

SNAI S.p.A

“First Half 2016 Results Conference Call”

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the SNAI First Half 2016 Results Conference Call. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Mr. Fabio Schiavolin, CEO of SNAI. Please go ahead sir.

FABIO SCHIAVOLIN: Hello everybody and happy fifth of August for those of you waiting for this call to leave for vacation and a good afternoon from Milano for this call on first half results for 2016.

As you may have seen already from the presentation, the first half of the new SNAI Group is confirming positive trend of the first quarter of 2016, with a consistent growth on the wagers line in all the business units of our Company.

Wagers are reaching €5.36 billion on a pro forma basis with a 7.1% growth in comparison to the same period of 2015. This growth is mainly driven by sports betting retail, betting online and gaming machines business. On these business the growth has been recording a double digit growth for betting online with a 53.3% increase over the same period of the last year and on sports betting retail recorded a 22.6% increase.

Gaming machine despite the increase of taxation applied to the business are recording a growth of 4.1% in comparison to the same period of 2015.

In our portfolio we currently manage 63.500 AWP and 10.000 VLT. Our betting network is composed by 700 betting shops and 900 betting corners. This is showing efficiency on our asset management implemented by our network. We have been opening more than 30 shops over the first six months of the year. We have been managing the change of the AWP

internal boards during the first six months of the year, having reached 70% of the network with regards to the change of the new board with the 70% payout .

With the fully opening of the SIS/Finscom network, we have been able to add approximately 57 million wagers to the total wagers of the Company which is a consistent result, considering that we've been recording 28 million wagering from sports betting, 15 million from races and 14 million from horse racing. Afterwards in this presentation we see that this recovered portfolio of shops is consistently contributing the company to grow, within the organic growth the Company is recording in all the business segments.

An unfavourable payout in the second quarter contributed to an higher average payout for the first half of 83.3%. The results could have been even better with the average payout of the last year, but if we consider that the market blended payout as the mix between online and landline operation, I think we should be happy with the risk management activity in our Company.

On the cost reduction program we are confirming today our target of €18 million for the first quarter of 2017, having achieved already €3.2 million synergies in the first half of 2016 and expecting another €8 million on the second half where such €8 million figure is coming basically from new contracts already negotiated and signed. So we have full visibility to be able to complete also this level of synergies in the second half of the year to reach €11 million on annual basis this year and complete at full speed by the first quarter of 2017.

So to wrap up the first big numbers about the first half of 2016 we have been recording an EBITDA of €67.7 million which compared to the €57.5

million in the first half of 2015, is showing an increase of €10 million which is roughly 18% increase over the last year. Adjusted EBITDA LTM is ramping up to €132.8 million. And the net financial position importantly is improving going down to €440 million with a €27 million cash generation in the first six months of the year.

An important thing to be said, of course, is that those numbers are reflecting also an improvement on the leverage ratio and NFP on EBITDA now at 3.3x, well below our target of 3.5x at the beginning of the year.

CHIAFFREDO RINAUDO: Hi, everybody. I am Chiaffredo Rinaudo , CFO of the company. And we can go through Slide #5 where you have the economic and financial KPIs posted by SNAI Group for the first half 2016. Let me remind you how Cogemat Group was consolidating from the 01st of November, and for this reason we are showing tables with pro forma figures for the first half 2015 just to have an homogenous base for the comparison.

Starting from the revenues, we posted €442 million revenues, decreasing by €62 million compared to 2015 mainly due to the Barcrest transaction of €27.5 million occurred in the first half of 2015, and is also due to the increase in 2016 taxation for the gaming machine mainly related to AWP's component. Such increase was introduced by the Budget Law 2016 from the 01st of January this year.

As you may see going down, the contribution margin performance is plus €16.3 million versus 2015. The reduction on the gaming machine revenues basically has impacted SNAI marginality. Since this reduction, the increase in taxation mainly affected the owners of the AWP's machine. And] SNAI to a limited extend since we own only 5,000 of 63k machines.

The increase in contribution margin is therefore linked to the growth on wagers that Fabio described before, and partially to the reopening of the 63 shops coming from SIS and Finscom acquisition finalised in the second part of last year.

EBITDA, has already been mentioned by Fabio, is growing up to €67.7 million, on a reported basis and it is over €70-€70.5 million on adjusted basis, which shows a performance of plus €10.5 million compared to 2015. The LTM on EBITDA is 125 million and on adjusted basis it is €132 million.

