

SNAITECH SpA

“2016 Results Conference Call”

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 CHIAFFREDO RINAUDO, CHIEF FINANCIAL OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the SNAITECH 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 SNAITECH. Please go ahead, sir.

FABIO SCHIAVOLIN: Hello, and welcome, everybody. Today, I would be handling this conference call starting from the new corporate name.

You know that we recently come to the completion of our inspection process, but also the change of our corporate name, which includes a bit of legacy of the two Groups, of the SNAI and Cogitech. Of course, it's important for us and it's one of our strong points to maintain the conventional brand names, especially the SNAI one which will remain in both Italian online and offline operations. But this is the starting of New Year.

This is the starting of New Year after 12, 14 months past working very hard. And I guess that you guys are together with me happy recognizing that the results and number we are about to show you today, are confirming exactly what we were planning when we started this process back in November 2015.

SNAITECH is today the biggest operator in the marketing [ph] section arena in the gaming industry in Italy. We, during this year will be doing many, many things. We have completed the incorporation of COGEMAT. We completely designed the organization and the structure of our Group. We've moved the Company headquarters to Milan, and we have also made big, big in project of refinancing our debt structure, our capital structure, which came out very good after having obtained an upgrade

from the rating agencies, Standard & Poor's and Moody's. We enlarged the coverage of the broker on our equity market, and we met I guess most of you guys into this call, into all our meetings with bond holders.

Talking about the 2016 achievements on Page 4, you will see that this year has ended up with an increase in total wagers of 3.3%, this is a number that will also be a little bit increased the driver for the Business Plan that we have been working for the next three years. So wagers at €10.5 billion with an increase of 3.3% on 2015. Well, then this growth, we would just rate of a stable but positive value growth of AWP's, despite the increase in taxation that we have seen has a little bit influence on the wagers.

In Italian gaming market, we recorded a strongest growth in sports betting retail, almost 20%, much, much better than market that totally has registered a growth of 18%, but like-for-like the real growth in this 18% are indeed those of the operators, the dot.com operators that were not in the market in the year before.

So in a like-for-like comparison, the market was growing in the same year at 6...6, 7%. The outstanding growth is also being registered in the online betting at 40% and in the casino digital games of 18% with the blended growth in wagers in the online stakes of 24% compared to the market that in the same period has been growing 23%, so ahead of the market also.

We are managing within...during this year we would be focused on confirming our market share and our position in the market. We enforced, as I was telling before, our top position in the sports betting market. We confirmed and we are now in the current trading, we are starting growing in the gaming machine arena being with 60,000 machines and 10,000 VLTs, the second or largest operator in this market in Italy, and managing

a natural...a total natural cost for sports betting shops of 1,600 Point-of-Sales.

We started with the so-called rejuvenation program in the shops. We presented in the last Trade Exhibition in Limeni [ph] a couple of months ago, the completed platform which drives the Company into a new technological era already for the Omni-channel user [ph] contents. We've been carrying on the outsourcing strategy, having already outsourced 20 Point-of-Sales of a former SRI network, 28 will be outsourced at the end of this year. So we will be able to start 2018 with a new complete outsourced network having a hold in our direct management only 7 shops at the beginning of next year, which will remain managed directly as flagship shops.

We recorded in this year, despite the [technical difficulty] positive numbers we are about to tell you, they could have been even better if we won't have been facing an unfavorable payout and a favorable fund [ph] result point of view perspective which in the full year has recorded a the target of 84.5% with an increase of 2% versus 2015.

Just to point out this unfavorable payout, it has been driven in such a high number, mainly by the fourth quarter of this year. The integration with Cogemat has been completely...fully completed with the €20 plus million expected synergies delivered, €10 million, have been delivered during the...this year in 2016, other 8.5 would be delivered in 2017 and we will end up with our program in the beginning, in the first quarter of 2018.

All those numbers are driving results into a robust growth at the EBITDA level that has been increasing from €114.5 million in 2015 to €128.3 million in 2016, so an increase of €13.8 million which is double-digit growth.

We have been able to stabilize the CAPEX level and we have been reporting a €21.5 million as the operating cash flow before financing costs which we have to bear in order to refinance the Company and to get also to...at the end of the refinancing with a total saving of €70 million on a year base on the financing costs. We have all these numbers drove also to the...let's say at the downside decrease of the leverage from 4.08 times in the previous year to 3.75 times this year on an average.

If we let's say go a little bit more in detail on the following page, Page 5, again, wagers are...have reached the level of €10.5 billion in comparison to €10.2 billion of the last year, with a contribution margin that has been increased from €252 million to €267 million and EBITDA from €114 million to €128 million. So the reduction at the final number of net income is also showed by the reduction of net loss which has been lowered by...from €52 million of 2015 to €17 million of at the end of 2016.

