GVC Holdings

Bid for bwin.party

A step change in scale

Travel & leisure

The proposed acquisition of bwin.party will be a step change in scale for GVC in a consolidating online gambling market, diversifying it by product and geographically. Management already has a track record of success with Sportingbet (acquired in 2013), including resuming dividends earlier than originally expected. The prospectus sets out a clear plan to achieve the target €125m of synergies, not just through cost cutting, but also by bringing a more entrepreneurial culture to bwin.party's operations.

Year end	Revenue (€m)	EBITDA* (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/12	60	15.5	10.6	31.6	22.0	17.2	4.0
12/13	170	38.3	32.7	57.2	48.5	9.5	8.9
12/14	225	49.2	41.3	61.4	55.5	8.9	10.2

Note: *Clean/normalised, excluding exceptional items.

Enlarged group will be a leading online operator

Annualising Q315 results, the enlarged group has pro forma revenues of €781m (£550m) and will be the fifth largest online gambling operator in a market where scale is becoming increasingly important. bwin.party brings in a well-invested, highly-scalable gaming platform and strong brands. The enlarged group will be more diversified, with 50-60% of pro forma revenues generated in markets that are regulated or nationally taxed and no individual unregulated market more than 8%.

Material synergies and cross-sell opportunities

GVC's customer base is smaller than that of bwin.party and management expects its migration onto bwin's technology platform to be straightforward, while the enlarged group will have substantial cross-selling opportunities. GVC is an Edison research client so we are unable to publish forecasts or comment on valuation during the bid process. GVC expects to realise annualised synergies and cost reductions of €125m a year by Q417. By way of illustration, if 70% of that total was achieved in calendar 2017, the hypothetical pro forma clean EBITDA would be €233m (2014 pro forma clean EBITDA of €146m plus €87m). 2016 will bear most of the €60m one-off cost of achieving the savings, while total deal-related costs are €75m. GVC will suspend dividend payments in 2016, but it expects a substantial improvement in free cash flow in 2017 to facilitate the prompt repayment of the Cerberus loan and allow the resumption of dividends in 2017.

Proposed move to the Main List

GVC has published its prospectus in connection with its recommended offer for bwin.party, scheduled to complete on 1 February 2016. At 384p, its offer (a mix of cash and shares, including a £145m (net) equity fund-raise and €400m loan from Cerberus) values bwin.party at £980m. The pro forma market capitalisation (based on the enlarged share capital) is £1.12bn and the EV (adding in June 2015 pro forma net debt of €68m) is £1.19bn. GVC is currently traded on AIM, but will apply to the UKLA to move up to the Main Market when the deal completes.

20 November 2015

Price	**384p**
Market cap	**£235m**
	€1.42/$1.53/£
GVC net cash (€m) at 30 June 2015 (includes processor balances)	19.2
Pro forma net debt for the enlarged group (€m) at 30 June 2015	68.1
Shares in issue	61.3m
Shares in issue post deal completion (due 1 February 2016)	292.0m
Free float	76%
Code	GVC
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(0.3)	(10.1)	(19.8)
Rel (local)	(0.2)	(9.0)	(17.4)
52-week high/low		492.5p	372.5p

Business description

GVC Holdings is a leading provider of B2B and B2C services to the online gaming and sports betting markets. It announced a recommended bid for bwin.party digital entertainment ('bwin.party' or 'bwin') on 4 September.

Next events

General meeting	15 December 2015
Trading update	January 2016
Expected completion	1 February 2016

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Edison profile page

GVC Holdings is a research client of Edison Investment Research Limited

Rationale for the deal

We see four key benefits of the merger:

- complementary sports betting-led businesses;
- greater scale and diversification in a consolidating market;
- substantial synergies to increase profitability; and
- GVC management has a proven track record.

Complementary sports betting-led businesses

We believe there is an excellent business and cultural fit between GVC and bwin. Both are leading online sports betting operators who then cross-sell casino, poker and other games, with over 80% of revenues arising in Europe. Sports betting generated 49% of GVC's net gaming revenue (NGR) in 2014 and 39% of bwin's, but including the cross-selling the sport labels generated 86% of GVC's 2014 revenues and 60% of bwin's. Both businesses also have standalone B2C casino and games brands. We believe that CasinoClub accounted for c 14% of GVC's 2014 revenues. bwin's well-established games labels include partypoker, partycasino, Foxy Bingo and Gioco Digitale, which together generated €196m or 32% of bwin's 2014 revenues. bwin also has a nascent US business (€25m of 2014 revenues). bwin's 'Other' businesses in 2014 included the non-core Kalixa, WPT (since sold) and InterTrader plus some third-party B2B revenue.

