

Amaya Inc. Q3 2016 Quarterly Earnings Conference Call November 14, 2016 8:30 a.m. ET

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 star, followed by the zero for Operator assistance at any time. As a reminder, this conference is being recorded today, Monday, November 14, 2016. Replay details are included in Amaya's earnings press release issued earlier this morning.

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

Tim Foran:

Thank you, Operator. Welcome to Amaya's Third Quarter 2016 Conference Call. This morning, Amaya issued an earnings press release and filed its unaudited interim 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 Q3 MD&A, and its most recently Annual Information Form. 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-US 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 US GAAP. Reconciliations to the nearest IFRS measures are included in today's earnings press release, Amaya's Q3 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. Thank you for joining us today as we review our Q3 results and discuss recent developments and initiatives as we head towards year-end and look towards the future.

As you are aware, the Special Committee of the Board of Directors has concluded the strategic review process. We are continuing to focus on improving the Company and operations and have the full and active support of the Board to do just that. We are committed and working aggressively in all aspects of our business to continue to operate in a best-in-class manner in a way that is equal to the strength and the leadership position of our core business. To do that, we will require changes. We have already begun these changes and have taken many steps, some of which you have seen and others that are in the early stages.

The strategic review process led us to a very introspective and comprehensive review of our operations and opportunities for growth. We used the opportunity to look closely at ourselves and our business; to gain the insights of very skilled external advisors; to listen to our shareholders; and to meet and hold discussions with external parties interested in our business. We have learned a lot during this process and two items stand out. First and foremost, we believe that we have a great business with a market-leading position that provides great potential for future earnings growth. Second, we must continue to clarify misconceptions and be more active in communicating to our existing and prospective shareholders, customers, and other stakeholders. I hope you will agree that we have a great story, and I am excited to tell it and share my vision for this Company.

When I look at our business, I see a company still in transition: our structure, our business models, and even our culture. I see a Company operating in an industry with multiple risk factors: regulatory, legal, financial, currency, and technology. At the same time, I see a Company that has the biggest poker business in the world. I see a Company that has one of the strongest brands in the industry., a Company that has built a global community of people who love playing poker and other online games, a Company that has built and maintained an unrivalled technology platform for delivering outstanding service and security, a Company that is truly global, yet drives local loyalties and strong, direct ties to our customers through our live tournaments and events.

To be successful in the future, we must build upon these strengths and expand our outlook beyond the poker room to the broader world where our customers live, work and play. Our vision needs to be broader and bolder than our current brand slogan, we are Poker. A diverse team of people from across the Company have been examining our vision and mission over the past few months. The results of this process, which I recently shared internally with our entire Company, will serve as the guide for our external brand going forward.

I will share our mission and vision with you later in the call; but first, our strategy remains the same and our objective is to build the foundations for sustainable and diversified revenue growth. As such, we continue to execute on our four strategic priorities. The first is growing the poker category and our leadership position in online poker. In 2016, we have continued to attract new players and we believe those new players are having a better experience. In 2017, we intend to grow our poker category by maintaining a healthy ecosystem, improving customer engagement while providing a balanced offering; accelerating product innovation; continuing to reduce customer acquisition costs, and exploring alternative and sustainable sources of growth.

Our second priority is becoming a leader in online casino. In 2016, we have added 70 new slot games, including from Tier 1 content providers, began rolling out our standalone mobile app and expanded the number of jurisdictions where casino is offered. In 2017, we expect our casino growth to continue by further enhancing our game offering, enhancing the quality of our content, platform, marketing and tools; attracting new players to our ecosystem; maintaining the engagement of the existing casino players, and continuing to cross sell to players; launching a VIP program, and ramping up our external marketing.

The third priority is building a competitive online sportsbook. In 2016, we continued to make improvements to close product gaps with our competitors, launch external marketing, and hired Zeno Ossko as our new MD of sportsbook. In 2017, we will refine our plans and strategy and be investing less

on market expansion and more on our product improvements and parity, especially on mobile, as well as delivering a localized experience to our customer base. We will also be focusing on cross-sell capabilities and experience, monetization, and profitable player acquisition.

Our fourth priority is achieving operational excellence. In 2016, we launched the operational excellence program which has resulted in rationalizing our operations, including consolidating certain office locations. In 2017, we will continue our operational excellence program and focus on further optimizing our operations, focusing on a higher level of efficiency, effectiveness, and quality throughout the organization. We will continue to enhance and optimize our operations, with the resulting cost savings allowing us to invest in R&D and marketing to grow our business and help offset increasing regulatory costs, such as gaming duties. These initiatives are driving the Company forward, and we believe Q3 results reflect the outcome of our efforts.

