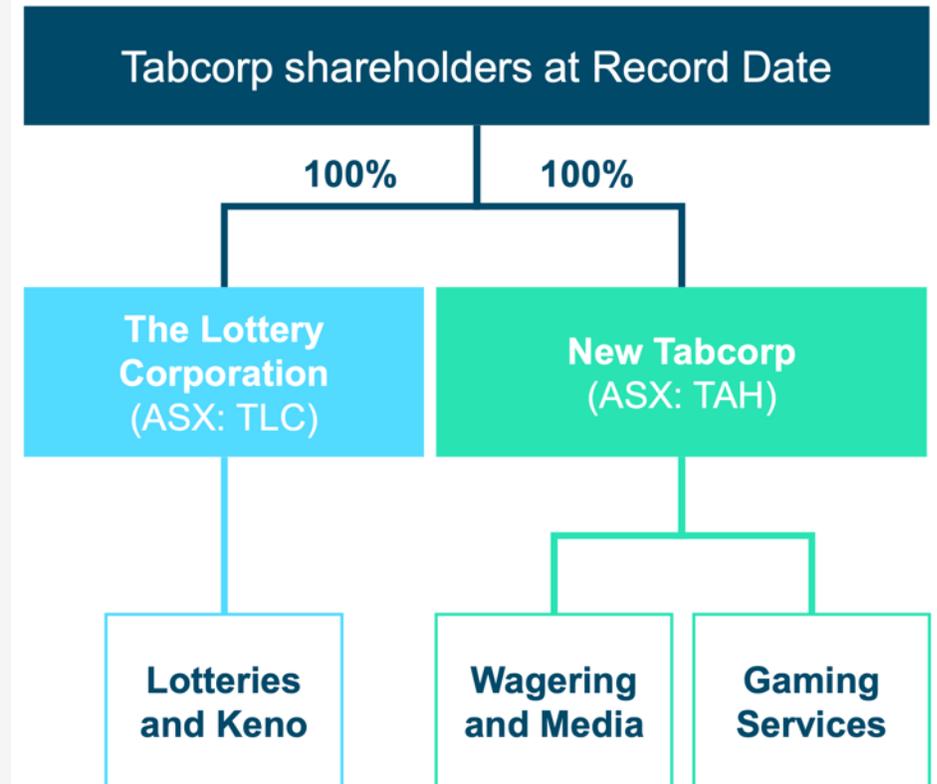


# The recent spin-off / demerger from The Lottery Corporation

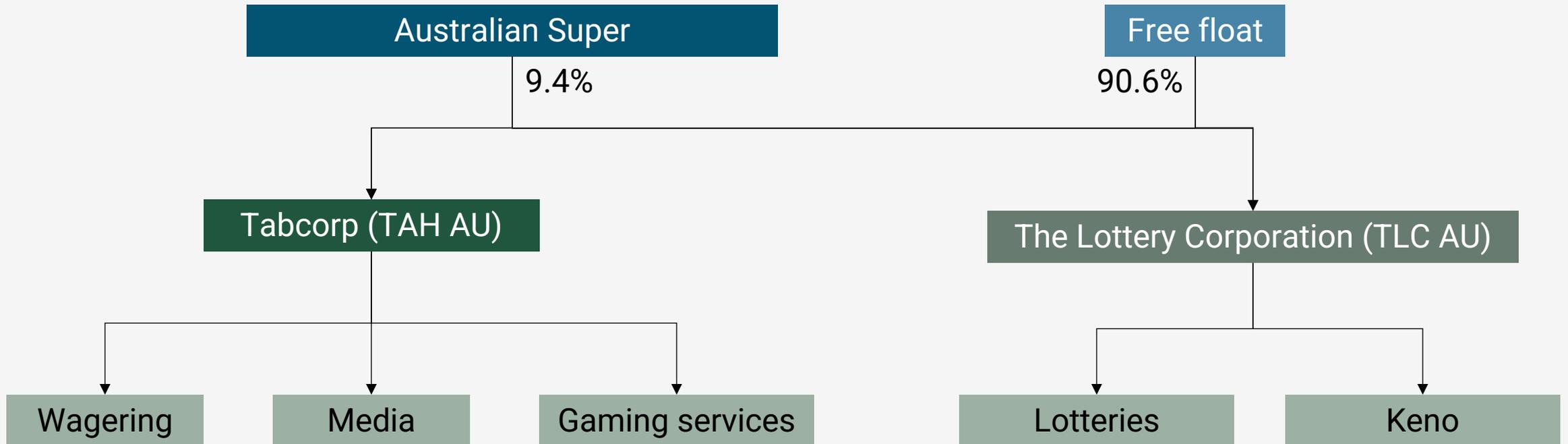


- On 24 May 2022, Tabcorp spun off its lotteries and Keno businesses into a separate ASX-listed entity called The Lottery Corporation with ticker “TLC AU”.
- Existing shareholders received one TLC share for every Tabcorp share they held previously.
- The rationale behind the spin-off was the following:
  1. Optimised capital structure for each: higher leverage for the more stable lotteries business
  2. The company believed that the two separate businesses would be valued higher on a stand-alone basis, possibly by facilitating a takeover
  3. New focused management teams for each
- The Lottery Corporation took over most of the net debt of the group, roughly AU\$2.2 billion excluding leases, leaving New Tabcorp virtually debt-free.
- New Tabcorp has new AU\$400 million + AU\$550 million revolving facilities but they remain undrawn. Today, New Tabcorp still enjoys a net cash position.
- It’s uncertain whether New Tabcorp will remain a constituent of the S&P/ASX 100 index

## POST DEMERGER STRUCTURE



Post-spin shareholders are the same as those of Lottery Corp... i.e. no strong controlling shareholder in either case





# Totalisator betting vs fixed odds betting

## Totalisator / "tote" / pari-mutual betting

- All bets are placed in a pool
- The house take is removed
- The pool money is shared amongst winning bets
- Low risk for the operator
- Totalisator = a device that calculates and displays bets already placed

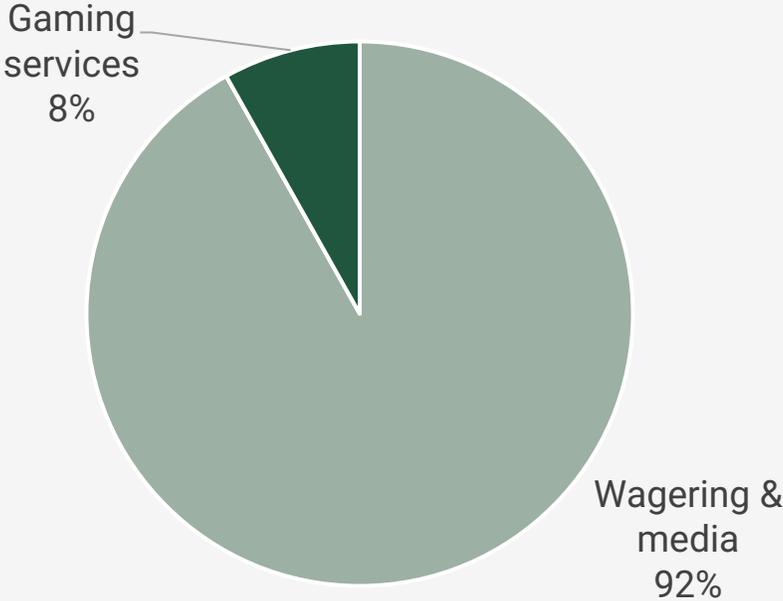
## Fixed odds betting

- Punter knows exactly what odds he or she will receive
- Odds can shift over time
- Bookmaker is taking a risk on the outcome

# Tabcorp provides wagering-, horse racing media- and gaming machine monitoring services for Australian customers



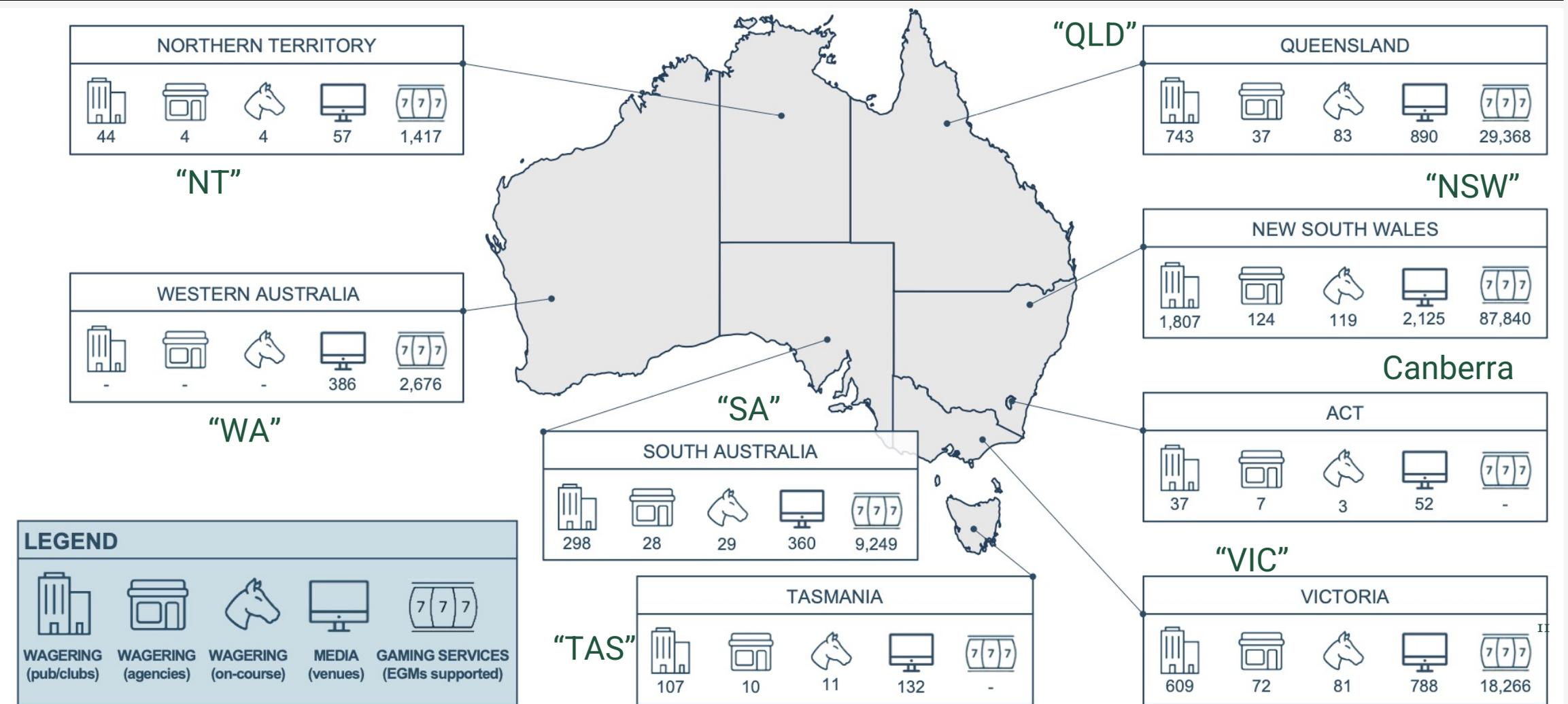
Revenues by segment



Revenues by geography



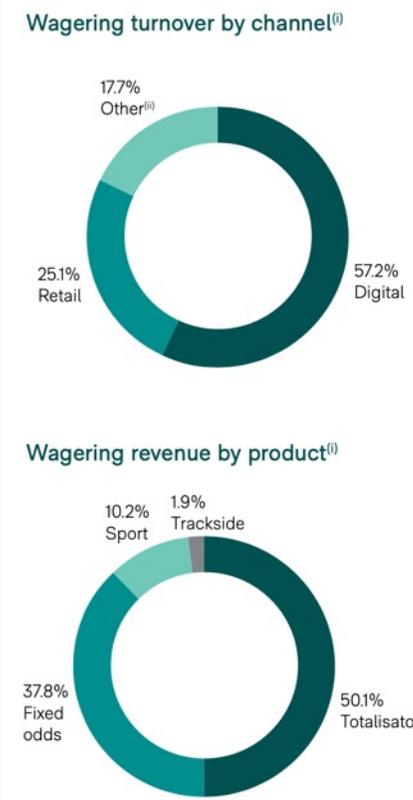
# National footprint: Tabcorp has particular strength in Eastern Australia: New South Wales, Queensland and Victoria



