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The Blenheim Report

Numbers

Gaming Sector

December 2014



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GAMING (\$'000)

Company	Revenue FY 2014/ Calendar 2013	Revenue FY 2013/ Calendar 2012	EBITDA FY 2014	EBITDA FY 2013	EBITDA Margin 2014 %	EBITDA Margin 2013 %	EBIT FY 2014/ Calendar 2014	EBIT FY 2013/ Calendar 2013	EBIT Margin 2014/ 2013 %	NPAT FY 2014/ Calendar 2013	NPAT FY 2013/ Calendar 2012	NPAT Margin 2014 %	NPAT Margin 2013 %	EPS FY14/ 2013 (cents)	EPS FY13/ 2012 (cents)	Total Dividend FY 2014 (cps)	Total Dividend FY 2013 (cps)
Ainsworth Game Technology	244,100	198,100	89,400	74,100	36.6	37.4	79,100	66,000	32.4	61,600	52,200	25.2	26.3	19.0	16.0	10.0	8.0
Ainsworth Australia	143,300	124,400															
Ainsworth Americas	90,400	62,500															
Ainsworth Rest of the World	10,400	11,100															
Aristocrat Leisure	870,300	813,800	209,800	188,100	24.1	23.1	161,300	145,300	18.5	118,100	107,200	13.6	13.2	20.7	19.4	16.0	14.5
Aristocrat Australia & New Zealand	223,800	192,300															
Aristocrat Americas	459,700	421,900															
Aristocrat Rest of World & Japan	186,800	199,600															
Crown Resorts ¹	2,935,400	2,894,400	782,700	758,300	26.7	26.2	537,800	520,200	18.3	640,000	473,200	21.8	16.3	96.44	67.40	37.0	37.0
Crown Australian Resorts	2,814,800	2,776,300	803,400	787,500	28.5	28.4											
Crown Melco Crown Ent ²										291,200	152,300						
Echo Entertainment ³	1,973,100	1,901,800	439,100	391,400	22.2	20.6	293,400	245,500	14.9	158,200	126,900	8.0	6.7	12.9	10.1	8.0	6.0
Echo The Star	1,327,500	1,243,400	298,800	260,300	22.5	20.9	208,900	165,700	15.7								
Echo Queensland Casinos	645,600	658,400	140,300	131,100	21.7	19.9	84,400	79,800	13.1								
SkyCity ⁴ (AUD)	839,100	746,800	260,200	240,500	31.0	32.2	188,200	179,700	22.4	111,500	107,200	13.3	14.3	19.2	18.6	18.0	16.0

GAMING (\$'000)

Company	Revenue FY 2014/ Calendar 2013	Revenue FY 2013/ Calendar 2012	EBITDA FY 2014	EBITDA FY 2013	EBITDA Margin 2014 %	EBITDA Margin 2013 %	EBIT FY 2014/ Calendar 2014	EBIT FY 2013/ Calendar 2013	EBIT Margin 2014/ 2013 %	NPAT FY 2014/ Calendar 2013	NPAT FY 2013/ Calendar 2012	NPAT Margin 2014 %	NPAT Margin 2013 %	EPS FY14/ 2013 (cents)	EPS FY13/ 2012 (cents)	Total Dividend FY 2014 (cps)	Total Dividend FY 2013 (cps)
SkyCity NZ Casinos (NZD)	596,000	577,900	237,000	232,500	39.8	40.2											
SkyCity Australian Casinos (NZD)	374,000	367,800	87,600	95,000	23.4	25.8											
Tabcorp Holdings ⁵	2,039,800	2,003,200	486,100	463,900	23.8	23.2	321,700	312,800	15.8	149,900	139,100	7.3	6.9	17.2	18.9	16.0	19.0
Tabcorp Wagering	1,574,700	1,558,000	282,200	265,000	17.9	17.0	175,400	167,300	11.1								
Tabcorp Media & International	220,400	207,600	68,500	67,000	31.1	32.3	58,700	57,700	26.6								
Tabcorp Gaming Services	98,100	86,300	67,000	58,300	68.3	67.6	39,700	37,500	40.5								
Tabcorp Keno	203,900	205,400	72,200	75,500	35.4	36.8	51,700	52,200	25.4								
Tatts Group	2,868,300	2,950,400	498,400	490,200	17.4	16.6	414,500	406,100	14.5	226,600	211,200	7.9	7.2	14.1	17.9	13.5	15.5
Tatts Lotteries	1,922,800	2,008,600	296,600	294,600	15.4	14.6	271,500	269,500	14.1								
Tatts Wagering	642,300	655,700	160,800	173,900	25.0	107.6	144,100	155,600	22.4								
Tatts Gaming	324,700	307,200	76,300	69,800	23.5	22.7	51,300	44,100	15.8								

¹ Normalised results have been used by Crown, and have been adjusted to exclude the impact of any variance from theoretical win rate on VIP program play and pre-opening costs. The difference between reported NPAT before significant items of \$702.5m and normalised NPAT of \$640m is due to an above theoretical result on VIP program play in Crown's Australian casinos of \$73.9m, partially offset by a below theoretical result at Crown's Aspinall of \$7.8m and an adjustment to the equity accounted share of NPAT from MCE of \$3.6m to exclude the impact of an above theoretical win rate on VIP play and pre-opening costs.

