Start of Transcript

Operator: Thank you for standing by and welcome to the Aristocrat Half Year Results Briefing. All participants are in in a listen-only mode. There will be a presentation, followed by a question and answer session. If you wish to ask a question, you will need to press the star key, followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Trevor Croker, Chief Executive Officer and Managing Director. Please go ahead.

Trevor Croker: Welcome to Aristocrat Leisure Limited's financial results presentation for the six months to 31 March 2019. My name is Trevor Croker, Chief Executive Officer and Managing Director of Aristocrat. It is a pleasure for me to be presenting today, along with Julie Cameron-Doe, our Chief Financial Officer. Thank you all for joining us. Before we begin, please note the usual disclaimer statement on slide 2. Turning now to our agenda on slide 3. Today we will spend some time recapping Aristocrat's strategy and updating you on our progress, particularly with respect to our digital business, before speaking to results highlights for the reporting period. We will then move on to our expectations for the 2019 fiscal full year, before opening the line to Q&A.

For clarity, all references to prior corresponding period, or PCP, represent the six months to 31 March 2018. Normalised results refer to the reported results, excluding the impact of certain significant items and adjustments, as set out in the review of operations document. Turning first to strategy. Aristocrat is all about delivering superior, sustainable profit growth. We deliver this primarily through organic growth in existing markets and by attacking selected adjacencies, accelerated by M&A. This slide is one we've shared before. It summarises our operating model, which has been the key part of our strategic playbook over the last decade and continues to underpin our approach today. Our initial focus has been driving growth, through adjacencies in our land-based business. Over the last 18 months in particular, we've deliberately brought a similar approach to digital, as evidenced by our move into social gaming adjacencies, with the acquisition of Plarium and Big Fish.

Our results for the half year to 31 March 2019, reflect our progress in executing this strategy in line with our expectations and previous commentary, we're at an earlier point in the implementation of digital, than our land-based businesses. We continue to see pleasing progress across our portfolio and more opportunity to unlock benefits across our digital business and between land-based and digital operations as our capabilities grow. In terms of our land-based business on slide 5, investors may remember that in 2014 we served only 65% of the outright sales market in North America, namely the video segment. Our first priority was share taking within this segment, through effective segmentation, recruiting outstanding talent, investing in content and technology and improving front-end execution. In other words, we focussed on what we could control to drive shares. This is another common theme that unites our approach to growth across all paths of our business.

In the same year, Aristocrat had 9000 recurring revenue games operating in commercial and Indian tribal casinos, representing 6% of the North American market. In FY15 we made a US $1.3 billion acquisition, bringing in BGT, which gave us a significant 20,000 unit 100% recurring revenue footprint in Indian tribal casinos and was also highly cash-generative, facilitating further investment back into the business to accelerate momentum. Over the last four years, we've also invested organically in top-performing and broader product portfolios, to grow into new segments in North America, including in gaming operations, Class II video, which offers further choice to Indian tribal casino customers, the mechanical, real, or stepper market across both gaming operations and outright sales. The Videos Lotteries Terminal market, commonly referred to as VLT, which is a business to government, or B2G market, the Washington Central Determinate System, or CDS market and finally the Bar Top Poker market.

As a result of these investments we anticipate being able to commercialise products across around 96% of the North American outright sales market and 80% of the recurring revenue market, by the end of 2020, underpinning our ability to sustain high quality growth, going forward. We'll refer to our progress across these identified adjacencies later in the presentation. As I mentioned, we're applying a similar approach in digital and will now turn to slide 8. For clarity, all amounts to referred to in the next two slides on digital, are in US dollars. In FY13, we made a $30 million acquisition of the social casino business Product Madness, providing us with the capability to deliver games over social platforms, which at the time, was largely Facebook.

We sparked a wave of growth in the business, by leveraging the power of our leading back-catalogue casino titles, effectively creating a new monetisation channel for our land-based content and creating a powerful adjacency. While the social casino market grew at 21% CAGR over the past six years, we've grown Product Madness at 77% CAGR and built a firm foothold in the social casino market. At FY14, Product Madness daily active users, or DAU, averaged 625,000. Today that figure is over 2 million. Similarly, monetisation levels measured at average bookings per daily active user, or ABDAU, have grown from $0.20 to now well over $0.50. At the same time, however, we were always aware the social casino represented only a fraction of the total social games opportunity and our growth would fall away over time if we didn't do anything.

That is clearly demonstrated on the slide with social casino representing only $4.2 billion within a broader addressable market opportunity of around $32 billion. Consistent with our strategic playbook, we've since used our foothold and our increasing digital capabilities and experience, to begin to attack significantly larger adjacent segment and genre opportunities over the last 18 months. As a result of our addressable mobile digital market has expended from around $5 billion 18 months ago to around $32 billion, of a $50 billion-plus opportunity today, as we've expanded into the genres you see on the slide. We have reached this point in terms of our strategy in digital, several times faster than we did in our land-based business, underlining both the speed of this market and the benefit of experience and leveraging our proven land-based strategy.

Given we began this next phase of growth in digital relatively recently, I'll quickly touch on the progress made, key capabilities and areas of focus since our last update. Turning to slide 9. We bought our digital operations under common leadership, bedding down two significant acquisitions and implementing common processes. We've also been encouraging value-adding [cot] collaboration, or preserving appropriate autonomy, to allow the three digital businesses to maintain their culture, agility and entrepreneurial spirit. We believe we now have the ingredients required to fuel the next phase of organic growth in digital. This is set out in the boxes on the left hand side of the slides, starting with World Class Game Design talent. We now have capability in our core genres of social casino, social casual and strategy and the skills and incentive to enter fast-growing adjacent genres, like RPG and Action.

We were able to do this in two ways. Firstly, internally, through our studios, leveraging our increased presence in low-cost, high-skilled development jurisdictions. Secondly, via our strong network of third-party design talent. In addition, we have the benefit of a number of Evergreen Brands in our key game franchises. Some of our games have been in the market for over five years and are still performing strongly, providing us with a healthy baseline of both revenue and margin, through which to invest for further growth. We also have leading edge native digital and data skills in product management, including monetisation and game economy. We had the benefit excellent digital marketing capability across our user acquisition, as well as organic marketing, driving virality and branding into our games, together with global digital market intelligence and portfolio planning skills.

Finally, we have a strong culture of investing for growth in marketing and product development, backed by rigorous and common processes to test returns. Our vision for our digital business is similar to what we have achieved in land-based, namely to be a leading social digital publisher on a global basis. To achieve this, we're focussed on three areas which can, again, be summarised as focussing on the things within our control. These are on the right-hand side of slide 9 and our portfolio growth and optimisation, leveraging our scale and driving efficiency. Turning first to our portfolio growth. We're investing in our key franchises through a relentless focus on delivering new content and features that resonate with players, keep titles fresh and drive sustained monetisation. At the same time, we're launching new games, using our market intelligence and growing data capability, to build that a strong portfolio across a growing range of genres.

