



# WEEK 32

## FRIDAY 7 AUG 2015

### THIS WEEK

- CBS joins DFS market
- Sky Bet reveals pre-CVC profit
- MGM Resorts and Caesars net revenue up
- Columnist: David Poole on PIN

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#### TOP STORY

## SCIENTIFIC GAMES NET LOSS RISES

Figure passes \$100m despite revenue increase



Scientific Games CEO Gavin Isaacs

Provider Scientific Games has reported a net loss of \$102.2m for the second quarter of 2015. The figure, which is for the three months ended 30 June, is in comparison with a net loss of \$72.4m for the same period last year, and an operating loss of \$100,000 was reported in comparison with operating income of \$3.6m for Q2 2014.

Net loss per share was \$1.19, up from \$0.86. Revenue went up 66% year-on-year to \$691.5m, and it is the fourth consecutive quarter where Scientific Games has reported a revenue increase alongside an operating loss.

Attributable EBITDA increased 101% to \$266m and equated to 39% of the company's revenue, up from 32%. Capital expenditures were \$70.7m, up 28%, and total debt went down 0.4% to \$8.48bn. Net cash provided by operating activities was \$36.6m, up 54%. Total revenue from gaming operating reached \$449.7m, an increase of 154%.

Scientific Games president and CEO Gavin Isaacs said: "Throughout the second quarter we made further significant progress on implementing our key initiatives targeting revenue

CONTINUED ON NEXT PAGE ►

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growth opportunities, advancing our comprehensive integration efforts and implementing our planned cost savings.

“Our focus on accelerating revenue growth is balanced with our commitment to deliver the realisation of anticipated cost savings that will drive expected further enhancement of operating margin and cash flow in the second half of 2015 and beyond.”

Scientific Games completed its acquisition of provider WMS Industries for an approximate \$1.5bn in 2013, before announcing the completion of a merger with provider Bally Technologies in November in a deal worth \$5.1bn.

Scientific Games executive vice president, CFO and corporate secretary Scott Schweinfurth said: “Through June 30 2015, implementation of our integration efforts has generated approximately \$150m of annualised cost savings related to the Bally integration. These savings largely reflect the elimination of duplicative positions in the gaming and interactive businesses and corporate functions, as well as the elimination of duplicative overhead costs.”

### KEY POINTS

- Scientific Games made a net loss of \$102.2m for Q2 2015
- Revenue increased 66%
- It is the fourth consecutive quarter where a revenue increase and operating loss have been reported

### US

#### CBS JOINS DFS MARKET New brand will not be charging rake fees



Mass media company CBS has entered the daily fantasy sports (DFS) market with the launch of its SportsLine DFS product. CBS already offers a season-long fantasy sports product, and SportsLine will – on top of DFS contests

– offer insider information, data and expertise to fantasy sports players.

CBS Sports director, daily fantasy sports Grant Gurtin tweeted on Monday: “Excited to [be] a part of CBSSports’ daily fantasy launch. Expecting some overlay in our first contests today.”

Gurtin confirmed that SportsLine is “not planning to have rake any time in the near future”, meaning that CBS will not generate revenue directly from the DFS contests it is offering.

CBS follows broadcaster ESPN and internet corporation Yahoo’s moves into the DFS market earlier this year.

### KEY POINT

- SportsLine is the newly launched DFS offering from CBS

### UK

#### SKY BET MADE £30M PROFIT BEFORE CVC’S ACQUISITION

Figures released for 30 June 2014 to 19 March 2015

Operator Sky Betting and Gaming (Sky Bet) generated operating profit of £30m for the period 30 June 2014 to 19 March 2015. The date of 19 March was when

entertainment company Sky completed the sale of an 80% controlling stake in Sky Bet to private equity firm CVC Capital Partners, with Sky Bet's results presented as discontinued operations.

Sky retained an equity stake of 20% in the operator following the completion of the deal, and the Sky Bet name is still used by CVC as part of a long-term licensing agreement between the companies.

tax expense of £10m therefore dropping to £620m. Profit on the disposal of Sky Bet was £600m.

**KEY POINT**

- Results for Sky Bet from June 2014 until CVC's majority stake acquisition in March 2015 show operating profit of £30m

**FINANCIAL**

**NET REVENUE CLIMBS FOR BOTH MGM RESORTS AND CAESARS**

**Casino operators release Q2 figures**  
Operators Caesars Entertainment and MGM Resorts International have both reported net revenue increases for the second quarter of 2015, with the former recording a 17% rise year-on-year to \$1.14bn and the latter revealing a 4% upturn to \$1.7bn. The results were published for the three months ended 30 June.

Caesars' casino revenues were up 19% to \$543m and adjusted EBITDA increased 56% to \$347m. Net income was \$15m, in comparison with a \$91m net loss for the same period last year.

For MGM Resorts, casino revenue went down 16% to \$1.24bn, while overall revenue decreased 8% to \$2.39bn.

Net revenue for MGM China dropped 33% to \$556.9m, while MGM Grand Las Vegas' net revenue improved 12% to \$303.8m.

Company operating income was \$348.5m, down from \$354.5m, and adjusted EBITDA from wholly owned domestic resorts was \$458m, up 11%.

**KEY POINT**

- Net revenue went up for MGM Resorts and Caesars Entertainment in Q2



Revenue for the period was £158m. Profit before tax was £630m, with profit after an attributable



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## GUEST COLUMNIST

**"CARDHOLDER PIN ENTRY  
IS PERFECT FOR PUNTERS"**


by **David Poole**  
Director,  
MyPINpad

"In an effort to combat criminals and protect their customers, the online betting and gaming industry has become one of the most regulated sectors in the world. But, whilst we applaud the regulators for what they achieve, compliance with legislation comes at a significant cost to the industry.

The conundrum is how can gaming companies satisfy the regulator and security needs while ensuring a seamless and easy transaction process for customers, with the aims of increasing profitability and growing their businesses?

Currently there are three security options for an online gaming company:

1. Be knowingly un-secure. Do nothing, cut corners and keep fingers crossed that customers are 'clean' or that the 'authorities' don't catch up (not recommended).

2. Run the risk of alienating customers by persisting with less than ideal authentication processes.

3. (And my choice...) Turn to appropriate technology and processes. Companies should not accept the shortcomings of increased risk from fraud or abandonment.

Visa and MasterCard rules have made provision to allow for the processing

of a safe electronic transaction. If a secure, approved authentication method is used then it can be processed accordingly and, most importantly, drive the adoption of secure transaction credentials – chargeback protection and liability shift included.

On the consumer side, compliance using current systems and processes can be highly disruptive to the acquisition and retention of gamers in an extremely competitive sector. Online forms can be annoying, and once completed successfully, the potential customer has to wait to be verified, often having to sign in to other sites. Instances of false positive alarms for good customers can also occur. Sadly, frustration can lead to the person giving up and abandoning the process. It is the age-old problem of customer abandonment which is a huge issue, with costs running into millions.

However, there are good reasons for these stringent processes. Gaming organisations are legislatively obliged to take steps to Know their (Your) Customer (KYC). To KYC, the company needs to collect basic identity information, analyse and authenticate the customer's data, determine their risk, create a model of predicted transactional behaviour and monitor and record actual behaviour against the predictions.

So registration/customer on-boarding is an important (if lengthy) process, but technologies exist to make things easier and quicker. These technologies not only comply with legislation but also make the transaction easier, quicker and safer. This can only improve the customer's experience and reduce the gaming company's overheads along with the rates of abandonment.

If a PIN is the accepted standard for face-to-face transactions (in EMV-enabled geographies) it seems logical

to use it online. Consumers can pay for goods in e-commerce and m-commerce transactions using their existing card issued PIN to initiate multi-factor authentication, all while maintaining the consumer's existing behaviours and existing payment methods. In this way, all payment innovations are only an API away. PIN has proved to be a straightforward solution to a problem of evolving what we currently use to work effectively and securely in the digital age.

Indeed, it is not the only option. We recognise and actively support new authentication techniques and foresee a blended multi-factor and collaborative approach. But, by using PIN, which is a proven global authentication asset, as a much-needed first step, we can bridge technology gaps.

In this world of 'want it now' and digitally clued-up youngsters, plagued with sophisticated criminal elements, gaming companies must tread a fine line to remain secure and compliant. But all this must be done in a manner that is not at the cost of a pleasant customer experience.

With significant systems investments already made (and fast becoming unfit for purpose), the industry needs an effective, compatible but future-protected system to stay ahead of current and future threats. However there is no need to re-invent the wheel – PIN brings an evolved solution that works through familiarity and ease of use.

*MyPINpad is an enabler of multi-channel and multi-factor authentication on unsecured electronic devices such as mobile phones, tablets and personal computers. David Poole is currently responsible for the global commercial growth of MyPINpad as their business development director. To learn more about MyPINpad, please visit <http://mypinpad.com>.*

## Job of the week: DIRECTOR OF E-BUSINESS DEVELOPMENT

Location: Douglas, Isle of Man

An exciting opportunity has arisen for a talented and dynamic individual to lead E-Business development initiatives on behalf of Isle of Man Government. The Isle of Man Government is committed to the continued

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growth of E-Business and the wider economy. We therefore need the right person to lead the industry's continued development.

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