

FOI Response – Relevant Excerpts

Response to point 4 of the FOI request – “Any communication (between) either representative of Allwyn and the Gambling Commission concerning the Solution Risk Factor that was used to judge the level of risk in its bid.”

Document entitled “Agenda for the First Clarification Session with the Gambling Commission on 05 August 2021 at 1pm – 3 pm (UK)” - Created by Allwyn in advance of the 1st clarification session as an aid to discussion.

7. Breakeven Case, Upside Case and Financial Response

a. Applicant Feedback

i. The feedback states at (Q29, ID1, page 83) that:

"The Applicant's response details adjustments (e.g. inflation, higher salaries due to inefficiencies from the Outgoing Licensee, change to National Insurance rates, financing costs, lease costs) for the whole term of the Licence rather than just for events that would occur in Year 3 and Year 7 in isolation. The question was to adjust the Base Case figures in just Years 3 and 7 with no adjustments to the other years. Because the Applicant has not adopted this the approach, assessment of the Applicants resilience, as intended by the Breakeven Case question, is impeded and limited. "

CQ78 states that: "The Upside Case and Downside Case will be considered as part of the resilience risk element of SRF but will not be considered in the assessment of Good Causes Contribution."

Please could the Commission explain in more detail the mechanics of how the resilience risk element of SRF will be impacted by the Upside Case and Breakeven Case?

We would like to make sure that we provide all the required data for such assessment and that we are also able to mock-score ourselves on the SRF. (ID1, General feedback, page 83 and CQ 78

Document entitled “4NLC Clarification Meeting: Sazka Group, 5th August 13:00-15:00” (Minutes) - Created by the Commission following the 1st clarification session and provided to Allwyn as a record of the discussion.

(Within the “Financial Strength” Section)

Sazka Group asked to clarify a particular piece of feedback received that discussed the assessment of the Applicants resilience intended by the Breakeven Case question. Was this indeed unlimited, could you expand on this?

Could you confirm if it is essentially the financial impact only or what is the mechanics of assessing the Applicants resilience and also the solution risk factor and how this shows against the Base case?

The Commission confirmed that the focus has been revised for Phase Two with regard to the way that Breakeven, and Upside cases will be treated in evaluation. This has been explained within the Phase Two Applicant Note.

Rather than factoring these into the resilience risk within SRF they will instead form part of the financial strength scenario test. This will be purely a financial strength test rather than an overall resilience test.

Document entitled “16 July 2021 – Fourth National Lottery Licence – Invitation to Apply (ITA) Phase 2 Applicant Note (referred to in minutes of the clarification meeting on 5 August 2021) - created by the Commission to provide updates to Applicants on (i) the process and timeline for Phase Two of the Competition, and (ii) the ITA and revised updated associated documents

(Within the “ITA Updates” section)

Question - Q29, Q30, and Q31

**Topic - Financial Strength Scenarios (Q31)
Breakeven Case (Q29)
Upside Case (Q30)**

Applicants must address in their Phase Two Applications the following Financial Strength Scenarios. These replace the previous scenarios requested in Question 31 of the ITA.

- 1. All Games produce only 75% of the revenue projected in the Base Case**
- 2. All non-variable costs are 10% higher than those forecast in the Base Case**
- 3. Investment costs (Implementation Costs and forecast capital expenditure throughout the Fourth Licence Term) are 50% higher than those projected in the Base Case**
- 4. All Games produce only 90% of the revenue projected in the Base Case and all variable costs are 25% higher than those forecast in the Base Case**
- 5. All revenue declines equally across all products; management is permitted to take mitigating actions (excluding new capital injection), and demonstrate at what point of revenue reduction a covenant breach first occurs**
- 6. Breakeven Case (as per Q29 of the ITA)**
- 7. Upside Case (as per Q30 of the ITA)**

For scenarios 1-5, Applicants must provide commentary on the impact of each scenario on the sufficiency of funding, solvency of the Proposed Licensee, impact on the covenant thresholds and portfolio volatility management together with any mitigating actions that may be taken to protect the Proposed Licensee’s financial strength.

Document entitled “Agenda for the Second Clarification Session with the Gambling Commission on Tuesday 24 August 2021 at 4 pm – 5 pm (UK) and the Third Clarification Session on Thursday 26 August 2021 at 12 pm – 1 pm (UK)” - Created by Allwyn in advance of the 2nd and 3rd clarification sessions as an aid to discussion.

7. Financial Response: Base Case, Breakeven Case, Upside Case [20 mins]

a. Applicant Feedback

i. Base Case: Scoring: In the previous clarification session we have touched on the notion of revenues considered difficult to achieve. We understand that revenues could be considered difficult to achieve if there is a lack of evidence or weak evidence, for example with research made on a sample which is considered too small or with benchmarks and case studies which are considered only partially relevant for the UK market and The National Lottery circumstances. If this is the case in our final submission, does the Commission plan to disregard (discount) a certain portion of projected revenues for such games directly (i.e. by subtracting the projected volume of sales or corresponding GCC rather than by lowering the score on Portfolio Business Area or applying a higher Solution Risk Factor)? For clarity – this question does not refer to revenues from non-compliant games.

(Note: The Commission has not located any relevant response to the above query in the minutes of the 24 or 26 August meetings, nor any separate communications that are relevant to the query above (7.a.i) or point 4 of the FOI request)