EDISON

UK gaming sector

Winning against the odds

Travel & leisure

2017 has been a challenging year for the UK gaming sector. Negative media has been compounded by an increasingly aggressive regulator. The imminent outcome of the Triennial Review will certainly have an adverse impact on betting shops, as well as placing additional burdens on advertising and social responsibility for all operators. Furthermore, the Budget presents the risk of higher taxes across the board. However, valuations are undemanding vs the market and, as the regulatory overhang clears, winners should emerge. Paddy Power Betfair (PPB) has limited downside to the fixed odds betting terminal (FOBT) debate and Rank may even benefit. Soft gaming companies, Jackpotjoy plc and Stride Gaming, are growing strongly and internationally diversified players (eg GVC, Playtech) are relatively well positioned. M&A is also highly likely.

Regulatory decisions loom

Against a backdrop of negative media and political campaigns, rising taxes and regulatory obligations are weighing on the UK gaming sector. The Triennial Review announcement is due in late October and a potential £2 stake limit on FOBTs would heavily affect retail operators. Ladbrokes Coral and William Hill appear more vulnerable than PPB, while Rank Group has no exposure to B2 machines. The extension of remote gaming duty (RGD) to 'freeplay' will be retrospectively applied from 1 August, forcing bonus-reliant operators to reassess their marketing strategies. In addition, industry commentators are suggesting a potential increase in the general RGD from 15% to 18-20% at the November Budget. All this compounded by high-profile fines for irresponsible marketing and failures surrounding self-exclusion and social responsibility (eg 888's £7.8m settlement).

Online market growth appears to be slowing…

Estimates from the Gambling Commission and H2 Gambling Capital indicate that previous UK online market growth of c 15% CAGR (2008-15) is now slowing to c 7%. Generally, H117 results highlighted declining retail operations in sports, casino and bingo, as well as heightened competition in digital. However, there were interesting variations among the online operators. While some sportsbook players reported disappointing gaming figures (eg PPB), low-stakes soft gaming operators such as Stride Gaming and Jackpotjoy plc (JPJ) appear to be gaining momentum.

…but valuations are undemanding and risk is priced

As with any industry subject to government intervention, investment risk is high. However, the sector has underperformed significantly ytd and multiples are undemanding vs the market. Retail operators are trading as low as 8.3x P/E and 6.5x EV/EBITDA for 2018e, suggesting the FOBT hit is largely priced in. Also, high-growth, soft gaming operators seem inexpensive vs peers (Jackpotjoy plc at 7.9x and Stride at 8.1x 2018e EV/EBITDA). Fundamentally, the sector's strong FCF and income story remains intact and, as the regulatory rulebook becomes clearer, we would anticipate a return to M&A. Scale is important and the technologically advanced, internationally diversified players (eg GVC, The Stars Group, Playtech, 888, Kindred) are best positioned to withstand a higher tax regime and could ultimately benefit as consolidators.

16 October 2017

Companies in this report

888

bet-at-home

Betsson

GVC*

Jackpotjoy plc*

Kindred

Ladbrokes Coral

Paddy Power Betfair

Playtech

Rank Group*

Stars Group, The

Stride Gaming*

William Hill

*Edison research clients.

Investment summaries on pages 11-17.

Note: All shares priced at 13 October 2017

Analysts

Victoria Pease +44 (020) 3077 5740

Katherine Thompson +44 (020) 3077 5730

gaming@edisongroup.com

Sector investment considerations

The UK gaming market is currently facing numerous regulatory and political challenges. However, we believe the investment thesis for many operators remains intact. We provide a snapshot of 13 operators on pages 11-17 and summarise the key sector investment considerations below:

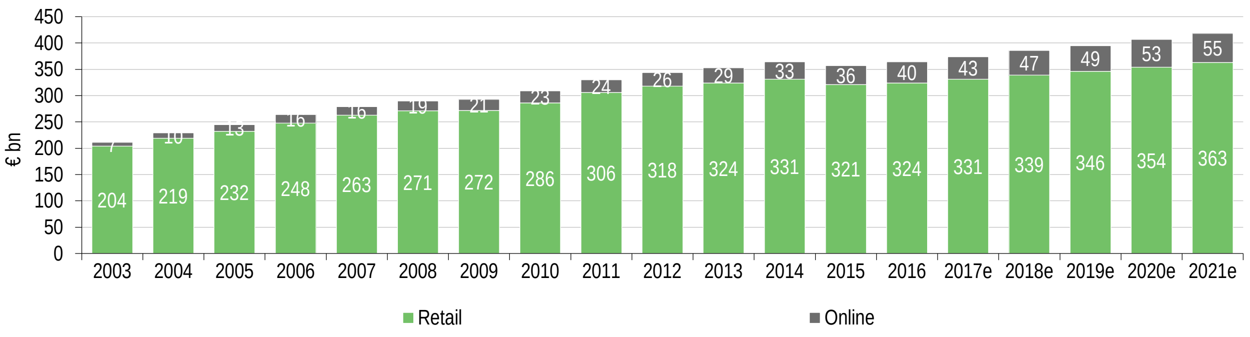
- **Looming regulatory decisions will likely affect all operators:**
  - Triennial Review (outcome due in late October 2017) is expected to lower stake limits on B2 FOBT machines. This will mostly affect Ladbrokes Coral, William Hill and, to a lesser extent, PPB. Casino operators such as Rank Group will be unaffected and could even benefit, if their machine offering becomes more attractive to players.
  - The review is also expected to discuss social responsibility and advertising restrictions for all operators.
  - Industry commentators are speculating that the November Budget could be used to raise the point of consumption tax from 15% to 18-20%. There is also some suggestion of an additional tax on land-based casinos, although we believe this is less likely, as the sector is already highly taxed.
- **Market growth may be slowing, but structural story continues**
  - Estimates from the Gambling Commission and H2 Gambling Capital (H2GC) indicate that UK online market growth is slowing from c 15% CAGR (2008-2015) to c 7% CAGR (2016-21). Global online growth is expected to slow from c 9% to c 7%. With the unfavourable policy changes in the UK, this supports the thesis that some operators may choose to diversify internationally.
  - Operators will need to find additional growth from efficiencies and market share. Scale matters and technologically advanced, internationally diversified players are best positioned.
  - Notwithstanding the negative newsflow, the online gaming market continues to be characterised by structural growth, attractive margins and strong FCF generation. Most stocks offer significant dividend yields.
- **The UK sector has underperformed and valuations are undemanding:**
  - While acknowledging that consensus forecasts will depend on the regulatory outcome, the retail operators trade as low as 8.3x 2018e P/E and 6.5x 2018e EV/EBITDA, a significant discount to the market.
  - High-growth, low-stakes operators such as Jackpotjoy plc and Stride Gaming continue to trade at very undemanding multiples vs their peers (7.9x and 8.1x 2018e EV/EBITDA respectively).
  - Casino operators have little risk from the Triennial Review, although players such as Rank Group continue to trade at 6.9x 2018e EV/EBITDA, which encapsulates the slowdown in retail casino and bingo, but does not reflect the online potential within the business.
  - Top performers in the stock market, such as GVC and bet-at-home are geographically more diversified and growing strongly in other markets. Interestingly, Playtech and The Stars Group are well positioned globally, but trade at a discount to other international peers.
- **A return to M&A once the regulatory overhang clears**
  - There has been relatively little M&A during 2017. However, consolidation has long been a feature of the sector, driven by economies of scale in the business model and cost pressures (new taxes, compliance, etc) and we would expect M&A to resume in 2018 once the regulatory uncertainty is resolved.

