

Ainsworth Game Technology Ltd AGI (XASX) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
2.73 AUD	3.90 AUD	2.34 AUD	6.05 AUD	High	Narrow	Stable	Standard	Travel & Leisure

Synchronised Growth to Return in Fiscal 2016 for Ainsworth Game Technology

See Page 2 for the full Analyst Note from 18 Aug 2015

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The primary analyst covering this company does not own its stock.

Research as of 19 Aug 2015
Estimates as of 18 Aug 2015
Pricing data through 21 Sep 2015
Rating updated as of 21 Sep 2015

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst's Perspective 19 Aug 2015

Ainsworth Game Technology is an electronics gaming machine manufacturer, boasting a narrow economic moat furnished by its portfolio of licenses to sell into various jurisdictions. The company is led by one of the true pioneers of the industry in executive chairman Leonard Ainsworth. Having established itself as a top-three player in the mature domestic market, it is pursuing opportunities overseas where earnings are growing strongly and more licenses are being secured. All this is driven by the well-recognised quality of the company's machines and management's intellectual know-how in developing products which resonate with the end patrons. However, Ainsworth Game Technology is subject to various fickle factors, including financial health of venues, preferences of patrons, and timing of approvals for new products. It also competes against a number of bigger players who may develop more popular machines.

Key Investment Considerations

- ▶ Ainsworth Game Technology's products are well-established in the core Australian market, driven by the proven quality of its electronic game machines.
- ▶ Management is making exponential progress overseas, leveraging its core development and intellectual property to break into new regions, especially in the Americas.
- ▶ The growth outlook is tempered by fierce competitive dynamics in the electronic gaming machine industry, with the company competing against much larger players with deeper pockets.

Vital Statistics

Market Cap (AUD Mil)	880
52-Week High (AUD)	3.29
52-Week Low (AUD)	2.03
52-Week Total Return %	-10.2
YTD Total Return %	18.7
Last Fiscal Year End	30 Jun 2015
5-Yr Forward Revenue CAGR %	10.7
5-Yr Forward EPS CAGR %	12.9
Price/Fair Value	0.70

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	2016(E)	2017(E)
Price/Earnings	19.7	16.1	13.7	12.4
EV/EBITDA	—	—	8.6	7.4
EV/EBIT	—	—	10.4	8.9
Free Cash Flow Yield %	—	—	5.3	5.8
Dividend Yield %	—	—	3.9	4.2

Financial Summary and Forecasts (AUD Mil)

Fiscal Year:	2014	2015	2016(E)	2017(E)
Revenue	244	241	271	303
Revenue YoY %	23.2	-1.4	12.4	12.0
EBIT	78	66	84	99
EBIT YoY %	24.0	-16.1	28.5	17.5
Net Income, Adjusted	61	52	64	72
Net Income YoY %	21.6	-14.0	21.5	12.8
Diluted EPS	0.19	0.16	0.20	0.22
Diluted EPS YoY %	21.0	-14.2	22.3	12.8
Free Cash Flow	62	-11	45	51
Free Cash Flow YoY %	147.1	-117.2	-519.1	13.9

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Ainsworth Game Technology is involved in the design and development of electronic gaming machines which are supplied to clubs and casinos. The company is licensed to conduct this business in many jurisdictions with an increasing presence overseas, especially in the Americas. However, accounting for about 60% of the group revenue base, Australia remains the key market, one in which Ainsworth Game Technology is the number-three player with its machines typically enjoying a 14%-15% share on club gaming floors in New South Wales and Queensland.

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Morningstar Analysis

Augmenting the market share gain thesis in the mature Australian market is the company's overseas growth ambitions.

Synchronised Growth to Return in Fiscal 2016 for Ainsworth Game Technology 18 Aug 2015

Cutting through the fog of foreign exchange gains, Ainsworth Game Technology's fiscal 2015 result was a touch better than expected. Earnings before interest and tax, or EBIT, in North America surged 48% to AUD 38.1 million, while other foreign markets chimed in with even more impressive EBIT growth of 73% to AUD 28.7 million. These numbers further validate the international growth plank of our investment thesis on the company--one that we see as long-tailed, given the quality of its machines and still miniscule share of the installed bases overseas.

Much of the foreign spark was dimmed by the Australian business whose EBIT almost halved in fiscal 2015 to AUD 46.6 million. However, we see the domestic headwinds easing in fiscal 2016, with the recent lull in the product development cycle finally addressed with the new, just-launched, A600 cabinet (regulatory approval gained in New South Wales and Queensland, soon to be followed by Victoria) and a robust pipeline of new games. Indeed, our expectation of a recovery in Australia should see Ainsworth Game Technology returning to synchronised earnings growth across the group in fiscal 2016, especially with strong overseas momentum continuing into the current year.

Our forecasts are largely unchanged following the result and our fair value estimate of AUD 3.90 per share remains intact. Shares in Ainsworth Game Technology are trading below fair value, as the lack of visibility on earnings recovery in Australia continues to deter investor interest. However, we expect earnings growth across all the company's operating markets in fiscal 2016, while its healthy balance sheet provides significant comfort against unexpected turbulence in competitive dynamics or new product acceptance. We reiterate our narrow moat rating on the company--one that is underpinned by almost 200 unique jurisdictional licenses to manufacture and sell in Australia, the United States and various other countries.

