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Ainsworth Game Technology Limited
Full Year Results to 30 June 2017 (FY17)

FY17 Results exceed guidance. Strong H2FY17 performance with momentum into FY18

Ainsworth Game Technology Limited (AGT) today announced an audited Profit after Tax of $37.9 million for the year ended 30 June 2017. On a pre-currency basis, Profit before Tax (PBT) was $57.4 million, exceeding guidance by 2.5%. Ainsworth delivered a strong second half performance, with $42.2 million PBT, an increase of 178% on the $15.2 million reported in the first half.

Chief Executive Officer, Mr Danny Gladstone said, “We are pleased to deliver FY17 results ahead of guidance. Our impressive second half performance begins to reflect the competitiveness of our broader product offering, our investments in technology, sales and marketing, and the strength of our international footprint.

We continue to expand on strategies to broaden and diversify product offerings in established and new markets. With the introduction of new technologies and an increased range of innovative content, we expect to progressively grow market share and profitability across international and domestic markets.

International sales account for 74% of the group total. Our Latin American business has delivered five years of consistent profitable growth across all markets. In FY17 the number of machines on participation in this region, which provide recurring revenue streams, increased by 48%.

In North America, the recently launched Pac Man™ licensed product is growing strongly and the now fully integrated Nova Technologies is driving solid growth in Class II markets. With our new facility in Las Vegas enhancing our game design and sales capabilities, we are well placed to deliver on, and expand our strong pipeline of new orders.

Encouragingly there are some early signs of recovery in domestic markets. Sales in Australia in 2H FY17 increased by 6% on the prior corresponding period (pcp), with New South Wales increasing 20% over the same period. We expect to continue to increase market share over the coming year. Our new EVO™ cabinet and broader game suite, which we launched at the Australasian Gaming Expo (AGE) earlier in August have been positively received.”

The financial results for the year ended 30 June 2017 are summarised as follows:

Amounts expressed in A$ millions *(unless otherwise stated)*	**FY17**	**FY16**	**Movement %**
Revenue	282.1	285.5	(1%)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	70.3	95.8	(27%)
Underlying EBITDA(1)	84.1	95.2	(12%)
Earnings before interest and tax (EBIT)	44.5	72.8	(39%)
Profit before tax	46.9	75.1	(38%)
Profit after tax	37.9	55.7	(32%)
Normalised Profit after tax(2)	50.0	53.1	(6%)
Earnings per share (basic) – dollars	$0.12	$0.17	(29%)
Dividends per share (fully franked) - dollars	-	$0.10	-

(1) Underlying EBITDA adjusts for currency impacts and significant items outside ordinary business activities

(2) Normalised profit after tax excluding currency and amortisation of acquired intangibles

Results

Sales revenue for the FY17 year was $282.1 million, a slight decrease of 1% on the pcp. Modest growth in international markets was offset by a weaker domestic performance. Group sales were up by 30% in 2H compared to the first half of the year and up by 11% on pcp demonstrating our strong momentum as the year progressed.

Ainsworth reported ongoing growth in international markets with FY17 revenues up 2% on pcp. Again sales in 2H were strong, increasing by 55% on 1H and 12% on pcp. Consistent with the Group's strategy to increase sales in key offshore markets, international revenues account for 74% of the total Group revenue.

Revenues in the Americas for FY17 were slightly lower at -3.2% on pcp. Profits were broadly consistent for FY17 at $82.3m, -1.2% on pcp.

The Latin American segment reported another year of improved performance with revenues increasing by 5%, and profits rising by a pleasing 11%. Sales were up in every market across the region. Mexico, Ainsworth's largest market in the region saw increased penetration and now accounts for 39% of total sale units.

Unit volumes overall increased 9% in the Latin American region to 3,188 with average selling prices rising to US$17,500, +13%. Importantly, the installed base of machines on participation, which generates high quality recurring revenues, increased to 2,648, a rise of 48%. We saw strong product performance in our established game range of Multi Game, Quad Shot and Link Progressives in the new A600 series of cabinets.

North America reported revenues of $101.4m for the year, a decrease of 9% on pcp. Profits were $44.6m, -10% on pcp. Despite this, margins were consistent on the pcp at 44%. Positively, we saw a strong recovery as the year progressed. 2H sales were 73% higher than in 1H, and profits increased by 112% on the first half.

A highlight of FY17 was the successful launch in North America of the Pac Man Wild Edition™ on the A640 cabinet. This licensed product is gaining significant market traction with over 350 machines under gaming operation and growing.

Ainsworth has developed a strong presence in the key North American market. The new Las Vegas facility which opened in April 2016 is enhancing our profile and representation with customers and has broadened our platform for future growth. Our new game studio there will continue to expand our US game content with the release this year of several new game titles. Class II games will also be strengthened, leveraging well known Class III titles. Several of these games have been developed using game assets licenced to Ainsworth from Novomatic AG.

The pipeline for new sales and units under gaming operation in North America in FY18 is strong. Ainsworth will deliver on its largest ever installation of games in our history this year with 270 games being placed at the new Four Winds South Bend property in Indiana, USA.

Approvals toward the end of the year in British Colombia and Colorado should also be accretive in FY18. We have established a corporate relationship with a new partner that has contracted to acquire over 600 units in 2HFY18 with scope for further sales. It is encouraging to see that we are already beginning to generate returns on our investments in game design and additional sales and marketing capability in these markets.

Nova Technologies, which provided a full year's contribution to the FY17 results continues to perform above expectations. In July, Tulalip Resorts Casino in Washington agreed to serve as a sponsor for testing in this new market. This creates significant new sales opportunities for us in what is the fourth largest gaming market in the US behind states like Nevada. The A640 cabinet will also be introduced into the Class II market this year.

The Rest of the World segment delivered a strong result with a profitable margin contribution from sales to Novomatic AG. Segment revenue was $28.1 million, an increase of 54% compared to 2016. Profit was 50% higher. This strong result was primarily attributable to sales contributions from Asia and Europe. Product distribution opportunities with Novomatic AG added $11.4m in sales and $5.5m in profit. We will continue to deliver the benefits of this strategic relationship for shareholders.

Domestic revenue was $74.1 million (26% of total revenue), 9% lower compared to $81.5 million in the pcp. Sales to corporates and casinos were minimal in the period. Profit fell by 17% for the year overall and margins were 32%. While the domestic market remains challenging, the second half of the year saw some recovery and improvement. We are optimistic that FY18 will be stronger. Sales in 2H increased by 6% on pcp and encouragingly 2H profits increased by 15% on pcp. We recently released the new EVO™ cabinet at August's AGE and received a positive market response. Combined with our broadened game library we expect to capture a greater market share in FY18.

Recurring revenues from machines on participation provide high quality earnings and are an important part of Ainsworth's strategy. At 30 June 2017, the Group had a total of 5,317 machines on participation, rental and/or lease, an increase of 16% over the pcp. These participation machines contribute 15% of group revenue compared to 12% in the pcp.

Ainsworth's strategic investments in real money gaming and social casino platform technology are also expected to provide further opportunities to leverage Ainsworth's recognised brands across online social and mobile gaming channels.

Ainsworth is implementing a multichannel distribution strategy, which will offer our recognised land based slot content to social casinos and regulated real money gambling partners throughout UK, Europe, Australasia and the Americas.

In support of this, in FY17 we released 15 new approved games for play in licenced gambling markets online and expanded the number of operators deploying Ainsworth content through our current platform partners: Microgaming, NYX and iSoftbet.

In FY18 we will strengthen our position together by expanding into new online markets through Novomatic's Greentube online platform as well as exploring new licensed opportunities in Latin America.

Operating costs, excluding cost of sales, financing costs and other expenses were $112.5 million, an overall increase of 12% on 2016. This includes our growth investments in R&D, up 20% on pcp. Ainsworth employs 176 staff in R&D. Innovation, game design and new hardware development are critical to our future success. Under new technology leadership, we have developed over 70 unique titles in a diverse global game portfolio for launch in FY18.

Headcount in the Americas now includes 241 full time equivalent employees, an increase of 45 new staff in the period. This investment is consistent with our growth strategy in this critically important market. We expect these investments to generate strong returns in FY18 and beyond.

Net cash flow from operating activities decreased to $5.2m, reflecting mainly the increase in inventory ahead of expected orders and increase in receivables ahead of cash receipts on sales. We expect this working capital to convert into revenues and cash flow in FY18. Our capital mix is also changing given the increase in the number of units under operation, assets that Ainsworth owns on balance sheet.

Capex reverted to more maintenance style levels ($5.4m) after the investments in the Las Vegas facility last year. We finished the year with a gearing ratio of 16%, a leverage ratio of less than 1 times (0.93) and net debt of $44.6m. We have significant funding headroom to support our ongoing growth.

Outlook

Mr Gladstone said "It was pleasing to report such a strong 2HFY17 profit performance, exceeding guidance for the year. 2H profits, excluding currency, were up by 178% on 1H.

We enter FY18 with good momentum. Our profile in the Americas continues to increase. Our sales pipeline is strong with large, confirmed orders and new market opportunities. Our new licensed Pac Man™ product is increasing the strategically important number of units under operation generating high quality recurring revenues. Positively, we are starting to see the early outcomes from our investments in R&D and strengthened technology leadership. With a broadened product offering and the new, recently launched EVO™ cabinet in Australia we expect to increase market share both internationally and in domestic markets."

Given the importance of being able to self-fund our growth targets, and the temporary build-up of working capital the Board has prudently determined to suspend the FY17 final dividend. The Board maintains its commitment and policy to distribute profits to shareholders and will review re-commencement of dividend payments in FY18 subject to investment and growth objectives.

An update on the first half trading expectations for FY18 will be provided at the Company's Annual General Meeting to be held on Tuesday 28 November 2017.

Ends

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