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What are the odds?

James Palmer of DataLend looks into the future of the UK gambling sector from those who are leading the field to those in danger of getting boxed in

Last year was a good one for the UK's bookmakers. With the London Olympics, UEFA European Championship and Ryder Cup capturing the attention of the nation's media, opportunities to place a patriotic wager, whether an educated one or not, had never been so high.

The dominant bookmakers all exhibited very positive growth figures through 2012 and into 2013, as the UK industry generated a gross gambling yield estimated at £6.2 billion from October 2011 to September 2012, according to the UK Gambling Commission. While the non-remote betting industry remains the largest source of income, growth in online gambling has been particularly strong, exceeding the £2 billion milestone domestically over the same period.

Recent results have been more of a mixed bag. While prominent market players excel and anare faced with downward pressure on profitability and a need to drastically address their online presences. The trends seen in DataLend and the securities finance market reflect this mixed investor confidence and highlights a disconnect between a successful historical performance and their short-term growth expectations.

Bookies' favourites

The outlook from analysts going into 2013 was overwhelmingly positive. William Hill PLC proceeded to extend a leading position as market capital grew from £1.4 billion at the start of 2012 to more than £4 billion by mid-2013, breaking into the FTSE 100 for the first time. Expansion into the US, Spain, Italy and Australia continues to suggest that the going is good for what has become Europe's largest gambling firm. DataLend Contrast these positive stories to the recent per-

low 0.6 percent following chief executive Ralph Topping's announcement in August that online revenue had grown by 18 percent this year.

Similarly, specialist online bookmaker Betfair Group PLC, buoyed by takeover rumours, has seen its share price almost double from January to August. After struggling through 2012, a new chief executive and a reviewed strategic approach to offer a simpler online service and pull out of unregulated markets are showing signs that they are beginning to pay off. On-loan quantities have come off significantly as a result: short interest recently came down to less than 0.5 percent of shares outstanding from more than 3 percent in January.

Left at the gate

accurately highlights this bullish sentiment, formance and announcements from Ladbrokes nounce plans to expand into new markets, others showing short interest falling to a reassuringly PLC and one begins to understand the factors



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behind their success. A succession of quarterly and mid-year profit warnings from Ladbrokes has been attributed to a long-term revamp of the online model as well as a dearth of on-course revenue taking a toll on the firm's profitability.

Renowned for lagging behind in the virtual stakes. an announced partnership with internet gambling software provider Playtech PLC, former joint venture partner of William Hill's successful online model, has not managed to ward off short interest in the security just yet. Rather than pioneering ventures into new markets, the firm has needed to focus first on playing catch up.

Subsequently, on-loan values and utilisation both have risen steadily. More than 40 percent of in-

ventory was out on loan in late August, with short has risen in tandem from less than £5 million interest reaching 7.5 percent. A 20 percent drop in operating profit announced in the firm's mid-year earnings report and a new UK tax ruling (effective December 2014) could continue to hurt Ladbrokes more than most. It is an uncertain time for the long-standing household name, but opportunity for international market share may not have passed just yet if the firm can keep up with rivals.

Bwin.Party Digital Entertainment has also been noted as underperforming in recent years. A move to focus on 'value' customers and out of unregulated markets (akin to the move made by Betfair a year prior) has seen the stock rebound in recent months. However, the quantity on loan

in July to approach £32 million (30 percent utilised) at the beginning of August, iterating the sentiment that the first-mover advantage has been lost and may be difficult to recover from.

A photo finish?

Expectations for the future of the industry remain high. The proposition of unlocking the expansive US market and a rapidly growing global online user base represent strong opportunities for those in the business. Analysts continue to tout remote gambling market share as the primary ingredient for future success. The way each player has responded and positioned itself online is seen as being directly related to their capacity to capitalise on opportunities internationally as and when they arise.

These prospects could also be a signal for increased M&A activity in the sector. William Hill has already shown its hand by acquiring Australian bookies Sportingbet and more recently online business Tomwaterhouse.com to diversify and build its international presence. The US casino and entertainment giants will also have identified the benefits of leveraging the experienced online models of the European specialists to get a head start. Investors could even view the renewed focus and strategies from Ladbrokes and Bwin themselves as being worth a punt, hoping that their discounted price is not predictive of further divergence to their rivals.

To date, the difference between those merely in the running and those coming out on top has been the ability to move quickly and adapt to changing conditions. Be it by expanding through acquisition or organically, the successful players are vying to position themselves for the finishing straight across the pond. While the question still remains as to whether the lagging names can recover before losing too much ground on the competition, the online dynamic and prospect of unlocking previously unreachable markets are certainly making it an interesting race. SLT



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