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Online gaming sector

Diversification and scale for online success

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The global online gaming market generated c £40bn of gross gaming revenues (GGR) in 2018 and newly regulating markets (the US) are expected to contribute to 7% CAGR to 2023 (according to H2 Gambling Capital (H2GC)). However, while regulated markets have provided significant opportunities for operators to date, government intervention remains a constant threat and legislation is tightening. Some mature markets (notably the UK) have been raising taxes and implementing regulatory burdens, which increases the cost of business. In our view, success will depend on a combination of scale, diversification, proprietary technology and a strong balance sheet. Many of the 12 operators in this report should benefit from these dynamics and sector valuations remain attractive, at 12.6x P/E, 8.2x EV/EBITDA and 6.0% dividend yield for FY19.

A wide range of online regulatory frameworks

For online gaming, there is a very wide spectrum of regulatory frameworks in place; these have largely determined market size, the number of participants and the level of illegal gambling. Legislation ranges from the explicitly prohibited (black) to licensed markets that are fully open to commercial operators (white). Additionally, there are many jurisdictions that have yet to legislate for online products and the framework remains ambiguous (grey). Europe comprises 54% of global online GGR, with many EU members paving the way in terms of regulation. The US is still a nascent market, but is expected to boost sector growth in the medium term. Tax rates, online penetration and other regulatory requirements vary widely and we provide a geographic overview of different licencing regimes on page 7.

Legislation is tightening; diversification matters

In regulated (and soon to be regulated) markets, legislation has continued to evolve, which has generally had the impact of increasing costs and barriers to entry. These specifically include rising gaming taxes, consumer protection initiatives and advertising restrictions. We expect that the more technologically advanced, internationally diversified players will continue gaining share, as small players are subsumed or exit the industry altogether. Consolidation is likely to remain a theme in the sector, with players vying for top positions in attractive markets. This has been amply evidenced by high-profile M&A, such as GVC/Ladbrokes, TSG/Sky Betting & Gaming, as well as other deals in the UK, US Australia and Europe.

Sector average dividend yield of 6.0%

The gaming industry is subject to government intervention and therefore the sector's investment risk is relatively high. Nonetheless, the online model continues to be characterised by structural growth, attractive margins and strong free cash flow generation, with a sector average dividend yield of 6.0%. The leading operators should continue to benefit from these dynamics, as their market share gains should offset rising costs. Ultimately, the best positioned are those with scale, diversity and ability to continue consolidating the market (as shown by GVC, TSG, Playtech). Regarding the smaller players, we expect that they will seek consolidation in some form, in order to remain relevant in the long run.

Companies in this report

888 Holdings
bet-at-home*
Betsson
Flutter Entertainment (Paddy Power Betfair)
GVC Holdings
JPJ Group plc*
Kindred
OPAP*
Playtech
Rank Group
Stars Group, The
William Hill

*Edison research clients.

Note: All shares priced at 9 July 2019

Analysts

Victoria Pease +44 (020) 3077 5740
Katherine Thompson +44 (020) 3077 5730
gaming@edisongroup.com

EDISON

Diversity and scale for online success

The global betting and gaming market amounted to c £347bn in gross gaming revenues (GGR) in 2018, of which c £40bn (c 11% of the total) was online. The global online gaming market has grown at a c 10% CAGR over the past 10 years and is expected to grow at a 7% CAGR to 2023. This compares to an expected 2% CAGR for the land-based market (source: H2GC).

The shift towards online gaming over the past decade has been driven by a number of different factors. In addition to rising mobile penetration and product innovations, the most important contributor has been the introduction of local regulation across a growing number of countries. In some jurisdictions (such as the UK), permissive legislation was swiftly followed by a highly competitive market, as operators flooded the market. However, as the sector has matured, the regulatory frameworks have begun to trend towards tighter legislation, which in turn has had the effect of raising barriers to entry. Compounded by slower growth rates in maturing markets, smaller players are being marginalised and, increasingly, scale, diversity and technological expertise are becoming vital components for online success. We expect further M&A as operators vie for top positions domestically and abroad, focusing on the most promising markets, which particularly includes the US.

In this report, we provide an overview of the main online gaming markets, as well as a snapshot of 12 operators and the geographies in which they operate (pages 15–20). For the sector as whole, we highlight some of the key investment considerations below.

Investment considerations

- **A wide variety of regulatory frameworks**: Globally, there are a myriad of different regulatory frameworks in place for online gaming, which have largely determined market size, the number of participants and the level of illegal gambling. Across the spectrum, this includes markets where gambling is explicitly prohibited (black), government-owned monopolies (illegal for other operators), and licensed industries that are fully open to commercial operators (white). Additionally, there are many markets where governments are yet to legislate for online products and the framework remains ambiguous (grey). The grey and black markets are often untaxed and therefore cash flow is typically higher. However, the flipside is that revenues can be more volatile and operators have been subject to sudden intervention by some governments, such as IP blocking measures (eg Poland, Malaysia).
- **Selected local regulation has driven growth, with focus now on the US**: Europe has paved the way in terms of introducing local online gaming regulation and, with a mixture of largely white and grey frameworks, the region comprises 54% of the total online market. The UK is currently the largest regulated market globally, with £5.6bn online GGR for 2018 (excluding lotteries). Other regulated European markets include Spain, Italy and Sweden (from January 2019). As the first wave of these European markets is beginning to show signs of maturity (slower growth rates), operators are looking for growth from other regulating markets. Since the repealing of Professional and Amateur Sports Protection Act (PASPA) in 2018, the US is now positioned as the most important regulating market, with c $600m GGR at FY18 estimated to increase to over $6bn in the medium term (source: 888 and GVC company presentations).
- **Regulation is tightening, raising barriers to entry:** In regulated (or soon to be regulated) markets, legislation has continued to evolve, which has generally had the impact of increasing costs or raising barriers to entry. This specifically includes rising gaming taxes, consumer protection initiatives (self-exclusion, source of funds, KYC etc), AML enforcement measures and advertising restrictions. The UK and Swedish regulators have both issued a number of high-profile fines and the Swedish regulator has even revoked a licence recently for AML and

social responsibility failings (Global Gaming). The tax rates and social responsibility measures vary between countries and we provide a snapshot of key markets on page 7.

- **Consolidation driven by the need for scale, diversification and technological expertise:** Consolidation has long been a feature of the sector, driven by economies of scale in the business model, as well as rising regulatory costs. The need for geographic and product diversification is likely to lead to further M&A activity, in our view, as operators seek to gain market-leading positions in various different geographies. This has been already been evidenced by many recent deals (eg GVC/Ladbrokes, TSG/Sky Betting & Gaming, Rank/Stride Gaming, JPJ/ Gamesys). We note that at the time of writing, Sazka Group (a key existing shareholder with board representation) has made a bid to take full control of OPAP – at €9.12, which is below the current share price.
- **The model remains structurally cash generative.** Notwithstanding the regulatory hurdles, the online gaming market continues to be characterised by structural growth (from newly regulating markets), attractive margins and strong free cash flow generation (albeit less than before). The leading operators should continue to benefit from these dynamics, as their gains in market share should offset the general rising costs. Ultimately, the best positioned are those with scale, diversity and ability to continue consolidating the market (as witnessed by acquisitions by GVC, TSG, Playtech). For the smaller players, we anticipate that they will seek consolidation in some form, in order to remain relevant in the long run.
- **Sector risk is high, but diversified companies still have undemanding valuations:** The gaming industry is subject to government intervention and therefore the sector's investment risk is relatively high. Clearly, the most protected from individual country risk are the larger, more diversified players. We provide a valuation table on page 14 and a snapshot of 12 operators, demonstrating their geographic split (on pages 15–20). In terms of valuation, the sector averages are 12.6x P/E, 8.2x EV/EBITDA and 6.0% dividend yield for FY19. Within the mix, we believe there are solid income stocks (OPAP with exclusive retail licence, growing online division and a 7.8% dividend yield), well priced, strategically diversified online operators (GVC, Playtech) and other inexpensive smaller players that could potentially provide bolt-on growth for a larger operator at some stage in the future. As an obvious caveat, each company has its own investment case beyond the simple geographic splits, as detailed in the individual snapshots.

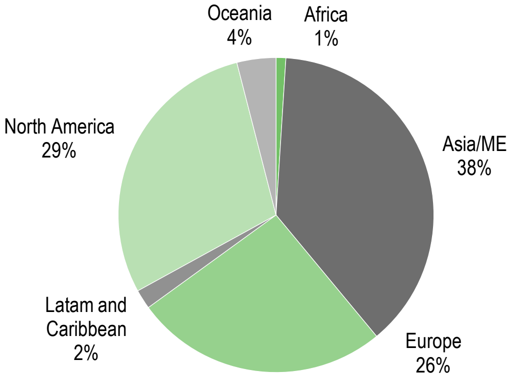
The global gaming market

£347bn global gambling market

According to H2 Gambling Capital (H2GC), the global betting and gaming market has grown at a 2.3% CAGR between 2012 and 2018 to c £347bn gross gaming revenues (GGR). The main retail component is the lottery, with other online and retail products including casino, sports betting, poker and bingo.

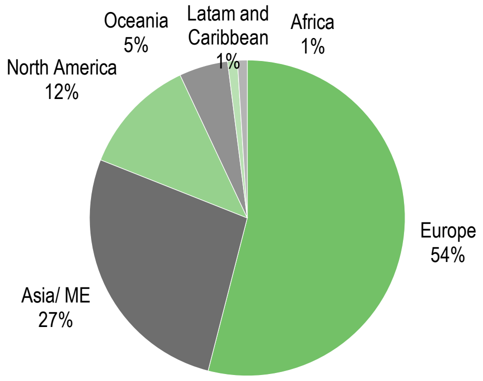
Exhibits 1 to 4 below split out the overall gambling market and the overall online market by both vertical and geography. North America and Asia dominate the overall market due to their substantial land-based revenues, while Europe constitutes 26% of the total market, driven by strong growth in online revenues. Geographically, Europe is the largest online market (54% of the total) and the UK comprises c 15% of total online GGR.

Exhibit 1: Total gambling by market, 2018



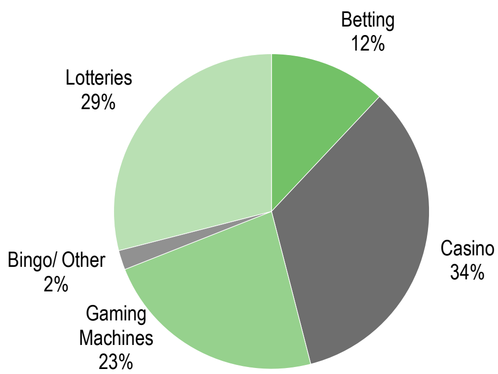
Source: Playtech annual report

Exhibit 2: Online gambling by market, 2018



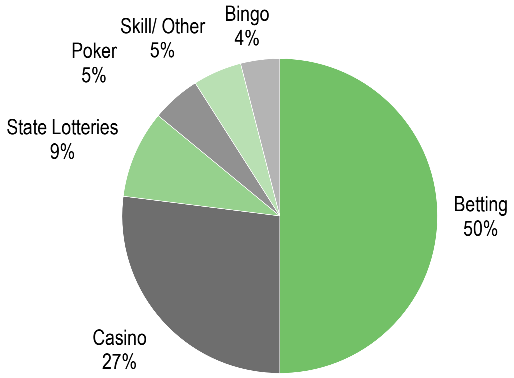
Source: GVC annual report

Exhibit 3: Total gambling by vertical 2018



Source: Playtech annual report

Exhibit 4: Online gambling by vertical 2018

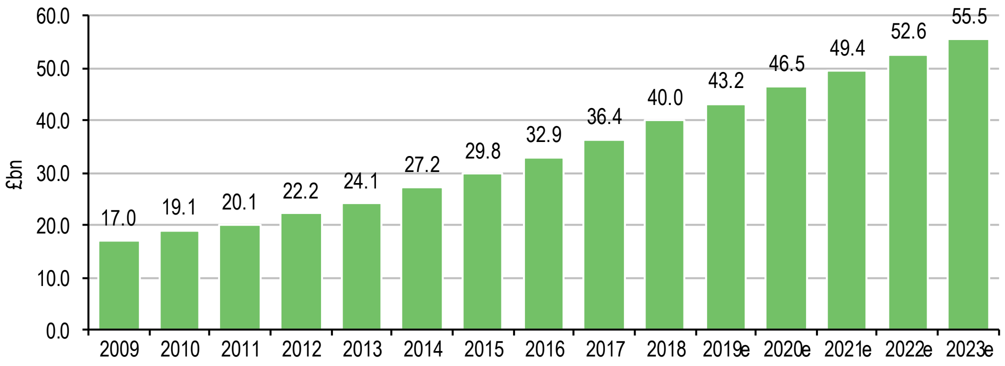


Source: GVC annual report

Online gaming comprises 11% of total global gaming

In 2018, the GGR of the global gambling industry was approximately 89% land-based and 11% online. The global online gaming market has grown at a c 10% CAGR over the past ten years and amounted to c £40bn GGR in 2018. Driven largely by the opening of the US market, H2GC estimates online growth of 7% CAGR to 2023, such that the online share of the total should rise to c 14%. This compares to an expected c 2% growth for the land-based market.

Exhibit 5: Global online market growth, £bn



Source: GVC annual report, Edison Investment Research estimates

As we discuss below, fundamental to online growth has been the increasing number of countries introducing local regulations for online gaming. Over the past five years, Europe has paved the way in this regard, with the UK currently the largest regulated market globally. Other regulated European markets include Spain, Italy and Sweden (since January 2019). Since the repealing of PASPA in 2018, the US is now positioned as the most important regulating market, in terms of future growth prospects. Industry estimates are that the US online market could generate c $6bn in the medium term, from a base of c $600m at FY18.

Another key driver for online gaming growth has been increased mobile penetration rates and H2GC estimates that global mobile usage for online gaming will rise from c 41% in 2018 to over 50% by 2022.

Regulation is key to the size of online markets

Originally, gambling regulations were written for land-based operators and historical legislation has become insufficient in dealing with digital formats, which has enabled customers to play across physical borders. Although governments have responded differently to the online world, there is a clear trend towards updating regulations to make them appropriate for online and mobile gambling. While regulation brings its own challenges (higher taxes, increased social responsibility, etc), generally speaking, it creates opportunities for operators to enter markets. In the last two years, markets with a total potential online customer base of c 350m adults have either regulated or been given the authority to do so. This equates to a potential doubling of the total addressable regulated global online market (source: Flutter Entertainment 2018 annual report).

White, black and various shades of grey

Currently, there are a myriad of different regulatory frameworks in place for online gaming and these frameworks have largely determined market size, the number of participants and the level of illegal gambling. How the sector is regulated varies significantly across the world, with a spectrum from markets where gambling is explicitly prohibited, to government-owned monopolies, to licensed industries that are fully open to commercial operators. There are also many countries where governments are yet to legislate for online products and the regulatory picture in these markets remains grey. It is also important to note that legislation for sports betting and e-gaming (casino or online gaming) can sometimes be different (eg online casino is not allowed in Australia, although there is regulation for online sports betting).

We summarise the main features of white, grey and black markets here, with a table of selected jurisdictions in Exhibit 6 and further details on five key countries below (Australia, Germany, Italy, UK, US).

White – fully regulated: at one extreme, the UK is by far the largest regulated online gaming market with an estimated c £5.6bn of GGR (£6.4bn including lotteries). As a result of the permissive regime, the UK has been an important market for many online operators, although most recently regulation itself has presented its own challenges (in the form of rising taxes, increased social responsibility measures, etc). We note that, partly as a consequence of its maturity and regulatory burdens, growth rates now appear to be slowing. Other sizeable regulated markets include Spain, Sweden, Italy and Australia. As we discuss in more detail below, the US is an important future growth market, where regulation of online gaming and sports betting is commencing on a state by state basis.

Black – totally illegal: at the other extreme, there are a few countries where gambling is totally illegal. This includes Turkey, which GVC exited prior to completing the Ladbrokes deal.

Grey – unclear regulatory framework: in the middle, there are a vast number of jurisdictions where the regulatory framework is far more ambiguous (or grey). These notably include buoyant markets such as Germany, but also many large Asian economies (China, Japan). In European grey markets (eg Germany, Austria, Eastern Europe), companies typically operate through sports betting and gaming licences issued in Malta. Under EU law, these licences are effective in all EU member countries due to the freedom of movement within the EU, as long as online gaming and sports betting is legal in the respective member country. In some markets (such as Poland and Finland), many operators have been subject to IP blocking or payment blocking, which is generally considered a violation of EU law.