² Crown's share of Melco Crown Entertainment shown.

³ Normalised results for Echo reflect the underlying performance of the business as they remove the inherent volatility of the international VIP Rebate business. Normalised results are adjusted using an average win rate of 1.62% and average number of turns of front money of 13 times based on the 5 year average to the end of FY13. Normalisation rates applied to the FY14 results are consistent with FY13 rates.

⁴ SkyCity results are normalised, and set International Business win to theoretical win rate of 1.35% and adjusts for certain revenue and expense items.

⁵ Tabcorp NPAT from continuing operations before significant items; FY14 NPAT from discontinued operations of \$19.5m comprises the Health Benefit Levy expense.

PROFIT GUIDANCE

25 NOVEMBER 2014

The Australian Financial Review

Aristocrat Leisure posts \$16m loss

Gaming machine maker Aristocrat Leisure's chief executive Jamie Odell has not ruled out selling the company's beleaguered Japanese business, if it fails to perform after the release of its next two games. Mr Odell said Japan Pachislot had been hampered by a changing regulatory environment.

"In Japan, the regulatory changes were backdated changes so the games which were under development were not able to be completed in their current form," he said.

"We knew we had to de-risk the business. The broader position is we wanted to tidy up Aristocrat and focus on our core business and reduce management distraction going forward."

The comments come after the business reported a statutory loss of \$16.4 million for the full year to September 30, driven largely from a \$78 million write-down in value of Japan Pachislot and the sale of Aristocrat's Lotteries business. Mr Odell said he would look at all options for the Japanese business.

"What we do have is two games in process which we'd like to commercialise. The success of those games will influence our decisions going forward," he said. "I think the regulatory changes will continue to cause declines in the Japanese pachislot market."

Citi gaming analyst Michael Goltsman said the Japan write-downs would not be a major concern to investors. "Japan made zero sales in the last six months due to regulatory changes, but in terms of our valuation for Aristocrat overall, it's [Japan Pachislot] not meaningful. It's a very small part of the business."

Aristocrat, which specialises in pokie machines and gaming terminals, posted a 10.2 per cent jump in normalised profit after tax to \$118.1 million and revenue was up 6.9 per cent to \$870.3 million. As well as the write-down on its Japan business, it lost \$43.4 million from the sale of its non-core Lotteries business.

Mr Goltsman said the significant items had affected the headline numbers, but overall the company had performed well. "When you exclude Japan and the other one offs, it really reinforced the key reasons why we still recommend the stock as a buy," he said. "Citi was forecasting NPAT of \$113 million and the results came in at \$118.1 million. The key difference was the Australian market where Aristocrat won market share off the back of new product."

Mr Odell said the company had successfully grown its premium US business and built up its digital business to \$50 million in revenue. Known for its pop culture inspired games, in 2015 Aristocrat intends to launch Sons of Anarchy, the Big Bang Theory, Game of Thrones and Britney Spears inspired pokies. In October, Aristocrat acquired United States-based business Video Gaming Technologies, which Mr Odell said would help it grow market share in the region.

"The big change people will see in 2015 is the acquisition adding value to our profit and cash flows," he said.

He also identified the company's digital arm as one likely to grow profits. On Tuesday Aristocrat shares closed up 1.97 per cent at \$6.73.

Source: http://www.afr.com/p/business/companies/aristocrat_leisure_posts_loss_s9dkAHrmH7ulwetGdaM22L

19 NOVEMBER 2014

The Australian Financial Review

Ainsworth Game Technology shares sink on profit warning

Investors have dumped shares in Ainsworth Game Technology after the poker machine maker said falling local sales would lead to a drop in profit in the first half of 2014-15. The company expects overall sales of pokies for the 2015 financial year will be higher than the previous year, chief executive Danny Gladstone told shareholders at the annual meeting in Sydney on Wednesday.

But a skew towards buying in the second half in the North American market and softness in the domestic market will hit revenue in the first half, he said. "Domestic revenue for the first half of 2014-15 is expected to be similar to the second half of 2013-14 and down approximately 30 per cent compared to the previous corresponding period in 2014," Mr Gladstone said.

