

## 10th Annual Slot Market Survey

The gaming manager's conundrum – delivering growth in a capex- and consumer-constrained environment

Australian gaming managers are facing tough market conditions. Our 10<sup>th</sup> Annual Slot Market Survey highlights the challenge of managing tight capex budgets against the backdrop of a retreating consumer. In this difficult environment, Aristocrat is well-positioned (w/game outperformance) to enjoy continued buyer preference through the remainder of 2019 and into 2020. Competition for share of consumer time and wallet is increasing; our survey suggests, however, that the ANZ slot market can enjoy another year of low to mid-single digit growth. ALL is the key beneficiary in these conditions, with 94% of participants voting the company as the #1 performing manufacturer.

- **ALL's performance gap with IGT and SGMS continues.** Aristocrat was ranked as the best performer by 94% of respondents & top share gainer (92%). IGT ranked 2<sup>nd</sup> in performance & share gain metrics, while Scientific Games ranked 3<sup>rd</sup>. Ship-share outside the top 5 manufacturers increased to 8% (vs. 4% in 2018) and a key reason Konami & Ainsworth tied for last place. These manufacturers face pressure from niche products as venues seek floor-diversity to balance outsized ALL floor share.
- **ALL remains AUS market leader & most popular manufacturer.** As 50% of participants expect decreased spend per customer on EGMs, the main focus from buyers is increasing conversions, while maintaining relevance amongst replacements. ALL will likely be the clear beneficiary, receiving an overwhelming majority of share to a 'greenfield' game floor as **our model portfolio of a gaming floor includes 59% Aristocrat, 14% IGT, 13% Scientific Games, 7% Konami and ~5% Ainsworth**. 50% of the market expects increased machine pricing (to ALL's benefit) as the market is willing to accept increased price-per-machine if outperformance is possible. We highlight August performance overleaf.
- **Australian consumer overview.** The consumer is heavily indebted and lower house prices have weighed on sentiment, although recent improvements are a positive. Job growth is occurring, yet underemployment remains a challenge, unemployment remains in the 5s and wage growth remains stubbornly low. Recent expansionary monetary and fiscal policy are being introduced to offset a challenged consumer with the prospect of these improve spending late into CY19.
- **Equity strategy overlay: ALL a key model portfolio OW** – Over the past two years, the Australian investment community has steadily scaled back positions in Consumer Discretionary, with the average OW dropping 230bp (note). ALL, however, which accounts for 15% of the sector's weighting, has consistently landed in the 'well-held segment' of our *Love Index*. From a portfolio perspective, we agree with this positive inclination towards ALL, which has been a core element of our model portfolio through 2018 and 2019. The company's commanding position in the industry, alongside strong and consistent growth make for a compelling holding in an environment wracked by a combination of geopolitical tensions and a moribund economy.

### Australia Australian Consumer Sector

**Donald N Carducci** AC

(61-2) 9003-8379

donald.n.carducci@jpmchase.com

**Bloomberg** JPMA CARDUCCI <GO>

**Jason Steed**

(61-2) 9003-8609

jason.h.steed@jpmorgan.com

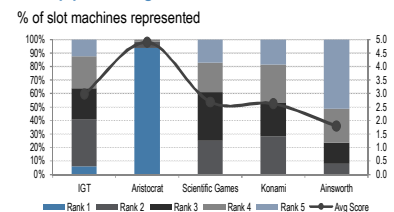
**Shaun Cousins**

(61-2) 9003-8623

shaun.r.cousins@jpmorgan.com

J.P. Morgan Securities Australia Limited

Figure 1: Survey participants ranked Aristocrat as the top performing slot manufacturer



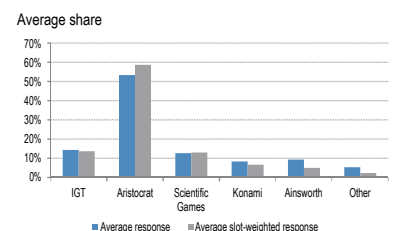
Source: J.P. Morgan. Avg Score (#1=5, #2=4, #3=3, #4=2, #5=1)

Table 1: Manufacturer allocation on a greenfield has Aristocrat as top pick followed by IGT and Scientific Games

Manufacturer	% of respondents		
	2017	2018	2019
IGT	7.5%	12.5%	14.3%
Aristocrat	62.5%	58.5%	53.3%
Scientific Games	12.2%	12.3%	12.5%
Konami	5.0%	5.0%	8.1%
Ainsworth	10.6%	13.7%	9.2%
Other	2.2%	4.6%	5.2%

Source: J.P. Morgan estimates.

Figure 2: Allocation between manufacturers on a new floor in 2019



Source: J.P. Morgan.

See page 26 for analyst certification and important disclosures, including non-US analyst disclosures.

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## Executive Summary

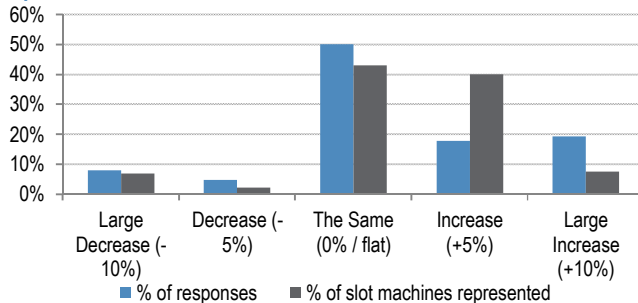
This report details the results of our 10<sup>th</sup> Annual J.P. Morgan Slot survey, with a particular focus on the ANZ market (pubs/clubs/hotels/casinos) conducted from July-August 2019. We have split the findings into three categories: **1) market trends**; **2) competitive landscape**; and **3) company-specific analysis**. We uncovered the key topics for gaming managers in Australia were: **player behaviour, product performance, and Return to Player (RTP) as it impacts revenue** in a venue.

Aristocrat is the market leader in the Australian market, and earned an overwhelming majority of top ranks in our survey in terms of performance and share gains. When weighted based on the rankings is assigned, IGT and Scientific Games were the next best performers, with IGT getting the most #2 ranks and Scientific Games receiving the maximum #3 ranks, followed by Konami at #4 and Ainsworth at #5.

### Australian Slot Market Trends

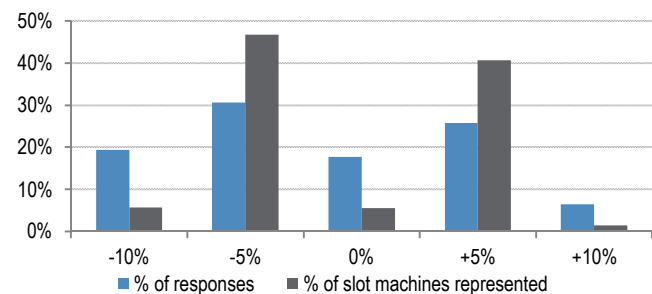
- **Maintain spend on replacements** – 50% of casinos and pubs (up from 45% in 2018) report they will maintain spend on replacements, 37% (down from 45% in 2018) intend to increase spend, while 13% (up from 9% in 2018) intend to decrease their replacement budget. In total, venues representing 91% of the slot machines surveyed (down from 93% in 2018) expect their replacement budget to not decrease this year.
- **Increase spend on conversions** – 78% of slot count-weighted responses show a tendency to increase (up from 26% in 2018) and 21% intending to remain the same (down from 74% in 2018). Growth seen in conversions is due to strong cost focus from casinos and pubs as they serve as an efficient way for operators to update their floors.
- **Spend per customer has decreased** – 50% of casinos and pubs estimate spend per customer has decreased (0% in 2018, 36% in 2017), 18% estimate flat (18% in 2018, 27% in 2017) and 32% estimate an increase (82% in 2018, 36% in 2017). The smaller operators (~6% of slot machines represented) estimate a -10% decline in customer spend, while larger operators are split as ~41% of slot machines represented view +5% increase and ~47% view a -5% decrease.

Figure 3: Casinos and pubs will largely maintain spend on replacements over the next 12 months



Source: J.P. Morgan.

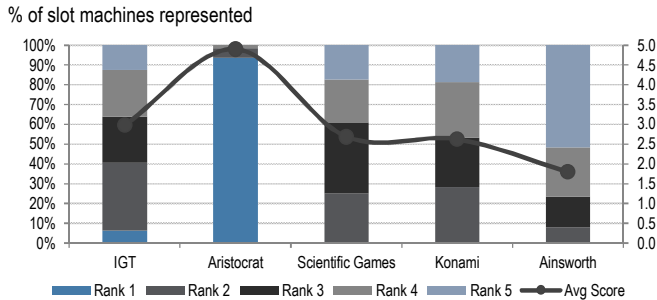
Figure 4: Slot players appear to be spending less per person



Source: J.P. Morgan.

