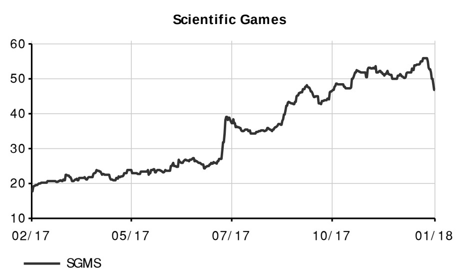
UNION GAMING

31 January 2018

North American Research

Rating: Buy
Price Target: $57.00

Price	$46.50
52wk Range	$16.40 - $56.45
Shares Outstanding (MM)	89.6
Market Capitalization (MM)	$4,168.3
Enterprise Value (MM)	$12,031.8
30D Avg Volume (000s)	1,206.2
Short Interest/Float	7.0%
Dividend Yield	0.0%
YTD % Chg	(9.4)%
YTD % Chg Relative to Index	(14.9)%
Total Implied Return to PT	22.6%
Pricing Date	January 29, 2018



Scientific Games

Global Gaming Technology

SGMS | NASDAQ | $46.50

Company Update

Credit insights for equity investors - raising estimates, maintain Buy rating

With shares of SGMS pulling back recently, we see what could be a brief but attractive window of opportunity for investors. The company is actively in the credit markets looking to execute yet another major recapitalization that we estimate would save ~$42m of annual interest expense. In addition, we expect a round of estimate raises are on the horizon as analysts begin updating models to reflect the closing of the NYX Gaming Group acquisition earlier this year. Further, we are becoming incrementally more optimistic on the slot replacement cycle in North America. While we aren't projecting a material increase just yet, we do think replacements industry-wide will be up y/y.

Raising estimates. We are updating our model and raising our forward estimates to include contribution from the NYX Gaming Group acquisition and a slightly more favorable replacement outlook. Our 2018 AEBITDA estimate goes to $1,358m (up from $1,283m) and our 2019 AEBITDA estimate goes to $1,436m (up from $1,247m).

A spark in the replacement cycle. While we aren't ready to call a big lift in demand just yet, we do think there is some underlying positive momentum in the North American replacement cycle that should benefit all manufacturers over the next 12-24 months. Recent tax reform in the US should support both casino operator capex and slot player discretionary budgets.

Debt recapitalization driving equity value. SGMS has already significantly increased equity value by both operational improvements and a series of debt refinancings but we believe the greatest opportunities are still ahead. Currently, the company is in the market to recapitalize about $5bn of total debt at lower interest rates that we estimate will result in upwards of $42m in interest savings. The current refinancing plan also provides several strategic benefits, including hedging the company's increasing euro currency exposure from the NYX acquisition, staggering maturities, and setting a benchmark for unsecured paper ahead of the 10% notes that are callable in December, which we believe could net $65m-$80m of incremental savings.

Maintain Buy Rating and $57 Price Target. We are projecting 2019 normalized FCF of $630m, inclusive of estimated interest savings from the current refinancing in the market and the 10% notes in December. Our valuation is based on a 9x blended multiple of our 2019 AEBITDA estimate and implies a ~12% FCF yield. As the company works down gross leverage over the next 12-24 months, we believe the equity could trade closer to a 10% FCF yield which represents upside to our valuation and price target today.

Analysts

John DeCree
Tel: 702-691-3213
john.decree@uniongaming.com

Year to Dec	Net Revenue	Adjusted EBITDA	EV/EBITDA	Net Debt/EBITDA
2018E	3,404	1,358	8.9x	6.0x
Prior	3,183	1,283	9.6x	6.4x
2019E	3,533	1,436	8.4x	5.3x
Prior	3,083	1,247	7.8x	6.1x

*Please see analyst certification and required disclosures starting on page 7 of this report.

Refinancing Opportunity

Overall, SGMS has significantly increased equity value by both operational improvements and a continued focus on chipping away at its once burdensome capital structure. While the company has made substantial strides thus far as it relates to the balance sheet, we believe the most accretive opportunities are still ahead.

Management has created enough wiggle room with FCF and leverage that it should be able to continue executing its recapitalization plans even in a rising rate environment (so long as the credit markets remain open).

