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//INDUSTRY REPORT EUROPEAN ONLINE GAMBLING//

**Opportunity knocks: How Europe's online gambling industry
can maintain growth in 2017**

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1//INTRO

Summary

The European online gambling industry has been on an impressive upward growth trajectory over the past 12 months. During the period, mobile has become the dominant platform, with operators such as Sky Bet reporting in excess of 80% of revenues coming through the channel. Casino and sports have been the driving force behind growth, generating €1.7bn and €1.3bn respectively in regulated markets in H1 2016, according to Eilers & Krejcik Gaming. The emergence of new markets such as the Czech Republic mean growth looks set to continue by allowing operators to expand their geographical reach and put their brands and products in front of new players.

But it hasn't all been plain sailing; economic factors continue to hit operators hard, made worse by more stringent regulatory requirements and a clampdown on TV advertising in several countries throughout the region. As such, a number of operators have taken a strength in numbers approach leading to a wave of mergers and acquisitions crashing down over the industry. While these combined companies have become titans of the industry, they are having to overcome the challenges that come with the scale and scope of their enlarged businesses.

This white paper looks at the factors behind the regulated industry's growth between 2015 and 2016, some

of the headwinds it currently faces, and the emerging trends that will push the market forwards in 2017. We look at which verticals will be leading the charge, the countries currently on the brink of regulating online gambling, and the opportunities they present operators looking to take their businesses to the next level.

State of play

The regulated European online gambling market grew 18.9% year-on-year between 1H15 and 1H16, according to Eilers & Krejcik Gaming. During the period the UK market grew 16.9%, but it was Spain, Denmark and Italy that led the way in terms of growth, increasing 43.1%, 38.2% and 31.9% YoY respectively. The UK was by far the largest country in the region, including both white and grey markets, between 2015 and 2016 with estimated trailing 12-month revenues of €5.4bn. The Nordics and Germany remained the second and third largest markets outside of the UK, with revenues of €1.5bn and €1.1bn respectively.

Casino was the largest vertical in regulated Europe in 1H16 generating €1.7bn, a rise of 21.4% compared with the same period the previous year. Sports was the next largest vertical, increasing from €1bn in 2015 to €1.3bn in 2016. Poker came in third place with revenues of €171m, down 4% YoY with bingo bringing up the rear with revenues of €104m, down 23.5% YoY. ●

2// CHALLENGES AND OPPORTUNITIES

The impressive growth enjoyed by the European online gambling industry has thrown up challenges and opportunities in equal measure. Below are three ways the landscape could change over the coming 12 months, and how operators can adapt and capitalise.

An image problem: In the UK, operators and marketers appear to be pushing their luck with the Advertising Standards Authority (ASA), which along with the Government is looking to crackdown on how and when online gambling sites advertise their products. In 2016, Paddy Power was responsible for two of the year's most complained about adverts, attracting 670 complaints in total.

While neither ad was banned, the ASA has turned up the heat on those it deems to be "misleading" consumers, usually when it comes to the sign-up bonuses and rewards they offer. According to the ASA website, in 2016 a total of 30 "misleading" ads from online gambling operators were investigated by the watchdog, with all of them upheld or partially upheld.

This is being compounded by Government plans to ban betting adverts on daytime TV over concerns they are being viewed by young children and problem gamblers, while the Competition and Markets Authority is also investigating the 'fairness' of the industry. But what impact is this having on operators, and how should they react?

"The gambling industry is pretty conservative and risk averse," says Keith Duddy, head of content at Dice London. "There is definitely a herd mentality as far as advertising is concerned, which is disappointing. I would like to see more focus on customer experience than just a free bet or free spin. Innovation in games, an acknowledgement that gambling can be a social rather than a solitary experience – oh and fun, we seem to have forgotten that sometimes," he adds.

