GI FRIDAY

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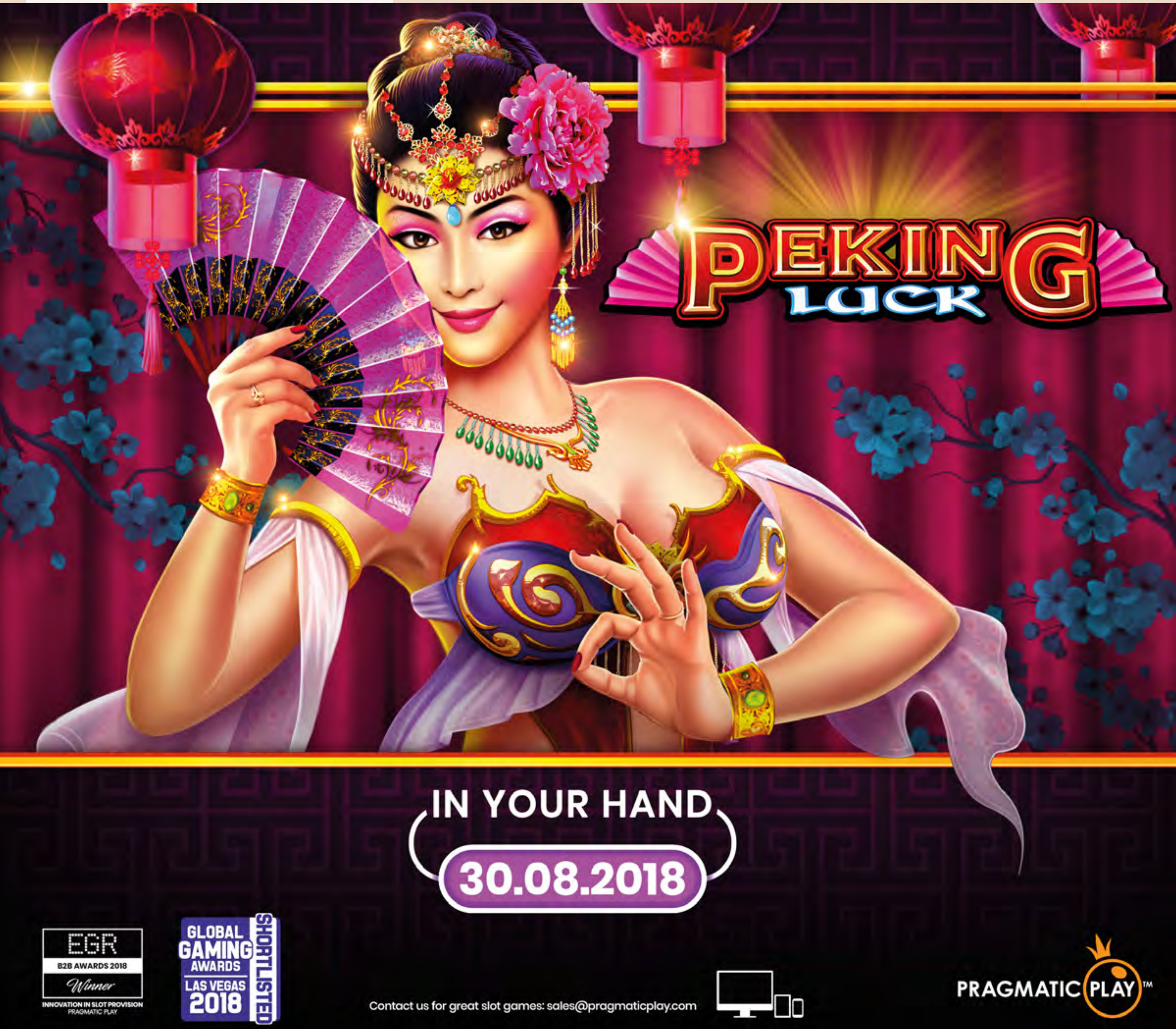
WEEK 34

FRIDAY 24 AUG 2018

PPB SUED BY FANDUEL FOUNDERS

FanDuel Co-founders ask for more money from Paddy Power Betfair sale



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FANDUEL CO-FOUNDERS SUE PPB FOR $120M+

FanDuel Co-founders ask for more money from Paddy Power Betfair sale

The repeal of the Professional and Amateur Sports Protection Act (PASPA) was always going to represent an immense opportunity for sports betting operators in the US. But that opportunity was never going to be without its complications, as Paddy Power Betfair found out this week.

Indeed, the operator is the subject of a lawsuit from Nigel Eccles and three other Co-founders over its recent $465m takeover of the daily fantasy sports (DFS) site.

Paddy Power Betfair purchased FanDuel in July with a clear aim in mind. The deal combined a seasoned operator, experienced in legal and regulated sports betting, with a firm that possesses a significant digital presence in the US market.

In the years leading up to Paddy Power Betfair's eventual takeover of FanDuel, the DFS site clashed with DraftKings on more than one occasion. Sizeable advertising expenditure caught the eye of US regulators, which led to huge legal fees ,while arguing in court that DFS should not be considered sports gambling. Then came an attempted merger between the two in 2016 that was blocked by the Federal Trade Commission.

This created the perfect climate for an external operator to wade in; Paddy Power Betfair duly stepped up.The lawsuit, however, means the takeover is now anything ►

THIS WEEK

- **Tough Q2 for Rank Group**
- **Penn National set for Mississippi sports betting launch**
- **Global Gaming Awards Las Vegas Shortlist update**
- **Marathonbet defies Italian ad ban and partners with Lazio**

GUEST COLUMNIST:

Danny Hook, Managing Director, Rockolo

THIS WEEK IN NUMBERS

$1.1bn

Value of an illegal online gambling ring broken by Chinese police

25,000

Number of illegal lottery apps pulled from Apple's App store in China

20%

Increase in non-gaming revenue in Macau for Q2, totalling 16.5m MOP ($2bn)

$82.9m

Q2 revenue for Cherry AB, up 40% year-on-year

18%

The tax any operator that gains a Swedish license can expect to pay from January 2019

but straightforward. Eccles created FanDuel in 2009, stepping down as company CEO six months before the deal was announced.

Due to "waterfall" financial arrangements and the $465m valuation not being large enough, regular employees, including founders such as Eccles, did not receive any money from the merger.

By contrast, new CEO Matt King made millions from the deal, as preferential shareholders were paid first.

The lawsuit therefore states that FanDuel was purposefully undervalued, stripping its Co-founder and others of an estimated $120m plus. The petition's desired outcome includes FanDuel's preferred shareholders purchasing the founders' ordinary shares at market value.

Legal representatives have filed a Scottish court order on behalf of Eccles, his wife Lesley Eccles (former CMO), Tom Griffiths (former CPO) and Rob Jones (Corporate Advisor).

Where the lawsuit could hinge is on the FanDuel board's decision not to recalculate its valuation in light of the PASPA repeal.

Eccles' petition reads: "The decision of the board (whose interests are aligned with preference shareholders), not to seek and act upon a new market valuation in the face of a material event, which is likely to have significantly increased the market valuation of FanDuel, is a breach of its fiduciary duties."

FanDuel's official stance argues the opposite. The firm maintains $465m was the highest valuation possible considering the repeal, declining business performance and arguments – put forward by Eccles himself for years – that DFS is a skill game, not sports betting.

A spokesperson said: "The petition is simply not rooted in facts or reality. In preparation for this deal, an exhaustive process was undertaken with the anticipation of PASPA's likely repeal. The deal was consummated consistent with the corporate governance rules and cap table established under the former founders' leadership. The facts are that this was a sound business transaction that achieved the highest valuation possible for shareholders and was the right strategic move for the company's future."

FanDuel claims to have a market share of over 40% in the US DFS market, and while it remains to be seen how this will translate to the regulated sports betting markets in the US, there is no doubt FanDuel has a head-start in the market compared with European operators contemplating moving into the US. Betfair also has an existing US player base from its operations in New Jersey.

RANK GROUP REPORTS HEAVY PROFIT DEDUCTION

The Rank Group reported a 41% year-on-year decrease in profit before tax to £46.7m for the financial year ending 30 June 2018.

The group's like-for-like revenue also took a hit, falling by 2% to £738m. Rank's EBITDA saw a 7% drop, now sitting at £120m.

