gamesys group

Gamesys Group plc

Management's Discussion and Analysis

[in pounds sterling, except where otherwise noted]

For the Year Ended 31 December 2019

Management’s Discussion and Analysis (‘MD&A’)

The following discussion and analysis provides a review of Gamesys Group plc’s results of operations, financial position and cash flows for the year ended 31 December 2019. This MD&A has been prepared with an effective date of 17 March 2020 and should be read in conjunction with the information contained in Gamesys Group plc’s consolidated financial statements and related notes for the year ended 31 December 2019 (the ‘Consolidated Financial Statements’), which were prepared in accordance with International Financial Reporting Standards (‘IFRS’) as adopted by the European Union, which also complies with IFRS as issued by the International Accounting Standards Board (‘IASB’). The Consolidated Financial Statements and additional information regarding the business of the Group (as defined below) are available on SEDAR at www.sedar.com or on www.gamesysgroup.com/investors.

For reporting purposes, Gamesys Group plc prepares the Consolidated Financial Statements in pounds sterling. Unless otherwise indicated, all ‘GBP’ or ‘£’ amounts in this MD&A are expressed in British pounds sterling and references to ‘€’ or ‘EUR’ are to European euros.

All references to ‘we’, ‘our’, and the ‘Group’ refer to Gamesys Group plc, together with its subsidiaries and consolidated operations controlled by it and its predecessors (as applicable in the circumstances).

Based on Gamesys Group plc’s Audit and Risk Committee’s review and recommendation, the Gamesys Group plc board of directors has approved this MD&A and the Consolidated Financial Statements for release.

About Gamesys Group plc

Gamesys Group plc, formerly JPJ Group plc, is an online gaming holding company that was incorporated under the *Companies Act 2006* (England and Wales) on 29 July 2016. On 26 September 2019, following the completion of the Gamesys Acquisition (as defined below), JPJ Group plc changed its name to Gamesys Group plc. Gamesys Group plc’s registered office is located at 10 Piccadilly, London, United Kingdom.

The Group currently offers bingo, casino and other games to its players using the Jackpotjoy, Starspins, Botemania, Virgin Games, Heart Bingo, Virgin Casino, Monopoly Casino, Rainbow Riches, Vera&John, InterCasino and Solid Gaming brands. All brands operate off proprietary software owned by the Group.

Corporate developments

For the year ended 31 December 2019

On 12 March 2019, the Group completed the sale of its Mandalay business for a cash consideration of £18.0 million.

On 13 June 2019, the Group entered into a conditional agreement to acquire the business of Gamesys (Holdings) Limited, excluding sports brands and games, for a mixture of cash and new Group shares (the ‘Gamesys Acquisition’). The Gamesys Acquisition was completed on 26 September 2019. The total consideration amounted to approximately £491.2 million, comprising of: (i) £237.3 million in cash (net of gains from hedging), of which £173.6 million was funded by an add-on to the Group’s existing Term Facility, (ii) £9.9 million in deferred consideration (net of working capital adjustments) and (iii) 33.7 million in newly issued shares, representing approximately £244.0 million.

On 1 July 2019, the Group announced completion of syndication of a €196.0 million additional term loan facility to be used to fund the Gamesys Acquisition. The Group’s new incremental term loan facility is fungible with the Group’s existing EUR Term Facility and the syndication came into effect on 26 September 2019.

On 26 September 2019, following the completion of the Gamesys Acquisition, the Group changed its name from JPJ Group plc to Gamesys Group plc. A corresponding change in ticker from 'JPJ' to 'GYS' came into effect on 27 September 2019.

On 13 January 2020, the Group completed the redemption and voluntary delisting of exchangeable shares of The Intertain Group Limited. There was no change in the issued share capital of Gamesys Group plc resulting from this transaction.

On 6 February 2020, the Group completed the repricing of its Facilities to lower the overall cost of the Group's debt by 50 bps while maintaining the interest rate step downs based on future leverage ratios.

On 2 March 2020, the Group voluntarily made the first paydown of £40.0 million towards its GBP Term Facility.

Outlook

After a transformative year the Group can look to the future with confidence. Our ability to use enhanced scale, greater operational control and a renowned portfolio of brands will provide a strong platform for growth and at this early stage of the current financial year we are trading in line with our expectations. Finally, as ever, we aim to continue to provide an entertaining, fun and responsible environment for all our players to enjoy.

Selected financial information

As discussed on page 1 of this MD&A, the Group sold its Mandalay business in the period ended 31 March 2019 and it sold its social gaming business in the period ended 30 September 2018. All current year and 2018 comparative figures have been restated accordingly. Please see note 8 of the Consolidated Financial Statements, which sets out the comparative consolidated statement of comprehensive income for the Mandalay and social gaming businesses separately from the Group's continuing operations, for additional information. Results from the Gamesys Acquisition for the period from 27 September 2019 to 31 December 2019 are included in the financial information presented below.

Comparison of the three months and year ended 31 December 2019 and 2018

	Three month period ended 31 December 2019 (£000's)	Three month period ended 31 December 2018 (£000's)	**Year ended 31 December 2019 (£000's)**	Year ended 31 December 2018 (£000's)
Gaming revenue	**153,105**	84,050	**415,078**	308,212
Net income for the period after taxes – continuing operations	**599**	11,869	**9,128**	19,291
Net income for the period attributable to owners of the parent	**599**	11,417	**8,468**	14,477
Basic net income per share – continuing operations	**£0.01**	£0.16	**£0.11**	£0.26
Diluted net income per share – continuing operations	**£0.01**	£0.16	**£0.11**	£0.26
Basic net income per share	**£0.01**	£0.15	**£0.10**	£0.20
Diluted net income per share	**£0.01**	£0.15	**£0.10**	£0.19

Net income

The decrease in the Group's net income to £0.6 million during the three months ended 31 December 2019 compared to a net income of £11.9 million in the same period in the prior year can be largely attributed to higher interest expense (Q4 2019 – £7.0 million and Q4 2018 – £5.0 million) related to the Group's Add-on Debt as well as higher amortisation on intangible assets due to the Gamesys Acquisition. The decrease in net income is further driven by lower fair value adjustments on contingent consideration due to the third milestone payment being revalued to £nil in Q4 2018. These movements are partially offset by a higher foreign exchange gain (Q4 2019 – gain of £2.1 million and Q4 2018 – loss of £0.2 million). The remainder of the movement in the Group's net income compared to the prior period is attributable to gaming revenue as well as the costs and expenses variances discussed below.

The decrease in the Group's net income to £9.1 million during the year ended 31 December 2019 compared to a net income of £19.3 million in the same period in the prior year can be largely attributed to significantly higher transaction related costs (YTD 2019 – £15.8 million and YTD 2018 – £1.9 million) related to the Gamesys Acquisition and higher interest expense (YTD 2019 – £21.8 million and YTD 2018 – £19.8 million) related to the Group's Add-on Debt. This movement is offset by significantly lower fair value adjustments on contingent consideration (YTD 2019 – £0.5 million and YTD 2018 – £7.2 million) as well as lower accretion on financial liabilities (YTD 2019 – £1.3 million and YTD 2018 – £3.0 million), both of which are due to the fact that the final earn-out period ended in Q1 2018, leaving only the fair value adjustment on the remaining milestone payment to be recognised in the current year. The remainder of the movement in the Group's net income compared to the prior period is attributable to gaming revenue as well as the costs and expenses variances discussed below.

