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WEEK 13

FRIDAY 2 APR 2021

**BET365 REVENUE
DROPS 8% IN 2019 AND
2020 AMID A HOST OF
MITIGATING FACTORS**

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THIS WEEK

- **DGOJ announces 25% growth in GGR**
- **Tabcorp to launch strategic review**
- **British racing's leap of faith**
- **Event updates: ICE Africa and G2E Asia**

GUEST COLUMNIST:

- **John Gordon, CEO, Incentive Games**



WEEK 13

FRIDAY 2 APR 2021

BET365 REVENUE DROPS 8% IN 2019 AND 2020 AMID A HOST OF MITIGATING FACTORS



Bet365 Group posted £2.81 bn in revenue for the fiscal year, an 8.2% drop on its 18-19 results. The impact of the Covid-19 pandemic in the tail end of the period, an increase in costs, and the lack of a major football tournament in summer 2019 were all listed as mitigating factors.

Amount wagered on sports was down by 8%, as one would expect following the successful World Cup betting market the year prior, while active customer numbers increased by 4%.

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THIS WEEK IN NUMBERS

14

Categories at the Global Gaming Awards London 2021, with the exception of the Casino award, which is suspended this year



Despite the drop in revenue, chief executive Denise Coates commented that she was delighted with the company's performance.

"We continued to operate the business successfully throughout the lockdowns with business continuity plans enacted, resulting in staff being able to work from home whilst significant investment was also made to ensure the office environments were Covid secure."

Bet365's in-play vertical continued to be key asset, and accounted for 75% of sports betting revenue in the year – far and away the group's most popular vertical. Despite strong overall sportsbook performance, mobile revenue dropped by 7% with the loss of a major summer tournament.

Away from gaming verticals, revenue at the Bet365-owned Stoke City football club fell 33.9% to £54.2m. Such was to be expected, however, following its relegation from the English Premier League to The Championship.

Regarding profits, the group incurred £403.6m in direct costs for its sports and gaming businesses in the 12 month period, an increase of 12.2%. This level of outgoing, coupled with the drop in overall group revenue, meant that gross profit for the 2019-20 financial year stood at £2.41bn, a year-on-year decline of 11%.

Operating profit was down 74.3% to £194.7m following growing administrative expenses and £2.07bn was recorded for the group's sports and gaming businesses, while £141.5m was incurred due to the ongoing operation of Stoke City football club.

However, throughout 2019-20, the company remained committed to championing positive social practices, both within the business and in the wider community. An £85m contribution to the Denise Coates Foundation was made during the period, and the group made a commitment to retain all staff at full pay throughout the Covid-19 pandemic, without taking any additional Government support.

The operator additionally made good progress on its long-term responsible gambling strategy, notably in the continued development of its Early Risk Detection System. The introduction of new harm markers and a bolstered quantitative analysis team helped to improve the system's efficiency both in the UK and in global markets.

"The group recognises that its efforts in relation to safer gambling cannot be confined to just one jurisdiction. The group adopts a global approach to safer gambling and will always look to implement the highest standards across its worldwide customer base," the group commented.

Bet365 further implemented a new code of conduct for its VIP customers and socially responsible advertisements; launched a new consumer research initiative with the Behavioural Insights Team; enhanced its 'time out' tool; and launched a new 'my activity' tracker for its customers.

Furthermore, as the world went into various states of lockdowns last March the group committed – as with all BGC members – to limit its advertising campaigns as to protect at-risk players. This included a total ending of TV, radio and paid social media advertising.



£21m

Amount British horseracing will receive, which equates to just over half of available government support

\$460,000

Amount the Victorian Responsible Gambling Foundation will invest in a new Covid-19 gambling harm study



53



Bets Portsmouth defender Rasmus Nicolaisen placed in November

67.4%

The sizable drop Suncity group posted for the full year 2020



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900

Aldi Stores that will now support National Lottery draw-based games

189,843

Visitors entered Macau in the week to 26 March, the highest since the pandemic started



12



Months Korean Casinos will be able to postpone sales tax payments

SPANISH GAMBLING REGULATOR ANNOUNCES 25% GROWTH IN GGR

Spanish gambling authority Dirección General de Ordenación del Juego (DGOJ) has revealed Spain's gambling activities in a 2020 financial report.

The figures showed Gross Gaming Revenue (GGR) for the final quarter of 2020 was up to €231.3m (£197.1m), which is a 20% rise quarter on quarter, and 25% year over year.

The GGR was analysed to show that 45% of the €231.3m was used for betting and 42% for casinos, while the remaining GGR was distributed among poker, contests and bingo.

