Company:	**The Lottery Corporation**
Title:	**Transcript of TLC FY24 Results**
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Operator: Good morning and welcome to The Lottery Corporation's results call for the 2023-24 financial year. Your speakers today will be CEO Sue van de Merwe and Chief Financial Officer, Adam Newman. Following the presentation, we'll open the line for questions. I will now hand you to Sue.

Ms van der Merwe: Thank you and good morning all and thanks for joining us. I'm exceptionally pleased to present a record result for The Lottery Corporation for FY24. A very successful year for our Game portfolio, with revenue up 13.8% to just under $4 billion; active registered customer numbers up to 4.75 million, that's an uplift of 500,000; and growth across both digital and retail channels. We're delivering on our plan, we're actively managing the business and we're seeing the results.

The FY24 result is a great example of our portfolio strategy delivering. With $771 million additional value in jackpot offers versus the prior period, we delivered a 26.7% increase in jackpot game turnover, with most base games down to only 2% to 4% on a like for like basis. That shows the strength and resilience of our lottery business.

It was certainly a year of big jackpots. The big events including $200 million for Powerball and $90 million for Oz Lotto on Boxing Day captivated the nation, driving customer acquisition and reactivation. Good long term product strategy, active portfolio management, together with excellent marketing campaigns helped deliver the success of those events.

Game innovation is a proven capability in the team and this year we successful embedded and benefited from the Powerball price increase and the commission rate increase which we implemented in May 2023. Our retailers also benefited from the increases and overall, we were pleased to return $725 million in commissions to retailers and venue partners.

Stakeholder engagement is a strong focus. The low spend mass participation model of lotteries underpins wide community acceptance and we are actively engaging with governments and regulators. FY24 delivered returns of $1.9 billion to state and territory governments.

Finally, given the very strong result, the Company's strong financial position and our focus on delivering shareholder returns, the Board was pleased to determine to pay a special dividend of $0.025 per share in addition to a full year ordinary dividend of $0.16 per share.

Slide 5 provides a reminder of the Company's investment attributes, which have contributed to our strong FY24 performance. We are a business with a significant customer base, powerful brands, significant retail distribution, digital upside, strong cash flow generation and defensive qualities.

The resilience and historical growth of the lotteries and Keno market over the past two decades is demonstrated in the long term growth chart on slide 6. The consistent and growing demand for our products over time has established us as a market leader and one of the top performing lottery businesses globally.

I'll now hand to Adam to take you through the next slides.

Mr Newman: Thanks Sue and good morning everyone. I'd like to highlight at the outset that while we've delivered strong top line growth, we've also delivered increase in our margins, we've been able to increase our registered customer base and we've also increased our dividend. This has all been despite the challenges of high inflation and rising interest rates.

Slide 7 gives us a snapshot of our FY24 Group results. These results benefited by the jackpot outcomes during the year with both revenue and VC up by approximately 14%. We also saw an increase in EBITDA of 16% and this was despite above average OpEx growth. Depreciation and amortisation rose 10% and this was primarily the impact of separation spend.

Interest expense declined $3 million and this was a combination of higher average debt and cash levels and increased interest rates during the course of the year. We are materially insulated from rising interest rates, given that about 85% of our debt is fixed. So whilst interest expense actually rose, this was more than offset by an increase in our interest income.

Net profit after tax but pre significant items of $412 million was an increase of 21% on the prior year. There were $2 million of significant items and this was a combination of the remaining separation costs, which were offset by receipts from the ATO tax settlement. We have provided further details on these in Appendix 1.

If we move now to slide 8 and, as Sue pointed out, turnover drove our record result, despite the OpEx pressures. EBITDA rose from $713 million to $827 million. The main drivers of this increase were a combination of favourable H2 jackpot sequences, initiatives that were delivered and active game management.

Our revenue benefited from above model jackpot outcomes and we've estimated this impact to be approximately $250 million for the year. This had an EBITDA impact of around $50 million. This is allowing for some transference amongst games in the portfolios and some increase in our advertising costs.

In addition to the 9% Powerball increase and the 2% commission rate increase, Lotteries' VC was favourably impacted by Set for Life interest revenue, a step up in our digital share in the second half of the year and a final step up in our Jumbo reseller arrangement.