Ainsworth Game Technology's fiscal 2015 bottom line was heavily boosted by AUD 25.6 million in foreign exchange gains from U.S. dollar currency movements at the interest line and the related translation of greenback-denominated assets on the reporting date. Excluding this from both years, fiscal 2015 normalised net profit after tax, or NPAT, fell 14% to AUD 52.5 million. This was slightly better than expected, though the final dividend of AUD 0.05 per share was AUD 0.02 lower than our estimate, albeit 100% franked.

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We were particularly impressed by the performance of Ainsworth Game Technology's machines in North America, with most exceeding the floor average. The result was further driven by new product-led market share gains and contributions from newly licensed jurisdictions. Given this backdrop and the continuing strong demand from Latin American markets, it is little wonder that the strong trading momentum in international markets has continued into the first quarter of the new fiscal year. In fact, we expect North American EBIT to grow a further 12% in fiscal 2106 while rest-of-world EBIT is forecast to increase 21%.

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Gaming Exhibition, has led to our expectation of a 17% rebound in domestic EBIT in fiscal 2016.

Conversion of EBITDA to operating cash flow was poor in fiscal 2015 at 46%. This was caused by inventory build-up at year end, in anticipation of robust sales on the back of new product launches. Furthermore, receivables also increased as a result of extended payment terms for some Latin American customers. However, we note that some of these receivables have been converted to cash since year end. In any case, Ainsworth Game Technology's balance sheet remains in a net-cash position to the tune of AUD 32 million as at end of June 2015, and with just AUD 9 million drawn from a AUD 30 million working capital debt facility.

Thesis 19 Aug 2015

Ainsworth Game Technology has a good track record in the electronic gaming industry and its products are generally regarded as above-average in terms of floor performance and patron acceptance. This is borne out in its products' share of gaming floor in the two key markets of New South Wales and Queensland, increasing from about 10% in 2012 to almost 15% currently. Furthermore, Ainsworth products' share of machine turnover on club floors in these markets

has expanded from mid-teens to about 20% currently during the same time frame. This augurs well for further inroads into clubs in Australia, as floor share typically follows turnover share, with venue operators always striving to provide patrons with the most popular machines. All this is underpinned by the significant intellectual property residing in the company--a critical competitive advantage which has been accumulated since the 1950s when the current executive chairman began in the gaming machine industry.

Augmenting the market share gain thesis in the mature Australian market is the company's overseas growth ambitions. It already sells into various U.S. states and other countries, with about 40% of group revenue currently generated from overseas and growing exponentially. Management is actively looking to penetrate further new markets, especially in the Americas.

On the other hand, this international foray comes with a number of risks. Quite apart from the vagaries of obtaining the appropriate licenses and approvals in new individual markets, entry into foreign markets also exposes Ainsworth to greater competition. A number of these players are much better resourced to invest greater sums into research and development the critical lifeblood of any electronic gaming manufacturer, especially in this rapidly changing technology-based industry.

The international operations also introduce currency risk. Consequently, Ainsworth's earnings can be volatile, depending on foreign exchange movements against the Australian dollar, particularly the U.S. dollar. The practical impact on reported results is partly offset by the fact that a proportion of gaming machine manufacturing costs are denominated in U.S. dollars, offering a partial natural hedge.

We note that about 15% of the group's sales is generated from participation, a business model where Ainsworth machines are placed in gambling venues in return for a

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fee-per-day arrangement (which can be fixed or performance-based). These revenue streams have a more recurring nature than direct sales of gaming machines, and are common in international markets. On the other hand, they place greater stress on working capital and could have a disproportionate impact on smaller players such as Ainsworth.

Finally, management is actively canvassing opportunities in the online, social and remote gaming server space. While this could become an interesting longer-term growth avenue, earnings contributions are likely to be immaterial in the next two to three years.

Valuation, Growth and Profitability 19 Aug 2015

Our fair value estimate for Ainsworth Game Technology is AUD 3.90 per share which implies a forward fiscal year price/earnings ratio of 20 times, enterprise/EBITDA of 12.0 times and a free cash flow yield of 3.7%.

We project revenue growth to average 11% per annum during the next three years, a slowdown from the hyper 17% per annum growth enjoyed during the past three years. The forecast top-line increase is primarily driven by continuing strong expansion into foreign markets, augmented by a falling Australian dollar against the U.S. dollar. On the profitability front, we expect EBITDA margin to average 38.7% during the next three years, above the 35.3% achieved during the past three years, as the higher-margin Australian earnings recover from the fiscal 2015 lull and overseas earnings continue to grow solidly.

Longer term, our top-line growth assumption is about 10% per annum and EBITDA margin is estimated to be 41.2%. We see these as sustainable as the company's products gain increasing acceptance in overseas markets, while costs remain tightly managed with the exception of research and development which we expect will be kept sacrosanct.

