The Stars Group Inc. Q4 and FY2018 Earnings Call Transcript
March 6, 2019

CORPORATE PARTICIPANTS

Rafael (Rafi) Ashkenazi, *Chief Executive Officer*

Brian Kyle, *Chief Financial Officer*

Marlon Goldstein, *Executive Vice President & Chief Legal Officer and Secretary*

CONFERENCE CALL PARTICIPANTS

Chad Beynon, *Macquarie Group, Ltd.*

Patrick Coffey, *Barclays*

Joe Stauff, *Susquehanna Financial Group*

Daria Fomina, *Goldman Sachs*

Tim Casey, *BMO Capital Markets*

David McFadgen, *Cormark Securities, Inc.*

Suthan Sukumar, *Eight Capital*

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PRESENTATION

SLIDE 1: Operator

Good morning ladies and gentlemen and thank you for standing by.

At this time, all participants are in a listen-only mode. A question and answer session for analysts will follow the formal presentation.

As a reminder, this conference is being recorded today, Wednesday, March 6, 2019.

Replay details are included in The Stars Group's earnings press release issued earlier this morning. I will now turn the call over to Vaughan Lewis, Group Director of Investor Relations and Corporate Communications.

SLIDE 2: VAUGHAN LEWIS

Thank you and good morning.

Welcome to The Stars Group's fourth quarter and full year 2018 conference call.

This morning, The Stars Group issued an earnings press release and filed its, annual report on Form 40-F, annual information form, and 2018 annual MD&A and consolidated financial statements on SEDAR and EDGAR, as applicable. These documents and a webcast presentation will also be available on The Stars Group's website at www.starsgroup.com.

A link to the presentation is included in the earnings press release.

Some of our comments today will contain forward-looking information and statements under applicable securities laws that reflect management's current views with respect to future events, such as The Stars Group's outlook for future performance. Any such information and statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those projected in the forward-looking information and statements. Undue reliance should not be placed on such information or statements.

Factors that could cause actual results or events to differ materially are set forth in the documents The Stars Group has filed or furnished with applicable securities regulatory authorities or otherwise made publicly available, including, without limitation, today's earnings press release, and its 40-F, annual information form, financial statements, and MD&A for the year ended 2018.

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Except as required by law, The Stars Group undertakes no obligation to update any forward-looking information or statements as a result of new information or future events.

During the call, we will reference non-IFRS financial measures. Although The Stars Group believes these measures provide useful supplemental information about its financial performance, they are not recognized measures and do not have standardized meanings under IFRS.

Reconciliations to the nearest IFRS measures are included in today's earnings press release, earnings presentation, and MD&A, which will all be available on our website.

Except where noted, currency figures presented on this call are in US dollars.

I will now turn the call over to Rafi Ashkenazi, The Stars Group's Chief Executive Officer.

RAFI ASHKENAZI SLIDE 4

Good morning and thank you for joining us on today's call. With me is Brian Kyle, our CFO, who will provide further details about our fourth quarter and full year 2018 financial results and our outlook for 2019.

Before that, I will provide an update on progress against our strategy.

As highlighted on our slide 4, 2018 was a landmark year for our business, as we made significant strides towards our vision to be the world's favourite iGaming destination:

- We completed the acquisitions of Sky Betting and Gaming and BetEasy, giving us leading positions in sports betting and gaming in the UK; and sports betting in Australia, two of the most attractive markets globally.
- We restructured our balance sheet. We now have a flexible and cost-effective structure that will allow us to pursue our growth strategies while rapidly de-leveraging our balance sheet.
- During the fourth quarter, we made further regulatory progress, with new licences in Sweden and Pennsylvania.
  We also made important progress on our USA strategy, with a multi-state market access agreement with Eldorado, and it was pleasing to receive a favourable judgment in Kentucky.

In addition to the significant strategic milestones we achieved in 2018, we delivered solid financial results, with 12% revenue growth and 6% adjusted EBITDA growth on a proforma basis, as if we had owned the acquired businesses in both periods.

We enter 2019 with confidence. We believe we have the assets, brands and capabilities in place to deliver on our strategy of becoming the global leader in this exciting and high-growth industry.

SLIDE 5

Moving onto slide 5, let me recap our financial results for the year. Total revenue of $2.0 billion and adjusted EBITDA of $781m were both in-line with the guidance that we issued in September 2018.

2018 was a really pleasing year for the core Stars International business, with 9% constant currency revenue growth and 10% Adjusted EBITDA growth. Adjusted EBITDA of $660m for the TSGI business, including corporate costs, was ahead of the original guidance range of $625m to $650m we provided in March 2018, despite subsequent FX headwinds and additional regulatory impacts.

On top of a strong performance of our international business, we saw almost two full quarters of contribution from our UK business, Sky Betting & Gaming, which added $394m to revenue and $100m to adjusted EBITDA. We are pleased with the operational performance of SBG during the year. While Adjusted EBITDA contribution during 2018 was a little lower than we originally expected due to a lower than expected win margin in Q3, momentum has continued to build in the business and we are back on track for 2019. We have had a strong start to the year and our Adjusted EBITDA and cashflow expectations for SBG in 2019 are now in-line with our expectations at the time of the acquisition.

