
Sisal Conference Call for the FYE 2017 Results

Monday, 14 May 2018

Emilio Petrone:

Good afternoon and thank you for joining us today.

This is Emilio Petrone Sisal Group CEO. I am pleased to welcome you to today's conference call on the results for the fiscal year end December 31st 2017. Together with me there is Corrado Orsi, our CFO.

Before we start, I'd like to point out on we posted on our website the 2017 fiscal year-end results presentation (the 2017 Annual Report was posted on April 27). If you have not received the results presentation via email, you can download it from our Investor Relations section website – I suggest you to have it with you while we go through the results.

2017 was a fantastic year driven by a solid strategy and a flawless execution, which delivered extraordinary results:

- Turnover +7.8%
- Revenues +6.5%
- EBITDA Adj. +14.9%.

I will comment the Key Factors affecting FYE 2017 and Sisal Group key achievements in the period, before leaving the stage to Corrado who will review financials in detail. We will also leave time at the end for a Q&A session.

The macro environment in 2017 confirmed the positive signs of a trend reversal, fostered by an improving consumer confidence, with GDP up approx. +1.5% and a lower inflation rate (1.2%).

Private consumption also showed recovery signs and positively affected the Italian gaming industry turnover, also helped by the decision of certain foreign online companies to fully comply with the Italian regulations. The Italian gaming market confirmed a positive trend, reaching approximately €101.6 billion (+6.1%).

The addressable Payment Services market (net of direct debit) was slightly down, while the proximity market, in which we operate, confirms a growth trend.

In 2017 the addressable Payment Services market reached €122.2b, -1.6% compared to 2016.

In this improving scenario, 2017 was a fantastic year driven by a solid strategy and a flawless execution, which delivered extraordinary results compared to 2016:

- Turnover +7.8%
- Revenues +6.5%
- EBITDA Adj. +14.9%.

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In 2017 Sisal turnover reached an all-time record of €17.9b (+7.8% vs. 2016), of which €9.5b from Payments Services (+9.7% vs. 2016). Payments Services overcame the Gaming turnover, reaching 53,4% of total turnover.

Revenues reached €832m, +6,5% vs. €781m in 2016 and Adjusted EBITDA reached €215.1, +14.8% or +€27,8m compared to €187.3m in 2016.

In the above-mentioned environment, Sisal executed several actions to keep on driving business growth:

- Online Gaming delivered a material acceleration of turnover growth (+24.3%)
- Payment Services turnover reached 9.5b, +9.7% vs. 2016, also helped by a further expansion of the Service-only PoS Network.
- Supported SuperEnalotto turnover, also benefitting from its improved gaming formula. The product keeps on benefitting of the positive trade and consumers' acceptance, generating a solid turnover.
- Reviewed suppliers' contracts and conditions, generating procurement savings.
- Limited capex spending to short-term return projects and tightened working capital management.

Our market share in 2017 was in line with the same period of 2016.

Q4 2017 delivered revenues of approx. €231m, up €19m vs. €212m in the same period of 2016. Adjusted EBITDA reached €51.4m, up €17m or +50%, compared to €34.3m in Q4 2016.

In a nutshell, 2017 was a highly challenging year, but we delivered once again a solid financial performance, more than offsetting the external negative factors.

Corrado Orsi:

Thanks Emilio. Let's move to slide #7, which shows the consolidated results.

Consolidated Revenues in 2017 were €832m, +6.5% compared to €787m in the same period of 2016. As already commented by Emilio, Q4 2017 consolidated revenues reached €231m, up 9.1% compared to €211.7m in same period of 2016.

Gaming revenues in 2017 reached €491.8m, +6.6% compared to €461.5m in 2016.

Gaming machines revenues were €358.7m, up +7.8% vs. €332.6m in 2016.

Online Gaming reached €40m, +25% vs. €32m in 2016, driven by a growing consumer base together with effective CRM and retention programs. In 2017 Sisal continued to be the first operator per consumer base.

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Virtual Races reached €27.1m, down 3.6% vs. 2016.

Fixed odds betting performance (€103m, +19.4% or +€16.7m vs. €86.3m in the same period of 2016), was driven by a higher turnover and a higher market payout compared to 2016.

Payments Services confirmed its long-term growth trajectory and achieved €143.5m, +0.5% compared to €142.8m in 2016. PoS fees reached €84.1m, +3.5% compared with prior year.

As previously mentioned by Emilio, in 2017 Adj. EBITDA was €215.1.3m, up €27.8m or +14.9% compared to €187.3m in the same period of 2016.

Adj. Ebitda margin was 25.8%, up 1.8 p.p. compared to 24.0% of 2016.

Slide #8 gives an overview of our operating segments: our business units' performance.

In terms of revenues, Payments Services BU keeps on delivering positive performances (€183.1m vs. €180.1m in 2016, an increase of +€3m or +1.7%).

Online Gaming BU reached €72.4m, compared to €58.1m in the same period of 2016, an increase of +24.7%.

Retail Gaming BU reached €478.8m, up €33.6m or +7.6% vs. €445.2m in 2016, driven by VLTs turnover performance and slot machines pay-out reduction impact, together with a strong sport betting margin.

Lottery revenues were €96m, +0.2% vs. €95.8m in 2016, driven by a turnover substantially in line with 2016, despite a lower average jackpot.

Payments Services and Lottery confirmed an increasing Ebitda margin, Online Gaming confirmed a high Ebitda margin (43%), while Retail Gaming Ebitda margin was 15.6% up 1.7p.p. vs. 13.9% in 2016.

The bottom right table shows the percentage Margin trend of the BUs.

Slide #9 provides a snapshot of 2017 results, showing the P&L figures and a simplified cash flow.

In this improving scenario, I am very proud of our performance. In 2017 Sisal turnover reached an all-time record of €17.9 billion turnover in 2017, +7.8% compared to 2016, of which €9.5b from payments services (+9.7% vs. 2016).

Payments services turnover reached €9.5 billion, an increase of 9.7% compared to €8.7 billion in 2016, driven by Prepaid Cards strong performance also fostered by an increased capillarity of our distribution network and overcame the Gaming turnover, reaching 53.4% of total turnover.

Total Gaming turnover reached €8.3b, up €843m or +9.7% compared with 2016.

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Online Gaming turnover reached €1.9b, up 23.1% vs. 2016, driven by slot online (+22%) and betting (+27%).

Lottery performance was slightly down (-3.6%) reflecting the above-mentioned positive acceptance from consumers and trade, despite a lower average Jackpot.

Gaming Machine turnover reached €4.1b, in line with €4b in 2016, with VLT delivering a better performance than AWP's.

Betting wagers were €893m, up 16%, or +€124m compared with 2016.

We have already commented Ebitda by BU and Group Adj. Ebitda performance.

Sisal operating cash flow performance was very positive, with no relevant impact from wide working capital.

The main Capex are the following:

- €11.3m of Gaming Machine cabinets and games.
- €19m of new product development, software and licenses.
- €9.8m of Pos refurbishing and opening of new Pos.
- €19.6m of PoS technology, including Terminals, hardware and broadband connectivity devices.