EDISON

Jackpotjoy plc

Q1 results

Market dominance brings the cash

Travel & leisure

Driven by the market-leading Jackpotjoy division, Q1 gaming revenues rose 11% to £71.4m with an EBITDA margin of 40.9% and underlying cash conversion of c 100%. Q2 trading has started well across all divisions. Adjusted net debt/EBITDA of c 4.0x remains high, but Jackpotjoy plc (JPJ) is comfortably positioned to pay a major c £95m earnout in June and we expect significant deleverage from 2018. The market is pricing in a high degree of execution risk, with 2017 trading multiples of 6.9x EV/EBITDA and 6.1x P/E. Despite regulatory headwinds, we forecast continued strong underlying growth and we would expect a re-rating as debt repayments begin to drive value to equity.

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	7.8	N/A
12/16	269.0	102.2	65.6	88.4	0.0	6.4	N/A
12/17e	294.8	105.7	70.9	93.8	0.0	6.1	N/A
12/18e	322.3	113.8	84.4	109.2	0.0	5.2	N/A
12/19e	345.3	116.4	93.0	118.0	0.0	4.8	N/A

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

Jackpotjoy division continues to deliver

JPJ's strong Q1 results were bolstered by the Jackpotjoy division, which grew 14% with an EBITDA margin of 51.2%. Q2 trading has started well across all divisions and management expects revenue growth in line with the wider market. At March 2017, average LTM active customers increased 15% to 239,452 vs. the prior year and average real money gaming (RMG) per month grew 17% to £20.9m. Our EBITDA forecasts are broadly unchanged, although we have adjusted our revenue figures to reflect a shift in mix. We introduce 2019 forecasts, which continue the 2018 trend of single-digit revenue growth, progressive taxes in key markets (notably Sweden in 2019) and lower finance charges.

Robust cash balance covers earnout payments

The major Gamesys earnout period finished in March and payments are due in June (c £95m) and 2018 (c £44m for Botemania). With £112m unrestricted cash balance in Q1 and an ongoing quarterly operating cash flow of c £25m, JPJ is comfortably positioned to internally fund its future obligations. We forecast stable net debt levels this year (£307.5 m in 2017), falling to £214.2m at FY2019. 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 pay-outs.

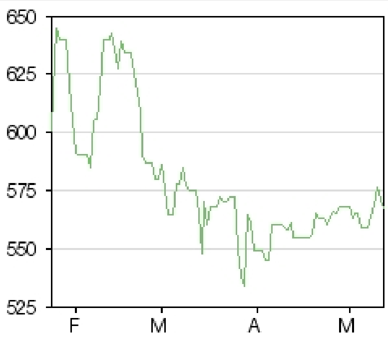
Valuation: Execution risk priced in

Despite its market dominance, JPJ trades at a meaningful discount to its peer group, at 6.9x EV/EBITDA, 6.1x P/E and 15% free cash flow yield for 2017. 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 model.

16 May 2017

Price	**570p**
Market cap	**£421m**
	€1.189/£
Net debt (£m) at 31 December 2016	305.6
Shares in issue	73.8m
Free float	95%
Code	JPJ
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.8	(9.1)	N/A
Rel (local)	1.1	(11.4)	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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Edison profile page

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Jackpotjoy division delivers in Q1

Overview

Q1 gaming revenue increased 11% to £71.4m, driven by 14% growth in the Jackpotjoy division. At March 2017, average active customers grew 15% to 239,452 vs. the prior year and average real money gaming (RMG) per month grew 17% to £20.9m, equating to £87 per customer.

The company reported an adjusted EBITDA margin of 40.9% vs 38% in FY16. We note that selling and marketing costs were 13.5% of total revenues (vs 14.1% in Q116 and 17.4% for FY16) and we expect marketing costs to rise during H2 with planned TV campaigns. Cash conversion of 80% (103% excluding a one-off item) resulted in a quarterly operating cash flow of £23.3m and an unrestricted cash balance of £112m.

For a detailed analysis of JPJ's divisions, please refer to our initiation report, published in February 2017.

