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FINAL TRANSCRIPT

Q1 2017 Jackpotjoy PLC Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to Jackpotjoy plc Q1 2017 Results Conference Call. A reminder that Intertain is a subsidiary of Jackpotjoy plc. (Operator Instructions) Please note that this call is being recorded today, Tuesday, the 16th of May 2017, at 1:00 p.m. London time.

If you have not received a copy of Jackpotjoy plc's Q1 2017 earnings release that was issued before market opened today, you can find it under Jackpotjoy's profile on the SEDAR website or on the Jackpotjoy plc website at www.jackpotjoyplc.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 expectations. Our annual information form dated the 29th of March 2017 and our management information circular, dated 27th of April 2017, which you can find on the SEDAR website under Jackpotjoy plc's profile, 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 Pages 3 and 4 in the RNS we issued earlier today.

I will now turn the conference over to Mr. Andy McIver, CEO of Jackpotjoy plc. Please go ahead, sir.

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Thank you. Hello, everybody, and a very warm welcome to Jackpotjoy's Quarter 1 2017 Results Conference Call. Following our successful listing on the main market of the London Stock Exchange in January, these are the first set of results which we've reported solely as Jackpotjoy plc rather than as Intertain. These quarterly results represent an enhanced level of disclosure relative to typically -- to typical quarterly trading updates in the U.K. this is because whilst we have 10% or more of our shareholders based in Canada, we have a reporting obligation to continue to produce quarterly financial reports to meet our Canadian disclosure requirements.

Moving onto today. With me are Keith Laslop, Chief Financial Officer; and our new Director of Investor Relations, Jason Holden. During the call, I will briefly cover the operating highlights for quarter 1 and also update you as to our progress in quarter 2 and the outlook for the full year of 2017, as a whole. Keith will then touch on the key financial headlines before we open the call up for questions.

Please follow the operator's instructions. A transcript of this call will be ready within 48 hours on Jackpotjoy plc's website and the replay option will also be available.

In terms of the operating highlights and outlook, I'd like to draw your attention to 3 key areas. Firstly, quarter 1 has seen solid progress in our core key KPIs: active customers, average revenue per customer and Real Money gaming revenue. The number of average active customers per month has grown 15% in the last 12 months, to the 31st of March 2017, to over 239,000 people.

When combined with a 2% growth in monthly real money gaming revenue per average active customer to GBP 87, this means that overall average real money gaming revenue per month has increased by an impressive 17% to GBP 20.9 million in the 12-month period to 31st of



March 2017. This translates into an 11% growth in gaming revenue for the quarter year-on-year.

Secondly, our largest business segment, Jackpotjoy, which comprises over 70% of group revenue, demonstrated an impressive quarterly performance across all its brands, with revenue growth of 14% and adjusted EBITDA growth of 18%. This took place against the backdrop of strong growth in mobile and new products.

Finally, and thirdly, in terms of outlook for 2017, we continue to expect the group to deliver revenue growth in line with market group growth rates. Quarter 2 has seen a strong start across the group as the Jackpotjoy segment continues to deliver robust top line growth, Vera&John had enjoyed very strong trading and Mandalay has had a record period for revenues in April.

I will now turn the call over to our CFO, Keith Laslop, who will walk you through the company's financial highlights.

Keith Laslop *Jackpotjoy plc - CFO and Director*

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

I'm actually going to start by reflecting on the fact that Q1 marked the end of the earnout period for the vast majority of the businesses we purchased from Gamesys: Jackpotjoy U.K, Jackpotjoy Sweden, Starspins, as well as the social casinos of Jackpotjoy and Starspins. These businesses comprise roughly 65% of our revenue today and continue to impress us with their performance as well as significantly exceed our initial expectations. We also believe that the acquisition of these assets have been [burned] at an excellent price for shareholders.

