



The Stars Group Inc. Q3 2018 Earnings Call Transcript
November 7, 2018

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

Rafael (Rafi) Ashkenazi, *Chief Executive Officer*

Brian Kyle, *Chief Financial Officer*

Marlon Goldstein, *Executive Vice-President, Chief Legal Officer and Secretary*

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.*

Tim Casey, *BMO Capital Markets*

Daria Fomina, *Goldman Sachs*

Simon Davies, *Canaccord Genuity*

David McFadgen, *Cormark Securities, Inc.*

Suthan Sukumar, *Eight Capital*

Gianluca Tucci, *Echelon Wealth Partners*

Alistair Ross, *Investec*



SLIDE 1: 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 is being recorded today, Wednesday, November 7, 2018.

Replay details are included in The Stars Group's earnings press release issued earlier this morning. I will now turn the call over to Vaughan Lewis, The Stars Group's Group Director of Investor Relations and Corporate Communications.

SLIDE 2: VAUGHAN LEWIS

Thank you and good morning.

Welcome to The Stars Group's third quarter 2018 conference call.

This morning, The Stars Group issued an earnings press release and filed its third quarter 2018 MD&A and consolidated financial statements 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 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 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 earnings press release, financial statements, and MD&A for the third quarter of 2018.

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 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 earnings press release, earnings presentation, and MD&A for the third quarter of 2018, which will all be available on our website.

Except where noted, currency figures presented on this call are in US dollars.

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

RAFI ASHKENAZI SLIDE 4

Good morning and thank you for joining us today for our Q3 earnings call. With me is Brian Kyle, our CFO, who will provide details about the financial results, but first I will provide a few initial comments on the highlights of the quarter.

This has been a landmark quarter for the business, accelerating our strategy to become the leading online gaming business in the world. We completed the acquisition of Sky Betting & Gaming, migrated William Hill Australia's player base to our platform, launched our new Australian betting brand BetEasy, and launched our first US sports



betting business in New Jersey. Following the end of the quarter, we received CMA clearance for the SBG acquisition, allowing us to begin integration, and start delivering synergies.

Brian will cover the financial results in detail, but I am pleased with our performance as we continued to generate strong growth, and remain highly cash generative, and in October we repaid the \$100m outstanding on our revolving credit facility.

SLIDE 5

Turning to slide 5, this outlines certain key moving parts in the financials for the quarter.

Overall revenue increased 74% to \$572m, and Adjusted EBITDA increased by 27%, to reach \$198m.

This was another positive quarter for the core TSG International business, with constant currency revenue growth of 11%, as we continued to see stable trends in poker, and benefits from ongoing strong growth in casino and betting.

There were some FX headwinds, which meant that the existing business delivered 7% revenue growth overall, and with continued scale benefits and operational excellence, this translated into 12% adjusted EBITDA growth for the existing business.

On top of this, we saw a full quarter contribution from our Australian business. This added \$52m to revenue, with an Adjusted EBITDA loss of \$5m in the period as we successfully migrated the William Hill Australia player base over to the CrownBet platform, and rebranded the combined business as BetEasy.

With respect to the UK business, SBG added \$168m of revenues. This was almost a full quarter contribution from SBG, although the period before the acquisition closed contributed \$29m of revenue, which is not consolidated in our reported earnings.

SLIDE 6



Slide 6 is a quick reminder about how important this year has been, as we begin to deliver our vision - to become the world's favourite iGaming destination.

We are building a business with leading positions in high-growth potential markets, supported by what we believe to be the best products, technology and people in the online gaming and betting industry.

The acquisition of SBG and the migration of the William Hill Australia player base to our newly branded BetEasy business during the quarter accelerates our delivery of this strategy.

These acquisitions have de-risked our company. We are now a truly diversified global group, with leading positions in all key product verticals and all key regulated markets.

I'll now hand over to Brian to provide an overview of the financial results for the quarter.

BRIAN KYLE SLIDE 8

Thanks Rafi, and good morning.

Total revenues increased 74% to \$572m, Adjusted EBITDA increased 27% to \$198m, and Adjusted diluted EPS was \$0.45c. As reported, net earnings was \$10m, with a large part of the year-over-year reduction relating to one-time accounting items. Adjusting for these, Adjusted Net Earnings was \$120m.

To provide additional clarity on underlying trends, the right-hand side shows proforma headline figures for the quarter, as if we had owned SBG and BetEasy from January 1 2017. On this basis, revenue growth was 7% to \$601m and Adjusted EBITDA was flat at \$208m. These results were in-line with our expectations, and over the next few slides, I'll run through the key moving parts in the quarter by segment.



SLIDE 9

Turning to slide 9, we provide additional details about the performance of the international segment.

Poker revenues were down 4% as reported in Q3. This is in line with our expectations, and was primarily driven by adverse FX movements. Constant currency revenues were flat, which was a decent result, as we were lapping of the roll-out of Stars Rewards, and had the impact of market closures, notably Australia, as well as some one-off impacts such as the World Cup.

Our poker revenues are up 5% in the first 9 months of the year, and 2% on a constant currency basis, consistent with our medium-term expectation of low single digit growth in poker on an annual basis. Moreover, this is an important product vertical for us, with high barriers to entry, and it provides us with a large and low-cost customer acquisition channel to cross-sell to our other product verticals. We continue to grow market share in the poker industry, while some of the smaller competitors trade market share amongst themselves.

Gaming delivered another record quarter, with revenues of \$108m. New content launches, the ongoing success of our loyalty scheme, and continued successful promotions all contributed to continued growth in PokerStars Casino.

Betting revenue, which includes BetStars operations in the UK, was up 80%, with stakes up 43% and a higher net win margin. We continue to benefit from ongoing product improvements, and saw a boost from the world cup, making it another record quarter of revenues for BetStars. During the period we effectively stopped BetStars marketing in the UK, given that we do not want the BetStars brand to compete with Sky Bet.