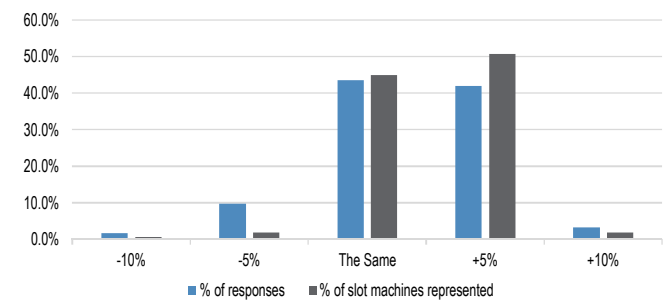
- Some venues will spend more, although these are ‘catch-up’ replacements.
- Slot players are spending less; an increasingly concerning trend for operators.

**Figure 5: Survey participants ranked Aristocrat as the top performing slot manufacturer**



Source: J.P. Morgan. Avg Score (#1=5, #2=4, #3=3, #4=2, #5=1)

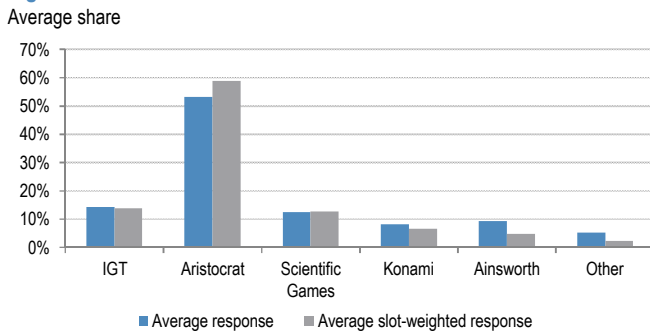
**Figure 6: Venues intend to increase the proportion of Aristocrat on their floor**



Source: J.P. Morgan.

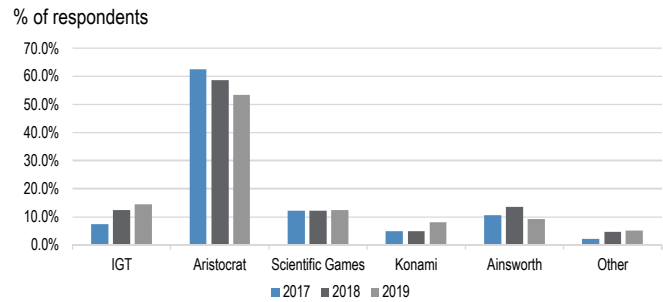
- Aristocrat is a clear leader and venues are willing to acknowledge (and most importantly; **pay**) for this performance.

**Figure 7: Allocation between manufacturers on a new floor in 2019**



Source: J.P. Morgan.

**Figure 8: Shift in allocation to manufacturer over time – Aristocrat dominates**



Source: J.P. Morgan.

- ALL will likely benefit from favoritism or venue refurbishments.

**Aristocrat is the top pick of a greenfield floor**, followed by IGT and Scientific Games. This is a good metric for venues which are ‘catching up’ with outperforming venues; generally indicates the share allocation of purchasing behaviour (for outright sales).

**Table 2: Manufacturer allocation on a greenfield floor**

	% of respondents		
	2017	2018	2019
IGT	7.5%	12.5%	14.3%
Aristocrat	62.5%	58.5%	53.3%
Scientific Games	12.2%	12.3%	12.5%
Konami	5.0%	5.0%	8.1%
Ainsworth	10.6%	13.7%	9.2%
Other	2.2%	4.6%	5.2%

Source: J.P. Morgan estimates.

## August market-wide performance

We have been tracking Australian market-wide slot performance in terms of net additions/removals across all the manufacturers this past year. Below, we highlight the most recent August metrics before diving into the 10<sup>th</sup> annual slot survey.

- **ALL increased August top title installations in NSW (+2.2%) & QLD (+8.5%)** for those performing in the July top ten. ALL's Genghis Khan DL topped both NSW and QLD clubs (2.46x floor average and 2.55x floor average respectively). Also notable is IGT's performance of Treasure of Atlantis Bubble Blast Link and Genies Wishes Bubble Blast Link.
- In the last 12 months, **ALL's avg. turnover ratio has been consistently higher in QLD compared to NSW**. However, there has been a **decline in ratio in QLD** from 2.42x in September 2018 to 1.75x in August 2019. Total number of EGMs is consistently lower in QLD than NSW.
- **Industry feedback indicates manufacturers (ex-ALL) are struggling in VIC as new titles (released in the last 3-4 months) have fallen below floor average.** This is consistent with monthly EGM metrics across all manufacturers. ALL continues to perform strongly with their Dragon Cash/Link titles along with Lightning Cash/Link. Buyer interest for hold and spin remains positive with upcoming releases associated on linked games.
- **Ainsworth has provided a renewed confidence under new management regarding new titles and themes to be released.** This has come after AGI struggled in the previously released brand themes: particularly Kanga Cash, Cash Originals and the recently released Mad Millions & Crazy Jackpots. Loaded with Loot theme, Cash and Lucky Break theme have had moderate success in the market.
- **IGT's Bubble Blast Link has continued strong performance;** our analysis shows it has topped the list for QLD in August with turnover ratios of 1.83x and 1.95x.
- For August market-wide chart and table performance, please see the appendix.

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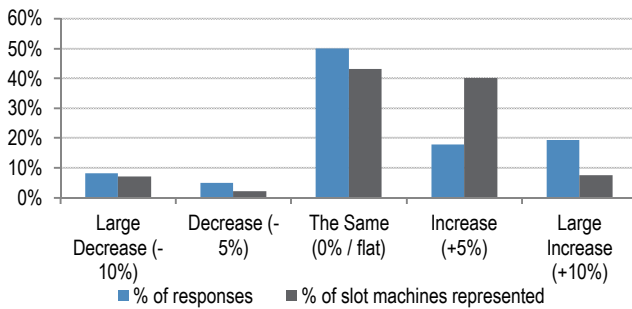
## Size of the market

### Do you intend to change your spend on replacements over the next year?

Slot manufacturers rely on the replacement market to supplement older machines that are not performing. As the industry faces headwinds, we believe operators will adjust their behavior from outright replacements to conversions. 50% of casinos and pubs (up from 45% in 2018) report they will maintain spend on replacements, indicating this trend is beginning to appear. 37% (down from 45% in 2018) intend to increase spend, while 13% (down from 9% in 2018) intend to decrease their replacement budget. In total, venues representing 91% of the slot machines surveyed (down from 93% in 2018) expect their replacement budget to not decrease this year.

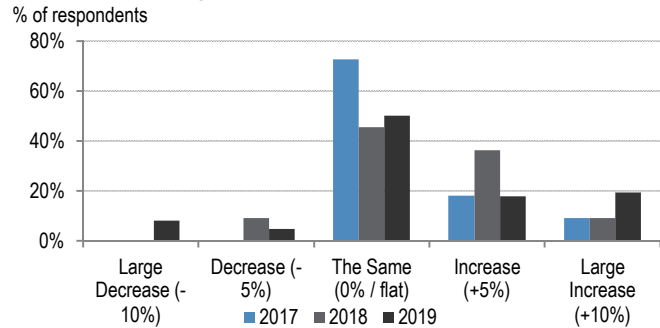
**ANZ replacements:** we estimate replacements to be 13.6k units in 2019, down slightly from our FY18 forecasts of 14.1k.

Figure 9: Casinos and pubs will largely maintain spend on replacements over the next 12 months



Source: J.P. Morgan.

Figure 10: Growth in the replacement market is expected to slow relative to previous years



Source: J.P. Morgan.

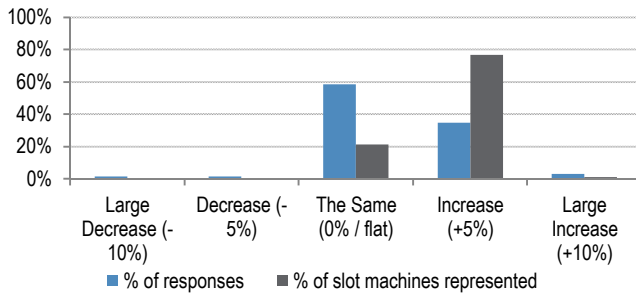
**Other notable feedback:** renovations/works at clubs reduced cash flow for replacements spend with some catch-up work due.

## Do you intend to change your spend on game conversions over the next year?

Growth seen in conversions is due to **strong cost focus** from casinos and pubs as they serve an efficient mechanism for operators to update their floors, while also serving as a high-margin product for manufacturers. Casinos and pubs intend to maintain (at the very least) or increase spend on conversions in 2019. 78% of slot count-weighted responses showed a tendency to increase vs. 27% last year (21% intending to remain the same vs. 74% last year).

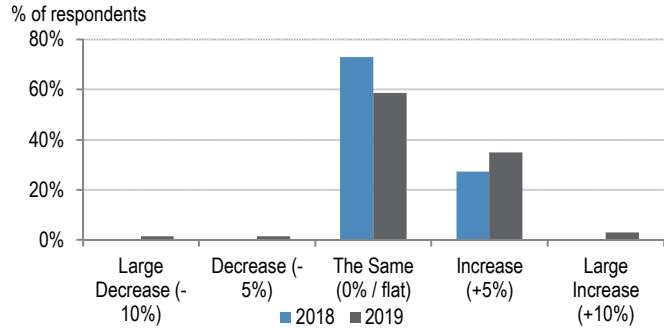
**ANZ conversions:** we estimate replacements to be 6.24k units in 2019, down slightly from our FY18 forecasts of 6.3k.

