

JackpotJoy plc

FY17 results

A transformational year

Travel & leisure

20 March 2018

Price **821p**
Market cap **£608m**

Net debt (£m) at December 2017	311
Shares in issue	74.1m
Free float	95%
Code	JPJ
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.6	(0.7)	44.5
Rel (local)	5.0	5.6	49.7
52-week high/low	872p		534p

Business description

Jackpotjoy plc (JPJ) is a leading online gaming operator mainly focused on bingo-led gaming targeted towards female audiences. Around 76% of revenues are generated in regulated markets.

Next events

Q118 results	15 May 2018
--------------	-------------

Analysts

Victoria Pease	+44 (0)20 3077 5740
Katherine Thompson	+44 (0)20 3077 5730

gaming@edisongroup.com
[Edison profile page](#)

Jackpotjoy plc is a research client of Edison Investment Research Limited

2017 was a transformational year for JPJ, with a successful London listing followed by substantial improvements in the capital structure. JPJ is the leading operator in the £800m UK online bingo market and has now delivered five consecutive sets of robust quarterly results. FY17 revenue growth of 14% y-o-y to £304.7m was accompanied by an operating cash flow of £102m. After the final major earn-out payment in June 2018, we expect meaningful deleveraging. Our forecasts now include dividend payments from 2019. The shares rose by c 40% in 2017 but still trade at a significant discount to peers at 8.1x EV/EBITDA and 6.9x P/E for 2018e.

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	112.5	0.0	7.3	0.0
12/17	304.7	108.6	78.2	103.9	0.0	7.9	0.0
12/18e	334.0	113.6	93.1	119.7	0.0	6.9	0.0
12/19e	358.7	116.5	102.0	128.2	40.0	6.4	4.9
12/20e	381.5	122.2	108.7	136.1	45.0	6.0	5.5

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

Revenue and EBITDA slightly ahead of estimates

Overall, FY17 net gaming revenues (NGR) grew 14% y-o-y to £304.7m, above our estimate of £298.2m. For Q417, NGR grew 13% vs Q416, primarily driven by 42% growth in Vera&John (24% of revenues). FY17 adjusted EBITDA of £108.6m compares to £102.2m in FY16 and was also above our estimate of £107.4m. As expected, Q417 EBITDA margin was affected by higher UK gaming taxes (the addition of bonuses into the Point of Consumption Tax or POCT 2) and a targeted marketing campaign for Jackpotjoy UK. We have nudged up our FY18 and FY19 revenue forecasts by c 2.5%, but our EBITDA forecasts remain broadly unchanged. Our new FY20 figures are affected by the agreed increase in service fees payable to Gamesys, with a 50bp drop in the EBITDA margin vs FY19.

Strong operating cash flow – dividends from 2019

With 94% cash conversion, FY17 operating cash flow was £102m and the company ended the year with unrestricted cash of £59m and net debt of £311m, in line with our estimates. Net debt adjusted for the remaining earn-outs was £387m. Following the c £50m earn-out payment in June 2018 (for Botemania), we estimate FY17 adjusted net debt/EBITDA of 3.6x will fall to 2.7x in FY18 and 1.9x in FY19. We have now included dividends into our forecasts from 2019, assuming a c 30% payout ratio.

Valuation: FY18e P/E of 6.9x

JPJ has produced five sets of robust quarterly reports since re-listing in London. After rising c 40% in 2017, the share price performance has drifted in 2018. At 6.9x P/E, 8.1x EV/EBITDA and 13% FCF yield for 2018e, JPJ trades at a meaningful discount to peers. This appears unjustified given JPJ's growth profile and high cash generation, which should lead to demonstrable debt reduction from mid-2018 (post the Botemania earn-out payment).

Results comfortably ahead of estimates

■ Revenues: Q417 driven by 42% growth in Vera&John

FY17 revenues increased 14% y-o-y to £304.6m vs our estimate of £298.2m, driven by 12% growth in the Jackpotjoy division and 28% growth in Vera&John. Q417 revenues increased 13% y-o-y to £82.6m, primarily due to 42% growth in the Vera&John division (£21.7m). The core Jackpotjoy division grew 7% to £56.1m.

