

9th Annual Slot Market Survey

Confidence in Adjacencies as Aristocrat's Share Gain Momentum Continues

Following the completion of our 9th Annual Slot Market Survey, we conclude Aristocrat is well-positioned for growth and looks set to enjoy a significant pipeline of outperformance during the remainder of 2018 and into 2019. Our survey suggests the US slot market will enjoy another year of growth; participants expect machine prices to increase, although replacement and participation units are expected to remain flat. ALL will be the key beneficiary with 81% of participants saying the company is the current top performing manufacturer. Anticipation for AGI sales appear to have diminished as purchasers are willing to devote only 5% of a new floor to Ainsworth. The trends evident in our proprietary survey are largely in-line with our ALL estimates for NA and ANZ, but we have slightly increased our Digital margin forecasts. We reiterate OW on ALL due to its land-based strength along with Digital outlook, and increase PT to A\$32.00.

- Growth in conversions and pricing to drive slot revenue growth.** North American Slot Market Survey results indicate: Replacement sales: to largely remain flat; we estimate to be around 55-60k units. Participation units: will remain broadly flat around ~120k between ALL, IGT, and SGMS. Conversions: 43% of participants expect spend to increase, higher than in recent years. Pricing: 57% expect box pricing will be up, and this should be a key sales growth driver for an industry where volumes are largely flat. In summary, survey results show we can expect increased spend by casinos over the next year due to growth in conversions and higher pricing with flat unit sales.
- ALL closing the gap with IGT and SGMS in North America.** Aristocrat: was again ranked as the best performer (81%) and top share gainer (71%) with 86% of participants rating its products as better than competition. 77% are willing to increase ALL on their floor, despite only 14% intending to increase total participation units, implying further share gains for ALL. Scientific Games: ranked 2nd in performance and share gain metrics, and was the preferred online provider. IGT: ranked 3rd in performance, but remains the market leader and top pick for a greenfield floor, although its share follows a declining trend. Konami and Ainsworth were ranked at the bottom and face pressure from niche manufacturers as casinos want floor diversity to maintain appeal.
- ALL remains market leader and most popular manufacturer in Australia.** Australian Slot Market Survey results indicate: increased spend per customer on EGMs (as per 74% of participants) has likely driven an increase in casino and pub spend on replacements and conversions, although machine pricing outlook was mixed. Aristocrat remains the clear leader in this market, receiving an overwhelming majority of top ranks in terms of performance (100%), share gains (95%) and allocation to a greenfield game floor.
- Takeaways for ALL.** Successful new launches and continued improvement in title library has allowed ALL to gain share at the expense of its competitors in the North American market, achieving double digit sales and earnings growth, and we expect this trend to continue in the near to medium term. In ANZ, ALL holds top share and is expected to grow earnings at the low market growth rate.

See page 26 for analyst certification and important disclosures, including non-US analyst disclosures.

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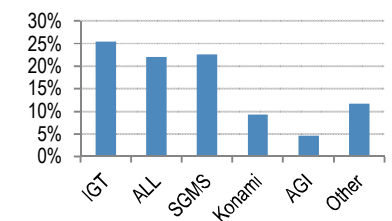
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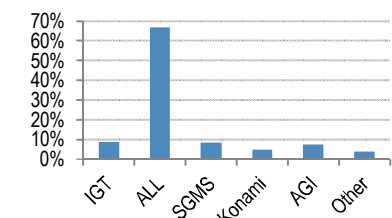
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Figure 1: North America - If starting a floor today, what % of floor would you devote to the manufacturers?



Source: J.P. Morgan. Slot count-weighted responses.

Figure 2: Australia - If starting a floor today, what % of floor would you devote to the manufacturers?



Source: J.P. Morgan. Slot count-weighted responses.

Executive Summary

This report details the results of our 9th Annual J.P. Morgan Slot survey, with a particular focus on ALL. We have split the findings into three categories and two geographies: market trends, competitive landscape and company specific, and across North America and Australia. Conducted from March-June 2018, the key findings of the survey are as follows.

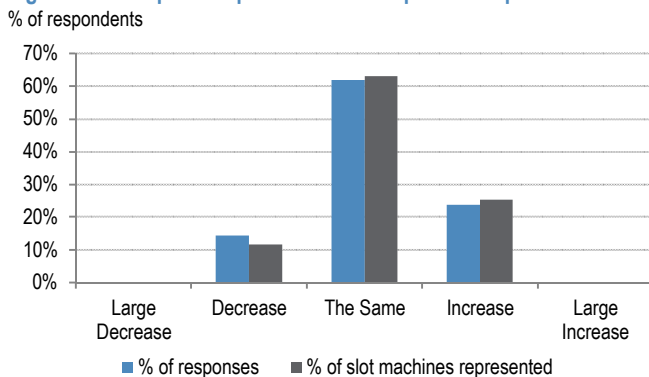
North American Slot Market Trends

Industry Trends

Slot manufacturers selling into the US are poised for sales growth in 2018. Sentiment toward replacement spend is mostly neutral while most participants expect increased spending on conversions. Key findings from our slot survey indicate North American casinos will:

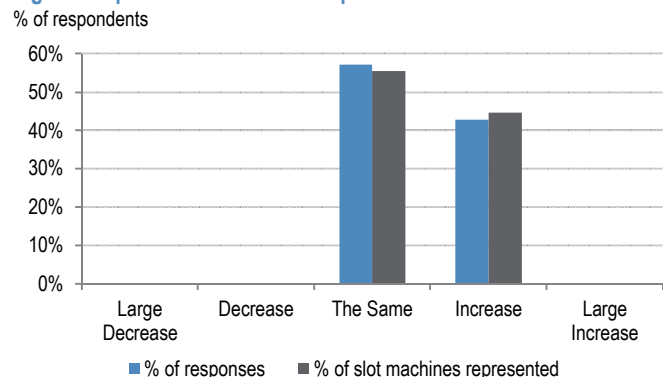
- i. **Maintain spend on replacements** – 24% of participants (20% 2017) intend to increase spend on replacements, 62% (80% 2017) will maintain spend and 14% (0% 2017) plan to reduce budget for replacement slots.
- ii. **Grow spend on conversions** – 43% (40% 2017) of participants expect to increase spend on conversions, while 57% (60% 2017) intend to maintain the same spend on conversions as last year.
- iii. **Maintain the number of participation boxes** – consistent with previous years, the response to participation was mixed. 14% of casinos will increase the number of participation boxes whilst 19% expect to see a reduction.
- iv. **Expect a price increase** – 57% of participants (80% 2017) expect box pricing will be up, 38% expect pricing to be unchanged and only 5% (10% 2017) of participants expect cost per box to fall.

Figure 2: Participants expect to maintain spend on replacements



Source: J.P. Morgan.

Figure 3: Spend on conversions expected to increase



Source: J.P. Morgan.

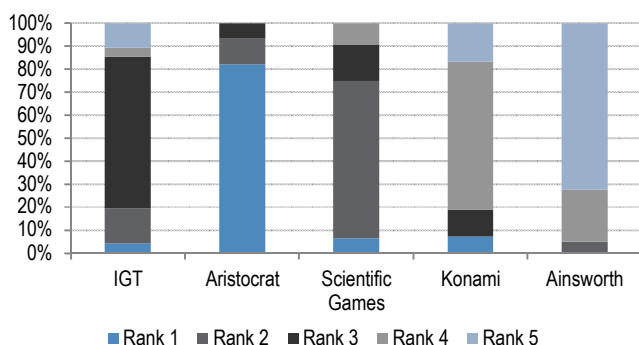
Competitive Landscape

ALL can benefit from competitors being distracted for a variety of reasons; ranging from high gearing (removes the attractiveness of selling machines onto participation and thus enables ALL to enjoy more long-term recurring revenue) to ancillary distractions like lottery and systems businesses. Our key takeaways from the survey for the top manufacturers are as follows:

- i. **Aristocrat (ALL.AX, OW, PT A\$32.00) remains the top performer** – 81% of participants rate Aristocrat as the top manufacturer in terms of performance and 71% say Aristocrat is taking the most share. Despite indicating the participation market is likely to remain flat, 77% of US casinos intend to increase the number of ALL participation boxes meaning ALL will continue to enjoy share gains. Growth in ALL participation is due to the fact that 86% of participants rate ALL’s participation library as ‘better’ or ‘much better’ than the competition; and 85% believe it has improved over the previous year.
- ii. **Scientific Games Corporation (SGMS.US, covered by J.P. Morgan analyst Joseph Greff, Neutral) performing well** – ranked #2 based on 2018 performance and in terms of gaining share of the gaming floor. SGMS has recovered greenfield allocation share in 2018, and is also the preferred online provider.
- iii. **International Games Technology (IGT.US, Not Covered) retains highest greenfield share** – IGT ranked 3rd in terms of performance and floor share gains, although its overall shift in allocation has decreased over time.
- iv. **Konami (9766.T, covered by J.P. Morgan analyst Haruka Mori, OW) and Ainsworth (AGL.AX, Not Covered) fall further at the expense of niche manufacturers** – Konami and Ainsworth ranked the worst in our survey, consistently receiving ratings outside the top three. Greater number of purchases from manufacturers outside the top 5 implies casinos are willing to try new products.

Figure 4: Aristocrat is the clear leader in terms of performance

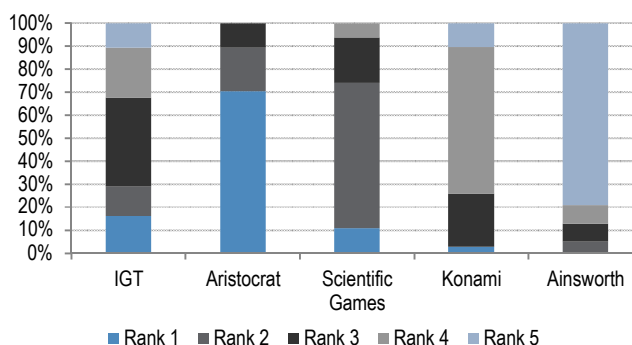
% of ranked responses



Source: J.P. Morgan.

Figure 5: Casinos indicate Aristocrat is gaining the most floor share

% of slot machines represented



Source: J.P. Morgan.

Table 1: Manufacturer allocation on a greenfield has IGT as top pick followed by SGMS and ALL

% of respondents

	IGT	Aristocrat	Sci. Games	Konami	Ainsworth	Other
2013	33.5%	15.1%	29.3%	12.0%	5.4%	4.7%
2014	29.9%	15.6%	33.1%	11.1%	4.0%	6.1%
2015	24.4%	17.6%	29.5%	12.1%	5.2%	11.1%
2016	24.4%	19.3%	28.8%	13.2%	6.4%	11.3%
2017	26.1%	22.8%	21.0%	11.1%	7.1%	10.9%
2018	24.2%	22.0%	22.1%	9.8%	5.3%	13.5%

Source: J.P. Morgan

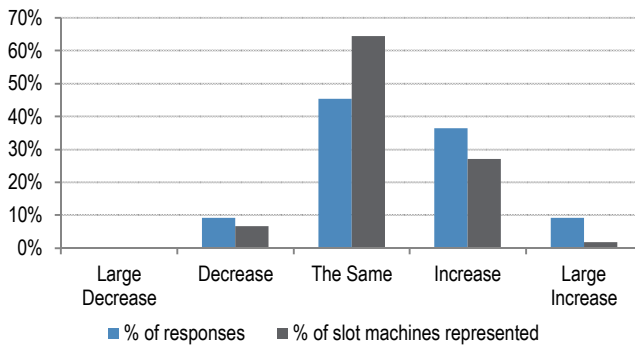
Australian Slot Market Trends

Industry Trends

The second edition of our survey on the Australian EGM market indicates positive trends in terms of increasing customer spend on slots and thus higher willingness by venues to purchase more machines, and market leader Aristocrat is expected to benefit the most as a result of these trends. Key takeaways from the survey indicate Australian casinos and pubs will:

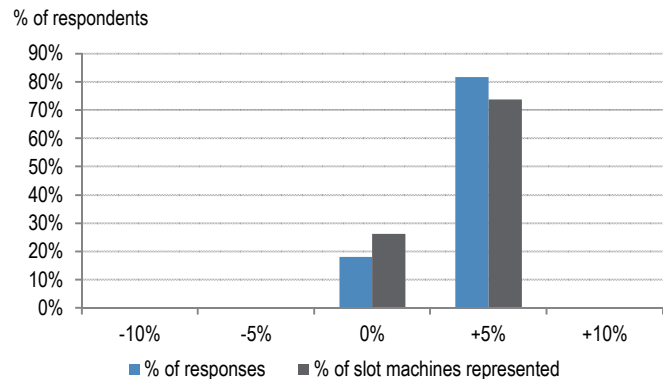
- i. **Increase spend on replacements** – 29% of survey participants intend to grow spend on replacements, 65% will maintain spend and 7% aim to reduce budget for replacement machines.
- ii. **Maintain or increase spend on conversions** – 26% of slot owners expect to increase spend on conversions, while 74% expect their conversion expenditure to remain flat.
- iii. **Spend per customer has increased** – 74% of participants estimate that spend per customer has increased by +5% compared to last year, with none of the participants estimating a decline in customer spend.

Figure 6: Participants expect to maintain or increase spend on replacements over the next year



Source: J.P. Morgan.

Figure 7: There is consensus agreement that spend per customer has increased



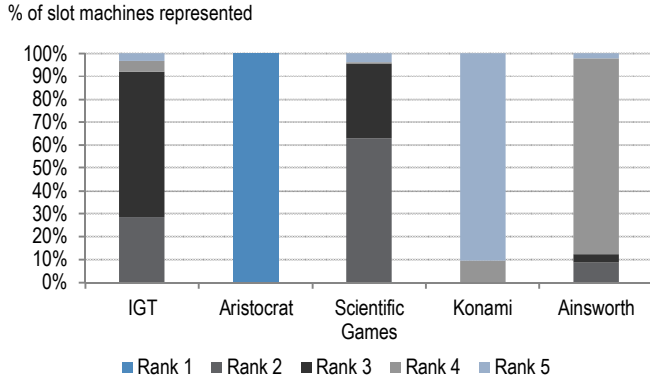
Source: J.P. Morgan.

Competitive Landscape

Aristocrat is the market leader in the Australian market, and earned an overwhelming majority of top ranks in our survey in terms of performance and share gains.

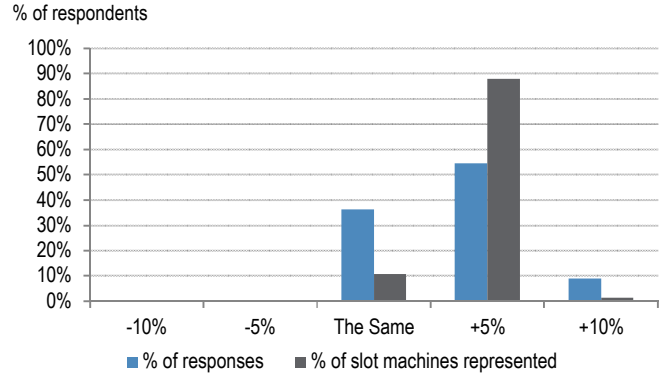
Ainsworth performed better in ANZ than in the North American survey, but is still only 4th best as concerns persist around the A560 cabinet as the A640 is being replaced more quickly with the EVO.

Figure 8: All ANZ survey participants ranked Aristocrat as the top performing slot manufacturer



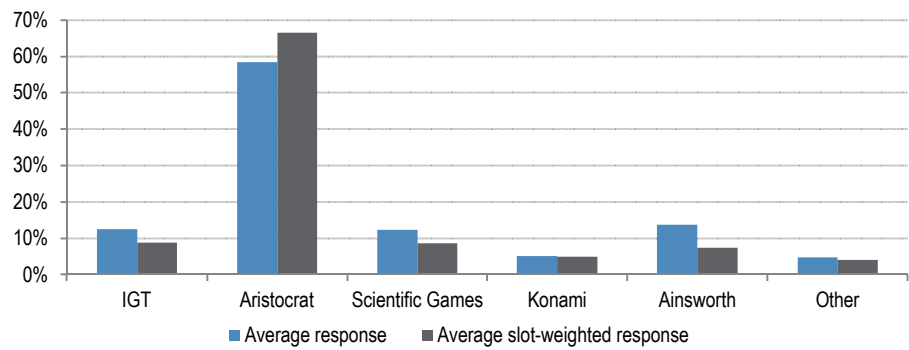
Source: J.P. Morgan.

Figure 9: ANZ venues intend to increase the proportion of Aristocrat on their floor



Source: J.P. Morgan.

Figure 10: Participants were willing to devote about 2/3rds of a greenfield game floor to Aristocrat



Source: J.P. Morgan.

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North American Slot Market Survey

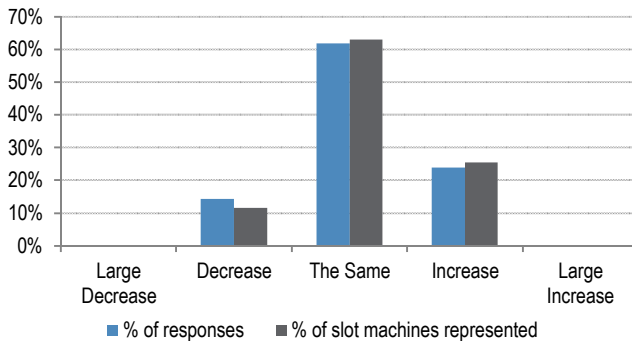
Size of the market

Do you intend to change your spend on replacements over the next year?

Slot manufacturers will be reliant on the replacement market as the industry matures and there are fewer casino openings. In our latest survey, 62% of casinos (80% 2017) report they will maintain spend on replacements, 24% (20% 2016) intend to increase spend while 14% (up from 0% in 2017) intend to decrease their replacement budget. In total, venues representing 88% of the slot machines surveyed (86% 2017) expect their replacement budget to not decrease this year.

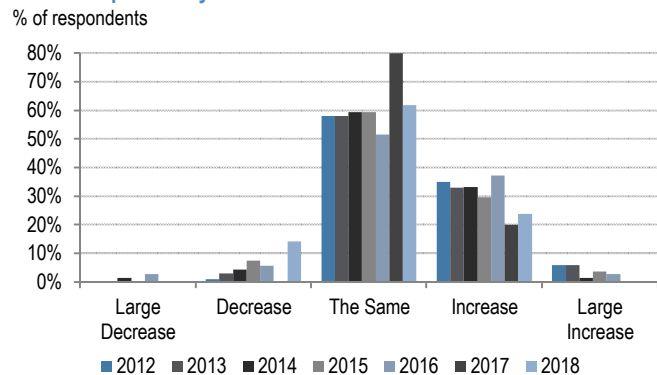
N.A. replacements: we estimate replacements to be in the range of 55-60k units in 2018, up slightly from our FY17 forecasts of 53-55k.

Figure 11: Casinos will largely maintain spend on replacements in 2018



Source: J.P. Morgan.

Figure 12: Growth in the replacement market is expected to slow relative to previous years



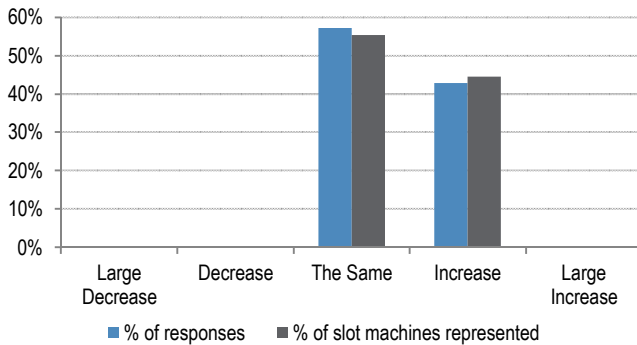
Source: J.P. Morgan.

Do you intend to change your spend on game conversions over the next year?

All the casinos from the survey intend to maintain or increase spend on conversions in 2018. Previously, strong growth seen in conversions over the lifetime of our survey has been the result of a strong cost focus from casinos as they serve an efficient way for operators to update their floors, while also serving as a high-margin product for manufacturers.

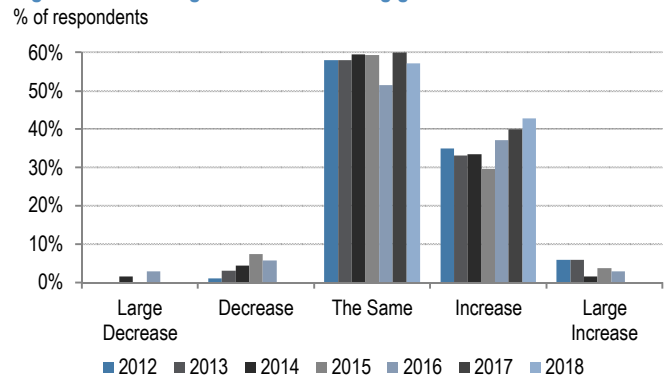
Increased allocation towards conversions is consistent with anecdotal feedback in various markets. In the US, heritage machines continuing to perform above floor average will remain in-place, and we do not expect replacements to occur unless significant (20-30%) floor outperformance is expected from the new machines.

Figure 13: Conversions are still seen as an efficient way to update gaming floors



Source: J.P. Morgan.

Figure 14: Focusing on cost sees strong growth in conversions



Source: J.P. Morgan.

The shift in intention of casinos, with conversion uptake increasing and replacement uptake decreasing, is surprising given the slow growth observed in conversions over the last few years.

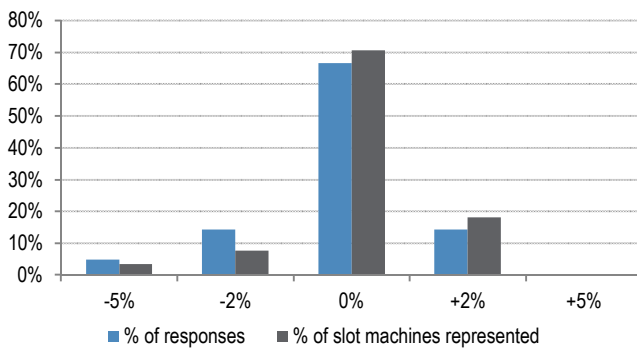
Do you intend to change the number of participation units on your floor this year?

Revenue share becomes more popular when replacement budgets tighten. Overall, the industry feels to be trending in this direction. **The number of participation units in US casinos will be largely flat in 2018 on the pcp.** Participants have indicated a consistent approach to participation with prior years.

In our latest survey, 67% of casinos report intentions to maintain the number of participation units, 14% intend to increase the number of participation units and 19% expect a reduction. Although when the responses were weighted based on the number of slot machines represented, the responses inclined more towards an increase, with 18% intending to increase and 11% expecting a decrease in the number of participation units in 2018.

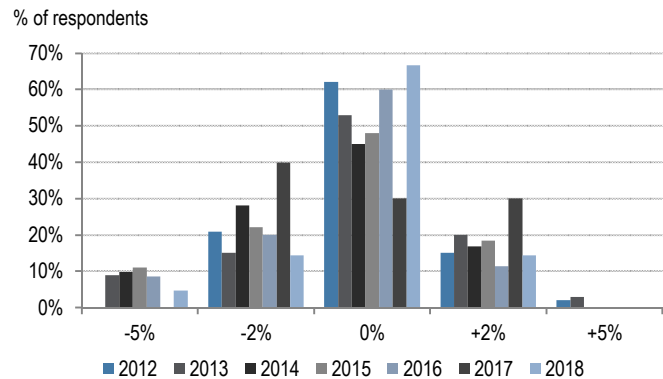
If the proportion of the gaming floor allocated to participation remains stable, manufacturers will need to take share in order to materially lift profits from leased machines. **Our survey indicates Aristocrat will be successful in taking share in participation;** as 77% of casinos expect to increase the proportion of Aristocrat on their floor ([Figure 37](#)) despite just 14% expecting to increase their participation units and only 25% intending to increase their replacement units.

Figure 15: Casinos intend to largely maintain the number of participation units in 2018



Source: J.P. Morgan.

Figure 16: Number of participation units are seeing a flat to low decline trend



Source: J.P. Morgan.

Unit Pricing

How do you expect pricing of machines will change in 2018?

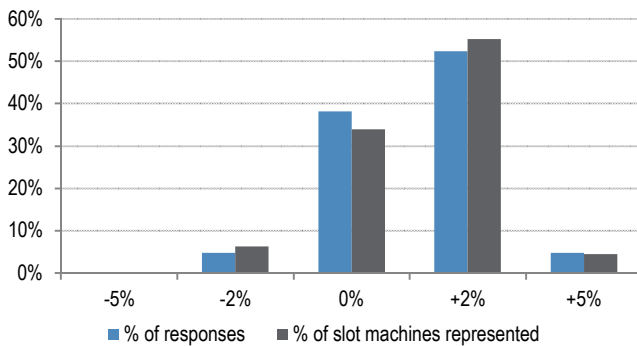
The market is prepared for price increases in 2018, consistent with a consolidating market and continuing the trend from previous years.

57% of respondents (down from 80% in 2017) expect box pricing to increase in 2018. This proportion is lower than the results from our 2017 survey, but the low single-digit price increase trend remains.

We anticipate margins for EGM manufacturers to increase in the short-to-medium term due to market consolidation with box prices rising.

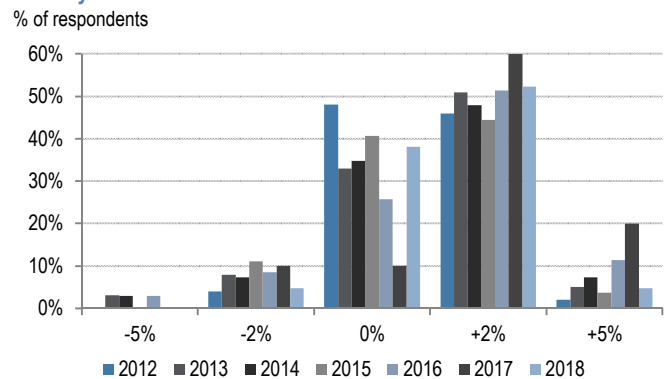
Higher demand for new products (such as Dragon Cash by Aristocrat) may allow them to command a higher ASP.

Figure 17: Casinos expect pricing of machines to rise in 2018



Source: J.P. Morgan.

Figure 18: Expectations of rising machine prices have increased in recent years



Source: J.P. Morgan.

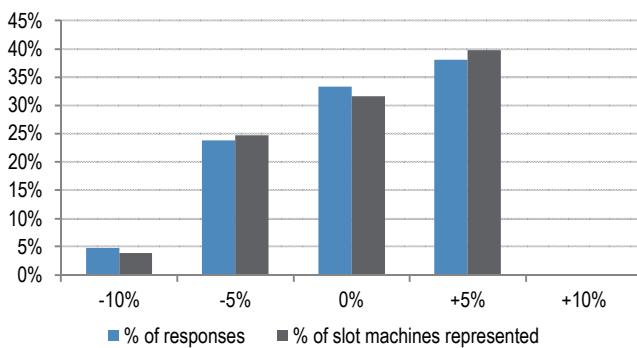
The Customer

How much do you estimate spend per customer has changed compared to last year?

Slot players appear to be spending slightly more per person, however the spend per player appears to have reduced compared to previous years. 38% of casinos estimate spend per customer has increased (50% in 2017, 43% in 2016) and 29% of casinos report a decrease in spending (10% in 2017, 17% in 2016).

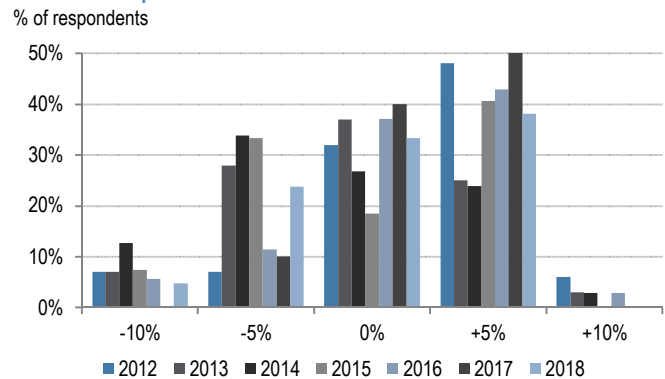
The outlook from operators at the JP Morgan Gaming Conference was positive around tax cuts and the increased minimum wage to support increased slot expenditure in addition to general economic conditions in the US improving as corporate tax cuts would benefit a replacement cycle.

