Financial review

Confident financial management

2016 has seen Playtech once again deliver a strong financial performance with total reported revenues and Adjusted EBITDA up 12% and 20% respectively compared to 2015.

Andrew Smith
Chief Financial Officer

Presentation of results

The Directors believe that in order to best represent the trading performance and results of the Group, the reported numbers should exclude certain non-cash and one-off items including amortisation of intangibles on acquisitions, professional costs on acquisitions, finance costs on acquisitions, and additional various non-cash charges.

The Directors believe therefore that Adjusted EBITDA and Adjusted Net Profit more accurately represent the trading performance of the business and are the key performance metrics used by the Board when assessing the Group's financial performance. A full reconciliation between the actual and adjusted results is provided in Note 5 of the financial statements.

Given the significant fluctuations in exchange rates in the period, the underlying results are presented in respect of the above measures after excluding acquisitions and on a constant currency basis to best represent the trading performance and results of the Group.

Current presentation

	2015 €m	2016 €m	Change	Constant currency change
Casino	308.7	354.6	15%	23%
Services	155.6	151.6	-3%	4%
Sport	32.2	30.9	-4%	2%
Land-based	29.8	57.1	92%	108%
Bingo	20.5	17.8	-13%	-1%
Poker	11.2	9.1	-19%	-17%
Other	12.1	21.9	81%	89%
Gaming division	570.1	643.0	13%	21%
Financials division	60.0	65.6	9%	11%
Total revenue	630.1	708.6	12%	20%

Future presentation

	2015 €m	2016 €m	Change	Constant currency change
Casino	328.8	374.1	14%	22%
Services	155.6	151.6	-3%	4%
Sport	34.5	58.4	69%	82%
Land-based	–	–	–	–
Bingo	20.5	19.8	-3%	10%
Poker	11.2	9.1	-19%	-17%
Other	19.5	30.0	54%	62%
Gaming division	570.1	643.0	13%	21%
Financials division	60.0	65.6	9%	11%
Total revenue	630.1	708.6	12%	20%

Overview

2016 has seen Playtech once again deliver a strong financial performance with total reported revenues and Adjusted EBITDA up 12% and 20% respectively compared to 2015. In addition, Playtech executed its M&A strategy, investing cash of €240 million in acquisitions including BGT, Quickspin, ECM and CFH, whilst returning €296 million to investors through progressive dividends, a special dividend and a €50 million share buy back programme.

Significant fluctuations in currency exchange rates, mainly in Sterling, due to macro-economic events had a material effect on the financial results of the year across all key metrics. On a constant currency basis, revenues, Adjusted EBITDA and Adjusted Net Profit, increased by 20%, 32% and 42% respectively. When further excluding the effect of acquisitions, reflecting the underlying performance of the business, revenues, Adjusted EBITDA and Adjusted Net Profit increased by 13%, 28% and 48% respectively.

The percentage of total regulated revenues for the Gaming division increased by 1% in 2016 to 42% with Sun Bingo launched towards the end of the third quarter of the year, together with the acquisitions of BGT and ECM, all contributing fully regulated revenue streams to our top line.

Adjusted EBITDA was up 20% in the period, or 32% at constant currency and 28% when further excluding acquisitions. Group Adjusted EBITDA margin increased from 40% in 2015 to 43%, and from 40% to 44% at constant currency, despite a greater contribution from lower margin areas of the business such as white-label, the Financials division and casual. This improved margin is a result of tight cost control to create sustainable efficiencies across all areas of the business as well as improved commercial terms in Asia, which increased revenues with no material additional cost.

Playtech continues to be highly cash generative and once again delivered strong operating cash flows of €251.4 million, representing high conversion from Adjusted EBITDA. When excluding cash movements, which are not reflected in Adjusted EBITDA, such as movements in jackpot liabilities, customer security deposits and changes in client equity, cash from operating activities represented a 94% conversion to Adjusted EBITDA.

