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IGT - Q2 2019 International Game Technology PLC Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the IGT Second Quarter 2019 Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Jim Hurley, Senior Vice President of Investor Relations. Sir, you may begin.

James Hurley - *International Game Technology PLC - SVP of IR*

Thank you, and thank you all for joining us on IGT's Second Quarter 2019 Conference Call. Marco Sala, our CEO, will provide an overview of the quarter and comment on our broader strategic initiatives. Then Alberto Fornaro, our Chief Financial Officer, will provide operational and financial perspective on those results. After our prepared remarks, we'll open the call for your questions.

During today's call, we'll be making some forward-looking statements within the meaning of federal securities laws. Forward-looking statements are not guarantees, and our actual results may differ materially from those expressed or implied in the forward-looking statements. The principal risks and uncertainties that could cause our results to differ materially from our current expectations are detailed in our SEC filings.

And now I'll turn the call over to Marco.

Marco Sala - *International Game Technology PLC - CEO & Executive Director*

Thank you, Jim, and hello to everyone. We are reporting a strong result today with revenue and EBITDA both expanding by 5% in constant currency. In fact, Q2 EBITDA is the highest quarterly level we have achieved in the last 3 years. This was driven by a 46% increase in gaming product sales, excellent lottery performance across-the-board and profit expansion in North America and Italy. Our strong performance are translated into substantial free cash flow for the first half of the year.



Our Lottery business continues to demonstrate impressive growth. Global same-store revenue growth outside Italy was 6% in the second quarter and 5% in the first half of the year with increases in both North America and International segments. North America Lottery same-store revenue was up 7% in the second quarter supported by growth of over 5% for instant and draw games and enhanced by increased jackpot activity.

We recently announced a 4-year contract extension to provide Colorado Lottery with a state-of-the-art lottery technology through July 2025. We also signed a 2-year extension with the Ohio Lottery to provide instant ticket services through June 2021. These activity reinforces our strategy to proactively secure future revenue and cash flow streams. The average revenue weighted contract duration for our North America Lottery portfolio is approximately 7 years.

International Lottery same-store revenue rose 3% in the quarter, including sustained double-digit expansion in the United Kingdom, where instant tickets and EuroMillions jackpot continued to drive total lottery sales. In Italy, all the main lottery games are contributing to growth. Lotto wagers were up 4% led by a 6% increase for 10eLotto, which is benefiting from a higher number of bet. Scratch & Win wagers rose 1%, thanks to effective portfolio management. The Italian Scratch & Win is the world's largest instant ticket business. It continues to grow, thanks to the consistent reenergizing of important core franchises enhanced by new product launches.

In the second quarter, we had particularly good response to our new games. Late in June, we introduced a restyled Miliardario assortment with more modern graphics that highlight innovative gaming mechanics. We expect this to help with brand awareness and visibility at the point-of-sale as well as enhancing the player experience.

We have additional innovations in store for both lotto and Scratch & Win in the second half of the year. This include the recently launched the Simbolotto game, a new free option feature for lotto and proposed enhancement to 10eLotto in the fourth quarter. In addition to the Miliardario refresh, we will introduce 2 seasonal instant games also in the fourth quarter.

Turning to Gaming. The big story for Q2 is the significant growth in product sales. This is especially true for gaming machines, but we also had higher systems and software sales in the period.

Robust replacement unit demand more than compensated for less new and expansion activity worldwide. North America replacement rose 54%, almost entirely to casino customers. International gaming machine units did very well, thanks to the contribution from Sweden VLTs and the increases across all main geographies.

This significant growth recognizes the quality of the games we are bringing to market. Accelerated momentum in the core video reel space has been the most important driver, including the player acceptance of newer titles such as Fortune Coin and Griffin's Throne, in addition to sustained interest in proven performances -- performers, Scarab and Ocean Magic Grand. We believe there is opportunity to leverage many of our popular legacy titles with innovative new gaming mechanics to drive additional growth.

