JARDEN

ALL.AX | Aristocrat Leisure Limited | Consumer Discretionary

Nomophobia: Initiate on Aristocrat at Overweight

Initiation | 19 January 2022 (19:36 AEDT)

Rating	Target price	Price	Projected return
Overweight	**AUD 46.85**	**AUD 43.35**	**9.3%**
(from -)	(from AUD -)		(8.1% cap | 1.2% div)

Initiate coverage on Aristocrat with Overweight rating

We see several positive catalysts for mobile games publisher and global gaming content and technology company, Aristocrat (ALL), over the next 3-6 months. We initiate at Overweight with a $46.85 12m target price, implying ~9% TSR, FY23E Equity/FCF of ~19.5x and EV/EBIT of ~19.5x, and ~7% FY23E-26E EPS CAGR. ALL is the number one player in the land-based gaming market, which is rebounding strongly, and we expect a continued strong performance in ALL's North American Gaming operations amplified by market share gains. Pixel United bookings remained robust through 4Q21 and we see no evidence of ALL's games slowing down. We view this as the key share price catalyst over the next 3-6 months.

FY22E earnings in line with consensus, FY23E-24E lower on mean reversion and margin risk

Our earnings forecasts are largely in line with FY22 Visible Alpha consensus, driving our positive view. However, we are marginally below consensus for FY23 on higher costs and mean reversion. Video gamers spent an average eight hours per week gaming in 2021, up two hours on 2020. Mobile phones are the most popular device used to play video games globally and the positive tailwinds from the ~8% mobile gaming 3-year CAGR should be supportive. However, we expect higher costs to dampen ALL's margins and expect some mean reversion for Social Casino and Casual Games in FY23. We look at what behaviours have changed and what may and may not survive a post-pandemic world (p. 12).

Are higher design and development (D&D) and user-acquisition (UA) costs structural?

ALL has guided for higher D&D and UA costs ahead, with these having trended higher over time. We examine the valuation implications of higher D&D at the company's digital business. We look at the vertical integration in the industry to combat rising costs and what lessons are being learned from the video game industry as we enter the augmented reality and virtual reality phase of gaming (p. 9).

Is the Digital multiple stretched and has the ALL multiple peaked?

Significant growth in Digital is likely needed to hold the current multiple. We explore Take-Two's proposed acquisition of Zynga and why multiple comparisons are not "apples for apples". We look at key factors driving Aristocrat's multiple expansion and what is changing and examine a potential halo effect from digital competitors, potentially overstating ALL's business and growth prospects (p. 6).

Valuation multiples and 12-month target price. We value Aristocrat using a sum-of-the-parts methodology to account for its various business segments, which have different risk profiles and investment characteristics. We derive our $46.85 target price from an FY22E EBIT SOTP.

Key risks are Playtech acquisition and potential integration risk, earnings risk from higher D&D, content and talent competition from industry vertical integration, multiple compression and ESG (p. 3).

Key financial metrics	FY21A	FY22E	FY23E	FY24E
Operating revenues (AUDm)	4,736.7	5,403.6	7,658.2	7,894.7
Operating EBITDA (AUDm)	**1,542.9**	**1,757.0**	**2,262.8**	**2,320.9**
Adjusted NPAT (AUDm)	864.9	956.5	1,223.5	1,305.2
EPS normalised (AUDcps)	**135.6**	**145.2**	**185.8**	**198.2**
EPS growth (%)	78.4%	7.1%	27.9%	6.7%
EV/EBITDA (x)	21.4	18.8	14.6	14.2
P/E (x)	**32.5**	**30.3**	**23.7**	**22.2**
P/FCF (x)	25.1	33.1	18.3	19.4
Gross yield (%)	0.9%	1.3%	1.7%	1.8%
Net yield (%)	**0.7%**	**0.9%**	**1.2%**	**1.3%**

Source: Company data, Jarden Research

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EPS revisions

	New	Prior	Cons
FY22E	145.2	-	149.5
FY23E	185.8	-	185.5
FY24E	198.2	-	212.2

Snapshot

Mkt cap (m)	$29,470
52-week range	~28.48-49.65
Daily volume	1.178m
Free float	89%
Franking	100%

Performance

Source: Jarden Research

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Executive summary

We initiate coverage on global gaming content and technology company, Aristocrat Leisure, with an Overweight rating, seeing several positive catalysts over the next 3-6 months. We expect a continued strong performance in Aristocrat's North American Gaming operations amplified by market share gains. Pixel United bookings remained robust through 4Q21 and we see no evidence of Aristocrat's games slowing down. These will be the key short-term share price catalysts in our view.

FY22 in line with consensus, FY23-24 lower on mean reversion and margin risk

Our earnings forecasts are largely in line with FY22 Visible Alpha consensus, driving our positive view. However, our forecasts are below consensus from FY23, on higher D&D costs and the expectation of some mean reversion for Social Casino and Casual Games.

- We expect Aristocrat to report strong 1H22E numbers, driven by continued strength in Digital (Pixel United). We note the following based on data we track: Raid bookings appear ahead of the FY21 run-rate in the Dec-21 quarter (potentially driven by higher UA spend). The Social Casino segment appears in line with the 1H21/2H21 run-rate, while the Casual Gaming segment appears a touch softer.
- We believe the rebound in North American casino gaming revenue as reported in Las Vegas and other key markets will drive a strong performance in Gaming Operations. We expect strong performances from Aristocrat's higher fee per day titles to drive margins and earnings.

Five themes likely to drive the stock

1. **Is the Pixel United multiple stretched and has the Aristocrat multiple peaked?** Potential drivers include analysis of earnings skew, D&D expense and proposed Zynga acquisition.
   a. Fresh disclosure from the company on the D&D allocation suggests a more muted earnings growth profile. This and the skew towards land-based gaming may imply the multiple has peaked.
2. **Are higher D&D and corporate costs structural?** Lessons can be learned from video games, competition for talent is driving M&A, industry vertical integration and the next phase of gaming is AR/VR.
   a. Our earnings forecasts are below consensus from FY23, reflecting higher costs.
3. **Digital near-term mean reversion risk**. Gaming received a significant boost from COVID-19 lockdowns. What factors may influence customer "stickiness" or mean reversion?
   a. Pixel United's titles outperformed in FY21 and we factor mean reversion into our forecasts.
4. **Land-based competitor revival**. Can Scientific Games and IGT increase market share and reverse the trend of Aristocrat's sales? We think this is at least 2-3 years away and more of a medium-term risk.
5. **How does Playtech potential acquisition change the equation?** We take a deep dive into Playtech's business and integrate earnings into our forecasts.

Valuation and rating

Aristocrat is a small player in a very big digital gaming market, with significant tailwinds being driven by growth in smartphones, cloud technology and 5G. Aristocrat is the number 1 player in a land-based gaming oligopoly with high barriers to entry that has seen a lack of rivalry from its two main competitors and seen pricing and market share gains for Aristocrat. We think land-based gaming threat of substitute products and services is high, from within category (e.g. iGaming, iCasino, Sports wagering) and against other discretionary spend (restaurants, fashion, travel, etc).

We initiate coverage with an Overweight rating and $46.85 12-month target price, which implies a Equity to free cash flow (FY23E) multiple of ~19.5x, FY23E PE of ~25.0x and ~7% FY23E-26E EPS CAGR.

Risks

The most immediate risk we see to the share price is a potential bidding war, which could see Aristocrat increase its bid for Playtech. If Aristocrat's bid is successful, there would be integration risk as it navigates some new business lines and geographies. We view medium-term risks as mostly earnings based and relating to whether Digital can maintain its earnings momentum. We also see a risk of multiple compression as the business moves into wagering and as land-based earnings recover. ESG tail risk is also present in our view.

Key short-term issue: will Aristocrat bid more than its GBp680 initial offer?

Playtech (Not Covered) has delayed its shareholder meetings in relation to Aristocrat's bid from 12 January 2022 to 2 February 2022 (UK time). JKO Play Limited (Not Covered) must either announce a firm intention to make an offer for Playtech or announce that it does not intend to make an offer by 4am on Thursday 27 January 2022 (Sydney time). There have also been media reports (e.g., Sky News) suggesting a group of investors, collectively, may hold a stake >25% in Playtech which could thwart Aristocrat's proposal and the requirement for >75% scheme approval vote. At GBp680 per share, the implied EV is £2.7b [A$3.9b]), or a multiple of 11.4x Playtech's EBITDA (TTM ended 30 June 2021) or ~8x FY19 EBITDA.

- If Aristocrat increased its bid by 10-15%, we estimate a 0.9-1.3x rise in the proposed acquisition multiple, a 0.2-0.3x increase in pro forma leverage of ~2.6x and 59-89c per Aristocrat share equity value dilution (vs. valuing the business at the initial offer price).
- If Aristocrat is unsuccessful, we estimate EPS downside sensitivity of ~10% based on our FY23 forecasts (our base case FY23 forecasts for Aristocrat integrate Playtech's earnings, account for the recent equity raising, costs and minimal return on cash). Aristocrat has the option of returning cash to shareholders, which would limit dilution. In this example, the EV/EBITDA valuation would increase by ~2x.

Risks

We believe Aristocrat's stock is currently weighed down by uncertainty on its bid for Playtech and the potential it could bid more or be outbid. There are myriad potential outcomes. However, we believe there is limited downside should Artisotcrat be unsuccessful and see the payoff for entry into the US wagering market and a one-stop shop proposition as having an asymmetric payout potential on the upside.

Figure 1: Aristocrat tear sheet

Share Price Catalysts	Jarden view	Notes
Short-term		
Raid Revenue	**Strong**	Expect strength in Raid to continue driven by higher UA spend and stronger demand with Covid restrictions
Social Casino Revenue	**Good**	Expect revenue resilience in 1H22, before declining from 2H22
EverMerge Revenue / Casual Gaming	**Neutral**	Expect some relative softness in FY22
North America Gaming	**Strong**	Cycling COVID-19 ; expect Gaming Ops to rebound to pre-pandemic levels, Sales to lag
ANZ Gaming	**Good**	Growth in units and access model revenue and higher margin to drive YoY earnings growth
FY22 Result	**Good**	Tailwinds cylcing COVID-19, lower AUDUSD, organic growth
FY23 Result	**Risk**	We view consensus earnings in FY23 as aggressive
Medium-term		
Social Casino Revenue	**Risk**	Clear beneficiary of lockdowns and we expect medium-term mean reversion
Casual Gaming Revenue	**Risk**	
UA spend	**Risk**	Elevated User Acquisition spend and higher D&D spend in the face of stronger competition and technological advancements may be structural
D&D spend	**Risk**	
NA Gaming Ops	**Good**	The continued return to normal casino play will likely see gaming operations revert back to pre-Covid highs

Valuation food for thought: Some people see big pictures (forests) and others see details (trees)

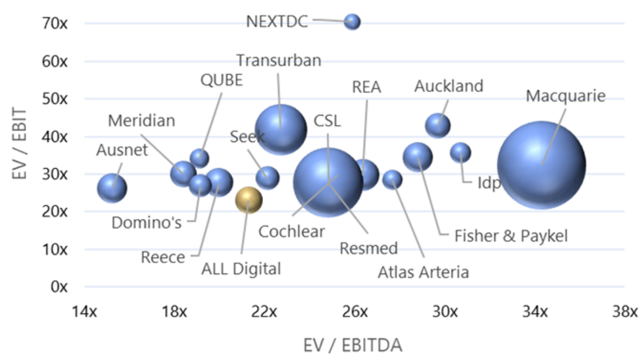
@ Scarcity effect on the ASX likely leads to multiple premium

@ Halo effect from global Digital multiples distorts ALL's value given majority of its earnings are land-based gaming

@ Digital EBTDA multiple ~20x places it around the Top 20 highest multiples in the ASX 100

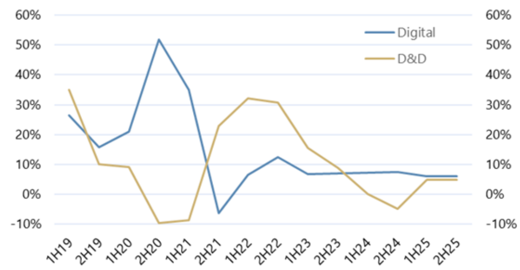
@ ALL's Digital earnings are "gross" of D&D spend vs comps earnings "net"

@ ALL's Digital earnings have concentration risk vs comps



		FY22	FY23	FY24
Earnings Drivers	***Machine sales***			
	ANZ	13,108	13,764	14,177
	NA	13,974	16,769	18,446
	Gaming Ops			
	Class II	26,776	27,513	27,988
	Class III	28,419	29,819	30,769
	Fee per day (US$)			
	Class II	45	44	45
	Class III	65	64	63
	Pixel United Bookings (US$m)			
	Social Casino	888	826	814
	Casual Gaming	323	314	329
	Strategy & RPG	718	789	845
	User Acquistion	-537	-518	-534
Earnings Forecasts	**EBITA**			
	ANZ	170	180	190
	Americas	1,194	1,204	1,242
	Int III	7	39	45
	Digital	875	906	912
	Playtech	0	363	410
	D&D	-689	-785	-829
	Corp	-114	-117	-121
	Group	1,442	1,427	1,439
Jarden vs Consensus	**EBITA**			
	ANZ	-8%	-11%	-9%
	Americas	3%	-4%	-6%
	Int III	-75%	-41%	-49%
	Digital	-2%	-5%	-11%
	D&D	-1%	-1%	0%
	Corp	-3%	-5%	-5%
Consensus Earnings Growth	**EBITA**			
	ANZ	21%	9%	4%
	Americas	19%	8%	6%
	Int III		143%	35%
	Digital	11%	8%	7%
	D&D	32%	13%	5%
	Corp	5%	5%	3%

Consensus Digital Bookings Growth vs D&D YoY



Source: Visible Alpha Consensus Data, Refinitiv Eikon consensus, Jarden estimates

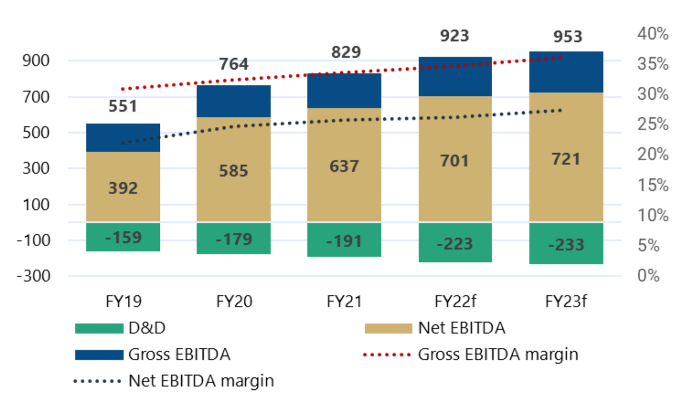
Is the Digital multiple stretched? Has the Aristocrat multiple peaked?

Aristocrat appears to receive a halo effect across its business from the relatively high multiples of comparable "digital" companies despite most of Aristocrat's earnings being derived from land-based gaming (57% of segment FY21 EBIT after D&D costs).

