Intertain | A House of Cards

October 4, 2016 | Grant's Fall 2016 Conf

IT Unmasked | Another Cdn. Pipe Dream

Intertain was made to line the pockets of managements, bankers & related parties

- **In early 2014, Intertain was created with assets from Amaya Inc., with Amaya becoming Intertain's largest shareholder**
  - David Baazov – Amaya's CEO – has been charged with insider trading by the Quebec AMF
  - AMF claims that Baazov was part of a network of insiders who used secret codes to conceal trades about companies planning to merge or acquire other companies.
- **John Fitzgerald (also known as "Fitzy") was named CEO of Intertain**
  - Fitzy has allegedly been involved with penny stock promoters and has previously been named as a defendant in shareholder lawsuits
- **Keith Laslop was named CFO of Intertain**
  - Laslop has links to Gerova Financial Group, whose top officers (John Galanis et al) were by the SEC for fraud
  - Laslop himself was named in multiple lawsuit arising out of the Gerova fraud allegations
- **Intertain's roll up strategy**
  - In early 2015, Intertain acquired Jackpotjoy and other companies for £425.8 million plus earn-outs if and when Jackpotjoy meets earnings benchmarks
  - We believe the CEO and CFO also got 2% of the transaction value – as an incentive to make the sale
  - Intertain has spent $1.1 billion in acquisitions and costs, and has paid over 10% of that amount to advisors

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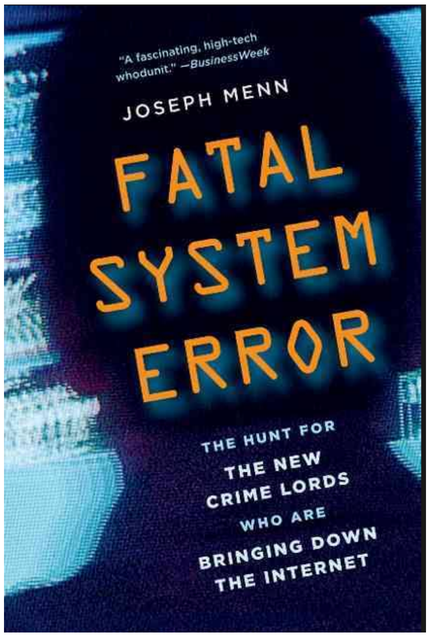
- **Spruce Point accuses Intertain of questionable margins, improbable results, bad management, account irregularities and more** (http://www.sprucepointcap.com/reports/it_shortresearch_thesis_12-17-2015.pdf)
  - After Spruce Point's publication, Intertain moved to restore shareholder value by conducting a strategic review
  - February 2016: Fitzy, Gamsys founder NAME, and several Intertain directors resign from Intertain
    - This has been a popular strategy among companies growing through acquisition and carrying heavy debt
  - The "strategic review" resulted in no transaction but Intertain paid over $10 million in fees for the review
  - Intertain decided to relist its shares on the London Stock Exchange and returned to the debt markets for cash to pay earnouts.
  - Cryptologic assets (from Amaya) – once Intertain's crown jewel – were written off in early 2016
- **Intertain now has until February 2017 to raise £150 million**
  - The Gamesys deal keeps getting worse
  - Intertain recently paid £25 million to extend its non-compete and capped the earn-out at almost 90% of the upfront payment

IT Unmasked (cont'd)

Intertain

CEO and CFO both have questionable backgrounds and practices

A book that exposed Keith Laslop (CFO) and Darren Rennick (Pres. Of Bahamas)*



A private jet in the Intertain colors that was incapable of traveling from Toronto to London (meaning it has no business purpose), with the ticker C-FYTZ (recall the former CEO is called Fitzy)

ACTIVITY LOG — Want a full history search for C-FYTZ dating back to 1998? Buy now. Get it within one hour.

