

## Fortuna Entertainment Group N.V.

# Preliminary Unaudited Financial Results for 2016

Amsterdam - Fortuna Entertainment Group N.V. announces its preliminary unaudited consolidated financial results for the fiscal year to 31<sup>st</sup> December 2016, prepared according to International Financial Reporting Standards (IFRS).

The preliminary unaudited results of Fortuna Entertainment Group for the full year 2016 confirm a growth in the main markets where the Company is operating:

- **Total Amounts Staked in 2016 increased by 22.6% to EUR 1,039.6 million**
- **Online Sports Betting Gross Win in 2016 increased by 21.7% to EUR 103.1 million**
- **Total EBITDA amounted to EUR 22.1 million down 18.5% yoy**
- **Net profit in 2016 decreased by 42.4% to EUR 11.2 million impacted by deferred tax income one-off in 2015**

Fortuna, the leading Central European regulated fixed-odds betting operator present in the markets of Poland, the Czech Republic and Slovakia, recorded in 2016 a **total Amounts Staked figure of EUR 1,039.6 million, 22.6% more than in 2015** and exceeded Company's guidance given for the year. **The Amounts Staked from sports betting reached EUR 1,019.4 million, 23.1% more than in 2015** on the back of strong performance in all countries where Fortuna operates. Amounts Staked from Lottery bets in 2016 totalled to EUR 20.2 million, 2.8% increase yoy, driven by growth of both scratch cards and numerical lottery segments.

**In 2016, total Gross Win reached EUR 163.0 million, an increase of 10.5% compared with 2015. Gross Win from sports betting equalled EUR 153.8 million, a 10.9% increase yoy. Of which, Gross Win from online betting in 2016 increased to EUR 103.1 million, a substantial increase of 21.7% over 2015.**

The solid Amounts Staked and Gross Win performance in 2016 was driven by growing online web and mobile sports betting and it was also supported by the UEFA EURO 2016 football tournament in France.

Gross Win from retail betting in 2016 amounted to EUR 50.7 million, a 6.2% decrease from the previous year. Gross Win from lottery was EUR 9.2 million (5.4% yoy increase) growing both on the scratch cards as well as numerical games.

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„We are pleased to report on strong growth in total Amounts Staked for the full year 2016. Fortuna accepted total bets in the amount of EUR 1,039.6 million, which is 22.6% more than last year. The Amounts Staked grew double digits in all our key markets, primarily driven by the online betting growth and in particular mobile sports betting while Retail grew single digit. Our EBITDA was impacted by the increase in the betting tax rate in the Czech Republic, unfavourable sports results in 2016 and by planned increase of operating costs to support growth opportunities of the company.” said Per Widerström, CEO and Chairman of the Management Board of Fortuna Entertainment Group.

*Selected financial indicators – FEG total*

(EUR million)	FY 2016	FY 2015	% change
Amounts Staked	1,039.6	847.7	22.6%
- Sports betting	1,019.4	828.0	23.1%
- Lottery	20.2	19.7	2.8%
Gross Win	163.0	147.4	10.5%
- Sports betting	153.8	138.7	10.9%
- Lottery	9.2	8.7	5.4%
Revenues <sup>1</sup>	106.2	102.8	3.3%
- Sports betting	99.0	95.7	3.4%
- Lottery	7.2	7.1	2.5%
EBITDA	22.1	27.2	(18.5%)
- Sports betting	21.1	26.3	(19.5%)
- Lottery	1.0	0.9	11.0%
Operating Profit (EBIT)	16.7	22.6	(26.0%)
Net Profit for the Year	11.2	19.5	(42.4%)
Adjusted Net Profit for the Year <sup>2</sup>	11.2	16.0	(29.6%)

**Revenues, OPEX, EBITDA**

**In 2016, the Company recorded total revenues in the amount of EUR 106.2 million, 3.3% more than in the previous year.** Of which, revenue from sports betting were EUR 99.0 million and went up 3.4% yoy. Revenues from lottery amounted to EUR 7.2 million in 2016, up 2.5% yoy. Revenues were impacted by increase in betting taxes by EUR 10.7 million (+25.4% yoy) driven by higher betting volumes in all countries and the tax rate increase from 20% to 23% in the Czech Republic effective from 1<sup>st</sup> January 2016. Overall amount of betting taxes paid in respective countries came to EUR 52.4 million.

**Total operating costs in 2016 reached EUR 84.0 million, 11.1% more than in 2015.** Staff costs went up 10.7% yoy to EUR 34.7 million due to inflationary increases in Retail in all countries and new hires related to the investments into growth opportunities, operational excellence and building scalability. Other operating

<sup>1</sup> The split of reported Revenues and EBITDA between Lottery and Sports Betting is including intersegment income and expenses unlike financial statements

<sup>2</sup> Adjusted by deferred tax income from the Group reorganisation in Poland in 2015

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expenses (net) increased in 2016 by 11.5% to EUR 49.3 million primarily driven by variable costs increase and new sponsoring agreement with the Czech football association.

