

Lotto24

Consumer

A leader in the online lottery market

Lotto24 extended its market leadership in 2017, with market share up from 31% to 32%. This demonstrates its core USPs: first-mover advantage in the German online lottery market, management experience and marketing know-how. As a result of an exceptionally strong jackpot trend, H118 revenues grew 50% to €19.4m and management increased its FY18 billings growth guidance to 25–30% (vs 15–20% previously). After investment in technology and marketing, the business reached EBIT break-even in FY17, with future profitability flexed according to jackpot opportunities. The stock is up 24% ytd and we believe there is further upside, as online lottery continues to take a bigger slice of the overall German lottery market.

Online lottery still only 10% of market

The overall German lottery market was estimated at €7.1bn in 2017, a 3.6% decline from the prior year (source: DLTB). The online segment was closed between 2009 and 2012, when new licences were awarded (advertising permitted from 2013). Online is growing rapidly, from €35m in 2012 to €700m in 2017 (source: Deutscher Lottverband). However, this was still only 10% penetration in 2017 (2016: 9%) and compares to c 51% in Slovakia, c 40% in Finland and c 18% in Norway and UK (source: GBGC), suggesting plenty of scope for continued strong market growth. Mobile is an important driver, allowing lottery ticket purchases anywhere, any time.

H118 boosted by exceptionally strong jackpot trend

H118 was boosted by an exceptionally strong jackpot trend (eight drawings at €90m in Eurojackpot vs only one in H117), with revenues up 50% to €19.4m and EBIT up 89% to €0.66m. Billings during H118 increased 43% to €161.2m with registered customers up 35% to 1.95m. The 16 federal state lotteries still account for c 65% of the regulated market, but Lotto24's 2017 market share gain (to 32%) suggests it is successfully capitalising on its first mover advantage. It is materially bigger than all the other private providers combined (important since customers are mostly loyal).

Recently upgraded guidance with positive EBIT

Lotto24 has an attractive, scalable business model with no bookmaking risk and long-term contracts with all 16 lottery operators. After a strong H118, billings growth guidance was raised from 15–20% to 25–30% for FY18. Marketing costs are flexed according to the prevailing jackpot trend and management continues to expect positive EBIT for FY18. EBIT break-even was achieved in 2017 and future profitability is likely to be affected by higher spend on jackpot opportunities.

Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	EPS (€)	DPS (c)	P/E (x)	Yield (%)
12/16	22.8	(3.9)	(0.10)	0.0	N/A	N/A
12/17	25.2	1.0	0.10	0.0	N/A	N/A
12/18e	35.6	2.2	0.08	0.0	N/A	N/A
12/19e	41.2	9.1	0.34	0.0	37.8	N/A

Source: Bloomberg

Price €12.86
Market cap €311m

Share price graph



Share details

Code	LO24
Shares in issue	24.2m
Net cash (€m) as at June 18	7.9

Business description

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

Bull

- Strong organic growth, with 1.95 million registered customers at H118.
- Online lottery market is nascent compared to other digital markets, with scope for significant further penetration.
- Scalable technology for online and mobile, with no associated jackpot risk.

Bear

- The company is still in start-up phase, with EBIT break-even achieved in 2017. Future jackpot opportunities may lead to higher marketing spend, which would impact profitability.
- Competitive markets, with 16 federal state lotteries and secondary lotteries.
- Ongoing regulatory restrictions and uncertainties.

Analysts

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