

Chief Executive Officer's review continued

BGT

In July 2016, Playtech announced the strategic acquisition of Best Gaming Technology GmbH (BGT) for €138 million (for 90% of the issued share capital). The consideration was paid from Playtech's existing cash resources.

Headquartered in Vienna, BGT was founded in 2005 and is the leading provider of sports betting software and solutions for gaming and sports betting operators. Its customer base includes some of the most well established bookmakers in the UK and Spain, such as Betfred, Codere, Coral, Ladbrokes, Paddy Power Betfair and William Hill.

BGT's main product is its proprietary software for self-service betting terminals (SSBTs). Its offering combines class-leading technology with a digital terminal that transforms the traditional over-the-counter experience, at times generating more than double the volumes of other SSBT providers. Other products include ePOS and till systems for betting operators and an omni-channel web/mobile betting platform. In addition to supplying many of the most profitable bookmakers in the UK, the acquisition will enable Playtech to achieve greater penetration into the Spanish and Italian markets, with several significant potential new customers in the pipeline.

SSBTs and ePOS systems that digitise retail betting businesses form one of the fastest growing areas for betting companies and one of the most important elements of a true omni-channel offering given the priority and focus provided by the majority of retail operators many of which are bookmakers with sports being their core business. BGT's product portfolio will enhance the Playtech ONE omni-channel offering, which enables players to enjoy a seamless, anywhere-anytime gaming experience across any product, channel and device, all using a single account and wallet.

BGT's business model is based on a revenue share of the gross win margin from each SSBT. At the end of FY2016, BGT provided approximately 27,000 SSBTs with its betting software to licensed operators with this number forecast to increase significantly over the coming years, driven primarily by the roll-out of new SSBTs, compact terminals and tablets as bet entry devices as well as by increased usage of existing SSBTs.

Playtech acquired 90% of the issued share capital of BGT with the remaining 10% retained by Dr. Armin Sageder, BGT's founder and CEO, who will remain with BGT for at least three years from completion. Playtech has a call option to purchase the remaining 10% of BGT at a valuation of 6x BGT's 2019 EBITDA, subject to maximum consideration of €55 million for the 10% holding, with Dr. Sageder having certain put options over his 10% holding at the same valuation. Dr. Sageder may also be entitled to an additional payment of €5 million subject to the achievement of certain operational milestones.

In FY2015, BGT generated revenues of €41.6 million, with all of these revenues coming from regulated markets; and over three quarters of revenues coming from the SSBT software segment. BGT generated Adjusted EBITDA of €12.9 million in FY2015 and €12.5 million of Adjusted EBITDA in the first six months of 2016. In 2015, BGT generated profit before tax of €6.0 million and had gross assets of €35.9 million as at the year end.

Playtech acquired BGT on a forecast 2016 EBITDA multiple of less than 7x, a highly attractive multiple for an asset of this quality, which has a track record of significant growth and which is expected to continue to achieve significant growth going forwards in both revenues and profit, including margin expansion. The acquisition is expected to generate high single-digit earnings accretion for Playtech in the first full year of ownership.

The acquisition of BGT was central to the foundation of Playtech BGT Sports in November this year which combined BGT, Geneity, Mobenga, Unilogic and Playtech's internal Sports Trading team.

ECM

In October 2016 Playtech acquired bingo software and hardware solutions provider ECM Systems (ECM). ECM supplies software and support services to the UK retail bingo market, including major operators Gala Leisure, Mecca Bingo and the leading independent bingo operators.

ECM is highly regarded within the bingo industry and its extensive range of products is instrumental to the daily operation of retail bingo in the UK and the Republic of Ireland. Its systems provide key facilities for Main Stage Bingo, Cash Bingo, wide area linked gaming operations and front-of-house reporting. A complete customer support facility provides technical and repair services for all current and legacy products.

Given the inevitable change across the gaming industry bingo operators had to revamp and digitize their retail offering. Accordingly, the last few years have seen ECM invest in expanding its digital strategy. As a result, ECM is the leading provider and licensor of digital bingo software for a wide range of handheld tablets known as Electronic Bingo Terminals (EBT), and this generates a significant proportion of its revenues. The digitisations of the bingo halls together which is based on the ECM infrastructure and technology will serve Playtech well and will allow it to integrate ECM into Playtech world's largest bingo network and offer a true omni-channel that will not only provide better tools to the bingo hall operators as they use one single set of integrated infrastructure but will also provide a seamless journey and better experience across the different channels.

The acquisition of ECM positions Playtech at the forefront of the retail bingo market in the UK. It also empowers Playtech to provide omni-channel solutions to the bingo operators by connecting their retail and online operations as well as providing a platform to supply Playtech content.

For FY2016, ECM reported revenues of £9.1 million and Adjusted EBITDA of £4.5 million. Playtech has paid approximately £14.9 million for 90% of the issued share capital of ECM. The remaining 10%, which is subject to put and call options capped at £1.1 million, is held by Allen Richardson who will remain as CEO of the business for the next three years.