Start of Transcript

Rohan Gallagher: Good morning everybody and welcome to Aristocrat's Investor Management Roundtable. Thank you for joining and thank you for your interest in the Company. This is a new initiative for us. It's in response to the market's desire for more corporate access and it's also in response to the fact that unfortunately this year there's been no in-person trade shows, whether it be Sydney's AGE, or this upcoming G2E in Las Vegas, where we're looking at virtual options to navigate.

Over the next one hour we have members of our management team, including CEO and Managing Director, Trevor Croker, our CFO Julie Cameron-Doe, and our CEO of our land-based operations, Mitchell Bowen.

We are going to address the more popular questions that we've received from those registered attendees. I am going to do my best to avoid being a bad impersonation of Michael Parkinson by directing those questions. We will also be able to take live questions and we'll do our best to accommodate that.

For any of those live questions that we cannot answer because of time and the flow of the meeting we'll do our best to get back to you post this meeting.

This meeting is being recorded.

We will be getting a transcript and we will be posting it on our website for those people who like to go through those materials afterwards.

So with that, I'd like to thank you for your interest and I'll open the meeting with a question to Trevor (CEO) in terms of extending your welcome but also how Aristocrat has approached this COVID event, given it's been uncertain times and there's been really no precedent play book. Thanks Trevor.

Trevor Croker: Yes, thanks Rohan, and welcome everybody. Thank you for your continued interest in Aristocrat and for your time this morning for this next hour or so. COVID came and it came very quickly. We effectively saw our land-based business close almost overnight. We saw the communities in which we live and operate close, effectively within a number of days and that changed the way that we had to think about our organisation and our business going forward.

With that occurring, we focused on four principles and they were around our people first, customer centricity, liquidity and balance sheet preservation, and maintaining a supply chain for our product and manufacturing. The team were very good at pivoting. As I said, communities in which we operated and our land-based customers closed literally in days, and we went from being close to 100% of people working full time in offices to close to 100% of people working full time out of offices across the population of in excess of 6,000 employees around the globe.

… we had a three-phased approach in the way that we thought about this problem. First, it was about RESPOND and it was about RECOVER, and now we're starting to enter into what we're calling the THRIVE part of the recovery from COVID. I'm confident with our strategy and I'm even more confident with the execution that the team have delivered over the last six to seven months as we've managed through this challenge, and see changes in our business operations on a day-by-day basis.

We saw our **Digital** business respond very quickly coming off some strong momentum from "Raid" and more recently the launch of "Evermerge". Also, the rebounding of our Social Casino business Product Madness with new features and live operations. But at the same time, our local land-based businesses were able to respond and they came into this scenario in a good position, strong balance sheet, strong operational metrics, and a strong portfolio of performing games. Since then, we have been able to respond and focus on our customers and provide great customer service and customer satisfaction.

I think the efforts that the team have demonstrated through this period have been admirable, they've been exactly what you'd expect of an organisation that's looking to continue to grow and sustain its growth profile going forward. At the same time, our D&D business took the opportunity to refresh and re-focus the portfolio, and we didn't miss a beat with all the changes we made in our organisation through this period, we did not miss a beat with the delivery and the strategy of our cabinets, games, and technology, which I'm extremely proud of. It is our way to help lead the industry out of this period of time.

I'm sure there will be more questions during the presentation, and I hope to be able to address those but with that welcome to our presentation and thank you Rohan.

Rohan Gallagher: Yes, thanks Trevor. Let's turn the attention over to the land-based side of things and obviously we hit Corona (COVID), and all of a sudden – our customers, the casinos are closed. It was a pretty tough environment for everybody. Mitch, can you just talk about the land-based market operations at the moment, and where we are in terms of the casino openings and performance post reopening please?

Mitchell Bowen: Yes, sure thanks. Morning everyone. Look I think when you start to look around the grounds, we'll start with the Americas, new openings continue to progress. I think we're up to just over 90% of properties are open across the North American marketplace at the moment. They still are varied in terms of their capacity so some (casinos are operating) between 25% up to 75%. Things like varying their number of entry points, how many F&B outlets they have got open, what they're doing with their gaming floor.

They are all largely around that social distancing, so some spread their EGMs. Some have turned every alternate one (machine) off or on so it is still a market-by-market, channel-by-channel approach in that regard.

The US operators are still doing targeted marketing towards their patrons as they come into the floor but largely, they are prioritising game performance and the top performing products to be turned on over that period of time. So, we do see some encouraging signs and some green shoots across North America in terms of player responses and gaming levels are remaining pretty robust at the moment which is good to see.

I think when you start to look at Australia, we're largely about 95% open, parking Victoria for a second. Obviously, we're all very clear on what's happening down there with our Vic partners. But New South Wales, Queensland, South Australia, Northern Territory are all progressing quite well. Similar buoyancy on player demand and similar restrictions in place in terms of contact tracing and those sorts of things.

Asia …you know Macau struggles with foot traffic (slowly) coming through the door so that is a slower recovery than we originally thought it would be. But then, the broader Asia markets are starting to open up as well so overall we are seeing some pretty positive signs across the globe in terms of reopening's.

Rohan Gallagher: Mitch we're very fortunate as a Company to have a strong balance sheet to provide some support to our customers as part of the reopening. Steven Green from Super Investment, ask what's the status of those operational and financial discounts that we provided for those casino reopening's?