Global gambling market overview

The global gaming industry operates in a large, dynamic and growing market and includes both retail and online sports betting, casino, bingo and poker.

The land-based market is dominated by retail lotteries and, according to H2GC, the global betting and gaming market will reach €374bn in gross gaming yield (GGY is gross turnover less winnings) in 2017, of which €43bn is derived from online. As mobile penetration (currently 35%) continues to increase globally, online gross gaming yield is expected to grow by 6.9% CAGR from 2016-2021 to €55bn, which compares to c 9% in previous years. This slowdown in market growth correlates with the stabilisation of mobile penetration in more mature markets.

Exhibit 1: Global gaming market GGY

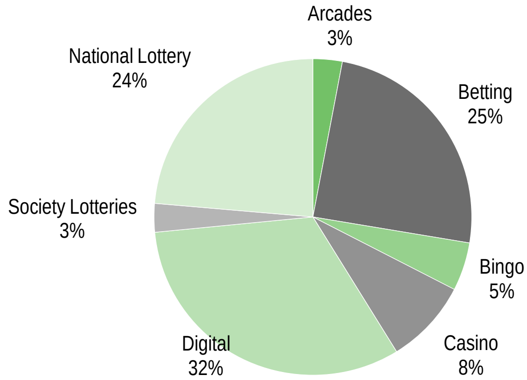


Source: H2 Gambling Capital 2017

UK gaming market

In the year from October 2015 to September 2016, the UK gaming market generated £13.8bn in GGY. The gaming market is dominated by the National Lottery, betting and digital. It has the largest locally regulated online gaming market in the world (c 12% of the global market), which we discuss in more detail below.

Exhibit 2: UK gaming market by GGY (£13.8bn)



Source: Gambling Commission (October 2015 to September 2016)

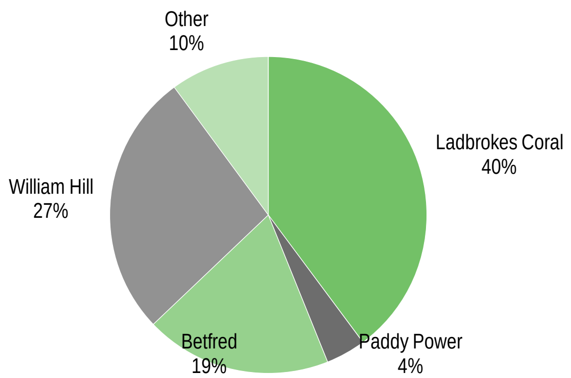
Land-based gaming

Retail sports betting

At March 2017, there were 8,788 betting shops generating £3.4bn of revenues per annum, a 2.3% CAGR since 2009 (source: Gambling Commission). Of this, £1,807m was generated through 34,323 gaming machines in betting shops. The sector is dominated by Ladbrokes Coral, William Hill, Betfred and Paddy Power Betfair.

As we discuss in detail on pages 7-8, a large portion of betting shops' revenues is typically derived from fixed odds betting terminals (FOBT gaming machines), which are under threat from the current Triennial Review. The outcome of the review is expected in late October and, with the largest number of shops, the greatest impact will clearly be felt by Ladbrokes Coral and William Hill.

Exhibit 3: UK retail betting shops market share, 2017



Source: Company data, Edison Investment Research estimates

Retail casino

The UK retail casino market currently comprises 146 operating licences (27 in London, 119 in the provinces). Casino gaming handle totals £7.4bn and the Gambling Commission estimates that at September 2016, casino GGY was £1.19bn, of which £202m was generated through 3,129 casino gaming machines. Interestingly, between 2009 and 2015, casino revenues grew at 6.5% CAGR to £1.16bn, before falling to £998m in March 2016 (then recovering to £1.19bn in September). This tallies with operators' comments that stricter due diligence (introduced in 2016) temporarily deterred some players.

Grosvenor is the largest operator by venue, with 65 operating licences in 54 venues.

Exhibit 4: UK casino market

Operator	Operating licences	Total licences*
Grosvenor Casinos	65	77
Genting	40	56
Caesars Entertainment	9	11
A&S Leisure	5	6
Double Diamond	5	7
Aspers/Aspinalls	5	9
Club 365	2	3
Clockfair	2	2
Guoco	1	1
Others	12	26
Total	146	198

Source: Rank Group. Note: *Includes unused licences.

Retail bingo

The UK bingo industry has been in long-term structural decline, exacerbated by the 2007 smoking ban and, at March 2017, there were 583 clubs in operation, compared to 678 in 2005 (source: Gambling Commission).

At March 2017, retail bingo GGY was £682m, of which £311m was generated through 63,215 gaming machines. The government recognised the impact of the decline on local communities and halved bingo duty from 20% to 10% in June 2014. This funded increased investment in facilities, while the growing availability and popularity of hand-held bingo terminals (such as Mecca Max at Rank Group) has brought in a younger demographic. Across the industry, customer numbers have now stabilised and revenue is up 1.8% from March 2015 to September 2017 (£682m vs £671m).

Exhibit 5: UK bingo market 2017

Operator	Number of venues
Gala Bingo	131
Mecca	85
Majestic	16
Carlton Clubs	13
Club 3000	12
Castle	11
Beacon	8
Others	82
Total	358

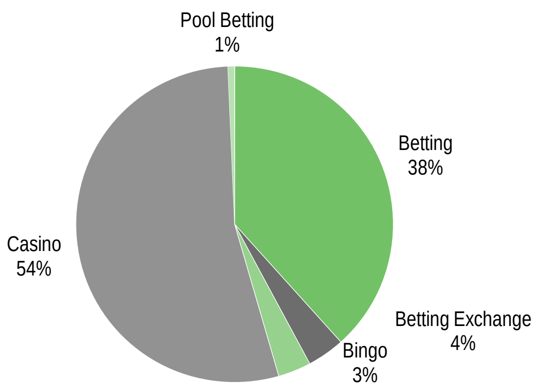
Source: Rank Group

UK online gaming market

The Gambling Commission estimates that, at September 2016, there were 540 remote casino, betting and bingo licences held by 333 operators.

From October 2015 to September 2016, UK digital revenues amounted to £4.46bn (vs £4.23bn in the year to March 2016). Similar to H2GC global online growth forecasts, estimates from the Gambling Commission and H2GC indicate that UK online GGY will increase c 7% CAGR in 2016-21. While still impressive, this represents a significant slowdown compared to the 15% CAGR between 2008 and 2015 (source: H2GC).

