The Stars Group Q2 2017 Conference 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. Following Management's commentary, we will conduct a question-and-answer session. Instructions will be provided at that time for financial research analysts that are covering the Company to queue up for questions. If anyone has any difficulties hearing the conference, please press star, followed by zero for Operator assistance at any time. As a reminder, this conference is being recorded today, Wednesday, August 9, 2017. Replay details are included in The Stars Group's earnings press release issued earlier this morning.

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

Tim Foran

Thank you operator. Welcome to The Stars Group’s second quarter 2017 conference call.

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

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

Factors that could cause actual results or events to differ materially are set forth in the documents The Stars Group has filed or furnished with applicable securities regulatory authorities or otherwise made publicly available, including, without limitation, today’s earnings press release, The Stars Group’s Q2 2017 MD&A and financial statements.

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

This call will reference non-IFRS and non-U.S. GAAP financial measures. Although The Stars Group believes these measures provide useful supplemental information about its financial performance, they are not recognized measures and do not have standardized meanings under IFRS or U.S. GAAP. Reconciliations to the nearest IFRS measures are included in today’s earnings press release, The Stars

Group's Q2 2017 MD&A and its earnings presentation, which will all be available on The Stars Group's website.

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

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

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

Rafi Ashkenazi

Thank you Tim. Good morning, ladies and gentlemen, and thank you for participating on today's call. I'm joined on the call today by Brian Kyle, our newly appointed Chief Financial Officer, and Marlon Goldstein, our EVP and General Counsel.

Today we will review our second quarter and first half 2017 results, and discuss recent developments and initiatives for continuing to build momentum throughout the year and beyond. Our staff and the company performed very well in the quarter and we experienced strong year-over-year increases in revenue, adjusted EBITDA, net earnings, and adjusted net earnings per share as we continue to attract new customers and increase net deposits onto our platform.

Specifically, our Q2 revenues increased approximately 7% to $305 million, our adjusted EBITDA increased approximately 13% to $146 million, and our net earnings increased significantly to $70 million on a year over year basis.

Our first half was also strong with revenue increasing over 8% to approximately $623 million, adjusted EBITDA increasing approximately 17% to $298 million and net earnings increasing approximately 75% to $136 million.

Our second-quarter results were driven by the continued successful cross-sell of our large poker customer base into our other product offerings, namely real-money online casino, which continues to have one of the largest player bases in the industry. With only minimal external marketing, our Casino revenues continue to grow as we attract new players and increase engagement and excitement. For example, we made significant progress towards improving the product mix with the addition of 99 new slots games so far this year.

As for our key customer metrics:

We adjusted the methodology for calculating quarterly active uniques to provide a better understanding of customer engagement and activity. In particular, we qualified the prior calculation to only include players who have made a deposit or transferred funds into their account at some point in their lifetime, and clarified certain inclusions and exclusions primarily relating to free play, bonuses and promotions. Under this revised methodology, we recorded approximately 2.1 million total quarterly active unique players on our platform in the second quarter, a decrease of 2% year over year. However, excluding the players on the Full Tilt platform, our quarterly active uniques would have increased 1% year over year.

In Q2, approximately 2 million quarterly active uniques played poker, a decrease of 4% year over year. Again, excluding Full Tilt, the decrease would have been only 1% year over year. In addition to decreasing player activity on Full Tilt, the primary reasons for the decrease were the new customer registration scheme in the Czech Republic and cessation of operations in certain small jurisdictions.

We have been successful in marketing and cross selling casino and sportsbook to our poker players with about one-third of them already playing casino. In Q2 approximately 547,000 Quarterly Active Uniques played casino and 251,000 made a bet on sports, with both verticals experiencing solid year over year growth.

Our Quarterly Net Yield, which represents our real money online gaming revenue-per-Quarterly Active Unique, increased approximately 8% year over year to $137, and on a constant currency basis increased by approximately 9% year over year to $139. Both increases were driven primarily by growth in casino yield.

