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# WEEK 30

## FRIDAY 24 JUL 2020

### ELDORADO – CAESARS MERGER COMPLETES; CFO WARNS OF LAYOFFS FOR NEW COMPANY

#### THIS WEEK

- **GVC under investigation by HMRC**
- **Rank Group CEO exclusive Q&A**
- **Q2 round-up: Betsson, Evolution & NetEnt**
- **AGA research: Illegal US sports betting down**

#### GUEST COLUMNIST:

- **Marc Wood, sales & marketing director, 1account**



Eldorado Resorts has officially completed its \$17.3bn acquisition of Caesars Entertainment.

Eldorado initially received approval from the Nevada Gaming Commission two weeks ago and has since been given the green light by the Indiana Gaming Commission (IGC), Indiana Horse Racing Commission (IHRC) and New Jersey Casino Control Commission (NJCCC).



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# THIS WEEK IN NUMBERS

## \$475m



Amount in senior secured notes casino operator Empire Resorts has announced it will issue as a means to boost liquidity during the COVID-19 pandemic

## 2nd

Place Novomatic Group finished in the 2020 Austrian Brand Value Study, behind only Red Bull, improving on its third-place finish in 2019. Brand value increased 3.3% to €3.54bn (\$4.08bn)

## 1,000



Calls per month, up from 30, charity helpline Gordon Moody has received from problem gamblers during the period from April to June



## 96%

Year-on-year decline for Macau mass market gross gaming revenue for Q2, falling to MOP 1.73bn (\$216.3m). The figure also represented a 89% quarter-on-quarter fall

## SEK 1.64bn

Q2 revenue drop of 19% year-on-year (to \$182.3m) for Swedish operator Svenska Spel, based on the closure of physical casinos and the suspension of sport



The IGC did, however, instruct the operator to sell three of its Indiana casinos before the end of the year as part of its approval process.

The sales would ensure the new organisation be run by Eldorado but maintain the Caesars name, and control less than the current 60% share of Indiana's gaming revenue.

The \$17.3bn acquisition was also approved by the IHRC last Monday despite initial concerns expressed by the regulator.

The IHRC had originally said in a staff report it was "impossible" to offer "unqualified recommendation" for the approval of Eldorado's permit application.

The Commission staff said the operator is an "entity that is and has been clearly disinterested in the horse racing industry since entering in 2014." Ultimately, though, this did not prove an obstacle.

Eldorado helped convince the IHRC by promising a long-term financial commitment to the state's horsemen's associations and to spend \$20-25m over 10 years on track improvements. Eldorado also agreed to 22 other financial recommendations.

Eldorado CEO Tom Reeg told commissioners: "We know you're going to hold our feet to the fire."

The NJCCC also delayed its eventual decision by two days but has since approved the historic deal.

The Eldorado-Caesars merger has been a long time in the making, having seen heavy speculation before activist investor Carl Icahn became Caesars' largest individual shareholder and played a pivotal role in the transaction.

Confirmation of the merger agreement was in June 2019, while full shareholder approval came in November.

However, the new agreement will bring job cuts to the Las Vegas casino market.

Despite imminent losses, CFO Bret Yunker said the company plans to make layoffs as "compassionately and transparently as possible". Yunker, who served as Eldorado CFO and is now CFO at the new Caesars, wasn't specific about how many jobs would be eliminated or where reductions would occur.

"We remain focused on creating substantial synergies as we bring together these two companies," he said. "That will, unfortunately, result in some job reductions. Reducing the size of a workforce is always challenging to go through."

Before layoffs resulting from the pandemic, Caesars had about 30,000 employees in Las Vegas and approximately 65,000 worldwide. Eldorado had roughly 18,000 workers.

Yunker added that while COVID-19 has decimated casino revenues and wreaked havoc on the tourism industry, Eldorado never thought about backing away from the deal. The company has \$13bn in debt, along with additional obligations to VICI Properties and another real estate investment trust.

The now-merged company owns and operates more than 55 casinos in 16 States, including eight resorts on the Las Vegas Strip.

Yunker added that he hoped the "strength of the combined portfolio" would help the company continue to reopen casinos shuttered during the pandemic.

**GI Verdict:** Despite reservations expressed by the IHRC and subsequent conditions of the merger, regulatory approval was never realistically in doubt for Eldorado and Caesars.

This was always going to be closer to a formality for the mega merger, with the more pressing matter being the fate of the new Caesars now it has merged.

The coronavirus pandemic will not have aided the task at hand for the organisation. As Las Vegas struggles to adapt to its 'new normal,' a new gaming landscape is far lower down the region's priority list than it once was.



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52%

Amount Catena Media expects to post record quarterly profit for Q2, with adjusted EBITDA estimated to rise year-on-year, up to between €14.5m and €14.8m (\$16.7m and \$17.1m), with revenue likely to rise 17% to €27.7m

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Venues UK gaming chain Buzz Bingo announced it will have to permanently close, putting 573 jobs at risk



### HMRC EXPANDS INVESTIGATION INTO GVC OVER FORMER TURKISH SUBSIDIARY

The British tax authorities have widened their investigation into GVC Holdings' former Turkish online subsidiary to examine "potential corporate offending." GVC's share price tumbled on Tuesday, starting at £8.71 (\$11.06) and falling to as low as £7.43 after news broke.

The operator announced it was informed on 20 July an investigation by Her Majesty's Revenue and Customs (HMRC) has been expanded, after initially being launched in November 2019.

The November investigation was understood to be directed at a number of former third-party suppliers, relating to the processing of payments for online gambling in Turkey, with no GVC entity subject to the inquiry.

However, the scope has now been widened to examine any potential wrongdoing, although the operator said HMRC has failed to provide details of the investigation, including which part of GVC is under examination, other than referencing section 7 of the Bribery Act 2010.

The act states that a commercial organisation is guilty of an offence if a person associated with it bribes another person intending to obtain or retain an advantage in the conduct of business.

GVC sold its Turkey-based subsidiary Headlong Limited to Ropso Malta Limited in November 2017 for a performance-related earn-out of up to €150m (\$171.6m), payable over five years, which was later waived ahead of GVC's acquisition of Ladbrokes Coral.

GVC said it was "surprised by the decision to extend the investigation in this way" and is "disappointed by the lack of clarity provided by HMRC" but will fully co-operate with the authorities.

Last week, GVC CEO Kenny Alexander announced his retirement from the board, and will be replaced by COO Shay Segev. The operator also posted its H1 update, which saw gaming revenue fall 11% year-on-year, although online revenue grew by 19%.



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Visitors to Nevada who tested positive for COVID-19 between 4 June and mid-July, according to state health data

## THE WEEK IN QUOTES

*“Growth in online gambling has been a normal market response to a changing retail environment. If this growth is fuelled by unlicensed overseas gambling websites, then this is a major threat to responsible gambling in Australia.”*

**Brent Jackson, CEO of online gambling operator association Responsible Wagering Australia (RWA) spoke about his concern that online growth in Australia has been taken up by unlicensed operators**

*“These businesses employ thousands across Scotland and they deserve their Government’s full support now that they are back at work. If they don’t get it, many will sadly lose their jobs as their shops are forced to close. The Scottish Government needs to pull out all the stops to prevent that from happening and ensure betting shops can play their part in getting the economy back on its feet.”*

**Betting and Gaming Council (BGC) CEO Michael Dugher urges the Scottish Government to follow England’s example and make betting shops eligible for business rates relief, amid fears properties could close**

*“Like all businesses across the leisure and hospitality sector, we have faced unprecedented challenges and heavy losses over the past few months as a result of the coronavirus pandemic. In light of these changes, we are having to make some heart-breaking decisions about the future of the business and it is with huge regret that job losses are simply unavoidable.”*

**A media statement from Genting UK outlined the casino operator’s plans to cut 1,642 jobs at clubs and hotels due to the pandemic, with some casinos also facing permanent closure**

## RANK GROUP CEO LOOKING FORWARD TO “BECOMING CASH POSITIVE AGAIN” AS CASINOS REOPEN IN AUGUST

*Gambling Insider* exclusively caught up with Rank Group CEO John O’Reilly.

### What’s your initial reaction to the news casinos in England can reopen from 1 August?

We were delighted to finally receive the green light. We’d been working extremely hard alongside our industry peers and with our trade body, the BGC, to provide government and health officials with the assurances we were COVID-19 safe and good to go. I’ve been confident of this for many weeks but appreciate a political process had to be followed. We’ve finally got there and our colleagues are tremendously excited about the prospect of getting back to work and welcoming our customers back.

### With casinos having been closed since mid-March and what are the estimated losses for Rank as a result?

With the support of the Treasury, most notably in the form of the CJRS (Coronavirus Job Retention Scheme), we have been able to

mitigate our cash burn rate during the period in which our venues have been closed to circa £10m (\$12.6m) net outflow per month. The reopening of the majority of our Mecca venues in England, Enracha venues in Spain and our casino in Belgium have reduced our monthly cash burn rate to £7m a month. With the Grosvenor estate reopening for business on 1 August, we can now look forward to getting back to generating revenues and becoming cash positive as quickly as possible.

### What will the new-look casinos be like, and what are the key measures that will have to be implemented to ensure health and safety protocols are met?

We’ve invested heavily in safety measures for all our venues. From Perspex screens between all table game seating positions and gaming machines, to ID Scan at our entrances, one-way systems in our clubs, and a relentless focus on cleaning and hand sanitising. We believe we have an ultra-safe and still enjoyable experience for customers.

## Q2 ROUND-UP: BETSSON, EVOLUTION AND NETENT

Betsson AB saw revenue of SEK 1.53bn (\$170.8m) for the second quarter of 2020, a rise of 20% year-on-year.

This revenue increase was driven by significant growth in the Swedish operator’s casino segment. Casino revenue saw an increase of 40% from 2019. By contrast, sportsbook revenue decreased 34%.

Operating income was SEK 217.7m, up 11%, while operating cash flow fell 12%, to SEK 343.9m.

Evolution Gaming’s Q2 figures from April to June also saw a considerable rise, with operating revenue increasing 50% from 2019, up to €128.3m (\$148.7m). EBITDA rose by 90% to €81.1m, while profit for the period improved by 104%, to €70.4m.

The supplier attributed the continued strong performance to the lack of sports betting, with live sports suspended in mid-March until May.

Evolution Gaming said the pandemic has seen product demand rise “very high” and allowed it to strengthen its live casino offering.

The supplier’s operating revenue between January and June rose by 48% year-on-year, up to €243.5m (\$277.9m), while EBITDA increased by 85%, to €145.3m.

Profit for the period significantly improved on 2019, up 98% to €124.6m, with profit margin increasing by 13%, to 51%.

CEO Martin Carlesund said the impending acquisition of NetEnt would create a very strong market position for the supplier.

Meanwhile, NetEnt itself generated record revenue, earnings and cash flow for Q2.

The supplier saw revenue of SEK 573m for the quarter, a rise of 37% year-on-year. On a pro forma basis, including NetEnt-owned supplier Red Tiger’s performance in 2019 figures, revenue increased by 15%.

EBITDA was SEK 299m, an increase of 49% from 2019, while earnings after tax amounted to SEK 88m, a drop of 27%.

**GI Verdict:** All three companies have been able to capitalise on an increase in online casino activity during Q2, although Betsson’s slight reliance on sports betting has partly hindered its growth.

Evolution has been able to place itself in a strong position in H1 and will be delighted to see similar performance from NetEnt, ahead of its planned merger with the company.

# TAKING STOCK

SHARE PRICES COVER THURSDAY  
16 JULY TO THURSDAY 23 JULY  
(11AM BST)

**GVC Holdings**  
751.80 GBP  -15%

**Evolution Gaming**  
636.00 SEK  5%

**Catena Media**  
28.82 SEK  21%

**NetEnt**  
82.00 SEK  5%

**Betsson AB**  
69.10 SEK  7%

## AGA STUDY: US SPORTS BETTING SPEND WITH ILLEGAL OPERATORS DOWN 25%

The American Gaming Association (AGA) has released research that suggests US sports bettors are moving away from the illegal market.

Methodologically speaking, it has to be noted the AGA's research doesn't have the most widespread sample size, with Heart + Mind Strategies conducting a survey on the association's behalf of 3,451 interviewees between December 2019 and January 2020.

However, the survey's results were encouraging for the AGA and the regulated US sports betting market, suggesting average spending with illegal operators fell 25% in states where sports betting has been legalised.

Betting spend was up 12% for legal online and mobile operators, although illegal offshore operators also saw a 3% rise in states with legal sports betting.

The most influential factors for bettors who had shifted from the illegal to legal market were confidence bets to be paid out (25%), awareness of legal options (20%) and a desire to use a regulated book (19%).

AGA president and CEO Bill Miller said: "We've known for a long time that Americans like to bet on sports. This research affirms their interest in moving toward the protections of the legal market.

"Giving consumers convenient alternatives to the illegal market, like regulated mobile offerings and competitive odds, is key for getting bettors to switch to legal channels."

**GI Verdict:** Prior to the overturning of PASPA in 2018, the US already had a long history of sports betting through the prevalence of offshore gambling sites and the black market.

Advocates for regulated sports betting markets hope these bettors can be coaxed into safer legal gambling once their regions have introduced regulation.

Despite the small sample size, the AGA's findings demonstrate a very positive shift towards this aim.

Legal sports betting is still fresh in the US, but as it gains traction it's likely we'll see the balance tip even more towards legal markets as long as state authorities introduce fair and open regulation.



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## PENNSYLVANIA REVENUE FALLS

Pennsylvania gaming revenue fell 51.47% to \$131.397m in June, but the decline in table games and slots was offset by a 154.60% increase in sports betting and \$50.055m generated by online gaming.

Casinos were allowed to reopen as early as 9 June. Average daily revenue for all gaming fell about 34%.

Daily fantasy sports revenue fell 59.35% to \$647,246. DraftKings had a share of 80.02% and is taking over FanDuel, which only had a 19% share.

Slot routes generated \$1.077m in revenue.

SPORTS BETTING	REVENUE	% CHANGE	PARTNER
Valley Forge (BYD)	\$3.208M	+2,044.03	BYD/FLTR
Rivers (Rush Street)	\$582,422	+77.33	Rush St/Kambi
Parx (Greenwood)	\$700,762	+69.33	Greenwood/Kambi
Rivers Philadelphia (Rush Street)	\$657,940	-62.99	Rush St/Kambi
Harrah's (CZR)	\$1,032	-99.24	CZR/SGMS
Hollywood (Penn)	(\$10,294)	-112.33	Penn
The Meadows (Penn)	\$1.766M	N/A	DKNG
Presque Isle (CHDN)	\$10,580	N/A	CHDN
Mount Airy	\$759,473	N/A	FLTR
Mohegan Sun Pocono	\$284,296	N/A	Kindred
<b>Sports betting Total</b>	<b>\$7.960M</b>	<b>+154.60</b>	

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## DATA CENTRE

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TOTAL PA GAMING	REVENUE (M)	CHANGE (%)
Valley Forge (BYD)	\$13.279	+19.04
Mount Airy	\$15.225	-3.75
Hollywood (Penn)	\$18.748	-7.38
Lady Luck Nemacolin (CHDN)	\$2.271	-11.25
The Meadows (Penn)	\$14.844	-27.91
Rivers (Rush Street)	\$20.624	-32.71
Rivers Philadelphia (Rush Street)	\$15.648	-40.15
Mohegan Sun	\$9.326	-48.20
Harrah's Philadelphia (CZR)	\$5.523	-74.19
Presque Isle (CHDN)	\$2.355	-78.88
Parx (Greenwood)	\$10.319	-79.14
Wind Creek Bethlehem	\$3.236	-92.54
<b>PA Gaming Total</b>	<b>\$131.397</b>	<b>-51.47</b>
Same Store*	\$73.382	-72.90

IGAMING	REVENUE	PARTNERS
Rivers Philadelphia (Rush Street)	\$14.990M	Rush St
Parx (Greenwood)	\$6.189M	Greenwood/GAN
Hollywood (Penn)	\$9.558M	Penn/FLTR
Mount Airy	\$7.744M	Kindred/FLTR
Mohegan	\$2.529M	Kindred
Presque Isle (CHDN)	\$497,559	CHDN
Valley Forge (BYD)	\$7.786M	BYD/FLTR
Caesars Interactive	\$760,559	N/A
<b>iGaming Total</b>	<b>\$50.055M</b>	

## GUEST COLUMNIST



**MARC WOOD**  
SALES & MARKETING  
DIRECTOR, 1ACCOUNT

*Wood discusses why it's so important for the industry to find a way for affiliates to offer free-to-play games*

Online casino affiliates are facing tough and challenging times, especially in markets such as the UK, where rules and regulatory requirements continue to tighten.

While this is generally a good thing – as in most cases it ensures players are marketed to responsibly and are properly protected when gambling online – it's causing additional headaches for publishers.

This was certainly the case when the Gambling Commission imposed requirements for operators and affiliates to age verify players before allowing them to access free-to-play games.

This was enacted under LCCP Social Responsibility Code Provision 1.1.2, which states free-to-play games cannot be accessed by children and those under 18.

The rule led to the majority of operators removing free games entirely, and also requesting their affiliate partners, who used free-to-play games to acquire players, to do exactly the same.

This had a significant negative impact on affiliates that use free-to-play games to engage players and drive them to their operator partners, both in terms of traffic and revenue.

This is certainly the case for affiliates that focus heavily on review content, as a free version of the game would often be included in the review.

Affiliates working to a CPA model have equally been hit hard; they need to use cost-effective marketing tools that drive user acquisition without significant investment, and free games provide this.

Of course, affiliates can still offer free games so long as they age verify players before allowing them to access such games.

Some have tried to do this with basic age verification tools such as asking site visitors to enter their date of birth. But these

simply don't meet the stringent requirements set forth by the Gambling Commission.

An underage player can easily enter a date of birth that would make them appear 18-years-old and then access the free-to-play games offered on the affiliate site.

Meanwhile, for visitors over the age of 18, being forced to input their date of birth when they land on the site can make for a negative user experience and lead to an increase in visitors bouncing.

Ultimately, this is why the vast majority of operators have asked affiliates to remove such games. It's simply not worth risking their license over it.

And for affiliates, the disruption to the user experience, especially for those landing on the site and not wanting to access free games, does more harm than good.

But with free-to-play games being a powerful acquisition and retention tool, it's vital for the industry to find a way to allow publishers to reintroduce them, just within the guidelines set by the GC.

So how can this be achieved? The key lies in giving game providers and affiliates the right tools to accurately verify players without impacting the journey offered to visitors.

This can be packaged up in a simple tool, such as the one being launched by First Look Games in collaboration with 1account, allowing developers and affiliates to quickly and accurately ID players.

It works by taking the game developer's free-to-play game code and embedding it into First Look Games' Demo Game Server, which also includes 1account's verification technology.

If the player is successfully verified, they are granted access to the game. If they are not, a video of the game plays instead, so they can see what the gameplay is like.

This means affiliates can offer free-to-play games while providing their operator partners with the reassurance they need that those accessing them have been properly and robustly verified.

This in turn allows affiliates to leverage the power of offering free games and send better-quality traffic to their partners, all while ensuring underage players cannot access the games.

The result is a win-win situation for operators, affiliates, regulators and, most importantly, players.

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