

The Stars Group Q3 2017 Conference Call Transcript

C O R P O R A T E P A R T I C I P A N T S

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Rafael (Rafi) Ashkenazi, *Chief Executive Officer*

Brian Kyle, *Chief Financial Officer*

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C O N F E R E N C E C A L L P A R T I C I P A N T S

Chad Beynon, *Macquarie Group, Ltd.*

David McFadgen, *Cormark Securities, Inc.*

Suthan Sukumar, *Eight Capital*

PRESENTATION

Operator

Good morning ladies and gentlemen and thank you for standing by. At this time all participants are in a listen-only mode. A question and answer session will follow the formal presentation. As a reminder, this conference is being recorded today, Thursday, November 9, 2017. Replay details are included in The Stars Group's earnings press release issued earlier this morning.

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

Tim Foran

Thank you, operator.

Welcome to The Stars Group's third quarter 2017 conference call.

This morning, The Stars Group 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 The Stars Group's website at www.starsgroup.com. A link to the presentation is included in the earnings press release.

Some of our comments today will contain forward-looking information and statements under applicable securities laws that reflect management's current views with respect to future events, such as The Stars Group's outlook for future performance. Any such information and statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those projected in the forward-looking information and statements. Undue reliance should not be placed on such information and statements.

Factors that could cause actual results or events to differ materially are set forth in the documents The Stars Group has filed or furnished with applicable securities regulatory authorities or otherwise made publicly available, including, without limitation, today's earnings press release, The Stars Group's Q3 2017 MD&A and financial statements. Except as required by law, The Stars Group undertakes no obligation to update any forward-looking information or statements as a result of new information or future events.

During the call, we will reference non-IFRS and non-U.S. GAAP financial measures. Although The Stars Group 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, The Stars Group's Q3 2017 MD&A and its earnings presentation, which will all be available on The Stars Group's website.

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

I now turn the call over to Rafi Ashkenazi, The Stars Group's Chief Executive Officer.

Rafi Ashkenazi, Chief Executive Officer

Thank you Tim, and thank you everyone for joining us this morning. On the call with me today is Brian Kyle, our Chief Financial Officer and Marlon Goldstein, our Chief Legal Officer who will join for the Q&A session.

Q3 was a very strong quarter for The Stars Group as we continued to make meaningful progress on our strategic priorities to grow our poker business, establish a leadership position in casino and build a competitive sportsbook. We have continued our cross-sell strategy while positioning these verticals for future organic growth. Overall, we are pleased with our strong third quarter operating performance, which produced significant revenue and profit growth in each of our online gaming segments, including a nearly 13% increase in poker revenue and a 48% increase in combined casino and sports betting revenue year-over-year. I am very happy to see the strong growth in poker and casino this quarter and I am also pleased to see that the ongoing sports book product improvements drove a meaningful increase in turnover and revenue growth. Growth in casino and sportsbook highlight our continued success in cross-selling, which continued to be the primary focus of our casino and sports marketing.

Total revenue in the quarter was up nearly 22% versus last year and Adjusted EBITDA was up 26% as we continue to improve our product offerings, efficiently manage our ecosystem and effectively market our brands globally. We believe that our vision to be the world's favorite iGaming destination leads to taking a greater share of our customers' entertainment spending which is an important part of our strategy.

Brian will cover the financial results in greater detail in a few minutes, but I'd like to highlight a few key items in each vertical.

Let me begin with poker.

Enhancing our poker ecosystem and introducing innovative product variants and promotions remains a high priority, as it helps us to better engage with our players and strengthen our position as the world's leading online poker operator with customer traffic that is magnitudes larger than our nearest competitor. Our scale drives a 'network effect' that is unrivalled in our industry allowing us to offer the largest prize pools for online tournaments, which are attractive to casual and serious players alike. The network effect also improves the customer experience and value proposition versus our competitors. Our dominant player liquidity allows us to offer the largest variety of games at the most desirable buy-in prices with less waiting time for customers to enter a game or a tournament.

Our Q3 growth in poker revenue was primarily driven by the launch of the Stars Rewards loyalty system. It was also supported by our PokerStars marketing campaigns.

