JPJ Group plc

FY18 results

International continues to drive growth

Travel & leisure

Driven by an impressive 42% organic growth in the Vera&John division, JPJ reported FY18 revenue growth of 10% to £319.6m with an EBITDA margin of 35.3%. International now comprises 43% of revenues and we expect this to increase as the company diversifies away from the UK. Cash generation remains strong and adjusted net debt/EBITDA has fallen from 3.6x in FY17 to 2.7x in FY18. Management is committed to a progressive dividend policy (once the ratio is sustainably below 2.5x) and would also consider share buybacks at that point. The stock is trading at the bottom of the peer group at 6.7x P/E and 8.2x EV/EBITDA for FY19e.

Year end	Revenue (£m)	EBITDA (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	304.7	108.6	103.9	0.0	6.5	N/A
12/18	319.6	112.7	118.5	0.0	5.7	N/A
12/19e**	318.6	95.8	101.0	40.0	6.7	5.9
12/20e	336.1	99.0	105.8	45.0	6.4	6.7

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

Geographic diversification

In line with the recent trading update, FY18 revenues increased 10% to £319.6m and EBITDA grew 9% to £112.7m. The growth was driven by a 42% increase in Vera&John revenues, as JPJ is successfully diversifying its business into international markets. At FY18, the UK comprised 57% of revenues, with other notable markets including Japan (13%), Spain (10%) and Sweden (8%). Following the sale of Mandalay, we expect the group to concentrate on its core Jackpotjoy brand in the UK, as well as further expand internationally. Management has reported double-digit revenue growth for the first two months of FY19 and trading is in line with expectations. Our forecasts remain unchanged, although we believe there could be upside from organic growth internationally.

Moving towards 2.5x adjusted net debt/EBITDA

Similar to prior periods, JPJ's 94% cash conversion led to operating cash flow of £105.9m and the company ended the year with unrestricted cash of £84.4m. All the major earnouts have now been paid and net debt is reducing rapidly – the adjusted net debt/EBITDA ratio was 2.68x at FY18 vs 3.57x in FY17. Once this ratio is comfortably below 2.5x, management remains committed to introducing a progressive dividend policy and has further stated that it will consider share buybacks at that point. Our forecasts include dividends from this year.

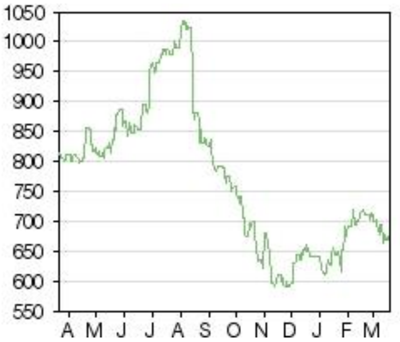
Valuation: 6.7x P/E for FY19e

As a reflection of the uncertain regulatory environment, the UK gaming sector fell sharply in 2018 and JPJ is c 35% off last year's highs. The shares now trade at only 6.7x P/E, 8.2x EV/EBITDA and 13.2% free cash flow yield for FY19, towards the bottom of the peer group. Given the international growth prospects, combined with steady net debt reduction, this seems unjustified in our view.

19 March 2019

Price	**673p**
Market cap	**£500m**
	€1.167/£
Net debt (£m) at end FY18	287.1
Shares in issue	74.3m
Free float	95%
Code	JPJ
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(6.5)	3.9	(19.6)
Rel (local)	(7.7)	(4.9)	(20.5)
52-week high/low		1,036p	590p

Business description

JPJ Group is a leading online gaming operator mainly focused on bingo-led gaming targeted towards female audiences. Excluding Mandalay, at Q418, 50% of revenues were generated in the UK.

Next event

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International drives growth

Results summary

Group revenues up 10%, driven by 42% growth in Vera&John

In line with January's trading update, FY18 increased 10% y-o-y to £319.6m, with pressures in the UK fully offset by a 42% organic growth in Vera&John. Due to regulatory measures (specifically the closure of high value accounts), the Jackpotjoy divisional revenues were flat over the year, with a 6% decline in Mandalay and Jackpotjoy offset by growth in Botemania (Spain) and Starspins.

Average active customers per month grew 4% to 259,664 in FY18 vs the prior year and average real money gaming revenue per month increased 10% to £26.0m. This equates to monthly real money gaming revenue per average active customer of £100, a year-on-year increase of 6%.

Group adjusted EBITDA up 9% with a 35.3% margin

FY18 adjusted EBITDA was £112.7m, which represents a margin of 35.3% vs 35.6% in the prior year, demonstrating strong operational discipline in the midst of rising taxes and other regulatory burdens. With the benefit of its proprietary platform, Vera&John contributed EBITDA of £30.8m, which represents an EBITDA margin of 29.7% vs 24.6% in the prior year.

Outlook

Management has reported double-digit revenue growth in the first two months of FY19 and trading is in line with the JPJ's expectations. On this basis, we are leaving our revenue and EBITDA forecasts broadly unchanged, although we believe there could be upside from international growth.

