

**Rating Action: Moody's upgrades Aristocrat Leisure's ratings to Ba1; outlook stable**

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Sydney, December 07, 2016 -- Moody's Investors Service has upgraded Aristocrat Leisure Ltd's corporate family rating to Ba1 from Ba2. At the same time, Moody's has also upgraded the senior secured term loan facility and revolving credit facility ratings of Aristocrat International Pty Limited to Ba1 from Ba2. The rating outlook is stable.

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**RATINGS RATIONALE**

"The ratings upgrade reflects the very strong operational performance delivered by Aristocrat across all of its product lines and geographical segments in FY2016", says Matthew Moore, a Moody's Vice President and Senior Credit Officer.

"The material earnings growth achieved in the year, combined with the application of free cash flow to debt reduction, has allowed the company to achieve strong credit metrics in line with the higher rating level", Moore adds.

Aristocrat's revenue and earnings over the last two years have been supported by the strong performance of its portfolio of games and cabinet offerings, the successful integration of the Video Gaming Technologies, Inc (VGT) acquisition and the growth in its digital business.

The company has had strong increases in platform sales in both Australia and the U.S. in fiscal 2016, despite both markets experiencing largely flat to declining growth overall. Aristocrat's collection of themed and proprietary titles have enabled it to achieve a higher average selling price for its platforms, as well as improved average gaming revenue per day from its gaming operations.

Also, the diversity and quality of earnings has improved following the VGT acquisition and the significant increase in the installed base of the Class III premium gaming operations in the U.S.. This has resulted in recurring revenue increasing to around 50% of total revenue, enhancing earnings stability and reducing the reliance on higher volatility product sales.

On the back of the company's material earnings growth and debt reduction, Aristocrat's credit metrics have improved to strong levels with leverage, as measured by debt/EBITDA, improving to 1.5x in fiscal 2016 from around 3.5x in fiscal 2015.

Moody's expects Aristocrat's debt/EBITDA will range between 1.5-2.0x over the next 12-18 months. However, the rating agency notes that actual financial leverage will depend on Aristocrat's financial policies and potential future growth and/or capital management initiatives.

The stable outlook reflects the rating agency's expectation that Aristocrat will continue to defend its market share in Australia, while looking for further organic growth in the U.S. market and through its digital platform. This should underpin continued solid earnings and credit metrics for the company over the next 12-18 months.

However, Moody's does note that earnings will continue to be subject to potential volatility and strong competition. This underscores the need for continuing innovation to develop new titles to maintain and grow market share. As such, Moody's expects the company to increase its spending on design and development in order to protect its market share and margins.

**WHAT COULD CHANGE THE RATING**

The ratings could be downgraded if competitive or cyclical factors led to meaningful earnings deterioration

and/or the company pursues large debt-funded acquisitions/shareholder initiatives.

Specifically, ratings would likely be downgraded if adjusted debt/EBITDA increases above 3.0x on a sustained basis. Ratings could also be downgraded if liquidity contracts meaningfully.

Further positive rating actions would likely be dependent on Aristocrat committing to public financial policy targets in-line with an investment grade rating. For an investment grade rating, Moody's would expect Aristocrat to maintain debt/EBITDA below 2.0x on a sustained basis.

For the ratings to be upgraded Moody's would also expect Aristocrat to demonstrate a track record of sustaining recent earnings growth through the cycle and further strengthening its recurring revenues.

An upgrade to investment grade would also likely require transitioning to a fully unsecured capital structure.

The principal methodology used in these ratings was Business and Consumer Service Industry published in October 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Aristocrat Leisure Ltd is a leading global provider in the design, development and distribution of gaming content, platforms and systems. Aristocrat's products and services include electronic gaming machines and casino management systems. The company is also increasing its presence in the online social gaming.

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Matthew Moore  
VP - Senior Credit Officer  
Corporate Finance Group  
Moody's Investors Service Pty. Ltd.  
Level 10  
1 O'Connell Street  
Sydney NSW 2000  
Australia  
JOURNALISTS: (612) 9270-8102  
SUBSCRIBERS: (852) 3551-3077

Patrick Winsbury  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: (612) 9270-8102  
SUBSCRIBERS: (852) 3551-3077

Releasing Office:  
Moody's Investors Service Pty. Ltd.  
Level 10  
1 O'Connell Street  
Sydney NSW 2000  
Australia  
JOURNALISTS: (612) 9270-8102  
SUBSCRIBERS: (852) 3551-3077



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