

The end of the IR “arms race”

David Green*

An end to the IR “arms race”. While the “build it and they will come” mantra has generally served the industry well, the declining investment yields associated with ever more ambitious and expensive projects in markets with either declining gross gaming revenue, or an unproven market potential, suggest that investors may be less willing to support outlays matching or above those to which we have become accustomed. The IR model is far from broken, but it needs a re-appraisal, especially in sophisticated prospective markets such as Japan, which will likely be unwilling to embrace massive investment if the trade off is commensurately large scale gaming.

The continuing rise of the mass market in Macau. The exposure of the inherent fragility of the Macau junket business model will likely cause a re-orientation of properties towards the mass market. The share of gaming revenue attributable to those participating in credit-based rolling chip programs will continue to decline, at least until such time as confidence in the integrity, and sustainability of VIP operations is restored. I expect that VIP play will account for no more than 45 percent of gross gaming revenue across 2016.

Succession questions likely to exercise the minds of industry stakeholders. The tenure, influence and age demographic of those occupying the big offices in many of the world’s leading gaming companies raises questions about governance, organizational renewal and the ability of such organizations to change. Success has diverted attention from these issues...why be concerned about “best practice” when the gravy train rolls on? However, as investment yields moderate and new market opportunities become less attractive, expect this to become a focus for shareholders, financiers, gaming and securities regulators and host governments alike.

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Global Market Advisors' Predictions for 2016

The pain in Macau is far from over, but the strong will survive

Steven Gallaway*

With the number of properties opening up on the Cotai Strip from now through the end of 2016, and the expectation that the VIP segment will continue to struggle due to PRC policies and an overall contraction in China's economy, sufficient demand will not be there to support additions to supply (a basic concept taught to every student in an Economics 101 class). While various Wall Street and Hong Kong analysts have correctly estimated 2016 gaming revenues (at least as much as possible when trying to project revenues based on a political policy rather than market demand), large contractions in EBITDA margins are to be expected. Operators now have much larger properties to feed in a market whose gaming revenues will at best be flat. The situation in 2016 will be analogous to the situation MGM faced when it opened City Center in the midst of the Great Recession. Put simply, 2016 is going to be a rough year for Cotai 2.0.

On the upside, this is not the first time Macau operators have had to deal with an unexpected and significant downturn. As such, we will likely see operators continue to find ways to cut costs, such as fewer amenities in hotel rooms, a reduction in labor at hotel registration and the casino cage, and staff reductions elsewhere throughout their resorts. While customer satisfaction levels may see declines, operators will do what is necessary to weather the storm.

The days of 70 percent of revenue from junkets is behind us

Andrew Klebanow**

The more astute casino operators had long realized they were far too dependent on junkets for the lion's share of their revenue and EBITDA performance. While a dollar earned from a junket customer contributed less to EBITDA than a dollar won from a Premium Mass player, the total volume from junkets was just too great and operators had to cater to that segment. Casino operators knew they were vulnerable if that part of the business contracted; now that reality has settled in and they are shifting their focus to other markets that may be less volatile. This includes new efforts by casino marketing departments on attracting mass market players and shifting table game allocation from junket rooms to the main gaming floor.

Notwithstanding, if the junket business does come back, operators will gladly re-assign tables back to junkets.

Macau casinos will employ pricing tactics with greater frequency

Andrew Klebanow

As the supply of hotel rooms on the Cotai Strip increases in the next twelve months, expect existing operators to offer more limited-time only sales on their hotel rooms to their databases of customers. These pricing tactics are often employed to keep heads in beds with the hope that they will equate to butts in casino chairs.

Enough of this talk about Millennials

Andrew Klebanow

One of the most popular topics among casino marketers in 2015 was how to get millennials into the casino and make them loyal casino patrons. Millennials, or Generation Y, are loosely defined as those people who were born from the early 1980's to 2000. The oldest of this generation are now approaching 35. What the industry will discover, as it continues to re-tool its mix of gaming products to appeal to this generation, is that millennials still lack the two most essential elements needed to be casino patrons: time and money. The oldest of this generation are trying to pay off mortgages, put kids through school, and build a nest egg. The younger ones are still spending whatever they make on cars, clothes, apartments, electronic devices and whatever it takes to attract members of the opposite sex (or same sex if that is their preference).

In fifteen years, this generation will eventually age to the point where their kids are out of the house, the house is paid for, they have some money in the bank, and they have some extra time on their hands. Casino gaming will then become a source of recreation, but that is not going to happen anytime soon. While it is important to focus on this generation for the long term, the people who will always pay the bills in the gaming industry will continue to be over the age of 50. Enough talk then about how to attract millennials. Let's just focus on how to attract people with time and money.

Skill-based games will go the way of Odyssey game cabinets, slot machines bolted to treadmills, and other novelties

Steve Gallaway

This year the gaming industry was abuzz with the introduction of skill-based games that supposedly enhance the slot machine experience. For example, a multi-line video game may offer a bonus round where the player must grab a joystick and play a round of Space Invaders in order to win a bonus. While a portion of slot players may try their luck (and skill) on these types of games, they will soon discover that getting to the bonus round will take 30 to 100 handle pulls, and once they get there, they will have become rusty from the last time they played the bonus round. The end result is that they will become discouraged, walk away and go back to their preferred game titles. Casino operators may put these games on the floor on a trial basis but they will never dominate the gaming floor.

Ever wonder why every successful high limit slot room still has the old IGT S2000 stepper slot machines and other forms of old-school mechanical reels? It is because customers believe they can trust them and know that they hold less than new multi-line video reel machines with bonus rounds.

The importance of gaming in emerging Asian markets will continue

Steven Gallaway

While China's recession will impact everyone, casino-resort development opportunities in other Asian countries such as Cambodia, Vietnam and Laos will continue to grow. As these countries' economies grow and political environments stabilize, they will become increasingly attractive to casino-resort developers. Given the hyper interest in South Korea and Japan, smaller emerging markets will become that much more attractive. The key for developers will be to build casino-resort properties that are attractive but whose business models do not rely too heavily on junkets from China.

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Global Market Advisors (GMA) is one of the world's leading consulting firms serving the casino gaming, hospitality and airline industries. The firm is well-regarded for its independence and quality of thought-leadership. GMA's feasibility reports for the casino gaming industry have received accolades from banks, private equity funds, and commercial operators alike. GMA is highly experienced in the markets of Asia, the U.S. and Europe.

Government has no interest in seeing Macau fail

John English*

With a whirlwind 2015 coming to an end and holidays soon upon us, it is time to think about what is next. When the editors asked me for my predictions, they know I don't possess a crystal ball so I was asked to write this as if somebody asked for my opinion in the pub. They must know me well.

Macau will continue the race to reinvent

After a tumultuous year this becomes a simple prediction as we witnessed gaming revenues come to a rapid slowdown and the collapse of most of the VIP junket market. So what's next for Macau in 2016? I think it's going to be another roller coaster year for Macau and I'm not referring to the stocks, I'll leave that to the analysts. As most are aware, there is a lot of frustration echoing throughout the region and with an unsure and unstable future there is still a massive amount of new properties yet to open in Macau. Recent actions with regard to ever-important table allotments, government restrictions and a slow decision-making process are driving operators to consider a different business mentality, a reinvention.

The opening of the amazing Macau Studio City and its very diverse features, such as a world class movie studio and Galaxy Entertainment with its gargantuan destination resort, are testament to the diverse change that's coming to Macau. Over time sights will be turned toward over the top entertainment such as concerts and shows, expensive resorts experiences, nightclubs, retail shopping and fine dining, creating a reason to stay have fun and play longer. Macau cannot exist without gambling neither can Las Vegas and there is always need for VIP players and high rollers - that's what makes the casino dream exciting, the goal is to become less dependent on that market and become widely diversified. I see first hand that Macau is doing that and is answering the call.

For the premium players Macau offers an experience that can't be rivaled anywhere in the region and provides world class gaming and luxury options so they will continue to come. The population of Southern China still prefers Macau to other gaming-oriented territories and the visitor count is high enough to creatively monetize the mass market players utilizing electronic gaming alternatives. Some of the world's greatest

marketing experts reside in Macau and there is already a major casino effort in play to engage the mass market across China and surrounding regions to embrace the total resort experience while still having their gaming desires met. We will see a “New Start for Macau” that will find its way to a settling point just like Las Vegas is currently experiencing. The Cotai Strip will have several new billion dollar plus resorts opening including Wynn Palace and the Parisian, and on the Macau side there is a complete renovation underway at Fisherman’s Wharf including a yacht harbor and a six-star hotel offering lots of new and exciting things to draw both local and tourist visitation.

I don’t believe that the Government would want something with such global exposure to fail, nor do the incredibly invested operators, so I have a positive outlook on Macau’s future and I see 2016 as a good start to a year of cooperation for a speedy recovery.

Regulated Sports Betting will be center stage worldwide

We are going to see a lot of movement in global sports betting. With two massive mergers being announced this year, for sure 2016 is going to bring sports betting to the center stage. Powerhouse companies like Betfair and Paddy Power coming together, and Gala Coral and Ladbrokes joining forces, it’s going to make things super interesting in both the online and land-based sectors, and they will be key companies to watch as these companies truly span the globe, including some interests in North America. Government approved lottery companies in Mainland China are now allowed to offer mobile sports lottery sales and I expect to see large growth in that sector next year as the government looks to fund thousands of new football camps.

