

CREDIT OPINION

20 June 2023

Update



Send Your Feedback

RATINGS

Aristocrat Leisure Ltd

Domicile	Australia
Long Term Rating	Ba1
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Aristocrat Leisure Ltd

Update to credit analysis

Summary

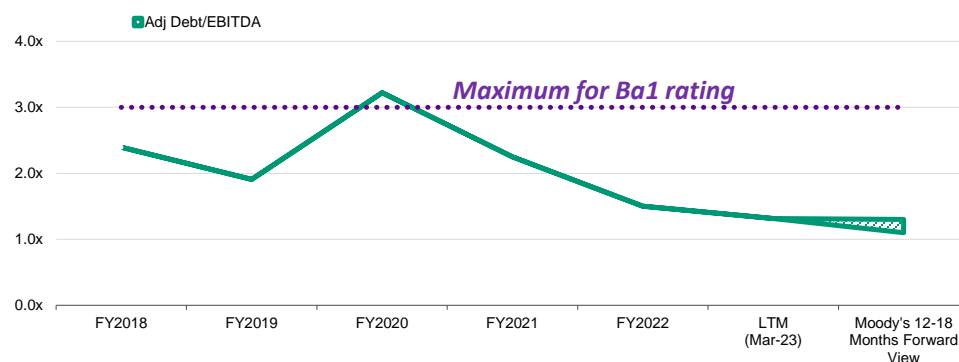
[Aristocrat Leisure Ltd's](#) ("Aristocrat", Ba1 stable) credit profile reflects its strong market presence and distribution across a diversified geographical footprint, as well as its history of developing products that continue to prove popular amongst consumers. The credit profile also reflects the shift in revenue mix towards recurring revenue and earnings stability from significant organic growth in the premium gaming operations and digital businesses, but also earnings from recent acquisitions.

On 15th May 2023, the company announced the proposed acquisition of 100% of NeoGames S.A. ("NeoGames", unrated) for approximately AUD1.8 billion. Should the proposed transaction go ahead, Aristocrat's business profile will improve from increased scale and geographic diversification, and new complementary growth channels through its real money gaming segment ("RMG"). The transaction remains subject to NeoGames shareholder approval, as well as gaming regulatory, antitrust and foreign investment approvals. The company expects the transaction will be completed during FY2024 (end 30 September 2024), and will be funded with cash on hand.

Exhibit 1

We expect Aristocrat's adjusted debt/EBITDA to be between 1.1x–1.3x^[1] over the next 12-18 months.

Aristocrat Leisure Ltd.



[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (F) or Projections (P) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

Source: Moody's Financial Metrics™, Moody's Projections

Credit Strengths

- » Strong organic growth across most segments
- » Improving earnings stability from the shift towards recurring revenue
- » Previous acquisitions in the Pixel United improve diversification
- » Solid financial metrics

Credit Challenges

- » Expansion in real money gaming (RMG) could increase execution risk and growth spending, including potential material acquisitions
- » Evolving competitive conditions heighten importance of continued innovation. This is exacerbated by Pixel United, in which products can very quickly become obsolete
- » Evolving nature of regulatory oversight of the sector and consumer tastes
- » The potential for future capital management initiatives

Rating Outlook

- » The stable outlook reflects our expectation that the company's credit metrics will remain within rating tolerance thresholds over the next 12-18 months.

Factors that Could Lead to an Upgrade

- » We could upgrade the rating if the company commits to a financial policy in line with an investment-grade rating, which would include maintaining adjusted debt/EBITDA below 2.0x on a sustained basis.
- » An upgrade to investment grade would also require Aristocrat transitioning to a fully unsecured capital structure.

Factors that Could Lead to a Downgrade

- » A deterioration in operating conditions or acquisitions that cause leverage to increase and/or liquidity to weaken to levels below our expectations for the rating.
- » Specifically, debt/EBITDA sustained above 3.0x would likely lead to a downgrade.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Key Indicators

Aristocrat Leisure Ltd.

