

GVC Holdings

Parliamentary U-turn

Following the resignation of Sports Minister Tracey Crouch, the UK government has bowed to pressure to bring forward the reduction in FOBT stake limits, from October 2019 to April 2019. The planned increase in remote gaming duty (from 15% to 21%) will also commence in April. We reduce our FY19 EBITDA by a further £95m and net debt/EBITDA now peaks at 3.0x in FY19. Our FY20 estimates are broadly unchanged.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16p	2,998.8	523.4	225.9	N/M	N/M	N/A	N/A
12/17p**	3,291.5	666.5	442.1	N/M	N/M	N/A	N/A
12/18e	3,472.7	734.9	498.5	70.5	32.0	11.7	3.9
12/19e	2,922.0	641.4	392.9	54.8	34.0	15.0	4.1
12/20e	3,319.2	700.0	445.1	62.0	36.0	13.2	4.4

Note: Pro-forma results include LCL as if it has been included from 2016. *Normalised and diluted (EPS), excluding amortisation of acquired intangibles and exceptional items. Share-based payments are included in normalised EPS. **Continuing operations, excluding Turkey in 2017.

Parliamentary U-turn

Following the Budget announcement on 29 October and the resignation of Tracey Crouch, the government has brought forward the timing for the FOBT stake reduction. The move from £100 stake to £2 stake will now commence in April 2019 rather than October 2019. The increase in remote gaming duty (from 15% to 21%) will also happen at the same time. A positive by-product is that GVC will likely not be liable for a c £695m (£674m + interest) to former LCL shareholders (from the original M&A agreement), given that legislation will need to be enacted prior to the April implementation of the £2 stakes cut.

A further £95m reduction in FY19 EBITDA

UK online revenues comprise c 20% of group revenues and we estimate that UK online gaming (not sports) comprise c £500m. The 6% increase in RGD will therefore have an annual impact of c £30m on group EBITDA. The additional six months in 2019 mean a further £15m reduction in EBITDA. Together with an additional £80m impact from the FOBT timing, we reduce 2019 EBITDA by £95m. Our FY20 P&L forecasts remain broadly unchanged, although we note that we now include share-based payments in our normalised EPS forecasts, to be consistent with consensus.

Valuation: 10.3x EV/EBITDA and 15.0x P/E for FY19e

The LCL acquisition has cemented GVC's leading global position and the £130m+ cost savings are expected to contribute to significant EPS accretion. Net debt to EBITDA now peaks at 3.0x in FY19, but strong FCF should rapidly reduce leverage. The stock has fallen c 30% since August on the back of the regulatory changes and trades at 10.3x EV/EBITDA and 15.0x P/E for FY19e, appropriately towards the top end of the peer group.

FOBT and RGD tax changes

Travel & leisure

15 November 2018

Price **821p**

Market cap **£4,777m**

£1/€1.15

Net debt (£m) at June 2018 1,887

Shares in issue 581.9m

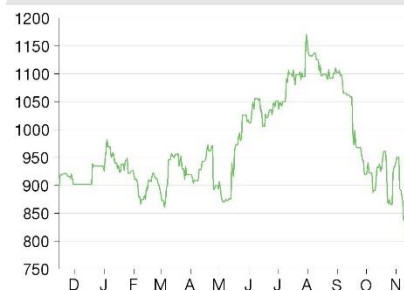
Free float 99%

Code GVC

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (11.9) (26.4) (8.2)

Rel (local) (12.2) (20.3) (3.3)

52-week high/low 1,170.00p 777.50p

Business description

GVC Holdings is a leading e-gaming operator in both the B2C and B2B markets. Following the acquisition of Ladbrokes Coral in 2018, it now has a market-leading position in UK retail betting. About 90% of revenues are derived from regulated and/or taxed markets.

Next event

Trading update January 2019

Analysts

Victoria Pease +44 (0)20 3077 5700

Katherine Thompson +44 (0)20 3077 5730

gaming@edisongroup.com

[Edison profile page](#)