I am pleased with our third quarter performance and with the continued focus and strong execution of our operations and management teams, which is fuelling positive trends in our core poker business and continued growth in our newer product offerings, casino, and sportsbook.

Q3 saw strong year-over-year increases in revenue, Adjusted EBITDA, net earnings from continuing operations, adjusted net earnings per share, and our key customer metrics as we continue to attract new customers and retain them longer. In particular, Q3 revenues increased 10% to \$271 million or an increase of 12% on a constant currency basis. Our Adjusted EBITDA increased 14% to \$123 million, and our Q3 2016 net earnings from continuing operations increased to \$13 million as compared to \$34 million loss during the prior- year period.

As for our key customer metrics, we recorded approximately 2.4 million total quarterly active unique players on our platform in the third quarter, an increase of 5% year-over-year. Online poker remains very attractive to our business, as we maintain significant competitive advantage through low player acquisition costs and the network effect of our sizeable player base. In Q3, approximately 2.3 million quarterly active uniques played poker, an increase of 3% 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 Q3, approximately 486,000 quarterly active uniques played casino and 232,000 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 4% year-over-year to \$111, driven primarily by growth in casino and sportsbook yields offsetting declines in poker yield attributable to players shifting some of their play to our new verticals, as well as the devaluation of our customers' local currencies against the US dollar. On a constant currency basis, total quarterly net yield was \$114, representing an increase of 7% year-over-year.

Poker performance gained strength in the third quarter, specifically in August and September. As we have discussed on prior earnings calls, we have implemented a plan to improve the poker ecosystem for recreational net depositing players, including restricting and reducing incentives for high volume, robotic play by a small percentage of net withdrawing players. The anticipated outcome, which we are achieving, is the creation of more friendly gaming environment and an improved experience for recreational players while reducing the overall volumes of robotic play by the high-volume 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 will allow us to engage and retain our players longer, increase net deposits as we have done this year, and improve their lifetime value. These changes to poker environment are not unique to PokerStars, as much of the industry has moved in a similar direction.

In the third quarter, tournaments continued to comprise the majority of our poker revenue with that percentage increasing year-over-year, as some customers shifted away from cash game tables and spent

more time and bankroll on single and multi-table tournaments. During the quarter, we benefited from the adjustment to the multi-table tournament payout structure that increased the number of players who had winning moments. The quarter also included a record-breaking World Championship of Online Poker, which paid out more than \$73 million to players, surpassing last year's record payout by \$7 million.

We also continued to innovate our poker experience, including the launch of an engaging feature called Card Match, a follow up to the successful Card Hunt promotion.

Despite the positive momentum we have seen in poker, we were still impacted by anticipated cannibalization from our other product offerings, decreased poker revenues on Full Tilt, the closing of certain small jurisdictions, and the 2016 Euros. Geographically, we were impacted by a decline in France that was primarily due to an increase in CRM promotional campaigns as we prepare for potential sharing of liquidity among discrete European licenses that currently allow only closed liquidity play.

I want to take a moment to provide additional color on the impact of cannibalization, which as I noted earlier is an anticipated result of our cross-sell strategy. We actively manage our cross-sell to provide players with the best overall customer experience while maximizing the lifetime value of our customers. The introduction of online casino and online sportsbook has resulted in some customers using a portion of their previously poker-only deposits on playing casino or sportsbook; however, we estimate the majority of casino and sports revenue is incremental due to our growth in net deposits and increased lifetime value of these cross-sold players. We have been encouraged by the fact that newly-acquired players are generating more poker revenue than newly-acquired players in prior years while at the same time playing casino and sportsbook. As a result, while we remain focused on improving our core poker business, we are successfully diversifying our revenue streams through casino and sportsbook, which accounted for a combined 24% of our total revenue in the third quarter compared to 15% a year ago. We continue to make product improvements in both offerings.

Casino revenues grew from a combination of an increase in uniques and higher per-player yield, in line with our strategy. Yield improvement is partially due to the improved slots offering over the past year. The number of uniques playing casino increased 40% year-over-year driven by organic growth from an increase of cross-sell to eligible poker players and expansion into new jurisdictions. We are planning to continue improving the casino offering, which is now offered to over 60% of poker players, by adding more Tier 1 games, specifically slots, branded games and progressive jackpots; improving the quality of our mobile games offering; increasing the quality in terms of content, platform, marketing and tools; and developing a VIP program for casino players. Despite almost no external marketing and no VIP program, we have become one of, if not the largest online casinos in the world in terms of number of players. Our aim is to become one of the largest in terms of revenues among our public competitors.

