

# GVC Holdings

Trading update

## Q216 trading update – firmly on track

Travel & leisure

**GVC's July 2016 trading update reveals its early progress after its February acquisition of bwin.party has continued into Q216. Q2 net gaming revenue (NGR) per day rose by 11% y-o-y on a pro-forma basis (+16% on a constant currency basis). Pro-forma H116 NGR was up 8% to €439m (+11% CC) with both GVC and bwin brands delivering growth. Recent operational progress has included a successful application to the Premium Segment of the LSE. Forthcoming challenges to be navigated include the H216 platform migration. However, we believe GVC's positive update underpins our full-year forecasts, which remain unchanged.**

Year end	Revenue (€m)	EBITDA* (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	224.8	49.2	41.3	61.4	55.5	10.0	9.0
12/15	247.7	54.1	50.0	76.4	56.0	8.0	9.1
12/16p**	850.0	196.5	81.2	25.2	0.0	24.4	N/A
12/17e	878.5	250.0	167.8	50.0	25.0	12.3	4.1
12/18e	930.0	285.0	223.8	66.0	32.5	9.3	5.3

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments; \*\*pro-forma

## Both GVC and bwin labels delivering growth

Both GVC and bwin labels achieved pro-forma y-o-y NGR growth in H116 (+15% and +9% respectively on a CC basis). Growth accelerated in Q216 due to a mixture of successful early product initiatives and favourable Euro 2016 results, which saw the Q2 sports margin rise to 9.9% from 7.9% a year ago. While we would normally expect a c 50/50 NGR split for H1 vs H2, we have allowed for some contingency in our H216 forecasts due to the ongoing integration work. As a result we expect H216 revenues of €411m vs €439m in H1. There are also a number of potential regulatory and taxation changes expected in H2. Although we do not expect them to have a material impact, they are likely to exert some marginal cost pressure.

## Operational progress

Notable operational highlights include the aforementioned upgrade to the Premium Segment of the LSE Official list (effective 1 August), the New Jersey gaming licence approval and the 10-year B2B platform licensing deal signed with Betfred. Much of the integration heavily lifting that underpins the €125m of forecast synergies will take place in H216 including the platform migration. The migration will be staggered with GVC's largest markets being migrated last to minimise any potential disruptions.

## Valuation: Organic growth plus further M&A potential

GVC has experienced strong share price appreciation since the completion of the bwin deal, commensurate with the encouraging start to the integration process. On an EV/EBITDA basis, the enlarged group trades at a slight premium to its peer group on our 2017 forecasts (9.4x vs 8.9x), justified by its geographically diversified revenue stream and what we expect to be strong and growing cash generation going into 2018e when the full benefits of the integration process should be realised. We also note the potential for further value to be created through future M&A activity.

13 July 2016

**Price** **614.00p**

**Market cap** **£1,792m**

£0.85/\$1.10/TRY3.20/€

Net debt (€m) at 17 April 2016 193

Shares in issue 291.8m

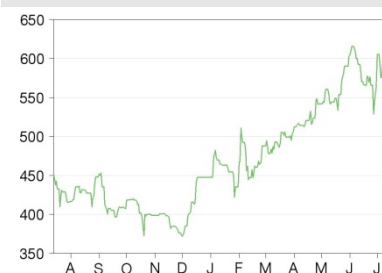
Free float 95%

Code GVC

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 3.6 19.9 36.0

Rel (local) (3.5) 13.6 36.8

52-week high/low 622.50p 372.00p

### Business description

GVC Holdings is a leading provider of B2B and B2C services to the online gaming and sports betting markets. It announced a recommended bid for bwin.party digital entertainment on 4 September 2015 and the transaction was completed on 1 February 2016.

