



WEEK 17

FRIDAY 26 APR 2019

ONE YEAR ON: HOW EFFECTIVE WAS PADDY POWER BETFAIR'S FANDUEL ACQUISITION?

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THIS WEEK

- **Kambi CEO speaks to *GI* after positive Q1 results**
- **Rhode Island sports betting shows promise but still below target**
- **Sportradar exec predicts "very strong" GVC US presence**
- **lovation manager tells *GI* about extent of bonus abuse and VIP fraud**

GUEST COLUMNISTS:

Rory Stewart-Richardson, Founder & CEO, Connexi



"We are confident FanDuel's nationally recognised sports brand, eight million customers, our group betting expertise, and our market access partnerships position us very well."

Paddy Power Betfair (PPB) CEO Peter Jackson's comments during the operator's 2018 financial report were crystal clear.

"Rather than announcing our plans," he explained, perhaps aiming a message at some of PPB's competitors, "we have moved quickly to give ourselves the best chance to win in that market."



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THIS WEEK IN NUMBERS

\$3.65bn



Las Vegas Sands' net revenue for Q1 2019

\$12,500

The fine Washington Trotting Association received for offences related to underage gaming

31



Senate votes in favour of a sports betting and daily fantasy sports bill in Iowa, vs. 18 against

22 million



The number of Class A common stock shares offered by Scientific Games in its SciPlay IPO

3.4m



The number of visitors to Macau in March. The 24% year-on-year rise is partially attributed to the Hong Kong-Zhuhai-Macau bridge

"Quick" is certainly an accurate description of PPB's US expansion. Just days after the PASPA repeal, the group announced the acquisition of FanDuel, at the time one of two daily fantasy sports giants alongside DraftKings.

Nearly one year on, a simple look at the state of New Jersey's sports betting revenue shows you how successful that acquisition has been so far. Legal issues with FanDuel Co-Founder Nigel Eccles aside, it's difficult not to arrive at the conclusion the deal was a win-win for all involved.

Between January and March 2019, sports wagering revenue at Meadowlands Racetrack in New Jersey, where FanDuel has a sportsbook, totalled \$32.7m. The nearest rival was Resorts Digital, which earned \$17.9m (primarily through DraftKings' sportsbook). After that, Monmouth Park made \$5.4m and Ocean Resort \$3.9m. Quite the chasm.

Add onto that the \$31.4m generated at Meadowlands for 2018 and you have a clear market leader, with Resorts Digital again the nearest competitor on \$30.4m.

There have been early teething issues of course, with a pricing error forcing FanDuel to pay a customer \$82,000 in September – when it should have been less than \$20 in winnings. The general industry conversation though, is already revolving around whether the rest of the field can keep up with FanDuel and DraftKings.

According to FanDuel's investor presentation in March, PPB currently owns 58% of the company and maintains operational control. This leaves the operator in one of the strongest early positions of big UK-market players looking to test the water across the Atlantic Ocean.

It's easy to overlook the fact FanDuel is still known for fantasy sports, a market which presents a new revenue stream for PPB. Currently legal in far more US states than sports wagering, the vertical generated \$163m in revenue for FanDuel in 2018 – a 17% year-on-year rise. Those results are thanks to an approximate 40% market share, according to its investor presentation, this time sitting second behind DraftKings.

Horseracing made a further \$131m for FanDuel in 2018, a 12% annual increase, while New Jersey sports betting revenue is "significantly ahead of plan" for the operator, with Q1 2019 revenue expected to be "approximately double" that of Q4 2018.

The silver lining this creates in PPB's overall balance sheet is plain to see. Global revenue rose 9% to £1.9bn (\$2.47bn) for 2018, with pro forma revenue growing 6%. A challenging year was underlined by an 11% drop in reported profit before tax to £219m and a 5% fall in underlying EBITDA to £451m.

But it was within this environment that US performance stood out, signalling the opportunity for success ahead for PPB and FanDuel. US revenue was up 18% on a pro forma basis by comparison; even revenue growth in Australia was nowhere near, rising just 6%.

So, when the calendar hits one year on from the day the FanDuel deal was signed in May, the short-term implications can be nothing but positive for PPB.

The test for both companies now turns to long-term durability. GVC's Roar Digital venture is yet to make its mark in the US, while FanDuel is not guaranteed the same handle and revenue figures in any new sports wagering markets it enters outside New Jersey. As commentators have pointed out time and again, every state has very different individual dynamics.

PPB will be confident moving forward and rightly so. Like Usain Bolt winning a 100-metre sprint, FanDuel has come bursting out the starting blocks.

It was the world-record setter himself however, who truly came to life the further the race progressed.