Exhibit 1: Combined enlarged group based on reported 2014 results

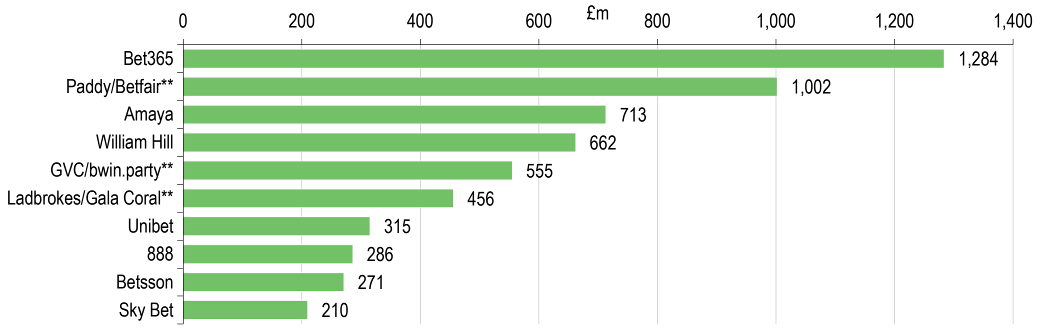
€m	GVC	mix %	bwin**	mix %	Combined***	mix %
Sports wagers €m	1464.0		2700.5		4164.5	
Sports margin	9.8%		9.7%		9.7%	
Gross margin	143.5		261.5		405.0	
Customer bonuses	(33.3)		(24.4)		(57.7)	
Sports betting NGR	110.2	49.0%	237.1	38.7%	347.3	41.5%
Casino/games NGR*	114.6	51.0%	203.7	33.3%	318.3	38.0%
Poker NGR			81.7	13.4%	81.7	9.8%
Bingo NGR			51.9	8.5%	51.9	6.2%
Other			37.5	6.1%	37.5	4.5%
Revenue	**224.8**	**100.0%**	**611.9**	**100.0%**	**836.7**	**100.0%**

Source: GVC, bwin.party, Edison Investment Research. Note: *GVC's casino revenue includes a small amount of poker and games. **bwin.party's 2014 annual report also presents its results on a 'label' basis. ***Pro forma revenue for the enlarged group in 2014 was €839m (Exhibit 7) after minor adjustments to the bwin numbers.

Greater scale and diversification

The online gambling industry is consolidating due to inherent economies of scale in the business model, particularly as a growing number of markets have regulated and/or introduced new taxes (eg the UK's 15% point of consumption [POC] tax from 1 December 2014). Large mergers in progress include Paddy Power/Betfair and Ladbrokes/Gala Coral as well as GVC/bwin.party. Other major deals over the last 12 months include CVC's acquisition of SkyBet and Intertain's acquisition of Jackpot Joy, as well as William Hill's approach to 888 (rebuffed). bwin's revenues have been declining (see Exhibit 6) and annualising the Q315 results for both companies gives revenues of €781m (£550m) for the enlarged group, compared with the €836.7m shown in Exhibit 1 for 2014. Even allowing for this, we believe that GVC bwin combined will be the fifth biggest online gambling operator (Exhibit 2).

Exhibit 2: Leading gambling operators' online revenue* (£m)



Source: Paddy Power/Betfair presentation August 2015, Edison Investment Research. Note: *Last12 months' online revenues except for GVC/bwin (Q315 annualised). **Assumes planned deals are completed.

The enlarged group will be more diversified than GVC alone, both by product (with sports, casino, poker and bingo) and geographically, with new marketing and cross-sell opportunities. In our April 2015 Outlook report we estimated that GVC derived c 30% of revenues from Turkey and 75% from its top four markets (Turkey, Germany, Greece and Brazil, all unregulated ie no formal licenses). In contrast the enlarged group is licensed in more than 15 jurisdictions and derives c 55% of pro forma revenues from markets that are either regulated or taxed, with the largest individual unregulated/untaxed market on a 2014 pro forma basis being 8% (Turkey).

Exhibit 3: Pro forma 2014 product mix

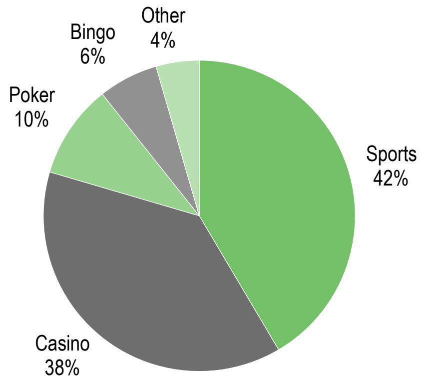
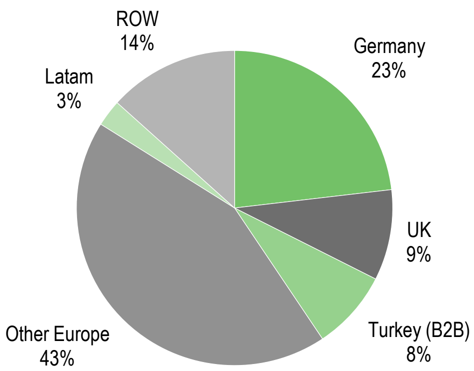


Exhibit 4: Estimated pro forma 2014 geographic mix



Source: GVC presentations, bwin.party 2014 investor presentation, Edison Investment Research Outlook report April 2015

Both GVC and bwin managements believe that there is a significant opportunity to exploit the strength of bwin's sports and games brands in new markets in Asia, Latin America and Africa. We also expect bwin to re-enter the Greek market in 2016 (notwithstanding the capital controls currently in place), where GVC is well established though its local marketing partner (bwin generated revenues of €32m in Greece in 2012 before it withdrew). Management believes the potential return from currently unregulated markets ('dotcom' markets with no formal local licensing system) is significantly higher than from nationally regulated and/or taxed markets, due to there being no incremental compliance or tax costs. Thus the enlarged group intends to maintain a geographically "diversified risk profile".