There have been a number of notable developments since we reported our first quarter. Along with delivering strong earnings we:

Launched Stars Rewards, the industry's first true cross vertical loyalty program that incentivizes players with highly-personalized rewards based on various targeted metrics such as games played and frequency of play across PokerStars, BetStars and PokerStars Casino;

Launched our VIP management program which is already yielding positive results and greater loyalty in our online casino business;

Fully repaid our deferred payment obligation, freeing up additional cash flow;

Signed global celebrity Kevin Hart and celebrated athlete Usain Bolt as PokerStars brand ambassadors, and launched Game On, the first of multiple marketing initiatives that will leverage these ambassadors' global reach to introduce more people to poker and PokerStars.;

Acquired the player database of defunct online poker operator PKR and reimbursed those players who were at risk of losing their bankrolls by allowing them access to their funds on PokerStars; and,

Continued building our executive leadership team with the hiring of Brian Kyle as our new CFO, Jerry Bowskill as our new Chief Technology Officer and Robin Chhabra as our new Chief Corporate Development Officer

In addition, there were a number of operational highlights this quarter in our poker vertical including:

Another record-breaking Spring Championship of Online Poker on PokerStars, which delivered nearly $94 million in prize money to our customers

The expansion of our successful Spin & Go franchise into a new popular variant called Spin & Go Omaha.

And the successful "PokerStars Makes Millionaires" promotion which created 11 unique million-dollar winners over ten weeks across our online and live tournaments.

As we continue to monitor the impact of the fundamental changes we've made to support and strengthen our poker ecosystem since 2016, we are seeing continued momentum through enhanced customer experiences, which are leading to increased deposits and wallet capture across all three verticals. This is all despite the headwinds that negatively impacted poker revenue this quarter.

As for the remainder of the fundamental changes, Q2 was also the final quarter in which we operated under our decade-old loyalty program and have since replaced it with the Stars Rewards cross vertical loyalty program.

The Stars Rewards program was fully rolled-out in July and we are confident that it will be an improvement in the experience of the vast majority of our players. It will allow us to attract and retain more profitable customers, while giving those customers an improved experience that meets the expectations of today's and tomorrow's online gamer. Stars Rewards delivers frequent rewards via achievable milestones that are displayed prominently to the player. This leads to a more modern, engaging and fun gaming experience. We believe Stars Rewards will start yielding significant benefits beginning in the second half of this year.

While we enhance our core poker business, we continue to successfully diversify our revenue streams through casino and sportsbook, which accounted for a combined 29% of our total revenue in the second quarter, compared to 21% a year ago.

Casino revenues grew as a result of an increase in uniques and higher per player yield, in-line with our strategy. Casino yield improvement is partially due to the increased number of slots offerings which will continue to grow. The number of uniques playing casino increased 33% year-over-year, driven by growth from expansion into new jurisdictions and an increase of cross-sell to eligible poker players. Our casino offering is now available to 73% of poker players.

Despite almost no external marketing and a VIP program that has just launched we have become one of the largest online casinos as measured by active uniques. Our aim continues to be one of the largest real money casinos in terms of revenues among our public competitors.

As for sportsbook, during the second quarter, year-over-year growth was positively impacted by the opening of new jurisdictions, increase in quarterly active uniques and improved product offering, while the product was available to approximately 58% of our poker players. We are encouraged by the increase in turnover and cross sell.

As we look towards the second half of the year poker remains core to our business and is a part of our DNA. We love the game and will continue to be its greatest advocate, including through our focus on positioning the game as an accessible, fun and social entertainment service that rewards those who spend the time to develop greater skills and enjoy the competitive nature of the game. In the second half of the year we plan on investing more in marketing through digital and live events in order to build the brand, create awareness and bring the excitement of live events online while targeting the next generation of customers.

We are also investing in R&D to create new games within and beyond the traditional poker model, we are excited about our product pipeline, which includes innovative variants to the current poker formats such as Spin & Go Omaha, Spin & Go Max, and Zoom Bolt, an addition featuring Usain Bolt. We are also optimistic about Power Up, which recently completed alpha testing and has been generating positive buzz among existing players and trade media who recognize it as a thoroughly modern advancement of traditional poker that incorporates elements from strategy games that have exploded in popularity in recent years. We expect PowerUp to be released in the fourth quarter.

As for casino, we are well on our way to becoming a global leader. For the remainder of 2017 we plan to add more slot content with the goal of adding more than 150 new titles during the year with a focus on tier 1 branded content and progressive jackpots. With the addition of new slots, market leading table games, superior live dealer offerings and a VIP program we are growing yield per customer, closing the gap between us and our peers.