Portfolio growth is also about entering growth segments quickly and with proven capability and passionate teams. Finally, we're bringing the same rigorous approach to portfolio planning, segmentation and returns, that has been key to our growth in land-based. We are fostering a fill or kill culture in digital, where games are subject to clear KPI targets. This ensures we only launch the best products and that our marketing investment is also highly targeted behind our most promising opportunities. Fundamental to this culture is the preparedness to hold back games where KPI thresholds are not met and to manage through this variability. We have held back a handful of games in Big Fish and Plarium during the [purporting] period. This preparedness will continue to be important, going forward.

Turning now to our second priority, leveraging our scale. Today we have an ecosystem of over eight million daily active users, within which we are increasingly able to cross-promote and use data to better understand player segments and emerging trends and to improve our products. On a combined basis, the Aristocrat digital business is an important customer for key platform providers and we are focussed on leveraging these partnerships to generate value. For example, when we launched RAID, the game secured featuring on both iOS and Google Stores. Apple even included the game in their marketing materials for the launch of their new iPad, underscoring the sorts of opportunity we are focussed on, creating through our platform partners.

Collaboration and sharing are best practices across our teams is also a key source of value, as I referenced earlier. An example here is the deployment of a shared sophisticated UA management platform, across all of our digital teams during the reporting period, which is facilitating better investment decisions on a portfolio basis. We are continually testing lifetime value, or LTV, of our games, verses the cost per installation, or CPI, improving efficiency, which is our third focus area. We've also realigned resources and game portfolios of Big Fish, to focus on value creation and we are leveraging Plarium's operational expertise in low-cost jurisdictions, to stand up new studios. For example, during the reporting period, we established a new studio in Eastern Europe, which specialises in creating features for Product Madness games.

As we shared at our investor day in May last year, our expectation was that in 2019 would be a year of investment and transition for this part of our business. We believe we now have in place the foundations of an effective organic growth strategy and are already seeing encouraging progress. Over the balance of the year we expect to launch a great number and a range of features across all of our key franchise, including our social casino apps to drive greater long-term engagement for monetisation. These will include collectables, leagues, social features, clubs, missions and live operations. Since period end, we have launched new features across Big Fish Casino and in the last 10 days, also launched leagues in Heart of Vegas and collectables in Cashman Casino.

In addition, we're embedding a clear nail and scale approach, with successful titles receiving full marketing support and investment to scale globally and ruthless prioritisation. Finally, we're launching several ambitions new games, representing first to our business, including Toy Story Drop. Consistent with our success in land-based, we're working methodically and with the benefit of experience and increased capability to build on these foundations and deliver superior, sustainable growth in digital, consistent with shareholders expectations and our potential. We are comfortable with the choices we have made and are confident we now have the platform to drive sustainable growth. We will return to many of these strategic themes as we move through the balance of today's presentation, but I will now make some comments on the changes in our tax arrangements that we disclosed to the market today.

Turning to slide 10. Aristocrat's business profile has changed over the last several years, with a large and increasing majority of profit generated from the US, now representing 60% of group revenues. In response to this significant shift and consistent with shareholders' interest, Aristocrat is in the process of implementing changes in its group structure, to ensure that it remains fully aligned with the underlying business model. These changes are expected to result in the company being entitled to additional non-Australian tax deductions, while continuing to be a tax resident and pay taxes in Australia. These changes are not expected to come into effect until after 30 September 2019. Financially, these changes are expected to lead to reductions in both cash tax paid and accounting tax expense, but will not impact the amount of Australian tax the business pays, which is averaged over $120 million per year for the past three years, as disclosed in Aristocrat's voluntary tax transparency code report.

Aristocrat has obtained a private ruling from the Australian Tax Office, that confirms the treatment adopted by the group. As a result of the changes, the group's effective tax rate, ETR, is expected to reduce by 150 to 250 basis points, compared to the FY19 ETR to be 25 to 26%, which would continue to place Aristocrat well within the average ETR range for the ASX 100. We expect these benefits to continue into the future, subject to global tax policy, or legislative changes. Upon implementation, the group expects to recognise a one-off material deferred tax asset. Implementation of these structural changes is subject to the receipt of gaming regulatory and other necessary approvals. These changes will further enhance our ability to invest in our business and behind our growth going forward. We'll provide a further to the market, including indicative financial impacts on completion of the steps to implement, after 30 September 2019.

Moving now to an overview of Aristocrat's performance for the 2109 half year on slide 12. Normalised profit after tax and before amortisation of acquired intangibles, or NPATA, of $422 million, represents growth of 16.8% in reported terms and 7.7% in constant currency. Normalised revenue increased 30% to over $2.1 billion and earnings before interest, tax, depreciation and amortisation, EBITDA, increased 19% compared to the PCP, to $766 million. In constant currency, revenue was up 21% and EBITDA increased more than 10%, reflecting strong gaming operations momentum. This was partly offset by lower digital margins, reflecting the impact of acquired lower margins social games, in line with our expectations and an increase in design and development or D&D investment.

Normalised, fully diluted earnings per share, before amortisation of inquired intangibles of $0.662, represents a 17% reported increase, compared to the PCP. Normalised operating cash flow of $439 million was generated in the period, an increase of 45% on the PCP. Proforma net gearing reduced 1.6x at 31 March, down from 2x at our 31 March 2018 result. Turning to dividends. The directors have authorised an interim, fully franked dividend of $0.22 per share in respect to the six-month period ended 31 March 2019. This represents an increase of 16%, or $0.03, compared to the PCP and is reflective of strong earnings growth and cash flows, together with continued improvement in gearing. The record and payments dates for the interim dividend are 30 May and 2 July 2019, respectively.

In summary, for the six months to 31 March 2019, Aristocrat reported a high quality result, delivering a substantial lift in profit, off the back of growth across the entire North American portfolio, including further progress in key adjacencies, a further increase in performance in ANZ, despite a lower market and growth in Product Madness and significant progress in building a diversified digital portfolio, as we move through a transition year. Positive operating cashflow, together with improvement in our balance sheet and increased investment in our future through D&D, round out this result and position the business well as we move through the balance of the fiscal year. I'll now ask Julie Cameron-Doe to take us through the highlights of the group results on slide 13. Julie.

Julie Cameron-Doe: Thank you Trevor, and good afternoon everyone. I will first step through the composition of Aristocrat's reported normalised NPATA performance of $422 million, reconciled to the PCP. Profit numbers referenced in this section are post-tax. Our Americas business delivered another strong performance, as Trevor referenced, leveraging its established momentum. Profit improved a further $50 million over the PCP, largely reflecting outstanding gaming operations performance and share gains within our outright sales business. The ANZ business also delivered further profit improvements, up $8 million, compared to the PCP in a lower market. Margin expansion was driven by a favourable commercial mix and phasing of new games and market leading cabinets.

The digital business delivered over $23 million in incremental profit, compared to the PCP, supported by the full period of benefit from acquisitions, while also investing significantly in launching new games and positioning the business for growth. In the International Class III segment, post-tax profit declined $10.6 million, compared to the PCP. Corporate and interest costs increased by over $12 million, compared to the six months to 31 March 2018, reflecting incremental funding of acquisitions and the need to invest in infrastructure to support a larger, more complex business. Increased D&D costs of almost $35 million, verses a PCP, reflects our commitment to invest in organic growth. We see this as an area of competitive advantage and therefore a top priority in terms of capital allocation. On a percentage of sales basis, D&D investment was 11.6% for the period, which remains broadly in line with our historic average.

