Start of Transcript

Operator: Thank you for standing by and welcome to the Aristocrat Half Year 2023 Results Briefing. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad.

I would now like to hand the conference over to Mr Trevor Croker, Chief Executive Officer and Managing Director. Please go ahead.

Trevor Croker: Good morning and welcome to Aristocrat's financial results presentation for the half year to 31 March 2023. My name is Trevor Croker, Chief Executive Officer and Managing Director of Aristocrat. I would like to begin today by acknowledging the Wallumettagal Clan of the Eora People, traditional owners of the land on which we meet here in Sydney today. I pay my respects to Elders past, present and emerging.

It is a pleasure to present Aristocrat's half year results today. With me in Sydney are Sally Denby, our Chief Financial Officer, and Mitchell Bowen, CEO of Anaxi and Chief Transformation Officer. Hector Fernandez, CEO Aristocrat Gaming, and Mike Lang, CEO of Pixel United, have also joined us on the line.

We hope you all had the chance to listen to our market call on Monday, announcing the proposed acquisition of NeoGames. While we are very excited about this transformational acquisition, today we are here to discuss our half year results. Although we will be happy to take further questions on NeoGames during Q&A.

Before we begin, please note the usual disclaimer statement at the back of the presentation deck. Today I will step through highlights of the results and provide an update on strategy and our ESG priorities. Sally will then discuss our Group financial results and balance sheet, after which I will run through the operational performance and outlook.

Turning now to slide 2. I am pleased to share that Aristocrat delivered a quality result over the period, demonstrating the ongoing resilience, competitiveness and diversification of our portfolio. We have delivered a strong portfolio result, even as we navigated challenging market conditions, and continued to invest fully behind our successful growth strategy.

Our Teams faced into considerable economic and political volatility over the half, including the continuation of the conflict in Ukraine, where the support of our people and their families in the region remains of utmost importance to us all. The Pixel United Team managed this challenge with empathy and effectiveness, and will continue to do so as the conflict unfolds.

Turning to revenue. We reported 12% revenue growth at Group level, compared to the prior corresponding period, or PCP. Driven by a continued strong performance of the Aristocrat Gaming Americas business, partly offset by more challenging mobile game market conditions for Pixel United.

While EBITDA margins were lower than PCP, they were around 2 percentage points higher than the second half of fiscal year 2022 as supply chain pressures in our gaming business, that we have previously discussed, appear to be easing. Pixel United's margins were impacted by the softer operating environment.

The Group's NPATA result of around $660 million represents a profit improvement of 14% in reported terms, and 5% in constant currency compared to the PCP. Our strong free cash flow generation was applied to fund Aristocrat's growth plans, whilst surplus cash has been appropriately returned to shareholders, including through dividends and on-market share buy-backs in line with the Group's capital allocation framework.

We also continue to monitor the macroeconomic environment and consumer sentiment closely, and continue to believe that our diversified portfolio provides resilience through economic cycles.

In terms of outlook, Aristocrat's guidance to deliver NPATA growth over the full year to 30 September 2023 remains unchanged, assuming no material change in economic and industry conditions. I will return to provide more detail on our outlook expectations at the end of this presentation.

Turning to slide 4. The benefit of our investments to grow and diversify Aristocrat's revenue base was particularly evident in our ability to deliver solid revenue growth and stable EBITDA in constant currency at Group level over the half. Strength in Gaming more than offset continued industry-wide moderation in mobile game demand at Pixel United, again pointing to the fundamental strength of our diverse operations.

We continue to invest to grow in attractive adjacencies and verticals as we build further resilience in our operating portfolio, including through online RMG, where the proposed acquisition of NeoGames effectively completes our build and buy strategy. Aristocrat consistently invests in talent, technology and innovation. This once again delivered above industry performance in key segments, and drove market share gains across both Gaming and Pixel United.

Some portfolio highlights for each business are referenced on the right-hand side of the slide. You'll note a number of other references to our leading and improving market share positions throughout the presentation. We also took significant steps forward in our ambitious ESG commitments, which I will return to shortly. These efforts align with our strategy and commitment to sustain success over the long-term. We also continue to focus on actively executing our capital management framework. Sally will share more on this shortly.

Turning to slide 5. Aristocrat's approach to sustainability is anchored in our most material ESG priorities across the pillars of business operations, product responsibility, and people and community. It aims to achieve our vision of being a vibrant business operating within sustainable industries, that is able to deliver benefits to our shareholders and other stakeholders over the long-term.

We continued to make meaningful strides forward against our priorities over the reporting period. This included significant progress towards setting and communicating a rigorous Group-wide science-based emissions reduction target by the end of calendar 2023, in line with our commitment. Responsible Gameplay remains Aristocrat's highest sustainability priority. It is increasingly part of the DNA of our organisation, and we regard it as vital to delivery of our Group growth strategy.

We fully recognise the reality of excessive gambling and gameplay, including the terrible impact of addiction and associated harms experienced by some individuals and their families. Our response is an approach that is focused on aligning core business systems, processes, policies and actions to match our commitments in every one of our businesses.

A good example is our Australian-first trial of cashless EGM technology, which is running with the support of the New South Wales Government and a major customer. It was expanded during the period to include around 140 EGMs.

Finally, we also published our annual Modern Slavery Statement, providing more detail on the comprehensive steps we are taking to recognise, assess and minimise these risks across our supply chains. In summary, Aristocrat is proud of the progress we are making in our sustainability agenda, whilst recognising that we have much left to do.

I will now hand over to Sally who will take us through the summary of the Group numbers and provide an update on capital and our balance sheet.

Sally Denby: Thank you Trevor, and good morning everyone. Turning to slide 7, our Group results summary. Over the six months to 31 March 2023 Aristocrat delivered NPATA of almost $660 million. This represents an increase of 14% in reported terms, and 5% in constant currency, compared to the PCP. On a fully diluted EPS basis growth was also strong, increasing 17% in reported currency.

Revenue increased 12% to almost $3.1 billion. On a constant currency basis revenue was 5% higher than PCP, reflecting exceptional performance in North American Gaming Operations and global Outright Sales.

Pixel United demonstrated resilience in a challenging environment, against a backdrop of an industry-wide moderation in mobile game demand and the conflict in Ukraine. With productivity in the Ukraine recovering, the drag from the exit of Russia behind us, and softer comparative base numbers, we continue to expect to see improvement in Pixel United performance over the second half.

