

Confidential Restriction on Publication Claimed**IN THE AUSTRALIAN COMPETITION TRIBUNAL**

ACT

of 2017

Re: Proposed acquisition of Tatts Group Limited by Tabcorp Holdings Limited**Tabcorp Holdings Limited** (Applicant)Statement of: **Damien Johnston**

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Occupation: Chief Financial Officer, Tabcorp Holdings Limited

Date: 6 March 2017

This document contains confidential information which is indicated as follows:

[HIGHLY Confidential to Tabcorp] [.....]
[Confidential to Tabcorp] [.....]
[Confidential to Tatts] [.....]
[Confidential to Tabcorp and Tatts] [.....]

Filed on behalf of Tabcorp Holdings Limited (Applicant)

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Confidential Restriction on Publication Claimed**A. INTRODUCTION**

1 I am the Chief Financial Officer (**CFO**) of Tabcorp Holdings Limited (**Tabcorp**) and I am authorised to make this statement on Tabcorp's behalf.

2 Exhibited to me at the time of swearing this statement is a bundle of documents marked "Confidential Exhibit DJ-1". Where in this statement I refer to tabs in DF-1, I am referring to the tabs of Confidential Exhibit DF-1. I also refer to documents by reference to their unique document number beginning with a "TBP" prefix. I have reviewed the documents I have referred to prior to signing this statement. Tabcorp claims confidentiality over Confidential Exhibit DJ-1.

3 The matters set out in this statement are based on my knowledge of Tabcorp's operations, my review of Tabcorp's business records (referred to below), my participation in the Senior Executive Leadership Team, my involvement with Tabcorp's business, my knowledge of Tatt's operations (referred to in Part A.3 below) and my experience in the gambling and wagering industries for over 13 years, which I set out in Part A.1 below.

A.1 Qualifications and employment history

4 I have been employed by Tabcorp since September 2003. Since September 2003, I have held the following roles at Tabcorp:

- (a) Group Financial Controller from September 2003 to June 2006;
- (b) Group General Manager Finance from June 2006 to July 2008;
- (c) Deputy CFO from August 2008 to June 2011; and
- (d) CFO from June 2011 to present.

5 Tabcorp Holdings Limited was the employer for all of the above.

6 In 1984, I graduated from the University of Melbourne with a Bachelor of Commerce. I majored in Accounting and Commercial Law.

7 I am also a Certified Public Accountant and have been a member of CPA Australia since 1984.

8 Prior to my employment with Tabcorp, I was employed by BHP Billiton Ltd (**BHP**) as Manager Group Accounting Integration Projects. During my employment at BHP, I was

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involved in the merger of Broken Hill Proprietary Company Limited and Billiton Plc in 2001.

9 A copy of my most recent curriculum vitae is attached as **Tab 1 of Confidential Exhibit DJ-1 [TBP.001.028.0001]**.

A.2 Role and responsibilities

10 In my current role as CFO and in my prior roles described above in Part A.1 above, I have been:

- (a) involved in the financial management of Tabcorp and its subsidiaries (**Tabcorp Group**), including treasury, group taxation, transactional services and investor relations (approximately 120 staff);
- (b) responsible for the financial reporting of the Tabcorp Group, including preparation of the Tabcorp Group's statutory accounts, the monthly Managing Director's Report and CFO Report, the annual Tabcorp Group budget, and review of major capital projects; and
- (c) a member of Tabcorp's Senior Executive Leadership Team.

11 My experience at Tabcorp has also included being involved in the acquisition and integration by Tabcorp of wagering businesses, including:

- (a) Tabcorp's 2004 acquisition of TAB Limited, the NSW based wagering business, for which I was the finance work-stream leader; and
- (b) Tabcorp's 2014 acquisition of ACTTAB, which was the Territory-owned provider of wagering services. I was responsible for the oversight of the acquisition and integration of ACTTAB from a finance perspective.

12 My direct report is to the Managing Director and Chief Executive Officer.

13 My direct reports are:

- (a) General Manager Corporate Finance;
- (b) General Manager Finance Operations;
- (c) General Manager Tax;
- (d) General Manager Finance (Technology);
- (e) General Manager Finance & Commercial (Keno & TGS);

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- (f) General Manager Finance (Wagering & Media);
- (g) General Manager Investor Relations & Corporate Strategy;
- (h) General Manager Audit;
- (i) General Manager Government Relations; and
- (j) General Manager Government & Industry Relations.

A.3 Involvement with quantifying cost savings and revenue increases for the proposed transaction

- 14 The proposed transaction will bring together two largely complementary Australian businesses. A combined Tabcorp and Tatts entity (**Merged Entity**) would operate wagering, gaming, lotteries and keno businesses. Tabcorp's core business is wagering. It also operates gaming services, keno and media businesses. Tatts' core business is lotteries. It also operates wagering, gaming services and keno businesses. In respect of wagering, Tabcorp holds the off-course totalisator licences in Victoria, NSW and the ACT (**Tabcorp States**), and Tatts holds the off-course totalisator licences in Queensland, South Australia, the Northern Territory and Tasmania (**Tatts States**).
- 15 As part of the proposed transaction, I have assessed and quantified:
- (a) the cost savings and revenue increases which are likely to result from the proposed transaction; and
 - (b) the pass through of those likely cost savings and revenue increases to third parties, including the Australian racing and hospitality industries and state and federal governments.
- 16 During September and October 2015, I held a number of meetings with **[Confidential to Tabcorp and Tatts]** [REDACTED], in relation to the potential cost savings arising from the proposed transaction. These meetings took place on **[Confidential to Tabcorp and Tatts]** [REDACTED]. Also in attendance at the meeting on **[Confidential to Tabcorp and Tatts]** [REDACTED] were other employees of Tabcorp and Tatts.
- 17 During these meetings, **[Confidential to Tabcorp and Tatts]** [REDACTED] and I discussed the areas of overlap between the Tabcorp and Tatts businesses and the cost duplication that could be avoided by the proposed transaction. In particular, we discussed cost savings in the following areas:

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- (a) **Wagering:** [Confidential to Tabcorp and Tatts] [REDACTED]
[REDACTED]
- (b) **Technology:** [Confidential to Tabcorp and Tatts] [REDACTED]
[REDACTED]
[REDACTED]
- (c) **Corporate:**[Confidential to Tabcorp and Tatts] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- (d) **Procurement:** [Confidential to Tabcorp and Tatts] [REDACTED]
[REDACTED]
[REDACTED]
- (e) **Property and field services:** [Confidential to Tabcorp and Tatts] [REDACTED]
[REDACTED]

18 In addition, [Confidential to Tabcorp and Tatts] [REDACTED] and I discussed areas where the increased efficiency of the Merged Entity would be likely achieve cost savings (e.g. procurement efficiencies through combined and more efficient procurement practices).

19 During these meetings, [Confidential to Tabcorp and Tatts] [REDACTED] and I shared information regarding the costs of each of our businesses. This information included details of the relative size and cost of the teams that Tabcorp and Tatts have in each of the above areas. Where I refer to information about Tatts in Part C, that information was provided by [Confidential to Tabcorp and Tatts] [REDACTED] at these meetings or was obtained by Tabcorp from publicly available material.

20 At these meetings, we discussed the cost savings across the whole of the business. However, we did not seek to identify whether the costs saving would be removed from the Tabcorp or Tatts business. [Confidential to Tabcorp and Tatts] [REDACTED]
[REDACTED]
[REDACTED]

21 My assessment and quantification of the cost savings and revenue increases which are likely to result from the proposed transaction and the pass through to third parties is set out in Parts B to F. The analysis and conclusions are based on the matters referred to in paragraph 3 above. In so doing, I obtained assistance from my team to identify and

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develop the analysis and assumptions to quantify the expected cost savings and revenue increases.

