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Full Year 2017 Jackpotjoy PLC Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to Jackpotjoy plc's Full Year 2017 Results Conference Call. (Operator Instructions) Please note that this call is being recorded today, Tuesday, 20th of March 2018 at 1:00 p.m. London time.

If you have not received a copy of Jackpotjoy plc's full year 2017 earnings release that was issued before market open today, you can find it under Jackpotjoy's profile on the SEDAR website or on the Jackpotjoy plc website at www.jackpotjoyplc.com.

Please be aware that we will be discussing some information about the business that is forward-looking and which is based on management assumptions and subject to a number of risks that could cause actual results to differ materially from current expectations. Our annual information form dated 29th of March 2017 and our management information circular dated 27th of April 2017, which you can find on the SEDAR website under Jackpotjoy plc's profile, discuss many of these assumptions and risks. Jackpotjoy plc does not intend to publicly update any forward-looking information, except as required by applicable securities laws.

Please note that we will also be discussing some non-IFRS measures on today's call. For the definitions and reconciliations of these non-IFRS measures, please refer to Page 6 in the RNS we issued earlier today.

I will now turn the conference over to Mr. Neil Goulden, Executive Chairman of Jackpotjoy plc. Please go ahead.

Neil Geoffrey Goulden ***Jackpotjoy plc - Executive Chairman***

Thank you very much, operator, and good morning to those of you joining us in Europe, and -- sorry, good afternoon to those joining us in Europe, and good morning to those joining us from North America and Canada.

You have on the call today myself, Neil Goulden, the Executive Chairman; our CFO, Keith Laslop; and our Chief Executive, Jackpotjoy Operations to the Bahamas, Simon Wykes.

I'm going to do a short introduction then I'll hand over to Keith to go through the financials, and then Simon, Keith and I will be happy to take questions.

As an introduction, I think that 2017 was a year of excellent progress for Jackpotjoy. In January, we successfully completed our move to the London Stock Exchange, and we've seen a 50% increase in our share price from GBP 5.40 to over GBP 8 as that move has moved forward. We've also attracted a number of new investors to the company, several of them blue-chip U.K. and European investors, which is very welcome.

In July 2017, we paid the final installment on the Gamesys earnout on the U.K. business. And that was a big milestone for the company.

We are now reporting a record set of figures for 2017, with gaming revenues up 14% to over GBP 300 million, adjusted EBITDA up 6%, on a like-for-like basis; free cash flow conversion of over 90%; and active customer numbers up 6%.

We have a new management team in place now since November, with myself focusing on the London office, assisted by Keith on the debt refinancing we did before Christmas and on equity matters and governance matters; and Simon, based out of the Bahamas, who handles all of our global operations; and Keith, obviously as CFO, works with both of us.

We also have a new debt structure in place. Keith and I spent quite a bit of time just before Christmas doing the rounds on the debt structure. We wanted to move out of U.S. dollars into sterling. We also had a fairly expensive piece of second lien debt that we've put in place to enable us to make the Gamesys earnout payment.

We always intended that strip of debt, which is expensive, to be short-term. So we were delighted when, just before Christmas, we managed to complete a debt restructure. Broadly speaking, there's a little bit of difference because some of it -- there were some costs involved. But broadly speaking, we did GBP 250 million and EUR 125 million debt, which matches our cash flows. That saves us 300 basis points on our debt; a 30% saving in interest, which is GBP 9 million per annum. And that showed a better than 1-year payback for the cost of the debt structure.

Year-end leverage is about 3.57x. And we have another earnout to pay in the summer of this year for Botemania, the Spanish business. And after that, we start to deleverage very, very fast. We will start deleveraging at about 0.1 of a turn on the multiple per month, slightly less than that but call it 0.1 of a turn per month.

And we have a growing free cash flow. And that opens up significant strategic opportunities for the use of that cash in terms of acquisition opportunities or returning the money to shareholders once the company has a leverage of less than 2.5x, which we estimate will be somewhere towards the end of this year, early next year. So those opportunities will open up through that strong wall of cash that we're going to see coming through into the business after the Botemania earnout has been paid.