EBITDA was 6% higher than the PCP, and down 2% in constant currency. Operating cash flow of over $610 million was comfortably above the PCP. This reflected strong underlying business performance and higher interest income, partly offset by other increases in working capital, principally due to timing of receivables and higher inventory.

We continued to return excess cash to shareholders, with $338 million returned through dividends and on-market share buy-backs in the period. The Directors have authorised a fully franked half year dividend of $0.30 per share in respect of the period ended 31 March 2023.

I will now move to slide 8. This slide provides a snapshot of the key drivers of NPATA over the reporting period, compared with the PCP. As you will observe, the profit increased from Aristocrat Gaming, driven by the growth in the premium Class III Gaming Operations installed base and Outright sales in the Americas, was roughly equivalent to the decrease in Pixel United's post-tax earnings, reflecting softer industry demand, as previously referenced. Trevor will share more details on these operations shortly.

There are some non-operational features that I would also like to highlight. NPATA growth benefited from higher interest income arising from the rapid increase in interest rates. This is evident in Corporate Costs & Other in the chart.

Our strong investments in talent and technology increased our D&D expenses from 11.4% to 12.1% of revenue, as we built out the Anaxi business to support market entry commitments. This increased D&D expense represents an additional $30 million NPATA investment in future growth. Finally, while our NPATA grew at mid-single digits over the period in constant currency, foreign exchange translation also positively impacted the result.

Turning now to cash flows on slide 9. I wanted to highlight the increase in net working capital, which has been a feature in recent halves. To ensure customer order fulfilment and support strong growth at Aristocrat Gaming, we have maintained inventory at higher levels. This was a proactive decision that has been recognised by our customers.

Aristocrat returned $166 million to shareholders in the form of share buy-backs during the half. At the period end Aristocrat completed 48% of our $1 billion on-market share buy-back program, which earlier this week we increased to $1.5 billion.

Turning now to our capital investment priorities on slide 10. Aristocrat continues to focus capital allocation on supporting our long-term growth strategy and maximising shareholder returns. In particular, the Business drives organic growth through consistently strong and disciplined D&D spend, UA and CapEx investments, while also pursuing strategic M&A opportunities to accelerate progress in line with our rigorous criteria.

Over the reporting period, Aristocrat invested $372 million in D&D to further strengthen our product portfolios and support our entry into online RMG. This is tracking slightly above the upper end of our 11% to 12% target range, and is in line with our modelling inputs. You will observe that Anaxi invested $42 million in D&D across online RMG and CXS. This is a new data point provided with the result in the D&D slide in the Appendix.

Other start-up costs for Anaxi were included in the Gaming results. We also invested US$240 million in UA to drive our mobile portfolio performance, representing 27% of Pixel United revenue, in line with our guidance.

The strong net cash position of $440 million on our balance sheet at the end of the period is comparable to the previous half. Capital management remains a key focus as we manage our balance sheet through cycles of investment in inorganic growth. We are targeting a leverage ratio representing net debt to EBITDA of 1 to 2 times over the medium-term, with the flexibility to move outside this range for a strategically attractive acquisition, in line with our historical approach.

The proposed acquisition of NeoGames is expected to raise our leverage ratio to 0.7 times on a pro forma basis. This provides us flexibility to return cash to shareholders through dividends and on-market share buy-backs, as demonstrated by the announced increase in our buy-back program, and to consider further strategic M&A where appropriate.

This completes the overview of Group results. I will now hand back to Trevor, who will step through the operational performance.

Trevor Croker: Thank you, Sally. Turning to the Aristocrat Gaming business on slide 12. Aristocrat Gaming revenue and profits grew 23% and 17% respectively in reported terms, reflecting continued penetration of our high performing games and cabinets, and another strong performance in North America. In the Americas segment revenue increased 17% and profits by 12%. The stand-out performance was the significant lift in North America unit sales, increasing 27% compared to the PCP to a record level that is now around 50% higher than pre-COVID unit sales.

Outright Sales overall revenue growth of 46% also benefited from a 21% lift in ASP to over US$21,000. This performance was driven by growth in customer capital commitments and penetration of new hardware, along with successful growth in priority adjacencies, such as historical horse racing and New York Lottery.

Gaming Operations revenue increased 7%, driven by a 9% increase in our installed base over the prior period, with particular strength in Class III Premium offset by a slightly lower average fee-per-day and mix changes within the portfolio. The Gaming Operations footprint grew to over 61,000 units, with continued penetration of leading hardware configurations and high performing game titles driving this momentum.

Aristocrat Gaming continued to deliver strong game performance across the portfolio in North America, running at 1.4 times floor average during the period, and exceeding all major competitors. Margins contracted 2.6 percentage points compared to the PCP to 55.3%, reflecting product mix, given strong growth in lower margin Outright Sales, and also higher input costs driven by previously flagged supply chain challenges in 2022.

I am pleased to point out that the margin reported for the period was higher than the second half of fiscal year 2022 by 1 percentage point, reflecting some moderation of supply chain pressures experienced last year. We expect input cost pressures to continue to ease as the year progresses, and as we work through high cost inventory positions.

In ANZ, revenue was relatively flat in constant currency compared to the PCP, while overall profit decreased by 16%. Similar to the experience in North America, ANZ margins recovered by close to 7 percentage points compared to the second half of fiscal '22, reflecting easing cost pressures. Although not shown in this slide, we are also encouraged by the recovery of our International Class III operations, which reported over a 30% increase in revenues on the PCP in constant currency.

In summary, the Global Gaming business delivered another high-quality performance, driven by exceptional cabinet and game portfolios, and effective commercial execution, particularly in our North American operations.

Moving now to Pixel United on slide 13. Pixel United delivered a resilient performance despite a challenging environment, and continued to gain market share in the half. Revenue declined by 7% and profits were 16% lower, as strength in Social Casino was more than offset by softness in RPG, strategy and casual games.

Margins declined 3.1 percentage points, reflecting negative operating leverage, driven by lower overall bookings, our exit from the high margin Russian market, and a reduction in bookings from some higher margin legacy products, along with costs associated with the conflict in Ukraine. This was partially offset by effective and dynamic UA allocation, and an increased contribution from Plarium Play, which now accounts for around 31% of Plarium revenues, up from 27% in the second half of 2022.