We continue to forecast further equity value creation driven by rapid FCF growth stemming from interest savings. The biggest opportunity for the company as it relates to its balance sheet comes in December 2018 when its $2.2bn of 10% unsecured notes become callable. In a base case, refinancing the 10% notes with a blended cost of capital of 7% would net $65m in interest savings worth $540m of equity value ($6/share) based on a 12% FCF yield. We believe the recapitalization announced this week positions the company to successfully address the 10% notes later this year.

While we anticipated SGMS would announce a recapitalization/refinancing in 1Q18 in conjunction with the 7.000% notes due 2022 that are now callable (at 105.25), the proposed refinancing is quite a bit more strategic than we had originally thought.

We believe the proposed recapitalization provides several strategic benefits, including:

1) Reduce interest expense by an estimated $42m annually which will be immediately accretive to FCF and equity value per share
2) Take advantage of favorable European credit markets and avoid market capacity issues
3) Hedge operational euro currency risk which increases with the NYX acquisition
4) Set a benchmark for unsecured paper ahead of the 10% notes becoming callable in December
5) Stagger longer-dated maturities, managing future refinancing risk

Current debt refinancing plan. In short, SGMS is calling and refinancing about two-thirds ($1.4bn) of its 7.0% notes and refinancing them with $500m of incremental term loans, $500m of incremental 5.0% secured notes, and US$400m of secured euro notes. In addition to upsizing its term loan, SGMS is seeking to reduce its applicable margin (interest rate) on the bank debt by 25-50 bps, reflecting credit improvements since the last loan repricing in August 2017. Finally, the company is testing the unsecured market with a US$310m euro note which it will use to repay balances on the revolver, fund the call premium on the 7% notes, and for general corporate purposes.

Figure 1. Scientific Games – Recapitalization Adjustments

	Current Capitalization	Refinancing Adjustments	Pro Forma Capitalization	*LTM Leverage*
Revolver	185	(185)	0	
Term Loan due 2024	3,275	500	3,775	
Bank debt	**3,460**	**315**	**3,775**	***3.1x***
5.000% Senior Secured Notes due 2025	350	500	850	
New Senior Secured Euro notes due 2025	0	403	403	
7.000% Senior Secured Notes due 2022	2,100	(1,400)	700	
Total secured debt	**5,910**	**(182)**	**5,728**	***4.7x***
10.000% Senior Unsecured Notes due 2022	2,200	0	2,200	
New Senior Unsecured Euro notes due 2026	0	310	310	
6.250% Senior Unsecured Subordinated Notes due 2020	244	0	244	
6.625% Senior Unsecured Subordinated Notes due 2021	341	**0**	341	
Total debt	**8,694**	**128**	**8,822**	***7.2x***

Source: Company documents, Union Gaming Securities.

Current Refinancing Plan – Strategic Rationale

Why upsize the bank facility? The company's 2017 performance had come in better-than-expected at the time of the last amended credit facility (August 2017). As a result, total leverage through the bank debt ended the year around 2.8x. This freed up some incremental borrowing capacity up to 3.0x LTM gross leverage, allowing the company to upsize and take advantage of favorable bank financing. We also expect the company to shave 25-50 bps off of its applicable margin, resulting in further interest savings.

Why not call all of the 7% notes? There are several factors at play here. First, there could be capacity issues with trying to call and refinance the entire $2.1bn issue. Second, the call premium is 105.25, which is quite steep, though still NPV positive under the current financing proposal (based on our estimates). Third, it's a risk management strategy. If the company calls all of the notes today and interest rates don't increase, then they left money on the table when the call premium steps down next year. However, given the call premium only steps down to 103.5, interest rates don't really have to creep that much higher to breakeven with the 105.25 call today. Also, if rates move drastically during the year (which we don't think they will) the company could come back and call more bonds at 105.25 anyway. Lastly, staggering the call on the 7% notes ladders the maturities, reducing future refinancing risk.

Why issue euro-denominated notes? This is probably what has us most enthusiastic about the proposed financing plan. First of all, the European HY market is wide open with the Euro HY index trading at around 3.0% (compared with ~5.0% in the US). We estimate SGMS could price the secured tranche at close to 3.0% and the unsecured tranche somewhere in the neighborhood of 4.0%. This is significantly cheaper than the 5.0% secured bonds the company can issue in the US. The added benefit of having euro-denominated debt serves as a natural currency hedge to the company's European operations, which just increased significantly with the acquisition of NYX. We estimate the NYX business generates about $160m (80%) of its revenue in the UK/Europe. This would double SGMS's operating exposure to the UK/Europe.