Scenario Analysis

Our analysis leaves us confident that the intrinsic value for Ainsworth Game Technology shares is between a bear case of AUD 2.40 and a bull case of AUD 6.00, leading to our high uncertainty rating.

Our bull case is derived on the long-term assumptions that Australian dollar/U.S. dollar exchange rate is 0.70 (versus 0.85 base case), Australian unit volume growth is 8.5% (versus 6.5% base case), North American unit volume growth is 13.0% (versus 8.0% base case), rest of world unit volume growth is 18.0% (versus 12.0% base case) and EBITDA margin is 46.5% (versus 41.2% base case).

Our bear case is derived on the long-term assumptions that Australian dollar/U.S. dollar exchange rate is 1.00, Australian unit volume growth is 2.5%, North American unit volume growth is 2.0%, rest of world unit volume growth is 6.0% and EBITDA margin is 35.6%.

Economic Moat

Ainsworth Game Technology benefits from a narrow economic moat.

The manufacture and distribution of gaming machines is subject to extensive regulatory controls. Companies require licenses from appropriate authorities before they can sell into the relevant jurisdictions. Having commenced as a gaming machine operator in 1999, Ainsworth is now licensed by every regulatory body in Australia, holds licenses in more than 20 U.S. states and more than 100 Indian tribal regions, and is registered with several provinces in Canada. It is also licensed in seven other countries, including Macau. The onerous barrier to entry that this intangible quality creates is the underpinning for Ainsworth's narrow economic moat.

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Morningstar Analysis

Overlaying this is the significant intellectual property, or IP, embedded in the company's DNA. The founder, executive chairman and major shareholder Leonard Ainsworth is a true pioneer in the electronic gaming industry, having established in 1954 what is now one of the largest global players in Aristocrat Leisure. Under his leadership, Ainsworth boasts the know-how in the intricacies of what drives gaming machine popularity, be it integrity of the underlying platform, robustness of the cabinet configuration, appeal of the cabinet/gameplay or the balance of volatility and quantum of payouts. A proven track record of popular game development plus continuing inroads into new markets testify to this IP strength.

Our narrow-moat assessment is further predicated on the observation that the markets for gaming machines are highly competitive. The company competes against a number of players who are bigger and in much better financial positions to invest in research and development. Furthermore, the cost for customers (casinos and clubs who purchase gaming machines) to switch suppliers is relatively low, especially if the quality of the machines is below expectations and/or their financial positions are under pressure.

Moat Trend

Ainsworth Game Technology's moat is currently stable.

The gaming industry in many jurisdictions is increasingly subject to regulations dealing with responsible gaming. Consequently, there remains ever-present the risk of more stringent freezes and caps on gaming machine numbers in venues, whether in Australia or overseas. In addition, there is always the possibility that governments may increase taxes on game machine operators, leading to collateral negative impact on suppliers such as Ainsworth.

Offsetting this risk to the company's economic moat is its

continuing progress in obtaining licenses in new jurisdictions. Indeed, Ainsworth secured 43 new operating licences in fiscal 2015 and remains focused on breaking into additional overseas territories. Currently, the group has about 200 unique jurisdictional licenses. Furthermore, management consistently invests in research and development, acutely aware that this is a key driver of future profitability. This not only ensures a fertile pipeline of new products, software developments and platform enhancements, but also allows Ainsworth to maintain relevance in the market and preserve its economic moat.

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Bulls Say/Bears Say

Bulls Say

- ▶ Ainsworth Game Technology has a portfolio of very highly regarded electronic gaming machines in an industry with significant barriers to entry.
- ▶ Operating prowess and intellectual know-how is led by the founder and major shareholder, Leonard Ainsworth, one of the true pioneers in the gaming machine industry.
- ▶ The company is actively expanding into faster-growing international markets, leveraging its expertise in game development and experience in securing regulatory clearance.

Bears Say

- ▶ Like all electronic gaming machine operators, Ainsworth Game Technology is hostage to the financial health of casinos and venues purchasing its products. Consequently, the company is indirectly impacted by external factors such as economic conditions and credit markets.
- ▶ Consumer preference for gaming machines can be fickle, and popularity of the company's products can swing wildly.
- ▶ Long-term growth is critically dependent on penetrating into new overseas markets, a strategy that exposes Ainsworth to the vagaries of foreign licensing and product approval process.

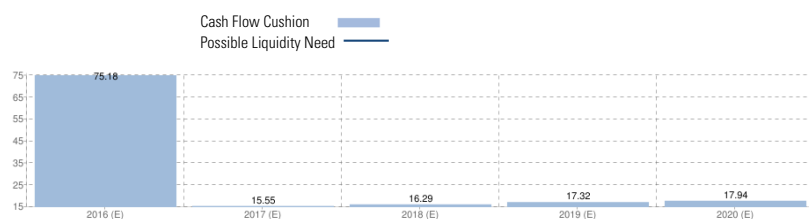
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Five Year Adjusted Cash Flow Forecast (AUD Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	41	43	81	136	199
Adjusted Available Cash Flow	13	16	24	30	33
Total Cash Available before Debt Service	54	59	106	166	232
Principal Payments	0	0	0	0	—
Interest Payments	2	-1	-3	-6	-10
Other Cash Obligations and Commitments	-3	-3	-3	-3	-3
Total Cash Obligations and Commitments	-1	-4	-6	-10	-13

