JPJ Group plc

Q2 results

Global growth keeps profits intact

Travel & leisure

JPJ Group plc (JPJ's) Q2 headline numbers were in line with our expectations, with growth in international markets offsetting weaker UK revenues. The company remains competitively well positioned across all its key markets and is highly cash generative. JPJ has signed a share purchase agreement for the sale of the social business for £18.1m cash, which we estimate had annual revenues of £12m and EBITDA of £3.5m. We have adjusted our EBITDA to reflect the sale, but our profit forecasts would otherwise have been broadly unchanged. The stock continues to trade at a meaningful discount to peers, at 9.8x EV/EBITDA and 8.2x P/E for FY19e.

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Dividend yield (%)
12/16	269.0	102.2	83.5	112.6	0.0	9.0	0.0
12/17	304.7	108.6	78.2	103.9	0.0	9.8	0.0
12/18e	315.3	109.2	89.2	114.5	0.0	8.9	0.0
12/19e	336.2	113.1	98.6	123.7	40.0	8.2	3.9
12/20e	356.5	118.1	104.6	130.7	45.0	7.8	4.4

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

International offsets slower UK

JPJ reported Q218 revenues of £80.5m, driven by a 39% increase in Vera&John (£24.2m). Jackpotjoy divisional revenues declined by 3%, largely as a result of weakness in the social division (down 31%), but also reflecting ongoing regulatory challenges across the UK online bingo sector. Group Q218 EBITDA of £29.7m was in line with our expectations, also boosted by international growth in the Vera&John division.

Sale of social business for £18.1m

JPJ has signed a share purchase agreement for the sale of the social business for £18.1m, with the aim of focusing on the core real money gaming business. We estimate that this business contributes approximately £12m revenues and £3.5m EBITDA annually. Altogether, we have lowered group revenues by c 6% (uncertain UK outlook plus sale of social) and EBITDA is lowered by c 3-4% to reflect the social business sale. We have not included a potential increase in UK gaming taxes in our forecasts, which might occur after the budget (based on FY18 figures, a rise from 15% to 20% would negatively affect EBITDA by c £9m).

Valuation: 8.2x FY19e P/E

The shares have risen 23% in the year to date, but still trade at a discount to peers at 8.2x adjusted P/E and 9.8x EV/EBITDA for FY19e. Although the online bingo sector faces a number of regulatory challenges in the UK, JPJ remains well positioned competitively and is highly cash generative. We continue to expect debt reduction from this point and dividends from next year. Post period, JPJ's shares were transferred to a premium listing, a further validation of the company's strengthened corporate governance.

14 August 2018

Price	**1,014p**
Market cap	**£753m**

Net debt (£m) at 30 June 2018	354.3
Shares in issue	74.3m
Free float	95%
Code	JPJ
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	2.7	23.5	54.8
Rel (local)	3.2	24.9	48.0
52-week high/low		1,036.0p	655.5p

Business description

JPJ Group plc is a leading online gaming operator mainly focused on bingo-led gaming targeted towards female audiences. Over 70% of revenues are generated in regulated markets.

Next events

Q3 results	13 November 2018

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Edison profile page

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International offsets UK declines

Revenues: Q218 driven by 39% growth in Vera&John

Q218 revenues increased 7% y-o-y to £80.5m, with weakness in the UK fully offset by a 39% growth in Vera&John.

Within the Jackpotjoy division, the company reported a 31% decline in the social business, which now comprises only 5% of divisional revenues. Mandalay was also slightly disappointing and we believe that across the sector, growth in the UK online bingo market is becoming more elusive.

At June 2018, average active customers per month grew 7% to 256,861 vs the prior year and average real money gaming revenue per month increased 15% to £25.0m. This equates to monthly real money gaming revenue per average active customer of £96, a y-o-y increase of 8%.

EBITDA: Q218 in line, boosted by international

In line with our estimates, Q218 group EBITDA was £29.7m, which represents a margin of 37.0% vs 39.9% in the prior year. Vera & John's EBITDA of £8.4m was above estimates and fully compensated for the lower contribution from the UK. As in the past two quarters, the UK business was affected by the introduction of bonuses into the point of consumption tax (POCT 2) and total gaming taxes were 12.5% of total revenues, vs 11.3% in Q217. In addition, margins were affected by continued marketing campaigns across the group. Total marketing costs were 16.5% of revenues vs 14.4% in the prior year.