The Australian business added $197m of revenue and $21m of adjusted EBITDA to the year. It was a busy year for this business, with the migration of the William Hill Australia player base, and the launch of our new brand BetEasy. We believe we now have a strong platform to drive market share gains in Australia, and we are confident that we will deliver strong revenue and EBITDA growth in 2019.

SLIDE 6

Slide 6 shows the key highlights by segment for the fourth quarter as we continued to drive operational excellence, innovation and product leadership in all key geographies.

I'd like to reflect specifically on the impressive success of our casino business, and take this opportunity to congratulate the team for their work and continued commitment to the execution of our growth strategy. Since soft-launching for the first time at the end of 2014, in just 4 full years we have organically grown our online casino to be one of the largest online casinos in the world, with revenue of $428m in 2018. During Q4, we experienced another 23% growth, reaching another all-time-high of $112m in revenue. This continued success is being driven primarily by our team's relentless focus on excellence, and providing more games, better products, and better rewards to our players. We continue to see growth opportunities, and we have exciting plans for this year and beyond to grow our leadership in this market. We have also already started to realise revenue synergies from SBG, launching a daily free to play product with learnings from the success of the Sky Vegas Prize Machine.

As expected, our success in casino has had an inevitable cannibalisation impact on poker, with our customers spending more of their gambling wallet on our online casino now. However, while generating Casino and Betting revenue that is over half a billion dollars annually from our existing PokerStars customer base, we have still been able to maintain our Poker revenues at broadly consistent levels over this period.

This is an example of the power of The Stars Group business model. Scale matters. We are able to leverage our significant investment in brand and technology across our massive existing player base to continue to drive strong organic growth.

Within SBG in the UK, Q4 revenues were $226m, with encouraging trends in both betting and gaming. Within betting, the net win margin was 10.1%, higher than our long-term average margin of around 9%. We had a notable acceleration in engagement towards the end of the year, and we are confident in our outlook for 2019. Adjusted EBITDA of $72m was in-line with our expectations, with a healthy Adjusted EBITDA margin of 32%.

BetEasy saw revenue in Q4 of $72m, and adjusted EBITDA of $13m at a margin of 18%. Staking growth was 82% in Australian Dollars, and I was delighted with the excellent performance of our in-house technology, as we reached new all-time high volumes during the Spring Carnival, with 100% availability, while all of our major competitors experienced some technical problems.

SLIDE 7

Turning to slide 7, I would like to provide an overview of our strategy. We believe we made significant progress during 2018 to build a strong platform to deliver long-term growth.

- First, we operate in a large high-growth industry, with significant long-term growth potential underpinned by the structural tailwind of gambling spend moving online.

- Secondly, we have a proven record of developing market leading positions in key countries and across all key product verticals. Today we are a diversified global market leader, with unrivalled product and geographic reach in our industry.
- Additionally, our business has significant and sustainable competitive advantages that support ongoing market share gains in these markets and provide us with a platform for expansion into new markets.
- Our scalable proprietary technology platform enables us to replicate our success in new markets as they become available.
- Finally our financial model is highly attractive, with strong customer retention, scale benefits and high free cash flow conversion enabling rapid deleveraging to provide flexibility and boost growth potential.

SLIDE 8

Delivering our vision means building leading positions in the most attractive end markets, as illustrated on slide 8. During the year, we became the leader in the UK online betting and gaming market, and consolidated our leading position in Italy, two of the largest regulated markets.

In Italy, we saw a strong Q4, with our market share increasing to 12% of the total online betting and gaming market, widening the gap between our nearest challengers. I was pleased with the performance of our casino gaming products, the largest product vertical in the Italian market, as we continue to innovate our product, content and marketing plans to build out the best customer proposition in the market. I'm excited that we have started migrating the Sky Bet player base to PokerStars in Italy, and we have just relaunched a new Sky Bet with access to PokerStars and the market-leading PokerStars Casino.

In the UK, our SBG business continues to grow market share, leveraging its strong brand, product expertise, and rapid innovation. We saw a notable improvement in growth rates throughout Q4, as some of the new innovations started to gain traction, such as our improved betstlip, a new in-play product set and Sky Vegas Creations, our in-house and exclusive games. We enter 2019 with positive momentum, and I am confident that we will deliver our plans for low double-digit pound revenue growth and ongoing market share gains in the UK.

With that, I'll turn the call over to Brian, who will provide additional detail on our financial performance and full year outlook for 2019.

BRIAN KYLE SLIDE 10

Thanks Rafi, and good morning.

I'm pleased to report that our overall 2018 results were in-line with our expectations, and in-line with our guidance.

As reported, net income for Q4 was a loss of $38m. After adjustments and the amortisation relating to purchase price allocations, adjusted net income was up 29% year-over-year to $145m, giving us adjusted diluted EPS of $0.52.

We ended the year with net debt of $5.1bn, equivalent to 5.5x our adjusted EBITDA on a proforma basis, as if we had owned all businesses from the beginning of 2018.

