

Research Update:

Aristocrat Leisure Outlook Revised To Positive On Proposed Playtech Plc Acquisition; 'BB+' Rating Affirmed

October 24, 2021

Rating Action Overview

- Australia-based gaming provider Aristocrat Leisure Ltd.'s (Aristocrat) proposed A\$5.0 billion acquisition of U.K.-based gaming and software company Playtech Plc (Playtech) will materially diversify Aristocrat's operations into the online real-money gaming segment and broaden the company's customer and geographic footprint.
- Were the transaction to complete as proposed, we expect that Aristocrat's credit metrics would increase to the S&P Global Ratings adjusted debt to EBITDA level of around 2.6x, comfortably within our tolerance for the 'BB+' rating.
- On Oct. 25, 2021, S&P Global Ratings revised its outlook on Aristocrat to positive from stable. We affirmed the 'BB+' long-term issuer credit rating on the company and the related issue ratings on its secured A\$286 million revolving credit facility and US\$2.35 billion in term loans.
- The positive outlook reflects our expectation that Aristocrat's expanded scale, customer and geographic footprint, along with a more diverse earnings profile, could lead to a rating upgrade if the acquisition of Playtech is completed as proposed and Aristocrat's financial policies and operating strategy remain unchanged.

PRIMARY CREDIT ANALYST

Sam Playfair
Melbourne
+ 61 3 9631 2112
sam.playfair@spglobal.com

SECONDARY CONTACT

Craig W Parker
Melbourne
+ 61 3 9631 2073
craig.parker@spglobal.com

Rating Action Rationale

The positive outlook reflects our view that the proposed acquisition of Playtech provides Aristocrat greater scale and earnings diversification. In our view, the combination of Aristocrat's existing customer base in the U.S., its long-established relationships with regulators, and the addition of Playtech's online gaming operations should enable it to benefit from the burgeoning US\$70 billion online real money gaming (RMG) segment. We expect earnings contributions from the U.S. to gradually increase as jurisdictions continue to liberalize access to gaming platforms over the next few years. Additionally, Aristocrat's global footprint will expand, and we expect Playtech's European operations to bolster Aristocrat's earnings. On a combined pro-forma basis,

we anticipate Playtech will increase Aristocrat's EBITDA by around 25% in fiscal year 2022.

Playtech's online gaming offerings, including in online RMG, expand and complement

Aristocrat's digital gaming capabilities. We believe Playtech's software and technology platform provide Aristocrat with new and complementary growth channels for Aristocrat's high-quality content. Playtech is a technology provider that develops platforms and content predominantly for online sports betting and iGaming. The expansion of Aristocrat's products and technologies beyond social gaming and land-based operations into the online RMG segment significantly increases and diversifies its addressable market. In our view, Aristocrat continues to evolve its product portfolio and capabilities to meet changing consumer preferences. At the same time, we believe Aristocrat's expansion into the online RMG segment will further grow its recurring revenue base, which will help minimize earnings volatility during economic cycles.

Aristocrat will need to navigate material integration challenges after the acquisition. In our view, there are inherent risks associated with an acquisition of this size and nature, including managing the complexities of integration, delays or conditions attached to regulatory approvals, realization of operational synergies, and the retention of key personnel and key customers. However, we acknowledge the acquisition has complementary attributes that will somewhat alleviate the sizable integration challenges. Further, Aristocrat has a proven record of successful integrations, having completed the acquisitions of VGT, Big Fish, and Plarium in the past seven years.

Aristocrat's regulatory and compliance review of Playtech's unregulated operations remains a key consideration. Playtech operates across more than 30 regulated jurisdictions globally, with most of its earnings derived from Europe. It also operates in unregulated jurisdictions across Asia and the Americas. Post-acquisition we expect Aristocrat to conduct a review of Playtech's operations in these unregulated jurisdictions, which contribute up to A\$125 million to group EBITDA. Additionally, we acknowledge the regulatory measures around responsible gaming in European jurisdictions add an additional compliance layer to Aristocrat's operations.