"Given the expected lower domestic revenue in half one of 2014-15, the company advises that it expects to report a lower profit in half one, compared to the corresponding period, however in line with the second half of 2013-14."

The stock closed down 8.1 per cent at \$2.50 on Wednesday, after dropping by as much as 12 per cent during the day.

Source: http://www.afr.com/p/business/companies/ainsworth_game_technology_shares_Vp2Y8RnWHXw4w21qAa3HxH

19 NOVEMBER 2014

news.com.au

Ainsworth warns H1 profit to be lower

SHARES in poker machine developer Ainsworth Game Technology have fallen more than eight per cent after the company warned that profit would fall in the first half of the 2014/15 financial year. BUT Ainsworth chief executive Danny Gladstone said profit for the full year should be ahead of the 2014 result.

Mr Gladstone said revenue from Australian operations in the first half was expected to be down about 30 per cent on the prior corresponding period. The revenue decline would be largely due to the timing of product approvals and was expected to be regained in the second half.

"Given the expected lower domestic revenue in half one of FY15 (the 2014/15 financial year), the company advises that it expects to report a lower profit in half one compared to the corresponding period," Mr Gladstone told shareholders at the company's annual general meeting in Sydney.

Mr Gladstone said domestic and international revenues, primarily from the key North American market, would be more heavily weighted to the second half of the year.

"It is expected that given the weighting of international revenues more aligned to the second half, overall profitability for FY15 should be ahead of the previous 2014 year," he said.

Source: <http://www.news.com.au/finance/business/gaming-firm-to-set-up-another-social-casino/story-e6frfkur-1227128361903>

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7 NOVEMBER 2014

The Sydney Morning Herald

James Packer's Crown battles the odds in Macau

China's corruption crackdown and smoking bans deterring gamblers in Macau hurt earnings at James Packer's Crown Resorts just as the casino operator has become increasingly reliant on its business in the region for growth. Battling soft consumer sentiment at its Melbourne and Perth casinos, Crown has previously delivered a string of solid results thanks to rapid growth at Melco Crown - its joint venture with Chinese gambling heir Lawrence Ho that operates two casinos in Macau and has another two in development.

But Melco's soft result in its latest quarter underlines why analysts, according to Bloomberg, expect Crown's earnings before interest and tax to fall 7 per cent to \$557 million in the 2015 fiscal year. Melco, in which Crown and Chinese gambling heir Lawrence Ho both hold 33.6 per cent stakes, said revenue fell 10 per cent to \$US1.1 billion (\$1.3 billion) in the three months ended September 30.

Adjusted earnings before interest, tax, depreciation and amortisation also slid 10 per cent, falling to \$US305.7 million.

Source: <http://www.smh.com.au/business/james-packers-crown-battles-the-odds-in-macau-20141107-11ikn8.html>

1 NOVEMBER 2014

The Sydney Morning Herald

Online bookies put squeeze on Tatts, Tabcorp

Tatts reported strong growth in earnings on Thursday but flagged its wagering business would need further investment as competition with corporate bookmakers intensifies. Earlier, Tatts' wagering rival, Tabcorp, pushed the case for regulation of the sector to counter the unfair advantage corporate bookmakers enjoyed in states and territories that have loose regulation and more favourable tax regimes.

Tatts reported that first-quarter earnings after tax from its continuing operations were up 23 per cent year on year.

Chief executive Robbie Cooke said the group also had a "positive" outlook for the second quarter but said it would not mirror the strong first quarter as the company would be cycling tough comparable figures from the previous December quarter when it enjoyed an exceptional run of lottery jackpots.

"Our intention is to lift our marketing, both traditional and online, and product development activities in our wagering operations ... as part of our strategy for re-energising our wagering franchise. This investment is being made to drive future growth," Mr Cooke said.

Some analysts predict a harsh future for traditional tote operators such as Tabcorp and Tatts due to the change in channel and product mix, along with the arrival of sophisticated digital competition.

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Tabcorp joined the list of companies reporting soft consumer conditions at its AGM on Thursday. It told investors that group revenue was up 3.1 per cent to \$503.9 million for the three months to September 30, in line with its trading performance in the second half of last year. Wagering revenue growth of 5.4 per cent came on the back of "continued strong growth in fixed odds and digital wagering".

But Tabcorp said the "softer retail consumer environment negatively impacted on the performance of its Keno business, which barely grew for the first quarter [and] the retail-only Trackside product, which grew 2.2 per cent".

Source: <http://www.smh.com.au/business/online-bookies-put-squeeze-on-tatts-tabcorp-20131031-2wvxz.html>

30 OCTOBER 2014

The Sydney Morning Herald

Echo sees earnings rise on high roller bets

Echo Entertainment Group chief executive Matt Bekier said the casino operator is stealing high roller business from rival James Packer's Crown Resorts. Echo's international VIP rebate business, which refers to foreign punters who receive incentives like luxury hospitality and cash rebates in return for committing to gamble certain amounts, has had a record breaking start to the year.