### Next events

Interim results 20 September 2016

### Analysts

Eric Opara +44 (0)20 3681 2524

Jane Anscombe +44 (0)20 3077 5740

[gaming@edisongroup.com](mailto:gaming@edisongroup.com)

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**Exhibit 1: Financial summary**

	€m	2014	2015	2016p*	2017e	2018e
Year end 31 December		(IFRS)	(IFRS)	(IFRS)	(IFRS)	(IFRS)
<b>PROFIT &amp; LOSS</b>						
Revenue		224.8	247.7	850.0	878.5	930.0
Cost of Sales		(101.5)	(112.4)	(399.5)	(412.9)	(437.1)
Gross Profit (contribution)		123.3	135.4	450.5	465.6	492.9
EBITDA		49.2	54.1	196.5	250.0	285.0
Depreciation and amortisation		(5.5)	(1.4)	(51.1)	(48.8)	(47.0)
Operating Profit (norm)		43.7	52.7	145.4	201.2	238.0
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptional/ one-off items		0.0	(24.5)	(90.0)	(5.0)	0.0
Share based payments		(0.7)	(0.4)	0.0	0.0	0.0
Operating Profit		42.9	27.7	55.4	196.2	238.0
Net interest		(0.1)	(2.2)	(64.2)	(33.4)	(14.3)
Other financial expense		(1.6)	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		41.3	50.0	81.2	167.8	223.8
Profit Before Tax (FRS 3)		41.3	25.5	(8.8)	162.8	223.8
Tax		(0.7)	(0.8)	(2.4)	(6.7)	(11.2)
Profit After Tax (norm)		40.6	49.2	78.7	161.0	212.6
Profit After Tax (FRS 3)		40.6	24.7	(11.3)	156.0	212.6
Average Number of Shares Outstanding (m)		61.1	61.3	292.0	292.0	303.0
EPS - normalised fully diluted (c)		61.4	76.4	25.2	50.0	66.0
EPS - (IFRS) (c)		66.4	40.2	(3.9)	53.4	70.2
Dividend per share (c)		55.5	56.0	0.0	25.0	32.5
Gross Margin (%)		54.8	54.6	53.0	53.0	53.0
EBITDA Margin (%)		21.9	21.8	23.1	28.5	30.6
Operating Margin (before GW and except.) (%)		19.4	21.3	17.1	22.9	25.6
<b>BALANCE SHEET</b>						
Fixed Assets		159.2	159.2	1,484.0	1,482.0	1,482.0
Intangible Assets		154.3	155.2	1,400.0	1,400.0	1,400.0
Tangible Assets		1.1	1.4	80.0	78.0	78.0
Deferred tax asset		3.8	2.6	4.0	4.0	4.0
Current Assets		49.5	72.6	456.0	320.0	378.3
Stocks		0.0	3.8	0.0	0.0	0.0
Debtors		31.7	40.6	110.0	115.0	120.0
Cash		4.8	13.4	221.0	75.0	123.3
Customer balances		13.0	14.8	125.0	130.0	135.0
Current Liabilities		(50.4)	(81.0)	(496.0)	(395.0)	(370.0)
Creditors		(46.4)	(77.3)	(290.0)	(295.0)	(295.0)
Short term borrowings		(4.1)	(3.7)	(206.0)	(100.0)	(75.0)
Long Term Liabilities		(8.8)	(22.6)	(215.0)	(94.0)	(64.0)
Long term borrowings		(3.1)	(19.8)	(200.0)	(80.0)	(50.0)
Other long term liabilities		(5.7)	(2.8)	(15.0)	(14.0)	(14.0)
Net Assets		149.5	128.1	1,229.0	1,313.0	1,426.3
<b>CASH FLOW</b>						
Operating Cash Flow		48.5	62.5	20.2	225.0	265.0
Tax		(0.5)	(0.7)	(5.0)	(10.0)	(12.0)
Net Interest		(0.1)	0.0	(47.0)	(48.3)	(11.3)
Capex		(5.3)	(6.2)	(35.0)	(35.0)	(35.0)
Acquisitions/disposals		(8.0)	(2.4)	(1,553.0)	0.0	0.0
Financing		0.9	(24.5)	1,439.7	0.0	0.0
Dividends		(33.6)	(34.3)	0.0	(44.0)	(98.5)
Net Cash Flow		1.9	(5.6)	(180.1)	87.7	108.3
Opening net debt/(cash)		4.3	2.4	10.2	185.0	105.0
HP finance leases initiated		(0.6)	(1.5)	0.0	0.0	0.0
FX/ Other		0.7	(0.7)	5.2	(7.7)	(5.0)
Closing net debt/(cash)		2.4	10.2	185.0	105.0	1.7

Source: GVC Holdings, Edison Investment Research. Note: \*Pro-forma.

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