

Jackpotjoy plc

Earn-out update

Earn-out paid; another milestone achieved

Travel & leisure

The major Gamesys earn-out period finished in March 2017 and, as expected, Jackpotjoy plc (JPJ) has announced a £94.2m payment for its penultimate earn-out. There is a further c £44m due for the Spanish assets (Botemania) in June 2018, which should be comfortably covered by operating cash flow. Although adjusted net debt/EBITDA of c 4.0x remains high, we expect significant deleverage from 2018. The stock has recovered some ground recently, but continues to trade at a significant discount to peers, with 2018e multiples of 6.8x EV/EBITDA and 5.7x P/E. Given the company's leading market position and robust cash flow generation, we would expect a re-rating as the market regains confidence in the business model. Our forecasts remain unchanged.

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	194.6	70.4	46.1	73.0	0.0	8.6	N/A
12/16	269.0	102.2	65.6	88.4	0.0	7.1	N/A
12/17e	294.8	105.7	70.9	93.8	0.0	6.7	N/A
12/18e	322.3	113.8	84.4	109.2	0.0	5.7	N/A
12/19e	345.3	116.4	93.0	118.0	0.0	5.3	N/A

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

Penultimate £94.2m earn-out payment to Gamesys

The Jackpotjoy division was acquired from Gamesys in April 2015 for an initial price of c £425.8m and the major earn-out period finished in March 2017. JPJ has now paid the largest earn-out of £94.2m, which comprised the final £63.9m payment for the non-Spanish assets and £30.3m for the Spanish brand, Botemania. We expect a further final payment of c £44m in June 2018 for Botemania and estimate that the total acquisition price equates to c 6.3x 2017e EV/EBITDA. With an unrestricted cash balance at Q117 of £112m (pre earn-out) and an ongoing quarterly operating cash flow of c £25m, JPJ is well positioned to internally fund its future obligations.

Strong underlying trading and cash flow

Our forecasts remain unchanged. Please see our [May update](#) for a discussion of Q117 results, where market dominance was demonstrated by the 14% growth in the leading Jackpotjoy division. Q2 trading into May was also reported as strong across all divisions. We forecast stable net debt levels this year (£307.5m in 2017), falling to £214.2m in FY19. During 2019, we expect JPJ to reach its target 2.0x adjusted net debt/EBITDA and the company would then be in a position to commence dividend payouts.

Valuation: Meaningfully below peers

Despite the sustained momentum in growth and underlying profitability, JPJ trades at a meaningful discount to its peer group, at 6.8x EV/EBITDA, 5.7x P/E and 15.9% free cash flow yield for 2018. The valuation reflects legacy concerns over the Gamesys relationship, high leverage, the lack of dividend and low stock liquidity. In our view, cash generation should lead to demonstrable debt reduction from 2018 and we would expect a re-rating as the market regains confidence in the business.

22 June 2017

Price **627p**
Market cap **£463m**

€1.135/£

Net debt (£m) at 31 December 2017e 307

Shares in issue 73.8m

Free float 95%

Code JPJ

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	4.5	10.0	N/A
Rel (local)	4.9	8.4	N/A

52-week high/low 645p 534p

Business description

Jackpotjoy plc (JPJ) (formerly The Intertain Group) is a leading online gaming operator mainly focused on bingo-led gaming targeted towards female audiences. About 77% of revenues are generated in regulated markets. It moved its listing from the TSX to the LSE in January 2017.

Next events

Q2 financial statements 14 August 2017

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Jackpotjoy plc is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

