



Proposed Acquisition of Snaitech Q&A

Thursday, 12th April 2018

Ed: Thanks very much, two questions please. First of all on synergies, cost synergies given the buckets you announced there seem pretty low at about 1.5% of operating costs. Is there a potential upside there? On revenue synergies I understand that you would not want to quantify them at this stage but you said significant towards the end. A bit more colour on that would be very useful on how you have thought about that.

The second is on returns. It looked quite low on a headline basis, around 7% on my numbers but I note that capex is below D&A and cash tax is below P&L tax. Can you give us an idea of how you have thought about returns as you have approached the process?

Andrew Smith: Yes, I will take both of those Ed. In terms of the cost synergies, clearly we have [inaudible] a realistic number without being overly aggressive. The one thing I would say, Ed, about the cost base when you think about it, is when you look at the revenue of Snai it reports 100% of the revenue as the licence-holder. There is a portion of the revenue that is then passed through to the franchisees which effectively artificially increases the cost base and artificially lowers the margin. When you are looking at it as a percentage of the cost base you are probably looking at an artificially enlarged cost base so that percentage seems lower than it otherwise would be. That is how I think about it. The synergies are highly realistic but at this stage I would not want you punching in a big number.

On the revenue synergies, as Mor said, I think there were three main buckets. One is online, secondly is with the increased performance from the VLTs and the third is increased performance of the SSBTs. As you know, it is unusual to quantify revenue synergies and I do not think I would want to at this stage. But I would say that it could be highly material over time.

On returns when I calculated it I got a little bit of a higher number than you. It was more like 9% or 10% but why do we not take that offline and see the difference in the methodologies. What is fair to say is, given the fact it is a low capital-intensive business and that we are buying it cheaply, then the returns are high.

James Wheatcroft (Deutsche Bank): Perhaps you could give us a feel for the regulatory situation in Italy, especially re machines, especially re licences and potential CAPEX. Secondly around franchisees, how exactly does that work?

Mor Weizer (Group CEO, Playtech): As for the regulatory environment and obviously people ask me about the timing. Why Italy? Why now? Obviously, we looked at different markets. UK is a market that we definitely considered at some point in time. But it is a high mid-single digit growth opportunity from a digital perspective. It is quite a mature market. We started looking at it as well. We came to realise that Italy is the largest gambling market across Europe and actually the digital penetration is very, very limited. This is why Italy. Why now? It is partly because of what happened with inside, the merger between Cogemat and Snai, the successful integration, the fact that they delivered ahead of expectations. But also because they the regulatory environment was clarified in 2017.

I am not sure if you are familiar, there were three different processes in Italy. The first happened in April 2017 when the taxes increased by 0.5% and 1.5% for VLTs and AWP operators respectively. In June the government decided that it wants a more controlled licence and dedicated AWP operators. Snai, by the way, is best positioned in the market in terms of the spread of AWP distribution across the country in line with the approach and attitude of the

government. The government decided to reduce the number of machines. However, there is another law that was approved before that. I do not want to get ahead of myself but these machines will have to be replaced by 1st January 2019 and will be replaced by mini VLTs as part of this. This is a huge opportunity for us. I will talk about that in a second.

However, it was the position on AWP that was clarified. There is a law that those will be replaced by the beginning of 2019 and the number of AWP reduced by 35%. The impact on Snai is very limited. The third one, called *conferenza unificata* [?], basically refers to the VLTs and how you operate VLTs. It gives some power to the local municipalities and they intend to increasingly come out with certain rules about how VLTs should be presented and distributed within each and every city or region. However, Snai already accommodated that and we believe that from this point onwards when considering the situation on tax, the situation on AWP/VLTs, that it is sustainable and stable going forward. This made it very, very appealing for us.

I have been asked earlier outside when we engaged with Snai. We have been circling around Snai since 2013. I know Fabio from 2012 and we always joked about the fact that we need to do something together. 2013 was the first time we engaged. 2015 Snai and Cogemat merged and we resumed the conversations and engaged formally after the regulatory environment was clarified. Going forward we take a long-term view. This is a regulated market. Think about the UK. There is some uncertainty in regulated markets but we believe that given the attitude and the approach of the regulator, the fact that each and every part of the business was dealt with in 2017, that from this point onwards it is stable and sustainable.