Date	Aircraft	Origin	Destination	Departure	Arrival	Duration
2016-Sep-22	H25B	Lynden Pindling Int'l (Nassau) (NAS / MYNN)	Toronto Pearson Int'l (CYYZ)	03:33PM EDT	06:29PM EDT	2:56
2016-Sep-20	H25B	Blue Grass (KLEX)	Lynden Pindling Int'l (Nassau) (NAS / MYNN)	12:36PM EDT	02:47PM EDT	2:10
2016-Sep-20	H25B	Toronto Pearson Int'l (CYYZ)	Blue Grass (KLEX)	10:39AM EDT	11:59AM EDT	1:20
2016-Sep-17	H25B	Will Rogers World (KOKC)	Toronto Pearson Int'l (CYYZ)	11:05PM CDT	02:08AM EDT (+1)	2:03

Note: Rennick was linked to individuals involved with various questionable characters in Fatal System Error and is now involved in Intertain

Things that make you go hmm…

Intertain

Short Thesis: Margins appear near impossible

➢ **Growth in margins appears to be impossible; management controls the mechanism that drives margins; and both management and Gamesys are incentivized to grow margins**

- Gamesys margins are 20% greater than closest public comp; 25%+ greater than private bingo players in the UK; 25%+ greater than Gamesys' own private company filings

- All parties are incentivized by higher short-term results
  - Intertain management gets better results for near-term quarters which helps their stock price (note: they appear to be obsessed with it)
  - Gamesys receives additional consideration as their earn-out is based on these margins

- A rudimentary review of Gamesys subsidiary financial statements suggests that this margin increase is near impossible

- Note that the acquired Gamesys assets were subject to a new and incremental 15% Point-of-Consumption tax; thus making it that much more unlikely that these margins are possible

Things that make you go hmm… (cont'd)

Short Thesis: Strategic review, cashflows and fees

➢ **Strategic review, like all other things Intertain, resulted shareholder cash being exhausted and not much else**

- On Sep 23, 2016, **Dan McCrum from the Financial Times queried *"don't they have perfectly good capital markets where you come from?"***
- **Concurrent management exodus:** The CEO (John Fitzgerald), various directors (Noel Hayden, etc.) and C-levels leave the company during this process
- How could a CEO who is an 'M&A expert' not sell the business that he built?
- Despite revenues being up each quarter, CFs haven't improved, guidance hasn't changed and why fail at selling the co
- With the non-compete expiring, Intertain had to pay to extend it 2 years at an additional cost of C$20m/year
- On conclusion of the strategic review, Intertain's CFO moves back to the Bahamas to maintain accounts while their key asset is in the UK (note: they were unable to replace the CFO, though they tried, perhaps because he is too integral to the companies 'accounting')
- The earn-out was capped to almost 90% of the up-front payment to Gamesys, an unprecedented amount for an asset with limited growth in bottom line

➢ **Touted cash flows apparently went to advisors, management and related parties**

- At the announcement of the Gamesys asset acquisition, Intertain was marketed as being a free cash flow machine. The bankers ran their models and Intertain agreed to pay down debt and its earn-out quarterly (in advance). The company has been unable to prepay its massive earn-out
- Every quarter comes with a new meaningful one-time expense (severance, listing fees, mysterious transaction fees, etc.)
- It appears that cash flows are not real
- Intertain was set to originally pay the hefty earn-out with cash flows generated from assets, however, the company is set to tap into capital markets again, looking for £150 million – new management stated that equity holders would not support this financing implying that debt markets are Intertain's last hope; **Intertain has until Feb 28, 2017 to make this £150 million earn-out prepayment**
- Platform and licensing fees increase by 25% after year five of the initial agreement, further eroding Intertain cash flows

➢ **Fees Fees Fees!**

- **Intertain has spent $12m on transaction fees through the first half of 2016 with no deals to show for it**

Things that make you go hmm… (cont'd)

Short Thesis: Gambling shareholder's money

- **Intertain's best marketing suggests Cash Flows Are Strong – not one quarter has illustrated this**
  - Circular cash flows that continue to line the pockets of related parties at the cost of equity holders
  - On a quarterly basis, Intertain finds way to squander away cash that they claim has high conversion

- **Things Just Don't Add Up**
  - Margins that appear impossible and can be proven anecdotally and by underlying Gamesys subsidiary information
    - Simple justification is that the earn-out that exists is more important to insiders, so they are just trying to maximize that
  - Things that continue not to make sense in that if the numbers have been so solid the past four quarters
    - Why would the CEO and Chairman leave the company after a failed strategic review?
    - Why hasn't guidance been moved up?
    - Why has the earn-out payment not increased?
    - Why hasn't the earn-out been funded quarterly as originally planned?
    - Why does the company need more external financing?