Continued investment in Live Ops, features and new content, combined with effective player engagement, was reflected in share gains in the key Social Casino genre, with the Business maintaining its position as a Top 5 mobile publisher in Tier 1 Western markets. Pixel United retained its number 1 global position in Social Slots. Social Casino bookings were relatively flat against the weaker market, driven primarily by the strong growth of Lightning Link and the ongoing resilient performance of Jackpot Magic Slots.

RPG, strategy and action bookings declined 11%, reflecting our exit from Russia and a decline in revenues from RAID and Vikings. We are encouraged to see that revenues from RAID were higher in the reporting period compared to the second half of last year. Casual Games experienced a decrease of 22% in bookings, reflecting the maturity of our Casual portfolio, a focus on effective UA allocation, and moderating demand in the genre.

Pixel United has continued to execute on its longer-term growth strategy, with innovative diversification of marketing across platforms and channels in response to the evolving mobile game market structure and escalating CPIs.

Some recent initiatives include partnerships with Brazilian Footballer Neymar and WWE wrestler Ronda Rousey, and the recently announced 10-part animated series, RAID: Call of the Arbiter, which will shortly premier on YouTube.

Investments were also made to further bolster core game development, operational leadership capabilities and to broaden our presence in key talent markets globally. Pixel United continued to focus on long-term value and maximising portfolio profitability. As we've shared previously, Pixel United aims to have 10 to 15 games qualified to enter active development at any time and to grow this pipeline over time.

Three to five of these titles could be launched over a two-year period with launch timing dynamic and subject to a range of variables to maximise chances of success. The worldwide launch of Merge Gardens in October '22 was a good example of this disciplined approach.

Turning now to slide 14, which provides some context on Pixel United's performance against the global market. We shared this slide at our fiscal '22 presentation last year and we've added performance over the first six months of the current year. It highlights an extended period of market share gains over the four years to 2022, with Pixel United delivering a CAGR of 16% compared to the market CAGR of 12%. These market share gains extended into the first half of 2023.

Looking at the half year numbers, there are two important features to highlight. Firstly, the global mobile games market declined 10% on the same period last year, compared to an approximate 7% decline for Pixel United. This reduction partly reflects the disruption stemming from the conflict in Ukraine towards the end of first half '22 which occurred against the backdrop of moderating demand.

The slowdown was evident in a number of soft monthly performances in the second half of fiscal '22. Secondly, the global market appears to have now stabilised, evidenced in the market only declining 1% compared to the previous six-month period. Encouragingly, Pixel United grew bookings by 1% over the same period. This reflects some stabilisation as we start cycling over lower comparative numbers.

I would now like to say a few words about our online RMG division, Anaxi, and the progress we've made since establishing it in October last year. Moving to slide 15. The half was a busy period for Anaxi and we're really pleased with the progress on many fronts. We delivered our market entry commitments, establishing sound foundations from which we will now grow and scale over time.

As previously shared, we signed content agreements with BetMGM, Caesars Sportsbook & Casino and Penn Entertainment, and most recently we added Flutter to the list of partners, enabling it to offer our leading content across FanDuel's online RMG platform in four states. Our games are live with BetMGM and Penn in New Jersey and we have exciting plans to add more games in due course as we prove out performance and refine our offer.

Early industry data on a small sample is highly encouraging and validates our hypothesis that our market-leading land-based content will resonate well online. We've now signed content agreements with partners representing 55% of the iGaming market in the US and we anticipate signing additional agreements over the year. We are comfortably on course to exceed our target of penetrating at least 70% of regulated jurisdictions across North America over the next five years.

We also closed our acquisition of Roxor Gaming in January, and the integration continues to progress well. We expect Roxor Gaming's highly scalable and feature rich remote game server and content publishing technology to accelerate Anaxi's strategy to grow in the iGaming market. Roxor is currently live in the UK, New Jersey, and was recently launched in Ontario.

Additionally, we're proud of Anaxi's first of its kind mobile on-premise solution for tribal gaming operators, which allows patrons to connect and play Aristocrat Class II gaming content via their mobile devices anywhere on trust land.

Finally, while we made significant strides in building our RMG capabilities and business over the half, we are very excited about the proposed acquisition of NeoGames. We believe this will truly be transformational for Aristocrat, laying the foundation to fulfil our ambition to be a global leader in online RMG.

The combination of Aristocrat's market-leading content and deep customer relationships across our gaming and digital businesses with NeoGames technology and platforms will enable us to accelerate our content distribution globally, position us as the technology partner of choice with online RMG customers, and ultimately create an additional sustainable growth engine for the Group.

In summary, we remain steadfast in our view that online RMG is a logical and complementary growth and diversification opportunity for the Group to leverage our leading land-based content across a new and growing distribution channel. So, while it remains early days, we’re excited about our growth prospects in online RMG.

Moving now to outlook on slide 17. Aristocrat’s guidance to deliver NPATA growth over the full year to 30 September 2023 remains unchanged, assuming no material change in economic and industry conditions, reflecting continued strong revenue and profit growth from Aristocrat Gaming, underpinned by market-leading positions and recurring revenue drivers in Gaming Operations. Improved second half of fiscal ’23 profit compared to PCP from Pixel United, with full year expected to be moderately below the level reported in fiscal ’22 in local currency, and further investment in Anaxi to support our online RMG ambitions. Over the medium term, Aristocrat aims to continue to gain market share in all key segments, deliver high-quality profitable growth, continue to invest in D&D to improve competitiveness and breadth of product, invest to diversify our business in line with our strategy, and effectively manage capital to support long-term growth and maximise shareholder returns.

In summary, the Group has delivered a strong and resilient result for the first half of fiscal ’23, demonstrating excellent fundamentals and strong operational momentum, despite ongoing challenges and uncertainties. Our performance highlights the incredible resilience and commitment of our team of over 7,500 people around the world. I want to thank each of our employees for their hard work and their dedication to both the Company and to each other throughout the period.

With that I’ll conclude the formal presentation and hand back to the moderator to open the line for questions. For the benefit of others on the call, please limit yourself to two questions before re-joining the queue if you wish.

Operator: Thank you, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If You wish to cancel your request, please press star two. If you’re on a speakerphone, please pick up the handset to ask your question. Your first question comes from Rohan Sundram from MST Financial, please go ahead.

