



SUPPORTING DOCUMENTATION – THE FUTURE OF SUPER RUGBY

Sept 5 2017

Key reasons for the need to reduce one Super Rugby team

ARU is faced with insolvency if it continues to fund five Super Rugby teams through 2020

Financial modelling undertaken during the assessment phase around the retention of five teams through to 2020 forecasted ARU being unable to meet its liabilities by Q3 2019, with an overall \$13m (best-case)- \$26m (worst-case) financial hole by Q4 2020 (see Fig 1 – Financial Forecast)

In simple terms, ARU would be unable to continue trading beyond 2019 were it to continue to fund five Super Rugby teams through to 2020.

The reduction of a Super Rugby team provides an annual saving of \$6m from 2018-2020 which would enable ARU to continue trading and to direct a significant portion of the savings for investment into community Rugby, player and coach development initiatives and women's programs.

Super Rugby team performance declines since expansion have impacted Wallabies success and Rugby's bottom line

The financial problems emanating from Super Rugby are commensurate with sustained declines in team performance since the competition first expanded from "Super 12" in 2006.

From 2006-2017, the average win percentage of Australian Super Rugby teams has dipped from a win success rate of almost 55%, to just above 41%. In the recently completed 2017 Super Rugby season, Australian teams won none of the 26 matches played against New Zealand opposition, highlighting the rapid decline in on-field performance over the past 12 months.

Prior to Super Rugby expansion in 2006, the Wallabies won an average of 65.4% of Test matches compared with a success rate of 56% in Tests played between 2006-2017. Prior to 2006, the Wallabies had won two Rugby World Cup tournaments and five consecutive

Bledisloe Cup series. Post-2006, the Wallabies have made one Rugby World Cup Final (2015) and have not won the Bledisloe Cup.

SANZAAR Considerations

SANZAAR partners unanimously supported a restructure of Super Rugby to a 15-team competition

SANZAAR's decision to revert to a 15-team competition included a comprehensive assessment of the economic and sporting environment under which its tournaments are operating.

This assessment highlighted a need to adjust and strengthen Super Rugby in the short-term to ensure a sustainable tournament meets the requirements of all stakeholders in terms of high performance outcomes, game development, commercial revenue and fan engagement.

The decision to revert to a 15-team format reflected a consensus view of the mandated SANZAAR Executive Committee that met in London on March 10, 2017. It followed a thorough assessment and review of the tournament over the previous nine months. Significantly, SANZAAR broadcasters shared this vision for the future of the tournament.

The view of ARU Members (Australian Rugby's State and Territory Member Unions)

ARU Members support the reduction of a team

On June 20, 2017, an Extraordinary General Meeting (EGM) of ARU Members was held to vote on the issue of whether it was in the best interests of Australian Rugby to maintain its current five teams in the Super Rugby competition until at least the end of the 2020 season; and whether ARU should reconsider its decision to reduce the number of teams playing in the Super Rugby competition.

The two resolutions were defeated, confirming the members' support for the decision to reduce Australia's Super Rugby representation to four teams.

Financial modelling for the Western Force and Melbourne Rebels

Retaining the Melbourne Rebels provides a clear financial benefit for the ARU

Financial modelling was undertaken to ascertain the best financial position for ARU in considering the retention of either the Melbourne Rebels or the Western Force.

At the time of the Board's decision (August 11, 2017) the reported balance of the "Own the Force" fund was \$1.8m and the club's Road Safety Commission sponsorship was not guaranteed beyond 2017.

Prior to this on July 31, 2017, Andrew Forrest made a public pledge to provide “unconditional and interest free loans” to Western Force members who had pledged their support but hadn’t yet committed financially to the Own The Force fund.

On the basis of Mr Forrest’s pledge to fund the initiative, ARU modelled a “best-case” scenario which assumed the Own The Force fund realised its full potential of \$5m (the value of the total ‘pledges’ from Force fans) and the Road Safety Commission sponsorship would be extended through 2020. The “worst-case” was also calculated on the above support not being realised.

****Fig 2 below projects the ARU cash balance through 2020 under both worst-case and best-case scenarios for keeping the Western Force as outlined above****

With regards to the Melbourne Rebels financial position, best-case modelling assumed the realisation of a Victorian Government commitment to the VRU and ARU through 2025.