Exhibit 6: Selected online gaming markets

Country	Estimated online gaming market size 2018*	Regulatory status	Estimated online penetration	Taxation
Argentina	Nascent	Licences in the process of being issued in Buenos Aires	5%	N/A
Australia	£1.8bn	Regulation for online sports varies by state, online gaming (casino) not permitted	13%	Varies by state; 8–15% GGR tax on sports
Austria	£300m	Grey market, ambiguous legal framework, although regulation is under discussion	24%	2% turnover tax on sports; 40% GGR tax on gaming
Belgium	£500m	Online gaming licences limited to land-based gaming licence holders	33%	11% GGR tax; VAT has been removed
Brazil	Nascent	Legislation passed with view to future regulation (2–4 years)	9%	N/A
China	£2.0bn	Grey market	6%	N/A
Colombia	Nascent	Regulated market	8%	N/A
Denmark	£600m	Regulated market	50%	20% GGR tax
Finland	£800m	State monopoly (Veikkaus); grey for other operators	45%	N/A
France	£1.5bn	Partially regulated	18%	9.3% turnover tax on sports (moving to 54.9% GGR tax), 2% turnover tax on poker
Germany	£2.2bn	Grey market, regulation under discussion for sports betting; e-gaming regulatory situation is more ambiguous	16%	5% turnover tax on sports; 16% GGR tax on gaming
Greece	£300m	Grey market, possible licensing in 2019/20	18%	35% GGR tax
Italy	£1.5bn	Fully regulated, with advertising restrictions	9%	24% GGR tax for online sports, 25% GGR tax for online gaming
Ireland	£500m	Regulated market	30%	2% turnover tax on sports, 25% commission charge for online betting exchanges, 23% VAT on e-gaming
Japan	£4.0bn	Grey market	10%	N/A
Mexico	£200m	Regulated market	23%	N/A
Netherlands	£300m	Licences to commence in 2021. Possible two-year 'cooling-off period' for some currently illegal operators	13%	29% GGR tax plus 2% fees on GGR
Norway	£600m	Grey market with payment blocking for international operators	53%	N/A
Poland	£300m	Total ban on e-gaming, apart from monopoly held by Totalizator Sportify	22%	12% turnover tax on sports
Portugal	£200m	Regulated market, a move to flat 25% GGR tax being considered	13%	8–16% turnover tax on sports, 15–30% GGR tax on casino and poker
Russia	£350m	Grey market	45%	N/A
Spain	£850m	Regulated market	11%	20% GGR tax
Sweden	£1.0bn	Fully regulated (from January 2019); possible advertising ban ahead	52%	18% GGR tax
Switzerland	£200m	Total block on e-gaming apart from local Swiss casinos (July 2019); only licensed lotteries can offer online sports (January 2019)	15%	N/A
Turkey	£200m	Black market; gaming is illegal	15%	N/A
UK	£6.4bn	Regulated market	40%	21% GGR gaming tax (from April 2019); 15% GGR sports tax
US	c £500m across a few states	Only fully operational in a few states, specifically NJ and Nevada, although approval is steadily being granted in many other states (see below)	3%	Expected to vary by state, as online regulates; eg 13% tax in NJ, 15% tax in Illinois and an expected 34% tax in PA

Source: Company data, H2GC, country regulatory bodies, Edison Investment Research. Note: *Online GGR includes online lottery

Australia: Recent POCT on sports; online gaming not permitted

The Australian sports betting market is fully regulated and is worth an estimated A$5bn (£2.8bn), with online and mobile accounting for almost 65% of the total market, having grown c 15% per annum, in recent years (source: Flutter Entertainment 2018 annual report). Online gaming (casino) is not currently permitted in Australia.

The tax environment in Australia has continued to evolve. In July 2017, South Australia became the first state to introduce a point of consumption tax (POCT) on online revenues and others have since followed suit, as shown in Exhibit 7 below. There is currently a credit betting ban and TV advertising restrictions, and a National Consumer Protection Framework was implemented in May 2019.

Apart from the local operators such as Tabcorp, companies that have a meaningful presence in Australia include GVC, Flutter Entertainment (PPB) and The Stars Group.

Exhibit 7: Point of consumption tax

State	Implementation date	POCT rate
South Australia	July 2017	15%
Queensland	October 2018	15%
Western Australia	January 2019	15%
Victoria	January 2019	8%
New South Wales	January 2019	10%
Australian Capital Territory	January 2019	15%

Source: Flutter Entertainment 2018 annual report

Germany: An ambiguous legal framework

At the moment, Germany is a grey market, where online gaming companies operate through another European licence (typically Maltese) and pay VAT on casino revenues and a turnover tax on betting. To date, legislation has been very confusing and there has been a high level of disagreement among Germany's member states.

In March 2019, German state ministers approved a process towards a licensing regime for online sports betting, although the framework for online casino remains unclear. We summarise the historical situation for both sports and e-gaming below.

Sports betting: Historically inconsistent, but licensing regime in sight

In 2014, there were 20 successful applicants for a sports betting licence. However, this process was subsequently suspended after being challenged by operators who failed to secure licences and therefore licences were never granted. In 2017, a proposed Second Amendment to the State Treaty on Gambling would have seen all 35 operators that fulfilled the minimum criteria in the licensing procedure receiving sports betting licences in 2018. This proposed Second Amendment was never ratified, with a growing number of states calling for more significant changes to the State Treaty on Gambling than those presented by the Second Amendment.

In March 2019, German state ministers approved amendments to the Interstate Treaty, establishing an interim sports-betting licensing regime from January 2020. The amendments also lifted the cap on licences in preparation for a future agreement on a more permanent regime from June 2021. While the regulatory progress is a positive in general, it is important to note that live play betting will be restricted under the current plans and there will also be a setting of monthly wagering limits for players.

E-gaming: Federal ban for e-gaming still in place

The biggest area of confusion surrounds the issue of online gaming (c 47% of total online GGR), with online casino and poker technically illegal under the current reading of the Interstate Treaty. In March 2019, the draft amendments maintained a federal ban on online casino set in 2012, with the exception of Schleswig-Holstein, where online casino licences already granted continue for the interim period. Reinforcing this negative stance, in June 2019, a large international payments provider has been prevented from participating in payment transactions in connection with 'illegal gambling' in Germany.

However, as a positive, it also appears that many states have committed to the provision of online gaming in the next couple of years and operators continue to maintain that the current federal casino ban is in breach of EU law.

Operators that have significant exposure to Germany include GVC (through the bwin brand), bet-at-home, 888, TSG, Kindred and Betsson.

Italian market: Regulated with rising taxes and restrictions

Italy is Europe's second largest fully-regulated online gaming market, generating c £1.5bn of GGR and, given the relatively low online penetration (9% vs 40% in the UK), growth prospects should remain strong. To counterbalance, however, the regulatory landscape has been challenging over the past year, with the government imposing a number of stringent gaming laws.

In terms of taxes, from January 2019, online sports betting tax increased from 22% to 24% of GGR, and the tax for online casino, poker and bingo rose from 20% to 25% of GGR. Furthermore, an advertising and sponsorship ban will be enforced from mid-2019. This has had the impact of deterring potential newcomers into the market and many operators have made the conscious decision not to invest into the market.

Ultimately the advertising ban is likely to favour incumbent players and particularly operators with a strong retail presence (such as Playtech with Snaitech).

UK: Regulatory burdens and rising taxes

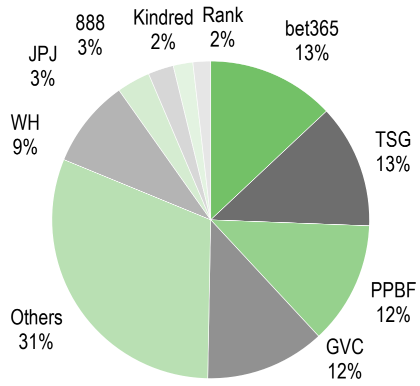
The UK is a relatively mature, fully regulated gambling market with £14.5bn of GGR for the 12 months to September 2018 (source: Gambling Commission). In this period, the UK online gaming market generated £5.6bn of GGR (excluding lottery), or 39% of the total, divided into approximately 44% sports betting and 56% gaming.

Largely as a result of the permissive regulation, the UK online market has attracted many entrants and over the last five years the online market has grown at a c 12% CAGR, with an estimated 3.6% CAGR growth to 2021 (source: Playtech/H2GC). However, the regulatory environment has become increasingly challenging and legislative burdens include additional social responsibility measures, advertising restrictions, ID checking, source of funds and other anti-money laundering initiatives. Additionally, the remote gaming duty (for gaming, not sports) has been raised from 15% to 21%, effective from April 2019.

The net result of these measures has led to slower growth in online gaming overall, as well as higher taxation. The regulatory tightening has effectively raised barriers to entry and scale is becoming increasingly important as technological complexity and the costs of marketing grow. There is evidence that some players are pulling out of the market and we expect further consolidation as the smaller operators are unable to bear the additional regulatory costs. For example, Stride Gaming's recent strategic review (culminating in a proposed acquisition by Rank Group) was a direct consequence of rising taxes and increased regulatory burdens.

We highlight the main players in the chart below, and note that this data will have shifted since 2017 in favour of the larger players.

Exhibit 8: UK online market share, 2017



Source: GVC capital markets day presentation

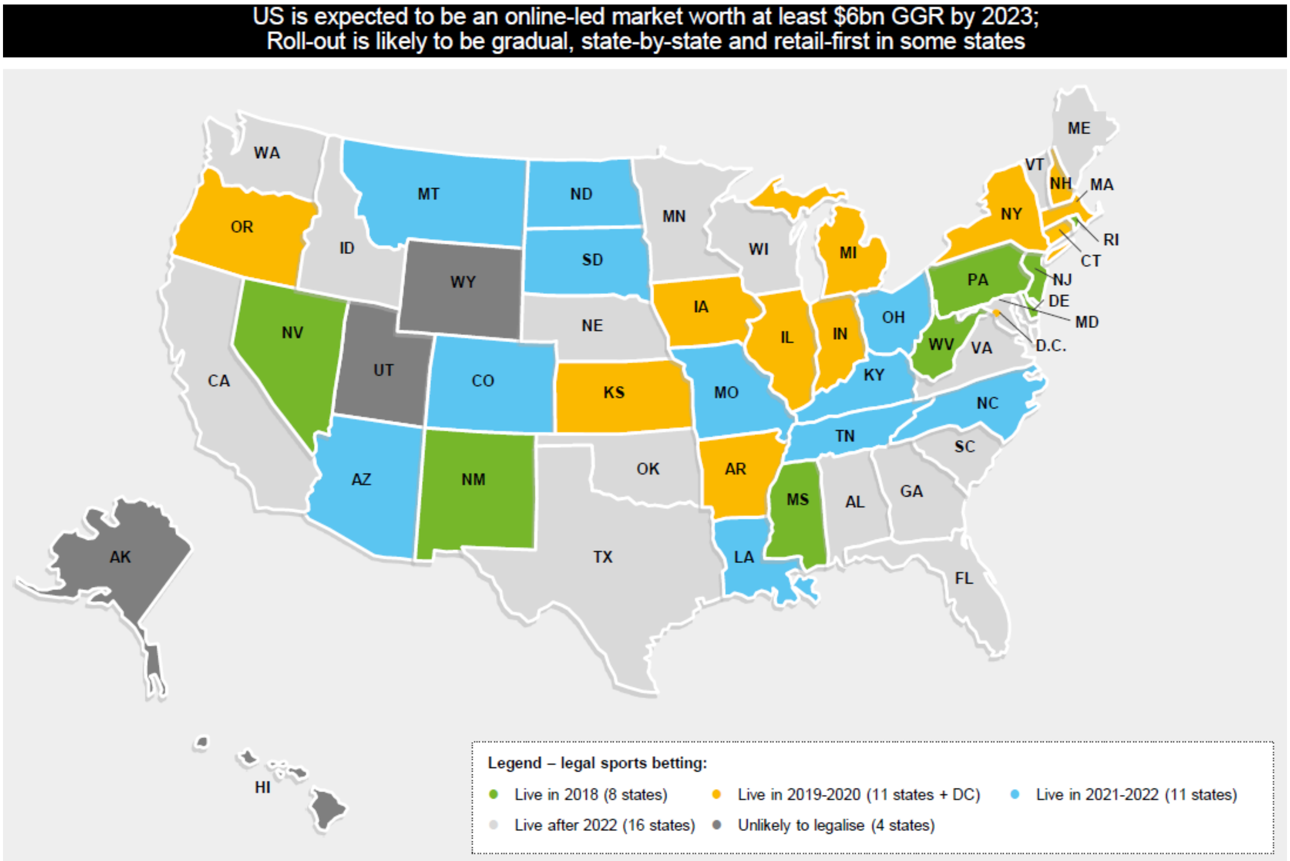
US: Repeal of PASPA provides a huge opportunity

Following the repealing of the Professional and Amateur Sports Protection Act (PASPA) in 2018, the US is now the world's largest sports-betting opportunity. PASPA was a federal law that had effectively banned sports betting except in four states (notably Nevada) and, essentially, the Supreme Court's decision now enables each state to decide whether or not to legalise and regulate sports betting.

Roll out is expected to be gradual and retail-led, and by the end of 2018, seven states (in addition to Nevada) had legislation in place that allowed sports betting (Delaware, New Jersey, Mississippi, West Virginia, New Mexico, Rhode Island and Pennsylvania). At the beginning of 2019, about 10% of the US population was able to bet on sports through retail channels (vs just 4% of the population able to bet online). By the end of 2021, it is expected that about one-third of the population will be able to bet on sports (source: GVC capital markets day).

One year after the repealing of PASPA, the US sports-betting market is generating a run-rate of c $650m GGR and Eilers & Krejcik estimates that the first seven states could be generating $1.4bn by 2021. It also estimates that a further wave of states could add an additional $7.5bn of GGR in the following three years.

Exhibit 9: The US sports betting opportunity (retail and online)



Source: GVC 2019 capital markets day presentation

As the general sports-betting market opens, the regulatory framework is expected to vary significantly across the country, with different options to include (1) land-based only, (2) tethered mobile (mobile accounts must first be opened in a casino or licensed location) or (3) fully mobile, where account opening and payments can be undertaken remotely (as in the UK).

For operators seeking to gain market access in the US, relationships with land-based casinos are often the critical starting point, as they are generally the primary licence holders. Some examples of these relationships with casinos include GVC's JV with MGM, and William Hill's partnership with Eldorado Resorts. In these cases, the European operators are providing technological expertise while their US partners are providing market access.

Online is still nascent; estimated to grow to c $6bn GGR in medium term

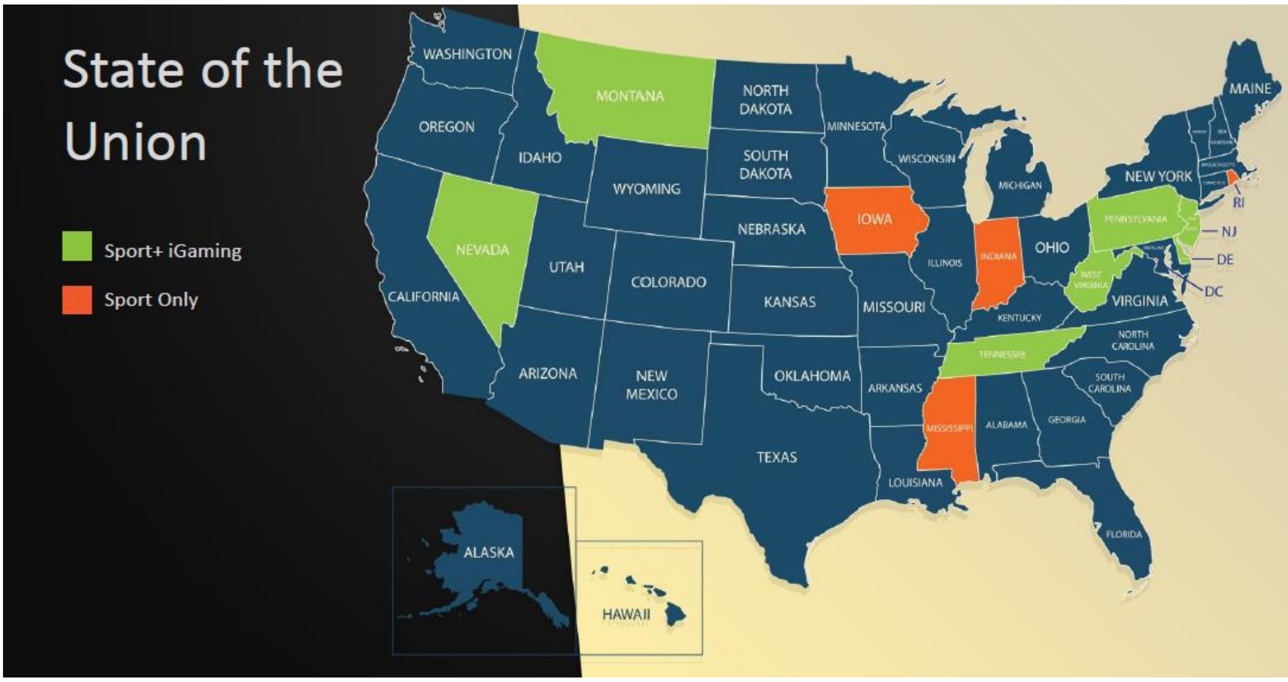
The US gambling market has historically been predominantly land based, with online sports betting (horseracing) and gaming only available on a very limited basis at state level. Currently, the total US online-led market (gaming and sports) comprises c $600m and is expected to grow to c $6bn in the medium term (source 888 Holdings and GVC).