So we believe that the business is well positioned for future growth. We've made a solid start to 2018 with strong revenue growth, slightly slower on the EBITDA line because we continue to invest in marketing.

Again, I can't emphasize too much the strong cash flows coming through the business. A strong management team in place, not just the 3 people here but also the leaders of our various businesses around the globe.

We've got excellent brands with over 250,000 active players per month. And all of that strength allows us to absorb the regulatory and tax headwinds that we're seeing in our core U.K. market at the moment. We're better positioned than most to deal with those.

So a good 2017. A good start to 2018. Good strategic options opening up for us as we get into 2019 with the cash flow coming through in the business. And on that point, I'll hand over to Keith.

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Thanks, Neil. As usual, I'll start off by talking about our cash flow generation. That's always a key area in our business.

We generated a record GBP 101 million of operating cash flow in 2017, 22% higher than 2016. This equates to GBP 1.35 per share of operating cash flow. Our adjusted, or also known as clean EBITDA, converted to operating cash flow at 93% in 2017. The details of our cash flow conversion bridge can be seen within our corporate presentation, which should now be live on www.jackpotjoyplc.com. If not live now, it will be shortly.

Another area that I don't touch on enough is free cash flow, which is generally defined as operating cash flow, less capital expenditures. One of the benefits of our organizational structure of using both proprietary as well as third-party technology, is that we have very low CapEx. Our suppliers essentially pass their own CapEx to us as an operating expense. In 2017, our free cash flow was GBP 97.8 million or roughly GBP 1.31 per share. This compares very favorably against larger peers in our sector. And I would think our free cash flow yield is around or at the top of our peer group.

We do use debt within our capital structure, as Neil mentioned, and we refinanced the debt -- our debt in 2017. We realized circa 300 basis points interest savings on our debt. This will result in annualized interest savings of over GBP 9 million in 2018.

At year-end, our adjusted net leverage ratio, including all remaining earnouts payable, was 3.57x. It is a top priority of ours to reduce this leverage ratio over the course of 2018 and beyond.

On these calls, I also like to provide some data points on the underlying subsidiaries for the Jackpotjoy segment. 2017 revenues were GBP 211.3 million, of which 12 -- which is 12% growth year-over-year. And adjusted EBITDA was GBP 95.1 million, which is also a 12% growth year-over-year.

Across the subsegments within the Jackpotjoy segment, 2017 as a whole was pretty consistent with previous years. Steady, consistent growth in Jackpotjoy U.K., our flagship brand. Although TV campaigns have long tails and long payback periods, we're very happy with the results to date of our Paddy McGuinness campaigns with respect to the first-time depositors and total brand awareness.

Mobile revenues continue to grow as expected. In Q4, mobile gross gaming revenue or GGR was 66% of total GGR for Jackpotjoy U.K., up from 62% in Q3.

Starspins and Botemania were our fastest-growing subsegments this quarter, and year, consistent with previous quarters, and together were responsible for 25% of our revenue under the Jackpotjoy segment in Q4. Both Starspins and Botemania had records pertaining to revenue, deposits and wagering.

Mobile share of revenue in Q4 for Starspins was 74%, up from 72% last quarter, whereas Botemania was 69%, up from 66% last quarter. Worth mentioning that a mobile player that also plays on desktop for these brands continues to provide over 3x the ARPU of a desktop-only player.

One of the impacts of Botemania outperforming our expectations in Q4 is that we have increased the fair value of contingent consideration by roughly GBP 11 million in Q4. The Botemania earnout is the last major earnout remaining across our group and will come to an end at the end of this month.

Moving on to the Vera&John segment. Gaming revenues were GBP 73.2 million in 2017, a 28% growth year-over-year; and adjusted EBITDA of GBP 18 million, which is 13% increase year-over-year.

