

Our bet on the future of online gambling

SPOT ON | ONLINE GAMBLING | DECEMBER 2018

In this issue of Spot On, Oaklins' Adel Koubaa draws on deep experience in the industry to share his views on Online Gambling.



WHAT'S BEEN HAPPENING AND WHAT COMES NEXT?

Sweden is a big player in the casino industry and can boast about being the home of leading online operators and software providers such as NetEnt, Evolution Gaming and Play'n GO. With the upcoming re-regulation in which the country will transition from a government monopoly to a licensing model, Sweden is increasing its attractiveness as an iGaming hub, with many international players showing interest in the Stockholm Stock Exchange.

(CONTINUED ON NEXT PAGE)

“2018 has been an eventful year for the online gambling industry.

Local regulations continue to reshape the operating landscape for market players, in turn serving to boost M&A activity as participants scramble for positions. The US market has, over the course of the year, opened up significantly, providing an interesting outlook for 2019. We are very excited to see how the coming year unfolds.”

ADEL KOUBAA
MANAGING PARTNER
OAKLINS SWEDEN

Read more on the following:

MARKET TRENDS

Recent market developments provide opportunities as well as challenges for players across all verticals of the industry. [\(pg.2\)](#)

DEALMAKER'S LANDSCAPE

Oaklins' online gambling experts from Sweden and Israel visited SiGMA iGaming in Malta. Find out more about our three days at the fair. [\(pg.3\)](#)

INDUSTRY CONSOLIDATION

The key drivers behind the ongoing consolidation of the online gambling industry remain as relevant as ever. [\(pg.4\)](#)

RECENT M&A ACTIVITY

Transaction activity remains high among operators and affiliates as the pursuit of increasing shares of regulated revenues continues. [\(pg.5\)](#)

Market trends

INTERNATIONAL OPERATORS TURN THEIR EYES TOWARDS NASDAQ STOCKHOLM

Nasdaq's Senior Vice President Adam Kostyál points out that Brexit also might play a part in this:

“The general perception has been that London is the hub, but that is being questioned more and more. Brexit is going to be a disruptor and we have a cluster of companies creating a lot of attention in terms of Stockholm being a natural hub.”

GAMBLING-ON-THE-GO IS ON THE RISE THANKS TO MOBILE DEVICES

According to [Online Gambling Quarterly](#), a staggering 61% of gambling operators' revenue comes via mobile devices. Furthermore, 72% of betting stakes are from the same source. There are several important implications here:

Mobile players demand convenience and ease of use. Tolerance for repeatedly entering usernames and passwords is significantly reduced. A new generation of so-called “No Account Casinos” are trying to ride this trend by offering players instant access to casino games with just a few clicks within a web browser.

The increase in the usage of mobile phones has also inspired vendors to develop innovative social gambling games. The number of social gamers has grown as some online games allow them to socialize and interact while participating in tournaments.

US RULING OPENS WAY FOR STATES-WIDE SPORTS BETTING

The US Supreme Court's historic 14 May 2018 ruling to overturn the Professional and Amateur Sports Protection Act (PASPA) will create a legal sports wagering market worth between US\$ 3.1 billion and US\$ 5.2 billion in annual revenue by 2023, according to new projections from Gambling Compliance. The amount is based on the assumption that sports betting would be legalized in between 25 and 37 states within five years of the Supreme Court's verdict.

New Jersey is currently the largest market for regulated online gambling in the US. Over a dozen legal and licensed online casino sites and poker rooms compete for an overall market that is worth more than US\$ 225 million a year.

BLOCKCHAIN TECHNOLOGY HAS THE POTENTIAL TO REVOLUTIONIZE THE GAMBLING INDUSTRY

The integration of Blockchain technology into the industry could mitigate concerns around transparency and trust that the online gambling community has been facing since the extension of gambling to the internet.

The use of this technology offers multiple advantages for online gamblers and the possibility of using cryptocurrencies as a payment method is only one of them. As a result, several companies are now offering a different betting system, a fairer and more transparent one that gives users instant access to earnings and trackability for every transaction.

Dealmaker's landscape



Over the last five years, SiGMA has grown from a small iGaming show in Malta to a must-go-to iGaming global event with a huge 12,500-attendee turnout and 400 sponsor and exhibitor booths.