With most of it going to Spain's betting segment, the area saw an increase of 19% year over year. There was also a rise of in-match and in-played sportsbook bets from the fourth quarter.

Spanish casinos experienced a rise of 20% in the final quarter of 2020 and an annual variation rate of 37%. Roulette and slot increased by 6% and 11% respectively, while live roulette gained the most with a 42% increase.

Poker also managed a 25% increase year over year despite only contributing to 11% of the GGR.

Overall, online gambling in Spain amounted to €21.60bn, increasing by 15% from 2019. Similarly, the number of active accounts rose by 16%.

To complement this growth, operators were also advertising more to their players. Marketing spend also went up 24% to €462.1m and €199.7m was spent on advertising. However, the DGOJ reported that promotions dropped by 33%, with only €56.3m being spent on prizes and bonuses.

GI Verdict: The rises in both quarterly and yearly revenue are somewhat surprising given the current situation, but operators in Spain will be happy with how 2020 went from a business perspective.

The total of 80 licensed operators active in the country by the end of the quarter could certainly grow in the early stages of 2021 as more operators will look to take advantage.

THE WEEK IN QUOTES

“Mr Razon (and the companies associated with him) will vigorously oppose this shameless GGAM forum shopping and attempt to enforce an arbitral award against those who are not a party to the arbitration.”

Philippine casino operator Bloomsbury Resorts regarding a recent New York suit being filed against the company and its chairman, Enrique Razon

“At a time of economic fears and huge pressures on public finances caused by the Covid-19 pandemic, the huge contribution betting and gaming makes to UK plc could not be more important.”

BGC chief executive Michael Dugher comments on the positive contribution gambling firms continue to make to the UK economy

TABCORP TO LAUNCH STRATEGIC REVIEW AFTER REJECTING UNDERVALUED PROPOSALS

Tabcorp Holdings has announced it will undertake a strategic review of its businesses, having rejected proposals that undervalued its Wagering & Media arm.

The company previously received a number of unsolicited acquisition approaches for the vertical, all of which priced the asset at around AU\$3bn (US\$2.3bn). These proposals have since been rejected, with the board stating that none adequately valued the business.

Tabcorp has now announced that it will assess and evaluate all structural ownership options in a bid to maximise the value of its businesses for the benefit of shareholders.

“These options could include a potential sale of the Wagering & Media business to a third party or a potential demerger, which could be implemented via a separation of the Wagering & Media business or the Lotteries & Keno business,” a statement from Tabcorp read.

Tabcorp chairman Steven Gregg commented: “The assessment of Tabcorp’s strategic and ownership options includes, but is not limited to, a demerger or sale of one or more of our businesses. Our clear objective is to ensure that we fully maximise the value of Tabcorp’s gambling entertainment businesses for our shareholders.”

Tabcorp also announced that the search for a new managing director and CEO will be put on hold until the outcome of the review, with David Attenborough to continue in the role in the interim.

GI Verdict: Both the launch of a strategic review, and the initial sounds coming out of the board room, would suggest that the company is open to selling, but whether any of the potential suitors are willing to match the as-yet-undefined valuation of the Wagering and Media business remains to be seen.

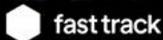
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“Motorsports event means a national touring racing event conducted under the national association of stock car racing tour, or a collector car auction event held annually that lists more than 90% of vehicles with no reserve, with an average attendance of more than 150 attendees per year for the event.”

A piece of Arizona gambling legislation has been shut down due to a typo. “One hundred fifty attendees” should be “150,000 attendees”.

“Crystal Palace’s support will be hugely beneficial in ensuring that people who could benefit from using GAMSTOP are aware of the scheme. The pandemic has led to increased sign-ups and we are trying to ensure that anybody who is struggling with their gambling, or has a loved one experiencing problems, knows where they can access support.”

Fiona Palmer, CEO of GAMSTOP spoke positively of the organisation’s recent partnership with Crystal Palace

BRITISH RACING TAKES UP HALF OF SPORTS RECOVERY SUPPORT

British racing has agreed a £21m loan arrangement as part of the Government’s sports survival package, just over half of the total made available.

A reticence over increasing the debt burden on operators will see the Horserace Betting Levy Board take on the loan, with the industry seeing fit to centralise financial support.

An original £40m was ring-fenced to help racing get through enforced winter closures, but the taking on of additional debt burdens was unsustainable for many stakeholders.

Racecourse Association chief executive David Armstrong commented: “There were structural challenges that in particular meant it was very difficult for racecourses to borrow the money. Racecourses were being asked to borrow money that would effectively be used to fund

prize-money from which they don’t generate returns to pay it back.”