Lastly, we will continue to work throughout 2017 towards our goal of establishing a competitive online sportsbook. Our focus remains on improving the user experience and user interface, adding additional betting types, launching a mobile app and potentially expanding our reach into additional markets. We will also begin increasing our marketing activity in the second half of the year including efforts to build the brand in markets where we have done limited advertising.

I would like to now welcome our newly appointed CFO, Brian Kyle, and will turn the call over to him to provide further details on our second quarter and first half 2017 financial performance.

Brian Kyle

Thank you, Rafi, and good morning. Just under 2 months ago, I joined The Stars Group as the new CFO, previously serving as the CFO of Pivot Technologies and DH Corporation. I was attracted to the opportunity to join Rafi and his team of dedicated executives because I believe their focus on becoming the world's favorite iGaming destination has the potential to unlock meaningful shareholder value. My priorities over the next few quarters will be to:

One, support our objectives to grow organically and potentially inorganically

Two, continue to maximize operational efficiencies throughout our organization;

Three, strengthen our investor relations and capital markets strategy; and finally,

To enhance our corporate governance and internal controls processes

To date I'm pleased with what I've seen in all these areas and believe that we have the team to meet our objectives and deliver long term value for our shareholders.

Now, moving on to our second quarter results. The company had strong second quarter results with revenues increasing approximately 7% to $305 million versus the prior year. This quarter, poker revenue comprised approximately 66% of total revenues and casino and sportsbook combined revenues comprised 29%, as compared to approximately 75% and 21%, respectively, in the prior year.

Poker revenue was down approximately 6% in the second quarter versus the prior year. It was negatively impacted by cannibalization from our real money online casino product, a decline in the activity on Full Tilt, abnormal seasonality in the second quarter of 2016, new licensing requirements in the Czech Republic, and the cessation of operations in certain small jurisdictions. However, the decrease was partially offset by the re-launch of Portugal and the very limited launch of Stars Rewards, our cross vertical loyalty program which was launched only in a few markets in June.

We fully launched Stars Rewards in July and are pleased with the performance so far. We have received positive feedback from our players and we believe it is achieving our goal of increasing their engagement. We are seeing year over year growth in gross gaming revenue and net gaming revenue for poker; however, it is still early days and we will continue to assess the impact of the program.

Our casino and sportsbook revenues increased approximately 50% this quarter to $89 million, with casino representing approximately 90% of the combined revenues. Revenue growth was primarily the result of the continued rollout of the casino product, including the addition of third-party slots and the addition of new geographies. Our sportsbook benefitted from the addition of new geographies and ongoing improvements to our user experience and user interface.

During the first half of 2017 on a year over year basis total revenues increased over 8% to $622 million, of which poker revenue was $421 million and casino and sportsbook revenues were $176 million. The factors affecting revenue in the first half of 2017 were largely the same as those affecting it in the second quarter.

On a geographic basis, revenues for the second quarter were split approximately as follows: 62% from the 28 countries in the European Union, 20% from the rest of Europe, 13% from the Americas, and 5% from the rest of the world.

Our gross gaming revenues from locally licensed or taxed jurisdictions were approximately 51% during the second quarter as we began paying VAT in certain jurisdictions.

Our second quarter Adjusted EBITDA of $146 million was an increase of approximately 13% versus the prior year. Adjusted EBITDA during the second quarter:

added back $2.5 million in stock based compensation and

was adjusted by $5 million primarily due to the early repayment of an outstanding note owed to us in connection with our sale of Cadillac Jack in 2015, a provision for our former asset Ongame and an increase in the value of our investment in NYX

There were also approximately $4 million of net other adjustments, including:

$5 million of certain lobbying and legal expenses

a $5 million reimbursement from the sellers of the Rational Group for previously paid Austria gaming duties

And, $3 million of other professional fees incurred by the company, a majority of which are in connection with the payments matter and the AMF investigation

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

For the first half of 2017, Adjusted EBITDA grew 17% to $298 million versus the prior year.

Our second quarter net earnings increased significantly to $70 million as compared to $22 million during the prior year period. For the first half of the year net earnings were $136 million as compared to $78 million the prior year, with increases in both periods primarily due to an increase in revenues, gains from investments and a decrease in G&A costs.

As a result our second quarter diluted earnings per common share increased significantly to 35 cents versus 12 cents the prior year. For the first half of the year our diluted earnings per common share were 67 cents as compared to 41 cents the prior year.

Our second quarter adjusted net earnings increased 27% to $114 million as compared to $90 million during the prior year period. For the first half of the year adjusted net earnings were $227 million as compared to $175 million the prior year, with increases in both periods primarily due to an increase in revenues and a decrease in G&A costs.

As a result our second quarter Adjusted Net Earnings per Diluted Share was 56 cents versus 46 cents in the prior year period. For the first half of 2017 Adjusted Net Earnings per Diluted Share was 1 dollar and 13 cents versus 92 cents in the prior year period.

We continue to generate solid cash flow. In Q2 2017, we generated approximately $130 million in net cash inflows from operating activities versus $70 million in the prior year. In the first half of 2017, we generated approximately $226 million in net cash inflows from operating activities versus $115 million the prior year.

We also highlight adjusted cash flow from operations, or operating cash flow net of movements in customer deposits, because the customer deposits are not available to us and do not impact our operational cash. As we continue to make changes to our ecosystem to benefit our recreational players we anticipate that customer deposits will continue to fluctuate. As such we believe this metric provides a more accurate picture of our actual operating cash flows.

In Q2 2017, we generated approximately $139 million in adjusted cash flow from operations versus $107 million in the prior year. In the first half of 2017, we generated approximately $251 million in adjusted cash flow from operating activities versus $193 million the prior year. Our cash flow metrics increased primarily as a result of increased EBITDA.

While our operating business generates deposits from players from around the world, but primarily in Europe, gameplay is primarily in US dollars and we report in US dollars. Therefore, our business is impacted by fluctuations in global currencies against the US dollar, particularly against the Euro, which is the primary depositing currency of our customers. In Q2 2017, as a result of a strong US dollar, the purchasing power of our customer base continued to decline. Based on a weighted average of customer deposits, we estimate the value of our customer's local currencies declined 1.7% against the US dollar on a year over year basis.

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

On a constant currency basis as compared to the prior year period:

Our Q2 2017 total revenue would have increased 8%.

Our Q2 2017 real-money online poker revenue would have decreased 6%

Our first half 2017 total revenue would have increased 9%; and

Our first half 2017 real-money online poker revenue would have decreased 3%

As it relates to our obligations, in late May we made a final payment of $47.5 million on our deferred payment obligation to the sellers. We were able to repay the entire $400 million obligation using cash on the balance sheet and cash flow from operations.

In addition, yesterday we prepaid without penalty approximately $40 million on our second lien term loan using cash flow from operations. The repayment will save us approximately $3 million in interest expense annually and the principal balance on our second lien term loan is now $170 million. The pre-payment of our debt obligations further illustrates the company's ability to generate free cash flow.

Moving on to guidance, it bears saying that as a company we look at guidance as a commitment to our shareholders. The company is coming off of a strong first half and we believe we will have a number of early stage opportunities in the second half of the year and we are optimistic that these will drive value in time. We intend to increase our marketing spend in the second half in association with some of these opportunities along with an increase in spend across all verticals in order to help drive growth in 2018 and beyond. We will continue to review guidance and make adjustments as we feel appropriate.

Today, we are we are revising certain of our full year 2017 guidance:

Our revenue guidance range of between $1.2 to 1.26 billion remains unchanged but it is anticipated to fall at the top end of the range

Our Adjusted EBITDA guidance range of between $560 million and $580 million remains unchanged,

We are raising our Adjusted net earnings guidance from $400 million to $430 million to between $413 million and $437 million

And we are raising our Adjusted net earnings per diluted share guidance from $1.94 to $2.13 to between $2.01 to $2.15

On the regulatory front, as we have previously noted, we continue to monitor developments in Australia closely. Currently, we are not prohibiting individuals from Australia from playing poker on our site, but as we've discussed previously, if the current proposed legislation is enacted in Australia, we intend to block play from that market. We currently estimate that we will cease operations 30 days from enactment of the legislation, which we now expect to be mid-September of this year.