Aristocrat was the number 1 filer of trademarks in the United States in 2018, filing 624 federal trademark applications, with second top-ranked company filing 210 applications. We also took the top spot for trademark applications in Australia for the year. This is another example of our commitment to investing in D&D, translating that investment into intellectual property and ensuring we aggressively grow and defend these assets. A decrease in the group's effective tax rate, reflects the benefit of the US tax reform that came into effect from 1 January 2018, combined with the change in geographic business mix. Favourable foreign exchange movements, primarily reflecting a weaker Australian dollar, improved profit by a further $29 million, compared to the PCP.

For additional transparency, Aristocrat implemented new accounting standards in the period, which changed the treatment of jackpot liabilities, from an expense, to a contrary review. This has the effect of reducing revenue and average fee per day in North America, with no impact on earnings, thereby increasing the margin percentage. We've restated these metrics in the PCP, in order to improve comparability. Aristocrat incurred $10.5 million in significant items during the reporting period, primarily acquisition-related costs, including contingent retention and one-off transaction fees, in relation to changes in the group structure. We have also included proforma results for the digital business, given the timing of acquisitions in the PCP on slide 19 of our investor presentation.

Turning now to slide 14. Growth in EBITDA has flowed through to normalised operating cash flow, which has increased by more than 45% on the PCP to $439 million. Working capital as a percentage of sales stands at less than 6%, or fewer than 22 days. Capital expenditure increased around 25% to $150 for the period. Around two thirds of total CapEx relates to the investment in hardware required to support growth in our North American gaming operations installed base. This is expected to continue to drive high quality, recurring revenue streams and deliver strong returns on invested capital over time.

Turning now to slide 15. This result highlights a further improvement in Aristocrat's balance sheet, as a result of strong cash earnings growth. Net debt of around A$2.4 billion, compared to net debt of around $2.6 billion dollars, reported at 31 March 2018, representing a proforma leverage ratio of 1.6x, verses 2x in the PCP.

During the period, free cash flow funded increases in tax and interest payments, as well as capital expenditure, higher dividends and share payments. Post period end the business also repaid an additional US$100 million in debt from our Term Loan B facility. We continue to be comfortable with Aristocrat's net gearing position, given the business' free cash flow generating capability and track record of deleveraging. As a company we maintain a disciplined focus on risk management, with stable credit ratings, that are aligned to our level of gearing and support our Term Loan B facility arrangements. This approach provides Aristocrat with financial certainty, competitively priced finance and flexibility going forward. That concludes the summary of group performance highlights. I will now pass back to Trevor to comment on operation performance and outlook for the 2019 fiscal year. Trevor.

Trevor Croker: Thanks Julie. I'll now speak to the key highlights of our operational results, beginning with the Americas on slide 17. I would note that full details are contained in the review of operations document released this morning. In local currency, Americas' revenue increased around 18% and profit lifted 17% to over $682 million and approximately $374 million respectively, over the reporting period, compared with the PCP. Margins remained above 50%. As Julie referenced, the new accounting standard relating to jackpot liabilities, has been applied to the current year and all relevant metrics restated in the PCP, to assist with comparability. The business delivered outstanding growth in North American gaming operations, with our Class III premium gaming operations footprint expanding 18.5% to 21,695 units at period end, driving further share expansion in a relatively flat market.

This progress was driven by continued penetration of Arc Single, Arc Double and Helix cabinets, in combination with industry-leading games, including Buffalo Grand, 5 Dragons Grand and the Dragon and Lightning League game families. This was further supported by the success of Flame 55 cabinet, with strong initial performance, with Buffalo Diamond as a multi-site jackpot product. The RELM XL stepper product also continued to demonstrate improving momentum with the popular Liberty Link and strong portfolio performance in high denomination variance, including the Virtual Wheel products Diamond Jewel, Cherry Riches and our 777 Wild Fire series. At period end, around 800 RELM XL units were installed, demonstrating good growth momentum in this important adjacency.

In Class II gaming operations, BGT's installed base grew 7.3% to 24,681 units, compared to the PCP. This was driven by the ongoing success of our Ovation video product with over 4200 units installed at period end and penetration in to new gaming jurisdictions outside of Oklahoma. New hardware configurations were also introduced to support Ovation's momentum. As a result, Aristocrat has relationships with an additional seven tribal customers today, compared to FY18. The business' total gaming operations installed base increased 12% to over 46,000 units at period end and the combined average fee per day increased 1.3% to $50.05. In outright sales, revenue increased 34% and unit sales grew over 38% to 8974 units. This reflected strong portfolio momentum, together with sales of around 2000 units in key adjacencies and around 1000 units into new casino openings during the period.

Continued strength in average sales price, ASP, reflected Aristocrat's portfolio debt, led by the performance of Helix XT and Helix Tower. Aristocrat continued to receive outstanding customer feedback in North America over the first half of fiscal 2019, ranking as the leading gaming equipment supplier consistently, across a number of key casino customer surveys. In February, Aristocrat took home seven of the 21 individual category awards at the first ever EKG Slot Awards, including the prize for best overall supplier of slot content. The land-based category winners were determined by over 100 slot managers, representing more than 300 casinos across North America.

Aristocrat's Americas land-based business operations now account for around 57% of total segment profit and offers further growth potential for our business. Going forward, we are focussed on leveraging our momentum and increasing capabilities to deliver further growth in our established market positions and in attractive adjacencies. In particular, we'll continue to build on our commercial presence across Class III stepper, both in the for-sale and gaming operations segment, as well as in Class II video, Washington CDS and VLT markets.

Now turning to the ANZ and its national Class III results on slide 18. The ANZ business delivered another record half-year performance, with double digit profit growth on the back of a 7% increase in revenues and a sustained customer focus strategy. Average selling price improve marginally, up 1.9% and segment profit margin increased 190 basis points to 47.3%. This reflects favourable product mix and expansion of our subscription model. The business continued to offer more flexible customer solutions through the period with an increase in long-term buying programs for strategic accounts and bundled offers. The ANZ business extended its market leading ship share performance over the six months, to 31 March 2019, driven by the high-performing Helix cabinet range and further penetration of Dragon Link and Dragon Cash game families, with additional games, along with Player's Choice, Hopeful, Cash Boost and Fantastic Jackpots.

The Helix Plus cabinet continues to be the cabinet of choice in ANZ, with the Helix XT gaining traction during the year, with the benefit of an extended game portfolio. Macquarie's Australian slot manufacturer's report for March 2019, showed Aristocrat games again occupied a large majority of the top spots for performance across New South Wales, Queensland and Victoria. In the international Class III segment, revenue and profit decreased 15% and 27% respectively to $92 million and $40 million, compared to the PCP. I'll now provide more detail of performance in our digital gaming segment on slide 19. Digital revenue grew 37%, compared to the PCP, reflecting growth in Product Madness and the full period impact of Plarium and Big Fish, as previously flagged. Bookings grew over 34%, while remaining flat on a proforma basis, reflecting a period of investment and transition in our digital portfolio.