In euro terms, revenue growth was 20% growth year-over-year, and adjusted EBITDA was 6% year-over-year growth.

A combination of increased marketing costs and some onetime write-offs in Q4 negatively impacted EBITDA in Q4 and for fiscal 2017, although Vera&John continues to be our fastest-growing segment and is projected to be our fastest-growth segment in the future.

For Mandalay, revenues of GBP 20.2 million, which is negative 7% growth year-over-year; and adjusted EBITDA of GBP 7.1 million, which is an 8% increase year-over-year. POC2, also known as tax on bonuses, was definitely felt in Q4. And we continue to believe, in the short to midterm, although our margins will be hit in the region of 2% to 3% due to POC2, in the long term, the margin hit will be more than offset by higher retention and revenue gains over time.

As we look forward into 2018, for the first 2 months of 2018, our revenues grew 12%, so very consistent with historic experience. Without a doubt, we will have some margin pressure in 2018, mainly due to POC2 tax in the U.K. but also due to the fact that one of our fastest-growing businesses, Botemania, is in a jurisdiction with a 25% tax on GGR.

Unlike 2017 when we had our major marketing campaigns in the second half of the year, we have been on TV in Q1 and also have a TV campaign planned in Q2 of this year. This first half weighting of marketing spend will depress margins on a year-on-year basis. However, we remain comfortable with marketing consensus expectations for the full year of 2018.

I will now pass the call back to Neil.

Neil Geoffrey Goulden ***Jackpotjoy plc - Executive Chairman***

Thank you, Keith. And operator, we're ready for any questions people may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Suthan Sukumar from Eight Capital.

Suthan Sukumar ***Eight Capital, Research Division - Research Analyst***

Just wanted to touch on your -- any plans for international expansion or entry into new markets throughout fiscal '18 and fiscal '19? I saw you guys had touched on Denmark, and in the past, you guys had previously spoke on an Asian opportunity. So just wondering if you had any further updates on that front.

Keith Laslop ***Jackpotjoy plc - CFO and Director***

I think, in general, I prefer, or we prefer, not to talk too much about our growth plans. Having said that, geographic diversification is absolutely key to our story and our strategy. I will -- if you want a sound bite, I will say that our Brazil revenues grew triple digit in 2017, although granted from a small base. As jurisdictions become more important to us and larger than our existing segments, or as they become more important in the existing segments, we'll start to talk about them separately. But any new jurisdictions will be by nature somewhat small.

Suthan Sukumar ***Eight Capital, Research Division - Research Analyst***

That's helpful. And then from -- I guess from a cross-sell perspective, can you provide an update on some of the cross-selling efforts with Mandalay and Jackpotjoy?

Neil Geoffrey Goulden ***Jackpotjoy plc - Executive Chairman***

I'm going to ask Simon if he can comment on that one.

Simon Michael Wykes ***Jackpotjoy plc - Group MD & Director***

Yes. In terms of the cross-sell opportunity, this is really our big, big data initiative. So we are gathering that information, and we are beginning to test various areas to see where we get our best bang for the buck effectively. I suspect that over the course of time, we will learn, and things will be different to how we initially imagined it. So I think the initial thrust was to try and convert lapsed customers. I suspect we will get better returns by ensuring that we maximize the amount of accounts our customers hold with us, rather than any of our competitors, and also in using big data in other ways. So very, very early days. Trials are ongoing, and we will look and see -- direct our marketing efforts where we feel we get the best returns.

Suthan Sukumar ***Eight Capital, Research Division - Research Analyst***

Okay. And just can -- maybe just one last one from me. Could you guys touch on your market positioning currently in the U.K. and any recent change within the landscape kind of following the rollout of the POC tax on bonuses? And also, secondly, how the competitive landscape has been evolving in Spain and the Nordics from your perspective?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Well, in our deck, you'll see the most recent data we have on our market positioning in the U.K. We are a market leader in the U.K., and we believe that we are growing market share. Within Spain, I think the latest stat is mid-single digits -- or sorry, mid-20% digits, in terms of our wagering and NGR revenue share, both in slots and bingo. Within Sweden, there is no third-party market share data that we can point to.

