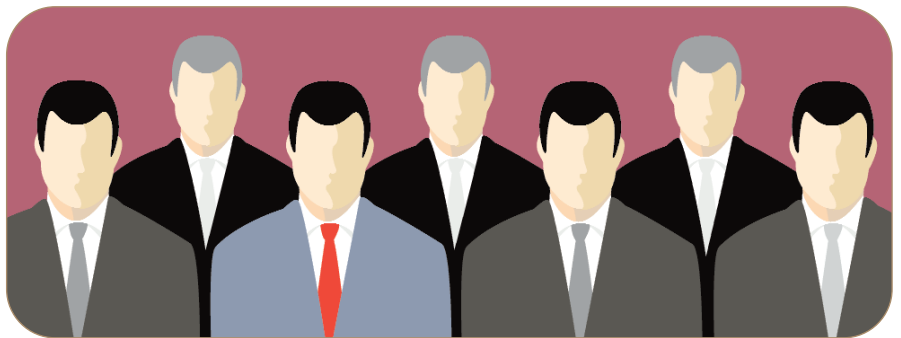


Executive evolution

As we move further into 2005, many of the old egaming paradigms simply don't apply anymore. An industry that was characterised by low-key, online only, ROI-driven executives has begun to be replaced by corporate-friendly, multi-media mass-market management. As Steve Barlow, chief executive of listed casino firm Gaming VC, puts it – guys in ties.

But what is driving this institutionalisation of the egaming industry? Undoubtedly a great part of it is a result of firms making themselves attractive to the financial markets in advance of an initial public offering (IPO). But there is another, more subtle factor at play. The sector's increasingly high-profile growth is starting to attract a new breed of executives from outside the industry who are bringing with them a whole new set of skills and a mindset that is turning the industry on its head.

This issue *eGaming Review* met three of the men who are changing the way the business works, and found that despite little knowledge of each other they have



a surprisingly similar outlook. Their view is this business can only reach its next goal, true mass-market adoption, if it overhauls the way it is managed. And they are already beginning to show the benefits of this approach.

Both Barlow and Lorne Abony of Fun Technologies are demonstrating the advantages of an ability to access the financial markets for new capital. And both of them have done so with an attitude different to the traditional egaming mindset. Meanwhile, Charles Cohen, head of

egaming firm Probability Gaming, is showing it is possible to become a major player while almost entirely bypassing the existing industry.

It is possible these men, and the businesses they run, are just an anomaly and business as usual will resume in due course. But it is more likely they are the start of a new wave of private equity-funded and corporately structured egaming firms that will begin to take over this sector. Read on to find out what they think, and how they view the future of egaming.

Lorne Abony

By anyone's standards Lorne Abony has had an exceptional 12 months. Fun Technologies, the firm he co-founded with lifelong friend and CryptoLogic founder Andrew Rivkin, is riding the crest of a skill-gaming wave and has a market value of US\$164m. And yet just a year ago everything looked so different.

Back then Abony was presiding over what appeared to be another doomed betting exchange start-up, with two clients

and little in the way of revenues. Columbia Exchange Systems (CES), as it was then known, achieved a listing on London's Alternative Investment (AIM) market in 2003 as a betting exchange software provider.

But the peer-to-peer market outside the UK has so far failed to take off, and by 2004 CES was looking for new growth opportunities. It turned its attention to the world of skill gaming, and in a US\$8m deal bought California-based skill gaming firm Skill Jam.

Since then it has gone on to acquire US sports information site Don Best for

US\$40m following a spectacular fund raising drive in Canada. And with Fun set to make another significant acquisition at the time of going to press, it seems a dramatic revival for a firm that looked to be not firing on all cylinders in early 2004.

The turnaround is testament not just to Abony's and Rivkin's vision and determination, but to a level of deft corporate sophistication practically unprecedented in the online gaming space.

In the past 12 months his firm has spent over US\$40m of money raised from institutional investors, despite not posting

***eGaming Review* meets egaming's new guard and find out how they are changing the way the industry works from within**

a profit to date. It's partly a result of the rising profile of the egaming sector, but there are few firms that have worked investor appetite as well as Fun.

Abony puts it down to his firm's ability to talk the language of the financial markets. "We are one of the few businesses in this space that could articulate to the business community how the business would look going forward," he explains.

Without doubt he is one of a new breed of egaming executives, as comfortable in the conference room at Merrill Lynch as he is in a bar in Soho. A trained lawyer, Abony spent his late twenties as chief executive of dotcom start-up Paw.net, which eventually became petopia.com. Petopia secured US\$79m in start-up financing and additional investments totalling more than US\$45m in 2000, before it was sold to bricks-and-mortar operator Petco as the tech stock collapse began.

That experience taught Abony a great deal about the financial markets. And that fund-raising experience, combined with Rivkin's knowledge of the egaming industry, is what has made Fun such a powerful force in 2005, and is what makes them one to watch as we move into egaming's next growth phase.

Smart casual

Sitting in London's five-star Lanesborough Hotel, Abony looks a long way from a cut-throat corporate crusader and more like a product of his dotcom heritage. Dressed casually in a suit with no tie he looks relaxed and unassuming, but nonetheless is every inch the alpha male.

Abony exudes a confidence that borders on arrogance, but unlike some of his peers he has the charm and charisma to carry it off. When I make the mistake of asking him if he thinks he is arrogant, he spends many of the next 30 minutes trying to convince me otherwise. To his credit he almost succeeds.

His laid-back manner is similar to his egaming contemporaries, but despite his other role as a director of software firm CryptoLogic he professes not to be interested in being part of the "egaming club". And his business school beliefs and love for the capital markets set him



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apart from the majority of entrepreneurs in the sector.

He is certainly passionate about his business, and is at his most compelling on the subject of skill gaming. In 2005 the skill gaming market is just a tiny fraction of the egaming industry, but he insists all the pieces are in place for it to be the next poker.

He points to simplicity, legality and the correspondingly huge range of points of distribution available to skill gaming operators. While it is hard to imagine AOL and Disney in the US linking up with an online

casino operator, it is precisely these firms that are jumping to get involved with the world of skill gaming. And Abony says this is just the start.

“Skill Gaming works extremely well for TV, and it's an incredible opportunity for cable operators in the US who don't have a ton of gaming offerings to offer something that's legal.”

So will we be seeing Fun make a move onto the TV? “I think you will see that in 2005 our company will be comfortably positioned in TV skill gaming,” Abony says with a smile.

So does all this enthusiasm for skill gaming mean the firm has written off the betting exchange business? Abony insists it hasn't, despite one of its few licensees Betmart shutting its doors earlier this year. Fun owns a substantial stake in the BetandWin-backed betting exchange Betbull, which has recently embarked on an ambitious business-to-business strategy in the German horseracing market. Abony still thinks he has backed a winner there, but he is realistic about its prospects in the short term.

“We don't anticipate exchange betting will be a massive P&L item for us in the

short term, but we do anticipate our ownership position will continue to generate significant and meaningful returns. I think we put in €726,000 and we now own €6m in stock. That's not a bad return.

"And I definitely think Betbull's best times are ahead of it. It is run by smart managers who have the right partnerships who are well-placed to grow their business."

Management speak

There is no underestimating the value Abony puts on strong management. His answers are littered with quotes from icons of the US business world and he believes the egaming world has a lot to learn from industries outside its own.

"We are an infant industry, and I think that as we mature there should be a flight to quality. Smart managers will enter this space and there will be more professional senior management.

"Owner operator businesses grow sometimes because they have a good technology guy or someone who is a great bookmaker, but they do not have a broader range of skills."

He is equally dismissive of the idea that egaming has nothing to learn from the world of big business. "Folks in egaming are deluding themselves if they think real-world economics don't apply to this industry," Abony says.

"It's complete hubris to hear people in this sector talking about turning all economic principles on their head. This industry will be characterised by exactly the same business principles as has characterised all industries for hundreds of years. Brand always wins.

"XYZcasino captures the early adopters, but our research shows most people will be happy playing with a brand name they recognise. You must remember there is only a 3% adoption of the global gambling industry, and the next wave of adopters will come with brand."

Whether we are quite at that stage in the industry's life-cycle remains to be seen, but this is without question a time of change. And perhaps what Fun most accurately reflects is the new kind of business model that has begun to (re)appear in the egaming world – the software operator.

As the egaming industry rapidly grew into big business in the early 21st century, those software firms with ownership interests looked to place them behind Chinese walls or sell them off entirely. But in 2005 we are beginning to see that model reappear in



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some of the more nascent sectors such as mobile and skill gaming.

And it is even beginning to make a reappearance in the more established sectors such as sports betting. Newly listed software firm World Gaming is actively pursuing a strategy of acquiring a medium-size sportsbook. Abony says from day one, the firm has viewed itself as an operator.

"In software businesses, typically there are large margins at the beginning, then as the market proves itself and new providers you have margin erosion."

New wave consolidator

Abony says he views Fun ultimately as a house of brands similar to Proctor & Gamble: "We think the egaming industry

is in the first wave of consolidation, and there are few acquirers out there. We plan on being a consolidator. We will buy companies that work and integrate well together."

One acquisition that puzzled many observers was the purchase of US sports data and betting information provider Don Best for the sum of US\$40m. Abony insists the deal makes perfect sense on the balance sheet, and with a predicted annual profit of US\$7m he may have a point. But he also hints at another upcoming deal that will make Don Best seem part of a grander plan.

"We think the way to enter sports betting is by being a backbone provider. If you look at finance Bloomberg captured that market, and in sports betting being customer agnostic is a good way to approach that business. As we move into our new lines of business Don Best and Skill Jam are unbelievably complimentary."

So where does Fun go from here? "Our consensus analyst expectations are US\$26m in revenue and US\$4m in operating profit and I am comfortable with those numbers," Abony says. But will it be able to sustain the breakneck pace it has managed in the past 12 months?

"We are firing on all cylinders in our skill gaming business, sports betting information business and the new business we are going to look to will be extremely complimentary. We made skill gaming a part of the egaming industry, and we are going to do it again with a completely new product," Abony says.

It is hard to dislike Abony. His passion for the business is infectious, and he is not someone afraid to make sacrifices for his success. When we meet in early May he had spent a mere nine nights at home since Christmas.

"I slept in a hotel 209 nights last year," he says somewhat ruefully.

In many respects he is a unique character in the egaming sector, but his combination of fund-raising abilities and real-world business principles are likely to become the prevailing force over the next few years. And it won't be long before Abony's less-conventional stylings begins to look like a relic of a bygone era.

As the industry moves into an increasingly corporate future there will be more emphasis placed on executive management and less on entrepreneurial dynamism. But for now his combination of the two suits the egaming industry just fine.