Aristocrat disclosed ~37% of D&D is allocated to Pixel United (Digital)

In the appendix to the FY21 results (Slide 24), Aristocrat broke down its D&D expense between Digital (A$195m) and Gaming (A$333m). However, investors may infer a different business profile with lower margins and this may have valuation implications.

Figure 2: Pixel United gross and net of D&D expenses (A$m)



Source: Company data, Jarden estimates

Figure 3: Segment FY21 EBITA (net and gross) (A$m)

	Gaming	Digital	D&D	Corp	ALL
Gross EBITA	1,118	799	-528	-112	1,277
D&D	-333	-195			-528
Net EBITA	**785**	**604**		**-112**	**1,277**
Gross EBITA margin	49%	32%			
Net EBITA margin	35%	24%			

Source: Company data compiled by Jarden

We value Pixel United at 23x FY22E EBITA and 21.5x FY23E EBITDA

We value Pixel United on a net of D&D expense basis, which provides a more accurate reflection of value, in our view. On this basis, we value Pixel United at ~A$15b. Cross-referencing the segments within the digital business and contemplating Aristocrat's own acquisition multiples, current trading multiples and acquisition multiples we think leaves the multiple relatively full.

Figure 4: Pixel United earnings forecasts and multiples (implied) (A$m)

	FY22e EBIT	D&D	FY22e EBIT	x	EV	D&D / sales
Casino	481	-82	399	24.6	9,825	7%
Casual	85	-30	55	15.0	830	7%
Strategy	309	-115	194	22.0	4,267	12%
Pixel United	**875**	**-227**	**649**	**23.0**	**14,922**	**8.5%**

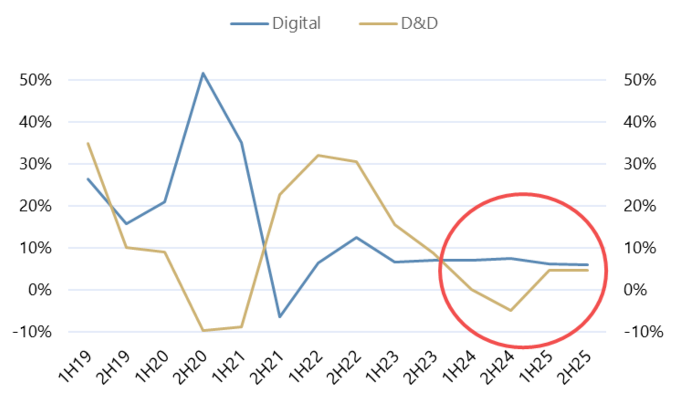
Source: Jarden estimates

Above we estimate a split of the known A$227m D&D spend for Digital across the three business lines. We consider Social Casino to be the highest value business given the synergy with land-based gaming, good title diversification, high margins, market position and more annuity-style revenue stream. Strategy is driven largely by Raid, which continues to be a big hit. However, every game has a shelf-life and Pixel United needs to continue to reinvent as Mech Arena does not appear nearly as successful. Nonetheless, the implied multiple is still relatively high.

Significant growth in Digital likely required to hold multiple

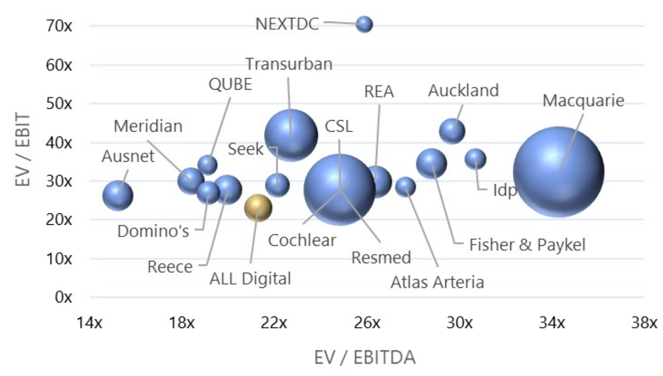
Consensus factors in less significant growth through FY22/23, which for us raises a few questions about the sustainability of the Digital multiple, as we consider the business to be far less robust from a competitive advantage position than some of the other businesses in the S&P/ASX100 that investors would likely consider high growth and/or operating in a more oligopolistic/monopolistic market structure with long-life assets.

Figure 5: Consensus Digital bookings and D&D growth YoY



Source: Visible Alpha Consensus Data

Figure 6: Highest multiple S&P/ASX100 stocks vs Aristocrat Digital

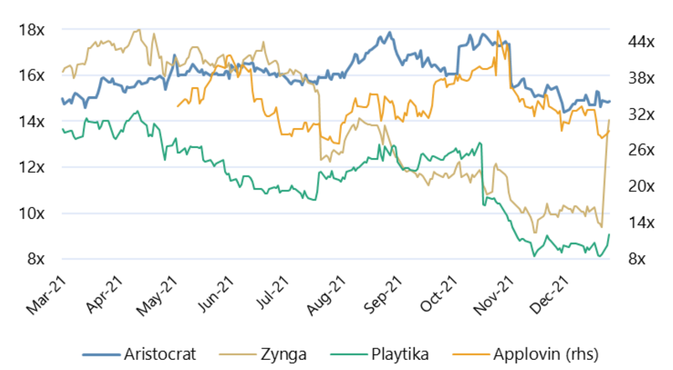


Source: Refinitiv Eikon. Note: Excludes Afterpay, Xero, Wisetech, Sydney Airport

De-rating across comps

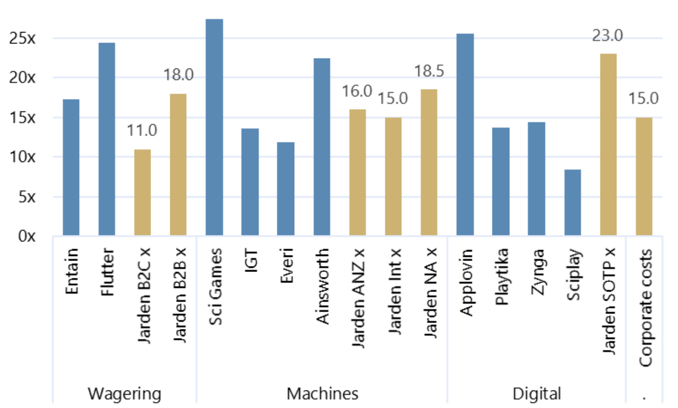
There has been a de-rating in the EV/EBITDA multiples of game developer stocks since Apple's new app tracking transparency feature in iOS 14.5, which ensures that any app must ask permission before tracking activity outside its own app, although it does not stop apps from collecting information directly in-app, then selling it on to advertisers. Most game developers generate substantial advertising venue and according to Consumer Acquisition, the industry saw an estimated iOS revenue loss of 15-35% across mobile app advertisers in 3Q21 and, while Aristocrat is not as exposed as its competitors and has not seen the same de-rating, it trades at a material premium. Shares of Roblox (Not Covered), for example, have trended lower in recent months and are now down ~40% from their record-high close on 19 November 2021.

Figure 7: Aristocrat Digital vs Zynga, Playtika and Applovin: EV/EBITDA



Source: Company data, Refinitiv Eikon,

Figure 8: Comparable FY22E EV/EBIT multiples vs Jarden segment SOTP multiples



Source: Refinitiv Eikon, Visible Alpha Consensus Data

Take-Two's proposed acquisition of Zynga

Take-Two announced on 10 January 2022 it had entered into a definitive agreement to acquire all the outstanding shares of Zynga, implying an enterprise value of US$12.7b - a 64% premium to Zynga's closing share price on 7 January 2022. It expects the proposed transaction (which is subject to the approval of both Take-Two and Zynga stockholders and applicable regulatory approvals) to deliver ~US$100m of annual cost synergies within the first two years after closing (expected in 2Q CY22) and at least US$500m of annual net bookings opportunities over time.

- Visible Alpha consensus for Zynga's 2022E EBITDA is US$686m, with the acquisition price implying a multiple of 18.5x.
  - This compares with our Pixel United multiple estimate of ~20.3x FY22E EBITDA (net of D&D) and the ~15x implied multiple for Casual.
- The consensus forecast for Zynga's 5-year EBITDA CAGR is ~11% vs consensus growth of ~7% for Pixel United.

This is not an "apples to apples" comparison

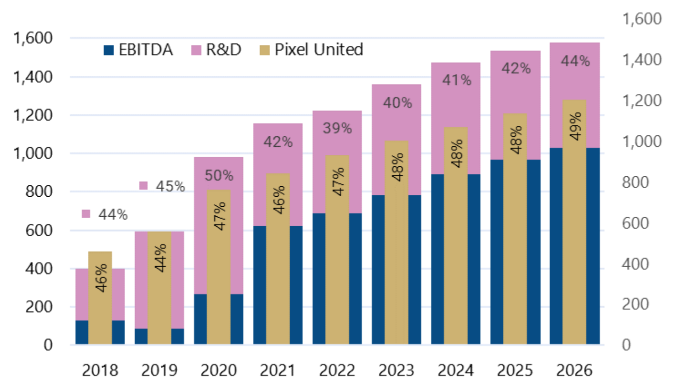
Aristocrat presents Pixel United's earnings before R&D/D&D, which is the way consensus forecasts earnings and the earnings base to which the multiple is applied. Zynga's EBITDA of US$686m is net of R&D. We present these numbers in Figure 9 below.

In Figure 9, we compare EBITDA (local currency) growth and the EBITDA margin after adjusting for Zynga's R&D spend. Consensus R&D spend is ~17% of revenue for 2022-24.

Other valuation considerations

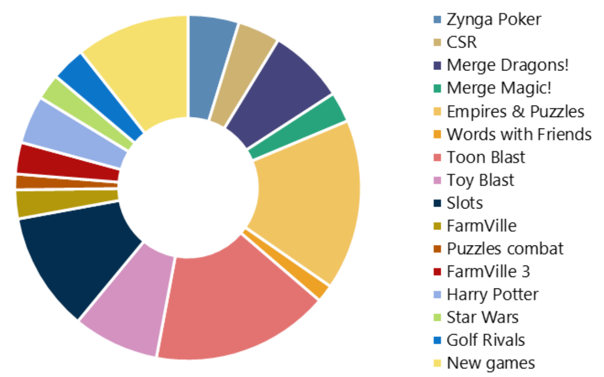
It could be argued Zynga is over-earning due to its more mature games and lower R&D spend. However, the other side of this argument is that it has a more diverse range of games versus some concentration risk at Aristocrat. In addition, we note there is more growth in consensus earnings for Zynga than in those for Aristocrat.

Figure 9: Zynga adjusted consensus EBITDA forecasts (US$m)



Source: Visible Alpha Consensus Data, Jarden estimates. Data label = EBITDA margin %

Figure 10: Zynga bookings 2022E



Source: Visible Alpha Consensus Data

Are higher design and development costs structural?

At the full-year results, Aristocrat advised D&D costs would be "modestly" above the historical range of 11-12% of revenue to drive sustained, long-term growth. FY21 D&D expenses were A$528m, or 11% of revenue compared with EBITA of A$1.28b.

This could have significant valuation implications for Aristocrat if the market considers this spend aimed at digital versus land-based gaming and reconsiders whether it looks at earnings gross of these costs or net of them.

Competition for talent likely heating up, not cooling down

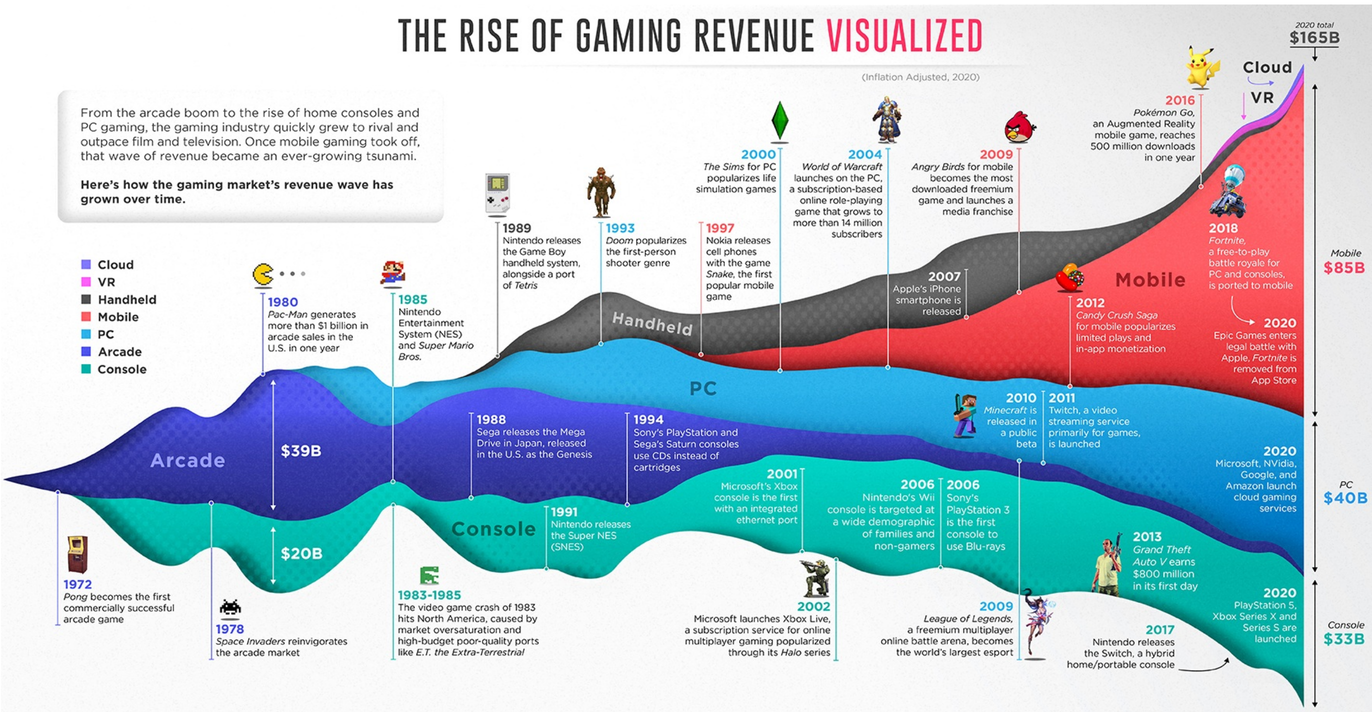
The proposed Take-Two acquisition of Z ynga is an example of vertical integration where cost synergies have been identified in corporate and R&D. More recently, Microsoft (Not Covered) announced plans to acquire Activision (Not Covered) for US$68.7b.

According to Microsoft, too much friction currently exists between content, consumption and commerce and it sees the acquisition of Activision as an important step to make it easier for people to connect and play great games, wherever, whenever and however they want. The company states it needs more innovation and investment in content creation and fewer constraints on distribution.

Recently, Bloomberg reported Apple (Not Covered) was giving one-off bonuses of up to US$180,000 (which came on top of normal annual base salaries, stock grants and cash bonuses) to retain staff. According to the media article in January, Apple engineers have been leaving for Meta Platforms (formerly Facebook) (Not Covered), which has offered higher salaries and more work-from-home flexibility.

