



Ainsworth Game Technology Ltd

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26 November 2020

ASX Market Announcements Office
Exchange Centre
20 Bridge Street
Sydney NSW 2000

ELECTRONIC LODGEMENT

2020 Annual General Meeting (AGM) Addresses to Shareholders

We attach a copy of the 2020 Chairman and Chief Executive Officer (CEO) AGM Addresses to Shareholders.

For the purposes of ASX Listing Rule 15.5, this document is authorised for lodgment with the ASX by the Board.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Mark Ludski', written over a light grey rectangular background.

Mark Ludski
Company Secretary



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ASX Release

ASX Code: AGI

**AINSWORTH GAME TECHNOLOGY LIMITED
2020 ANNUAL GENERAL MEETING ADDRESSES**

NON-EXECUTIVE CHAIRMAN

(Presented by Mr Danny Gladstone)

Ladies and Gentlemen,

I would like to present the annual review of the 2020 financial year.

I am pleased to report AGT delivered a resilient performance in FY20. In a difficult and challenging year for the global economy, the gaming industry in general, and your Company, we have been able to endure these extraordinary times and we are now well positioned for recovery.

Since assuming the role of Chair at the conclusion of last year's Annual General Meeting, we have seen catastrophic bushfires, floods and of course, the unforeseen consequences of the COVID-19 pandemic.

I am proud of the way Ainsworth reacted quickly to these challenges. We supported bushfire relief programs to assist those Australians affected by fires, and when the pandemic hit, we focussed on protecting the safety and well-being of our employees, our customers and our Company.

I acknowledge the commitment and personal sacrifices of the Board and, senior executives during the downturn brought about by the pandemic. We also express our thanks to our founder Mr Len Ainsworth. Len did not hesitate to support the Company with significant rental concessions on the Newington facility. These measures greatly assisted our ability to withstand the initial financial downturn as our customers were severely restricted by Governments around the world imposing mandatory closures.

We appreciate the support shown by all of our stakeholders, including suppliers, customers and most importantly, our employees. Their dedication to serving our customers and driving innovative new products never wavered and bodes well for our future recovery.



While macro conditions have been volatile, our long-term strategies have remained consistent. Our goals are to expand our international footprint, invest in technology to enhance the product suite, and build our participation fleet to improve the quality of earnings. These are the foundations for our future success.

We completed the acquisition of MTD Gaming (MTD) in early March extending our footprint in the key US market. MTD has performed resiliently and we remain confident that this acquisition will provide good returns over coming periods.

A renewed focus of our R&D investment continues to be a primary objective allowing the efficient production of innovative products. During the year, we released the enhanced, new A-Star hardware with more competitive game content. We are confident this ongoing commitment to innovation will drive our return to profitability and deliver better results over time.

We also took the necessary steps to rationalise our operations across all areas of the Company. Combined with the actions we took to minimise capital expenditure and operational overheads; we are able to continue development activities as the industry progressively recovers to pre-COVID-19 activity levels.

Ainsworth's FY20 results reflect the impacts of COVID-19. For FY20, sales revenue was A\$149 million, a decline of 36% compared to A\$234 million in FY19. With reduced trading in quarter four, which is traditionally the strongest period, the second half of the year contributed approximately 87% of this decline. Our opportunities to operate and sell new machines were inhibited as customers temporarily closed venues and cut capital expenditure programs.

The Loss after Tax for the year was A\$43 million. On a pre-currency basis and excluding one-off items, the Loss before Tax was A\$34 million.

Despite short term results, our balance sheet and liquidity are in a strong position. We closed the year with cash on hand of A\$26.5 million and a net debt position of A\$17.5 million.

The current financing facilities have been re-negotiated with the previous financial covenants being replaced for the remaining term to de-risk the potential for breach. Given the effects of the pandemic, the Board decided to place the dividend policy on hold. We will retain this position until the current uncertainties in our markets become more predictable.

While the FY20 results were disappointing, Ainsworth is now well positioned to capitalise on emerging opportunities as the global gaming market progressively recovers. We have a professional workforce, an excellent industry reputation and a well-established footprint across our markets. We look forward to improved industry conditions, the continued safety and wellbeing of all of our stakeholders and delivering long term positive results for shareholders.

