Bwin.party could split non-regulated markets into separate entity

Bwin.party the listed Gibraltar-based gambling company, could be looking to split the business, a person claiming knowledge of the situation suggested. The split could create a separate unit for its non-regulated markets as part of a major reshaping process.

The plan to split the company into regulated and non-regulated markets would be done on a twofold basis, the person said. Bwin.party would first look to close down its “smaller non-regulated markets”. Then it would keep its valuable clients in the non-regulated markets and move them to a newly created entity, the person said. This would enable it to keep the revenue streams coming from these customers. The new entity would likely be run from Israel.

A second person who is close to the company said that any new separate entity based in Israel would only involve marketing services with the operations continuing to be run from Gibraltar, where Bwin.party is licensed.

Bwin’s director of corporate communications declined to comment on speculation, only referring to the company’s announced strategy of „reshaping the business to focus more on regulated markets”.

An industry source thought it would make sense for Bwin.party to spin off the non-regulated markets into a new entity. Before its merger with PartyGaming, Bwin.party believed in unregulated assets, particularly in Europe as, due to the taxation of regulated markets, the only way to make money was these „grey“ markets. “This is why they didn’t spin off or sell the non-regulated markets at the point of the merger,” he said, noting that the situation has now changed.

A sector consultant thought splitting the company into separate regulated and non-regulated units would be “quite a complicated process”, due to likely use of the same back office. But the first person believed it is “not insurmountable”.

When *William Hill* and *GVC Holdings* swooped on *Sportingbet* last year, the complexity of splitting up the back office functions of the business was one of the factors that stretched out due diligence.

Splitting the non-regulated markets into a separate entity would increase the valuation multiple on the regulated markets, which are currently trading at a discount due to concerns regarding the non-regulated markets, the first person said. It would also enable the company to have a separate dividend policy for the non-regulated company which would be higher yield, the person believed.

With Bwin.party hoping to get closer to the US market as the country looks to regulate online gaming, such a split would also make the company’s regulated business more appealing to more investors, the first person said. It could become an interesting target for large US gaming companies, the person added.

Bwin.party’s current partnerships in the US include a joint venture and B2B agreements with *MGM Resorts International* and *Boyd Gaming* to offer internet poker should legislation be enacted in the US.

The new non-regulated entity could be kept and run privately or could potentially be listed, the first person suggested, adding that Bwin.party would not likely try to sell it as not many bidders would be interested in it.

The second person said Bwin.party would look at all options in terms of a potential separate entity, cautioning that “things could change” as the industry is moving “very quickly”.

Two sector bankers posed doubts about listing the non-regulated unit, adding that no institutional investors would be willing to look at it due to the regulatory risks. But the possibility of selling it to the likes of GVC Holdings, on the back of its similar transaction with Sportingbet, could be more feasible, both bankers agreed.

In January, Bwin.party launched a plan to shift its strategy to reduce its presence in 18 countries, including Argentina, Armenia, Belarus, Brazil, Colombia, Croatia, Cyprus, Finland, Greece, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Serbia, Slovenia and Ukraine. Bwin.party stopped accepting new signups although it continues to accept players from those countries who already have accounts with the company.
CEO Norbert Teufelberger said that the decision to switch to the plan was caused by the fact that customer returns and customer yields have declined significantly over a 12-18 months period.

Bwin.party reported a 2% fall in pro forma revenues to EUR 801.6m for 2012, with pro forma EBITDA from continuing operations down 17% to EUR 164.9m. Bwin.party shares were trading at 135.6p late Tuesday, giving a market capitalisation of GBP 1.1bn.

by Virginia Garcia Martinez, with additional reporting by Lucinda Guthrie