Figure 19: Casinos estimate spend per customer increased over the past 12 months



Source: J.P. Morgan.

Figure 20: The number of casinos reporting a reduction in spend per customer is up from 2016 and 2017



Source: J.P. Morgan.

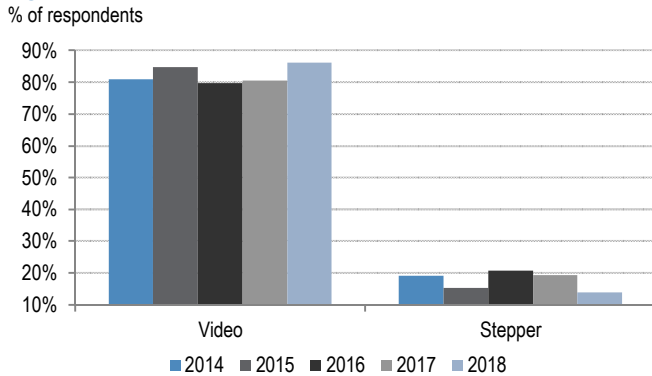
Total gaming revenue from slot machines in Nevada grew 3.7% in the 12 months to May 2018, in-line with 12 months to December 2018 (as per Nevada Gaming Control Board). The growth rate is in-line with the low single-digit increase in spend per customer inferred from our survey results.

In the future, do you intend to acquire more video product or stepper product?

The results indicate stepper product will play an insignificant role in the future, and survey participants indicated a very low portion of stepper product will remain on their floor. Over the last few years there has been a significant shift away from stepper sales, following an oversaturation of the 5 reel stepper product. This trend is expected to continue in 2018 benefitting Aristocrat and Ainsworth, who compete almost exclusively in the video reel market.

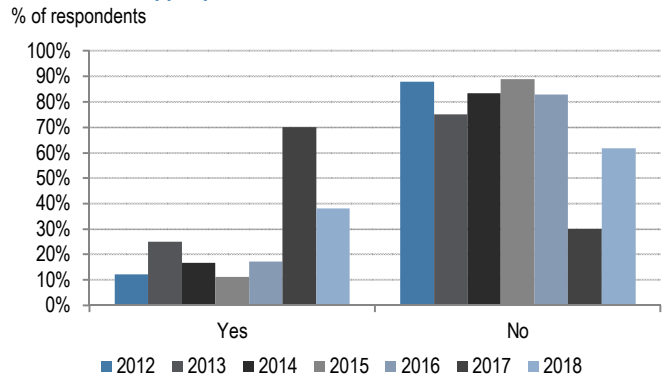
Despite the majority of respondents indicating they do not intend to buy any stepper product, the ones that are inclined are more likely to purchase from ALL.

Figure 21: Stepper product uptake continues to decline further



Source: J.P. Morgan.

Figure 22: Casinos that still use stepper are more likely to purchase Aristocrat's stepper product



Source: J.P. Morgan.

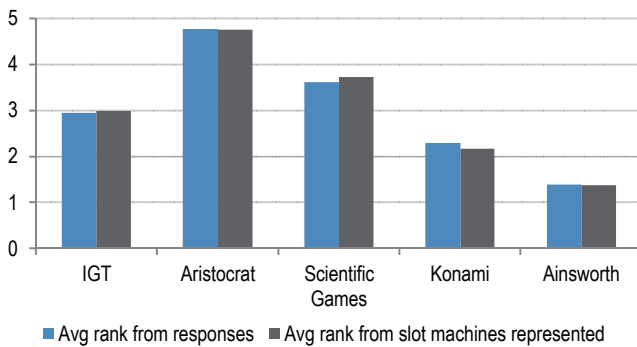
Competitor Landscape

Which manufacturer is performing best?

Aristocrat remains the top-performing manufacturer, with 81% of the respondents, representing 82% of slot machine participants, rating it as number one. When weighted based on the rankings assigned, Scientific Games and IGT were the next best performers, with Scientific Games getting the most #2 ranks and IGT receiving the maximum #3 ranks.

Figure 23: Casinos rate Aristocrat as number one (weighted ranking)

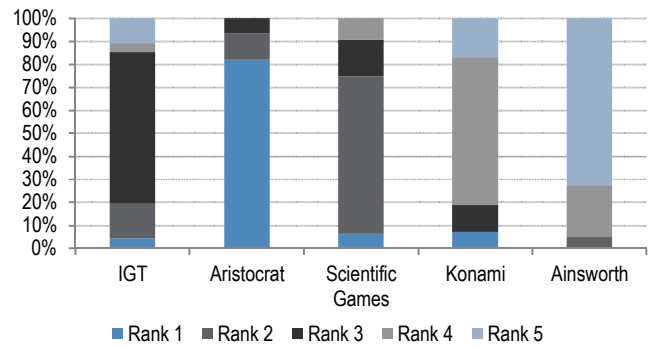
Average weight; weights: Rank 1 = 5, Rank 2 = 4, ..., Rank 5 = 1



Source: J.P. Morgan.

Figure 24: Distribution of response in 2018 – performance

% of slot machines represented

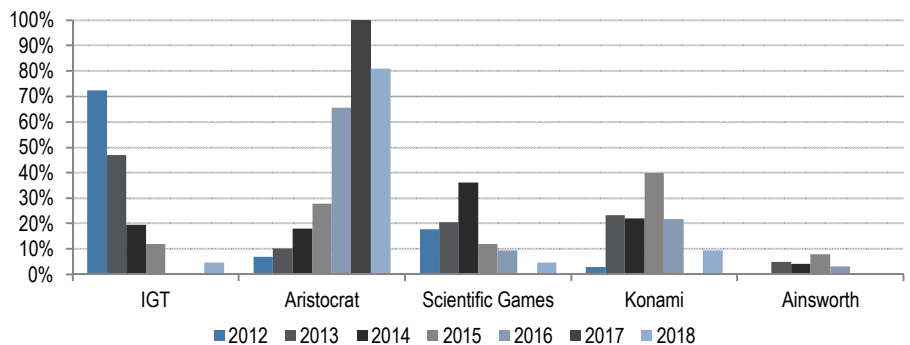


Source: J.P. Morgan.

Aristocrat has showed consistent improvement over the course of our survey. The number of casinos reporting Aristocrat as the number one performing manufacturer has grown from 10% in 2013 to 64% in 2016, and now 81% in 2018. We expect the fall in score for other manufacturers to be explained by the strength of Aristocrat rather than a weak individual performance.

Figure 25: % of number one responses

% of respondents



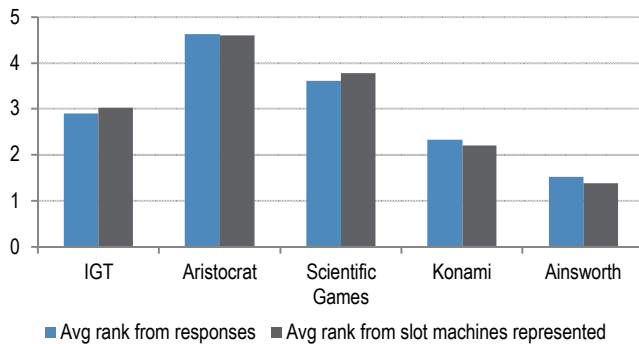
Source: J.P. Morgan.

Which manufacturer is gaining the most floor share at present?

Aristocrat's products have been growing in popularity over recent years with popular product launches. The results of our 9th annual survey mirrors the positive sentiment towards Aristocrat shown in our 8th annual survey, with 71% (70% 2017) of casinos claiming Aristocrat as the manufacturer gaining the most share, and 90% of casinos ranking Aristocrat in the top two. Scientific Games and IGT were again second and third in our survey on a 'top three basis', followed by Konami.

Figure 26: Casinos indicate Aristocrat is gaining the most floor share (% of number one responses)

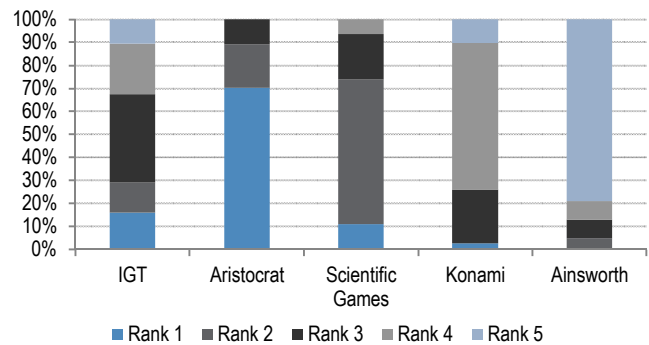
Average weight; weights: Rank 1 = 5, Rank 2 = 4, ..., Rank 5 = 1



Source: J.P. Morgan.

Figure 27: Distribution of responses in 2018 – gaining share

% of slot machines represented

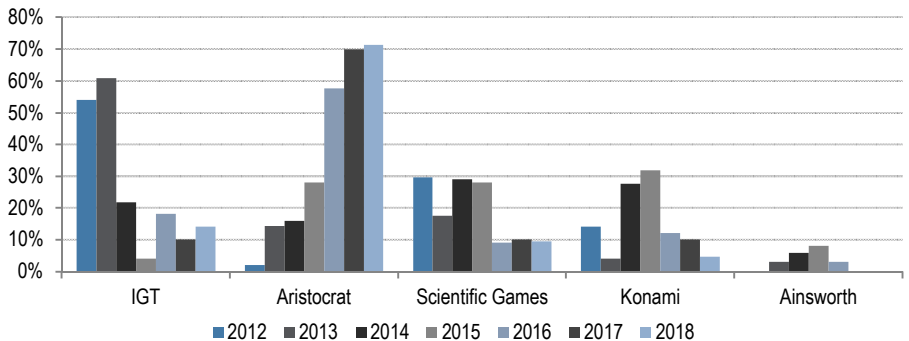


Source: J.P. Morgan.