To provide additional clarity on underlying trends, the right-hand side shows proforma revenue and adjusted EBITDA figures for the fourth quarter, as if we had owned SBG and BetEasy from January 1, 2017. On this basis, constant currency revenue growth was 3%. As we were lapping a period of operator friendly sporting results, this was a pleasing period of performance and reflects the strong execution and operational excellence of our teams.

Over the next few slides, I'll run through the key moving parts in the quarter by segment.

SLIDE 11

Turning to slide 11, we provide additional details about our robust performance in the International segment.

Constant currency revenues were up 4% driven by growth in Gaming and Betting offsetting a decline in Poker Revenues with challenging operating conditions in certain markets.

Constant currency Poker revenues were down 4% in Q4 with organic improvements in nearly all markets offset by external headwinds in certain markets. These markets were impacted by payment restrictions and the removal of certain local iOS app stores. These markets had represented around 20% of deposits, but now represent around 15%. While this is a temporary negative impact, we are seeing positive trends in these countries on a sequential basis.

Despite the challenges, we ended the year with constant currency growth of 0.4% in poker, and 1.1% as reported, in-line with our expectation for low single digit constant currency growth on a like-for-like basis in the medium-term.

Gaming once again delivered a record quarter, with constant currency growth of 29%. New content launches, the ongoing success of our loyalty program, and continued successful promotions all contributed to continued growth in PokerStars Casino.

Betting revenue, which includes BetStars operations in the UK, was up 5% year-over-year in constant currency. USD stakes were up 33%, offset by a lower net win margin as we lapped the run of operator-friendly sporting results in Q4 2017.

Our adjusted EBITDA margin was up over 3 percentage points at 47.2% during Q4, and was stable at 48.7% in the full year, with quarterly movements reflecting the phasing of some costs during the year. Including corporate costs, adjusted EBITDA for the core Stars international business was $660m, which was ahead of our original guidance.

SLIDE 12

Turning to the UK segment financials on slide 12, which currently comprises the SBG business. Please note that these financials are presented here as if we owned the business in both periods. Given this is a UK business that trades and operates in pounds sterling, we are showing the financials in pounds to increase the clarity of the underlying trends. There are more details on FX rates and proforma results in US Dollars in the appendix.

Staking growth was 10% during the period, as we continue to see strong engagement from customers, with QAUs up 17%. The net win margin was 10.1%, which was above our long-term average, but well below the 14% experienced last year, which was boosted by a sustained period of operator friendly results. As a result of these, betting revenue was down 21% year-over-year.

For the year, the net win margin was 9.2%, in-line with our expected long-term average. The net win margin is likely to remain volatile on a quarter-to-quarter basis, but we continue to expect the margin to trend around its current level of just over 9% in the medium-term. Overall, we enjoy one of the highest net win margins in the UK industry driven by our low-staking recreational player base, and we believe we are highly efficient at retaining and monetising our customers.

I was pleased with the gaming performance in Q4, with revenue up 17%, and the growth acceleration we experienced during the year as we continued to deliver great products and content, and began to lap the impact of more progressive safer gambling policies.

Overall revenues were down 9% as we lapped a period of high sports margins in the prior year period, and as a result our Adjusted EBITDA was down 28%. We delivered a solid Adjusted EBITDA margin of 31.5% during the period, which was in-line with our expectations.

Looking into 2019, we enter the year with good momentum, having seen strong active customer growth during 2018, and Boxing Day 2018 was a new all-time record for stakes in a day. With an increased focus on player yields in 2019, we are confident we will deliver low double-digit revenue growth in pounds this year. Our EBITDA and cashflow expectations for 2019 are now the same as our expectations at the time of the acquisition. The integration of the business is progressing well, and we continue to be pleased with the operational progress at SBG.

SLIDE 13

Turning to slide 13 we provide an overview of the financial results for the Australian segment. As with SBG, this is in local currency, and on the basis that we owned the business in both periods, to provide increased clarity about the underlying operational trends.

Staking growth in the quarter was 82% to A$1.2bn, driven primarily by the impact of the migration of the William Hill Australia player base to BetEasy and a solid performance during the important Spring Carnival. The historical figures relate to the CrownBet business on a standalone basis up until the completion of the acquisition of William Hill Australia in April 2018.

Q4 was the first full period under the new brand BetEasy, and we are pleased with the operational performance during the quarter. This business had a particularly strong Spring Carnival, helping to increase the successful migration of WHA players from over 70% at the end of Q3 to over 85% by the end of November. The migration is now largely complete, with strong execution that exceeded our expectations.

The net win margin of 8.2% in the period was a little below the historical average of 8.5%, largely due to unfavourable sporting results in the period. However, despite this, we delivered satisfactory profitability, with Adjusted EBITDA of A$17m, at a margin of 17%. Looking into 2019, we believe that we are well positioned to deliver high double-digit topline growth, and we continue to see an Adjusted EBITDA margin in the 10-20% range, as we outlined during our Q3 2018 results call.