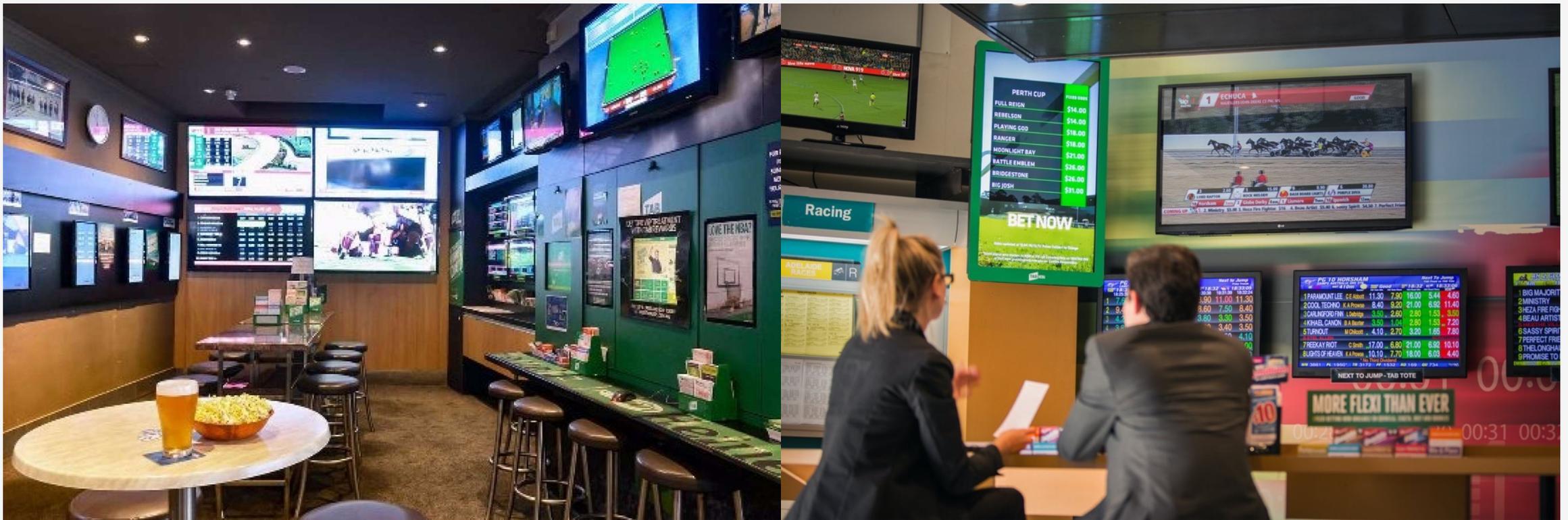


## I. Wagering assets

- Tabcorp's wagering business offers customers the ability to place bets on horse races, sports games and other wagers across 4,000+ retail venues such as TAB agencies, hotels, pubs, clubs and on-course (race track) operations. The company also has a website, an app and call-centre platforms where you can also place bets.
- The company has exclusive retail wagering operator licenses in every Australian state except Western Australia. The terms of those licenses vary from state to state. Most of Tabcorp's licenses last for another 40-80 years.
- Roughly half of Tabcorp's revenues today comes from online sources, though those numbers are most likely exaggerated by COVID-19-related restrictions.
- Half of wagering revenue comes from totalisator betting and 38% from fixed odds services.



# 1.1. Typical TAB wagering venues



## 2. Tabcorp's media business: TV channels, radio stations, tote hub



- Tabcorp's "Sky" media business is the exclusive owner of racing-related media rights in Australia, with an audience of 2.6 million people through its platform partner Foxtel.
- Tabcorp's media assets include:
  - Sky 1/2:** Horse racing and sports broadcasting distributed close to 4,790 agencies and licensed venues across Australia, as well as to in-home pay-TV subscribers and app users 24 hours a day, 7 days a week. Covering 140,000 events per year.
  - Sky Thoroughbred Central:** Thoroughbred racing from Australia and internationally.
  - Sky Sports:** Broadcasting US events through US sports partnerships with the NBA, MLB and NFL.
  - Sky Sports/RadioTAB radio networks:** Distributed to NSW/ACT/QLD/TAS/NT
  - Sky Racing/-World:** Sky Racing World is a US subsidiary distributing content from Asia to the Americas. Sky Racing is distributed to 65 other countries.
  - Premier Gateway International ("PGI"):** Operates an international wagering and tote pooling hub. Operates 24 hours per day. It's a B2B enterprise serving wagering operators to connect to networks of global tote pools, primarily for horse racing.
- Tabcorp generates revenue from agency and venue subscriptions. There's a fixed fee for access and a variable fee linked to wagering activity.



### 3. Gaming services, for electronic gaming machines (“EGMs”)



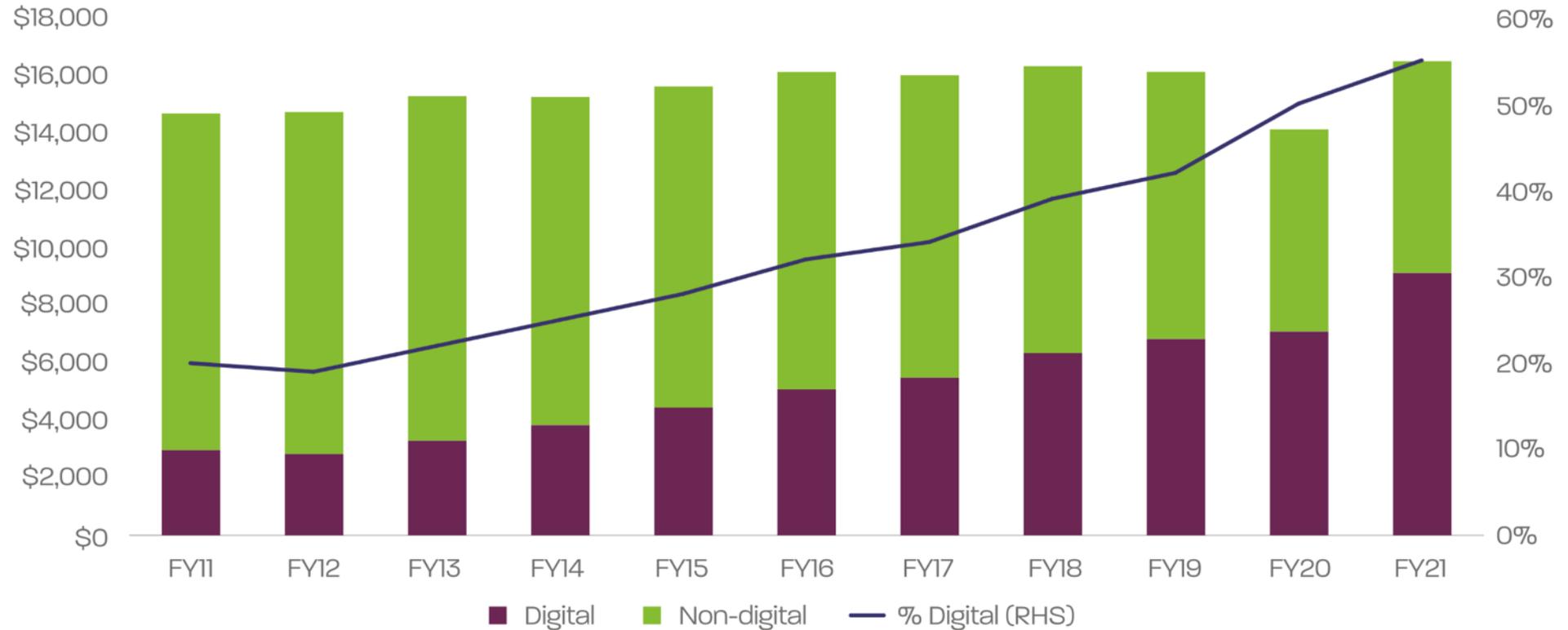
- Tabcorp’s MAX (previously “TGS” + Tatts Group gaming services business) is the leader in Australia’s gaming services industry, providing solutions to 3,955 retail venues such as clubs and hotels and the government regulator:
  - **Regulatory services:** Electronic gaming machine monitoring, to ensure compliance with laws. 100% market share in NSW and Northern Territory and 73% market share in Queensland. Exclusive in NSW until 2032 and indefinite renewal capacity in NT/QLD.
  - **Performance solutions:** Procurement and financing support to venues through electronic gaming machine leasing. Half are contracted out to 2027-2030.
  - **Technical services:** Provides customers 24/7 on-site technical support and maintenance of electronic gaming machines and wagering terminals and transaction devices. 570 employees and 350,000 service call-outs per year.
  - **Integrated systems:** Develops and markets technology solutions for venues to improve their performance
- So Tabcorp doesn’t operate the EGMs, it only provides services to the operators such as pubs or casinos.



# Save for disruptions during COVID-19, Tabcorp's wagering turnover has been broadly stable, with increasing contribution from digital



TAH Wagering Turnover (\$m)



Source: Company filings.