In line with gaming performance, our latest survey shows Aristocrat is the number one manufacturer taking share.

Figure 28: % of number one responses

% of respondents



Source: J.P. Morgan.

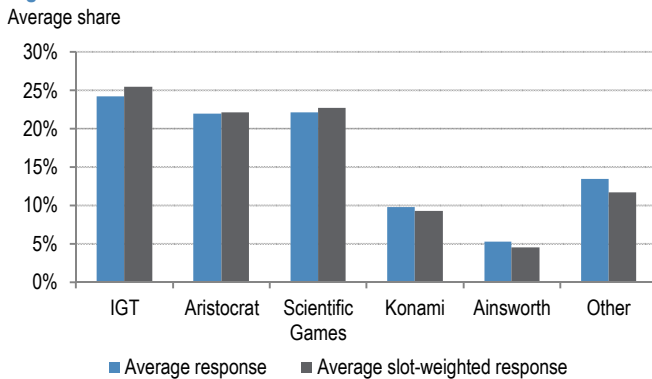
If you were starting your floor today, what percentage of your floor would you devote to each manufacturer?

We believe this question is a good proxy for long-term floor share estimates as casinos shift the composition of their floor with replacements.

Following years of strong gaming performance, preference for Aristocrat product on a greenfield floor remains high. In our most recent survey the average casino would devote 22% (23% 2017) of a new floor to Aristocrat (up from 15% in 2013).

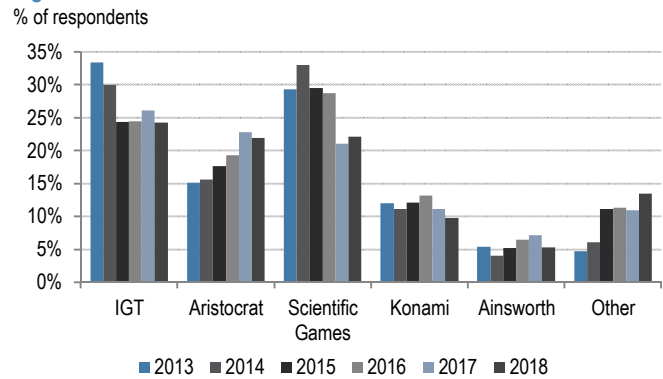
ALL does not have a video poker offering so competitors like IGT receive a boost to portioning of a greenfield from this segment. Comments from a number of respondents indicate they need to allocate a large portion of their floor to IGT (regardless of how they ranked versus other manufacturers) due to its position in video poker machines.

Figure 29: Allocation between manufacturers on a new floor in 2018



Source: J.P. Morgan.

Figure 30: Shift in allocation to manufacturer over time



Source: J.P. Morgan.

Table 1: Shift in allocation to manufacturers over time

	% of respondents					
	IGT	Aristocrat	Sci Games	Konami	Ainsworth	Other
2013	33.5%	15.1%	29.3%	12.0%	5.4%	4.7%
2014	29.9%	15.6%	33.1%	11.1%	4.0%	6.1%
2015	24.4%	17.6%	29.5%	12.1%	5.2%	11.1%
2016	24.4%	19.3%	28.8%	13.2%	6.4%	11.3%
2017	26.1%	22.8%	21.0%	11.1%	7.1%	10.9%
2018	24.2%	22.0%	22.1%	9.8%	5.3%	13.5%

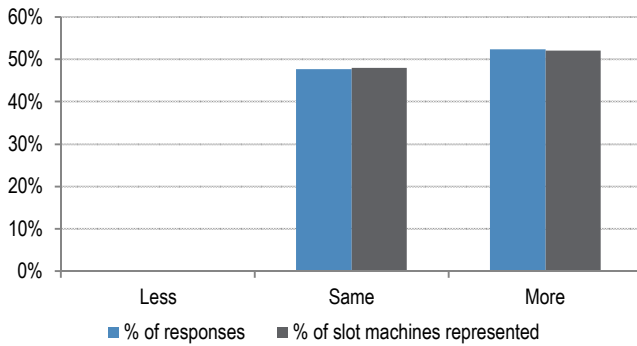
Source: J.P. Morgan

What allocation of your wallet are you spending on manufacturers outside of the top 5? How has this changed over the past 3 years?

The trend towards greater allocation to manufacturers outside the top 5 (IGT, ALL, Scientific Games, Konami, Ainsworth) is expected to continue in 2018 as new players such as AGS Play and Aruze attract greater attention. None of the casinos surveyed indicate intentions to spend less on this particular segment (consistent with 0% in 2017, down from 9% in 2016).

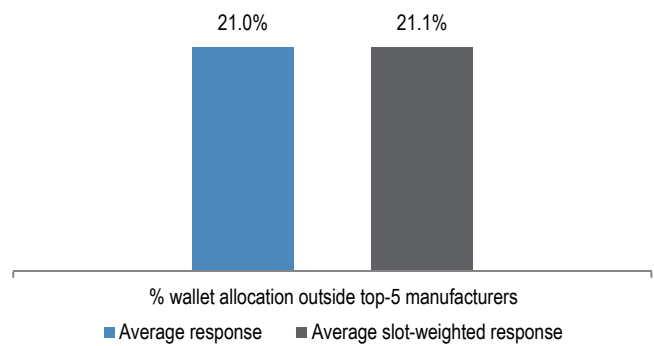
Market purchases from manufacturers outside the top 5 are becoming more popular. Smaller manufacturers have entered the market such as Gamblit Gaming (skills based), Aruze, Incredible, Multimedia Games, AGS Play, etc. which provide healthy diversification of the gaming floor for managers trying to attract the widest demographics. Greater spend on non-market leading manufacturers suggests casinos are open to trying new products and are looking to diversify their floor.

Figure 31: Casinos intend to allocate more of their slot budget to manufacturers outside the top 5 in the coming year



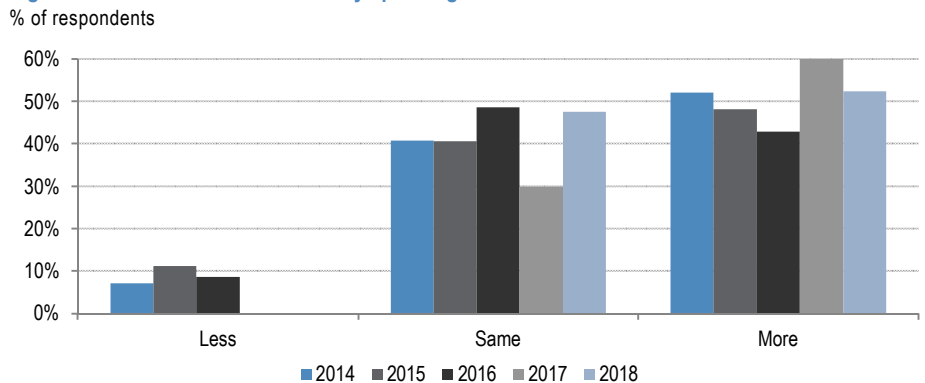
Source: J.P. Morgan.

Figure 32: Casinos allocate ~21% of their wallet on manufacturers other than Aristocrat, IGT, Sci Games, Konami and Ainsworth



Source: J.P. Morgan.

Figure 33: Casinos have been actively spending more on nice slot manufacturers



Source: J.P. Morgan.

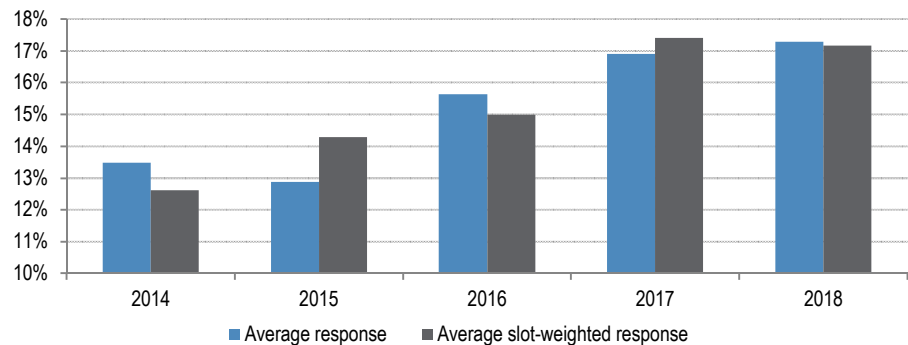
Aristocrat

Aristocrat has gone from strength to strength over the past few years as a result of hit series like Lightning (Link/Cash) and Dragon (Link/Cash), reporting growing ship share and earnings as a result. Following impressive results relative to the competition, we asked participants a few questions to gauge Aristocrat’s current and 1-year forward performance.

What proportion of your floor is Aristocrat at present?

Survey participants indicated an average of 17% of the machines on their gaming floor were Aristocrat, which is up from ~13% in 2014/15.