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	AUD Millions	% of Commitments
Beginning Cash Balance	41	123.3
Sum of 5-Year Adjusted Free Cash Flow	117	348.4
Sum of Cash and 5-Year Cash Generation	158	471.7
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	158	471.7
Sum of 5-Year Cash Commitments	-34	—

Financial Health

Ainsworth Game Technology is in good financial health. As at the end of fiscal 2015, the company was in a net cash position of AUD 32 million and is projected, on our estimates, to be free cash generative going forward. Furthermore, management recently established an unsecured multi-option currency facility of AUD 30 million for an initial term of three years, ensuring working capital flexibility and a natural hedge against adverse foreign exchange swings.

Enterprise Risk

Companies in the electronic gaming machine industry live and die by the quality of their products, and Ainsworth Game Technology is no exception. Indeed, patrons who gamble on these machines are completely indifferent to the identities of the manufacturers, with their preference entirely dictated by the game-play and visual aesthetics, while venue operators also place paramount importance on the robustness of the machines so as to avoid "idle" time. Consequently, the company's performance can be volatile from period to period, especially as its machines' share of a gaming floor tracks their share of gaming turnover on the floor. Operators in this field can also be hostage to the financial health of casinos and clubs they supply to. Any external factors which crimp these customers' cash flow, be it higher taxes, weak macroeconomic conditions or government-enforced gambler harm-minimisation schemes, can have a direct adverse impact on companies such as Ainsworth, as venues delay capital expenditure. Furthermore, the licensing and regulatory approval process can be laborious and uncertain. This risk is heightened for a company such as Ainsworth whose long-term growth aspirations are centred upon breaking into new international territories. This growing foreign presence also entails currency risk on the company's reported earnings when translated back to Australian dollars.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Optimum BT Smaller Companies	1.25	1.37	255	30 Jun 2014
Col First State -Small Comp's F	0.79	1.58	-171	28 Feb 2015
Vanguard Total Intl Stock Idx Fund	0.41	—	255	31 Jul 2015
Desjardins Global Small Cap Equity Fund	0.36	0.53	—	31 Aug 2015
UniAsiaPacific	0.34	0.55	—	31 Jul 2015
Concentrated Holders				
Inside Australia	0.01	3.89	-8	31 Aug 2015
Selector Australian Equities	0.01	3.43	—	31 Aug 2015
AMP UBS Australian Small Companies AMPL	0.25	2.25	—	31 Jul 2015
Col First State -Small Comp's F	0.79	1.58	-171	28 Feb 2015
Optimum BT Smaller Companies	1.25	1.37	255	30 Jun 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Perpetual Investment Management Ltd	0.38	0.38	1,215	30 Jun 2015
Colonial First State Investments Limited	1.75	0.07	949	31 May 2015
Lazard Asset Management LLC	0.19	0.43	574	30 Jun 2015
Lazard Asset Management Pacific Co.	0.13	0.92	415	30 Jun 2015
Lazard Asset Management (Canada) Inc	0.10	0.92	313	30 Jun 2015
Top 5 Sellers				
BlackRock Investment Mgmt (AUS) Ltd	0.51	0.10	-3,898	31 Jul 2015
Advance Asset Management Limited	0.65	0.10	-343	30 Jun 2015
FIL Investments (Japan) Limited	—	0.02	-68	02 Feb 2015
FIL Investment Services (UK) Ltd	—	0.01	-44	31 Oct 2014
Realindex Investments Pty Limited	0.09	0.15	-42	28 Feb 2015

Management 25 Feb 2015

We have a Standard stewardship rating for Ainsworth Game Technology.

The company commenced its activities in the area of gaming machine development in 1999 and was listed on the Australian Securities Exchange in 2001. It turned profitable in the latter part of fiscal 2010 and has since enjoyed strong earnings growth, thanks to the development and marketing prowess of the senior management team. Furthermore, the board of directors started distributing dividends to shareholders from fiscal 2013 and has a payout target of 40% to 60% of net profit. We see this as a sound policy, balancing the interests of shareholders with that of the company operating in a fiercely competitive global industry. The company has also now utilised all accumulated tax losses since inception and is now in a tax-paying position. As a result, dividends have been franked from the first half of fiscal 2015.

Ainsworth's pedigree in the industry is significantly more impressive than its corporate history suggests, having been founded by Leonard Ainsworth, a true pioneer of the electronic gaming machine field who started in the 1950s what is now one of the largest global players in Aristocrat Leisure. With Mr Ainsworth owning 50.6% of the company and still serving as the executive chairman, we believe the company is in good hands, with minority shareholders' interest well-aligned with the senior management team.

On the other hand, Ainsworth is now more than 90 years of age. While the nonagenarian is still very actively involved, the issue of key-person risk is never far from mind, especially the potential loss of access to someone with such vast experience and reputation in the industry. We note that chief executive officer Danny Gladstone has been in charge of the day-to-day operations since 2007 and is a highly capable leader, though we have not yet formed a definitive view on the depth of the company's management team.

