

SNAI GROUP

“Second Quarter 2015 Results Conference Call”

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**MODERATORS: GABRIELE DEL TORCHIO, PRESIDENT AND CHIEF EXECUTIVE
OFFICER
MARCO CODELLA, CHIEF FINANCIAL OFFICER**

OPERATOR: Good morning. This is the Chorus Call conference operator. Welcome, and thank you for joining the SNAI Second 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. Gabriele Del Torchio, President and Chief Executive Officer of SNAI. Please go ahead, sir.

GABRIELE DEL TORCHIO: Thank you. Good morning to everybody. Thank you very much for being with us today. The purpose of this meeting...of this conference is to present to you the second quarter results of SNAI, but before doing that, I would like to introduce myself.

I am Gabriele Del Torchio, and I'd been recently appointed, actually ten days ago, as President and CEO of SNAI. I spent my last 25 years of my professional career working for private equity, mainly with private equity firms like Permira, Investindustrial and recently PC Partners. And my career...the last appointment has been in Ducati as President and CEO, and then recently in Alitalia and I was responsible for the turnaround of the company, and the alliance that we did with the Etihad, the Abu Dhabi Airline. I am really very much proud and excited for this...for my new role. And I'd like...and I would like really to have the opportunity in the near future to meet you personally and to further explain our strategies and the overall goals and objectives of SNAI.

Today's presentation will be done by our CFO, Mr. Marco Codella, and I assume he is on the line because we are not sitting in the same place, and I would like to give to Marco the possibility to take you through our results and to give you some further information what is happening in the

Company, and entering more in details about the results...the financial results of the first half of 2015.

Thank you very much, Marco, now it's for you to introduce yourself and to explain the results. Thank you.

MARCO CODELLA: Thank you very much, Gabriele, and thank you all for attending this meeting today. As Gabriele was saying, today we would like to give you an update on our half year results, and also a quick update on the envisaged integration of Cogetech into SNAI's operation, an update on the actions we are carrying on.

Let's start from our half year performance. We will give you details later on going through the presentation, but by now, I would like to point out that our performance in terms of total revenues at the end of June was €282.8 million as compared to €263.7 million last year, that means plus 7%. Total revenues are including some €27.5 million generated by the transaction with Barcrest.

Revenues from current operations were €255 million compared to €263 million last year, which means minus 3.3%. This was mostly due to the very high payout of sports betting in the period. We achieved 82.2% compared to 78.3% last year and the comparison is versus a period in which payout was below the average. I am referring to 2014 compared to 2015 when our performance in payout was poor, although it was better than the market average. I will come back on this later on, but the estimated overall market performance was 85.9 at the end of June, we achieved 82.2, so it's 3.7 percentage points better than the market.

In terms of sports betting wagers, we collected some €359 million compared to €400 million last year, and this reduction was mainly due to

the new shops that were deployed in the territory after the 2013 new concessions and also to some problems related to part of the distribution network that caused temporary closures of a number of point-of-sales. These problems were already partially solved, and the remaining part of them is under way to a positive conclusion.

We need also to keep in mind that the 2014 performance in wagers was positively affected in June by the Football World Cup. Revenues from gaming machines increased as compared to last year from €130 million to €149 million, due...mainly due to the higher average number of operational machines in AWP's, and also by the reduced payout in VLT's.

Talking about virtual events, bets are down to €131 million as compared to €182 million in the same period of 2014, with net revenues of €17.7 million compared to €22.1 million in first six months of 2014. This segment is not yet benefiting of the increase in number of events available per day, pending the authorization from ADM and was also affected by the temporary closure of some points-of-sales that I already mentioned.

Contribution margin from virtual events was 9.7 compared to 10.8 last year, this is reduced less than proportionally to wagers...compared to wagers due to changes in the scheme applied to distributors.

EBITDA in Q1 2015 was €39.6 million compared to €54.8 million last year, but Q2 has shown some signs of recovery and improvement compared to last year, since we did better than Q2 2014 by 5.4%. EBIT was €33.5 million versus €23.3 million last year benefiting of the effects of the Barcrest transaction, but we will then go in detail , going through the presentation we prepared.

Let me give you now some additional information and update about the envisaged integration of Cogetech into SNAI's operation. As you know, we entered into an agreement with Cogemat majority shareholders, which will bring to the integration of Cogemat/Cogetech Group's businesses with SNAI Group's businesses through a transaction which provides a contribution into SNAI share capital.

