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Intertain Group Limited

Third Quarter 2016 Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to Intertain Group's third quarter 2016 results conference call. At this time, all participants are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session, and instructions will be provided at that time for you to queue up for questions.

Please note that this call is being recorded today, Tuesday, November 15, 2016, at 8:00 a.m. Eastern Time.

If you have not received a copy of Intertain's third quarter 2016 earnings release that was issued after market close yesterday, you can find it under Intertain's profile on the SEDAR website, or on Intertain's own website at www.intertain.com.

Please be aware that we will be discussing some information about the business that is forward looking, and which is based on management assumptions and subject to a number of risks that could cause actual results to differ materially from current expectation. Our Annual Information Form dated March 30, 2016, and our Management Information Circular dated August 19, 2016, which you can find on the SEDAR website, discuss many of these assumptions and risks.

Intertain does not intend to publicly update any forward-looking information, except as required by applicable securities laws.

Please note that we will also be discussing some non-IFRS measures on today's call. For the definitions and reconciliations of these non-IFRS measures, please refer to our third quarter 2016 management's discussion and analysis.

I will now turn the conference over to Mr. Andrew McIver, Chief Executive Officer of the Intertain Group. Please go ahead.

Andrew McIver — Chief Executive Officer, Intertain Group Limited

Thank you, and welcome to Intertain's third quarter 2016 conference call. Keith will speak in a few minutes and will provide an overview of the Company's consolidated performance.

However, in way of summary, you'll note that for this quarter we are highlighting the constant currency basis of our core business assets due to the quite dramatic moves between the Canadian and UK exchange rates.

While our financial results for this past quarter demonstrate the continued performance and high quality of these assets, we do have to recognize the appreciation of the Canadian dollar against the British pound.

So bearing this in mind, we reported gaming revenue of C$113.6 million, which on a constant currency basis increased by 10 percent; the adjusted EBITDA of 43.8 million, which again on a constant currency basis increased by 17 percent year on year; and adjusted net income of C$36.3 million, which again on a constant currency basis increased by 25 percent year on year.

The decrease in reported gaming revenue in comparison with the same period last year, 113.6 million this year versus 118.5 million last year, relates primarily to the exchange rates of the Canadian dollar against the British pound.

On a functional currency basis, both Jackpotjoy and Vera&John experienced double-digit organic growth during the quarter. These increases were mostly offset, however, as the average foreign exchange rates used to convert Sterling revenues for the three months ended September 30, 2016—a rate of 1.71—decreased dramatically from the average foreign exchange rates last year, which were 2.03.

Turning to the cash flow, which relates to cash generated from the operational activities, we realized $31.8 million during the quarter. As disclosed in our November the 7th release, however, operating cash flow for the quarter ended the 30th of September had a onetime deduction of the severance payment of 10.5 million to Intertain's former President and CEO. So the 31.8 had had that deduction from it.

Cash used by financing activities for quarter three related primarily to debt repayment of interest and specifically included $8 million in principal debt repayment. This remains our preferred strategy for the use of cash flow, unchanged as we have stated for the last several quarters.

Looking at our UK-centred strategic initiatives, we continued to work hard together with our advisors to complete the listing of Jackpotjoy's ordinary shares on the London Stock Exchange.

However, it should be noted that by now having to incorporate our Q3 results into the prospectus as a result of today's announcement, this will further delay the process by a fortnight or so.

As we have previously announced, Intertain will publicly announce the effective date and the election deadline for shareholders to elect to receive exchangeable shares at least five business days in advance of the effective date and the election deadline, respectively. These dates will be established upon approval by the UKLA.

Now allow me to turn the call over to Keith, so that he can go into more detail on our financial results and what the various business segments have been up to during this past quarter.

Keith Laslop — Chief Financial Officer, Intertain Group Limited

Thanks, Andy. As Andy has already provided the high-level results, I won't repeat them, although I will dive into a little bit more detail.

For the Q3 period, the Company generated 31.8 million of operating cash flow with a 73 percent adjusted EBITDA to operating cash flow conversion rate. That lower than normal conversion rate is mainly due to a severance payment in Q3.