Jackpotjoy (71% of revenues)

JPJ reported a strong performance across all brands in the Jackpotjoy division, which grew 14% to £50.7m. Jackpotjoy UK comprised 67% of revenues vs 70% in the prior year. Together, Botemania (Spain) and Starspins comprised 18% of revenues, with particular growth stemming from the successful Botemania mobile launch in Q216. Given Spain's 25% tax on gross gaming revenues, the divisional margins will be affected as Botemania revenues increase.

Vera&John (22% of revenues)

Gaming revenue from Vera&John was flat year-on-year in constant currency terms, but reported gaming revenue grew 13% to £15.7m. Adjusted EBITDA for the division increased 7% despite an increase in personnel and office-related costs. Trading in April was very strong and we forecast a 13.6% growth in reported revenues for 2017.

Mandalay (7% of revenues)

Q1 revenues declined 14% to £5.0m, with EBITDA falling from £2.0m to £1.7m, reflecting changes to on-site promotional spend in preparation for potential changes to the UK point of consumption tax (POCT) in Q317. Trading in Q2 has been strong and we forecast a return to quarterly growth this year, representing a flat revenue target for the full year.

Exhibit 1: JPJ gaming revenue split*

£m	2016	2017e	2018e	2019e
Jackpotjoy	188.2	208.3	229.7	247.6
growth	55.3%	10.7%	10.3%	7.8%
Vera&John	57.0	64.7	70.6	75.5
growth	35.4%	13.6%	9.0%	7.0%
Mandalay	21.7	21.8	22.0	22.2
growth	1.2%	0.1%	1.0%	1.0%
Total gaming revenue	**266.9**	**294.8**	**322.3**	**345.3**
growth	38.2%	10.4%	9.3%	7.1%

Source: Edison Investment Research. Note: *Excludes other non-gaming income of £2.1m in 2016 (revenue guarantee and platform migration).

Strong cash generation

As a consequence of the significant acquisition cost of Jackpotjoy from Gamesys, JPJ's net debt is relatively high, at c 4x adjusted net debt/EBITDA, and two major earnout payments are still to be paid. Approximately £95m is due in June 2017, with a further c £44m remaining from Botemania (Spanish online bingo within the Jackpotjoy division).

But with an unrestricted cash balance of £112m in Q1, together with cash conversion of 80% (equating to c £25 operating cash flow per quarter), JPJ is comfortably positioned to fund these obligations. We note that, excluding an exceptional item, cash conversion was 103% in the quarter.

Our forecasts indicate net debt remaining stable in 2017, with high cash flow offset by earnout payments. We forecast net debt of £290.2m in 2018, with an adjusted net leverage of 2.7x, reaching the company's target of 2.0x during 2019.

Under the terms of its covenants, the group is permitted to pay dividends once adjusted net leverage reaches 2.75x and the company has stated that it intends to begin paying dividends once the balance sheet is closer to sector average debt levels. We have not included dividends in our forecasts, but we believe cash returns could begin in 2019.

Forecast changes: Lower revenues but EBITDA broadly unchanged

We have decreased our 2017 and 2018 revenue estimates by 2.7% and 4.8%, respectively, with the strong growth in Jackpotjoy offset by lower revenue expectations for both Vera&John and Mandalay. Given the stronger margins in Jackpotjoy, however, our EBITDA forecasts are broadly unchanged.

We additionally introduce 2019 forecasts, which include revenue growth of 7.1% to £345m and EBITDA growth of 2.3%. Regulatory headwinds are expected to continue affecting EBITDA margins (with a projected margin of 33.7% in 2019), although earnings will benefit from rapidly declining finance charges.

Exhibit 2: Edison forecast changes

	EPS (p)			Revenue (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017e	96.0	93.8	-2.3	303.1	294.8	-2.7	106.0	105.7	-0.3
2018e	111.5	109.2	-2.1	338.7	322.3	-4.8	114.9	113.8	-1.0

Source: Edison Investment Research

Exhibit 3: 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: Company 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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