After the proposal submitted by the majority shareholders of Cogemat and the positive opinion that was issued by related parties transaction committee of SNAI, and also the positive outcome of the due diligence, an investment agreement regulating the integration of the two companies has been entered into by SNAI, the majority shareholders of Cogemat, and International Entertainment S.A.

The investment agreement sets forth the contribution in kind into SNAI shares consists at least in the shareholding held by the majority shareholders into Cogemat equal to 75.25% of their share capital with the possibility for the other Cogemat shareholders representing a stake equal to 24.75% of the share capital to adhere to the investment agreement by August 5th, 2015. Up-to-date, certain Cogemat shareholders representing in total percentage equal to 13,31% of the Cogemat share capital have already adhered.

Assuming that the entire share capital of Cogemat will be contributed, then the current shareholders of Cogemat will hold more than 71 million new SNAI shares representing 38% of the SNAI share capital after the capital increase. It is envisaged that, in the event that the conditions precedent set forth into the investment agreement which are including among others, the authorization by the Antitrust Authority and the authorization by ADM, as well as the release of the fairness opinion by the

accounting firm, the integration is executed within the end of September with effectiveness within October 2015.

The listing of the new SNAI shares should occur within the end of this year. As you know, the combination will create the first listed group in Italy dedicated to the entertainment, and will allow the new SNAI Group to become the leader for the gaming market, not subject to the monopoly in Italy, consolidating its position in the gaming machines sector where we will be the co-leader in the market with a market share higher than 15%, and to enhance the leadership of the Group in the horserace and sports-betting sectors. So this is just, you know, a quick update on figures and on the envisaged integration of Cogetech.

Now, I would like to go in some more details of our financial performance, going through the presentation we have been uploading in the...on our website and you probably have in front of you. So going to Page 5 of the presentation; we have been trying here to give you a quick business update on our performance at the end of June 2015. We had a very good machine gaming performance which was driven by the increase in number of machines in operation for what AWP's are concerned, and by lower VLT's payout. Also, we had some positive effect coming from the relocation plan that you are probably aware of.

We have at the end of June some 25,000 AWP's in place, which is compared to 24,300 in 2014. The average coin-in for AWP was 179 compared to 160 at the end of June last year. Total wagers collected through AWP's were €819 million compared to €675 million in June last year.

For what VLT's are concerned, it is worth highlighting that the payout that we achieved in the first half of 2015 was 88%, which is compared to

88.6% last year. And more than 350 VLTs were reallocated this year. As you probably remember, last year we carried on a relocation plan under which we moved 1,500 machines from betting shops to arcades, where normally the average coin-in is higher by 30%-40%. So the effects of reduced payout and the effect of relocation plan are giving us a good contribution for what VLTs are concerned.

In terms of sports betting performance, we were below expectation and that was mainly due to higher payout, as I was saying before we achieved 82.2% as compared to 78.3% at the end of first half of 2014. Also we achieved lower wagers.

The payout effect on revenues is some €14 million, and it is worth reminding that our performance was better than the market which performed 86% in Q2, we did 82.2%, and 85.9% year-to-date, while our performance was 81.9%. of course these are our best estimates because as you know, ADM is not providing the market with official figures. But based on the estimate we were able to put together, we can say that our performance was significantly better as compared to market performance.

Wagers were €358 million compared to €403 million last year, of which €82.7 million were collected online, this means 23.1%; it was 17.7% last year. So the share of wagers collection we do online is increasing, both in terms of percentage, but also in terms of absolute value since the increase was in the range of 16% as compared to last year.

Wagers and market shares from sports betting were down as I was commenting before not only because of the new 950 shops, which were deployed in the Italian territory, but also as a result of some problems affecting a part of the distribution network, which led to temporary closure of a, a number of points of sales. We had a low performance in betting on

virtual events as compared to last year mainly due to maturity and consolidation of the markets, as well as the already mentioned temporary closure of some points of sales.

As you know, we were expecting ADM to approve the increase of number of events which can be, you know, broadcasted per day, but this authorization did not come yet. And so, we are not benefiting in this segment of the increased number of events that we can provide our customers with per day.

Wagers on virtual events were €131.2 million as compared to €182.2 million last year. But as I was saying before, revenues were less than proportionally affected by reduced wagers, due to lower payout and reduced fees to distribution network.

Last remark on our business performance in first half 2015 is related to EBITDA that was 5.4% better than the performance we did in Q1...in Q2, 2014 (ph), it was €18.3 million last year; we did €1 million more this year.

