

SNAI SPA

“First Quarter 2015 Results Conference Call”

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MODERATOR: **FABIO SCHIAVOLIN, CHIEF EXECUTIVE OFFICER**
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ANTONIO COSENTINI, INVESTOR RELATOR

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the SNAI First Quarter 2015 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, thank you. Thank you very much for the introduction. Good afternoon, everybody. I am again here Fabio Schiavolin, Group CEO of SNAI. Welcome to this conference call on our first quarter results which has been released just a few hours ago. Today with me would be attending Mr. Rinaldo Chiaffredo, who is our CFO, Group CFO and Mr. Antonio Cosentini, our Investor Relator.

We are very proud today and we are very excited to share with you this first results of our first quarter together SNAI and Cogemat. We will go through the presentation showing you I guess brilliant results, which represent the first stage of our new Group era.

On the business trends, as you may have noticed from our presentation, we have been recording an increase on total wagers which were growing to €2.77 billion from €2.55 billion in the first quarter 2016 with a 8.4% growth year-on-year.

Gaming machine, basically all the business were growing, gaming machines wagers were growing 6.8% despite the increase in taxation and the payout reduction. We have registered a strong growth in the online sports bet segment with a 53% increase, and we have a significant contribution also from the recovery plan with the reopening of the point-of-sales related to SIS and Finscom. Even also virtual events wagers were

recovering after a weak 2015, and we recorded a 9.1% in the first quarter 2016.

We are still working very hard as we mentioned in the previous call commenting the year end 2015 on the cost reduction program. As we were telling you, we are expecting the completion of the synergy plan with €18 million brought on. We already achieved €1.2 million in the first quarter, so we are completely on track with our plan. And we've been able during these three months to renegotiate some important supply contracts given our new economies of scale, basically in telecommunications, logistics, site rentals, bringing home already [ph] more than €9 million cost reduction which will be rolled out within first quarter '17.

CAPEX in first quarter were up to €5.1 million, this is basically driven by the change of the boxes, the AWP boxes replaced during the first quarter. So half of this amount, more than half of this amount is related to the change in the position of new cabinets for the AWP, so the combination of those numbers which we were already alluding you in the last call brought to this first quarter brilliant result of €38.7 million EBITDA versus the €29.6 million of last year, which represents a 31% growth from the previous quarter.

I guess that we have been recording the first positive net results of the Group which is scoring €1.6 million, this is the first positive net of one-off item contribution, last year we had Barcrest, but if we make an exception with that transaction, this is the first positive result after a long time. And basically, we've been also able to generate despite of one-off costs faced for the refinancing last year. We've been able to reduce our net financial position from €493,9 million to €478,5 million, generating €15.4 million of cash.

I will let Edo continue on highlighting some of the most important KPIs in first quarter.

RINAUDO CHIAFFREDO: Thank you, Fabio. So if we go to Slide #6, in this slide we may find the highlights of the Group results for the first quarter 2016. First of all, let me remind you that the Cogemat Group was consolidated starting from the beginning in 1st November 2015 and the other two companies acquired along the 2015, Finscom and SIS were started to produce revenues since April, Finscom, and SIS September. So for this reason, we are showing you pro forma figures for getting an homogenous comparison versus the 2015 results.

Looking at the first quarter 2016 results, total revenues were €220,2 million, showing a decrease by €46.8 versus the 2015 results. In fact, this performance was and is mainly due to the Barcrest transaction that was recorded and posted in first quarter 2015 which accounted for a positive contribution in terms of revenues of €27.5 million and in the 2016 year to the increase in taxation for the gaming machines that was introduced by the new Budget Law for the current year.

Let me now proceed to the contribution margin performance which posted a positive increase by €12.6 million versus the first quarter 2015. The reduction on the gaming machine revenues had no impact on the marginality of the Group. The increase in contribution margin is linked on the growth, the growth of wagers that Fabio mentioned before and to the better payouts that we experienced on sports, 81.5% in the first quarter 2016 versus result of 83.8% in the last quarter of the former year and 82.1% in the first quarter of 2015.

