Mobile Gambling

Injecting new life

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Mobile gambling spotlight

Injecting new life

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The emergence of the online channel more than 15 years ago saw gambling extend out of casinos, betting shops and bingo clubs and into the home, with seismic effects on the industry. Mobile gambling is beginning to have a similar impact as it opens up the opportunity for players to gamble anywhere, anytime. Growth rates are outstripping those of the broader sector with 30% of mobile revenues estimated to be incremental. Awareness of a new set of commercial, technological and regulatory challenges is vital if investors are to back winners.

Growing the global gambling pie

The global online gambling market was worth $34.8bn in 2014 and is growing at 8.7% pa (source: H2 Gambling Capital). Within this mobile is the primary growth driver in every product vertical, largely driven by the increased adoption of smartphones. With an estimated CAGR of 27%, mobile gambling is expected to grow to $19bn and represent 40-45% of online gambling revenues by 2018. Importantly, mobile gambling is growing the gambling pie via increased take from existing players and by attracting new casual players seeking to be entertained on the move – MECN estimates that at least 30% of mobile revenues are incremental.

Who are the winners?

We believe that a ‘mobile first’ approach is a key determinant of success for B2C operators, and providing effective solutions offers an opportunity for B2B providers. The quality of the user experience is of paramount importance given the technical challenges presented by rapidly evolving mobile hardware. Land-based operators have considerable opportunities to leverage their brands to achieve lower customer acquisition costs with well executed omni-channel offerings. Mobile devices provide a treasure trove of customer data; the ability to refine marketing based on data-derived insights is become an increasingly important core capability.

We profile a range of companies

We profile a range of companies that are taking advantage of mobile gambling opportunities in different ways. We include three B2C gaming operators: 32Red, Gaming Realms and Stride Gaming; two B2B operators: Nektan and Playtech and two land-based operators that are successfully implementing an omni-channel strategy: Rank Group and William Hill.

Valuation: Hard to generalise

Sector EV/EBITDAs vary considerably, from c 7-25x 2015e EV/EBITDA, in part due to current M&A activity. Factors affecting ratings include the business mix (online typically more highly rated than land-based, regulated markets more highly rated than unregulated, B2B recurring revenues more highly rated than B2C). However, companies that can capitalise on the opportunities presented by mobile gambling and the data it generates are likely to outperform.

Companies in this report

32Red
Gaming Realms*
Nektan*
Playtech
Rank Group*
Stride Gaming*
William Hill

*Denotes Edison client

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Introduction

Mobile internet traffic now exceeds that coming from desktop for the first time. This is having a profound effect on the way that consumer businesses of all kinds, including those in the real money gaming (RMG) industry, initiate and maintain relationships with their customers. Every technological shift brings challenges for incumbent operators and the opportunity for nimble forward-thinking new players to grab a slice of the pie. Indeed, new RMG companies at the operator and software provider level are springing up, offering a mobile focused experience. At the same time, established bricks and mortar operators are pushing a device/method-agnostic omni-channel approach to gaming.

The purpose of this report is to act as a primer to potential investors seeking to gain exposure to the strong growth rates being achieved in the mobile gambling space. Questions that the report seeks to answer include:

- What are the drivers behind the rise in real money gambling?
- How is it growing the market?
- What are the key characteristics required to succeed in the mobile RMG space?
- Looking forward – where is the industry heading?
- Potential investment opportunities: do present valuations reflect the evolving landscape?

Contents

Investment summary: Mobile first is the future

Mobile gambling poised to lead the digital channel

Mobile gambling is driving the growth in gross gaming revenues in the $35bn global online gambling industry. It is estimated that there will be 3.4bn smartphones and more than 900m tablets in circulation globally by 2017. Ofcom's 2015 Communications Market Report stated that smartphone adoption rates in the UK now exceed two-thirds of the adult population. Together with significant improvements in the hardware capability and mobile data connection speeds, this is fuelling rapid growth rates in mobile gambling. Taking current levels of growth, it is estimated that mobile could surpass desktop as the primary online gambling channel as early as 2017.

A unique set of technical challenges

Mobile gambling products have historically consisted of the desktop product shrunk down in a mobile browser. This resulted in a poor user experience as it did not recognise the vastly different hardware profiles of smartphones and tablets, or the different player usage environments. Developers have to optimise and test games for use on a huge number of different screens and operating systems, while factoring in data connection speeds that have historically been a fraction of those achieved with fixed-line broadband. At the same time, the fact that mobile users are often snatching moments on the move between their regular daily activities has meant that many products have had to be redesigned from the bottom up from a gamification perspective.

Not all gambling verticals are equally suited to mobile

Sports betting has led the way in mobile gambling and continues to dominate traffic. This is largely because, from a presentational perspective, sports betting generally requires little more than the present odds being displayed in a clear and concise manner. The higher game playing, social and graphical requirements of poker and bingo has meant that player take-up in these verticals has been slower. However, recent hardware and software improvements are serving to overcome these additional challenges and reported mobile growth rates across a number of operators in these verticals suggests take-up is now accelerating.

The user experience is the key success factor

We argue that the quality of the product is the key success factor in mobile and a direct function of the user experience. Playability, consistency and cohesion are key to keeping users engaged, with the ultimate aim of maximising lifetime values. Even more so than on the desktop, mobile players are very unforgiving and failure to offer a quality experience straight out of the gate risks losing an expensively acquired gamer at best, and at worst lost revenues across other brand channels.

Omni-channel offering is essential for land-based players

Omni-channel has become something of an industry buzzword. It ultimately relates to consistency of offering and providing users with a seamless user experience regardless of which channel touchpoint they choose to interact with the brand. In practice, this means a one-customer view, giving that customer a consistent look and feel, as well as a single wallet. Omni-channel is important for two reasons: firstly, it offers existing land based operators the chance to cross-sell and leverage their brand to achieve new digital players at very low CPAs; and secondly successful omni-channel offerings increase the lifetime values (LTVs) of customers that play across multiple channels.

Mobile provides a treasure trove of customer data

The gambling industry is increasingly learning to harness the power of data-derived customer insights. This is being used to increase the effectiveness of marketing budgets and bonusing strategies to both lower CPAs and increase LTVs. Despite the progress made to date, the industry still has further to go in its use of data analytics. Mobile offers an unparalleled volume of data that can be harvested. The ability to access these data in real time, with accompanying geolocation tagging, uniquely positions the mobile as a driver of further marketing and game-playing innovation.

Scale is becoming increasingly important

Attracted by the high growth rates, operators in the mobile channel have previously been engaged in something of a land grab. As a result, CPAs have been rising over time to the point that mobile CPAs are now typically higher than those found across the desktop channel, despite the typically lower LTVs of the more casual mobile-only player. Together with the cost imposed by the newly introduced UK point of consumption tax, size is becoming increasingly important as the returns to scale rise.

Further market consolidation is likely

We expect to see increased levels of M&A as the mobile channel continues to mature. This will include the horizontal integration approach already being employed by companies adopting a buy and build strategy to achieve the aforementioned scale advantages. Elements of vertical integration have also been evident as companies seek to have more control of different elements of the value chain to achieve greater differentiation.