As for sportsbook, during the third quarter sportsbook was positively impacted by our ability to retain newly acquired players and grow their yield. We expanded TV marketing of our BetStars brand, but we did not add any new jurisdictions and sportsbook is still available to just under 54% of poker players. For the remainder of 2016 and into 2017, we expect to achieve growth by focusing on continuing to improve our sportsbook offering, functionality and user experience specifically on mobile to achieve parity with our industry peers; delivering localized experiences to our customer base; improving our cross-sell capabilities; improving monetization cycles, and achieving profitable customer acquisition. Our performance in the third quarter demonstrated the continued successful execution of our strategy to focus on the recreational poker player experience and maintain our industry leadership position while expanding our casino and sportsbook offerings.

I will now turn the call over to Danny to provide further details on our Q3 financial performance.

Daniel Sebag:

Thanks, Ravi. Our Q3 2016 revenues increased 10% to \$271 million versus Q3 2015. We had strong growth in casino and sportsbook revenue, and we are pleased with our performance in poker, which was down 1% year-over-year despite an 8% decline in July due to the Euros. This quarter, poker revenues comprised approximately 73% of total revenues and casino and sportsbook combined revenues comprised 24%, as compared to approximately 81% and 15% respectively in Q3 2015.

Outside of France, poker revenues increased about 1%. Despite the increase, poker revenue was negatively impacted by cannibalization from our real money online casino product, a decline in the activity on Full Tilt, the cessation of operations in certain small jurisdictions, the devaluation of the British pound, and the impact of the 2016 Euros. However, the overall decline was partially offset by the previously announced changes to our loyalty program, rake increases, the adjustments to the multi-table tournament payout structure to increase the percentage of players that win, and the launch of PokerStars New Jersey.

Our casino and sportsbook revenues increased significantly in Q3 2016 to \$64 million, with casino representing approximately 89% 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.

During the first nine months of 2016 on a year-over-year basis, total revenues increased 9% to \$845 million, of which poker revenue was \$629 million and casino and sportsbook combined revenues were \$184 million. The factors affecting revenue in the first three quarters of 2016 are largely the same as those affecting it in Q3 2016. On a geographic basis, revenues for the first nine months of 2016 were split approximately as follows: 63% from the 28 countries in the European Union, 17% from the rest of Europe, 13% from the Americas, and 7% from the rest of the world.

Our Q3 2016 net earnings from continuing operations increased to \$13 million as compared to a \$34-million-dollar loss during the prior-year period. In the first three quarters of 2016, our net earnings from continuing operations increased to \$91 million as compared to a \$5 million loss during the prior-year period. Our third quarter diluted earnings from continuing operations per common share was \$0.06 versus a loss of \$0.26 the prior year. Our diluted earnings from continuing operations per common share for the first nine months was \$0.47 versus a loss of \$0.04 cents the prior year.

Our third quarter Adjusted EBITDA of \$123 million was an increase of approximately 14% versus the prior year. Adjusted EBITDA during the quarter added back \$11 million in unrealized losses from our investment in NYX. There were approximately \$15 million in other adjustments, including \$5 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 strategic alternatives process and the AMF investigation; \$3 million in costs related to termination of employment agreements stemming from our operational excellence program; \$3 million of certain lobbying and legal expenses, and \$2 million of stock-based compensation. Adjusted EBITDA and net earnings from continuing operations in Q3 2016 benefited from the increase in revenues notably due to the expansion of online casino.

Casino once again provided strong contribution as we engaged in a very limited external marketing, but instead continued to focus on cross-sell. Profits from the casino vertical will continue to help support our investment in sportsbook.

During the first three quarters of 2016, Adjusted EBITDA grew 13% to \$376 million versus the prior year. Our third quarter adjusted net earnings grew 23% to \$85 million versus the prior year, reflecting the increase in Adjusted EBITDA and the reduction of interest expense. Adjusted net earnings per diluted share was \$0.42 in Q3 2016 versus \$0.35 in Q3 2015. For the first nine months of 2016, adjusted net earnings per diluted share was \$1.34 versus \$1.05 for the same period in 2015.

In Q3 2016, we generated approximately \$87 million in operating cash flow, or \$85 million excluding the movement in customer deposits, representing an approximate increase of \$2 million dollars this quarter as the ecosystem continues to stabilize. That compares to \$69 million in Q3 2015, or \$85 million excluding discontinued operations and movements in customer deposits. Our operating cash flow increased primarily as a result of increased revenues but was partially offset by less collections of payment processor receivables and payment of gaming duties in Austria primarily relating to periods before we acquired the Rational Group. We highlight operating cash flow net of movements in customer deposits because these deposits and withdrawals 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 fluctuate.