- **Capital Structure Plagued After Bad Deals and Management**
  - Significant debt and limited value attribution thus far to equity holders – why will this change?

- **Bad Management and Actors All Around**
  - Poor background from inception combined with worse management that is running off into the sunset
  - Links to insider trading
  - Poorly managed with no real ability to have oversight over 70%+ of the underlying key economic value
  - New management appears to have messed up the strategic review and been turfed from recent positions (with a history of being front men that create little shareholder value)

- **Examples of Poor Management**
  - Strategic review that recently resulted in over $10m of transaction fees but no transaction to show for it
  - Valuation paid up for key flagship asset appears to be 3-5x more than what anyone else would have paid when you consider the

Overview of the Company

Intertain

No Value Creation for Equity Holders through Roll Up

➢ Background of the roll up of the four acquisitions they have made

	Intercasino	Mandalay Media	Vera&John	Gamesys Assets
Date Announced	Feb 11, 2014	Jun 4, 2014	Oct 9, 2014	Feb 5, 2015
Date Closed	Feb 2014	Jul 14, 2014	Dec 23, 2014	Apr 8, 2015
Estimated Employees	15	17	103	250
Announcement Acq. Price	C$70m	C$82m	C$115m	C$812m
Earn-out	n/a	C$30m	C$12m	$400-630m
Transaction Multiple	>125x LTM EBITDA	13.5x LTM EBITDA	10.3x LTM EBITDA	13.7x LTM EBITDA
Estimated Fees to Mgmt/Advisors	n/a / C$4m	C$2m / C$5m	C$3m / n/a	C$17m / C$40m+
Principal Business	Oldest casino brands in the market	Owns bingo websites in the UK	Online casino	Owns bingo website in the UK
Brands	InterCasino, InterPoker	Costa Bingo, Sing Bingo, City Bingo, Fancy Bingo and Rio Bingo	Vera & John, Vera & Juan, Vera & John Social	Jackpotjoy (JPJ), Botemania, Starspins
Ownership History	Amaya/CryptoLogic	Private	Private	Private

- Estimated total cost: C$1.3-1.7bn (assuming licensing fees in perpetuity and incorporating 25% increase in cost after year 5)

Source: Spruce Point Presentation

Overview of the Company (cont'd)

Intertain

No Value Creation for Equity Holders through Roll Up (cont'd)

➢ **Intertain purchased a brand and players list ignoring the key growth assets. The proprietary technology and control over any operations**

- Gamesys owners are keeping all growth assets (US assets)
- Have acquired licensed brands and "player data" assets – did not actually acquire the technology that is the key engine hereinteresting that recent disclosure implies that most player data sits in the hands of Gamesys and Intertain only had semi-regular access to this data (the recent addendum however gives Intertain daily access – but begs the question why they already didn't have this and why they paid up for it)
- Intertain does not appear to control this asset and the deal that was struck with Gamesys appears to resemble an operating lease
- Key founder from Gamesys originally joined Intertain board as non-exec director but just recently left after skipping half of the board meetings he was supposed to attend; he also left management position at Gamesys one month after the transaction was completed
- 15% POC will hurt their EBITDAs by an estimated 15-25%
- Synergies are unlikely
- Licensing fees which are one of the biggest ongoing costs paid by Intertain to Gamesys here are set to rise 25% after year 5
- Debt from Macquarie illustrates that the terms of the bank financing moved 150 basis points over 2 months from announcement to c

US$ Credit Facility	Feb 11, 2015 (Announced)	Apr 8, 2015 (Close)
Source	Preliminary Short Form Prospectus / Sedar	Credit Agreement / Sedar
FX Rate	0.7917	0.7970
Drawn Term Loan US$ Debt	C335m	$335m
C$ Debt	C$423m	C$420m