Rohan Sundram: (MST Financial, Analyst) Hi team, thanks for that. How would you describe the outlook in land-based at the moment and how would you rate your forward visibility? The rest of world result was very strong, so how would you describe that recovery that you're seeing in rest of world markets? Thanks.

Trevor Croker: Thanks Rohan, appreciate the question, I'll make a couple of comments and then pass to Hector. I think as we progressed Aristocrat over the last couple of years, we've been building better systems and processes around forecasting visibility and tools, and we now come to meetings like this and the way we run the business is with much better visibility of what we're doing.

Not to diminish the fact that we've got a high percentage of our business in recurring revenue, so we're very confident from that perspective. As for the rest of the world, it was great to see Europe re-opening and starting to see the momentum building there and also some good share taking in the Asian markets with new gains and also with particularly markets like the Philippines and Singapore. But with that I'll just hand over to Hector to maybe just give a little bit more context. But we do feel very confident about our visibility of the pipeline.

Hector Fernandez: Thank you, Trevor, thank you, Rohan. Absolutely to just reiterate what Trevor said, it was really good to see EMEA start to open back up, and start to see strong demand. We participated in ICE again this year and a lot of customers are interested in our product again. The restrictions are mostly lifted across the EMEA region and we are starting to see strong performance there.

The other piece that I would share with you that gives us confidence is we've talked about introducing more of a recurring revenue model into both ANZ and Asia, and we had some pretty good success in this last half in doing so. So, it's really a validation of our strategy to produce industry-leading content for our customers that overall drive their revenues and their casinos' value.

So, we feel pretty confident in the recovery that we've seen in the rest of the world, but also in our ability to introduce a recurring revenue model across ANZ and Asia, and EMEA and Latin America.

Rohan Sundram: (MST Financial, Analyst) Thanks, Hector. The Americas result was quite a good one and we're seeing good strength in the game ops business, but how would you describe that half? Because it looked like a very heavy period for Class III installs that we saw, while it looks like Class II went backward and the blended fee per day was down. Should we actually look into that too much given it was such a heavy period of installs in Class III?

Trevor Croker: I'll make a couple of comments, Rohan, and then get Sally just to talk to you around the fee per day. But I think keeping the focus on here, the size of the install base and then also the fact that we've grown that install base by 9 percentage points over the period, which is market-leading install growth when you look at the size of the market. So, I think it's important in that context. Sally, you might make some comments around the fee per day, just from a comparison point of view.

Sally Denby: So, the underlying fee per day remains solid, but there are many inputs into this, including accounting adjustments, which drive the movements in the period. We don't typically talk to these, but things like jackpot liability provisions move over the course of the year and, therefore, have an impact on the fee per day. But again, we're comfortable with the underlying fee per day. We're in a solid, stable position with that.

Rohan Sundram: (MST Financial, Analyst) Thank you team.

Operator: Thank you, your next question comes from Adrian Lemme from Citi, please go ahead.

Adrian Lemme: (Citi, Analyst) Good morning, Trevor and team. Just firstly, on the mobile market it's great to see Pixel outperforming, but from the data we've seen to March, the digital market looks like it's basically flat on pre-COVID levels, whereas pre-COVID it's growing at 20% or so. What factors would you put this down to? Should we expect the market growth going forward to be much lower than history?

Trevor Croker: Thanks, Adrian, I'll make a couple of comments and then Mike might weigh in. First of all, I think we've got to go back a couple of years and look at what happened with the COVID period where we saw accelerated growth in the mobile market. We were tracking towards 12% to 14% CAGR pre-COVID, that went up to circa 20% plus. We saw that as a consequence of stay-at-home, et cetera.

Since then, we've seen it moderating as people have had more alternatives for their leisure time and time outside of their home. So, it has come back and it's now looking like a more moderate growth rate, but I'll hand to Mike on the context of future growth from that perspective.

Mike Lang: Hey there, thanks for the question. As we look at the market going forward, we believe that we're going through a transition cycle. In many ways we have accelerated into it because of the significant growth in the industry, and as a result what's been seen typically within the video game industry, new innovations, new products, new platforms, new marketing drive the business forward.

We anticipate that that will happen, but that you're going to probably see moderate growth in the near term until you see those changes overall. Generally, from our perspective though, we still remain very bullish on the business, we believe it's about great new products, strong Live Ops and ability to differentiate your marketing relative to your peers. We continue to do that, and as the market comes back over time we'll even go back to the level of growth that we've seen in the past.

Adrian Lemme: (Citi, Analyst) Thanks, Mike and Trevor. Can I just ask one follow-up please? Just on the digital game pipeline, I noted your earlier comments. So, beside Merge Gardens, which I believe was relaunched, are there any other titles you'd call out that we should be really watching over the next six to 12 months? Just lastly, just Mech Arena, I think it's a couple of years now and do you think the bookings have pretty much levelled out? Are you expecting another leg up from here? Thank you very much.

Trevor Croker: Thanks, Adrian. As you know the pipeline release is fluid and we go through soft launches to worldwide launch, and it's based off a very disciplined approach to the returns. We watch scaling DAUs, daily retention, et cetera closely. We're not going to explain exactly which new games are coming to market. We have got Mech Arena out there, and Mike could perhaps talk to where Merge Gardens, Mech Arena are from that perspective.

Mike Lang: I think Merge Gardens is a really instructive example of what we think the future of new game launches are going to look like. It's been a more slow and steady growth rate because we've been able to drive new marketing improvements and brand characteristics in the game itself.

So, since launching the game back in October, on a weekly revenue basis we've seen a 360% increase as of today, and we think that's going to continue to scale but at a much slower growth rate than what maybe in the past where you were trying to drive a big number right out of the gate. It's just not that kind of market today and may never be because of the competitive landscape.

In regard to Mech Arena, I think as we look at the Ukraine crisis, in many ways *Mech Arena's* probably been more impacted than our other games. We put a lot of focus with our limited resources and the challenges we had there towards RAID. However, over the last three months, because of some of the stabilisation efforts, we've been able to regroup that team.

We've made some improvements in product; we've also added advertising to the game which we think will be a critical element. So, I do think the jury's out. I don't have a clear answer whether that game can scale, but I'd be careful to look at it like a two-year game just because it had a setback during the Ukraine crisis that now we think we can put the right effort to it. Especially with our new CEO in place and to be able to see then whether we can succeed.

So, I'll have more information on that probably six months from now or you'll be able to see it on a monthly basis as you look at the data.

Adrian Lemme: (Citi, Analyst) Thanks very much, that's very helpful.

Operator: Thank you, your next question comes from Matt Ryan from Barrenjoey, please go ahead.

Matt Ryan: (Barrenjoey, Analyst) Thank you, I just had a couple of questions on margins. So, the first question just relates to the land-based margins which we can see ticked up on a sequential basis. I think in your prepared remarks you've talked about the supply chain issues continuing but easing. Just hoping you can give some colour on when you expect for those to pass and how material they were in the half just gone?

Trevor Croker: Thanks, Matt, I'll pass to Sally to give you some context on where we are on margins.

Sally Denby: Matt as we've said input costs have begun to moderate versus the second half of last year, specifically around chips and sea freight, and we've also seen that air freight is coming down. We do expect further moderation in the second half and we're obviously happy with the improvements that we've seen but it will continue to be a key area of focus for us. But we will still in the second half be cycling over some higher inventory costs as we built our inventory up last year.

Matt Ryan: (Barrenjoey, Analyst) Thank you, and then the other question was just on the digital margins actually. So were there any one-offs to call out in the cost line? That'd be the first part of the question. Then the second part of it would just be around that UA spend, I'm just trying to work out what you're paying for at the moment, how effective was it? I know that CPIs have gone up a lot, so just trying to work out how you landed at the number you got to?

Trevor Croker: Thanks, Matt, I'll ask Sally to give you an update on that as well, particularly around costs and margins and UA.

Sally Denby: Okay, on the margin, we obviously saw a bigger decline in the half, but I wouldn't necessarily label all of them as one-off costs, but there's a couple of elements that are probably more one-off in nature. We've obviously been hit with the overall bookings decline. Our exit from the Russian market was actually exiting revenue that was at a higher margin. Then we've also seen a reduction in bookings in some of our higher margin legacy products across the Big Fish and the Plarium portfolios. Then some ongoing costs in association with the conflict in the Ukraine.

I think it's fair to say that this was partially offset by dynamic UA allocation and an increased contribution from Plarium Play, but the biggest one to call out is the high margin in the Russian market as we have cycled over that now and so you won't see that coming back in the second half. I'll ask Mike to come in on the UA and our approach to the UA spend.

Mike Lang: Thanks, Sally. As we said before, we have a very analytical and deliberate strategy around UA where we don't chase revenue that doesn't have a good long-term return for us. We stayed with that strategy over the first half. Clearly, typically within the business we will look to spend a bit more in December, January to then drive more profits in the later part of the half.

But again, we've been very disciplined in regard to even our new game like Merge Gardens. So, going to the second half I anticipate that same approach and strategy as we look at what specific returns we get on a game-by-game basis that we spend.

As mentioned earlier, we're very interested in some of the innovative marketing attempts that we're looking to do. Things like the new digital series that's launching tomorrow, we think that will have brand benefit as well and we'll be very much closely watching that for RAID to see what that does overall with CPIs as we drive more and more organic traffic to a particular game.

Matt Ryan: (Barrenjoey, Analyst) Thank you.

Trevor Croker: Thanks Matt.

Operator: Thank you, your next question comes from Justin Barratt from CLSA. Please, go ahead.

Justin Barratt: (CLSA, Analyst) Hi, guys. I might start on the gaming side of the business. So, your comment that outright sales were fuelled by some larger customer capital commitments during the half. Obviously we're seeing some really strong commentary out of the North American casinos recently, but was just wondering how your conversations are going with some of your major customers about their continued capital commitments just given the macroeconomic backdrop and continued increasing pressure on the consumer?

Trevor Croker: Yes, I'll make a couple of comments, Justin, and hand to Hector on some of the customer sentiment. I think the first part about it is, we're continuing to take share in these markets and that's coming from product innovation and hardware innovation. We're continuing to be able to take share in those marketplaces as well. So, it's not just about all boats are rising and we're getting our bit of that, we're actually taking share at the same time.

I think the other part to this is that the continued investment behind game content and technology and hardware is what differentiates Aristocrat from other companies. We put that in as a core foundation and continue to invest at high levels to drive the ongoing growth of the organisation, then create capacity to do M&A to accelerate our growth, but Hector can talk a little bit to you about the customers.

Overall sentiment point of view, this is a diversified business with a diversified portfolio. Whether it's in the land-based gaming business or whether it's in the mobile business and ultimately in the Anaxi business in time, diversification is one of the portfolio strengths of this organisation. But I'll hand to Hector to give you some colour on some of the customer conversations.

Hector Fernandez: Thank you, Trevor. Thank you, Justin, for the question. So, one of the things that we are very proud about the performance of this half is, like Trevor talked about, this record number of game sales we had in North America, 13,000 units. But one of the things that really shows the quality of that result is that US$21,000 ASP which is also a new record for the business.

In fact, if you look at the performance of the game sales market, it wasn't just a handful of customers, it was really across our broad base of customers. If you had listened to some of the early earnings calls from some of our major customers, it remains incredibly positive. We're not observing any material changes in consumer spending across the US.

In fact, the AGA actually published their first quarter report yesterday which was timely for this call. For the quarter, it was another record quarter in the first quarter. It was also the eighth consecutive record-breaking quarter with 18 of the 35 gaming markets setting new records. March itself was the highest grossing month ever from a GGR perspective.

When you look at the macroeconomic factors that are happening around the world, we've talked about gaming being resilient through potential economic downturns, we're definitely seeing that from talking to our customers and also as we look forward and looking at our sales funnel, it remains robust.

Justin Barratt: (CLSA, Analyst) Yes, fantastic. Thanks very much for that colour, Hector, really appreciate it. Then yes, I just wanted to come back to Pixel United margins a little bit as well. I wanted to ask just specifically about operating costs. It looked like there was a pretty significant step up in operating costs in this half. I was just wondering if you could expand on the contributors to those increases in operating costs and whether we should expect this level of operating cost to be maintained into the second half and beyond?

Trevor Croker: Yes, thanks, Justin. I'll just ask Sally to make a couple of comments.

