EDISON

GVC Holdings

Leaping into FTSE 100

Acquisition of Ladbrokes Coral

Travel & leisure

By acquiring Ladbrokes Coral (LCL), GVC will become a FTSE 100 global gaming business, with pro forma FY18e revenues of £3.4bn. With strong brands, diversified revenues and a superior technology, GVC is well positioned to benefit from increased scale and we anticipate the deal to be highly accretive, due to the £100m+ cost synergies. At this stage, there are still many moving parts to our pro forma estimates, with particular uncertainty surrounding the outcome of the Triennial Review and ultimate FOBT stake limits. Irrespective of the outcome, strong FCF should rapidly drive down leverage, which peaks at 3.2x for a £20 FOBT scenario (2.7x for £2). Assuming a £20 stake limit, GVC trades at 11.2x EV/EBITDA and 13.3x P/E for FY19e, a c 5% and 19% discount to Paddy Power Betfair (PPB).

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16p	3,094.3	555.6	284.2	N/M	N/M	N/A	N/A
12/17p**	3,257.5	651.8	434.2	N/M	N/M	N/A	N/A
12/18e	3,402.0	747.5	523.0	76.2	30.0	12.8	3.1
12/19e	3,413.6	743.4	504.6	73.3	32.0	13.3	3.3
12/20e	3,537.6	810.0	579.6	84.2	34.0	11.5	3.5

Note: Pro forma results include LCL as if it has been included from 2016. *Normalised and diluted (EPS) excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Continuing operations, excluding Turkey in 2017.

Leading global multi-brand business

GVC is now one of the world's largest diversified sports betting and gaming operators, with pro forma 2018e revenues of £3.4bn, EBITDA of £747m and a c 12% share of the UK online gaming market. Revenues from taxed and/or regulated markets have increased from 65% to 90%. Irrespective of the outcome of the Triennial Review, GVC expects the deal to be double-digit EPS accretive after the first year. Management has outlined at least £100m cost synergies, which appear conservative given both GVC's and LCL's extensive experience in complex integrations. Although not in our forecasts, we believe further upside is possible with additional capex and revenue synergies (c £40-50m).

Many variables to forecasts, especially FOBT

At this stage, our forecasts are essentially a compilation of two sets of accounts, and we anticipate restatements and amendments as GVC begins to make its mark. The largest variable is the ultimate FOBT stake limit, which will affect EBITDA from 2019, as well as the debt profile from 2018. Our core financials assume a £20 limit scenario, but we include a worst-case £2 scenario. As an indication, the £2 and £20 scenarios produce FY19 EBITDA of £665m and £743m respectively.

Valuation: 11.2x EV/EBITDA for FY19e

The LCL acquisition has cemented GVC's leading global position and the £100m+ cost savings are expected to contribute to significant EPS accretion. With net debt peaking at 3.2x in a £20 FOBT scenario (2.7x in a £2 FOBT scenario), strong FCF should rapidly drive down leverage. The group trades at 11.2x EV/EBITDA and 13.3x P/E for FY19e, a c 5% and 19% discount respectively to PPB, its closest peer, which also has a strong retail and online presence in regulated markets.

20 April 2018

Price	**972.5p**
Market cap	**£5,599m**
	€/£0.86
Estimated net debt (£m) at end FY18	2,411
Shares in issue	576m
Free float	99%
Code	GVC
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	1.6	3.7	32.3
Rel (local)	(2.1)	8.8	28.1
52-week high/low		982.00p	734.00p

Business description

GVC Holdings is a leading e-gaming operator in both the B2C and B2B markets. Following the acquisition of Ladbrokes Coral in 2018, it now has a market-leading position in UK retail betting. About 90% of revenues are derived from regulated and/or taxed markets.

Next events

Q1 trading update	May 2018
AGM	June 2018
Q2 trading update	July 2018

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Edison profile page

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Global multi-brand gaming business

Pro forma 2017 revenues of £3.26bn and £652m EBITDA

GVC's acquisition of Ladbrokes Coral (LCL) has created a global, multi-brand gaming business, for which we estimate pro forma FY17 revenues of £3.26bn and EBITDA of £652m. With the caveat that there are numerous variables in our pro forma figures, we forecast FY18 pro forma revenue growth of 4.4% to £3.4bn and EBITDA of £747m.

We estimate that the pro forma FY17 revenue split between GVC and LCL was c 25/75%, with the EBITDA split c 32/68%. As detailed in our financial forecasts, the contribution from LCL is expected to decline from 2019 as a direct result of the FOBT stake limit. In FY19, a c £60m decline in EBITDA should be largely offset by £25m synergies and growth from other parts of the enlarged business.