We can now move to Page 7, where we tried to report some, you know, visual information about our...some of our KPIs. In terms of revenues, as I already mentioned, we achieved €282.8 million, which means 7.3% increase as compared to previous year. But if we do not take into consideration the revenues coming from the Barcrest settlement, the operational revenues were down by 3.3%. It is worth reminding that the payout effect on revenue is €14 million. As you probably remember, last quarter, the effects of payout was in the range of 16, so we are recovering somehow in terms of performance and payouts.

Contribution margin was down by 13.8% due to many reasons which were affecting revenues as well as EBITDA, which is 39.6 at the end of Q2; it

was 54.8 last year. This means 27.7% down, but let me remind you that it was 44.8% down as compared to previous year at the end of Q1.

And last but not least, net income at the end of June was €300,000 positive as compared to a net loss at the end of June last year in the range of €7 million.

Some additional information are reported in Page 08. I will comment on revenues, as I already did, but again, like-for-like there would have been a decrease in the range of 3.2%. And a few words on CAPEX; CAPEX were €8.2 million as compared to 6.3 million last year, which is in line with our expectation. And cash flow was €26.5 million as compared to €20 million and this was also affected by the transaction with Barcrest that brought us some €25 million in terms of cash. Net financial position was €392.6 million with a kind of...significant kind of recovery as compared to last year.

Going to Page 09, we are trying to highlight here the effects of the different segments of our activity on EBITDA. As I've been already mentioning several times, we have been you know, affected...our performance has been affected by payout and reduced wagers collected in sports betting and this was affecting our EBITDA by €14 million. We got some positive contribution from AWP's that were up by €2 million while other segments were more or less flat. It is worth highlighting, as I already did, that the performance in terms of EBITDA at the end of Q1 was down by 44.5% as compared to last year, it is 27.8% at the end of Q2, so there is some sign of recovery.

Going to Page 10, we have been trying here to give some information about the trends of payout. As you can see from this chart, at the end of Q2 year-to-date, we were 82.2% as compared to 78.3% last year and in

Q2, we did 81.9%, which is compared to 82.7% last year. And from a statistical standpoint, Q2 is probably the worst quarter of the year and this is also witnessed by the performance this year, which was better than last year, but not good enough to recover the loss on payout we had in first quarter 2015.

I think that these are the key information I wanted to share with you. So maybe now it's time to give some room to Q&A, if you wish to go ahead with that. I ask the operator to go ahead with Q&A.

Q&A

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

DOMENICO GHILOTTI: Good morning and my first question is for Mr. Del Torchio, if he is already you know, still on the line. In particular, if he can give us some more color on the decision to take this responsibility in SNAI. And so far, so I know it's still early days, but what are the most important asset and most critical issues that he is seeing in the Company? And then, looking at the results, my second question is related to the competition, and I saw that the payout is very high for sports betting for the market in general and in particular from some new recently license operators. So I wonder how do you want to react to this situation. And last question is on the operating costs, so if I look at the trend in gross margin minus EBITDA, I see an increase in operating costs and I would like to understand if there is any underlying trend in costs that I'm not aware, that's it?

GABRIELE DEL TORCHIO: I'm Gabriele Del Torchio. Thank you for your question. I will try to answer that very simply. I've been contacted by the major shareholder

of the Company in this [indiscernible] as well being Mr. Drago (ph) and I have decided to accept this opportunity because I believe that there is...there are some very interesting possibilities to further improve the result of the Company, mainly on the light of the acquisition of Cogetech. And thanks to this acquisition, we will have some very important synergies, both in terms of costs as well in terms of distribution network.

The Company that we will establish after the merger would be the second player in the Italian market. And so, I think that we will have the possibility as I said, to improve the results and to rationalize our business mainly in the line of virtual event as well on the online, which would be one of the major interests for the future expansion. This is very simply...obviously being in the Company only since last week, it's too early for me to give some further details on our strategy, but be aware that we are working together with the SNAI team, as well together with the Cogetech team, to establish a new strategy for the future, and in due time we will introduce this strategy to the Analysts Community.

DOMENICO GHILOTTI: Thank you.

MARCO CODELLA: I will take the other points, Gabriele, if you wish.

GABRIELE DEL TORCHIO: Yes.

MARCO CODELLA: In terms of competition, we have gone through an analysis of the average odds offered by the other competition and we do not see significant changes in terms of bookmaking table. So at the moment, the effect on payout we believe is more linked to the results of the events we are quoting (ph). At the moment, we do not see a specific competition and specific changes on the level of risk that other competitors are taking, as well as SNAI is doing.

In terms of operating costs, we need to remember that the operating costs this year are affected by the stability law tax, that as you know, we are reporting in other operating expenses because of our accounting principles. So most of the changes are due to this new, you know, this new charge which is in our P&L, because most of the other items are down as compared to previous years. So the effect is only due to that, and we have several actions in terms of cost saving that will give us a significant boost at year-end.