Operator

The next question is from Matthew Webb from Macquarie.

Matthew Charles Webb ***Macquarie Research - Senior Analyst***

First question. I was just wondering if you could talk a bit about the performance in Q4 specifically, where the Jackpotjoy division saw a bit of a slowdown, but Vera&John showed an acceleration. I just wondered what was causing those changes and the divergent performance of those 2 divisions.

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes. I'll touch on Jackpotjoy segment to start. So the Jackpotjoy segment in Q4, we did have a good quarter. Now Jackpotjoy U.K., our largest brand, did have a massive reactivation campaign in Q4 2016, which made Q4 2017 a tough comp. Subsequently, we don't tend to do those massive reactivation campaigns, so we tend to do smaller reactivation campaigns but more throughout the year. But nonetheless, Jackpotjoy U.K. had a good quarter, and we're seeing the continuation of that in January and February of this year. In terms of Vera&John, Vera&John also had a good quarter, and sort of similarly to Jackpotjoy, but maybe reversely to Jackpotjoy, it had a tough Q4 2016. And I believe I mentioned this probably in Q1 2017, that we had some payment processing issues in Asia in Q4 2016. So the answer to your question is essentially very tough comp, sort of onetime, and very easy comp onetime for Vera&John.

Matthew Charles Webb ***Macquarie Research - Senior Analyst***

That was really clear. Do you mind if I just ask a few more questions? The first, the increase in the gaming revenue per average active customer, I thought was relatively high by your previous standards this year. And I just wondered whether there had been any sort of change in strategy. My understanding had been that you were very much focused on driving customer numbers but looking to keep the average spend sort of broadly stable to ticking up quite [nicely] this year. Anything to read into that?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes, Matthew. The answer to that is almost identical to the previous question. Just because of that massive reactivation campaign in Q4 2016, we brought in a lot of reactivated customers. And as I said, that reactivation campaign didn't continue. So if you look at our Q4 2016, our ARPU actually went down. And then over the last 12 months, as we took Q4 2016 out of the equation, our ARPU has then gone up significantly. So it's all based on that reactivation campaign back in Q4 2016.

Matthew Charles Webb ***Macquarie Research - Senior Analyst***

Got it, got it. Okay, that's really clear. And then sorry, 2 more questions if I may. First, do you have a latest estimate of what you'll be paying on the Botemania earnout?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes. So on our financial statements, contingent consideration is listed at GBP 59.6 million, I believe. Then in the notes to that financial statement, you'll see that there's GBP 7.4 million with respect to -- of discounts or a probability weighting that we have to do under IFRS, but we do list that in the notes. So you add up all that, adds to GBP 67 million. Then you take off the 3 milestone payments, each is GBP 5 million, that are based on EBITDA targets to be hit in 2018, 2019, 2020. So you deduct from that GBP 67 million, GBP 15 million, you get to GBP 52 million for Botemania.

Matthew Charles Webb ***Macquarie Research - Senior Analyst***

Got it. And has that -- sorry, excuse my memory lapse, has that crept up a bit since you'd last commented on that number?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes. As I mentioned, we've brought up contingent consideration by GBP 11 million in Q4 because Botemania continues to exceed expectations. Now we had valued it in Q3 that it would have outperformed the previous year by 150% in terms of bottom line growth. We're exceeding that so -- which is why we've increased contingent consideration. Yes, Botemania is doing absolutely wonderfully.

Matthew Charles Webb ***Macquarie Research - Senior Analyst***

Great. Nice problem to have. Excellent. And sorry, final question. I think there were some accounts receivable write-offs, what was that relating to, please?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

It relates to a peripheral business that we have within our Vera&John segment that essentially, we were trying to get off the ground over the last few years. Didn't manage to, so we've closed it down and written the whole thing off.