Sally Denby: Thanks. Yes, I think, look, in answer to your question, the margin is down over the period and there are a few things in there. The operating cost base is something that obviously we can control and is what we drive. We're very focussed on managing that in the environment that we're currently operating in. But again, those higher margin products have been the key drivers of what's driven that margin down in the half.

Justin Barratt: (CLSA, Analyst) Okay, thank you.

Operator: Thank you. Your next question comes from David Fabris from Macquarie. Please, go ahead.

David Fabris: (Macquarie, Analyst) Hi, Trevor and team. Look, with the capital structure, thanks for providing new guidance on target leverage. As for those debt facilities, will you likely move away from the term loans if there's something cheaper out there? Are there options to make early repayments on those facilities as well?

Trevor Croker: Yes, thanks, David. I appreciate your recognition of the capital structure. I know that it's something that's been debated by shareholders and the market for the last year or so. We tried to put some clear rules and guidelines around it for you. Just reinforcing our number one investment every year is still D&D and UA to drive the organic business. Then to accelerate our growth through M&A by investing in adjacencies and strategic M&A where it's - where appropriate. Obviously we've just announced that with NeoGames this week.

Then also returning shareholders or surplus cash back to shareholders through dividends and the buyback program which is now $1.5 billion in total but I – I'll just ask Sally to make some more context on the debt structure to your question.

Sally Denby: Thanks, Trevor. Look, David, we remain comfortable with our current debt structure. We got attractive funding costs when we refinanced last year and we're unlikely to pay down. We continue to monitor this, obviously, in line with our capital management approach but at the minute we're comfortable with the way that our loans are positioned and the funding rates that we got on those.

David Fabris: (Macquarie, Analyst) Got it, no worries, and I just had a question on NeoGames, actually. Can we clarify whether key management have made commitments to stay on in the business or there's a risk of turnover? Then just a second question within Neo there. Is there anything stopping you from providing content on commercial terms before this deal closes?

Trevor Croker: Yes, hi David. I'll make some comments on the people and Mitchell's here so you can add in some extra weight. We feel very comfortable that the key talent have commitments to come across with the deal at the right time.

Obviously they are an important part of this acquisition and they've been very engaged with this process. We've found it to be very engaging for them and also for us and that we're very confident - extremely confident they will come with the transaction. So I don't see any challenge from that perspective. On the second question which was around our content. So pre close, our content onto theirs. We've obviously got to go through a very sensitive process at the moment, David. There's a process that needs to occur where NeoGames shareholders have to vote for the transaction. We obviously feel very confident about that when you have 61% commitment from the shareholders towards that requiring only 66% and two-thirds, but we will continue to work through that process appropriately. At the right time, we'll be able to have the right level of dialogue but there is still water to go under the bridge on this whole transaction and we do need to respect that process.

David Fabris: (Macquarie, Analyst) Got it. Thank you very much.

Trevor Croker: Thanks, David.

Operator: Thank you. Your next question comes from Andre Fromyhr from UBS. Please, go ahead.

Andre Fromyhr: (UBS, Analyst) Thank you. Good morning. First question is about the financial impacts of the Anaxi segment in the half just gone but also what that might look like in the second half. I appreciate you've shared some information around what share of D&D spend could be allocated to Anaxi but are there other costs associated with setting up that business and are you starting to recognise the income streams from Roxor and the other initiatives that you've got?

Trevor Croker: Yes, thanks, Andre. As you know, this is a start-up business and we've said that we were going to build this so we are at the investment stage where we're investing in critical infrastructure. We're investing in the D&D to make games, support games and technology, but I'll just let Sally add a little bit more context to that, but I do think we need to think of this as a building strategy. It is going to require some investment to actually generate the revenues longer term.

Sally Denby: So, from an investment perspective, we provided the D&D on Anaxi for the first time in this period. That's really to provide some guidance around how much we are making from a technology and an investment around Anaxi. We have the costs embedded within the gaming business and from an overall standing perspective and employee base, we've got about 10% of our total overall employee base that is dedicated to Anaxi at this point in time. Some of that in CSX and some of that in RMG.

I think the other element of your question was around revenue, Andre? I think given that our content is only just started to go out to market, you'll probably see revenue start to come through or expect to see revenue come through in Anaxi through the RMG segment in the second half and obviously the revenue that Roxor brings with it but we only had a one month slice of that in the numbers following the acquisition that we closed at the end of January.

Andre Fromyhr: (UBS, Analyst) Okay, thanks and just got one follow-up question around the capital position. I understand that in the presentation material you shared earlier in the week, you provided the proforma gearing assuming completion of the NeoGames transaction but that gearing estimate didn't include the impacts of completing the buyback program. Is that because the buyback is not intended to be a capital structure move but rather just returning free cashflow? Like is this a duration of time difference that it should be funded through free cashflow?

Sally Denby: Yes, that's the correct way of looking at it. So, buybacks will continue to be opportunistic as part of our capital management allocation and it is about returning free cashflow to shareholders pending investment opportunities that we have across the business.

Trevor Croker: But noting that the transaction won't close for somewhere in the next - until circa 12 months' time. So the free cashflow generation in the interim as well.

Andre Fromyhr: (UBS, Analyst) Great. Thank you.

Operator: Thank you. Your next question comes from Paul Mason from E&P. Please, go ahead.

Paul Mason: (E&P, Analyst) Just two from me. So the first one, it looks like you guys have sort of upped the ante on your R&D for RAID. You've got the new YouTube series. You've launched live PvP and then also started inserting a whole bunch of more character lore in the last few weeks. So, I was just wondering if you could make some comments, like are you trying to reposition for user growth or should we still think about that as sort of like a more stabilised asset that's being run more for profit now?

The second question was just if you could provide some colour on the initial interest around the NFL game and any colour on how some of your customers might be thinking about deploying that on the floor. That'd be great.

Trevor Croker: Yes, thanks, Paul. Appreciate the questions. RAID is coming up to its fourth anniversary so you've seen a lot of activity in the month of March - sorry, March into April would be the fourth anniversary of RAID which has been a successful brand for our Company over the last period of time. I might just hand to Mike around where it sits in the profile and also how we think about it as a long-term product. Mike?

Mike Lang: Thanks, Trevor. Yes, RAID continues to be a strong profitable asset for us and it is in profit mode. We believe that investments both in Live Ops and features as well as the series help maintain that franchise over the long-term. Help sustain the brand and what it represents.