The regulatory environment is changing rapidly, with many new states having recently announced regulatory packages. As shown in Exhibit 10 (dated 4 June 2019), in addition to online sports, many of the states are also incorporating e-gaming (casino) into the regulation. Including more recent announcements from New Hampshire, Maine and Illinois, the current regulatory framework is as follows:

- **Online betting:** Fully operational in two states: Nevada and New Jersey. Regulation in place, but not yet fully operational and/or not yet live: Pennsylvania, West Virginia, Rhode Island, Delaware, Iowa, Indiana, Tennessee, Montana, Mississippi, DC, Maine, New Hampshire and Illinois.
- **Online casino:** Fully operational in three states: New Jersey, Delaware, Nevada (poker only). Regulation in place, but not yet fully operational and/or not yet live: Pennsylvania, West Virginia, Montana, DC and Tennessee.

Gaming taxes vary on a state-by-state basis. Retail sports in New Jersey and Virginia are subject to GGR state taxes of 8.5% and 10%, respectively, and online sports GGR tax is 13% in New Jersey. Illinois has recently announced a 15% GGR tax for online sports and online gaming taxes in Pennsylvania will be 34%.

Exhibit 10: Online sports and e-gaming in the US (dated 4 June 2019*)



Source: 888 Holdings, capital markets day. Note: *Excludes Illinois, New Hampshire and Maine, which have subsequently announced regulatory packages.

M&A: Continued consolidation

Consolidation has long been a feature of the sector, driven by economies of scale in the business model and rising cost pressures. Following a period of relative inactivity in 2017, M&A has picked up significantly in the past 18 months, beginning with GVC's audacious £3.1bn bid for Ladbrokes Coral. This was followed by TSG's £3.4bn bid for Sky Betting & Gaming, as it sought to expand into sports betting. In the UK bingo-led sector, both JPJ and Rank are each currently buying scale and a proprietary platform, through their respective proposed acquisitions of Gamesys and Stride Gaming. Other notable deals include William Hill's purchase of Mr Green (European online gaming), as well as consolidation activity in Australia, Georgia and the US. We also note the recent rumoured merger talks between William Hill and Caesars, which would have shifted William Hill's business mix away from the stagnating UK market, towards the US. Also, in the past week, Flutter Entertainment's shares have risen sharply on bid speculation and, at the time of writing, Sazka Group has made a bid to take full control of OPAP – at €9.12, which is below the current share price.

The overwhelming theme appears to be that operators are seeking scale, proprietary technology and diversification (both in terms of product mix and geographic exposure). A strong balance sheet is a requirement, both in terms of M&A and for withstanding regulatory shocks. In our view, the technologically advanced, diversified players are best positioned and we would expect smaller operators to either be gradually subsumed or exit the market altogether.

We highlight some of the more interesting deals in Exhibit 11 below.

Exhibit 11: Selected online gambling sector M&A

Deal	Value	Announced/completed	Business
Caesars merger with Eldorado resorts	$17.3bn	Jun 19/TBC	US casino operators
JPJ acquires Gamesys	£490m	Jun 19/TBC	UK online gaming B2C and platform
Rank Group acquires Stride Gaming	£115m	May 19/TBC	UK online gaming B2C and platform
888 acquired BetBright	£15m	Mar 19	UK sports betting platform
PPB acquires 51% of Adjarabet	£101m	Feb 19	Georgian B2C sports and gaming
888 buys remaining share of AAPN	$28m	Dec 18	All American Poker Network
William Hill acquires Mr. Green	£242m	Nov 18/Feb 19	European online gaming and sports
GVC acquires Neds International	£52m	Nov 18	Australian online sports betting
OPAP acquires share in Stoiximan (TCB)	€145m	Sep 18/TBC	Greek B2C online sports and gaming
Paddy Power Betfair acquires FanDuel	$158m	May 18	US fantasy sports
Playtech acquires Snaitech	€846m	Apr 18/ Jun 18	Italian Retail betting
TSG acquired Sky Betting & Gaming	£3.4bn	Apr 18/ Jul 18	B2C sports and gaming
TSG acquires William Hill Australia via CrownBet Holdings	$234m	Mar 18/ Apr 18	Australian sports betting
GVC acquires 51% of Crystalbet	€41.3m	Feb 18	Georgian online gaming and sports
GVC acquires Ladbrokes Coral	£3.1bn	Dec 17/ Mar 18	Retail and online gaming and sports
Scientific Games acquires NYX	£465m	Sept 17	B2B betting and gaming platform
Paddy Power Betfair acquires DRAFT	$48m	May 17	US fantasy sports
Kindred acquired 32Red	£176m	Mar 17/Jun 17	B2C sports and gaming
GVC acquires bwin.party	€1.51m	Jul 15/Feb 16	B2C sports and gaming
Paddy Power merger with Betfair	£4.3bn	Aug 15/Feb 16	B2C sports and gaming
CVC acquires majority stake in Tipico	£1.1–1.2bn	Apr 16	German sports betting
NYX acquires OpenBet	£270m	Apr 16	B2B betting and gaming platform
CVC acquires Sisal Group	€1.0bn	Apr/May 16	Italian gaming and payments
Ladbrokes merger with Gala Coral	£2.4bn	Jul 15/Nov 16	B2C sports and gaming

Source: Company announcements, Edison Investment Research

Plenty of value in the sector

Risks to forecasts are relatively high within the gaming sector, as government intervention can lead to higher costs (increasing taxes etc) and lower revenues (social responsibility measures such as source of funds, forcing the closure of accounts). This has been particularly evident in the UK and, over the past year, tightening of regulation has affected the share prices of almost all UK operators. At a more extreme level, some governments have banned payment processors or instigated IP blocking, which effectively closes the entire online gaming market (eg bet-at-home's share price was affected by IP blocking in Poland and Playtech suffered from the closure of the Malaysian market in 2017).

Notwithstanding these risks, however, the online gaming sector model remains highly scalable with significant free cash flow generation. As discussed above, some key markets are maturing and demonstrating slower growth (especially the UK) but the overall online market is expected to grow at c 7% per annum, driven by the opening of new jurisdictions (specifically the US). Our main thesis is that, within the industry, there will be winners and consolidators who are able to gain market share, thereby harnessing the bulk of the growth and cash flow, and we therefore believe that there is significant opportunity to find value in the sector.

We provide a snapshot of 12 operators on pages 15–20, which includes their geographic exposure, as well as other investment considerations. In general, our analysis of the peer group suggests the following:

- **Undemanding valuations**: The sector trades at an average 12.6x P/E and 8.2x EV/EBITDA for FY19. The high cash flow generation is reflected in generous dividend payouts for almost all the operators and the average dividend yield for the peer group is 6.0% for FY19.
- **UK operators have suffered over past year**: Operators with heavy exposure to the UK have suffered in the wake of increasing regulations (William Hill, Paddy Power, Rank, JPJ, GVC, 888). The betting companies with retail operations have been hit by the Fixed Odds Betting Terminal (FOBT) impact, while the online businesses have suffered from KYC and increasing social responsibility measures, as well as an increase in remote gaming duty from April 2019. Companies that were quick to implement compliance measures have begun to lap tough comparators and are now posting reassuring growth in online gaming – this was evident in 888 Holding's Q119 update, which led to a c 15% uplift in the share price.
- **The Swedish market has had a tough start to 2019**: The recent regulation of the Swedish market has affected Q119 results, with the introduction of an 18% GGR tax, as well as heavy bonusing at the beginning of the year. There is also the possibility of more stringent advertising rules. This has been reflected in the performance of some of the Scandinavian players, with Betsson down 15% year to date.
- **Early days for the US:** The opening of the US market prompted an initial spike in share prices, although enthusiasm has since dampened with the realisation that growth will take some time to materialise. Nonetheless, there are many companies with promising US strategies, specifically including GVC, Flutter Entertainment, TSG and William Hill.
- **Grey markets are more cash generative but can be volatile:** Operators with significant exposure to grey (and black) markets tend to generate higher cash flow (lower taxes) but revenues are subject to more volatile trading. In these jurisdictions, the sudden enforcement of IP blocking can affect share prices very negatively, as exemplified in 2017 by bet-at-home (Poland) and Playtech (Malaysia). The geographic revenue mix is a useful tool to gauge risk and we would highlight German online casino as a key variable for a number of European online operators.
- **Plenty of value among diversified players:** While there are of course other factors at play (detailed in the snapshots), it is noteworthy that GVC is one of the larger diversified players

with high online potential, and it only trades at around the mid-range of the group. Playtech also benefits from a diversified strategy, although its share price has not fully recovered from the impact of an Asian clampdown in 2017. In both these cases, we suspect that once management has regained investor confidence, there should be substantial valuation upside.