US Billions	Sep-18	Sep-19	Sep-20	Sep-21	Sep-22	LTM (Mar-23)	Moody's 12-18 Month Forward View
Revenue	\$2.7	\$3.1	\$2.8	\$3.6	\$4.0	\$4.0	\$4.0-\$4.2
EBITA Margin %	32.0%	31.9%	20.3%	28.1%	29.7%	30.4%	27%-28%
Debt / EBITDA	2.4x	1.9x	3.2x	2.2x	1.5x	1.3x	1.1x-1.3x
EBITA / Interest Expense	8.8x	9.4x	5.6x	9.7x	6.5x	12.0x	10x-12x
RCF / Net Debt	26.2%	33.9%	90.5%	112.4%	-523.8%	-1014.6%	40%-60%

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Source: Moody's Financial Metrics™, Moody's Projections

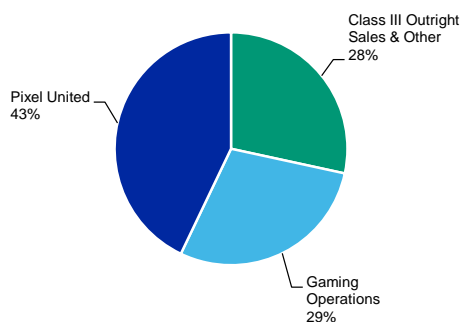
Profile

Aristocrat is a leading gaming provider and games publisher, with more than 7,500 employees located in offices around the world. Aristocrat offers a diverse range of products and services including electronic gaming machines, casino management systems and digital social games. Through the proposed acquisition of NeoGames, the company will also expand to the RMG segment, further increasing revenue diversification. The company's land-based products are approved for use in more than 300 licensed jurisdictions. Aristocrat generated revenue of AUD5.9 billion and EBITDA of AUD2.0 billion in the last twelve months ended March 2023.

Exhibit 3

Aristocrat 1H2023 results reflected a strong contribution from the Pixel United segment and an improvement in earnings from Gaming operations.

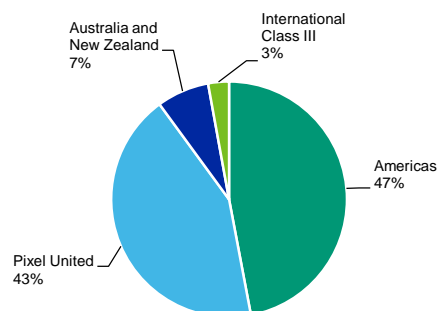
1H FY2023 revenue by strategic segment



Source: Company Information

Exhibit 4

Aristocrat's earnings benefit from geographic diversity
1H FY2023 revenue by segment



Source: Company Information

Detailed Rating Considerations

Proposed acquisition of NeoGames will improve business profile

On 15 May 2023, Aristocrat Leisure Ltd ("Aristocrat") announced the proposed acquisition of NeoGames S.A. ("NeoGames"). NeoGames is a content and solutions provider for the online Real Money Gaming ("RMG") industry, including content, proprietary technology platforms and value-added services across iLottery, iGaming and Online Sports Betting. NeoGames has over 200 customers in over 50 regulated markets.

Should the proposed transaction go ahead, we expect Aristocrat's business profile will benefit from added scale, incremental earnings and geographic diversity as it grows its online RMG segment globally in North America, as well as Europe and Rest of World markets. Although we expect the initial earnings contribution to be moderate (NeoGames' EBITDA in FY2022 (December 2022) was AUD88

million), the proposed acquisition will allow Aristocrat to enter the fast growing RMG segment, and the highly regulated iLottery market.

The transaction remains subject to NeoGames shareholder approval, as well as gaming regulatory, antitrust and foreign investment approvals. The company expects the transaction will be completed during FY2024 (end 30 September 2024).

