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WEEK 17

FRIDAY 27 APR 2018

OUT ON THE MERGER



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THIS WEEK

- **Tribal casinos meet with mixed successes**
- **Malta Gaming Authority appoints new CEO**
- **Kambi Group operating profits up 42% in Q1**

GUEST COLUMNIST:

- **Peter Causley, Managing Director, Lightning Box Games**

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WHERE NEXT ON THE MERGER MERRY-GO-ROUND?

Sky Bet becomes latest business to be acquired



Online gaming and poker giant, The Stars Group' has become the latest gambling business to dip its toe into the mergers and acquisitions pool, agreeing a \$4.7bn cash and stock deal to acquire Sky Betting & Gaming (SBG) from Sky plc and private equity firm CVC Capital Partners.

The acquisition will create the world's largest publicly listed online gaming company and is 2018's second multi-billion dollar merger, following the completion of the GVC Holdings/Ladbrokes Coral tie-up in March.

Speaking about the acquisition, Rafi Ashkenazi, The Stars Group CEO, said: "Following this transaction, The Stars Group will have significantly enhanced scale and a highly-regarded global brand portfolio. As a result, we are well positioned to realise our vision of becoming the world's favourite online gaming destination." ▶



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THIS WEEK IN NUMBERS



The number of years Bradley Wood has been banned for violating the FA's betting and integrity rules

29,319 

The number of Belgians who self-excluded themselves from gambling (both online and at land-based venues) in 2017, according to Belgian Minister of Justice Koen Geens


5/2

The odds offered by bookmaker Ladbrokes Coral that the Duchess of Cambridge's third child will be named Arthur

Sentiments which were echoed by his opposite number, Richard Flint, Sky Betting & Gaming's Chief Executive Officer, who added: "This transaction allows us to offer our best-in-class products to a truly global audience. We're excited about our future together."

Looking at this from an outsider's perspective you can see why both parties are keen to talk up the possibilities of the new business. Warwick Bartlett, CEO of gaming consultants, GBGC gives *G/* his thoughts: "It's a deal you do not have to think twice about."

"It makes perfect sense, Stars lessens its exposure to unregulated markets and Sky has the opportunity to migrate its casino and poker to proprietary software. The Sky Openbet platform is US ready, and because of the Sky focus towards mobile gambling it is ideal for the mass US market."

Ben Robinson of M&A specialists RB Capital, adds: "This is a very timely and strategic sale by CVC (the majority shareholder in Sky Bet) given the

very favourable price and price/earnings ratios reported. The Stars Group's acquisition of Sky Betting and Gaming's is in no way a surprising move and now seems like part of a master plan that augments the recent spending spree in Australian waters."

If the latest press reports are to be believed, UK Chancellor Philip Hammond will soon announce sweeping cuts to fixed odds betting terminals maximum stakes, placing the value of multiple UK land-based gambling businesses at risk, making them ripe targets for merger hungry diversified businesses like GVC Holdings and The Stars Group.

The benefits of these mergers are threefold: You build a business which can survive any FOBT crackdown, gain access to a larger market (as SBG have done) and you generate a positive return for your shareholders.

One thing is for sure, we haven't seen the last big corporate merger of 2018. So the question becomes who will be the next business to be acquired?

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The average occupancy rate at the City of Dreams Manila hotel and casino, according to Philippine real estate developer Belle Corp & its partner Melco Resorts & Entertainment- who are reportedly looking to expand the hotel



The increase in the number of visitors to Macau during March according to figures released by the Statistics and Census Service (DSEC)



The number of casino licenses in West Virginia who could potentially incorporate sports betting if the state chooses to legalise it within its borders

CONTRASTING FORTUNES FOR TRIBAL CASINOS

Mixed week for tribal operators

It was a week of different outcomes for US tribes, in Florida an agreement was reached between the Seminole Tribe and the state of Florida which ended a long running legal dispute between the two parties.

The agreement comprises the signing of an amended compact which grants the tribe card and slot gambling exclusivity in return for \$300m in revenue sharing for the state, ending a long running legal dispute stretching back to 2010.

Under the 2010 gambling compact, the tribe were granted exclusivity over blackjack gaming tables in the state for a five-year period in exchange for \$1bn in payments to the state, continuing to do so even after the five years expired. A bitter legal row erupted between the tribe and the state, which culminated in the state launching a countersuit in 2017. This latest agreement guarantees tribal

revenue sharing payments and will stop after the end of the legislative session in May 2019.

On the north coast, the row over the Mohegan and Mashantucket Pequot tribes application to build a third tribal casino in the US state of Connecticut took another twist this week, when the Inspector General of the US Department of the Interior announced an investigation into the agency's failure to ratify the revised tribal compact signed by both tribes and the state in June 2017.

The revised compact called for the development of a casino in East Windsor and for that casino to be operated by a joint venture between the two tribes. An initial delay by the Department prompted both tribes and the state to file a lawsuit with the Attorney General in December.

However, it has yet to be ratified by the DOI despite all legal conditions being satisfied almost a year ago, members of Connecticut's congressional delegation to request an investigation by the Inspector General.

THE WEEK IN QUOTES

"No [there is not a desire for casinos] ... We need to bear in mind that there are cultural things that are a priority to us."

Issam Kazim, CEO, Dubai Corporation for Tourism and Commerce Marketing (DCTCM), when asked about possible legalisation of casinos in Dubai

"I believe it is time for Hagenbuch's departure from the board so that new board members can seek change, free of holdovers from the past."

Elaine Wynn talking about the re-election of John Hagenbuch in a letter to shareholders

"Racing in Queensland is a massive sport and business which impacts almost every town and community across the sunshine state. How we connect and enhance racing is critical for its more than 41,000 participants."

Brendan Parnell, former Tatts Group executive who has been appointed as CEO of Australian state horse racing authority Racing Queensland

NEW MAN AT THE TOP IN MALTA GAMING AUTHORITY

All change in the gaming regulator

Heathcliff Farrugia has been confirmed as the new CEO of the Malta Gaming Authority (MGA), following the departure of his predecessor, Joseph Cuschieri.

The news comes after Cuschieri announced that he would be taking up the position of CEO of the Malta Financial Services Authority earlier this month.

First joining the MGA as its COO in 2014, Farrugia was then appointed to the post of Chief Regulatory Officer in 2016 and was responsible for all the regulatory activities of the authority with specific focus on authorisations, compliance, regulatory supervision and player support.

He has also co-chaired the MGA's Fit & Proper Committee, which was responsible for assessing those individuals and companies applying for Maltese gaming licences and served as a member of the MGA's Supervisory Council.

A board member of the Gaming Regulators European Forum (GREF), Farrugia is also a member of the International Association of Gaming Regulators (IAGR) and the International Association of Gaming Advisors (IAGA).

One of the new man's principle tasks will be to play a key role in the implementation of the new Maltese gambling bill, which will if passed repeal all existing gaming legislation, replacing it with a single act of parliament.

The act widens the MGA's powers under the compliance and enforcement functions with the aim of better achieve regulatory objectives, in line with concurrent developments on anti-money laundering and funding of terrorism obligations.

Although the Maltese gambling sector is flourishing, questions remain about potential corruption and links with the Italian Mafia and Farrugia's other main task will be to continue the MGA's drive to exorcise this pervasive influence from the Maltese gambling industry.



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THE WEEK'S WINNERS AND LOSERS

WINNERS

Laos - Where Macau Legend Development Ltd has confirmed it will shortly invest \$300 million to \$500 million across "several projects" in the country.

Oregon - Where the Oregon Lottery has stated that it does not need to create a new law to allow sports betting, should PASPA be struck down

Philip Hammond - The UK Chancellor was forced to defend himself following reports which alleged that he blocked a move to introduce cuts to Fixed Odds Betting Terminals

Slovenia's bettors - Following the rejection of an amendment of the gambling law on sports betting by the National Assembly of Slovenia which voted 35-26 against

LOSERS

KAMBI ENJOYS Q1 GROWTH IN ALL VERTICALS

Operator buoyant in time for World Cup

Swedish sports betting provider, Kambi Group, has announced a year-on-year operating profit increase of 42% during the first quarter of 2018.

Releasing its financial figures for the period, the company revealed operating profit (EBIT) totalling \$2.44m, surpassing the \$1.71m accrued during Q1 2017. This allowed the company to operate with a margin of 12% in Q1 2018, beating the 10% margin reported during Q1 2017.

In the months between January and March, Kambi received \$20m in revenue compared to the \$17.32m generated in the previous year, with growth of 15% higher than its revenue growth rate for the financial year 2017 which topped 11%.

Company profits after tax amounted to \$1.83m, rising by 36% year-on-year from the \$1.34m reported during the same period in 2017. Earnings per share

during the first quarter of 2018 rose as a result of these increased profits.

In March, Kambi signed its 16th customer agreement with Casumo, following this up with the agreement of a multi-channel deal with StanleyBet Romania in April.

During this period, Kambi also acquired a stake of just over 25% in Virtus Sports, one of the company's virtual sports developers and suppliers, for \$694,000.

Commenting on his company's potential for future growth Kambi CEO, Kristian Nylén, said: "Kambi kicked off the year in positive fashion with Q1 2018 delivering double-digit revenue growth.

"In addition, since the end of the quarter, we added another operator to the Kambi network, stretching our run of new customer wins to an impressive 10 consecutive quarters.

"With a World Cup around the corner and preparations for the potential opening of a US market progressing well, the levels of excitement and optimism at Kambi continue to grow."

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WYNN RESORTS AND LAS VEGAS SANDS AHEAD OF ESTIMATES

Both Wynn Resorts and Las Vegas Sands beat earnings estimates in the first quarter of 2018.

Las Vegas Sands

Las Vegas Sands reported record results in Macau, Singapore and Las Vegas which has led Las Vegas Sands to beat consensus in the quarter by 19 cents a share.

Revenues company-wide grew 16.7%, with adjusted property EBITDA jumping 30.7%.

In Macau, the Parisian continued to ramp up with gaming revenues rising 19.8% and EBITDA improving 41.8% as statistics like rolling chip volume, slot play and hotel occupancy were up across the board.

Las Vegas table drop rose by 13.4%, while EBITDA margins improved by 2.2 percentage points to 29.6%.

At Marina Bay Sands, casino revenue grew 32.5%.

Wynn Resorts

Wynn Resorts earnings grew by \$0.36 a share in the first quarter primarily based on strong growth in both Las Vegas and Macau. Revenues grew by 20.5% and adjusted property EBITDA rose by 32%.

As a result of this growth, Wynn upped its quarterly dividend by 50% to 75 cents a share, which will be payable on 29 May.

Wynn Palace continues to enjoy healthy casino revenues which rose 50.7%, while Wynn Macau gaming revenues also grew, more modestly by 10.5%. Wynn Macau was hurt by low hold.

In Las Vegas, total adjusted property EBITDA grew by 6%. Another positive was the 17% rise in table drop.

Wynn Resorts GAAP earnings were affected by several financial settlements which the company reached in the quarter with Universal Entertainment, Aruze Gaming and Elaine Wynn totaling \$463.6m.

LAS VEGAS SANDS FIRST QUARTER HIGHLIGHTS

BALANCE SHEET: Cash: \$2.63bn Long-term debt: \$9.65bn

By Region	Q1 2017	Q1 2018
Macau	\$626m	\$789m
Marina Bay Sands	\$364m	\$541m
Las Vegas	\$122m	\$141m
Sands Bethlehem	\$36m	\$29m

WYNN RESORTS FIRST QUARTER HIGHLIGHTS

BALANCE SHEET: Cash: \$2.16bn Long-term debt: \$9.36bn

By Location	Q1 2017	Q1 2018
Wynn Macau	\$181.106m	\$209.822m
Wynn Palace*	\$111.856m	\$211.911m
Las Vegas	\$134.577m	\$142.569m

* Wynn Palace is included in Macau's total adjusted property EBITDA.

US STOCK UPDATE

The following two stocks hit 52-week highs in the US:	
Tropicana	\$70.75
Melco Resorts	\$31.95

GUEST COLUMNIST



PETER CAUSLEY,
MANAGING DIRECTOR,
LIGHTNING BOX GAMES

In the omni-channel gaming environment, slot games are often considered to be the core offering of the gaming industry.

Causley discusses how there is a difference of opinion between those developing games in-house and those farming the work out to third parties as to which is better.

How best to develop games has been a hot topic across online, land-based, and social verticals for some time now. The role of third parties is a particular bone of contention. Generally-speaking, the online industry leans towards the aggregation of ideas and is open to outside development. However, land-based and social tend to prefer the in-house model that keeps design – and profits – to themselves.

Online RMG used to be the same as land-based when the big four software development houses of Playtech, Microgaming, Cryptologic, and Reel Time Gaming all focused on in-house. Only their games on their platform were available to operators.

But that changed as new games became available via other routes, with some early successes for independents encouraging others to try it. As things snowballed, demand for more choice and better quality won out, forcing the behemoths to offer different content or be left behind. The rise of the NYX-OGS platform, (now SG Digital), as a key industry player, on the back of third party aggregation, is testament to this fact.

My view is it's impossible to have all the best ideas in-house all the time. There's always going to be someone with a more engaging proposition. Even successful companies like Apple recognises this, as it's App Store demonstrates. If you want a broader range of games, it is better to source them from multiple points and open it up creatively.

Of course, accountants see third parties as yet another cost. But player-led companies see it as a way of delivering game diversity that cherry picks the most interesting ideas. This then results in additional points of sales revenue. I guess it's a classic half empty, versus half full perspective. On the flip side of the P&L cost, ten games developed in house will have a set cost and only one may be successful,

but if you carefully select one out of ten third party games you get the best, and with much-reduced development costs. It just depends on if you view it on a one by one case, or holistically across the business.

The larger land-based machine manufacturers are very different to their online counterparts. They are reluctant to change what they are doing here due to their current dominance of the OEM supply market. These manufacturers are in a constant struggle to support their boxes in the casinos, requiring a constant stream of games to place in them. They have large internal design and development studios. This makes it hard for third parties to deliver games because they have to compete for internal resources like software, QA, and compliance.

A notable exception is Aristocrat who sourced their highly successful game Lightning Link from High-Roller Gaming. Lightning Link is highly successful and there isn't a terminal-maker on the market who wouldn't like the game on their roster. What remains to be seen is if it is a one-off, or whether it will prompt these manufacturers to take a chance on more third party content, provided it is well-designed.

Social casino operators are also dominated by those who prefer in house slot development too. Third party games are sometimes purchased outright, but usually for nominal fees that only entice inexperienced start-ups. In truth, it will probably take a mid-tier social operator hungry to show some success with its player base from a variety of quality games, including third party contributions, to change this mind set. It will happen, as history often repeats itself.

There's no wrong or right way when it comes to third party content. In-house design is obviously exclusive and requires no royalty fees. But it often lacks diversity and can lead to a 'play it safe' approach which stifles innovation. Third party games are highly-incentivised to perform and can provide an additional source of sales revenue when carefully selected. The down-side is they need to be paid for and the client doesn't own the intellectual property.

Obviously, Lightning Box is a third party game studio, and we're biased. If everyone outsourced 100% it would be great for us. But in all honesty, the best strategy is to create a balanced portfolio that includes the best of both internal and external ideas. This is what players want and deserve. And, if we look after our players, they will look after our industry.

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