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Ainsworth Game Technology Limited
Full Year Results (unaudited) – 12 months ended 31 December 2023 (CY23)
Teleconference Script

Harald Neumann, Chief Executive Officer (CEO)

Thank you, operator.

Good morning, everyone and thank you for joining me for the Ainsworth conference call for our unaudited results for the twelve-month period ended 31 December 2023.

Lynn Mah, our Chief Financial Officer and Mark Ludski, Company Secretary will also be on the line today.

On the call today I will concentrate on the key points and the regional review and Lynn will take you through the financials. At the end of the presentation, we would be pleased to answer any questions.

All the numbers Lynn and I quote throughout the call are denominated in Australian dollars unless otherwise specified. I also note that as a result of the change in reporting period, the previous audited financial results were for the six months ended 31 December 2022 and as such we have used the 12-month period ended 31 December 2022 for comparative purposes within the presentation.

To start I would like to further note the statements made by AGT's Chair, Danny Gladstone in our ASX release this morning. The strategic review being undertaken by Macquarie Capital has continued to progress and remains an on-going process. As we announced in November last year, this review includes a broad range of potential organic and inorganic alternatives to maximize shareholder value. While the strategic review continues there is no assurance that any transaction will result.

Page 5: Results Summary

Let's make a start on page 5 with some highlights of the results.

The overall reported results show a Profit before Tax (PBT) of $2.6 million however incorporates significant currency translations in the second half of CY23 and other one-off items outside the normal operations of the Company, including non-cash impairments assessed on Cash Generating Units. Lynn will provide more details on these in her financial review.

I am encouraged that Ainsworth has maintained and delivered a solid operational result with revenue increasing to $285 million in the current period. This represented a 17% increase on the $244 million in the Prior Corresponding Period (PCP).

Underlying EBITDA for the period was $58 million slightly ahead of the PCP with the second half of CY23 contributing $29 million.

PBT, excluding currency impacts and one-off items, was $41.5 million in the current period. This resulted in a second half PBT on the same basis of $18.4 million and was in line with the guidance outlined by the Company.

As we reported at the first half, we have provided for the full write-down of the carrying value of investments held in Argentina, following a notification by the investment company that a reorganization petition had been filed by the trustor of the investments. Court proceedings relating to determining recoverability on these investments cannot be reliably measured at this stage, despite preliminary legal advice indicating the likelihood that recoverability is high. The macro-economic uncertainties and political instability in the region have contributed to further significant devaluation of the Argentinian Peso against the US Dollar, with a decline of 50% being experienced in December 2023.

The Board has determined to continue to suspend the declaration of a dividend at the present time given the Company's priority to maintain a strong financial position. The Board is committed to re-commence paying dividends when considered appropriate however the priorities are to maintain investment in Research and Development (R&D) and ensure working capital requirements necessary to ensure no production disruption.

Page 8 Profit and Loss Summary

Let me turn to the results on page 8. As I noted the reported results are not reflective of operational improvements and I am encouraged to see the momentum that started in the first half of the year has continued into the second half of the 2023 calendar year.

As I have mentioned revenue increased to $285 million, up 17% on the $244 million in the PCP. Revenue increases were achieved across the key regions in both North and Latin America. Reflecting the momentum offshore, international revenue increased to $245 million, a 24% increase compared to the PCP and represents 86% of the Group's total revenue.

The gross margin achieved in the period was 62%, consistent with the PCP. The strong average selling prices and an increased proportion of high margin recurring revenue compared to the PCP ensured margins were maintained in the current period.

Page 10 Reconciliation of PBT to EBITDA

As outlined on page 10 underlying EBITDA was $57.8 million, compared to $55.8 million in the PCP.

Translational foreign currency losses in the current period were $21.5 million compared to gains of $2.6 million in the PCP. These were primarily as a result of the significant devaluation in the Argentinian Peso as I have outlined.

Other one-off items outside normal operations included a loss of $17.4 million, resulting from the profit uplift of $1.9 million on the amendment to the GAN exclusivity agreement, a write-down in investments in Argentina of $13.2 and a non-cash impairment charge of $6.1 million within Latin America.

Page 17 North America.

I'll now go through the regional review starting on page 17 with North America.

North America revenue in the current period was $140.4 million, an increase of 17% on the PCP, representing 57% of total international revenue. High denomination games continue to be the strength of AGT in the United States with multiple games consistently included in Top 25 indexes reported by Eilers and Reel Metrics. Development initiatives initiated to provide greater market share within the low and mid denomination product groupings have resulted in both San Bao Pandas™ and San Bao Dragons™ being reported in the Eilers Top 25 Indexing New Games in February 2024. Following the continued success of MTD games in South Dakota, the launch of the games in Louisiana have seen similar success with strong performance of the new Squish Reels™ game in these markets. The exclusive distribution agreement within Montana was extended for an additional year and further opportunities are expected within this state once exclusivity expires.

Machines under operation in North America at the reporting date were 3,090, an increase of 9% on the PCP primarily through expansion within Kentucky and Alabama where new placement opportunities occurred in the current period. Machines placed under participation and lease (including connection fees), which generate recurring revenue, contributed 53% of segment revenues. Historical Horse Racing ("HHR") products continue to perform with 8,118 units connected to AGT's HHR system at 31 December 2023 with the anticipation of further growth as new installations occur in Kentucky and Alabama during calendar year 2024. Strong average selling prices and increased recurring revenues, along with disciplined cost controls resulted in a rise in segment profit to $65.0 million versus $59.3 million in the PCP, up 10%.

Page 19: Latin America & Europe

Turning to page 19

Revenues in Latin America / Europe increased during the current period by 26% compared to the PCP and 141% on the second half of the 2022 calendar year. Unit sales in the current period were 2,264, an increase of 18% on the PCP. This increase was driven by the strong demand and the utilization of import licenses in Argentina which was previously reported in the first half of CY23.

Demand continues to grow for the A-STAR™ range of cabinets and top performing game themes such as Xtension Link™, and Multi-Win™ games. At the reporting date, a total of 4,132 units were under operation compared to the 3,690 units in prior periods These units generated $22.6 million in recurring revenue, an increase of 14% on the PCP. Despite the reduction in units under operation reported in the first half of CY23, primarily due to the introduction of regulatory changes in Mexico, strong demand in Peru and Mexico resulted in the installed base of machines under operation increasing 16% in the second half of CY23 with the average yield being maintained at US$12 per day.

Discussions with Mexican Tax Administration Service (SAT) on the previously disclosed audit and review of unpaid duties and associated charges in this region have progressed in the period.

Based on these discussions, the Group has reached an in-principal agreement with SAT, subject to administrative procedures, and the provision at 31 December 2023 has been updated to reflect this agreement. It is expected that this matter will be finalised with SAT once all administrative processes are completed.

I note that a non-cash impairment charge of $6.1 million was recorded in the current period, for the Latin America Cash Generating Unit (CGU). As in previous periods, this impairment charge to the carrying value of assets reflects the re-assessment of discount rates, inflationary cost pressures and uncertainties inherent in validating expected revenue in future periods within these regions. These factors contributed to a reduction in the available headroom resulting in a lower recoverable amount for this CGU. This results from the timing nature of the current business model within this region where gaming machines are initially placed under operation which requires these assets to be assessed for impairment purposes, despite the generation of increased participation revenue prior to the potential conversion to sale.

Page 20: Asia Pacific

Page 20 outlines the region of Asia Pacific. As you will note we have now consolidated Australia, New Zealand, and Asia under the one region as a result of changed management responsibilities introduced in the period.

Asia Pacific revenue was $48.8 million in the current period, similar to the PCP. Overall domestic revenues fell by 12% to $39.8 million when compared to the PCP. New South Wales reported an increase of 7%, however both Victoria and Queensland declined and were impacted by minimal corporate sales and competitive market conditions. The release of the new A100™ hardware at AGE 2023 was positively received and together with improved performance on the Jackpot Kingdom™ brand it is expected sales in the Australian region will improve in CY2024. This brand recently released has reported strong initial performance at above 1.5 times house average in Queensland.

Further market recovery, including changed distribution channels in Asia resulted in revenues of $9.0 million within Asia and New Zealand in the period, an increase of 317% on the $2.1 million in the PCP. Average selling prices improved despite competitive market conditions however segment profit was affected by increased marketing and trade show costs, production costs and material costs in the current period compared to the PCP.

Page 21 Online

On page 21 we outline the Digital segment which reported revenue of $15.6 million, which included the one-off profit uplift of $1.9 million resulting from the Game Account Network (GAN) contract amendment. These high margin online revenues resulted in segment profit of $14.0 million in the current period. It is expected that when the GAN exclusivity contract terminates in March 2024, the Group will be able to directly explore further opportunities with US operators.

I will now ask Lynn to outline a summary on the financials.

LYNN MAH, Chief Financial Officer

Thank you, Harald,

Slide 11: Operating Costs

Turning to page 11. Operating costs were carefully controlled in the current period, rising by 18%. Group operating costs in constant currency terms were $134.2 million, 14% higher compared to the PCP. The increase in operating costs was mainly attributable to the increase in overall headcount in the current period to ensure talent retention to support business growth and implemented strategies. Operating costs increase was also attributable to increased variable selling costs on the 17% increase in revenue achieved during the period.

