



Worth a flutter

There are few things that grate more than when people refer to investing in any security as a “bet”. Investment professionals manage other people’s money – elderly people’s money. To equate this with a mere gamble smacks of not understanding the fiduciary duty that fund managers have in respect of their clients – one that presupposes the highest level of responsibility and diligence.

After 2½ decades in the investment world, I have, however, come to realise that I’m probably in a small minority when it comes to this view. Gambling references permeate the world of investing, and it probably starts in the Statistics 101 class, where the first principles of probability theory are explained in terms of a simple coin toss.

The strongest link between investing and gambling may be the term “blue chip”. Practically everyone uses it in describing the most valuable companies with the best prospects.

It’s not equally well known, though, that the background to this reference is the fact that blue is the colour of the most expensive chips in the casinos of Monte Carlo – a gambling destination more famous than any other, thanks to multiple incarnations of James Bond.

But what about the first derivative of gambling – in other words, betting on betting companies?

There are many options around the globe for those whose conscience has no problem with such an investment, from bookmakers in the UK to casinos in Macau.

One of the more interesting alternatives in this field is Flutter Entertainment Plc. This group was created in 2015 by the merger of Paddy Power (which started life in Ireland in the 1980s as a chain of high street betting shops) and Betfair (which disrupted the betting world in the new millennium by creating a user-friendly online platform for punters to take positions against one another, rather than the company going on risk by offering odds).

At last count, Flutter operated 12



AFP via Getty Images/Loic Venance

brands around the world. The group’s strategy is to focus on regulated jurisdictions where a significant market share can be achieved. As it stands, the potential market value of those countries that are starting to regulate their gambling markets has never been larger.

To build a brand from scratch in a nascent market is tough. Therefore, Flutter has on occasion bought an existing operator or a related business in order to gain access to the existing customer base and accelerate its path to scale.

The success of the merger between Paddy Power and Betfair is an example of this path.

Though the Betfair exchange was operating in a mature, low-growth market, Flutter launched the Betfair Sportsbook, which targeted Betfair’s sophisticated customers, many of whom were already betting on sports elsewhere and represented a different market to Paddy Power’s existing users. The market segmentation strategy was very successful, driving accelerated growth of the combined business over the years.

This is also the approach that Flutter has taken in the US with the acquisition of FanDuel, a daily fantasy sports operator where customers pay to enter online competitions with prize money. After federal legislation banning sports betting in the US was repealed, states have been steadily legalising this form of gambling. Flutter has successfully cross-sold its sports betting products to FanDuel’s existing customers, the majority of whom already bet with unregulated, offshore companies that have been

operating illegally in the US for a long time.

The two main operators (FanDuel and competitor DraftKings, which recently signed Michael Jordan as a special adviser to its board) not only dominate the daily fantasy sports market in the US, but between them they also have more than 80% market share in sports betting (which is a much larger and faster-growing business) in the newly legalised US states.

In October 2019, Flutter further announced its merger with The Stars Group, giving it access to a new business line in the form of PokerStars, the global leader in its field. It also offers opportunities to cross-sell sports betting into a poker and casino customer base in countries such as Germany, Spain, Italy and Brazil.

There are many reasons to be excited about Flutter’s prospects, but probably none more so than its relatively recent foray into the US, which is destined to be the largest sports betting market in the world by far, given that the country has five times the population of the UK and seven times its GDP.

With its well-known brands and strong market position in high-growth markets, an investment in Flutter therefore seems like it might be a pretty good idea today. In the fullness of time, the company may even prove to be a blue chip.

Just don’t call it a bet, please.

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