This coincides with both companies' expected launches of mixed virtual and augmented reality headsets and augmented reality glasses. Technology companies appear to be gearing up for the next phase in gaming and the extent to which this places upward pressure on development costs from labour competition and what form of gaming is displaced by new technology or the cost of competitive response are set to dictate the themes ahead.

Figure 11: Visualised gaming revenue



Source: Visualcapitalist.com

Video game industry could provide a lesson for Aristocrat

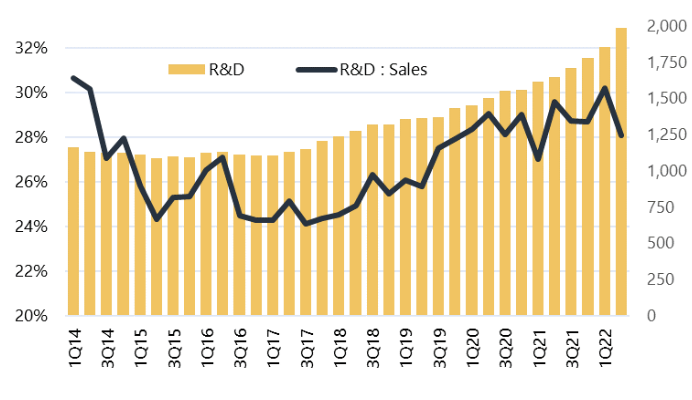
Today, three billion consumers around the world play games. Microsoft expects this to reach 4.5 billion by 2030 as new generations turn to gaming, seeing more players, more streamers, more titles and more new game publishers than ever before.

Aristocrat has competed with and will continue to compete with the international companies and we suspect competition for talent and sales will increase as gaming moves into augmented reality (AR) and virtual reality (VR), and as console/streaming companies push into mobile/cloud gaming.

The rise of the internet and smartphones has grown the gaming industry from tens of billions in revenue to hundreds of billions in revenue. In July 2008, when Apple (Not Covered) launched the App Store for its smartphones (followed closely by the Google [Not Covered] store), Angry Birds was the most downloaded freemium game in 2009 and this was also an inflection point on the downside for handheld games and marked the rise of eSports. The Apple App Store paved the way for app developers to create free, paid and pay-per-feature games, which catered to a mass market.

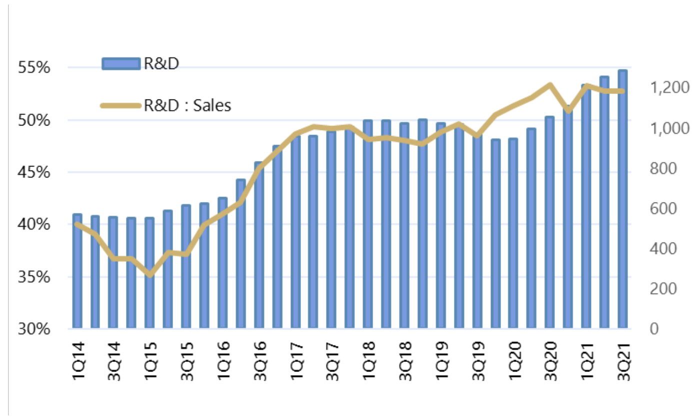
In turn, this created increased competition for game developers and the cost of R&D. Traditional video game/console companies such as Electronic Arts (Not Covered) and Activision (Not Covered) have experienced a higher trend of product development (R&D), trending higher in terms of the absolute amount and as a percentage of sales, implying a lack of operating leverage to compete.

Figure 12: Electronic Arts (US$m)



Source: Electronic Arts. Note: TTM sales and R&D spend.

Figure 13: Activision (US$m)



Source: Activision Note: TTM sales and R&D spend.

Next phase in gaming: AR/VR

Both VR and AR involve interaction with virtual objects in real time. In VR, the user is fully immersed, whereas AR presents the user with virtual overlays on a real environment. As described by Eurofound, "rather than be considered as two distinct technology outcomes, VR and AR should be seen as part of a spectrum of outcomes that span from reality to virtuality".

Driven by a number of technological advancements, including more affordable hardware and faster internet speeds, adoption of AR/VR is significantly increasing and there are a number of bullish market projections. In 2020, 5.5 million units of VR and AR headsets were shipped, with Facebook (Not Covered) the market leader, with a ~39% share, followed by Sony ~22% (Not Covered) and Pico Interactive ~9%. VR stats for 2021 show VR gaming revenue sits at US$1.1b, with this expected to grow to US$1.6b by 2022 and reach US$2.4b by 2024 (source Finances Online).

Global shipments of AR and VR headsets increased 348.4% over the year ending 3Q21, according to IDC. Shipments of standalone VR headsets captured 89.8% of the market and Meta held the top spot, with almost 75% share followed by Quest 2. Gaming is the key driver of the consumer segment.

IDC expected AR and VR headset shipments to reach 9.7 million units by the end of 2021 and expects them to grow to 32.8 million units by 2025, with a CAGR of 45.9%. It expects VR to have a higher growth rate but estimates AR will capture one-third share by the end of 2025. IDC expects newer headsets from smartphone vendors and growing appeal in the consumer segment to drive volumes for AR headsets.

The 2014 acquisition of Oculus by Meta Platforms helped to drive extended reality (XR) headset shipments by 3x in 1Q21 (source Counterpoint's Global XR [VR & AR] Model Tracker). Since the launch of the VR headset Oculus Quest 2 on 31 October 2020, we estimate from various media articles that ~2m units had sold globally as of 1Q21.

We estimate November 2021 monthly app downloads of Oculus were up +65% YoY vs -35% and -15% for the PlayStation and Xbox Apps (source App Annie/Sensor Tower).

Meta Platforms has nearly 10,000 employees in its division working on AR/VR devices or almost 20% of its workforce, according to a report in The Information in March 2021. According to other media reports (UploadVR), this number was ~1,000 in 2017 or ~5% of its workforce.

Various media articles have reported that Apple is likely to launch an AR/VR product in 2022, potentially involving a video headset, a motion-sensing virtual 3D interface for iOS devices and 3D "hyper-reality" displays.

Netflix (Not Covered) announced in July 2021 its plans to enter the mobile gaming market, calling games "another new content category" leveraging titles such as Stranger Things, and has made acquisitions including independent game developer Night School Studio, best known for narrative-driven titles. Console makers such as Microsoft (Not Covered) and Sony (Not Covered) are launching cloud-based subscription services as well as continuing to develop new consoles. In addition, Amazon (Not Covered), and Google (Not Covered) are launching their own services that work on multiple devices, mobile included.

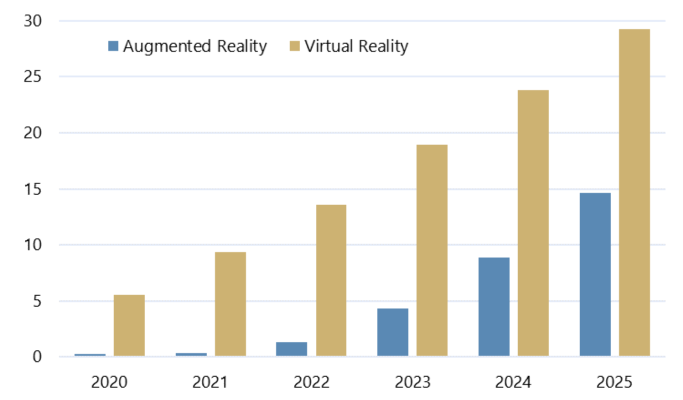
Growth in the gaming and entertainment industry is a key catalyst for adoption of AR/VR

A number of factors have accelerated the adoption of AR/VR: the reduced cost of software and hardware combined; for mobile gaming, increased adoption and capability of smartphone hardware; and the increased availability of digital content.

This next phase has the potential to displace some mobile gaming demand and put pressure on wages in the industry, much like what has been observed when mobile displaced handheld gaming. There are also a number of devices on the market or in development that combine VR/AR with wearable technology, seen as early as 2013 in products such as Google's Project Glass and Microsoft's Project Fortaleza, which integrate VR/AR and wearables.

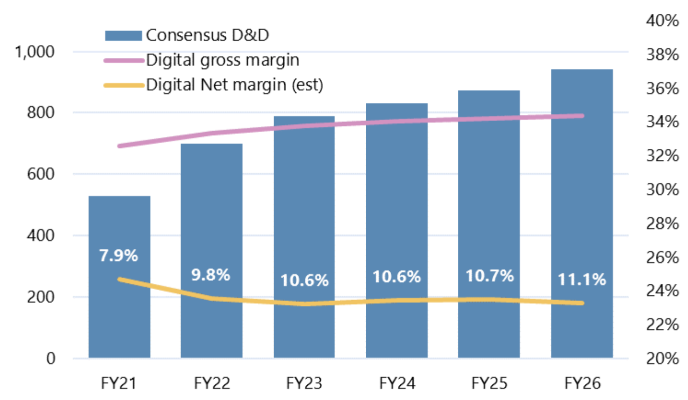
VR also exists for smartphones and is usually a low-cost alternative to VR headsets and includes Samsung Gear VR, Google Daydream View, Google Cardboard, Merge VR Goggles and Xiaomi Mi VR Play.

Figure 14: AR/VR headset forecast 3Q21 (million users)



Source: IDC data compiled by Jarden

Figure 15: Aristocrat consensus D&D (A$m) vs net margin (Jarden estimate of D&D split)



Source: Visible Alpha Consensus Data, Jarden estimates. Note: Data label = D&D estimate % of sales.

Digital near-term mean reversion risk

Gaming, especially social casino games with little-to-no guarantee of reward, has become an increasingly desirable form of entertainment, which can be considered an inexpensive way to pass time or be entertained. According to the Entertainment Software Association (ESA), 55% of video gamers have played more during the pandemic, with 66% citing the reason for playing was to "unwind, relax and decompress" and more than half citing the reason as to "fill time".

The video game sector is now the largest vertical in the entertainment industry and mobile gaming is the fastest growing segment within the industry, with an estimated US$136b in gross bookings in 2021. This is expected to grow at an 8% CAGR over the next three years (source Zynga, IDG Consulting).

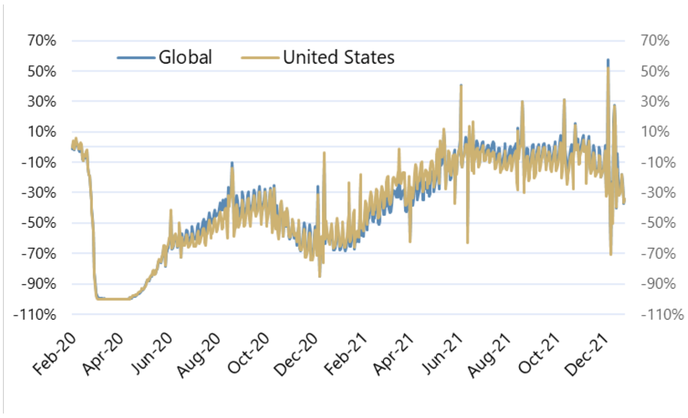
Market research firm Reportlinker executed a survey in March 2020, which showed video gamers in the United States reported they spent 45% more time playing video games during quarantine than in the previous week. Online play also increased, with respondents spending more time playing games with others online: 29% of US and 17% of UK gamers said they have been playing more with friends online since the pandemic began. The number of first-time downloads of Twitch (a video-streaming platform that offers a fun, social way to watch people play games) after the start of the pandemic in March 2020 rose to 14% in the US and 41% in Italy.

App downloads peaked in March/April 2020, coinciding with the peak lockdowns, trending down before picking up in December/January 2021 and trending down again since as the world has come out of lockdowns (Figure 16). However, revenue has been significantly more resilient. After peaking in January 2021, it is currently higher than pre-COVID (SensorTower), which is reflected in Playtika's (Not Covered) in-app revenue (Figure 17).

Mobile gamers in North America spent an average of eight hours per week gaming in 2020, two more hours each week than in 2019 according to NPD Group. Video gamers spent an average of eight hours per week gaming in 2021, up two hours on 2020. Data from Sensor Tower shows US consumer spending in mobile games during the Sep-21 quarter increased 9% YoY, the third consecutive quarter when spend in the category surpassed US$6b.

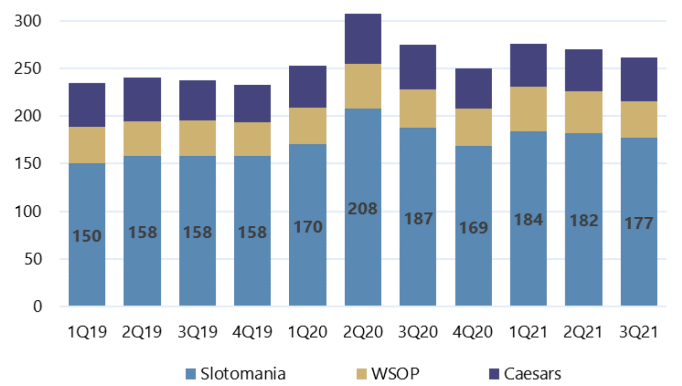
Worldwide total app downloads increased by 2.7% YoY in 4Q21 and 2021 downloads grew 0.9%. December quarter 2021 games downloads were well below the peak of nearly ~3b seen at the start of the pandemic, at 2.21b, +4.5% YoY, slightly below the 5% YoY growth seen by non-games.