However, we expect there could be potential integration and execution challenges with the acquisition. We do note however, that Aristocrat has a good track record with integrating acquisitions including Roxor Gaming in 2022, Big Fish in 2018 and Plarium in 2017.

We also estimate that the proposed transaction will not materially impact Aristocrat's credit metrics, as the company will fund the transaction - including transaction fees - with existing cash balances. Aristocrat will purchase 100% of NeoGames for a cash price of USD29.50 per share which implies an enterprise value of USD1.2 billion (AUD1.8 billion).

We expect earnings to remain strong from an improvement in Land Based earnings, and moderate earnings growth from Pixel United

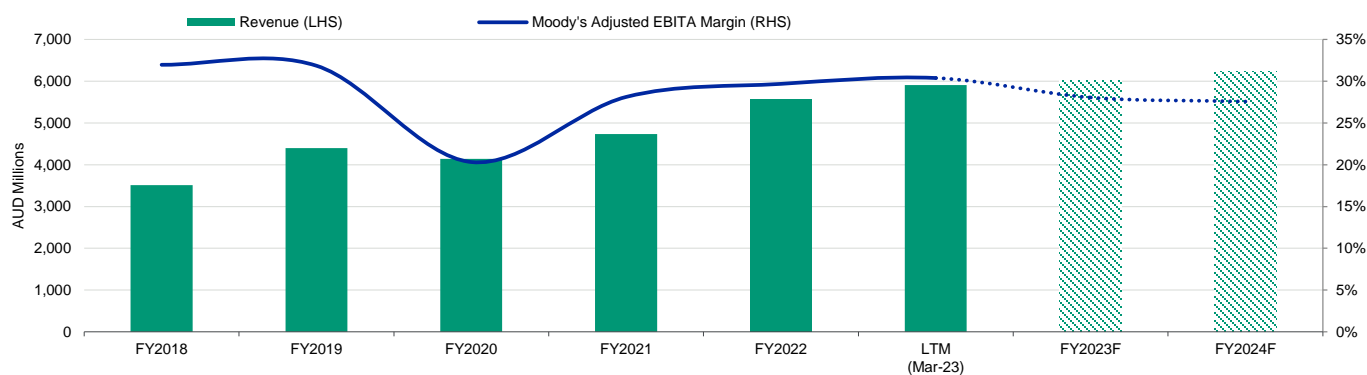
Aristocrat's first half fiscal 2023 results reflected a solid improvement in earnings across the North American Gaming operations combined with a strong revenue contribution from global Outright sales segment. We expect Aristocrat's Land Based segment will continue to improve over the next 12-18 months, driven by continued penetration of the company's high performing games and hardware. We also expect continued strong performance in the company's Outright Sales business, as the company expands into adjacent segments in North America.

We also expect revenues from Pixel United will continue to grow at a modest pace, benefitting from the continued scaling of new games and ongoing portfolio investment. We estimate Aristocrat's cash flow from operations will be more than adequate to cover our expectation of elevated design and development costs to support scaling of this portfolio.

Exhibit 5

We expect Aristocrat's earnings will continue to benefit from continued improvement in land based gaming and digital revenue growth over the next 12-18 months,

Moody's adjusted EBITA margin and revenue



[1] Historical ratios and figures based on Aristocrat's financials. Forecast ratios and figures are based on Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures. LTM = Last Twelve Months.