While our operating business generates deposits from players from around the world, primarily in Europe, game play is predominantly in US dollars, therefore our business is impacted by fluctuations in global currencies against the US dollar. In Q3 2016, the purchasing power of our customer base continued to decline. Based on a weighted average of customer deposits, we estimate the value of our customers' local currencies declined 2.5% 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 Q3 2016 total revenue increased 12% versus the comparable prior-year period. Our Q3 2016 real money online poker revenue increased 1% versus the comparable prior-year period.

In the first nine months of 2016, total revenue increased 14% versus the comparable prior-year period, and in the first nine months of 2016, real money online poker revenue increased 1% versus the comparable prior-year period.

As it relates to our 2016 full year guidance, we are narrowing our expected ranges. Assuming no material adverse regulatory events or foreign currency exchange rate fluctuations, we currently expect revenue of \$1,137,000,000 to \$1,157,000,000; Adjusted EBITDA of \$500 million to \$510 million; adjusted net earnings of \$344 million to \$354 million; and adjusted net earnings per diluted share of \$1.78 to \$1.83.

As it relates to regulation and the regulatory environment, we expect to launch our casino and poker products in Portugal shortly, subject to final regulatory approval. In Australia, we currently offer poker and are reviewing the applicability of proposed legislation to player-versus-player games of skill. At this time, it would appear likely that if the legislation passes, we would block players from Australia. As we do not offer casino or sportsbook in Australia, it currently contributes to about 2.5% of our revenues and we estimate it could reduce our EBITDA margin by up to 150 basis points. We continuously monitor the regulatory environments of the countries in which we currently operate and in which we hope to operate.

As you know, we have a deferred payment obligation of \$400 million due in February 2017 to the sellers of The Rational Group business. Later this week, we intend to make an initial payment of \$200 million from cash on our balance sheet and to fund the remaining balance from cash flow from operations and non-dilutive financing options.

I will now turn the call back over to Rafi.

Rafi Ashkenazi:

Thank you, Danny. As you can see from our Q3 results, we are executing our strategy effectively, capitalizing on growth opportunities and identifying efficiencies to streamline the business and enhance shareholder value. I am pleased with our core poker business where our proactive changes, among other factors, have begun reversing certain negative trends affecting poker.

We are not simply the world's largest real money online poker platform, we are the world's most licensed online gaming brand, the largest producer of poker tours and events, and the largest producer of poker programming for TV broadcast and online streaming. We intend to continue using this leadership position in poker to ultimately achieve leadership in our other verticals, which leads me back to our mission and vision which was recently rolled-out internally and has been embraced by our nearly 2,000 employees.

Our vision is to be the world's favorite iGaming destination. Being favorite is a very personal choice and requires deep understanding of our customers, and we must have the technological superiority that allows us to use our insights to create tailored experiences that meet their personal definition of favorite. Not everyone will love us for the same reasons. We believe that being the world's favorite means being the most entertaining, the most fun, the most exciting, the most reliable, the most trusted, the fairest, the safest, the fastest, the most rewarding, the most interesting, the most attractive, and the most innovative. In this way, we can deliver promotions, incentives, rewards and products that our customers want even before they ask for it. In becoming favorite to millions of people, we build a sense of common interest, community, belonging, and loyalty. We believe this in turn brings unrivalled scale, reach, and revenue potential.

Our mission is to create winning moments. What are winning moments? They are those exciting moments in life that provide people with their most thrilling and enduring memories. It's when they cash in a tournament, run good in a cash game, top a leader board, hit a jackpot, or simply earn bragging rights by out-playing their friends. Winning moments are also highly personal, so we must provide personalization in delivering these experiences, which are once again the result of deep insight and understanding of our customers.

Already we believe that we deliver more winning moments than any of our competitors. Every hand of poker creates a winning moment for someone. That means we are creating winning moments at a rate of more than 10 million per day across poker, casino and sports, and that frequency is growing as we add innovative ways to create more and more frequent winners. That's the result of our strategy to create faster games that reward more players, such as Zoom and Spin and Go. Our customers play to experience winning moments and the more we can provide, the more likely they are to stick with us.