In the United States, wagering on sports legally is limited by federal law to the state of Nevada. Long time battlers like New Jersey are fighting harder than ever to have it legal in their state, lawmakers that were once opposed to sports betting have since changed their minds, seems a change is finally on the way. There was a huge uprising this year in daily fantasy sports, which had enjoyed an exemption from the law as a game of skill and quickly raked in millions of entrant fees and caught the eye of the US Department of Justice. The state of Nevada has since deemed that it is in fact gambling and other states are following suit fast with the same determination, requiring daily fantasy sports operators to obtain a gambling license to operate. These companies may have to cease doing business entirely, merge with existing licensed operators, or obtain their own licensing to continue operations. All of this recent activity has again opened the door for

a 2016 regulation review with regard to legal sports betting. With that being said, I see that there will be a bigger push than ever before to completely overhaul the Professional Amateur Protection Act (PASPA) and regulate sports betting in the United States in the jurisdictions that want it. I have predicted this for many years as it is a law that is outdated and does not work to serve or protect the people. However, the daily fantasy sports craze and massive amounts of illegal bookmaking clearly shows that the demand for sports wagering is alive and well across all of America, prohibition has not proven successful in curbing the hundreds of billions of dollars that are bet on sports illegally each year.

A new generation of games and gamers

Finally some fun stuff has been injected back into the land-based gaming industry! This year has allowed for several jurisdictions to approve skill gaming for real money play. This will have huge appeal to the boomers and the millennials as the titles start to roll out; I know I was thrilled to play Pong and other classic titles. All the major companies are buying in and buzzwords like eSports are now commonplace in the industry. Two big gaming states, Nevada and New Jersey, are early adopters in the US and it has become a fast moving craze in countries around the world. This means manufacturers are licensing classic and hit titles like crazy and developers are converting old games into money games. Operators and patrons are responding to this new wave of gaming with applause and although just getting started it's going to be a nice addition for 2016. Look to see everything from golf games, basketball, video games, pinball machines, first person shooter, and so many other thing. The draw for this type of product is so great it was the hot topic at almost every booth at the Global Gaming Expo and there was a recent eSports competition that was so big it had to be held at Madison Square Garden.

The technology and hardware involved with this type of gaming will be an integral part of the experience, so look to see things like, virtual reality headsets, augmented reality software, specialized motion seating, joysticks, sensors, pods, and a plethora of immersive technologies. I don't see it taking over the entire casino floor anytime soon, but it will definitely have its place in 2016 and I for one cannot wait!

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The “golden” gap for emerging jurisdictions

Luis Mesquita de Melo*

I have been asked to give my predictions for 2016 with respect to the gaming industry. I was told that one should cover Macau and the other two could address regional or even international trends.

This request comes at a time when the last thing anyone wants to do is to make predictions on the gaming industry. In fact, so much has happened recently that I would venture to say that my prediction is that there should be no predictions for the gaming industry.

I entertain myself by looking at analysts' predictions, on a weekly, if not daily, basis and how they juggle contradictory facts, off the target numbers, excuses and underlying strange market phenomena. They try to find explanations from the weirdest circumstances just to keep selling their predictions as if they were the last form of hope. The truth is no one wants to admit that the gaming industry is going through very material changes that render predictions almost impossible and will transform the key elements of a business model forever.

Having said this, and apologizing in anticipation for the high probability of failing my predictions by a long shot, here we go:

The foundering of the VIP market as we know it. Despite the fact that most analysts still predict a recovery in the VIP segment – although, as they like to underline, “not a V shaped recovery” – I don't see how the VIP segment will ever recover, even to a small percentage of what it was a few years ago.

China is actively and in a very determined way fighting against any illegal flow of funds. The Macau Government has put further nails into the coffin by insisting on some absurd decisions, or coming up with new, not less absurd, measures that not only lack opportunity and timing but are very short of long-term objectives in preserving the Macau economy's “bread and butter”: Gaming.

Then junkets have not helped by becoming the subject of news that showed how relaxed and fragile their internal controls are, which affects the credibility of the entire VIP market model which has been based on the junket model for too long.

Last, but not least, the entire credibility of the gaming industry – but especially the VIP market - has been affected by a regulator without teeth and a legal framework that has not addressed important changes in the industry and is clearly outdated.

The “golden” gap for the emerging jurisdictions. Since the focus has been Macau – as the biggest gaming jurisdiction in the world by numbers and also because of the high profile of the industry players – with the contribution of very concerned media that have highlighted, continuously, all the bad things about the industry, I believe that the Asian emerging gaming jurisdictions (and especially the ones that are able to do right with respect to their regulatory regime) will benefit, for a limited period of time, from the decline of gaming revenue and the market reshape in Macau. They will somehow improve their numbers and regional exposure and that will attract players trying to get away from the spotlights in Macau.

A new opportunity for social media and online gaming solutions. As the land- based casinos struggle with players’ accessibility and the mobility of funds (especially when it comes to bringing money with them to the casino), added to the fact gaming interest demographics are changing very quickly, I believe that interactive gaming, social media and more technologically advanced gaming products, where physical presence is not a requirement, will gain a new life. We should also note that all these new gaming products still find their way, more easily, around regulatory constraints and jurisdictional oversight and, where there is no geo-blocking, become very attractive and easy to access.

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