An important value to be noted is the one of the CAPEX as we posted €13 million CAPEX in the first quarter...in the first half of 2016 64% of the value is related to the replacement of the internal boards for AWP's where the net was changing its payout down from 74% down to 70% as allowed by the new Budget Law.

This effort has been mainly done in the first six months, and we reached a total value of board replaced over 75% of our network. So the expectation is that for the second part of the year this value of non-recurring CAPEX will be strongly reduced as the majority of AWP machines were updated. The current leverage is 3.5 on reported values and 3.3 on adjusted basis.

If you go to Page 6, you may see the bridge, just to have a better idea on how the six months EBITDA has been affected by the new components present in our profit and loss account. We have the bridge coming from EBITDA's first half of 2015 to the first half 2016.

As you may appreciate, the first positive contribution comes from the regulatory scenario, in use in our business. This year, mainly thanks to the new taxation scheme applied to the betting business, we have a positive

contribution coming from the new regulation of €2.5 million; then obviously we have the greater positive impact coming from the growth of wagers which accounted for €8.5 million in the first half, and the reopening of SIS shops for €1 million. And finally, from the synergies coming from the Cogemat integration, as Fabio said before, we got...we achieved a total value in the first six months of €3.2 million.

Finally, we have the negative impact coming from the higher payout that we had in the first six months compared to the same period of last year, which accounts for minus €5 million. Overall this is the contribution to get the €67.7 million of the EBITDA 2016.

FABIO SCHIAVOLIN: On Page 7, we have a breakdown of the wagers mentioned earlier, where we can clearly see that we have a double-digit growth in betting, retail betting, online betting and other online games, mainly represented Casino games. Such double-digit growth figures are respectively on the retail channel 22.6% with a growth on the contribution margin of 37%, on the online betting of 53.3% with a growth on the contribution margin of 33.3% and 19% growth in wagers for online games with a growth on contribution margin of 22.7%.

Despite the increase of taxation, we've seen a stabilization of gaming machine business, which recorded a growth of 4.1% in wagers and 2.9% on the contribution margin. I have to say that, as mentioned before on gaming machines, this scenario has changed with the introduction by the last budget law of new tax increase, which was completely offset by a decrease in payout. As you can see from the figures without a strong or material effect on the wager side, we have been recording distribution of the wagers on a smaller portfolio of machines with a consistent stability in wagers and also on contribution margin.

What we see in sports betting is a positive growth driven by the Management and by the consolidation of the Finscom and SIS portfolio with the reopening of the shops. As Edo [ph] was mentioning also the positive tax effect has contributed to the result and we also wanted to remark the positive contribution coming from the Euro Football Championship which in this first half contributed on the wager side for €31 million.

On the online, after the release of the new website presented during the last call, we've been focusing strongly on the acquisition side with marketing and operational focused to drive wagers up. We are also shifting towards an higher speed of conversion and acquisition of customers from the retail space to online, which will be our focus for the next half of this year.

The Cogemat integration, as mentioned in the previous call, exploited, as expected, a decrease of the payout risk by an higher contribution from the gaming machine business with controlled payout. In fact, on the first six months of this year, the payout risk related to betting products decreased its weight down to 23.6% on the contribution margin from the 27% on the pro forma data of 2015.

On payout trend, Page 8, you will be able to see the evolution of payout which, negatively affected by an higher level in the second quarter of 2016, reached a level of 83.3%. Again this increase is given by the increase of live betting and online gaming in the period, although payout is at least three points below the average of the market according to the data provided by the regulator..

RINAUDO CHIAFFREDO: Page 9, we have the waterfall showing the cost structure from EBITDA and you can see how that EBITDA, the last 12 months EBITDA

turns into cash through [ph] our current cost structure. Let's say the most significant cost component is related to the interest costs obviously. In this picture, you will see a value of €61 million which accounts for the older Cogemat structure in place before the consolidation into the SNAI Group. Today, on a 2016 full basis we are running under €60 million of interest cost. Basically, we are between €58 million and €59 million for the full year, so we would have an improvement of this value.

Non-recurring cost for €13 million are mainly related to the three M&A operation, with the largest represented by the Cogemat integration and the other ones related to SIS and the Finscom acquisition.

CAPEX level of €21.2 million. At the beginning of the year, we declared an outlook for a total value of CAPEX for the current year of €30 million. As we mentioned before the performance of CAPEX at end of June showed a total level of CAPEX of €13 million basically related to one-off CAPEX for AWP internal board substitution. So today we can see that the last 12 months of €21.2 million could be likely the target for the full year 2016.

