Tabcorp: A Tale of Two Entities
The Lottery Corporation pre-demerger report.

Morningstar Equity Research
13 May 2022

Contents

Angus Hewitt, CFA
Equity Analyst
+61 2 9276 4408
angus.hewitt@morningstar.com

Esther Holloway
Associate Equity Analyst
+61 2 9276 4408
esther.holloway@morningstar.com

Important Disclosure
The conduct of Morningstar's analysts is governed by Code of Ethics/Code of Conduct Policy, Personal Security Trading Policy (or an equivalent of), and Investment Research Policy. For information regarding conflicts of interest, please visit: http://global.morningstar.com/equitydisclosures

Executive Summary
The upcoming demerger of The Lottery Corporation, or Lottery Corp, from Tabcorp allows shareholders to invest directly in the latter's crown jewel. Lottery Corp's lottery and Keno businesses enjoy superior competitive positions, while the outlook for the "new" version of Tabcorp's wagering and gaming services businesses is more challenged. Lottery Corp's licences afford the company a near-monopoly, while the new Tabcorp's licences do little to protect from digital disruption. Lottery Corp is the largest player to the fast-growing online channel, while the new Tabcorp is bleeding market share to more agile online competitors. Lottery Corp can support a high dividend payout ratio thanks to little capital expenditure requirements, while new Tabcorp will need to continue investing in its platforms to fend off competition.

We raise our fair value estimate for shares in the combined Tabcorp entity to AUD 5.00, from AUD 3.80 previously, following a fresh look at the competitive positions for the two separate entities. The raise is based principally on a lower cost of capital assumption and assigned moat rating for Lottery Corp, which we expect to thrive once liberated from the beleaguered wagering and gaming services businesses, more than offsetting additional oneoff and ongoing costs following the demerger.

Key Takeaways
- The Lottery Corp enjoys a wide economic moat by virtue of its intangible assets, including brand equity and regulation. We think Lottery Corp is well-positioned to thrive as a standalone entity, and we estimate a post-demerger fair value estimate of AUD 4.00 per share.
- We expect the "new" Tabcorp to remain competitively challenged, and we intend to maintain our no-moat rating for it following the removal of the competitively superior lottery businesses. We estimate a standalone fair value estimate at AUD 1.00 per share. As Tabcorp shares are still trading with Lottery Corp entitlements, we combine the two valuations to AUD 5.00 per share.
- We will provide star ratings for the demerged entities once they begin trading on May 24, 2022

Companies Mentioned

Name/Ticker	Economic Moat	Currency	Fair Value Estimate	Current Price	Uncertainty Rating	Morningstar Rating	Market Cap (Bil)
Tabcorp TAH	None	AUD	5.00	5.20	Medium	★★★	11.60
"New" Tabcorp TAH	None	AUD	1.00	--	Medium		--
The Lottery Corporation TLC	Wide	AUD	4.00	--	Medium		--

Wagering and Lotteries Have Vastly Different Competitive Positions

Our no-moat rating for the consolidated Tabcorp business is predicated on our expectation for competitive headwinds continuing to face the wagering business, offsetting competitive advantages from long-dated licences in the lottery business. We think strong cash generation from the lotteries has historically acted as a funding source for the wagering business—particularly in digital platforms to stem market share losses.

Until now, the lottery business hasn't been able to shine. But with Lottery Corp shares set to start trading on the ASX from May 24, 2022, we think the business can better realise the value of its long-dated licences across all of its regional Australian markets and become a strong dividend payer once unshackled from the beleaguered wagering business.

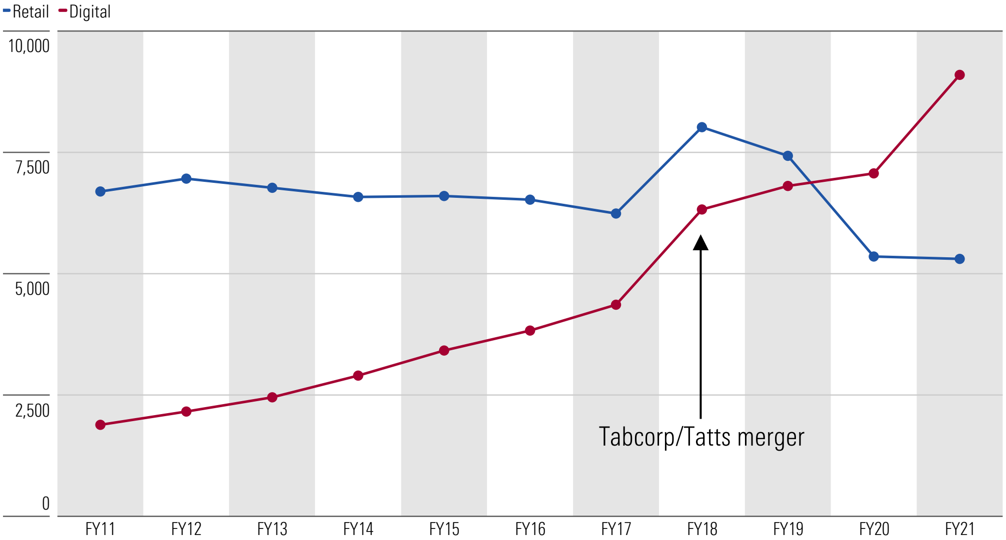
Online Competition Erodes the Value of Wagering Licences

Once a key competitive strength, wagering has become Tabcorp's Achilles' heel. While stringent regulatory licensing requirements in wagering creates barriers to entry to compete with Tabcorp's retail locations, with the ubiquity of smartphones, these previously entrenched physical locations are increasingly competing online, where barriers to entry are much lower. Digital technology has spawned a plethora of competing operators that use the online channel to offer fixed odds wagering services across borders. This is eroding the value of Tabcorp's state-based exclusivity rights. Consumers can bypass Tabcorp's retail channel by placing bets online or through smartphones with any operator in Australia, and the retail outlet exclusivity has little value when punters can simply place bets with competitors from their phones inside so-called TAB-exclusive venues.