At December 2017, average active customers per month grew 6% to 250,321 vs the prior year and average real money gaming revenue per month increased 16% to £23.5m. This equates to monthly real money gaming revenue per average active customer of £94, a y-o-y increase of 9%.

■ EBITDA: Q417 affected by marketing and higher UK gaming taxes

FY17 adjusted EBITDA of £108.6m was comfortably above our estimate of £107.4m. The company reported an adjusted Q4 EBITDA margin of 27.4% vs 34.4% in the prior year. As expected, the UK business was affected by the introduction of bonuses into the point of consumption tax (POCT 2), with the additional payments commencing in October. Q4 gaming taxes were 15.3% of total revenues, vs 11.6% in Q317. In addition, margins were affected by a previously announced targeted marketing campaign for Jackpotjoy UK. Group Q417 and FY17 marketing costs were 20.2% and 16.3% of revenues respectively.

■ 94% cash conversion

Cash conversion for the year was 94%, resulting in a pre-tax operating cash flow of £102m. The company ended the year with an unrestricted cash balance of £59m and net debt of £311m. Adjusted net debt/EBITDA was 3.6x compared to 4.0x at FY16.

■ Outlook and forecast changes

Management has stated that trading into 2018 remains solid. We have nudged up our FY18 and FY19 revenue forecasts by c 2.5%, but leave our EBITDA forecasts broadly unchanged, to conservatively reflect rising taxes and some additional marketing spend.

We believe the company will be in a position to begin paying dividends in 2019 and have introduced dividends into our forecasts from 2019 (at c 30% pay-out). We also introduce 2020 forecasts, where the major change is the agreed 25% increase in service fees payable to Gamesys. Please see our [October 2017 Outlook](#) note for details of the agreement with Gamesys. This cost increase is expected to be offset by leveraging scale and continuing operating efficiencies and, as a result, our group EBITDA margin forecast for FY20 is only 50bp lower than the prior year.

Jackpotjoy (69% of revenues)

For FY17, JPJ produced strong results across all brands in the Jackpotjoy division, growing revenues by 12% y-o-y to £211.3m, with an EBITDA margin of 45.0%. This compares favourably to our estimates of £207.0m and 44.6% EBITDA margin.

For Q417, Jackpotjoy revenues increased 7% y-o-y to £56.1m, with an adjusted EBITDA of £21.0m (vs £21.7m in Q416). The decline in EBITDA was fully expected and is due to a planned marketing campaign, as well as rises in UK gaming taxes (POCT 2).

For the final quarter, Jackpotjoy UK comprised 64% of divisional revenues vs 70% in the prior year. While Jackpotjoy UK and Jackpotjoy Sweden have demonstrated steady organic growth, the most significant increase was from Botemania (Spain) and Starspins, which together comprised 25% of divisional revenues in Q417.

For 2018, we forecast 8% y-o-y growth in divisional revenues to £228.3m, with Jackpotjoy UK growing 7% and Starspins and Botemania growing 14%.

Vera&John (24% of revenues)

Vera&John revenues increased by 28% y-o-y in FY17 to £73.2m (vs our estimate of £70.9m), with a particularly strong performance in Q417, which grew by 42% y-o-y (39% constant currency).

FY17 adjusted EBITDA of £18.0m represented an EBITDA margin of 25% (vs 30% in the prior year) and was less than our estimate of £19.5m, largely due to higher than expected marketing costs and one-off administrative costs (£1.4m accounts receivable write-off in Q417).

For 2018, we forecast 17% revenue growth, with an EBITDA margin of 25%, in line with FY17. We estimate that approximately one third of divisional revenues are derived from Sweden and, due to the introduction of gaming taxes in Sweden in 2019, we forecast a drop in Vera&John FY19 EBITDA margin to 23.5%.

