FDJ - LA FRANCAISE DES JEUX SA

315065292 CORPORATE

BBB+ ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings downgrades the long-term rating of La Francaise des Jeux (FDJ) from A- to BBB+, maintaining a Stable outlook.
- Our rating downgrade is a consequence of the acquisition of Kindred, a leading operator in the European online betting and gaming sector (operating the Unibet brand). The acquisition, announced in January 2024, was completed in October and cost FDJ nearly €2.5bn. The financing package comprised a €1.5bn bonds issuance (maturing between 2030 and 2036) and a €400m RCF repaid over a 5-year period. We expect the financial metrics for end-2024 to show a significant deterioration, with an adjusted net leverage ratio of 2.6x (pro forma the acquisition of Kindred) compared to a positive net cash position at end-2023. Given FDJ's solid cash flow generation, adjusted net leverage is expected to gradually improve from FY25 onwards.
- The acquisition of Kindred is part of FDJ's external growth strategy, by which it aims to expand into new European markets as well as to improve its business diversification by acquiring and/or securing new gaming licenses both in France and abroad. In line with this plan, since FY23 the group has completed the acquisitions of: (i) the ZEturf group (over €50m revenues in FY22), which operates online horse-race betting (2nd largest in France with a c.20% market share) as well as online sports betting under the ZEbet brand; (ii) Premier Lotteries Ireland (€140m revenues in FY22), which holds exclusive rights to operate the Irish National Lottery until 2034; and (iii) Kindred (c. €1.4bn revenues in FY23), among the top five European players in the online betting and gaming, with presence in the Netherlands, the UK, France, Sweden and Belgium. This strategy has enabled FDJ to improve its competitive position. It is now the third-largest player in online sports betting and gaming in Europe. Business and geographic diversification also benefits from this as the French monopoly is expected to represent c. 65% of its revenues in FY24 pro forma the acquisition of Kindred (compared to c. 80% in FY23).
- Despite the downgrade, our rating remains supported by FDJ's leading market position in France, with an extensive distribution network (c. 30k points of sale at YE23), exclusive rights to operate lottery games and offline sports betting, as well as licenses to operate online sports betting and poker. FDJ operates in a resilient sector, as the gambling activities offer rather high profitability levels, are less sensitive than others to macroeconomic fluctuations, and are characterized by high barriers to entry owing to regulatory requirements. The company has also an excellent track record both in terms of organic revenues growth and profitability (adjusted EBITDA margin of 22.7% in FY23). However, French revenues could be impacted by the change in gambling tax regimes currently being discussed for 2025.
- The overall Hotels & Leisure sector has medium-to-low ESG risks under our methodology (sector heatmap score between 2 and 3). This results in a sector assessment which is not impacted by ESG-related considerations. Regarding environmental factors, the sector has a medium impact on climate, resources, and pollution. However, the sector can have a negative impact on consumers linked to malpractice and gaming addiction.
- Our assessment of the company's ESG policy is neutral as well (company ESG score of between 1.5 and 3.5), resulting in no adjustments based on ESG considerations. FDJ's social and environmental scores are unchanged compared to last year, at a good level, while the governance score has improved, given a higher level of independence of the board. However, the governance score remains impacted by the absence of separation between the chairman and CEO positions. Regarding social criteria, we factor in the year-on-year improvement in employee turnover, training hours, and absenteeism rates, while the accident frequency rate has deteriorated. On the environmental side, we highlight the continued year-on-year decrease in the company's greenhouse gas emissions (scope 1 & 2), in line with its target to reduce emissions by 20% by 2025 (vs 2017). Also, while active in a controversial sector, FDJ is committed to curbing underage and excess gambling. The group actively detects high-risk players through player data and their behavior in its online venues, aiming to bring gross gaming revenues of excess gambling to under 2% for its online lottery platform. FDJ also implements a sanction system to try to prevent its retail distributors from selling its products to underage people.

Issuer Description

Headquartered in Boulogne-Billancourt, in the suburbs of Paris, FDJ is a leading player in the French Gaming & Gambling industry. With exclusive rights to operate French lotteries and offline sports betting until 2044, FDJ generates around 56% of France's total gross gaming revenues. It is also the second-largest lottery operator in Europe (after Allwyn), while the French market is ranked fourth in the world in terms of gross gaming revenues. The top shareholders of FDJ are the French government, with a 20% stake at end-June 2023 (before the company was taken private in 2018 it owned 72%), and several veterans associations with 15% (including 10% held by Union Des Blesses de La Face et de La Tete). FDJ has been listed on the Paris Stock Exchange since 2019 and has a market cap of €6.9bn (market close on December 9, 2024).

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Over FY23, the group attracted nearly €21.2bn of total stakes (+2.7% yoy), which converted into revenues of €2.6bn (+11.3% yoy), and adjusted EBITDA of €594m, equivalent to a 22.7% margin (vs 21.7% in 2022). The adjusted net cash position amounted to €124m at end-2023, pre-acquisition of Kindred in 2024.

Main Financial Figures

Main financial figures. Millions of €	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	2 461	2 621	3 827	4 018	4 059	6,5%
EBITDA	534	594	822	902	911	11,2%
EBITDA Margin	21,7%	22,7%	21,5%	22,4%	22,4%	1,0pp
EBIT	442	510	679	752	759	15,2%
EBIT Margin	18,0%	19,4%	17,7%	18,7%	18,7%	1,5pp
EBT	421	566	696	730	746	34,4%
Total Assets	3 316	3 761	6 140	6 054	6 023	13,4%
Equity	925	1 071	1 215	1 367	1 511	15,7%
Total Financial Debt	550	546	2 554	2 282	2 099	-0,6%
Net Financial Debt	-57	-124	2 148	1 997	1 849	-117,1%
Equity/TFD	168,4%	196,1%	47,6%	59,9%	72,0%	27,7pp
NFD/EBITDA	n/a	n/a	2,6x	2,2x	2,0x	n/a
Funds From Operations	465	555	705	741	754	19,5%
FFO/NFD	n/a	n/a	32,8%	37,1%	40,8%	n/a
EBITDA/Interest	80,9x	43,0x	21,0x	10,9x	12,2x	-37,9x

(1) FY24e figures are pro forma the acquisition of Kindred, completed in October 2024

Credit Rating

Credit Rating	
Business Risk Profile	**A-**
Industry risk assessment	*A*
Industry's ESG	*Neutral*
Competitive Positioning	*A-*
Governance	*BBB*
Financial Risk Profile	**BBB**
Cash flow and leverage	*BBB+*
Solvency	*BB-*
Company's ESG	*Neutral*
Anchor Rating	**BBB+**
Modifiers	
Rating	**BBB+**

Rating Sensitivity

- **Long-term rating positive factors (↑)**

A rating upgrade would be entailed by an improvement in FDJ's financial profile. In particular, the net adjusted leverage ratio below 2.0x on a sustained basis would result in a long-term rating upgrade to A- (i.e. a reversal of the downgrade).

- **Long-term rating negative factors (↓)**

A rating downgrade could be entailed by a significant deterioration in FDJ's financial profile, which could be a consequence of an additional debt-funded acquisition. For the same business risk profile, a rise of the group's EthiFinance Ratings-adjusted net leverage ratio to around 3.0x on a sustained basis could entail a long-term rating downgrade to BBB.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
    - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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