The expanding library of sustainable, high-performing titles is boosted by a compelling portfolio of new hardware. The Crystal Series cabinets accounted for approximately 70% of units sold in the second quarter. We have established strong positions in both the dual screen and portrait form factors, which maximizes our total market potential.

Video poker is another area I want to highlight. It is a market segment where IGT has a commanding leadership position, thanks to sustained investment in innovation and diversification not only for games but also with hardware. In the second quarter, we executed our third multiyear poker site license with the large commercial casino customers that included the substantial commitment to our CrystalSlant cabinet. Later this year, we will introduce a highly anticipated new bar top terminal, developed with extensive customers' input that will feature both video poker and our strongest games. The diversity of hardware options enables us to drive the business forward by appealing to a multiple player segment.

Turning to premium games. Our objective has been to stabilize the installed base. Over the last 10 quarters, it has been up or down 2%. So we can safely say that we have met our goal. In the second quarter, the North America installed base was stable with the prior year and up a few hundred units sequentially on an underlying basis. Yields were also stable.

The WAP arena, the Wheel of Fortune and Megabucks franchises, continue to perform well. Later this quarter, we will begin rolling out a suite of games under the iconic Price is Right brand. It is a nice complement to Wheel of Fortune that provides players the chance to spin the legendary Price is Right wheel. We will also continue to leverage the market appetite for MultiLink progressive games, bringing new links to market over the next few quarters.

I would also like to acknowledge the good performance of gaming machine in Italy. AWP and VLTs wagers were both higher than the prior year largely due to the quality of our network. Productivity is helped by the novelty aspects of new games, especially since we are providing enhanced player experiences with each new release. So far, the impact of higher gaming machine taxes, net of mitigating actions, is as we expected.

So in Gaming as well in Lottery, it was a strong quarter and first half. I'm pleased with the broad-based improvement in KPIs for our most meaningful businesses. We are well positioned to deliver on our financial commitment for the year, which include a significant inflection in free cash generation.

Now I will turn the call over to Alberto.

Alberto Fornaro - International Game Technology PLC - Executive VP & CFO

Thank you, Marco, and hello to all of you on the call today. Our second quarter results are summarized on Slide 10. Reporting numbers were significantly impacted by the strength of U.S. dollar against the euro. The average euro-dollar rate this quarter was 1.12 versus 1.19 in Q2 last year. At constant currency, revenue increased to 5% compared to the prior year. We achieved significant growth in global gaming product sales and continuous strength in global lottery same-store revenue. Adjusted EBITDA of \$454 million was also up 5% at constant currency. As Marco mentioned, this is the highest quarterly EBITDA we have delivered in the past 3 years, and it would be approximately \$6 million higher at the 1.15 euro-dollar rate we assumed in our outlook.

North American Gaming and Italy were the main drivers of increased profit despite higher gaming machine taxes. North America Lottery also generated solid results, matching the performance in Q2 2018 that included the highest product sales revenue in 3 years.

In the quarter, we recognize the impact of 2 discrete items. First, we executed a multiyear strategic lease and distribution agreement in Oklahoma, which includes the sale of lease machine in Q2 and Q3. The contribution from this transaction is recorded as a benefit to other operating income and included in EBITDA. Second, we incur higher litigation charges which account for the bulk of the year-over-year increase in SG&A. Adjusted operating income increased in line with revenue and EBITDA.

Let's now turn to our operating segments. We will start with North American Gaming & Interactive on Slide 11. We had a solid quarter, growing revenue, 8%, and operating income 30% on a reported basis, 27% at constant currency. Total revenue from product sales increased to 22%, driven by a 54% increase in replacement units, combined with higher average selling prices and greater systems revenue. The Oklahoma agreement had no impact to revenue or units sold in the period but resulted in the removal of 2,076 units from the installed base. We also expect the removal of few hundred units in the third quarter related to this agreement.

At constant currency, other gaming service revenue was down 3% as a large multiyear poker contract essentially offset the revenue from a similar transaction in the prior year. On an underlying basis, the installed base grew by more than 400 units sequentially, driven by increases in Class II markets as well as placement at the Encore Boston Harbor. Operating income growth was essentially in line with the revenue growth, excluding the net impact of the discrete items mentioned earlier.

