



School of Business,
Economics and Law
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Future profitability in the online poker industry

- A case study of 24hPoker -

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Gothenburg, on the sixth day of January

Karl Ahlberg

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Executive summary

During the previous years, poker played on the internet has grown rapidly and companies operating in the industry have made large profits. Although, recently different signs indicates that the industry may face problems in the future. Increased costs, stagnation in the main markets as well as regulatory changes are all problems that have been evident for the companies operating in the industry.

This thesis investigates the requirements needed to reach profitability in the industry and if 24hPoker, listed on the OMX, fulfil these requirements. Theoretical findings together with empirical material gathered from interviews have been linked and resulted in a branch analysis of the online poker industry. The branch analysis has been combined with the analysis of 24hPoker and has given a statement about the company's future possibilities as well as a valuation of the company.

The analysis of the industry has shown that some of the most important requirements for a company operating in the online poker industry are high player liquidity, large marketing resources, a user-friendly software and good customer support. The outcome of the thesis is that 24hPoker has what is required for future profitability, mainly because they act both as a gaming operator and a service provider. The part where 24hPoker act as a gaming operator is predicted to be the most important part for the company in the future, mainly because this product is more competitive compared to its rivals than the service provider part which will be more difficult to profile. The share value of 24hPoker is estimated to be slightly undervalued.



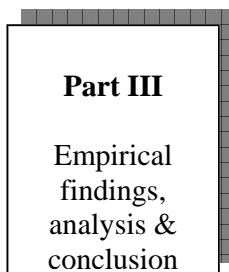
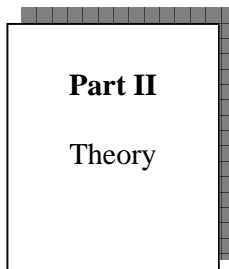
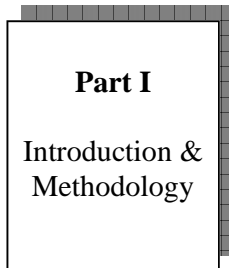
Exekutiv sammanfattning

Under senare år har poker som spelas över Internet ökat kraftigt och företag inom industrin har kunnat uppvisa stora vinster. Dock har under senare tid ett antal tecken tytt på att industrin står inför framtida problem. Ökade kostnader, stagnering inom ledande marknader och lagändringar är alla tre problem som blivit mer tydliga för de företag som verkar inom industrin.

Uppsatsen undersöker de nödvändiga resurser som krävs för att nå lönsamhet inom industrin och om 24hPoker, listat på OMX, tillhandahåller dessa resurser. Vetenskaplig teori har vävts samman med empiriskt material insamlat från intervjuer och dessa har tillsammans utmynnat i en branschanalys av poker på Internet. Branschanalysen har i sin tur sammanbundits med analysen av 24hPoker och har givit ett utlåtande om företagets framtida möjligheter inom branschen samt en värdering av företaget.

Analysen av industrin har visat att några av de mest nödvändiga resurserna för ett företag inom industrin är ett stort antal spelare, stora resurser för marknadsföring, en användarvänlig mjukvara och bra kundsupport. Uppsatsens konklusion är att 24hPoker har de nödvändiga resurser som krävs för framtida lönsamhet, detta huvudsakligen till följd av att 24hPoker verkar både som spelleverantör samt speloperatör. Den del av 24hPoker där företaget verkar som speloperatör förutspås bli deras mest betydande del i framtiden, i synnerhet för att produkten de erbjuder är mer konkurrenskraftig gentemot övriga företag inom branschen än den del av företaget där de verkar som spelleverantör där 24hPoker har svårare att profilera sig. 24hPokers aktie är estimerad till att vara något undervärderad.

Disposition



Part I – contains the thesis introduction, problem definition, purpose, limitations and methodology. The introduction first gives a short presentation to the background of the problem. This is followed by a discussion of the problem which leads to a problem definition and the purpose of the thesis. After this, the methodology is presented, in which the chosen approach to carry out the thesis is discussed. Next are the chosen respondents discussed, the theoretical data gathering outlined and finally a discussion regarding reliability and validity is illustrated.

Part II – begins with a presentation of four theories and models that are used in the thesis. These are; Porters five forces, Resource Based View, Porters generic strategy and theories of growth. Also, two additional forces that affects the online poker industry are presented; innovation and globalisation. Finally, the discounted cash flow model that is used to value 24hPoker is explained.

Part III – starts of with a presentation of 24hPoker and a presentation of the respondents. Next, the empirical and the theoretical findings lead to an analysis of the online poker industry. The industry evaluation is then applied on 24hPoker by the use of a SWOT analysis. The branch analysis together with the SWOT analysis will then lead to a valuation of 24hPoker. In the conclusion, the thesis problem definition and purpose will be answered.



Glossary

Active customer – Every unique player that has played for real money under a certain period

Affiliate – A partner that recruits customers to the poker site

Gaming operator – A company offering online gaming solutions for other companies

Gaming platform – The software needed to run an online poker site

High-stake players – The small percentage of poker players that plays for the largest amounts of money

Live poker – Poker played with physical cards and money between people

Low-margin odds – When a company offers odds on sportsbetting for their customers that are higher than the average which will lead to lower margins for the company

Multi table tournament – A game where all the participants pay an entry fee. As the games progress, players bust out and are eliminated until only one winner remains. In a multi table tournament, players enough to fill more than one table are required

Online portal – A webpage that provides a variety of services.

Own gaming site – When a company owns and operates gaming software

Partner – A company that uses the services provided from a gaming operator but have their own gaming license

Pot – The money that the players play for on the table and that goes to the winner

Rake – The money that the online poker company charges the players for each pot played

Rake-back – A percentage of the money that the player has paid to the rake and that is here paid back to the player

Service provider – A company that offer online poker, casino and sportsbetting to the end customer i.e. the player

Site – An online poker company's homepage

Skill games – A game where the outcome is determined mainly by mental and/or physical skill, rather than by pure chance

Skin – A company that uses a turn key-solution provided from a gaming operator but have no own gaming license

Soft games – Different kind of computer based games

Sportsbetting – Betting on different sports games such as football, golf and ice hockey

Stake – The money which a player enters a game with

Zero house margins – Means that the player and the house have equal chances to win



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1

- INTRODUCTION -

Initially the background of the problem is highlighted, and the complications occurring for companies when there are changes in the macro environment are described. This will lead to a definition of the problem. Finally, the purpose of the thesis will be outlined as well as the thesis limitations.

1.1 Background

The environment the company operates in, the company's internal resources as well as its ability to add value to its operations, are a company's main factors to build up a strategy for success in the long run (Lynch, 2003).

These factors are even more important today when the business landscape in the new century is characterised by constant and irregular changes due to increased internationalisation and technology development (Aaker, 2005). The internet has erased countries' boundaries and has made the entire world to one global market place. Hence, changes in one country's regulations can affect a whole industry and totally change the possibilities for the companies to achieve long term profitability. This can be exemplified by the online poker industry in which the conditions were totally disturbed when George W. Bush earlier this autumn, signed the Safe Port Act (www.bbc.com).

Changes affecting companies' potential for long term profitability also affect the value of the company since a company is worth all its future cash flows discounted back to present value (Hamberg, 2001). Thus, when valuing a company operating in a specific industry the valuation should always be preceded by an analysis of the company, their activities and the environment they operates in. This should then act as the base when looking at potential growth measures and the risks the company face in the future, which both are important parameters when valuing a company (Brigham and Gapenski, 1996).

1.1.1 The online gaming market

According to PartyGaming's annual report in 2005 the global gaming industry had a turnover of \$258.3 billion and the online gaming market stood for approximately \$13 billion (5%) of



these. Online gaming is the segment within the global gaming industry that continuously increases its market share and it is expected to continue even further due to increased internet penetration and the expansion to new markets in areas such as Central- and Eastern Europe and Asia. In PartyGaming's annual report from 2005 the online poker industry was expected to have an annual growth rate of 14% to 2010. Online poker stands for over \$2.6 billion, of the online gaming industry's turnover of \$13 billion. Online poker was established in the 1990s and has grown rapidly ever since. The industry exists of nearly 400 companies, but the eight largest hold over 87% of the market share (PartyGaming annual report, 2005).

1.1.2 Problems facing the online poker industry

The 2nd October 2006, the US House of Representatives and Senate approved the Safe Port Act, a new gaming law that made it illegal for banks and credit card companies to make payments to online gaming sites. The same day, PartyGaming's share dropped 58% as a result of the new law (www.bbc.com). As a consequence of the new gaming law, PartyGaming, as well as the two other major gaming firms, 888 Holdings and Sportingbet, all listed on the London stock exchange and with the US as their major market, decided to suspend all real money customers located in the US. According to PartyGaming's 2005 annual report, the three firms together held over 53% of the total market share. Although, the real outcome of the law is still uncertain, since the new market leader PokerStars' lawyers interpret the regulatory changes in a different way, and therefore Pokerstars still allow US players on their site (www.pokerstars.com).

This was the first of a number of setbacks that followed and that affected the online gaming industry. The top managers of the large Austrian gaming company BWin were arrested by French police during a press conference in Monaco and the Swedish gaming company Unibet's managers are threatened by French authorities (www.smh.com). Both these actions were taken because French authorities perceive these companies activities in France as a crime against their country's gaming laws. Italian authorities have already banned all gaming on the internet by preventing internet suppliers to allow their users to enter online gaming portals and Russian authorities are discussing a similar approach which then will be implemented in 2009 (www.di.se). The European Union commission has also started to discuss a future ban of gaming on the internet.

1.2 Problem discussion

Due to the background discussion and the changes in the macro environment mentioned above, companies listed on the OMX and with online poker as their main activity, are facing an uncertain future. The Swedish online poker company 24hPoker is one of these companies



that have been affected by the changes in the US regulations. 24hPoker was aware of the uncertain future in the US and suspended all US players already a month before the actual regulatory change. However, 24hPoker are still facing two major threats; (1) the recent change in US regulations, banning banks and credit card companies from transferring money to online gaming companies will increase the competition in 24hPoker's main markets since the companies that abandoned the US market will now aim for new markets; and (2) the regulatory setback in the US may not be the only regulatory setback, similar discussions exists in several European countries as well as in the European Parliament.

Since 24hPoker had already withdrawn from the US market, the new regulations will not affect them directly. However, when the industry's largest companies have to abandon their largest market, which so far has been the US; they will increase their penetration in other markets. With the size of the companies that suffered from the new regulations in the US in mind; 24hPoker will probably face fierce competition in the future.

1.3 Problem definition

Can a company listed on the OMX with online poker as their main activity achieve sustainable profitability despite the uncertain future in the online poker industry?

1.4 Purpose

The purpose with the thesis is to investigate what is required for a company to achieve sustainable profitability in the online poker industry and to examine if 24hPoker fulfil these requirements. The analysis will be conducted from an inventor's point of view and carried out through a branch analysis, followed by an evaluation of 24hPoker ending up in a valuation of the company.

1.5 Limitations

Considering the timeframe and the characteristics of the problem, only one company among the ones listed on the OMX and with online poker as their main activity, has been chosen. Further, it is stated that the thesis is directed to people with basic knowledge in business administration.

2

- METHODOLOGY -

This chapter will present how the thesis will be conducted throughout the process. The chapter will explain the approach chosen and the reason why this particular approach is chosen. Further, it will be explained how the online poker company will be selected, how the interviews will be prepared and how the gathering of data and the analysis of the same data will be carried out. To sum up the chapter, reliability, validity and the evaluation of the sources used will be discussed.

2.1 Methodology-approach

This thesis aims to investigate if it is possible for a company listed on the OMX and with online poker as their main activity to achieve long term profitability. Frykman and Tolleryd (2003) states that to get a clearer picture of a single company an analysis of the company's external environment is essential. The explorative approach will be used to try to outline the characteristics of the online poker industry and this approach is suitable since the investigated area is relatively unexplored for people in general (Andersen, 1998).

This will be conducted by the use of several well-known theoretical findings which will be combined and integrated with the empirical findings leading to an analysis of the industry. Finally, the industry analysis will act as a base for an evaluation of the case company and its possibilities for future sustainable profitability which in turn will lead to a valuation of the company chosen.