Joining forces: The regulated European online poker market has been in a state of decline for some time now due, in part, to its ring-fenced nature. Some believe that by allowing operators to pool liquid-

ity from several countries the vertical will return to growth once again. But there remain a number of major hurdles that need to be cleared including how to overcome the different laws, regulations and taxes each country expects operators and suppliers to abide by. Rake is an issue, too, with operators charging different percentages in different regions. That said, genuine progress appears to be on the horizon.

In Portugal, for example, the country's gambling regulator has just sent new technical specifications that would allow its licensed poker operators to share liquidity with sites in other regulated EU markets to the European Commission for approval. Regulators in markets such as the UK, France, Italy and Spain have also vowed

// "The gambling industry is pretty risk averse – there's definitely a herd mentality as far as advertising is concerned" //

Keith Duddy

to enact liquidity sharing this year, while Playtech's iPoker Network is a little ahead of the curve by allowing skins in Finland and Austria to launch a joint poker network to facilitate cross-border heads-up play.

While pooled liquidity appears to be making strides in 2017, it remains to be seen what benefit – if any – it will have. The different rake structures will benefit some but be detrimental to others and may even lead to some players turning to unlicensed operators for a better deal. In terms of operators, only those live in all markets pooling liquidity will benefit, with PokerStars' position at the top likely to be cemented by the prospect of shared liquidity becoming reality.

Harmonisation: The European Gambling & Betting Association has been banging the drum for standard technical requirements for online gambling operators in regulated EU markets for a number of years now. With the current patchwork

approach to regulation and standards, operators must fine-tune their technologies, content and processes to suit different requirements in each market. For some, this means picking and choosing the markets they enter as they simply don't have the resources to adapt to each, particularly when several new markets open up at the same time.

One solution being trialled by the International Association of Gambling Regulators (IAGR) is the Multi-Jurisdictional Testing Framework (MJTF), whose members include regulators from the UK, Isle of Man, Denmark, and Alderney. The first phase of the framework has been drafted with the aim of streamlining external testing procedures and establishing a single standard across all member jurisdictions. The framework is currently limited to external testing labs and the testing of random number generators used in online gaming, and is only recognised by jurisdictions that have signed up to the MJTF.

But Susan O'Leary, Alderney's director of eCommerce, expects the International Association of Gambling Regulators to expand the scale and scope of the framework, instead of more regulators joining.

"The first phase of the International Association of Gambling Regulators' working group project to establish a Multi-Jurisdictional Testing Framework (MJTF) has been completed," says O'Leary.

"The MJTF project is an important step towards harmonising regulatory requirements across all IAGR jurisdictions and we continue to actively work towards further standardisation of games software testing requirements. It involves working closely with gambling regulators in the UK, Denmark and the Isle of Man to assist licensees and certificate holders in achieving the best speed to market whilst minimising regulatory duplication and games software testing costs.

"The IAGR working group has continued its efforts throughout 2016 and the aim is to complete the second phase – covering mainly game fairness – before the end of Q1 2017. This will likely benefit all Alderney licence holders." ●

3// THE MOBILE GENERATION

Mobile is fast becoming the dominant channel of play for online gambling, with Eilers & Krejcik Gaming estimating the overall market share for mobile was 45% in 2015 with 60% of sportsbook revenue and 36% of gaming revenues coming through the channel. As operators move to offer their players a truly omnichannel experience, mobile is being placed right at the heart of their strategies. Suppliers are developing games with mobile in mind from the outset rather than retrofitting desktop titles to fit the platform, while also flicking the switch on innovative new products to help with player acquisition and retention.

Over the past 12 months, operators have rolled-out a raft of features including one touch betting from Paddy Power and Edit My Acca from Ladbrokes. This has seen the player experience on mobile improve significantly, driving usage and engagement. Sky Bet is among those leading the charge on mobile, with the channel accounting for more than 80% of sportsbook revenues in FY15, while Paddy Power Betfair reported mobile accounted for 76% of online sportsbook revenue in 1H16.

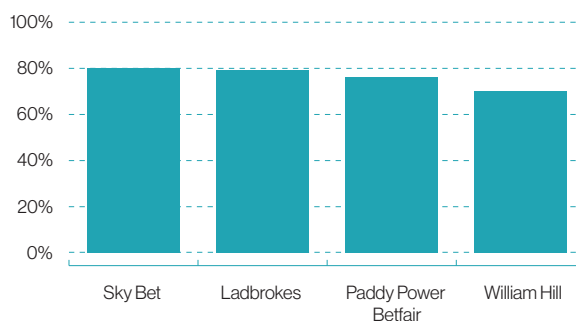
Mobile is vital when it comes to tapping into the psyche of the millennial demographic.

Of course, mobile penetration will differ, often significantly, from country to country depending on the popularity and affordability of smartphones. Mobile revenues in the UK, for instance, are approaching 80%, while there is still much more headroom in major markets such as Spain and Italy.

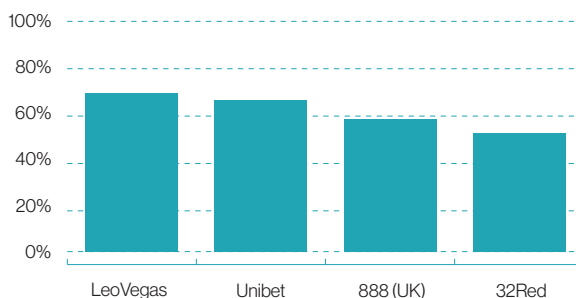
The tech-savvy generation that have replaced baby boomers as the largest spenders. As such, operators and suppliers have invested resources and cash to ensure they offer the best mobile experience possible. This has led to a range of gamification features such as missions, quests, tool bars, and enabling players to share big wins with their friends via social media. It has also meant fine-tuning more technical aspects, such as graphics, sounds, and shifting seamlessly between portrait and landscape modes. ●

Data

Percentage of sports betting mobile revenues per operator, Q4 2016



Percentage of mobile gaming revenues per operator, Q4 2016



4//YEAR OF THE LOTTERY

Current market demands mean that online gambling operators can no longer be one-trick ponies. They need to be all things to all people, offering a full suite of verticals and games. Player promiscuity remains high, and churn a constant headache. To help keep their customers engaged and coming back for more, operators are looking to expand their product portfolios into new verticals, with 2017 set to be the year of the lottery.

According to the World Lottery Association, the global lottery market is worth around €280bn each year, but with online representing only a fraction of that. This means there is huge untapped potential for operators to engage new players, drive cross-sell between their other game verticals, and offer current customers a new product.

There are different types of lottery game:

Draw-based: Players purchase tickets to official jackpot draws such as EuroMillions or the National Lottery online via their desktop computers, mobile or tablet devices. Players set up an online account to deposit money, purchase tickets, track draws, and monitor winnings.

Instants: Players purchase online scratchcards and match symbols to win prizes on the spot. They can be played on desktop, but are particularly popular on mobile and tablets. Traditionally they are used by online lotteries as an additional game, but in recent months have become a larger revenue generator than draw-based games in some cases.

Betting on lottery: Players bet on the outcome of official lottery draws through a third-party operator. The bet is placed with the operator, and the jackpot – usually the same as the official lottery draw – is insured. This method allows players to take part in draws if they reside outside of the location in which they are happening.

Messenger lottery: A lottery agent in the jurisdiction where the official draw is taking place purchases the ticket on

behalf of the player, scans the entry, and uploads it to an online account. This allows players to take part in official draws, even if they are located outside of the country or state in which they are happening.

The four key advantages of online lottery products are:

Tap into new player demographics:

Retail lottery consumers are primed and ready to embrace online play for the first time.

Cross-sell: These new players can then be ported to other online games, such as slots, table games and sports betting.

Foster loyalty: Lottery players are fiercely loyal, and play with the same brand week in week out, year in year out, for decades on end.

Additional revenue stream: Lottery generates huge revenues; in the six months from 1 April 2016 to 24 September 2016, the UK National Lottery generated £726m via its digital channels alone.