For many years PokerStars has been the primary operator investing in the poker category through global marketing initiatives, primarily through television and digital advertising. We also run live poker events in major cities around the world, creating consumer excitement and media coverage, which we believe brings new customers to poker. In fact, although it may seem counter-intuitive, we are pleased to see several of our competitors increasing their marketing as it increases awareness, interest and excitement around poker. As the market leader, we stand to benefit the most from greater global awareness and interest in poker.

As we mentioned on last quarter's call, the Stars Rewards program was fully rolled-out in July. We believe this is a great example of the benefit of investing significantly in our proprietary technology infrastructure over many years. With Stars Rewards, we look to further enhance customer engagement and continue down the path to delivering a more personalized gaming experience which provides players with prizes and rewards based on several factors, including playing frequency, volume, and deposits. Since the launch of Stars Rewards approximately 85% of our active customers are participating and have been awarded almost \$45 million in prizes. Most our players are now earning more rewards than with the previous program. For instance, two-thirds of our players are receiving, on average, 20% more rewards than before.

We also believe that Stars Rewards is having the intended positive impact on player retention amongst our most valuable customer segments. This quarter's results reflect some of the benefits of the roll-out and so far the program is performing in line with our expectations.

As previously noted, Live Events also drive significant awareness of poker and provide a tangible way to engage with our customers and entice mass market media coverage. These events are enhanced by attendance and endorsements by celebrities and popular professional poker players, who provide

additional excitement and connection with our customers. In Q3 we held a major live tournament in Barcelona that attracted the largest live tournament attendance in PokerStars history with more than 4,500 entries in a 1,100 Euro buy-in tournament. More than 5,800 unique players participated in the weeklong series of tournaments, generating worldwide media coverage, including the attendance of celebrity musicians and athletes and a total prize pool of nearly 44 million Euros.

As for our online tournaments, we believe they provide an even greater advantage in promoting the game and attracting massive global tournaments. For example, at the end of the third quarter, we completed our 'World Championship of Online Poker.' The event was very successful with more than 107,000 entrants from over 130 countries taking part in the series. Importantly, over 10% of the participants were first time players. The prize pools were among the largest in our online tournament history at just over \$90 million, well beyond our advertised guarantee of \$60 million.

As you can see, Poker remains our primary customer acquisition channel and in the fourth quarter we will be increasing our marketing investment in order to drive poker growth in 2018 and beyond, increase player deposits and promote the cross-sell to our casino and sportsbook.

We also intend to ramp-up investment in R&D to pioneer new and engaging variations on the traditional poker format. Recent successful examples include the introduction of Spin & Go Max and Zoom Bolt. In addition, in mid-October we launched PokerStars Power Up in beta for real-money play. Power Up has so far generated meaningful poker player buzz as a new and innovative variation on traditional poker that introduces exciting new twists that have been compared to popular strategy card games such as Hearthstone. We will continue to refine the game ahead of the anticipated full-scale commercial launch in early 2018.

We believe that Power Up and other future game variants will help us increase engagement among existing players and attract a new generation and new audience of online poker players.

For the remainder of this year and into 2018 our focus will be on delighting our customers and improving their journey by improving our Stars Rewards program, increasing the pace of product innovation and refining our marketing strategy. We will also be undertaking important projects, including: shared liquidity in Southern Europe; the roll-out of real money apps on the Google Play Store hopefully across more regulated jurisdictions; preparing for newly licensed operating environments; and potential geographic expansion.

Turning to Casino & Sportsbook, we continue to make significant strides in these verticals through successful cross-selling, as well as attracting new customers that enjoy our integrated online gaming offering.

Globally, Casino and Sports betting are both far larger iGaming markets and have been growing at a faster rate than poker. We continue to post strong segment year-over-year growth in our online casino and sportsbook business. For the quarter, casino & sportsbook combined revenue grew to \$95 million, an increase of 48% over the third quarter of 2016. For the last twelve months, our casino & sportsbook segment revenue exceeded \$350 million, of which casino is the vast majority. We have achieved this level of casino revenue in just three years with virtually no external marketing spend and with an initial casino launch that included only blackjack and roulette.