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Kindred's gross winnings revenue for Q1 (\$290.5m), an 8% rise year-on-year



3

The number of years Betway has extended its sponsorship of the All-Weather Championships

30



Imperial Pacific International says it will open the first phase of its Saipan integrated resort on or before 30 September

OPERATIONS OUTSIDE US DRIVE KAMBI Q1 GROWTH

Kambi's revenue totalled €21m (\$23.5m) for Q1 2019, an increase of 28% year-on-year, with operator turnover growing 46%.

Although Kambi continued its US expansion in the period, CEO Kristian Nylén attributed the majority of the company's growth to operations outside the country.

Operating profit was €2.6m, with a margin of 12.4%, and results after tax totalled €2m, a 33% increase.

Kambi signed two new customers in Q1; Rhinoceros Operations, parent company of German-facing Mybet, and Connecticut-based Mohegan Gaming & Entertainment (MGE).

After the results were publicly announced, Nylén exclusively spoke to *Gambling Insider*.

What's your overall take on Kambi's Q1 results and how confident are you of maintaining this level of performance?

We are very pleased. Again, we are showing strong growth – not only in the US, but growing our existing customer base. It's

worth mentioning both Colombia and ATG (Sweden) are doing very well. We think we have a very good position in the US at the moment and we expect that to continue.

In October, you told *Gambling Insider* Pennsylvania and New York will be the next major US states to regulate. What is your take on New York saying no to mobile wagering, given its success in New Jersey?

In my mind, it's only a question of time. Unfortunately, it seems like it will take some time but it will happen. It's only a question of how long it will take.

I think when it starts, there is no turning back. The public opinion around sports betting is very positive and most states need the tax income. So I think it is definitely going to happen.

[Click here to read the full interview with the Kambi CEO.](#)





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THE WEEK IN QUOTES

“From a technological standpoint and user experience it will be like going into an ATG shop in Sweden right now. We are really excited to say this is not a monopolistic situation where players will get a bad experience, from a bad solution.”

Kambi CCO Max Meltzer speaks to Gambling Insider about operating in the monopolistic Moldovan market

“One of the sites we contacted was brazen enough to use the government’s official coat of arms. We can only presume this was done to suggest some sort of formal connection with the New Zealand government or our local gambling laws.”

Chris Thornborough, Director of New Zealand’s Department of Internal Affairs, on offshore gambling sites using fake New Zealand web addresses

RHODE ISLAND REMAINS BEHIND EXPECTATIONS DESPITE POSITIVE MARCH

Rhode Island’s sports betting market achieved its best month to date for March, although the figures were still short of the revenue the state had originally anticipated.

Rhode Island sportsbooks made \$1.5m in March, largely due to March Madness. New Jersey, Pennsylvania and Delaware also benefited from the NCAA basketball tournament.

Since Rhode Island sports betting launched in November, a total of \$1.8m has been made in revenue, with \$925,000 heading to the state as part of its share; close to \$900,000 was lost for February as a result of the New England Patriots (local to Rhode Island) beating the Los Angeles Rams in the Super Bowl.

The budget lawmakers passed for the state had anticipated an income of almost \$2m per month, which has not yet been attained.

The volume of bets in March saw \$23.6m wagered and \$22m paid out, while bettors wagered \$20.7m in February.

At present, the state receives 51% of revenue, while IGT and William Hill get a 31% cut, with Twin River Casino receiving 16%.

Governor Gina Raimondo has revised the state’s budget plan for next year, altering its revenue expectations from \$23.5m to \$11.5m. This will require the state to make profit of \$900,000 per month on average.

She said in a State House interview: “I think in the long run the numbers are going to be what we thought, but we got a slower start. Maybe we should have known it was going to be slower and forecasted accordingly. I also think the world is changing and actually the money is going to be on the mobile phone.”

“The entire team is energised by the opportunity to bring the totality of our experience and technology to the diverse and innovative US sports wagering leaders who are responding to the tremendous opportunity these markets present.”

Betfred’s Managing Director Mark Stebbings on moving into the US market

THIS WEEK'S WINNERS AND LOSERS

WINNERS

Sportradar – has united with SportsGrid for the launch of its first free, 24-hour network dedicated to a sports betting audience

Indiana sports betting – is in the final stages of clearing legal hurdles, including provisions for mobile betting apps

Bet365 – Payment tech company EML Payments will provide its players with reloadable cards linked to accounts

PokerStars – was hit with a \$10,000 fine for accepting 216 bets on New Jersey college basketball games

Sands Bethworks Gaming was fined \$230,000 for breaking regulations on underage gaming and awarding free slot play

LOSERS

IOVATION MANAGER: BONUS AND VIP ABUSE A “VERY LARGE PROBLEM”

Gambling Insider caught up with Iovation Product Marketing Manager Angie White to discuss growing security threats in gaming and how to combat them.

How detrimental is bonus abuse to operators?

Bonus abuse is definitely a very large problem for operators. For the last three years, it’s been the number one type of reported fraud or abuse seen by operators. That’s where you see fraudsters coming in to set up new accounts, taking advantage of the bonuses offered. They also take advantage of bonuses offered to VIPs.

Is crypto-currency a viable solution to problems with credit card fraud?

Yes, it will probably help bring down credit card fraud. But crypto-currency comes with a lot of its own vulnerabilities. For example, the private key getting uncovered; we’ve seen a lot of news articles about major breaches for crypto-currency.

The main thing, whether it’s credit cards or crypto-currency, is looking at how you are securing that payment.

How big is the issue of selling VIP accounts for money-laundering purposes and what can be done to combat this?

I would say it’s a humongous concern. Those VIP accounts are the bread and butter for a lot of operators; they are the most profitable and are critical for the business.

Do operators do enough to stop self-excluded players from accessing sites?

One of our customers told us players would come in, use a fraudulent credit card, set up an account, cash out and then immediately self-exclude before the chargeback could hit.

You have to manage responsible gaming, but you have fraudsters using the same system to abuse and commit fraud. I think the best thing is if you identify self-excluded players by device. You can then see that device is associated with a certain account which is self-excluded. We had 223,000 reports of self-exclusion in 2018. Those reports were associated with 795,000 devices.

SPORTRADAR EXEC: MGM-GVC JOINT VENTURE WILL BE “VERY STRONG” IN US

Sportradar executive Neale Deeley is impressed with the early success of DraftKings and FanDuel in New Jersey, but believes Roar Digital could change the US sports betting landscape.

Roar Digital is the joint venture between MGM Resorts International and GVC Holdings, which GVC CEO Kenny Alexander has said is taking a patient, long-term approach in the US.

In an interview with *Gambling Insider* in December, Alexander dismissed the early success of operators in New Jersey, stoking the fascinating proposition of Roar Digital directly competing with the likes of DraftKings and FanDuel down the line.

Deeley, VP Sales, Gaming at Sportradar, tells *Gambling Insider*: “The early pace-setters in New Jersey have been the leading daily fantasy sports brands DraftKings and Paddy Power Betfair’s FanDuel, which have both done very well in exciting their existing databases about sports betting.

“They will be followed by other major brand names, such as the MGM/GVC combination, Roar Digital. This is yet to get into its stride but will doubtless be very strong as and when it gets up and running.”

At a recent sports betting conference at the National Indian Gaming Association tradeshow, Deeley also spoke about the early success of DraftKings and FanDuel, arguing there is a long way to go yet.

When asked if others can keep up with the market leaders by *Gambling Insider*, the Sportradar exec said: “They’re capable organisations but they’re not unbeatable. Who is, right? It’s about picking the right partners to make yourselves successful.”

Deeley was speaking exclusively for the May/June edition of the *Gambling Insider* magazine. Register for free to read the full article when published.

NV, STRIP FALL

Nevada and Las Vegas Strip gaming revenue fell year-on-year for the third straight month in March.

However, the state eclipsed the \$1bn mark for the second consecutive month.

Results on the Strip were hurt by baccarat play, which fell 42.92%, resulting in a 56.05% drop in baccarat revenue. Baccarat play was likely on a tough comparison as a result of the tail end of last year's Chinese

New Year, which fell in the middle of February versus early February this year. Factor out Strip baccarat and Nevada gaming revenue would have been up 7.07% and the Strip would have been up 9.49%.

Downtown and the Las Vegas Locals soared, up 8.66% and 6.65% respectively.

Elko County in northeastern Nevada led county growth at 10.63%.

Blackjack revenue grew double digits for the second consecutive month on better hold than last year.

March had an equal number of Fridays and Saturdays, with one extra Sunday this year.

MAJOR STRIP SEGMENTS	REVENUE (M)	(% CHANGE)	WIN PERCENTAGE	
			2019	2018
Blackjack	\$81.831	+19.41	13.94	11.16
Baccarat	\$51.290	-56.05	10.92	14.18
Total games	\$257.929	12.72	13.45	13.3
Slots	\$294.015	+5.60	8.11	8.06

TABLE DROP

MAJOR STRIP SEGMENTS	REVENUE 2019	REVENUE 2018	CHANGE
Blackjack	\$587.023	\$614.068 m	-4.40
Baccarat	\$469.689	\$822.927	-42.92
Total games	\$1.918	\$2.222 bn	-13.70

RACE BOOK AND SPORTS POOL

MAJOR STRIP SEGMENTS	REVENUE (M)	(% CHANGE)	WIN PERCENTAGE	
			2019	2018
NEVADA				
Race Book	\$3.735	-9.15	16.55	17.01
Football	-\$12.202	N/A	-864.95	N/A
Basketball	\$35.178	-7.49	7.10	18.71
Baseball	\$3.485	+66.27	11.05	12.91
Sports Book Total	\$32.523	-4.80	5.45	6.55
CLARK COUNTY				
Race Book	\$3.368	-9.29	16.55	17.04
Sports Book total	\$29.505	-8.36	5.22	6.57

MARKET/PROPERTY	REVENUE (M)	(% CHANGE)
Nevada	\$1,023	-0.12
Las Vegas Strip	\$551.944	-3.83
Clark County	\$882.844	-0.61
Downtown LV	\$25.885	+8.66
North LV	\$49.604	+8.59
Laughlin	\$70.365	-4.23
Boulder Strip	\$14.214	+8.92
Mesquite	\$112.168	+8.08
Balance of County	\$20.337	+4.85
Las Vegas locals market	\$208.417	+6.65
Washoe County	\$69.854	-0.90
Reno	\$49.962	-1.90
Sparks	\$12.483	+3.15
North Lake Tahoe	\$2.085	+2.22
Balance of County	\$5.324	-1.67
South Lake Tahoe	\$15.913	+9.16
Elko County	\$30.015	+10.63
Wendover	\$20.588	+10.40
Balance of County	\$9.427	+11.14
Carson Valley Area	\$9.174	-0.60
Other areas	\$15.174	+5.01

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RORY STEWART-RICHARDSON

FOUNDER & CEO,
CONNEXI

Stewart-Richardson explores the future of US sports betting – and how UK businesses fit into the picture

Beware of Greeks with gifts. This was an opening remark from one of the panel members during a conference I recently attended to discuss what the future of betting looks like in the US. Following the Supreme Court's overruling of PASPA last May, there has been a much-publicised rush of UK sportsbooks trying to capitalise on a new market.

British betting firms have the expertise, no doubt, but if you think the US will let them stroll in and take the market, think again. This will be a hard-fought battle, just as the gold rush was all those years ago.

But what does the future of gambling in the US look like? Ahead of the March Madness tournament in the US, the American Gaming Association predicted US bettors would wager \$4.6bn on brackets and a further \$3.9bn on traditional sports bets.

If correct, that would see the NCAA Division 1 college basketball tournament eclipse the Super Bowl and retain its status as one of the most important betting events in world sport. This event certainly pushed states to legalise sports wagering at a faster rate, although at this time only a handful of states have made sports betting legal, all in various forms.

The majority of states have certainly begun the discussion however, with several experts believing it will take two to five years for 30 or so to follow suit; especially as each state would require its own licensing and taxation procedures, based on its own rules and controls like self-exclusion lists, problem gaming resources etc. That said, there is a real consumer appetite for legalised sports wagering and geographical expansion should be the number one focus.

This makes the US a tricky market for UK gambling companies to enter, as investment and licensing of these markets will be done state by state. Adding to the controls expected to govern the industry, there is also the amount of power the sporting associations will have (chiefly the NBA, NFL, MLB, MLS and NHL).

In the North American major leagues' ideal world, they would control the types of bets placed by consumers, building their case for the needed controls to protect the public.

There is no doubt the US sports betting market is an incredible opportunity. The size of the current illegal offshore market could even signal the new gold rush.

We discussed this with Las Vegas Lights Commercial Director Steve Pastorino, who has been keeping a close eye on the market. He said: "Nevada is the US gold standard for sports betting and is actively defending that reputation. With 40+ million visitors annually, sports betting is an integral part of the 'weekend in Vegas' as well as the business trip.

"It's not just that you can place a bet, but you can enjoy sporting events in some of the most palatial sportsbooks, casinos and restaurants on the planet. Here at the city's first-ever professional soccer team (Las Vegas Lights FC), we take full advantage of fan interest in betting with a fully-fledged #BetCast during selected road television games, pairing traditional sportscasters with well-known individuals from the sports betting industry."

However, it's not necessarily about who gets their brand there first. American tech giants aren't going to sit quietly and watch a potential market get taken over by UK companies, even though patents are being filed as we speak and the likes of William Hill and Paddy Power Betfair have made early moves.

The likes of Google, Amazon and MGM Resorts will also see this as a huge opportunity. With their technological expertise and household names, there is nothing stopping them from dominating this market, either individually or through partnerships. UK companies: beware.

"British betting firms have the expertise, no doubt, but if you think the US will let them stroll in and take the market, think again. This will be a hard-fought battle, just as the gold rush was all those years ago"

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