Due to the thresholds within our agreement, whereby we would pay 9x EBIT up to a threshold number but only 4.5x EBIT above that threshold number, the final purchase price multiple for the non-Spanish assets is 7.5x EBIT over the last 12 months or 8.1x EBIT over the entire period of the earnout. Without a doubt, although Jackpotjoy plc has made a number of successful acquisitions since our inception, the acquisition of the Jackpotjoy assets has been far our largest and most exciting. We look forward to further great results from the Jackpotjoy segment, and I can say that April revenues have continued the strong trend we've seen in the past.

Now moving on to business performance. One of the highlights, as always, is our strong cash flow generation. And for the Q1 period, the company generated GBP 23.3 million of operating cash flow, with an 80% adjusted EBITDA to operating cash flow conversion rate. Excluding onetime or exceptional items, our cash flow conversion rate would have been over 100% in Q1. We have GBP 112 million of cash on our balance sheet as of the end of Q1, and the balance is added to every month due to the strong cash generation of our underlying subsidiaries.

Before the end of Q2, we plan to pay the major portion of the Gamesys earnout which I just described, and which we estimate to be circa GBP 95 million. We will pay this earnout entirely from existing cash resources. And it is worth saying that we plan to pay the remaining Spanish earnout in 2018 from internally-generated cash resources as well.

We also continue to make amortization payments on our debt and our net leverage ratio, in which we include all earn-outs as debt, has fallen to circa 3.9x as of the end of Q1 2017 from 4x as of the end of Q4 2016. This reduction in leverage will continue and is one of our highest priorities going forward.

On these calls I also like to provide some data points on the underlying subsidiaries. For the Jackpotjoy business, Q1 revenues were GBP 50.7 million, which is 14% growth year-over-year and adjusted EBITDA of GBP 26 million, which is 18% growth year-over-year. Some of the highlights of the individual JPJ businesses for the quarter. Jackpotjoy U.K. improved monetization of players through mobile has continued in Q1, where mobile revenues as a percentage of total revenue has improved to 57% in Q1 from 55% in Q4. And for the first time, mobile ARPU is greater than desktop ARPU for Jackpotjoy U.K. An average mobile player delivers 104% of the revenue of the average desktop player.

For Starspins. Starspins is one of our fastest-growing subsegments this quarter. It is now our second largest brand under the JPJ segment and has one of our highest percentages of revenue from mobile at 63%. JPJ Sweden had a record -- had record revenues in Q1, even in the currently very competitive environment, which is Sweden preregulation. And finally, for Botemania, we had record revenues, deposits and

wagering in Q1 as well as a record 51% of gross gaming revenue from mobile, up from 44% last quarter. With Botemania, a desktop player that also plays on mobile has 4x the ARPU of a desktop-only player.

Moving onto the Vera&John segment. Gaming revenues were GBP 15.7 million in Q1, which is 13% growth year-over-year and adjusted EBITDA of GBP 4.4 million, which is a 7% increase year-over-year. These increases exclude other income earned by the Amaya revenue guarantee, which ended in Q1 2016. We have moved our reporting currency for Vera&John from euros to sterling going forward. In actuality, Vera&John uses over 10 different currencies, of which euro is just a small percentage. But for those of you who have modeled V&J in euros, revenue growth in euros was roughly 1%.

Finally, for Mandalay, revenues of GBP 5 million, which is a 14% decline year-over-year and adjusted EBITDA of GBP 1.7 million, which was a 15% decline year-over-year. We made some changes to bonus spend in preparation for changes to U.K. POC tax later this year, and these changes have caused a decrease in revenue this quarter, but should result in improved operational margins and deposit hold in the medium and long-term. Although Mandalay is by far our smallest segment, and we are exploring merging this segment in the future, we are pleased to report that April revenues were a record for the Mandalay segment.

I will now pass the call back to Andy.

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Thank you. Thank you very much, Keith. Let's move straight on with the questions and answers. Operator, can you please announce the first caller?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Simon Davies from Canaccord.

Simon John Davies *Canaccord Genuity Limited, Research Division - Head of European Research*

Three for me, please. Firstly, Vera&John you implied broadly flat revenue growth on a constant currency basis in the first quarter. Can you talk a bit about the factors behind that? You referred back in March to some challenges in the Asian markets. To what degree has that been a factor? And why are we suddenly seeing the step-up in growth into April?

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Okay. Yes, we did have some operating challenges last year, which commenced in about April last year, which was the payment processor that we were using for our Japanese business, which is roughly 30% of the total, withdrew from the market. It took us a bit of a time to replace that payment processor, which we have now done, though we will always up against some tough comps for Vera&John because we had full Japan in the first 3 months of last year, and we have not had full Japan until the end of the first quarter. We are now running at the level of Japanese business with -- where it was before that payment processor withdrew. The other struggle in the Vera&John segment has been very tough environment in Scandinavia and a lot of new entrants have come into the space ahead of anticipated regulation, with the hope that they will, like the U.K. market, will see consolidation later on. What that has done has pushed up the price of marketing media, and so we have scaled back our Scandinavian market -- marketing efforts because we believe the CPAs are unattractively uneconomic. So we have been up against both of those influences, but the Asian piece of that has now been resolved. I think the tough operating environment in Scandinavia will remain until regulation comes in place, and that's currently anticipated for January 2019.

Simon John Davies *Canaccord Genuity Limited, Research Division - Head of European Research*

Secondly, there were roughly GBP 7 million of cash transactional costs through the first quarter. What do you think we should reasonably expect for the remainder of the year in terms of cash exceptionals?

Keith Laslop *Jackpotjoy plc - CFO and Director*

Well, we expensed GBP 1.3 million in Q1, and that largely related to some residual listing fees as delisting didn't occur until January of this year as well as completion of our debt. We signed the debt in December. However, all security was not collateralized until February of this

year, so there's some expenses there. I think you should assume, going forward, that transactional expenses sometimes are hard to predict because it depends on transactions, but where we are today, you should not expect more than GBP 1 million a quarter.

Simon John Davies *Canaccord Genuity Limited, Research Division - Head of European Research*

Right. And lastly for me, just on Jackpotjoy U.K. Can you talk about your marketing strategy for the remainder of the year? It feels like there has not been a lot of TV exposure year-to-date. Are we expecting to see that kick in, in the second half?

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Yes, that's a fair observation. I think traditionally we have aimed to do television advertising September, October, November. And then we do, to a lesser extent, January, Feb, March. We haven't done January, Feb, March this year, and we have shifted some of that spend to the back end of this year -- later this year, so you will see us back on television in September, October, November. So really, it's a timing thing rather than a quantum thing.

Simon John Davies *Canaccord Genuity Limited, Research Division - Head of European Research*

And expectations for marketing spend through the year are unchanged, are they?

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Correct.

Operator

And our next question comes from the line of Elias [Atdowella].

Unidentified Analyst

One or two questions. One is about the distribution cost of Jackpotjoy, just playing with the numbers here. I saw the full year revenue '16 and '18 (inaudible) Q4 at 26.9 distribution costs. Now I see the revenue is now roughly the same as Q4 for Jackpotjoy segment, and I see that it was around \$7 million of -- \$6 million or \$7 million, so I just wanted to understand that a bit more in detail, if possible?

Keith Laslop *Jackpotjoy plc - CFO and Director*

Yes, in -- for Jackpotjoy U.K., our major marketing campaigns happened in Q2 and Q4 2016. Similar to Q1 2016, we haven't had significant marketing campaigns occur in Q1 2017, so that would be the major difference between what you are seeing in distribution costs in Q4 2016 versus Q1 2017.

Unidentified Analyst

Okay. And then again on the transactional costs highlighted earlier, so you mentioned 1.3 for the legal fees. The balance of the 6.7 to 1.3, could I apportion that to the debt costs, effectively the upfront fees for debt?

Keith Laslop *Jackpotjoy plc - CFO and Director*

Yes, there's some residual fees that were from the high-yield bond in there as well, which have -- in terms of the payables, which have, [post diem] what we pay with respect to that.

Unidentified Analyst

Understood. And then lastly, obviously, general election I saw a comment about POC being delayed post-general election euphoria whatever. On your end, have you -- do you have a number -- because you mentioned, I think earlier on the September Investor Day a 3% potential hit at the time that the regulation was just coming out. Do you have a further update on margin impact of the new POC coming online, say late this year?