Why issue unsecured notes? If you recall, SGMS issued $350m of 5% secured notes at the end of 2017. This essentially set a benchmark for new secured debt, giving the company a base price for calling and refinancing the 7% notes today. The same concept applies. A small slug of unsecured paper today will at least set a benchmark for SGMS as it begins to think about calling its 10% unsecured bonds at the end of the year.

Why not issue equity? We like the financial leverage here, particularly in an improving business environment with an improving credit profile. So long as the credit markets cooperate, SGMS is well on the way to increasing liquidity, FCF, and straightening out its balance sheet. It is unlikely an equity offering would significantly improve the balance sheet anyway. With just under 90m shares outstanding, a 10% dilutive offering of 9m shares at $50 would generate net proceeds of roughly $425m. This would barely put a dent in the >$8bn of debt outstanding, bringing LTM gross leverage to 6.9x from 7.2x currently. We are forecasting SGMS to throw off greater than $600m of FCF in 2019. Unless there is a drastic change in the operating environment or capital markets, it makes sense to sit tight right now. Besides, the company does have its social gaming business in the back pocket that is worth $1.2bn-$1.5bn which could be monetized either via an IPO or sale.

Conclusion. Our investment thesis remains on track. SGMS is in the market today to recapitalize roughly $5bn of debt that will keep leverage neutral, reduce interest expense by an estimated $42m, and position the company to address its 10% bonds in December. The transactions are accretive to FCF, equity value per share, and NPV positive, even with the hefty 105.25 call premium on the 7% notes.

Figure 2. Refinancing NPV Analysis for 7% Notes

($ millions)	Jan-18	Jan-19	Jan-20	Jan-21	Jan-22	Jan-23	Jan-24
Call premium $1.4bn of 7.00% notes	($74.0)	-	-	-	-	-	-
Debt issuance cost	(24.0)	-	-	-	-	-	-
Estimated interest savings	-	42.1	42.1	42.1	42.1	42.1	42.1
Net cash flow	**($98.0)**	**$42.1**	**$42.1**	**$42.1**	**$42.1**	**$42.1**	**$42.1**

NPV	$95.8
NPV/Share	$1.07
IRR	36.2%

Source: Company documents, Union Gaming Securities.

Free Cash Flow Forecast

We continue to remain positive on the shares of SGMS. Our favorable outlook is largely predicated on the FCF opportunity ahead, which we estimate at $630m in 2019 on a normalized or pro forma basis (including our expectation for a successful refinancing this week and later in December).

We also see upside beyond our current 2019 normalized FCF estimate, including further operational improvements and incremental capital structure initiatives (i.e. calling the rest of the 7.00% bonds when the premium steps down in 2019).

Our 2019 pro forma FCF forecast is predicated on $67m of AEBITDA contribution from the NYX acquisition beginning in 2018, organic AEBITDA growth of 5%-6% in both 2018 and 2019, annualized interest savings realized in August 2017, plus expected interest savings from both the current transactions in the market and opportunity to call the 10% notes later this year.

Our forecast doesn't currently project any material uptick in capital investment or business operations. We do recognize the company could deploy some incremental growth capex, but so far, we believe the NYX acquisition, along with several tuck-in acquisitions (i.e. DEQ, Spicerack, etc.) over the past two years have been accretive to both FCF and equity value.

Figure 3. Free Cash Flow Bridge – Pro Forma FCF Estimates

FREE CASH FLOW BRIDGE 2017-2019E	
$293	**2017E Free Cash Flow**
67	(+) NYX Gaming Group AEBITDA
65	(+) 5% Organic AEBITDA growth
18	(+) Annualized interest savings from Aug-17 TLB refinancing
42	(+) Estimated interest savings from Jan-18 recapitalization
$485	**2018E Free Cash Flow**
81	(+) 6% Organic AEBITDA growth
65	(+) Estimated interest savings from Dec-18 recapitalization
$631	**2019E Normalized Free Cash Flow**

Source: Company documents, Union Gaming Securities.

Valuation: $57 Price Target – Buy Rating

We are reiterating our $57 price target on the shares of SGMS which is based on our SOTP analysis depicted below and represents a blended 9.0x multiple of our 2019 AEBITDA estimate of $1,436m.

This multiple represents a bit of a premium to the other US-listed gaming supplier companies that trade in the 7.5x-8.5x context. We believe the premium here is merited due to the financial leverage, FCF growth profile, and the inclusion of the higher-multiple Interactive business, which we value at 12.5x.

Our overall valuation implies a >12% FCF yield based on 2019 pro forma FCF estimate discussed above. We believe there is valuation upside as the company begins to reduce overall net leverage. We think it's reasonable for SGMS shares to trade with a 10% FCF yield when the balance sheet is closer to 5x leveraged, which suggest upside in the equity to ~$70 based on our current 2019 FCF forecast. We project SGMS could be near 6.0x net leverage by the end of 2018 and approaching 5.5x by the end of 2019.

For investors with a longer holding period, we believe SGMS is one of the more compelling leveraged equity opportunities in our sector. For those with shorter holding periods, the sensitivity to valuation creates frequent volatility in the share price as we have seen so far this year.

Figure 4. Scientific Games Sum-of-the-Parts Valuation

	2019E Dec-19
SUM OF THE PARTS	
Gaming	$952.0
Multiple	8.5x
Total Value	$8,092.3
Lottery	$389.3
Multiple	8.0x
Total Value	$3,129.7
Interactive	$218.8
Multiple	12.5x
Total Value	$2,734.4
Corporate	($124.0)
Multiple	8.0x
Total Value	($992.0)
Total Attributable EBITDA	$1,436.1
Blended Multiple	9.0x
Total Enterprise Value	$12,964.4
Net debt	($7,839.9)
Total equity value	**$5,124.5**
Diluted share count	89.6
Implied value per share	**$57.19**

Source: Company documents, Union Gaming Securities.

Figure 5. Scientific Games Summary Financial Model

$ in millions.	2015A Dec-15	2016A Dec-16	1Q17A Mar-17	2Q17A Jun-17	3Q17A Sep-17	4Q17E Dec-17	2017E Dec-17	1Q18E Mar-18	2Q18E Jun-18	3Q18E Sep-18	4Q18E Dec-18	2018E Dec-18	2019E Dec-19
Gaming Segment													
Gaming operations	763.2	725.4	172.4	178.4	175.9	176.1	702.8	177.3	183.4	183.9	180.7	725.4	750.3
Product sales	571.3	618.2	156.2	163.3	163.1	191.9	674.5	151.2	170.7	175.5	180.0	677.3	698.5
Systems	272.9	240.7	61.5	67.1	62.0	72.0	262.6	72.0	71.0	71.0	71.0	285.0	285.0
Table products	166.2	188.3	49.9	48.4	53.5	55.3	207.1	49.6	48.0	52.0	56.0	205.6	209.4
Gaming revenues	**$1,773.6**	**$1,772.6**	**$440.0**	**$457.2**	**$454.6**	**$495.2**	**$1,846.9**	**$450.1**	**$473.1**	**$482.4**	**$487.7**	**$1,893.3**	**$1,943.2**
% Year over Year Growth	89.1%	(0.1%)	4.3%	3.5%	1.4%	7.5%	4.2%	2.3%	3.5%	6.1%	(1.5%)	2.5%	2.6%
Lottery Segment													
Instant games	544.0	563.2	140.2	149.4	141.6	146.0	577.2	143.0	154.0	147.0	151.0	595.0	608.5
Services	185.5	169.4	39.0	41.2	44.3	47.0	171.5	40.5	44.0	43.0	47.0	174.5	181.5
Product sales	45.7	45.3	9.9	11.7	17.0	17.0	55.6	10.7	11.0	15.0	18.0	54.7	58.2
Lottery revenues	**$775.2**	**$777.9**	**$189.1**	**$202.3**	**$202.9**	**$210.0**	**$804.3**	**$194.2**	**$209.0**	**$205.0**	**$216.0**	**$824.2**	**$848.2**
% Year over Year Growth	(7.2%)	0.3%	0.7%	(0.8%)	8.7%	5.2%	3.4%	2.7%	3.3%	1.0%	2.9%	2.5%	2.9%
Interactive													
Social gaming B2C	180.0	274.4	80.2	91.1	95.1	97.3	363.7	97.3	100.5	106.0	108.2	412.0	439.8
Other interactive B2B	30.0	58.5	16.1	15.7	16.3	17.5	65.6	17.0	17.0	17.0	17.5	68.5	70.5
NYX			0.0	0.0	0.0	0.0	0.0	47.7	51.9	52.9	53.9	206.4	231.2
Interactive revenues	**$210.0**	**$332.9**	**$96.3**	**$106.8**	**$111.4**	**$114.8**	**$429.3**	**$162.0**	**$169.4**	**$175.9**	**$179.6**	**$686.9**	**$741.5**
% Year over Year Growth	52.0%	58.5%	32.5%	28.1%	30.8%	25.4%	29.0%	68.2%	58.6%	57.9%	56.4%	60.0%	8.0%
TOTAL REVENUES	**$2,758.8**	**$2,883.4**	**$725.4**	**$766.3**	**$768.9**	**$820.0**	**$3,080.6**	**$806.3**	**$851.5**	**$863.3**	**$883.3**	**$3,404.4**	**$3,533.0**
% Year over Year Growth	44.3%	4.5%	6.3%	5.1%	6.8%	9.0%	6.8%	11.2%	11.1%	12.3%	7.7%	10.5%	3.8%
ATTRIBUTABLE EBITDA													
Gaming	**$823.7**	**$821.4**	**$209.7**	**$226.9**	**$221.2**	**$235.2**	**$893.0**	**$215.2**	**$231.8**	**$235.4**	**$239.0**	**$921.4**	**$952.0**
% Year over Year Growth	182.4%	(0.3%)	9.7%	12.7%	5.4%	7.4%	8.7%	2.6%	2.2%	6.5%	1.6%	3.2%	3.3%
% Margin	46.4%	46.3%	47.7%	49.6%	48.7%	47.5%	48.3%	47.8%	49.0%	48.8%	49.0%	48.7%	49.0%
Lottery	**$328.0**	**$333.1**	**$85.3**	**$95.6**	**$89.2**	**$91.2**	**$361.3**	**$88.5**	**$96.2**	**$92.2**	**$99.5**	**$376.5**	**$389.3**
% Year over Year Growth	(1.5%)	1.6%	4.7%	0.4%	15.4%	15.3%	8.5%	3.8%	0.6%	3.4%	9.1%	4.2%	3.4%
% Margin	42.3%	42.8%	45.1%	47.3%	44.0%	43.4%	44.9%	45.6%	46.0%	45.0%	46.1%	45.7%	45.9%
Interactive	**$49.2**	**$67.0**	**$23.0**	**$24.6**	**$23.2**	**$27.6**	**$98.4**	**$42.9**	**$44.9**	**$47.5**	**$49.4**	**$184.7**	**$218.8**
% Year over Year Growth	163.1%	36.2%	48.4%	35.2%	70.6%	39.9%	46.8%	86.7%	82.5%	104.7%	79.2%	87.8%	18.4%
% Margin	23.4%	20.1%	23.9%	23.0%	20.8%	24.0%	22.9%	26.5%	26.5%	27.0%	27.5%	26.9%	29.5%
Corporate	**($125.7)**	**($117.9)**	**($31.4)**	**($32.3)**	**($34.6)**	**($30.5)**	**($128.8)**	**($31.0)**	**($31.0)**	**($32.0)**	**($31.0)**	**($125.0)**	**($124.0)**
% Year over Year Growth	34.9%	(6.2%)	7.2%	(7.7%)	18.5%	25.0%	9.2%	(1.3%)	(4.0%)	(7.5%)	1.6%	(3.0%)	(0.8%)
ATTRIBUTABLE EBITDA	**$1,075.2**	**$1,103.6**	**$286.6**	**$314.8**	**$299.0**	**$323.5**	**$1,223.8**	**$315.6**	**$341.9**	**$343.1**	**$356.9**	**$1,357.5**	**$1,436.1**
% Year over Year Growth	95.4%	2.6%	10.7%	12.5%	10.1%	10.3%	10.9%	10.1%	8.6%	14.8%	10.3%	10.9%	5.8%
% Margin	39.0%	38.3%	39.5%	41.1%	38.9%	39.4%	39.7%	39.1%	40.2%	39.7%	40.4%	39.9%	40.6%
LTM ATTRIBUTABLE EBITDA	$1,075.2	$1,103.6	$1,131.3	$1,166.4	$1,193.7	$1,223.8	$1,223.8	$1,252.8	$1,279.9	$1,324.1	$1,357.5	$1,357.5	$1,436.1
FREE CASH FLOW CALCULATION													
Attributable EBITDA	1,075.2	1,103.6	286.6	314.8	299.0	323.5	1,223.8	315.6	341.9	343.1	356.9	1,357.5	1,436.1
Cash interest (expense), net	(596.3)	(621.5)	(113.5)	(171.4)	(138.2)	(167.5)	(590.6)	(118.6)	(166.9)	(118.0)	(166.4)	(569.9)	(567.8)
Cash tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment on licenses obligation	(50.0)	(50.2)	(9.8)	(9.7)	(9.5)	(15.7)	(44.7)	(9.8)	(9.7)	(9.5)	(15.7)	(44.7)	(44.7)
Capital expenditures	(316.9)	(282.5)	(61.3)	(78.9)	(73.9)	(75.0)	(289.1)	(70.0)	(80.0)	(70.0)	(70.0)	(290.0)	(300.0)
Free Cash Flow Estimate	**$112.0**	**$149.4**	**$102.0**	**$54.8**	**$77.4**	**$65.3**	**$299.5**	**$117.2**	**$85.3**	**$145.6**	**$104.8**	**$452.9**	**$523.6**
LTM FCF	162.0	149.4	185.2	248.4	265.3	299.5	299.5	314.7	345.2	413.4	452.9	452.9	523.6
LTM FCF / Share	$1.88	$1.71	$2.10	$2.79	$2.96	$3.34	$3.34	$3.51	$3.85	$4.61	$5.05	$5.05	$5.84
LTM FCF Yield	20.9%	12.1%	8.8%	10.6%	6.5%	6.5%	6.5%	7.5%	8.2%	9.8%	10.8%	10.8%	12.5%
CAPITALIZATION													
Senior Secured Credit Facilities:													
Revolver, variable interest due 2020	95.0	45.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Term Loan B-1, variable interest due 2020	2,254.0	2,183.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Term Loan B-2, variable interest due 2021	1,980.0	1,905.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Term Loan B-4, variable interest due 2024	0.0	0.0	3,291.0	3,282.8	3,282.8	3,269.6	3,269.6	3,236.4	3,218.3	3,185.3	3,177.3	3,177.3	3,145.7
2018 Subordinated Notes	250.0	250.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2020 Subordinated Notes	300.0	243.5	243.5	243.5	243.5	243.5	243.5	243.5	243.5	243.5	243.5	243.5	243.5
2021 Subordinated Notes	350.0	340.6	340.6	340.6	340.6	340.6	340.6	340.6	340.6	340.6	340.6	340.6	340.6
Senior Secured Notes	950.0	950.0	2,100.0	2,100.0	2,100.0	2,100.0	2,100.0	2,100.0	2,100.0	2,100.0	2,100.0	2,100.0	2,100.0
Senior Unsecured Notes	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0
2025 Secured Notes						350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0
Capital lease obligations, through 2019	25.7	15.2	13.7	12.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Total Debt	**$8,404.7**	**$8,133.6**	**$8,188.8**	**$8,179.4**	**$8,178.4**	**$8,515.2**	**$8,515.2**	**$8,482.0**	**$8,463.9**	**$8,430.9**	**$8,422.9**	**$8,422.9**	**$8,391.3**
Less: current maturities	(50.3)	(49.3)	(39.3)	(39.5)	(39.9)	(39.9)	(39.9)	(39.9)	(39.9)	(39.9)	(39.9)	(39.9)	(39.9)
Long term debt, net	**$8,354.4**	**$8,084.3**	**$8,149.5**	**$8,139.9**	**$8,138.5**	**$8,475.3**	**$8,475.3**	**$8,442.1**	**$8,424.0**	**$8,391.0**	**$8,383.0**	**$8,383.0**	**$8,351.4**
Cash and cash equivalents	128.7	115.1	131.9	198.2	196.4	635.4	635.4	95.4	137.3	226.4	305.7	305.7	739.1
Net Debt	**$8,225.7**	**$7,969.2**	**$8,017.6**	**$7,941.7**	**$7,942.1**	**$7,839.9**	**$7,839.9**	**$8,346.7**	**$8,286.7**	**$8,164.6**	**$8,077.3**	**$8,077.3**	**$7,612.3**
Total Debt / LTM Adjusted EBITDA	7.8x	7.3x	7.2x	7.0x	6.8x	6.9x	6.9x	6.7x	6.6x	6.3x	6.2x	6.2x	5.8x
Net Debt / LTM Adjusted EBITDA	7.7x	7.2x	7.1x	6.8x	6.7x	6.4x	6.4x	6.7x	6.5x	6.2x	6.0x	6.0x	5.3x
Share price (ending)	$8.97	$14.00	$23.65	$26.10	$45.85	$51.30	$51.30	$46.85	$46.85	$46.85	$46.85	$46.85	$46.85
Market capitalization (ending)	775.9	1,232.0	$2,098	$2,333	$4,108	$4,596	4,596.5	$4,200	$4,200	$4,200	$4,200	4,199.7	4,199.7
Diluted share count	85.9	87.2	88.2	89.1	89.6	89.6	89.1	89.6	89.6	89.6	89.6	89.6	89.6