Group OpEx increased by $29 million. Approximately $13 million of this increase was estimated as being attributable to separation, which is a combination of primarily technology labour and non-labour costs. Outside of the impact of separation, rising employment costs were the largest factor and this was due to pay increases, a reduction in our capitalisation rates, some increase in headcount and some additional reorganisation costs.

Advertising and promotion costs also rose during the course of the year, which was spend that was associated with the higher jackpots, the Keno rebrand and the launch of Weekday Windfall. There was also an increase in spend in relation to security and SaaS cloud applications, noting that 50% of our costs roughly are people related and technology costs now form approximately 30% of our total costs.

If we move now to slide 9, our capital allocation framework, this is a resilient business that generates strong and predictable cash flows, with low capital intensity and a highly variable cost base. This slide sets out how we think about allocating our capital to drive long-term shareholder value. We are focused on growing the top line and providing exceptional customer experiences and increasing our registered customer base.

We also remain focused on ensuring that we are well positioned for any potential licence extensions and maintaining value in the exclusive nature of our licences. Dividend payout ratio is targeted between 80% and 100% of full year net profit after tax pre significant items, with a long term leverage range of three to four times EBITDA. This reflects the underlying quality of the business and of our licences.

If we can move now to slide 10, our balance sheet provides flexibility in order for us to maximise returns for shareholders and this includes dividends, leveraged end of the year at 2.6 times, however this is more like 2.8 times in a normalised jackpot basis. If funds aren't required for licences and there are not better returns available to us elsewhere, we will look to return these funds to shareholders in the most tax efficient way.

We had $640 million of available liquidity at year end and an average debt tenor of 5.5 years. The unprecedented jackpot activity during the year influenced our dividend, with the Group declaring a final ordinary dividend of $0.08 per share and this will be fully franked, bringing the full year ordinary dividend to $0.16 per share, which is a payout ratio of 86% and an increase on the prior year of 14%.

As Sue mentioned, we've also determined to pay a special dividend of $0.025 per share and this will also be fully franked. The special dividend is consistent with our capital allocation framework and our view to maximise long term shareholder value. Any future capital management will be considered on a case-by-case basis, having regard to our disciplined approach to capital expenditure and deploying excess capital at appropriate risk-adjusted returns.

The total dividend for the year of $0.185 per share was a 23% increase on the prior year. It also equates to a payout ratio of 100% of our full year net profit after tax pre significant items.

OpEx for the year was in line with the $300 million target that we provided at the half. If we look forward to FY25 and as we flagged at the half year, there will be a final run rate impact from separation and we estimate this to be approximately $12 million. No further separation costs or impacts are expected beyond FY25. We are pleased that separation is now behind us. It's been challenging and in some ways it's been a perfect storm of events.

In addition to the impacts of separation, there will also be normal cost inflation in FY25, noting, as I said before, that nearly 50% of our costs are people and there is a wage increase of approximately 4% during FY25. Moving forward, we'll seek to reduce OpEx growth to below normalised revenue growth and our optimisation activities will be focused on releasing funds for reinvestment back into the business in order to help us drive top line growth.

Depreciation and amortisation and CapEx finished materially in line with expectations and going forward, the post-separation step up in D&A is now complete and as a rule of thumb, we would expect CapEx to equal non-licence D&A, absent specific initiatives.

So in summary, before I hand back to Sue, we are pleased with the year, we've built a great foundation now that separation is behind us. We remain very focused on cost and capital discipline and our strong balance sheet provides flexibility for us to be able to grow and to continue to deliver value to our shareholders.

Ms van der Merwe: Thanks Adam. I'll talk now to our business results and begin with Lotteries on slide 12. Lotteries revenue was up 14.7% and that was driven by active game and sequence management, highly favourable jackpot outcomes and positive impacts from the Powerball price increase and commission increase which I mentioned earlier. For Powerball, we deployed two sequences during the year to ensure a balanced spread of large jackpots, with the accelerated sequences helping to deliver the record $200 million draw, as well as the $150 million draw in May.

For Oz Lotto, we used a range of sequences which ultimately delivered a strong jackpot run to end the first half with the $90 million draw on Boxing Day. Base games were down 2% to 4% on a like for like basis in a weak consumer spending environment. The team deployed significant marketing activities to effectively leverage those big draws to retain and acquire customers and also to encourage reinvestment into other games.

A key attribute of our successful Lotteries business model is its mass participation across Australian adults. Slide 13 illustrates the continued growth in active registered customers, with a significant uplift of 12.2% in FY24, together with an increase in estimated total active customers to circa 10 million. These are important achievements as they provide opportunities to deliver greater personalisation and enhanced experiences to our customers.

In terms of channel performance, it was pleasing to see that retail turnover grew by 6.6%. Retail remains an important part of our offering, providing brand presence, customer convenience and support for a broad range of small businesses. Digital turnover grew by more than 18% in FY24. Store syndicates online continued to be very popular, with both customers and retailers and it accounted for around half of the 2.5% increase in digital share. All up, digital now accounts for 41% of our Lotteries turnover.

Turning to slide 14 and the breakdown between our jackpot and base games, we manage the business for overall growth and to maintain a healthy and balanced portfolio. The difference in mix that we see in FY24 was driven by the big jackpots. Against that backdrop, the resilience and demand for our portfolio of games was evident, with most base games, as we've said, only 2% to 4% down on a like for like basis and that was despite some transference of spend to Oz Lotto and Powerball.

On to slide 15, FY24 saw an unprecedented level of jackpots, with a 40.2% increase in the cumulative jackpot value offered across Powerball and Oz Lotto. This resulted in circa $500 million of additional turnover relative to model outcomes.

The highlight was our record $200 million Powerball event, which we showcase on slide 16. A draw this size gets Australia talking, it captivates customers, it sees queues forming in retail stores. At peak, we sold more than 9,000 tickets a minute, with searches for Powerball dominating Google and social media search terms as that draw made headlines across the country.

The draw introduced 170,000 new active registered players to the category and 40% of them have made a subsequent purchase. These new players skew younger and are more likely to use digital channels. While there were two division 1 winners taking home $100 million each, a lifechanging amount for certain, overall we had 6.7 million winning entries across all divisions.

We continued our focus on game innovation with the launch of Weekday Windfall, which we've outlined on slide 17. This refresh of our Monday and Wednesday lotto game, with the addition of the Friday draw, has been a real success. It's delivered circa $135 million in annualised estimate additional turnover. The Friday draw has resonated well with customers, delivering an estimated $120 million in annualised turnover, based on current run rate.

The launch also included a new innovation in a weekly three-play ticket and that provides an easy way for customers to buy into the game across the three nights. That has also proven very popular, accounting for one in eight entries sold. So that's Lotteries.

Let's move now onto Keno on slide 18. Keno accounts for 7% of our revenue and it's an important part of our business. It offers diversity of earnings, as a social game that's played mainly in licensed venues where we don't have a Lotteries presence. It also taps into different customer motivations. Strong in-venue performance, particularly in Queensland, underpinned the Keno result.

Local area marketing initiatives helped drive activity for Keno in pubs and clubs and we ran more than 2,800 of those marketing initiatives in FY24, an increase of 26%. Earnings were impacted by changes to commercial arrangements with retail partners and the shift of some digital turnover from higher margin ACT licence to Victoria, as required by our Victorian licence.

You'll see from slide 19 that Keno retail performance was strong, delivering a 4.4% increase in turnover. Keno online, which we offer in jurisdictions where it's permitted, with Victoria being the most significant in terms of scale, was down 2.4% in turnover. The impact of online competition in Victoria was evident, especially in the first quarter, however it stabilised from the second quarter onwards.

In May we launched a brand refresh for Keno with the Together We Play campaign and we've illustrated that on slide 20. The campaign emphasises the social side of playing Keno, differentiating our product from other operators and also showcasing how the game can bring people together.

On slide 22, we recap some of the key initiatives we delivered in FY24. In addition to those we've already covered throughout this call, I'm pleased to say that we again received the highest level of responsible gambling accreditation from the World Lottery Association. As a Company, we're committed to responsible play and it's pleasing to have received this endorsement.

