

# GVC Holdings

A gaming powerhouse

**GVC's proposed acquisition of Ladbrokes Coral (LCL) will create a leading global multi-brand gaming business, with revenues of c £3.3bn. Completion is expected in late Q1/early Q218. 90% of the enlarged group's revenues will be derived from locally regulated and/or taxed markets. As witnessed by the successful integration of bwin, GVC is well positioned to deliver material synergies and, regardless of the outcome of the triennial review, the company expects double-digit EPS accretion after the first year. GVC has reported consistently impressive results throughout 2017 and its shares trade appropriately towards the top end of the peer group, at 12.8x EV/EBITDA and 16.4x P/E for 2018e. We introduce new forecasts to reflect the disposal of the Turkish business.**

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16p**	894.6	205.7	121.2	41.5	30.0	25.2	2.9
12/17e	975.0	268.5	220.5	63.0	33.0	16.6	3.2
12/18e	965.0	269.5	226.5	63.7	36.0	16.4	3.4
12/19e	1,022.9	290.3	247.3	68.5	39.0	15.3	3.7

Note: \*Normalised and diluted (EPS) excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*Pro forma results include bwin.party as if it were included from 1 January 2016.

## Material synergies from potential LCL acquisition

The proposed acquisition values LCL's equity at £3.2-4.0bn, depending on the outcome of the triennial review consultation (FOBT stake limits range from £2-£50/spin). GVC expects to hold 53.5% of the enlarged share capital, with Kenny Alexander as group CEO. The combined business will boast a diversified, global, multi-brand gaming portfolio, equating to revenues of c £3.3bn and EBITDA of c £680m in 2017. Irrespective of the FOBT outcome, GVC anticipates annual cost synergies of £100m+ by 2021. After the first full year of consolidation it also expects double-digit EPS accretion, with less than 3.0x net debt/EBITDA.

## Adjusting GVC forecasts for Turkish disposal

GVC has now completed the disposal of its Turkish business and has waived its rights to any earnout (up to €150m in cash). We believe Turkey accounts for c €95m revenues and €35m EBITDA in 2017. Following the disposal, revenues from regulated and/or taxed markets increase from 69% to 75%. GVC reported a strong trading update in October and our standalone forecasts indicate €975m net gaming revenue (NGR) in 2017 and €965m in 2018 (which equates to 9.6% underlying growth), with an EBITDA margin of 27.5% and 27.9% respectively. GVC is highly cash generative (reaching standalone net cash in 2019) and we would anticipate rapid deleverage following the impact of the LCL deal.

## Valuation: Quality reflected in share price rise

GVC's shares have risen over 50% in 2017, driven by strong organic growth, as well as the successful integration of the bwin business. The proposed acquisition of LCL represents a unique opportunity to cement GVC's leading global position and we anticipate significant EPS accretion going forward. As a standalone entity, GVC trades appropriately towards the top end of its peer group, at 12.8x EV/EBITDA and 16.4x P/E for 2018e.

Update post Turkish disposal

Travel & leisure

2 January 2018

**Price** **930p**

**Market cap** **£2,824m**

£1: €1.126

Net debt (€m) at 30 June 2017 149

Shares in issue 303.7m

Free float 95%

Code GVC

Primary exchange LSE

Secondary exchange NA

### Share price performance



% 1m 3m 12m

Abs 1.1 10.1 43.3

Rel (local) (1.0) 5.9 31.8

52-week high/low 951.00p 594.00p

### Business description

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

### Next events

Triennial review consultation January 2018

### Analysts

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**Exhibit 1: Financial summary (not adjusted for potential LCL acquisition)**