Mandalay (7% of revenues)

FY17 Mandalay revenues declined 7% y-o-y to £20.2m, with an EBITDA of £7.1m, which was broadly in line with our estimates (£20.2m and £7.4m). For Q417, revenues declined by 6% y-o-y to £4.8m, with a 31% decline in EBITDA to £1.1m. This division has historically been more exposed to bonusing and was therefore adversely affected by the addition of bonuses to the POCT. This additional tax was introduced in August, with payments commencing in October.

After the termination of the Jackpotjoy earn-out period, JPJ is now able to cross-sell Mandalay brands to lapsing Jackpotjoy and Starspins players, and we believe the effect should begin in 2018. Furthermore, management has stated that it is considering merging Mandalay with its other bingo assets, particularly given the focus on cross-selling between all the bingo brands as well as the relative size of Mandalay.

We summarise our divisional forecasts in Exhibit 1 below.

Exhibit 1: Divisional Forecasts					
Gaming Revenue £m	2016	2017	2018e	2019e	2020e
Jackpotjoy	188.2	211.3	228.3	241.7	253.8
<i>growth</i>	55.3%	12.3%	8.0%	5.9%	5.0%
Vera&John	57.0	73.2	85.4	96.5	107.1
<i>growth</i>	35.4%	28.3%	16.7%	13.0%	11.0%
Mandalay	21.7	20.2	20.3	20.5	20.6
<i>growth</i>	1.2%	-7.2%	0.7%	0.7%	0.8%
Total Gaming Revenue	266.9	304.7	334.0	358.7	381.5
<i>growth</i>	38.2%	14.1%	9.6%	7.4%	6.4%
EBITDA £m					
Jackpotjoy	84.6	95.1	97.4	100.2	103.4
<i>margin</i>	44.9%	45.0%	42.7%	41.5%	40.7%
Vera&John	18.0	18.0	21.4	22.7	25.7
<i>margin</i>	31.6%	24.6%	25.0%	23.5%	24.0%
Mandalay	6.6	7.1	7.0	7.0	7.1
<i>margin</i>	30.4%	35.4%	34.6%	34.2%	34.2%
Corporate Costs	-7.0	-11.7	-12.2	-13.4	-13.9
<i>margin</i>	-2.6%	-3.8%	-3.7%	-3.7%	-3.7%
EBITDA adjusted	102.2	108.6	113.6	116.5	122.2
<i>EBITDA margin</i>	38.3%	35.6%	34.0%	32.5%	32.0%

Source: Company accounts, Edison Investment Research. Note: *2016 gaming revenues exclude £2.1m of other revenues from a revenue guarantee and platform migration revenue.

Cash flow and balance sheet

Following the £94.2m earn-out payment to Gamesys in June 2017, JPJ ended the year with an unrestricted cash balance of £59m and net debt of £311m. Cash conversion of 94% produced a pre-tax operating cash flow of £102m, in line with our forecasts.

Including the contingent consideration for the remaining earn-outs (the major portion is for the c £50m to Botemania in June 2018), adjusted net debt/EBITDA ratio was 3.6x at FY17, down from 4.0x at December 2016. We forecast unadjusted net debt of £286m in 2018, with an adjusted net leverage of 2.7x, reaching the company's target of less than 2.0x during 2019. For a more detailed analysis of the company's debt profile and debt refinancing please see our [November 2017 update](#) and October 2017 Outlook notes.

Under the terms of its covenants, the group is permitted to pay dividends once adjusted net debt/EBITDA reaches 2.75x and we now include dividends into our forecasts, beginning in 2019. We forecast a dividend payout of c 30%.