We believe that GVC has demonstrated its ability to effectively manage regulatory risks over the past six years and to generate substantial returns for its shareholders. It does not intend to withdraw from any of bwin's regulated markets but does intend to "focus its marketing resources only on those nationally regulated jurisdictions that generate the greatest return". Returns from dotcom markets "will generate additional resources and help provide the enlarged group with a competitive advantage relative to other operators that are unable or choose not to enter such markets" (prospectus page 71).

The restructuring and turnaround plan

GVC plans to:

- integrate GVC's sportsbook onto the bwin.party platform;
- improve casino, poker and bingo;
- exploit B2B capabilities; and
- deliver at least €125m of recurring annualised cost-savings by the end of 2017.

Integrate GVC's sportsbook onto the bwin.party platform

bwin's technology platform is well invested, highly scalable and already handles much larger volumes than that of GVC. GVC will begin to migrate its sportsbook as soon as possible after completion; once complete it will close its own platform. It intends to build a best-in-class trading and risk team: raising the average sports margin by itself makes a meaningful difference to NGR (eg GVC's average sports margin across 2013-14 was 9.7% and bwin's 9.45%, Exhibits 5 and 6; if bwin's had been 9.7%, it would have generated an additional €6m of high-margin NGR). GVC also plans to improve the profitability of the bwin sportsbook in other ways including: greater use of CRM systems to cross-sell the Sportingbet and bwin brands; more return on investment (ROI) focused marketing and IT; more third-party casino content on the bwin sports platform; and a more entrepreneurial culture, with clear lines of authority and incentives.

We believe the final point is very important – bwin's sale process has taken a year and the business had shrunk materially over the previous three years (see page 6), post the merger of bwin and PartyGaming in March 2011, (which some observers believed suffered in part from a lack of cultural fit between the two businesses). In a recent interview with eGaming Review (2 October) bwin's CEO Norbert Teufelberger said that "one of the deciding factors in bwin.party's decision to side with GVC was the shared DNA of their sports betting operations…GVC formulated a clear vision for growth, which is something we were lacking last year".

Improve casino, poker and bingo

GVC believes that it can improve the profitability of bwin's casino and poker operations by reorganising the business and refocusing on key markets. Measures are expected to include increased use of CRM systems and a focus on higher-return development products. GVC's small volume of poker player liquidity will be pooled onto bwin.party's poker platform.

Exploit B2B capabilities

bwin has been growing its B2B revenues from a low base and in its interims reported a strong pipeline of new external customers. GVC provides B2B services to EPC Holdings for its Turkey-facing business. GVC management believes there is scope to grow the B2B revenue streams by offering products and services (most probably sports betting) to a limited number of large customers – ie it is only worthwhile if new customers are material in size.

Deliver at least €125m of recurring annualised cost savings by the end of 2017

GVC expects to achieve cost savings and synergies of at least €125m on a run rate basis by the end of 2017, compared with the 2014 cost base. This will be a key measure of the financial success of the deal. The €125m (gross, pre-tax) is a substantial target and compares with pro forma 2014 clean EBITDA for the enlarged group of €146m (Exhibit 7). GVC's plan was reviewed in detail by bwin's management and advisers before they recommended the bid.

About 20% of the €125m (€25m) is expected to come from bwin's own cost-saving initiatives (at the interim stage bwin reported that it was running ahead of its €15m target for 2015). The other 80% will come from the integration, with a run rate of 58% of the total (€72.5m) to be achieved by the end of 2016 (assuming the deal completes on 1 February 2016). The synergies will be recurring, while the costs of achieving them (€60m in restructuring costs) will be one-off, with over 95% being incurred before the end of 2016. Key areas of cost saving and synergies include:

- **Staff, outsourcing and other people related costs**: operating a larger and more streamlined business, removing duplication.
- **Sponsorship and marketing costs**: eliminating all sponsorship and acquisition marketing with a low ROI, focus on territories with the greatest revenue and growth potential, greater use of CRM with a focus on VIPs. Overall spend (ex-sponsorship) will be broadly unchanged.
- **IT and development costs**: GVC sportsbook migration, reducing the number of development projects, focus on platform stability and minimising downtime.
- **Back office and facility related costs**: integration of system and teams, reorganisation of finance functions, implementing changes in board incentives.

The €125m of synergies does not include anything for improvements in bwin's casino and poker operations, yet GVC's management believes there are substantial opportunities to reduce costs and improve efficiency. On the other hand, there is some risk that the deal may produce negative synergies such as customer attrition when the GVC brands are migrated onto the bwin platform, but we believe management expertise with previous integrations means that the risk is modest.