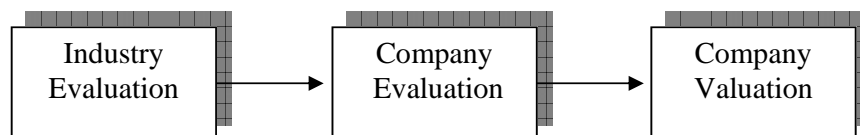


Figure 2.1 – The analysis procedure



2.2 The qualitative approach

A qualitative approach will be used when investigating the online poker industry and the chosen company operating within it. The authors' decision to use the qualitative approach is based on the purpose of the thesis and the problem definition, which is to obtain greater knowledge of a specific situation (Merriam, 2002); in this thesis, what is required to achieve sustainable profitability in the online poker industry.

The qualitative approach is based on research where the collection of data focuses on soft data gathered through qualitative interviews and interpreting analyses. Qualitative interviews are categorized by straight and simple questions without specific direction hopefully leading to complex and comprehensive answers (Patel and Davidson, 2003). According to Jacobsen (2002) a qualitative approach is flexible, which makes it possible for the authors to go back and change/increase the problem definition and the method of collecting data throughout the thesis process. On the other hand, a quantitative approach is based on more static data, for instance a questionnaire (Holme and Solvang, 1997).

One of the disadvantages when using the qualitative approach is that the information gained by personal interviews can be too detailed and hard to survey (Jacobsen, 2002). This is something that has been taken into consideration; thus, a limited number of interviews have been conducted and the interviews content has been made as relevant as possible.

2.3 Respondent selection

2.3.1 Selection of company

The limited amount of time and the characteristics of the problem stated have led to the decision to choose only one company among the approximately 400 companies operating in the online poker industry. Initially, the idea with the study was to use the four companies; Betsson, Unibet, 24hPoker and Redbet all listed on the OMX, and to try to find out which of them that has the largest opportunities to achieve profitability in the future. Companies listed on the OMX were chosen because the increased amount of financial information available and parts of each company are located in Sweden.

However, after researching the four companies it was decided that only 24hPoker would be studied. One reason is that both Betsson and Unibet have sportsbetting as their main activity. This is an industry with different characteristics than the online poker industry, and to evaluate these two companies the sportsbetting industry also had to be analysed. 24hPoker



and Redbet also have sportsbetting among their products even though it only constitutes of a small part of their revenues.

After this selection process it was decided that 24hPoker would be used in the study. There were two main reasons for this; (1) 24hPoker operates both as a service provider and as a gaming operator in the online poker industry, and (2) 24hPoker is, among the companies listed on the OMX and with poker as a main activity, the company with the largest percentage of their income from poker related activities. Another reason to focus on one company derives from the fact that the thesis will not be of a generalising nature, instead the aim is to create understanding of what is required for a single company to stay profitable when there are changes in the macro environment (Holme and Solvang, 1997).

2.3.2 Selection of respondents

To get the overall picture of the industry and a clear understanding of the valuation process of this kind of companies as well as avoiding biases; respondents with different connections to online poker have been chosen. As mentioned above, 24hPoker is the company chosen in the case study, thus a person with a good insight in the company is vital. Therefore, the Marketing Director of 24hPoker became the authors contact at the company and provided them with an in-depth interview as well as useful information throughout the process. Due to the Marketing Directors close connection to the company, it is possible that his answers might be slightly affected in favour of the company. Hence, an interview has also been made with the Licensee Manager of one of the worlds largest online poker networks.

Further, the thesis aims to evaluate what is required for a company within the online poker industry to be able to stay profitable. However, because it is also decided to incorporate a valuation of the chosen company, information about what analysts emphasise when valuing these kinds of companies was needed to increase the accuracy of the valuation due to the characteristics of the industry. Therefore, trading houses and investment banks were contacted and Carnegie and Redeye, an equity research company, was selected. The analysts' knowledge of analysing companies in the industry enhanced the authors understanding and gave an additional twist that hopefully increased the accuracy of the valuation part of the thesis.

2.4 Data gathering

Two different categories of data can be used when gathering information; primary data and secondary data (Jacobsen, 2002). Jacobsen further states that it is valuable to use both kinds of data since they can verify and confirm each other.



2.4.1 Primary data

Primary data is first-hand information that has been gathered by the researchers themselves. This gathering can be obtained in two ways, either by an observation method or a question method. When undertaking the observation method, the researcher observes the phenomenon chosen to research with his own eyes while the question method is based on questions asked to the persons supposed to give the information. This can be done either by questionnaires or through an interview (Holme and Solvang, 1997). The main benefit by using primary information is that it can be tailored to the specific study (Jacobsen, 2002). In this thesis, interviews are used to gather the data from the four respondents mentioned above.

2.4.2 Secondary data

Secondary data consists of information gathered by other researchers than the authors themselves and that has been published for others reasons than the ones formulated for this specific study (Jacobsen, 2002). The secondary data that have been applied in the thesis consists of several generally accepted and scientific recognised theories and models, 24hPoker's annual and interim reports, articles relevant to the online poker industry as well as publications from several academic databases such as EBSCO and Emerald.

2.5 Interview method

The thesis empirical material consists of two different kind of interview methods; personal interviews and e-mail interviews. The two interview methods both have qualitative characteristics since the questions are of an open nature; which means that the authors only possess a weak control and the respondents can add their own implications (Holme and Solvang, 1997). The respondents were chosen because of their different branch knowledge and that they all together cover the different areas of the online poker industry. Thus, the constructed questions were slightly modified to fit each respondent. The interview with 24hPoker's Marketing Director was conducted through a two and a half hour long personal interview in Stockholm on the 4th of December 2006 and was then complemented with two e-mails interviews within ten days. The other three interviews were conducted through e-mail which was sent out between the 24th of November and the 6th of December 2006. All the interview questions can be found in Appendix four.

2.6 Theoretical findings

The purpose with the theoretical chapter is to define and explain a number of theories and models that hopefully will cover all the theoretical aspects needed for analysing the online poker industry. Initially, Porter's five forces framework were used to get a deeper



understanding of the external factors affecting the competition in the industry. However, an external analysis is not enough, and therefore the Resource Based View has been included to explain a company's internal resources. To find out in which ways companies within the industry can get a competitive advantage, Porters generic strategy was used. The fourth theory is a company's possibilities for growth. Also, some additional forces needed to be incorporated to be able to fully understand the industry, were explained. All these components will form a framework that together with the empirical findings will be used to analyse the online poker industry. In the theoretical findings, the discounted cash flow model that will be used when valuing 24hPoker will also be clarified.

2.7 Empirical findings and analytical structure

The empirical findings and the analysis will be integrated and written together with each other. The main reason for this is to avoid parts from being repeated. This will hopefully also simplify the structure of the thesis and evade the problem for the reader that he needs to go back to the empirical chapter to verify that the empirical information really exists. The disadvantage is that information that is not mentioned before can turn up throughout the analysis part.

Initially, the company chosen for the case study, 24hPoker, will be presented to give the reader a clear overall picture of the company and their product range. This is followed by a short presentation of each one of the four respondents and their field of profession. To simplify the outlay of the thesis, this chapter will be structured in a similar order as the theoretical chapter. Initially a framework is presented, combining all the relevant aspects for analysing the online poker industry. The framework will together with the empirical findings lead to an analysis of the online poker industry. To further broaden the picture, information from company homepages and annual reports from companies in the industry has been incorporated. The interviews are not presented word by word, instead they are compiled and irrelevant parts are left out.

The information extracted regarding the industry has then been applied on 24hPoker by the use of a SWOT analysis. Finally, the information gained from the two interviews with the analysts from Redeye and Carnegie has been used to create a greater understanding for the special features of valuing companies in the online poker industry. This, together with 24hPokers interim reports, the interview with the Marketing Director of 24hPoker and additional information about 24hPoker has also been taken into consideration when estimating the value of the company.



2.7.1 Scenario analysis

The thesis will include both a scenario and a sensitivity analysis. The reason for using a scenario analysis is that it helps to illustrate the different sources of uncertainty that is demonstrated through a number of different future scenarios instead of just analyzing one specific scenario (Clemons, 1995). Three different scenarios are used; a positive, a negative and a base scenario which also is the thesis main scenario.

2.7.2 Sensitivity analysis

A sensitivity analysis has also been made to show the uncertainty in some parameters; consequently three beta values have been used to calculate three different weighted average cost of capital. This is applied on the base scenario to illustrate how a slight misestimating of the beta value affects the company's total value. Through a sensitivity analysis it is possible to get an indication of where more information is needed. Analysts can use this as a request to obtain more data leading to a more correct measure of this parameter (Ross et al, 2002).

2.8 Reliability

Reliability concerns the measure's trustworthiness and its capability of resisting random influences of different kinds. To reach a high degree of reliability it is important that the same results can be obtained if the same investigation would be conducted a number of times of people independent of each other. Although, this can be difficult to achieve in an interpreting investigation since the researchers inevitably affects the investigation with own values and principles (Wiedersheim-Paul and Eriksson, 2001). Despite the fact that the thesis is of an interpreting nature, all the respondents have good insight in the online poker industry and most likely would give similar answers if the questions were asked by another researcher. Though, it might be difficult to get the same answers if the questions were asked in another occasion since the industry analysed is not static but in constant movement.

2.9 Validity

The validity is related to if the result of a study really concerns what they should concern (Wiedersheim-Paul and Eriksson, 2001). To ensure the validity in the thesis the interviews were prepared in connection with the problem definition and the theoretical framework. Although, there is a risk that the company respondent is not giving the rightful answers to the questions asked to flatter the picture of the company. The authors are aware of this validity weakness; hence an interview with the Licensee Manager of the large poker network was conducted to try to neutralize the problem. More over, another aspect concerning the validity



is the problem that may occur in the process of finding the most suitable respondents. It is hard to know which employees at the chosen companies that possess enough and the right knowledge to provide the authors with the information needed. To secure that the right person answered the interviews, the authors carefully described the purpose of the thesis when the initial contacts with the companies was taken.

2.10 Evaluation of the sources

There are several different reasons for mistakes to occur in a thesis. Thus, the researcher must try to locate, limit and avoid sources of error through the whole working process to eliminate misleading information (Lekvall and Wahlbin, 1993).

Sources of error can be divided into three different categories; errors in data measuring, errors in processing the data and errors in drawn conclusions (Lekvall and Wahlbin, 1993). The last error mentioned is the most relevant for this thesis since the online poker industry is still a relatively new industry with a young history. As a consequence, not much academic work are written about the industry and therefore the authors in some cases have to rely on the information given from sources that are not fully ideal. For instance, information about the industry's growth and future prospects has been taken from the industry leaders' homepages and annual reports, these companies may have interest in flattering the figures. Also, this information can be seen as old since some of the information originates from the companies annual reports of 2005. Further, other relevant industry information from newspapers and branch homepages can also be written by people with own interest in the industry and that must be taken into consideration.

A large amount of theory has been read and processed throughout the thesis. However, secondary data is often collected with a specific purpose in mind, a purpose that may produce deliberate or unintentional bias. Another disadvantage with secondary data is that it by definition is old data (Stewart and Kamins, 1993). 24hPoker's short history makes it difficult when evaluating their financial figures. Only three interim reports and one annual report are what the authors had to work with when estimating the value of the company. This is something the authors are aware of to be a weakness in the thesis since even the information available from them is in several ways faulty. However, even young companies and companies with a limited amount of information available have to be valued even though the accuracy in the valuation might be lower than for a company with a longer history and better prepared historical figures.



3

- THEORETICAL FINDINGS -

The idea with the chapter is to demonstrate and explain the theories and models that are relevant to examine the thesis problem definition. The chapter is divided into three larger parts; (1) the four models and theories that constitute the base in the branch analysis; (2) additional forces needed to evaluate the industry and; (3) the valuation model needed for the final valuation.

3.1 Introduction

The thesis theoretical chapter is based on a number of models and theories that all together gives an initial picture of what is needed in order to evaluate this specific industry and the companies operating in it. First, Porter's five forces are used to illustrate the five forces affecting the macro environment. Secondly, the Resourced Based View (RBV) portrays a company's internal resources concerning the internal competence and assets. Porter's generic strategy is used as a third model and shows the different strategies a company can choose to gain competitive advantage. Finally, a company's different possibilities for growth are outlined. These four approaches constitute the base for the branch analysis. Although, when the authors examined and applied the models, they realised that some additional forces needed to be added due to the features of the specific industry, and these will also be explained.

3.2 Porter's five forces

Porter's five forces analysis is a means of identifying the forces which affect the level of competition in an industry (Johnson and Scholes, 1999). Porter (2004) stipulates that the base of which the competition is build upon and also the factors that a company has to take into consideration to get a competitive advantage over it rivals are the following five forces; the threats of entry, the power of buyers, the power of suppliers, threats of substitutes and competitive rivalry.

