GI FRIDAY

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WEEK 10

FRIDAY 8 MAR 2019

THIS WEEK

- PPB reports modest increases and proposes US name change
- Management changes at Mr Green
- Carl Icahn takes seat on Caesars board and encourages sale
- Steady revenue rise for Galaxy Entertainment

GUEST COLUMNIST:

- Matt Harrod, VP Europe, Processing.com

GVC CEO EXCLUSIVE: LARGE M & A DEAL NOT LIKELY FOR THE TIME BEING

GVC Holdings grew its pro forma net gaming revenue (NGR) 8% to £3.5bn ($4.61bn) for 2018, with reported NGR totalling £2.9bn.

Underlying EBITDA on a pro forma basis was up 13% to £755.3m, with reported group loss after tax of £56.4m. This follows the charging of £434.2m in separately disclosed items, of which £322.5m relates to the non-cash amortisation of acquired intangibles.

THIS WEEK IN NUMBERS

$285.3M

AGS revenue for 2018, a 35% increase, with Q4 revenue rising 25% to $72.1m

£15M

The fee 888 Holdings paid to acquire BetBright ($19.6m) before BetBright's gambling services ceased to be offered to customers

€7.7M

In outstanding debt repaid by Raketech ($8.7m), as it takes the final steps towards optimising its capital structure post-IPO

100%

Increase in Global Gaming's revenue for 2018, to SEK 915.9m ($99.6m), although the company will still implement a new action plan to balance its costs

£350,000

The amount Newmarket's Cesarewitch prize money was cut to in horseracing, despite plans to increase it from £500,000 ($665,000) to £1m

GVC CEO Kenny Alexander reflected on the firm's 2018 results in an exclusive with *Gambling Insider*, saying: "It was always going to be an interesting year, because we acquired Ladbrokes Coral at the start of it; but we've done well and in 2019 it's so far, so good."

GVC acquired Ladbrokes Coral in March 2018 for £4bn. The deal was approved by the Competition and Markets Authority, despite concerns the merger would lead to a substantial lessening of competition within the UK gambling market.

In July, MGM Resorts International and GVC announced a joint venture to launch online and land-based sports betting in up to 15 states. Shortly after this deal, GVC's share price hit a record high of £11.70.

Discussing plans for the US, Alexander said: "We were planning a big marketing push before the start of the new NFL season. We have our offices set up in New Jersey; I think we've got about 25 people and a senior management team in place and we're going to step it up there. I think we should have about 125 people by the end of the year.

"I've said this many times; if you do a deal with MGM in the US, with its contacts and brand and with our expertise and technology, I'm very confident we'll be the market leader; but it's going to take time. It's going to take a five-year view."

The operator also acquired Australia's Neds International in 2018, with the fee potentially rising to AUS$95m. When asked if GVC would be continuing with acquisitions this year, the CEO said: "I'd go to jail if I told you, but we always look at stuff.

"We did a couple of bolt-ons last year and if we do anything, we'll do more of those. We'll always have the opinion we don't need to do M & A. But if the right opportunity comes up to do a bolt-on, we'll do it, though it's unlikely to be anything too big."

Shares in GVC rose to £6.60 at 8:30am on the day it announced its financial results, but declined overall throughout the year, dropping from £8.60. Reflecting on the share price, Alexander said: "I'm obviously disappointed with it.

"If you look at the whole sector, I think everyone has dropped off. If you look at GVC as relative to other gaming companies, we've done alright. When the share price falls, obviously you're disappointed, but we can do no more than what we're doing.

"We are gaining market share in all of our key markets. We did the MGM deal and we're integrating the business well. There's nothing else we can do and that is sentiment towards the sector, which isn't particularly good at the moment."

Elsewhere in its 2018 report, GVC posted an £18.9m pre-tax loss, an improvement on 2017's figure of £22.6m. There was also 19% NGR growth in online, with market share gains in key territories. The operator's UK retail revenue dropped 3%, in line with expectations, while European retail increased NGR by 16%.

As the drop in maximum stakes for fixed-odds betting terminals (FOBTs) draws nearer, Alexander was keen to emphasise the digital direction the company is taking. He explained to *Gambling Insider*: "The vast majority of our revenue and EBITDA is online and post the implementation of the drop to £2 (from £100) on the FOBTs, we'll be completely dominated by online revenue and online EBITDA.

"UK retail is still important, because it drives a lot of our digital revenue in the UK. But in terms of the EBITDA, we're very much an online business."

