Equity Research Report
28/01/2023

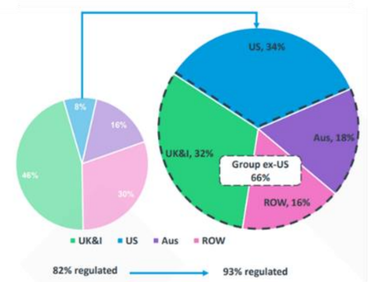
Analysts: Conor Maguire, Martin Kiesewetter, Twisha Soni, Arya Moola

BUY

Price: £128.5
Price Target: £150
Upside: 15%

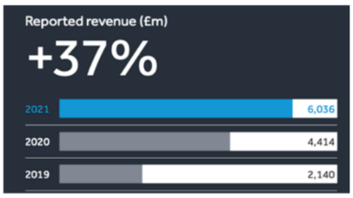
Company Info	
Ticker	FLTR
Exchange	ISE/LSE
Market Cap	£22.13B
52-week High	£126.50
Headquarters	Dublin
GICS Sector	Consumer Discretionary
Industry	Hotel & Leisure
Sub-Industry	Casinos and Gaming

Figure 1: Revenue by Region



Source: Interim Report 2022

Figure 2: Group Revenue Growth



Source: Annual Statement 2021

Figure 3: Segment Market Share

Source: Interim H1 Report

Flutter Entertainment

A sure bet!

Investment Summary

Based on its strong positioning in fast-growing global markets, forward-thinking approach to developing technology, and its commitment to safer gambling initiatives, along with our forecasted upside potential of 19.1%, we believe Flutter to be a **BUY**.

Business Description

Flutter Entertainment PLC (FLTR) operates as a sports betting and gaming company. The company was formerly known as Paddy Power Betfair plc and changed its name to Flutter Entertainment plc in May 2019. It was incorporated in 1958 and is headquartered in Dublin, Ireland. The company operates through four geographic segments: UK & Ireland, Australia, International, and US. Flutter through its subsidiaries offers sportsbooks and exchange sports betting products, fantasy sports products as well as online games and casinos. Some of its brands include Paddy Power, Betfair, Sportsbet, FanDuel and Sky Betting & Gaming. The company is listed on the London and Irish Stock Exchanges and is a constituent of the FTSE 100 index as well.

Environmental, Social, and Governance

Environmental: Flutter has committed towards the Paris Agreement, which is that of reaching net-zero carbon emissions by 2050. Flutter aims to set science-based carbon targets by the end of 2022 to charter their path towards net zero emissions. The company has begun reporting on how the impacts of climate change can affect the business, in line with the Taskforce on Climate Related Disclosure ("TCFD") recommendations. The company will also develop and roll out a global e-waste policy across divisions and suppliers by the end of 2023. In terms of real estate, the data centres for Flutter are highly energy intensive, the company intends to move all energy tariffs to renewable energy tariffs by the end of 2030.

Social: The company introduced its first sustainability strategy, the Positive Impact Plan, in 2021. It forms a part of the social aspect of ESG, and is focused on three pillars: customers, employees, and communities. It has invested £45 million towards safe gambling ('Play Well') and has a target set across its major markets. For its employees, the company has created a fund of £1000 per employee for their continued career development. Flutter aims to have 40% of women in top leadership roles by 2026. The company has given nearly £3.7 million to communities in 2021, all of which fall under one of the three categories of: sport; tech for good; health & wellbeing.

Governance: Flutter launched its first Diversity, Equity & Inclusion Strategy in 2021. The company has a clear distribution of activities within its Board, with the creation of committees that ensures a focused approach towards governance**.** The company's Risk Committee has become the Risk and Sustainability Committee, increasing accountability and oversight of the implementation and evaluation of the Positive Impact Plan and any associated risk management. (In line with corporate governance and TCFD expectations). In addition, a safer gambling sub-committee of the Board Risk and Sustainability Committee has been established, to provide dedicated oversight to this critical area, and ensuring compliance of the Play Well aspect of the Positive Impact Plan and ensuring compliance of the Play Well aspect of Positive Impact Plan.

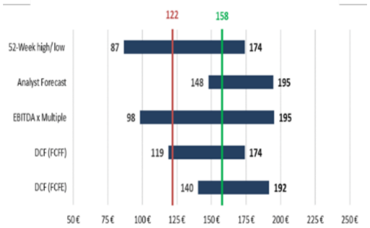
Financial Analysis

Strong US Performance: The US expansion strategy is seeing growth continuing to accelerate, with an EBITDA profit in Q2 this year and a 51% share in the sports betting market. FLTR has signalled confidence in profitability for 2023. H1 2022 revenue is up 50% from H1 2021, with Q2 profit of £16m. The group's focus on diversifying its portfolio through growing it's US exposure has offset the declining profits in the UK&I and International region – positioning them strongly to absorb future impacts in those regions.