Last quarter I also touched on Malta taxes and the future receipt of 6/7th of the tax paid as a refund. Although we did receive C$3.4 million in Q3, the remaining amount was actually received in Q4. So although we did not get the beneficial impact to operating cash flow this quarter, all expected amounts have been received at this point in time.

I will reiterate something that Andy mentioned, and that's that one of the themes this quarter will be to show investors the results on a constant-currency basis, or in the functional currencies of the subsidiaries due to significant FX movements. Again, Q3 2015 Sterling to CAD was 2.03. This last quarter it was 1.71; a pretty significant difference.

Without showing results on a constant-currency basis it's hard to see the underlying performance of the business, which is why we've always reported individual segment comparisons in their functional currencies in order to eliminate currency fluctuations, and investors can find these numbers within the MD&A.

For the Jackpotjoy business, Q3 revenues were £46.7 million, which is 11 percent growth year over year, and adjusted net income of £22.5 million, which is 37 percent growth year over year.

Some other highlights of individual Jackpotjoy businesses for the quarter, starting with Jackpotjoy UK, improved monetization of players (unintelligible) has continued in Q3, where mobile revenues as a percentage of total revenues has improved to 52 percent in Q3 from 47 percent in Q2.

In Q3, a mobile player that also plays on desktop provided 2.5 times the revenue of a desktop-only player, similar to Q2 and previous quarters.

Jackpotjoy UK also had record daily average players, so over 28,000 players a day; record deposits in Q3, £94.9 million; and wagering of £1 billion for the first time in Jackpotjoy's existence.

On to Starspins. Starspins also had a series of records, with a record £17.8 million in deposits—that's 16 percent growth over last quarter; a record 38,000 average day players, 6 percent higher than last quarter; and a record £161 million in wagering, which is 12 percent higher than last quarter.

Jackpotjoy Sweden also had record revenues and deposits in Q3, and very excitingly, following the launch the next version of Gamesys' mobile platform in August 3rd with roughly double the speed of the previous platform we experienced 40 percent of GGR, gross gaming revenue, coming from mobile, which is up from 26 percent in Q2.

Finally, for Botemania, record €11.2 million in deposits, up 13 percent versus last quarter; a record €147 million in wagering, which is up 22 percent versus last quarter; and there was excellent mobile penetration since the mobile launch in May of this year. Mobile revenues as a percentage of total revenues has improved to 35 percent in Q3 from 12 percent in Q2.

In Spain, a mobile player that also plays on desktop provides over 3 times the revenue of a desktop-only player.

Moving to Vera&John, which, as we've already discussed, includes InterCasino, gaming revenues were €17 million in Q3, which is a 12 percent growth year over year, and adjusted net income of €4.2 million, which is a 7 percent decrease year over year. However, it's worth noting that InterCasino is meeting expectations, but InterCasino's Q3 results distorts both Q3 revenue and profit figures within Vera&John in a couple of ways: the revenue guarantee, which we have split out of the revenue line, but is not split out at the bottom line, and as well it's worth noting that there was a large winner in Q2 2015, which lost much of her winnings in Q3 2015.

So Vera&John stand-alone grew Q3 gaming revenue by 29 percent and Q3 adjusted net income by 87 percent over the prior year.

On to Mandalay: revenues of £5.3 million, which is a 2 percent decline year over year, and adjusted net income of £1.4 million, which is a 39 percent decline year over year. The decline in adjusted net income was expected.

As discussed previously, we're undertaking some additional marketing spend for Mandalay this year. While the revenue in Q3 was slightly less than expected, given the small nature of Mandalay, it's not meaningful to the group, and the 5 percent revenue growth for the nine months so far this year is well within our expectations.

In terms of our key performance indicators, given the distorting factor of FX, we're detailing KPI numbers on a constant currency basis so that shareholders can get a more accurate depiction of how the Company is performing.

Our average players across our real money gaming business lines grew to 231,000 players a month, or an 11 percent increase year over year. Our average real money gaming revenue per month also grew 11 percent to C$39.3 million, again, on a constant currency basis; worth pointing that out.