Our adjusted EBITDA margin was up over 2 percentage points at 52%, with scale benefits in the business as we continue to grow revenues, and invest in new product verticals in this segment.



SLIDE 10

Turning to the SBG financials on slide 10, which currently comprise our UK segment. Please note that these financials are presented here as if we owned the business in both periods. Given this is a UK business that trades and operates in pounds sterling, we are also showing the financials in pounds to increase the clarity of the underlying trends. There are more details on FX rates and proforma results in US Dollars in the appendix.

As you can see, staking growth was 17%, a little better than the low double-digit growth that we outlined on our conference call on September 17. The net win margin was 7.3%, which was 1.7 percentage points lower than last year, meaning that betting net revenue was down 5%. Gaming revenue grew 16%, poker was down 11% and other revenues were up 27%, giving total revenues of £152m, up 4% relative to the prior year period.

Adjusted EBITDA came in at £29m, down £13m relative to last year. The decline in Adjusted EBITDA mainly reflects lower betting win margins year over year, as the cost base of the business is more closely aligned to staking volumes, rather than net revenues. We estimate the impact of lower win margins was a negative impact of £18.3m on revenues, and with a high conversion margin on variance due to win margins, this explains the majority of the EBITDA decline relative to the prior year period. In addition, the SBG international markets generated an EBITDA loss of £5m in the period and marketing investment was somewhat elevated at the start of the European football season, but we are confident that this marketing investment will deliver strong returns over time. QAU growth was 23%, and the business continues to grow its brand penetration in the UK market, growing its share of the customer base there.

SLIDE 11

Turning to slide 11 we provide an overview of the financial results for the Australian segment. As with SBG, this is in local currency, on the basis that we owned the business in both periods, to provide increased clarity about the operating trends.



Staking growth was 104% to A\$1.1bn, driven primarily by continued underlying growth in racing and sports, and the impact of the migration of the William Hill Australia player base to BetEasy.

The historical figures relate to the CrownBet business on a standalone basis up until the acquisition of William Hill Australia in April 2018. The acquisition of William Hill Australia was an opportunity to build scale rapidly, at a time where scale is critical in the industry. The history of the William Hill Australia business includes multiple brands, a large proportion of credit betting, and its own product set and technology platform. None of this exists today, and we have transferred the customer base from William Hill Australia to the BetEasy brand, on our in-house platform. As such, practically we see this more as a one-off acquisition of customers and a revenue stream more so than the acquisition of an entire business, and the success of the acquisition will primarily be driven by our success at migrating customers and retaining their revenue.

We believe this migration was highly successful, with active customers and staking trends running ahead of our plan. From the relaunch on August 13th to the end of the quarter, over 70% of the William Hill Australia customer base had migrated over to BetEasy, and this continues to increase as the team works hard to re-engage customers.

Overall, the migration has exceeded our expectations to date, and excluding the impact of some adverse sporting results in the period, financial results are in-line with our expectations with revenues in the period of A\$71m, and Adjusted EBITDA at a loss of A\$6.4m.

SLIDE 12

At the end of the quarter, we had total long-term debt of \$5.5bn, cash of \$419m and net debt of \$5.1bn.

During the quarter, we took steps to manage our currency exposure on our debt and put cross currency interest rate swaps in place to match our currency of debt to our currency of EBITDA. This slide



shows our effective debt position by currency. These swaps provide us with balance sheet hedging – for example if the UK pound were to weaken against the Dollar, we would generate less dollar EBITDA from our UK assets, but we would also benefit from a lower debt obligation as part of our debt is effectively fixed in pounds. We also entered into an interest rate swap which combined with our other swaps provides us with 72% fixed rate debt, or 90% fixed rate debt as long as EURIBOR remains negative.

The overall blended cash cost of the debt is approximately 5.4%, meaning the current run-rate for interest costs for a full year is around \$295-305m.

SLIDE 13

Turning to slide 13, we are not making any changes to our full year guidance, which we reaffirmed on September 17 and are currently on track to achieve, including our pro forma guidance for the combined business as if we owned SBG and the Australian acquisitions from January 1, 2018.

For Q4, we are pleased with current trading during the quarter, but it is important to remember we are lapping a period of operator friendly sporting results in Q4 in our SBG business, which means that the strong operating momentum in the business will not be fully reflected in our reported results.

Although we do not currently intend to provide additional details with respect to guidance ranges in the future, given the significant changes in the business over the course of the year, we do want to provide some additional color to assist with modelling going forward.

As such, and subject to the assumptions in this morning's press release, we currently expect the following for 2019: Depreciation and amortisation of between \$65-75m. Interest expense of between \$295-305m, and an effective tax rate of 8-10% of adjusted Profit before tax, which simply reflects Adjusted EBITDA less interest, depreciation, and non-PPA related amortization.



SLIDE 14

Turning to slide 14, I'm pleased to provide an update on the integration of SBG, and progress that we have made with synergies. We received approval from the CMA on October 11 2018, and as a result, were able to begin integration. We currently expect at least \$5m of synergies in the remaining few weeks of the year.

We also currently expect at least an additional \$50m of synergies to be delivered in 2019, giving a total of at least \$55m in 2019, and we expect to exit 2019 at a run-rate of at least \$70m in 2020.

We are confident that there will be incremental cost synergies delivered on top of our target of at least \$70m, and detailed work is underway now to understand the magnitude of this. In addition, work is progressing to understand the size of the opportunities for revenue synergies.

SLIDE 15

Finally on slide 15, I would like to provide a quick update on some key regulatory developments during the quarter.

In the UK, the government confirmed that the rate of Remote Gaming Duty will increase from 15% to 21% from October 1, 2019. On a full year basis, this would be an impact of around \$30m before any mitigation. When assessing the acquisition, we had incorporated an expected increase of 5% to RGD into our assumptions.