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In Australia, the launch of the new A600 cabinet, and the

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Conversion of EBITDA to operating cash flow was poor in fiscal 2015 at 46%. This was caused by inventory build-up at year end, in anticipation of robust sales on the back of new product launches. Furthermore, receivables also increased as a result of extended payment terms for some Latin American customers. However, we note that some of these receivables have been converted to cash since year end. In any case, Ainsworth Game Technology's balance sheet remains in a net-cash position to the tune of AUD 32 million as at end of June 2015, and with just AUD 9 million drawn from a AUD 30 million working capital debt facility.

Weakness in Ainsworth Game Technology's Australian Business Surprises Some; We Remain Positive 28 Jun 2015

Shares in Ainsworth Game Technology have retraced almost 20% since what we thought was an innocuous trading update on 4 June. Management's projection of a fiscal 2015 net profit after tax, or NPAT, effectively in line with AUD 61.6 million achieved last year is, in fact, higher than our unchanged AUD 57.6 million estimate. Unfortunately, it appears there were outliers in the market with higher expectations--a factor that may have driven the stock from AUD 2.50 in mid-April to as high as AUD 3.22 in late May.

None of the current headwinds dampening the group's earnings momentum are news to us. The Victorian business is cycling against hyper-growth rate of a year ago while New South Wales and Queensland continue to be impacted by prolonged new product regulatory approval processes. We see all this as temporary and expect the pipeline of new products (including multi-game, multi-denomination electronic gaming machines) to drive a material recovery in Australian earnings during the next two years.

Critically, the growth momentum in the Americas is intact, with management's revenue growth guidance of 40% for fiscal 2015 in line with our estimates. This is not surprising, given the quality of the company's machines and its current minuscule share of the installed base. Admittedly, the uplift from these overseas businesses is not yet sufficient to offset the domestic weakness. However, during the next five years, we expect Americas' earnings base to approach the current Australian earnings base.

Our forecasts are unchanged and our fair value estimate remains at AUD 3.90. Shares in Ainsworth Game Technology are trading materially below our fair value estimate as short-term earnings pressures in Australia continue to dampen sentiment. We view the fundamentals as healthy, and reiterate our narrow moat rating on the company, one that is underpinned by 181 unique jurisdictional licenses to manufacture and sell in Australia, the United States and seven other countries.

In the trading update given on 4 June 2015, management also expressed confidence in delivering strong profit growth in fiscal 2016, on the strength of its overseas performance and a recovery in the domestic business. This is consistent with what we expect. Our current estimates project a 15% lift in fiscal 2016 NPAT, driven by a 19% rebound in earnings before interest and tax, or EBIT, in Australia and a further 21% growth in Americas' EBIT. We note that our long-tailed growth outlook for the Americas segment is such that its EBIT base is forecast to edge close to the current Australian EBIT base of AUD 50 million by fiscal 2017. This would be an admirable achievement, given the Americas segment's EBIT was less than AUD 10 million only back in fiscal 2012.

Ainsworth Game Technology Ltd AGI (XASX) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
2.73 AUD	3.90 AUD	2.34 AUD	6.05 AUD	High	Narrow	Stable	Standard	Travel & Leisure

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in June

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		2013	2014	2015	2016	2017	
Growth (% YoY)							
Revenue	16.9	31.5	23.2	-1.4	12.4	12.0	10.7
EBIT	9.3	25.4	24.0	-16.1	28.5	17.5	16.8
EBITDA	15.6	34.6	24.1	-7.5	24.9	15.9	15.1
Net Income	1.6	0.2	21.6	-14.0	21.5	12.8	12.8
Diluted EPS	-1.2	-7.0	21.0	-14.2	22.3	12.8	12.9
Earnings Before Interest, after Tax	2.6	22.8	-16.0	4.8	10.1	16.7	12.8
Free Cash Flow	—	-320.6	147.1	-117.2	-519.1	13.9	—

	3-Year Hist. Avg						5-Year Proj. Avg
		2013	2014	2015	2016	2017	
Profitability							
Operating Margin %	30.4	31.8	32.1	27.3	31.2	32.7	33.5
EBITDA Margin %	35.3	35.9	36.1	33.9	37.7	39.0	39.5
Net Margin %	24.0	25.3	25.0	21.8	23.6	23.7	23.6
Free Cash Flow Margin %	11.3	12.7	25.5	-4.5	16.6	16.9	18.1
ROIC %	26.9	31.4	30.0	19.3	20.1	22.0	23.2
Adjusted ROIC %	26.9	31.4	30.0	19.3	20.1	22.0	23.2
Return on Assets %	23.0	23.8	23.0	22.1	17.8	18.1	16.7
Return on Equity %	27.9	28.5	28.0	27.3	21.6	21.9	21.4

	3-Year Hist. Avg						5-Year Proj. Avg
		2013	2014	2015	2016	2017	
Leverage							
Debt/Capital	0.01	0.00	0.00	0.03	-0.01	0.06	0.12
Total Debt/EBITDA	0.04	0.01	0.01	0.12	-0.02	0.20	0.43
EBITDA/Interest Expense	-26.01	-21.84	-29.95	-26.24	-43.86	181.79	43.72

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	—	0.66	—	—
Price/Earnings	19.7	16.1	13.7	12.4
EV/EBITDA	—	—	8.6	7.4
EV/EBIT	—	—	10.4	8.9
Free Cash Flow Yield %	—	—	5.3	5.8
Dividend Yield %	—	—	3.9	4.2

Key Valuation Drivers

Cost of Equity %	11.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	9.4
Long-Run Tax Rate %	30.0
Stage II EBI Growth Rate %	8.0
Stage II Investment Rate %	50.0
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	AUD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	229	19.1	0.71
Present Value Stage II	306	25.5	0.95
Present Value Stage III	664	55.4	2.06
Total Firm Value	1,198	100.0	3.72
Cash and Equivalents	41	—	0.13
Debt	-9	—	-0.03
Preferred Stock	—	—	—
Other Adjustments	—	—	—
Equity Value	1,230	—	3.82

Projected Diluted Shares

322

Fair Value per Share (AUD)

—

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Ainsworth Game Technology Ltd AGI (XASX) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
2.73 AUD	3.90 AUD	2.34 AUD	6.05 AUD	High	Narrow	Stable	Standard	Travel & Leisure

Morningstar Analyst Forecasts

Income Statement (AUD Mil)

Fiscal Year Ends in June

	2013	2014	2015	Forecast	
				2016	2017
Revenue	198	244	241	271	303
Cost of Goods Sold	68	89	89	95	106
Gross Profit	131	156	152	176	197
Selling, General & Administrative Expenses	60	67	70	74	79
Other Operating Expense (Income)	0	0	0	0	0
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	8	10	16	18	20
Operating Income (ex charges)	63	78	66	84	99
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	63	78	66	84	99
Interest Expense	-3	-3	-3	-2	1
Interest Income	—	—	—	—	—
Pre-Tax Income	66	81	69	87	98
Income Tax Expense	16	20	16	23	27
Other After-Tax Cash Gains (Losses)	2	1	18	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	52	62	70	64	72
Weighted Average Diluted Shares Outstanding	322	324	325	322	322
Diluted Earnings Per Share	0.16	0.19	0.22	0.20	0.22
Adjusted Net Income	50	61	52	64	72
Diluted Earnings Per Share (Adjusted)	0.16	0.19	0.16	0.20	0.22
Dividends Per Common Share	0.08	0.10	0.10	0.11	0.12
EBITDA	71	89	82	102	119
Adjusted EBITDA	71	88	82	102	118

Ainsworth Game Technology Ltd AGI (XASX) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
2.73 AUD	3.90 AUD	2.34 AUD	6.05 AUD	High	Narrow	Stable	Standard	Travel & Leisure

Morningstar Analyst Forecasts

Balance Sheet (AUD Mil)

Fiscal Year Ends in June

	2013	2014	2015	Forecast	
				2016	2017
Cash and Equivalents	40	72	41	43	81
Investments	—	—	—	—	—
Accounts Receivable	79	93	110	124	139
Inventory	30	40	58	62	70
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	28	2	11	11	11
Current Assets	177	207	221	240	301
Net Property Plant, and Equipment	17	35	55	55	55
Goodwill	—	—	—	—	—
Other Intangibles	18	22	33	33	33
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	22	22	36	36	36
Long-Term Non-Operating Assets	12	3	3	3	3
Total Assets	246	289	349	368	429
Accounts Payable	13	13	8	9	10
Short-Term Debt	1	0	0	0	0
Deferred Tax Liabilities (Current)	2	12	13	13	13
Other Short-Term Liabilities	25	28	31	31	31
Current Liabilities	41	53	52	53	54
Long-Term Debt	0	0	9	-2	23
Deferred Tax Liabilities (Long-Term)	—	—	6	6	6
Other Long-Term Operating Liabilities	1	1	1	1	1
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	42	53	68	57	83
Preferred Stock	—	—	—	—	—
Common Stock	182	182	182	182	182
Additional Paid-in Capital	—	—	—	—	—
Retained Earnings (Deficit)	-29	-22	-18	12	46
(Treasury Stock)	—	—	—	—	—
Other Equity	51	74	116	116	116
Shareholder's Equity	204	235	280	310	345
Minority Interest	—	—	—	—	—
Total Equity	204	235	280	310	345

Ainsworth Game Technology Ltd AGI (XASX) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
2.73 AUD	3.90 AUD	2.34 AUD	6.05 AUD	High	Narrow	Stable	Standard	Travel & Leisure

Morningstar Analyst Forecasts

Cash Flow (AUD Mil)

Fiscal Year Ends in June	Forecast				
	2013	2014	2015	2016	2017
Net Income	52	62	70	64	72
Depreciation	8	10	16	18	20
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	—	—	—
Other Non-Cash Adjustments	14	-6	-12	—	—
(Increase) Decrease in Accounts Receivable	-34	13	-34	-14	-15
(Increase) Decrease in Inventory	-19	-25	-18	-4	-7
Change in Other Short-Term Assets	0	—	—	—	—
Increase (Decrease) in Accounts Payable	12	6	1	1	1
Change in Other Short-Term Liabilities	1	—	—	—	—
Cash From Operations	35	60	24	65	70
(Capital Expenditures)	-6	-14	-15	-18	-20
Net (Acquisitions), Asset Sales, and Disposals	0	-8	-17	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-1	27	—	—	—
Cash From Investing	-7	4	-32	-18	-20
Common Stock Issuance (or Repurchase)	0	0	0	—	—
Common Stock (Dividends)	-10	-32	-32	-34	-37
Short-Term Debt Issuance (or Retirement)	—	—	—	—	—
Long-Term Debt Issuance (or Retirement)	-1	-1	9	-11	25
Other Financing Cash Flows	—	—	—	—	—
Cash From Financing	-11	-33	-23	-45	-12
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
Net Change in Cash	17	32	-32	1	39

Ainsworth Game Technology Ltd AGI (XASX) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
2.73 AUD	3.90 AUD	2.34 AUD	6.05 AUD	High	Narrow	Stable	Standard	Travel & Leisure

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Aristocrat Leisure Ltd ALL AUS	1.26	22.8	19.5	17.4	13.6	12.0	10.8	NM	29.7	22.9	7.0	6.3	5.7	3.3	2.9	2.7
Average		22.8	19.5	17.4	13.6	12.0	10.8	—	29.7	22.9	7.0	6.3	5.7	3.3	2.9	2.7
Ainsworth Game Technology Ltd	0.70	16.1	13.7	12.4	—	8.6	7.4	—	18.9	17.4	—	2.8	2.5	—	3.3	2.9

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Aristocrat Leisure Ltd ALL AUS	— AUD	17.7	12.9	14.6	17.7	12.9	14.6	23.3	27.4	29.0	9.3	8.4	9.6	2.4	2.6	3.2
Average		17.7	12.9	14.6	17.7	12.9	14.6	23.3	27.4	29.0	9.3	8.4	9.6	2.4	2.6	3.2
Ainsworth Game Technology Ltd	349 AUD	19.3	20.1	22.0	19.3	20.1	22.0	27.3	21.6	21.9	22.1	17.8	18.1	—	3.9	4.2

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Aristocrat Leisure Ltd ALL AUS	1,579 AUD	86.3	13.1	9.3	100.8	18.2	15.0	76.3	14.2	14.0	-1,978.2	-115.7	24.6	25.0	7.5	20.9
Average		86.3	13.1	9.3	100.8	18.2	15.0	76.3	14.2	14.0	-1,978.2	-115.7	24.6	25.0	7.5	20.9
Ainsworth Game Technology Ltd	241 AUD	-1.4	12.4	12.0	-16.1	28.5	17.5	-14.2	22.3	12.8	-117.2	-519.1	13.9	—	5.0	9.5

Ainsworth Game Technology Ltd AGI (XASX) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
2.73 AUD	3.90 AUD	2.34 AUD	6.05 AUD	High	Narrow	Stable	Standard	Travel & Leisure

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Aristocrat Leisure Ltd ALL AUS	231 AUD	54.0	54.0	54.0	31.1	31.0	31.5	20.6	21.6	22.7	14.6	14.8	15.5	-1.7	9.8	11.7
Average		54.0	54.0	54.0	31.1	31.0	31.5	20.6	21.6	22.7	14.6	14.8	15.5	-1.7	9.8	11.7
Ainsworth Game Technology Ltd	52 AUD	63.2	65.0	65.0	33.9	37.7	39.0	27.3	31.2	32.7	21.8	23.6	23.7	3.4	17.2	16.7

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Aristocrat Leisure Ltd ALL AUS	1,449 AUD	194.0	170.7	147.8	66.0	63.1	59.7	7.1	7.5	7.9	2.9	2.5	2.2	3.4	3.2	2.9
Average		194.0	170.7	147.8	66.0	63.1	59.7	7.1	7.5	7.9	2.9	2.5	2.2	3.4	3.2	2.9
Ainsworth Game Technology Ltd	9 AUD	3.4	-0.6	6.7	3.3	-0.6	6.3	-26.2	-43.9	181.8	0.1	0.0	0.2	1.2	1.2	1.2

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Aristocrat Leisure Ltd ALL AUS	5,197 AUD	0.02	0.01	0.02	1.73	1.87	1.98	1.40	1.51	1.59	0.08	0.07	0.09	74.7	63.5	65.5
Average		0.02	0.01	0.02	1.73	1.87	1.98	1.40	1.51	1.59	0.08	0.07	0.09	74.7	63.5	65.5
Ainsworth Game Technology Ltd	880 AUD	0.13	0.13	0.25	4.21	4.53	5.57	3.10	3.35	4.28	236.00	244.06	464.15	46.1	53.1	51.6

Research Methodology for Valuing Companies

Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.

