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# Light & Wonder (LNW)

## Q2 2024 - Unleashing the dragon

**Recommendation**

**Buy** (unchanged)

**Price**

**A\$159.87**

**Target (12 months)**

**A\$186.00** (previously \$180)

**Sector**

**Hotels Restaurants and Leisure**

**Expected Return**

Capital growth	<b>16.3%</b>
Dividend yield	<b>0.0%</b>
Total expected return	<b>16.3%</b>

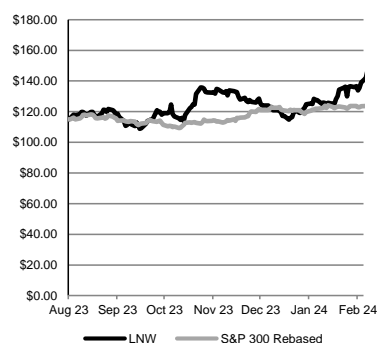
**Company Data & Ratios**

Enterprise value	<b>US\$12.8b</b>
Market cap	<b>US\$9.3b</b>
Issued capital	<b>89m</b>
Free float	<b>80.1%</b>
Avg. daily val. (52wk)	<b>A\$16.3m</b>
12 month price range	<b>A\$107-168</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	155.31	140.00	106.46
Absolute (%)	2.9	14.2	50.2
Rel market (%)	4.8	13.8	45.5

**Absolute Price**



SOURCE: IRESS

**Q2 2024 update at a glance**

LNW reported Q2 2024 results ahead of our estimates and VA consensus. Key points:

**Profit & loss:** LNW reported +12% YoY revenue growth in Q2 2024 to US\$816m (BPe of US\$798m and consensus US\$796m), supported by +14% YoY growth in Gaming to US\$539m (BPe US\$512m), +8% YoY growth in SciPlay to US\$205m (BPe US\$208m) and +6% YoY growth in iGaming to US\$74m (BPe US\$78m). Adjusted EBITDA was US\$330m (BPe US\$310m), supported by revenue growth and margin contribution from Gaming and SciPlay. Adjusted NPAT of US\$98m was up +88% YoY (BPe US\$91m).

**R&D investment bearing fruit:** LNW's strong result was driven by a higher-than-expected contribution from Gaming and SciPlay, supported by: net adds of 1.0k units (BPe 0.6k) to Nth. Am. install base; robust shipments into adjacencies, Australia and Macau; and +19% YoY (BPe 10%) growth in SciPlay AEBITDA underpinned by margin expansion of 309bps due to increased revenue from DTC platform.

**Cash flow and balance sheet:** Operating cash flow was US\$141m (up 4.2x YoY), driven by earnings growth. Net debt (incl. leases) was US\$3.6b, up from US\$3.5b at March 2024, culminating in net debt leverage of 3.0x, within the company's target range of 2.5-3.5x.

**Outlook:** Management reiterated their confidence in achieving their 2025 AEBITDA target of US\$1.4b, set out in 2022. LNW expects continued growth beyond 2025.

**EPS changes:** Following the result, we have upgraded 2024e EPS by 3% supported by higher international and adjacencies shipments and Nth. Am. install base net adds. Our TP is upgraded to A\$186.00/CDI (prev. A\$180.00/CDI) on higher free cash flow.

**Investment view: Retain Buy; TP A\$186/CDI (prev. \$180/CDI)**

We retain our Buy rating. We anticipate that LNW's cross-platform strategy and leading scale will enhance game performance metrics relative to competitors in both land-based and digital markets. As a result, we expect improvement in product quality to strengthen LNW's competitive advantage, allowing supporting higher ROIC.

**Earnings Forecast**

Year end	2023a	2024e	2025e	2026e
Sales (US\$m)	2,908	3,330	3,514	3,723
EBITDA (US\$m)	1,118	1,274	1,388	1,494
NPAT (reported) (US\$m)	180	362	469	561
NPAT (adjusted) (US\$m)	282	401	489	581
EPS (adjusted) (US\$eps)	284.9	425.5	550.2	669.3
EPS growth (%)	336.6%	49.3%	29.3%	21.7%
PER (x)	36.0x	24.1x	18.6x	15.3x
FCF Yield (%)	2.9%	4.9%	6.5%	8.2%
EV/EBITDA (x)	11.5x	10.1x	9.2x	8.6x
Dividend (A\$eps)	-	-	-	-
Yield (%)	-	-	-	-
Franking (%)	-	-	-	-
ROE (%)	26%	49%	104%	98%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Growth driven by compelling content