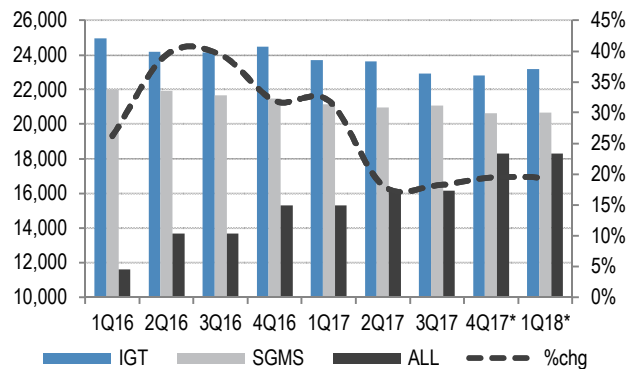
Figure 34: Aristocrat’s share of casino floor continues to increase, although growth has slowed



Source: J.P. Morgan.

The above result is in-line with installed base performance observed of the North American slot manufacturers, which indicate Aristocrat’s continued share gains.

Figure 35: ALL – North America Class III Premium Installed Base

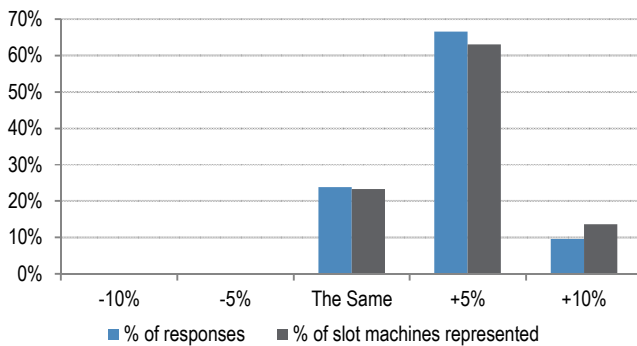


Source: Company reports, J.P. Morgan. Periods represent calendar year quarters.

Do you intend to change the proportion of Aristocrat on your floor in the next 12 months?

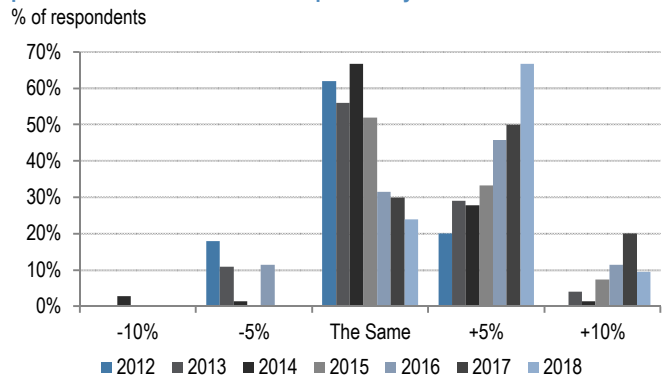
All of the casinos surveyed intend to maintain or increase the allocation to ALL; 77% of casinos intend to increase allocation to ALL and 23% will look to maintain the proportion of ALL on their floor.

Figure 36: Casinos intend to increase the proportion of Aristocrat on their floor by an average +4.5%



Source: J.P. Morgan.

Figure 37: More casinos report intentions to increase Aristocrat product on their floor relative to previous years

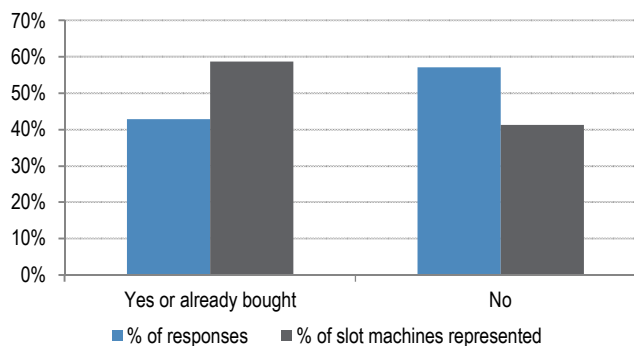


Source: J.P. Morgan.

Will you be buying Aristocrat's Dragon Link product, and if so, how many?

Response to Aristocrat's Dragon Link machine has been very positive, with participants representing 59% of slot machines covered by the survey indicating that they either intend to purchase or already own Dragon Link machines on their gaming floor.

Figure 38: Aristocrat's Dragon Link was highly anticipated

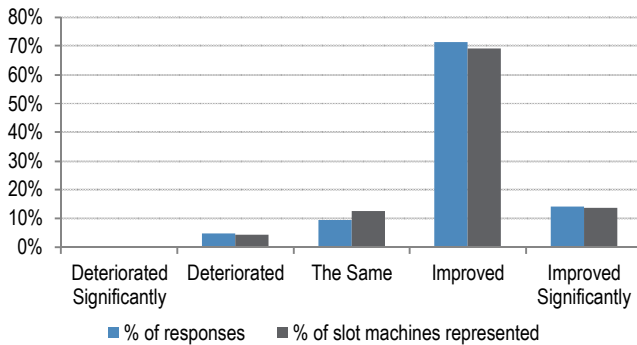


Source: J.P. Morgan.

Has Aristocrat's game library improved in the past year?

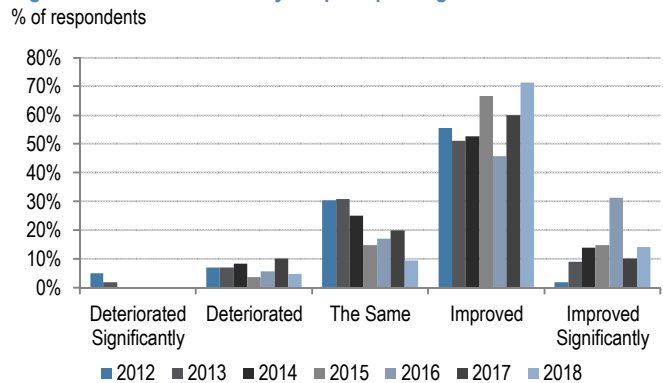
Aristocrat's performance throughout the life of our survey has remained strong, 85% of participants (up from 70% in 2017 and 77% in 2016) believe that Aristocrat's game library has improved over the past 12 months. When the responses were weighted based on the slot machines represented, 83% say Aristocrat's game library is better than in 2017.

Figure 39: There is consensus agreement that Aristocrat's game library has improved in the past year



Source: J.P. Morgan.

Figure 40: Aristocrat's library keeps improving

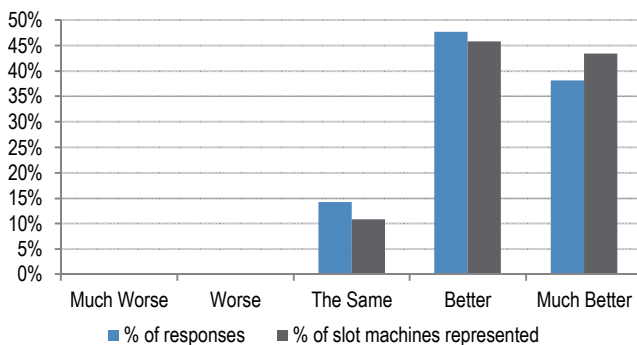


Source: J.P. Morgan.

How does Aristocrat's participation library compare to its competition?

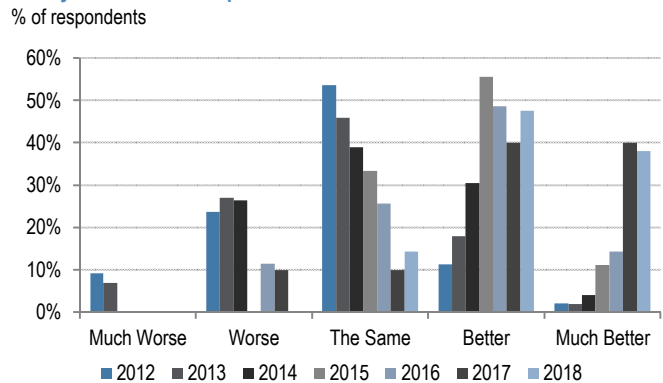
Aristocrat's game library continues to outperform its competition. 86% of casinos (89% slot number weighted; 80% 2017) now rank the Aristocrat game library as 'Better' (48%) or 'Much Better' (38%) than the competition. None of the participants (10% in 2017, 11% in 2016) consider Aristocrat's library as worse than the competition.

Figure 41: Aristocrat's participation library is much better than the competition



Source: J.P. Morgan.

Figure 42: More participants agree that Aristocrat's participation library is better vs competitors



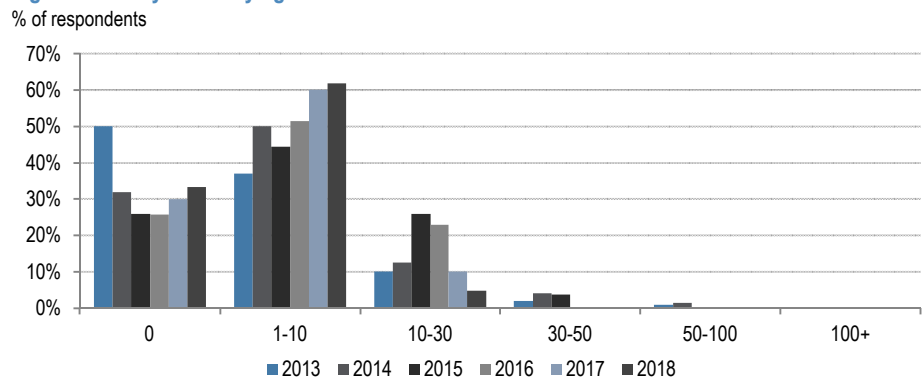
Source: J.P. Morgan.