Figure 11: Conversions are still seen as an efficient way to update gaming floors



Source: J.P. Morgan.

Figure 12: Focusing on cost management



Source: J.P. Morgan.

**Other feedback:** Hold and spin product growth has slowed. Conversions can also be free depending on the lifecycle, size, and agreement. Some respondents stated most manufacturers are free (particularly when purchasing) with the exception being Aristocrat, where conversion fees can be quite high into the latest-product.

## Unit Pricing

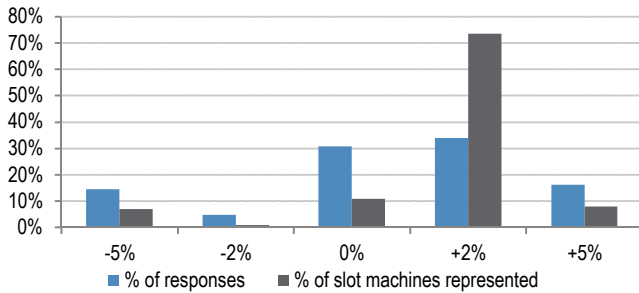
### How do you expect pricing of machines will change over the next 12 months?

**The market is prepared for price increases in 2019 (continuing previous years' trend)**

50% of respondents (down from 55% in 2018) expect box pricing to increase in 2019. This proportion is lower than the results from our [2018 survey](#), but the low single-digit price increase trend remains. If machine prices continue, we would not be surprised to see ALL margins increase in the short term.

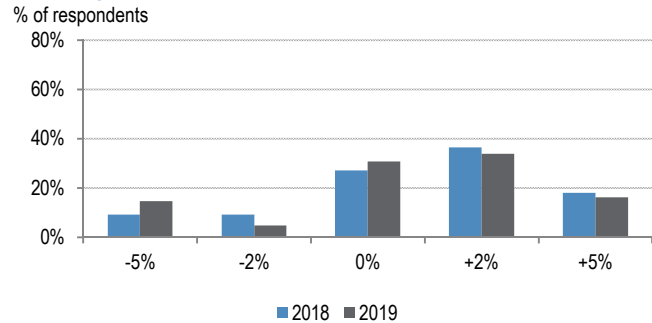
**Higher demand for top performing products** as seen in our monthly slot performance updates [here](#), and [here](#) (such as Dragon Link by Aristocrat) may allow certain manufactures to command a higher ASP.

Figure 13: Casinos expect pricing of machines to rise in 2019



Source: J.P. Morgan.

Figure 14: Expectations of rising machine prices are largely in-line with last year



Source: J.P. Morgan.

**Other feedback:** Some manufacturers will be increasing prices, however others facing market share loss (or underperforming/short lived products) will lead to specials for incentivizing sales.

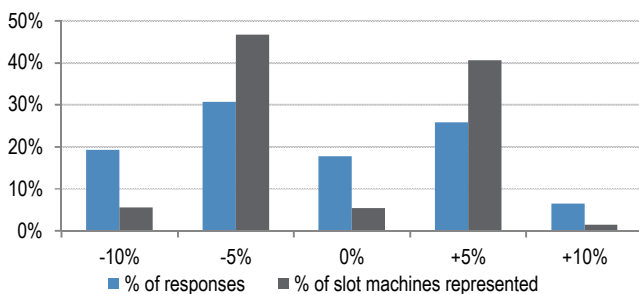
Purchase agreements will be an important factor for clubs/pubs to reduce prices. New cabinet releases have been slow from the key manufacturers with a lot more conversions in current cabinets lately.

## The Customer

### How much do you estimate spend per customer has changed compared to last year?

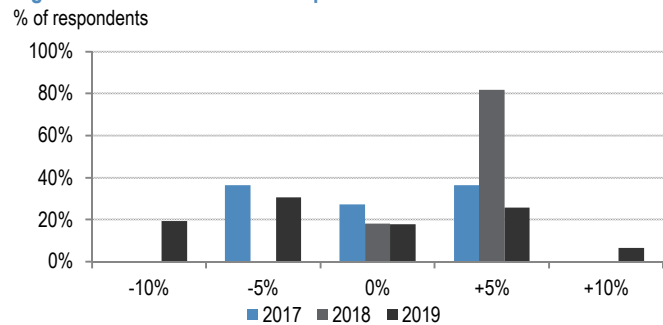
**Slot players appear to be spending less per person** (consistent with our views in our previous [note](#) here discussing soft ANZ macro trends). 50% of casinos and pubs estimate spend per customer has decreased (0% in 2018, 36% in 2017), 18% estimate flat (18% in 2018, 27% in 2017) and 32% estimate an increase (82% in 2018, 36% in 2017). The smaller operators (~6% of slot machines represented) estimate -10% decline in customer spend while larger operators are split as ~41% of slot machines represented view +5% increase and ~47% view -5% decrease.

Figure 15: Expectations of customer spend



Source: J.P. Morgan.

Figure 16: Historical customer spend shifts



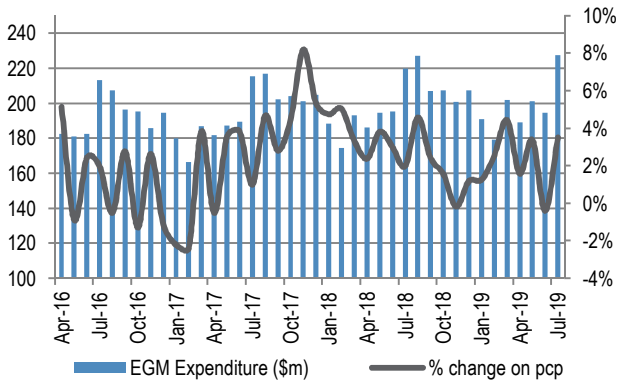
Source: J.P. Morgan.

**Other feedback:** Customer spend is definitely in decline due to changing game structures as lower tier players cannot afford new games – or ‘**don’t get features often enough to keep them playing**’. JPMorgan estimates ALL’s features are 1:60 while as other manufacturers can extend as far as 1:120 spins.



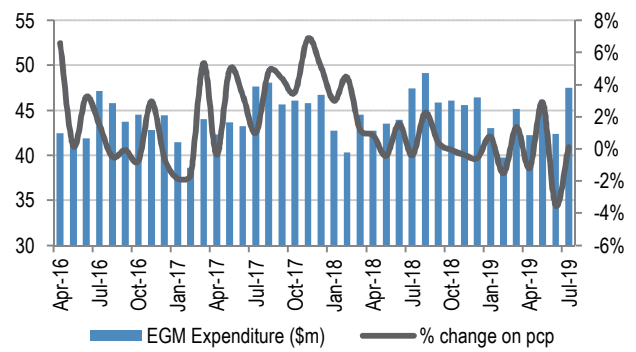
We also review spend at the state and city level below and note that, Queensland EGM data has June expenditure down 0.4% on the pcp with Brisbane down 3.5% and Gold Coast down 1.4% (similar trends to Brisbane observed). July fared better across all states.

Figure 17: Queensland EGM Expenditure



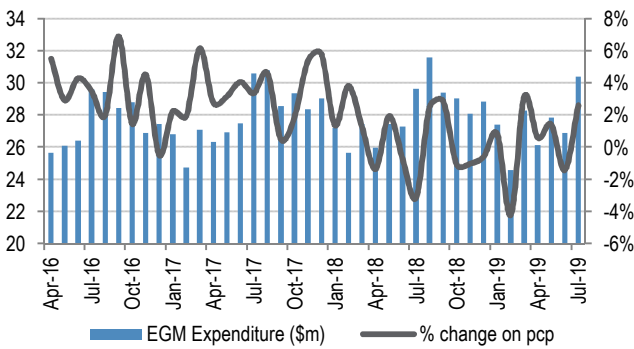
Source: Company, J.P. Morgan.

Figure 18: Brisbane EGM Expenditure



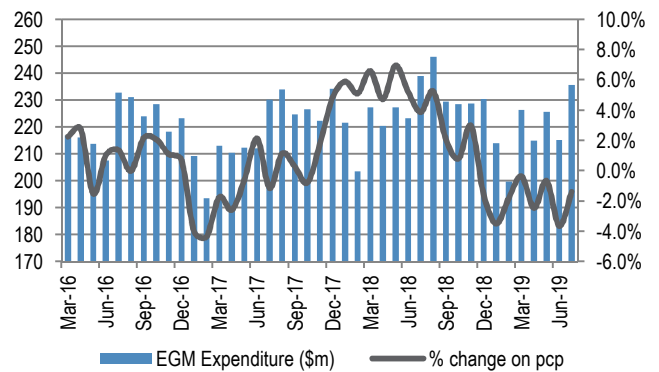
Source: Company, J.P. Morgan.

Figure 19: Gold Coast EGM Expenditure



Source: Company, J.P. Morgan.