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

We are still holding to our 3% and 1st of August forecast. There have been an absolute plethora of well, guesses, is the nice way of putting it I suppose, of people suggesting when POC is going to come out. The treasury are still sticking to the 1st of August, although privately, I suspect that's a little ambitious. But -- for in terms of forecast, we are holding with what we told you earlier.

Unidentified Analyst

Understood.

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Until we know better.

Operator

And your next question comes from the line of Victoria Pease from Edison.

Victoria Elaine Pease *Edison Investment Research Limited - Analyst*

I just had a few quick questions. Just on the marketing spend, just to come back to that one. What sort of percentage of revenues are you thinking as a stable level for the full year? That would be the first question.

Keith Laslop *Jackpotjoy plc - CFO and Director*

I think what's reasonable to expect is mid- to high teens for marketing spend for the full year 2017.

Victoria Elaine Pease *Edison Investment Research Limited - Analyst*

Okay. Great. And just on the Spanish segment, I know you combined Botemania with Starspins. Are you able to break down how much was in each segment?

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

In terms of?

Victoria Elaine Pease *Edison Investment Research Limited - Analyst*

Revenue.

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Revenue. About GBP 4.5 million in each.

Victoria Elaine Pease *Edison Investment Research Limited - Analyst*

Okay. So it's fairly even, in that case.

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Well, a bit less in Botemania and a bit more in Starspins, but it's that sort of area.

Victoria Elaine Pease *Edison Investment Research Limited - Analyst*

Just a final question. The trading in April is going very well. Is that at all impacted by a change in relationship at all with Gamesys? Or what's -- is there anything that comes to mind to do...

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

No, no, no. There's no been change in our relationship with Gamesys. We work very much on a collaborative basis, and that has continued, even though the earnout came to an end officially at the end of March. I think what we have seen in April is we have seen the benefits of some of the marketing we did in Q1 kicking in, in Jackpotjoy business. We've seen some of the experimentation that was done in Mandalay regarding bonuses starting to bear fruit. And I think that the Asian business in Vera&John is now back to the levels it was prior to the payment processing issue. So it's a combination of those 3 things that have helped us have a very strong April.

Operator

And our next question comes from the line of Eyal Ofir from Eight Capital.



Eyal Ofir *Eight Capital, Research Division - VP and Senior Equity Research Analyst*

First, just curiosity from my end is, you guys just completed the earnout payments. Is there an update from you where you want to take Jackpotjoy now in new markets over the course of the next year or 2?

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Okay, that's a very good question. I think where we are at the moment is that now that we have taken control of the ship, as it were, I don't think you'll be seeing us launch into new markets during this coming 12 months, as we focus on our existing markets now we have greater control of the business. I think that's going to be the focus here, exercising that greater control. Beyond that, we are always looking at new markets, so we have a sort of permanent working party that are looking at each individual market. For example, in Vera&John, we have established a small bridgehead as it were in Brazil -- just to see how that market goes for us. Our choice is to buy joint venture or grow organically, but we have ruled out M&A, so that is an unlikely route, which means we are looking at perhaps joint ventures or more likely organic growth. So I think even if we did launch Jackpotjoy into new markets and the obvious place to go is, as you point out, with Botemania into Latin America, I don't think it will move the needle much, as it were, in the next couple of years.

Eyal Ofir *Eight Capital, Research Division - VP and Senior Equity Research Analyst*

Okay. And then in terms of Mandalay and Jackpotjoy, have you guys begun to incur the synergy [cuts] there in terms of cross-selling to the various [interfaces].

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

No, not yet. We have to pay the earnout, which we have not yet done, and we have not yet done that because the accountants are busy verifying the numbers as we speak. We do anticipate that we will have paid that by the end of June, I'm not sure -- I think that was me guessing actually. I think Keith's probably (inaudible)

Keith Laslop *Jackpotjoy plc - CFO and Director*

It will be paid before the end of June.