Gaming revenue

	Three month period ended 31 December 2019 (£000's)	Three month period ended 31 December 2018 (£000's)	**Year ended 31 December 2019 (£000's)**	Year ended 31 December 2018 (£000's)
UK	**94,367**	40,960	**214,614**	163,884
Asia	**38,731**	18,204	**122,408**	51,647
Europe	**16,036**	21,993	**68,590**	79,273
ROW	**3,971**	2,893	**9,466**	13,408
Total	**153,105**	84,050	**415,078**	308,212

The increase in total gaming revenue[1,2] for the three months and year ended 31 December 2019 in comparison to the same periods in the prior year relates to organic growth[3] of the Group's online gaming segment as well as the results of the Gamesys Acquisition.

[1] *Includes results of brands purchased as part of the Gamesys Acquisition.*

[2] *Excludes results from the Group's Mandalay and social gaming businesses, which were sold during the three months ended 31 March 2019 and 30 September 2018, respectively.*

[3] *The Group defines organic growth as growth achieved without accounting for acquisitions or disposals.*

Costs and expenses

	Three month period ended 31 December 2019 (£000's)	Three month period ended 31 December 2018 (£000's)	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Distribution costs[1]	**78,272**	41,128	**214,239**	149,856
Administrative costs[1]	**63,069**	28,194	**147,432**	104,840
Impairment of financial assets	**3,879**	1,000	**3,879**	1,000
Severance costs	—	—	—	850
Transaction related costs	**569**	550	**15,809**	1,890
	145,789	70,872	**381,359**	258,436

Distribution costs

	Three month period ended 31 December 2019 (£000's)	Three month period ended 31 December 2018 (£000's)	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Selling and marketing	**31,812**	15,384	**81,740**	54,523
Licensing fees[1]	**12,119**	10,394	**45,318**	38,094
Gaming taxes	**24,444**	9,743	**59,165**	38,670
Processing fees	**9,897**	5,607	**28,016**	18,569
	78,272	41,128	**214,239**	149,856

[1]*Certain changes were reallocated from licensing fees to general and administrative to match presentation following the Gamesys Acquisition*.

Selling and marketing expenses consist of payments made to affiliates and general marketing expenses related to each brand. Licensing fees consist of the fees for the online gaming segment to operate on its platforms and game suppliers' fees paid. Gaming taxes largely consist of point of consumption taxes, payable in the regulated jurisdictions that the Group operates in. Variance in gaming taxes from prior periods relates to the Gamesys Acquisition and an increase in remote gaming duty from 15% to 21%, which came into effect in the UK in Q2 2019. Processing fees consist of costs associated with using payment providers and include payment service provider transaction and handling costs, as well as deposit and withdrawal fees. With the exception of selling and marketing expenses, distribution costs tend to be variable in relation to revenue.

The increase in distribution costs for the three months and year ended 31 December 2019 compared to the same periods in 2018 is mainly due to increased revenue and marketing spend in the online gaming segment as well as results of the Gamesys Acquisition.

Administrative costs

	Three month period ended 31 December 2019 (£000's)	Three month period ended 31 December 2018 (£000's)	**Year ended 31 December 2019 (£000's)**	Year ended 31 December 2018 (£000's)
Compensation and benefits	**24,226**	9,010	**55,635**	31,582
Professional fees	**1,436**	1,454	**5,086**	4,300
General and administrative[1]	**12,844**	3,754	**24,558**	13,631
Amortisation and depreciation	**24,563**	13,976	**62,153**	55,327
	63,069	28,194	**147,432**	104,840

[1]*Certain changes were reallocated from licensing fees to general and administrative to match presentation following the Gamesys Acquisition*.

Compensation and benefits costs consist of salaries, wages, bonuses, directors' fees, benefits and share-based compensation expense. The increase in these expenses for the three months and year ended 31 December 2019 compared to the same periods in 2018 is primarily due to the Gamesys Acquisition, additional staff hired and higher bonus accruals as the business continues to grow.

Professional fees consist mainly of legal, accounting and audit fees. The increase in professional fees for the year ended 31 December 2019 compared to the same period in 2018 can be attributed to the Gamesys Acquisition and services obtained in relation to some of the Group's operational and corporate initiatives.

General and administrative expenses consist of items, such as travel and accommodation, insurance, listing authority fees, one-off tax charges, technology and development costs, and other office overhead charges. The increase in these costs for the three months and year ended 31 December 2019 compared to the same periods in 2018 can be attributed to higher office overhead costs, a one-off tax charge of £6.0 million and the Gamesys Acquisition.

Amortisation and depreciation expenses consist of amortisation of the Group's intangible assets and depreciation of the Group's tangible assets over their useful lives. The increase in amortisation and depreciation in the three months and year ended 31 December 2019 is due to the addition of purchase price intangibles bought as part of the Gamesys Acquisition. This increase is partially offset by the fact that amortisation expense related to purchase price intangibles recognised in prior periods decreases with each passing period of their useful lives as a result of the amortisation method used. The increase is further offset by the fact that the Group's non-compete clauses were fully amortised during the three months ended 31 March 2019.

Transaction related costs

Transaction related costs consist of legal, professional, due diligence, other direct costs/fees associated with transactions and acquisitions or disposals contemplated or completed by the Group. The increase in transaction related costs in the year ended 31 December 2019 compared to the same period in 2018 relates to the Gamesys Acquisition.

For a further discussion of the variances on a segment basis, please refer to the information under the 'Summary of results by segment – continuing operations' section of this MD&A.

For a further discussion of losses from discontinued operations, please refer to note 8 of the Consolidated Financial Statements.

Non-IFRS financial measures

The following non-IFRS definitions are used in this MD&A because management believes that they provide additional useful information regarding ongoing operating and financial performance. Readers are cautioned that the definitions are not recognised measures under IFRS, do not have standardised meanings prescribed by IFRS, and should not be considered in isolation or construed to be alternatives to revenues and net income/(loss) and comprehensive income/(loss) for the period determined in accordance with IFRS or as indicators of performance, liquidity or cash flows. Our method of calculating these measures may differ from the method used by other entities. Accordingly, our measures may not be comparable to similarly titled measures used by other entities or in other jurisdictions. For details regarding the reconciliations from these non-IFRS measures, refer to the information under the *'Adjusted EBITDA, Adjusted Net Income, and Diluted Adjusted Net Income per share for the three months and year ended 31 December 2019 and 2018 – continuing operations'* and *'Summary of results by segment – continuing operations'* sections of this MD&A.

- Adjusted EBITDA, as defined by the Group, is income from continuing operations before interest expense including accretion (net of interest income), income taxes, amortisation and depreciation, share-based compensation, one-off tax charges, severance costs, fair value adjustments on contingent consideration, transaction related costs and foreign exchange (gain)/loss. Management believes that Adjusted EBITDA is an important indicator of the issuer's ability to generate liquidity to service outstanding debt and uses this metric for such purpose. The exclusion of share-based compensation eliminates non-cash items and the exclusion of fair value adjustments on contingent consideration, one-off tax charges, severance costs, transaction related costs and foreign exchange (gain)/loss eliminates items which management believes are either non-operational and/or non-routine.

- Adjusted Net Income, as defined by the Group, is net income from continuing operations plus or minus items of note that management may reasonably quantify and believes will provide the reader with a better understanding of the Group's underlying business performance. Adjusted Net Income is calculated by adjusting net income for accretion on financial liabilities, amortisation of acquisition related purchase price intangibles (including non-compete clauses), share-based compensation, one off tax-charges, severance costs, fair value adjustments on contingent consideration, transaction related costs and foreign exchange (gain)/loss. The exclusion of accretion on financial liabilities and share-based compensation eliminates the non-cash items and the exclusion of amortisation of acquisition related purchase price intangibles (including non-compete clauses), fair value adjustments on contingent consideration, one-off tax charges, severance costs, transaction related costs and foreign exchange (gain)/loss eliminates items which management believes are non-operational and/or non-routine. Adjusted Net Income is considered by some investors and analysts for the purpose of assisting in valuing a company.