We have also begun to see negative impacts in Poland, mainly on our recreational depositing players. Certain payment processors in Poland have stopped processing payments and the government has made attempts at website blocking. It is quite possible that the European Court of Justice will consider whether the country's current legislation violates the EU law regarding the provision of services among member states, as the court has with countries such as Hungary and Sweden. We estimate the loss of Poland would equate to around a percent or so of net gaming revenue which has a high flow through to EBITDA.

In addition, in mid-July we ceased operations in Colombia, which was a relatively small jurisdiction for us. The country passed regulations at the end of last year and we had a number of good discussions with regulators about changes needed in order to pursue a local license. We still hope those changes will be implemented and will continue to work towards that end.

On a more positive note, we are excited by the recent agreement between Italy, France, Spain and Portugal to pool poker liquidity and are working with the regulators towards that end. We are hopeful to see implementation late this year or early next year.

And finally, a majority of our registrations come from mobile devices and up until now Android users only had access to our apps through our website. We are in the midst of launching our apps in the Google Play Store in the United Kingdom, Ireland and France and we are hopeful the apps can be added in more regulated jurisdictions in the future.

I will now turn the call back over to Rafi.

RAFI ASHKENAZI

Thank you Brian.

As you can see from our second quarter results, we have been executing our strategy effectively and capitalizing on growth opportunities. In addition, as we have completed the repayment of our deferred payment obligation, we expect to continue investing in organic growth, including through marketing and R&D initiatives, exploring inorganic growth opportunities, and effectively managing our remaining outstanding obligations.

With our new executive team continuing to take shape and our continued evolution and strong performance, we were very happy to formally re-name the company as The Stars Group last week. The Stars Group respects the strong loyalty of our customers and recognition of our core brands and products, and successfully demonstrates that we have turned the page to open a new chapter in our company history.

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

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

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

Operator:

Thank you. Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. The confirmation tone will indicate that your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

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

Chad Beynon:

Hi, great, good morning, guys. Thanks for all the color there. Wanted to start with the guidance, Brian, you kind of walked through a couple things, and Rafi, you did as well in your prepared remarks. Just trying to get kind of down to the core growth of poker.

Given all these puts and takes that you talked about, could we still see poker flat for the year, or given the rake increases and some of the things that you mentioned that could happen in the back half of the year, should we expect for the business to be slightly down? Just some broad comments of what you're really seeing from the core business would be helpful for us. Thanks.

Rafael (Rafi) Ashkenazi:

Okay, so in terms of poker, we are still aiming to end the year around flat. This would be primarily driven by the cross-vertical loyalty program that we've implemented in July.

Yes, I'm expecting poker to fall within what we said at the beginning of the year, around flat year-over-year, which means that we should experience growth in H2 for poker.

Chad Beynon:

Great, okay. Then, just bigger picture, now that the deferred payment is behind us, could you talk broadly around what some leverage goals are, and you've mentioned kind of strategic or tactical M&A. Is there a leverage target that you need to arrive to before you explore some of these tuck-in opportunities, or is that just as it kind of comes across your desk, you'll take a look? Thank you.

Brian Kyle:

Yes, good morning. I think the way we should be looking at this is, as all of you on the call know, we generate a significant—of cash, free cash flow. As a result of paying down our committed obligations, we're now in a position where we have the ability to use that cash flow for continued debt repayment on our second lien. Going forward, we will be looking at cash in terms of effectively deploying it within our business, effectively using it for debt repayment, as well as for potential acquisitions.

Until we find an acquisition that is acceptable to us, we will be using our surplus cash primarily for debt repayment. To answer your question, what kind of ratio would we be looking at—I would tell you it's just going to continue to work its way down. We're not establishing an overall target as of yet, but an aspirational level would be probably working towards four by the end of the year, and then based on future acquisitions, driving down to some other comfort zone, which could be in the three-ish range. We haven't officially provided any hardcore numbers, but that would be a guidance on where we would land.

Chad Beynon:

Okay, thanks, Brian. Appreciate the color.

Brian Kyle:

Thanks.

Operator:

Thank you. Our next question is coming from the line of Taylor Arnold with Canaccord Genuity. Please proceed with your question.

Taylor Arnold:

Good morning, and thank you for taking my question. I was just wondering if you could talk a little bit about customer acquisition in casino. You talked a little bit about the cross-sell. Is Casino First making headway now, I guess more significantly? If so, how are you managing the strong EBITDA margins alongside that? Thanks.

