

SNAITECH S.p.A

“First Half 2017 Results Conference Call”

Friday, August 04, 2017, 13:00 ITA Time

MODERATOR: FABIO SCHIAVOLIN, CHIEF EXECUTIVE OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the SNAITECH First Half 2017 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: Thank you, Eugenia and good morning to everybody. Welcome to this hot first half call, first half results call in Milan here 39 degrees Celsius. We are going to present the results of the first six months of 2017. Before going to see in details the financial results of the last six months, let me drive you a bit on the business trends that has characterized the first half of this year, and then the action plan which has been put in place by the management team to recovery.

So starting with the business trends, despite a clear positive improvement from the first quarter, reduced the gap with the previous year from 6.1% of the first quarter to 2.9 in the first half as a result of the second quarter; Sport Betting payout with 86.2% is still affecting marginality, even though with a better trend which is fully confirmed also in July and in the first days of August.

The digital growth remains very strong and remains the strongest growth in our business performances with an overall increase of 27% with online betting recording a 33,6% increase. Together with the growth also on retail sport betting that recorded an increase roughly of 2.8%. Betting is doing positive even without the Euro cap that has been playing last year and which was anchoring the results in the first half of 2016. This improvement is made by the increase of programs and markets and by the

constant increase of live betting which is now reaching 40% in the offline betting and 70% in the online one.

Gaming machines recorded a weak performance losing 5.9% basically due to the payout reduction and the limitation given by the local regulation which we will be talking afterwards. We are still suffering from the already the...product lifestyle which is showing a little bit of problems and which will be affected with the new platform I am going to talk to you about afterwards, and the synergy program the 20 million synergy program is completely on track with additional 5.7 million synergies accounted in the first half of 2017.

In the first six months we also registered a strong cash generation roughly €50 million of improvement from results of the end of 2016. As a result of this business trend we...during the last six months we put in place some actions plan which will be dedicated mostly on the VLT section and on the [indiscernible] as I was mentioning before.

On the VLT side, we have executed by the call for the first 100 of new VLT rights in February, which will be rolled out during the next months. We have... impossible to start the network integration and optimization. We've commented before that we didn't have the possibility till at the end of May 2017, to operate between the two former networks of SNAI and Cogetech as a unique environment in order to make asset optimization. We've been given the authorization by the regulator at the end of May, so on June we started also this activity, which we are expecting, will deliver good results during the next weeks.

We started also the VLT payout reduction. Of course after the introduction of the new decree and the new taxation on VLT which raised half a point. We started looking at the possibility to downgrade payout

VLT payout in a part of our network at the day we already completed successfully the new payout update on 1550 units; we are looking forward to target the completion of the network by the end of September. We have been also focused as I was saying before on the virtual side on virtual we are still this half losing 15% in comparison to last year.

We are doing basically two actions, one on the existing product we are trying to expand at maximum capacity the possibilities of playing championship on the Inspired [ph] net platform throughout all the network of shops adding new channels in the shops that still have only one channel and we are hardly working on the sophistication of the new platform the Global Bet one which we expect to be at the end of the specification by end of October and so put live [ph] in production by November, December.

We have been continuing the activity related to the so called rejuvenation of the panel sales on which we posted for the next eighteen months more than 10 million in CAPEX dedicated to new technology good to spin revenues and to take a competition in our point-of-sales and we are expecting a good recover from this activity also. We are in perfect track with the outsourcing of the last 33 point-of-sales which will be completed in the...you know the direct shops of SNAI Rete Italia SRI which will be completed as forecasted by the end of 2017.

Actually we are looking at the possibility to keep 8 out of those territory shops in a direct management but we will see after in better detail. And the layoff procedure so the downsizing procedure which started in July, it's about to be finished by the end of the year so confirming also from this point of view that the track that we were announcing to the market with the 68 persons involved that had been reduced to more than 15 and that will be completed by the end of the year.

All of that in financial, we are now presenting to you an EBITDA which is €55.7 million to be compared with €76.7 million as per 30th of June 2016. This gap is mainly due to the payout, which we have been talking before and which weighs €8.4 million and to taxation increase which weighs €1.8 million. So basically €10.5 out of the €12 million gap had to be addressed to these things. So we do confirm a breakeven and we have reached positive breakeven on net income of 2 million which has to be compared to a loss of 0.4 million in the first half 2017.

