

## Software maker plays for jackpot Parlay Entertainment betting on online bingo

**Peter Evans**  
Financial Post

August 24, 2005

There have always been investors who aren't afraid to roll the dice. Over the last 12 months, investors in online poker's popularity rode that gamble to big payoffs.

But with research already suggesting that online poker can't sustain its explosive growth, the question has been asked: what's the next big thing in online gaming?

Consider bingo. Don't laugh -- the game for blue-haired old ladies has gone mainstream. There are as many as 100 million bingo players worldwide, wagering as much as US\$90-billion a year. And the action is moving online: in less than five years, online bingo has gone from virtually non-existent, to a US\$100-million business last year.

Oakville-based Parlay Entertainment Inc. is one company hoping to cash in on the trend by developing the software that makes online bingo possible.

Parlay's software is a basic bingo template that allows operators to customize the look and the feel of the game to their distinct customer bases. Parlay develops the software; it neither controls player accounts nor manages the transactions. It lets the operators worry about running the Web sites profitably. Instead, Parlay generates revenue by taking a percentage of the operator's take, with rates ranging between 10% and 15%.

At last count, the company had 32 core customers, on whose Web sites nearly two-thirds of all e-bingo games are played, Parlay management says. Like most online gambling, most of the action is happening in the United States, but Latin America is looking like a major growth area.



President and CEO, Scott White  
CTO, Perry Malone

The company listed on the TSX Venture Exchange in June and has a \$17-million market capitalization now. The stock started trading at \$1.55 but has slipped a little since then, closing at \$1.35 on the TSX Venture exchange yesterday.

In the Canadian market, it's in the shadow of online poker companies like Cryptologic Inc. and Chartwell Technology Inc., but Parlay's bingo business could gain some attention.

"Bingo is one of the most socially accepted forms of gambling, with a long global history," said Clarus Securities analyst Spencer Churchill. While poker evokes images of dimly-lit saloons filled with gun-toting outlaws, bingo's reputation is comparatively tame. It's widely accepted in the U.S., where its roots come from charitable organizations and religious groups trying to raise money, Mr. Churchill added.

"What we hear from most of our customers is that it's not about the gambling -- it's the sense of community that keeps players coming back," said Scott White, Parlay's president.

The data appears to back that up. While players spent in excess of US\$100-million last year betting on Web sites that use Parlay's software, less than 20% of the jackpots ever get redeemed.

What that means, Wellington West analyst Robert Winslow said, is that even when the house loses, it still wins. "Players leave upwards of 80-85% of monthly deposits to be re-invested," he notes.

Parlay management likewise claims that unlike poker and sports betting, e-bingo players pay for the entertainment value and the social atmosphere, rather than the lure of winning the big jackpot. The chat technology built into Parlay's bingo software lends itself well to fostering the sort of community atmosphere that keeps players coming back.

"We've heard many stories about people who met and got married while playing in online bingo halls," Mr. White says.

Revenues were essentially flat between 2002 and 2004, but revenue growth next year from Parlay's existing clients is expected to be about 30%, as those Web sites attract more players. The company also recently signed new agreements with tech titans Yahoo! Inc and Virgin Games.

Mr. Churchill also notes Parlay should move into the black for the first time this year. He expects Parlay's revenue to grow by 52% in 2006 to US\$8.4-million, from US\$5.5-million in 2005. He forecasts that the company's earnings should reach US\$2.1-million or US14 cents per share in 2006, up from US\$600,000 or US4 cents per share in 2005.

He gives Parlay a target price of \$3.50, a little over 20 times his forecasted earnings for 2006. Other E-gaming stocks tend to hover between 25-35 times their earnings per share.

"The risk remains that anti-gambling forces in the U.S. may one day succeed in banning Internet gambling transactions," Mr. Churchill said.

Besides that, bingo's target audience is not young, which could stunt online growth, at least until the generation that grew up with the Internet decides to take it up.

One thing is certain though: this isn't your grandmother's bingo any more.