Mitchell Bowen: Yes, thanks for that question Steven. I think – look last time we spoke we did talk about or we mentioned that we would be discounting our fees, whether it be on gaming operations, or system maintenance, or service contracts, those sorts of things up to 90 days. We have largely seen the majority of those terms finished. At the moment we are seeing a fleet activation (now) over 85% of our fleet at the moment, which shows a reflection of not only the service-led strategy in terms of getting our machines and fleet activated and merchandised and socially distanced, but also the quality of game performance and innovation that's coming through the pipeline at the moment.

So, when I say 85% of that fleet activated that's across the globe. Specifically, we're seeing higher run rates in key markets like Oklahoma where we've been focused with key customers across the board on that. So we haven't seen – customers have been very good, we talked about a month-to-month review on that and so I would say of that 85% fleet activation largely all of those are returning to normal levels at the moment.

Rohan Gallagher: Okay, so if we've got 90% of casinos reopening and we're activating our gaming ops, on the way forward how do we see the US market at the moment and importantly what's the risk of further closures with COVID cases still at elevated levels?

Mitchell Bowen: Yes, well it is the last question is anyone's guess right. We have seen what a second wave can do to Victoria so I think we can all stick our fingers in the air on that one. When we talk about further closures and how the fleets are performing we are seeing some pretty positive green shoots across North America with players returning into venues. We are seeing some buying cycles start to return as operators start to refresh their floors.

But largely we are seeing – obviously I mean you guys will know right when you think about the different channels across North America with our Tribal, or our regionals or corporates, or route markets, they are all different. That continues to remain the same. But what we are starting to see is the leasing model, that gaming operations type model, is positive because it allows customers to maintain flexibility on their fleet.

We are seeing a bit of a conservative approach to capital spend and we do expect to see that conservative approach through the next six months of our first year as everybody is. Customers all look for those buying signals from consumer confidences in GGR and those sorts of things. So, I think we'll start to look at that gaming operations footprint and look at our data point at that 85% we get pretty comfortable on what that's going to look like moving forward.

Then when it comes to Outright Sale and capital expense budgets, we are taking a bit of a conservative approach on that as we talk to operators as they conserve capital during these uncertain times.

Rohan Gallagher: In terms of game performance how do you see the portfolio performing at the moment as we've just come out of this – with the casino reopening's?

Mitchell Bowen: Look in short, probably never been stronger. The breadth and depth of the portfolio is great. We've obviously got great industry reports like the Eilers' reports, the survey reports that come out, not just on the cabinet side of things. I think we have got five of our cabinets are in the number one slot spots at the moment across our Mars footprint, our Arc footprint, our XTs, and our Helix footprint, Flame, etcetera.

When we start to look at our content, I think the last report we had 16 of the top 25 games. When you start to look at games like Dragon Link, Lighting Link, those sorts of franchise, Buffalo, we have got some really big franchise brands out there at the moment. When I referred to that player demand, players are coming back to the floor looking for their favourites.

We have had tried and true favourites over many years, and obviously with new releases like Cash Express, with Star Trek, Zorro, these sorts of products, they continue to build on that great performance that we're seeing across the market at the moment. So, I would say our performance has never been stronger and it continues to go from strength to strength.

Rohan Gallagher: So, when you look at game performance and you're talking to your customers particularly in this new environment, how does that translate? Is it purely based on cost for the customer or pricing from our perspective, or is it based on game performance?

Mitchell Bowen: It is based on value at the end of the day. So, I think we spoke a couple of months ago around our recovery plan and our response to the COVID environment with our service-led and customer-led approach. So, yes, while we have got a great performing fleet, we've also got top level service. We un-furloughed and brought back our staff before anybody else did. We have been out in the field and on the ground responding to customers on a case-by-case basis.

We know it is not a one size fits all for everybody, and we've spoken previously about those channels, tribal, routes, and regionals and those sorts of things. So, I think when we start to look at where our footprint is going and what customers are looking for, they are starting to think about well where is the best bet? How can I get more bang for my buck on a footprint, and what other value-added services can I expect from a vendor going forward? So that's leading to a lot more strategic conversations, a lot more longer term conversations, and obviously maintaining our spend on D&D becomes a pretty important part of that.

Rohan Gallagher: So as we sit here today we've got Jamie Nicol from DNR Capital, we've got pretty well most of the sell-side analysts asking, how do you see the market size on the US land-based business over the next couple of years?

Mitchell Bowen: I think based on what we've just talked about with conservative customer capital we are looking at a bit of a compressed market through the FY21 year but we do expect to exit that closer to the FY19 run rates. So, we're looking that over a 12 month or 18-month period of that recovery both at a GGR or coin-in level and at a machines turned on level.

There are some customers that are talking to us about – well, I have got a reduced floor footprint and I'm making similar returns to what I was previously and so why do I need this many machine? I know that's probably a question that the market has and that's absolutely a viable question to have at a point in time. But remember when I talked about they've still got reduced – well they've got restrictions on their floor, reduced entry points, a targeted market to their mid-tier, the top tier players, they haven't welcomed everybody back into their venues.

We are just encouraging operators to think a bit longer term on that and making sure they are not making short term decisions around that. So, we do expect the market to recover over the next 12 months to 18 months.