Aristocrat's management remains committed to maintaining its financial policy framework. In our view, the A\$1.3 billion fully underwritten equity issuance to part fund the proposed acquisition reinforces our view that Aristocrat remains committed to its current financial policy framework. Our credit metric tolerances for the 'BB+' rating level correlate to leverage remaining below the S&P Global Ratings adjusted debt to EBITDA level of 3.0x for strategic opportunities, and below 2.5x under steady operating conditions. Should the transaction complete in line with the proposed funding structure, we expect that Aristocrat's leverage credit metrics to peak at around 2.6x. The proposed A\$5.0 billion acquisition will be financed via a combination of existing cash held by Aristocrat of A\$1.1 billion, additional term loan B issuance of around A\$2.8 billion and a A\$1.3 billion fully underwritten equity raising.

The proposed acquisition remains subject to a number of approvals and conditions. The expected completion of the proposed acquisition is mid-2022. However, we acknowledge the transaction is subject to several hurdles such as the approval of no less than 75% of Playtech shareholders. We believe the unanimous recommendation in favor of the proposed acquisition from the Playtech board of directors and letters of intent or irrevocable undertakings to vote in favor of the acquisition from around 21% of Playtech shareholders will assist in this threshold being met. In addition, the transaction remains subject to regulatory consents and approvals while also remaining conditional upon Playtech's divestment of Finalto, which was announced as being

up for sale on Sept. 29, 2021.

Outlook

The positive outlook reflects the potential for an upgrade to 'BBB-' in the next 12 to 18 months if the acquisition of Playtech is completed as proposed and Aristocrat maintains balance sheet strength while bolstering the quality, scale, and diversity of its earnings.

We continue to expect Aristocrat to maintain debt to EBITDA of below 2.5x under steady state operating conditions.

Upside scenario

We could raise the rating if Aristocrat completes the acquisition of Playtech on materially the same terms as proposed. An upgrade would be reliant on Aristocrat maintaining the company's solid market positions, operating performance, and adherence to its existing financial policy framework.

In addition, an upgrade would be predicated on the retention of key Playtech personnel, along with Aristocrat's ability to exit Playtech's existing operations in unregulated jurisdictions that do not align with its risk and compliance tolerance levels.

Downside scenario

We could revise the outlook to stable if the proposed acquisition is unlikely to proceed, such that the expected improvement in Aristocrat's scale and diversity is unlikely. This could happen if:

- More than 25% of Playtech shareholders vote against Aristocrat's proposal;
- The requisite regulatory consents and approvals are not obtained; or
- The disposal of Finalto does not proceed as planned.

We could also revise the outlook to stable if, during the process of funding the acquisition, we forecast Aristocrat's adjusted debt-to-EBITDA to increase above 3.0x.

Our Base-Case Scenario

- Real GDP growth in Australia of 4.2% in 2021 and 3.2% in 2022, following a contraction of 2.4% in 2020;
- U.S. real GDP growth of 5.7% in 2021, 4.1% in 2022, and 2.5% in 2023;
- Continued land-based operations revenue recovery in the Americas, Australia, and New Zealand, and International Class III segments through calendar year 2021;
- Digital segment revenue growth of around 8%-10% in fiscal 2021;
- EBITDA margins to remain depressed compared with pre-pandemic levels of around 28%-30%;
- Annual capital expenditure of around A\$300 million in the fiscal years 2021 and 2022;
- Dividend distributions of around A\$275 million-A\$325 million; and
- Were the Playtech transaction to proceed as proposed, we continue to expect Aristocrat to

utilize a combination of existing cash (A\$1.1 billion), additional term loan B issuance (A\$2.8 billion) and equity raising (A\$1.3 billion) to fund the acquisition.

Liquidity

We consider Aristocrat to have strong liquidity. We estimate the company's sources of liquidity, including cash, would exceed uses by 1.5x over the next 12 months, and net sources to remain positive even if EBITDA declines by 30%. We believe the group has well-established, solid relationships with banks, as well as a generally high standing in credit markets. This is indicated by its ability to upsize existing revolving credit facilities, issue an incremental term loan B, reprice its debt, and fund acquisitions.

Post-acquisition we expect Aristocrat will maintain strong liquidity.

We believe the proposed funding structure provides Aristocrat with ample levers to support its strong liquidity position. This is underpinned by its sizable cash balance, which we expect to be around A\$1.3 billion-A\$1.5 billion at completion, undrawn revolving facilities, and minimal near-term debt maturities. We believe these provide the company with ample buffer to meet any liquidity pressures over the next 12 months.