Over the course of three days, Oaklins' online gambling experts from Sweden and Israel had the opportunity to meet with various industry players and attend sessions on highly relevant subjects such as how next-generation technologies can impact the industry.



From left to right: Adel Koubaa (Oaklins Sweden), Boaz Levi (Oaklins, Israel) and Nikolaos Karabelas (Oaklins Sweden)

The MGA (Malta Gaming Authority) seems keen to remain at the forefront of innovation paving the way for new technologies. A number of sessions took a closer look at crypto as a payment solution within the iGaming space. There was an increase in the number of blockchain and crypto companies showcasing at this year's SiGMA expo. Various interesting technologies were debuted, such as VR-centered product offerings and solutions based on artificial intelligence.”

ADEL KOUBAA
MANAGING PARTNER
OAKLINS SWEDEN

Industry consolidation

Rising customer acquisition costs

Strong growth is attracting investment to the online gambling sector, which has given rise to a fiercely competitive market. Customer acquisition costs are on the rise, as an ever-larger number of players compete for the same group of customers.

Market players must strive to lower their customer acquisition costs and achieve economies of scale to protect their margins and ensure a sufficient level of profitability.

Less uncertainty due to greater regulation

Greater market regulation reduces uncertainty and is among the key drivers of sector growth. And with political authorities becoming more accepting of internet gaming worldwide, many more countries are likely to regulate online gambling going forward.

A more complex regulatory landscape creates opportunities — as well as challenges — for existing market players.

Industry innovation

Innovation is also driving growth. With online gamblers frequently drawn to a variety of different games, providers can increase their revenue opportunities by expanding their game portfolios. Given the rapid growth in the quantity and quality of various types of portable devices, the acquisition of new mobile platforms and games will become ever more important over the next few years.

Assembling a large stable of games, both in different verticals and geographic markets, will be the key to remaining competitive going forward.

The user experience

Online gamers are looking beyond traditional gambling and seeking a more exciting user experience. Those who offer one will set themselves apart in a crowded marketplace.

Players who acquire a flexible technical platform that can accommodate a wide variety of user preferences will be in a strong position to survive and thrive in this market.

Increased regulation, rising customer acquisition costs and the growing need for investments in IT platform development are factors contributing to making scalability a more critical success factor, a conclusion supported by the number of transactions undertaken over the last few years in the online gambling space.

Over the short to medium term, the online gambling sector will continue to consolidate.

Recent M&A activity

Below a selection of recent M&A transactions (Q2 2018 – YTD 2018)

OPERATORS (B2C)

Buyer	Buyer country	Target company	Target country	Transaction rationale
Consortium led by Bridgepoint Capital		Cherry		De-list to have a more favorable position in optimizing the company's capital structure and approaching the changing regulatory environment
William Hill		Mr Green		Further multi-brand strategy and diversify revenue mix by acquiring online-only, non-UK revenues
Playtech		SNAITECH		Vertical integration from adding significant B2C revenues and enhanced revenue mix from an increased share of regulated markets
Mr Green		11.lv		Expansion into the regulated Baltic states
Mr Green		Gamingzone Entertainment		Formation of a Joint Venture targeting the sports market
River iGaming		Gaming Realms (B2C)		Acquisition of the majority of Gaming Realms' B2C casino business with well-established UK casino brands offering a complementary game portfolio to River
Gaming Innovation Group		Nordbet		Entry into the regulated German market by acquiring a license in the Northern German state of Schleswig-Holstein

Source: Mergermarket, Valu8 and Oaklins research

The M&A trends of 2018, as observed and discussed in the [newsletter](#) published last March, remain as strong as ever. Among online gambling operators, regulation continues to be the dominant driver of takeovers as market players seek to grow their respective share of comparatively certain revenues. Considering the strategic objective of growth, geographical expansion is for obvious reasons an intuitive choice. Confronted with the choice of which market to enter, whether by organic or inorganic means, the decision most often

falls on regulated markets to avoid future unpleasant surprises. This is especially true among larger, publicly-listed players, as evident in recent transactions. Commenting on some of these, a few stand out for varying reasons.

Playtech's acquisition of SNAI (or SNAITECH), represents one of the first M&A-driven vertical integration agendas. Playtech, a B2B-player, has, in effect, doubled in size from the addition of online and offline B2C activities (regulated activities at that).