- Diluted Adjusted Net Income per share from continuing operations, as defined by the Group, means Adjusted Net Income divided by the diluted weighted average number of shares outstanding, calculated using the IFRS treasury method, for the applicable period. Management believes that Diluted Adjusted Net Income per share from continuing operations assists with the Group's ability to analyse Adjusted Net Income on a diluted weighted average per share basis.

Key performance indicators

- Average Active Players is a key performance indicator used by management to assess real money player acquisition and real money player retention efforts of each of the Group's brands. The Group defines Average Active Player Accounts ('Average Active Players') as being real money players who have placed at least one bet in a given month. 'Average Active Players per Month' is the Average Active Players per month, averaged over a twelve-month period. While this measure is not recognised by IFRS, management believes that it is a meaningful indicator of the Group's ability to acquire and retain players.

- Total Real Money Gaming Revenue and Average Real Money Gaming Revenue per Month are key performance indicators used by management to assess revenue earned from real money gaming operations of the business. The Group defines Total Real Money Gaming Revenue ('Total Real Money Gaming Revenue') as revenue less revenue earned from B2B operations. The Group defines Average Real Money Gaming Revenue per Month ('Average Real Money Gaming Revenue per Month') as Real Money Gaming Revenue per month, averaged over a twelve-month period. While these measures are not recognised by IFRS, management believes that they are meaningful indicators of the Group's real money gaming operational results.

- Monthly Real Money Gaming Revenue per Average Active Player is a key performance indicator used by management to assess the Group's ability to generate Real Money Gaming Revenue on a per player basis. The Group defines Monthly Real Money Gaming Revenue per Average Active Player ('Monthly Real Money Gaming Revenue per Average Active Player') as being Average Real Money Gaming Revenue per Month divided by Average Active Players per Month. While this measure is not recognised by IFRS, management believes that it is a meaningful indicator of the Group's ability to generate Total Real Money Gaming Revenue.

Adjusted EBITDA, Adjusted Net Income, and Diluted Adjusted Net Income per share for the three months and year ended 31 December 2019 and 2018 – continuing operations

The following table highlights Adjusted EBITDA, Adjusted Net Income, and Diluted Adjusted Net Income per share from continuing operations for the three months and year ended 31 December 2019 and 2018 and a reconciliation of the Group's reported results to its adjusted measures. All current period and 2018 comparative figures have been restated to exclude results of the Group's Mandalay and social gaming businesses, which were sold during the three month periods ended 31 March 2019 and 30 September 2018, respectively. The results of the Gamesys Acquisition for the period from 27 September 2019 to 31 December 2019 are included in the figures presented below.

	Three month period ended 31 December 2019 (£000's)	Three month period ended 31 December 2018 (£000's)	**Year ended 31 December 2019 (£000's)**	Year ended 31 December 2018 (£000's)
Net income for the period after taxes from continuing operations	**599**	11,869	**9,128**	19,291
Interest expense, net	**6,909**	4,920	**21,404**	19,472
Accretion on financial liabilities	**263**	389	**1,291**	2,993
Tax expense	**1,612**	18	**2,906**	458
Amortisation and depreciation	**24,563**	13,976	**62,153**	55,327
EBITDA[1]	**33,946**	31,172	**96,882**	97,541
Share-based compensation	**241**	115	**483**	583
One-off tax charges	**6,000**	—	**6,000**	—
Severance costs	—	—	—	850
Fair value adjustments on contingent consideration	—	(4,242)	**460**	7,208
Transaction related costs	**569**	550	**15,809**	1,890
Foreign exchange (gain)/loss	**(2,067)**	224	**(1,470)**	354
Adjusted EBITDA[1]	**38,689**	27,819	**118,164**	108,426
Net income for the period after taxes from continuing operations	**599**	11,869	**9,128**	19,291
Share-based compensation	**241**	115	**483**	583
One-off tax charges	**6,000**	—	**6,000**	—
Severance costs	—	—	—	850
Fair value adjustments on contingent consideration	—	(4,242)	**460**	7,208
Transaction related costs	**569**	550	**15,809**	1,890
Foreign exchange (gain)/loss	**(2,067)**	224	**(1,470)**	354
Amortisation of acquisition related purchase price intangibles	**20,315**	13,194	**52,701**	52,752
Accretion on financial liabilities	**263**	389	**1,291**	2,993
Adjusted Net Income	**25,920**	22,099	**84,402**	85,921
Diluted net income per share from continuing operations	**£0.01**	£0.16	**£0.11**	£0.26
Diluted Adjusted Net Income per share from continuing operations	**£0.24**	£0.30	**£1.01**	£1.15

1 *Normalising figures for the three months ended 31 December 2019 for the impact of IFRS 16 implementation results in EBITDA of £32.4 million and Adjusted EBITDA of £37.2 million. Normalising figures for the year ended 31 December 2019 for the impact of IFRS 16 implementation results in EBITDA of £94.0 million and Adjusted EBITDA of £115.2 million.*

Summary of results by segment – continuing operations

In December 2019, following the Gamesys Acquisition, the Group determined that its reportable operating segments had changed such that the Jackpotjoy and Vera&John segments were aggregated into a single operating segment, being online gaming. The online gaming segment consists of online real money and casino operating results of the Jackpotjoy, Starspins, Virgin Games, Heart Bingo, Botemania, Rainbow Riches, Virgin Casino, Monopoly Casino, Vera&John, InterCasino and Solid Gaming brands.

Management believes that this segmentation is most appropriate because online gaming is the Group's primary business that is being managed on a combined basis without central business costs or operating expenses being allocated to any particular geography or product. The new segmentation came into effect on 1 December 2019.

Additionally, as discussed in note 8 of the Consolidated Financial Statements, the Group sold its Mandalay business in the period ended 31 March 2019 and it sold its social gaming business in the period ended 30 September 2018. All current year and 2018 comparative figures have been restated accordingly.

Three months ended 31 December 2019

	Online gaming (£000's)	Unallocated corporate costs[1] (£000's)	Totals (£000's)
Gaming revenue	**153,105**	**—**	**153,105**
Net income/(loss) for the period after taxes from continuing operations	**10,037**	**(9,438)**	**599**
Interest expense, net	238	6,671	6,909
Accretion on financial liabilities	—	263	263
Tax expense	1,496	116	1,612
Amortisation and depreciation	24,368	195	24,563
EBITDA	**36,139**	**(2,193)**	**33,946**
Share-based compensation	—	241	241
One-off tax charges	6,000	—	6,000
Transaction related costs	28	541	569
Foreign exchange loss/(gain)	1,234	(3,301)	(2,067)
Adjusted EBITDA	**43,401**	**(4,712)**	**38,689**

1 *Unallocated corporate costs include the results from activities such as acquisition/disposal negotiations, acquisition due diligence, the raising of capital to fund acquisitions, payment of interest on existing debt, and the reporting obligations of Gamesys Group plc.*

Three months ended 31 December 2018

	Online gaming (£000's)	Unallocated corporate costs[1] (£000's)	Totals (£000's)
Gaming revenue	**84,050**	**—**	**84,050**
Net income/(loss) for the period after taxes from continuing operations	**17,188**	**(5,319)**	**11,869**
Interest (income)/expense, net	(26)	4,946	4,920
Accretion on financial liabilities	—	389	389
Tax expense	(304)	322	18
Amortisation and depreciation	13,874	102	13,976
EBITDA	**30,732**	**440**	**31,172**
Share-based compensation	—	115	115
Fair value adjustments on contingent consideration	—	(4,242)	(4,242)
Transaction related costs	139	411	550
Foreign exchange loss/(gain)	272	(48)	224
Adjusted EBITDA	**31,143**	**(3,324)**	**27,819**

1 *Unallocated corporate costs include the results from activities such as acquisition/disposal negotiations, acquisition due diligence, the raising of capital to fund acquisitions, payment of interest on existing debt, and the reporting obligations of Gamesys Group plc.*