Andrew Smith: Shall I do the franchise model? I have been jotting down a few bullets to try and get it in a nice coherent order. What Snai brings to the party is the licence, the brand and the tech. What the franchisee brings is effectively the property and the people. If you think about the actual economics, as I said, as the licence-holder Snai takes 100% of the revenue. They then pay away, let's call it, the rev share which depends on the different products to the franchisee. Out of the franchisee's rev share they pay their own costs. Snai has its 100% of the revenue, has the cost of the franchisee and then some other cost on top of that. Things like the technology, the head office, etc.

That is why and it goes back to the point I made earlier, you may say, 'Hang on a minute, if you do not have any cost [inaudible] property and this huge employee cost you should be higher margin.' However, if you strip out the pass through cost of the rev share the margin goes from mid-teens and you can come up with a much, much higher margin, which to my mind is a more realistic and a more reflective number. We did debate whether to try and do that but clearly as Snai is currently a listed company I cannot mess about too much with the numbers. Arguably it is a better way to think about it.

Mor Weizer: It is all branded Snai, as you saw. This is why this business model is so solid. It all pushes one brand and the brand recognition of Snai.

Tal Grant (Credit Suisse): Congratulations on the deal today. My question is, I understand for the VLTs and AWP you are going to have to keep content from Novomatic, [inaudible] etc. but can you tell us how much Snaitech currently pays to these kind of content providers?

Mor Weizer: Obviously it is commercially sensitive. We cannot say that, being a supplier to Snaitech ourselves.

Tal Grant: [Inaudible] to all technology third party [inaudible].

Mor Weizer: I would say that it is in line with what you find in the UK and what you find Playtech charging its customers outside of Italy. It is very much in line whether it is 1-2% here or there but it is pretty much in line. It is a rev share model which is the same.

Andrew Smith: I was just going to add there, two points I would make about replacing with our VLTs is that there are two benefits. One, it is ours and it is not going to them but two, as Mor said, the driving of the performance is very, very important. Effectively from one machine you get two synergies. You get a cost synergy and a revenue synergy.

Mor Weizer: I think it is also important to say that on our VLTs obviously only the content of Playtech is pushed and we have a lot of initiatives now, like Halloween Fortune and Age of the Gods that will allow us to control more of the value chain. Our VLT machines, second best performer in terms of cashbox out of four will be introduced with new exciting content will all be multichannel.

Tal Grant: The €10 million cost synergies, to be clear that is all operational? I.e., it excludes interest and tax?

Andrew Smith: Absolutely correct.

Tal Grant: Can you talk a little bit more about the deferred tax losses and whether you will be able to use them?

Andrew Smith: Yes, I cannot say it is 100% certain whether we can use them because there is various processes after [inaudible] but I think we are very, very hopeful of being able to use them. Yes, they have a significant deferred tax asset which should reduce the P&L tax rate which is going to be, according to consensus – I have to be careful with them being listed – high-teens. The cash tax rate will be more like high single-digit for the coming years, let's say. Effectively you get €10 million extra.

Tal Grant: Beyond that once the deferred tax losses are used up you will have to pay normal Italian corporation tax even on the online stuff?

Andrew Smith: That is correct. You are looking at a rate at around the 30% level. However, that is a reasonable way away given the size of the losses they actually have.

Tal Grant: Yes, okay, great. One last thing, there is currently a process to go to a new sports betting licence tender. There are currently 9,600 licences. I think they want to go to 15,000 licences. Do you guys know what you are planning to do with regard to that or will that be a Snaitch decision? I.e. are you going to increase in line with the market?

Mor Weizer: Currently because we are [inaudible] Snai decision but if you ask me what if we would have taken over this business no doubt we will obviously participate in the tender. We estimate the capex involved or the investment involved at €60 million. This was obviously used as part of the negotiations with the sellers, hence the attractive price. It is partly why the price is so attractive. We definitely intend to not only maintain the position of Snai but extend it as much as possible in order to secure the position of Snai in the market.

Andrew Smith: Just to add to that, you may have a follow-up question that why did we not therefore include the €60 million of capex that we expect in effectively calculating the EV and the multiple. The reason being, because we did debate that, that Snai also holds four pieces

of land which could potentially be sold which are valued up to €90 million book value, which we did not put in the EV either. Effectively we decided to keep it clean and not put either in.

Tal Grant: Great. Sorry, one last question. In your discussions with banks so far looking at refinancing and the interest rates you are going to have to pay there can we assume it is going to be materially better than the 6.0%-something [inaudible]?