B. SUMMARY OF EXPECTED COST SAVINGS AND REVENUE INCREASES

22 The proposed transaction will enable cost savings and should unlock revenue growth in the parties' wagering and keno businesses. I have assessed and quantified that the proposed transaction will likely result in annual cost savings and revenue increases of at least the following amounts as set out in Table 1.

[Confidential to Tabcorp]

Table 1: Summary of expected annual cost savings and revenue increases (A\$M)

	Amount of annual savings or increases	Annual EBITDA contribution
Cost savings	████	██
Wagering revenue increases	████	██
Keno revenue increases	██	█
████████████████████ ████████████████████		██
Total	████	██

23 These cost savings and revenue increases should be achieved in full by the end of the third year following completion of the proposed transaction. If the Tribunal authorises the merger, the parties expect to complete the proposed transaction in September 2017. On that basis the full cost savings and revenue increases will be reflected in Tabcorp's statutory accounts from FY2021.

24 I have also assessed and quantified that these costs savings and revenue increases will be directly passed through to third parties in the amount of approximately **[Confidential to Tabcorp]** ██████████ each year. This pass through includes approximately:¹

¹ Total does not add precisely due to rounding.

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- (a) **[Confidential to Tabcorp]** ██████████ to state racing industries, approximately allocated in accordance with Table 2;

[Confidential to Tabcorp]

Table 2: Approximate state-by-state pass through to racing industries (A\$M)

QLD	SA	TAS	NT	NSW	VIC	WA
████	████	████	████	████	████	████

- (b) **[Confidential to Tabcorp]** ██████████ to retail venues including agencies and licensed venues;
- (c) **[Confidential to Tabcorp]** ██████████ to sporting bodies;
- (d) **[Confidential to Tabcorp]** ██████████ to the Federal Government (of which **[Confidential to Tabcorp]** ██████████ is expected to be corporate tax which does not contribute to EBITDA); and
- (e) **[Confidential to Tabcorp]** ██████████ to state governments.

C. COST SAVINGS

C.1 Summary of cost savings

- 25 The proposed transaction will likely enable the Merged Entity to achieve annual cost savings of approximately **[Confidential to Tabcorp]** ██████████ in the areas set out in Table 3.

[Confidential to Tabcorp]

Table 3: Summary of expected annual cost savings (A\$M)

Area of cost savings	Year 3 value
Wagering	████
Technology	████
Corporate	████
Procurement	████
Property and field services	████
Total	████

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- 26 Of these cost savings, I have quantified that approximately **[Confidential to Tabcorp]** [REDACTED] will be passed through to the NSW racing industry annually and approximately **[Confidential to Tabcorp]** [REDACTED] will be passed through to the Victorian racing industry annually. This is discussed in more detail in Part D.
- 27 These cost savings are likely to result in an EBITDA contribution of **[Confidential to Tabcorp]** [REDACTED] for Tabcorp annually.

C.2 Quantification of expected cost savings

C.2.1 Wagering

- 28 Table 4 below summarises the annual wagering cost savings that I have assessed and quantified to be likely to result by the end of the third year following completion of the proposed transaction.

[Confidential to Tabcorp]

Table 4: Expected wagering cost savings (A\$M)

Area of cost savings	Year 3 value ²
Marketing	[REDACTED]
Bookmakers	[REDACTED]
Call centre	[REDACTED]
Radio	[REDACTED]
Total	[REDACTED]

- 29 The basis for these likely cost savings in wagering is as follows:
- (a) **Marketing:** an annual cost saving of **[Confidential to Tabcorp]** [REDACTED] resulting from combining the wagering marketing operations of Tabcorp and Tatts. The majority of these benefits arise from removing duplication. This includes:

² Total does not add precisely due to rounding.

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i approximately **[Confidential to Tabcorp]** [REDACTED] of cost savings resulting from **[Confidential to Tabcorp and Tatts]** [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

ii a further approximately **[Confidential to Tabcorp]** [REDACTED] of cost savings through **[Confidential to Tabcorp]** [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

(b) **Bookmakers:** a cost saving of approximately **[Confidential to Tabcorp]** [REDACTED] annually resulting **[Confidential to Tabcorp]** [REDACTED]
 [REDACTED] This includes:

i approximately **[Confidential to Tabcorp]** [REDACTED] of cost savings resulting from **[Confidential to Tabcorp and Tatts]** [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

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[Redacted]

- ii approximately [Confidential to Tabcorp] [Redacted] of savings in the costs of [Confidential to Tabcorp] [Redacted] Both Tabcorp and Tatts currently acquire [Confidential to Tabcorp] [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted] Following the proposed transaction, the Merged Entity will [Confidential to Tabcorp] [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

- (c) **Call Centre:** Tabcorp and Tatts each currently operate call centres for the purposes of operating a telephone wagering channel. I have calculated that the proposed transaction will likely facilitate a cost saving of approximately [Confidential to Tabcorp] [Redacted] from the more efficient operation of the combined call centre function. This includes:

- i approximately [Confidential to Tabcorp] [Redacted] of costs savings annually in [Confidential to Tabcorp and Tatts] [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

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ii approximately [Confidential to Tabcorp] [REDACTED] of cost savings in [Confidential to Tabcorp] [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(d) **Radio:** Tabcorp and Tatts each currently operate radio stations. [Confidential to Tabcorp] [REDACTED]

[REDACTED] However, there should be an annual cost saving of approximately [Confidential to Tabcorp] [REDACTED] resulting from [Confidential to Tabcorp] [REDACTED]

[REDACTED]
[REDACTED]

C.2.2 Technology

30 Following the proposed transaction, I expect that Tabcorp and Tatts will [Confidential to Tabcorp and Tatts] [REDACTED]

(a) [REDACTED]
[REDACTED]

(b) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

31 Table 5 below summarises the annual technology cost savings I have assessed and quantified to be likely to result by the end of the third year following completion of the proposed transaction.

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[Confidential to Tabcorp]

Table 5: Expected technology cost savings (A\$M)

Area of cost savings	Year 3 value
Race-day operations	█
█	█
Data centre running costs	█
Wagering systems capex	█
Total	█

32 The basis for these likely technology cost savings is as follows:

(a) **Race-day operations:** Tabcorp and Tatts each operate technological race-day functions. These functions include setting up race meetings, entering race information into the wagering system (e.g. jockey details, names of horses etc.) opening races for bets, manually closing bets (which cannot be automated as races often run late) and entering result details, which facilitate customer payments. **[Confidential to Tabcorp]** █
 █
 █
 █

(b) **[Confidential to Tabcorp and Tatts]** █
 █
 █
 █
 █

- i █
- ii █
- iii █

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iv [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

v [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(c) **Data centre running costs:** savings in running costs of approximately **[Confidential to Tabcorp]** [REDACTED] annually from **[Confidential to Tabcorp]** [REDACTED]
This estimate is based on **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(d) **Wagering systems capex:** a further saving of approximately **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

C.2.3 Corporate

- 33 Table 6 below summarises the annual corporate cost savings I have assessed and quantified to be likely to result by the end of the third year following completion of the proposed transaction.

