



Bookmakers Technology Consortium

Deneside Buildings
Remscheid Way
Jubilee Industrial Estate
Ashington
Northumberland
NE63 8UB

4th December 2017

Dear Sir or Madam,

Many independent betting shop operators in both the UK and Ireland are very unhappy with the recent actions of SIS and in particular with their proposals for a service to the independent sector from January 2018. In this letter we set out some of the concerns that the independent bookmakers subscribing to SIS FACTS have with the actions of SIS.

Racecourse Media Group Content

Much was made in September 2015 by SIS of the positive nature of their contract with RMG, supposedly providing bookmakers with reduced costs and racing with increased income. The press release at the time stated;

Gary Smith, Chief Executive of SIS commented on the deal: “SIS is very pleased to have been able to reach this agreement which we believe represents an efficient, sustainable arrangement for bookmakers, racecourses and SIS for the future. The deal cements SIS’ role in the retail betting industry for the foreseeable future and ensures that we have the platform from which to continue the reinvention of SIS, developing new products and services for the modern bookmaking and gaming industry.”¹

This statement could not be further from the truth. The deal provides the independent bookmaking industry with an inefficient and unaffordable arrangement. While racing may be obtaining a significant increase in income this is at the expense of bookmakers, particularly independent bookmakers. However, it is not just the cost of the content which is causing difficulties for the independent sector - the terms of supply are also of considerable concern. We will begin by considering the cost of the SIS FACTS channel which will be provided to those bookmakers without their own channels.

In meetings with SIS the BTC representatives have repeatedly asked for a breakdown of the cost of the FACTS channel. Why should SIS provide this information? The major bookmakers who pay for their own channels must be aware of the cost of content as they pay for this separately to the cost of transmission. We believe that independent bookmakers should have the same degree of transparency in the charges they pay. As we detail below there are significant unexplainable costs included in the FACTS charges and there are valid

¹ SIS Press Release 28 September 2015

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concerns that some of the content which SIS have bundled in to the FACTS service is uneconomic to UK bookmakers.

As SIS will not provide actual figures we have prepared a costing of the two screen FACTS channel from the best information available to us. This assumes a full year of RMG content and as such is directly comparable to the charges for 2019 which SIS have told us will be £20,424 (after a 5% discount and before any RPI increase).

<u>Estimated Content Costs (exc VAT)²</u>	
RMG	£7,250
UK Independents	£1,234
49's	£365
Irish Horseracing	£3,800
UK & Irish Greyhounds	£3,950
International horseracing	£500
Total Content Costs	£17,099
Transmission via 2 channels	£940
Cost before Margin	£18,039
SIS Margin @7%	£755
Estimated FACTS Charge	£18,794

The discounted figure given by SIS for 2019 is £1,630 more than our estimate. The full rate card charge of £21,499 is £2,705 more than our estimate.

Irish Horse Racing

Independent bookmakers in the UK cannot justify paying for the cost of Irish horse racing if, as we believe, it adds over £4,000 to the cost of the SIS service. This is because the amount of gross profit that a UK betting shop requires to pay for Irish horse racing is £5,740. This is calculated as follows;

<u>Estimated Content Costs</u>	
Irish Racing Content Cost	£3,800
SIS Margin @7%	£266
VAT	£813
Total Costs	£4,879

<u>Gross Profit Required</u>	
Gross Profit won	£5,740
Less – Betting Tax	£861
Net income	£4,879

² UK Independents costs are probably over stated. It is calculated as 126 meetings at £9.80 per meeting using 2018 fixtures and a similar cost per meeting to RMG.

49's are costed at £1 per day net of SIS margin.

UK and Irish Greyhounds are stated at the present cost of greyhounds on SIS although there will be fewer meeting.

The present cost of SIS+ (£470) has been used as the transmission cost of each channel.

SIS Margin applies to costs other than RMG.

The information that BTC has received from UK bookmakers suggest the average gross profit on Irish horseracing is in the region of £6,000 per shop, an average net profit before betting tax of only £260. Clearly if a betting shop did not have Irish horseracing much of the betting would transfer to other products, such as UK horse racing or greyhounds. Therefore, it is the view the majority of UK independents that Irish horse racing is not required as part of the service if the costs are as illustrated in this letter.

We understand that payments to HRI are linked to the number of shops taking the service. Hence there is no impact on other shops if a service is provided without Irish horse racing.

A two channel solution

The BTC believes a two channel solution based on the current model would best suit the independent marketplace. If RMG, UK independent tracks and 49's content were provided on the main FACTS channel and the other content provided on a second channel (SIS+) as an optional additional channel then this would provide a viable solution.

It would not be a perfect solution as SIS have agreed to show all RMG content in 'full screen' and not 'picture in picture'. This will adversely affect coverage of the other UK tracks which have signed up with SIS. However, UK independent bookmakers would take the FACTS channel in the knowledge that occasionally a race from one of the UK independent tracks or a 49's event will be covered on SIS+ rather than FACTS due to a clash with RMG content.

The cost split based on BTC analysis would be;

<u>FACTS</u>		<u>SIS+</u>	
RMG	£7,250	Irish Horseracing	£3,800
UK Independents	£1,234	UK & Irish Greyhounds	£3,950
49's	£365	International horseracing	£500
Total Content Costs	£8,849	Total Content Costs	£8,250
Transmission	£470	Transmission	£470
Cost before Margin	£9,319	Cost before Margin	£8,720
SIS Margin @7%	£145	SIS Margin @7%	£610
Estimated Costs	£9,464	Estimated Costs	£9,330

Broadly speaking such an option would halve the cost of the SIS service for UK independent bookmakers and it would secure the funding to RMG from an additional 500 shops, some £3.6m of income. In recent discussions with RMG they were open to such a solution and "would not stand in the way" if this could be agreed with SIS.

The perplexing question of SIS' 7% Margin

SIS have said that under the terms of their agreement with RMG they can only add a maximum of 7% to content costs, direct costs of production and delivery of the channel³ where that channel includes RMG. But SIS have also said that they make no margin on RMG content costs⁴. We also presume that SIS cannot discount the RMG content to

³ Paul Witten, email dated 12 January 2016

⁴ Paul Witten, SIS Forum at Warwick Racecourse 18th November 2015

independents as they have stated that all bookmakers, majors and independents, pay the same rate for RMG.

We presume that the 7% margin is included in the full rate card for the new FACTS service. In 2019 the charge for the FACTS service after a 5% discount is £20,424. Assuming that the full rate card cost includes the 7% margin then the margin is £997. Calculated as;

the full rate card	20,424 / 0.95	= 21,499
less RMG	21,499 – 7,250	= 14,249
multiplied by 7%	14,249 x 7%	= 997

We wonder how SIS can discount the full rate card cost by £1,075 (5% discount) when their margin on the service is only £997.

Further, SIS have given an additional early sign up discount of £1,050 to bookmakers who signed 3 year contracts prior to 3rd November 2017. On face value this appears to show that SIS will be losing £1,128 per shop over the course of the 3 year contract? This is not credible and further explanation from SIS is required.

Another dysfunctional effect of the 7% margin included in the RMG agreement is that it incentivises SIS to add as much content as possible to the channel which includes RMG. This then increases the cost of the channel thereby increasing the monetary value of the 7% margin which SIS can charge.

Contract Terms

The BTC have repeatedly asked SIS to clarify the rebates that would be due when races do not take place on their service. Specifically we are concerned that during a particularly harsh winter many UK and Irish horserace meetings may not take place and fail to be rescheduled. There is also the unwelcome possibility of an outbreak of an infectious disease, such as Foot & Mouth, which could cause the long term cessation of racing in either the UK, Ireland or possibly both.

To date the only answer we have been given is that independent bookmakers will receive the same rebates as the Major companies. When pressed to provide details SIS have refused stating that should there be cancellations we would find out the following month what the rebates are. A truly farcical situation which leads us to suspect that there will be no rebates paid. The BTC would appreciate information from any bookmaker who has a contractual right to rebates from SIS, we doubt that there are any.

SIS have agreed to a 100% estate policy for RMG pictures and are now insisting that each bookmaker must sign up all their shops or SIS will not supply any with a service. This is the same condition that Turf TV tried to impose when they began trading and eventually, after legal challenge, removed. This condition must be removed as many smaller betting shops simply cannot afford the full cost of the proposed channel.

The BTC also regrets the additional charges that SIS intend to impose on shops which presently close at 6:30pm during the winter months. Under the current terms there is a charge of £2,072 for shops that wish to take the FACTS service after 6:30pm, this is optional. Under the proposals for the new service there will be no such optional charge and those bookmakers will see their costs rise significantly. They will be paying for the FACTS service when they are closed.

Bundling

As stated earlier in this letter, the BTC are concerned that one driver of the high cost of the FACTS channel is that it enables SIS to maximise their income from the 7% margin. However, we also believe that the intention of bundling large amounts of content together at a high price is to dissuade independent bookmakers from signing up to other channels – small independent bookmakers simply cannot afford more than one channel when costs are so excessive. This can be seen as an attempt by SIS to use their dominance to foreclose the market to competitors.

Data

Betting shops require data for all events where betting is offered. This includes events which are televised in shops and events which are not televised in shop. By way of example, a betting shop requires and presently receives data for evening greyhound fixtures which are not televised on the SIS service. Data is a separate service to live TV coverage and can be provided via IP, completely independently to the live satellite coverage. SIS have stated that they will add a separate charge to invoices for data of £492 per annum and we believe this reflects the value of that data.

SIS are bundling the data for their live televised content with the satellite service and refusing to supply data unless the live televised content is also purchased. This is unacceptable to independent bookmakers and we require the data to be provided as a separate service. We regard this as an abuse of the dominate position SIS hold in the marketplace and effectively a refusal to supply.

Consultation with Independent Bookmakers

During the SIS Forum in Warwick on 18th November 2015 Paul Witten stated that SIS had consulted with the four companies who at that time operated their own channels; Ladbrokes, Wm Hill, Coral and Betfred. He confirmed that it was only after these four companies had all agreed to take the RMG content that SIS signed the contract with RMG. At no time were independent bookmakers consulted prior to the agreement being reached.

Independent bookmakers suffer from a lack of a coordinated service in their shops. One option identified by the BTC was to have a channel operated by independents which could purchase a mix of content the independents required. The BTC asked SIS if they would provide RMG content to that channel in the same way that RMG is supplied to the majors. SIS replied that this could not be done as it wasn't contemplated in their agreement with RMG.⁵ This indicated that different terms and conditions apply to the supply of RMG to the major companies in-house channels when compared to the service SIS provide to independents. Yet we are told that the SIS FRAND policy ensures equal treatment for all subscribers.

The BTC have informed SIS that we are prepared to work with all independent bookmakers, in both the UK and Ireland, to ensure that the service provided to the independent sector is fit for purpose.

⁵ Paul Witten, email dated 12 January 2016

What do independent bookmakers want?

The needs of the independent betting shop operator are different to those of the major retail operators. We insist that SIS service those needs in a collaborative way and form a mutually beneficial partnership with the independent sector. To do this SIS need to;

1. Remove the tie between supply of data and supply of pictures and provide these services independently.
2. Remove the requirement for 100% estate sign up for any service.
3. Ensure that betting shops which, due to legal restrictions, cannot make use of services are not charged for those services.
4. Provide an agreed two tier service that satisfies the requirements of the independent sector.
5. Provide comprehensive terms of business to subscribers, including clear terms for rebates.
6. Enter into a binding commitment to provide the subscribers of the FACTS channel with an ability to authorise all content on that channel and not to renew or extent any current contracts without the authorisation of the subscribers committee.

If you are an independent bookmaker and you support the views of the BTC then please visit our website at www.btc.uk.com to find out what we do. We would be happy to add your email address to our list of contacts for future mailings if you provide your details to accounts@btc.uk.com.

Yours sincerely

THE DIRECTORS
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