**Table 1 - Financial result summary**

Period ending	Dec-23(a)	Jun-23(a)	Mar-24(a)	Jun-24(a)	YoY(Δ%)	Jun-24(BPe)	vs BP(Δ%)
QTR / CY	CY23	Q2 CY23	Q1 CY24	Q2 CY24		Q2 CY24	
<b>Revenue US\$m</b>	<b>2,902</b>	731	756	818	12%	798	3%
Gaming	<b>1,850</b>	471	476	539	14%	512	5%
SciPlay	<b>777</b>	190	206	205	8%	208	-1%
iGaming	<b>275</b>	70	74	74	6%	78	-5%
<b>Adjusted EBITDA US\$m</b>	<b>1,118</b>	281	281	330	17%	310	7%
Gaming	<b>918</b>	233	232	272	17%	254	7%
SciPlay	<b>243</b>	59	62	70	19%	65	7%
iGaming	<b>95</b>	24	25	24	0%	26	-8%
Adjusted NPAT US\$m	<b>282</b>	52	80	98	88%	91	8%
Adjusted EPS UScps	<b>285</b>	51	87	107	111%	100	7%
Net debt (incl. leases) US\$m	<b>3,550</b>	3,068	3,521	3,593			

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

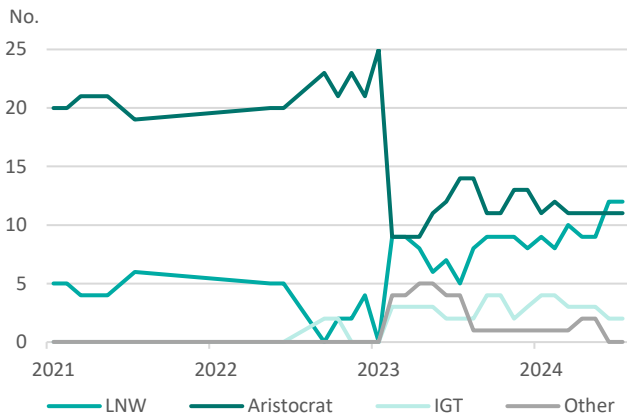
## Key observations from the update

- Strong global gaming machine sales:** LNW shipped 11.3k units globally (+32% YoY; BPe 10k) supported by strong shipments into adjacencies, Australia (maintained No 1 shipshare) and Macau. Strong volume was complemented by +6% YoY ASP growth resulting in Gaming machine sales revenue of US\$228m (+32% YoY; BPe US\$205m). Notably, Oregon State Lottery has reordered an extra 1,200 Video Lottery Terminal (VLT) units to be delivered in H2 2024. Further, LNW has signed a contract with Entain Plc (LON: ENT) to deliver 4k units into UK, primarily in Q3 2024.
- Gaming operations installed base hit inflection point:** LNW added 1.0k units QoQ to its North American installed base above our expectation of 0.6k units supported by rollout of premium games. LNW expects continued elevated unit growth for H2 2024, albeit at a more measured pace relative to Q2 2024.
- DTC platform drove SciPlay AEBITDA margin uplift:** SciPlay's direct-to-consumer platform generated 12% of SciPlay revenue, up from 6% in Q1 2024, accelerating faster than expected and drove a 309bps uplift in AEBITDA margin for SciPlay. The company expects revenue growth via DTC to be slower in H2 2024. Further, the company expects to reinvest cost savings from DTC into user acquisition over H2 2024.
- iGaming revenue expansion soft:** iGaming revenue grew +9% YoY excluding prior period licence termination fees. Management noted that US state legalisations were necessary to realise prior analyst expectations for growth, suggesting possible CY24-25 downgrades to iGaming consensus revenue expectations. iGaming AEBITDA was US\$24m, flat YoY, as the company invests to build scale.
- Higher corporate costs:** LNW now expects \$40m run rate per quarter in corporate overheads in line with a scaling company.

# LNW earnings drivers

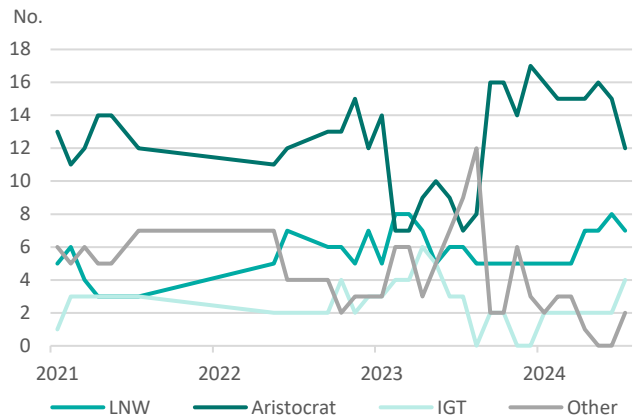
**Relative game performance remains strong:** LNW's leased titles continues to lead the Reelmetrics rankings in terms of game performance. In the core outright sales market, LNW titles comprise 4 out of the top 5 games. Current game performance is a key factor in operator slot investment decisions.