Putting these stats together, our average revenue per real money player was flat at $170 per month per player.

We're very happy with ARPU where it is. And we do put a reasonable amount of thought and effort into not maximizing short-term revenue from our customers. Instead, we focus on developing long-term customer relationships we believe is one reason why our retention tends to be much higher than other peers in the gaming sector.

Now moving on to some other topics which we know of that are of interest to shareholders. With respect to Brexit, as we've said before, a Sterling decline is a benefit to our business given the Sterling liabilities we have, including contingent consideration and swap debt, and the fact that 30 percent of our revenues and profits come from other currencies.

Although we report in Canadian dollars currently, which does skew our results, the benefit can nonetheless be seen on our balance sheet where the swap is currently valued at C$49 million. This value was as of September 30th when the exchange rate was GPP to USD was 1.29, whereas current GPP to USD, or at least of yesterday, was 1.25 (phon).

Post-UK listing, when we may report in Sterling and are listed in Sterling, any further declines in the pound will increase our Sterling profits, given the business we maintain outside of the UK.

Next, transaction-related expenses are a large item on the income statement this quarter. They are very significant.

Part of that is due to the fact that we're bringing contingent liabilities into the income statement with respect to the listing as required under IFRS. This process has also, unfortunately, been very costly, particularly on the legal and accounting side.

Lastly, on the debt side, we continue to explore adding some debt to our balance sheet in order to have sufficient committed funds to cover the anticipated earn-out obligations. We view the earn-out obligation as debt ourself. So to formalize this obligation in preparation for a UK listing does not change our view of our capital structure, and should help provide shareholders (unintelligible) with respect to our future capital structure.

We had originally announced a plan to explore a bond offering. We're feeling that the announcement is necessary so that we can get ratings to potential lenders. But from further analysis and feedback from debt providers, a loan makes more sense for us at this point due to: one—there'll be a few things here—one, better prepayability of loans versus bonds. The bond was not only looking like a non-call two, or a non-call three, but then 50 percent and then subsequently 25 percent of the coupon post the non-call years made the bond very expensive to pay off early.

Number two, less need for liquidity in loans versus bonds. Feedback received was that the bond needed to be upsized significantly in order to ensure enough liquidity for lenders. Besides the increased expense of raising unnecessary debt, combining the increased amount with worse prepayability started to become quite unattractive, given our corporate strategy is to de-lever as quick as possible in order to have our leverage in line with our UK peers.

And finally, the nature of our business; the feedback that we received was that given our lack of tangible assets, as well as the cash-flow generation in our business, a loan would be a much better fit for our business than a bond.

During the process we also found out that we would have been the only pure-play online gaming company to attempt a bond. Other bond issuers have had significant physical components to their business.

So although it's frustrating to have to restart a process, we believe that the end result will provide for better execution, as well as be a better long-term fit for our business.

We plan to complete the debt financing as soon as possible, and will update investors in due course as we finalize the debt.

Finally, before I pass it back to Andy, I'd like to mention that we are reiterating our guidance for 2016 in Canadian dollars at revenues of 460 million to $500 million; adjusted EBITDA of 175 million to $195 million; adjusted net income of 140 million to $160 million; and diluted adjusted net income per share of 1.87 to $2.13.

And as we've stated in the last couple of press releases, due to the severe FX fluctuations this year, we expect that the annual financial results will trend towards the lower end of the range provided in the guidance.

I will now pass the call back to Andy.

Andrew McIver

Thank you, Keith. These results that we have reported today strongly demonstrate that the performance and prospects of the Company's underlying businesses remain stable and sound.

We've spent the last few months meeting and speaking with institutional investors in Europe, the UK, and North America, and I and the rest of the Board fully appreciate the time and support and insights that have been shared with us.

We fully understand that shareholders are frustrated by the progress in the UK listing, but the timing of this process is very much out of our hands. However, I would like to thank you both on my behalf and the Board's for your continued patience.

But we do have a clarity of purpose as we continue to pursue the avenues that will better position Intertain for both long-term growth and success, as well as a proper valuation of the business.

In the meantime, let's now move on to some questions and answers. Operator, please can you announce the first caller.