**Total consolidated EBITDA recorded in 2016 was EUR 22.1 million, down 18.5% yoy.** EBITDA from sports betting reached EUR 21.1 million, 19.5% less than previous year. EBITDA<sup>3</sup> from lottery was EUR 1 million, up 11.0% yoy.

**In 2016 total depreciation went up 18.1% to EUR 5.4 million.** The reason was higher depreciation in the second half of 2016 related to the impairment of fixed assets in the lottery segment in the amount of EUR 1.9 million.

### **EBIT and Net Profit**

**In 2016 operating profit (EBIT) amounted to EUR 16.7 million, 26.0% less than in the previous year** due to the EBITDA declined and higher depreciation related to the assets impairment in the lottery segment.

**Net finance costs reached EUR 1.5 million in 2016 and declined 21.8% yoy** due to lower interest costs and recorded FX gains.

**Total long-term and short-term indebtedness as of December 31, 2016 was EUR 30.2 million, a 15.4% less compared with December 31, 2015.** Net cash position as of December 31, 2016 was EUR 1.8 million, a 124.5% increase over the end 2015.

**Income tax equalled EUR 3.9 million in 2016, 263.1% more than in 2015, as a result of the deferred tax income of EUR 3.5 million in Poland in 2015. The effective tax rate in 2016 was 25.8%.**

**In 2016 the Company recorded Net Profit for the period of EUR 11.2 million, 42.4% less than in the previous year.** If adjusted by the **deferred tax income in Poland in 2015, the decline in the Net Profit would be 29.6%.**

### **CAPEX and Investments**

**In 2016, total capital expenditures amounted to EUR 10.5 million, 19.0% more than in the same period last year** but slightly below the indicated guidance. Higher capital expenditures resulted from investments into the new sports betting & gaming platform.

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## **Breakdown of Revenues by Country<sup>4</sup>**

The revenues breakdown according to the markets in which the Company operates is driven by demography, the legislative environment, absolute market shares, the average spend per capita and the growth potential of each individual market.

### *Selected financial results by country in 2016*

(in EUR million)	CZ Sports betting	CZ Lottery	Slovakia	Poland
<b>Total Amounts Staked</b>	<b>561.3</b>	<b>20.2</b>	<b>334.5</b>	<b>123.6</b>
<b>Gross Win from betting</b>	<b>67.8</b>	<b>9.2</b>	<b>48.3</b>	<b>37.7</b>
- of which: online	53.4	n/a	33.3	16.4
- of which: retail	14.4	n/a	15.0	21.3
<b>Revenues</b>	<b>50.6</b>	<b>7.2</b>	<b>26.6</b>	<b>21.8</b>

### ***Czech Republic Sports Betting***

Czech Republic sports betting generated 54.0% of all Amounts Staked for the Group in 2016. **Amounts Staked reached EUR 561.3 million, 21.5% more than in 2015 driven by strong double digits growth on both Online and Retail. Gross Win from sports betting in the Czech Republic amounted to EUR 67.8 million in 2016, 13.8% more than in the previous year. Online betting contributed the most; Gross Win from the online segment increased by 21.7% yoy and amounted to EUR 53.4 million.** 2016 revenue from sports betting in the Czech Republic were EUR 50.6 million, up 8.8% yoy.

### ***Czech Republic Lottery***

The Lottery segment in the Czech Republic represented 1.9% share on Total Amounts Staked. Amounts Staked from lottery in 2016 came to EUR 20.2 million, 2.8% more than in 2015. Gross Win from lottery reached EUR 9.2 million, up 5.4% yoy. 2016 revenue from Czech lottery amounted to EUR 7.2 million, a 2.5% increase compared with 2015.

### ***Slovakia***

The share of Slovakia in regards to total Amounts Staked in 2016 represented 32.2%. **Total Amounts Staked reached EUR 334.5 million, 28.7% more than in 2015 driven by strong Online growth while Retail Amounts Staked grew single digit. Gross Win in Slovakia amounted to EUR 48.3 million in 2016, 8.9% more than previous year. Gross Win from online betting was EUR 33.3 million, 19.0% more than**

<sup>4</sup> The split of reported Revenues between Lottery and Sports Betting is including intersegment income and expenses unlike financial statements

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in 2015. 2016 revenue from sports betting in Slovakia was EUR 26.6 million, 4.5% less than in 2015.