Source: Moody's Financial Metrics™, Moody's Projections

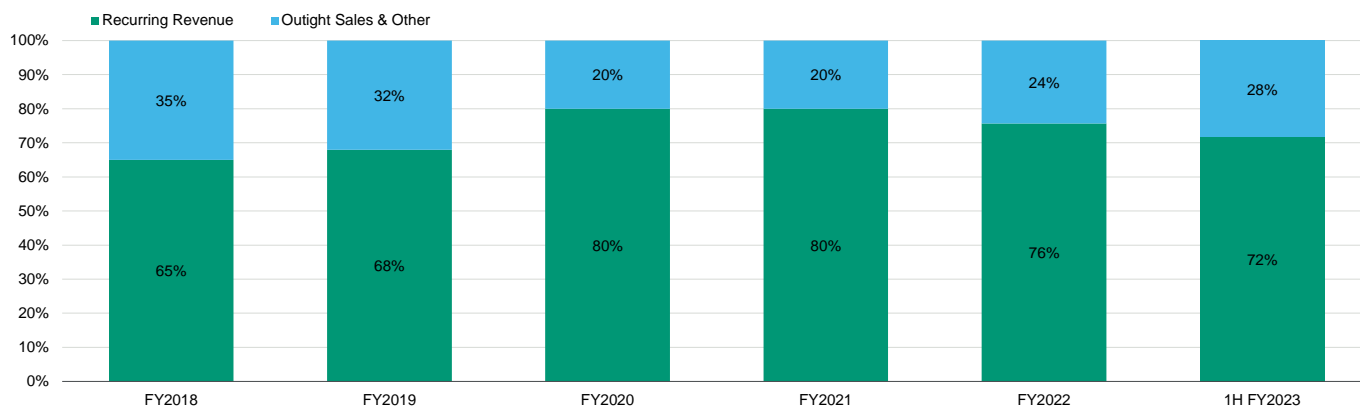
Increased recurring revenue has improved earnings stability

Aristocrat's revenue has been largely recurring in nature over the past 6 years, with a significant contribution from Pixel United and Aristocrat's strategy to reduce volatility in outright sales based earnings. We expect the successful establishment of RMG segment to provide additional recurring revenue.

Exhibit 6

Revenue mix has shifted significantly towards recurring revenue

FY2017-1HFY23 recurring revenue contribution



Source: Company reports

Notwithstanding the inherent risks of changing consumer tastes in both Digital gaming and gaming operations products, increased recurring revenue is positive for earnings stability and reduces reliance on more volatile platform sales.

Business profile benefits from geographic diversity

Aristocrat's geographic diversity reduces its exposure to unfavorable economic trends in any specific market. A significant proportion of revenues are now derived from the US particularly following strong growth in its Class II and Class III segments as well as from past acquisitions. The company's significant increases in revenue and earnings from its Pixel United division also increase the diversity of its geographic operations globally. Following the growth in Pixel United, Aristocrat's business benefits from earnings across 102 countries, albeit the US, and to a lesser degree Australia, are still the largest contributors.

Aristocrat operates in a highly regulated sector, with rules and licencing requirements varying by jurisdiction – which also represents a barrier to entry. The company's good geographic diversity is a mitigant to this risk as it helps to ensure that a reduction in cash flow from a particular jurisdiction due to a regulatory change should be manageable.

Regulatory changes may also benefit the business through facilitating churn of existing installations. This diversity may be of limited value in the unlikely event that Aristocrat breaches a regulation in a particular jurisdiction, because it may lead to licence reviews and/or cancellations in other jurisdictions. Furthermore, significant adverse regulatory changes regarding the monetization of its social casino gaming business would negatively impact the expected growth in its Digital division.

Evolving competitive conditions emphasize importance of continuing innovation

The gaming sector is competitive and characterized by companies having to continually invest in new products to maintain player interest, which is fundamental to generating product sales to casinos and consistent revenue from Land Based and Digital businesses.

Aristocrat's rating is supported by its track record, established under its current management, of product innovation and creating growth niches through market segmentation initiatives. These insights have allowed the business to grow its overall market share whilst increasing selling prices, an important consideration in view of the mature state of its main markets. Aristocrat's ability to continue generating sales growth and maintain margins has enabled it to generate sufficient free cash flow to continue investing in new content to maintain its market position and reduce debt post funding of acquisitions.

Design and Development (D&D) is a key capital allocation priority and required to achieve and maintain significant recurring sales. In the first half of fiscal 2023, Aristocrat spent around 12% of its revenue, or AUD372 million, on D&D. We expect that Aristocrat will continue to spend in excess of 10% on D&D and also prioritise investments in user acquisitions (UA) to drive growth.

