

3. Historical performance analysis of GRNSW

3.1. Profit and Loss account

- The analysis of the financial performance of GRNSW has been based on the reported numbers in the Ferriers report adjusted by the abnormal and non-operating adjustments identified earlier in our report. Detailed adjusted Profit and Loss account, Balance Sheet and Cash Flow Statement are attached as Appendix 3.

Table 16: Adjusted P&L

\$	FY12	FY13	FY14	FY15
Revenue				
TAB Distributions normalised	30,704,497	31,177,651	31,288,986	34,020,554
Race Field Information Use Fees normalised	8,905,038	9,580,453	11,341,362	12,235,588
Race Form	455,105	479,309	322,382	258,105
Licensing & Registration Fees	415,187	594,133	732,415	739,120
Vet Servs, Blue Paws, GAP normalised	317,777	409,044	486,308	496,609
Marketing & Digital	144,818	152,520	120,419	116,234
Other income	71,474	102,280	68,945	25,032
Fines & Penalties	27,078	38,748	56,591	31,955
Operating Revenue	41,040,974	42,534,138	44,417,408	47,923,197
Expenditure				
Racing and club infrastructure normalised	(1,972,681)	(1,465,417)	(2,012,517)	(1,480,366)
Depreciation, impairment, loss on sale	(392,426)	(318,011)	(298,716)	(370,693)
Prizemoney & Race Club Costs	(29,625,412)	(30,508,353)	(31,907,926)	(31,695,838)
Stewarding and integrity expenses	(3,770,858)	(4,313,934)	(4,695,291)	(5,190,882)
Vet Servs, animal welfare, Blue Paws, GAP	(925,827)	(1,140,966)	(1,309,908)	(1,954,733)
Administration and other	(3,462,224)	(4,268,561)	(4,170,822)	(5,171,190)
Operating Expenses	(40,149,428)	(42,015,242)	(44,395,180)	(45,863,702)
Adjusted EBIT	891,546	518,896	22,228	2,059,495
Interest	556,102	294,052	206,492	120,243
Adjusted Loss/Surplus for the Year	1,447,648	812,948	228,720	2,179,738
Abnormal/Non operating items	(3,300,000)	652,610	-	(1,373,924)
Loss/Surplus for the Year	(1,852,352)	1,465,558	228,720	805,814

3.1.1. Revenues

3.1.1.1. TAB distributions

- The major component of revenue for GRNSW is derived from TAB Distributions. This revenue represents GRNSW's share of turnover from wagering placed with Tabcorp. We have analysed in Table 13 the breakdown of the TAB distributions by fee type, FY12 data was not provided to us.

Table 17: Components of TAB distributions

\$	FY13	FY14	FY15	CAGR
Product Fees	20,682,401	19,316,987	18,422,270	-5.6%
Fixed Odds Product Fee	4,006,577	5,473,641	7,876,599	40.2%
TAB Wagering Incentive Fee	5,194,314	4,705,022	5,803,957	5.7%
Trackside Wagering Incentive Fee	565,114	1,068,042	815,013	20.1%
PGL Product Fee	729,245	725,294	1,102,715	23.0%
TAB Distributions total	31,177,651	31,288,986	34,020,554	4.5%

Source: Information obtained from GRNSW

- Total TAB distributions, on a CAGR basis have grown by 4.46% between FY13-FY15 and by 8% on a year on year basis in FY15.
- The majority of TAB distributions come from product fees. However, we note the decline in the product fees and increase in fixed odds product fees primarily, due to the shift by punters to fixed odds and corporate bookmaker offerings from pari-mutuel betting. Management also noted that GRNSW *“does not receive the same level of return from turnover on fixed odds betting through the TAB when compared to pari-mutuel betting. The reason for this is based on the increased risk involved in fixed odds betting, resulting in a lower margin as compared to the guaranteed take-out from a pari-mutuel bet.”*
- Product fees of \$729k from the PGI agreement were recognised in FY14 but related to activity in FY13 and hence should be reflected in the correct period. We have adjusted for this in our analysis.

3.1.1.2. Race Field Information Use Fees

- RFIU fees, charged by GRNSW to wagering operators who wish to offer wagering on NSW races, are the second largest component of revenue for GRNSW, accounting for 25% of total operating revenue in FY15.
- We note that up until 31 July 2015, clause 16 of the Racing Administration Regulation 2012 (NSW) allows GRNSW to impose a fee for the use of race fields information, at 1.5% (plus applicable GST) of the wagering turnover of a wagering operator in respect of standard races in NSW, and 2% (plus applicable GST) for any races where the race takes place at a 'premium race meeting', defined to be a race meeting where there is a greyhound race offering prize money of \$25k or more.
- We note that RFIU fees have grown by 11.17% on a CAGR basis between FY12 – FY15 and by 7.88% on a year on year basis in FY15 primarily due to a shift away from pari-mutuel betting.
- Fluctuations in the RFIU fees recognised are primarily due to disputes between GRNSW and Tabcorp Holdings which are typically settled in the following year. We have adjusted the reported numbers in order to show the normalised revenue reflecting the true underlying level of revenue in each year. Management has confirmed that a settlement mechanism has been agreed until FY20 which shall eliminate the disputes going forward.

3.1.1.3. Race Form

- Race Form comprises the provision of race books (summary of the race meeting held at a particular track) produced by GRNSW for clubs, as well as race data / form information to newspapers and subscribers.
- The components of Race Form income are shown below:

Table 18: Components of Race form income

\$	FY13	FY14	FY15
File fees	216,529	117,135	103,920
Racebook Distribution	7,334	-	508
Advertising (Racebooks)	18,400	8,300	4,514
[Outstanding from management]	24,914	-	-
Subscribers	23,239	12,656	9,577
Newspapers	58,521	55,974	9,496
Wholesalers	112,643	110,856	112,683
End Users	17,729	17,461	17,407
Race Form total	479,309	322,382	258,106

- Race form income includes charges to clubs to generate the race book. These charges are based on a flat fee per meeting (known as 'file fee revenue').
- We note management's response regarding a change in the race book delivery model in FY13, leading to a reduction in race books revenue. There was also a change in the accounting leading to the race book sales revenue was transferred to the File Fee revenue captions.
- The decline in total file fee revenue (including non-Tab and Tab meetings) of \$13k in FY15 is mainly as a result of the abandonment of a large number of meetings due to inclement and abnormal weather events, as highlighted in the FY15 Annual Report.
- Race form income from newspapers have declined on a CAGR basis by c.60% between FY13-FY15 due to emergence of digital trends providing access to information at limited or no cost leading to a reduction in form coverage in newspapers.

3.1.1.4. Licensing and Registration fees

- Licensing and Registration fees mainly include the following:
 - Licences and registrations for trainers and participants, both new to the sport and those that are renewing their membership;
 - Greyhound related transactions such as ownership transfers and naming applications;
 - Litter registrations and ownership (partnership and syndicate) registrations; and
 - Late fees for breeding related transactions.
- Licensing and Registration fees increased by c. 21% on a CAGR basis between FY12 – FY15, primarily due to the introduction of new fees and higher breeding activity.

3.1.1.5. Vet services, Blue Paws and GAP

- Income from Vet services, Blue Paws and GAP mainly includes revenue derived from providing of veterinary services on race days. GRNSW currently provides these services to 9 out of 15 clubs.
- The increase in revenue of Vet services, Blue Paws and GAP in FY15 of c.\$450k is primarily due to the purchase of boarding kennel operations of Playhouse Pet Motel (contributing to c.\$430k of the total). As discussed earlier in the report, we note this revenue is not likely to continue going forward as GRNSW is phasing down the boarding operations of the Playhouse Pet Motel.

3.1.2. Expenses

3.1.2.1. Racing and club infrastructure

- A significant portion of the racing and club infrastructure costs relate to the Safety, Racing & Welfare Maintenance Fund, which provides funding for projects that improve the level of safety and compliance at NSW greyhound race tracks.
- \$1.2m of racing and infrastructure expenses were recognized in FY12 for the acquisition of 70% of The Gardens property. Management is outstanding to provide the basis for recognising as an expense these costs rather than capitalised them. Notwithstanding, the accounting treatment, in our view, these costs should be considered one off in nature and not included in the normalised EBIT.
- According to GRNSW Management, deferred expenses on infrastructure and IT projects from FY15 amounted to c.\$500k which were not accrued for in FY15 and therefore have been adjusted for.

3.1.2.2. Prize money and clubs

- Prize money and club costs have accounted for more than 70% of the total operating expenses between FY12 – FY15 and are governed by the Club Funding Policy (Refer Appendix 4).
- Prize money and race club costs have increased by 2.2% on a CAGR basis between FY12 – FY15. However, on a year on year basis have expressed a decline by 0.66% in FY15 after increases of c.3% (c.\$83k) in FY13 and c.5% (c.\$1m) in FY14.

3.1.2.3. Stewards and integrity costs

- The proportion of stewarding and integrity auditor costs to total operating expenses has been relatively consistent between FY12 – FY15 (c.5%). Integrity auditor costs represent less than 1% of the total category costs.
- According to GRNSW Management, drug detection costs amounting to \$130k were deferred to FY16 due to the temporary cessation of operations arising due to the 'live baiting' scandal. Subsequently, these tests have been conducted in FY16.