Q&A

Operator

If you would like to ask a question at this time, simply press *, then the number 1 on your telephone keypad. To withdraw your question, press the # key. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Greg MacDonald from Macquarie. Your line is open.

Greg MacDonald — Macquarie

Thanks. Good morning, guys. Macquarie. Andrew, wanted to ask on timing of the UK listing, clearly relatively to the mid-October time line that you communicated previously this is a delay that's partly a function of the change in the bond-funding strategy. Is that all that's delaying the UK listing? Is there any other colour that you can give us on that listing input? And then timing it all, is there anything that you can tell us on timing? Is there any insight that they've given you? Thanks.

Andrew McIver

Okay. Thank you very much. What I can tell you on the timing, as we mentioned a couple of minutes ago, that the fact that we will now have to incorporate our Q3 results as our latest set of financials into the prospectus, or into a prospectus that was largely in agreed form, that will add as an estimate a fortnight or so. So that's a couple of weeks or so based on the time lines that we've experienced in other changes to the prospectus.

We have, obviously, asked the UKLA to commit to various timetables. However, this is not something the UKLA ever do. It is the regulator’s prerogative to take as long as they deem the process to be necessary. But all parties, including their good selves, continue to move as fast as we possibly can.

But we are, unfortunately—and I would love to say this isn't the case—I cannot give you a firm date. The mid-October date we thought was realistic at the time that we started the process. And I think with the benefit of hindsight that proved to be overly aggressive.

Greg MacDonald

Okay. And is it just the change of the debt strategy that's affecting their time line itself? Or is there anything else that they've asked that gives you an indication that there are other things that they want to delve into before approval? Thanks.

Andrew McIver

Well, obviously the debt line—the debt change has changed things, as well incorporating the Q3 results. They continue to ask various questions on various topics. We have no insight into why they pick those topics or questions, and we continue to respond. And when we ask how we are progressing, they say you're progressing very well, you have been very cooperative in answering all your questions, and when we get toward the end of the process we will let you know.

Greg MacDonald

Okay. And then one final question. On the finalization of the term loan I know the official focus is on the February deadline. Could you give an indication of how soon you want to actually get those details in place and announce something?

Keith Laslop

We definitely want to get the debt done as soon as possible, Greg. I think better to instead making estimates, as we've done with a UK listing, which proved to be wrong, better to just work it as fast as we can to get it done, and then let everyone know when it is done.

Greg MacDonald

Okay. Appreciate it. Thanks, guys.

Keith Laslop

Thanks, Greg.

Operator

Your next question comes from Nikhil Thadani from Mackie Research. Your line is open.

Nikhil Thadani — Mackie Research

Thanks, guys. I just wanted to follow up on Greg's question a little bit there. Going back to the questions from the UKLA, has the number of questions or has sort of the quantum of questions coming from the LA has that decreased over time as you go through this process? Or just from a qualitative standpoint, any more colour that you may be able to provide in terms of how this process is playing out?

Keith Laslop

I think it's worth saying, Nik, that the UKLA themselves view this process as confidential and private. They do not like potential listees talking about the process.

Nikhil Thadani

Okay. Can appreciate that. And in terms of the transactional expenses going forward, how should we think about the split between contingent liabilities coming onto the income statement and the legal and accounting fees going forward? Are most of the legal and accounting fees kind of behind us? Or should we expect a similar kind of level in Q4?

Keith Laslop

Definitely the biggest chunk was in Q3, and granted, it is very large. In October, we received 1.9 million in terms of legal and accounting fees, and there would be no other contingent liabilities on our income statement. So it would just be legal and accounting going forward.

Nikhil Thadani

Got it. And in terms of the marketing spend, I did notice that it was fairly lower in Q3 compared to Q2. And given the fact that you've sort of tended to optimize that spend before going into the holidays, how should we think about the marketing spend for Q4?

Keith Laslop

Marketing spend in Q4 will increase over Q3. Marketing spend in Q4 will be more in line with Q2.

Nikhil Thadani

Okay. Great. And the Maltese tax receivable you said that's all been collected as of this date?