Taxes and Delta working capital could change along the period because we have seasonality for the next six months compared to last year, but basically, we think that this current value could be kept by the year end.

FABIO SCHIAVOLIN: We would just want to give you a quick outlook over the next six months. Starting from the merger with Cogemat, the next step of integration is now the merger between the legal entity: SNAI Group and Cogemat Group. We are planning the merger by the end of September or mid October. Maybe, it could be possible for us to start with the merger of Cogetech before and Cogemat thereafter although we do think that by the end of October we will have this process completed.

This could be efficient also for the participation to the tender procedure of the betting licenses which was expected to have place before the end of June 2016, but as you know the tender procedure is currently under evaluation from our regulator and the Ministry of Financing, which are discussing with regional authorities on the rules that have to be applied in unique framework for all the Italian territory in order to allow all the operators to better program their future and also to have the possibility to look at the tender procedure with safer structure.

Going to the betting tender, of course, the Company is ready to compete as we are now out with a very strong and aggressive acquisition canvass for the new point of sales. We've been doing a big work to change the mix of our portfolio in order to get rid of low-performing point of sales to acquire best-performing ones from our competitors.

We do think that current trend on betting and online wagers are likely to continue throughout the third quarter and through the second half of the year. So we've been positively thinking to achieve the target of 11 billion wagers by the end of the year. We do think that gaming machine wagers and margins should stabilize too. We've been also mentioning earlier the completion of the replacement of the AWP's internal boards at 70% payout.

So far, as you have seen...even from the SNAI experience but also looking at the market, wagers did not show a strong elasticity from the decrease of the payout. So we do think that, the game content manufacturers have been able to come out with new and more appealing games which have offset in way the lower payout by keeping customers on devices for a longer time.

In the second half of the year, thanks to the merger of the two companies, we've been finally able to go to the second stage of our integration which is the industrial one. Industrially, we are very much looking forward and excited to have our joint operations and joint technological platform together. We've been able after the merger, to exploit the five platforms we have for the VLT business, being the sole and unique concessioner in Italy, to have full access to five different platforms.

We've been also launching in September with a new football season, the new integrated betting platform. We are also excited about that because this is coming out from a complete integration between the R&D department of SNAI and Cogetech. We've been definitely working in the last couple of months, integrating the state-of-the-art development that both companies were doing in the same field and by applying the best solution the two companies were developing.

We've been focusing on the sports betting field also on the launch of new solution of SSBTs, the self service betting terminals. On this side, again we are able to come out to the market with completely brand new product, which I consider as the best in class product about to be launched in the Italian market in the next season, and it would be again a mixture... between the development made by SNAI and the stability of the neighbouring platform and the new integrated solution by Cogetech.

Again, on the network of shops managed from the acquisition of SIS and Finscom. Next half of the year would be dedicated to start the change of business model in favour of outsourcing to agents and franchises. Again, this is an industrial sign of the integration because as those of you may remember the Cogetech strategy after the Ladbrokes acquisition back in 2009. We are now going to do exactly the same thing.

In this case we will have to focus on the outsourcing of 63 shops. We may be looking to the case of having a couple of them...two or three of them managed directly as flagship stores in order to have also a place to test all the new solution directly on our customers. But again, our target is to start these outsourcing process and to achieve a target between 30% and 35% of the SIS and Finscom network outsourced by the end of the year, which means roughly 20 shops shifting from direct management to franchise management.

Q&A

OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Mr. Domenico Ghilotti with Equita SIM. Please go ahead.

DOMENICO GHILOTTI: Good afternoon. I have two questions. The first is related on an update on where are you on the renewal of the contract with the network, and when do you expect that work completed the process. The second question is on the Euro cup contributions; if you can give us some colour on how much was the contribution in terms of wagers and revenues?

FABIO SCHIAVOLIN: Thank you Domenico, on the first question, we are working 24/7. We have our sales force working throughout August too in order to come up by September with at least 30% of the network renewed. Basically today, we are in the area of 25% on those retail asking for the renewal of the contracts. We are also trying to get high performing point of sales from the competition. On this purpose, we have already identified 200 top performing shops from competitors which our sales force is about to approach and lock them up by the end of the third quarter.

DOMENICO GHILOTTI: Sorry, I didn't catch you the 200 shops are let's say, your shops that are being targeted by competitors or you that are targeting...

FABIO SCHIAVOLIN: 200 shops are shops that we've identified and we are attempting to get from competition. On the other side, the 25% figure was referred to our current portfolio.