**Figure 1 – # of games in Top 25 best performing leased rankings**



SOURCE: REELMETRICS  
NOTE: DATA MISSING THROUGHOUT 2021 AND 2022

**Figure 2 – # of games in Top 25 best performing sales rankings**

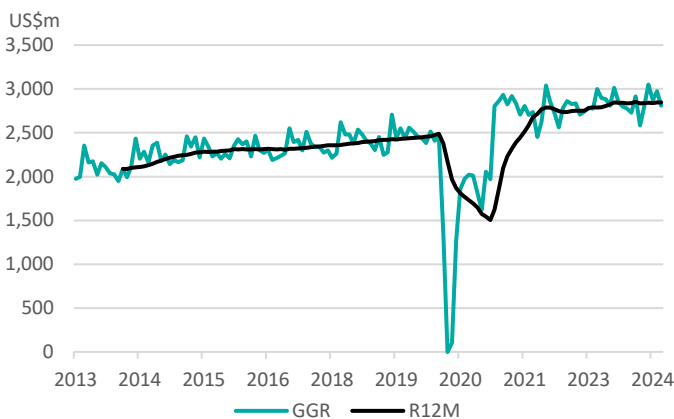


SOURCE: REELMETRICS  
NOTE: DATA MISSING THROUGHOUT 2021 AND 2022

**Slot GGR growth steady:** Rolling 12-month US Slot Gross Gaming Revenue (GGR) for 22 states deaccelerated to +0.8% YoY in June 2024. In the Q2 2024 update, LNW noted that demand remains strong.

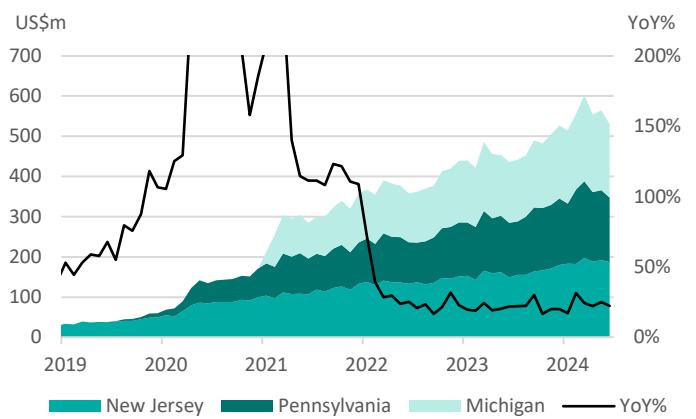
**Strong iGaming GGR growth continues:** iGaming GGR grew 22.3% YoY in June 2024, consistent with growth rates since mid-2022.

**Figure 3 - US slot GGR - 22 states**



SOURCE: US STATE REGULATORS

**Figure 4 - iGaming GGR – 3 largest states**



SOURCE: US STATE REGULATORS

**Highly anticipated games on the horizon:** The Q2 2024 Eilers-Fantini survey of casino operators showed 3 LNW games in the Top 5 most anticipated premium leased games. These titles include Huff N'Puff Money Mansion (#1), Squid Game (#2) and Dragon Train (#4; previously #1 in Q1 2024).

# Light & Wonder (LNW)

## Company description

Light & Wonder (LNW), formerly known as Scientific Games, is a leading global cross-platform games company that operates three cohesive segments in the gaming sector. These divisions include: (1) land-based gaming, a top three supplier of slot machines in the outright sales and lease markets and the no 1 supplier of both casino management systems and table products; (2) SciPlay, a top three developer and publisher of social casino games on mobile and web platforms; and (3) iGaming, a leading supplier of real money online gaming content and iGaming content aggregation platforms (referred to as Open Gaming System; OGS) to online casinos. LNW operates globally, with over 67% of its revenue historically derived from the US.

