

**GI**  
**FRIDAY**

**WEEK 44**

**FRIDAY 02 NOV 2018**

**UK INDUSTRY REACTS**

**EGYPTIAN DREAMS DELUXE**

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# WEEK 44

## FRIDAY 02 NOV 2018

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### THIS WEEK

- William Hill close to MRG purchase
- Kambi CEO on new US opportunities
- Betting sponsorship taking off in major leagues
- New York judge delivers a blow for DFS

#### GUEST COLUMNIST:

- Max Meltzer, CCO, Kambi

## UK INDUSTRY REACTS TO RGD RISE



UK Chancellor of the Exchequer Philip Hammond announced the 2019 Budget on Monday, and the gaming industry was drawn to two key points.

First, the Chancellor delivered a remote gaming duty (RGD) increase from 15% to 21%. He then announced the reduction of fixed-odds betting terminal (FOBT) maximum stakes from £100 to £2 will take effect in October 2019.

Industry reaction to the news has been mixed, with several gambling representatives emphasising the negatives.

However, Davy Research published a note on Tuesday suggesting the Budget is "broadly in line with current assumptions" and "not as onerous as feared" by recent speculation.

Davy's note, compiled by Michael Mitchell and Joseph Quinn, read: "Amendments to UK gaming regulation are broadly in line with our current assumptions (and therefore less harmful to the sector than recent press speculation had suggested).

"FOBT changes are to take effect sooner than expected (October 2019 versus January 2020), with the linked increase in remote gaming duty (to 21%) only modestly worse than previously assumed (20%). ▶



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# THIS WEEK IN NUMBERS



**\$3bn**  
MGM Resorts' consolidated net revenue for Q3 – up 7% year-on-year



**£50M**  
Britbet and the Tote consortium agreed a seven-year deal that will see the two bodies run a combined pool-betting operation

**58%**

Year-on-year increase in Cherry's Q3 revenue to SEK 899m (\$98m)



**2020**

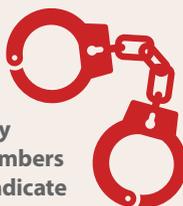
Sports betting in Colorado is unlikely to be made legal for two years, as a proposed statewide vote won't occur until 2019



**€4m**  
Scout Gaming Group gained a further €4m in capital from institutional investors as it looks to expand in the US market

**34**

Macau's Judiciary Police arrested 34 members of a loan-sharking syndicate targeting gamblers



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"In broad terms, there are two general adjustments to be made. The sooner-than-expected implementation of reduced FOBT max stakes will now impact on FY19 estimates. This is just three months sooner than expected and is, in truth, just a phasing issue. It has no incremental negative impact on our current FY20 estimates (although cash balances will be lower as a result)."

On the other side of the spectrum, gambling consultant Steve Donoughue has questioned the Budget's "highly unfair" proposals.

Donoughue can see parallels with the tobacco industry, describing Hammond's government as "squeezing as much as they want" under the impression there will be no "political consequences."

He told *Gambling Insider*: "The tobacco industry is 20 years ahead of gambling on its road to perdition.

"The gambling industry still has the chance to follow alcohol's route and, maybe one day, even have politicians campaign to keep gambling venues open, arguing that they're at the heart of the community. This is unfortunately unlikely, and given the recent Budget speech, I fear the no-marketing deviant activity route of tobacco is far more likely.

"I admit I had called the Budget wrong. I had said 20% RGD and FOBT stakes cut in April 2019. Phil the Spreadsheet called 21% and October 2019, so not too far off. In some ways, what is important is not the numbers but the approach. Making one sector pay for the perceived crimes of another does seem highly unfair, however you look at it.

## WILLIAM HILL SET TO BUY MRG

William Hill has announced a £242.1m (\$308.2m) cash offer to acquire MRG, with the MRG board of directors unanimously recommending shareholders to accept.

In MRG's native currency, the offer equates to SEK2.81bn (SEK69 per share) and a deal is expected to be accretive to earnings for the first full year post-merger.

Among the reasons outlined for the offer by William Hill were high growth potential and international growth, due to its fellow operator's Malta hub.

William Hill highlighted an improvement to its revenue mix, as the merger would increase its overall online revenue from 42% to 47% based on H1 results, with the proportion of international revenue increasing from 14% to 21%.