Bringing back old users, potentially, to the game but also maybe even attracting new users that are - take a different look at it, based on the quality of that content. So, in many ways, we view the investment in that series as another form of marketing that we're able to do but in a more - potentially a more effective way over the long-term of the game itself.

Trevor Croker: Great, thanks. Thanks, Mike. Just to the second question there, Paul, was around - just the land based NFL game. Hector might give you some context on where that's up to.

Hector Fernandez: Yes, so thank you, Paul, for the question. Just want to stress that NFL is just a portion of our portfolio and one of the things that we strive to do is have a diversified portfolio and not be overly reliant on any one title or segment. So, however, having said that, the NFL is the number one most anticipated game from our customers. That was very evident at G2E this year in Las Vegas. It's very evident in all the conversations we have with our customers and just the excitement that is building around the NFL.

Just to give a little bit of context in the post-COVID world, we have seen the demographic of casino players go down by five to six years. So we've seen a slightly younger demographic. Casino partners and we believe that there is an opportunity to kind of maintain that player base through unique product offerings and nothing greater than an NFL product where it already has an incredibly strong fan base in the US and growing outside of the US. Gives operators and us, really, the opportunity to capture that younger player with an innovative, immersive product that can be customised for your favourite team.

Trevor Croker: Thanks, Hector. Thanks, Paul.

Operator: Thank you. Your next question comes from Simon Thackray from Jefferies. Please, go ahead.

Simon Thackray: (Jefferies, Analyst) Yes, thanks very much. Hi, Trevor, Sally and team. I just want to circle back to some of your comments for clarification. Just to make sure I don't draw the wrong conclusion. You mentioned legacy Big Fish products at higher margin rolling off, the absence of high margin Russian games and, at least for now, you've got lower UA spend as percentage of revenue which is also lower in the period. So, are we meant to conclude that in a more mature market for digital with the layers of consumer privacy protection that are there and the competitive intensity, Mike, that you called out, is that suggesting that future games are going to be at a structurally lower margin?

Trevor Croker: Thanks, Simon. First of all, just some context here is that there's different levels of margin and legacy for different types of segments. So whether it's casino or RPG strategy versus casual games as well. So the economics is not one size fits all across the portfolio. So I think Mike, you can make some comments around how we manage the portfolio of legacy and new games over a period of time.

Mike Lang: Number one, I wouldn't take into account the results of the comparison year-over-year to something on a long-term basis because again, as Sally mentioned, a big impact for the profit impact is our strategic decision to pull out of Russia. The impact of the Ukraine crisis and specifically then those higher margin games. Those legacy titles that have been impacted more by the slowdown.

We've been able to manage our UA cost effectively to ensure that on a net profit basis after UA, we've been able to do really fine on a year-over-year basis on some of our larger titles. As you go forward, I would not jump to conclusions about overall margins. Again, I think one of the power of our portfolio is the diversification of that portfolio.

Clearly, some of our titles on the social casino side and on the mid-core side will have the potential for higher margins as CPIs rise because their economics are much stronger on an LTV basis in terms of revenue that they've achieved from those individual users. But again, I think it's still very early days as people try to assess what the marketing world will look like on IDFA and I do think that again, there is going to continue to be transformation taking place in regard to how people market and how they approach the business. That's going to change the dynamics.

I just give you one simple example. You know, today we're seeing enormous amount of social content now taking place. Social video content that's actually free and is not paid. That's starting to drive more and more of users to games. We see those kind of dynamics only increasing over time which may improve CPIs in the future as that becomes more of a viable platform. So again, I'd be careful to make too much of a judgment about the future margins relative to what we may have dealt with specifically in these particular periods.

Simon Thackray: (Jefferies, Analyst) That's super helpful, Mike. Thank you. Then just a quick one to finish off. Just the content agreement with FanDuel, with Flutter. That's obviously new. It's just described as a content agreement. I just want to make sure, is that the same style agreement, Trevor, as the strategic partnerships with BetMGM, Caesars and Penn? Do we think of that the same way?

Trevor Croker: Yes, Simon. Yes, thanks for the question. It is - I mean each one of these is just - it's a similar agreement like you would have for any land-based customer. It's a unique agreement with each customer. The terms and structure of it are confidential and we're confident that it's the right structure for Flutter and for ourselves.

Simon Thackray: (Jefferies, Analyst) Yes, that's terrific. No, I was just trying to frame your comment about the - you're having now 55% coverage. I just wanted to understand that across the iGaming market or what does that 55% represent that you referenced earlier?

Trevor Croker: Yes, it represents 55% of access to the brands in the iGaming market and it's a GGR measure. So, 55% of the GGR we have access to in agreements with customers to distribute our content in the iGaming market in North America with the view that we were going to get to 70%. So, we're well on track to being able to be 70% access to the market within five years.

Simon Thackray: (Jefferies, Analyst) Got it. Thanks so much.

Operator: Thank you. Your next question comes from Rohan Gallagher from Jarden Group. Please, go ahead.

Rohan Gallagher: (Jarden Group, Analyst) Hey Trevor, good morning everybody. Congratulations, good result. First one, gaming if I may, Sally mentioned jackpots have obviously pared back this half, conscious of the disproportionate increase in the typically higher EBITDA Class III segment, is there a mix effect in terms of gaming ops such as the entry into New York Lotteries that has also pared that down or is it just purely jackpots please?

Sally Denby: I mean it's not purely jackpots, Rohan. There are a number of items that go into that from a perspective of the EBITDA calculation. Jackpots is one of them, I called it out to make a reference, but there is a slight impact on the mix in the period as well.

Rohan Gallagher: (Jarden Group, Analyst) Awesome, thanks. Just on the margin in gaming, obviously we're talking about a business that's 50% plus, so it's a phenomenal effort, but you touched on, Sally, that there were some Anaxi costs obviously implicit in the gaming. To better assess the underlying performance of the gaming operation, can you either quantify that, or could you refer would margins be flat, up or down without that please?

Sally Denby: We're not sharing that information at this point in time, Rohan.

Rohan Gallagher: (Jarden Group, Analyst) Okay, thank you. A final question, if I may, Anaxi, Mitch or Trevor, could you just run through what you see the operational and financial objectives are for the next six and 18 months for Anaxi? Conscious of the lead up to NeoGames, please.