Figure 20: Victoria EGM Expenditure



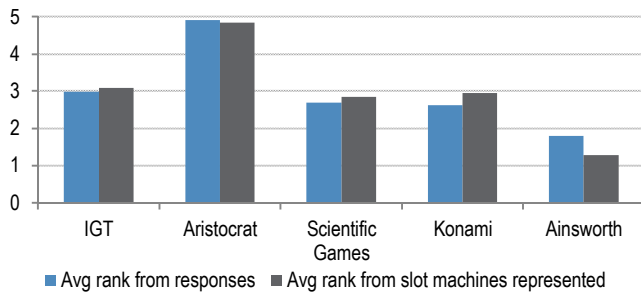
Source: Company, J.P. Morgan.

## Competitor Landscape

### Which manufacturer is performing best?

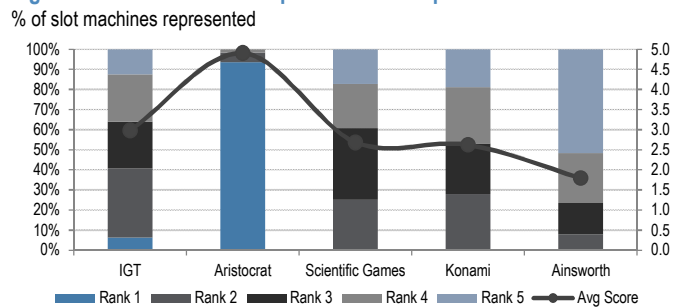
Aristocrat remains the top performing manufacturer, with 94% (down from peaks of 100% in 2018 and 2017) of the respondents, representing 91% (100% in 2018) of slot machine participants, rating it as number one. When weighted based on the rankings assigned, IGT and Scientific Games were the next best performers, with IGT getting the most #2 ranks, Scientific Games receiving #3, followed by Konami receiving #4, and Ainsworth #5.

Figure 21: Casinos and pubs rate Aristocrat as number one (weighted ranking)



Source: J.P. Morgan. Avg Score (#1=5, #2=4, #3=3, #4=2, #5=1)

Figure 22: Distribution of response in 2019 – performance

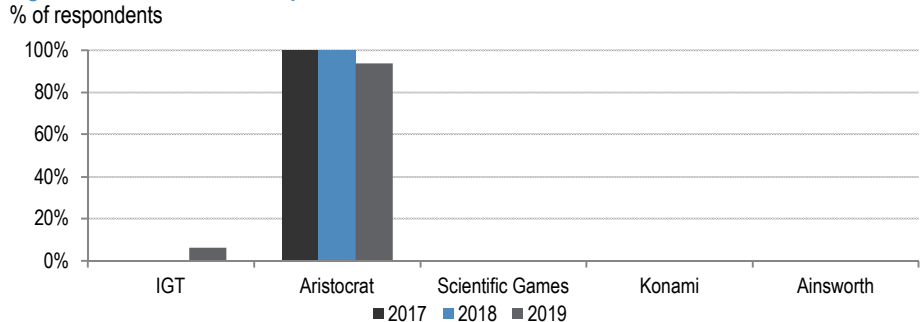


Source: J.P. Morgan. Avg Score (#1=5, #2=4, #3=3, #4=2, #5=1)

### Aristocrat has decreased slightly vs last year but still remains the clear favourite

We used a leading hospitality and gaming network to assist in obtaining our survey responses this year and our total respondents represent ~30% of the Australian slot market. Therefore due to increased results – we note a slight fall in the number of #1 ranks for Aristocrat.

Figure 23: % of number #1 responses



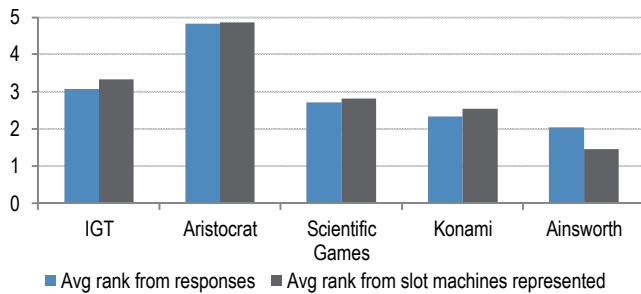
Source: J.P. Morgan.

## Which manufacturer is gaining the most floor share at present?

Aristocrat’s products have been growing in popularity over recent years with popular product launches. The results of our 10<sup>th</sup> annual survey mirror the positive sentiment towards Aristocrat shown in our 9<sup>th</sup> annual survey, with 92% (100% in 2018 - note increased sample size) of casinos and pubs claiming Aristocrat as the manufacturer gaining the most share. IGT and Scientific Games were second and third in our survey on a ‘top three basis’, followed by Konami. In 2018 Scientific Games was second, Ainsworth was third and IGT fourth.

**Figure 24: Casinos indicate Aristocrat is gaining the most floor share (% of number one responses)**

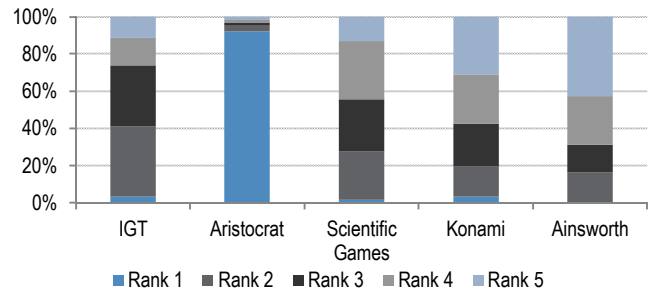
Average weight; weights: Rank 1 = 5, Rank 2 = 4, ..., Rank 5 = 1



Source: J.P. Morgan.

**Figure 25: Distribution of responses in 2019**

% of slot machines represented

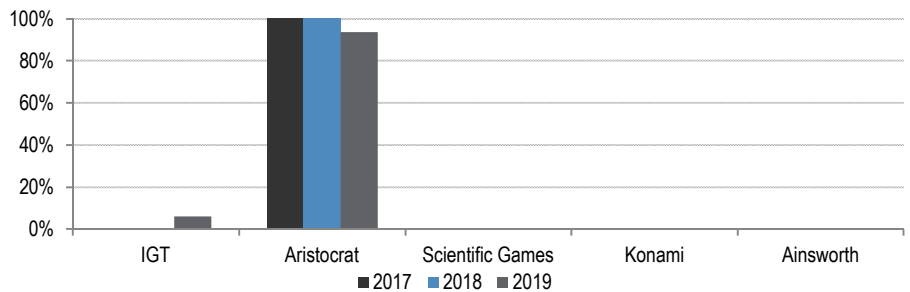


Source: J.P. Morgan.

In line with gaming performance, our latest survey shows Aristocrat is the number one manufacturer taking share.

**Figure 26: % of number one responses**

% of respondents



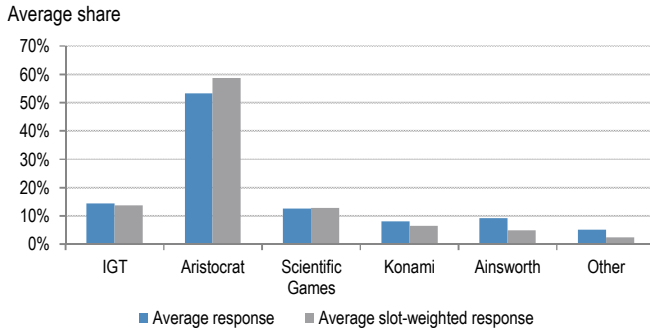
Source: J.P. Morgan.

### If you were starting your floor today, what percentage of your floor would you devote to each manufacturer?

We believe this question is a good proxy for long-term floor share estimates as casinos shift the composition of their floor with replacements. In reality, 53% of the floor dedicated to Aristocrat is unlikely as small venues skew this (10 machine hotels could easily dedicate 100% ALL versus 50 machine venues). We believe the upper boundary of share for ALL in an average sized venue reaches 40-45%.

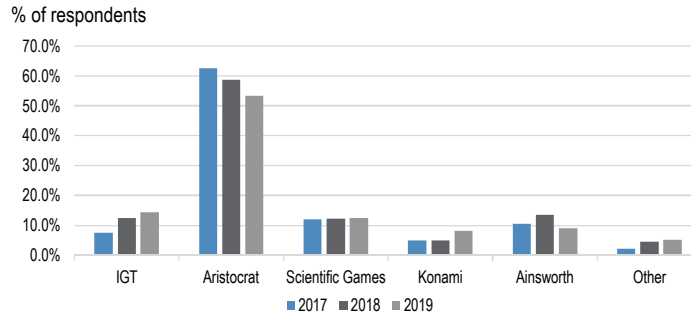
Following years of strong gaming performance, preference for Aristocrat product on a greenfield floor remains high. In our most recent survey the average casino would devote 53.3% (58.5% in 2018) of a new floor to Aristocrat. IGT has been gaining share, while Scientific Games is relatively flat. Konami increased while Ainsworth decreased.

Figure 27: Allocation between manufacturers on a new floor in 2019



Source: J.P. Morgan.

Figure 28: Shift in allocation to manufacturer over time – Aristocrat dominates



Source: J.P. Morgan.

Table 3: Shift in allocation to manufacturers over time

	2017	2018	2019
IGT	7.5%	12.5%	14.3%
Aristocrat	62.5%	58.5%	53.3%
Scientific Games	12.2%	12.3%	12.5%
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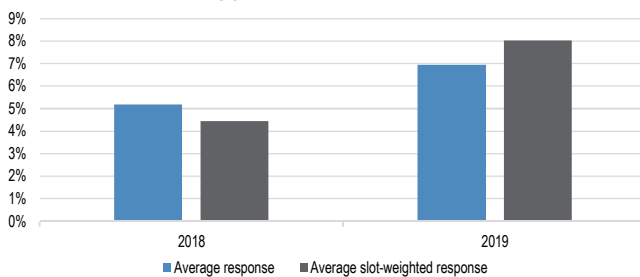
Source: J.P. Morgan estimates.

### What allocation of your wallet are you spending on manufacturers outside of the top five? How has this changed over the past two years?

The trend towards greater allocation to manufacturers outside the top 5 (IGT, ALL, Scientific Games, Konami, Ainsworth) is expected to continue as new players such as AGS Play, Wymac and Aruze attract greater attention. We observed 7-8% allocation in 2019 vs 4-5% in 2018. This is a direct response to the outsized share of ALL; to balance out the large numbers of helix machines, venues much seek differentiated cabinets to blend the floor.

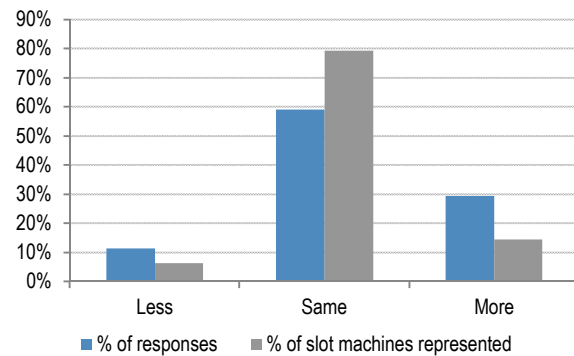
Market purchases from manufacturers outside the top five are becoming more popular. Smaller manufacturers have entered the market such as Wymac (skills based), Aruze, AGS Play, etc. which provide healthy diversification of the gaming floor for managers trying to attract the widest demographics. Greater spend on non-market leading manufacturers suggests casinos and clubs are open to trying new products.

Figure 29: Casinos intend to allocate 7-8% of their slot budget to manufacturers outside of Aristocrat, IGT, Sci Games, Konami and Ainsworth in the coming year



Source: J.P. Morgan.

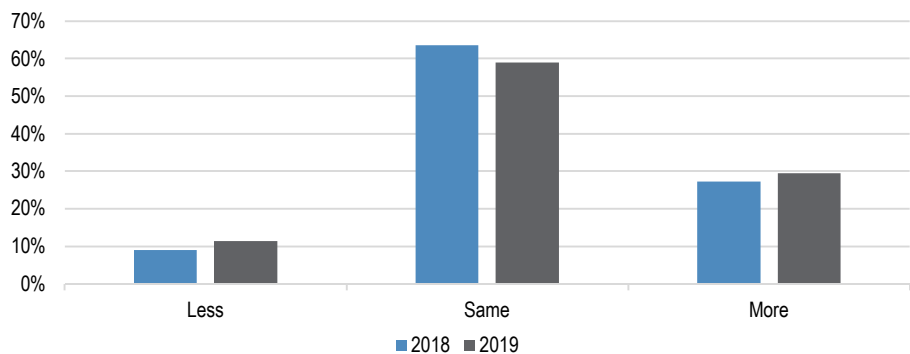
Figure 30: Casinos intend to allocate similar levels of their slot budget to manufacturers outside the top 5 in the coming year



Source: J.P. Morgan.

Figure 31: Change of spend on manufacturers outside of the top 5

% of respondents



Source: J.P. Morgan.

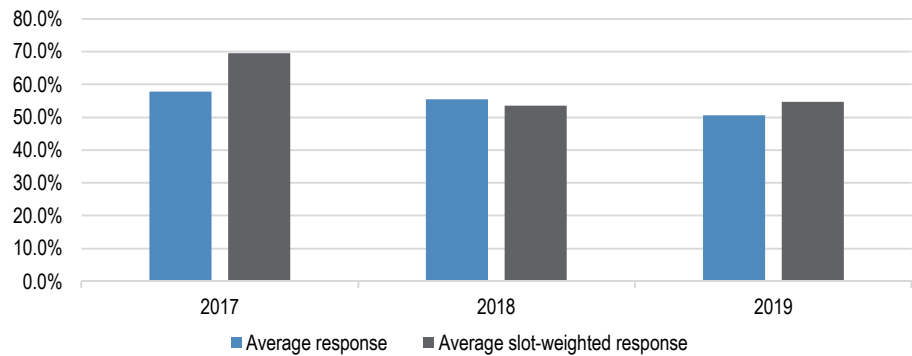
## Aristocrat

Aristocrat has gone from strength to strength over the past few years as a result of hit series like Dragon (Link/Cash). Following impressive results relative to the competition, we asked participants a few questions to gauge Aristocrat's current and one-year forward performance.

### What proportion of your floor is Aristocrat at present?

Survey participants indicated an average of 54.6% of the machines on their gaming floor were Aristocrat, which is up from 53.5% in 2018.

Figure 32: Aristocrat's share of casino floor continues to increase, although growth has slowed

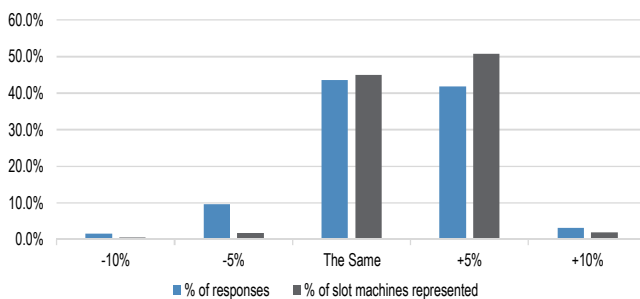


Source: J.P. Morgan.

### Do you intend to change the proportion of Aristocrat on your floor in the next 12 months?

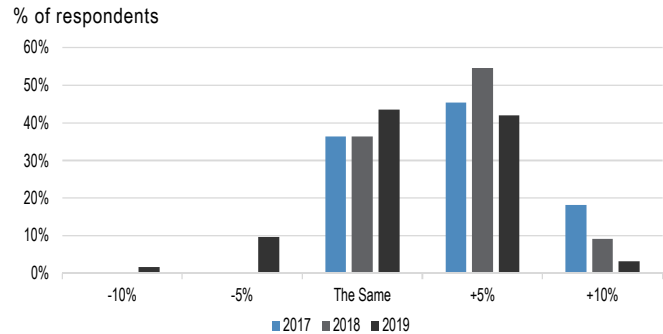
88.7% of the casinos and pubs surveyed intend to maintain or increase the allocation to ALL; 45.2% (64% in 2018) of casinos intend to increase allocation to ALL and 43.5% (36% in 2018) will look to maintain the proportion of ALL on their floor.

Figure 33: Casinos and pubs intend to increase the proportion of Aristocrat on their floor by an average +1.8%



Source: J.P. Morgan.

Figure 34: Casinos and pubs intend to maintain the proportion of Aristocrat on their floor



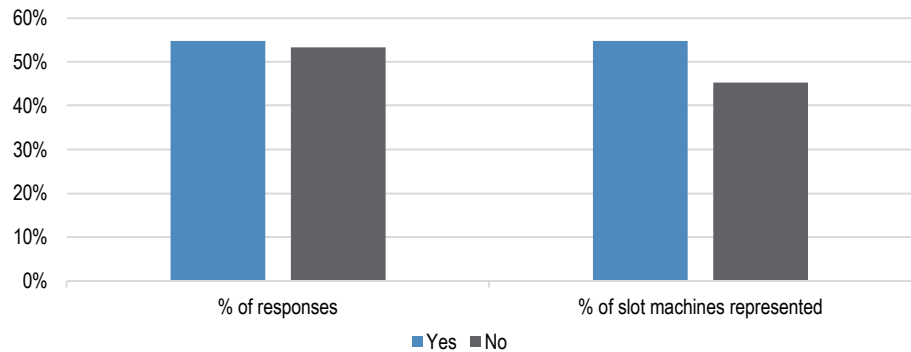
Source: J.P. Morgan.

**Other feedback:** game conversions prioritized over new cabinet purchases.

## Will you be buying Aristocrat's Dragon Link product, and if so, how many?

Response to Aristocrat's Dragon Link machine has been very positive, with participants representing 55% of slot machines covered by the survey indicating that they either intend to purchase or already own Dragon Link machines on their gaming floor.

Figure 35: Aristocrat's Dragon Link was highly anticipated



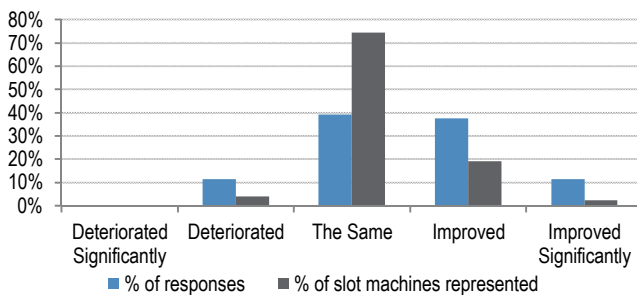
Source: J.P. Morgan.