We also underline that after Cogemat integration whose business was focusing mainly on the gaming machine segment, the payout risk in the first quarter 2016 is limited to the value of 21% on the contribution margin, so we are able, thanks to the Cogemat integration, to reduce the overhang of payout in terms of percentage or contribution margin.

Looking down at the table, the profit and loss, the EBITDA was up by €9.1 million up to €38.7 million. We will see later in the following slide the initial synergies coming from Cogemat integration and mainly related to the reopening of SIS Point-of-Sales are contributing to performance, obviously the main contribution was driven by the increase in wagers.

The LTM EBITDA was €123.7 million increasing from the former results of €114,6 million at the end of the 2015 year. And as Fabio mentioned, the net income was positive and this result was achieved without any significant one-off component in the profit and loss of the quarter.

CAPEX were €5.1 million of which almost 60%, €3 million related to the replacement of the AWP's board to get the new payout down to 70% as allowed by the Budget Law. The net financial position improved to €478.5 million, showing cash flow generation by €15.4 million. And deleverage decreased from 4.1% at the end of 2015 down to 3.9% at the end of the first quarter of 2016.

If we go to the following page, Page 7, you have the usual payout trend that we normally show quarter-over-quarter, you will see the value that I was mentioning before, the payout in Q1 2016 was slightly more favorable than the one posted in fourth quarter of 2015 and the first quarter of the same year. And the difference compared to the first quarter 2015 in terms of impact on EBITDA accounted approximately for €1.5 million of

positive impact. We will see in the following slides the bridge from EBITDA Q1 '15 and EBITDA Q1 '16.

I leave the stage to Fabio.

FABIO SCHIAVOLIN: If we go to Page 8, we have a bit more insight on wagers and revenues breakdown. As I mentioned before, in the first quarter wagers were up by 8.4%. What I find very interesting is that we recorded a positive increase in every business segment of the Company and this is very good because we've been a bit softer before but now we are completely recovering in each single segment and products. Of course, the strongest performance on wagers recorded was on sports betting, both online and offline.

Online, we've been talking before in the previous call it's mainly related to the launch of our new website and with the completion of all the services related to the website and due to the completion of the biggest offer possible for our customers and a strong acquisition program that has been achieved during the last month.

Offline, the reason for the increasing on wagers is mainly related to the recover [ph] plan and reopening of the SIS and Finscom Point of Sales and also in the virtual [ph] events we've been also ...working very hard on the optimization of the product and the offering in our shops.

If we want to look very quickly at the right side of the chart, we may look at revenues mainly reflecting the same results. Basically all the business segments are growing also in revenues with the exception only as you may see on the top, of the gaming machines, in which the increase of 4.5 points in the taxation of AWP's have generated a decrease of revenues.

We do think that this revenues decrease will reduce gradually in 2016, given the progressive migration in place to the 70% payout.

RINAUDO CHIAFFREDO: we move to Slide #9, where you have the bridge between Q1, '15 and Q1, '16 EBITDA. So starting from the result of 29.6 coming from the first quarter of 2015, you may see the three orange boxes related to the positive effect that we had in terms of contribution margin. These effects are coming from the payout and the new taxation effect which accounted for a positive contribution of plus €2 million. Then we have a positive contribution of €4.9 million which comes from the organic growth in terms of wagers e had mainly on the betting segment, but also on the gaming VLT segment.

Then the new margins coming from the reopening of the SIS and Finscom, mainly SIS Point of Sales, which contributed by €5.7 million on the contribution margin of the first quarter.

The green boxes are related to the difference in terms of OPEX, operational expenditure. We have a negative impact coming from obviously the cost structure of SIS which accounted for a negative impact by €4.7 million, this of course related to shops rental, people employed in the shops, et cetera.

As you can see, the overall impact, the net impact coming from SIS is 5.7, minus 4.7, so SIS contributed an overall net positive income in terms of EBITDA of €1 million.

And then finally, we have the first results of the cost integration or cost saving program going on ...which contributed by €1.2 million of lower cost and so, had a positive contribution in terms of EBITDA. Overall, the

total difference is positive by €9.1 million and contributed to get the new EBITDA up to €38.7 million.