Playtech has a very strong balance sheet with cash and cash equivalents of €544.8 million at the end of the year, or Adjusted Gross cash of €392.0 million net of cash held on behalf of client funds, progressive jackpot and security deposits. Together with the available-for-sale investments, which stood at €230.3 million at year end, Playtech has considerable available resources to execute its strategy.

Financial review continued

Revenue

Total reported revenue increased by 12% to €708.6 million (2015: €630.1 million) and by 20% on a constant currency basis, with underlying growth of 13% (after excluding acquisitions at constant currency).

New presentation of Gaming revenues by vertical

From the 2017 interim results onwards, Playtech will be removing the land-based vertical which reflects the true omni-channel nature of the offering by allocating revenues which were defined as land-based revenues to the relevant product verticals.

The revenues from land-based were allocated as follows:

- Videobet and Videobet interactive to Casino;
- Retail sport revenues, which are mainly BGT, to Sports;
- Retail bingo revenues, generated by ECM to Bingo; and
- IGS, including other sale of machines, to Other.

From the old presentation of the verticals to the new there was an increase in the 2016 Casino revenue figure of €19.5 million and in Sport an increase of €27.5 million. Bingo saw a €2.0 million increase while Other increased by €8.1 million.

Casino continues to be the biggest product vertical, adding €45.9 million of revenues in the period, taking Casino revenues to €354.6 million, with growth of 23% at constant currency and 21% when excluding acquisitions. Mobile Casino revenues more than doubled over 2015, pushing mobile penetration to 29% compared to 16% in 2015. The main growth drivers in both total Casino and Mobile Casino were the continued growth in Asia, which more than tripled its mobile penetration compared to 2015; and the growth in the UK's casino mobile revenues, reaching more than 50% in penetration, led by top operators, including Ladbrokes, GalaCoral, Bet365 and Sky. The growth in Casino is predominantly from core casino, e.g. slots and roulette, with addition growth generated by Playtech Live casino and the Playtech Open Platform.

Services revenues increased by 4% on a constant currency basis, whilst decreasing by 3% on a reported basis. The decrease on a reported basis is mainly due to a faster decline in .com revenues, mostly reflected in marketing and affiliation services revenues, than the increase in regulated revenues. The increase in regulated services revenues were mainly generated from structured agreements, such as Caliente and Marca, and a moderate increase in white-label operations revenues.

Sport revenues increased in 2016 by 2% on a constant currency basis after excluding acquisitions, decreasing on a reported basis by 4% to €30.9 million. The decrease on a reported basis, as previously indicated, is mainly due to the loss of three Mobenga contracts with UK licensees. When excluding the aforementioned licensees, Sports grew by 53%, on a reported basis, mainly from growth in Ladbrokes and Caliente.

Land-based revenues increased by 9% at constant currency, after excluding the acquisitions of BGT and ECM and by 92% on a reported basis. The underlying growth driven mainly by growth from IGS and a one-off sale income from Elite gaming, which should start producing recurring revenues at the end of Q3 2017.

Bingo revenues decreased by 1% on a constant currency basis and reported Bingo revenues decreased by 13%. Bingo remains a gateway to maximise value by attracting players and then cross-sell them to Casino and other product verticals. Bonusing schemes by operators were the main reasons for the decrease, while KPIs, such as active players per week, bets per week and gross gaming win per week, at an all-time high. If Bingo casino side games are added to the revenues reported in the Bingo line item, the total revenues would be €28.9 million. During the year, key contracts were renewed, such as Paddy Power Betfair, William Hill and others, securing Playtech's strong position in this important vertical.

Adjusted EBITDA and Adjusted EBITDA margin

	2016 €'000	2015 €'000
EBITDA	291,852	234,011
Employee stock option expenses	6,940	4,904
Professional expenses on acquisitions	3,441	6,181
Irrecoverable deposit and professional fees on abandoned acquisitions	–	6,792
Adjusted EBITDA	302,233	251,888
Adjusted EBITDA margin	42.7%	40.0%
Adjusted EBITDA on a constant currency basis	331,586	251,888
Adjusted EBITDA margin on a constant currency basis	44.0%	40.0%
EBITDA related to acquisitions at constant currency	(29,774)	(16,774)
Underlying adjusted EBITDA	301,812	235,114
Underlying adjusted EBITDA margin	47.1%	41.4%

Poker reported revenues have decreased by 19% compared to 2015, as the entire market continues to be challenging. Poker is still an important vertical in the operators' offering and Playtech remains dedicated to the product.

Other revenues grew by 81% mainly due to Casual games revenues which enjoyed a significant uplift in the second half of the year following the launch of the Narcos branded game.

Revenues in Financials division

Playtech completed the acquisition of Markets Limited on 8 May 2015 with the acquisition of CFH completing on 30 November 2016 with the respective financial performance from these companies consolidated into Group results from these dates.

2016 revenue in the Financials division was €65.6 million, up 9% versus 2015. CFH contributed €1.8 million to 2016 revenues from completion.

As presented in the 2015 final results and 2016 interim results, since Playtech entered into the financial vertical, the regulatory backdrop under which it operates has become increasingly developed, with tighter restrictions and controls imposed on brokers across all aspects of the business.

The first half results reflected the full impact of the business transition and improvements made due to the regulatory changes, including the cessation of relationships with Introducing Brokers; moving away from binary options; fundamental changes in onboarding processes; financial promotions as well as the transition made from a salesperson based approach to automated funnels for customer acquisition and retention initiatives.

Following these changes, the second half of 2016 saw a material improvement in performance with encouraging KPIs. Total active CFD customers were up 10% in H2 2016 with total first time CFD depositors up 37%. As discussed at the time of the interim results in 2016, the second half of the year also benefited from further reductions in the cost base made in June 2016 with headcount now reduced by a third since the acquisition in May 2015.

Adjusted EBITDA and Adjusted EBITDA margin

The Adjusted EBITDA margin increased significantly from 40.0% in 2015 to 42.7% in 2016 and 44.0% on a constant currency basis. When excluding the effect of acquisitions, the margin increased to 47.1%. This improved margin is a result of tight cost control to create sustainable efficiencies across all areas of the business as well as improved commercial terms in Asia, which increased revenues with no material additional cost.

Adjusted EBITDA for the Financials division was €15.4 million, against an Adjusted EBITDA of €15.9 million in 2015. The reduction in EBITDA compared to the prior period was a direct result of the reduced revenue arising from lower volatility in 2016 when compared to 2015, together with the consequences of the business enhancements in building a solid foundation for future growth.

It is worth noting that Adjusted EBITDA margin will become a less relevant metric for the Group over time as due to the greater contribution from lower margin areas of the business such as white-label, the Financials division and casual.

Cost of operations

Adjusted operating expenses increased by 7%, from €378.2 million to €406.3 million in 2016 and by 12% on a constant currency basis.

Revenue-driven costs comprise mainly of white-label related costs, such as brand fees gaming taxes, processing fees and others, fees paid to sales agents and licence fees paid to third parties, including games developers, IP owners and branded content, which are typically calculated as a share of the licensee revenues generated. Revenue-driven costs as a proportion of total revenue increased from 6% in 2015 to 7% in 2016, mainly due to additional cost related to Sun Bingo.

Cost of operations

	2016 €'000		2015 €'000	
Adjusted operating expenses	406,325		378,198	
Less revenue-driven costs	52,004		36,026	
Adjusted operating expenses excluding revenue-driven costs	354,321		342,172	
Employee-related costs	190,023	53%	181,711	53%
Cost of service	51,076	14%	48,242	14%
Operational marketing costs	41,366	12%	45,773	13%
Admin and office costs	34,320	10%	28,702	9%
Other costs	24,473	7%	26,129	8%
Travel, exhibition and marketing costs	13,063	4%	11,615	3%
Adjusted operating expenses excluding revenue-driven costs	354,321		342,172	

