

JPJ Group plc

Proposed acquisition of Gamesys

Acquisition of Gamesys

Travel & leisure

13 June 2019

Price 769p
Market cap £573m

Adjusted net debt (£m) at 31 March 2019	275
Shares in issue	74.5m
Free float	95%
Code	JPJ
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	13.8	16.2	(10.7)
Rel (local)	11.8	13.2	(5.7)
52-week high/low		1036p	590p

Business description

JPJ Group is a leading online gaming operator mainly focused on bingo-led gaming targeted towards female audiences. During Q119, 49% of revenues were generated in the UK.

Next events

Prospectus	June 2019
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JPJ has announced a £490m proposed acquisition of Gamesys (its current platform provider), which equates to c 7.3x adjusted EV/EBITDA. The resulting company will be over 50% larger and key benefits include full control of the technology and meaningful scale with high-profile brands. The £490m consideration will be split between £250m cash (including £175m add-on facilities) and £240m in 33.7m new JPJ shares. Net debt/EBITDA is expected to be c 3.1x on the pro forma basis, although we envisage rapid deleveraging going forward. Our initial analysis suggests that the deal will be c 10% EPS accretive in FY20, implying a c 6.5x FY20 P/E, and we will adjust our forecasts after the conference call.

Year end	Revenue (£m)	EBITDA (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	304.7	108.6	103.9	0.0	7.4	N/A
12/18	319.6	112.7	118.5	0.0	6.5	N/A
12/19e**	318.8	95.8	100.5	30.0	7.7	3.9
12/20e	336.6	99.0	106.8	45.0	7.2	5.9

Note: *EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Excludes Mandalay revenues for the entire year.

Gaining control of the platform

JPJ's proposed acquisition of Gamesys appears to be a neat solution to gain control of the platform, reduce reliance on third parties and thereby should further improve operational performance and margins. The deal adds meaningful scale – over 50% larger, with FY18 pro forma revenues and adjusted EBITDA of £504m and £171m respectively. Gamesys brings a number of high-profile brands (Virgin, Heart Bingo, Monopoly – but not the sports brands), ownership of bingo and slot games studios, as well as a 15-year new content agreement. Integration risk is low given the longstanding relationship between the two companies and the Gamesys CEO will become the CEO for the enlarged group. Completion is expected in Q319.

7.3x EV/EBITDA; 10% EPS accretive in FY20

The £490m acquisition price is to be split between £250m cash (including £175m add-on debt facilities and existing cash) and £240m of new JPJ shares. Gamesys revenues and EBITDA in 2018 were £185m and £67m respectively, and the deal is valued at 7.3x adjusted LTM EBITDA. Pro forma net debt increases from £275m at Q119 to £524m, equivalent to 3.1x net debt/EBITDA (vs 2.4x at Q119). Given the inherent cash generation in the business (c 90% cash conversion), we expect steady deleverage and forecast a c 10% EPS accretion from FY20. We will update our forecasts after the conference call and we note that the company is now unlikely to pay a dividend this year.

Valuation: Implied c 6.5x pro forma P/E for FY20

JPJ currently trades at 7.2x P/E and 8.6x EV/EBITDA for FY20. Factoring in an estimated 10% EPS accretion, the implied pro forma FY20 P/E is c 6.5x, with an EV/EBITDA of c 7.8x. JPJ has successfully deleveraged in the past two years and, with its cash conversion, we believe there should be a meaningful future value shift from debt to equity.

Exhibit 1: Financial summary (prior to the Gamesys deal)

	£m	2017	2018	2019e	2020e
December					
PROFIT & LOSS					
Revenue		304.7	319.6	318.8	336.6
Cost of Sales		(147.5)	(158.9)	(170.7)	(183.2)
Gross Profit		157.2	160.7	148.1	153.4
EBITDA		108.6	112.7	95.8	99.0
Operating Profit (before amort. and except.)		108.2	112.2	95.3	98.5
Intangible Amortisation		(62.6)	(60.3)	(54.0)	(54.0)
Exceptional and other items **		(104.9)	(16.3)	(4.5)	0.0
Share based payments		(1.4)	(0.6)	(0.5)	(0.5)
Operating Profit		(60.8)	35.0	36.3	44.0
Net Interest		(30.0)	(19.5)	(15.0)	(13.0)
Profit Before Tax (norm)		78.2	92.7	80.3	85.5
Profit Before Tax (FRS 3)		(65.8)	18.5	22.6	31.0
Tax		(0.7)	(0.5)	(3.5)	(5.0)
Profit After Tax (norm)		77.5	92.3	76.8	80.5
Profit After Tax (FRS 3)		(66.5)	18.1	19.1	26.0
Average Number of Shares Outstanding (m)		73.9	74.2	74.8	75.0
EPS		104.9	119.5	100.9	107.3
EPS - normalised (p)		103.9	118.5	100.5	106.8
EPS - (IFRS) (p)		(90.0)	19.5	23.8	34.6
Dividend per share (p)		0.0	0.0	30.0	45.0
Gross Margin (%)		51.6	50.3	46.5	45.6
EBITDA Margin (%)		35.6	35.3	30.0	29.4
Operating Margin (before GW and except.) (%)		35.5	35.1	29.9	29.3
BALANCE SHEET					
Fixed Assets		595.9	521.9	456.5	409.0
Intangible Assets		589.0	514.7	446.2	395.7
Tangible Assets		1.3	2.2	5.2	8.2
Other long-term assets		5.6	5.0	5.0	5.0
Current Assets		93.2	124.0	150.6	147.4
Stocks		0.0	0.0	0.0	0.0
Debtors (incl swaps)		26.0	30.5	40.5	44.5
Cash		59.0	84.4	97.0	88.8
Player balances		8.2	9.0	13.0	14.0
Current Liabilities		(98.5)	(52.3)	(44.8)	(43.8)
Creditors		(46.3)	(47.8)	(44.8)	(43.8)
Short term borrowings		(0.3)	0.0	0.0	0.0
Contingent consideration		(51.9)	(4.5)	0.0	0.0
Long Term Liabilities		(386.7)	(374.5)	(323.5)	(273.5)
Long term borrowings		(369.5)	(371.5)	(321.5)	(271.5)
Contingent consideration		(7.7)	0.0	0.0	0.0
Other long-term liabilities		(9.4)	(3.0)	(2.0)	(2.0)
Net Assets		204.1	219.1	238.8	239.1
CASH FLOW					
Operating Cash Flow		102.0	106.8	80.8	92.0
Net Interest		(30.9)	(19.5)	(15.0)	(13.0)
Tax		(1.0)	(0.8)	(3.5)	(5.0)
Capex		(3.2)	(5.3)	(7.0)	(7.0)
Acquisitions (inc earnouts)		(94.2)	(55.3)	13.0	0.0
Financing		22.2	(2.3)	0.0	0.0
Dividends		0.0	0.0	(5.6)	(25.1)
Net Cash Flow		(5.2)	23.6	62.7	41.8
Opening net debt/(cash)		305.6	310.7	287.1	224.4
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0
Closing net debt/(cash)		310.7	287.1	224.4	182.6
NPV of outstanding earnouts/other		76.6	15.0	1.4	0.0
Currency swaps		0.0	0.0	0.0	0.0
Adjusted net debt		387.3	302.1	225.8	182.6

Source: Company accounts, Edison Investment Research

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