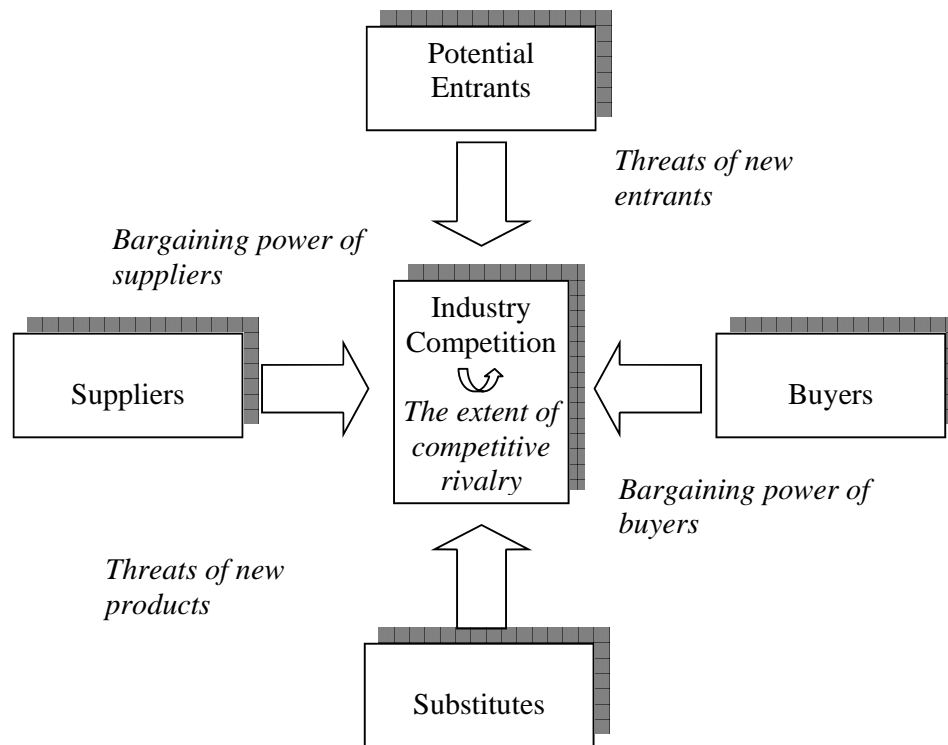


Figure 3.1 – Porter's five forces (Porter, 2004, p4)

3.2.1 The threats of new entrants

The attractiveness of an industry is affected off both existing and potential competitors. New entrants come into a market place when the profit margins are attractive and the barriers to entry are low (Lynch, 2003). According to Porter (2004) there are six major obstacles for entering an industry; economies of scale, product differentiation, capital requirement, switching costs, access to distribution channels and cost disadvantages independent of scale.

3.2.2 The bargaining power of buyers

Buyers' power concerns to which extent the customers affects the profitability for the companies operating within the industry. If the products are standardised or undifferentiated, the buyer can always buy the product from the cheapest suppliers and in that manner strengthen their negotiation position. If the buyer is partly or completely backward integrated, it constitutes a noticeable threat since it can require beneficial agreements (Porter, 2004).



3.2.3 The bargaining power of suppliers

The conditions that strengthen the suppliers' position are in many ways the same as the one that increases the power for customers in a specific industry (Porter, 2004). Karagiannopoulos et al. (2005) argues that the concentration and the size of suppliers in relationship to the number of companies on the market is the most important factor for the suppliers. Suppliers are more powerful if there are no substitutes for the products they offer. This is especially the case if the products offered are important for technical reasons and if they are vital to smooth production.

3.2.4 The threat of substitutes

Substitutes can sometimes make a product in an industry redundant. Although, this is not something that happens on an occasional basis, substitutes rather reduce the cost of producing the same product or introducing new technology. This leads to lower prices and limited profits. The possible cost of change is a factor affecting the threats of substitutes. If there are low costs of change this increases the threats for the substitute and vice versa. Suppliers are also more powerful under conditions when there are no substitutes for the supplies they offer (Porter, 2004).

3.2.5 The extent of competitive rivalry

Organisations need to be concerned with the extent of direct rivalry between themselves and competitors. The degree of rivalry is affected by factors such as the industry's history of competition, the role of the leading company or pace of growth in the industry. To which extent companies' resources have to be spend on competition between companies in an industry is dependent on this force. The most competitive conditions will be those in which entry is likely, substitutes threaten and buyers or suppliers exercise control (Porter, 2004).

3.3 Resourced Based View (RBV)

Although Porter's five forces can be used as a good explanation of the external forces one needs to explain the internal forces that explain the company's internal environment. RBV is a good concept of this since it represent a considerable shift in importance towards the company's internal resources, which moves away from the market based view that was emphasised in the 1980s and the early 1990s (Lynch, 2003). Grant (1998) illustrates in his figure how a company's unique set of resources and capabilities constitutes the strategy of the company.

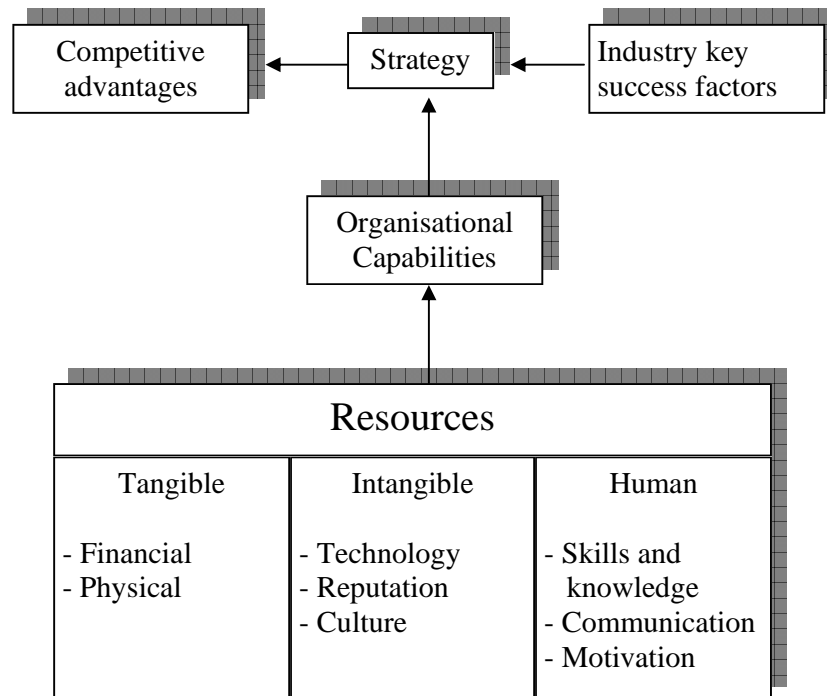


Figure 3.2 – The relationships among resources, capabilities and competitive advantage (Grant, 1998, p113)

3.3.1 Resources

Grant (1998) divides the resources a company can possess into three different groups as follows:

3.3.1.1 Tangible resources

The tangible resources include financial and physical resources and can be found in the company's financial statement. The resources value does not have to correspond with the value in the financial statement since they can be over- as well as undervalued. It is important not only to value the assets, rather to find its possible potentials and how to use them in the best manner (Grant, 1998).

3.3.1.2 Intangible resources

The intangible resources can be divided into two different groups which are reputation and technology. Brand names and other trade marks, e.g. the company itself, are forms of reputational assets; their value depends on how the customer perceives it. This value reflects the price premium that the customers are willing to pay for a product with a well known brand



name over that for an unbranded or unknown brand. A central issue in valuing technological resources is ownership. Proprietary technology cover technology in which property rights are established in law e.g. patents, copyrights and trade secrets (Grant, 1998).

3.3.1.3 Human resources

Human resources consist of employees working for the company and their capabilities, knowledge and decision making abilities gives the company productive labour. The ability of employees to use their effort and skills may depend not only on the personal skills but also on the organisation context. This organisation context is affected by the culture of the organisation (Grant, 1998).

3.3.2 Organisational Capabilities

Grant (1998) defines resources as the productive assets in the company while capabilities are what the company actually can do. Amit and Schoemaker (1993) describe a company's capability as the capacity to develop and extract resources in combination with the use of organic processes towards a desired goal. Grant (1998) argues that resources are not productive by its own; instead a coordination of several resources is needed to solve a specific task. Prahalad and Hamel (1990) name the most fundamental capabilities for organisations as its core competence.

Capabilities, in contrast to the three categories of resources mentioned above, includes only those internal company attributes that enable a company to coordinate and exploit its other resources (Barney, 2002). Unlike resources, capabilities are based on developing, carrying, and exchanging information through the company's human capital (Amit and Schoemaker, 1993).

3.4 Porter's generic strategy

According to Porter (1998) a company can possess one of two basic types of competitive advantages; low cost or differentiation. "The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategies for achieving above-average performance in an industry; cost leadership, differentiation and focus. The focus strategy has two variants, cost focus and differentiation focus" (Porter 1998, p11).



3.4.1 Cost leadership

The cost leadership strategy means that the company constantly has to search for possibly cost efficiencies in every area. To achieve substantial gains from this strategy, Porter (2004) argues that the organisation must be the unchallenged cost leader in this position. By choosing the low cost strategy, companies try to gain superior margins compared to its rivals. This strategy is beneficial if the industry is characterized of powerful suppliers and strong customers.

Price bundling can be seen as a different angle to compete on price. This means that the company offers a discount on one product or service if the customer is using a number of other services provided by the same company (Gardener and Falzon, 2000).

3.4.2 Differentiation

Differentiation occurs when the company has a range of clearly differentiated products which appeal to different segment of the market. Differentiation adds costs in order to add value for which costumers are willing to pay premium prices (Porter, 2004). The more unique the difference, the more sustainable is any advantage which increases (Thompson, 2001).

3.4.3 Focus

Companies choosing the focus strategy aim to target a specific group or segment of customers that they will provide with better service than competitors. This will be obtained by focusing either on low costs or differentiation (Porter, 2004).

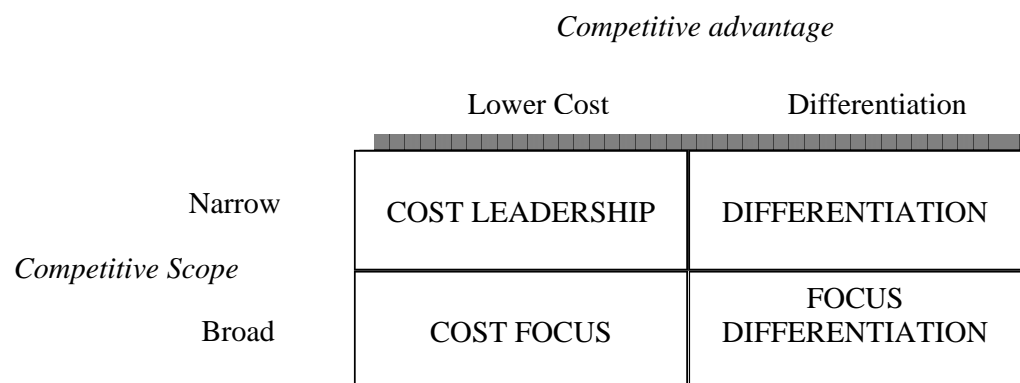


Figure 3.3 – Porter’s generic strategy (Porter, 1998, p12)

Porter (2004) argues that the worse strategic error is to be *stuck in the middle*, which means that the company adopt all the strategies at the same time. By doing this the company is not capable of achieving any of them because of their inherent contradiction.

3.5 Theory of growth

3.5.1 Growth vector components

Ansoff's model; *growth vector components*, from 1965, illustrates a company's different possibilities for growth (Ansoff, 1965).

	Product Present	Product Future
Market Present	<i>Market Penetration</i>	<i>Product Development</i>
Market Future	<i>Market Development</i>	<i>Diversification</i>

Figure 3.4 – Ansoff's growth matrix (Ansoff, 1965, p109)

Brassington and Pettitt (2005) argue that three of the four boxes; market penetration, market development and product development, give the company the opportunity for sustained growth. Though, each of them has different potential depending on the current market situation. Diversification on the other hand occurs when a company decides to move outside its current boundaries to utilize new opportunities.

- When utilizing market penetration the aim is to enhance sales in current markets. This is often achieved by aggressive marketing and not by changing the product. This strategy is useful when the existing products are successful and new market shares can be acquired.
- Market development means that more of existing products are sold to new markets either by new geographic segments or by creating or opening up other new segments.
- Product development means selling new or superior products into already existing markets.