IFRS	£m	2015	2016	2017e	2018e	2019e
Year end 31 December						
PROFIT & LOSS						
Revenue		194.6	269.0	294.8	322.3	345.3
Cost of Sales		(101.4)	(130.7)	(138.1)	(162.8)	(179.5)
Gross Profit		93.3	138.3	156.7	159.5	165.7
EBITDA		70.4	102.2	105.7	113.8	116.4
Operating Profit (before amort. and except.)		70.1	101.6	104.3	112.4	115.0
Intangible Amortisation		(50.6)	(55.5)	(55.0)	(55.0)	(55.0)
Exceptional and other items*		(109.7)	(52.5)	(9.7)	(5.2)	(4.9)
Share based payments		(2.9)	(2.3)	(2.1)	(2.5)	(2.5)
Operating Profit		(93.1)	(8.7)	37.5	49.6	52.5
Net Interest		(24.0)	(35.9)	(33.3)	(28.0)	(22.0)
Profit Before Tax (norm)		46.1	65.6	70.9	84.4	93.0
Profit Before Tax (FRS 3)		(114.2)	(40.7)	(1.0)	24.3	33.0
Tax		(0.5)	0.1	(0.7)	(2.5)	(4.5)
Profit After Tax (norm)		45.5	65.7	70.3	81.9	88.5
Profit After Tax (FRS 3)		(114.8)	(40.6)	(1.7)	21.8	28.5
Average Number of Shares Outstanding (m)		61.2	71.2	74.0	74.5	74.5
EPS - normalised (p)		74.4	92.2	94.9	109.9	118.8
EPS - normalised and fully diluted (p)		73.0	88.4	93.8	109.2	118.0
EPS - (IFRS) (p)		(187.5)	(57.1)	(2.3)	29.2	38.3
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		47.9	51.4	53.2	49.5	48.0
EBITDA Margin (%)		36.2	38.0	35.9	35.3	33.7
Operating Margin (before GW and except.) (%)		36.0	37.8	35.4	34.9	33.3
BALANCE SHEET						
Fixed Assets		674.3	652.3	598.4	545.9	494.5
Intangible Assets		668.8	648.8	593.8	538.8	483.8
Tangible Assets		0.2	0.9	1.9	4.5	8.0
Other long-term assets		5.3	2.6	2.6	2.6	2.6
Current Assets		63.9	139.0	80.5	70.8	97.8
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors (incl swaps)		25.6	62.0	35.0	37.0	37.0
Cash		31.8	68.5	36.5	23.8	49.8
Player balances		6.5	8.6	9.0	10.0	11.0
Current Liabilities		(54.3)	(154.9)	(118.7)	(64.4)	(60.7)
Creditors		(23.1)	(41.3)	(40.0)	(34.0)	(34.0)
Short term borrowings		(25.2)	(26.7)	(26.7)	(26.7)	(26.7)
Contingent consideration		(6.0)	(86.9)	(52.0)	(3.8)	0.0
Long Term Liabilities		(394.8)	(397.1)	(333.4)	(289.4)	(239.4)
Long term borrowings		(189.3)	(347.4)	(317.4)	(287.4)	(237.4)
Contingent consideration		(203.6)	(33.3)	0.0	0.0	0.0
Other long term liabilities		(2.0)	(16.4)	(16.0)	(2.0)	(2.0)
Net Assets		289.0	239.4	226.8	263.0	292.3
CASH FLOW						
Operating Cash Flow		23.3	83.0	98.7	108.8	114.5
Net Interest		(24.0)	(35.9)	(32.0)	(28.0)	(22.0)
Tax		(0.5)	(1.2)	(0.7)	(2.5)	(4.5)
Capex		(2.5)	(2.5)	(2.5)	(4.0)	(5.0)
Acquisitions (inc earnouts)		(355.6)	(156.3)	(101.0)	(57.0)	(7.0)
Financing		203.7	(10.0)	35.5	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Net Cash Flow		(155.6)	(122.9)	(2.0)	17.3	76.0
Opening net debt/(cash)		27.1	182.7	305.6	307.5	290.2
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	(0.0)	0.0	(0.0)
Closing net debt/(cash)		182.7	305.6	307.5	290.2	214.2
NPV of outstanding earnouts/other		209.5	140.7	70.0	18.0	10.0
Currency swaps		(4.7)	(38.2)	0.0	0.0	0.0
Adjusted net debt		387.5	408.1	377.5	308.2	224.2

Source: Jackpotjoy accounts, Edison Investment Research. Note: *Exceptional and other items include transaction-related costs, severance costs, fair value adjustments on contingent consideration and gain on cross-currency swap.

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