

Strategic Company Profile of Tabcorp Holdings Limited

INTE1040 – Business Intelligence
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Executive Summary

This report aims to dress a complete company profile of Tabcorp Holdings Limited through the analysis and evaluation of all its aspects.

Tabcorp is a complex company that cannot be understood at the first glance, it needs a structured analysis that will lead to evaluate the actual state of the company.

The report will start with an overview of the company that will describe the tip of the iceberg. Then, a deep analysis will be conducted through the recent current operations, the financial analysis within its sector, its stock exchange performance, the industry and market analysis and finally the strategic analysis within its environment.

The main findings are that Tabcorp is facing a very challenging period that requires critical choices for overcoming it. Despite of this, Tabcorp is clearly positioned as the leader of the gaming industry in Australia. It is financially healthy and has an aligned strategy with its environment and its challenges.

These are a series of separate factors that occurs all in the same time: ban-smoking, Equine influenza (horse flu), Global Financial Crisis and the loss of the gaming and wagering license in 2012 (Victoria).

Tabcorp has started a new strategy for consolidating its domestic market and preparing for the future at the cost of sacrificing of its International investments. The new strategy has 3 major steps: reorganisation of Tabcorp to have a heterogeneous infrastructure, the development of the actual business and a transition to the post 2012 period.

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1 Overview

Tabcorp Holding Limited is a diversified leisure and entertainment company that is headquartered in Melbourne, Australia. It employs 11,000 persons and has a turnover of AUD\$ 3,915.6 million in the fiscal year ended June 2008, a rise of 0.9%.

1.1 History

The history part has been written from the information of official website and presentation of Tabcorp (Tabcorp 2009a, 2009c).

The Victorian State government began the operation of Totalisator Agency Board (Tab) in 1961. This institution proposes off-course totalisator betting on horse racing.

In 1992, TAB acquired a gaming operator's licence for running gaming machine within licensed venues (clubs, hotels & bars).

In 1994, Tabcorp Holding Limited was born through the privatisation of Totalisator Agency Board, as a statutory body, for AUD\$ 77.8 million. Moreover, it joins the Australian Stock Exchange with the public offering of the Victorian State Government and acquires 2 different licences for wagering and gaming for a total of AUD\$ 597.2 million.

In December 1999, Tabcorp acquired Star City through a takeover bid, a Sydney headquartered casino and hotel company which was already listed on the Australian Stock Exchange.

In April 2000, Tabcorp finalised the acquisition of Structured Data Systems Pty Ltd, the company which design and develop the some of the Keno systems in the world. The same year, TAB Sportsbet was launched and was considered as the most significant improvement since the company creation.

In 2003, Tabcorp merged with Jupiters Limited that owned three casinos in Queensland and some gaming exploitations.

Later in 2004, Tabcorp Holding Limited took over Tab Limited which was officiating in New South Wales and already listed in the Australian Stock Exchange.

Recently in 2005, Tabcorp International, a subsidiary entered into a joint-venture with China LotSynergy to supply up to 60,000 Keno terminals in China.

In December 2007, Tabcorp International sold its investment for AUD\$ 15 million.

1.2 Structure

The parent company is Tabcorp Holding Limited that has made a large external growth through investment in 53 different companies. The subsidiaries are recapitulated in the following table (cf. **Table 3** in Appendix).

Since 2007, the company has flattened out its structure and reduced the size of its head office. The holding is now composed of 3 major divisions: Casino, Wagering and Gaming (Datamonitor 2008).

1.3 Directors and officers

The board of directors is composed of 8 members, whose 7 are non-executive; on the executive committee is constituted of 7 persons. The name, job title and member detail are recapitulated on the following table (cf. **Table 1** in Appendix).

Name	Job title	Member
Elmer Funke Kupper	Managing Director since 2006 Chief Executive Officer since 2007	Board Executive committee
John Story	Chairman since Nov 2007 Non Executive Director since Jan 2004	Non executive Board
Anthony Hodgson AM	Deputy Chairman Non Executive Director since June 1994	Non executive board
Paula Dwyer	Non Executive Director since Aug 2005	Non executive board
John O'Neill AO	Non Executive Director since Aug 2005	Non executive board
Zygmunt Switkowski	Non Executive Director since May 2008	Non executive board
Jane Hemstritch	Non Executive Director	Non executive board
Brett Paton	Non Executive Director	Non executive board
Matt Bekier	Chief Financial Officer	Executive committee
Larry Mullin	Managing Director - Casino	Executive committee
Mohan Jesudason	Managing Director - Gaming	Executive committee
Robert Nason	Managing Director - Wagering	Executive committee
Kerry Willcock	Executive General Manager (Corporate and Legal)	Executive committee
Louise Zampaglione	Executive General Manager (Human Resources)	Executive committee

Table 1: Repartition of the board and executive committee

Elmer Funke Kupper, has been promoted Chief Executive Officer in March 2007, then Managing director in September 2007. Initially hired as a Chief Executive Australian Business in February 2006, he has occupied different senior executive position within the ANZ Banking Group. Previously, he was a senior consultant at the A.T. Kearney and McKinsey & Company. He is graduated from a Bachelor and Master of Business Administration (Tabcorp 2008b).

Larry Mullin has joined the company in February 2009 as the managing director of the Casino activities. He was previously the president and Chef Operating Officer of Borgata Hotel Casino and Spa at Atlantic City. He was charged of the successful transformation project of Borgata to improve their attractiveness. Furthermore, he has more than 20 years in US casino operations. He has a Bachelor in Business Administration (Tabcorp 2009a).

Robert Nason is the managing director of the wagering activities since his hiring in June 2006. He was previously the Chief Executive Officer at the Racing Victoria Limited and was

in charge of the commercial and regulatory development of the Victorian horse racing industry. He holds a Bachelor of Business Studies (Tabcorp 2008b).

Mohan Jesudason is the managing director of the gaming area; it has joined Tabcorp in August 2003. Previously, he was a senior manager at Telecom New Zealand, National Mutual Health Australia and New Zealand and also at the State Bank of Victoria. He is graduated with a Bachelor of Economics and a Graduate Diploma of Accounting (Tabcorp 2008b).

1.4 Recent corporate activity

In June 2006, Tabcorp has proposed an offer for taking over UniTAB that has been dismissed by the Australian Competition Consumer Commission (A.C.C.C. 2006).

In 2007, the holding has disinvested from its marginal activities at international level, particularly the joint venture with LotSynergy for supplying Keno in China (Datamonitor 2008).

In January 2009, the group has completed an institutional placement and raised AUD\$ 300 million (Tabcorp 2009e).

In March 2009, Tabcorp has engaged a raising activity through a five-year Tabcorp Bonds; in April, the company has raised AUD\$ 284 million (Tabcorp 2009d).

1.5 Corporate Affiliations

Tabcorp Holding Limited has several affiliations. The group has an intrinsic joint-venture partnership with the Victorian Government in the exploitation of the racing industry. Furthermore it has a sponsorship with Harness Racing Victoria for its Tabcorp park (Kohler, Gottlieb & Bartholomeusz 2008).

The annual financial report is also audited by Ernst & Young for confirming the real financial position of Tabcorp, the compliance with Australian Accounting Standards, Corporations Regulation 2001 and the International Financial Reporting Standards (Tabcorp 2008b).

Since 2005, Tabcorp Holding Limited concentrates and entrusts all their advertising and media account to one advertising agency, OMD (Sullivan 2007).

1.6 Activities

Tabcorp Holding Limited offers a large range of services through its different trade names and companies. The company belongs to the classification ANZSIC 932, “Gambling Services” through its 4 different area of business spread within Australia (cf. Figure 1): casino, wagering, gaming and media (Tabcorp 2009a).

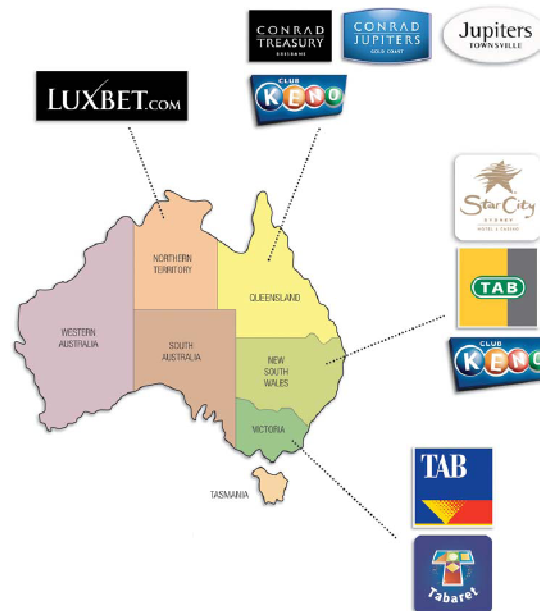


Figure 1: Repartition of brands within Australia

1.6.1 Casino

Tabcorp Holding Limited is at the head of 4 casinos. Star City is based in Sydney and its licence is hold until 2093. Conrad Treasury is situated in Brisbane and its licence expires in

2070. Conrad Jupiters is located in the Gold Coast and has a perpetual licence. Jupiters Townsville, like indicated by its name, is located in Townsville and also has an unlimited licence. Tabcorp manages the Gold Coasts Convention and Exhibition Centre and the Townsville Entertainment and Convention Centre (Tabcorp 2008b).