Figure 16: Seated dinner data YoY



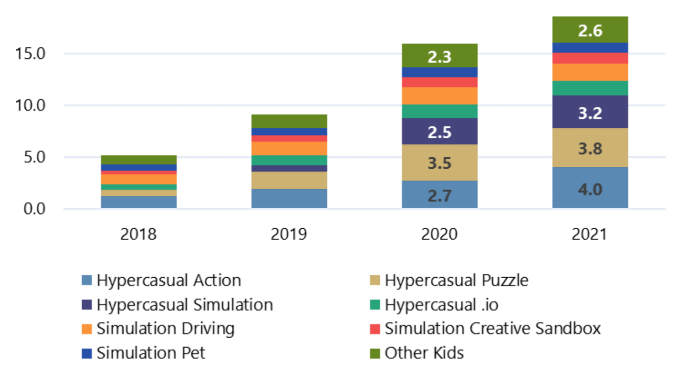
Source: OpenTable

Figure 17: Playtika in-app revenue (US$m)



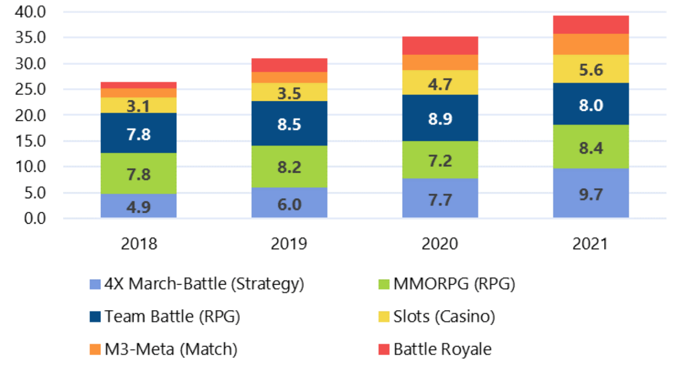
Source: Company data

Figure 18: Worldwide gaming subgenres by downloads (US$b)



Source: AppAnnie

Figure 19: Worldwide gaming subgenres by spend (US$b)



Source: AppAnnie

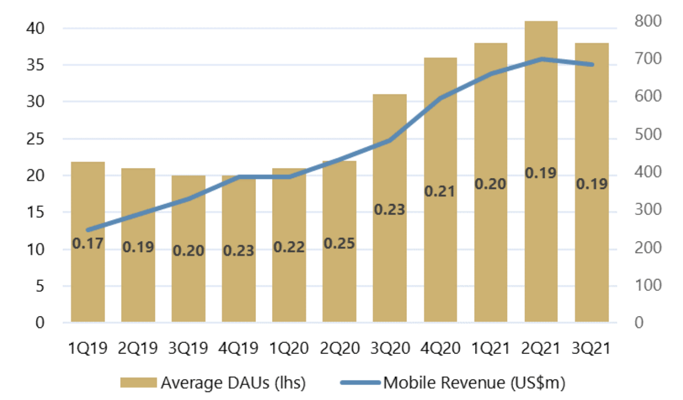
Rise in hyper-casual gaming the key theme in 2021; social casino also strong

During lockdowns when access to gambling was constricted, there is evidence of an increase in other potentially addictive technologies (e.g., video games) or substances (e.g., alcohol). Social casino games have been found to increase real money gambling when people use them to improve their gambling skills (International Gambling Studies 2021, Vol. 21), so it is possible that during lockdowns an increase in social casino gaming may be related to a readiness to change among people who gamble at land-based casinos. According to the survey in the aforementioned journal, ~57% of respondents indicated that increases in the use of potentially addictive substances and behaviours were due to boredom or an increase in free time.

There appears to be some evidence of slower bookings for the industry, which reached a high point in 2Q20 (source AppAnnie). To what extent the slowdown has been driven by Apple's removal of the Identifier for Advertisers (IDFA) (see p. 7) or is a genuine mean reversion is unclear but spending continues to benefit.

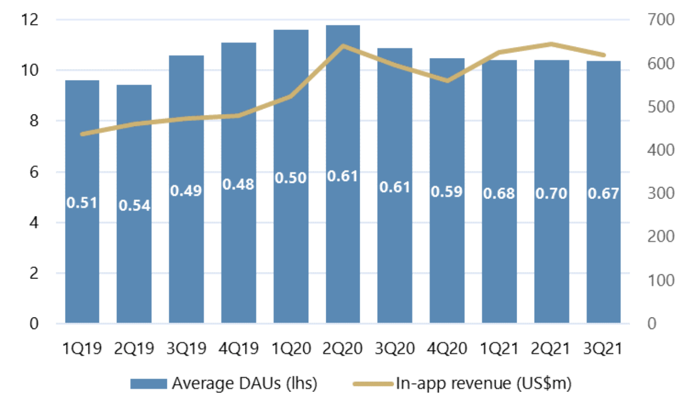
Many titles, including Aristocrat's, have a revenue model from in-play vs advertising, which may explain revenue resiliency. Further, according to New Zoo, a significant part of mobile games' revenue growth comes from China, where Tencent (Not Covered) and NetEase's (Not Covered) ecosystems are strong without IDFA. A reliance on first-party player data is only one way mobile developers and publishers can work around the removal of IDFA.

Figure 20: Zynga Mobile metrics



Source: Company data. Note: Data labels = average revenue in US$ per daily active user

Figure 21: Playtika Mobile metrics



Source: Company data. Note: Data labels = average revenue in US$ per daily active user

Weakness in console gaming boosting mobile

Mobile gaming also appears to have benefitted from some 2021 weakness in console gaming as a result of the June-half lockdowns, which impacted gaming studio development teams. This has resulted in a delay in game releases, compounded by chip shortages delaying the release of next-generation consoles, which depressed sales throughout 2021. For this reason, we believe video games are likely to be the best performing category in 2022, from a low base, and may take some spend from mobile.

Vertical integration from software into gaming (Microsoft and Activision) and gaming into mobile (Take-Two and Zynga) should create content competition

Microsoft's vision is for "a river of entertainment, where the content and commerce flow freely". With the planned acquisition of Activision, it would significantly expand its presence in mobile. Activision's King division is one of the global leaders in mobile gaming and Microsoft plans to bring as many Activision games as it can to its Game Pass subscription service across PC, console and mobile, including both new games as well as games from Activision's catalogue to offer better value and more choice for its gamers.

Activision has nearly 400 million monthly active players across 190 countries today and Game Pass has more than 25 million subscribers (source Microsoft) and it plans to create new opportunities for creators across its ecosystem with programs such as ID at Xbox, which helped independent developers publish their creations across its platforms.

Supportive growth trends medium term

High-end smartphones are now easily available and are less expensive than they used to be, resulting in a sharp increase in mobile gamer numbers. The medium-term outlook for mobile gaming remains strong, given globally, the total number of internet users is projected to grow from 3.9b in 2018 to 5.3b by 2023 at a CAGR of 6%, with the number of smartphones growing at 7% CAGR (source Cisco).

The release of 5G and unlimited data plans are also expected to be key factors in the success of cloud gaming and mobile gaming. The mobile gaming market looks to represent a cost-effective opportunity for investors, mobile developers and publishers. According to Ericsson, the number of 5G mobile subscriptions in the Asia-Pacific region is expected to reach around 1.5b by 2025.

Global mobile gaming market set to reach US$139.5b by 2026

According to market research company Global Industry Analysts in its May 2021 report, the global market for mobile gaming was estimated at US$71.9b in 2020 and is projected to reach a revised size of US$139.5b by 2026, growing at a CAGR of 11.5% over the analysis period.

Smartphone units, one of the segments analysed in the report, are projected to record 12.6% CAGR and reach US$139.1b by 2026.

The report revises growth in the tablet units segment to 3.8% CAGR over the seven years to 2026. The availability of large screen smartphones with increased resolutions, offering an enriched gaming experience, should also contribute to the increase in the size of the mobile video games segment.

Aristocrat games remaining resilient

- **Casual Gaming - key games Gummy Drop! and EverMerge:** The trend of longer standing game Gummy Drop! showed resilience through the Dec-21 quarter. EverMerge's revenue appeared to peak around March/April 2021 (in line with the industry segment) and has subsequently come down from that peak. However, this may be driven by the normal peak in revenue post releasing a game, as the game was released in early 2020.
- **Social Casino - key games Lightning Link, Big Fish Casino, Cashman Casino:** We estimate Aristocrat's Social Casino games and Casual Gaming showed resilience in the Dec-21 quarter, with this resilience likely to continue near term (Mar-22 quarter). In the medium term (6-12 months), we see risk to bookings/revenue for Social Casino based on increased mobility and entertainment options or some mean reversion from the pickup that both the industry and Aristocrat saw through lockdowns.

Likewise in Casual Gaming, we see some risk on the downside, noting the category did not see as significant an increase through COVID as the Social Casino category.

There continues to be evidence of short-term customer "stickiness" for October through December, with revenue data for Aristocrat's key games (Raid and Vikings) increasing, albeit there is some softness in the number of downloads.

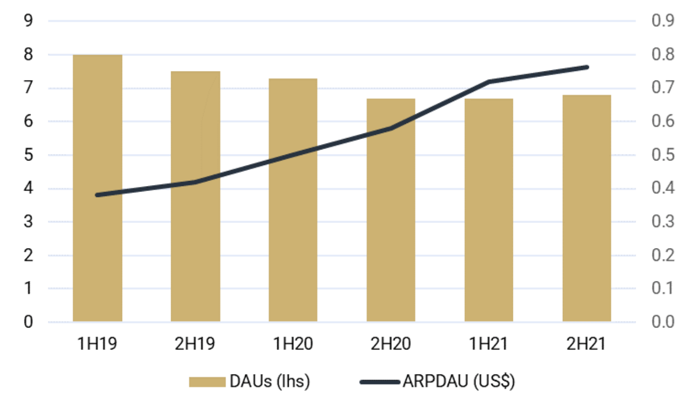
Mech Arena appears to be seeing strong revenue results, although revenue appears to have trended down from October through December from a strong start (albeit a small sample size). The ramp-up post launch is different than those for say Raid and Vikings, which started smaller but ramped up continually.

Digital revenue over the past ~2-3 years has been significantly skewed to the significant outperformance of Raid. Data we track suggests strong bookings for Raid, potentially driven by higher UA spend.

Higher UA spend

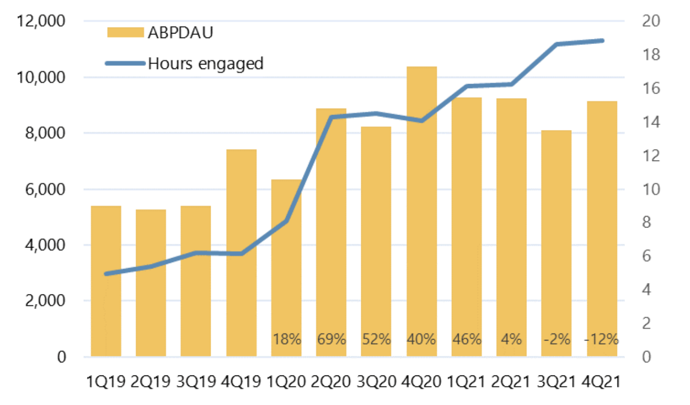
According to Sensor Tower, mobile game UA continues to face headwinds driven by changing data laws. Aristocrat advised at the FY21 results in November that it expects FY22 UA spend to be within the recent range of 26-29% of overall Pixel United revenues (we assume the top end).

Figure 22: Aristocrat: Pixel United metrics (m)



Source: Company data

Figure 23: Roblox metrics (US$)



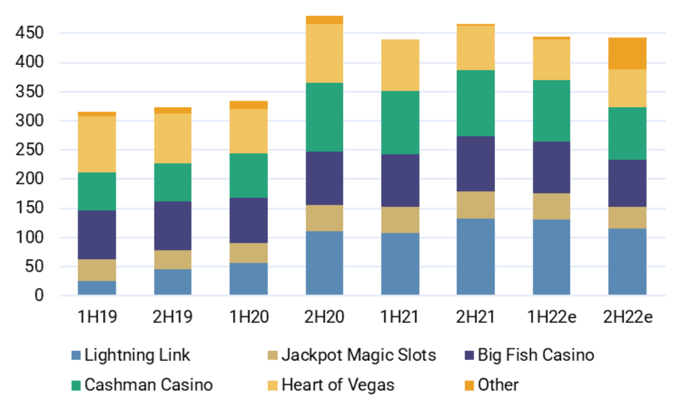
Source: Company data

No evidence of a slowdown in Aristocrat bookings yet

Aristocrat's Social Casino revenue (Figure 24) peaked in 2H20 (6 months to 30 September 2020) at US$480m, up 49% on the pcp or 43% on the Mar-20 half. Based on our estimates, the social casino market grew at a similar rate before some retracement in the Sep-21 half in line with Aristocrat. Some of Aristocrat's growth can be attributed to the success of more recent launches such as Lightning Link and longer-standing game Heart of Vegas which, while lower than its peak, saw a significant increase in revenue of ~15% YoY in the Sep-20 half.

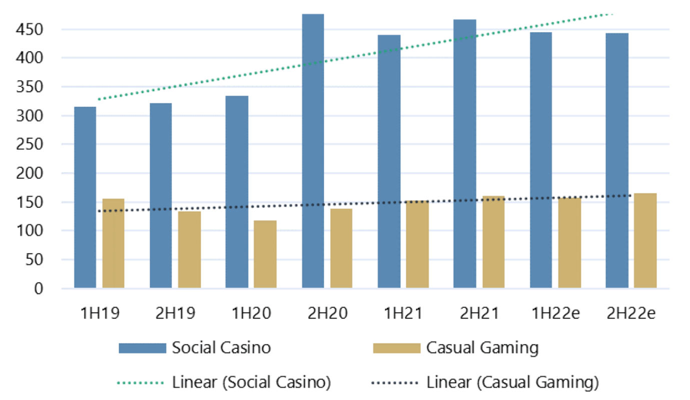
Based on data we track, we expect a strong performance from Aristocrat's key Social Casino games in 1H22, in line with the 1H21/2H21 run-rate.

Figure 24: Social Casino game bookings (US$m)



Source: Company data, Jarden estimates

Figure 25: Social Casino and Casual Gaming bookings (US$m)



Source: Company data, Jarden estimates

Substitution risk from casinos?

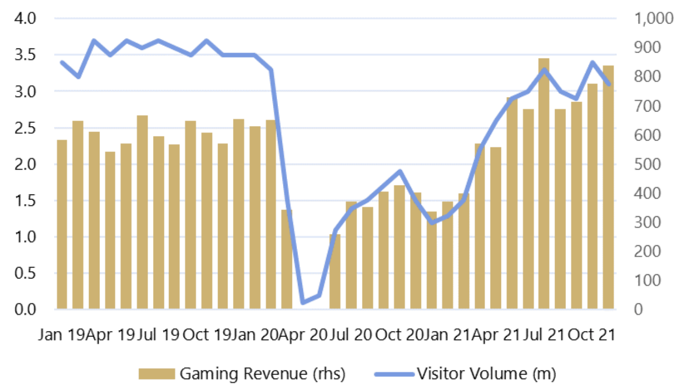
Social casino games and gambling games share the same visual and auditory stimuli and many of the same gaming mechanics, so it is reasonable to assume people may migrate from social casino gaming to casino gaming or vice versa. There have been several recent journal articles, including in the Journal of Gambling Issues, Critical Gambling Studies and Journal of Consumer Culture examining this issue, in which it was reported that in 2015 approximately half of social casino gamers in the United States reported visiting a land-based casino on a regular basis (SuperData).

In a study in the US (International Gambling Studies 2021, Vol. 21), among respondents who reported no online gambling involvement prior to COVID-19, 15% reported they had migrated to online gambling.

This leads to the question of to what extent this segment was boosted during COVID-19 and may mean revert as land-based casinos and entertainment options ramp-up.

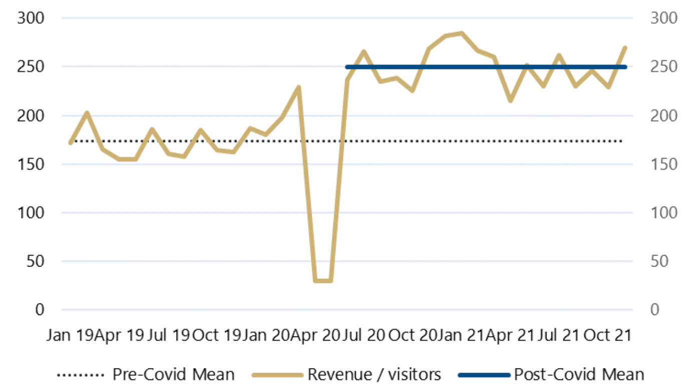
However, to date, despite a significant rebound in gaming revenue and spend per customer, there is little evidence of a material slowdown in Social Casino bookings.