SLIDE 14

Moving onto slide 14, our business is highly cash generative, and we expect to continue generating significant free cash flow, providing us with the ability to delever our balance sheet and fuel future growth.

Overall, we generated Free Cash Flow of $83m in the fourth quarter and our net debt decreased by $47m from the end of Q3 to the end of Q4.

Our Adjusted EBITDA in the period was $239m. After accounting for working capital, tax and other adjustments, we easily generated enough cash to cover our interest costs of $58m and maintenance capex of $24m. The resulting cash flows allowed us to invest $22m in expansion in the period and pay our debt amortisation of $9m. We also bore $20m of integration and acquisition related costs this quarter, resulting in a Free Cash Flow of $83m.

SLIDE 15

Our strong free cash flow conversion allows us to quickly pay down debt, and we ended the year with net debt of $5.1bn, equivalent to 5.5x adjusted EBITDA on a proforma basis. We paid down the $100m outstanding on the revolver in Q4, and we have already paid down a further $100m on the first lien loan so far in Q1 2019.

Slide 15 outlines the swaps and hedges that are in place for our debt. Importantly, we have no significant refinancing requirement until 2025, and given the strong cash generation of the group, we are very confident in our rapid deleveraging plans.

SLIDE 16

I would now like to provide a quick update on some key regulatory developments during the quarter.

We are excited to report that we were awarded a licence in Sweden during the fourth quarter, and started operating under the new regulatory regime from January 1st of this year. We were also awarded licences to operate in Pennsylvania and expect to launch later this year.

In the UK, the government moved forward the timing of the new 21% Remote Gaming Duty rate from October 1 to April 1 2019.

In Russia, payment blocking stepped up during the third quarter as we had mentioned, and we saw some impact during both the third and fourth quarters. I'm pleased that our various strategies to mitigate this are in place and working well, and we are marketing our live tournament in Russia in partnership with the land-based casino in Sochi and we are seeing a positive consumer reaction to our offering. The impact of these changes will continue to be a year-on-year drag on our revenues during 2019, however Russia revenues are now growing on a sequential basis, and we are optimistic that our poker business in Russia will return to year over year growth in due course.

We are executing our plans for Switzerland to ensure that PokerStars will continue to be the market leader in the Swiss poker market, working in tandem with local licensed casinos. We decided to suspend our Casino offering in the market under the new regulations, and we discontinued sports betting as planned.

The new licensed framework was passed into law in Slovakia, and this means that we will be suspending our offerings in the market while we apply for a licence, which will have a temporary negative impact during 2019, before re-entering the market on a locally licensed basis.

The new license framework was passed into law in the Netherlands, and we are looking forward to applying for a license as soon as we can.

Both Italy and Romania announced increases in their gaming tax rates at the end of the year.

In Australia, all remaining states implemented their point of consumption taxes in January 2019. With the increased scale and synergies from the William Hill Australia acquisition, we believe we are well positioned in this market, and expect an adjusted EBITDA margin of 10-20% for the year.

In aggregate, we now expect these additional regulatory developments outside Australia to cost a little over $105m over the next two years, with around $85m of this during 2019, which is fully incorporated into our financial guidance.

While these regulatory developments impact earnings growth in the short term, this is a very positive long-term trend for the business. We have never been in a stronger regulatory position with regulated and taxed revenues likely to represent around 80% of total revenues this year. This is the future of Stars Group – leading market positions in fast growing regulated online gambling markets. We are also particularly excited about the rapid progress towards the regulation of multiple states in the U.S.

Developments in regulation and compliance also serve to significantly increase the barriers to entry across our industry. Scale matters more than ever before and the largest online operators are clearly best positioned to continue to grow and take market share.

SLIDE 17

Finally turning to slide 17, we outline our financial guidance for 2019.

We expect revenues in the range of $2.64 billion to $2.765 billion. This represents growth of 7-12% on a constant currency proforma basis, reflecting solid organic growth, and ongoing market share gains across our key markets, which more than offset the regulatory and FX headwinds we are facing.

We expect strong organic Adjusted EBITDA growth in the range of 10-15%. This results from a combination of our strong positions in attractive end markets, ongoing market share gains in key markets, and operational excellence providing scale benefits and positive operational leverage that offset some of the headwinds from challenging markets where advertising and payments are more constrained.

Our Adjusted EBITDA guidance range also accounts for the following factors:

1. FX is a headwind of $33m. If we simply marked-to-market our 2018 proforma EBITDA of $920m for the spot exchange rates, this would reduce our 2018 Adjusted EBITDA by $33m.
2. As previously mentioned, duty and regulatory developments are expected to represent a headwind of $85m in 2019.
3. Synergies are expected to add around $60m in incremental benefit in 2019.

We are pleased that the strong underlying organic growth and synergy capture will more than offset the impacts from regulatory developments and FX. Overall we are forecasting adjusted EBITDA in the range of $960m-$1.01 billion.
After taking into account our expected depreciation, interest and tax, this amounts to Adjusted EPS of $1.87 to $2.11, based on 277 million diluted shares.

We will also provide medium-term growth targets at our upcoming investor day.

I'll now hand over the call to Rafi to conclude.

RAFI ASHKENAZI

SLIDE 19

Thanks Brian.

2018 has been a tremendous year for our company, as we delivered solid performance in-line with our expectations, and completed the transformative acquisitions of SBG and our Australian businesses. Combined, we believe we now have a business with best-in-class capabilities in all key products, leading positions in all key geographic end markets and the brands and operating expertise to deliver our vision to become the global leader in this exciting and high-growth industry. Despite short-term earnings growth headwinds from regulatory developments and duties, our operational performance and underlying growth remains strong. As we look forward, we are in the strongest regulatory position we have ever been in and our business is well-positioned to benefit from strong growth opportunities in our end markets.

I'm excited about our outlook for 2019 and beyond. I am confident in our ability to deliver 10-15% underlying proforma adjusted EBITDA growth in 2019, while at the same time continuing to put the foundations in place for our long-term future, particularly in sports betting and the US market. Overall, we remain focused on integrating our acquired businesses and capitalising on product enhancements and cross-selling opportunities, while continuing to realise synergies and de-lever our balance sheet.

We are off to a good start in Q1 2019, with the business performing in-line with our expectations, which gives us confidence that we can deliver our plans for the year. We look forward to providing more details regarding our plans and our strategic vision for the coming years at our Investor Day on March 27th

And with that, I would like to hand the call over to the operator to begin the Q&A session.

Operator:

Thank you. We will now begin the question and answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. We ask that you limit yourself to one question and re-queue should you have a follow-up. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. Once again, to join the question queue, please press star, then one. We will pause a moment as we allow callers to join the queue.

Thank you. Our first question comes from the line of Chad Beynon with Macquarie Group. Please proceed with your question.

Chad Beynon:

Hi, good morning, all, and thanks for taking my questions. Really nice outlook for 2019. I wanted to drill into your U.K. commentary a little bit. It sounds like you're certainly taking some share—took some share in the fourth quarter, that's continued into 2019. Historically, when you've taken share, as you have during prior years, what did you see from a competitive standpoint; and just on the share gains, I guess, can you go into any more details in terms of what's really working, and do you think competitors will react with big marketing and bonusing and response? Thanks.

Rafael (Rafi) Ashkenazi:

Okay. So, first of all, we are quite well positioned and very confident that we are going to continue taking market share in the U.K. We are looking to grow the market double-digits in 2019. What we're seeing is, essentially, the foundation that was laid by the SBG team over the course of the years, a very large significant customer base in the U.K.—we are the largest in terms of market share, we have the largest customer base in the U.K., and leveraging on this customer base is something that allows us to grow faster in the market. On top of that, the guys in SBG are very focused on continuing the product development and the product roadmap. They have been, as part of their philosophy, very customer-focused and they continue to develop innovative products in order to continue growing the market share. So, those foundations that were laid by the SBG people are just simply allowing us to continue to grow market share.

Chad Beynon:

Great, thank you very much. Brian, on the free cash flow, based on what you have in Slide 17, and given your EBITDA guidance and some of the cash outflows, certainly projecting nice free cash flow generation in 2019. We noticed that you repaid $100 million year to date in terms of current debt. Is that going to be the strategy with free cash flow generation or will you continue to look at tuck-in acquisitions or potentially share repurchases, given where the stock is trading? Thank you.

Brian Kyle:

Good morning, Chad. I think the starting point on our free cash flow is we did have, as Rafi mentioned, a solid quarter, so we're very pleased, and in line with our expectation. The cash flow that we generated—before, on that slide, you'll notice there were a couple of items, expansion cap ex and some integration. So, think of that as the ROI positive cap ex growth fund that we had talked about in the past, and the integration costs are really one-time in nature. So, the cash flow that we actually generated in the fourth quarter was closer to $125 million before those items, so, yes, we had a very, very strong quarter from a cash flow perspective.

We do plan on using cash flow to aggressively de-lever the business. We've spoken about that in the past and we've demonstrated it again. This is the second quarter since the acquisitions that we've repaid $100 million. So, that plan, we're executing on and we will continue. I think going forward, would we look at doing tuck-under acquisitions? Potentially, but, again, our main strategy and main focus, from a capital allocation perspective, is to aggressively use free cash flow to de-lever the balance sheet.

Chad Beynon:

Okay, thank you very much. Best of luck.

Operator:

Thank you. Our next question comes from the line of Patrick Coffey with Barclays. Please proceed with your question.

Patrick Coffey:

Hi. I've got a few, I'm afraid, but hopefully I don't have to redial back in. First, just on stakes at SkyBet, 10% in pounds or 7% in dollars in Q4, which represents a slowdown versus Q3, just by a softer comp, is that simply due to the inverse relationship between wagering and win margins, or should we worry about this slowdown being indicative of SkyBet losing share from another competitor in Q4? That's my first question.

Rafael (Rafi) Ashkenazi:

No, we shouldn't be worried about SkyBet losing market share against competitors. On the contrary, we believe that we are taking market share and we're continuing to grow our market share in the market. There is a relationship, obviously, between the net win margin and the stakes, but it's very hard to manage it or look at it on a quarter-by-quarter basis, it's something that needs to be looked at on a longer period, but I wouldn't be worried about losing market share. We are extensively looking at the market and we're looking at the competitors, and we have a Research Team that is looking at every single operator and their performance in the market on multiple different KPIs that we have. So, to our best knowledge, we are continuing to take market share in the market and we'll continue to do so in 2019.

Patrick Coffey:

Okay, thank you. Then, just on the tax headwinds, duty headwinds, $85 million in 2019, '20 and '22, that's higher than the previous guidance. Are you able to just explain the kind of moving parts to that, which bits have got higher, or which bits did we not know about previously?

Brian Kyle:

Yes, hi, Patrick, it's Brian. First of all, I think, as the Company continues to grow and focus on expanding into regulatory markets, it's a very positive thing for us to focus on that regulatory market. What we did experience in late 2018, there were some increased tax rates that came in, the larger of those were Italy and Romania, so we had not originally factored those into the headwind regulatory framework that we provided at quarter three. So, those were the two larger tax components on that, and again, as we've talked about, there were some regulatory changes that impacted our guidance going forward around the suspension of operations in Switzerland and Slovakia. So, those are the main drivers that make up that $85 million and the difference between what we would have reported historically and not. On top of that, we did have, as you would know, the change in the commencement date of the remote gaming duty in the U.K., that had changed from October to April, so that phasing element also impacted our estimate on that front.

Patrick Coffey:

Thank you. Then, on U.S. sports betting losses, I didn't see anything in the statement around guidance there. Should we be factoring something in for U.S. sports betting in 2019?

Rafael (Rafi) Ashkenazi:

The U.S. sports betting is fully incorporated into the guidance that we have in 2019. Nonetheless, as we announced previously, we are in active discussions with media companies, and this is our preferred strategy for the U.S. business. If and when we are going to be in a position to announce something with a media company, then very likely should expect us to announce a revised guidance for the U.S., a more specific one.

Patrick Coffey:

Okay, thank you, and then just a last question, if I may. 2018 was obviously a transformational year for the Group, you did lots of big deals with lots of exciting plans. I suppose I was just wondering what the hardest thing you found about doing so much in one year was and how you've kind of overcome those challenges.

Rafael (Rafi) Ashkenazi:

It's a good question. First of all, obviously, there was a strong rationale for us to move forward and conduct these deals. We wanted to position ourselves as the market leader and, through the acquisitions, we believe that we've done that. We've also diversified the Company quite dramatically and I'm very pleased with the way that we are structured today in terms of the future prospects and the variance between poker, sports and casino. It's something that will definitely help us going forward.

In terms of the hardest, I don't think that it was too hard to move forward with those acquisitions. We had a very specific plan in mind. When it comes to Australia, we knew from the get-go that we want to have the CrownBet team essentially running the business there, and integrating the William Hill business into CrownBet, and we rebranded it, and the guys there executed very well on the migration. So, we were pleased with that. To a large extent, this business is just running on a standalone.

When it comes to the SBG business, we had some concerns about some of the changes that we may have within the team, within the SBG business. However, we are very confident with the existing team and with existing management, and again, to a large extent, are just moving forward on a standalone.

As a group, generally, we are going to start putting together some of the elements between the various different companies to position ourselves better, like the Global

Sports and Trading platform, which is a joint project across all the teams, but all together, I think it went quite straightforward.

Operator:

Thank you. Our next question comes from the line of Joe Stauff with Susquehanna Financial Group. Please proceed with your question.

Joe Stauff:

Thank you. Good morning. I wanted to ask a couple questions about poker. I would imagine, if you can just disaggregate, basically, some of the things, obviously, that affected fourth quarter constant currency. Obviously, you had mentioned Russia. As we kind of look forward, with respect to the right delta for your poker business, is it fair to assume, basically, that Russia is likely the biggest kind of headwind to that business, as it was in the fourth quarter, and that it would kind of anniversary by the third quarter, such that one would think that it could grow organically at that point?

Rafael (Rafi) Ashkenazi:

Maybe as an opening statement, poker for the international business is the main acquisition channel and the key driver for the other verticals. We've built through poker, in 2018, $0.5 billion, more than $0.5 billion businesses on sports and casino. So, poker has a meaningful contribution to the international business. Sometimes it's been overlooked.

When you look at our performance in Q4 and the outlook into 2019, Q1 and also into 2019, apart from the impact of the FX, as you said, constant currency, we were down 4%. You are right, most of it will be driven by impaired markets. Russia would be one of them, but Russia is not the only one. We had some other payment blocking and we had some other iOS removal from the app store. However, and nonetheless, when it comes specifically to Russia, which is quite a large market for poker, I'm quite pleased that we are now back on track. We are advertising in the market, so we started an advertisement campaign in the market, and we are starting to acquire customers, and we are driving, through the Sochi client, the business in Russia. So, gradually, we will essentially overcome the shortfalls of Q4, and that will happen throughout the year in 2019.