Year ended 31 December 2019

	Online gaming (£000's)	Unallocated corporate costs[1] (£000's)	Totals (£000's)
Gaming revenue	**415,078**	**—**	**415,078**
Net income/(loss) for the year after taxes from continuing operations	**59,908**	**(50,780)**	**9,128**
Interest expense, net	483	20,921	21,404
Accretion on financial liabilities	—	1,291	1,291
Tax expense	2,554	352	2,906
Amortisation and depreciation	61,190	963	62,153
EBITDA	**124,135**	**(27,253)**	**96,882**
Share-based compensation	—	483	483
One-off tax charges	6,000	—	6,000
Fair value adjustments on contingent consideration	—	460	460
Transaction related costs	224	15,585	15,809
Foreign exchange loss/(gain)	1,319	(2,789)	(1,470)
Adjusted EBITDA	**131,678**	**(13,514)**	**118,164**

1 *Unallocated corporate costs include the results from activities such as acquisition/disposal negotiations, acquisition due diligence, the raising of capital to fund acquisitions, payment of interest on existing debt, and the reporting obligations of Gamesys Group plc.*

Year ended 31 December 2018

	Online gaming (£000's)	Unallocated corporate costs[1] (£000's)	Totals (£000's)
Gaming revenue	**308,212**	**—**	**308,212**
Net income/(loss) for the year after taxes from continuing operations	**63,167**	**(43,876)**	**19,291**
Interest (income)/expense, net	(115)	19,587	19,472
Accretion on financial liabilities	—	2,993	2,993
Tax expense	122	336	458
Amortisation and depreciation	54,937	390	55,327
EBITDA	**118,111**	**(20,570)**	**97,541**
Share-based compensation	—	583	583
Severance costs	850	—	850
Fair value adjustments on contingent consideration	—	7,208	7,208
Transaction related costs	139	1,751	1,890
Foreign exchange loss/(gain)	438	(84)	354
Adjusted EBITDA	**119,538**	**(11,112)**	**108,426**

1 *Unallocated corporate costs include the results from activities such as acquisition/disposal negotiations, acquisition due diligence, the raising of capital to fund acquisitions, payment of interest on existing debt, and the reporting obligations of Gamesys Group plc.*

Summary of pro-forma results

Gaming revenue by geography for the year ended 31 December 2019

	Reported results (£000's)	Gamesys results before the Gamesys Acquisition (£000's)	Pro-forma results (£000's)
UK	**214,614**	142,555	**357,169**
Asia	**122,408**	—	**122,408**
Europe	**68,590**	—	**68,590**
ROW	**9,466**	7,670	**17,136**
Total	**415,078**	150,225	**565,303**

Gaming revenue by geography for the year ended 31 December 2018

	Reported results (£000's)	Gamesys results before the Gamesys Acquisition (£000's)	Pro-forma results (£000's)
UK	**163,884**	175,980	**339,864**
Asia	**51,647**	—	**51,647**
Europe	**79,273**	—	**79,273**
ROW	**13,408**	8,577	**21,985**
Total	**308,212**	184,557	**492,769**

Year ended 31 December 2019

	Reported results (£000's)	Gamesys results before the Gamesys Acquisition (£000's)	Pro-forma adjustments[1,2,3] (£000's)	Pro-forma results (£000's)
Gaming revenue	**415,078**	150,225	—	**565,303**
Distribution costs	**214,239**	82,826	(9,192)[1] *(14,758)[1a]* *6,228[1b]* *(662)[1c]*	**287,873**
Administrative costs	**78,796**	36,420	(539)[2]	**114,677**
Impairment of financial assets	**3,879**	—	—	**3,879**
Adjusted EBITDA	**118,164**	30,979	9,731	**158,874**
Amortisation and depreciation[4]	**9,452**	7,901	662[3]	**18,015**
Operating adjusted net income before taxes and interest	**108,712**	23,078	9,069	**140,859**

1 *Pro-forma adjustments on distribution costs relate to the following:*
   a. *reversal of intercompany software licence fees and direct cost mark-ups;*
   b. *addition of content fees charged following the Gamesys Acquisition;*
   c. *reallocation of certain charges from distribution costs to administrative costs to match post transaction presentation.*

2 *Pro-forma adjustments on administrative costs relate to the reversal of intercompany indirect cost mark-ups.*

3 *Pro-forma adjustments on amortisation and depreciation relate to the reallocation of certain charges from distribution costs to administrative costs to match post transaction presentation.*

4 *Figures do not include amortisation on purchase price intangible assets.*

Year ended 31 December 2018

	Reported results (£000's)	Gamesys results before the Gamesys Acquisition (£000's)	Pro-forma adjustments[1,2,3] (£000's)	Pro-forma results (£000's)
Gaming revenue	**308,212**	184,557	—	**492,769**
Distribution costs	**149,856**	96,378	(13,013)[1] *(20,945)[1a]* *8,947[1b]* *(1,015)[1c]*	**233,221**
Administrative costs	**48,930**	44,440	(497)[2]	**92,873**
Impairment of financial assets	**1,000**	—	—	**1,000**
Adjusted EBITDA	**108,426**	43,739	13,510	**165,675**
Amortisation and depreciation[4]	**2,575**	7,442	1,015[3]	**11,032**
Operating adjusted net income before taxes and interest	**105,851**	36,297	12,495	**154,643**

1. *Pro-forma adjustments on distribution costs relate to the following:*
    a. *reversal of intercompany software licence fees and direct cost mark-ups;*
    b. *addition of content fees charged following the Gamesys Acquisition;*
    c. *reallocation of certain charges from distribution costs to administrative costs to match post transaction presentation.*
2. *Pro-forma adjustments on administrative costs relate to the reversal of intercompany indirect cost mark-ups.*
3. *Pro-forma adjustments on amortisation and depreciation relate to the reallocation of certain charges from distribution costs to administrative costs to match post transaction presentation.*
4. *Figures do not include amortisation on purchase price intangible assets.*

Comparison and discussion of the three months and year ended 31 December 2019 to the same periods in 2018 – continuing operations (pro-forma)

Online gaming

	Q4 2019 (£000's)	Q4 2018 (£000's)	Variance (£000's)	Variance %
Gaming revenue	**153,105**	132,863	20,242	15%
Distribution costs	**78,272**	64,137	14,135	22%
Administrative costs	**27,553**	22,481	5,072	23%
Impairment of financial assets	**3,879**	1,000	2,879	288%
Adjusted EBITDA	**43,401**	45,245	(1,844)	(4%)

	YTD 2019 (£000's)	YTD 2018 (£000's)	Variance (£000's)	Variance %
Gaming revenue	**565,303**	492,769	72,534	15%
Distribution costs	**287,848**	233,158	54,690	23%
Administrative costs	**101,188**	81,824	19,364	24%
Impairment of financial assets	**3,879**	1,000	2,879	288%
Adjusted EBITDA	**172,388**	176,787	(4,399)	(2%)

Online gaming revenue by geography

	Q4 2019 (£000's)	Q4 2018 (£000's)	Variance (£000's)	Variance %
UK	**94,367**	87,635	6,732	8%
Asia	**38,731**	18,204	20,527	113%
Europe	**16,036**	21,993	(5,957)	(27%)
ROW	**3,971**	5,031	(1,060)	(21%)
Total	**153,105**	132,863	20,242	15%

	YTD 2019 (£000's)	YTD 2018 (£000's)	Variance (£000's)	Variance %
UK	**357,169**	339,864	17,305	5%
Asia	**122,408**	51,647	70,761	137%
Europe	**68,590**	79,273	(10,683)	(13%)
ROW	**17,136**	21,985	(4,849)	(22%)
Total	**565,303**	492,769	72,534	15%

Gaming revenue for the online gaming segment for the three months and year ended 31 December 2019 was 15% higher than in the same periods in 2018. UK revenues increased by 8% and 5%, respectively, for the three months and year ended 31 December 2019 compared to the same periods in 2018 despite the continued impact of enhanced responsible gambling measures. Asia continued to perform strongly growing revenue by 113% and 137%, respectively, for the three months and year ended 31 December 2019 compared to the same periods in 2018. Europe revenues declined by 27% and 13%, respectively, for the three months and year ended 31 December 2019 compared to the same periods in 2018, largely due to the impact of regulatory measures in Sweden. ROW includes New Jersey revenues which increased by 19% and 20%, respectively, for the three months and year ended 31 December 2019 compared to the same periods in 2018.