Figure 26: Las Vegas gaming revenue (US$b)



Source: LVCVA data compiled by Jarden

Figure 27: Las Vegas revenue per visitor (US$)



Source: LVCVA data compiled by Jarden

Land-based competitor revival

Aristocrat is the number one player by revenue and market share in a land-based gaming oligopoly with high barriers to entry, which has seen a lack of rivalry from its two main competitors and has seen pricing and market share gains for Aristocrat. Following significant asset divestments by Scientific Games (Not Covered) and IGT (Not Covered), the companies are in better relative positions than historically.

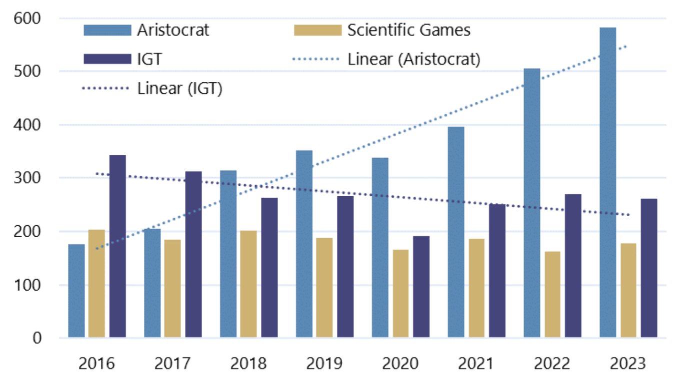
Although likely not an immediate threat, if Scientific Games (Not Covered) and IGT have the capacity to invest more in D&D and develop better titles, they may increase their market share.

Since 2016, there has been an acceleration of market share losses for IGT and Scientific Games, moving from ~44% and ~29%, respectively, to ~36% and ~25% for casino-owned games. Aristocrat and other smaller operators have picked up the market share lost.

Market share losses are more pronounced for leased and participation games, where in 2016 IGT and Scientific Games' market share was ~32% each vs ~19% for Aristocrat, against current market shares of ~32% for Aristocrat, ~23% for IGT and ~22% for Scientific Games (source Eilers).

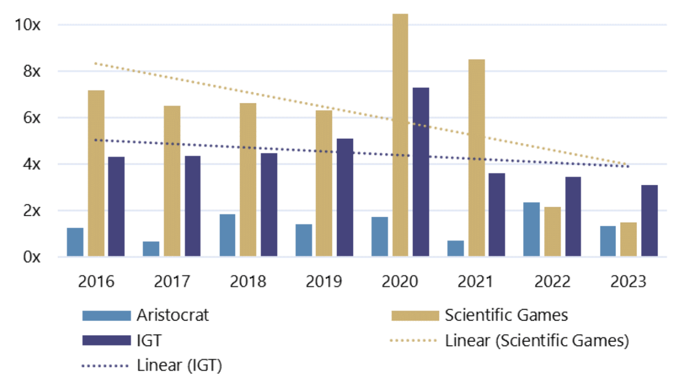
Aristocrat has been a beneficiary in the sense that it has ramped up D&D spend while its balance sheet constrained competitors have been spending less over time. However, this is unlikely to be a short-term risk given the lead times for developing games and, according to Eilers-Fantini Slot Survey, Aristocrat is expected to garner the highest share of casino operator forward replacement sales at 28%, followed by IGT with 21% and Scientific Games with 18%.

Figure 28: Consensus design and development expenses (US$m)



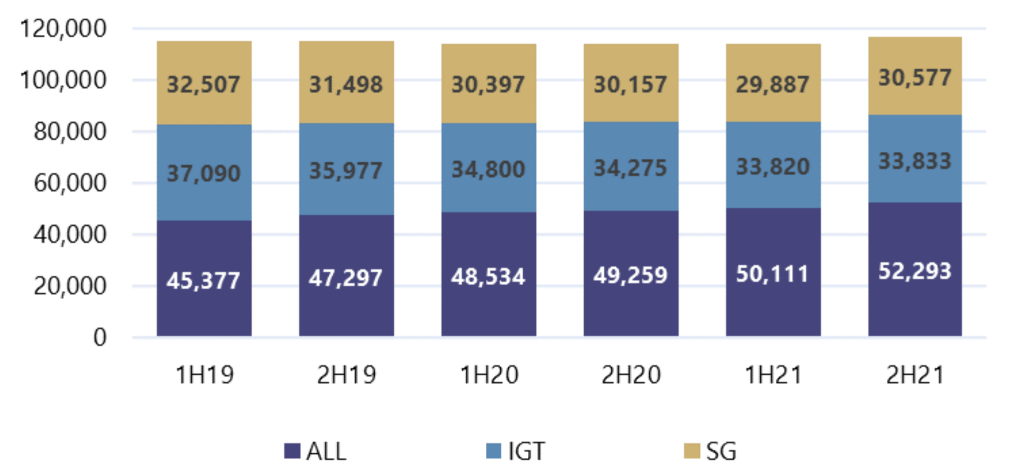
Source: Visible Alpha Consensus Data

Figure 29: Consensus net debt/EBITDA



Source: Visible Alpha Consensus Data

Figure 30: Average number of participation machines (North America)



Source: Company data, Visible Alpha Consensus Data

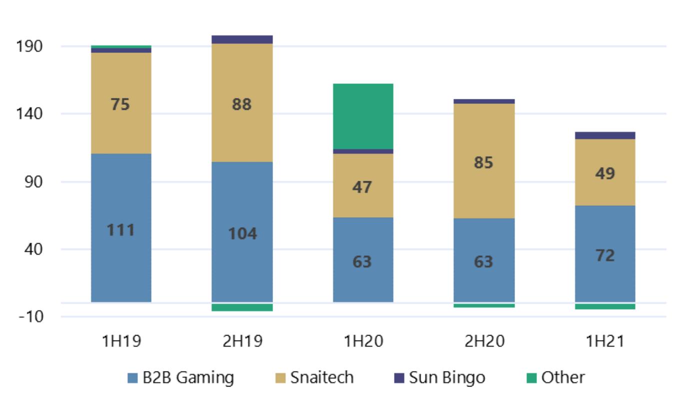
Playtech

Aristocrat announced the proposed acquisition of Playtech for a cash offer price of GBp680 per share, or £2.1b, implying an enterprise value of £2.7b [A$3.9b]) and a valuation multiple of 11.4x Playtech's EBITDA (TTM ended 30 June 2021).

If Aristocrat increased its bid by 10-15%, we estimate a 0.9-1.3x increase in the acquisition multiple, a 0.2-0.3x increase in the pro forma leverage of ~2.6x and 59-89c per Aristocrat share equity value dilution (vs. valuing the business at the initial offer price). If Aristocrat is unsuccessful, we estimate the EV/EBITDA valuation multiple would increase by ~2x, which accounts for the additional shares in issue and a minimal return on cash vs the return from the forgone Playtech earnings

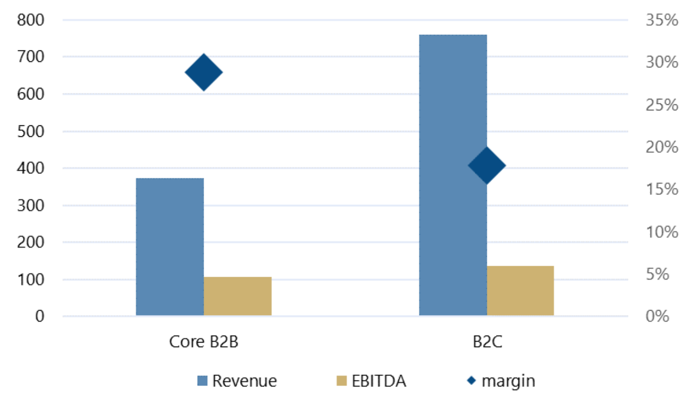
We categorise Playtech as a "half" business-to-business (B2B) proprietary online gambling technology provider and "half" traditional business-to-consumer (B2C) retailer, operating online gambling, gaming machines and a retail betting network, mostly throughout Italy. The former half of the business appears the highest value with the most IP and growth potential and the latter half we consider more mature and comparable to a traditional wagering business. The majority of the B2C business is Snaitech.

Figure 31: Playtech EBITDA (€m)



Source: Playtech data compiled by Jarden

Figure 32: Playtech FY19 (A$m)



Source: Playtech, Aristocrat, data compiled by Jarden

The proposed acquisition multiple is ~8x FY19 EBITDA for the group, with a largely equal weighting for the B2B and B2C businesses. For context, Playtech acquired Snaitech in 2018 at an EV/EBITDA multiple of 6.2x trailing EBITDA. Adjusting for current bond rates and using the margins in Figure 32, the implied multiple for the core Playtech B2B business is ~15.5x EBITDA.

Comparative transaction: acquisition of Sisal by Flutter

In December 2021, Flutter Entertainment (Not Covered) announced the acquisition of Sisal (Not Covered), Italy's leading online gaming operator, from CVC Capital Partn ers Fund VI for €1.9b. The transaction is conditional on merger control clearance and customary gaming and foreign investment consents. Subject to these approvals, Flutter expects the transaction to complete in 2Q22. Based on the company's FY21 EBITDA forecast, the implied acquisition multiple is ~8x. Sisal's key operating segments are similar to those of Playtech's B2C business:

- **Retail Gaming** consisting of gaming machines (slot machines and video lottery terminal [VLTs]) and fixed-odd betting, totaliser betting on sport events and bingo.
- **Online Gaming** including online betting and virtual races, online poker and skill games, casino and slots, quick games, lottery and bingo games.
- **Lottery:** Sisal holds the exclusive concession for national totalisator number games.

Contemplating the multiple relative to Australia or the US, we consider Italy (and other European countries) have a higher cost of debt and equity and country risk premium, which increases the discount rate and lowers the valuation multiple, *ceteris paribus*.

- Italy has a Baa3 credit rating (Moody's) and rating-based default spread of 1.95% vs Australia's Aaa rating (Moody's) and 0% rating-based default spread. Italy's country risk premium is assessed at 2.13% vs 0% for Australia (Damodaran). The equity risk premium in Italy is assessed at 6.85% vs 4.72% in Australia (Damodaran).

Italian gaming market

Italy is one of the largest gambling markets in the world, ranking in the top 10 for per capita gambling losses and top 5 for number of gaming machines, corresponding to one for every 134 people (Gaming Technology Association). Italy is the second largest regulated gambling market in Europe, after the UK, with total estimated gross gaming revenue (GGR) in 2019 of €19b (source ADM).

Dominated by slots

The Italian market has a high prevalence of electronic gaming machines (EGMs), also known as slot machines (AWP or amusement with prizes) and VLTs, which in 2018 provided almost half the country's gambling revenues (source ADM).

The Italian gambling market, like most other markets internationally, has been growing in parallel with a liberalisation process, driven by factors including the following.

1. Legalisation of online gaming and the increase in offerings from multiple players.
2. The introduction of VLTs and the modernisation of existing retail networks and the introduction of new gaming hall formats suitable to hosting VLTs.
3. Increasing the average payout from ~70% in 2009 to ~81% in 2015, largely attributable to the introduction of new games with higher legally mandated payouts, which made games more attractive.
4. Stricter controls on illegal gaming.
5. The 2013 introduction of Virtual Races.
6. The increase in gaming tax following the adoption of the 2015 Stability Law.
7. The significant liberalisation of the Italian gaming industry.

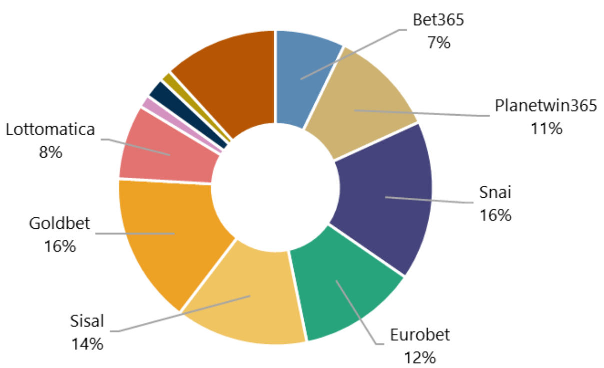
Only four bricks-and-mortar casinos are currently permitted in Italy: San Remo, Saint Vincent, Campione d'Italia and Venice.

Market seeing some focus on responsible gaming recently

However, since around 2004, a number of municipalities have taken measures to limit the negative outcomes of gambling by introducing local regulations, especially 'timing' and 'zoning' measures aimed at reducing the number of slot machines.

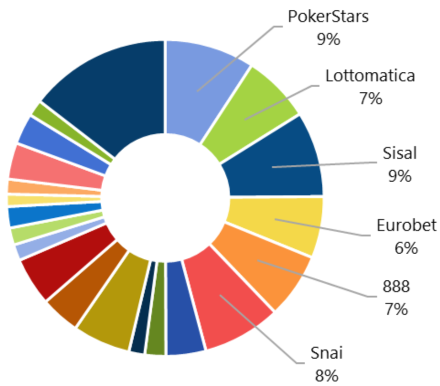
The Italian government has been attempting to reduce problem gambling and an agreement was reached in September 2017 that established that the number of gambling venues – both specific and general, such as bars and tobacco shops – would be halved (from 98,600 to 48,000) and the number of EGMs would be reduced by 35% (from 400,000 to 265,000) by the end of 2019.

Figure 33: Italy online and retail sports betting GGR share



Source: Ficom Leisure. Note: October 2021 GGR.

Figure 34: Italy online casino GGR share



Source: Ficom Leisure. Note: October 2021 GGR.

The Italian gaming market has a broad and widespread distribution network.

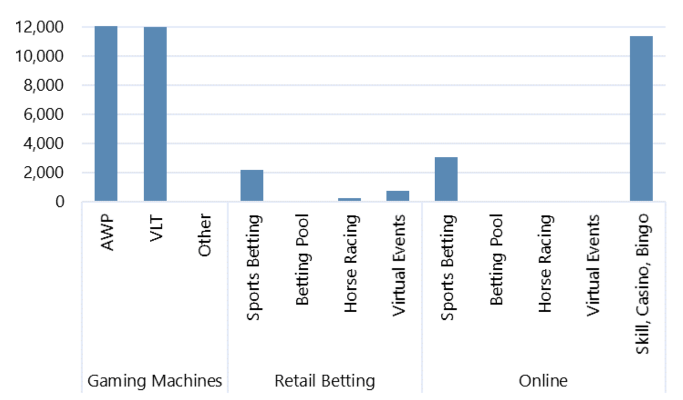
- **Betting shops and hippodromes**, dedicated to gaming and betting activities for sports and horse wagering and slot machines and VLTs.
- **Sports and horse betting corners**, located in shops whose main activity is not gaming (such as bars, tobacconists and newspaper stands), where it is possible to install slot machines but not VLTs.
- **Gaming halls**, which are dedicated to gaming activities, including gaming machines.
- **Bingo halls**, which are dedicated to the game of bingo but may also host gaming machines.
- **Other commercial businesses** whose main activity is not gaming, where it is possible to play lotteries (NTGN, Lotto and Gratta e Vinci) and slot machines but not VLTs.