Numbers that just don’t add up

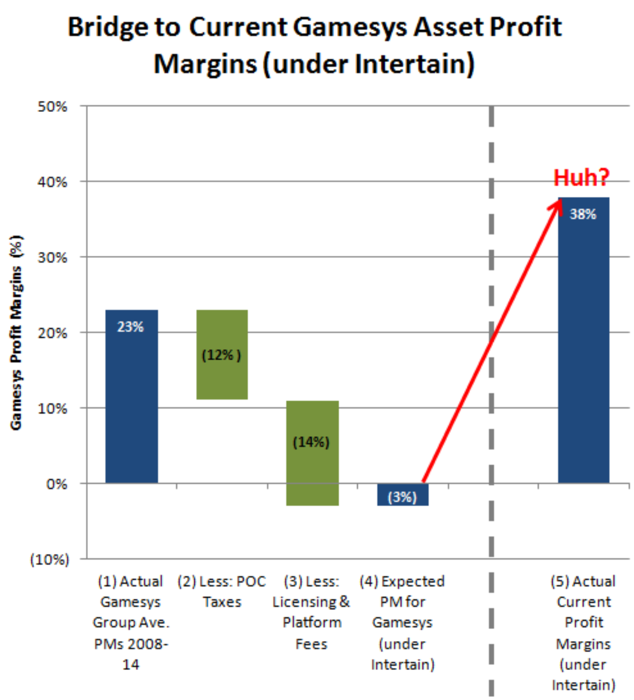
Operating Margins That Are Near Impossible

- Margins are unprecedented (and appear impossible) when compared to the industry or the entity they purchased their flagship asset from
  - They are significantly higher than competitors (near 50% in latest quarter for flagship asset while competitors average around 30%)
  - Intertain reported flagship asset margins are significantly higher than Gamesys margins per Gamesys financials prior to acquisition (near 50% versus sub 25% in last number of years) – this is prior to incremental POC tax which would only further hurt margins
  - Gamesys and Intertain management have every incentive to increase margins. Gamesys management has a direct incentive given earn-out relates to these margins which are in their hands (each dollar eaten results in mutliple of cash payout received in lieu in a short time period). Intertain management has been obsessed with their stock price as can be seen over numerous quarters.

Numbers that just don't add up (cont'd)

Pro Forma and Historic Operating Margins Don't Tie

- The most reasonable explanation for the below detailed margin discrepancy highlighted by Spruce Point Presentation on December 17, 2015 would be that Intertain did not purchase all assets of Gamesys **AND** the remaining assets (or Gamesys stubco) would have to maintain a significant loss. **My latest diligence suggests that the profits at Gamesys stubco were positive which implies that the margins below appear impossible; this is in direct contrast to Intertain's predictable response that they did not purchase all of Gamesys assets and that their carve out financials confirm this**
  - In response to Intertain's deference to the carve out financials they filed, consider that these financials state that they are ***"generally not precise"*** with further explanation that costs are allocated from the Gamesys group *"based on the best estimate by management"* using allocation based on *"proportion of gross win or headcount"* – sounds pretty vague
- The following is credited to the Spruce Point Presentation released on Dec 17, 2015



Source: Spruce Point Presentation (Dec 17, 2015)

- *Actual Gamesys Group Ave Profit Margins (PM) between 2008 and 2014 were 23%*

(2) *We have reduced Gamesys Group PMs for the POC taxes. Point of Consumption (POC) taxes are a newly implemented tax in the United Kingdom which became effective in December 2014 (15% of gaming revenue). They are approximately 12% as not all of Gamesys' revenue is derived from the UK (we have assumed 80% of the 15% POC tax)*

(3) *We have reduced Gamesys Group PMs for the new Licensing & Platform Fees. Licensing & Platform Fees are an expense which Intertain agreed to pay Gamesys as part of the acquisition and related agreements. They are approximately 13-15% of revenues (or ~C$50-C$60 million).*

