

14 May 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	0.0
12/07	109.1	(1.9)	(2.0)	0.0	N/A	0.0
12/08e	105.0	3.0	2.6	0.0	3.3	0.0
12/09e	105.0	3.5	3.1	0.0	2.7	0.0

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items
**2006 figures are proforma for continuing operations. Exchange rate used £1=€1.26.

Investment summary: Results and new FD

Leisure & Gaming's final results were as forecast in our Outlook report dated 16 April. More importantly, management has reaffirmed that the business is continuing to trade profitably, benefiting from the operational changes outlined at the time of the Q1 trading update. The new Finance Director, Richard Creed (ex BetonSports plc), brings considerable gaming experience to the company.

Encouraging outlook for 2008

Our Outlook report highlighted the turnaround in Leisure & Gaming's (LNG's) profitability that began at the beginning of October when significant operational changes were implemented. These included the restructuring of franchisee commissions, disposal of unprofitable shops and improved risk management. Today's statement confirms that the group continues to trade profitably; June's Euro 2008 provides additional betting opportunities in what is normally a quiet month.

New appointments strengthen the board

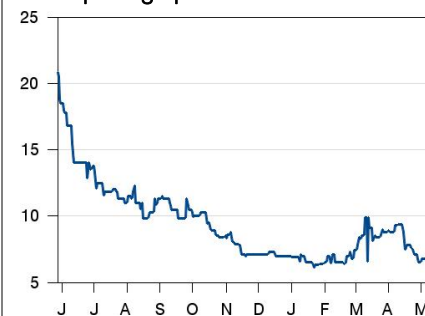
The new FD, Richard Creed, was finance director of BetonSports (BoS) from 2005 until it went into receivership in 2007. BoS was an early (and much publicised) casualty of the US Department of Justice's tough stance against online gambling operators. However, no charges were lodged against Richard and we believe his experience in the industry will be extremely valuable for LNG. In addition Neil Craven, an investor in AIM-listed companies, has been appointed a non-executive director.

Valuation: Turning the corner?

LNG's shares remain in the doldrums given ongoing delays in the Italian government's approval of new games and in new shop openings. However, our forecasts do not include new products and, despite the inherent volatility in sports betting margins, the rating has scope to improve significantly as the market becomes more convinced of LNG's ability to deliver our forecast results.

Price 6.75p
Market Cap £6m

Share price graph



Share details

Code LNG
Listing AIM
Sector Travel & Leisure
Shares in issue 84.9m

Price

52 week High 22.5p Low 6.1p

Balance Sheet

Debt/Equity (%) 12
NAV per share (c) 20
Net borrowings (€m) 2.0

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	36%	33%
P/CF	N/A	3.6	3.3
EV/Sales	0.0	0.1	0.1
ROE	N/A	12%	14%

Geography based on revenues

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

Analyst

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Exhibit 1: Financials

Note: Results for 2006 are proforma for continuing operations, assuming Betshop had been acquired on 1 January 2006, with discontinued US-facing operations included at the FRS3 pre-tax level.

Year end 31 December	2006	2007	2008e	2009e
Accounting basis: IFRS	Proforma			
€m				
PROFIT & LOSS				
Gross takings	95.5	109.1	100.0	110.0
Net win	23.3	24.7	25.0	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)	0.2	(0.8)	(0.9)
Profit After Tax (norm)	(4.4)	(1.6)	2.3	2.6
Profit After Tax (FRS 3)	(82.9)	(1.8)	2.1	2.4
Average Number of Shares Outstanding (m)	63	79	85	85
EPS - normalised fully diluted (c)	(7.1)	(2.0)	2.6	3.1
EPS - FRS 3 (c)	(132.2)	(2.3)	2.4	2.8
Net win margin (%)	24%	23%	25%	25%
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	5.6	2.5	3.2	4.7
Stocks	0.0	0.0	0.0	0.0
Debtors	1.9	2.3	2.5	2.7
Cash (net of client funds)	3.7	0.2	0.7	2.0
Current Liabilities	(7.3)	(6.2)	(5.5)	(6.0)
Creditors	(5.5)	(4.0)	(5.0)	(6.0)
Short term borrowings	(1.8)	(2.2)	(0.5)	0.0
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	16.9	18.2	19.1
CASH FLOW				
Operating Cash Flow	3.7	(3.1)	2.5	2.8
Net Interest	(0.2)	(0.3)	(0.1)	0.0
Tax	(0.3)	(0.3)	(0.1)	(0.8)
Capex	(3.1)	(0.1)	(0.1)	(0.2)
Acquisitions/disposals	(16.9)	(1.7)	0.0	0.0
Financing	4.4	2.5	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Net Cash Flow	(12.5)	(3.0)	2.2	1.8
Opening net debt/(cash)	(14.3)	(0.9)	2.0	(0.2)
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)	(0.9)	2.0	(0.2)	(2.0)

Source: Company accounts/Edison Investment Research

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