Financial review continued

Adjusted profit and Adjusted EPS

	2016 €'000	2015 €'000
Profit attributable to owners of the parent	193,030	135,810
Amortisation on acquisitions	44,318	41,751
Impairment of intangible assets	12,335	–
Non-cash accrued bond interest	9,802	9,388
Employee stock option expenses	6,940	4,904
Professional costs on acquisitions	3,441	6,181
Movement in deferred and contingent consideration	832	1,088
Profit on disposal of investment in associates	(64,459)	–
Irrecoverable deposit and professional fees on abandoned acquisitions	–	6,792
Adjusted profit attributable to owners of the parent	206,239	205,914
Adjusted basic EPS (in €cents)	65.7	67.5
Adjusted diluted EPS (in €cents)	59.8	61.8
Constant currency impact	72,110	(10,578)
Adjusted profit for the year attributable to owners of parent on constant currency	278,349	195,336
Adjusted net profit on constant currency related to acquisitions	(6,673)	(11,333)
Underlying adjusted profit – attributable to owners of the parent	271,676	184,003

Employee-related costs increased by 5%, and decreased by 4% after excluding acquisitions. The decrease is mainly due to the weakening of the Sterling compared to Euro and due to a cost reduction plan that was executed towards the end of the first half of 2016, which resulted in a decrease of about 500 employees when comparing the headcount at the end of 2016 to the end of 2015, excluding acquisitions made during the year. Capitalised development costs increased by 1%, to 15% of total employee related costs to €34.2 million (2015: €28.6 million), reflecting 36% and 34% out of development employee related costs in 2016 and 2015 respectively. The increase in the capitalisation rate is mainly due to the development of the CFD trading platform and the development of the Sportsbook system, including BGT, together with new games and platform capabilities.

Cost of service comprises mainly of dedicated development teams cost, charged back to licence, hosting and software license cost. During 2016 B2B marketing cost was reclassified from cost of service to operational marketing cost and the comparative numbers were adjusted accordingly. The decrease is mainly as a result of last year's expiration of a licensing agreement for certain real money and social games IP.

Admin and office costs increased by 20% and by 11% excluding acquisitions, mainly due to expansion of existing offices. As a proportion of adjusted non-revenue-related costs of operation remained broadly at the same level as in 2015.

Operational marketing costs include marketing cost for B2B and white-label activity of the Gaming division and B2C marketing costs in the Financials division. These costs were reclassified from revenue-driven costs and cost of service, including in the 2015 comparative to better reflect the operational marketing costs of the business. In 2016 there was a 10% decrease and a 26% decrease when excluding acquisitions, mainly linked to the decrease in marketing revenues.

Finance income, financial cost and tax

Foreign exchange rate losses of €44.7 million during 2016, compared to a gain of €10.6 million in 2015 is the main reason that adjusted net finance cost was €37.2 million in 2016 compared to an adjusted net finance income of €9.4 million in 2015, together with higher interest cost, due to a full term of interest on the debt facility, which were offset by dividends from the available for sale investment in Ladbrokes of €3.7 million (2015: €2.3 million) and Plus500 of €8.2 million (2015: zero).

The Company is tax registered, managed and controlled from the Isle of Man, where the corporate tax rate is set at zero. The Group's main trading subsidiaries are registered either in the Isle of Man, British Virgin Islands, Alderney, Gibraltar or Cyprus, where effective tax rates are low or set at zero. Other subsidiaries (normally related to the Group's development centres) are located in other jurisdictions and operate on a cost-plus basis, and are taxed on their residual profits. The tax charge in 2016 was €6.3 million (2015: €5.6 million).

Adjusted profit and Adjusted EPS

Adjusted profit remained at the same level as in 2015, significantly impacted by fluctuations in currency exchange rates, mainly in Sterling, resulting in unrealised exchange rate losses. On a constant currency basis, Adjusted Net Profit increased by 42% compared to 2015.

Adjusted diluted EPS was down 3%, whilst Adjusted diluted EPS on a constant currency basis was up 37%, impacted by an increase in shares from the placing in June 2015 and a decrease due to the share buyback executed in December 2016. Adjusted diluted EPS is calculated on the basis of a weighted average number of shares in issue during 2016 of 347.5 million which includes the shares underlying the convertible bond issued in November 2014. The diluted EPS and the adjusted diluted EPS amounts for 2015 was adjusted to reflect the impact of the convertible bonds.

