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WEEK 07

FRIDAY 16 FEB 2018

BUOYANT END TO 2017 FOR GAMING INDUSTRY FIRMS

Businesses reporting double digit growth in revenues during the final quarter of 2017



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THIS WEEK

- **Spanish online gaming market up 38% in Q4**
- **Malta gets tough on Italian licensees**
- **LeoVegas makes German acquisition**
- **MLB weighs in on sports betting legislation**
- **Guest Columnist: Johan Törnqvist, CEO, Play'n GO**



2017 ended on a high for many operators in all corners of the gambling industry, with many reporting good growth in their gaming revenues during the fourth quarter of 2017 and indeed the year as a whole.

With expected record revenue figures of €4.8bn, NOVOMATIC was one of the big winners in 2017, with its revenue jumping 10% year-on-year. The company also announced that it was able to boost its staff numbers to a record 29,500 employees during 2017.

Despite this record growth, Harald Neumann, CEO of NOVOMATIC remained focussed on the future, and didn't rule out the possibility of future acquisitions adding: "Having grown a lot over the past few years, we will this year focus on increasing synergies between companies and, correspondingly, on more effective internal structures. Nevertheless, we will continue to watch the market and make purchases, where it makes sense."

Online casino operator, Mr Green also generated record revenue during 2017, reporting a 28.9% year-on-year rise in its gaming revenues for the year and marking ▶



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THIS WEEK IN NUMBERS



The total cost of the newly opened MGM Resort's Cotai resort in Macau



The year-on-year increase in PAGCOR's income from gaming operations during the full financial year 2017

the company's most successful year since its founding.

Mr Green declared 2017 gaming revenues of SEK1.192bn, beating the previous 2016 full-year total of SEK924.5m.

Per Norman, Group Chief Executive of Mr Green commented: "I can now state that 2017 was Mr Green's most successful year ever. 2017 was a positive year for us, with a growth of 28.9% and a 103% improvement in EBITDA."

However the big winner in 2017 was Gaming Innovation Group, which reported a whopping 125% rise in its company revenue for 2017, jumping from the €53.6m reported in 2016 to €120.4m. At the same time, the company also reported a triple digit rise in its EBITDA, which increased 115% to €12.5m in 2017.

Robin Reed, CEO of GIG paid tribute to the success of the company during 2017, saying: "The achievements are a testament of the capabilities and value of our proprietary technology, products and organisation."

"We have taken large strategic and organic steps throughout 2017. The effects have now started to be evident in the financial performance. Going forward

this trend will be strengthened. We look forward to a 2018 where we expect to see more positive results from the initiatives we have made - and those that we have in the pipeline."

KEY POINTS

- NOVOMATIC estimate full-year 2017 revenues to be €4.8bn
- Mr Green reports 28.9% growth in revenues during 2017
- Gaming Innovation Group reports triple digit rise in revenue during 2017

ONLINE GAMING REVENUE UP 38% IN SPAIN DURING Q4

Fiesta time for Spain's online gaming operators

Online gaming revenues in Spain jumped by over 38% year-on-year during the fourth quarter of 2017, according to the latest figures released by Spanish regulator, Dirección General de Ordenación del Juego (DGOJ).

Gains were reported across all of the key verticals, with over €173.3m generated during the three months ending 31 December, 2017. This

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 **\$250m**

The amount in state revenue that is riding on a new gambling deal with the Seminole Tribe

100

The number of people detained by the Turkish police earlier this week across nine provinces in simultaneously conducted raids, on charges of facilitating illegal betting

 **3.7%**

The increase in gross gaming revenue from US commercial casinos last year, according to the 2017 Adams Revenue Report

figure was an increase of 23.5% on the revenue generated during the third quarter of 2017.

Sports betting continued its dominance as the main source of revenue, contributing over €103.6m during the period, a figure which was up 48.5% year-on-year from the same period in 2016.

Drilling down further into these figures, live betting on sporting events accounted for over 68.4% of sports betting turnover during Q4, despite only accounting for 51% of revenue generated from sports betting.

Revenue generated from online casinos also showed year-on-year increases during the period, rising 37.4% to a total of €49.4m.

Of the traditional casino products, roulette was the most dominant, accounting for 45.8% of spending and 35.4% of revenue. The next biggest winner on the online casino food chain was slots, which accounted for 39.5% of spending, claiming 52% of casino revenue.

In addition figures released by the DGOJ show a 12% year-on-year rise in

active customers to over 676,000, while the total amount deposited by customers jumped to €495.5m, a rise of 53.2%.

This rise in active customer figures comes despite Spanish operators reportedly cutting their advertising spend by 1.4% during the fourth quarter of 2017.

Nonetheless, bonus offers to customers were up 13.1% year-on-year to €21m, whilst sponsorship expenses more than doubled to €3.15m and finally, affiliate marketing expenses hiked up 38.6% to €7.5m.

MALTA OPENS THE BOOKS ON ITALIAN LICENSEES

Investigation opened into organised crime links to online sites

Investigators from the Malta Gaming Authority (MGA) have commenced a probe into any Italian-based licensee with suspected links to organised crime.

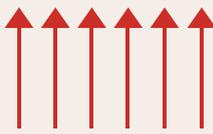
This latest investigation follows a period of sustained police activity targeting illegal gambling operators



€962m

The total amount the French online gaming market generated in revenue during 2017

0.6%



The modest year-on-year increase in poker revenue Nevada experienced in 2017

100+



The number of staff that will operate in SG Digital's new development centre in Krakow, Poland to support the newly created division

in the region, with sources close to the authority stating that this inquiry is merely the first phase in a much larger series of investigations into all of the Italian businesses based in the region.

Addressing these rumours, the Chairman of the MGA, Joseph Cuschieri, stated his intention to cooperate with Italy's Anti-Mafia Commission and any other authority that "needs to know the activity of Italian gaming operators in Malta".

These comments come in the wake of the suspension of the licence of Phoenix International Ltd, an operator of a number of gambling sites which allegedly had links to Benedetto Bacchi, the so-called 'Betting King' of Italy who was later arrested in an Italian police anti-Mafia action dubbed Game Over.

At the time of his arrest, Bacchi had been operating a network of data transmission centres that were linked to Malta-based sites, which in turn allowed him to avoid scrutiny by Italian gaming authorities and Italian tax as well.

Cuschieri explained to local media that "the press and the Italian public

opinion have a suspicious attitude towards our gaming operators", despite the fact that the MGA has a set of "very serious and transparent rules". Nonetheless, he alluded to the fact that the MGA lacked "the investigation tools that the police and the judiciary have".

LEOVEGAS TARGETING GERMAN MARKET WITH LATEST ACQUISITION

Operator now has platform and licences to push brands

Online casino operator LeoVegas AB has announced the conclusion of a deal to acquire Maltese company World of Sportsbetting Ltd for €2.6m.

LeoVegas recently won Online Casino Operator of the Year at the inaugural Global Gaming Awards London, crowning a stellar 2017 for the brand. Carrying on in the same vein in 2018, the company recently received permission to trade its shares on Sweden's main Nasdaq stock exchange.

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World of Sportsbetting Ltd holds a sports betting and casino license in the state of Schleswig-Holstein as well as recently having a licence application approved in Hesse.

In addition to signing the deal, LeoVegas have announced recruited football legend Lothar Matthäus and handball player Stefan Kretzschmar as brand ambassadors in the German sportsbetting market.

Addressing potential expansion in the German sports betting market, Gustaf Hagman, LeoVegas CEO said: "Our new ambassadors also increase the local touch in our marketing, which we know creates loyalty and increased brand awareness.

"We can now also be even more local on the product side and, especially, add important payment solutions that are important for the German market. This is line with our strategy to enter regulated markets and gives LeoVegas the best possible conditions to accelerate further in the German market."

MLB STEPS INTO WEST VIRGINIA SPORTS BETTING DEBATE

Association criticises proposed legislation for not going far enough

Officials from Major League Baseball (MLB) have become the latest US sporting association to publicly voice their opposition to a piece of legislation which will legalise sports betting in West Virginia.

Senate Bill 415, which is currently being debated by representatives from across the state legalises sports betting, placing it squarely under the regulatory oversight of the West Virginia lottery and setting regulations on integrity for sporting events.

It allows the states five gaming facilities to offer sports betting on pro and collegiate sports subject to a 10% taxation rate on their gross gaming revenue.

In a statement, the MLB said: "Any sports betting legislation must include clear, robust, enforceable protections to

mitigate any possible risks to our game. The law quickly advancing in West Virginia unfortunately falls short of meeting those critical standards.

"We are hopeful the legislature will complete a significant overhaul of the law and bolster protections. We would be happy to work with legislators and the Lottery Commission to improve the current language."

The National Basketball Association (NBA) also denounced the bill in a written statement, saying: "We appreciate the Legislature's work on the subject of legalised sports betting; however, we do not believe the bill currently under consideration will achieve the critical goals of protecting consumers and the integrity of our league."

A key constituent of the opposition by the associations particularly in West Virginia is the absence of the integrity fee, which in the opinions of both the NBA and MLB would need to be paid by sports betting operators in order to make sports betting viable for them.

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AC FALLS

Harsh winter weather and a tough calendar comparison hit Atlantic City gaming revenues in January, with land-based casino revenue falling 12.65%.

For the majority of the month, Atlantic City's feeder markets were hurt by weather-related events, Mohegan CEO, Mario Kontomerkos said in the company's first quarter conference call. Mohegan partly owns and manages the Resorts casino.

This is AC's worst month in terms of land-based casino revenue since August 2015.

Meanwhile, growth in online gaming has been slowing, up 16.5% in January after growing over 30% in 2016 and 20% last year, an indication the market may be maturing.

Online poker actually has been declining with the same issues it had at the start, including high customer acquisition costs and small player pools.

Online accounted for 12% of January revenues.

US STOCK UPDATE

The only US stock that hit 52-week highs this week was AGS, which recently had its initial public offering.

Gaming stocks and markets in general are inching back up after historic declines last week.

PROPERTY	REVENUE (\$M)	CHANGE (%)	TABLE HOLD	
			2017	2018
Tropicana (TPCA)	22.914	-5.71	10.9	16.5
Resorts AC	11.626	-6.01	17.3	18.2
Bally's AC (CZR)	12.766	-8.82	15.7	18.0
Borgata (MGM)	53.621	-11.45	17.0	15.8
Golden Nugget (Landry's)	16.137	-11.72	22.1	20.9
Harrah's (CZR)	23.536	-16.30	22.3	20.3
Caesars (CZR)	21.750	-22.95	26.0	23.6
AC Total	162.351	-12.65		

INTERACTIVE	Revenue (\$m)	Change (%)	Share(%)	Partner
Golden Nugget (Landry's)	7.300	+52.84	33.2	PPB,GAN,NYX
Resorts Digital	3.887	+22.90	17.7	NYX,TSG
Borgata	4.154	+10.24	18.9	GVC, Pala
Tropicana (TPCA)	3.270	+6.13	14.9	Gamesys
Caesars (CZR)	3.352	-16.87	15.3	888, NYX
Online gaming Total	21.962	+16.70		
Casino	20.012	+21.42		
Poker	1.951	-16.60		
AC and iGaming total	184.313	-9.95		

GUEST COLUMNIST:



JOHAN TÖRNQVIST
CEO, PLAY'N GO

**PUTTING OMNI-CHANNEL
BACK ON THE RAILS:**

With the term omni-channel losing its meaning in recent years, Törnqvist explains how suppliers need to redeliver it to customers

A few years ago, there was a heavy clamour of both operators and suppliers looking to sell themselves as omni-channel on the back of mobile usage going mainstream. This arms race was fascinating to be a part of, with new products and features launched regularly by those wanting to showcase their products as both fully functional and integrated across all devices.

This seemed logical, the future lies in the same quality content across all devices. Content should be primed for each device yet similar across all, transitioning between them should be seamless and anything that would impact on the user experience would no longer be tolerated by more demanding players.

However, what we saw was a rush to jump on the omni-wagon as soon as possible without thinking what that meant to your offering, or to operators or the end-user.

Products and tools, or even wider business mantras, were labelled as omni-channel. Yet, in many ways they were just advancements on multi-channel with upgraded user interfaces or mobile development prioritised. Any progress is welcomed and the last few years has seen huge leaps forward, even if they don't fulfil the requirements of being labelled omni-channel.

However, omni-channel, by definition, encapsulates all devices, and not just the few that players use the most. One channel seemed to be omitted time and time again from this initial wave: land-based.

Many developers arguably saw the sector as either not relevant to their customer base, or perhaps assessed too much investment was required to implement a viable product that would allow players to experience the same game via the same account when playing in a casino.

This may have merits in terms of development costs, but we believe that it's short-sighted to ignore such a mammoth sector of the wider gaming industry. Simply put, to label products omni-channel and fail to address a sector that accounts for the vast majority of GGR in the gaming sector seems a wasted opportunity.

This needn't be the case. The technology is there to deliver the seamless, all channel gaming service that players increasingly demand and in our recently launched OMNY product, this is now available.

Having been in development for several years to ensure it meets the exacting standards of operators and their players, this solution has raised the bar and met the definition of what omni-channel is.

Previously one may have been able to jump from their desktop on to a mobile with the same account and retained some bonusing progression. Now these same players can enter their local casino and start playing one of hundreds of leading titles, realise they must be elsewhere and carry on the same game, taking their full real-time progress with them.

With gamers now more time-sensitive, and with thousands of entertainment possibilities available at their fingertips in seconds, it's more important than ever for slots developers and the wider casino industry to provide the ultimate service in terms of user interface and flexibility.

Players will not stand for any hurdles in the way of accessing their games, and we, as suppliers, must do all we can to ensure there are none in place. We may not be able to control network speeds and faulty Wi-Fi, the ultimate bane of today's households, but we can develop the environments for players to access their game accounts wherever they may be.

Any friction in the gaming process is one potential customer lost and that's why we've made the process as simple as possible. Our titles are 'omni-ready', without the need for any modification and this should be the industry standard. Those that require collaboration also require resource, and it's our job as the supplier to pick up as much of this heavy lifting as possible.

Although most of today's gamers tend to stick to playing on their device of choice, be it desktop or in a casino, there is a sizable proportion of people who want to be freer.

It is for these people that being truly omni-channel as a slots platform is of huge benefit to the customer, and therefore, via additional revenue streams, to the operator.

Players who can jump from mobile to desktop, then head to the casino floor, with the same experience, account and game of choice, will likely be far more engaged than those who experience each individually.

Engagement leads to greater average session time, providing operators using omni-channel platforms such as OMNY, with more in-depth player data which can help with the design of more specific bonusing, driving further loyalty across the board.

In such a competitive industry, operators not offering an omni-channel service should no longer be excused. The technology is there and the potential for greater revenues, enhanced loyalty and diversified risk is simply too significant to ignore

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