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

By the end of June, and we would expect to start -- we have started the preparation work for the cross-sell and I suspect that would probably be in Q4 this year is when it will start it. It's == logistically it's not the easiest thing to do, but we are getting there, and we also have to update some player terms and conditions as well.

Eyal Ofir *Eight Capital, Research Division - VP and Senior Equity Research Analyst*

Okay. So the planning and it's a timing process have already begun in terms of that process.

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Correct. Absolutely.

Eyal Ofir *Eight Capital, Research Division - VP and Senior Equity Research Analyst*

Okay, good. And then just in terms in the past you talked about how Vera&John -- you gave the update on Japan, but I think you've talked about the potential opportunity of pushing Vera&John from a B2B standpoint more and more into Asia. Is there an update beyond Japan you can give us?

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Yes, we are intending to push, have a strong sales pitch of B2B Vera&John, and actually that sales pitch has started this week. There was a large gaming conference going on in Macau, and we are using that opportunity to seek out further B2B partners.

Eyal Ofir *Eight Capital, Research Division - VP and Senior Equity Research Analyst*

And have you had any early discussions at this point? Or it's still too early to talk about?

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

It's too early.

Operator

(Operator Instructions) And our next question comes from the line of Andrew [Haber] from Paulson.

John Alfred Paulson *Paulson Management LP - Founder, President, and Portfolio Manager*

This is actually John Paulson speaking. I wanted to see if you can just clarify the earnout. You mentioned that you'll be paying GBP 95 million of the earnout by the end of June and the balance in '18. How much is the balance? And secondly, you mentioned that most of the earnout -- end of the earnout period for most of the business expired at the end of March. Is there -- what other business is still subject to earnout?

Keith Laslop *Jackpotjoy plc - CFO and Director*

I'll answer the second question first. The bit of the earnout that we pushed back a year was Spain. The reason we did that was when we initially acquired the Jackpotjoy business, Spain was preregulation. And what we agreed with Gamesys was to essentially push back Spain 1 year. So we will be paying a portion of the Spanish earnout before the end of June. And the delta will be paid in June 2018. Now what you'll find on our -- so right now in terms of our balance sheet, the contingent consideration in total is valued at GBP 135 million, we'll pay circa GBP 95 million before the end of June and so the delta is GBP 40 million. That relates to not only the Spanish -- the remaining Spanish earnout, but there's also 3 milestone payments of GBP 5 million each, which we agreed with Gamesys should certain EBITDA targets be hit in 2018, 2019 and 2020. So it's the Spanish earnout that remains as well as 15 million -- potential GBP 15 million of milestone payments in those 3 years.

John Alfred Paulson *Paulson Management LP - Founder, President, and Portfolio Manager*

And in addition to the GBP 40 million, is that == the GBP 5 million seems to be fixed. Is it possible that the Spanish earnout could grow? Or the earnout figure could grow depending on the performance of other businesses over the next year?

Keith Laslop *Jackpotjoy plc - CFO and Director*

The Spanish earnout could grow based on the performance of Spain. And within our financial statements, you will see a fair value adjustment upwards of contingent consideration of GBP 12 million this quarter; GBP 5 million of that roughly was due to the non-Spanish assets, \$7 million roughly was due to the Spanish assets. So right now, it's valued -- it is worth saying that there are probability weightings that are still in the current contingent consideration as well as the discount rate, but the Spanish earnout is fully valued right now. That's not to say that Botemania won't continue to exceed our expectations, but right now, we're using our best estimate in terms of what that earnout will be.

Operator

And that was the final question for today. So I'll hand the call back over to your host for any concluding remarks. Thank you.

Andrew Ross McIver *Jackpotjoy plc - CEO, President and Director*

Thank you very much for joining the call. I hope that we have satisfactorily answered all your questions. And I hope you'll join with me in thinking that this was a strong set of results for the first quarter, and we remain on track to deliver our forecast for the full year. Thank you all very much, and we'll speak to you again in 3 months.

Operator

Thank you. Thank you, ladies and gentlemen, for joining today's conference. You may now replace your handsets. Thank you.

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