

COMPANY PROFILE

SPREADEX



JONATHAN HUFFORD,
MANAGING DIRECTOR



SPREADING ITS WINGS

Sitting at the intersection of sports betting and financial markets, Spreadex goes relatively unnoticed despite profit margins that fixed-odds rivals can only dream of. *EGR* spoke to the firm's MD Jonathan Hufford to find out the Spreadex secret

[WORDS BY BRAD ALLEN]

It is a marketing rule of thumb that a consumer's purchasing habits can paint a very detailed picture of their personality, and it follows that a company might also be defined by its spending habits.

If you've ventured into the Square Mile of the City of London in recent weeks you will likely have seen the red and black Spreadex logo winking from digital advertising hoardings and emblazoned across buses, escalators and taxis. It is a rare bout of shoutiness from a company that sits quietly off to the side of the gambling world, as the only firm in the UK to offer spread betting on sports and financial markets as well as a fixed-odds sports betting service.

Financial advertising regulations mean that Spreadex can't place television ads, so it focuses heavily on pay-per-click digital advertising and more traditional branding exercises. Despite efforts in recent years to attract more casual customers through its fixed-odds service and financial 'speed markets' where people can bet on situations like whether the FTSE100 will be up or down in half an hour's time, the City of London campaign is a sign that Spreadex still knows what side its bread is buttered.

"I think spread betting was born in the City and the people who work there are familiar with the terminology and the risk aspect," Jonathan Hufford, MD of Spreadex, who founded the company back in 1999, tells *eGaming*

Review. "Although financial spread betting has become far more mainstream and our financial betting customer base is national, from Scotland down to Cornwall, I would say there is a concentration within the M25."

Carving a niche

An old-school targeted marketing campaign then is perhaps the most effective way of reaching Spreadex's target audience regardless of TV restrictions, because spread betting is understood and practised by such a tiny amount of the UK's punting population.

While the most recent UK Gambling Commission figures suggest that around 2.25 million Brits placed a sports bet in the past month, the latest spread betting investment trends suggest there are about 90,000 monthly spread bettors in the UK, with Spreadex catering for around 10% of that activity.

"It's hard work getting the clients," says Hufford. "It's a tiny niche within the gaming industry and one spends an awful lot of money trying to get through to a tiny amount of people." But the challenge is unlikely to go away in the short term. "It's simply a harder concept for many people to get their head round," adds Hufford. "The ability to win and lose multiple amounts of your stake based on how right or wrong you are can be confusing to lots of people."

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SPREADEX IN NUMBERS

120

staff at the St Albans headquarters

7%

percentage of turnover spent on marketing

£20.1m

dividend paid in 2015 to shareholders

£22m

pre-tax profits in 2015, a 19% YoY jump

9,000

customers placing a spread bet per month on Spreadex

65%

percentage of sports stakes that come from in-play wagering

35%

percentage of stakes that come from mobile devices

The other big challenge faced by the industry is that spread betting is perceived as much more risky since losses are open-ended. In an effort to ease these concerns, Spreadex offers a multitude of video tutorials on its website and carries out account-opening interviews to educate people about risks, but Hufford accepts that education and simplification can only do so much.

"I would say, and I probably shouldn't be saying this, but I don't think spread betting is for everybody," he admits. "I would be uneasy about dumbing it down too much and saying 'this is easy, anyone can do this' and then having people lose money and not really understanding why."

"That's not responsible on our part and it's not particularly helpful for the industry and its reputation. It is more complicated than fixed-odds and people need to understand what they're getting into."

Cult following

Fortunately for Hufford, the nature of spread betting means that Spreadex doesn't need a giant customer pool to be extremely cash generative. Results filed for the year to 31 May 2015 show that company turnover grew from £35.4m to £40.4m, while pre-tax profits increased by 19% to £22m. The firm was forced to move to new headquarters in St Albans, about 20 miles north of London, in 2014 to accommodate its ever-growing workforce which now stands at approximately 120.

"The clients we do get are clearly of greater value than the fixed odds counterpart," explains Hufford. "Once

people have taken the time to understand spread betting, they love it."

The uniqueness of the site and relative lack of competitors – Hufford identifies Sporting Index as the only real sports spread betting rival – creates a built-in retention mechanism, and when you add in relatively high-staking customers you have a recipe for success despite a small customer base. It means that Spreadex can afford to be generous to its shareholders, which include Hufford himself with a 9.1% stake and racehorse trainer Peter Harris, who has a 42.5% stake. In 2015, the company paid a £20.1m dividend, up from £5m in 2014.

It also means that marketing spend is relatively small – around 7% of turnover, compared to the 33% that Ladbrokes expects to spend on marketing this year. Most other fixed-odds giants are in the 25% range.

Stick to your roots

The financial year 2014 also saw record growth and a 30% rise in profits, and the steady upward trajectory means that Hufford is happy to keep Spreadex as a spread betting company at its core. Even the fixed-odds sportsbook, added in 2010, is described by Hufford as "just a service to our existing clients".

"We don't lead on fixed-odds; we don't see ourselves as a fixed-odds company but the sports guys like those markets," explains Hufford. "If it's Cheltenham, a few of the customers might have a punt on the Gold Cup, but they wouldn't be betting on horses on any given afternoon, for example."

In that regard, Hufford says the cross-selling between the financial and sports sites is relatively minimal: "We certainly try, but it's traditionally been very hard to get sports bettors in to financials and vice versa. They are two different sets of clientele. Sports bettors are recreational, whereas the financial guys are taking it quite seriously and doing a lot of research – it is part of their portfolio."

Financial betting is still the largest net contributor to Spreadex revenue – almost two thirds according to estimates, although the company would not confirm a figure – and has seen significant growth in recent years, helped by the volatility of the markets and the fact that it's simply a good product, according to Hufford.

"Buying and selling shares with stockbrokers is cumbersome and expensive," he says. "Spread betting is arguably a lot cheaper, a lot more tax-efficient and it gives you more access to markets."

"If you see on the news that oil has plummeted, there aren't many places you can do something about it. With a spread betting account you can trade in equities, oil, commodities, forex, world stock mar-

SPREAD BETTING EXPLAINED

Spread betting is a way of speculating on price movements to turn a profit, either in the financial markets or on sports events. The basic premise is to accurately predict whether a financial market price or sports outcome will finish higher or lower than the 'spread' on offer.

Get it right and the more your price rises – or falls – from the point of the spread, the more you win. For example the spread on when the first goal will be scored in a football match might be 35-38 minutes. A bettor who expects early goals might take the sell side of the bet, choosing

to stake £1 a minute. If the first goal comes in the 20th minute he will net himself a £15 profit. However if the first goal doesn't come until the 68th minute he will lose £33. If the first goal comes between 35 and 38 minutes, bettors on both the sell and the buy side lose.

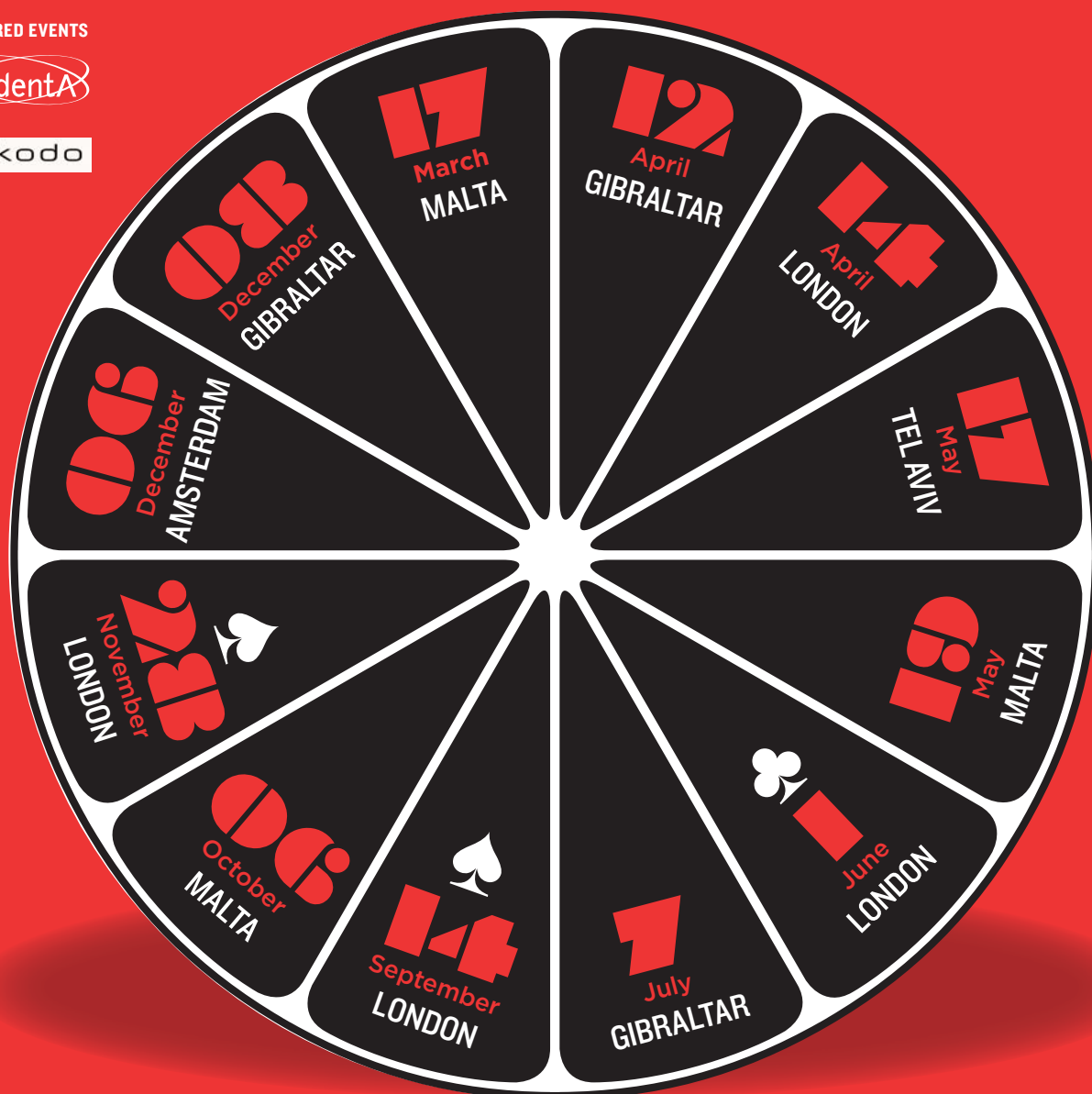
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SPREADEX TIMELINE

1999 – Spreadex founded by former City dealer Jonathan Hufford, who decided to set up his own company with the intention of making spread betting more accessible. Bets were initially taken over the phone with prices on Teletext.
2006 – Spreadex launched an online sports betting service and followed that by launching a financial online trading platform soon after.

May 2010 – Spreadex launched a full fixed odds sports betting service allowing bets to be placed in both fractional and decimal format.

December 2010 – The company launched a mobile sports betting platform, allowing clients to bet via their iPhone, smartphone or tablet device.

September 2011 – Spreadex introduced an online casino featuring table, card,

slot, video poker, instant win games and a live dealer service.

October 2014 – To accommodate the firm's growing workforce, Spreadex moved to a larger refurbished office in St Albans. Spreadex also re-leased its new financial fixed odds markets, also referred to as 'Speed Markets', allowing clients to place fixed risk bets on financial markets.

Q&A

SPREADEX MD JONATHAN HUFFORD



kets, anything you like, and there aren't many places that offer that diversity from one account."

In fact, Hufford is so confident in his product he says he would welcome more competition on financial betting markets from fixed-odds heavyweights if it meant more mainstream recognition of the sector.

"I think a company like bet365, which offers financial betting but doesn't really push it, could really raise its profile with their marketing budget," he says. "I don't know if it will ever be a big focus for them but if they were going to chuck some money at it that would probably be a good thing for us."

Upwardly mobile

So how do you go about improving a business that has few competitors and a loyal collection of high-value customers? One target area for Spreadex is mobile, which currently accounts for 35-40% of stakes, compared to 80% at Sky Bet or 71% at Ladbrokes. Some of the shortfall can be explained by the relative complexity of spread betting markets and the more advanced age of Spreadex punters, but the firm now has a dedicated team working constantly on the mobile site to try and catch up with fixed-odds counterparts.

Efforts to increase mobile participation should also be boosted by the continued prominence of in-play wagering. Approximately 65% of Spreadex's sports betting volume comes from live wagering, with the mechanics of spread betting lending itself to trading in and out of positions with the ebb and flow of a game.

"Spread betting was the forerunner

of in-running betting," explains Hufford. "Companies promote their cash-out facility, but on Spreadex you can essentially trade out of your position at any point very efficiently, plus you get the ability to express opinions going both ways."

Aggressive expansion

Mobile aside, the broader message from Spreadex is 'if it ain't broke don't fix it'. When asked about plans for the future, Hufford dismisses the option of expanding the fixed-odds service, saying: "We look upon ourselves primarily as a spread betting company." As a result, Spreadex is investigating new spread betting markets in Europe and potential acquisitions as it looks to bolster its current growth rate.

"We have set up a team to investigate the possibilities of going overseas," Hufford confirms. "A number of our financial spread betting peers have already set up overseas and we are looking into that, but it is a legal, licensing and regulatory minefield. We have to tread carefully, but Germany, Italy and Spain are our main priorities in the short to medium term."

Hufford believes the other main avenue for growth is through acquisitions, following several successful deals in recent years. Since 2009 Spreadex has purchased the non-equities business of rival spread betting firm Cantor Index and the client databases from IG Group and bankrupt company MF Global Spreads.

"The industry is fairly fragmented, so we're always looking for acquisition opportunities," adds Hufford. The former City trader said he didn't have any specific targets in mind, but if the company's 16-year history of success is anything to go on, the buy signal at Spreadex should remain firmly on. ❖

> How involved are you in the day-to-day running of Spreadex?

JH: I am very involved. I'm in the office at 7.45 most mornings. In a typical day I might have meetings with the division heads, then deal with a certain amount of client matters, such as entertaining and mending relations when things have gone awry. Essentially I do all the normal oversight jobs you would expect of an MD of any company, including ensuring budgets are being kept to, targets are being hit and coming up with strategy and executing it.

> Do you pay much attention to the rest of the industry?

JH: I read the press and I do try and follow what's going on, but a lot of the matters are unique to the big fixed-odds companies. We don't have shops or FOBTs and these issues don't affect us. That said, we are regulated by the Gambling Commission who are becoming far more hands-on with the industry in my opinion and so I do follow what they're doing – they're very hot on money laundering at the minute for example.

> Does Spreadex limit customers?

JH: On the financials the answer is no – the limiting factor is credit. In sports, we limit some people but it would be comparatively small and invariably it would be horseracing. We like to think we lay a good fair bet to the overwhelming majority of our clients and I think Spreadex has a good reputation for that.

> What have you learned from starting a betting company from scratch?

JH: I've learnt an awful lot and made a lot of mistakes. But you have to learn from your mistakes and learn quickly, or you will go out of business in this industry. To pick out one thing: you cannot run a business of this nature without some very high quality staff.