The performance was backed up by strong growth in the domestic business too, which lead Echo to say earnings in the first six months of the 2015 fiscal year could rise by almost a third.

The company, which has casinos in Sydney, Brisbane and the Gold Coast, said in the first 17 weeks of the financial year, international VIP rebate turnover rose 78 per cent to \$16 billion. Turnover refers to the total amount bet, while revenue is the amount kept by the house.

At its AGM a fortnight ago, Crown said VIP turnover in the first 14 weeks of the year at its Melbourne and Perth casinos was flat. Mr Bekier would not be drawn on the reason behind the stark contrast, but agreed it showed Echo was likely stealing VIP share. "We're growing and they're not," he said.

Echo shares soared 6.2 per cent to a 12 month high of \$3.76. The stock has bounced back to values last hit in May 2013 before Mr Packer dumped his stake in Echo. The move sparked a slump to all-time lows in early 2014, before Mr Bekier took the

Source: <http://www.smh.com.au/business/echo-sees-earnings-rise-on-high-roller-bets-20141030-11eas3.html>

29 OCTOBER 2014

The Australian

Tatts lifts revenues in Sept qtr

Tatts has delivered a lift in revenues from its wagering and lotteries divisions in the first quarter of fiscal 2015. The lottery and gaming company told shareholders today at its annual general meeting it had continued the strong start to the year it had reported in August at the company's full-year results announcement.

Tatts group has seen a positive turnaround in its wagering business, with first quarter wagering revenue up 1 per cent on the prior corresponding period.

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Tatts said it had seen a strong run of jackpots in lotteries with 10 draws above \$15 million in the year to date, against eight in the prior year. This performance has delivered a 12 per cent lift in first quarter lotteries revenues on the same period last year, the company said. The company said it will be launching its new website soon, and will reveal their new wagering brand in the next month.

Managing director, Robert Cooke, said, "In addition we are aiming to roll out the very popular New South Wales Lucky Lotteries game across all our markets".

Source: <http://www.theaustralian.com.au/business/latest/tatts-lifts-revenues-in-sept-qtr/story-e6frg90f-1227106077634>

15 OCTOBER 2014

The Sydney Morning Herald

FIFA World Cup lifts Tabcorp's revenues

Heavy betting on the final stages of the 2014 FIFA World Cup has boosted the performance of wagering giant Tabcorp, which has revealed a 6.6 per cent lift in first-quarter revenues. Chief executive David Attenborough said Tabcorp had started the 2015 financial year well.

"In wagering, our investment in recent years in high-growth areas such as digital and fixed odds is paying off," Mr Attenborough said in a statement. "We are achieving strong growth in these areas and the business, as a whole, has positive momentum."

In the three months ended September 30 Tabcorp reported a 6.6 per cent rise in revenue to \$537.4 million, compared to the same period last year. The wagering division reported the strongest revenue growth of 8 per cent, rising to \$415.9 million.

"Trading in [the first quarter] was supported by good performances over the period in both racing and sport, which included a successful end to the 2014 Soccer World Cup," the company said.

Source: <http://www.smh.com.au/business/fifa-world-cup-lifts-tabcorps-revenues-20141015-1167ch.html>

13 AUGUST 2014

The Motley Fool

Here's why Echo Entertainment Group Ltd shares are 6.6% higher today

What: Shares in casino operator Echo Entertainment Group Ltd (ASX: EGP) have rallied 6.6% by lunchtime today after releasing results which beat market forecasts. The stock has now gained over 39% since January when investors were anxious about the potential negative effect Crown Resorts Ltd's (ASX: CWN) entrance into the Sydney market would have on Echo's flagship 'The Star' casino.

So what: The results show that on a normalised basis revenues grew 3.8% and net profit after tax soared 24.6% to \$158.2 million. The rise in profits was helped along by growth in both main gaming floor and private gaming room earnings at The Star, growth in slot machine earnings both at The Star and in Echo's Queensland operations, and a jump in The Star's international VIP rebate business.

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Now what: Management has commented that so far FY 2015 revenue growth has been broad based with all major properties delivering revenue growth at levels consistent with the second half of FY 2014 – this trading update bodes well for the current year. Some investors will rightly remain anxious about the upcoming tender process for a casino license in Brisbane, which will once again see Echo face-off against the James Packer-led Crown Resorts. Judging by Echo's share price gains post the Sydney decision, these concerns may turn out to be short lived.

Source: <http://www.fool.com.au/2014/08/13/heres-why-echo-entertainment-group-ltd-shares-are-6-6-higher-today/>



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