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THIS WEEK

- **Kindred to acquire 32Red**
- **Pinnacle exits Poland**
- **Holmgren named Cherry CEO**
- **Guest Columnist: Mark Robson, Isle of Man Department of Economic Development**

WEEK 08

FRIDAY 24 FEB 2017

PLAYTECH POSTS STRONG FULL-YEAR GROWTH

Soaring revenue driven by its casino offering



Industry provider Playtech has reported impressive growth in its 2016 full-year results, with revenue rising 20% at constant currency to €708.6m, led by the company's "flagship casino offering".

Adjusted EBITDA also climbed year-on-year at constant currency, up 32% to €302.2m, while adjusted net profit grew by 42% to €206.2m.

The supplier also spent €240m on a fleet of acquisitions through 2016, including BGT, Quickspin and ECM.

The report also paid notice to the company's efforts at "locking-in" future growth, with over 10 new customers signed in 2016 including Pokerstars, MaxBet and Mr Green.

Alex Jackson, Chairman of Playtech, said: "Playtech has continued to successfully execute its strategy for strong operational and financial performance, strategic M&A and shareholder returns.

"Management remains confident of a strong performance in 2017 and beyond."

Providing its view of the results, financial services firm Canaccord Genuity said: "Playtech delivered another year of significant growth. But it also delivered some material operational improvements.

"A number of significant contracts were renewed (including Paddy Power Betfair), ▶

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COMPLETE GAMING PLATFORM

THIS WEEK IN NUMBERS



Cost of LeoVegas' acquisition of Winga.it



Amount New Jersey owes Borgata Casino



Decline in Mississippi's casino revenues

60%

Stake Hard Rock pledged to contribute to a joint bid for a casino licence

332%



Yggdrasil's year-on-year annual revenue growth

so 9 of its top 10 customers are now on long term contracts, secured on broadly similar terms."

The firm continued: "FY17 will face some headwinds - Gaming margins impacted by Mobenga contract losses in FY16, the impact of Sun Bingo (unlikely to be profitable before Q4) and a repositioning in the Services division.

"But recent acquisitions are performing well (most notably BGT, with the recent OPAP contract win), new contracts kick (ie. Fortuna and Marca), and having re-booted the Financials division it is poised to return to growth.

"We leave FY17 Ebitda/EPS forecasts unchanged, projecting 19% Ebitda growth and 16% EPS growth."

KEY POINTS

- Playtech revenue up 20% at constant currency
- €240m spent on acquisitions through 2016
- Over 10 new customers signed last year

KINDRED GROUP TO ACQUIRE 32RED

32Red's directors expected to recommend the bid is accepted

Swedish online gaming company Kindred Group has reached an agreement with 32Red to acquire the operator for £175.6m.

The two companies announced the acquisition on Thursday 23 February to the London Stock Exchange as the takeover continues a surge of M&A activity across the gaming industry.

This will be the first acquisition deal Kindred has been a part of since the Stan James takeover in 2015.

32Red's shares soared in the last three weeks surrounding takeover speculation, rising 16% to 200p in early London trading on Thursday.

The recommended cash offer to acquire the entire share capital of 32Red is valued at 196p per share, with shareholders also due to receive a second interim dividend of 4p per share on March 23. The offer represents a premium of 16.3% on 32Red's closing share price on Wednesday.

Henrik Tjärnström, CEO of Kindred

Group comments: "The acquisition of 32Red is consistent with our multi-brand strategy and stated desire to grow our business in regulated and soon to be regulated markets.

"32Red is high quality, customer-focused business with a similar culture to Kindred's and we are delighted to welcome 32Red and its team into the Kindred Group and look forward to further developing the brand going forward."

Ed Ware, CEO of 32Red adds:

"We have consistently and profitably grown 32Red's market share in the regulated markets of the UK and more recently, Italy. The management team at Kindred have a similar business philosophy to our own and we look forward to joining forces with Kindred and continuing our successful growth within the Kindred Group."

The group has already received confirmation from shareholders who hold a combined 71.1% stake in 32Red that they will accept the offer, however the offer is conditional upon Kindred gaining acceptance of more than 75%.

PINNACLE EXITS POLAND

Its exit comes ahead of the introduction of a new gambling regime

Online sports betting operator Pinnacle has announced its withdrawal from the Polish sports betting market ahead of the country's induction of its new gambling regime.

The bookmaker updated its customers on the market withdrawal stating that it wished to comply with new Polish gambling laws that will take effect in April. The company cited these regulatory changes as the reason behind the decision.

The restrictive framework has been criticised for favouring state-owned betting firms and makes it unmanageable for foreign industry operators.

Despite criticism from EU officials and industry stakeholders, the Polish government has made no movement to alter its unpopular online gambling framework, which currently taxes betting operators 12% of wagering turnover.

Despite the pressure from the European Commission the Polish

£130.8M
NetEnt's full-year sales for 2016

\$10B

Cost of the casino Las Vegas Sands Corp pledges to build in Japan

HK\$2.3B

MGM China's decline in full-year revenue from 2015

government refused to align its gambling industry framework with European business policies. Instead, the government only added further online restrictions to casino and slot machines.

The amended act was approved by parliament in December and signed by President Andrzej Duda on January 5 and was then sent on to the European Commission for approval with the mandatory standstill period ending on March 31.

Pinnacle is said to be exiting the market before the country imposes domain and payment blocking measures, which it has previously threatened to launch against all unauthorised operators at the beginning of July. As a result of the movement, Pinnacle will inactivate all Polish registered accounts with all remaining funds and balances returned to the customers.

HOLMGREN NAMED CHERRY CEO

He replaces Fredrik Burvall in the role Stockholm-headquartered Cherry AB has

announced the permanent appointment of Anders Holmgren to the position of CEO.

Holmgren replaces Fredrik Burvall, who stepped down from the role in January for family reasons.

Revenue amounted to €14.3m for the fourth quarter and €56m for the full year 2016, an increase of 17%. Operating profit (EBIT) for the fourth quarter of 2016 was €1.8m, with a margin of 13%, and €8.8m for the full year 2016, with a margin of 16%.

Rolf Akerlind, Chairman of the Board, greeted the appointment with enthusiasm: "Anders Holmgren has, during his years as a Board member of Cherry AB, been a driving force for the company and possesses an excellent knowledge of the industry in which we operate.

"His experience working within large companies in the finance and gaming industries, as well as an entrepreneur, will give Cherry impetus to continue the company's expansive development."

Anders Holmgren said: "I am looking forward to continuing to develop Cherry as a fast-growing company, as well as managing the strong positions Cherry holds across all its business areas. ◀

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HEAD OF E-GAMING, ISLE OF MAN DEPARTMENT OF ECONOMIC DEVELOPMENT

THE REGULATORY LANDSCAPE OF E-GAMING IS MATURING

Post-ICE reflections

It has only been a couple of weeks following the conclusion of ICE Totally Gaming 2017, the e-gaming industry's flagship event. In fact, it would be apt to say the event is the biggest fixture in the calendar. There are thousands of visitors and hundreds of exhibitors from around the world discussing current themes as well as making predictions about the future.

ICE is always full of energy and is a great barometer of the global sector's health. It offers the perfect opportunity to promote the industry, attract and celebrate talent, and showcase innovative technology. This is why we ensure the Isle of Man has a stand at the event every year. This year, we had many interesting conversations with businesses about how our proposition can help them grow.

Also, we met with various industry figures and caught up with old friends. It was clear from all the discussions that regulation is the most significant factor which has driven change in the sector globally.

Maturing regulatory landscape

The industry has undergone a period of paradigm shift over the last few years. The regulatory landscape is now maturing as regulators are working with each other closely to discuss and address key issues such as player fund protection; game integrity; age and identity verification guidelines; and geolocation verification guidelines.

What is driving this? Online gambling businesses seeking to move into new markets need to meet separate regulatory requirements for each country. This is an added burden for games operators, in terms of time and resources required. Therefore, regulators are realising that this may hinder the sector's development.

The Isle of Man has played a pivotal role in developing cooperation between jurisdictions and this is highlighted by its work to promote common testing standards. Our Gambling Supervision Commission (GSC) has recently introduced changes to the licensing conditions. One of the updates will allow it to accept test certificates issued to other gambling regulators by approved testing

laboratories, if the regulatory authority has entered into a Memorandum of Understanding with the GSC. This has received a very positive response from various stakeholders.

The flexibility and expertise we have shown continues to attract new business to the Island and has also reinforced our position on the 'experts panel' at recent IOC sports integrity events'

Outlook for the future

Gambling regulators do have a history of working together. The Gaming Regulators European Forum (GREF) has existed since 1989, with annual meetings and subcommittees. As we look ahead, the next steps would be to try formalising the working groups in a way that regulators can network, exchanging views and information and formulating policy without creating additional burden for gambling businesses.

Whilst there are still challenges such as coping with changes in taxation; and procedures for reporting suspicious activity, these can be overcome with a collaborative approach. As we look ahead to the coming months, we expect to see more joined-up thinking among regulators and a sharing of learnings and best practice methods, with the Isle of Man leading the way.

Conclusion

From facing and overcoming reputational challenges to enjoying unprecedented levels of popularity, the global e-gaming sector has been through a wide spectrum of phases. However, a collaborative approach between regulators will be crucial for the industry to continue thriving in a safe environment and maintaining its growth trajectory.

Although the curtains have drawn on ICE, the conversations on key issues started at the event will continue and arrive at meaningful conclusions. Furthermore, there will be new challenges and opportunities that see the light of day to fill the panel sessions and bar discussions at other conferences in the coming months. The Isle of Man will continue to navigate the changed landscape with a robust regulatory framework and a strong strategy for future growth.

Mark was appointed head of e-gaming at the Isle of Man Department of Economic Development in 2015. He has extensive experience in the IT and gaming industries, having previously worked for the likes of Microgaming and SHFL entertainment among others.

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