Source: Company documents, Union Gaming Securities.

Important Disclosure

Analyst Certification

The analyst, John DeCree, primarily responsible for the preparation of this research report attests to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

Company Specific Disclosures

Union Gaming or an affiliate has received compensation from this subject company Scientific Games for investment banking services in the last 12 months.

The following company is a client of Union Gaming and the firm has received or is entitled to receive compensation for investment banking services involving their securities within the last 12 months: SGMS

Ratings Definitions

Current Ratings Definition

Union Gaming Securities LLC and Union Gaming Securities Asia Limited use a traditional ratings construct (Buy, Hold, and Sell) that is underscored by percentage upside/downside from current trading levels along with dividend yields for total return. We exclude special dividends and contemplate regular dividends only in our total return forecasts. These are absolute ratings, not relative or forced ratings. We define a Buy rating as a company whose shares exhibit total return (appreciation and dividends) potential of at least 15% within the next 12 months, and conversely a Sell rating as a company whose shares exhibit downside potential of at least 15% within the next 12 months. A Hold rating is reserved for companies whose shares exhibit total return potential between those parameters.

Buy – the total forecasted return is expected to be greater than 15% within the next 12 months

Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 15%

Sell – whose shares exhibit downside potential of at least 15% within the next 12 months

Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

Valuation and Risks

Valuation

Valuation Methodology for Price Target: Enterprise Value-to-EBITDA, Sum-of-the-Parts Analysis, Price-to-Earnings Ratio, Discounted Cash Flow Analysis, Price-to-AFFO, Net Asset Value.

Risks

Investment Risks: Union Gaming Securities' equity research team covers the casino, gambling, gaming, lottery and related sectors. The companies operating within these sectors generally have a global presence or significant exposure to China and Las Vegas, among other markets. In addition, the markets that companies in these sectors operate are highly regulated by local and federal governments. Risks across or specific to one or more of these sectors include regulatory or legislative impacts related to licensing, tourism or the competitive landscape. Licenses to operate gaming facilities or supply gaming equipment or lottery services are often governed by regulatory authorities. Additional Risks for investing in these sectors include volatility in consumer discretionary spending and consumer confidence, currency, interest rates, unemployment rates, access to capital, the cost of capital, commodity costs, geopolitical uncertainty, and unfavorable government regulations. Companies operating within our covered sectors rely in part on tourism, and business trends could be impacted by changes or influences to tourism in a given market or markets , including visa policy, transit policies and security, transportation infrastructure, weather and natural disasters.