Sarah Icken, communications manager for Camelot, which operates the National

// “Consumer habits across the board are showing an unrelenting shift towards digital platforms. To stay relevant in this day and age, the lottery industry has to be responsive to that.” //

Sarah Icken, Camelot

Lottery in the UK, says more than 70% of players now check their results online, meaning there is huge cross-over between retail and digital play.

“Consumer habits across the board are showing an unrelenting shift towards digital platforms. To stay relevant in this day and age, the lottery industry has to be responsive to that. Lottery operators have to give their players what they want, when they want it.”

For online gambling operators, the general consensus is that the big opportunity lies in offering bet-on-lottery and messenger lottery products, as well as instant win games. These games enable operators to acquire new players via the lottery vertical, retain current players with an additional product, and cross-sell both to other games and features in their portfolios.

Nils G. Thomsen, CEO of the Winners Group, says second chance lotteries will be a key driver of growth for the vertical in the coming months.

“The explosion will happen by increasing player value in diversified, disruptive business models such as insurance-based synthetic lotteries (second chance lotteries). There are now many success stories where brands have achieved traction, increased awareness and started to build trust, but no large operators have yet offered lotteries in this way.

“Large operators will normalise the business model, bring it to the masses, and allow smaller, more disruptive brands to continue over the next 12 months to diversify competition and increase choice, quality and the player experience overall,” he adds. ●

5//LIVE AND KICKING

Players are seeking a more immersive and engaging experience, with live casino and table games seeing a huge rise in popularity over the past 12-18 months. Suppliers such as Evolution Gaming, NetEnt and Playtech have bolstered their platforms and studios with upgrades and new features, particularly when it comes to mobile.

Live dealer has proved to be a great acquisition tool for operators, especially in markets that have only just regulated online gambling. They help operators to build trust in their brands; players like the fact the table and cards are real, and they can interact with a

human dealer as well as each other.

Once comfortable with live dealer, these players often go on to try additional games in an operator's portfolio, most notably slots, meaning the vertical is a powerful cross-sell tool as well as driving acquisition and retention.

H2 Gambling Capital estimates the current live dealer market in Europe to be worth €1.5bn this year alone, rising to more than €1.9bn by the end of the decade.

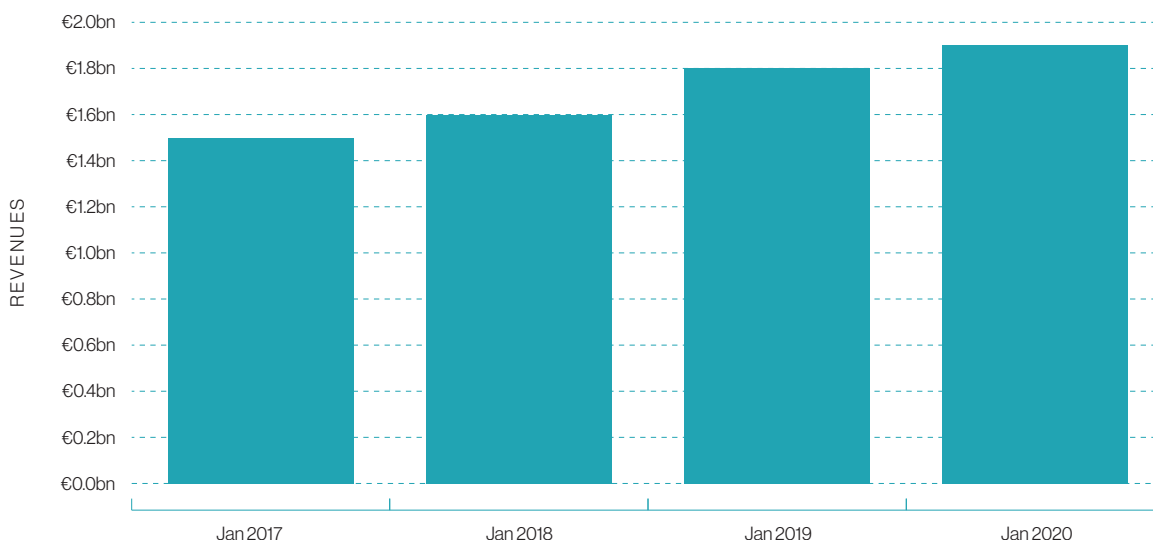
Edward Ihre, CEO of live dealer operator Codeta.com, says the vertical will continue to grow over the next two to three years due to new markets opening-up and players in established ju-

risdictions looking for a more genuine online experience.