Keith Laslop

Correct. So—

Nikhil Thadani

Okay—

Keith Laslop

—6/7th has been received. It's just that only a portion was received in Q3; the rest was received in Q4. But it has all been received at this point.

Nikhil Thadani

Got it. And are you able to disclose what the InterCasino revenue was in—

Keith Laslop

InterCasino revenue? I actually don't have it at the top of my head, but InterCasino is doing—it's actually doing reasonably well. I think—the reason I brought it up was that in 2015 it was definitely skewed just because we had that very large winner in Q2 that actually gave a lot of that money back in Q3.

So it did skew Q3 2016 results. But InterCasino is operating on a breakeven basis largely and in the mid-$100,000 of NGR per month.

Nikhil Thadani

Okay. Thanks, guys.

Keith Laslop

Thanks.

Operator

Your next question comes from Eyal Ofir from Dundee Capital Markets. Your line is open.

Eyal Ofir — Dundee Capital Markets

Thanks. Just a clarity question on the transaction fees; in the MD&A it's says you guys have also accrued 4 million or $5 million of completion fees related to the LSE listing, so that's a component there. How much should we think about the—I know you talked about the October fees—but how should we think about the actual contingent component in the $17 million?

Keith Laslop

As we've said, you can think about it as $5 million that we brought into the income statement in Q3.

Eyal Ofir

That's that contingent liability component?

Keith Laslop

Yeah.

Eyal Ofir

Okay. So that plus the completion fees is about 10 million, and then you have about 7 million of legal and accounting fees. Is that an appropriate way of looking at it?

Keith Laslop

I'd say contingent, which is completion, is 5 million. And then most of the rest would be legal and accounting.

Eyal Ofir

Okay. And then just going into the business, the mobile penetration continues to increase here. It looks pretty positive. How should we think about that as we enter Q4? And then obviously Q3 has historically been, I guess, a little bit seasonally weaker. Q4's been a little bit maybe stronger in the past. Can you just talk to the seasonality in the business? And have you seen any impact also from the EuroCup in July that kind of skewed things to the negative for you guys in that month? Thanks.

Keith Laslop

Yeah. There's a lot of different factors that can affect our results. Unseasonably warm or cool weather does have an impact; other events going on at the same time has an impact; number of paydays in that particular month has an impact, so five Fridays in a month tends to be a good month. It's hard to determine exactly what will provide more of an impact.

I can tell you that Jackpotjoy UK has done extremely well post-departure of Sun Bingo to Playtech. That has had an impact, a positive impact. I think mobile penetration has had a positive impact, I think, especially with Sweden, Version 2.0 of the mobile platform and 40 percent of GGR from mobile; that's fantastic. And as well for Botemania, 35 percent of revenue coming from mobile versus 12 percent in Q2, again, is very, very positive.

So I agree that increased mobile penetration is very positive across our business.

Eyal Ofir

Okay. And then just heading into Q4, should we anticipate a little bit more—obviously you're spending more money in marketing—should we expect the seasonality to kick in? And then maybe, Andy, for you, just before I pass the line, just thoughts on you've been in the position for, I guess, about, what, five months or so. Can you just speak to what you—and obviously you're going through this listing process, which is taking longer than anticipated—but what do you like about the business since you've joined? Any positive/negative surprises as well? Thanks. And I'll pass the line.

Andrew McIver

Okay. So I joined on the 28th of June; I was appointed. And everything—apart from the frustrations in the listing process and I have been as disappointed is the wrong word, I think. Well, actually, I suppose it's true, but I didn't want to—but as frustrated as everyone else because it has been a little slower than we anticipated.

I have been around, obviously, all the businesses, constant contact with all the management there, and I remain very positive. The underlying assets of the business, the trading assets are very strong. They have performed—been performing strongly. We are a market leader in the space, and I continue to believe we will occupy that space, and to continue trading as we have done historically.

Eyal Ofir

Okay. Great. And then just from a strategic standpoint, Keith just talked about Sun Bingo leaving Gamesys having a positive impact on Jackpotjoy. How should we think about that going forward? Is this just taking more market share away from another potential competitor? And what are you seeing from the competitive landscape as well? Thanks.