GVC Holdings is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£'m	2016	2017	2018e	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue (NGR)		2,998.8	3,291.5	3,472.7	2,922.0	3,319.2
Cost of Sales		(1,233.8)	(1,418.7)	(1,581.7)	(1,482.0)	(1,650.6)
Gross Profit		1,765.0	1,872.8	1,890.9	1,440.0	1,668.6
EBITDA		523.4	666.5	734.9	641.4	700.0
Normalised operating profit		344.6	508.8	582.4	473.9	522.5
Amortisation of acquired intangibles		(200.0)	(380.0)	(250.0)	(200.0)	(150.0)
Exceptionals		(534.3)	(59.5)	(142.0)	(39.0)	(103.0)
Reported operating profit		(389.7)	69.3	190.4	234.9	269.5
Net Interest		(124.6)	(72.0)	(85.0)	(82.2)	(79.0)
Joint ventures & associates (post tax)		5.9	5.3	1.1	1.3	1.6
Profit Before Tax (norm)		225.9	442.1	498.5	392.9	445.1
Profit Before Tax (reported)		(508.5)	2.5	106.5	153.9	192.1
Reported tax		23.6	(9.9)	(66.4)	(52.7)	(59.5)
Profit After Tax (norm)		225.9	442.1	498.5	392.9	445.1
Profit After Tax (reported)		(508.5)	2.5	106.5	153.9	192.1
Minority interests		0.0	0.0	(8.0)	(10.4)	(12.5)
Discontinued operations		28.4	(13.2)	0.0	0.0	0.0
Net income (normalised)		190.3	381.9	424.1	329.8	373.1
Net income (reported)		(456.5)	(20.6)	32.1	90.8	120.1
Basic average number of shares outstanding (m)		NM	NM	582	582	582
EPS - basic normalised (p)		NM	NM	72.87	56.68	64.13
EPS - diluted normalised (p)		NM	NM	70.45	54.80	61.99
EPS - basic reported (p)		NM	NM	5.51	15.61	20.65
Dividend (p)		NM	NM	32.00	34.00	36.00
Revenue growth (%)		NM	10%	6%	-16%	14%
Gross Margin (%)		58.9	56.9	54.5	49.3	50.3
EBITDA Margin (%)		17.5	20.2	21.2	21.9	21.1
Normalised Operating Margin		11.5	15.5	16.8	16.2	15.7
BALANCE SHEET						
Fixed Assets		6,040.7	6,082.0	6,779.8	6,574.8	6,399.8
Intangible Assets		5,605.3	5,607.0	6,224.0	6,054.0	5,926.0
Tangible Assets		245.0	264.4	210.0	175.0	128.0
Investments & other		190.4	210.7	345.8	345.8	345.8
Current Assets		792.0	773.8	785.2	782.7	771.9
Stocks		1.6	2.0	2.0	2.0	2.0
Debtors		342.6	258.7	393.2	413.2	433.2
Cash & cash equivalents		272.2	328.8	175.0	137.5	96.7
Other		175.6	184.3	215.0	230.0	240.0
Current Liabilities		(1,583.1)	(1,121.0)	(1,031.0)	(1,021.0)	(1,011.0)
Creditors		(699.9)	(594.1)	(815.0)	(805.0)	(795.0)
Tax and social security		(67.7)	(253.8)	(40.0)	(40.0)	(40.0)
Short term borrowings		(742.4)	(200.0)	(50.0)	(50.0)	(50.0)
Other		(73.1)	(73.1)	(126.0)	(126.0)	(126.0)
Long Term Liabilities		(1,052.8)	(1,513.9)	(2,622.1)	(2,610.0)	(2,460.0)
Long term borrowings		(749.6)	(1,212.1)	(2,012.1)	(2,000.0)	(1,850.0)
Other long term liabilities		(303.2)	(301.8)	(610.0)	(610.0)	(610.0)
Net Assets		4,196.9	4,220.9	3,911.9	3,726.5	3,700.7
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		4,196.9	4,220.9	3,911.9	3,726.5	3,700.7
CASH FLOW						
Op Cash Flow before WC and tax		526.8	680.5	584.4	628.9	687.5
Working capital		3.8	(29.1)	(50.0)	(25.0)	(25.0)
Exceptional & other		(534.3)	(38.8)	(129.5)	(26.5)	(60.5)
Tax		(6.5)	(14.9)	(60.0)	(52.7)	(59.5)
Net operating cash flow		(10.1)	597.7	344.9	524.6	542.5
Capex		(58.2)	(205.8)	(177.0)	(150.0)	(140.0)
Acquisitions/disposals		(1,032.4)	(6.0)	(3,157.0)	0.0	0.0
Net interest		(71.1)	(101.3)	(50.0)	(82.2)	(79.0)
Equity financing		158.8	47.0	2,497.0	0.0	0.0
Dividends		(30.4)	(200.1)	(138.5)	(190.7)	(202.3)
Other		109.3	0.0	(123.0)	(127.3)	(12.5)
Net Cash Flow		(934.2)	131.5	(803.6)	(25.7)	108.8
Opening net debt/(cash)		312.7	1,215.1	1,083.6	1,887.2	1,912.9
FX		0.0	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		1,215.1	1,083.6	1,887.2	1,912.9	1,804.1

Source: GVC Holdings accounts, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by GVC Holdings and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.