As we continue to improve our financial performance, we are likewise improving other areas of our business. We are committed to increasing analyst coverage of our Company and the liquidity of our shares, increasing our focus on external communications with investors, customers, and the media to enhance the understanding of our Company, market, people, Management and positive momentum; further enhance our governance - for example, we added two new qualified Board members earlier this year, and executing on our strategic priorities. All companies have room for improvement, and ours is no different.

In summary, again, as I look at Amaya, I see a Company that has the biggest poker business in the world, one of the strongest brands in the industry, and a global community of people who love playing poker and other online games. We believe our Company has built and maintained an unrivalled technology platform for delivering outstanding service and security. It is truly global, yet drives local loyalties and strong, direct ties to our customers through our live tournaments and events.

Amaya is a Company that I am excited to lead into the future. 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 since our Q2 call there have been no material updates in the Kentucky proceedings, and at the direction of the Special Committee of the Board of Directors, we will not be addressing any questions relating to the AMF investigation or related matters.

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

Operator:

Thank you. Before we begin today's question-and-answer session, I would like to turn the floor over to Ravi for some additional comments.

Rafi Ashkenazi:

Thank you. We would like to acknowledge the receipt of an all-cash offer from David Baazov on behalf of the entity to be formed to acquire the common shares of Amaya at a price of CAD\$24 per share. The Board of Directors with the assistance of its advisors will consider the offer. There can be no assurance that the offer will ultimately result in a completed transaction.

We are now ready to take questions.

Operator:

Thank you. The floor is now open for questions. If you would like to ask a question, please press star, one on your telephone keypad at this time. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would 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.

We do ask that you keep yourself to one question and one follow-up before re-queuing for any additional questions. Once again, that is star, one for any questions at this time.

Our first question today is coming from Chad Beynon of Macquarie. Please proceed with your question.

Chad Beynon:

Great, thanks for taking my questions. Ravi, those were great prepared remarks. Thanks for kind of the outline of your business right now. Just wanted to dive into the casino business, particularly on the third quarter. You talked about a lot of the things that can help you drive this business higher in the future, and you also talked about some of the things that are going on right now. In terms of timing with the VIPs, the progressives, the new content, etc., could you help us think about when this can kind of ramp to account for a higher percentage of your overall business? Is it a 4Q event, is it a first half '17, a second half? Any color there would be helpful. Thanks.

Rafi Ashkenazi:

Yes, not a problem. So, first of all, if I'm looking at the priorities that we have for 2017, there will be an ongoing rollout of games. This is something that we hope is going to allow a ramping up our revenues from casino on an ongoing basis on a small percentage point. On top of that, we are hoping to roll out across verticals a VIP program, anywhere between--hopefully within second quarter of 2017 or at least within the first half of 2017. As part of it, we were also hoping to get the VIP treatment or the VIP program rolled out as well, so we should enjoy the benefits of the cross-vertical VIP loyalty program and the VIP program for the second half of 2017.

On top of that, again there are further enhancements that we are doing to our tools in terms of marketing, in terms of CRM activities, in terms of casino and mobile casino that we are now improving, so there will be a lot of activities going forward. But, I would say probably from Q2 or from H2 next year, we will have--by then we will have implemented the new cross-vertical loyalty program and the VIP program.

Chad Beynon:

Thank you. Then on poker, given the change of the product and you talked about the goals of customer engagement and product innovation, can you talk about some trends that you're seeing with these new customers, these recreational players with respect to either deposits from them, frequency of play, anything maybe more anecdotal or that you can provide for us, just to give us some more comfort that this business change is a positive one for the future. Thank you.

Rafi Ashkenazi:

Sure, absolutely. So, the trends are quite positive. I would like to point out maybe something here, just to give an illustration of what we've achieved throughout 2016. If you look at our revenues from casino and sportsbook year-over-year, you will see that we increased our casino revenues by approximately \$100 million while poker revenues decreased by approximately \$30 million. So, on a US dollar basis, we increased our business by \$70 million; however, if you look on a constant currency basis, you will see that we grew our casino and sportsbook by more than \$100 million and still were able to grow poker by approximately \$7 million. So, what we are trying to do and what we are trying to do quite successfully is, first of all, improving our ecosystem constantly, increasing our deposits, and again we are looking at net deposits and net deposits are going up, the trend is very positive and very encouraging, and it's going on throughout the year. Actually, in this quarter, we also had deposits going up, which is again quite encouraging for us.

When we look at our recreational players, or the newly acquired recreational players, I know that we are not reporting GGR numbers, but on a gross gaming revenue basis, the GGR numbers that we have for the newly acquired recreational players is higher than 2015, it's higher than 2014, it's higher than 2013, so the trends are quite positive.

