Q1 2018 Earnings Call Transcript

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The Stars Group Q1 2018 Conference Call Transcript

CORPORATE PARTICIPANTS

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Brian Kyle, Chief Financial Officer

Marlon Goldstein, Executive Vice-President, Chief Legal Officer and Secretary

CONFERENCE CALL PARTICIPANTS

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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, Thursday, May 10, 2018.

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

TIM FORAN

Thank you Operator.

Welcome to The Stars Group's first quarter 2018 conference call.

This morning, The Stars Group issued an earnings press release and filed its first quarter 2018 MD&A and consolidated financial statements on SEDAR and EDGAR. 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, financial statements, and MD&A for the first quarter of 2018.

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 and non-U.S. GAAP 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 or U.S. GAAP.

Reconciliations to the nearest IFRS measures are included in today's earnings press release, earnings presentation, and MD&A for the first quarter of 2018, which will all be available on our website.

Unless otherwise noted, all currency figures presented on this call are in US dollars. I would also like to highlight that first quarter results reflect roughly one month's contribution from our acquisition of a majority ownership interest of CrownBet on February 27.

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

RAFI ASHKENAZI

Thank you Tim, and thank you everyone for joining us. With me on the call this morning are Brian Kyle, our Chief Financial Officer, and Marlon Goldstein, our Chief Legal Officer.

Strong Growth to Open 2018

The Stars Group recorded strong results for the first quarter of 2018 and continued its trajectory of organic growth. Our quarterly revenues of $393 million represent a 24% increase from the prior year. This improvement was aided by organic growth in each of our verticals – poker, casino, and sportsbook. As a result of this revenue growth, our quarterly adjusted EBITDA increased by 16%, to $175 million.

Our poker platform, which increased its revenues by 12%, continues to benefit from the July 2017 launch of our Stars Rewards loyalty program. This program has not only deepened our engagement with our Poker base, but it has also facilitated our cross-selling of these customers into our casino and sportsbook businesses. We remain focused on improving the product and customer experience offered by these verticals. This improvement, as well as the addition of roughly one month of CrownBet's performance, helped increase casino and sportsbook revenues by 55% during the first quarter.

Transformative Acquisitions

The Stars Group's strong first quarter is evidence of the exceptional foundation provided by our existing business. Since the beginning of 2018, we have built upon that foundation by announcing three acquisitions: CrownBet, William Hill Australia, and Sky Betting & Gaming. These acquisitions will significantly improve both our risk profile and our revenue potential.

A Promising Future

These acquisitions will also transform The Stars Group into the world's largest publicly listed online gaming company. Our business will feature unmatched scale, a diversified revenue base, greater exposure to regulated markets, and a global footprint.

Our vision remains to firmly establish The Stars Group as the world's favourite online gaming destination. Our 2018 acquisitions significantly accelerate our pursuit of that goal.

I'll now pass the call to Brian, who will review our financial results for the first quarter. I'll then provide some greater detail on both our operational performance and our promising future.

BRIAN KYLE

Revenue Highlights

Thank you, Rafi. As you mentioned, The Stars Group enjoyed a very successful first quarter, maintaining the momentum of our record 2017. Our quarterly revenues of $393 million demonstrate not only encouraging progress in each of our verticals, but also greater diversity among these verticals. Approximately 63% of our quarterly revenues were generated from poker, and approximately 34% were generated from a combination of casino and sportsbook.

First Quarter 2018 Revenue

For the first quarter, revenues from our poker vertical were $246 million, an increase of 12% when compared to the prior year. This improvement can be attributed to the implementation of the Stars Rewards loyalty program, strong growth in the new shared-liquidity market in Southern Europe, and the positive impact of foreign exchange fluctuations. It's notable that this improvement was achieved despite both the cessation of poker operations in Australia and Colombia and the normalization of activity in Portugal following its relaunch in late 2016.

First quarter revenues for our combined casino and sportsbook verticals were $135 million, an increase of 55% when compared to the prior year. The growth in our casino revenues were primarily due to our enhanced and improved product offerings, as well as positive foreign exchange fluctuations. In sportsbook, we also benefited from the introduction of new product offerings, as well as the inclusion of one month's revenue of $11 million from CrownBet, the impact of foreign exchange, and a favourable gross win margin.

Focused on Value

As I turn to our operational performance, I'd like to note that these metrics – quarterly active uniques, net yield, and net deposits – do not reflect any inclusion of CrownBet. The Stars Group served 2.2 million quarterly active unique players during the first quarter. This metric declined 5% compared to the first quarter of 2017, however, on a like for like basis, it was down approximately 1%. This means that excluding the impact of opened, closed, or impaired markets, quarterly active uniques were essentially unchanged from the prior year.

