Sky Betting & Gaming Business Acquisition Report Update Call Transcript

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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. A question and answer session for analysts will follow the formal presentation.
As a reminder, this conference call is being recorded today, Monday, September 17, 2018.
Replay details are included in The Stars Group's 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
SLIDE 2
Thank you Operator.
Welcome to The Stars Group's conference call and webcast.
This morning, The Stars Group issued a press release and filed its Business Acquisition Report with respect to Sky Betting & Gaming on SEDAR and EDGAR.
These documents and a webcast presentation will also be available on The Stars Group's website at www.starsgroup.com.
A link to the webcast presentation is also included in today's 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 or 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 press release.
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 financial measures. Although The Stars Group believes these measures provide useful supplemental information about its and SBG's financial performance, they are not recognized measures and do not have standardized meanings under IFRS.
Reconciliations to the nearest IFRS measures are included in today's press release which will be available on our website.
Unless otherwise noted, all currency figures presented on this call are in Great Britain pound sterling.
I will now turn the call over to Rafi Ashkenazi, The Stars Group's Chief Executive Officer.

RAFI ASHKENAZI
SLIDE 3
Good morning and thank you for joining us. Today we filed our Business Acquisition Report, with audited financials for Sky Betting & Gaming for its fiscal year ended June 30th 2018. I am delighted to have Richard Flint and Ian Proctor, the CEO and CFO of SBG join us to provide an overview of the results. I am also joined by Brian Kyle, our CFO.

Before handing over to Richard and Ian, I will provide a few comments on the SBG acquisition and Brian will provide a brief integration update.

Our acquisition of SBG has been an important part of a transformative year for The Stars Group. The UK is the largest online gaming market in the world. SBG is the largest operator by active customers in that market, and the fastest growing major operator by revenues in 2017. In addition to its strong UK businesses, SBG also provides us, along with poker, a second large and low-cost customer acquisition channel. In conjuction with our recently acquired Australian businesses, we believe this positions us to take advantage of significant long-term opportunities in sports betting globally.

Importantly our acquisitions have significantly de-risked our company. We are now a truly diversified global group, with strong positions in all of the major regulated online gaming markets globally. As you can see from Slide 3, we have a diversified revenue stream by geography, with 75% of revenue generated from locally regulated or taxed markets. We are also well diversified by products, with 35% of revenues from sports betting, 34% from poker and 31% from casino and other revenues.

2018 is a transformative year for the business. We are focused on both integration planning for SBG and integrating our Australian acquisitions, and executing our plans. I am happy to report that these acquisitions are currently performing in-line with our expectations operationally, and despite some sports results headwinds, as we enter 2019 I am confident we will deliver our plans to grow market share.

I will now hand over to Brian for a brief update regarding the anticipated integration of SBG.

BRIAN KYLE
SLIDE 5

Thanks Rafi. I'd like to give a quick update on the acquisition progress as we move towards the integration phase.

Firstly financial reporting. We will consolidate SBG's financial results from July 10th, which is the date that the acquisition closed. So for Q3 we will consolidate almost a full quarter of SBG results.

Secondly relating to the CMA approval process. The formal process began on August 23, with the launch of the merger inquiry by the CMA. There is a statutory maximum 40 business day process. Therefore on or before October 18, the CMA is scheduled to decide whether to approve the merger pursuant to a Phase 1 review, or to refer it to a Phase 2 review process.

Lastly, operational integration planning and delivery of synergies. During the CMA review process, SBG and TSG are required to operate as independent entities, which means that integration and delivery of synergies cannot commence until our acquisition is approved by the CMA. Commencing the integration in late 2018 would deliver a small contribution from synergies in 2018, with a significant portion of the $70m cost synergies coming through in 2019, and with the full run rate likely achieved beginning in 2020.

SLIDE 6

Turning to slide 6. Although this call is focused on SBG results, I do want to reaffirm the overall financial guidance as issued in connection with our Q2 2018 earnings release on August 13, and as represented in this morning's release. As we discussed during the Q2 call, we face a number of headwinds in the balance of the year, with tough year on year comparisons in poker in Q3 notably, due to the lapping of the roll-out of

Stars Rewards, less favourable FX, and the World Cup impact in July, as well as market exits that we begin to lap in Q4. As you will hear from Richard and Ian, SBG is also facing more challenging year over year comparisons as it laps a sustained run of favourable sporting results. All of this was expected when we issued our guidance, and I am pleased to reiterate this today.

Also to provide increased clarity, we are providing proforma guidance for revenues and adjusted EBITDA for the first time. These proforma figures assume consolidation of SBG and BetEasy as if those acquisitions occurred on January 1, 2018, and are provided in this morning's news release.

You can see in the table how we arrive at our 2018 proforma guidance. The first column is the original 2018 guidance for TSG issued in connection with our Q1 2018 earnings release on May 10, 2018. The second column represents our expectation for the 2018 contribution for SBG and Beteasy, as if those acquisitions occurred on January 1, 2018. We will not be providing additional detail by division, and we do not intend to provide divisional guidance in future, but we hope that this provides additional context given the transformative year we have undertaken.

Taking into account the core business and the acquisitions, we expect proforma Adjusted EBITDA of $897-952m. Given our growth plans for the coming year, as well as deal synergies, we see this as a base for growth into 2019.