Chad Beynon:

Very helpful. Thank you very much.

Rafi Ashkenazi:

No problem.

Operator:

Thank you. Our next question is coming from David McFadgen of Cormark Securities. Please proceed with your question.

David McFadgen:

Yes, so a couple questions. So, I know you said that you weren't going to comment really on Baazov's offer, but would the Board—can we expect the Board to respond within five business days, as he has asked?

Rafi Ashkenazi:

Yes, we expect the Board to respond. We've issued a press release and the information is pretty much there. We are expecting to respond quite quickly.

David McFadgen:

Okay. So just on the business, so you said that casino product is now being offered out to about over 60% of your poker players. I think that that's probably the maximum you're going to offer it to, because I know you want to stick in jurisdictions where casino is legal. Can you provide any update on that, and if so, then I guess now it's just a matter of generating more and more revenue out of those players?

Rafi Ashkenazi:

Yes, the only other market which is a more immediate market would be Portugal. As legislation continues in the European market with the Netherlands, Sweden, hopefully Germany, we could be more active in the markets that we're currently operating in terms of marketing. But generally, you are right - I mean, we are now expecting to increase the yield for casino players and invest more into the product and into rolling out our VIP program, so that will be the key initiative for 2017.

David McFadgen:

Okay, and then can you give us an update on sportsbook as well? Have you maxed out there, or are there still more markets to go into?

Rafi Ashkenazi:

In terms of sportsbook, I'm not sure if we are maxed out, but we made a decision is that in 2017, we are not going to be focusing on market expansion and we would be focusing primarily on the product and product improvement and getting to parity with our peers, especially when it comes to mobile. I've been working with Zeno the last couple of months to put together an updated strategy for sportsbook, a strategy that I feel quite confident on, and I'm expecting sportsbook to continue growing nicely in 2017.

David McFadgen:

Okay.

Rafi Ashkenazi:

But, the focus will be product.

David McFadgen:

Okay. Danny, can you give us the latest on what the sportsbook revenue was in the quarter?

Daniel Sebag:

Yes, it was \$7.2 million.

David McFadgen:

\$7.2 million, okay, thanks. Then just on poker, I know in the past you've talked about going into Asia and India and these other jurisdictions for poker. Can you give us an update on the plans there?

Rafi Ashkenazi:

Yes, we are still looking at Asia and specifically India. I don't have a specific update at this time in terms of timing, but we believe that we will be able to operate in India hopefully soon, maybe as soon as Q1 or Q2 next year, and we do have a concept for the rest of Asia, which I will be able probably to share on the next call.

David McFadgen:

Okay, and then just on--sorry, just one last question, just on poker. So, the business was negatively impacted by the 2016 Euros. I don't know if you have an estimate if that event had an impact, what poker would have done in the quarter, and are there any events in Q4 that you think can negatively impact poker?

Rafi Ashkenazi:

So, there are no events in Q4 that are going to impact poker. In terms of the impact of the Euros, I mean, what I can refer you to is that overall, Q3 was minus-1% year-over-year, starting the quarter during July at minus-8% and basically building it up back to minus-1%. So, I can't give you the exact number, but this is something that you can maybe look at.

David McFadgen:

Okay. All right, thank you.

Rafi Ashkenazi:

Not a problem.

Operator:

Thank you. Our next question is coming from Maher Yaghi of Desjardins Capital Management. Please proceed with your question.

Jerome Dubreuil:

Hi guys, this is Jerome for Maher. I'd like to know, following the election, was there a pause in negotiation in US jurisdictions, and can we expect an acceleration in announcements as gridlocks might be removed in the US?

Rafi Ashkenazi:

So, I'm not sure how exactly the US elections are going to impact our business. I think it's premature. We know that Donald Trump made positive comments about online gaming in the past, and I hope that he will retain his word and allow online gaming legislation across the US. In any case, as it seems, it's still going on a state-by-state basis, so we are working with the relevant states in terms of lobbying to ensure that legislation for poker will happen as soon as possible.

Jerome Dubreuil:

Great. Also, can you remind us or please tell us what you see going forward for EBITDA margins of casino and sportsbook versus poker? Has there been a change?

Daniel Sebag:

Not--right now, there's no major change. Obviously, casino margins are still pretty large. We've spoken about close to 60% in terms of contribution margins based on the fact that there hasn't been a lot of external marketing. Sportsbook obviously has negative contribution for the year, we're looking at close to \$20 million for the whole year in terms of sports, so that's because right now we're building our brand.