**Other feedback:** purchases will depend on new game releases and some respondents noting 'as many as possible', '+5%', '+10%'.

## Has Aristocrat's game library changed in the past year?

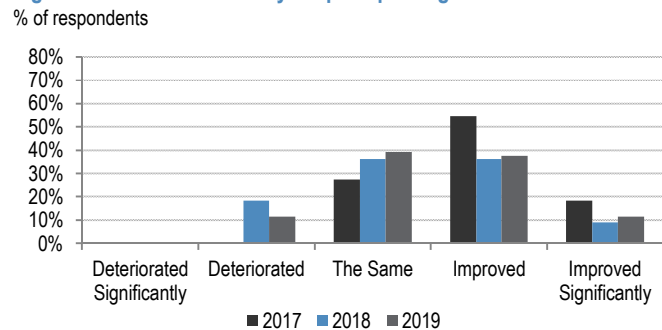
Aristocrat's performance throughout the life of our survey has remained strong, 49% of participants (up from 45% in 2018) believe that Aristocrat's game library has improved over the past 12 months. When the responses were weighted based on the slot machines represented, 75% say Aristocrat's game library is better than in 2018.

Figure 36: There is consensus agreement that Aristocrat's game library has improved in the past year



Source: J.P. Morgan.

Figure 37: Aristocrat's library keeps improving



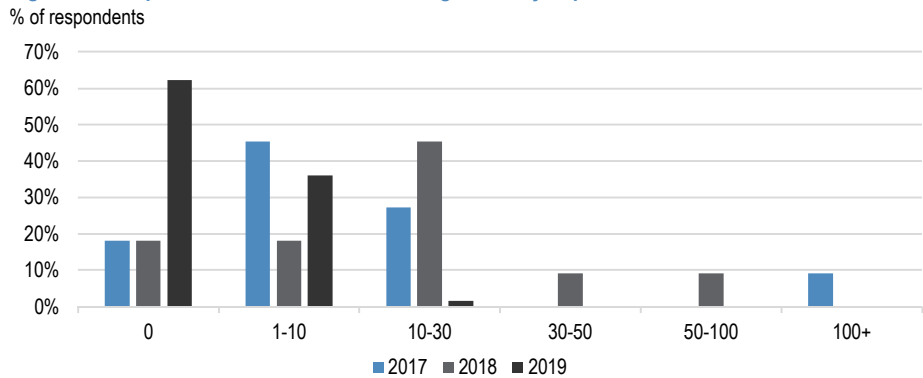
Source: J.P. Morgan.

## Ainsworth

### Will you be buying Ainsworth boxes in the next 12 months? If so, how many?

Ainsworth's product appears to be declining in popularity; 62% of respondents (18% in 2018) indicated they would not purchase Ainsworth product in the next 12 months. 36% of respondents were willing to purchase 1-10 Ainsworth machines in the next 12 months, up from 18% in 2018. Only 2% elected to buy 10-30 units, down from 45% in 2018.

Figure 38: Respondents indicated a decreasing tendency to purchase Ainsworth units



Source: J.P. Morgan.

Ainsworth has performed poorly in our survey in terms of performance and share gains, and we believe it has lost significant share in the last few years to new niche manufacturers. Overall poor game performance on new products with declining popularity of older products has challenged the business.

Ainsworth can benefit from a new management strategy (pending) until the confidence in a pipeline for replacement games dissipates & operators are no longer willing to risk poor performance of new cabinets purchases.

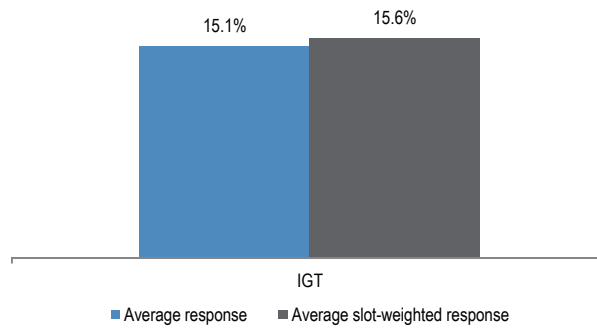


# IGT

## What proportion of your floor is IGT at present?

Survey participants indicated an average of 15.1% of the machines on their gaming floor were IGT.

Figure 39: IGT's share of casino floor

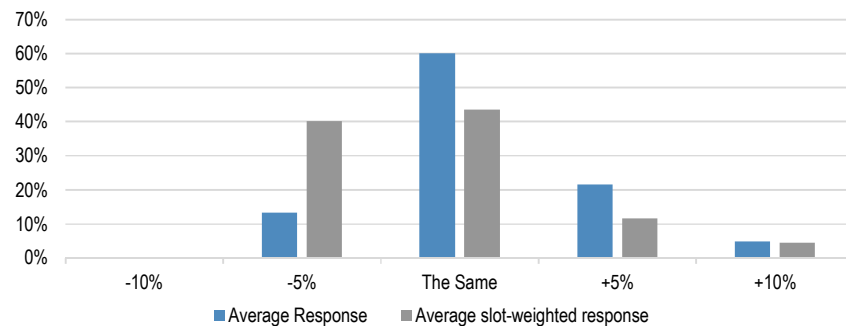


Source: J.P. Morgan.

## Do you intend to change the proportion of IGT on your floor in the next 12 months?

87% of the casinos and pubs surveyed intend to maintain or increase the allocation to IGT; 27% of casinos intend to increase allocation to IGT and 60% will look to maintain the proportion of IGT on their floor.

Figure 40: IGT's share of casino floor



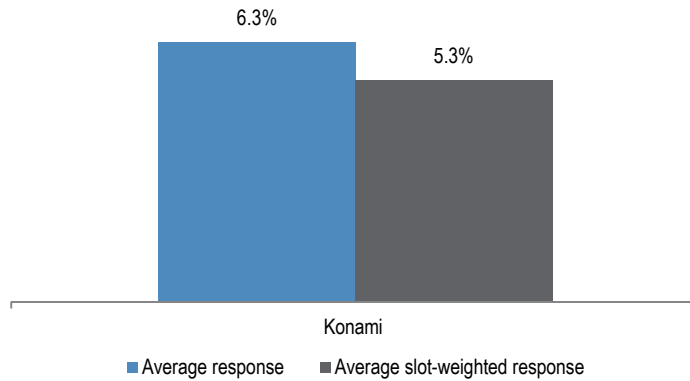
Source: J.P. Morgan.

## Konami

### What proportion of your floor is Konami at present?

Survey participants indicated an average of 6.3% of the machines on their gaming floor were Konami.

Figure 41: Konami's share of casino floor

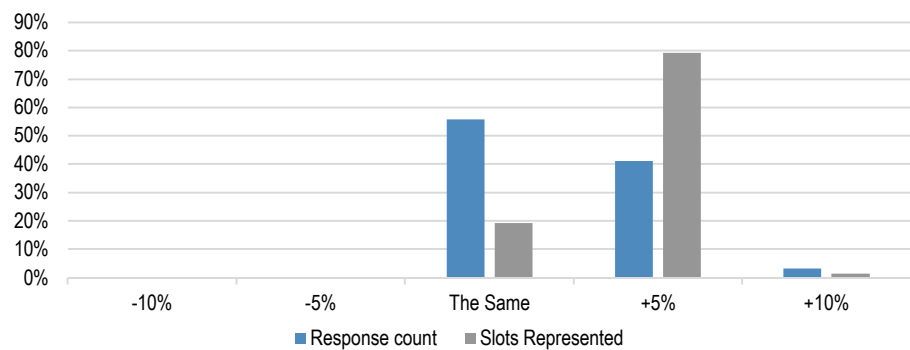


Source: J.P. Morgan.

### Do you intend to change the proportion of Konami on your floor in the next 12 months?

56% of casinos intend to maintain allocation to Konami and 44% will look to increase their proportion of Konami on their floor. There were no respondents who expressed interest in decreasing Konami's count.

Figure 42: Konami's share of casino floor



Source: J.P. Morgan.

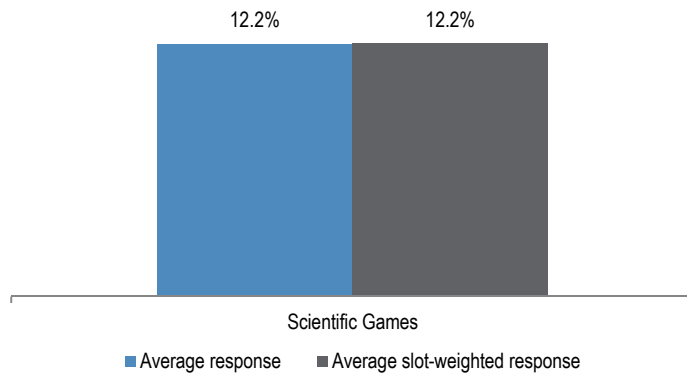
**Other feedback:** upgrading underperforming KP3 cabinets to the new Concerto cabinets.