Source: Airlie Funds Management

# Competitive advantages

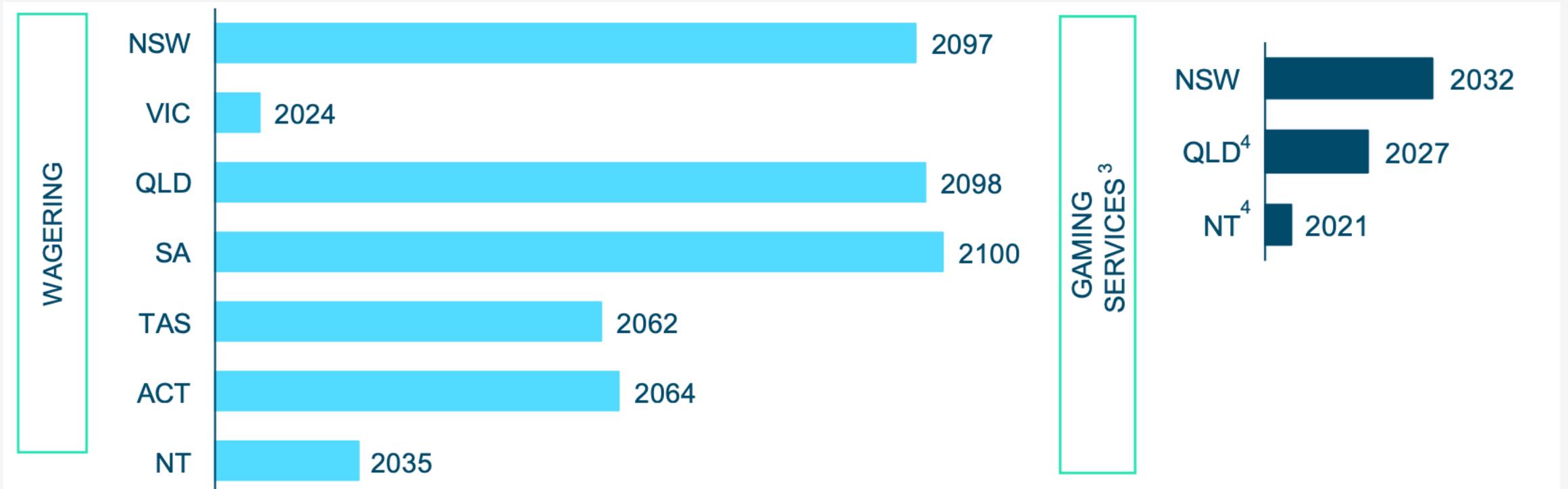


- **Exclusivity through licenses:**
  - Tabcorp has exclusive retail licenses in all states and territories except Western Australia.
  - Tabcorp is the only provider of aggregated racing vision services (=television channels and live streams) in Australia across all states.
- **Brand name:** Surveys show that 71% of Australian citizens know about the Tab brand name, suggesting significant mindshare in the Australian gambling industry.
- **Low-risk business model:** Since totalisator betting are not on a fixed-odd basis, they are extremely low risk. The house takes a cut of the pooled bets, and the pool money is then distributed equally between all winning bets. That makes that Tabcorp doesn't really take much risk in its gambling business.
- **Synergies:** There are clear synergies between the media channel and Tabcorp's wagering business, enabling its retail venues to offer the best horse racing channels not available elsewhere, and Sky promoting the TAB brand. Tabcorp also sells streaming of races to competitor Betcorp. The media business now makes a large portion of Tabcorp's variable earnings, suggesting that it has a competitive advantage in this segment.
- **Favourable cash conversion cycle:** Minimal receivables and inventory, creates a highly cash flow generative business.
- **Organisational benefits from the spin-off:** You could well argue that the demerger and Tabcorp's completely new management team will unleash entrepreneurial forces, with better incentives through stock options and better accountability - both on the upside and the downside.

*“When a business and its management are freed from a large corporate parent, pent-up entrepreneurial forces are unleashed. The combination of accountability, responsibility, and more direct incentives take their natural course.”*

– Joel Greenblatt

# Most of Tabcorp's wagering licenses last for 40+ years, except for that in Victoria

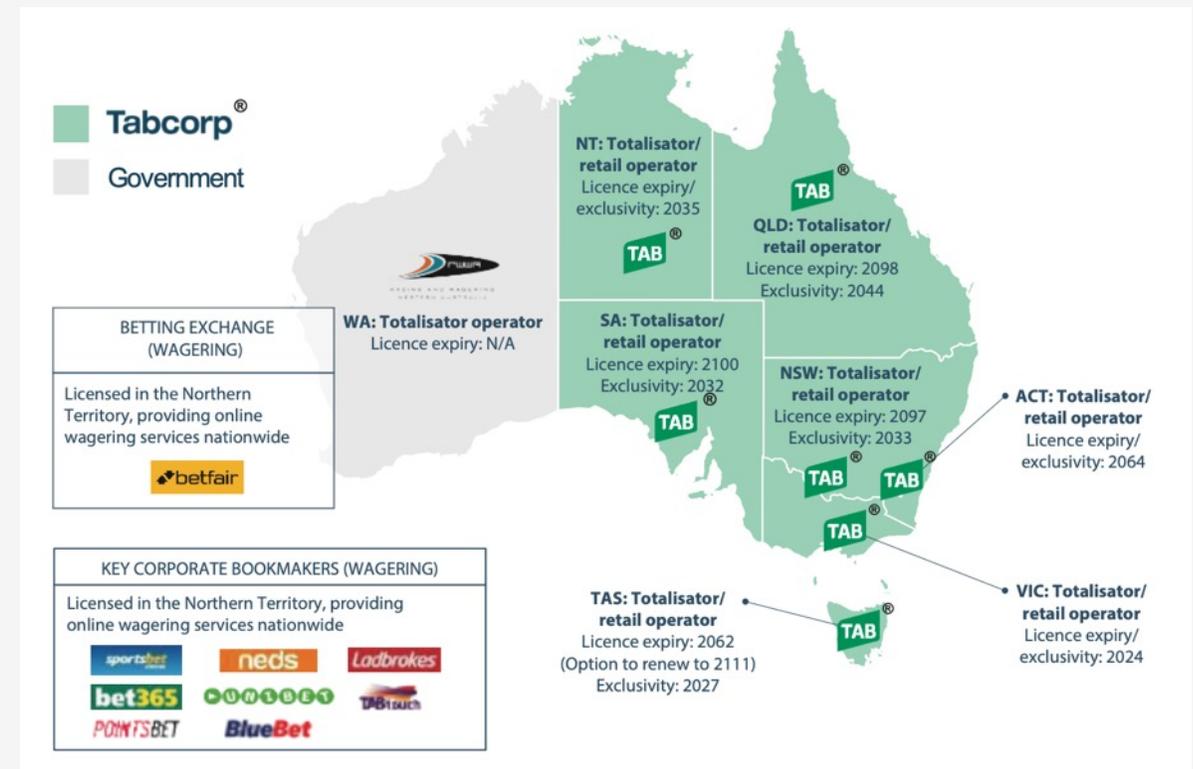


Source: Macquarie Group

# Competitors



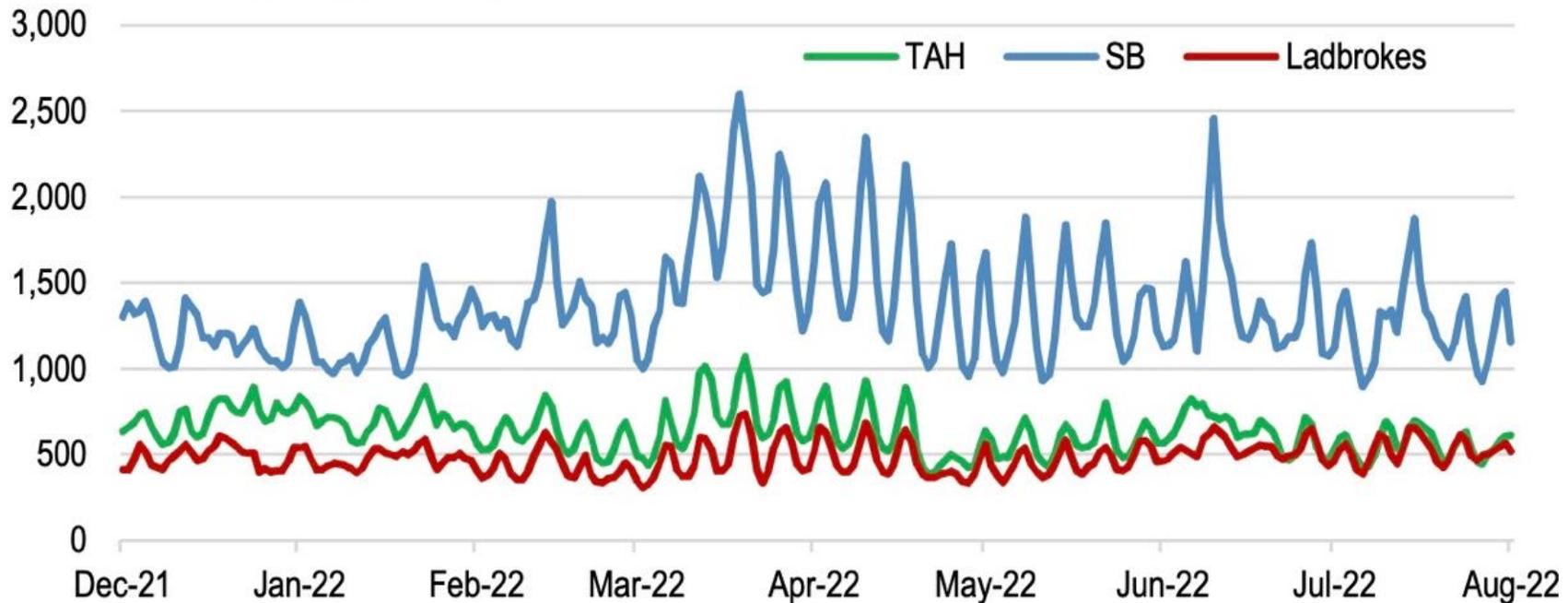
- Tabcorp has exclusive licenses in all states except Western Australia, where the state government controls its own totalisator operator.
- While Tabcorp doesn't have totalisator competitors in its key markets, there are corporate bookmakers in Northern Territory using Sports Bookmaker Licenses.
- Online competitors include SportsBet, Ladbrokes and Bet365. While Tabcorp also has digital wagering capabilities through its website and its app (holding a 21% digital industry wagering turnover).
- So far, regulation has enabled online competitors to operate at an advantage with only 43% of revenues going to government taxes and fees, compared to Tabcorp's 55%. Of course, you could argue that Tabcorp's higher taxes are meant to make up for the fact that they've released exclusive totalisator / retail outlet licenses across most states and territories in Australia.



# Tabcorp's app has been lagging behind that of online market leader Sportsbet

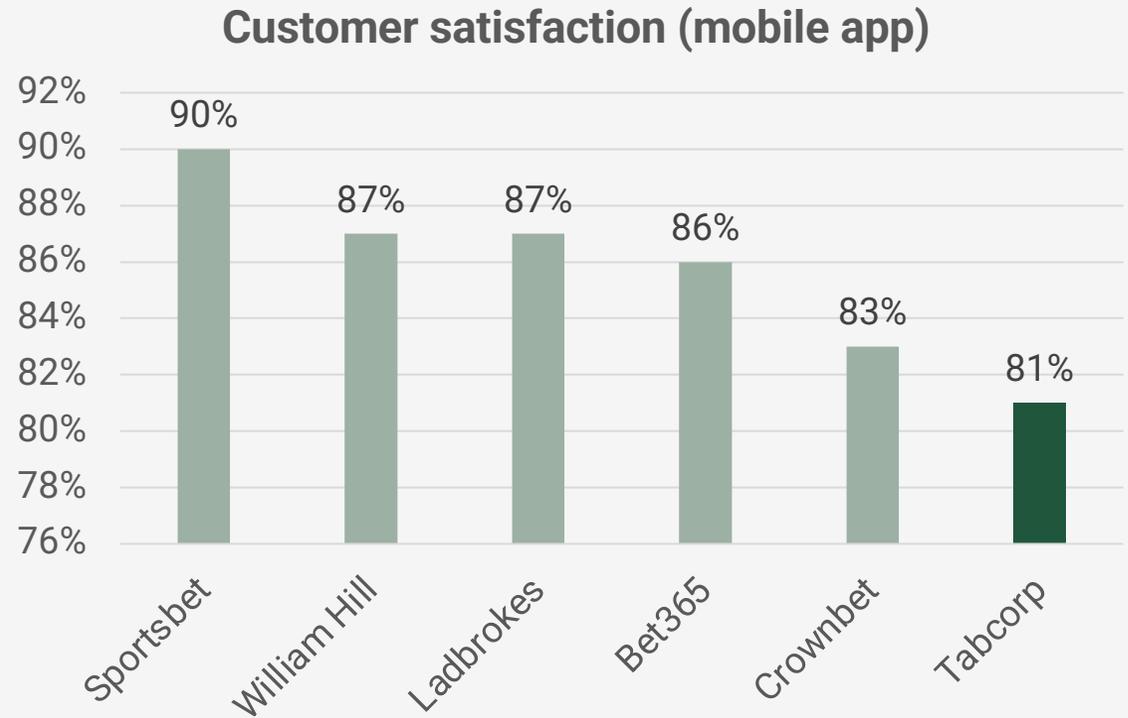
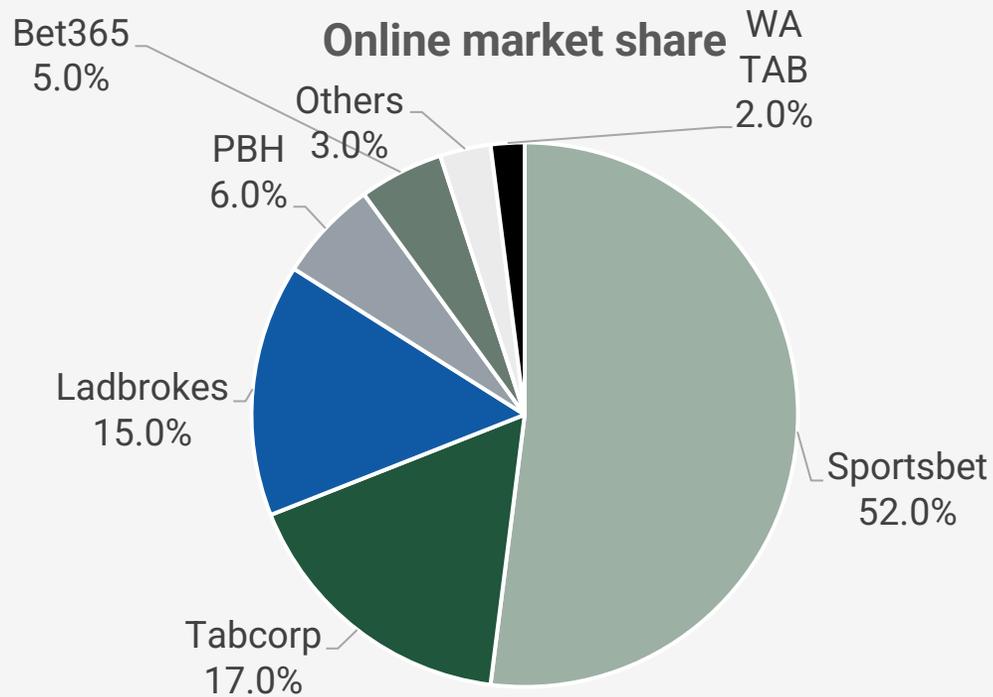