As it relates to the overall margins in the business, we still expect margins close to the 40% range as previously discussed in other quarters.

Jerome Dubreuil:

Great, thank you.

Daniel Sebag:

Thank you.

Operator:

Thank you. Our next question is coming from Eyal Ofir of Dundee Capital Markets. Please proceed with your question.

Eyal Ofir:

Thanks. Thanks for taking my question. Just first off, you talked a lot about casino, how you're going to expand and grow that business, but you haven't talked about the marketing initiatives. I know you haven't done any external marketing as of yet in casino specifically. What are your thoughts there, when do you turn it on? The same thing on sportsbook obviously, you have done some marketing there, but are you waiting before you press the gas pedal for the product to get better?

Rafi Ashkenazi:

Yes, so in terms of casino, we are going to start casino marketing, external marketing as soon as next week, actually. This would be rolled out initially in the UK, and as we feel more comfortable with the product, obviously, we'll monitor the CPAs for our external marketing initiatives and efforts, and we'll continue to roll out.

In terms of sports, I mentioned on the call that we will be looking to continue improving the product before expanding our marketing to other jurisdictions. There are very good plans in place and I can already see the changes casino is making to the product and to the team and to the structure and to the processes, and some of the other activities which are happening within the sportsbook. We have a contingency budget allocated for sportsbook. As we see sportsbook picking up, we will release more and more funds.

The positive thing that we can see in sportsbook today is the CPAs are trending down constantly, which is quite encouraging.

Eyal Ofir:

Okay, and then in terms of--when do you think, I guess, the product itself is going to be ready from your perspective to be able to get more aggressive in this? Like, how much more do you need to improve to get it up to peer status?

Rafi Ashkenazi:

I think that we are--we still have quite a few operational initiatives when it comes to the product. We are planning to launch a new product mobile app very soon, either the end of this year or the beginning of next year. Once we have the new mobile app and we feel comfortable about it, we'll obviously run it with some test groups and we'll roll it out in a few of the markets to see the reaction of the players. Once we feel more comfortable with the mobile app, then we'll start releasing it more and then we can increase our marketing dollars in the markets.

We are not too far away. I think in terms of the product; the product is good enough to go ahead with the marketing or to continue with the marketing. We will have a bigger budget in 2017 compared to 2016 regardless, so we are gaining more and more confidence in the product, and I'm sure it's going to make a good change here.

Eyal Ofir:

Okay, thanks. Then before I pass the line, just a quick question. Obviously, you guys are making the \$200 million prepayment, I guess next week, but you said that there's another \$200 million that you're trying to raise, I guess between now and the end of Feb. In terms of the discussions you've had, is this

more kind of like--should we think about short-term loans here for the Company to do that, and then what are your thoughts how difficult is that really for you guys to get?

Daniel Sebag:

Yes, so without getting into details, we have more than one option, Eyal, and both options are non-dilutive options. That's as much as I can say for now.

Eyal Ofir:

Perfect. I'll pass the line for now. I'll jump back in the queue. Thanks.

Operator:

Thank you. Our next question is coming from Ralph Garcea of Cantor Fitzgerald. Please proceed with your question.

Ralph Garcea:

Yes, good morning gentlemen. Just a quick question on Australia. The 2.5% decline if you decide to pull out, won't you be able to make that up with growth in Portugal, the Czech Republic, Romania, etc., as these other guys roll out in the new year?

Rafi Ashkenazi:

Yes, we have several initiatives that we put in place and we are preparing in case we need to pull out from Australia. Portugal is not going to offset Australia on its own. We are going to roll out Portugal very likely on a closed liquidity basis initially before it will be opened up, either to a dot-com liquidity, which we hope, or to a pan-European liquidity together with France and Italy, but this will take probably some time. We do have other initiatives when it comes to poker. I think there was a question, for example, about India and about Asia, so we do have a few plans in place in order to offset the impact of Australia.

Ralph Garcea:

Okay, and then on the sportsbook, it sounds like--I mean, you're going to focus on the existing countries you've rolled out into, UK, Italy, France, etc., pull back on the market expense until the product's ready? I mean, do you think you can still grow it year-over-year at a 20 to 30% rate on the sportsbook side with that refocus?

Rafi Ashkenazi:

Absolutely. When we look at the sportsbook product and we compare it to the casino product, we know that there are two key initiatives that we still have not extracted the potential. The first one is the cross-sell. Today, the cross-sell levels that we have for sportsbook are approximately 50% of the cross-sell level that we see for casino, although we know there are more sportsbook players in our poker player base, so there is definitely quite a significant potential there, and that's why--basically the whole reason for us to change the strategy, to refine it, is the fact that we realized that the potential that we have within our existing player base is quite significant. So, before we go out and expand the market rollout, the sportsbook product to other markets, we should still extract the potential that we have from our existing player base. So, from cross-sell perspective, this is one.