The structure employs 8,016 persons that manage a total of 399 gaming tables, 4,437 electronic gaming machines (EMGs), the 1,398 hotel rooms, 54 restaurants & bars and 3 theatres (Tabcorp 2008b).

1.6.2 Wagering

This area of activity is run through the Victorian TAB and New South Wales TAB (from the acquisition of Tab limited) where people can bet off-course or on-course on a large range of sport activities and especially horse racing, and also through Trackside an animated racing game. This represents 2,573 retail outlets with the employment of 2,403 persons; the business attracts around 700,000 regular customers (Tabcorp 2008b).

The wagering is also diffused on internet through Tab Sportsbet and FootyTab in Victoria & New South Wales and Luxbet in Northern Territory. This is supplemented by proposing mobile, phone and pay TV services (Tabcorp 2009a).

1.6.3 Gaming

This business employs 300 persons and operates through the installation of electronic gaming machines (EGMs) inside hotels or clubs under the Tabaret brand; currently, 13,406 EGMs are set up into 130 hotels and 134 clubs; the company hold the Victorian licence until 2012. Moreover, it also runs the Keno lottery system and Keno Club in partnership with Tattersalls through 2,656 terminals in 2,201 venues (including hotels, clubs, casinos and TABs) in Queensland and New South Wales (Tabcorp 2009a).

1.6.4 Media

This smaller business is composed of a TV channel and a radio broadcast. The former is Sky Racing and distributes over 2.2 Australian homes and 5,100 commercial outlets; whereas, the latter is Sky Sports Racing and broadcasts more than 1,000 races a week (Tabcorp 2009a).

2 Current operations

2.1 Recent activities and operations

During October and November of **each year**, Racing Victoria (in partnership with Tabcorp) holds the Spring Racing Carnival, where a series of carnival and races are running in Caulfield, Geelong, Moonee Valley, Flemington and Sandown. The Melbourne Cup at Flemington exists since 1961 and attracts more than 120,000 people with a race value of \$5,650,000 in 2008 (Racing Victoria 2009).

In 2006, Tabcorp start with IBM Global Business Services a project for reviewing the ERP implementation occurred one year before. In 2005, the expected benefits of this ERP project has not been the one expected. It has lead to a benchmarking of the operational process that have opened onto an optimization and improvement project (IBM 2007).

In April 2007, Tabcorp has engaged a partnership with Harness Racing Victoria for an investment in AUD\$ 45 million racing and entertainment complex at Melton. This will encompass four star motel, conference rooms, bar, gaming room and TAB (Harness 2008). The same month, Tabcorp has deployed its wagering system, already used in Victor and called Bravo, in the New South Wales outlets as a consolidation strategy. However, some minor differences have perturbed customers (Dyer 2007).

In May 2007, Tabcorp has launched a project for creating a full on-site recruitment solution with HR and Finance shared services function. This has been entrusted to Michael Page and has been fully delivered in September 2007 (Michaelpage 2008).

In January 2008, Tabcorp has signed a partnership agreement with Australian Hotels Association in Victoria for the investment of A\$ 7.5 million for the enhancement of TAB

outlets into Victorian hotels. Furthermore, it will lead to the construction of 50 new TAB outlets (Tabcorp 2008e).

In May 2008, Tabcorp has participated to and sponsored the Victoria's Responsible Gambling Awareness Week through providing information about responsible gambling in all the different Tabcorp's outlets (TAB, Tabaret, Keno) and displaying more information on the EMGs to encourage people to think about their "extent of play" (Tabcorp 2008g).

In July 2008, Tabcorp has signed a contract with Telstra for providing a fully managed voice and data network. This will connect the 4,000 sites of Tabcorp and have some critical back up elements to prevent any discontinuity (Telstra 2008).

In September 2008, Tabcorp has launched in new bookmarking online business Luxbet on the Northern Territory. It offers an extended range of bet, from sport to election or any other events (Tabcorp 2008a). The same month, Tabcorp has reached a overall score of 77% into the Dow Jones Sustainability Index for 2008/09, 5% more than the previous year and keeping its first place in all the world gambling industry (Tabcorp 2008f).

In September 2008, Tabcorp presented its Star City casino renovation and expansion project, estimated to AUD\$ 475 million. The major modifications include an increase of the gambling area, the construction of a new hotel, expand the ballroom and few other changes. The project is planned to start in 2009 and to be finished in 2011. The State government gave its approval in December of the same year (Tabcorp 2008d).

In December 2008, Tabcorp and Harness Racing Victoria announced the opening of the Melton complex in March 2009 and the first racing in July 2009 (Harness 2008).

In January 2009, Tabcorp launch the "Big 6", a new jackpot bet that consists in selecting the winners of six races. In case of good prognostication, the dividends are distributed between

the winners. The Tabcorp commission was 6% during a starting period, then 25%. The pool reached more than AUD\$ 800,000 several times (Allen 2009; Callander 2009; Scholtz 2009).

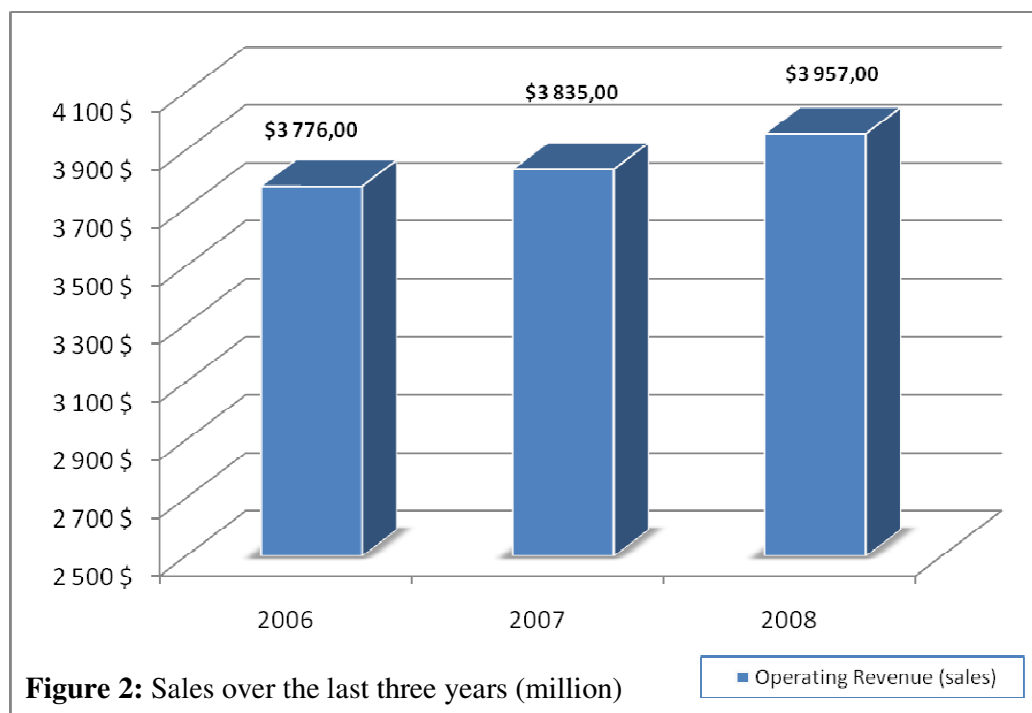
In February 2009, Tabcorp has pledged A\$ 2 million to the Victorian Bushfire Appeal Fund for helping the victims (Tabcorp 2009f). The same month, Tabcorp has engaged a partnership with Neptune, a junket operator, for providing package tour including casino and gaming sessions (Tabcorp 2009b).

In March 2009, Tabcorp has sued Sportsbet for copyright infringement. Tabcorp accuses Sportsbets to use some copyrighted information from win dividends and the race field (Moran 2009).

In May 2009, Tabcorp has launched a project to propose more fixed-odds bet to customers, mainly to compete with and counter corporate bookmakers. Tabcorp has in the same time raised the issue with the government and racing industry (Manley 2009).