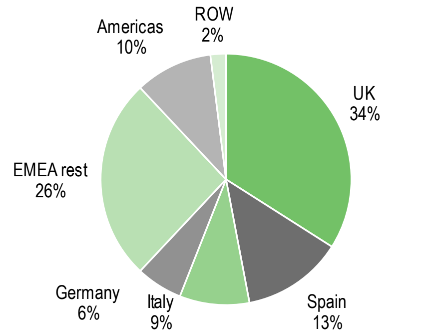
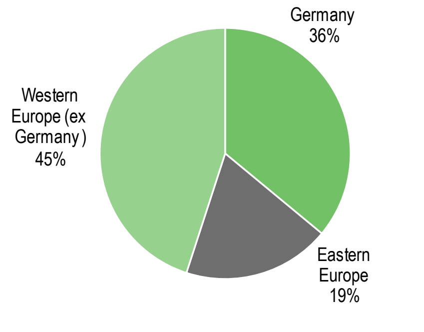
- **Market dominance matters:** The value of market dominance is reflected in OPAP's valuation, which is appropriately towards the top end of the peer group on a P/E basis, but still with an above average 7.8% dividend yield.

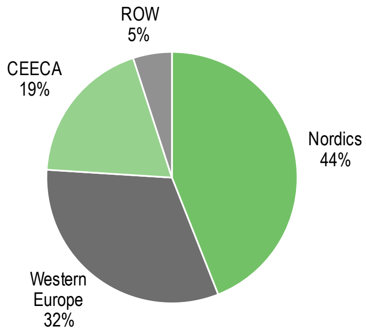
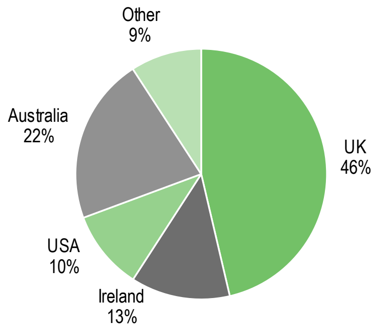
Exhibit 12: Sector peer group valuation

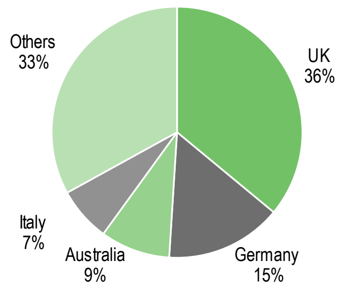
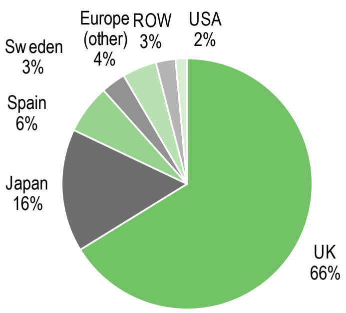
Name	Quoted currency	Market cap (m)	EV/EBITDA (x) FY19	EV/EBITDA (x) FY20	P/E (x) FY19	P/E (x) FY20	Dividend yield (%) FY19
888 Holdings	GBp	589	7.0	6.5	13.5	12.2	5.8
bet-at-home	EUR	373	8.8	8.3	13.1	12.4	10.8
Betsson	SEK	8,322	5.6	5.3	8.8	8.2	5.9
Flutter Entertainment (PPB)	GBp	5,236	14.8	13.0	21.3	18.7	2.8
GVC Holdings	GBp	3,664	8.5	7.4	10.7	8.6	5.5
JPJ Group	GBp	536	8.7	7.4	7.9	6.1	N/A
Kindred Group	SEK	18,672	9.8	7.9	14.9	10.9	6.4
OPAP	EUR	3,068	8.5	7.6	15.8	14.2	7.8
Playtech	GBp	1,364	4.4	4.1	9.1	8.0	5.0
Rank Group	GBp	617	5.2	5.0	11.0	10.4	4.7
The Stars Group	USD	4,730	9.8	8.9	8.8	7.4	N/A
William Hill	GBp	1,427	7.2	6.4	16.0	12.1	5.3
Mean			**8.2**	**7.3**	**12.6**	**10.8**	**6.0**

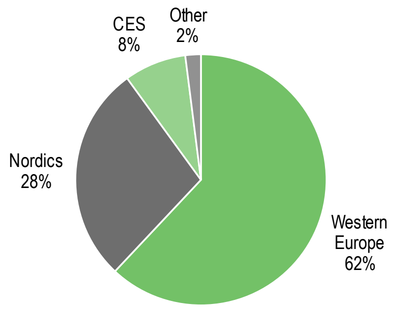
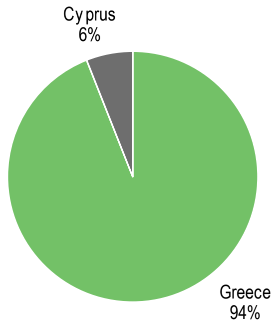
Source: Refinitiv, Edison Investment Research estimates. Note: Prices as at 9 July 2019.

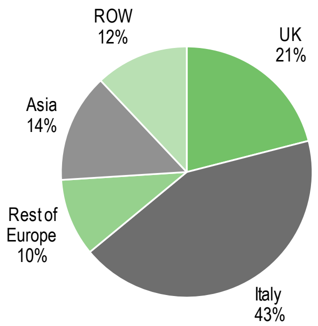
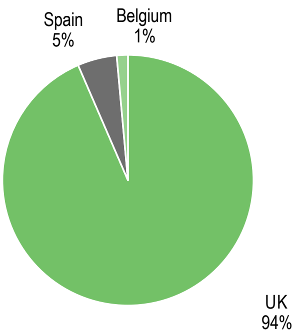
Exhibit 13: A snapshot of selected gaming operators

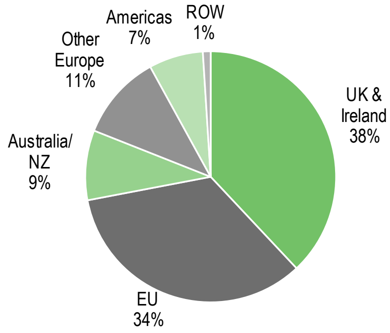
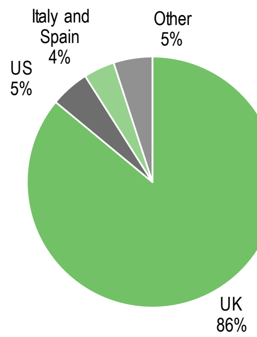
Company	Description	Key financials	Investment case
888			
888: LN Price: 159p Market cap: £589m	888 was founded in 1997 and operates as a B2C provider (casino, poker, bingo, sport) as well as offering white-label B2B services through its Dragonfish platform. At FY18, B2C revenues comprised 90% of the total and group revenues were split between casino (60%), sport (15%), poker (9%). bingo (6%) and B2B (10%). 100% of revenues are online.  **Next event:** H119 results (September 2019)	**2018 US$m** Net cash: 76 Revenues: 530 EBITDA*: 107 PBT*: 87	**Bull** ■ 888 was among the first operators to realign its business to become fully compliant with tightening compliance regulations. This has been particularly evident in the fact that Q119 UK revenues have seen a significant uptick, while other operators continue to show declines. ■ 888 has consistently shown its willingness to participate in the consolidation of the market, with recent deals to acquire its JV in AAPN (US poker); BetBright (sportsbook platform), Mandalay (UK bingo) and historically a joint bid with Rank for William Hill (ultimately unsuccessful). ■ 888 has its own proprietary platform and has been easily expanding into regulated markets outside the UK. In the US, the recent ruling on DOJ wire act confirms that poker and gaming can be carried out across state lines. **Bear** ■ The successful integration of BetBright is particularly important for expansion in the US, and it is possible that this may not occur as quickly or as smoothly as envisaged. ■ Increase in UK POCT will continue to be a drag on margins and there is still some uncertainty in the German casino market. ■ The US business is loss making and it is unclear when this will break even.
bet-at-home			
ACX: ETR Price: €53 Market cap: €373m	Founded in 1999, bet-at-home is an online sports betting and gaming company with c 300 employees. It is licensed in Malta and its headquarters are in Dusseldorf, Germany. bet-at-home has been part of Betclic Everest since 2009, a privately owned French online gaming and sports betting group. At FY18, the mix of gross gaming revenue was 42% sports and 58% e-gaming. 100% of revenues are online. For more information, please see our March 2019 Initiation report.  **Next event:** H119 results (29 July 2019)	**2018 €m** Net cash: 71 GGR: 143 EBITDA*: 36 PBT*: 35	**Bull** ■ bet-at-home is a strong brand name, with c 5 million customers and the company has successfully cross-sold into e-gaming. ■ Despite continuous regulatory challenges, bet-at-home has consistently generated strong cash flow. ■ The company has historically paid very high dividends (over 100% of free cash flow) and we expect this to continue in the near term, underpinned by high net cash. **Bear** ■ There are significant regulatory risks in major markets, largely in the form of increasing or new gaming taxes, but also including IP blocking (as witnessed in Poland and Switzerland). The e-gaming regulatory situation in Germany remains unclear. ■ The closure of the Swiss market has led to guidance of a 10–20% decline in EBITD A for FY19. ■ The high dividend policy cannot continue at the current rate indefinitely.