At the end the strong cash production which we would be mentioning before are €50 million has also had a positive impact on the leverage ratio that has been reduced from more than 4 times to 3.7 times, it was 4 times at the end of the last year and it is now at the end of the first half of 3.7 times.

If we move to Page 5, we can see in more detail...some details of wagers and contribution margin for the first six months 2017. So on retail betting, Sports betting has being growing and you can see that the growth of 2.8% has been including even without the euro cap which has positively influenced both June and July last year. And this is...it has been possible thanks to the growth of the number of markets as I was saying before an increase of live betting.

Horse races are declining with a loss of 14% and Virtual events also with 50% loss. As I have anticipated before, payout has been strongly influencing with more to the right side of the chart on marginality and you can easily understand from the basically that the big loss of 31% in the sports betting related to the payout even though the wagers were showing an increase of 3%.

Gaming machine, in this half we still have let's say...let's call it the tail of the effect of the payout reduction in AWP's which have been changed throughout 2016 you remember that due to the increase of taxation last year all the AWP's games have been downgrade from 74% to 70% in payout that has produced an effect on the wager side that has been also going through the first months of 2017 going to stabilize in the first four months. We do not see a further decrease going forward because already in May and June that trend was over.

Also restriction of opening hours have been effecting wagers due to the stabilization and habits needed from the customers this is another effect that has been let's say punching a little bit the performances at the beginning when the new regulations were introduced and of course it has the curve...the learning curve of the customers in changing their habits going to the shops in different times of the day had been stabilizing also during the second quarter of 2017.

Marginality has been affected by PREU increase in gaming machines especially in VLT you know that in VLT we operate a big portion of the value chain, so when we do have PREU taxation increase we are more affected in margins in VLTs than in AWP. As you can see at the right side of the chart in the middle.

On the online, we see a sound growth as I was mentioning before around 27% which is driven mainly by betting which is have been growth also...growing also half by the cross-selling and new initiative on the casino portfolio.

Margins are not in betting online, we are not growing proportionally due to the increase of live betting as I was mentioning before which has reached more than 70% on the digital space.

So overall, concession margins have been reduced by €14.3 million which is mainly addressable to payout effect. As a combination, our gaming taxes the first half of 2017 that's an indicator we use, it's very strong but it's a social indicator as Rinaudo our CFO is suggesting to me. We are contributing to sociality of €0.5 billion in the first half of 2017 with €473 million gaming taxes paid.

So please Rinaudo let's move, yes let's move to little bit of details of Page 6 on the KPI.

CHIAFFREDO RINAUDO: Thank you Fabio. And good afternoon everybody. On Page 6 you can see the economic and the financial KPIs of the first half of 2017. Fabio has already mentioned most of them, so we can go briefly through the table. Wagers showed a reduction by 2.5% as a consequence also revenues dropped down by 1% to €437 million.

In terms of marginality, EBITDA was down to 55.7 compared to 67.7 that we posted in the first half of 2016. This difference was mainly driven by the combination of the unfavorable payout that Fabio mentioned and the increase in taxation for the gaming machine. As expected, we reached the breakeven on the net income that was positive by €2 million reflecting the new infrastructure of the company and the lower level of interest costs that we are bearing after the refinancing that we did in 2016.

CAPEX were €10.9 million perfectly in line with the full-year target that is €20 million for 2017. And the net financial position improved to €431 million and the leverage went down as expected to 3.7 times. Liquidity reached the level of €134 million at the end of June and we underline that in line with the priority of the leveraging of the company the net financial

position of June is the lowest value posted by the company since the integration with Cogemat.

We can move to Page 7, here we are providing some more colors about second quarter performance. So you may notice that Sport payout's progressive recovery, we are now at 86.2 in the first six months and we run under 85 in Q2, so the gap versus 2016 has been reduced to due to 2.9 points.

Wagers in Q2, were down by 1.8% but net of the European Championship effect that we had in June 2016 the performance in terms of wagers would have been flat compared to 2016.

Online wagers are increasing as Fabio said, and the growth rate of 28.4 is a maximum growth rate that we are expecting since that integration with Cogemat.

Second quarter EBITDA was €27.4 million, €1.6 million lower than 2016 performance but the gaming machine taxation increase impacted by €1.8 million which means that net of this except EBITDA would have been slightly over the second quarter of 2016.