Figure 9: Aus Wagering - iOS App Downloads



Source: Apptopia.

# Tabcorp lags in online betting market share



# A selection of Tabcorp's Glassdoor reviews (3.2/5.0) suggests that Tabcorp has a decent working environment but lagging behind in its technology



## Positives

- *"Good tech stack and great ppl"*
- *"Some great people and a good environment"*
- *"Good people to work with"*
- *"Flexible working, Great team, Growth opportunity"*
- *"Modern building, decent pay with monthly drinks"*
- *"The company culture is very positive"*
- *"Great culture and career progression"*
- *"The current splitting of Tabcorp is looking hopeful that the new Lotteries and Keno company will be more focused on living their corporate values and commitment to their team"*

## Negatives

- *"Effectiveness is not good enough"*
- *"Some key leadership positions have been held for over 20 years by same incumbents. Leading to arrogance, entitlement and lack of fresh ideas. Needs fresh eyes to truly bring fresh ideas."*
- *"Lost a lot of people because of de mergers and company keeps getting smaller"*
- *"Low salary, many good employees have left after the demerger"*
- *"Old technology and not willing to change"*
- *"The industry is on its last legs"*
- *"Regulatory constraints and long runway for change"*
- *"Tabcorp Corporate values are espoused but not followed in the Technology area and culture is not focused on getting the best out of their team."*

# Tabcorp has suffered from poor management in the past. But the new management team is young and qualified.



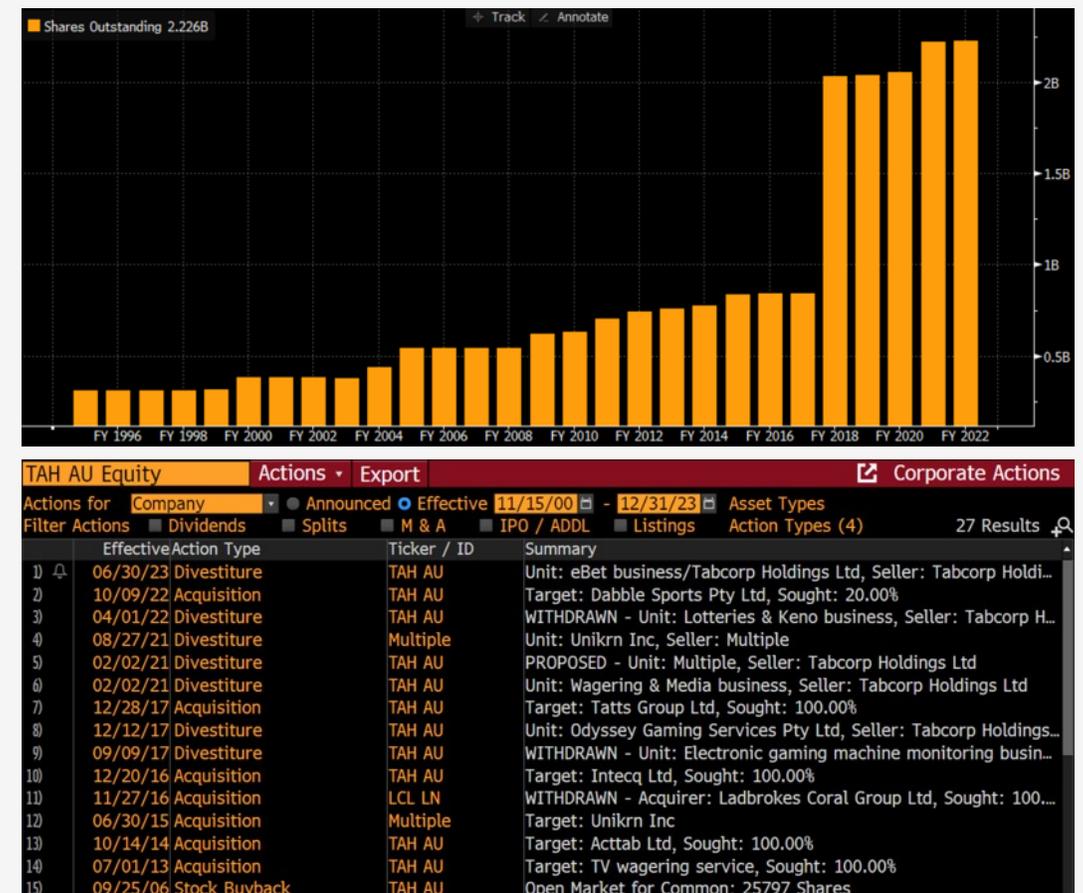
- Tabcorp's CEO is **Adam Rytenskild**, who joined Tabcorp in 2000. He's been in the executive leadership team since 2010. And he led Tabcorp's wagering business from 2017 after its merger with Tatts Group. Rytenskild holds an MBA from Mt Eliza Business School.
- New CFO **Dan Renshaw** joined Tabcorp in 2012 and was previously General Manager in Finance for the wagering and media business. He previously worked as an equity research analysts covering Gaming stocks in Australia, New Zealand and Asia for Merrill Lynch and Citigroup. Renshaw holds a Bachelor of Commerce and is qualified as a Chartered Accountant.
- New talent has also been promoted to key positions within the executive leadership team: **Tom Callachor** dealing with government relations, **Alan Sharvin** leading the digital initiatives and **Angus Tiet** in business development.
- Perhaps most importantly, **Jenni Barnett** has been appointed chief customer officer to make new Tabcorp a more customer-centric organisation. Management KPIs have shifted towards ensuring customer centrality in decision making going forward.



# Corporate governance



- Tabcorp has been highly acquisitive in the past, to the detriment of its return on equity, which dropped from 20% in the early 2000s to single digits.
- Recent M&A transactions were done at fairly high or industry average multiples:
  - In 2017, Tabcorp merged with Tatts Group, causing dilution in the share count. The acquisition valued Tatts Group at 2.4x sales and 13.7x EV/EBITDA.
  - In 2016, Tabcorp acquired Intecq for AU\$118 million, representing an EV/EBITDA of 10.0x.
  - In 2014, it acquired ACTTAB for AU\$106 million, with no disclosure on EV/EBITDA multiple.
  - In September 2022, Tabcorp acquired a minority stake in Dabble Spots for AU\$33 million in cash
  - In September 2022, Tabcorp announced that it would sell systems supplier eBet for US\$41 million
- Tabcorp has also raised capital through secondary issues, including AU\$230 million in August 2020 and AU\$300 million in February 2009. These equity issues were dilutive to minority shareholders, especially since they were done at low share prices.
- Many blame previous CEO David Attenborough for Tabcorp's poor capital allocation in the period between June 2011 and May 2022.



