GI FRIDAY

WEEK 35

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THIS WEEK

- Court rules against New Jersey sports betting
- Caesars in bank restructuring agreement
- Rank operating profit up
- Columnist: Alistair Combes on interchange fees



TOP STORY

# PADDY POWER AND BETFAIR SET TO MERGE

## Deal agreed in principle between the two operators

*Betfair CEO Breon Corcoran, formerly of Paddy Power*

Operators Paddy Power and Betfair have reached an agreement in principle on the key terms of a merger, with the combined group set to be titled Paddy Power Betfair plc.

Paddy Power shareholders would own 52% of the issued and to be issued share capital of the combined firm, while Betfair shareholders would own 48%.

A deadline of 5pm on 23 September has been set for Paddy Power to announce whether or not it intends to make an offer for Betfair, though the deadline could be extended by the UK Takeover Panel.

Paddy Power shareholders would receive a special dividend of €80m and its chairman Gary McGann would become chairman of the board of the combined group, while Betfair CEO Breon Corcoran – former COO of Paddy Power – would be the new entity's CEO. Andy McCue, Paddy Power CEO, would become COO and an executive director of the combined group.

Discussions of the terms of the merger are ongoing. A spokesperson for Paddy Power told *GI Friday* that elements of the deal are 90%

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completed. No details could be given on the value of the merger or when discussions over the merger began. The spokesperson could not say if the future of Betfair's US online partnership with Golden Nugget Atlantic City had formed part of the discussions.

Betfair could not be reached for immediate comment. The firm's share price was £30.65 at the time of writing on Wednesday, up 18% from the previous day's close.

The announcement of the merger between Paddy Power and Betfair was released by both companies on the same day that both revealed their latest financial reports. Paddy Power reported a 33% year-on-year operating profit increase to €80.1m for the six months ended 30 June, while net revenue increased 33% to €527.8m. Online operating profit ascended 63% to €69.9m.

Betfair released its figures for the three months ended 31 July. Revenue went up 15% year-on-year to £135.4m and EBITDA increased 19% to £41m.

**KEY POINTS**

- Paddy Power and Betfair set to merge
- Paddy Power shareholders will own 52% of the combined group, with Betfair shareholders owning 48%
- Betfair CEO Breon Corcoran will become CEO of the combined group

**LEGAL**

## COURT RULES AGAINST NEW JERSEY IN SPORTS-BETTING CASE

**The 2014 law is said to violate PASPA**

The US Court of Appeals for the Third Circuit has ruled that a 2014 law


that legalised sports-betting at New Jersey racetracks and casinos violates the 1992 Professional and Amateur Sports Protection Act (PASPA).

PASPA placed a federal ban on sports betting in the US with the exception of state-sponsored wagering in Nevada and sports lotteries in Oregon and Delaware.

The 2014 law – which also prohibited wagering on New Jersey college team competitions – was blocked by the District Court after the National Collegiate Athletic Association, National Football League, National Basketball Association, National Hockey League and Major League Baseball filed suit. The state of New Jersey appealed against the District Court's ruling.

The US Court of Appeals for the Third Circuit said in this week's ruling: "We conclude that the 2014 law violates PASPA because it authorises by law sports gambling."

**KEY POINT**

- A New Jersey sports-betting law, passed in 2014, violates PASPA, a US court has ruled

US

## CAESARS REACHES RESTRUCTURING AGREEMENT

**Deal struck with senior lenders**

Operator Caesars Entertainment Corporation (CEC) and its subsidiary Caesars Entertainment Operating Company (CEOC) have entered into a bank restructuring support agreement with senior bank lenders.

CEOC filed for Chapter 11 bankruptcy in January in a move to reduce its debt from $18.4bn to $8.6bn, and it was announced last week that CEC had ceased discussions with the Ad Hoc Bank Steering Committee with regards to a financial restructuring plan.

CEOC's restructuring is to be supported by its first lien bank lenders and first lien bondholders, representing the most senior $12bn of CEOC's capital structure.

Meanwhile, it has been reported by Reuters that CEC has agreed to pay $20m to settle US charges over anti-money laundering lapses, after the US Treasury Department's Financial Crimes Enforcement Network

urged for the Justice Department to move forward with a settlement.

### KEY POINT

- CEC and CEOC have entered into a restructuring agreement with senior bank lenders

FINANCIAL

## RANK OPERATING PROFIT UP FOR 2014/15

**Gross revenue and adjusted earnings per share also increase**

Operator Rank Group has reported a 16% operating profit increase to £84m for the year ended 30 June. Gross revenue went up 4% to £738.3m and EBITDA ascended 9% to £126.3m. Adjusted earnings per share rose 18% to 14.6p, while cash inflow from operations was £154.5m, up 44%. Net debt was reduced 61% to £52.9m and a final dividend per share of 4.00p was reported, up 27%.

Revenue for Grosvenor Casinos improved 8% to £423.4m, which accounted for 57% of the firm's overall gross revenue.

Rank invested £31.9m of capital across the group during the year and central costs went up 27% to £28.1m, which Rank in part put down to management incentivisation and redundancy costs.

### KEY POINT

- Rank Group's operating profit went up 16% to £84m for the year ended 30 June

GUEST COLUMNIST

## "VISA SET TO PROLONG PAIN"

**by Alistair Combes**
*Director of knowledge, CMS Payments Intelligence*

"CMSpi understands that Visa plans to maintain its current debit card interchange fees in the UK after interchange fee regulation (IFR) is introduced, condemning merchants in the gaming industry to pay excessive interchange fees for the indefinite future.

Visa altered its UK debit card interchange structure in March 2015, with fees for 3D Secure eComm transactions changing from 10 pence per transaction (PPT) to 0.2% + 1PPT with a cap of 50PPT. All other CNP (card not present) transactions – including transactions where the CVV2 code is captured – are now charged 0.2% + 11PPT with a cap of 100PPT, while previously, CVV2 only eComm/ MOTO (mail order/telephone order) transactions were charged 10.5PPT, and all non-secure transactions 18PPT.

To put in plainer terms, the result for the gaming industry is that merchants are now paying an average of around 20PPT in interchange, where previously they were paying a maximum of 10.5PPT.

Despite this, our belief was that these rates were temporary and would be altered to reflect a 0.2% cap when the IFR caps are adopted on 9 December 2015. However, the UK government announced in July 2015 that it intends to apply a weighted average interchange fee cap on debit card transactions. This means that the total interchange paid across an entire card scheme cannot exceed 0.2% of the total transaction value over a 12 month period, although individual transactions can be charged more than 0.2%.

We have subsequently received correspondence that suggests Visa does not intend to alter its UK debit card interchange fees following the adoption of interchange caps on 9 December 2015, on the basis that their current fees are already compliant with the regulation.

We do see how Visa's current debit card fee structure is compliant with a weighted average of 0.2% (payments of >£245 are subject to the 50PPT cap so any transaction at this level will be charged <0.2%). However, these transactions account for only a very small percentage of Visa debit values, as the average transaction value on debit cards is £44. We are currently talking to the Payment Systems Regulator (PSR) about this matter and seek firm assurances that Visa will need to adequately prove that the current rates are IFR-compliant before they are allowed to continue.

Visa has made these changes in an attempt to encourage adoption of 3D Secure for CNP transactions and phase out both MOTO and non-secure (i.e. CVV2 only) eCommerce transactions. Generally, a policy that incentivises secure transactions should be applauded. However, in this instance, one of the main outcomes of these new interchange fees has been to punish the helpless gaming industry.

Gaming merchants have a business model whereby it is difficult to introduce 3D Secure. The issue with 3D Secure is that, whilst it may be effective at reducing card fraud, it elongates the point of sale process. This can be fatal in a very competitive sector where betting is often live and needs to be completed quickly. Any gaming merchant who does introduce 3D Secure is at risk of losing a large portion of their customers. Some gaming merchants have introduced 3D Secure for non-peak hour trading, but generally it is not a realistic proposition.

Merchants should be concerned by Visa Europe's impending takeover by Visa Inc. An early hint of that is the price Visa Inc. is willing to pay for Visa Europe – $21bn, suggesting a price/earnings ratio of 88. This sort of valuation premium is usually reserved for high growth industries and leaves a strong suggestion that Visa Inc. feels it can easily generate more profitability out of Visa Europe – by increasing the fees it charges to merchants. We have already seen this from MasterCard with a number of new charges, including a €15 fee per chargeback, which will be very damaging for the gaming industry.

Overall, interchange regulation, which promised to deliver real savings, is proving very damaging for the gaming industry."

*Alistair Combes is a payments advisor with over 10 years' experience of retail payment acceptance operations and cost management. He specialises in global non-cash payments with a focus on breaking down and optimising end-to-end supply chain costs for the retail, hospitality and fuels sectors across major international markets.*

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