



WEEK 24

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THIS WEEK

- **XLMedia shares tumble sharply on revenue warning**
- **Switzerland votes to ban foreign betting sites**
- **UK Lottery ticket sales reach all-time high**

GUEST COLUMNIST

- **Stuart McCarthy, Head of Studio Partnerships, Yggdrasil Gaming**

US SPORTS BETTING GAINS MOMENTUM ONE MONTH ON



A lot has happened to the US sports betting landscape since the US Supreme Court's monumental decision to overturn PASPA on 14 May. New Jersey has joined Delaware, becoming the second US state to introduce full-scale sports betting with analysts now predicting that Alabama, Michigan, Ohio, New York and Kentucky could all soon follow. No one can be sure, however, as Delaware certainly shocked the rest of the states when it beat New Jersey to the mark.

The expansion of sports betting is great news for US states looking to increase their public funds or US operators and casinos, and also for the gambling industry as a whole. Paddy Power Betfair, DraftKings, GVC, Scientific Games and William Hill are among the gambling firms based outside of states that have passed legislation, but they already have a foothold in those states and others through partnerships acquired prior to the repeal of PASPA.

Delaware, the first state to introduce full-scale sports betting post-PASPA, has seen three of its casinos openly accept sports wagers since 5 June, with Governor John Carney placing the first bet himself. The bet was accepted on a GVC casino system. Delaware Lottery said that it intended to rely on Scientific Games to help the state expand its offering into full-scale sports betting. ▶

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THIS WEEK IN NUMBERS

80%



The percentage of illegal bets placed worldwide originating in Asia

80/1

The highest odds available on Russia to win the World Cup ahead of kick-off



The record winning amount dished out by Lottoland to a lucky winner in Germany



96

The age at which industry veteran Stanley Ho retired from SJM Holdings

Following its legalisation in New Jersey, the first sports wager was accepted on 14 June at 10:30am at the Monmouth Park racetrack, where the sports book betting windows are operated by UK-based William Hill.

Michigan has taken a step towards legalising sports betting and online gambling. The state's "Lawful Internet Gambling Act" bill was passed by Michigan's House of Representatives in a 68-40 vote. However, it is unlikely to come into effect until next year, when Detroit's three casinos are to be granted permission to offer online gambling, including sports bets.

Mississippi has made strides through the Band of Choctaw Indians. The band approved changes to its Gaming Commission regulation which could see sports betting brought to the state by late June. The Mississippi Gaming Commission will be able to start approving the new rules following a 25-day public comment period surrounding the proposed regulations to govern the state's sports betting.

Ohio Senator Bill Coley and other state representatives have been pushing for similar legislation to expand the state's sports betting offering. Proponents of legal sports betting argue that gambling already occurs, albeit unregulated. Both the Ohio Lottery Commission and the Ohio Casino Control Commission have both stated, however, that they are still waiting on confirmation of the situation from the state's lawmakers. A spokesman for Governor John Kasich said he is still examining the situation.

Kentucky politicians including Adam Koeing, a Republican member of the Kentucky House of Representatives, have tried to speed up their current legalisative efforts. Koeing tweeted: "I would rather Kentucky be at the forefront of this, rather than trailing as we do in many other areas". Clearly he believes that sports betting expansions are going to be undeniable and would rather unveil his state's legalisation before others have the chance.

New York legislatures are having a tough time rolling out sports betting legislation. There are currently two bills being considered before the legislative session ends. They are Bill S7900 and Bill A11144, both of which would allow for the state's gaming facilities, including tribal-run venues, to accept sports wagers.

CAMELOT'S LOTTERY SALES REACH AN ALL-TIME HIGH

UK-based lottery operator Camelot announced that National Lottery ticket sales reached an all-time high during the 2017/18 financial year, as the company achieved an impressive \$9.2bn in total sales, an increase of \$35.27m year-on-year.

Having come under pressure from the UK's House of Commons' Public Accounts Committee (PAC) in April, Camelot unveiled its new strategic review which consisted of four areas: improving the range of National Lottery games; investing in retail initiatives; upgrading the company's digital capabilities; and reinvigorating the National Lottery brand.

Following the announcement, the company's CEO, Nigel Railton, said: "Given that we had anticipated a further sales decline this year, our achievement in getting The National Lottery back into growth and delivering more money for Good Causes underlines the importance of the work we have been carrying out following the strategic review."

Digital sales accounted for \$2.2bn of total revenue. The company also reported a record performance from online instant

win games. Smartphones and tablets made up 40% of digital sales. Mobile sales reached an all-time high of \$935.9m with the help of the National Lottery app for iPhone and Android phones.

Retail is the largest source of Camelot's revenue, accounting for over \$7bn of its earnings, which accounts for more than 75% of total sales from in-store terminals. The company will invest \$26.6m into in-store displays and player engagement.

"While there is much work still to do – and we'll continue to face challenges beyond our control, such as continuing doubts over the economy and ever-increasing competition from the gambling sector – we're confident that we have some really strong plans lined up," Railton said.

"These include improvements to Lotto coming later this year to give our players a better winning experience. The National Lottery is a truly national institution that makes a massive difference to the lives of people and communities across the UK – and everyone at Camelot is fully committed to ensuring that this success story continues."

\$6.5BN

The estimated amount that this year's illegal betting output will generate in Singapore



GAMBLING CHARITIES UNITE IN \$18.8M AGREEMENT

UK-based problem gambling-focused charities GambleAware and GamCare have reached an agreement to fund the National Gambling Helpline in addition to a network of treatment services through \$18.8m of funding.

GamCare is a charity information-providing service aimed at helping problem gamblers. They currently operate the National Gambling Helpline in the UK, which is tasked with providing treatment for problem gamblers and their families. They also raise awareness about responsible gambling and treatment.

The agreement covers a three-year period, from 2018-2021. GamCare has been awarded a 20% increase in annual funding with a grant that totals \$18.8m over the three-year period.

The money will be put toward the National Gambling Helpline, and will also support a national network of talking therapies and administer remote access help for those looking for online support.

Commenting on the new funding arrangement, Kate Lampard, Chair

of GambleAware, said: "The fact that less than 2% of problem gamblers were receiving treatment represents a significant gap in the provision of specialist services.

"Our goal is to close the gap between the number of those getting treatment and those who need it by increasing the range, quality and quantity of early interventions and treatment while helping people to avoid gambling problems in the first place."

The funding is intended to allow GamCare to carry on with its current developments and improve its efficiency of treatment.

GambleAware is working toward ensuring the needs of at risk individuals are met through productive treatment that is cost effective.

GambleAware also intends to commission new aftercare services in order to help prevent relapse, as well as services more substantial for the families of problem gamblers, including bereavement services for those affected most.

68-40

The results of a ruling in which Michigan lawmakers voted on two bills to create a Lawful Internet Gaming Act that would regulate online versions of licensed games



THE WEEK IN QUOTES

“The New Jersey DGE has been on the leading edge of creating a smart, consumer-focused sports betting framework in the Garden State. We are working with New Jersey officials toward a public rollout of a DraftKings sports betting product.”

Tim Dent, Chief Compliance Officer and Chief Financial Officer at DraftKings on the company's plans to enter the New Jersey market

“Illegal betting is a major revenue stream for organised crime. This is because it is relatively easy to operate, there is a low risk of detection as websites can be operated offshore, and there are substantial betting markets where there is a limited legal betting product. The growth of mobile apps and online betting through mobile devices has resulted in a surge in the growth of illegal betting in the past ten years, and we estimate that illegal betting is growing twice as fast as legal betting in Asia.”

Martin Purbrick, Director of Security and Integrity at the Hong Kong Jockey Club, said that online payment providers make it easier for illegal bets to happen

THIS WEEK'S WINNERS AND LOSERS

WINNERS

Betfair US - This week the operator signed two new sports betting agreements

Japan's casino industry - The majority of Japanese legislators are behind the push to introduce casinos to the country and there has been talk about extending the current session just to approve casino bills

Primorye Integrated Entertainment Resort (PIER) - The deputy governor of Russia's Primorsky Territory, Andrei Larin, has given his support for the new integrated resort

Indian casinos - Ten of the biggest casinos in Goa have been placed under investigation by India's tax agency under claims that they have been evading tax services

LOSERS

XL MEDIA ISSUES SHOCK REVENUE WARNING TO INVESTORS

XLMedia issued a surprising trading update in which its board stated that it expects “lower revenues”, causing shares in the company to fall in value.

London-based XLMedia said it seemed unlikely to be able to achieve its previously predicted target of \$130m in revenue, which was already lower than the \$137.6m generated in 2017 results released in March 2018.

The news comes as last year's results were record breaking, having seen XLMedia grow by a staggering 33%. In 2016 the company also managed to grow even more rapidly at a rate of 37% increasing its gross profits by \$73.1m.

The news was not received well by investors, with shares beginning trading on Monday at \$2.28 prior to the markets being open and tumbling all day. They started trading on Tuesday at \$1.61. Shares dipped as low as \$1.41 on Thursday morning on the London Stock Exchange before rallying slightly.

The shares are unlikely to regain their pre-announcement levels until the company releases more positive news and avoids further regulatory uncertainties in its key markets, which until now have brought huge amounts of success to the company.

The trading update blamed a shifting focus towards higher margin business and the ceasing of lower-margin media activities for the lowered revenue expectation.

The major regulatory development which affected XLMedia during last year was the closure of their Australian market at the end of 2017. The company also claimed that the uncertainty surrounding regulations in European markets emerging in 2018 exacerbated problems.

There were some positives to emerge from the trading update, such as the company's reaffirmed commitment to the US sports betting market opportunities following the repeal of PASPA. With XLMedia confirming that they “have accelerated efforts to ensure we are well positioned to service operators who will be active in the market”.

XLMedia also released a Director Share Purchase announcement on the same day, which notified investors that Ory Weihs, the company's CEO, had purchased 256,787 ordinary shares at an average price of \$1.59 per share. The new purchase means that Weihs now has a total of 4,471,974 shares representing 2.03% of the current issued share capital of XLMedia.

SWITZERLAND SET TO OUST FOREIGN BETTING SITES

Switzerland has started to head in the opposite direction of so many European countries - such as Sweden, who have begun the process of opening up their gambling industries to foreign operators - after the country voted to ban foreign betting sites in a referendum on the country's new Gambling Act.

The Act spells the end of foreign gambling operations in the country while enabling Swiss casinos and gaming firms to offer online gambling for the first time, as well as raising the taxable winnings threshold from around \$1,000 to \$1m.

72.9% of Swiss voters supported the new Gambling Act, which many foreign observers have found staggering considering it contains some of the strictest gambling regulations in Europe and has been seen by many to be a form of online censorship, potentially threatening the future neutrality of Switzerland's internet.

With both of Switzerland's legislatures, their houses of parliament, already passing the legislation it is set to become law in 2019. Many people around the world

fear that this decision could threaten the country's net neutrality as well as its image of championing open free trade.

The driving force of the campaign to back the new Gambling Act was centred on the idea of tackling gambling addiction in the country. The Swiss Government has claimed that currently \$253m is spent annually in the country on unregulated foreign betting sites. Money that the government says it will be spending on tackling gambling addiction as well as sports and culture programmes.

There are currently 75,000 people, in a country of 8.4 million residents, who are classified as gambling addicts, according to Addiction Switzerland.

The decision is somewhat a reversal of the current situation in Sweden where the national legislature recently voted in favour of a new law entitled ‘Re-regulation of the Gambling Market’. The law which takes effect on January 2019 will end the country's monopolistic gambling industry in favour of allowing international remote gambling operators to apply for licenses.

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ATLANTIC CITY FALLS

Atlantic City land-based revenues fell 7.17% in May and are now down 6.30% in the first five months of the year.

Caesars' combined properties fell 14.70%, partially due to low table hold. Online gaming continues to grow despite online poker declining for the 14th straight month. Factor in online and Atlantic City was down 5.10%.

Casino performance

PROPERTY	REVENUE(\$M)	CHANGE(%)	TABLE HOLD	
			2017	2018
Tropicana (TPCA)	\$30.914	+7.25	18.0	18.9
Golden Nugget	\$19.723	+5.68	18.0	18.6
Resorts	\$15.525	+1.19	12.6	15.8
Harrah's (CZR)	\$27.453	-7.10	15.9	16.9
Borgata (MGM)	\$61.436	-10.14	21.5	15.6
Bally's AC (CZR)	\$16.061	-11.46	18.6	17.0
Caesars (CZR)	\$22.283	-24.31	24.1	11.1
AC TOTAL	\$193.394	-7.17%	—	—

Online performance

PROPERTY	REVENUE(\$M)	CHANGE(%)	SHARE(%)	PARTNER
Golden Nugget	\$8.600	+45.40	35.4	PPB,GAN,NYX
Borgata	\$4.581	+31.03	18.9	GVC, Pala
Caesars (CZR)	\$4.091	+12.36	16.8	888, NYX
Resorts Digital	\$3.627	-9.51	14.9	NYX, TSG
Tropicana (TPCA)	\$3.402	-15.15	14.0	GAMESYS
iGAMING TOTAL	\$24.303	+15.34	—	—
CASINO	\$22.373	+18.05	—	—
POKER	\$1.930	-8.97	—	—
AC AND IGAMING	\$217.697	-5.10	—	—

STOCK UPDATE

Two US and two Canadian gaming stocks hit 52-week highs

Eldorado	\$45.90
The Stars Group	C\$49.65
Agilysys	\$14.75
Great Canadian	C\$55.66



GUEST COLUMNIST

STUART MCCARTHY

HEAD OF STUDIO
PARTNERSHIPS
YGGDRASIL GAMING

McCarthy discusses taking a strategic approach to content provision in the ever-changing online casino sector

Hardly a week goes by these days without new regulatory developments somewhere around the world. Most eye-catchingly, the US has repealed its federal ban on sports betting, several Latin American jurisdictions continue to take encouraging steps. Meanwhile in Europe, Sweden leads the way as the latest major market set to introduce a sensible online framework.

For suppliers looking to service both newly-emerging and mature igaming jurisdictions with relevant casino content, this poses significant problems. How do you scale up the volume of your content without sacrificing the quality that made you popular in the first place? How do you deliver a content cocktail that's the right flavour for a new market?

We have seen several different reactions from suppliers looking to solve this dilemma.

Some have chosen the M&A path, buying up smaller studios or those with a distinct local flavour to supplement their roadmaps. This inevitably takes time and a great deal of focus to bring new teams into the fold so that the output remains true to the values of the parent company.

Some of the larger suppliers have globalised their production capabilities, building new studios in new locations and staffing up with a mix of local talent and trusted lieutenants from the core of the business.

Others have chosen the aggregation path, opening up their platforms to third-party content delivered via remote servers.

While aggregation enables a single supplier to offer a far wider range and larger volume of games, it does usually come at a price.

Those who endeavour to offer thousands of online slots to operator partners through aggregation inevitably see a familiar pattern. The vast percentage of those games generate negligible revenues as players choose to focus on the best content. Delivery of a consistent suite of marketing tools and user experience is close on impossible. Being the middle man in a relationship between operators and scores of other suppliers when you have very little control of the situation is not always a comfortable place to be.

So how to scale without harming the quality of output and at the same time delivering the right flavour for the market? At Yggdrasil,

we have opened our platform to third-party developers, but in a limited fashion. We believe that carefully curating the content offering and ensuring all games that come through us are BOOST®-enabled will win out over a high-volume scattergun approach.

YGS Masters allows independent studios to develop on the Yggdrasil platform, taking advantage of our network of operators and in-game promotional tools. However, the scheme is very much an invite-only affair and for good reason. We work very closely with our partners, literally side by side with them through the game build process to ensure the best results. It can be intense, but we firmly believe that this strategy will yield fruit and deliver our customers a consistent and reliable stream of hit games.

RETHINKING CASINO CONTENT

It is important for suppliers in the slots space to think carefully about how best to service operators.

While online casino has enjoyed impressive growth in recent years, we cannot take this for granted. Online slots must compete not only among themselves for customer eyeballs, but also with the plethora of entertainment options now available.

This means operators must deliver a product that is every bit as engaging as an AAA console title, the best social gaming offerings, Netflix, Spotify, Facebook and many others.

To achieve this, we need to think strategically about the operator-supplier relationship.

A good starting point is exactly what a slots developer supplies to its operator partners. While many casino suppliers began life simply building games, those who are able to diversify and offer operators a one-stop shop – platform, all verticals, promotional tools – to the same high standards will be rewarded by capturing a greater share of the value chain.

Similarly, we must think about how to build deeper relationships between operators and suppliers capable of fostering the new round of product innovation.

This can take several forms. With differentiation high on the list of priorities for operators in a crowded marketplace, exclusive games are nothing new. But how about offering operators an opportunity to participate in the development process, as we have with Yggdrasil White Label Studios?

Content is at the heart of every good casino offering, so it makes perfect sense that operators build long-term, strategic relationships with their favourite content suppliers.

Having these relationships in place makes entering new markets and adapting to the changing regulatory landscape a considerably less daunting proposition for all involved.

Ultimately, this is about building partnerships. To guarantee long-term success in online casino, going it alone is no longer enough.

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