Sort of the longer term, medium to longer term view for poker, as we said before, we are very focused and still quite confident that we are going to grow poker on a low single-digit, on a constant currency low single-digits every year, and that's the key focus for the team. It has been and will continue to be.

Joe Stauff:

Just two follow-ups on that, if I can. Is there any update or expectation regarding whether or not Italy would join the pooling agreement with, I believe, France, Spain and Portugal?

Rafael (Rafi) Ashkenazi:

We are absolutely hoping for Italy to join, there are still hopes. We are lobbying in the country, I guess, with other operators, and we are really hopeful that Italy will join. Italy joining the shared liquidity or the pooled equity would be very meaningful for our poker business, so we will definitely push for that.

Joe Stauff:

Then, the final one, just on—call it the synergy pace, as you had outlined, about $70 million that you'll achieve this year, largely from sort of the migration from the IT platforms. Can you talk about, say, how long this process will take, and if you can—I don't know if you're willing to at this point—basically just talk about maybe by the—given your guidance is $70 million in synergies this year, '19, about how far in that process do you think you'll be by the end of '19?

Brian Kyle:

Yes. So, first of all, I think it's important to take a step back and just recognize what we've done on the synergy program itself. We're very, very pleased with how that's moving. The integration between both companies, SBG and TSG, our international business, the teams have been working exceptionally well. The management and leadership and strategy around that has been excellent. So, what we've provided in guidance is what we expect to realize in-year. We are constantly reviewing that synergy and integration program and we expect that we will be in a position to share more information around that at our upcoming Investor Day, but it's something that isn't static, it is something that is constantly fluid, and we're constantly looking at trying to drive more value from that program, but I would say where we're at right now, it is moving extremely well and we're very pleased with the integration and the progress and the opportunity for further opportunities.

Operator:

Thank you. Our next question comes from the line of Daria Fomina with Goldman Sachs. Please proceed with your question.

Daria Fomina:

Yes, hello, hi. Thank you for taking my question. I'm actually going to have two, one on Australia. Obviously, there's been a bigger second half of the year, where you're moving or merging client bases in one new brand. Can you talk a little bit about the outlook on the marketing opportunity, including above the line promotions, for the next year and how you see that evolving over the next few quarters? The second question, if you're not tired of synergy questions yet, on the outlook for the U.K. synergies, you hinted in the press release that could be upside. Without giving more details—I understand that the capital markets, they will be later this month—can you broadly outline the further areas of synergies that you potentially can find?

Rafael (Rafi) Ashkenazi:

Sure. First of all, when it comes to Australia, as we said on the call, we were very pleased with the migration in Australia and things went better than we expected. Obviously, we had to rebrand as BetEasy in the market and we need to invest into promoting this brand, and we've started to do that in Q3 and Q4, and we'll continue to do that into 2019. The plans around the rebranding and getting more traction on the BetEasy brand in the market is actually working in line with our expectations, so we're quite pleased about that. But, there isn't anything out of the ordinary in terms of really migrating the players, having the foundations, the operational foundations in this market in terms of the technology and the people and the plans that we have for 2019, and then launching the brand and continue promoting it and increase the awareness and the consideration of the brand in the market. So, essentially, it's BAU in Australia, and the plans are for us to continue taking market share. So, that's essentially Australia.

When it comes to the U.K., the U.K. has a sort of evolution, which is the immediate one or the — the SBG business, as a whole, has an immediate upside, a medium-term upside and long-term upside. When it comes to the immediate, we've actually already started to realize some of the synergies, as Brian mentioned before, and quite happy about it. We migrated the customers in Italy into the international business, rebranded it as SkyBet, so that's also an immediate impact that we had on the business. We are going to likely do the same in Germany around H2, and that will be another contribution from the business.

When it comes to the U.K., specifically around the U.K., we have in our long-term plans essentially trying to combine these two ecologies together. When I'm saying the "two ecologies," I refer to the International and to the SBG ecology, or ecosystem, or customer base, if you wish. To a large extent, we would like to — like, again, this is for the long-term view — we would like players who are playing on SkyBet to be able to be cross-sold into PokerStars and to be able to play some of the games that we are developing on the International side, some of the casino games that we are developing on the International side on the SBG ecosystem, and the other way around, we are also hopeful that people that we have today on the International customer base would be able to place bets on sports when they're using SkyBet as their primary sports betting option. So, the long-term plan for these two businesses is essentially combine — I'm calling it "ecosystem," you can refer to it as "customer bases."

Daria Fomina:

Thank you. It sounds more like a revenue cross-sell synergies opportunities there, rather than on the cost side.

Rafael (Rafi) Ashkenazi:

Yes, this is the upside that we are going to have from the revenue synergies, rather from the cost synergies. The cost synergies are pretty much in motion and we're going to realize the $70 million this year, as Brian mentioned before.

Daria Fomina:

Thank you.

Operator:

Thank you. Our next question comes from the line of Tim Casey with BMO Capital Markets. Please proceed with your question.

Tim Casey:

Yes, hi. Could you talk a little bit about your U.S. plans, particularly in respect of the DOJ opinion, which certainly clouds the outlook for your ability to do business across state lines, and how we should think about that in the near term with Pennsylvania and New Jersey? Thanks.

Marlon Goldstein:

Good morning, Tim. Hi, it's Marlon Goldstein. Look, as you would expect, we have been following the developments on the DOJ opinion that came out in 2018 quite closely. A couple of responses to your question. First, in terms of market activity, we have seen no drop-off, no slowdown from operators or other market participants, gaming providers, and certainly, as it relates to our opportunities to pursue and engage strategic opportunities with media companies, again, no slowdown, no drop-off. Most significantly, as it relates to states and their efforts to enact legislation, again, we've seen no drop-off in any way. In fact, today, there's 20-plus states that are considering enacting legislation for sports betting or i-gaming at various stages. So, while there was perhaps some initial thought that there would be some slowdown, to the contrary, we're not seeing it, and, in fact, we're seeing a lot of positive momentum moving forward on the U.S. opportunity.

Operator:

Thank you. Our next question comes from the line of David McFadgen with Cormark Securities. Please proceed with your question.

David McFadgen:

Thank you. Yes, I just wanted to ask a couple of questions on poker. It looks like, for the fourth quarter, the primary reason why poker was down 10% was probably the payment blocking in Russia; is that correct? What other jurisdictions, or material jurisdictions would have caused that?

Rafael (Rafi) Ashkenazi:

Russia is one of the impacts that we had for the Q4 performance, but it's not the only one. We also had other payment blocking in Norway, iOS removal from some of the other stores, so it's not the only one.

Brian Kyle:

The only other thing that I would add, David, is that the 10% is on a reported basis, but if we look at it constant currency, it was down just over 4%, so the FX was a significant contributor to that change, also.

David McFadgen:

Right. So, I would imagine that that kind of trend is probably going to flow into at least the first half of 2019, no?

Rafael (Rafi) Ashkenazi:

The trends for poker, when it comes to Russia, as I mentioned before, we are now back on track in the market and we're gradually going to build our position in the Russian market. We're back on advertising and we're back promoting the Sochi events with our Sochi client. So, essentially, maybe towards the second quarter, third quarter, fourth quarter and onwards, we should see the revenues from Russia going up.

When it comes to some of the other payment blocking, we are constantly dealing with the payment blocking and we're finding alternative ways for players to deposit. When it comes to iOS stores, there are all sorts of different fluctuations. We were removed from one store in Q4 and now we're just being told a few days that we are now back to the store. This was the one in Brazil, just as an example. So, there are constant movements around blocking and iOS removals, and other stuff, but we know quite well how to deal with those headwinds.

Marlon Goldstein:

David, it's Marlon. I'd also like to just jump in and just talk about regulatory generally, because it's certainly something that we've spoken of before and we're focused on as a company. Generally speaking, today, this Company has never been in a better regulatory position than it is in today. If you look at 2018, we have roughly 80% of our revenue coming from locally taxed and locally — or locally regulated jurisdictions, we have 21 licenses today, and in '19 and going forward, we expect both the percentage of our regulated revenue to increase and the number of our licenses to increase dramatically. We're incredibly diversified geographically, and from a product perspective, across our three key operating verticals of poker, casino and sports, and when you look at some of the specific jurisdictions, like Russia, that you asked, we are on very solid footing, there's very positive momentum, and we're quite pleased, from a regulatory perspective, where we are and where we're headed.

Operator:

Thank you. Our next question comes from the line of Suthan Sukumar with Eight Capital. Please proceed with your question.

Suthan Sukumar:

Good morning, guys. I noticed you guys made some changes to your Stars Rewards Program. I'm just curious what the strategy is there and what types of improvements to player KPIs you're looking to drive.

Rafael (Rafi) Ashkenazi:

The Stars Reward Program is constantly being changed and adjusted, with the main focus for this program is to just increase engagement, that's what we're trying to do. When I'm saying "engagement," I mean retention of customer, frequency of play, value that those customers are generating, etc., etc. So, the guys have very solid plans throughout 2019 onwards. I mean, it's an ongoing plan, we're constantly going to improve the Stars Reward Program, but the main focus is simply increasing the engagement.

Suthan Sukumar:

Okay, great, and one last quick one for me. So, as e-sports continues to gain in popularity, is this a segment you guys are looking at currently and are there any plans to include that as part of your broader sports betting offerings?

Rafael (Rafi) Ashkenazi:
Not at this stage, not in 2019. We are very much focused in 2019 on execution, integration and deleveraging the Company. That would be the key focus for us in 2019, and that's what we're going to do.

Suthan Sukumar:

Okay, great.

Operator:

Thank you. This concludes time allocated for questions on today's call. I would like to turn the conference back over to Mr. Ashkenazi for any closing comments.

Rafael (Rafi) Ashkenazi:

Thank you, everyone, for participating on today's call and the ongoing interest in the Company. Thank you and good-bye.

Operator:

Thank you. This concludes today's teleconference, you may disconnect your lines at this time. Thank you for your participation.