Rafael (Rafi) Ashkenazi:

Okay, so, Casino First is something that we're definitely aiming to roll out starting H2, or essentially starting now and going forward. What we wanted to have primarily for casino before we really start acquiring, initially on a tactical basis and then maybe later on, on more of a strategic basis and I'll explain it in a minute, is to first of all have a standalone mobile casino app that we feel comfortable with. We are acquiring today primarily our players through the mobile platform, and we wanted to ensure that we have a good and strong standalone casino app that will allow us to start investing into casino.

The casino app was—I mean, we are now starting to roll out the casino app. We already have it up and running in several different markets, and we are going to increase our marketing budget—initially, as I mentioned, tactically. Tactically means that we are going first through digital channels and trying to acquire casino players—Casino First players from there. Then later on, probably towards the end of the year, maybe the beginning of next year, we will think on casino a bit more strategically.

We are considering potentially launching a new brand for casino, which we are still discussing internally, and maybe we will complement it with more TV campaigns, et cetera. Yes, the plan is definitely to support Casino First acquisitions in the future.

In terms of overall margins, I think this is something which—I don't want to get into 2018 guidance, 2018 onwards guidance at this stage, but we are operating the Company on a very high margins so far. We are determined to essentially start supporting the business, we are out of the tight financial framework that we were in for quite a while now, for two and a half years since the acquisition of Amaya. Now that we are out of this quite tight financial framework, we feel more comfortable to start allocating more budget towards supporting casino and Sportsbook acquisitions.

That's essentially the answer, yes.

Taylor Arnold:

Thank you for the color, that was very helpful. I'll just ask one more question and then I'll pass the line. I just want to know if you could provide an update on the status of Kentucky. Is there any sense on the states' willingness to settle earlier than expected? If you could just add a little bit more detail around that. Thanks.

Marlon Goldstein:

Sure. As we said last time, we are in the middle of the briefing process currently with Kentucky, with our (inaudible) brief being filed and the responsive brief being filed as well.

We are very confident in the merits of our case on the appeal, but we also will take a very practical view of the litigation. If we think that there's an opportunity to settle it on terms that are in the best interest for the Shareholders and the Company, we'll certainly look at that.

Operator:

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

David McFadgen:

Oh, yes, hi, thank you. A couple questions. Rafi, you talked about the casino monetization and how you guys are below your competitors and you're working on moving it up. How much do you think you are below them on the casino monetization?

Rafael (Rafi) Ashkenazi:

We still have—I would say, when it comes to casino, and I'll also include the sports betting. I believe that we are just at the beginning of the journey. I know that the casino revenues are quite high already today. We've been—I mean, the vast majority of the revenues outside of poker are coming from casino, 29% today of the overall revenue, and 90% of it is associated with casino. But I do believe that we are still relatively at the beginning of the journey.

We still have a lot of games that we would like to roll out that have a higher degree of margins. As I mentioned before, we are planning to start acquiring Casino First customers soon. We just rolled out the

VIP program, which is yielding very positive results in the past few weeks. There is still a way to grow. I don't want to provide any percentage growth, but there is definitely still a way to grow with casino.

We are aiming to become one of the largest casinos in the world when it comes to revenues, not just by daily active uniques. Just as a small anecdote, we became, in June, the largest casino in Italy, and we intend to increase the gap now from our other competitors in the market.

I still believe we have a way to go with casino.

David McFadgen:

Mm-hmm. What—it's hard to get information from some of the other publicly-traded companies on quarterly active uniques based on the same time period that you have, but what other casino books out there are bigger than you? When I look at your uniques, over 500,000, it looks quite high to me.

Rafael (Rafi) Ashkenazi:

I believe that on a daily active basis, I would suspect that we are likely the largest one, or definitely within the top three. The big customers, the big operators out there when it comes to casino would be GVC, Betsson, bet365 likely, those kind of companies.

David McFadgen:

Mm-hmm, okay. Can you give us an update on Sportsbook? I mean, it's growing, but it's still quite modest. When do you think you would really start to get aggressive on rolling that out and growing that business?