Distribution costs increased 22% and 23%, respectively, for the three months and year ended 31 December 2019 compared to the same periods in 2018 as a result of higher marketing spend and higher revenues achieved.

The increase in administrative costs for the three months and year ended 31 December 2019 compared to the same periods in 2018 was mainly driven by increases in personnel costs and administrative overhead costs as the segment continues to grow. The increase in administrative costs for the year ended 31 December 2019 compared to the same period in 2018 was also driven by an increase in professional fees.

Unallocated corporate costs – Adjusted EBITDA (pro-forma)

Adjusted EBITDA on unallocated corporate costs decreased from (£3.3) million to (£4.7) million in the three months ended 31 December 2019 compared to the same period in 2018. The variance mainly relates to a £0.9 million increase in compensation and a £0.7 million increase in general administrative costs offset by a £0.2 million decrease in professional fees.

Adjusted EBITDA on unallocated corporate costs decreased from (£11.1) million to (£13.5) million in the year ended 31 December 2019 compared to the same period in 2018. The variance relates to a £2.0 million increase in compensation, a £0.1 million increase in professional fees and a £0.4 million increase in general administrative costs.

Unallocated corporate costs – net loss

Net loss on unallocated corporate costs increased for the three months ended 31 December 2019 compared to the same period in 2018. This increase is primarily driven by higher interest expense related to the Group's Add-on Debt.

Net loss on unallocated corporate costs increased for the year ended 31 December 2019 compared to the same period in 2018. This increase is driven by higher transaction related costs incurred as a result of the Gamesys Acquisition as discussed on page 1 of this MD&A.

Costs included in net loss which are excluded from the Adjusted EBITDA measure are discussed on page 6 of this MD&A.

Key performance indicators – continuing operations (pro-forma)

	Twelve months ended 31 December 2019	Twelve months ended 31 December 2018	Variance	Variance %
Average Active Players per Month (#)	**587,399**	499,701	87,698	18%
Total Real Money Gaming Revenue (£000's)[1]	**544,826**	482,162	62,664	13%
Average Real Money Gaming Revenue per Month (£000's)	**45,402**	40,180	5,222	13%
Monthly Real Money Gaming Revenue per Average Active Player (£)	**77**	80	(3)	(4%)

1 *Total Real Money Gaming Revenue for the twelve months ended 31 December 2019 consists of total pro-forma revenue less revenue earned from B2B activity of £20.5 million (31 December 2018 – £10.6 million)*

Monthly Real Money Gaming Revenue per Average Active Player decreased by 4% year-over-year maintaining a level consistent with the Group's overall player acquisition and retention strategy.

Historical results by quarter – continuing operations

	Three month period ended 31 December 2019 (£000's)	Three month period ended 30 September 2019 (£000's)	Three month period ended 30 June 2019 (£000's)	Three month period ended 31 March 2019 (£000's)
Gaming revenue	**153,105**	92,447	86,234	83,292
Net income/(loss) for the period after taxes from continuing operations	**599**	3,366	(2,733)	7,896
Basic income/(loss) per share – continuing operations	**£0.01**	£0.04	£(0.04)	£0.11
Diluted income/(loss) per share – continuing operations	**£0.01**	£0.04	£(0.04)	£0.11

	Three month period ended 31 December 2018 (£000's)	Three month period ended 30 September 2018 (£000's)	Three month period ended 30 June 2018 (£000's)	Three month period ended 31 March 2018 (£000's)
Gaming revenue	84,050	75,201	74,953	74,008
Net income/(loss) for the period after taxes from continuing operations	11,869	7,551	7,860	(7,989)
Basic income/(loss) per share – continuing operations	£0.16	£0.10	£0.11	£(0.11)
Diluted income/(loss) per share – continuing operations	£0.16	£0.10	£0.10	£(0.11)

The general upward trend in revenue from Q1 2018 to Q4 2019 is driven by the Gamesys Acquisition and organic growth (as defined on page 3 of this MD&A) in the online gaming segment. Revenue is susceptible to various risk factors that can cause fluctuations from quarter to quarter as noted in Gamesys Group plc's most recently filed annual information form ('AIF'), available under Gamesys Group plc's profile on SEDAR at www.sedar.com.

The movement in net income/(loss) from quarter to quarter largely relates to transaction related costs, fair value adjustments on contingent consideration, accretion on financial liabilities, and the amortisation of intangible assets.

Revenue for Q2 2018 was largely consistent with Q1 2018. The variance between net income for Q2 2018 compared to a net loss in Q1 2018 is primarily driven by the fact that no fair value adjustment on contingent consideration was required in Q2 2018 as the earn-out period ended in Q1 2018 (Q2 2018 – £nil, Q1 2018 – £11.5 million). The variance is further driven by lower accretion on financial liabilities (Q2 2018 – £0.5 million, Q1 2018 – £1.5 million), which is also due to the final earn-out period ending in Q1 2018.

Both revenue and net income for Q3 2018 were largely consistent with Q2 2018.

The increase in revenue between Q4 2018 and Q3 2018 is due to stronger results achieved by the online gaming segment compared to Q3 2018. The net income for Q4 2018 is higher than in Q3 2018 primarily due to the fair value adjustments on contingent consideration (Q4 2018 – (£4.2) million, Q3 2018 – £nil) resulting from a revaluation of the third milestone payment in the period.

The decrease in revenue between Q1 2019 and Q4 2018 is due to the fact that Q4 tends to be one of the strongest quarters. The net income for Q1 2019 is significantly lower than in Q4 2018 primarily due to the fair value adjustments on contingent consideration (Q1 2019 – £0.5 million, Q4 2018 – (£4.2)) as the third milestone payment was revalued to £nil in Q4 2018.

The increase in revenue between Q2 2019 and Q1 2019 is due to strong results achieved by the online gaming segment. The variance between a net loss for Q2 2019 compared to a net income in Q1 2019 is primarily driven by significantly higher transaction related costs incurred as a result of the Gamesys Acquisition as discussed on page 1 of this MD&A.

The increase in revenue between Q3 2019 and Q2 2019 is due to strong results achieved by the online gaming segment driven by organic growth (as defined on page 3 of this MD&A) and additional revenue earned from brands purchased as part of the Gamesys Acquisition. The variance between net income for Q3 2019 compared to a net loss in Q2 2019 is primarily driven by significantly lower transaction related costs as most expenses related to the Gamesys Acquisition were incurred in Q2 2019.

The increase in revenue between Q4 2019 and Q3 2019 is due to strong results achieved by the online gaming segment driven by revenue earned from brands purchased as part of the Gamesys Acquisition as well as organic growth (as defined on page 3 of this MD&A). The decrease in net income between Q4 2019 and Q3 2019 is primarily driven by a provision of £6.0 million taken by the Group for one-off tax charges. The decrease is also due to higher interest expense (Q4 2019 – £7.0 million, Q3 2019 – £5.0 million) driven by the Group's Add-on Debt. These movements are partially offset by lower transaction related costs (Q4 2019 – £0.6 million, Q3 2019 – £3.0 million) and a higher foreign exchange gain (Q4 2019 – gain of £2.1 million, Q3 2019 – loss of £0.9 million).