William Hill also noted MRG's geographic revenue mix during Q3 was 40% in Western Europe, 36% in

the Nordics, 21% in Central, Eastern and Southern Europe and 3% in other regions.

MRG shareholders Henrik Bergquist, Hans Fajerson, Fredrik Sidfalk, Martin Trollborg, Karl Trollborg, Tommy Trollborg and Anita Trollborg have all undertaken to accept and tender any of their shares in the offer, representing 40% of overall shares.

Philip Bowcock, William Hill CEO, said: "This proposed acquisition accelerates the diversification of William Hill – immediately making us a more digital and more international business.

"MRG will provide William Hill with an international hub in Malta with market entry expertise and strong growth momentum in a number of European countries. William Hill will move from a single brand to a suite of brands that can maximise growth opportunities moving forward in new and existing markets."

## WINNERS

*Responsible Gambling Week runs from 1-7 November, with the support of more than 800 bookmakers*

*The Novomatic Interactive division agreed a deal for Mr Green to use Greentube's online casino games*

*Gibraltar and Spain have a political agreement in place to assure there will be no drastic changes once Brexit happens. It is yet to be seen which operators will stay or leave*

*The Poker King and Poker Tribe platforms have been shut down in China by the Shenzhen authorities*

*Cryptocurrency - based derivatives could be prohibited in the UK, after the Financial Conduct Authority, the Bank of England and the Treasury announced measures could be taken to "mitigate the risks" posed by digital currencies*

## LOSERS

### THE WEEK IN QUOTES

*"I would say it's mild chaos. There are a lot of initiatives and there's very little progress."*

**Gaming in Holland founder Willem van Oort on the current state of Dutch gaming regulation**

*"What's surprising is that football already receives large volumes of revenue from the gambling industry; serious amounts of cash flow from the gambling industry to football."*

**Senet Group Chairman Gillian Wilmot on whether the Football Association should be taking a cut from football betting in England**

*"The increase to a figure of 21% may leave some operators questioning whether it is worth continuing to operate in Great Britain, given the current fiscal and regulatory environment."*

**Richard Williams, Licensing, Gaming & Regulatory Partner at London law firm Joelson, discussing the upcoming remote gaming duty tax rise in the UK**

## KAMBI CEO: "PENN AND NY COULD BE NEXT FOR US EXPANSION"

Kristian Nylén, CEO of Kambi Group, spoke to *Gambling Insider* about the supplier's Q3 financial results, where revenue increased 39% year-on-year to €20.5m (\$28.4m).

***Most sports betting suppliers experience a dip in figures after tournaments like the World Cup. How you have maintained positive growth from Q2 to Q3?***

This is the first time since Kambi started that we have a higher turnover in Q3 than in Q2, and I am very pleased with that.

I think it is important to note that we would have actually been growing quarter-on-quarter without the US turnover as well, which means that our existing customers are doing great.

***The last time we spoke you said there was a somewhat "onerous" procedure involved in applying for US licenses. What has it been like to work in this particular market?***

I am positively surprised. So far in the individual states where it has been opening up, we have been looking at the regulation. It's less onerous with the technical work than in many European countries.

***You've said the US market is your primary strategic focus at the minute. Is there any state in particular you are looking to branch into?***

Any state, the larger the better. Pennsylvania is the next large state to come up so that looks very interesting and with us having two players who actually have market access to New York, that is the big one to look forward to.

***How do you see the issue with integrity fees developing?***

There are very few states where it is being discussed. It's looking positive but it's still a long way to go so we can't be sure about it, but at the moment, it is looking quite promising.

***To conclude, what are your overall impressions from Q3 of 2018?***

We are extremely pleased about the quarter and we are really starting to show that we are a premium choice as a sports betting supplier.

[Click here to read the full interview](#)

## MAJOR LEAGUE FRANCHISES AGREE SPONSORSHIP DEALS

This week has seen a flurry of sponsorship deals struck between gaming companies and major US sports leagues and teams.

Caesars Entertainment was one of the big winners and became the first gaming business to secure sponsorship with an NBA team and an NHL team.

Harris Blitzer Sports & Entertainment (HBSE) announced a multi-year partnership with Caesars for its Philadelphia 76ers and New Jersey Devils franchise in the NBA and NHL respectively.

Caesars will open a 5,000 square-foot lounge at the Prudential Center, home to the New Jersey Devils.

Chris Holdren, Chief Marketing Officer for Caesars, said: "Caesars Entertainment has enjoyed a long relationship with the New Jersey community.

"With the introduction of the Caesars Club Sports Lounge, we're excited to expand our relationship and deliver our world-class hospitality and entertainment in a new part of the Golden State."

The NHL announced MGM Resorts International will be the league's first

official sports betting partner.

Gary Bettman, NHL Commissioner, said: "The new sports betting landscape presents a unique opportunity for fan engagement utilising technology and data that are exclusive to our league.

"As a leading global gaming operator and entertainment company, MGM Resorts is the perfect partner for us to begin our transformative entry into this space."

Not all of the deals were met with approval; the New York Jets faced scrutiny for signing a deal with 888.

NFL rules still forbid the advertising of sports betting sites and although the team did not formally announce the deal, the operator added 'proud sponsors of New York Jets' to its website.

So far, the NFL has only reversed a ban on casino advertising. Officials at the Jets, NFL and 888 have declined to comment on the sponsorship deal.

The Jets have also partnered with MGM Resorts. MGM Resorts will be the Jets' official gaming partner. This partnership was officially announced.

*"There is so much to be done to deliver our transformational programme and I am confident that Bill is the right person to assist me and the leadership team in delivering a growing business that is fit for the future."*

**Rank Group CEO John Reilly on the appointment of William Floyd as its new CFO**

*"In our new standards, we expect ADR providers to consider as many complaints as possible, and let the customer know quickly if your complaint is one they can't help with."*

**Matthew Halden, Consumer Advocacy Specialist at the Gambling Commission, on the regulator's new standards for alternative dispute resolution providers**

## NY JUDGE: DFS IS NOT A GAME OF SKILL

A New York judge has ruled daily fantasy sports (DFS) contests break constitutional prohibitions against gambling.

The ruling that DFS competitions are not games of skill was passed by Acting Supreme Court Justice Gerald W. Connolly, in the case brought forward by lawyer Cornelius Murray.

Murray wants New York to shut down DFS contests in the state.

DFS operators DraftKings and FanDuel went through the New York courts in 2015 when Eric Schneiderman, the Attorney General at the time, issued cease and desist orders to both.

This caused the pair to file two separate lawsuits against Schneiderman, asking the Supreme Court to reverse the decision.

They were denied injunctive relief by the Supreme Court; it sided with Schneiderman in assessing DFS

as gambling under existing law.

Months later, however, lawmakers changed legislation and legalised fantasy sports as a game of skill.

After this development, an anti-gambling coalition hired Murray to fight the new law on the terms this constitutional alteration required a voter referendum.

Schneiderman acted as general counsel in the current case against DFS in New York and requested the court for dismissal.

He maintained his belief the state exercised its proper authority in regulating fantasy sports, but the dismissal was denied. It is as yet unclear what the next steps will be, but DraftKings and FanDuel could perhaps appeal the ruling and have not been ordered to cease trading in the state.

Attention now shifts to the current Attorney General of the state, Barbara Underwood, who may need to make a final decision as Schneiderman did in 2015.

## DATA CENTRE

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### NV REBOUNDS, STRIP FALLS

Nevada gaming revenue rebounded 1.26% in September after falling 7.75% in August.

However, while the state was up, the Strip was down 3.71% on unlucky blackjack and baccarat play. The big story was strong growth in the Las Vegas locals and downtown markets, which both grew double digits.

That growth benefits Boyd Gaming, which dominates downtown, and Red Rock Resorts, which owns over 60% of the locals market.

Nevada has grown six out of nine months this year, while September's results failed to outgrow the state's year-to-date growth of 2.11%. September had nine Fridays and Saturdays compared to 10 last year, but had one more Sunday this year.

### COMPONENTS OF STRIP PERFORMANCE:

OPERATOR	REVENUE (\$M)	% CHANGE	WIN %	
			2017	2018
Blackjack	69.699	-20.88	16.9	13.27
Baccarat	69.099	-26.93	11.58	9.92
<b>Total Games</b>	<b>260.582</b>	<b>-11.70</b>	<b>13.96</b>	<b>12.68</b>
Slots	285.433	+4.97	8.01	8.16

### TABLE DROP

OPERATOR	2017 (\$M)	2018 (\$M)	% CHANGE
Blackjack	521.266	525.237	+0.76
Baccarat	823.765	696.563	-15.44
<b>Total Games</b>	<b>2,120</b>	<b>2,055</b>	<b>-3.07</b>

PROPERTY/MARKET	REVENUE (\$M)	% CHANGE
Nevada	991.222	+1.26
Las Vegas Strip	546.025	-3.71
Clark County	843.436	+1.52
Downtown LV	54.990	+11.64
North LV	23.716	+22.44
Laughlin	37.746	+2.38
Boulder Strip	67.541	+27.45
Mesquite	10.164	+5.72
<b>Balance of County</b>	<b>103.254</b>	<b>+7.93</b>
Las Vegas locals market	194.511	+15.76
Washoe County	78.923	-1.38
Reno	57.792	-1.55
Sparks	11.886	-0.75
North Lake Tahoe	2.550	-12.68
<b>Balance of County</b>	<b>6.695</b>	<b>+4.16</b>
South Lake Tahoe	17.748	-15.83
Elko County	27.878	+12.76
Wendover	18.937	+10.63
<b>Balance of County</b>	<b>8.941</b>	<b>+17.57</b>
Carson Valley Area	10.192	+10.52
Other areas	\$13.046	-0.17

## GUEST COLUMNIST



**MAX MELTZER**  
CHIEF COMMERCIAL  
OFFICER, KAMBI

*Meltzer discusses the dilemma of developing a sportsbook in-house or outsourcing to a third party*

The sports betting industry today is vastly different to what it was a decade ago. Back in 2008, we saw an arms race as operators looked to build out the number of markets they provided, while offering differentiation almost purely through higher odds. The era was also largely pre-mobile and pre-widespread regulation. With improvements to the in-play product, the emerging battleground at the time was top of most sportsbooks' agenda.

I'd argue a sportsbook was a more straightforward business to run in 2008 than it is now. Today, there are far more barriers to entry; an increasingly complex web of compliance and regulation, intense product development pressure to keep pace with market leaders, shrinking margins due to increased taxes and levies, and a battle against operators with deeper marketing pockets, to name just a few.

This is partly why we formed Kambi in 2010. We could see the complexity of developing and maintaining a high-quality sportsbook was increasing with each passing year, with each newly-regulated market and with each new product release. We were also of the view customers would become more focused on the UX, rather than whether an operator had five more pre-match markets, or offered 1.85 on an outcome when it was available at 1.83 elsewhere.

That's not to say the odds offered today don't matter, because they do – it's why we provide our customers the opportunity to alter the margin with our price differentiation tool. But the ROI through odds differentiation today isn't the same as it was back in 2008. In 2018, differentiation is increasingly about the customer experience – the UI and how the whole sports betting product is packaged and presented to the player.

This trend, coupled with regulation, has placed product organisations under pressure. Delivering a locally relevant and high-quality sportsbook across a wide range of jurisdictions,

each with differing regulatory requirements and technical specifications, requires significant resource. So too does continuing to improve and evolve risk-management processes to keep ahead of the wise punters and maximise turnover and revenue. Therefore, balancing these complex yet core elements of the sportsbook with a need to release product improvements just to keep pace, let alone innovate, is an almost impossible task.

It's a combination of these factors which led to the M&A wave in Europe and further afield in recent years. This is despite the fact there haven't been many successful combinations to date, or at least the resultant enlarged businesses have barely had time to breathe before another bolt-on has been applied.

An alternative option for these under-pressure businesses is to outsource the core sportsbook function. However, for those that run their own trading and risk operations, this is a more difficult decision, despite the obvious advantages. Why? One of the reasons is that the operators that went online in the 2000s were founded on their own proprietary product and were for a time successful because of it. It's part of their heritage.

Therefore, convincing these organisations to outsource is more complicated, when they can merge and maintain much of their product organisation themselves. However, the reality is these operators will always be playing catch up to Kambi and Bet365 which, for as much people hold it up as an example of why proprietary is the way forward, remains the one successful outlier for operating the entire function in-house.

Do operators believe they need to control and innovate around pricing and risk? If so, perhaps M&A, rather than Kambi, is the answer for them. Even so, what does innovation in pricing mean for these companies?

### Looking to the US

While some European-based CEOs may grapple with retaining every in-house function for political and historical reasons, American gaming CEOs see the benefits of outsourcing as they invest and innovate the UX instead. It won't be long before European operators look at the US for how they acquire and retain customers through the experience, when in reality all the options to evolve are available here already. The global industry has changed, and so too must business models.

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