Sportingbet Plc

Preliminary Results for the year ended 31 March 2002

Highlights

- Turnover of £991.5m (2001: £324.7m).
- Gross profit of £60.3m (2001: £14.7m), at 6.1% of turnover (2001: 4.5%).
- Operating profit of £14.2m (2001: loss £2.1m) before amortisation of goodwill of £6.3m (2001: £1.0m) and exceptional costs of £1.5m (2001: £0.5m).
- Profit before tax of £5m (2001: loss of £4.2m) after finance costs, amortisation of goodwill and exceptional costs.
- Earnings per share pre exceptional costs and goodwill of 8.7p (2001: loss per share 2.3p).
- Cash generated from operating activities of £17.2m (2001: outflow of £1.5m), with £21.5m (2001: £12.1m) of cash and cash deposits on the Balance Sheet.
- Strong progress in development of the business:
    - Customer numbers up 468,522 from 90,065 to 558,587.
    - Strong organic growth with 157,520 new customers from marketing.
    - Reduced cost of acquisition of active customers of £350 (2001: £505).
    - Acquired business of Number One Betting Shop performing in line with expectation. Integration is complete.
    - Acquired business of Sportsbook performing ahead of expectation. Integration ahead of schedule and will be complete in July 2002.
    - Improved performance in Europe with profitability now in sight.
    - Change in scale of business in Europe with the acquisition of SportingOdds, also announced today.

Sportingbet Plc Chairman, Peter Dicks said:

"This has been a tremendous year for Sportingbet. We have grown customer numbers from 90,065 to 247,585 from organic growth, and added another 311,002 customers through the acquisition of Sportsbook, establishing the Group as the world's leading online sports betting business. Sportingbet has generated an operating profit of £14.2 million and profit before tax of £5 million in the year.

We believe that we are now one of the most profitable Internet businesses in the world and are well placed to capitalise both on the strong organic growth that the Group has achieved and on the increasing trend towards consolidation in the industry. Our sound footing has continued into the new financial year with the World Cup generating substantial growth in customer numbers in both new and existing markets. We look to the future with confidence."

Introduction

The twelve months ended 31 March 2002 represent a successful year for Sportingbet, a year in which the Group has met or exceeded its objectives. The Group has moved into profitability, is cash positive, has generated a large increase in customer numbers, turnover and gross margin. Sportingbet now operates in 10 languages and has active customers in 150 countries.

Underpinning this success has been a substantial increase in revenues derived from a large increase in customer numbers, which has enabled the Group to benefit from the significant economies of scale inherent in the Group's business model. The increase in customer numbers has been generated by the success of Sportingbet's marketing growth model, comprising organic growth, supplying white label services to third party brands and acquisitions.

Financial Results

Year ending 31 March 2002

Turnover for the twelve months to 31 March 2002 was £991.5m (2001: £324.7m). Gross margin was £60.3m (2001: £14.7m), representing 6.1% of turnover (2001: 4.5%). Turnover for the year comprised £856.8m on sports betting, £124.5m on casino betting and £10.2m from sports and casino "white label" services. The gross margin on sports betting was £47.5m (2001: £13.1m), on casino betting £2.6m (2001: £1.6m) and on services £10.2m (2001: nil). This represented 5.6%, 2.0% and 100% of their respective turnovers (2001: 5.6%, 1.7% and nil).

Administration costs, before amortisation of goodwill and exceptional costs, of £46.0m (2001: £16.8m) represented 4.6% of turnover (2001: 5.2%). Major items of administration costs were: marketing (£10.9m), information technology (£6.7m), banking fees (£9.6m) and employee costs (£7.2m).

Operating profit before goodwill and exceptional costs was £14.2m (2001: loss £2.1m), representing 1.4% of turnover. After charging exceptional costs of £1.5m (2001: £0.5m), amortisation of goodwill of £6.3m (2001: £1.0m), and net finance costs of £1.4m (2001: £0.6m), profit before tax was £5.0m (2001: loss of £4.2m). The exceptional costs relate principally to the integration costs following the acquisition of Sportsbook, the move onshore of the Australian operation and payments to an Asian marketing partner.

Included within finance costs of £1.4m is a non cash charge of £1.0m (2001: nil) arising from the discounting of future earn out liabilities back to current values in accordance with U.K. accounting standard FRS7.

Earnings per share pre exceptional costs and goodwill was 8.7p per share (2001: loss of 2.3p). After taking account of exceptional costs and goodwill, earnings per share was 3.4p (2001: loss of 3.6p).

In the year to 31 March 2002 the Group generated operating cash inflows of £17.2m (2001: outflow of £1.5m) and as at 31 March 2002 the Group had £21.5m (2001: £12.1m) of cash and cash deposits on its Balance Sheet.

Fourth quarter to 31 March 2002

Turnover for the three months to 31 March 2002 was £345.9m (2001: £94.4m). Gross profit was £21.8m (2001: £4.8m), representing 6.3% of turnover (2001: 5.0%).

Turnover for the three months to 31 March 2002 comprised £296.6m on sports betting, £45.1m on casino betting and £4.2m from sports and casino "white label" services. The gross margin on sports betting was £16.8m (2001: £4.4m), on casino betting £0.8m (2001: £0.4m) and on services £4.2m (2001: £nil). This represented 5.7%, 1.8% and 100% of their respective turnovers (2000: 6.0%, 1.7% and nil).

Administration costs, before amortisation of goodwill and exceptional costs, of £15.6m (2001: £4.7m) represented 4.5% of turnover (2001: 5.0%). Major items of administration costs were: marketing (£3.6m) information technology (£1.9m), banking fees (£3.7m) and employee costs (£2.9m).

Operating profit before goodwill and exceptional costs was £6.2m (2001: £0.3m), representing 1.8% of turnover (2001: 0.3%).

Profit before tax was £1.8m after deducting exceptional costs of £0.5m (2001: £0.3m), goodwill amortisation of £2.7m (2001: £0.3m) and net finance costs of £1.1m (2001: £0.1m).

Review of Operations

Over the year customer numbers increased by 468,522 from 90,065 as at 31 March 2001 to 558,587 as at 31 March 2002. Of this growth, 157,520 were gained from organic growth and 311,002 were gained through the acquisition of Sportsbook at the end of July 2001. Of the organic growth of 157,520 customers, 70,130 (45%) were gained in the last quarter.

CUSTOMER NUMBERS					
Region	**31 Mar 01**	**30 Jun 01**	**30 Sep 01**	**31 Dec 01**	**31 Mar 02**
AMER	44,372	47,435	363,895	411,573	468,429
EMEA	18,388	22,471	38,588	44,282	54,884
AA	27,305	28,866	29,689	32,602	35,274
Total	90,065	98,772	432,172	488,457	558,587

Sportingbet's American business continues to grow strongly. Customer numbers have risen by 424,057 over the year, of which 113,055 were gained through organic growth and 311,002 through the acquisition of Sportsbook in July 2001. The Group's key performance indicators in this region continue to perform well: the cost of acquiring customers has fallen during the year from an average of £105 in the 12 months to 31 March 2001 to £96 in the 12 months to 31 March 2002. Activity levels have remained stable at between 15% and 20% depending upon season. Spend per head has increased to £27,000 per annum.

The number of white label opportunities in the American market is growing as businesses recognise the extra profit that can be made by partnering with larger organisations such as Sportingbet and benefiting from the economies of scale that such partnerships yield. During the latter part of the year, Sportingbet concluded a substantial white label deal. This resulted in the business of a $200million turnover gaming company outsourcing the running of its business (excluding marketing) to

Sportingbet, in return for a share of gross margin. This decision enabled a downsizing of the gaming company from 176 employees to 6 employees but required an increase of only 13 employees for Sportingbet. Both parties have benefited financially. The Board believes that this demonstrates a strong model for other partnerships in both this region and elsewhere.

Sportsbook will also be launching a person-2-person, in-running betting exchange, Sportsbook121.com, in July 2002. This will be the first in-running exchange into the American market by any of the leading sports betting companies.

Since its acquisition in July 2001, the performance of Sportsbook has exceeded our expectations. Such has been the success of the business post acquisition, that it is likely that the associated earnout for the vendors will be achieved sooner than originally anticipated, with full payment currently projected to occur in the financial year ended 31 March 2004, as opposed to being spread over the period 2003 to 2006 as originally projected. As the Group's convertible debt of £6.5 m is also due to be redeemed in the summer of 2003, the Board have taken steps to meet this short term accelerated cash requirement and the Group is in advanced negotiations with its bankers to provide a financing facility for a period of six months during the financial year ended 31 March 2004.

The Board reported in its previous announcement that the Group's European business had not yet reached critical mass and was loss making. During the last quarter of the year considerable focus has been placed on this market. The Board is pleased to report that the European business has expanded significantly and new partnerships and new websites have been launched into the Greek, Danish, Swedish, and German markets. Initial signs from all of these markets are encouraging and these, together with the Group's existing revenues from Turkey and the U.K. plus current development plans in Israel, Norway and Italy, present an overall improving outlook for this region. All of the growth to date in Europe has been organic. The European business now shows a cost of acquisition of £65 per registered customer, a stable activity rate of between 18% and 22% depending upon season and a spend per head per annum of £4,900.

Sportingbet's casino and gaming product is of particular importance in European markets, as the Group's marketing and product initiatives have found that European customers are more attracted to sites which offer a wide range of betting products. In March 2002 Sportingbet announced a deal with Boss Media for an enhanced casino and gaming product and this is now live. In July 2002, Sportingbet will be launching a person-2-person, in-running betting exchange.

The Board now believes that profitability in Europe will be achieved by the end of this Financial Year.

In Australia the Group has had a very successful year. The business which was acquired in March 2001 has in its first year traded successfully, with customer numbers increasing by 28%, a stable spend per head of £25,000 per annum and a stable cost of customer acquisition of £102. The Group has also secured an onshore fully regulated licence in the Northern Territories of Australia and as a consequence the Group's Australian business was relocated from Vanuatu in January 2002. This relocation has gone smoothly. The Group's onshore status in Australia provides better regulatory control, legally enforceable gambling debts and opens advertising channels that were previously unavailable when the business was offshore.

In Asia customer numbers have risen by 30%, spend per head has marginally declined from £32,000 per annum to £30,000 per annum and the cost of customer of acquisition has remained stable at £115 per annum. The Board has always taken a cautious approach to trading in the Asian region. Increasingly, the success of the Group is now being derived through retail customers as opposed to through wholesale agents and aggregators. Whilst both types of business from Asia have been profitable in the 12 months to 31 March 2002, the margin from retail customers has been much higher, and accordingly the Group's strategy going forward will be focussed to a greater extent on developing its own brands into the retail market and in supplying further white label services to the agents and aggregators.

During the latter part of the year the Group has established a licensed call centre in Vietnam designed to provide multi-lingual customer services to its Asian customers. This operation, the first of its kind in Asia, has been fully functioning since the middle of May 2002 and has been used throughout the World Cup.

Regulatory Developments

The Board believes that operating from properly regulated environments is key to achieving the Group's long term objectives. Strong emphasis is given to ensuring that the Group conducts its affairs appropriately in all jurisdictions within which it operates, and seeks to comply with all route to market legislation across the world.

In the U.S.A. the regulatory environment remains unclear. The Board is increasingly of the view that the political and legislative trend continues to be favourable for the Group and that the only viable position is one of proper regulation. In order to reinforce this momentum, the Group recently commenced a lobbying and advertising campaign in the U.S.A media setting out the merits of a liberalised but regulated environment. This was followed up with media interviews and constructive meetings with over 25 U.S.A. politicians. The Board is pleased to note that the proposed Bill sponsored by Representative Goodlatte, designed to legislate against internet gaming is now most unlikely to succeed. A number of U.S.A. politicians who argued against the Bill were met by Sportingbet as part of its lobbying campaign.

The new regulatory environment in Australia has now created a properly controlled and well run regulated industry. Accordingly, in January 2002, Sportingbet applied for and was granted an onshore Australian telephone and internet gaming licence by the government of the Northern Territories. Tax is now paid to the Northern Territories on all appropriate bets.

Subsequent to the year end the Hong Kong authorities have passed new legislation designed to prohibit its citizens from placing bets with offshore bookmakers. This legislation has been designed to protect the interests of the Hong Kong Jockey Club which has experienced a significant decline in trade. Hong Kong represents an immaterial part of the Group's business. Along with most other major bookmakers, the Group no longer actively solicits bets from Hong Kong, however, Sportingbet continue to allow Hong Kong customers to bet with the Group if they choose to do so.

Outlook

The Group enters the new financial year well placed to build upon its successes over the last three years. The development of the worldwide industry of online gaming has been driven by the increasing penetration of the internet, the growth in availability and popularity of televised sport and the confidence that consumers now have in properly constituted and regulated service providers. This has led to strong organic growth.

This growth has been further enhanced at the start of the current year by an Asian based World Cup with a good mix of continents participating in the championship and unparalleled public interest. Sportingbet's approach to the World Cup has been to use it as a platform to generate new customers and not just to achieve a short term spike in activity. The Board is pleased to report that record numbers of new customers have registered with the Group during the World Cup, and that soccer betting is taking off in new markets. This development bodes well for the forthcoming European soccer season. Trading during the World Cup to date has been good and trading since the start of the new financial year has been in line with the Board's expectation. The Group has acquired approximately 11,000 new accounts from the World Cup to date and has taken over 300,000 bets on the competition so far.

Whilst the global online gaming industry is still new and relatively immature, there are now clear signs that the economies of scale from increased size are compelling. A number of parties are recognising this. Accordingly, the Board believes that the industry will enter a phase of consolidation much quicker than previously anticipated, with national players increasingly realising that a local presence is not ultimately sufficient to generate the economies of scale that deliver sustainable, long term, profits growth. As the leading worldwide provider, the Group is well placed to capitalise on the many opportunities that are now available.

The Board remains confident that the Group has the business model to succeed in this aim and looks forward to achieving further solid progress during the forthcoming year.

Further Enquiries

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Sportingbet Plc
Unaudited Consolidated Profit and Loss Account
Twelve months ended the 31 March 2002

	Notes	3 months 31 Mar 2002 £'000	**12 months 31 Mar 2002 £'000**	12 months 31 Mar 2001 £'000
TURNOVER	1	345,882	**991,522**	324,672
Cost of sales		(324,117)	**(931,241)**	(309,993)
GROSS PROFIT		**21,765**	**60,281**	**14,679**
Gross profit %		**6.3%**	**6.1%**	**4.5%**
Exceptional costs		(520)	**(1,467)**	(500)
Goodwill amortisation		(2,712)	**(6,318)**	(1,036)
Other administration expenses		(15,571)	**(46,023)**	(16,754)
Total administration expenses		(18,803)	**(53,808)**	(18,290)
Group operating profits/(loss) before exceptional items and goodwill amortisation		6,194	**14,258**	(2,075)
Exceptional costs		(520)	**(1,467)**	(500)
Goodwill amortisation		(2,712)	**(6,318)**	(1,036)
GROUP OPERATING PROFIT/(LOSS)		2,962	**6,473**	(3,611)
Finance costs: Interest receivable		45	**226**	239
Interest payable		(163)	**(653)**	(425)
		(118)	**(427)**	(186)
Amortisation of loan note issue costs		-	**-**	(401)
Discounting of deferred consideration		(1,004)	**(1,004)**	-
Total finance costs		(1,122)	**(1,431)**	(587)
PROFIT/(LOSS) BEFORE TAXATION		1,840	**5,042**	(4,198)
Taxation		-	**(37)**	(2)
PROFIT/(LOSS) FOR THE FINANCIAL PERIOD		1,840	**5,005**	(4,200)
EARNINGS PER ORDINARY SHARE		1.2p	**3.4p**	(3.6p)
EARNINGS PER SHARE (PRE EXCEPTIONALS AND GOODWILL)		3.4p	**8.7p**	(2.3p)
EBITDA PER SHARE		4.5p	**9.9p**	(1.3p)

All amounts relate to continuing activities.
All recognised gains and losses are included in the profit and loss account.

Sportingbet Plc
Unaudited Consolidated Balance Sheet
As at 31 March 2002

	31 Mar 2002 £'000	31 March 2001 £'000
FIXED ASSETS		
Intangible fixed assets – goodwill	184,184	33,997
Tangible assets	3,114	2,590
	187,298	36,587
CURRENT ASSETS		
Debtors	7,484	7,005
Cash at bank and in hand	21,455	12,083
TOTAL CURRENT ASSETS	28,939	19,088
CREDITORS:		
Amounts falling due within one year	21,263	9,122
NET CURRENT ASSETS	7,676	9,966
TOTAL ASSETS LESS CURRENT LIABILITIES	194,974	46,553
CREDITORS:		
Amounts falling due after more than one year		
Provisions for liabilities and charges	47,003	5,616
Convertible loan notes	17,092	6,530
NET ASSETS	130,879	34,407
CAPITAL AND RESERVES		
Called up share capital	152	136
Shares to be issued	87,644	8,372
Share premium	48,028	35,848
Other reserves	257	258
Profit and loss account	(5,202)	(10,207)
SHAREHOLDERS' FUNDS – EQUITY	130,879	34,407

Sportingbet Plc
Unaudited Consolidated Cash Flow statement
Twelve months to the 31 March 2002

	12 months ended 31 March 2002 £'000	12 Months ended 31 Mar 2001 £'000
Net cash inflow/(outflow) from operating activities	17,221	(1,536)
Cash inflow/(outflow) in respect of EBITDA	14,676	(1,512)
Net working capital movement	2,545	(24)
	17,221	(1,536)
Returns on investment and servicing of finance	(373)	(587)
Taxation	(37)	-
Capital expenditure	(1,877)	(1,183)
Acquisitions	(12,903)	(12,068)
CASH INFLOW/(OUTFLOW) BEFORE FINANCING	2,031	(15,374)
Management of liquid resources	(4,813)	-
Financing	7,340	21,290
INCREASE IN CASH IN THE PERIOD	4,558	5,916

RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET FUNDS		
Increase in cash in the period	4,558	5,916
Cash (inflow)/outflow from (increase)/decrease in debt	5,180	(6,530)
MOVEMENT IN NET FUNDS RESULTING FROM CASH FLOWS IN PERIOD	9,738	(614)
Loan notes issued to fund acquisition	(15,630)	-
Movement in net funds in period	(5,892)	-
Net funds at start of period	5,553	6,167
NET FUNDS/(DEBT) AT END OF PERIOD	(339)	5,553

Sportingbet Plc
Notes
Twelve months to the 31 March 2002

1.

	3 months to 31 Mar 2002	**12 months to 31 Mar 2002**	12 months to 31 Mar 2001
a) Analysis of revenue by activity	£'000	**£'000**	£'000
Sports Betting	296,600	**856,776**	235,218
Casino Betting	45,095	**124,545**	89,454
Fee Income	4,187	**10,201**	-
	345,882	**991,522**	324,672
b) Analysis of revenue by region			
AMER	207,244	**573,476**	213,409
EMEA	40,610	**96,868**	67,258
AA	98,028	**321,177**	44,005
	345,882	**991,522**	324,672

2. The financial statements have been prepared on the basis of the accounting policies set out in the Group's 2001 statutory accounts, apart from the adoption of FRS 19 which has not had a material effect. These Accounts do not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985 The financial information for the year ended 31 March 2001 has been extracted from the Annual Report and Accounts, which has been filed with the Registrar of Companies. The auditors report on those accounts was unqualified and did not contain any statement under section 237(2) or (3) of the Companies Act 1985.

3. There is no material tax charge for the year. There are tax losses available to carry forward and set off against future profits of the same trade, subject to agreement with the Inland Revenue.

4. The directors propose no dividend be paid for the year.

5. The basic earnings per share is based on the profit on ordinary activities after taxation of £5.0m (2001: loss of £4.2m), and on the weighted average number of shares in issue of 148,048,110 (2001: 115,141,746).