Realising opportunities

The strength of our operational performance has translated into a strong financial performance for the year with revenue and adjusted EBITDA up 38% and 22% respectively

Ron Hoffman
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, one-off provision against irrecoverable cash, and additional various non-cash charges.

Underlying results are presented in respect of the above measures in order to best represent the trading performance and results of the Group. Underlying results exclude acquisitions, associate investment and structured agreements, and the impact of the UK POC tax (which is a one-off adjustment for the 2015 financial year) being the increased costs in the white-label operations and reduced earnings in our B2B revenues.

The Directors believe therefore that Adjusted Profit represents more accurately the trading performance of the business and is the key performance metric used by the Board when assessing the Group's financial performance. A full reconciliation between the actual and adjusted results is provided in Note 4 of the financial statements on page 102.

Overview

Playtech delivered a strong financial performance in 2015 with total reported revenues up 38% vs 2014. Excluding acquisitions and after adding back the effect of the UK POC tax, the underlying revenue growth was 26%.

Total regulated revenues increased to represent 46% of total revenues, which were positively impacted by the regulated revenues from Markets Limited. For the Gaming division on a standalone basis, regulated revenues increased to 41% from 36%. In light of the industry transition to regulated formats, regulated revenues in the Gaming division grew faster than .com with reported growth of 36% compared to 16% for .com (excluding acquisitions).

Adjusted EBITDA was up 22% in the year, despite a lower adjusted EBITDA margin of 40.0% (2014: 45.3%), due to the impact of acquisitions, the effect of UK POC tax introduced in December 2014 and lower margin of the recently established white-label activity. Excluding acquisitions and when adding back the effect of the UK POC tax, the underlying adjusted EBITDA growth was 44.9%.

Playtech remains highly cash generative and once again delivered strong operating cashflows of €202m, representing high conversion from adjusted EBITDA. In addition to these operating cash inflows, Playtech raised €313m through an equity placing to fund future acquisitions and drew down €240m of revolving credit facilities, of which €40m was repaid in Q4 2015.

Playtech has a very strong balance sheet with cash and cash equivalents of €858m at the year end. In addition to total cash and cash equivalents, available-for-sale investments were €237m, an increase of €213m in the year, mostly comprising investments in Plus500 and Ladbrokes.

Revenue

Total revenue increased by 38% to €630.1m (2014: €457.0m) with underlying growth of 26% (excluding acquisitions, after adding back the effect of the UK POC tax) and 16% at constant currency.

Split of Gaming revenues by vertical

	2015 €m	2014 €m	Change %
Casino	308.7	244.2	26
Services	155.6	132.8	17
Sport	32.2	26.3	22
Land-based	29.8	16.6	79
Bingo	20.5	17.5	17
Poker	11.2	13.8	-19
Other	12.1	5.8	110
Gaming division	570.1	457.0	25
Financials division	60.0	–	–
Total revenue	630.1	457.0	38

Casino, our biggest product vertical, continued to be the strongest contributor to growth, adding €64.5m of additional revenues in the year to take Casino revenues to €308.7m. Casino growth was 14% excluding acquisitions at constant currency, or 16% when adding back the effect of the UK POC tax, driven by growth from top UK operators (including Sky, GalaCoral and Ladbrokes) and significant growth in Asia. The majority of the growth in Casino came from core web casino, being mainly slots and roulette, with Bingo side games and Playtech Open Platform also seeing good growth. Mobile casino revenues more than doubled in the year with mobile penetration increasing to 16% from 10% in 2014.

Services revenues increased by 17% in the year, with growth derived from operational services and supporting Playtech's white-label operations. Excluding acquisitions and after adding back the effect of POC on a constant currency basis, services revenues increased 14%.

Sport enjoyed strong growth with revenues increasing 22% to €32.2m with the majority of this growth coming from the Mobenga platform provided to top tier UK licensees. 2016 is expected to see revenues from Sports decline due to the loss of three Mobenga contracts with UK licensees who are replacing with their own user experience platform later in the year.

