

# Lotto24

**Consumer**
**23 November 2017**

## A leader in the online lottery market

Lotto24 extended its market leadership in 2016, with market share up from 26% to 31%. This demonstrates its core USPs: first mover advantage in the German online lottery market, management experience and marketing know-how. Despite a weak Q3, top-line growth remains strong (FY17 guidance of 10-15% billings growth). After heavy investment in technology and marketing, the business should reach FY17 EBIT break-even, with future profitability flexed according to jackpot opportunities. The stock has performed well but, in our view, there is plenty of upside, as online lottery continues to take a bigger slice of the overall German lottery market.

### Online lottery still only 9% of market

The overall German lottery market is estimated to be worth €7.3bn, with modest growth forecast to 2019 (source: GBGC). The online segment was closed between 2009 and 2012, when new licences were awarded (advertising permitted from 2013). Online is growing rapidly, up 25% in 2016 to €650m (source: Deutscher Lottverband). However, this was still only 9% penetration in 2016 (2015: 7%) and compares to c 51% in Slovakia, c 40% in Finland and c 18% in Norway and UK (Source: GBGC), suggesting plenty of scope for continued strong market growth. Mobile is an important driver, allowing lottery ticket purchases anywhere, any time.

### Lowered guidance after exceptionally weak Q3

Following an exceptionally weak jackpot trend in Q317, the company has lowered FY17 guidance to 10-15% increase in billings (from 15-20%). For the first nine months of 2017, billings increased 16% to €164.6m with registered customers increasing by 28% to 1.5m. Revenues grew 20% to €18.8m. The 16 federal state lotteries still account for c 65% of the market, but Lotto24's 2016 market share gain (to 31%) suggests that it is successfully capitalising on its first mover advantage. It is materially bigger than all the other private providers combined. This is important since once they have signed up, lottery customers are generally very loyal.

### EBIT break-even expected for FY17

Lotto24 has an attractive, scalable business model with no bookmaking risk and long-term contracts with all 16 lottery operators. Investment in marketing and IT means that it has been loss-making until this year. Marketing costs are flexed according to the prevailing jackpot trend and, despite lowered billings guidance, the company still expects to achieve EBIT breakeven in FY17. Market consensus is for FY17 PBT breakeven, rising to €3m in 2018. Future profitability is likely to be affected by higher spend on jackpot opportunities.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	22.8	(4.21)	(0.01)	0.0	N/A	N/A
12/17e	26.6	0.18	0.05	0.0	N/A	N/A
12/18e	32.0	3.15	0.12	0.0	87.2	N/A
12/19e	37.1	6.33	0.23	0.0	45.5	N/A

Source: Bloomberg

**Price** €10.46  
**Market cap** €253m

#### Share price graph



#### Share details

Code	LO24
Shares in issue	24.2m
Net cash (€) as Q317	€6.6m

#### Business description

Lotto24 is Germany's market leader in the online market of state-licensed lotteries. It receives commissions when customers enter lotteries such as Lotto 6aus49 and does not bear any bookmaking risk. It was founded by Tipp24 (now Zeal Network) in 2010 and spun off and listed in 2012.

#### Bull

- Strong organic growth, with 1.5 million registered customers.
- Online lottery market is nascent compared to other digital markets, with scope for significant further penetration.
- Scalable technology for online and mobile, with no associated jackpot risk.

#### Bear

- The company is still in start-up phase, with EBIT break-even expected in FY17. Future jackpot opportunities may lead to higher marketing spend and negative EBIT in the near term.
- Competitive markets, with 16 federal state lotteries and secondary lotteries.
- Ongoing regulatory restrictions and uncertainties.

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