

2 September 2009

Leisure & Gaming

Year End	Revenue* (€m)	PBT** (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/07	24.7	(1.9)	(2.5)	0.00	N/A	0.0
12/08	20.6	1.8	1.2	0.00	10.7	0.0
12/09e	25.7	3.0	2.2	0.25	5.8	1.9
12/10e	27.5	3.5	2.6	0.30	4.9	2.3

Note: *Revenue is net win. **PBT and EPS are normalised, excluding amortisation of intangibles, exceptional items and share option charges. Current exchange rate: £1=€1.14.

Investment summary: Improving odds

Leisure & Gaming has made significant progress over the past year in its core aims of growing and diversifying the business, both by product and geographically. First half normalised PBT rose 33% to €2.0m, boosted by strong growth in Italian poker and overseas. The balance sheet is much improved with net cash of €2.1m. While sports betting will always produce some quarterly earnings volatility we believe that L&G's business structure is now much more robust and that its significant operational progress will increasingly be reflected in an improved share rating.

Becoming a more diversified group

In Italy, poker has exceeded expectations since its launch in November 2008 and we expect casino games to be allowed in 2010. There has been some cannibalisation of sports betting but the overall effect has been strongly positive. Betshop has already replicated its Italian partner model in Cyprus and is in talks with possible partners in other territories. Overall, gaming accounted for 39% of amounts staked in the first half versus only 2% in H108, and net win increased by 21% to €13.9m.

Building the Betshop brand

Sponsoring Serie A team Palermo will raise Betshop's profile and we also expect a number of white-label marketing deals in H2. We have trimmed our PBT estimate by €0.5m to €3.0m to allow for higher marketing costs, but the brand-building should produce stronger growth online as well as through the shops.

Valuation: Rebuilding credibility

L&G's shares have risen strongly since the start of 2009 but the P/E ratio is still well below the market and peer group. The interim results demonstrated further significant progress and management's confidence is signalled by its intention to announce a dividend policy shortly. There remains some residual US regulatory risk until US DoJ talks are concluded, but Betshop's business model and sports betting expertise in emerging markets should justify a higher valuation.

Price 11.25p
Market Cap £11m

Share price graph



Share details

Code LNG
Listing AIM
Sector Travel & Leisure
Shares in issue 94.1m

Price

52 week High 11.0p Low 3.6p

Balance Sheet as at 30 June 2009

Debt/Equity (%) N/A
NAV per share (c) 18
Net cash (€m) 2.1

Business

L&G's main business, Betshop, provides land-based and online betting and gaming in Europe. Its main markets are Italy, Cyprus and Greece. L&G sold its US-facing business in October 2006 and does not accept bets from US customers.

Valuation

	2008	2009e	2010e
P/E relative	98%	48%	48%
P/CF	6.5	5.0	4.4
EV/Sales	0.5	0.4	0.3
EV/EBITDA	6.1	3.8	3.4

Revenues by geography

	UK	Europe	US	Other
0%	100%	0%	0%	0%

Analyst

Jane Ansccombe 020 3077 5740
janscombe@edisoninvestmentresearch.co.uk

Investment summary: Improving odds

Company description: European betting and gaming

L&G is a UK-based holding company. Its main business, Betshop, provides land-based and online betting and gaming in Europe. Its largest market is Italy where its partners operate a network of 'Betshop' branded shops. Betshop is now replicating the business model in Cyprus and plans to diversify into other emerging European markets such as Greece, where it already has a growing online operation. It is also diversifying its product streams away from a historic reliance on sports betting, eg poker accounted for 50% of amounts wagered in Italy in H109. Betshop holds betting and gaming licences in Italy, Cyprus, the Netherlands Antilles and Romania.

Valuation

L&G's shares have risen strongly since the start of 2009 but the P/E ratio is still well below the market and peer group. In part this is justified by its uneven quarterly earnings record, small size and possible US regulatory risk. However, the discount appears too wide given the recent progress it has made diversifying into new products and markets. Long-awaited sector M&A activity is now beginning to pick up and this should further enliven sector multiples.

Sensitivities

Betshop's historic quarterly trading has been volatile due to fluctuations in Italian sports margins. Product and geographic diversification should deliver a more consistent earnings stream but there will always be some fluctuations. New products may cause some cannibalisation, as has been the case with poker, but combined revenues have grown and casino games, if allowed in 2010, could provide upside to our estimates. The business may be affected by unexpected regulatory developments including delays in permitted new products or new licences increasing competition. There may also be some residual risks related to L&G's former US-facing operations and management has commenced discussions to try and clarify the situation.

