

# Jackpotjoy plc

## 10% EPS upgrade on refinancing

Jackpotjoy plc (JPJ) has made another significant step towards the improvement of its capital structure, by securing a c £388.5m senior secured term and revolving credit facility. The facility will replace its existing first and second lien term notes and, although 2017e gross debt increases by c £40m, cash interest costs should decline by c 33% pa. We estimate that pro forma adjusted net leverage of 3.4x (3.35x at Q317) will fall to 2.4x in 2018 and 1.6x in 2019. We have increased our 2018 and 2019 EPS by c 10%. JPJ's shares have risen 39% since the January listing in London, but still trade at a meaningful discount to peers at 7.0x P/E, 8.0x EV/EBITDA and 13.3% free cash flow yield for 2018e.

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)
12/16	269.0	102.2	65.6	88.4	0.0	9.4
12/17e	298.2	107.4	65.2	86.4	0.0	9.7
12/18e	326.0	113.8	91.9	118.9	0.0	7.0
12/19e	349.4	116.4	100.5	127.6	0.0	6.5

Note: \*EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. EPS is fully diluted.

## Continued improvement of the capital structure

During 2017, JPJ has paid a £94.2m earnout to Gamesys and made significant progress in simplifying its balance sheet. The refinancing and replacement of its first and second lien term loans is another major step in improving the capital structure. The £388.5m senior secured term loan (£375m) and revolving credit facility (£13.5m) will be available from mid-December 2017. S&P and Moody's are expected to issue new credit ratings: S&P is anticipated to maintain its B+ rating and Moody's to upgrade to B1.

## Cash interest decreases by 33%

The £375m term facility has a maturity of seven years, with a weighted average interest rate of Libor/Euribor + 491bp and the company estimates that total cash interest payments will be reduced by c 33% (£9m pa). We have raised our 2018 and 2019 EPS by c 10%. JPJ generates c £100m operating cash flow per year and, following the £44m earnout payment in June 2018, we estimate that current pro forma adjusted net debt to EBITDA of 3.4x (vs 3.35x at Q317) will fall to 2.4x in 2018 and 1.6x in 2019. Although not in our forecasts, we believe that JPJ may consider dividends from 2019.

## Valuation: 7.0x 2018e P/E even more attractive

JPJ has produced four sets of robust quarterly reports since re-listing in London and the stock has risen 39% this year. Nonetheless, JPJ trades at a meaningful discount to peers (7.0x P/E, 8.0x EV/EBITDA for 2018e), reflecting legacy concerns about the Gamesys relationship, high leverage and the lack of dividend. This successful refinancing demonstrates the underlying strength of the business and robust cash generation should lead to demonstrable debt reduction from 2018.

## Refinancing update

### Travel & leisure

27 November 2017

**Price** 834p

**Market cap** £618m

£1/€1.12

Net debt (£m) at September 2017 298

Shares in issue 74.1m

Free float 95%

Code JPJ

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 2.4 12.1 N/A

Rel (local) 3.9 11.8 N/A

52-week high/low 859p 534p

### Business description

Jackpotjoy plc (JPJ) is a leading online gaming operator mainly focused on bingo-led gaming targeted towards female audiences. About 77% of revenues are generated in regulated markets.

### Next events

FY results March 2018

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**Exhibit 1: Financial summary**