[Confidential to Tabcorp]

Table 6: Expected corporate cost savings (A\$M)

Area of cost savings	Year 3 value ³
Board and management	[REDACTED]
ASX listing costs	[REDACTED]
Duplicated corporate functions	[REDACTED]
Other corporate costs	[REDACTED]
Total	[REDACTED]

- 34 The basis for the likely corporate cost savings is as follows:

(a) **Board and management:** an annual cost saving of **[Confidential to Tabcorp]**

[REDACTED] resulting from creating a single board of directors and a single management team. This includes:

i **[Confidential to Tabcorp and Tatts]** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

ii a cost saving of approximately **[Confidential to Tabcorp and Tatts]**

[REDACTED]

³ Total does not add due to rounding.

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[Redacted text block]

(b) **ASX listing costs:** an annual cost saving of approximately **[Confidential to Tabcorp]** [Redacted] arising from a removal of duplication in ASX listing costs. This saving is based on Tabcorp's current ASX listing costs, which include

[Confidential to Tabcorp] [Redacted]
[Redacted]
[Redacted]
[Redacted]

(c) **Duplicated corporate functions:** I expect there to be an annual cost saving of approximately **[Confidential to Tabcorp]** [Redacted]

[Redacted]
[Redacted]
[Redacted]

i [Redacted]
[Redacted]
[Redacted]

ii [Redacted]

iii [Redacted]
[Redacted]

[Redacted]
[Redacted]

⁴ Total does not add precisely due to rounding.

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(d) **Other corporate costs:** an annual cost saving of approximately **[Confidential to Tabcorp]** from the removal of duplication in other corporate costs.

This includes:

- i a cost saving of approximately **[Confidential to Tabcorp]**
- ii

C.2.4 Procurement

35 Table 7 below summarises the annual procurement cost savings I have assessed and quantified to be likely to result by the end of the third year following completion of the proposed transaction.

[Confidential to Tabcorp]

Table 7: Expected procurement cost savings (A\$M)

Area of cost savings	Year 3 value
Communications	█
Other (venue overlap, █, and improved terms)	█
Total	█

36 The basis for the likely procurement cost savings is as follows:

⁵ Total does not add precisely due to rounding.

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(a) **Communications:** the combined communications spend of Tabcorp and Tatts is currently **[Confidential to Tabcorp]** [REDACTED]. I expect the proposed transaction will result in an annual cost saving of approximately **[Confidential to Tabcorp and Tatts]** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(b) **Other:** additional procurement cost savings of approximately **[Confidential to Tabcorp]** [REDACTED] annually. In particular, I expect cost savings of:

i approximately **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

ii approximately **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

C.2.5 Property and field services

37 Table 8 below summarises the annual property and field services cost savings I have assessed and quantified to be likely to result by the end of the third year following completion of the proposed transaction.

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[Confidential to Tabcorp]

Table 8: Expected property and field services cost savings (A\$M)

Area of cost savings	Year 3 value
Property	■
Field services	■
Total	■

38 The basis for the likely property and field services cost savings is as follows:

(a) **Property:** approximately **[Confidential to Tabcorp]** ■ annually in property related cost savings. This includes:

- i a cost saving of approximately **[Confidential to Tabcorp]** ■ resulting from **[Confidential to Tabcorp and Tatts]** ■
 ■
 ■
 ■
 ■
 ■
 ■
 ■
 ■
 ■
- ii a further cost saving of approximately **[Confidential to Tabcorp]** ■
 ■ resulting from **[Confidential to Tabcorp and Tatts]** ■
 ■
 ■
 ■
 ■
 ■
 ■

⁶ Subtotals do not add precisely due to rounding.

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(b) **Field services:** I expect there to be an annual cost saving of approximately

[Confidential to Tabcorp] [REDACTED]

[REDACTED] This will result from

[Confidential to Tabcorp] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

C.3 Time to achieve cost savings

39 I have calculated the cost savings above on the basis that they will be realised in full in the first full financial year following integration. Based on my experience, I expect that integration of the Tatts business is likely to take approximately two years following the completion of the transaction. As such, the cost saving benefits are likely to be realised in full by the end of the third year following completion of the proposed transaction.

40 Although the full benefits are likely only to be realised after two years of integration, it is likely that many of the cost savings will be achieved during the first two years of the integration process. It is difficult to estimate the phasing of cost savings accurately until more detailed integration planning occurs.

41 Based on my experience, and with the limitation that integration planning is uncertain, I have estimated the likely phasing of each of the cost savings in Table 9.

[Confidential to Tabcorp]

Table 9: Years 1 to 3 percentage phasing of expected cost savings

Summary of estimated cost savings	Year 1	Year 2	Year 3
Wagering	[REDACTED]	[REDACTED]	[REDACTED]
Technology	[REDACTED]	[REDACTED]	[REDACTED]
Corporate	[REDACTED]	[REDACTED]	[REDACTED]
Procurement	[REDACTED]	[REDACTED]	[REDACTED]
Property and field services	[REDACTED]	[REDACTED]	[REDACTED]

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- (a) **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
[REDACTED]
- (b) [REDACTED]
- (c) [REDACTED]

45 Year 3 phasing indicates the percentage of the cost savings that will likely be realised during the third year following the transaction. Certain cost savings will only be achieved after full system integration, such as cost savings related to more complex technology systems integration.

C.4 Integration costs

46 I have made an allowance of approximately **[Confidential to Tabcorp]** [REDACTED] for the likely one-off integration costs associated with combining the Tabcorp and Tatts businesses. This includes:

- (a) approximately **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- (b) approximately **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

D. PUBLIC BENEFITS: PASS THROUGH OF COST SAVINGS TO VICTORIAN AND NSW RACING INDUSTRIES AND FEDERAL GOVERNMENT

D.1 Summary of pass through of cost savings

47 Tabcorp has profit sharing arrangements with the racing industries in Victoria and NSW. As a consequence of these arrangements, by the end of the third year following completion of the transaction, approximately **[Confidential to Tabcorp]** [REDACTED] of the cost savings expected to result from the proposed transaction will likely be passed

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through to the racing industries in those States annually. The breakdown of the likely pass through of cost savings as a result of the profit sharing arrangements in Victoria and NSW, and the pass through in Year 1 and Year 2 as the costs savings are phased in, are set out below in Table 11 and Table 12 respectively.

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Table 11: Expected pass through of cost savings to racing industry in Victoria (A\$M)⁸

	Year 1 value	Year 2 value	Year 3 onwards value
Wagering	■	■	■
Technology	■	■	■
Technology (wagering systems capex)	■	■	■
Corporate	■	■	■
Procurement	■	■	■
Property and field services	■	■	■
Total cost saving	■	■	■

⁸ Subtotals do not add precisely due to rounding.

Confidential Restriction on Publication Claimed**[Confidential to Tabcorp]****Table 12: Expected pass through of cost savings to racing industry in NSW (A\$M)**

	Year 1 value	Year 2 value	Year 3 onwards value
Wagering	■	■	■
Technology	■	■	■
Technology (wagering systems capex)	■	■	■
Corporate	■	■	■
Procurement	■	■	■
Property and field services	■	■	■
Total cost saving	■	■	■

48 The cost savings will also likely result in approximately **[Confidential to Tabcorp]** ■■■■■ passed through to the Federal Government in the form of increased tax payments.

