



WEEK 44

FRIDAY 28 OCT 2016

THIS WEEK

- Fanduel and DraftKings to pay hefty fine
- NetEnt Q3 financials show strong growth
- Tabcorp shareholders voice frustration
- Guest column: Morten Klein, Cherry AB

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TOP STORY

UK GOV SETS GAMBLING REVIEW IN MOTION

Move welcomed by both bookies and the Campaign for Fairer Gambling



The UK Government has launched its long-expected review of gambling which will include an examination of gaming machines and with television advertising by betting firms.

Campaigners have long called for the maximum stakes on gaming machines found in betting shops, also known as Fixed Odds Betting Terminals, to be reduced from £100 to £2.

Swansea MP Carolyn Harris has warned that fixed odds betting machines in bookmakers are dangerous and the government should review their use.

Whilst bookmakers are restricted to four machines per shop, she claims the game makes a "phenomenal" amount of money for the bookmaker. The gross gambling yield on the machines for 2014/15 stands at £1.7bn.

Sports Minister, Tracey Crouch has gone some of the way towards echoing these concerns, commenting: "In launching this review I am seeking to ensure that we have the right balance between a sector that can grow and contribute to the economy, and one that is socially responsible and doing all it can to protect consumers and communities, including those who are just about managing."

"This will include a close look at the issue of sub-category B2 gaming machines and specific **CONTINUED ON NEXT PAGE** ▶

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concerns about the harm they cause, be that to the players themselves or the local communities in which they are located.

“I am interested in reviewing evidence across all types of gaming machines, looking at whether the stake and prize limits set out in legislation and the rules on where these machines can be played are right.

“I am also keen to receive evidence on the effectiveness of social responsibility measures across industry, including requirements around gambling advertising.”

Malcolm George of The Association of British Bookmakers (ABB) says the industry accepts and welcomes another review of the machines, stating: “It’s very easy for the anti-gambling lobby to make strong false claims about the industry.”

He argues it is the most highly-regulated industry on the high street, with employees in the shop being trained to help customers who may have problems: “The range of measures we have on our machines as opposed to those in casinos, are very effective and allow us to identify people who are getting into trouble with their

gambling. These machines have been in shops for fifteen years, there have been reviews, and when the evidence is put in front of government, they come to the same conclusions; it’s absolutely right they should be there.”

The Campaign for Fairer Gambling has expressed its relief that the review is to take place.

Founder of the group, Derek Webb, said: “Our campaign has always been evidence based. In the latest triennial review DCMS made the mistake of relying on Gambling Commission advice which incorrectly claimed that FOBTs posed no risk to two of the three licensing objectives.”

KEY POINTS

- Government launches review into FOBTs and industry advertising
- Sport Minister seeks to balance industry growth with social responsibility
- Review supported by bookmakers and pressure groups

DFS

FANDEAL AND DRAFTKINGS TO PAY OUT \$12M FOR DECEPTIVE ADVERTISING

Pair will each pay \$6m to New York Attorney General in lawsuit settlement

FanDuel and DraftKings have agreed to pay \$6m each to the New York general attorney’s office for to settle a lawsuit against them for engaging in deceptive advertising practices.

“Today’s settlements make it clear that no company has a right to deceive New Yorkers for its own profit.” New York Attorney General Eric T. Schneiderman said upon the news of the settlement. “DraftKings and FanDuel will now be required to operate with greater transparency and disclosure and to permanently end the misrepresentations they made to millions of consumers. These agreements will help ensure that both companies operate honestly and lawfully in the future.”

The enquiry found that both companies misled players about their chances of gaining a positive return on their bets, when most players would lose money over time. Both companies also misinformed players about the substantial advantages that professional players hold over amateur players through the use of automated computer scripts, algorithms and complex

statistical and game-theory strategies.

FanDuel spokeswoman Justine Sacco said: "As previously stated, the negotiations were tough but fair, but we are very pleased to have reached a resolution as this allows us to focus on our busiest time of year with N.F.L., N.H.L. and soccer in full swing and N.B.A. season starting tonight."

FINANCIAL

NETENT REPORTS STRONG GROWTH IN Q3

Provider points to sustainability and innovation as key drivers

NetEnt has hailed the impact of its growth strategy as it reported a 27.7% rise in revenue for Q3, up to SEK 357.4m.

The industry supplier also posted a 22.9% year-on-year increase in operating profit, climbing to a total of SEK 129.4m, while the firm's operating margin grew by 37.6% to 36.2.

Profit after tax also grew at a similar rate, rising 22.2% to SEK 119.2m.

NetEnt's strong third quarter results have fuelled positive year-to-date performance, with revenue across the first nine months of

2016 standing at just under SEK 1.1bn, a rise of 30.3% over the same period in 2015.

Per Eriksson, President and CEO of NetEnt, said: "NetEnt's growth strategy keeps delivering results – we grow on new markets, with new products and with more customers.

"During the quarter we launched our games on the regulated market in Romania and we rolled out our live casino product for mobile.

"The UK continues to be an important growth driver but the weaker pound had an estimated negative effect of about three percentage points on revenue growth compared to the same quarter last year."

MERGERS & ACQUISITIONS

TABCORP SHAREHOLDERS VOICE DISAPPOINTMENT ON MERGER VOTE AND EXECUTIVE PAY

The Australian operator agreed merger terms with Tatts last week

Some Tabcorp investors have expressed disappointment with Chairman Paula Dwyer's decision to reject a vote on its deal with Tatts Group to create an A\$11.3 billion

company that will control more than 90% of Australia's totalisator business.

The Australian Shareholders Association (ASA) requested Tabcorp governance to give its shareholders a vote on the merger, the Australian Business Review quoted Dwyer as saying: "There is no requirement under corporations law or ASX listing rules for Tabcorp shareholders to vote on it. Rest assured that in considering the transaction and arriving at the proposal your board has considered very strongly the impact on Tabcorp shareholders and we are absolutely unanimous in our view this represents compelling value for Tabcorp shareholders."

CEO David Attenborough's pay packet was increased from A\$2.7 million to A\$3.1 million by majority vote at the company's AGM but 22.7% of vote cast were against the increase, only 2.3% short of the 25% needed to suspend the pay rise.

The ASA and several corporate governance advisers opposed the planned increases in executive pay at Tabcorp. Investors cited Tabcorp's 50% profit decline in 2016 as a major reason for voting against the pay increase as well as legal fees.



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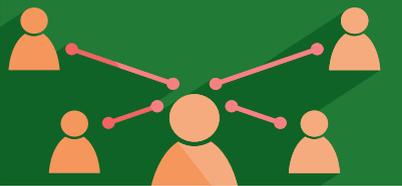
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EVENTS

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THIS WEEK IN NUMBERS

The facts and figures that have caught our eye in the past seven days

27%

Revenue increase of Interwetten in 2016



5.5 MIL

Number of Britons that gamble online according to the UK Competition and Markets Authority



\$23 BN

Estimated value of the eSports global wagering market by 2020

84%

Percentage of reported suspicious betting cases in ESSA's Q3 2016 Integrity Report that were tennis related



£14.9 MIL

Amount Playtech paid to acquire ECM Systems

0.7%

Percentage of UK consumers with a severe gambling problem according to the UKGC

£180,000

Amount donated by Ladbrokes to GamCare

47%

Evolution Gaming's year-on-year Q3 revenue rise



Number of cease and desist letters Valve sent to websites allowing illegal betting on their products

GUEST COLUMNIST

"IT'S ALL ABOUT FINDING GOOD COMPANIES TO WORK WITH"

Morten Klein
Business Development and Partnership Officer, Member of the Board, Cherry AB

How would you summarise Cherry's performance in 2016?

I think that Cherry is doing well. We have a long-term strategy that has influenced our success over the last few years, and I'm quite happy with how we are currently doing.

We have increased group turnover by 83% in the first half of 2016, while our Cherry iGaming business area grew by 115% and Yggdrasil Gaming business area grew by 661 percent, which underlines that our growth strategy and prior planning are paying off.

What are your targets for 2017?

Our targets are to grow faster than the market and demonstrate strong profitability compared with similar companies. We also have the option to purchase the additional 51% of ComeOn during the fourth quarter and if the option is used, the Cherry Group will have significantly higher revenue which will enable us to review the targets for the Group.

Cherry recently acquired Betman and 49% of ComeOn Malta. What benefits can Cherry gain from its acquisition activity?

We have a strategy to grow both organically and through acquisition. In terms of our acquisition strategy, we are not buying companies that generally want to sell. We

have talked with more than 500 business, and are always looking for operations that we think can give us something. We are most interested in companies that do not want to sell, as we think an important aspect is to take care of the people in those businesses. We are not just buying a company, we are also taking on the people in that company, and our strategy is to keep those people involved.

With any acquisition, I would say that a key part of it is selling Cherry to the people of the company we are buying. This has been crucial to the success of our acquisitions.

I have been a part of many acquisitions Cherry has undertaken – Cherry has a long history and positive history here. When Cherry bought my company in 2010, I didn't want to sell, but I have fallen in love with the way Cherry works, and I bring that experience with me when talking to new companies.

We look to meet teams that want to grow, that we can help to grow together. It is important that they can learn from us and we can learn from them.

Having joined the Cherry board in 2011, have any major changes occurred across your association with the company?

In 2006, Cherry was working as a land-based operator of restaurant-casinos in Sweden, as well as casinos on vessels. After 2011, we chose a direction to make Cherry a special company, and not just another gambling company. We started to work on our own platform and affiliate system in 2013, and began looking at potential companies to acquire, a long process of nearly two years, as we want to find good companies to work with. I would say we are 100% prepared for the future. I think that is the most important question. Are we prepared for what the next five years will bring? The answer to that is yes.

Having acquired Interclick through your subsidiary Game Lounge this year, can you explain the importance of affiliates to Cherry's business model?

Getting good customers at low cost is important for all gambling companies. We were looking for a year to find a good company to acquire to grow in this area. Then we met Game Lounge, who are excellent in streamlining keyword search campaigns for gambling companies. The customers operators get through Game Lounge are high value customers.

To talk about Interclick, you see a lot of opportunities to acquire good companies in the affiliate business, as there are many companies that have built up experience alone across ten to fifteen years. This acquisition will prove very positive for Game Lounge as they will take on the assets from Interclick and use their approach to advance the value of assets.

Cherry's game development business area Yggdrasil has enjoyed a very successful year. What are the factors behind its recent achievements?

As you know, Yggdrasil has experienced amazing growth since it was formed in 2013. It is a separate business area within Cherry with its own board and is independent. But what I can say is that Yggdrasil makes a difference through creating excellent innovative games with strong marketing potential for both customers and operators. 'Boost', Yggdrasil's collection of promotional tools, creates excellent engagement around new slots. The content is great, but they have also been very innovative in terms of how that content is promoted. 'Brag', for example, allows players to share their winning spins with their friends..

OUT NOW: The September issue of *Gambling Insider* is out now. The direction the casino industry is heading in is up for discussion, as is the controversy surrounding skin betting in eSports, what DFS did right that poker didn't in the U.S., the emergence of social betting sites and much more