Exhibit 1: Estimated pro forma revenue split

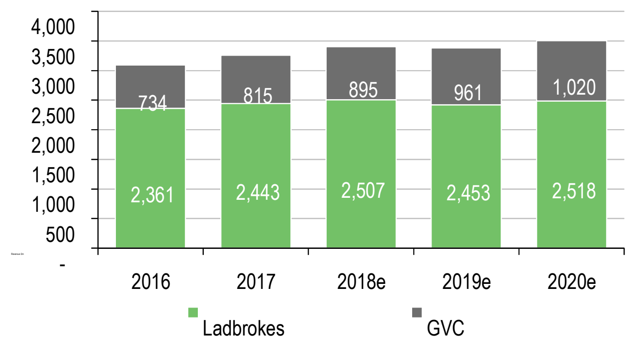
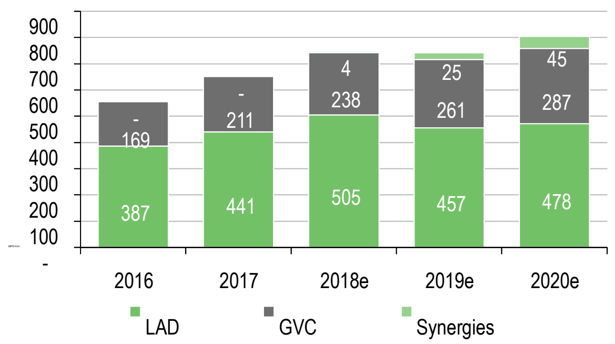


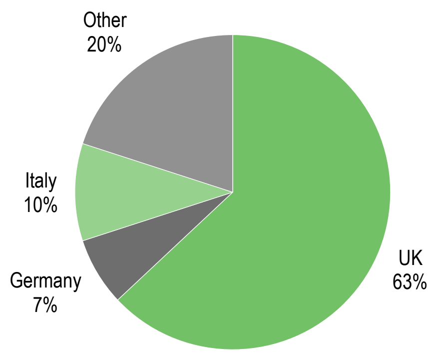
Exhibit 2: Estimated pro forma EBITDA split



Source: Edison Investment Research. Note: Based on £20 FOBT stake limits. €/£0.86 for FY18e, FY19e and FY20e.

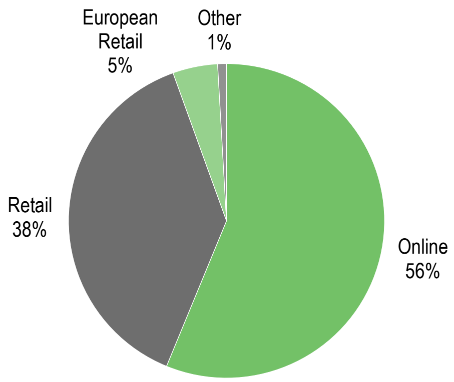
- **Established brands in all key verticals:** on a pro forma basis, GVC estimates that online gaming comprised c 50% of total group revenues for 2017. Its vast array of established brands includes online sports (eg bwin, Sportingbet, Ladbrokes.com, Coral.co.uk, Eurobet.it), online casino (Coral One Gaming, Casino Club, PartyCasino); online bingo (Gala bingo, Foxy bingo) and online poker (partypoker). The breadth and scale of the business, combined with superior technology, should enable GVC to continue broadening its product base, both organically and through selective M&A.
  The major strategic change for GVC is clearly the addition of retail betting shops into its suite of products. GVC estimates that for H117, UK retail comprised 38% of pro forma group EBITDA, with European retail comprising a further 5%. Although there is much uncertainty regarding the future prospects for the retail business (due to the regulatory review), GVC has flexed its offer price to reflect various different outcomes. Please see page 5 for more details.
- **90% revenues from local regulated and/or taxed markets:** GVC's major markets are the UK, Germany and Italy, with a significant presence in Australia, as well as exposure to US and other growth markets. It is a major player in the UK and the third largest online player in Europe. As a result of the LCL acquisition, together with the disposal of the unregulated Turkish business, the proportion of GVC's revenues derived from locally regulated and/or taxed markets has increased from 65% to 90%.
  Management has confirmed that it intends to continue growing the percentage of revenues derived from regulated markets and we would expect GVC to focus on higher-growth markets beyond the UK, as evidenced by the recent €41m cash purchase for 51% of Crystalbet, in the Republic of Georgia.

Exhibit 3: Enlarged group pro forma revenue split (2017)*



Source: GVC, Edison Investment Research. Note: *Excludes Turkey.

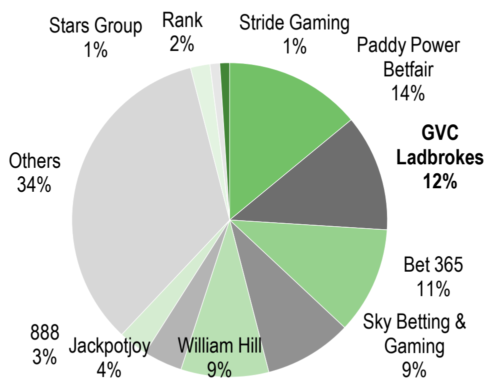
Exhibit 4: Enlarged group pro forma EBITDA split (H117)



