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# EDITED TRANSCRIPT

Flutter Entertainment PLC to Discuss Recommended All-share  
Combination with Stars Group Inc Call

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## OCTOBER 02, 2019 / 8:00AM GMT, Flutter Entertainment PLC to Discuss Recommended All-share Combination with Stars Group Inc Call

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### PRESENTATION

#### Operator

Hello, and welcome to the Flutter and Stars Group Analyst Call. My name is Tom, and I'll be your coordinator for today's event. (Operator Instructions)

I'm now handing you over to your host, Peter Jackson, to begin today's conference. Thank you.

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#### **Jeremy Peter Jackson** *Flutter Entertainment PLC - CEO & Director*

Thank you, Tom. Good morning, everybody, and thank you all for joining us at such short notice. For those of you who don't know me, I'm Peter Jackson, the CEO of Flutter Entertainment, and I'm delighted to be speaking to you about an exciting announcement that we made to the market this morning.

As you'd have seen, the boards of Flutter and The Stars Group have reached an agreement on a recommended all-share combination of our 2 companies.

Joining me on today's call is Jonathan Hill, our Group CFO; and I'm very pleased to say that I'm also joined by Rafi Ashkenazi, the CEO of The Stars Group.

The plan for this morning's call is I'll give you a quick overview of the transaction before walking you through what we believe is a very compelling strategic rationale for the combination. Rafi will then share his perspectives before Jonathan takes you through some of the financial highlights. We'll then open the lines for Q&A.

A copy of the presentation we're going to reference on today's call is available on the IR website of both Flutter and The Stars Group, and a replay facility will be available later today.

Turning first to Slide 4, the combination summary. So let me take you through the summary of the terms of the proposed combination. The key terms, as agreed, our recommended all-share combination will be implemented through an acquisition of The Stars Group by Flutter and effective via a plan of arrangement in Canada. Stars Group shareholders will receive 0.2253 new Flutter shares for every 1 Stars Group share that they hold. Upon completion, Flutter shareholders will own 54.64% of the combined company and Stars Group shareholders will own approximately 45.36%.

The combined group will be led by myself, the CEO; and Jonathan, the CFO, and Rafi will be joining us on the executive team as COO. As part of the transaction, our Board will be expanded. Gary McGann will remain as Chair of the combined group; with Dave Gadhia joining as Deputy Chair. In addition to Jonathan, Rafi and I, we'll be joined by 9 non-exec directors, 5 from Flutter, 3 from The Stars Group. I'm delighted to also be able to announce that Richard Flint will be appointed a non-exec director of the group upon completion of the



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transaction. As most of you all know, Richard is the former CEO of Sky Betting & Gaming, and he'll be a real asset to the group as we combine these 2 businesses.

And finally, in the second announcement this morning, we have announced the appointments of Andy Higginson as an independent non-exec director to the Board of Flutter. Andy brings a wealth of commercial, retail and leadership experience, and I'm very much looking forward to working with him.

On Slide 5, we provide some headline details on expected synergies. We're anticipating GBP 140 million in annualized cost synergies by the end of the third full year post completion. We plan to take a cautious API-based approach to technology integration, leaving the set of businesses the freedom to continue to control their customer front-ends. We believe that this approach will safeguard the momentum the business currently enjoyed.

The estimated onetime cash cost to achieve these synergies is GBP 180 million to be incurred in the first 2 years post completion. In addition, we believe there's good scope for finance cost savings and revenue cross-sell in international markets over time.

In the U.S., our focus has been on aligning the economic interest of our partners on both sides, and we've done this by offering FOX and Fastball reciprocal rights so there's no favorite child issues with the 2 brands. FOX will have the right to acquire 18.5% of FanDuel Group in 2021, the first tranche of FanDuel equity Flutter could have required. And this option will remain in place for the following 10 years until exercised.

Fastball and Boyd, our minority shareholders in FanDuel will receive a total payment of 12.5% of the increase in FOX Bet's market value between completion of the combination and the exercise of Flutter's options to acquire Fastball's remaining equity interest in FanDuel Group in 2023.

All U.S. stakeholders have committed to discuss options for further alignment prior to completion of the transaction.

In terms of the completion, the combination is conditional on both sets of shareholders approving the transaction as well as us receiving approval from relevant merger controls and foreign investment approvals, including in the U.K., Ireland, Australia, the U.S. and Canada.

We are very respectful of the competition authorities such as the CMA in the U.K. and the important analysis that they must do in relation to this proposed transaction. We look forward to engaging and working with them in due course and hope to be in a position to complete the transaction during Q2, Q3 2020.

Finally, the combined company will be incorporated, headquartered and domiciled in Dublin and will have a premium listing on the London Stock Exchange and the secondary listing on Euronext Dublin.

On Slide 6, we run through the strategic rationale of this combination. [Hill Trade] is a global leader in online sports betting and gaming, bringing together an exceptional portfolio of leading recreational brands and complementary best-in-class products. Both companies have a great track record in cross-selling from core product verticals with large, cheaply acquired customer bases. This has been enabled by their leading technology platforms for sports betting, casino and poker.

Core to all of this is the outstanding people that work in both companies, who also have integration experience from a recent M&A activity undertaken by each company. Ultimately, the combination of these companies materially accelerates Flutter's 4-pillar strategy. And I'll come on and talk more about that in a few moments' time.

The combination will create a highly diversified business from both a geographical and product perspective. From a returns perspective, by the end of the third full year post completion, returns on invested capital will exceed WACC, and we expect earnings accretion of at least 50% in the first full year post completion.

On the next slide, Slide 7, you get a sense for what the combined group will look like. Together, we have over 13 million customers, albeit



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there may be some overlap. And the combined group would have had revenues of GBP 3.8 billion and EBITDA of GBP 1.14 billion in 2018. More importantly, we'll have a collection of some of the best recognized brands in the industry.

Turning now to Slide 8. Primarily, this deal is about delivering growth. During our prelims result presentation, I highlighted how the global gaming industry is worth approximately \$450 billion and is growing at pace that still has a long runway of growth ahead of it. Online spend still only represents approximately 11% of total gambling spend globally with each 1 percentage point that migrates from off-line to online contributing \$4 billion of growth to the overall online market. The sector is also evolving at pace. Increased regulatory focus and taxes have had a significant effect on the industry and emphasizes the need for us to remain efficient. We think that by improving our efficiency, we'll have the capacity to continue to invest in our technology, data and products.

We have always advocated that to be a successful, sustainable operator, we need to be a responsible operator. And I'm proud of the part that we are playing in leading the sector for responsible gaming. The combined group will remain as focused on this as both businesses have been to date, and I believe that our 2 businesses will be able to share best-practice scenario to better protect our customer base.

Ultimately, this transaction will help us accelerate our 4-pillar strategy. And turning to page -- to Slide 9, you can see that the combination with Stars gives us a stronger core business in the U.K., Ireland and Australia, with their leading portfolio of trusted brands, the ability to maximize profitable growth by realizing the synergies this combination can create.

Under pillar 2, I have a global platform from which we can grow our business in the rest of the world by cross-selling our broader product offering to customer base of over 4 million people.

Under pillar 3, we'll have a deeper local reach with 3 additional podium positions in Germany, Italy and Spain and better positioning in multiple other attractive markets.

And under pillar 4, we'll have a winning position in the U.S. with a combination of 2 exceptional complementary brands in FanDuel and FOX Bet.

By combining these strategic benefits with the financial benefit that we have identified, we believe the combination has the potential to deliver substantial value creation.

Turning to Slide 10 is our home markets of the U.K. and Ireland. Flutter already has 2 strong brands in Paddy Power and Betfair. Sky Betting & Gaming will be a fantastic addition to the group, the business we've long admired with a loyal, recreational customer base. As we've said before, we see the future of the U.K. market being recreational customer-based. We've seen how loyal the Sky Bet customer base is, and they'll give us a great position in our recreational space. Bringing together these 3 trusted brands will allow us to enhance our offering to a large and recreational customer base, continuing the fantastic growth we've seen, driving further operating leverage.

It's a similar story in Australia on the next slide. We said in August that the Australian market remains attractive for operators to invest in products [Sky] in the brand, and the results to prove this point. You saw the progress Barni and the team made at the first half by taking share against a very tough regulatory backdrop. Bringing BetEasy into the group will only help to build on this. We're going to optimize the businesses, double down on product developments, value and brand investment, and together within the combined company, we'll be very well placed to take on the [town].

