FDJ - LA FRANCAISE DES JEUX

315065292 CORPORATE

A-

ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings affirms the long-term rating of La Francaise des Jeux (FDJ) at A-, maintaining its Stable outlook. This rating action does not factor in the potential impact expected from the acquisition of Kindred, a leading operator in the European online betting and gaming sector (operating the Unibet brand), announced by the group on January 22, 2024.
- The rating is supported by: (i) FDJ's leading market position in France (the fourth-largest Gaming & Gambling market in Europe), with an extensive distribution network (c. 30k points of sale at YE22), exclusive rights to operate lottery games and offline sports betting, as well as licenses to operate online sports betting and poker; (ii) the resilient nature of its business, as the gambling sector offers rather high profitability levels, is less sensitive than others to macroeconomic fluctuations, and is characterized by high barriers to entry owing to its regulatory requirements ; (iii) the company's excellent track record both in terms of organic revenue growth and profitability (adjusted EBITDA margin of 21.7% in FY22); and (iv) a strong financial profile with historically low leverage levels (€57m adj. net cash position at YE22), mainly resulting from solid cash flow generation and a prudent financial policy.
- However, our rating is constrained by: (i) FDJ's limited business diversification, with a high concentration on the lottery segment, which generated c. 80% of net gaming revenues in 2022; (ii) poor geographic diversification, as its gaming operations are concentrated in the French market, albeit improved by the recent acquisition of Premier Lotteries Ireland; and (iii) risks related to its external growth strategy (announced in November 2022), which is coupled with a riskier financial policy and intentional associated re-leveraging.
- Therefore, we expect FDJ's EthiFinance Ratings-adjusted net leverage ratio to rise substantially over our forecast period (1.7x at YE25), mainly on the back of the group's external growth strategy, by which it aims to expand into new European markets as well as improve its business diversification by acquiring and/or securing new gaming licenses both in France and abroad. In line with this plan, in 2H23, the group completed the acquisitions of: (i) the ZEturf group (over €50m of 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, for €175m (cash/debt-free basis); and (ii) Premier Lotteries Ireland, which generated revenues of €140m in FY22 and holds exclusive rights to operate the Irish National Lottery until 2034, for €350m (cash/debt-free basis). The latter is FDJ's first venture into operating a lottery outside of France, reflecting its ambition to become an international B2C operator in lottery, sports betting and online gaming.
- In line with our methodology, the "Hotels & Leisure" sector, within which gaming is a sub-sector, has medium ESG risks (heatmap score between 2 and 3.5), which is neutral for our industry assessment. 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 more favourable, while the governance score remains low (50/100), as there is no separation between the chairman and CEO positions, and the level of independence of the board is quite low. Regarding social criteria (67/100), we factor in the year-on-year increases in employee turnover, accident frequency, and absenteeism rates, while on the environmental side (67/100), we highlight the significant year-on-year decrease in the company's greenhouse gas emissions (scope 1 & 2), in line with its initial target to reduce emissions by 20% by 2025 (vs 2017). It is also important to note that FDJ, while active in a controversial sector, 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 revenue 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, 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. This privileged position makes FDJ the largest player in the French Gaming sector and 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, and several veterans associations with 15% of the capital (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 €6.3bn (market close on January 04, 2024).

Over FY22, the group attracted nearly €21bn of total stakes (+8.7% yoy), which converted into revenues of €2.5bn (+9.1% yoy), and adjusted EBITDA of €534m, equivalent to a 21.7% margin (vs 21.5% in 2021). The consolidated EthiFinance Ratings-adjusted net cash position amounted to €57m at end-2022. For the twelve months to end-June 2023, the group reported revenues of €2.5bn, and adjusted EBITDA of €521m (20.8% EBITDA margin).

Main Financial Figures

Main financial figures. Millions of €	FY21	FY22	FY23e	FY24e	FY25e	22vs21
Turnover	2 256	2 461	2 584	2 868	3 211	9,1%
EBITDA	486	534	556	633	716	10,0%
EBITDA Margin	21,5%	21,7%	21,5%	22,1%	22,3%	0,2pp
EBIT	402	442	477	545	618	10,0%
EBIT Margin	17,8%	18,0%	18,5%	19,0%	19,2%	0,1pp
EBT	396	436	456	507	558	9,9%
Total Assets	3 188	3 316	3 799	4 340	4 891	4,0%
Equity	829	925	1 000	1 098	1 193	11,6%
Total Financial Debt	595	550	943	1 334	1 725	-7,6%
Net Financial Debt	76	-57	418	825	1 235	-175,4%
Equity/TFD	139,4%	168,4%	106,0%	82,3%	69,2%	28,9pp
NFD/EBITDA	0,2x	-0,1x	0,8x	1,3x	1,7x	-0,3x
Funds From Operations	396	465	473	534	590	17,2%
FFO/NFD	521,6%	-811,0%	113,1%	64,7%	47,8%	-1332,6pp
EBITDA/Interest	83,7x	80,9x	26,5x	16,6x	12,1x	-2,8x

(1) The financial figures do not factor in the potential impact expected from the acquisition of Kindred announced by the group on January 22, 2024.

Credit Rating

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

Rating Sensitivity

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

FDJ's rating already incorporates its strong financial profile. Consequently, a rating upgrade would be entailed by an improvement in FDJ's competitive positioning, in particular in terms of business and geographical diversification, mainly by progressively reducing its high exposure to both its lottery business and to the French market.

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

A rating downgrade could be entailed by a sustained deterioration in FDJ's financial profile, which could be a consequence of a significant transformative acquisition, in line with its new external growth strategy. For the same business risk profile, an increase in the group's EthiFinance Ratings-adjusted net leverage ratio above 2.0x on a sustained basis could entail a long-term rating downgrade to BBB+.

Also, the group's significant presence in one market may expose the company to significant regulatory risks since any changes to the country's gambling tax regimes, license systems, or the minimum requirement of player return rates could affect FDJ's financial performance.

In the event of a fully-debt funded acquisition of Kindred, the EthiFinance Ratings-adjusted net leverage ratio would exceed 2.5x, therefore potentially leading to 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 - Long Term : https://files.qivalio.net/documents/methodologies/Corporate%20Rating%20Methodology%20-%20Long-Term%20-%2020221107.pdf
- 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.