Source: GVC, Edison Investment Research

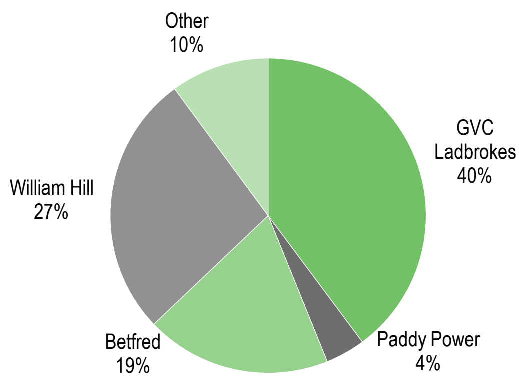
- **Leading player in UK market: 12% market share in online gaming:** the UK is now GVC's largest market and we estimate that, on a pro forma basis, GVC had a c 40% market share in UK retail betting and approximately 12% of the overall online gaming market (ie sports and casino).
  Ladbrokes Coral was historically the largest player in UK online games (casino, bingo) and we estimate that the combined entity now has c 14% of the UK online casino market. For online sports, we estimate GVC has c 11% market share.

Exhibit 5: UK total online gaming market share 2017



Source: Company accounts, Edison Investment Research

Exhibit 6: UK retail betting shops market share 2017



Source: Company accounts, Edison Investment Research

- **Superior technology to drive growth and synergies:** historically, 95% of GVC's revenue was derived and processed through its powerful proprietary platform, providing the company with a high degree of flexibility and control. With its fully integrated and hugely scalable technology platform, growth has been achieved with limited incremental costs. As detailed in the financials section, we would expect GVC to migrate LCL customers to its own platform once LCL's contracts with Playtech expire (2021).

Double-digit EPS accretion under all scenarios

As detailed in the financials section, we forecast net gaming revenues (NGR) of £3.40bn in 2018, remaining flat in 2019. The lack of growth in FY19 is a direct result of weakness in UK retail (LCL) and specifically the impact of the FOBT stake limit, which is offset by a forecast 7% growth in the original GVC. For FY20 we forecast that LCL will return to growth from its depressed base in FY19, while GVC will continue its steady trajectory. Overall, we expect FY20 group revenue growth of 3.6% to £3.54bn.

GVC anticipates at least £100m cost synergies from the deal, to be staggered and back-ended over a four-year period. The most significant savings are expected from technology and data (c £44m), which we believe relates to the expiration of the Playtech contracts (2020 and 2021). Given both GVC's and LCL's extensive experience with complex integrations, the £100m annual cost savings target appears conservative. We also note that GVC has not guided to any specific capex or revenue synergies (cross-selling etc). These are therefore not included in our estimates but, judging from GVC's history with the bwin acquisition, we believe revenue and capex synergies could amount to c £40-50m over the next few years.

While there are many moving parts in formulating a pro forma model, the largest variable is the outcome of the Triennial Review and the decision on FOBT stake limits. Given recent recommendations by the Gambling Commission and other industry speculation, our forecasts assume the middle £20 limit, which will affect financials from FY19 onwards (and increase net debt in FY18 by £585m due to the contingent value right [CVR]). As highlighted below, under this scenario, we anticipate 24% EPS accretion in FY19 compared to standalone GVC figures. We note that even in the worst case £2 scenario, our figures indicate EPS accretion of 10% for FY19.

Exhibit 7: Estimate changes pro forma vs standalone GVC figures

	Revenue (£m)			EBITDA (£m)			EPS (p)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2018e	833.7	3,402.0	308	232.8	747.5	221	55.0	76.2	39
2019e	883.8	3,413.6	286	250.8	743.4	196	59.2	73.3	24

Source: Edison Investment Research. Note: Prior GVC estimates have been translated from euros to GBP using a €/£0.864 exchange rate.

Management

GVC's board and executive team has a considerable depth of experience in online gaming, as well as proven capability at extracting value from acquisitions. For the enlarged group, the team has been further enhanced with key additions from the LCL management team. Specifically, CFO Paul Bowtell and COO Andy Hornby come with detailed knowledge of both the UK retail sector and the complexities of handling a large integration (Ladbrokes with Coral).

GVC has always believed in management and employee incentivisation, and we would expect a new option plan and significant performance-based bonuses going forward.

Exhibit 8: New senior management team

Name	Position	Experience
Kenny Alexander	CEO	CEO since 2007, previously MD of Sportingbet's European operations.
Lee Feldman	Chairman	Chairman since 2004. Managing partner of Twin Lakes Capital (US private equity).
Paul Bowtell	CFO	CFO of both Ladbrokes Coral and Gala Coral.
Shay Segev	Co-COO	COO since 2016. Gala Coral chief strategy officer and previously COO of Playtech.
Andy Hornby	Co-COO	COO of Ladbrokes Coral and previously a member of the Coral management team.

Source: Company accounts

Structure of the deal

Given the vagaries of the ongoing Triennial Review, the acquisition of LCL was structured with three distinct tranches, in order to reflect the different possible outcomes for FOBT stake limits. As we discuss below, the value of the final tranche (CVR) is still to be concluded and the total possible valuation range for LCL is £3.1-£4.0bn.

