Company: The Lottery Corporation

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Sue van der Merwe: Good morning all and thanks for joining us to discuss The Lottery Corporation's first half 2024 financial results. I'm Sue van der Merwe, CEO of The Lottery Corporation and I'm joined on the call by our CFO, Adam Newman. Today we'll be going through the investor presentation that was lodged with the ASX this morning, after which we look forward to taking any questions.

The Lottery Corporation is the leader in Australia's lotteries and Keno market and one of the best performing lottery businesses globally. In the almost two years since our demerger, we've cemented ourselves as a standalone company and I'm proud to say we have done so while maintaining strong business momentum and continuing to deliver our games responsibly. Our business is highly defensive with strong fundamentals, including exclusive and/or long-dated licences, a diversified product portfolio and distribution channels and low capital intensity. We operate in an industry that's shown resilience through the economic cycle and where we continue to see favourable industry dynamics driving long-term growth.

It was only weeks ago that we saw a great example of everything that's powerful about our business with the $200 million Powerball draw, a moment in Australian lottery history with a new record jackpot, following what had already been a fantastic two weeks with $100 million and $150 million draws. Draws like these captivate the nation. They drive customer acquisition and reactivation and they engage customers, both existing and new across our retail and digital channels; 44% of our turnover for the $200 million draw was digital. The number of entries sold is the equivalent of more than one in two Australian adults buying a ticket. That speaks volumes to the appeal of the Powerball brand.

It's hard to think of anyone else in the Australian mass market that can generate events like these, with queues out the doors of retail outlets, wall to wall media coverage across all formats and literally millions of Australians wanting to be a part of the action and, of course, ultimately the draw did change the lives of two Australians, who shared the amazing $200 million Division 1 prize.

Turning now to slide 4 and focusing on the first half of 2024 where I'm pleased to report a resilient performance, showcasing the ability of our balanced portfolio to continue to deliver in challenging economic conditions. Reflecting back on the half, there are four points I would like to emphasise. Firstly, business performance was solid, despite softer consumer conditions and competition for the discretionary dollar, highlighting the strength of our diversified portfolio.

Secondly, we're seeing the benefits of strategic initiatives we've put in place to grow the business. In jackpot games, Oz Lotto's $90 million draw on Boxing Day was the biggest in more than a decade. It was Oz Lotto's first strong jackpot run since the changes we made in May 2022, which were to increase the probability of bigger jackpots. There's been strong retention of the Powerball price increase albeit Powerball jackpots were lower in the half. The increase to commissions has delivered positive benefits to our retailers and is also resulting in margin benefit for us on digital sales. Digital share growth resumed after retaining the uplift during COVID and stabilising in FY23, mainly as a result of increased take up of store syndicates online. Thirdly, we remain focused on continuing to enhance the customer experience, staying ahead of changing market dynamics and delivering product innovation to drive growth. The launch of the Weekday Windfall game, which introduces a Friday game, is an important part of this. Finally, The Lottery Corporation is a business that delivers value for its stakeholders. The Board is pleased to declare an interim dividend of $0.08 per share, in line with our dividend policy at 91% of NPAT before significant items.

Our operations generate substantial tax revenue for state and territory governments. In this six-month period, this totalled $885 million. Lottery taxes account on average for circa 2% of state government tax revenue. It's a substantial source of their income. Similarly, the 2% commission increase boosted our retail partners' revenue as they received $350 million in commissions from our products in the period. We continued our focus on responsible play and our contribution to communities, both of which are very important to us. This is what the Australian lottery ecosystem is all about, maintaining balance and ensuring that financial benefits are shared broadly.
I'll now hand you over to Adam to talk through the P&L and waterfall on slide 7 and 8,

Adam Newman: Thanks Sue and good morning everyone, thanks for taking the time to join us. If I can get you to turn to slide 7, you can see a snapshot of our half year results. The Company reported net profit after tax of $195 million pre significant items. Also of note, our depreciation and amortisation is up 7% with most of the step up separation related. Interest payments are largely unchanged at just over $60 million with 80% of our gross debt fixed.