This Government agreement is tied to the future of the Melbourne Rebels, with a condition of the agreement being that the Melbourne Rebels continue to participate in Super Rugby for its duration.

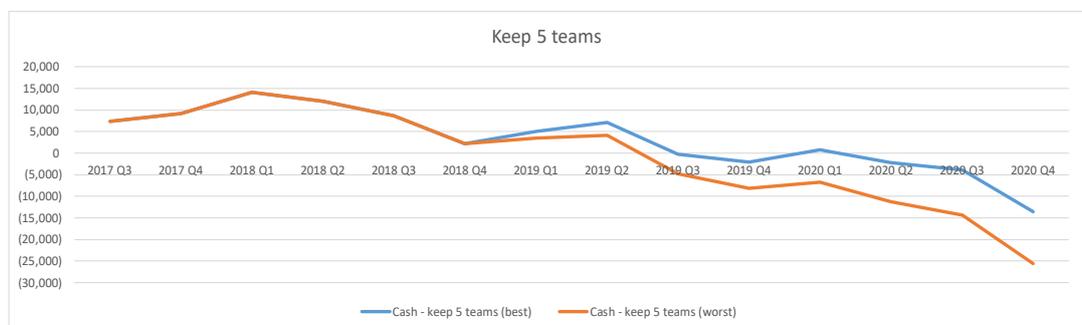
ARU is unable to disclose the value of this agreement, as all Government contracts are signed in commercial confidence.

Worst-case modelling for the Melbourne Rebels accounted for the possibility that this Government agreement was placed at risk by other factors which resulted in the deal not being signed.

In the case of both teams, the future financial modelling assumed that they would continue to operate without any requirement for additional ARU support funding.

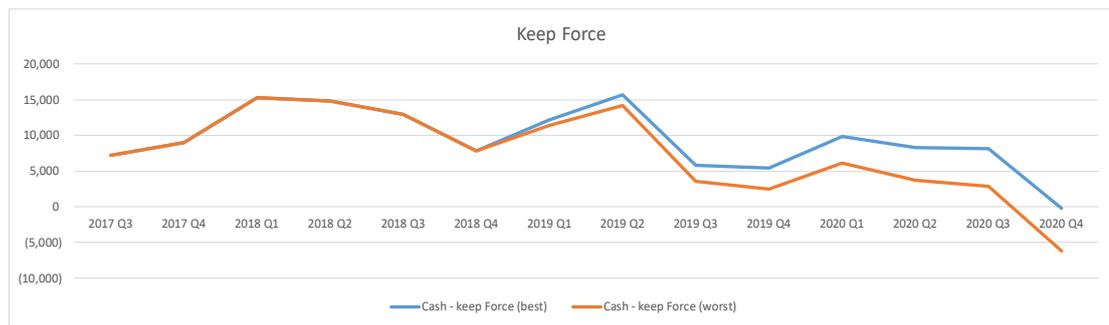
****Fig 3 below projects the ARU cash balance through 2020 under both worst-case and best-case scenarios for keeping the Melbourne Rebels as outlined above****

Fig 1 – Financial forecast if ARU continues to fund five Super Rugby teams (best and worst-case)



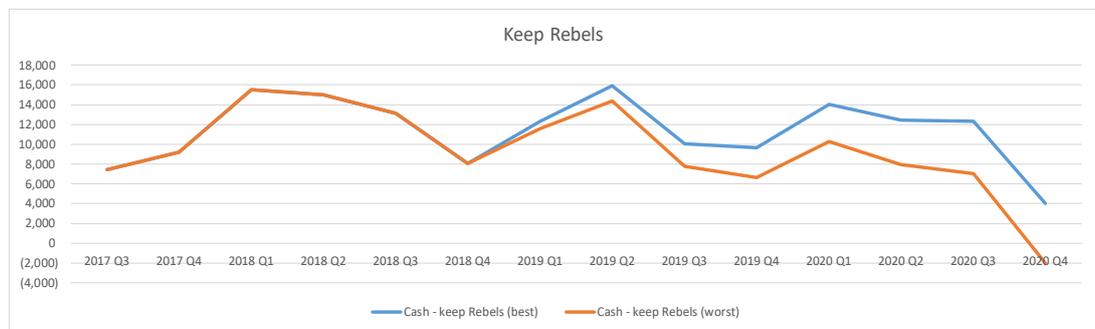
	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Cash - keep 5 teams (best)	7,415	9,194	14,043	12,085	8,719	2,186	4,995	7,088	(235)	(2,090)	828	(2,227)	(3,847)	(13,604)
Cash - keep 5 teams (worst)	7,415	9,194	14,043	12,085	8,719	2,186	3,495	4,088	(4,735)	(8,090)	(6,672)	(11,227)	(14,347)	(25,604)