Operator

And the next question is from Simon Davies from Canaccord.

Simon John Davies ***Canaccord Genuity Limited, Research Division - Head of European Research***

A few from me. Just firstly, can you update us on your thoughts in terms of the timing of a move to the premium list. Do you think that is still a realistic ambition for the first half of next year?

Neil Geoffrey Goulden ***Jackpotjoy plc - Executive Chairman***

Yes. Simon, it's Neil. We continue to look at premium listing. We have a -- obviously, there are a number of requirements one has to go through in terms of free float, in terms of corporate control, in terms of strategic control over assets. And the first hurdle we have to jump is we have to have audited numbers or numbers for 75% of our turnover for at least 3 years. So the -- bear in mind that the Jackpotjoy acquisition was in April 3 years ago, the earliest that we could start to contemplate it would be next month. So we will start to look at what the requirements are. We said when we came to the market, from a governance point of view, we would behave like a premium-listed company, and indeed we have. So the governance arrangements are firm. We have to go through the other hoops with a sponsor, so we're looking at it now. If we meet the requirements, yes, I would think that to do so by the first half of next year is a realistic prospect.

Simon John Davies ***Canaccord Genuity Limited, Research Division - Head of European Research***

Great. Second, obviously, very strong free cash flow during the period, leverage coming down quite rapidly. Is M&A back on the agenda now? And if so, are you looking at bolt on-type deals, more strategic acquisitions? What are the kind of styles of business you're looking at?

Neil Geoffrey Goulden ***Jackpotjoy plc - Executive Chairman***

Yes. I think -- Simon, thank you. I think that the strong cash flows that we have, open up strategic opportunities for the business, particularly once we leverage it below 2.5x. I've been asked by people, "Well, what would be your preference, pay a dividend, do share buybacks, do acquisitions?" If the right acquisitions come along, that is the best way we can return money to shareholders, by investing in the business and improving the business. We're not looking for anything particularly significant at this moment in time. We did one small bolt-on acquisition last year for, I think, GBP 2 million, GBP 3 million, GBP 3.5 million. If we can get clever little deals like that, that bring in new products within our existing verticals, that's the sort of thing that we would look at. Within that context, that would still give us excess cash that we can look at, whether we should start to pay a dividend, whether we should start share buyback or do both. And I think we're on the lookout for the right sort of acquisitions now. And we will look at where we sit with excess cash once we get towards the end of the year, early part of next year.

Simon John Davies ***Canaccord Genuity Limited, Research Division - Head of European Research***

Perfect. And lastly, just on Vera&John and the write-off, how much was that? And presumably, this is very much a one-off.

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes. It's very much a one-off, EUR 2 million.

Operator

The next question is from David McFadgen from Cormark Securities.

David John McFadgen ***Cormark Securities Inc., Research Division - Director of Institutional Equity Research***

Just a couple of questions. Keith, I was wondering if you could actually quantify what the impact was from the POC2 in the fourth quarter?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Let me see if I can quantify that. It would have been roughly 4% of our U.K. revenues. So as I've said in the past -- and I think we still have some optimization to do there, so it's a little bit higher than what I've said in the past, but what I've said in the past will hold in the medium term, which is POC2 will have a 3% to 4% hit to our U.K. margins. U.K. is roughly 2/3 of our overall group, so 2% to 3% across our group.

David John McFadgen ***Cormark Securities Inc., Research Division - Director of Institutional Equity Research***

Okay. And so you'll lap that by the time you get into Q4 '18, right?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes. Yes, we started October 1.

David John McFadgen ***Cormark Securities Inc., Research Division - Director of Institutional Equity Research***

Okay. And then you've talked about the exceptional growth that Starspins and Botemania have achieved. I was wondering if you look at Jackpotjoy, excluding those 2 business lines, what was the growth in the fourth quarter? Can you tell us?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

It was relatively flat from Q4 2016 to Q4 2017 due to that huge reactivation campaign that I've already mentioned. But growth over the course of the year was mid to high single digits.

