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Streak of consolidation isn’t over yet

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Online gambling

The second half of 2015 saw three major transactions in the gambling industry. In July we saw the merger of the second and third largest UK retail bookmakers, Ladbrokes and Gala Coral, in a £2.3 billion merger. In August the £6 billion merger of Paddy Power, the third largest online bookmaker and Betfair, the clear market leading online betting exchange, was announced. In September GVC, the online gaming operator who had previously acquired a large chunk of Sportingbet saw off 888 and acquired Bwin.party in September for £1.1 billion.

So what is driving this consolidation?

1 The ‘shared wallet’ effect

By way of example, if Company A specialises in a US sportsbook and horse racing and Company B has an exchange and a speciality in European football markets. Rather than hunt around websites for a bet on the horses and the football, with A and B merged, I can now do both from one wallet. The Paddy Power/Betfair merger demonstrated this with Betfair’s sportsbook being 66% football and Paddy Power’s 50% horse racing.

2 The ever changing regulatory environment in different jurisdictions

If 50% of Company A’s revenues arise from an unregulated market it may be extremely profitable, but could be subject to strict regulation being enforced at any time and profits being wiped out overnight. Spreading reliance on a larger number of unregulated markets or diluting that risk with more regulated markets clearly means that your eggs (ie profits) are in more than one basket.

3 Tightening up of regulatory requirements in regulated markets

From 1 December 2014 ‘Point of consumption’ tax has been introduced by HMRC at 15% for UK gamblers betting online, notwithstanding whether the company is headquartered or its servers are located in a typically tax free gaming haven such as Gibraltar, Malta or Alderney. Consolidation creates cost synergies to compensate for the additional tax burden.

4 Mobile/online offering vs old school betting shops

Whilst both Ladbrokes and Coral are both more traditionally high street bookmakers, analysts have noted that Ladbrokes have historically underinvested in their online strategy, leaving them well behind the likes of William Hill, and the merger is seen to enhance that via Coral’s superior online offering. Despite the tightening of taxation on online gambling there is far less room for manoeuvre with a traditional shop and online, and particularly mobile, betting is what the punters want.

So far 2016 has been comparatively quiet, although the volume of deals announced in 2015 was approximately double that of 2014 and the highest since 2005 according to Bloomberg. None of the above factors have gone away or subsided and so there is no obvious reason for consolidation to abate. Since its acquisition of the regulated arm of Sportingbet (mainly Centrebet in Australia) William Hill has been relatively quiet, but indications are that William Hill were looking at 888 back in February although talks ended over valuation and the 888 share price has risen since. Now William Hill itself appears to be a possible target as Rank Group and 888 Holdings have formed a consortium for the purpose of acquiring William Hill plc. in a deal worth an estimated £3 billion.

Another deal that has been mooted is the possible merger of Scandanavian operators Unibet (based in Malta, listed in Sweden) and Swedish operator Betsson, both in the top ten of online gambling companies.

Grant Thornton has been at the centre of this market consolidation having acted for Sportingbet plc on its disposals to William Hill and GVC and for GVC on the Bwin.party transaction.

Whilst there have been no mega deals in the gambling operator space in 2016 so far, there has been some activity in the area of platform providers with NYX, the Toronto listed gaming content and software provider, backed by William Hill, acquiring Openbet. Matt Davey, CEO of NYX said:

"On the Openbet deal Grant Thornton provided bid support services that focused on identifying and quantifying potential value adjustments. Their work was a key part of a complex bid process. Their proactive and insightful approach was always several steps ahead of the game and supporting us with the bought placing element of the deal. We value the relationship we have with Grant Thornton and the on-going support they provide."

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