## Investment view: Retain Buy; TP A\$186/CDI (prev. \$180/CDI)

We retain our Buy rating. We anticipate that LNW's cross-platform strategy and leading scale will enhance game performance metrics relative to competitors in both land-based and digital markets. As a result, we expect improvement in product quality to strengthen LNW's competitive advantage, allowing supporting higher ROIC.

## Valuation methodology

Our LNW valuation is based on discounted cash flow models of the company's 3 business segments. We also make allowances for overhead corporate costs. A nominal WACC of 10.8% and terminal growth rate of 4.0% have been applied to our asset DCF models.

## Investment risks

**Changes in regulations:** LNW is subject to strict government regulations that may limit existing operations and adversely impact the company's ability to grow. Opponents to land-based gaming, iGaming and social casino could, through legislation, be successful in restricting gaming or curtailing the expansion of gaming. Growth of LNW's iGaming segment is dependent on legalisation of iGaming in US and international jurisdictions, which may take longer to occur than expected.

**Outcome of litigation:** LNW is subject to several litigation and arbitration claims, (outlined in appendix 3) which may incur costs to defend or settle and result in judgements against the company. Adverse judgements could result in significant monetary damages or injunctive relief that could adversely affect LNW's operations and financial condition.

**Deterioration in macroeconomic conditions:** Unfavourable US and international economic conditions, including decreased consumer discretionary spend, adversely impacts GGR and casino profitability which can result in deferred EGM shipments and reduced uptake in new EGM leases. Lower GGR also results in lower RPD for LNW's WAP units and lower iGaming revenue. Lower employment, consumer sentiment and personal disposable income could limit user spend in SciPlay's games.

**Deterioration in content quality:** LNW's relative game performance and quality is critical for the company to maintain and grow share in iGaming, Land-based gaming and SciPlay. A fall in relative quality would reduce LNW's market share and harm current and future financial results. LNW invests significant resources in R&D, which may not lead to successful or commercially viable products.

**Level of indebtedness:** LNW had US\$3.9b in debt as of March 2024 and US\$1.2b of liquidity. This level of indebtedness could affect LNW's ability to refinance/obtain financing; require the company to dedicate a portion of operating cash flow to interest and principal payments, thereby reducing the ability to achieve strategic objectives; and increase vulnerability to adverse business conditions.

**Interest rates:** LNW had US\$2.2b of debt as of March 2024 subject to variable rate obligations that fluctuate based on SOFR. A hypothetical 1% change in interest rates would result in interest expense changing by ~US\$22m, excluding the impact of US\$0.7b in hedges via interest rate swap contracts.

**Key employee risk:** Retention and recruitment of top talent, including key executives and game designers, is essential for LNW to continue making high performing content.

**ESG risks:** Changing community perceptions of gambling could harm the industry and LNW's reputation and result in a discount of LNW shares to their fair value.

**Actions of third-party platform providers:** SciPlay relies on platform providers to distribute games. Apple's privacy changes relating to IDFA in 2021, lead to a substantial reduction in marketing ROI, resulting in a change to how SciPlay acquires users. Platform providers may make further changes which could affect SciPlay's operations.

**Foreign exchange risk:** LNW's financial reports are prepared in USD, however, LNW derives a material portion of revenue and expenses from international operations, leaving the company exposed to fluctuations in foreign exchange rates, in particular, the GBP, EUR and AUD.

**Cyber security:** If LNW sustains cyber-attacks or other privacy or data security incidents that result in security breaches, the company could suffer a loss of sales and increased costs, exposure to significant liability, reputational harm, regulatory fines or punishment and other negative consequences.