This trend toward digitisation has been accelerated by COVID-19 shutdowns, as forced closures and social distancing requirements weighed heavily on Tabcorp's retail venues, and most betting ordinarily made at retail locations has transferred to online platforms. While Tabcorp's digital offerings picked up some of this online activity, we estimate market share leakage. The online channel also further simplifies shopping around. We expect punters to show little loyalty to bookmakers, and increasingly compare odds between competitors before placing bets. Bookmakers are inclined to take a hit to yields and offer better odds or provide "generosities" to capture or retain market share.

Although we expect the TAB brand to participate in this digital trend with its own suite of apps, the digital space is already highly competitive, with players such as Sportsbet and Ladbrokes looking to win market share from Tabcorp's retail venues.

Exhibit 1 Retail Venue Wagering Has Been in Steady Decline
Tabcorp wagering turnover by channel, AUD million



Source: Company filings

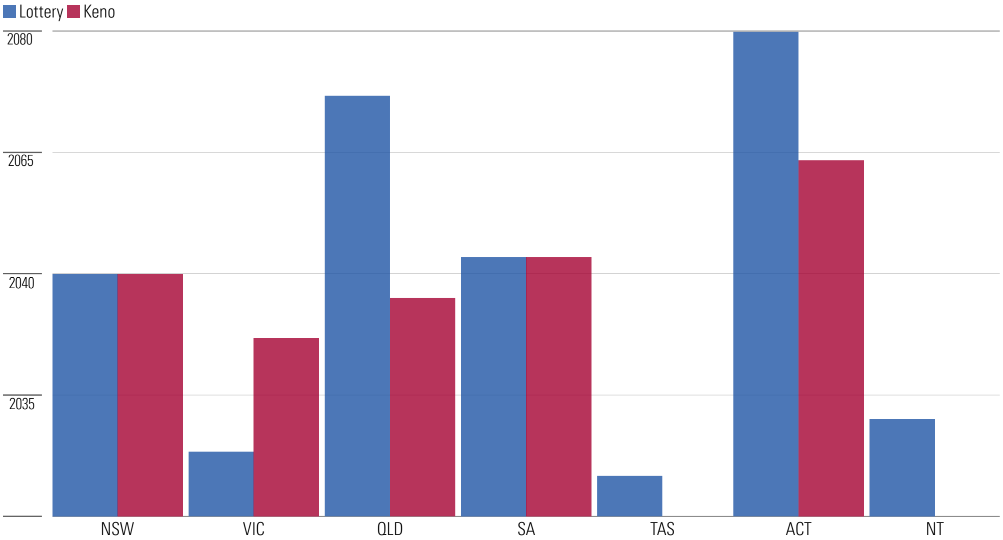
Lottery Licences Are More Effective Barriers to Competition

By contrast, Lottery Corp's intangible assets furnish the company with a wide economic moat. Regulation limits competition via compulsory licensing, bestowing Lottery Corp with a near-monopoly on long-dated licences in all Australian states and territories except Western Australia, where the state government runs the state's lottery. The average duration of Lottery Corp's licences, weighted by revenue, is 31 years for lotteries and 24 years for Keno. The only significant licence due to expire before 2050 is for the Victorian lottery, which expires in 2028.

Within the jurisdictions it operates, Lottery Corp has just three digital-only competitors with an estimated combined market share of around 5%—paling in comparison to Lottery Corp's near-95% share.

We think Lottery Corp's strong competitive position is further reinforced by its brand equity. Lottery Corp has largely maintained its market share as the only televised lottery company in Australia for the past 50 years and has a considerable distribution presence with over 3,800 franchised retail outlets nationally. Additionally, Keno, which is another style of lottery, is sold in over 3,400 clubs and hospitality venues. The firm's scale improves the perceived value of products to consumers, with prize pools combined nationally (excluding Western Australia), thus allowing for larger jackpots and prize payouts.

Exhibit 2 Compared With Wagering, Lottery Licences Are More Effective Barriers to new Competition
Year of expiry of state-based licences. ACT lottery licence is perpetual.



Source: Company filings

Lottery licences, which are granted at state level, create significant and long-dated barriers to entry. Although competing lottery businesses could theoretically enter Lottery Corp's markets, there are several hurdles to overcome. For a start, a potential competitor would need to either gain a licence at the expense of Lottery Corp when an exclusive licence is due for expiry or obtain licences in states or territories in which Lottery Corp holds a nonexclusive licence. New South Wales and South Australia both have exclusive lottery licences running until at least 2050. Despite licences being nonexclusive in the other Australian states and territories, Lottery Corp has remained practically the sole player since at least 1972. The state of Victoria is the only location to have ever granted two licences and in both instances permitting the secondary entrant only to sell a limited range of lottery products, which protected Lottery Corp's core product sales.

In all jurisdictions, regulators control game type and rules, pricing, taxes, cash requirements, return to player percentage, community and charity contributions, advertising and sales, and distribution. We expect the scale of the business is such that new entrants will find it extremely hard to compete against Lottery Corp's distribution network and national jackpot pool size. We think large jackpot sizes are a key driver of lottery sales. As lottery jackpots increase, the perceived value of a lottery ticket increases, leading to an uptick in lottery sales. A new entrant can operate its own lotteries, but the prize pool would lack scale and be much smaller compared with Lottery Corp's national pool, and we believe the firm's wide distribution network will make it difficult for a competitor to gain traction in the lotteries market.

