GI FRIDAY

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WEEK 45

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THIS WEEK

- **FINANCE FOCUS: Q3 results show promising growth across industry**
- **Gala Interactive feels the wrath of UKGC**
- **Maine says no to new casino site**
- **Dutch operators chided over advertising breaches**
- **Helen Walton, CCO, Gamevy**
- **Guest Columnist: Tom Mitchell, B2B Director, RISQ**

STRONG FINANCIAL RESULTS FOR GAMBLING SECTOR

Double-digit growth recorded in majority of Q3 results

Operators, gaming developers and affiliate networks have posted remarkably positive revenue figures following the latest round of financial results. The most impressive performance might well have been from Bet365; the UK-based sports betting operator grew its year-on-year revenue by 39% for 2017, surpassing the £2bn barrier for the first time in its history.

Bet365 reported revenue of £2.15bn, rising from the £1.65bn reported during the previous 12-month reporting period. Company operating profit increased 15% to £503.9m from its previous total of £456m, while pre-tax profits grew to £514m from the £459m reported during 2016.

In a statement accompanying the results, the sports betting and online casino operator also confirmed that average wager size increased by 27%, while the number of active customers on the company's website rose by 35%. Swedish gaming supplier NetEnt also announced its figures for the third quarter, ending September 2017 with a revenue increase of 12.3% to £36m; online gaming conglomerate Kindred Group also saw ▶

THIS WEEK IN NUMBERS

Estimated cost of Wynn Harbour resort in Boston. Wynn announced that it would spend an extra $90m on a number of properties in the surrounding area

Year-on-year rise in gaming revenues reported by Scientific Games Limited during Q3 2017. The company reported revenue of over $768.9m in its latest financial filing

Number of eGold cryptocurrency tokens minted by Ultraplay, which is aimed at the eSports betting market

Cost of casino expansion at Hard Rock Hotel & Casino in Hollywood. The project includes a tower in the shape of a guitar, the traditional symbol of the Hard Rock group

Year-on-year percentage rise in net revenues reported by Caesars Entertainment Corporation during the third quarter of 2017

revenue jump to almost £200m in the same period.

Kindred Group posted an all-time high in gross winnings revenue of £193.6m for the third quarter of 2017, and £513.4m for the period January to September 2017. For the same period, underlying EBITDA was £110.5m, with the Q3 figure standing at £46.8m. Furthermore, the company's success was boosted by gross winnings revenue from 32Red, amounting to £18.6m, resulting in underlying EBITDA totalling £3.7m.

Also benefitting from this positive momentum across the gambling industry, global casino heavyweight Caesars Entertainment Corporation has reported a 3.8% year-on-year rise in its net revenues during the third quarter of 2017. In a statement releasing the results, the company announced net revenues of £716m, bettering the £690m accrued during the same period of 2016.

Operational income during the period shot up from a £33m loss in Q3 2016 to over £61m in Q3 2017, a rise over £104m year-on-year. Caesars adjusted EBITDA jumped 17.7% to £223m from its previous Q3 2016 total of £189m.

Aside from operators, affiliate networks have presented even stronger figures. In its penultimate financial filing of the year, Catena Media has revealed a 61% year-on-year jump in revenue, marking the best quarter of growth for the company since its founding. The affiliate network has posted revenues of £15m for the third quarter of 2017, rising sharply from the £9m reported during the same period of 2016.

This record period was also marked by a 79% year-on-year increase in new depositing customers, which grew from the 56,352 customers reported during Q3 2016 to 100,741 customers in the same period this year. Operating profits showed strong growth of 44%, from £4m in Q3 2016 to £6.6m during Q3 2017, while EBITDA grew from £4.3m during 2016 to £7.8m in the third quarter of 2017.

Also releasing Q3 figures was Cherry, which saw a whopping 165% year-on-year hike in group revenues, increasing to nearly £60m, with organic revenue growth amounting to 30%.

The integration of the online gaming operations within ComeOn was a key driver in the company's growth and profitability during the three-month period. Cherry's online division has reported revenue growth of 214%, from £13m to £40m and a 15% EBITDA margin

On 1 November 2017, Cherry revised its full-year forecast and stated that for the first nine months of 2017, group revenue increased by 182% year-on-year to £150m with organic revenue growth amounting to 36%.

KEY POINTS

- bet365 break £2bn revenue mark
- Caesars' restructuring results in positive growth
- Affiliate revenues jump in Q3

GALA INTERACTIVE FINED OVER £2M BY UK'S GAMBLING COMMISSION

Bingo operator failed to be socially responsible with two problem gamblers

Online bingo operator Gala Interactive has been ordered to pay a £2.3m penalty package following a Gambling Commission (UKGC) investigation which revealed the company had failed to be socially responsible in its dealings with two problem gamblers.

The two VIP gamblers, known only as customer A and B, reportedly lost over £1.3m playing the company's online games, with customer A losing £837,545 over a 14-month period and customer B losing £432,765 over an 11-month period. In both cases the investigation found that stolen money was used to fund these losses, with both receiving prison sentences.

The UKGC found that Gala had breached its code in clause 3.41 relating to customer interaction, which states that "licensees must put into effect policies and procedures for customer interaction where they have concerns that a customer's behaviour may indicate problem gambling".

Gala's agreed penalty package settlement includes a £1m payment to fund research into problem gambling, a £1.3m settlement to the respective employers of customers A and B and a voluntary additional payment of £200,000 to "to put to good use in the context of research relating to the causes of problem gambling and how this manifests itself in customer behaviour".

VND10m ($440)

Income threshold at which Vietnamese locals can enter selected casinos in the country, with effect from 1 December

$558.2M

Amount of betting revenue received by the state of Nevada during the month of September, a record total

€140.5m

Gaming revenue during the three months ending 30 September reported by Spanish gaming regulator, Dirección General de Ordenación del Juego (DGOJ) a rise of 37% on a year-on-year basis

Acknowledging the penalty, Ladbrokes Coral Group Chief Executive Jim Mullen responded: "In the two cases reviewed with the Commission, it was clear that within our operations, we had not met our own standards or those demanded by the Commission.

"While we will always be exposed to risk of people failing to follow procedures, we accept that, in this case, the failings were evidence of a lack of priority being given to changes in approach identified in earlier engagements."

MAINE REJECTS CONTROVERSIAL CASINO PROPOSAL

80% voted against the firm gaining $200m gaming licence

Voters in the US state of Maine have unanimously rejected a proposal for a third casino development, backed by casino developer Shawn Scott.

Proponents of the development in York County, known as Question 1 after its position on the ballot, spent over £10m on a massive advertising campaign in the state championing the casino, claiming that it would generate 2,000 new jobs and bring in around $250m in tax revenues during the first five years of operation. The third casino licence is valued at an estimated $200m.

Of the $10m, the campaign had to spend $4.3m just to qualify for the ballot, making it the most expensive ballot initiative in the history of Maine.

Campaigners spent an additional $3.2m in the 11 days leading up to Election Day, ploughing money into television, radio and targeted digital advertisements.

By comparison, the opposing 'A Bad Deal for Maine' campaign, funded by the Churchill Downs Oxford Casino, spent just over $660,000 but received over 80% of votes from Maine residents. A key issue during the campaign has been the activities and past record of developer Shawn Scott, labelled by his detractors as 'shady Shawn'.

According to a number of reports the referendum contained wording under which Shawn Scott and his Capital Seven LLC company would be the only developer allowed to bid for a $5m licence to build the casino. Shawn Scott and his sister Lisa are currently under

8,472

Average attendance of a EuroLeague Basketball game, a league now available to stream for DraftKings' customers

7 in 10

Proportion of New Hampshire communities in favour of Keno legalisation

investigation by the Maine Ethics Commission over allegations that they participated in the funding of a $4.3m signature-gathering initiative designed to support the casino, in direct contravention of state laws on full disclosure of funding sources.

Maine governor Paul LePage also berated the campaign over its conduct saying: "This gambling initiative is not an open or fair process. In fact, it's yet another case of big-money, out-of-state interests using Maine voters to get a sweet deal. Our casino market is already saturated. Opening a casino in York County will not draw new revenue or visitors to the state, it will just shift funds away from our existing casinos."

DUTCH OPERATORS WARNED OVER SITES WITH CHILD-ORIENTED CONTENT

Netherlands regulator issued cease and desists letter to six local operators

Dutch gambling regulator, the Kansspelautoriteit, has issued warnings to six licensed gambling operators for marketing their services on websites with child-oriented content.

Holland Casino, Bankgiroloterij, Nationale Postcode Loterij, and Staatsloterij (the Dutch State Lottery) were all issued with cease and desist letters over content on website domains such as scholieren.com, donaldduck.nl, and spelletjes.nl, which are perceived as hosting material aimed at children.

Under current Dutch advertising law, which came into effect in 2013, gambling websites are strictly prohibited from advertising to minors and all of the operators must cease the operation of these websites immediately or risk financial penalties of up to €100,000.

In addition, Dutch online gaming operators and their affiliates are not allowed to target local players by using national symbols, such as tulips and windmills with all .nl affiliate websites being prohibited from directing Dutch players to .com online gaming websites.