The other one is the yield. As part of the strategic review, we were able to see some of the numbers that other operators in this market have when it comes to sportsbook, and we can definitely see the potential

in terms of yield is still there. So, we can grow the sportsbook product nicely without any expansion into new markets.

Ralph Garcea:

On a previous call, I can't remember which one, you had said that about 70% or so of your existing customer base are betting on someone else's platform, right, and if you can repatriate that, there's your growth, or some of that.

Rafi Ashkenazi:

Yes, it's not 70% but it's a very significant number. Currently, we are not extracting the potential of this player base, and there are a lot of ways for us to get to those players, whether if it's relating to improved cross-sell activity that we have within our ops or within our downloadable clients, things that we can still do on our web, promotions that we can run. There are a lot of activities that we can still do when it comes to sportsbook which we haven't done so far or have not done efficiently so far, that we are planning to be focusing on over the next year. So, the focus has shifted and it's really more about our existing player base and extracting the potential from them.

Ralph Garcea:

Okay, thank you.

Rafi Ashkenazi:

No problem.

Operator:

Thank you. Our next question is coming from Eyal Ofir of Dundee Capital. Please proceed with your follow-up question.

Eyal Ofir:

Thanks. Just a quick follow-up. You talked about India as obviously potentially offsetting Australia. Wouldn't India be a very large opportunity, potentially greater than Australia, and would you also have to get local partners in India to be able to launch that?

Rafi Ashkenazi:

So, India could be a great opportunity compared to Australia when you look at the player base, so obviously from a unique point of view it will be a bigger one; however, from the purchasing power point of view, India is quite different from Australia. We estimate the market in India to be anywhere between-- if I'm giving you a wide range, anywhere between \$80 million to \$150 million a year, so it will be bigger than Australia eventually of course but it will take time to build up this level of revenues from India.

As for your second question, yes, we will need to operate very likely with a partner.

Eyal Ofir:

Okay. Have you guys started those discussions yet?

Rafi Ashkenazi:

Yes, absolutely.

Eyal Ofir:

Okay, good. Then just last question from me, obviously, the poker ecosystem has improved here. I'm just trying to gauge, can you guys give us kind of a perspective what you're looking at from both lifetime value or even just the--you know, I guess the--how long the wallet, I guess, lasts for these players, so the new recreational players, how much longer they're lasting versus the old ecosystem, relative to what you guys have done to date?

Rafi Ashkenazi:

Okay, so I can give you a general answer here. What we see, as I mentioned before, is that for all the newly acquired players, again even though we are not reporting GGR to the market, we can see GGR levels higher than any other prior year, going back up to 2012 when 2012 was the only year where the lifetime value of these newly acquired players was higher. This is not on a constant currency basis, this is on a US dollar basis, but if we look at the constant currency, it's definitely going to be even better than that.

We see lifetime value for players going up in the markets where we operate casino and sports, so the indication is that we see net deposits going up, so we have very good...

Eyal Ofir:

Are you also seeing retention rates going up from these newly acquired players?

Rafi Ashkenazi:

We do see retention levels going up. We see the players playing longer and losing less compared to what they used to in the past, so it's all moving in the right direction from our perspective.

Eyal Ofir:

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

Operator:

Thank you. Our next question is coming from Chad Beynon of Macquarie. Please proceed with your follow-up question.

Chad Beynon:

Hi, thanks for taking my follow-up. Just one on the fourth quarter guidance, so based on what you've earned through the first three quarters and what you're doing for 2016. That implies a margin of, I believe, 42.5% to 43%, and you've been generating margins above that in the past two quarters. So, given your cost containment that you talked about to help offset some of the rising gaming duties, what would be the main reason why margins would come down in the fourth quarter outside of just seasonality and maybe the mix of where the revenues are being generated from? Thanks.

Daniel Sebag:

Yes, so typically the fourth quarter is a large quarter in terms of marketing push, so the investment in sports marketing and even casino marketing is larger than in other quarters of the year.

Chad Beynon:

Okay, that's perfect, Danny. Thank you.

Daniel Sebag:

Thank you.

Operator:

Thank you. At this time, I'd like to turn the floor back over to Management for any additional or closing comments.

Rafi Ashkenazi:

Okay, thank you guys for joining us on the call. That's it, thank you.

Operator:

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