

UK gaming sector

Regulator delivers a harsh verdict

Travel & leisure

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After many months of procrastination, the UK government has finally delivered a verdict on the fixed odds betting terminals (FOBTs), reducing stake limits from £100 to £2. Although not entirely a surprise, this is a disappointing result for the industry and will likely entail more than 3,500 shop closures. Also, while a decision has been made, there is still much uncertainty regarding timing and implementation. For online operators, there is a further blow, in the form of potential increases in gaming taxes at the next budget. This confirms recent speculation and is now widely expected to increase from 15% to 20%.

£2 FOBT stake limit: Harsh but not totally unexpected

For B2 machines, stakes have been cut to £2 (from £100 previously), affecting all UK bookmakers. Across the industry, we anticipate 3,500+ shop closures over the next five years. For GVC, we forecast c 1,000 shop closures, which equates to approximately one-third of the estate. GVC has now guided to an immediate EBITDA hit of £160m (c 20% of FY18e EBITDA), eventually reducing to £120m post-mitigation. This £120m compares to previous guidance of c £100m. Nonetheless, as detailed in our April 2018 [update note](#) on GVC, the possibility of a £2 stake limit was fully factored into the acquisition of Ladbrokes Coral (LCL) and the deal remains accretive. We expect further information at the GVC trading announcement on 25 May.

Raising remote gaming duty, possibly to 20%

Confirming recent speculation, the government intends to raise the remote gaming duty for online operators at the next budget. This is to compensate for lost taxes from FOBTs and would be a significant negative for all online gaming operators. As an indication of the impact, we estimate that an additional 5% tax equates to £9.5m (9% of EBITDA) for Jackpotjoy plc, £7m (5% of EBITDA) for Rank Group and £4.5m (23% of EBITDA) for Stride Gaming.

Additional measures to weigh on industry

The government also confirmed that the Gambling Commission will be exploring numerous other measures, including tougher time limit settings on machines, and online age verification and affordability checks. A multi-million pound responsible gaming advertising campaign will also be launched later this year. While there is potential upside for machines in casinos (which would be a positive for Rank Group), there is little clarity as to timing or the accompanying restrictions that might be required.

Companies in this report

GVC*
Jackpotjoy plc*
Rank Group*
Stride Gaming*

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