3.1.2.4. *Vet Services, animal welfare, Blue Paws, GAP*

- Expenses relating to Veterinary services, animal welfare, blue pawns and GAP have increased by \$0.6m in FY15 mainly due to the following:
 - GRNSW increased its investment in animal welfare initiatives in November 2014 with the creation of a dedicated Welfare Compliance section, consisting of four Compliance Officers and a Manager Compliance.
 - The acquisition of the Playhouse Pet Motel, resulting in an increase in the maintenance costs.

3.1.2.5. *Administration and other costs*

- The increase in IT costs in FY13 was driven by the significant expansion of the OzChase system to integrate racing operations, resulting in additional hosting and support costs. Additional functionality was subsequently added to OzChase in FY14 and FY15 leading to further increases in associated hosting and support costs.
- Marketing expense increased from \$216k in FY14 to \$893k in FY15 primarily as a result of increased promotional activity in a number of areas, including the GAP program and Greyhound Hotline.
- Corporate and Finance overheads reported by GRNSW did not consider the salary of the CEO for the period between Feb – June FY15 when the former CEO of GRNSW was terminated in light of the ‘live baiting’ scandal. We, therefore, have considered this cost in the calculation of the normalised EBIT of GRNSW in FY15.

3.1.3. *Abnormal / non-operating items*

The Ferriers report considers a number of abnormal or non-operating items (outlined below) and deducted these from GRNSW’s EBIT. As discussed, we consider the list to not be exhaustive and have developed a number of additional items that should be considered.

- **International GST recovery:** The c.\$653k cost in FY13 relates to GST previously paid on income received from wagering revenue on overseas markets that was not required to be paid, hence recovered.
- **Infrastructure and IT costs:** The c.\$1.2m cost in relation to IT and infrastructure incurred in FY12 relates to the acquisition of The Gardens. The FY12 Annual Report states:

“GRNSW acquired a 70% share of the property known as The Gardens from the NSW National Coursing Association (NCA) on 1 March 2012. The transaction involved a \$2,100,000 interest free repayable loan to the NCA being forgiven and an additional payment of \$1,200,000. GRNSW’s 70% share of the property was valued at \$1,050,000 resulting in an Impairment expense of \$149,503.”

- **NCA loan forgiven (Gardens purchase):**

A one-off expenditure item of note in 2011/12 was the loan to the NSW National Coursing Association (NCA) relating to the construction of The Gardens complex being forgiven. The \$2.1 million loan was effectively used by GRNSW as part payment for a 70% share of the property in March 2012. The buyout guaranteed the future of The Gardens for the long term and was seen as imperative by the GRNSW Board to ensure that greyhound racing continued uninterrupted in the critical Hunter region.

- **Investigating four corners:** \$1.373m costs were incurred on legal fees relate to the ‘live baiting’ scandal.

3.2. Balance sheet

3.2.1.1. Receivables

- The receivables balance primarily comprises amounts due from Tabcorp. The majority of payments from Tabcorp are received on a bi-annual basis which results in a strain on GRNSW's cash position.

3.2.1.2. Other non-current assets

- Other non-current assets comprise a receivable amounting to \$6.4m due from Wentworth Park Trust in relation to funds borrowed for the construction of the grandstand. On 6 July 2015, a notice of demand was issued by GRNSW to the Wentworth Park Trust requesting full payment of the receivable by 31 August 2015. At the date of this report no payment has been received.
- We note that the auditors of GRNSW issued a qualified opinion on the FY15 Financial Statements due to the uncertainty of the recoverability of the receivable balance:

"As disclosed within Note 1m, Greyhound Racing New South Wales has a receivable due from Wentworth Park Trust which is carried in the statement of financial position at \$6,497,681. We were unable to obtain sufficient appropriate audit evidence about the recoverability of this receivable as at 30 June 2015 due to uncertainty about the ability of Wentworth Park Trust to repay the full amount due. Consequently, we were unable to determine whether any adjustment to this amount was necessary."

3.2.1.3. Deferred revenue

- Deferred revenue in FY11 and FY13 comprised Racefield Information Use Fees received from Tabcorp which remained in dispute recognized at year end. As noted in our analysis of abnormal and non-operating items, these disputes were settled during the subsequent financial year resulting in the recognition of revenue at that time.

3.2.1.4. Payables

- Creditors primarily relate to claims for the prize money.

3.2.1.5. Provisions

- Provisions include annual leave and long service leave balances and approved industry infrastructure spend provided by GRNSW to clubs that is not yet spent. GRNSW's policy is to recognise a provision for the balance of funds that have been budgeted to be spent during the year but have not been incurred.