Potential disposals

bwin is already in the process of selling a number of non-core businesses and had raised over €37m by the time of its interim results in August (including the sales of Win, Winners, Betbull and WPT). It has examined various options for Kalixa, its online/mobile payments business (2015 revenues estimated at c €35m). There has also been press speculation of acquirer interest in other parts of the business. However, GVC's CEO Kenny Alexander has reiterated that they plan to run and grow all the businesses, although they would consider any approaches if they were at the right price and in shareholders' interests (analyst conference call, 16 November).

GVC management has a proven track record

Management has a strong record of growing its sportsbook and casino businesses through both acquisition and organically (Exhibit 5), as detailed in our Outlook report dated 1 April 2015. Since August 1 2012 GVC has delivered a total shareholder return of over 270% (prospectus page 68).

- **The acquisition of Sportingbet (SBT) in March 2013 was a transformational deal**. The consortium bid with William Hill (which took SBT's Australian and Spanish businesses) valued SBT at c €570m, of which GVC's share was €84m, paid in shares. William Hill contributed £36.5m allowing the balance sheet to be repaired and the restructuring to be paid for. SBT brought in a long-established online gambling business with revenues of about €125m, which diversified and complemented the GVC mix. The business GVC acquired lost €29.3m in FY12 but management returned SBT to profitability ahead of target, in less than a year, with a total of €59.7m of cost reductions and organic growth initiatives. The degree to which management exceeded expectations is illustrated by the fact that the 2013 clean EBITDA was €38.3m compared with consensus estimates in March 2013 of €28.7m. Moreover, the acquisition meant that GVC (on behalf of EPC) no longer had to pay SBT's earn-out from its 2011 B2B deal (c 75% of Turkish profits over four to six years), which we have previously estimated saved over €110m.
- **The acquisition of Betboo in 2009 took GVC into Latin America.** Consideration was €2.8m in cash plus an earn-out (capped at €21.4m by August 2014). GVC took revenue up from €4.4m in 2009 to almost €23m in 2014 (our estimate, April 2015 Outlook), becoming the market

leader in Brazil and benefiting materially from the FIFA World Cup in June 2014, which we believe delivered a step change in customer numbers.

Management and incentives

The enlarged group will be headed by GVC's CEO Kenny Alexander and CFO Richard Cooper, who have been with the group since 2007 and 2008 respectively. In total GVC directors will hold 3.6m shares in the enlarged group worth £14.0m (at 384p). bwin's CEO Norbert Teufelberger will become a non-executive director on completion and play an active role in the integration. Additional experienced non-executive directors are also being recruited.

GVC's management plan involves taking the best people from each side to head up the various functions and geographies. A new incentive plan (LTIP) will be put in place, replacing GVC's existing dividend bonus arrangements, and manager's incentives will be aligned to the enlarged group's target profits/cash/conversion (the target is for 80% cash conversion once the restructuring is complete). The directors' large individual shareholdings align their interest with those of other shareholders and mean there remains a substantial incentive for them to resume high dividend payments as soon as loan covenants and trading levels permit (see Dividend intentions on page 8).

Financials

GVC has grown strongly since 2012

GVC's NGR more than trebled between 2012 and 2014, and while this was partly attributable to the acquisition of Sportingbet in March 2013, the deal was highly accretive and GVC's normalised EPS (excluding exceptional items) increased by 58% over the two years, to 61.4c/share. We refer the reader to our regular GVC Update reports.

Exhibit 5: GVC recent results

€m	2012	2013*	2014	H114	H115	Q314	Q315	Change %
Sports wagers	518.9	1,169.5	1,464.0	694.3	823.7	367.5	400.8	9.1%
Sports margin	11.3%	9.6%	9.8%	9.9%	8.8%	10.3%	9.8%	
Sports NGR	50.6	90.8	110.2	52.0	54.8	30.4	30.8	1.6%
Gaming NGR	56.5	91.3	114.6	53.0	66.1	29.9	31.2	4.2%
B2B partner share*	(46.8)	(12.2)	0.0	0.0	0.0	0.0	0.0	
Total NGR	**60.3**	**170.0**	**224.8**	**105.1**	**120.9**	**60.3**	**62.0**	**2.9%**
Clean EBITDA	**15.5**	**38.3**	**49.2**	**22.4**	**25.5**	**N/A**	**N/A**	
EBITDA margin	25.6%	22.5%	21.9%	21.3%	21.1%	N/A	N/A	
Normalised EPS c	31.6	57.2	61.4	29.1	33.3	N/A	N/A	

Source: GVC, Edison Investment Research. Note: *Sportingbet was acquired 19 March 2013 (also eliminating the B2B partner share).

