Financial review

Ian Proctor, Chief Financial Officer

We delivered a strong year, with revenue growth of 38% to £516m. Despite increased investments in international markets, and our technology, brand and people, EBITDA also increased by 38% to £146m. Cash generation was strong, with free cash flow of £124m being 85% of EBITDA.

During the year we repaid a Vendor Loan Note of £83m, ending the year with external net debt of £246m (2016: £243m). Following a review of the capital structure, we completed a refinance of the business after the period end.

Revenue

For the year ended 30 June 2017, Group revenues increased by 38% to £516m (2016: £374m). The main driver of growth was an increase in active customers of 31% to 2.6m, with an ongoing improvement in retention, engagement and broader product range driving an ARPU increase of 5%.

	FY16 £'m	FY17 £'m	% change
Betting	214.1	313.6	46%
Gaming	159.5	202.2	27%
TOTAL REVENUE	**373.6**	**515.8**	**38%**

Betting revenues increased 46%, with stakes up 40% and slightly higher net margins. Sporting results were typically mixed throughout the year, with some challenging moments and a record losing day on Boxing Day 2016, but over the course of the year, the overall margin was in line with our expectations. Gaming revenue increased by 27%, driven entirely by growth in active customers. We repositioned two of our gaming brands during the year, and improved our cross-sell penetration from Bet customers.

Costs

Total costs increased by 38% to £370m (2016: £268m).

	FY16 £'m	FY17 £'m	% change
Marketing*	86.9	126.4	45%
Development	13.6	17.1	26%
Other	167.7	226.5	35%
TOTAL COSTS	**268.2**	**370.0**	**38%**

Our biggest single cost item is marketing, and this cost increased 45% in the year to £126.4m (2016: £86.9m). Together with product development, marketing is a key investment to drive growth in our business. We have a rigorous RoI based approach to marketing costs, investing in customer retention, acquisition and brand awareness. Other costs increased 35%, reflecting our ongoing investment in people, as well as our international expansion with the launch of Skybet.it during the year. Investing in technology is a core part of our strategy to future proof the business. In addition to a 26% increase in development expenses, we continued to increase our capital expenditure.

* Does not reconcile with statutory accounts due to treatment of subsidies and international marketing costs

Taxation

A significant portion of the Group's cost base is taxation, with the Group incurring irrecoverable VAT on its costs as well as betting and gaming duties on its revenues. Our Bet, Gaming and Oddschecker businesses are all registered for UK Corporation Tax, and taking all our taxes in aggregate, our contribution was £153m in FY17, amounting to 30% of our revenue.

Operating profit

EBITDA of £146m represented growth of 38%, with our EBITDA margin stable at 28%. As a result of strong revenue growth in the year, we accelerated investment in key areas of brand, technology and people, as well as funding our international expansion in Italy. On an underlying basis in the UK, our EBITDA margin increased by three percentage points, reflecting the strong focus on efficiency and the operational gearing in our model. Underlying depreciation and amortisation increased 126% as we continue to invest in our technology capability, and we incurred a £57m amortisation charge in relation to the acquisition of SBG in March 2015.

	FY16 £'m	FY17 £'m	% change
Revenue	373.6	515.8	38%
Total costs	(268.2)	(370.0)	38%
EBITDA	105.4	145.8	38%
EBITDA margin	28.2%	28.3%	
Depreciation and amortisation	(6.2)	(13.7)	121%
Purchase price allocation amortisation and impairment	(55.8)	(63.5)	14%
Operating profit	43.4	68.6	58%

Cashflow and leverage

Year end cash and equivalents was £123m (2016: £120m). The Group's cash from operations was £142m (2016: £124m). This was used mainly to finance capital expenditure of £33m (2016: £28m), and the redemption of a Vendor Loan Note (£83m). Net debt (excluding restricted cash) ended the year at £246m, representing leverage of 1.69x EBITDA.

	FY16 £'m	FY17 £'m	% change
EBITDA	105.4	145.8	38%
Working capital	31.3	10.7	(66%)
Capital expenditure	(28.3)	(32.6)	(15%)
Business free cash flow	108.4	123.9	14%
Cash conversion	103%	85%	
Acquisitions	(23.8)	–	–
Tax	(12.7)	(14.8)	(17%)
Financing cashflow	(22.9)	(106.7)	(366%)
Movement in cash	49.0	2.4	(95%)

Post balance sheet events

Following the end of the year, we conducted a review of our capital structure. In August 2017, we refinanced our £340m syndicated debt facility, increasing the debt quantum to £820m (sterling equivalent) and extending the maturity to August 2024. This was achieved whilst also reducing the cost of funding applicable to the debt. The refinancing generated excess funds that were returned to shareholders in September 2017.