

SPORTECH REMAINS WELL POSITIONED FOR CHANGE AND CHALLENGE IN 2020

GLOBAL SPORTS BETTING TECHNOLOGY COMPANY

SPORTECH, like many other firms, is about to enter what will arguably be the most challenging period in its history. But it does so with no debt, some of the best brains in the business and a pioneering approach to the sports betting sector

With the ink well and truly dried on its recent 2019 financial results, Sportech might have considered a brisk start to 2020 trading as a sign of positive things to come for the rest of the year. And so it might have come to pass had COVID-19 not emerged to wreak havoc on the global betting and gaming market.

Talking to the firm's CEO, **Richard McGuire**, there's a clear sense that the firm was well positioned to make some big strides this year, having developed its own white label platform to work with big name operators in the US sports betting segment. And with regulatory change on the cards in its own stomping ground of Connecticut (subject to getting the tribes onside), things were looking good.

By way of a recap, Sportech's 2019 fiscal year saw revenues increase 2% to \$75m (2018: \$73.5m), while adjusted EBITDA reduced by 5% to \$10.8m (2018: \$11.4m). Adjusted pre-tax profit from continuing operations (prior to sports betting investment) was \$1.16m (2018: \$1.32m).

The company noted a statutory pre-tax loss from continuing operations

Richard McGuire, CEO, Sportech



of \$9.7m (2018: \$3.1m) which included a \$5.8m impairment to its Stamford sports bar asset. It also revealed that capex had been reduced by -24%, with corporate costs lessened by -28%. Meanwhile, cash generated from operational activities increased by +27% and Bump 50:50: achieved record revenue growth.

The CEO understandably adopted a more cautious tone in his 2020 trading forecast, telling investors that the outlook was uncertain while conceding that COVID-19 would clearly impact the business. Speaking to SBC shortly

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started the year (2020) very strongly as well before COVID-19."

According to McGuire, Sportech has invested heavily and purposefully in its white label, pari-mutuel platform to make it attractive to operators and ensure it has the right qualities to

"Our view was instead of diving into that market, which is dominated by global leaders who are building phenomenal platforms, let's build what we do. We are a leader - a pioneer in our particular business. Let's look at our business and see if we can take it into sports betting.

"So we had discussions with a number of the fixed odds biggest sports betting operators on how to add to their product offering with horse racing pari-mutuel betting. The benefits for sports betting operators is that it's an absolute no-risk product that enables them to cover global



after publishing Sportech's results, that tone remained consistently measured, albeit with a keenness to underline some of the positives around the firm's activities.

"Our US business currently accounts for around 60% of our revenues as a business," he explained. "It's a clear focus for us. At this stage predominantly in the US business it's pari-mutuel or tote betting and our Bump 50:50 business. Those two businesses have definitely performed very well for us in 2019 and we actually

deliver to them a risk-free tool. "We wanted to do something that was significant - we wanted to build a platform which we did. We invested heavily. Sports betting became a gold rush pretty quickly and it's seen significant growth in those states that have taken it forward.

markets in horse racing seamlessly. And it's got, on average per dollar-spend, a significantly higher average margin than sports betting. It's a complimentary product."

McGuire added that a lot of attention was diverted into making sure that the platform stood the test of time. That

HAVING FOUR OPERATORS IN CONNECTICUT WOULD BE SIGNIFICANTLY POSITIVE FOR US AS A GROUP, SO WE'RE INCREDIBLY FOCUSED ON PROGRESSING THAT AND WORKING WITH STATE LEGISLATORS



meant getting up to speed with the needs of the fixed odds market place in terms of CRM and CMS tools as well as player account management wallets, aspects of the business that Sportech hadn't really invested in historically.

Looking beyond the white label business, one of the major hopes for Sportech is regulatory transition in Connecticut where it operates its Winners and Bobby V's betting and sports bar outlets.

"Where we're really focused on in sports betting and where we have a strong position is in the state of Connecticut which still has not yet licensed sports betting," he said. "We are surrounded in Connecticut by states that have.

"And it's impacting the performance of our venues' business, amongst other things obviously. Players head to New Jersey in particular and play at Meadowlands. They'll play the horses in the afternoon and the sports in the evening. That's had a damaging effect."

Hopefully that will change. At the beginning of March, state Governor Ned Lamont backed one of two bills that would greenlight sports betting in Connecticut. But it goes directly against the will of the Mohegan and Mashantucket Pequot tribes who back a second bill granting them rights to take sporting wagers, open a casino in Bridgeport and offer virtual casino

state legislators.

The standoff between the tribes and Lamont is an example of staggering brinkmanship. "It's a poker game now," noted McGuire, adding: "I would say that we have won the battle, but the tribes absolutely believe that they have full exclusivity. The bigger issue is that the tribes have stated unequivocally that they will challenge

THANKFULLY BEFORE THIS (COVID-19), WE ESTABLISHED CONTINGENCY PLANS SO THAT THE ENTIRE TEAM HAS THE ABILITY TO WORK FROM REMOTE LOCATIONS AND MAINTAIN THE SPEED, STABILITY AND SECURITY OF OUR PLATFORM

games on smartphones and computers on an exclusive basis.

McGuire believes that Lamont's favoured bill makes more sense. "It would provide a sports betting licence for us and also the tribes and the lottery," he said. "Having four operators in Connecticut would be significantly positive for us as a group, so we're incredibly focused on progressing that and working with

any decision or sue the state under their MOUs or compacts with the state.

"The elephant in the room is the money the tribes currently pay the state - ballpark \$250m a year. But that's a commercial agreement. The tribes pay \$250m a year which is 25% of their slots revenue which means they make \$750m. So they are allowed to continue slots in their casinos which is huge, clearly. They also get



the protection in this agreement that no other casino is allowed to operate slots across the state.

If the Governor does put this bill through and the tribes follow through with their challenge - it is a huge risk. Because if they lose it they no longer have slots in their casinos or they've got to pay a much higher rate - I don't know how that's going to play out."

McGuire, like most, hopes that common sense will win through and that everyone will work together for the greater good rather than bicker over a business that isn't exactly big on margins. But the real threat in the medium to long term isn't tribe versus policy maker versus commercial competitor, it's the coronavirus pandemic.

His assessment is not for the faint hearted. "We're looking at the impact of COVID and as a company we've got to look at our liquidity," he warned. "We still want to be operating here but we don't know how long the business is going to be closed and that's a massive variable. How long are we going to be down and to what extent?"

Product and payment are two more

big variables, as McGuire explained. "Hong Kong Jockey Club closed its doors about 10 weeks ago. They were racing behind closed doors and they have continued to operate very successfully through that period, through that time," he explained. "Through our clients - globally - we have a significant amount of volume that goes through there. Those volumes have been maintained.

WE'VE GOT CASH, WE'VE GOT NO DEBT, BUT WE ARE A SMALL COMPANY WITH A HUGE GLOBAL PLATFORM

"So we have to maintain our liquidity. But the other unknown is are people going to pay what they either owed before or what they continue to owe for the services we provide. We're looking at that from a 'war room' situation. Let's assume people don't pay, let's assume we continue to provide all these services. How long can we take this through? And that's a question of how long is a piece of string?"

Sportech is at least in a position where it doesn't owe any money. "We've got cash, we've got no debt, but we are a small company with a huge global platform," said McGuire. "We're in 37 countries already so it's challenging across the board. Where we thought we were geographically reasonably well diversified, that means nothing with this particular situation."

The CEO said that Sportech is currently working through the revenues. "We're speaking to all of our customers in terms of what they need going forward, what we can do to help them to mitigate their costs. Our big costs are - in certain businesses - rents for commercial properties which we're addressing and licensing which we're also addressing.

"The biggest cost to us, like any business, is personnel and the staff which is the toughest decision to start to forecast when one doesn't know how quickly you're going to come out the other end. Difficult decisions are going to be made. Nobody knows the timetable - none of us at all - but we are tackling rents, licenses and personnel." ■