Next, we have North America Lottery on Slide 12 where we were able to match the very high revenue level of last year. Strong same-store revenue growth overcame the impact from the end of the Illinois supply contract. Instant ticket and draw games grew over 5%, thanks to solid broad-based geographic strength with the notable gains in Florida, North Carolina, Michigan and Texas. A large Mega Million jackpot drove 24% same-store revenue growth from multistate jackpot games. Increased product sales across multiple jurisdictions and higher instant ticket printing helped offset the significant contribution from Massachusetts lottery hardware sales last year. Higher depreciation impacted operating income in the quarter.



Now let's turn to the International segment on Slide 13. While revenue was up 20% at constant currency entirely on product sales growth, operating income dropped 11%. There are some items that impacted the year-to-year profit comparison: the decline in total service revenue was accentuated at the operating income level driven by interactive performance and nonwager-related items. As we have said in the past, a good portion of international service revenues and profits are impacted by contract-specific items that are not linked to key performance indicators both for Gaming and Lottery. As you can see, product sales were very strong in the period fueled by a considerable increase in gaming machine units and higher software sales. The margin flow-through was below the prior year primarily due to mix, included the earlier-than-expected shipment of approximately 1,600 Sweden VLT units.

Software margins were lower for a specific reason. Earlier this year, we entered into a joint venture with the leading distributor of game content to the Italian AWP market. In the past, we sold games directly to the market. While this new strategic approach has a dilutive impact to margins, it significantly improved our total market opportunity and the overall contribution to profits and cash flows over time.

You will recall the profits from International segment were quite good in the first 9 months of 2018 but weak in the fourth quarter. We expect challenging comparison to persist in Q3, especially against the larger Finland transaction in the third quarter last year, but we anticipate an improvement in Q4.

On Slide 14, you have the results for Italy where we had a truly strong quarter. At constant currency, revenue was up 1%. Operating income rose a stronger 8% on broad-based wager growth and associated profit flow-through in addition to a beneficial shift in expense timing, which more than offset the negative impact of increased gaming machine taxes.

Total Lottery revenue increased 4%. This was driven by 6% growth in 10eLotto wagers and the modest increase for Scratch & Win wagers. Machine gaming revenue reflects the impact of higher taxes, partly offset by better machine productivity. We continue to estimate a \$40 million impact on full year EBITDA from higher taxes net of mitigating actions. Sports betting wagers were up 3% despite the World Cup in the prior year. The interactive and commercial services business also contributed to the growth in revenue.

On Slide 15, you can see the net debt and leverage improve compared to year-end levels.

Now let's start on Slide 16 where we show our debt maturities schedule as of June 30 pro forma for an amendment and extensions of our revolving credit facility completed in July. During the quarter, we issued EUR 750 million or 3.5% senior secured notes during 2026. This was upsized from the original EUR 500 million offering due to strong demand and favorable pricing. Approximately EUR 438 million of the net proceeds were used to fund of the redemption of a 4.125% bond during 2020, and the remainder were used to pay down borrowings under our revolving credit facilities. In July, we proactively amended our revolving credit facility to extended the maturity date by 3 years to July 2024, lower the size from about \$2 billion to around \$1.7 billion and modify certain provision that increase flexibility. The reduction in the size of the facility reflects lower anticipated needs. This leaves us with the liquidity that is more than sufficient to cover debt maturities until 2022.

On Slide 17, we show cash flow for the first half of the year. We generated cash flow from operation of nearly \$600 million. CapEx totaled \$231 million. We achieved record first half for free cash flow of \$361 million. With a large Italian upfront payment behind us and moderation in CapEx spending, we expect to generate significantly more free cash flow than in the past few years.

Cash distribution to minority partners totaled \$199 million, including an acceleration of distributions related to lotto. As minority distribution are heavily concentrated in the second quarter, this represents the bulk of the distribution for the year. We recognize the \$65 million from the sale of noncore assets. The asset sale were executed to help offset any potential growth CapEx that may arise from new business opportunity and the acceleration in the mentioned minority partner distribution.