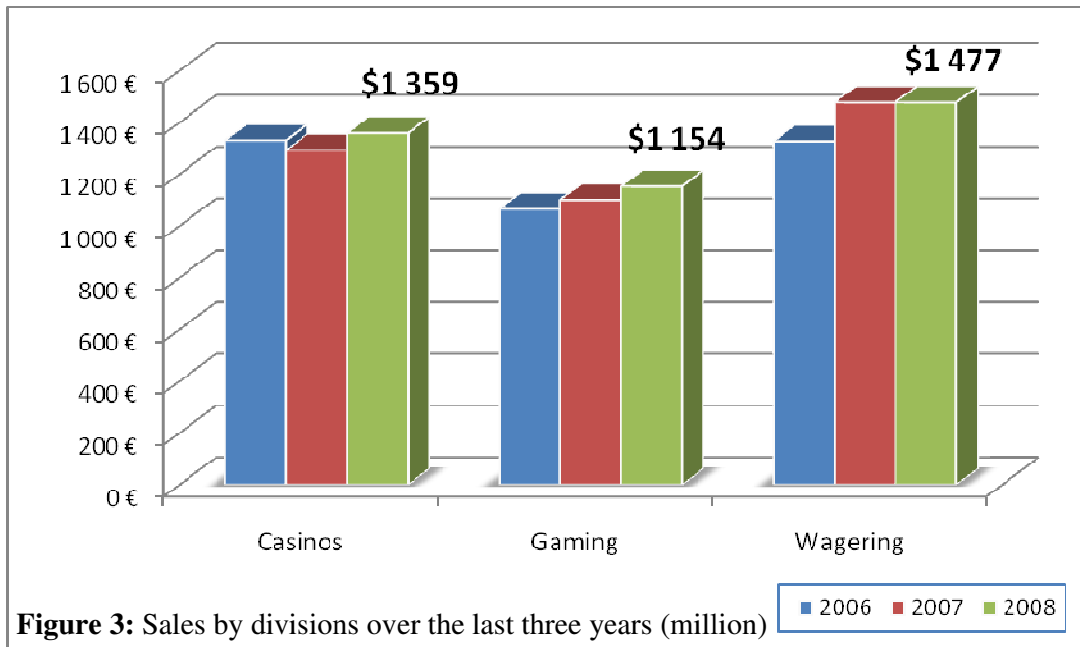
2.2 Performance

On an overall perspective, the operational revenue (sales) has a regular increase during the three last years (cf **Figure 2**).



In 2006, it has been A\$ 3,776 million, then A\$ 3,835 million (+1.6%) the next year and in end of financial year 2008, it has reached A\$ 3,957 (+3.1%), cf. **Table 4** in Appendix.

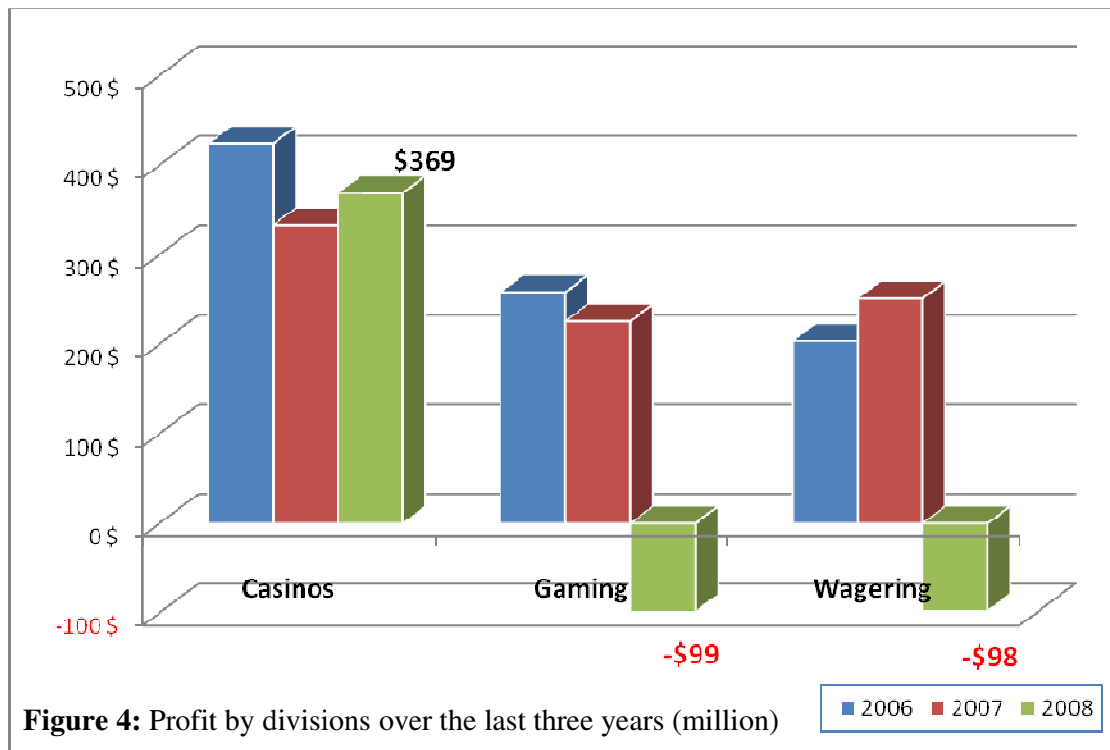
However, by examining the revenues into the different division, we can see a different perspective (cf. **Figure 3**). For Casinos, the initial sales of A\$ 1,331 million in 2006, have



decrease by 2.9% in 2007 (A\$ 1,293 million), but increase largely in 2008 for attaining A\$ 1,359 million (+5.1%). In 2006, the sales of the gaming division was at A\$ 1,066 million and increase in 2007 for reaching A\$ 1,101 million (+3.2%); in 2008, it has increase by 4.5% (A\$ 1,151 million). Finally, for the wagering, the operational revenue was A\$ 1,327 million, A\$ 1,477 million (+11.3%) and A\$ 1,477 million (+0.6%) respectively for 2006, 2007 and 2008; cf. **Table 5** in Appendix.

Even more interesting, the profit by divisions over the last three years gives another perspective (cf. **Figure 4**). In 2006, the profit was A\$ 424 million for casinos, A\$ 257 million for gaming and A\$ 203 million for wagering. Then, in 2007, it changed to A\$ 333 million (-21.5%) for casinos, A\$ 225 million (-12.5%) for gaming and A\$ 251 million (+23.6%). Finally, in 2008, the casino division reached A\$ 369 million (+10.8%), the gaming and

wagering suffered a large decrease with A\$ -98 million (-143.4%) and A\$ -97 million (-138.6%), this is due to some impairments of the Gaming and wagering license in Victoria; for the data cf. **Table 6** in Appendix.

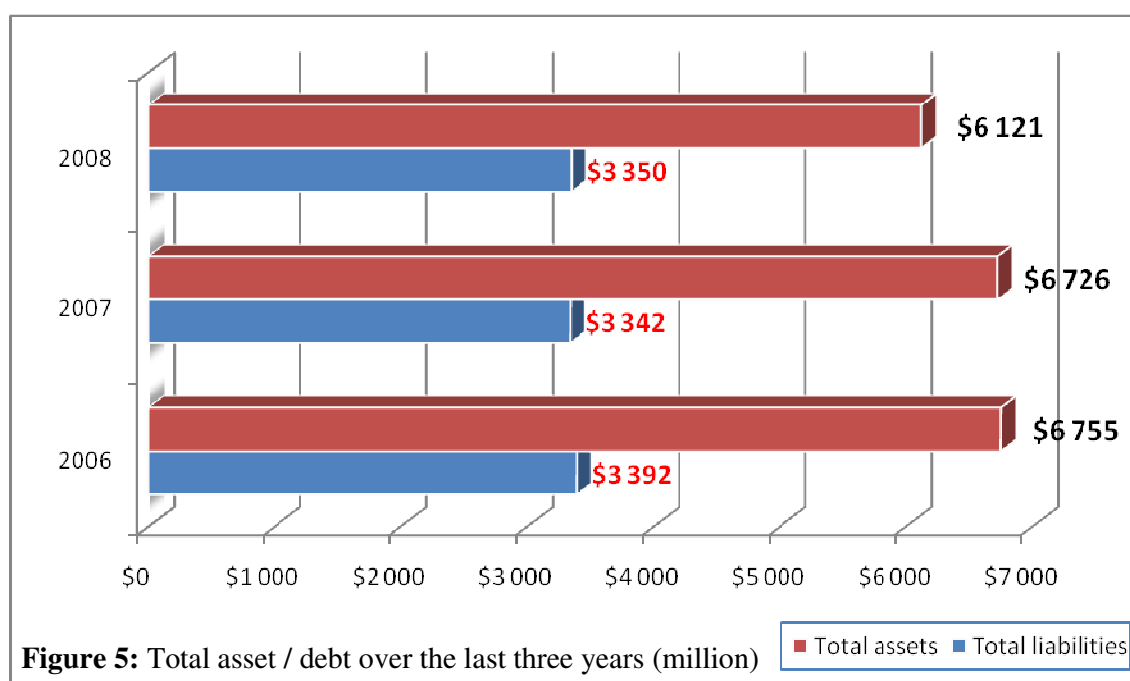


All these data comes from the website “FinAnalysis” of the company AspectHuntley and have been crosschecked with the correspondent annual reports or annual financial reports from Tabcorp (Huntleys 2009; Tabcorp 2006, 2007b, 2008b, 2008c).

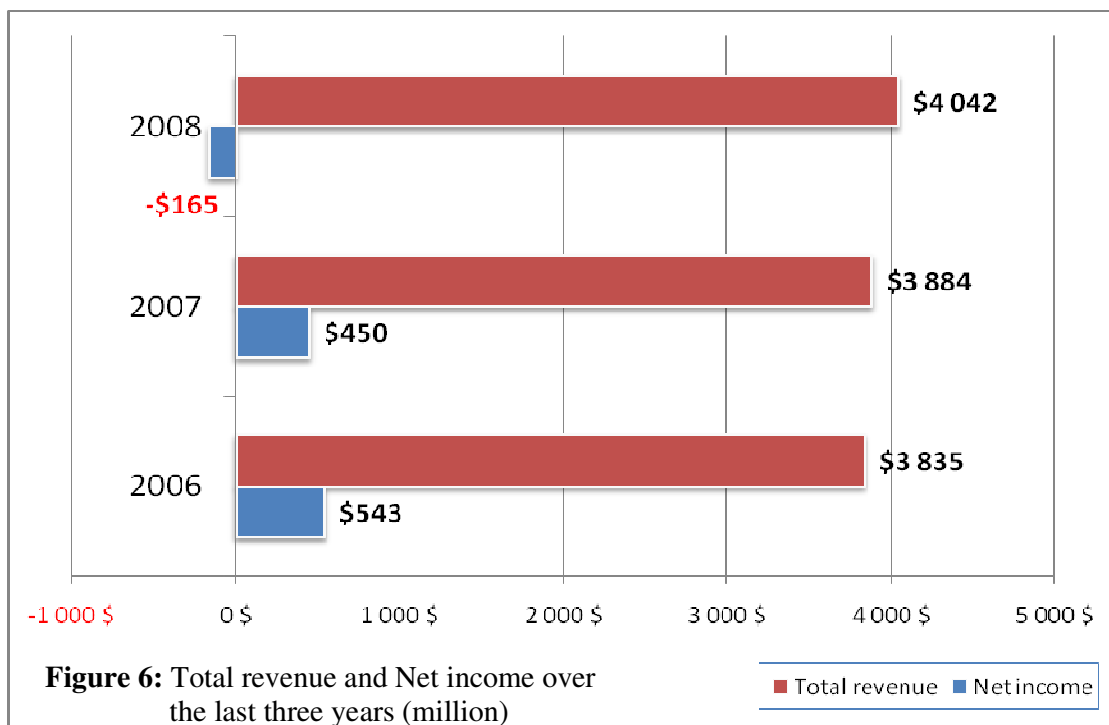
3 Corporate finance analysis

3.1 Financial trends

The analysis of the balance sheet over the last three years gives some insights about the total assets and debts (cf. **Figure 5**). The assets slightly decreased in 2007 and plummeted in 2008 whereas the liabilities steadily decrease over this timeframe; for the data, cf. **Table 7** in Appendix.



On another perspective, the analysis of the total revenue and total net income (profit / loss) makes appear a large variation over the last three years (cf. **Figure 6**). In spite of a regular increase of the total revenue during the three years (+1.2% in 2007 and 4.06% in 2008), the net income has the opposite tendency and plummeted by 17.13% in 2007 and by 136.6% in 2008; the data are available in Table 6 in Appendix.



The data of these trends comes from the Annual report of Tabcorp 2006, 2007 and 2008 have been complemented by the website “FinAnalysis” of the company AspectHuntley (Huntleys 2009; Tabcorp 2006, 2007b, 2008b, 2008c).

3.2 Financial ratio

These ratios have been calculated within the Tabcorp annual reports and compared with other company of the industry using the website “FinAnalysis” of the company AspectHuntley (Huntleys 2009; Tabcorp 2006, 2007b, 2008b, 2008c).

The calculation of the **Asset turnover** (Operating revenue / total assets) in 2006, 2007 and 2008 are respectively 56.63%, 57.61% and 65.22%. However, this is distorted by the removing of the Goodwill asset of Wagering and gaming licence in Victoria, without that it would have been stable over the last 3 years. **In comparison**, the Crown Ltd has 25.86%

(2007) and 26.92% (2008); Skycity Entertainment had 48.61% in 2007 and 47.75% in 2008; whereas Tatts Group had a ratio of 62.93% and 76.24% (the variation of Tatts also comes from the modification of the wagering licence in Victoria in 2012).

The same variation impacted the **Debt to equity** (gross gearing) between 2006-07 and 2008, with respectively 71.95%, 69.16% and 81.91%. On an overall perspective, the company try to keep stable and secure this ratio without scarifying the investments. **In comparison**, the Crown Ltd had a ratio of 55.18% in 2008; whereas Skycity Entertainment had 272.10% in 2007 and 209.21% in 2008 and Tatts Group had 24.58% and 34.13%.

The **liquidity analysis** shows another important factor: the negative working capital (current ratio). In 2006, 2007 and 2008, this ratio was respectively 0.31, 0.31 and 0.50. This means that Tabcorp does not have enough short-term assets to cover their short-term debts. The Acid test ratio is not interesting in the context of Tabcorp. **In comparison**, Crown Ltd had 7.79 and 6.06 respectively in 2007 and 2008; SkyCity Entertainment had a ratio of 1.12 (2007) and 1.10 (2008); whereas Tatts Group had 0.38 and 0.57.

On the **profitability ratios**, the **ROA** (Return On Asset = Net profit / Total assets) is 9.83% in 2006, 8.50% in 2007 and 10.37% in 2008. Unfortunately, this is also impacted by the diminution in assets of the wagering and gaming licence in Victoria, as a result this 2008 ratio cannot be clearly compared with the previous year and this does not reveal an improvement in converting investment into profit. **In comparison**, Crown Ltd had a ROA of 4.63% in 2007 and 6.15% in 2008; whereas SkyCity Entertainment had 9.98% and 6.92% in 2007 and 2008; Tatts Group had 6.38% in 2007 and 7.31% in 2008.

On the **ROE perspective** (Return On Equity = Net profit / Shareholders equity) reveals 16.29% in 2006, 13.34% in 2007 and 18.66% in 2008. Because of the use of Total assets, this ratio is also impacted by the 2008 impairment and cannot be clearly compared with previous

years. **In comparison**, Crown Ltd had 8.61% in 2008, when SkyCity Entertainment had 25.96% and 12.25% respectively in 2007 and 2008; whereas Tatts Group had 9.07% in 2007 and 9.99% in 2008.

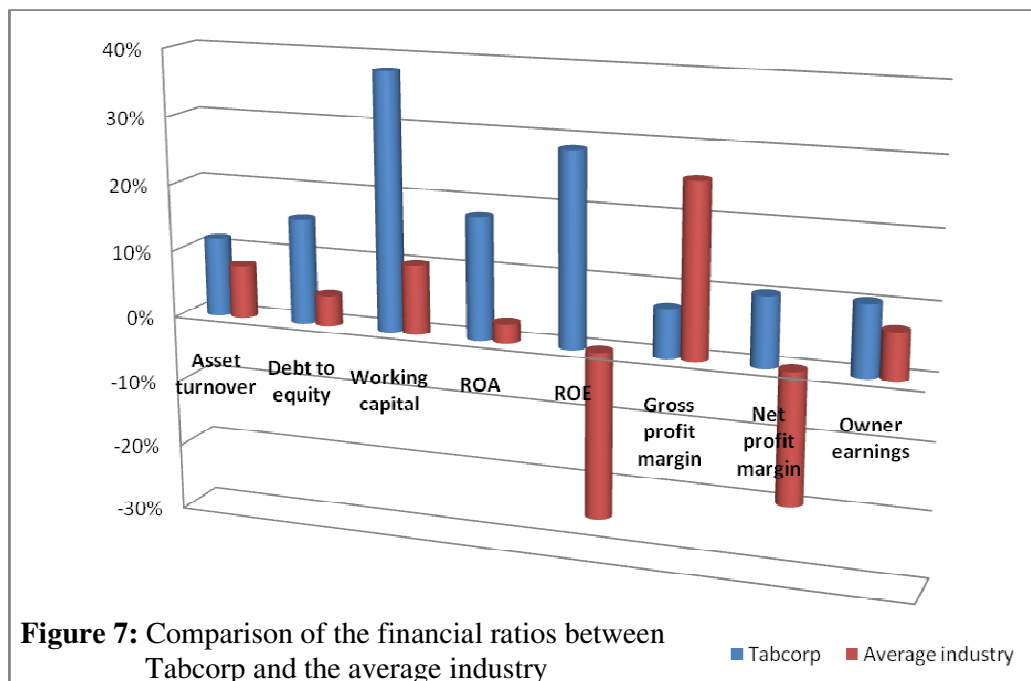
For the **Gross profit margin** (Gross profits / Sales), the ratio was respectively 28.2%, 24.4% and 26.28% in 2006, 2007 and 2008. We can see a decrease between 2006 and 2007-2008 that calls for an improvement in inventory and sells management. **In comparison**, Crown Ltd had 27.71% in 2007 and -141.13% in 2008; SkyCity Entertainment had 37.43% and 30.13% in 2007 and 2008; whereas Tatts Group had 16.44% (2007) and 16.35% (2008).

The **net profit margin** (Net profit / sales) shows some slight variations with a decrease between 2006 and 2007-08. The ratio was respectively 14.31%, 11.62%, 12.95% in 2006, 2007 and 2008. **In comparison**, for Crown Ltd, the ratio was 17.92% in 2007 and 18.25% in 2008; for SkyCity Entertainment, it was 12.32% in 2007 and 7.17% in 2008; whereas Tatts Group had 9.89% and 8.37%.

A **cash-flow analysis** reveals some interesting insights about the company and the industry. The **owner earnings** (Free cash flow = Net cash flow – Operational invested capital) for Tabcorp reached A\$ 636.2 million in 2006, A\$ 533.4 million in 2007 and A\$ 595.6 million in 2008. **In comparison**, Crown Ltd had A\$ 406.3 million in 2007 and A\$ -2,148.8 million in 2008; for SkyCity Entertainment, it was A\$ 134.7 million in 2007 and A\$ 68.04 million in 2008; whereas Tatts Group had respectively A\$ 298.9 million, A\$ 288.1 million in 2007 and 2008.

3.3 Comparison with industry

For understanding the corporate finance of Tabcorp, some financial ratio has been calculated: Asset turnover, Debt to equity, Working capital, ROA, ROE, Gross profit margin, Net profit margin, Owner earnings. These ratios have been compared with the average Australian industry (Crown Ltd, Skycity entertainment, Tattersalls Group Limited) and can be seen on **Figure 7**. All these ratios have been recapitulated on the following **Table 2**.



This comparison reveals the good evolution of Tabcorp between 2007 and 2008; however, it should take in consideration the major impairments that have reduced the Total assets (withdraw the value of gaming & wagering licence) and have boosted some ratios. If we focus on the division, we can clearly see a stagnation of the casino and wagering revenues but a large increase within the gaming revenues.

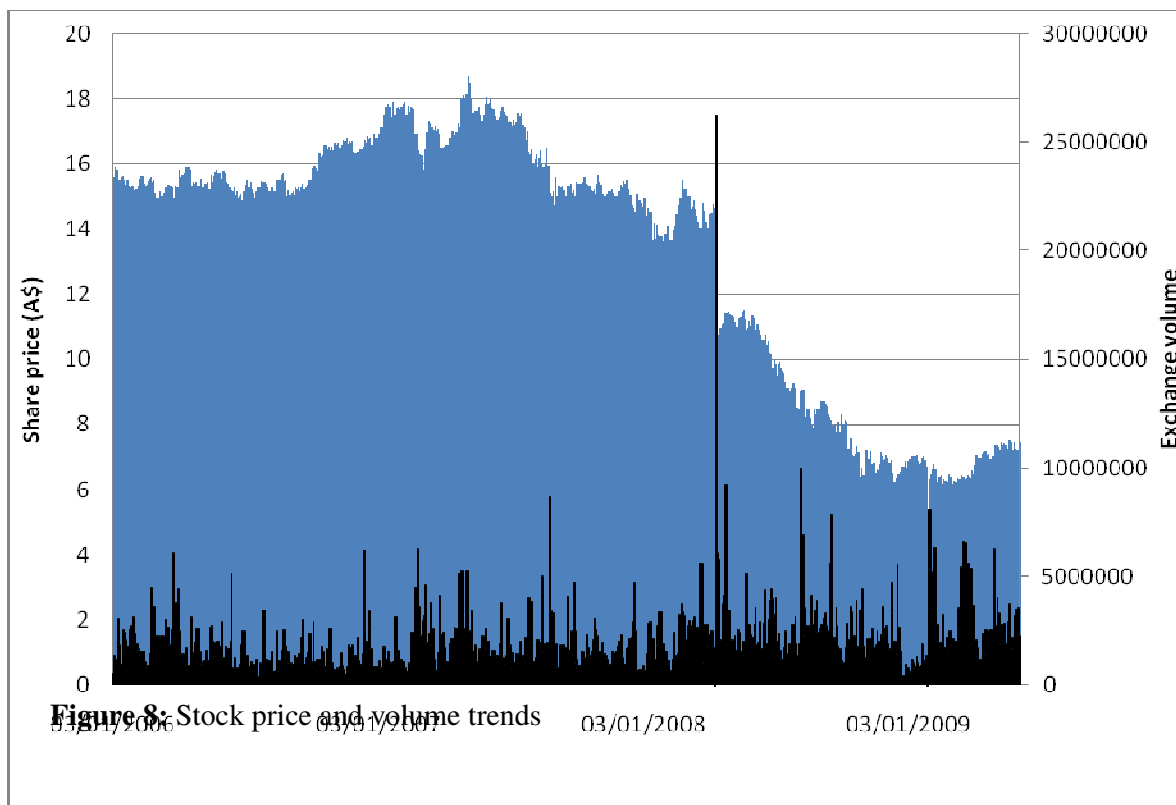
	Tabcorp	Crown Ltd	SkyCity Entertainment	Tatts Group Limited	Average industry
2008					
Asset turnover	65.22%	26.92%	47.75%	76.24%	54.03%
Debt to equity	81.91%	55.18%	209.21%	34.13%	95.11%
Working capital	0.50	6.06	1.10	0.57	2.06
ROA	10.37%	6.15%	6.92%	7.31%	7.69%
ROE	18.66%	8.61%	12.25%	9.99%	12.38%
Gross profit margin	26.28%	-141.13%	30.13%	16.35%	-17.09%
Net profit margin	12.95%	18.25%	7.17%	8.37%	11.69%
Owner earnings	\$595.60	-\$2,148.80	\$68.04	\$288.10	-\$299.27
2007					
Asset turnover	57.61%	25.86%	48.61%	62.93%	48.75%
Debt to equity	69.16%	N/A	272.10%	24.58%	121.95%
Working capital	0.31	7.79	1.12	0.38	2.40
ROA	8.50%	4.63%	9.98%	6.38%	7.37%
ROE	13.34%	N/A	25.96%	9.07%	16.12%
Gross profit margin	24.40%	27.71%	37.43%	16.44%	26.50%
Net profit margin	11.62%	17.92%	12.32%	9.89%	12.94%
Owner earnings	\$533.40	\$406.30	\$134.70	\$298.90	\$343.33
Evolution 2007/2008					
Asset turnover	11.67%	3.94%	-1.80%	17.46%	7.82%
Debt to equity	15.57%	N/A	-30.06%	27.98%	4.50%
Working capital	38.00%	-28.55%	-1.82%	33.33%	10.24%
ROA	18.03%	24.72%	-44.22%	12.72%	2.81%
ROE	28.51%	N/A	-111.92%	9.21%	-24.73%
Gross profit margin	7.15%	119.63%	-24.23%	-0.55%	25.50%
Net profit margin	10.27%	1.81%	-71.83%	-18.16%	-19.48%
Owner earnings	10.44%	118.91%	-97.97%	-3.75%	6.91%

Table 2: Recapitulation of the financial ratios between Tabcorp and the major competitors

4 Stock market performance

These ratios have been calculated within the Tabcorp annual reports and compared with other company of the industry using the website “FinAnalysis” of the company AspectHuntley (Huntleys 2009; Tabcorp 2006, 2007b, 2008b, 2008c).