“Live dealer is the most authentic way to access online casino and table games, porting players right to the heart of the action. The strides taken on mobile of late mean they can now enjoy live dealer on the go, increasing the time spent engaging with games as well as opening them up to new players; most importantly younger demographics and millennials. Continued growth will also come from new markets regulating online gambling for the first time, where live dealer has proved to be an effective and efficient tool for bridging the gap between the real and digital worlds.” ●

Data

Projected growth of European live casino



6// OPEN FOR BUSINESS

While advances on mobile, lottery launches, and live dealer entering the mainstream will help support industry growth this year, new and emerging markets will be what ensures it continues in the long-term. While a large part of Europe has embraced legal and regulated online gambling and is considered to be a mature market, a number of jurisdictions are looking to get in on the action for the first time. Below are the four markets that offer operators the most untapped potential in 2017 and beyond.

Germany: It is the largest single egaming market outside of the UK, but is very much grey. There have been moves to introduce formal licensing for its semi-regulated sports betting industry since 2012, but they continue to encounter difficulties. The hold-up is mainly due to push back from operators who missed out on the initial batch of 20 licences awarded. Since then, the state of Hesse has agreed to license operators on a temporary basis meaning it can collect tax revenues. But according to Eilers & Krejcik, sports betting makes up for just 36% of online revenues coming out of Germany, with casino accounting for 58%. The country offers huge potential, but operators will need to tread carefully along what is a fine legal and regulatory line.

Netherlands: A bill is currently making its way through the country's parliament that would legalise and regulate online gambling. The bill was passed by the Dutch Lower House during summer last year, and is expected to be rubber-stamped by the Senate imminently. Once passed, it is understood the licensing process could begin in early H2 with operators ready to go live either late 2017 or early 2018. In the meantime, the regulator Kansspelautoriteit, is taking a tougher stance on unlicensed operators with those found to be unlawfully targeting the market immediately facing fines of up to €810,000.

Czech Republic: The market opened at the start of the year, but several foreign operators have had to put their plans on hold after delays to the licensing procedure meant they hadn't received the necessary approvals in time. The delay was related to

the late publication of technical standards, which weren't approved until 23 December – little more than a week prior to launch. As a result, third-party testing companies were not appointed until 27 December, leading to a back-log of operators waiting for their licences. There has also been some controversy around “CzechPoint” – a system that requires customers to register for online accounts at certain land-based stations throughout the country. But with PokerStars, bet365 and Paddy Power Betfair among those in the licensing queue, the expectation is for it to be a busy and thriving market.

Sweden: The re-regulation of Sweden's online gambling market hit a stumbling block at the start of the year when the head of the Swedish Gambling Authority, Håkan Hallstedt, announced his resignation. Hallstedt has played a key role in the investigation into how the country should approach re-regulation of the market, in which Svenska Spel currently enjoys a monopoly position. The investigation is set to come to an end shortly, with the findings reported to the Government in late March. In the meantime, operators continue to target players in the country with revenues generated by off-shore gambling sites rising 21.5% to €148m in 3Q16.

Susan O'Leary, Alderney's director of eCommerce, says while new markets provide huge potential for operators, there are certain things they need to consider before applying for a licence or entering a “grey” territory.

“It is always important for operators to consider how it will impact their licence in other jurisdictions. They must look at the framework in place, and be clear whether it permits online gambling. In some cases, online may be illegal, but the law is not being enforced. New regulatory frameworks often require online operators to partner with existing retail properties to protect local businesses, so be sure to consider exactly what those relationships entail.