On Slide 18, we have included our outlook for 2019. We are not changing any of our operating assumption for the year. The revised outlook for adjusted EBITDA of \$1.675 billion to \$1.735 billion is entirely due to a change in the euro-dollar rate. Our previous outlook was based on a euro-dollar rate of 1.15. In the first half, the average rate was 1.13. We are now using a rate of 1.11 for the second half of the year, which brings the full year average rate to 1.12. As a reminder, every \$0.01 change in the euro-dollar rate impacts annual EBITDA by approximately \$9 million and net debt by about \$35 million.

When I provided our initial outlook for 2019, I mentioned that we expect EBITDA to be slightly more concentrated in the second half and that we would work to change this profile. As you can see from our first half results, we have been able to shift the timing of certain transaction forward, helping to derisk the balance of the year. We now expect full year EBITDA to be slightly more weighted to the first half. Within the second half, the timing of product sales should result in EBITDA being higher in the fourth quarter than in the third. You may have noticed in the past the cadence of our cash flow as we large -- we have large interest and cash tax payment in the third quarter.

In summary, we are very pleased with our second quarter results, which includes remarkable increase in gaming machines' unit shipments and continuous strength in global lottery same-store revenue. We generated significant free cash flow in the first half of the year and successfully refinanced a portion of our 2020 debt maturity, both providing increased financial flexibility.

Now we would like to open the call for your question. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Carlo Santarelli with Deutsche Bank.

Carlo Santarelli - Deutsche Bank AG, Research Division - Research Analyst

Alberto, I was just hoping, maybe as it pertains to the Oklahoma agreement being terminated effectively, the replacement units that you did in North America in the period had nothing to do with Oklahoma, right? If I heard you correctly, I thought you said that there was no revenue associated with them and that there was no -- there were no sales associated with them. Is that correct?

Alberto Fornaro - International Game Technology PLC - Executive VP & CFO

The Oklahoma agreement has no impact on the units that we have reported as sold in the quarter as well as in the revenues.

Carlo Santarelli - Deutsche Bank AG, Research Division - Research Analyst

Okay. Understood. Are those units just removed now? Or are they potentially sold in the third quarter period?

Alberto Fornaro - International Game Technology PLC - Executive VP & CFO

No, the units have been converted. However, I repeat, no reported either revenue or units sold. They have been removed from the installed base. The overall impact is -- of the transaction is other operating income and expenses.

Carlo Santarelli - Deutsche Bank AG, Research Division - Research Analyst

Okay. Got it. And then just in terms of, I think previously, you guys had talked about a 48-52 first half/second half adjusted EBITDA split, respectively. Based on your comments there towards the end of your remarks, it sounds as though -- now you're saying that's going to be more balanced, if not more heavily weighted in the first half. I assume the acceleration of Sweden is one of the drivers of that as well, some of the other smaller discrete items you mentioned along the lines of your prepared remarks. But when you think about what you're seeing in terms of replacement demand and North American expansion opportunities as well as International expansion opportunities as we move through the back half of the year, is there reason to be optimistic that, that could shift back to potentially being a little bit more back half-weighted when all is said and done?

Marco Sala - *International Game Technology PLC - CEO & Executive Director*

Carlo, I think that for the moment, again, as I mentioned, there is no change for the outlook for the full year. We have been able to anticipate some of this transaction, for example, the sale of the system to Encore Boston Harbor and also the VLT that you have mentioned. As usual, we have a fourth quarter that normally is very intense in terms of sales and so on. So from now -- for us, nothing has changed for the year, better first half, and then we will go in the second half with less risk for the initial guidance.

Operator

And our next question comes from Chad Beynon with Macquarie.