The company has described the year as "challenging", thanks to "disappointing performance" from its Grosvenor Casinos establishments, where revenue took a 6% hit, dropping to £373m.

Rank said: "Performance was materially impacted by further enhanced customer due diligence following the published advice of the Gambling Commission in September 2017. Consequently, customer visits declined, resulting in revenue falling 9.9% in H2 compared to a 2.4% fall in H1."

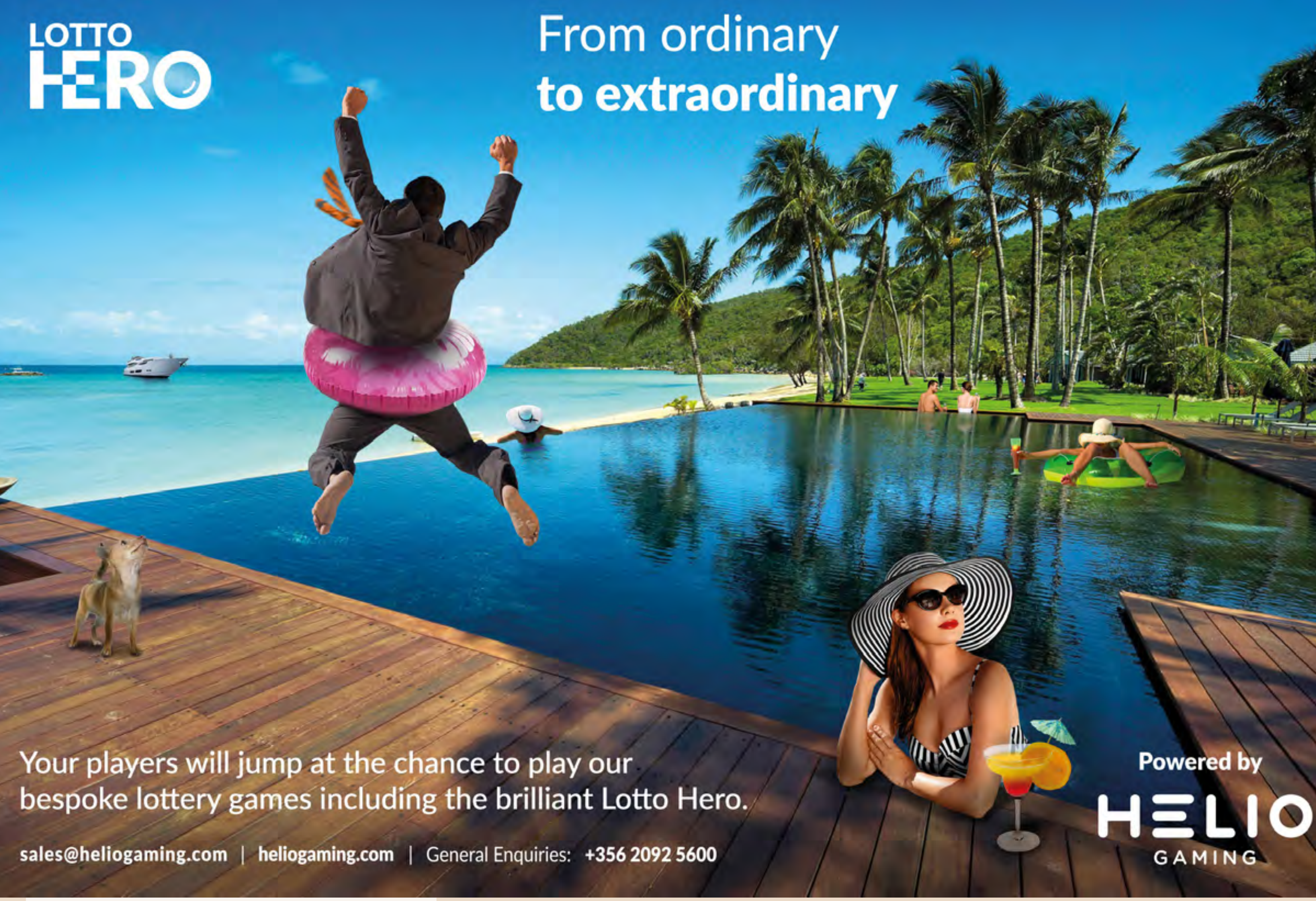
Rank's revenue from Mecca venues fell by 3% to £208.1m, which according to the group, was driven by a decline in customer visits of 8%.