Andrew Smith: Yes, it may have got lost in the presentation. I said 3% actually at current market rates. As I said, we hope to [inaudible] before the end of the year. Things move around a lot but I think given the financial profile of Playtech I expect around the 3%. For the sake of argument, at the moment they are paying over 6% on €570 million. If we are taking on €1 billion at half of that then we will pay the same actual amount of interest but on a much bigger number. Clearly, as I mentioned, it may be that we decide to lower the total amount that we refinance by selling some of our assets that are available for sale to reduce the amount of leverage and reduce our interest.

Tal Grant: Great, thanks and good luck.

Mor Weizer: Thank you.

Chris Stevens (UBS): On that €60 million can I clarify that is the CAPEX for VLT? Is that what you are saying?

Mor Weizer: No, for the betting licences. [Inaudible] 2022. Most licences are until 2022 with the exception of the betting licences tender which some people suggested will happen later this year. I think everyone now agrees that it will not happen in 2018 but rather 2019 at least.

Andrew Smith: The number I think you were referring to was when I put up the chart on the synergies and it had the numbers above. The number in 2019 was €12m and I said the vast majority of that was capex not opex. That is the capex on the VLTs which is the best part of €10 million.

Chris Stevens: Okay. Is that to satisfy the regulatory change which is replacing the AWP's with the VLT lights?

Andrew Smith: No that is specifically putting ours in.

Chris Stevens: All of Snai's VLTs will be [inaudible].

Andrew Smith: No, it will not. I am not going to be too prescriptive but it is not 100%, no.

Chris Stevens: Okay. Then on SSBTs, how should we think about it? Should we think about a certain number of SSBTs per shop, that kind of thing?

Mor Weizer: Given the conversations we had with Snaitech management, currently if you think about the UK model and the UK is not very different in terms of distribution, I would say that there is a potential currency. They have their own proprietary software. Cash book is still very limited. They only just started. We have some experience in the Italian market. We have been working with another concessionary on the development of a new SSBT design specifically for the Italian market. We believe that we can generate high returns and working together with Snaitech and their obvious knowledge about the Italian audience we can definitely increase it dramatically.

Currently there are 1,000 SSBTs. I expect that there will be at least 2-3,000 SSBTs on top of that. Obviously we will have the benefit of having both the Snai's proprietary SSBTs and the Playtech BGT Sports SSBTs. We will obviously deploy both into the market. I expect the BGT Sports SSBTs to really outperform given our experience elsewhere and given the work we have done with another operator in the Italian market.

Chris Stevens: Thanks.

Michael: Just a quick one on the online business. Do you pay a revenue share for online revenue to the franchisees in Snaitech?

Andrew Smith: No.

Michael: No, so the margin there is significantly higher?

Andrew Smith: Yes. I will have to be careful saying that because Snai currently only reports contribution margin not EBITDA margin. I think it is a fair assumption that the overall margin is higher.

Mor Weizer: Michael, one of the things that we saw and obviously we truly believe we came up with although we did not invent the term because it existed before, it is like B2B2C by the way. It is not ours to claim but I would say we were the first to basically introduce omni-channel across the industry and the first to introduce B2B2C this morning. I would say that one of the things we bring is a lot of experience, extensive knowledge and experience that we have with other omni-channel operators in developing the convergence between retail and online.

What Snai does today, whether it is a fixed incentive for shop managers or shop owners or revenue share because they do have some revenue share arrangements, I would say we have a specific plan that we will develop with Snai how to incentivise the shop owners to make it appealing for them to support this convergence. This is something that we have been working on for a long time. If you think about the Ladbrokes and Coral situation it is not just putting the technical infrastructure to support a seamless journey. It is an ecosystem for the customer. It is basically incentivising each and every element of this value chain to support the seamless journey of the customer and the ecosystem, so everyone will work towards one goal even if it is a franchisee and it is a third party.

Obviously shop owners, one of the things that Snaitech was very insistent on when presenting their results is to talk about the fact that they managed to grow the new FTDs by a significant number which represented 25% of the overall FTDs in the market, which is almost unheard of. However, still there is a huge opportunity because only 20% of [inaudible] customers in terms of numbers of players contribute towards the revenues generated in online and they make 50% of the activity.

If you think about the incentives you can give the shop owners to create an incremental revenue stream for them. The FTDs I mentioned. 25% of the overall number of FTDs is without harming the retail environment. It is all incremental. This is something that Snaitech always said. It does not cannibalise the retail business. For the shop owners it is a real opportunity and what we will bring to the table is proven track record and plans that work elsewhere to incentivise the shop owners to support this convergence. On top of that obviously we will have all the initiatives and will deploy the best-in-class methodologies to

increase the lifetime value by providing a better service, better product and a better environment for customers.

