



global investor by Jean Pierre Verster **fm**

123RF/sinenkiy

Place your bets



Online sports betting (OSB) is becoming increasingly popular worldwide, driven by the ease of making a wager on your phone. Yet until recently in the US, for example, the only state where you could legally bet on sports at all was Nevada.

Then in 2018 a federal ban on sports betting was declared unconstitutional, sparking a wave of states legalising sports betting (and thereby collecting generous taxes). Today, sports betting is legal in 37 of the 50 US states (it is still illegal to bet across state lines), and there is vigorous competition to win over punters in this burgeoning \$100bn-plus market. Let's take a closer look at the major players:

Flutter Entertainment

The leader in the US OSB market, with almost 50% market share, is FanDuel, a subsidiary of London-listed Flutter Entertainment. Flutter is also the OSB and internet gambling market leader in the UK, Ireland, Australia and Italy. These mature non-US markets generated more than 90% of Flutter's earnings before interest, taxes, depreciation and amortisation (ebitda) for the half-year to June 2023, but account for only an estimated third of Flutter's \$30bn market cap. FanDuel grew revenue by 63% year on year to June 2023, and represents

the other two-thirds, or \$20bn, of Flutter's valuation, based on lofty ebitda growth expectations.

With all the excitement surrounding FanDuel, it is no wonder that Flutter is seeking a secondary listing in the US, which might ultimately lead to an unbundling of its stake in FanDuel, giving US investors direct access to this prize asset.

We believe that Flutter is a long-term winner, though the shares are no longer cheap after rising by more than 40% over the past year.

DraftKings

With a market cap of \$14bn, New York-listed DraftKings is snapping at FanDuel's heels. The challenger grew revenue by 88% year on year for the quarter ended June 2023, taking its market share to roughly a third of the US OSB market.

But market share gains come at a cost (expensive promotions), and DraftKings is still loss-making on an ebitda basis. "Adjusted" ebitda turned positive in the last quarter, but that is only if you ignore the company's very real (and very large) share-based payment expenses. DraftKings has also been taking market share in online casino games (iGaming). While the strong growth profile is impressive, DraftKings's steep valuation makes us hesitant to place a wager on its shares at the current price.

Entain

Entain is listed in London and sports a market cap of almost \$10bn. It is a leading global sports betting, gaming and entertainment group. Entain jointly owns the third-largest OSB player in the US, BetMGM, with a market share of about 10%. BetMGM is also the largest iGaming provider in the US. In early 2021, BetMGM's other shareholder, MGM Resorts International, made an offer to buy Entain, which was rebuffed. MGM Resorts can count its lucky stars, because Entain announced last month that it will need to pay more than \$700m to UK authorities to settle bribery allegations at its legacy Turkish business. With Entain's shares languishing over the past two years, don't be surprised if MGM Resorts makes another tilt at Entain, which we rate as a speculative buy.

PENN Entertainment

New York-listed PENN owns more than 40 casinos across the US, as well as a network of sportsbooks, which are essentially sports bars where you can bet on the games being shown. The company has a market cap of \$3.5bn.

A month ago, PENN and ESPN announced a strategic alliance in terms of which PENN would adopt the ESPN Bet brand for its OSB offering. In return, ESPN would receive \$1.5bn in cash and \$500m worth of PENN warrants. ESPN is the strongest sports broadcasting brand in the US, so the alliance is optimistically projecting an OSB market share of 10%-20% over the next few years. It will be interesting to see if ESPN and PENN can pull this off, especially since a dispute between ESPN and Charter (a major cable TV distributor) ruptured into the open this past week, causing an ESPN blackout for 15-million viewers on the eve of the annual football season's kickoff. PENN shareholders can't be pleased.

While the odds seem favourable, there are no sure things in the online sports betting industry, so place your bets wisely. **x**

Verster is CEO of Protea Capital Management