Total amortisation and impairments in the period was €87.5 million (2015: €70.8 million), an increase generated mainly by new acquisitions and impairment of certain intangible assets of €12.3 million, the largest of these relating to the impairment of goodwill of Pokerstrategy, following a decline in the Poker market and loss of key customer. When excluded, amortisation decreased by a marginal 3%.

Cash flow

Playtech continues to be highly cash generative and once again delivered strong operating cash flows of €251.4 million.

Cash conversion

Operating cash conversion improved from 80% to 94% from Adjusted EBITDA when adjusted for jackpots, security deposits and client equity. Since the timing of cash inflows and outflows for jackpots, security deposits and client equity only affects operating cash flow for technical accounting reasons, and not EBITDA, adjusting these cash fluctuations is essential to truly reflect the quality of revenues and cash collection.

The increase in cash conversion reflects the improvement in the Gaming division days sales outstanding (DSO) from 48 days at the end of 2015 and 60 days at the first half of 2016 to 40 days at the end of the year. As indicated previously the higher trade receivables in prior periods were part of regular course of business, as there were no changes to customers' payment terms or revenue recognition methods.

Net cash outflows from investing activities totalled €219.7 million in the period. €240.2 million relates to consideration paid for acquisitions including BGT, Quickspin, ECM, CFH and others. Cash outflows from financing activities included €96.1 million of annual and interim dividend payments, €149.6 million of special dividend payment and a €49.8 million share buyback programme.

Balance sheet and financing

As at 31 December 2016, cash and cash equivalents amounted to €544.8 million, a decrease of €313.1 million compared to the end of 2015, following the €245.7 million paid in dividend and special dividend during the year, €49.8 million of share buy back, total acquisitions of €240.2 million and the exchange rate losses of €44.7 million. Playtech acquired Eyecon after year the end for an initial amount of £25 million.

Progressive, operators' jackpots and security deposits decreased by €16.6 million to €46.8 million and client funds and deposits increased by €62.3 million, including the client funds acquired from CFH, to €106.1 million, from the end of 2015. Cash and cash equivalents net of cash held on behalf of client funds, progressive jackpot and security deposit is €392.0 million

Total available-for-sale investments were €230.3 million, a decrease compared to the end of 2015, mainly due a depreciation in value of holdings in Plus500 and in Ladbrokes and exchange rate losses in total of €53.9 million, which was set off by additional shares in Ladbrokes, which were received on 1 November 2016, following the completion of the merger between Ladbrokes and Coral Group, in total of €44.5 million.

Contingent and deferred consideration liability increased to €209.1 million, mainly due to the redemption liabilities on Quickspin, BGT and CFH acquisitions.

Dividend

To provide greater certainty and consistency of dividend payments, the Board adopted a progressive dividend policy in 2016 which allows the Board to reflect its confidence in the growth and cash generation of the business without being tied to a firm percentage payout as one-off items can impact results, such as the impact from foreign exchange which we saw in 2016.

Playtech's intention to grow dividends from the current level in line with the underlying performance of the business on a smoothed basis and to continue to pay the dividend split approximately one-third as an interim dividend and two-thirds as a final dividend.

In October 2016 the Company paid an interim dividend of 11.0 €cents per share (2015: 9.6 €cents per share), an increase of 15%.

The Board has recommended a final dividend of 21.7 €cents per share (2015: 18.9 €cents), an increase of 15% over 2015, taking the total dividend for 2016 to 32.7 €cents per share being a total payout of €96 million, or €246 million including the €150 million special dividend paid in November and December 2016. The final dividend is subject to shareholder approval at the AGM in May 2017.

For those shareholders wishing to receive their dividends in Sterling the last date for currency elections is 12 May 2017.

Timetable

Ex-dividend date:	4 May 2017
Record date for dividend:	5 May 2017
Currency election date:	12 May 2017
Payment date:	2 June 2017

Andrew Smith
Chief Financial Officer

22 February 2017