GVC's growth has continued in 2015, with H115 NGR up 15% and clean EBITDA up 14%, despite adverse exchange rates and the imposition of the UK POC gaming duty from 1 December 2014. Its trading update for the nine months to end-September reported that NGR was up 11%, with sports revenue up 3% despite below-average sports margins (in line with the industry) and gaming revenues up 18%. This implied Q315 NGR of €62.0m, up 3% despite a strong World Cup comparative.

bwin – recent EBITDA improvement after material decline

bwin's revenue declined from €802m in 2012 to €612m in 2014, mainly reflecting its shift in focus from 'volume to value' (including a shift towards nationally regulated markets) and a general decline in the poker industry. Despite cost cutting, EBITDA margins fell from 21.4% to 18.0% over the same period partly due to increased costs (tax, fees and compliance), relating to newly regulating markets. However, bwin's progress in non-core asset disposals and cost-saving initiatives has been running ahead of plan in 2015. H115 clean EBITDA rose by 2% and would have been 24% higher but for the effect of the UK POC tax and new EU VAT charges. The trading update for the nine months to September reported that clean EBITDA for the period was 5% higher at €79.8m, implying 9% growth in Q3 to €32.5m, despite the additional taxes, on Q3 revenue of €133.4m (10% down).

Exhibit 6: bwin.party recent results

€m	2012	2013	2014	H114	H115	Q314	Q315	Change %
Sports wagers	3804.5	2775.3	2700.5	1352.9	1411.3	645.2	N/A	
Sports margin	7.8%	9.2%	9.7%	10.3%	8.5%	10.2%	N/A	
Sports NGR	262.8	234.0	237.1	125.5	108.8	58.8	54.3	-7.7%
Casino/games NGR	268.8	212.8	203.7	101.2	95.8	48.5	44.6	-8.0%
Poker NGR	173.8	110.1	81.7	42.7	32.4	17.5	13.3	-24.0%
Bingo NGR	63.5	52.5	51.9	26.4	26.8	12.1	12.7	5.0%
Total NGR	**768.9**	**609.4**	**574.4**	**295.8**	**263.8**	**136.9**	**124.9**	**-8.8%**
Other revenue	32.7	43.0	37.5	21.3	32.7	11.8	8.5	
Revenue	**801.6**	**652.4**	**611.9**	**317.1**	**296.5**	**148.7**	**133.4**	**-10.3%**
Clean EBITDA	**164.9**	**108.0**	**101.2**	**46.4**	**47.3**	**29.7**	**32.5**	**9.4%**
EBITDA margin	21.4%	17.7%	17.6%	15.7%	17.9%	21.7%	26.0%	
Normalised EPS c	11.3	7.3	4.8	3.0	2.6	N/A	N/A	

Source: bwin.party digital entertainment, Edison Investment Research

Pro forma combined group

The prospectus presents a pro forma income statement as if the deal had completed on 1 January 2014, showing revenue for the enlarged group of €839.0m, and clean EBITDA of €145.9m.

Exhibit 7: Pro forma/hypothetical income statement (based on 2014)

€m	2014				Year 1		Year 2	
	GVC	bwin*	Acquisition adj	Pro forma	Adj	Pro forma	Adj	Pro forma
Revenue	**224.8**	**614.2**		**839.0**		**737.1**		
Clean EBITDA	**49.2**	**96.7**		**145.9**	**50.8**	**196.7**	**87.5**	**233.4**
Clean EBITDA margin	21.9%	15.7%		17.4%				
Depreciation	(0.7)	(26.3)		(27.0)		(27.0)		(27.0)
Amortisation of own work	(3.2)	(11.0)		(14.2)		(14.2)		(14.2)
Share based payments	(0.7)	(9.8)		(10.5)		(10.5)		(10.5)
Clean EBIT	**44.6**	**49.6**		**94.2**		**145.0**		**181.7**
Net finance charges/assoc.	(3.2)	0.0	(56.5)	(59.7)		(59.7)		(59.7)
Clean PBT	**41.4**	**49.6**		**34.5**		**85.3**		**122.0**
Exceptional items	0.0	(14.4)	(56.5)	(70.9)	(75.2)	(146.1)		(3.0)
Impairment/other	0.0	(133.1)	104.4	(28.7)				
Tax (reported)	(0.7)	3.6		2.9				
Tax (adj for normalised)	0.0	(13.7)		(13.7)				
Clean PAT	40.7	39.5		23.7				
PAT (reported)	40.7	(94.3)	(8.6)	(62.2)				
Number of shares (m)	61.3	823.1		292.0				

Source: GVC prospectus, Edison Investment Research. Notes: *bwin 2014 adjusted to GVC accounting presentation, adding €2.3m to bwin reported revenue and reducing clean EBITDA by €4.5m.

As GVC is an Edison research client we cannot make forecasts. However, for the purposes of illustration, Exhibit 7 adjusts the 2014 pro forma numbers for the lower Q315 revenue run rate for the combined group and for synergies and cash as described below. We have not made any other changes to the base numbers.

Revenue: based on Q315 results, the enlarged group has a revenue run rate of €781m (GVC €62.0m annualised, Exhibit 5; bwin €133.4m, Exhibit 6). Assuming the deal completes on 1 February 2016, bwin will be included for 11 months of 2016 so, for the purposes of illustration, we have shown pro forma revenue of €737m in year one.

