

Amaya Q1 2017 Conference Call Transcript

CORPORATE PARTICIPANTS

Rafi Ashkenazi, *Chief Executive Officer*

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CONFERENCE CALL PARTICIPANTS

Chad Beynon, *Macquarie Group, Ltd.*

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Eyal Ofir, *Eight Capital*

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PRESENTATION

Operator

Good morning ladies and gentlemen and thank you for standing by.

At this time all participants are in a listen-only mode. Following management's commentary, we will conduct a question and answer session. Instructions will be provided at that time for financial research analysts that are covering the company to queue up for questions. If anyone has any difficulties hearing the conference, please press *, followed by 0 for operator assistance at any time. As a reminder, this conference is being recorded today, Friday, May 12, 2017. Replay details are included in Amaya's earnings press release issued earlier this morning.

I will now turn the call over to Tim Foran, Amaya's Director of Investor Relations.

Tim Foran - Preamble

Thank you operator. Welcome to Amaya's first quarter 2017 conference call.

This morning, Amaya issued an earnings press release and filed its unaudited interim condensed consolidated financial statements and MD&A on EDGAR and SEDAR. These documents and a webcast presentation will also be available on Amaya's website at www.amaya.com.

Before we begin, Amaya would like to remind listeners that portions of today's discussion contain forward-looking statements under applicable securities laws that reflect management's current views with respect to future events, such as Amaya's outlook for future performance. Any such statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those projected in these forward-looking statements. Undue reliance should not be placed on such statements.

Factors that could cause actual results or events to differ materially are set forth in the documents Amaya has filed or furnished with applicable securities regulatory authorities or otherwise made publicly available, including, without limitation, today's earnings press release, Amaya's Q1 2017 MD&A and financial statements.

Except as required by law, Amaya undertakes no obligation to update any forward-looking statements as a result of new information or future events.

This call will reference non-IFRS and non-U.S. GAAP financial measures. Although Amaya believes these measures provide useful supplemental information about its financial performance, they are not recognized measures and do not have standardized meanings under IFRS or U.S. GAAP. Reconciliations to the nearest IFRS measures are included in today's earnings press release, Amaya's Q1 2017 MD&A and its earnings presentation, which will all be available on Amaya's website.

Unless otherwise noted, all currency figures presented on this call are in US dollars.

Please note, a copy of our accompanying presentation is also available through the webcast link provided in today's earnings press release.

I will now turn the call over to Rafi Ashkenazi, Amaya's Chief Executive Officer.

Rafi Ashkenazi

Thank you Tim. Good morning, ladies and gentlemen, and thank you for participating on today's call.

I'm joined on the call today by Daniel Sebag, our Chief Financial Officer.

Today we will review our first quarter 2017 results, and discuss recent developments and initiatives for continuing to build momentum throughout the year and beyond.

We had a strong first quarter and we are pleased with our results. Our Q1 revenues increased 10% to \$317 million, our adjusted EBITDA increased 22% to \$151 million, and our net earnings increased by 18% to \$66 million as compared to the prior year period.

Along with strong earnings, so far in 2017 we:

- Were granted the first international online gaming license in the Czech Republic
- Launched Millionaire's Island, our first in-house developed progressive jackpot that has already produced two lucky millionaires
- Repaid an additional \$150 million of our deferred payment obligation and we anticipate full repayment by the end of the first half of 2017
- Repriced and retranching our first lien term loans, which we expect will save approximately \$15 million in annual interest expense and further improve our cash flow conversion and

- Hired Robin Chhabra as Chief Corporate Development Officer and are in final negotiations with a Chief Financial Officer

As for our key customer metrics:

- We recorded approximately 2.7 million total quarterly active unique players on our platform in the first quarter, an increase of 5% year over year, led by innovative customer acquisition, engagement and re-activation initiatives.
 - Online poker remains very attractive for our business as we maintain significant competitive advantages through low player acquisition costs and the network effect of our sizeable player base. In Q1, approximately 2.5 million quarterly active uniques played poker, an increase of 2% year over year.
 - We have been successful in marketing and cross selling casino and sportsbook to our poker players with about one-third of them already playing casino. In Q1 approximately 664,000 Quarterly Active Uniques played casino and 277,000 made a bet on sports, with both verticals experiencing strong year over year growth.