Land-based revenues jumped by 79% on a reported basis and 40% when excluding acquisitions on constant currency basis, driven by strong growth from Videobet and IGS and the first full year inclusion of Videobet Interactive lotteries.

Bingo revenues increased 17% in the year on a reported basis and 11% on an underlying constant currency basis and after adding back the effect of POC, with growth from all major licensees and with a significant increase in the mobile channel, accounting for 20% of revenues, up from 14% in 2014.

The online Poker market continues to be challenging with revenues down 19% in 2015.

Revenues in Financials division

Playtech completed the acquisition of Markets Limited on 7 May 2015 and accordingly has consolidated the financial performance from this date into Group results.

Markets Limited generated pro-forma full year revenue of $100.2m with a post-acquisition contribution to Playtech of $66.5m (€60.0m). Active CFD customers of 62.1k in 2015 were up 30% over 2014, with first time depositors (FTDs) for CFDs of 48.9k, up 25%.

Adjusted EBITDA & Adjusted EBITDA margin

The adjusted EBITDA margin of 40.0% was impacted by acquisitions and the white-label activity together with the impact of the UK POC tax. The underlying adjusted EBITDA margin (after excluding acquisitions and the impact of the UK POC tax) was 44.9% or 47.8% when further stripping out the effect of lower margin white-label activity. After making these adjustments, and on a constant currency basis, the margin was 46.3%, broadly in-line with the margin in 2014.

Post-acquisition, Markets Limited contributed adjusted EBITDA of $17.8m (€15.9) with a margin of 26% due to lower volatility and the changes made to improve the business model.

Adjusted EBITDA & Adjusted EBITDA margin

	2015 €'000	2014 €'000
EBITDA	**234,011**	**197,903**
Irrecoverable deposits and professional fees on abandoned acquisitions	6,792	–
Professional expenses on acquisitions	6,181	212
Employee stock option expenses	4,904	364
Decline in fair value of available-for-sale investments	–	8,668
Adjusted EBITDA	**251,888**	**207,147**
Adjusted EBITDA margin	**40.0%**	**45.3%**
EBITDA related to acquisitions	(13,374)	(766)
Effect of UK POC tax	17,056	1,068
Underlying adjusted EBITDA	**250,570**	**207,449**
Underlying adjusted EBITDA margin	**44.9%**	**45.9%**

Playtech had a busy year in 2015, with a combination of organic growth, new business wins, bolt-on acquisitions and entrance into a new complementary vertical in the financial trading space. We have also seen further penetration of our mobile offering in key markets, phenomenal results with our omni-channel Playtech ONE offering with a significant partner as well as providing our customers with enhanced capabilities, through business intelligence, and real time analytics.

Cost of operations

Adjusted operating expenses increased €128.4m, an increase of 51%, from €249.8m to €378.2m in 2015. €56.0 of the €128.4m increase came from acquisitions. The underlying operating expenses (excluding acquisitions and the effect of the UK POC tax), increased by 28%, in line with the 26% growth in underlying revenues. Excluding acquisitions, the effect of the UK POC tax and on a constant currency basis, adjusted operating expenses increased by 21% to €295.9m.

Revenue-driven costs comprise mainly direct marketing costs related both to the Gaming Services division and the Financials division, fees paid to sales agents and license 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 8% to 10%, mostly as a result of additional cost related to the white-label operations and the entrance into the B2C Financials division.

Employee-related costs, as a proportion of adjusted non-revenue-related costs of operations decreased to 59% even when excluding acquisitions. Capitalisation of development costs, remained at the same 14% level from total employee related costs as seen in 2014 and total capitalised development cost was €29.7m (2014: €20.1m). Total employee-related costs excluding acquisitions, were €151.5m (2014: €124.7m).