In terms of capex, our guidance provides that we currently expect total capex of $110-150m this year. With the enlarged business, we expect recurring capex of around $100m, consistent with the enlarged size of the business. In addition, we expect some incremental spend on ROI supported growth projects such as new licences and market entries. Looking forward, we currently see around $100m as the level for annual recurring capex, with total capex depending on projects and growth opportunities that arise.

Looking to 2019, we feel confident that we will continue delivering solid organic growth, with poker returning to growth and strong growth continuing in our other products. We will also start to see the benefits of cost synergies following CMA approval.

I'll hand on to Richard and Ian to discuss the SBG results for their financial year.

RICHARD FLINT
SLIDE 8
Thanks Brian, and hello everyone, if we turn to slide 8, there is a quick summary of the Fiscal 2018 year ended June 30 2018 for Sky Betting & Gaming. It was another year of strong growth, with our revenues up 30% and adjusted EBITDA up 43% to £209m. The underlying key metrics for the business were healthy as we grew our customer base and continued to engage our customers. I should note that the headline results were somewhat flattered by a sustained period of operator-favorable sporting results, that Ian will expand on shortly. For me, the highlights are the continued operational excellence, with ongoing innovation and product leadership cementing our position as the UK's most popular online betting and gaming brand.

As we enter an exciting new chapter as part of The Stars Group, it is also a key trading time for us with the start of the European football season. I am pleased with the start of the season so far, with double digit growth in active unique customers, stakes and gaming revenues, although less favourable sporting results compared to last year mean that overall revenues are not reflecting the strong operating trends at this point.

I'll hand over to Ian to provide more details about the financials, before covering some of the operational highlights.

IAN PROCTOR
SLIDE 9
Thanks Richard, so turning to slide 9, there is a summary of the financial year for SBG. This was a strong year, with 30% revenue growth to £670m and 43% adjusted EBITDA growth to £209m. We continued to see solid growth in active customers, at 17% to an all-time-high of 1.8 million average quarterly actives. We had another good year of retaining and engaging these customers, with average quarterly net yield per customer of £93 finishing 12% higher than the prior year. Some of this growth was due to operator favourable sporting results as we will discuss, but it also reflects our continued product and offer improvements, and our ability to leverage our customer data to interact more effectively by improving the personalisation of our products and offers. Total costs excluding depreciation, amortisation and deal related expenses were up 25%, as we continue to invest in brand, marketing and people to drive the business forward, including expansion into new territories with our launch in Germany and Austria during the year. Cash flow from operations remains strong, at over 95% of adjusted EBITDA.

SLIDE 10
Turning to slide 10, we highlight the trends that we saw in Q2 calendar 2018. Before turning to the calendar Q2 2018 results, I would like to give a quick summary of how the year unfolded before then.

In Q3 2017, we saw a strong start to the last football season, with 25% revenue growth in the period.

Into Q4 2017, we saw continued strong operating momentum, but a sustained period of operator favorable sporting results led to revenue growth of 71%.

Into Q1 2018, our revenue growth was 18% with 21% growth in bet and 10% growth in gaming. After the operator friendly results in Q4, our customers had less money in their accounts running into Q1, and this had a negative impact on betting staking levels, and a negative impact on gaming revenues, which continued into Q2.

In our most recent quarter, Q2 2018, we saw total revenue growth of 15%, as you can see on slide 10.

Betting stakes declined by 4% relative to last year, with continued strong customer growth being more than offset by lower stakes per player, as our customers continued to feel the squeeze from the run of sporting results. While Q2 2018 contained the first 14 days of the World Cup, it was lapping a strong period of stakes, with a vibrant end of the 2017 football season, whereas the end of the 2018 football season was effectively decided early as Manchester City ran away with the title. Net win margins were higher year-on-year, and bet revenue was up 18%. Gaming revenue growth was 8%, with similar trends to Q1 2018, with growth held back by both our safer gambling policies and as customers had less funds in their accounts following the run of sports results.

Although overall revenue growth was 15%, adjusted EBITDA was flat and our margin was 4.7 points lower than last year. This was primarily due to the fact that the World Cup started in Q2 2018, and we invested heavily in customer acquisition. We were lapping Q2 2017, a period with no major sporting events, so marketing spend during the comparative period was significantly lower. The overall adjusted EBITDA margin of 30% in Q2 2018 was a solid performance, reflecting the scale benefits in the business.

SLIDE 11

Turning to slide 11, this highlights our efficiency at retaining and monetising our customers. The chart is a helpful illustration of this efficiency, as it shows revenue broken down into cohorts by year in which customers registered with us. What we have witnessed over the years is not only that we have been very effective at retaining our customers, but also as we use our data to improve the relevance of our offers through personalisation, we see increased engagement with our products. You can see that 2018 was pretty similar to previous years, with our strong revenue growth generated by our ability to retain and enhance our relationships with existing customers - 88% of our gross revenues during the year came from existing customers – as well as our ability to attract new customers.

SLIDE 12

Turning to slide 12, we can provide a bit more detail about the trends within the betting business. A key point to note is that like most European operators, we do not operate a 'balanced book' and so have exposure to sporting results which can result in short term volatility. Our customer is recreational, and typically low spending, with an average bet size of £6-8. The nature of these players, or punters as we call them, often leads to a concentration of betting on the most popular outcomes, and on football accumulators (or parlays). If a large number of popular teams win, our margin will go down and vice versa for popular teams losing. This can create volatility in the short term although in the longer-term we have historically observed a fairly consistent margin, which demonstrates that our bookmaking model is working effectively.