Exhibit 6: UK remote gaming sector – £4.46bn (October 2015 to September 2016)

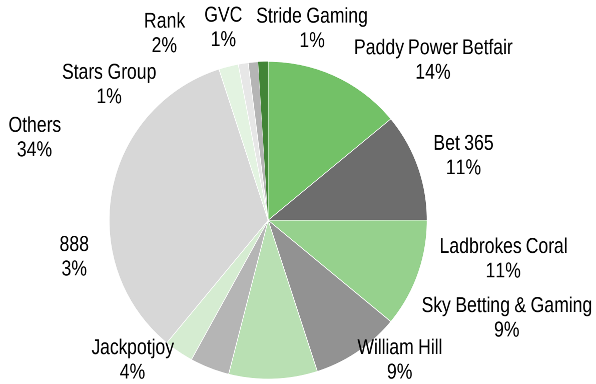


Source: Gambling Commission

Results from the sportsbooks players (PPB, Ladbrokes) appear to indicate that online sports betting could be outpacing online casino growth, although this may also be operator specific. In addition, evidence from Jackpotjoy plc and Stride Gaming suggests that the market-leading, low-stakes soft gaming operators are achieving the greatest momentum.

There are no precise figures for market share in the UK online gaming market, as there is no obligation for operators to split revenues by geography. Furthermore, reporting lines can be blurred with, for example, some operators including bingo-led items (slots) in their bingo division. Looking at overall net gaming revenue per operator, however, it is clear that the online market is dominated by the sports operators, who have successfully cross-sold into real-money gaming.

Exhibit 7: Estimated UK online market share, 2016



Source: Company data, Gambling Commission, Edison Investment Research estimates

Online betting

H2GC estimates that the 2016 global online betting market of €19.4bn in GGY will grow by 6.5% CAGR to €26.6bn in 2021. The Gambling Commission estimates that UK online betting reached £1.9bn at September 2016. This level is approximately double 2012 levels and equates to c 11% of the global online market.

The key competitors in the online betting market are Paddy Power Betfair (27%), Bet365 (23%), William Hill (15%), SkyBet (10%) and Ladbrokes Coral (9%). There are, however, many other new entrants and some operators are reporting intense competition and aggressive sign-up offers, particularly at major events. Along with potential further taxes, this is likely to create continued margin pressure for all operators. Nonetheless, as the market matures, the larger operators have distinct scale and technological advantages and we suspect some smaller players will exit the market in due course.

Online casino

H2GC estimates that the gross gaming revenue (GGR) of global online casino has grown from €1.8bn in 2003 to €10.3bn in 2016, with 6.0% CAGR expected to 2021 (to €13.8bn). At September 2016, the UK online real-money casino market generated an estimated £2.4bn in GGR. Stripping out slots, we estimate that the UK online casino market accounts for approximately 17% of the global total.

The UK online casino market is highly competitive, with pure-play operators competing against the sports betting operators (Ladbrokes Coral is the largest in the market). Continued regulatory pressures include responsible gambling, self-exclusion, anti-money laundering and know your customer.

Online bingo

The UK is the world’s largest online, real-money bingo market with 437 bingo sites in the UK in 2016. The UK Gambling Commission reports that online bingo generated £149m of GGR in the year to September 2016. This is the pure bingo figure. H2GC estimates that the UK bingo-led segment totalled c £600m in 2016, which tallies in that it implies that casino games (mainly slots) account for 75% of the bingo-led market.

The UK bingo-led market is highly competitive and estimated market share has changed in the two years since remote gaming duty (RGD or POCT) was introduced. Key players are Jackpotjoy plc (22% market share), Stride Gaming (10%) and Gala Bingo (8%). The larger multi-product operators such as GVC (Foxy Bingo), Ladbrokes Coral and William Hill appear to have been prioritising their marketing spend towards sports and pure casino.

To date, the online bingo operators have depended heavily on bonusing for customer acquisitions and, given the margin implications of including free bets in the POCT, we expect them to reassess their marketing strategies.

Online poker

H2GC estimates that the global online poker market reached €2.4bn in 2016, representing a 1% annual decline since 2006. We believe UK poker revenues have flatlined at approximately £100m annually, and H2GC forecasts flat revenues going forward.

The poker sector is dominated by three players (The Stars Group, 888 and GVC), with The Stars Group currently holding more than 60% market share. Online poker requires significant scale and liquidity and is therefore less susceptible to new entrants.

UK regulatory and political environment

As noted above, the UK is a fully regulated gaming market generating approximately £13.8bn annually, with online worth £4.46 bn. The market is regulated by the Department for Digital, Culture, Media & Sport (DCMS) and monitored by the Gambling Commission.

Point of consumption tax (POCT)

UK retail shops pay 15% gross profit tax on sports betting and 25% tax on machine gaming. In December 2014, the UK government introduced a ‘point of consumption tax’ (POCT) for online operators, with 15% paid on all online sports GGY and online gaming NGR (net gaming revenue). From 1 August 2017, free bets have also been included in the tax, which will fundamentally alter the bonus-led marketing approach of many online operators.

Given the likely loss of income from FOBT taxes following the Triennial Review, many industry commentators suggest the possibility of further gaming taxes in the November Budget. A potential increase to 18-20% would clearly have a negative impact on all operators in the online gaming space.

The Triennial Review – October 2017

The most important and immediate regulatory change is the outcome of the DCMS’s Triennial Review. Although this initially focused on stakes and prizes offered on different types of gaming machines, the review has been expanded to include advertising and social responsibility. The current review began in October 2016 and is expected to report in late October 2017.

FOBT debate

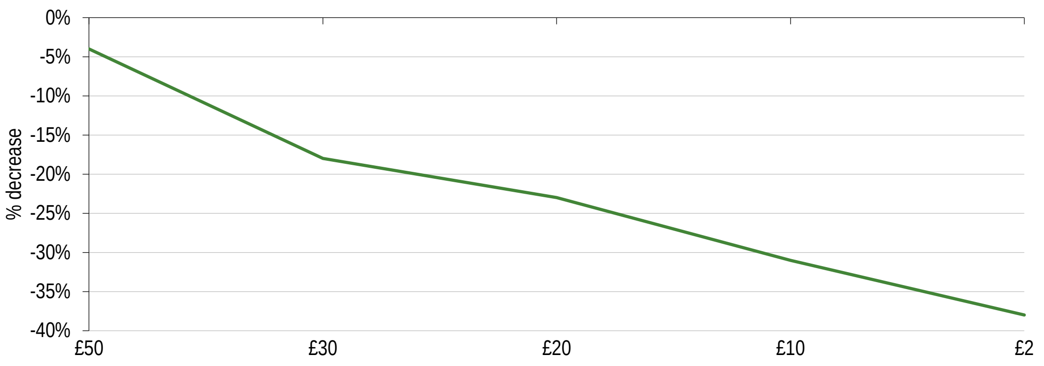
The major focus of the Triennial Review has been on the stakes and prizes offered on B2 machines, or FOBTs (fixed odds betting terminals), which offer games such as roulette. These are mainly located in betting shops and have a maximum stake of £100 and prize of £500.