- *The net result of (3%) profit margin is what would be expected under Intertain for Jackpotjoy (JPJ), Botemania and Starspins*

(5) *Intertain has however achieved PMs of 38% for the Gamesys assets purchased thus far (based on average of Q2 and Q3 2015) – the fact that (4) and (5) do not tie is highly suspect; the fact that there is a 41% discrepancy is just mind boggling*

- *Our diligence suggests that the assets not purchased from Gamesys were profitable so this would not assist in bridging the gap*
- ***The question arises…how are these margins possible with ~26% in friction costs between the POC tax implementation and new licensing fees?***
- *An argument can be made that some of the licensing & platform fees replace G&A, but this delta does not solve the mystery*

Numbers that just don't add up (cont'd) *Intertain*

Pro Forma and Historic Operating Margins Don't Tie (cont'd)

- Source: Spruce Point Presentation from Dec 17, 2015

Gamesys Limited Financials											
(GBP 000s unless otherwises noted)	**Prior to Intertain Acquisition (Consol. Gamesys Group)**							**Carve Out(1)**		**Run-rate(2)**	
	Mar-08	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-14**	**Mar-15**	**Jun-15**	**Sep-15**
Income Statement											
Turnover	47,881	58,998	74,646	98,983	142,338	181,458	199,332	130,944	143,090	143,108	162,800
% growth		23%	27%	33%	44%	27%	10%	(34%)	9%		14%
Cost of Sales								0	-7,410		
Gross Profit								130,944	135,680		
Operating Profit	18,732	15,774	21,273	25,030	46,017	57,464	48,138	63,256	67,161	n/a	n/a
Operating Margin	*39%*	*27%*	*28%*	*25%*	*32%*	*32%*	*24%*	*48%*	*47%*		
Pre-tax Profit	19,350	16,250	21,225	25,103	46,347	57,960	48,433	63,256	67,161		
Taxation (charges are negative)	-5,237	-3,659	-3,403	-7,125	-12,445	-14,400	-7,043	-11,239	-11,439		
Post-tax Profit	**14,113**	**12,591**	**17,822**	**17,978**	**33,902**	**43,560**	**41,390**	**52,017**	**55,722**	**50,898**	**65,806**
Profit Margin	*29%*	*21%*	*24%*	*18%*	*24%*	*24%*	*21%*	*40%*	*39%*	*36%*	*40%*
Dividends Payable	**7,500**	**14,001**	**24,900**	**5,279**	**15,108**	**10,064**	**30,053**				
Retained Profits	6,613	-1,410	-7,077	12,699	18,794	33,496	11,337				

(1) Carve Out Statements include Jackpotjoy, Botemania and Starspins
(2) Run-rate numbers are quarterly results multiplied by four; June 2015 period includes proration for days not owned
Sources: duedil.com/, Intertain Filings, https://www.gov.uk/government/organisations/companies-house

Numbers that just don't add up (cont'd) *Intertain*

Disclosure & Accounting Issues

- **Ongoing problems with disclosure**
  - Anything that would be critical in the agreements between the company and Gamesys (with particular note of the earn-out details) has been blacked out
    - The company for instance never provides details on what "Intertain Charges" are, despite this driving the earn-out value (noted that the company has indicated that the earn-out is a multiple of EBITDA, but where EBITDA is defined as Intertain Charges and Intertain Charges details are blacked out or not provided, it gets confusing to get color over this)
    - Similarly, it is not generally understood how the licensing and platform fees work (although as mentioned, we do know that both increase by 25% after 2020 aka year 5)
- **Additional commentary on disclosure**
  - No one really knows what licensing fees are or how they work
  - No one knows how the earn-out works and in some cases, it could be a high as the upfront payment – this is not standard; not to mention that licensing fees alone are equivalent to the EBITDA that Gamesys was generating prior to spinning this brand off
  - Intertain did not buy any technology which was really the key asset here
- **The story would not be complete without serious questions about its accounting**
  - The company has flipped auditors various times in the last few years
  - Definition for revenue has changed so many times, which implies that with pivot from gross/net, there may be some gaming going on here
  - KPIs provided, even after review of financials and decision to increase disclosure are worst in the industry
  - CFO search was unsuccessful and they reverted to old CFO – assuming the risk of showing the numbers to a new CFO was too large since he runs key entity in Bahamas
- **Numbers in various cases do not tie to prior years**