While our core forecasts assume a £20 stake limit scenario, we show the full set of possibilities as originally agreed by GVC:

- **£3.1bn minimum offer, if Triennial Review outcome is £2 for FOBT stake limit:** £632m cash (32.7p per Ladbrokes share) and 271.8m new GVC shares (0.141 new GVC shares per LCL share).
- **Up to £827m additional cash component, dependent on outcome of Triennial Review:** as detailed in the chart below, each LCL shareholder has received one CVR per share, and each CVR confers a contractual entitlement to one loan note following determination of the estimated impact of the Triennial Review. The maximum value per CVR relates to a £50 FOBT stake limit (highly unlikely, in our view) and equates to an additional £827m. According to industry speculation, the most likely outcomes are £2 (no additional payment) or £20 (£585.6m additional payment), with commentators mostly leaning towards the £20 limit. We note that the final closing share price of LCL indicates a CVR of 11.36p, which is lower than the £5-10 options of 13.4p.
- **£676m payout if no Triennial Review outcome by April 2019:** if the Department for Culture, Media and Sport (DCMS) has not reached a conclusion on FOBT stake limits within a year of deal completion (April 2019), GVC will pay LCL shareholders 35p per share, equivalent to £676.4m.

Exhibit 9: Potential additional cash to LCL shareholders via contingent value right (CVR)

Maximum stake cap	£2	£5	£10	£20	£30	£40	£50
Value per CVR	0.0p	13.4p	13.4p	30.3p	40.4p	40.5p	42.8p
Additional amount to pay* (£m)	0.0	259.0	259.0	585.6	780.8	782.7	827.2

Source: GVC Group. Note: *Calculations assume 1,932,593,483 LCL fully diluted shares.

LCL's closing share price: 173.5p

As demonstrated in Exhibit 10, LCL's closing share price on 28 March was 173.5p, which includes a 32.7p cash component, 129.4p of new GVC shares (based on 918p per GVC share) and an implied 11.36p remaining for the CVR.

Exhibit 10: Components of LCL share price

Value per LCL share	Respective market value	Percentage
Cash	32.7	18.8
New GVC Shares	129.44	74.6
CVRs	11.36	6.5
Total value of LCL shares	173.50	100

Source: GVC

Triennial Review

The consultation period for the DCMS's Triennial Review concluded in January and, as discussed above, the major focus has been on the stakes and prizes offered on B2 machines, or fixed-odds betting terminals (FOBTs), which offer games such as roulette. These are mainly located in betting shops and have a maximum stake of £100 and prize of £500. According to the Gambling Commission, there were a total of 8,531 betting shops and 33,611 B2 FOBT machines at September 2017, generating £1.8bn a year of revenue. Across the betting shop sector, the FOBT machines are split 65/35% between B2 (previously £100 limit) and B3 (£2 limit).

The initial conclusion of the review is that the stake limits for FOBTs would be cut to between £2 and £50. Recent industry speculation suggests that the outcome will be either £2 or £20, or indeed a variation of the two (eg £2 for slots and £20 for roulette), which would have a significant impact on profits. We have based our core forecasts on the £20 stake level, although we also include a worst-case £2 limit scenario. Clearly, a variation of both scenarios would produce something in between.

For LCL, B2 machine revenues comprise c £500m per annum. Taking into account some substitution into lower-staking B2 or B3 content, we believe that, pre-mitigation, a £2 limit would reduce revenues by c 50% and a £20 limit would reduce revenues by c 25%. These figures correlate with estimates provided by PPB for its Paddy Power betting shops, detailed in our October 2017 sector report, UK gaming sector: Winning against the odds.

We would expect the eventual impact to be less negative as operators are likely to mitigate through substitution, alternative development etc. There are a number of ways that LCL would be able to recover lost revenues: (i) customers switching from B2 to B3 games; (ii) customers playing for longer; (iii) switching spend to OTC or online; and (iv) market share gains, if independent shops are forced to close.

In terms of profits, we estimate that any revenue shortfall would result in a 70% drop through to EBITDA. This is due to the fact that fixed costs in retail betting are high and the largest variable cost is the 25% tax on machines. As a result of these dynamics, we would expect significant shop closures over the next few years, with a third of LCL shops closing under the £2 scenario (c 1,000 shops) and 400 shops closing under the £20 scenario.

As the company manages its cost base with progressive shop closures and cost savings, we estimate that over two to three years, the eventual EBITDA impact will be c £100m for a £2 FOBT and £50m for a £20 FOBT stake limit.

Exhibit 11: Impact of FOBT stake limit on initial FY19 machine revenues and EBITDA

Stake limit	Machine revenue decline (pre mitigation)	Machine revenue decline (post mitigation)	Revenue shortfall	EBITDA shortfall*	Shop closures
£2 stake	50%	40%	£200m	£140m	1,000
£20 stake	25%	17%	£85m	£60m	400

Source: Edison Investment Research. Note: *We assume a 70% drop through to EBITDA.

Financials

Overview: Online to offset retail weakness

As detailed above, we have based our core scenario on a £20 FOBT outcome, although we also demonstrate a scenario based on the worst-case £2 limit.