Table 2 - Financial summary

Date		8/08/24					Bell Potter Securities							
Price	A\$/CDI	159.87					Baxter Kirk (bkirk@bellpotter.com.au, +61 3 9235 1625)							
Target price	A\$/CDI	186.00												
PROFIT AND LOSS							FINANCIAL RATIOS							
Year ending 31 December	Unit	2022a	2023a	2024e	2025e	2026e	Year ending 31 December	Unit	2022a	2023a	2024e	2025e	2026e	
Revenue	US\$m	2,517	2,908	3,330	3,514	3,723	<b>VALUATION</b>							
Change	%	17%	16%	14%	6%	12%	EPS (adjusted)	USc/sh	65.3	284.9	425.5	550.2	669.3	
Cost of revenue	US\$m	(733)	(866)	(973)	(1,037)	(1,055)	EPS growth	%	-37.9%	336.6%	49.3%	29.3%	21.7%	
Research & development	US\$m	(218)	(228)	(271)	(288)	(305)	PER	x	160.4x	36.0x	24.1x	18.6x	15.3x	
Net R&D % of revenue	%	-9%	-8%	-8%	-8%	-8%	DPS	Ac/sh	-	-	-	-	-	
Other expenses	US\$m	(722)	(814)	(918)	(908)	(979)	FCF/share	USc/sh	(714.7)	301.1	517.7	682.5	853.7	
Adjusted EBITDA (incl. share-based comp.)	US\$m	844	1,000	1,161	1,276	1,379	FCF yield	%	-6.8%	2.9%	4.9%	6.5%	8.2%	
Adj. EBITDA	US\$m	913	1,118	1,274	1,388	1,494	EV/EBITDA	x	14.0x	11.5x	10.1x	9.2x	8.6x	
Depreciation & amortisation	US\$m	(420)	(384)	(364)	(369)	(367)	EV/EBITA	x	17.0x	13.4x	12.0x	11.2x	10.3x	
Adj. EBIT	US\$m	424	616	796	906	1,012	EV/NOPAT	x	21.5x	17.0x	15.2x	14.2x	13.1x	
Interest expense	US\$m	(327)	(309)	(295)	(277)	(264)	NTA	US\$/sh	(28.42)	(32.34)	(28.40)	(25.63)	(21.37)	
Adj. profit before tax	US\$m	97	307	501	630	749	P/NTA	x	-3.7x	-3.2x	-3.7x	-4.1x	-4.9x	
Tax expense	US\$m	(13)	(25)	(100)	(140)	(168)	<b>LIQUIDITY &amp; LEVERAGE</b>							
Adj. NPAT	US\$m	84	282	401	489	581	Net debt / (cash)	US\$m	3,079	3,550	3,471	3,267	2,908	
Adjustments (post-tax)	US\$m	3,613	(102)	(39)	(20)	(20)	Net debt / Equity	%	265%	464%	411%	315%	216%	
Reported NPAT (US GAAP)	US\$m	3,697	180	362	469	561	Net debt / Net debt + Equity	%	73%	82%	80%	76%	68%	
Adj. NPAT attributable to owners	US\$m	62	265	388	489	581	Net debt / EBITDA	x	3.4x	3.2x	2.7x	2.4x	1.9x	
							EBITDA / Net interest expense	x	2.9x	4.1x	4.6x	5.4x	6.4x	
CASH FLOW STATEMENT							PROFITABILITY RATIOS							
Year ending 31 December	Unit	2022a	2023a	2024e	2025e	2026e	EBITDA margin	%	36.3%	38.5%	38.3%	39.6%	40.2%	
<b>OPERATING CASH FLOW</b>							EBIT margin	%	16.9%	21.2%	24.0%	25.8%	27.2%	
Reported NPAT from continuing operations	US\$m	(176)	180	362	469	561	Return on assets	%	1.3%	4.8%	7.2%	17.3%	19.7%	
Non-cash Adjustments	US\$m	614	492	486	481	482	Return on equity	%	27.5%	26.1%	48.9%	104.1%	97.5%	
Gross cash flow	US\$m	438	672	849	951	1,043	Return on capital employed	%	7.9%	12.7%	16.4%	18.1%	19.2%	
Change in working capital	US\$m	(863)	(82)	(60)	(56)	(23)	Return on invested capital	%	11.4%	16.9%	18.6%	20.4%	22.4%	
Operating cash flow	US\$m	(381)	590	802	894	1,020								
<b>INVESTING CASH FLOW</b>							QUARTERLY ASSUMPTIONS							
Capital expenditures	US\$m	(216)	(242)	(303)	(269)	(264)	Year ending 31 December	Unit	Q1 2024a	Q2 2024a	Q3 2024e	Q4 2024e	Q1 2025e	
Payments for acquisitions	US\$m	(136)	(4)	-	-	-	Revenue	US\$m	758	821	885	855	#N/A	
Other	US\$m	6,468	(5)	(5)	-	-	Change	%	-2%	8%	8%	-3%	#N/A	
Investing cash flow	US\$m	6,116	(251)	(308)	(269)	(264)	Expenses	US\$m	(477)	(478)	(551)	(525)	#N/A	
Other FCF movements	US\$m	(38)	(74)	(32)	(32)	(32)	Adj. EBITDA	US\$m	281	330	334	329	#N/A	