Segment margin moderated to 30% in line with expectations, due to the full period impact of the lower margin's social casual segment and significant marketing investment behind the launch of RAID Shadow Legends, which launched globally in March 2019. Finally, segment profit grew 17% to US$176 million, but on a proforma basis it declined 6.6% against the PCP. This again reflects higher marketing spend behind new games and a decline in Legacy titles, partially offset by a focus on efficiency. We categorise our digital business a social casino and social casual segments. As previously mentioned, bookings are broadly balanced between the two segments. The social casino segment contributed US$316 million in bookings in the period, an increase of 29% compared to the prior corresponding period. This was driven mainly by the growth in Lightning Link, launched in the prior period and continued strong performance in Jackpot Magic slots.

The social casual segment contributed US$270.1 million in bookings in the period, an increase of 42%, compared to the prior corresponding period. This was driven mainly by strong performance in the key titles Cooking Craze, Lost Island Blast Adventure and the newly launched RAID Shadow Legends. Daily active users, DAU, moderated to 8 million, down 3.6% with growth in key titles offset by modest declines across some social casino and maturing social casual apps. The full period impact of the acquisitions, which introduced a new, diverse portfolio of customers and products that monetise differently to Aristocrat's established digital businesses and the launch of new games in the period, resulted in a lower ABDAU, compared to prior periods. The business is investing strongly in launching new games and increasing UA spend over 45% to US$153 million during the reporting period, approximating to around 26% of sales.

Turning now to bookings on slide 20. To recap, bookings represent the cash a player has paid, as opposed to revenue, which is an accounting number that recognises only the items the player has actually consumed. Of course, clash flow provides a more meaningful indicator of performance and as a result, we are increasingly focussed on bookings, rather than revenue, in our digital business. This slide is designed to highlight some of the important features of our portfolio approach to digital. Firstly, our current portfolio is well-diversified with a good balance between social casino and social casual game segments overall. As the charts on the left-hand side demonstrate, social casino represents around 54%, or slightly more than half of total bookings at period end, driven by the scaling of

Lightning Link and Big Fish's Jackpot Magic slots, while the social casual segment accounted for 46%.

Secondly, the changes we are driving in our game portfolio are already improving the diversity of our overall bookings mix, with our top four games delivering 51% of total bookings during the reporting period, verses 57% 12 months ago, as the bar charts on the right demonstrate. As we continue to build out the portfolio, we anticipate lessening our reliance on small number of key titles over time and further enhancing performance and portfolio sustainability. Finally, the bar charts also show the quality if Aristocrat's digital portfolio with a broad suite of games with bookings of greater than $US50 million annually, including Heart of Vegas, Cashman Casino, Big Fish Casino, Lightning Link and Jackpot Magic in social casino. In social casual, this list includes Vikings, Cooking Craze and Gummy Drop.

Another lens on how we're building out our digital portfolio, is to view it from the perspective of lifecycles and active portfolio management. This slide shows the progress we’re making in filling pipelines across key genres and between social casino and social casual categories, ensuring we're optimally managing the number and cadence of releases. It also demonstrates the strength of our evergreen titles and our continued investment behind these, with new features that drive long-term engagement. We're making good progress in ensuring we're having a strong, diverse and well-performing portfolio. We continue to see outstanding potential in our digital business and also regard it as critical contributor to overall group diversity, long-term growth and performance stability.

Turning now to outlook for the 2019 fiscal year on slide 22. Consistent with February 2019 guidance statement, Aristocrat continues to track in line with its plans for continued growth in the 2019 fiscal year. In land-based outright sales, we expect incremental gains in attractive North American adjacencies, in addition to maintaining market-leading share positions across key for-ales segments globally including in the APAC region with no major casino expansions planned in FY19. In land-based gaming operations, we expect expansion across our total gaming operations install base, leveraging our broadening portfolio, while maintaining market-leading average fee per day performance across the overall combined install base.

We continue to anticipate further growth in digital bookings supported by new game releases. User acquisition or UA spend is expected to remain at around 25% to 28% of overall digital revenues, with the higher relative spend reflective of the increased number of game releases planned for FY19. We anticipate lifting D&D investment across our land-based and digital portfolio in absolute dollar terms while remaining broadly in line with the PCP as percentage of sales.

We anticipate moderate growth in corporate costs as we build the appropriate infrastructure to grow a more complex and diverse business. We expect a further 100-150bps reduction in the Group's effective tax rate versus FY18. Finally, as we build towards a more diversified digital portfolio, we continue to expect some skewing of our earnings to the second half of the financial year, reflecting the planned cadence of game releases and corresponding UA investment as previously noted.

Before moving to take your questions, I'd like to recap the shape of our result for the half year to 31 March 2019 on Slide 23. We are pleased to have delivered another record NPATA result with a strong 17% lift in normalised terms and 8% on a constant currency basis. This in turn was driven by broad growth across all parts of our largest business in North America, together with further performance in ANZ, growth in Product Madness and the full period contribution of our digital acquisitions as we continue to execute our growth strategy across land-based and digital operations.

Aristocrat's increased investment in D&D during the period demonstrates our commitment to sustaining our growth engine. The Group also continued to generate strong free cash flows over the first half of FY19. Despite increasing dividends and reinvesting strongly in business, our operating leverage continues to trend back post-acquisitions. Finally, we continue to have a strong and flexible balance sheet that gives us full optionality to continue to improve our competitiveness and invest behind our growth plans going forward. We look forward to keeping you updated as we progress and, with that, I'll conclude the formal presentation and open the line to any questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. Your first question comes from Don Carducci from JPMorgan. Please go ahead.

Don Carducci: (JPMorgan, Analyst) Good afternoon, everyone. Just a couple from me and then I'll get back in the queue. So with the North American platform sales increase of 2500 machines, how should we think about the portion of this which is organic to previous markets versus recently entered adjacency markets and how should we consider remaining adjacency growth in the second half with lower ASP markets like Bar Top? So, basically, is there a similar amount of growth to come or would we consider the majority was in the first half?

Trevor Croker: Yes, thanks Don, appreciate the question. So in the makeup of the numbers for the first half, we had around 2000 units coming through from adjacencies, Washington CDS and VLT in that space, and around 1000 from new openings. We expect the second half to have a lower number of new openings in North America, so down on last year and down on the second half, as well, and we expect the market to remain about the same size. We will enter into Bar Top in the second half of this year and that will be our other - our next adjacency that we'll enter and continue to execute in the two adjacencies that we entered in the first half.

Don Carducci: (JPMorgan, Analyst) Great, thank you. My last question is, it feels like there's a difference from the expectations of the November result, from the number of games that you had released in the first half and the subsequent associated UA spend that would impact the margins. Can you talk to this delta and whether you have a target in mind for the number of new titles that you're going to launch in the second half and whether that transition period of FY19 is on track for completion, so that there is a full run rate of digital by this time next year?

Trevor Croker: Yes, thanks Don. As I mentioned earlier, we've got this preparedness to hold games back if they're not right, and that's the great part about a digital business, is you can put a game out and you can continue to refine it, and once you know that the game is operating at the level that you want it to operate from a monetisation, retention of performance basis, we're then able to allocate the right amount of marketing and UA investment to drive that. So we still remain committed.