As we know, there's ongoing focus from governments and regulators on online gambling. We acknowledge the Federal Government's current review into online Keno and foreign match lotteries. Lotteries have been a part of Australian life for more than 140 years. It's very much in the public interest for the industry to remain sustainable and highly regulated, especially as lotteries provide substantial revenues to state governments, support thousands of small businesses and are loved by millions of Australians.

Slide 23 outlines our strategic framework. It sets out how we plan to achieve our vision of being the world's best lottery operator. There are three components to it: drive, develop and discover. Firstly we drive the business through focusing on customer-centred initiatives to deliver sustainable growth. Secondly, initiatives under the develop pillar help futureproof the business. Thirdly, the discover pillar is focused on complementary new earnings pathways. We look forward to sharing more on our strategy at our investor day in October.

Turning now to our FY25 priorities, which is on slide 24, we take a customer-centric approach to everything we do, seeking to maximise customer lifetime value in a responsible way. A customer's journey with us can start and continue in retail or online, so it's important that the experience is a seamless one.

Among the many initiatives we are planning to execute this year are: the digitally enabled retail membership program, which will modernise the sign-up experience for customers and our retail partners; implementation of a new customer data platform to drive enhanced personalisation and engagement; bringing charitable games products into The Lott's digital ecosystem, so customers can by a Play for Purpose ticket, for example, through The Lott app; and subject to all the necessary approvals, our next game change, which is planned to be to Saturday lotto, the second-most popular game in our portfolio. In parallel, we'll continue to actively manage the portfolio through jackpot sequences and timing draws to optimise the customer offer.

While it's early days, we are pleased with the start to the year. We've seen a stabilisation and some early signs of improvement in lottery sales for similar offers across the base games. Keno has continued its good momentum and tomorrow night's $100 million draw has been reached in just five weeks on our accelerated sequence and sales to date are encouraging.

So as we conclude on slide 25, FY24 was a very successful year. Strong headline results and good use of the levers available to management drove growth. We continue to innovate and deliver against a proven plan, while also adapting to changes in the market and customer preferences. We are making positive impacts and we are operating in a way that delivers results for customers, shareholders, governments, small businesses and community.

That's the end of our presentation. Thank you again for joining us this morning and we're now happy to take questions.

Q&A

Operator: Thank you. If you wish to ask a question, please press star/one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star/two. If you are on a speakerphone, please pick up the handset to ask your question. Today's first question comes from Adrian Lemme with Citi. Please go ahead.

Mr Lemme: (Citi, Analyst) Good morning Sue and Adam. My first question was just on the OpEx, so the way I understand it, there's guidance of incremental $12 million from the incremental separation costs. Are we then right to then assume some further underlying inflation, I'm guessing 3% to 4% on top of that, or do you think you can offset it with any cost outs please?

Mr Newman: Hi Adrian, it's Adam here. You're correct. I'd take our $300 million that we had for this year, I'd add the final step up, which is the run rate impact of the finalisation of separation and then take some inflation from there. I did point out that 50% of our costs are people and we have a 4% pay increase for FY25.

Mr Lemme: (Citi, Analyst) Great, that's very clear, thank you Adam. Look my second question was about the Saturday lotto, I understand it might be early days, but are you able to give any further detail on what these game changes will be and when we might see them implemented please?

Ms van der Merwe: Sure. Likely to involve a price increase and potentially some change to division 1. Unlikely to involve a change to the matrix of the game, but as you say, still early days and we're still exploring the nature of that change and looking at the timing for implementation.

Mr Lemme: (Citi, Analyst) Okay, great, thanks very much.

Operator: Thank you. Our next question today comes from Bradley Beckett with UBS. Please go ahead.

Mr Beckett: (UBS, Analyst) Thank you, good morning Sue, good morning Adam. Just a question on the strategy. On slide 23 you talk to new revenue segments, can you give us a bit of a sense of your appetite here? Is that around digital instants or other gaming adjacencies?

Ms van der Merwe: Thanks Bradley, I'll answer that in the first instance. We will unpack all of that further at investor day, as I said, but digital instants are banned in Australia under the *Interactive Gambling Act*, so it's definitely not something that we're looking at. Really is more around other opportunities for revenue growth. It could be other types of products, really not speculating on what it is, I think importantly, as we've always said, we are focused on our business and driving the performance of our domestic business in Australia whilst we look for other potential opportunities for earnings.