In Q3 our casino continued to add new and popular third-party slot games, providing greater selection and choice for our customers. So far this year we have added 143 new slot games and are on track to exceed our original goal of 150, making our offering increasingly competitive. We have also just launched Stars Mega Spin, our second built in house slot game, which we hope is as successful as Millionaires Island which continues to perform well, ranking high in player activity.

We are now one of the world's largest online casino and online Live Dealer casinos among our public competitors based on active players, which is an outstanding achievement for such a young offering. Throughout the remainder of this year and into 2018 our casino focus will be on increasing the number of slots from tier 1 providers, refining our recently launched casino VIP program and improving our mobile capabilities.

As noted earlier, our sportsbook grew rapidly in the quarter as we continue our focus on product improvement and localization, and we have begun the rollout of our mobile app. We also started digital marketing campaigns in select markets to take advantage of the start of European football and the NBA and European basketball seasons.

In Q4 and into 2018, we will begin rolling out more marketing campaigns and additional digital performance marketing for our sportsbook. So far in Q4 we have seen improving trends including a meaningful increase in cross sell. We will also continue to enhance our product and customer experience proposition ahead of the World Cup next summer, and potentially enter new jurisdictions.

I will now turn the call over to Brian who will discuss the financial results.

Brian Kyle

Thanks Rafi. The third quarter was my first full quarter as the Company's Chief Financial Officer, and I am very excited to be part of the Stars Group team. We had a strong quarter and in my comments today,

I will review our operating results and our balance sheet. I will also briefly discuss our guidance, which we revised upwards on September 15th.

First, I will go through our key operational metrics:

- We had approximately 2.1 million total Quarterly Active Unique players on our platform in the third quarter, representing an increase of 2% year over year, led by the re-launch of Portugal and growth in the casino and sportsbook verticals.
- Our Quarterly Net Yield, which represents our real money online gaming revenue-per-Quarterly Active Unique, increased approximately 19% year over year to \$150, and on a constant currency basis increased by approximately 14% year over year to \$144. Both increases were driven primarily by the introduction of Stars Rewards, focusing on high value customers, and the growth in casino and sportsbook yield.

I am particularly encouraged by the strong growth in certain other drivers of the business. We continued to see strong growth in net deposits and an increase in engagement from high value customers.

Turning to our financial performance, our total revenues increased approximately 22% to \$329 million compared to the prior year period. This despite revenue being negatively impacted by about \$8.6 million for previously unrecognized VAT from prior periods payable in Switzerland.

Of total revenue, approximately 67% was from our poker vertical and 29% was from our combined casino and sportsbook vertical, compared to 73% and 24% in the prior year, highlighting our continued success in growing and diversifying our revenues.

For the first nine months, revenue grew approximately 13% year over year to \$952 million.

Poker revenue was \$221 million for the third quarter, an increase of nearly 13% compared to the third quarter last year. The increase was primarily driven by the implementation of Stars Rewards, the re-launch of Portugal and positive currency fluctuations, but was partially offset by cannibalization from online casino, allocation of \$5.7 million of previously unrecognized Swiss VAT against poker revenue, and certain closed or impaired markets. As Rafi discussed, we believe our investments in Stars Rewards and other enhancements are positively impacting our business, however, it is still early and we will continue to assess and report on the progress being made going forward.

Revenues for our combined Casino and Sportsbook verticals increased 48% to \$95 million, with casino representing approximately 88% of that revenue. Also, our sportsbook revenue and turnover were up significantly year over year. In addition, the revenue this quarter is the highest it has been since launch of

these verticals and reflects the positive momentum we are having as we continue to improve both the casino and sportsbook products. Revenue growth in casino and sportsbook was primarily driven by the continued development of the casino, the expansion of the Casino and Sportsbook's geographical reach, the ongoing improvement to the sportsbook's user experience and user interface and the success of Stars Rewards. This was partially offset by allocation of \$2.9 million of previously unrecognized Swiss VAT against casino & sportsbook revenue. Our casino offering is available to approximately 73% of our poker players while our sportsbook offering is available to approximately 61% of our poker players.

As our business is impacted by fluctuations in global currencies against the US dollar, particularly against the Euro, we also provide constant currency figures. For the third quarter currency had a positive impact on our operations. Our third quarter constant currency total revenue and Poker revenue growth was 17% and 7% year over year respectively.

