
The Demise of Australia's Gaming Businesses

By the time you read about something on the front page of the paper, it's usually too late to act on it. Based on this little rule, it's too late to sell Tabcorp and Tatts. In this case, however, I'm not so sure.

Simon Evans wrote a nice piece on the impact of the internet on these businesses in today's *Fin Review*. It's along the lines of my post in May last year, [Gambling Goes Online](#), and it simply confirms that the demise is gathering speed.

There is an interesting lesson for all of us in the decline of this industry. As an investor, monopolies are great. But monopolies based on natural competitive advantage are far more durable than monopolies based on legislation. If Tabcorp and Tatts weren't protected by law, they'd be highly competitive, mediocre businesses.

The difference between the two types of monopoly is that there are a lot more factors outside management's control when you're reliant on the law. If the government's not taxing you more, or revoking your licence completely, some competitor is using the internet to steal a share of the pie. It's a far cry from the competitive advantage Woolworths has going in groceries. Its size and efficiency make it almost impossible to compete on a small scale - and the moat seems only to grow.

Investors will often pay a high multiple for a business that is generating high returns on capital. The implicit assumption is that, in future, it will be able to reinvest profit and generate the same high returns on this new capital. In turn, that would translate to earnings growth.

When those high returns are thanks to the government, that's an extremely dangerous assumption.