DOMENICO GHILOTTI: Okay. Just a couple of follow-up, on the operating cost, I thought if I'm not wrong that labor cost was also slightly up so...?

MARCO CODELLA: It is slightly up. But it will be down by the end of this year.

DOMENICO GHILOTTI: Okay, and on...

MARCO CODELLA: Because we have been taking some actions on that.

DOMENICO GHILOTTI: Okay. And on the competition, well I saw some other players reporting payout in the range of 95%?

MARCO CODELLA: Yes, sure.

DOMENICO GHILOTTI: I was really impressed. But so, I don't know how the business model can work with this kind of payout?

MARCO CODELLA: There are competitors that are mostly working on volumes instead of margins. So it's probably different approach to the markets. Unfortunately, we do not...having in our disposition the detailed information by concessioners. So it's difficult to give you a sharp answer.

DOMENICO GHILOTTI: They are not reacting, so you think that overall the market competition is [multiple speakers]?

MARCO CODELLA: You know, we are...normally we are the leader on the market on our odds, and normally the other follow. So we are doing our job...

GABRIELE DEL TORCHIO: If you allow me, it's probably worldwide information that we did it has changes [indiscernible] with our point of sales. In order to protect our payout this is part of our strategy. For sure, we are now going in the direction to improve volume at the expense of the margin. We are doing exactly the opposite, but this is truly confirmed by our results that are better than the market, and we will be in my opinion even better in the coming months.

DOMENICO GHILOTTI: Okay.

MARCO CODELLA: Thank you, Domenico.

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

ANDREA RANDONE: Thank you and good morning. My first question is about your net debt. How was the impact coming from the new tax in terms of collecting the money from point of sales related to this tax and what are your expectations by year-end in terms of net debt. And second question is about the network, you mentioned in the press release that you are going to solve the problems with your point of sales. And, I wonder if you can give us the timing you expect these problems to be solved, and the wagers to go up again. And the last one, but you already answered some about online. In the previous quarters, you said that there was a new release of

your portal. Can you give us an update about this project then what you expect? Thank you.

MARCO CODELLA: Okay. For what the debt is concerned, as you know, we were not able to collect some €4 million at the end of April before we had to pay the first installment of the stability law. And we were, you know, happy in considering the possibility of the decree that was supposed to be issued by the Italian government, that was aimed to actually solve the problem that was coming from the fact that the original stability law was not providing any rule for sharing among different operators in the distribution network, the charge that was coming from the budget law.

Unfortunately, the decree was dropped, and we are in a situation where there are no specific rules for which we are allowed from a legal standpoint, from a law standpoint to charge the distribution network with their part of the additional tax. This is affecting collection. Our estimate at the end of October...at the end of the year is that, we will be not able to collect some €7 million to €8 million, and this will affect our working capital of course. So this is the estimate we have today in our hands.

For what the network is concerned, our offer to initially rent and then by seize operations was approved by the Court of Rome, and also by the creditors meeting. Now, we are in the process of reopening betting shops. We have a team working on that, a multifunctional team since, you know, reopening 50...some 50 shops requires a lot of activities not only from an operational standpoint, but also from administrative and finance, legal and HR. We plan to complete the process by hopefully the end of September. But a number of shops...we plan to reopen a number of shops before the beginning of the Italian Football Championships, which is August the 22nd. So we hope will be able to reopen a number of shops by that time, and we hope to reopen all of them by September.

In terms of the question on the online, the website was supposed to be released by September. Now, we are trying to anticipate that moment and we are expecting the new website to be available before the beginning of the Italian Football Championship.

ANDREA RANDONE: Thank you. Thank you Mr. Codella.

OPERATOR: As a reminder, if you wish to register for a question, please press “*” and “1” on your touchtone telephone. The next question is from Mr. Ronan Clarke of Deutsche Bank. Please go ahead, sir.

RONAN CLARKE: Hi, there.

MARCO CODELLA: Hi, Ronan.

RONAN CLARKE: Hi, there. I just wanted to ask about the business plan and the outlook for the rest of the year excluding Cogetech, because you did referenced it in the report, I think you are slightly behind plan. But it's been revised since I guess the business plan that we saw a year ago, but we don't exactly have a number for this year. But can you give us some kind of idea of what the expectation is for the rest of the year. I mean for example, EBITDA flat year-on-year like both flat like in Q2, will that be the outcome you'd look for in the second half?

MARCO CODELLA: Okay, we are behind budget by €1.5 million at the end of Q2, so it's not that much. Now, we are carefully reviewing our past performances as well as our future expectations in light of market trends and competition. We are also considering effects on our P&L due to reopening of the former SIS shops, as well as those of budget law after the delega fiscal decree was dropped. Of course, we are in the process of considering the

effects on P&L, but we will give prompt info to the market in case significant changes are foreseen, but not by now.

RONAN CLARKE: Okay. Okay, thank you.

OPERATOR: The next question is from Mr. Antonio Casari of Northlight. Please go ahead, sir.

ANTONIO CASARI: Hi, good morning. Few data, can you please give us an idea of the coin-in of the...coin-in on VLTs please?

MARCO CODELLA: Yes, I will give you some information on that. The...okay, for what the Spielo machines are concerned, we are in the range of 700, 720. For what the Novomatic machines are concerned, we are in the range of 800. This coin-in is obtained by dividing the wagers, the total wagers by the number of total VLTs available in theory, not taking into account the number of VLTs that are not operational. Just to make an example, the number of VLTs which are today in SIS betting shops are considered as being part of the collection, but they are not collecting any money at all.

So what we are seeing in this market is that the average coin-in in Spielo is going down quite significantly. Let me remind you that last year the average bet on Spielo machines was 935, while the Novomatic machines are increasing quite significantly. It was 600 last year. It is 800 this year. So what we think is that somehow the Novomatic machines, the Novomatic platform is much more appealing today as compared to what Spielo is. And probably this is due to the fact that if you take out the effect of the big jackpot which is €500,000 every, say two, three months, the overall payout if you exclude the big jackpot is higher for, you know, for Novomatic and it's much lower for Spielo. So at the end of the day,

Novomatic appears to be more attractive to VLT players, because they are redistributing more money in average.

ANTONIO CASARI: Now, that's very helpful. In this respect, is there any plan for SNAI to replace Spielo machine with Novomatic and...?

MARCO CODELLA: In...sorry, sorry, Antonio go ahead.

ANTONIO CASARI: And, I was just wondering in terms of market, if there are any players which are overweight Spielo versus Novomatic, comes to mind that one is...one player in Italy is shareholder of Spielo, so...

MARCO CODELLA: Now, as you know Cogemat, Cogetech has got other...one platform which is operational, the Aristocrat one, and they are in the process of having a new platform approved. So I mean there are significant possibilities in the near future in combining their experience in VLTs to our distribution network and benefiting of the already existing new technology platform in Cogetech.

ANTONIO CASARI: Okay, and last question is, based on the expected closing of the Cogetech acquisition, do you envisage September numbers to be reported on a standalone basis or combined?

MARCO CODELLA: Antonio, the effectiveness of the integration will be October. So September, we will have standalone figures for both SNAI and Cogetech.

ANTONIO CASARI: So the first set of results combined will be December?

MARCO CODELLA: December, you are right, you are right.

ANTONIO CASARI: Okay, perfect. Thank you very much.

MARCO CODELLA: Thank you, Antonio.

OPERATOR: Once again, if you wish to ask a question, please press “*” and “1” on your touchtone telephone. The next question is from Mr. Domenico Ghilotti of Equita. Please go ahead, sir.

DOMENICO GHILOTTI: Yes, I just would ask you to repeat the numbers of wagers and machines in operation between AWP and VLTs. I want to check the numbers?

MARCO CODELLA: At the end of June?

DOMENICO GHILOTTI: Okay, thanks.

MARCO CODELLA: So at the end of June, the total wagers collected through AWP is €819 millions.

DOMENICO GHILOTTI: Okay.

MARCO CODELLA: Number of AWP is 24,154 at the end of June. For what VLTs are concerned, we had some €656 million in terms of wagers collected and number of machine are 5,000.

DOMENICO GHILOTTI: Okay. Do you have also the revenue contribution?

MARCO CODELLA: Yes, revenues were €46 million for VLTs, talking about revenues, not contribution.

DOMENICO GHILOTTI: Yes.

MARCO CODELLA: And €103 million for AWP.

DOMENICO GHILOTTI: Okay, thank you.

OPERATOR: Gentlemen, Mr. Codella, at this time there are no questions registered, sir.

MARCO CODELLA: Okay, so thank you all. Thank you very much for attending this meeting and we will be in touch on future developments of our business as well as the Cogemat integration into SNAI Group. Thank you very much. Bye-bye.

GABRIELE DEL TORCHIO: Thank you very much even from my side. Bye-bye to everybody. Hoping to see you quite soon. Bye.