Burning Cash Left and Right

Intertain

Cash Incinerator

- **Cash has been poorly managed and not as high as suggested by adjusted EBITDA figures the company touts**
  - If the company was earning such significant cash, why would they defer paying the earn-out which they are required to fund monthly by segregating cash?
  - If results have been so positive, why has the company not increased guidance?
- **A potential explanation as to how the hypothetical circular revolution of cash works between Intertain and Gamesys**
  - As per as its best understood, Intertain Bahamas (a subsidiary of Intertain) receives statements monthly and likely a payment regularly for its take (estimated to be $30-40m EBITDA a quarter); below the EBITDA line payments
    - Intertain will then take this payment, pay its debt holder both interest ($14-16m a quarter) and required sweep towards principal ($12-16m a quarter)
    - Intertain was supposed to also pay a portion of its remaining cash flows towards the Gamesys earn-out on a quarterly basis but never did)
  - Above the EBITDA line: Intertain is also supposed to pay quarter sales and marketing to Gamesys, Licensing Fees to Gamesys ($15-20m a quarter), Gaming taxes ($12-14m a quarter; new post Dec 2014), and processing fees to Gamesys ($3-6m a quarter)
- **Canaccord Genuity (Fees and Incestuous Relationship, etc.) was paid over $100m in fees**

The Resulting Issuer

To the knowledge of management of the Resulting Issuer, the following persons will beneficially own, or control or direct, directly or indirectly, 10% or more of the issued and outstanding Common Shares immediately following Closing:

Name	Type of Ownership	Number of Common Shares	Percentage of Outstanding Common Shares after Closing of Proposed Qualifying Transaction and the Financing
Canaccord Genuity Corp.	Registered and Beneficial	1,687,844	12.41%

C$ in millions

Direct Acquisition & Financing Related Expenses	
Acquisition Related Expenses	
YTD September 2015	$56
YE 2014	$20
YE 2013	$1
Total Acquisition Related Expenses	**$77**
Financing Costs	
Aumento Capital Raise (Shell Co)	$4
Mandalay Related Fees	$5
Gamesys and V&J Related - Equity Offering Commissions	$22
Gamesys Related - Debt Raise Cost	$19
Financing costs of Gamesys acquisition	**$50**
Total Fees	**$127**

- Paid $127m in fees to bankers
- Recall that this is on upfront acquisition costs of $1,079m – equivalent to over 10% going to advisors

Burning Cash Left and Right (cont'd)

Intertain

Cash Incinerator (cont'd)

➢ Extremely generous Management Incentive Plan and how it arose from the Intertain/Gamesys deal – the CEO (John Fitzgerald) and CFO (Keith Laslop) made $23m in fees and salaries over there short tenures at Intertain

- On August 12, 2015 Intertain reported its Q2 2015 financial results
  - Within its financial statements, a gaping hole burned brightly with acquisition related costs for the quarter coming in at C$29.1m and C$53.4m for the first half of the year
  - This represented over 6% of the cost of the Gamesys assets acquisition
- Shareholder's reacted fiercely to the C$48.8m quarterly loss by sending shares from approx. C$16 to the C$11 range by month's end
- On Sep 1, 2015: Intertain had a conference call to explain the recent swirling rumors of an excessive management incentive plan (we dissect some of the issues in the Appendix)
- The previously undisclosed management incentive plan allowed the CEO and CFO to collect fat bonuses tied to acquisitions:
  - *The MIP bonus pool is equal to 2% of the value of each transaction successfully completed by the Company*
  - *That amount is modified by the increase or decrease in market price for the common shares from the date the transaction is publicly announced to the date the transaction closes*
  - *Management receives 25% in cash and the balance, at the discretion of the Board, in phantom equity units, to ensure that future shareholder returns are aligned with future realized value of the compensation, or cash*
- **FitzGerald appears to have taken a page out of his old playbook at WG Limited where he created an arrangement whereby shareholders paid him 2% for funds raised, receiving in excess of C$13m for himself**
- The accompanying press release states that:

  "The MIP was established to serve the interests of both Intertain and investors, generating substantial reinvestments in the Company, rewarding management for growth and acquisition performance, and contributing to a substantial increase in shareholder value."