FABIO SCHIAVOLIN: Yes and as result of that, we always made this slide, Page 8 in which we tried to keep an angle...a specific angle on the correlation between Retail and Online. We are betting bookmaker and we are of course trying to deliver our services in both channels in the same way trying to improve technology and markets.

And also as I was mentioning before, avoiding to have cannibalization between the two channels. So for the first half 2017, we confirmed this so, we confirmed to remain [indiscernible] retail cross-selling to Online to

support the Group. We do not think that to bear a risk of cannibalization given the growth reduced rate in both segments in 2017 actually you can see in the slide on the top left page, Sports betting on the offline wagers is growing from €375 million last year to €386 million with an increase of 2.8%.

At the same time Sport in the online is growing from €134 million to €185 million with an increase of 37% as we were mentioning before. So there is no cannibalization, on the opposite, the two channels are helping each other to sustain growth and we are spending a lot of time in resources and technology to pair the customer experience and the prior journey of our customers between the two channels in order to be prepared for the Omni-channel possibility maybe for the next [indiscernible] tender.

The strong brand leadership and the awareness are driving the online results and so we confirm on the balance part of the slide that's here always at Page 08 their contribution of online and they are coming from cross-selling players, which the first half of 2017 is exceeding 55% that means that the good portion of contribution is made by players, which have been acquired on our offline network and the second important thing if we look at the second part of the slide is represented by the loyalty and the brand awareness on SNAI brand, which is one of the main asset of this company and which we are still trying to improve and to maintain with different activities related to the brand. So 49% of new players and new FTDs are coming from acquisition related to the brand.

So from search engine optimization SEM and SEO that means that the brand is in very good shape and then other portion, other thing to be looked at in this part of the chart is [indiscernible] cross selling ratio of acquisition of new players, which being 24, 21% on the total should be

still has a good potential to be grown up with all the action we've been talking before.

CHIAFFREDO RINAUDO: Page 9 as usual the synergy programs slide as of June 2017, we accounted €15.7 million of synergies along the whole program, which €5.7 million both in 2017. Looking forward, we expect additional €2.3 million in the second half 2017 and additional €2.5 million in the first half 2018 that will be mainly related to the redundancy program starting at the end of June. So the final target of €20 plus million for the whole program is fully confirmed. We are also estimating one-off cash out, one-off cost in cash out later to redundancy program and a €4 million that should be paid during the second part of the current year.

Last comment, looking the whole picture we can say now the integration process with of course not in terms of organization management, concessions, technology suppliers and providers may now be considered fully completed. So the good news is that we think that this is the last time that we are showing this slide to you.

Page 10, you can see the bridge between first half 2016 EBITDA and the first half 2017, so as you can see the main impact are coming from the €8.4 million net contribution from Sports Payout and €1.8 million from the increased taxation on gaming machine. Then we have to record a negative contribution from gaming machine related to the decrease in terms of wagers by €2.8 million on our marginality on our EBITDA.

Retail betting margin show a decrease of €4.6 million, because of horse betting and virtual events drop. On the other hand the online [indiscernible] positive contribution by €3.4 million then we posted a positive contribution by €5.7 million from the synergy program and a drop of €3.5 million that is mainly due to online development and other

business decrease like horse race management, the betting provider and payment services. Overall, these items represent a total draw of €12 million on the six months EBITDA.

Next Page 11, the cash flow bridge over the last 12 months, so starting from the €116 million coming from the LTM EBITDA, we counted €17.5 million of one-off cost, related to the synergy activation program assist acquisition and a settlement of formal litigation. CAPEX were €19.6 million and the working capital was positive by €13.9 million that is the effect of the taxation increase since we are collecting more money from our distributors that unfortunately we will have to pay to ADM starting from the third quarter this year. Then we had €14.9 million of interest cost and the refinancing program cost €28.3 million for the cost and €20 million of debt repayment.

In terms of cash flow progressive levels, we can see that the operating cash flow before interest was €93 million and the free cash flow before refinancing cost was €43.5 million. What do we expect for the future? Next impact that you expect over the next 12 months are basically four, first there will be some kind of shift before between one-off cost and the working capital effect, so we expect that these two values will progressively get closer to zero and the net impact will remain unchanged compared to the current picture.

Then we have a positive contribution of €4.8 million coming from the synergy product that we mentioned on the Slide before, we expect €8.5 million lower interest in the second half of this year. This is the result of the refinancing of 2016 and we have a negative impact by €8.5 million coming from the fare increase that will be up and running at the multiple budget 12 months on March next year.