Our Quarterly Net Yield, which represents our real money online gaming revenue-per-Quarterly Active Unique, increased on both a regular and constant currency basis by approximately 5% year over year to \$115, driven primarily by growth in casino yield.

Poker revenue increased 1% in the first quarter. As we have discussed on prior earnings calls we have implemented a long term plan to improve the poker ecosystem with the goal of creating a more attractive gaming environment and an improved experience for recreational players. We expect this will enable the recreational player to play longer on our platform across verticals and have more winning moments, which we believe allows us to engage and retain our customers longer, increase net deposits, and improve their lifetime value. The positive momentum in poker continues despite the impact of anticipated cannibalization from our other product offerings, decreased poker revenue on Full Tilt, and the closing of certain small jurisdictions.

As we continue to implement this long term poker plan, we should take a few moments to talk about the continued evolution of our poker business model as we transition from our traditional professional-player emphasis to a focus on recreational players. We began this evolution over a year ago as we recognized shifts in customer behavior which were having a negative impact on our ability to successfully attract and retain new and recreational players. Our long-standing model was to handsomely reward high volume players based primarily on the number of hands they played. This allowed the company to gain market share during a time that we were aggressively opening markets and introducing poker to new audiences around the world. At the same time, our marketing efforts created a generation of players who were able to make a living based upon the combination of poker winnings from other players and the rich rewards we offered for high-volume play. In tandem, we tailored our poker product offerings, our pricing model, our innovation and our promotions to reinforce these behaviors.

In today's market, our old business model does not position poker for the long term. We therefore began to shift those rewards and tailor our products and promotions for recreational players who want to enjoy the game as a fun entertainment experience that offers many winning moments and the dream of a big payout.

The initial changes that we have implemented are so far having the desired effect of enhancing the experience for recreational and new players, leading them to deposit more money on our site and we believe we are capturing more of their overall gaming wallet as they play across all three verticals.

We will continue this transition and adjust our product offering, our pricing and our promotions to anticipate, meet and exceed the demands of this next generation of online poker customers. For instance, in March we announced the end of the legacy loyalty program and the planned move to a new system, our Cross Vertical Loyalty Program, which we expect to roll out in Q3.

During this time we anticipate that some of our customers, primarily high-volume players, may either adapt their play or choose not to make this transition, which may result in short term declines in revenue.

Although the ecosystem changes will be an ongoing process, we anticipate the most fundamental of those changes that we have previously disclosed, to be completed in this calendar year as we also introduce product innovations and geographic expansion.

As we adapt as an organization, we will not lose sight of the fact that Poker is ingrained in our DNA . We intend to remain the global leader in poker and continue to promote the game for the long term.

PokerStars has been and will continue to be the home of poker. We love this game, we are passionate about poker and we play it ourselves, in all its variants. We want everyone to enjoy the game of poker as much as we do. We are grateful and inspired by every customer that has taken the time to become a poker player and we have an obligation to provide a world-class poker experience in every aspect. We recognize that we must adapt as an organization to provide the customer with the experiences they are seeking. We have a responsibility for the future of poker and we intend to continue to ensure we manage a well-balanced and secure eco-system while focusing on innovation. We believe that our success means poker's success.

While we continue to improve our core poker business, we continue to successfully diversify our revenue streams through casino and sportsbook, which accounted for a combined 27% of our total revenue in the first quarter, compared to 21% a year ago.

Casino revenues grew as a result of an increase in uniques and higher per player yield, in-line with our strategy. Casino yield improvement is partially due to the increased number of slots offerings which we will continue to grow. The number of uniques playing casino increased 42% year-over-year, driven by growth from expansion into new jurisdictions and an increase of cross-sell to eligible poker players. Our casino offering is now available to 74% of poker players.

