



WEEK 33

FRIDAY 17 AUG 2018

GIG CEO: WE WILL LOOK AT SEVERAL NEW MARKETS

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THIS WEEK

- **NJ sportsbooks results for the first full month**
- **Stars Group revenue up for Q2**
- **Aruze Gaming hits back after its founder is arrested**
- **Expansion plans for Yggdrasil and Authentic Gaming**

GUEST COLUMNIST:

Zac Cohen, General Manager, Trulioo



Malta-based online gambling specialist Gaming Innovation Group (GiG) has posted impressive Q2 results, as revenues jumped 39% year-on-year to €36.9m (\$42.1m).

During the second quarter, GiG entered the sports betting vertical through its in-house operator Rizk.com.

GiG's investments and expansion have been key drivers, in terms of revenue growth, in particular for its B2B sector, which increased 84% year-over-year to €15.6m. GiG's main source of income, B2C, also increased, albeit at a slightly slower rate of 20%, to €24.2m.

However, despite these increases, the company's EBITDA has been affected, dropping from €1.9m in 2017 to €1.7m during the Q2 period.

The company has also seen its GiG Core platform licensed in New Jersey, with operations starting through a partnership with Hard Rock International.

Gambling Insider spoke exclusively to GiG's CEO, Robin Reed, about the key factors behind the results and what the online gambling company has in store for the future.

With your revenues increasing so rapidly, why has your EBITDA fallen slightly from €1.9m to €1.7m in your latest Q2 report? ▶



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THIS WEEK IN NUMBERS



44%

Percentage of US sport bettors under the age of 35, according to a Nielsen Sports study

\$100,000

The amount Churchill Downs will pay Eldorado Resorts to transfer operations of the Lady Luck Casino Namacolin



\$750m

The amount by which Caesars has increased its share repurchase authorisation of outstanding common stock

\$5.5m

The total expected to be raised by sports betting taxes in West Virginia during its first year



9/2

The odds William Hill are offering that Boris Johnson will replace Theresa May as Conservative Party Leader

We are in a state where we are heavily investing. To ensure that we are competitive, we have had to expand across multiple verticals, having now expanded to the point where we have a surface offering on every major vertical. Of course, this expansion period has impacted our EBITDA negatively in the short-term, but we are now ready to grow as we are firing on all cylinders. As a result, we will see our EBITDA improving in the future.

Marketing costs are down compared to total revenue. Why is that?

We upped the marketing spend ahead of the FIFA World Cup in Russia, and as a result, our proportion of spend on marketing increased in the period prior to the tournament. However, we are now focusing on performance marketing. Following the end of the World Cup, we expect that marketing portion to become even leaner.

Can you see many more regulatory opportunities, such as the repeal of the Professional and Amateur Sports Protection Act (PASPA) in the US, opening up new opportunities for GiG in the near future?

Yes. We are obviously incredibly excited about the US Supreme Court's decision to repeal PASPA. We are already one of only a few companies to be fully certified in New Jersey, which of course has and will allow us to make many new connections. We are also very well positioned in the US to enter into other states as more markets begin to open up.

Sweden is now beginning to undergo its re-regulation so we are submitting our application there. We are also looking into entering the Danish market, along with several other places in Europe where we are looking to gain new licenses next year. The advantage that we have is that we usually enter into a new market with one of our B2C operators in order to justify the investment into new regulation. It is our own unique approach.

What are the main strategic initiatives for GiG moving forward?

We are focusing on our operator business as we want to build powerhouse brands in a few selected markets, so we are consolidating our focus and marketing expenses. We are turning away from traditional online gaming marketing and instead moving towards digital performance marketing. Sustainability, along with compliance, is being put at the heart of our business. Ultimately of course we are a technology company by default and everything that we do originates out of our own technology and our products. It is all about focusing on ensuring that our technology and our product are enhanced so that we can become the most scalable company on Earth.

NJ SPORTSBOOKS TAKE JUST SHORT OF \$4M; WEST VIRGINIA ISSUES SPORTS BETTING LICENSES

Punters in New Jersey placed just under \$4m in the first full month of legal sports betting in the state.

Meadowlands Racetrack and Ocean Resort took the largest share of the sports betting revenue, taking \$1.3m and \$1m respectively.

July's takings took the overall revenue for sports betting in The Garden State to \$7.2m, from a handle of \$57m, with baseball being the most popular; \$36m has been legally wagered on the sport in New Jersey to date.

Overall gaming revenue for July was \$302m, up 13% year-on-year. Casino win for July was up by 10% to \$272m and internet gaming win was \$25.9m, up 26%.

The upcoming return of the NFL should also see a spike in both handle and revenue.

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FanDuel moves for West Virginia

Meanwhile, West Virginia has begun to issue its first sports betting licenses, allowing both FanDuel and Penn National to operate sports books in the Mountain State. The West Virginia Lottery Commission granted the first interim permit to geolocation supplier, GeoComply, following this up by issuing sportsbook licenses to the two operators.

Penn National owns Hollywood Casino Charles Town, which is expected to be the first casino in the state to take a legal sports betting wager. Penn will pay \$100,000 for its sports betting licence, and the state will collect 10% of revenue in taxes.

Similarly, FanDuel will offer the service at The Greenbrier, after launching at Meadowlands racetrack in New Jersey.

William Hill will reportedly provide the sportsbook for the Hollywood Casino.



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The number of retail outlets Yggdrasil's new Czech Republic partner Tipsport operates

1997

The last time sales of Japan's Takarakuji lottery tickets were as low as they are now; \$7.1bn in fiscal 2017

24 HOURS

The time Ladbrokes will be banned from accepting bets in Belgium on 3 September for breaking gaming regulations

THE STARS GROUP REPORTS REVENUE SPIKE FOR Q2

The Stars Group reported a 35% year-on-year increase in revenue for the second quarter of 2018, to \$411.5m.

This is a considerable improvement on last year's Q2 revenue, in which the group recorded revenue of \$305.5m.

This boosted revenue for the first half of 2018 to \$804.4m, a 29% increase on the H1 revenue for the year prior.

The company can attribute the boost in revenues for the quarter to a 7% increase in poker earnings, a 26% rise in gaming revenue, and a massive revenue increase of 122% from betting.

In July, Stars completed its acquisition of Sky Betting and Gaming for \$4.7bn, which has allowed the group to expand its geographical reach and offering of products.

In February, Stars acquired a 62% majority interest in CrownBet for \$117.7m, which is one of Australia's most popular online sportsbooks.

Rafi Ashkenazi, CEO of The Stars Group, said: "The Stars Group's quarterly results reflect both continued organic growth within our international business and the

contributions of our Australian acquisitions.

"The continued emergence of our sports betting and casino offerings and the addition of our 2018 acquisitions have transformed our business and greatly enhanced the foundation and diversity of our consolidated revenue base, which will now be nearly equally split among verticals and roughly 75% locally regulated or taxed."

Prior to the announcement of Q2 results, Stars announced a partnership with Mount Airy Casino Resort to offer online sports betting in Pennsylvania.

This partnership will give players in the state access to Stars' online poker and casino games, as well as its online sports betting products.

Mount Airy and Stars plan to launch after obtaining a licence from the Pennsylvania Gaming Control Board.

Stars intends to use its existing technology and player account management platform for its operations in Pennsylvania.

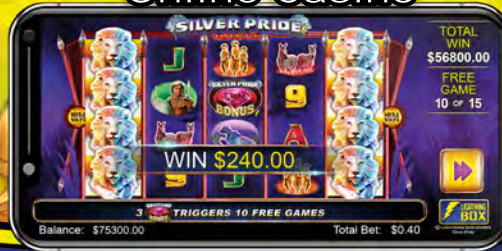
This follows the extension of Stars' partnership with Resorts Casino Hotel in New Jersey.



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THE WEEK IN QUOTES

"The most recent three-month average (April [-end] to July) number of investigations is the highest since the fourth quarter 2015. Any re-emerging anti-corruption campaign would bring headwinds to the VIP sector and high-end premium."

Analysts Vitaly Umansky, Zhen Gong and Kelsey Zhu in a new report published by brokerage Sanford C. Bernstein, regarding Macau's anti-graft investigations

"We thank the Massachusetts Gaming Commission and the Texas Racing Commission for their thorough and diligent review of the applications and filings related to our pending transaction with Pinnacle Entertainment. quarter."

Timothy J. Wilmott, Penn National CEO, on securing approval of the pending acquisition of Pinnacle Entertainment

"The increased repurchase authorisation is a result of our confidence in the company's operating performance and allows us to take advantage of current market dynamics and strategically return cash to shareholders."

Mark Frissora, Caesars Entertainment's President and CEO, discussing the company's increased share repurchase authorisation

ARUZE GAMING "SETS THE RECORD STRAIGHT" WITH OKADA ARREST

Supplier Aruze Gaming is looking to "set the record straight" and defend Kazuo Okada, founder of Aruze, after he was arrested in Hong Kong last week.

In a letter, Aruze has stated that the concept of an arrest is different in Hong Kong and believes this is a smear campaign against him and his loved ones.

The letter describes Okada as the "visionary founder of Aruze." Okada created the company along with several other gaming firms, including Universal Entertainment Corporation (UEC).

The letter goes on to say Aruze wants to "have the truth be known," weaves a narrative around Okada's detention and states that "no charges" have been filed against him, while alluding to the different nature of arrests in Hong Kong.

Aruze suggested Okada and his family "are the victims" of "false and malicious allegations made by Universal Entertainment Corporation and its senior executives." Aruze highlighted the speed at which UEC released a response to the

arrest of the company's former chairman, with Aruze claiming the allegations against him are "spurious" attempts to "discredit" him.

Ongoing tensions between UEC and Aruze led to Okada being voted off the Universal board in June last year after the company launched an internal investigation panel to look into Okada's use of company money.

Okada was arrested in Hong Kong last week on 6 August by the Hong Kong Independent Commission Against Corruption (ICAC), along with his so called associate Li Jian, on charges to defraud Okada Holdings of \$19.7m.

The authorities were alerted to Okada's activity by Tiger Resort, the operator of Okada Manila, which has launched several lawsuits against Okada in the past for allegedly committing fraudulent acts.

Okada has an estimated net worth of \$1.82bn according to Forbes and is one of the most prominent gaming executives in Japan.



THIS WEEK'S WINNERS AND LOSERS

WINNERS

DraftKings - Hired three new executives, opened an office in San Francisco and plans for another in Las Vegas.

NetEnt - Games went live at the recently opened Ocean Resort casino in New Jersey, running on the GAN platform

Mr Green - The operator has handed in its licence application for offering online gaming in Sweden

CG Technology - The company has been fined \$250,000 by the Nevada Gaming Control Board for accepting out-of-state wagers

Mybet - announced it will apply for insolvency as a result of "imminent illiquidity"

LOSERS

AUTHENTIC GAMING ENTERS BRITISH MARKET, AS YGGDRASIL EXPANDS TO CZECH REPUBLIC

Authentic Gaming has had its licence approved by the Gambling Commission, and can start operating in Great Britain.

The supplier already provides products to a number of licensed operators, including LeoVegas, Mr Green and Kindred Group, and is now granted permission to bring its games to the British market.

Authentic Gaming's portfolio includes Authentic Roulette, a live roulette platform, which provides a live stream to roulette tables at casinos worldwide.

Meanwhile, Yggdrasil Gaming has entered the Czech Republic's online gaming market through a new agreement with Tipsort.

The supplier is keen to cash in on one of the most lucrative gaming markets in Europe, which generated €1.58bn (\$1.8bn) last year, of which €380m was raised by the online sector.

Fredrik Elmqvist, CEO, Yggdrasil, said: "As part of our long-term strategy we are committed to expanding our regulated market footprint. If we feel an environment is right for

our leading games and promotional tools, then we will enter it with the best possible partners."

The new deal will see Yggdrasil provide some of its slot games and the company's in-game promotional tool, Boost.

With an excess of 1,000 retail outlets, Tipsport is the Czech Republic's leading betting agency.

The new partnership puts Yggdrasil in the enviable position of being in the biggest regulated markets in Europe, including the UK, Italy, Estonia, Latvia, Belgium and Denmark, and expansion into the Spanish market is expected soon after reaching an agreement with GVC's Bwin brand.

News of the Czech Republic development came shortly before the release of Yggdrasil's financial results for the second quarter of 2018, where operating revenue increased 65% year-on-year to SEK 66.7m (\$7.3m).

This took Yggdrasil's H1 operating revenue to SEK 124.3m, an increase of 67%. Yggdrasil also agreed 13 new licence partnerships during Q2.

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PA SLIPS

Pennsylvania gaming revenues fell 3.32% in July, a month with eight Fridays and Saturdays this year versus nine last year.

Slot and table revenue both declined for the first time since January.

Valley Forge was a bright spot, leading the state in terms of year-over-year growth in slots and tables.

While every market declined, Northeast Pennsylvania was down the most, once again being hurt by added

competition from Empire Resorts World Catskills in New York.

Rivers contributed the most revenue in Pittsburgh, with \$30.06m, almost flatlining year-on-year.

Philadelphia:

MARKET/PROPERTY	REVENUE (\$M)	CHANGE Y-O-Y (%)
Valley Forge Casino Resort	10.625	+7.44
SugarHouse (Rush Street)	24.977	+1.49
Parx (Greenwood)	50.019	+0.20
Harrah's (CZR)	20.834	-9.17
Philadelphia Total	106.456	-0.84

Pittsburgh:

MARKET/PROPERTY	REVENUE (\$M)	CHANGE Y-O-Y (%)
Rivers (Rush Street)	30.061	+0.41
The Meadows (PNK)	22.090	-4.94
Pittsburgh Total	52.151	-1.93

Northeast PA:

MARKET/PROPERTY	REVENUE (\$M)	CHANGE Y-O-Y (%)
Sands Bethlehem (LVS)	46.904	-0.33
Mohegan Sun	19.587	-13.21
Mt. Airy	17.115	-13.62
Northeast PA Total	83.606	-6.53

Elsewhere:

MARKET/PROPERTY	REVENUE (\$M)	CHANGE Y-O-Y (%)
Presque Isle (ERI)	11.958	+0.44
Hollywood (PENN)	20.251	-7.00
Lady Luck Nemaquin (ERI)	3.042	-8.57
State Total	277.464	-3.32

US STOCK UPDATE

US gaming stocks hitting 52-week highs this week:

AGS	\$30.48
Table Trac	\$2.70



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GUEST COLUMNIST



ZAC COHEN

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With mobile gambling set to account for 40% of the total gambling market in 2018, Cohen explains why online operators are turning to global identity verification solutions to help comply with regulatory requirements and safeguard the security of user accounts

THE RISE OF MOBILE

With miniature supercomputers in our pockets, our mobile phones have become an extension of ourselves. We use them for everything – sending and receiving payments, booking a rideshare, and even placing sports bets. According to the Global Online Gambling and Betting Market report, mobile gambling is expected to take up more than two thirds of the total online gambling market this year.

THE SUCCESS OF GAMBLING APPS

To provide a more convenient and user-friendly gambling experience, many of the world's largest bookmakers have turned to mobile apps.

Overall, online and mobile gaming are quickly becoming the avenues of choice for many people looking to place a bet. The download rates of gaming apps alone show just how prevalent this trend is becoming. Recently, the Gambling Commission reported the number of punters using a mobile phone or tablet to bet increased to 51% in 2017.

According to data from GamblingCompliance, revenue from online wagers in the UK has more than doubled over the past five years and now represents 60% of the market, whereas revenue from in-person betting has fallen by about 12% over the same period.

However, with this rise in mobile gambling comes the need for the efficient, reliable, real-time verification of users.

THE VERIFICATION OF USERS

There are many laws in place which require the verification of individuals to prevent underage gamblers from engaging in betting and to stamp out nefarious activities, such as money laundering. In an effort to comply with various laws, the industry has begun to turn to new technologies.

Age verification is another crucial element in the verification of users. According to the Gambling Commission, if a person opens an account and deposits money, a gambling company

has 72 hours to check that individual is old enough to gamble. If they cannot confirm the person's age within that time, the account must be frozen.

Tim Miller, Gambling Commission Chief Executive, said: "We have a strong commitment to protecting children and young people from the harm gambling can pose – it's at the heart of how we regulate. This year, we will be carrying out targeted compliance and enforcement activity to identify and tackle any weaknesses in the age verification processes."

HOW DO OPERATORS VERIFY IDENTITIES TODAY?

While the application of AI is being examined in relation to money laundering – the verification process for individuals who wish to bet online, or on their mobile, is still cumbersome to say the least.

William Hill's app, for example, requires users to upload ID documentation, which requires a 24-hour processing period if sent via email. If sent via live chat or the verification page, they can be verified in a much shorter time period.

To verify the source of the funds that individuals bet with, some bookies may ask people to provide additional information and documentation that shows they have sufficient funds to support their activities. But this too, takes time. Bet365 state that "due to high volumes, any documents sent in by email can take up to 48 hours for us to review."

So, what scalable, cost-effective options can gaming firms adopt to solve these problems? How can operators not only ensure they meet their regulatory requirements, but also facilitate a smooth and seamless onboarding process for users? The answer is mobile.

MOBILE: THE WAY OF THE FUTURE

To optimise performance and user experience, gaming operators know that quick, seamless identity checks are vital, as is access to comprehensive global data and easy integration.

Mobile ID utilises information from Mobile Network Operators (MNOs) to provide an additional layer of trust during the onboarding process. Cross-referencing MNO data with traditional data points builds a powerful web for the fight against fraud, while also providing coverage for thin-file individuals or those lacking traditional identification documents, otherwise known as the unbanked.

This new and reliable identity verification source helps to reduce fraud and increase player acquisition, due to the international coverage. With mobile identity verification, not only are players privy to an enhanced user experience, operators are able to effectively mitigate and manage risk. It's clear that the future of gaming is mobile.

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