Clean EBITDA: GVC expects to achieve a run rate of 58% (€72.5m) of the total €125m synergies by the end of 2016 and the full savings run rate by 18 months after completion (August 2016 on the current timetable). bwin's 2015 interims confirmed that its savings are already running ahead of its own €15m pa target off the 2014 base. So for a hypothetical illustration we have assumed that 70% of the year-end savings run rate is achieved across the year as a whole (ie 70% of €72.5m in 2016 and 70% of €125m in 2017). This takes pro forma clean EBITDA to €233m in 2017. Clearly the actual outcome will depend on a number of factors, including the rate of revenue growth (or decline), operating margins, any new gaming taxes and the level of net synergies obtained.

Clean PBT: the pro forma group has a relatively high depreciation/amortisation charge of €41.2m (excluding bwin's amortisation of acquired intangibles) and financing costs of €59.7m. The prospectus adjusts 2014 financing costs by €56.5m to reflect the additional interest costs (including capitalised costs) on the €400m Cerberus loan (see below). This leaves pro forma clean PBT at €34.5m, after amortisation of own work but before amortisation of acquired intangibles and exceptional/one-off items. We cannot make any forecasts, but management has said that it expects to refinance the Cerberus loan (which bears a 12.5% interest cost at current rates) in 2017 if underlying cash flows strengthen as it expects.

Non-recurring costs: the 2014 pro forma numbers already adjust for €56.5m of acquisition costs to give total exceptional costs of €70.9m. Additional cash costs include €60m of reorganisation costs, €4.2m of new issue costs and a €14.0m draw-down fee for the Cerberus loan (3.5%). All these costs are expected to arise in year one, apart from a small proportion (c 5%) of the €60m. So our hypothetical illustration shows a total of €146.1m of costs in 2016 (in practise GVC has incurred some of these in 2015), but these fall away to only €3.0m (5% of the €60m) in 2017. We believe it is likely that there will also be non-cash impairment charges in 2016, but these will depend on the (lengthy) balance sheet review that will take place post completion.

Cash conversion targets: GVC management focuses on cash conversion and dividends. In 2014 GVC generated €42.6m in cash (after working capital movements and capex) from clean EBITDA of €49.2m, an 87% conversion ratio. The prospectus says that GVC will seek to achieve a conversion ratio for the enlarged group, post restructuring, of at least 80%.

Dividend intentions

GVC's has been notable for its high dividend payout policy (not less than 75% of net operating cash flow). In 2014 it paid €33.6m in dividends, or 79% of the clean net operating cash flow of €42.6m. GVC paid an interim dividend of 14c/share on 2 November 2015, bringing the total dividends paid in the year-to-date to 56c/share.

The combination of debt covenants under the Cerberus loan (page 9) and the material cash restructuring costs means that GVC will take a dividend holiday in 2016. However, GVC believes that by the beginning of 2017 the restructuring will drive substantial improvement in the enlarged group's cash flow so that the Cerberus loan can be repaid promptly (to be replaced by less expensive debt as required). This will permit "the resumption of payment of dividends for the enlarged group at a level which is comparable with GVC's quoted peer group of online gaming companies" (prospectus page 72). On the analyst call of 16 November, CEO Kenny Alexander said that GVC would pursue an "aggressive and progressive" dividend policy as soon as possible, hopefully from early 2017, and hopefully moving towards the current level of 56c/share (or close to it) subject to the rate of progress and overall debt levels.

Background and terms of the offer

bwin.party effectively put itself up for sale in November 2014, announcing that it had received several approaches, which it was evaluating, after the decline in its business and pressure from an activist shareholder. Both 888 Holdings and GVC subsequently submitted proposals. Initially bwin recommended the 888 offer, deeming GVC's approach (at that stage in conjunction with Canadianlisted Amaya) as over-complicated. GVC returned with a revised, fully-funded proposal, which was accepted and recommended on 4 September (when 888 withdrew).

GVC's offer comprises 25p in cash and 0.231 new GVC shares per bwin share. bwin has 826.4m shares outstanding or 865.4m on a fully diluted basis. With GVC shares at 384p, the offer values bwin at £980m.

Exhibit 8: bwin bid value at different GVC share prices

GVC price (p)	bwin price (p)	bwin value (£m)
380	112.780	972
384	**113.704**	**980**
390	115.090	992
400	117.400	1,012
410	119.710	1,032
420	122.020	1,052

Source: GVC, Edison Investment Research

bwin shareholders are being offered a mix-and-match facility (subject to the overall mix of equity and debt being unchanged) and will own 66.8% of the enlarged group. The size of the deal means that it will constitute a reverse takeover for GVC, subject to shareholder approval and effected by means of a Gibraltar Scheme of Arrangement. Planned completion is 1 February (long-stop date of 31 March) and the shares should begin trading on the standard segment of the Main List on 2 February, moving up to the premium segment (if approved) post the 2015 Annual Report.