Ainsworth

Will you be buying Ainsworth boxes in the next 12 months? If so, how many?

Ainsworth's product appears to be declining in popularity; 68% of respondents (70% in 2017, 74% in 2016) indicate a willingness to purchase Ainsworth products in the next 12 months. However, only 5% of respondents were willing to purchase more than 10 Ainsworth machines in the next 12 months, down from 10% in 2017 and 23% in 2016.

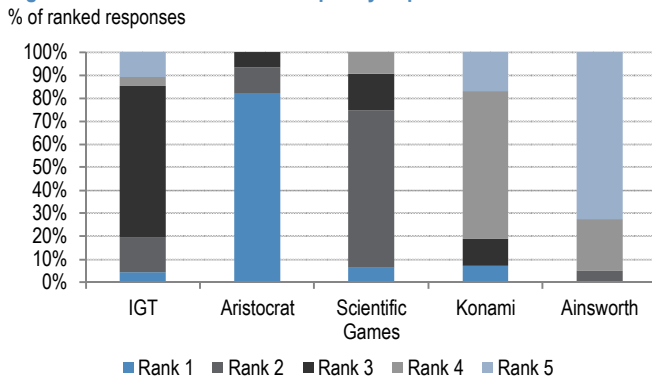
Figure 43: Will you be buying Ainsworth boxes in the next 12 months?



Source: J.P. Morgan.

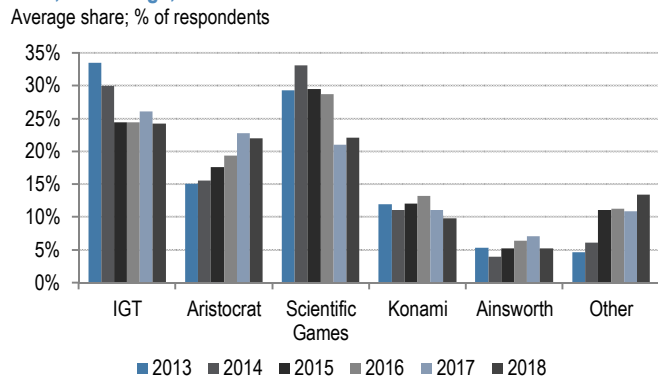
Ainsworth has performed poorly in our survey in terms of performance and share gains, and we believe it has lost significant share in the last few years to new niche manufacturers.

Figure 44: Ainsworth has ranked poorly in performance metrics



Source: J.P. Morgan.

Figure 45: Casinos are willing to allocate only 5% of a greenfield floor, on average, to Ainsworth



Source: J.P. Morgan.

Australian Slot Market Survey

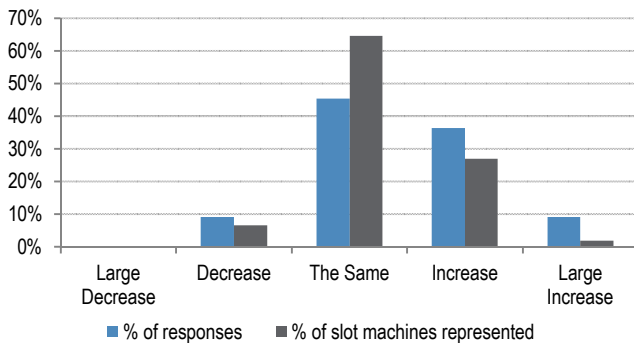
The Australian market was observed to follow similar industry trends to the North American market, yet Aristocrat emerged as the outright preferred slot manufacturer for ANZ survey participants. Some of the trends observed are listed below.

Industry and Customer

29% of Australian casino and pub operators (slot count-weighted responses) intend to increase spend on replacements in 2018, while 7% intend to decrease spend. Conversions are also likely to remain flat or increase, with 26% of survey participants willing to increase spend on game conversions over the next year.

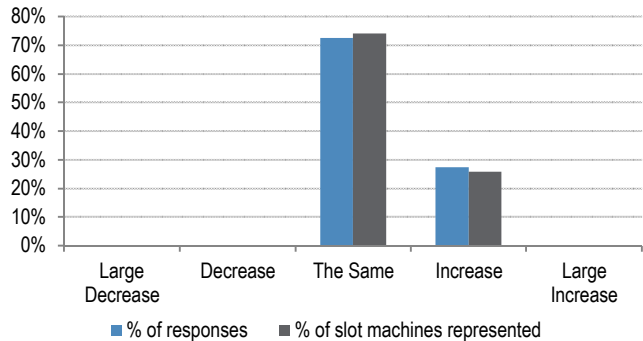
There was no consensus opinion on pricing of machines, with the larger venue operators expecting prices to remain flat or reduce, while smaller venues expect machine prices to increase. Spend per customer has increased over the past year, with 74% of venues (slot count-weighted) estimating customer spend on EGMs has risen by +5%, and none of the participants estimating a reduction in customer spend.

Figure 46: Australian casinos and pubs will maintain or slightly increase spend on replacement machines in 2018



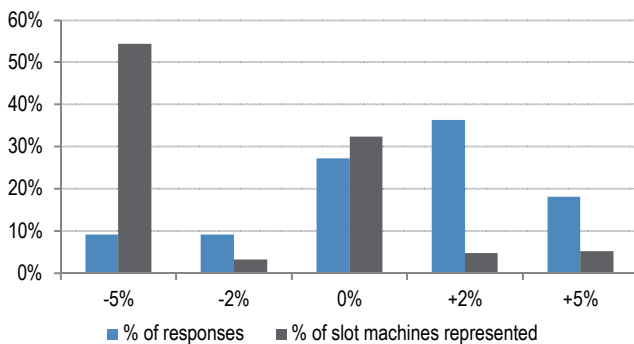
Source: J.P. Morgan.

Figure 47: ANZ market will see growth in spend on conversions in 2018



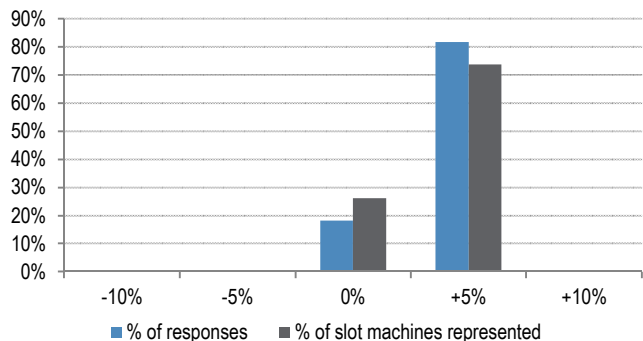
Source: J.P. Morgan.

Figure 48: Responses towards pricing of machines were mixed but most expect pricing of machines to reduce in 2018



Source: J.P. Morgan.

Figure 49: Customer spend on EGMs has increased in Australia compared to last year

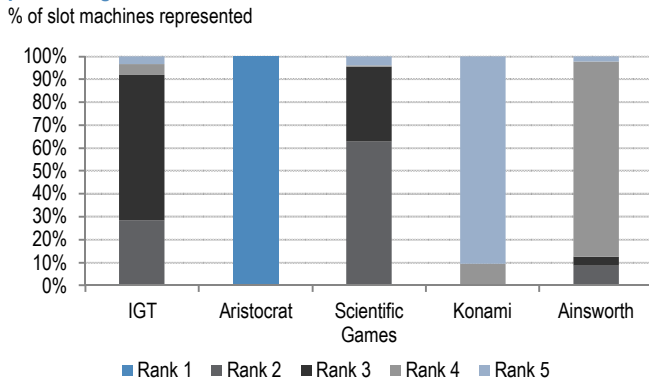


Source: J.P. Morgan.

Competitor Landscape

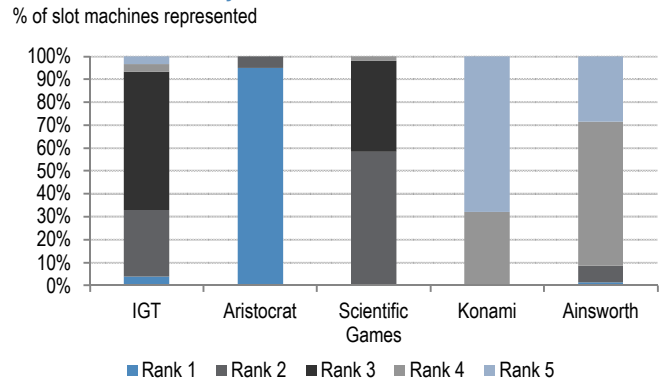
Aristocrat emerged as the clear leader among all manufacturers in terms of current performance, share gains and rate of share gains. Scientific Games and IGT were 2nd and 3rd in priority, followed by Ainsworth and Konami. Response to Ainsworth products was better than in our North American survey.

Figure 50: All ANZ survey participants ranked Aristocrat as the top performing slot manufacturer



Source: J.P. Morgan.

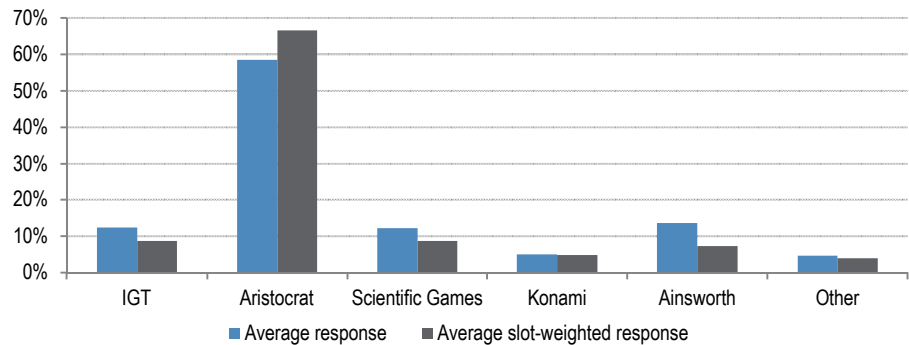
Figure 51: Most Australian casinos agree that Aristocrat is taking most share, followed by SGMS, IGT and AGI



Source: J.P. Morgan.

