

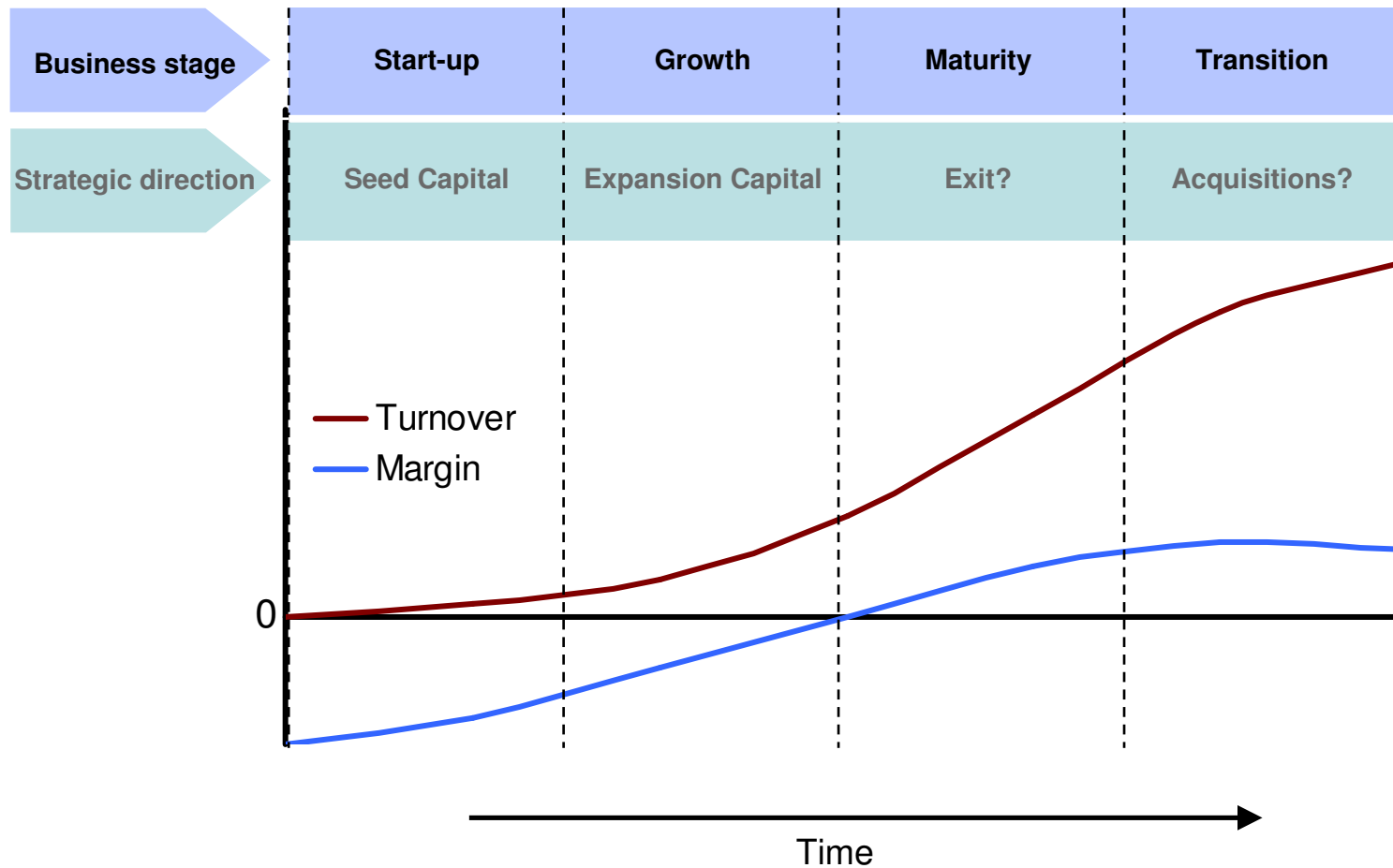
**SECTOR CONSOLIDATION**

**POSITIONING YOUR BUSINESS**

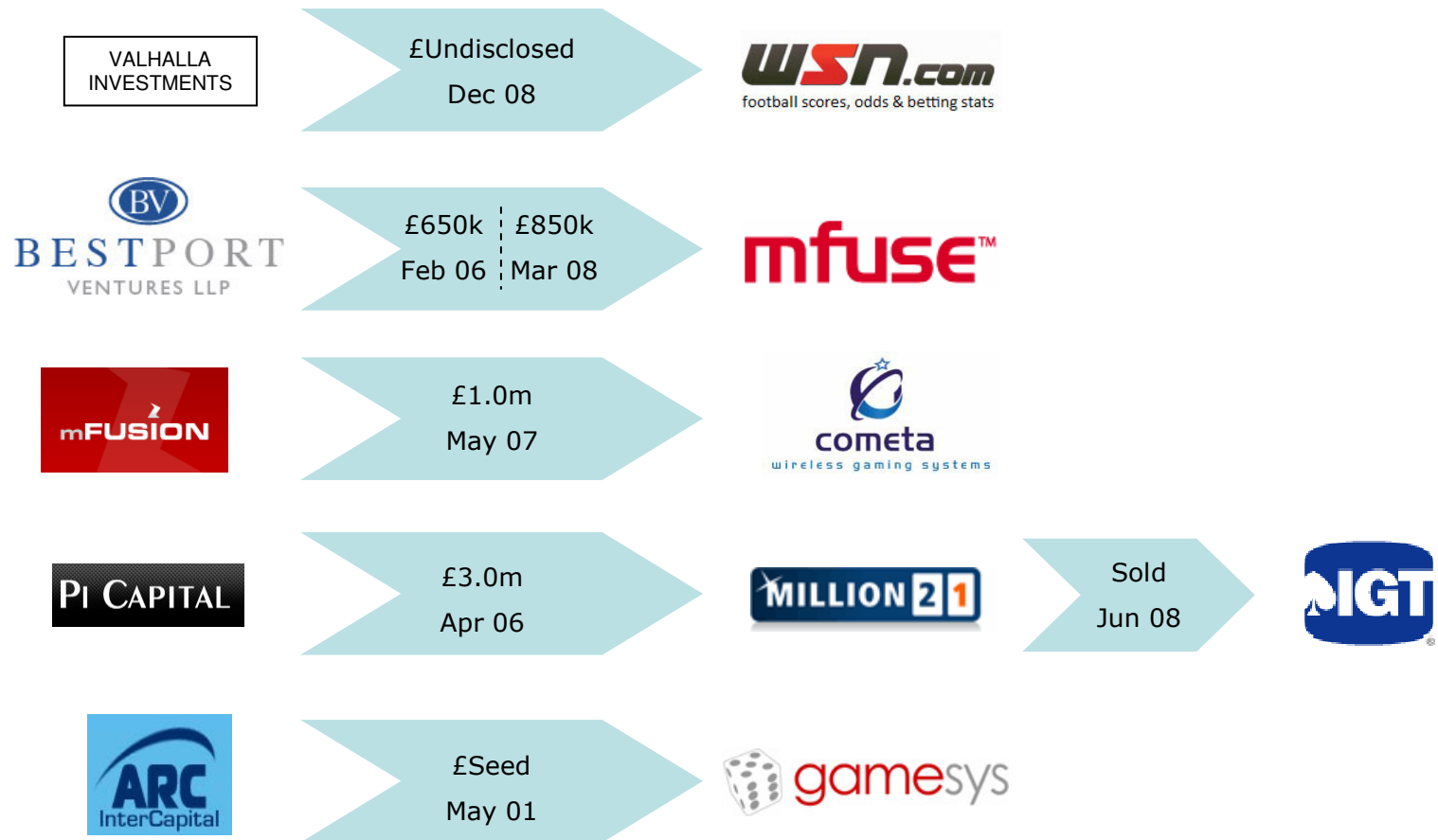
**David Shapton**  
**Akur Partners**

**17 June 2009**

# The Business Cycle











## Example Investments



Source: Publicly available information

## Selected Bingo Transactions

Acquirer				
Target				
Date	Mar 08	Mar 07	Dec 07	
Consideration	£6.25m (\$12.7m)	\$32m – \$43m	SEK705m (\$108m)	
Net turnover Multiple	0.9x	2.9x – 3.8x	6.3x	
Profit multiple	6.0x	5.8x – 7.8x	18.7x	
Profit margin	14%	49%	34%	
Value per active customer	n/a	n/a	\$7,800	

### Valuations driven as much by scale as by profitability

Source: Press releases

Motives for acquisitions are numerous...

- Increase market share
- Enter new market
- Cost-effective customer acquisition
- Strong management
- Quality assets
- Complementary business



...BUT overriding principle is...

- **Must enhance future earnings**

## CEO views on M&A

"We are now well placed and keen to seize organic, as well as strategic, opportunities that were previously beyond our reach...We are **actively reviewing consolidation opportunities** that, if concluded successfully, are expected to provide new and additional sources of growth" – 7 April 09

**PartyGAMING**

"The Group's financial position is strong...leaving us in a very **sound position to exploit M&A opportunities**. And we are actually currently reviewing a few such opportunities every day" – 5 May 09

**888**  
HOLDINGS  
PUBLIC LIMITED COMPANY

"We are not actively looking but it is our duty to assess anything that could represent value to shareholders" – 3 June 09

**sportingbet**

### Sector-specific

- Overlap of databases
- Information disclosure (timing)
- Value of player cash deposits
- Longevity of software strength
- “Stickability” of licensees and affiliates

### General

- Geographic/cultural fit
- Legacy issues
- Sale of company or assets
- Shares v cash
- Earn-out provisions / management incentives

**Tactics can be crucial to achieving optimum value**

- Assess your position
- Establish a valuation
- Identify potential buyer interest
- Agree your tactics
- Kick the process off...

- Provide sector-based financial advice and execution
- Products include Capital Raising, M&A and Other Strategic Advisory
- Previous transaction experience in online gaming sector includes:

- IPO of FireOne Plc



- Empire Online: IPO  
Sale of assets to PartyGaming



- 32Red Plc: IPO, fundraising and acquisition



- IPO of Cyberview Technology



## Disclaimer

This presentation was prepared exclusively for the benefit and internal use of the Akur Partners client to whom it is directly addressed and delivered (including such client's subsidiaries, the "Company") in order to assist the Company in evaluating, on a preliminary basis, the feasibility of a possible transaction or transactions and does not carry any right of publication or disclosure, in whole or in part, to any other party. This presentation is for discussion purposes only and is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by Akur Partners. Neither this presentation nor any of its contents may be disclosed or used for any other purpose without the prior written consent of Akur Partners.

The information in this presentation is based upon any management forecasts supplied to us and reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. Akur Partners' opinions and estimates constitute Akur Partners' judgment and should be regarded as indicative, preliminary and for illustrative purposes only. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was provided to us by or on behalf of the Company or which was otherwise reviewed by us. In addition, our analyses are not and do not purport to be appraisals of the assets, stock, or business of the Company or any other entity. Akur Partners makes no representations as to the actual value which may be received in connection with a transaction nor the legal, tax or accounting effects of consummating a transaction. Unless expressly contemplated hereby, the information in this presentation does not take into account the effects of a possible transaction or transactions involving an actual or potential change of control, which may have significant valuation and other effects.

The presentation does not constitute a commitment by Akur Partners or its affiliates to underwrite, subscribe for or place any securities or to extend or arrange credit or to provide any other service.

## APPENDICES

- **Regulatory changes**
- **Economic environment**
- **Capital availability**
- **Investor sentiment – varies between groups**
  - (trade players v financial sponsors v institutional investors)
- **Sector maturity**
- **Cost savings**
  - Marketing
  - Software
  - Administration

Drivers currently  
point to industry  
consolidation

- 
- Strategic review
  - Preparation
    - Business plan
    - Appointment of advisers
  - Valuation
    - Comparable public companies
    - Precedent transactions
    - Discounted Cash Flow
  - Gathering expressions of interest
    - Tactics
  - Due diligence
    - Data room preparation
  - Negotiation
  - Completion

- Increase market share
  - Economies of scale
- Enter new market
  - Product, region or even entire sector
  - Opportunity for cross-sales
- Cost-effective customer acquisition
  - Risk of customer duplication
- Strong management
  - Often cheaper to hire the individuals than the entire firm
- Quality assets
  - e.g. software, brands, database
- Complementary business
  - Cultural fit, little product or geographic overlap

- Current conditions
  - Cash on balance sheet
  - Further clarity on regulations and legacy liabilities
- Where is best fit
  - Culturally
  - Geographically
  - Technologically
- Which potential buyers have
  - Cash available
  - Shareholder support
  - Management stability

### CEO views on M&A

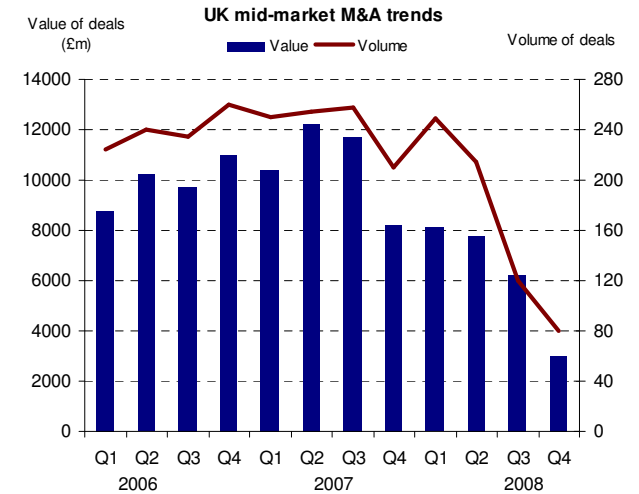
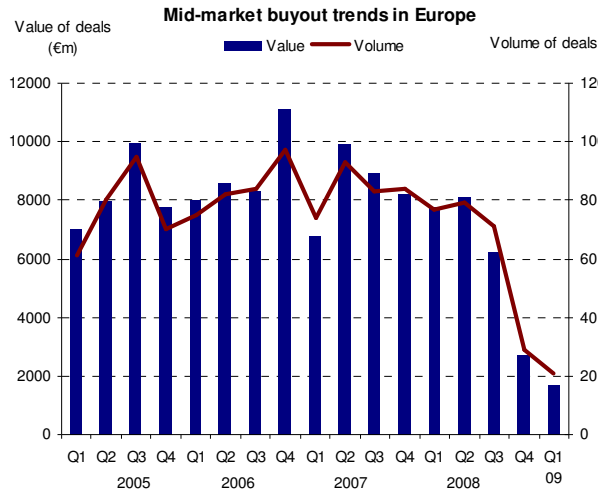
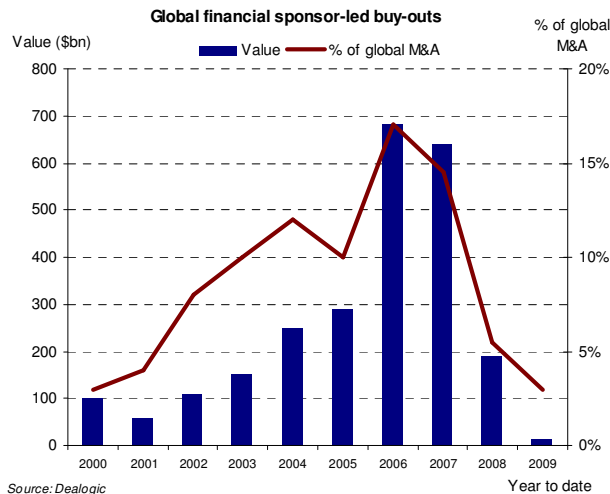
Jim Ryan (CEO, PartyGaming): "We are now well placed and keen to seize organic, as well as strategic, opportunities that were previously beyond our reach...We are actively reviewing consolidation opportunities that, if concluded successfully, are expected to provide new and additional sources of growth" – 7 April 09

Gigi Levy (CEO, 888): "The Group's financial position is strong...leaving us in a very sound position to exploit M&A opportunities. And we are actually currently reviewing a few such opportunities every day" – 5 May 09

Andrew McIver (CEO, Sportingbet): "We are not actively looking but it is our duty to assess anything that could represent value to shareholders" – 3 June 09

- Common misconceptions regarding mid-market PE houses:
  - Need majority stake
  - Investment must be geared
  - Short-term holders
  - Financial investors with no sector expertise
- Burnt in the past by legal and tax legislation on land-based investments
  - BUT willing to look at the online sector again
- Entry into sector would only push values one way
- But trade buyers should always be prepared to pay more

- Approach varies widely, but in general:
  - Like bolt-on acquisitions
    - But less so if company has strong existing brand
  - 80% of completed deals originally solicited by advisers
  - “Don’t like” auctions but still participate
  - Place emphasis on ability to strengthen management
- If private equity auction is likely route consider vendor DD