	£m	2015	2016	2017e	2018e	2019e
December						
<b>PROFIT &amp; LOSS</b>						
Revenue		194.6	269.0	298.2	326.0	349.4
Cost of Sales		(101.4)	(130.7)	(144.3)	(162.1)	(179.7)
Gross Profit		93.3	138.3	153.9	163.9	169.8
EBITDA		70.4	102.2	107.4	113.8	116.4
Operating Profit (before amort. and except.)		70.1	101.6	105.4	111.9	114.5
Intangible Amortisation		(50.6)	(55.5)	(61.2)	(61.2)	(61.2)
Exceptional and other items*		(109.7)	(52.5)	(33.5)	1.0	0.4
Share based payments		(2.9)	(2.3)	(1.5)	(2.0)	(2.0)
Operating Profit		(93.1)	(8.7)	9.2	49.7	51.7
Net Interest		(24.0)	(35.9)	(40.3)	(20.0)	(14.0)
Profit Before Tax (norm)		46.1	65.6	65.2	91.9	100.5
Profit Before Tax (FRS 3)		(114.2)	(40.7)	(30.1)	30.2	38.5
Tax		(0.5)	0.1	(0.7)	(2.5)	(4.5)
Profit After Tax (norm)		45.5	65.7	64.5	89.4	96.0
Profit After Tax (FRS 3)		(114.8)	(40.6)	(30.8)	27.7	34.0
Average Number of Shares Outstanding (m)		61.2	71.2	74.1	74.5	74.5
EPS - normalised (p)		74.4	92.2	87.0	120.0	128.8
EPS - normalised and fully diluted (p)		73.0	88.4	86.4	118.9	127.6
EPS - (IFRS) (p)		(187.5)	(57.1)	(41.5)	37.2	45.6
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		47.9	51.4	51.6	50.3	48.6
EBITDA Margin (%)		36.2	38.0	36.0	34.9	33.3
Operating Margin (before GW and except.) (%)		36.0	37.8	35.4	34.3	32.8
<b>BALANCE SHEET</b>						
Fixed Assets		674.3	652.3	593.2	534.0	475.9
Intangible Assets		668.8	648.8	587.6	526.4	465.2
Tangible Assets		0.2	0.9	2.9	5.0	8.1
Other long-term assets		5.3	2.6	2.6	2.6	2.6
Current Assets		63.9	139.0	112.8	121.2	157.1
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors (incl swaps)		25.6	62.0	28.0	32.0	34.0
Cash		31.8	68.5	75.8	79.2	112.1
Player balances		6.5	8.6	9.0	10.0	11.0
Current Liabilities		(54.3)	(154.9)	(82.0)	(44.0)	(42.0)
Creditors		(23.1)	(41.3)	(40.0)	(40.0)	(40.0)
Short term borrowings		(25.2)	(26.7)	0.0	0.0	0.0
Contingent consideration		(6.0)	(86.9)	(42.0)	(4.0)	(2.0)
Long Term Liabilities		(394.8)	(397.1)	(397.5)	(349.0)	(297.0)
Long term borrowings		(189.3)	(347.4)	(375.0)	(345.0)	(295.0)
Contingent consideration		(203.6)	(33.3)	(6.5)	(2.0)	0.0
Other long term liabilities		(2.0)	(16.4)	(16.0)	(2.0)	(2.0)
Net Assets		289.0	239.4	226.5	262.2	294.0
<b>CASH FLOW</b>						
Operating Cash Flow		23.3	83.0	102.4	108.8	111.4
Net Interest		(24.0)	(35.9)	(32.0)	(20.0)	(14.0)
Tax		(0.5)	(1.2)	(2.5)	(2.5)	(4.5)
Capex		(2.5)	(2.5)	(4.0)	(4.0)	(5.0)
Acquisitions (inc earnouts)		(355.6)	(156.3)	(94.2)	(49.0)	(5.0)
Financing		203.7	(10.0)	36.7	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Net Cash Flow		(155.6)	(122.9)	6.4	33.3	82.9
Opening net debt/(cash)		27.1	182.7	305.6	299.2	265.8
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		182.7	305.6	299.2	265.8	182.9
NPV of outstanding earnouts/other		209.5	140.7	55.5	6.0	2.0
Currency swaps		(4.7)	(38.2)	0.0	0.0	0.0
Adjusted net debt		387.5	408.1	354.6	271.8	184.9

Source: Company accounts, Edison Investment Research. Note: \*Exceptional and other items include transaction-related costs, severance costs, fair value adjustments on contingent consideration and gain on cross-currency swap.

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