The significant items after tax for the half reflect $41 million from the settlement of the tax litigation matters that date back to pre-demerger and costs associated with separation from Tabcorp of $19 million. Further details are provided in Appendix 1. We're in the home stretch of separation and we're still expecting to be materially complete by the end of this financial year. While there will be more costs being incurred in the second half, expect these to be less than those that were incurred in the first half.

If we can move on to slide 8, you can see the components of the underlying EBITDA movements between this half and the pcp. There are a couple of key callouts on this slide that I'd like to make. Firstly, The Lotteries' result in the prior period included approximately $95 million of turnover benefit which equates to roughly $10 million in EBITDA from the timing of the 2022 Saturday lotto Mid-Year Megadraw and a record run of Lucky Lotteries Super jackpot. If we exclude the impact of these two events, the Group EBITDA results would have been essentially flat for the period. Even with the $10 million impact of these events, Lotteries VC in dollar terms was flat.

The 2% commission rate and 9% Powerball price increases from May were partially offset by some lower turnover across the portfolio, reflecting some softer consumer conditions. There was also further uplift in interest revenue from Set for Life term deposits given the rising rates over the course of the last year. Those benefits have reduced with the progressive flatting of interest rates and so we'd expect a more modest impact in the second half. The majority of the increase in digital share relates to store syndicates online for which we pay a retail commission. Consequently there was no margin expansion from the digital growth for the half.

OpEx grew $8.7 million or nearly 7% for the period. As we've spoken about previously, FY24 is a transition year for TLC, with separation activities continuing as we finalise our own standalone functions and commercial arrangements, especially in relation to technology and infrastructure. As a result, several factors have combined to put upward pressure on our cost base. These include reduced scale, additional people and new contractual arrangements required as a result of separation.

Foreign exchange movements and increased security and SaaS spending have also been factors. Consistent with what we said at our full year results, we anticipate FY24 opex to be circa $300 million with costs in the second half reflecting further impacts of these transition activities as well as some elevated A&P spend that's associated with the $200 million Powerball jackpot, the Weekday Windfall launch and Keno brand refresh. We remain focused on managing our costs in what has been a challenging environment of high inflation coinciding with separation.

I'll now hand back to Sue for our segment results in more detail. Thank you.

Ms van der Merwe: Thanks Adam. So looking first at Lotteries on slide 10, the business was resilient amidst softer consumer conditions and periods of below model jackpot outcomes. Customer participation levels remained healthy, however there was a modest decrease in frequency and spend. What we saw was some customers seeking the best value proposition on offer from week to week and turnover for most games was down between 2% and 4% on a like for like basis. Active portfolio and jackpot sequence management helped to moderate these impacts. We accelerated the Powerball sequence in the second quarter and we strategically placed $10 million special event Saturday lotto draws to stimulate play across the portfolio.

Looking now at individual product performance on slide 11, as we've always said, we manage the whole portfolio for sustainable long-term growth, with different games playing different roles and appealing to different segments. This time it was Oz Lotto's turn to shine on a half on half basis. The like for like comparisons to the first half 2020 show the growth of each product since the pre-COVID period which showcases strong underlying business performance. Oz Lotto and Monday and Wednesday lotto have had the softest like for like growth over that period and these are the games that we focused on developing in recent times to optimise portfolio performance.

After cycling a strong comp this half, the chart on the right and those on slide 12 show that the second half 2023 was soft for jackpot games turnover and that sets up a relatively soft comp for the current half. Slide 13 focuses on Oz Lotto in more detail, noting its particularly significant contribution to the result. After 19 months, the changes we made to the game did what they were mathematically designed to do, with the last four weeks of the half delivering a $40 million, $50 million, $70 million and $90 million jackpot run. While we would have preferred this to occur in a month other than December, given the fixed end of year megadraw and Instant Scratch-Its Christmas gifting campaign, sales were strong. We had close to two million winners and we saw an increase in customer reactivation, new registrations and customer awareness.

The channel split was also noteworthy. Given the draw was held on Boxing Day when few of our retailers trade, digital was of particular importance and in fact digital share for the draw exceeded 50%. Once again, this showcased the benefits and flexibility of our omnichannel model.

Speaking of channels, let's look now at customers and channels on slide 14. As mentioned earlier, we are pleased to have seen digital share growth resume after the consolidation of COVID era gains. While short term active player numbers tend to be linked with the jackpots on offer, the long term fundamental trend is one of ongoing customer growth. We've also seen strong growth in the Gen Y and Z demographics, being players who are typically attracted by Powerball and Oz Lotto's large jackpots, Set for Life annuity offering and the popular store syndicates online initiative, which we launched last year. Store syndicates online has been a success with turnover in the half of over $50 million from a near zero in the pcp.

Now to Keno on slide 15. It was pleasing to see retail growth being underpinned by the increased footfall in venues in Queensland and New South Wales as hotels and clubs returned to post-COVID normality. Keno retail turnover was at record levels in the half. Our marketing activity continued to focus on encouraging players back to their pre-COVID rituals and this was supported by an increased number of local area marketing campaigns. Margins were impacted slightly by some digital turnover being transferred from the ACT to Victoria, as required under our new Victorian licence. Victoria has a higher tax rate. We've also moved our Keno retail fee to a variable model, which resulted in an initial margin reduction, although we expect the new structure to support a more sustainable Keno venue network going forward.
Moving on to Keno channels and product on slide 16, digital turnover was soft in the first quarter, but stabilised in the last three months. Other suppliers of Keno products marketed heavily in that first quarter, which is likely to have created some short-term volatility, but we did see the bulk of that traffic return in Victoria where we offer digital sales. In terms of Keno products, Keno Classic is the primary one and turnover for that game was up 2.3% on the pcp. It's worth pointing out that the spot 10 jackpot which stimulates customer activity was on average 6% lower in the half versus the pcp.
I'll hand back to Adam now.

Mr Newman: Thanks Sue. On slide 18 you can see our capital allocation framework which shows how we think about allocating capital to drive long term shareholder value. We are a resilient business generating strong and predictable cash flows with low capital intensity and a highly variable cost base. In the short to medium term, our focus is on our existing business and growing the top line by providing an exceptional customer experience and continuing to grow our registered customer base. We're also highly focused on ensuring that we're well positioned for potential licence extensions and maintaining value in the exclusive nature of our licences through stakeholder engagement and other initiatives. Our long term leverage target range remains at three to four times (Net Debt to) EBITDA.

In instances where funds are not required for licence extensions and in the absence of a better risk adjusted returns for surplus capital, we will look to return funds to shareholders in the most tax efficient and value adding way possible. We believe the highly cash generative nature of our business, strong organic growth opportunities and disciplined approach to capital management will help deliver our aim of top quartile total shareholder return performance against the ASX 100. This will be achieved through a combination of fully franked dividends, share price growth and where appropriate, capital returns.

On slide 19, we've summarised our key capital metrics and targets. Today's announced interim dividend of $0.08 per share fully franked is in line with the prior period and represents a payout ratio of 91%. Our full year target remains 80% to 90% of net profit after tax before significant items. Our full year guidance for D&A and

business asusual CapEx is unchanged, noting that both measures may be towards the lower end of the respective ranges based upon first half outcomes.
We've added some metrics to this slide to highlight the nature of our debt profile. Approximately 80% of our gross debt is long dated US private placement notes and these are fully hedged in terms of both currency and interest rates. Therefore we remain largely insulated from the impact of rising rates. Next USPP maturity is a $137 million note that's not due until June 2026. We have very good average tenure on our debt at 5.5 years with an average interest rate of 5.8%.

In summary, we remain very focused on cost and capital discipline and we have a strong balance sheet that provides significant flexibility for continuing to grow our existing domestic business while delivering value to shareholders.
Thank you and I'll now hand you back to Sue to take you through the final slides.

Ms van der Merwe: Thanks Adam. So looking now to the future on slide 21, we've outlined the initiatives that we are prioritising this year. We continue to focus on creating a customer led and digitally enabled future and accelerating the convergence of retail and digital. When we think about how we want to better serve our customers, it starts with convenience and how we can provide them the most seamless and enjoyable experience. Importantly, we prioritise delivering our games responsibly and with integrity and ensuring our licences continue to deliver value widely, including to governments, retail partners and shareholders. All that goes to maintaining the social acceptability and support of our products, which is key to the long-term success of The Lottery Corporation.

Now to slide 22, where I'm very excited to introduce Weekday Windfall. It's a major refresh of Monday and Wednesday lotto with the addition of a Friday draw. The new Weekday Windfall brand replaces the previous state-based brands and stands apart from Saturday lotto with a stronger value proposition with $1 million for up to six winners three times a week, compared to the current $1 million for up to four winners twice a week. We'll also be introducing the new triple dip product, one purchase for three draws, starting at a $10 price point. As part of the new game, there will be a $0.05 or 9% subscription price increase. The game has gone through our rigorous customer research process as well as our regular responsible play assessment. The team can't wait to bring it to market in coming months following receipt of relevant approvals.

Slide 23 looks at three of our main initiatives to improve customer acquisition, conversion and retention. Firstly, we're enhancing the ID verification process with the aim of removing unnecessary friction while maintaining the thoroughness of the verification inline with our commitment to responsible play. Changes we made to the onboarding process in October already delivered a 20 percentage point improvement in ID verification rates. Improvements using additional data sources should make verification even more efficient.

The second initiative relates to driving registered customer growth and more personalised communications by fully digitalising the retail membership program. Thirdly, we are implementing a new customer data platform that will enable online, real time communication with our customers and improve customer journey management. We're making good progress on these initiatives and plan to implement them this calendar year.

Finally, turning to slide 24 where I'd like to finish on the strong fundamentals and unique characteristics of The Lottery Corporation. Our performance in the first half of 2024 showed the value of our diversified portfolio and the strategic initiatives we've put in place in recent years to be resilient even in times of softening consumer sentiment and periods of below model jackpot outcomes. It's very evident that we have kicked off the second half strongly with the record Powerball events. In fact the $200 million draw alone brought in over 200,000 new digital customers. We have seen strong levels of retained customer participation and new customers coming in and playing across the portfolio. It's given the business extra momentum which we are very focused on maximising.

With our clear strategy, strong cash generation and resilient market dynamics, we believe The Lottery Corporation has an exceptionally bright future. Thanks again for joining us this morning, we're happy to open the line for questions now.

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. Please limit yourself to two questions per person. If you wish to ask further questions, please rejoin the queue. Your first question comes from Adrian Lemme with Citi. Please go ahead.

Mr Lemme: (Citi, Analyst) Good morning Sue and Adam. First question I had was on the OpEx guidance. So it implies, I think, about $365 million OpEx for the second half versus $135 million in the first half. Can you detail what part of this is recurring OpEx versus what's one off in nature due to the implementation Weekday Windfall, et cetera, please?

Mr Newman: Yes, so Adrian it's Adam here. Yes, we've given the guidance, you're right, obviously at circa $300 million for the full year, which is consistent with what we talked about in the full year results release. There's a lot going on in our OpEx base with all the changes that have been occurring with regards to separation. You're right, there is some higher OpEx A&P expenditure in the second half. I'm not sure that we are getting down to quoting exactly how much it is, but I think the way probably to look at it is that $300 million, because you're going to have the impact of separation completing during the course of the year and some run rate benefits, is a pretty good base to roll forward from.