Online

Of total Italian GGR, 10% was generated online in 2019, increasing to ~20% over the past two years, driven by COVID-19.

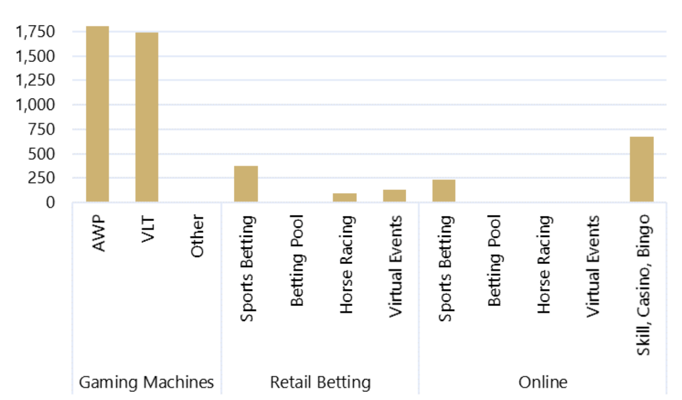
Online penetration rates remain well below those in the UK and Australia, where Playtech estimates the online share of total gambling spend was ~60% and ~70%, respectively, in 2019. According to Flutter, citing MDF Partners, the Italian online market is projected to be worth £3.6b by 2024, or compound annual growth of 18%.

Figure 35: Italian gaming market (GGR) - Jun-18 half (€m)



Source: Snaitech. Figures as at 30 June 2018.

Figure 36: Snaitech (GGR) - Jun-18 half (€m)



Source: Snaitech. Figures as at 30 June 2018.

Italian sports betting licence changes

The Customs and Monopolies Agency (Agenzia delle Dogane e dei Monopoli [ADM]) has already begun reviewing the concessions for a reported 10,000 retail venues from the leading gambling franchisees of Snaitech, Sisal, SKS365, Lottomatica and Eurobet.

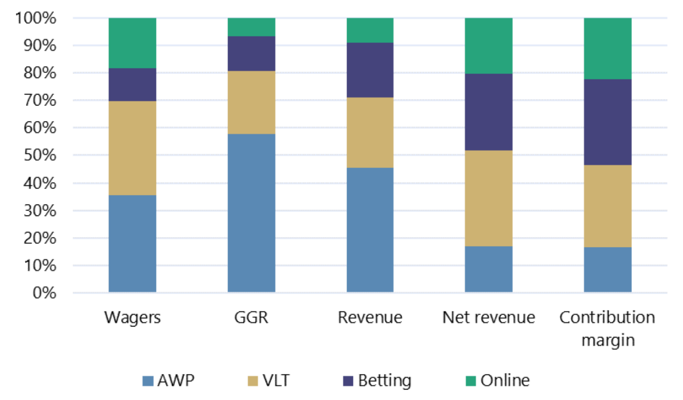
In the previous tender, 120 licences were set up, each of which had a four-year expiry date and came at the cost of €200,000 per licence. Italy's Treasury Undersecretary has advised ADM to issue only 40 licences at €2.5m each from 2023. The current number of concessionaires is set at 82.

Retail gaming regulations are also set to to undergo certain changes. The reforms include the introduction of separate gaming rooms in bars designed for slot machines and alterations in the designation of horse racing, VLT and bingo halls and sports betting agencies as gaming halls.

Snaitech

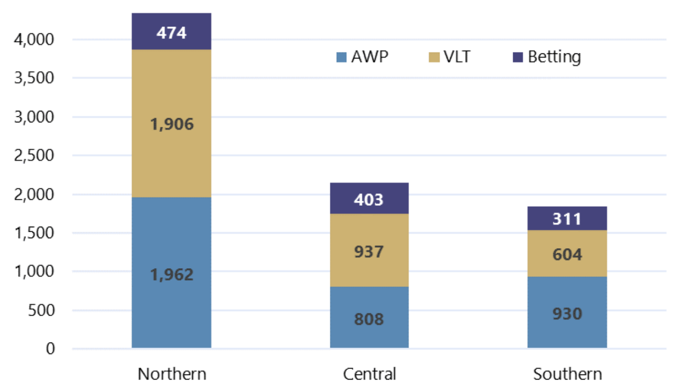
Playtech acquired Snaitech in 2018 at an EV/EBITDA multiple of 6.2x trailing EBITDA of €136m. For 2017, Playtech's EBITDA was €322m, at a margin of 40%, and Snaitech's EBITDA was €136m, at a margin of 15%.

Figure 37: Playtech value chain and mix



Source: Playtech. Figures at 30 June 2018.

Figure 38: Playtech wagers breakdown and distribution



Source: Playtech. Figures at 30 June 2018.

Snaitech has a broad range of products, from offline and online betting to gaming machines (AWPs and VLTs) and online skill and casino games. The horse race betting, gaming machine and online skill and Casino games businesses generate stable revenues, as the payout levels are generally set by applicable law or regulation, compared with sports betting, where payout levels fluctuate over time and bookmaking risk is incurred. Snai's merger with The Cogemat Group (Cogemat) skewed more of Snai's revenue towards gaming machines and Snaitech was formed.

Snai consisted of four key business segments: Concessions, Racecourse Management, Television and Betting Collection. Cogemat's core business was similar to that of Snai, with a more significant skew towards retail betting stores, which had one of the largest gaming distribution networks, including 112 sports and horserace betting shops and 66 sports betting corners at the time and and ~37,000 AWPs and ~5,000 VLTs.

- Concessions.
  - **Gaming Machines**: The operation of AWPs (amusement with prize or electronic slot machine game device) and VLTs under concession and related services such as IT services managing the authorised IT network connecting gaming machines to the regulator's (ADM's) control system.
    - Concessions are due for renewal in March 2022.
  - **Sports and Horse Race Betting and Virtual Events**: Includes fixed-odds betting operations for sports matches, virtual events and betting operations for horse race events (mainly totalisator), including bookmaking and other statistical services and related online channel offerings and IT support.
  - **Online Skill and Casino Games**: online operations (including Internet, mobile and tablet platforms), encompassing a number of gaming activities (i.e., bingo, blackjack, backgammon, solitaire card games, dice games and poker) and other residual revenues related to the Concessions segment.
- **Racecourse Management:** Management of horse racecourses, including real estate management and organisation of races.
- **Television Services.**
- **Betting Collection Services:** Electronic services for betting acceptance points.

Gaming Machines

The slot machines segment involves three market participants.

1. The slot machine concessionaire, responsible to ADM for the certification of the machine, the establishment and management of the network connection, data transmission to ADM, the proper functioning of the machine and the collection and payment of taxes. The concessionaire receives compensation based on a percentage of the turnover. As of November 2018, Snaitech operated ~39k AWP rights. Concessionaires take ~0.75% of gross wagers.
2. The slot machine operator, known as the "gestore", who is responsible for the initial deployment, management and maintenance of the machine and enters into a revenue-sharing contract with the retailer who displays the machine. The gestore operates in partnership with a concessionaire. As of November 2018, Snaitech directly owned ~5k AWPs. The operator/owner takes ~4.5% of gross wagers.
3. The retailer, who is responsible for collection from the final consumer and represents the physical point of sale where the machine is located and is entitled to ~5% of gross wagers.

The key players in gaming machines in Italy are Lottomatica, Snaitech, Starnet and Gamenet. The machines are linked to one another through remote networks and are all connected to a centralised system controlled by the ADM. Presently, there are some 397,000 machines connected to the ADM network.

Slot machines/amusement with prizes

AWPs are electronic devices that pay out cash prizes. Each device has a game card installed inside, which interacts with the licensee's system through an access point and is regulated by the certifying bodies. The payout for each single device must be at least 68% and is calculated on 140,000 games. No minimum bet is required, while the maximum cost of a game is €1. The highest possible winnings are €100 and there is no jackpot. AWPs are located in bars/tobacconists, betting shops and gaming halls.

Video lottery

VLTs can be considered an evolution of traditional AWPs. They are real terminals connected to a central game system and therefore have no "game card" installed; the game and the outcome of the bet are calculated on the central system and are then displayed on the VLT screen. The payout is at least 85% and is calculated over a cycle of ~5,000,000 bets. The minimum bet is €0.50 and the maximum bet is €10.00. The maximum payout is €5,000 but a national jackpot (up to €500,000) and local jackpots (up to €100,000) are possible. VLTs are located in bingo halls, gaming halls and arcades.

The largest player in the AWP/VLT market is Gamenet (a subsidiary of private equity firm Apollo Global Management), following the acquisition of IGT's Lottomatica Italian B2C subsidiary, and other key players include Global Starnet and Sisal. Regulatory requirements make it difficult for new players to enter the market and public tenders for new or bolt-on concessions are infrequent.

- Snaitech operates ~10k VLT rights, which yield ~2% of gross wagers.

Retail betting

The SNAI retail betting network comprises over 1,584 points of sale located throughout Italy and from 2021 Snaitech took control of HAPPYBET, a betting operator with around 200 points of sale in Austria and Germany. The majority of the network operates under franchise agreements acting under revenue share agreements (B2B2C) and a small number are directly operated shops (DOS).

Concessions for betting activities are granted in the form of licences for the operation of a single betting shop or betting corner. A concessionaire can hold one or more licences. Sports and horse bets may be placed either through the retail channel (shops or corners) or through the online channel. Most large concessionaires, including Snai, integrate their betting offerings. The key players are Goldbet with 23.1% market share in October 2021, Snaitech (18.8%) and Eurobet (14.9%).

Other

Snaitech also owns three race tracks: two in Milan, San Siro Galoppo and La Maura Trotto, and one in Tuscany in Montecatini Terme, Sesana Trotto. Its properties include training circuits and accommodation for horses.

Cogemat also had a convenience payment services offering, including prepaid payment cards and utility bill payment services in co-operation with Poste Italiane and a third-party licensed payment institution, as well as mobile top-ups, phone cards and gift cards and results from operations related to IT and bookmaking services supplied to third-party betting shops.

Sun Bingo

Sun Bingo was launched as the bingo arm of *The Sun* newspaper in 2006. In November 2015, News UK and Playtech signed a five-year deal to operate Sun Bingo. In 2021, Playtech signed a new 15-year deal to operate Sun Bingo on a revenue share basis. We estimate Sun Bingo's EBITDA contribution is ~€10m a year.

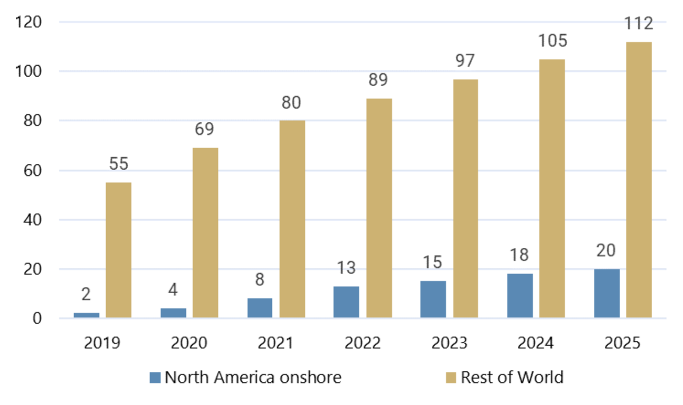
Online bingo differs from traditional forms of bingo given it can be played anywhere, any time and has capacity to offer an immersive experience. A particular feature of bingo in the UK is that it is the only form of gambling where women participate more than men.

Live casino

Live casino gained momentum in Europe in 2006, driven by advances in computer hardware, broadband penetration and bandwidth and the widespread adoption of smartphones.

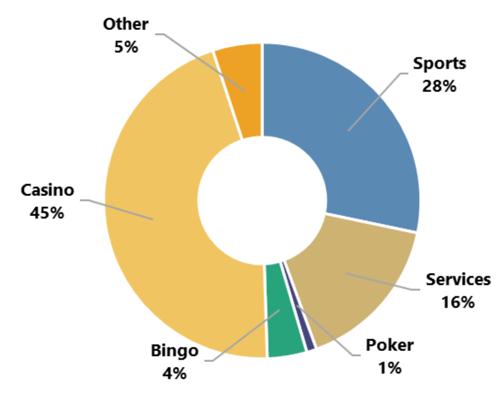
Live and online casinos appear to differ from other forms of more partially skilled-based gaming such as sports betting, where losses tend to discourage ongoing activity. Therefore, it is possible that entertainment value might drive continued activity more so than gaining or maintaining profits, which is evidenced by a study by Edson et al (Returning to the virtual casino: a contemporary study of actual online casino gambling, International Gambling Studies), where ~50% of the sample did not make any withdrawals during the two-year study period and most subscribers experienced a net loss, losing ~7% of the total wagered.

Figure 39: Expected global online GGR (US$b)



Source: Company data, H2 Gaming Capital

Figure 40: Playtech B2B revenue by product FY19



Source: Playtech

Using data provided by Entain (Not Covered), Edson et al advised the average age in the sample of online casino bettors was 29.1 years and the large majority (90.9%) were male. The data comprised all subscribers' online casino betting activity during the two-year study period, including each subscriber's transactional data including deposits/withdrawals, gambling activity and subscriber characteristics.

Less than a third of online casino subscribers (26.9%) used at least one credit card to deposit money, which appears to be an important driver of revenue. Recently, credit card deposits for online gambling were banned in the UK (UK Gambling Commission, 2020).

Italian gaming market is heavily regulated

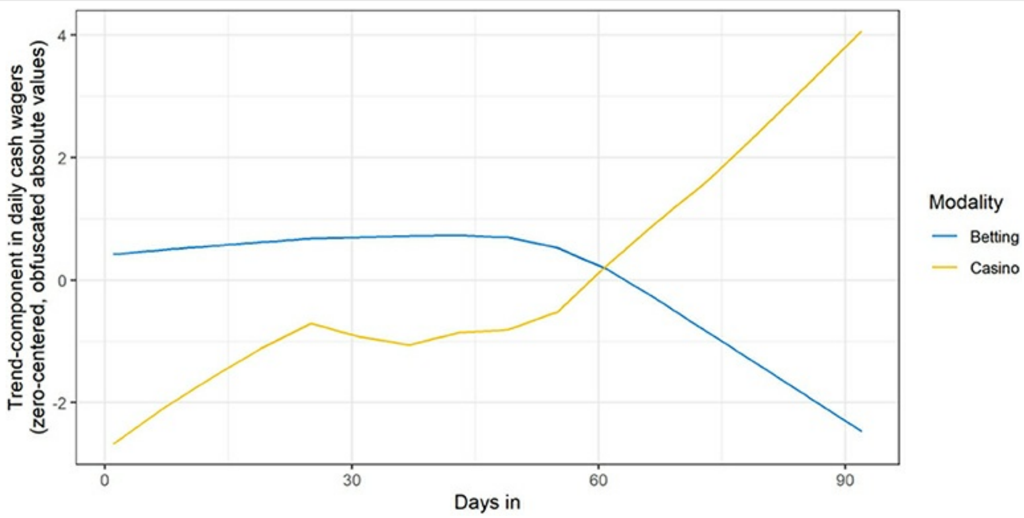
The Italian gaming market is heavily regulated by domestic legislation as well as by the Agenzie delle Dogane e dei Monopoli (ADM), which determines which games may be operated and what amounts may be charged by operators; what level of winnings may be awarded; the compensation to be paid to concessionaires; the minimum number of points of sale and whether a given concession is exclusive or available to multiple concessionaires and the minimum levels of service.