Rafael (Rafi) Ashkenazi:

Sportsbook is moving forward and it's progressing. I would like to see Sportsbook accelerating their growth, but just to give you a little bit of a sense—H1 2016 versus H1 2017, we grew the turnover for sports betting, although we're not providing this information, we grew turnover on Sportsbook by 90%. It's definitely in the right direction. We still need to support Sportsbook when it comes to marketing and continue promoting it worldwide in the markets that we are operating Sportsbook, and we do see improvement constantly.

I'm encouraged, but, yes. We do want to continue supporting Sportsbook and we do want to accelerate it. We are going to start accelerating it from—actually, from H2 of this year going forward.

Regardless to that, as you know, we are looking at inorganic growth as well, so we are looking at M&As. Our primary focus when it comes to M&A would be Sportsbook.

David McFadgen:

Okay. Then, if I can just ask one last question, the European, those four European countries looking to pool poker liquidity…

Rafael (Rafi) Ashkenazi:

Yes.

David McFadgen:

I see that there could be some obstacles in terms of harmonizing the tax rates, because France is higher than the other countries and so on. How do you expect this to all shake up so that it'd actually be implemented?

Rafael (Rafi) Ashkenazi:

It seems like it's taking shape in the past few weeks. We see a few legislations coming out from the various different markets. I think we already have a draft from Portugal, France and Spain, and I think Italy is the last one that needs to submit their draft. I still believe that this is something that may happen towards the end of this year, beginning of next year.

From our perspective, we are quite excited. We have quite a significant market share in all four markets. Obviously, we are the only operator in Portugal, we are a significant market leader in Spain, a significant market leader in Italy, and we are a little bit behind on France. But the combination of the four markets for us will definitely be an improvement for the overall poker performance in these four markets, and we are looking forward to that.

David McFadgen:

Just a follow-up on that, what do you think—by combining these four markets and creating one market, what do you think the market growth could be just from that enhanced liquidity? Any idea?

Rafael (Rafi) Ashkenazi:

We do have our own estimations, but I think it's a little bit too soon to provide anything publicly at this stage.

David McFadgen:

Okay. All right, thank you.

Rafael (Rafi) Ashkenazi:

No problem.

Operator:

Thank you. The next question is coming from the line of Maher Yaghi with Desjardins Capital. Please proceed with your question.

Maher Yaghi:

Thank you for taking my question. I wanted to go back to your comments about the growth in the second half, in poker, that you expect. I wanted just to see—maybe, I guess, to support these views, if you can share with us your July and August so far, how are they ramping up versus last year? Because, the growth rate that you need to show in the second half to come flat is around 2% versus minus 3% in the first half. Trying to just figure out how fast the ramp-up is going to happen.

Rafael (Rafi) Ashkenazi:

Okay, so we were approximately minus 2% in the first half of the year on poker. What we are seeing so far from the implementation of the cross-vertical loyalty program, or what we are referring as the Stars Rewards, is very positive. We had a very good July and we are seeing this is going into August as well.

I don't want to provide numbers at this stage because I think it's still early days, and we still need to see how the program—or how the new program is rolled out worldwide and what is the reaction of our players. But so far, we've been in Italy since June, mid-June, so quite some time, almost two months now. We've been globally more than a month. So far, we see exactly what we wanted to see: a higher degree of engagement of our players, which was the primary goal of the cross-vertical loyalty program; and secondly, we also see an increase in poker which is very encouraging.

I feel quite comfortable to say that we are going to see poker flat this year versus last year.

Maher Yaghi:

Okay, great. Now, when it comes to quarterly active uniques, you made some changes to the way you calculate those. I was looking at the historical pattern and if I go back to 2014, the difference between your new methodology and the old methodology was quite small, it was about 3%. But, it has continued to grow, and up to Q1 it became 13%, so there's a 13% differential between the new methodology and the old methodology.

I wanted to understand why the spread between the new and the old has continued to grow through this period. What's behind this change, this differential change?

Rafael (Rafi) Ashkenazi:

Okay, it's quite easy to explain it. What we wanted to do is to make sure that we are as transparent as possible when it comes to the number of real-money actives that we have, people who are actually making a deposit.

What we've done in the past, I guess, few quarters, we started to promote and we started to rollout what you can refer as the free money campaigns—which, a lot of our competitors are obviously doing as well. We saw the numbers of people who are coming in and using this free money to play, and previously they were counted as real-money actives because they were playing with money that we gave them in the system.