Mr Lemme: (Citi, Analyst) Right, so the $165 million in the second half is the right run rate for future halves or the $300 million is the right run rate?

Mr Newman: No, I'd be looking at the $300 million.

Mr Lemme: (Citi, Analyst) For the full year, yes, okay. Thank you. Just one last question please, on the variable contribution margin, I know it did go up, there were a number of factors that were driving that, were there any detractors from the margin that we should be aware of within that and do you expect the second half will be similar to the first half or might there be a more significant lift given the high digital penetration you had for Powerball at the beginning of this half please?

Mr Newman: Yes, so depends which business you're looking at, if you're looking at lotteries or you're looking from a Group level. From a Keno perspective there was some-----

Mr Lemme: (Citi, Analyst) Just lotteries, thanks,

Mr Newman: Yes, just lotteries, so no detractors. You will see, as I alluded to, the step up from Set for Life deposits will be less in the second half, just because of where interest rates have gone. We do get a little bit of benefit as those deposits grow at the end of the day, but no detractors. Then as you say, depending upon where digital lands and where that digital growth comes from, there may or may not be some margin expansion as a consequence of that.

Mr Lemme: (Citi, Analyst) Okay, thanks for that.

Operator: Thank you. Your next question comes from Andre Fromyhr with UBS. Please go ahead.

Mr Fromyhr: (UBS, Analyst) Good morning, thank you. Just wanted to ask about firstly about the Weekday Windfall product and the innovations to Monday, Wednesday, are you able at this point give any sense of the estimated EBITDA impacts if you're successful on that one across the benefits of a price increase and if there are cost savings from consolidating the brands and then the expansion into Friday?

Mr Newman: Look I think it's a bit early now at this point to be giving forward-looking guidance in relation to the products, so we're not seeking to do that at the moment, Andre.

Mr Fromyhr: (UBS, Analyst) Sure. No harm in asking. What's the outstanding steps from a regulatory perspective? I think you flagged that you were looking at this and already in those discussions as at the last result, but you've had progress. Are you heightening your confidence around being able to launch this in May?

Ms van der Merwe: I'll take that, Andre. Absolutely, so very well progressed and very confident that we'll be launching the product.

Mr Fromyhr: (UBS, Analyst) Great, then just one more if you don't mind on gearing. You've reached the bottom of the target gearing range as at 31 December, at least based on a positive outlook, that would bring you below the target gearing range by the end of the year or into next year. So do you mind giving a better sense of what conditions would need to be true for you to look at the extra capital returns? So you made a comment earlier that you look at the most tax-optimal way of doing that, but in terms of timing criteria, is it a matter of when you've got headroom into that gearing range or are there certain events like licence negotiations that you're waiting on before you make those decisions?

Mr Newman: Yes, thanks Andre. I don't know that I can add a whole heap more than what I did in regards to on the call there. I would say that we are in constant dialogue, as you would expect, with our Board around the balance sheet and optimal level for gearing. As I called out, to the extent that we've got potential licence extensions ahead of us, we're probably focused on that in the first instance. I think as we sit here today, there's no particular events outside of those licence extensions, but your point's well made with regards to where we sit at the bottom end of our target range at this point. As I said, we'll continue to engage with the Board around those issues, but as you can imagine, it's a Board decision and we can't sit here and pre-empt what those thinking or decisions might be.

Operator: Thank you. A reminder to please limit yourself to two questions per person. Your next question comes from Justin Barrett with CLSA. Please go ahead.

Mr Barrett: (CLSA, Analyst) Thanks very much for your time today. I just had a question about I guess the growth in digital penetration that we saw in the half, it was a bit ahead of our expectations. Just wondering if you could make any comments around I guess the drop (29:25) or in terms of the move to online versus I guess some of that commentary that you made around the success of Oz Lotto with the big jackpot on Boxing Day, versus I guess the customer convenience initiatives that you've highlighted in your presentation.