Company	Description	Key financials	Investment case
Betsson			
BETS-B: STO Price: SEK58 Market cap: SEK8.3bn	Betsson was founded in 1963 and is the second largest gaming company in Scandinavia. Brands include Betsson, Betsafe, NordicBet and CasinoEuro. It has licences in 12 markets and at Q119, revenues were split between casino (76%), sportsbook (22%) and other (2%). At Q119, 31.7% of revenues were from regulated markets. 68% of revenues are from mobile. 100% of revenues are online.  **Next event:** Q219 results (19 July 2019)	**2018 SEKm** Net debt: 602 Revenues: 5,420 EBITDA*: 1,507 PBT: 1,152	**Bull** ■ A market leader in Scandinavia (number two after Kindred) and strong presence in western Europe. High free cash flow generation, helped by presence in grey and black markets (notably Turkey). ■ 100% of revenues are generated on the proprietary platform, leading to higher margins and better business intelligence. ■ After a period of decreasing profitability, the company is focusing on cost efficiencies. In Q119, revenues grew by 10% (with growth across all regions), accompanied by EBIT growth of 21%. **Bear** ■ Regulation in Sweden (from January 2019) and high welcome bonusing at the beginning of the year has had an impact on margins. It is also possible that the Swedish regulator will restrict advertising. ■ Uncertainty regarding Dutch regulation, where Betsson may be subject to a 'cooling off period'. ■ High exposure to non-regulated markets and specific exposure to black Turkish market remains a risk (both regulatory and currency risk).
Flutter Entertainment (Paddy Power Betfair)			
FLTR: LN Price: 6,638p Market cap: £5.2bn	Paddy Power and Betfair merged in 2016 and the company has recently been renamed Flutter Entertainment. In the UK, it operates a dual brand strategy with its Betfair brand (including the Exchange), positioned to attract more value-conscious players, and its Paddy Power brand, positioned to attract more casual players. Flutter has been present in the US since 2009 (through TVG) and has further expanded through Betfair Casino and the acquisition of two fantasy sports businesses (FanDuel and DRAFT). At FY18, revenues were from online (50%), retail (18%), the US (10%) and Australia (22%).  **Next event:** H119 results (7 August 2019)	**2018 £m** Net debt: 162 Revenues: 1,873 EBITDA*: 451 PBT*: 357	**Bull** ■ Market-leading player, with a differentiating dual sportsbook offering. Flutter should be able to grow its 'mass market' base better than smaller peers. ■ Flutter has a unique set of assets in the US and is competitively well positioned through the FanDuel sports offering and Betfair Casino (NJ). It should therefore be able to tap into market growth. ■ Scale and technology provide significant revenue and cost advantages vs some peers. This is particularly relevant in an industry facing increasing taxes and regulation. **Bear** ■ UK revenues and margins have been materially affected by the Triennial Review and associated increased regulatory burdens. ■ While the US is a very promising market, there are many other operators also focusing on US sports betting and it is possible that future revenue growth may be slower than anticipated. ■ Q119 results suggest declining customer yields, particularly on the less recreational focused Betfair brand. AML procedures and the introduction of proactive gambling interventions are particularly affecting Betfair brand customers.

Company	Description	Key financials	Investment case
GVC Holdings			
GVC: LN Price: 604p Market cap: £3.7bn	GVC Holdings was founded in 2004 as an e-gaming operator and has grown rapidly through M&A. It acquired bwin.party digital entertainment (bwin) in 2016 for €1.5bn and Ladbrokes Coral for £3.1bn in 2018. GVC has also entered the US via a JV with MGM and it has reinforced its Australian operations through the acquisition of Neds. The group's pro forma FY18 NGR was split between online (53.6%), UK retail (37.2%); European retail (7.8%) and other (1.4%). FY18 online NGR was split between gaming (56%) and sports (44%). For more information on GVC's acquisition of Ladbrokes Coral, please see our update notes from April 2018 and June 2018.  **Next event:** Post close Q219 trading update (17 July 2018)	**2018 (pro forma) £m** Net debt: 1,897 NGR: 3,571 EBITDA*: 755 PBT: N/A	**Bull** ■ Following the purchase of Ladbrokes Coral (LCL), GVC is now a leading global operator. This position was further enhanced by a JV with MGM in the US. GVC is competitively well positioned in all its key markets and diversification means less susceptibility to regulatory shocks. ■ GVC has a wide range of well established brands, operating fully on proprietary technology, enabling strong growth and superior performance. ■ Management has a strong record of successful M&A and the integration of LCL appears to be on track, with significant synergies being realised. **Bear** ■ AT FY18, 37% of revenues were derived from UK retail – this is expected to shrink dramatically following the FOBT restrictions and the impact on shops could be greater than expected. ■ The anticipated growth of the US market may not transpire as quickly as hoped and GVC may need to invest more than expected. ■ The recent share sale by the CEO has dented investor confidence and this could take a while to reverse.
JPJ Group plc			
JPJ: LN Price: 719p Market cap: £536m	JPJ Group is a leading online gaming operator focused on bingo-led gaming and online casino. In June 2019, it announced a £490m acquisition of Gamesys (its platform provider), which we estimate increases EBITDA by 77% by FY20. Pro forma revenues are split across a number of high-profile brands: Jackpotjoy (30%), Starspins (5%), Botemania (6%), InterCasino (21%), Heart (10%), Virgin (24%) and Monopoly (3%). 100% of revenues are online. For more information on the Gamesys acquisition and pro forma forecasts, please see our 19 June update.  **Next event:** H119 results (August 2019)	**2018 £m (pro forma)** Net debt: 542 NGR: 504 EBITDA*: 171 PBT: N/A	**Bull** ■ JPJ is the leading player in the UK online bingo-led sector, which is further reinforced by the acquisition of Gamesys. We expect the company to increase market share as smaller peers may be unable to handle ongoing regulatory pressure. ■ The acquisition of Gamesys is a neat solution to gain control of the platform and accelerate international growth with high-profile brands. As a result of the deal, we estimate EPS accretion of 10.5% in FY20. ■ JPJ has a history of rapid deleverage and we expect net debt/EBITDA to fall from 3.1x at YE19 to 2.0x at YE20 – from this point, we believe JPJ could return cash to shareholders. **Bear** ■ JPJ's strategy of expanding into unregulated markets carries regulatory risk (eg government clamp down) and these grey markets are more volatile. ■ The core UK market has stagnated due to onerous regulatory burdens and JPJ had to close some VIP accounts during 2018. Growth is only expected to resume in H219 and may not be as high as hoped. ■ The acquisition of Gamesys has meant that leverage ratios will return to over 2.5x and therefore there will be a delay in returning cash to shareholders.