FABIO SCHIAVOLIN: Yes, just to end up with this quick presentation, a bit of outlook for 2016 in terms of trend and focus on where we are going. We expect the current upward trend on betting and wagers to continue over the next quarter basically. We will have in the second quarter Euro finals and then the Olympics. So even though we face with the end of Italian football championship, we will have two very important events that will carry on wagers.

On the opposite, on gaming machines, wagers and margins, we have to expect a little bit of slowdown and stabilization of the trend because we will get to the completion of the replacement of the 70% payout machines which will in a way for sure reflect the a little bit of decrease on wagers given the fact that we are giving back less payout to the players. We are expecting a little bit of increase of competition you know, getting closer to the tender procedure.

Tender procedure would generate an increasing level of competition for the acquisition of top performing Point-of-Sales and it is something that of course is related to the next point. So when the Barrington [ph] procedure is going to take place, you know, we do not have so far a confirmation that this procedure will take place as it was forecasted in the month of May to get to the concessions to be granted over the new licensees by the end of June. There may be a postponement of the tender procedure, so in that case, we will have still to face with the account standstill period in which competition, as I was mentioning before, will a little bit increase in waiting for the new tender.

We will work, as I was mentioning before, on the integration process and the merger that we will proceed to complete in autumn, by September or October and be completed by year-end of course. This will be one of our topics for the next couple of months. And we've been talking many times about the SIS and Finscom Point-of-Sales. We hopefully, we should be in the position to complete the acquisition process of SIS by the end of June. And so, we can foresee to start Phase II and the gradual outsourcing of the shops by the end of the year. As we were anticipating in the last call, our target is to start our next quarters of 2016 with at least 15% of those shops outsourced.

Generally speaking, this has been a very strong and positive quarter, of course, we had to recover a very bad quarter, the first quarter of 2015. All our reports were concentrated on the quality of the products and to control all the risk in our network. We've been focused also on trying to integrate the two companies by exchanging the best practices and the best view on the business between the two companies and to get to the best results, which we are seeing altogether.

Today, we will face for sure a couple of quarters of let's say different difficulty [ph] I was making a reference to the competition going toward the tender procedure, then there would be the summer period. So I think we will be able to end up 2016 still with the strong results, but also completing the integration process of the two companies.

So for today, our presentation is over, if we can take the first questions when you are ready.

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 Ms Domenico Ghilotti with Equita SIM. Please go ahead.

DOMENICO GHILOTTI: Good afternoon to everybody. I have a question related to the cash flow, can you help us in understanding the bridging...the bridge on the net financial position going to Q1, it was probably the only one that is missing in the presentation?

RINAUDO CHIAFFREDO: hi, Domenico. We try to put down some figures to get the bridge, so let's start from Q1 2015 down to Q1 2016. We are starting from the net financial position, which is more easy with the figures that you have in the presentation. If you start from the net financial position at the end of 2015, which was €477 million, then you have a growth EBITDA of €38.5 million. So we are doing the €38.7 million minus €0.2 million is certainly cost that we posted in this quarter. Then you had to take off €5.1 million of CAPEX, we have a negative working capital contribution by €27.6 million, which is mainly related to the seasonality of the first quarter of the year.

As you well know, the first quarter has many simultaneous payments versus the ADM payments of Canone [ph] and for the payments of taxation for the proceeds, which normally has a negative impact in terms of cash flow. So for this quarter, the impact is a minus €27.6 million, we will recover this figure normally in the second quarter. Then we have €1.5 million plus €15.2 million of net interest, €1.5 million, which is a bank cost and a €15.2 million which is the accrual of the interest that would be paid in June for our set of bonds.

Finally, we have the bridge with the net financial position at the end of March which is €478 million. What can we add to this figure? The first comment is related to the working capital, which will completely change in the following quarter. In the second quarter, we are also expecting that the credit deposits related to 2015 will be paid back by the ADM and so, this will have an important impact on our cash flow from the second question.