In Russia, payment blocking has commenced and we have seen some blocking efforts. As we've discussed previously, we have developed various strategies to mitigate the impact to our business. We continue to host a series of live tournament events in Russia in partnership with the land based casino in Sochi, which qualifies tournament players through our online platform. We have seen some positive results from these strategies so far and we feel the outlook for regulation of online activities is looking promising.



We submitted a licence application in Sweden during the period. We are already live in Sweden, and this will secure our position. In Switzerland the new framework is expected to come into place next year, and we are looking to offer our poker and casino products in partnership with a local casino within 2019.

We are monitoring progress in the Netherlands and Greece, which could see licensing frameworks come into place during 2019.

In Australia, Queensland implemented its point of consumption tax, with most states due to follow in January 2019. Rafi will comment more on the expected cost base in Australia in a few minutes, including the impact of all of the state taxes.

These newly regulated markets provide revenue and growth opportunities for our company, and if we can deliver on all of them, would take our regulated and taxed revenue mix above 85%. However, in the short-term, there is an inevitable cost to the business as more jurisdictions implement regulatory and taxation regimes. Excluding Australia and assuming the full implementation of the frameworks just outlined in our European markets, we currently estimate a cumulative gross cost headwind of approximately \$60-80m from those currently expected changes in regulations and duty rates beginning in 2019 and potentially fully realized in 2020. While this impacts our business in the short-term, we believe it positions us well in regulated markets to deliver strong long-term growth.

Overall we continue to see steady progress globally with a trend towards licensed and regulated onshore online gaming. This includes rapid progress towards the regulation of multiple states in the USA. We submitted a licence application in Pennsylvania and we are hopeful that Pennsylvania will be live with all verticals in 2019.

We are among the most licensed operators in the world, and are confident that this trend will support our long-term growth plans.

I'll now hand the call over to Rafi to provide more details about our strategic progress during the quarter.



RAFI ASHKENAZI

SLIDE 17

Thanks Brian.

As I mentioned at the start, this has been a landmark quarter for our business as we begin to deliver our strategic vision. Turning to slide 17, this provides an outline of some of our key strengths and strategy, and how as a management team we will monitor our progress and success.

1. We operate in high-growth potential markets, supported by structural tailwinds as gambling spend migrates online.
2. The Stars Group is one of the global leaders in this industry, with unrivalled product and geographic scale and leading positions in key markets and all product verticals.
3. Our business has strong and sustainable competitive advantages, supported by our ongoing investments in our brands and technology. Our business has high barriers to entry, with significant network effects in our poker and free to play games, and we have a large and loyal customer base that provides us with good visibility over our revenue.
4. This combination of assets positions us to expand into newly regulated markets, including the most exciting potential new market, the United States.
5. Last but not least, we have a very strong financial model, with high cash generation and strong growth, leaving us well placed to deliver strong shareholder returns.

SLIDE 18

Turning to slide 18 this provides a snapshot of the market that we are currently operating in. The global market for gambling, excluding lotteries, is worth an estimated \$311bn. The online segment is \$43bn of that, or just 14% of the total.

The online segment is expected to grow at a CAGR of 8% for the 4 years from 2017-2021. This growth is supported by structural tailwinds, with more favourable regulations, rising penetration of



smartphones, rising penetration of e-commerce and digital payments, and continued and ongoing product innovation to broaden the base of potential customers.

SLIDE 19

Delivering our vision to become the world's favourite iGaming destination means building leading positions in the largest and most attractive markets.

This slide outlines the top 6 regulated or locally taxed markets in which we operate, and these 6 countries amount to two thirds of our revenue on a proforma basis.

These markets are expected to grow at a CAGR of 6-17% from 2017-2021, with a weighted average growth rate of 8%. In most of these markets, we have a top 3 position, and we are well placed to take market share, as we deliver revenue synergies from delivering best of breed poker, casino and betting products and offers across our key markets.

SLIDE 20

One of our key markets is Australia, and I would like to expand on the market dynamics here for a few minutes.

The Australian online sports betting market was worth 2.6 billion Australian Dollars in 2017. This has grown at a CAGR of 18% for the last 3 years, supported by the ongoing migration of spend from betting shops to digital, as well as product and content innovation over that period and the expansion of mobile betting. Looking forward, Regulus Partners expects the online sports betting market in Australia to grow at a CAGR of 9%, reaching \$3.7bn in 2021.

It is quite an attractive market from a competitive perspective, with the top 4 operators making up nearly 90% share of the market. BetEasy is the number 3 in the market. With ongoing investment in brand and technology, we aim to grow our market share here in 2019 and beyond.



SLIDE 21

It was a transformative quarter for our Australian business. The William Hill player base was successfully migrated over to our technology platform, and the business was completely rebranded with our new brand BetEasy.

You can see a couple of the campaign pictures here, and we are really pleased with how the brand is cutting through. The brand stands for quality, customer service, ease of use and trust, and hopefully this comes across here. One of the other key points of differentiation is our agreement with Sky Racing, with BetEasy being the exclusive corporate bookmaker partner to stream all live racing through its online and mobile apps.

As you can see on the right hand side, the migration of William Hill players has so far been a success, with strong growth in monthly staking levels since migration started.

SLIDE 22

Looking into 2019, we believe that we have the brand, technology and operating expertise in place to deliver market share gains in Australia. Our team is highly incentivised here, with both a potential earn-out based on, among other things, the 2019 EBITDA performance, and also a 20% minority stake in the business.

For 2019, slide 22 provides some indicative parameters to think about when modelling the business. Again, we don't intend to provide this information going forward, but we wanted to provide some increased clarity here given all of the moving parts in the business this year, with changing tax rates and the impact of the acquisition of William Hill Australia.

Starting with stakes, we expect a gross win margin of 10-12%, and then there are 2-3 points of deductions from free bets and GST. This means our reported revenue should amount to 7-10% of amounts wagered.