# Top-line growth, but with margin pressure



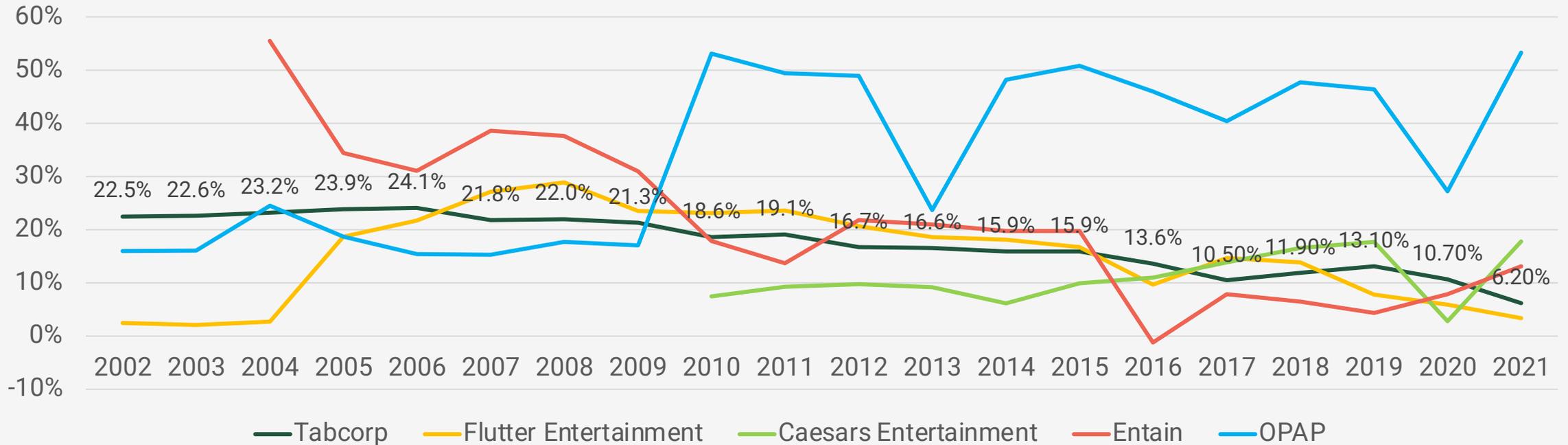
## Wagering & media segment



# Most peers operating at similar margins



### Operating profit margins





# Tabcorp's share price benefitted from the demerger



Source: Bloomberg



## Why is the stock cheap?

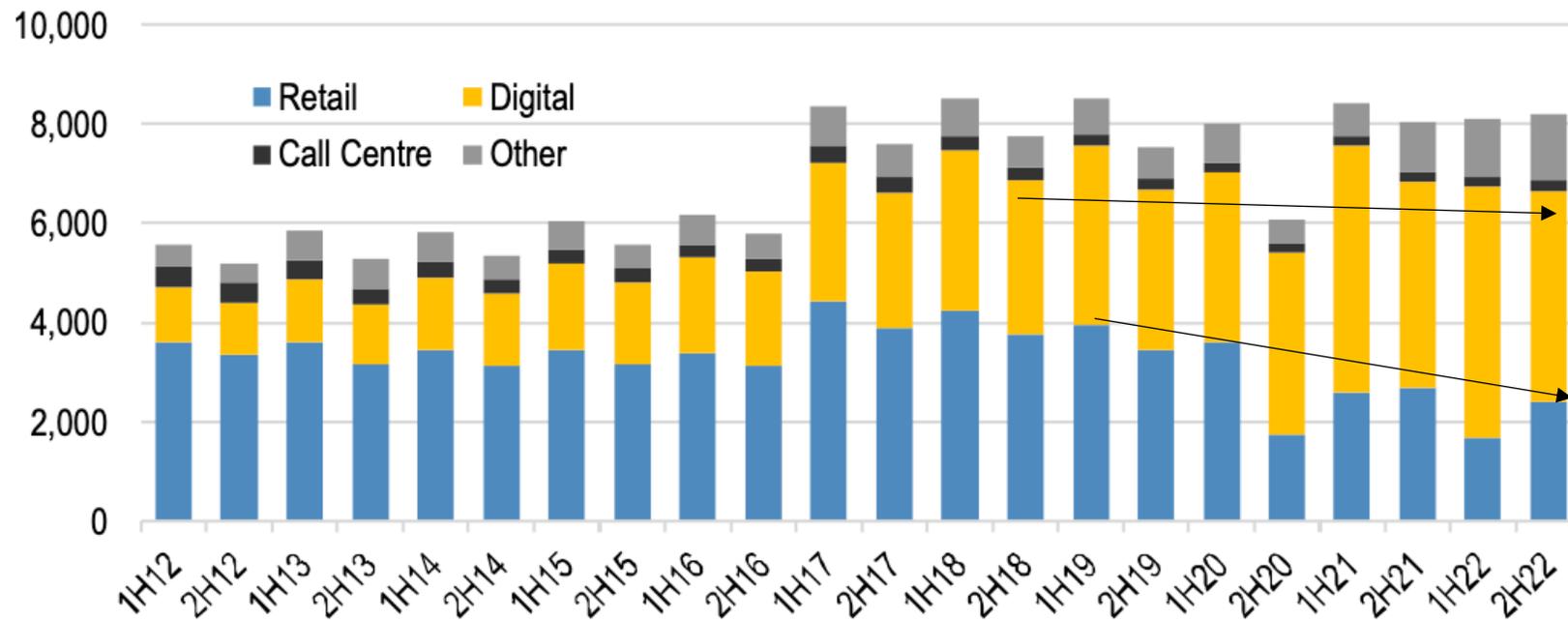
- COVID-19 has weighed on Tabcorp since 2019, despite the value unlocked by the demerger
- Market conditions have improved since the government-mandated lockdowns in early 2022. Wagering amounts are back to 91% of the 2019 baseline.
- Spin-off dynamics may have caused the stock to sell off somewhat, compared to its intrinsic value
- Estimates have been broadly flat, except for the one-off effect that the demerger had on earnings per share



# Tabcorp's online business took share from retail during COVID



Figure 6: TAH – Turnover by Distribution (A\$m)

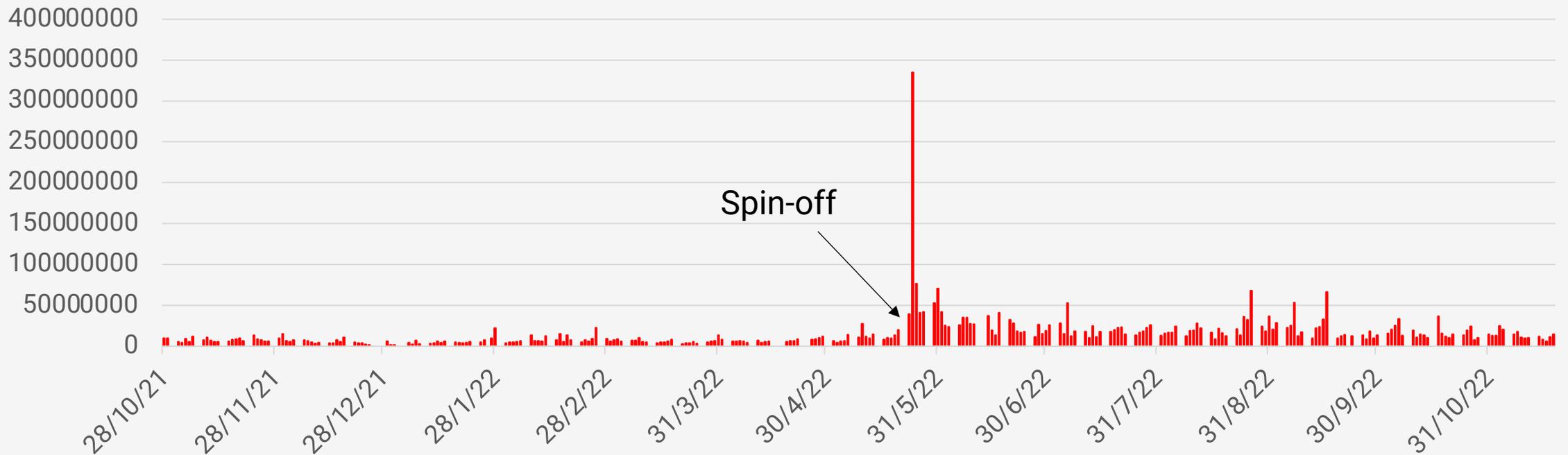


Source: Company data, J.P. Morgan estimates.

3.1 billion shares have changed hands since the spin-off, more than Tabcorp's current shares outstanding of 2.3 billion



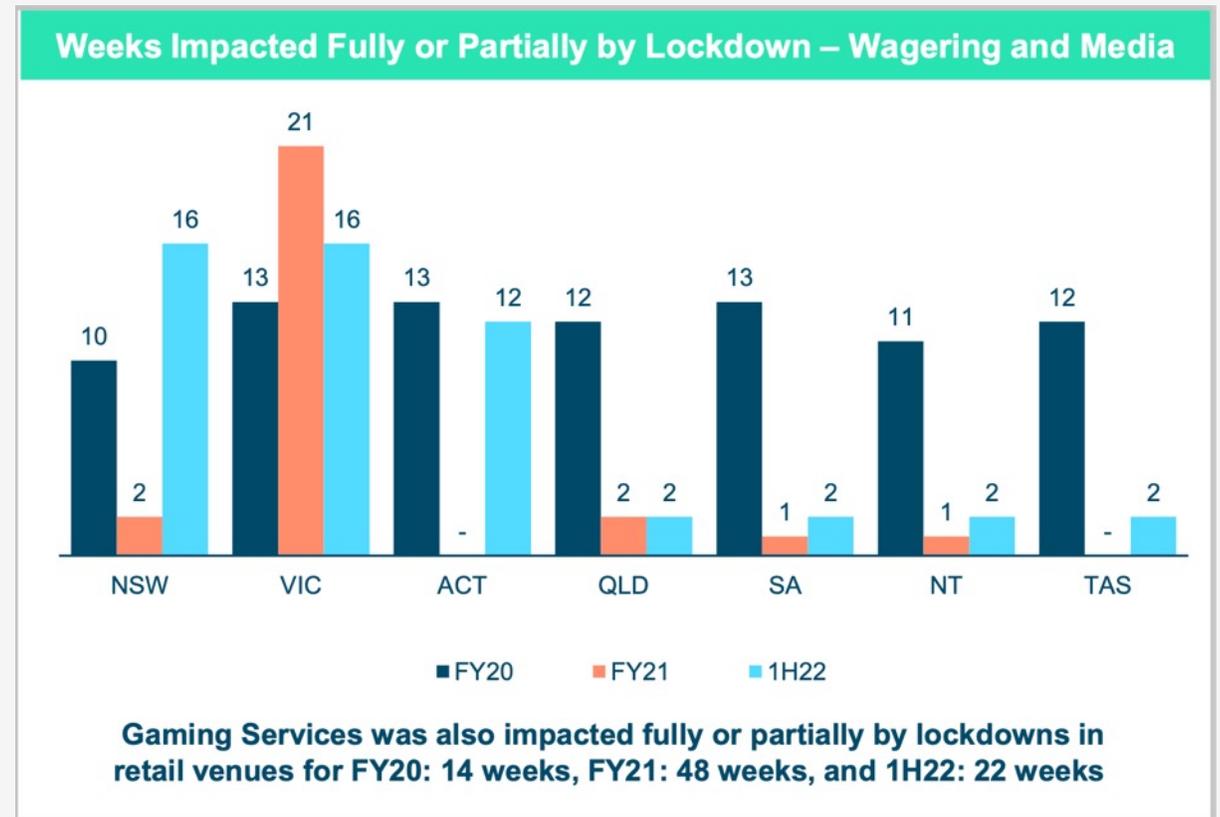
Tabcorp trading volume



# Tabcorp's wagering and media businesses were impacted by COVID-19 in 2020, 2021 and the early part of 2022



- All three segments were significantly affected by COVID-19 due to retail venue restrictions and closures. In many states, retail venues closed down for >10 weeks each year. The racing calendar was also disrupted due to cancellations and postponements.
- Tabcorp provided subscription relief to its venues, including:
  - Sky channel subscription relief up to AU\$20 million p.a.
  - Gaming services fee relief of up to AU\$76 million p.a.
  - Temporary dismissal of employees and reduced workload
- Online only made up for some of the losses.





# Long-term industry trends

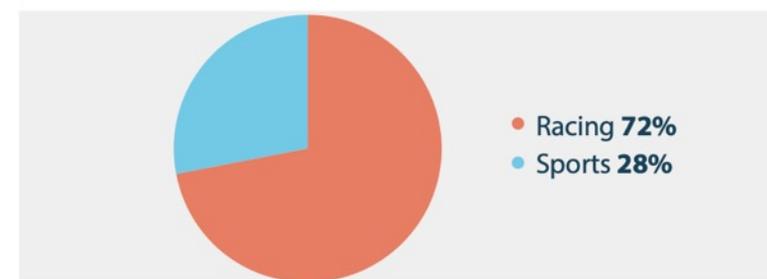
1. Wagering is about making bets on events with uncertain payoffs. Typically, such bets are on racing, sporting events or election results. The Australian wagering industry grew in the high single-digits up until the pandemic, making up roughly 18% of all gambling revenue back in 2019.
2. Industry regulation is done on a state level. There are three types of licenses:
  - Totalisator operator licenses = providing tote/pari-mutuel betting on and off-course
  - Retail wagering operator = operating retail venues to enable such bets
  - Digital fixed odds and tote betting license = offering wagering services online
3. There has been a shift from horse racing to sports betting. But total racing expenditure has been rising as well.
4. Another secular trend is from tote to fixed odds due to changing demographics, better odds and more competition
5. Digitalisation is another trend, with COVID-19 accelerating the shift to online, though perhaps partly on a cyclical / temporary basis. But online already represents the vast majority of wagering turnover.
6. Tabcorp's gaming services segment services electronic gaming machines. Those are the most popular form of gambling in Australia, represent 51% of the total. Growth in such gambling is about 3% per year. There are roughly 192,700 EGMs in Australia, half of which are in New South Wales.

