

SECTOR CONSOLIDATION

AFFILIATES, EXITS & EARNOUTS

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27 May 2010

Key Driver – Operators' margins declining due to:

- Fierce competition
- Requirement to licence country-by-country
- Liquidity of US-facing poker sites

Potential Effects

- Operators acquiring affiliates
 - Allows affiliate owners a full exit
- Affiliates merging
 - A pooling of strengths and bargaining power

Example Transactions

Exclusive Portals



A blue rounded rectangle containing logos for Poker Stars, PokerPages, Poker-Babes.com, and PlayWinningPoker.com, with the date May 2010 at the bottom.

Poker Stars

PokerPages

Poker-Babes.com

PlayWinningPoker.com

May 2010

Open Portals



Two blue rounded rectangles. The top one contains logos for 888 Holdings and Bingo Street with the date Dec 2009. The bottom one contains logos for Cashcade and OnlineBingo.co.uk with the date July 2007.

888 HOLDINGS
PUBLIC LIMITED COMPANY

Bingo Street
www.bingostreet.com

Dec 2009

c a s h
c a d e

OnlineBingo.
co.uk

July 2007

Reasoning

- Shareholder pressure
- Taken as far as you can
- Pessimistic about prospects
- Too small to compete
- Is a sale the right option?

Be ready...

- Monthly management accounts
- Contracts, licences, IP in place
- Varying analysis techniques

Valuation

- No set rules on multiples

- Prepare an information memorandum / presentation
 - Include pro forma P&L
- Set up electronic data room
- Identify most likely buyers
 - Approach buyers simultaneously
- Run to a tight timetable
- Understand acquirers' mindset
- Opportunity to hide behind advisors during negotiations
- Ensure management have time to continue running the business
- Avoid the temptation of a low cost / low value process

- Overlap of databases
- Information disclosure (timing)
- Value of player cash deposits
- Longevity of software strength
- Loyalty of players
- Geographic / Cultural fit
- Earn-out provisions

**Tactical approach can
be crucial to achieving
optimum value**

Rationale

- To bridge valuation gap
- To mitigate future earnings risk
- To retain/incentivise owner-managers (“keep them honest”)
- To give impression that sellers have attracted a high price

Problems

- Disputes over earnout achievement and interference
- Misalignment of incentives
- Hinders full integration and cross-selling

Solution

- Acquirer must give acquired company free rein during earnout period
- Focus integration plans on post-earnout period

Earnout: *“An agreement whereby the acquirer withholds a proportion of the acquisition payment, subject to the company achieving pre-determined profitability or other performance targets within a set period following acquisition.”*

Recent Earnout Examples

- Earnout provisions for online gaming transactions in last 12 months

Date	Target	Acquiror	Base Multiple ¹	Reported Enterprise Value (£m)	% of which Subject to Earnout	Earnout Period	Capped Deferred Multiple
Jul-09	betboo.com	Gaming VC	<i>nil profit</i>	20.0	87%	3 years	5x year 3 PAT
Dec-09	Wink Bingo	888 Holdings	7.8x	59.7	82%	1 year	Up to 6x EBITDA to Mar '11
Dec-09	Gaming Technology Solutions	Playtech	32.4x	29.2	67%	2 years	<i>not disclosed</i>
Jul-09	Cashcade Limited	PartyGaming	5.9x	95.9	25%	1.5 years	Up to 1.0x '09 & 0.5x '10 EBITDA
Feb-10	Virtue Fusion	Playtech	7.6x	36.0	19%	1 year	Up to 1.8x '09 EBITDA, capped
Sep-09	Gioco Digitale	bwin	4.5x ²	101.5	4%	1.5 years	<i>not disclosed</i>

¹ of prior year profits unless stated

 PBT

² Multiple of annualised 1H09 EBITDA

 EBITDA

Sources: mergermarket; press releases

- 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 and equity fundraising
- IPO of Cyberview Technology