Final major earnout paid

The bingo-led business is characterised by high cash conversion and JPJ produced £24.5m of operating cash flow in the quarter, in line with our expectations. Despite the payment of the last major earnout to Gamesys, JPJ ended the quarter with an unrestricted cash balance of £29.5m. Adjusted net debt was £362.9m, which equates to 3.4x annualised adjusted net debt/EBITDA. This compares to 3.6x at December 2017. With yearly operating cash flow of £100m, we believe this ratio will decline to 2.8x by year end 2018 and 2.1x by year end 2019.

Outlook and forecast changes; adjusting for social

JPJ has signed a share purchase agreement for the sale of the social business for £18.1m, with the aim of focusing on the core real money gaming business. We estimate that this business contributes approximately £12m revenues and £3.5m EBITDA annually. Altogether, we have lowered group revenues by c 6% (largely due to the uncertain UK outlook) and our EBITDA is lowered by c 3-4% to reflect the social business sale. Since growth should be derived globally where gaming taxes are often lower (or non-existent), a shift away from the UK is expected to enhance EBITDA margins. We have not included a potential increase in UK gaming taxes in our forecasts, which might occur after the budget (based on FY18 figures, a rise from 15% to 20% would negatively affect EBITDA by c £9m).

Jackpotjoy (72% of revenues)

Jackpotjoy divisional Q218 revenues declined 3% to £56.3m vs the prior year, largely as a result of a weaker performance in social and a continuing decline in Mandalay. As highlighted by peers, the UK online bingo market is facing a number of regulatory challenges and we believe that significant growth domestically will be more difficult to achieve across the sector. To compensate for less momentum in Jackpotjoy UK, Starspins (UK) and Botemania (Spain) now comprise approximately 25% of divisional revenues, suggesting 27% growth vs the prior year.

In terms of profit, divisional EBITDA was £23.7m (42.1% margin) and compares to 47.6% margin in the prior year. The margin decline was due to rises in UK gaming taxes and the ongoing marketing campaign. Helpfully, the Spanish gaming taxes have now been lowered from 25% to 20%.

We have removed the social business from our forecasts on a pro-forma basis from FY18, which has the impact of lowering revenues by £12m and EBITDA by £3.5m.

Vera&John (28% of revenues)

JPJ has continued its impressive growth trajectory in international markets and Vera&John Q218 revenues increased by 39% y-o-y to £24.2m, equating to 36% in constant currency. As the business continues to scale and gain momentum in international markets, Q218 adjusted EBITDA of £8.4m represented an EBITDA margin of 34.6% (vs 29% in the prior year).

Cash flow and balance sheet

Following the £63.5m earnout and milestone payments in June, JPJ ended the quarter with an unrestricted cash balance of £29.5m and adjusted net debt of £362.9m. Unadjusted net debt was £354.3m (excluding £8.6m contingent consideration). EBITDA cash conversion of 86% produced a post-interest total operating cash flow of £24.5m and is in line with our yearly estimates of c £100m.

As discussed above, total contingent consideration has decreased from £59.6m at FY17 to £8.6m and adjusted annualised net debt/EBITDA ratio was 3.4x at Q218 vs 3.6x at FY17. Including the £18.1m cash for the social business, we forecast unadjusted net debt of £292m in 2018, with an adjusted net leverage of 2.8x, reaching the company's target of less than 2.0x during 2019.

Exhibit 1: Changes to estimates

	Revenue (£m)			EBITDA (£m)			EPS (p)		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
2018e	334.5	315.3	(5.7)	113.6	109.2	(3.8)	120.4	114.5	(4.9)
2019e	358.7	336.2	(6.3)	116.5	113.1	(2.9)	128.1	123.7	(3.4)
2020e	382.0	356.5	(6.7)	122.0	118.1	(3.2)	135.8	130.7	(3.7)