Rohan Gallagher: So, if you have a look at the Aristocrat business model phenomenal penetration on the recurring revenue on the gaming ops. side and therefore we are now less beholden to our customers discretionary CapEx cycle. But still there is about 30% of our revenues based on FY19 in Outright Sales, so Matt Williams from Airlie is asking, how do you see outright sales in particular, and that replacement market over the next one to two years?

Mitchell Bowen: We probably need to break that down into a bit more detail. I would probably start off by taking – maybe to use an industry term a bearish approach on Australia. I think the majority of us are on the ground here and we know what's happening in Victoria, we know what restrictions are in place and the conservative approach government has taken. We know Australia is largely – while it's a churn market it is an outright sale market.

I would probably – well I do expect the Australian market to be compressed significantly over the next 12 months. When you start to look at the US, it is a little bit different because we have that portfolio approach right. We have a magnitude of commercial options available and we have got a portfolio approach and we think about not just game ops and not just game sales.

But when we talk about those other adjacencies that we're into with our steppers and bartops and VLTs, and we start to think about what we're doing in our systems and customer experience business around our mobile applications, and cashless gaming and those sorts of things, we don't see as impacted as we're seeing in Australia. We see a compressed market but not as impactful and we will look to modify our commercial flexibility around the outright sales market in North America and ensure that we're bundling and looking at the portfolio in its entirety.

Rohan Gallagher: So we are seeing great game performance, we are seeing good growth, good market share gains, how do you see that from an operator's perspective in your view around design and development spend over the next few years?

Mitchell Bowen: … D&D is one of those things you cannot just flick a switch off and then flick it back on. D&D is not a six month or 12-month view, it's a two to three year horizon. So when you look at the depth and breadth of the portfolio that we've got in terms of our cabinets, our content, that return on D&D investment is going to come over a two to three year period not at an exit rate over 12 months.

So we did take the approach that in a crisis ensure that you invest where you're going to get the best bang for your buck and that is in our view capital expenditure within our D&D portfolio. Our big focus is now on D&D is we are being very thoughtful in the spend that we are doing. We have reduced some spending in areas like hardware and cabinets but we've got targeted spend to make sure we've still got new hardware coming out into the market place.

We are still developing behind our adjacencies that we've spoken to the market about previously and ensure we've got a content pipeline behind that. But we are looking at what we can do internally around our technology efficiencies in terms of our game development kits and platforms, how we look at our engineering, and how we get efficiencies across our engineering side of the business.

… as we have talked about it gives our customers confidence that we are going to continue to invest into the future, and that's allowing us to have far more strategic longer term buying conversations with the majority of our key customers across this. So we do take a longer term view on D&D and really what our job now is as we talked about a compressed market, is from a sales perspective we have to focus on the velocity of that commercialisation and how we get that speed to market.

How we manage our fleet, how we are optimising the best performance, and making sure that we are leveraging our data and our technologies to put the best products on the right floors at the right time to maximise our customers' returns. It is one of those things that is – it is important for us. In the absence of M&A it is the best bang for buck on spend and we will continue to do that over the foreseeable future.

Rohan Gallagher: So Mitch finally on D&D, we have received a question from Matt Ryan from UBS, and it sounds like Aristocrat continued to develop games during the COVID lockdown, how do you intend to release those games considering that there is a potential lull in buying activity in the short term?

Mitchell Bowen: Yes, thanks Matt. Look again it comes down to how we are targeting our fleet. So, yes, there is a compressed market no question about that. However, there are key releases i.e. we just released Star Trek at the World Premier at the M Resort earlier this week. So it's actually about the broader commercialisation of these games. It is not just about a single customer, it's about how we broadly release these and we are starting to adopt – you'll see if you haven't already some convergence of the digital world as well.

We have live streamed with some YouTube influencers some land-based product launches. We did one of high denomination Dragon Link from the Seminole's property and that is touching more and more people around. We are looking at more innovative ways to commercialise our products but no question it's going to be about fleet optimisation and portfolio management as we go down that path.

Rohan Gallagher: Thanks Mitch. So at Aristocrat we see D&D as an investment but obviously it has a massive contribution to our P&L, so it's probably a good segue to move across to a few financial questions and introduce our CFO, Julie Cameron-Doe. Julie, before we go into the detailed specific questions from the audience can you just broadly look at the key financial initiatives in how we have been managing COVID in response?

Julie Cameron-Doe: Yes, sure, good morning everyone and thanks Rohan. Yes, if you think about where we were at back in April when we first spoke to the market about this, we were very much focused on first and foremost the welfare of our people, and focused on our customers as well. We were also very thoughtful and deliberate about our approach to it because as I think Trevor and Mitchell have both reflected, we came into this in really great shape.

From a product portfolio perspective, we had the best product portfolio, which is the result of years of really targeted D&D investment and investment into a really great creative talent that has helped to establish that. We came into it with a really nicely diversified business with a strong recurring revenue share in our land-based business, as well as a really thriving and scaled digital business, which really helped us.

Then of course we always talk about our balance sheet. We came into it with a strong balance sheet as well. So, when we thought about our response first things first, we didn't want to destroy any of that value. We wanted to leverage the strength and we wanted to make sure that we preserved the value in all those things. So we took an approach of no regret decisions. It was very early in April and we really didn't know how things were going to start to come back but we could just see that our customers were closing, were closed down, and we didn't know when they were going to return.