So as usual we end up with a bit of regulatory framework, we always have a lot to talk about regulatory framework and we also expect as usual questions on this side and a bit of outlook for 2017. So related to the regulatory framework as we have already anticipated, the government reissued on the 24th of April and introduced an increase of tax of machines of half a point on VLTs and 1.5% on AWP. We confirm as we were anticipating on the last call that the impact on SNAITECH EBITDA will be in the region of €7 million to €10 million, so it would be around €10 million for the full year.

The Law analysis of 21st of June 2017, is the one which is related to the reduction of number of AWP and the territory is now a reality show we've been given by a Law decree the indication to be the leaders as concessionaire in the reduction of those machines given the two different ratios of 15% and 20% respectively by the end of the year and by the end of April 2018 to be managed by any single concessionaire in this network.

Related to this cost as we were...already discussed and before, we do expect that these costs apply to our network so having...the distribution of our machines in the territory and in the different distribution channel we do expect that the impact on wagers could be less than 10% and the EBITDA level less than €4 million for our company. This expectations are made not considering what we call a redistribution of wagers which will most probably happen when other players will be obliged to play in the remaining machines in the shop, so we are this is just a linear cut made on let's say theoretical assumption, which will possibly will be mitigated by the redistribution of wagers.

Again, on the regulatory framework yesterday the Conference Unificata has been taking place Rome and apparently, the government and the

regional authorities have come to a possible draft of agreement which will...would...maybe signed and agreed at the beginning of September.

We do have a draft of this provision and agreement which the government is trying to achieve with the local authorities. There are positive and negative things, we are still analyzing it. The main focus for the regional authority is to limit the possibility of compulsive gaming by limiting and identifying customers in the shop so the shop will be asked to separate gaming from the other activities within the shop and the new AWP3 or mini VLT will also be introduced with this aim to better control habit of the single customers.

There are also positive things related to this first draft, one I would mention is the possibility to have throughout the next two years a change in the taxation scheme applied to gaming machines moving from wagers to margin which is one of the target also of the Conference Unificata. This is good. We have been talking a lot about this many times because it will neutralize the payout effect, will give the operators the possibility to better differentiate by price using payout without having to be squeezed by taxation on margins and but also a limitation, a maximum limitation of non-playing hours which is interesting because we have been observing throughout the different regulation in Italian territory, a kind of trend of regional authorities to avoid possibility of gaming so to limit more than six hours that they seem to be agreeing on.

So if you it would be six hours of maximum limitation, we do read it not in a very bad way. On strategy and outlook for 2017, we already anticipated something but let me summarize again. We will be working hard and tough on the payout reduction to offset the PREU [ph] increase on the natural optimization and integration. We will rollout and try to optimize that full usage of the rights, both of the VLTs and also on betting

rights. We are about to start for the new soccer season. The new technology of SSBTs for proprietary [ph] both in hardware and software which will be one of the driver of differentiation of the offer of SNAITECH in comparison with the competitors.

We will be launching then second platform of virtual events by the end of 2017. We will continue with strategic bolt-on integrations both in AWP side and also in VLT side, mostly in AWP side. We already started in the first half of this year and we will continue to go through this strategy as we anticipated in the last quarter call. And then I think that 2017 will be the year which will finally certify our platform for a new geography.

We are as you know...as we already anticipated, we are working to certify our betting platform for a new jurisdiction and new country. So this is the first step of international development of the Company which we do think would be one of the key strategy for the next five years. On the [indiscernible] target, we have to a little bit update our targets. We have been giving to you considering all the effects of the already mentioned introduction made by the regulators or the taxation increase. So relating to the AWP cut and how this is going affect the business, would you think it will as I mentioned affect our wagers, so we are going now to retarget CGR for the next three-year plan from 4% to 3% on annual basis and also the final leverage target which was already updated to 2.3 times is now about to be updated to 2.4 times at the end of 2019.

We continue...so we confirm double digit growth expected in the online business. This is still related to the capacity we have to see grow, spring as I was mentioning before the cross selling for betting online but especially in the digital online casinos, we still have quite a good potential to grow and we are confirming the target of positive net income for the end of this fiscal year so for the end of December 2017. I think that this is

all for today for the presentation. We are ready to take questions and so available.