Despite almost no external marketing and no dedicated VIP program we have become one of the largest online casinos as measured by active uniques. As a reminder, almost all of our marketing efforts to-date are through direct cross-sell to our poker customers. Our aim continues to be one of the largest real money casinos in terms of revenues among our public competitors.

As for sportsbook, during the first quarter, year-over-year growth was positively impacted by the opening of new jurisdictions, increase in quarterly active uniques and improved product offering, while the product was available to approximately 62% of our poker players. On a sequential basis, we saw growth in uniques and wagering.

Our first quarter operations performed very well and we saw strong year-over-year increases in revenue, adjusted EBITDA, net earnings, adjusted net earnings per share, and our key customer metrics as we continue to attract new customers and increase net deposits onto our platform.

During the remainder of 2017 we plan on continuing to execute on our strategic priorities:

- growing the poker category and our poker leadership position
- becoming a leader in online casino
- and establishing a competitive online sportsbook

Poker is the primary channel through which we acquire customers in an efficient and cost effective manner. In 2017 we are continuing to actively manage the ecosystem and grow the poker category. We are excited to introduce our new cross vertical loyalty program in the second half of the year which will provide our recreational players with more targeted prizes and more opportunities for winning moments.

In 2017 we expect our casino growth to continue by focusing on improving the quality of the offering and launching a dedicated VIP program. Our goal is to add at least 150 new slot games to our casino and to improve our product.

For sportsbook, in 2017 we have refined our plans and strategy and will invest less on market expansion and more on product improvements and parity, especially on mobile, as well as delivering a localized experience to our customer base.

I will now turn the call over to Danny to provide further details on our first quarter 2017 financial performance.

Daniel Sebag

Thanks Rafi.

Our Q1 2017 revenues increased 10% to \$317 million versus the prior year. This quarter, poker revenues comprised approximately 69% of total revenues and casino and sportsbook combined revenues comprised 27%, as compared to approximately 75% and 21%, respectively, in the prior year.

Poker revenue was up 1% in the first quarter of 2017 versus the prior year. Poker revenue was positively impacted by the previously announced changes to our loyalty program, rake increases which did not take effect until late March 2016, increased marketing spend in Q4 2016 versus the prior year, abnormal seasonality in the first quarter of 2016 resulting in a weaker weighting than prior years and the re-launch of Portugal and the launch of PokerStars NJ. However, the increase was partially offset by: cannibalization from our real money online casino product, a decline in the activity on Full Tilt, the temporary cessation of operations in the Czech Republic and the cessation of operations in certain small jurisdictions.

Our casino and sportsbook combined revenues increased significantly in Q1 2017 to \$87 million, with casino representing approximately 92% of the revenues. Revenue growth was primarily the result of the continued rollout of the casino product under the PokerStars brand, including the addition of third-party slots, the addition of new geographies to both verticals and the expansion of the sportsbook product.

On a geographic basis, revenues for Q1 2017 were split approximately as follows: 61% from the 28 countries in the European Union, 21% from the rest of Europe, 13% from the Americas, and 5% from the rest of the world.

Our Q1 2017 net earnings increased approximately 18% to \$66 million as compared to \$55 million during the prior year period.

Our first quarter diluted earnings per common share increased approximately 18% to 33 cents versus 28 cents the prior year.

Our first quarter Adjusted EBITDA of \$151 million was an increase of approximately 22% versus the prior year.

Adjusted EBITDA during the first quarter added back:

- \$2 million of termination of employment agreements related to our Operational Excellence Program
- And \$2 million of stock based compensation

There were approximately \$9 million in other adjustments, including:

- \$5 million of certain lobbying and legal expenses
- And \$3 million of professional fees incurred by the company and the special committee of the board of directors, a majority of which are in connection with the payments matter and the AMF investigation

There was also a \$7 million reversal of our impairment related to our investment in Innova Gaming Group

During the first quarter Adjusted EBITDA and net earnings benefited from the increase in revenues notably due to the expansion of our online casino. Casino once again provided strong contribution as we engaged in very limited external marketing, but instead continued to focus on product expansion and cross-sell. Profits from the casino vertical will continue to help support our investment in sportsbook.