Despite this, we had a sustained run of operator friendly results in Q4 of calendar year 2017. The chart on the right hand side of page 8 shows the net win margin by quarter over the last 8 quarters. We normally expect to see a net win margin of around 9%, but in Q4 2017 this was 14%, as the most popular teams like Liverpool, Arsenal, Manchester United and Chelsea all consistently failed to win. To illustrate this further, in the quarter, at least 3 of the top ten backed football teams failed to win on 88% of days compared to around 80% over the previous 2 years.

We have a full product suite which tends to reduce our company wide exposure when sports margins are low. When customers have won a lot through sports betting, they tend to spend more on casino games, poker, and other betting opportunities. We call this recycling of funds. On the flipside, when betting margins are high, such as in Q4 2017, our customers have less money, and this has an adverse knock-on impact on staking levels and gaming spend.

In Q4 2017, the run of operator friendly results went on for so long that our customers had spent their betting funds early, and this had a knock-on impact into the first 6 months of this calendar year, with customers generally staking a bit less than they had done previously. You can see this in the chart on the left, where we saw staking growth skewed towards H1 of our fiscal year. During H2, we continued to see strong customer engagement, but as our customers had lost more than normal during Q4 2017 they pared back their staking levels, and our average bet size was lower as a result. The impact of this extended to our other vertical as customers had less cash available to spend on our gaming products.

SLIDE 13

On slide 13, we provide a further illustration of the volatility of sporting results as it relates to the sports betting industry, using our historical trading margins as an example. The line that bounces around shows our net win margin by month. In periods where many of the most popular teams win, we expect a low gross win margin, while when there are a lot of unexpected results, we see a much higher margin. While over the course of a quarter this can still inject some volatility into the business, as you can see in the rolling 12-month margin line betting margin tends to even out over the course of a year. As a result we do not normally see significant changes in the net win margin from year to year.

It is important to note that the volatility of sporting results is a fundamental part of operating a sports betting business. Another way to consider this is as follows: imagine we are offering bets on red or black on roulette, and offering odds of 4/5 on either colour. This would effectively build a 10% margin into the business over time, and even if every customer bets on red, and so we do not have a balanced book, it is still right for the business and profitable over time to take as many bets as possible on red. If red comes up 10 times in a row, we might pay out a significant amount of money, and have a low margin, but we know that over the course of many thousands of spins, red and black will come up the same amount of times, and we will win our in-built margin. Periods of strong or weak margins do not therefore mean that we have been particularly effective, or particularly ineffective at managing our risk, they simply reflect the random nature of sporting results.

The other key point to consider is that our model is based on retaining customers, and providing them a fun experience so that they keep betting with us for many years to come. A key part of this enjoyment is winning every now and then, so in general we consider this volatility in sports margins to be a positive factor for this company. We believe we manage risk effectively, have amongst the highest net win margins in the UK industry, and as you saw in the earlier cohort chart, we believe we are very efficient at retaining and monetising our customers over time.

SLIDE 14

Moving onto slide 14, which gives a snapshot of the 4 quarters of our Fiscal Year, and some different overall trends within these quarters. The top left chart shows active customers and Net Yield for the last 8 quarters. As I mentioned, our average quarterly active customer base was up 17% year on year FY17 to FY18. This growth in actives was fairly consistent through the quarters.

On the flipside, the quarterly yield was far from consistent due to the impact of sporting results discussed on the previous slide which can be seen clearly in the top left chart – where normally we had been seeing customers spend £80-90 per quarter, during Q4 2017 the average customer spent £116. This in turn led to a spike in revenue and revenue growth during the period, and due to the operational leverage in the model, this led to a significant spike in adjusted EBITDA margins that you can see in the bottom right chart, with the Q4 2017 margin of 40% being well above the usual range of the other quarters. If you remove the December 2017 quarter, the average yield for the other 7 periods was £84, and just for the sake of illustration, using that as as proxy for a normal yield, this roughly suggests we benefitted from approximately £50m of incremental revenue in the period. Given that the business is managed around customer volumes and staking levels primarily, there are not many additional marginal costs with this, above and beyond duties and revenue share fees, so this would translate into around £30-35m of additional EBITDA due to favourable sporting results.

My overall summary would be that SBG had another strong year and the underlying trends are pleasing, regardless of the impact of the run of sporting results to our headline numbers. As we are lapping this high margin period in the balance of calendar 2018, we expect reported results to be somewhat under pressure, and they will not reflect the continued strong operational and underlying momentum in the business.

I'll hand back to Richard to run through some of the operational highlights.

RICHARD FLINT
SLIDE 16
Thanks Ian, as you said, another strong year overall, and turning to slide 16 you can see that this continues a long trend of growth over the last decade. Over the last 12 years we have grown revenue at a CAGR of 27%. FY 2018 continued this trend with 30% growth, as we took further market share to become the UK's leading mobile betting and gaming operator. As Ian explained in detail, some of the growth in FY2018 was due to the sporting results, and we expect this to be somewhat slower in FY 2019 as we lap that, but going forward, we believe we are well placed to continue delivering double digit topline growth in calendar 2019.

SLIDE 17
Our long-term record of success has been primarily driven by the quality of execution, and our focus on innovation and providing the best possible product, offers and promotions to our customers. As you can see from

slide 17, we made further progress in these areas in 2018. We believe SBG's technology is amongst the quickest, most flexible and most innovative technology stack in the industry, which is combined with the most innovative culture and ways of working together. During the year, we leveraged this to deliver industry-leading products to our customers. One example of this is Bonus Time, which awards a bonus to every player who is active during certain times at random. The real time data capability that is required to do this took some time to perfect, but now we are capturing real benefits from this investment. We continued to innovate and enhance our product set – our two flagship apps Sky Bet and Sky Vegas were the most popular apps and the highest rated apps in the app store through the year, with further product enhancements like My Bets making it easier for customers to track their bets and keep the excitement going through the whole game.