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 Ronan Clarke with Deutsche Bank. Please go ahead.

RONAN CLARKE: Hi there, good afternoon. Thanks for taking the questions. First of all, I just wanted to ask about the Q2 EBITDA bridge, specifically so you mentioned the 1.8 of impact from the PREU increase, but then if I look at the payout impact, it has gone down from 10 million in Q1 to 8.4 so that's a positive 1.6 I guess or 1.5 roughly. So then there is another sort of 1.5 negative offset I guess somewhere. So could you just breakout what else, I guess those hours impact as well or what are the key factors?

COMPANY REPRESENTATIVE: Okay. Thank you, Ron. Yes, your analysis is correct. So we are recovering in terms of payout that brings a positive contribution of 1.6. Your estimation is correct, so on the other hand, we are losing 1.6 coming from related to some weakness that Fabio mentioned before related to virtual events and VLTs mainly, but the greatest contribution is coming from...in this degree it is coming from virtual events.

RONAN CLARKE: Okay. And that's...I mean you won't have the new platform introduced till later this year so that's something that is going trend downwards through this year I guess, is that right?

COMPANY REPRESENTATIVE: Correct. I am saying that we will have the full impact in terms of increase in payout for the next nine months basically and in terms of weakness that we experienced for virtual events as Fabio said before we

are stabilizing in terms of wagers virtual result compared to last year results starting from the end of June. So we don't expect that this kind of decrease will go on for the next quarter. And in terms of recovering program for VLTs, Fabio mentioned before what we are doing in terms of asset management, in terms of payout management for VLT itself, so the expectation in this case that we will recover in the second part of the year.

RONAN CLARKE: Okay. Great. And then on...my second question is on the cash balance, so what are the sort of what's the impact of timing in terms of the...that can only...refund and also any concession payments, so I am trying to get to...is this an unusually high or abnormally high cash balance? What's the underlying if you map out or know that timing?

COMPANY REPRESENTATIVE: So, basically, we have the annual security deposit, the profit versus ADM that has been cashed in during May, so now we have to wait now for April next or for May next year to have the net cash in for the 2017 year the cash in was €37 million, this would be something like that the same value also next year. So, obviously, when we are talking about free cash flow before [indiscernible] refinancing cost of \$43.5 million basically this single event represent 95% of the cash generation of the year. So, obviously we have a very particular moment during the year when this difference is made compared in terms of cash balance. Fortunately, we don't have any other cash out expected in the short-term next important cash out will probably be back in tender, but by now we don't have any certain date about that we expect next meeting for the Conference Sonificata at the beginning of September. We will see if they sign the agreement this could open the way for the government to fix a final date for the betting tender. In any case, we do not expect at this stage of the year that the tender could happen before December this year.

RONAN CLARKE: Okay. And just to confirm that this deposit repayment was in Q2 was also last year I think it was June but it was also Q2 last year?

COMPANY REPRESENTATIVE: Yes, correct. June last year and May this year, correct.

RONAN CLARKE: Okay great. So, I am just curious then your leverage target of 2.3 to 2.4 in 2019 what do we take as a normalized cash number then to get to that or are you assuming that before or after the security return or are you assuming the betting shop CAPEX is also gone at better stage?

COMPANY REPRESENTATIVE: Oh, we are assuming...we assume both of that case...so we are assuming that at the betting tender CAPEX will happen only we are looming a level of EBITDA which is higher than the current one and they are slightly higher also than the current, the EBITDA level that we posted last year that was 128. So, again, if you refer to the Slide 1, where we are showing that the cash flow reached over the last 12 months if you assume higher EBITDA and the you take what will be the full year level of interest cost that will be between €41 and €42 million you may see, you may appreciate additional room to get to this final target that we propose for the end of 2019.

Obviously on the other hand, we always say that together with the €60 million CAPEX expected or estimated for the betting tender, in this value we are also estimating an increase by 20% of the right managed by SNAITECH. So, obviously in our plan we are assuming a part of the growth coming from the new rise that will be rolled over after the tender. If the tender should not happen with a short-time we will have a saving in terms of cash out, but we will lose something in terms of marginality in our plan.

COMPANY REPRESENTATIVE: Okay, yes.

RONAN CLARKE: Okay. That's very helpful. Thank you very much.

COMPANY REPRESENTATIVE: Thank you, Ronan.

RONAN CLARKE: Enjoy the weather.