Cost of service comprises of dedicated development teams cost, charged back to licensees, hosting and software license cost. The increase is mostly as a result of an increase in the dedicated teams' headcount and new licensed technologies supporting continued investment into the IMS backend capabilities and the BIT offering.

Admin and office costs when excluding acquisitions were slightly lower as a proportion of adjusted non-revenue-related costs of operation at 10%, with an increase of 12% to €24.3m.

Finance income, financial cost and tax

Finance income decreased from €19.2m in 2014 to €14.6m in 2015 primarily as a result of foreign exchange movements on Sterling cash balances with the Euro strengthening.

Adjusted financing costs increased from €0.7m in 2014 to €5.2m in 2015, due to interest on the new credit facilities and a one off facility establishment cost.

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 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 2015 was €5.6m (H1 2014: €2.9m).

Cost of operations

	2015 €'000		2014 €'000	
Adjusted operating expenses	378,198		249,833	
Less revenue-driven cost	65,670		37,495	
Adjusted operating expenses excluding revenue-driven costs	**312,528**		**212,338**	
Employee-related costs	183,573	59%	133,034	63%
Cost of service	43,245	14%	32,233	15%
Administration and office costs	28,702	9%	22,753	11%
Other costs	26,129	8%	15,248	7%
Marketing White-label/Financial B2C	19,264	6%	572	–
Travel, exhibition and marketing costs	11,615	4%	8,498	4%
Adjusted operating expenses excluding revenue-driven costs	**312,528**		**212,338**	

Playtech launches Apple Watch sports betting App

In April 2015, Playtech launched a wearable sports betting App available to all licensees – including full Cash Out functionality – for the new Apple Watch which went on sale that day, with Coral the first operator to brand the ground-breaking product in an extension to its pioneering omni-channel 'Connect' solution.

A team of senior Playtech mobile developers built on the Company's previous Android Wear sports betting release and worked intensively to develop the Apple Watch betting App, submitting it as soon as Apple opened its submission window at the beginning of April.

The App enables first adopters of the watch to initiate bets, browse live and forthcoming sporting events, monitor promotions, and receive alerts via technology linked to a user's iOS mobile application.

Uniquely, and unlike other Apple Watch applications, once a bet is in progress Coral Players have access to Cash Out functionality enabling them to instantly profit from winning positions in real-time.

A player simply touches the Coral App on the Apple Watch and is given immediate access to a grid of eight initial sports including football and tennis. After selecting a preferred sport they are able to view a list of ongoing and upcoming games complete with a series of betting options, as well as the choice of accessing 'My Bets' that displays current bet status and betting history.

Read more at www.playtech.com

Adjusted profit and adjusted EPS

	2015 €'000	2014 €'000
Profit attributable to owners of the parent	135,810	140,327
Amortisation on acquisitions	41,751	39,057
Non-cash accrued bond interest	9,388	1,113
Professional expenses on potential acquisitions	6,792	–
Professional costs on acquisitions	6,181	212
Employee stock option expenses	4,904	364
Movement in deferred and contingent consideration	1,088	439
Decline in fair value of available for sale investments	–	8,668
Provision against irrecoverable cash	–	593
Adjusted profit – attributable to owners of the parent	**205,915**	**190,773**
Adjusted basic EPS (in €cents)	**67.5**	**65.9**
Adjusted diluted EPS (in €cents)	**67.4**	**65.6**
Adjusted net profit related to acquisitions	(8,720)	413
Intangible asset write off	1,210	–
One-off facility costs	1,550	–
Share of associate investments acquired	5,856	695
Effect of UK POC tax	17,056	1,068
Underlying adjusted profit – attributable to owners of the parent	**222,866**	**192,949**

Adjusted net profit and adjusted earnings per share

Adjusted profit increased by 8%, impacted by mainly lower finance income and higher finance cost, as detailed above, together with a higher share of loss from associates. Adjusted diluted EPS was up 3% despite an increase in shares from the placing in June 2015. Adjusted diluted EPS is calculated on the basis of a weighted average number of shares in issue in 2015 of 305.5m which does not include the shares underlying the convertible bond issued in November 2014.