Ms van der Merwe: Thanks Justin. Yes, digital growth depends on all of that, so absolutely we've been focused on being customer led and enabling this digital experience for customers to be able to buy entries seamlessly through whichever channel they choose. There's been a lot of focus on that, as you probably know, over the last few years and there continues to be and we've spoken about some of the initiatives coming up. So that will continue to support the digital growth but the jackpot games are a very important contributor as well to digital penetration. They're also important from a point of view of bringing in those younger customers who also tend to skew more digitally. So it is a combination of all of those factors.

Mr Barrett: (CLSA, Analyst) Not a worry. Thanks very much for that. Then my second one was just you noted, I guess, strong retention of the 9% Powerball subscription price increase, I guess you've in the past spoken to the normal expectation of retaining about 50% to 75% of your price rises. I was just wondering, based on that commentary, is it fair to assume that retention was at the higher end of that range?

Mr Newman: Justin, it's Adam here. I'll take that. You broke up a little bit so I think we got most of that question and the answer is yes, both for the Powerball price increase and the commission change, retention was at the upper end of the ranges that we've talked about previously.

Mr Barrett: (CLSA, Analyst) Fantastic, thank you very much.

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

Mr Gallagher: (Jarden Group, Analyst) Sue, Adam, good morning, good morning everyone. Just in relation to the moderation in Keno margins which was expected, are the first half margins sustained now or should we see further degradation in the second half playing out?

Mr Newman: I would say that we would expect the second half margin for Keno to be in line with what we saw in the first half.

Mr Gallagher: (Jarden Group, Analyst) Fantastic, thanks Adam. Ongoing from the OpEx guidance, thank you for the disclosure around the CapEx D&A, are those levels for those two respective components, CapEx and D&A, should they be used as a base going forward and that relationship between the two continue over the medium term?

Mr Newman: Yes, so the guidance that we've given from a CapEx perspective is BAU related, so it excludes any impacts that we've seen from separation, noting that the majority of the separation expenditure is treated as an OpEx and significant item at the end of the day. I mean they're good, reflective of where we sit here, look I don't want to get into a view about giving guidance about D&A and CapEx and the like, but like I said, they're reflective of our BAU activities.

Mr Gallagher: (Jarden Group, Analyst) All right, thanks Adam, appreciate it.

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

Mr Fabris: (Macquarie, Analyst) Hi Sue, hi Adam. Just with that cost base, that 45%, 55% seasonality, is that what we're going to expect in FY25 or will it level out? Just thinking about that.

Mr Newman: Yes, there's been a lot going on in the organisation over the last couple years with all the change from a separation perspective and we have seen a bit of seasonality. I'm not necessarily sure that it's going to continue once we move past separation and we get to the BAU cadence that we're all looking forward to very much at the end of the day. So I'd be looking at it from a full year perspective relative to the guidance that we've given.

I suppose the swing in that a little bit, if you break it down, as we've talked about in the past, about half of our underlying cost base is people and then obviously you've got with what happened with A&P's expenditure, which can swing depending upon activity, of jackpots but also just some of the draws that are going on. So there are bits and pieces that go on, but as I said, given such a large proportion of our cost base relates to people, you wouldn't be expecting to see big swings half on half as we go forward.

Mr Fabris: (Macquarie, Analyst) Got it. Then are you provisioning for bonuses through to 12 months or is that skewing to one half?

Mr Newman: No, we do it evenly over the course of the year.

Mr Fabris: (Macquarie, Analyst) Okay, makes sense. Then just another question, just on lottery growth initiatives, I mean you've highlighted Monday, Wednesday and Friday lotto, you've been doing price rises game tweaks. Should we be thinking each and every year you're going to announce something and that we should be kind of factoring that into our forecasts? Can you maybe talk about any initiatives on the horizon beyond Monday, Wednesday and Friday lotto?