Turning to Slide 12. And on pillar 2, we're very excited about the opportunity that The Stars' international customer base will present to Flutter. Stars have a presence in all of the most attractive, growing online markets, as outlined in the graph on the left. The CAGR in these markets is a combined 12% over the last 5 years. The middle section of this slide shows how successful Stars have been at cross-selling gaming products to their favorite customer base. In this sample of 5 of the largest of Stars' international markets, we can see that greater than 30% of their quarterly average active users across these markets are currently using multiple products. We see a significant opportunity for further cross-selling these customers to sports by providing access to our superior sports betting products. Flutter customers will also benefit from the improved gaming and poker offering.



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Ultimately, combining The Stars Group will increase our international active customer base by 4 million people, which we think will be a good driver of revenue growth.

On Slide 13, you'll be very familiar, I hope, with the chart on the top of this page. We've shown it before. It shows the historic success we've had in cross-selling sportsbook to our exchange customer base since we launched it. The chart below shows a similar trend at Stars Group. But when it launched online casino in 2015, its poker revenues remained broadly flat whilst its overall revenues grew strongly. We've also seen a similar trend in the U.S. since offering sports betting to DFS customers. The point is, that both groups have a proven track record of cross-sell, and we feel there's a big opportunity for the combined group to pursue here.

On Slide 14, we lay out our podium positions. You can see that this transaction will give us 3 additional podium positions, Germany, Spain and Italy. Combining with Stars also gives us enhanced reach in multiple additional attractive markets as we leverage our enhanced international capabilities. It will allow us to triple the number of languages we can offer and almost double the number of currency and payment options available to our customers. All this should position us to add more countries to our podium positions tally in the medium term.

As we said before, the opening up of the U.S. sports betting market is perhaps the most exciting development in this industry since the advent of online betting. We are determined to win in this market, and we believe that bringing together FanDuel with FOX Bet will be a winning combination.

On Slide 15, you can see that the execution by Matt and the team at FanDuel has been exceptional to date, garnering a leading position in sports betting with over \$2 billion being handled since launch and over 200,000 sports betting customers.

Stars being a wonderful asset in FOX Bet, and we hope to leverage The Stars Group's Sky Bet experience to execute in the U.S. The reach of the brand can be seen immediately with over 100 million FOX Sports viewers and FOX Sports Super 6 app has already had over 400,000 downloads since launch.

The goal of the entire team remains on going live in as many states as it can as quickly as we can and continuing to acquire sports betting customers in as focused and disciplined manner as possible. But now we can bring an even better offering to even more customers. The combination brings together strong brands with outstanding distribution and market access, which will ensure a winning combination in the U.S.

Slide 16 lays out the arrangements with our U.S. partners, and I've already covered the terms that we put in place with them to ensure alignment of economic interests. We're delighted to have agreed memorandums of understanding with both FOX and Fastball, FanDuel's current U.S. partners. As seen from the success of FanDuel to date, when economic interest of all the partners aligned, the team can work to maximize the opportunity.

I'll now hand over to Rafi to give his perspective on the combination.

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### **Rafael Ashkenazi *The Stars Group Inc. - CEO & Director***

Thank you, Peter, and thanks to all of you for joining us this morning. As you've heard from Peter, this transformational combination is very exciting as we believe it strategically positions our businesses to benefit from continued strong growth trends in our industry. Importantly, the proposed combination will allow us to enhance and accelerate our existing strategy.

In recent years, we had started to have built a leading company in the e-gaming industry, transforming our business from a single-product operator in poker to a diverse global leader with multiple product offerings across poker, gaming and sports betting. Going forward, we believe the combination with Flutter will further enhance the position of the combined company as a diverse global leader in the large and high-growth online gaming industry, bringing together world-class, popular and trusted brands, robust technologies and attractive and diverse product offering with some of the best talent in the industry; extend our leading customer acquisition channels and capabilities such as Betfair and PokerStars, both of which provide significant cross-sell opportunities; expand into newly regulated markets, bringing together best-of-breed technology, proven product, targeted content, seamless payment



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capabilities and a strong legacy of regulatory and licensing expertise; and improve our financial profile, providing us with greater resources to invest in exciting new market opportunities.