DOMENICO GHILOTTI: Okay, and can I ask you what is the main, let's say selling point let's say to address these high-performing retailers?

FABIO SCHIAVOLIN: Yes, of course, there are different cases because some of those shops are appealing to the SNAI brand, those ones that are not in a network that which are able to explore [ph] the strong brand, but it is let's say the minor case. The best way to acquire those shops is through product offering basically. We are the only one in the physical space, together maybe with another competitor, able to offer the best ever portfolio of services related to betting product and I'm talking about live sessions streaming and different tools to control and to make also back off administration of the point of sales.

Of course then there is price competition. We've been trying to get out with an aggressive plan although may not be the most aggressive price plan compared to the other competitors., We are trying to balance brand awareness, product range and price promotion to come up with a well balance offer and acquire new customers.

DOMENICO GHILOTTI: Okay, thank you.

RINAUDO CHIAFFREDO: And concerning your second question Domenico, the overall picture of the growth that we post into the first half, if you go back to Page 7 where you have the values and wagers comparing first half 2016 and

first half 2015. Considering gaming machine, sports betting retail and virtual events which are the three main areas of interest by the shops, the reopening of the PoS coming from SIS and Finscom are contributing in terms of new wagers. We have a total increase for the SNAI Group wagers of €230 million of which 80, so one-third, is coming from the SIS contribution. You have another additional €20 million coming from the Euro Football Championship, which totals €30 million with additional €10 million coming from the online business. So in the shops contribution business which come for gaming machine, sports betting, retail and a virtual event and horse betting. On total increase of 230€ million, €80 million coming from SIS, €20 million coming from the European championship, and the remaining part is related to the growth on the overall network.

DOMENICO GHILOTTI: Okay thank you.

RINAUDO CHIAFFREDO: You're welcome.

OPERATOR: The next question is from Andrea Randone of Intermonte. Please go ahead.

ANDREA RANDONE: Thank you, just a quick follow-up about the whole betting. Can you detail us the difference in payout between the retail and the online channel. I wonder if even with a higher payout to the online channel has a higher contribution margin because of a lower cost associated to the distribution network. And the second question about this point is something you already discussed. So the new agreement with the shop network are contractualizing lower fees to the network. This is the question, because in my calculation the percentage you are leaving between wagers and gross margin network payout and taxes is decreasing year-on-year. I know, it's a bit complicated but is it something important? Thank you.

RINAUDO CHIAFFREDO: Okay, starting from the first question related to the difference in payout, retail versus online. Basically, there is a structural difference that you can appreciate along the former quarters, which is mainly related to the different kind of players, different kind of book makers on one side and different kind of partially players on the other side. The offering on the online arena is a little bit more aggressive than in the retail space because obviously competition is faster in the online space where players can easily and rapidly change their bookmakers. So normally payout are more aggressive on this space. And even the nature of the players are more aggressive and more focused on, which is the real and concrete event that is running at the moment. So let's say that the difference is the structural.

You correctly estimated that given the fact that the the distribution chain behind is different, also the margins could be different and looking at the concession margin we are basically able to recover the gap between the two business. Thanks to the shorter distribution chain that we have in the online space.

So basically at the end of the day, the contribution margin or let's say the final marginality for us is basically comparable in both segments. Related to the other side, given the fact that at the moment the component of the online business is growing faster for SNAI than the retail business, obviously, the blended payout that we are posting is little bit increasing also because of this fact.

The other question related to the margins, obviously we are facing competition in our market, we don't see a real matter of reducing margins for the renewal process. Thanks to the Cogemat integration, today, we are able to offer through our historical betting shops and betting chains, new

services, new platform as Fabio mentioned before, the five VLT platform coming from Cogemat of which two platforms are completely new, and we will be the first player to introduce those games on the Italian landscape.

So on one side we are proposing together with the renewal to our chains, this is kind of added new and renewed portfolio, which is obviously value for the chain, because they are able to add revenues and margins that they were not getting before. So that's an additional contribution to their profit and loss which is an important value in this moment for the renegotiation. So we don't see a real matter of competition in terms of reducing margins for the renewal of the contracts.

FABIO SCHIAVOLIN: I may add something, first of all, the historical trend that you have been talking about which is showing a little decrease of margins, is totally related to the increase of payout and it is not, in any case, related to the renegotiation of the agreement or in essence to the customer's portfolio.

On the opposite, to continue what, Edo was saying, the new commercial plan the company is trying to pursue by augmentation of the portfolio is a completely brand new approach for the SNAI Group. SNAI Group was till this year and till the launch of this new offer the sole operator to offer a compensation to its customer based on wagers, in a market that is very much sensible to payout swings. What we are trying to achieve here with this new aggressive sales promotion is to change completely the basis of the relationship between customers and the company.

Moving from our compensation based on wagers to compensation based on our revenue-shares basis model, where ourselves and the retailers are tied together, and we have share the same interest on margins. That will bring immediately down the cost of network. Actually the cost of network

is around 8.5% on sports betting, and with the new revenue share agreement we will be able to reduce this cost related to our retailers.

At the same time, by having our customers aligned in terms of margin, we are expecting to have good results also on the payout side, because of course, the acceptance risks will be shared between the Company and the retailers. And this we do think will have a direct reflection on the payout percentage at the end of the year.

ANDREA RANDONE: Thank you, very, very clear.

OPERATOR: The next question is from Rob Sommers with Reorg Research. Please go ahead.

ROB SOMMERS: Hi, quick question, you noted in your report that as of the end of March, the Company was fully compliant with its covenants. Is there an update for the end of second quarter? Thank you.

FABIO SCHIAVOLIN: We confirm that we are still fully compliant with our covenants (Ph).

ROB SOMMERS: Thank you.

OPERATOR: The next question is from Mehmet Dere with UniCredit. Please go ahead.

MEHMET DERE: Hi, guys. Thanks for taking my questions. I have two short questions. First of all, about your capital structure, do you expect to call [ph] the bonds, and if so when do you expect to do it. And the second one regarding the current payout levels of sports betting, where do you see sport betting payout right now, I mean for the third quarter not for 9M? Thanks.

FABIO SCHIAVOLIN: So on the first question, with these results, with those markets, and with the next season full of activity on our side beginning from the integration between two companies. we are looking forward to call.. We will monitor carefully in the next quarter the business evolution and in the meantime we start to have a look

MEHMET DERE: And on sports betting, well at the current levels, can you give us an indication there?

RINAUDO CHIAFFREDO: Yes. For the pay out on sports betting, let's say that we have good, very good payout coming from the European championship that will be partially also posted in July. So we see that in the second part...in the second half of the year, we could run, I mean, in the middle between the results that we achieved in the first quarter, which was basically a good quarter for payout, and the second quarter which was and unfavourable period for the payout.

This is obviously an estimation, because it will depend on the how the events will develop in the following months. But, let's say that today we see a stable market in terms of [ph] of book makers competition. Normally we should have final payout between 81% and 82%.

MEHMET DERE: Great and just a follow-up regarding the future capital structure on the bet side. Do you expect again a capital structure like this, I mean [indiscernible] structure or do you expect than having all of them on a senior level?

RINAUDO CHIAFFREDO: It's too early; today we haven't produced any real plan for the refinancing. We are monitoring what's going on the timing for betting tender, which, as stated at the beginning of the year, is the priority for the

current year. The government is basically saying that they think to find a solution in the following month of September. It doesn't seem too likely that the tender will take place for the current year. But let's say that due to the agenda of the so-called Conferenza Unificata, which is at the table between the state and the local authorities, which should have an additional meeting in mid-September. We will monitor if the time is confirmed, the expectation of the state for the current year or if the betting tender should be postponed 2017. And then, when we will have this evidence we will see if refinancing could be interesting or not. But by now, we don't have any specific idea on this.

FABIO SCHIAVOLIN: If I may again, from the stability law, the government is showing and I guess for the first time since I'm in this industry (over the last 10 years), consistent and material help and a positive approach, both with regards to the net taxation on betting, and let's say the tool that's being given to the operators in order to absorb the increase of taxation in gaming machine by the decreasing the payout.

The third thing, which is the one Edo mentioned before related to the delay of the betting tender. I want to see it with a positive attitude because if the tender is delayed, it is because the government want to be sure to give the operators a clear environment to fully exploit the licenses awarded from the tender procedure. This is again, something, which may sound in very normal outside Italy but in this environment this is the first time the government is really trying to give operators, a unique set of rules applicable across Italy with a unique opening hours and other rules for the operators. This is very important because for a Company like SNAI, it means that it is going to bid to confirm at least the existing networks. It's really, really important to have clear rules before apply the tender procedure.

MEHMET DERE: Okay, great. Thanks very much.

OPERATOR: Gentlemen, there are no more questions registered at this time.

FABIO SCHIAVOLIN: So if there is no more questions, thank you everybody for your time. And we will speak again at the next call for the third quarter result release in November.

RINAUDO CHIAFFREDO: Bye-bye.