The analysis of the price trends gives some interesting insights on the market capitalisation of the company (cf. **Figure 8**). It makes appear different variations that concord with the announcement of results or events that affect Tabcorp. The two majors variations follows the announcement of 22% drop in revenue in February 2007 and the dismissal of Matthew Slatter at CEO. Then, the large plummet following the loss of the gaming license in Victoria.



The calculation of some stock market ratios can be interesting to analyse and evaluate. **The EPS** (earnings per share = Net income – dividends / Volume of outstanding shares) was A\$ 1.03 in 2006, A\$ 0.85 in 2007 and A\$ -0.31 in 2008. This reveals the impact of the impairments (loss of gaming & wagering license). If we take the EPS before these impairments, we have A\$ 0.98 in 2008 that show a large increase (+15%) in comparison with 2007.

The analysis of the **PE ratio** (Price / Earning = Current market value per share / Earnings per share) gives 7 in 2006, 7.8 in 2007 and 7.3 in 2008. **In comparison** with the average in the sector, Tabcorp is slightly below the 12.8 in 2007 and 12.2 in 2008; and even more from the market with 15.1 in 2007 and 14.8 in 2008.

5 Industry and market analysis

For locating Tabcorp within the gaming industry, it is necessary to analyse the whole industry and then inferring its position within the market.

5.1 Analysis

An extended model of Porters' 5 forces will be used for leading the analysis of the industry. This model is composed of 8 factors: Direct Competitors, Potential Entrants, Threats from Substitutes, Complementors, Customer Power, Supplier Power, Market Change: Growth, Market Change: Turbulence (Slater & Olson 2002).

On the direct competitor factor, there is an active rivalry through a small number of large competitors. Furthermore, the industry is marked by a lack in switching costs: any customers can easily change of casino, hotel, club, bar, etc. The industry growth in 2006 was around 6% a year in gaming and slower in wagering & casino (IGA 2006).

For the potential entrants, it is very complex due to law regulation and high initial investments. However, on Internet, even is forbidden by the law the market is still practicable and necessitates a moderated investment

The threats from substitutes are small because of the diversity in services offered by the industry companies, the large range of activities are gaming, wagering and casino (Tabcorp 2008b).

The complementors exist through partnership with junket operators, travel providers, local partnership to sell package tour or product including gaming and casinos (Tabcorp 2009b).

The customer power is weak for gaming & wagering due to the large number of customers that do not allow any bargaining power. However, casinos are often dependent on some high-

rolling gamblers that are proposed some cash-cheque facilities to create customer loyalty (AAP 2009).

The supplier power is relatively weak in operational running of the gaming activities due to no need in external supplying. The wagering needs the supply in external sport events that are not linked to gaming companies.

On the market change, the growth is regular in customer increase. However, due to the granting in licence, the market can quickly change of providers if case of licence lost.

On the market change, competitive turbulence exists from Internet Gambling services competitors that bypass the exclusive license. Furthermore, it exists through some problematic of aged technologies that makes customers switch on better channel like Internet.

By applying these forces into the model, we can have an overall understanding and vision of the industry (cf. **Figure 9**).

5.2 Position within the marketplace

Through this analysis, we can position Tabcorp inside the market place. It takes the leadership position with its diversified market that assures constant and stable profits thank to the limitation in the number of new entrants.

Some supplementary insights will be discussed into the Strategic analysis part of this report.

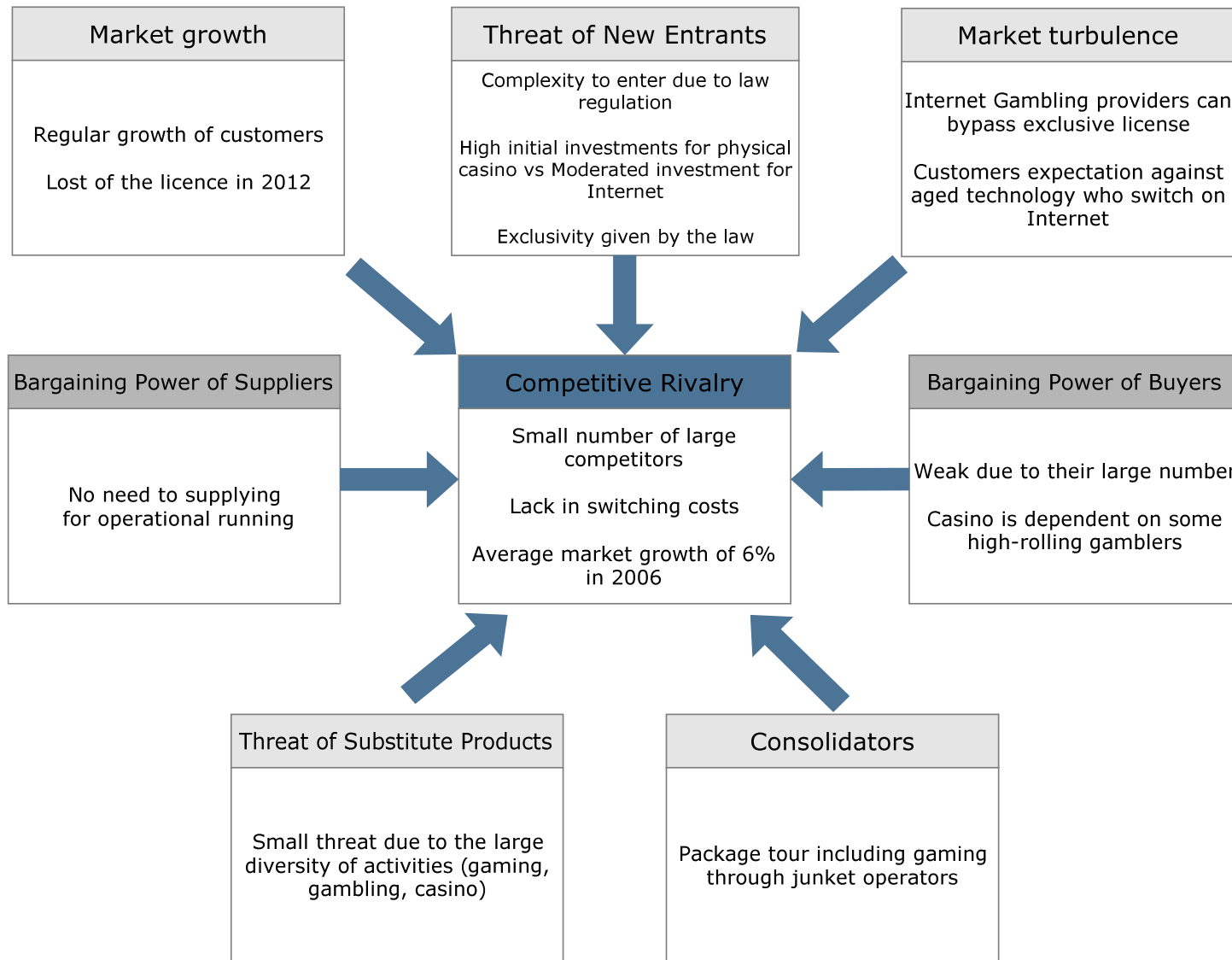


Figure 9: Extended Porters' 5 forces

5.3 Major competitors

Tabcorp Holding Limited competes in the gaming industry through different markets: Gaming, Gambling and Casino, hotel and hospitality. As a result, it has a large range of competitors.

In the local environment, the competitors are Crown Ltd, SKYCITY Entertainment Group and Tattersall's.

Crown Ltd is at the head of a casino based in Melbourne since 1997 is becoming the largest casino of Australia with more than 15 million visitors each year. Furthermore, it owns the casino Burswood Entertainment Complex in Perth (Crown 2006).

SKYCITY Entertainment Group owns several casinos situated in Australia and New Zealand: Adelaide, Auckland, Christchurch, Darwin, Hamilton, and Queenstown. It offers a large range of activities through gaming, hotels, sports and restaurants (Skycity 2009).

Tattersall's is an indirect competitor through their joint-venture for running the EMGs and Keno lottery business through Victoria (Tattersall's 2005).

On an international perspective, the major competitors are Centrebet, Harrah's Entertainment, Ladbrokes PLC, William Hill PLC and all other online services for gaming (casino, poker, games).

Betfair is the world's largest Internet betting service and proposes different other services like casino, poker and games (Betfair 2009).

Centrebet is a bookmarker licensed into the Northern Territory and was the first to establish an online website for online betting. In 2003, it has been bought by SportOdds Group (SportBusiness 2003).

