

BUSINESS NEWS

Numbers Game: 9

The percentage increase in prize money for horseraces in Ireland between 2002 and 2003 according to IFHA figures

BUSINESS BRIEFS

£70,000 FINE FOR CANTOR INDEX

Cantor Index is licking its wounds after being fined £70,000 by the Financial Services Authority (FSA) for running a 'misleading' campaign promoting spread betting.

The FSA said that the firm's flyers, posters and press advertisements did not contain adequate warnings and could have put a large number of customers at risk. The regulator also said the offer of the free XDA pocket computer/phone 'incentivised' consumers to spread bet, and that it was promoted in a way that attracted the attention of less-experienced investors.

A spokesperson for Cantor said: "Cantor Index understands and accepts the concerns regarding the promotional activities surrounding the launch of the wireless XDA. We have now put in place rigorous and effective procedures that will prevent a repeat of this incident."

EDMONDS JOINS THE BOARD AT HILLS

William Hill has appointed David Edmonds CBE as an additional non-executive director. Edmonds has a wide range of experience from both the public and private sector having previously held positions as director general of telecommunications at OfTel and managing director, Group Central Services, at the National Westminster Group. He is currently chairman of NHS Direct and holds a number of non-executive roles in the public and private sector.

Hill's chairman Charles Scott commented: "I am delighted to welcome David Edmonds to William Hill. His experience in both the public and private sector make him an excellent addition to the board."

VIETNAM CONSIDERING STATE-OWNED BETTING OPERATION

According to a report from Reuters, Vietnam is considering lifting its ban on football betting in order to help cash-strapped teams. The country's sports ministry has proposed allowing a football betting operation run by the state to raise money for the teams. All forms of gambling in Vietnam are currently punishable by up to seven years in jail. This is despite the government allowing casinos in hotels, although only foreign nationals are allowed to enter these facilities.

Nigel Payne: 'the banks are taking a more mature attitude'



Bid rumours boost Sportingbet's profile

Last month's financial pages had rumours of Ladbrokes bidding for online rival Sportingbet. While there may have been no immediate truth in the stories, it does show how the remote bookmaker's stock has risen. Andrew Gellatly reports.

CITY PERSPECTIVES SPORTINGBET

The notion that Ladbrokes, the US-owned betting group, would go fishing for a US-facing internet sportsbook might seem unlikely enough, but the city's enthused reaction to the rumours was even more surprising.

Shares in the AIM listed gambling group jumped nine per cent last month to an all-time high of 188p amid stories that Ladbrokes owner Hilton Group had made a tentative bid approach for the high profile internet betting business.

A cash offer in the region of £807m, or 250p per share, was said to be on the cards, though sources at Sportingbet insisted that the bid was a 'completely made-up story'.

Two things make the story unfeasible – the uncertain legal climate for internet sport betting in America and the fact that Ladbrokes already has a successful online business which could easily be reconfigured to take US bets.

Nevertheless, the willingness of many traders to believe the rumours confirms what Sportingbet's CEO Nigel Payne has argued before – that a qualitative shift is taking place in the way financial institutions are looking at betting businesses.

"The banking community is starting to think 'maybe we can get our heads around the regulatory issues if the returns are of this order'," Payne explained.

Sportingbet's recent acquisition of the Costa Rica-based business Par-

adise Poker has done much to raise the bar for the industry, providing an immediate profit boost for the business. But while Payne insists there are no further deals in the pipeline for Sportingbet, he is expecting a wave of strategic acquisitions across the industry.

"If, for the sake of argument, we describe ourselves as the biggest online sports site in the world – then I can't think of another industry where the industry leader only has a 2 per cent share of the market," said Payne. "There are a lot of changes ahead and evidence that the banks are taking a more mature attitude. 2005 will be an interesting year."

"If you look at the whole market, 63 per cent of companies showing profit growth last year achieved

that by reducing costs. But what the analysts want to see is a real growth story, and real profit growth can be found when there are private companies readily available in this industry with price/earnings ratios of four to eight times."

