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Tabcorp, Tatts missed the online betting jump

ROBERT GOTTLIEBSEN

A fascinating backdrop to the proposed merger between Tabcorp and Tatts Group is both companies lost market share because of their failure to keep up with online betting.

And it is paradoxical that one of the world leaders in betting technology, EML Payments, is based in Australia and its technology has enabled Tabcorp and Tatts' competitors to enter the Australian online market.

Tabcorp has a large network of branches and those gambling in the shops can receive their winnings almost immediately. But the big growth area of gambling is online and, while Tabcorp and Tatts have significant market shares, it is much more difficult to get quick payment in the Tatts and Tabcorp online services.

My guess is that like newspapers of the 1990s, Tabcorp is trying to protect its network of branches. But online betting is now approaching 50 per cent of the market and new entrants like CrownBet, Bet365, Ladbrokes and Sportsbet have used the EML technology to enable people to get access to their winnings quickly. It gives them a huge advantage over TAB and Tatts' UBET.

And those with overseas operations have taken the EML technology back to their home bases, mainly in Britain and Europe, where it has helped drive a big increase in online gambling in Europe. And to the extent that these global gambling companies are allowed to operate in the US the Australian technology has gone there, too.

EML is probably the nearest company we have adopting the Amazon strategy — it reinvests its earnings and rarely pays dividends. Because of the need to develop the business, losses are regular. But EML has used its gambling technology to penetrate a series of other industries, including salary packaging and cards that can be loaded with gift entitlements or cash. Indeed the growth in these activities has outstripped gambling, which no longer dominates EML turnover.

EML is still not a large company but using the Amazon strategy it is growing rapidly, with revenue in 2016-17 rising 149 per cent to $58 million, of which $38m was generated in North America.

EML will make a profit in the current financial year but the goal is achieving global growth, not immediate profits or dividends. It can do this because management owns about 20 per cent of the stock, with the CEO Tom Cregan the biggest single shareholder. (Prior to taking charge of EML in 2012, Cregan was the executive vice president for NetSpend Corporation, a market leader in the prepaid card industry in the US.)

EML's market capitalisation is about $500m.

One of EML's key techniques to achieve growth has been to buy global companies that operate simple gift cards for retailers. These companies have regular profits and income and don't usually carry a high price-to-earnings ratio.

EML buys them and then adds to their range cards that are not static but can be reloaded with cash and gift entitlements, using the base of the gambling technology. This enables groups such as retailers, carmakers and airlines to load entitlements on the cards and offer a much better loyalty programs. And in the retail market, competition from online is increasing the use of loyalty cards by retailers.

EML has a relatively small share of the global card market but it is a huge industry and in Australian terms the cash flows being generated are substantial. It benefits from long-term contracts with its customers which ensure future revenue flows.

And it is also an industry that has benefited from the fact that major banks like Citibank and JPMorgan have exited the field.

In Australia, both NAB and ANZ have also exited related activities, which boosted the EML turnover.

Meanwhile groups like Tabcorp believe their branch network is their greatest asset. But any company that competes in the online area against a product that carries a significant underlining advantage via quick payments is taking an incredible risk. With the great benefit of hindsight Tabcorp should have bought EML when it was in its infancy and turned it into a major growth area for its company. And of course, again with hindsight, that is what Fairfax should have done when Seek, Carsales and realestate.com.au began to substantially increase their classified market share with online services.

Tatts and Tabcorp have similar branch strategies and so will naturally feel comfortable with the merger if it can pass the regulator's court challenges. But when two companies have fallen behind in technology in a growth part of their business, mergers don't always work out well.

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CALUM ROBERTSON

Tabcorp was left at the barrier with online betting