Our pipeline of games that we have for the digital business is still there. We're continuing to refine that pipeline and refine the features within those games. We said that we were going to spend somewhere between 25% and 28% of sales or revenue on UA. We remain committed to that investment and the pipeline is still full, and we're continuing to make sure those games are refined for release and we'll release them as required.

Don Carducci: (JPMorgan, Analyst) Great, thank you very much.

Trevor Croker: Thanks Don.

Operator: Thank you. Your next question comes from Mark Wilson from Deutsche Bank.

Please go ahead.

Mark Wilson: (Deutsche Bank, Analyst) Thank you very much, Trevor. Just looking at the digital division in more detail, given that we're cycling through the run-off in some of those legacy games - Raid is scaling up - how do we think about the second half and going in - through into FY20 in terms of top line, and have margins bottomed in that division at 30%?

Trevor Croker: Yes, thanks Mark. I think the way we think about it from a top line point of view is that this is what we've said, a transition year for our digital business. So we have three categories, if you think about it from our game - our digital games point of view. We've got the evergreen brands, we've got the emerging - the legacy brands and then we've got the emerging brands, and it's playing this portfolio. We feel comfortable that the evergreen brands are performing at the rates that we expected. The emerging or new brands, as you say in Raid, are starting to come through.

From the legacy point of view, we're continuing to watch the investment in legacy so that we don't over-invest. In fact, they become great profit businesses as opposed to revenue investment businesses. So from our perspective, we believe we remain on track to deliver on our expectations for the full year. As I said earlier, our pipeline is continuing to be strong and we've got the rigour around when we release and how we invest behind the games.

I would make one highlight which is that we've got Toy Story coming down, Toy Story Drop! coming down the pipe which will be released in - it is being released as we speak and that will be the next new game which was part of our anticipated game releases for this year, as well. I'll just hand you to Julie to talk to you about the margins.

Julie Cameron-Doe: Thanks, Trevor. Yes, in terms of the margin, I think as we've discussed previously, the margin for digital really depends on where we're at in terms of the mix of social casino and social casual, and then within that the mix in terms of the profile of the portfolio that we have with - when we're launching new games and investing heavily behind UA, we do expect to see in the short-term an impact on margin, and so it really depends on the mix that's coming through.

We're very pleased with the margin that we've achieved in the first half and, if you think about what we released in the first half, Raid came out at the beginning of March so we only had a month of Raid, and from an earnings perspective, that was negative for us, but of course, that was - we believe that was the right thing to do because that's driving long-term growth of the company.

Mark Wilson: (Deutsche Bank, Analyst) Thanks, and just following on from that, you mentioned Toy Story Drop!, any other key game releases that are planned at this stage for the second half?

Trevor Croker: We have a number of game releases in the pipe, Mark, but we're not releasing the names and the timing for those at the moment. Some will start in soft launch soon and some are already in the market at the moment.

Mark Wilson: (Deutsche Bank, Analyst) Great. Thanks Trevor.

Operator: Thank you. Your next question comes from Kane Hannan from Goldman Sachs. Please go ahead.

Kane Hannan: (Goldman Sachs, Analyst) Afternoon, Trevor, Julie. Just two for me, please. Just again on the digital business, I appreciate there's obviously those new game launches coming but could you just comment, I suppose, on the magnitude of that legacy revenue decline in terms of the revenue bucket and how we should be thinking of the profile of that decline? Then, just again on the digital business, I'm interested in that ABPDAU decline and whether there was any impact from the launch of Raid late in the period that maybe boosted the user numbers for the last month. Thanks.

Trevor Croker: Yes, thanks Kane. I'll ask Julie to talk to you about the legacy piece and then I'll talk about the decline.

Julie Cameron-Doe: Thanks Trevor. Hi, Kane. Yes, I'd draw your attention to Slide 20 which is where we've provided more information about the portfolio to really demonstrate the stability and diversity we have in the portfolio now. Within that, you can see Big Fish Premium which we would consider part of legacy, and you can see the size of that and the decline of that coming through. So we don't see it as a large part of the business. We acknowledge it is in decline but we're providing more transparency so that you can start to model that going forward.

Trevor Croker: Thanks Julie. Then on the ABPDAU decline, this is about a transition year for us, this is about making sure that we're investing behind both the legacy brands and - well, the legacy brands, the emerging titles at the same time. You will see some ABPDAU shift as we refer to it as a consequence of the mix between social casino and social games. We feel comfortable with where the ABPDAU is at and it is part of the overall plan of the transition year this year for the digital business.

Kane Hannan: (Goldman Sachs, Analyst) Thanks guys, and sorry, just to follow up on that legacy portfolio, how should we be think about the other bucket that you're breaking out there, that 23% of revenue, and is there much in there for games that do less than your $50 million per annum that you haven't put on that chart or are they in the other bucket?

Julie Cameron-Doe: As it says, it captures everything. In terms of what's in that, that would have the up-and-coming games that haven't quite hit the mark yet, but it would also have the older games, as well, yes.

Kane Hannan: (Goldman Sachs, Analyst) Thanks guys.

Julie Cameron-Doe: Lost Island and Raid would be in there, of course, amongst the up-and-comers, but also there would be the older Plarium games and the other games that haven't hit that threshold, as well.

Operator: Thank you. Your next question comes from Matt Ryan from UBS. Please go ahead.

Matt Ryan: (UBS, Analyst) Hi Trevor, hi Julie. Just starting in social casual as you call it now, we can all see that Raid's doing pretty well and usually there's a ramp-up period of spend before the game becomes profitable, but is this game profitable at the moment, i.e. I guess accelerated quicker than the average? Then, maybe if you can talk about Toy Story Drop! and what you've learnt through the soft launch phase and how that compared to Raid.

Trevor Croker: Yes, thanks Matt, appreciate the question. Just on the casual piece, Raid in these numbers is only one month of performance, and that is really off the back of a very strong launch with iOS and Google, and we're now continuing to spend UA dollars off the back of rigorous metrics around retention and monetisation and will continue to do that. We are not - as of these numbers, we are not in profit for the half on that product, but we are continuing to see the growth and the momentum we expect behind that and it's meeting our expectations from that perspective.

What have we learnt from Toy Story is, we've learnt through this process and also through some of the great talent that we've been able to bring into the business around marketing and marketing skills, ways of creating our increased virality and, certainly, the Toy Story Drop! brand, a strong brand from Disney, and the ability to partner and work with them on a launch campaign and launch product, we expect that to be a new skill set which we've been able to acquire through our talent, but also in the way we're executing now with Toy

Story Drop!

So we will see that coming to the market now and then they'll be refreshed as the movie comes out in June. There's a key link between our objectives and timing and also Walt Disney's on the brand.

Matt Ryan: (UBS, Analyst) Just to clarify a comment about not profitable in the half for Raid, are you meaning the first half that you've already reported or the second half that we're in at the moment?

Julie Cameron-Doe: For the first half, just a month of it.

Trevor Croker: It was actually - it was just a - we had one month in the market for the first month, so it's only - it had only been launched in March, so we had one month of revenue plus costs to launch.

Julie Cameron-Doe: As of today, we're less than three months in, so you know how these games go, Matt, so we're not quite there yet.