Mr Beckett: (UBS, Analyst) Great thank you. Just one more if I can. Maybe one for Adam on the cash conversion, looked a little bit lower versus FY23, can you give us a bit of a breakdown as to what's driving that?

Mr Newman: Yes, hi Bradley. This is a very cash generative business. Effectively cash conversion ebbs and flows a little bit and it's driven by the timing and the size of draws as you approach the reporting periods in particular, being December and June and then what happened in the prior reporting period as well.

Where you've got a large jackpot in the last couple of weeks of a month where you've got a reporting period, you do get a buildup of payables and government taxes associated with that and they unwind in the next period. Then of course if you roll forward to the next year and if you haven't got a similar jackpot coming up, that affects your cash conversion. We typically work off the fact that at in any given year cash conversion is going to be close to 100%.

Mr Beckett: (UBS, Analyst) Great, thank you.

Operator: Thank you. Our next question comes from David Fabris with Macquarie. Please go ahead.

Mr Fabris: (Macquarie Group, Analyst) Good morning Sue, good morning Adam. Look I wanted to try and tease out a little bit more on game innovation. I can see on slide 24 you've given us a taste for the changes that are possible to FY27, can we maybe understand whether there's going to be anything material to Set for Life or Powerball? I mean I recall that big Powerball change we saw maybe four, five years ago, just trying to understand what kind of innovation we could see over the next three years if possible.

Ms van der Merwe: Hi David. Yes, we've obviously indicated that we're doing Saturday next and as we've spoken about before, we're constantly looking at the portfolio of products and addressing a change in a game within the portfolio where we think it's going to have the best result and responding to whatever's happening in the portfolio at the time. I mean Powerball, that change has been an incredible success. It's still delivering. It just delivered a one-in-seven-year event with the $200 million.

So we're saying Set for Life or Powerball would likely be the next game that we would look at after Saturday, but I really can't give you any flavour for what that would be. All of these changes we do extensive research on them before we decide on what the actual change will be and certainly before we implement it as well, so we've got a long way to go yet before we're able to make any or provide any further detailed information on those changes.

Mr Fabris: (Macquarie Group, Analyst) No, that's understood, thank you. Then the next question, just thinking about leveraging cap management, obviously you're sitting below the target range currently, I mean I guess we can expect the odd special dividend dependent on jackpot activity, but is there any consideration to move the dividend policy to adjust for cash earnings? So you've got that $35 million of non-cash licence amortisation each year, is there consideration to move to call it an NPATA payout ratio?

Mr Newman: Hi David, Adam here. Look everything's sort of, you know, we're constantly evolving and looking at our framework that I talked about before. Nothing's off the table, but at the moment that's not a consideration. I think the first port of call that we'll get through is the Victorian licence and when that renewal may arise and that will kind of shake out whether there'll be any further changes with regards to the dividend framework that we've currently got at the moment.

Mr Fabris: (Macquarie Group, Analyst) Yes, okay, but to be clear, that Vic licence, I think, expires in 2028, right? So unless you can do it earlier, that would be something that would happen in 2027?

Mr Newman: Yes, that's correct, but I would also make the observation that there may be opportunities with regard – I don't want to talk about specific licences in general, but as you can imagine, we're always working with our government stakeholders with regards to all of our licences to see whether there are opportunities to evolve them.

Mr Fabris: (Macquarie Group, Analyst) Yes, okay, understood. All right, I'll leave it there, thank you very much.

Operator: Thank you. Our next question comes from Rohan Sundram with MST Financial. Please go ahead.

Mr Sundram: (MST Financial, Analyst) Thank you, hi Sue and Adam. Sue, just one for you to begin with. I take on board your comments earlier around the Federal Government's review into the offshore lottery providers and online Keno, but how would you describe the response that you've seen thus far? Is it pleasing? Is it in line with what you were hoping to see from the government initially?