Exhibit 2: Changes to estimates									
	Revenue (£m)			EBITDA (£m)			EPS (p)		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
2018e	326.0	334.3	2.5	113.8	113.6	(0.2)	118.9	119.7	0.7
2019e	349.4	358.7	2.6	116.4	116.5	0.1	127.6	128.2	0.5

Source: Company accounts, Edison Investment Research

Exhibit 3: Financial summary

	£m	2015	2016	2017	2018e	2019e	2020e
December							
PROFIT & LOSS							
Revenue		194.6	269.0	304.7	334.0	358.7	381.5
Cost of Sales		(101.4)	(130.7)	(147.5)	(166.7)	(185.5)	(199.7)
Gross Profit		93.3	138.3	157.2	167.3	173.2	181.8
EBITDA		70.4	102.2	108.6	113.6	116.5	122.2
Operating Profit (before amort. and except.)		70.1	101.6	108.2	113.1	116.0	121.7
Intangible Amortisation		(50.6)	(55.5)	(62.6)	(62.6)	(62.6)	(62.6)
Exceptional and other items **		(109.7)	(80.3)	(104.9)	2.0	2.0	2.0
Share based payments		(2.9)	(2.3)	(1.4)	(2.0)	(2.0)	(2.0)
Operating Profit		(93.1)	(36.5)	(60.8)	50.5	53.4	59.1
Net Interest		(24.0)	(18.1)	(30.0)	(20.0)	(14.0)	(13.0)
Profit Before Tax (norm)		46.1	83.5	78.2	93.1	102.0	108.7
Profit Before Tax (FRS 3)		(114.2)	(36.7)	(65.8)	30.5	39.4	46.1
Tax		(0.5)	0.1	(0.7)	(3.0)	(5.0)	(5.0)
Profit After Tax (norm)		45.5	83.6	77.5	90.1	97.0	103.7
Profit After Tax (FRS 3)		(114.8)	(36.7)	(66.5)	27.5	34.4	41.1
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	120.8	129.4	137.4
EPS - normalised and fully diluted (p)		73.0	112.5	103.9	119.7	128.2	136.1
EPS - (IFRS) (p)		(187.5)	(51.5)	(90.0)	36.9	45.9	54.5
Dividend per share (p)		0.0	0.0	0.0	0.0	40.0	45.0
Gross Margin (%)		47.9	51.4	51.6	50.1	48.3	47.7
EBITDA Margin (%)		36.2	38.0	35.6	34.0	32.5	32.0
Operating Margin (before GW and except.) (%)		36.0	37.8	35.5	33.9	32.4	31.9
BALANCE SHEET							
Fixed Assets		674.3	652.3	595.9	536.8	478.7	420.6
Intangible Assets		668.8	648.8	589.0	526.4	463.8	401.2
Tangible Assets		0.2	0.9	1.3	4.8	9.3	13.8
Other long term assets		5.3	2.6	5.6	5.6	5.6	5.6
Current Assets		63.9	139.0	93.2	93.6	112.3	119.2
Stocks		0.0	0.0	0.0	0.0	0.0	0.0
Debtors (incl swaps)		25.6	62.0	26.0	30.0	32.0	34.0
Cash		31.8	68.5	59.0	53.6	69.3	73.2
Player balances		6.5	8.6	8.2	10.0	11.0	0.0
Current Liabilities		(54.3)	(154.9)	(98.5)	(49.3)	(47.3)	(47.3)
Creditors		(23.1)	(41.3)	(46.3)	(45.0)	(45.0)	(45.0)
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)	
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)	0.0
Net Assets		289.0	239.4	204.1	237.7	252.3	251.1
CASH FLOW							
Operating Cash Flow		23.3	84.2	102.0	106.6	109.5	115.2
Net Interest		(24.0)	(17.5)	(30.9)	(20.0)	(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)	(5.0)	(5.0)
Acquisitions (inc earn-outs)		(355.6)	(156.3)	(94.2)	(55.0)	(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	(14.8)	(33.3)
Net Cash Flow		(155.6)	(122.9)	(5.2)	24.6	65.7	53.9
Opening net debt/(cash)		27.1	182.7	305.6	310.7	286.1	220.4
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	286.1	220.4	166.5
NPV of outstanding earnouts/ other		209.5	140.8	76.6	15.0	5.0	0.0
Currency swaps		(4.7)	(38.2)	0.0	0.0	0.0	1.0
Adjusted net debt		387.5	408.1	387.3	301.1	225.4	166.5

Source: Company 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 Pty 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 JackpotJoy plc 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.