On a positive note, the group's UK digital revenue stream saw an increase of 10%, bringing in £122.5m for the year.

John O'Reilly, Rank CEO, said: "With the backdrop of a disappointing performance in 2017/18, we are now moving quickly to identify the priorities which will begin to realise the significant underlying potential that I have now seen first-hand since joining the group in early May.

"We are taking steps to increase our focus on the customer, to accelerate growth in the digital business, to drive cost efficiencies across the business and to strengthen our organisational capabilities."

Another undoubted factor in the results is Rank's restructuring of its management team and board. Henry Birch's resignation from the position of CEO was announced in March.



£31.6M

Sportech's revenue for H1 2018, compared to £33.5m last year

€436.5m

Playtech's revenue for H1 2018 – up 4% year-on-year

5

Number of years the Louisiana Lottery Corporation's contract with Scientific Games has been extended by

PENN NATIONAL TO OPEN MISSISSIPPI SPORTSBOOKS

Operator Penn National Gaming is launching sports betting at its five Mississippi casinos this month.

Hollywood Casino Gulf Coast and Boomtown Casino Biloxi opened their sportsbooks on 17 August and will be followed by Hollywood Casino Tunica, 1st Jackpot Casino Tunica, and Resorts Casino Tunica on 24 August.

Resorts is also expected to offer guests kiosks to place wagers "in the near future."

Timothy Wilmott, Penn National CEO, said: "Penn National is thrilled to begin offering sports wagering to our customers in Mississippi. Their excitement has been growing since the federal ban on sports betting was repealed in May and we can't wait to provide our patrons with another great amenity at our casinos."

The five new sports betting venues in Mississippi will bring the state's total number to ten, further emphasising its regional market-leading position, as its surrounding states have yet to even legalise sports betting.

As a result, Mississippi has become a hotly-contested piece of gambling real estate.

MGM recently opened sportsbooks at its Mississippi casinos on 1 August, while Caesars partnered with Scientific Games as it "moves quickly" to open its own books, and IGT has been selected by Boyd Gaming to power its retail sports betting.

Penn National's Mississippi venture, however, is just one of many planned. In July, Wilmott promised continued engagement with state lawmakers in other jurisdictions to advocate the passage of sports betting laws.

His comments came off the back of a strong set of Q2 results, where net revenues reached $826m, up 3% year-on-year. Income from all operations was up an impressive 3%, totalling $181.8m for the quarter.

Penn National's net income also rose, moving from $17.1m in Q2 2017 to $54m in Q2 2018. The company's guidance figures had targeted revenue of $45.4m, demonstrating the unexpected level of success.

THIS WEEK'S WINNERS AND LOSERS

WINNERS

Yggdrasil - **Agreed a multiple-market deal with BetVictor and reported a 65% increase in Q2 operating revenue**

Kindred Group - **Signed a 5+5 year agreement with Hard Rock Hotel & Casino to enter the New Jersey sports betting market**

LeoVegas - **Applied for a casino and sports betting licence in its native Sweden**

Empire Resorts - **The operator reported a quarterly loss of $37.3m for Q2**

GLI - **The independent testing lab will pay a $125,000 settlement after being disciplined by Nevada regulators**

LOSERS

THE WEEK IN QUOTES

"Eventually, I think this will be a mainstream product, because it changes relationships between operators and players."

Dmitry Starostenkov, EvenBet Gaming CEO, discusses crypto-backed no-rake poker software

"We believe that eastern New Mexico has tremendous potential to attract visitors from throughout the area, including from nearby Amarillo, Lubbock and other parts of western Texas."

Daniel R. Lee, President and CEO of Full House Resorts, on its proposal to build a new racetrack hotel and casino in New Mexico

"Our entry into the US market has been a carefully considered long-term project. We believe that now is the right time to launch with a fully-fledged studio facility for the US"

Martin Carlesund, Evolution Gaming CEO, commented after the opening of the company's first US live casino studio

GLOBAL GAMING AWARDS LAS VEGAS 2018 SHORTLIST IS NOW LIVE

Following months of deliberating, the companies who have been successful in making the 2018 Global Gaming Awards Las Vegas Shortlist are being contacted now.