This result reflects our strategic reduction of promotions and marketing incentives for high-volume poker customers in favour of increased incentives for high-value new and recreational players.

This strategy continues to deliver results, and we saw our net yield increase to $165 in the first quarter, up approximately 27% compared to last year. On a constant currency basis, quarterly net yield improved to $155, an increase of approximately 19%.

Net Deposits Accelerating

Net Deposit trends gauge expected revenue performance across our current offerings, and help guide our decision making around product changes. This metric is closely correlated to our reported revenue, as some or all Net Deposits eventually become revenue when our customers use their funds to play.

Net Deposits for the first quarter increased by 26% when compared to the prior year. This increase was primarily the result of Stars Rewards, positive currency fluctuations and our focus on high-value customers, as well as the continued improvement of our casino and sportsbook products.

It is important to note though that Net Deposits are not representative of revenue bookings or deferred revenues.

Financial Highlights (Constant Currency)

Currency movements can have a significant impact on our results, as is evidenced by our financial results reported today. Traditionally the movements of the Euro to the USD have had the greatest impact on us. Looking forward, with the recent acquisitions, the relative strength or weakness of the GBP and Aussie dollar vs. USD will also be factors in our reported results. The impact of foreign exchange on our business may become more pronounced.

There are some natural hedges in place for our business, but over the next few months we will be assessing prudent and appropriate strategies to mitigate foreign exchange impacts where practical.

Looking specifically at this quarter, FX did have a positive impact on our results.

On a constant currency basis, our total revenues grew by 12.5%, rather than the headline number of almost 25%.

Increasing Diversification

On a geographic basis, revenues for the first quarter were split approximately as follows: 63% from the 28 countries in the European Union, 19% from the rest of Europe, 12% from the Americas, and 6% from the rest of the world.

Net gaming revenues from locally licensed or taxed jurisdictions were approximately 56% during the first quarter. This level will increase following the completion of our acquisitions, which generate all of their revenues within regulated markets.

First Quarter 2018 Adjusted EBITDA

Adjusted EBITDA for the first quarter was $175 million, a 16% increase when compared to the prior year. This improvement can be attributed to both our increase in revenues across all verticals and the impact of foreign exchange.

This improvement was partially offset by:

- incremental marketing expenses primarily poker and sportsbook and the inclusion of CrownBet,
- increased G&A expense primarily resulting from the inclusion of CrownBet and the increase in compensation expense due to growth in staffing levels, and
- greater variable costs related to revenue growth within taxed markets.

As a result of these factors, our first quarter margin of 45% represented a decline when compared to 48% in the prior year. Both our Adjusted EBITDA and margin reflect approximately one month of performance from CrownBet and its sports betting operations. Sports betting traditionally generates lower margins than our historical business, and you will see this impact reflected in our results as the contribution of this vertical grows.

First Quarter 2018 Net Earnings

Net Earnings for the first quarter were $74 million, an increase of 13% when compared to the prior year. In addition to the factors noted for Adjusted EBITDA, our Net Earnings reflected increased financial and other costs, which related primarily to a $7.5 million unrealized loss on a deal contingent forward that we established to lock in the FX rates associated with our Australian acquisitions, partially offset by $4.0 million of lower interest expense. Net earnings was also impacted by acquisition related costs of $7.7 million in Q1 2018. I should also note that our acquisition related costs include expenses incurred to date for all three of our announced acquisitions during 2018. And finally, impacting net earnings is a $6.7 million reversal of an impairment on an investment recognized in G&A in the prior year period.

Our first quarter diluted net earnings per common share were $0.36 per share, compared to $0.33 in the prior year.

First Quarter 2018 Adjusted Net Earnings

Adjusted Net Earnings for the first quarter were $139 million, an increase of 23% when compared to the prior year. This increase was primarily driven by the factors I noted for Adjusted EBITDA and net earnings.

Adjusted Net Earnings excludes the following: The amortization of acquisition intangibles of $32.2 million, financial expenses of $18.7 million primarily reflecting $12.5 million non-cash interest accretion on debt related items, and a $7.5 million loss on the previously mentioned deal contingent forward.

Our first quarter adjusted net earnings per diluted share were $0.66 per share, compared to $0.56 in the prior year representing a 19% increase reflecting the impact of dilutive securities.

Strong Free Cash Flow

The Stars Group's performance continues to result in exceptional cash generation. We generated approximately $132 million in net cash inflows from operating activities during the first quarter, compared to $96 million during the prior year, or $112 million after removing the movement of customer deposit liabilities. This increase was primarily due to the strong growth in our EBITDA.

Free Cash Flow for the first quarter, which is net of CapEx and required debt servicing costs, was $82 million, compared to $65 million in the first quarter of the prior year.