Unlike other sports, horse racing will see funding effectively go to another government body, the Horserace Betting Levy Board, as opposed to going directly to businesses.

Julie Harrington, BHA chief executive heralded this as an important step, and Alan Delmonte, chief executive of the Levy Board commented: “The loan provides additional flexibility and a cushion for the Levy Board. The short-term benefit outweighed the cost of the interest on the loan.”

GI Verdict: With many industry members taking on additional debt in order to survive the Covid-19 pandemic, increasing this burden was unpalatable for many. The centralisation of funds should help create a network better suited to assisting the industry as a unified whole.



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Kindred Group PLC ↑ 4.22%
154.15 SEK

Boyd Gaming Corp ↑ 3.40%
58.96 USD

Bally's Corp ↓ 4.52%
64.98 USD

EVENT UPDATES: ICE AFRICA 2021 POSTPONED, G2E ASIA TO HOLD ONLINE EXPO AND CONFERENCE

Clarion Gaming has confirmed its decision to postpone the 2021 edition of ICE Africa, while Global Gaming Expo Asia (G2E Asia) has announced it will hold an online expo and conference on 25 May, 2021.

ICE Africa was originally scheduled to take place across 26-28 October, but the latest decision has been made as Clarion adopts a pragmatic and measured approach to the return of in-person events, amid the ongoing Covid-19 pandemic.

"When the full scale of the pandemic became clear last year we took the decision to focus our resources and energies into three in-person events: the co-located ICE London and iGB Affiliate London, as well as iGB Live! in Amsterdam," said Clarion Gaming managing director Stuart Hunter.

"Whilst we are not holding any other dedicated in-person events, we are launching ICE365.com, an advanced global gaming platform which goes live in April 2021. The ICE 365 content series will focus on key verticals, topics and subsets and will include dedicated

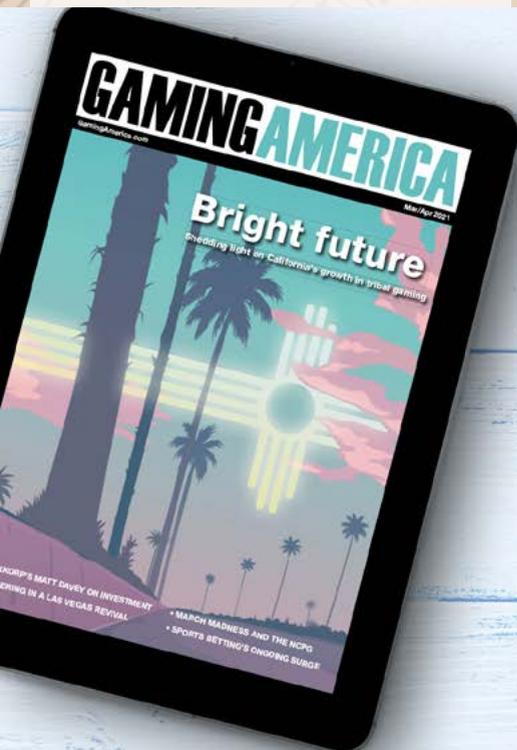
Africa-focused content throughout the year."

Few details have been released about G2E Asia, which is scheduled to take place on the same day the land-based event was initially scheduled to start. Speakers for the upcoming online expo and conference are expected to be announced in the coming weeks.

G2E Asia announced in January this year that the three-day land-based event will now take place on 17-19 August 2021 at the Venetian Macao. It was postponed due to ongoing travel restrictions due to the Covid-19 pandemic.

GI Verdict: The decision to postpone ICE Africa is an understandable one, with organisers unsurprisingly awaiting for the world to return to normal before hosting land-based events.

But both Clarion Gaming and Reed Exhibitions are using their expertise to adapt and thrive under current conditions, which can only be commended in such challenging times.



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LAS VEGAS: RECOVERY SIGNS

There are signs of recovery in Las Vegas with visitation and gaming revenue improving in February from January even though the month had three fewer days.

Las Vegas Strip RevPAR rose 44.3%, Downtown jumped 68.2% and visitation grew 18.9%.

Air traffic also increased, at 7.24% from last year vs January.

That helped translate to Las Vegas Strip revenue growing 8.37% even though baccarat continued its slump with revenue less than half of last year and play drop down 59%.

Year-over-year gaming revenue fell 41.55% from last year to \$348.456m, but this will be the last month of pre-pandemic business volumes. However, locals revenue was nearly even with last year.

