Ladbrokes, Unibet and William Hill suffer profit losses

OPERATORS HIT BY STRING OF BAD FOOTBALL RESULTS

FOR THOSE OPERATORS WITH big markets on English Premiership football bets, the third quarter results season last month must have felt like the Blitz – pretty awful but everyone is in it together.

Petter Nylander Ralph Topping

Ladbrokes, Unibet and William Hill Online (WHO) all suffered due to a string of bad match results that included just four draws in 66 matches against a five-year average of 25% draws in a season.

Describing the run as "extraordinary", William Hill chief executive Ralph Topping said they had reduced Hill's operating profit by £7m, despite overall turnover from the sportsbook in the third quarter increasing 40%. The company recorded a net revenue margin of 3.2%, less than half the 7% recorded at the same point in 2008.

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> **Playtech chief executive, Mor Weizer**

The share of income contributed by the WHO venture to Playtech during the period fell to €4.2m (£3.7m), from €5.3m in the previous quarter. However, despite the big hit in the venture's very first year, Playtech chief executive Mor Weizer was the spirit of Blitz-like cheerfulness. "For the first time we are exposed to sports (results) and that is more volatile than gaming, but there are many upsides," he said, whistling a Vera Lynn tune and putting on the kettle for a nice cup of Bovril. "The joint venture is going very well, and we are already seeing much higher numbers of new accounts."

Unibet chief executive Petter Nylander was as upbeat as Weizer despite also being hit by the Premiership bomb blast, recording a 22% year-on-year fall in third-quarter pre-tax profits to £3.5m, from £4.5m in the same period last year.

The dip contrasted sharply with Unibet's half-year results, when pre-tax profit rose to £16.6m on a half-yearly basis, from £6.9m in 2008, although a strong live betting performance did help the Swedish operator turn in a better top-line performance than WHO and Ladbrokes.

Nylander cited the company's in-play offering as a "driving force" behind Unibet achieving record sportsbook turnover and a 3% year-on-year rise in quarterly gross winnings revenue to £30m for the three months to the end of September 2009, from £29.3m for the same period last year.

Ladbrokes, meanwhile, stirred up the market by revealing that it was to raise £275m through a significantly discounted rights issue to reduce its £962m net debts to £687m and to refinance its remaining debt and reinforce its balance sheet with extra capital in a tough trading climate.

The company blamed the bad trading on... that's right: the football bets – although poker net revenue over the three-month period also fell 21%. The dips saw Ladbrokes' overall operating profit fall 58% to £22.4m, from £52.8m last year.

No sooner had the company issued its fully underwritten 301 million new shares at 95p each, however, than it became the target of short-sellers, who took a combined position in the bookmaker of 9%.

Six hedge funds released statements on the London Stock Exchange detailing short positions they had taken on the company the day before the rights issue was announced. However, Ladbrokes played down the significance of the event, a spokesman saying "this is nothing unusual".

[VIEW POINT]

Mervyn Metcalf
MANAGING DIRECTOR
GLOBAL LEISURE PARTNERS

We continue to see increased likelihood of corporate transactions through mergers and acquisitions (M&A), with PartyGaming's buyout of Cashcade and World Poker Tour, now it is confirmed, over the past few months serving as good lead indicators of future activity.

There are willing sellers in the market and, perhaps more importantly at this stage, serious potential buyers.

We expect to see business-to-business (B2B) consolidation to be the most likely route to near-term M&A activity.

As is always the case with business-to-consumer (B2C) operators, the issue of acquiring other businesses is customer loyalty and determining an accurate price. In fact, the question nearly always arises: how much is a rapidly churning customer base worth?

In contrast, B2B theoretically has technology, longer-term contracted customers and the ability for B2B companies to significantly differentiate themselves on product. In realising that they cannot get to every player, the likes of PartyGaming, 888 and Bwin have put their weight behind further penetration into the B2B space.

A B2B acquisition strategy is further strengthened when we consider that entry to new markets requires B2C operators to build a brand and a new player base. A B2B operator can simply partner with existing local brands (whether they are in the gaming space or not).

Global Leisure Partners is increasingly asked by its non-gaming clients: "What should we do?" and "with whom?" in the online gaming space.

We believe that in the next 12 to 18 months, we will see strong brands entering online gaming, attracting existing customers and delivering new customers to the space. B2B providers are a good first point of call.