Keith Laslop

Let me touch with my views. I think this is a positive initial, but it's definitely not at the end there. I think we'll get a clearer picture next year—start of next year—in terms of how things ended up playing out with respect to that move, but initial indications is that—our indication is that it's very positive.

Andrew McIver

There will obviously be a bit of a rebalancing as that competitor starts to get its own house in order in its new relationships, et cetera. So I think it might come back a little bit, but the start of the move was strong for us.

Eyal Ofir

Okay. Great. Thanks. I'll pass the line.

Operator

Your next question comes from the line of David McFadgen from Cormark Securities. Your line is open.

David McFadgen — Cormark Securities

Yeah. Thank you. A couple questions; so you talked about another 1.9 million of accounting and legal fees in October. But in fourth quarter you're going to have more than that in terms of these onetime expenses, right?

Keith Laslop

Well, that was October. Of course in Q4 we'll have November and December as well. Are you talking about expenses? Or are you talking about cash flow out?

David McFadgen

I'm talking about expenses that would show up on the income statement as onetime items.

Keith Laslop

Yeah. So in Q4 there will be, depending on when the debt is completed, there'll be some other expenses on the debt side. Now many of those debt expenses will be capitalized within the debt, which is under—in accordance with IFRS.

Listing fees will all be put in under transaction-related expenses. But you are right that there will be other expenses on the debt side, but the majority of those will be capitalized in the debt.

David McFadgen

Okay. So I guess the buckets would be potentially some debt expense, listing fees, and then these accounting and legal fees, right?

Keith Laslop

If I understood you correctly, it's the debt side and then legal and accounting fees with respect to the listing; that is correct.

David McFadgen

Okay. And you can't quantify it right now for us, can you, for the fourth quarter?

Keith Laslop

No, we can't—

David McFadgen

No?

Keith Laslop

—we can't quantify it at this point, but you can get a sense in terms of what October was.

David McFadgen

Okay.

Andrew McIver

Which is why we did it that way. It is impossible for us to quantify it for you because we do not know with certainty when the process will end.

David McFadgen

Right. Okay. And then in order to do this term loan have you received the consent of your existing lenders to put on some more debt?

Keith Laslop

That is part of the process of doing the debt. So first step of the process is to get rating agencies to issue ratings, which is why we had to announce exactly what we're doing or what we're looking at, which is why we announced £160 million and a second lien term loan.

Second step—well, actually second and third step we can do at the same time, which is getting existing lender consent, as well as bringing on new lenders. So that is definitely a step in the process, David, but the first step that people should see today are rating agencies issuing ratings.

David McFadgen

Mm-hmm. So have you had any discussions with your existing lenders as to whether they would support you putting additional debt on the business?

Keith Laslop

Yes. We have.

David McFadgen

Okay. So then just moving on to Vera&John, so if you look at the revenue in euros it was 17 million; if I exclude the revenue guarantee versus 15.2 million in the prior year, up 12 percent. I would have thought that that revenue growth would have been higher, given how it was tracking previously, and bearing in mind—

Keith Laslop

Yup.

David McFadgen

—that there's InterCasino in there. Can you comment as to why the growth has slowed down a bit?

Keith Laslop

Yeah. And that's exactly why I spoke about this large winner in Q2 2015 that then gave a lot of that money back in Q3 2015 because—and that was in InterCasino—and that has skewed the entire segment's results. So Vera&John stand-alone—and we put this in the MD&A—grew gaming revenue by 29 percent in Q3 2016, and Q3 adjusted net income grew by 87 percent over the prior year.

David McFadgen

Okay. Sorry, I didn't have a chance to read the whole MD&A.

Keith Laslop

No problem.

David McFadgen

Okay. And then just on the provision for the Gamesys or Jackpotjoy earn-out, so this quarter is that just really taking your target, whatever the increase is, and times it by 4.5 times? Is that all it is? Or are there some other adjustments in there?

Keith Laslop

Every quarter we look at the earn-out calculation and look at the underlying performance of the business; then we make a view in terms of should we increase the fair value—adjust the fair value upwards or not. We're saying that the other component of that, you will always see smaller increases at least for another two quarters—well, actually, yeah, two quarters, Q4 and Q1, in the contingent consideration because under IFRS we need to discount the contingent consideration back by a discount factor.