Financing

To satisfy the offer, GVC will issue 195.2m new shares (worth £750m at 384p) and finance the remaining consideration with a new €400m (£284m) senior secured loan from Cerberus. The proposed equity placing and subscription of 35.5m new GVC shares (at 422p/share) will raise a net £145.1m and fund reorganisation costs and working capital as well as debt repayment.

The Cerberus loan is a fully committed senior secured loan, which carries interest at a 1% EURIBOR floor plus 11.5% margin (ie 12.5%), with a 3.5% commitment fee and 3% early-exit fee. It expires on 4 September 2017 and carries maximum leverage and cash flow cover and minimum liquidity covenants. The interest rate is relatively high, which we believe partly reflects the fact that it was arranged very quickly (after GVC dropped its joint approach with Amaya). In practice, if all goes to plan, GVC has indicated that it will aim to repay the loan early in 2017 (and replace it with less expensive debt as required).

Pro forma net assets

Exhibit 9 shows the pro forma net assets for the enlarged group at 30 June 2015 (prospectus page 270). The scale of the deal for GVC is illustrated by the increase in net assets from €137m (standalone) to €1.395bn for the pro forma enlarged group.

Exhibit 9: Pro forma net assets at 30 June 2015

€m	GVC	bwin.party	Combined	Acq'n adj	Financing adj	Pro forma
Goodwill/intangibles	155.2	546.8	702.0	824.0	0.0	1,526.0
Other non-current assets	5.4	76.2	81.6	0.0	0.0	81.6
Cash and equivalents (a)	21.4	207.9	229.3	(357.9)	598.5	469.9
Payment processor balances (b)	17.7	25.2	42.9	0.0	0.0	42.9
Other current assets	10.7	67.7	78.4	0.0	0.0	78.4
Total assets	**210.4**	**923.8**	**1,134.2**	**466.1**	**598.5**	**2,198.8**
Loans and borrowings (c)	(7.8)	(62.2)	(70.0)	0.0	(386.0)	(456.0)
Customer balances/prize pools (d)	(12.1)	(112.8)	(124.9)	0.0	0.0	(124.9)
Other liabilities	(53.5)	(194.3)	(247.8)	24.8	0.0	(223.0)
Total liabilities	**(73.4)**	**(369.3)**	**(442.7)**	**24.8**	**(386.0)**	**(803.9)**
Total net assets	**137.0**	**554.5**	**691.5**	**490.9**	**212.5**	**1,394.9**
Net cash/ (debt) (a+b+c+d)	**19.2**	**58.1**	**77.3**	**(357.9)**	**212.5**	**(68.1)**

Source: GVC prospectus Part 7, Edison Investment Research

GVC and bwin together had net cash of €77.3m at 30 June. The total consideration to be paid is €1.40bn (€298m in cash and €1.105m in shares) and the acquisition and financing adjustments reflect this (adjusted for the write-off of previously recognised goodwill and intangibles and other cost adjustments). The pro forma enlarged group had net debt of €68.1m at June 2015 (cash plus processor balances less loans, borrowings, customer balances and prize pools). By the time the deal completes (scheduled for 1 February 2016) GVC and bwin will have generated additional operating cash flow, but will also have incurred a number of material cash costs, as disclosed in their interim results, including dividend payments (totalling c €39m), Romanian back taxes (€8.8m) and bwin's acquisition of the remaining 28% of BES (€8.9m), in addition to their development spend, capex, tax and other items.

Risks and sensitivities

The prospectus explains the risks and sensitivities in considerable detail (from page 21) and includes a regulatory overview for markets affecting GVC and bwin (page 280). We believe that the key points include:

Risks relating to the transaction: as well as shareholder approvals the deal requires approvals (or waivers) in a variety of jurisdictions, none of which we expect to present any material problem. The move to a premium listing on the Main Market requires GVC to meet eligibility criteria, which the GVC directors believe is eminently achievable. GVC may not realise the targeted €125m of synergies, there may be unforeseen negative synergies or the costs of achieving the synergies may be greater than GVC expects. However, we believe the businesses are highly complementary and both management teams are very experienced and have already spent a considerable time working together on the integration plan.

Legislative and regulatory risks: GVC and bwin hold gaming licences in over 15 'regulated' markets including the UK. However, "the supply of online gaming is not unequivocally legal" in all of GVC's (and the enlarged group's) markets. Unregulated markets, (where there is no formal licensing requirement yet in place) are supplied by GVC on a 'dotcom' or 'point of supply' basis from its licensed operations in eg Malta and are often described by analysts as being different shades of grey. Of GVC's (and the enlarged group's) main markets, Turkish authorities are of the view that online gaming is illegal, while in Germany and Greece the situation remains in flux, with new licensing regimes being implemented. GVC and bwin already pay gambling tax in Germany, and GVC in Greece (where it holds an interim licence), but the timing of any new licences, tax rates and products they will cover remains uncertain. For example, if new German licences excluded gaming products, this could adversely affect the enlarged group's results, but we believe this is unlikely given the current intervention of the European Court of Justice (ECJ). GVC and bwin minimise regulatory risk by diversifying across a range of geographies, being extremely experienced in their markets, supplying their services from licenced jurisdictions and closely following regulatory developments.