Figure 31. Australian FY21 wagering turnover by channel (%)<sup>14</sup>



Source: Australian Racing Fact Book 2021

Figure 32. Australian FY21 wagering turnover by type (%)

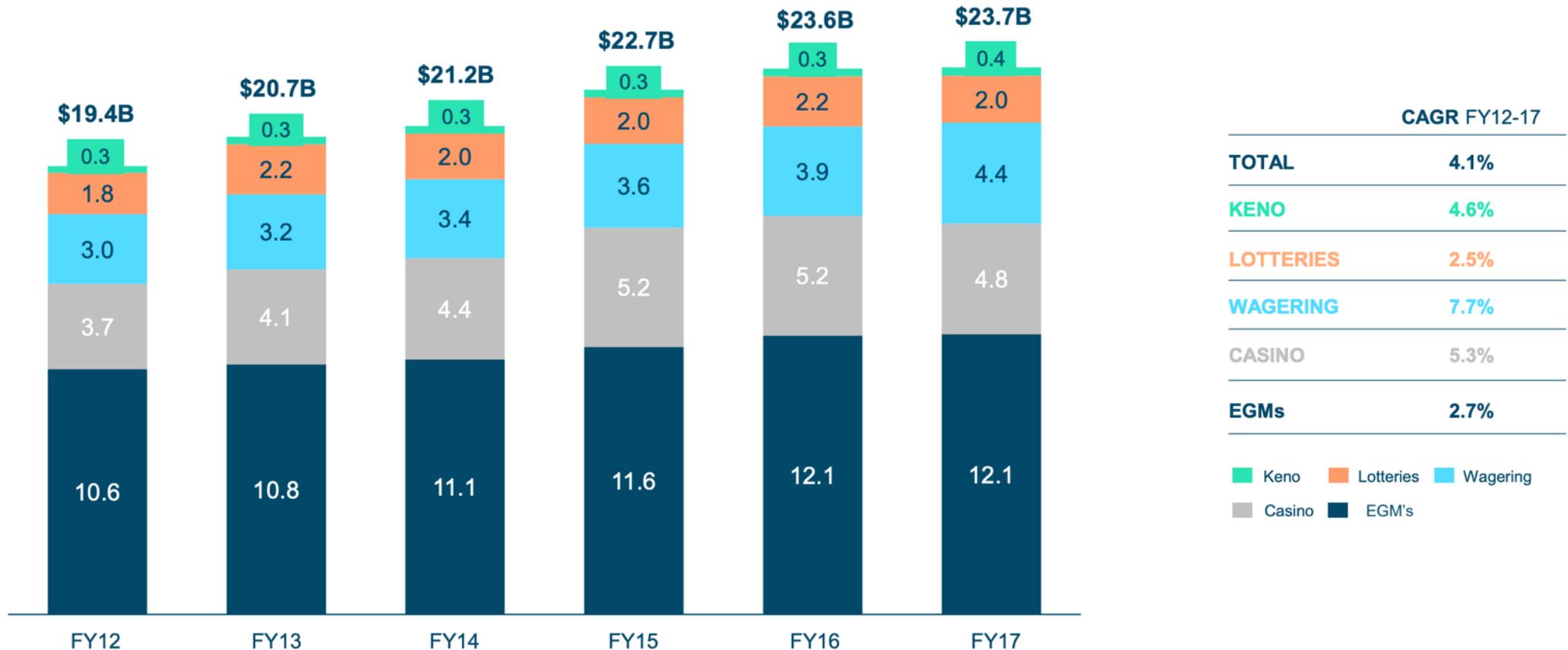


Source: Australian Racing Fact Book 2021

Australia's wagering market has been growing close 8% per year, though most of this growth taking place in the online realm



AUSTRALIAN GAMBLING EXPENDITURE BY PRODUCT SEGMENT

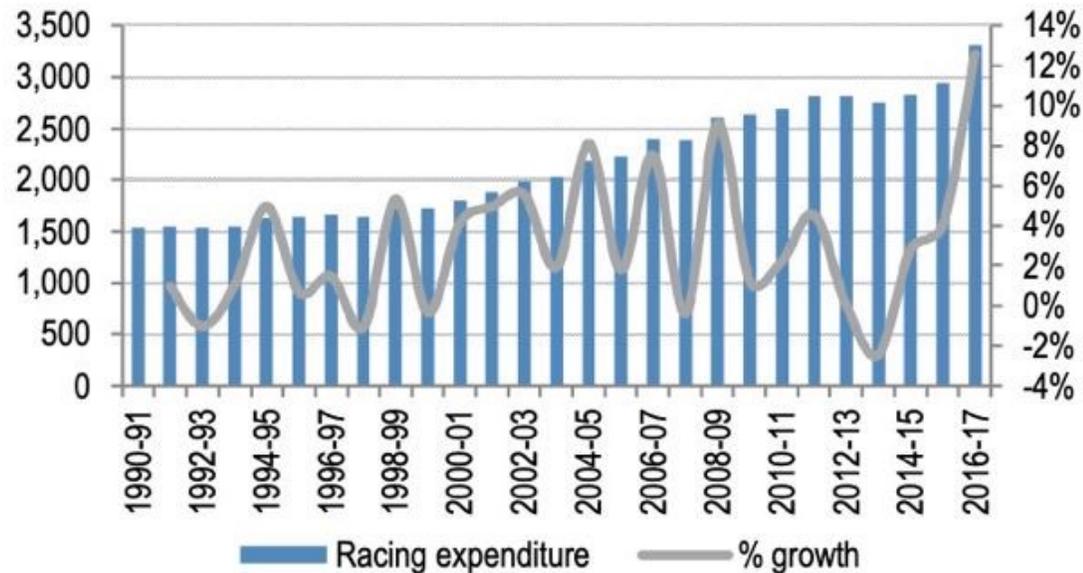


# Industry revenue is rising for both racing and sports



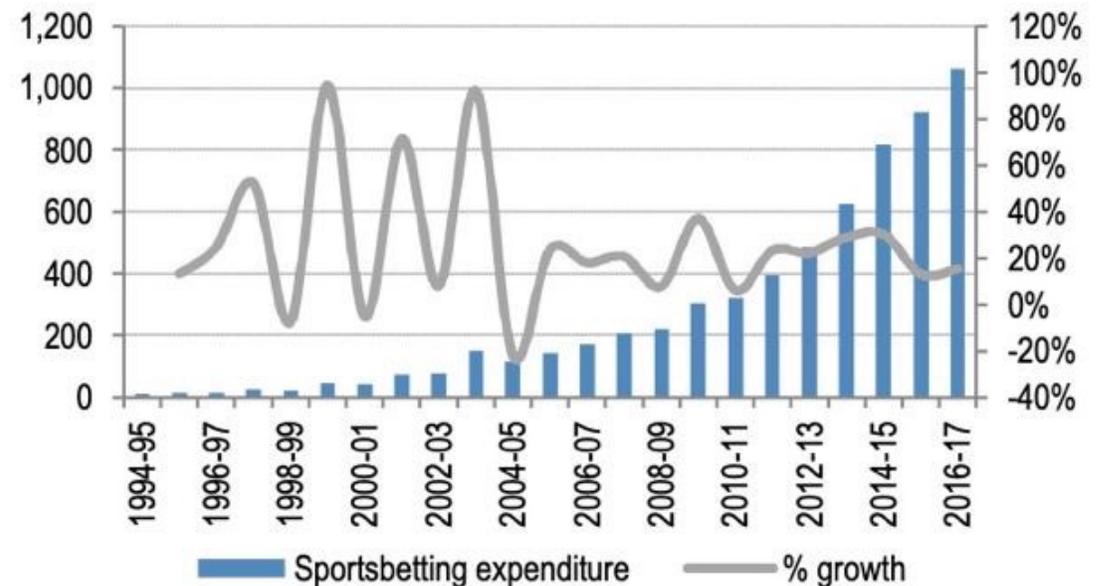
**Figure 6: Total Racing Expenditure**

A\$ in millions



**Figure 7: Total Sports Betting Expenditure**

A\$ in millions



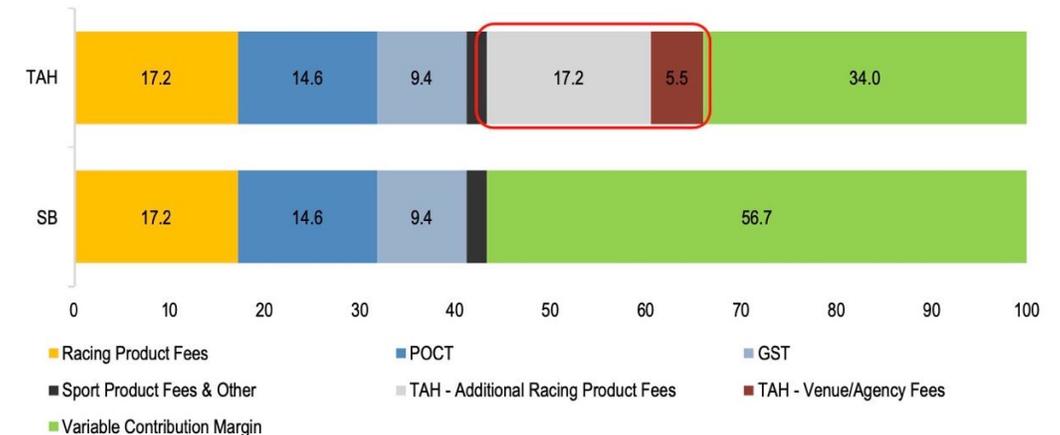
Source: JP Morgan

# Current lopsided regulation



- With Tabcorp's monopoly on offline retail wagering, it's had to pay high taxes to enjoy this privilege. For example, Tabcorp pays around 66% of revenues in taxes and industry fees compared to just 43% for online competitor Sportsbet.
- Bookmakers in Northern Territory enjoy lower racing industry funding requirements and lower state wagering tax obligations.
- Online competitors operating from overseas have also been able to pay much lower product fees and taxes, putting them at a great advantage over Tabcorp.
- Several states have introduced point of consumption taxes, which require businesses to pay taxes based on where a bet is placed rather than based on where it's incorporated. That means that out-of-state bookmakers will need to pay similar taxes to Tabcorp, or at least higher than before.
- Faced with point of consumption taxes, many bookmakers have shifted to promoting higher-margin sports products, leaving racing to Tabcorp.

Figure 8: SportsBet & TAH - Variable Contribution Margin (%)



Source: Company reports.

*Tabcorp has been forced to pay additional racing product fees, at a disadvantage to Sportsbet. Source: JP Morgan*

# Near-term license renewal risk is primarily about Victoria in 2024



**Table 3: TAB licence terms across Australian states and territories**

State Jurisdiction	Licence Terms	Exclusivity Terms
NSW	Licence term of 99 years (expires in 2097)	Exclusivity expires in 2033 (initial 15 year term + 20 year extension)
VIC	Licence term of 12 years (expires in 2024)	Exclusivity expires in 2024 (12 year term)
SA	Licence term of 99 years (expires in 2100)	Exclusivity expires in 2032 (initial 15 year term + 15 year extension)
QLD	Licence term of 99 years (expires in 2098)	Exclusivity expires in 2044 (initial 15 year term + 30 year extension)
ACT	Licence term of 50 years (expires in 2064)	Exclusivity expires in 2064 (50 year term)
NT	Licence term of 20 years (expires in 2035)	Exclusivity expires in 2035 (20 year term)
TAS	Licence term of 50 years (expires in 2062)	Exclusivity expires in 2027 (15 year term)

Source: Govt of WA (Dept. of Treasury)



# What will change for Tabcorp

- **Recovery from COVID-19:** Tabcorp suffered from full / partial lockdowns in early 2022 across New South Wales and Victoria. We should be seeing incremental improvement in FY2023 vs FY2022.
- **New products:** New wagering app will be released in early 2023, plus two new products to be released before Christmas 2022, namely a social gambling app
- **Lower costs:** the cost structure is going to change for Tabcorp, for a few reasons:
  - **Synergies with Tatts:** [\$130m and \$145m of synergies and business improvements in FY21 from the combination with Tatts]
  - **Higher costs as a standalone entity:** On the other hand, Tabcorp estimates roughly AU\$270 million in one-off cash transaction and implementation costs from the demerger.
  - **Cost reduction efforts:** Roughly AU\$23 million p.a. in ongoing incremental cash corporate and operating costs on a pre-tax basis. The company is also trying to keep costs in check, with increases of no more than 3-4% despite inflation in the high single digits.
- **Higher net debt:** Tabcorp targets a net debt/EBITDA of 1.0-1.5x, which is significantly higher than today's level (~net cash). This suggests that the company will invest, potentially in its license renewal in Victoria in 2024 or for a license in Western Australia or New Zealand.
- **EGM non-renewal:** It looks like 30-50% of EGMs in Tabcorp's venue services segment were not renewed in 2022, leading to a loss in income. The machines will be sold.
- **Potential acquisition:** Tabcorp has been approached by several bidders, including Entain, BetMakers and Apollo. While a transaction would require regulatory approval, it looks like the New Tabcorp is "in play".