Research & Development (R&D) expenses increased by 25% compared to PCP reflecting the Company's continued focus on product development investment to produce competitive products. R&D expenses as a percentage of total revenue were 16% in the current period, consistent with the 15% in the PCP. A consistent level of investment in R&D is expected to continue as the Company revamped its studios in Sydney, Las Vegas, Austin, Texas and Reno, Nevada which are led by experienced gaming veterans.

Slide 12: Staff Headcount

On page 12 AGT's global headcount was 555 employees at the reporting date with 57% within the Americas. This represented an increase of 11% (56 employees) compared to the same period in 2022, with increased Research & Development (R&D) resources accounting for 43% of the overall increase.

The global organisational structure established provides new product leadership and clear lines of accountability to provide efficiencies and the on-going development of an exciting range of diverse and new product offerings. Management continues to implement measures focusing on technology, development, and culture to improve product performance, lift staff retention rates and enhance AGT's ability to attract world class development talent.

Slide 14: Balance sheet

As Harald has pointed out, it has been a key priority to ensure we maintain a strong balance sheet to protect the Company and allow liquidity to pursue planned development initiatives.

On page 14, you'll see we closed the current period with a net cash position of $19.4 million with undrawn facilities in place for US$32 million.

The receivables closing balance was $119.4 million, a slight increase of 3% on the $115.5 million at 31 December 2022, reflecting the positive cash collections in the current period especially given revenue increased 17% in the period. Initiatives introduced to stabilise supply chain risk and manage working capital resulted in a reduction in inventory holdings of 19% compared to 31 December 2022.

The company has $313 million of net assets with an undrawn facility of US32.0 million.

Slide 15 Cash Flow

On page 15, operating cash flows in the period were $27.4 million, an improvement on the $15.4 million reported in CY22. The improvement was primarily due to prudent working capital management, particularly in a reduction in inventory holding of 19% at 31 December 2023, compared to the prior year. While operating cash flows have improved during the period, investments were made in Argentina and capital expenditure to support the release of new hardware during the year. This resulted in net cash held at the reporting date of $19.4 million, a decrease on the $29.3 million reported at 31 December 2022.

In conclusion we have a strong capital base and are well financed to go forward to execute on strategies established.

Thank you and I will now hand you back to Harald for some concluding remarks.

Harald Neumann, CEO

Conclusion and Summary

Thank you, Lynn.

To conclude, AGT enters the calendar year 2024 with good momentum and expects sustainable profitability.

Trading conditions in both domestic and international markets have shown their resilience despite economic challenges in global markets. AGT's North American business continues to make progress in both Class II and Class III markets. Opportunities are continually being pursued for existing and new HHR markets.

Despite more volatile market conditions in Latin America, the Group expects to continue its trajectory of growth and profitability in this region. Domestic markets are expected to benefit from new A100 hardware released at the recent Australian Gaming Exhibition and improved game performance following the release of new game titles.

With a strong balance sheet and commitment to product innovation, AGT is well placed to deliver improved financial performance.

As I said at the beginning, our results are much improved on the PCP driven by the contributions from international markets.

We can also look forward to further improvements in Australia, where we will continue to leverage our key strengths of AGT's trusted brand, our highly capable staff and the Company's enduring commitment to develop superior game technologies.

As I have previously communicated for us to ensure continued growth and to sustain our performance, measures introduced are having the desired effects and we are starting to see improvements in the outputs of our R&D investments which is expected to lift the competitiveness of our product and provide growth opportunities.

We have expanded our capabilities and talent within R&D in both the Sydney and Las Vegas studios. In addition, additional R&D studios are now operating to provide more creativity and diversity to our current product offerings. Quality initiatives are continually assessed to improve game designs, mathematics, and graphical arts to create a more diverse and targeted range of product offerings to our customers. The infrastructure to achieve our product road map is in place which we expect to translate into improved and sustainable long-term results across global markets.

The global organisational structure is now established with new product leadership and clear lines of accountability which continue to provide on-going efficiencies and an exciting range of diverse and new product offerings. We are committed to implement measures focusing on technology, development, and culture to improve product performance, lift staff retention rates and enhance AGT's ability to attract world class development talent.

Before I close, I would like to finish by thanking all my colleagues at Ainsworth for their contributions to the progress made and their dedication to our customers. I am incredibly proud of the way the team at AGT has taken on the challenges presented to them to ensure we are well placed to improve our financial performance over coming periods, and I want to formally thank them all.

Thank you for your time today I will now hand back to the operator to open up the lines for questions.

Thank you, operator.

Ends

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