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

ANDREA BONFA: Hello, good afternoon to everybody. It's Andrea Bonfa here from Banca Aletti I have got some few questions. The one solid gain is on the payout, after the first quarter the payout was around 82% it seems quite confident maintain that at that level. What has changed in May and June to reach an 85% because they are the month...were much worse than April and I presume also the first part of May if you can comment on that please. And the second one is related to your let's say intention to offset they say that the worst payout in the first half, reducing the payout on VLTs and I am assuming how much material can have an impact in H2 and if that is not so maybe costly in terms of potential revenue in 2018 because when you reduce payout clients of course invest less on that specific segment as we have seen on AWP's?

And the other question is related to on other part of your EBITDA breach which seems to contain this increasing cost online advertising assuming services. Shall we double that amount by 2, and we are assuming 7 million more or less euro investment for the full year. If that is a reasonable assumption and finally if I may on your net debt the way we look at this is on a sequential basis. Last year more or less you generated 30 million of cash in the second quarter. This year it was 65 more or less, so it means you generate much more cash spend that the comparable

period last year and given that the EBITDA was below or it was lower I would like to understand a little bit more on how you were able to generate more cash sequentially than last year? Thank you very much.

COMPANY REPRESENTATIVE: Thank you. I go with the first answer. If you refer to page 7, Sports payout was 87.6 in the first quarter this year that was the highest level together with last fourth quarter of 2016 that was compared to the best quarter in 2016 that posted in Q1 2016 81.5. So, as a result the gap was negative by 6.1%. In the second quarter, the performance this year was better than last year, we have reported 84.9 compared to 85.2 last year. So, as a result the six months this year posted a total payout of 86.2.

Our expectation is that in the long run and in long run will reached by this year that the full year results should be quite similar to the same that we posted last year. Last year we finished with 84.5% and this is a reference level that we also assume for the current year obviously final payout is linked to the nature of the events that we are bookmaking, but looking at the result in June and looking also at the incredibly bad month of December that we had last year the expectation is that the comparison in the second part of this year could be favorable versus the second half of last year. So, the expectation is that the gap just can't be 2.9, could be reduced along the second half of 2017. Concerning your second question, about the elasticity or what could be the possible answer for in terms of wages revenues for VLT.

COMPANY REPRESENTATIVE: No, as we have been mentioning before what we are doing now is basically trying to intervene in the most...played gain contents, which are now driving as one in Novamatic platform which is driving roughly 56% of wages which is Book of Ra. Book of Ra is currently running at 88.4 percent payout and we are now on rolling out a new version of this game at 86.2 which means in a way making a catch of much more that the

increase of VLTs of course related to a portion of our network. In our calculation the forced bid of this action which as I was mentioning before we do for it to be completed by the end of September will drive our results to an increase in marginality of roughly €3 million.

How this is going to or if this is going to effect, how it is behaving elasticity on this reduction to demand and so on wagers, we have been making in the last 12 months some tests on the reduction. Of course, we have been doing this in selected and other related arcades in which we were not suffering competition of machines without higher payout, and so the tests we've been doing were not delivering enough sense of competition in the environment, were not delivering a sensible response on wagers then.

The fact that the market is moving massively through our reduction of payout especially with most played games so with this game Book of Ra of Novomatic and with another game of [indiscernible] is making us thinking that the effect of that reduction on wagers won't be the material and it is already in the number of possible margin increase that I was mentioning before. So that €3 million that we've been calculating is already coming out from an estimation of what tax on wagers could be, and so we've been assuming a 6% decrease given to the reduction of payout applied to the roughly 2 points less which we are now updating this content. So that's basically the result of our estimation.

COMPANY REPRESENTATIVE: And going to your third question about the other course if you should double or not in the second part of the year or for the full year, I would say the answer is no, first of all because the main course for example that we accounted in this area is related to the rights that we acquired for the live streaming of Serie A [ph] that we are now proposing on smart phone, tablets and digital channels. That is of course obviously

per year it is closer to €1 million per year so it will not double in...going forward and they've already been accounted in the last part of last year so now we are at the running 12 months horizon. Then we have some jobs related to other businesses mainly I am talking about the provider that is stabilizing, so we don't expect that we will incur any other losses for this part of the business. On the other hand, horse race management are going down at the same pace of the first six months also at the beginning of this quarter so we expect that in this case we will have to bear additional losses but they are the lower part of this item of cost. So the expectation is that where you could be more stable than to be double along the year.