	€m	2014	2015	2016*	2017e	2018e	2019e
Year end 31 December		(IFRS)	(IFRS)	(IFRS)	(IFRS)	(IFRS)	(IFRS)
<b>PROFIT &amp; LOSS</b>							
Revenue		224.8	247.7	894.6	975.0	965.0	1,022.9
Cost of Sales		(101.5)	(112.4)	(430.6)	(501.5)	(506.5)	(544.6)
Gross Profit (contribution)		123.3	135.4	464.0	473.5	458.5	478.3
EBITDA		49.2	54.1	205.7	268.5	269.5	290.3
Depreciation and amortisation		(5.5)	(1.4)	(27.0)	(33.0)	(33.0)	(33.0)
Operating Profit (norm)		43.7	52.7	178.7	235.5	236.5	257.3
Amortisation of acquired intangibles		0.0	0.0	(109.5)	(120.0)	(120.0)	(102.0)
Exceptional/ one-off items		0.0	(24.5)	(104.4)	(30.0)	0.0	0.0
Share based payments		(0.7)	(0.4)	(31.1)	(15.0)	(10.0)	(10.0)
Operating Profit		42.9	27.7	(66.3)	70.5	106.5	145.3
Net finance charges (interest plus fees)		(0.1)	(2.2)	(60.8)	(15.0)	(10.0)	(10.0)
Other financial expense/ associates		(1.6)	0.0	3.3	0.0	0.0	0.0
Profit Before Tax (norm)		41.3	50.0	121.2	220.5	226.5	247.3
Profit Before Tax (FRS 3)		41.3	25.5	(123.8)	55.5	96.5	135.3
Tax		(0.7)	(0.8)	0.0	(22.1)	(22.6)	(24.7)
Profit After Tax (norm)		40.6	49.2	116.0	198.5	203.8	222.6
Profit After Tax (FRS 3)		40.6	24.7	(123.8)	33.5	73.8	110.6
Average Number of Shares Outstanding (m)		61.1	61.3	271.8	300.0	310.0	315.0
EPS - normalised fully diluted (c)		61.4	76.4	41.5	63.0	63.7	68.5
EPS - (IFRS) (c)		66.4	40.2	(45.5)	11.2	23.8	35.1
Dividend per share declared (c)		55.5	56.0	30.0	33.0	36.0	39.0
Dividend per share paid (c)		55.0	56.0	0.0	43.2	34.2	37.2
Gross Margin (%)		54.8	54.6	51.9	48.6	47.5	46.8
EBITDA Margin** (%)		21.9	21.8	23.0	27.5	27.9	28.4
Operating Margin (before GW and except.) (%)		19.4	21.3	20.0	24.2	24.5	25.2
<b>BALANCE SHEET</b>							
Fixed Assets		159.2	159.2	1,637.7	1,500.0	1,382.0	1,282.0
Intangible Assets		154.3	155.2	1,609.4	1,471.4	1,353.4	1,253.4
Tangible Assets		1.1	1.4	19.7	20.0	20.0	20.0
Deferred tax asset		3.8	2.6	8.6	8.6	8.6	8.6
Current Assets		49.5	72.6	478.0	430.6	528.4	626.8
Stocks		0.0	3.8	0.0	0.0	0.0	0.0
Debtors		31.7	40.6	123.2	130.0	140.0	145.0
Cash		4.8	13.4	242.8	180.6	258.4	341.8
Customer balances		13.0	14.8	112.0	120.0	130.0	140.0
Current Liabilities		(50.4)	(81.0)	(641.5)	(242.0)	(260.0)	(270.0)
Creditors		(46.4)	(77.3)	(238.0)	(240.0)	(260.0)	(270.0)
Short term borrowings		(4.1)	(3.7)	(403.5)	(2.0)	0.0	0.0
Long Term Liabilities		(8.8)	(22.6)	(76.9)	(370.0)	(370.0)	(370.0)
Long term borrowings		(3.1)	(19.8)	0.0	(300.0)	(300.0)	(300.0)
Other long term liabilities		(5.7)	(2.8)	(76.9)	(70.0)	(70.0)	(70.0)
Net Assets		149.5	128.1	1,397.3	1,318.6	1,280.4	1,268.8
<b>CASH FLOW</b>							
Operating Cash Flow		48.5	62.5	34.0	210.5	253.5	270.3
Tax		(0.5)	(0.7)	(7.9)	(16.0)	(22.6)	(24.7)
Net Interest		(0.1)	0.0	(47.7)	(15.0)	(10.0)	(10.0)
Capex		(5.3)	(6.2)	(34.8)	(35.0)	(35.0)	(35.0)
Acquisitions/disposals		(8.0)	(2.4)	(1,491.5)	0.0	0.0	0.0
Financing		0.9	(24.5)	1,426.6	(3.5)	0.0	0.0
Dividends		(33.6)	(34.3)	0.0	(130.9)	(106.0)	(117.2)
Net Cash Flow		1.9	(5.6)	(121.3)	10.1	79.8	83.4
Opening net debt/(cash)		4.3	2.4	10.2	131.5	121.4	41.6
HP finance leases initiated		(0.6)	(1.5)	0.0	0.0	0.0	0.0
FX/ Other		0.7	(0.7)	0.0	0.0	0.0	0.0
Closing net debt/(cash)		2.4	10.2	131.5	121.4	41.6	(41.8)

Source: Company accounts, Edison Investment Research. Note. \*2016 are pro forma as if bwin were included from 1 January 2016.

\*\*EBITDA margin on NGR.

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