## Scientific Games

### What proportion of your floor is Scientific Games at present?

Survey participants indicated an average of 12.2% of the machines on their gaming floor were Scientific Games.

Figure 43: Scientific Game's share of casino floor

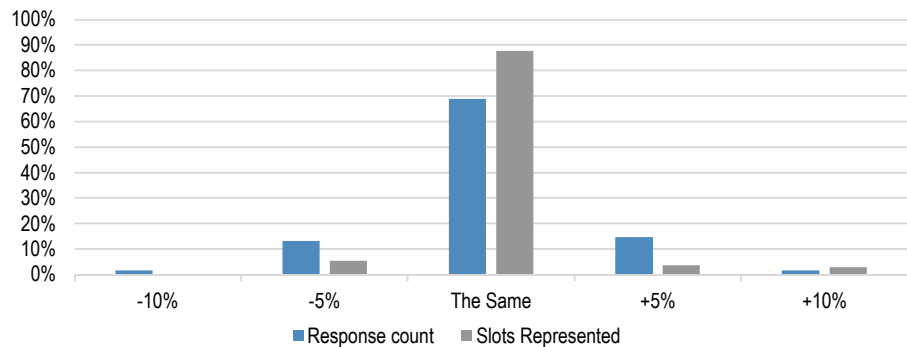


Source: J.P. Morgan.

### Do you intend to change the proportion of Scientific Games on your floor in the next 12 months?

69% of casinos intend to maintain allocation to Scientific Games and 17% will look to increase their proportion of Scientific Games on their floor.

Figure 44: Scientific Game's share of casino floor



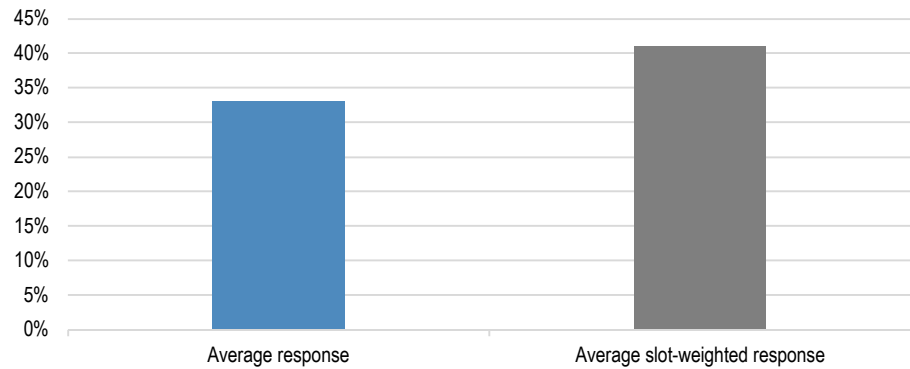
Source: J.P. Morgan.

## Linked Jackpots

### What percentage of your floor do you have with linked jackpots?

33% of average respondents noted that their floor consists of linked jackpots.

Figure 45: Linked Jackpots floor share %

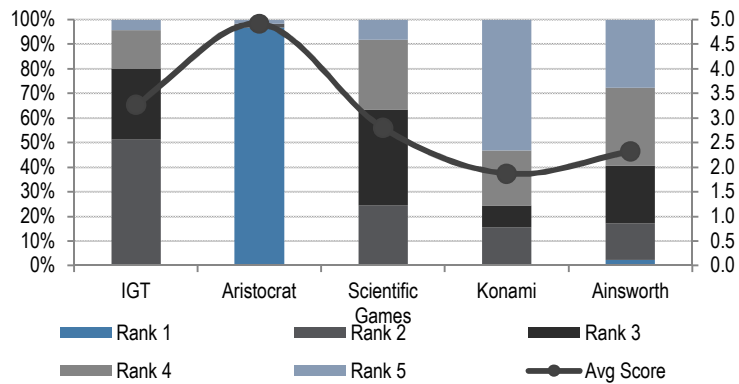


Source: J.P. Morgan.

### How would you rate the performance of linked jackpots by manufacturer?

Aristocrat is the clear #1 with an average rank of 4.9/5 followed by IGT (3.3), Scientific Games (2.8), Konami (2.5) and Ainsworth (1.5).

Figure 46: Linked Jackpots floor share - slot weighted



Source: J.P. Morgan. Avg Score (#1=5, #2=4, #3=3, #4=2, #5=1)

## Additional comments & outlook

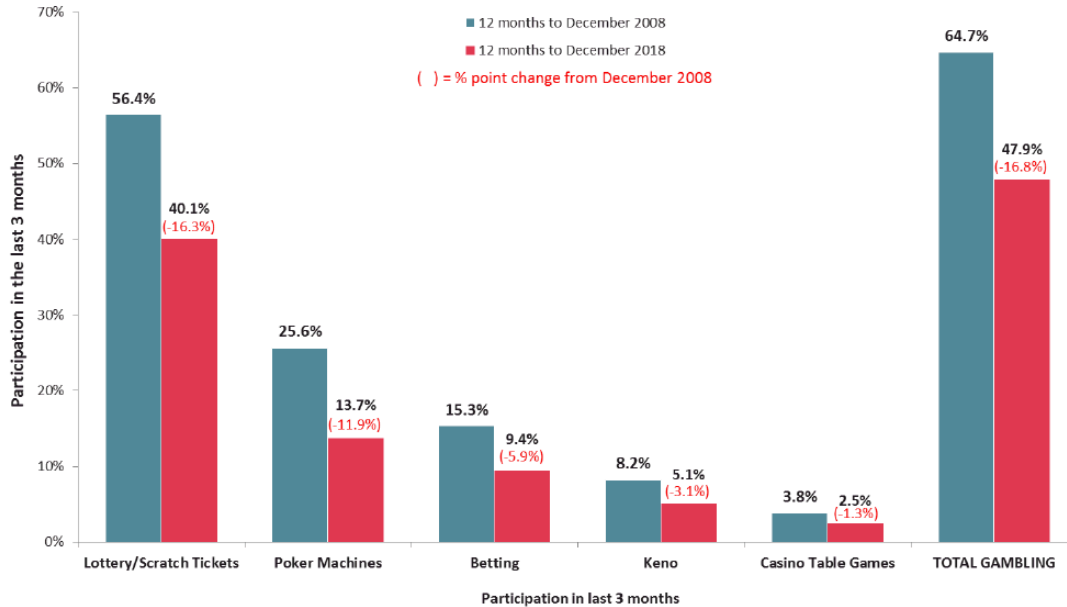
We highlight key feedback and commentary from the ~80 participants in this year's survey, representing almost 35% of the Australian slot market.

- The downturn in gaming spend is due to drought, low customer visitation levels (especially at low spend level), soft economic conditions, interest in EGMs, customer disposable income levels.
- Implementation of cashless gaming in VIC has impacted turnover.
- New products being released aren't comparable to Aristocrat's Dragon Link.
- Turnover growth is weak but RTP is continuing to move in favour of the player. This is influenced by players favouring Aristocrat's Dragon and Lightning products.
- Drop in retention and player spend levels is one of the main concerns as-is lack of sufficient/diversified game content e.g. low volatility, time on device, not just more hold and spin, etc.
- Maintaining existing machine range to attract new customers is difficult with a lack of innovation in games and too many linked products.
- Clubs noting loss of market share to hotels. Concentrating on the right product mix to satisfy occupancy and providing customers with a mix of product and service that the hotels are not providing due to their size and scale will be critical.
- Lower net returns, the 'multi-denom' machines are reducing net returns and are not attractive to the older demographic (70% of membership at various clubs). Increased turnover and clearance rates but decreased net revenue from the new games.
- Lack of competitive games from Aristocrat's competitors and the focus to have games at a higher RTP. And the lack of transparency with how the manufacturers show their RTP percentages.
- Older aged machines require new product and refurbishment. Electronic Table Systems (ETS) could be the new growth area.
- Losing lower tiered players as games are restructured for players who can increase their bets. Smaller players who cannot afford to get into the features are not enjoying the games.

### Trends in Australian gaming habits

Below we note decreased participation as a general trend across ANZ, however this trend does not necessarily equate to reduced profits. Many gaming venues and casinos are achieving above-market growth supplemented through loyalty programs.

**Figure 47: Australian gaming habits**  
**Gambling Participation by Category 2008 v 2018**



Source: Roy Morgan

**Customers are coming in fewer numbers.** Over the last decade, there has been a downward trend in the proportion of Australians who are gambling. In 2018, 47.9% of Australians gambled in the last three months, a 2.2% (0.3 million) drop since 2017 and a 16.8% (1.2 million) drop since 2008. This decline is greatest in poker machines and lottery/scratch tickets and is prevalent across all age groups.

A leading analytics consultancy, [Forecast Analytics](#) presented at the Australian Gaming Expo on the value of loyalty to address the top concerns (and shrinking expenditure) for gamblers in clubs/pubs/hotels/casinos. In particular, the opportunity for venues to better utilize data to improve customer attraction, retention, and share of wallet.



## Key tables across states and manufacturers

Table 2: NSW Game Performance (Turnover / Floor average) – August 2019 MTD

Manufacturer	Game	July	August	Change	July	August	Change
		Floor Avg	Floor Avg	%	Installed	Installed	#
ALL	Golden Century Dragon Link	2.21	2.23	0.9%	406	416	10
ALL	Happy And Prosperous Dragon Link	2.13	2.17	1.9%	381	390	9
ALL	Genghis Khan Dragon Link	2.02	2.08	3.0%	309	318	9
ALL	Panda Magic Dragon Link	1.98	1.97	-0.5%	338	342	4
ALL	Autumn Moon Dragon Link	1.95	2.01	3.1%	229	234	5
ALL	Genghis Khan Dragon Ca\$H	1.8	1.83	1.7%	257	271	14
ALL	Peacock Princess Dragon Link	1.75	1.68	-4.0%	301	304	3
ALL	Peace And Long Life Dragon Link	1.71	1.72	0.6%	241	251	10
ALL	Spring Festival Dragon Link	1.67	1.65	-1.2%	305	302	-3
ALL	Peace And Long Life Dragon Ca\$H	1.54	1.46	-5.2%	190	195	5

Source: Maxgaming and J.P. Morgan estimates

Table 3: QLD Game Performance (Turnover / Floor average) – August 2019 MTD

Manufacturer	Game	July	August	Change	July	August	Change
		Floor Avg	Floor Avg	%	Installed	Installed	#
ALL	Genghis Khan Dragon Link	2.47	2.46	-0.4%	153	157	4
ALL	Genghis Khan Dragon Ca\$H	2.44	2.38	-2.5%	47	48	1
IGT	Treasure Of Atlantis Bubble Blast Link	2.29	1.83	-20.1%	15	39	24
IGT	Genies Wishes Bubble Blast Link	2.22	1.95	-12.2%	25	54	29
ALL	Spring Festival Dragon Link	2.16	1.99	-7.9%	161	162	1
ALL	Spring Festival Dragon Ca\$H	2.16	2.3	6.5%	30	31	1
ALL	Peacock Princess Dragon Ca\$H	2.1	1.99	-5.2%	29	29	0
ALL	Peace And Long Life Dragon Link	2.09	2.15	2.9%	125	128	3
ALL	Peacock Princess Dragon Link	2.07	2.07	0.0%	159	161	2
ALL	Peace And Long Life Dragon Ca\$H	1.85	1.93	4.3%	32	33	1

Source: Maxgaming and J.P. Morgan estimates

ALL's products continue to outperform in Victoria with Happy and Prosperous DL topping @1.87x floor average.

Table 4: VIC Gamer Performance (Turnover / Floor Average) - July 2019

Manufacturer	Game	July	July	July
		Floor Avg	Installed	Time in Market
ALL	Happy And Prosperous Dragon Link	1.87	119	17 Mths
ALL	Spring Festival Dragon Link	1.72	28	4 Mths
ALL	Panda Magic Dragon Link	1.7	107	17 Mths
ALL	Spring Festival Dragon Ca\$H	1.57	184	8 Mths
ALL	Autumn Moon Dragon Link	1.56	96	19 Mths
ALL	Peacock Princess Dragon Ca\$H	1.53	165	8 Mths
ALL	Peacock Princess Dragon Link	1.51	20	4 Mths
ALL	Fantastic Rewards Welcome To Fan...	1.46	30	5 Mths
ALL	Eyes Of Fortune Lightning Link	1.39	122	8 Mths
Ainsworth	Arabian Fire	1.37	17	3 Mths

Source: Maxgaming and J.P. Morgan estimates.

- IGT had the highest floor average @ 1.39x and an installed base of 8 EGMs in NSW clubs.



**Table 5: NSW Clubs Games Released Last 3 Months**

Manufacturer	Game	Floor Avg	Installed	Time in Market
IGT	Eastern Empress Hyper Hits Link	1.39	8	2 Mths
Scientific	Cape Cash Rising Riches	1.2	132	3 Mths
Konami	Fortune Phoenix Money Trails	1.19	4	31 Days
Scientific	Jewel Of Venice Rising Riches	1.16	16	13 Days
Konami	Shinobi All Aboard	1.1	34	3 Mths
Other	Witches Coven Pop Shots	1.01	8	24 Days
IGT	Cleopatra Rising	0.99	10	3 Mths
Atlas	China League	0.94	46	2 Mths
Ainsworth	Arabian Fire	0.9	6	3 Mths
Ainsworth	Sweet Chilli Link	0.89	39	2 Mths

Source: Maxgaming and J.P. Morgan estimates. Note: First 10 included.

- Aristocrat had the best floor average @ 2.64x and an installed base of 22 EGMs in QLD clubs.

**Table 6: QLD Clubs Games Released Last 3 Months**

Manufacturer	Game	Floor Avg	Installed	Time in Market
Aristocrat	Raging Bull Lightning Link	2.64	22	2 Mths
Aristocrat	Mine Lightning Link	2.31	20	2 Mths
IGT	Genies Wishes Bubble Blast Link	1.95	54	3 Mths
Aristocrat	Dragons Riches Lightning Link	1.86	20	2 Mths
Aristocrat	Fire Idol Lightning Link	1.84	16	2 Mths
IGT	Treasure Of Atlantis Bubble Blast Link	1.83	39	3 Mths
Ainsworth	Sweet Chilli Link	1.64	4	2 Mths
Ainsworth	Legends Of Giza Link	1.41	5	2 Mths
Scientific	Jewel Of Venice Rising Riches	1.37	6	23 Days
Scientific	Monopoly Hotel Tycoon	1.35	45	2 Mths

Source: Maxgaming and J.P. Morgan estimates. Note: First 10 included.

- IGT had the highest floor average @ 1.44x and an installed base of 3 for Dragon Sphere in VIC networks.

**Table 7: VIC Games Released Last 3 Months**

Manufacturer	Game	Floor Avg	Installed	Time in Market
IGT	Dragon Sphere	1.44	3	2 Mths
Ainsworth	Arabian Fire	1.37	17	3 Mths
Ainsworth	South Of The Border	1.29	17	3 Mths
Konami	Fortune Pots Repeat Fever	1.28	4	3 Mths
Konami	Sweet Fortune Repeat Fever	1.24	4	3 Mths
ALL	Green Blade Mighty Coins	1.23	5	3 Mths
Scientific	Jin Ji Bao Xi Fortunes	1.19	11	3 Mths
ALL	Mighty Coins Red Blade	1.18	5	3 Mths
Ainsworth	Egyptian Wealth Mad Millions	1.18	4	3 Mths
IGT	Multistar Hot Diamonds	1.13	9	3 Mths

Source: Maxgaming and J.P. Morgan estimates. Note: First 10 included

**Companies Discussed in This Report** (all prices in this report as of market close on 09 September 2019)  
Aristocrat Leisure LTD (ALL.AX/A\$29.86/Overweight)

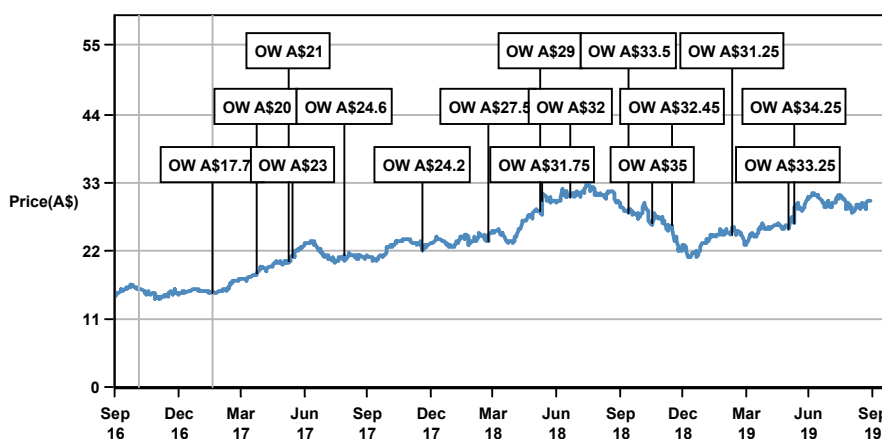
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Aristocrat Leisure LTD (ALL.AX, ALL AU) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Jan 21, 2001. All share prices are as of market close on the previous business day.  
Break in coverage Oct 17, 2016 - Jan 31, 2017.

The chart(s) show J.P. Morgan’s continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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**Coverage Universe: Carducci, Donald N:** Aristocrat Leisure LTD (ALL.AX), Crown Resorts Limited (CWN.AX), Incitec Pivot Ltd (IPL.AX), Nufarm Limited (NUF.AX), Orica Limited (ORI.AX), Star Entertainment Group Limited (SGR.AX), Tabcorp Holdings (TAH.AX)

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IB clients*	52%	49%	36%
JPMS Equity Research Coverage	42%	44%	14%
IB clients*	76%	65%	56%

\*Percentage of subject companies within each of the "buy," "hold" and "sell" categories for which J.P. Morgan has provided investment banking services within the previous 12 months.

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