Risk – regulators often slow to adapt

This is a highly regulated industry and awareness of the current and evolving regulatory environment is crucial. There is usually a lag between technological advancement and a regulatory response, should governments feel that one is required. The mobile channel increases the level of convenience for the casual gambler, but also the risk for those predisposed to gambling abuse. At present it is believed that existing remote gambling laws and industry self-regulation should provide adequate protection for such players. However, this may change if evidence indicates that existing measures are inadequate. Regulation can often be viewed as positive in the medium term as it usually serves to professionalise a market and often precipitates consolidation among larger, often listed, players such as those we have profiled. The companies we have profiled either operate entirely in regulated markets or are focused on growing their exposure to regulated jurisdictions.

Gaining exposure to the sector: Companies profiled

We discuss sector valuations on page 14 and provide short profiles on a range of companies:

Exhibit 1: Companies profiled

Company	Business	Price (p)	Market cap (£m)
32Red	B2C (gambling) online	77	64
Gaming Realms*	B2C (gambling) online	25	61
Nektan*	B2B software provider	154	35
Playtech	B2B software provider	786	2,536
Stride Gaming*	B2C (gambling) online	290	145
Rank Group*	B2C (gambling) omni-channel	266	1,040
William Hill	B2C (sp&g) omni-channel	350	3,097

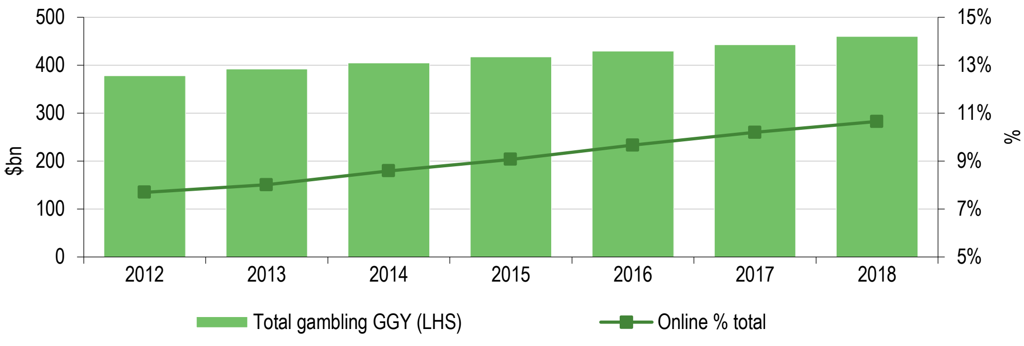
Source: Edison Investment Research, Bloomberg. Note: *Edison research clients. Prices as at 6 October.

The real money gambling landscape

The global picture

2014 global gambling revenues (GGY) were $405bn, 3.3% higher than in 2013, and are forecast to grow at a CAGR of 3.2% to 2018. Online gambling (including mobile) was $34.8bn in 2014 (up 10.8%), or 8.6% of the total market, and is forecast to grow at a CAGR of 8.7% to $49bn by 2018, when it will represent 10.7% of the total market (source: H2 Gambling Capital, 888 Holdings prospectus, Edison Investment Research).

Exhibit 2: Global gambling gross gaming revenues



Source: H2 Gambling Capital, 888 Holdings prospectus, Edison Investment Research

Mobile gambling is where the growth is

Mobile gambling is real money betting and gambling on tablet and smartphone devices. After a number of false dawns, the mainstream adoption of mobile real money gaming is finally happening. This is changing **how, when** and **where** consumers choose to engage in gambling-related forms of entertainment.

Mobile gambling is the fastest growing segment of the market and is forecast to grow at about 27.5% p.a. between 2014 and 2018, from about $7.2bn in 2014 to $19bn in 2018. Estimates vary but it is generally expected to account for 40-45% of the online segment by 2018 (source: H2 Gambling Capital, Edison Investment Research). We believe that in some parts such as the UK it has already reached that proportion (Probability GTECH White Paper 2014).

Encouragingly mobile gambling appears to be both enticing new casual gamblers into the market, as well as increasing the LTVs of existing gamblers, particularly among those companies that can offer a seamless omni-channel experience. Playtech report that customers registered with the Coral Connect omni-channel solution spend 2.5x more than other online customers. An MECN survey in 2014 estimated that as much as 30% of mobile gambling revenue is incremental for operators (the balance being substitution from desktop).

Moving to a 'mobile first' world

It is estimated that by 2017 there will be 3.4bn smartphones and 905m tablets in circulation globally (Forrester). Google declared itself a mobile first company in 2009. This widespread adoption of smart mobile devices has coincided with higher data speeds made possible by the roll-out of 3G and, more recently, 4G networks. As a result, six years on from Google's declaration, 2015 will mark the first year that mobile internet traffic has exceeded that coming from the desktop. This is creating a fundamental shift in the way internet content is produced, formatted and delivered.

The 2015 Ofcom Communications Market Report declared that the UK is now a "smartphone society", as smartphones have replaced laptops as the most popular device for people to go online.

A third of internet users now turn to their smartphone as their primary device for going online, up from just 22% a year earlier. This has been supported by increasing levels of smartphone penetration, which have increased from 39% in 2012 to 66% of the UK adult population today. More than half of UK households (54%) had a tablet in early 2015, up from 44% just a year earlier.

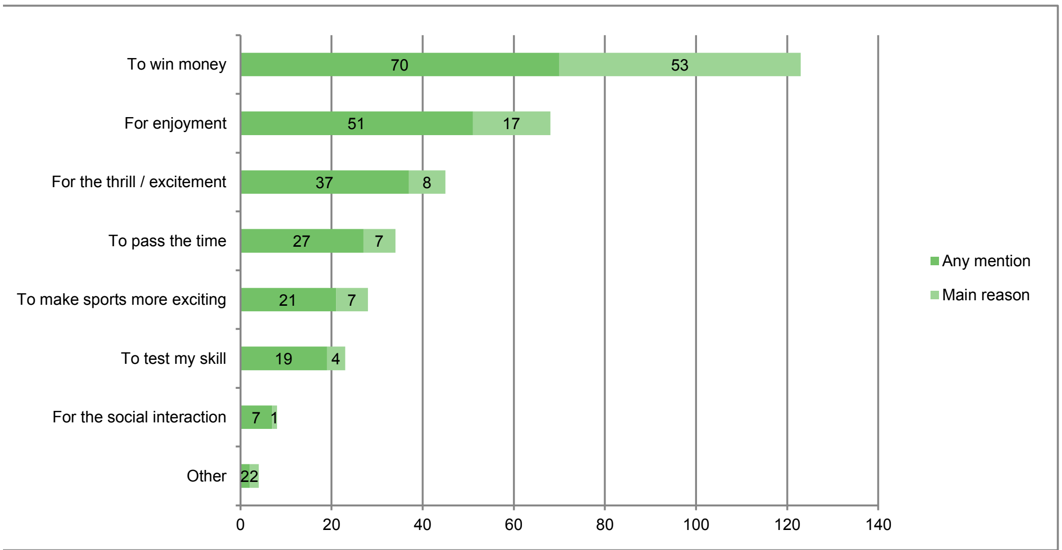
Growing demand for entertainment on mobile devices

There have been two primary factors behind the shift to mobile gambling: firstly, the constant proximity of smartphones to their owners. Smartphones are estimated to be within one metre of their owners 94% of the time and users reach for them up to hundreds of times a week, according to research by Tecmark; secondly, the user experience on mobiles has improved markedly in recent years. For example, touch functionality has become almost ubiquitous in technology interfaces, taking advantage of the fact that people are tactile beings. It is more intuitive than using a mouse and has gamification advantages that help create a more ‘real life’ experience such as physical daubing of numbers in bingo-related digital product offerings. This has seen smartphones and tablets become entertainment devices.

Increasingly, people expect to be entertained during periods that have historically been regarded as ‘dead time’, such as while waiting for a bus or train or during their commute. The smartphone has become the most convenient way to do that. At home, ‘second screening’ has become very popular. Estimates of second screening use in the UK vary from 24% to 63% (source: Technologia for Ofcom – *Assessing the impact of second screen*), with widespread recognition of the fact that it is particularly prevalent among young people. Indeed, a survey by mobile specialists (GTECH) in 2014 found that 92% of participants said they usually play on their mobile device at home. 21% reported that they played while travelling.

An OpenBet and eGaming Review survey about why people like to gamble online revealed that four of the five top reasons relate to entertainment-type motivations (see Exhibit 3 below).

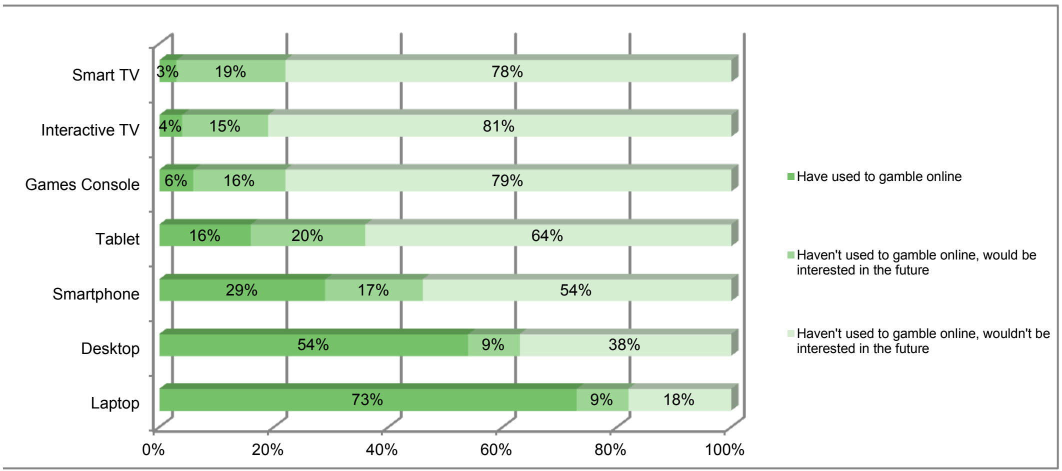
Exhibit 3: Why do you like to gamble online?



Source: eGaming Review/OpenBet webinar, August 2015

Exhibit 4 shows the different devices that people use to gamble online. It demonstrates the continued potential of the mobile channel, as despite the increased take-up experienced over the years, smartphones and tablets continue to lag desktop and laptop as devices that players have used to gamble online. They should also benefit from a significant proportion of respondents that had not tried but would be interested in trying in the future.

Exhibit 4: Devices used to gamble



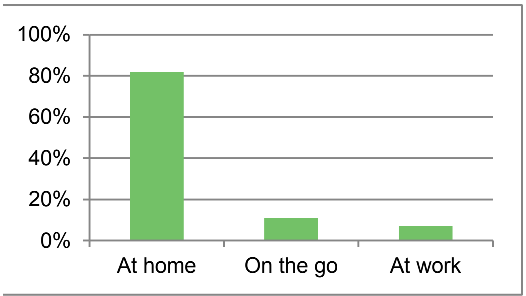
Source: eGaming Review/OpenBet webinar, August 2015

Tablet vs smartphone – key distinctions

Although mobile refers to both smartphone and tablet usage, there are important distinctions between the two devices that are important to recognise. Tablets offer the better user experience, one which is more akin to that found on the desktop. This is achieved because of their larger screens. Our conversations with industry participants indicate that as a general rule players that play via desktop-downloaded software have higher LTVs than those that play via a desktop browser, who in turn are more valuable than those that play via tablets, who themselves trump purely smartphone players.

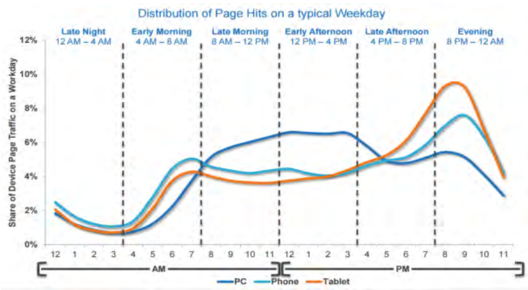
Despite falling in the 'mobile' category, tablets are actually used in the home more than 80% of the time. Tablets are typically used at home in the evening, often as a second entertainment screen while people watch TV.

Exhibit 5: Google survey – when do people use their tablets?



Source: Google, 2011

Exhibit 6: Share of device page traffic on a typical working day



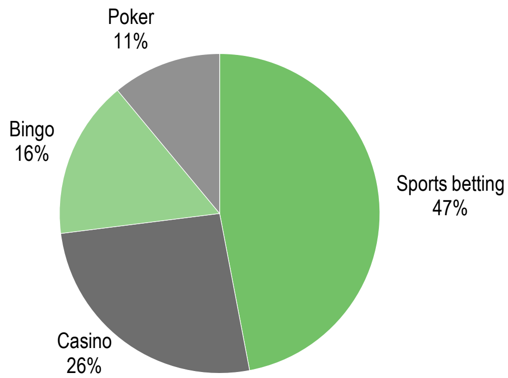
Source: comScore, 2014

While smartphones are also used as second screening devices, it is their portability advantage that sees them come into their own during on-the-go periods like commuting, as can be seen by their leadership in early morning usage.

Mobile gambling product verticals

Similar to the migration to online, when players make the move to mobile gambling the most important thing they are looking for is familiarity. They want a look and feel that is consistent with what they are already used to. Mobile also offers innovation potential that in some cases can actually enhance the experience. While there are some elements of game playing that can never be digitized, it is easier to recreate the important features in some gambling verticals than others. Exhibit 7 shows the estimated current mix of the UK mobile gambling market by product vertical.

Exhibit 7: UK mobile gaming market by product vertical



Source: Stickyeyes – The UK Gambling App Market: Strategies and tactics for success

Sports betting: a mobile product in sports betting is now seen as essential. The price transparency available on the desktop made possible by odds checker websites has served to encourage fierce price competition on the desktop, thus eroding operator margins. Mobile phone players tend to be more casual and less price sensitive. As a result, operators can maintain their margins much better on mobile.

Event-based betting is a relatively new innovation made possible by mobile gambling. Operators can target marketing to a captive audience of event spectators such as people at football matches or horse races. They can then be offered both in-play and ante-post betting opportunities.

Second screening is highly complementary to in-play betting. Players can watch events unfold onscreen and place bets according to their view of the sporting event that they are watching such as next scorer in football or number of aces in tennis. Mobile gambling makes this possible when players are watching sports in a social setting such as in a bar. Also, the shorter betting cycles that are a feature of in-play betting are perfect for mobile, where players appreciate shorter payback periods.

Casino: second only to sports betting in terms of its popularity on mobile. Although casino consists of a number of traditional casino table games including black jack and roulette, it is effectively dominated by slots. The slots game format is perfect for mobile as games are short in duration and the slots experience is easy to recreate on mobile devices.

Poker: historically, poker has been very difficult to recreate on mobile, but has been gaining traction more recently. Games tend to be longer lasting and so less suited to quick bursts of game-playing activity. The multi-player feature of poker necessitates the need for a consistent uninterrupted internet connection. Despite improvements in data connection speeds, mobile devices can still suffer from dropped connections, especially when on the move. The fact that poker is a game of skill also makes it less suited to the more casual player who tends to play on mobile.

The poker vertical is starting to see innovation that is allowing it to overcome historic mobile-specific challenges. Amaya, the world's largest online poker provider through its PokerStars and Full Tilt brands, reported that as of Q215 it now sees c 60% of new customer acquisitions and 45% of active unique users come via the mobile channel (up from 37% in Q214). This success has been achieved through the launch of new, more fast-paced game formats such as Spin & Go, which focus more on fun to attract the casual mobile player.

Bingo: like poker, adapting the bingo product for mobile is more difficult. More so than any other form of gambling, the bingo experience relies heavily on social elements. This has meant that game developers have had to do more than simply reformat the desktop offering. As Exhibit 8 shows, a typical desktop bingo screen consists of a number of bingo cards, a chat room and a slot-style game.

Exhibit 8: A typical desktop bingo screen

Source: Mecca Bingo Online

Smartphones in particular lack the screen real estate to conveniently place all of these elements together. Bingo also relies on player liquidity in individual game rooms, something which means there can be waits of over five minutes while players populate these virtual rooms. This is not ideal for people on the move looking to snatch a moment on their smartphone.

To get around some of these challenges, new mobile-friendly variants of the game have been developed such as speed bingo, in which games happen much more quickly, or Gaming Realms' real-money version of Slingo, a slots-meets-bingo game that had more than 50 million players at its peak as a social game on Zynga.

The technological evolution of mobile gaming

The first mobile gambling sites appeared in the early part of the new millennium. However, poor connection speeds and handsets with small, usually monochrome screens made it almost impossible for developers to deliver engaging content.

More recently, many of the hardware challenges have been overcome. In 2007 the iPhone heralded a step change in the user experience capable through a smartphone. It is now the norm for smartphones to come with rich, full-colour, touch-enabled screens. The iPad followed in 2010, effectively creating a whole new mobile computing channel, with Google Android-based clones coming soon after.

In terms of data connection speeds, the roll-out of 4G in the UK has surpassed all previous connection standard adoption rates in the UK. From the end of 2013 to the end of 2014, the number of UK 4G connections rose from 2.7m to 23.6m. 4G connections benefit everybody in the mobile gambling value chain as it means that better, faster games can be developed with reduced latency issues.

Even as hardware issues were being overcome, software shortcomings remained a stubborn barrier to achieving a truly engaging gaming experience. The iterative process of the software development industry finding its feet in mobile meant that many gambling companies took a broad-brush approach to their digital offering and desktop offerings were pushed down the mobile channel. This improved with the advent of the iPhone and the App Store in 2007. Conversely, Google prohibits the distribution of gambling-related apps in its Google Play store. Players can still download gambling apps direct from the websites of gambling companies. However, lack of availability through the Google Play store limits the adoption of Android-based apps to all but the most technologically savvy players.

Ongoing technical challenges

The biggest challenge in developing mobile gambling products lies in the heterogeneity of the myriad of devices and operating systems. This is a particularly big challenge when developing native apps, as each app requires coding specific to the operating system, and sometimes a particular version of that operating system, for which it is to be developed. Testing then needs to be carried out on as many different devices as possible to ensure correct functionality. Device and operating system fragmentation serves to make the game development process much more expensive.

Although download speeds have improved enormously in recent years, signal blackspots that contribute to dropped connections continue to frustrate the game-playing experience. HTML5 games, in particular, are sensitive to dropped connections due to the need to download more content in real time.

Mobile RMG key success factors

A number of incumbent bricks and mortar gambling operators were slow to make a proper push online. Of the five biggest B2C online operators, three exist only in the online space (Bet365, Amaya and bwin.party), with William Hill and Paddy Power being the biggest omni-channel players (although Ladbrokes will close the gap post the merger with Gala Coral). Having only been founded in 1999, gambling software provider Playtech now has a market cap that is approaching three times that of established bricks and mortar operator Ladbrokes. This as much reflects Ladbrokes' failings as Playtech's success, but it does highlight the importance of successful execution and mobile is now a vital component of any digital offering.

Product/customer experience: Prime success factor

The quality of product is the number one key success factor in determining the likelihood of success in mobile RMG. Ultimately, gambling operators are in the consumer entertainment business and the quality of their product is directly related to the user experience. There are a number of features that make for a quality product offering:

- user-friendly (uncluttered, intuitive);
- entertainment factor (playability, fun);
- consistency (clear continuity from the desktop experience); and
- security (against fraud, theft).

Native app vs HTML5: Debate continues

Apps continue to be the predominant way in which users choose to engage with their phone and it is estimated that 86% of all smartphone usage takes place in a native app environment. The mobile experience has a huge bearing on how consumers view a brand. A poor mobile experience can damage an operator's existing relationship with a customer. Data by Localytics suggest that 20% of users only open an app once and never return. Therefore, given the cost of customer acquisition, it is imperative that the user experience is engaging straight out of the gate.

There has been a longstanding debate about the virtues of HTML5 vs an app-based mobile approach. Facebook CEO Mark Zuckerburg famously stated in his first IPO investor call that "The biggest mistake we made as a company was betting too much on HTML5 as opposed to native". Despite this HTML5 should not be completely disregarded. While continuing to lack some of the functionality achievable in an app, HTML5 has certainly offered developers the ability to offer a within browser app-like user experience.

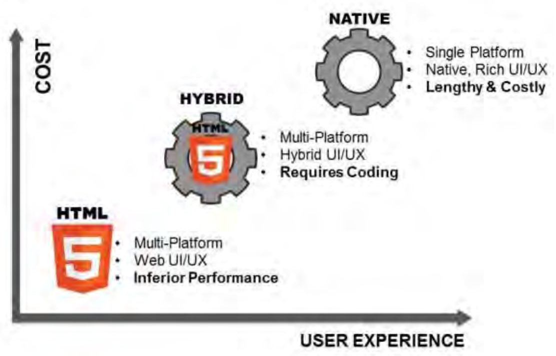
Exhibit 9: Key features of a native app vs an HTML5 approach

Feature	Native	HTML5
User experience	Fast and interactive user experience. Developers have access to c 7,000 device capabilities.	Fast and developed to run on any device via a web browser. Developers have access to c 100 device capabilities.
Performance	Fast and independent of internet connection.	Slower and relies on internet connection and downloaded every time.
Cost of development	High as each app needs to be developed specifically for each OS on which it is intended to run.	Low due to ability to run within browser on any OS.
Distribution	Apple via App Store and third-party sites	Distributed via websites and via hybrid apps.

Source: KPMG eGaming Summit – The growth and challenges of mobile devices (Neill Whyte)

Ultimately, operators must be cognisant of the trade-off that is made between opting for the improved functionality and all-round experience offered by native apps and the speed to market, flexibility and wide compatibility of HTML5 solutions.

Exhibit 10: Native app vs HTML5 cost/user experience trade-off



Source: MobileSmith

Scale: Confers advantage

Typical of an industry in high growth phase, operators in the mobile channel have been engaged in something of a land grab. This has resulted in rising marketing costs, pushing up CPAs. The introduction of the UK point of consumption gambling tax from December 2014 means operators now have to pay a 15% levy on all revenues from UK-based players. This has put significant pressure on margins and has seen operators place increased scrutiny on their costs, including their marketing spend. This places operators with the scale to spread costs over a wider base of players at a significant advantage.

Brand: Reduces CPAs

Brand recognition, especially for established land-based players, is important in so far as it offers the chance to achieve low customer acquisition costs (CPAs) for your online and mobile offering. Also, the more distinctive the game offering, the more valuable branding becomes. For more standard commodity game offerings brand value carries less weight. For that reason, it is a perfectly legitimate strategy to launch multiple brands in a product vertical to maximise share of wallet.

Data analysis expertise contributes to raising LTVs

Mobile devices give companies the ability to harvest data on individual preferred playing times, locations and average duration among a wealth of other data points. When married with customer demographic data, this presents powerful big data opportunities, allowing operators to provide individually tailored marketing campaigns and product offerings.

Operators that take full advantage of these capabilities will have a competitive advantage. Data analysis expertise is at the heart of achieving success in this regard. This will begin with targeting new customers to drive down CPAs. As the market matures, the use of data to harvest existing customers more effectively to raise their LTVs will become even more important than player acquisition.

Looking forward – where is the industry heading?

Consolidation/M&A

Scale is becoming increasingly important. Regulatory costs, marketing costs and IT costs have all grown significantly in recent years, requiring operators to have very deep pockets just to maintain their position. As a result, M&A activity in the industry is starting to pick up and we would expect this to continue in the medium term. While this is not specifically related to mobile gambling, it is pertinent from an industry dynamics perspective.

Exhibit 11: Recent M&A activity

Deal	Date	Value (£m)	EV/EBITDA(x)	Consideration
Intertain buys Mandalay/Costa Bingo	Jun 2014	45	7.6	Cash
Amaya buys PokerStars	Jun 2014	7,497	11.1	Cash
Intertain buys Vera&John	Oct 2014	59	8.1	Cash / Shares
CVC Capital Partners buys Sky Bet	Dec 2014	800	15.0	Cash
Intertain buys Jackpotjoy	Feb 2015	426	9.0	Cash / Shares
Ladbrokes/Coral (proposed)	Jul 2015	2,300*		Cash / Shares
Paddy Power/Betfair merger (proposed)	Aug 2015	4,900*		Cash / Shares
GVC bid for bwin.party (proposed)	Sept 2015	1,000		Cash / Shares

Source: Edison Investment Research, company presentations. Note: *Total market cap of merged entity at the time of the merger announcement.

Social gaming integration

As RMG expands to take in more casual players, the line between RMG and social gaming continues to blur. The primary distinction between the two is that social gaming does not give players the opportunity to cash in any winnings. Rather, social gaming rewards players that deposit money with additional levels and special in-game features. As a result, social gambling benefits from less regulation allowing for wider distribution and marketing.

Given its broader adoption, social gaming has been seen as a potential acquisition channel for RMG. So far, crossover rates have been relatively low (<5%), although there is potential for this to rise as operators refine their cross-marketing techniques. Furthermore, social gaming operators tend to lead RMG operators in their use of data analytics and levels of playability. Many RMG operators could benefit from integrating some of these techniques into their own offerings.

Increased personalisation

The number of available data points makes mobile the perfect channel for increased levels of personalisation. At present, industry customer segmentation techniques and the associated marketing is relatively primitive. Often these incorporate little more than metrics such as the time since the last game as a trigger to send a further marketing communication. In future operators will be able to incorporate such metrics as age, location, usual playing time and preferred type of game, to offer customers a truly unique experience by pushing a tailored product offering. This should enable them to market the types of games individual players are most likely to play, at a time and place that they are most likely to play it.

Wearables and other hardware innovations

Wearables, such as smart watches, are the most recent hardware innovation in the mobile space. The lack of screen real estate inhibits their ability to act as gaming devices in their own right. However, smart watches do hold potential as part of a seamless holistic experience. Potential uses include the ability to channel marketing messages through them that prompt the user to open their mobile device, or even desktop. This could be triggered by a period of physical inactivity that has been detected by the device suggesting that the player might be available and receptive to game-playing suggestions.

Outside smart watches, Facebook's recent purchase of virtual reality (VR) company Oculus suggests that VR might finally be poised to make traction as a consumer device. Whether or not this proves to be the case, the most important factor will continue to be adoption. Once widespread take-up is achieved, the industry is likely to follow with product innovations designed to improve the gaming experience.

Sector valuations

Exhibit 12: Online gambling peer comparison

Company	Business	Price	Mkt cap	EV/EBITDA (x)		P/E (x)		Yield	Rev CAGR
		(p)	(£m)	2015e	2016e	2015e	2016e	2015e	2014-16
32Red	B2C (gambling) online	76.6	64	9.5	5.7	11.8	7.3	3.4%	36.7%
888	B2C & B2B (gambling) online	169.0	603	11.3	10.3	19.8	17.1	3.5%	1.8%
Betfair	B2C (sports) online	3,388	3,141	25.8	22.3	42.2	35.7	0.9%	15.7%
Gaming Realms *	B2C (gambling) online	24.8	61	N/A	10.0	-12.4	13.8	0.0%	110.8%
Ladbrokes	B2C (sp&g) omni-channel	100.4	1,022	9.2	8.1	19.5	15.0	3.7%	2.6%
Nektan *	B2B software provider	154.0	35	N/A	N/A	N/A	N/A	0.0%	110.8%
Paddy Power	B2C (sports) omni-channel	102.7	3,326	20.8	17.9	33.1	27.3	1.3%	21.6%
Playtech	B2B software provider	786.0	2,536	13.3	9.8	16.1	12.8	2.6%	33.7%
Rank Group* **	B2C (gambling) omni-channel	266.1	1,040	8.5	8.2	17.7	16.6	2.3%	5.7%
Stride Gaming *	B2C (gambling) online	290.0	145	N/A	N/A	N/A	N/A	0.0%	49.1%
William Hill	B2C (sp&g) omni-channel	350.0	3,093	9.8	9.2	14.2	12.7	3.6%	3.4%

Source: Bloomberg, Edison Investment research. Note: *Edison clients and estimates. ** Rank Group (June year-end) is annualised. Share prices at 6 October 2015.

Traditionally, gaming companies have been valued using EV/EBITDAs. Gaming company multiples vary considerably depending on the business mix and geographic exposure. Regulated markets are usually more highly rated than unregulated (where new licensing rules and taxes may be introduced). Online operations are usually more highly rated than land-based (the latter being lower-growth, plus there have been tax changes and other pressures on betting shops). B2B businesses that generate recurring revenues are usually more highly rated than B2C. Thus we feel that in many cases a sum-of-the-parts approach is relevant, particularly for the larger omni-channel operators: Ladbrokes, Paddy Power, Rank Group and William Hill. Using a sum-of-the-parts model allows the growth potential of the growing online/mobile operations to be more accurately reflected.

M&A is having an effect. Paddy Power has historically traded at a high rating due to its above average growth and fully regulated status. However, along with that of Betfair, its valuation has recently been inflated due to the positive reaction to their proposed merger among investors. Ladbrokes has also recently announced a proposed merger with Coral Group, which has also received a favourable reaction but not yet materially lifted the rating given the large land-based operation and Ladbroke's historic disappointments.

Of the companies we profile in the following pages, Gaming Realms, Nektan and Stride are all young companies at an early stage in their development, with much higher risk/reward ratios than the more established operators. Rank Group and William Hill are leading omni-channel operators – the former in casino/bingo, the latter in sports and across the market overall (until it is overtaken by the new merged groupings). Our recent Initiation report on Rank discussed how the business has been re-energised over the past year and is now growing rapidly in digital. Playtech is a leading B2B software provider that is in the process of expanding financial trading (which will account for c 40% of group revenues); we have excluded it from 2016 ratios since analyst forecasts are currently inconsistent in their treatment of the proposed acquisitions.

We suggest that those companies most exposed to the success factors discussed in this report should in theory have the better ratings, all other things being equal.

Company profiles

EDISON

32Red

Well-established online casino

32Red is a well-recognised UK online casino brand and maintains a high profile through offline (such as racing sponsorship) as well as online marketing. Mobile has become an important channel and over 40% of casino revenues came through mobile in H115. With only 4-5% of the market, 32Red has plenty of scope to increase share, helped by the withdrawal of c 100 unlicensed operators from the UK market and some of the larger industry players being distracted by M&A. The £8.4m acquisition of Roxy Palace in mid-July adds c 30% to revenues and offers material synergistic benefits.

Company description

32Red's main focus is on its UK online casino, which also cross-sells poker, bingo and sports (the latter provided by Kambi on a B2B basis). It operates on the Microgaming platform, as does the Roxy Palace online casino (acquired on 14 July 2015 for £2m cash and 10m shares), which brought in a slightly more international customer base with 2014 revenue of £10.1m and EBITDA of £1.6m (implying an exit EV/EBITDA of only 5.3x). 32Red also has a small Italian business, which is currently loss-making but should benefit from increased marketing and an improved product suite going forward.

Company strategy

32Red has responded to the challenge of the UK point of consumption tax (POC) by increasing marketing spend and driving strong top-line growth (Q3 like-for-like revenue up 52%). However, rather than just growing marketing volume, it is starting to reap the rewards of a new bespoke behavioural marketing model and is now focusing more on the return on marketing investment (ROI) than on the cost of player acquisition (CPA). Roxy Palace has brought in marketing know-how and revenue synergies, as well as cost synergies estimated at £1m in 2016 (with integration being straightforward since it operates on the same platform).

Mobile performance

As for other operators, mobile is the fastest growing channel for 32Red, with more than 50% of new casino players being recruited via mobile in H115 and mobile revenues accounting for 42% of the casino total, up from only 8% in H112. H115 adjusted EBITDA of £2.2m was after £2.0m of POC costs, but the consensus is for 66% EBITDA growth in 2016 (excluding Italy, which should be moving towards break-even), helped by a full year contribution from Roxy Palace.

Consensus estimates*

Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/13	24.7	5.0	4.8	6.1	4.30	12.6	5.6
12/14	31.0	6.0	5.7	7.1	2.40	10.8	3.1
12/15e	46.0	6.0	5.6	6.5	2.64	11.8	3.4
12/16e	60.0	10.0	9.5	10.5	2.90	7.3	3.8

Source: Bloomberg. Note: *Consensus forecasts exclude Italy.

Price	76.63p
Market cap	£64m

$1.52/€1.36/£

Share price graph

Share details

Code	TTR
Listing	AIM
Shares in issue (m)	83.7

Business description

32Red is one of the longer-established UK online casino operators, having been formed in 2002 and listing on AIM in 2005. Its main market is the UK and it has a nascent Italian business. About 85% of revenues arise in regulated and taxed markets.

Bull

- Strong brand name.
- Effective marketing, increasing UK market share from the present 4-5%.
- Net cash of more than £6m.

Bear

- Competitive markets.
- Italian business still sub-scale.
- Reliant on Microgaming for product suite.

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Gaming Realms

Real-money and social gaming operator

Gaming Realms has set out from the start to offer innovative mobile-led gambling products specifically targeted at the casual gamer. Having developed its own platform, it offers branded and white-label solutions across bingo, casino and social gaming. Through differentiated brands and unique game features, Gaming Realms hopes to attract more British social game-playing adults into the real-money gambling space.

Company description

Gaming Realms has capabilities across the online gambling value chain. It operates real-money casino and bingo brands (*Spin Genie* and *Pocket Fruity)* on its own proprietary platform, has its own agency and bingo white-label marketing operations (QuickThink, Blueburra) and recently acquired the popular *Slingo* brand and a large social gaming business (Blastworks). Gaming Realms' management team is extremely experienced in online gambling, having previously founded and sold Cashcade (*Foxy Bingo*). Gaming Realms operates in regulated markets; 2014 revenues mainly arose in the UK (88%), but we expect a higher proportion to arise in the US post the expansion of the social business.

Company strategy

Gaming Realms' strategy is to attract more casual social gamers into the real-money gambling space. Adopting a mobile-led approach forms the foundation of that strategy. It offers unique content (often incorporating social gaming features) and has recently established an innovation hub to leverage its business intelligence across both free and paid-for games. Unusually, Gaming Realms has developed its own gaming platform. This has a number of advantages including allowing the company more flexibility and speed as it seeks to differentiate itself. As is typical for young innovative companies, there is the risk of revenue volatility as the company iterates its marketing and game formats to achieve the highest yield. Management is able to mitigate the impact on earnings with a flexible approach to its marketing spend. We have discussed the business in more length in our recent research reports.

Mobile performance

The mobile-led approach adopted by Gaming Realms appears to be already bearing fruit with 80% of funded players using mobile devices in H115, engaging in five times more sessions than desktop players.

Edison estimates

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/14	11.2	(7.8)	(8.4)	(5.0)	0.0	N/A	N/A
12/15e	22.5	(3.0)	(3.9)	(1.4)	0.0	N/A	N/A
12/16e	49.5	5.8	4.9	1.8	0.0	13.8	N/A
12/17e	65.0	13.5	12.6	4.7	0.0	5.3	N/A

Source: Gaming Realms, Edison Investment Research. Note:*Normalised, adjusted for exceptional items, amortisation of acquired intangibles and share-based payments.

Price 24.75p
Market cap £61m

$1.52/€1.36/£

Share price graph

Share details

Code	GMR
Listing	AIM
Shares in issue (m)	245.2

Business description

Gaming Realms creates, develops and markets interactive next-generation online gambling games delivered via mobile, tablet and desktop computers. It listed on AIM via a reverse takeover (of Pursuit Dynamics) in August 2013.

Bull

- Experienced management team.
- 'J-curve' of profits and cash.
- Differentiated product/feature set drives brand loyalty and higher LTVs.

Bear

- Competitive climate intensifying.
- Platform scalability risk (previous Bingo Godz issues on a third-party platform).
- Regulatory changes, which increase costs.

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Nektan

‘Mobile-first’ B2B software provider

Mobile-optimised gambling has been a key strategic focus for Nektan since its formation. The company has an experienced management team and its own proprietary software platform, Evolve. Together, these have enabled Nektan to make early progress signing up commercial partners in Europe, such as The Sun. Its recently launched digital marketing business, Nektan Marketing Services, completes a full turnkey white-label offering. Nektan also has a rapidly growing mobile-based offering for US land-based casinos through a joint venture with Spin Games, and a nascent freemium business.

Price	**154p**
Market cap	**£35m**
	$1.52/€1.36/£

Share price graph

Share details

Code	NKTN
Listing	AIM
Shares in issue (m)	22.6

Business description

Nektan is an international B2B mobile gaming platform provider. Formed in 2011, it develops and operates mobile games in the regulated interactive real-money and freemium gaming space. It listed on AIM in November 2014.

Bull

- Focused on the fastest-growing market segment.
- Experienced management team.
- Significant potential for the Respin JV in US land-based casinos.

Bear

- Currently loss-making.
- Partly reliant on partners’ ability to market Nektan’s games.
- Early-stage and building client base.

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Company description

Nektan is a B2B software provider of mobile-focused RMG and freemium products with its own proprietary platform, Evolve. It has already gone live with white-label solutions for a number of large branded media partners including City A.M. and News UK (with Sun Play). Nektan’s competitive advantages include the speed at which it is able to take clients to market – as little as three to four weeks vs six weeks to six months for some larger competitors. Nektan also operates in the land-based casino segment in the US where its joint venture, ReSpin, has first-mover advantage and offers mobile-based solutions to update and refresh older standalone slot machines. Xtraspin wheels are now live in 12 casinos (up from four at 30 June), with another 22 casinos having contracted or signed letters of intent. Nektan only operates in 100% regulated markets in the UK, US and Europe.

Company strategy

Nektan has identified four primary routes to market, namely: offering white-label solutions to media partners, offering its own house brands, licensing content to aggregators such as larger gambling operators in complementary verticals and, finally, strategic joint ventures such as the US ReSpin JV.

Mobile performance

Nektan’s business is still very much early-stage and as a result its revenues are still in the volatile ramp-up stage. All of its games are designed with a mobile-first mind-set, but with the ability for the HTML5 games to scale up to work on desktop. We have discussed the business in more length in our recent research reports.

Edison estimates

Year end	Revenue (£m)	EBITDA** (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/14	1.9	(3.5)	(3.7)	(22.3)	0.0	N/A	N/A
06/15e	0.5	(5.5)	(7.5)	(36.0)	0.0	N/A	N/A
06/16e	15.0	0.2	(2.4)	(10.8)	0.0	N/A	N/A
06/17e	30.0	5.4	5.4	22.7	0.0	6.8	N/A

Source: Nektan, Edison Investment Research. Note: *Normalised, excluding intangibles amortisation, exceptional items and share-based payments. **EBITDA is before Nektan’s share of the (non-consolidated) ReSpin JV.

Playtech

Gambling and financial trading company

As gambling software becomes more sophisticated, the amount of technology investment required to develop compelling products rises. The increase in mobile-optimised products and the need for them to co-exist within a joined-up omni-channel solution further reinforces this trend. Playtech has positioned itself as the leading software provider to the industry. This has enabled it to invest large amounts in R&D, which it leverages across a broad customer pool. It recently established a financial trading business via acquiring Markets.com.

Company description

Playtech is the world's largest online sports betting and gaming software provider. It provides software applications to operators for retail, internet and mobile channels, covering the four main gaming product verticals of casino, sports betting, bingo and poker. These can be offered individually or as a suite to enable operators to deliver an 'omni-channel' offering. Its B2B software licensing agreements are agreed on a revenue share agreement with its licensees, thus incentivising it to innovate to drive growth among its customers. The company achieved organic growth of 20% in 2014, with revenues split across Europe 57%, Asia 35% and RoW 8%. Playtech recently created a B2C Financials business through the acquisition of Markets.com and the proposed purchases of Plus500 and AvaTrade, (presently awaiting regulatory approval). The Financials division will constitute c 40% of revenues on a pro forma basis, assuming that the proposed deals close successfully.

Company strategy

Playtech's strategy is to grow organically and via acquisition in both B2B and B2C segments, with a focus on regulated markets (40% of H115 revenues from regulated markets vs 35% in H114). B2C growth is to be achieved through a white-label turnkey gambling proposition and developing its Financials business.

Mobile performance

Playtech announced in its H115 interim results that H115 mobile revenues had grown by 64% y-o-y to €35.2m, making up 20% of software revenues versus 15% a year ago. Playtech provides mobile solutions for all four product verticals but mobile revenues are dominated by casino (57% of mobile revenues, 94% growth) and sports (38% of revenues, 29% growth). Bingo (5% of revenues, 51% growth) and particularly poker (0.6% of revenues, 234% growth) are insignificant in comparison.

Consensus estimates

Year end	Revenue (€m)	EBITDA* (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E* (x)	Yield (%)
12/13	367	218.2	125.0	41.0	23.2	26.1	2.2
12/14	457	267.7	143.6	65.0	26.4	15.9	2.5
12/15e	616	259.0	218.4	66.2	28.1	16.1	2.6
12/16e**	816	351.9	296.8	83.6	37.2	12.8	3.5

Source: Bloomberg. Note: *Adjusted to exclude exceptional items and amortisation of acquired intangibles. **Consensus forecasts yet to consistently reflect proposed acquisitions.

Price 786p
Market cap £2,536m

$1.52/€1.36/£

Share price graph

Share details

Code	PTEC
Listing	LSE
Shares in issue (m)	322.6

Business description

Playtech is the world's largest provider of software to the gambling industry. It offers modular and turnkey solutions across the four major gambling verticals. It recently created a B2C financial markets division through a series of acquisitions (Plus500 and AvaTrade yet to complete). About 40% of revenues come from regulated markets.

Bull

- Leading software provider to the gambling industry, which continues to show healthy growth.
- Omni-channel solutions continue to increase player values.
- Company successfully leveraging software development expertise into new verticals such as financials.

Bear

- Industry consolidation leads to greater bargaining power among customers.
- Larger customers seek to increase level of in-house technology to differentiate.
- Slowing growth outlook given dominant market position.

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EDISON

Rank Group

Targeting the multi-channel opportunity

Rank benefits from a leading position in the UK land-based casino and bingo markets (ranked first and second respectively), under the Grosvenor and Mecca brands. CEO Henry Birch has extensive experience in digital gambling at William Hill and has sought to leverage the strength of Rank's brands to maximise the opportunity in digital. Investment in talent and technology is already starting to pay dividends (digital revenues up 21% in FY15, to £87.5m). The crossover potential between the two channels is significant and could result in a winning hand for Rank's shareholders.

Company description

Rank operates on a B2C basis in casinos and bingo, predominantly in the UK. It is the UK's largest multi-channel casino operator and the second largest multi-channel bingo operator. The company generates 88% of its revenues from its 'bricks and mortar' clubs. Just 9% of its bingo customers and 2% of its casino customers play at its own digital sites. All its revenues come from regulated markets, with 95% generated in the UK and the remainder from the Enracha bingo operation in Spain and two casinos in Belgium (see our recent Initiation report).

Company strategy

Rank aims to be the UK's leading multi-channel gaming operator. To achieve this, the company has been investing in both improving the quality of its digital offering and the integration between channels. Much progress has been made already and Rank will move to the new Bede platform early in 2016. The culmination of this will be a single wallet multi-channel offering, which Rank expects to be in a position to offer within the next couple of years.

Mobile performance

A new Mecca iOS app, as well as a new single adaptive and responsive website, has been launched in the last 12 months to support further improved performance across the digital channel. Grosvenor has also seen its mobile offering completely refreshed with an upgraded iOS app, new Live Casino app and a new mobile optimised website. Improvements to Rank's mobile offering are already bearing fruit. Grosvenor mobile actives were up 155% in FY15, while Mecca recorded gains of 49%. Across the entire digital product range, 65% of all customers have now played on mobile, up from 49% a year earlier.

