EDISON

GVC Holdings

Refinancing

Successful refinancing

Travel & leisure

GVC's refinancing is a very positive surprise, coming just after its move to a premium listing. Nomura's initial 2% interest rate compares with 12.5% being paid on the Cerberus loan, a big vote of confidence in GVC's early progress integrating its transformational bwin acquisition and paving the way for a resumption of dividend payments in 2017. We have increased our 2017e EPS by 6% to reflect the lower financing charges and expect further positive newsflow with the interim results on 20 September.

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	11.0	8.2
12/15	247.7	54.1	50.0	76.4	56.0	8.8	8.3
12/16p**	850.0	196.5	81.2	25.2	0.0	26.7	N/A
12/17e	878.5	250.0	177.6	53.0	25.0	12.7	3.7
12/18e	930.0	285.0	228.0	67.3	32.5	10.0	4.8

Note: *PBT and diluted EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Pro forma includes 12 months of bwin.

Cerberus loan refinanced

GVC's €400m Cerberus loan was put in place at relatively short notice to part-fund the €1.5bn acquisition of bwin in February 2015 and, as such, it bears a 12.5% interest rate plus material fees. We had assumed it would be replaced by a new facility at 7.5% from end Q117, but in fact the €250m Nomura loan bears an initial rate of only 2% and is expected to be drawn down on 1 February 2017. We have increased our 2017e normalised PBT by €9.8m to €177.6m to reflect the lower interest cost and finance fees.

Excellent July trading with Euro 2016

GVC had already reported strong H116 trading (13 July Update note) and now reports that July proforma revenues (including bwin) were 26% up on July 2015 (31% at constant currency), boosted by favourable results in the FIFA Euro 2016 tournament. We have left our 2016 estimates unchanged for now, ahead of the interims, but see some scope for upward revision. Much of the heavy lifting that underpins the total €125m of forecast synergies will take place in H216, including the important platform migration, but GVC has put in place an extremely experienced management team. We continue to expect very strong cash generation from 2017 once the bwin restructuring is complete.

Valuation: More to go for

GVC's shares have risen by 45% since the start of the year, reflecting the encouraging early progress with the bwin, and helped by the move up from AIM to the Full list (premium segment from 1 August), with likely entry to the FTSE 250 in September. The 2017e EV/EBITDA of 9.9x is broadly in line with the peer group (on c 9.5x) despite GVC's above average growth prospects for its diversified business, which could potentially be augmented by further M&A activity in due course.

4 August 2016

Price	**673.5p**
Market cap	**£1,965m**
	£0.84/$1.12/TRY3.35/€
Net debt (€m) at 24 July 2016	154
Shares in issue	291.8m
Free float	95%
Code	GVC
Primary exchange	LSE (Premium segment)
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	11.32	23.58	60.74
Rel (local)	9.82	16.38	62.75
52-week high/low		673.50p	372.00p

Business description

GVC Holdings is a leading e-gaming operator in both B2C and B2B markets. It has four main product verticals (sports, casino, poker, bingo) with a number of brands. It acquired bwin.party digital entertainment (bwin) on 1 February 2016 for €1.51bn.

Next events

Interim results	20 September 2016

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Lower financing costs post debt refinancing

The Cerberus loan

GVC drew down €20m of its Cerberus loan facility in September 2015 (to pay for upfront deal costs) and the remaining €380m on 1 February (when the bwin acquisition completed). The simple interest is 11.5% above a 1% EURIBOR floor (ie 12.5%) and would have totalled €81.6m over the period to the anticipated maturity on 4 September 2017. Moreover there are material additional fees and charges (including a 1% anniversary fee, 2.5% 18-month fee and 3% exit fee), which were anticipated to total €42.7m over the same period. Both the cash and accounting allocations were detailed in GVC's 2015 Annual Report, page 21. As at 1 August €386.5m remained outstanding.

The new Nomura loan

GVC has now agreed a new €250m unsecured loan with Nomura, with formal documentation expected to be signed by 31 October and draw-down on or around 1 February 2017 (thus avoiding both the Cerberus 1% anniversary and 2.5% 18-month fees). The proceeds, together with GVC's other cash resources, will be used to pay down the Cerberus loan. The initial interest rate is 2.0% above a 0.0% EURIBOR floor (ie 2.0%) and we assume the fees could be c 3%. The Nomura loan's initial maturity date is a year after the signing of the agreement (ie October 2017), but it may be extended for six or 12 months. Compared to running the Cerberus loan to full maturity, the Nomura loan saves GVC €43m of annual cash interest, as well as giving it greater flexibility especially with respect to the resumption of dividends.

Changes to estimates

We have not made any changes to our revenue or clean EBITDA/ EBIT estimates at this stage. The changes to our estimates summarised in Exhibit 1 are the result of changes to our financing charges (previously discussed in our 3 May 2016 Update note). It is worth noting that the calculation of the accounting allocation of fees is complicated and we expect more accurate guidance at the time of the interims.

Exhibit 1: Changes to estimates

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2016p*	25.2	25.2	-	81.2	81.2	-	196.5	196.5	-
2017e	50.0	53.0	+6.0	167.8	177.6	+5.8	250.0	250.0	-
2018e	66.0	67.3	+2.0	223.8	228.0	+1.9	285.0	285.0	-

Source: Edison Investment Research. Note: Estimates are normalised. 2016p is pro forma.