Financial position

	As at 31 December 2019 (£000's)	As at 31 December 2018 (£000's)	Variance (£000's)
Total current assets	**165,920**	124,320	41,600
Total non-current assets	**1,045,572**	521,586	523,986
Total assets	**1,211,492**	645,906	565,586
Total current liabilities	**122,642**	52,320	70,322
Total non-current liabilities	**624,159**	374,463	249,696
Total liabilities	**746,801**	426,783	320,018

The £25.7 million increase in current assets (excluding a cash increase of £15.9 million) since 31 December 2018 is driven by a £2.4 million increase in restricted cash related to reserves held with payment service providers, a £3.4 million increase in player deposits, a £6.4 million increase in taxes receivable and a £13.5 million increase in trade and other receivables, net of an ECL provision. All of the above movements are partially driven by current assets purchased as part of the Gamesys Acquisition, with the rest of the movements relating to the Group's normal operating activity.

The increase in non-current assets of £524.0 million since 31 December 2018 is largely driven by an increase in intangible assets and goodwill of £494.1 million and a £7.2 million increase in tangible assets. The increase in intangible assets and goodwill is primarily driven by non-current assets purchased as part of the Gamesys Acquisition as well as internally generated intangible assets, partially offset by amortisation and foreign exchange rate fluctuations. The increase in tangible assets relates to the Gamesys Acquisition and purchase of tangible assets partially offset by deprecation. The increase in non-current assets is further driven by a £22.2 million increase in right-of-use assets related to the adoption of IFRS 16 in the current year and partially attributable to the Gamesys Acquisition as well as a £0.5 million increase in other long-term receivables, net of an ECL provision, primarily relating to the fair value adjustment on the Group's secured convertible loan.

The increase in current liabilities of £70.3 million since 31 December 2018 largely relates to the following:

- an increase of £57.4 million in accounts payable and accrued liabilities, mainly relating to payables assumed by the Group as part of the Gamesys Acquisition, including payables relating to marketing spend and gaming taxes;
- an increase of £3.4 million in payable to players;
- an increase of £4.7 million in current portion of lease liabilities related to the adoption of IFRS 16;
- a £3.6 million increase in Currency Swap and Interest Rate Swap payable balances;
- a £5.2 million increase in provision for taxes;
- a £3.8 million increase in the current portion of provisions arising on business combination; and
- an increase of £0.7 million in interest payable.

These increases are slightly offset by a £4.5 million decrease in contingent consideration driven by the fact that upon completion of the Gamesys Acquisition, the remaining milestone payment is considered settled. The increases are further offset by a £4.0 million decrease in other short-term payables due to payments made on the current portion of the non-compete liability.

The increase in non-current liabilities of £249.7 million since 31 December 2018 can be primarily attributed to a £158.9 million increase in long-term debt due to an increase to the Group's EUR Term Facility used to fund the Gamesys Acquisition. The movement is further driven by an increase of £52.0 million in deferred tax liability related to the intangible assets purchased as part the of the Gamesys Acquisition. Additionally, the increase is driven by a £14.9 million in other long-term payables, mainly relating to the deferred consideration payable for the Gamesys Acquisition and an increase of £6.0 million in provisions as well as an increase of £17.9 million in lease liabilities resulting from the adoption of IFRS 16 in the current period.

Cash flow by activity

	Three month period ended 31 December 2019 (£000's)	Three month period ended 31 December 2018 (£000's)	**Year ended 31 December 2019 (£000's)**	Year ended 31 December 2018 (£000's)
Operating activity	**20,650**	24,451	**75,082**	106,593
Financing activity	**(7,348)**	(7,398)	**143,029**	(91,963)
Investing activity	**(6,139)**	(4,030)	**(198,456)**	10,890

Operating activity

Cash provided by operating activities during the three months and year ended 31 December 2019 relates to cash generated from the operational activities of the online gaming segment, less corporate expenses. For the three months and year ended 31 December 2019, the operating cash flow decreased compared to the same periods in 2018 primarily due to accounts payable and transaction related payable balances settled in the current period. For the three months ended 31 December 2019, operating cash flow also decreased due to a higher restriction of cash balances related to reserves held with payment service providers.

Financing activity

Cash used in financing activities for the three months ended 31 December 2019 relates mainly to the following transactions:

- £6.4 million in interest payments;
- £2.2 million in lease payments.

This was partially offset by £1.3 million in proceeds from the exercise of options.

Cash provided by financing activities for the year ended 31 December 2019 mainly relates to the following transactions:

- £173.6 million in proceeds from long-term debt; and
- £2.7 million in proceeds from the exercise of options.

This was slightly offset by the following:

- £21.0 million in interest payments;
- £6.0 million in payments related to the non-compete liability;
- £2.6 million in debt issuance cost payments relating to the Group's Add-on Debt; and
- £3.6 million in lease payments.

Investing activity

Cash used in investing activities during the three months ended 31 December 2019 was driven by a £0.8 million purchase of tangible assets as well as internally generated intangible assets of £5.3 million.

Cash used in investing activities during the year ended 31 December 2019 was driven by a £199.7 million payment for the Gamesys Acquisition, a £3.8 million purchase of tangible assets as well as internally generated intangible assets of £12.9 million. This was partially offset by a receipt of £18.0 million from the disposal of a discontinued operation.

Liquidity and capital resources

The Group requires capital and liquidity to fund existing and future operations and future cash payments. The Group's policy is to maintain sufficient capital levels to fund its financial position and meet future commitments and obligations in a cost-effective manner.

Liquidity risk arises from the Group's ability to meet its financial obligations as they become due. The following table summarises the Group's undiscounted financial and other liabilities as at 31 December 2019:

	On demand (£000's)	Less than 1 year (£000's)	2-3 years (£000's)	4-5 years (£000's)	After 5 years (£000's)
Accounts payable and accrued liabilities	77,970	—	—	—	—
Other payables	953	8,383	16,724	—	—
Lease liabilities	—	4,727	8,866	7,995	5,795
Payable to players	12,444	—	—	—	—
Long-term debt	—	—	—	536,306	—
Interest payable on long-term debt	—	25,844	51,547	52,578	—
	91,367	**38,954**	**77,137**	**596,879**	**5,795**

The Group manages liquidity risk by monitoring actual and forecasted cash flows in comparison with the maturity profiles of financial assets and liabilities. The Group does not anticipate fluctuations in its financial obligations as they largely stem from interest payments related to the EUR Term Facility (as defined below) and the GBP Term Facility (as defined below). Management believes that the cash generated from the Group's business activities is sufficient to fund the working capital and capital expenditure needs in the short and long term, assuming there are no significant adverse changes in the markets in which the Group operates. The Group is actively managing its capital resources to ensure sufficient resources will be in place when Term Facilities (as defined below) repayments and interest payments become due.

Subject to meeting certain financial covenants, the Group may have the ability to draw on the £13.5 million RCF (as defined below) as a further capital resource.

Credit facilities

On 6 December 2017, Gamesys Group plc entered into a senior facilities agreement ('Senior Facilities Agreement') pursuant to which debt facilities were made available to Gamesys Group plc and certain of its subsidiaries in an aggregate sterling equivalent amount of approximately £388.5 million, comprised of (i) a €140.0 million term facility (the 'EUR Term Facility', (ii) a £250.0 million term facility (the 'GBP Term Facility and, together with the EUR Term Facility', the 'Term Facilities') and (iii) a £13.5 million revolving credit facility (the 'RCF' and, together with the Term Facilities, the 'Facilities'). Proceeds from the Term Facilities were used in part to repay the Group's existing First and Second Lien Facilities on 14 December 2017, at which point, the accretion of the remaining debt issue costs on the First and Second Lien facilities was accelerated. Proceeds from the RCF can be applied to, among other things, working capital and general corporate purposes and financing or refinancing capital expenditure.