This comes after a lengthy and detailed process, where self-nominations, together with the eight-strong nomination panel's recommendations, are analysed before the decisions for the final list are made.

The Global Gaming Awards Las Vegas winners will be announced at a luncheon ceremony at Sands Expo Las Vegas on Monday 8 October, which will be held during the G2E show.

This will be the fifth edition of the ceremony, which celebrates achievements made across the industry. A total of 12 Awards will be presented, and there are 10 nominees in each category.

Being nominated in the Global Gaming Awards is a clear sign of success for any organisation, which if it makes it onto the list, will be in esteemed company.

Among the winners at last year's ceremony were industry giants MGM Resorts, Wynn Resorts, Bet365, IGT and Scientific Games.

Four new categories have been created for this year's Awards, as the honours of American Executive of the Year, Property of the Year, Slot of the Year and Product Innovation of the Year are all up for grabs.

Nominees now have a chance to submit a supporting statement that will be sent to the panel of more than 65 judges, who will decide the winners.

The judging panel is made up of some of the most powerful executives from some of the most significant companiesin the industry.

KPMG Isle of Man will adjudicate the voting process to ensure full transparency.

A detailed breakdown of all nominees in all 12 categories will appear in the Global Gaming Awards Las Vegas 2018 Shortlist magazine, which will be released in September and distributed at G2E.

Visit www.globalgamingawards.com for all other information on the Global Gaming Awards.

MARATHONBET TO SPONSOR LAZIO DESPITE ITALIAN AD BAN

Marathonbet has entered into a shirt sponsorship deal with Italian football club Lazio, despite the looming gambling advertising ban in Italy.

The deal between the online operator and the Serie A club will run from now until the end of 2018 to avoid infringement of the upcoming ban, or "Dignity Decree," which is set to come into effect on 1 January 2019.

Natalia Zavodnik, CEO of Marathonbet, claimed the deal "emphasises our intention to continue our growth in the Italian market and beyond."

However, expanding into the Italian sector once the ruling comes into effect could prove difficult, as Google and Facebook are forced to comply with the new regulations.

Both of the tech giants, who have already enforced the ban, reported that unregulated gambling operators are now appearing at the top of their users' gambling-related searches.

This is – in one sense, at least – music to the ears of those who opposed the decision on the grounds that it will simply send customers to unauthorised providers.

Managing Director of LeoVegas Italy, Niklas Lindahl, recently argued in an open letter to Italian Deputy Prime Minister Luigi Di Maio that advertising is the only advantage regulated operators have over unregulated operators.

Meanwhile, operator Betway could also have its dreams of expanding in Italy thwarted, having signed a three-year training kit sponsorship with Lazio's local rivals Roma in July this year.

As the contract was entered into prior to the ban's announcement, it will be allowed to continue until 30 June 2019, still two years short of its completion.

The Dignity Decree is already impacting existing contracts, firms who rely on gambling advertising sponsorship, such as football clubs, and operators who are looking to expand their businesses in Italy.

DATA CENTRE

Provided by *fantiniresearch.com*

AC PROFITS RISE

Atlantic City grew operating profit 1.6% in the second quarter, rebounding from the first quarter's 11.7% decline.

With newly opened Hard Rock and Ocean factored out, profits rose just 0.4%.

Operating profit is down 4.6% year-to-date.

Hotel occupancy rose 4.4 percentage points to 81.4% in the first half.

Casino revenue for the quarter rose 2.4%.

Full-year casino revenue rose 1.6% in the quarter, while third-party business sales fell 0.8% to $88.8m for the half year.