Another transaction that stands out is the Joint Venture between Mr Green and Gamingzone Entertainment, a sports content creator. As with LeoVegas' acquisition of streaming network CasinoGrounds, which was mentioned in our previous newsletter, the transaction highlights the industry's innovation in acquiring new customers and unlocking new markets.

B2B DEVELOPERS

Buyer	Buyer country	Target company	Target country	Transaction rationale
Evolution Gaming		Ezugi		Strengthen US presence, increase global geographic footprint and attain high-level technical competence
Scientific Games		Don Best Sports Corp.		Expansion of sports-betting offering by adding complementary technologies

Source: Mergermarket, Valu8 and Oaklins research

AFFILIATES

Buyer	Buyer country	Target company	Target country	Transaction rationale
Catena Media		ParisSportifs.com		Entry into the regulated French market, strengthening Catena Media's leading position in Europe
Better Collective		Bola Webinformation		Attain leading position within sports-betting affiliate operations in the DACH-region
Catena Media		ASAP ITALIA		Entry into the regulated Italian market
Raketech		Casinoferber.se; Mediaclever		Strengthen SEO offering
Catena Media		gg.co.uk		Strengthen presence in the regulated UK market and complement sports-betting offering by adding horse racing
Net Gaming		Undisclosed affiliate sites		Strengthen position in the DACH region
Catena Media		BonusSeeker.com		Solidify market-leading position in the regulated New Jersey market

Source: Mergermarket, Valu8 and Oaklins research

M&A transactions in the affiliate space continue to be largely driven by geographical expansion. With plenty of opportunity to acquire smaller, regional players, larger groups are looking to acquire existing customer bases to enter into, or solidify, their positions in attractive markets. Similar to the industry as a whole, these markets are typically regulated. While no deals in which the primary rationale was a strengthening

of the customer value proposal were recorded*, we still believe this will be an important motive in affiliate acquisitions looking ahead.

All in all, there are few surprises in the recent developments of the online gambling M&A scene. Consolidation is still ongoing at a rather rapid pace, something that we expect will continue for the foreseeable future as the

regulatory landscape continues to take form. The outlook for the US market is especially interesting considering the regulatory easing and we will likely see more and more deals being made involving targets in the region given that global players will look to establish a foothold in this US\$240 billion market.

*See previous [newsletter](#) (page 8) for a discussion on Cherry's acquisition of Slottracker.com (via subsidiary Game Lounge) and Gambling.com's acquisition of an unnamed mobile gambling app and content provider