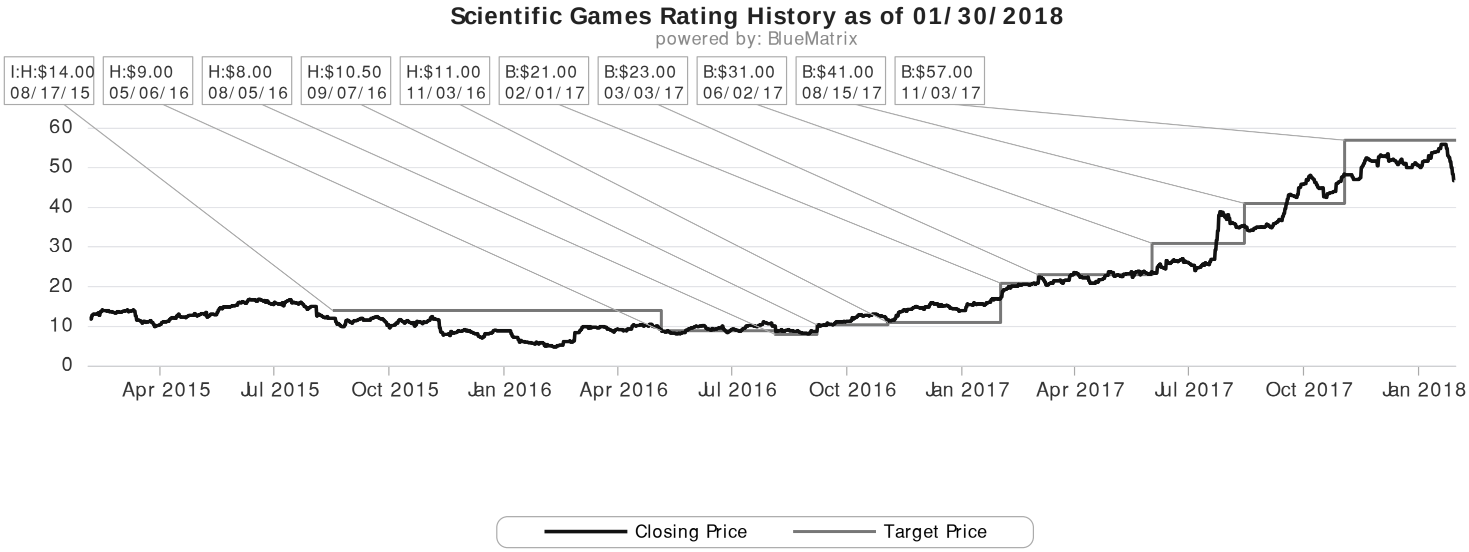
Ratings Distribution (as of 01/31/2018)

Coverage Universe

Ratings	Count	Pct.
BUY	16	64%
HOLD	9	36%
SELL	0	0%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
BUY	6	38%
HOLD	0	0%
SELL	0	0%



General Disclosures

Additional information is available upon request.

This report was prepared by Union Gaming Securities LLC. Union Gaming Securities LLC is a FINRA member firm and wholly owned subsidiary of Union Gaming Group LLC. Union Gaming Group LLC also owns Union Gaming Securities Asia Ltd., a licensed corporation with the Securities and Futures Commission (SFC) in Hong Kong and Union Gaming Analytics, LLC. All questions or comments concerning this research report should be addressed to Union Gaming Securities LLC at (702) 866-0743.

Neither Union Gaming Securities LLC("UGS") nor its affiliates, analysts or employees own any securities of companies analyzed in the research reports it distributes. Neither Union Gaming Securities LLC nor its affiliates or analysts serve as an officer, director or advisory board member of any Subject Company. UGS, its affiliates, analysts and employees may have received investment banking, non-investment banking securities and non-securities service, related compensation from the subject company in the past 12 months. It further intends to seek compensation for investment banking, non-investment banking securities and non-securities service, related activities in the next three months. Accordingly, investors should be aware that the firm and its affiliates may have a conflict of interest that could affect the objectivity of the reports it distributes. UGS is not now nor has ever been a market maker.

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Bloomberg and Factset. Data is sourced from Union Gaming Securities LLC, Union Gaming Securities Asia Limited, and subject companies. Union Gaming Securities LLC and Union Gaming Securities Asia Limited are not responsible for errors in prices provided by independent sources. Data, analyses, and reports necessarily contain time-sensitive information, and no subscriber or client should rely on dated reports or conclusions.

Investor clients and financial advisers should consider any report from Union Gaming as only a single factor in making any investment decision.