D.2 Profit sharing arrangements in Victoria and NSW

49 Tabcorp's totalisator retail licences in Victoria and NSW required it to enter into wagering profit sharing arrangements with the Victorian and NSW racing industries. The agreements between Tabcorp and the racing industries in each of Victoria and NSW contain the following profit sharing mechanisms:

- (a) Pursuant to clauses 2.4 and 2.6(a)(v) of the Unincorporated Joint Venture Agreement (**UJVA**) between various Tabcorp entities and VicRacing Pty Ltd (**VicRacing**), and Racing Products Victoria Pty Ltd, Tabcorp Wagering Participant (Vic) Pty Ltd and VicRacing are each entitled to a 50% share of the earnings derived from the Tabcorp's Victorian operations (earnings is defined in the UJVA).

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(b) Pursuant to clause 9.1(a)(iii) of the amended Racing Distribution Agreement between various Tabcorp entities, Racingcorp Pty Ltd (formerly NSW Racing Pty Ltd (**NSWR**)), Greyhound Racing New South Wales (formerly Greyhound Racing Authority), Harness Racing New South Wales and Racing New South Wales (formerly New South Wales Thoroughbred Racing Board) (**NSW RDA**), Tab Limited agrees to pay NSW the Wagering Incentive Fee, which is an amount equal to 25% of earnings from Tabcorp's NSW wagering operations (earnings is defined in the NSW RDA).

50 I understand that further information on the arrangements between Tabcorp and the NSW and Victorian racing industries will be included in the statement filed by Douglas Freeman, Executive General Manager – Commercial Development, Tabcorp.

51 The cost savings identified in Part C.2 above will likely result in an increase in profit for each of Tabcorp's Victorian and NSW wagering operations. As a result of the profit sharing arrangements identified above, VicRacing and NSWR will directly benefit from the proposed transaction.

52 I understand that the arrangements that Tatts has in place with the racing industries in the Tatts States are based on revenue sharing rather than profit sharing. The racing industries in those states will therefore not be directly impacted by the cost savings expected to result from the proposed transaction. However, as explained in Part F below, the racing industries in the Tatts States will share in a significant proportion of the revenue increases expected to result from the proposed transaction.

D.3 Process for calculating expected pass through of cost savings to racing industries

53 Tabcorp allocates its wagering related costs between the Victorian and NSW wagering operations for the purpose of the profit sharing arrangements it has with VicRacing and NSWR.

54 The document at **Tab 2 of Confidential Exhibit DJ-1 [TBP.001.028.0002]** summarises the methodology that Tabcorp currently applies to allocating costs between Victoria and NSW. This approach to allocation reflects principles that were agreed with VicRacing in 2004 when Tabcorp acquired Tab Limited. They are consistent with the requirements of the NSW Racing Distribution Agreement.

55 Tabcorp's current approach to allocating costs is summarised as follows:

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(a) **Directly attributable costs:** [Confidential to Tabcorp] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(b) **Shared costs:** [Confidential to Tabcorp] [REDACTED]
[REDACTED]
[REDACTED] In accordance with the 2004 Allocation Principles:

i [Confidential to Tabcorp] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

ii [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

iii [REDACTED]
[REDACTED]
[REDACTED]

(c) **Specific rules:** [Confidential to Tabcorp] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

D.4 Allocation of expected cost savings post-transaction

56 Where possible, I, with assistance from my team, used the methodology set out in Part D.3 above to allocate the expected post-transaction combined cost base (after taking into account the expected cost savings) between:

- (a) Tabcorp's Victorian and NSW wagering operations; and
- (b) Tatts' wagering operations.

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57 **[Confidential to Tabcorp]** [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

58 **[Confidential to Tabcorp]** [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

59 The approach that we used to quantify the post-transaction allocation of costs is summarised in Table 13:

[Confidential to Tabcorp]

Table 13: Methodology for allocating post-transaction cost base

Wagering	
Wagering marketing	[REDACTED] [REDACTED] [REDACTED]
Bookmakers	[REDACTED]
Call centre	[REDACTED]
Radio	[REDACTED] [REDACTED]
Technology	
Race-day operations	[REDACTED]
[REDACTED]	[REDACTED]
Wagering systems capex	[REDACTED]
Data centre running costs	[REDACTED]

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Corporate	
Board & Management	[REDACTED]
ASX listing costs	[REDACTED]
Duplicated functions	[REDACTED]
Other	[REDACTED]
Procurement	
Communications	[REDACTED]
Other	[REDACTED]
Property and field services	
Property	[REDACTED]
Field services	[REDACTED]

D.5 Quantification of racing industry benefit from cost savings

60 I calculated the post-transaction cost savings that would be allocated to the Victorian and NSW wagering businesses by **[Confidential to Tabcorp]** [REDACTED]

[REDACTED]

(a) [REDACTED]
[REDACTED]

(b) [REDACTED]
[REDACTED]

61 I obtained input from my team in making these calculations. These calculations are included in **Tab 3 of Confidential Exhibit DJ-1 [TBP.100.001.0001]**.

62 I then calculated the amount of the cost savings that would be passed through to the racing industries in Victoria and NSW based on their profit sharing agreements with Tabcorp. Based on these calculations, the Victorian and NSW racing industries will likely receive shares of the expected cost savings as set out in Table 14 below by the end of Year 3 following the completion of the transaction.

Confidential Restriction on Publication Claimed**[Confidential to Tabcorp]****Table 14: Racing industry share of expected cost savings**

Victoria	████████████████████
NSW	████████████████████

E. REVENUE INCREASES**E.1 Summary of revenue increases**

63 In addition to the costs savings, the proposed transaction is likely to result in substantial increases in revenue for the Merged Entity. These revenue increases arise as a result of Tabcorp's plans to:

- (a) improve Tatts' fixed odds performance;
- (b) implement certain wagering business improvements in the Tatts States; and
- (c) implement keno business improvements in South Australia.

64 Table 15 summarises the annual revenue increases that I have assessed and quantified as likely to be achieved by the Merged Entity once these initiatives have been fully realised.

[Confidential to Tabcorp]**Table 15: Summary of annual revenue increases from third year following completion (A\$M)**

Area of increase	Revenue increase
Improved Tatts fixed odds performance	████
Wagering business improvements	████
Keno business improvements	████
Total	████

65 I have also calculated that approximately **[Confidential to Tabcorp]** ██████████ of these revenue increases will likely be directly passed through, on an annual basis, to

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racing industries, retail venues, sporting bodies and governments in Australia in the form of fees, commissions, profit shares and taxes.

E.2 Revenue increases – fixed odds performance

E.2.1 Factors relevant to fixed odds performance

66 The following factors are relevant to measuring the performance of a fixed odds book:

- (a) **Fixed odds turnover:** this measures the value of the bets that customers place on fixed odds products. Turnover can be impacted by the number and size of the fixed odds products that are offered by a bookmaker.
- (b) **Fixed odds yield:** the yield from fixed odds betting is the proportion of turnover that fixed odds bookmakers retain after the payment of winnings. Fixed odds bookmakers aim to maximise their yield by offering odds and managing risk such that the ultimate payout from a particular event is less than the total amount wagered with the bookmaker for that event.
- (c) **Fixed odds revenue:** is a factor of turnover and yield. Bookmakers can improve their fixed odds revenue position by increasing their fixed odds turnover or their fixed odds yield. However, in order to achieve sustained revenue growth bookmakers aim to grow their fixed odds turnover whilst maintaining or increasing their fixed odds yields.

