



**MECN**  
Media & Entertainment Consulting Network

## Betfair – The Betting Exchange to beat

### Company profile of Betfair including analysis of the 2005 financial data

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London/Munich, June 2005

# Introduction

In light of a potential IPO and ongoing speculations about the profitability of Betfair, the dominant leader in the betting exchange market decided to publish its financial figures for the first time ever. This offers a unique chance to learn more about the dynamics and gain insight into one of the most rapidly growing businesses in the world of gambling.

MECN took the chance to analyze Betfair's data and strategies in a detailed company profile and provides an updated overview of the betting exchange market. The company profile offers detailed information regarding Betfair's most relevant issues, among others:

- Products and services
- Revenues and costs (e.g., commission revenues, staff costs, ...)
- Ratios (e.g., revenue per active user, R&D costs on revenue, ...)
- Profit and cash flow
- Ownership structure
- Recent developments and outlook
- Overview of the betting exchange market and its future

## Sample pages of report

**MECN | Betfair Company Profile**

**1.3 Outlook**

**Increased consolidation - only a few betting exchanges will dominate**

Although betting exchanges are a new phenomenon, there will ultimately be only a limited number of them. The reason for this lies in the nature of the exchanges. The bigger a betting exchange is, the more users will be attracted to it, and consequently the bigger the take. This simple dynamic of networks already evident in other network businesses, such as eBay, has had the greatest impact on the structure of the betting exchange market. As market leader Betfair puts it:

**“In 5 years’ time, there will only be a handful of betting exchanges as the economics of the business dictate that the biggest get bigger and better while the smaller ones will struggle to achieve critical mass.”**

The result of this development will be a market where a few players dominate and new entrants will have a rather difficult time.

That the consolidation is becoming reality can be seen from the fact that one of the former biggest betting exchanges, SportingOptions, stopped all betting activity on its platform at the end of 2003 and went into administration.

**The big brands moving in**

For quite some time now there have been speculations about the big betting brands, such as William Hill and Ladbrokes, moving into the exchange market. After several rounds of easy fighting against exchanges, the big bookies now seem to have adopted the motto “if you can’t beat them, join them”. Especially Ladbrokes made some recent comments that made the market sit up and take notice. For example, David Michels, CEO of Ladbrokes’ parent company Hillon, let it be understood that if there are no further tax incentives for betting exchanges and their users, Ladbrokes might join the exchange market.

Here’s what made them change their minds:

- After several years of ongoing international expansion, about 100,000 active users, and limited IPOs, there is no way that exchanges can be a lapped industry.
- Up to now, liquidity has been the winning element and kept the investors on the top of the market. In other words, the longer a company waits to enter this market, the more difficult it will be to compete with the market leaders.
- The big brands would have advantages others do not have: well-established and trustworthy brands as well as more than 200,000 online customers each, and this would mean instant liquidity for their exchanges.
- Furthermore, the close client relationships to their traditional retail punters would offer a unique chance (compared to Betfair, for example) to introduce the exchange system to new and much needed customer groups.

Up to now, few bookmakers introduced a pop model alongside their traditional sportsbook business. Only some online operators tried to ride the success of exchanges. For example, Betfair/Min, which owns shares in the exchange Betfair, and its any link between the Betfair/Min sites and their pop sites; on the other hand, Gambetcoke presents their pop offering right next to its sportsbook.

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**1.4 Increase of 85% from 2003 to 2004**

Revenue remained more or less constant at 2003 levels.

**1.5 Betting income by 11 game types**

Revenue remained more or less constant at 2003 levels.

**1.6 Highest profit (GPT) in commission revenues**

Revenue remained more or less constant at 2003 levels.

**1.7 Breakdown of costs (2003-2004)**

Costs	2004	2003	Change
Commission	17,640	5,313	234%
Other	37,203	13,999	166%
<b>Total</b>	<b>54,843</b>	<b>24,481</b>	<b>124%</b>

Costs	2004	2003	Change
Personnel	1,899	553	162%
Marketing	236	75	215%
R&D	1,445	528	169%
Other	2,760	1,464	89%
<b>Total</b>	<b>6,340</b>	<b>2,120</b>	<b>199%</b>

**1.8 Revenue per employee (2003-2004)**

Revenue remained more or less constant at 2003 levels.

**1.9 Revenue per employee (2003-2004)**

Revenue remained more or less constant at 2003 levels.

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**1.10 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

**1.11 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

**1.12 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

**1.13 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

**1.14 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

**1.15 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

**1.16 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

**1.17 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

**1.18 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

**1.19 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

**1.20 Revenue per active user, 2002-2004**

Revenue remained more or less constant at 2003 levels.

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## Exhibits

Exhibit 1:	Some relevant betting exchanges
Exhibit 2:	Betting exchange offer of Betfair
Exhibit 3:	Poker offer of Betfair
Exhibit 4:	Development of active users, 2002-2005
Exhibit 5:	Loyalty scheme of Betfair
Exhibit 6:	Revenue of Betfair, 2002-2005
Exhibit 7:	Revenue per active user, 2002-2005
Exhibit 8:	Staff numbers by departments
Exhibit 9:	Revenue per employee (2003-2005)
Exhibit 10:	Breakdown of costs (2004-2005)
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Exhibit 12:	Detailed Breakdown of profit/loss statement (2004-2006)
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Exhibit 14:	Betting exchange offer of Yahoo UK

## About MECN

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MECN is a network of experts on issues concerning the media and entertainment industry. Together we provide in-depth knowledge, analysis, and advice to global clients. For the gambling industry, we provide market insights and strategic support to various clients ranging from bookmakers to state lotteries. For more information see [www.mecn.net](http://www.mecn.net).



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## Related MECN reports

### Betting Exchanges - The eBay of the Betting Industry

Betting exchanges are intermediaries in a person-to-person model (similar to eBay and Napster); they arrange bets between individual customers on an Internet platform. What eBay and Napster did to the retail and the music industries, betting exchanges will do to the betting industry throughout Europe – they will revolutionize and change it forever.

Detailed report about the betting exchange phenomenon including analysis of issues such as:

- How betting exchanges work
- Characteristics of users of exchanges
- The business model and estimation of commission revenue and profit
- Overview of the biggest players in the market
- Regulatory and taxation issues
- New areas of growth
- Potential partnerships
- Recommendations

Visit [www.mecn.net/Publications/Betting\\_X/betting\\_x.html](http://www.mecn.net/Publications/Betting_X/betting_x.html) for more information.



### Online Poker – Driving Gambling to New Heights

Detailed industry report includes results of a survey conducted among industry experts featuring gambling's hottest topic.

Gambling reinvents itself constantly, and online poker is the product that seems to be the current guarantor of future growth rates. What began as triumphant advance in the USA is now leading to a global poker wave on the Internet:

- More than 60% of the industry experts surveyed believe that online poker will be the dominant offer in online gambling in 2-3 years
- The amount gambled on poker websites around the world in 2005 is estimated to be more than USD 60 billion, and the commission revenues will be around USD 3 billion
- Poker shows are a success on TV. Examples of successful poker TV shows include the World Series of Poker on ESPN and the European Poker Tour on Eurosport
- Online site Paradise Poker was recently sold for about USD 300 million, and whispers of a poker site IPO with an estimated evaluation between USD 4 billion and USD 8 billion are making online poker a business to watch closely
- As the success of online poker revs up, the gambling industry's traditional operators (e.g., William Hill, Ladbrokes, ...) are quickly adding poker to their online offerings

Visit [www.poker.mecn.net](http://www.poker.mecn.net) for more information.