David John McFadgen ***Cormark Securities Inc., Research Division - Director of Institutional Equity Research***

Okay. And you indicated that for the first 2 months of 2018, the business was off to a strong start. Can you comment on what Jackpotjoy will be doing outside of Starspins and Botemania? Is it still [far] or has it picked up a little bit for the first 2 months?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

No, it's the same, mid to high single digits.

Operator

The next question is from Jeremy Kahan from North Peak Capital.

Jeremy Kahan

I was wondering if you could just touch on the active player number, which was, I guess, down sequentially for the first time in a while. Sort of what caused that? I would have thought that would have been a little stronger with the marketing campaign. And also, are you seeing any uptick in 2018? The 12% you mentioned through February, was that more on the ARPU side or the number of customer side?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Okay. So the answer to the first question, I've largely answered that with respect to what Matthew Webb had asked for. And that all relates to the Q4 2016 reactivation campaign. If you look at our deck and you see our actives over time, you see a huge uptick in Q4 2016. Now these are averaged out over the last 12 years, but you take that Q4 number out of the equation, and that's the cause of the relative flattening out. Now having said that, over the course of the year, actives still grew 6%, and revenue grew 16% on the real money gaming side. So we're very happy with both of those. In terms of your second question, yes, the TV campaign has brought a number of new FTDs, first-time depositors, over the course of January and February. So yes, we're very happy with the results of the TV campaign.

Jeremy Kahan

Excellent. And you mentioned in the filings an intention or a discussion of integrating some of the Gamesys employees as one of the big operational challenges or maybe opportunities for 2018. Can you comment on what that could look like and sort of if there's going to be incremental cost associated with that internalization?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Let me -- I'll pass it to Simon, but let me just talk about the cost associated with it. We are paying full costs for those employees right now. So down to utilities, rent, bonuses, travel, expenditures, hotels, whatever you can think of, we're fully costed. So -- although there could be some leasehold improvements in new office space and other CapEx requirements, there shouldn't be any margin difference when we bring on those employees. And to who we bring on, I'll pass it to Simon.

Simon Michael Wykes ***Jackpotjoy plc - Group MD & Director***

Okay. Thanks, Keith. Well, we're going through that assessment now. I mean, there's probably -- in my head, I group it into 2 buckets. The first one is really about marketing and acquisition, and the second one is customer services and chat. We will assess all of those areas to determine whether we want to bring them in, and we'll obviously also think about the implications of the synergies that we'll get from applying those skills elsewhere within the organization at the same time, which we do some of that already, but that would certainly escalate if we were to bring those staff on board onto our books. So we'll kind of work our way through that over the next 6 months and decide what we want to do. There isn't a ticking clock on this. We've got many years to make a decision as to what we do there, and we can also stagger which areas we bring on at which time.

Jeremy Kahan

Great. And then one last one for Keith. As you sort of step back and look at all of the sort of pressures from tax and -- offset by some of the growth in the business, sort of what level of margin compression should we expect roughly for 2018?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes. I think -- good question. I think that in 2018, how much we spend on marketing, we will always be flexible as -- if we see good-ROI marketing product, we want to seize that opportunity. So having said that caveat, I would think that marketing should tick upwards maybe 1% or so, 1% to 2%, depending on the opportunities that we see; and on POC2 that I mentioned before, 2% to 3% across the group. So call it maybe 4% combined.

Operator

The next question is from Alistair Ross from Investec.

Alistair Guy Ross ***Investec Bank plc, Research Division - Research Analyst***

Just to quickly confirm, I'm looking at the adjustments through administrative costs. And I just want to confirm in terms of 2018, my understanding is that those adjustments are going to fall away fairly rapidly. And the adjustments I'm talking about are the big adjustments going through the financials, including sort of fair value adjustments and contingent consideration, the cross-currency swap, the FX losses, the transaction costs, et cetera. Is that right or should we expect numbers in future?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

No, you're totally correct, Alistair, that contingent consideration, while outside of GBP 10 million of potential milestone payments in 2019, 2020, everything else will be paid in June of this year. So I'm happy to report that, that will likely go to 0 or close to 0. There's always tiny or small discounts that are required under IFRS for, not only a discount rate that you have to apply, but also probability weighting. With respect to gains or losses on cross-currency swap, well, we don't have a cross-currency swap anymore. So happy to say that, that will go away. And FX gains or losses, well, that all related to the flip side of the cross-currency swap. So if you remember, we hedged 50% of our U.S. debt. So as the U.K. -- as U.K. sterling either depreciated or appreciated against the U.S.-denominated debt, therefore, our FX would go up or down, FX gains or losses, and likewise, the value of the swap would go up or down. Now there could still be some FX small adjustments just based on, let's say, cash that we hold in other currencies. If we -- if it's an operational expense to our business, then we record that in our expenses. But if it's cash that we hold in euros at a bank, then we do adjust those out. But that will be extremely small.

Alistair Guy Ross ***Investec Bank plc, Research Division - Research Analyst***

Wonderful. No, very good news. Just quickly in terms of the U.K., it feels like you guys are taking market share in the U.K. Certainly, when I look at 888's results this morning and I look at both your FY '17 results as well as your current trading results, it feels like certainly, in the bingo product vertical, you're taking market share. In casino in the U.K., you're also taking market share away from the likes of them. Who else do you think you're taking market share from? Do you have any sort of -- any inkling as to who you're taking market share from?

Neil Geoffrey Goulden ***Jackpotjoy plc - Executive Chairman***

Yes. Alistair, it's Neil. I think that in the U.K., our market share -- we believe that our -- the statistics you see in front of you are a little bit out of date. There's no empirical evidence out there, no one actually researches this element of the market. So it's put together from various sources of information. We believe that we are holding, if not slightly increasing, our market share in the U.K. The main loser in that has been Sun Bingo, with its move from the Gamesys platform to Playtech has been the major loser. We think that the likes of 888 and GVC are not performing particularly well in their bingo front. We think that Tombola and Mecca are -- and Stride, are holding their own. We are probably slightly up, and Gala Bingo is also trading quite well.

Alistair Guy Ross ***Investec Bank plc, Research Division - Research Analyst***

Very well. And just in terms of some -- something 888 said that they weren't able to mitigate point-of-consumption tax to a certain degree, obviously, a much higher level of bonusing from them. Have you guys been able to mitigate that at all?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

We don't call it mitigation per se as you might get questions from HMRC with respect to that. A bonusing optimization, absolutely. Yes, I think that is definitely something that we've focused on and we'll continue to focus on, is how to bonus most effectively to enable to optimize that area.

Alistair Guy Ross ***Investec Bank plc, Research Division - Research Analyst***

And then lastly, just on the dividend, at what point do you think you may pay a dividend, both in terms of timing and possibly in terms of leverage ratio?

Neil Geoffrey Goulden ***Jackpotjoy plc - Executive Chairman***

Alistair, again, it's Neil. In terms of leverage ratio, we are able to return cash to shareholders in [whatever guise] we think appropriate, and once we go below 2.5x multiple of debt, the board has already said that it would be more comfortable at less than 2x. No decisions have been made as to timing on that. I think we will take stock at the end of the year. We pay the Botemania earnout in July. Start to deleverage, we'll look at where we are at the end of the year and what our forecasts and budgets are for next year. And that will then be a time for a debate; what are the small acquisition opportunities out there and do we return money to shareholders or continue to deleverage, and at what level we return it? So all of that will be a kind of a discussion for back end of this year.

Operator

The next question is from Victoria Pease from Edison.