Financials

Interim results were as flagged in the 14 July Q2 trading update with strong growth in net win, up 21% to €13.9m, and normalised PBT up 33% to €2.0m. We have increased our 2009 net win estimate, to €25.7m, but trimmed our PBT estimate to allow for higher marketing costs. Final results will depend on Q4 sports margins and continuing progress in poker but current trading is reported to be ahead of management's expectations. We are very encouraged by the group's operational progress and diversification and believe there will be upside to 2010 estimates if casino products are allowed. The balance sheet is much improved with net cash of €2.1m.

Exhibit 1: Revised estimates

	EPS (c)			PBT (norm) (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2008	1.2	1.2	N/A	1.8	N/A	N/A	2.0	N/A	N/A
2009e	2.3	2.2	(4.3)	3.5	3.0	(14.3)	3.7	3.2	(13.5)
2010e	2.7	2.6	(3.7)	4.0	3.5	(12.5)	4.1	3.6	(12.2)

Source: Company accounts/Edison Investment Research estimates

Company description: European betting and gaming

L&G's main operations comprise:

- **Betshop Italia:** a licensed network of about 550 partner-operated branded retail outlets in Italy offering sports betting, poker, skill games and lotto.
- **Betshop Cyprus:** a licensed network of 49 branded retail outlets across Cyprus.
- **Betshop Greece:** an online sports book and casino focused on the Greek market.
- **Betshop.com:** a pan-European online sports book and casino.
- **Goalslive.com:** a soccer information and results portal for internet and mobile users.

Background

L&G was incorporated in June 2004 and acquired a number of US-facing sports betting businesses during 2005. It acquired Betshop in June 2006 to diversify into Europe. In October 2006 it disposed of its US-facing businesses just prior to the US Unlawful Internet Gambling Enforcement Act (UIGEA) being signed into law. This removed over 80% of turnover and required a significant restructuring of the group. In 2007 Betshop reorganised its Italian partner network and introduced a more favourable commission structure; in 2008 it launched the Cyprus retail network and Greece online operations and, in November 2008, introduced poker into Italy.

An experienced management team

CEO Richard Creed joined L&G in March 2008, was appointed finance director in May 2008 and became CEO in July 2008. Richard brought considerable gaming experience to the group, having previously been finance director of BetonSports from 2005 (post its AIM flotation) until it went into receivership in 2007 (a casualty of the US anti-gambling legislation).

Senior management includes Gabriel Chaleplis, Paul Milburn, Fabrizio Motterlini and Riccardo Tamiro. Gabriel is founder and CEO of Betshop and was previously marketing director of Eurobet; we expect him to join the board at some stage. Paul is an accountant and the CFO of Betshop Group. Fabrizio joined in October 2008 as CEO of Betshop Italia and is a highly experienced gaming executive having previously held senior positions with Sisal (one of the largest gaming operators in Italy). Riccardo is the country manager for Italy responsible for the partner network and the relationship with the regulator, AAMS.

Philip Parker has been non-executive chairman since 2004. In June 2009 he announced his intention to retire at the end of the year, once a replacement is found. There are two non-executive directors, Neil Craven who was appointed in May 2008 and Colin Eastaugh whose appointment has just been announced. Both have considerable experience of smaller companies.

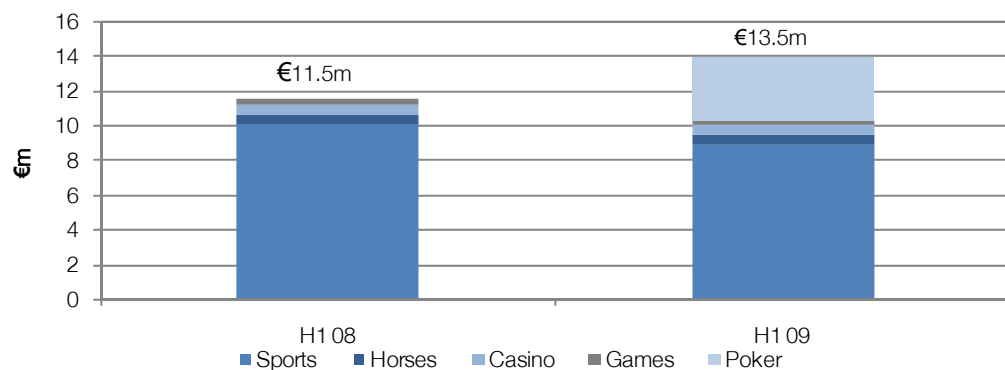
Strategy to grow and diversify

Management's mission is to position Betshop as an innovative and leading entertainment provider using e-commerce and retail channels to deliver betting and gaming products in an enjoyable, regulated environment. Its strategy is to grow and diversify Betshop's existing business geographically and by product, "increasing turnover, improving profitability and winning market share".