Fig 2 – Financial forecast for keeping Western Force and exiting Melbourne Rebels (best and worst-case)



	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Cash - keep Force (best)	7,215	8,994	15,312	14,823	12,926	7,861	12,139	15,700	5,846	5,460	9,846	8,260	8,109	(179)
Cash - keep Force (worst)	7,215	8,994	15,312	14,823	12,926	7,861	11,389	14,200	3,596	2,460	6,096	3,760	2,859	(6,179)

Fig 3 – Financial forecast for keeping Melbourne Rebels and exiting Western Force (best and worst-case)



	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Cash - keep Rebels (best)	7,415	9,194	15,512	15,023	13,126	8,061	12,339	15,900	10,046	9,660	14,046	12,460	12,309	4,021
Cash - keep Rebels (worst)	7,415	9,194	15,512	15,023	13,126	8,061	11,589	14,400	7,796	6,660	10,296	7,960	7,059	(1,979)

Other relevant considerations

Melbourne Rebels

At the time consultation commenced with the Melbourne Rebels post ARU's April 9 Board meeting, the Super Rugby licence was owned by the Imperium Sports Management Group, which acquired the licence from the Victorian Rugby Union (VRU) in June 2015.

The only means by which the ARU could obtain the Melbourne Rebels licence was via negotiation with the owners of the Rebels. These negotiations continued throughout the consultation period, but were ultimately unsuccessful and irretrievably broke down on August 4, 2017. On this date, ownership of the Melbourne Rebels was transferred from Imperium to the VRU, and ARU was informed after the transfer had taken place.

Western Force

At the time consultation commenced with RugbyWA post ARU's April 9 Board meeting, there was no Super Rugby licence in place with RugbyWA following ARU's acquisition of the Western Force in June 2016. At the time it acquired the Western Force, ARU and RugbyWA entered into a confidential alliance agreement which dealt with, amongst other things, how the Western Force would be run under ARU's ownership.

Immediately following ARU's announcement on April 10, RugbyWA issued legal proceedings against ARU asserting that the alliance agreement did not permit ARU to discontinue the Western Force before the end of 2020. On August 11, an arbitrator ruled that the alliance agreement had ended as a result of the new 15-team Super Rugby competition being introduced, and that ARU was legally entitled to discontinue the Western Force. Today, the arbitrator's decision was upheld by the NSW Supreme Court.

ARU regrets that this process has carried on for so long, but it needed to respect the legal process and was unable to control the timetable of legal proceedings brought on by RugbyWA.

Business analysis of Super Rugby teams

Analysis did not provide a definitive case for retaining the Western Force or Melbourne Rebels when comparing both teams, however the Brumbies compared favourably against both teams

Extensive business analysis was conducted on three teams – Western Force, Melbourne Rebels and Brumbies to assess the current status and future prospects of Rugby in each market.

The two biggest Rugby markets in Australia - NSW and Queensland, were excluded from the analysis. The 'criteria' for the analysis was agreed by the full ARU Board.

The report assessed various criteria under four pillars as provided below:

- Financial performance: including community investment, ARU support (historical funding), future financial risk, full season memberships, average attendances, TV viewership, state participation numbers, state club numbers.
- Rugby - High Performance factors: including historical team performance, quality of program and future potential (people, infrastructure, systems, strategy), Wallaby contribution, player salaries.
- Rugby - Commercial factors: including Stadium commitments, Government support & infrastructure, market analysis of sports fans and people interested in

Rugby, market size - % of Australian Rugby fan base, market interest in the team and Super Rugby competition, social media metrics, and competitive landscape.

- Other factors: including status of economy, market implications.