The mature state of the market and competition from other forms of entertainment for discretionary income - particularly for the younger demographic group - underscores the need for continuing innovation to develop new titles to maintain player interest. This in

turn should translate into continued demand for products from casinos and encourage churn out of older titles into new ones, which benefits product sales.

However, continued new product development will mean that Aristocrat will likely have a higher reliance on key individuals for intellectual property development than other consumer oriented sectors.

Financial leverage to remain comfortable within our tolerance level but shareholder returns and growth spending are likely to increase

We expect the company's leverage – as measured by Moody's adjusted debt/EBITDA – will improve to around 1.1x–1.3x in the next 12-18 months from around 1.3x as at March 2023. While we expect earnings will continue to improve over the next 12-18 months, which could drive further deleveraging, we also believe the company will continue to focus on growth, particularly in its RMG segment, and could look at inorganic opportunities which could delay or make temporary more material deleveraging.

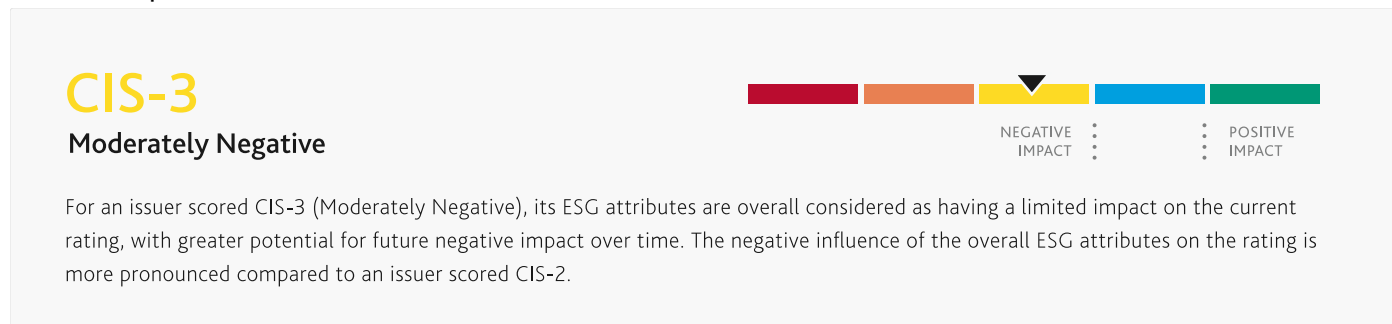
We also factor in the headroom available at the current rating level to accommodate some deterioration in earnings and/or shareholder initiatives. Given the high cash balances after the failed Playtech bid, we expect the company could look at material shareholder returns absent further inorganic opportunities.

ESG considerations

Aristocrat Leisure Ltd's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 7

ESG Credit Impact Score

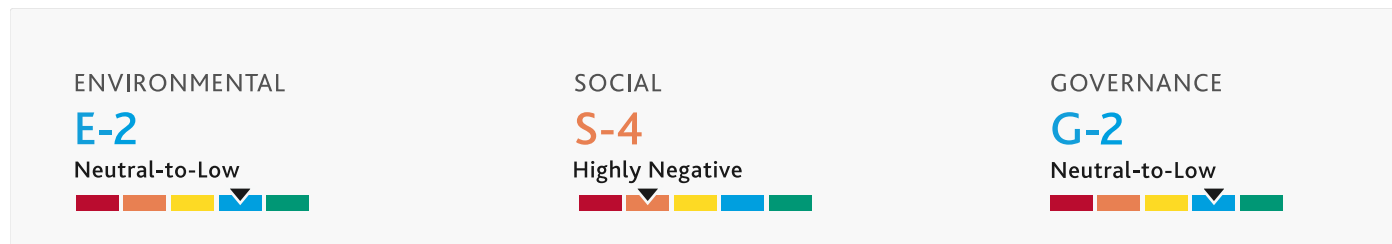


Source: Moody's Investors Service

Aristocrat's ESG Credit Impact Score is moderately negative (**CIS-3**). ESG attributes have limited credit impact today but have the potential to pressure Aristocrat's ratings over time. Aristocrat has neutral to low environmental risk exposure but has highly negative social risk exposure. The company's conservative financial strategy and risk management and established track record support its neutral to low governance risk.