Overall, we forecast pro forma NGR growth of 4.4% to £3.40bn in 2018, rising 0.3% to £3.41bn in 2019 and then increasing to 3.6% growth in 2020.

Once the impact of FOBT stake limit has been absorbed, we assume flat revenues in LCL's retail division, which will be offset by higher online growth in the rest of the business. (H2 Gambling Capital has estimated that global online gaming growth is 7% CAGR to 2021.) In particular, as the UK online market matures, we anticipate that GVC will seek revenue growth from other markets (as evidenced by the recent acquisition in Georgia). Altogether, we anticipate long-term group revenue growth of c 2-3%.

For EBITDA, we forecast £747m in FY18, falling to £743m in FY19. The decline reflects the impact of the FOBT stake limits, which is offset by online growth and the £25m expected synergies. For FY20, we forecast a return to margin expansion (£810m EBITDA), as the company should begin to benefit from cost efficiencies and shop closures.

GVC: 26% of NGR, 32% EBITDA for FY18e

As demonstrated in its recent FY17 results, standalone GVC has continued its strong growth trajectory, with continuing NGR (excluding Turkey) up 17% in 2017 to £814.5m. This was largely driven by a 20% growth in sports brands NGR and a 10.8% sports margin. The platform migration following the bwin acquisition is now complete in all key territories and current trading into Q118 is also strong, with daily NGR growth of 16%. The FIFA World Cup is expected to contribute to continued momentum and we forecast GVC revenue growth of 12% in FY18 (€1,035m or £895m). Despite the lack of major football tournaments in 2019, we believe the company will continue its strong momentum and we forecast FY19 NGR growth of 7%.

Despite incremental gaming taxes and higher marketing spend (from 21% to 25% of revenues), GVC's EBITDA margin increased from 21% to 26% in FY17. Management has confirmed that marketing should remain at these levels ahead of the FIFA World Cup. Nonetheless, as the company continues to deliver technological efficiencies, we expect continued margin improvement and our EBITDA margin forecasts are 27.5% and 28.0% for 2018 and 2019 respectively.

In March 2018, GVC announced that it had acquired a 51% stake in Crystalbet in the Republic of Georgia for €41m cash, with a commitment to acquire the remaining 49% in 2021 (for a maximum of €150m cash). Crystalbet is currently the largest online sportsbook, and the second largest online gaming brand overall in the Republic of Georgia. We include £25m revenues and £8m of EBITDA for 2018 in the consolidated accounts.

Our pro forma estimates have translated 2017 GVC accounts at €/£0.88 and, for 2018 onwards, we have used a €/£ exchange rate of 0.86.

Ladbrokes Coral: 74% NGR, 68% EBITDA for FY18e

For FY18, we estimate revenue growth for LCL of 2.6% to £2.5bn, with the growth driven primarily from the group's online divisions. We expect a continued 3% decline in UK retail in 2018, not helped by recent fixture cancellations (snow related) and other general weakness on the UK high street. Our EBITDA estimate for 2018 is £505m, which represents a 20% margin.

After 2018, the Triennial Review will have a substantial impact on future financials, with the FOBT changes expected to be implemented from 2019. To place the FOBT threat in context, we estimate that approximately 65% of LCL's FY17 revenues are derived from its retail business, of which the vast majority is in the UK, and that approximately £500m revenues are currently derived from FOBT machines.

We detail our key assumptions:

- **FOBT assumption £2:** we forecast that for the £2 stake limit, the immediate impact on revenue will be c £200m and £140m for EBITDA. Under this scenario, LCL has stated that it will close c 1,000 shops (30% of its portfolio), and we forecast 600 closures in 2019 and 200 in the next two years. As the company manages its cost base, we believe that the eventual impact on EBITDA will be approximately £100m.
- **FOBT assumption £20:** we forecast that for the £20 stake limit, the immediate impact on revenue will be c £85m and £60m on EBITDA. In this case, we have forecast 400 shop closures, with 300 in 2019 and 50 in the next two years, and we expect the ultimate impact on EBITDA to be approximately £50m.

Restructuring and other one-off costs

Our income statement forecasts include a high level of restructuring and one-off costs, totalling £234m in FY18, £60m in FY19 and £36m in FY20. In addition to previous costs associated with the Coral deal, these include:

- **Restructuring costs:** GVC is forecasting approximately £100m recurring cost synergies and £100m non-recurring restructuring costs associated with delivering the synergies. These non-recurring restructuring costs are expected to be spread through to 2021 at the following levels: £17m in 2018, £30m in 2019, £31m in 2020 and £22m in 2021.

- **Costs associated with the deal:** in addition to the restructuring costs, GVC has also incurred substantial legal, accounting and transaction costs associated with the deal, estimated at c £110m plus VAT (€98.4m for GVC and £24.3m for LCL). Including an estimated 10% VAT, this amounts to c £120m.
- **Shop closures:** LCL has indicated that it will close approximately one-third of its retail shops under a £2 FOBT stake limit scenario and we believe it could close up to 400 shops under a £20 scenario. We forecast the majority of closures in 2019, incurring costs of £100k per shop (£30m in 2019, £5m in 2020 and £5m in 2021). Cash costs are estimated at £50k per shop.
- **Other unrelated:** for FY18, we also include 12 monthly payments of £6.8m relating to the VAT fine in Greece, totalling £81.6m. In addition, LCL has a remaining one-off cash payment to Playtech of £40m in FY18.

Recurring cost synergies: Minimum of £100m

GVC has outlined a minimum of £100m of cost synergies, which appears extremely conservative, particularly in light of both GVC's and LCL's impressive track record with complex integrations. We also note that these estimates do not include any revenue and capex synergies, which could amount to c £40-£50m (not in our forecasts). We highlight the key features of the synergies:

- **Timing:** GVC estimates that the £100m synergies will accumulate gradually, with total exit synergies of £7m in 2018, £33m in 2019, £56m in 2020 and £100m in 2021. In our forecasts, this equates to £4m in 2018, £25m in 2019 and £45m in 2020.
- **£44m from technology and data:** this predominately relates to LCL's contracts with Playtech, which expire in 2020/21. Playtech currently provides the software for LCL's c £400m online gaming division and we would expect GVC to migrate customers to its own platform at that stage. In addition, LCL pays BGT (Playtech) for technology relating to its self-service betting terminals (SSBTs). Should GVC decide to replace these terminals with its own (similar to William Hill), there could be additional cost savings.
- **Other cost synergies:** corporate costs (£30m), marketing (£14m) and other (£12m).
- **£40-50m upside from additional capex and revenue synergies:** given GVC's track record with the bwin acquisition, we believe there is significant scope for revenue (eg cross-selling) and capex synergies. Although not included in our forecasts, we expect these could total c £40-50m per annum.

Other income statement items

- **Taxes:** we assume a blended tax rate of 12.5% on adjusted PBT.
- **Financial charges:** we assume a 4% cost of debt.
- **Dividends:** for 2018, LCL and GVC paid final standalone FY17 dividends of 4p and 17.5c per share respectively, amounting to £122.6m. Going forward, we assume a progressive dividend policy, beginning with 30p for FY18, which equates to a c 44% payout on adjusted net profit from FY19.
- **Amortisation of acquired intangibles:** we forecast that GVC will amortise the £1.8bn additional acquired intangibles at £180m per year, bringing total amortisation of acquired intangible assets to £380m per annum.

Balance sheet and cash flow

To finance the cash portion (£632m) of the acquisition, GVC has secured a debt financing package, consisting of a six-year, multi-currency £1.4bn first lien term loan and a £550m multi-currency, revolving credit facility. Proceeds will also be used to refinance some existing LCL debt. This loan is in addition to GVC's existing £300m term loan.

- **Net debt/EBITDA remains within 3.0x after first full year on both £2 and £20 scenarios:** we estimate that GVC/LCL pro forma net debt was £1.1bn at end FY17 and, under a £20 FOBT scenario, we estimate that net debt rises to £2.4bn in FY18 before falling to £2.3bn in FY19 and £2.0bn in FY20. As detailed in Exhibit 12, net debt/EBITDA peaks at 3.2x in this scenario. This compares to 2.7x for the £2 scenario.

Exhibit 12: Financial summary for £2 and £20 FOBT limits (£m)

£2 stake	2018	2019	2020	£20 stake	2018	2019	2020
GVC	895	961	1,020	GVC	895	961	1,020
Ladbrokes	2,507	2,337	2,402	Ladbrokes	2,507	2,453	2,518
Total revenues	**3,402**	**3,298**	**3,422**	**Total revenues**	**3,402**	**3,414**	**3,538**
GVC	238	261	287	GVC	238	261	287
Ladbrokes	505	379	420	Ladbrokes	505	457	478
Synergies	4	25	45	Synergies	4	25	45
EBITDA	**747**	**665**	**752**	**EBITDA**	**747**	**743**	**810**
margin	22.0%	20.2%	22.0%	margin	22.0%	21.8%	22.9%
PBT	536	447	540	PBT	523	505	580
EPS* (p)	78	65	78	EPS	76	73	84
Net debt	1,814	1,764	1,556	Net debt	2,411	2,251	1,991
Net debt/EBITDA	**2.4x**	**2.7x**	**2.1x**	**Net debt/EBITDA**	**3.2x**	**3.0x**	**2.5x**

Source: Edison Estimates. Note: *Normalised and diluted (EPS) excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Sensitivities

Beyond the key issue of the Triennial Review and the FOBT stake limit, there are a number of sensitivities that investors should consider.