The analysis undertaken by ARU management was provided to the Board on April 7, 2017 ahead of its April 9 meeting in Sydney. It was at this meeting that the Board, based on the findings of the report, elected to enter consultation with the Melbourne Rebels and Western Force to further assess the position of both businesses.

From this analysis, the Brumbies were eliminated from the process by the Board based on superior on-field and financial performance metrics.

An updated analysis was provided to the Board on 30 June, 2017 comparing the Western Force and Melbourne Rebels only.

All analysis was carried out by ARU with due diligence.

**Some of the high performance data most commonly discussed in the media have been included below for ease of reference. (Note: The figures below chart the Wallaby contribution of each team and the elite pathway contribution to Super Rugby teams).

Fig 1 – Wallaby contribution since 1996

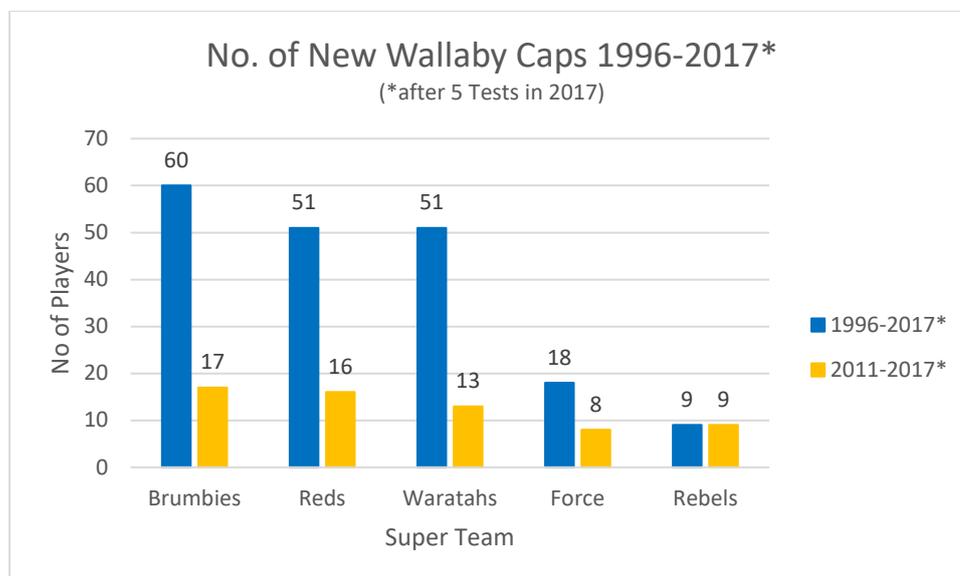
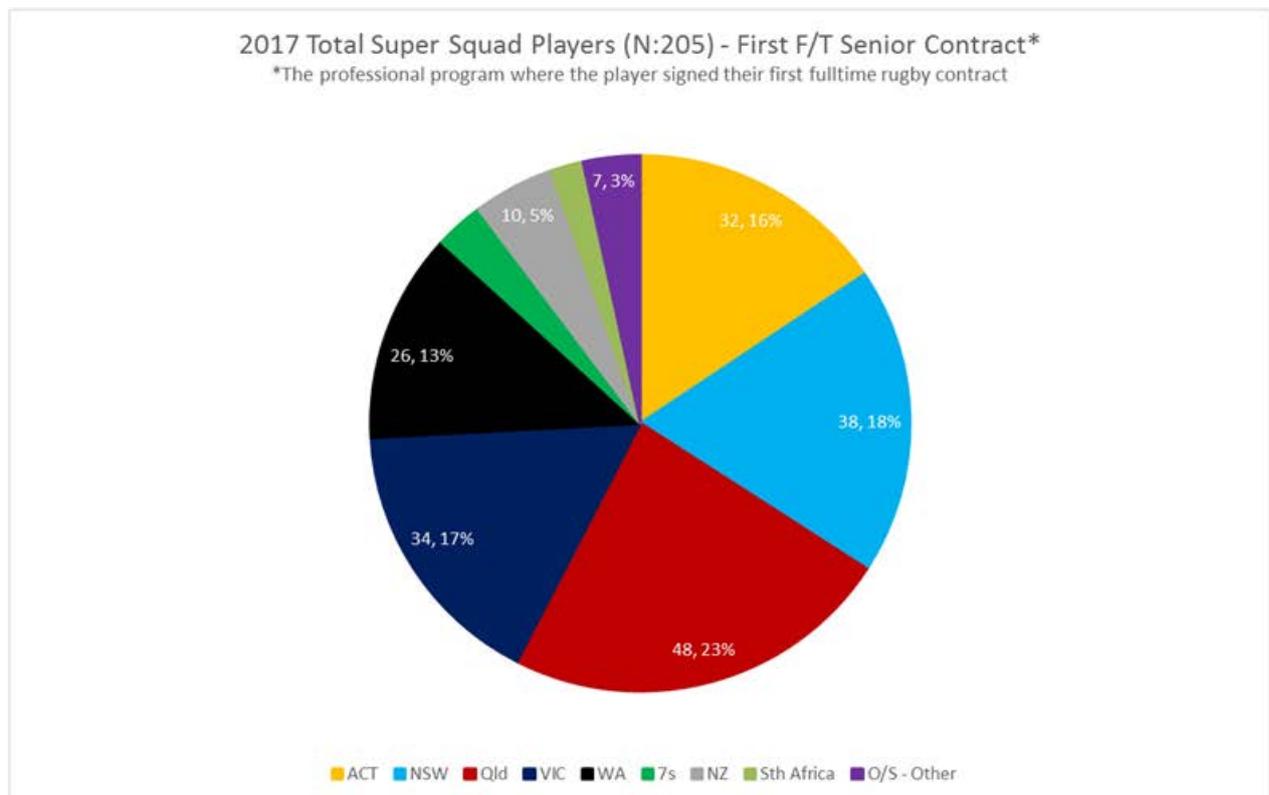
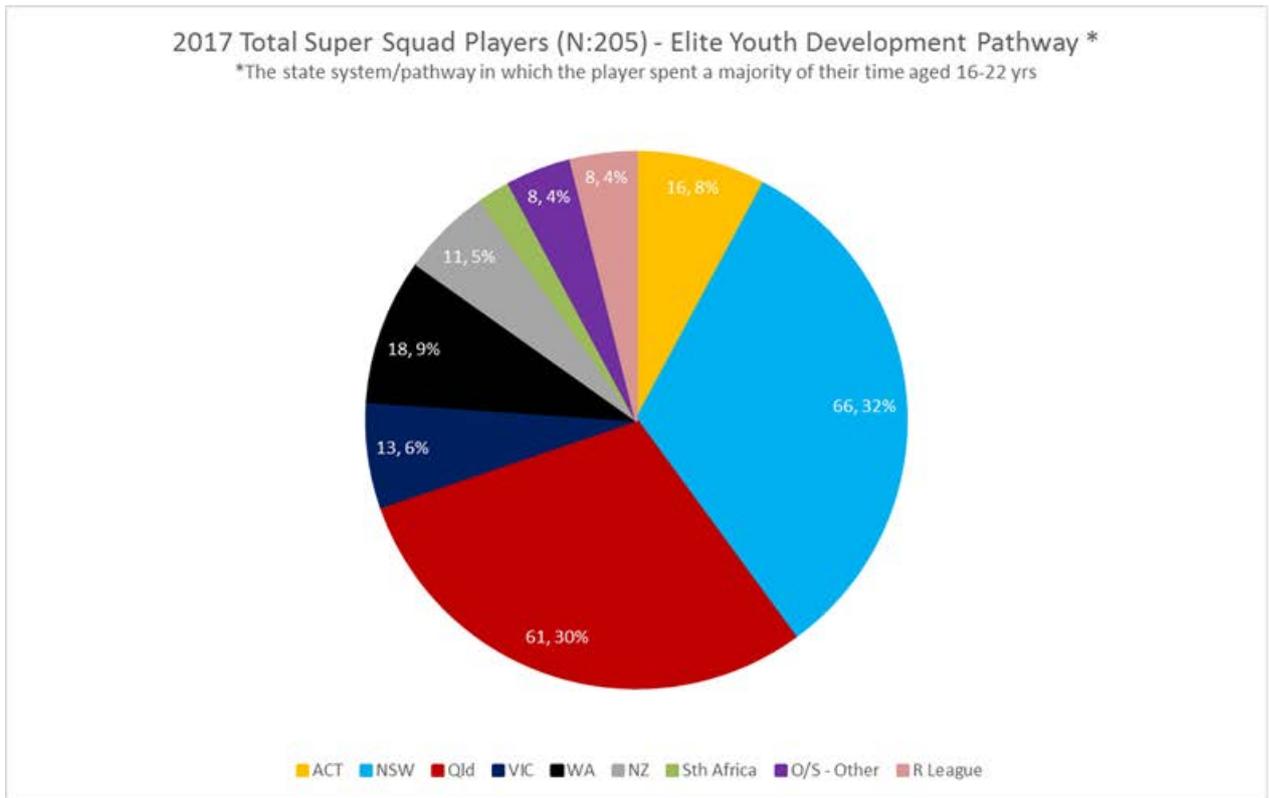


