

# GVC Holdings

Budget announcement

## Budget not as bad as feared

The Budget has provided long-awaited clarity on a number of gaming-related issues. The implementation of the £2 FOBT stake reduction will begin in October 2019, at the same time as a 600bp increase in remote gaming duty (RGD), from 15% to 21%. This is 1% higher than market expectations, but lower than recent rumours of 25%. We now include a £30m annual EBITDA impact in our forecasts. Also adjusting for an earlier implementation of the FOBT stake limit, we have lowered our FY19e EBITDA by 7%. Our FY20e EBITDA declines by 4%. The stock has fallen c 22% since August and trades at 9.8x EV/EBITDA and 13.0x P/E for FY19e.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16p	2,998.8	523.4	257.7	N/M	N/M	N/A	N/A
12/17p**	3,291.5	666.5	462.8	N/M	N/M	N/A	N/A
12/18e	3,472.7	734.9	511.0	72.6	32.0	12.7	3.5
12/19e	3,365.0	736.2	502.3	70.9	34.0	13.0	3.7
12/20e	3,319.0	700.0	461.6	64.7	36.0	14.3	3.9

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

## RGD at 21% and FOBT cuts start in October 2019

GVC has significant exposure to both online and retail gaming in the UK and the business has been greatly affected by recent regulatory changes. The timing for FOBT stake reduction (from £100 to £2) is now set for October 2019, at the same time as an increase in RGD (from 15% to 21%). This compares to the widely expected 20% rate (but less than the feared 25% from April 2019) and will affect all online gaming operators (not sports) in the UK. Other ongoing regulatory pressures include social responsibility, AML, source of funds, etc. All this is likely to lead to a continued market shake out, with dominant players likely to benefit. We note that, as a result of its Ladbrokes acquisition, GVC is the largest online gaming operator in the UK, and remains particularly well positioned.

## 21% RGD affects EBITDA by c £30m

UK online revenues comprise c 20% of group revenues and we estimate that UK online gaming (not sports) comprises c £500m. The 6% increase in RGD will therefore have an annual impact of c £30m on group EBITDA. We have also altered our forecasts to reflect the timing of the FOBT stake limit cut (to include a £50m hit in FY19). Altogether, we reduce our FY19 and FY20 EBITDA forecasts by 7% and 4%. Our FY19e and FY20e EPS decline by 11% and 7% respectively.

## Valuation: 9.8x EV/EBITDA and 13.0x 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. With net debt/EBITDA peaking at 2.6x in 2018, strong FCF should rapidly reduce leverage. The stock has fallen c 22% since August and trades at 9.8x EV/EBITDA and 13.0x P/E for FY19e, appropriately towards the top end of the peer group.

## Travel & leisure

30 October 2018

Price **922p**

Market cap **£5,362m**

£1:€1.127

Net debt (£m) at June 2018 1,887

Shares in issue 581.6m

Free float 99%

Code GVC

Primary exchange LSE

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 0.4 (15.8) (0.4)

Rel (local) 7.7 (7.4) 6.6

52-week high/low 1,170p 860p

## 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 events

Q418 trading update January 2019

## Analysts

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**Exhibit 1: Financial summary**

	£m	2016	2017	2018e	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue (NGR)		2,998.8	3,291.5	3,472.7	3,365.0	3,319.0
Cost of Sales		(1,233.8)	(1,418.7)	(1,581.7)	(1,599.1)	(1,650.6)
Gross Profit		1,765.0	1,872.8	1,890.9	1,766.0	1,668.4
EBITDA		523.4	666.5	734.9	736.2	700.0
Normalised operating profit		376.4	529.5	594.9	581.2	535.0
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)
Share-based payments		(31.8)	(20.7)	(12.5)	(12.5)	(12.5)
Reported operating profit		(389.7)	69.3	190.4	329.7	269.5
Net Interest		(124.6)	(72.0)	(85.0)	(80.2)	(75.0)
Joint ventures & associates (post tax)		5.9	5.3	1.1	1.3	1.6
Profit Before Tax (norm)		257.7	462.8	511.0	502.3	461.6
Profit Before Tax (reported)		(508.5)	2.5	106.5	250.8	196.1
Reported tax		23.6	(9.9)	(66.4)	(65.3)	(60.0)
Profit After Tax (norm)		257.7	462.8	511.0	502.3	461.6
Profit After Tax (reported)		(508.5)	2.5	106.5	250.8	196.1
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)		222.1	402.6	436.6	426.6	389.1
Net income (reported)		(456.5)	(20.6)	32.1	175.1	123.6
Basic average number of shares outstanding (m)		NM	NM	582	582	582
EPS - basic normalised (p)		NM	NM	75.06	73.35	66.90
EPS - diluted normalised (p)		NM	NM	72.57	70.91	64.68
EPS - basic reported (p)		NM	NM	5.51	30.11	21.25
Dividend (p)		NM	NM	32.00	34.00	36.00
Revenue growth (%)		NM	10%	6%	-3%	-1%
Gross Margin (%)		58.9	56.9	54.5	52.5	50.3
EBITDA Margin (%)		17.5	20.2	21.2	21.9	21.1
Normalised Operating Margin		12.6	16.1	17.1	17.3	16.1
<b>BALANCE SHEET</b>						
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	766.7	758.9
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	121.5	83.7
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)	(2,510.0)	(2,360.0)
Long term borrowings		(749.6)	(1,212.1)	(2,012.1)	(1,900.0)	(1,750.0)
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	3,810.5	3,787.7
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		4,196.9	4,220.9	3,911.9	3,810.5	3,787.7
<b>CASH FLOW</b>						
Op Cash Flow before WC and tax		558.6	701.2	596.9	736.2	700.0
Working capital		3.8	(29.1)	(50.0)	(25.0)	(25.0)
Exceptional & other		(534.3)	(59.5)	(142.0)	(39.0)	(73.0)
Tax		(6.5)	(14.9)	(60.0)	(65.3)	(60.0)
Net operating cash flow		21.7	597.7	344.9	606.9	542.0
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)	(80.2)	(75.0)
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		(902.4)	131.5	(803.6)	58.6	112.2
Opening net debt/(cash)		312.7	1,215.1	1,083.5	1,887.2	1,828.5
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	1,083.5	1,887.2	1,828.5	1,716.3

Source: Company accounts, Edison Investment Research

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