And also the net financial position has remained stable because of the refinancing costs, but the leverage, as I was telling before, has been improved from 4.08 to 3.75 times NFP/EBITDA.

So going and having a look to the...at Page 6, betting has been recording a strong growth of wagers on retail sports betting as we were saying and has been also showing on the other side an unfavorable payout effect on margins which has reduced at the end of the year that potential inclusive margin that we were recording during the year.

On the gaming machine side, the growth has been stable with the rising of the contribution margin, despite in this case the payout reduction and the higher taxation. If you remember, we had been focused on the change of

the motherboards of all the AWP's in order to adapt to a small payout the AWP machine, this decrease of payout has influenced also the wagers side.

On the online, we are growing very strongly on the online betting's, more of everything [ph] of 40.6% and that's related mainly to the cross-selling initiatives on the retail network and also of course, on the product side with an introduction of new features on our platform and also with improving in the offer side of the live events.

Contribution margin grew by €16 million versus 2015, so its 6.2%. Overall, we paid roughly €975 million or roughly €1 billion of taxes, but with the positive action done in the network, we've been able to reduce the distribution costs of €82 million.

So having a little bit of more view on the online growth, at Page 7, we repeated again the slide we have seen before also in the road show, which is showing left and right, the growth both of the online and the offline wagers, and the shop [ph] product in our Company. This slide shows basically that a robust and a very important growth of the online wagers has not been influencing negatively that growth on the offline wagers.

On the opposite, we see that brand awareness and distribution network, so number of point-of-sales and all the action we've been doing in...on the technology side in order to give the customer the same experience both in the offline and the online space, [technical difficulty] the Company to grow in a very positive way the online acquisition and not only from a competitive point of view, but also from a qualitative point of view because the acquisition done through the cross-selling which is one of the pillars also of our Business Plan for the next years is improving very much

the quality of customers that are now playing in our platforms, in our digital platforms, from one side.

And on the other side, it's helping the Company to protect itself from the potential churn rate of customers that are trying new operators...that could try new operators for the online and may be abandon our shops. So the two products together working in synergies helping each other and this is completely shown by the numbers.

So may be now, Edo, at Page 8, will start talking about detail on our synergy plan.

CHIAFFREDO RINAUDO: So Page 8, you may see the true picture of the achieved and the expected synergies. First of all, we definitely confirm the total target of €20.5 million synergy by the end of the program. As you can see from the slide, €10 million have been already accounted in 2016 results. We expect €8 additional million to be accounted in 2017. And finally, additional €2.5 million to be achieved in the first half of 2018.

As you can see from the chart, €17 million which is box the orange one, the #1 are relating to cost [technical difficulty] in supply contract we have in IT structure and corporate costs. All the underlying activities related to this €17 million have been already completed, is up-to-date, so as a result, we will account €7 million saving this year.

The last €3.5 million on box #2, the green one, are related to the redundancy program that will start at the end of the second quarter '17 or at latest, July 2017. We opened a technical procedure in March this year and it takes 75 days before starting the redundancy program at the end of this period.

On Page 9, you see the bridge between EBITDA 2015 and EBITDA 2016. As you can see, the main part of contribution is coming from the increase in term of contribution margin comes from the three main business units, gaming machine, plus €1.8 million, betting...physical betting €11 million and finally online area is contributing by €9.4 million.

Then we have to consider different payout, we had 2.3 percentage points plus higher in 2016 compared to 2015 and [indiscernible] for the minus €12.9 million.

The other businesses mainly related to the horse track management contributed negatively by €0.3 million. And then we had the €10 million of synergy in 2016 and we have to take off €5.2 million of additional source [ph] that we incurred mainly in the online strategy development and in the management of the SIS shops. So finally, we reached the €128 million of 2016 EBITDA.

Page 10, you see the cash flow bridge starting from the EBITDA. So we start from €128.3 million and then we have to account one-off items by €12.5 million mainly related to the activation of the synergy program and related to the existing SIS shops acquisition.

€21.6 million of CAPEX, that represent only CAPEX and that also the value that we see constant to the...over the next years. Delta working capital and taxes were accounted by €10.7 million. We had €72 million [ph] interest costs mainly related to the former bond that we refinanced in November last year. And then we incurred in the refi costs that were €28.3 million in terms of collection costs and one-off costs, the issuance of the new bonds and €20 million of the debt repayment since we issued €570 million refinance...€590 million for original bonds.