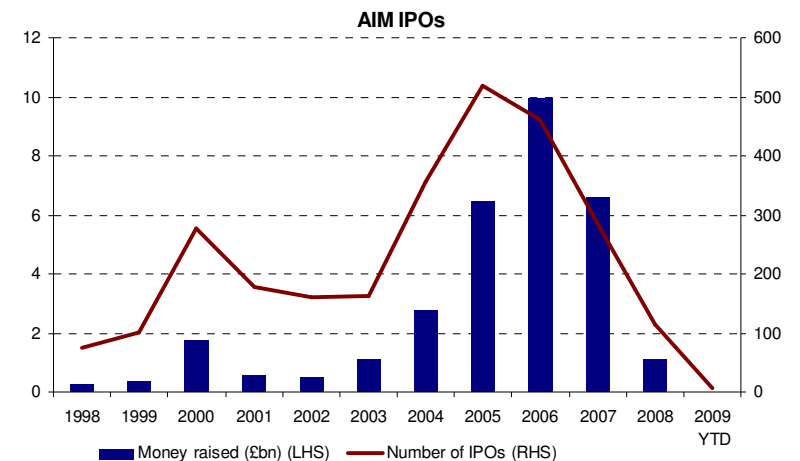
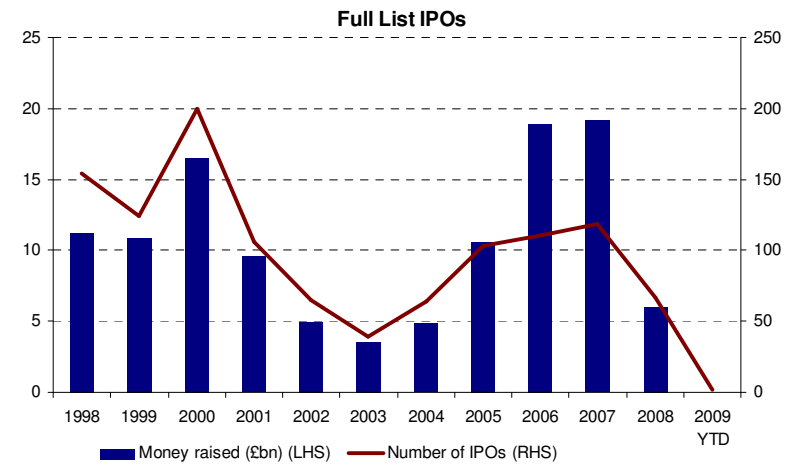


- Reasons to IPO

- Acquisition currency
- Incentivise staff
- Higher profile for brand
- Partial exit can enhance returns
- Not dependent on debt markets





- Considerations

- Prevailing market sentiment re:
  - Sector
  - Company size
- London v Other
  - Full List v AIM



## IPOs: London v Other

- Lead-in times 3-4 months+, dependent on:
  - Preparedness of company
  - Regulatory approvals – gaming, financial and other
- Ongoing disclosure requirements
- Go with where you expect to have the most support
  - Dual-listing a possibility but less common these days
- London remains the market of choice for international gaming companies

						Other
<u>Land-based</u> Ladbrokes William Hill Paddy Power (Dublin) Rank	<u>Pure Online</u> PartyGaming 888 Cryptologic (TSX,Nasdaq)	Playtech Sportingbet Asianlogic* Netplay TV 32Red	Probability Leisure & Gaming Webis	Betsson Net Entertainment Entraction Redbet	Gigamedia Bingo.com (Bulletin)	Bwin (Vienna) JAXX (Frankfurt) Chartwell (TSX) Parlay (Vancouver)

*Other listings in brackets*

*\*Proposed delisting*

## AIM v Official List



- Perceived as the 'senior' market
  - Three year trading record required
  - Full disclosure requirements post admission
  - Minimum 25% 'free float'
  - Timetable 12 to 16 weeks
  - Admission requirements pre-vetted by UKLA
  - Appeal to wider audience of potential institutional investors
- Perceived as the 'junior' market
  - No trading record required
  - Greater flexibility re corporate transactions
  - No 'free float' requirement
  - Timetable 10 to 14 weeks
  - Admission document not pre-vetted by regulator
  - Some investor concerns