Free cash flow	US\$m	(679)	274	462	593	724	Depreciation & amortisation	US\$m	(86)	(87)	(94)	(97)	#N/A	
<b>FINANCING CASH FLOW</b>							Adj. EBIT	US\$m	173	212	209	202	#N/A	
Proceeds from share issues (net)	US\$m	-	-	-	-	-	Interest expense	US\$m	(75)	(75)	(73)	(72)	#N/A	
Debt proceeds / (repayments)	US\$m	(4,893)	(34)	(20)	(22)	(23)	Adj. profit before tax	US\$m	98	137	137	130	#N/A	
Share repurchases	US\$m	(405)	(170)	(375)	(350)	(325)	Tax expense	US\$m	(18)	(26)	(29)	(27)	#N/A	
Other	US\$m	(165)	(584)	(88)	(72)	(72)	Adj. NPAT	US\$m	80	111	108	102	#N/A	
Financing cash flow	US\$m	(5,463)	(788)	(483)	(444)	(420)	Adjustments (post-tax)	US\$m	2	(29)	(6)	(6)	#N/A	
Change in cash	US\$m	266	(446)	8	181	336	Reported NPAT	US\$m	82	82	102	96	#N/A	
BALANCE SHEET							SEGMENTAL ASSUMPTIONS							
Year ending 31 December	Unit	2022a	2023a	2024e	2025e	2026e	Year ending 31 December	Unit	2022a	2023a	2024e	2025e	2026e	
<b>ASSETS</b>							<b>Land-based gaming</b>							
Cash	US\$m	914	425	428	610	946	Revenue	US\$m	476	539	596	548	#N/A	
Restricted cash for WAP jackpots	US\$m	53	96	101	101	101	Gaming operations	US\$m	164	175	184	189	#N/A	
Receivables	US\$m	455	506	538	610	659	Gaming machine sales	US\$m	205	228	283	232	#N/A	
Inventories	US\$m	161	177	193	215	210	Gaming systems	US\$m	60	82	72	74	#N/A	
PPE	US\$m	204	236	301	320	322	Table products	US\$m	47	54	57	53	#N/A	
Goodwill	US\$m	2,919	2,945	2,925	2,925	2,925	Adj. EBITDA	US\$m	232	272	289	272	#N/A	
Other intangibles	US\$m	797	605	456	339	234	Margin	%	49%	50%	49%	50%	#N/A	
Software	US\$m	145	158	162	160	159	<b>SciPlay</b>							
Other assets	US\$m	361	404	470	470	470	Revenue	US\$m	206	205	212	228	#N/A	
Total assets	US\$m	6,009	5,552	5,575	5,749	6,026	Adj. EBITDA	US\$m	62	70	59	71	#N/A	
<b>LIABILITIES</b>							Margin	%	30%	34%	28%	31%	#N/A	
Payables	US\$m	154	241	233	268	281	<b>iGaming</b>							
Accrued liabilities	US\$m	380	404	422	424	433	Revenue	US\$m	74	74	76	79	#N/A	
Borrowings	US\$m	3,894	3,874	3,856	3,834	3,811	Adj. EBITDA	US\$m	25	24	24	25	#N/A	
Leases	US\$m	37	39	31	31	31	Margin	%	34%	32%	32%	32%	#N/A	
Other liabilities	US\$m	383	229	188	156	124								
Total liabilities	US\$m	4,848	4,787	4,730	4,713	4,679	<b>VALUATION</b>							
<b>NET ASSETS</b>							Diluted shares on issue						91m	
Share capital	US\$m	1,371	1,119	1,236	1,348	1,463	12-month valuation						US\$m	US\$/sh
Reserves	US\$m	(580)	(751)	(1,127)	(1,517)	(1,882)	Gaming						10,878	119.18
Retained earnings	US\$m	517	680	1,042	1,512	2,073	SciPlay						3,529	38.66
Accumulated OCI	US\$m	(318)	(283)	(307)	(307)	(307)	iGaming						1,464	16.04
Attributable equity to shareholders	US\$m	990	765	844	1,036	1,347	Corporate costs (incl. SBC tax shield)						(1,220)	(13.37)
Non-controlling interests	US\$m	171	-	-	-	-	Enterprise valuation						14,651	160.51
<b>SHAREHOLDER EQUITY</b>	US\$m	1,161	765	844	1,036	1,347	LNW net debt (incl. leases)						3,521	38.58
Weighted average shares	m	95	91	89	87	85	Equity valuation \$US						11,130	121.93
							AUD/USD \$US						0.65	
							Equity valuation \$Am & \$A\$/CDI						16,992	186.16

SOURCE: BELL POTTER SECURITIES ESTIMATES



**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Joseph House	Industrials	613 9325 1624	jhouse
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