Looking at the different in marginality or different free cash flow levels, you may see that the free cash flow before the refi costs was €21.5 million over which we can estimate two important improvement areas, the first one being the lower interest cost that will...starting from November last year, that will represent a saving of €17 million in terms of cash.

And the additional synergy that we expect to post partially this year and the remaining part next year that will represent additional €10.5 million. So we have room to increase without taking into consideration the ongoing growth in terms of wagers and contribution margin, but looking at the infrastructure of 2016 we are going to increase up to €35 million to €60 million in the free cash flow of the Company.

Page 11, some color about the current trading in the first quarter of 2017. So we confirm...as we confirm a stable and a soft [ph] growth that we are having in the online wagers that grew by 25.6% driven basically by the online betting but also performance of the plus 35.3%, and by the online gaming that grew by 22.3%. The offline betting wagers decreased by 4% mainly due to the performance of the Sports Betting and the Virtual Events, on the other hand, Sports Betting grew by 3%.

Overall, the sector suffered because of the unfavourable payout that we expect should be inline as the same value that we posted in the last quarter of 2016. The Gaming Machine wagers dropped by 7%, because of limitation in the opening hours imposed by several local authorities, and the payout reduction that we experienced on the AWP's, as a result of the motherboard change that we had last year.

{Indiscernible} Cogemat is always on track. In order to retain the growth part on wagers, mainly on the Gaming Machine and the Virtual Events, we launched in the first quarter new games, both in the Virtual Events and the

online area. And we also purchased one other additional VLT wise out of the total 312 that's available to the Group, to exploit [ph] extension of the five Cogemat VLT platforms to the proposed SNAITECH Network.

I remember that ADM allowed the integration of the two VLT network, starting from the current month of April. So starting from this month, we will benefit also from the full integration of the two platforms in the VLT area.

FABIO SCHIAVOLIN: A quick one at Page 12, just to give you a bit of idea of what our targets are for the next future. So being the leaders in this market for us being able not to compete only by price, but also being able to innovate, to differentiate from competition and to trace a new line in the growth of the market. That's why we are completely convinced that the Company has to come back and take its role as an innovator in the market. That's why in the last twelve months, we've been focused on developing a new technology, new content and new product in the multi platform environment.

As I was telling before, already ready for the Omni-channel, you know, that we are not allowed so far to use the same wallet for the online and the offline experience for our customers, but we will be ready as soon as the regulator decide to unify the different concession.

One of the pillars in our technology development beside multi-accountant platform we were talking before is represented by the program we launched this year with self-service betting terminals SSBTs which we launched two months ago with a complete new proposition in the market which would be potentially a proposition only for this market. It is completely new, both in the hardware and also in the software

development because it is completely 100% being done in our offices here in Italy and then SNAITECH.

We have posted for the next two years, so 2017 and 2018, €12 million of ordinary CAPEX related to the new investment in retail betting network which we think we will be also helpful [ph] because they also work on the online wallets to drive the acquisition also for the online players. So a perfect combination of technology that works for the two different channels. We expect the ordinary CAPEX to be in line with the provisions [ph] of €20 million in 2017, and the SSBTs they will be sure that the key point of the next commercial and technology strategy of SNAI.

Having a look bit at Page 13 to the regulatory framework, I guess most of you guys are listening to the different discussions that are now being held in Italy on the gaming market.

First thing is related to the complex system of different regulation product territory which the government together with the regulator and together with Ministry of Finance, who is trying to address into the so-called Conferenza Unificata. Conferenza Unificata main target are to identify a target of reduction of AWP's, and to reallocate, to concentrate AWP's and VLT's in the territory from one side. On the other side to go for an unique environment and a unique set of rules related to opening hours, distance to from the so-called sensitive points and separation from core business of the shops.

This Conferenza Unificata is taking place almost two times a month, and so far it hasn't come out with a final resolution, and this is one of the reason why the betting tender has been postponed so far. We expect and we do think that the postponement of the Conferenza Unificata is a good

signal in order to have a complete, a full acknowledgment by the regional authorities of the new set of rules stated by the state.

On New AWP3 also called new VLT project that the technology discussion is going forward. We are trying to as one of...the biggest operator in Sports Betting with one of the top three operators in AWPs and VLTs side, we are trying to give our...also view on the technology framework, which we foresee to be the ideal one for this market, and we are still talking with the regulator on the technology rules.

There has been a bit also rumors about, both of the postponement of the betting tender and also potential new introduction of different [indiscernible] in additional budget law that the European committee has been asking to the Italian government. We are completely 100% under negotiation or talks now with the government, and the government is still trying to understand which are the best areas or the possible areas in which to finance and a new fund...funding for the €3.5 billion that the European Committee has been asking to by Italian government on the one side.

