Milan, 11 December 2024

Italian Equity Research – New Coverage

LOTTOMATICA

BUY

Sector: Consumers

Price: Eu12.82 - **Target: Eu17.80**

Back the Form Horse: a Proven Track Record, Ready for More

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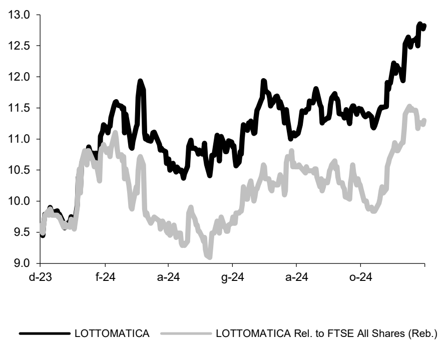
Stock Rating	
Rating:	BUY (New Coverage)
Target Price (Eu):	17.80 (New Coverage)

LOTTOMATICA - 12M Performance



Stock Data			
Reuters code:			LTMC.MI
Bloomberg code:			LTMC IM
Performance	**1M**	**3M**	**12M**
Absolute	7.7%	13.1%	33.4%
Relative	5.6%	9.0%	20.0%
12M (H/L)			12.85/9.45
3M Average Volume (th):			231.35

Shareholder Data	
No. of Ord shares (mn):	252
Total no. of shares (mn):	252
Mkt Cap Ord (Eu mn):	3,226
Total Mkt Cap (Eu mn):	3,226
Mkt Float - Ord (Eu mn):	1,142
Mkt Float (in %):	35.4%
Main Shareholder:	
Gamma Intermediate Sàrl	51.5%

Balance Sheet Data	
Book Value (Eu mn):	577
BVPS (Eu):	2.29
P/BV:	5.6
Net Financial Position (Eu mn):	-1,862
Enterprise Value (Eu mn):	5,164

- **The leading player in the Italian gaming market.** Lottomatica is the leading B2C operator in the Italian gaming and betting market, holding a dominant position both online (29% market share in 9M24) and offline (42% and 30% market shares in Sport and Gaming, respectively). Originally an offline operator, the company has successfully expanded into the online market, where it is active in both iGaming and iSport. Through an omnichannel and multibrand strategy (with *Goldbet*, *Better*, *Betflag*, *Planetwin*, *Lottomatica* and *Intralot* among its main brands), Lottomatica delivers a diverse and innovative product portfolio to cater to various customer segments. By leveraging the proprietary technology stack, the Group efficiently develops and launches new products, maintaining its leading position in the market and driving organic growth. A proven M&A track record (with recent acquisition of Betflag in 2022 and SKS365 in 2024), ongoing accretive bolt-on acquisitions to vertically integrate the gaming machine value chain, position Lottomatica for future growth potential, also helped by a supportive regulatory environment.
- **The largest EU market, resilient and with space for further consolidation online.** The Italian gaming and betting market, Europe's largest in terms of gross gaming revenues, is a well-developed yet attractive sector as evidenced by the recent acquisition of Italy’s Snai by US-based Flutter. The market is characterized by a fully-fledged regulatory framework and substantial growth potential (+6% CAGR ’23A-27E, according to market research), particularly in the online segment. As proven by recent track record, Lottomatica is well-positioned to capitalize on the shift to iGaming.
- **Shift online and M&A integration to support increase in profitability.** We forecast that revenue and EBITDA will grow respectively at +12% and +15% CAGRs to 2027 thanks to expansion into the fast-growing online market (which boasts ~2.2x the offline retail margin), technological innovation, broader product and service offerings, and integration of recent acquisitions, especially SKS (€315mn revenue impact in 2024-25, with additional synergies expected). Net debt is set to decrease to 1.3x net debt/EBITDA at YE2027, with improving profitability and strong cash flow generation (FCF yield at ~7% in 2025E/26E).
- **Initiating coverage with BUY recommendation; TP €17.8.** We believe Lottomatica is well-placed to confirm its leading position in the attractive Italian gaming market. A year and a half after the IPO, the company has built up a very solid track record, while benefitting from a more stable regulatory environment. We think Lottomatica is still poised to grow, thanks to the execution of its omnichannel, multi-brand strategy (enhanced by the proprietary tech stack), which allows the company to capitalise on the ongoing migration to online. Further upside should come from potential M&A and the ongoing bolt-on strategy, as well as the refinancing of outstanding loans; on the other hand, we think overhang risk from sale of the Gamma stake remains a critical element for investors, but is mitigated by the successful execution of the first three ABBs. Our DCF-based valuation yields a target price of €17.8 per share, 39% upside to the current market price. We therefore initiate our coverage on Lottomatica with a BUY recommendation. At current prices, Lottomatica is trading at 6.0/5.2x EV/EBITDA 2025E/26E, a 21/28% discount vs. the main EU gaming players.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	1,395	1,632	2,007	2,281	2,435
EBITDA Adj (Eu mn)	460	580	701	840	939
Net Profit Adj (Eu mn)	161	215	248	352	426
EPS New Adj (Eu)		0.832	0.960	1.374	1.667
EPS Old Adj (Eu)					
DPS (Eu)		0.260	0.295	0.420	0.508
EV/EBITDA Adj		6.1	7.4	6.0	5.2
EV/EBIT Adj		7.8	9.8	7.7	6.4
P/E Adj		15.4	13.4	9.3	7.7
Div. Yield		2.0%	2.3%	3.3%	4.0%
Net Debt/EBITDA Adj	3.7	2.2	2.7	2.1	1.7

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- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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Frequency of research: quarterly.
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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
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Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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