Jackpotjoy (68% of revenues)

UK revenues hit by regulatory challenges

During FY18, the UK gaming sector faced numerous regulatory challenges, including social responsibility, anti-money laundering and source of funds initiatives. As a result, the Jackpotjoy and Mandalay brands were both affected by the introduction of enhanced Responsible Gaming measures (from Q218) and the closure of a small number of high value accounts (VIPs). For the division as a whole, FY18 revenues were flat at £216m, with a 6% decline in Q418.

Nonetheless, sequential trends are encouraging with Q418 improving over Q318 in the UK. Management has also stated that the impact of closed accounts will begin to annualise during H219 and we believe that, provided there are no further regulatory challenges, the Jackpotjoy segment should return to single-digit revenue growth thereafter.

Botemania and Starspins now comprise 29% of divisional revenues with Spain (Botemania) contributing 10% to group revenues.

Disposal of Social and Mandalay

During the year, JPJ disposed of its social business for £18m cash and it has also completed the disposal of Mandalay to 888 Holdings in Q119 for a total consideration of £18m. As we discuss in our February update, the disposal of Mandalay should enable JPJ to focus on its core Jackpotjoy brand in the UK. Our FY19 figures exclude all revenues from Mandalay.

EBITDA to be affected by increase in remote gaming duty

In terms of profit, divisional EBITDA was £93.0m (43.1% margin, which compares to 45% in the prior year). Looking ahead, gaming taxes will rise from 15% to 21% from April 2019 and we forecast an EBITDA margin of c 36–37% going forward.

Gamesys: Not renewing anti-compete clause

As reported at Q318 the company continues to make progress with the internalisation of operational functions currently residing within Gamesys. As a reminder, JPJ currently pays for these operational functions at cost, which will rise by 25% from April 2020, if not internalised.

JPJ will also not be renewing the Gamesys non-compete clause (expiry in March 2019) because its own market-leading position is expected to fully withstand the potential competitive pressure from the launch of new challenger brands. This view is particularly reinforced by the current environment where smaller companies (or brands) are finding it harder to compete. We continue to believe the Gamesys-JPJ relationship is mutually beneficial and JPJ will continue to run its operations via the Gamesys platform.

Vera&John (33% of revenues)

JPJ has continued its impressive growth trajectory in international markets and Vera&John FY18 revenues increased by 42% y-o-y to £103.6m, equating to 40% in constant currency. Adjusted EBITDA was £30.8m, with a 29.7% margin, compared to a 24.6% margin in FY17.

This business benefits from a proprietary platform enabling increased scale, product differentiation and better cost control. Largely as a result of this strong performance, international revenues now comprise 43% of total revenues (including Botemania), which is line with JPJ’s strategy to expand beyond the UK. Excluding Mandalay revenues, international revenues comprised 50% of group revenues in Q418.

In terms of geographic spread, we note that Sweden only comprises 8% of revenues (which is now subject to 18% tax on gross gaming revenue). JPJ has been expanding in other “grey” markets such as Asia and Germany. This strategy has the advantage of producing higher cash (lower taxes) but there is the commensurate risk of clampdowns by governments. For example, the legal situation regarding online casino remains opaque in Germany.

Cash flow and balance sheet

EBITDA cash conversion of 94% produced an operating cash flow of £105.9m (post tax). Also benefiting from the disposal of the social business, JPJ ended the year with an unrestricted cash balance of £84.4m and adjusted net debt of £302.1m. Unadjusted net debt was £287.1m (excluding non-compete clause payments and a £4.5m contingent consideration) and the FY18 adjusted net debt/EBITDA ratio was 2.68x vs 3.57x at FY17.

We note that given the impact of taxes on the UK business, JPJ has written the final milestone payment to nil and therefore this will no longer be included in FY19 adjusted net debt (the only small adjusting factor will be a minor amount of non-compete payments ending in April 2020). We forecast unadjusted net debt of £215.7m at FY19 (adjusted net debt of £217.1m). This equates to an adjusted net debt/EBITDA of 2.3x.

