

11 July 2008

Leisure & Gaming

Year End	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	PE (x)	Yield (%)
12/06**	95.5	(4.2)	(7.1)	0.0	N/A	N/A
12/07	109.1	(1.8)	(2.4)	0.0	N/A	N/A
12/08e	105.0	3.0	2.5	0.0	3.0	N/A
12/09e	115.0	3.5	2.8	0.0	2.7	N/A

Note: *PBT and EPS are normalised, excluding amortisation and exceptional items. ** 2006 figures are proforma for continuing operations. Exchange rate used: £1=€1.258.

Investment summary: Good progress continues

Leisure & Gaming's first half trading update confirmed that the company has continued its profitable recovery through Q2. LNG also announced a successful placing that has raised £0.55m to be used for further group development. Our full year profit forecasts are unchanged, with new shops and products expected to begin to contribute in the seasonally stronger second half. The share rating has scope to improve markedly as the group continues to rebuild credibility.

First half EBIT of €1.2m versus €1.4m loss

LNG's profitability has improved significantly since last October when a series of operational changes were implemented. Today's trading update confirmed the positive trend, with good sports and operational margins in the six months to June. As expected, H1 net win was slightly lower at €12.8m (2007: €13.9m) due to the smaller shop estate but gross profit was significantly better at €3.4m (2007: €1.2m).

Share placing strengthens financials

LNG has placed 9.216m new shares with two European investors Andrin Bachmann and Edouard Mercier at 6.0p per share, raising £0.55m. Both have impressive investment records, Andrin at MC Venture Partners and Edouard as founder of Sendit (a mobile internet business sold to Microsoft in 1999). Proceeds will be used to obtain an Italian online licence and further improve LNG's operating platform.

Valuation: Good progress not yet reflected in rating

The share rating is overly depressed by historic volatile results and some concerns regarding the Italian regulatory framework (which we believe are overdone). The remaining new 'Bersani' licensed shops should open shortly and LNG expects to be able to offer online poker by the end of the year, beginning to diversify its revenue streams. With much better operational structures and risk management now in place the outlook for future profits growth is encouraging.

Price 6p
Market Cap £5m

Share price graph



Share details

Code	LNG	
Listing	AIM	
Sector	Travel & Leisure	
Shares in issue	84.9m	
- post share placing	94.1m	
Price		
52 week	High	Low
	13.25p	5.88p

Balance Sheet as at 31 December 2007

Debt/Equity (%)	16
NAV per share (c)	20
Net borrowings (€m) (incl. client fund liabilities)	2.7

Business

LNG's main business is Betshop Italia, an online sports betting business with a network of branded franchise shops mainly in Italy and Betshop.com, a pan-European online gambling business.

Valuation

	2007	2008e	2009e
P/E relative	N/A	29%	30%
P/CF	N/A	3.4	2.7
EV/Sales	N/A	N/A	0.1
ROE	N/A	13%	14%

Geography based on revenues

	UK	Europe	US	Other
	1%	99%	0%	0%

Analyst

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Exhibit 1: Financials

Note: We have included client funds liabilities (€1.1m in 2007, €1.2m in 2006) in net debt. Results for 2006 are proforma for continuing operations, assuming Betshop had been acquired on 1 January 2006.

Year end 31 December		2006	2007	2008e	2009e
Accounting basis: IFRS	€m	Proforma			
PROFIT & LOSS					
Gross takings		95.5	109.1	105.0	115.0
Net win		23.3	24.7	26.0	27.5
EBITDA		(3.7)	(1.5)	3.1	3.5
Operating Profit (before GW and except.)		(3.8)	(1.5)	3.1	3.5
Goodwill Amortisation		0.0	(0.1)	(0.1)	(0.1)
Share options		(0.4)	(0.1)	(0.1)	(0.1)
Exceptionals		(5.7)	0.0	0.0	0.0
Operating Profit		(9.9)	(1.7)	2.9	3.3
Net Interest		(0.4)	(0.3)	(0.1)	0.0
Discontinued operations		(72.4)	0.0	0.0	0.0
Profit Before Tax (norm)		(4.2)	(1.8)	3.0	3.5
Profit Before Tax (FRS 3)		(82.7)	(2.0)	2.8	3.3
Tax		(0.2)	(0.1)	(0.8)	(0.9)
Profit After Tax (norm)		(4.4)	(1.9)	2.3	2.6
Profit After Tax (FRS 3)		(82.9)	(2.1)	2.1	2.4
Average Number of Shares Outstanding (m)		63	79	90	94
EPS - normalised (c)		(7.1)	(2.4)	2.5	2.8
EPS - FRS 3 (c)		(132.2)	(2.7)	2.3	2.5
Net win margin (%)		24%	23%	25%	24%
EBITDA Margin (%)		(4%)	(1%)	3%	3%
Operating Margin (before GW and except.) (%)		(4%)	(1%)	3%	3%
BALANCE SHEET					
Fixed Assets		20.7	20.6	20.5	20.4
Intangible Assets		20.6	20.5	20.4	20.3
Tangible Assets		0.1	0.1	0.1	0.1
Investment in associates		0.0	0.0	0.0	0.0
Current Assets		6.8	3.6	3.5	5.0
Stocks		0.0	0.0	0.0	0.0
Debtors		1.9	3.0	3.0	3.0
Cash		4.9	0.6	0.5	2.0
Current Liabilities		(8.5)	(7.5)	(6.0)	(6.5)
Creditors		(5.5)	(4.2)	(4.5)	(5.0)
Short term borrowings (including client fund liabilities)		(3.0)	(3.3)	(1.5)	(1.5)
Long Term Liabilities		(1.0)	0.0	0.0	0.0
Long term borrowings		(1.0)	0.0	0.0	0.0
Other long term liabilities		0.0	0.0	0.0	0.0
Net Assets		18.0	16.7	18.0	18.9
CASH FLOW					
Operating Cash Flow		2.9	(4.0)	2.0	2.6
Net Interest		(0.2)	(0.3)	(0.1)	0.0
Tax		(0.3)	(0.2)	(0.5)	(0.8)
Capex		(3.1)	(1.7)	(0.2)	(0.3)
Acquisitions/disposals		(17.7)	0.0	0.0	0.0
Financing		0.0	2.5	0.5	0.0
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		(18.4)	(3.7)	1.7	1.5
Opening net debt/(cash)		(20.2)	(0.9)	2.7	1.0
HP finance leases initiated		0.0	0.0	0.0	0.0
Loans acquired with acquisitions		0.0	0.0	0.0	0.0
Other		(0.9)	0.1	0.0	0.0
Closing net debt/(cash) (including client fund liabilities)		(0.9)	2.7	1.0	(0.5)

Source: Company accounts/Edison Investment Research

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