Our completed and proposed acquisitions will further benefit our strong cash flows. This cash flow will also support any one-time costs associated with the integration of these businesses and the realization of associated synergies.

First Quarter 2018 Debt Position

The Stars Group concluded the first quarter with approximately $257 million of operational cash, excluding customer deposit balances. The principal amount of our outstanding debt was $2.46 billion at a weighted average interest rate of 5.05%. Subsequent to the conclusion of the quarter, we increased, amended, and extended our First Lien Term Loans and Revolving Credit Facility.

Future Capital Structure

In tandem with our acquisition of Sky Betting & Gaming, we secured approximately $6.9 billion of fully committed debt financing to finance the cash portion of the consideration, refinance our existing First Lien Term Loans, and repay SBG's outstanding debt. This financing was comprised of $5.1 billion of First Lien Term Loans, $1.4 billion of senior unsecured notes, and an unfunded $400 million revolving credit facility.

As we gain greater visibility into the makeup of our combined businesses, we intend to share our view regarding our optimal capital structure, and an associated deleveraging strategy. While we are comfortable with where our leverage will sit following the close of the SBG acquisition, we are committed to de-leveraging our balance sheet in an orderly fashion. We believe we have demonstrated that we have both the commitment and the cash flow to do so.

Key Regulatory Updates

Beyond our results, I'd like to provide a brief update on some regulatory matters across our various geographies. As I mentioned, the January launch of shared liquidity in France and Spain had a positive impact upon our first quarter results, and we're excited at the prospect of Portugal now joining these countries to form a growing pool of regulated players in Southern Europe. The larger the player pool, the more we are able to offer these customers in terms of prizes, promotions, and game selection, all of which aid in creating the best player experience possible.

In the United States, we look forward to applying for approval to operate in Pennsylvania when that process begins in June. As legislation in the US advances, we believe our growing scale positions us well to participate in this market's future.

In Russia, we continue to monitor the development of recent regulations that may restrict the number of Russian payment processors for gaming transactions. We have a strategy prepared to help mitigate any potential negative impact.

Prior to handing the call back to Rafi, I want to touch on the outlook for our business.

Outlook for 2018

We are very pleased with how our existing business performed during the first quarter, and our outlook for this business in 2018 remains unchanged.

Our acquisition of the majority interest in CrownBet, which closed during the first quarter, and the acquisition of William Hill Australia, that closed late last month, are tracking to expectations and we are pleased with the initial stages of their integration.

Our largest and most recently announced acquisition, Sky Betting & Gaming, is expected to close early in the third quarter.

These acquisitions truly transform our business, and as a result, we intend to update our 2018 guidance to reflect the contributions from these acquisitions in August, alongside the announcement of our second quarter results.

At that time, we will also likely revisit the presentation of the combined businesses' results from a financial reporting perspective and intend to present them in a manner most helpful to our shareholders.

A critical component of the presentation will be to provide the appropriate level of insight into the diversification of our revenue base, the progress of our integration efforts, the realization of cost synergies, the creation of new revenue opportunities as well as our greater exposure to regulated markets.

I'll now turn the call back to Rafi, who will provide some commentary on both our first quarter operations and our strategic vision for The Stars Group's future.

RAFI ASHKENAZI

Thank you, Brian.

Poker Leadership Continues

As I mentioned at the outset of the call, we're very pleased with the organic growth demonstrated by each of our verticals during the first quarter. This growth was most notable within the core poker business, where the benefits of both our Stars Rewards program and shared liquidity in Southern Europe more than offset the impact of both the cessation of poker operations in Australia and Colombia and the normalization of activity in Portugal following its relaunch in late 2016.

Poker's growth can also be attributed to our marketing of this vertical, which is highlighted by compelling promotions and events. Players responded positively to our tournament offerings during the first quarter, and excitement is building in advance of next January's live PokerStars Players No-Limit Hold'Em Championship in the Bahamas.

This excitement will now extend to India, which launched PokerStars.IN in April. This business is operated by Sachiko Gaming, a Sugal & Damani Group company. While it may take some time before this market generates meaningful license fees, we are excited by the continued global growth of the PokerStars brand and the game as a whole.

Improving Casino Offering

We're pleased with our casino performance during the first quarter, where we witnessed strong growth in yield. This growth can be partially attributed to our focus on enhancing our user experience. While we believe our casino offering is now firmly entrenched in a top five position among our public competitors, we also recognize that there remains room for improvement in the quality of our product. This represents an opportunity for organic growth.

In pursuit of this improvement, our casino has introduced more than 200 new games since this point last year, which helped drive performance during the first quarter. We intend to continue this accelerated integration of new content, and will complement the introduction of tier 1 third-party games with a focus on launching more in-house titles. We will also continue rolling out our new mobile app into more markets, as well as proprietary slots and promotional tools into regulated markets. We also intend to significantly improve our web platform. An improved offering along with personalized treatment will help us capture a greater share of the wallet of our higher value customers, who currently visit multiple online gaming destinations. Our focus is on continuing to increase the lifetime value of our casino players across our existing markets, and continue to close the gap with competitors in this regard.

Building Towards The World Cup

Finally, we're very encouraged by the performance of BetStars, our European-focused sportsbook. This vertical recorded several milestones during the first quarter, including its first million-bet week, its first $20 million turnover week, and its first week hosting more than 100,000 unique players. While BetStars did benefit from a favourable gross win margin during the first quarter, these milestones are evidence of the progress of this platform.

Our sportsbook product, like our casino product, has been enhanced by a focus on an improved mobile experience. As a result, its quality is advancing towards the standard set by our competitors.

We're also investing in compelling marketing to complement this improved product. This marketing is highlighted by our first-ever multi-brand campaign, which will take full advantage of this summer's World Cup. The £100 Million Challenge is a free-to-enter competition in which players can correctly select all 64 World Cup results to win £100 million. This marketing campaign is centred around Betstars, but includes promotions for both PokerStars and PokerStars Casino. The World Cup is obviously an event that captures the attention of the global online gaming community. As a result of our sportsbook's development, we are excited that The Stars Group will be able to play a role in this event for the first time in our history.

The growth of our sportsbook vertical will also accelerate considerably as a result of our three recently announced acquisitions.

Australian Acquisitions

Our Australian acquisitions, CrownBet and William Hill Australia, reached completion at the end of April, providing us with 80% ownership of the combined businesses. We're pleased with their performance at this very early stage, as well as both the product and marketing strategies they currently have underway.

Sky Betting & Gaming

Our third acquisition, of Sky Betting & Gaming, will also primarily benefit our sports betting vertical. This pivotal acquisition represents a game changing moment in The Stars Group's history.

Like The Stars Group, SBG is one-hundred percent digital, intently focused on offering the best possible customer experience, and a recognized leader in the online gaming industry. Their rapid growth has been driven by both best-in-class products and a strong relationship with Sky, Europe's leading media company, sports rights owner, and pay-TV broadcaster.

Sky Betting & Gaming Customer Base

Over the past three years, SBG has used these advantages to double their online market share within the United Kingdom, the world's largest online gaming geography. As a result, they are now home to the UK's largest online customer base.

This primarily recreational customer base is young, mobile-focused, and – most importantly – loyal: Nearly 60% of SBG's sports betting customers wager exclusively on the company's Sky Bet platform.

Acquisition Rationale

As I discussed on the call following the announcement of the acquisition, the addition of SBG offers us significant financial and operational benefits.

Foremost among these benefits is revenue growth. Sports betting is both the world's largest and fastest growing online gaming segment, and the acquisition of SBG adds their industry-leading Sky Bet sportsbook to our portfolio. SkyBet and our BetStars product will complement each other well, providing us with unique reach into international markets, forming the foundation for strong revenue synergies.

The combination of this sportsbook and our core poker offering will allow The Stars Group to move from strength to strength, becoming one of the only operators capable of leveraging two low-cost acquisition channels. We will look to cross-sell customers between both these two verticals and our high-yielding casino offerings.

A second significant benefit to this acquisition is scale. In our business, scale matters, and the addition of SBG will fortify our footprint across the world's regulated online gaming markets. We'll not only become a major presence within the United Kingdom, but we will also gain a greater position in existing and emerging European markets, as well as new markets opening around the world.

Another key benefit is diversification. When including each of the three acquisitions we have announced this year, our pro forma 2017 revenue mix would have been 37% poker, 34% sports betting, and 26% casino.

Finally, the acquisition of SBG will strengthen our risk profile. Our revenue base will gain both greater diversity and exposure to regulated markets. On the same pro forma basis, roughly 75% of our 2017 revenues would have been generated within locally regulated or taxed markets.

As a result, the acquisition of SBG represents a rarity, in that it both reduces our risk and improves our potential.

Focused on Integration

The task before us now is the integration of not only this new acquisition, but also our previously announced acquisitions of CrownBet and William Hill Australia. One element of this integration will be the realization of various cost synergies, which we believe will total at least $110 million across the three acquisitions. We will be measured in our implementation of these synergies, with a clear and disciplined approach to achieving full value.

We understand that successful integration requires more than merely the elimination of duplicate costs. Each of these businesses is unique, and our intention is to protect their individual cultures, identities, and advantages while building a stronger, complementary whole. As a result, we will adopt a phased and deliberate approach towards their integration, focusing on accelerating the growth of our existing core and creating the best possible online experience for our global customer base.

Realizing Our Vision

Before I conclude today's call, I'd like to take a moment to appreciate this landmark moment in The Stars Group's growth. It is not my nature to look backwards, especially given the steps we have taken to distinguish Stars' future from its past. However, it is important to note only a few years ago, our company was in a challenging position.

Since that point, we have transformed our business. We have overhauled our leadership, recruiting veteran executives and experienced Directors. We have advanced our proprietary, innovative technology. We have introduced new products, compelling marketing, and a successful loyalty program in pursuit of constantly improving customer experience. We have increased our exposure to regulated markets, enhancing the overall risk profile of our business. Most importantly, we have dramatically diversified our revenue base, creating casino and sportsbook offerings capable of complementing our position as the world's poker leader.

Our 2018 acquisitions represent the next phase of our transformation. Upon completion of our acquisition of Sky Betting and Gaming, The Stars Group will be the world's largest publicly listed online gaming operator, with leading positions in the United Kingdom and Australia, the world's two largest online gaming markets.

These leadership positions are merely the first goal in a greater game to come. The Stars Group will soon possess unprecedented scale. That scale will afford us not only new opportunities for revenue growth, but also the ability to realize our vision of becoming the world's favourite iGaming destination.

Stars' remarkable transformation is the result of the tireless efforts of each of our employees. Their belief and perseverance have facilitated our success, and these same qualities give me great confidence in our future.

Thank you Operator, we may now turn to questions.

Operator:

Thank you. We will now be conducting a question and answer session for analysts.

In the interest of time, we ask that you please limit yourself to one question, one follow-up, and requeue for any additional.

If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

One moment, please, while we poll for questions.

Our first question is from Chad Beynon with Macquarie Group. Please proceed.

Chad Beynon:

Hi, good morning, and thanks for taking my question.

Rafael (Rafi) Ashkenazi:

Good morning, Chad.

Chad Beynon:

Congrats on the announcements in the quarter here. First one, I just wanted to start with your 2018 guidance, given the strong results in the first quarter. It represents roughly 27.5% of the annual EBITDA. So, could you help us think about what some of the negatives may be in your guidance, kind of what you're including, if you're assuming any change in the Russian business or additional marketing? I'm just trying to get a sense of your guide versus the first quarter, given a lot of the strong revenue items that you talked about earlier. Thanks.

Brian Kyle:

Good morning, Chad. It's Brian. Again, I think the starting point needs to always be around Management's commitment to guidance. We've been talking about that over the last number of quarters and I think that needs to resonate with people, that we are committed to the guidance range that we are presenting.

In our prepared remarks today, we did comment around the fact that we were pleased with our first quarter results. We had some positive results in there in connection with our rewards program, shared liquidity in Southern Europe, which has been very, very favorable to us, and we had some tailwinds around FX. So, I think that lays the framework for the first quarter.

In connection with how we're trending into the balance of the year, what I can share with you is our core business, or our existing business, April is trending in line with quarter one. So, we are continuing to see some positives in our business, which we're pleased with.

With respect to the acquisitions of CrownBet and William Hill, again, early days, but as Rafi mentioned, we are pleased with where we're progressing on that front.

So, those are the positives that have been built into our guidance.

As we move forward into the balance of the year, we are continuing monitoring Russia. We may have some impact to that. We are building mitigating plans around that as our business becomes more aware of that, but monitoring Russia and the impact of Russia will have an impact in the guidance range.

But, I think that the real piece that we just need to make sure the market addresses and understands is the three acquisitions that we've had, that are truly transformative to our business, we're going to be integrating those businesses, we're going to be phasing in cost synergies, we're going to be building revenue synergies into our results, we're going to be conforming some accounting and policy changes into the three businesses, all of which will have an impact on our results and we will get further clarity through the process of the integration.

I think those are some of the challenges that we're having right now, and I think—just to finalize the discussion on that, I think the way to look at guidance going forward, is we will be combining all of our businesses. We will be reporting a revised guidance reflective of the consolidated business when we report our second quarter results. So, there's a lot of moving parts in there, but the overriding is just building in an understanding and clarity around the acquisitions.

Chad Beynon:

Very helpful, thank you, Brian. My follow-up is just a maintenance question around any change in terms of the percentage of poker players that are now offered the casino and sports product, any change in the first quarter versus 2017? Thank you.

Rafael (Rafi) Ashkenazi:

Q1 2018 is pretty much in line with Q4 2017, so no change. In terms of sportsbook, it's still 63%, and in terms of casino, it's still 77%, approximately.

Chad Beynon:

Okay, thank you very much, appreciate it.

Rafael (Rafi) Ashkenazi:

Not a problem.

Operator:

Our next question is from David McFadden with Cormark Securities. Please proceed.

David McFadgen:

Hi, a couple of questions. I noticed the casino uniques were down a bit in the quarter. I was kind of surprised by that. What is really driving that?

Rafael (Rafi) Ashkenazi:

Casino is basically in line—I mean, the seasonality of the casino players is pretty much in line with the seasonality of the poker business. If we exclude Portugal and the impact that we have from Poland, we actually experienced a small growth in the casino actives. We did have the normalization of Portugal versus last year. We did not add any new markets in Q1. So, that's basically, probably, the answer to your question.

One thing that I do want to point out, which is maybe going back to what Brian said before in regard to the guidance, and when it comes to casino, currently, we are actively cross-selling from our poker business into our casino business, so we are cross-selling from our poker player base into the casino. As our BetStars business continues to grow, we will have a new acquisition channel that we will be able to cross-sell into casino, as well, and now, obviously, with the integration—with the future integration of Sky Betting & Gaming into our business, we will have a very meaningful acquisition channel that we will also be able to cross-sell into the casino. So, there is still a lot of cross-sell opportunity going forward with our casino business.

David McFadgen:

Okay, thank you. Just moving on to Russia, in the press release you said that there could be some negative operating conditions starting in late May. Given we're at May 10, do you expect that definitely to happen or is it still just a potential possibility right now?

Rafael (Rafi) Ashkenazi:

No, this is—it's not definite. We are still monitoring it. To my recollection, the law comes into effect on May 27, and from our perspective, we are still monitoring it. We are continuing to build our workaround, in order to ensure that we can mitigate the impact.

David McFadgen:

Okay. Based on everything you know today, do you expect the workaround to fully mitigate any impact?

Rafael (Rafi) Ashkenazi:

I can't really anticipate if it's going to fully mitigate or partially mitigate. It's really unclear how this law will come into effect and how the blocking will turn out to be, so it's really not something that I can advise on.

David McFadgen:

Okay. Then, Brian, when you talked about April, you said it was trending in line with Q1. Does that mean that the revenue growth is trending in line with Q1 including FX, or were you talking excluding FX?

Brian Kyle:

I would look at that on a like-for-like basis excluding FX.

David McFadgen:

Okay, and—

Rafael (Rafi) Ashkenazi:

David, I would like to make a quick comment, if you don't mind, around the FX, and maybe take the opportunity to explain a little bit more about the FX impact on our business. When we are reporting our revenues, obviously, most of you would look at it on a constant currency basis, but I just want to explain that for—call it 74% of our business, approximately 74% of our business, we actually generate revenues in U.S. dollars. The conversion of various different currencies into U.S. dollars happens at the deposit phase. So, when a player comes from, say, Germany and deposits €100, we convert this €100 into dollars and we rate them in dollars, and we basically generate our revenues in dollars. So, for 74% of our business, what we see eventually, you know, in the bank is U.S. dollars. For around 25/26% of our business, which is the locally regulated markets, we do generate revenues in euros—I'm referring to France, Portugal, Spain and Italy—and this is really translation of euros into dollars. I think it's quite important to understand and distinguish between currency translation and revenue generation, because it's a bit different from other companies.

David McFadgen:

Okay, thank you, and if I can just follow up with one other question. Is there any update on the Kentucky lawsuit and when do you expect a ruling?

Brian Kyle:

On the Kentucky lawsuit front, we do have some news. On April 18, the Kentucky Court of Appeal had an oral argument hearing, and, again, that was really in respect to both the liability and damages in the Kentucky proceedings. So, there has been some positive movement on that front, but it certainly is still in the decision-making stages.

David McFadgen:

So, why would that have been a positive, the oral argument hearing?

Marlon Goldstein:

Hey, David, it's Marlon. The oral argument was incredibly encouraging, from our perspective. In terms of the tone that the judges were conveying, the line of questioning that they were advancing, the areas that they were focusing on, they all went to the substantive issues that we have a great deal of confidence in, and we have been advancing (inaudible). Obviously, there's no certainty to the outcome and we wait for the decision, but very encouraged by what we witnessed in Kentucky.

David McFadgen:

So, if I may push a little bit more on that, based on the comments, you know, that were being asked, was the tone of questioning along the line of, you know, why wouldn't we look at net deposits—like net winnings, sorry, and net losses?

Marlon Goldstein:

As we mentioned before, there are several key issues on appeal, some of which go to the calculation of damages, but most significantly, and where the court was focused quite a bit during the oral argument, were on fundamental issues of law, such as standing, can a lawsuit be brought, such as liability, can the operator of a platform be liable as a loser, and other key issues. Again, that's not indicative of where the court may ultimately rule and that is not entirely indicative of where the opinion may shake out, but it is very encouraging from our perspective. We had a bench of judges that were very engaged, that appeared to have been very well read and versed on the briefings that were put before them. So, our view is positive coming out of the oral argument.

Operator:

Our next question is from Simon Davies with Canaccord Genuity. Please proceed.

Simon Davies:

Good morning, guys. First from me, can you talk a bit about the actual impact of shared liquidity in France and Spain? You talked about it being a particularly positive feature. When do you think Italy is also likely to launch pooled liquidity, and do think this is going to be a trend that we'll start to see spreading across the rest of Europe?

Rafael (Rafi) Ashkenazi:

The positives that we see currently in Southern Europe, between France and Spain, is really around increasing engagement. We have bigger pools of players participating in tournaments. We can increase the prizes that we have. There are a lot of very positives coming from the combination of France and Spain, and, obviously, we see the revenue growth. I mentioned on the last call that we have experienced something along the lines of 30% to 35% revenue growth just by the combination of France and Spain. Portugal is likely to be added to the pooled liquidity this month, potentially very soon, and that will—I have no doubt that will boost the revenues that we're currently generating from Portugal, on the basis of everything that I explained before.

In terms of Italy, we don't anticipate Italy to basically join the liquidity this year, but we are working and lobbying in order to get Italy also to join the liquidity, because Italy will have a major impact. Italy is a very significant standalone poker market today, so we are going to push quite aggressively for Italy, because it will really boost the shared liquidity, I believe, more than any country there. We don't anticipate Italy to join this year, but we are hopeful that Italy will join early next year.

Simon Davies:

Do you see other European countries following suit?

Rafael (Rafi) Ashkenazi:

I'm not familiar with any other discussions of any other countries. The discussions that we currently see in places like Netherlands or Sweden is really joining the dot.com liquidity, and from my perspective, this is perfect, it is actually even preferred. Between the four countries, Portugal, Spain, France and Italy, it's a very significant network. It's definitely above the threshold that we need in order to continue building this magic cycle of continuously increasing engagement, prizes, tournaments and revenues. So, we are satisfied with the four countries.

Simon Davies:

Okay, thanks. Second for me, can you talk a bit about your expectations in terms of marketing spend for the year, and, in particular, do you expect to ramp up marketing around the World

Cup, and at what stage are you going to ramp up marketing in terms of trying to recruit direct acquisition of casino players, rather than cross-sell?

Rafael (Rafi) Ashkenazi:

We have increased marketing spend in the first quarter and we are anticipated to increase marketing spend in Q2, ahead of the World Cup. We just started the World Cup campaign at the beginning of May, the ₤100 million campaign in the U.K., and similar campaigns in the Nordic countries. So, you will see an increase of marketing spend in Q2.

When it comes to the rest of the year, I think Q3 would be obviously lower, it's usually our lowest quarter for marketing spend, and we'll probably start to ramp up again in Q4, but I don't think it will be as big as we had so far at the beginning of the year. So, the marketing spend, it's more front loaded this year versus back loaded.

Regardless, when it comes to casino, we are planning to start acquiring casino-first customers towards the end of the year, but nonetheless—and, again, I'm going back to Brian's answer in relation to the guidance—we are going to integrate here quite a major company within the—hopefully, once it's closed, within the year, within the third quarter of the year, we will need to potentially reconsider how we market casino and how we basically deal with overall cross-selling, and what are the opportunities for the Company. We've been thinking about it for a while, but we still need to form a firm strategy that would be looking at the Company on a more holistic way, rather than on a standalone basis that we are today.

Simon Davies:

Perfect, and just very briefly, on Russia, have you been cutting back on your marketing into the Russian market ahead of these potential regulatory changes, and is it still a top-five country for you?

Rafael (Rafi) Ashkenazi:

The marketing in Russia is really related to the event that we are running in Sochi. When we receive an ordinance to run an event in Sochi, it means that we can actually—we actually have an approval to start the marketing campaigns, and we would start them. We've increased marketing in H2 of 2017 in Russia and we could see the uptick in Russia in terms of revenues. It's a growing market for us. So, it's really marketing spend is related and correlated with the Sochi live event that we are running.

Simon Davies:

Brilliant. Many thanks.

Rafael (Rafi) Ashkenazi:

Not a problem.

Operator:

Our next question is from Maher Yaghi with Desjardins Capital Markets. Please proceed.

Maher Yaghi:

Thank you for taking my question. This is Maher from Desjardins. I wanted to ask you—on the current ongoing regulatory review in the U.K. on betting terminals, I think you clearly indicated in your presentation for Sky Betting that the bet size in Sky Betting is actually small, so those are not big amounts that are being bet, on average. Can you maybe just tell us your view on this regulatory undertaking in the U.K., what can be the potential outcome for other betting, online betting, if any? My follow-up question is, now that you're ramping up some of your marketing campaigns—historically, we've seen your casino gaming players mostly being PokerStars customers—can we expect a lift in—or what are your expectations in terms of getting a lift on active uniques that are coming from other platforms, or gaining market share from other platforms?

Rafael (Rafi) Ashkenazi:

Okay. So, I'll answer the first question around the U.K. We don't know what will be the Triennial outcome yet. There are more and more views that the outcome of the Triennial will end up a £2 stake limit for the FOBTs, for the terminals, for the fixed-odd betting terminals, which I believe will have an impact overall on the industry, especially on operators who are operating large-scale betting terminals in the U.K.

Now, the fact that there will be an impact on the betting terminals and the overall trend that we see currently in the U.K.—not currently, a trend that exist for the last few years, which is essentially a shift from the retail into the online—we believe the impact on the Sky Betting & Gaming business will be a very positive one. Part of the Sky Betting & Gaming strategy for the growth is really to shift from retail into online. So, to a large extent, the outcome of the Triennial would be a positive one for us.

When it comes to the casino—I'm going to your second question—when it comes to casino, as I mentioned before, we will need to revisit our strategy when it comes to casino in the view of the combined business, between the core Stars Group business and the Sky Betting & Gaming integration. Our plans currently within our current strategy is really to start marketing and start acquiring casino-first customers in Q4 of this year. So, that's the current plan that we have, but this plan may be shifted, because we are going to have quite a significant secondary acquisition channel that comes from sportsbook and there will be a lot of opportunity for cross-sell from the sportsbook business. Regardless, we also see BetStars really ramping up their actives and increasing their acquisition, especially on the back of now the World Cup campaign that just started. So, there is still a lot of cross-sell opportunities with casino, and there will be even more with Sky Betting & Gaming in the various different international markets, but regardless, we are planning also to start casino-first acquisition.

Maher Yaghi:

Thank you for this clarification. Can I just follow up on the U.K.? At this point in time, you are not aware, or let's say you're not expecting the change in the regulatory—or the implementation of this regulatory change to affect online and it would stick to retail locations. That's your view currently, right?

Rafael (Rafi) Ashkenazi:

We don't know what the outcome regarding the online, if there would be any change of taxation for the online. We have, basically, taken into account the case if total consumption tax for the online will increase, so we will be prepared for that, if necessary, but currently we're not aware of any changes.

Maher Yaghi:

Okay, great. Thank you very much.

Rafael (Rafi) Ashkenazi:

Not a problem.

Operator:

Our next question is from Suthan Sukumar with Eight Capital. Please proceed.

Suthan Sukumar:

Good morning, guys. The first question for me is on sportsbook. Now, we continue to see strong QAU trends in sportsbook. Are you guys seeing more direct acquisition now versus cross-sell from casino and poker?

Rafael (Rafi) Ashkenazi:

You still see a lot of cross-sell going on in sportsbook. I mean, the opportunity with sportsbook is quite substantial. We have approximately 35% cross-sell on casino and I don't see any reason that we would not have 35% cross-sells for sportsbook from our existing poker player base, so there is still a lot of opportunity there, and we are pushing cross-sell and I can see numbers performing very well, especially performing well in our regulated markets. In France, Italy and Spain, the numbers are really increasing very nicely for the past—from the beginning of the year. So, the cross-sell opportunity is still great when it comes to sportsbook. Nonetheless, we are investing more in marketing when it comes to BetStars. Again, as I mentioned before, especially on the back of the World Cup campaign that will take place in June, we've already started quite a unique, in my view, campaign for the World Cup, with £100 million, which is running in the U.K., and also some of the Nordic countries. So, we are expecting to see a ramp-up of acquisition for BetStars in the coming months.

Suthan Sukumar:

Great, that's good. Just on CrownBet, what was the actual contribution this quarter, and can you speak to some of your initial observations that you're seeing with respect to the player base in terms of engagement, playing volume and frequency, et cetera?

Brian Kyle:

Yes, hi. In the quarter, we did recognize one month's worth of results for CrownBet. Think of it as around—a little over $11 million of revenue that we reported into our sportsbook category, and from a contribution, basically flat for the year. Again, the first quarter that we owned them, the one month's worth of operations, some cut-off issues in connection with those results, but, overall, in line with what we were expecting for April.

With respect to the wagering, wagering came in line with what we were expecting, relatively strong. Like a lot of the other operators in the industry, there was some downward pressure on gross win margins, but, again, as I mentioned, as we start looking into April, we're seeing some improvement, as a lot of the operators are, and we're pleased with the direction of the operations at this early stage.

Operator:

Thank you. There are no further questions at this time. I would like to turn the call back over to Mr. Ashkenazi for any closing remarks.

Rafael (Rafi) Ashkenazi:

Yes, I'd like to thank everyone for participating on today's call. We appreciate your ongoing interest and support of The Stars Group. 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 and have a wonderful day.