We Aren't Concerned by Impending Victorian Lottery Licence Expiry

We estimate Victorian lotteries comprise around a fifth of Lottery Corp's earnings. Consequently, the 2028 expiry of the Victorian lottery licence is a potentially material event on the Lottery Corp calendar. But we do not expect Lottery Corp to forego the licence completely. Already nonexclusive, a competitor securing exclusivity in Victoria at the expense of Lottery Corp is unlikely—particularly as no other player offers a full suite of comparable products. However, we think competition for the Victorian licence on renewal is likely and anticipate a good chance Victoria would grant a second lottery licence when Lottery Corp's licence expires, but the impact is immaterial to our fair value estimate.

Indeed, other firms have tried to enter the lotteries segment and failed. From 2008, Lottery Corp briefly had competition in Victoria. The Victorian government granted a second licence to Greek firm Intralot for 10 years from 2008 to sell instant scratch and Keno products, with Lottery Corp's predecessors licenced to sell its core sales of lottery tickets. But Intralot failed to gain distribution in the retail network and gave up its licence to Lottery Corp's predecessors in 2014, subsequently suing the state of Victoria for damages and losses. In court documents, Intralot claimed the state of Victoria was complicit in anticompetitive behaviour by Lottery Corp (then Tattersalls). A reported issue was limited access to the distribution network for product sales, with Lottery Corp franchise agreements preventing the sale and display of other products within close proximity of the official Lottery Corp sales counter. To work around this, Intralot's instant scratch products were sold from a different sales counter which was purported a friction point for customers due to being less convenient or conspicuous.

Two other firms have also attempted to compete with Lottery Corp in recent years. Crown Lotto, an app-based lottery platform mostly owned by narrow-moat Crown Resorts, was launched—with plans to become nationwide—in 2017 and permanently withdrew two months later, citing regulatory issues. Lottoland entered the Australian market in 2016 via a Northern Territory gaming licence and continues to trade nationwide as a digital only firm but was forced to change its product offering after a change in legislation banning synthetic lotteries—where users could bet on the outcome of international lotteries. Despite six years of operation, Lottoland has less than 5% market share in Australia.

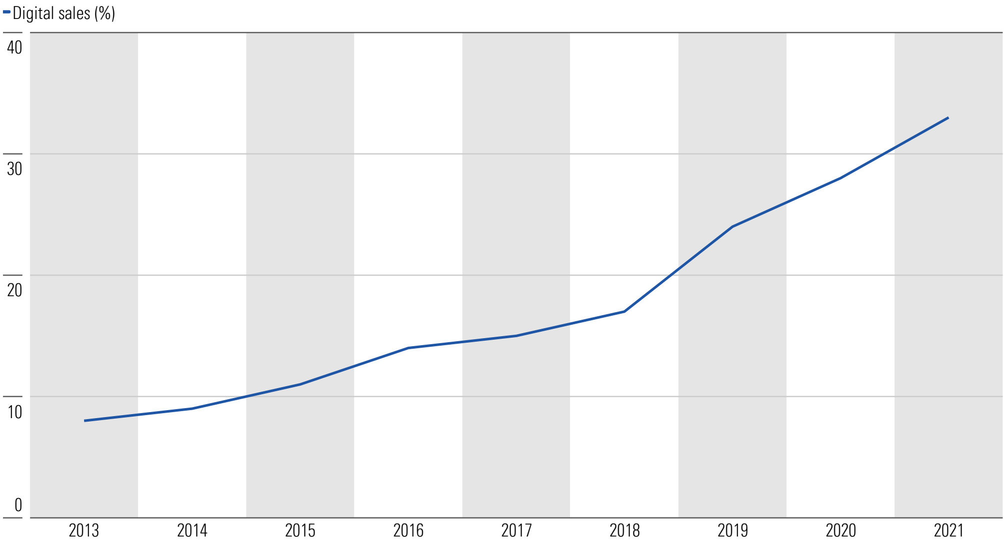
In April 2022, Victoria once again granted a second lottery licence. This time, Gibraltar-based Lottoland gained the second 20-year Keno licence, with both Lottery Corp and Lottoland running the state's Keno operations. Of the granting of a second Keno licence, Minister for Consumer Affairs, Gaming and Liquor Regulation Melissa Horne said, "The industry has changed significantly since 2012, with new technologies and new online market entrants, so we have updated the Keno licence to allow for a more modern approach." While the Victorian Keno business is largely immaterial to Lottery Corp—around 1% of revenue—we think it is a telling illustration of the Victorian Government's stance on competition. We expect there is a strong likelihood Victoria would grant a second lottery licence when Lottery Corp's licence expires in 2028, once again opening the state up to two lottery vendors, with digital-only competitor Lottoland a potential contender.

Digitisation Is an Opportunity, not a Threat for Lottery Corp

Increased digital sales are a net positive for Lottery Corp, which already conducts 33% of sales online. We think the lower commission margin paid on online sales more than offsets the impact from closure of retail outlets such as newsagents and we expect only minor competition from digital players.

Digital sales of lottery products have been gaining rapid momentum, almost doubling in volume between 2019 and 2021. Digital sales are primarily managed by Jumbo Interactive, which maintains the entire purchasing eco-system including website maintenance, payment, and security. Tabcorp and Jumbo Interactive have a 10-year reseller agreement through to 2030. Tabcorp pays commissions for each ticket sale to Jumbo, and Jumbo pays an upfront licence fee and a percentage of sales in service fees. We think Lottery Corp has the power in this relationship to renegotiate commissions lower as the dollar amount grows. The retail franchises operate under a similar agreement, but command a higher margin. Lottery Corp pays a 9.0% commission to Jumbo for each ticket sale versus a 10.3% commission paid to retailer franchises. Jumbo then pays a seller commission to Lottery Corp of 2.50% in fiscal 2022, rising to 4.65% in 2024, while retail franchises pay a much lower commission of between 1% and 2%.