In terms of costs, our main cost is direct costs, which is principally made up of duties or taxes, variable costs, such as fees payable to Sky Racing, and product fees. We currently expect this will collectively amount to approximately 46-49% of revenue in 2019, with all States either having Point of Consumption Tax in place, or implementing this from January 1 2019.

Marketing is one of our key costs, driving both acquisition of new customers and retention of existing customers. We currently expect marketing to amount to approximately 16-20% of revenues over the course of the year, with some variation on a quarterly basis around the sporting calendar.

Other costs are more fixed in nature, being technology, contact centres, and central functions. We currently expect these to amount to approximately 18-21% of revenue in 2019. Looking forward, we see some economies of scale in these largely fixed costs, and do not currently expect these other operating costs to grow as fast as revenue.

Overall, this implies an underlying Adjusted EBITDA margin in the range of approximately 10-20% for the business in 2019. These indicative ranges include the benefit of cost synergies from the acquisition of William Hill Australia, and I'm pleased that this is progressing well, and we are currently exceeding our initial plans.

SLIDE 23

Returning to our strategic goals, we are striving to build a business with sustainable competitive advantages that positions us to grow market share in attractive markets. We have a growing active customer base overall when including our recent acquisitions, supported by a platform that has delivered, and is poised to deliver consistent innovation and product excellence. This growing customer base provides us with more data to continue improving the personalisation of our products, using customer data to provide the most attractive and entertaining experiences. We have strong customer retention, supported by network effects in poker and our



free to play games, and together with our product excellence and marketing investments, this supports ongoing improvements in our brand awareness and perception.

This in-turn drives increased customer acquisition, which creates a positive feedback loop giving us more customers, more data, and more resources to invest in our brands, technology and people, that are the core foundation of our business.

SLIDE 24

These competitive advantages provide us with a platform for expansion into new markets. As Brian commented, we are seeing a wave of new jurisdictions that are in the process of regulating online gaming. We are ideally placed to build leading positions in these new markets, leveraging our technology, brands and operating expertise. We also believe that our scale and integration synergies also leave us well placed to mitigate the impact of other market closures or impairments, where they may occur.

As well as new market opportunities, we see significant potential opportunities in our existing markets, leveraging our existing growth platforms and over time, delivering revenue synergies as we share best practices and export our leading products and content across our markets.

SLIDE 25

The most exciting new opportunity is the United States. We launched BetStars in New Jersey in September, and we believe that the business is initially performing well both operationally and technically. It is a soft launch, while we continue to assess potential brand partnerships.

External forecasts suggest the U.S. online gaming and betting market could be worth between \$2bn and \$10bn by 2025. Our assumptions are towards the middle of that range over this time period, but in the longer-term, we see this becoming the biggest market opportunity globally. As I said before, we believe we currently have the technology, brands and operating skills to build a leading position in this market.



The PokerStars brand retains decent brand awareness in the United States, at 24%.

In addition to the organic BetStars route, we are also evaluating potential partnerships that could accelerate and de-risk our entry into new US States. With the Sky Bet business, we have a proven model of integrating betting into mainstream sports media, and believe we can replicate this to add value to both us as a business, and a media partner.

SLIDE 26

I've outlined that we operate in attractive markets, with high potential growth rates. We have strong positions in these markets, and believe we have significant competitive advantages that support potential ongoing market share gains. Our business is highly scalable, and we believe we are well placed to replicate our success in new markets as they open up.

Our business model has high conversion from gross profits to EBITDA. While there are some gross margin headwinds in the short-term, as we expand into regulated markets and pay duties, we believe this de-risks the business. Part of our strategy is to reinvest this natural operating leverage into extending the duration of the growth of the business and invest into new growth opportunities. The United States is a good example of this, being a significant long-term opportunity with high potential returns, but in the short-term, this will be dilutive to our adjusted EBITDA margins as we invest to build a leading market position here.

Finally the business is highly efficient at converting EBITDA to free cash flow. We have limited capital intensity, and what we believe to be a highly efficient tax structure. This means that we generate significant free cash flow. We are currently committed to using this free cash flow to reduce leverage in the short-term.

SLIDE 27



To conclude, I am pleased with the progress we made during Q3 and with current trading overall so far in Q4 despite some early adverse sporting results. We are on track as we finish out the rest of the year and look forward to 2019 with confidence and excitement.

We believe we made significant progress against our strategic vision to become the world's favourite iGaming destination during the quarter. We now have leading positions in all key product verticals, and have leading positions in our top 6 markets that make up about two thirds of our revenue. We have de-risked our business, and diversified into new products to support a stronger long-term growth profile.

Looking into 2019, we are excited about the opportunities for the group. These currently include:

- Continued strong top-line growth, as we strive to grow market share in our key markets
- The integration of SBG, delivering at least \$55m of cost synergies in 2019, and we are working to potentially deliver incremental synergies above our \$70m target.
- The implementation of our global sportsbook platform in Italy, providing a template for further international market roll-outs
- Launching in newly regulating markets, including Pennsylvania, Switzerland and Sweden.
- Securing our position in Russia, and recommencing marketing there with our local partner
- And, continuing our commitment to de-leverage the business

It has been a busy year, and we believe we now have all the pieces in place to deliver our strategic vision. We are working towards an investor day in the first half of 2019, when we will provide more details about the growth opportunities ahead of us.

I'm pleased that we also have Marlon Goldstein here with us for the Q&A, and with that, I would like to hand the call over to the operator to begin the Q&A session.



Operator:

Thank you. 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. We ask that you limit yourself to one question and re-queue should you have a follow-up. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. Once again, to join the question queue, please press star, then one. We will pause for a moment as callers join the queue.

Our first question comes from Chad Beynon of Macquarie.

Chad Beynon:

Good morning all. Thanks for taking my question. Wanted to start with the guidance. Brian, you mentioned the reiteration of guidance and I believe for the fourth quarter what you guys have reported on a pro forma basis, fourth quarter, this reiteration would imply roughly 216 to 271 of 4Q '18 guidance, which comps against roughly a 205-ish when you adjust for the favorable sporting results, so that implies a 3 to 30% EBITDA growth rate for 4Q. One, can you just confirm that this math is correct on your reiteration, and then secondly, what would kind of bring this to the midpoint or above. I know there's a lot of moving parts but just a little bit more color on this would be helpful. Thank you.

Brian Kyle:

Hi. Good morning, Chad. I think the way we should look at guidance going forward is the third quarter we think was a very solid quarter, and again, as you reiterated, we are on track to achieve the full quarter guidance numbers that we provided. We were pleased with poker being flat on a constant currency basis. Stake growth overall was very encouraging. On a pro forma basis it grew 36%, but again, on a short-term basis the sports margins have been a drag and that's really been the negative impact that we've experienced in our business.



If we look at that other vertical and our casino operations, the casino gaming continues to do very well as we bring new products, enhancements and achieve cross-selling. So, again, on track full year guidance, but again, weaker sporting results and FX has meant that we've had some challenges and we expect to be towards the lower end for revenue and middle to low end for EBITDA.

I think if we look at the balance of Quarter 4, sports results improving could move the needle on where we would be within our range.

Rafael (Rafi) Ashkenazi:

I just want to touch on this point very quickly. We are today as a company generating approximately \$2.5 billion of betting stakes every quarter. This is \$10 billion of betting stakes a year. Every percentage shift or variance on the win margin on a quarterly basis has an impact of \$25 million on revenues in the quarter. So, there is obviously a higher degree of volatility in the business, which is generated from sports, but I am very encouraged to be in a position that we generate \$2.5 billion of stakes every quarter, around \$10 billion of stakes every year on sport which is a very different position for the Company that we've ever been.

Now, with better sports margins, both in the UK and in Australia, we would have been in a much stronger position when it comes to our guidance. And as you know, sports margins do tend to normalize over the long-term period, so we are very confident around our sports betting business and the future for the Company.

Brian Kyle:

Chad, just to provide final color to your question around the Adjusted EBITDA number, taking our guidance where we are through Quarter 3, you'd be looking at an implied Quarter 4 2018 guidance range on Adjusted EBITDA of somewhere between 213 and 268 based on the range.

Chad Beynon:



Thank you very much for all the color. Really helpful.

My follow-up is with respect to Sky Bet betting segment. The stake growth in the quarter was I think better than anyone was really expecting, particular in the face of some safer gambling initiatives. One of your competitors talked about that yesterday and talked about maybe some negative headwinds because of what's happening with VIP customers with the new Know Your Customer rule.

Understanding that you guys are primarily—I don't know what percentage but primarily mass focused, was there any impact in the quarter and when you talk about the regulation impact going forward, should we assume that some of these new KYC policies are meaningful as a headwind to your business? Thanks.

Rafael (Rafi) Ashkenazi:

There is definitely an impact which we as well as the rest of the industry will experience on a more strict KYC and responsible gaming measures that is taken by the UK government, and generally with regardless to the UK regulator, we are taking those measures ourselves as a company. We do believe that the brand is very important and we have built a brand in the UK which is very or highly trusted brand, and that's why this is very important for us that we would continue with our own responsible gaming measures, and of course in compliance with the UK regulator.

We do expect further impact on potentially the business and I would estimate it to low single digits impact annually.

Chad Beynon:

Okay. Thank you very much and congrats on the results.

Rafael (Rafi) Ashkenazi:

Thank you.

Operator:



Thank you. Our next question comes from Tim Casey of BMO.

Tim Casey:

Thanks. Looking at the win margins in the quarter and compared to trends over recent years, do you think there is anything structural or competitive that has weighed on those margins, or is it just the way the odds fell? Could you talk a little bit about that, please?

Rafael (Rafi) Ashkenazi:

Sure. I'll refer to the two businesses separately, the one in Australia and the one in the UK. I'll start with the one in Australia. Obviously during Q3, Q3 was a very important quarter for us strategically in Australia. Essentially we moved from CrownBet into BetEasy and we also migrated William Hill Australia into the BetEasy brand and obviously during this process there would be an incremental effort when it comes to rewards that is also impacting the net win margin. So, that's the key driver for the Australian business. Apart from the fact that obviously we also suffered from lower margins in Australia but there is nothing structural there, nothing has changed in terms of our pricing strategy, nothing has changed in terms of the overall strategy for the company in Australia.

When it comes to the UK, the UK is a little bit different. Basically we have a different customer base in the UK. Our customer base is far more recreational compared to the rest of the industry, and our customers are more skewed towards football and are more skewed towards accumulators. When the results are more favorable for the customers then the impact on our company would be slightly higher compared to the rest of the industry, but on the other end, if the results would be more in favor of the operator, us, then our margins again would be on the other end higher than the rest of the industry. So there is a little bit of more fluctuation within the UK business but it's a very healthy fluctuation because our strategy has been and will continue to be—to really focus on those recreational customers and we believe again that over time margins do tend to normalize, so yeah you will have an impact on one quarter or the other, but overall the strategy is very solid and we believe in the way that we are running



the business there. So, nothing structural apart from what I just mentioned.

Tim Casey:

Thank you.

Operator:

Our next question comes from the line of Daria Fomina with Goldman Sachs. Please proceed with your question.

Daria Fomina:

Hello. Yes, thank you so much. Two quick questions, the first one on your international part you mentioned that you stopped marketing in the UK. Can we talk a little bit about the outlook on profitability on that part of the business? Is it a new level or it's a quarter where you're just redirecting marketing spend and the margins will normalize going forward to the previous quarters that we saw previous year.

My second question would be on Australia. There was a bit of a news flow I mean I think you've proven a good success in terms of migrating customers to BetEasy brand, but there was also a news flow that others suffered a bit of a technical issue the past few—past weekend that could have helped you. Can you talk a little bit about the outlook on further marketing spend there and how much you think you can do in terms of capturing the remaining 30% of the customers that you didn't migrate and how much that would cost to you? Thank you.

Rafael (Rafi) Ashkenazi:

Okay, I'll try to answer it one by one. When it comes to the UK business, essentially the strategy is to continue promoting Sky Bet as the primary brand. We are not planning to continue supporting BetStars in the UK market and all the efforts will be shifted towards the Sky Bet brand—not shifted, basically there was already quite a lot of efforts obviously with Sky Bet. This is a brand which is a very strong



and trusted brand in the UK, probably the strongest brand in the UK, and we will gradually remove and maybe we will move to what we can refer as the maintenance budget for the BetStars brand in the UK until we integrate the companies a bit better, and then just continue running only with the Sky Bet brand in the UK. That's the plan for the UK.

When it comes to Australia, you are right. There were technical issues that most of the operators in the Australian market have suffered. We have not suffered from any technical issues, and it was very successful day yesterday and the day before yesterday, a very successful day. Eighty-five percent of our William Hill Australia customers that migrated are very—are active on the BetEasy platform. We continued to acquire customers on a very rapid pace yesterday, so I'm very happy with the performance in Australia. I'm very happy with the migration. It's exceeding our expectation and the team there is doing a great job, and it's also showing that having your own proprietary software does have an advantage, especially when it comes to days where there is a lot of activity and most of the operators in the market, including the bigger ones, are fighting to sustain their system and we are continuing as usual, and obviously enjoying the incremental traffic which is coming our way. So yeah, very positive for Australia.

Operator:

Our next question comes from Simon Davies of Canaccord Genuity.

Simon Davies:

Good morning, guys. First off, you commented on Russia and some impact from blocking. Can you flesh out those comments a bit? What kind of financial impact have you seen in Q3 and expect in Q4? You talked about sort of ongoing discussions to normalize your position in that market.

Rafael (Rafi) Ashkenazi:

Sure. As you know, we have mentioned it in several of the calls. We organize live events in Russia in Sochi and we are continuing to



promote and organize those live events with our partner in the Sochi casino.

The way that we promote those activities is really by promoting generally and have direct buying so people who are just coming to the live event in the casino, but the primary effort that we are doing in Russia is really through the online qualifiers.

As I mentioned in previous calls, these whole online qualifiers is something that we have managed to get to an understanding with the local regulator and the local authorities, and we are continuing to do so.

It is true that in the past few weeks there was a step up of blocking in Russia that may have a short-term impact, but we do believe that in terms of the—in the medium term, those impacts we're not going to see it any more. We've been continuing to run in Russia. Q3 impact—we did have a Q3 impact; it wasn't meaningful. We will have a Q4 impact which will not be also meaningful, but hopefully within the next few weeks things are going to go back on track and we will recommence our marketing efforts in the market.

So all together, marginal impact in Q3, marginal impact in Q4, but expecting to go back on track very soon, potentially within the next few weeks.

Simon Davies:

Great, and just as a follow-up, you talked about potential partnerships in the U.S. What kind of partnerships are you looking at? Are you looking at deals that will give you market access to a broader spread of potential states, or are you looking at partnerships which would provide you with a strong existing U.S. brand?

Rafael (Rafi) Ashkenazi:

The partnership in the U.S., basically have to go first of all through a market access. You can't operate in the U.S. without having a market access, so market access is very important, and we are making or



taking a lot of effort in order to secure our market access in the U.S. for the long term. That's definitely and always will be part of the efforts in the market.

Nonetheless, we have managed to build a very strong business in the UK on the back of a relationship between a betting company and a media company, and we believe that this success could be replicated in the U.S. So, our Plan A would always be once securing the market access, to really secure a media deal that will allow us to have a brand in the U.S. that will allow us obviously to continue marketing, have a brand awareness, have a brand consideration and essentially replicating the success that we've experienced in the UK. We believe that this is the best strategy going forward in the UK and that's what we are going to pursue.

Simon Davies:

How confident are you of securing one? Because obviously a number of other operators have talked about going down the same route.

Marlon Goldstein:

Hey Simon, it's Marlon. It's a really good question. I guess we'd say first the success we've had in the UK is unique. The skills, the operational know-how we think is unique, so our ability to export that to the U.S. we think is a competitive advantage and is something that we are uniquely qualified to do compared to our competitive set.

Rafael (Rafi) Ashkenazi:

This unique position that we have, we believe will help us to secure the market access, and of course we are doing efforts. It's not something that I can disclose at this stage, but hopefully we will be in a position to disclose the market access in the near future.

Simon Davies:

Great, thank you very much.



Operator:

Our next question comes from David McFadgen of Cormark Securities.

David McFadgen:

Great thank you. Just on Australia, do you expect that the Australian business would go back to EBITDA positive in the fourth quarter of 2018?

Rafael (Rafi) Ashkenazi:

Yes, I am expecting the Australian business to be a positive EBITDA in Q4.

David McFadgen:

Okay, then just following up on that, when you announced these Australian acquisitions, there was quite a large potential earn-out obviously contingent upon profits or EBITDA. What's your sort of expectation on actually paying out that earn-out?

Rafael (Rafi) Ashkenazi:

I would be very happy to pay out the earn-out, to be honest. If the business performs well and hits the targets, the EBITDA targets that they have for the year for 2019, it would mean that we are taking market share and we are growing the business in a meaningful way, and I would be very happy to pay the earn-out.

David McFadgen:

Okay. Then just one last one. Any update on Kentucky? We haven't heard anything on that.

Marlon Goldstein:

Sure. As you know, we continue to wait for the panel to issue its opinion. We did anticipate or hope for an opinion at some point in late



summer, but as we've said before, David, there's no statutory deadline or requirement for the judges to issue their opinion by a date certain, so we continue to wait and hopefully we will receive it in the near term.

I will mention that our view on the merits of the appeal and the substance of the case has not changed.

David McFadgen:

Okay. All right, thank you.

Operator:

Our next question comes from Suthan Sukumar of Eight Capital.

Suthan Sukumar:

Good morning, guys. First question from me is how should we think about seasonality with respect to QAU staking activity and net win margins heading into Q4? Or do you expect kind of a continuation of similar trends?

Rafael (Rafi) Ashkenazi:

I would say that we would probably expect to see similar trends in the future, yes.

What I can say about QAUs in general, maybe just to complement that, when it comes to—I mean the poker seasonality is something which is well known. We've been running the poker business for a long time now so you guys are quite aware of the seasonality that we have within the poker business. We are approximately flat, if you remove the countries that we obviously had to close last year. We are approximately flat but there will be plans for next year to start building up QAUs for poker but the trend itself would be a similar trend.



When it comes to sportsbook, the seasonality of sportsbook will remain the same as before, so I don't see any changes to the trend.

Brian Kyle:

Then the only other point that I would add for the two businesses, the Australian operations and the UK, you should expect to see continued growth in uniques in those areas. Rafi was referring primarily to the international segment, but on the other two segments we are expecting to continue to show strong growth.

Rafael (Rafi) Ashkenazi:

In Q3, as we disclosed, we had 23% quarterly active uniques growth in the UK business which is quite, quite meaningful.

Suthan Sukumar:

Okay. Great, thanks. That's helpful. Just a last one from me. On the call you talked about winding down marketing of BetStars in the UK. Just kind of curious longer term how do you see Sky Bet's poker and casino offerings co-exist with PokerStars offerings, both in the UK and in other markets globally?

Rafael (Rafi) Ashkenazi:

Of course, the aim is to obviously migrate the Sky Poker business into the PokerStars, so something along the lines of Sky Poker powered by PokerStars is something that we are definitely looking at for the UK business, and we are also looking to integrate our casino into the Sky Bet platform. Both of them, both those initiatives will drive incremental revenue synergies that could be quite meaningful. When it comes to poker, I mean PokerStars is by far the best poker platform in the world and the best poker offering in the world, again, by far, so we would expect to see a higher degree of cross-sell from sports into poker and obviously we are going to see meaningful growth in ARPU, so that's definitely something that we have on the roadmap. It's not something that we are going to deal with in the short term, but it's definitely something that we are going to deal in the medium term.



When it comes to casino, we have built what I believe one of the best casino platforms in the industry. We have our own integration platform. We have quite a few unique functionalities within this platform that allows us to have—first of all, to continue the cross-sell, the very successful cross-sell to continue growing ARPU as you can see from the quarterly net yield, but also to deliver a lot of content. We have delivered more than 300 games so far in the year. This is not something that you will find with many companies. It's really quite unique. So we would definitely like to bring these capabilities onto the Sky Casino and Sky Vegas in the UK and generate there revenue synergies. This definitely is part of the plan.

Again, not something that we will see in the short term but something that you should expect to see in the medium term.

Suthan Sukumar:

Great. Thank you for taking my questions.

Rafael (Rafi) Ashkenazi:

Not a problem.

Operator:

Our next question comes from Gianluca Tucci of Echelon Wealth Partners.

Gianluca Tucci:

Hi guys. Good morning. Can you talk a bit about the technological integration that you plan on doing with Sky Bet and all of the other platforms globally? Sky Bet has a pretty high margin, robust platform, so just some color there, thank you.

Rafael (Rafi) Ashkenazi:



There is a roadmap which is currently being built between the various technical teams. I'm not sure to what extent I should drill down into the details, but basically, as I think I mentioned in the previous call, what we are going to do in the first instance is to migrate the Sky Bet business in Italy. We are going to start with Italy as the first market into the TSG ecosystem. So to a large extent we are going to discontinue the Sky Bet platform in Italy and just migrate that into the TSG ecosystem, and rebrand BetStars as Sky Bet in the market. So, BetStars will be discontinued. The brand BetStars will be discontinued in the Italian market. This is something that will happen very soon, very likely at the beginning of Q1 of 2019.

In parallel to that, what we are also doing, we have initiated a new, what we are referring internally as a tribe. This is the international or the global sports and trading platform. This tribe is led by Andy Burton who used to be the CTO of SBG, with the aim to build a new global sports and trading platform through a combination of elements that were developed within Sky Bet internally, elements that were developed within TSG internally, elements that we've acquired from third party, plus obviously new components that we are going to get on top of that. We have a very—there is a very clear sort of a plan, an architecture plan of how these things will be rolled out during 2019.

The aim that we have is to launch the first global sports and trading platform by the end of 2019. It's something that we still need to validate but this is essentially the direction that we are going towards.

Again, in parallel and in between, what we are doing in Italy we are hoping to also replicate to other markets where Sky Bet brand would be available and has obviously brand equity. Basically, that's essentially the plan.

When it comes to the UK, I think as we mentioned when we acquired the company, on the conference call when we acquired the company, we don't plan to do much in the UK for the next likely 18 to 24 months. The UK business is a very strong business. It has a good technology platform that supports the continuing growth of the business there. We don't want to disrupt this growth and we don't want to disrupt the business. The business is really doing well, so this is something we are



going to look as a second or maybe third phase. That will be part of our long term plan but not something that we are going to do in the short or medium term.

Gianluca Tucci:

Thanks, Rafi. That's great color and I think that's the right way to move forward here.

Then just lastly, can you talk a bit about how the mobile penetration differs across your geographies and platforms and how the trends have scaled over the past year or so? That's all for me. Thanks, guys.

Rafael (Rafi) Ashkenazi:

Sure. Mobile penetration continues to grow across all markets. Mobile today for Sky Bet is obviously the primary, almost the only platform that is relevant. More than 90% of the bets are taking place on mobile, more than 80% on gaming. This is a very meaningful platform and continues to grow in the UK.

We see the same sort of a trend happening also with TSG or with the international business as more and more customers are coming through mobile. We are planning to launch a new mobile offering very, very soon, very likely within say the next few months, a soft and then a hard launch.

When it comes to the mobile, most of the acquisition today across the group in any market that we operate, most of the acquisition is coming from the mobile platform. As I mentioned in the UK most of the betting is also coming from the mobile platform, and when we look at the TSG international business, most of the deposits are coming from the mobile platform. So, the trend of the mobile and the mobile importance will continue to grow.

There is very interesting nuance, by the way, when you look at the U.S. market. They are actually not calling the regulation in the U.S. online regulation. They are calling it mobile regulation, which is very



interesting. They are not even considering other platforms or other channels as relevant.

Gianluca Tucci:

It's only mobile.

Rafael (Rafi) Ashkenazi:

It's really all about mobile, yeah. What about the mobile gaming in the U.S.? So, it's a very interesting nuance.

Mobile is not the future. Mobile is the present and will continue to be the most important platform for the company.

Gianluca Tucci:

Okay, guys. Thank you and keep up all the good work. Thanks.

Rafael (Rafi) Ashkenazi:

Thank you.

Operator:

We have time for one more question. Our final question comes from Alistair Ross of Investec.

Alistair Ross:

Good morning guys. I've got a couple of questions, sorry. In terms of your U.S. market estimates, I think you mentioned \$2 billion to \$10 billion. I know William Hill yesterday mentioned ranges of \$4.9 billion to \$18.7 billion. Can you just tell us where you got your estimates from?

Rafael (Rafi) Ashkenazi:



Our estimates are online only, Alistair, so I'm not sure we are actually comparing apples to apples.

Alister Ross:

Got you. Absolutely clear, sorry about that. That's great. Thank you.

Rafael (Rafi) Ashkenazi:

No problem.

Alistair Ross:

In terms of market share, do you have any sort of targets in mind in the U.S.?

Rafael (Rafi) Ashkenazi:

I think it's very, very soon to determine what the market share expectations are. I think the key element of our strategy is really to find a media partner, a strategic media partner for the market. Once we will have hopefully this media partner in the market then we can start building a plan for the U.S. across the board with market share expectations. I think it's too soon for now to determine what is the market share.

Alistair Ross:

Rafi?

Rafael (Rafi) Ashkenazi:

Go ahead.

Alistair Ross:

On the back of that, your peers seem to think that you guys are heavily in demand for a media partnership whereas they say that you are



basically the company that all the media companies are after. Is that something that is true, or ...?

Rafael (Rafi) Ashkenazi:

I can tell you that we are in discussions with many media companies and some of the media companies have visited our operations in Leeds, and I think every one are finding our operation in Leeds very impressive, and if I need to estimate, we will likely be the company that the media partners will want to partner with—the media companies, sorry, would want to partner with. But again, these discussions will continue to go on. There is no certainty whether we are going to sign a media deal or not going to sign a media deal. This is what we have as a strategy. It obviously has to align with the media company's strategy, and hopefully we will find a way to move forward jointly in the market because this is basically what we believe would be the winning strategy for the market.

Alistair Ross:

Sure. Then the last question, just in terms of Slide 15, can you just talk me through the \$60 million to \$80 million that you mention on Slide 15. I'm sorry if I missed it.

Rafael (Rafi) Ashkenazi:

Okay. I think we've already disclosed the impact that is coming from the UK. It's approximately \$30M, and on top of that we need to add Sweden which would be likely—you know what? I can't really get into the details because that would give you the revenues per market, but if you combine them ...

Alistair Ross:

That's what I'm trying to get.

Rafael (Rafi) Ashkenazi:



If you combine the UK plus Sweden plus the impacts from Switzerland which will be twofold—obviously gaming taxes in Switzerland plus the fee that we are going to pay to the partner because we have to license, we have to go through a land-based partner—plus the impact in the Netherlands—Netherlands is looking to have regime of 29% of GGR, then this combination ends up around \$60 million to \$80 million of impact. But this is—again, this is before any type of mitigation and this is not taking into account any sort of revenue, incremental revenue that we would expect from the market.

Again, I'm always taking the Netherlands as an example because the Netherlands is a great market for the company. It's a market where we have no marketing activities whatsoever, none, zero. We pulled out from the largest payment method in the market not too long ago. We don't have our app on the App Store. We don't have the Dutch language available on our client, and it's still a very meaningful market. So what's going to happen once the Netherlands is going to regulate? I think this market is going to boom for the company.

So, there are elements there which we haven't put in the script or we haven't mentioned, being maybe a bit more conservative, but we do expect incremental revenues, maybe not in the immediate or short term but obviously over time we do expect to see incremental revenues from these markets. By the way, Switzerland is also a great market for us. It has been growing very, very meaningfully in the past couple of years and we are hoping to continue to grow it because there is such a positive momentum in the business with Switzerland.

The down side of Switzerland is that sports betting is not going to be allowed. It's going to be only a gaming market or poker and casino. We have very meaningful market share in Switzerland. I can't remember the exact number. I think—you know what? Maybe I have it here somewhere. Yes, it's 72%, a very meaningful market share in Switzerland. So, there would be very positive impact which is driven by revenues and obviously a short term impact when it comes to EBITDA.

Usually what happens with markets, over time we get to a place where we recover all the EBITDA, over time. Go ahead, Brian.



Brian Kyle:

The only other thing I would add is just when you're looking at that 60 to 80, on the basis that they all come to fruition, think of it as equally between the next two years, 2019 and 2020. That's kind of the best estimate right now.

Operator:

This concludes time allocated for questions on today's call. I would like to turn the conference back over to Mr. Ashkenazi for any closing remarks.

Rafael (Rafi) Ashkenazi:

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