On a geographic basis, revenues for the third quarter were split approximately as follows: 64% from the 28 countries in the European Union, 18% from the rest of Europe, 13% from the Americas, and 5% from the rest of the world.

Our gross gaming revenues from locally licensed or taxed jurisdictions were approximately 55% during the third quarter as compared to 51% in the second quarter.

The flow through of revenue growth to earnings and cash flow is also evident in our results. Adjusted EBITDA for the third quarter was \$156 million, an increase of 26% compared to the third quarter last year. Growth in Adjusted EBITDA was driven mainly by revenue growth. As we continue assessing our operations we anticipate revisiting our Adjustments to EBITDA and we believe our adjustments should decrease over time.

Our Adjusted EBITDA margin for the quarter was 47%, which is over 175 basis points higher than a year ago, but as Rafi mentioned earlier, we are planning to increase investments in marketing and IT, make other investments into important areas to drive growth in future years, and we are expecting an increase in gaming duties as additional markets regulate therefore we expect margins to decline in future periods. For the first nine months Adjusted EBITDA grew 20% year over year to \$453 million.

Net earnings for the third quarter increased 506% to \$76 million as compared to \$13 million during the prior year period, primarily driven by an increase in revenues and gains from investments. Finally, our third quarter diluted earnings per common share increased to 37 cents per share versus 6 cents per share during the same period last year.

We also continue to generate solid cash flow. In the third quarter, we generated approximately \$145 million in net cash inflows from operating activities versus \$87 million in the prior year, primarily from strong growth in net earnings. After removing the movement in customer deposit liabilities, we generated \$142 million of adjusted cash flow from operations versus \$85 million in the prior year.

Turning to our balance sheet, we ended the quarter with about \$198 million of operational cash and investments, excluding customer deposit balances. Our outstanding debt at quarter end was \$2.4 billion at a weighted average interest rate of 4.5% and our net leverage was 3.9x.

During the third quarter, we reduced leverage by repaying \$115 million on our second lien term loan, further illustrating the strength of our financial position and the Company's ability to generate free cash flow. These prepayments will save us on interest and have reduced the principal balance on our second lien term loan to \$95 million. We will continue to assess de-leveraging as a cash utilization strategy going forward and remain committed to strengthening our financial position.

On the regulatory front, as previously disclosed we ceased operations in certain jurisdictions, notably Australia in mid-September and Colombia in mid-July. We continue to have dialogue with regulators and are hopeful we will be able to re-enter these markets in the future.

We received some promising news from the U.S. two weeks ago, as Pennsylvania became the fourth US state to authorize iGaming within its borders, including poker, casino and, if the US federal law changes, sports. With a population almost twice the size of New Jersey, Pennsylvania is poised to become a significant marketplace for iGaming, and a potential boost to our US poker business as Pennsylvania is expected to share liquidity with NJ and other US states as they regulate. We are optimistic that Pennsylvania will be a catalyst for other US states to continue the momentum of iGaming regulation in the US.

As it relates to the pooling of liquidity in France, Spain, Italy and Portugal, we continue to work with the regulators of each country to support this effort and are optimistic that partial pooling will commence in early 2018.

Moving to guidance. It is important to understand that we look at guidance as a commitment by management to our shareholders and an effort to provide some transparency into our expectation of future results.

Looking at earnings for the second half of the year, it is worth highlighting that we generated substantially higher revenue and EBITDA in the third quarter, which was driven not only by the introduction of Stars

Rewards and strength of our casino on the revenue side but also by low marketing spend in our casino and sportsbook verticals. As Rafi mentioned, we have begun increasing our marketing campaigns across our poker and sportsbook verticals which we anticipate will reduce our fourth quarter margin, and we anticipate accelerating marketing efforts and will focus further on new growth opportunities in 2018, which may further reduce our operating margins compared to 2017. We believe these investments will ultimately yield positive results in the future to our top line. As a result of these anticipated expenditures commencing in Q4, 2017 and cessation of or impairment of operations in certain markets, notably Australia, we are maintaining our guidance figures that we raised on September 15th.