REGION	REVENUE (M)	ANNUAL CHANGE (%)
Nevada	\$772.408	-25.93
Las Vegas Strip	\$348.456	-41.55
Clark County	\$631.546	-29.63
Downtown LV	\$51.662	-7.12
North LV	\$19.272	-12.22
Laughlin	\$32.814	-30.81
Boulder Strip	\$63.771	-1.91
Mesquite	\$12.778	+5.08
Balance of County	\$102.793	+3.67
Las Vegas Locals Market	\$185.835	-0.15
Washoe County	\$70.468	-8.57
Reno	\$49.859	-13.72
Sparks	\$11.882	+1.04
North Lake Tahoe	\$2.070	-1.03
South Lake Tahoe	\$20.477	+15.79
Elko County	\$25.370	-7.96
Wendover	\$17.436	-9.60
Carson Valley Area	\$9.354	+6.09
Other Areas	\$15.193	+7.85

STRIP COMPONENTS MAJOR STRIP SEGMENTS:

SEGMENT	REVENUE (M)	ANNUAL CHANGE (%)	WIN PERCENTAGE	
			2021	2020
Blackjack	\$44.278	-45.49	11.77	15.18
Baccarat	\$48.650	-57.70	11.63	11.39
Total Games	\$159.677	-48.29	12.33	13.09
Total Slots	\$188.779	-34.31	7.33	8.14

TABLE DROP

SEGMENT	2021	2020	ANNUAL CHANGE (%)
Blackjack	\$376.194M	\$535.125M	-29.70
Baccarat	\$418.315M	\$1.010BN	-58.57
Total Games	\$1.295BN	\$2.359BN	-45.11
Total Slots	\$2.575BN	\$3.531BN	-27.05

GUEST COLUMNIST



JOHN GORDON

*CEO, INCENTIVE
GAMES*

*Gordon says free-to-play
games can help operators
streamline marketing costs
and drive much higher
customer lifetime values*

Customer acquisition is one of the biggest challenges faced by online gambling operators in markets around the world. Fierce competition, spiralling costs and tightening regulatory requirements mean operators are willing to undercut their rivals in a race to the bottom.

This applies to both established and emerging markets. In the former, the inherent issue is that customers tend to have accounts with many operators, and thanks to the process of white-labelling platforms and content, it's very hard for brands to differentiate themselves from the competition. On top of that we have seen a trend in mature markets where the increased focus on responsible gaming requires operators to evaluate and adjust their approach to their players.

In the latter, additional challenges include adapting to new regulations, the education process that needs to be undertaken to build trust with players, many of whom haven't gambled online before and the uncertainty about the expected lifetime value of players in a new market.

Operators are overcoming these challenges by launching comprehensive marketing campaigns backed by sizable budgets and spend. Flutter spent \$1.3bn on sales and marketing in 2020 of \$6.1B net revenue or around 23%. Rush Street also spent 23% on marketing and expects that to increase in 2021. And to some extent they are succeeding; if you spend enough money on marketing, you will acquire players.

The issue, of course, is how effectively are you spending that money. What we see is that recently, there's a focus on the customer acquisition cost (CAC), and the fact that it might be greater than the customer lifetime value (CLTV) in the competitive US market. This is caused by both the fact

operators choose market share over short-term return, as well as that the markets are too young to reliably calculate or predict the CLTV.

To ensure the best possible return on marketing spend, operators must look to diversify the range of channels they use to acquire players. Free-to-play games are a powerful tool in this regard, especially for operators entering emerging markets as they help to educate players.

At present, most operators see players as users rather than customers. As such, their marketing efforts are all about branding and pushing them to sign up and play. I believe a different approach is needed and one where operators see players as customers – as is the case in other industries.

This means entertaining players and providing them with a point of engagement from the get-go. Operators must also treat them well and look after their well-being. This will not only help them to acquire players, but to retain them once onboarded.

Free-to-play games allow operators to do just that. They can act as the first point of contact with a brand and allow the operator to try your product, and customer service offering, without depositing and playing with their own cash. They can even win incredible prizes.

In emerging markets, free-to-play games allow operators to acclimatise players to how an online or mobile sportsbook works, including the types of markets and odds available as well as how to place a bet, withdraw winnings and contact customer support.

Operators wanting to maximise the CLTV must also consider retention, and free-to-play games provide many ways of doing this. Gamification is one of the strongest tools in the box for operators and they rarely use it – or use it to its full effect.

Ultimately, to acquire and retain players, operators must offer a superior experience. If you try and squeeze every last drop out of a customer or they have a bad experience with your brand or product, they will never come back.

Free-to-play games allow operators to engage new players, provide them with added value through a simple game where they can win prizes, and then allow them to naturally transition to their real-money offering if they wish to do so.

Free-to-play games are more effective than traditional marketing activities, and they also maximise the CLTV, which should make them all the more appealing to operators and their marketing teams.

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