



WEEK 49

FRIDAY 6 DEC 2013

THIS WEEK

- Columnist: Aideen Shortt on social conversions
- MPs vote against changing FOBT max bet
- Land-based gaming driving British growth
- Tweets of the week

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TOP STORY

BETFAIR REPORT BIG PROFIT RISE

Exchange enjoy major increase despite drop in overall revenues



Reception at Betfair's headquarters in Hammersmith, London

Online operators Betfair have announced a significant increase in profits for the first half of the current financial year, alongside a small drop in revenues. Underlying profit before tax for H1 FY14 was up 56% year-on-year to £32.5m, with company CEO Breon Corcoran highlighting the cost reductions which have allowed his firm to operate as a "leaner and fitter business". The company's 'reported' profit/loss figure, which does not make the same comparability adjustments between periods as the underlying number, jumped from a £64.1m loss to a £31.7m profit between H1 FY13 and H1 FY14.

Total revenues for the six months ended 31 October were down 6% year-on-year to £188m, a decrease which the firm say reflects their "FY13 market exits" – i.e. their withdrawals from, or reduced marketing efforts in, regions such as Germany, Cyprus, Greece, Russia and Norway. Last year's sales results would also have been boosted by the Euro 2012 football tournament. Q2 FY14 revenues were however up 8% on the Q1 figure, rising to £97.6m.

Sustainable revenues accounted for 77% of total revenues in H1 FY13, while

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there was also a 25% increase in UK & Ireland active customers, 32% of who initially joined via the firm's sportsbook – reflecting the company's ongoing strategy of sportsbook-led acquisition in regulated markets.

EBITDA increased 16% year-on-year on an underlying basis to £48.9m, while reported EBITDA was up 27% year-on-year to the same figure. Betfair say they expect full-year underlying EBITDA of between £82m and £87m for FY14, taking into account the combined start-up losses of their upcoming Italian exchange and recently-launched New Jersey online casino.

Corcoran also noted that Betfair "continue to see evidence" that their exchange and sportsbook products are complementary, with 38% of sports-betting customers utilising both offerings during H1. An automated integration of the two services is expected during Q4.

KEY POINTS

- H1 FY14 profit up 56% as firm reduce costs
- Total revenues down 6% following international market withdrawals
- Firm focused on sportsbook-led acquisition in regulated markets

UK LEGISLATION

MPs VOTE AGAINST FOBT RETHINK

Labour's Tom Watson bemoans missed opportunity; warns of problem gambling

The Labour Party have failed in an attempt to force ministers to restrict the stakes and prizes on fixed-odds betting terminals (FOBTs) in betting shops.

MPs voted 322:231 on Wednesday to back a government decision to keep maximum bets per spin at £100, while Labour and the Stop The FOBTs campaign



Politicians including Labour's Tom Watson [centre] want action on FOBTs had argued cutting it to £2 would curb problem gambling and crime.

Tom Watson MP (Labour) said: "We've missed an opportunity to deal with the menace of FOBTs today. Sooner or later we will have to act. It's just a shame that the number of problem gamblers will have to grow yet further before the government is forced to deal with a growing social problem."

KEY POINTS

- MPs vote by a majority of 91 to keep the maximum FOBT bet at £100.

UK INDUSTRY

OFFLINE BETTING DRIVES BRITAIN'S GGY GROWTH

Report highlights significance of high street gaming machines

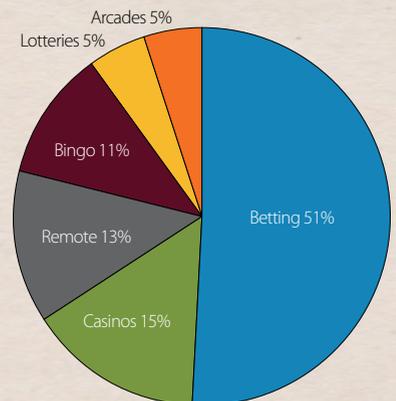
The annual gross gaming yield (GGY) of Great Britain's regulated gambling industry has risen 7.4% year-on-year, with the land-based sports-betting sector leading the way, according to information collated by the Gambling Commission.

The UK regulator's Industry Statistics report reveals that between April 2012

and March 2013 the industry generated a GGY of £6.32bn, a rise of £0.44bn on the same period the previous year.

Representing 51% of the total is the non-remote betting sector, which produced a GGY of £3.19bn. The figure includes on-course, off-course and pool betting, as well as gaming machines in betting shops, the latter of which generated GGY of £1.55bn.

All three sectors, as well as non-remote bingo and lotteries (remote and non-remote), are at their peak GGY for the five-year period covered by the study, which includes data from April 2008 to March 2013. The only industry sector not to hit a high was that of arcade, which has dropped every year since 2008 down to a current low of £339m.



Great Britain gambling industry market share by GGY – April 2012 to March 2013
Source: Gambling Commission Industry Statistics

KEY POINTS

- Great Britain's annual GGY up 7.4% to £6.32bn
- Non-remote sports-betting contributes 51% of total

INDUSTRY EVENTS

INTERACTIVE EXPERT TO HEADLINE MGF EVENT

Robert Tercek to speak about the impact of mobile

One of the world's leading authorities

Tweets of the week

"Nine days into NJ #iGaming 54,852 accounts have been created, DGE says."

Atlantic City casino reporter

Jennifer Bogdan [@ACPressJennifer]

"Sad news. Peter D Carlino, founder of Penn National Gaming, passed away on Friday. Best wishes to his family!"

American Gaming Association

[@AGAUupdate]

"Betfair CEO Breon Corcoran has been rewarded for his turnaround efforts with exercise of share options worth £1.26m."

Times business reporter

Dominic Walsh [@walshdominic]



on interactive content has been announced as a keynote speaker at the upcoming MGF 2014 show in London.

Topping the bill on Day 2 of the mobile gaming, social gaming and social gambling event will be Robert Tercek [above], an innovation and technology expert who boasts 25 years' experience of creating entertainment products across every digital platform. Tercek's first UK talk for over five years will cover the topic of 'How mobile is reshaping the audience', exploring how ubiquitous computing has introduced games and game-like experiences to every device in the networked economy.

consistently asked questions at the moment; and rightly so, given that by the start of this year companies in the gambling industry had already spent a collective \$1bn or so investing in the social gaming sector and are now obviously looking to see returns on their substantial investments.

The number of consumers who play casino-style social games such as poker, slots and bingo is quite staggering – Morgan Stanley estimates there are 170 million of them, which is more than three times the number of global real-money online gamblers. This is the audience that the operators are hoping to tap into and convert, but the reality could prove somewhat different and is certainly not the sure thing that was originally assumed and anticipated.

The motivations of social gamers, regardless of the style of game they play – whether it's Zynga Poker or King.com's Candy Crush – are different to that of real-money gambling. The very fact that there is no chance whatsoever to withdraw money is indicative of that fact. Social gaming, even casino-style games, is all about the entertainment of the gameplay. Nothing more, nothing less. There is no expectation from the player except to have a bit of fun for a period of time. When you go to the movies, you want an enjoyable time, but don't expect to have a copy of the movie when you walk out of the cinema. So too with social gaming. The experience is the value, not the anticipation of a payout; and this is a drastically different mindset completely to the real-money stimulus.

In addition, on average less than two percent of all social gamers actually spend any money at all, so the pool of likely target customers is already

significantly diminished from the massive figures that are thrown about regarding social gamers. It's not all doom and gloom though, the sector is ideal for some target marketing – this is after all a pool of players who are primed with regard to understanding the products and the services. The approach however should be to acquire customers with the same mentality as any other source, rather than assume the players are a guaranteed funnel into real-money gameplay.

The interesting market will be the US, as it (hopefully) continues to open up. Without a doubt the US is the largest marketplace for social gaming, and unlike real money it is perfectly legal. And while for the most part the motivations of players remain unchanged from elsewhere, there is bound to be a sub-section of players who engage with poker and gambling-style products quite simply because they have an interest in such games, but no real-money alternative. Therefore when the option to bet legally becomes available to them, we might see a higher conversion rate there.

Reaching that tipping point however is a long way off, and until then gambling operators who have jumped into the social space are best off seeing it as a viable standalone product that has great potential to show profit in its own right."

Aideen Shortt is a freelance consultant in the gambling industry and an expert in the areas of mobile and social. Follow her on Twitter: @AideenShortt

Want to be a guest columnist in GI Friday? Write to: editor@gamblinginsider.com

NEWS IN BRIEF

ROUNDUP: SANDS; LADBROKES, CIRSA

The rest of the week's key stories

- **Las Vegas Sands Corp** have signed an agreement with **David Beckham**, whose company will promote Sands' retail and dining operations in Asia.
- **Ladbrokes** and **Cirsa** have launched a new betting and casino joint venture this week called **Sportium**.

GUEST COLUMNIST

"WILL SOCIAL GAMERS CONVERT?"



by **Aideen Shortt**
Industry consultant

"Whether or not social gamers will convert to real-money gamblers is one of the most

"Very disappointed to see #FOBTs ratified by 322 to 231 votes. The campaign goes on @StoptheFOBTs @fairergambling."
Labour councillor Vince Maple [@vincemaple]

"Pennsylvania Senate will vote today on a resolution calling for a study of online gaming that passed a Senate committee on Tuesday."
Eilers Research managing director Adam Krejcik [@akrejcik]

"Is it bad that I have a sudden urge to eat all the chocolates in the Christmas calendar? Must... Resist... Temptation...."
Affiliate Republik's Marit von Stedingk [@Maritvs]



FLASH GAMES DEVELOPER

Salary: Circa £30,000 PA DoE. **Location:** Knowle, West Midlands **Contract:** Permanent.

An opportunity for a talented Flash AS2/AS3 developer to join an established, rapidly expanding, multi-disciplined team providing game design, development and integration for the highest profile online casino operators and brand owners in the world. Duties for this role include coding of slots and table games and integration to all major software platforms. Preference will be given to candidates with direct industry experience, specifically in slots and casino table game production.

Apply to frank.hutchinson@coregaming.co.uk



HTML GAMES DEVELOPER

Salary: Circa £30,000 PA DoE. **Location:** Knowle, West Midlands **Contract:** Permanent.

An opportunity for a talented HTML 5/JavaScript/CSS 3 developer to join an established, rapidly expanding, multi-disciplined team providing web-based mobile game design, development and integration for the highest profile online casino operators and brand owners in the world. Duties for this role include coding of online slots and table games and integration to all major software platforms for use on a wide range of mobile devices. Preference will be given to candidates with direct industry experience, specifically in slots and casino table game production. Candidates with strong programming skills, not currently working with HTML 5 but with an established industry background will also be considered

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