3.3. Cash flow statement

Table 15 shows GRNSW's normalised cash flow position in FY13, FY14 and FY15. We have adjusted GRNSW's reported cash flows for specific items that we have identified in our analysis.

Table 19: Normalised cash flow

Cash flow (\$)	FY13	FY14	FY15
Normalised EBIT	518,896	22,228	2,059,495
D&A	(318,011)	(298,716)	(370,693)
Normalised EBITDA	200,885	(276,488)	1,688,802
Working capital changes	(1,573,051)	(1,644,016)	(606,876)
Var. WC - Current assets	395,908	(1,189,097)	(1,957,297)
Var. WC - Current liabs	(1,968,959)	(454,919)	1,350,421
Normalised CF from operations	(1,372,166)	(1,920,504)	1,081,926
Capex	485,703	(215,797)	58,505
Normalised free cash flows	(886,463)	(2,136,301)	1,140,431
Other non current assets	(70,000)	(48,800)	188,588
Interest	294,052	206,492	120,243
Normalised net cash flow	(662,411)	(1,978,609)	1,449,262
Initial cash	4,400,966	8,463,821	897,286
Closing cash	8,463,821	897,286	2,082,467
Cash movement per Balance sheet	4,062,855	(7,566,535)	1,185,181
Variance - movement of normalised net cash flow and closing cash per Balance sheet	4,725,266	(5,587,926)	(264,081)
Normalisation adjustments			
Deferred revenue - Balance sheet	(7,648,112)	7,648,112	
Deferred revenue - GRNSW portion	2,846,211	(2,846,211)	
PGI Revenue	729,245	(729,245)	
Revenue from Playhouse Pet Motel			(436,207)
Deferred infrastructure costs			(500,000)
Deferred drug detection tests			(130,000)
CEO's Salary (Feb-June)			(136,875)
Abnormal items			
International GST Recovery	(652,610)	-	-
Acquisition of Playhouse Pet Motel	-	1,515,270	
Investigation - Four corners	-	-	1,373,924
Unreconciled differences			93,239
Total adjustments	(4,725,266)	5,587,926	264,081

- We note we have not been provided with historical cash flow information, and therefore the analysis above has been calculated using the balance sheet and profit and loss account included in the Ferriers report, adjusted by the following abnormal and non-recurring items:

- Normalisation adjustments

- Deferred revenue: This adjustment removes the impact on the cash flow of the movements of the deferred revenue balances. In addition, the \$2.8m revenue recognised in FY14 but in relation to activity in FY13, have been incorporated into FY13 and deducted from the FY14 EBIT.
- Product fees of \$729k from the PGI agreement were recognised in FY14 but related to activity in FY13, and have therefore been reflected in FY13 and deducted from FY14 EBIT.
- Revenue from the Playhouse Pet Motel of \$436k is not expected to occur going forward and therefore we have deducted it from the normalised FY15 EBIT.
- Infrastructure and IT costs amounting to \$500k deferred into FY16 have been included in the FY15 EBIT.
- Drug detection costs amounting to \$130k deferred from into FY16 have been included in the FY15 EBIT.
- Unpaid salary of the CEO's for the period Feb-June 2015 have been included in the FY15 EBIT.

- Abnormal items

- FY13: We have removed the one-off revenue recognised in relation to the international GST Recovery (Additional details – please refer Section 3.1.3)
- FY14: We have deducted the \$1.5m capex investment attributable to the acquisition of the Playhouse Pet Motel.
- FY15: We have excluded the \$1.3m one-time costs related to legal costs incurred in response to the Four Corners investigation (Additional details – please refer Section 3.1.3)

- After the proposed adjustments identified above, GRNSW has produced positive EBITDA over the historical period, however, it has generated negative net cash flows in FY13 and FY14. This is mainly driven by the large working capital requirements as a result of the long collection terms with Tabcorp and the capex requirements of the business.

4. Review of GRNSW financial forecasts

4.1. Review of forecasts per Ferriers report

We held a meeting with Rod Ferriers and GRNSW management on 16 February 2016 to obtain further information around the assumptions applied in the Ferriers forecasts.

- **Basis for development of forecast assumptions:**
 - The Ferriers report states that trends from the historical performances of GRNSW from FY12 – FY15 and the excel based 'forecast' function, utilising linear regression on historical values to provide a future estimate, were considered to develop forecasted revenues. A constant inflation rate was utilised in developing the expense forecasts.
 - We understand from Ferriers that the actual assumptions utilised for forecasting revenues did not consider the historical results and the 'forecast' function on a methodical way. Ferriers have developed the forecasts based on a 'best guess' basis, based on overall and imprecise trends.
 - In our view the lack of historical analysis and basis for the development of forecast assumptions results in an inaccurate presentation of GRNSW's future performance.



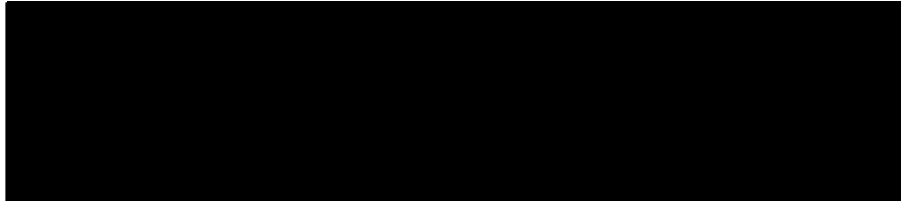
- **'Blue Paws' expenses:**
 - The Ferriers report forecasts that Blue Paws expense will increase at CPI during the forecast period. However, the corresponding revenues are not considered during the forecast period due to the Blue Paws programme being discontinued in FY15. Consequently, 'Blue Paws' expenses are overstated for the forecast period which results in an understatement of forecast profits.
- **Special Commission expenses:**
 - The Ferriers report forecasts that expenses related to the Special Commission to grow at CPI. These costs are non-recurring in nature and therefore are not expected to be incurred in FY17 – FY20. Consequently, forecast profits are understated.
- **Computation of interest income and expense:**
 - Interest income and the overdraft rate have been assumed to be 8.07% in the forecast period. While current interest rates for deposits range between 2.35% - 4%, the bank overdraft rates currently stand at c.9.5% which implies that interest income is overstated. According to GRNSW management, interest rates applicable on deposits by GRNSW range between 0.1%-2.75%.

- **Capex requirements:**

- The Ferriers report does not consider any capital expenditure in their forecast on the basis that:

“None of the available surplus funds will be used for investment in property plant and equipment. I have made this assumption because I have not been provided with a capital investment budget for GRNSW”

- GRNSW as part of its function to develop the greyhound racing industry undertakes capital expenditure on an annual basis and this is discussed in each Annual Report from FY12 – FY15.
- Although the Ferriers report does not consider any capital investment in the forecast period. In our view, this does not present a true reflection of the financial position of GRNSW.



4.2. Review of revised forecasts

Revised forecasts for FY16-FY20 have been prepared by GRNSW (please refer Appendix 5) which differ significantly to those provided in the preparation of the Ferriers report. The revised forecasts include a number of amendments in relation to the organisational structure of GRNSW in response to the issues identified as part of the reform process currently being undertaken including the modification of the RFIU fees scheme. We note that subsequent to GRNSW providing initial set of forecasts, a revision to the same was made by GRNSW management in order to reflect amendments specifically to expenses.

As part of our analysis of the revised forecast, we have compared the amended revised forecasts with the normalised historical profit and loss account based on the adjustments identified in the section 2.1 of this report in order to compare the assumptions in the model with the historical trends.

4.2.1.1. Basis of development of forecasts

- The forecast has been prepared by GRNSW management on a bottom-up approach, incorporating individual assumptions to each account of the income statement and considering the number of races to be held during each season.
- According to GRNSW management, revenue has been forecasted based on historical trends in wagering revenue, in addition to considering recent developments including the change in the RFIU fee cap.
- Cost forecasts have been developed based on the new organisational structure. Realignment of head count and associated administration costs were undertaken, with reform initiatives identified and already in progress costed based on information currently available.

4.2.1.2. Assumptions utilised in developing forecasts

4.2.1.2.1. Revenue

- **TAB Distributions:**

- Historically, TAB distributions, on a CAGR basis have grown by 3.48% between FY12–FY15.
- GRNSW Management expects [REDACTED]
- As highlighted in the FY15 Annual Report, the trend in wagering activity has seen punters shifting from pari-mutuel betting to fixed odds and corporate bookmaker offering where GRNSW does not receive the same level of return from turnover on fixed odds betting through TAB when compared to pari-mutuel betting. [REDACTED]
- GRNSW Management is currently planning to reduce the number of clubs. Management expects the reduction in clubs will have no impact on the attractiveness of the greyhound races and therefore no decline in wagering revenue is considered in the forecast.

- **RFIU fees**

- Between FY12-FY15, RFIU fee income, on a CAGR basis, grew by 11.17% reflecting the move by punters from pari-mutuel betting to fixed odds.
- According to the revised Racing Administration Regulation, GRNSW is entitled to charge up to 4% of a wagering operator's turnover in respect of wagering turnover derived from wagers laid by the wagering operator at totalizator derived odds; and up to 2.5% of the wagering operator's wagering turnover in respect to wagering turnover derived from wagers laid by the wagering operator at odds other than totalizator derived odds.
- GRNSW have considered the revised Racing Administration Regulation and consequently, RFIU fees [REDACTED]
- GRNSW management have highlighted the difficulty of estimating the expected decline in participation of punters as a result of increase in the RFIU cap and hence, on a conservative basis, RFIU fees are [REDACTED]

- **Race form**

- Race form fees declined, on a CAGR basis, by 17% between FY12 – FY15.
- [REDACTED]
- [REDACTED]

- **Licensing and Registration fee income**

- Between FY12-FY15, licensing and registration fee income, on a CAGR basis, grew by 21% primarily due to the introduction of new fees and higher breeding activity.
- [REDACTED]

- **Animal welfare related income**

- Animal welfare related income, on a CAGR basis, increased by 16% between FY12 – FY15, primarily due to the increased focus of GRNSW in animal welfare programmes such as GAP, Blue Paws and veterinary services.
- With the discontinuation of the Blue Paws programme in FY15, animal welfare related income from FY16 onwards shall comprise of income obtained from Veterinary services and GAP. GRNSW management forecasts c.35.8% increase in FY16 compared to FY15 largely due to the projected \$235k revenue from the Playhouse Pet Motel.
- The Playhouse Pet Motel facility is expected to cease at 30 June 2016. Therefore, no revenue derived from commercial operations at the facility is included in the forecast from FY17 onwards.
- Excluding the revenue from the Playhouse Pet Motel, income obtained from Veterinary services and the Greyhound as Pets programme has been projected to decline by 11.6% in FY16 mainly driven by cessation of the Blue Paws programme in June 2015.

4.2.1.2.2. Expenses

- **Racing and infrastructure costs**

- Between FY12-FY15, racing and infrastructure costs have ranged between \$2.0m and \$1.5m.
- GRNSW management expects a c. 54% increase in racing and club infrastructure expenses due to enhancements and upgrades to the OzChase system, installed initially in June 2012.
- Subsequent to FY16, management expects to incur annually, a constant amount (\$1.55m) of racing and club infrastructure costs until FY20, similar to that incurred historically, reflecting the maintenance and improvements to race tracks.

- **Depreciation**

- Depreciation has been increased by GRNSW management by c.100k annually between FY16 – FY20 reflecting the estimated capital improvements amounting to \$1m required at Playhouse Pet Motel facility with an average useful life of 10 years.

- **Prizemoney and clubs**

- Prizemoney are expected to remain stable and is projected based on the number of race meetings expected to be held. According to management, GRNSW is not forced to increase prizemoney in the case of revenue upturn. Therefore, the forecast assumes that GRNSW will retain the forecasted increase in revenue and will not pass it through to race participants, resulting in an improvement in the race margin.
- As part of the animal welfare measures adopted by GRNSW, management is planning a reduction in prize money between 4%-10% to contribute towards animal welfare schemes.

- **Administration and other overheads**

- Finance and Corporate Overheads are expected to increase by 42% (\$1.16m) in FY16 due to increased headcount across finance, people and culture, and legal and policy. One-off costs amounting to c.\$200k have been budgeted in recruitment costs for senior positions to be filled within the organisation. In addition, overheads costs are understated in FY15 due to the full year salary of the CEO not being incurred due to termination in light of the 'live baiting' scandal in February 2015.

- IT costs are expected to increase by 132% (\$853k) in FY16, primarily due to the one-off upgrade to the existing OzChase system. The IT costs are expected to decline by c.20% in FY17, as the one off costs in FY16 are not expected to reoccur in FY17. Subsequent to FY17, IT costs are expected to grow at 1.5% annually.
- Marketing & events costs are expected to decline by 12% in FY16 reflecting savings from the cessation of the Greyhound of the year award. Between FY17 – FY20, marketing and events costs are expected to increase by 1% consistently reflecting the routine marketing activities undertaken to promote greyhound racing.
- Board expenses are expected to increase by c.79% in FY16, with amounts totalling c.\$100k reflecting full year of Board costs (the Board was stood down in February 2015). Subsequently, Board expenses are expected to increase by 3% p.a between FY17 – FY20 forecasted in line with CPI.
- Other expenses primarily include Special Commission costs which are one off expenses and are not expected to be incurred from FY17 onwards.

- **Stewards and integrity costs**

- Stewarding costs are expected to increase in FY16 by 19% (\$463k) compared to the 2.14% CAGR growth witnessed between FY12 – FY15 reflecting additional head count costs incurred within compliance, intelligence and investigative teams to enhance animal welfare mechanisms.
- Subsequent to FY16, stewarding and integrity costs are expected to increase until FY20 reflecting the continued focus of GRNSW in improving animal welfare mechanisms.
- Drug detection amounting to c.\$130k expenses relate to drug detection costs incurred in FY15 but expensed to FY16. According to GRNSW management, a certain number of drug detection tests undertaken in FY15, were only completed in FY16, due to operations being halted by the special commission enquiry relating to the 'live baiting' scandal. From FY17 onwards, drug detection tests are expected to increase by c.10% annually reflecting the increased emphasis on drug detection measures adopted by GRNSW.

4.2.1.3. Sensitivity analysis

We note the following illustrative sensitivities have been calculated to understand vulnerabilities on certain key parameters to GRNSW and their corresponding impact on EBIT:

- **TAB Distributions**

- As highlighted in the FY15 Annual Report, trends are emerging where punters are shifting from pari-mutuel betting to fixed odds and corporate bookmaker offerings. The level of return achieved by GRNSW on turnover on fixed odds betting through TAB is lower than that received on pari-mutuel betting.

[Redacted]

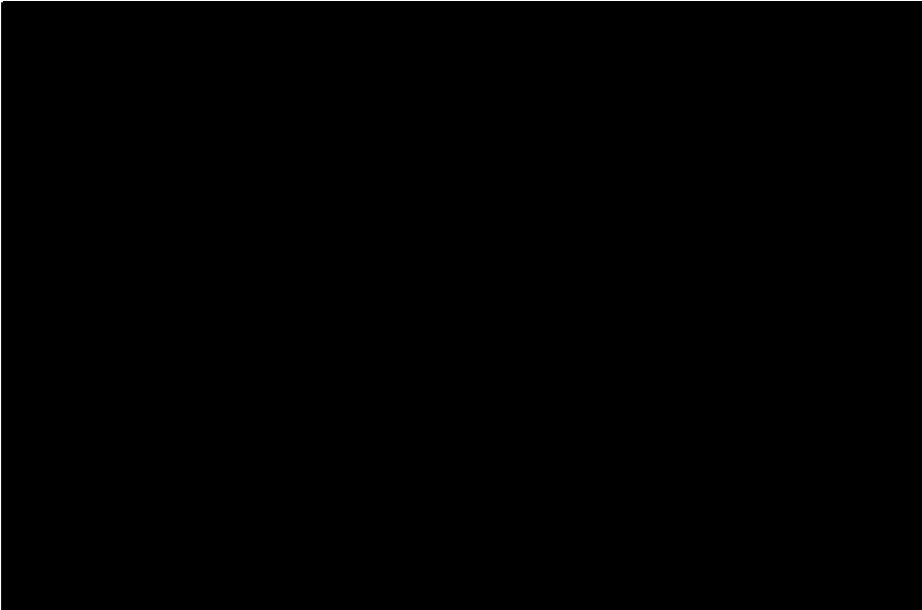
[Redacted]

- **RFIU fees**

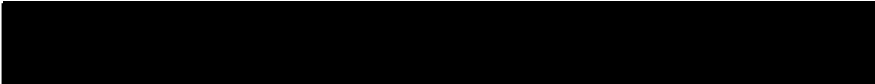
[Redacted]

[Redacted]

[Redacted]



4.3. Conclusion on GRNSW financial forecasts

- In our opinion the forecast prepared in the Ferriers report contains a number of inappropriate assumptions and is based on inaccurate data. Consequently, it does not reflect a true and accurate view of GRNSW's future financial performance and therefore, cannot be used to assess GRNSW's sustainability.
- In our opinion, the basis on which the forecasts prepared by GRNSW management are sound with a bottom-up approach incorporating individual assumptions to each account of the income statement and considering the number of races to be held during each season.
- 
- We note that while revenue and expenses have been estimated conservatively, EBIT is expected to be negative in FY16 reflecting 'one off' expenses related to the implementation of the OzChase system and costs arising from the 'live baiting' scandal. As operations normalise, both EBIT and operating margin is projected to improve in FY17.
- From FY18 onwards, EBIT and operating margin is projected to decline due to higher increase in operating expenses as compared to revenue. However, GRNSW is projected to remain profitable during the period.

5. Impact of legislative changes

5.1. Overview of legislative changes

GRNSW's revenue is derived from two main sources: TAB distributions and RFIU fees. The NSW Government has announced the following changes to both of these funding streams resulting in higher funds money being provided to the three racing codes in NSW including GRNSW:

- **Tax Harmonisation**

- On 24 November 2015, the NSW Government passed the BTLA Act. The effect of the BTLA Act is that the tax rates applicable to totalizators and fixed odds wagering providers will be gradually reduced to match the Victorian Rates by 2020.
- We note that per the BTLA Act, none of the extra revenue shall be retained by TAB Limited, but instead passed onto the three racing codes in NSW including GRNSW. The BTLA Act sets out that GRNSW will receive 10% of the allocation of the extra funds.

- **RFIU Fees**

- On 31 July 2015, the NSW Government announced changes to the cap on RFIU Fees.
- Previously, the fees were capped at 2% on turnover of premium race meetings and 1.5% on all other race meetings. We note that the new regulation allows GRNSW to charge fees up to 4% of turnover from operators using totalizator derived odds and up to 2.5% of turnover from all other operators.

5.2. Estimation of tax harmonisation benefits

Appendix 6 reflects the information provided by the Client based on the media release announcement made by the Deputy Premier and Minister of Racing (NSW) that highlights the announced and enacted tax rates related to totalizator betting and fixed odds, the applicable date of the reduction, the money back to the industry and the amount received by GRNSW as a result of the tax harmonisation.

In order to estimate the potential updated monetary benefit obtained by the greyhound industry and GRNSW in FY18 and FY19, the following methodology was adopted:

- **Step 1:** The difference (%) between the announced tax rates and the enacted tax rates were computed individually for both totalizators and fixed odds.
- **Step 2:** The excel built in 'forecast' function was applied to compute the quantum of benefit arising from the difference in totalizators and fixed odds (obtained from Step 1 above) considering the data provided for FY16, FY17 and FY20 as known variables. The Forecast function utilises known variables and linear regression to compute forecasted/unknown values.
- **Step 3:** The amount obtained using the Forecast function for totalizator and fixed odds reflect the potential benefit/payment that would impact the industry as a result of the revision of the rates.
- **Step 4:** This amount obtained from Step 3 above was then deducted/added from the amount announced earlier as benefit to the industry to arrive at the updated money that the greyhound industry would receive.
- **Step 5:** 10% of the updated amount has been computed which amounts to the benefit that GRNSW would receive from the revised taxation impact.

While the methodology adopted provides an estimate of the potential benefits available to the greyhound industry and to GRNSW from the application of revised tax rates, no assurance on the accuracy of the actual benefits to the greyhound industry and to GRNSW resulting from the revised tax rates can be provided.

Based on the above methodology, the following tax harmonisation benefits could be expected by the greyhound industry and that by GRNSW:

Table 23: Tax harmonization benefits to the greyhound industry and GRNSW

Announced totalisator tax rate	Enacted totalisator tax rate	Announced fixed odds tax rate	Enacted fixed odds tax rate	Announced start of reduction	Enacted start of reduction	Announced money back to industry (\$m)	Updated money back to industry (\$m)	Amount to GRNSW p.a. (\$m)
19.1%		10.9%						
17.7%	16.2%	10.1%	9.2%	Jan-16	Jul-15	10	25	3
14.6%	13.5%	8.3%	7.4%	Jan-17	Jul-16	25	45	5
12.0%	12.2%	6.9%	6.6%	Jan-18	Jul-17	45	52	5
9.3%	10.7%	5.3%	5.8%	Jan-19	Jul-18	70	67	7
7.6%	7.6%	4.4%	4.4%	Jan-20	Jul-19	85	90	9

5.3. Tax harmonisation impact on GRNSW

As a result of the tax harmonisation, GRNSW shall receive amounts as depicted in Table 23. The financial impact of the benefits obtained from the tax harmonisation is as follows:

Table 24: Tax harmonization impact on GRNSW

\$	FY16	FY17	FY18	FY19	FY20
Operating revenue	53,156,732	53,517,158	54,140,092	54,794,777	55,489,011
Tax harmonisation benefit	2,500,000	4,500,000	5,200,000	6,700,000	9,000,000
Adjusted operational revenue	55,656,732	58,017,158	59,340,092	61,494,777	64,489,011
Operational expense	(53,653,671)	(50,380,380)	(51,345,062)	(52,439,173)	(53,364,573)
EBIT	2,003,061	7,636,778	7,995,030	9,055,604	11,124,439
<i>Operating profit margin</i>	<i>4%</i>	<i>13%</i>	<i>13%</i>	<i>15%</i>	<i>17%</i>

The impact of the tax harmonisation benefits is that EBIT levels and operating profit margins have increased to sustainable levels.

5.4. RFIU changes impact on GRNSW

- According to the revised Racing Administration Regulation, GRNSW is entitled to charge up to 4% of a wagering operator's turnover in respect of wagering turnover derived from wagers laid by the wagering operator at totalisator derived odds; and up to 2.5% of the wagering operator's wagering turnover in respect to wagering turnover derived from wagers laid by the wagering operator at odds other than totalisator derived odds.
- We note that the revised forecasts provided by GRNSW [REDACTED]
- As an alternative scenario for analytical purposes, [REDACTED]



5.5. Conclusion on impact of legislative changes

- It is evident that the legislative changes have a positive impact on GRNSW with EBIT levels and the operating profit margins improving significantly.