*"A spinoff may solve a strategic, antitrust or regulatory issue, paving the way for other transactions or objectives. In a takeover, sometimes the acquirer doesn't want to, or can't for regulatory reasons, buy one of the target company's businesses. A spinoff of that business to the target company's shareholders prior to the merger is often a solution."*

– Joel Greenblatt

# Tabcorp's new strategy has four pillars focused on maximising competitiveness and growing



## Customer experiences

- Improve “omni-channel customer experiences by integrating the digital / retail and media businesses

## Lobbying

- Working with partners and government, to advocate for positive industry change (=lobbying)
- Championing potential simplification and harmonisation of licences, industry funding & regulatory approval regimes

## Innovation and growth

- Explore opportunities in new products where Tabcorp has a competitive edge

## Deliver efficiencies

- Improve the operational efficiency
- Rigorous cost-cutting

# Tabcorp's new wagering app was released in September 2022. It's too early to say whether it's an improvement or not.

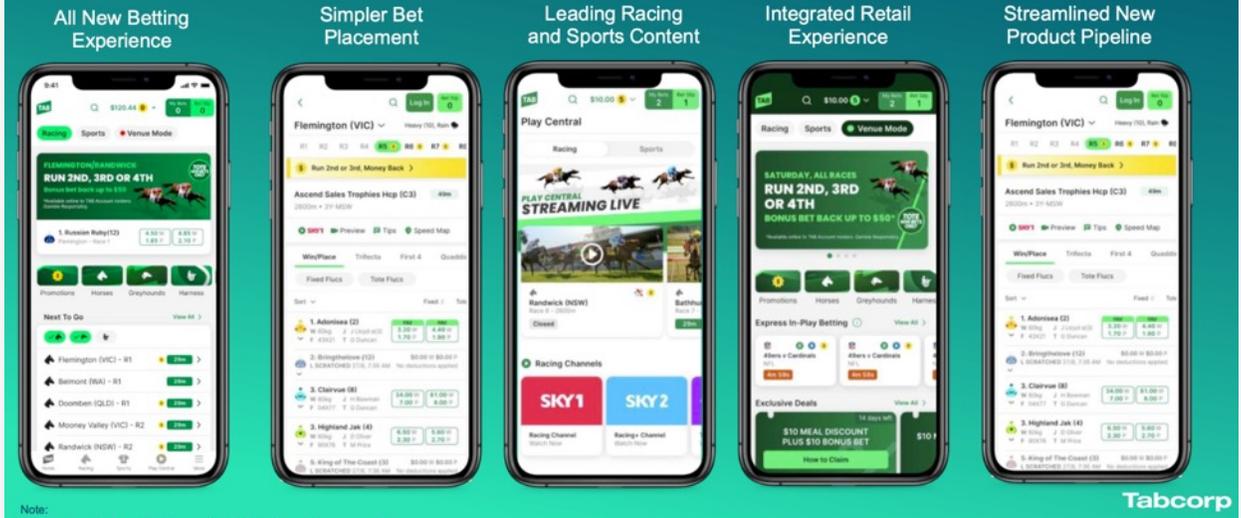


- The new app will be the first update in >2 years:
  - Refreshed user interface
  - Faster platform, built on Google's Flutter app backbone
  - Removing customer friction points in account admin, post-bet experience, racing information and performance
  - Better sports wagering offering
  - A new Venue mode for those who want to bet using their mobile phone on-site
- Tabcorp says that the new app will be step 1 in improving digital competitiveness, allow for faster innovation, upgraded content and omni channel experiences
- Tabcorp's digital spend is only 25% of total marketing spend. This will most likely increase to the peer group's 40-50% over time.
- In the past only 6/10 customers get through the sign-up process. Increasing this to 8/10 would be low-hanging fruit.

## New Wagering App in Development

Delivering<sup>1</sup> a new betting experience with a refreshed user interface, faster platform, and removing customer friction points in account admin, post-bet experience, racing information and performance.

Step one in a strategy to improve digital competitiveness, allow for faster innovation, upgraded content and omni channel experiences



# Initial reviews for the new iOS app are not encouraging, though



DavidM9191, 27/09/2022

## **New Update is Absolute Rubbish!!!**

Im generally not one to write reviews however I really can't hold back on how much I despise this new Tab Update. Its functionality and layout is absolutely disgraceful. I know numerous users (young and old) that agree with my comment and have since stopped using Tab since the new update. I suggest your team has a good hard think about how many customers they are willing to lose ahead of a big month of sport or alternatively, change it back to what worked, was easy and efficient to use and I didn't need a diploma in gambling apps to educate myself on something that should be simple and enjoyable! (P.S I also spend the good part of 9 hours a day on a computer so I consider myself reasonably tech savvy). Atleast ask yourself one question, Why change something that works!! Hope you take this vital feedback on board.

## **Developer Response,**

Hi, thank you for taking the time to share this!

We hear you and are taking your feedback onboard. If you would like to get in touch directly, please send some more details to support@tabcorp.com.au and we'll investigate it for you.

Thanks, from the TAB team!



Anzac 75, 01/10/2022

## **What happened**

I've used TAB for many years , it's the only one I've used since I open my TAB account like 30 years ago , I've looked as those other betting apps and betting agencies but thought . Nope I like TAB , it's simple , it's quick I can quickly put a bet on , watch the race ,,,,, Until new update 🙄 now it takes forever put a simple bet on , look at runners form ect . I will keep using it but pretty disappointed at something that was never broken in the first place ,, well done to the programmers that probably got a good payout for designing it , I think you need a Tote reduction on final payout ,,,,,,,

## **Developer Response,**

Hi, thank you for taking the time to share this!

We hear you and are taking your feedback onboard. If you would like to get in touch directly, please send some more details to support@tabcorp.com.au and we'll investigate it for you.

Thanks, from the TAB team!



Overtheast, 20/10/2022

## **Lost features and bad design**

If you move the streaming video to minimise or maximise, it goes dark and you have to tap to re watch it. It doesn't auto tilt to landscape, you have to maximise yourself. When the race jumps, you lose all markets so if you have expect quaddie divs open, all screens wipe to closing price only. If you have current race field on watch, it wipes out and moves to the next race, so you have to minimise the screen, move back Home Screen and it's all too hard. Before you could watch and keep your market open. I'm convinced that those who design are not punters themselves nor do any of this simple user testing. Why can't we watch the race with the field open instead did everything auto scrolling?

## **Developer Response,**

Thanks for your feedback. We're currently investigating our racing streaming service to understand what's causing this issue. We are aware of the inability to sort by Tote odds and this will be resolved in the next version of the app.



# How Australia's gambling regulation may change

- In 2016, the Australian government unveiled plans to close the loophole enabling Australian gamblers from accessing illegal offshore betting websites to wager on live games. If such a plan comes to fruition, Tabcorp would benefit greatly.
- But governments across Australia's states and territories are also trying to level the playing field:
  - Tabcorp recently renegotiated its Queensland license, resulting in a decrease in the effective tax rate from 45% to 35%, generating another AU\$30 million in profit for Tabcorp. Tabcorp no longer operates at a disadvantage to online bookmakers in Queensland.
  - New South Wales announced an increase in the point of consumption tax from 10% to 15%, with another potential hike later as well as an intention to review the wagering tax regime in the next few years. Online competitors will have to pay this higher point of consumption tax. Tabcorp will receive transition payments for 18 months to ensure they are no worse off under the higher tax. But Tabcorp will take back market share from online bookmakers who will be hit far more than Tabcorp itself.
  - Australian Capital Territory (Canberra) is likely to follow suit with a higher point of consumption tax, mostly likely ending up at 20%.

## CHANGES ARE ALREADY HAPPENING

### QLD

Announcement of proposed structural reforms to operator agnostic, sustainable funding model

### NSW

Revised POCT announced for all wagering operators  
Industry funding model under review

### ACT

Revised POCT announced for all wagering operators

# Industry lobby organisations are in an all-out fist fight



## Aussie Fair Play Coalition

- Funded by Tabcorp, Australian Hotels Association, Queensland Hotels Association, Clubs Queensland, ClubsNSW, THA and Community Clubs Victoria
- Wants to raise taxes for online bookmakers
- Argument: *“Foreign-owned bookies shipped more than half a billion dollars in profits out of Australia last year”*



## Responsible Wagering Australia

- Funded by bookmakers CrownBet, Sportsbet, Betfair, Unibet and Bet365
- Wants to keep taxes as low as possible for online gambling websites
- Argument: *“[higher taxes] will only serve to decrease competition and will allow one entity to strengthen its commercial monopoly without paying a premium.”*



# The potential for Tabcorp to be acquired

- In the demerger document, Tabcorp wrote that *“the board [had] received several unsolicited, non-binding and indicative proposals to acquire the wagering and media business, and one proposal also including the Gaming Services business.”*
- Bids came from UK’s Entain PLC and BetMakers Technology Group as well as Apollo. The Apollo offer valued Tabcorp at AU\$4 billion vs its AU\$2.3 billion market cap today.
- Prior acquisitions have been done at EV/EBITDA of ~10x, which would suggest a total consideration for Tabcorp of almost AU\$5 billion.
- The language in the demerger document seems to suggest that a demerger would simplify such a transaction, allowing bidders to buy shares in the open market.
- But a primary hurdle for such a transaction is that NSW laws prohibit a single person from owning >10% of the company without written consent from relevant NSW minister. Any transaction would also require racing body approvals.

