



6 March 2017

Re: Statement to ACCC - Proposed Merger of Tabcorp & Tatts Group

1. My name is John Lewis and I am the Chief Executive Officer of Harness Racing SA Ltd (HRSA). I have been employed as the CEO since December 2010.
2. HRSA was established in October 2000 and is the peak racing authority for harness racing in South Australia, including responsibility for all aspects of the code including the conduct of race meetings, regulatory requirements and integrity.
3. It has a number of objectives including the promotion and conduct of harness racing and to increase the financial returns to owners, breeders, trainers and drivers who participate in harness racing.
- 4.. HRSA has a specific interest in the proposed merger of Tatts Group and Tabcorp as it currently receives the majority of its funding through the Tatts Group in its capacity as the operator of the SATAB.
5. HRSA currently has a number of commercial relationships with both entities including the *Racing Distribution Agreement 2001* (UBET), *Sponsorship Agreement 2015* (UBET) and *Sky Racing Domestic & International Broadcast Rights Agreement 2015* (Tabcorp).
6. HRSA has a specific interest in the proposed merger as we currently receive the majority of our funding through the Tatts Group in its capacity as the operator of the SATAB.
7. HRSA's principal source of revenue from the Tatts Group is referred to as the *product fee*.

8. This funding has been in general decline since at least 2004. In 2004 HRSA received \$7.1 million in *product fee* – in 2016 HRSA received \$5.6 million.
9. The current level of the product fee for harness racing in South Australia is insufficient in order to operate a strong and vibrant harness racing industry.
10. This decline in revenue has impacted significantly on our ability to invest in key areas including prizemoney and racing infrastructure.
11. Consequently this placed increased pressure on the viability of the harness racing industry and contributed to significant declines (in excess of 50%) in horse numbers and the breeding industry, regional and country racing clubs and the number of industry participants.
12. Therefore HRSA believes that the performance of the Tatts Group's wagering operations has been a contributing factor to the decline in revenue in *product fee* for the harness racing industry.
13. However the appointment of Tatts Group CEO Robbie Cooke in 2013 resulted in a noticeable strategic change and an increased focus on wagering from the Tatts Group which was well received by HRSA.
14. Its performance and wagering offerings in recent years have been under increasing pressure with the emergence and growth of corporate bookmakers and betting exchanges.
15. Since 2009, the revenue received from HRSA from corporate bookmakers and betting exchanges (*race field fees*) has grown significantly.
16. However despite this growth, the percentage return of wagering revenue returned back to the harness racing industry from *race field fees* is significantly less than that the percentage return received in *product fees*.
17. It is also important to note that wagering represents a relatively small part of Tatts Group's business (around 24%) compared to its lotteries and gaming arms (around 76%).
18. Conversely HRSA believes that Tabcorp is a highly focussed and successful wagering operator. Wagering and media represents 73% of its business and therefore its primary emphasis is wagering.
19. Tabcorp also offers a superior wagering offering to customers including superior venues, facilities and services including self-service terminals, wagering offerings, and importantly higher financial returns to racing bodies which flows to participants.

20. Therefore HRSA believes that a merged entity will provide a more efficient totalisator which will most likely result in increased investment in innovation, marketing and customer service.
21. HRSA also believes a merged entity has the ability to establish a national pari-mutuel pool which will be important in increasing funding for the harness racing industry in South Australia and maintain and enhance employment in our industry.
22. On that basis, HRSA believes that a merger of Tabcorp & Tatts Group is essential in ensuring that we have a viable harness racing industry into the future.



John Lewis BA LLB GDLP
Chief Executive Officer