Company	Description	Key financials	Investment case
Kindred			
KIND-SDB: STO Price: SEK80 Market cap: SEK18.7bn	Kindred was founded in 1997 and is the largest gaming operator in Scandinavia, as well as one of the largest in Europe, with c 5% online market share. It originally focused on sports betting but has diversified into casino, bingo and poker. It operates in over 100 countries with 24 million customers and 11 strong brand names, of which Unibet is the largest. At Q119, revenues were from casino (48%), sports (47%) poker (3%) and bingo (2%). Mobile represented 73% of gross winnings revenue. 100% of revenues are online.  **Next event:** Q219 update (24 July 2019)	**2018** **£m** Net debt: 96 GGR: 908 EBITDA*: 203 PBT: 150	**Bull** ■ Kindred is the leading gaming operator in Scandinavia, the Netherlands, Belgium and France. ■ It has historically grown both organically and through M&A (eg the £175m acquisition of 32Red) and we believe it could continue consolidating in regulated markets. ■ There is potential upside from the US: Unibet is now live in New Jersey with Pennsylvania expected to follow by YE19. **Bear** ■ Recent regulation in Sweden has depressed margins and will weigh on FY19 figures. ■ Kindred operates in many grey markets across Europe, where the regulatory situation can be unclear (Germany, Norway and Finland). ■ Regulatory burdens are increasing in regulated markets – eg potential advertising restrictions in Sweden and ongoing UK KYC requirements.
OPAP			
OPAP: GA Price: €9.6 Market cap: €3.1bn	OPAP was founded in 1958 as the Greek national lottery and it is the exclusive licensed operator of all numerical lotteries, sports betting and horse racing in Greece. OPAP also holds the sole concession to operate 25k video lottery terminals, while it is the leader of a consortium that operates the passive lotteries and instant (scratch) games in Greece. It listed in 2001 and was fully privatised in 2013. A move into online should be enhanced by a €145m investment in Stoiximan (online casino and sports betting), which includes a 69% controlling stake in the Greek and Cypriot operations. At FY18, OPAP's revenues were split between lotteries (50%), sports betting (26%), instants and passives (10%) and Video Lottery Terminals (VLTs) (14%). Online revenues are currently a very small portion of the total. We note that at the time of writing, Sazka Group has made a bid to take full control of OPAP – at €9.12, which is below the current share price. For more information please see our February initiation and March and June updates.  **Next event:** H119 results (11 September 2019)	**2018** **€m** Net debt: 459 Revenues: 1,547 EBITDA*: 354 PBT*: 235	**Bull** ■ OPAP is Europe's only listed pure gaming operator with 100% exclusive licences, leading to very high barriers to entry. ■ New products to drive growth – specifically from the VLTs (slots) rollout and move into online (purchase of Stoiximan). Fixed costs are low with a franchised network and management continues to drive operational efficiencies while growing the revenue base. ■ High cash generation and generous payout ratio (over 100% of free cash flow). Additional €2 per share upside from 'hidden tax asset', deriving from the prepayment of GGR tax by OPAP to the Greek State (referring to the decade 2021–30 and amounting to €1.8bn). **Bear** ■ OPAP pays a high level of tax in a highly regulated sector: 35% GGR tax as well as corporation tax, which is much higher than European peers. It also faces competition from the illegal market (online and gaming machines). ■ Gaming spending is linked with Greek GDP and it can therefore be negatively affected by any potential deterioration and negative developments in Greece. ■ The anticipated growth in online may not come to fruition, and the acquisition of Stoiximan is still to be approved.

Company	Description	Key financials	Investment case
Playtech			
PTEC: LN Price: 433p Market cap: £1,364m	Playtech was founded in 1999 and is the world's largest online gaming B2B provider. Its licensees include GVC, Flutter, bet365, William Hill and Sky Betting & Gaming. Growth has been achieved both organically and through multiple acquisitions (including Snaitech, BGT, Quickspin, ECM and Mobenga). Playtech operates globally with 46% revenues from B2C gaming (predominately Snaitech); 47% from B2B gaming and 7% from TradeTech (financial division). Regulated revenues comprise c 80% of the total. Excluding Snaitech and TradeTech, c 50% of revenues are online.  **Next event:** H119 results (22 August 2019)	**2018** **€m** Net debt: 189 Revenues: 1,240 EBITDA*: 343 PBT*: 234	**Bull** ■ Dominates the B2B gaming sector and the core business dynamics are strong (excluding Asia). The Snaitech acquisition provides a leading position in Italy. ■ The company has grown organically and through significant M&A. It is well positioned to continue consolidating the market. ■ Despite well-flagged challenges in Asia, free cash flow is high and the progressive distribution policy is very generous. **Bear** ■ Playtech suffered significant setbacks in the past couple of years and revenues have been affected heavily by regulatory clampdowns in Asia. ■ The Sun Bingo contract has been a negative drag although Playtech has guided to Sun Bingo break-even in FY19 onwards. It has also signed a new multiyear extension agreement with News UK. ■ The group is facing rising taxes in its core Italian market, for both online and retail. The total impact is c €20–25m annually.
Rank Group			
RNK: LN Price: 156p Market cap: £617m	Rank Group was founded in 1937 and is now a gaming-based leisure and entertainment company. Its Grosvenor and Mecca brands are market leaders in UK multi-channel gaming and it also has smaller operations in Spain and Belgium. In H119, 16.4% of revenues came from digital, 49.4% from Grosvenor, 27.6% from Mecca Venues and 6.5% from International Venues (Spain and Belgium). Following completion of the acquisition of Stride Gaming (expected in Q319) Rank expects to have 4% of the UK online gaming market. For more details of the proposed Stride acquisition, please see our June flash note.  **Next event:** FY19 results (22 August 2019)	**2018** **£m** Net debt: 9.3 Revenues: 741 EBITDA*: 120 PBT*: 74	**Bull** ■ A new management is implementing a group-wide transformation programme, with goals to diversify internationally and build a more balanced portfolio (retail/digital). International digital revenues are already gaining traction following the purchase of YoBingo in 2018. ■ Rank has recently announced a proposed acquisition of Stride Gaming, which provides a high-performing proprietary software and will mean that Rank will have c 4% of the UK gaming market. ■ The retail businesses continue to be highly cash generative and the balance sheet is strong. Net debt/EBITDA is not expected to exceed 1.0x, even after the acquisition of Stride. **Bear** ■ Both Grosvenor and Mecca Venues have consistently posted like for like revenue declines over the past couple of years and we do not anticipate any significant growth going forward. (Note: this is being mitigated by numerous cost savings initiatives). ■ The migration of customers to Stride Gaming's proprietary software will take time and may not proceed as smoothly as anticipated. ■ UK remote gaming duty and social responsibility measures will continue having an impact on UK digital.

Company	Description	Key financials	Investment case
The Stars Group			
TSG: US Price: $16.4 Market cap: $4,730	The Stars Group is the global market leader in online poker, with approximately 60% market share. 2018 was a transformational year, with the acquisition of Sky Betting & Gaming (UK, Italy, Germany) and two Australian businesses (forming BetEasy). TSG has also signed various deals in US (including with Fox Sports) and is well positioned for potential market growth. At FY18, revenues were split between poker (35%), gaming (30%), betting (32%) and other (3%). 100% of revenues are online.  **Next event:** Q2 results (August 2019)	**2018 (pro forma)** **$m** Net debt: 5,054 Revenues: 2,541 EBITDA*: 920 PBT: N/A	**Bull** ■ TSG has successfully diversified revenues through major acquisitions in 2018: Sky Betting & Gaming (UK, Germany, Italy) and two Australian businesses, which together form BetEasy. TSG is now a leading provider in all online categories. ■ As the number one poker operator, Stars offers superior liquidity and is a comfortable market leader, with successful cross-sell into casino. ■ Well positioned in the US and has signed deals with Fox Sports, Resorts, Mount Airy, Eldorado and NBA. **Bear** ■ TSG has taken on major acquisitions, accelerating diversification, but these may take a while to fully integrate. ■ Q119 results demonstrated mixed operational performance, with some weakness in the UK and Australia driven by unfavourable results. With rising taxes and social responsibility measures, UK gaming may struggle against tough comparators. ■ European business (especially poker) has been affected by the closure of Switzerland and Slovakia and there are payment headwinds in Norway. The gaming framework is still unclear in Germany.
William Hill			
WMH: LN Price: 161p Market cap: £1,427m	William Hill was founded in 1934 as a postal/telephone betting service and entered the retail betting business in 1966. It is now a leading UK bookmaker, providing sports betting and gaming services in retail shops and online. It has four divisions and at FY18 these comprised: Retail (56%) with c 2,300 shops in the UK, online gaming (39%) and WH US (5%). Significant recent events include the purchase of Mr Green (European online gaming) and the Triennial Review, which will lead to the closure of many UK stores. This means that the geographical shift will move significantly away from UK Retail in FY19 – towards US and Europe.  **Next event:** H119 results (9 August 2019)	**2018** **£m** Net debt: 308 Revenues: 1,621 EBITDA*: 315 PBT*: 200	**Bull** ■ William Hill (with Eldorado) is the leader in legal sports betting in the US, with a Nevada business that generates c $50m EBITDA. Although William Hill's own M&A strategy is unclear, the proposed merger between Eldorado and Caesars would meaningfully boost its US operations. ■ The purchase of Mr Green provides diversification into higher-growth European online markets, taking the non-UK share of online to 35%. ■ The sale of the Australian business has led to a stronger balance sheet and moved its focus to the US and Europe. **Bear** ■ The reduction of FOBT stake limits is heavily affecting the UK business (leading to shop closures) and UK digital has also been hit by rising taxes and social responsibility measures. Growth in UK digital has also slowed considerably. ■ Following mergers of other key operators, William Hill looks increasingly subscale. It will likely need to pursue consolidation to remain competitive. ■ Mr Green operates in a number of grey markets, where the regulatory framework is less clear and revenues could be more volatile.

Source: Company data, Thomson, Edison Investment Research estimates. Note: *Underlying figures, excluding exceptional items. Priced at 9 July 2019.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia