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AUSTRALIAN RUGBY UNION LIMITED
ACN 002 898 544

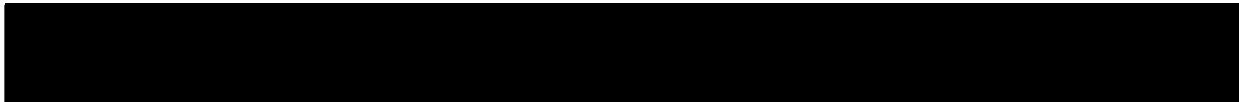
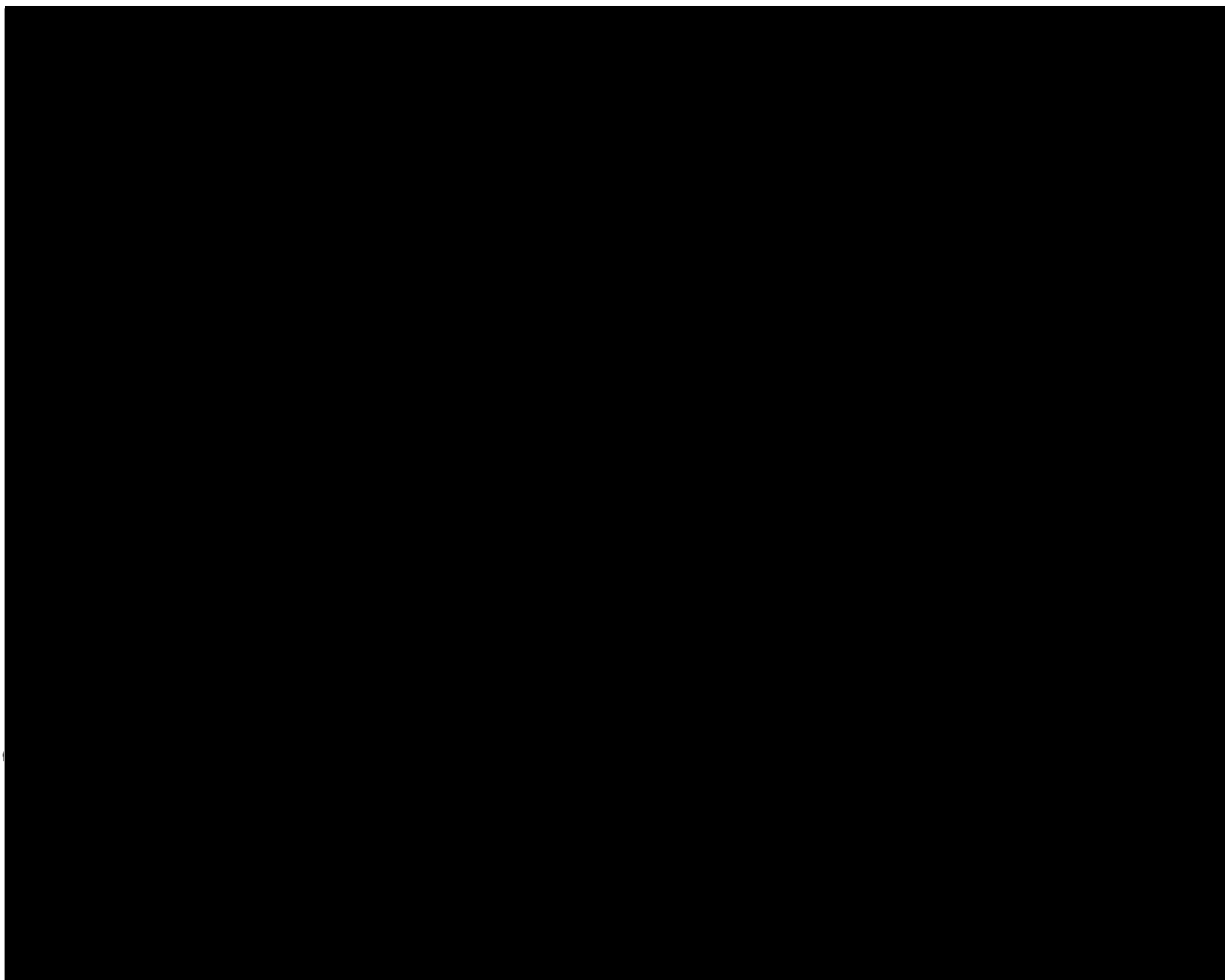
MINUTES OF THE MEETING OF THE BOARD
HELD AT THE OFFICES OF AUSTRALIAN RUGBY UNION LIMITED, 29 CHRISTIE STREET, ST LEONARDS
ON 18 AUGUST 2016 COMMENCING 7:45am (AEDT)

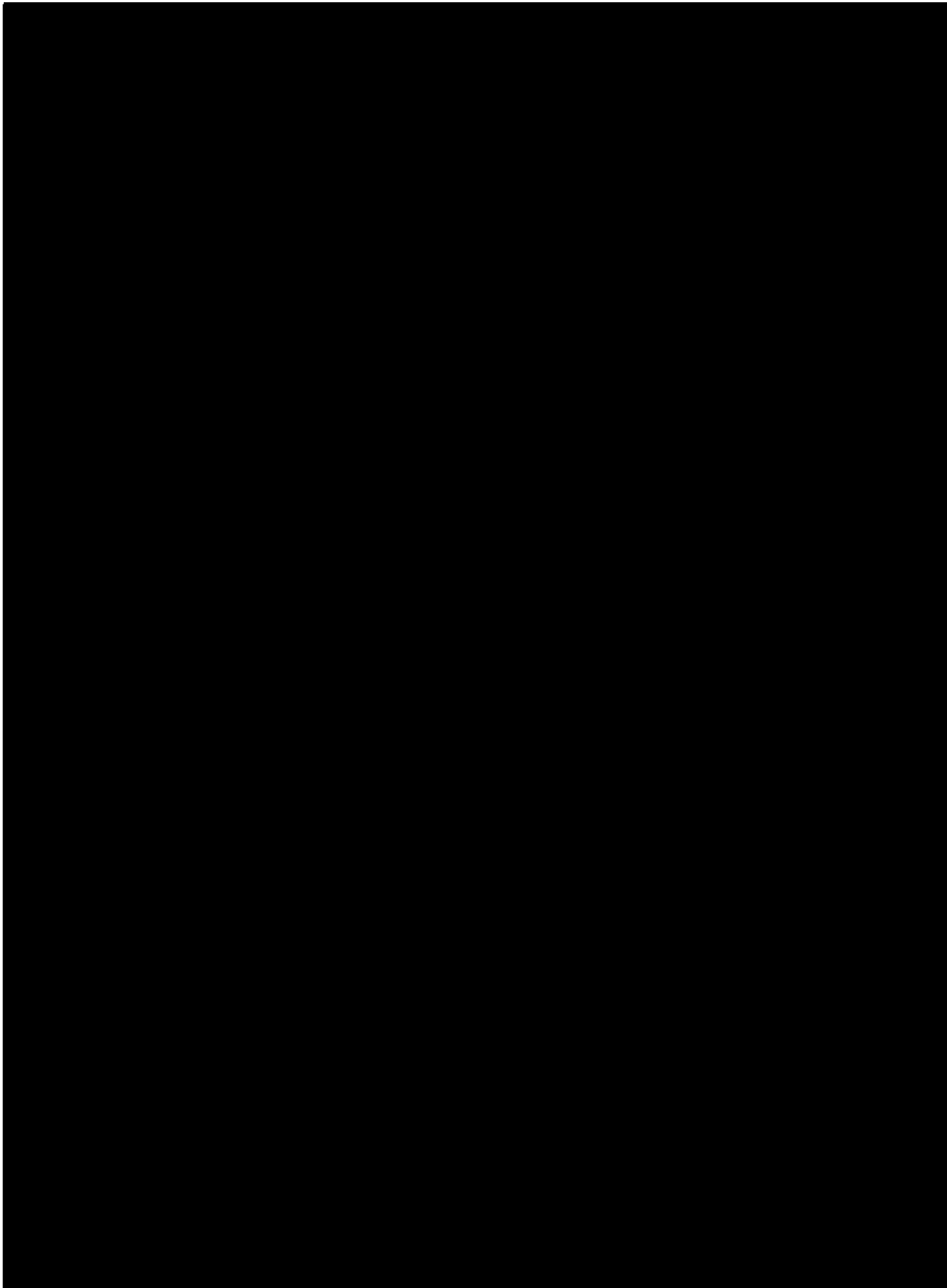
PRESENT: Cameron Clyne (Chairman), Bill Pulver (Managing Director & CEO), Elizabeth Broderick AO, John Eales AM, Paul McLean MBE, Pip Marlow, Brett Robinson, Ann Sherry AO, Geoffrey Stooke OAM

IN ATTENDANCE: John Coolican (President); Todd Day (CFO); Richard Hawkins (General Counsel & Company Secretary); Patrick Evers (Senior Legal Counsel); John Nicholl (General Manager, Commercial), Peter Sciberras (Head of Partnerships) and Todd Sly (Head of Sales) for Items 3 and 4; Ben Whitaker (General Manager, High Performance) for Item 5; Rob Clarke (Chief Operating Officer) and Anthony French (Head of Professional Rugby) for Item 6.

APOLOGIES: None

(1) Meeting Opening





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(6) **Future of Professional Rugby**

Rob Clarke and Anthony French joined the meeting at 9:45am.

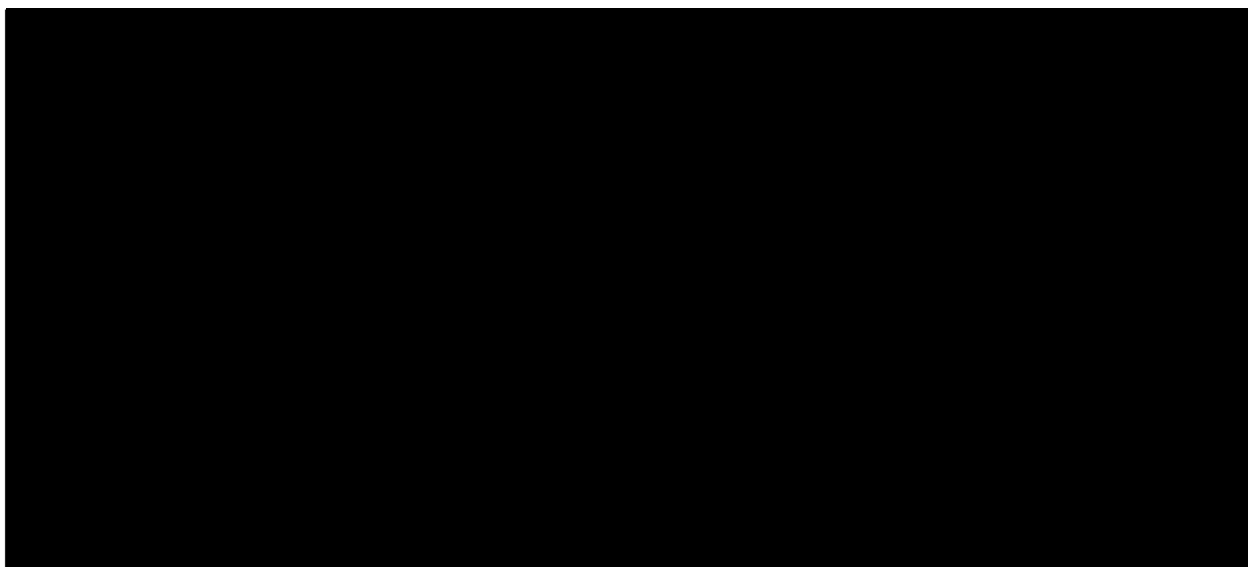
- (6.1) Mr. Clarke updated the Board on the convergence of two projects – the review of the structure and operation of Super Rugby in Australia, and a broader review at the SANZAAR level of the financial viability and global structure of Super Rugby. The resulting paper, drafted by Mr. French and circulated with the Board Papers, provides a comprehensive analysis of the future of Super Rugby in Australia. The paper ultimately recommends a move from 5 to 4 Super Rugby teams in the Australian conference.
- (6.2) This need for structural change in Super Rugby has been recognized for some time. The Accenture Report highlighted the entrenched problem of diminishing revenue in Australian professional rugby and concluded that Australian Super Rugby in its current form is financially unsustainable. In the past ARU has attempted to address the problem in different ways, from engaging private equity interest to providing financial bail outs. However, the governance structure of Australian Rugby has not allowed financial transparency or operational control, and past measures to address the problem have failed. The unprecedented financial challenges now facing Super Rugby clubs provides the necessary impetus for fundamental change in the governance and administration of Australian professional Rugby.
- (6.3) At the SANZAAR level, there is support for restructuring the Super Rugby competition from New Zealand, South Africa, Argentina and Japan. The challenge is ensuring ARU maintains an even share of SANZAAR broadcast revenue regardless of the number of Australian teams in the Super Rugby competition. As such, while the move from 5 to 4 teams in Australia is now considered preferable from both a financial and high performance perspective, that possibility must only be advanced at SANZAAR level in the context of other structural changes including the number of South African teams and adjustments to the Super Rugby conference structure.
- (6.4) The Board raised the question of which Australian Super Rugby team would be disbanded in a move from 5 to 4 teams. Mr. Clarke noted that a comprehensive review would be conducted before any decision is made in this regard. The review would account for key metrics including: revenue and expenditure; cash flow projections; travel impact of that team on SANZAAR costs; debt ratings; sports fans in market; membership yield; government support; governance issues; competition performance and projections; strength of high performance program; Wallaby contribution; participation outcomes; status of economy; and other matters.
- (6.5) The next SANZAAR Executive Committee meeting is to be held on 12-13 September 2016. ARU will update the Board on the outcome of that meeting on the next Board teleconference on 20 September 2016. Thereafter, ARU Management will conduct the review noted above in order to be ready to recommend the Super Rugby team to be reduced by the next Board meeting on 27 October 2016.

Mr. Clarke and Mr. French left the meeting at 11:00am.

(7) **Finance Report**

Mr Day talked to the ARU Finance Report as of 31 July 2016, as included with the Board Papers. As set out in the Finance Report, on 16 August 2016 the Audit & Risk Committee recommended ARU restructuring its foreign exchange forward contracts. This measure will have the effect of bringing approximately \$9-10 million of cash forward to address immediate cash flow needs, at a total cost of \$1.7 million. The Board approved the recommendation of the Audit & Risk Committee.

(8) 



(9) **Meeting Conclusion**

There being no further business, the meeting concluded at 11.45am.

Signed as a true record of the meeting.



Chairman

12/12/2016
Date



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Future of Professional Rugby

1. OVERVIEW

Over the course of 2016, Management has been reviewing the structure and operation of professional Rugby in Australia. This has been triggered by a realisation that despite the increased revenue in the game via the new broadcast deal, a number of Super Rugby clubs are facing solvency issues, which, if realised, will compromise the solvency of Australian Rugby as a whole.

As part of this process, Accenture was commissioned to undertake a review of the six professional Rugby entities in Australia (Wallabies and Super Rugby) and develop recommendations around the way forward. The recommendations were set out in the April Board Report.

The Accenture Review confirmed that professional Rugby in Australia is financially challenged with an imbalance between income and expenditure. It also confirmed that the professional game is sustained by clubs living off revenue-in-advance and periodic windfalls. From its analysis, Accenture also projected a shortfall of \$5.2m across the portfolio of Super Rugby clubs in 2016.

As at August 2016, the position identified by Accenture has deteriorated, with Australian Rugby collectively facing the following issues:

- There has been an adverse variance of \$19.2 million in the financial projections over the forward five years - 2016-2020. Refer to *Appendix 1: Impact of Super Rugby Financials*
- ARU's cash balance which was budgeted to be \$5.5m at end of 2016, building to \$10.5m by 2020, is now projected to be significantly negative by mid-2017 and beyond
- The Western Force / ARU Alliance Agreement has had a \$4.5m negative P&L impact for the ARU in 2016
- The Brumbies and Reds are experiencing financial issues:
 - Brumbies – in Management's view, have imminent solvency issues
 - Reds – have cash-flow challenges, a fully drawn-down debt facility and negotiated payment arrangement with numerous aged creditors
- Another Super Rugby bailout risks the ARU becoming insolvent
- The \$10m ARU Future Fund, on current financial projections, is no longer achievable.

Australian Rugby has tried various models to sustain and develop profitable Super Rugby entities since the game turned professional in 1996, including:

- Private equity
- Financial bailouts
- Increasing funding to entities – with limited oversight from ARU.

As a game, we have also relied, in good faith, on the projections and assurances from Super Rugby clubs regarding the state of financials and their ability to drive revenue and turn-around their businesses. Given the governance model in Australian Rugby, the ARU has had limited power to interrogate, step-in and implement changes to business practices.

Further to this, there is an expectation that the ARU will be the banker of last resort and has the capacity to provide cash advances without any due consideration for the impact of such action on the ARU's financial position or interrogation as to why cash-flow is required. This expectation has come about due to previous interventions that have been required to maintain our broadcast

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commitments and the integrity of the five team Super Rugby competition at different stages of the broadcast period and Australian Rugby's financial cycle. This expectation still appears to be in place amongst Super Rugby clubs, notwithstanding the level of transparency from Management on the current state of the games financials. The prevailing view is that if the ARU has provided financial assistance to one State in the past then it has an obligation to provide it to another when requested. This is an untenable position. Indeed, even if ARU had the capacity to bailout clubs, Management is of the view that this is not a sustainable or acceptable course of action if we are to re-vitalise our business and have any chance of putting professional Rugby back on level footing.

The net effect of the financial underperformance of professional Rugby in Australia has our game at a precipice. While the game has previously experienced financial challenges, the current situation has the potential to bring the game to its knees because it involves the possibility of multiple Super Rugby Clubs becoming insolvent without any ability for the ARU to support or even prop up these entities. In short, our current position and the structure of professional Rugby is unsustainable.

As such, Management is strongly of the belief that the time has come for fundamental reform – that being meaningful and real change to the way in which the business of professional Rugby - High Performance and Commercial) - is run. Management considers that such change will not only provide Australian Rugby with the best chance of survival, but done right, has the potential to get the game back on even keel and, in time ahead of the curve.

2. CHALLENGES FACING OUR GAME***General***

As noted in the 2016-2020 Australian Rugby Strategic Plan, professional sports are no longer Rugby's only source of competition for time and attention.

Research by the Australian Sports Commission in its *Play Sport Australia* study indicates that participants are increasingly time-poor, have limited budgets and access to new forms of entertainment options – as such, they want greater flexibility, more tailored products and options that work around them. Further to this, a rise in non-organised activity has seen a decline in organised sport – long term forecasts indicate a decline in club-based sports as Australians pursue lifestyle-based physical activity that they can access on their terms. This is supported by Nielsen Sports (formerly Repucom) recent "*State of the Nation – June 2016*" Report, which shows a decline in Year-on-Year National Sports Interest across major participation sports in Australia (see full report at Appendix 5).

We are now one of many entertainment options available in the market-place with consumers looking to access entertainment when they want it and in a form that they want. As a result, leisure time and share of wallet is being split amongst all forms of traditional and emerging entertainment formats. Indeed, Rugby's competition for hearts and minds and share of wallet extends from cage fighting to lifestyle based sports such as cross-fit through to digital products, mobile phone Apps, e-sports and even Netflix.

Domestic

As noted above, one of the biggest challenges facing professional Rugby in the domestic market is the battle for attendance and eyeballs on our regular week-in / week-out content, Super Rugby. The added layer of complexity for Australian Rugby to attract attendance and eyeballs to Super Rugby is that the competition currently spans six time-zones, with limited marquee fixtures and local derbies – meaning there are limited opportunities for Super Rugby fans to attend games on a regular basis. Given the complexity of the draw, there are often gaps of up to a month between home games. As

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such, it is difficult for our clubs to build and sustain tribalism and interest amongst fans, particularly in the most competitive sports market in the world, which sees:

- in Sydney and surrounds, 16 professional teams across NRL, AFL and A-League across a population of more than 4.9 million, with fans able to access around 170 games in a season
- in Melbourne and surrounds, 13 professional teams across NRL, AFL and A-League across a population of more than 4.5 million, with fans able to access around 140 games in a season

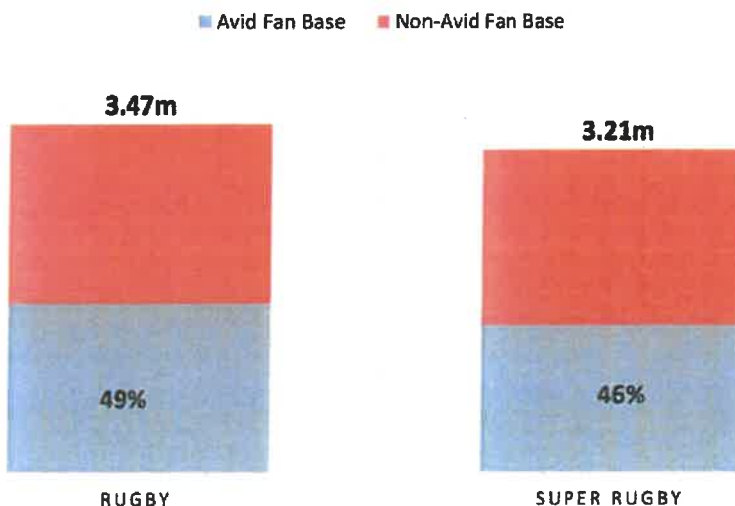
This is exacerbated by the June Test Match window, when the Super Rugby competition enters an enforced month-long break – which occurs during key periods in the regular season for AFL and NRL (including State of Origin). This, in turn, has a direct impact on the balance sheets and sustainability of each of the Super Rugby Clubs.

Nielsen Sports’ recent *State of the Nation* report analysed the fan base of Rugby (broadly) and Super Rugby (specifically). Nielsen also provided a snapshot of the fan base across the Australian sports market to enable a comparison of Rugby against the other major sports. The results are set out in Table A and Table B below show Rugby’s fan base of 3.47 million Australians is the smallest out of the major football codes. Similarly, our “Avid” fan base of 1.69 million is also smaller than the other major football codes. Fan avidity is an important indicator as it provides an insight into the potential conversion opportunity of interest into action through membership, tickets, merchandise, digital interaction, television subscriptions etc, which has a direct economic benefit for the Rugby economy.

In addition to this, Cricket, Tennis and Swimming all have larger fan bases than Rugby, while the V8s, Sheffield Shield and Australian Open Golf are competitions / events, among others, that have more “Avid” fans than Super Rugby.

Table A: Rugby Union – Fan Base and Avidity

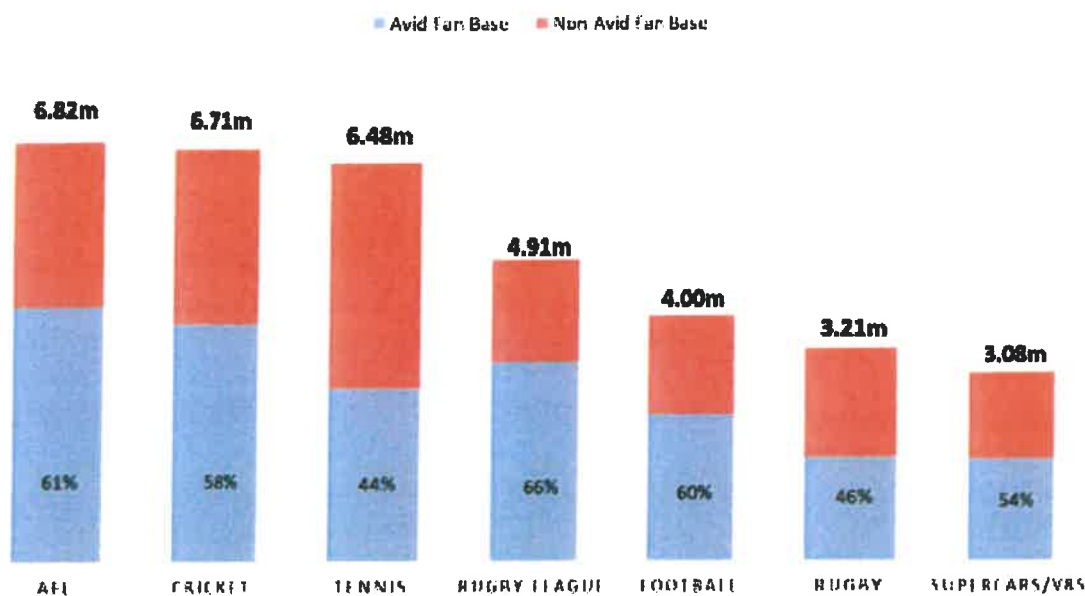
RUGBY UNION - FAN BASE AND AVIDITY



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Table B: Competitors – Fan Base and Avidity

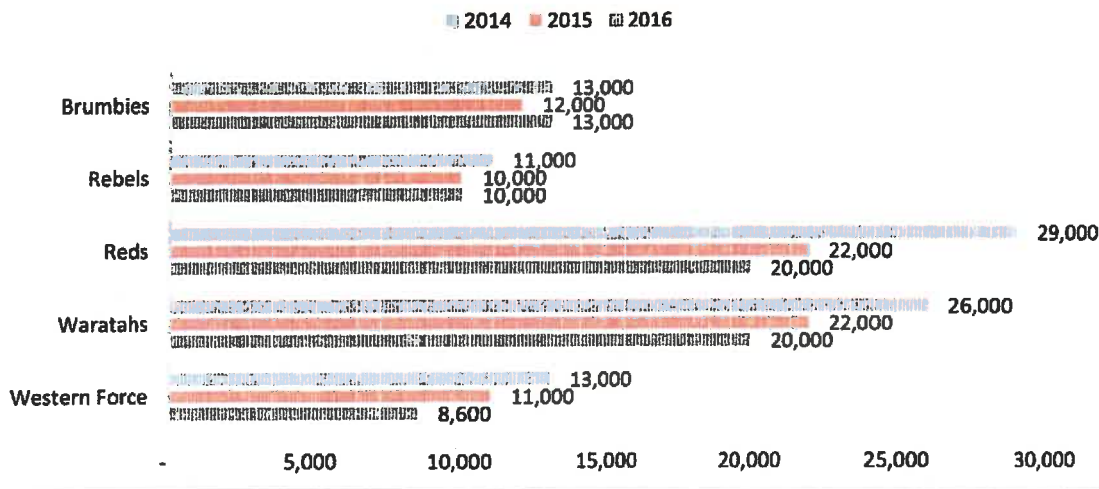
AUSTRALIAN SPORTS MARKET- FAN BASE & AVIDITY



When overlaid against an environment of declining Super Rugby attendances – save for the Brumbies which have seen a slight lift in game day attendance in 2016 - and largely stagnant membership levels (on average across the five teams) - the ability to drive match-day revenue across the existing five teams in the current competition format is challenging at best.

Table C: Game-day Attendance – 2014 to 2016

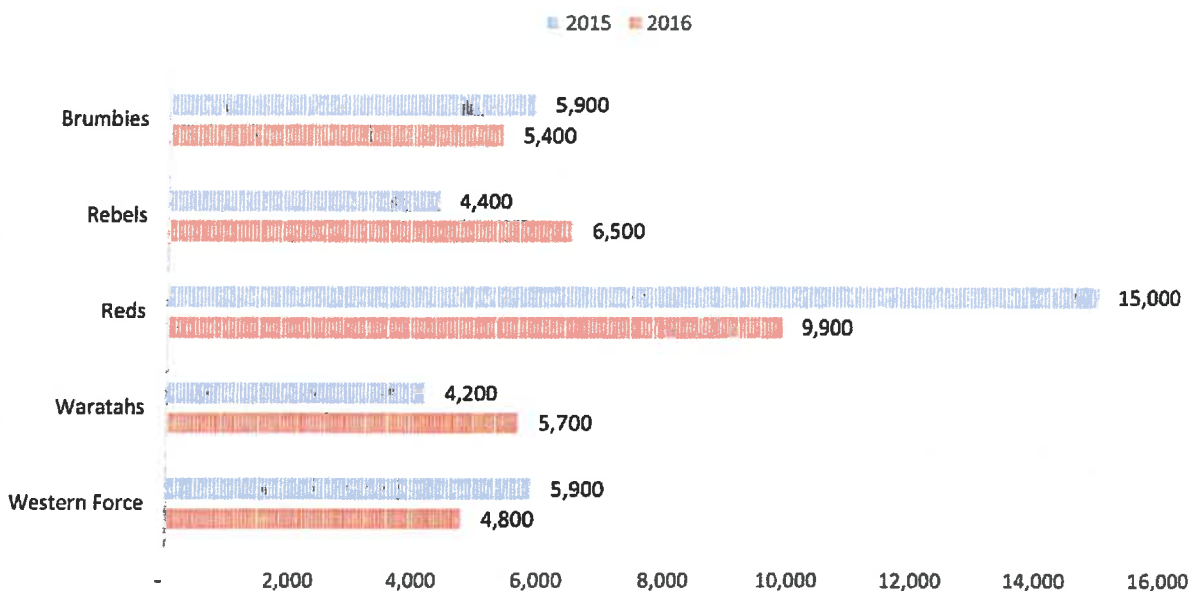
**GAME DAY ATTENDANCE
2014-2016**



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Table D: Full Season Membership – 2015 vs 2016

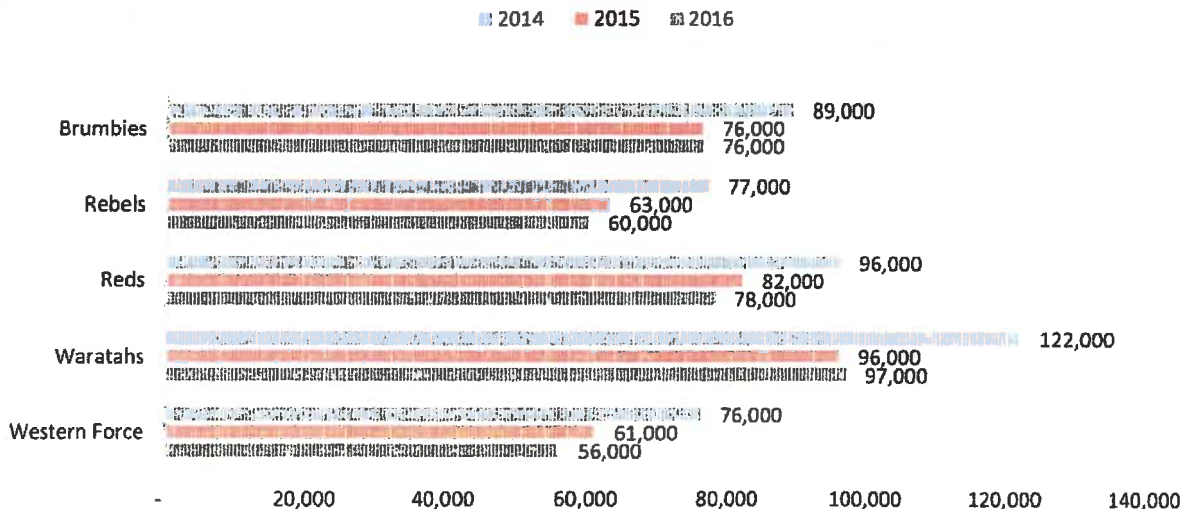
FULL SEASON MEMBERSHIP 2015 V 2016



Further to this, the viewership base of Super Rugby continues to decline. Based on data available through SalesForce, there has been another decline in viewership in Australia in 2016. Overall, the average audience has dropped from 109,000 in 2013 to 74,000 in 2016. The impact of this is maintaining the value proposition for broadcasters to continue to invest in Super Rugby, having regard to the fact that broadcast revenue represents ~50% of our current revenue base.

Table E: Viewership – 2014 to 2016

VIEWERSHIP 2014-2016



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It should be noted that the challenges facing professional Rugby in Australia are not unique. The battle for revenue growth and profitability are challenges facing other governing bodies and clubs across the major codes.

A recent *Australian Financial Review*¹ article highlighted that of all the Australian teams in the AFL, NRL, Super Rugby and A-League competitions, only 17 teams were profitable in 2015. Of those, 11 were from the AFL, 4 from the NRL and 2 from the A-League.

The point of difference between our position and that of our competitors is the limited cash reserves in place for the ARU to sustain the Super Rugby clubs, direct additional funding to clubs to lift revenue and profitability and / or guarantee debt. In relation to this, the AFR article noted that:

- the AFL provided additional central funding to the Western Bulldogs, North Melbourne and Melbourne that allowed them to record small profits
- the Canterbury Bulldogs and Sydney Roosters received incremental grants of \$4 million and \$3.155 million respectively, enabling them to balance their books
- the AFL is currently guaranteeing about \$50 million worth of debt across its 10 Victorian-based clubs
- the NRL has \$30 million loaned to four teams.

A critical factor in building eyeballs and attendance and turning around balance sheets is performance on the field. There is a clear correlation between revenue and success on the field across professional sport and a key part of this is having the right high performance programs, systems and processes in place and the right talent on the field.

However, in the Australian sporting market, we are not only competing for share of wallet but also for emerging talent with other football codes with deeper pockets and, therefore, competitive advantages in attracting and retaining talent (e.g. higher salary caps and the ability to pay players from an earlier age).

Indeed, a casualty of the financial challenges over the past five years has been the development of high performance resources (including players, coaches and staff), capabilities (including talent ID, talent development, sports science, systems) and research and innovation (knowledge).

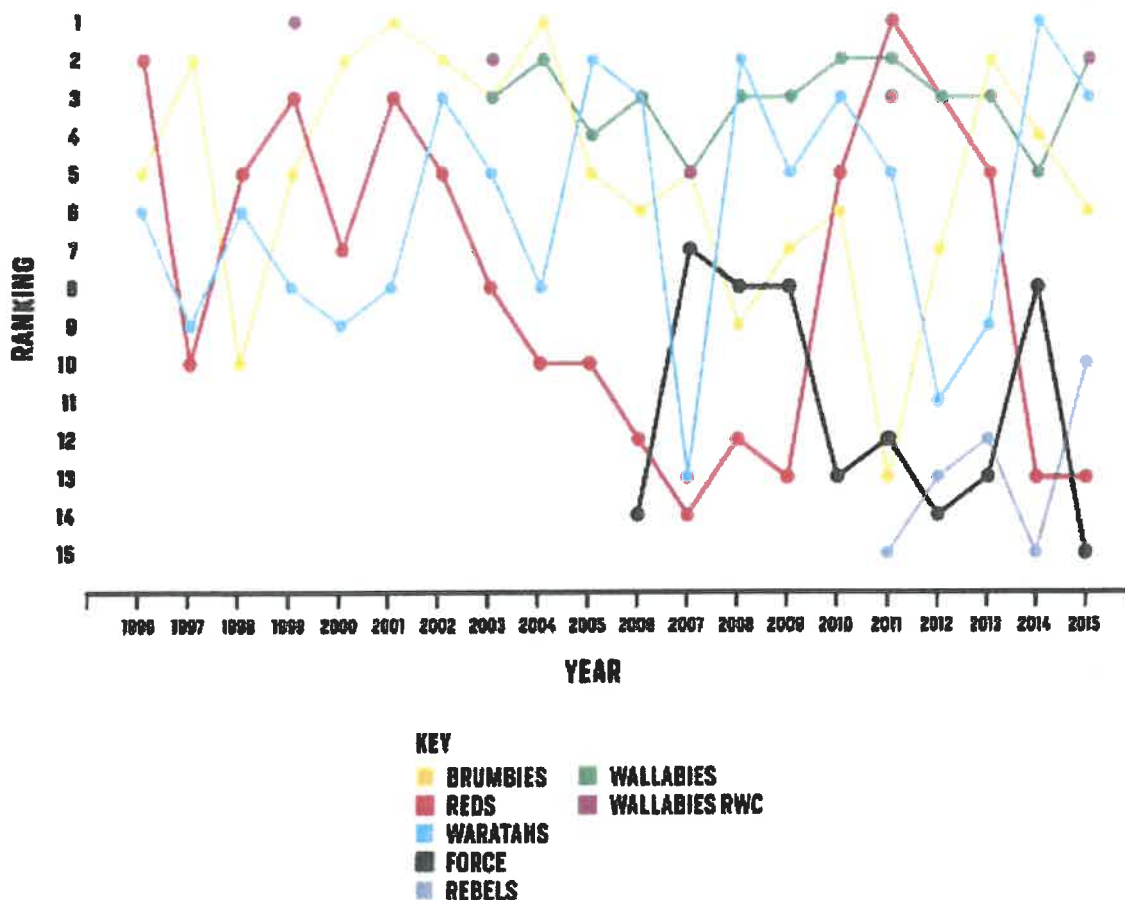
The impact of this is highlighted in the diagram below which shows:

- Australian teams have had inconsistent results across this history of professional Rugby. Our results could, in fact, be classified as “overachieving” on the international stage considering the level of investment that has been made into our high performance programs vis-à-vis our competitors
- Australian teams (Brumbies, Reds, Waratahs) have only won the Super Rugby competition four times, compared to 14 championships won across the New Zealand franchises. In addition to this, our new franchises (Rebels and Western Force) have struggled to achieve success
- Wallabies have underperformed, our last Rugby World Cup Win was in 1999 and we have never held #1 ranking.

¹ <http://www.afr.com/business/sport/west-coast-eagles-the-most-profitable-football-club-in-australia-20160309-gnesc7>

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Diagram A: Australian Super Rugby & Wallabies Rankings: 1996-2015



International

One of the strengths of Rugby and our unique advantage over our competitors in the Australian market is the global nature of our game.

Based on a variety of available metrics, it is apparent that the game is great shape internationally:

- Rugby World Cup 2015 set new attendance, viewership and digital records:

Attendance

- RWC 2015 was the fifth largest single-sport event ever held with 2.47 million ticket sales.

Viewership

- Global audience of 120 million for the RWC Final
- 25 million people in Japan watched the pool match between the Cherry Blossoms and Samoa
- 11.6 million viewers watched England v Wales on ITV - the largest Rugby audience in the UK since the 2007 RWC Final and the highest peak audience for a sporting event since the 2014 FIFA World Cup.

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Digital engagement

- #RWC2015 was used twice a second for the duration of the event and over five million times in total
- Over 270 million video views on all social media channels
- RWC2015 website attracted 25 million unique users
- RWC2015 official App was downloaded 2.8 million times with use in 204 nations.
- As set out in World Rugby's 2015 Year in Review, Rugby is one of the fastest growing team sports in the world, particularly among women who represent 25% of participants. There are now 7.7 million men, women and children playing the game across globe

However, the strength of the game globally has introduced massive challenges for Australian Rugby at the elite level. This is because our talent – on and off the field – are participants in a global labour market, which is being fuelled by record broadcast deals, in particular in the English Premiership and French Top 14 League.

The recent deals that have been struck in England and France and the pull factors associated with this, namely cashed-up clubs with the capacity to attract our best talent (and indeed any available professional Rugby player) is, current financial challenges aside, one of the biggest threats to:

- the fabric and standing of the professional game of Rugby in Australia; and
- the standing of Super Rugby as the pre-eminent provincial Rugby competition in World Rugby.

Already we have seen our top talent lured to the UK, Europe and Japan to play Rugby during the prime of their career, not just at the end of their career. Currently there are 137 Australian professional Rugby players in the Northern Hemisphere, representing around 5,150 Super Rugby caps and 1,480 Wallaby Caps.

The new broadcast deals for the English Premiership and French Top 14 Rugby clubs are game changers in the battle to attract and retain talent as these clubs will be better resourced than ever, with more cash and higher salary caps. It is worth noting that the salary caps of Premiership Rugby and Top 14 League are already double the Australian salary cap and this gap is only set to widen once their new Broadcast deals commence.

In addition to this, the RFU and Premiership Rugby recently signed a ~\$345m deal which will result in the Premiership Clubs receiving revenue for the release of English players to the RFU for Six Nations, Spring Tour Test Matches and National Team camps. This revenue will provide clubs with further resource to target marquee players, which sit outside of the salary cap and offer contracts that Australian Rugby will not have the resource to compete with.

The table below sets out the stark reality of what we are facing to retain our best talent.

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Competition	New Broadcast Term	New Broadcast Value	Salary Cap
Australia – Super Rugby	2016-2020	\$141m	\$5 million
England - Premiership Rugby	2017-2021	\$483.5m	~\$11m in 2016/17 but will rise to \$12 million in 2017/18 and projected to reach as high as ~\$20m under new deal. Salary Cap excludes 2 marquee players – this exemption was used by Wasps to sign Kurtley Beale for ~\$1.2m per season, making him the highest paid player in Premiership Rugby.
France - Top 14	2019-2023	\$526.7m	\$13.3m Dan Carter is paid ~\$2.4m per year, making him the highest paid player in World Rugby.

Put simply, we are approaching an era where we will be unable to compete financially with overseas clubs to retain our playing talent (and arguably our coaches and high performance IP), and will need to rely on other factors, such as the quality of our Rugby programs, the lure of being part of the Wallaby program and competing in international Rugby to retain talent. Failing to do so will result in a reduction in the quality of talent playing domestically, which will not only have implications from a performance perspective but also from a commercial perspective and our ability to attract eyeballs, attendance, broadcast revenue and corporate support.

3. WHERE TO FROM HERE

It is worth noting that the challenges listed in this paper are not ones that the ARU is facing in isolation, they are also impacting and are relevant to our SANZAAR partners. Indeed, there is agreement amongst the SANZAAR nations that collective action is required in order to re-calibrate and re-vitalise the Super Rugby competition from its current format in order to:

- reverse the general decline in viewership and attendance across Super Rugby nations
- re-establish Super Rugby as the greatest global club competition, noting the pressure coming from the Northern Hemisphere competitions for our players, high performance staff and fans
- provide more value to broadcasters and relevance to fans and sponsors.

Given this, SANZAAR has initiated and is leading a 10-year strategic planning process, with the priority piece being the future competition structure. There is agreement amongst the SANZAAR nations that if a competition structure can be developed which will achieve the points listed above then we should be looking to introduce it from as soon as 2018.

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As part of the strategic planning process, SANZAAR has also been engaging with a variety of stakeholders. This includes, most importantly, each of the main broadcasters. Based on the initial consultations that have taken place with each of the main broadcasters there is clear alignment with the need for change if the right format can be developed and agreed. Indeed, it has been made clear to SANZAAR by the broadcasters that based on current viewership metrics, changes to the structure of Super Rugby are required in order to deliver a return on their investment. Their preference is to put in place a competition structure that is based on quality teams rather than quantity of teams. The feedback is also that if the structure is right, they are open to commencing any such competition from 2018.

Noting this and the financial challenges we are currently facing, Management has taken an open approach to the discussions and planning around any future competition format, having regard to the following guiding principles:

- No decrease in ARU's current share of SANZAAR revenue with potential for uplift in revenue flowing to the game
- Reducing costs across the Australian Super Rugby portfolio and SANZAAR competition (ie reduction in travel and accommodation costs). It is worth noting that the new competition format in 2016 saw an additional \$6.2 million in travel costs for a total of ~\$14.8 million during the home and away Super Rugby season.
- Improved High Performance outcomes, systems and processes

This includes the number of Australian teams, conference structure, and jurisdictional reach of the competition (that being whether Europe and/or other areas, such as the Pacific Islands are introduced).

SANZAAR competition structure - options under consideration

As at the time of this report, a number of options have been developed for further investigation and consideration of the SANZAAR Working Committee and Executive Committee. In addition to the status quo, these options include:

- **Stage 1:** A contraction of teams from 2018, to either:
 - A 16 team competition with a dual conference structure; or
 - A 15 team competition from 2018 with a conference system (3 x 5 teams) and/or a return to a round robin draw.

Both of these options assume the continued participation of Argentina and Japan in the competition. Further to this, both options would require (as per previous competitions) binding commitments from the founding SANZAAR nations around their ability to fund Super Rugby teams.

- **Stage 2:** A future expansion of the Super Rugby brand, in time (ie 2023) to include:
 - Incremental Addition of Teams – On the back of a contraction to 15 teams, look at the addition of 1 or 3 teams based in emerging markets (i.e. Monaco, Georgia, Singapore, Hong Kong etc.) and / or the Pacific Islands
 - European Expansion – Explore the addition of a block of European teams, most likely from the Celtic Nations and Pro 12
 - Americas Expansion – Explore ways in which the Americas (in particular, North America) can be added to the competition.

For completeness, it should be noted that changes to the competition structure will require the unanimous agreement of the SANZAAR nations. Any changes initiated as part of Stage 1 in terms of reducing teams will require agreement from the National Unions, in particular SARU who is most likely to need to reduce its involvement by 1-2 team

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The reform to drive change in Professional Rugby

Management is of the view that the SANZAAR strategic planning process may be the circuit breaker that is required in order to enact change around professional Rugby in Australia and the Super Rugby competition more broadly.

Accordingly, in order to ensure we are positioned to react to the outcomes of the SANZAAR strategic planning process, Management has been undertaking a detailed review of options around the business model of professional Rugby, both commercial and high performance. In considering the options around the make-up of Australian teams in any future Super Rugby competition and the structure of professional Rugby more broadly, there are numerous competing interests and factors that need to be considered, including:

- The long term imbalance between revenue and expenditure and a declining revenue base across the game. In short, the business model of professional Rugby is unsustainable
- Funding of professional Rugby teams – players, staff, travel, related team costs - is the biggest expense in our game, with player payments fixed as a percentage of revenue under the CBA
- We need to have the financial resources to attract and retain our best talent in order to drive performance and attract fans, viewers and sponsors
- Current investment in players directed by the CBA remains (ie 29%) and investment in Wallaby player top-up contracts is planned to increase from 2017-2019 (from \$6.5 million in 2016 to \$8 million in 2019). We must maintain, at a minimum, the same level of investment in players and player development to have any chance of sustaining current performance
- The liability of an insolvent, or close to insolvent Super Rugby program costs the ARU between \$2.5-4.5 million per annum
- There is duplication of effort and resource across the professional game – as a ~\$200m business, we have, in most cases, six lots of resource and investment. We are not leveraging single point capability and placing resources where they are best suited or can be maximised for collective benefit across High Performance and commercial departments
- Team performance is at the centre of the professional club ecosystem and crucial to overall organisation success and viability
- There is a requirement for Super Rugby teams to retain a community connection, team identity and ability to implement a Super Rugby program that is driven by the Head Coach
- ARU is not in a position to provide bailouts or continue to provide cash advances
- Australian Rugby needs to adopt a Unified High Performance set-up based on collaboration, innovation, scale, best practice and efficiency
- The Western Force Alliance Model must be the baseline model to drive the necessary reform required across professional Rugby.

Across the game, there is broad recognition and alignment that we cannot continue to do what we are currently doing and expect a different outcome. However, the same cannot be said about the method by which we effect such change and the urgency for doing so (based on the expectation that the ARU will step in and bail clubs out), which is not an unfamiliar position for Australian Rugby to be in.

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Leadership and conviction is required in order to make the difficult decisions around the professional game. Management notes that these decisions are likely to be unpopular at various levels of the game but are required to be made and implemented in order to best position Australian Rugby to continue to exist and benefit the greater good rather than the political few.

Accordingly, having regard to the above considerations, Management is of the view that the following course of action is required and seeks the Board's approval to:

- **Progress Super Rugby competition design based on Australian Rugby reducing the number of Super Rugby teams from five to four.**
- **Continue dialogue with Super Rugby clubs regarding the Western Force Alliance Model across professional Rugby – High Performance and Commercial - with a view to implementing this model by agreement with Super Rugby clubs or by using funding levers to implement it, if required.**

The financial case for change

A detailed financial analysis to support Management's recommendation above is set out at Appendices 2 - 4. This includes a forward 5-year and 10-year projection which factors in necessary changes to the business model of professional Rugby in Australia and a new Super Rugby competition which is consistent with Management's guiding principles commencing in 2018.

4. BENEFITS OF THE 4-TEAM SUPER RUGBY MODEL

Commercial

Management is of the view that this course of action the best option to change the business model of Australian Rugby and ensure the financial sustainability of the game. In addition to stabilising the balance sheet of professional Rugby, it will have commercial benefits at a local Member Union level as it:

- Provides certainty to Member Unions that a Super Rugby team will remain in market and through this, retain a community connection between high performance and grass roots, team identity and tribalism
- Delivers a unified high performance program which will position professional teams for on-field success, but enable them to retain the unique aspect of their Rugby program and tactics
- Removes balance sheet risk for Member Union and enables a focus on community game, a key factor in the overall health of the game

Noting that the first requirement is to stabilise the financial position of the game, the proposed model, if implemented correctly, will also position Australian Rugby in the long term to potentially move towards a business philosophy seen in leading American Sports known as "league think". This philosophy is based on all parts of the industry acting as one corporation, with decisions being made for the greater good – that being the "corporation" rather than an individual entity. It sees key assets and commercial inventory sold centrally to drive revenue in order to increase profit distribution to the clubs. At its purest, as seen in the NFL, it is recognised that larger clubs, which have greater capacity to drive match-day revenue have a role to play in supporting clubs operating in smaller markets (which sees the clubs split gate revenue 60-40). This occurs because it is recognised that if the league is strong, clubs will be strong and vice-versa, which in turn, will improve the overall competitiveness of competition and its attractiveness for broadcasters, sponsors and fans.

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High Performance

The following outcomes related to elite team performance and talent depth would be achieved in moving from five to four Super teams:

- **Super teams would have greater choice of talent**

The pooling of talent would enable greater choice of more capable players for four Super teams which in turn would enhance performance potential.

The same would be true for coaching and other high performance staff. The concentration of talent would also enable more effective support to be provided.

- **Greater challenge for positions**

Players would be vying for fewer contracted positions thus elevating challenge and motivation to develop and achieve. Currently the lack of depth enables some players to progress through the system without significant challenge which, in turn, impacts their ability to truly reach their potential and positively impact team performance. This constitutes a significant principle of a competitive, high performing and striving team or organisation.

- **Greater choice of talent would positively impact the player market**

The increased challenge for contracted positions across four Super Rugby teams would enable greater control of the player contracting market (salaries) by Super Rugby teams. Currently the lack of quality depth enables players (and more so agents) to set and receive inflated salaries as Super Rugby teams become desperate to fill positions – quantity over quality.

- **More realistic and appropriate levels of development (and contracting/selection) for players**

The current lack of depth forces Super Rugby teams to graduate (and contract) developing players earlier creating performance and financial pressures (market expectations and inflation). Effective and high performing development programs will ensure as best as possible that players are involved at appropriate levels and systematically graduated to enable quality long term development (and not rely on the myth of 'fast-tracking').

- **Build capacity through greater depth to ride through performance challenges**

Greater talent depth and choice will enable Super Rugby teams to better succession plan and prepare for challenges such as changes in personnel at player and coaching levels – this includes the loss of significant players. NZ are a good example of being able to ride through potential performance bumps due to their greater talent depth and ability to effectively plan ahead for both recruitment and retention of players.

- **Enhanced performance potential for the Wallabies**

The challenge for positions and subsequent improvement of players would add depth to Wallabies selection.

The pooling of players across four Super Rugby teams would enhance the ability to build combinations and familiarity/cohesion (in line with Gain Line's 'cohesion' measurement).

It is important to note that the above, combined with the investment recommendations listed below, must address any concern that the reduction in the number of Super Rugby teams and the subsequent reduction in the number of contracted positions in Australia would have a negative effect on performance and sustained elite success (including talent depth and development). The actual 15-20% reduction in Super Rugby contracted positions will be supported by specific

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investment in underpinning programs and targeted player identification, recruitment and development plus would be tempered by the reduced necessity to contract mediocre talent, young talent and/or foreign players.

Additionally, the investment recommendations below provide some solution and support to the increasing pressures of the international player market, especially the UK and France, to recruit Australian eligible talent.

Investment Recommendations:

Assuming broadcast values are maintained under a new Super Rugby competition structure, the financial modelling suggests that an additional \$16 million will be required in investment in player payments over the 7-year period - 2018-2024 - to meet the CBA obligation to pay players 29% of revenue (see "GPR adjustments" row under Player Payments in Appendix 4:)². The \$16 million investment over this period could be used to best support performance and the development of significant depth to achieve sustained elite success. This includes addressing the challenge of the international player market that will see significant contract offer increases for players at all levels from overseas, namely the UK and France. A potential breakdown of this incremental investment is provided in the following table.

Investment Area	Value	Notes
SR players	\$9 million	Additional salary cap to cover larger SR squads e.g. 33 full contract players (up from 30); consider ARU holding salary pool and approving spend on marquee players, youth players or convert players (eg league); provides support to challenges from O/S for mid-tier and youth players
SR development players	\$4 million	Investment in youth players (18-22 yrs) coming through SR system (outside NSW / Qld) enabling close to F/T training for long term development; provides support to attract, recruit and retain best young talent; average of \$25K per player across a squad of 10
SR development players	\$1 million	Waratahs & Reds: investment in youth players (18-22 yrs) coming through their system enabling close to F/T training for long term development; provides support to attract, recruit and retain best young talent; average of \$25K per player across a squad of 16; increased numbers reflecting volume of players in state
NRC players	\$1 million	An additional \$100,000 per NRC team to pay un-contracted players (ie not contracted to a Super team at any level); supports retention of NRC level talent against challenge of other options (eg NPC)
Youth players	\$1 million	A national investment pool to support the ID, recruitment and retention of the best youth talent aged 15-18 yrs; such investment would include a resource to manage this program
TOTAL	\$16 million	

² Consideration of 2025 is excluded as the super profits of the Lions year will create a significant GPR liability and will be for separate discussion

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5. RISKS OF THE 4-TEAM SUPER RUGBY MODEL

Management acknowledges that the course of action outlined in this paper is drastic and carries a large amount of risk. In the short term, there is likely to be a fair degree of reputational risk associated with the decision to move from five to four Super Rugby teams, including:

- Adverse media commentary, particularly from commentators of the Super Rugby club that is scheduled to be removed
- Loss of commercial support in the market where team is removed for future test matches and 2017 Super Rugby season – if decision is communicated prior to start of next season
- A loss of goodwill towards Australian Rugby and a reduction in the fan base
 - in the market where the team is removed
 - other parts of the country that do not agree with the decision to reduce Australian teams from five to four
- Compromising government deals and major events in the market where the team is removed.

In addition to this, other risks that have been identified include:

- Member Union disunity, which needs to be balanced against compromising the proposed model though seeking to drive reform through trade-offs, which may result in a watered down model and a more palatable political outcome but not repair the balance sheet of Australian Rugby
- The dissolution of goodwill and collaboration that has been established since 2013, which in turn, could undermine the spirit of intent and unity of purpose around the unified High Performance model and driving improved on-field performance
- Impact on CBA negotiations and on the timeline to agree to a new Agreement for 1 January 2017. RUPA's current position is that it supports 5 teams and having 175 contracted professional players. It is acknowledged that the reduction from five to four teams will lead to a reduction of professional players in the Australian market
- While the model assumes that Australian Rugby will have greater resource to retain and attract talent, it is possible that the pull factors of the northern hemisphere market won't stem the number of players leaving Australia
- Compromising the strategic imperative of retaining a national footprint for the game if a Super Rugby club is removed given current locations in major cities across Australia.

However, Management also considers that this action is for the greater good of the game of Rugby in Australia. Indeed, the risks above need to be balanced against the risk of maintaining the status quo and not doing anything. This course of action would, based on our assessment of the current financials, result in clubs drifting into insolvency and the game struggling to survive in Australia. In effect, there would be a domino effect which would see all Member Unions and the ARU struggle to remain going concerns.

Management recognises that there is still a lot of work to be done in relation to the SANZAAR strategic planning process and the proposed reduction of Australian teams in Super Rugby from five to four. However, our view is that the future success of Australian Rugby depends on

- the implementation of reform to the Super Rugby competition format; and
- the re-structure of the professional Rugby business model,

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in order to ensure the survival of the game and from this, deliver better outcomes across professional Rugby.

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Appendix 1: Impact of Super Rugby Financials

	2016	2017	2018	2019	2020	Total
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Profit Impact						
Original planned surplus/(deficit)	8.0	6.8	4.9	(11.7)	4.3	12.3
Impacts						
Sponsorship	(1.0)	(1.9)	(2.0)	(0.8)	(2.8)	(8.5)
SR variable funding		2.0	2.0	2.0	2.0	8.0
Matchday	(0.2)	(2.8)				(3.0)
WR 2019 RWC funding				(3.1)		(3.1)
DNSW - Bledisloe	1.0	1.0	1.0	(1.0)	1.0	3.0
DNSW - Sevens (net)		0.2	0.2	0.2	0.2	0.8
Bledisloe move - Perth/Melb				5.0	5.0	10.0
Wallaby player payments		(0.5)	(1.0)	(1.5)	(1.5)	(4.5)
Western Force operations	(4.5)	(2.5)	(2.5)	(2.5)	(2.5)	(14.5)
Brumbies operations		(4.5)	(2.5)	(2.5)	(2.5)	(12.0)
Other	1.2	0.2	1.4	0.9	0.9	4.6
Total impacts	(3.5)	(8.8)	(3.4)	(3.3)	(0.2)	(19.2)
Adjusted surplus/(deficit)	4.5	(2.1)	1.5	(14.9)	4.0	(6.9)
Cumulative effect	(3.5)	(12.3)	(15.7)	(19.0)	(19.2)	
Cash						
Original planned cash	5.5	4.5	4.7	10.4	10.5	10.5
Profit impacts cumulative	(3.5)	(12.3)	(15.7)	(19.0)	(19.2)	(19.2)
RAH advanced cashflow	7.2					0.0
RAH ARU investment timing diff.	1.5					0.0
Other		(0.3)	(0.9)	(0.4)	(0.1)	(0.1)
Adjusted surplus/(deficit)	10.7	(8.1)	(11.9)	(9.0)	(8.8)	(8.8)

1. Sponsorship impacts being SR and Test Match naming rights not secured. Potentially mitigated by SR variable funding mechanism but just applies further pressure at SR level.
2. Matchday – potential impact of weak 2017 series not fully provided for in original 5 year projections.
3. RWC2019 funding – WR now confirmed lower fee for 2019 participation, plus exchange effect.
4. DNSW effect reflects new long term agreement following stadium announcements.
5. Bledisloe move – targeting \$5m for taking 1st Bledisloe out of Sydney. Tender process still underway with firm interest from WA, VIC and SA governments.
6. Wallaby player payments – potential increases to maintain player depth against threats from cashed up NRL and UK/Europe benefiting from new broadcast deals from 2018.
7. Western Force – initial projections of a break-even business under Alliance model under serious threat from continuing shortfalls in revenue targets.
8. Brumbies – close to bailout situation with zero reserves and significant future revenue reductions highly probable

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Appendix 2: Super Rugby 4-Team Alliance Model

	Existing 4 teams 2016 Q2 Fcast \$'m	Alliance 4 teams \$'m	Difference \$'m	Notes
Revenue (excl. broadcast)	43.9	43.9	0.0	Assume overall 2016 non-broadcast revenues can be maintained
Expenditure				
Team costs				
Player payments	21.9	21.9	0.0	Assume same levels, but higher payments will flow from GPR underages
HP staff	7.6	10.1	(2.5)	Increased investment under centralised HP initiatives
Servicing	5.6	5.6	0.0	Assume same levels
	35.1	37.6	(2.5)	
Commercial costs				
Matchday & servicing	11.3	11.3	0.0	Assume same levels
Marketing	2.7	3.0	(0.3)	Incremental provided for under centralised marketing
Staff costs	6.6	4.0	2.6	Target level of savings as achieved under Western Force Alliance model
Other	4.1	3.1	1.0	For further review but assume 25% savings can be achieved
	24.7	21.4	3.3	
Corporate costs				
Staff costs	3.6	0.0	3.6	All corporate costs provided by centralised function
Property	3.1	1.4	1.7	For further review but assume significant savings in Reds & Waratahs
Other	3.2	1.6	1.6	For further review but assume 50% savings can be achieved
	9.9	3.0	7.0	
Licence fees		3.4	(3.4)	Licence fees payable under Alliance model
Total expenditure	69.7	65.3	4.3	
Net	(25.8)	(21.4)	4.3	
Additional costs ARU central services		(2.0)	(2.0)	2016 loss no longer in consolidated model under 4 team scenario
TOTAL	(25.8)	(23.4)	2.3	