Chad C. Beynon - *Macquarie Research - Head of US Consumer, SVP and Senior Analyst*

Regarding free cash flow, Alberto, you laid out, obviously, first half operating cash flow and CapEx in your presentation. And given that EBITDA guidance is roughly evenly weighted, I guess, slightly towards the first half, are there any other discrete items or working capital or taxes that we should expect to negatively affect the back-half free cash flow? Or should we think about cash flow to be relatively equal particularly -- or I should say, outside of the minority payment, which was largely paid in the second quarter?

Alberto Fornaro - *International Game Technology PLC - Executive VP & CFO*

Well, in the second half, I just mentioned that in Q3, we expect a weaker cash flow because of the concentration of taxes and interest. On the fourth quarter, there is still some payment for taxes, less payment for interest. But normally because the performance in the business is stronger in terms of EBITDA, there will be a good contribution in terms of EBITDA. Net working capital is what we need to manage because depending on when we sell, the net working capital will change.

But let me say, when we look at the full year, we confirm -- we said in the past, at Investor Day, that we have certain target for the adjusted free cash flow that includes minority and adds up the growth CapEx. So for that specific target that we reviewed down to \$410 million to \$510 million, eliminating the \$40 million of negative impact coming this year from the additional taxation in Italy for gaming machines, we confirm that range.

Chad C. Beynon - *Macquarie Research - Head of US Consumer, SVP and Senior Analyst*

Okay. And then following up on Italy, could you just kind of help us understand where you are in the conversion process with the AWPs on motherboards, and maybe just elaborate a little bit more just in terms of what you've seen on the wagers and kind of player behaviors in the last quarter here?

Marco Sala - *International Game Technology PLC - CEO & Executive Director*

Sure. Chad, I will elaborate on it, where we are with the conversion. We began in March with AWPs and in May with VLTs. Now 65% of our AWP games' board have been replaced, and we expect to finish it by September. We executed about 50% of the planned reduction in VLT payout but starting only in May. And the process will take more time, and the deployment will last throughout the year.

Having said that, I think we have positive results as far as the AWP is concerned because we see the appreciation of other games we have launched in the market, while it's truly too early to make any assessment on the VLT that, by the way, are the machines that generate most of our profits. So the most critical phase for understanding player response to lower RPT in VLTs is still ahead of us, and we need next weeks and month to make a better assessment on it. For the time being, what I can tell you is that we are in line with our expectation. We continue to expect a \$40 million headwind EBITDA in 2019, but we will update the market in the next months and quarters.



Operator

And our next question comes from Barry Jonas with SunTrust.

Barry Jonathan Jonas - SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst

To start, can you guys give us an update on some of those potential contract bids out there that can impact your cash flow targets like Brazil or Pennsylvania? Or I know the SuperEnalotto have passed, but just would love to get an update there.

Alberto Fornaro - International Game Technology PLC - Executive VP & CFO

Okay. So Pennsylvania, obviously, we expect something to come out in the second half, so we will see. And normally, you know that we don't factor those kind of contracts in our CapEx guidance. Regarding Brazil and Turkey, let me say, first of all, that for Turkey, we are participating in the bid. There is no upfront fee there. There are some mechanism of penalties but there is no upfront fee. So eventually, the CapEx impact is fairly, fairly small because it's only related to the technology. For what is related to Brazil, we will see what is going to be the decision of the government. We have not received further information. We hope there will be another bid in the second half. But let me say that in terms of both Turkey and Brazil, the needs that potentially could come from this growth CapEx have been neutralized by the sale of assets that we have, one, we have already completed, and the smaller one should be completed by year-end. So we have tried in this way not to have an impact from the growth CapEx on our debt.

Barry Jonathan Jonas - SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst

Got it. Next one. You guys have stabilized, in fact, grown your underlying North American game of installed base, but I'm wondering, your general thoughts on the market right now. I know operators are talking about cost reductions relating to M&A, but just would love to get your thoughts at a high level.

Marco Sala - International Game Technology PLC - CEO & Executive Director

Barry, I think that the market remains challenging as we always say because there is, of course, from some consolidation in some appetite of some customers, their willingness to challenge the installed base. But we are truly confident in the quality of our existing and new games. And we feel that we are better positioned than ever to compete for our fair share of floor. So I think it's true, it will be challenged, it's always been challenged, but I think we are in a much better place than some quarters ago.

Barry Jonathan Jonas - SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst

Great. Just last one for me, your free cash -- adjusted free cash flow guidance of \$450 million to \$550 million that's before the Italy taxes, just wondering if we should make an adjustment for lower FX rate there just given Italy is a large contributor to your cash flows.

Marco Sala - International Game Technology PLC - CEO & Executive Director

Okay. First of all, we don't consider it truly a guidance. I mean we have provided you net reference point and an adjustment due to Italy. So it's a valid reference point. Nothing has changed. There will be probably an impact for currency, but let's see where we end because there will be a lot of puts and takes by year-end. So for the moment, we are comfortable with that range that we provided.

Operator

And our next question comes from Ghilotti Domenico with Equita.

Domenico Ghilotti - *Equita SIM S.p.A., Research Division - Co-Head of Research*

My first question -- sorry, can you hear me?

Marco Sala - *International Game Technology PLC - CEO & Executive Director*

Yes.

Domenico Ghilotti - *Equita SIM S.p.A., Research Division - Co-Head of Research*

Hello? Can you hear me?

Marco Sala - *International Game Technology PLC - CEO & Executive Director*

Yes.

Domenico Ghilotti - *Equita SIM S.p.A., Research Division - Co-Head of Research*

Okay. My first question is related to the tax impact on Italy. So I'm wondering if you can provide how much of the \$40 million has already been booked in the first half? And second, I would like to have your comments on your bid on the results of the SuperEnalotto, if you thought you were competitive in terms of fee? And how do you see the outcome?

Third, on the discrete items that you were mentioning for the quarter, I didn't catch the net impact from these 2 items. And the last question is on the guidance, then particularly on the performance the first half. So I would like to understand what is your performance compared to your original expectations? So where are you ahead of your expectation? And where are -- what are the added where maybe you are a bit behind, if any?

Marco Sala - *International Game Technology PLC - CEO & Executive Director*

Okay. One by one. You may need to repeat a little bit the last question for me, Domenico. So first of all, on the tax income to -- on tax impact on Italy in the first half, we had 2/3 of the \$40 million that we have been impacted. So obviously, we forecast for the second half, progressively, a lower number.

Then regarding the discrete item, I didn't provide the number in dollars, but I shared to that both of them are in North American Gaming, and the operating income net of the discrete items is basically in line with the growth of the revenues. So indirectly, you have it there. And then the fourth question, sorry, I was not fast enough to...

Domenico Ghilotti - *Equita SIM S.p.A., Research Division - Co-Head of Research*

No. I mean I would like to understand where are the areas where you are ahead of plan? So what are the areas where you expect to maybe a bit more prudent? So is there something that is more structural and just not a shift in contracts or in values that you were expecting?

Marco Sala - *International Game Technology PLC - CEO & Executive Director*

I think that compared probably to the beginning of the year, we are doing obviously a little bit better in terms of product sales. We are -- the ASP, particularly the ASP in North American Gaming, it is better. The International, as I said, we expect some recovery Q4. And Italy overall is doing better not in the gaming machine but in the other areas. Regarding SuperEnalotto, I was very satisfied by our offer. I think it will be a quite comprehensive work, and we presented our best offer. That was considering what we could have done with SuperEnalotto as well as a combination of a fee and the expectation of the fee that the point-of-sales are usually paying on this game that would reward our capital, and that is my comment on it.

Domenico Ghilotti - *Equita SIM S.p.A., Research Division - Co-Head of Research*

Still is there a kind of subsidy of lotteries to get revenues from the payment services given the very low fee that has been bid at the end?

Marco Sala - *International Game Technology PLC - CEO & Executive Director*

I cannot elaborate on it. I mean I was surprised by the disconnect between the 2 top bids for a mature lottery, but I cannot add anything regarding the strategy of another company.

Operator

And our next question comes from David Katz with Jefferies.

David Brian Katz - *Jefferies LLC, Research Division - MD and Senior Equity Analyst of Gaming, Lodging & Leisure*

I wanted to just sort of touch on a little longer-term question. As we think about getting toward the end of the year and even into next year, given all the circumstances that have been discussed, we start to get into that neighborhood of 4x leverage that we've been, I think, probably asking about or discussing with you for a few years now. Is that an appropriate assessment? And is there any updated thought around capital allocation choices when we start to get into that neighborhood that we can think about?

Alberto Fornaro - *International Game Technology PLC - Executive VP & CFO*

Alberto here. No, I think it's premature. We needed to finish 2019 and we need to achieve the results of 2019. We are pleased by what is happening in gaming because, again, we see the Gaming business growing overall, and we need to continue like this based on a stable and, naturally, Lottery business that is delivering better results and start to improve on the gaming side. And then when we reach -- when I said it is inside, we will start to evaluate what are our options.

David Brian Katz - *Jefferies LLC, Research Division - MD and Senior Equity Analyst of Gaming, Lodging & Leisure*

Got it. And if I can just go back to an issue that you probably touched on, but I just want to be perfectly clear about it. With respect to the domestic premium installed base, and I'll admit to having maybe a hyperfocus on it, can you just talk about what we could or should expect to be thinking about in terms of unit dynamics growth or shrinkage? And you obviously had a pretty good result on a win per day or the yield on that installed base. How would you have us thinking about that for the next few quarters also?

Alberto Fornaro - *International Game Technology PLC - Executive VP & CFO*

I think that considering the portfolio and considering the headwind that we have just discussed, I consider that we can plan stable the install base. Maybe we can do something better, but stable is a good view with a stable yield.

Operator

(Operator Instructions) Our next question comes from John DeCree with Union Gaming.

John G. DeCree - *Union Gaming Securities, LLC, Research Division - Director and Head of North America Equity & High Yield Research*

I wanted to talk a little bit about the North American replacement units of over 50% year-over-year, higher ASPs, quite strong, definitely stronger than we were expecting. First question, do you think some of that demand is on 2Q was pulled forward from the back half?

And then the second question, with the penetration you're seeing in the Crystal Series cabinets, where do you think you are in the kind of life-cycle of those cabinets? I mean is it still early days? Or is that product seeing a lot of demand and you expect it to be kind of the dark horse for your sales -- product sales in North America going forward?

Marco Sala - *International Game Technology PLC - CEO & Executive Director*

Thank you for the question, John. What I can tell you is that those sales were the sales of the quarter, and they are based on the performance of the games in the floor. We have done quite well starting in the second half of last year, resulting in a full '18 that was better than the previous year. We are getting momentum with the product sales in North America. We have a good feedback from our customers. We have a good portfolio of performing titles and cabinets that are working, both in the video reel and Stepper. And what is important, we feel that we have a lineup of new games that are, at the time being, in test bank that appear to be very promising. So I think that the cabinet is in a stage that I consider still in a first part of its life-cycle. We have to continue to work on good titles. And I confirm that I expect that the full year will be higher than the previous one that generally across the entire company but also specifically in the North American market.

Operator

Thank you. And our next question comes from Joe Stauff with Susquehanna.

Joseph Robert Stauff - *Susquehanna Financial Group, LLLP, Research Division - Credit Analyst*

Marco, I wanted to ask you on just -- I know it's very difficult to predict, but how to think about the Italian budget process this year? Obviously, last year was very volatile. And what are the right sort of milestones or flag post to consider whatever changes might occur, especially as it relates to gaming taxes? And then I have one follow-up.

Marco Sala - *International Game Technology PLC - CEO & Executive Director*

John, honestly -- Joe, I cannot really predict on this matter because it's hard to predict on things that you manage. It's harder to predict on things you don't, and especially when you deal with government. I mean it's not only an Italian peculiarity, that has its own peculiarity, but I'm appreciating also the peculiarity of other countries in the recent years. But really, I cannot elaborate on this question.