Ms van der Merwe: HI David, it's Sue. So we do look at a game innovation across one game in the portfolio on average around every 12 months if you look back historically. That's not to say that will absolutely happen in the future. It's about really assessing each of the games in the portfolio, seeing where their strengths are, where their appeal is to customers and then deciding where we believe that we could benefit from an innovation on a particular game. So we're always looking at that and this Monday Wednesday one has been in the pipeline for the last 12-plus months or so as we've developed that. So we don't have anything to share right now about whatever the next game innovation will be, but certainly if you look back historically, that has been the case in terms of regular innovation.

Mr Fabris: (Macquarie, Analyst) Understood, thank you.

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

Mr Sundram: (MST Financial, Analyst) Hi Sue and Adam, just the one from me. With regards to customer retention post the Powerball mega jackpot run, Sue are you able to comment on just what you're seeing with customer retention and how it compares to previous jackpot runs? It just feels like the retention is better and the customer is a bit stickier versus previous jackpot cycles. Thanks.

Ms van der Merwe: Sure. I mean without commenting on too much specifics, I guess, because about the half that we're in now, we'll say if you look at the revenue that we're generating across different games and those are worked out by various analysts and published, is certainly seeing very strong signs across the portfolio. When Powerball but even Oz, but particularly Powerball is a very strong brand and when it reaches these high levels, we have this halo effect across all of the games in the portfolio as it lifts the profile of lotteries. The fact that we had one in two Australians participating in that draw has certainly delivered really strong benefits across the portfolio. What we track is the reinvestment of the prizes that people win in those draws and that's been really strong and we're very pleased with where things are sitting right now.

Mr Sundram: (MST Financial, Analyst) Thanks Sue.

Operator: Thank you. Your next question comes from Simon Thackray with Jefferies. Please go ahead.

Mr Thackray: (Jefferies, Analyst) Thanks, good morning Sue, good morning Adam. Good news, Adam. Rohan Gallagher asked my question earlier, so Sue, one for you. Just at the full year result last year, we talked about licensing, Keno and competition. You noted competition in the first quarter and then said that sort of abated in the second quarter or I just wanted to understand did you do anything in the second quarter to address the Keno competition or was it more in your view that players tried, had a sample of the competitive product and came back? I just want to understand if there are any actions you specifically took and how that competitive landscape is looking for Keno in the current quarter. Thank you.

Ms van der Merwe: Morning Simon, thanks. Yes, we're always taking action and particularly around the marketing activity to support the game and particularly around promoting digital purchases in Victoria but also promoting the retail venue and I guess leveraging the customers that are in those venues. I can't really comment on what people's views are around the alternative operator in that market, but we're very focused on leveraging our brand strength, the fact that we have presence in both retail and digital and promoting our offer. Keno Classic game, as I said in the speech, the strongest game and the most appealing offer from a customer perspective.

Mr Thackray: (Jefferies, Analyst) Okay, so in terms of your analytics you couldn't sense the shift away in the quarter and then the shift back as to what the cause for that might have been?

Ms van der Merwe: It's difficult to have a direct causal effect given Keno customers as well in venue aren't known to us. So we don't have the same level of data, but we do obviously have research data on what's happening.

Mr Thackray: (Jefferies, Analyst) Absolutely, sorry and Sue I sort of asked the question how that was faring in the current period as well, whether there'd been any intensified competition or things feel fairly steady.

Ms van der Merwe: Steady, I would say.

Mr Thackray: (Jefferies, Analyst) Good, okay thanks Sue, thanks Adam.

Ms van der Merwe: Thanks.

Operator: Thank you. Your next question comes from Matt Ryan with Barrenjoey. Please go ahead.

Mr Ryan: (Barrenjoey, Analyst) Thank you. Maybe a question for Adam just on the capital allocation framework, so there seems to be a pretty big focus on upcoming licences, presumably that's Victoria which is still a few years away. So I guess the question I was going to ask was what sort of things are you assessing when you're trying to work out what level of gearing you want to be at, is it I guess a comparison of cost of debt versus cost of equity, are you actually taking scenarios on how big that licence could be? I'm just trying to get a sense of I guess where the Board and the management team has the conversation around that sort of thing.

