

## Time to enter the game: UK's Playtech acquires Italy's Snaitech

Playtech PLC (LSE:PTEC) – market cap as of 27/04/2018: £2.50bn

Snaitech SpA (BIT:SNA) – market cap as of 27/04/2018: €409.8m

### Introduction

On April 12, the world's largest online gaming software supplier announced it had agreed to acquire a 70.6% stake in Snaitech, the Italian gaming and betting market leader. Subject to completion of this €846m kickoff acquisition, Playtech will be required to make a mandatory tender offer for Snaitech's remaining shares. If successful, the transaction would give life to the first vertically integrated player in the gaming industry.

### About Playtech

UK's Playtech acts as a one-stop shop for gaming operators and it is the largest provider of online games and betting software listed on the London Stock Exchange. Its business relies on a global network of 140 licensees entitled to distribute its content and products worldwide.

Founded in 1999, Playtech established itself as a leader in the supply of software platforms, both for the virtual and physical gambling industry. Its portfolio of activities is built upon two main business lines: Gaming and Financial Products. Gaming applications include a variety of pay-to-play games such as casino, poker and bingo. On the other hand, Financial Products mainly include Contracts for Difference ("CFD"), derivative instruments identifiable as bilateral contracts in which the buyer receives a return from the seller on an underlying financial asset in exchange of an interest rate payment.

Playtech today accounts for over 5,000 employees distributed across 17 different countries and 20 jurisdictions. The 2017 accounts show that the company is living a period of significant growth, with higher revenues (€807.1m, +14% YoY), adjusted EBITDA (€322.1m, +7% YoY) and reported net profit (€248.1m, +29% YoY). Last year, Playtech was involved in an acquisition of assets agreed with ACM Group Limited, mostly consisting in technology, intellectual property and certain customer assets. In 2016, it also acquired the rival gaming operator Best Gaming Technology (BGT) amid the wave of consolidation recently involving the industry.

### About Snaitech

Licensed by the Italian Customs and Monopolies Agency and listed on the Milan Stock Exchange, Snaitech is the leading Italian provider of a wide range of gaming products and services.

Founded in 2015 from the integration between Snai S.p.A. and Cogemat Group's companies, Snaitech has since then developed a strong multichannel technology aimed at offering sport and horse racing bets, virtual sports and video-lottery, as well as e-sports and pari-mutuel - the last one representing a betting system in which all bets of a kind are collected in a pool, taxes and the "house-take" are removed, and payoff probabilities are computed by sharing the pool among all winning bets. Snaitech's retail betting network is made up of more than 700,000 employees, 1,600 POS (points of sale), 60,000 new slots, over 10,000 video-lotteries and a thorough website offering various gaming and entertainment services.

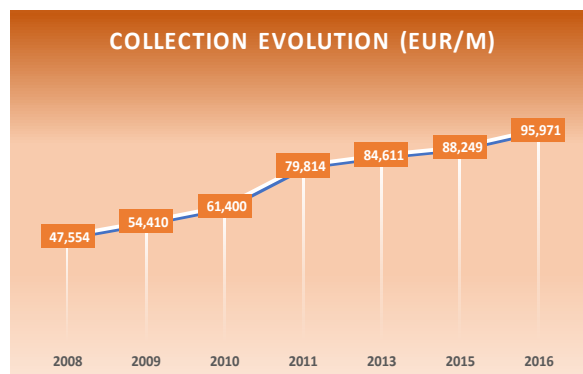
According to Snaitech's 2017 annual report, besides stable revenues settling at €889.6m (-1% YoY), the Company generated a 5.9% YoY increase in its EBITDA (€135.9m) and it was finally able to reverse the negative trend that had been characterizing its consolidated after-tax result for the last decade. In fact, the

betting agency closed 2017 with a €27m net income (+43% YoY), returning value to its shareholders for the first time since 2007.

## Industry overview

Following upon a Parliamentary Question, on 7 September 2017 the Italian Ministry of Economy and Finance recently published an official reply, reporting data about the Italian regulated gambling industry.

The amount raised by betting agencies in 2016 – indicated as the total number of bets received throughout the year – increased by 8% with respect to 2015 results, settling at around €96bn. If the entirety of Italian citizens is considered, the previously indicated aggregate measure corresponds to a €132 monthly betting budget (or €1,587 on a yearly basis) per person. If, instead, the analysis is performed exclusively on Italian taxpayers, then Lady Luck's average monthly offering reaches €196 (or €2,357 yearly) per person. Moreover, if we assume that the wage earned by an Italian taxpayer in 2016 averaged 1,724 €/month (or 20,690 €/year), betting expenses would make up for almost 11.4% of their income. Total expenses – calculated as the difference between bets and wins, as to say gamblers' losses – grew by almost €1.5bn, with a year-end value approaching €19bn. Dividing the amount by the number of Italian taxpayers, a per-capita €478 expense is obtained, which however appears to be heterogeneously distributed among the players. In fact, gambling rewards only a small fraction of the total players, with a sensibly greater portion of them sharing the losses' burden.