As you can tell, I'm excited about the future potential of this combination, which will put the combined company in an even stronger position for the future. I'm also very pleased to be joining the Board of the combined company and to serve as its COO to support further growth in our poker, casino and betting brands. Our Chairman, Dave Gadhia, has been instrumental in transformation of The Stars Group into a true global leader over the last few years, and it is great that he will be also joining the Board of the combined group.

With that, I'll turn the call over to Jonathan, who is was going to outline the financial attraction of this combination.

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### **Jonathan Stanley Hill Flutter Entertainment PLC - CFO & Executive Director**

Right. Thanks very much, Rafi, and morning all. And I would reiterate the comments made by Peter and Rafi about how exciting this combination is and the opportunities that this throws up for us as a combined group.

So just going to Slide 17. This combination creates a diversified and well-balanced group. If we look at the top chart in terms of the geographic split on the basis of the 2018 pro forma numbers, a proportion of revenues generated from U.K. and Ireland would have been just under 50% for the combined group. And actually, in that year, Flutter's exposure would have been nearly 60% U.K. and Ireland.

Peter talked earlier about the opportunity -- Peter and Rafi both talked earlier about the opportunity to grow the combined group's revenues in the rest of world and a fantastic position that the combination will be in. In 2018, the Rest of World would have represented 31% of the combined group. And with those growth rates that Peter was referencing earlier in the presentation, this puts the combined group in a greater position to grow internationally. As well as our improved geographic diversification, our product portfolio will be better balanced. In 2018, online sports betting would have represented 45% of revenues, with online gaming 22% and poker 18%.

Just moving on to Slide 18. As Peter said earlier, a critical element of our approach to synergies will be to ensure that we maintain top line momentum in the combination. Clearly, we'll be focusing on our key poker, casino and sports betting platforms. The pretax cost synergies amount to GBP 140 million, expected to be achieved by the end of the third year post completion. And there are onetime costs to achieve the estimated at GBP 180 million, which we expect to be incurred over the -- within the first 2 years post completion. We do believe that there will be material revenue synergies focused on the international markets, as referenced earlier. Two examples would be the opportunity to provide our exchange product into international markets and also enhancing the sports betting products through enhanced pricing capability.

We also see an opportunity to reduce the group's finance costs. The improved financial and credit profile of the group should enable us to deliver a lower cost of debt aligned to rapid deleveraging.

And then moving on to Slide 19. On a pro forma basis, the group generated margins -- EBITDA margins of around 30% in 2018. And we need to remember this business is highly cash generative, very effectively turning profit after tax into cash after tax. The expected leverage ratio of completion is expected to be approximately 3.5x, excluding synergies. And we are maintaining our existing Flutter target leverage ratio of 1 to 2x, which we expect to achieve in the medium term while maintaining Flutter's existing dividend of 200p per share. We expect the ROIC to exceed WACC by the end of the third year, and we have stress-tested this against downside scenarios.

Finally, this deal is expected to be at least 50% accretive to underlying fully diluted EPS in the first full year post completion.

And finally, moving on to Slide 20. On the expected timetable, we would expect to publish a shareholder document towards the end of Q1 2020 with shareholder meetings in late Q1 or early Q2 2020. And on the regulatory approval side, we expect this to be during either Q2 or Q3 in 2020.

At this point, I will pass back to Peter.

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**Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director***

Thank you very much, Jonathan. Thank you, Rafi. Tom, we're now happy to open up to the callers for questions. (Operator Instructions)

### QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Okay. The first question we have comes from the line of Ed Young.

**Edward Young *Morgan Stanley, Research Division - Equity Analyst***

I'll ask 2 genuine questions. The first one is, could you just elaborate a little bit what you meant on the conservative API approach to tech integration? And does that affect your capacity to generate additional synergies above that GBP 140 million target? And the second one is, are there any gray markets that TSG operates in that you or the Flutter Board would consider exiting?

**Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director***

Okay. Thanks, Ed. Look, in terms of the first question about a conservative API approach, if I look at how we manage the Paddy Power Betfair integration work, we effectively had to turn the Betfair technology stack into something that could operate on a certain multi-brand, multi-jurisdictional basis. And we then migrated all of Paddy Power onto its back, and it's a big, complex thing to do.

Since then, we've actually been able to separate our front-end and back-end platforms such that our front-end platforms communicate that back-end platforms via APIs. And that will allow us, under this transaction -- this proposed transaction to effectively allow teams with their own front-end platforms to maintain those product road maps, but then just to fit into [indiscernible] our back-end betting platform and our global risk and trading capability, which we think will allow us to maintain momentum into the business, maintain individual identities associated with the brands but still deliver some considerable cost savings.

**Jonathan Stanley Hill *Flutter Entertainment PLC - CFO & Executive Director***

The only thing I'd add there is it also, we feel, is a much better customer proposition for enabling the front -- the local teams and the brand teams to maintain their own identity and deliver really what the customers are after.

**Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director***

And in terms of the sort of the gray markets, as you [prior said], the Flutter business is in operation in 100 markets around the world. So we -- the Board is comfortable operating in all of those markets. And there's nothing that we've seen from The Stars Group and the diligence we've done that we'd needed to be concerned about any of those markets.

**Operator**

The next question we have comes from the line of Michael Mitchell.

**Michael Mitchell *Davy, Research Division - Gaming and Leisure Analyst***

Just on the international opportunity. I wonder, could you help us understand what the potential in general terms cross-sell from poker into sports is, or how that would compare to poker into gaming, i.e., the number you referenced? And then secondly, on the financial side, you referenced the possibility of lower finance costs to be delivered. Is there anything else you could add there in terms of potential financial benefit of that and also time line on the same?

**Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director***

Jonathan, do you want to pick out the finance one?

**Jonathan Stanley Hill *Flutter Entertainment PLC - CFO & Executive Director***

Yes; love to. Okay. So obviously, there are existing facilities in place for both companies. I'm not going to specifically try and quantify the number for you because we have a long process to go through in terms of -- immediately post announcement, I will be going out to start discussing the combination and its financial profile with rating agencies. Clearly, Stars will have a current rating from the agencies, and we would hope to improve that significantly. And that will then drive our further discussions with the lenders of the facilities. So I'm not



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going to prejudge where we get to on that, but we feel very confident given the leverage starting point, the financial policy guidance that we have provided that we'll get into materially better position in terms of finance costs. Sorry, I can't give you more comfort on that. But you should see as part of the circular, we would hope to have completed discussions and negotiations by that point, so we should have a better view at that stage of the opportunity.

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### **Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director***

Michael, and just in terms of your first question about the potential to drive from poker into sports or gaming, I'll ask Rafi in a minute just to talk about experience that he's got from cross-selling from poker to gaming because, clearly, the business has created the world's largest gaming business off the back of their poker franchise. What I would highlight is that we've seen some great successes in Adjarabet recently as we've improved the quality of the sports product that's available in that market. That gives us a lot of confidence of our ability to sell sports betting into these customer franchises, which have been, as indeed, Adjarabet is predominantly gaming-led. Whether that's through sports betting or indeed our exchange white label products, we should have been able to switch on pretty quickly in that market. Rafi, do you want to talk about the experience of poker to gaming?

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### **Rafael Ashkenazi *The Stars Group Inc. - CEO & Director***

Sure. I'll start by saying that, first of all, both companies have a proven track record in cross-selling in general. At The Stars Group, we've done an absolutely amazing job cross-selling poker into gaming, building the largest gaming brand in the world. We've done a lot of cross-selling for -- from poker to sports, and this is obviously moving forward as we expected. But we are going to have, on a combined basis, simply enhanced capabilities to continue supporting the cross-sell. And I would say on top of that, one of the things that maybe was lost in the script is the opportunity that we have to cross-sell between poker and the exchange. We believe that from the international perspective, operating in approximately 100 different markets, very similar markets, and we know in response also to the previous question about the regulatory approach of the 2 companies. The opportunity to cross-sell between the exchange and poker is a very real opportunity that has a lot of potential.

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### **Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director***

Thanks, Rafi. And Michael, I'm sorry if I'm ruining your breakfast this morning when we put the announcement out.

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### **Operator**

The next question we have comes from the line of Gavin Kelleher.

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### **Gavin Kelleher *Goodbody Stockbrokers, Research Division - Investment Analyst***

Just 2 for me. Just on the cost synergies, obviously, you've given the GBP 140 million. Can you give us any sense of how they're weighted geographically and how much of it relates to the U.S., Australia, et cetera? And then just on -- Jonathan, you mentioned stress testing. Can you just give a bit more detail on how you've stressed tested and what that relates to exactly?

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### **Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director***

Jonathan will probably take both of those up, Gavin. But I would just reiterate, we see this combination is one -- it's about driving growth into the business. We're not doing this because of the cost synergies. I mean clearly, it's an important component but it's not why we're doing this deal. And Jonathan, can you pick it up?

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### **Jonathan Stanley Hill *Flutter Entertainment PLC - CFO & Executive Director***

Yes. Sure. So the first thing I'd say is you asked -- what you asked is that we are not assuming any synergies because that will be the opportunity to avoid costs going forwards rather than create cost synergies there. If you take a rough split on the bucket, you've probably got 20% corporate, 20% Australia and 60% U.K./International, which is kind of the way that the Flutter business is structured at the minute. So that's the way you should think about it. I think there's a lot of synergies. If we just take some of those buckets, we think of the U.S. and Canadian listing costs. Obviously, we're going to end up with great procurement opportunities right across the group, both from providers of content through to providers of pricing. So we're -- we think we're in a very strong position there to be able to do this well.

Secondly, on stress testing, the first thing I would say is we've been -- we've done a lot of due diligence with the guys both ways, and we feel very comfortable with the markets, the approach and the revenue generation. I would say that there will be no market that is

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unregulated, which would make up more than 3% of the combined group's earnings. So I would say we feel very comfortable on that basis. We've looked at certain markets and done some calculations on the basis of probability weighting or even stress testing weighting to the downside if those switched off. And therefore, we feel very comfortable with the forward view that we've given you in terms of EPS and in terms of our confidence around the deleveraging profile.

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### Operator

The next question we have comes from the line of Richard Stuber.

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### Richard Paul Stuber *Numis Securities Limited, Research Division - Analyst*

Just a couple of quick ones for me. The first one is could you just clarify your approach to having various brands in the same market? So that in the U.K., will you still maintain Paddy Power, Betfair, Sky Betting & Gaming, and I guess in Australia as well, you've got multiple brands there? And whether you think you'll be focusing on all of them going forward? And the second thing is in terms of synergies, you mentioned about cost savings. Is there other use of CapEx synergies as well, which you can identify?

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### Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director*

Look, I mean, I'm a passionate believer in operating a multi-brand strategy. I think it allows you to target different brands to different customer needs. And if you could just take our existing business in the U.S. for example, we talk about FanDuel a lot. We actually have the FanDuel brand, TVG and Betfair all operating in our market. Actually, you will see us operating multi-brands in all the jurisdictions that we will be in around the world, and that's something that we'll continue with. Jonathan, do you want to talk about the synergies?

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### Jonathan Stanley Hill *Flutter Entertainment PLC - CFO & Executive Director*

Yes. Sure. I mean at the minute, we're talking about earnings cost synergies. There are some CapEx. We haven't quantified them for external purposes at this stage, and we'll certainly do that as we go forward, but we're not doing that today.

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### Operator

The next question we have comes from the line of James Rowland Clark.

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### James Rowland Clark *Barclays Bank PLC, Research Division - Research Analyst*

Two questions for me, please. On the U.S., you refer to commitments by all parties to discuss further options -- options for further alignment. Would you mind just elaborating on what that might entail?

And then secondly, around German regulation, which is obviously a little bit of an unknown, how do you feel about the risks of that market going forward?

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### Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director*

James, look, in terms of the U.S., we have -- I explained earlier what we're doing in terms of making sure that both minority shareholders in the business -- in our respective businesses have reciprocal rights in each other's businesses. What we would like to be able to do in time is to bring the businesses together to effectively merge them. There wasn't time to do that in the -- leading up to the announcement today. It's been quite complex getting the reciprocal rights deals done without this deal leaking. So that's something that we plan to do next, but we think whatever happens in the U.S., we've got an incredibly strong position to go after that market and be able to share a lot of the group resources, whether that's risk and trading or betting platforms and capabilities that we have.

We got a question earlier about stress testing and gray markets and stuff. We've got our views around German regulation. We know that the regulation is going to be coming out fairly soon in Germany. I think there's questions around how many states will legislate and allow gaming to continue. I think we'll feel much more confidence around sports betting. I think the combination that we have of customer franchise in Germany and our sports betting capabilities -- the gaming capabilities we have will ensure that we maintain a sort of leadership position in Germany moving forwards.