The B2 FOBT machines have a high 20-second spin rate, and theoretically £100 can be bet every 20 seconds, a much higher rate than in casinos. In total there were 8,788 betting shops and 34,323 FOBT machines at March 2017, generating £1.8bn a year of revenue (67% of all gaming machine revenue, source: Gambling Commission). Across the betting shop sector, the FOBT machines are split 65/35 between B2 (£100 limit) and B3 (£2 limit - slots).

After intense lobbying and media commentary, it is highly likely that the DCMS will cut the maximum stakes permitted on FOBTs, with a range of outcomes from £2 to £20 being suggested by industry commentators. There may also be a reduction in the spin rate. The risks have been reflected in share price weakness, particularly for the most exposed companies such as Ladbrokes Coral and William Hill.

In a recent presentation, PPB estimated that the reduction in stake limit would directly affect its FOBT net revenues by 19-27% for a £20 stake limit and by 33-43% for a £2 stake limit. We would expect the eventual impact to be less negative, as companies are likely to mitigate through substitution, alternative product development, etc.

Exhibit 8: PPB – impact of stake reduction on FOBT net revenue (pre-mitigation)



Source: Paddy Power Betfair

Casino industry

In contrast to betting shops, there were only 3,129 gaming machines in casinos (mainly B1 machines), which generated £202m of revenue in the year to March 2017. This equates to 7.4% of all gaming machine revenue and 17.0% of casino industry revenue. It is possible that any cut to FOBT stakes could be good news for casinos, as it would increase the relative attractiveness of their offering.

The casino industry has been lobbying for an increase in the number of machines permitted in casinos. In particular, it is petitioning for the ratio of machines to tables in the Gambling Act 2005 to be increased from 2:1 to 3:1 and for the Gaming Act 1968 casinos to be harmonised at the same level (ie 3:1 rather than the present total of 20). In the current political environment, however, we suspect that allowing further machines is unlikely in the near term.

Advertising and social responsibility

In addition to the FOBT debate, the industry is facing numerous other regulatory challenges. These are interlinked and include:

- Heavier restrictions on advertising are likely to be incorporated into the Triennial Review, with an emphasis on socially responsible advertising. It is also likely that operators will be forced to balance their promotional advertising with responsible gambling adverts.
- In July 2017, the Competition and Markets Authority (CMA) announced that it had launched enforcement action against several operators (including Ladbrokes and William Hill) for breach of consumer law.
- The Gambling Commission has been proactively tackling failures surrounding self-exclusion and social responsibility. The most high-profile case was 888's settlement of £7.8m in August 2017.

- In May 2017, the Gambling Commission fined BGO Entertainment £300,000 over one of its affiliate's marketing practices. The Advertising Standards Authority (ASA) has also ruled against socially irresponsible adverts from Gala Bingo, Ladbrokes, 888, Sky Vegas and Casumo on separate affiliate sites. In response to all these events, many operators are now monitoring and/or proactively closing down some of their affiliate networks, eg Sky Betting & Gaming and 888.
- Continued emphasis on anti-money laundering (AML), enhanced due diligence (EDD) and know your customer (KYC).

M&A: Pick-up expected in 2018

Given the regulatory uncertainties, there has been relatively little M&A during 2017. However, consolidation has long been a feature of the sector, driven by economies of scale in the business model and cost pressures including remote gaming duty (RGD) in the UK and new taxes and compliance costs in regulating markets. In our view, the technologically advanced, diversified players are best positioned to withstand a higher tax regime and we would expect smaller operators to either be gradually subsumed or exit the market altogether.

Exhibit 9 shows some of the larger deals that were completed over the past couple of years. In almost all cases, companies have acquired to gain scale and diversify revenues. GVC, for example, has been very successful at integrating the bwin acquisition with significant cost and revenue synergies achieved. Kindred's acquisition of 32Red (at c 10x FY17 EV/EBITDA) also achieved the goal of increasing revenues from regulated markets (UK). In addition, William Hill was involved in two proposed transactions that did not proceed: a consortium bid by Rank and 888 (which valued it at c £3.1bn but was rejected by the board) and a proposed merger with Amaya (now The Stars Group).

Exhibit 9: Recent online gambling sector M&A

Deal	Value (£m)	Announced/completed	Business
Scientific Games acquires NYX	£465m	Sept 17	B2B betting and gaming platform
Kindred acquires 32Red	£176m	Mar 17/Jun 17	B2C sports and gaming
GVC acquires bwin.party	€1.51m (£1.14bn)	Jul 15/Feb 16	B2C sports and gaming
Paddy Power merger with Betfair	£4.3bn	Aug 15/Feb 16	B2C sports and gaming
CVC acquires majority stake in Tipico	Est £1.1-1.2bn	Apr 16	German sports betting
NYX acquires OpenBet	£270m	Apr 16	B2B betting and gaming platform
CVC acquires Sisal Group	€1.0bn (£860m)	Apr/May 16	Italian gaming and payments
Stride acquires Tarco/8Ball	£30m (plus up to £40m earn-outs)	Aug 16	Online bingo
Ladbrokes merger with Gala Coral	£2.4bn	Jul 15/Nov 16	B2C sports and gaming

Source: Company announcements, Edison Investment Research

Plenty of value in the sector

As with any industry subject to government intervention, investment risk is high. However, sector multiples are undemanding compared to the market (see Exhibit 10 below). Fundamentally, the online gaming sector model remains highly scalable with significant FCF generation. Also, as the regulatory environment clears, we believe there is significant opportunity to find value in the sector.

An analysis of the peer group valuation suggests the following:

- As demonstrated in the chart below, retail betting operators (William Hill, Ladbrokes and Paddy Power Betfair) have lagged the market due to concerns over slower growth prospects, as well as uncertainties surrounding the Triennial Review. Whilst acknowledging the risk to consensus forecasts surrounding the FOBT outcome, William Hill and Ladbrokes are now trading at undemanding multiples vs peers (10.1x and 8.3x 2018 P/E and 7.2x and 6.5x 2018e

EV/EBITDA respectively). Clearly, if the Triennial Review is less negative than is expected, there would be upside for these stocks.

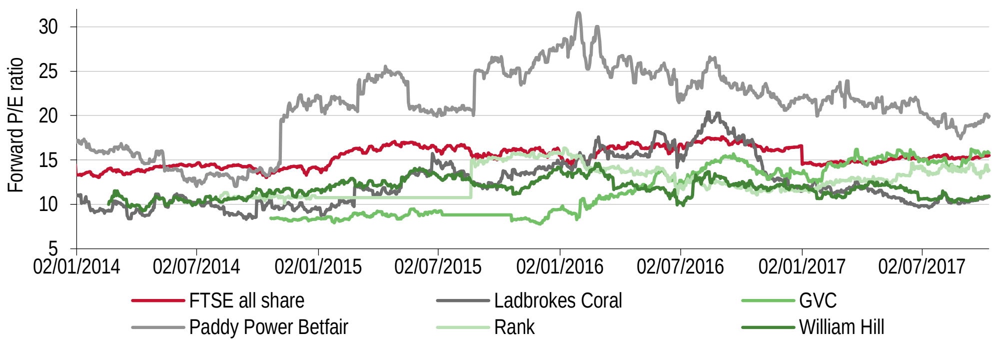
- Rank Group continues to trade at a discount to its peers, reflecting the slow growth (and decline this year) of its core retail business. However, Rank is not vulnerable to the FOBT debate and a 6.9x FY2018e EV/EBITDA seems low, given the strong growth trajectory of its online business.
- Jackpotjoy plc and Stride Gaming have shown good organic growth in soft gaming, although multiples remain undemanding vs the peers at 7.9x and 8.1x 2018e EV/EBITDA respectively. With forecast three-year double-digit EPS CAGR for both stocks, this seems unjustified.
- With no FOBT risk and relatively less exposure to the UK, internationally diverse online companies are commanding the highest multiples, including 888, Kindred, bet-at-home and GVC. The outliers in this segment seem to be The Stars Group and Playtech, which are well positioned internationally but trade below their immediate peers.

Exhibit 10: Sector peer group multiples

Name	Quoted Currency	Market cap (m)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)	CAGR EPS Growth FY1-3	Div yield 1FY (%)
GVC Holdings	GBp	2,717	11.6	10.1	17.0	13.7	4.6%	3.3
Ladbrokes Coral Group	GBp	2,475	7.8	6.5	11.1	8.3	3.7%	3.1
Paddy Power Betfair	GBp	6,495	14.3	12.6	20.2	17.7	5.3%	2.5
Playtech	GBp	2,999	9.4	8.4	13.1	11.6	2.8%	3.5
William Hill	GBp	2,208	7.7	7.2	11.0	10.1	1.3%	5.1
Jackpotjoy plc	GBp	593	8.5	7.9	8.5	7.3	12.1%	0.0
888 Holdings	GBp	900	12.2	10.0	21.2	16.5	3.3%	4.5
Rank Group*	GBp	896	6.9	6.6	14.2	13.0	5.1%	3.5
Stride Gaming**	GBp	166	8.1	6.7	12.2	10.0	22.5%	1.3
The Stars Group	CAD	3,723	9.4	8.9	9.3	8.7	2.7%	N/A
Betsson	SEK	10,685	10.7	9.7	12.8	11.5	-0.3%	4.0
bet-at-home	EUR	883	21.4	18.3	25.4	22.5	4.9%	3.5
Kindred Group	SEK	21,954	15.3	12.5	19.7	16.2	-0.2%	3.4
Mean			11.0	9.6	15.1	12.9	0.1	3.1
Median			9.4	8.9	13.1	11.6	0.0	3.4
UK Mean			9.7	8.6	14.2	12.1	0.1	3.0

Source: Bloomberg consensus, Edison Investment Research estimates. Note: *June year-end. **August year-end. Prices as at 13 October 2017.

Exhibit 11: Forward P/E relative performance for selected peers vs FTSE All-Share



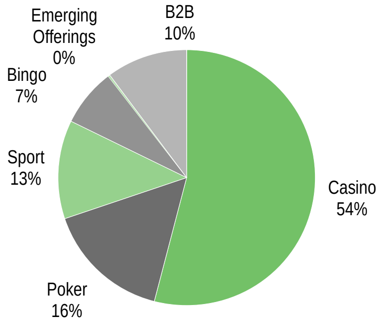
Source: Bloomberg

Exhibit 12: A snapshot of selected gaming operators

<table>
<tr><th>Company</th><th>Description</th><th>Key financials</th><th>Investment case</th></tr>
<tr><td colspan="4">888</td></tr>
<tr><td>888: LN

Price: 250p

Mkt cap: £900m</td><td>888 was founded in 1997 and operates as a B2C provider (casino, poker, bingo, sport) as well as offering white label B2B services through its Dragonfish platform. Geographically, the group operates in the UK (39%), Europe (49%), the Americas (8%) and ROW (3%).
In August 2017, 888 paid a settlement of £7.8m, following discussions with the UK Gambling Commission over failures surrounding self-exclusion.

Revenues: H117


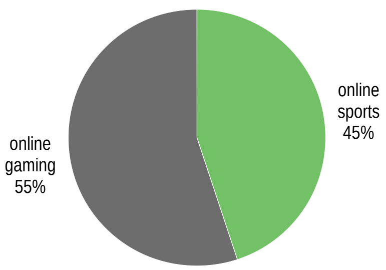
Catalysts: Triennial Review (October 2017); November Budget.</td><td>2017e US$m
Net cash: 149
Revenues: 548
EBITDA: 64
PBT: 21.2</td><td>Bull
■ 888 has reacted quickly to assuage regulators' concerns. It has paid a £7.8m settlement in the UK, exited many grey markets and made provisions for VAT payments in Germany. The company is now well positioned from a compliance perspective.
■ 888 has shown its willingness to participate in the consolidation of the market (via a joint bid with Rank for William Hill). Following the compliance clean-up, the company is well positioned for M&A.
■ 888 has a foothold in the US and there is potential upside if the US market opens further.

Bear
■ Potential German VAT issues and continued scrutiny from the UK regulator cast a shadow.
■ Possible increase in UK POCT would have an important negative impact on earnings.
■ Recent sell-off by O Shaked Shares Trust affected the stock price, although the stock may ultimately benefit from increased liquidity.</td></tr>
<tr><td colspan="4">bet-at-home</td></tr>
<tr><td>ACX: ETR

Price: €126

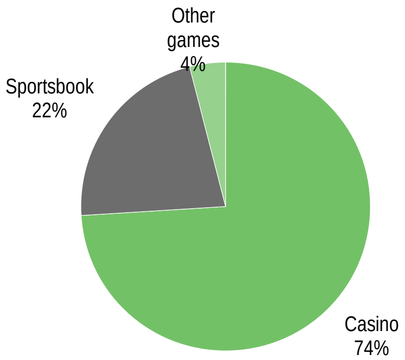
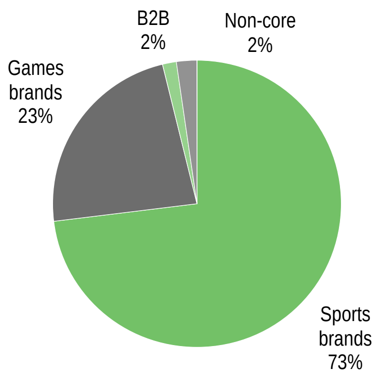
Mkt cap: €883m</td><td>Founded in 1999, bet-at-home is an online sports betting and gaming company with c 300 employees. It is licensed in Malta and headquartered in Dusseldorf, Germany. bet-at-home has been part of Betclic Everest since 2009, a privately owned French online gaming and sports betting group. bet-at-home's main markets are Austria (24% of gross win), other western Europe (47%) and eastern Europe (28%). bet-at-home has very little exposure to the UK (<2% of revenues).

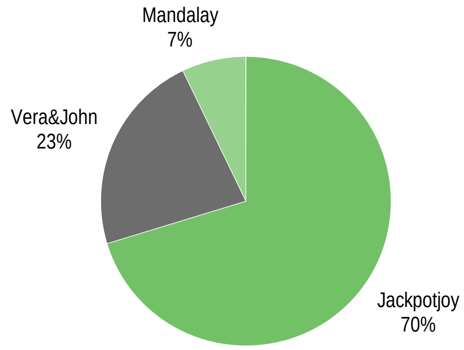
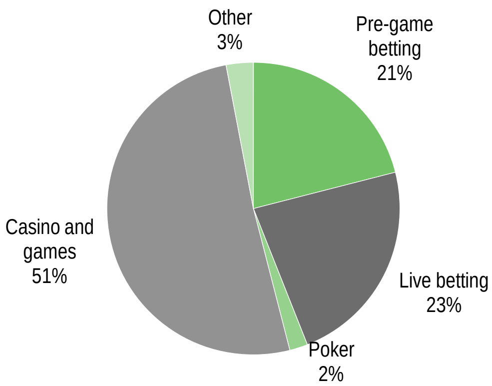
For more information, please see our September QuickView note.

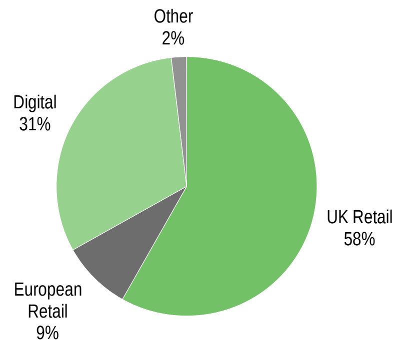
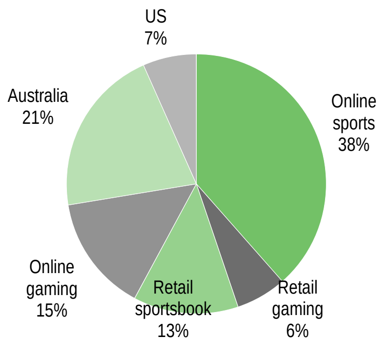
Revenues: H117


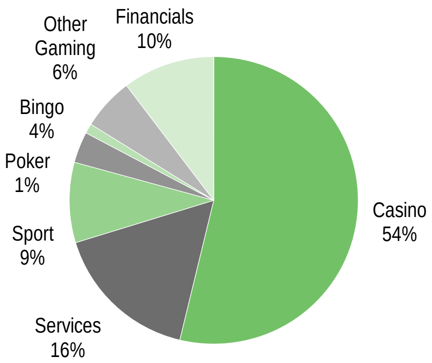
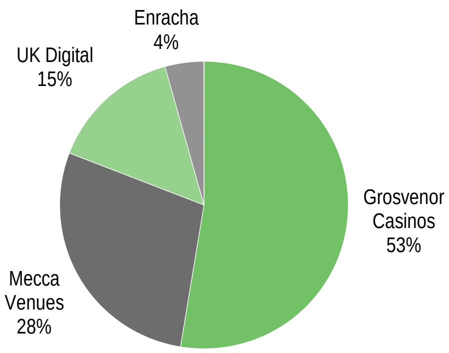
Catalysts: Q3 trading update (6 November)</td><td>2017e €m
Net cash: 93.0
Revenues: 147.8
EBITDA: 37.6
PBT: 37.8</td><td>Bull
■ bet-at-home is a strong brand name, with 4.7 million customers. With a strong online sportsbook, the company is well positioned ahead of the 2018 World Cup in Russia.
■ Despite regulatory challenges in Poland, management has reiterated FY17 forecasts, which reinforces the quality and growth in the core business.
■ Cash of €77.8m underpins the high prospective dividend yield.

Bear
■ There are significant regulatory risks in major markets, largely in the form of increasing or new gaming taxes.
■ Recent legislation in Poland includes punitive taxes for sports betting, as well as imposing a monopoly on e-gaming.
■ bet-at-home operates in competitive markets and profits may be affected by high marketing spend.</td></tr>
</table>

Company	Description	Key financials	Investment case
Betsson			
BETS-B: STO Price: SEK74 Mkt cap: SEK10.7bn	Betsson was founded in 1963 and is the second largest gaming company in Scandinavia. Brands include Betsson, Betsafe, Nordicbet and Casinoeuro. It has licences in 11 markets and revenues are split between Nordics (47%), western Europe (30%), Central, Eastern Europe and Central Asia (CEECA) (19%) and ROW (3%). 23.9% of revenues are locally taxed. Betsson has very little exposure to the UK. Revenues: Q217  Catalyst: Q3 results (20 October)	2017e SEKm Net debt: 1,180 Revenues: 4,787 EBITDA: 1,136 PBT: 862	Bull ■ 100% of revenues are generated on the proprietary platform, leading to higher margins and better business intelligence. ■ A market leader in Scandinavia (number two after Kindred) and gaining market share in western Europe. ■ 26% revenue growth in Q2 (15% organic). Betsson has historically grown through M&A and is well positioned to be a consolidator in the industry. Bear ■ Expected regulation in Sweden in 2019 will affect margins. Continued uncertainty regarding Dutch regulation, where Betsson has filed an official complaint with the EU Commission. ■ High exposure to non-regulated markets and specific exposure to black Turkish market remains a risk. ■ Results affected by FX, particularly from Turkey.
GVC Holdings			
GVC: LN Price: 904p Mkt cap: £2,717m	GVC Holdings was founded in 2004 and is a leading e-gaming operator in both B2C and B2B markets with four main product verticals (sports, casino, poker and bingo). 69% of revenues come from regulated and/or taxed markets. GVC acquired bwin.party digital entertainment (bwin) in February 2016 for €1.51bn. The group has a very broad geographical spread including Germany (25%), UK (9%), Turkey (10%), Greece, Italy, Spain, France, Brazil and various east European markets. For more information, please see our September flash note and July update. Revenues: H117  Catalyst: Q4 trading update (January 2018)	2017e €m Net debt: 120 Revenues: 970 EBITDA: 269 PBT: 156	Bull ■ GVC has strong organic growth prospects as well as an excellent track record on integration. ■ The company is well positioned as a consolidator in the market and we anticipate further M&A in due course. ■ The group reported very strong Q3 trading, customer migrations onto the bwin platform have been successful and the company continues to generate significant FCF. Bear ■ 31% of revenues are derived from unregulated markets and there is operational risk from Turkey in particular, where gambling is illegal. ■ Potential operational risk if GVC pursues a large UK retail acquisition, as speculated in the media. ■ Migrations onto the bwin platform have been successful, although there remains a small risk with the remaining few markets.