Finally, I would like to thank my other board members for their commitment and wise counsel, our CEO, Mr Lawrence Levy, our CFO, Mr Mark Ludski and the rest of the highly capable executive team in both Australia and the Americas, Novomatic for their partnership, as well as our dedicated and loyal employees, my fellow shareholders and of course, our customers.

I will now hand over to Lawrence to give the CEO address.



CHIEF EXECUTIVE OFFICER (CEO)

(Presented by Mr Lawrence Levy)

Thank you, Danny.

I appreciate the opportunity to present this report to the Ainsworth AGM after completing my first full year as your CEO.

It was certainly not the year I expected when I stood here before you twelve months ago. The 2020 calendar year tested all our resolve, both professionally and personally. Under these unprecedented circumstances, we elected to focus on the protection of shareholder funds and liquidity, whilst selectively investing in product initiatives to better capitalize on revenue generating opportunities as and when economies around the world progressively recovered.

FY20 Results Summary

As you would expect, the pandemic severely impacted our financial performance, primarily in Q4 FY20, which is usually our busiest period. The majority of customers across AGT's major markets suspended operations from mid-March onwards.

The forced break in our normal activities compelled us to restructure the workforce, re-evaluate our processes and review our objectives. I believe we did this in a timely and forward-thinking manner. This has resulted in Ainsworth being able to maintain a positive cash balance of A\$26.5 million and reporting a positive underlying EBITDA of A\$5.8 million for FY20.

Turning to the results in more detail; On a pre-currency basis, we reported a Loss before Tax of A\$50.0 million compared to a Profit before tax of A\$8.7 million in FY19.

Sales revenue for the year was A\$149.4 million, a decrease of 36%. Recurring revenues remain a key priority for the group and contributed 26% of the total. International revenues, our second major growth priority, were A\$121.1 million, a decline of A\$77.1 million. Revenues in the second half were A\$42.1 million compared to A\$116.3 million in the prior corresponding period, highlighting the severity experienced from the pandemic.

Gross profit was down by 35% to A\$90.4 million with gross margins maintained at 60%. Total operating costs have decreased by 6% although the true underlying rate for the year was much lower at 10%. The results include the cost of 67 redundancies (23 in Australia and 44 in Americas) at annual cost saving of A\$6.4 million. In addition, 40 roles have been eliminated at a cost saving of A\$3.8 million per annum.

As I outlined Group EBITDA was negative A\$9.0 million compared to positive A\$44.8 million in FY19. After adjusting for currency and one-off items, including A\$12.0 million non-cash impairment for the Latin American segment, underlying EBITDA was positive A\$5.8 million.

The adjusted net loss before tax was A\$34 million for the year. This excludes the impacts of foreign exchange movements and one-off costs, Job Keeper subsidies and costs associated with the acquisition of MTD which we completed in March 2020.

We repaid A\$27.3 million of debt during the year and had a net debt balance of A\$17.5 million with a closing cash balance of A\$26.5 million.



The MTD acquisition required US\$18 million of consideration including US\$5 million to be held subject to re-signing a key contract in Montana or attaining set financial targets. I will provide further details on MTD within the North American segment review.

Our facility with the ANZ Bank was initially reduced to A\$60 million and has been restructured, with previous covenants being replaced with maintenance of minimum liquidity levels and quarterly sales targets. As at the first quarter of FY21, we have achieved to our expectations and met these covenants with an expectation that the first half of FY21 is on track with our forecasted financial performance.

We remain focused on ensuring that our liquidity and balance sheet strengthen during this challenging time. As Danny mentioned we prudently decided to cancel the FY20 dividend to ensure the group is well placed should a protracted downturn eventuate.

Staff Headcount

Throughout the pandemic, AGT's priorities have been the health and wellbeing of its employees and the preservation of shareholders' funds.

To assist with the impact of the pandemic and restrictions established in global markets, various cost rationalisation measures were implemented in Q4FY20. These measures included fee reductions by the Chair and Directors, salary reductions for all Senior Management, reduced working days from other staff members and rent concessions at our Newington facility from our landlord, Mr Len Ainsworth. We are grateful for the support.

Despite the initial reduced working hours introduced within R&D areas, a gradual re-introduction of normal working hours occurred to ensure that the timing of new game approvals are achieved in preparation for when markets recover from COVID-19.

Looking at our cost base overall, Sales Service and Marketing expenses for the year decreased by A\$5.6 million. Excluding the adverse currency impact of A\$3.1 million, the decrease was A\$8.7 million. The decrease in costs was primarily a result of reductions in variable selling costs associated with reduced sales due to COVID-19 restrictions.

R&D expenses were at A\$41.2 million, similar to FY19. The R&D to revenue ratio at 28% reflects the consistent commitment to product initiatives despite lower revenues.

Administrative expenses of A\$22.2 million was 11% lower than FY19, predominately due to a decline in personnel costs resulting from a reduction in working hours, voluntary pay reductions and the contribution of JobKeeper subsidies. These cost disciplines are expected to continue for at least the first half of FY21.

Summary Segment Performance

Let me turn now to a high-level review of our regional performance.

North America, our largest segment, delivered revenue of A\$72.1 million, a decline of 37%. Consequently, profitability was down by 46% to A\$25.3 million.

Unit sales closed at 1,430 compared to 2,952 in FY19. Last year, in Q4 alone, we delivered 1,364 units. This demonstrates that the pandemic has had a significant impact on this market with just over 100 units being delivered in this period.



The pandemic also delayed the planned launch of the A-Star cabinet at the NIGA show in April 2020, where we were expecting to see some uplift in sales during the last quarter of FY20. However, with this product now released, the installation of the new A Star cabinet across North America continues to receive positive feedback from our customers, with our newly released games demonstrating improved performance.

The number of machines under gaming operations in North America increased by 6% to 2,327. The increase in the gaming operations installed base is a result of additional Historical Horse Racing (HHR) units installed at Red Mile and Ellis Park. Yield per day was maintained at US\$26 despite the competitive nature of the market.

Strong momentum continues across established and new markets for the Company's HHR products. In September 2020 the Company installed 450 units at Kentucky Downs on participation resulting in a total of 750 HHR units now operating under Gaming operation. In addition to the above recurring revenue, connection fees on approximately 3,600 HHR units across multiple locations is expected to progressively increase when these products return to full operation. Currently only 60% - 70% of these products are operating with the expectation that they will return to full operation in the 2021 calendar year.

We have a confirmed sale of 400 refurbished HHR units plus ongoing connection fees through our distributor in Alabama. These units are expected to be installed prior to half year end.

We have also completed the integration of other gaming suppliers within Kentucky HHR operating venues. Integration and license fees are paid on any installations as well as on-going connection fees.

The acquisition of the assets of MTD in March 2020 has so far provided positive results, contributing positive EBITDA to our overall group results. This acquisition is expected to complement our current product lines with MTD's top performing Poker, Keno and Video Reel content and is expected to further grow AGT's footprint in North America. We are seeing strong product performance in established markets of Louisiana, South Dakota and Montana. Progress has been made for the necessary approvals to supply these products within California and Nevada expected to commence in the 2021 calendar year. In addition, a new agreement was established in October 2020 with Golden Gaming for three years of exclusivity in Montana.

I am confident that this segment will return to a higher profit level with the progressive reopening of gaming venues, further installations of our A-Star cabinets in Class III venues and the continued success of our Class II HHR products.

Latin America revenue was A\$42.0 million, a reduction of 42% compared to FY19. The segment profit was A\$2.3 million, down from the A\$24.0 million that was delivered in the previous year. We sold 1,404 units in FY20, compared to 2,931 units in FY19. This region continues to be severely impacted by closures across the primary markets in Mexico, Argentina and Peru.

Given the uncertainty on the timing of recovery in the Latin America region and the increasing pressure on this region's working capital, we have prudently recorded a non-cash impairment charge of A\$12.0 million against the leased assets within this region.



In our Rest of the World segment, revenues fell by 39% to A\$7.0 million. We had a reduced contribution from Novomatic compared to last year. The Asia market has been adversely impacted by COVID-19 with some closures and travel restrictions still in place. To mitigate the declining profits within this region, we have signed agreements with several new, third-party distributors in both Asia and Europe. Additionally, we have collaborated with Novomatic to act as its Sales and Service unit in the Asia Pacific regions and this is expected to create new revenue streams for AGT.

Turning to Australia, the revenue dropped by 22% to A\$28.3 million. Segment profit was low at A\$0.4 million, due to the fixed overheads within this segment. Although the closures of venues in March 2020 has affected our domestic sales in the last quarter of FY20, encouragingly with the lower cases of COVID-19 compared to other regions, we are expecting a positive progressive recovery in FY21.

Online gaming contributed A\$4.6 million, an increase of 10% compared to last year. With the launch of US based RGS (remote gaming server), which was approved by the New Jersey Division of Gaming Enforcement in April 2020, and an extension of partnerships with top performing social gaming providers, we are expecting to increase our online revenue contribution in coming periods.

FY21 Execution Priorities

I anticipate that FY21 will be a year of two distinct halves. Half 1 will be about safety and security through the reopening phase; Half 2 will be about recuperation and development as we enter the “new normal” phase.

I am confident AGT can drive improved long-term growth by first focusing on our customers; working closely with the operators to ensure maximum returns on potentially rationalized resources. We will also focus on strengthening our R&D/game development and consolidating business practices across all regions.

Our execution priorities to deliver improved performance are clear:

1. Our proprietary HHR product is performing exceptionally well in North America and we see excellent opportunities to leverage our expertise in this area and expand our footprint.
2. Continue to grow unit sales in the key Class II and Class III North American markets, as well as Australia, Latin America and Rest-of-World.
3. Increase the number of units in gaming operations by developing specific game content to generate high quality recurring revenues.
4. Continue with the restructuring of our R&D department, launching new, innovative and intuitive games to re-energise and improve our performance in the domestic and international markets.
5. Increased strategic cooperation with Novomatic through new distribution channels, shared technical expertise and online interactive synergies with Greentube, Novomatic's online interactive division.
6. Further expand our online capabilities with a focus on content distribution and interactive product innovation for online markets in Europe and the Americas.
7. Maintain strong capital disciplines and cost controls to enhance our financial strength, provide flexibility, and self-fund our organic growth strategies.



Outlook

Let me conclude this presentation by talking about our outlook.

Our focus remains on protecting AGT should a protracted downturn eventuate across global markets.

We cautiously expect the challenging market conditions experienced in Half 2, FY20 to continue in Half 1, FY21.

As a result, for Half 1, FY21 we expect to report a Loss Before Tax for the group, excluding the impacts of foreign exchange and one-off items, of approximately A\$15 million which is in line with the Company's expectations given the effect of the September quarter.

Based on the current landscape in North America we anticipate improved performance throughout FY21, building on the success of our HHR products and the MTD acquisition.

In LATAM, the current widespread number of infections being reported as a result of the pandemic is expected to impact trading performance in Half 1, FY21 with a progressive recovery in Half 2 of FY21.

In Australia, we see an encouraging initial market response to the new A-Star cabinet and reaffirm our ongoing commitment to game development and performance.

In summary, AGT, with its well-regarded reputation, sound financial position and ongoing commitment to innovation, is well placed to benefit from industry recovery as customers' venues reopen and capex spend increases.

We will provide a further update on our progress at the time of our half year results in February 2021.

Finally, I would like to acknowledge some special contributions this year.

I wish to express my appreciation to Danny Gladstone as the Chairman for his ongoing commitment to the Company. Danny, along with the other Board Directors have offered significant guidance and support through these complicated times.

I would also like to thank the Executive Teams from North America, Latin America and Australia for their hard work and dedication throughout the year. Finally, thanks to our talented employees, our supportive shareholders and, importantly, our customers who are at the centre of everything we do.

Ends

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