As of Sept. 30, 2021, our base case estimates Aristocrat to have the following sources and uses of liquidity:

Principal Liquidity Sources

- Cash and cash equivalents of approximately A\$2.2 billion-A\$2.3 billion;
- Undrawn revolving credit facilities of about A\$286 million; and
- Cash funds from operations (FFO) of about A\$950 million-A\$1,000 million.

Principal Liquidity Uses

- No debt maturities;
- Dividends of A\$275 million-A\$325 million;
- No mandatory term loan amortization on the company's existing US\$1.85 billion term loan B issuance due to repayments paid to date and minimal contractual amortization in relation to the incremental US\$495 million term loan B issuance; and
- Capex of about A\$300 million.

Debt Maturities

Aristocrat has no near-term debt maturities. The company's US\$2.35 billion term loans are long-dated and mature in 2024.

Covenant Analysis

The group's quantitative financial covenants include a prescribed debt-to-EBITDA ratio for its revolving credit facility and a cross-default clause for its term loans. In our view, Aristocrat continues to comply with its covenants, and we will monitor the company's requirements under its negative pledge deeds for each of the funding facilities.

Issue Ratings - Recovery Analysis

Key analytical factors

The 'BB+' issue and '3' recovery ratings on Aristocrat's senior secured A\$286 million revolving credit facility and US\$2.35 billion term loan B are based on our valuation of the company as a going concern.

Our hypothetical default scenario assumes a decline in Aristocrat's revenues and margins, stemming from a deterioration of general economic conditions in the U.S. and Australia; unfavorable regulatory changes; and increasing competition from larger players in the industry, rendering Aristocrat unable to refinance its debt at maturity.

We value Aristocrat as a going concern, reflecting our view of its diversified position in attractive gaming markets including the U.S., Australia, Asia Pacific, as well as Europe, Middle East, and Africa; its technological knowledge and expertise in electronic gaming equipment manufacturing; casino management systems, digital social games, and web and mobile gaming services; and its contractual relationships with customers.

Simulated default assumptions

- Simulated year of default: 2026
- EBITDA at emergence: A\$383.2 million
- EBITDA multiple: 6.5x
- Jurisdiction: Australia

Simplified waterfall

- Net enterprise value (after 5% administrative costs): A\$2,366.1 million
- Secured first-lien debt claims: A\$3,067.8 million
- Recovery expectation: 50%-70% (rounded estimate: 65%)

Ratings Score Snapshot

Issuer Credit Rating: BB+/Positive/--

Business risk: Fair

- Country risk: Very low
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bb+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bb+

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Leisure And Sports Industry, March 5, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Aristocrat Leisure Ltd.

Senior Secured	BB+
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Aristocrat International Pty Ltd.

Senior Secured	BB+
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Aristocrat Technologies Australia Pty Ltd.

Senior Secured	BB+
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Aristocrat Technologies Inc.

Senior Secured	BB+
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Video Game Technologies Inc.

Senior Secured	BB+
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Ratings Affirmed; CreditWatch/Outlook Action

	To	From
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Aristocrat Leisure Ltd.

Issuer Credit Rating	BB+/Positive/--	BB+/Stable/--
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Ratings Affirmed

Aristocrat Leisure Ltd.

Senior Secured	
Local Currency	BB+
Recovery Rating	3(65%)

Aristocrat International Pty Ltd.

Senior Secured	
US\$2.262 bil fltg rate Syndicated Term Loan B bank ln due 10/19/2024	BB+
Recovery Rating	3(65%)
US\$500 mil Term Facility bank ln due 10/19/2024	BB+
Recovery Rating	3(65%)

Aristocrat Technologies Australia Pty Ltd.

Senior Secured	
US\$2.262 bil fltg rate Syndicated Term Loan B bank ln due 10/19/2024	BB+
Recovery Rating	3(65%)
US\$500 mil Term Facility bank ln due 10/19/2024	BB+
Recovery Rating	3(65%)

Aristocrat Technologies Inc.

Senior Secured	
US\$2.262 bil fltg rate Syndicated Term Loan B bank ln due 10/19/2024	BB+
Recovery Rating	3(65%)
US\$500 mil Term Facility bank ln due 10/19/2024	BB+
Recovery Rating	3(65%)

Video Game Technologies Inc.

Senior Secured	
US\$2.262 bil fltg rate Syndicated Term Loan B bank ln due 10/19/2024	BB+
Recovery Rating	3(65%)
US\$500 mil Term Facility bank ln due 10/19/2024	BB+
Recovery Rating	3(65%)

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