Michael: That answered my question.

Mor Weizer: James, if I may I just want to go back to the franchisee model until someone asks the next question and the mic will move. It is important to clarify. You have the VLTs and the AWP. Both are done on a service basis and the shops are owned by third party franchisees. However, in VLTs given the fact that it is done remotely, what Snai provides is somewhat different to AWP. In the case of VLTs they basically provide the product, obviously the machines, the product or the content, the back-end operated by Snai on behalf of the customers including maintaining the pay outs, maximising the pay outs they introduce, the content that they introduce and they also maintain the machines. Some of that is done remotely. Obviously upgrades, etc.

On the AWP given the fact that it is a standalone machine that includes other than software Snai decided not to be involved in the maintenance of the boxes. Therefore, the revenue share arrangements are very different. In VLTs it is three to five times the amount when compared to AWP. The reason I mention that and then again I do not want to get ahead of myself, but while the law dictates and says that by the beginning of 2019 the AWP will be replaced by mini VLTs or VLT Lights or remote mini VLTs – at the end there are a lot of names for that in Italy and outside. We do believe that it may not happen in the beginning of 2019 but the law states that it will happen. Whether in 2019 or 2020 we could not care less. We hope that it will be sooner rather than later but we believe that once it happens it is a huge opportunity for us because 280,000 AWP will have to be replaced in the market.

The model will be similar to VLTs which means that what we will be able to charge will be by far higher. We have the best distribution. Together with Snai we will have the best distribution, the most controlled dedicated licenced network in the country and we will have and control our own product, capabilities and content. This is a very, very powerful thing to have in a changing market that dictates the replacement of 280,000 AWP.

The last comment I will make, obviously there is a real opportunity for us to replace the VLTs and obviously there are some cost synergies once we replace because Snaitech still pays the likes of Spielo and Inspired and Novomatic and Playtech revenue share. If those will be replaced there is a cost synergy. We do not do that for the sake of cost synergy. We do that because we significantly outperform the other two. This is why we do that. On top of that I think that it is very important to state, and Fabio and I had long conversations about that. If you think about the Italian market there are four leading VLT providers: Novomatic, Playtech, Spielo and Inspired. Put aside Snaitech we will become a hybrid B2C and B2B. The way to think about it is Novomatic is best performing, then Playtech, then Spielo, then Inspired. The three best performing are all hybrids of B2C and B2B in the Italian market. We truly believe that other concessionals will actually find it very appealing to take some of the VLT machines from Snai and replace other VLTs that underperform when compared to Playtech.

It is twofold. It is introducing the Playtech machines replacing other VLTs and beyond that Fabio truly believes that we can actually extend it beyond that, beyond Snai, and introduce VLTs and provide them to other concessionals given the cashbox that we generate. Also the

fact that we work with many other VLT operators online as of today, and they will have the benefit of having the content in VLTs and online.

Chris Stevens: This is possibly a slightly unfair question but given this was quite a large deal what can we expect going forward in terms of M&A given your leverage is still relatively low?

Andrew Smith: Clearly we need to digest Snai. That is very important. However, in terms of the smaller deals for Playtech they could be a couple of hundred million. There are still some in the pipeline specifically actually on the B2B side. I would not want you to think there is nothing on the B2B because there clearly is. We can easily digest something that is of that level. In terms of much bigger deals, I do not really think we should be commenting on anything like that now. Mor may want to anyway.

Mor Weizer: No, I think you know my motto and I think that I shared it with some of you. My motto when I wake up in the morning is you try to do your best and you go to bed thinking whether you have done exactly that. The other motto I have focus and attention. I think that for us now it will be focus and attention on Snai, on the integration of Snai, on basically further exploring and extending our reach in Italy before we start thinking outside of Italy. This is not to say that we will not look because we will and are looking at other companies. Obviously not that size but I would not rule out small/mid-sized B2B businesses that can complement our core. I do want to remind people B2B will remain our core business. We do believe that anything we do now in B2B will complement what we do for Snai and together with Snai. This is the beauty of the model.

Andrew Smith: That is the place to end I think. Thank you very much everyone.

Mor Weizer: Thank you very much.

[END OF TRANSCRIPT]