Exhibit 1: Financial summary

£m	2015	2016	2017	2018	2019e	2020e	2021e
Year end 31 December							
PROFIT & LOSS							
Revenue	194.6	269.0	304.7	319.6	318.6	336.1	354.5
Cost of Sales	(101.4)	(130.7)	(147.5)	(158.9)	(173.1)	(183.2)	(191.8)
Gross Profit	93.3	138.3	157.2	160.7	145.4	153.0	162.6
EBITDA	70.4	102.2	108.6	112.7	95.8	99.0	104.6
Operating Profit (before amort. and except.)	70.1	101.6	108.2	112.2	95.3	98.5	104.1
Intangible Amortisation	(50.6)	(55.5)	(62.6)	(60.3)	(60.3)	(60.3)	(60.3)
Exceptional and other items**	(109.7)	(80.3)	(104.9)	(16.3)	0.0	0.0	0.0
Share based payments	(2.9)	(2.3)	(1.4)	(0.6)	(0.6)	(0.6)	(0.6)
Operating Profit	(93.1)	(36.5)	(60.8)	35.0	34.4	37.6	43.1
Net Interest	(24.0)	(18.1)	(30.0)	(19.5)	(14.0)	(13.0)	(12.0)
Profit Before Tax (norm)	46.1	83.5	78.2	92.7	81.3	85.5	92.1
Profit Before Tax (FRS 3)	(114.2)	(36.7)	(65.8)	18.5	20.4	24.6	31.1
Tax	(0.5)	0.1	(0.7)	(0.5)	(5.0)	(5.0)	(5.0)
Profit After Tax (norm)	45.5	83.6	77.5	92.3	76.3	80.5	87.1
Profit After Tax (FRS 3)	(114.8)	(36.7)	(66.5)	18.1	15.4	19.6	26.1
Average Number of Shares Outstanding (m)	61.2	71.2	73.9	74.2	75.0	75.5	76.5
EPS - normalised (p)	74.4	117.3	104.9	119.5	101.8	106.6	113.8
EPS - normalised and fully diluted (p)	73.1	112.6	103.9	118.5	101.0	105.8	112.9
EPS - (IFRS) (p)	(187.6)	(51.5)	(90.0)	19.5	20.5	25.9	34.2
Dividend per share (p)	0.0	0.0	0.0	0.0	40.0	45.0	48.0
Gross Margin (%)	47.9	51.4	51.6	50.3	45.7	45.5	45.9
EBITDA Margin (%)	36.2	38.0	35.6	35.3	30.1	29.5	29.5
Operating Margin (before GW and except.) (%)	36.0	37.8	35.5	35.1	29.9	29.3	29.4
BALANCE SHEET							
Fixed Assets	674.3	652.3	595.9	521.9	447.1	390.3	333.4
Intangible Assets	668.8	648.8	589.0	514.7	438.3	380.0	321.7
Tangible Assets	0.2	0.9	1.3	2.2	3.7	5.2	6.7
Other long term assets	5.3	2.6	5.6	5.0	5.0	5.0	5.0
Current Assets	63.9	139.0	93.2	124.0	146.7	139.1	131.6
Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors (incl swaps)	25.6	62.0	26.0	30.5	30.0	32.0	32.0
Cash	31.8	68.5	59.0	84.4	105.7	95.1	87.6
Player balances	6.5	8.6	8.2	9.0	11.0	12.0	12.0
Current Liabilities	(54.3)	(154.9)	(98.5)	(52.3)	(38.0)	(36.0)	(36.0)
Creditors	(23.1)	(41.3)	(46.3)	(47.8)	(38.0)	(36.0)	(36.0)
Short term borrowings	(25.2)	(26.7)	(0.3)	0.0	0.0	0.0	0.0
Contingent consideration	(6.0)	(86.9)	(51.9)	(4.5)	0.0	0.0	0.0
Long Term Liabilities	(394.8)	(397.1)	(386.7)	(374.5)	(323.5)	(273.5)	(223.5)
Long term borrowings	(189.3)	(347.4)	(369.5)	(371.5)	(321.5)	(271.5)	(221.5)
Contingent consideration	(203.6)	(33.3)	(7.7)	0.0	0.0	0.0	0.0
Other long term liabilities	(2.0)	(16.4)	(9.4)	(3.0)	(2.0)	(2.0)	(2.0)
Net Assets	289.0	239.4	204.1	219.1	232.4	219.9	205.6
CASH FLOW							
Operating Cash Flow	23.3	84.2	102.0	106.8	88.8	92.0	97.6
Net Interest	(24.0)	(17.5)	(30.9)	(19.5)	(14.0)	(13.0)	(12.0)
Tax	(0.5)	(1.2)	(1.0)	(0.8)	(5.0)	(5.0)	(5.0)
Capex	(2.5)	(2.5)	(3.2)	(5.3)	(4.0)	(4.0)	(4.0)
Acquisitions (incl earn-outs)	(355.6)	(156.3)	(94.2)	(55.3)	13.0	0.0	0.0
Financing	203.7	(29.6)	22.2	(2.3)	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	(7.4)	(30.6)	(34.0)
Net Cash Flow	(155.6)	(122.9)	(5.2)	23.6	71.4	39.3	42.6
Opening net debt/(cash)	27.1	182.7	305.6	310.7	287.1	215.7	176.5
HP finance leases initiated	0.0	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	0.0
Closing net debt/(cash)	182.7	305.6	310.7	287.1	215.7	176.4	133.9
NPV of outstanding earnouts/ other	209.5	140.8	76.6	15.0	1.4	0.0	0.0
Currency swaps	(4.7)	(38.2)	0.0	0.0	0.0	0.0	0.0
Adjusted net debt	387.5	408.1	387.3	302.1	217.1	176.4	133.9

Source: JPJ Group, Edison Investment Research

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