Year	Acquirer	Target	Consideration (US\$m)	EBITDA multiple
2003	Tabcorp	TAB	2150	12.3x
2006	Tatts	Uni TAB	1900	12.7x
2009	Paddy Power	Sportsbet	15	6.6x
2009	Sportsbet	Int’l ALL Sports	40	4.0x
2010	Paddy Power	Sportsbet	133	8.0x
2010	Paddy Power	Sportsbet	402	13.4x
2011	Sportingbet	Centrebet	185	12.0x
2011	Tatts	Tote TAS	108	12.3x
2012	UniBet	Betchoice	20	6.1x
2014	Tabcorp	ACT TAB	106	12.5x
			Average	10.0x

## Tabcorp's peers trade at around 2.5x revenues



Global wagering (2023e)	Ticker	Country	Mkt cap (US\$m)	EV/Sales	EV/EBIT	P/E	Div yield
Tabcorp	TAH AU	Australia	1,544	0.97x	16.7x	25.3x	2.3%
Flutter Entertainment	FLTR LN	United Kingdom	23,669	2.69x	20.0x	28.6x	1.7%
Caesars Entertainment	CZR US	United States	11,052	3.12x	14.5x	39.4x	0.0%
Entain	ENT LN	United Kingdom	9,358	2.20x	13.1x	16.7x	1.5%
OPAP	OPAP GA	Greece	4,683	2.25x	8.0x	11.2x	10.9%
Average ex-Tabcorp			12,191	2.57x	13.9x	24.0x	3.5%
Median ex-Tabcorp			10,205	2.47x	13.8x	22.7x	1.6%

Pre-spin-off, Tabcorp traded at 2.2x Sales and 9.1x EBITDA... though the business at the time included the more attractive lottery operation



Source: Bloomberg

# The pro-forma New Tabcorp income statement shows pre-COVID-19 operating profit of EBIT 325 million

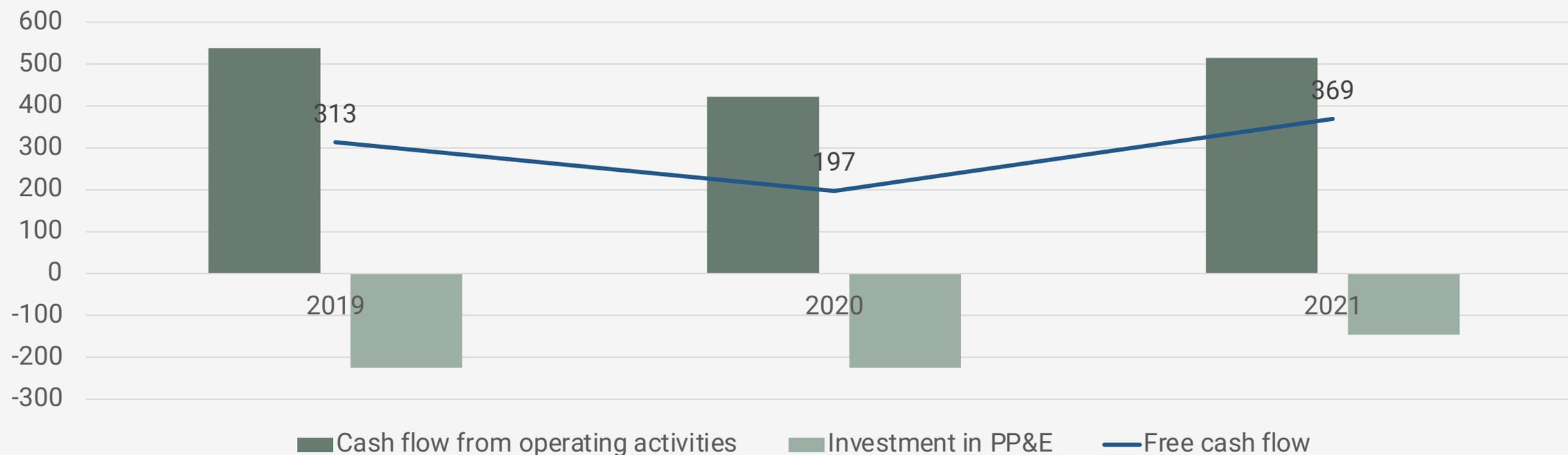


\$M	FY19	FY20	FY21	1H21	1H22
Revenue	2,634	2,317	2,493	1,268	1,156
<b>EBITDA, excluding significant items</b>	<b>585</b>	<b>427</b>	<b>464</b>	<b>238</b>	<b>160</b>
Depreciation and amortisation	(262)	(277)	(276)	(135)	(143)
Impairment	2	(20)	(3)	-	-
<b>EBIT, excluding significant items</b>	<b>325</b>	<b>130</b>	<b>185</b>	<b>103</b>	<b>17</b>
Significant items <sup>1</sup>	(27)	(1,167)	(133)	(29)	(17)
<b>EBIT</b>	<b>298</b>	<b>(1,037)</b>	<b>52</b>	<b>74</b>	<b>-</b>
Net finance costs <sup>2</sup>			(20)		(10)
<b>Profit / (loss) before income tax</b>			<b>32</b>		<b>(10)</b>
Income tax (expense) / benefit <sup>3</sup>			(39)		3
<b>Profit / (loss) after income tax</b>			<b>(7)</b>		<b>(7)</b>

New Tabcorp's pro forma free cash flow to equity has been around AU\$300 million per year, roughly 13% of the current market cap



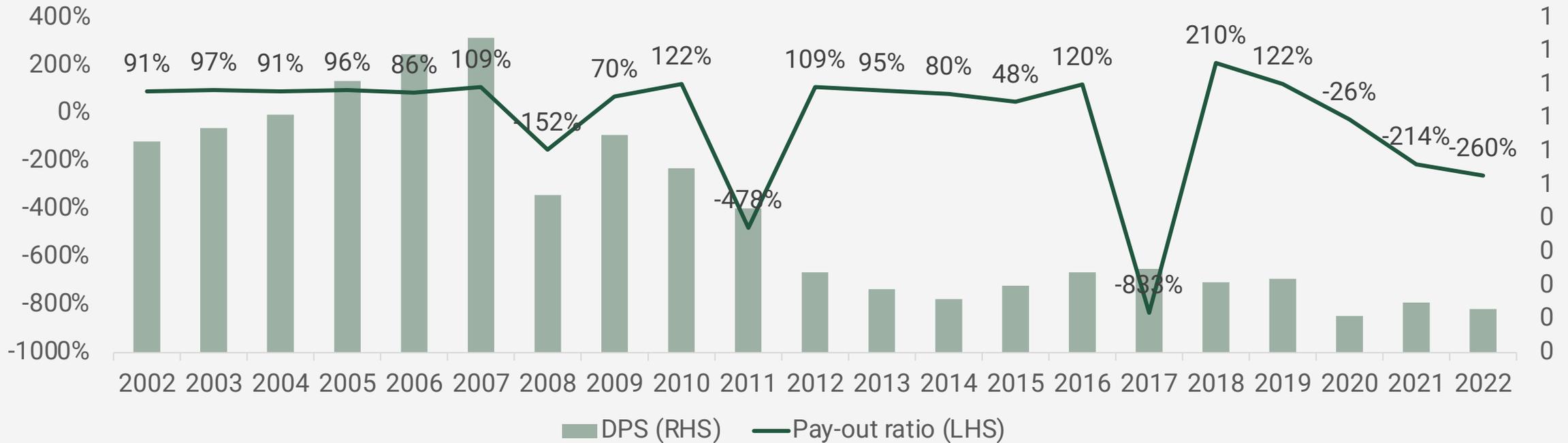
Free cash flow to equity



Tabcorp has historically paid out about 91% of earnings but the demerger document states that new Tabcorp will target a 50-70% payout ratio.



Tabcorp dividend per share / pay-out ratio



Source: TIKR

11% operating margin would lead to an EV/EBIT of 7.7x



<b>Tabcorp (AU\$m)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Revenue	2,634	2,317	2,493	2,381	2,571	2,648	2,728
Commissions and fees	-1,001	-924	-1,081	-1,180	-1,016	-1,046	-1,077
Government taxes and levies	-365	-334	-334	-360	-360	-344	-355
Operating expenses	-683	-632	-614	-624	-643	-662	-682
<b>EBITDA</b>	<b>585</b>	<b>427</b>	<b>464</b>	<b>216</b>	<b>553</b>	<b>596</b>	<b>614</b>
Depreciation and amortisation	-262	-277	-276	-286	-295	-304	-313
Impairment	2	-20	-3	-5	-	-	-
Significant items	-27	-1,167	-133	0	-	-	-
<b>Operating profit</b>	<b>298</b>	<b>-1,037</b>	<b>52</b>	<b>-75</b>	<b>258</b>	<b>292</b>	<b>301</b>
Net finance costs	0	0	-20	-61	0	0	0
<b>Pretax profit</b>	<b>298</b>	<b>-1,037</b>	<b>32</b>	<b>-136</b>	<b>258</b>	<b>292</b>	<b>301</b>
Income tax	-89	311	-39	18	-77	-88	-90
<b>Net profit</b>	<b>209</b>	<b>-726</b>	<b>-7</b>	<b>-118</b>	<b>180</b>	<b>204</b>	<b>211</b>
EPS	0.1	-0.3	0.0	-0.1	0.1	0.1	0.1
EV/Sales	0.88x	1.00x	0.93x	0.97x	0.90x	0.87x	0.85x
EV/EBIT	7.7x	-2.2x	44.4x	-30.7x	8.9x	7.9x	7.7x
P/E	11.4x	-3.3x	-338.7x	-20.0x	13.1x	11.6x	11.3x
Div yield	8.0%	0.0%	0.0%	0.0%	4.6%	5.2%	5.3%

# Significant insider buying since the spin, including from CEO Adam Rytenskild and Chairman Bruce Akhurst



Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)	Close Price	Volume
12) 11/10/2022	1	Gallop David		19,867	1.0000	9.33MLN
13) 09/07/2022	1	Rytenskild Adam		114,402	.9300	53.096MLN
14) 09/02/2022	1	Gallop David		31,204	.9500	28.134MLN
15) 08/30/2022	1	Kendall Janette		19,748	1.0100	17.908MLN
16) 08/26/2022	1	Akhurst Bruce		250,000	1.0200	67.767MLN
17) 06/29/2022	1	Akhurst Bruce		250,000	1.0800	15.165MLN
18) 06/10/2022	1	Kendall Janette		24,322	1.0150	27.03MLN
19) 06/09/2022	1	Rytenskild Adam		1MLN	1.0100	27.176MLN
20) 06/08/2022	1	Akhurst Bruce		320,000	1.0000	34.642MLN
21) 06/03/2022	1	Gallop David		10,000	.9400	23.569MLN
22) 12/13/2021	1	Kendall Janette		4,932	.8519	3.777MLN
23) 11/12/2021	1	Akhurst Bruce		30,000	.8706	5.417MLN
24) 08/30/2021	1	Akhurst Bruce		30,000	.8164	4.387MLN
25) 08/20/2021	1	Attenborough David		152,945	.8299	7.433MLN
26) 08/25/2020	1	Akhurst Bruce		10,909	.6148	9.98MLN
27) 03/18/2020		Dwyer Paula	-75,000		.4244	24.177MLN
28) 09/19/2019	1	Dwyer Paula		25,000	.8119	9.679MLN
29) 08/21/2019	1	Akhurst Bruce		20,000	.7331	5.903MLN
30) 08/15/2019	3	Attenborough David, Dwyer Paula, Milne Justin		174,220	.7465	14.404MLN



# Potential downside risks



- **COVID-19:** Any further government-mandated lockdowns would lead to closures of TAB agencies and licensed venues and maybe even sporting events.
- **Online competition:** The rise of online wagering has enabled overseas competitors to take business from Tabcorp, both in fixed odds and “tote derivatives” products putting pressure on net yields. Punters can even bet using other apps within TAB venues. This competition undermines Tabcorp’s advantage of having exclusive totalisator licenses. Rupert Murdoch is also trying to get into the betting market.
- **Victoria license renewal risk:** The Victoria wagering license renewal due in 2024, with a possible 2 year extension by the government. Tabcorp may need to give up of value to secure a renewal. The last renewal in 2012 was smooth. Also worth mentioning that Tabcorp came from Victoria and has a large presence in the state.
- **Lobbying efforts:** Tabcorp has been explicit in its goal to affect regulatory change through lobbying. The demerger document states that there is a risk that the government fails: “to modernize those laws to reflect changing technology”. The government will want to level the playing field between online and offline. But competing lobbying organisation “[Responsible Wagering Australia](#)” is pushing for the government to ban advertising and click-to-call betting, which would be detrimental to Tabcorp’s business.

# Catalysts



- Post-spin-off selling pressure receding
- New wagering app released by the end of 2022
- Full recovery from COVID-19
- New regulatory action levelling the playing field between Tabcorp and online competitors
- WA/NZ/VIC license wins or renewal



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