Fig 2 – Where Super Rugby players are being produced



Mergers

ARU does not have the unilateral right under its constitution to construct mergers between Super Rugby teams. Any merger would need to be constructed by two willing Unions.

The notion of a merger between two Australian Super Rugby teams was also rejected based on historical evidence in Australian sport, where the most 'successful' currently merged sports entities have involved teams that are geographically-linked where the fanbase and junior participant catchment of the merged teams are contained within the same territory or within close proximity.

A Brumbies-Rebels merger was not seriously examined, due to the reasons above but also based on the Board's view that it did not see an advantage in breaking up Australia's most successful professional Rugby program (Brumbies).

ARU-Western Force Relationship

While it has historically consumed the second-highest amount of additional support funding from the ARU among Super Rugby clubs behind the Melbourne Rebels (\$7.7m v \$19.3m, 2013-17), it was assumed that both teams would be self-sufficient from the 2018 season onwards and historical funding was not used as a key determinant in the ARU's decision.

RugbyWA was provided with numerous opportunities to present its best possible business case to ARU, from the due diligence phase of the alliance agreement in 2016 through to good faith discussions under the alliance agreement – as recent as August 2, 2017.

The business case provided by RugbyWA on August 2 lacked any evidence of binding commitments of financial support or any other meaningful, evidence-based representations upon which the ARU Board could rely in reaching a final view on the future viability of the Western Force.

Andrew Forrest offer of support for ARU

On August 22, 2017, ARU Board representatives met with Andrew Forrest AO and were tabled a generous but not specific offer of support, conditional on the continued participation of the Western Force in Super Rugby.

This offer was made after the Melbourne Rebels licence was acquired by the VRU on August 4, 2017, which meant that ARU no longer could obtain the licence to allow it the option of discontinuing the Melbourne Rebels. At this late stage, the Western Force was the only licence which could be terminated by ARU.

ARU was asked in the meeting about the possibilities of retaining the Western Force in a 16-team Super Rugby competition, however this option was eliminated by SANZAAR during its review process due to lack of integrity in scheduling and issues with fan engagement (i.e. the same issues as the 18-team competition only with two fewer teams). There would also be one less regular season match per team, compared to a guaranteed eight home games for each team under the new 15-team format. A 16-team round-robin format was also dismissed by SANZAAR due to significant player welfare and cost implications with the increased travel requirements of this format.

ARU's ongoing commitment to Rugby in Western Australia

ARU is committed to providing a clear pathway for aspiring young Rugby players to reach the highest levels of the sport and represent Australia's men's and women's representative teams.

This includes a commitment to continue its support for Perth Spirit remaining in the NRC competition.

Western Australian representative teams will also continue to compete in the following tournaments and National Championships:

- National Women's XVs Championships
- National Men's Sevens Championships
- National Women's Sevens Championships
- National Youth Men's (U17) Sevens Championships
- National Youth Women's (U17) Sevens Championships
- Australian U19 Championships (replacing the Super U20s competition)
- Australian Schoolboys (U18) Championships
- Australian U16 Championships
- U15 Junior Gold Cup

ARU has also committed to work with RugbyWA on initiatives including potential new competitions, community Rugby opportunities and pathways to the elite levels of the game in Western Australia.