Exhibit 3 Digital Penetration in Lotteries Has Continued to Rise



Source: Company filings, Morningstar estimates

To appease retail franchises for the loss of revenue from digital sales, Tabcorp has implemented an omnichannel commission where a customer who is encouraged and aided to sign up to a digital account in a physical retail store will be attributed to that store and their future online sales will earn the retailer a commission.

Digital Competition Is Weak

While Lottery Corp's three main competitors operate in the digital lottery space, none have the same brand strength, with the 50-year history of Lottery Corp's brands, physical store presence, range of games, and televised lottery draws all aiding its brand equity. We think alternative digital lottery firms are also burdened by more complicated game rules and formats, as well as customer pain-points such as ID verification and an approval process before establishing an account, and rules restricting customers who hold residency in particular countries (despite residing in Australia). We think a lack of brand recognition will prevent digital competitors from gaining sufficient market share due to their relative obscurity. While opening up foreign lotteries would be negative to Lottery Corp, we think these rules are unlikely to change as it would deprive state governments of lucrative taxation revenue.

Lottoland is the largest of the digital competitors, launching in Australia via a Northern Territory lottery licence in 2016. The competitor initially had a more marketable product, known as a synthetic lottery—where users could bet on the outcome of international lotteries. But this practice was banned in Australia through the passing of the Gaming and Wagering Legislation in 2018, following extensive lobbying by Lottery Corp's predecessors and industry groups. In response to legislative changes, Lottoland quickly pivoted its game format and users now bet on the outcome of international financial market indexes.

Other digital competitors, such as The Lottery Office, offer a “ticket runner” style lottery where a proxy ticket for an international lottery is purchased online and matched with a physical one in the country of origin. This differs from the synthetic lottery initially deployed by Lottoland as instead of betting on the outcome of a lottery, a physical ticket is purchased on their behalf. Large prize-pool international lotteries including Europe's EuroMillions, the U.K. Lottery, and the U.S. Lotteries prohibit the purchasing of tickets from outside of the originating country, but The Lottery Office counteracts this by deploying a local purchasing system to buy tickets locally.

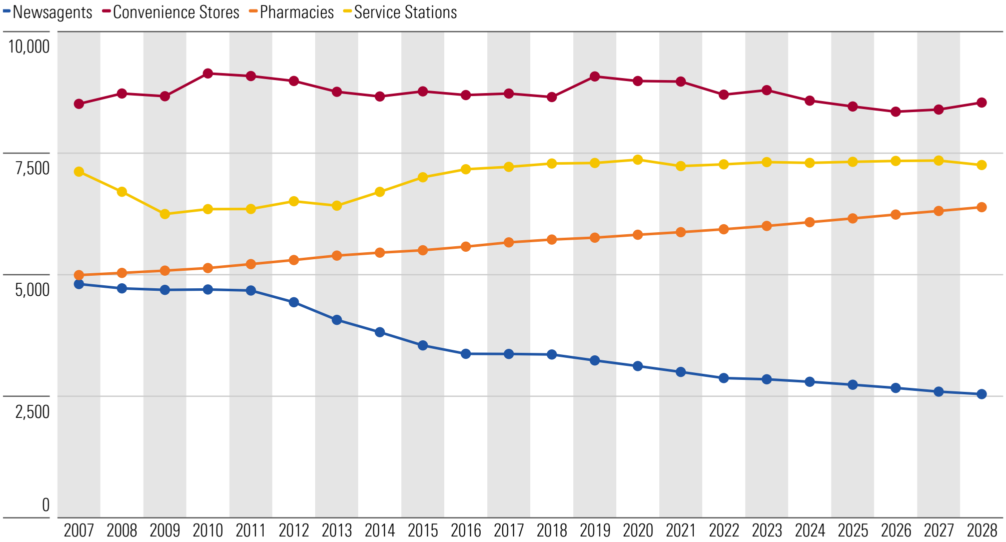
The Competitive Position of Lottery Corp Is Stable

Due to the long duration of licences, Lottery Corp's competitive position is neither improving nor declining. We do not expect any significant changes in regulation due to government and community dependence on Lottery Corp tax revenue. Additionally, lottery continues to fly under the radar as a less controversial form of gambling and we do not foresee any significant social impacts which would cause the regulators to tighten rules. While Lottery Corp's traditional distribution avenues are declining, we think this trend is offset by increased digital sales and higher penetration in alternative retailers.

Newsagencies Are in Decline, but Other Retailers Can Plug the Gap

Lottery Corp's primary distributors remain newsagency franchises. Newsagent revenue is declining with foot traffic as consumers shift away from legacy products such as newspapers, magazines, stationery, and greeting cards. As such, IbisWorld forecasts Australian newsagents continuing to decline at a CAGR of 2.2% in the five years to 2027. But Lottery Corp is mitigating against this by targeting alternative and more stable store types for its franchise program, including service stations, pharmacies, and convenience stores. We think there is sufficient potential sales volume at these other retail types, and we expect a decline in newsagency franchisees will be offset by a combination of new franchisees in other business types, and a greater shift toward digital sales. In the past, owning a lotto outlet was a boon to a store, encouraging foot traffic and providing an additional revenue source, but we see this being less buoyant as sales move online. There are 3,800 franchise distributors Australia-wide. These are in newsagencies, convenience stores, pharmacies, post offices and service stations. Each has paid oneoff fees to become a franchisee, met the stringent and regular merchandising and marketing criteria set by Tabcorp head office, paid for staff training and their shop fit-out by a Tabcorp approved shop fitter at a cost of up to AUD 60,000.