If starting a fresh floor, survey participants were inclined to devote 67% of their floor on average (slot count-weighted) to Aristocrat products, with the rest of the manufacturers getting minimal share.

Figure 52: Participants were willing to devote about 2/3rds of a greenfield game floor to Aristocrat



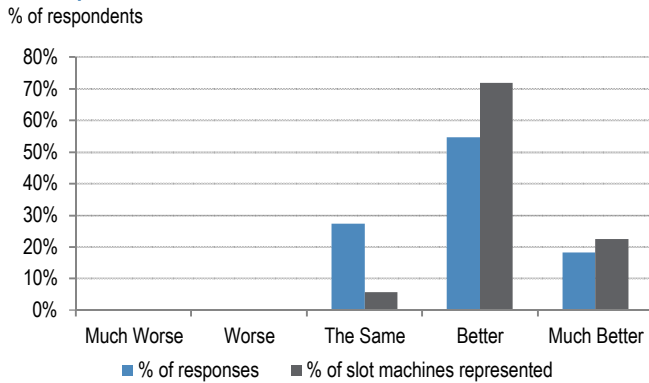
Source: J.P. Morgan.

Aristocrat

Casino and pub operators prefer Aristocrat product, as seen above, as 94% (slot count-weighted) believe Aristocrat’s game library was better or much better than its competition, and 32% feel it has improved over the past year.

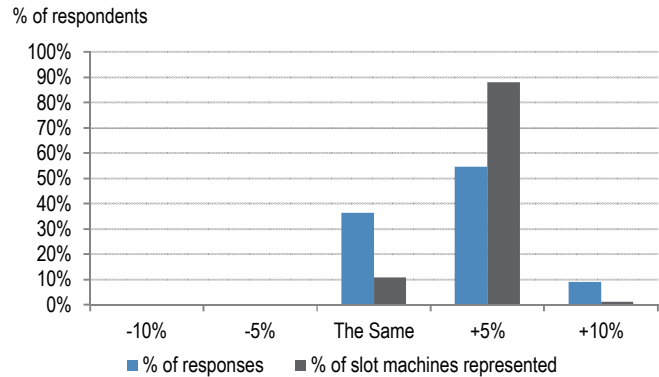
As such, 89% of survey participants (slot count-weighted) intend to increase the proportion of Aristocrat on their floor. This has been driven by the successful launch of Dragon Cash, which we note has had a strong uptake in SGR’s Star Sydney where machine count has increased from 10 in July 2017 to 47 in July 2018 based on our weekly visits of its main gaming floor.

Figure 53: Aristocrat’s game library was rated as clearly better than its competition



Source: J.P. Morgan.

Figure 54: ANZ venues intend to increase the proportion of Aristocrat on their floor



Source: J.P. Morgan.

Earnings Revisions

Our ALL model already largely reflected the findings from this survey and we reiterate our belief in Aristocrat's land-based strength in the NA and ANZ markets.

We have revised our Digital forecasts to correct our margin, and thus earnings, estimates for Big Fish and Plarium.

Table 1: ALL - J.P. Morgan Earnings Revisions

Year To September 2018	Revised	Previous	% Change	% Growth
Revenue	3,595.1	3,595.1	0.0%	46.5%
EBITDA	1,301.4	1,281.5	1.6%	31.4%
NPATA	748.8	734.7	1.9%	37.1%
EPSA (c) fully diluted	117.3	115.1	1.9%	37.0%
DPS (c)	47.0	46.0	2.2%	38.2%
Year To September 2019				
Revenue	4,181.9	4,181.9	0.0%	16.3%
EBITDA	1,451.8	1,406.0	3.3%	11.6%
NPATA	837.0	807.5	3.7%	11.8%
EPSA (c) fully diluted	131.2	126.5	3.7%	11.8%
DPS (c)	56.5	54.0	4.6%	20.2%
Year To September 2020				
Revenue	4,480.3	4,480.3	0.0%	7.1%
EBITDA	1,565.3	1,515.9	3.3%	7.8%
NPATA	929.4	901.5	3.1%	11.0%
EPSA (c) fully diluted	145.7	141.3	3.1%	11.0%
DPS (c)	64.0	62.0	3.2%	13.3%

Source: J.P. Morgan estimates.

Aristocrat Leisure LTD (*Overweight; Price Target: A\$32.00*)

Investment Thesis

Retain Overweight. ALL is a slot machine manufacturer with operations in ANZ, the Americas, and International Class III segments, as well as a fast-growing Digital division. ALL has strong recurring revenues, and has been consistently gaining market share in North American gaming operations, growing well in a flat market. ALL has significantly increased its digital exposure (26% of 1H18 earnings, up from 13% in FY17) and continues to develop titles for both land-based and digital platforms. Further digital growth and capital management opportunities are available, and coupled with strong execution by management and the scarcity of earnings growth in the market, despite a challenging and structural slot expenditure decline, we believe the risk/reward remains attractive at the moment.

Valuation

We increase our Jun-19 share price target from A\$31.75 to A\$32.00. Our share price target is based on our SOP valuation compounded forward to Jun-19 at ALL's cost of equity and adjusted for dividends where appropriate. We calculate our SOP valuation based on the individual cash flow streams of each discrete business segment. In ALL's case, we value capital expenditure, working capital and provisions at the Group level. Our group post-tax WACC is 8.6%. The key figures that make up this discount rate are a cost of equity 9.8% and post-tax cost of debt of 4.8%. We apply a beta of 0.97 within this calculation.

Risks to Rating and Price Target

Key downside risks include the consistent decline of EGM expenditure. Australian per-capita gaming expenditure has declined 0.7% on average since 2007/8, which could indicate a shift of preference within the gaming sector. This shift, coupled with

technological advances, may favor emerging industries such as virtual reality or skills-based gaming. ALL is also susceptible to FX exposure because it generates revenue in multiple currencies, particularly USD. There is also the ongoing risk of changes to the regulatory environment in which ALL operates, which may have a material impact on earnings. The future of EGM remains questionable regarding pre-commitments, EGM expenditure caps, time caps and market size regulation.

Companies Discussed in This Report (all prices in this report as of market close on 04 July 2018, unless otherwise indicated)

Aristocrat Leisure LTD (ALL.AX/A\$30.98/Overweight), KONAMI HOLDINGS (9766) (9766.T/¥5310/Overweight), Scientific Games Corporation (SGMS/\$47.70[03 July 2018]/Neutral)

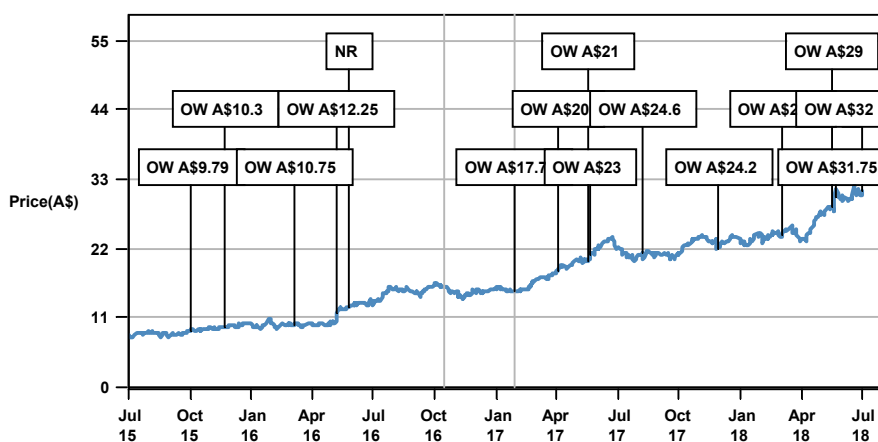
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Aristocrat Leisure LTD (ALL.AX, ALL AU) Price Chart



Date	Rating	Share Price (A\$)	Price Target (A\$)
07-Oct-15	OW	9.04	9.79
25-Nov-15	OW	9.54	10.30
08-Mar-16	OW	9.68	10.75
12-May-16	OW	11.59	12.25
30-May-16	NR	12.74	--
31-Jan-17	OW	15.18	17.75
06-Apr-17	OW	18.44	20.00
22-May-17	OW	20.14	21.00
26-May-17	OW	21.04	23.00
11-Aug-17	OW	21.26	24.60
01-Dec-17	OW	21.99	24.20
06-Mar-18	OW	23.98	27.50
21-May-18	OW	28.52	29.00
25-May-18	OW	30.04	31.75
04-Jul-18	OW	30.98	32.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 21, 2001.
Break in coverage Oct 17, 2016 - Jan 31, 2017.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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Coverage Universe: Carducci, Donald N: Aristocrat Leisure LTD (ALL.AX), Crown Resorts Limited (CWN.AX), Incitec Pivot Ltd (IPL.AX), Nufarm Limited (NUF.AX), Orica Limited (ORI.AX), Star Entertainment Group Limited (SGR.AX), Tabcorp Holdings (TAH.AX)

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
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IB clients*	54%	48%	40%
JPMS Equity Research Coverage	45%	42%	13%
IB clients*	74%	66%	58%

*Percentage of investment banking clients in each rating category.

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