COVID-19 boost to online casino

There have been numerous studies into gambling before, during and post lockdowns globally. The key piece of noise to analysis has been the dramatic reduction in sporting events and closure of physical gaming venues, which decreased gaming revenue during the pandemic. However, by and large, there has been a sharp bounce back in spend post-lockdowns.

In Sweden, concerns about increased gambling activity and potential problem gambling were raised at an early stage of the outbreak, which led to the Swedish government introducing temporary legislation, including a deposit limit on online casinos of SEK5,000 per week and duration limits. According to a study in Sweden, total online gambling activity in the first phase of the outbreak in March/April 2020 was not significantly different from zero. However, this was driven by a large decrease in sports betting, offset by a ~9% increase in online casino gambling (Frontiers in Public Health, September 2020).

Figure 41: Trends in online betting and casino activity



Source: Transitioning Between Online Gambling Modalities and Decrease in Total Gambling Activity, but No Indication of Increase in Problematic Online Gambling Intensity During the First Phase of the COVID-19 Outbreak in Sweden: A Time Series Forecast Study; Frontiers in Public Health

Opportunity to increase presence in the US

The North American segment size of iGaming (casino, live casino, poker, bingo) and online sports betting (OSB) has the potential to reach ~US$25-30b by 2030 according to H2 Gaming Capital. Online gaming is spreading across the US across multiple formats: daily fantasy sports (DFS) is available in 43 states and online horse racing in 38 states, although like DFS online horse racing wagering operates in a legal grey area in some states. Sports betting sites have launched in 22 states and lottery tickets are available for purchase online in 13 states.

Online casino and poker have lagged, tallying six and seven states, respectively, with Connecticut being the most recent state to legalise online casino and poker in 2021. Various media reports have suggested lobbying, including by the late casino operator Sheldon Adelson, as a potential protagonist for the resistance. One example was getting the Restoration of America's Wire Act (RAWA) off the ground, in order to clarify the Wire Act to include all forms of internet gaming. RAWA failed to gain any traction in 2014 and subsequent efforts to push it through in 2015 met the same fate.

The key to states legalising online casinos appears to be the position of state budget and potential tax leakage to other states, coupled with what other forms of legalised gaming already exist. The rapid expansion of lotteries and land-based casinos to deliver revenue to states rather than higher taxes or cut other expenditure contributed to the liberalisation of gaming. Still there are a number of other factors to consider including five points where the legislation can be struck down: in a House/Assembly committee, in a Senate committee, at a House/Assembly floor vote, at a Senate floor vote and at the governor's desk.

Gambling bills may be unlikely to be selected for a floor vote if lawmakers chairing committees are opposed to expansion and if the Speaker of the House or a similar position opposes expansion, the bill may be unlikely to pass. Sports betting is currently legal and operational in 22 states in the US and of those, 15 states have also legalised OSB since the repeal of the The Professional and Amateur Sports Protection Act 1992 (PASPA).

Incorporating Playtech into Aristocrat's earnings forecasts

We assume the proposed acquisition closes prior to 1 April 2022 and incorporate Playtech in our forecasts from 1H23E, noting Playtech is due to hold its shareholder meeting to vote on the bid on 2 February 2022 (UK time).

JKO Play Limited (Not Covered) must either announce a firm intention to make an offer for Playtech or announce that it does not intend to make an offer by 4am on Thursday 27 January 2022 (Sydney time). There have also been media reports (e.g., Sky News) suggesting a group of investors, collectively, may hold a stake >25% in Playtech, which could thwart Aristocrat's proposal and the requirement for >75% scheme approval vote. At GBp680 per share, the implied EV is £2.7b [A$3.9b]), or a multiple of 11.4x Playtech's EBITDA (TTM ended 30 June 2021) or ~8x FY19 EBITDA.

- If Aristocrat increased its bid by 10-15%, we estimate a 0.9-1.3x rise in the acquisition multiple, a 0.2-0.3x increase in pro forma leverage of ~2.6x and 59-89c per Aristocrat share equity value dilution (vs. valuing the business at the initial offer price).
- If Aristocrat is unsuccessful, we estimate EPS downside sensitivity of ~10% based on our FY23 forecasts (our base case FY23 forecasts for Aristocrat integrate Playtech's earnings, account for the recent equity raising, costs and minimal return on cash). Aristocrat has the option of returning cash to shareholders, which would limit dilution. In this example, the EV/EBITDA valuation would increase by ~2x.

Figure 42: Playtech estimates (€m)

	1H23	2H23	FY23	1H24	2H24	FY24	1H25	2H25	FY25	1H26	2H26	FY26
B2B Gaming												
Casino	100	103	203	103	106	209	106	109	215	109	113	222
Services	46	47	93	47	49	96	49	50	99	50	52	102
Sport	70	72	142	72	74	146	74	76	151	76	79	155
Bingo	10	10	20	10	11	21	11	11	22	11	11	22
Poker	5	5	10	5	5	10	5	5	11	5	6	11
Other	20	20	40	20	20	40	20	20	40	20	20	40
Total B2BG revenue	251	258	509	258	265	523	265	272	537	272	280	552
EBITDA	68	70	137	72	74	147	77	79	156	82	84	166
margin	27%	27%		28%	28%		29%	29%		30%	30%	
Depreciation	-10	-10	-20	-10	-11	-21	-11	-11	-22	-11	-11	-22
Amortisation	-11	-12	-23	-10	-11	-21	-9	-10	-19	-8	-8	-17
EBIT	46	48	94	52	53	105	57	59	116	63	64	127
margin	19%	19%		20%	20%		22%	22%		23%	23%	
B2C Gaming												
Snaitech	370	389	759	389	408	796	408	428	836	428	450	878
Sun Bingo	30	31	61	31	32	63	32	33	65	33	34	67
Casual	10	10	20	10	11	21	11	11	22	11	11	22
Total B2C Revenue	410	430	840	430	450	880	450	472	922	472	495	967
Snaitech	89	93	182	97	102	199	102	107	209	111	117	228
Sun Bingo	5	5	10	5	5	10	5	5	10	5	5	11
Casual	2	2	3	2	2	3	2	2	3	2	2	4
Other costs	-5	-5	-10	-5	-5	-10	-5	-5	-11	-5	-6	-11
Total B2C EBITDA	90	95	185	99	103	202	103	109	212	113	119	231
margin	22%	22%		23%	23%		23%	23%		24%	24%	
Depreciation	-8	-9	-17	-9	-9	-18	-9	-9	-18	-9	-10	-19
Amortisation	-16	-17	-34	-15	-16	-31	-14	-14	-28	-12	-12	-24
EBIT	66	69	135	75	79	154	81	85	166	92	96	188
margin	16%	16%		17%	17%		18%	18%		19%	19%	
AUDEUR	0.63	0.63		0.63	0.63		0.63	0.63		0.63	0.63	
Revenue (AUD)	1,049	1,092	2,141	1,092	1,136	2,228	1,136	1,182	2,318	1,182	1,230	2,412
EBITDA (AUD)	251	261	512	271	282	553	286	298	584	309	322	630
EBIT (AUD)	178	185	363	201	209	410	219	228	447	245	255	500

Source: Jarden estimates

Aristocrat financials

Figure 43: Financial summary

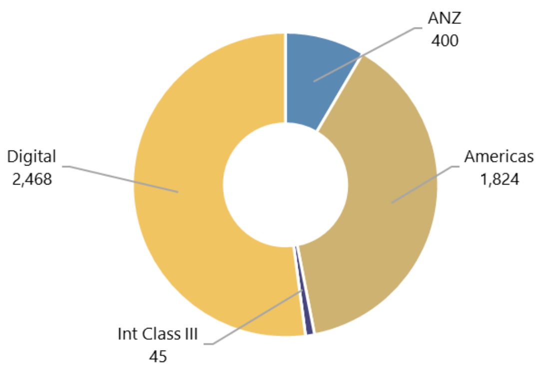
Aristocrat Leisure Limited (ALL.AX)

Rating	**Overweight**			
Target price	**$46.85**			
Financial Summary ($Am)	**FY21**	**FY22f**	**FY23f**	**FY24f**
Revenue	**4,737**	**5,404**	**7,658**	**7,895**
CODB	-3,194	-3,647	-5,395	-5,574
EBITDA	**1,543**	**1,757**	**2,263**	**2,321**
D&A	-266	-305	-464	-463
EBIT	**1,277**	**1,452**	**1,798**	**1,858**
Net Interest	-132	-184	-189	-140
Profit Before Tax (PBT)	**1,146**	**1,267**	**1,610**	**1,717**
Tax	-281	-311	-386	-412
Associates / other				
NPAT (pre-significant items)	**865**	**957**	**1,223**	**1,305**
Significant Items (after tax)	-45	-269	-92	-77
Reported NPAT	**820**	**688**	**1,131**	**1,228**
Balance Sheet				
Accounts receivable	686	1,069	1,169	1,207
Inventories	159	188	273	302
Accounts payable	839	769	1,130	1,207
Total Working Capital	**7**	**488**	**312**	**302**
Average Capital Employed	4,079	5,941	7,391	7,121
Adjusted Invested Capital	4,663	6,897	8,638	8,368
Funds Employed	7,087	10,515	11,061	10,669
Gross debt	3,525	6,435	4,635	3,735
Net Debt	1,093	3,970	2,882	1,918
Net Debt / EBITDA (x)	0.7x	2.3x	1.3x	0.8x
Gross Debt / EBITDA (x)	2.3x	3.7x	2.0x	1.6x
Cash flow				
Cash flow from operations	1,328	1,064	1,892	1,802
Δ working capital	209	-19	177	10
cash conversion	**86%**	**61%**	**84%**	**78%**
capex	-173	-189	-306	-308
Free cash flow	**1,155**	**875**	**1,586**	**1,494**
Cash	2,432	2,465	1,753	1,817

Share price	**$43.35**			
TSR (%)	**9%**			
Per share data	**FY21**	**FY22f**	**FY23f**	**FY24f**
Adj. EPS (cps)	136	145	186	198
Dividend (cps)	41	58	74	79
Valuation metrics				
PE (x)	32.0x	29.8x	23.3x	21.9x
EV / EBITDA (x)	21.1x	18.5x	14.4x	14.0x
EV / EBIT (x)	25.5x	22.4x	18.1x	17.5x
FCF Yield (%)	4.0%	3.1%	5.6%	5.2%
Dividend Yield (%)	0.9%	1.3%	1.7%	1.8%
Payout ratio (%)	30%	40%	40%	40%
Adj. Returns				
ROIC	21%	16%	16%	17%
ROE	24%	17%	21%	20%
ROFE	18%	14%	16%	17%
ROCE	31%	24%	24%	26%
Segment performance	**FY21**	**FY22f**	**FY23f**	**FY24f**
Revenue (A$m)				
ANZ	400	441	458	469
Americas	1,824	2,221	2,290	2,358
Int Class III	45	76	140	149
Total Gaming	**2,269**	**2,738**	**2,889**	**2,976**
Playtech	0	0	2,141	2,228
Digital	2,468	2,665	2,629	2,691
Other	0	0	0	0
Total	**4,737**	**5,404**	**7,658**	**7,895**
EBITA (A$m)				
ANZ	152	170	180	190
Americas	975	1,194	1,204	1,242
Int Class III	-9	7	39	45
Total Gaming	**1,118**	**1,370**	**1,423**	**1,477**
Playtech	0	0	363	410
Digital	799	875	906	912
Total	**1,917**	**2,245**	**2,692**	**2,799**
Other income / expenses		10	8	9
D&D Expense	-528	-689	-785	-829
Corporate costs	-112	-114	-117	-121
Group EBITA	**1,277**	**1,452**	**1,798**	**1,858**

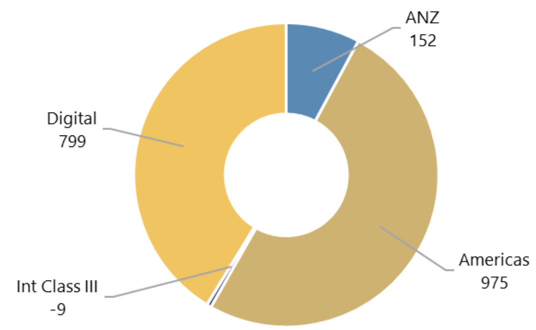
Source: Company data, Jarden estimates

Figure 44: Segment revenue split FY21 ($Am)



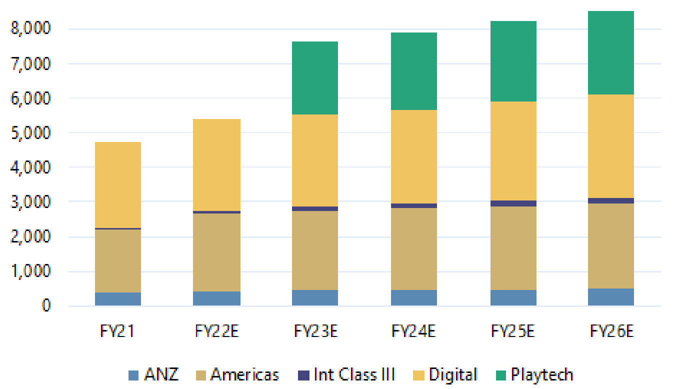
Source: Company data

Figure 45: Segment EBITA split FY21 ($Am)



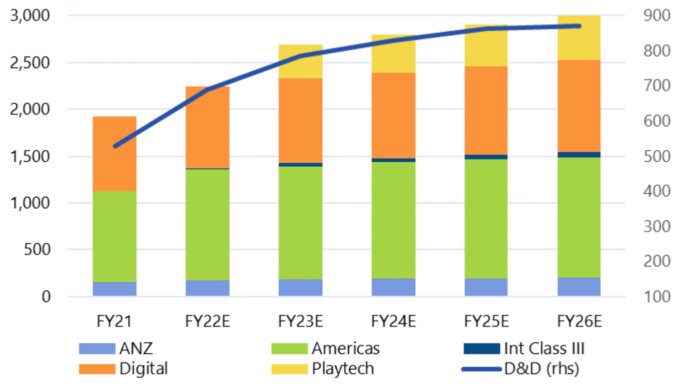
Source: Company data

Figure 46: Revenue forecasts (A$m)



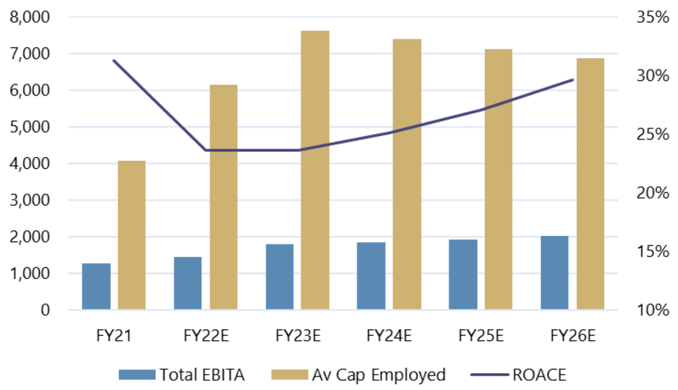
Source: Company data, Jarden estimates

Figure 47: EBITA forecasts (A$m)



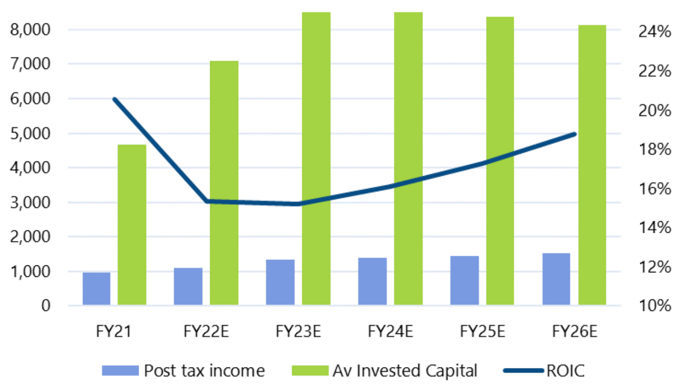
Source: Company data, Jarden estimates

Figure 48: ROACE forecasts (A$m)



Source: Company data, Jarden estimates

Figure 49: ROIC forecasts (A$m)



Source: Company data, Jarden estimates

Valuation methodology

We value Aristocrat using a sum-of-the-parts methodology to account for its various business segments, which have different risk profiles and investment characteristics.