Source: Company accounts, Edison Investment Research

Exhibit 2: Financial summary

£m	2015	2016	2017	2018e	2019e	2020e
December						
PROFIT & LOSS						
Revenue	194.6	269.0	304.7	315.3	336.2	356.5
Cost of Sales	(101.4)	(130.7)	(147.5)	(159.1)	(176.3)	(186.6)
Gross Profit	93.3	138.3	157.2	156.2	160.0	169.9
EBITDA	70.4	102.2	108.6	109.2	113.1	118.1
Operating Profit (before amort. and except.)	70.1	101.6	108.2	108.7	112.6	117.6
Intangible Amortisation	(50.6)	(55.5)	(62.6)	(62.0)	(62.0)	(62.0)
Exceptional and other items **	(109.7)	(80.3)	(104.9)	(20.4)	1.0	1.0
Share based payments	(2.9)	(2.3)	(1.4)	(0.7)	(1.0)	(1.0)
Operating Profit	(93.1)	(36.5)	(60.8)	25.6	50.6	55.6
Net Interest	(24.0)	(18.1)	(30.0)	(19.4)	(14.0)	(13.0)
Profit Before Tax (norm)	46.1	83.5	78.2	89.2	98.6	104.6
Profit Before Tax (FRS 3)	(114.2)	(36.7)	(65.8)	8.2	36.6	42.6
Tax	(0.5)	0.1	(0.7)	(3.0)	(5.0)	(5.0)
Profit After Tax (norm)	45.5	83.6	77.5	86.2	93.6	99.6
Profit After Tax (FRS 3)	(114.8)	(36.7)	(66.5)	5.2	31.6	37.6
Average Number of Shares Outstanding (m)	61.2	71.2	73.9	74.6	75.0	75.5
EPS - normalised (p)	74.4	117.3	104.9	115.6	124.8	131.9
EPS - normalised and fully diluted (p)	73.1	112.6	103.9	114.5	123.7	130.7
EPS - (IFRS) (p)	(187.6)	(51.5)	(90.0)	6.9	42.1	49.8
Dividend per share (p)	0.0	0.0	0.0	0.0	40.0	45.0
Gross Margin (%)	47.9	51.4	51.6	49.5	47.6	47.7
EBITDA Margin (%)	36.2	38.0	35.6	34.6	33.6	33.1
Operating Margin (before GW and except.) (%)	36.0	37.8	35.5	34.5	33.5	33.0
BALANCE SHEET						
Fixed Assets	674.3	652.3	595.9	537.4	478.9	420.4
Intangible Assets	668.8	648.8	589.0	527.0	465.0	402.9
Tangible Assets	0.2	0.9	1.3	4.8	8.3	11.9
Other long term assets	5.3	2.6	5.6	5.6	5.6	5.6
Current Assets	63.9	139.0	93.2	85.4	99.6	101.3
Stocks	0.0	0.0	0.0	0.0	0.0	0.0
Debtors (incl swaps)	25.6	62.0	26.0	28.0	30.0	32.0
Cash	31.8	68.5	59.0	47.4	58.6	57.3
Player balances	6.5	8.6	8.2	10.0	11.0	12.0
Current Liabilities	(54.3)	(154.9)	(98.5)	(44.3)	(40.3)	(38.3)
Creditors	(23.1)	(41.3)	(46.3)	(40.0)	(38.0)	(36.0)
Short term borrowings	(25.2)	(26.7)	(0.3)	(0.3)	(0.3)	(0.3)
Contingent consideration	(6.0)	(86.9)	(51.9)	(4.0)	(2.0)	(2.0)
Long Term Liabilities	(394.8)	(397.1)	(386.7)	(343.5)	(291.5)	(241.5)
Long term borrowings	(189.3)	(347.4)	(369.5)	(339.5)	(289.5)	(239.5)
Contingent consideration	(203.6)	(33.3)	(7.7)	(2.0)	0.0	0.0
Other long term liabilities	(2.0)	(16.4)	(9.4)	(2.0)	(2.0)	(2.0)
Net Assets	289.0	239.4	204.1	235.1	246.8	241.9
CASH FLOW						
Operating Cash Flow	23.3	84.2	102.0	97.2	104.1	109.1
Net Interest	(24.0)	(17.5)	(30.9)	(19.4)	(14.0)	(13.0)
Tax	(0.5)	(1.2)	(1.0)	(3.0)	(5.0)	(5.0)
Capex	(2.5)	(2.5)	(3.2)	(4.0)	(4.0)	(4.0)
Acquisitions (inc earnouts)	(355.6)	(156.3)	(94.2)	(52.4)	(5.0)	(5.0)
Financing	203.7	(29.6)	22.2	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	(14.9)	(33.4)
Net Cash Flow	(155.6)	(122.9)	(5.2)	18.4	61.3	48.7
Opening net debt/(cash)	27.1	182.7	305.6	310.7	292.3	231.1
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	(0.0)	0.0	0.0
Closing net debt/(cash)	182.7	305.6	310.7	292.3	231.1	182.4
NPV of outstanding earnouts/other	209.5	140.8	76.6	10.0	5.0	0.0
Currency swaps	(4.7)	(38.2)	0.0	0.0	0.0	0.0
Adjusted net debt	387.5	408.1	387.3	302.4	236.1	182.4

Source: Company accounts, Edison Investment Research

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