On 1 July 2019, the Group completed the syndication of a €196.0 million additional term loan facility (the 'Add-on Debt') to fund the Gamesys Acquisition. The Group's new incremental term loan facility is fungible with the Group's existing EUR Term Facility and the syndication came into effect on 26 September 2019.

The Term Facilities are non-amortising and mature in December 2024. The RCF matures in December 2023 and remains undrawn as at 31 December 2019.

The EUR Term Facility has an interest rate of EURIBOR (with a 0% floor) plus an opening margin of 4.25% per annum, subject to a margin ratchet with step downs of 0.25% to 3.50% based on reductions in the senior secured net leverage ratio ('SSLR') and meeting certain ratings requirements. The GBP Term Facility has an interest rate of LIBOR (with a 0% floor) plus an opening margin of 5.25% per annum, subject to a margin ratchet with step downs of 0.25% to 4.50% based on reductions in the SSLR and meeting certain ratings requirements. The RCF has an interest rate of EURIBOR (for Euro loans, with a 0% floor) or LIBOR (for GBP loans, with a 0% floor) plus, in each case, an opening margin of 4.25% per annum, subject to a margin ratchet with step downs of 0.50% to 3.25% based on reductions in the SSLR.

The Senior Facilities Agreement contains certain restrictions on, amongst other things, asset disposals, debt incurrence, loans and guarantees, joint ventures and acquisitions, subject in each case to various permissions. The Senior Facilities Agreement also contains a senior secured leverage ratio maintenance covenant and an interest cover maintenance covenant.

Gamesys Group plc was in compliance with the terms of the Senior Facilities Agreement as at 31 December 2019.

Long-term incentive plan

On 30 September 2019, Gamesys Group plc granted additional equity-settled awards over ordinary shares of Gamesys Group plc under the Group's long-term incentive plan ('LTIP3') for key management personnel. The awards will (i) vest on the date on which the remuneration committee determines the extent to which the performance conditions (as described below) have been met and (ii) are subject to a holding period of two years beginning on the vesting date. At 31 December 2019, the number of ordinary shares that may be allotted under the Group's 2019 LTIP3 awards is 778,100.

The performance condition as it applies to 25% of each LTIP3 award is based on the Group's total shareholder return compared with the total shareholder return of the companies constituting the Financial Times Stock Exchange 250 index (excluding investment trusts and financial services companies) over three years commencing on 1 January 2019. The performance condition as it applies to another 25% of the award is based on the Group's total shareholder return compared with the total shareholder return of certain companies in a peer group over three years commencing on 1 January 2019. The performance condition as it applies to the remaining 50% of the award is based on the compound annual growth rate ('CAGR') of the Group's earnings per share over a three year period commencing on 1 January 2019 ('EPS CAGR Tranche') and vests as to 25% if the EPS CAGR equals 5.0%, between 25% and 100% (on a straight-line basis) if final year EPS CAGR is more than 5.0% but less than 14.0%, and 100% if final year EPS CAGR is 14.0% or more.

During the year ended 31 December 2019, the Group recorded £0.5 million (year ended 31 December 2018 – £0.3 million) in share-based compensation expense relating to its long-term incentive plans with a corresponding increase in share-based payment reserve.

Contractual commitments

Contractual commitments of the Group, comprised of various office leases, amount to £8.8 million and are due within a ten-year period.

Dividends

During the year ended 31 December 2019, £nil (year ended 31 December 2018 – £nil) ordinary share dividends were declared and paid.

Outstanding share data

As at 16 March 2020, the Gamesys Group plc had a total of 108,665,248 ordinary shares and 1,031,852 share options outstanding. Since 13 January 2020, all of the issued and outstanding exchangeable shares of Intertain have been held indirectly by the Group.

Internal control over financial reporting

The Chief Executive Officer ('CEO') and the Chief Financial Officer ('CFO') are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Group. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the internal control integrated framework (2013) issued by the Committee of Sponsoring Organisations of the Treadway Commission ('COSO').

Management, including the CEO and the CFO, does not expect that the Group's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

As required by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the CEO and the CFO have caused the effectiveness of disclosure controls and procedures, as well as the internal controls over financial reporting to be evaluated using the COSO framework. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures, and the design and operation of the Group's internal controls over financial reporting were effective as at 31 December 2019.

During the three months and year ended 31 December 2019 there have been no changes in the Group's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect the Group's internal controls over financial reporting.

Summary of significant accounting policies

For a description of the Group's significant accounting policies, critical accounting estimates and assumptions, and related information see notes 3 and 4 of the Group's Consolidated Financial Statements.

Financial instruments

Financial assets and financial liabilities are recognised when Gamesys Group plc becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognised when extinguished, discharged, cancelled, or when they expire.

The Group classifies its financial assets and liabilities under the following categories: fair value through profit or loss ('FVPL'), fair value through other comprehensive income ('FVOCI'), financial assets at amortised cost, and financial liabilities at amortised cost. All financial instruments are recognised initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial instrument classified as other than at FVPL are added to the carrying amount of the asset or liability.

The accretion of these costs is recognised over the life of the instrument in accretion on financial liabilities under the effective interest rate method described below.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. After initial measurement, such instruments are subsequently measured at amortised cost using the effective interest rate ('EIR') method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income or expense in the Consolidated Statements of Comprehensive Income. This category generally applies to cash, restricted cash, player deposits, trade and other receivables, and other long-term receivables.

The Group uses the simplified Expected Credit Loss model ('ECL') ('ECL Model') for Gamesys Group plc's trade receivables in accordance with IFRS 9 – *Financial Instruments* ('IFRS 9'). Other receivables have been evaluated under the standard ECL Model. Under the ECL Model, Gamesys Group's trade receivables are classified in stage 1 – financially healthy assets that are expected to perform in line with their contractual terms and which show no signs of increased credit risk.

In order to determine the amount of ECL to be recognised in the Consolidated Financial Statements on trade and other receivables, Gamesys Group plc has set up a provision matrix based on its historical credit loss experience. The matrix is adjusted for forward looking estimates and establishes that ECL should be calculated as follows:

- 0-30 days past due: 1% of carrying value (2018 – less than 1% of carrying value)
- 31-60 days past due: 15% of carrying value (2018 – 15% of carrying value)
- 61-90 days past due: 19% of carrying value (2018 – 19% of carrying value)
- More than 90 days past due: 25% of carrying value (2018 – 25% of carrying value)

Balances in transit or receivable from payment service providers are also considered trade and other receivables that fall under the scope of IFRS 9. In order to determine the amount of ECL to be recognised in the Consolidated Financial Statements on these balances, the Group has set up a risk rating system to determine credit risk of each counter party. ECL is calculated as 30% of the balances owing from all payment service providers identified as high-risk.

Derivative financial instruments

Gamesys Group plc uses derivative instruments for risk management purposes. Gamesys Group plc does not use derivative instruments for speculative trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at each reporting period end. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The method of recognising unrealised and realised fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives not designated as hedging instruments, unrealised gains and losses are recorded in interest income/expense on the Consolidated Statements of Comprehensive Income. For derivatives designated as hedging instruments, unrealised and realised gains and losses are recognised according to the nature of the hedged item and where the hedged item is a non-financial asset, amounts recognised in the hedging reserve are reclassified and the non-financial asset is adjusted accordingly.

Hedge accounting

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which are recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

The Group elected to use hedge accounting for the purposes of recognising realised and unrealised gains and losses associated with its Interest Rate Swap and Currency Swap.