We have not changed our 2016 estimated financing charge of €64.2m, as we assume that the accounting allocation of fees for the Nomura loan will broadly offset the saving from the anniversary fee. Hence our 2016 forecasts are unchanged.

We had previously assumed that the Cerberus loan would be refinanced on 1 March 2017 at 7.5% (thus incurring the anniversary fee but not the 18-month fee). For 2017 we thus calculated €20.8m of interest to which we added €12.6m of fees (from GVC's Annual Report Table 12, excluding the extension and 18-month fees) making a total of €33.4m. Our new estimate (Exhibit 2) allows for 2% interest from 1 February, excludes the anniversary fee but allows for some Nomura fees, producing total estimated financing charges of €23.6m, €9.8m lower than our previous estimate.

By H217 GVC will be very strongly cash generative and we continue to expect it will have net cash by the end of 2018, in the absence of any material acquisitions. Our previous 2018e estimates were based on average debt of €150m at 7.5%, plus c €3m of fees/capitalisations; we now assume a rate of 4.5% and c €3m of fees/capitalisations, producing an overall 2018e PBT increase of c €4.2m.

Exhibit 2 shows our estimated split of finance charges between interest and fees, as well as the relative contributions from GVC and bwin, while our overall forecasts are summarised in Exhibit 3.

Exhibit 2: Edison forecasts for the enlarged group

	2016p*			2017e			2018e
€m	**GVC**	**bwin***	**Group**	**GVC**	**bwin**	**New**	**Group**
Sports NGR	124.9	233.3	358.2	133.0	240.3	373.2	401.0
Sports margin	9.5%	9.0%	9.2%	9.5%	9.0%	9.2%	9.0%
Gaming	138.6	353.2	491.8	141.7	363.0	505.3	529.0
Total revenue	**263.5**	**586.5**	**850.0**	**274.7**	**603.3**	**878.5**	**930.0**
EBITDA	56.0	120.5	176.5	61.8	138.2	200.0	255.0
Synergies			20.0			50.0	30.0
Clean EBITDA			**196.5**			**250.0**	**285.0**
Clean EBITDA margin	21.2%	20.5%	23.1%	22.5%	22.9%	28.5%	30.6%
Dep'n/amort own work	(4.6)	(46.5)	(51.1)	(4.6)	(44.2)	(48.8)	(47.0)
Clean EBIT			145.4			201.2	238.0
Interest			(46.7)			(8.8)	(6.8)
Fees (accounting allocation)			(17.5)			(14.8)	(3.2)
Net finance charges			(64.2)			(23.6)	(10.0)
Normalised PBT			**81.2**			**177.6**	**228.0**

Source: GVC, Edison Investment Research. Note: * 2016p includes 12-month pro-forma contribution from bwin (reported will be 11 months). 2016p normalised PBT is before estimated restructuring and deal-related costs of €90m (Exhibit 3).

Exhibit 3: Financial summary

€m	2014	2015	2016p*	2017e	2018e
Year end 31 December	(IFRS)	(IFRS)	(IFRS)	(IFRS)	(IFRS)
PROFIT & LOSS					
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)	(23.6)	(10.0)
Other financial expense	(1.6)	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	41.3	50.0	81.2	177.6	228.0
Profit Before Tax (FRS 3)	41.3	25.5	(8.8)	172.6	228.0
Tax	(0.7)	(0.8)	(2.4)	(7.0)	(11.4)
Profit After Tax (norm)	40.6	49.2	78.7	170.6	216.6
Profit After Tax (FRS 3)	40.6	24.7	(11.3)	165.6	216.6
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	53.0	67.3
EPS - (IFRS) (c)	66.4	40.2	(3.9)	56.7	71.5
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
BALANCE SHEET					
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	450.0	405.0	398.0
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	215.0	160.0	143.0
Customer balances	13.0	14.8	125.0	130.0	135.0
Current Liabilities	(50.4)	(81.0)	(490.0)	(445.0)	(370.0)
Creditors	(46.4)	(77.3)	(290.0)	(295.0)	(295.0)
Short term borrowings	(4.1)	(3.7)	(200.0)	(150.0)	(75.0)
Long Term Liabilities	(8.8)	(22.6)	(215.0)	(114.0)	(64.0)
Long term borrowings	(3.1)	(19.8)	(200.0)	(100.0)	(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	1,328.0	1,446.0
CASH FLOW					
Operating Cash Flow	48.5	62.5	20.2	215.0	265.0
Tax	(0.5)	(0.7)	(5.0)	(10.0)	(12.0)
Net Interest	(0.1)	0.0	(47.0)	(24.2)	(7.0)
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)	101.9	112.5
Opening net debt/(cash)	4.3	2.4	10.2	185.0	90.0
HP finance leases initiated	(0.6)	(1.5)	0.0	0.0	0.0
FX/ Other	0.7	(0.7)	5.2	(6.8)	(4.6)
Closing net debt/(cash)	2.4	10.2	185.0	90.0	(18.0)

Source: GVC Holdings, Edison Investment Research. Note: 2016P is pro forma including bwin for 12 months (reported will be for 11 months).

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