Concerning the fourth question the cash flow generation, I would give you three different aspects to go through the full picture. First half obviously is the reduction in terms of a financial course that is something material €8 million at June and €17 million by the end of this year. So we are saving an important amount of money in this area. Then also what we mentioned before so the working capital effect that we had after April this year thanks to the...it's a counter sense but the increase of the taxation for gaming machine increased the cash-in from our distributors so we are accumulating cash that due to the mechanism of reversal through ADM that we will pay starting from July up to September this year. So there is part of this effect this is transitory but on the other hand we accounted as we said before important one of course that will disappear along this year [indiscernible] that was done in July last year and that accounted for €7 million in one-off cost.

Then looking forward as potential positive effect is coming from the moving of our business drifting to the online business, which I remember is a fully prepaid business. So in terms of credit without obviously performance coming from online wagers are more interesting looking at

the financial quarter compared to normal cash-in that we have to do perform with our distributors.

ANDREA BONFA: Fabio, thank you, very much. But once again on the payout the answer was not full once again you were mentioning 82% in April which I presume was also in May because the conference call was in May, you closed at 85% so June was a terrible month it was 90% payout now.

COMPANY REPRESENTATIVE: That was the...we payout with the month itself not the four month results.

COMPANY REPRESENTATIVE: It was not year-to-date; it was the single month payout.

COMPANY REPRESENTATIVE: It is actually now that we presented at the Q1 results when we mentioned 82% payout in April it was the month itself not the four months results.

ANDREA BONFA: Exactly you closed in the third quarter with 85% is that right? Then so you closed it...and the April, June payout with 85% the single month of April was 82% so these the other two months were much higher?

COMPANY REPRESENTATIVE: The first quarter was closed if you look at Page 7 at 87.2%.

ANDREA BONFA: No but we are talking just on the second quarter, the second quarter you reported if I am correct in the second quarter 84.9% payout.

COMPANY REPRESENTATIVE: Yes.

COMPANY REPRESENTATIVE: Correct.

ANDREA BONFA: April to June. The April month during the conference call you closed it 82% on the single month, so it means that May and June were higher than April and much higher than April increase and what went wrong to reach that 85%, 84.9% in May and June?

COMPANY REPRESENTATIVE: So May was around 90% it was 89.4% and June was 84.9%, so almost 85% that that's the combination that drives to the result of the second quarter.

ANDREA BONFA: So but during the conference call I mean I don't know what went wrong in May you speak in the conference call in May....

COMPANY REPRESENTATIVE: No its not...it's the end of the Serie A [ph] you know, when especially in this country where which we have one strongest team in comparison with among all the others, at the end of the year, the football season terrible payouts are much more possible, so that's why May which was precisely the final part of the football season recorded a worse payout compared to April which is not mislead or bad management of trading because as we provided also in our slide we are still best-in-class in terms of payouts in comparison with our competitors, with our peers. It's mainly related to what will happen in the football fields.

ANDREA BONFA: Fantastic. Thank you very much. And now is everything clear.

COMPANY REPRESENTATIVE: Thank you.

COMPANY REPRESENTATIVE: Thank you.

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

ANDREA RANDONE: Thank you and good afternoon. I have just two quick questions. The first one is about the regulatory update we should expect to arrive in the next month. I wonder if you can give us some comments about the possible introduction of the new AWP as the new generation of AWP's and if you still expect this change to be positive for you in terms of EBITDA and the second question is just if you can give us a more general comment about the competitive environment in Italy and if you see any possible room for consolidation in the next 12 months. Thank you.

COMPANY REPRESENTATIVE: Thank you Andrea. Related to the new of the affected...the new relation introduced by the Conference Unificata with a specific focus on AWP 3s or mini VLTs as we've been commenting many times, your view is correct, we do think that a new technology can help the concessionaire to position better in the value chain to have not only a better capacity to control distribution of gaming but also going downwards to take a bigger portion of the value chain considering that let's say the heart of the new technology will be remotized [ph] in the concessionaire's headquarters and so all the decision in terms of private product the differentiation of offer and of distribution will be handed by the concessionaire that will also have a better capacity to retain customers and to control a network that in combination with the reduction of AWP's will be at that time let's say a limited network.

As I was commenting in another call, we are slightly changing this environment from a commodity product one to an asset product one in terms of having a limited number of assets represented by the single limited machines, which will gain much more let's say value being limited in number and controlled by the concessionaires. In this environment, I take your question also to make some final consideration. The competitive environment is for sure full of opportunities thus there are opportunities of consolidation, this is still a market in which even though

we started a consolidation and then we've been followed by Gamenet to take over Intralot there is still space to consolidate both horizontally, so this is the way with we which we were talking now and also vertically which is the strategy we are implementing in the other fields but which will be possible to be implemented also in the retail side for VLTs and sports betting.

Once the Conference Unificata, there will be distribution of the retail. Network will be applied by common rules recognized by the single region. At that time, there should be the possibility also for operators like us that are controlling a big portion of the value chain to integrate vertically and to take more value in the chain. There could be other opportunities to be done. You know that there are also...there is the possibility that one concessionaire face a possible default by the repeal of the concession and license it has been given thus freeing a certain number of rights for VLTs. That could be an opportunity for us to grow so we are constantly looking at it and we are working to be prepared in case it happens or in case it happens also together with the betting tender.

I think we will take another call before the final consideration, so we will end up after Domenico I think. It is all for you Andrea.

ANDREA RANDONE: Yes, just a quick follow up. The question is did you include the possibility of AWP 3 in your guidance or not?

COMPANY REPRESENTATIVE: It is neutral by now.

COMPANY REPRESENTATIVE: It is neutral, it is not included. Thank you.

ANDREA RANDONE: Thanks a lot.

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

DOMENICO GHILOTTI: Thank you for taking my call. Is related to the Conference Unificata in the sense what makes you confident on the success of the Conference Sonificata because frankly speaking we are just back from another misstep by the government yesterday. There are elections in spring so I am skeptical about the ability for the government to have a Conference Sonificata.

COMPANY REPRESENTATIVE: We are not confident. This is new...we live in this hot place not only because of the weather, which is increasing now to 40 degrees. I am going to update Ronan that was happy for us and no, no, we are not confident we are also skeptical. I was...maybe I was misleading in the way I approached the subject. I was saying that basically as everybody knows we are not undertaking positively everything that has been negotiated by the region and the government in Conference Unificata, so we wouldn't be happy if it will come 100% like as it is.

What I was saying is that if it comes and if, you know it's the first time that they come out from out that big building saying basically the same things both the region and also our Deputy Ministry of Finance, Mr. Beretta which is was saying basically that there is a good expectation to sign up by the beginning of September, of course he has been saying this for the last 12 months. So, again we view...we are skeptical but and we are also skeptical because of the specific part of the year, in which this last meeting of the Conference Unificata will has to take place.

So, in autumn so going very close to the work for the budget law, which will be a budget law before election, if the political situation is not really the one to have an exit for a matter like that, but we will see. So, we are

aligned with you. So, just to make some final consideration for everybody we continue remaining focused on digital which is now the area which is delivering the better results as someone have noticed the mix is changing so like in place betting is increasing. So, we are not going to expect proportional growth in margin related to the growth in warges that we will observe for the online growth [ph] especially I am talking about betting online.

We have a lot to do. We are very let's say and energetic thinking at the second half because we do have to refocus on operation now that we have ended up with the synergy program. We have been working almost 16 months on the integration between the two companies as many of you may understand doing this means being a little bit focused on operations. And so, I think that I am very optimistic that we can gain opportunities to restart growing also on gaming machine to have that VLT management the payout reduction and asset optimization.

Our technology will help us, we spent a lot, really a lot in terms of resources and also in terms of money, launching the new platform from which we were expecting to have strong results especially from SSBTs we are now just growing out another 600 pieces in the best performing places. So, we do think that will deliver a good result, we are also working on management team we just make an addition we want to make the team stronger to be able to sustain this important growth that we are expecting. We did at the international project also that will take a lot of focus. So, we are convinced that in the second half we can restart growing and we will show numbers in the next following month.

OPERATOR:

Mr. Schiavolin there are no more question registered at this time.

FABIO SCHIAVOLIN: Yes. So, I wish everybody a very good summer break and vacation. Rinaudo [ph] is leaving to Iceland, so, let hope that he will come back sane and fresh...

COMPANY REPRESENTATIVE: Fresh.

FABIO SCHIAVOLIN: And fresh for the next half. And thank you everybody.