Matt Ryan: (UBS, Analyst) Yes, okay. That's what I was assuming. Okay, and then maybe, Julie, just going back six months, I think you talked about $100 million of increased UA spend, so just curious as to whether that still holds at the moment. Are you able to tell us what the UA spend was in FY18? We've obviously got the number now for the first half. I was just curious on what that was for the full year.

Julie Cameron-Doe: So on Page 19, Matt - I'm sure you've already seen it - we're showing UA spend in US dollars going from $105 in the prior year to $153 this year, so you'll see within the first half we're about $50 million ahead of where we were last year, which kind of lines up with the $100 million we've previously mentioned, but we did - we thought we'd be a bit more helpful and guide to UA over percentage of revenue which was 25% to 28% when we reframed our guidance in February and we're still holding to that. You'll have seen for the period, it was at 26%. So we're lining up against that and we expect that range to hold for the full year, as well.

Matt Ryan: (UBS, Analyst) Okay, so was it still going to be around 100 there?

Julie Cameron-Doe: We're - as I said, we're moving to that guide now in terms of the percentage of revenue, so for the first half it's on track, but as we've said previously, the $100 million, we were worried that people would assume we'd spend it regardless of performance. We monitor performance very carefully and we only release the spend when we see the performance, and so it's more appropriate to look at this from a percentage of revenue perspective.

Matt Ryan: (UBS, Analyst) Fair enough. Just what did you spend in FY18 on UA, approximately?

Julie Cameron-Doe: We don't have that number to hand right now, Matt. I'm sure the - I'm sure [Ray and] Reuben can follow up with you on that.

Matt Ryan: (UBS, Analyst) Sure. Would a percentage of revenue of around 25% be roughly accurate?

Julie Cameron-Doe: We're consistent. It's been 25% to 28% over the last few years.

Matt Ryan: (UBS, Analyst) Okay, great. Then, just a last question, I guess there's a lot of positives clearly coming through from online, but one of the areas which we're watching pretty closely is Product Madness and I guess just lower growth coming from social casino versus what you've done previously, obviously on a much bigger base now, so just curious on how much of that drag is coming from web and Facebook at the moment and also what the plans are for Product Madness and, in particular, very specifically for Lightning Link in the US, given how well it's done in Australia so far.

Trevor Croker: Yes, thanks Matt. First of all, I think one of the things that we talk about is the fact that since we've had Product Madness, the category's been growing at 21% [CAAG] and we've been able to grow it at 77% CAAG which we're very proud of, obviously. The second part is we don't have a lot of exposure to web and Facebook through the PM portfolio. We moved that to mobile very early in the acquisition of that product or that business and are largely mobile. We do have some exposure but it's less than industry numbers.

The Heart of Vegas has had a slower half than we wanted. That was a little bit of a frustration for us because, to date, we've been able to continue to publish great content and continue to grow strongly. What we've seen in more recent times is features such as collectibles, clubs, et cetera, tournaments being added to social casino apps. We made that decision, as we said earlier, to put out a live ops studio and start to increase our live ops capability which we have done, and we actually started to launch our first range of live ops into the Heart of Vegas app only in the last couple of weeks with early response being very positive from that perspective.

So, whilst we've been moving to a new range of extra features on top of our land-based content being published, some of the competitors have just been adding those features prior to us, but that's still a robust business. We did acquire Big Fish which brought us some skills, particularly around clubs and social meta, and those skills have also been helpful in addressing the Heart of Vegas app as a whole. You asked a question about Lightning Link. Lightning Link is - it continues to scale for us. It has been scaling in Australia as a priority and we've been focusing on that. The content and the features, we will continue to refine those to get global distribution for that product, as well.

Trevor Croker: Thank you.

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

David Fabris: (Macquarie, Analyst) Hi Trevor, hi Julie. Focusing back on the Americas business, outside the big step-up in outright sales providing operating leverage, were there any other benefits to the margin when we look at that sequentially?

Trevor Croker: Yes, thanks David. I'll pass to Julie to talk to you about the margin for North America.

Julie Cameron-Doe: Yes, and I don't want to repeat myself too much, but we just want to start by reminding everyone that the margin was affected by the accounting standard which didn't affect earnings but, obviously, jackpot liabilities come off revenue now as a contra rather than as an expense, so we did restate margins. So we're down about 40 basis points year over year and that's an apples-to-apples comparison. In terms of movements in the margin in North America, we are getting operating leverage from having a larger gaming operations install base, so that is certainly coming through.

The counter to that has been, as we're expanding into all of these different adjacencies, we are expanding into areas where there's - we require a larger infrastructure to support them, a larger sales force and so on, and some of them obviously have lower average selling prices than the video segment where we previously - was the only segment we sold into.

David Fabris: (Macquarie, Analyst) Okay, thanks. Just another question on the North America business, just to clarify an earlier question, within outrights, can you just talk through the contribution splitting of VLT and CDS and how we should think that - about that into the second half, given you called out 2000 unit sales in the first half?

Trevor Croker: Yes, thanks David. So realistically, we have entered VLT which was two provinces that we entered this year, and as you know, they're business-to-government propositions, so they do take some time. We have plans to enter another couple of provinces, but it may not - well, they will not materialise in the numbers in this financial year.

As far as Washington CDS goes, we have taken - we have had a good start to that and we do have a pipeline of games and a pipeline of opportunities in the Washington market for the balance of this year. We're not guiding to what that number looks like, but we're confident in the product that we've made, the performance of the product and the penetration to date.

David Fabris: (Macquarie, Analyst) Yes, okay, thanks. Just one last question from me, just looking at the capital structure, I know you guys made comments earlier that you're fairly comfortable with where the gearing is and you're deleveraging, but if we look at this over the medium term, is 1.5x leverage a comfortable level or would you be more comfortable closer to 1x leverage?

Julie Cameron-Doe: Thanks David. Look, we're pretty comfortable with our - with where we're at in terms of leverage. We're demonstrating nice progress of deleveraging and that trajectory will continue. So we like to keep our options open. We see we've got a very strong balance sheet. We have nice long-term debt which is well priced. We've prepaid plenty of that, so we have no obligations to make further repayments on the debt, but we will of course look to pay down that debt as we generate further cash flow and we wouldn't rule out any other options.

David Fabris: (Macquarie, Analyst) Okay, I'll leave it at that for now, thank you.

Trevor Croker: Thanks David.

Operator: Thank you. Your next question comes from Larry Gandler from Credit Suisse. Please go ahead.

Larry Gandler: (Credit Suisse, Analyst) Hi guys, thanks for taking the call. First question on digital, Trevor, just looking at that game breakout - appreciate the disclosure there - do you imagine a time where the dispersion of the games you have is perhaps more broad? Right now you've got 16% of sales is the largest game. Is there a time where perhaps the largest game is 3% or 4% of sales? Is that how you see the portfolio evolving?

Trevor Croker: Larry, I think 3% or 4% might be a little bit lower than my anticipation. We do expect to see a broader distribution of sales across those bar charts. I think, more importantly, I expect to see the bar charts to be bigger than what they currently are, so getting into a larger address for market. Really, the story here is about a portfolio growth which has continued to have a strong pipeline of games and executing on those games in high quality.

This rigour that we've talked about a couple of times now about fill or kill and making sure that, if we're not making it - the other one's about leveraging the scale, is building up this scale both in DAUs and also leveraging our capacity and capability across that DAU pool, but also a data science, as well, and then really maximising our UA spin. I think 3% or 4% is a very low number and it'd be a - to me, it'd be a shotgun approach as opposed to a sniper's approach to what we're looking to achieve.

We do expect to have a broader distribution across our portfolio of apps and that's really what we're building for out of this year as a transition year, is to start to broaden that distribution of games. As we said earlier, you should be expecting in those others - games like Raid, I would expect would start to come into these because this is a $50 million annualised number. I'd expect Raid to be falling into that range when we report next.

Larry Gandler: (Credit Suisse, Analyst) Yes, so you'd expect many more games over $50 million in a larger business, is what you're saying?

Trevor Croker: You've said it more eloquently than I could.

Larry Gandler: (Credit Suisse, Analyst) Okay, great. I got that. Just with regards to the Australian business, it seems like you're having quite a bit of success with the access model and the leasing there, and there's not much disclosure about it in the results documents, but it is quite distortive to that whole business. So can you give us some colour on how we should think about modelling that or projecting revenues?

Trevor Croker: Sure. I think I'll talk very quickly to the process. It's been a model that we've refined over a number of years now and you've been watching that flow through. It's a model that is - it's not a model that every customer wants, but it's a model that applies to some of our customers and this is why we continue to remain customer-centric in what we do, and I think it's probably best if Julie makes some comments on just what it looks like from a financial point of view.

Julie Cameron-Doe: Thanks Trevor. So the access model, as Trevor said, it's been developed over a few years and it's really about providing the best solutions from a customer perspective and giving them choice. We've seen a good take-up of it. We've seen the customers like it because of the conversions that it offers them and allows them to keep their floors fresh. We really - we don't disclose more on that. We can say we are moving to more long-term relationships with our customers and these subscription style offerings are becoming more popular.

Larry Gandler: (Credit Suisse, Analyst) I know you haven't disclosed it yet, Julie, but it's ironic that you disclose participation for Latin America but not the lease games for Australia which is quite material. I'm just wondering if you can give us a feel for how many units are under this lease model.

Julie Cameron-Doe: It's not something that we disclose, Larry.

Larry Gandler: (Credit Suisse, Analyst) Okay. Maybe I'll just ask one last question then, if I can, and that's regarding the second half guidance. When I think about some of these items, it sounds like you're suggesting the second half will be larger than the first half in NPATA based on the guidance. When I think about Australia and even outright sales in North America, it sounds like your language is that might be smaller profit in the second half. What major streams are going to be larger in profit in the second half?

Julie Cameron-Doe: Yes, thanks Larry. As you rightly say, with the portfolio we have now, there's quite a lot of different moving pieces to this, so yes, as we flagged, we do expect some skewing to the second half and this is largely in relation to the timing of this pipeline of digital game releases and the UA investment, and I think I've already referred to - for example, at the end of the first half we had Raid which required - we put significant UA behind that, but of course, that was negative from an earnings perspective because it didn't pay back in the first half.

Similarly, the new features that Trevor referenced that we're rolling out in social casino, we would expect to see those help lift digital in the second half. We've got higher gaming operations install base going into the second half, so you get a natural lift from that. I think, really, what I'd do is I'd frame it with reference to history, and if you look at the past two years, we've had pretty even splits between the first and second halves. Prior to that, we had slightly more pronounced splits. I'd say we wouldn't be going back to the days when we had much more pronounced skews, but we wanted to make sure people understood that it's not going to be the even split that we've seen in the last two years.

Larry Gandler: (Credit Suisse, Analyst) Okay, great. Thanks.

Operator: Thank you. Your next question comes from Anthony Longo from CLSA. Please go ahead.

Anthony Longo: (CLSA, Analyst) Oh good afternoon, Trevor. Good afternoon, Julie. A couple of quick questions from me. So firstly, on digital, just obviously noticed the DAU number has obviously come back again, given the rejigging post the acquisitions. Are you able to maybe give a sense as to how you're expecting that DAU growth to materialise going forward? Is it something that you'd expect those legacy titles to roll off and new titles to literally add to the base? So I guess what I'm trying to say is, do you expect it to be growing at low, single digits and being held rather flat, and I guess the top line largely driven by monetisation, or am I missing the point on that?

Trevor Croker: No, I think definitely - I think, first of all, this is our transition year for our digital business and we are making some choices, as we mentioned, about our preparedness to both fill and kill products. So, from a portfolio point of view, we want to execute high-quality new games and new content into the marketplace, and that means in some cases, we are winding back investment in potentially some of the legacy products which allows us to make better profits, from that point of view. That obviously is a clear strategy.

The second part about it is that we will continue to invest to grow our core business from a DAU point of view. So we've seen casino DAU increase by about 3%, we've seen casual DAU come off by about 3%, but we're focusing on the quality of our DAU, not the quantity of DAU. I think there's been enough industry commentary around DAU remaining flat and we then expect to see that we'll get an increase in our DAU in the second half of the back of the momentum that Raid has demonstrated in the last month of the last half. Also, as I mentioned earlier, the release of Toy Story Drop! which we expect to see DAU growth from, as well.

Anthony Longo: (CLSA, Analyst) Okay, great. Then, back on the Americas and looking at outright sales, so you did touch on those adjacencies had contributed maybe 2500 or there was 2500 in there. So I guess what - I want to get a sense as to the average selling prices [ex] those adjacencies which I understand are lower ASPs. Are you able to give a sense as to how the other part of the market has held up in the context of - in our recent competitor reports?

Trevor Croker: Yes, thanks Anthony. Well, some of those adjacencies are lower ASP and that's a consequence of the economic models that we have and we have mentioned that there are some ASP pressures on that. From an overall market point of view, North America is one of our most aggressive markets. We've got legitimately 10 competitors in the North American market where game content and cabinets, we're fighting for share of floor on a regular basis. I'm very happy with the progress that we're making. We still hold a premium ASP to all of our competitors.

We also hold strong game performance in our portfolio and, from our sales execution point of view, I think the relative percentages - which I won't quote, to save the question - of the opening at [Encore] was a step up from where we've been historically. So I - in a tough market, we're fighting for our share. We're [graining] share in floor sale and there is some dilution as a consequence of entering adjacencies, but again, this is a planned approach for us to grow our business overall.

Anthony Longo: (CLSA, Analyst) Oh great, and sorry, final one from me. Just in the Class III Gaming Ops - and apologies if I've missed the answer earlier - that looked like a really strong result. So are you able to give a bit of colour as to - was there anything in particular in that first half that may have driven that strong result in the first half, and just in us rebasing or taking into account forecasts for the second half on that front?

Trevor Croker: No, it's a continued momentum of the game portfolio and cabinet portfolio that we're continuing to launch. Flame 55 came out, Buffalo Diamond has come onto the floor and been a very strong performer from day one. We've seen momentum continue to build on RELM XL, which is our gaming ops stepper product, and we've continued to release good quality games off the back of the consistent performance of our Dragon Link and Lightning Link install bases.

Anthony Longo: (CLSA, Analyst) Excellent. Look, thanks very much. I'll leave it there for now.