Diversifying geographically: BetShop Italia accounted for 83% of net win in 2008, but the proportion is already declining as the Cyprus retail and Greece online operations grow. In H109 the two territories generated €15.2m of business volume (almost 20% of the total), up from €6.4m in H108. Betshop is keen to replicate its Italian business model in other emerging regulated markets. It has already reached agreement with a local partner to open a significant number of outlets in Greece when licences become available (hopefully some time in 2010). It is also in early stage discussions in a number of other markets such as Romania, while provincial France (in the process of legalising online gambling) and Spain could also provide opportunities.

Diversifying by product: Historically Betshop's business has been dominated by Italian football and consequently fluctuating win margins. Gaming revenues produce lower but much more stable margins. The Italian government has been slow to approve new products but poker was allowed in 2008 and a desire for tax revenues underpins our expectation that regulated casino games will be allowed in 2010. Exhibit 2 shows the changing mix by product: in 2008 sports betting accounted for 84% of net win but in H109 the proportion had fallen to 64% with poker growing rapidly and accounting for 26%. Admittedly there has been some cannibalisation of sports revenues but the total has grown and we are optimistic that casino games, when eventually allowed in Italy, will also provide a significant new cross-sell opportunity.

Exhibit 2: A more diversified revenue stream in 2009



Source: Leisure & Gaming/Edison Investment Research

Business analysis

L&G is headquartered in London and Betshop has offices in Italy, Cyprus and Greece; it employs approximately 50 people. The UK office contains the financial management team, marketing and business development. There is a call centre in southern Italy but the retail shop staff are all employed by Betshop's partners.

Key assets of the group are its proprietary betting and gaming software and its risk management team. The IT team is based in Greece and is in the process of significantly upgrading Betshop's proprietary software (with integrated betting and gaming products and a shared wallet) which is used in the online business and the Cyprus retail outlets. In Italy the betting and poker software is provided by Microgame SpA, while Chartwell provides a suite of games for the Greece-facing site. The odds compilation and risk management team is based in Cyprus.

Italy: A liberalised and regulated market

The Italian gambling market is large and well established, with one of the largest lotteries in the world. According to AAMS (Amministrazione Autonoma dei Monopoli di Stato) the market was worth €47.5bn in 2008 and grew by 10.8% to €26.3bn in the first half of 2009. Poker has only been allowed since September 2008 but generated turnover of almost €1bn in the first half of 2009, far exceeding the AAMS's initial prediction of €400m spend for the whole of 2009.

The Italian betting market is dominated by four large operators: SNAI, Sisal, Lottomatica and Intralot. We believe that Betshop Italia ranks fifth in terms of outlets.

The market is regulated by AAMS which has, since 2005, issued a variety of different gambling licences and blocked unauthorised foreign websites and casinos. Betshop has an online licence that allows it to take online sports bets from anywhere in Italy as well as a 2005 master licence and 52 2007 'Bersani' licenses which allow a wider product range. All bets must be recorded by AAMS and even when new products are permitted, individual games and software must be approved. In June 2009 the Italian parliament approved two new laws: the Abruzzo law (raising funds for the earthquake) and the Comunitaria law; together these should herald the introduction of online casino games, cash poker and bingo in 2010, as well as increasing penalties for illegal gambling.

Betshop Italia

Betshop Italia has a branded network of about 550 retail sites, of which about 75% are dedicated betting outlets and 25% are non-dedicated corners (within eg coffee shops). Bets taken in each outlet are fed through to Betshopitalia.com. Each of the outlets is owned and operated by a partner on a revenue share basis (normally about 35%) which means that the shop network requires minimal capital outlay by Betshop. The partnership model, and management's local expertise, has enabled Betshop to overcome many market hurdles caused by the complex regulatory and business culture, while other foreign operators have withdrawn from the market.

Betshop Italia's shops are typically located in lower socio-economic areas where internet penetration is fairly low. It has about 33,000 active customers who placed 6.8m bets in 2008 of which 81% were multiples. Average bet sizes are a recreational €8 and bettors tend to be relatively unsophisticated, generally backing their football home teams. This means that odds need not be too tight and theoretical sports margins for multiples are high at about 25% (versus 6% for single bets). However, it also means that it is difficult to hedge against big home wins.

Between mid 2005 and mid 2007 Betshop's network grew rapidly, to over 800 outlets. Within this, however, a number of high volume partners generated unfavourable margins. In autumn 2007 many underperforming partners were removed from the network and the commission structure amended. Since then profitability has improved significantly. The market has stabilised and the number of active partners appears to have levelled out at 520-580, although it does fluctuate across the football season.

The Palermo sponsorship and other new marketing initiatives

Historically Betshop has undertaken only limited marketing, with most promotions handled by the shops. However, it has built a strong market presence across southern Italy and its greater financial strength has given it the confidence to promote its brand much more aggressively. In April 2009 it announced the sponsorship of Serie A team Palermo for a headline €1m a year, valid to the end of the 2010/11 season. Palermo's shirts, pitch-side advertising hoardings and match tickets carry Betshop's logo and it is entitled to tickets, player endorsements, fantasy leagues etc, which it can use to incentivise and reward major customers. With the new season just kicking off the sponsorship has already proved popular with agents.

Betshop is also providing a white-label betting service on the Palermo website (due to go live very shortly) and is in talks to provide similar betting services to a number of other football clubs in return for in-stadia advertising, tickets or other brand promotions. This increased marketing spend should help attract and retain agents and shop customers but also strengthen the brand and recruit increasing numbers of online players, particularly as poker (and eventually casino) grows.

Betshop Italia poker

Betshop launched play-for-fun poker in October 2008 and joined the People's Poker Network, operated by Microgame SpA, in November 2008. So far only tournament play is permitted, and only for Italian nationals (PokerStars has just been forced to migrate all its players from its .com to .it website). In the six months to June 2009 AAMS data shows that Microgame was the second largest Italian poker operator with a 26.4% market share, just behind Gioco Digitale with 29.6%, followed by Lottomatica with 16.1% and then PokerStars, Snai and Bwin each with 6-7%.

Betshop currently has around 5,000 active poker players, mainly recruited from its 33,000 sports customers. Although there has been some cannibalisation of sports revenues (see 'Financials') the overall effect has been positive and we see further scope for cross-selling. Tournament fees are between 50c and €100 and AMMS permits a 'rake' or net win of 10-15%. Betting duty is 3% and after software and agents' commission Betshop's gross profit margin is about 4%.

Betshop Cyprus

Betshop is replicating its Italian business model in Cyprus, where its odds compilation and risk management centre is located. During 2008 it recruited 47 partners and at the end of June 2009 the number of Betshop branded retail outlets was 49. It believes there is scope to double this to around 100 outlets, possibly by acquiring a number of smaller groups. Average bet sizes are slightly higher than in Italy and players tend to make single rather than multiple bets (ie theoretical margins are lower), with local and European football leagues being most popular.

Betshop Greece

Betshop launched an online offering for the Greek market in June 2008, offering sports betting and casino gaming through a dedicated website (www.betshop.gr). It has a respected local partner that is investing heavily in marketing to grow the business and raise awareness of the brand and already has over 3,000 customers. Most sports bets are singles, while Chartwell's casino 'Gold Chip Lounge' has been very popular. The average bet size is higher than in Italy and in H109 the total

amounts wagered almost doubled to €9.0m although we believe that unfavourable sports results in Q2 meant the net win percentage was below average.

Betshop intends to apply for a licence for a land-based chain of shops as soon as possible and has already reached agreement with a local partner to open 40-50 outlets. At present land-based betting is in the hands of the monopoly operator OPAP but a court case challenging this by Stanleybet was referred to the European Court of Justice early in 2009. Hopefully licences might be awarded in 2010 although the timing is not yet certain.

Betshop.com and Goalslive

Betshop.com is a pan-European multi-lingual (eight languages) sports betting and casino gaming website which uses Betshop's proprietary software. It has a network of affiliates and generates a modest net win but its markets are very competitive and to date Betshop has not devoted any marketing resources to it. However, the Palermo sponsorship and rising brand awareness could be the basis for future growth, particularly given the steady rise in broadband penetration.

Goalslive also has interesting medium-term potential. It is a European soccer results website covering 70 leagues, available in 10 languages and maintained by the odds compilation team in Cyprus. It has over 1.6m unique users and attracts over 100m page impressions per month in season. At present it generates a small amount of advertising revenue but could represent a significant marketing opportunity.

Sensitivities

There are three key sensitivities to our estimates. First is the inherent volatility of results in sports betting. Second is predicting the effect of a changing revenue mix, eg poker has cannibalised Italian sports betting to a degree but the combined business has grown. Third, gambling is politically sensitive and there could be adverse regulatory developments, but there may also be upside to our numbers if new products or markets are allowed more quickly than we anticipate.

A broader revenue mix should reduce margin volatility

Sports margins naturally fluctuate, particularly in Italy where customers tend to back their home teams, eg the Q109 sports margin was 31.1% and Q209 17.5%, although the blended H109 margin of 25% was about average. Poker and casino net win margins are much more stable and predictable at about 15% and 3% of volume respectively. Cross-selling new products may cannibalise existing revenue streams since customers only have a certain amount to spend (particularly in a recession), but the overall benefit of a wider product range is to increase total spend, attract new players, improve retention rates and reduce margin volatility.

European regulatory developments

Betshop Italia's operations are fully licensed and taxed and management has considerable experience of the complex Italian regulatory system. There is always some risk that AAMS could change duty or licence requirements or issue new licences that increase competition. New product introductions must be fully approved by the regulator and the process has tended to take much longer than originally expected, which is why we are not yet assuming any contribution from Italian casino games in 2010.

In Cyprus Betshop's network is fully licensed but the Greece online operation operates in a legal grey area (not specifically licensed, but no adverse actions are expected). The introduction of Greece land-based licences may take longer than management hopes and we have not factored any contribution into our estimates, so this could also provide some upside to our numbers.

Talks with the US Department of Justice (DoJ)

There may be some residual risk relating to the discontinued US-facing operations. L&G has not received any notification of legal action against it but recently decided to commence discussions to try and clarify its position in the light of PartyGaming's Non-Prosecution Agreement in April 2009 and talks by other operators including Sportingbet and 888.

Compared with those companies, L&G's US-facing business was very small, only owned for a relatively short time (acquired between June and December 2005) and was completely sold or closed before the signing of the Safe Ports Act (which included UIGEA) on 13 October 2006. The cost of acquiring the US-facing businesses was US\$26.4m cash (plus shares worth US\$53.9m) and the profit generated was US\$16.9m, ie there was a cash loss of US\$9.5m. It is unclear how soon any clarification will be provided and thus uncertainty will persist, although in our opinion the issue has become less of a concern for investors since April.

Valuation

L&G shares have risen strongly since the start of 2009 as the market has begun to appreciate the operational progress that has been made, good profits growth and reduced earnings volatility. Despite this its rating remains well below both the market average and the average of other UK-quoted betting operators. In part this may be justified by its much smaller size, lesser diversification, past disappointments and relatively illiquid shares. Additionally, only Sportingbet faces similar regulatory risks in respect of the US DoJ. Nevertheless the discount appears too wide. Betshop has significant scope to grow with new products and geographies, as discussed. In addition, with its proven partner model, increasing brand strength and sports betting expertise L&G could itself become an acquisition target now that industry consolidation is getting under way, certainly once the US uncertainty has been removed.

Exhibit 3: Peer group comparison based on estimated earnings to December 2009

Note: * Normalised, excluding amortisation, exceptional items and share based payments. Prices as at 1 September close. Exchange rate used: £1=€1.14. ** Sportingbet estimates annualised to December.

Company	Price (p)	Market cap (€m)	Pre-tax * (€m)	EPS * (p)	EV/EBITDA (x)	P/E (x)
Leisure & Gaming	11.25	11	2.6	1.9	3.8	5.8
Bwin AG	€ 27.88	814	62.6	173.9	6.6	14.1
Ladbrokes	192.60	1157	180.0	23.8	6.9	8.1
Paddy Power	€18.89	780	56.5	99.1	9.4	16.7
Sportingbet **	62.75	304	32.0	5.6	6.5	10.7
Average ex L&G					7.4	12.4

Source: Consensus estimates/Edison Investment Research

Financials

Interim results (announced 25 August) showed a further improvement in group profitability with normalised PBT, at €2.0m, higher than for the whole of 2008. Current trading is slightly ahead of management expectations but H2 will bear marketing costs in respect of the Palermo sponsorship and we have trimmed our normalised PBT estimate to €3.0m (€3.5m) although much depends on Q4 sports margins and progress in poker. The balance sheet has strengthened significantly and net cash at 30 June (including cash in escrow) was €2.1m.

Exhibit 4: Interim results and full year estimates

Note: Amounts wagered includes sports and horses betting volume, poker tournament fees and casino and skill games net win. Tournament fees are considered a better measure of customer activity than rake.

€m	2007 Year	2008			2009			2010 Year e
		H1	H2	Year	H1	H2 e	Year e	
Sports	100.1	37.4	33.9	71.3	35.6	32.0	67.6	72.0
Horses	7.2	1.9	1.2	3.1	1.6	0.9	2.5	2.0
Casino	1.2	0.6	0.7	1.3	0.6	0.7	1.3	1.6
Lotto /skill	0.6	0.3	0.4	0.7	0.3	0.3	0.6	0.7
Poker	0.0	0.0	2.7	2.7	22.9	22.1	45.0	50.0
Amounts wagered	109.1	40.2	38.9	79.1	61.0	56.0	117.0	126.3
Sports	20.9	10.0	7.1	17.1	8.9	7.1	16.0	17.0
Sports margin %	20.9%	26.7%	20.9%	24.0%	25.0%	22.2%	23.7%	23.6%
Horses	1.9	0.6	0.4	1.0	0.5	0.3	0.8	0.6
Casino	1.2	0.6	0.7	1.3	0.6	0.7	1.3	1.6
Lotto /skill	0.6	0.3	0.4	0.7	0.3	0.3	0.6	0.7
Poker	0.0	0.0	0.5	0.5	3.6	3.4	7.0	7.6
Net win	24.7	11.5	9.3	20.6	13.9	12.0	25.7	27.5
Margin %	22.6%	28.6%	23.9%	26.0%	22.8%	21.5%	22.0%	21.8%
Other income	0.3	0.1	0.8	0.9	0.3	0.4	0.7	0.6
COS	(21.5)	(8.2)	(7.1)	(15.3)	(10.2)	(8.6)	(18.8)	(19.8)
Gross profit	3.5	3.4	3.0	6.2	4.0	3.8	7.6	8.3
% of net win	14.1%	29.6%	32.3%	30.1%	28.8%	31.8%	29.6%	30.2%
Admin expenses	(5.1)	(2.0)	(2.2)	(4.2)	(1.9)	(2.5)	(4.4)	(4.7)
EBITDA	(1.6)	1.4	0.8	2.0	2.1	1.3	3.2	3.6
Net interest	(0.3)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)
Pre-tax (norm)	(1.9)	1.3	0.5	1.8	2.0	1.0	3.0	3.5

Source: Company accounts /Edison Investment Research

2009 interim results

Amounts wagered increased by 52% to €61.0m. Poker contributed €22.9m and was half the total Italian betting and gaming volume, with some cannibalisation of sports betting as expected. Sports revenues from Cyprus grew from €1.7m to €6.2m but overall sports wagers fell €1.8m to €35.6m against a strong comparative (H108 benefited from a €2.5m contribution from Euro 2008). The total volume of amounts staked, including casino and games bets, was €80.6m (H108: €59.4m).

Net win increased by 21% to €13.9m due to a €3.6m contribution from poker (15.7% margin). The contribution from sports fell by €1.1m to €8.9m due to the lower amount wagered, absence of Euro 2008 and a weak Q2 sports margin, in common with other operators. The volume of casino bets rose slightly to €19.1m (H108: €18.7m) and generated €0.6m in net win. This reflected good growth in Greece and online which offset the effect of closing the small Acropolis casino at the end of 2008 (the Acropolis contributed €6.2m of bets in H108). The cost of sales was slightly higher than we expected in our Update note of 8 June due to the mix of business and some volatility in Q2 sports margins, giving slightly higher agent and software commissions. The €2.0m normalised PBT was in line with management's guidance with the Q2 trading update on 14 July.

Estimates for the full year and 2010

Q3 is seasonally weak but current trading is reported to be ahead of expectations, including poker. As usual the final outcome depends in part on Q4 sports margins. We have raised our net win estimate by €1.2m to €25.7m and assumed that H2 sports wagers are roughly in line with H208 and that poker is broadly unchanged over the first half (this could prove cautious but allows for increasing competition and a more attractive sporting calendar). We have raised our cost of sales estimate to reflect the changing business mix and also increased our estimate of administrative costs to allow for higher marketing costs (although a proportion of the Palermo sponsorship costs will be borne by Betshop's partners) and software development. Overall we are estimating €3.0m normalised PBT for 2009, a 66% increase over 2008, and EPS of 2.2c up 83% (based on a 30% tax rate).

For 2010 we estimate a 7% increase in net win, even allowing for a continuing tough economic environment, with further growth in sports betting (particularly outside Italy) and poker. As already discussed our estimates could prove cautious if casino games are allowed in Italy or if a land-based network is allowed in Greece.

Balance sheet and cash flows

At 30 June 2009 L&G had net assets of €17.3m and net cash of €2.1m (comprising total cash of €3.9m less a bank loan of €1.0m, loan note of €0.3m and net client liabilities of €0.5m). Within the total cash figure, €2.2m was held in escrow for Italian licence guarantees although management is negotiating a reduction in the amount required to be held in escrow and the cash backing required.

Net cash (including escrow monies) increased by €1.1m during the first half. The second half will bear the cash cost of the Palermo sponsorship (from October, and depending on the proportion funded by other parties) as well as increased investment in proprietary software development. Thus while we expect the group to remain cash generative we estimate a lower inflow in H209 to give around €2.5m net cash at the year end (but hopefully with less than €2.2m held in escrow).

Dividends

In June L&G completed a capital reorganisation which means that it now has distributable reserves from which a dividend may be paid. As noted it still has relatively modest free cash balances but it has said that it intends to announce a dividend policy in the near future. We are estimating a small final dividend but the actual amount will depend on a number of factors including the ongoing level of licence guarantees (including possible casino licences), the costs of completing the software development programme and costs relating to planned geographic expansion.

Review of Employee Benefit Trust

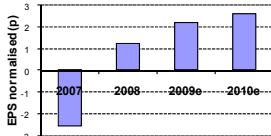
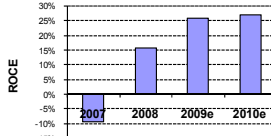
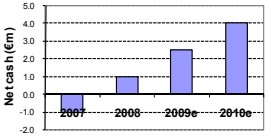
L&G's 94.1m issued share capital includes 7.0m shares held by the Employee Benefit Trust whose beneficiaries were directors and senior management at the time of UIGEA. Following a request by shareholders at the 1 June AGM, a review of the establishment and allocation of shares has been commissioned from Mishcon de Reya which we expect to be completed in a couple of months.

Exhibit 5: Financials

Note: 2006 results are proforma 12 months for Betshop with US-facing discontinued operations included at FRS3 level.

Year end 31 December	2006	2007	2008	2009e	2010e
Accounting basis: IFRS	€m	Proforma			
PROFIT & LOSS					
Amounts wagered	95.5	109.1	79.1	117.0	126.3
Revenue	23.3	24.7	20.6	25.7	27.5
Cost of sales	(19.8)	(21.2)	(14.4)	(18.1)	(19.2)
Gross profit	3.5	3.5	6.2	7.6	8.3
EBITDA	(3.7)	(1.6)	2.0	3.2	3.6
Operating Profit (before GW and except.)	(3.8)	(1.6)	2.0	3.2	3.6
Goodwill Amortisation	0.0	0.0	(0.3)	(0.2)	(0.2)
Share options	(0.4)	(0.1)	0.0	0.0	0.0
Exceptionals	(5.7)	0.0	(0.2)	0.0	0.0
Operating Profit	(9.9)	(1.7)	1.5	3.0	3.4
Net Interest	(0.4)	(0.3)	(0.2)	(0.2)	(0.1)
Discontinued operations	(72.4)	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	(4.2)	(1.9)	1.8	3.0	3.5
Profit Before Tax (FRS 3)	(82.7)	(2.0)	1.3	2.8	3.3
Tax	(0.2)	(0.1)	(0.7)	(0.9)	(1.1)
Profit After Tax (norm)	(4.4)	(2.0)	1.1	2.1	2.5
Profit After Tax (FRS 3)	(82.9)	(2.1)	0.6	1.9	2.3
Average Number of Shares Outstanding (m)	63	79	89	95	95
EPS - normalised (c)	(7.1)	(2.5)	1.2	2.2	2.6
EPS - FRS 3 (c)	(132.3)	(2.7)	0.7	2.0	2.4
Net win margin (%)	24%	23%	26%	22%	22%
EBITDA Margin (%)	(4%)	(1%)	3%	3%	3%
Operating Margin (before GW and except.) (%)	(4%)	(1%)	3%	3%	3%
BALANCE SHEET					
Fixed Assets	20.7	20.6	16.0	18.2	18.6
Intangible Assets	20.6	20.5	15.8	18.0	18.4
Tangible Assets	0.1	0.1	0.2	0.2	0.2
Investment in associates	0.0	0.0	0.0	0.0	0.0
Current Assets	6.8	3.6	5.7	6.4	7.6
Stocks	0.0	0.0	0.0	0.0	0.0
Debtors	1.9	1.3	2.1	2.0	2.1
Cash	3.7	0.6	1.5	2.3	3.4
Cash held in escrow	1.2	1.7	2.1	2.1	2.1
Current Liabilities	(8.5)	(7.5)	(7.9)	(7.1)	(7.7)
Creditors	(5.5)	(4.2)	(5.3)	(5.2)	(6.2)
Short term borrowings	(1.8)	(2.2)	(1.6)	(0.9)	(0.5)
Client funds	(1.2)	(1.1)	(1.0)	(1.0)	(1.0)
Long Term Liabilities	(1.0)	0.0	0.0	0.0	0.0
Long term borrowings	(1.0)	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Net Assets	18.0	16.7	13.8	17.5	18.5
CASH FLOW					
Operating Cash Flow	2.9	(3.7)	2.0	2.8	3.2
Net Interest	(0.2)	(0.3)	(0.2)	(0.2)	(0.1)
Tax	(0.3)	(0.2)	(0.3)	(0.9)	(1.1)
Capex	(3.1)	(1.7)	(0.5)	(0.5)	(0.5)
Acquisitions/disposals	(17.7)	0.0	0.0	0.0	0.0
Financing	0.0	4.0	1.0	0.3	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Net Cash Flow	(18.4)	(1.9)	2.0	1.5	1.5
Opening net cash/(debt)	20.2	0.9	(1.0)	1.0	2.5
Other	(0.9)	0.0	0.0	0.0	0.0
Closing net cash/(debt)	0.9	(1.0)	1.0	2.5	4.0

Source: Company accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	●
			Pensions	○
			Currency	◐
			Stock overhang	◑
			Interest rates	◒
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics	Company details
EPS CAGR 07-10e	N/A	ROCE 09e	25.8	Gearing 09e	N/A
EPS CAGR 08-10e	44.1	Avg ROCE 07-10e	14.9	Interest cover 09e	N/A
EBITDA CAGR 07-10e	N/A	ROE 09e	12.1	CA/CL 09e	0.9
EBITDA CAGR 08-10e	34.2	Gross margin 09e	29.6	Stock turn 09e	0.0
Sales CAGR 07-10e	1.3	Operating margin 09e	12.5	Debtor days 09e	68.4
Sales CAGR 08-10e	15.5	Gr mgn / Op mgn 09e	2.4	Creditor days 09e	28.2
				Address:	
				Ashville House 131-139, The Broadway Wimbledon London SW19 1QJ	
				Phone	020 8545 2190
				www.lngplc.com	

Principal shareholders	%	Management team
La Mouette Asset Management	10.7	CEO: Richard Creed
L&G Employee Benefit Trust	7.4	Richard is a qualified accountant and was formerly a partner with Casson Beckman (now part of Baker Tilly). He was commercial director and then finance director of BetonSports from 2005 (post-flotation) to 2007 and joined Leisure & Gaming in March 2008. Richard is responsible for corporate matters and planning.
Meridian Trust Company Ltd	5.7	
Cliff d'Arcy	5.6	
Barclays plc	5.1	
Gabriel Chaleplis	4.2	
Directors	3.5	CFO (Betshop): Paul Milburn
		Paul trained as an accountant and joined Betshop Group in 2003. He was CFO of Betshop when it was acquired by Leisure & Gaming and is responsible for the financial team as well as operational matters.
Forthcoming announcements/catalysts	Date	
Q3 Trading Update	14 October 2009	
Q4 Trading Update	29 January 2010	Chairman: Philip Parker
Preliminary results	April 2010 *	Philip has been chairman since 2004. He was formerly a director of Plessey Plc and was CEO of North Sea Assets Plc from 1990 to 1995. He has worked as a main board director for various companies and is a governor of Bath Spa University. He has announced his intention to step down at the end of 2009.
<i>Note: * = estimated</i>		

EDISON INVESTMENT RESEARCH LIMITED

Edison is Europe's leading independent investment research company. It has won industry recognition, with awards in both the UK and internationally. The team of 50 includes over 30 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 250 companies across every sector and works directly with corporates, investment banks, brokers and fund managers. Edison's research is read by every major institutional investor in the UK, as well as by the private client broker and international investor communities. Edison was founded in 2003 and is authorised and regulated by the Financial Services Authority.

DISCLAIMER

Copyright 2009 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Leisure & Gaming and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.

Edison Investment Research

Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.