Harrah's Entertainment Inc is a casino owner group that is at the head of more than 30 casinos throughout the world (Harrah's 2009).

Ladbrokes PLC is a British company that proposes poker activities to Australian through Internet (Prescott 2009).

William Hill PLC is one of the largest bookmakers of the United Kingdom. In Australia, it proposes a large range of online services: betting on sport, casino, poker, and lotteries (William Hill 2009).

6 Strategic analysis

In term of strategy, the three last years are the most challenging of all the Tabcorp history. Amazingly, this is not directly linked to the Global Economic Crisis, not because Gaming industry has always been considered as recession proof; and this has been contradicted with the slowdown and bankrupt of US casino (Hurdle 2009; Jones 2009; Moodys 2008). The difficult period comes from a large series of different factors, unfortunately occurring all in the same time.

Pre-2006, Tabcorp had a powerful and error-free strategy based on internal and external organic growth. Implemented in the country considered as the biggest gamblers of the world (highest average per capita), Tabcorp was the leader and strongest gaming company in Australia (Slutske et al. 2008).

6.1 Actual and future strategy

For understanding the actual state of Tabcorp and how they are trying to face the future, it is necessary to have an overview of the engaged strategies from 2005.

In 2005, after 3 years in the company, the CEO Matthew Slatter engaged a new strategy to conquer the international market. Tabcorp invest into a joint-venture with China LotSynergy for supplying the Keno lottery system in China. In the same time, the CEO try to invest into the construction of the first casino at Singapore; unfortunately, Tabcorp has not been able to compete with the bid from American gaming company (Fenner 2007; Tabcorp 2009c).

In 2006, Tabcorp spent a lot of time to look after some international investments especially in casino. It was in talks with Virgin Group Ltd for the construction of a casino at Macau (Fenner 2007). In the same time, Tabcorp is blocked by the Australia's antitrust regulator for the acquisition of UniTAB (A.C.C.C. 2006).

In January 2007, Tabcorp announced its strategy at the 31th Asian Racing Conference and called it “Take the TAB to the world” (Tabcorp 2007a, p. 10).

However, in February 2007, after the announcement of a drop in the interim company profit report by 22%, the CEO Matthew Slatter is fired. Another member of the executive committee, Elmer Funke Kupper, took its place and started a new strategy for reinforcing Tabcorp (Fenner 2007).

Elmer Funke Kupper has started by stopping and selling all the international investments. Then, he has concentrated all his efforts for consolidating the Tabcorp position in the domestic market for overcoming the future obstacles. In 2008 for the casino division, Tabcorp has engaged a strategy for renovating and improving the Star City for AUD\$ 475 million from 2009 to 2011 (Tabcorp 2008d).

In the same time, the efforts are keeping active on the promotion of responsible gambling and the support to community (Tabcorp 2008b).

This was the start of a series of factors that have occurred all in the same time. The ban-smoking was planned and known for several months and has been set up around 2006, 2007 or 2008 depending of the state (Seton 2009). Then, there has been the apparition of the Equine influenza in 2007 that has impacted the horse racing and, as a result, the wagering business of Tabcorp (Equibiz Now 2007).

In 2007, with the different external growth, there has been a need for consolidating the wagering architecture (Bravo) in the different State Tabcorp is operated, thing that the previous CEO has not succeed in (Fenner 2007). In 2008, the Global Economic Crisis has impacted the casino attendance (Tabcorp 2009a).

Finally, the biggest challenge is also the central piece of the actual strategy, named “Transition to post 2012 environment” (Tabcorp 2009a, p. 5). In April 2008, Victoria has given its final decision for the revision of the gaming and wagering licence. The gaming one has been totally transformed and lost its exclusivity, for the EMGs, the venues will directly ask for individual licences; for the Keno licence and the wagering, a single licence will be delivered (Brumby 2008). The critical part is about the decision by the State Government not to refund the initial investment of Tabcorp for acquiring the gaming and wagering licence, A\$ 597.2 million which has led to the impairments that have reduced the total assets by this amount.

This means that Tabcorp will lose for sure all the EMGs market (biggest growth of the company) and will have to compete for obtaining the Keno and wagering one (Kohler 2008).

6.2 Environmental and strategic analysis

For evaluating the actual strategy, it is important to understand the environmental context. As a result, a PESTEL analysis will be done, and then combined with a SWOT Matrix. This will give insights about the alignment of the actual state of Tabcorp with the actual strategy.

Political: The State support officially the gambling by providing license and regulation, but promote also the protection of people through responsible gambling (Brumby 2008).

Economic: Due to the Global Economic Crisis, the exchange rate has plummeted which has facilitated arriving of international tourists. The gambling taxation has increased in certain State (Tabcorp 2008b).

Sociological: According to the meta-analysis “International Gambling Studies”, from the article “The psychology of lottery gambling”, the change in demography has not an important

impact on gaming and gambling because of its attraction at all age; particularly the youth population that can suffer from it (Griffiths & Wood 2001).

Technological: The online services has drastically influenced and disrupted the gaming industry by bypassing the exclusive license and by proposing some attracting casino or poker games without moving from his home (Moran 2009).

Legal: Each State government has different method for managing gaming industry: from an exclusive to multiple licenses, from a long-term to perpetual validity. The governments also ratify some laws for regulating gaming and promoting the responsible gambling.

Environment: The industry can be disrupted by some environmental pandemics on customers (swine flu, SARS, etc.) or on directly on its business, for example horse flu (Equine influenza) for wagering. The Global Economic crisis has also impacted the customer attendances or in the contrary, boosted the revenues on EMGs where poor population is more tempted (Griffiths & Wood 2001; Hurdle 2009; Jones 2009).

From this overall perspective, it can be interesting to take a SWOT analysis to evaluate the strategy of Tabcorp into the marketplace.

Strengths:

1. Diversified activities;
2. Size of the sales network and its scale capability
3. Some exclusive and perpetual licenses
4. Brand images through responsible gambling

Weaknesses:

1. Heterogeneous systems and infrastructure
2. Loss of the gaming license in 2012
3. Global economic crisis impact on revenues
4. Regulation

Opportunities:

1. Consolidate the company on the same infrastructure
2. Increase effectiveness and efficiency
3. Good candidate for the Keno and wagering license in 2012

Threat:

1. New Internet online operator
2. Loss of the wagering and Keno license in 2012
3. Future changes in law
4. Increase in cost structure

The **evaluation** of strengths, weaknesses, opportunities and threat are aligned with the actual and future strategy of Tabcorp (cf. **Figure 9**). By scarifying the international investment, Tabcorp has showed an intention of consolidate its domestic market and its leader position for the post 2012. This necessitates coordinate efforts for strengthen its position in the different market: casino, gaming and wagering.

By taking the different opportunities before 2012, this will allow Tabcorp to prepare a consolidated case and be seen as a serious candidate for the Keno and wagering licenses.