### **Poland**

Poland accounted for an 11.9% share of total Amounts Staked in 2016. **Total Amounts Staked in Poland reached EUR 123.6 million, a 16.9% increase on 2015 driven by strong Online growth while Retail Amounts Staked grew single digit. Gross Win from betting in Poland increased by 8.4% yoy to EUR 37.7 million in 2016.** Of which, **online business contributed EUR 16.4 million, up 27.9% yoy.** 2016 revenue in Poland amounted to EUR 21.8 million, 1.8% more than in the last year.

### **Sport Betting Channels and Distribution Network**

The Group delivers its sports betting products to customers through retail betting outlets, and online/mobile. The Group offers retail betting through outlets operating under its own brand name, and at counters and betting point of sales installed at other retail outlets (such as sports bars, restaurants and pubs) as well as at outlets operated by third parties under the Group's "Partner" programme. The availability of distribution channels varies between the countries in which the Group operates, primarily reflecting the legal framework regulating betting services in each jurisdiction.

Overview of distribution network by countries December 31:

	<b>2016</b>	<b>2015</b>	<b>% change</b>
<b>Betting Shops total</b>	<b>804</b>	<b>854</b>	<b>(5.9%)</b>
Czech Republic	229	251	(8.8%)
Slovakia	204	206	(1.0%)
Poland	371	397	(6.5%)
<b>Partner Shops total</b>	<b>694</b>	<b>678</b>	<b>2.4%</b>
Czech Republic	388	382	1.6%
Slovakia	193	192	0.5%
Poland	113	104	8.7%
<b>TOTAL RETAIL</b>	<b>1,498</b>	<b>1,532</b>	<b>(2.2%)</b>

### **Dividend Policy and Dividend**

Over the last two years, the dividend policy of FEG has been under review due to the planned investments into future growth opportunities, especially investments into a new IT platform enabling multi-channel, -product and -country capability, operational excellence and people that will support further organic growth and expansion into Central & Eastern Europe.

**In light of this development, the management of Fortuna Entertainment Group N.V. confirms its dividend policy to pay out zero dividend in 2016 and 2017.** The general dividend policy after 2017 going forward will be announced after year end of 2017.

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## **Online Casino Licence in the Czech Republic**

On 24 February 2017, Fortuna was granted the online casino licence by the Ministry of Finance of the Czech Republic and therefore became the first company to start operating online casino / technical games in the market. Through the licence, Fortuna obtained the right to launch games like online roulette and online slots. Thanks to Company's cooperation with the product and technology leader in the online gaming sector Playtech, Fortuna was able to launch on February 28<sup>th</sup> a wide range of games. The offer will initially contain almost fifty games, on both mobile and desktop. Fortuna will continue to cooperate with Playtech to continue develop and update its range of games in response to customers' preferences.

## **Acquisition of Hattrick Sports Group Ltd.**

Fortuna Entertainment Group N.V. has entered into an agreement under which Fortuna shall acquire 100% share in Hattrick Sports Group Ltd., Ireland. The transaction is subject to conditions precedent including approval of the competition councils and by the General Meeting of shareholders of Fortuna. The closing of the transaction is expected to occur in the first half of 2017.

The initial consideration to be paid by Fortuna for the acquisition of Hattrick Sports Group will be approximately EUR 85 million. As a further consideration, an earn-out mechanism has been agreed with the sellers which is based on future financial performance of Hattrick Sports Group and which may lead to payment of a maximum additional amount of EUR 50 million. The initial consideration will be funded mainly via bank loans.

Hattrick Sports Group is the owner of the betting operator in Romania, Casa Pariurilor, the operator in Croatia, PSK, and a joint venture partner in Luckia operator in Spain. Prior to this deal, Fortuna has already been present in Romania since the second half of 2015 having signed a brand licensing agreement with Romanian sports betting & gaming companies BET ACTIVE CONCEPT S.R.L. and BET ZONE S.R.L.

## **2017 Outlook and Guidance**

In 2017, Fortuna as a multi-channel regulated sports betting & gaming company will continue to provide its customers with extensive range of products and first class service wherever and whenever they want to have a bet. Fortuna will further focus on investments into core competencies and building competitive advantages and scalability for future value creation. The strategic focus will be given to Operational Excellence, Technology Foundation and People capability and capacity build up.

In 2017, the Company expects that the organic growth will continue to be primarily driven by online betting, however shall be impacted by the absence of major football events in 2017. On the other side we will introduce new products, e.g. online gaming in the Czech Republic, and virtual games.

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As a result, the Company anticipates that the total Amounts Staked could grow up to EUR 1,300 million and EBITDA in 2017 could increase in a range between 20% to 25% due the continuing investments in the operational excellence and building scalability. The investments into new enhanced sports betting & gaming platform, data warehouse and front-end system should further drive the CAPEX spending in 2017 that are expected to be between EUR 8 – 10 million.

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