- **Earning a fee tied to a short-term stock price reaction is an aggressive, non-standard, and myopic way to judge management on the success or failure of long-term valuation creation**
- Management, has tried to claim that CEO FitzGerald and CFO Laslop have invested more in Intertain than they have received in after-tax compensation. We have attempted, but failed, to reconcile this statement in the Appendix, and conclude it appears to be inaccurate

- John Fitzgerald (CEO) was paid an incremental $10m severance for leaving the company earlier this year (note that is still payable as of Jun 2016 but would expect it to be paid)
- Laslop getting $5.3m when he leaves, although without a replacement CFO that possibility is still suspect

➢ Fees to related parties – there was also a 0.5-1.0% finders fee paid on each transaction, the party for which these fees were paid to was not disclosed

➢ Latest cash outflows

- Q3-Q4 2016: $8.4m for listing fee for LSE listing
- In early September, Gamesys agreed to extend its non-compete with Intertain for two years at a cost of $40m (which would be paid over 3 years or an additional payment of $3.5m a quarter)

Unfunded Earn-out

Intertain

Equity Value in Question

- The payment of the earn-out appears to be a key moment for Intertain, they are taking non-committal debt and adding another cash burn on a quarterly basis that will really eat into any value creation for shareholders.
- Earn-outs are meaningful – company has GBP230m give or take on balance sheet
  - They increased almost $100m in Q4-2015
  - Gamesys financial statements suggest they could be between GBP190-220m; our estimate is that it could be GBP280m
  - Intertain filing suggest range could be much wider; although this was recently capped at GBP375m, but only as a result of a portion being paid sooner

Gamesys | Potential Earn-Out Sensitivity	Low	Mid	High	Low	Mid	High
JPJ & Starspins	£114	£177	£241	C$231	C$358	C$486
Botemania	£9	£41	£72	C$18	C$82	C$145
Total Gamesys Earn-out	**£123**	**£218**	**£313**	**C$249**	**C$440**	**C$631**

Source: Intertain filings
Note: does not include earn-out related to years 3-5 which could be £0-15M

  - The earn-out is currently unfunded
- Intertain recently agreed to pay Gamesys an additional £24m (to be paid over 3 years with roughly $3.5m a quarter) which erodes the operating profitability even sooner

Overpaying for its Flagship Assets

Intertain

Folding on Intertain

- Intertain paid roughly $2bn for the Gamesys assets (all fees considered)
  - Comparatively, Amaya paid $4.8bn for Pokerstars which generated >6x as much FCF; and without the FCF issues
  - MIP; bankers making $100m+ off this arrangement alone
- Prior valuations of Gamesys indicate a value of C$284-384m as per share buybacks at Gamesys in recent years; the potential over $1.5bn valuation paid to Gamesys here is just absurd as comparison
- Intertain does not have oversight over JackpotJoy

2. GENERAL PRINCIPLES

2.1 The following principles will apply with regards to this Agreement and this Schedule:

2.1.1 notwithstanding any other provision of this Agreement, and always in the case of Branded Sites subject to Gambling Approvals in Spain, during the applicable Earn-Out Period:

2.1.1.1 Gamesys shall have complete discretion and ultimate power of decision as to the marketing, operation, development and management of the Branded Sites (including the Games, content, features and functionality made available thereon); and

2.1.1.2 the Budget(s) and Business and Development Plan(s) shall be as determined by Gamesys in its sole discretion and such Budget(s) and Business Development Plans shall be deemed agreed by Intertain;

- This really does make sense as all Intertain purchased was the brand Jackpotjoy and its customer lists
- They key task in the Bahamas appears to be receiving monthly account statements from Gamesys
-

3. GOVERNANCE BOARDS

3.1 Each Party shall notify the other Party of an individual nominated by it as being the principal contact point for managing and coordinating the business relationship created under this Agreement and having the appropriate authority of the relevant Party to fulfil that role (each such individual being that Party's "**Nominated Manager**").