- Our pro forma historic and future forecasts are essentially a combination of GVC and LCL financials and we would expect some figures to be restated in due course. Future forecasts are also likely to change, as GVC begins to integrate the businesses.
- Platform migrations may not be as successful as hoped. Once LCL's contracts with Playtech expire (2020/21), GVC intends to migrate LCL's online gaming customers from the Playtech platform. We understand that this forms the majority of the £44m of technology synergies. Although GVC has proven experience with platform migrations (bwin), there remains some operational risk with a migration of this size.
- Although GVC's management has an impeccable track record regarding acquisitions and their subsequent integration, we believe there is more risk associated with Ladbrokes Coral. The previous acquisitions of bwin and Sportingbet focused on poor brand management and operational efficiencies. The LCL acquisition is rather different, given that the company has just been through a merger (with Coral) and is already operationally efficient. Furthermore, Ladbrokes is significantly larger than the other deals and presents different challenges, particularly in the form of the UK retail betting market.
- Retail presents a new challenge: GVC has no prior experience in the retail betting market and clearly this will present different challenges for management. However, we note that the enlarged business will benefit from key LCL members on the management team.
- Online gaming growth is slowing in mature markets: GVC has historically grown its business across numerous unregulated markets. After this deal, 90% of its business will be in locally regulated and/or taxed markets, some of which (eg the UK) are more mature and growth may be harder to achieve.
- The current regulatory environment in Germany remains unclear, with some speculation regarding the prospects for online gaming (not sports betting). Clearly, any negative trends would adversely affect GVC's business. In the enlarged group, Germany represents 7% of revenues, of which just over half relates to casino gaming. We also note that a number of

competitors (eg 888, William Hill) have booked sizeable provisions for potentially retrospective VAT payments in Germany and there is a risk that GVC may be required to pay a large retrospective fine.

- Through LCL, GVC now operates in Australia, where regulatory pressures have been increasing. This includes the introduction of 15% point of consumption tax, as well as high turnover taxes in some regions. Any further tightening of laws or regulations could restrict the company's growth prospects in Australia.
- Our assumptions for recycling lost revenues from FOBTs may be optimistic. Across the industry, there is a high degree of uncertainty in terms of how the FOBT stake limits will affect profits and it may prove more difficult than anticipated to mitigate for lost revenues.
- More generally, there are continuous uncertainties with online gaming regulators globally. As witnessed by the recent fine in Greece, GVC could be subject to other unwelcome surprises from regulators.

Valuation: Peer group analysis

The most straightforward way to value GVC is via a peer group comparison. Exhibit 13 compares it to the leading UK gaming operators, together with selected international players. Within this group, we believe the nearest peer is PPB, which also has a high-performing online sportsbook and a significant retail presence in the UK.

For the £20 scenario, GVC trades at a discount to PPB – a 5% EV/EBITDA and 19% P/E discount for FY19. We note GVC's higher debt profile, suggesting an EV/EBITDA comparison is probably more appropriate at this stage. Catalysts to close this valuation gap would include positive evidence of a successful integration, including concrete cost and revenue synergies.

Exhibit 13: Peer group comparison

Name	Quoted Currency	Market cap (m)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
GVC Holdings (£2)	GBp	5,455	9.6	10.7	12.1	14.2
GVC Holdings (£20)	**GBp**	**5,455**	**10.4**	**10.5**	**12.4**	**12.9**
Paddy Power Betfair	GBp	6,071	11.7	11.0	17.0	15.9
Playtech	GBp	2,536	8.4	7.4	12.5	11.2
William Hill	GBp	2,841	8.8	8.8	12.9	12.8
Jackpotjoy	GBp	594	7.9	7.7	6.7	6.2
888 Holdings	GBp	993	12.0	10.9	19.8	17.4
Rank Group	GBp	672	5.5	5.3	11.3	10.7
Stride Gaming	GBp	161	7.0	6.0	10.4	8.9
Stars Group	CAD	5,236	10.3	9.4	11.5	10.3
Betsson	SEK	9,646	8.7	8.8	10.8	11.2
bet-at-home	EUR	550	11.8	11.1	15.9	15.0
Kindred Group	SEK	28,087	11.9	12.7	16.2	17.7
Average			**9.4**	**9.0**	**13.2**	**12.5**

Source: Edison Investment Research, Bloomberg. Note: Prices as at 17 April 2018.

We have also performed a DCF with a terminal growth rate of 2% and a terminal EBITDA margin of 20%, vs 22% in FY18e. Using a WACC of 8.5% produces a value per diluted share of 1,036p; flexing the WACC between 8.0% and 9.0% gives a range of 936-1,152p. Our core 1,036p DCF valuation equates to 11.3x EV/EBITDA and 14.1x P/E for FY19e, which is slightly above its closest peer, PPB on an EV/EBITDA basis, but still at an appropriate discount on a P/E basis (given the debt profile).