On the other side, we are constantly talking with the regulator and the Ministry of Finance in order to highlight which the results of the previous Budget Law 2016 one were and which consideration were made on the possibility to finally increase some products which we don't foresee has still space to be increased, so we are trying to move the focus in other direction. And I guess, that so far there is no bigger or material risk to have a material increase or new increases in taxation.

If the potential intervention should be the one painted from a couple of Italian newspapers, there could be inflection at EBITDA level, but we are not still able to address this point, because the situation is really changing hour by hour.

So moving to the next slide which is also the last one, a little bit of outlook of 2017, and a very small one for the next two years, so we expect wagers to grow in line with the 2016 with double-digit still, double-digit growth in the online business and with the gaming machine, retail betting remaining stable or slightly up. We have to remember that in 2017 we won't be having important events like the European Soccer Championship that we had during 2016 together with Copa America and the Olympics, but we will have in 2018 the World Championship which will help us to drive higher overall results. But despite this our expectation is to have the level of wagers slightly up or stable.

Live focus would be...the key point for mobile and digital growth in the line segment; we will be still purchased on developing and enlarging...for enlarging the game portfolio and the extension of the customer base through the cross-selling as I was telling before. The retail betting will be focused on the technology rejuvenation of point of sales and with the completion of the renewal activity of the contract before but the tender is going to be held in 2017, in our plans it is in the fourth quarter. But there is a possibility that government will go for a different postponement for the concession renewal for the next five years through the payment of rental fees on a yearly base.

On the gaming machine, as Edo was telling before related to the current business, we just started the asset allocation and asset management of the VLTs in the two networks exploring the possibility now that we then link to platform to exploit the former Cogetech platform into the former network. So a real possibility to increase performances through the enlargement of upside, we are working, we were anticipating that we are beginning to have a look to some potential foreign countries, so with an international development which is starting on the B2B side one of the

pillar of this development is carried by another technology, the same technology we are developing in the retail betting environment with the SSBTs, which are, as I was telling before, are ready for international markets.

We will complete the synergy program with the next €10.5 million which will be delivered in 2017, and that's more about in the first quarter in 2018. And very important and very happily, we are also probably announcing that we will target a positive net income for...which is expected for 2017. Basically, for the other couple of years the growth of the company will remain stable on the wages side. So we expect for the three years an average growth of 4% on wagers.

The final target of our plan, which we have been always talking about is confirmed at...on the leverage of 2 times NFP on EBITDA. And as I was telling one minute ago, the new growth or the new positive era will start with the final net income of 2017 that is expected to be positive on this year.

I guess this is all for today. Edo, then now if you want to add something or give some color more on what I was saying or otherwise, we are ready for the questions.

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 Karine Elias with Barclays. Please go ahead.

KARINE ELIAS: Hi, thanks for taking my question. Just going back to your slide on the same regulatory framework, I wanted to just go back to the Conferenza

Unificata points, you know, obviously they are meeting on once on weekly basis and I see still they are always postponed. But, it's fair to assume that the sort of solution that they will get to will be one...will be stand across the country and in terms of rules on the points of sales, anything in particular that you have been hearing in terms of what they want to do, I was hearing opening hours or the separation [ph], has there any discussions at all with you, are you all involved in the process at all? Thank you.

FABIO SCHIAVOLIN: Okay. Basically, as I was...I am trying to...I don't know if I catch the full question, but basically yes, there is a let's say a potential conflict between what the government is doing on the reduction of AWP's and what they are trying to do on the Conferenza Unificata in order to get to the same set of rules in terms of distances and opening hours and this intervention. First of all, as many of you may say this is a very extraordinary intervention.

Just three months ago, we were talking about the Stability Law, the 2017 Stability Law, which for the first time was a completely let's say clear law, budget law for us with more intervention on the gaming field. This change has been dramatically introduced by this extraordinary request made by the European community, which the government is trying to address in a very sensible momentum also because as you may know, there is a lot of discussion also on potential political election. So everything is being done now is...has also to be seen from a political perspective and from the impact that possible solution can bring also on the political results.

What we are trying to work with the government is, yes, to contribute wherever it's possible, but not to contribute effecting I would say the operational structural and the mechanism, the fiscal mechanism of the main products driving the markets now in Italy. Because if you just think

that half of the wagers and more than half of fiscal income is coming from gaming machines and that gaming machines have been the one that has recorded the highest growth in terms of also of [indiscernible] during the last 10 years. We are now...we acknowledged that with the government that there is no further space to work on that point of view, that's why we are trying to work both in two areas mainly, one is the one related to the taxation on winnings, which could be let's say from one side neutral on the possibility to have an impact on the wagers side. On the other side, it wouldn't affect the value chain.