4

Years as Intralot CEO for Antonios Kerastaris, who last week left his position and was replaced by Chairman & Founder, Sokratis Kokkalis

1%

Fall in Eldorado Resorts' total net revenue for 2018, to $2.83bn

Donated to charity by US gaming companies in 2018, according to data from the American Gaming Association

$367M

THE WEEK IN QUOTES

"It's just the very beginning; it shows our capabilities and we are not going to stop there. It's not a one-off – we have other plans. We want to stand out a little bit from the crowd. Sure, we are one of many developers – but we believe we have something extra"

Promatic Managing Director, Bogdan Stanczak, talks to *Gambling Insider* **about the supplier's collaboration with Mariusz Pudzianowski**

"The concept is very unique and exciting – it has never been offered by other brands before. The rewards we are planning on offering, you can't get them anywhere else"

CEO Mihail Todorov speaks to *Gambling Insider* **about the launch of his new company, Wishmaker**

TOUGH 2018 FOR PADDY POWER BETFAIR

Paddy Power Betfair reported a 9% increase in revenue to £1.9bn ($2.4bn) for 2018, although it was a challenging year for the operator.

Underlying EBITDA was £451m, a 5% decrease. As with most gaming operators, Paddy Power Betfair's share price fluctuated throughout the year. On 6 March 2018, its value was £8.20 per share, peaking at £9.10 on 30 May, but opening on Wednesday of this week at £6.25.

May's peak was likely the result of the FanDuel acquisition, which was announced earlier that month. Paddy Power Betair reported a proposed full-year dividend of £2, equating to a pay-out ratio of 53%.

Online revenue rose 5% for the operator, with revenue from the Australian market increasing 6% and rising 18% in the US.

Within its full year report, Paddy Power Betfair disclosed its four-pillar strategy to achieve success. The operator says it will continue to focus on core markets and rigorously pursue new, fast-growing, regulated markets.

It also caught the market by surprise with the announcement of plans to rename the group to Flutter Entertainment. The company plans to seek shareholders' permission for the change at its upcoming annual general meeting.

Peter Jackson, Paddy Power Betfair CEO, said: "Paddy Power has regained its mojo, taking share following product improvements and some of our 'classic' marketing. Betfair, our unique combination of product that appeals to customers around the world, will be improved by our ongoing investments in languages and localisation.

"The opening of the US online sports betting market has the potential to be the most significant development to occur within the sector since the advent of online betting. Rather than announcing our plans, we have moved quickly to give ourselves the best chance to win in that market. We are confident FanDuel's nationally recognised sports brand, 8 million customers, our group betting expertise and our market access partnerships position us very well."

MR GREEN CEOS MOVE ROLES AFTER HILLS TAKEOVER

William Hill's incoming International Online Managing Director, Patrick Jonker, will become CEO of Mr Green's Malta business, replacing Jesper Kärrbrink as part of growth plans in emerging territories.

William Hill purchased a 92% stake in Mr Green's parent company, MRG, as part of a £245m ($315m) deal in January.

Jonker is yet to begin in his role at William Hill, his appointment having been confirmed in January, and is due to start in mid-March, having served as Managing Director of operator Betsson Group since 2014.

This means Per Norman will step down from the position of MRG CEO and Kärrbrink will leave his role as CEO of Mr Green Ltd – the Malta business.

Norman will move into an advisory role as Chairman of GLHF, a yet-to-launch venture focused on building an esports community, owned by MRG. Norman has been MRG CEO since 2015.

Gambling Insider understands all changes in management were always planned as part of the acquisition; the offer was first announced by William Hill in October. Kärrbrink has been with the operator since April 2016 and is understood to have always planned to be based in Malta for no more than three years after taking up the role.

Mr Green is not said to be searching for a CEO of overall operations, with Jonker set to be the figurehead for all Mr Green performance; all aspects of the business will now operate under one umbrella.

Kärrbrink said: "It is reassuring to know the existing management team lead by Patrick Jonker as Mr Green Ltd's new CEO will take the company forward to the next stage of the journey as part of William Hill. I look forward to continuing working closely with William Hill through Green Jade Games."

Norman said: "The strategic logic of the acquisition is obvious; strong brands and size are prerequisites for future success. I am excited to be engaged and follow the William Hill group through my board position in GLHF."

William Hill projects adding Mr Green to its business will increase its digital revenue base from 24% to 35% pro forma.

"If there's a possibility with a gaming company naming one of our stadiums, I'm all for it. We're in a process of getting close to a major league-wide sponsorship with a respected gaming company, and I'm very supportive of that"

Major League Soccer (MLS) Commissioner Don Garber says he is ready to embrace legalised sports betting

THIS WEEK'S WINNERS AND LOSERS

WINNERS

Scientific Games – **Its joint venture with Demirören Group, Şans Girişim, has been awarded an exclusive 10-year contract to run Iddaa, Turkey's sole legal sports betting operator**

Macau – **gross gaming revenue increased 4% year-on-year for February, to MOP25.4bn ($3.14bn)**

Racing Post B2B – **is set to launch its new sports betting brand, Intellr, later this month, providing bookmakers with stats, analysis and predictions for 20 different sports**

William Hill – **reported a loss of £722m ($956m) before tax for 2018, compared with a profit of £147m for the previous year**

Kai Shi Entertainment – **lost its sponsorship with Australian soccer team Melbourne Victory due to alleged links with gambling**

LOSERS

CAESARS ENTERTAINMENT GRANTS ICAHN BOARD REPRESENTATION

Carl Icahn has re-emphasised his belief that the best strategy for Caesars Entertainment's growth involves selling or merging the company.

His comments came after the operator appointed three senior Icahn Group executives to its board. Keith Cozza, CEO of Icahn Enterprises, and Courtney Mather and James Nelson, both Directors at the same firm, all join with immediate effect.

If a new CEO isn't approved by the new directors within 45 days, Icahn has the right to appoint a fourth member to the board. Analysts have suggested this grants the billionaire investor huge influence over the company's future.

Icahn said: "I believe the best path forward for Caesars requires a thorough strategic process to sell or merge the company to further develop its already-strong regional presence, which will allow Caesars to continue taking advantage of the Caesars Rewards programme, bringing more and more players into Caesars' Vegas market.

"I expect this to make Caesars the most powerful competitor in Vegas, the gaming capital of the world. Caesars would be a great opportunity for certain investors who have already expressed interest, and I'm glad the board will explore these opportunities."

Pursuant to the agreement, the Icahn Group, owners of 9.78% of Caesars' outstanding shares, has agreed to vote all of its shares in favour of each of Caesars' board nominees at its annual meeting.

James Hunt, Caesars Chairman, said: "Since the completion of Caesars' restructuring, we have been undergoing a strategic process to create value, and we will continue that process, working with our new directors."

Last week, Caesars Entertainment reached a multi-year, multi-state agreement to offer DraftKings market access for its online products. In return, Caesars will receive equity in the sports betting operator.

Mark Frissora, outgoing President and CEO of Caesars, said: "This alliance is the latest initiative by Caesars to capitalise on our database, generate a new revenue stream in a growth market and raise our profile in sports, in part by creating new sports-themed guest experiences at our resorts across the country."

All eyes are now on who replaces Frissora in the Caesars hot seat.

GALAXY ENTERTAINMENT FULL-YEAR REVENUE RISES 14%

Galaxy Entertainment Group (GEG) has announced net revenue of HK$55.2bn ($7.13bn) for 2018, up 14% from the previous year.

Adjusted EBITDA was HK$16.9bn for the period, a 29% increase, while net profit for the year attributable to shareholders was HK$13.5bn.

Galaxy Macau was the operator's best 2018 performer, with net revenue increasing 14% to HK$39.5bn. The highest rise came from Star World Macau, which jumped 18% to HK$12.2bn.

In Q4 2018, the operator recorded net revenue of HK$14.2bn, a 2% increase year-on-year and a 9% rise from the previous quarter. Adjusted EBITDA for Q4 was HK$4.3bn, rising 4% year-on-year and 12% from the previous quarter.

Galaxy announced a special dividend as a result of its 2018 performance that will see shareholders paid HK$0.45 per share.

Dr. Lui Che Woo, Chairman of GEG, said: "At GEG, we continue to drive every segment of the business with a particular focus on the mass business and continue to allocate resources to their most efficient use."

Union Gaming analyst Grant Govertsen said: "We are maintaining our buy rating on shares of Galaxy, and view it as the best way to play Macau, particularly over the medium and longer terms.

"While Galaxy has greater exposure to VIP than most, we continue to view Galaxy as the best operator in the market today. We expect the company to notably outperform in the event of a down market given a growing customer preference for Galaxy product/experience with all other things being equal."

Galaxy has also announced a project to launch a resort on Boracay Island, Philippines, despite President Rodrigo Duterte being against any new casino projects within the country.

Galaxy Vice Chairman, Francis Lui, said: "It's always been one of the top five beach islands of the world and we truly want to be part of it and elevate it back to the same position as before."

DATA CENTRE

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IL FALLS AGAIN

Weather continued to hurt Illinois gaming revenue in February, which fell 6.61% year-on-year.

The state had record cold weather in the first two weeks of the month, with temperatures around minus 30 degrees.

Additionally, flooding along the Ohio River resulted in the closure of Caesars' Harrah's Metropolis on 18 February. The casino remained closed for the rest of the month and fell 32.03%.

Casinos outside Harrah's Metropolis fell 5.21%.

Casino admissions fell 5.23% for February.

Slot routes also continue to have an impact on casino revenue. Slot routes rose 9.89% for January, while casinos fell 9.95%.

MARKET/PROPERTY	REVENUE (M)	(%) CHANGE
CHICAGOLAND		
Aurora Hollywood (Penn)	$8.651	-0.26
Joliet Harrah's (CZR)	$13.368	-0.81
Joliet Hollywood (Penn)	$8.600	-1.70
Elgin (ERI)	$11.627	-5.92
Rivers (Rush Street)	$30.029	-7.62
Chicagoland total	**$72.275**	**-4.61**
ST. LOUIS		
Alton Belle (Penn)	$3.58	-2.92
Casino Queen, E. St. Louis	$7.253	-13.20
St. Louis total	**$10.833**	**-10.05**
ELSEWHERE		
East Peoria (BYD)	$5.738	-2.78
Rock Island (Del North)	$5.014	-5.56
Metropolis (CZR)	$3.693	-32.03
State total	**$97.554**	**-6.61**
MULTIPLE PROPERTY COMPANIES:		
Penn National	$20.832	-1.32
Caesars	$17.062	-9.78

GUEST COLUMNIST

MATT HARROD
VICE PRESIDENT OF EUROPE, PROCESSING.COM

Harrod looks at how the British gambling industry will change over the next 12 months

The gaming industry has undergone significant changes in the past couple of years, from European regulation to PSD2 affecting payments and banking, to then having GDPR to deal with just weeks before the Fifa World Cup in Russia. But, with the UK's departure from the EU imminent and the pound continuing to fluctuate amid ongoing uncertainty, what radical changes will affect the industry in 2019?

Brexit won't (immediately) affect regulation
The UK, like many other European countries, regulates gambling domestically, meaning it will be free from the regulatory changes many other sectors are facing with Brexit. Challenges may arise however, when accepting payments and card schemes from other regions. The potential of attracting talent to the UK may also be affected following Brexit.

Our future economic relationship with the EU could pose challenges
If there is a no-deal Brexit, Great Britain will no longer be part of the European Economic Area (EEA), which means Visa and Mastercard may charge extra for interchange fees. This would obviously have a huge impact on the gambling industry, especially if fees become like those in Norway and Switzerland (almost double). A negotiated deal would likely see a transition period in which fee increases would not apply; but there is the possibility they could apply thereafter.

Payments will go from pull to push
Over the past five years, the payments industry has been making things easier with the likes of one-click and instant payments. However, we have started to see push back on this, particularly in the gaming sector, where banks are increasingly offering services that help people block or limit their spending. People will want to know when they are spending too much, and the norm may well change from pull payments to push payments.

Gaming community pulls together to keep the fun in gambling
Gambling is currently a hot topic for the public, especially in Britain. There is more attention on the industry than ever before. People are far more educated about problem gambling and its social effects – and the sector has come together as a community to tackle the issues and concerns head on.

Gaming operators are implementing initiatives and raising awareness of help groups such as Gambleaware.co.uk, actively helping customers that may be getting themselves into bother. In 2019, we will continue to see the awareness of responsible gaming rise and will also see gaming operators continue to work as a community, while ensuring the industry remains fun for everyone involved.

Concerns over data will drive changes to security
Public perceptions about data and security have changed. High-profile hacks like last year's Facebook breach, a greater understanding of how consumer data is being used and more awareness of cyber-crime and cyber-warfare have made people more wary about who they share data with and how it is secured. As a result, we are likely to see a continued rise in biometric technology adapted by the gambling industry to provide customers with improved security. This technology could also be used to make payments, which goes hand-in-hand with the continued adoption of mobile payments in the industry.

What's next?
There's set to be more political and economic upheaval in 2019, not to mention drastic shifts in consumer attitudes and behaviours. To navigate these fluctuations and remain competitive, the gambling industry must keep up to date with the latest changes in the sector and be prepared to act quickly. With another 12 months of change on the horizon, the future belongs to the companies able to change the quickest.