Exhibit 8

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Aristocrat's facilities are diversified globally, and the company's activities are not weather-dependent.

Social

Aristocrat is exposed to changing demographic and societal trends. Aristocrat does not have as much direct interaction with end gaming consumers, but its products must help its gaming provider customers mitigate the risks of activities such as money laundering, problem gambling, and data protection. Although, gaming remains a popular source of entertainment, Aristocrat faces social responsibility pressures, as well as the potential for consumer preferences to move in a direction that does not favor traditional casino gaming including slot machines that comprise a significant share of the company's revenue. The company's Pixel United operations partially mitigate this risk.

Governance

Aristocrat has maintained conservative financial policies and excellent liquidity for an extended period. Management has demonstrated a strong track record of credibility and continually meets, or outperforms, on its earnings and growth targets.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity Analysis

Aristocrat has a strong liquidity profile. Aristocrat's business model is characterized by strong free cash flow generation and is therefore intrinsically supportive of its liquidity position. This reflects the high EBITDA margins and its cash flow from operations being more than adequate to cover design and development expenditure.

As at 31 March 2023, Aristocrat had around AUD2.7 billion in cash and equivalents available and the full AUD738 million available under its revolving credit facility. At the same time, Aristocrat increased its on-market share buy-back program by up to AUD500 million, to a total of AUD1.5 billion, and the program will run up to 31 May 2024.

We expect Aristocrat will maintain its strong liquidity despite cash balances decreasing to AUD600-700 million, after the company has paid AUD1.8 billion for the NeoGames acquisition and AUD500 million for the share buy-back.

The company's next major maturity will be the USD1.30 billion Term Loan A facility and USD500 million senior secured revolver, which mature in 2027.

Rating Methodology and Scorecard Factors

In assigning Aristocrat's ratings, we have referenced our [Global Business and Consumer Services methodology](#). The differential between the indicated rating from the scorecard and the assigned rating reflects Aristocrat's secured debt capital structure, as well as the cyclical and competitive nature of the industry in which Aristocrat operates and the mature state of most of its end-markets, which may be adversely affected by rapid changes in consumer preferences.

Exhibit 9

Rating Factors

Aristocrat Leisure Ltd

Business and Consumer Service Industry Scorecard [1][2]			Current LTM 3/31/2023		Moody's 12-18 Month Forward View As of June 2023 [3]	
Factor 1 : Scale (20%)	Measure	Score	Measure	Score	Measure	Score
a) Revenue (USD Billion)	\$4.0	Ba	\$4 - \$4.2	Ba		
Factor 2 : Business Profile (20%)						
a) Demand Characteristics	Baa	Baa	Baa	Baa		
b) Competitive Profile	Ba	Ba	Ba	Ba		
Factor 3 : Profitability (10%)						
a) EBITA Margin	30.4%	A	27% - 28%	A		
Factor 4 : Leverage and Coverage (40%)						
a) Debt / EBITDA	1.3x	A	1.1x - 1.3x	A		
b) EBITA / Interest	12.0x	A	10x - 12x	A		
c) RCF / Net Debt	-1,014.6%	Aaa	40% - 60%	A		
Factor 5 : Financial Policy (10%)						
a) Financial Policy	Baa	Baa	Baa	Baa		
Rating:						
a) Scorecard-Indicated Outcome		Baa1		Baa1		
b) Actual Rating Assigned				Ba1		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 3/31/2023(L)

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Appendix

Exhibit 10

Peer comparison table Aristocrat Leisure Ltd.