Trevor Croker: Yes, very simple, Rohan. It's continuing to execute on our market entry strategy, which is the build part and we've already made, as I said, 55% of the contracts are now signed with GGR access for North America and we're continuing to execute and publish games into the market. Obviously scaling Roxor, the integration of Roxor, which only closed at the end of January and moving, helping them to continue to scale our content into their portfolio, then obviously then giving them access and you would have seen that they've been licensed in Ontario. They're now in Europe, New Jersey and Ontario as well.

So continuing to do the build out strategy for the business and we feel very confident around the progress that's been made in the last, well since October last year when the strategy started, very confident around the progress that's been made to get to this point.

Rohan Gallagher: (Jarden Group, Analyst) Excellent, thank you.

Trevor Croker: Yes, thanks Rohan.

Operator: Thank you. Your next question comes from Sriharsh Singh from B of A Securities. Please go ahead.

Sriharsh Singh: (Bank of America Merrill Lynch, Analyst) Hi there, two questions from my side. First, circling back on mobile gaming margins, what gives you confidence about lifting them in the second half? You're kind of implying 10% half on half in segment profits. Do you think they'll be driven more by cost management or there's a little bit of revenue uplift as well?

Trevor Croker: Thanks, Sriharsh, I'll hand it back to Sally, but I think you've probably nailed it pretty accurately, to be honest with you. There's a revenue performance but there are ongoing costs which need to be continued to be managed for the period.

Sally Denby: So you need to look at it from a geographic perspective as well. If you look at the Americas margin, probably trending now more in line with history if you went back to FY19 whereas ANZ, as we spoke to at the year end, was heavily hit particularly by the FX because we buy predominantly in US dollars. So we'll continue to focus on that and obviously want to try and drive some improvements there over time.

Sriharsh Singh: (Bank of America Merrill Lynch, Analyst) Second question is on your expectations with the NFL land based game, how big do you think this game can be in six to 18 months and how can it impact EBITDA in your view?

Trevor Croker: Yes, thanks, Sriharsh. I think just simply we're not making any predictions at this point in time. As Hector said, it's the most anticipated new game, it hasn't been released to the market so we're not providing any guidance or forecasts on it at this point in time. It will be released later this year in line with the football season. So all I would say, it's the most anticipated new game in the Gaming Operations market at the moment.

Sriharsh Singh: (Bank of America Merrill Lynch, Analyst) Sure, thank you.

Operator: Thank you. Your next question comes from Darshana Nair from Goldman Sachs. Please go ahead.

Darshana Nair Syama: (Goldman Sachs, Analyst) Hi team, just a quick question on ANZ. Are you able to give us any colour on how the market stands since the NSW elections and also anything regarding the initial thoughts around the cashless trial please?

Trevor Croker: Thanks, Darshana. I think maybe just a couple of comments and Hector, you might just put some context around the market. But there was some tempering of the market early in the period, but since then we've seen some gradual change in sentiment from our customers. But I think I'll hand it to Hector, just give some context on that and also the cashless trial.

Hector Fernandez: Yes, thank you for the question. So obviously the New South Wales elections, there's been a bit of a pause in the business related to that risk. But since the resolution of that, we've started to see strong momentum.

The other piece we're really focused on in the ANZ market is this concept of revenue share where we started to introduce a recurring revenue, hybrid model. We were able to launch two really key titles, so Dollar Storm five and six and Cash Express Luxury Line. Both of those games are the number one and number two performing games and again, on a hybrid, recurring revenue model. Our customers have started to accept that model because they start to understand the return on invested capital and the ability for them to scale their businesses as a result of that.

Then for the second half, we have a very strong pipeline that we are going to showcase at AGE as it relates to the Australia business that we're very, very excited about. Talking to our customers, they're also very excited about it as well.

From a cashless trial perspective, just to remind everyone, we were the first to market with the first trial. We understand that there's going to be multiple potential solutions. The government has said they want a minimum of 500 machines under the trial, so we expect that there will be more solutions that are tested. Really for us it's really to drive that innovation to partner with our customers, the government and the regulators to make sure that we're ultimately part of the overall solution for the market.

Darshana Nair Syama: (Goldman Sachs, Analyst) Okay, thank you. Also as a follow up on that revenue share model, what exactly do we have in mind in terms of the penetration of that model in Australia? What are your early thoughts on that?

Trevor Croker: Thanks, Darshana, we're not disclosing that information. It's a process that we work with our customers on a solution that works for them and that we'll continue to work through our portfolio with them, but we're not disclosing any numbers or targets on that.

Darshana Nair Syama: (Goldman Sachs, Analyst) Okay, thank you. A last one from me, you've previously spoken about Paradise Fortune and Nova Legends as two key games in pipeline. Can you talk about progress on those please?

Trevor Croker: Sure, Mike, you might want to give – we don't really talk to games specifically that are still being worked on, so Mike just give us some context on our pipeline as we go.

Mike Lang: Yes, we really don't get into specific game by game, given again we go through a pretty stringent process to make sure that we're comfortable with any new launch, that it works long term from an economic standpoint, and it will build the right long-term value for the Company. We still have active 15 games in the pipeline of which we're very encouraged by what we're seeing in terms of their KPIs, some more than others.

We believe that organic is a really important part of our development of our business, as well as continuing to look for specific M&A opportunities like we did with the Futureplay acquisition that brought us the Merge Gardens game. So I think it's the combination of both of those as we go forward that continue to fill our pipeline.

Darshana Nair Syama: (Goldman Sachs, Analyst) Thank you, very helpful.

Operator: Thank you. That is all the time we have for questions today. For any further questions, please contact Investor Relations. I'll now hand back to Mr. Croker for closing remarks.

Trevor Croker: Thank you operator. Aristocrat continues to execute well against a strategy of offering a diversified portfolio that leverages our leading game content and capabilities across the organisation. We see significant growth opportunities ahead of us and we remain focused on capturing those. If you have any further questions, as the operator said, please reach out to our Investor Relations team.

With that, I'll call a formal end to the proceedings and on behalf of the broader Aristocrat team, thank you for your ongoing interest in the Company and we appreciate your time today. Have a good day.

Operator: That does conclude our conference for today, thank you for participating, you may now disconnect.

End of Transcript