Our first quarter Adjusted Net Earnings per Diluted Share was 56 cents versus 43 cents the prior year period.

In Q1 2017, we generated approximately \$96 million in operating cash flow, or \$112 million excluding the movement in customer deposits. That compares to \$45 million in Q1 2016, or \$86 million excluding movements in customer deposits. Our operating cash flow increased primarily as a result of increased EBITDA.

We highlight operating cash flow net of movements in customer deposits because they are not readily available to us and do not impact our operational cash. As we continue to make changes to our ecosystem to benefit our recreational players we anticipate that customer deposits will continue to fluctuate.

While our operating business generates deposits from players from around the world, primarily in Europe, poker gameplay is predominantly in US dollars. Therefore, our business is impacted by fluctuations in global currencies against the US dollar, particularly against the Euro which is the primary depositing currency of our customers. In Q1 2017, the purchasing power of our customer base continued to decline. Based on a weighted average of customer deposits, we estimate the value of our customer's local currencies declined 1% against the US dollar on a year over year basis.

Due to the impact of currency fluctuations on our business, we provide a constant currency comparison to show how the underlying business performed excluding the impact of foreign currency rate fluctuations. On a constant currency basis:

- Our Q1 2017 total revenue was not impacted and likewise increased 10% versus the comparable prior year period.
- Our Q1 2017 real-money online poker revenue was flat versus the comparable prior year period.

In early March we successfully closed on a repricing, retransching and amendment to our first lien term loans. We reduced the applicable interest margin on the first lien term loans by 50 basis points and removed the Euribor floor on the Euro tranche. We also shifted the currency mix and reduced our currency risk by increasing our Euro tranche by 100 million Euros and reducing the U.S. Dollar tranche by the same amount. Further, we obtained an amendment to waive our excess cash flow sweeps due in 2017 and 2018. As a result of this transaction we estimate that we will save \$15.4 million in interest expense over the next twelve months.

The \$48 million excess cash flow sweep payment that would have been due at the end of March was used to partially fund the \$75 million payment we made at the end of April. Having repaid \$150 million thus far in 2017, there remains \$47.5 million which we estimate will be fully repaid by the end of the first half of 2017 using cash on the balance sheet and cash flow from operations.

While our first quarter operations were very strong we expect to face certain headwinds in the second quarter especially as it relates to poker. The 2016 rake increases will have been in effect for the year over year comparison. Also, Q2 2016 was a strong quarter for 2016 with quarterly poker revenues comprising essentially the same weighting of full year poker revenues as Q1 2016 which is abnormal compared to prior years. However, we reaffirm the guidance that was provided during our fourth quarter conference call and in our fourth quarter earnings release.

On the regulatory front, we are proud to be the first international operator to receive a license in the Czech Republic, and we are currently operating both online poker and player-versus-player online casino games in that market. We have not yet re-launched our wider casino games offering including slots or our sportsbook, but intend to seek approval to do so. Following the enactment of the new license regulations in the Czech Republic, we temporarily ceased operations in that market for approximately six weeks at the beginning of this year until we were issued our local license and resumed operations in February. We are adhering to certain new and unusual licensing requirements in the Czech Republic which have had a negative impact on our operations, for instance requiring face-to-face verification for online gaming accounts. We believe the Czech Republic is unique in this regard and we foresee future jurisdictions following the licensing models set forth in other more mature regulated markets.

We also continue to monitor regulatory developments in Australia closely. Currently, we are permitting individuals from Australia to play poker on our site. However, as we've discussed previously, if the current proposed legislation is enacted in Australia, we intend to block play from that market. We currently estimate that the proposed legislation could be considered in late May, and we would block play from that market approximately 30 days thereafter.

On the legal front, the appellate briefing process for the Kentucky litigation has commenced. Based on the current timeline, we anticipate oral arguments could occur in early 2018, with a decision possibly being rendered in the spring or summer of 2018. We will continue to provide material updates, including to the estimated timeline, as they become available.

I will now turn the call back over to Rafi.

RAFI ASHKENAZI

Thank you Danny.

As you can see from our first quarter results, we have been executing our strategy effectively and capitalizing on growth opportunities. In addition, once we have completed the repayment of our deferred payment obligation, we expect to more actively look at inorganic growth opportunities.

To that end we have recently announced the appointment of Robin Chhabra as our Chief Corporate Development Officer focusing on inorganic growth. Robin is an experienced online gaming executive who most recently served as Group Director of Strategy and Corporate Development for William Hill. We anticipate he will join the company in September 2017 following a brief garden leave from William Hill.

One other item, as this is likely Danny's final earnings call, I would like to take this opportunity to thank him for his many years of tireless work at Amaya. We value the contribution he has made to the company and we wish him well in his retirement.

As it relates to our upcoming annual shareholder's meeting, the management information circular will include some special items which we will be asking our shareholders to approve, which I would like to preview with you:

One is the relocation of our Corporate Head Office to Toronto. As a corporation organized under the Quebec Business Corporations Act, we are required to maintain our corporate head office in the province of Quebec. Following the appointment of our new CFO, which we are in the final stages of negotiating, we intend to relocate our corporate head office to Toronto, where our new CFO will be located. As such, we intend to ask our shareholders to approve a continuance under the Business Corporations Act in Ontario so that we can become an Ontario corporation and move our corporate head office to Toronto.

Next is our corporate name. Our company has experienced incredible growth and change over the past years. We have divested the entirety of our B2B businesses and today we are a pure-play consumer-facing operator, with "PokerStars" as our primary brand. However, we continue to grow and evolve as a company; as we undergo this transformation we look to embrace the future of our business, while also recognizing the incredible consumer goodwill and loyalty associated with our primary brand. We have decided to change the name of our corporation from Amaya to "The Stars Group Inc." We intend to ask our shareholders to approve this name change at our upcoming annual meeting.

We are very excited with the progress that the company has made thus far and we look forward to our shareholders' support on these matters as we continue to work to maximize shareholder value.

As always, I am very proud of our staff around the world who have remained focused on our customers by delivering high quality customer service, a superior gaming experience and continue to deliver on our strategy each and every day.

Before we open the line for questions, note that, at the direction of the Board of Directors, we will not be addressing any questions relating to the AMF investigation, payments matter or related matters.

With that, operator, we are now ready to take questions.

Operator:

We will now be conducting a question and answer session. In the interest of time, we ask that you please limit yourself to one question, one follow-up, and re-queue for any additional questions. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from the line of Chad Beynon with Macquarie Group. Please proceed with your question.

Chad Beynon:

Hi, good morning, and thanks for taking my questions. I know it's early in the year, but your first quarter was certainly stronger than I think most people expected, and you talked about recognizing an extra month or two of Australian revenues. Can you maybe talk a little bit about your decision to leave guidance where it is? Is that more around some of the uncertainty around the cross-vertical loyalty roll-out or extra casino marketing, or is it really just a factor of it's early and no reason to do it at this point? Thank you.

Rafi Ashkenazi:

Okay. So, the two key factors that we have, when it comes to the guidance in relation to Poker specifically, and keeping Poker less in our projections, it's driven by the VIP or the cross-vertical loyalty program, exactly as you indicated, and the continued cannibalization that we have from the two other verticals, Sports and Casino. We are continuing to grow these verticals. Q1 this year versus Q1 last year, we grew Poker and Casino by \$27 million, it's quite significant, and the impact of the CVL, or the cross-vertical loyalty program, is still something that we don't know how to anticipate or how to project. We, obviously, have the model, but it's very hard at this time of the year to be bullish around it.

Chad Beynon:

Okay, and my question, I'm sorry, was more with respect to the Company guidance, the \$560 million to \$580 million of Adjusted EBITDA.