67 Improving the overall performance of a fixed odds book involves simultaneously growing fixed odds turnover and maintaining or growing fixed odds yield. In order to do this, bookmakers will need to successfully manage fixed odds risk. Bookmakers do this by identifying and limiting their exposure to risky bets by either adjusting the odds, limiting the size of bets that will be accepted, or by refusing to accept certain bets at all. From my experience of working in a wagering business, I understand that the key to successfully managing a fixed odds book is achieving the right balance between limiting exposure to risk while not overly restricting the amount and size of bets accepted. For example, if fixed odds risk is managed in a cautious way, this may result in fixed odds yield growth at the expense of turnover growth. Conversely, if fixed odds risk is managed in a less cautious manner or with a focus on turnover growth, this can result in increased turnover at the expense of yield and ultimately revenue. Both factors can impact the overall performance of a fixed odds book.

Confidential Restriction on Publication Claimed**[Confidential to Tabcorp]****Table 17: Tabcorp's fixed odds performance FY07 – H1 FY17****[HIGHLY Confidential to Tabcorp]**

Fixed odds performance indicator	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	H1 FY17 ⁹
Yield	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	13.8%	14.5%	15.6%	14.7%	15.1%
Growth (% points)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	0.7	1.1	(0.9)	0.0
Turnover (A\$M)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Growth (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Revenue (A\$M)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Growth (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

72 In relation to Table 17, I note that:

- (a) the data contained in the table includes the ACTTAB fixed odds performance from when it was acquired by Tabcorp in FY15;
- (b) due to unusually favourable results for customers, Tabcorp experienced off-trend negative growth in its fixed odds yield in FY16. This also impacted corporate bookmakers. However, Tabcorp's overall yield of 14.7% for FY16 remained materially above the levels Tabcorp was achieving prior to investing in its fixed odds risk management systems; and
- (c) Tabcorp's fixed odds growth for H1 2017 is measured against its H1 2016 fixed odds results which were approximately \$2.3 billion of turnover and approximately \$353 million of revenue with a yield of 15.1%.

E.2.3 Tatts' fixed odds risk management systems

73 From due diligence that Tabcorp undertook on the Tatts business as part of the proposed transaction, **[Confidential to Tatts]**

⁹ Growth for H1 2017 is measured against Tabcorp's H1 2016 fixed odds results.

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[REDACTED]
 [REDACTED] In particular, I understand that:

- (a) **[Confidential to Tatts]** [REDACTED]
 [REDACTED]
 [REDACTED]
- (b) [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

E.2.4 Tatts' fixed odds performance

74 From information provided during the due diligence, I understand that Tatts' fixed odds performance from FY2010 to H1 FY2017 is summarised in Table 18.

[Confidential to Tatts]

Table 18: Tatts' fixed odds performance FY10 – H1 FY17

Fixed odds performance indicator	FY10	FY11	FY12	FY13	FY14	FY15	FY16	H1 FY17 ¹⁰
Yield	[REDACTED]	[REDACTED]	[REDACTED]	14.9%	14.1%	14%	12.1%	[REDACTED]
Growth (% points)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	(0.8)	(0.1)	(1.9)	[REDACTED]
Turnover (A\$M)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Growth (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Revenue (A\$M)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Growth (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

¹⁰ Growth for H1 2017 is measured against Tatts' H1 2016 fixed odds results.

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75 I note that Tatts' growth for H1 FY2017 shown in Table 18 is **[Confidential to Tatts]**
[Redacted]
[Redacted]

76 A comparison of Tabcorp's and Tatts' fixed odds results (Table 17 and Table 18 above) illustrates that:

- (a) Over the past three financial years (FY2014 – FY2016), Tabcorp's fixed odds book has significantly outperformed Tatts' fixed odds book;
- (b) During this period:
 - i Tabcorp has achieved average fixed odds revenue growth of 22% **[Confidential to Tatts]** [Redacted]
[Redacted]
 - ii Tabcorp's fixed odds yield has substantially increased, whereas Tatts' fixed odds yield has decreased;
 - iii Tabcorp has managed to achieve this increase in yield whilst maintaining strong turnover growth; and
- (c) Tabcorp's improved fixed odds performance coincided with the increased investment by Tabcorp in its fixed odds business to which I referred in Part E.2.2 above.

77 I understand from information provided by Tatts during the due diligence process for the proposed transaction that **[Confidential to Tatts]** [Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted] In particular:

- (a) **[Confidential to Tatts]** [Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]

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(b) [Redacted]

E.2.5 The opportunity for Tabcorp to improve Tatts' fixed odds performance

78 Having regard to the performance of Tatts' fixed odds book over the past three years, there is an opportunity for Tabcorp to improve the performance of Tatts fixed odds book following the proposed transaction as follows.

(a) **Implementing Tabcorp's superior fixed odds risk management system:**

Following the proposed transaction, Tabcorp's fixed odds risk management systems will be implemented into the Tatts business. This will likely result in an increase in Tatts fixed odds revenue growth by:

i **[Confidential to Tabcorp and Tatts]** [Redacted]

ii [Redacted]

(b) **Higher yielding products:** Tabcorp plans to introduce or increase the coverage of higher yielding fixed odds products in the Tatts States which should lead to increased fixed odds revenue. For example, I expect that Tabcorp will introduce fixed odds multi bets with more than 10 legs and fixed odds systems multi bets.

E.3 Quantification of revenue increase from improved fixed odds performance

79 Based on Tatts' FY2016 fixed odds turnover results, the gap between Tatts and Tabcorp's fixed odds yield is 2.6%. **[Confidential to Tabcorp]** [Redacted]

[Redacted]

80 **[Confidential to Tabcorp]** [Redacted]

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[REDACTED]

81 **[Confidential to Tabcorp]** [REDACTED]

(a) [REDACTED]

(b) [REDACTED]

82 **ACTTAB fixed odds experience:** **[Confidential to Tabcorp]** [REDACTED]

(a) [REDACTED]

(b) [REDACTED]

(c) [REDACTED]

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[Confidential to Tabcorp]

Table 19: ACTTAB fixed odds yield performance

Fixed odds performance indicator	Pre-Tabcorp acquisition		Post-Tabcorp acquisition (occurred FY15)		
	FY13	FY14	FY15	FY16	FY17 half year*
Yield					
Growth (% points)					
Turnover (A\$M)					
Growth (%)					
Revenue (A\$M)					
Growth (%)					

*Compared to FY16 half year results

83 [Confidential to Tabcorp] [Redacted]
[Redacted]
[Redacted]

I have therefore estimated that the [Confidential to Tabcorp] [Redacted] revenue increase will be achieved by the end of the third year following completion of the proposed transaction and will then continue annually. Further information regarding the timing of the phasing of the expected revenue increases is provided in Part E.8 of this statement.

84 An increase in revenue resulting from Tatts’ improved fixed odds performance of [Confidential to Tabcorp] of [Redacted] will result in an annual EBITDA increase of [Confidential to Tabcorp] [Redacted] net of the amounts that will pass through to the racing industry in the form of fees and commissions and to the government in the form of increased wagering, GST and corporate taxes.

E.4 Revenue increases – wagering business improvements

85 Following the proposed transaction, Tabcorp proposes to make further improvements to the Merged Entity’s wagering businesses. These improvements include:

- (a) introducing new products and broadening the availability of other products in the Tatts States;

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(b) re-branding and improving the retail network in the Tatts States; and

(c) **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]

86 The improvements that Tabcorp intends to make in each of these areas are described in the following paragraphs and should result in further revenue and turnover increases.

