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**Ladbrokes CVR Update 18/06/2018:**

Below is an update to our original [CVR analysis from 28/3](#).

**Key Developments:**

On 17/5, the Department for Digital, Culture, Media & Sport [announced](#) their intention to lower the maximum stake on FOBT machines to £2.

Also on 17/5, GVC issued a [statement](#) regarding the decision. In it, they state that "the CVR Instrument envisages that if legislation is enacted prior to 28 March 2019 reducing maximum stakes to £2, as announced by the Government today, this will result in each CVR having zero value. In such circumstances no payment would be required to be made by GVC to CVR holders and the CVRs would be automatically cancelled."

On 14/6, The Times [reported](#) that the U.K. Treasury has struck a deal with bookmakers pushing back the new wager implementation to April 2020. According to the article, the Treasury is concerned about the tax revenue impact. In order to offset the decline, the Treasury intends to increase online gaming taxes. This increase could be implemented as early as April 2019.

While we are reluctant to jump to conclusions based off of one article, it is worth noting that The Times was incredibly accurate in their reporting leading up to the wager decision.

Our interpretation of the CVR documentation is in line with GVC's in that if legislation were to be passed lowering the FOBT wager in 2020, the CVR would still be worthless. However, it is worth noting that the CVR has traded higher over the last week. Therefore, we wanted to highlight the scenarios in which we envision the CVR having value:

**1) The Long Stop Date**

If no Maximum Stakes Measure is Enacted by the Long Stop Date then the CVR is worth 35p. The Long Stop Date is one year after the deal closed (28/3/2019).

The key is the definition of "Enacted". The documentation defines Enacted as:

- A statutory instrument being laid before Parliament and 40 days passing without a petition for annulment.
- An affirmative vote being obtained on the statutory instrument from both houses.
- Royal Assent.
- The U.K. Gaming Commission making a specification to the gaming licences bring the change into effect.

Please note that there is no mention of when the wager is actually enforced. Therefore, our interpretation is that if a law is approved BEFORE 28/3/2019 lowering the wage in 2020, the CVR would still be worthless.

The timing of the law is clearly of great importance. A number of articles have suggested anti-gaming members of Parliament are unwilling to back a delay until 2020. Any debate/delay in the process raises the possibility of the law passing the Long Stop Date. In addition, there has been some suggestion of the possibility of snap elections in the U.K. due to Brexit negotiations. Once again, we feel this would increase the probability of the law being delayed.

**2) Long Stop Date Hedge**

As we highlight above, GVC does not expect to have to pay the CVR. However, the Long Stop date still represents a potential £682mm liability for the company. If there were to be further delays, at what point does the company decide to hedge some of this risk? If we enter 2019 without a law enacted, we could see the economic incentive for the company to potentially tender for the CVR at a value higher than £0. After all, hedging uncertainties is a practice all bookmakers are quite familiar with.

**3) Scenario 2 Interpretation**

The CVR was structured to insulate GVC from the negative impact of the FOBT wager decision. According to the aforementioned GVC press release, the company expects fully mitigated EBITDA impact of £120mm. While we have no insight into the actual negotiations, we expect that the deal assumed the FOBT decision to impact FY 2019 EBITDA. If the law were to come into effect in FY 2020,

GVC will benefit from an additional £120mm in EBITDA. We feel that one could argue that this £120mm should ultimately belong to Ladbrokes shareholders. If this were to be distributed to CVR holders, it would equate to a CVR value of 6.2p.

We feel that the documentation does allow for some room for this, possibly utilizing the "Scenario 2" process. The fact is, that PF for the merger, CVR holders represent roughly 47.5% of GVC's shareholder base. Was it truly in the spirit of the agreement for GVC to benefit from an additional year of Ladbrokes' FOBT business at full profitability? Furthermore, is it worth alienating half of your shareholders?

We would like to reiterate, that our interpretation of the documentation is that even if there is a delay in the enforcement of the wager, the CVR will still expire worthless. We are highlighting alternative possible scenarios. At this morning's mid from the Stifel Trading Desk, (4.675p per CVR), the market seems to be suggesting 7.5/1 odds that the Long-Stop is reached. We feel the risk/return relationship is representative of the likelihood of one of our alternative scenarios.

*\*\* Capitalized terms are defined in the CVR documentation. \*\**

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			No. of issuers per rating provided material services*	% of issuers per rating provided material services*
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<b>Negative</b>	<b>13</b>	<b>17.11</b>	<b>1</b>	<b>7.69</b>
<b>Not Rated</b>	<b>17</b>	<b>22.37</b>	<b>0</b>	<b>0.00</b>

## SNEL Credit Research Rating Distribution - Bond Recommendations

Rating	No. of ratings per category	% of total coverage per rating	*IB Serv./Past 12 Mos.	
			No. of issuers per rating provided material services*	% of issuers per rating provided material services*
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Hold	107	44.96	0	0.00
Sell	45	18.91	1	2.22
Not Rated	6	2.52	0	0.00

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