DOMENICO GHILOTTI: And may I ask you, if you have already received say the approvals or the decision by the ADM, I'm not aware that if you were complying with all the KPIs and so, you have been granted the deposit?

FABIO SCHIAVOLIN: Yes, we received. ADM needs released its calculation by the month of February. So they confirmed that our level of compliance to the parameters included in their service levels was 99.3%, so totally aligned with the average from the former year, both from SNAI side and the Cogemat side. So we are expecting that the 99.3% of the credit [ph] deposit will be released maybe in May or beginning of June.

DOMENICO GHILOTTI: Okay. Thank you.

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

ANDREA RANDONE: Thank you and good afternoon. My question is about sports betting, I wonder if you can help us in having a better understanding of your very good results in this quarter. First of all, about the online channel, just to understand what are the new features of your online portal? And then, if you can give us an idea of the difference in the payout between offline and online channels. And the lastly, if you can give us an idea of the market

trend in the first quarter in order to better understand your competitive position in this sector? Thank you.

FABIO SCHIAVOLIN: . Thank you, Andrea. Basically, you know, we made a complete turnaround of the online offer. I was mentioning before that the first big thing we have been doing was the launch of the new website, which is HTML 5 full responsive with all the features that are now working in all devices and so, from the front line, we have been working on the user experience.

On the offer side, we worked a lot with our partners in order to be able to get or to ensure in our programs the maximum numbers of live betting events and in parallel with this, we have been working on introduction of a lot of streaming.

So we are giving online also in the shops, but online mainly, the possibility to have streaming and in-play streaming, in-play betting while we had a streaming in our website. And then, of course, we started and we may put in place all the campaigns and acquisitions programs in order to be able to face the strongest competition of 365, which is, you know, mainly that the biggest competitor in Italy and all over the world, but in Italy of course, which came to the market basically making a huge change on the events offering. So basically it's offering and features related to the tool. Going to the payout, payout is on the online, if I have correctly understood your question, is related to the gap between physical and online payout, okay.

So market is showing an increase on payout in the online space. And while we were using strongly the payout in the offline operations, we have been increasing a little bit of payout in the online. This is completely

absorbed by the increase of wagers and this is a couple of points, almost three points less on the market average in the same period in Italy.

ANDREA RANDONE: Okay. Thank you, thank you very much.

OPERATOR: The next question is from Thomas Kasanin of T Rowe Price. Please go ahead.

ANALYST: Hello, I just wanted to know if you could give us an update on your potential refinancing plans for the year 2016.

RINAUDO CHIAFFREDO: Let's say today the priority for the Company obviously is that the Priority #0 is the integration with the Cogemat Group and the reopening of SIS. Priority #1 is the tender for the new betting licenses, then when we will have clear picture mainly related...now we have a clear picture for the first stage of synergies. We don't have today a clear picture what would be the cash out and the results for the betting tender. So by now, it's too early to think about the refinancing or any kind of strategy or kind of refinancing that we could think of by now. I think that this item could be...should be postponed and could be treated and looked at by when the tender will be done.

FABIO SCHIAVOLIN: I think, yes, our focus now is, Thomas, to comeback to the strongest results possible in order (as we were commenting before looking at the NFP) to de-leverage a little bit the Company by delivering stronger results. That I think will be crucial when we will have to face the refinancing. So now, I think that our, you know, topic for the day is to complete the integration progress, to complete as it was mentioned in the job we are doing with the shops and to complete...to continue optimizing let's say the results in our networks. So this is basically the basis then to approach refinancing.

ANALYST: Okay. Thank you very much.

FABIO SCHIAVOLIN: Thank you.

OPERATOR: Mr. Schiavolin, gentlemen, there are no more questions registered at this time.

FABIO SCHIAVOLIN: So, yes, thank you very much. If there are no more questions, again, we and the team, thank you a lot for this afternoon call. So hopefully, we will talk together on the next call on the second quarter, which will be taking place on the 5th August. Thank you very much and have a great day.

RINAUDO CHIAFFREDO: Thank you.

FABIO SCHIAVOLIN: Thank you.