Company	Description	Key financials	Investment case
Jackpotjoy plc			
JPJ: LN Price: 801p Mkt cap: £593m	Jackpotjoy plc (formerly The Intertain Group) 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 and we estimate that c 65% revenues are from the UK. It moved its listing from the TSX to the LSE in January 2017. For more information, please see our August update. Revenues: H117  **Catalysts:** Triennial Review (October); Budget (November), Q3 results (14 November)	2017e £m Net debt: 308 Revenues: 295 EBITDA: 106 PBT: 71	**Bull** ■ Jackpotjoy has a leading market share in UK online bingo, commanding exceptionally high EBITDA margins and FCF. ■ With the majority of earnouts paid, the balance sheet is simplifying and we anticipate a re-rating as value shifts from debt to equity. ■ Operationally, the company has produced three sets of robust figures since relisting in London, but the stock trades at a significant discount to peers, largely as a result of legacy concerns. **Bear** ■ Although JPJ has regained control over its Jackpotjoy budget and strategy, there continues to be some risk regarding the relationship with Gamesys (particularly when the non-compete clause expires in 2019). ■ Higher gaming taxes (inclusion of freeplay in POCT) will affect marketing strategies and a potential rise in general POCT would affect profits. ■ Low stock liquidity and lack of dividend until at least 2019 compares negatively to peers.
Kindred			
KIND-SDB: STO Price: SEK95 Mkt cap: SEK22.0bn	Kindred was founded in 1997 and is the largest gaming operator in Scandinavia, as well as one of the largest in Europe. It originally focused on sports betting but has diversified into casino, bingo and poker. It operates in over 100 countries with 13 strong brand names, of which Unibet is the largest. Q2 revenues are from Nordics (41%), western Europe (50%), CES (7%) and other (2%). Kindred acquired exposure to the UK via 32Red and StanJames.com. 73% of revenues are derived from mobile. For more information on Kindred's acquisition of 32Red, please see our March 2017 update. Revenues: Q217  **Catalysts:** Q3 update (27 November)	2017e SEKm Net debt: 1,545 Revenues: 7,383 EBITDA: 1,560 PBT: 1,103	**Bull** ■ Kindred is the leading gaming operator in Scandinavia, the Netherlands, Belgium and France. ■ It has historically grown both organically and through M&A (eg the £175m acquisition of 32Red) and, with its relatively high valuation, it is well placed to continue consolidating in regulated markets. ■ Higher margins achieved through proprietary platform – with impressive AI. **Bear** ■ Upcoming regulation in Sweden will certainly affect margins from 2019. ■ Regulatory situation in the Netherlands also remains unclear. ■ Although 32Red is a dynamic brand, the UK market is increasingly competitive, and it will be difficult to continue market share gains without further acquisitions.

Company	Description	Key financials	Investment case
Ladbrokes Coral Group			
LCL: LN Price: 129p Mkt cap: £2,475m	Ladbrokes Coral Group was created in 2016 through the merger of Ladbrokes and Gala Coral. With its leading brands, it is a multi-channel bookmaking and gaming company, with 3,500 betting shops in the UK. 80% of revenues come from the UK, with the remainder in Australia, Italy, Belgium and Ireland. Revenue pro forma: H117  Catalyst: Triennial Review (October 2017); Budget (November 2017)	2017e £m Net debt: 1,035 Revenues: 2,447 EBITDA: 444 PBT: 106	Bull ■ Strong progress on integration and synergies post Gala Coral merger. Initial £100m merger synergies have been increased to £143m. ■ Potential opportunities for M&A post the Triennial Review, as uncertainties are removed. ■ Strong multi-channel offering and 14% growth in online revenues in 1H17, suggesting the group is well positioned vs its peers. Bear ■ With 58% of revenues derived from UK retail, profits are dependent on the outcome of the Triennial Review. A potential reduction in the FOBT stake limit to £2 would likely be negative for the stock. ■ 3,500 betting shops leave the company exposed to shifts away from retail gaming, although short average lease length does provide flexibility. ■ Relatively high net debt vs peers, suggesting that special dividends are less likely.
Paddy Power Betfair			
PPB: LN Price: 7,695p Mkt cap: £6.5bn	As the result of the merger in 2016, Paddy Power Betfair (PPB) is now the leading online gaming operator in the UK. In the UK, it operates a dual brand strategy with its Betfair brand (including the Exchange), positioned to attract more value-conscious players, and its Paddy Power brand, positioned to attract more casual players. Revenues are from regulated online (48%), Retail (19%), the US (7%), Australia (21%) and unregulated online (5%). Revenues: H117  Catalyst: Triennial Review October 2017, November Budget.	2017e £m Net cash: 200 Revenues: 1,704 EBITDA: 455 PBT: 374	Bull ■ Market-leading player, with a differentiating dual sportsbook offering, including unique access to the Exchange. ■ Historically, PPB has benefited from operating in regulated markets, but with increasing negative newsflow from the UK, it may benefit from diversifying into other markets. This may be a possibility with the incoming CEO. ■ Scale and technology provide significant revenue and cost advantages vs peers. Bear ■ The outcome of the Triennial Review will undoubtedly affect margins, although PPB is relatively well positioned compared to its peers, given its scale and diversification. ■ Continued regulatory risk in Australia. ■ Limited success in cross-selling to gaming, where revenues declined 3% in H117. This compares negatively to other retail players (Ladbrokes, William Hill).

Company	Description	Key financials	Investment case
Playtech			
PTEC: LN Price: 945p Mkt cap: £3.0bn	Playtech was founded in 1999 and is the world's largest online gaming B2B provider. Its licensees include Ladbrokes Coral, PPB, bet365, William Hill and SkyBet. Growth has been achieved both organically and through multiple acquisitions (including BGT, Quickspin, ECM and Mobenga). Playtech operates globally with approximately a third of revenues from the UK, a third from Asia and a third from Europe and ROW. Revenues: H117  Catalyst: Analyst day (14 November)	2017e £m Net cash: 269 Revenues: 863 EBITDA: 354 PBT: 282	Bull ■ Dominates the B2B gaming sector and revenue dynamics are strong. The company's biggest growth opportunities are in newly regulated markets in Europe and Latin America. ■ The company has grown organically and through significant M&A. It is well positioned to continue consolidating the market. ■ Valuation appears undemanding compared to other internationally diverse peers. Bear ■ The Sun Bingo contract has underperformed significantly and there is limited visibility regarding a turnaround. ■ The sports vertical has not performed as well as hoped, as evidenced by the loss of three Mobenga licensees. Note: the launch of Playtech BGT Sports in early 2017 represents an opportunity to regain ground. ■ The group operates in many grey markets, with associated regulatory risks.
Rank Group			
RNK: LN Price: 228p Mkt cap: £896m	Rank Group was founded in 1937 and is now a gaming-based leisure and entertainment company. Its Grosvenor and Mecca brands are market leaders in UK multi-channel gaming and it also has smaller operations in Spain and Belgium. In FY17 85% of revenues came from its venues and 15% from its digital operations. Approximately 96% of revenues are derived from the UK. For more information, please see our September update. Revenues: FY17  Catalyst: AGM (19 October); November Budget.	2017a £m Net debt: 12.4 Revenues: 755 EBITDA: 129 PBT: 79	Bull ■ Digital revenues are beginning to grow strongly, with an impressive 43.9% growth in Grosvenor digital in FY17. The launch of the single wallet (trial in November, with launch planned in mid-2018) should help boost this growth further. ■ Retail businesses continue to be highly cash generative. The low net debt position and strong FCF provides balance sheet flexibility for M&A. ■ Rank does not have any B2 FOBT machines and is therefore not subject to the current Triennial Review on FOBT machines. Indeed, there is even potential upside if 1968 Gaming Act casinos have their machine allocations raised to be in line with 2005 Act casinos. Bear ■ Both Grosvenor and Mecca Venues posted small declines in FY17 and although there are numerous cost-saving initiatives in place, we do not anticipate any significant growth going forward. ■ The retail business is affected by rises in the minimum wage, particularly Mecca, where we have recently lowered divisional operating margin forecasts. ■ Although the land-based casino industry is already heavily taxed, some industry commentators are suggesting a further rise in taxes in the upcoming budget.