And on the other side, we are working on the anticipation of some tenders, but they are talking about the scratch and win, and they are talking also about the Sport Betting tender which for this reason of the Conferenza Unificata not coming out with the new agreed set of rules will drive most probably not to a new tender procedure, but to an extension paying rental fees of the current licenses that the operators are managing today.

KARINE ELIAS: Okay, that's helpful. Thank you.

FABIO SCHIAVOLIN: Thank you.

OPERATOR: The next question is from Domenico Ghilotti with Equita. Please go ahead, sir.

DOMENICO GHILOTTI: Good afternoon. I have few questions. The first is a clarification on your indication, your estimate on the €6 million, €8 million potential impact, if we take the press rumors on the impact on the taxation on gaming machines. Is it referring to also the 2017 impact or is the say full stream impact taken the new taxation grade? The second question is on your guidance for 2017. First of all, I am trying to understand because in the press release you are referring to a breakeven target or breakeven. So

potential guidance, while in the call you are more talking about...so you are able to be positive. So I am trying to understand, if you see a material positive net income for this year, and if you are taking into account the potential impact coming from the [indiscernible] so-called. And last, just to have an idea, given the moving part that we have in 2017, if you can share with us also your expectation, the order trend that you are expecting at the EBITDA level. Then I also have some follow-up but I will go on after?

FABIO SCHIAVOLIN: Okay. Domenico. I will try to go through your questions. The first question on the potential impact of tax increase. The range of €6 million to €8 million is referring to a full year. So it's if this is the case, as some press release are reporting over the weekend, it should be accounted for eight months out of 12 and the impact could be between €4 million to €5 million for this year.

In terms of target, the target is net profit for the full year 2017 subject to the range that we mentioned earlier although we would carefully monitor the evolution in the coming days. We still hope that there will be no impact at all for SNAI during this year.

And concerning target for the EBITDA for 2017, we don't release by now target for the year, maybe that after the release of the first quarter. So next 15 May, we will decide to release the final target for the current year.

DOMENICO GHILOTTI: Okay, if I can follow-up on some other few questions. On the rejuvenation program for your betting shops. How many shops are you able to rejuvenate with €12 million that you are investing per year? And, final question on the B plus [ph] situation, we saw basically the monopoly with row in the concession, what do you expect for this right?

FABIO SCHIAVOLIN: First of all, the €12 million is not related to the year-on-year basis. But, it's related to a two-year plan. So this year, next year, first thing to be said, second the rejuvenation project is something that we as a target the 700 shops, we are currently managing in our networks. First of all, out of the 1,600 bunch of sales, we are talking about the shops not but the corners, in the corners we will have light intervention and different kind of intervention. And on the other side, we are not talking about, you know, a full deployment of hardware and software, but completely financed by the Company, but we are talking about a basic, so a standard level equipment which is going to be in the point of sales, and a support to our retailers which we will also invest in the shop.

Of course, we won't be able to do the all network in one year, it's again a two year project program, and maybe we can say that our target should be the one to be prepared for the next world championship with the complete new network in terms of technology and of tools that are able to drive wages and revenues. And so, basically our ideal target is to have at least 90% in the two year. Our network completely, let's say, were rejuvenated with a new technology which is mainly a software driven by the center. So it's a making and having the point of sales ready to accept the new release of software. And from this point of view, as I was telling in the last call all technology we are now developing is HTML5, so it's a basketball to consumer hardware which doesn't...which is not asking for a very specific hardware as it is here to be in the past of on the country side and also gives the possibility, the opportunity to our retailers to invest and also have a different level of support where people want on the maintenance of the hardware.

Talking about the Global Starnet, former B-plus, but what we know so far is that the regulator has started revoke the action of the concession for Global Starnet that this process is going to last six months from the month

of March. So it would be a process that will end up after summer. During this time, the regulator and the procedures and the prosecutors had named an extraordinary commissioner, which is now in-charge of managing the ordinary activities of the Company. In the meanwhile, what will happen is from AWP point of view. A lot of customers are already calling, already talking with our sales force in order to have the possibility to change their contract, and so change the management of the AWPs from Global Starnet to SNAITECH, and this happening I believe of course also in relation with the other concessioners.

