

Thursday, June 14, 2007

Q & A: Rainer Jacken

by Rob van der Gaast German operator Fluxx AG, founded 1998, is a service provider for lottery companies and racecourses, and serves as a consultancy partner for major Internet players such as AOL, Yahoo! and Lycos. It also supplies gaming platforms such as jaxx.com and myBet.com. This year the company has, with regard to M&A chatter, been linked to Tipp24 and Lotto Rheinland-Pfalz GmbH and remains a vocal opponent of gaming monopolies, both in Germany and abroad. IGN sat down with Rainer Jacken, Fluxx management board member spokesman, to discuss the company's ambitions, involvement in the European legal scene and growing international operations.



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IGN: How did you get in touch with the gambling industry?

Rainer Jacken: In 1985, I founded my first company, a marketing and sales agency, from which later on the new Fluxx arose. We had a few clients in the gambling industry and carried out several campaigns for lottery companies and casinos. At that time, I realized that gambling is a fascinating business. In 1992, we established an Internet agency, which became one of the leading multimedia specialists in the German e-business market. We then came to the conclusion that both lotteries and the possibilities of the Internet fit perfectly. As opposed to other business models in the then-developing dot-com hype, lotteries do not need any physical logistics. We didn't have to send packages across the world, like Amazon, we just had to handle the transmission of lottery ticket data from the customer to the lottery companies. We started this business with the launch of our platform jaxx.de in early 1998. Today, we can proudly say that we invented online lotto.

IGN: Do you feel that this industry is different than any other industry?

RJ: For sure it is different than any other industry! Gambling is the second oldest business of mankind. Everyone is betting, whether for real money or just for fun. It is a well established cultural good of our society. Horse and sports betting have a long tradition in the United Kingdom, France, Hong Kong and - you won't believe it - even in Germany in the twentieth century. Lotteries are famous in Italy, Spain and Germany, and the United States is crazy about casinos, especially when you look at cities like Las Vegas, Reno or Atlantic City. And like other markets, new technologies add a lot of fascinating business opportunities.

IGN: How can Fluxx simultaneously work for monopolists and international (cross-border) private companies? Does this cause problems?

RJ: As mentioned, we have a long history in cooperating with state lottery companies. Shortly after the start of our own service, the lottery companies asked us to develop and operate platforms for them. In early 2000, we launched the Web site of Lotto Schleswig-Holstein, which is based on our technology. We're doing all the services, such as hosting, payment services and customer care, and participate via

commission on each ticket sold. Later on, the lottery companies of Brandenburg and Mecklenburg-Pomerania followed that model.

In all those years working hand-in-hand with the lottery companies, we never had any problems. It was a win-win situation; every party participated in the growth of the Internet. When recently the regulatory discussion came up about tightening the monopoly, minds were changing completely. We didn't even recognize our contact persons with whom we used to have friendly relationships. The pressure of keeping the monopoly seems to change personalities.

IGN: Tipp24 AG is very often compared with Fluxx. What is the difference?

RJ: Fluxx has a broader approach than its competitors. We are a gaming company and do not focus on one, single segment. We offer a full range of fascinating gaming products to our customers. For example, our Spanish client Telefonica chose Fluxx because of our ability to offer not only lottery solutions but also concepts for the sports-betting market.

IGN: Did you ever think of merging with Tipp24?

RJ: There's always a lot of talks in the line. But at present, we do not see any arguments for a merger.

IGN: The European Commission (EC) has declared that several provisions of the scheduled State Treaty are disproportionate and incompatible with the EC Treaty. If the restrictions will stay, will your shares then go up or down?

RJ: We are absolutely convinced that the State Treaty in its present draft does not have long to live. The question is whether there will be a political solution--which surely should be the logical way, but can politics be logical?--or if German and European courts have to make clear that the Treaty is unlawful.

IGN: In your estimation, how well is Internal Market Commissioner Charlie McCreevy performing?

RJ: The Commission is doing a great job. What's missing is the comprehension of the majority of Germany's State Prime Ministers. It is absolutely incomprehensible, how those leading politicians are ignoring EU law.

IGN: How did you find out that you could acquire majority stake in Lotto Rheinland-Pfalz GmbH, privately owned by shareholders of the three sports federations of Rhineland, Rhine-Hesse and the Palatinate?

RJ: That wasn't a secret. It's just part of our daily work to keep an eye on the market and to take our chances. Furthermore, since our IPO in 1999, we have always stated that are interested in acquiring a lottery

company. Until now, we never had the chance. Now we are closer to this target than ever before.

IGN: Then a lot of other people have been sleeping?

RJ: Yes, it seems that we again are first movers.

IGN: The original proposal was for the state to take control of the company, with the state of the Rhineland-Palatinate acquiring a majority interest. The EU Commission had previously criticized the fact that the state lottery license had been awarded to a private company without a public tendering process? What will happen next?

RJ: We are continuously in touch with the Commission on several matters. With respect to Lotto Rheinland-Pfalz, we are quite curious how negotiations with the shareholders will move on. As conscientious businesspeople, none of the representatives of the three shareholders can afford to ignore our offer. We are convinced that we will reach an agreement with the owners, because our offer is financially much more attractive than the one made by the state. And as an innovative, flexible company in the gaming industry we are much better placed to reverse the downward trend in the lottery company's revenue through our new sales and marketing ideas. This is the only way to safeguard or even increase the financing of sport in the Rhineland-Palatinate in the long term.

IGN: Lotto Rheinland-Pfalz GmbH generated revenue of 461 million euro in the FY 2006 year and employs some 220 people. If Fluxx is successful, the acquisition will nearly double the number of the company's employees. Would this come as a shock to many people, internal and external?

RJ: As mentioned, we have been waiting for an opportunity like this for a long time. All our employees were overwhelmed by the idea of Fluxx being a lottery company and of having 219 new colleagues. I personally was somewhat surprised by Mr. Schoessler's (managing director of Lotto Rheinland-Pfalz) blindfolded reaction to our offer, because Mr. Schoessler is definitely not the right person to deal with. We are in talks with the shareholders.

IGN: Now, becoming a part of the German Lotto and Totoblock . . . that isn't bad, is it?

RJ: You call it "not bad;" I call it my personal dream--to become a managing director of a official German lottery company (*laughs*).

IGN: In 2006 FLUXX acquired a bookmaking license in Great Britain. How is that doing in a market comprised of very similar products? I do not see any activity on that front. Or am I mistaken?

RJ: The United Kingdom is a huge betting market, with around 70 billion euros in turnover a year. We are definitely not heading for a market share of 5 or 10 percent, but it is exciting enough if we succeed in getting just a small piece of the cake. The United Kingdom is

primarily covered by stationary betting outlets of the big local players. With our expertise in white-label online solutions, we are convinced that we have a good chance to enter the market successfully. We are right at the start and some news on our strategy will follow in the short-term.

IGN: The same accounts for the sports-betting activities in Malta and Austria?

RJ: With the acquisition of Malta-based QED Ventures Ltd. (QED), which is the holding company myBet.com, Fluxx already entered the sports-betting market in Europe. The mixture of franchise shops and a highly competitive online service is very successful. Today, we are already operating in 10 European countries.

IGN: In 2006 FLUXX acquired a major interest in QED. Why did you do it and what was the amount involved?

RJ: We acquired QED in January 2006 for an amount of 6 million Euro, plus a capital increase of 1 million euros, which went directly into the company. In 2006, QED reported a turnover of 26.6 million euros, and in Q1 2007 QED broke even--one year earlier than we had planned. If you compare QED with other, publicly-listed sports-betting companies, which are valued with a revenue multiple of 1.5, today QED would be worth some 40 million euros. It's obvious that it was a fantastic deal!

IGN: Are you spreading the operational risk via international growth?

RJ: International growth used to be a long-term strategy for the group. Due to the ongoing regulatory discussions in Germany, we changed it to a mid-term strategy.

IGN: What is your lawyer's yearly budget?

RJ: In 2006, we spent 1.5 million euros for legal advisory and consultancy--three times more than in 2005. But it seems that we will get a kick-back from the lottery companies. They have been ordered by the Higher Regional Court of Dusseldorf to pay the full costs of the cartel proceedings, which are considerable in view of the value of the matter in dispute.

IGN: They should have had a very, very busy year?

RJ: That's a good thing in the regulatory dispute.

IGN: Why do you think that in other European countries no cartel authorities are going after gambling monopolies?

RJ: The commissioners of the EU already have their eyes on other monopolies, for sure. But Germany is a very special case: There are 16 lottery companies; each of them offers the same products. In this, the German Cartel Office had among other things declared most of the

practices resulting from the formation of the German "Lottoblock" by the lottery companies to be anti-competitive and incompatible with German and European competition law. The intention of the lottery companies is quite obvious: they want to protect their market against inconvenient competition. But this game is over now.

IGN: How often do you meet with the Supervisory Board president Goetz Graf von Hardenberg, and in which restaurant?

RJ: We meet on a very regular basis – more often in my office, sometimes in my own restaurant

IGN: Besides journalists, what irritates you the most about the gambling industry?

RJ: Nothing more than politicians who try to uphold a monopoly.

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About the Author

Rob van der Gaast has a background in sports journalism. He worked for over seven years as the head of sports for Dutch National Radio and has developed new concepts for the TV and the gambling industry. Now he operates from Istanbul as an independent gambling research analyst. He specializes in European gambling matters and in privatizations of gambling operators. Rob has contributed to IGN since Jul 09, 2001.