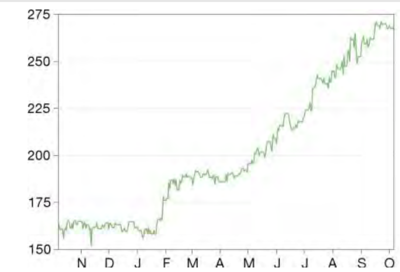
Edison estimates

Year end	Revenue* (£m)	EBITDA** (£m)	PBT** (£m)	EPS** (p)	DPS (p)	P/E (x)	Yield (%)
06/14	708	116.0	62.5	12.4	4.5	21.5	1.7
06/15	738	126.3	74.1	14.6	5.6	18.2	2.1
06/16e	757	130.0	78.0	15.5	6.4	17.2	2.4
06/17e	791	135.0	83.5	16.6	7.4	16.0	2.8

Source: Rank Group, Edison Investment Research. Note: *Revenue is before free bets and promotions. **EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, one-off and exceptional items.

Price	**266p**
Market cap	**£1,040m**
	$1.52/€1.36/£

Share price graph



Share details

Code	RNK
Listing	LSE
Shares in issue (m)	390.7

Business description

Rank is the UK's largest multi-channel casino operator with Grosvenor Casinos and the second largest multi-channel bingo operator with Mecca. It is also the fourth largest bingo operator in Spain and has two casinos in Belgium. About 95% of Rank's revenues arise in the UK.

Bull

- Strong brand names.
- Omni-channel opportunity.
- Low gearing and strong cash generation.

Bear

- Slow growth in land-based business (c 2%).
- Regulatory changes leading to higher costs.
- Majority shareholder, tight liquidity.

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Stride Gaming

New operator in the bingo-led market

Stride Gaming listed in May 2015 with a buy-and-build strategy to consolidate the highly fragmented, but solidly growing, UK online bingo-led market and to expand into complementary verticals such as social gaming. The new UK POC tax is putting pressure on the viability of smaller online bingo operators, which should create attractively valued buying opportunities for Stride. In August 2015 Stride acquired InfiApps for an initial consideration of $21.2m, taking it into the social gaming market with games such as *Slot Bonanza* (more than 5.2m player downloads already).

Company description

Founded in February 2012, Stride is an online gaming operator with its own software platforms. It only operates in regulated markets, mainly serving the UK with B2C RMG, but with 75% of InfiApp's revenues arising in North America. The company is run by an extremely experienced management team: CEO Eitan Boyd and COO Darren Sims successfully built and sold two previous bingo businesses (Globalcom and Wink Bingo, sold to 888 in 2007 and 2009 for $42m and £60m respectively).

Company strategy

The online bingo-led market in the UK has distinct features that differentiate it from traditional online betting and gambling products. Most notably, it has a predominantly female demographic and a much more social angle. Stride's management believes these distinctions mean that a competitive advantage can be achieved by having a specific focus on bingo. Stride is adopting a multi-brand strategy to maximise its share of wallet among bingo players. While it already operates a number of brands, it intends to supplement these with acquisitions, which bring both additional brands and customer lists.

Mobile performance

Stride has two software platforms. Table Top is a long established, desktop-only business and successfully caters to a loyal player base. The Daub platform is mobile ready: mobile accounted for 25% of revenue in FY15 and we believe that has already grown to c 40%. This reflects the growing numbers of brands supporting mobile as well as strong search engine optimisation (SEO) performance. For example, Stride's Lucky Pants bingo game ranks number one for mobile bingo in Google searches.

Consensus estimates**

Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
08/13*	19.0	2.1	1.8	N/A	N/A	N/A	N/A
08/14*	20.2	5.7	5.3	N/A	N/A	N/A	N/A
08/15e**	25.0	7.0	N/A	N/A	N/A	N/A	N/A

Source: Stride Gaming. Note: *Pro forma as if Table Top Entertainment owned through the whole period. **2015 estimates as per Stride's trading update on 10 September.

Price 290p
Market cap £146m

$1.52/€1.36/£

Share price graph

Share details

Code	STR
Listing	AIM
Shares in issue (m)	50.2

Business description

Stride Gaming is a UK focused, real-money, bingo-led operator, using its proprietary and purchased software to provide online bingo and related gaming activities to players. It only operates in regulated markets.

Bull

- Online bingo market continues to grow strongly.
- Experienced management team.
- Increased taxes and regulatory burden likely to create attractive M&A opportunities.

Bear

- Very competitive market.
- Further funding likely to be needed to execute buy-and-build strategy.
- IT development costs required to maintain a competitive product are rising.

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EDISON

William Hill

Omni-channel gambling operator

William Hill currently occupies the number one position in UK land-based sports betting and the UK online gambling market. As a result, the company is uniquely positioned to take advantage of the omni-channel opportunity. Under Project Trafalgar, the company has made the strategic decision to take more of its technology development in house to focus on increased product differentiation.

Company description

William Hill is one of the world's largest betting and gaming companies, with operations in nine countries and c 16,000 employees. It has the largest betting shop footprint in the UK and is the number one player online, with c 15% of the UK online gambling market. Digital generated 32% of 2014 revenue, with Retail at 58%, William Hill Australia 8% and US/other 2%. In digital the success of the company's cross-sell is illustrated by the fact that revenues split almost exactly 50/50 between sports and gaming. The UK accounted for 82% of 2014 group revenue, Australia 8%, the US 2% and ROW 8%.

Digital strategy

William Hill's growth strategy consists of three core tenets: further internationalisation of the business in regulated markets, development of its omni-channel 'one customer' proposition and increased product differentiation through technology. Customers who interact with the company via more than one channel have been demonstrated to have lower CPAs, more loyalty and, as a result, higher lifetime values. William Hill took the strategic decision to bring more of its technology capabilities in house as part of its Project Trafalgar initiative. The intention is to give the company the ability to iterate its online offering much faster. Most importantly, Project Trafalgar is designed to support the move away from an individual channel view to a single customer view irrespective of channel. This will involve simultaneous releases, a single wallet and greater personalisation.

Mobile performance

Mobile revenues accounted for 56% of William Hill's online sports betting in 2014, becoming the primary online sports channel for the first time. In the same year, mobile accounted for 32% of gaming revenues. H115 results showed mobile continuing to grow strongly, up 28% y-o-y in sports and 42% y-o-y in gaming.

Consensus estimates

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/14	1,609	438.0	233.9	29.1	12.2	12.0	3.5
12/15e	1,654	373.3	263.6	24.6	12.6	14.2	3.6
12/16e	1,763	398.7	297.4	27.5	13.6	12.7	3.9
12/17e	1,866	425.1	334.1	31.1	14.8	11.3	4.2

Source: Bloomberg, company compiled. Note: *Adjusted for exceptional items and amortisation of acquired intangibles.

Price	350p
Market cap	£3,087m
	$1.52/€1.36/£

Share price graph

Share details

Code	WMH
Listing	LSE
Shares in issue	882.1m

Business description

William Hill is one of the world's largest gambling companies with c 16,000 employees in nine countries. It has four main divisions: UK Retail, Online, William Hill Australia and William Hill US. In 2014 it had 2.8 million active digital customers.

Bull

- Well financed market leader.
- Strengthened focus on regulated markets in recent years.
- Increasingly differentiated omni-channel offering.

Bear

- Rising technology development costs.
- Cost of regulatory burden.
- Industry consolidation strengthening competitors.

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