- Using the diversification strategy involving entering unfamiliar areas in both product and market terms. One of the main benefits is to spread risk and make the company less dependent on one product or one market.

3.5.2 Growth by consolidations

Thompson (2001) divides the different possibilities to growth into four categories;

- Organic growth which is growth from using the organisations own resources and develop the required competence.
- Acquisitions are an umbrella term covering both the friendly and unfriendly purchase (i.e. a takeover) of one company by another, and a merger of two or more companies' assets.
- Strategic alliances are a form of agreement between two or more companies.
- Joint venture is an alliance but where an exchange of minority shareholding between the companies concerned take place or the establishment of an independent company.

The three last possibilities of growth pointed out by Thompson (2001) are all examples of consolidations where two or more companies are combined. The powers of consolidation are restructuring many branches. Weak companies are outmanoeuvred and the power is concentrated to a small number of large companies.

3.6 Additional forces

As a complement to the four theories and models described above, some additional forces have been implemented to simplify the analysis and to give a true and fair picture of the online poker industry's future development.

3.6.1 Globalisation

According to Coulter (2005) the globalisation is affecting a company's strategy in two significant ways; a global market and global competitors. A global market implies that a company can see the whole world as a potential market and to be able to gain competitive advantage, the company can not only see to its domestic market. However, not only does this mean that domestic organisations can operate anywhere in the world, it also means foreign organisations which now have to be seen as competitors, can too. Thus, global competition is becoming increasingly evident which encourages further globalisation (Coulter, 2005).



Internet has further increased the creation of one global marketplace since it is organised without regards to geography. The e-business is just a mouse click away no matter where they are physically located, allowing buyers to compare products globally. Due to the internet the balance of power is tipped in favour of buyers (Manardo, 2000).

3.6.2 Innovation

The importance of innovation forces companies to head forward and not just follow old routines. This is one of the largest challenges for managers in 21st century (O’Rielly and Tuschman, 2004). Companies operating in an innovative culture ensure a constant development of ideas, products and services. Innovation is a necessary component to create competitiveness on an international basis (Coulter, 2005).

This is vital especially in the service sectors where, in the absence of a concrete productive structure, innovation is even faster and competition harder and increasingly global. Another motive for the increased speed and competition is that services are often easier to copy for competitors than for a solid product. The e-business contains a number of easy to copy characteristics, and for companies operating on the internet, the importance of other factors of getting a competitive advantage increases (Massa and Testa, 2004).

Schilling (1999) argues that internet users have other preferences for their choice of products. Schilling exemplifies this with a user of a computer based system that may choose a system based on the number of users instead of the technological benefit of a particular platform. Further, Schilling (1999, p267) states that; “in a market characterized by network externalities, a user’s benefit from using a good increases with the number of other users of the same good”.

3.7 Company valuation

3.7.1 The Discounted cash flow model

The most commonly used valuation model is the discounted cash flow model (DCF); the most frequently used among these is the McKinsey model. The idea with discounted cash flow model is that a company is worth all future free cash flow discounted back to the present value with a discount rate equal the level of risk for the investment. In order to calculate the free cash flow using the McKinsey model, the following five variables are required; EBIT, cash taxes on EBIT, capital expenditure, depreciation and change in working capital (Frykman and Tolleryd, 2003).



3.7.2 The weighted average cost of capital

The weighted average cost of capital (WACC) corresponds to the risk that investors face when they invest in a specific company instead of others with comparable risk. The WACC must include all different sources of capital including debt and equity. This because the free cash flow is available to all investors for compensating the risk they take. Next, each security's required return must be weighted by its target market base weight and must also be measured after corporate taxes. To determine the WACC, three components are needed; the cost of equity (calculated by the capital asset pricing model), the after tax cost of debt and the company's target capital structure (Koller et al, 2005).

4

- EMPIRICAL FINDINGS AND ANALYSIS -

The thought with the chapter is to outline the empirical findings and sew them together with the theoretical chapter in order to obtain an analysis of the online poker industry. These findings will then be applied on 24hPoker through the use of a SWOT analysis. The process will then end with a valuation of 24hPoker. The chapter starts off with a short presentation of 24hPoker and the four respondents.

4.1 Company presentation – 24hPoker AB

24hPoker AB was formed in January 2000 under the name 24hBet AB. In August 2001 the first product was launched; this was sportsbetting via telephone, and in December the same year, the online version was launched. Poker for real money was introduced in May 2002 and Casino was launched in September 2003. A joint venture with Unibet Group Plc was agreed in June 2004. B2B Poker AB was founded and the poker software was transferred from 24hBet AB to B2B Poker. B2B Poker Network was launched in September 2004. In March 2005 the company changed their name to 24hPoker AB to better reflect their focus on poker and all gaming operations was consolidated to one site, 24hpoker.com (From now on, 24hPoker AB will be referred to only as 24hPoker). In 2006, 24hPoker increased its ownership in B2B Poker by acquiring Unibet's part and now owns the entire company. Daydream Software AB listed on the Stockholm stock exchange O-list, made a public offering to the shareholders of 24hPoker in March 2006. After the merger, the shareholders in 24hPoker owned approximately 90% of the merged company. In July the same year, the board of 24hPoker decided to liquidate the activity in Daydream (www.24hpoker.se). The overall price for the merge with Daydream cost 24hPoker approximately 100 million SEK and 24hPoker is now in a dispute with their financial supervisors Hagström and Qviberg (www.privataffarer.se).

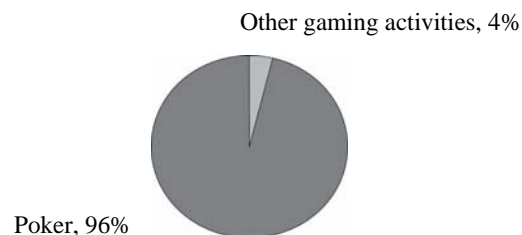


Figure 4.1 – 24hPoker segment size in % of revenue (www.24hpoker.se).

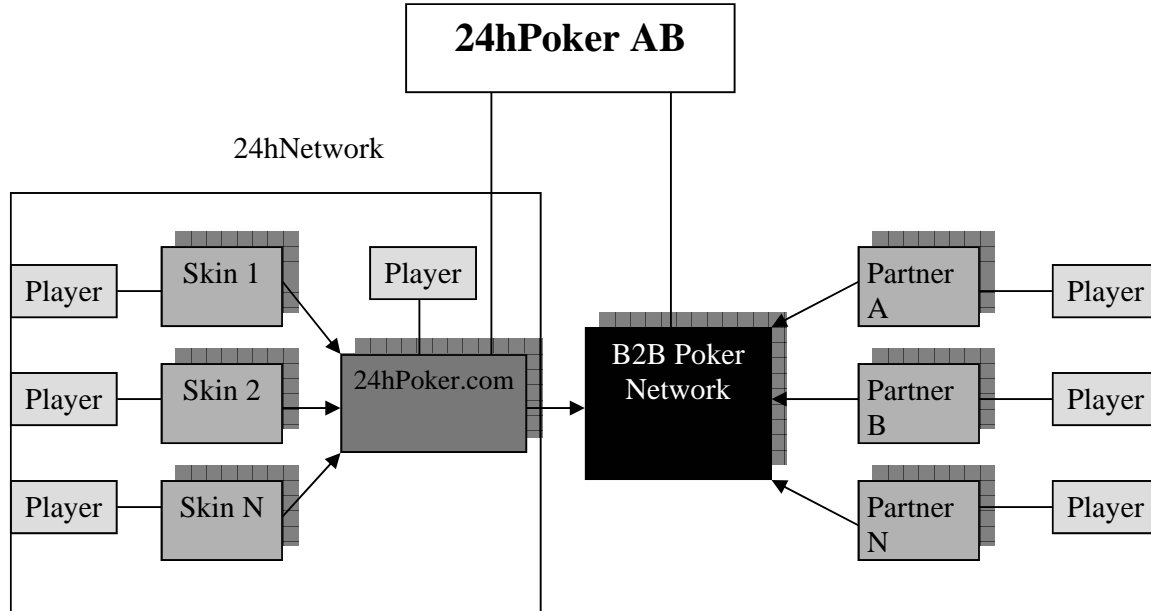


Figure 4.2 – 24hPoker Company structure (www.24hpoker.se)

24hPoker operates both as a service provider and as a gaming operator in the online poker industry. As a gaming operator 24hPoker offers competitive online gaming platforms for poker, sportsbetting and casino. As the model above illustrates, the gaming operating activities are divided into two parts; (1) through B2B poker, where larger organisations are offered a possibility to offer customers online poker. The partner will benefit from the large number of players from day one and; (2) through 24hNetwork, where companies without a gaming licence are offered a turn key-solution for online poker, sportsbetting and casino. This is an easy and cheap solution for smaller companies to get an opportunity to enter the online gaming industry. The company also acts as a service provider through their own gaming site, 24hpoker.com, included in the 24hNetwork, which offers online poker, sportsbetting and casino to end customers in a number of different languages.

The two networks together contain over 750,000 players; 24hPoker's turnover was in 2005 over 153 million SEK and their profit for 2005 exceeded 20 million SEK (www.24hpoker.se).



4.2 The respondents

4.2.1 Mikael Lenneryd – Marketing Director of 24hPoker

Mikael Lenneryd is the Marketing Director of 24hPoker since September 2005. He has a solid background in marketing and has held a number of positions in marketing before his recent position at 24hPoker. For example, he has been the marketing manager for a number of projects for advertising.com, a world leading company in online marketing with customers such as Ladbrokes and Betsson.

4.2.2 Licensee Manager X – Network Y

Due to a requirement from the Network Company, neither the company's nor the respondents name are allowed to be mentioned in the thesis. Therefore the company and the respondent are further on in the thesis referred to as respondent X and company Y. Respondent X is the Licensee Manager at one of the worlds leading online poker networks. His work includes training of new licensees as well as providing the existing licensees with the latest information about the industry to make it possible for them to adapt new trends and conditions. This, together with his independence, makes him well suitable as a complement to the respondent of 24hPoker.

4.2.3 Dawid Myslinski – Analyst Redeye

Mr Myslinski works as an analyst at Redeye, an equity research company, and has a solid background from e.g. ABN AMRO and SEB. He has worked with equity derivatives and risk management. The initial contact with Redeye was taken with the chief analyst; Urban Ekelund, since his name has figured in a number of published articles concerning the online poker industry and Mr Ekelund referred the authors to Mr Myslinski.

4.2.4 Martin Arnell – Analyst Carnegie

Martin Arnell works as an analyst at Carnegie with concentration on media and retail. He started at Carnegie in 2003 with back office duties and has been a research analyst since 2006. Unibet is the first company that he covers all by himself and he has done so since 2006.

4.3 The combining of the theoretical findings

The different theoretical ideas and models have been combined into a framework that together with the empirical material will form the branch analysis. As mentioned in the introduction part of the thesis, the regulatory changes and the threats of additional regulatory changes have a large impact on the online poker industry and its future. Thus, for a company in the industry to gain sustainable profitability the most important factor will be the possible regulatory changes. This is further confirmed by all the four respondents. Regulation is therefore the factor that permeates the framework created for the thesis to evaluate the online poker industry.

Next, the four different models and theories describing the competition in the industry, companies' internal resources, companies' possibilities to get a competitive advantage and companies' possibilities for growth are put into practice. Last, to make it possible to evaluate the possibilities of sustainable profitability in the online poker industry, globalisation and innovation has been incorporated in the framework.

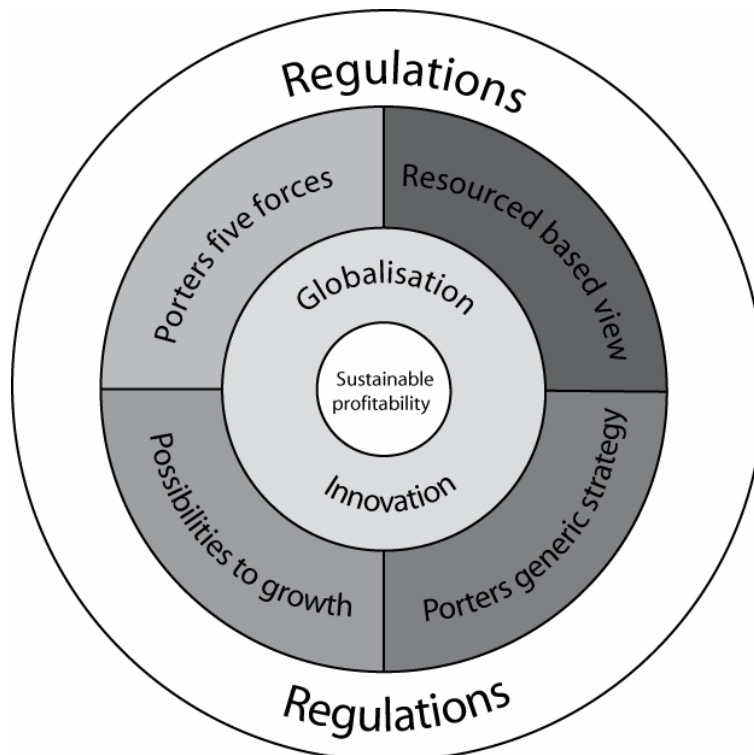


Figure 4.3 – Framework for sustainable profitability in the online poker industry



4.4 Competition in the industry

4.4.1 The threats of new entrants

There are two ways of entering the online poker industry; join an existing network or start up an own completely new network. If a company wishes to join an existing network, companies such as 24hPoker offer turn key solutions to simplify for new companies to enter the market (Prospect, 24hPoker). This way of entering require small resources, hence this way can be seen as an easy way to enter the market.

The alternative approach is to start an own network which requires investments in software but mainly large investments in marketing to attract new customers if the company will have a chance to compete with the existing companies. All the respondents' emphasise the importance of having a large number of players. Schilling (1999) also discusses the importance of a large number of users and argues that they may choose a specific platform based on the number of users instead of the technological benefits. Mr Myslinski believes that there will be only three to five larger networks in three years time which further illustrates the problems if a new company wishes to start a completely own network.

Lynch (2003) stipulates that new entrants come into a market place when the profit margins are attractive. This is something that has characterised the online poker industry but due to increased costs, especially in marketing expenses, the margins have started to decrease and the price per new player has started to increase (Lenneryd and Redeye in their analysis of RedBet). Peter Dubens, the chairman of UKbetting says that the price per player increased with 600 % between 2002 and 2005 (Garrahan, 2005).

According to Porter (2004) capital requirement is one of the major obstacles for entering a new industry. The companies in the industry spend a high percentage of their revenue on marketing to acquire new customers and strengthen their brand name (PartyGaming annual report, 2005). Respondent X argues that the ban in the US has further increased the competition since several of the companies that have left the American market are now intensifying their activities in Europe. Government owned Svenska Spel illustrates that it is possible to enter the industry as a completely new player. Svenska Spel introduced their poker site in April 2006 and already held 30 % of the Swedish market in December 2006 (www.aftonbladet.se). Although, Svenska Spel's situation is quite unique since they already had a large customer base and is a well-known and trustworthy brand.



4.4.2 The bargaining power of buyers

Since there are a large amount of companies offering similar products, buyer power is strong in the online-poker industry (Porter, 2004). E-business contains a number of easy to copy characteristics and therefore the importance of finding other factors to gain a competitive advantage increases for companies operating on the internet (Massa and Testa, 2004). When PartyGaming in the beginning of 2006 introduced Black Jack in their poker browser, it only took a few months before a number of companies offered the same product. Respondent X argues that the loyalty in the industry is very low, which is similar to Mandardo's (2000) thoughts that in e-business the product is just a mouse click away allowing buyers to compare products globally.

A common way to attract new customers in the industry is to lower the margins on one product to get the customers to start playing on the site and then earn money on other products. This can be compared to the idea of price bundling (Gardener and Falzon, 2000). Mr Lenneryd says that one of 24hPoker's strategies to attract new customers is to use low margin odds on sportsbetting to attract more players to their high margins games, poker and casino. Further, Betfair offers a zero house margin on their casino games (www.betfair.com). Another example is Worldpokerexchange.com which offers 100% rake-back to their customers. This strategy goes in line with Respondent X's prediction that poker only have five to six years left as a cash cow for online poker companies and after this period it will more act as an entrance to online gaming portals.

4.4.3 The bargaining power of suppliers

When defining the bargain power of suppliers one has to keep apart the companies that own their own platform and companies that operate as skins or partners. The size of a partner or skin has importance for the power of the supplier. Large partners have more power and can therefore put pressure on the supplier to get a better deal. For example Unibet paid a lower part of their rake than other partners to B2B Poker Network. On the other hand, small skins in the 24hPoker Network pay a larger amount of their rake and also have small possibilities to affect their situation (Prospect 24hPoker, 2006). According to Karagiannopoulos et al. (2005) suppliers are more powerful if there are no substitutes for the products they offer. Despite the fact that Unibet had the best deal in the B2B Poker Network they switched network to Microgaming earlier this year. This, together with the fact that the suppliers offer a digital product that is very easy to copy indicates that supplier power is low. The large companies such as PartyGaming and Pokerstars, owning their own networks and network operators such as 24hPoker are not as largely affected by their suppliers as a small skin or partner since the large companies as well as the network operators have most of the required expertise in their organisation.



4.4.4 The threat of substitutes

All the respondents agree that online gaming sites will offer more diversified product ranges to their customers in the future. This means that several of the new potential substitutes probably will be supplied by already existing online gaming sites. Already today several gaming sites have added new online games to their portfolios such as bingo, scratches and backgammon (www.tain.com and www.partygaming.com). Respondent X believes that in the future the online gaming sites will offer family-solutions where they offer everything from bingo for the mothers to action games such as counter-strike for the children to broaden their customer base and involve entire families. Live poker played at casinos and poker clubs also has to be seen as a substitute but its existence is very limited and should therefore not be seen as a potential threat.

4.4.5 The extent of competitive rivalry

The competition in the online poker industry has increased significantly during the recent year which is something that all the respondents agree on. Both Mr Myslinski and Mr Lenneryd believe that the ban in the US will increase the competition in the industry even further since several strong companies that had the US as their main market before now will move their focus to Europe. On the other hand Mr Arnell is unsure if the companies mentioned above actually will have such large resources to be able to make a significant impact on the European market after the major losses in revenues when they abandoned the US market. Respondent X believes that the changes in US regulations will benefit the European network operators since several US online gaming sites want to enter European networks.

Porter (2004) argues that the degree of competitive rivalry is dependent to which extent companies' resources have to be spent on competition between companies in an industry. This is very typical for the online poker industry which is characterized by attracting new players through wealthy bonuses, rake-backs and other additional benefits. This is exemplified by Unibet that spends 42 % of their revenues on marketing expenses (di.se). This can also be seen in Redeye's analysis of RedBet where they estimate that the cost of acquiring a new player will increase from 6,100 SEK in 2006 to 19,000 SEK in 2010.



4.5 Resources and capabilities

4.5.1 Tangible resources

The online poker industry is a digitalised industry; hence it has to be seen as an industry with a small amount of tangible resources. The largest tangible post is the resources allocated to marketing. Mr Lenneryd believes this post will be even more important in the future due to the fact that the price for attracting new customers will increase. Also PartyGaming emphasise the importance of large marketing resources to attract and retain customers (www.partygaming.com). Grant (1998), talks about the importance of the resources possible potentials and how to use them in the most effective way. Mr Myslinski highlights the large resources that can be saved by promoting one brand name instead of two which can be obtained through consolidation.

4.5.2 Intangible resources

Grant (1998) divides the intangible resources into two groups, reputation and technology. Mr Arnell highlights the increased importance of brand awareness to gain sustainable profitability. The importance of a strong and global brand name is something PartyGaming agrees on in order to penetrate new geographical markets (www.partygaming.com).

A well developed and user friendly software is something both Mr Myslinski and Respondent X believe is important to attract new customers. One of 24hPoker's business ideas is to have a platform that enables new skins to be up and running in approximately two weeks. They also have a technical advanced product that can be played without downloading the software which also gives Mac users the opportunity to play online poker (Lenneryd). Since the products in the online gaming industry are characterized by products that are easy to copy the possibility to have a unique product is almost impossible. Therefore 24hPoker has developed a platform that enables a quick and easy implementation of products and payments solutions (Lenneryd).

4.5.3 Human resources

Respondent X emphasises the importance of competent employees as well as personal support and close connections with the company's customers to develop long term relations. He exemplifies this with the inexperienced player, often with low computer skills, which have many questions and therefore require top-class support. This goes in line with Grant's (1998) ideas that unique knowledge of a workforce can create a competitive resource for the company.



Mr Arnell believes that the companies that had the US as their main market before and now have moved focus to Europe will have problems to find top-class employees when they make their product portfolios more suitable for the European market e.g. in sportsbetting where they need to have large knowledge about the different domestic markets.

4.5.4 Organisational Capabilities

Although a company has a number of resources, the resources need to be coordinated in order to create value for the company; a resource is not productive by its own (Grant, 1998). A good example is an online poker company's capability to infuse reliability in their customers, which requires a combination of resources. To obtain this an online poker company needs a mix of good support, quick money transactions with a number of payment solutions and reliable software that works perfect (Respondent X and Prospect 24hPoker).

The penetration of new markets leads to increased globalisation (Coulter, 2005). New markets do not only mean new customers but also new problems for the company; hence the security aspect becomes even more significant. Respondent X says that one of the largest threats against the industry is credit card frauds and as long as the banks do not offer more secure payment solutions this problem will cost the companies in the industry large amounts of money. The companies that can combine the resources relevant for security superior to their competitors have an opportunity to gain a competitive advantage by preventing both this problem as well as other kinds of frauds.

24hPoker is divided into twelve different divisions located in Sweden, Malta, Estonia and Costa Rica. By organising the company in this way, 24hPoker aims to gain competitive advantages by the characteristics of the four different countries such as; (1) low labour costs in Costa Rica, (2) the tax benefits for players by having the gaming license in Malta, (3) the strategic position in Estonia for the Eastern European market and (4) the competence in Sweden for software development. This is a good example of a company within the online poker industry that has tried to gain a competitive advantage by organizing its resources.

4.6 Competitive advantage

4.6.1 Cost leadership

The cost in poker, *the rake*, has not until recently been used as a way of competing in the industry. When online poker companies compete on price, they offer their players different percentages of rake-back from the rake paid by the player.



Porter (2004) argues that the organisation that chooses the cost leadership strategy must be the cost leader and the company that uses this strategy tries to gain superior margins compared to its rivals. However, this is not the case in the online poker industry since companies that try to compete on price have no possibilities to gain higher margins. This can be exemplified by worldpokerexchange.com that with their 100% rake-back have a negative margin on their poker activity and the reason is instead to acquire more players to their site and earn money on other games. All the respondents believe that the online poker market will be deregulated in the future and replaced by licenses. Respondent X believes that this will affect the size of the rake which will increase due to high licenses fees, which will lower the margins in the online poker industry.

4.6.2 Differentiation

As mentioned above, the online poker industry offers products which are very similar to each other. Due to the fact that the industry operates online the companies target all segment groups that Porter (2004) talks about at the same time without additional costs. The way that companies can try to differentiate their product is to provide a variety of stakes on other games than the most common ones and a large number of multi player tournaments with large player liquidity. Companies that have these products can therefore offer a better product. However, the only way to obtain this is to have a large number of players which only the largest networks can offer. This means that it is nearly impossible to diversify the product for smaller companies and if they manage to do that, the products will be very easy to copy. Porter (2004) mentions that differentiation adds costs in order to add value for which customers are willing to pay a premium price. This can in one way be seen in the online poker industry where the largest companies do not have as high rake-backs as many other companies, instead they offer a large number of players on their site leading to a better product.

4.6.3 Focus

The focus strategy that Porter (2004) talks about is not common in the online poker industry. Though there are some examples e.g. Livepoker.com that offers 3D poker for players that want an enhanced playing feeling and require nothing else than the standard games. This can be seen as a focus strategy by differentiation.



4.7 Growth

4.7.1 Market penetration

Online poker is a relatively new phenomenon and the growth in the industry has been remarkable in recent years. Brassington and Pettitt (2005) argue that to increase market penetration, increased and more aggressive marketing is vital. This is something all the four respondents have the same opinion about and to have enough resources for marketing spending is something they believe will be one of the most crucial factors of success in the future. On the other hand, the increased marketing costs are also a threat for the companies and e.g. Unibet struggles to decrease their marketing expenditure to reach their targeted goal of 30% of their revenues (www.di.se).

The market penetration goes hand in hand with Thompson's (2001) thoughts about organic growth that derives from utilising the company's own resources and developing new competences. An example of this is 24hPoker's new marketing division based in Malta launched to improve the company's marketing effectiveness.

The former CEO of PartyGaming, Richard Segal, highlights that when the market develops, companies will focus on a marketing strategy with greater emphasis on player retention and the optimization of player activity. This is because the cost of acquiring a new player is so much larger than to *wake up* an existing player (ANON, 2005). This can be exemplified by RedBet's figures of acquiring a new customer which they believe will rise from approximately 6100 SEK in 2007 to 19000 SEK in 2010 (Redeye in their analysis of RedBet). Also Mr Arnell emphasizes the importance of active customers which he argues is the most important driver for gross winnings.

4.7.2 Market development

All four respondents agree that market development is necessary to obtain the high growth rates and that there are still several unexplored markets to penetrate. One vital factor to make growth possible, as mentioned by Mr Myslinski, is the increased internet penetration throughout the world. For instance only 27% of Europe's population had internet in 2005 compared to Sweden's 75% (Unibet annual report, 2005). Respondent X as well as Mr Arnell predicts that the Asian market is where the next poker and online gaming boom will take place. On the other hand, 24hPoker sees Russia and the rest of Eastern Europe as a market with great future potential and has therefore aimed part of their resources to those markets by the location of their support in Estonia (Prospect, 24hPoker). 24hPoker also mention the problems occurring when entering new markets, both the regulatory and cost aspects. Even though there are several unexplored markets the rivalry they get a strong position in these



markets will be fierce due to the competition that exists in the industry. The situation has become even more challenging after the US regulatory changes (Myslinski).

4.7.3 Product development

Brassington and Pettitt (2005) describe product development as selling completely new or improved products into existing markets. As mentioned earlier, a broaden product range is vital for success in the online poker industry both to reach new segments of customers and to give existing customers a wider range of products (Arnell). An example of this is Mr Arnell's description of Unibet where more than 80% of Unibet's users do not cash out their winnings from sportsbetting but instead spend the money on non sportsbetting games.

4.7.4 Diversification

Due to the fact that the online poker industry is still a relatively young industry with a number of unexplored markets there have not been incitements enough to use a diversification strategy to increase sales. A diversification strategy means entering unfamiliar territory in both products and market terms and one of the main attractions of this option is to spread risk Brassington and Pettitt (2005). Nevertheless, when the market will stagnate a diversification strategy is more likely to be used since companies need to find new products and markets to be able to retain their high growth rates. Soft games and skill games are two new possible products that Mr Lenneryd and Mr Myslinski mentions when talking about a diversification strategy.

4.7.5 Growth by consolidation

Thompson (2001) mentions three examples of consolidation where two or more companies are combined; these are acquisitions, strategic alliances and joint ventures. The online poker industry has lately been characterised by different kinds of consolidations, both friendly and unfriendly ones, and the consolidations are likely to increase (Myslinski). Two main reasons for this is the money that can be saved on marketing costs by advertising one company instead of two and the increased number of players the combined company will possess (Myslinski and Respondent X). This can be exemplified by the merger between the two network operators TAIN and Tribeca which will make the companies able to take advantages of the higher player liquidity due to the merger (www.tain.com).

PartyGaming, on the other hand, has recently bought a number of smaller players and an advantage of this strategy is that PartyGaming gets total control of the acquired companies (www.partygaming.com). This is something that Respondent X believes will continue in the industry and he argues that in the future there will be less than ten companies operating in the



industry. This argument follows Thompson's (2001) ideas that the powers of consolidation are restructuring many branches. He states that weak players are outmanoeuvred and the power is concentrated to a small number of large players.

Also, strategic alliances have been more common lately to gain competitive advantages. The cooperation between Boss Media and 24hPoker, where they have created a mutual digital wallet that allows players to play on both networks without moving funds between them, is a good example of such an alliance (www.24hpoker.se).

4.8 24hPoker's possibilities for sustainable profitability

The company chosen for the thesis, 24hPoker, will here be compared with the branch analysis above. This will be conducted by the use of a SWOT analysis. The information is extracted from the interview with Mr Lenneryd and from 24hPokers homepage.

4.8.1 Strengths

The fact that 24hPoker act both as gaming operator through the B2B Network and the 24hNetwork as well as a service provider of their own gaming site 24hpoker.com, which makes it possible for them to stay profitable even if one of the two income sources should generate smaller incomes in the future. By owning their own platform, 24hPoker can easily make changes in their software if there is a need for it due to new trends and other possible changes. Another strength of their software is the high quality it offers, both in user-friendliness and reliability. 24hPoker also has a unique skin and partner solution which makes it easy for new skins and partners to integrate, regardless their size or resources. The company is well organised and is taking advantage of different sources of benefits that the different countries where they are located, can offer. This is ranging from low cost employees in Costa Rica to the tax benefits for customers from having their gaming licence in Malta. 24hPoker's decision to locate the company in a number of countries has also given them the possibility to tie up competent and experienced personnel and this is seen as a vital factor for success from the company's point of view. Further, another of 24hPoker's strengths in human resources is their support located in Estonia offering support round-the-clock. The support is offered in Swedish, English, Finnish, Russian and Estonian.

4.8.2 Weaknesses

24hPoker's network B2B Poker Network is not among the largest networks. The network has problems to offer top class multi table tournaments with the same number of players as the largest companies nor high quality games in other games than the standard ones. In 2006 both Unibet and BestPoker moved from the B2B Poker Network due to this reason



(www.expressen.se). The increased consolidation in the industry leads to even larger networks which make the B2B Poker Network player liquidity even more modest.

24hPoker had in 2005 net sales of 154 million SEK in contrast to PartyGaming that in the same year had net sales of over 6.6 billion SEK (www.partygaming.com). These figures illustrates that 24hPoker is a small player in the online poker market and their resources that can be spent on marketing to acquire and retain players as well as strengthen their brand name are limited. 24hPoker's brand name is not even near as well-known as the largest players such as PartyGaming and PokerStars among poker players in general. This is a weakness when the company will try to penetrate new markets, on the other hand among branch people, the 24hNetwork and the B2B Poker Network skin and partner solution is well known and do not require as large resources for marketing as their online gaming site.

4.8.3 Opportunities

Since online poker is still a relatively young phenomenon, there are still a number of large possible markets for future growth. However, for the online poker companies to be able to grow in these markets, increased internet penetration is necessary. The markets where the online poker companies predict that the future growth will occur are mainly Asia and Eastern and Southern Europe. 24hPoker is well positioned for future growth in Eastern Europe with their already existing support in Estonia which also offers support in Russian as well as the establishment of important connections in the area. This also enables closer connections to the customers in these areas. In December 2006, 24hPoker signed an agreement through their B2B Poker Network with Bet United which is a company that targets the markets in Southern and Eastern Europe. This cooperation will put 24hPoker in an even better position in these areas. More and more people are paying attention to online portals and when this usage is increasing people get more convenient using these kinds of products which in turn can lead to that 24hPoker can be able to reach new customer segments. The change in regulations in the US forces companies that earlier had US as their main market to shift focus from the US to e.g. Europe. These gaming sites and networks try to find a way into the European market and 24hPoker's partner and skin solution is a possible entrance for these companies.

4.8.4 Threats

The largest threat against 24hPoker as well as the industry as a whole is the possible regulatory changes. As mentioned in the introduction, the changes in US regulations made it illegal for banks and credit cards companies to make payments to online gaming sites and if a similar regulatory change would occur in the EU it would be devastating for 24hPoker since nearly all of their revenues comes from Europe.

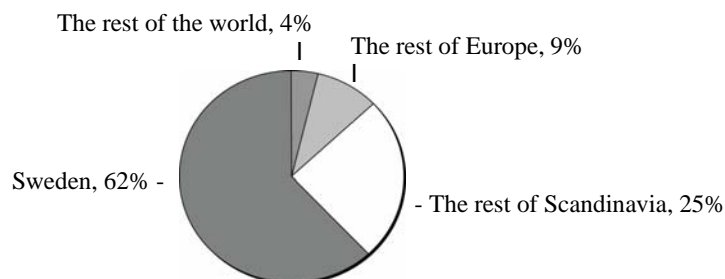


Figure 4.4 – 24hPoker customer segments (www.24hpoker.se)

It has to be mentioned that there are still companies providing online gaming for customers in the US, however they are breaking the law and if managers or board members from these companies set foot on US territory, they will be prosecuted (Mr Myslinski). It is possible that companies can use a similar approach if online gaming would be banned in the EU; though there are other ways for governments to prevent gaming such as banning internet suppliers to let their users enter these kinds of online portals. This is something that already has happened in Italy. Another regulatory aspect is a possible deregulation which will lead to licenses and the costs of these licenses are expected to be expensive. This may affect the companies' margins in a negative way and together with the trend in the industry with the increased marketing costs, the lower margins that will follow is a threat for 24hPoker.

24hPoker earns the lion part of their revenues from poker related activities and the company also has a strong belief that poker will continue to be their outstanding most important source of income in the future. Other games such as sportsbetting have never had a high priority for 24hPoker since this product instead has been used for attracting new customers; hence those margins are lower. Although there is a trend within the industry that poker is more and more used as a product to attract new players by the use of e.g. wealthy rake-backs. This is mostly common among companies that cannot offer top games due to lack of player liquidity. In a future possible scenario this will increase and for many online gaming companies poker will only be used as an entrance product to acquire new players to their online gaming sites. Consequently, since 24hPoker is a relatively small player there is a risk that they in the future cannot attract players without a high rake-back. Since poker stands for such a large percentage



of the company's total revenues, a too large decrease in the poker margin due to wealthy rake-backs will be dangerous for 24hPoker.

The threat not to be able to guarantee the players and the players' money security due to false credit cards and other kind of frauds is a threat for 24hPoker as well as for the other companies within the industry.

4.9 Valuation

4.9.1 How to value an online gaming company

Mr Arnell argues that a valuation of an online gaming company is slightly different from a traditional service company. Both Mr Myslinski and Mr Arnell agree on that there has recently been a shift in focus from growth to regulatory aspects when valuing these kind of companies. Mr Myslinski also mentions the future competition in the industry as an important factor for valuing companies in this industry. Finally, since the online gaming industry is not fully formed Mr Arnell emphasises the importance of not spending too much attention on historical data when analysing online gaming companies.

4.9.2 Valuation of 24hPoker

As mentioned in the methodology chapter, the information available for the valuation of 24hPoker is very limited. The only complete annual report is the one from 2005; this together with the 2006 Jan-Sep interim report has been used for making estimations for the last 3 month of 2006 to give the authors two complete years to base the valuation on. Another setback is that the number of notes is very limited in 24hPoker's financial statements; hence the reports that are available do not give a clear picture of the company. 0.64 SEK was the share price of 24hPoker on the 28th of December and this value is used as a comparison to the estimated share values calculated in the thesis (www.di.se). (For all the calculations, see Appendix).

4.9.2.1 EBIT

24hPoker have had a remarkable growth during 2005 and 2006. Nevertheless, the growth in the online poker industry is likely to decrease in the forthcoming years, mainly because a stagnation in the main markets. The future growth is largely dependent on the ability to explore new markets and the increased internet penetration is vital for this expansion. According to PartyGaming's annual report from 2005, the online poker industry was expected to have an annual growth rate of 14% to 2010. However, with the analysis of the industry and 24hPoker in mind it is estimated that 24hPoker will not reach this growth rate and the growth



for 2010 is estimated to be 11%. 24hPoker's costs are assumed to increase more than the growth during the first years of the estimation of the company's value due to increased marketing costs. The reason for the equalised level of growth in revenue and growth in costs that is estimated to occur in 2009 derives from the increased revenue from 24hPoker's skins and partners where they can benefit from economies of scale.

4.9.2.2 Tax

24hPoker gives no information about the amount of tax paid on their financial items; hence only the tax on EBIT is used in the valuation. 24hPoker paid a tax of 24% in 2005 and in the three first quarters in 2006 the company paid a tax of 38%. An assumed tax rate of 30% is therefore used in the valuation.

4.9.2.3 Depreciation

The depreciation increased a lot between 2005 and 2006. It is stated that the large increase is not representative for the company and that the increase derives from the investments made when the company moved its operations to Malta, and that a large percentage of these investments were depreciated the same year. Consequently, it is estimated that the depreciation figure will decrease and reach a constant level.

4.9.2.4 Capital expenditure

Capital expenditure includes investments in net property, plant, equipment etc. plus depreciation. 24hPoker spent 134.2 million SEK on investments in 2006 of which 126.4 derives from the acquisition of Daydream and the outstanding B2B Poker shares from Unibet. The rest pertained to investment in servers and similar assets. It is estimated that the large investments in tangible assets originate from the move to Malta. Hence, the investments are estimated to be lower in the future.

4.9.2.5 Change in working capital

The change in working capital is very difficult to estimate due to that the only two historical figures available differ a lot. As a guideline when calculating the change in working capital is the percentage of sales that the working capital constitutes of in Redeye's analysis of RedBet, used. The change in working capital is estimated to decline later on.

4.9.3 Calculation of WACC for 24hPoker

Since there is no beta value available for 24hPoker the authors have looked at the beta value used by Redeye in their analysis of RedBet. Redeye used a beta value of 1.6 for RedBet, which gave them a WACC of 13.5%. This is a higher WACC than Redeye uses for other companies in the industry such as Unibet and the Cherry companies for which they use a WACC of approximately 10%. 24hPoker has to be seen as a more established player than RedBet but not as stable as Unibet and the Cherry companies, therefore a beta of 1.2 will be used which gives a WACC of 11.1%. The same market premium (6%) and the risk free rate (3.9%) as Redeye uses in their valuation of RedBet are used (Redeye in their analysis of RedBet). The decision to use the same market premium and risk free rate percentage figures is because of their large knowledge in company valuation; consequently they can be seen as a reliable source. Because 24hPoker is 100% equity financed the WACC is the same as the company's cost of equity.

4.9.4 Scenario analysis

In the scenario analysis changes are made in EBITDA and in the working capital since these are the two parameters that are forecasted to be the most difficult to predict. All other parameters remain the same. In the positive scenario, EBITDA is increased with 20% annually and the change in working capital is lowered from 1.5 to 1% of the revenue. In the negative scenario, EBITDA is lowered with 20% annually and the change in working capital has increased from 1.5 to 2% of the revenue. The value of 24hPoker with the use of the scenario analysis is illustrated below. The base scenario is the thesis main scenario.

	Negative scenario	Base scenario	Positive scenario
PV of future cash flow	258 800 000	398 484 000	477 758 000
Number of shares	515 799 007	515 799 007	515 799 007
Share Value	0.37	0.77	1.05

Table 4.1 – Scenario analysis of 24hPoker



4.9.5 Sensitivity analysis

A sensitivity analysis has also been conducted with two other beta values to show the uncertainty in this parameter.

Beta value	1	1.2	1.4
WACC	9.9%	11.1%	12.3%
Share value	0.88	0.77	0.67

Table 4.2 – Sensitivity analysis of 24hPoker

The table illustrates that a possible misestimating when choosing the beta value affects both the WACC and the share value. A lower beta gives a lower WACC and a higher share value, in contradiction to a higher beta that gives a higher WACC and a lower share value.

- CONCLUSION -

This chapter aims to present the findings the authors consider are the most relevant in relation to the thesis purpose and problem definition. Therefore the chapter will outline the requirements needed for sustainable profitability within the industry. These requirements together with the SWOT analysis of 24hPoker will present a possible answer to the problem definition. This statement together with the valuation of the company will then lead to a final discussion. In the end, suggestions of further research will be presented.

5.1 Conclusion

By using the analysis of the online poker industry as well as the company analysis of 24hPoker carried out through a SWOT analysis the authors will here present the conclusions of the thesis. The ambition with the thesis was to illustrate the requirements needed to achieve sustainable profitability in the online poker industry and to examine if 24hPoker fulfil these requirements.

<p>Strengths</p> <ul style="list-style-type: none"> ▪ Both gaming operator and owner of their gaming site ▪ Unique skin and partner solution ▪ Well planned positioning of their divisions ▪ Competent workforce ▪ Support in several languages ▪ User-friendly software 	<p>Weaknesses</p> <ul style="list-style-type: none"> ▪ Relatively small network, low player liquidity ▪ Small financial resources ▪ Moderately known brand name
<p>Opportunities</p> <ul style="list-style-type: none"> ▪ Well positioned in markets with possible large future growth ▪ The US ban may lead to more skins and partners ▪ The increased use of Internet and online portals 	<p>Threats</p> <ul style="list-style-type: none"> ▪ Regulatory changes ▪ False credit cards and other frauds ▪ Consolidation ▪ Increased marketing costs/decreased margins ▪ Poker will only act as a gateway to online portals

Figure 5.1 – SWOT analysis of 24hPoker



After analysing the online poker industry it is apparent that two of the most important resources for sustainable profitability are large player liquidity and a considerable amount of marketing resources. The SWOT analysis of 24hPoker points out that these two factors are two weaknesses especially for 24hPoker's own gaming site where they act as a service provider. The site does not offer neither high quality games other than the standard ones nor wealthy rake-backs. Consequently, it could be argued that 24hPokers gaming site is what Porter (2004) mentions as to be stuck in the middle. With this in mind, this part of the company will face problems in the future because the limited marketing resources and that the company does not try to compete on price nor on product. Although, a positive thing related to their gaming site is the user-friendly software.

24hPoker also operates as a gaming operator providing access to online gaming for other companies through the B2B Poker Network and the 24hNetwork. In contradiction to their gaming site, this part of the company faces, according to the analysis, a bright future. Although, recently two well-established partners have left the B2B Poker Network and the player liquidity is, as well as for the gaming site, a concern. As the analysis of the industry illustrates, increased consolidation is probable in the future, which will make 24hPoker's limited player liquidity even more obvious. Though, in contrast to their own gaming site that has approximately 400 competitors for the customer to choose among, there are only a few well-working poker networks that allow new skins and partners of variable size, and with the user-friendly software, 24hPoker is an important player in the gaming operating industry. The B2B Poker Network and the 24hNetwork ties up new partners and skins of different sizes on a constant basis which further illustrates that the partner and skin product that 24hPoker offers is high rated.

An advantage is that the network operator part of their business does not require the same amount of marketing, mainly because they are well-known among the companies within the industry and since a well-known brand name is not as important in a business to business activity, as when a poker site acquires new customers. The accessibility for new skins and partners to enter the network makes it possible for 24hPoker to get a wide range of new customers in different areas. This enables 24hPoker to have a large number of partners and skins in different sizes, which together with their well-developed support in a number of languages including others than the most common ones, can build a close relationship with the end customers. This is proved in the analysis to be an important factor in the industry and is something that 24hPoker can benefit from compared to the largest players who have difficulties to be as personal to their customers. Another advantage for 24hPoker is the well planned positioning of divisions with e.g. their gaming licence in Malta, which leads to tax-free gaming for their players.



When looking at 24hPoker and the industry it operates in, regulatory changes exemplified by the ban in the US have to be seen as the largest threat. A European regulatory change similar to the one in the US would be devastating since it would mean that 24hPoker would lose 96% of their current customer base. However, the ban in the US may benefit the gaming operating part of 24hPoker since it can lead to that new skins and partners that had the US as their main market before, now try to enter the European market through 24hPoker network solutions instead. Another possible opportunity for the company and the industry is the increased use of the internet and the fact that more people are getting more convenient using online portals which can lead to new customer segments.

The thesis illustrates that poker only may act as an entrance for online portals and this has to be seen as a large threat for 24hPoker since poker stands for such a large percent of their revenue. The issue concerning internet security is also something that the thesis has shown is important. Frauds, ranging from false credit cards to emptied player accounts are something that is a large threat for 24hPoker as well as for the industry as a whole.

To summarize, the thesis points out a various number of positive and negative factors for 24hPoker. The final conclusion is that 24hPoker has what is required for sustainable profitability in this competitive industry, mostly because of their well-developed skin and partner solution, their own user-friendly software and their own gaming site, even if the later is predicted to face problems in the future. The valuation shows that the share of 24hPoker is slightly undervalued. The valuation of 24Poker gives an estimated share value of 0.77 SEK in the base scenario, which is slightly higher than the 0.64 SEK that the share was traded for on the 28th Dec 2006 when the analysis was done.

5.2 Suggestions for further research

The authors will here use the opportunity given to suggest further research that hopefully will give a wider understanding for the investigated subject. The authors believe it would be interesting to conduct a study that investigates which of the companies listed on the OMX, and that has online poker as their main activity, that are facing the brightest future. As mentioned in the thesis, a possible future scenario for the online gaming industry is a deregulation and the introduction of gaming licenses. Therefore it would be interesting to conduct a study that shows how this would affect the companies in the industry. The thesis is based on a qualitative method where the findings are dependent on how the authors interpret the respondents' answers. Thus, a quantitative study would be interesting to conduct to ensure the findings of the thesis.

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- APPENDIX -

Appendix 1 – Calculation of WACC

CAPM

$$R_e = R_f + \beta(R_m)$$

R_m = Expected market return

β = Beta for the security

R_f = Risk free rate

R_e = Required return for the security

Cost of equity 24hPoker

$$3.9\% + 1.2(6\%) = \mathbf{11.1\%}$$

WACC

$$WACC = r_d(1-t) \frac{D}{D+E} + r_e \frac{E}{D+E}$$

Appendix 2 – Financial statement 24hPoker

Financial Statement 24hPoker

(SEK 000s)			
Year	2005	2006 Jan-Sep	2006 e
Net revenue	153 930	232 510	348 765
Direct costs of gaming operations	-60 904	-127 811	-191 717
Other external costs	-41 727	-57 270	-85 905
Personnel costs	-23 056	-30 159	-40 212
Depreciation	-1 126	-5 481	-7 308
Operating profit	27 117	11 789	23 624
Financial items	-771	1 300	1 300
Profit after financial items	26 346	13 089	24 924
Tax	-6 230	-4 992	-6 656
Profit for the period	20 116	8 097	18 268
Attributable to:			
Parent Company shareholders	-	-	-
Minority interest	-	-	-
Profit/loss discounted operations	-	-102 689	-102 689
Result for the period	20 116	-94 592	-84 422

(SEK 000s)		
Year	2005 Dec 31	2006 Sep 30
Assets		
Intangible fixed assets	2 737	30 245
Tangible fixed assets	2 130	8 565
Financial fixed assets	1 411	22 368
Current receivables	32 325	13 271
Cash and bank	87 699	106 148
Total assets	126 302	180 597
Shareholders' equity and liabilities		
Shareholders' equity	35 399	40 540
Long-term liabilities	-	4 874
Current liabilities	90 903	135 183
Total shareholders' equity and liabilities	126 302	180 597

Appendix 3 – Valuation

Base Scenario

(SEK 000s)										
Year	2005	2006 e	2007 e	2008 e	2009 e	2010 e	2011 e	2012 e	2013e	t+1
Revenue	153 930	348 765	467 345	556 141	628 439	697 567	760 348	805 969	838 208	
<i>Growth %</i>	431%	127%	34%	19%	13%	11%	9%	6%	4%	4%
Costs	-125 687	-317 834	-435 433	-522 519	-590 447	-655 396	-714 381	-757 244	-787 534	
<i>Growth %</i>		153%	37%	20%	13%	11%	9%	6%	4%	4%
EBITDA	28 247	30 931	31 913	33 622	37 992	42 172	45 967	48 725	50 674	

(SEK 000s)										
Year	2005	2006 e	2007 e	2008 e	2009 e	2010 e	2011 e	2012 e	2013 e	
Increase in net property, plant, equipment, etc.	2 192	8 100	2 450	2 450	2 450	2 450	2 450	2 450	2 450	2 450
+ Depreciation expense	1 126	7 308	5 846	4 677	3 742	2 993	2 990	2 990	2 990	2 990
Capital expenditure	3 318	15 408	8 296	7 127	6 192	5 443	5 440	5 440	5 440	5 440

(SEK 000)										
Year	2005	2006 e	2007 e	2008 e	2009 e	2010 e	2011 e	2012 e	2013 e	
Cash and bank	87 699	106 148	114 051	112 719	111 634	110 597	109 656	108 971	108 488	
Accounts receivable and other current assets	32 325	13 271	15 395	15 635	15 885	16 135	16 385	16 635	16 885	
Accounts payable and other non-interest bearing liabilities	-90 903	-135 133	-136 456	-136 696	-136 946	-137 196	-137 446	-137 696	-137 946	
	29 121	-15 714	-7 010	-8 342	-9 427	-10 464	-11 405	-12 090	-12 573	

(SEK 000s)											
Year	2005	2006 e	2007 e	2008 e	2009 e	2010 e	2011 e	2012 e	2013 e	t+1	
EBITDA	28 247	30 931	31 913	33 622	37 992	42 172	45 967	48 725	50 674		
Depreciation	-1 126	-7 308	-5 846	-4 677	-3 742	-2 993	2 990	2 990	2 990		
EBIT	27 121	23 623	26 067	28 945	34 250	39 179	48 957	51 715	53 664		
Tax	-6 230	-7 087	-7 820	-8 683	-10 275	-11 754	-14 687	-15 515	-16 099		
NOPLAT	20 891	16 536	18 247	20 261	23 975	27 425	34 270	36 201	37 565		
Depreciation	1 126	7 308	5 846	4 677	3 742	2 993	2 990	2 990	2 990		
Gross Cash Flow	22 017	23 844	24 093	24 939	27 717	30 418	37 260	39 191	40 555		
Capital Expenditure	-3 318	-15 408	-8 296	-7 127	-6 192	-5 443	-5 440	-5 440	-5 440		
Changes in WC	-2 309	-5 231	-7 010	-8 342	-9 427	-10 464	-11 405	-12 090	-12 573		
Free cash flow	16 390	3 205	8 787	9 469	12 098	14 512	20 415	21 661	22 542	23 443	
WACC 11,1%			1.11	1.23	1.37	1.52	1.69	1.88	2.09	0.07	
PV			7 909	7 672	8 822	9 525	12 061	11 518	10 789	330 188	398 484
PV off all future cash flow		398 484 000									
Number of shares		515 799 007									
Share value		0.77									

Positive Scenario

(SEK 000s)											
Year	2005	2006 e	2007 e	2008 e	2009 e	2010 e	2011 e	2012 e	2013 e	t+1	
EBITDA	28 247	30 931	38 295	40 346	45 591	50 606	55 160	58 470	61 393		
Depreciation	-1 126	-7 308	-5 846	-4 677	-3 742	-2 993	-2 990	-2 990	-2 900		
EBIT	27 121	23 623	32 449	35 669	41 849	47 613	52 170	55 480	58 493		
Tax	-6 230	-7 087	-9 735	-10 701	-12 555	-14 284	-15 651	-16 644	-17 548		
NOPLAT	20 891	16 536	22 714	24 968	29 295	33 329	36 519	38 836	40 945		
Depreciation	1 126	7 308	5 846	4 677	3 742	2 993	2 990	2 990	2 990		
Gross Cash Flow	22 017	23 844	28 560	29 645	33 036	36 322	39 509	41 826	43 935		
Capital Expenditure	-3 318	-15 408	-8 296	-7 127	-6 192	-5 443	-5 440	-5 440	-5 440		
Changes in WC	-2 309	-5 231	-4 673	-5 561	-6 284	-6 976	-7 603	-8 060	-8 463		
Free cash flow	16 390	3 205	15 591	16 957	20 560	23 904	26 466	28 326	30 032	31 234	
WACC 11,1%			1.11	1.23	1.37	1.52	1.69	1.88	2.09	0.07	
PV			14 033	13 738	14 993	15 689	15 635	15 063	14 374	439 912	543 437
PV off all future cash flow		543 437 000									
Number of shares		515 799 007									
Share value		1.05									

Negative scenario

(SEK 000s)											
Year	2 005	2006 e	2007 e	2008 e	2009 e	2010 e	2011 e	2012 e	2013 e	t+1	
EBITDA	28 247	30 931	25 530	26 897	30 394	33 737	36 774	38 980	40 929		
Depreciation	-1 126	-7 308	-5 846	-4 677	-3 742	-2 993	2 990	2 990	2 990		
EBIT	27 121	23 623	19 684	22 220	26 652	30 744	39 764	41 970	43 919		
Tax	-6 230	-7 087	-5 905	-6 666	-7 996	-9 223	-11 929	-12 591	-13 176		
NOPLAT	20 891	16 536	13 779	15 554	18 657	21 521	27 835	29 379	30 743		
Depreciation	1 126	7 308	5 846	4 677	3 742	2 993	2 990	2 990	2 990		
Gross Cash Flow	22 017	23 844	19 625	20 231	22 398	24 514	30 825	32 369	33 733		
Capital Expenditure	-3 318	-15 408	-8 296	-7 127	-6 192	-5 443	-5 440	-5 440	-5 440		
Changes in WC	-2 309	-5 231	-9 347	-11 123	-12 569	-13 951	-15 207	-16 119	-16 925		
Free cash flow	16 390	3 205	1 982	1 981	3 638	5 120	10 178	10 810	11 368	11 823	
WACC 11,1%			1.11	1.23	1.37	1.52	1.69	1.88	2.09	0.07	
PV			1 784	1 605	2 653	3 360	6 013	5 748	5 441	166 516	193 120
PV off all future cash flow		193 120 000									
Number of shares		515 799 007									
Share value		0.37									

Appendix 4 – Interview Questions

Frågeformulär – Analyt Redeye, Dawid Myslinski

1. Hur ser arbetsprocessen ut vid en analys av ett onlinepokerbolag?
 2. Skiljer sig analysen av onlinepokerbolag mot analysen av mer traditionella tjänsteföretag?
 3. Vilka faktorer lägger Ni tyngd på vid en analys av den här typen av bolag?
 4. Har Ni efter lagändringen i USA ändrat vilka faktorer Ni lägger tyngdpunkt på vid Er analys av ett bolag?
 5. Om JA, vilka är dessa nya faktorer?
 6. Vilka faktorer anser Ni kommer att vara de viktigaste för framtida långsiktig lönsamhet för onlinepokerföretag?
 7. Hur tror Ni att förbudet i USA kommer att påverka de bolag som är listade på OMX och har poker som en av huvudsysslorna under en längre tidsperiod?
 8. Tror Ni att något speciellt bolag drabbas hårdare än de andra?
 9. Tror Ni att något speciellt bolag klarar sig bättre än de andra?
 10. Den nya lagen i USA ses som ett stort hot för den här branschen. Är där några andra direkta orosmoln som hotar branschen?
 11. Tror Ni att en diversifierad produktportfölj kommer att vara betydande för den här typen av bolags framtida framgångar?
 12. Hur tror Ni det kommer sig att bara vissa bolag har dragit sig ur USA-marknaden på grund av lagändringen?
 13. Hur tror Ni branschen kommer att utveckla sig inom de närmaste åren?
 - Regelverk
 - Konsolidering
 - Produktportfölj
 - Nya marknader
 14. Öppen fråga ifall Ni har något relevant att tillägga om branschen i stort eller dessa fyra företag som vi kan tänkas ha missat.
-

Frågeformulär – Analyt Carnegie, Martin Arnell

1. Hur ser arbetsprocessen ut vid en analys av ett onlinepokerbolag?
 2. Skiljer sig analysen av onlinepokerbolag mot analysen av mer traditionella tjänsteföretag?
 3. Vilka faktorer lägger Ni tyngd på vid en analys av den här typen av bolag?
 4. Har Ni efter lagändringen i USA ändrat vilka faktorer Ni lägger tyngdpunkt på vid Er analys av ett bolag?
 5. Om JA, vilka är dessa nya faktorer?
 6. Vilka faktorer anser Ni kommer att vara de viktigaste för framtida långsiktig lönsamhet för onlinepokerföretag?
 7. Hur tror Ni att förbudet i USA kommer att påverka de bolag som är listade på OMX och har poker som en av huvudsysslorna under en längre tidsperiod?
 8. Tror Ni att något speciellt bolag drabbas hårdare än de andra?
 9. Tror Ni att något speciellt bolag klarar sig bättre än de andra?
 10. Den nya lagen i USA ses som ett stort hot för den här branschen. Är där några andra direkta orosmoln som hotar branschen?
 11. Tror Ni att en diversifierad produktportfölj kommer att vara betydande för den här typen av bolags framtida framgångar?
 12. Hur tror Ni det kommer sig att bara vissa bolag har dragit sig ur USA-marknaden på grund av lagändringen?
 13. Hur tror Ni branschen kommer att utveckla sig inom de närmaste åren?
 - Regelverk
 - Konsolidering
 - Produktportfölj
 - Nya marknader
 14. Öppen fråga ifall Ni har något relevant att tillägga om branschen i stort eller dessa fyra företag som vi kan tänkas ha missat.
-

Frågeformulär – Mikael Lenneryd 24hPoker

Affärsidé, strategi och mål

1. Vad är 24hPokers: Affärsidé?
 Strategi?
 Mål?
2. Har den nya lagen i USA plus övriga oroligheter inom branschens regelverk påverkat ovan nämnda punkter och i så fall på vilket sätt?
3. Hur tolkar 24hPoker lagförändringen? *Detta med tanke på att vissa bolag fortsätter tillåta amerikanska spelare att spela på deras klient.*

Produkter och tjänster

4. Är 24hPoker mer beroende av vissa tjänster/produkter än andra? Hur stor andel av intäkterna består varje produktgrupp/tjänst av? Räkna Ni med att utöka er produktportfölj i framtiden?
5. Kommer någon produkt/tjänst vara viktigare än de andra i framtiden?
6. Vad tror 24hPoker kommer att vara avgörande i framtiden för att nå framgång inom onlinepokerbranschen?
7. Hur ser Er försäljningsutveckling ut inför framtiden? Hur kommer era marginaler påverkas?
8. Hur tror Ni att raken (som väl får ses som priset för att spela poker) kommer att utvecklas/förändras i branschen?

Marknadsutveckling

9. Vilka är era huvudmarknader och hur stora marknadsandelar har Ni i dessa?
10. Hur har den historiska marknadstillväxten sett ut? Hur förväntas den framtida tillväxten bli?
11. Hur ska 24hPoker agera för att växa i framtiden och på vilka marknader tror du huvuddelen av Er tillväxt kommer att ske?
12. Vilka är 24hPokers huvudkonkurrenter och deras strategiska position?
13. Vilka ser Ni som era konkurrensfördelar gentemot de nämnda företagen i föregående fråga?
14. Vilka är de avgörande konkurrensfaktorer som gör att kunden väljer en speciell leverantör?

15. Vilka interna konkurrensfördelar anser du att 24hPoker besitter och vilka är viktiga/kommer bli viktiga för långsiktig lönsamhet?

16. I vilken utsträckning (om någon) kommer vi att få se fler uppköp och sammanslagningar i branschen i framtiden?

17. Kommer bolag som har poker som enda produkt fortsätta kunna nå långsiktig framgång trots ökad konkurrens? *Vi tänker då på att det idag finns bolag med 100 % rake-back och därför egentligen bara använder pokern som ett marknadsföringsverktyg för att locka till sig spelare till andra produkter på sajten såsom sportspel och kasino.*

Värdering

18. Som nämndes under det initiala telefonsamtalet har 24HPoker tagit fram en typ av värderingsmodell. Kan du förklara hur den fungerar och vilka den ämnar värdera? (Spelare, företag m.m.)

19. Tidigare i år köpte Ni Daydream (Vi vet att det inte är ett pokerbolag och att det nu är avvecklat), hur gick ni tillväga med värderingen då de köptes?

Övrigt

20. Har du nåt övrigt att tillägga angående 24hPoker eller om pokerbranschen i stort som kan underlätta en företagsvärdering?

Frågeformulär – Respondent X, Company Y

1. I vilken utsträckning kommer vi att få se fler uppköp och sammanslagningar i branschen i framtiden?
 2. Kommer bolag som har poker som enda produkt fortsätta vara starka trots ökad konkurrens? *Jag tänker då på att det idag finns bolag med 100 % rake-back och därför egentligen bara använder pokern som ett marknadsföringsverktyg för att locka till sig spelare till andra produkter på sajten såsom sportspel och kasino.*
 3. Hur påverkar lagförändringen i USA branschen? Hur tolkar ni lagförändringen? *Detta med tanke på att vissa bolag fortsätter tillåta amerikanska spelare att spela på deras klient.*
 4. Hur påverkas ni av lagförändringen?
 5. Den nya lagen i USA borde ses som ett stort hot för den här branschen. Är där några andra direkta orosmoln som hotar branschen?
 6. Vad tror du om utvecklingen i branschen de kommande åren?
 - Regelverk
 - Företagens Produktportfölj
 - Nya marknader
 7. Hur ser du på kunders lojalitet inom branschen? Varför stannar en kund kvar hos en specifik klient?
 8. Vad tror du kommer att vara avgörande i framtiden för att nå framgång inom onlinepokerbranschen?
 9. Hur tror du att raken (som får ses som priset för att spela) kommer att utvecklas/förändras i branschen?
-