- We value Gaming (ANZ, Americas, Int Class III) net of D&D, taking the new disclosure from Aristocrat for Digital and Gaming and making assumptions on the D&D spend for the Gaming segments: ANZ (A$51m), Americas (A$365m) and Int Class III (A$5m).
- We value the Digital segment at the highest multiple to reflect higher growth rates, strong returns on capital and comparable trading and acquisition multiples.
- We value the US land-based gaming business higher than the ANZ land-based gaming business given the skew to Gaming Operations and forward growth rates.
- We value Playtech at marginally higher than the current acquisition price using comparable multiples.

Figure 50: Jarden sum-of-the-parts valuation (A$m)

	FY22 EBITA	FY22 EBITDA	EBITA x	EBITDA x	EV	
ANZ	114	159	16.0x	11.5x	1,821	
Americas	800	988	18.5x	15.0x	14,796	
Int Class III FY23	26	56	15.0x	7.0x	390	
Digital	649	701	23.0x	21.3x	14,922	
Playtech B2C FY23	213	293	11.0x	8.0x	2,348	
Playech B2B FY23	149	218	18.0x	12.3x	2,691	
Corp	-114	-110	15.0x	15.5x	-1,710	
Total	**1,837**	**2,305**	**19.2x**	**15.3x**	**35,258**	
Net debt					-4,399	
Equity value					30,859	
per share A$					46.85	
	FY22e EBIT	**D&D**	**FY22e EBIT**	**x**	**EV**	**D&D / sales**
Casino	481	-82	399	24.6	9,825	7%
Casual	85	-30	55	15.0	830	7%
Strategy	309	-115	194	22.0	4,267	12%
Pixel United	**875**	**-227**	**649**	**23.0**	**14,922**	**8.5%**

Source: Jarden estimates

In Figure 51 below, we solve for the implied D&D multiple to illustrate what multiple should be applied given the split provided by the company for FY21 and making a similar estimate for FY22E.

Figure 51: Sum-of-the parts on gross EBITA (before D&D) (A$m)

	FY22 EBITA	FY22 EBITDA	EBITA x	EBITDA x	EV	D&D / sales
Gaming	1,402	1,659	18.1x	15.3x	25,380	
Digital	875	923	23.0x	21.8x	20,133	
Playtech B2C FY23	213	293	11.0x	8.0x	2,348	
Playech B2B FY23	149	218	18.0x	12.3x	2,691	
D&D	-689	-679	19.7x	20.0x	-13,584	-13%
Corp	-114	-110	15.0x	15.5x	-1,710	
Total	**1,837**	**2,305**	**19.2x**	**15.3x**	**35,258**	
ANZ	170	214	16.0x	12.7x	2,717	
Americas	1,194	1,377	18.5x	16.0x	22,081	
Int Class III FY23	39	69	15.0x	8.5x	581	

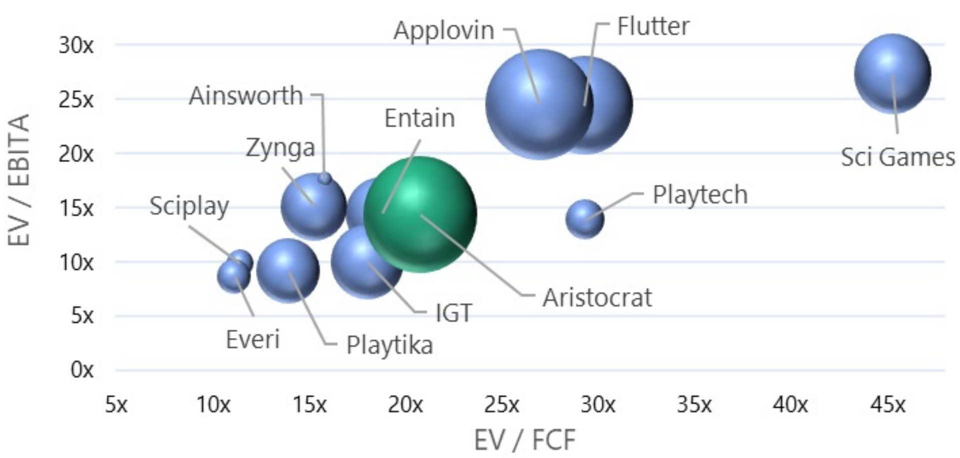
Source: Jarden estimates

Figure 52: Valuation comparable companies

		EV (local)	EV / EBITDA (T+2)	EV / EBITDA (T+3)	EV / FCF (T+2)	EV / FCF (T+3)
Wagering	Entain	12,081	10.6x	9.8x	21.2x	16.4x
	Flutter	21,725	13.4x	10.8x	36.6x	22.1x
	Tabcorp	13,672	11.4x	11.0x	19.4x	19.6x
	average		*11.8x*	*10.5x*	*25.7x*	*19.4x*
Machines	Sci Games	14,087	13.9x	13.6x	60.0x	30.6x
	IGT	12,537	7.1x	7.0x	16.9x	19.2x
	Everi	2,566	6.5x	6.6x	12.0x	10.3x
	Ainsworth	435	11.4x	10.5x	10.7x	20.9x
	average		*9.7x*	*9.4x*	*24.9x*	*20.2x*
Digital	Applovin	27,826	18.0x	15.1x	31.1x	22.9x
	Playtika	9,194	7.8x	7.4x	14.6x	13.3x
	Zynga	10,061	11.8x	10.9x	16.8x	13.8x
	Sciplay	1,662	8.1x	8.4x	11.1x	11.8x
	average		*11.4x*	*10.4x*	*18.4x*	*15.4x*
	Playtech	3,279	9.1x	8.6x	23.5x	35.2x

Source: Refinitiv Eikon consensus, Visible Alpha Consensus Data

Figure 53: Valuation comparable companies



Source: Refinitiv Eikon consensus, Visible Alpha Consensus Data

Key risks to investment view

The most immediate risk we see to the share price is a potential bidding war, which could see Aristocrat increase its bid for Playtech. If Aristocrat's bid is successful, there is an element of integration risk as Aristocrat navigates some new business lines and geographies. We view the medium-term risks as mostly earnings based and relating to whether Digital can maintain its earnings momentum. We also see some risk of multiple compression, as the business moves into wagering and as land-based earnings recover. ESG tail risk is also present in our view.

Playtech

The process of obtaining new concessions could be costly and time consuming and its outcome could be uncertain. Failure to renew or obtain such concessions, permits, extensions or authorisations could negatively impact profit. Compliance with the regulatory framework requires significant investment in infrastructure and personnel. New regulations could also lead to changes in compensation for concessionaires or an increase in the number of concessions, authorisations or concessions awarded by ADM to competitors.

Responsible gaming

Responsible gaming plays an important role for Aristocrat. Aristocrat Gaming supplies real money gambling games, such as slot machines, as well as venue management systems and associated equipment, to licensed gambling operators for play in regulated environments such as casinos, clubs and hotels. These games are highly regulated because they offer players the opportunity to stake real money for a chance to win real money.

Pixel United, which includes the Plarium, Product Madness and Big Fish brands, offers free to-play video games played on devices such as mobile phones or desktops and while players can usually make in-game purchases, at no time can a player win real money.

Aristocrat provides ongoing training to help employees understand what responsible gaming is and their role in encouraging responsible gaming and raising awareness of Aristocrat's commitment to promote a sustainable games industry.

While Aristocrat's free-to-play mobile games portfolio does not, by definition, encompass real money gambling, Aristocrat provides education to encourage smart gameplay. During 2021, it launched a major programme of responsible gaming initiatives in its mobile free-to-play social casino games including creating a responsible gaming resource centre, which can be accessed in-app and gives players relevant tools and choices such as the following.

- Steps that can be taken if players need a break.
- Disabling game notifications.
- Steps that can be taken to limit spend.
- Advice on where to access help.
- Providing players with continued free play options once coins have expired.
- Displaying 'loot box' odds so that players are better informed prior to purchase.
- Letting players know how they can exclude themselves from games.

Flexiplay and pre-commitment

As part of Aristocrat Gaming's responsible gaming roadmap, it has developed and tested new technology that allows gaming players to manage their gameplay responsibly. Aristocrat Gaming offers voluntary pre-commitment functionality in New South Wales and the Australian Capital Territory via a module in its proprietary venue management system (System 7000). This allows players to set spending limits over a period of 1, 7 or 30 days. System 7000 is installed in over 400 venues across New South Wales and the Australian Capital Territory and 64 of these venues have voluntary pre-commitment enabled.

Gaming digital wallet

In 2021, the NSW Minister for Customer Service announced a trial of Aristocrat Gaming's PRIME Mobile™ digital wallet solution. The 'PRIME Mobile' solution has the capability to deliver a complete digital experience for patrons, including the ability to pay for gaming machine play and venue products and services using a digital wallet instead of cash. The solution also provides new responsible gaming tools developed in consultation with venues to help patrons manage their play. These tools enable the following.

- Patrons to set their preferences for session length, frequency of play, amount spent or won, total bets and bet size.
- Messages and push notifications to be sent to patrons' mobile phones via the venue's gaming management system.
- Patrons to self-exclude and establish a protocol for staff intervention.
- Transfers to venue and gaming wallets to be limited and wallet top-up on the gaming floor to be prevented (the use of credit is prohibited).
- Provision of a "quarantine" wallet to restrict access to the gaming wallet for 24 hours, in certain circumstances.

BetBuddy

Playtech uses applied artificial intelligence (AI) to understand consumer risk, protect players and help keep gambling entertainment. BetBuddy provides the industry with responsible gambling analytics solutions, working in partnership with clinical, gambling and machine-learning scientific communities. BetBuddy's various behavioural identification and modification software is set to be integrated into Playtech's IMS player management system for behavioural identification and would act as an responsible gaming tool.

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Company disclosures

Companies mentioned *(price as of 19 January 2022, * Not Covered)*

Aristocrat Leisure Ltd (ALL.AX, A$43.35, Overweight, TP A$46.85)

Afterpay Ltd (APT.AX, A$66.47, Overweight, TP A$138.00)

Cochlear Ltd (COH.AX, A$195.58, Overweight, TP A$258.20)

CSL Ltd (CSL.AX, A$270.40, Overweight, TP A$352.20)

Domino's Pizza Enterprises Ltd (DMP.AX, A$105.64, Overweight, TP A$113.00)

Fisher & Paykel Healthcare Corporation Ltd (FPH.NZ, NZ$30.40, Neutral, TP NZ$34.00)

IDP Education Ltd (IEL.AX, A$31.62, Overweight, TP A$32.08)

Meridian Energy Ltd (MEL.NZ, NZ$4.61, Overweight, TP NZ$5.56)

Qube Holdings Ltd (QUB.AX, A$3.01, Buy, TP A$3.55)

REA Group Ltd (REA.AX, A$153.84, Overweight, TP A$178.00)

Resmed Inc (RMD.AX, A$33.16, Overweight, TP A$39.64)

Seek Ltd (SEK.AX, A$30.29, Overweight, TP A$40.10)

Sydney Airport (SYD.AX, A$8.65, Neutral, TP A$8.75)

Transurban Group (TCL.AX, A$13.02, Neutral, TP A$13.90)

WiseTech Global Ltd (WTC.AX, A$52.00, Overweight, TP A$50.00)

Xero Ltd (XRO.AX, A$117.72, Buy, TP A$150.00)

888 Holdings PLC (888.L, GBp266.40)*, Activision Blizzard Inc (ATVI.O, US$82.31)*, Ainsworth Game Technology Ltd (AGI.AX, A$1.26)*, Alphabet Inc (GOOGL.O, US$2719.96)*, Amazon.com Inc (AMZN.O, US$3178.35)*, Amazon.com Inc (005930.KS, KRW77000)*, Apollo Global Management Inc (APO, US$67.65)*, Apple Inc (AAPL.O, US$169.80)*, Applovin Corp (APP.O, US$72.44)*, AusNet Services Ltd (AST.AX, A$2.52)*, Electronic Arts Inc (EA.O, US$133.91)*, Entain PLC (ENT.L, GBp1707.00)*, Everi Holdings Inc (EVRI.N, US$19.84)*, Flutter Entertainment PLC (FLTRF.L, GBp10870)*, International Game Technology PLC (IGT, US$27.94)*, Macquarie Group Ltd (MQG.AX, A$199.19)*, Meta Platforms Inc (FB.O, US$318.15)*, Microsoft Corp (MSFT.O, US$302.65)*, NetEase Inc (NTES.O, US$101.74)*, Netflix Inc (NFLX.O, US$510.80)*, NEXTDC Ltd (NXT.AX, A$10.83)*, Playtech PLC (PTEC.L, GBp724.50)*, Playtika Holding Corp (PLTK.O, US$18.92)*, Reece Ltd (REH.AX, A$23.24)*, Roblox Corp (RBLX.K, US$77.21)*, Scientific Games Corp (SGMS.O, US$60.91)*, Sciplay Corp (SCPL.O, US$12.32)*, Sony Group Corp (6758.T, JPY14230.00)*, Tabcorp Holdings Ltd (TAH.AX, A$5.16)*, Take-Two Interactive Software Inc (TTWO.O, US$154.04)*, Tencent Holdings Ltd (0700.HK, HKD452.80)*, Xiaomi Corp (1810.HK, HKD18.62)*, Zynga Inc (ZNGA.O, US$8.99)*

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