E.4.1 Introducing new products and broadening the coverage of other products

87 Following the proposed transaction, Tabcorp plans to align its product offering nationally. This will result in the introduction of new products into the Tatts States as well as increasing the coverage of some products currently offered by Tatts. Products that Tabcorp plans to introduce in the Tatts States include **[Confidential to Tabcorp]**
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

88 An example of a product that Tabcorp intends to increase the availability of in the Tatts States is a 'Quaddie Cash Out' bet. A Quaddie is a bet that involves a customer picking the winners of four nominated races. A Quaddie Cash Out permits the customer to cash out the market value of their Quaddie, fully or partially, at any time after the first leg. I understand that Tatts currently offers Quaddie Cash Out only for selected fixed odds bets and not at all for totalisator bets.

E.4.2 Rebranding and improving the retail network in Tatts States

89 Tabcorp also plans to make significant investments in the Tatts wagering retail network. I understand that the plan includes the following initiatives:

(a) **Re-branding the Tatts business, including all retail venues plus Tatts' digital offering, with the TAB brand.** The plan is that the retail wagering venues in the Tatts States will be rebranded to the 'TAB' brand. The 'TAB' brand stands for 'Totalisator Agency Board' which has been around since in the 1960s. In contrast, the Tatts 'UBET' brand was introduced approximately three years ago. To my mind, the TAB brand has a substantially greater brand awareness with customers than the 'UBET' brand.

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(b) **Improving the Tatts wagering retail network.** From my own involvement with the proposed transaction and from information provided to me by Douglas Freeman, I understand that the plan includes:

i **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]

ii [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

iii [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

iv [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

v [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

vi [REDACTED]
[REDACTED]

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[Redacted]

(c) **Investing in customer relationship management.** Following the proposed transaction, **[Confidential to Tabcorp]** [Redacted]. I have been informed by Douglas Freeman that this will include the following initiatives and I understand that more information about these initiatives will be included in the statement filed by him:

- i **[Confidential to Tabcorp]** [Redacted]
- ii [Redacted]
- iii [Redacted]

90 I expect that Tabcorp will spend approximately **[Confidential to Tabcorp]** [Redacted] to achieve the wagering business improvements.

E.4.3 [Confidential to Tabcorp] [Redacted]

91 **[Confidential to Tabcorp]** [Redacted]

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E.5 Quantification of business improvement benefits

E.5.1 Modelling of wagering business improvement initiatives

92 My team undertook an analysis and created a model of the likely turnover and revenue impacts of the wagering business improvements of each of the initiatives set out in Part E.4 above. This model is based on:

- (a) assumptions based on Tabcorp’s experience in running a wagering business and introducing similar initiatives in its own and acquired businesses;
- (b) confidential data provided to Tabcorp by Tatts for the purpose of assessing the proposed transaction; and
- (c) assumptions concerning the Tatts business and the wagering market based on other data available to Tabcorp.

93 A copy of the spreadsheet setting out this modelling is at **Tab 4 of Confidential Exhibit DJ-1 [TBP.100.001.0002]**. The assumptions and data on which the model is based are set out in the ‘Notes’ and ‘Inputs’ sheets of that spreadsheet. My team has briefed me on the assumptions and methodology used for the model. In my view, based on my experience and the matters referred to in this statement, the assumptions, methodology and the results of the modelling are reasonable.

94 **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
[REDACTED]

(a) [REDACTED]
[REDACTED]

(b) [REDACTED]
[REDACTED]

95 **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
[REDACTED]

96 **[Confidential to Tabcorp]** [REDACTED]

(a) [REDACTED]
[REDACTED]

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- (b) [Redacted]
- (c) [Redacted]
- (d) [Redacted]

E.5.2 Results of modelling

97 Based on the model and my experience and the matters referred to in this statement (including in Part E.5.3 below), in my view, the wagering business improvements are likely to result in at least the following annual increases in turnover and revenue for the Merged Entity as set out in Table 20 below.

Confidential Restriction on Publication Claimed**[Confidential to Tabcorp]****Table 20: Annual turnover and revenue increases from wagering business improvements (A\$M)**

	Turnover	Revenue
Tatts business improvements		
<i>Products – new and increased coverage in Tatts States</i>	■	■
<i>Branding, retail and customer account investments in Tatts States</i>	■	■
■	■	■
■	■	■
Total	■	■

- 98 This increased revenue from the wagering business improvements should result in an annual EBITDA contribution for Tabcorp of approximately **[Confidential to Tabcorp]** ■.
- 99 This increase in revenue from the wagering business improvements will be in addition to the **[Confidential to Tabcorp]** ■ of revenue expected to result from the improvement in Tatts' fixed odds performance (which is described in Part E.2 above).

E.5.3 Impact on market share position of Tatts

- 100 I consider that the results of the modelling of the wagering business improvements are supported by a comparison between the home market share of Tabcorp and Tatts in wagering.
- 101 My estimates of the current home state market share positions of each of Tatts and Tabcorp are in Table 21. This is based on FY2016 turnover data from the Australian Racing Fact Book, Tatts data, and other confidential data available to Tabcorp. As can be seen from Table 21, **[Confidential to Tabcorp and Tatts]** ■
■

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E.6 Revenue increases resulting from improvements to the South Australian keno business

104 Tatts holds the rights to offer keno in South Australia pursuant to the South Australian Master Agency Agreement. South Australia is the only State in which Tatts offers keno. Following the proposed transaction, Tabcorp plans to improve the keno offering in South Australia by implementing the same initiatives that were implemented as part of Tabcorp's successful revitalisation of its own keno network. These initiatives include:

- (a) rolling out the Tabcorp keno brand in South Australia and investing in the marketing of this brand;
- (b) upgrading keno venues in South Australia to enhance the customer experience. This will include upgrading the look and amenities of the venue; and
- (c) pooling South Australian keno jackpots with keno jackpots in the wider Tabcorp network and **[Confidential to Tabcorp]** [REDACTED]

105 Tabcorp plans to invest approximately **[Confidential to Tabcorp]** [REDACTED] in upgrading the South Australian keno business. Based on Tabcorp's previous experience of rolling out its own keno upgrade which involved similar initiatives, I expect that Tabcorp will be able to complete the South Australian upgrade **[Confidential to Tabcorp]** [REDACTED]

E.7 Quantification of keno revenue increases

106 My team and I have undertaken an analysis and created a model of the revenue increases that are likely to result from the improvement of the South Australian keno business.

107 We based our modelling on the approximately **[Confidential to Tabcorp]** [REDACTED] [REDACTED]. I consider that this is a reasonable approach for the following reasons:

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- (a) **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
- (b) the keno business improvement initiatives that Tabcorp plans to introduce in South Australia are very similar to the keno business improvement initiatives that Tabcorp successfully implemented in Victoria.

108 A copy of the spreadsheet setting out our modelling of the turnover and revenue increases expected to result from the South Australian keno business improvements is at **Tab 5 of Confidential Exhibit DJ-1 [TBP.100.001.0003]**. Based on this analysis, and the my experience and matters referred to above, I expect that by the end of the third year following completion and in each following year, the proposed transaction will likely result in the following approximate annual increases in turnover and revenue for the South Australian keno business:

[Confidential to Tabcorp]

Table 23: Expected keno turnover and revenue increases keno (from Year 3 onwards) (A\$M)

Turnover	Revenue
[REDACTED]	[REDACTED]

109 As shown in **Tab 5 of Confidential Exhibit DJ-1 [TBP.100.001.0003]**, this will have an annual EBITDA benefit of approximately **[Confidential to Tabcorp]** [REDACTED] for Tabcorp.

110 Based on **[Confidential to Tabcorp]** [REDACTED]
[REDACTED], I expect that the South Australian keno improvements will be completed and the full benefits realised within **[Confidential to Tabcorp]** [REDACTED]
[REDACTED].