Exhibit 4 Newsagents Are in Decline, but There Are Plenty of Untapped Alternative Distributors
Number of retailers in Australia



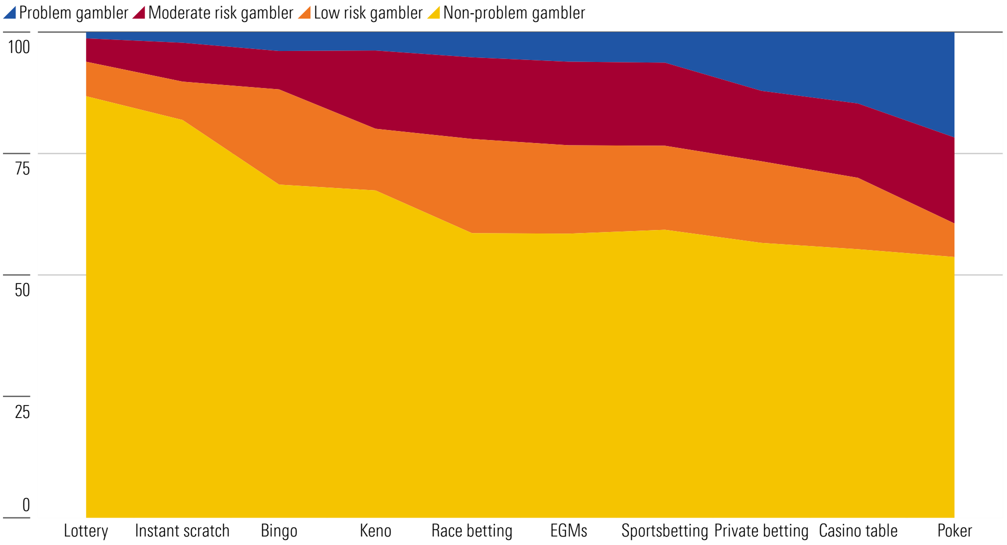
Source: IbisWorld

Lotteries Have a Lower ESG Risk Than Other Forms of Gambling

In terms of risk, we think of lotteries as a relatively environmental, social, and governance, or ESG,-light form of gambling. Lottery Corp's revenue is gained from small ticket sales to a large volume of customers, versus other forms of gambling where only a small number of consumers participate but their average spend is much greater. The Australian Institute of Health and Welfare reported 27% of Australians purchased a lottery product in an average month in 2018, with an average monthly spend of AUD 60 per person. By comparison, 6% of the population reportedly bet on dog or horse racing in an average month in 2018, with an average monthly spend of AUD 232 per person. Consequently, lotteries are mostly removed from conversations around problem gambling because individual losses are much smaller—particularly at the higher end—and we think tighter regulation around gambler harm minimisation specifically targeting lotteries is unlikely.

Further, do not expect any significant changes in regulation due to government and community financial dependence on income from Lottery Corp revenue. State-based lotteries are a legitimate source of government funding, with revenue from gambling averaging around 6% of total state tax revenue. The Australian Gaming Council reports lotteries pay the highest tax rate of all gambling types. In fiscal 2018, direct taxes, licence fees, and mandatory contributions were 68% of Lottery Corp's revenue, followed by gaming machines at 30% and casinos at 14%. Community organisations and charities also depend on gifted money from Lottery Corp. In fiscal 2021, Tabcorp gifted AUD 9 million to charitable and community organisations including medical research, child welfare, and sporting and cultural groups.

Exhibit 5 Lottery Corp Products Have Moderate (Less High) Risk Gambling Compared With Other Forms
% of players



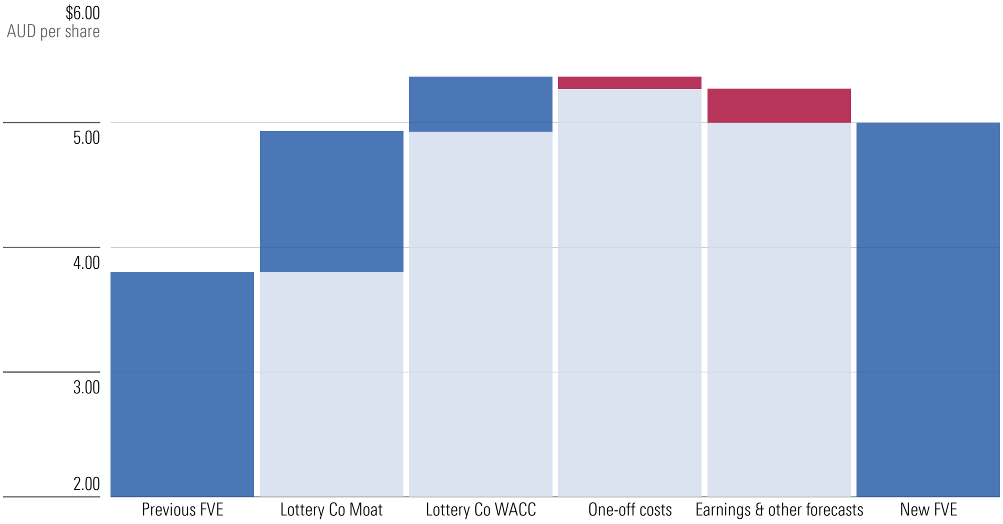
Source: Australian Institute of Family Studies