Investing the savings from Super Rugby

The savings achieved by reducing a Super Rugby team (\$18m over three years from 2018-2020) will enable ARU to achieve the following objectives:

- Direct meaningful investment into Community Rugby - work has commenced on a new funding initiative with the State Unions and will be announced in late 2017. This funding will cover all areas of the community game including junior Rugby, club Rugby, women's Rugby and Schools Rugby.

- Invest more in developing playing and coaching talent - this work is also underway with the State Unions and further announcements will be made in late 2017 following the announcement of the National Coaching Panel & appointment of Rod Kafer in the National Coach Development role.
- Build reserves to sustain potential other declines and position the game for sustainable long-term health.

Timeline of events

February 20

- Pending the outcome of the upcoming SANZAAR Exco meeting in London, the ARU Board resolves to reduce Australia's Super Rugby representation to four teams on two conditions: 1.) That South Africa (SARU) is able to reduce two teams and 2.) There being no reduction in SANZAAR broadcast revenue as a result of any reduction of teams under a new competition structure.

March 10

- Mandated SANZAAR Executive Committee votes unanimously in support of reverting to a 15-team Super Rugby competition on the condition that there be no reduction in SANZAAR broadcast revenue as a result of the change. Consultation begins with broadcasters.

April 9

- ARU Board resolves to approve the 15-team competition and reduce Australia's representation to four teams.
- Board resolves that Brumbies are safe after review of 'Super Rugby scorecard' provided by ARU management.
- It was agreed that ARU management should undertake a consultation process with the Melbourne Rebels and Western Force before any decision was made about which team is not to participate in Super Rugby from 2018.
- SANZAAR announces a 15-team competition format for the 2018 season.

April 10

- ARU announces it will reduce Australia's Super Rugby representation to four teams and that ARU management will begin consultation with the Melbourne Rebels and Western Force before the Board makes any decision.
- Consultation commences with RugbyWA regarding the Western Force.
- RugbyWA commences proceedings against ARU in the WA Supreme Court.

April 12

- Consultation commences with Melbourne Rebels.

May 29

- At the request of the Victorian Rugby Union and Rugby Union Player's Association (RUPA), notice is issued for an ARU General Meeting to be held on June 20 in Sydney.
- Three resolutions were put to voting members at the request of VRU and RUPA:
 - 1. That the ARU considers that it is in the best interests of Rugby in Australia that Australia maintain its five current teams in the Super Rugby competition until at least the end of the 2020 Super Rugby season.
 - 2. That the ARU re-consider its decision to reduce the number of Australian teams playing in the Super Rugby competition.
 - 3. That the ARU facilitate a forum of all Voting Members, to be held as soon as practicable and at the costs and expense of the Company, for the purposes of considering the establishment of an Australian Super Rugby Commission which will act as an advisory body to the Company on the future participation of Australian teams in the Super Rugby Competition.
- Documents relating to the future of Super Rugby are made available to voting members prior to the meeting.

June 7

- RugbyWA agrees to have Supreme Court proceedings stayed and enter confidential arbitration.
- Arbitration timetable is agreed for July 31.

June 20

- ARU General Meeting is held in Sydney where members confirm support for a reduction of Super Rugby teams, with resolutions 1 and 2 defeated.

July 31

- Arbitration commences in Sydney.

August 1

- Arbitration concludes.

August 2

- ARU asks RugbyWA for “best and final” business case ahead of the final arbitration ruling being handed down.
- Business case provided by RugbyWA lacked any evidence of binding commitments of financial support or any other evidence-based representations upon which the ARU Board could rely in reaching a final view on the future viability of the Western Force.

August 4

- Imperium Sports Management Group transfers ownership of the Melbourne Rebels to the Victorian Rugby Union.

August 11

- Arbitrator rules that the ARU-RugbyWA alliance agreement had ended as a result of the new 15-team Super Rugby competition being introduced, and that ARU was legally entitled to discontinue the Western Force.
- ARU Board announces it will discontinue the Western Force Super Rugby licence.

August 14

- RugbyWA files for appeal against the arbitration award in the NSW Supreme Court.

August 23

- RugbyWA granted leave to appeal in the NSW Supreme Court. Appeal is heard by Justice Hammerschlag.

September 5

- NSW Supreme Court dismisses RugbyWA appeal.