E.8 Phasing of revenue increases

111 Based on my previous experiences of acquiring and integrating wagering and keno businesses (e.g. ACTTAB) and rolling out similar business improvements, I expect that Tabcorp will likely be able to realise the full rate of the wagering and keno revenue increases by the end of the third year following completion of the proposed transaction. However, until my team and I undertake more detailed integration planning it is difficult to predict the extent to which these revenue increases will be realised **[Confidential to**

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Tabcorp] [REDACTED]. Factors that may impact how quickly the revenue increases are realised include:

- (a) **[Confidential to Tabcorp]** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

- (b) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

- (c) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

112 Notwithstanding that it is difficult to make precise predictions about timing at this stage, my team and I have estimated the following phasing of the wagering and keno revenue increases (see Table 24 and Table 25 below). The corresponding phasing on a turnover basis is at the 'Phasing' sheet of **Tab 4 of Confidential Exhibit DJ-1 [TBP.100.001.0002]** for the wagering revenue increases and is in the 'Keno uplift summary' sheet of **Tab 5 of Confidential Exhibit DJ-1 [TBP.100.001.0003]** for the keno revenue increases.

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Table 24: Years 1 to 3 post-completion phasing of wagering revenue increases (A\$M)

	Year 1	Year 2	Year 3 ¹¹
Fixed odds yield increase (2.6%)	■	■	■
Wagering business improvements			
<i>Products – introduction of new and increased coverage in Tatts States</i>	■	■	■
<i>Branding, retail and customer account investments in Tatts States</i>	■	■	■
████████████████████	■	■	■
████████████████████	■	■	■
Total	■	■	■

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Table 25: Years 1 to 3 post-completion phasing of keno revenue increases (A\$M)

	Year 1	Year 2	Year 3
Turnover	■	■	■
Revenue	■	■	■

F. PUBLIC BENEFITS: DIRECT PASS THROUGH OF REVENUE INCREASES

F.1 Summary of public benefit pass through of revenue increases

- 113 The revenue increases likely to result from the proposed transaction (including wagering and keno) should be passed through to third parties as public benefits in the amount of

¹¹ Totals do not add precisely due to rounding.

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approximately **[Confidential to Tabcorp]** ██████████ each year. This includes the pass through of approximately:

- (a) **[Confidential to Tabcorp]** ██████████ to state racing industries;
- (b) **[Confidential to Tabcorp]** ██████████ to retail venues including agencies and licensed venues (pubs and clubs);
- (c) **[Confidential to Tabcorp]** ██████████ to sporting bodies;
- (d) **[Confidential to Tabcorp]** ██████████ to the Federal Government; and
- (e) **[Confidential to Tabcorp]** ██████████ to state governments.

114 The distribution of these benefits on a state by state basis is expected to be as follows:

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Table 26: Summary of annual pass through of revenue and keno increases by State/Territory (A\$M)

QLD	SA	TAS	NT	NSW	VIC	WA	Federal
██████	██████	██████	██████	██████	██████	██████	██████

115 My assessment and quantifications of these amounts to be passed through to third parties are explained in the following sections of this statement.

F.2 Pass through of wagering revenue increases

116 The wagering revenue increases that are likely to result from the proposed transaction will be shared directly with racing industries, sporting bodies, retail wagering venues and State and Federal governments through the Merged Entity's payment of:

- (a) racing product fees to the racing industries;
- (b) race field fees to the racing industries;
- (c) Tabcorp's racing industry profit shares in Victoria and NSW;
- (d) sporting body fees;
- (e) commissions to pubs and clubs;
- (f) commissions to agencies;
- (g) state government taxes; and

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(h) federal government taxes.

117 I understand more detail about the nature of these fees and taxes and the industry funding model will be included in the statement filed by Douglas Freeman.

118 The pass through of the wagering revenue increases was modelled by my team as part of their analysis of the wagering business improvements. This analysis is at **Tab 4 of Confidential Exhibit DJ-1 [TBP.100.001.0002]**. Based on this analysis the wagering revenue increases will result in the direct pass through of the following additional amounts in each State and Territory on an annual basis.

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Table 27: Pass through of annual wagering revenue increases (from Year 3 onwards) (A\$M)¹²

	QLD	SA	TAS	NT	NSW	VIC	WA
Racing industry total	■	■	■	■	■	■	■
<i>Broken down as:</i>							
<i>Product fees</i>	■	■	■	■	■	■	■
<i>Race fields fees</i>	■	■	■	■	■	■	■
<i>Profit share</i>	■	■	■	■	■	■	■
Sporting bodies (fees)	■	■	■	■	■	■	■
Retail wagering venues (commissions)	■	■	■	■	■	■	■
State government (tax)	■	■	■	■	■	■	■
Federal government (GST)	■	■	■	■	■	■	■
Federal government (corporate tax)	■						

119 **[Confidential to Tabcorp]** [REDACTED]

[REDACTED]

(a) [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

¹² Subtotals do not add precisely due to rounding.

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[Redacted]

(b)

[Redacted]

120 As described in paragraph 102 above, the turnover increases expected to result from the wagering business improvements would be **[Confidential to Tabcorp]** [Redacted] [Redacted] Based on the model at Tab 5 of DJ-1 [TBP.100.001.0002], **[Confidential to Tabcorp]** [Redacted] [Redacted] [Redacted] [Redacted]

[Confidential to Tabcorp]

[Redacted]

QLD	SA	TAS	NT	NSW	VIC	WA
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]

121 As explained in Part E.8 of this statement, until more detailed integration planning occurs it is difficult to predict the extent to which **[Confidential to Tabcorp]** [Redacted] [Redacted] Nevertheless, my team and I have estimated **[Confidential to Tabcorp]** [Redacted] [Redacted]

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[Confidential to Tabcorp]

Table 29: Estimated Year 1 and Year 2 pass through of wagering revenue increases (A\$M)

	Year post-completion	QLD	SA	TAS	NT	NSW	VIC	WA
Racing industry total	Yr 1	■	■	■	■	■	■	■
	Yr 2	■	■	■	■	■	■	■
Sporting bodies (fees)	Yr 1	■	■	■	■	■	■	■
	Yr 2	■	■	■	■	■	■	■
Retail wagering venues (commissions to pubs, clubs and agencies)	Yr 1	■	■	■	■	■	■	■
	Yr 2	■	■	■	■	■	■	■
State government (tax)	Yr 1	■	■	■	■	■	■	■
	Yr 2	■	■	■	■	■	■	■
Federal government (GST)	Yr 1	■	■	■	■	■	■	■
	Yr 2	■	■	■	■	■	■	■
Federal government (corporate tax)	Yr 1	■						
	Yr 2	■						

F.3 Pass through of keno revenue increases

122 The South Australian keno revenue increases that are likely to result from the proposed transaction will be shared directly with keno venues and State and Federal governments through the Merged Entity's payment of:

- (a) commissions to pubs, clubs and retail; and
- (b) taxes.

123 The pass through of the full rate of expected keno revenue increases was calculated by my team. This analysis is at **Tab 5 of Confidential Exhibit DJ-1 [TBP.100.001.0003]**. Based on this analysis, I expect that by **[Confidential to Tabcorp]** [REDACTED] the keno revenue increases will result in the pass through of the following additional amounts in South Australia on an annual basis (see Table 30 below).