IFRS 9 permits hedge accounting under certain circumstances provided that the hedging relationship is:

- formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness;
- expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented, and effectiveness can be reliably measured; and
- assessed on an ongoing basis and determined to have been highly effective.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a risk associated with a recognised asset or liability or a highly probable forecast transaction; and
- hedges of a net investment in a foreign operation.

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the Consolidated Statements of Comprehensive Income as a financing expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the Consolidated Statements of Comprehensive Income as a financing expense. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

At 31 December 2019, the Group had no hedges designated as fair value hedges.

Cash flow hedges

The Group uses interest rate contracts as hedges of its exposure to interest rate risk in forecast transactions and firm commitments. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss. The ineffective portion relating to interest rate contracts is recognised in financing expenses. Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the hedging instrument or hedged item expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

At 31 December 2019, the Group designated its Interest Rate Swap and Currency Swap as cash flow hedges.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income, while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

The Group uses its EUR Term Facility as a hedge of its exposure to foreign exchange risk on its investments in EUR foreign subsidiaries. Gains or losses on the retranslation of this borrowing are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries.

At 31 December 2019, no material ineffectiveness arising on net investment hedges was included in the Consolidated Statements of Comprehensive Income.

Revenue recognition

The Group earns its revenue from operating online bingo and casino websites ('Net Gaming Revenue'). Other revenue streams, which the Group does not consider material, comprise of licencing of its proprietary platform to third parties, affiliate aggregation services, and game aggregation services (in combination, 'B2B Revenue').

Net Gaming Revenue

Revenue from online bingo and casino consists of the difference between total amounts wagered by players less all winnings payable to players, bonuses allocated and jackpot contributions. Players transact with the Group's businesses under agreed terms, which form the basis for the contractual arrangement. There are no significant judgements required in applying IFRS 15 – *Revenue from Contracts with Customers* to these arrangements.

Net Gaming Revenue is recognised upon satisfaction of the Group's performance obligation to the player, which is the point in time when the player completes one of the games offered by the Group and the outcome of the game is honoured with the appropriate payout being made.

There is no significant degree of uncertainty involved in quantifying the amount of Net Gaming Revenue earned, including bonuses, jackpot contributions, and loyalty points. Bonuses, jackpot contributions and loyalty points are measured at face value when credited to the player's account.

Summary of significant accounting estimates and assumptions

Business combinations and contingent consideration

Business combinations require management to exercise judgement in measuring the fair value of the assets acquired, equity instruments issued, liabilities, and contingent consideration incurred or assumed. In particular, a high degree of judgement is applied in determining which assets and liabilities are included in a business combination, the fair value of the separable intangible assets acquired and their useful economic lives.

Goodwill and intangible assets

Goodwill and intangible assets are reviewed for impairment annually, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgement in estimating the recoverable values of the Group's CGUs and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

Taxes

Group companies may be subject to indirect taxation on transactions, which have been treated as exempt supplies of gambling, or on supplies which have been zero rated where legislation provides that the services are received or used and enjoyed in the country where the service provider is located. Revenue earned from players located in any particular jurisdiction may give rise to further taxes in that jurisdiction. If such taxes are levied, either on the basis of current law or the current practice of any tax authority, or by reason of a change in the law or practice, then this may have a material adverse effect on the amount of tax payable by the Group, its financial position or its reported results. Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is not recognised as a liability at the balance sheet date.

The Group is also exposed to a range of different corporation and other tax regimes. Any given tax jurisdiction may have complex legislation operating both domestically and potentially beyond the borders of the country in question. This requires the Group to make judgments on the basis of detailed tax analysis and recognise payables or provisions and disclose contingent liabilities as appropriate in the circumstances. Should the Group's judgement change as it is revisited over time, or the associated estimates be updated as more information comes to light, tax expense recorded in the income statement in future reporting periods will be affected. Further information on recognised provisions is included in note 19 of the Consolidated Financial Statements.

New Standards and Interpretations Adopted

Effective 1 January 2019, the Group has adopted IFRS 16 – *Leases*.

Cautionary Note Regarding Forward Looking Information

This MD&A contains certain information and statements that may constitute 'forward-looking information' (including future-oriented financial information and financial outlooks) within the meaning of applicable laws, including Canadian securities laws. Often, but not always, forward-looking information can be identified by the use of words such as 'plans', 'expects', 'estimates', 'projects', 'predicts', 'targets', 'seeks', 'intends', 'anticipates', 'believes', or 'is confident of' or the negative of such words or other variations of or synonyms for such words, or state that certain actions, events or results 'may', 'could', 'would', 'should', 'might' or 'will' be taken, occur or be achieved. Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance, achievements or developments to be materially different from those anticipated by the Group and expressed or implied by the forward-looking statements. Forward-looking information contained in this MD&A includes, but is not limited to, statements with respect to the Group's future financial performance, the future prospects of the Group's business and operations, the Group's growth opportunities and the execution of its growth strategies, the future performance of the online gaming segment, the possibility of the Group drawing on the RCF, and the statements made under the heading 'Outlook' of this MD&A. Certain of these statements may constitute a financial outlook within the meaning of Canadian securities laws. These statements reflect the Group's current expectations related to future events or its future results, performance, achievements or developments, and future trends affecting the Group. All such statements, other than statements of historical fact, are forward-looking information. Such forward-looking information is based on a number of assumptions which may prove to be incorrect, including, but not limited to, the ability of the Group to secure, maintain and comply with all required licences, permits and certifications to carry out business in the jurisdictions in which it currently operates or intends to operate; governmental and regulatory actions, including the introduction of new laws or changes in laws (or the interpretation thereof) related to online gaming; general business, economic and market conditions (including market growth rates and the withdrawal of the UK from the European Union); the Group operating in foreign jurisdictions; the competitive environment; the expected growth of the online gaming market and potential new market opportunities; anticipated and unanticipated costs; the protection of the Group's intellectual property rights; the Group's ability to successfully integrate and realise the benefits of its completed acquisitions; the Group's relationship with third parties; the ability of the Group to service its debt obligations; and the ability of the Group to obtain additional financing, if, as and when required. Such statements could also be materially affected by risks relating to the lack of available and qualified personnel or management; stock market volatility; taxation policies; competition; foreign operations; the Group's limited operating history and the Group's ability to access sufficient capital from internal or external sources. However, whether actual results and developments will conform with the expectations and predictions contained in the forward-looking information is subject to a number of risks and uncertainties, many of which are beyond the Group's control, and the effects of which can be difficult to predict, including that the assumptions outlined above may not be accurate. For a description of additional risk factors, see Schedule 'A' attached to Gamesys Group plc's most recently filed annual information form. Although the Group has attempted to identify important factors that could cause actual results, performance, achievements or developments to differ materially from those described in forward-looking statements, there may be other factors that cause actual results, performance, achievements or developments not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results, performance, achievement or developments are likely to differ, and may differ materially, from those expressed in or implied by the forward-looking information contained in this MD&A. Accordingly, readers should not place undue reliance on forward-looking information. While subsequent events and developments may cause the Group's expectations, estimates and views to change, the Group does not undertake or assume any obligation to update or revise any forward-looking information, except as required by applicable securities laws. The forward-looking information contained in this MD&A should not be relied upon as representing the Group's expectations, estimates and views as of any date subsequent to the date of this MD&A. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur.

Any future-oriented financial information or financial outlooks in this MD&A (including any such information or outlooks under the heading ‘Outlook’ on page 2 of this MD&A) are based on certain assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While the Group considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. These risks, uncertainties and other factors include, but are not limited to: credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, and interest rates or tax rates.

Additional Information

For further detail, see the Group’s Consolidated Financial Statements for the year ended 31 December 2019. Additional information about the Group, including Gamesys Group plc’s most recent AIF, is available under Gamesys Group plc’s profile on SEDAR at www.sedar.com.