We Raise our Fair Value Estimate for Tabcorp Ahead of the Demerger

We raise our fair value estimate for Tabcorp by 32% to AUD 5.00 per share. As illustrated in Exhibit 6 below, the increase is based on increasing our moat rating for Lottery Corp to wide, lowering our weighted average cost of capital, or WACC, assumption, partially offset by oneoff demerger costs of AUD 270 million and changes to our earnings estimates for each business—including AUD 31 million in additional annual ongoing corporate and operating costs as two standalone entities. For the purpose of simplicity, other offsetting impacts—such as capital expenditure forecasts and the interactions between components—have been bundled with changes to earnings in the exhibit. Until now, we had taken the view the competitive position of long-dated lotteries is overshadowed by difficulties in wagering. Wagering remains highly competitive, and we were concerned strong earnings from the lotteries business appeared to be directed to support the no-moat wagering business. With the businesses set to separate, these concerns are no longer relevant, and we think lotteries can thrive as a standalone business.

With significant barriers to new competitors, we expect Lottery Corp will continue to dominate the Australian lotteries landscape. The lottery and Keno businesses are underpinned by long-dated state-based licences throughout most of Australia—an enormous scale that adds a degree of earnings certainty. But even after state-licenced exclusivities end, we expect the scale of its business is such that potential new entrants will find it extremely hard to compete against Lottery Corp's distribution network and national jackpot pool size.

Exhibit 6 Components to our Fair Value Estimate Change
AUD per share



Source: Morningstar estimates

We Expect Near-Term Softening of Above-Trend Growth, but the Long-Term Picture Is Rosy

We expect some moderation in the lottery segment's exceptional performance as recent tailwinds unwind. Major jackpot sequences have been favourable since fiscal 2019. We think large jackpot sizes are a key driver of lottery sales—as lottery jackpots increase, the perceived value of a lottery ticket increases, leading to an uptick in lottery sales. We also estimate the lotteries business has enjoyed a larger share of gambling expenditure since COVID-19-induced restrictions dampened demand for in-venue gambling. While game changes can drive demand, like the recent Powerball game change to increase jackpot frequency or flagged game changes and price rises for OzLotto, we expect jackpots and spending habits to normalise, and we forecast revenue performance to moderate in the near term. Longer term, with a virtually monopolistic position, we expect the lotteries business to enjoy steady growth. Margin expansion opportunities arise from increasing digitisation and operating leverage benefits as the business scales, and we forecast consolidated operating margins improving by around 90 basis points over the five years to fiscal 2026.

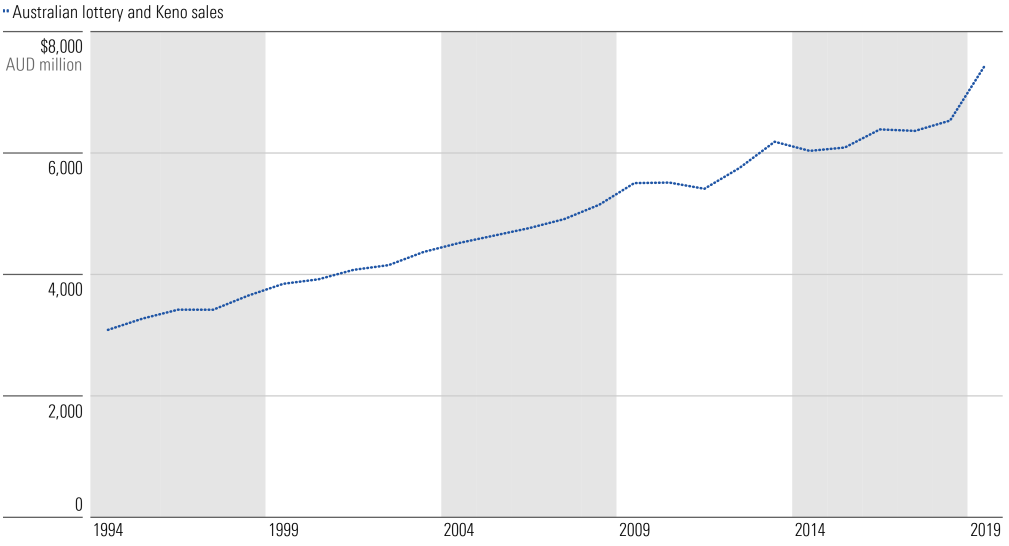
Lottery Corp's Capital Allocation Strategy Appears Sound

We assign Lottery Corp a Standard capital allocation rating based on our assessment of balance sheet risk, investment efficacy, and shareholder distribution.

Lottery Corp is taking the bulk of Tabcorp's debt, with opening net debt post-demerger of around AUD 2.2 billion (compared with less than AUD 100 million for new Tabcorp). We anticipate leverage, measured as net debt/adjusted EBITDA, of around 3.5 at fiscal 2022—at the bottom end of target levels of 3.5 to 4.0. We see these as comfortable leverage metrics, especially for a company with such a defensive earnings stream.

Indeed, lottery turnover has also remained steady throughout downturns, supporting the company's infrastructure-like characteristics. Culturally, the gifting of a scratch lottery ticket or spending AUD 2 on an impulse ticket when at the newsagent is commonplace in Australian society. For these reasons lotteries appeal to a wider customer segment. This is evidenced by jackpot lotteries. When large jackpots occur, new and infrequent customers purchase lotto tickets, enticed by the hope of a multi-million-dollar win. We think the mass-market appeal of lotteries can support consistent expenditure despite competition from alternative gambling methods, as evidenced by 20 years of consistent turnover growth. We think this low revenue cyclicality warrants a below average cost of equity assumption, leading to our WACC assumption of 6.8% for Lottery Corp, compared with 8.0% for the consolidated Tabcorp business, and 8.9% for new Tabcorp (which will not hold as much debt).

Exhibit 7 Lottery Turnover Has low Cyclicality



Source: Queensland Government Statistician's Office, Queensland Treasury, company filings, Morningstar estimates

The Lottery Company Can Support a High Dividend Payout Ratio

Investment efficacy is fair. As the biggest player in the market, Lottery Corp is already well-positioned to capture tailwinds from steady lotteries growth as the near-monopoly player. Beyond the acquisition of licences, Lottery Corp has few reinvestment requirements beyond game changes and new game development, marketing, and minor capital expenditures. Accordingly, we think the firm's intention to pay out 70% to 90% of underlying EPS in dividends is appropriate, albeit potentially conservative on the lower end. However, this gives the firm flexibility to pursue potential additional licences such as Western Australia. With such a defensive earnings stream, we forecast Lottery Corp comfortably supporting a payout ratio at the top of its target range, and our fair value estimate implies a 4% fiscal 2023 dividend yield, which we expect to be fully franked.

Appendix

Exhibit 8 Demerger Timeline

Event	Indicative date
Demerger Booklet registered with ASIC and released to ASX	Wednesday, 30 March 2022
Demerger General Meeting and Scheme Meeting	Thursday, 12 May 2022
Second Court Hearing	Friday, 20 May 2022
Effective Date (last day of trading in Tabcorp shares cum-Demerger Entitlement)	Monday, 23 May 2022
ASX listing of TLC (TLC shares commence trading on a deferred settlement basis)	Tuesday, 24 May 2022
Demerger Record Date	Wednesday, 25 May 2022
Demerger Implementation Date	Wednesday, 1 June 2022
TLC shares commence trading on a normal settlement basis on ASX	Thursday, 2 June 2022

Source: Company filings

Exhibit 9 The Lottery Corporation Forecasts
Note: star rating to be determined following demerger

Morningstar Equity Research | 10 May 2022

The Lottery Corporation (TLC)

★

Last Price	Fair Value	Uncertainty	Stewardship	Economic Moat	Moat Trend	Morningstar Credit Rating
– AUD	4 AUD	Medium	Standard	Wide	Stable	N/A

Analyst	Angus Hewitt, CFA
Phone & Email	61292764408
	angus.hewitt@morningstar.com
Sector	Consumer Cyclical
Industry	Gambling

Five-Star Price	2.80
Fair Value Estimate	4.00
One-Star Price	5.40
Market Price	–
P / FVE	N/A

Estimated COE	7.5%
Pre-Tax Cost of Debt	6.5%
Estimated WACC	6.8%
ROIC *	22.6%
Adjusted ROIC *	22.6%

* 5-Yr Projected Average

Adjusted P / E	N/A	25.0
EV / Adjusted EBITDA	N/A	16.9
EV / Sales	N/A	3.3
Price / Book	N/A	(28.9)
FCF Yield	N/A	0.7%
Dividend Yield	N/A	0.0%
(2022 Estimates)	(Price)	(Fair Value)

All values (except per share amounts) in: AUD Millions	3-Yr Historical CAGR/AVG	2021	Forecast 2022	2023	2024	2025	2026	5-Yr Projected CAGR/AVG
Income Statement								
Revenue		3,206	3,462	3,497	3,630	3,767	3,907	
Gross Profit		3,206	3,462	3,497	3,630	3,767	3,907	
Operating Income		531	590	591	623	653	684	
Net Income		372	-23	250	375	394	414	
Adjusted Income		330	356	355	375	394	414	
Adjusted EPS		0.15	0.16	0.16	0.17	0.18	0.19	
Adjusted EBITDA		611	669	673	706	739	773	
Growth (% YoY)								
Revenue			8.0%	1.0%	3.8%	3.8%	3.7%	4.0%
Gross Profit			8.0%	1.0%	3.8%	3.8%	3.7%	4.0%
Operating Income			11.0%	0.3%	5.4%	4.9%	4.8%	5.2%
Net Income			-106.2%	-1193.8%	49.7%	5.1%	5.0%	2.2%
Adjusted EPS			7.8%	-0.3%	5.7%	5.1%	5.0%	4.6%
Adjusted EBITDA			9.5%	0.6%	4.9%	4.7%	4.6%	4.8%
Profitability (%)								
Gross Margin		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Margin		16.6%	17.0%	16.9%	17.2%	17.3%	17.5%	17.2%
Net Margin		11.6%	-0.7%	7.2%	10.3%	10.5%	10.6%	7.6%
Adjusted EBITDA Margin		19.1%	19.3%	19.2%	19.4%	19.6%	19.8%	19.5%
Return on Equity		-261.1%	7.7%	-74.0%	-107.9%	-133.1%	-175.1%	-96.5%
Adjusted ROIC		36.0%	20.7%	21.2%	22.4%	23.7%	25.1%	22.6%
Adjusted RONIC			-72.0%	-40.9%	-111.7%	-104.7%	-105.3%	-86.9%
Leverage								
Debt / Capital		112.4%	113.4%	116.5%	114.4%	111.4%	108.7%	112.9%
Debt / EBITDA		3.8	22.4	5.1	3.8	3.6	3.4	7.6
EBITDA / Interest Expense		8.2	1.4	6.1	7.9	8.1	8.2	6.3
FCFE / Total Debt		0.15	0.02	0.10	0.15	0.16	0.17	0.12
Cash Flow								
Dividends per Share		0.00	0.00	0.14	0.15	0.15	0.16	
Free Cash Flow to the Firm		385	108	314	459	481	503	
FCFE (CFO-Capex)		378	61	255	398	418	438	
Dividend Franking		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Dividend Payout Ratio		0.0%	0.0%	124.2%	88.9%	84.5%	85.9%	

Source: Morningstar estimates

Exhibit 10 "New" Tabcorp Forecasts
Note: star rating to be determined following demerger

Morningstar Equity Research 10 May 2022

Tabcorp Holdings Limited (TAH)

Last Price	Fair Value	Uncertainty	Stewardship	Economic Moat	Moat Trend	Morningstar Credit Rating
– AUD	1 AUD	Medium	Standard	None	Negative	N/A

Analyst	Angus Hewitt	Five-Star Price	0.70	Estimated COE	9.0%	Adjusted P / E	N/A	34.2
Phone & Email	61292764408	Fair Value Estimate	1.00	Pre-Tax Cost of Debt	6.5%	EV / Adjusted EBITDA	N/A	5.7
angus.hewitt@morningstar.com		One-Star Price	1.35	Estimated WACC	8.7%	EV / Sales	N/A	0.9
Sector	Consumer Cyclical	Market Price	–	ROIC *	4.3%	Price / Book	N/A	0.7
Industry	Gambling	P / FVE	N/A	Adjusted ROIC *	9.4%	FCF Yield	N/A	18.4%
				* 5-Yr Projected Average		Dividend Yield	N/A	12.4%
						(2022 Estimates)	(Price)	(Fair Value)

All values (except per share amounts) in: AUD Millions	3-Yr Historical CAGR/AV	2021	Forecast 2022	2023	2024	2025	2026	5-Yr Projected CAGR/AVG
Income Statement								
Revenue		2,493	2,449	2,596	2,680	2,774	2,871	
Gross Profit		2,493	2,449	2,596	2,680	2,774	2,871	
Operating Income		185	108	167	174	190	206	
Net Income		-7	403	61	111	122	132	
Adjusted Income		86	65	106	111	122	132	
Adjusted EPS		0.04	0.03	0.05	0.05	0.05	0.06	
Adjusted EBITDA		464	388	443	454	476	499	
Growth (% YoY)								
Revenue			-1.8%	6.0%	3.2%	3.5%	3.5%	2.9%
Gross Profit			-1.8%	6.0%	3.2%	3.5%	3.5%	2.9%
Operating Income			-41.6%	54.2%	4.8%	9.1%	8.2%	2.2%
Net Income			-5858.2%	-84.9%	82.4%	9.7%	8.8%	NM
Adjusted EPS			-25.6%	62.4%	5.0%	9.7%	8.8%	8.6%
Adjusted EBITDA			-16.3%	14.2%	2.4%	4.9%	4.8%	1.5%
Profitability (%)								
Gross Margin		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Margin		7.4%	4.4%	6.4%	6.5%	6.9%	7.2%	6.3%
Net Margin		-0.3%	16.5%	2.3%	4.1%	4.4%	4.6%	6.4%
Adjusted EBITDA Margin		18.6%	15.8%	17.1%	16.9%	17.2%	17.4%	16.9%
Return on Equity		-0.5%	13.7%	2.0%	3.6%	3.9%	4.2%	5.5%
Adjusted ROIC		17.6%	4.4%	9.5%	10.1%	11.1%	12.0%	9.4%
Adjusted RONIC			264.9%	-224.1%	-35.1%	-73.0%	-84.3%	-30.3%
Leverage								
Debt / Capital		4.6%	4.7%	4.7%	4.6%	4.5%	4.5%	4.6%
Debt / EBITDA		0.4	0.2	0.4	0.4	0.3	0.3	0.3
EBITDA / Interest Expense		16.4	55.8	22.1	26.1	26.7	27.2	31.6
FCFE / Total Debt		1.26	2.72	0.64	0.87	0.93	0.99	1.23
Cash Flow								
Dividends per Share		0.00	0.12	0.02	0.02	0.03	0.03	
Free Cash Flow to the Firm		221	406	108	142	151	160	
FCFE (CFO-Capex)		177	408	97	130	140	148	
Dividend Franking		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Dividend Payout Ratio		0.0%	68.2%	73.1%	40.1%	54.8%	50.4%	

Source: Morningstar estimates

Copyright, Disclaimer and Other Information

This report has been issued and distributed by Morningstar Australasia Pty Ltd ABN: 95 090 665 544, AFSL: 240892 and/or Morningstar Research Limited NZBN:9429039567505, subsidiaries of Morningstar, Inc.

To the extent the report contains any general advice or 'regulated financial advice' under New Zealand law this has been prepared by Morningstar Australasia Pty Ltd and/or Morningstar Research Ltd, without reference to your objectives, financial situation or needs. For more information please refer to our Financial Services Guide for Australian users and our Financial Advice Provider Disclosure Statement for New Zealand users. These are available at: www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement

Disclaimer

All care has been taken in preparing this report. However, please note we base our financial product research on current information provided to us by third parties(including financial product issuers) which we cannot necessarily verify. While we use all reasonable efforts to obtain information from reliable sources, we do not guarantee the data or content contained herein to be accurate, complete or timely. To the extent that our research is based on information received from other parties, no liability is accepted by Morningstar, its affiliates nor their content providers for errors contained in the report or omissions from the report. Morningstar determines its ratings on information disclosed to it by financial product issuers and on past performance of products. Past performance is no guarantee of future performance.

More Information

If you wish to obtain further information regarding this report, licensing and our services, please contact us on:

Morningstar.com.au subscribers
Tel: 1800 03 44 55
Email: help.au@morningstar.com

Advisers/Institutions/Others
Tel: +61 2 9276 4446
Email: helpdesk.au@morningstar.com

For further information on our analysts and research methodologies, we recommend you visit www.morningstar.com/company/disclosures.