CASINOS	OPERATING PROFIT	CHANGE Y-O-Y (%)
Resorts	$9.055m	+63.7
Tropicana AC (TPCA)	$25.6280	+34.1
Golden Nugget	$14.212	+31.9
Harrah's (CZR)	$31.543	+20.2
Bally's AC (CZR)	$11.779	+2.7
Caesars (CZR)	$24.632	-4.6
Borgata (MGM)	$52.929	-20.6
Ocean	$0.860	N/A
Hard Rock	($2.170)	N/A

IGAMING:		
Caesars Interactive	$2.927m	+40.9%
Resorts Digital	$0.391	N/A
TOTAL	**$171.438m**	**+1.6%**

US STOCK UPDATE *The following US-listed gaming stocks hit 52-week highs through Wednesday:*	
Eldorado	$48.95
AGS	$31.21

DANNY HOOK
MANAGING DIRECTOR, ROCKOLO

Hook says established operators must embrace the Cloud now or risk losing ground to their younger, more tech-savvy rivals

Due to advances in the availability and flexibility of technology and third-party services, it is now relatively easy to launch an online gambling platform from a technology perspective. This is why we have seen so many new market entrants over the past few years; entrants that started out as underdogs but have risen rapidly to take share away from the industry titans.

These businesses are often lean and mean, and leverage third-party platforms and services such as the Cloud to out-manoeuvre the big boys; challenger brands that have taken a modern approach to technology to deliver a superior experience to players at a fraction of the cost.

This is particularly true of businesses that are born on the Cloud; operators that have built their platforms and services on the Cloud from day one and have not had to spend a penny on hardware. On average, these operators are spending a quarter on cloud IT services compared to traditional systems and structures.

This should be cause for concern for established operators with legacy hardware, which acts as a ball and chain, weighing down businesses that need to be light and nimble in today's highly-competitive market. Legacy systems require constant investment and maintenance, and a dedicated team to keep them up and running.

They are a burden and an expense, and most established operators understand this. That said, the majority have yet to migrate their current IT set-ups to the Cloud. There are a couple of reasons for this. The first is that scrapping expensive hardware can, understandably, seem financially unwise and wasteful.

The second is a little more delicate; IT and tech employees responsible for maintaining servers and systems are afraid of losing their jobs if an operator moves 100% to the Cloud. There is an element of truth to this - cloud solutions are managed by the third-party provider and allow operators to trim down their workforce.

We estimate on average that traditional IT systems are maintained by up to four techies, at an average individual salary cost of around £60,000 per year. By migrating to the Cloud, operators can save £240,000+ per annum on salaries alone. That said, it is often the case that there is still room for these employees within the business, just in a different role.

For established operators with legacy systems, migrating to the Cloud should not be just about the numbers. It should be about bringing their systems into the modern era, and ensuring they can keep pace with the new brands that have come to market and enjoyed meteoric growth, in part due to their technology set-ups.

But what are these benefits, and how can they be used to improve the player experience and drive growth?

First, it is important to understand how Cloud solutions should be perceived. The best way is to liken them to the supply of electricity; in the distant past, businesses would have to generate their own power through water mills, generators, etc. This is what operators with legacy IT systems are effectively doing.

Today, of course, electricity is delivered straight to factories and offices via a supplier. It is a utility, and organisations pay for the volume of electricity consumed every month. This is what operators that use the Cloud are doing. There are many benefits of having IT solutions supplied on a utility basis. The first is scalability.

Operators can increase and decrease usage in line with demand. Sportsbooks will see a huge spike in activity during the Fifa World Cup, which will drop off once the tournament is over. Previously, operators would either invest in more hardware and carry the cost throughout the year, or accept their system might not be able to cope during peak wagering times.

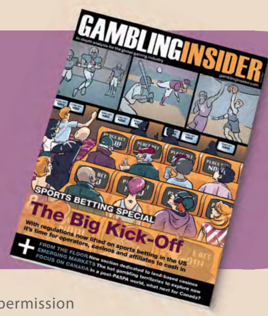
The second is maintenance. Third-party cloud providers have a dedicated team of engineers and technicians to ensure the service runs 24/7 without disruption. At Rockolo, we have a team of highly skilled engineers working round the clock to ensure there is no downtime. Of course, operators will have their own engineers, but the cost of this is substantial.