And under IFRS we need to put in probability—we need to weight the contingent consideration per brand on a probability-weighted basis, so both of those start to unwind as we get closer to the date. The date for the main earn-out will be calculated is March 31, 2017, so we only have a couple quarters left.

The largest component of the fair value adjustment upwards on a contingent consideration this quarter was due to Botemania. Botemania is performing very strongly. Now that earn-out will be paid partly in 2017 and partly in 2018. I've said Botemania in terms of mobile, mobile as a percentage of revenues grew to 35 percent of revenues versus 12 percent last quarter. That definitely had an impact, and Botemania's performing very well.

David McFadgen

Okay. And is there—can you just remind me is there a cap on the Botemania and Starspins earn-out?

Keith Laslop

We have put a cap in place with respect to this amendment that we've put in place with Gamesys. Now that cap is extremely high because originally when we did the deal with Gamesys we agreed that there'd be no cap. So we put a very large cap in there of £375 million. I don't—

David McFadgen

Okay.

Keith Laslop

And no one expects for that cap to be hit.

David McFadgen

I thought the cap didn't include Botemania and Starspins, but it does?

Keith Laslop

It does.

David McFadgen

It does? Okay. All ready. Okay. That's it for me. Thank you.

Keith Laslop

Thanks, David.

Operator

Your next question comes from Ralph Garcea from Cantor Fitzgerald. Your line is open.

Ralph Garcea — Cantor Fitzgerald

Yes. Good morning, gentlemen. Just on the Mandalay marketing campaign, I mean did you start that in October and we'll see revenue growth by the end of the quarter? Or will the marketing sort of grow through the quarter and then you'll see it in sort of Q1, Q2 next year?

Keith Laslop

Well, what we experienced last year—we don't advertise on TV every year, but tend to be every second year—we did a large TV advertising spend at the start of Q4. And we actually saw the majority of first-time depositors come in the subsequent year. So there can be a lag.

Now we continue to analyze that. Part of that lag will be getting the brand into people's minds, and then next time we might target them, let's say, in a different medium, display marketing or another medium, that that's when they decide to join the site. So there's not necessarily an immediate positive impact, but I think that the marketing spend will continue in Q4.

And I think one of the things that we haven't really spoken about, but I'll touch on that, one of the benefits from Mandalay next year will be that post-March 31, 2017, we'll be able to cross-sell lapsing Jackpotjoy players and Starspins players into Mandalay for the first time.

So we do have 100,000 players that lapse off of Jackpotjoy UK a year, or roughly 100,000; roughly 50,000 players that lapse off of Starspins a year. To date we have not been able to cross-sell that into Mandalay, but from next April we will be able to.

Andrew McIver

So one of the points about the television campaigns, which we—in Mandalay's case historically it's been every other year—is that you need to continue topping up your brand awareness to make your bonusing, display, Facebook, et cetera, marketing as effective as possible. So part of it is a direct campaign, but part of it is to top up the brand awareness to increase effectiveness of other campaigns.

Ralph Garcea

Okay. And then I mean on the mobile side, I mean great numbers across all product lines. Where do you see sort of that mobile percentage sort of plateauing? And will it differ between the UK, Sweden, Spain? Or do you get to sort of 70 percent and then it just plateaus across the space?

Andrew McIver

I don't think that anyone knows where the ceiling is going to be reached. The best in the industry are running in the high 60s. There is a bit of difference, as you would expect, geographically, depending on cost of mobile versus cost of using desktop, et cetera. But mobile is growing strongly across all areas, and as I say, the industry itself does not know where that ceiling will be reached.

Ralph Garcea

Okay. Thank you.

Keith Laslop

Thanks, Ralph.

Operator

There are no further questions at this time. I turn the call back over to Mr. McIver.

Andrew McIver

Thank you all very much. And thank you very much for the questions and your participation in this call. And we look forward to updating you with further news as soon as we can. And as soon as we do have news, we will update you.

Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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