Given the delicate nature of the business – connections with criminal organizations and pathological consequences being often questioned – and the consistent growth (1998 total collections only accounted for €12.5bn) experienced by the sector overtime, the gaming and betting industry has constantly been reserved a place of honor on the Italian government's fiscal watchlist. In fact, the amount of taxes raised from gambling activities throughout 2016 - in virtue of the application of a dedicated tax regime - reached €9.2bn, €1.2bn higher than previous year's aggregate outlay. Such an increase was mainly explained by the novelties introduced by the 2015 Stability Law and it is reasonable for both gamblers and operators to expect even greater future outflows. The latest measures introduced by Law Decree 50/2017 indeed tightened up taxation on slot machines, a 19% (+1.5%) levy for the betting house, and lotteries' wins, 8% (+2%) on up to €500 wins and 12% (+6%) thereafter.

Enlarging the geographical scope, industry attractiveness becomes even clearer. With one slot machine every 143 residents, the Italian betting industry is far from the rest of Europe, where Spain and Germany come after, accounting for one slot machine every 245 and 261 citizens respectively. According to the Italian customs and monopolies agency, as of 2016 the "Bel Paese" was littered with 206 bingo halls, 1,333 sport bet centers, 85,000 places of business and an unspecified amount of online betting websites. With 4.4% of 2016 Italian GDP coming from gambling, the country was at the time sitting at the ninth place worldwide when it comes to players' losses, making of gaming machines its "absolute monarch".

## **Deal structure**

The acquisition was structured according to a two-stage plan. Upon agreement with the target, Playtech purchased a 70.6% stake in Snaitech at €2.19 per share: the price includes a 17% control premium to the last trading day prior to the announcement and a 27% premium with respect to the 3-month VWAP from April 11, 2018. The acquisition of the initial stake is subject to Playtech's shareholder approval and receipt of any necessary approval from anti-trust authorities and the Italian gaming regulator.

After completion of the deal, Playtech will have to extend a mandatory takeover offer for the remaining shares outstanding at the same price paid during the first stage. The payment – which will be partly made in cash on hand and through new debt financing – is divided into a €229m tranche for Global Games (which owns the 55.5% of Snaitech) and a second €62m tranche for OI-Games (which owns a 15% stake in the Italian company). The overall transaction is expected to complete in the fourth quarter of 2018.

Snaitech's Enterprise Value has been appraised at approximately €846m, leading to an implied 6.2x EV/2017 EBITDA pre-synergies multiple, with a net financial debt for the target lower than 1.5x EBITDA. According to Moody's, combined leverage for the group will be in a range of 3x to 4x EBITDA on an adjusted basis, depending on the cash component - whilst Snaitech current amount of leverage amounts at 5.1x.

As a consequence of the deal, Snaitech will be delisted from the Italian Stock Exchange.

## **Deal rationale**

The acquisition represents a highly strategic move for Playtech: it indeed enables the acquirer to create a vertically integrated group – both through physical and online presence – by combining the B2B experience of Playtech with the long-lasting tradition of Snaitech in the B2C segment.

Besides that, this deal is the best chance for Playtech to raise its share of business operations performed in a regulated sector: more precisely, 78% of its post-acquisition revenue will come from this business, enhancing the acquirer's regulated market revenue mix as a percentage of the enlarged group's FY17 pro-forma revenue. The operation will mitigate the risk of sweeping regulatory changes in Playtech's home market – the UK - where lawmakers have made clear their intention to impose cuts on stake limits in betting machines.

Finally, it allows the acquirer to take advantage of Snaitech's leading position in the Italian market, with 1,600 local gambling points spread across Europe's largest gaming market, within the context of its highly fragmented gambling industry. The acquisition is in line with Playtech's strategy to invest in profitable, highly cash-generative businesses with strong management, a similar "DNA" and attractive returns. From a financial point of view, it is expected to generate annual cost synergies of €10m, significant EBITDA enhancement and increasing diversification of Playtech's revenues in high growth end markets.

As for Snaitech, it will be able to enhance its leading local market position by combining its Italian retail market expertise with Playtech's online gambling strategic presence and technology. The growth potential is highly valuable, especially for the still physical-shop based Italian gambling market.

## **Market reaction**

After the announcement, stock markets reacted positively for both companies - as Playtech's shares experienced a 6% rise to £8.05 and Snaitech's jumped to €2.15 per share, a 14% increase in value.

## ***Financial Advisors***

UBS acted as sole financial adviser to Playtech, while Snaitech was advised by the Italian boutique New Deal Advisors.