Confidential Restriction on Publication Claimed**G. POTENTIAL POOLING BENEFITS****G.1 Overview of potential pooling benefits**

- 125 Tabcorp currently operates separate pari-mutuel pools in Victoria (the 'SuperTAB' pool) and NSW (the 'NSWTAB' pool). Customers in the ACT and in Western Australia also bet into the SuperTAB pool. This is because (1) Tabcorp operates the ACT business and (2) Tabcorp provides pooling services to Racing & Wagering Western Australia (**RWWA**), the totalisator operator in Western Australia. Tabcorp does not currently have regulatory approval to merge its Victorian and NSW pari-mutuel pools. Tatts operates a single pari-mutuel pool covering all of the Tatts States.
- 126 In Tabcorp's experience, the merging of pari-mutuel pools is likely to have turnover and revenue benefits as larger pari-mutuel pools are more attractive to customers. This is because the larger and more liquid a pool is, the more stable that pool is likely to be. Large bets will then be less likely to impact the odds for that pool and customers will be able to bet with increased confidence about the likely outcome of that pool. In my experience, the size of a pool is therefore one of the factors that customers will take into account when considering whether to place a bet into a pool.
- 127 Regulatory and industry approvals will be required to merge Tabcorp's and Tatts' pari-mutuel pools following the proposed transaction. However, in addition to regulatory approvals, there are also commercial reasons why Tabcorp and Tatts would not presently merge their pools absent the transaction. The proposed transaction would therefore result in the removal of a commercial barrier and create a path to the merging of Tabcorp's and Tatts' pari-mutuel pools. I understand that information concerning the commercial and regulatory considerations relevant to the merging of pari-mutuel pools will be included in the statement filed by Douglas Freeman.
- 128 Given that larger pools are more attractive to customers, I expect that the merging of Tabcorp's and Tatts' pari-mutuel pools would result in more bets being placed with the Merged Entity, which would lead to increased turnover and revenue for the Merged Entity. In my view, the degree of that likely increase in turnover and revenue will depend on which of Tabcorp's and Tatts' pari-mutuel pools are merged, as this will impact the depth and liquidity, and therefore the attractiveness, of the merged pool. There are three potential scenarios for the merging of Tabcorp's and Tatts' pari-mutuel pools:
- (a) **Scenario 1:** merging both of Tabcorp's pari-mutuel pools (Victoria and NSW) with Tatts' pool to create a single national pool; or

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- (b) **Scenario 2:** merging Tabcorp’s Victorian SuperTAB pari-mutuel pool with Tatts’ pool (i.e. not including the NSW TAB pool); or
- (c) **Scenario 3:** merging Tabcorp’s NSW TAB pari-mutuel pool with Tatts’ pool (i.e. not including the SuperTAB pool).

G.2 Quantification of potential pooling benefits

129 My team and I have undertaken an analysis and created a model of the likely increases in turnover and revenue that would result from each of the potential pooling scenarios outlined in paragraph 137 above. My team has briefed me on the results of and the assumptions underlying this analysis. Based on my experience, I consider these results and assumptions to be reasonable. A copy of this analysis is at **Tab 6 of Confidential Exhibit DJ-2 [TBP.001.028.0003]**.

130 The assumptions and methodology underpinning the analysis of the potential pooling benefits is at **Tab 6 of Confidential Exhibit DJ-2 [TBP.001.028.0003]**. The approach taken to modelling these benefits can be summarised as follows:

- (a) **[Confidential to Tabcorp]** [Redacted]
[Redacted]
 - i [Redacted]
 - ii [Redacted]
[Redacted]
 - iii [Redacted]
[Redacted]
- (b) [Redacted]
[Redacted]
[Redacted]
- (c) [Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]

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[REDACTED]
 [REDACTED]
 [REDACTED]
 (d) [REDACTED]
 [REDACTED]
 [REDACTED]

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Table 32: Tabcorp estimate of likely turnover increases resulting from increasing pari-mutuel pool size

[REDACTED]

- 131 Based on this model, the different potential pooling scenarios would likely result in the following approximate increases in turnover, revenue and EBITDA contribution each year:

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Table 33: Annual turnover, revenue and EBITDA increases from potential pooling scenarios (A\$M)

	Scenario 1 (national pool)	Scenario 2 (SuperTAB/Tatts merged)	Scenario 3 (NSWTAB/Tatts merged)
Turnover	[REDACTED]	[REDACTED]	[REDACTED]
Revenue	[REDACTED]	[REDACTED]	[REDACTED]
EBITDA	[REDACTED]	[REDACTED]	[REDACTED]

G.3 Direct pass through of pooling benefits

- 132 These increases in turnover and revenue expected to result from the merging of Tabcorp's and Tatts' pari-mutuel pools would be shared directly with racing industries,

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sporting bodies, retail wagering venues and Australian governments through the Merged Entity's payment of:

- (a) racing product fees;
- (b) race field fees;
- (c) Tabcorp's racing industry profit shares in Victoria and NSW;
- (d) commissions to pubs and clubs;
- (e) commissions to agencies; and
- (f) taxes.

133 Based on the above model, the different potential pooling scenarios would result in the following amounts being passed through to the racing and sporting industries, retail venues and government.

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Table 34: Annual pass through of potential pooling benefits (A\$M)

	Pooling scenario 1	Pooling scenario 2	Pooling scenario 3
Racing industry (profit shares and fees)	■	■	■
Retail wagering venues (commissions to pubs, clubs and agencies)	■	■	■
State government (tax)	■	■	■
Federal government (tax)	■	■	■

134 This expected annual pass through is broken out on a state by state basis for each pooling scenario in Table 35, Table 36 and Table 37 below.

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Table 35: Scenario 1 – estimated pass through of national pooling benefits (SuperTAB, RWWA, NSW TAB and Tatts) (A\$'000)¹³

	QLD	SA	TAS	NT	NSW	VIC
Racing industry total	■	■	■	■	■	■
Retail wagering venues (commissions to pubs, clubs and agencies)	■	■	■	■	■	■
State government (tax)	■	■	■	■	■	■
Federal government (tax)	■	■	■	■	■	■

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Table 36: Scenario 2 – estimated pass through of SuperTAB (Victorian/RWWA) and Tatts pooling benefits (A\$'000)

	QLD	SA	TAS	NT	NSW	VIC
Racing industry total	■	■	■	■	■	■
Retail wagering venues (commissions to pubs, clubs and agencies)	■	■	■	■	■	■
State government (tax)	■	■	■	■	■	■
Federal government (tax)	■	■	■	■	■	■

¹³ Subtotals do not add precisely due to rounding.

Confidential Restriction on Publication Claimed**[Confidential to Tabcorp]****Table 37: Scenario 3 – estimated pass through of NSW TAB and Tatts pooling benefits (A\$'000)**

	QLD	SA	TAS	NT	NSW	VIC
Racing industry total	■	■	■	■	■	■
Retail wagering venues (commissions to pubs, clubs and agencies)	■	■	■	■	■	■
State government (tax)	■	■	■	■	■	■
Federal government (tax)	■	■	■	■	■	■

H. FORM S INFORMATION

135 I have been asked to identify the input costs for the wagering business. A table setting out this information is at **Tab 7** in **Confidential Exhibit DJ-1 [TBP.001.028.0004]**. This information has been prepared by Tabcorp's Financial Reporting team, with assistance from Tabcorp's solicitors Herbert Smith Freehills, to reflect wagering operations and wagering's allocated share of central costs. It is prepared on a consistent basis with Tabcorp's reported financial statements and accounting policies, therefore includes only Tabcorp's share of joint venture arrangements, to which Tabcorp is party.

Signature of witness



Name of witness

Damien Johnston

Date of signature

6 March 2017