JackpotJoy plc

FY17 results

A transformational year

Travel & leisure

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% pay-out 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).

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.

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Analysts

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

gaming@edisongroup.com

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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
growth	*55.3%*	*12.3%*	*8.0%*	*5.9%*	*5.0%*
Vera&John	57.0	73.2	85.4	96.5	107.1
growth	*35.4%*	*28.3%*	*16.7%*	*13.0%*	*11.0%*
Mandalay	21.7	20.2	20.3	20.5	20.6
growth	*1.2%*	*-7.2%*	*0.7%*	*0.7%*	*0.8%*
Total Gaming Revenue	**266.9**	**304.7**	**334.0**	**358.7**	**381.5**
growth	*38.2%*	*14.1%*	*9.6%*	*7.4%*	*6.4%*
EBITDA £m					
Jackpotjoy	84.6	95.1	97.4	100.2	103.4
margin	*44.9%*	*45.0%*	*42.7%*	*41.5%*	*40.7%*
Vera&John	18.0	18.0	21.4	22.7	25.7
margin	*31.6%*	*24.6%*	*25.0%*	*23.5%*	*24.0%*
Mandalay	6.6	7.1	7.0	7.0	7.1
margin	*30.4%*	*35.4%*	*34.6%*	*34.2%*	*34.2%*
Corporate Costs	-7.0	-11.7	-12.2	-13.4	-13.9
margin	*-2.6%*	*-3.8%*	*-3.7%*	*-3.7%*	*-3.7%*
EBITDA adjusted	**102.2**	**108.6**	**113.6**	**116.5**	**122.2**
EBITDA margin	*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

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia