

14 October 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	N/A
12/08	20.6	1.8	1.2	0.00	9.4	N/A
12/09e	26.0	3.0	2.2	0.25	5.1	2.2
12/10e	28.0	3.5	2.6	0.30	4.4	2.7

Note: *Revenue is net win. **PBT and EPS are normalised, excluding amortisation of intangibles, exceptional items and share option charges. Current exchange rate: £1=€1.07.

Investment summary: Good Q3 progress

Leisure & Gaming's Q3 trading update showed an encouraging level of business volume. Poker held up very well over the summer months and although sports margins were slightly weak, in line with the industry, the business achieved a small EBITDA profit as we expected. Our full year PBT estimates are unchanged with the seasonally strong Q4 just getting under way.

Poker drives Q3 growth in net win

Italian poker has continued to exceed expectations since its launch in November 2008 and although there has been some substitution from other products the overall effect has been strongly positive. Good growth in Cyprus and Greece also contributed to a 44% increase in net win to €4.6m (2008: €3.2m). A lower gross profit margin reflected the below average sports margin and changed business mix and Leisure & Gaming (LNG) reported EBITDA of €0.1m (2008: breakeven) for the seasonally weak Q3, in line with our expectations.

Becoming a more diversified group

Our Outlook report of 2 September described LNG's progress diversifying the group by product and geographically. Italian casino games should be allowed in 2010 and Betshop is hopeful that the new Greek government will permit new land-based operations; it is ready to open shops in Greece as soon as legislation permits.

Valuation: Trading well below the sector average

LNG's 2009 P/E ratio of 5.1x and EV/EBITDA of 3.3x are well below the sector average of 12.2x and 8.6x respectively. Some discount is justified by the group's small size and historic earnings volatility and there is a residual US regulatory risk until talks with the US Department of Justice are concluded. However LNG has now reported its ninth successive profitable quarter and is delivering on its strategy of product and geographic diversification. Its business model and sports betting expertise in emerging markets should justify a higher valuation.

Price 10.5p
Market Cap £10m

Share price graph



Share details

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

Price

52 week High 12.25p Low 3.62p

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	86%	41%	29%
P/CF	5.3	4.1	3.6
EV/Sales	0.4	0.3	0.2
EV/EBITDA	5.5	3.3	2.4

Revenues on geography

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

Analyst

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Exhibit 1: Financials

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

Year end 31 December	2006	2007	2008	2009e	2010e
Accounting basis: IFRS	€m	Proforma			
PROFIT & LOSS					
Total amounts wagered	95.5	109.1	79.1	123.5	130.0
Revenue	23.3	24.7	20.6	26.0	28.0
Cost of sales	(19.8)	(21.2)	(14.4)	(18.6)	(19.7)
Gross profit	3.5	3.5	6.2	7.4	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%	21%	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

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