3.2 As at the Commencement Date, the Nominated Manager for Intertain shall be: the President of Wagerlogic, Bahamas and the Nominated Manager for Gamesys shall be [redacted]. Either Party may change its Nominated Manager at any time by notifying the other Party in writing. Furthermore, each of the Nominated Managers shall be entitled to appoint an alternate to act on their behalf and during periods of absence due to annual leave or sickness on written notice to the other Party.

The Earn-Out Conundrum

Why All Parties are Incentivized by a Larger Earn-out

- **For every $1 of costs that Gamesys does not allocate to Intertain, Gamesys is to receive $2.25-4.50 back in earn-out from Intertain**
  - We estimate that margins have moved up over 15-20% at Jackpotjoy assets despite the addition of a new POC tax (that is approximately 15% of top line)
  - We estimate that Gamesys could be avoiding allocating $20-60m in annual expenses to Intertain
- Why all parties are incentivized by a larger earn-out
  - Gamesys
    - They increase their economics and get more money back for every dollar that they eat (see above)
    - They inflate the share price which increases the value of their limited amount of shares in Intertain
  - Intertain
    - They inflate their share price which achieves multiple objectives: i) C-levels with foots out the door can leave the company (ie. Noel Hayden from Board, John Fitzgerald is now former CEO, Keith Laslop may be next), ii) it validates the deal from a public markets perspective, and iii) gives Intertain a more valuable currency (ie. stock price) to continue the roll up strategy
- By increasing the earn-out, Gamesys increases the chance that they can back out of this agreement as afforded to them by the rights of their agreement with Intertain – Gamesys can walk away after 5 years if the earn-out is not paid in full

15.4 Gamesys may terminate this Agreement immediately upon written notice to Intertain if Intertain TopCo has not by the 5th anniversary of the Commencement Date paid in full to Gamesys all amounts which are due and payable (or would be payable but for paragraph 13.11 of Schedule 7 of the Share Purchase Agreement) in respect of the JPJ Earn-Out Period (as defined in the Share Purchase Agreement) pursuant to the Share Purchase Agreement (plus any interest accrued thereunder).

Questionable Management

Intertain

Both New and Old Management Continue to Manage Limited Operations Poorly

- Since December 2015 Spruce Point report: Various board members including the Chairman and CEO have left the company (with no ongoing involvement in the company). The CFO has also moved to the Bahamas and appears to have one foot out the door with a $5.3m severance
- Management histories are checkered
  - CEO: various lawsuits against him for by shareholders accusing him of breaching fiduciary duty and other misconduct; has relinquished his law degree; the conductor of the roll up, paid $30m for his limited work here and on a conflict of interest (Management Incentive Plan where he was compensated as a percent of Transaction Value – discrepancy existed whereby he personally would want a higher TV but shareholders would want lower);
    - Rumours suggest he is great at conjuring transactions but not operations
    - He has been curiously flying around in a plane lately in what would appear to be a jet in the colors of Intertain branding (not sure who is footing the bill)
      - Jet photos
      - Flight travel details
    - Has recently left board of Gaming Nation and also appears to be leaving Intertain
  - Keith Laslop was previously involved with an alleged Ponzi scheme which is well documented within publicly noted lawsuits against Gerova; he also spent time at Prolexic where he had connections to Darren Rennick
  - Two board members have history with entities that have had issues
  - The company has shed various board members of late and the CEO/CFO both have their feet out the door
  - CEO/CFO were paid over $20m in comp in a side agreement last year that blew up in their faces (they were basically incentivized to pay as much as possible for acquisitions as they were paid 2% of total value paid for acquisitions)
- New mgmt. no better and strategic review (aka failed sales process is a tell of this)