We continue to expect revenue to be in the range of \$1.285 and \$1.315 billion, implying 2017 revenue growth of between 11% and 14% compared to the prior year;

We expect Adjusted EBITDA between \$590 and \$610 million, implying growth between 13% and 16%; For Adjusted Net Earnings, we expect to be between \$445 and \$469 million; translating to Adjusted Net Earnings per Diluted Share of between \$2.17 and \$2.31.

I will now turn the call back over to Rafi for closing remarks.

Rafi Ashkenazi

Thank you Brian.

We remain focused on growing organically through the cross-sell of our Gaming platform and the enhancement of our poker business, but we also continue to explore external strategic opportunities to expand our geographic reach and market to those customers who are not currently poker players. We are optimistic about our outlook for both growing our casino & sports betting business as well as strengthening our already sector-leading poker business, and look forward to continuing to perform well.

We are poised to take advantage of the positive momentum in the growth of online gaming globally and the continued march toward regulation, including in the United States, where we aim to be among the first operators to launch in Pennsylvania when that state opens its doors to online poker and casino. We are also preparing to seize opportunities as closed-liquidity markets look to find ways to pool their liquidity, similar to what we are seeing in France, Spain, Italy and Portugal. Our poker player liquidity provides a competitive advantage when segregated markets join larger player pools.

We believe continued expansion of online gaming regulation is inevitable and are excited about future opportunities that will allow us to open new markets and re-open previously closed markets.

As always, I would like to thank our employees for their hard work and dedication to delivering winning moments to our customers, which is a cornerstone to our success.

With that, operator, please open the lines for questions.

Operator:

Thank you, sir. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick-up your handset before pressing any keys. To withdraw your question, please press star, then two. We kindly ask that you limit your questions to one and a single follow-up. We will pause for a moment, as callers join the queue.

Our first question comes from Chad Beynon with Macquarie. Please go ahead.

Chad Beynon:

Hi, good morning. Thanks for taking my question. Wanted to start on the Poker business, despite your guidance increase in September, you significantly exceeded expectations. You highlighted a lot of these positives, I guess, the main bead came through the Stars Rewards launch in July. Could you just help us think about if you're continuing to see these trends in that segment? Obviously, you upped guidance in September so you had a few months of data but just trying to get a better sense of it, if this has continued and if you expect it to continue in 2018? How that fits into your decision to maintain revenue guidance for the year? Thank you.

Rafi Ashkenazi:

Yes, the Stars Rewards is something which we are very happy about. It is performing according to our expectations and we do believe that the performance of Poker will continue on the back of the Stars Rewards success going-forward. There are multiple other initiatives when it comes to Poker that we are dealing with, as I mentioned on the call, there are the share liquidity, hopefully, is going to happen very soon. We've rolled out Power Up and we are expecting to see some (inaudible) from there. There are a few other geographies that we are looking to see more innovation, more investment in Live events, so overall, we expect to see the trends, positive trends for Poker. I think I mentioned, by the way, on a prior call that our overall aim is to grow Poker on an annual basis around low single digit points on every year. That's essentially the way that we are looking at Poker.

Chad Beynon:

Great, thank you. Then moving over to Casino, you mentioned that you're up to 140-plus slot games on your site. You've also talked about a mobile app; are you seeing the increase come just on the slot side, or are you also just seeing that within other segments in the Casino app within the Casino vertical? Just an update on where you are with the app and if that's been fully rolled out? Thank you.

Rafi Ashkenazi:

Okay, so Casino is performing very well. Slots is obviously a key driver for us but not necessarily the only driver. We see a very significant increase when it comes to our Live Dealer offering. To an extent, we believe we may be the largest Live Dealer Operator out there among the public companies, so this is a segment which is growing very fast for us and we see at least from player, from active (inaudible) that we have on Live Dealer a lot of activity, so this is another segment which is performing quite well.

Other than that, the mobile app has been rolled out, a very good mobile app. It's what we are referring to as the 3.0 generation of our Casino mobile app that uses a new framework, and we are intending to continue improving this. We have a few very exciting things when it comes to our Casino mobile app. To a large extent, when you look at Casino, for us there are two key, I would say two key drivers. The first one is it's a yield game, so everything that we can do in our power to increase the yield of our Casino players, VIP and more content, etc. The other one, we still believe there are a few geographies that we can enter with Casino so there are still a few opportunities when it comes to Casino and geographic expansion.

Chad Beynon:

Thanks for the color, Rafi. Congrats on the quarter.

Rafi Ashkenazi:

Thank you.

Operator:

The next question comes from David McFadgen with Cormark Securities. Please go ahead.

David McFadgen:

Yes. Hi, thank you. Just a question on the guidance, because when I look at the EBITDA guidance based on your results to-date, it implies a flat EBITDA for the fourth quarter. Now, I know that you're planning on increasing your spend on R&D and marketing and so on, but I would imagine you're not going to just spend money for the sake of spending money. You're going to spend it because it's going to translate into higher EBITDA, even if the margin's lower so can you just comment on that, please?

Brian Kyle:

Sure. Good morning, Dave. Thanks for the question. First of all, I think as we've mentioned before, guidance is a commitment by Management and it's something that we are really focused on. For the third quarter, we are very pleased with our results, and they are inline with our expectations. As we start looking at the fourth quarter, I think it's very, very important for people to understand that we've got a great business model that generates significant high-margin returns. But we need to reinvest into our business, and as we start looking at what those opportunities are, we've highlighted them in the prepared remarks, we are going to put a concerted effort into investing, and we're certainly not going to be making investments that will not have revenue growth.

If the timing of that revenue growth impacts into 2018, that's the result of the spend, but clearly we are going to be efficient and spend wisely. Going into the fourth quarter, we still expect to land in our guidance range that we've provided today so I think that's the message we can share with you right now.

David McFadgen:

Okay. (Inaudible)

Rafi Ashkenazi:

(Inaudible) positive impact of the Stars rewards on our overall GGR and even when we are looking at the GGR of Poker by itself, the results are a positive impact on the GGR of Poker. There is definitely an increase of engagement. When we look specifically at our KPIs, the ones that we were monitoring before launching it, we see lifetime value going up, we see frequency going up, we see retention level going up, and we see that our valuable players, the ones who are contributing the most into the ecosystem are increasing their overall engagement. That's essentially the way that the program works.

The other element is to ensure that we are spreading our rewards to the ones who are really contributing the most, so some of the players are going to experience reduction in their rewards and some of the players, as I mentioned today on the call, two-thirds of them will experience a higher level of rewards which will come back into the ecosystem and generates more revenues.

David McFadgen:

Okay, all right. Thanks. I have other questions; I'll get back in the queue.

Operator:

Our next question comes from Suthan Sukumar with Eight Capital. Please go ahead.

Suthan Sukumar:

Thank you. Good morning, guys, and congrats on a strong quarter. My first question is on the Casino and Sportsbook segment, now we've been seeing continued impressive growth in this segment. I wanted to ask what are some of the key trends that you guys are seeing, I guess, with respect to new player acquisition, turnover, cross-sell now that you've started investing in direct marketing or rather Casino-lead or Sportsbook-lead marketing?

Rafi Ashkenazi:

Okay, so what we are experiencing overall across Poker and—sorry, across Casino and Sportsbook is very positive. First of all, the cross-sell level on both verticals is increasing which is a very good indication that the cross-vertical loyalty program or the Stars Rewards is actually working and even enhancing the cross-selling levels between the three verticals. That was one of the reasons that we designed the cross-vertical loyalty program.

The other element is that we are increasing our investment in direct acquisition on BetStars and we are doing more selling in Q4, and it's yielding positive results. There is already a relatively, relatively significant player-base which is coming directly to BetStars, it's not really dependent on the cross-sales from Poker. The acquisition is yielding positive results specifically on BetStars. That's also translated into turnover, turnover on BetStars year-over-year, for the first nine-months, increased more than 90% which means that we are really going in the right direction.

All these KPIs that we are looking at and all the key indicators that we're monitoring to ensure that the business is really moving in the right direction, are all positive. That's one of the reasons—going back to the previous question, that's one of the reasons that we decided to increase marketing in Q4 and to continue to support these businesses. Because we do want to establish Casino and Sportsbook as stand-alone businesses which are obviously going to enjoy continuously, to enjoy the cross-sell but we also want to ensure that they are established as stand-alone businesses as well.

Suthan Sukumar:

Okay, good. That's helpful. Have you rolled out direct marketing on the Casino side of the business yet?

Rafi Ashkenazi:

There is very little direct marketing on the Casino side at this stage. We are looking to potentially start direct acquisition on a larger scale next year, probably H2 after the World Cup. Casino is still growing very fast, as you can obviously see, and the cross-sell is working quite well, and now that we have Sportsbook starting to pick-up, there is also cross-sell from Sportsbook into Casino which is also helping, obviously, the Casino vertical. Now, we have two verticals who are contributing to the growth of Casino, regardless to the fact that Casino is growing by itself and increasing the yield for players. We can take more time when it comes to Casino direct acquisitions.

Suthan Sukumar:

Okay, great. Then, on Sportsbook specifically, can you speak to some of the progress you've made on the product side? Also from an M&A perspective, has the strategy changed with respect to build versus buy? If the latter remains in focus, what does your target pipeline look like today?

Rafi Ashkenazi:

Okay, so first of all in terms of organic; the Sportsbook product is constantly improving. We've made a lot of improvement during this year. This year was really focused more on the product itself and less on geographic expansion. We have a new tennis model, we have a new mobile app that we started to roll out in a few of the markets, as I mentioned before, we increased the marketing activity on the product and more so next year, before the World Cup obviously. CRM has improved the Stars Rewards program which is also supporting Sportsbook. Cross-sell levels are looking good. We still need to add more Live betting opportunities or we do need to have more live betting in the markets and we are working constantly on improving the U.X. and the U.I. There are a few other opportunities for us in the future,

potentially, for additional geographic expansion. The outlook for the organic growth for Sportsbook is very positive. Regardless of that, we are still looking at M&A; I mentioned it in several of the calls. We do have a few targets in mind. We've been analyzing the landscape and there are strategic opportunities out there and some tactical opportunities out there. The focus for us, when it comes to Sportsbook, it's really about revenues for Sportsbook, less technology, and primarily when it comes to revenues, it's primarily regulated revenues. That's the end; that's the goal.

Suthan Sukumar:

Okay, great. Thank you, Rafi.

Rafi Ashkenazi:

Not a problem.

Operator:

Our next question comes from David McFadgen with Cormark Securities. Please go ahead.

David McFadgen:

Hi, yes, a couple more questions. Pennsylvania, can you comment about whether you expect to have a partner in Pennsylvania? Or, are you going to wait and try to get your own license and go alone?

Marlon Goldstein:

Hi, David. It's Marlon, thanks for the question. First on Pennsylvania itself, as we've mentioned before, as an organization we are highly committed to promoting regulation and Pennsylvania is the first U.S. state in several years to regulate and we're quite proud of our team and really look forward to launching and operating in that market. We're still evaluating our options in terms of who we may want to partner with and the landscape in Pennsylvania generally. But again, we're really excited to be competing in that market, potentially, as soon as next year.

David McFadgen:

Okay, and then just one additional one for Brian, just on the VAT. I'm just wondering how much of VAT provision—actually can you give us the VAT numbers again? How much of those VAT numbers was sort

of a catch-up I guess for prior years and how much was just reflected in the quarter? Just trying to estimate what the real growth was, if I add that back.

Brian Kyle:

Think of it as around \$8.5 million of total revenue impact and it is all retro adjustments for the VAT. It's a one-time adjustment for previously unrecognized VAT as a result of some legislation confirmation that we've received. But think of it as around \$8.5 million for the total impact to revenue.

David McFadgen:

Is that for the nine-months or the quarter, sorry?

Brian Kyle:

That's in the quarter but it's reflective for prior years. It's a catch-up payment.

David McFadgen:

Right.

Brian Kyle:

It's all booked in the quarter, so 8.5 is the total.

David McFadgen:

Would you happen to have the breakdown between Poker and Casino and Sportsbook? I don't know if you can provide that?

Brian Kyle:

Yes, about 5.7 for Poker and the balance is in Casino and Sportsbook.

David McFadgen:

Okay, so the Poker revenue would be even higher if we adjust for that Poker growth, obviously. Okay, great. Thank you.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to the Management for any closing remarks.

Rafi Ashkenazi:

Well, I'd like to thank everyone for participating on today's call. We appreciate your questions and ongoing interest and support of The Stars Group. Thank you and good bye.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.