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THIS WEEK

- **PAGCOR loses powers in Philippine shake-up**
- **Artichoke Joe's Casino fined \$8m for significant AML breaches**
- **UKGC clarifies position on controversial loot boxes**
 - **Intralot shows exceptional growth in Q3**
 - **Helen Walton, CCO, Gamevy**
 - **Guest Columnist: Jonas Delin, CEO, Authentic Gaming**

WEEK 48

FRIDAY 1 DEC 2017

WILL HILL AND PADDY POWER IN TUSSELE OVER CROWNBET

Both operators reputed to be in talks with Crown Resorts over potential deal to buy the sportsbook



Australian casino operator Crown Resorts has been forced to address media speculation that it is looking to divest its 62% interest in horse racing and sports betting brand CrownBet Pty Ltd, with UK bookmakers William Hill and Paddy Power reportedly entering preliminary talks to take over the operation.

In a filing on the Australian Securities Exchange (ASE), the resort operator said: "Crown Resorts Limited notes media speculation today in relation to consolidation in the online wagering industry, including in relation to CrownBet, which is 62% owned by Crown.

"Crown evaluates opportunities regarding its investments from time to time. Crown confirms that it is in discussions concerning its interest in CrownBet. There is no certainty as to whether any transaction will eventuate."

William Hill released the following statement to the *Financial Times*: "Following media speculation, William Hill confirms that it is in very preliminary discussions with CrownBet, the 62% owned online wagering business of Crown Resorts, regarding a possible combination of William Hill Australia, a wholly owned subsidiary of William Hill, and CrownBet." ▶



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THIS WEEK IN NUMBERS



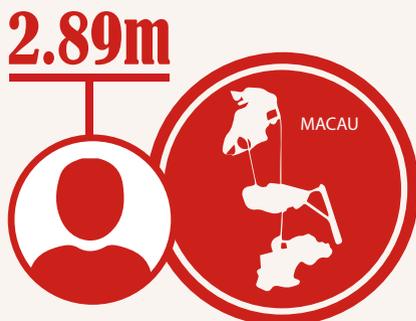
5000
Industry professionals who attended the tenth edition of BEGE in Bulgaria



\$13m
Estimated value of an illegal football betting ring busted by Vietnamese police



6.8%
Year-on-year increase in Tatts Group's revenues for Q1 of the 2018 financial year



2.89m
The number of people who visited Macau in October

However, William Hill added: "There is no certainty that these preliminary discussions will lead to any transaction." William Hill have declined to comment further on any potential deal.

Paddy Power Betfair is also looking to make an offer for the online gaming business. The rival bookmaker already owns Australia's leading online gambling business, Sportsbet, and the group's shares rose 3.2% in London on news of the talks, making the company the biggest climber in the FTSE 100 last week. However, the bookmaker remains tight-lipped on the potential for any negotiations, and has also declined to comment further.

Speculation is growing that UK-focused gambling companies are set to embark on a round of consolidation to offset the threat of stricter regulation and diversify their operations. Ladbrokes Coral, another UK betting shop operator, held several unsuccessful deal talks with online rival GVC this year, and a spate of dealmaking amongst British companies is expected once the government makes a decision on FOBTs next year.

KEY POINTS

- Crown Resorts to divest its 62% interest in CrownBet Pty
- William Hill and Paddy Power Betfair reportedly in discussions
- PPBF shares are biggest climber on UK's FTSE index after news

PAGCOR NO MORE UNDER NEW PHILIPPINE BILL

Regulator reorganisation hopes to end conflict of interest

A legislator in the Philippine House of Representatives has tabled a bill that will see the country's gambling regulator, PAGCOR (Philippine Amusement and Gaming Corporation) turned into a 'purely regulatory' entity.

House Speaker Pantaleon Alvarez co-authored House Bill 6514, a bill that would consolidate all gaming regulatory functions into PAGCOR and rename it as the Philippine Amusements and Gaming Authority (PAGA).

The bill also includes a provision that licensed operators will have to pay a 5% tax on their gross earnings, with the proceeds being used to fund charitable initiatives around the Philippines.

Bill 6514 would also see PAGCOR stripped of its functions as a gambling operator, a move which is hoped will end any speculation of a conflict of interest; the body has previously come under fire for being both regulator and operator.

As a consequence of this reorganisation, regulatory functions currently carried out by the Gaming and Amusement Board, the Philippine Charity Sweepstakes Office, as well as a number of Philippine special economic zones, will be combined in PAGA with some of those entities being dissolved as a result.

Its new responsibilities will include the monitoring and control of gambling services in the Philippines to ensure that only licensed operators conduct business within the country's borders. However in a move that may divide opinion, PAGCOR will be stripped of its licensing powers with those powers being transferred to the Philippine legislature. This could mean significantly longer wait times for licensing activities and added bureaucracy.

The House Game and Amusement Committee will begin holding hearings into the new proposal commencing today, 27 November.

CALIFORNIA CASINO FINED \$8M FOR AML VIOLATIONS

Casino guilty of multiple breaches and flagrant fraud

A casino in the US state of California has been fined \$8m following an investigation which revealed repeated violations of US anti-money laundering laws.

The Financial Crimes Enforcement Network (FinCEN) found that Artichoke Joe's Casino (AJC) in San Bruno, California had wilfully violated AML laws over an eight-year period between October 2009 and November 2017.

FinCEN found that the AJC had failed to implement and maintain an effective anti-money laundering program, additionally failing to report a number of suspicious transactions during the period.

In March 2011, AJC was the subject of a raid by state and Federal law enforcement agencies which led to the indictment and conviction of two AJC customers for loan-sharking and racketeering offences.

The investigation later revealed that two senior-level casino employees knew that loan-sharks were conducting criminal

A\$7bn



Social cost of gambling for the Australian state of Victoria



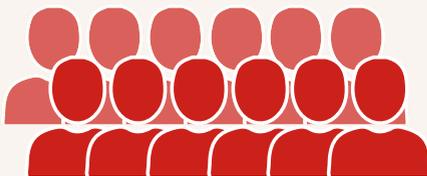
The percentage increase in online gambling fraud since 2014

€16m

Sum fundraised by affiliate network Gambling.com in 2017



12



The number of members from Nevada Gaming Policy Committee who will discuss the state of cannabis in the casino industry

£300m

Estimated cost of the potential casino complex in Belfast



activity through the card club and using AJC gaming chips to facilitate illegal transactions but effectively turned a blind eye to these instances by not filing any Suspicious Activity Reports (SARs) on this activity.

In a number of cases, loan-sharks provided AJC gaming chips to customers on the casino floor in plain sight of casino employees.

Acting Director of FinCEN, Jamal El-Hindi said in a statement: "For years, Artichoke Joe's turned a blind eye to loan sharking, suspicious transfers of high-value gaming chips, and flagrant criminal activity that occurred in plain sight. FinCEN's \$8m civil penalty results from the card club's failure to establish adequate internal controls and its wilful violations of the Bank Secrecy Act."

out there that could present a risk to their children."

Whilst the UKGC accepts the practice is somewhat dubious, its hands are tied by the UK Government. He adds: "The law sets a line between what is and is not gambling. As the regulator we patrol that line and where an activity crosses it and presents a risk to people, especially children, we have and will take robust action."

Whilst the UKGC are unable to take further action at present, a number of other jurisdictions such as Australia, Belgium and Hawaii are pushing to rule the divisive in-game feature as unlawful.

INTRALOT GROSS PROFITS UP 29.9% IN Q3 2017

Encouraging financial returns for the gaming operator

Global gaming giant Intralot has reported a significant 29.9% increase in its year-on-year gross profits for the third quarter of 2017.

In its third financial filing of the year, the company reported gross profits of €63.8m, beating the €49.1m figure achieved during the same period in 2016.

Intralot posted group revenues of €352.7m in Q3 2017, rising by 10% from the €320.6m reported during the corresponding period of 2016. Its EBITDA figure also rose year-on-year during the period, increasing 27.8% to €45.1m from its previous high of €35.3m.

Company earnings before taxation also grew year-on-year from a €1.3m loss in the third quarter of 2016 to a profit of €10.3m during the corresponding period of 2017.

In a statement accompanying the results, Intralot Group CEO Antonios Kerastaris commented: "Financial results for the 9M2017 demonstrate steady progress in all three strategic goals set by the company, namely gains in operational performance, the implementation of M&A strategies to improve the profitability of our offering mix while facilitating investments in new products and projects, and Financial Profile Restructuring to secure long-term visibility."

Intralot Group recently completed its takeover of Maltese gaming technology company Bit8, purchasing an additional 65% stake in the business to complement the 35% share that it purchased in 2015.

UK GAMBLING COMMISSION ANNOUNCES ITS STANCE ON LOOT BOXES

Move follows other regulators addressing the issue

Late last week, the UK Gambling Commission posted a statement regarding its stance on the highly controversial matter of loot boxes.

In the past few weeks, many country regulators have posted opinions on the in-game play feature, and whether it constitutes a form of gambling.

The UK regulator placed a great deal of emphasis on the fact that gambling hinges on monetary value, and further explained that loot boxes cannot be considered as a form of gambling as long as the items acquired via loot boxes "cannot be cashed out" by players.

The UK Gambling Commission's Executive Director, Tim Miller stated: "A key factor in deciding if that line has been crossed is whether in-game items acquired 'via a game of chance' can be considered money or money's worth. In practical terms this means that where in-game items obtained via loot boxes are confined for use within the game and cannot be cashed out it is unlikely to be caught as a licensable gambling activity. In those cases our legal powers would not allow us to step in."

He further adds that "many parents are not interested in whether an activity meets a legal definition of 'gambling'. Their main concern is whether there is a product

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ARISTOCRAT EARNINGS GROW

Aristocrat (ALL) grew EBITDA 24.2% in fiscal 2017 through what it called outstanding momentum in the Americas, significant growth in digital and Class III and sustained growth in Australia. Continued growth is expected for fiscal 2018 based on factors including:

- Continued growth of ALL's Class III installed base in North America with a stable average fee per day;
- Increased share in North American outright sales;
- Maintaining ALL's industry-high average revenue per daily active users in its digital segment;
- Maintaining ship-share in Australia and New Zealand. Results are in Australian dollars, which trade around 1.3 to one US dollar.

YEAR-END HIGHLIGHTS, 2017 vs. 2016:

Diluted earnings per share: 77.5 cents vs. 54.9 cents

Revenue: \$2.454bn vs. \$2.129bn

By segment:

Americas: \$1.425bn vs. \$1.255bn

Australia, New Zealand: \$431.6m vs. \$412.7m

Digital: \$383.0m vs. \$279.7m

International Class III: \$214.7m vs. \$181.1m

EBITDA: \$1.001bn vs. \$806.0m

Diluted shares: 639.146m vs. 637.869m

Balance sheet: Net debt: \$652.3m vs. \$1.005bn
September 2016

BELOW IS A LIST OF US GAMING STOCKS THAT HIT 52-WEEK HIGHS THIS WEEK:

COMPANY	52-WEEK HIGH AS OF WEDNESDAY
Empire Resorts	\$25.60
Penn National	\$28.44
Boyd	\$31.27
Pinnacle	\$29.60
Churchill Downs	\$221.75
Golden Entertainment	\$34.24
Red Rock Resorts	\$30.59
Canterbury Park	\$15.10
Eldorado	\$30.05
Las Vegas Sands	\$68.36



TRIALS AND TRIBULATIONS OF A GAMING START UP

HELEN WALTON | CCO, GAMEVY

WEEK SIX: THE TRADE SHOW – BUSINESS BLISS OR BARBARISM?

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

In every other industry tradeshows are gradually dying. But in gambling, the trade show is king of B2B marketing, recruitment and networking. If you had the budget and the time, you could simply travel from show to show – until the heart attack from late nights, free booze and junk food killed you, that is...

This week it is the turn of SIGMA. We are off to meet customers, try to move deals on and sell, sell, sell. Naturally, this being a start-up, we are also doing it as cheaply as possible, so no fancy hotels, expense accounts or big stand with a bar for us. We check into a Spartan Airbnb, where we are greeted by the sight of a dead cockroach in the bathroom, but I'm happy when I discover the large stove-top coffee pot – and, as my colleague points out, better a dead cockroach than a live one!

At the show itself, I go looking for the stand we have been allocated in the 'start-up area'. When I looked at the list of how many start-ups they were planning to squeeze in, I'd had my doubts ... and it turns out to be a table with a stool. Who cares though? Not only is it nice to meet all the other hopefuls, and exchange stories from the trenches, but our bijou stand is fine to tell people to meet at, then we can hold the meeting outside in the Malta sunshine, or even wangle a table at the Microgaming bar.

The team there are always friendly and charming, so much so that I feel a shot of guilt when a customer suggests a direct integration instead of going via QuickFire. I wonder if the gods of hospitality will mean the tasty grilled sausage Microgaming are handing out will choke me.

In spite of coming to Malta three times now, I have still never seen the old city, the fortifications of the knights of St John or any of the fine buildings in Valetta. I am determined that this year will be different... but as usual my optimism is misplaced,

our 'spare' day gets filled up with meetings and the most I see of the island is the bus trip back and forth along the little bit of coast between St Julian and Sliema.

Instead of my fantasy of beautiful little restaurants with local wine, our evenings are spent in the endless parties that fuel the gambling industry's ability to do business. I try not to drink at these events – partly because I don't want to say or do anything stupid around customers, but mostly because I am just too old to get up and work with a hangover. I don't know how the CEOs in their 40s and 50s knocking back

“OUR EVENINGS ARE SPENT IN THE ENDLESS PARTIES THAT FUEL THE GAMBLING INDUSTRY'S ABILITY TO DO BUSINESS”

alternate gins and champagne are able to do it. “Never go to bed before 5am!” one tells me. “That's the secret of success!”

Obviously doomed to mediocrity, I only last till 2.30am every morning when it's clear that the product manager who just cheerfully agreed to stock our products and give us a great promotion spot is unlikely to remember the promise in the morning. We, of course, have to be up and starting meetings by 9am.

By Friday my eyes feel as if they have been skinned and I am so exhausted I consider attaching the excellent coffee pot by a drip to my veins. I am longing to go home, get into my own bed, eat salad and drink nothing but water ever again.

GUEST COLUMNIST:



JONAS DELIN
CEO, AUTHENTIC GAMING

**LIVE CASINO:
THREE KEY TRENDS**
Jonas Delin, CEO of Authentic Gaming, explains why speed and entertainment will play a significant role in future of live casino products

Live casino is one of the fastest-growing and fastest-evolving online gambling markets.

By the end of the decade, the sector is estimated to be worth in excess of €1.9bn per year in Europe alone (according to H2 Gambling Capital). But between now and then – a little over two years – the technologies and products offered to players will have changed drastically.

Like any new or emerging vertical, its appeal is broadening as more players learn about live casino and find products and formats that excite them. Evolution Gaming, for example, has launched a live money wheel game – Dream Catcher – while here at Authentic Gaming we are set to open a state-of-the-art studio with a completely unique format and table configuration.

These new products, from us as well as our rivals, are being developed and launched based on emerging live casino trends. And as a second mover in the space (we have only been offering our products to operators since 2016) we believe we are in the driving seat to monitor these changes in player preferences and habits and adapt to, and capitalise on, what we are seeing.

What follows are the three key trends we believe will shape the live dealer space in the next two years from a product perspective.

NEW DEMOGRAPHICS

Live casino has enjoyed a major uptick in play in the past twelve months, and only now can we properly analyse the data we have been able to gather. Our stats tell an interesting story; live dealer games streamed from tables located in prestigious land-based casinos appeal to VIPs and high rollers. They thrive off the atmosphere and excitement of the casino floor, but enjoy the convenience of online play.

On the flip side, live casino is also being enjoyed by land-based players venturing online for the first time. It is often the case that these players still lack trust in online RNG games, and like to be able to play games streamed from the gaming floors of exclusive and reputable land-based casinos. In many cases, these players are patrons of the bricks-and-mortar property and wish to extend their play online.

SPEED

Of course, there is an existing, sizeable audience of live casino players that may never have played in a land-based casino before. This, in turn, is impacting the games that suppliers are having to develop for operators and their players. For traditional online players, speed is key when it comes to live casino, which is why we have seen a huge rise in the popularity of auto-roulette.

Live casino suppliers are now having to look at ways of taking auto-roulette to the next level. Whether adding new elements such as voice over results, the option to play music in the background, or more side bets, it is about creating additional value for the player while at the same time ensuring they can maximise their betting activity. This is particularly important for mobile players.

ENTERTAINMENT

The whole ethos behind live casino is to deliver an authentic gaming experience to players; it's about porting them to the heart of the casino floor and allowing them to interact with dealers and other players, while soaking up the sights and the sounds.

But as the audience of live casino is becoming larger, the dependence on VIP players is decreasing. We believe that this "casual" segment want more than just gambling. They are also looking for a fun and entertaining experience.

As an extension of this, we are seeing the blurring of the lines between TV gameshows and live casino. Evolution has done this via Dream Catcher; the game is set against a glitzy TV gameshow backdrop with a presenter rather than a dealer, and it is something we are looking to take to the next level with our new state-of-the-art studio. It's about turning the entertainment dial to MAX.

Authentic Gaming is branching out into live games delivered from our own purpose-built studios where entertainment is focus. We have also launched LIVE! Entertainment, which delivers shows such as singers, dancers and other acts live from the land-based casinos that we partner with. It means players can watch these shows while they wager.

These are just three trends that are emerging in the live casino space, but there are others and they will all shape the future of the market. It is important to identify and understand these trends so that suppliers can develop products that excite and entertain players, and broaden the reach of live dealer gaming. It is an exciting time for the sector, with plenty more action to come.

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