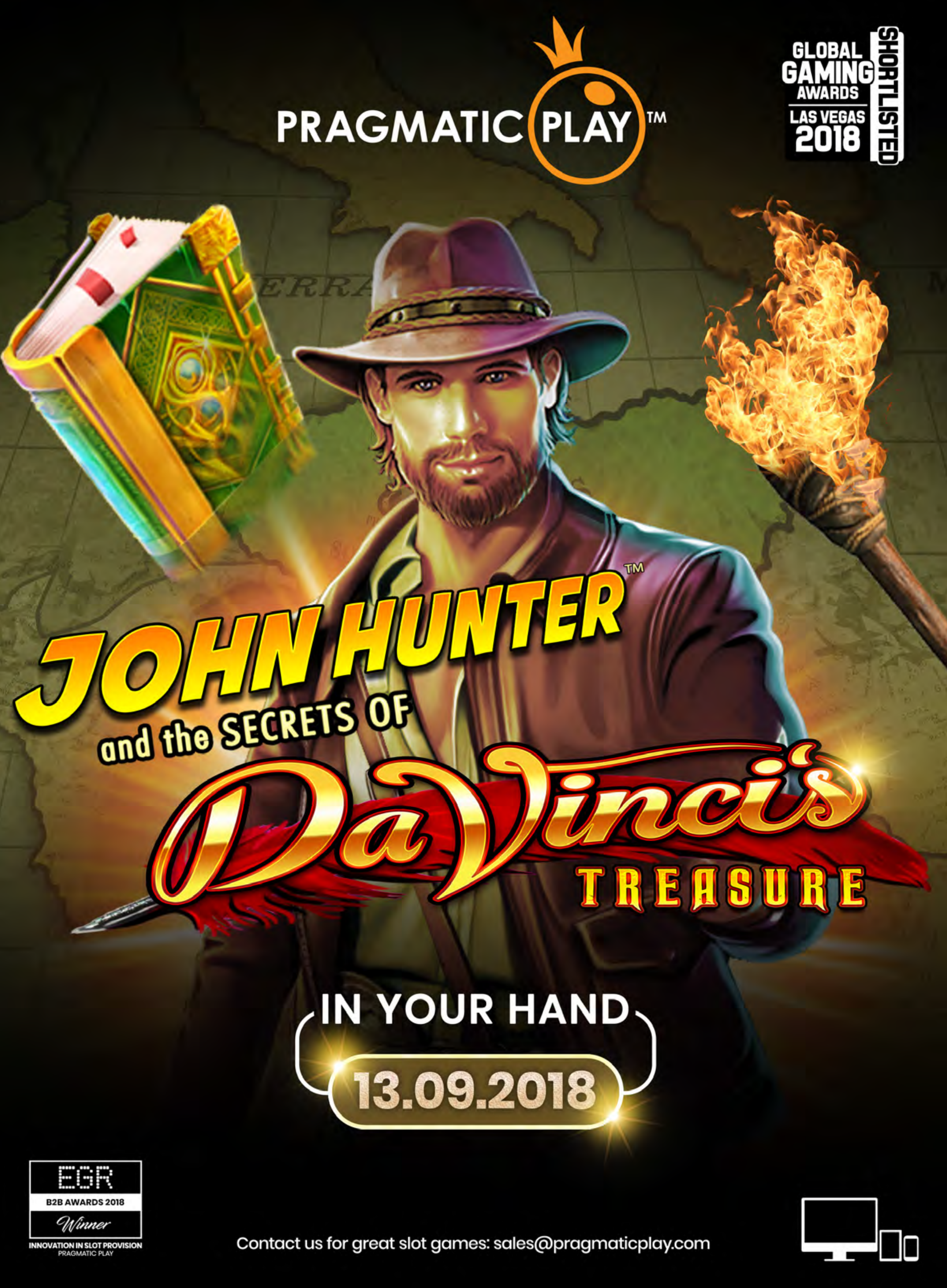
Aside from scalability, support and cost, there are additional benefits to using the Cloud, including security and improved compliance. For example, our servers are based in Gibraltar and comply fully with the regulator's requirements. We also monitor for any anomalies, and react instantly if suspicious activity is detected.

Online gaming brands born on the Cloud have leveraged these benefits to deliver the best possible experience to their players, and at a significantly reduced cost compared to traditional IT systems.

Sure, there are other factors to their success - intelligent marketing, savvy design, broad product offering, etc - but they have only been able to focus on these areas because their tech and IT infrastructures are cutting edge and performing as they should. In today's market, the Cloud is the best way of achieving this.

Established operators looking to reclaim their position at the top of the table should look to migrate to the Cloud sooner rather than later.

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