(in US millions)	Aristocrat Leisure Ltd Ba1 Stable			International Game Technology PLC Ba1 Stable			Electronic Arts, Inc. Baa1 Stable			Light & Wonder International, Inc. B1 Positive		
	FYE Sep-21	FYE Sep-22	LTM Mar-23	FYE Dec-21	FYE Dec-22	LTM Mar-23	FYE Mar-21	FYE Mar-22	LTM Dec-22	FYE Dec-21	FYE Dec-22	LTM Mar-23
Revenue	\$3,562	\$3,973	\$4,047	\$4,089	\$4,225	\$4,234	\$5,629	\$6,991	\$7,377	\$2,153	\$2,512	\$2,610
EBITDA	\$1,178	\$1,324	\$1,369	\$1,728	\$1,638	\$1,642	\$1,321	\$1,760	\$2,176	\$701	\$872	\$878
Total Debt	\$2,546	\$1,791	\$1,757	\$6,875	\$6,057	\$6,102	\$2,198	\$2,231	\$2,232	\$8,746	\$3,948	\$3,943
Cash & Cash Equiv.	\$1,756	\$1,943	\$1,837	\$591	\$590	\$669	\$5,260	\$2,732	\$2,202	\$585	\$914	\$931
EBITA Margin	28.1%	29.7%	30.4%	33.1%	30.6%	30.6%	19.6%	21.6%	25.9%	26.1%	29.5%	28.6%
EBITA / Int. Exp.	9.7x	6.5x	12.0x	3.6x	4.0x	4.1x	21.0x	22.6x	28.6x	1.2x	2.2x	2.6x
Debt / EBITDA	2.2x	1.5x	1.3x	4.0x	3.7x	3.7x	1.7x	1.3x	1.0x	12.5x	4.5x	4.5x
RCF / Net Debt	112.4%	-523.8%	-1014.6%	15.9%	14.8%	15.4%	-42.2%	-273.5%	5217.3%	6.6%	16.5%	16.2%
FCF / Debt	25.7%	21.2%	25.2%	8.7%	3.8%	5.6%	77.9%	68.0%	42.9%	5.9%	-15.1%	-13.1%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Financial Metrics™

Exhibit 11

Moody's-Adjusted Debt Breakdown Aristocrat Leisure Ltd.

(in AU\$ Millions)	FYE Sep-18	FYE Sep-19	FYE Sep-20	FYE Sep-21	FYE Sep-22	LTM Mar-23
As Reported Debt	2,881.1	2,792.7	3,519.2	3,525.0	2,785.1	2,622.9
Operating Leases	248.6	324.5	0.0	0.0	0.0	0.0
Moody's-Adjusted Debt	3,129.7	3,117.2	3,519.2	3,525.0	2,785.1	2,622.9

All figures are calculated using Moody's estimates and standard adjustments

Source: Moody's Financial Metrics™

Exhibit 12

Moody's-Adjusted EBITDA Breakdown Aristocrat Leisure Ltd.

(in AU\$ Millions)	FYE Sep-18	FYE Sep-19	FYE Sep-20	FYE Sep-21	FYE Sep-22	LTM Mar-23
As Reported EBITDA	1,216.9	1,522.1	978.5	1,485.9	1,856.9	1,998.1
Operating Leases	42.2	51.6	0.0	0.0	0.0	0.0
Unusual	47.7	62.0	113.9	80.9	0.0	0.0
Moody's-Adjusted EBITDA	1,306.8	1,635.7	1,092.4	1,566.8	1,856.9	1,998.1

All figures are calculated using Moody's estimates and standard adjustments

Source: Moody's Financial Metrics™

Ratings

Exhibit 13

Category	Moody's Rating
ARISTOCRAT LEISURE LTD	
Outlook	Stable
Corporate Family Rating	Ba1
ARISTOCRAT TECHNOLOGIES, INC.	
Outlook	Stable
Bkd Sr Sec Bank Credit Facility	Ba1

Source: Moody's Investors Service

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