Rafi Ashkenazi:

Yes, basically, it's the same answer. I mean, we started off the year quite strongly. We do anticipate to see a slowdown in Poker in the next quarter, and then we are hoping to pick up Poker in Q3 and Q4. Casino and Sports will continue to grow over the course of the year. We are also anticipating to increase marketing projects for Sportsbook and Casino. We do want Sports and Casino to start developing their own acquisition channels. We do want to acquire Casino first and Sports first customers, so we are going to increase marketing in the second half of the year. So, the guidance, essentially, remains the same.

Chad Beynon:

Okay, great, thanks. Then, my follow-up, just with respect to the balance sheet, you've made great progress. You talked about taking care of the \$47 million of the deferred payment in the first half of the year, and that puts you in a great position to do a lot of things with respect to paying down more debt, buying back stock, or, Rafi, you've mentioned M&A opportunities. Could you elaborate a little bit more in terms of how you're thinking about that right now, or is that something that you still need time to digest? Thanks.

Rafi Ashkenazi:

No, I can speak a bit more about it. When I look at the future of the Company, I'm looking at two primary drivers for the Company. The first one is the organic one and the second one is the inorganic one.

When it comes to the organic, obviously, from July onwards, we will not have a deferred payment liability anymore and we are going to generate far more free cash flow. That will allow us to invest back into the business. This investment—this is from the organic point of view—this investment may go into marketing, as I mentioned before, for Sports and Casino. This investment may go into—I mean, if I'm just looking at the marketing, today, our marketing budget is approximately 13% of our NGR. If you look at other operators in our industry, every one are more than 20%, 23%, 24%, 22%. We still have a lot of room to grow here.

So, from the second half of the year, there are opportunities for us to invest into marketing, to continue investing into R&D, and to build the Company organically. We have a VIP program that we want to roll out. There are a lot of activities that I would like to do organically with the Company, that's one opportunity, apart from the fact that, yes, we do have still debt and we could pay some of the debt, which would also be quite positive for us, because it will reduce our interest rate for the year.

The second element that we are also reviewing in parallel is the inorganic growth opportunity. Since we will have more free cash flow on our hands, we will be able to, at least, review tactical or strategic opportunities. If it could be a tactical opportunity when it comes to, specifically, more around the Sportsbook, then I'm hoping that we would be able to use some of the free cash flow that we have to acquire.

So, these are the areas that I'm looking at. These are the areas that we are currently analyzing. We'll have Robin coming onboard relatively soon enough to help us with putting together this strategy. That's essentially the plan.

Chad Beynon:

Okay, great update. Thank you very much.

Rafi Ashkenazi:

No problem.

Operator:

Thank you. Our next question comes from Kevin Wright with Canaccord Genuity. Please proceed with your question.

Kevin Wright:

Hey, good morning. Thanks for taking my questions. So, first, just on the Poker ecosystem, you know, likely withdraw from Australia, could you talk about some of the other opportunities for regulatory changes that are ahead of you? You've talked about India in the past, maybe give your outlook on what's going on there, and maybe a longer term outlook on, potentially, China or U.S., as new market opportunities for you guys in the Poker space.

Rafi Ashkenazi:

Okay. So, when it comes to opportunities with new markets—I'll start with Europe. We're still waiting for Germany to, hopefully, regulate soon. There are great opportunities for us in the Netherlands. Sweden

has quite positive indications about regulating online gaming. So, these specific countries would have quite a significant value for us. So, that's—sorry, one more thing that we have in Europe, which is quite significant, as well, is the shared liquidity between Italy, France, Spain and Portugal, or the potential shared liquidity between these four countries. Instead of managing four segregated liquidities, we would be able to manage one liquidity, and then, through that, attract players, increase the prices, and, basically, use our scale to continue to grow. So, Europe is still a very significant region for us and which we are quite focused on.

When it comes to Asia, we are going to roll out our operations in India, hopefully, in Q3, or latest in Q4. We are moving forward according to the plans and it looks quite positive. I'm not anticipating significant revenues to take place this year, but we do hope to continue growing this market over the course of the next few years. Generally, in Asia, we are now reviewing—well, we've been reviewing for quite some time, actually, the various different options and I'm hoping that we will get to a resolution in the near future and we'll have a model that will allow us to operate in Asia, but nothing has been finalized there yet.

When it comes to the U.S., there are very positive movements, specifically, in Pennsylvania. As I mentioned in prior calls, we hope that at least two more states will regulate for online Poker this year. That will probably bring a certain critical mass to the market, because if we have like five, six different states opening up for regulation in the market, we're hoping that that will generate good momentum across the U.S. and more states will open up to online gaming. The next one that we are now working more actively is New York.

So, yes, there are quite a few opportunities for us across the globe with Europe, Asia and the U.S.

I also want to mention Brazil and Russia, because Brazil has been discussing online gaming regulation for quite some time. There are, again, some positive indications coming back from Brazil. Brazil is quite a significant market for us. We operate only Poker in Brazil. If Brazil will open up to online gaming, then the opportunities for Casino and Sports could be quite significant for us, because we have built quite a significant player base in this country and the opportunity for cross-sell would be quite unique for us.

Then, when it comes to Russia, we are launching very soon—I mean, we have the live event starting—we have a live event starting in Sochi on the 20th of May. We've been building this live event over the course of the last few months. We started marketing on TV in Russia recently, something that we haven't done for more than two years. We have our mobile app back on the App Store, the PokerStars Sochi app, which is quite encouraging, and we are acquiring quite a lot of players through this app, and everything is building up towards positive momentum. I'm not sure if Russia will open up for online gaming this year, but this is quite significant and very positive momentum that we currently have in Russia.

These are the key markets, basically.

Kevin Wright:

Very thorough, thank you very much, Rafi. I'm going to follow up just—on the Sports strategy, when you're looking at potential M&A, are you guys looking more on acquiring technology or is it to increase a customer base in Sports? How might you guys be thinking about that ahead of Robin joining you guys in September?

Rafi Ashkenazi:

The way that we are looking at the Sports, it's not about technology, it's more about customer base and it's more about revenues. That's the way that we are regarding Sports. It's something that will allow us—the acquisition of Sportsbook will simply allow us to accelerate our Sportsbook roll-out, and to continue developing what I mentioned before, which is quite important for us, an additional acquisition channel for the Company. These are the two key objectives that we have with Sportsbook.

Kevin Wright:

Okay, that's great. I'll queue up for another couple questions. Thank you.

Rafi Ashkenazi:

Okay.

Operator:

Thank you. Our next question comes from Eyal Ofir with Eight Capital. Please proceed with your question.

Eyal Ofir:

Thanks. Thanks for taking my questions, guys, and congrats on a good quarter. Just touching on the Sportsbook, since we're on that topic, obviously, this quarter, the uniques that you had, and active uniques, were pretty impressive growth sequentially. Can you just talk about what happened sequentially in terms of player acquisition, and then, also, just discuss where you are from a technology standpoint and also the number of games or product offering that's available on the Sportsbook today? Thanks.

Rafi Ashkenazi:

Okay. So, I'll start with the actives. The increases you see in the actives are coming primarily through cross-sell. One of the primary objectives that we have for Sportsbook is to make sure that we are improving our cross-sell capabilities with Sportsbook, and we feel far more comfortable to more aggressively cross-sell to our Poker player base, simply because the product is in a much matured way today, or it's a much matured state today. So, that's the primary objective, and this is something which is working out quite well for us and we can see the increase in actives. We can see the increase in bets, as well, and turnover. So, we have positive indications coming from Sports.

We are continuing to roll out games. We should be ready with a product that will feel far more comfortable to market for the beginning of the football season, so around August. We are going to roll out, also, a new mobile app towards this date. So, everything should be ready, from our point of view, to start more actively marketing Sportsbook externally and to acquire players there.

The positive indications that you see on the actives is coming primarily from much better cross-sell and a better pickup by our Poker players.

Eyal Ofir:

Okay. Have you received any feedback, I guess, from your clients in terms of how it is and how it compares to the other platforms out there?

Rafi Ashkenazi:

Yes, we are constantly collecting feedback and we are constantly improving the platform. We know that there are some areas that we have to improve, and those areas are being improved. The in-play is one of the primary areas that we need to put more efforts on, and we are putting more efforts on. The onboarding, when it comes to bringing new customers onboard, it's also something that we need to improve. These are the two key areas—sorry, there is a third one, which we are also quite focused on, which is localizing our app. We want to be better in terms of our operations in France, Italy, Spain, Germany and U.K. These are the core activities that we have currently around Sportsbook.

Eyal Ofir:

Okay, great, and then just on the—you discussed increased, obviously, marketing spend in the second half, as there's more free cash flow available to you to start reinvesting organically. How should we think about the increased marketing spend between Sportsbook and Casino? I imagine that, obviously, Sportsbook, now that it's a product you're feeling more comfortable with, you'll probably be more aggressive, but how should we think about the split between the two?

Rafi Ashkenazi:

So, I would say it's probably going to be two-thirds on Sports and around a third on Casino, approximately this ratio. We will invest—we feel more comfortable to invest in Sports. Casino, we're still rolling out more games and more content. We also need to build a stronger affiliate system when it comes to Casino and we want to have a proper VIP program in place before we market more aggressively to acquire Casino first customers, but on Sports, we will be in a position to be more active for the beginning of the football system. So, I would estimate around two-thirds towards Sports and a third on Casino.

Eyal Ofir:

Okay, great, and just before I pass the line, just the marketing initiatives. Obviously, in the past, Poker sites always had strong relationships with, I guess you could call them sports athletes to promote Poker for you globally. Are you going to use the same athletes to promote Sports, or is it going to be new faces, I guess, coming on, from a marketing standpoint?

Rafi Ashkenazi:

Athletes are restricted from promoting Sports, so we can't really use them. We are going to use primarily—I mean, I'm sure you saw you Kevin Hart on Poker recently. This is the new addition that we have, which is quite successful. We are going to use celebrities to continue our marketing efforts across the board.

Eyal Ofir:

Okay, great. Thanks. I'll pass the line.

Operator:

Thank you. Our next question comes from David McFadgen with Cormark Securities. Please proceed with your question.

David McFadgen:

Yes, hi, I just wanted to—just confirm what you said earlier in your prepared remarks. Did you say that you're offering Casino now and it's 74% of your Poker players?

Rafi Ashkenazi:

That's correct, yes.

David McFadgen:

Okay, because I think in the past you thought you'd be offering it to about 50%, because you wanted to stay in only, say, white markets. So, have you now moved into offering Casino into some grey markets?

Rafi Ashkenazi:

What we've done, basically, we looked at the industry and we looked at other operators, and we gathered more legal opinion around the various different jurisdictions, and we simply felt more comfortable to roll out Casino in more markets. One of the primary markets was Russia, which we rolled out at the end of last year, and there were a few other markets that we decided to roll out Casino. Essentially, it was simply a review of other operators in our industry, the way that they're operating, because, you know, in these jurisdictions, we gathered a little bit more legal opinion and we made a decision to roll out.

David McFadgen:

Okay, and then just one other question, if I may. You talked about the Kentucky lawsuit. You said that the decision will be spring or summer in 2018. Has anything changed, in your view, about your confidence in the appeal?

Rafi Ashkenazi:

No, nothing has changed, in my view, in terms of the confidence. I am still quite confident.

David McFadgen:

Okay, great. Thank you

Operator:

Thank you. There are no further questions at this time. I would like to turn the call back over to Rafi for closing remarks.

Rafi Ashkenazi:

Okay. So, first of all, I will take this opportunity again to thank Danny for all of his contributions. It was a pleasure working with you, Danny.

Daniel Sebag:

Thanks, Rafi.

Rafi Ashkenazi:

So, I'd like to thank everyone for participating on today's call. We appreciate your ongoing interest in the Company. Thank you.

Operator:

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.