Four key takeaways from recent M&A activity

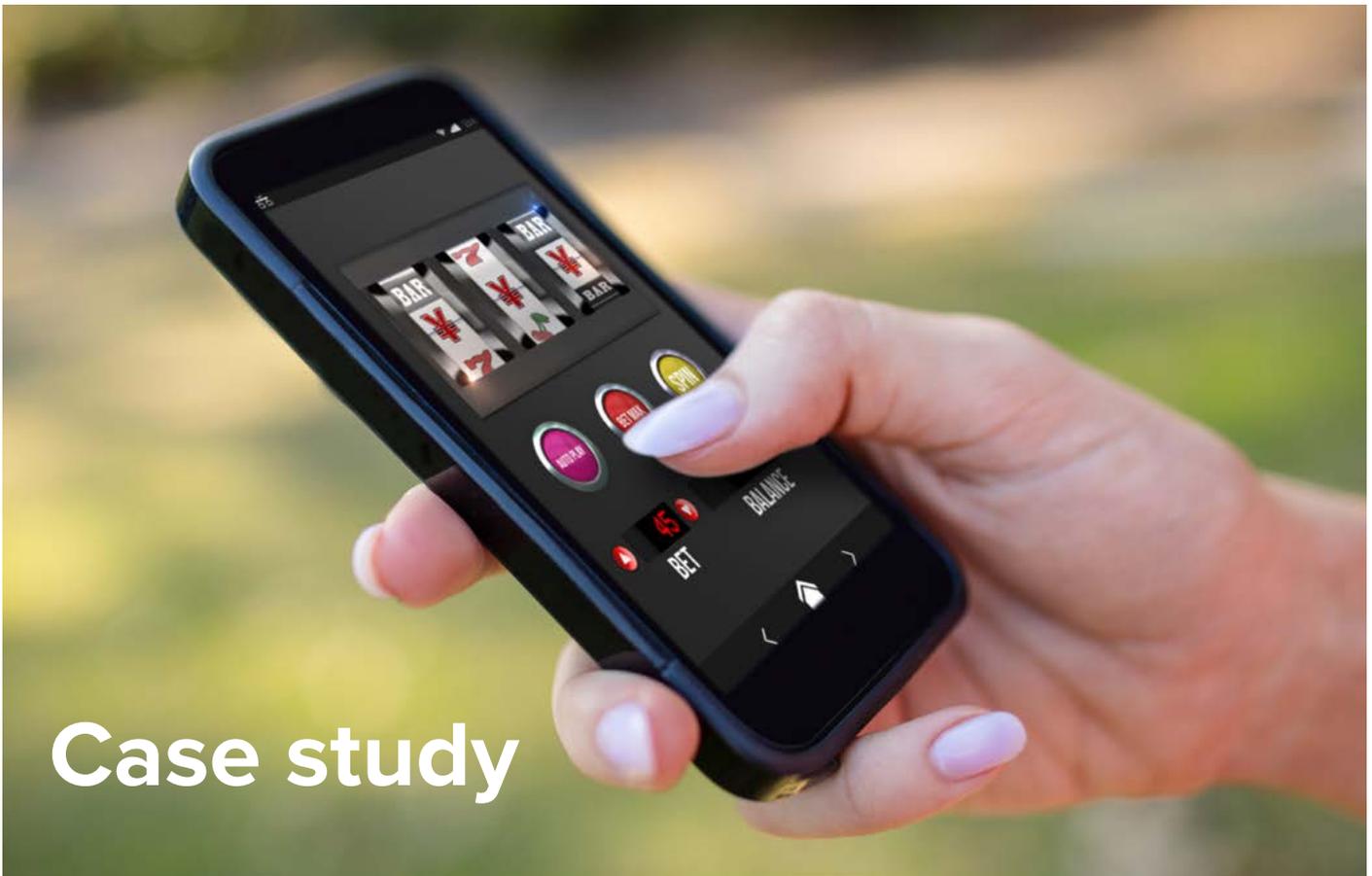
(Q2 2018 – YTD 2018)

**B2B players
laying low**

**Regulated revenues remains
the key driver**

**Innovation in customer acquisition
high on agenda for operators**

**Continued high pace of
consolidation in the affiliate space**



Case study

THE MULTI GROUP HAS SOLD A 93% STAKE TO 500.COM, A LEADING ONLINE SPORTS LOTTERY SERVICE PROVIDER IN CHINA, FOR A TOTAL CASH CONSIDERATION OF APPROXIMATELY US\$56 MILLION.

Headquartered in Malta, The Multi Group operates Multilotto.com, which is considered one of the top online lottery betting and casino platforms in the Nordic countries where it holds substantial market share. Operating under a Curaçao eGaming license, Multilotto offers players the ability to bet on the outcomes of several of the world’s largest lotteries through its proprietary and scalable platform. The Multi Group was recently granted remote gambling licenses from Malta, remote operating licenses from the UK and a remote bookmaker’s license from Ireland, all of which will further strengthen its market position and ability to rapidly expand into new geographic regions.

500.com Limited (NYSE: WBAI) is a leading online sports lottery service provider in China. It offers a comprehensive and integrated suite of online lottery services, information, user tools and virtual community venues to its users. 500.com was among the first companies to provide online lottery services in China, and is one of two entities that have been approved by the Ministry of Finance to provide online lottery sales services on behalf of the China Sports Lottery Administration Center, which is the government authority that oversees the issuance and sale of sports lottery products in China.

Oaklins' Swedish and Shanghai-based teams were the advisors on this transaction.

THEMULTIGROUP™

has been acquired by



US\$56m
M&A SELL-SIDE

TMT

Client testimonial

Thomas Biro, CEO at The Multi Group, said: “By working in a structured and professional manner, Oaklins' team in Sweden has shown deep commitment and industry knowledge throughout the sales process. Identifying the right international buyer in a competitive landscape further demonstrates Oaklins' strength in working on cross-border transactions.”

Deep local roots, global commitment

Oaklins brings you opportunities from across the world and we meet you with our expertise wherever you are

OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy- and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Online gambling is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the online gambling sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for online gambling companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

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Oaklins is the world's most experienced mid-market M&A advisor, with 800 professionals globally and dedicated industry teams in 40 countries worldwide. We have closed over 1,500 transactions in the past five years.

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