



Rating
Buy

North America
United States

Consumer
Gaming & Lodging

Company
**Intl. Game
Technology Alert**

Reuters
IGT.N

Bloomberg
IGT US

Exchange
NYS

Ticker
IGT

Date
31 July 2018

Results

Price at 30 Jul 2018 (USD)	24.25
Price target	35.00
52-week range	30.59 - 18.59

A Lot of Delivery Into a Lot of Doubt; Big 2Q Beat

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2Q18 Beats Handily; Full Year Guidance Maintained Despite FX Headwind

This morning, IGT delivered a meaningful 2Q18 adjusted EBITDA beat, as adjusted EBITDA of \$442 mm easily topped our Street high \$418 mm estimate and Consensus of \$413 mm (Consensus Metrix). Importantly, IGT reiterated its \$1.70 to \$1.78 bn 2018 adjusted EBITDA guidance, despite a \$26 mm headwind from FX. We believe a negative guidance revision was a key element of the bear case of late and note that the ability to maintain guidance, despite the headwind, should, along with the 2Q18 performance, bode well for shares today. Also of note, IGT's domestic participation base was up 168 units Q/Q, post a 376 unit increase in the 1Q18, ahead of several 2H18 game launches. Excluding the accounting changes, we believe yields were up low single digits, an encouraging sign of the favorable mix flowing through. Recall, IGT will host an analyst day in New York on Thursday.

Adjusted EBITDA Comes in Better than Expected

Adjusted EBITDA of \$442 mm (+4% y/y) compared favorably to our \$418 mm estimate and Consensus Metrix Consensus of \$413 mm. The \$24 mm of upside was driven by stronger domestic revenue, which offset a modest shortfall in International revenue, relative to our forecasts. Overall, net revenue of \$1.202 bn was \$30 mm ahead of our forecast and down 3% y/y on a constant currency basis. Recall, the 2Q18 included some contributions from Double Down (\$43 mm). Stronger product sales margins (+780 bps), lower SG&A (-7% y/y), and lower R&D (-21% y/y) were the primary drivers of the 200 bps of adjusted EBITDA margin expansion in the period, as the 36.7% adjusted EBITDA margin also compared favorably to our 35.6% estimate.

North American Lottery – Solid Results

Overall NA lottery services revenue declined 1.0% y/y (\$275 mm vs. our \$260 mm forecast) despite strong s-s revenue growth (+4.2%). Overall NA lottery revenue of \$309 mm compared favorably to our \$276 mm forecast and was up 5% in CC.

N. American Gaming Ops Continues to Encourage

NA gaming product sales revenue was \$85 mm vs our \$92 mm estimate. Replacement units were down 29% y/y (2,747 vs DB 3,007), while expansion units of 1,803 were below our 1,840 forecast. The NA casino install base was up 168 units Q/Q. Ops yields expanded ~3% bps y/y, versus our +1% forecast.

Italy Strong

Italy revenue of \$441 mm was in line with our \$442 mm (+9% reported / +3% constant currency). In constant currency, Lotto wagers grew 7.5% and S&W wagers grew 2.4%.

Deutsche Bank Securities Inc.

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