The Cerberus loan reduces short-term financial flexibility: the terms of the loan could restrict GVC's ability to restart dividends as early, or as high as it might hope. It could also restrict its ability to make minority or joint-venture investments (eg including potentially buying-out the other 85% of Betit in Q317). However, the pro forma gearing of the enlarged group is not high, the term of the loan is short and GVC has said that it expects to refinance the loan early in 2017.

General business risks: GVC and the enlarged group are exposed to general economic risks including the strength of consumer spending in different markets. It has some exposure to Greece, where capital controls were imposed earlier in 2015 that can severely restrict remittances and where further economic volatility could continue to affect consumer confidence (although GVC's interims at the end of August reported signs of greater customer activity). Other general business risks include dependence on key executives and personnel; fluctuating sports margins; issues relating to IT and technology (including some reliance on third party providers); and competition (the group's markets are highly competitive and rapidly evolving/consolidating). Both GVC and bwin managements have long experience in their markets and in managing such risks.

VAT: a small number of EU countries (eg Germany and Ireland) began charging VAT on gaming in 2015. Both GVC and bwin have been paying this, but there is some potential historic liability and some uncertainty regarding the basis of calculation (Ireland has clarified that it is based on NGR).

Currency: both GVC and bwin operate in international markets. About a third of GVC's revenue is euro denominated and the two other most important currencies are the Turkish lire and, to a lesser extent, the Brazilian real, which it does not hedge. Both currencies have devalued materially over the past year. GVC has indicated that 40-50% of the enlarged group's earnings will arise in euros (the reporting currency). In respect of the deal itself, GVC has a call option in place over €365m at £/€1.425.

Exhibit 10: Financial summary

€m	2012	2013	2014
Year end 31 December	(IFRS)	(IFRS)	(IFRS)
PROFIT & LOSS			
Revenue (reported)	60.3	170.0	224.8
Cost of Sales	(23.8)	(67.3)	(101.5)
Gross Profit (contribution)	36.5	102.6	123.3
EBITDA	15.5	38.3	49.2
Depreciation and amortisation	(2.5)	(3.7)	(3.9)
Betit put option charge	0.0	0.0	(1.6)
Operating Profit (norm)	12.9	34.6	43.7
Amortisation of acquired intangibles	0.0	0.0	0.0
Exceptional/ one-off items	0.2	(19.7)	0.0
Share based payments/ options cash out from 2015	(0.1)	(0.7)	(0.7)
Operating Profit	13.0	14.1	42.9
Net interest	0.0	(0.0)	(0.1)
Other financial expense	(2.2)	(1.1)	(1.6)
Profit Before Tax (norm)	10.6	32.7	41.3
Profit Before Tax (FRS 3)	10.8	13.0	41.3
Tax	(0.5)	(0.7)	(0.7)
Profit After Tax (norm)	10.1	32.0	40.6
Profit After Tax (FRS 3)	9.2	12.3	40.6
Average Number of Shares Outstanding (m)	31.6	54.6	61.1
EPS - normalised diluted (c)	31.6	57.2	61.4
EPS - (IFRS) (c)	29.3	22.5	66.4
Dividend per share - declared (c)	22.0	48.5	55.5
Dividend per share (c)	26.0	28.0	55.0
Gross Margin (%)	60.5	60.4	54.8
EBITDA Margin (%)	25.6	22.5	21.9
Operating Margin (before GW and except.) (%)	21.4	20.3	19.4
BALANCE SHEET			
Fixed Assets	66.2	154.8	159.2
Intangible Assets	65.4	153.9	154.3
Tangible Assets	0.7	0.9	1.1
Deferred tax asset	0.1	0.0	3.8
Current Assets	24.9	44.6	49.5
Stocks	0.0	0.0	0.0
Debtors	18.3	25.8	31.7
Cash	6.6	5.5	4.8
Customer balances	0.0	13.3	13.0
Current Liabilities	(20.4)	(44.3)	(50.4)
Creditors	(20.4)	(40.8)	(46.4)
Short term borrowings	0.0	(3.5)	(4.1)
Long Term Liabilities	(12.3)	(14.0)	(8.8)
Long term borrowings	0.0	(6.4)	(3.1)
Other long term liabilities	(12.3)	(7.6)	(5.7)
Net Assets	58.5	141.1	149.5
CASH FLOW			
Operating Cash Flow	10.7	26.6	48.5
Tax	(1.9)	(0.4)	(0.5)
Net Interest	0.0	0.0	(0.1)
Capex	(1.1)	(0.0)	(5.3)
Acquisitions/disposals	(2.9)	(96.4)	(8.0)
Financing	0.2	77.8	0.9
Dividends	(8.2)	(15.0)	(33.6)
Net Cash Flow	(3.2)	(7.5)	1.9
Opening net debt/(cash)	(9.9)	(6.6)	4.3
HP finance leases initiated	0.0	(2.1)	(0.6)
FX/ Other	0.0	(1.3)	0.7
Closing net debt/(cash)	(6.6)	4.3	2.4

Source: GVC Holdings, Edison Investment Research

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