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### Operator

The next question we have comes from the line of Simon Davies.

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**Simon John Davies Deutsche Bank AG, Research Division - Head of UK Midcap & Online Gaming Research**

Two from me, please. Firstly, in terms of the enlarged entity, it's going to have something like a 25% market share of the online gaming market in the U.K., 35% share of online sports betting. How confident are you that you can clear this deal through the competition authorities without having to sell down any brands?

And secondly, just to clarify, the 50% earnings enhancement target, does that assume some savings in terms of interest costs?

**Jonathan Stanley Hill Flutter Entertainment PLC - CFO & Executive Director**

Just dealing with the second, yes, we've taken a conservative view in terms of looking at the interest savings in terms of the EPS accretion. So yes, it does.

**Simon John Davies Deutsche Bank AG, Research Division - Head of UK Midcap & Online Gaming Research**

And perhaps, can you quantify what that might be?

**Jonathan Stanley Hill Flutter Entertainment PLC - CFO & Executive Director**

I'm not going to quantify at this point. I mean, we've taken a conservative view on what we think might be the reduction in the finance costs, and I'm not going to go any further at this stage.

**Jeremy Peter Jackson Flutter Entertainment PLC - CEO & Director**

Simon, as I said earlier, we're very respectful of the competition authorities such as the CMA in the U.K. and the important analysis that they must do in relation to this proposed transaction. We look forward to engaging and working with them in due course, and we're confident that we're going to receive the relevant approvals at the appropriate time.

**Operator**

The next question we have comes from the line of Monique Pollard.

**Monique Pollard Citigroup Inc, Research Division - VP**

Just one question left for me now. What I was trying to understand is in the U.S., in terms of the customer databases, how can they be utilized and shared across brands? So for instance, the FOX Sports database, how can that be utilized across the brands and similarly with FanDuel?

**Jeremy Peter Jackson Flutter Entertainment PLC - CEO & Director**

It's a great question, Monique. We've got a lot of experience of operating a multi-brand strategy. And the way that we plan to pursue it in the U.S. is maintain purity of the customer databases. So to the extent that we are acquiring free-to-play customers through the FOX Super 6 products, you can see that we'd be -- try to cross-sell those customers into FOX Bet. And we have many customers who are playing daily fantasy sports at FanDuel, we're trying to cross-sell them into sports betting and, of course, from both of those customer franchises into gaming and horseracing, other products as appropriate. But yes, we're not going to be -- as we do with Paddy Power and Betfair today, we don't try to move customers from Paddy Power to Betfair or vice versa. We maintain this as integrity of the brand experience that those customers have chosen to take.

**Operator**

(Operator Instructions) Our next question comes from Alice Li.

**Larry Gandler Crédit Suisse AG, Research Division - Director**

Yes. This is Larry Gandler for Alice Li from Crédit Suisse. My question relates to Australian regulatory approval. I guess it's similar to the U.K. one in terms of your confidence around gaining approval here. Only last year, 2 years ago, BetEasy was arguing that the TAB-Tatts merger resulted in a substantial lessening of competition. So it seems to me, difficult for them -- this merger to argue that this merger is not a substantial SME competition. So how do you sort of navigate around that? And would you consider divesting brands here in Australia?

## OCTOBER 02, 2019 / 8:00AM GMT, Flutter Entertainment PLC to Discuss Recommended All-share Combination with Stars Group Inc Call

### **Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director***

Yes. Look. Thank you for the question. I mean, without wanting to sound like a stuck record, we are very respectful of the competition authorities. We know they need to do their analysis, and we'll work with them and engage with them in due course. I think we run -- we both run businesses in Australia, which are trying to take on the might of the TAB. And with this proposed transaction, we envisage running 2 brands, which we think we'll need to do to continue to take the fight to the TAB. They're the behemoth in the market, and we're just this small [corporate] bookmakers nipping around their heels.

### **Larry Gandler *Crédit Suisse AG, Research Division - Director***

With about 25% share. Okay -- and combined. Okay, I understand. That's fine. I guess we'll wait until Q2 '20 as the regulatory approvals come through.

### **Operator**

Our next question comes from Ivor Jones.