“We always recommend operators take time to understand the political environment in the country they are entering, as well as its financial processes and procedures to ensure they can easily manage and withdraw revenues and profits.” ●

7 // PAYMENTS

Payment essentials develop with the sector

As the gambling market continues to shift and develop, so too does the payment service required to keep the consumer engaged and the cash secure. So what are the ambitious online gambling companies looking for from their payment provider in 2017?

Regional support

The rapid growth of the market across Europe offers incredible scope for moving into new territories. A payment solution will need to sustain this, now and in the future, with support for all major licenses and all popular local payment methods. Also, it needs to be able to adapt to regional scheme changes straight away, without disrupting business.

Mobile solutions

As mobile becomes the preferred channel for the increasingly large millennial audience, mobile payments become an important part of the customer journey. In-app payments, one-click payments and a secure, integrated mobile checkout are all key features of a modern gambling

payment service. Together they make the payment a simple, confident step in an uninterrupted gaming experience.

Stability and uptime

With bets being laid 24 hours a day, even a small flash of downtime can disrupt business and decrease revenue. A payment platform should be able to offer close to maximum levels of uptime to keep things smooth and secure.

Data science management

So what's the future of online gambling payments? In three words, data science management. The modern PSP has access to an extraordinary amount of data. By closely analysing the information behind each transaction, they can break down buyer patterns to discover why transactions are declined or accepted like never before. Armed with this information, they can recommend tweaks to a merchant's processing that will boost authorisation rates in future. Put simply, it's the best way for an online gambling company to maximise the number of authorised transactions on its platform and net the highest revenue. ●



8 // ABOUT THE PUBLISHERS

About EGR Global: EGR Global is the industry's leading information and membership networking group combining business-critical news and analysis with a range of prestigious events. Its networks include EGR Intel, EGR North America, EGR Technology and EGR Marketing.

About Acapture: Acapture is a global omnichannel PSP, specialising in maximising revenue for merchants and marketplaces with international ambitions. Acapture's system features SlicePay for simplified allocation of funds to multiple parties from a single transaction, data science management for improved authorisation rates, a one-day integration using one RESTful API, flexible, consolidated reporting, a streamlined reconciliation process, global card acquiring and the ability to handle 80+ of the most popular alternative payment methods and 160+ transaction currencies. ●



9 // ACAPTURE

Payment solutions that maximise gambling revenue

A Acapture's omnichannel payment platform has been designed for today's international retail environment. We tailor our solutions to suit the specific needs of every client and our team includes specialists in every major sector. That means we have the experience and knowledge to craft a payment service that will eliminate all the threats and remove all the obstacles each individual merchant faces in their payment processing. The results? Higher authorisation rates and more revenue.

Acapture's online gambling solution

Key benefits

- Stable, secure platform offering maximum uptime
- Support for all major gambling licences
- Data science management for higher authorisation rates
- Local knowledge so regional scheme changes don't affect business
- Single point-of-contact for a personalised service and quick replies
- Support for Original Credit Transfers (OCTs) and pay-outs of winnings.

Reach every player in every market

With a selection of 80+ of the world's

most popular alternative payment methods, secure global card acquiring and support for licences in every European nation, Acapture's online gambling payment solutions empower you to maximise your international reach.

Personal service from a dedicated point-of-contact

With Acapture, you get your own Direct Account Manager. They are on-hand to rapidly and personally respond to your queries, offer advice and solve issues when you need them, ensuring the smoothest lines of communication between your team and ours.

Everything the online gambling company needs

Our tailor-made online gambling solutions come equipped with all the tools you require. From OCTs to in-app payments, one-click payments and the pay-out of winnings, we handle it all, while our library of risk management tools and plug-ins optimises security.

A single integration and you're up-and-running

By using one RESTful API, you can integrate with our payment platform in one day. Once you are live, our solution is flexible enough to let you add new payment methods and adapt to technological changes as they happen. ●



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