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Appendix 3: Restructured 5-Year Financial plan

	2016	2017	2018	2019	2020	Total 2016-20
Original 5 yr plan	8.0	6.8	4.8	(11.6)	4.3	12.3
Impacted 5 yr plan	4.5	(2.1)	1.5	(14.8)	4.0	(6.9)
Restructure initiatives						
FX restructure		(0.4)	(0.4)	(0.4)	(0.4)	(1.6)
Professional rugby restructure						
SR net expenditure			(23.5)	(23.5)	(23.5)	(70.5)
SR funding saving			30.3	30.0	29.9	90.2
GPR		0.0	(3.6)	2.1	(4.9)	(6.4)
Force & Brumbies savings			5.0	5.0	5.0	15.0
Other		2.4	0.3	(1.5)	(1.2)	0.0
Restructured 5 yr plan	4.5	(0.1)	9.6	(3.1)	8.9	19.8

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Appendix 4: Restructured 10-Year Financial Plan

AUSTRALIAN RUGBY UNION
FINANCIAL PROJECTIONS 2016-2025

	2016	2017	2018	2019	2020	Total 2016-20	2021	2022	(RWC) 2023	2024	(Lions) 2025	Total 2021-25
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
INCOME												
Broadcast revenue	61.5	63.0	61.5	39.7	61.5	287.3	61.5	63.0	39.7	61.5	76.5	302.3
<i>FX restructure</i>		(0.4)	(0.4)	(0.4)	(0.4)	(1.6)						0.0
Match revenue	31.9	27.1	26.9	13.0	33.6	132.6	20.1	26.9	13.0	26.6	70.0	156.6
Sponsorship & Licensing	22.6	22.8	23.5	22.7	24.2	115.6	24.9	24.9	24.9	24.9	24.9	124.4
<i>SR revenues</i>			43.9	43.9	43.9	131.7	43.9	43.9	43.9	43.9	43.9	219.5
Gov't Event	5.0	6.6	6.5	8.5	10.9	37.5	10.9	7.9	7.9	7.9	15.4	50.0
World Rugby grants	0.6	0.7	0.7	12.5	0.7	15.1	0.7	0.7	12.5	0.7	0.7	15.2
Government grants	2.2	2.2	2.0	2.0	2.0	10.5	2.0	2.0	2.0	2.0	2.0	10.0
Other income	2.8	3.0	3.0	3.0	3.0	14.8	3.0	3.0	3.0	3.0	3.0	15.0
	126.6	125.0	167.6	144.9	179.4	743.4	167.0	172.3	146.9	170.5	236.4	893.0
EXPENDITURE - COST OF SALES												
Commissions & servicing costs	3.0	2.8	2.9	2.6	3.1	14.5	3.1	3.1	3.1	3.1	3.1	15.5
Match operations	10.5	14.3	11.6	6.5	17.1	60.0	10.3	11.6	6.5	13.1	27.0	68.5
<i>SR Match ops</i>			14.4	14.4	14.4	43.2	14.4	14.4	14.4	14.4	14.4	72.0
Marketing & media	5.0	4.0	4.0	3.0	6.1	22.0	6.1	6.1	3.0	6.1	9.1	30.3
<i>SR Commercial</i>			3.0	3.0	3.0	9.0	3.0	3.0	3.0	3.0	3.0	15.0
Team costs	8.6	9.3	9.6	9.9	10.2	47.6	10.2	10.2	10.2	10.2	12.2	52.8
<i>SR team cost</i>			5.6	5.6	5.6	16.8	5.6	5.6	5.6	5.6	5.6	28.0
Player payments	14.3	13.3	13.8	14.3	14.3	69.8	14.3	14.3	14.3	14.3	14.3	71.3
<i>SR player payments</i>			21.9	21.9	21.9	65.7	21.9	21.9	21.9	21.9	21.9	109.5
<i>GPR adjustments</i>			3.6	(2.1)	4.9	6.4	3.2	4.4	(1.5)	3.4	18.5	28.1
RUPA	1.4	1.4	1.4	1.5	1.5	7.2	1.6	1.6	1.6	1.7	1.7	8.1
Super Rugby funding	32.4	28.6				60.9						0.0
<i>SR licence fees</i>			3.4	3.4	3.4	10.2	3.4	3.4	3.4	3.4	3.4	17.0
Super Rugby - Force & Brumbies	4.5	7.0				11.5						0.0
SANZAR travel costs - Super Rugby	5.5	5.7	5.8	6.0	6.2	29.1	6.3	6.4	6.6	6.7	6.8	32.8
SANZAR travel costs - TRC	1.1	1.1	1.2	1.2	1.3	5.9	1.3	1.3	1.3	1.4	1.4	6.7
SANZAR management	1.4	1.3	1.4	1.5	1.5	7.1	1.5	1.6	1.6	1.6	1.7	8.0
	87.6	88.8	103.6	92.7	114.3	487.1	106.1	108.8	95.0	109.7	144.0	563.6
PROFESSIONAL SURPLUS/(DEFICIT)	38.9	36.3	64.0	52.1	65.1	256.4	60.9	63.5	51.9	60.8	92.4	329.5
EXPENDITURE - OTHER												
Community activity costs	2.3	2.3	2.3	2.4	2.4	11.8	2.5	2.5	2.6	2.6	2.7	13.0
Community grants	5.1	5.1	5.1	5.1	5.1	25.3	5.2	5.3	5.4	5.5	5.6	26.9
Employee & HR	19.3	21.0	21.0	21.6	22.2	105.0	22.7	23.1	23.6	24.1	24.5	118.0
<i>SR Employee & HR</i>			14.1	14.1	14.1	42.3	14.1	14.1	14.1	14.1	14.1	70.5
Extra ARU/SR support/contingency			2.0	2.0	2.0	6.0	2.0	2.0	2.0	2.0	2.0	10.0
Property	1.8	1.8	0.6	0.6	0.6	5.5	0.6	0.7	0.7	0.7	0.7	3.4
<i>SR Other</i>			3.0	3.0	3.0	9.0	3.0	3.0	3.0	3.0	3.0	15.0
Other	5.9	6.3	6.3	6.5	6.7	31.7	6.8	7.0	7.1	7.2	7.4	35.5
	34.4	36.4	54.4	55.3	56.2	236.6	56.9	57.7	58.4	59.2	60.0	292.2
NET SURPLUS/(DEFICIT)	4.5	(0.1)	9.6	(3.1)	8.9	19.8	4.0	5.8	(6.5)	1.6	32.4	37.2
CASH												
Opening cash	9.7	19.6	1.0	3.3	15.0	9.7	18.0	22.2	28.2	21.9	23.6	18.0
Surplus	4.5	(0.1)	9.6	(3.1)	8.9	19.8	4.0	5.8	(6.5)	1.6	32.4	37.2
Add: non-cash depn & amortisation	1.2	1.3	0.5	0.5	0.4	3.9	0.4	0.4	0.4	0.4	0.4	2.0
Capex	6.8	(12.2)	(0.3)	(0.3)	(0.2)	(6.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(1.0)
Working capital movement	(4.9)	0.5	0.0	0.0	0.0	(4.4)	0.0	0.0	0.0	0.0	0.0	0.0
<i>FX restructure</i>		(1.9)	(2.1)	(3.0)	(2.1)	(0.0)						0.0
Broadcast revenue recognition	(6.6)	(6.2)	(5.4)	17.6	(4.0)	(4.7)						0.0
Closing cash	19.6	1.0	3.3	15.0	18.0	18.0	22.2	28.2	21.9	23.6	56.2	56.2
CAPITAL												
Opening retained earnings	0.4	4.9	4.8	14.4	11.3	0.4	20.2	24.1	29.9	23.4	25.0	20.2
Surplus	4.5	(0.1)	9.6	(3.1)	8.9	19.8	4.0	5.8	(6.5)	1.6	32.4	37.2
Closing retained earnings	4.9	4.8	14.4	11.3	20.2	20.2	24.1	29.9	23.4	25.0	57.4	57.4

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Appendix 5: Nielsen Sports *State of the Nation – June 2016*

- See enclosed Report