I am particularly proud of the progress we made with our safer gambling initiatives. We make it really easy for customers to see how much they are spending, so that they can monitor and control their spend. We also make it really easy to place limits and cool offs, putting these tools right next to the deposit button to prompt vulnerable customers to use these rather than making another deposit. We use data science to look for potentially harmful patterns of play, and we then intervene with these customers, including placing fixed limits on their accounts or stopping them playing altogether. These measures have a short-term cost to the business, and have impacted revenue in the period, but we firmly believe they are the right steps to take to build a sustainable and long-term growth business. The level of interactions and interventions really started to ramp up from October 2017 onwards, and as we start to lap the introduction of these more conservative policies, this should support the year-on-year growth rate in the business.

SLIDE 18

A few words on market trends on slide 18. On the left hand side, during the year we continued to grow market share, becoming the largest mobile betting and gaming operator by revenue, based on Regulus Partners statistics. The right hand side shows that we extended our lead as the most popular betting and gaming brand, with over 30% of all active customers using our brand, compared to just over 20% for the number 2 brand in the market. Even more importantly, we have the most loyal customer base, with around 60% of our customers only using our brands. We believe these metrics uniquely position us to continue to take advantage of the UK market, as the majority of growth in the market is expected to come from mobile, rather than retail or desktop.

The UK market is a highly attractive market. External forecasts from H2 Gambling Capital and Regulus Partners suggest the online market will grow by 7% to 9% in 2019. This would be an increase of around £500m in the total addressable market.

SLIDE 19

In summary, FY18 was another strong year operationally, with delivery of great new products and enhancing our lead in the UK market. We are also very pleased with our financial results, which we believe show continued strong trends, although somewhat flattered by the sustained run of operator-favorable sporting results in Q4 2017.

Moving forward into Q3 2018, I am pleased with the start we have made since the Stars Group's acquisition, particularly in respect of the return of the football season, where we believe we are performing well at re-engaging more of our customers and we continue to grow the active customer base. The variability of sporting results will continue to have an impact on reported results. So far this quarter, we are seeing low double digit growth in betting stakes and gaming net revenue, but overall net revenue is lagging this as sporting results have been less favourable than the same period last year. Moving into Q4, we will be lapping a sustained period of profitable sporting results as Ian outlined, so our reported results will not fully reflect the continued strong operational progress and underlying growth that we are seeing. Operationally we believe the business continues to perform well, and we are excited about the opportunities that are presented with the combination with The Stars Group.

I'll now hand back to Rafi for his overall summary.

RAFI ASHKENAZI
SLIDE 21
Thanks Richard. I'd like to congratulate the whole team at SBG for delivering these strong results. The business is performing in-line with our operational expectations at the time of the acquisition. While year over year comparisons of financial results are challenging for the reasons discussed by Richard and Ian, we are pleased with the ongoing operational progress that the team have highlighted today. As a result, we believe SBG is well positioned to continue growing market share in key markets. As discussed today, SBG's ability to consistently grow its market share in a prudent manner has, over time, delivered increased profits to its investors.

More broadly I am very excited by the potential I believe will result from the combination of all of our 2018 acquisitons. While delivering on our anticipated cost synergies is a critical focus for our company as we integrate these businesses, we are very excited about the opportunities these combinations give us to drive revenue growth.

This has been a busy year for the Group and we have made significant progress:

- We completed the transformative SBG acquisition and the acquisition of BetEasy, collectively giving us leading positions in the UK and Australian markets
- We refinanced the entire business at attractive rates
- We raised equity to help fund the acquisitions and de-risk the balance sheet
- We mandatorily converted the outstanding convertible preferred shares, preventing further equity dilution
- We have launched our first US sports betting business, and believe we are well placed to expand into that market
- We continued to expand our poker offering, with shared liquidity in the Southern European markets and launching in India

Overall 2018 has seen more volatility in quarterly results than what we historically experience, but this was anticipated, and it is a natural outcome of our expansion to become a sports betting leader. We are reaffirming our 2018 guidance today, and we believe that our M&A activities leave us in a very strong and unique position, with a diversified revenue stream by geography and product, and strong positions in all of our addressable key markets and verticals.

At this point I'd like to turn the call over to questions. This update is about SBG specifically so can I please ask that questions are about SBG.

Operator:

Thank you. We'll now be conducting a question-and-answer session for analysts. In the interest of time, we ask that you please limit yourself to one question, one follow-up and requeue for any additional. If you would like to ask a question, please press star, one on your telephone keypad and a confirmation tone will indicate your linen is in the question queue. You may press star, two if you would like to remove your question from the queue. For participant 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.

Thank you. Our first question will be coming from the line of Chad Beynon with Macquarie Group. Please proceed with your question.

Chad Beynon:

Hi, good morning. Thanks for all the commentary this morning. Ian, Richard, on the SBG business, just wanted to go into your net win margin guide that's in the press release of 8% to 10.5% and kind of dig into this a little bit more. Given all the innovation and the new products, which we would assume are slightly higher net win margin, I mean why should the range still kind of be consistent particularly given that outside of that December quarter with really high hold, even the other quarters were kind of above 9%? Is there something else just really, you know, focused on the Premier League that could pull it down? I know you mentioned year-over-year you're seeing a little bit of weakness there but just wondering why 8% is kind of the floor. A little bit more color there would be helpful. Thank you.

Rafi Ashkenazi:

Richard, do you want to take this question, please?

Richard Flint:

Sure. Thank you for the question. Some of the products that we've launched and have grown most quickly recently, I think, like RequestABet, which is essentially a way of getting a high margin multiple bet in a single match, and you are right that they are higher margin. But I think balanced against that, in-play is lower margin, which is an area that we want to try and grow, and want to maintain our ability to be price competitive in certain segments of the market. So you've kind of got those two things going on and they could net out to roughly neutral. So the historical margin is the same as the future margin.

So you might be right, might be some growth, but you've got those two factors weighing against each other and we'll see how it plays out in the longer-term.

Brian Kyle:

Hey Chad, it's Brian. I think the other point, you may already be aware of this, the guidance that we've included for the net win margin, that range, is for The Stars Group consolidated, not specific to SBG. So it does reflect BetStars' operations as well as EasyBet operations.

Chad Beynon:

Okay. Great. Thank you very much for that. And then my follow-up is just with respect to customer deposits understanding that people had less money in their accounts in the March and June quarter given what happened in December, did you see kind of a regular amount of deposits heading into the football season and kind of in the quarter? If you're able to provide any color on that. I know you're still guiding to a strong growth in the third quarter and you mentioned in 2019 you're expecting double-digits as well, but just in terms of customer deposit trends anything worth noting that you've seen in the past couple of weeks or couple of months. Thanks.

Rafi Ashkenazi:

Ian, I think you should take this one.

Ian Proctor:

Yes. So in terms of the start of our new financial year and the football season, as Richard said, we're seeing double-digit growth in the number of customers and a slight pickup in the amount of stakes per customer. So we're pretty happy with the start of the season but nothing more specific to call out than that.

Rafi Ashkenazi:

I'd like to add also that as opposed to our business, the TSG legacy business where we carefully monitor deposits on the back of our poker business, sport book companies are a little bit more event-driven and deposits can fluctuate. It wouldn't necessarily be the best way to look at recycling customers' funds, as opposed to poker where there is really a very strong correlation between deposits and revenues.

Chad Beynon:

Okay. Thank you both very much.

Rafi Ashkenazi:

Not a problem.

Operator:

The next question comes from Tim Casey with BMO

Tim Casey:

Thanks. Good morning. Could you just give us an update in terms of the integration plans and progress? Are you precluded from beginning any of the integration until you get final clearance or are you able to do some things on the (inaudible)? If you could give an update there? Thanks.

Brian Kyle:

Hi Tim. It's Brian. On Friday we actually received some encouraging news from the CMA when they announced that they had released The Stars Group and SBG from the initial enforcement order that was put in place July 6. So basically what does that mean? It means that we cannot integrate the businesses, we cannot actually start realizing synergies but we are in a much better position to start planning those processes so we can work much more closely between the two organizations, we can develop more road maps, we can plan more cohesively between the two businesses so that when we are permitted to integrate the businesses, which we are expecting to be completed after the Phase 1 completion process which would be October 18, we will be in a great position to start realizing those synergies after October 18.

Rafi Ashkenazi:

So essentially we can do all the planning between now and then and hopefully on October 18 we can actually start integrating those two businesses together.

Tim Casey:

Thank you.

Rafi Ashkenazi:

Welcome.

Operator:

The next question comes from the line of Simon Davies with Canaccord Genuity. Please proceed with your question.

Simon Davies:

Yes, good morning guys. First, one for Richard, I think. Did I hear you correctly in saying that you think that the business of Sky Bet is well positioned for double-digit revenue growth in 2019? And can you talk a bit about the World Cup effect because obviously that pushes up—what kind of revenue and profit performance do you get from the World Cup?

Richard Flint:

Yes. I mean, we're obviously being guided about the guidance that we give but I do think that the market should grow and we will continue to gain share. The World Cup, as is typical, is an area where we'll (inaudible) in marketing, we've done that in line with others and we've seen that marketing successful. We've acquired customers at significantly less than their long-term value to us. So that will feed into growth into the future. Weighing against that is we've got some of the safer gambling measures that will impact on revenue growth, so you've got that to consider. But yes, we think the market will continue to grow and we'll continue to take share.

Simon Davies:

And what kind of impact did you get from the World Cup, do you think?

Richard Flint:

We talked about a—we've already given out our revenue that we've got from that and we have acquired a substantial number of customers through that so we're not giving exact figures away.

Simon Davies:

Okay.

Rafi Ashkenazi:

We actually have it in the press release and I can just direct you to the World Cup 2018 note on the press release of approximately £33 million.

Simon Davies:

Okay. Brilliant. Thank you very much. And just as a follow-up, assuming that you do get clearance from the CMA in October, can you talk a bit about the phasing of synergies, how much do you expect of the £70 million to deliver in 2019?

Brian Kyle:

Yes. Hi Simon. It's Brian. In 2018, on the basis that we get CMA approval in October, we would expect a very minimal amount of those synergies to be realized. As we move into 2019, again, we forecasted, we presented to the Street about £70 million of cost synergies, we would expect a significant portion of those to be realized in 2019 and by the time we got to 2020, early 2020, the full run rate savings realized in 2020.

Simon Davies:

So is it fair for us to think about maybe 70%, 80% of the synergies coming through next year?

Brian Kyle:

That's fair.

Simon Davies:

Thank you.

Operator:

The next question comes from the line of David McFadden with Cormark Securities. Please go ahead with your question.

David McFadden:

Yes, maybe just a couple of questions on the financials. So what is the percentage of betting revenue that's from mobile? I think when Stars announced the transaction it was about 90%. I was wondering if you can give us an update on that.

Rafi Ashkenazi:

I don't think it has changed for SBG. But Richard, maybe you can...

Richard Flint:

Ian.

David McFadden:

Okay.

Ian Proctor:

Yes. It's about the same. It's around about 90%.

David McFadden:

Okay. And then you said earlier in your prepared remarks that the operating cash flow is running at around 95% of EBITDA. It seems like the tax rate would be fairly low to achieve that metric. Is the tax rate going forward expected to be low so that you would continue to be in that 95% range?

Ian Proctor:

Yes. I think the 95% relates to the operating cash conversion metric. So after-tax it would be lower going forward.

David McFadden:

Okay. So that's pre-tax?

Ian Proctor:

Yes.

David McFadden:

Okay. And Rafi, if I can just squeeze in one other one? I mean, just given the stock's come down a lot of people are kind of scratching their heads. Has there been any change on Russia?

Rafi Ashkenazi:

No changes on Russia. We continue to operate as usual. We actually announced that we're going to have the Sochi live event starting very, very soon. So we continue to operate in Russia as usual. We haven't seen any impact on the business and...

David McFadden:

Okay.

Rafi Ashkenazi:

... we're still working on hopefully getting potentially poker regulated in the market.

David McFadden:

Okay. That would be great. All right, thank you.

Operator:

The next question comes from the line of Suthan Sukumar with Eight Capital. Please proceed with your question.

Suthan Sukumar:

Hi guys, and thank you for the update. First question for me is on cross-sell. Could you just speak to some of the cross-sell trends that you're seeing currently from betting into some of your other real-money gaming offerings?

Rafi Ashkenazi:

Richard, can you take this one, please? Cross-sell from sports to gaming.

Richard Flint:

Sure. I mean, we're not disclosing exact figures, but we consistently cross-sell well from Bet into particularly Vegas and Casino, and as I talked about on Slide 14, we've over time invested a lot in customer data to allow us to target that cross-sell to the right customers. Over time those rates have improved. We're launching — or we have launched a set of games within the Bet app to further improve that cross-sell capability. But should we get through the CMA approval process then obviously we've got the potential to work more closely with The Stars Group to cross-sell between different products and brands and we have a much better sports betting offering for poker customers and we'll have a much better poker offering to promote to Sky Bet customers. So all around I think those trends have been positive but we expect them to improve further with the wider group and with the ever-increasing investment in data.

Suthan Sukumar:

Okay, great. Thanks, that's helpful. And just kind of a follow-up here. I think I missed some of the metrics that you guys spoke to on the call related to customer retention. Could you recap those metrics for me in terms of how many customers wager exclusively with SBG and how much revenue driving from the existing customer base?

Richard Flint:

Sure. Well around 60% of our customers only bet with Sky Betting & Gaming and I think the number you mentioned there was relating to Slide 13, where from memory well over 80%. Ian might know the exact number I think that number but well over 80% of revenues from existing customers. Actually,it wasn't Slide 13, it was Slide 8.

Suthan Sukumar:

Slide 8. Okay.

Richard Flint:

Have you got that exact number, Ian?

Ian Proctor:

It was Slide 11 and it's 88% of the revenues in fiscal '18 derived from existing customers, which draws out the strong retention metrics.

Suthan Sukumar:

Okay, great. Thank you guys.

Operator:

The next question is from the line of Gianluca Tucci with Echelon. Please proceed with your question.

Gianluca Tucci:

Yes, hi guys. Thanks for all the color today. Can you talk a little bit about the Italian gambling ad ban in that market and how that is or can impact your business?

Rafi Ashkenazi:

We're still analyzing the impact that it will have on the business. As you may know, the Stars Group is largest operator in Italy which puts us in a very, very strong position in the market. We are planning, hopefully, once we get the CMA approval, to launch Sky Betting & Gaming on the TSG platform and then benefit from a very strong brand and a better relationship that we can potentially develop with Sky Italia in the Italian market. And we are also contemplating al sorts of other different other ways that will allow us to continue acquiring customers in the market and continuing retaining them. I can't really give you at this stage what potentially may be the impact, but I can tell you that we are very strongly positioned as the largest online operator in the market.

Gianluca Tucci:

Okay, so it's safe to say then to date there hasn't been any material change in your positioning in that market.

Rafi Ashkenazi:

No, the ban itself to my recollection would be implemented only from the second half of 2019. So we have quite a few months to go before the ban kicks in.

Gianluca Tucci:

Okay, great. Thank you. And then just as a follow-up here, on the corporate side, can you talk a bit about the debt reduction plan that you guys have in place and a targeted net debt ratio going forward? Thank you.

Brian Kyle:

Yes. Hi. We're looking at using our surplus cash for deleveraging purposes. I mean, that in a nutshell what we will be doing going forward.

By the end of this year we expect to be just under six times, and by the end of '19 the delevering plan will bring us to below five.

Gianluca Tucci:

Okay. Thank you guys.

Operator:

The next question is coming from the line of Alistair Ross with Investec Asset Management. Please go ahead with your question.

Alistair Ross:

Hi guys. Just a couple for me, please. In terms of the Italian advertising ban, can you give us what sort of level of marketing you have in Italy at the moment just so we know what level of saving there might be? Clearly I think revenue is going to drop off, but, I mean, if you stop marketing obviously that's a big saving and I expect bottom line to actually increase. I'll take them one at a time if that's okay.

Rafi Ashkenazi:

So Italy is one of our largest market. We are not breaking down the marketing expenses per market, but Italy is one of our largest, surely, in the top three markets for the Company. On a combined basis between TSG and SBG, we will have savings on marketing if the ban would be eventually enforced in the market. But we're not breaking it down Alistair.

Alistair Ross:

Okay, no problem. And then just in terms of platform just so I know exactly what your plan is in Italy and Germany in terms of platform, so what exactly is the plan going forward for Sky Betting & Gaming in those two markets?

Rafi Ashkenazi:

So the plan, the long-term plan has several different phases. The Phase 1, again, which we're hoping to basically roll-out shortly after the CMA approval, is to essentially rebrand BetStars as SBG or SkyBet in the market, and through that migrates all the Sky Bet customers onto the TSG core business in Italy and enjoy the brand, and over time what we are also doing is essentially putting together a sports book platform that would be our international sports book platform where we will roll-out across the board in all very different markets. This combination of our sports book platform would be elements that were developed in SBG, elements which were developed at TSG and elements that we've acquired to form essentially at the end of it an international sports book platform that will be rolled out in Italy and other markets, of course including Germany. But the first phase will be rebranding BetStars as SkyBet in the market.

Alistair Ross:

Okay, brilliant. Thank you. And just in terms of Friday, obviously a huge, huge increase in your share price on Friday given your news. What exactly — I mean, do you have some sort of probability that this is going to move to Phase 2? I can't understand why it's even being looked at by the CMA. But yes, in terms of moving to CMA Phase 2, do you have any thoughts on that?

Rafi Ashkenazi:

So as you know, Alistair, this is a standard review conducted by the CMA. We also believe that there are no issues. We got quite a positive, obviously, press release coming from the CMA on Friday.

Alistair Ross:

Mm-hmm.

Rafi Ashkenazi:

So we expect and we hope that everything will be concluded by October 18.

Alistair Ross:

Okay, brilliant. Thank you very much.

Rafi Ashkenazi:

Not a problem.

Operator:

The next question is from the line of David Holmes with Bank of America. Please proceed with your question.

David Holmes:

Afternoon guys. I just wanted to touch on the U.K. regulation and if you have a view on the size and timing of a potential increase in the remote games duty.

Rafi Ashkenazi:

Richard, do you want to take this, please?

Richard Flint:

Yes, sure. My understanding, that we've had reinforced at various meetings recently, is that we've had it reiterated that the focus of that tax increase is to fill the gap from the FOBT stake reduction and the timing of that increase will be in line with the timing of the FOBT stake changes. So you might have read in the press expectations as to when that might be. I think probably the range is April to November and then obviously in 2019. I've seen various pieces of analysis on what that gap might be and probably (inaudible). But I think the range of timing is April to November 2019 and the amount is calculated on the basis of filling the gap from the FOBT stake reduction.

David Holmes:

Okay, thank you.

Operator:

The next question is from the line of Gavin Kelleher with Goodbody. Please proceed with your question.

Gavin Kelleher:

Hi. Good afternoon and good morning guys. Richard and Ian, any commentary on the competitive environment in the U.K., just particularly around that recreational and areas that you guys are involved in. Has there been any change recently and how has it evolved over the last number of quarters?

Richard Flint:

Sure. I'll take that one. Look, it continues to be a very competitive market, but you've seen over the course of many years now from some of the—particularly Slide 8 that we've shown you, that we managed to grow in that strong—in that very competitive market, really because of two things. Firstly, our unique relationship with Sky and the links and the promotion, the brand benefits we get from that. Secondly, we are fairly unique in that we are a real digital company that is—that shares information and builds really from the bottom up, which drives our innovation. I anticipate that continuing and continuing to be two things, that it's very difficult for our competitors to copy.

You've seen some of the smaller players, like SunBets, for example, who probably anticipated trying to replicate our model and not really being able to get traction. I think the environment will get continually tougher for those smaller companies. I think it's very hard for people to break into the market on the sports betting side now. We have seen more of the major companies try and imitate us, which I guess is a sincere form of flattery, and I would anticipate that carrying on. But really on a—(inaudible) talked about targeting the recreational customer base, I think it's very hard for them to replicate that tech focus and that media company relationship.

So I would anticipate us continuing to win in that group.

Gavin Kellerer:

Richard, just one follow-on, just the more conservative approach to say for gambling that you guys have adopted. You hinted that it started of in October 2017, all those measures and tools you brought in. Was it a one—did they happen over a very short period of time or did they come in over a number of months? Basically will we fully lap that in October of this year?

Richard Flint:

No, it's quite as simple as a single point in time or a single measure, this is a progressive approach where we've really made safer gambling part of the company DNA, something that we see helps to stand out in the market and actually helps us appeal to customers rather than pushing against it. We probably turned up the volume on those activities in October 2017, which is why you see a bigger impact over that sort of time scale, a bigger impact on the revenue side, but this is now part of the way we do business and I expect that to continue.

Gavin Kelleher:

Perfect. Thanks a million, Richard. Appreciate it.

Operator:

The next question is from the line of Chad Beynon with Macquarie Group. Please proceed with your question.

Chad Beynon:

Hi. Thanks for taking my follow-up. Just one regarding Slide 6. Brian, I know you gave the pro formas for revenue and EBITDA, and within the press release we've been able to see the depreciation per quarter on Sky Betting. But could you kind of help us understand what maybe pro forma depreciation would be, and if not, if there's any reason why we shouldn't just take the SBG plus the legacy. Just a little bit more color there would be helpful. Thanks.

Brian Kyle:

Yes. I think the—first of all, I understand where you're going with this in terms of trying to get more clarity on the adjusted net earnings, and what we're going to do is be more descriptive on how we calculate that commencing in quarter three. So you'll actually see the depreciation, you'll see more clarity on taxes that will help you derive what that number's going to be. I think the way to look at our depreciation going forward is normal run rate for SBG and there will be some adjustments that'll be made to the SBG numbers in connection with some of their deferred costs that will be from an accounting perspective adjusted out under purchase price accounting, and then The Stars Group we will have our continued run rate going forward. But I think the big piece here that you'll need to recognize is the capitalized cost, a portion of that will be treated as intangibles and not treated as operating amortization going forward. So that's the piece that will make the amortization for Sky Betting & Gaming lower to begin with and then escalating up to a normal run rate.

Chad Beynon:

Okay, perfect. That's exactly what I was looking for. Thanks.

Operator:

The next question is from the line of David McFadgen with Cormark Securities. Please go ahead with your question.

David McFadgen:

Thank you. Just a couple of follow-up questions regarding the integration of Sky Bet. Assuming you get CMA approval, what are the plans for that asset for the U.S. market because we saw that you announced that you've gone live with BetStars in New Jersey?

Rafi Ashkenazi:

So there are—again, there are two aspects for the integration. The first aspect is around technology. As I mentioned before, we are going to have an international sports book which will be sort of a combination between the TSG core platform, some elements that we've acquired, and SBG whatever they develop in-house. This international sports book platform will be rolled out in all the international markets including the U.S. market.

The second element is around the knowledge and expertise. What Sky Betting & Gaming is bringing to the table when it comes to the U.S. market is a wealth of knowledge of how integrating media companies with sports book companies, and this is essentially something that we will hope to replicate in the U.S.

David McFadden:

So that means that you'd be looking for some sort of media partnership in the U.S.?

Rafi Ashkenazi:

Yes, that will be one of our aspirations for the U.S. market, yes.

David McFadgen:

Okay. And given you've received the initial—or sorry, a release from the initial enforcement order on Friday, is there anything that you're really particularly worried about to get the CMA approval?

Rafi Ashkenazi:

No, there is nothing we are worried about. That was actually quite an encouraging message that we got from the CMA. It just reinforces our confidence that we will get it on the—by the 18th of October.

David McFadgen:

Okay. And then just one last one, if I may. Is there any update on Kentucky? When do you expect the ruling on that?

Rafi Ashkenazi:

There are no updates. We are expecting the ruling on that any day, to be honest. They are releasing it every Friday, so essentially every Friday we are looking to receive the final ruling. We don't have any updates.

David McFadgen:

Okay. Thank you.

Rafi Ashkenazi:

Welcome.

Operator:

The next question comes from the line of Tal Grant with Credit Suisse. Please proceed with your question.

Tal Grant:

Hi. Thanks so much for taking the question. Just a quick one on the user numbers. You used to disclose a number which I assume was active numbers for the whole year, whereas now you've switched to quarterly average. The number I'm comparing with last year is the 2.57 or 2.6 number that you disclosed. Any chance if you could give us that number for the year to June 2018? Thanks.

Rafi Ashkenazi:

We will provide these numbers in Q3.

Tal Grant:

Okay. Thank you.

Rafi Ashkenazi:

Not a problem.

Operator:

The next question comes from the line of Richard Stuber with Numis. Please proceed with your question.

Richard Stuber:

Yes, good morning. Just a couple of quick ones for me. First of all, any color on Oddschecker? I know it's a small part of your business, but in terms of how that performed particularly over the World Cup period. The second question is just regarding your staff. I guess since the deal was announced any sort of comment in terms of staff turnover or is there nothing to report on that front? Thank you.

Rafi Ashkenazi:

So Richard and Ian, I'll defer this question to you guys.

Richard Flint:

Sure, I can take that. So you've seen the primary component of the other revenue line on Slide 6 is Oddschecker and—not all of it but it's the biggest part. So you've seen good growth in Oddschecker, over a long period now and that growth was sustained over the World Cup. On the staff point, we're really pleased with that—our staff turnover numbers are lower than they've ever been, particularly in sort of the key technology areas. So, no change there. I'd say that the group here, the team here are very excited about the opportunities presented by the combination, in particular the opportunities to bring what we've learned and developed here in the U.K. to a wider audience internationally. As you see, (inaudible) the most notable example, licensed and regulated online gaming. We've got a very young, enthusiastic workforce here and that international potential is a (inaudible) so we—and there are several other things we didn't have will help motivate and inspire people into the future.

Richard Stuber:

Great, thank you.

Rafi Ashkenazi:

By the way, you can find more information on Oddschecker growth year-over-year in the financial statement of the business acquisition report.

Operator:

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

Rafi Ashkenazi:

Okay. So thank you everyone for participating on today's call. We thank you for the support and the ongoing interest in the Company. Thank you and good-bye.

Operator:

Today's conference has concluded. You may now disconnect your lines at this time.