Ironically though, Payne has grown Sportingbet into a position where it is perhaps the most desirable takeover candidate in the gambling sector precisely by cutting costs, and moving the focus of their operations away from high volume, low margin telephone football bets into cheaply-transacted online bets. The cunning acquisition of Paradise Poker has also served to put the company into a different league. Were it not listed on the AIM market, its capitalisation would now rank it as a FTSE 250 company. **15**

German casino group in hunt for UK bookmaker

ACQUISITION TRAIL GAMING VC

The operator of The Casino Club, one of Germany's leading online casinos, is building a substantial war chest to fund its hunt for a UK-based bookmaking and poker firm. Gaming VC, the Luxembourg-based internet gaming operator, successfully floated on London's AIM market on December 21 issuing 31.1m shares at 420p and gaining a market capitalisation of approximately £140m.

While more than half of the cash raised will be used immediately to buy-out the company from its German publisher founder, the group, now operated by four American entrepreneurs, has also set its sights on buying a UK sports betting business in the near future. Certainly it has no shortage of free cash flow to fund the acquisition. Last year the company saw turnover of 1.8bn euros and a gross revenue of 37.5m euros.

Steve Barlow, chief executive and former president of Gamecraft, a US slot machine manufacturer, said: "Starting something from scratch in the UK would be unlikely. We will be much more likely to grow by acquisition."

In fact, Gaming VC is known to have made an approach to UK Betting, the London-based online sports betting and content site in November 2004. Its informal approach was pitched at £55m, a deal which would have valued UK Betting at about 62p a share. UK Betting's board, including Eric Semel and Peter Dubens, rejected the offer as being too low, although sources close to the negotiations believe further developments may still be possible.

An online poker and sports betting business would be vital to enhance GamingVC's cross-border European services. Gaming VC specialises in virtual roulette, which is popular in German markets and claims 58,000 active customers with more than 100,000 registered users. The associated Casino Club magazine also has a circulation of more than 100,000 copies and the company hopes to roll-out localised versions of its site throughout most of the European Union.

Gaming VC has a publicly stated policy that it will not accept bets from US citizens on its casino products – a strategy that has enabled it to by-pass the pitfalls encountered by fellow AIM-listed business BetonSports, which has experienced volatile sales in the US because of ongoing advertising restrictions there.

Barlow said GamingVC would continue to avoid US exposure: "We are the third-largest online casino in the world and we have zero US bets. We plan to build our business without the US until it is legal there."

Certainly Gaming VC has already assembled an experienced management team to handle a UK-based internet betting business. Among the non-executive directors are Nigel Blythe-Tinker, who was group company secretary at William Hill from 1999-2004 and worked on its £1.49bn flotation, and Marie Stevens, a former member of the UK Gaming Board and general counsel for Hilton Group (formerly Ladbrokes Group plc) from 1987 to 1997. **16**

Betting shops in real danger from exchanges

INDUSTRY REPORT CSFI

Betting shops will have to adapt to the new gambling regime promoted by betting exchanges or face extinction according to a new paper by the CSFI, a non-profit think tank.

The main thesis of the publication, which is called 'Betting on the future: Online gambling goes mainstream financial', is that the advent of internet betting exchanges has completely adapted the betting transaction and is likely to

kill off the majority of high street bookmakers and will also have implications in other sectors.

The CSFI report is written by Michael Mainelli and Sam Dibb, two former accounts with an interest in gambling. They believe that the betting exchange is also promoting the rapid convergence of gambling and mainstream financial products. The paper argues that if there is a willing seller and a willing buyer of any sort of risk, married to a network that can match them together, where then is the need for the traditional intermediaries? As such, it is feasible to

imagine all sorts of other risk transfer products being developed which would lead to the 'disintermediating' of traditional insurers and banks.

The paper takes a serious look at the whole gambling industry and estimates that a sympathetic tax regime will see the UK become home to around 30 per cent of the global online betting industry.

Mainelli and Dibb also looks at how serious gamblers can arbitrage the pricing inefficiencies between exchanges and bookmakers. 'Betting on the Future' costs £25 and is available from online bookstore Central Books. **17**