



NZRB MID-YEAR REPORT TO 31 JANUARY 2017 UPDATE FROM THE CHIEF EXECUTIVE

8 March 2017

It's been another positive six months for the New Zealand Racing Board (NZRB) as we address the fundamental changes needed in the racing industry over the long term, while supporting significant funding demands in our current operating environment. After exceeding Net Profit in the 2015/16 year, distributable profit for the first half of 2016/17 is up again - 6.8% year on year. This strong financial result is largely driven by improved margins and good cost management - something we have consistently delivered over the past two years.

NZRB is doing more to control costs, more to distribute additional funding to industry, and more to invest for the future. We are actively confronting and dealing with issues that have been challenging for our industry over the last twenty years. We are making progress and \$80.0 million Net Profit for the first half of the year demonstrates our ability to deliver and succeed. We have a clear focus on the projects we are delivering and we are very confident that they will deliver an additional \$45 million of distributable profit in 2018/19 and an additional \$60 million in 2019/2020.

In the half year, we increased our distributions to the racing industry by 1.7% or \$1.2 million on last year to \$73.2 million. This is in addition to the extra \$1.1 million of funding available in the 2016/17 year from the \$4.7 million Industry Enhancement initiatives announced in January. While we accept these increases are not huge, they are a start and additional code funding in the second half of the year specifically targeted at lifting stakes is currently under consideration. Our distribution to national sporting organisations was also up to \$4.5 million, an increase of \$0.6 million or 16.8% and we distributed \$1.2 million to amateur sport from our gaming activities.

We are on track to deliver our challenging profit target of \$148 million in the 2016/17 year. Strong betting margins across all product categories, combined with an improvement in product mix has resulted in Gross Betting Margin of 15.7%, an increase of one percentage point on last year. NZRB is also continuing to tightly manage costs and we are proactively managing areas of any future increase. In the first half of the year, Operating Expenses were \$67.6 million, up just 0.8% on last year - and this small increase was driven by Health and Safety initiatives required under new legislation and budgeted Optimus programme costs. We've reduced staff and broadcasting costs and held property costs flat - putting us on track to hold full year operating costs in line with last year.

Total revenue has also grown to \$182.4 million, up 3.3% on last year, despite betting turnover being down 2.5% due to the loss of a small number of high staking Elite customers who are no longer punting with us because our product offering and our channel offerings are simply not

competitive. Our Fixed Odds Betting Platform, Customer and Channel projects will do a lot to address these challenges.

The trends we have identified in previous periods continue:

- The move from Tote to Fixed Odds continues (Racing tote -8.7%, FOB +4.8%).
- Digital is still the fastest growing channel - making up 57% of Betting Turnover - an increase of 1.5 percentage points on last year and telephony down 33%, impacted by the closure of Phonebet.
- The Mobile App remains the fastest growing customer touch point, up 79.7% or \$29.7 million on 2015/16.
- Our Retail network has grown turnover by 0.8%, led by TAB Branch venues up 12.8%. New TAB concept venues opened in Mt Maunganui and Auckland have delivered promising results

STRATEGIC INITIATIVES

Good progress has been made against our key strategic initiatives in the first half of the financial year which once implemented will deliver an estimated \$50-55 million in annualised net profit each year:

- The new Racefields legislation goes to cabinet in March and we are working on having it passed before this year's election.
- Fixed Odds Betting platform development - the appointment Openbet/PaddyPower Betfair as our partner for a detailed planning and design phase was confirmed in December 2016. OB/PPBF are international market leaders in wagering and put forward a strong proposal that will deliver the best financial results for industry. It will also see us quickest to market, with the benefits of the project coming to fruition in the 2018/19 season.
- Customer and channels - customer insights were used to establish two new retail TAB concept venues and development of targeted customer on-boarding programmes. The first phase of digital identity verification is underway, an Elite customer portal has been introduced, and a digital programme has commenced to further enhance this channel.
- Optimise the Calendar - initial calendar changes have been worked into the calendar for the 2017/18 season currently being finalised, and we will look to build further intensification in the 2018/19 calendar in collaboration with the codes and clubs.
- The Optimus programme is nearly completely delivered and shortly before Christmas we underwent one of the biggest technology changes NZRB has seen in 30 years, with the successful migration of NZRB's IT infrastructure and Jetbet operating systems to the cloud.

Expect to see the pace of implementation across these initiatives increase over the next six months and subsequent two years.

NZRB knows the industry is tired of hearing about plans, many are struggling and we need to significantly lift funding levels to support them. The position we find ourselves in has escalated over time, due in a large part, to a lack of decision making and ongoing disagreements between stakeholders as to what the perfect fix would be. It is critical that our industry is aligned and focussed on delivering significant change.

We will continue to work on addressing perceptions surrounding NZRB costs and deliver strong financial results to improve industry confidence.

NZRB has a clearly defined roadmap and a passionate leadership team in place with the right skills to achieve our goals and deliver a long-term sustainable future for New Zealand racing.

A handwritten signature in blue ink, appearing to read 'John Allen', with a stylized flourish at the end.

John Allen
Chief Executive Office

Disclaimer

The above statement has been based on NZRB's unaudited management accounts for the six months to 31 January 2017. The final audited accounts will be released in mid-April 2017 and may result in minor rounding differences.