Ms van der Merwe: We welcome that review by the Federal Government, including the review into online Keno. We acknowledge that online Keno in particular has a higher risk profile certainly than lotteries, which has a very low-harm profile. I think if the government's going to review the industry and the impact on Australians from the gambling industry, then it makes sense that foreign matched lottery products is included in that. So we welcome the review, we will obviously be making a submission and cooperate with government in discussions.

Mr Sundram: (MST Financial, Analyst) Okay, thank you. One for Adam. Adam, I take on board your comments around the 4% increase in labour costs, but on the other portion of your costs, the other 50%, how would you describe the inflation pressures at present?

Mr Newman: Yes, look, how would I describe the other pressures, there's probably a little bit more than your typical run of the mill inflation and technology costs. Other than that, I think wage inflation and inflation for other parts of the cost base are probably running in a similar line.

Mr Sundram: (MST Financial, Analyst) Okay, thank you.

Operator: Thank you. Our next question today comes from Rohan Gallagher with Jarden Group. Please go ahead.

Mr Gallagher: (Jarden Group, Analyst) Hey Sue, hey Adam, good morning everybody. My earlier question has been answered, but just to clarify, Adam, in your prepared remarks you said that there was a $250 million benefit from the above-trend jackpot, but in the written materials it's saying $500 million. I just want to just clarify the additional turnover in FY24 received.

Mr Newman: Yes, so no, I was calling out the revenue impact. So the $500 million is the turnover impact and the $250 million is the revenue impact.

Mr Gallagher: (Jarden Group, Analyst) Outstanding, thank you sir, cheers.

Operator: Thank you. Our next question today is a follow up from Adrian Lemme with Citi. Please go ahead.

Mr Lemme: (Citi, Analyst) Look thanks for taking a follow-up question. I was just interested with the extraordinary activity around the $200 million

Powerball jackpot, I was just interested in how the network handled that and if you were to get even larger jackpots potentially post any game changes, should we expect any significant investment might be required to handle it? Thank you.

Ms van der Merwe: Hi Adrian, you're talking about the technology network obviously?

Mr Lemme: (Citi, Analyst) Yes, exactly.

Ms van der Merwe: Just clarifying, because we talk about the retail network as well and the retail network obviously handled it very well and we're very excited by the event and benefited from it as well as from the additional commission that was paid as a result, the commission increase and the Powerball price increase. So that network was very happy.

The technology network also performed very well. Our team did a lot of testing leading into both the $150 million and the $200 million to make sure that we were going to be able to manage the capacity and the technology system absolutely performed well. So we are confident that we have got a system that can cope with the next one if we get one.

Mr Lemme: (Citi, Analyst) That's good to hear, thanks Sue. One last one if I may, just with the accelerations we've seen so far in the Powerball sequence since 1 July, are you able to confirm that you've still got plenty of excess headroom within that Powerball reserve fund to continue doing this acceleration through 2025 please?

Ms van der Merwe: We will use the accelerated sequence tactically through the year, so it's not intended that we run the accelerated sequence for the full financial year. We're on that accelerated sequence now, really pleased that it got us to the $100 million in five weeks and this early in the year. After this, we would likely go back to a less-accelerated sequence, but we absolutely have the ability to bring that accelerated sequence back as we see it appropriate throughout the year.

Mr Lemme: (Citi, Analyst) That makes sense, thank you very much.

Operator: Thank you. Our next question comes from Sam Bradshaw with Evans and Partners. Please go ahead.

Mr Bradshaw: (Evans and Partners, Analyst) Good morning Sue and Adam. I'm just wondering if you can provide a breakdown for us as to how much of the 40.9% digital share came from store syndicates. Thanks.

Mr Newman: How much of the 40.9% came from store syndicates, I can tell you that of the increase in the year of the 2.2% or about half of the digital increase was relative to store syndicates. I think the turnover specifically to rates to store in total was over $100 million for the year.

Mr Bradshaw: (Evans and Partners, Analyst) Great, thanks Adam.

Operator: Thank you. There are no further questions at this time. I'll now hand the call back to Ms Van der Merwe for closing remarks.

Ms van der Merwe: Well thank you and thank you everyone for your time today and for the questions, very much enjoyed the opportunity to talk to you about the Company and wish you all a really good day. Good bye.

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