So we took an approach that was very focused on what can we do in the short term to address this, to really minimise our variable costs, and to really minimise our cash burn so that we can get through this and to really focus on preserving our liquidity. In terms of the initiatives, as you know in April we did talk about how we had furloughed a substantial part of our employee base. It was 1,000 in customer facing roles that were furloughed. We did take a number of no regrets decisions around people exiting the workforce as well. So there were about 200 people that left at that point.

About 200 people went part time so that helped us with our variable costs as well. Then there were pay cuts of 10% to 20% which applied to about 1,500 people, and our Board and our CEO took more significant pay cuts as well for that period of time. So, it was really a focus of no regrets, what can we do to manage that cash burn? Then as we started to see our – as you all know we suspended our dividend as well. We looked at all of our contractor and consultant spend and anything that was variable that we could pause without causing any issues to the portfolio.

So we managed our CapEx down as well so a lot of internal projects that we had been focusing on as we came into this year knowing that we wanted to invest behind certain skill sets like transformation, like data and so on, we were focusing so heavily on the recovery phase to the crisis that we paused a number of those things and so that helped minimise that cash burn as well. Then as we started to see our customers starting to reopen and we started to the see performance come back in we were quickly – it's a new term now that we've all had to get used to – un-furloughing people.

We returned people to work sooner than we had anticipated because we wanted to be able to respond to our customers. It was very much that people first, that customer first focus. We wanted to make sure that we were the ones that the customers could phone up and we would have people there who could respond to them and help them reset their floors.

Because essentially there is a lot of talk about people wanting to come out of this very fit to fight and leaner, and of course we are always focused on that from our perspective. But also, primarily what we really want to do is make sure that we come out of this in a position where we can take share, and we can use the advantages I've already listed to take share. As we have gone through the remainder of the fiscal year the majority of the people were un-furloughed through the summer in North America.

Then just coming into September we did look at what's the infrastructure in the organisation we need to really take us forward and drive this long-term growth. So you will have seen and you will have heard potentially about some smaller activities in land-based around some efficiency measures in land-based, primarily around our remanufacturing sites and some of these more process driven areas where we were able to make some efficiencies in land-based.

That we also having flagged in May that we were going to look at Big Fish in our Digital business we also took a review of Big Fish really focusing on what we needed to grow that business going forward. As a result, there were a number of efficiencies taken in Big Fish and putting us in a position to really invest behind that business and grow in a more sustainable way going forward.

Rohan Gallagher: Fantastic, let us drill down into a couple of specific questions. We have got Rohan from MST Marquee, the other Rohan, and Brian from Citi. They both ask specifically, the $100 million costs that we announced in April they're largely temporary in nature so should we assume those costs will return in FY21?

Julie Cameron-Doe: Yes, thanks Rohan. So when we looked at the measures we were taking in April and we were focusing on what we could do to minimise our cash burn, we do have to acknowledge that the vast majority of our cost base is fixed. It's largely people based and so when we were looking at the furlough positions, for example, that was a way of making some of those costs variable because those staff were then furloughed and were able to seek JobKeeper or unemployment benefits.

As they have come back obviously those costs have returned but as you can imagine given the market also reopened and the machines got turned back on, the revenue also started to flow. We made all those decisions very deliberately knowing that we had the capacity to cover any of those costs that came back in. A number of those costs were also in relation to as I said pausing some of our project spend and refocusing some of our key projects around the portfolio going forward.

As we have now seen the strength of the market coming back and we believe in the growth going forward we've wanted to make sure that we can kick start some of those projects again and make sure that we don't have a gap in our content or our hardware portfolio going forward. Some of those costs would have returned as well. So when we think about the future of Aristocrat and we think about how we've managed to achieve the success we've achieved to date, it has been through that really thoughtful and deliberate and targeted approach to investing for growth, particularly in D&D, which is always our first priority. That has got us to the position we are in with a strong portfolio and so we are committed to doing that going forward as well.

Rohan Gallagher: So we actually – whilst they have been temporary in nature for FY20 and a good chunk of those costs will come back there's obviously been a couple of initiatives you just touched on earlier, in particular Big Fish and the land-based operations. Can you provide a little bit more detail, as best you can currently, please?

Julie Cameron-Doe: Yes, sure, so if I start with the land-based business, we were able to spend the time really reflecting and seeing how the market was returning and seeing what we really needed to focus on in the land-based business. As we saw that we worked through what do we really need going forward to run this business? We were very deliberate about the areas we were going to focus on. There were about 150 employees that were impacted so in the scheme of things across the whole of Aristocrat over 6,000 people it's not a big number.

But it was much more about making sure that we were coming out of this fit to fight and that we were building in those efficiencies. So that took place in early September and then in Big Fish we mentioned in our release in May that we could see that we had challenges with the Big Fish business in that this was a business that we hadn't seen the hit rate in terms of new game releases that we wanted to see. We had not seen if you think about the revenue growth and the profitability that we expect from all our businesses and growing ahead of category, we could see that we had challenges there.

We also reflected on being a digital business of scale now and where we have scale it's tending to be in these very concentrated areas where we benefit from these low cost jurisdictions, for example, with Plarium and with our live operations so part of our business which is based out of those areas as well. We looked at Big Fish and we could see that we had this very high cost, very focused in North America in terms of the employee base and yet it was very much a library business with those legacy games.

So we said, if we're really serious about growing this business and the future of this business we want the capacity to be able to bring in talent and to be able to leverage those different jurisdictions that we operate in, and be able to do these third party deals where we bring in great creative content. We wanted to build the capacity to do that. So we took those actions in September and that impacted about 250 people in the Big Fish business. We are also hiring, we've also got new leadership in place in the Big Fish business and we're also hiring to be able to scale up in the different areas that we go into.

Rohan Gallagher: Julie, Trevor mentioned as part of the framework around our response to COVID and one of that was around the balance sheet and liquidity. Can you touch on liquidity and where we are at this current point in time?

Julie Cameron-Doe: Sure, but as you know Rohan I am not going to talk about where we are at, at this current time because we are in blackout and we'll be reporting on that in the future. But when we reported back in March we did talk to the successes that we'd had in terms of building up our liquidity and the proforma basis at the end of March we had $1.8 billion in terms of liquidity across cash on hand and the revolver that we had available.

We purposefully in the initial days of the crisis we drew down on our revolver. We also increased our revolver and we then set about raising additional debt with our incremental

Term Loan B facility that we talked about back in May. We made sure that liquidity was the primary focus and it remains our key focus. We monitor this very, very carefully and we are very focused on how we can continue to preserve it.

We have had strong performances with re-openings coming sooner than we anticipated in North America and with a strong digital business, which is highly cash generative, we continue to be in a strong position from a liquidity perspective. We are not facing challenges from that perspective in terms of our ability to invest and continue going forward.

Rohan Gallagher: We have received a live question and it's just confirming around the 600 redundancies overall, and I will just take this one. The business started at around 6,400 people, unfortunately 200 people were let go as part of our COVID response, and then you've seen a couple of initiatives, (1) Big Fish at 250, and across the land-based business you're talking more like 100 to 150. Importantly, the business has a growth strategy, so the business is still hiring so I would see it more as a reallocation of resources for the growth of this business going forward.

Julie, this week you are blessed in the US, you have got these (election) debates going on. There is a US federal election coming on, lucky you guys. We are starting to receive increasing questions from the market around if there is a change of government in the United States there is proposed changes in corporate tax rates. Now whether that comes to fruition or not remains to be seen but given Aristocrat has a significant US presence can you comment on how that would impact our tax position, both on an effective tax rate for P&L purposes but also our deferred tax asset from our balance sheet perspective please?

Julie Cameron-Doe: Sure, thanks Rohan, my favourite topic, US tax. So obviously as you know given we make - the vast majority of our business is in the US, we are impacted by any change in the tax rate here and we benefited previously when that tax rate was reduced. We're now in a position having recognised a deferred tax asset at the beginning of this fiscal year which we reported on in November and May, obviously deferred tax assets as many people know get revalued when the tax rate changes.

So a deferred tax asset where it relates to the US, if that US tax rate changes that changes the amount of deferred tax that you have available. That means that to some extent that really helps us manage the impact from a cash perspective of any change in tax rate.

Rohan Gallagher: I hope everyone understands that. So finally, from a finance perspective foreign exchange. We have seen (significant) currency moves lately, I think it's been almost a $0.10 cent spread in the Australian dollar/US dollar since COVID, and we have seen the RBA come out recently trying to push the currency down to $0.70 cents. In terms of Aristocrat's exposure to FX can you talk about generally the sensitivities around that?

Julie Cameron-Doe: Yes, sure. I mean if you look at our full year results for 2019, we always disclose how much $0.01 movement has on the bottom line and it was in that kind of $11 million to $12 million range back then. So, we will update that when we come to report in November this year. But it is really – if you think about – I mentioned the $1.8 billion liquidity we had on a pro forma basis at the end of March. That was when the rate was close to $0.60 and obviously most of our liquidity is US dollar based.

When that rate changes that changes the value of the liquidity as well. We look at it from both perspectives, but we always benefit from a profit perspective from a strong US dollar, and so that really helps us from a profit perspective. Then of course we are fortunate that our cash and our debt is also matched in US dollars as well so that manages the impact on the balance sheet side.

Rohan Gallagher: Now before we start moving into talking about strategic questions for the Company, I just want you to visualise Trevor in a black skivvy or back tee-shirt, the customary clothing of our digital operations. Due to time zones Mike Lang unfortunately could not join us for this call today and we will be introducing Mike in future market calls. But for now, Trevor, if we just touch on Digital. Jamie from DNR Capital, Thi Doan from Equity Trustees out of Brisbane and Melbourne respectively, asked about the potential impacts around the proposed iOS 14 privacy changes on our digital business.

Trevor Croker: Thanks Jamie, thanks Thi, iOS or IDFA it's still very early days and you would have seen recently that that's been pushed into the calendar year. Apple has pushed it out due to a fair bit of public pressure around that. The concept around opting in is still very uncertain from a product point of view and even down to how does that impact the way we make and present games to players?

We continue to monitor it and obviously stay up to date with partners like Apple, also talking with Facebook and Google, as to what their positions are likely to be on a similar sort of solution to managed privacy from a platform point of view.

We have obviously got internal working groups looking at it, looking at it from a technical point of view, and looking at ways that we can mitigate and also how it may have an impact to our game play. So it is live and we continue to stay in dialogue with Apple directly then also looking at other platforms to see what their likely trends would be, and we will provide more details as we can get to more certainty. But I think it's fair to say given the late shift in the delivery of that there is a lot of interest from a lot of game developers and platform operators as to what this will mean form an operational point of view.

Rohan Gallagher: Trevor, from your perspective operationally how are you seeing the digital operations in FY20?

Trevor Croker: Well I think the digital team did a great job in FY20. If you look at the way they have scaled Raid, that game now is probably run rating according to Sensor Tower are now trending at about US$350 million per annum, so we've seen great growth from that. But with the launch of Evermerge, so both in test launch and then into (worldwide) launch, and again seeing good scaling from Evermerge from the new App point of view.

I've been impressed by the team's response and we've spoken to the market a couple of times now about our active competitiveness in our traditional land-based business – sorry, our Product Madness business that didn't have enough features, wasn't good in the live op space, and we've spent time building those capabilities and teams and really have seen strong performance.

In fact, Eilers Kreijcek Gaming gave us a bit of a tick for having strong growth in Social Casino over the quarter, the second quarter. I think we continue to see that growing through.

The diversification of the genres when you think about Evermerge was moving into a new genre which is outside of some of the traditional casual genres we are in, and also the strength that we've seen in the Raid portfolio, which was a new genre built off of the platform but RPG Collectibles was a good component for us to learn and develop as well.

I think the other (highlights) under Mike Lang's leadership we are seeing a lot more of the learnings across the digital team now being shared across the Group and that's providing good insight into both where we're spending our user acquisition (UA), how we're thinking about live ops and building capability at speed for the digital businesses. The shelter in place from COVID, was definitely an impact in the early stages. We saw bookings increase of 20% on April and March and that held through May, June. We continue to see strong but not as strong COVID shelter at home opportunities for entertainment for players from mobile devise point of view.

I think when we talk about DAU (Daily Active Users), DAU is really going to come from a increased portfolio from new games. The legacy titles are starting to slow so that is a natural drain on our DAU but we are seeing good growth through user acquisition into new titles like Raid and EverMerge and we expect to continue to grow our DAU by launching new titles and investing strongly with UA to do that.

I think really the final piece here is continuing to build the pipeline. We have got about 10 to 15 games that we are working on at any one point in time. We have now got another three games currently in soft launch, we are continuing to test and refine those, plus other games coming through from a development point of view. So really building that pipeline from 2020 into 2021 whilst continuing to build up the talent and capability to deliver on that pipeline as well.

Rohan Gallagher: So Trevor, Julie touched on the Big Fish efficiency program so let's turn our attention to Plarium, Brian from Citi asks, how do you see the performance of Raid generally and when does it plateau and move into profitability?

Trevor Croker: Great question Brian, I think we would have been saying potentially plateauing and profitability in March/April but then COVID happened, so it changed the perspective. As I said earlier, we are seeing about US$350 million annualised revenue from the game. We are still able to effectively scale it with good UA investment. Whilst we have opportunistically looked to scaling it (further), I think we are at a point now where we are not far from turning to profit and I expect that will be in this half. It has certainly scaled to a great sized brand and a very popular brand in the Western markets.

Rohan Gallagher: Trevor, you touched on it earlier but specifically what about the performance of Social Casino?

Trevor Croker: Like I said earlier, I think the Social Casino business has been a strong business for us. As I said, we had to address features and live ops which we did, and we have seen that improve our performance as a whole. We have also increased the cadence of game releases into the Apps, taking our great land-based content and moving that into the Apps as well. So overall I have been very happy with that performance.

As I said, we have been, in my opinion, we have been taking share and as reported by Eilers' it seems that we have been taking share in the Social Casino market which is a good result for our team. I would say that the results peaked around May from a revenue or bookings point of view, and as work from home started to wind back a little bit we've seen less play. But by the same token it is still staying above where we were last year.

Rohan Gallagher: Trevor, a popular sell-side question, Social Casino it's a higher margin genre traditionally and obviously it's enjoyed some significant growth, so what does that do in terms of short-term margins for the business?

Trevor Croker: Yes, look everyone knows we are not going to get into the guidance side. But from a short term point of view it's really around product mix and UA, and whilst we are seeing good margins from a Social Casino point of view and we've always seen that, as we're investing behind new portfolio and launching games into the portfolio like Evermerge and investing strongly against Raid, that is having a downward pressure on margins generally.

But we are seeing good benefit coming through over the period of time when you think about both the positivity in the Social Casino and then the reinvestment back into Raid, Evermerge, and other games as we're looking to scale those.

Rohan Gallagher: Trevor we have got a live question. Are you happy with the direction of the social casual portfolio?

Trevor Croker: I am happy with the direction but I'd like it to go faster. I think where we are, we are moving and to Julie's point around some of the changes we've made at Big Fish were around accelerating our ability to build out the social portfolio. I think (the team) has done a great job and will show some strong results for the year. But I think we can go faster in that and that is where the focus is now with around building the talent, acquiring extra talent, and the focus around leveraging our genres. Whether it is leveraging on top of the capabilities around the strategy, RPG and action genre, or broader into the casual genre where we believe there's still more opportunity to build our portfolio as a whole.

Rohan Gallagher: Trevor this is probably a good time to pivot across to the **strategic** segment of the call and just start firstly the strategy, has it changes as a result of COVID?

Trevor Croker: No, no, it has not changed. In fact, COVID has reinforced the strategy of the organisation. Our diversified model of land-based and digital has proven that through this period it was the right strategy for our organisation, and still remains more current as we move through this period of time towards the future. Both businesses are asset light and cash flow generative so we see the opportunity to continue to invest, as Mitchell spoke about the importance of investing behind D&D in our land-based business, investing behind UA in our digital business, to continue to drive growth across our portfolio as a whole.

We still see ourselves as a growth business and believe that we can continue to invest to be a growth business, and then using M&A to accelerate growth as we have done in the past with acquisitions like Product Madness and VGT and more recently, Plarium and Big Fish.

Rohan Gallagher: Trevor, Mitch talked about the fact that operationally we are in great shape given the events, Julie has touched on financially we're in great shape given the events subject to disclosure, which we will defer to November for that. What does that mean strategically in terms of growth? We have got a number of questions from Melinda from Bank of America, Jamie from DNR Capital and so on. What are the highest priorities in terms of step-out opportunities for the business to accelerate its growth over the next few years?

Trevor Croker: Yes, thanks for those questions. We see growth across both of our portfolios, the land-based and the digital business.

If you just walk through the land-based opportunities we still believe there's share to be taken in gaming ops and For Sale market predominantly in North America, but we still see the opportunity to take share and I feel confident about that. We also see the opportunity to push into further adjacencies and you have heard about us talking about entering VLT and other adjacent markets and we have entered Illinois in the last half.

Pushing into some of those markets to continually expand our footprint and grow our instore base as well. We are also building on the technical capability and Mitchell spoke about that customer experience but technical capability around things like contactless payments and interactions which have come through as a consequence of the COVID requirements from operator's points of view and investing in that area as a way of providing solutions. This does open up opportunity to new markets, RMG (Real Money Gaming), ETG's (Electronic Table Games) are all options that can be considered for us for growth longer term as well.

Then I think where we get to on that is well is it a build, buy, or partner solution?

… Digital still has got growth left in it organically and as I said we have done some work over the year particularly in the Social Casino piece. We are now setting the casual business up for strong growth and the ability to scale. Now looking at where do we look for talent and using a very similar approach to the way that we built our land-based business which was securing key talent and then allowing them the opportunity to develop product and then our ability to scale that product and make it successful across the Group.

We have got three games currently in soft launch, 8 Ball Smash, Mech Arena, and Magic Wars and they're going through the traditional soft launch, and if they continue to scale and we have the metrics behind it then we'll be looking to invest in those going forward as well. So that pipeline is there.

So from a digital point of view, I think it's more about continuing to refine the pipeline we've got and invest in that, look for new talent and new opportunities to build out the broader growth to that earlier question about where we sit about it. Then looking at how do we leverage the current strengths across the Group to get benefits across the Group going forward as well.

Rohan Gallagher: In terms of appetite for M&A, Larry from Credit Suisse out of Melbourne, Don from JP Morgan and others offshore have written several recent reports about real money gaming (RMG), iGaming, sports betting, and so on. Is this an area of interest to Aristocrat and if so, what do you see the options going forward for the business?

Trevor Croker: Yes look, we have been monitoring this area iGaming, RMG for a number of years now and we continue to monitor what is going on. As I said earlier, we are seeing convergence and we are seeing more of that convergence and really what informs us in a lot of these scenarios is listening to what our customers are saying, what the customers are seeking from us as a provider going forward.

I think in terms of sports betting it is a little bit more complicated. It is less attractive than the RMG and iGaming space, but it still is a requirement that our customers are talking about and something that we're seeing natural momentum and certainly interest around.

I am probably less excited about the sports betting but certainly around RMG and iGaming there is a logic when you think about content, distribution, and technology which is really part of our core business operating model. We are continuing to do the work and we'll definitely keep you updated as how we see the market, and if and when and how we may enter that market as well.

Rohan Gallagher: Trevor we tend to focus more on our customers here at Aristocrat but a common question from the market, Anthony from CLSA, Raymond from Maple-Brown Abbott, David from Macquarie, we also have got a live question on the call around senior management talent and recent competitor announcements and major shareholding changes, and the implications for Aristocrat. What is your take on all of this?

Trevor Croker: Well the first thing I would say is that we are confident about our strategy. I am confident about our team's capability and the will to win regardless of who we are competing against. Competition is part of every business, every life, and at the end of the day we are comfortable with our strategy, our people, and our approach to doing that. For us, it is more about what we can control, and we're not really worried about what they're doing and what they're thinking and saying.

But it's about what do our customers need, how do we make sure we provide a better and faster solution for our customers, and use the investment and capacity that we have in our D&D investment from a land-based point of view to continue to provide a pipeline of great games and success going forward. We have also got the balance sheet, as Julie spoke about and liquidity, to give ourselves the flexibility to be partners and to take the opportunity to invest in the right priorities for our organisation today and into the future as well.

So, in all honesty from my perspective, I think some of the structural changes that have happened were always going to happen at some point in time. From my point of view, I am very confident with our strategy. I am extremely confident with our team and their capability and their will to win, and we're going to continue to play this like we have on a long term sustainable growth (basis) and play and continue to invest against our strategy and make sure we're successful.

Rohan Gallagher: Thanks Trevor. We've got a live question in regard to our strength operationally and financially could lead to further industry consolidation. We have touched on an appetite for M&A, Mitch how do you see potential consolidation opportunities across the industry from a land-based perspective?

Mitchell Bowen: Well I think everybody is seeing what's happening on the operator side, we've obviously seen Eldo (Eldorado) and Caesars and we have seen the latest one around William Hill and those sort of convergent pieces I think…as Trevor talked about and as we've talked about it on the call we've got significant share taking growth opportunities, we focus on what we can control, and really D&D becomes our priority investment to ensure we're giving our customers what they need.

So again, I don't want to speculate on what that consolidation looks like, I'll just say we are going to continue to do what we do, continue to take share, and continue to deliver the best product portfolio and commercialisation solutions in the marketplace.

Rohan Gallagher: I am conscious of time. The live questions have been coming through. I feel like we have answered the vast majority of those. So, as we draw towards the end of the call Trevor this is an unfortunate situation, COVID, but from an operational point of view, from a Company perspective, what are the positives that you're taking out of this situation and what have we delivered from your perspective? Similarly, what do you see is the most significant unique challenges that Aristocrat faces over the short to medium term?

Trevor Croker: Yes, thanks Rohan. Look it's been thrust on us and there's no play book but there's been a lot of positives. One of the highlights for me has been our people. They have just been amazing the way that they've adapted quickly and efficiently and staying very principled about ensuring that our customers were at the heart of everything we thought and did. I have got to put my hand up and say our people have been a true differentiator and their quality and commitment to the organisation through this period of time has been unbelievable.

I think our people have been the highlight. I think the other highlights for me is just this has highlighted the quality of the portfolio, and Mitchell talked about the number of machines that are on, the performance that is occurring in the land-based world. We have talked to you a lot about the D&D investment but this has highlighted where operators have the choice to switch machines on or not, what they're doing, and they're going with the machines that are delivering. I think that has reinforced the quality of our investment in D&D, not just in the hardware, but in the games in the portfolio.

I think the other piece to that is building it from an operator's point of view is it is perhaps reinforced the value of the EGMs (Electronic Gaming Machines) to their overall revenue streams and sustainability in the short term. I think that has created for me a lot more energy around our category within the casino business and I look forward to continuing to leverage that with Mitchell over the next couple of years as well. But I think that has been a great strength.

Now we came into this in a strong position from a balance sheet point of view and I think we've been able to certainly maintain that, and to make sure that we're investing against the right options and creating optionality for ourselves going forward. Whether it is around supporting our customers or looking at further investments or other strategies to continue to grow the organisation as whole.

Then Digital has really pivoted very quickly when you look at the ramp up that happened in the digital category as a consequence from work from home and then broader sustainability of that category.

New games launched and the scaling of that digital team under Mike Lang has seen some really good momentum coming into the organisation, which has given us more flexibility because of the diversified strategy we've got. If I think about some of the challenges, I mean the challenges are there and they still remain and it's the health and safety of our people, and we're not the only company or group in the world that are thinking about this. It's the health and safety of our people and the ability to provide them an opportunity to continue to work and be supported and support our customers and their customers going forward.

Also, there's been a lot of uncertainty about the short to medium term and like many businesses we are continuing to maintain optionality so that we can be flexible and be able to respond as we get through this.

I think the other learning and benefit from this from my point of view is that – oh sorry, the weakness is that we are going to see a decline in For Sale (Outright Sales market) in the near term or compression I think was the word that Mitchell used. That uncertainty is difficult to predict but that's offset by the strength in the gaming ops portfolio and the investment and performance of the gaming ops portfolio.

But to be frank with you and I have said it before, I'm actually more excited about the next five years for Aristocrat than the last five years. I say that because this is an opportunity for us to build on our strengths, to leverage our investments, and to create this diversified organisation with an ability to provide strong growth from its core, and preserve optionality for further growth through accelerating growth through further M&A. So, I'm quite excited by the next five years. It's a shame we don't get to see you and share some of our great product and portfolio at the moment, but it is something that I'm very proud of.

I've spent a couple of days this week wandering around the studios looking at some of their games and content and I'm very proud of what the team continue to do in these tough times and believe that our refreshed portfolio, our focus and our investment are the right things for the business going forward.

Rohan Gallagher: Thanks Trevor. I am conscious of time. I would just like to thank our panellists today, Trevor, Julie, Mitchell, thank you for your time. I would like to also thank and recognise the people behind the scenes, Donna, Penny, Reuben and Francis, for all their efforts in helping bring this together. I would also like to thank the 125 attendees on the call today.

This is a new initiative for us. It is our way of trying to bridge that gap under this "new normal". We are always seeking constructive – dare I say it constructive feedback, to continuously improve our process. We really appreciate your interest and your time. Please stay safe, take care, and on behalf of Aristocrat thank you, cheers.

Trevor Croker: Thank you everybody, thank you.

End of Transcript