Mr Newman: Yes, hi Matt. I knew I wouldn't get through one of these without a question from you on this topic. So yes, I mean of course all that stuff, the accretion dilution, we have to look at obviously our trading multiple versus the PE from a debt perspective. As you would imagine, we run scenarios looking at different things from a licence perspective as well as timing of the licences, given that's the first renewal that's ahead of us at the end of the day. We do obviously all of that in conjunction with that longer-term planning cycle and horizon, noting that given our situation out of demerger and the like, we don't carry significant levels of franking credits either at the end.

Mr Ryan: (Barrenjoey, Analyst) Is that franking credit, I mean your dividend yield is reasonably low relative to other infrastructure like companies, is it that franking credit argument that I guess precludes you from paying a higher dividend?

Mr Newman: No, I think it would be a consequence of all of our capital setting and I would still say that we're on a progression journey and we're still relatively new as a public company and finding our way a bit in that, hence we've got the overall framework at the end of the day. Your points are noted and understood.

Mr Ryan: (Barrenjoey, Analyst) Okay and Sue, the level of turnover that you've seen over the last 12 months, obviously it's been very, very volatile from draw to draw, but can you give us a sense across your simulations or any work that you do, where are we at the moment? Do you feel like turnover or the prize pools are under or over earning? Do you think this is a normal year? Any colour around that would be pretty helpful.

Ms van der Merwe: Thanks Matt. I mean I think the answer is different per product. Obviously looking back on Oz Lotto, as you know we hadn't been having the jackpot rolls that we were expecting or that we wanted under the model and that then put downward pressure on the revenue performance, downward pressure on the prize reserve fund et cetera. We slowed down the sequence to build that back up and we got ourselves through to the $70 million and the $90 million, which was fantastic and since then, we've seen a really positive response.

	Powerball, as we spoke about on the call earlier, that roll through to the $100 million, $150 million, $200 million has just lifted the interest in the category and it's actually really good that it's gone off at the $4 million a couple of times as well because shows the belief in win-ability for customers is really important. So we're seeing good response from that as well. Look it's always going to fluctuate a bit by the level of jackpot activity and then the flow-on effect across the rest of the portfolio. But I think from an overall portfolio perspective, we continue to see this really resilient performance through all of the games.
Operator:	Thank you. Your next question comes from Rohan Gallagher with Jarden Group. Please go ahead.
Mr Gallagher:	(Jarden Group, Analyst) Thank you, Sue and Adam for the follow up. Last half there was a lot of discussion around The Lottery Office, where it hasn't been discussed this time around. Doesn't look like they've made any sort of major penetration. Has there been any developments in conjunction with discussions around the authorities around the definition of exclusive, et cetera?
Ms van der Merwe:	Hi Rohan, I'll take that. We mentioned it last time because we wanted to flag that it was absolutely a focus for us and it absolutely still is a focus. We have heightened our activity around it to enhance the value of our licences. I spoke last time around, the response being threefold. Firstly, enhancing our customer value proposition, making sure we have strong games that are attracting engagement from customers and certainly we've seen that, we've spoken about that through the call, particularly in relation to what happened with the $200 million. I think that was a great example of the sort of engagement and how much that captivated Australians in terms of a real lottery product, sold through a retail network that are small businesses and strong digital channels. It was good proof of a real lottery, a licensed lottery and the strength that that can deliver. Then secondly, we spoke about regulator and government engagement. Absolutely still focused on it, heightened our activity around it, but not something that I really want to talk about in any depth. I think thirdly working very closely with our retail partners and also global connections that we have through the industry.
Mr Gallagher:	(Jarden Group, Analyst) Fantastic, thanks Sue.
Operator:	Thank you. There are no further questions at this time. I'll now hand back to Sue for closing remarks.
Ms van der Merwe:	Well thank you all, thanks for taking the time to join us today and wish you all a good day.