Company	Description	Key financials	Investment case

The Stars Group (previously Amaya)

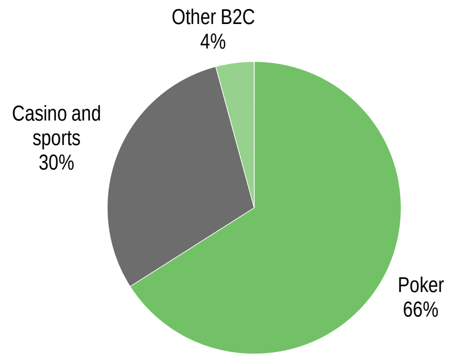
TSGI: TSE

Price: C$25

Mkt cap: C$3.7bn

The Stars Group is the global market leader in online poker, with approximately 60% market share. Prior to the US crackdown on illegal websites, PokerStars was also the market leader in the US. 62% of its revenues are now derived from the EU, 20% from other Europe, 13% from the Americas and 5% from ROW. There is no precise figure for UK exposure.

Revenues: Q217



Catalyst: Q3 Results (November)

2017e	C$m
Net debt:	2,329
Revenues:	1,286
EBITDA:	593
PBT:	463

Bull

- As the number one poker operator, Stars offers superior liquidity and is a comfortable market leader, with successful cross-sell into casino.
- Potential further opening of the US poker market represents a significant growth opportunity.
- Deferred payment obligations from the acquisition of the Rational Group are now fully repaid, freeing up additional cash flow.

Bear

- Poker revenues declined 6% in Q217, due to the cannibalisation from casino and exiting some markets.
- A recently revamped poker product from GVC (partypoker) is increasing competition in Europe.
- Sportsbook is still in investment mode and growth prospects are unclear.

Stride Gaming

STR: LN

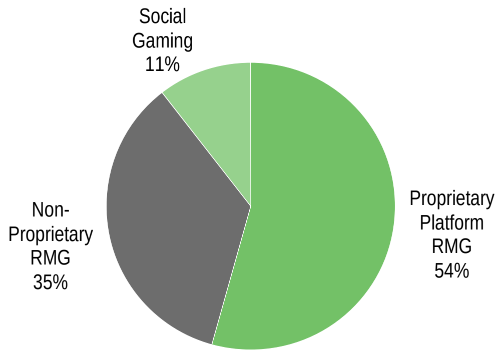
Price: 230p

Mkt cap: £166m

Stride Gaming is a leading online gaming operator in the bingo-led and social gaming markets. It uses its proprietary and purchased software to provide online bingo and slot gaming and a social gaming mobile app. It was formed in 2012 and only operates in regulated real money gaming markets. Approximately 90% of revenues are derived from the UK.

For more information, please see our September update and May update.

Revenues: H117



Catalysts: FY17 results (21 November); November Budget

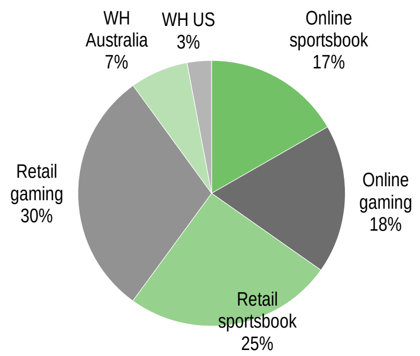
2017e	£m
Net cash:	13.6
Revenue:	90
EBITDA:	20
PBT:	18

Bull

- Stride Gaming is gaining market share in the UK with strong organic growth in real money gaming. This is in addition to the acquisitions of 8Ball and Tarco, which positioned the company with a 10% market share. The multi-brand strategy enables efficient cross-sell and the ability to acquire players with lower CPA vs mature brands.
- The 8Ball earnout is now complete and the Tarco earn-out is due in December. Following the earnouts, Stride estimates a total of £2.5m cost and £3.0m revenue synergies.
- The unique propriety platform is a key USP, driving margins, strong FCF and better business intelligence.

Bear

- The inclusion of free bets in the POCT is likely to affect margins and the company may need to reassess its marketing strategy.
- The recent write-down of the social apps business (InfiApps) has dented confidence in the company's acquisition strategy. Investors are likely waiting for demonstrable success in integrating 8Ball and Tarco.
- The stock suffers from low liquidity.

Company	Description	Key financials	Investment case
William Hill			
WMH: LN Price: 257p Mkt cap: £2,208m	William Hill was founded in 1934 as a postal/telephone betting service and entered the retail betting business in 1966. It is now a leading UK bookmaker, providing sports betting and gaming services in retail shops and online. It has four divisions: Retail UK with 2,372 betting shops, online betting and gaming, WH Australia and WH US. The UK comprises 82% of revenues. Revenues: H117  **Catalysts:** Triennial review (October 2017); November Budget; trading update (22 November).	2017e £m Net debt: 530 Revenues: 1,690 EBITDA: 351 PBT: 228	**Bull** ■ Recent growth in online is positive, particularly with a 10% growth in online gaming revenues. The business is highly cash generative and is on track to deliver £40m in annualised cost savings. ■ Although the M&A strategy is unclear, following rejections of both an Amaya (Stars Group) and an 888/Rank tie-up, there is potential for revisiting the possibilities after the regulatory landscape clears. ■ Potential significant upside in the US if the sports betting market is opened. **Bear** ■ The Triennial Review is likely to have a material negative impact on earnings, particularly if the FOBT stake limit is reduced to £2. ■ 7% of revenues are derived from Australia, where regulation is becoming increasingly more stringent. ■ Recent changes in management have led to some uncertainty.

Source: Bloomberg consensus, Edison Investment Research estimates

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia