

## Gambling on overpaid CEO

Company name/ASX Code	Tabcorp Holdings Limited/TAH
Meeting Time/Date	10.00am, Wednesday 25 October 2023
Location	Clarendon Auditorium, Level 1, Melbourne Convention and Exhibition Centre
Registry	Link Market Services
Type of Meeting	Hybrid
Monitor	Mike Muntisov assisted by Steve van Emmerik
Pre AGM Meeting?	Yes, with Chair Bruce Akhurst, Chair Rem Committee David Gallop, Co Sec Chris Murphy, Investor Relations Terry Couper, Nicole Kirk

### 1. How we intend to vote

2a	Re-election of Mr Bruce Akhurst as a Director	For
2b	Re-election of Mr David Gallop as a Director	Against
2c	Election of Ms Karen Stocks as a Director	For
3	Adoption of Remuneration Report	Against
4	Grant of Options to CEO/Managing Director	Against

### 2. Summary of Issues and Voting Intentions for AGM

The main issue for the AGM is the remuneration scheme which has many deficiencies.

For the business, the major issue is the upcoming expiry of and rebidding for the Victorian Wagering licence. The outcome of this process will have a major impact on the company. More on that will be provided in the AGM report.

### 3. Matters Considered

#### Key events

The company launched their new TAB25 strategy. By FY25 it aims to achieve a Return on Invested Capital (ROIC) of 10% (currently 5.5%), a digital revenue market share of 30% (currently 24.5%) and operating costs of \$600-\$620M (already achieved).

## Key Financials

The de-merger with The Lottery Corporation in 2022 means that only one year of nominal comparable financial data is available and even that is distorted by de-merger activities. The best comparator with last year may be that of revenue which is up 2.6% on FY22.

	2023	2022 <sup>1</sup>
Statutory NPAT (\$m)	66.5	(118.4)
Underlying NPAT (\$m)	84.3	(18.1)
Statutory EPS (cents)	2.9	(5.3)
Dividend per Share (cents)	2.3	N/A
Share Price at End of FY (\$)	1.11	1.065
Realised CEO Remuneration (\$)	\$1.9m <sup>2</sup>	
Statutory CEO Remuneration (\$)	\$2.8m <sup>2</sup>	N/A
Total Shareholder Return (%)	6%	

Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company.

<sup>1</sup> Results for 2022 are proforma, removing 11 months of the Lotteries business. Source Annual Report 2023 p12

<sup>2</sup>The figures appear lower than the remuneration details given in the Appendix because no LTI awards are in play given the newly struck scheme and the use of options in the LTI.

## Key Board or senior management changes

A new Board member Karen Stocks was appointed this financial year and her formal election will be subject to a vote at the AGM. See below for more details.

The CFO, Daniel Renshaw stepped down in August 2023. Damien Johnston has been appointed interim CFO.

## Review of Board on Governance, Transparency, Fairness to Retail Shareholders

### Positives

- The Board has an independent Non-Executive Chair and majority of independent directors.
- The Board is close to ASA's guideline threshold of at least 40% female directors (3 of 8).
- Tabcorp policy is for Directors to hold at least one year's worth of member base fees in company shares, within 3 years.
- The company meaningfully discloses ESG issues or risks facing business and the processes to manage them. It discloses independent ESG ratings of the company in the Annual Report.
- The company has a track record of raising capital fairly by using a pro-rata renounceable entitlement/rights offer (PAITREO).
- The external audit function was competitively tendered this year. EY were re-appointed, and the process provided valuable lessons for the company.

#### Areas for Improvement

- The company skills ‘matrix’ of the directors is more like a skills ‘table’ and could be improved.
- The skills matrix was published in the Governance Statement rather than in the Annual Report (last year it appeared in the Annual Report.)
- The ASA is not in favour of companies making political donations. This subject has been discussed with Tabcorp previously and they believe that involvement in political party forums is important in protecting shareholder interests. In FY23 a total of \$161,000 in political donations were made (FY22: \$216,000 including Lotteries business). These are typically balanced between the parties. At least Tabcorp now disclose the quantum of donations in the annual report.

## 4. Rationale for Voting Intentions

### **Resolution 2a: Re-election of Mr Bruce Akhurst as a Director (for)**

Mr Akhurst was appointed to the board in July 2017 and has been chairman since June 2022. He has a legal background and corporate experience in the communication and entertainment industries. He has adequate ‘skin in the game’ (shareholding). His workload is within ASA guidelines and he is considered independent.

The ASA proposes to support his election.

### **Resolution 2b: Re-election of Mr David Gallop as a Director (against)**

Mr Gallop has been a director since July 2020. He has qualifications in law and executive experience in the sports industry. He needs to roughly double his current shareholding to meet Tabcorp shareholding policy of one year’s fee value by, in his case, 2025. His workload is within ASA guidelines and he is considered independent.

Mr Gallop is the Chair of the Nominations and Remuneration Committee. As such, he is responsible for overseeing remuneration. As detailed under Resolution 3, we assess that the Tabcorp CEO and Chairman are overpaid. Our concerns were raised with Mr Gallop last year, yet no meaningful change has been made by Mr Gallop and his committee.

For this reason, the ASA proposes to vote against Mr Gallop’s re-election.

### **Resolution 2c: Election of Ms Karen Stocks as a Director (for)**

Ms Stocks was appointed a director in March 2023. Ms Stocks has qualifications in accounting and business administration. Her corporate experience is with technology companies such as Twitter and Vodafone, and she is currently Vice President Global Measurement Solutions at Google. She has no other directorships which is appropriate given she is in full time employment. She has made a good start to accumulating her ‘skin in the game’ shareholding.

The ASA proposes to support her election.

### Resolution 3: Adoption of Remuneration Report (against)

The key issue is that Tabcorp's remuneration framework has not reflected the reduction in size and complexity of the company after the de-merger with The Lottery Corporation. We consider the remuneration levels of the CEO and Chairman are excessive. This is best illustrated by Tabcorp market capitalisation shrinking by 77% post de-merger, yet CEO remuneration is down only around 10% and Chairman fees down 15%. When the reverse happened in 2017 (Tabcorp acquiring Tatts), the CEO remuneration increased by 43% and the Chairman fee increased by 37%.

The company argues that they have to pay 'above median' benchmarks because they are not competing on a level playing field, they are transitioning the company, and there is a higher degree of personal risk and exposure working in the gambling industry. Even allowing for 'above median' at the 75<sup>th</sup> percentile level, the pay is too high as illustrated by the following GRG benchmark data.

Role	GRG benchmark @ 75 <sup>th</sup> ile (market cap \$1.5B - \$3.5B)	Tabcorp target FY23 (market cap \$2.5B)
CEO	\$3.16M	\$4.5M
Chairman	\$328k	\$493k

The company changed its remuneration peer group in FY23 to companies with revenues between \$1B and \$4B in the ASX50-200 (Note: Tabcorp ranks about 150<sup>th</sup> in the index). A comparison with this peer group is shown in the Appendix and further confirms that remuneration is too high.

In addition, the LTI scheme does not meet ASA guidelines on several measures.

For these reasons, the ASA will be voting undirected proxies against the remuneration report.

More details of the Remuneration framework are provided in the Appendix.

### Resolution 4: Grant of Options to CEO/Managing Director (against)

Please refer to the assessment under resolution 3 and the Appendix. The ASA will be voting against this resolution.

### Monitor Shareholding

*The individual (or their associates) involved in the preparation of this voting intention has no shareholding in this company.*

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## Appendix 1

### Remuneration framework detail

CEO rem. Framework (FY24)	Target (\$m)	% of Total	Max. Opportunity (\$m)	% of Total
Fixed Remuneration	1.500	33%	1.500	22%
STI - Cash	0.750	17%	1.125	17%
STI - Equity	0.750	17%	1.125	17%
LTI	1.500	33%	3.000	44%
Total	4.500	100%	6.750	100%

#### Positives

- CEO's actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed.
- At least 50% of CEO's pay is genuinely at risk [67% at target].
- STIs are not more than fixed remuneration (at target).
- The majority of STIs are based on disclosed performance criteria and no STIs to be paid unless a financial gateway (EBIT) is met.
- 50% of STIs is paid in equity with a 2 year holding lock.
- No retesting of performance hurdles is allowed.
- Termination payments do not exceed 12 months fixed pay.
- Vesting in a takeover or "change of control" event is at the discretion of the Board.

#### Areas for Improvement

- The total quantum of the CEO remuneration package is not reasonably within benchmarks, not even accounting for the fact that the new CEO is a 'rookie'. The target remuneration is only around 10% lower than in the pre-merger company (Market Cap. \$11.5B pre demerger, now (9/23) \$2.5B, down 77%). By any measure, the CEO remuneration is too high. (See also table below.)
- The quantum of the Chairman's fee is not reasonably within remuneration benchmarks. The Chair's fee has been set at \$493k, down only 15% from pre-merger. (See also table below)
- The GRG benchmarks for a \$1.5B to \$3.5B market capitalisation, which Tabcorp neatly falls within, and allowing for "above median" pay by considering the 75%ile benchmark, the following table compares this benchmark with actual Tabcorp remuneration, confirming that pay is too high.

Role	GRG benchmark @ 75%ile (market cap \$1.5B - \$3.5B)	Tabcorp target FY23 (market cap \$2.5B)
CEO	\$3.16M	\$4.5M
Chairman	\$328k	\$493k

- The LTI award is based on only one measure, Return on Invested Capital (ROIC), rather than at least two measures favoured by ASA. The company argues that the option exercise price is a second measure.
- ASA’s preferred measure for LTI award is Total Shareholder Return (TSR), which was used by the ‘old’ Tabcorp as one of two measures but has been dropped by the new Tabcorp.
- Actual LTI hurdles and criteria (measured over 3 years) for FY24 awards are shown in the following table:

Performance Criteria	Contribution % of total LTI award	Threshold performance	Vesting at threshold performance	Target performance for 100% vesting
ROIC	100% (i.e. single LTI measure)	6.5%	35%	8.9%

- The LTI award is in the form of options which ASA does not favour.
- The options, by necessity, are priced at fair value via the Black-Scholes model. This is not easy for average shareholders to understand.
- If the LTI options vest, the Board has the option to pay the “settlement” for the vesting, being the difference in share price between award and vesting, in cash rather than shares. The company argues that cash payment would be an exception.
- The ASA does not favour retention payments which were paid last year, including to the new CEO. The company argues that this was necessary because of the uncertainty created by the demerger.
- LTI hurdles are measured over three years not ASA’s preferred four years or more after issue.
- The STI outcome calculation is FY23 is confusing.

The company changed its remuneration peer group in FY23 to companies with revenue between \$1B and \$4B in the ASX50-200 (Note: Tabcorp ranks about 150<sup>th</sup> in the index). The ASA was advised by the company that against this peer group, the CEO’s remuneration fell between the 50% and 75%ile. The Chairman’s remuneration was just over the 75<sup>th</sup> %ile. The company argues that they need to pay ‘above median’ remuneration because of “a higher degree of personal risk and exposure” involved with a gambling company.

The peer group companies were not disclosed in the Remuneration Report but were provided to ASA on request. We list the peer group companies in the table below for the benefit of shareholders, and they are ranked according to market capitalisation, with quartiles marked and Tabcorp highlighted in yellow. The table shows that the philosophy of ‘above median’ payment is inappropriate for this peer group and virtually guarantees remuneration overpayment.

<b>Tabcorp Remuneration Peer Group</b>			
	<b>Code</b>	<b>Market Cap 25/9/23</b>	
OZ Minerals Limited*	OZL	\$9,500,000,000	
Stockland	SGP	\$9,381,582,189	
Treasury Wine Estates Limited	TWE	\$8,680,224,329	
Mirvac Group	MGR	\$8,523,057,938	
Spark New Zealand Limited	SPK	\$8,128,151,794	
Vicinity Centres	VCX	\$7,716,107,000	
Allkem Limited	AKE	\$7,422,520,073	
Aurizon Holdings Limited	AZJ	\$6,562,106,300	
Evolution Mining Limited	EVN	\$6,485,255,937	
ALS Limited	ALQ	\$5,543,718,927	
Cleanaway Waste Management Ltd	CWY	\$5,390,254,929	<b>75th percentile</b>
New Hope Corporation Limited	NHC	\$5,253,760,261	
Qube Holdings Limited	QUB	\$5,026,295,690	
Bendigo and Adelaide Bank Limited	BEN	\$4,990,468,859	
Harvey Noman Holdings Limited	HVN	\$4,878,113,442	
Domino's Pizza Enterprises Limited	DMP	\$4,823,684,455	
Boral Limited	BLD	\$4,809,463,827	
Charter Hall Group	CHC	\$4,564,422,799	
Challenger Limited	CGF	\$4,414,659,207	
Flight Centre Travel Group Limited	FLT	\$4,327,593,790	
Premier Investments Limited	PMV	\$3,996,199,738	
Brickworks Limited	BKW	\$3,961,404,561	<b>50th percentile - median</b>
Bank of Queensland Limited	BOQ	\$3,785,571,798	
NIB Holdings Ltd	NHF	\$3,649,934,342	
Beach Energy Limited	BPT	\$3,638,936,054	
AMP Limited	AMP	\$3,529,864,422	
The a2 Milk Company Limited	A2M	\$3,364,409,000	
Nine Entertainment Co. Holdings Limited	NEC	\$3,361,212,983	
Iluka Resources Limited	ILU	\$3,342,069,542	
Champion Iron Limited	CIA	\$3,217,578,523	
Breville Group Limited	BRG	\$3,212,726,665	
Coronado Global Resources Inc	CRN	\$3,054,371,328	
Reliance Worldwide Corp. Ltd.	RWC	\$2,923,350,797	<b>25th percentile</b>
Ansell Limited	ANN	\$2,862,261,908	
Sandfire Resources Limited	SFR	\$2,761,910,965	
CSR Limited	CSR	\$2,711,538,766	
Super Retail Group Limited	SUL	\$2,694,110,213	
Bapcor Limited	BAP	\$2,341,945,592	
Perseus Mining Limited	PRU	\$2,299,560,408	
Virgin Money UK PLC	VUK	\$2,283,258,144	
<b>Tabcorp</b>	<b>TAH</b>	<b>\$2,248,174,867</b>	
Nufarm Limited	NUF	\$1,784,689,004	
Insignia Financial Limited	IFL	\$1,646,556,705	
Star Entertainment Group Limited	SGR	\$1,214,010,750	
* Delisted. Last price			