### **Ivor Jones *Peel Hunt LLP, Research Division - Analyst***

In terms of the revenue growth synergies, how much is there going to be an opportunity post-deal in markets where you're growing share to compete by offering tighter prices on sports, better bonuses, less rake on -- in relation to poker? How much will that be a -- that way of competing be a way of driving growth? And also I wanted to ask, what is the WACC that the ROIC will be greater than, post-deal?

### **Jonathan Stanley Hill *Flutter Entertainment PLC - CFO & Executive Director***

7.5 is the simple answer to the second question.

### **Jeremy Peter Jackson *Flutter Entertainment PLC - CEO & Director***

Look, in terms of your first point, the revenue growth here is about having a better portfolio of products to make available to our existing customer franchises and hope that we can then, therefore, better serve their needs. So that's how we intend to grow revenues. I have a better starting point in many of these markets, which makes it much easier to grow your customer franchises. And once we build those customer franchises, we'll have the best range of products available in the market to take to those customers. That's how we intend to grow.

### **Ivor Jones *Peel Hunt LLP, Research Division - Analyst***

So not price-led?

### **Jonathan Stanley Hill *Flutter Entertainment PLC - CFO & Executive Director***

No.

### **Ivor Jones *Peel Hunt LLP, Research Division - Analyst***

And just sorry, on the WACC, can't do the calculation fast enough. Is that the post-deal WACC, including the debt from Stars?

### **Jonathan Stanley Hill *Flutter Entertainment PLC - CFO & Executive Director***

Yes.

### **Ivor Jones *Peel Hunt LLP, Research Division - Analyst***

Okay. Just as I've got you, what is -- how would you calculate the current WACC for the group?

### **Jonathan Stanley Hill *Flutter Entertainment PLC - CFO & Executive Director***

Let's just stick on the 7.5. We've -- I've answered the question. I think -- we're 2 questions in, very comfortable to go through it later. David will be happy to take that offline for a long discussion with you on current WACC and future WACC and how that plays in.

### **Operator**

Your next question comes from Joe Thomas.



## OCTOBER 02, 2019 / 8:00AM GMT, Flutter Entertainment PLC to Discuss Recommended All-share Combination with Stars Group Inc Call

**Joseph Philip Thomas** *HSBC, Research Division - Analyst*

Can you just confirm -- the first question is, can you just confirm we have a dividend policy? Was I right to say that you were saying dividend was going to be flat for the next -- in the medium term? And the second thing, just remind me, if you would please, about the market values of FOX Bet and FanDuel and how that is to be calculated in terms of the U.S. transaction.

**Jonathan Stanley Hill** *Flutter Entertainment PLC - CFO & Executive Director*

So Joe, thanks for the questions. In terms of the fast question, yes, we do intend to hold the dividend flat at the GBP 2 per share while we delever from an approximate pro forma starting point of 3.5x as we move back towards that target range of 1 to 2x. Thereafter, we will then look at the dividend policy at that stage, but that's some way off in the medium term. So that's our intention at this point.

**Jeremy Peter Jackson** *Flutter Entertainment PLC - CEO & Director*

And in terms of the -- Joe, in terms of the market value calculations, we already have formulas that we have pre-agreed to acquire the stakes from the Fastball shareholders. There's the tranche 1 and tranche 2 shares. So they will remain as-is. And then in terms of the opportunity to give the Fastball shareholders some exposure to the increasing value of FOX Bet, we'll do that using fair market value. There's a mechanism that we've agreed there.

**Joseph Philip Thomas** *HSBC, Research Division - Analyst*

And anything you can -- any more detail you can give on that?

**Jonathan Stanley Hill** *Flutter Entertainment PLC - CFO & Executive Director*

I mean, that is pretty self-explanatory.

**Jeremy Peter Jackson** *Flutter Entertainment PLC - CEO & Director*

I mean, the additional value -- the additional color we can give is we ask external experts to value the business on an FMV basis, and they will use a range of methodologies that you'd expect to come up with a fair market value for the group. So we use an external party rather than a sort of revenue multiple or EBITDA multiple or loss multiple or whatever we end up with, we're going to leave -- somebody who is an expert on valuation to do that for us.

Okay. Thank you very much, everybody, for joining the call. Obviously, the IR teams will be available for any further questions you may have, and we look forward to getting out and meeting shareholders as soon as we can and talking about it. Thank you.

**Operator**

Thank you for joining today's call. You may now disconnect your handset. Host, please stay on the line and await further instructions.

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