Leverage Remains High: The net debt for H1 2022 increased £322m YOY to £3,004m, representing a leverage ratio of 3.4x. This figure includes the acquisition of Tombola in H1 2022 for £410m cash. FLTR's debt-to-asset ratio is high at 22.9% and has been growing YOY over the last 5 years at 80.1% CAGR. This high degree of leverage can be explained by the focus on acquisitions and capital expenditure in pursuit of growth in US and other markets. While high at 22.9%, it is still below peer values of ~30%. FL

TR is committed to lower their leverage ratio to 1-2x in the medium term and is confident in this by current strong generation of free cash flow.

Figure 4: Valuation Football Field



Source: Team Assessment

Strong Market Share: FLTR has consolidated large proportions of market shares in its operating regions through it's first-to-the-post strategy. This can be observed in Figure 3, with 29% of the UK&I online market, 50% of Australia, and 51% of the US market share in Q2 2022. FLTR's acquisition of Sisal provides a strong position within the fast-growing Italian market. The company has seen +51% EBITDA growth for H1 2021 to H1 2022. FLTR's acquisition of a majority stake in India's #2 rummy operator, Junglee, is likely to show very strong future performance in the rapidly growing Indian market. The online gaming market in India has seen 54% CAGR over the last 3 years, so taking an early position (aligned with the company's strategy) is a positive move in expanding FLTR's international portfolio.

Figure 5: M&A Activity

Source: Team Assessment

Valuation

Share Price Analysis: In the two years following 2017 the stock was on a slight downward trend due to increased regulations across its major markets. However, the announcement of dividends during this period led to sharp but short-lived rallies. The stock managed to gain some positive momentum in the months leading up to the covid-induced selloff of March 2020 before crashing in line with the rest of the market. The stock exceptionally outperformed the market (FTSE and ISEQ) as highlighted by A above. The catalyst for this was the announcement of a stock split that boosted the share price by more than 65% during a two-month period. Another factor for the outperformance was due to closures of brick-and-mortar casinos, gambling, and gaming operations. Flutter was a direct and major beneficiary of customers adopting online gaming and gambling platforms with its market-leading digital presence.

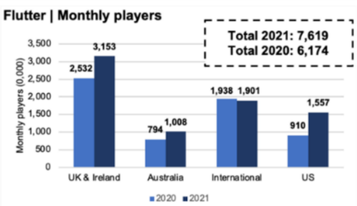
Figure 6: Revenue 2021

Source: Team Assessment

The acquisition of a majority shareholding in FanDuel in Dec 2020 resulted in the stock reaching lifetime highs. FanDuel is the only publicly traded sportsbook platform in the US to turn a quarterly profit in Q1 2022 and commands an industry leading 47% market share in the US. In 2021, the opening of economies contributed to weak stock performance in the corresponding period. The challenging macro-environment this year continues to weigh down on the stock as well. However better than expected Q2 results announced in August, highlighted in B above, contributed to a large positive movement in the stock price recently.

Barring the exceptional events of A and B, Flutter has largely mirrored movements in both the indices on which it is listed. However, Flutter has delivered positive returns of approximately 44% over the last 5 years when compared to negative returns of both the indices over the same period.

Figure 7: Average Monthly Players



Source: Team Assessment

DCF/Multiples: To find a target price, we conducted three valuations: an Industry multiples valuation and two DCF models - one for FCFF and the other one for FCFE. For each valuation we calculated a worst-case, base-case, and best-case scenario. We then looked at analyst forecasts and the 52-week range of share price to give us a better approximation for our valuation.

For the industry multiple valuation, we used the FY21 EBITDA and multiples ranging from 24 to 44. Those numbers are adequate multiples to represent the casino, internet gaming, software, systems & applications industries. For the DCF valuations we forecast revenues, costs, and cash flows. Annual revenue growth for the first five years is forecasted to be 15%, and 8% for the second five years. The continuous growth rate g was assumed to be 2%. To discount FCFF we used a WACC ranging from 7.5% to 10.5% and to discount FCFE we used a CoC ranging from 9.5% to 11.5%.

We find a price target of €158 per share, which exceeds the current share price of €132.7 by 19.1%.

Investment Risks

Regulation and Licensing Landscape: Tightening regulatory environments in the UK, Ireland, Germany, and the Netherlands are cause for concern in the industry, with an overhaul to UK gambling laws due this year. A reshape of business models has resulted in slashed revenues, slowing growth and offsetting profits to adapt to these changes and remain sustainable in the long-term.

Cybersecurity and Data Protection: With online betting and casino accounting for over half of the share of the UK gambling industry, the volumes of personal customer data managed by companies like Flutter is a concern for data watchdogs, especially with the rise of cyberattacks on large corporations. The targeting of ads and sharing of data with third parties are areas that are under intense scrutiny in the industry.

Aggressive Growth Strategy: FLTR is a serial acquirer, and as such has large exposure to investment risk and the success of its acquisitions. It is investing heavily in US expansion, and this capital expenditure, along with recent acquisitions of Sisal and Tombola, contributed to a leverage ratio of x4.1. Despite this highly leveraged position, the company is committed to a leverage target of 1-2 times in the medium term.