Total amortisation in the period was €69.6m (2014: €60.1m). The increase is mainly due to an increase in amortisation on acquisitions together with the amortisation generated by new acquisitions and natural growth.

Cash flow

Playtech continues to be highly cash generative and once again delivered strong operating cashflows of €201.9m. In addition to these operating cash inflows, Playtech raised €313.0m through an equity placing to fund future acquisitions and drew down €200m of revolving credit facilities.

Net cash outflows from investing activities totalled €481.5 in the year. €178.9m of this related to acquisitions made in the year including Markets Limited and YoYo Games and €209.8m related to the investment in the shares of Ladbrokes and Plus500. Cash outflows from financing activities included €81.8m of dividend payments.

Balance sheet and financing

As at 31 December 2015, cash and cash equivalents amounted to €857.9m, an increase of €165.6m in the year. Material movements in cash resulted from cash inflows from operating activities and the equity placing, with cash outflows as a result of the acquisition of Markets Limited, the purchase of shares in Plus500 and Ladbrokes and the full drawdown of €200m of the revolving credit facility arranged by Barclays and RBS. During H2 2015, Playtech drew down on a further €40m unsecured revolving credit facility which was then fully repaid before the year end.

Progressive, operators' jackpots and security deposits was €63.3m, an increase of €6.0m. And client funds increase by €40.6m to €43.8m, mainly due to Markets Limited client funds. Cash and cash equivalents net of cash held on behalf of client funds, progressive jackpot and security deposit is €750.8m.

In addition to total cash and cash equivalents, available-for-sale investments were €237.1m, an increase of €212.9m in the year, mostly comprising holdings in Plus500 and in Ladbrokes.

Contingent and deferred consideration liability was €145.8m, primarily relating to the earn-out on the Markets Limited acquisition.

Following the acquisition of Markets Limited (formerly TradeFX Limited) on 7 May 2015, the Group recognised the provisional fair value of certain intangible assets (including goodwill) in the interim accounts at 30 June 2015. Subsequently, additional information became available which impacted the provisional fair values recognised and, in accordance with IFRS3, the Group has taken the additional information into account in computing the final fair value of the related assets recognised in these financial statements.

The effect of amending the provisional fair values as described above was to: (i) decrease intangible assets (including goodwill) by €95m; and (ii) decrease contingent consideration by €95m. Accordingly, there was no impact on net assets.

Dividend

The Board has a stated policy of paying 40% of adjusted net profit by way of dividend with approximately one-third paid as an interim dividend and two-thirds as a final dividend.

In October 2015 the Company paid an interim dividend of 9.6 €cents per share (2014: 8.9 €cents per share).

The Board has recommended a final dividend of 18.9 €cents per share (2014: 17.5 €cents), an increase of 8% over 2014, taking the total dividend for 2015 to 28.5 €cents per share being a total payout of €91.0m. The final dividend is subject to shareholder approval at the AGM in May 2016. Given the equity placing in Q2 2015, the Board has recommended that the final dividend for 2015 will exceed the 40% payout policy, aligning the growth in dividend to that of adjusted net profit.

For those shareholders wishing to receive their dividends in Sterling the last date for currency elections is 13 May 2016.

Timetable:

Ex-dividend date:	5 May 2016
Record date for dividend:	6 May 2016
Currency election date:	13 May 2016
Payment date:	3 June 2016

Directors' responsibility statement

We confirm to the best of our knowledge:

- the Group and Company financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

The Directors of Playtech plc are listed on pages 44 and 45. A list of current Directors is maintained on Playtech's website, www.playtech.com.

By order of the Board,

Mor Weizer
Chief Executive Officer

25 February 2016

Ron Hoffman
Chief Financial Officer

25 February 2016