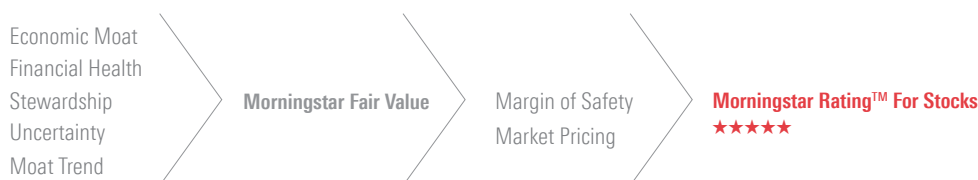
The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for

10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies



Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*

- ▶ Comprehensive Equity Research Methodology
- ▶ Uncertainty Methodology
- ▶ Cost of Equity Methodology
- ▶ Morningstar DCF Valuation Model
- ▶ Stewardship Rating Methodology

*Please contact a sales representative for more information.

which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

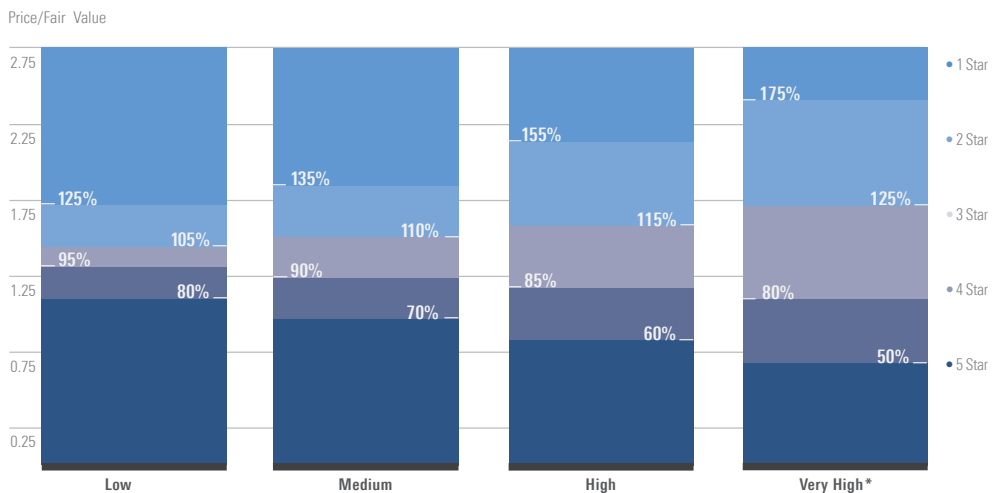
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts’ ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including

operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management’s stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies’ investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they’ve had a demonstrated impact on shareholder value. Analysts assign one of three ratings: “Exemplary,” “Standard,” and “Poor.” Analysts judge stewardship from an equity holder’s perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions. ■■■

Morningstar Margin of Safety and Star Rating Bands

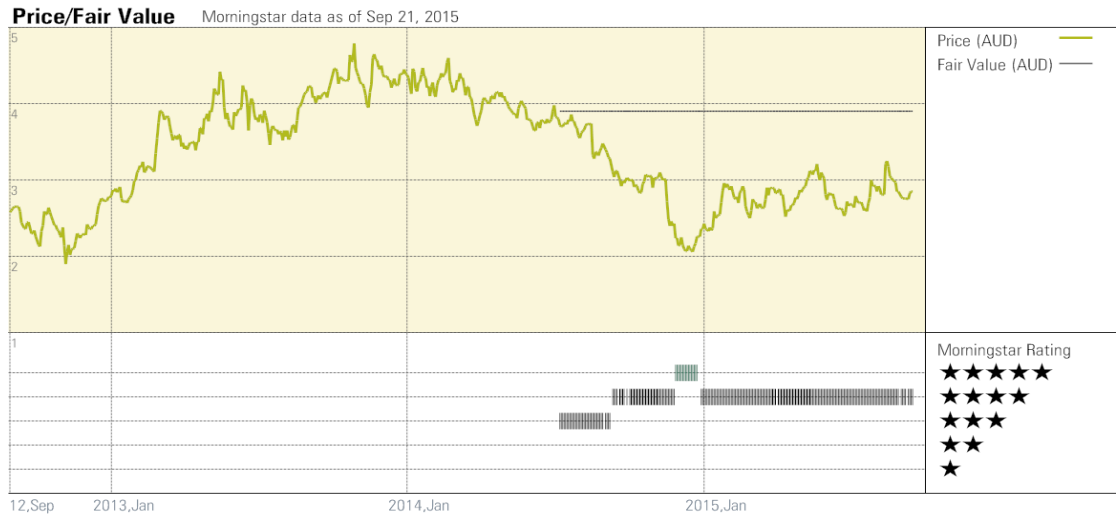


* Occasionally a stock’s uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

Ainsworth Game Technology Ltd AGI (XASX) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
2.73 AUD	3.90 AUD	2.34 AUD	6.05 AUD	High	Narrow	Stable	Standard	Travel & Leisure



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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
2.73 AUD	3.90 AUD	2.34 AUD	6.05 AUD	High	Narrow	Stable	Standard	Travel & Leisure

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