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Exhibit 14: Financial summary

£'m	2016	2017	2018e	2019e	2020e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	3,094.3	3,257.5	3,402.0	3,413.6	3,537.6
Cost of Sales	(1,285.7)	(1,346.7)	(1,378.2)	(1,390.9)	(1,441.5)
Gross Profit	1,808.5	1,910.9	2,023.8	2,022.7	2,096.1
EBITDA	555.6	651.8	747.5	743.4	810.0
Normalised operating profit	400.0	496.2	591.9	587.9	654.5
Amortisation of acquired intangibles	(200.0)	(380.0)	(380.0)	(380.0)	(380.0)
Exceptionals	(534.3)	(59.5)	(233.7)	(60.0)	(36.0)
Share-based payments	(31.1)	(25.6)	(25.6)	(25.6)	(25.6)
Reported operating profit	(365.4)	31.1	(47.4)	122.3	212.9
Net Interest	(124.6)	(72.0)	(79.0)	(93.2)	(84.8)
Joint ventures & associates (post tax)	8.8	10.0	10.0	10.0	10.0
Profit Before Tax (norm)	284.2	434.2	523.0	504.6	579.6
Profit Before Tax (reported)	(481.3)	(30.9)	(116.3)	39.1	138.1
Reported tax	23.6	(9.9)	(65.4)	(63.1)	(72.5)
Profit After Tax (norm)	248.6	379.9	457.6	441.6	507.2
Profit After Tax (reported)	(457.7)	(40.9)	(181.7)	(24.0)	65.6
Minority interests	0.0	0.0	(4.0)	(5.0)	(5.5)
Discontinued operations	28.4	(13.2)	0.0	0.0	0.0
Net income (normalised)	248.6	379.9	453.6	436.6	501.7
Net income (reported)	(429.3)	(54.1)	(185.7)	(29.0)	60.1
Basic average number of shares outstanding (m)	NM	NM	576	576	576
EPS - basic normalised (p)	NM	NM	78.79	75.83	87.14
EPS - diluted normalised (p)	NM	NM	76.15	73.29	84.22
EPS - basic reported (p)	NM	NM	(32.25)	(5.04)	10.44
Dividend (p)	NM	NM	30.00	32.00	34.00
Revenue growth (%)	NM	5%	4%	0%	4%
Gross Margin (%)	58.4	58.7	59.5	59.3	59.3
EBITDA Margin (%)	18.0	20.0	22.0	21.8	22.9
Normalised Operating Margin	12.9	15.2	17.4	17.2	18.5
BALANCE SHEET					
Fixed Assets	6,040.7	6,082.0	5,740.8	5,405.2	5,019.7
Intangible Assets	5,605.3	5,607.0	5,248.0	4,898.1	4,518.1
Tangible Assets	245.0	264.4	272.8	287.2	281.6
Investments & other	190.4	210.7	220.0	220.0	220.0
Current Assets	792.0	758.8	868.5	771.1	771.4
Stocks	1.6	2.0	2.0	2.0	2.0
Debtors	342.6	258.7	280.0	300.0	320.0
Cash & cash equivalents	272.2	313.8	386.5	249.1	209.4
Other	175.6	184.3	200.0	220.0	240.0
Current Liabilities	(1,583.1)	(1,121.0)	(1,095.0)	(1,095.0)	(1,095.0)
Creditors	(699.9)	(594.1)	(600.0)	(600.0)	(600.0)
Tax and social security	(67.7)	(253.8)	(250.0)	(250.0)	(250.0)
Short term borrowings	(742.4)	(200.0)	(200.0)	(200.0)	(200.0)
Other	(73.1)	(73.1)	(45.0)	(45.0)	(45.0)
Long Term Liabilities	(1,052.8)	(1,513.9)	(2,977.1)	(2,680.0)	(2,380.0)
Long term borrowings	(749.6)	(1,212.1)	(2,597.1)	(2,300.0)	(2,000.0)
Other long term liabilities	(303.2)	(301.8)	(380.0)	(380.0)	(380.0)
Net Assets	4,196.9	4,205.9	2,537.2	2,401.3	2,316.1
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	4,196.9	4,205.9	2,537.2	2,401.3	2,316.1
CASH FLOW					
Op Cash Flow before WC and tax	590.8	686.5	747.5	743.4	810.0
Working capital	3.8	(29.1)	(20.0)	(20.0)	(20.0)
Exceptional & other	(534.3)	(59.5)	(233.7)	(30.0)	(33.5)
Tax	(6.5)	(14.9)	(65.4)	(63.1)	(72.5)
Net operating cash flow	53.8	583.0	428.4	630.3	684.1
Capex	(58.2)	(205.8)	(185.0)	(200.0)	(150.0)
Acquisitions/disposals	(1,032.4)	(6.0)	(3,742.0)	0.0	0.0
Net interest	(71.1)	(101.3)	(79.0)	(93.2)	(84.8)
Equity financing	158.8	47.0	2,497.0	0.0	0.0
Dividends	(30.4)	(200.1)	(191.7)	(177.4)	(188.9)
Other	77.1	0.0	(40.0)	0.0	0.0
Net Cash Flow	(902.4)	116.8	(1,312.3)	159.7	260.3
Opening net debt/(cash)	312.7	1,215.1	1,098.3	2,410.6	2,250.9
FX	0.0	0.0	0.0	0.0	0.0
Other non-cash movements	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)	1,215.1	1,098.3	2,410.6	2,250.9	1,990.6

Source: Company accounts, Edison Investment Research. Note: Pro forma accounts for GVC-LCL. *Continuing operations excluding Turkey.

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