Catena Media and Betsson had already received similar cease and desist letters earlier this year as the Dutch regulator attempts to enforce the advertising law.

DATA CENTRE

Provided by *fantiniresearch.com*

MGM: RETURNING TO NORMAL, THE NUMBERS

MGM Resorts stock jumped 5.12% on Wednesday after reporting in line third quarter earnings and commenting that business is getting back to normal on the Strip.

MGM saw an uptick in cancellations following the shooting at Mandalay Bay on the 1 October but has since seen reservations mostly rebound to normal levels since it ended its suspension on marketing, CEO Jim Murren said.

Strength of convention reservations, its entertainment and sports calendar and the overall stability of the Las Vegas brand has Murren confident in MGM and its trajectory, he said.

Adjusted property EBITDA margins should fall by about one percentage point in the fourth quarter. Non-hotel elements should help offset an expected RevPAR decline of between 5% and 7%, he said.

Both table drop and slot handle grew on the Strip in the third quarter. Table drop grew 11.8% to $1.003bn with a win percentage of 26.8%, up 1.8 percentage points over last year.

Slot hold held steady at 8.7% though handle grew 1.3% to $3.211bn.

RevPAR grew for the Strip in the third quarter by 4% to $156 despite occupancy rates down two percentage points to 95%.

THIRD QUARTER HIGHLIGHTS:

Diluted earnings per share: 36 cents vs. 6 cents
Net revenue: $108.322m vs. $104.226m
Adjusted EBITDA: $15.073m vs. $12.555m

BY SEGMENT:

Distributed gaming: $11.169m vs. $10.483m
Casinos: $8.928mvs. $6.511m
Diluted shares: 24.091 million vs. 22.785 million
Balance sheet: Cash: $42.911m vs. $46.898m as of December 2016
Long-term debt: $158.889m vs. $167.690m

US STOCK UPDATE

Below is a list of US gaming stocks that high 52-week highs this week:

COMPANY	*52-Week high as of Wednesday*
Red Rock Resorts	$26.48
Pinnacle	$26.86
Boyd	$29.52
Eldorado	$29.30
Penn National	$26.92
Full House	$3.11
Las Vegas Sands	$67.90
Tropicana	$54.02
Wynn	$152.79
Churchill Downs	$213.75
Monarch Casino	$46.19
TransAct	$13.50
Everi	$8.84
Monarch Casino	$46.16
Golden Entertainment	$29.30

TRIALS OF A GAMING START-UP

HELEN WALTON | CCO, GAMEVY

WEEK THREE: AGILE AND THE DEADLINE TRAP

Helen Walton is the CCO of Gamevy, a new online gaming provider. Having come from outside of the industry, she shares her triumphs and tribulations in navigating this unique market and building a business

We are up against a deadline this week and the entire team are working long hours to deliver a set of features we promised to a customer. It's incredibly difficult to balance the reality of software development (code is a creative endeavour, and aims to overcome hard problems so things go wrong) with the equally important reality of business (external dependencies mean people need to have certainty about dates). Paul, Dan and I used to work in Agile consulting – we've written books on Agile, we mark Agile exam papers! But, I'm not sure we're really any closer to finding a way of squaring this particular circle.

If we put in the fake padding and time buffers that would be actually required to offer certainty that we could hit a set delivery date, we would make the product far more slowly and end up launching much later – meaning all of us would make less revenue. Working in an Agile way means stripping out this padding and instead delivering each feature on a fast feedback loop.

That's great, but other people, from testing houses to marketing agencies, have their own plans that depend on knowing when a product can actually go live, not just when they can see a particular reality check or top-up journey is working; regulation means that 'Minimum Viable Products' are not really very minimal in gambling.

Sure enough, on this project, we have our fair share of unexpected problems and straight-up mistakes. The customer is anxious about a launch date that has heavy commitments and wants daily updates and calls between all parties. The last thing I want to do is stop the team doing actual coding to update me on what's happening, so I'm trying to take these meetings without disturbing them.

I'm staring at the shared Kanban board we use to pull work and track progress, but for some big tasks like "integrate reality checks" a card can stay in the "Doing" column for several days, while bugs that the customer has picked up on remain stubbornly blocked behind them.

One of the developers reminds me that I could just follow each Pull Request and read the notes in github and I'd then get a more fine-grained appreciation of progress. I'm not sure whether it's embarrassing that I don't understand the comments in the team's commits, or endearing that he believes I will. I compromise by asking for developers to add a note to the Trello card they're working on at the end of each day.

These daily updates feel painful, but I do appreciate how much the customer is trying to smooth communication channels. It's no easy task when there are five different parties involved in an innovative technical challenge and even with plenty of good will, it's still fatally easy to drop something. It's incredibly frustrating when we end up having to do rework on a feature, not because of one of the actual technical risks, but because we simply misunderstood how it was supposed to work.

It is fatal – but so human – in such circumstances to start asking people 'why' a mistake happened and 'what went wrong' or 'how that got missed'. People claim this is so 'we don't make the same mistakes again', but in my experience, it's actually a prelude to throwing some blame around.

I'm not suggesting we shouldn't all try to improve our communication, but anyone who's ever been married must know how you can talk to someone every day and STILL be unaware that they had most definitely told you they would be late home on Thursday and it was your turn to pick the kids up.

> *"IT IS FATAL – BUT SO HUMAN – IN SUCH CIRCUMSTANCES TO START ASKING PEOPLE 'WHY' A MISTAKE HAPPENED AND 'WHAT WENT WRONG' OR 'HOW THAT GOT MISSED'"*

Understanding this, however, does not actually make it any easier. I can feel tempers fraying when a bunch of bugs crop up. The team tell me in no uncertain terms that the pressure they feel under is making mistakes more likely as they rush stuff out the door. I'm also aware the all the other partners and the customer are also under immense pressure.

I am unspeakably relieved when we duly ship the increment on Friday, but also know that next week we're committed to yet another increment. The pressure is most definitely still on.

GUEST COLUMNIST:

TOM MITCHELL
B2B DIRECTOR, RISQ

ELEVATING THE JACKPOT

Mitchell examines how operators can broaden the burgeoning potential of jackpots, and expands on how easing their deployment can help them win market share

Jackpots have long been one of the most significant tools in an operator's armoury, tapping into players' imaginations with wishful thinking in a way that few other mechanics at their disposal can. There will always be a seat for jackpots at the casino table because, quite simply, there is an audience which will invariably be attracted to them whenever there is a big-money prize on show, and as such, jackpots remain a significant selling point for operators when looking to promote the latest games and applications.

Simply put, jackpots are an acquisition and retention tool that have more than stood the test of time. This was recently underlined when the US-based Mega Millions lottery changed its format in order to ensure its jackpots were large enough to compete with Powerball. In so doing, they allowed players with an eye for the big win to pay $3 for two entries into jackpot-only draws, which in turn removed them from contention for the smaller prize draws.

While these changes have made the jackpot harder to win, Mega Millions has seen its popularity rise to higher levels than ever before across all of the 44 states in which it operates, with players chasing the dream of the big wins that jackpots facilitate.

The reach of jackpots has also extended well beyond lotteries in recent years. Playtech recently upped the ante with the unveiling of Age of the Gods Roulette Live, bringing something fresh to the increasingly popular live online arena by merging a slot with a table game and paying out more than £1m within its opening two weeks. Progressive jackpots tied to slots continue to see such games grow in popularity. Microgaming's Mega Moolah is perhaps the most recognisable of these titles, which has to date paid out more than half a billion Euros in progressive jackpots.

Undoubtedly, what ultimately makes these games tick with end users is the sheer attractiveness of the prize on offer, drawing players in with the chance to win life-changing sums of money. However, in order to provide reliable and attractive jackpots to players, they rely on cross-network liquidity or self-seeding at an operator level. Attempting to go it alone with such a jackpot has historically carried real risk, while joining with other operators for liquidity purposes puts individual sites in danger of seeing the jackpot won elsewhere, potentially taking their players with it.

We are only just beginning to see jackpots adapt to the demands of the modern online gaming industry, and it is this push for adaptability that we at RISQ have put ourselves at the forefront of. To solve both issues we've developed an insurance-backed random number generator platform that provides access to jackpots of up to £25m. It's the fruition of years of development and fine-tuning since we entered the market 2010 as the first insurance-based lottery solution.

The manner in which we have built the technology means that offering such audience-attracting jackpots is now no longer the sole preserve of operators. Our uniquely structured, B2B only solution can be extended to affiliates, gaming platforms and games developers, providing total and democratised access to jackpots that are flexible and scalable to meet their exact requirements.

On that point, it is worth noting that in an increasingly busy marketplace, every partner seeks an innovative and differentiated solution to set their offering apart. Our insurance-backed solution can be adapted not only for lottery, slots, and table games, but also for Keno, bingo and the increasingly popular instant win games.

Jackpots are perfect for capturing the attention of players as they cast their gaze on an operator's landing page, and remain uniquely dependable when it comes to delivering deep user engagement and customer retention. Offering players the prospect of winning up to £25m (and RISQ will soon quadruple that level) is now the tangible reality for operators and providers alike, significantly boosting their potential to attract and retain new customers and boost expansionary plans in new regulated markets.