On the VLT side, which is a more asset kind of process, regulator is still thinking on how to move up. There are two basic scenarios, one is related to the former...the regional concession, which we signed in 2004, which was foreseeing a special procedure and if revoke is taken place for one of the concessioners and this process, this procedure is stating is stating that that the kind of ranking on potential operators that can make an offer for the network to the regulator for the part of the assets that are still available. But then we signed the following concession in which the situation was very different. The thing is that we start Global Starnet is the only concessioner that didn't sign the new concession, so there still is...it's a very unique and typical situation, which one operator is let's say operating with different conditions where in comparison with the other operators. So we will have to see whether the regulator will want to apply the first scenario or procedure or potentially a second scenario in which the regulator will act in the disposal of the assets to a sale which will be, I guess very complicated because there are 12,000 VLT rights that AWP...that sorry Global Starnet has in its portfolio are only partially installed 6,000, and the majority of the other half of the license are still to be installed.

So for the license still to be installed maybe the potential sale it's also easier, I don't know under which rules, but in terms of the evaluation it is easier because I guess that those licenses would be put on in the market as the one for example we are calling this year, we called just a 100 pieces, so at the original price at €15,000 per single license. About the 6,000 or 5,900 units that they have been installed are carrying a goodwill together with them. So we will wait and see how the regulator will decide to set the disposal of those assets, keeping in mind that Global Starnet is also one of the two concessioner that haven't settled the fine with the Corte de Conti [ph], so from one side the potential assets we maximize, on the other side there is a big debt [ph] to be paid to the regulator.

Of course, Global Starnet can be seen as an opportunity, for what I call organic growth in this market still, but let's see how the regulators will regulate that sale.

DOMENICO GHILOTTI: Okay, thank you.

OPERATOR: The next question is from Padula Vito with Blackrock. Please go ahead.

PADULA VITO: Hello, hi. Thank you very much for taking my question. Just a couple of quick clarifications. Can you confirm the payout for Q4 on sports betting and the impact on EBITDA for the quarter, and also like how much is the estimate for Q1? And also if you could confirm like the bridge from the €450 million that at September '16 to €480 currently, is the difference of €30 million driven by the €30 million of refinancing costs? Thank you.

CHIAFFREDO RINAUDO: Okay. I confirm the second question, which is a [technical difficulty] answer. And for the third question, the payout in the last quarter of 2016 was around 87.5%. And this mainly drove the difference in terms of payout compared to the full year 2016 over 2015. So it's

basically explaining 9, €10 million of the difference that you see in the bridge page...Page 9 of the presentation, the total impact on federal payout is indicated as minus 12.9, so 80% of that is already in the last quarter.

PADULA VITO: Great, and for the current quarter, you are expecting a similar payout level, right?

CHIAFFREDO RINAUDO: Yes, correct.

PADULA VITO: Thank you very much. That's all.

CHIAFFREDO RINAUDO: Thank you. You are welcome.

OPERATOR: The next question is from Andrea Randone with Intermonte. Please go ahead, sir.

ANDREA RANDONE: Thank you and good afternoon. My first question is about your leverage target. You indicated in the press release to be at about 2 times EBITDA by 2018. I wonder if you can clarify about this target, if it includes the cash out for renewing the betting concessions and in general, if you can comment also the fact that you are going down from 3.75 to just 2 in 3 years. I mean, in my calculation, it means, an average cash...net cash per year of about €60 million. So if you can elaborate about this important target? And the second question is just, it's an easier question it is about the D&A, you expect for 2017, because if I am not wrong you are depreciating Sport Betting concession until June 2017, so if you can comment about this point? Thank you.

FABIO SCHIAVOLIN: Well, definitely, first of all, your elaborations are very, very good as always. So yes, the CAPEX for the tender are included and the average liquidity of €60 million is on average roughly correct.

CHIAFFREDO RINAUDO: In terms of average cash generation, we don't disclose all of it in this moment precise value per year, but if you refer to Page 10, where we have a sort of adjustment or pro forma analysis concerning the cash flow of 2016. We talked about the potential room for cash generation about €55 million, €60 million which is the red box on the right part of the chart. This value, so up to 50 also is including €12.5 million of one-off costs that we incurred in 2016. So if you are not considering these one-off costs related to Cogemat integration and SIS point-of-sale we opening...basically we could see also a pro forma cash generation which could be in the range of €60 million. So we are not far away from your consideration. In terms of depreciation, the estimation for the current year 2017 is to which level which should be something under €55 million depreciations.

ANDREA RANDONE: Thank you very much, Audo. Can you please repeat the number of cash out, I mean extraordinary cash out in 2016, I lost the number?

CHIAFFREDO RINAUDO: The one-off items referring to Page 10, were 12.5, so if you consider not having...okay.

ANDREA RANDONE: Okay. I got the point. Thank you. Thank you.

CHIAFFREDO RINAUDO: Thank you.

FABIO SCHIAVOLIN: You're welcome.