Victoria Elaine Pease ***Edison Investment Research Limited - Analyst***

Just following up on the bonusing question. I was wondering if it's at all possible to quantify the levels of bonusing in your Mandalay versus your Jackpotjoy U.K. and how perhaps that's changed over the course of last year, particularly with Mandalay. And just looking at those 2, you've previously spoken about absorbing Mandalay into your other U.K. bingo assets, is that something that's still on the cards?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes, I'll cover those. So as we had mentioned -- I think I mentioned it in most quarters in 2017, yes, we've definitely cut back on bonuses dramatically within Mandalay. And that has had an impact to our top line growth, as you can see, over the course of the year. But we're actually quite happy with how the bottom line has performed. We think that we've kept a higher-quality customer from that. And you're right, Victoria. I've spoken over -- across a few quarters with respect to combining Mandalay with other segments within our business. It is smaller than some of the subsegments within the Jackpotjoy segment, so it does make sense for us to combine it. I think we're going to hold off for a bit. I might pull the trigger next quarter, we'll see. We've held off just for 2017 to do that.

Victoria Elaine Pease ***Edison Investment Research Limited - Analyst***

Okay. And just one follow-up on the marketing. If you could just reconfirm -- I thought I heard on the call that you're going to keep the higher marketing into Q2 of this year. And also, Vera&John, should we expect high levels of marketing to continue in that segment?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes. So for both Q1 and Q2, we'll be on TV. So Q1 and Q2 2017, we are not on TV. And that's where you see the big chunky differences in marketing when we have TV campaigns going on. So you are right. For Q2, and as I mentioned in my prepared statement, in Q1 and Q2 this year, you will see depressed EBITDA margins in relation to Q1 and Q2 last year. Now having said that, over the course of the year, I think I answered another question by saying that overall marketing might tick up 1%, 1.5%, 2%, depending on if we can find good ROI marketing opportunities, we do want to seize on that. We are comfortable with full year analyst consensus estimates in 2018. So you should take comfort in that.

Victoria Elaine Pease ***Edison Investment Research Limited - Analyst***

And Vera&John marketing?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes. Vera&John, we'll -- it's sort of the same, the marketing increase that I speak about, if we go 1% or 2% higher year-over-year, that will likely fall into Vera&John.

Operator

(Operator Instructions) We have a question from [Fraser Brown] from BlackRock.

Unidentified Analyst

I think in 4Q '17, your EBITDA margins were down about 700 bps. Would you like to just bucket that and break this down [of what the] 4Q year-on-year EBITDA margin and what caused it? So how much was consumption and how much [marketing] and then any other buckets?

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Yes, sure, absolutely. So within Q4, you will have the write-off from Vera&John. You will have significant marketing increase in Q4 this year vis-à-vis Q4 2016. You will have POC2 that started in Q4 2017. So those are the 3 largest buckets.

Unidentified Analyst

Okay. And you did mention -- and sorry, [I may have misheard]. Can you just run us through the Vera&John write-off again? I apologize if it's more me mishearing.

Keith Laslop ***Jackpotjoy plc - CFO and Director***

Peripheral business that we had been looking to get off the ground, we didn't, we wrote off EUR 2 million.

Operator

(Operator Instructions) We currently have no further questions, so I'll hand you back to your host.

Neil Geoffrey Goulden ***Jackpotjoy plc - Executive Chairman***

Thank you. And just a last couple of points from me before we wrap up the call. Firstly, thank you for joining today's call. As I said, we believe we just reported an excellent year for 2017 and that we're well positioned for the future. We've had a good start to 2018, particularly on the revenue line. We can't emphasize enough the strong cash flow side of the business and the opportunities that will open up for us later this year. We've got a solid management team in place. We've got really good brands with 0.25 million active users per month, and we're well able to absorb the tax and regulatory headwinds in our core U.K. markets. So we're very pleased with where we're positioned and pressing hard for the rest of the year. So can I just thank you all very much? Keith, I and Simon are available after the call for anyone who wants to have a conversation with us. So please do get in touch if you need further information. But for now, thank you all very much indeed.

Operator

Ladies and gentlemen, thank you for joining today's conference. You may now replace your handsets. Thank you.