In order to make sure that we are reflecting the true performance of our business, we decided that we are going to exclude them and remove them from the numbers. The differences that you see between 2014, I guess, to 2017, is the fact that back in the days in 2014, we did not launch—or we did not have these free money campaigns, surely not as frequently as we had—as we are developing in the past, I guess, few quarters.

Again, as I mentioned, in order to reflect the true performance of the business when it comes to acquisition of real money, we simply decided to exclude everyone who was receiving free money from us.

Maher Yaghi:

That makes sense, thank you. That explains the spread very well. In terms of jurisdictions, you talked about Poland. Is there a timeline here that we can look at, in terms of when you could change the way you operate in Poland, and are there other jurisdictions that—in the EU specifically, that you're looking at that could follow this trend, in Slovenia, Czech Republic, those kind of moves? Are there other countries that we should be on the lookout for?

Rafael (Rafi) Ashkenazi:

Okay. First of all, when it comes to Poland and the timeline around Poland, there isn't any specific timeline that was set. What happened in the past, I guess, week or so, is that some of the payment processors in the markets stopped accepting online gaming transactions, which means that our players had to shift—our players, existing players and obviously new players, had to shift to alternative payment solutions.

The ones that basically stopped processing in the market are the ones that were most common in the market, which means that it immediately had an impact on the business. I suspect that the impact that we are experiencing is experienced by every single operator in Poland these days.

There is no specific timeline for us to get out or pull out from the market. We believe that we are not violating the EU laws and we believe that we are entitled to operate in the market, and we are making sure that we are integrating new payment methods to overcome some of the shortfalls that we currently have with the payment methods that moved out of the market. But there isn't any specific timeline.

When it comes to other markets within Europe, you mentioned Czech Republic; Czech Republic, we are operating in full. We have a license; there isn't any problem with payment processing in the market. The problem that we actually have in the Czech Republic is the fact that in order to become a real-money payer, you have to physically go and register in the post office, which obviously makes things a little bit tougher when it comes to real-money acquisitions, real-money player acquisitions. At this stage, I'm not familiar with anything other than that going on. Of course, there are constant discussions around Netherlands, and there are also some different threads (phon) of payment processors talking to operating in markets, but this is something that we are monitoring on a constant basis.

We have and are implementing constantly, workarounds and new payment methods, just to ensure that we will be able to continue operating in the market with minimum impact.

Maher Yaghi:

Okay. You mentioned that Poland represents about 1% of your poker business. Are you including this in your comment about poker being flat year-on-year for 2017? You're including the function of the Poland change in payment processing in your…

Rafael (Rafi) Ashkenazi:

Yes. I am including the changes in Poland as well.

Maher Yaghi:

Okay. One last question if I can. In terms of—you talked about potentially looking to maybe settle the lawsuit in Kentucky, if it's profitable or if it's value-creating for Shareholders. If you were to settle, would that impact any kind of—would you still be able to go back to the previous owners and ask them for repayment of that settlement, because you're kind of preempting the final outcome. I'm just wondering, if it's legally—it will block you from—if you settle, will it block you from turning around and getting that payment from the old owners of the Company?

Marlon Goldstein:

Right, good question. Hi, this is Marlon Goldstein. I think the answer is no, it would not preclude us from pursuing the former owners of the business. Keep in mind that we have filed an indemnity claim against them, and we are currently holding approximately $300 million in an escrow fund, pending resolution of those indemnity claims.

To the extent we are willing and able to settle it on terms that we think are beneficial, exploring recovery against the sellers is something we would certainly look at.

Maher Yaghi:

Okay. One last question, sorry, the net debt to EBITDA ratio at the end of the quarter, how much was that?

Brian Kyle:

About 4.28.

Maher Yaghi:

Okay, great. Thank you very much.

Rafael (Rafi) Ashkenazi:

You're welcome.

Operator:

Thank you. The next question is coming from the line of Suthan Sukumar with Eight Capital. Please proceed with your question.

Suthan, your line is live. You may proceed with your question.

It appears we have no additional questions at this time, so I'd like to pass the floor back over to Management for any additional concluding comments.

Rafael (Rafi) Ashkenazi:

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

Operator:

Ladies and gentlemen, this does conclude today's teleconference. Again, we thank you for your participation, and you may disconnect your lines at this time.