Operator: Thank you. Your next question comes from Sacha Krien from Evans & Partners. Please go ahead.

Sacha Krien: (Evans & Partners, Analyst) Good afternoon, Trevor and Julie. Most of my questions have been asked but I've got a couple. Social casinos, first of all, and then one on the tax guidance. So, in terms of social casinos, you mentioned, Trevor, that industry trends around daily active users have seen them slow down a bit. Can you comment generally on whether you still see a lot more growth in this particular market, particularly the biggest market being the US? Maybe within your comments, can you perhaps - rather than daily active users, can you make a comment around paying users for your social casinos?

Trevor Croker: Yes, thanks Sasha, no problems at all. First of all, we've seen a slowing down in the social casino market now for a period of time, and that's industry wide. The one thing that we continue to focus on is improving our monetisation, and we know that that's been a positive for our business when you look at, we started in this category at around $0.20-odd or even sub $0.20 when they're holding well over $0.50.

We know our content resonates, but at the same time, there are changes happening in the category with social aspects, meta game aspects, adding collectibles, missions, clubs, leagues, tournaments, leader boards and collectibles into the portfolio. It's an important way of remaining competitive. We have already started to launch a couple of those into Heart of Vegas and we've seen responses already, plus we've launched one into the Big Fish Casino, as well, which was treasures. I'm happy with the performance of those.

So Big Fish Casino has launched treasures, Heart of Vegas has launched leagues just recently and Cashman has launched collectibles, and we've deliberately tried different features in each app so that we're able to learn from that and then apply those differently across the other apps, as opposed to putting them all into one. We really believe that there's strong monetisation in what we do and we're focused on retention, which is something that we've learnt over the last six years as a digital casino operator ourselves, and we remain focused on that.

Sacha Krien: (Evans & Partners, Analyst) Could you just qualify, has the conversion rate from daily active users to paying users actually improved or it's staying about the same?

Trevor Croker: I would guide to staying about the same. We're seeing slightly better in some cases, but I would say on an average, it's staying about the same. From an ABPDAU point of view, there is good momentum in ABPDAU in certain apps where we've started to do different features. So monetisation is still a focus for us and we're seeing monetisation improving.

Sacha Krien: (Evans & Partners, Analyst) That's really a second-half story, those new features that have been introduced into the Product Madness house?

Trevor Croker: Yes, correct. They've really only been released in the last couple of weeks, and treasures in Big Fish were about a month ago.

Sacha Krien: (Evans & Partners, Analyst) Okay.

Trevor Croker: So it is very brand-new, but the great thing about digital business is you release something and within ours, you can monitor what it's doing to your business.

Sacha Krien: (Evans & Partners, Analyst) Yes, that's great, thanks. Last question on social casinos, just in terms of that monetisation strategy, does advertising play a part yet in your thinking for the active users that aren't monetising at all, which is probably around 95%?

Trevor Croker: It's actually, from our perspective, a very, very small part. We really focus on entertaining our players, adding the features and benefits and providing great casino content. We actually don't see ads as a big part of that at this point in time.

Sacha Krien: (Evans & Partners, Analyst) Okay, thanks. Just two questions around the tax guidance. So the 25% to 26% for FY20, is that the way we should think about the effective tax rate beyond FY20, as well?

Julie Cameron-Doe: Thanks, Sacha. So the update we provided on tax is really the position that we are able to share at this point in time. I think you're probably aware, this is something we've been working on for some time. It's been a long process to work through. We're really focused on the long-term with this and, as we've been looking at this and trying to align the Group's structure to the underlying business model, we - and the underlying business profile, we've had to take into account the fact that we are much more present in the US than we are in Australia and, therefore, we had to really get pretty expert in terms of the laws over there.

As we're looking at this, we're definitely looking at the long-term. So at this point in time, we are saying that it's a reduction on FY19 of 150 to 250, starting not before FY20, so that would be the average we're looking at going forward.

Sacha Krien: (Evans & Partners, Analyst) Okay, thank you. Then, just last question, if you can comment on it, is there - is the actual cash tax rate lower than the effective tax rate and is that something that's also going to be maintained going forward?

Julie Cameron-Doe: So we'll provide more when we know, once we actually implement this. We've still got some way to go before we implement it. We were pleased - we've been engaging with the authorities and we were pleased to obtain a private ruling that concerns the treatment, but given we're still some months away from implementation, we'll - there's other factors in terms of the valuation that will come through on that and we'll know more later and we'll be quantifying the size of that material deferred tax asset we relate to, and also we would like to provide a range of cash tax savings that we'll achieve, as well.

Sacha Krien: (Evans & Partners, Analyst) Okay, great. Thanks very much.

Operator: Thank you. Your next question comes from [Nick Caley] from [Bailleu]. Please go ahead.

Nick Caley: (Baillieu, Analyst) I think most of my questions have been answered, actually, but Julie, if you could just help us, an extension of the last question, what should we put in our models for franking?

Julie Cameron-Doe: Oh, okay, franking credits. So as we've in the announcement, the changes we're looking at don't impact our Australian tax, so we'll continue to pay tax in Australia as we have. We've just announced the dividend for the interim dividend which is fully franked and subject to us continuing and, based on what we know today, continuing to pay tax at this level in Australia, and we would expect to continue to do that.

Nick Caley: (Baillieu, Analyst) You'd expect to fully frank for a while yet?

Julie Cameron-Doe: No change to the status quo.

Nick Caley: (Baillieu, Analyst) Okay, that's good. Just the last one, possibly for Trevor, is just I know it's early, but is there any sort of anecdotal feedback from land-based venues in North America, how sports wagering may change their landscape at all? Any feedback from your clients?

Trevor Croker: Yes, thanks Nick. I've actually got Matt Wilson in - on the line who's close to the market there. We're obviously in conversations with a lot of our major customers on a regular basis, so I'll just hand to Matt to make a couple of comments.

Matt Wilson: Yes, so obviously in the early stages of sports wagering rolling out across the Americas region, the feedback we're getting from major casino operators is they see this as an ancillary benefit for their broader business. Obviously, sports wagering in the markets, which is legal today, is still a small percentage of the overall market, but there are benefits in terms of increased visitation from patrons and increased frequency of visits and spend per visit. So there should be a slight tailwind for GGR across the Americas based on the ancillary benefits that come with sports wagering.

Nick Caley: (Baillieu, Analyst) Thank you very much. I'm done.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Croker for closing remarks.

Trevor Croker: Yes, thank you very much. I'd just like to reinforce, this is another high-quality result for Aristocrat, positively reflects the strong execution of our strategy as a strong and stable business, creating value for our customers and our stakeholders and shareholders.

Land-based business continued to drive profitable growth as we expand our addressable markets and take share [inaudible - recording cuts out] towards building a larger, more diversified digital portfolio, supported by strong evergreen and new titles, exposes us to much larger, fast-growing market opportunities. The financials are strong and continue to improve. Operating cash flow and dividend are leveraging effective tax rates trending down which highlights the sustainability of our business model.

With that, on behalf of the broader Aristocrat team, I'd like to thank you for your interest in the company and wish you all a pleasant afternoon. Thank you.

End of Transcript