OPERATOR: The next question is from Pietro Solidoro with Banca Aletti. Please go ahead, sir.

ANDREA BONFÀ: Hello good afternoon to everybody. It's Andrea Bonfà from Banca Aletti. My first question is related to the provision for €11 million that you accounted for in the 2016 figures, if you can give us [indiscernible] for those figures...for that item, if you can quantify what you are expecting for the same item in 2017, if any? The second one is on the top line, you mentioned that you are expecting wagers growth of 3% to 4% for the next two, three years, but you are starting the first quarter with a fall in wagers. So if you can elaborate as you expect to end up the year with a positive sign, despite the weaker quarter. I think you mentioned in your presentation that you are expecting a stabilization of VLT in H2, so if you can comment also on that? And then if I may, you are mentioning between breakeven to positive net income for 2017, I mean, according to my calculation lot of course depends on the tax rate which is an item where we got very low visibility [ph], but it seems to me in order to achieve that number, that to your EBITDA for this year should be much lower than 2016. I am wondering if in that guidance you are including also the impact of the new taxation which the government is deciding right now. Then I got other smaller question, but I can come back later on the conference call. Thank you.

FABIO SCHIAVOLIN: Let me just...while Audo is trying to get...it's not lost with all the questions. Regarding the last time, the last thing you were saying, we are talking about rumors of some of let's say most important newspapers, but not all of them, you know there are different scenarios, so we are now not able and we didn't detect [ph] real scenarios for taxation increase because we really do not know whether there would be a taxation increase or whether as I was mentioning before, the action of the government will be

addressed into the taxation on the winning side. And so, I just want to point that there is nothing that much confirmed as it seems. Now, Edo...

CHIAFFREDO RINAUDO: Okay, now concerning your question about the risk provision [ph] €11 million accounted in 2016, the greater part of that is related to the redundancy program that we are starting in this period. Then we have some provision related to litigation that we are settling basically some has been already settled like the bigger one and we accounted the costs that the Company will incur for this settlement. And then we have a last part which should be around €20 million related to the outsourcing program that we will end up this year related to the fees point of sales. We don't expect in 2017 to have any material addition of course related to other kind of provision. So I would say that this €11 million are the last part of the integration and the cleaning process that we have been experiencing in integrating the former SNAI with Cogemat.

Concerning the growth rate target average for the Business Plan of 4%, the expectation is related to the new activity that we launched basically in the first quarter of this year, the most important which being the one related to the acquisition of the additional rights, around the rights for the VLT. You know that we are running at the saturation level for VLT rights used by the Group over the last two years, so these rights will be basically immediately usable and transferrable to our customer, and the great opportunity is to use this kind of rights for the new machine that we will release.

So that's the great expectation that we have for the second part of the year and other part is the technical one related to the stabilization of the payout. As you know, last year when we changed the board and we changed the...in parallel both the payout and the game content of the AWP's. At the beginning, there was an increase in term of wagers in the first half of

the year because people saw new games and they appreciated the innovation of the games. Then in the second half the year, the new payout had an important aspect over the possibility to play the amount of money.

So now we are facing the weak moment because in comparison we are comparing wagers when last year we had the increase of the same wagers than in the second part of the year, where the seasonality in comparison to last year...to the second part of 2016 will be more favourable. We are seeing week after week that wagers slightly recovered [ph], so we are optimistic for this kind of recovery for the second part of the year.

In terms of net income, let me say that the news [ph] started...important news, because SNAI has been posting negative results over the last 10 years, so an important announcement for us to see that the net income in this year, we hope that also that the Q1 will show a positive net income. We will release the result in 30 days, so we will see what kind of magnitude we will have in terms of this result.

ANDREA BONFÀ: Thank you very much. I will come back. Thank you.

OPERATOR: The next question is from Gianluca Pediconi with Momentum. Please go ahead.

GIANLUCA PEDICONI: Good afternoon, gentlemen. I am sorry, but I would like to come back to previous question because I didn't catch your answer. When you were talking about your net debt to EBITDA target of 2019; I didn't get what are the assumptions in terms of cash out for Sport Betting tenders, AWP3 and so forth. So if you can elaborate a little bit? Thank you.

FABIO SCHIAVOLIN: With cash out, you mean what kind of cash out, the betting...

GIANLUCA PEDICONI: Yes, the betting tender, and I mean, the renewal or the concession in general are you assuming in 2019 net debt to EBITDA target?

FABIO SCHIAVOLIN: We are assuming as we declared during the Road Show for the new bond issuance. We totally confirm today that when the betting tender will happen, given that the scenario that was released in Budget Law 2016, our estimation is to have maximum cash out around €66 million [ph]. For the total and for the additional range between 15% up to 20% of additional right, compared to the current number of SNAITECH rights.