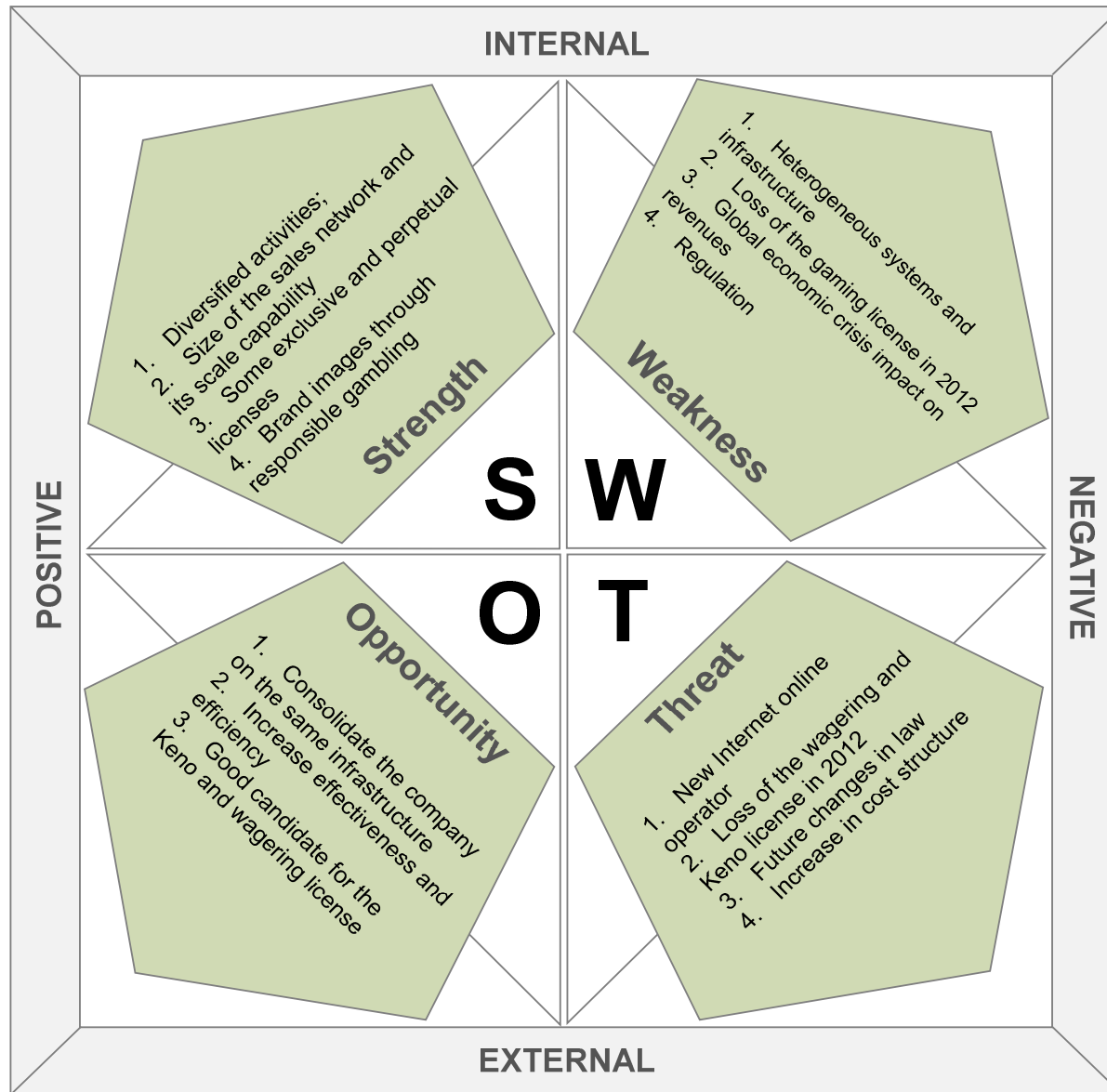


Figure 10: SWOT matrix of Tabcorp

Furthermore by comforting its position, Tabcorp will be able to compete against the international operators that propose Internet Gambling services, the corporate bookmarkers and the domestic competitors. This will be done through improving its actual business and investing into new services (for example the recent launch of Luxbet in the September 2008).

Moreover, the consolidation of its infrastructure will allow Tabcorp to reduce its expense and prevent increase in cost structure, in the same time it will allow to improve performance and effectiveness within its business.

7 Community perceptions

7.1 From customers

The gaming & gambling industry is a difficult business to run as it comes to community perceptions. Making money and profit at people's expense does not give easily a positive image.

For counterbalancing this tendency, Tabcorp invests a lot in community and in the promotion of responsible gambling. As a result, the perception from the community is divided.

The problematic comes from the kind of customers. Principally two types: the casual player that visits 17 times per year and spends A\$ 12 per visit and plays for fun; and the frequent customer with an average of 100 visits per year and an expense of A\$ 34 per visit that plays to win. Tabcorp is doing the major of its profit on the second type customers, the one affected by gambling obsession (Tabcorp 2007a).

This gives a certain negative image to Tabcorp and sustains the anti-gambling groups against Tabcorp. On the other hand, the infrequent players have a good perception of Tabcorp (Griffiths & Wood 2001).

7.2 From business

The reactions concerning past performance have been generally positive through the external acquisition. However, some criticism about the infrastructure consolidation and the focus on International have emerged (Fenner 2007; Stening 2009).

About the actual performance, the new strategy answer and fit to the criticism about the Star City casino that need renovation and the needs for consolidate the systems and architecture (Kohler 2008; Stening 2009).

The reactions are positives through the recent and successful raising activity through a five-year bonds that have reached the objective of A\$ 284 million (Stening 2009; Tabcorp 2009d).

Conclusion

Tabcorp is facing the most challenging period of all its history and is at the dawn of critical choices for adapting its strategy to the environmental changes.

After resting in its laurels on the domestic position and its consequent plummet in profit by 20% in 2007, Tabcorp has abandoned its International ambitions for consolidating its actual position through a new CEO.

In the same time, a series of factors has occurred that have weaken Tabcorp position, through the ban-smoking, the Equine influenza (horse flu), the Global financial crisis and finally the loss of the gaming licence in 2012; furthermore, these factors have come as a tidal wave.

Now, Tabcorp has a healthy financial position that gives it all possible means to overcome these challenges. It has instigated a strategy in 3 phases: the consolidation of Tabcorp through system, architecture and technologies, the improvement in performance & growth, and finally the adaptation to the post 2012 period.

Appendix

Subsidiaries of Tabcorp

Name of the subsidiary	Interest	Country
2KY Broadcasters Pty Ltd	100%	Australia
A.C.N. 082 760 610 Pty Ltd	100%	Australia
Airsales Pty Ltd	100%	Australia
ATL Pty Ltd	100%	Australia
Breakwater Island Limited	100%	Australia
Breakwater Island Trust	100%	Australia
Club Gaming Systems (Holdings) Pty Ltd	100%	Australia
Jupiters Custodian Pty Ltd	100%	Australia
Jupiters Gaming (NSW) Pty Ltd	100%	Australia
Jupiters Gaming Pty Ltd	100%	Australia
Jupiters Limited	100%	Australia
Jupiters Resorts (Macau) Limited	100%	Macau
Jupiters Trust	100%	Australia
Jupwind Superannuation Pty Ltd	100%	Australia
Showboat Australia Pty Ltd	100%	Australia
Sky Australia International Racing Pty Ltd	100%	Australia
Sky Channel Marketing Pty Ltd	100%	Australia
Sky Channel Pty Ltd	100%	Australia
Star City Entertainment Pty Ltd	100%	Australia
Star City Holdings Ltd	100%	Australia
Star City Investments Pty Ltd	100%	Australia
Star City Pty Ltd	100%	Australia
Sydney Casino Management Pty Ltd	100%	Australia
Sydney Harbour Apartments Pty Ltd	100%	Australia
Sydney Harbour Casino Properties Pty Ltd	100%	Australia
Tab Limited	100%	Australia
Tabcorp Assets Pty Ltd	100%	Australia
Tabcorp Employee Share Administration Pty Ltd	33%	Australia
Tabcorp International No.1 Pty Ltd	100%	Australia
Tabcorp International No.2 Pty Ltd	100%	Australia
Tabcorp International No.3 Pty Ltd	100%	Australia
Tabcorp International Pty Ltd	100%	Australia
Tabcorp International Services and Technology Pty Ltd	100%	Australia
Tabcorp Investments No.2 Pty Ltd	100%	Australia
Tabcorp Investments No.4 Pty Ltd	100%	Australia
Tabcorp Investments No.5 Pty Ltd	100%	Australia
Tabcorp Investments Pty Ltd	100%	Australia
Tabcorp Manager Pty Ltd	100%	Australia
Tabcorp Online Pty Ltd	100%	Australia
Tabcorp Participant Pty Ltd	100%	Australia
TAHA Research and Development Pty Ltd	100%	Australia
TAHAL Pty Ltd	100%	Australia

Tahwind (Queensland) Pty Ltd	100%	Australia
Tahwind Employee Share Plan Pty Ltd	100%	Australia
Tahwind Marketing Pty Ltd	100%	Australia
Tahwind Racing Productions (NSW) Pty Ltd	100%	Australia
Tahwind Racing Productions Pty Ltd	100%	Australia
Tahwind Staff Superannuation Pty Ltd	100%	Australia
Tahwind Superannuation Company Pty Ltd	100%	Australia
Tahwind Superannuation Pty Ltd	100%	Australia
The CGS Trust	100%	Australia
Vanuatu Casino Management Services Limited	99%	Vanuatu

Table 3: Recapitulation of the subsidiaries

Performance

	Operating Revenue (sales)
2006	\$3 776
2007	\$3 835

Table 4: Sales over the last three years (million)

	2006	2007	2008
Casinos	\$1 331	\$1 293	\$1 359
Gaming	\$1 066	\$1 101	\$1 154
Wagering	\$1 327	\$1 477	\$1 477

Table 5: Sales by divisions over the last three years (million)

	2006	2007	2008
Casinos	\$424	\$333	\$369
Gaming	\$257	\$225	-\$98

Table 6: Profit by divisions over the last three years (million)

Corporate finance analysis

	2006	2007	2008
Total liabilities	\$3 392	\$3 342	\$3 350
Total assets	\$6 755	\$6 726	\$6 121

Table 7: Balance sheet trends over the last three years (million)

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