Joseph Robert Stauff - *Susquehanna Financial Group, LLLP, Research Division - Credit Analyst*

I hear you. Certainly, it's worth a stab. I guess the other piece I wanted to ask you is just, strategically, how you think about sort of your aggregate portfolio? Obviously, it is a global portfolio in different businesses in general. And I was wondering if you would ever consider or how you think about maybe some possible pruning, whether that's in some of the areas obviously that have gotten a lot of question on especially over the past year or so, maybe it's the AWP business or the VLT business in Italy when that comes up in 2021 or 2022, or the International segment, which I can appreciate is much more of a distribution model, but is there any tweaking of the portfolio that you guys would consider or are considering?



Marco Sala - International Game Technology PLC - CEO & Executive Director

Look, I think we have a quite comprehensive portfolio. And it's clear that in any moment of your life, you can divide -- you can decide to sell some pieces in one specific country. I mean it's clear that there are situations that are peculiarities, as I said, the AWPs or the VLTs in Italy. But as a matter of fact, they are benefiting from the rest of the portfolio. They are producing a good amount of money even though under all the pressure the Italian government are bringing to that part of the segment. So I think our portfolio is truly compelling, and it is well spread across the geographies in both the main segments we are in. There are only very few products, few categories that I'm not fitting into the main strategic areas. We can talk about -- I mean, there are areas, for example, where we have not a global presence, we have a local presence. I mean sports betting in Italy or commercial service in Italy, I mean, are not completely fitting within the main strategy, but they are great contributors to our overall EBITDA. So I mean, time to time, we, as in any company, we consider our portfolio -- for the time being, we consider the portfolio we have as a comprehensive and compelling portfolio, but it's something that we review regularly.

Operator

And our next question comes from Komal Patel with Goldman Sachs.

Sashank Venkata Parigi - Goldman Sachs Group Inc., Research Division - Research Analyst

This is Sashank on for Komal. You recently made some changes in the covenants, particularly loosening the restricted payment language. Can you talk about the rationale behind the changes? And should we take this as a signal that the company is pursuing more shareholder-friendly actions in near term?

Alberto Fornaro - International Game Technology PLC - Executive VP & CFO

No, it's just -- given the fact that we are going into a new cycle in which, again, we expect the company to generate cash flow and we have renewed most of our important contracts, so I think that overall, we were able to relax some of the conditions and make it more flexible. There is no strategic change, but it is a little bit easier, and even our pool of bank are very comfortable with that and, therefore, have allowed us to have this more flexible arrangement regarding the treasures that are in our facility.

Operator

And we will take our final question from Ghilotti Domenico with Equita.

Domenico Ghilotti - Equita SIM S.p.A., Research Division - Co-Head of Research

I have a follow-up on the portfolio of activities, in particular, specifically related to the commercial services where there is a lot in Italy where there's a lot of moving parts, lot of moving parts and interest. Could you elaborate a bit further on your strategic opportunities there?

Marco Sala - International Game Technology PLC - CEO & Executive Director

Yes, I can, Domenico. I mean as you know, we have been present in commercial services in Italy for a couple of decades. And the commercial service business is a driver of growth for our Italian segment. I can say that almost 2 years ago, we increased our focus on the business. [Recruiting], who I believe, is the most talented professional in Italian industry. Since then, we have invested in people, technology, new services, new partnerships to upgrade our offer and to grow the business. It's a relatively small portion of our Italian operation, but it is a business with higher multiples. And so we are interested to continue to grow that business, and we will do that.



Operator

Thank you. That does conclude our question-and-answer session for today's conference. I would now like to turn the call back over to Marco Sala for any closing remarks.

Marco Sala - International Game Technology PLC - CEO & Executive Director

Well, thank you for joining us on this busy reporting day. We appreciate your interest in IGT. We are pleased with the broad-based improvements we are seeing in the key performance indicators of our main business. I hope you enjoy the rest of the summer, and I look forward to seeing you at the G2E in the fall. Bye.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a wonderful day.

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