GIANLUCA PEDICONI: So for the sake of clarity these numbers are included in your 2019 target?

FABIO SCHIAVOLIN: Yes, correct.

GIANLUCA PEDICONI: Okay. Thank you very much, very kind of you.

CHIAFFREDO RINAUDO: Yes, but if I may add, you were also making a reference to the potential renewal AWP3, this is not included because this is not...

GIANLUCA PEDICONI: Okay, very clear. Thank you very much.

OPERATOR: The next question is from Joel Ojdana with Balyasny Asset Management. Please go ahead.

JOEL OJDANA: Yes. Hi, thanks for taking my questions, just a couple back on the regulatory framework, with regards to the Conferenza Unificata and AWP offering reduction. Do you have any estimate on what the impact to EBITDA would be if those guideline that you have on Slide 13 are passed. And then, the second is related to the budget blue prints that is being considered by the [indiscernible] today. Are there any additional taxes on the gaming industry that you are aware of in that blue print in addition to

those that are laid out on the regulatory framework Slide 13 in the presentation? Thank you.

CHIAFFREDO RINAUDO: For the first question related to the potential cut of 30%, we don't expect any kind of impact on our numbers. The reasons are basically two or three, the first one being the fact that we don't own basically, we are just own a 9% of the managed AWP. So we are free to choose where to distribute this kind of cut. And obviously, if you look at the potential impact of the lower performing part of our AWP, we are talking about less than 9% of total wages for AWP. So if you cut the lower performing machine in terms of 30% cut, we will have 9% cut in terms of wages. On the other hand, we expect that there will be an increase of wagers where we have currently three machine and two of them will remain so there will be a sort of shifting [ph] of people going to the main [ph] machine, and most of all we expect the introduction of the new AWP3 starting from first half or lately...latest second half of next year that will continue to increase the coining per machine leading the fact, the content, the gaming content provided by the new machine will be more attractive, interesting compared to the current one. So basically, we don't expect any kind of material impact in our figures.

In terms of tax increase, I think that Fabio already showed when we talk about the regulatory framework, all the existing framework and all the existing possibility rumors or everything that is turning around our world. I repeat, we remained confident that...will remain unaffected by the decision of our government. But, that's the only item that we know in this moment is under discussion related to the taxation of the sector.

JOEL OJDANA: Okay. So you are unaware of any impact at this point?

FABIO SCHIAVOLIN: Exactly.

JOEL OJDANA: Okay. Thank you.

OPERATOR: The next question comes from Jayanth Kandalam with Lucror. Please go ahead.

JAYANTH KANDALAM: My question has been answered. Thank you.

FABIO SCHIAVOLIN: I think we are running out of time. There is still time for a last question.

OPERATOR: Okay. So the last question yes is a follow-up from Pietro Solidoro with Banca Aletti. Please go ahead.

PIETRO SOLIDORO: Hi, Fabio, just very quickly, just for the sake of clarity, you are expecting G&A in 2017 of 55, 55 or 50, sorry and if I may, on...sorry?

FABIO SCHIAVOLIN: 50.

PIETRO SOLIDORO: Okay. Thank you. On your chart, on the EBITDA chart, you mentioned here €5.2 million direct operating cost. I think that items compare with the €1.8 that you were...you published in the nine months result, is that possible that this is as you mentioned, cost increase due to online advertizing, if that is the case, are those related to mostly to the fourth quarter, if I'm correct?

FABIO SCHIAVOLIN: Yes, that's partially correct because we are considering that both delta operating basically everything under contribution margin and everything outside the three segments of the concession. So it's coming...we are including there all the increase of cost in terms of operating cost like advertizing is one, but also related to our participation, so basically [indiscernible] cost. So I will say that this increase is well distributed

along the 12 months of the year. If you want then we can have a deeper talk about that after the call.

PIETRO SOLIDORO: Okay. Thank you and very quickly the payout bet of €12.0 million, how much of that if we can know is related to online?

FABIO SCHIAVOLIN: Basically €10 million, something more than €10 million to the offline, and the other part of the online.

PIETRO SOLIDORO: Great. Thank you very much.

FABIO SCHIAVOLIN: You're welcome. Okay.

OPERATOR: So this concludes the Q&A session for the call. Back to you for the closing remarks.

FABIO SCHIAVOLIN: Yes, so thank you very much for this first call of the...fiscal year 2016 first call of SNAITECH. I hope we've been able to answer all your questions and also to clarify all your doubts. Hopefully, we are talking together in 30 days for the first quarter call that we will announce shortly in the next days. Thank you very much to everybody.