

European Austerity Measures to Hit Gambling Spend in 2012.

GBGC 2012 Turnover and Gross Gaming Yield Forecast for UK, Greece, Italy, Ireland, Spain, and France

Gambling spend in key European markets will decrease in 2012 due to austerity measures.

UK

- The gambling industry Gross Gaming Yield (GGY) growth to grow by only 0.5% in 2011 with growth picking up in 2012
- GBGC's 2011 estimate show that casinos and lotteries performed well, while horseracing is expected to end 2011 in sharp decline, with further loss of market share in 2012.
- The land based bingo industry will decline by 3% in 2011 and 4.5% in 2012.

Greece

- The Greek gambling industry is estimated to shrink by an incredible 17% in 2011.
- With introduction of Video Lottery Terminals (VLTs) in 2012, the gambling market will grow by more than 12% but would have shrunk by 2.5% without VLTs.
- By the end of 2012 land based casino's revenue is forecast to shrink by more than a quarter

Spain

- Spanish GGY estimated to decrease by 3.3% in 2011, due to decline in household income, unemployment and the smoking ban.
- Worst performers in 2011 are land based casinos and bingo halls
- 2012 launch of the Spanish online gambling market, however the whole of the gambling industry will decline by 1.6%

Italy

- The growth estimate for the Italian gambling market for 2011 is an unprecedented 24.5%, boosted mainly by slots, VLTs, lotto and lotteries.
- In 2012 however, growth will slow down markedly to around 5%, again on the strength of gaming machines and the pickup of sports betting.
- Online cash based poker and casino gaming estimated to grow in 2011 but 2012 will be a difficult year.
- Italian horse racing in terminal decline

France

- French gambling industry GGY estimated to grow by a healthy 6.7% in 2011, thanks to online poker, lotteries and horseracing. GGY growth will slow to 2.3% in 2012, mainly fuelled by lottery and land based sports betting
- Online sports betting has disappointed and will continue to do so unless the online tax system is changed

Ireland

- Irish gambling market GGY is estimated to shrink by 4.5% in 2011. All gambling segments will decline compared to 2010 with horseracing and gaming machines GGY performing the worst
- Aggregate gambling GGY will decline a further 1.6% but lottery and sports betting are forecast to have turned the corner in 2012.

Sports betting turnover is forecast to grow in Italy, Greece, Spain, Italy, France and Ireland due to the Euro 2012 football tournament in Poland and Ukraine in the summer of 2012. However, the profitability of bookmakers in each country is dependent on how the national team performs. More the national team wins, the higher the pay-out to players, as most people tend to back their own national team.

If households and operators in Europe thought they had a difficult year in 2011, then they will find no respite in what will be an even more trying 2012, especially in the UK, Greece, Ireland and Spain, where governments had to undertake difficult austerity measures. In 2012, Italy and France will also join them.

In a previous analysis conducted by GBGC on how the "great recession" of 2007-2009 affected the gambling spend of punters, GBGC's research showed that the gambling industry is not immune to the contraction of the economy.

GBGC has been for the last 12 months tracking the economic performance of the various countries in the Eurozone where austerity budgets were passed so to analyse how austerity measures that have been, or are about to be undertaken in key European countries such as the UK, Greece, Spain, Ireland, Italy and France affect the Gaming Gross Yield (GGY- player spend minus pay-out) of gambling operators.

The more severe public expenditure cuts and tax rises were undertaken by Greece and Ireland, the two countries that required a bail out by the European Union (EU) and the International Monetary Fund (IMF).

Italy and Spain had to implement their own austerity measures to avoid the fate of the Greeks and the Irish, while at the same time avoid doing irreparable damage to the economy of the Eurozone and the survival of the common currency. Even a country like France, a country not long ago considered one of the safest economies on Earth, was put under duress by the financial markets and had to pass a small package of austerity measures to safeguard its treasured triple A rating.

While UK, Greece, Spain and Ireland passed a 2011 under the banner of austerity, the bulk of public expenditure cutbacks and tax rises in Italy and France will commence in 2012.

GBGC's 2012 gambling turnover and GGY forecasts of Greece, Ireland, Spain, Italy and France have been re-drafted due to the effects of austerity measures on household incomes in these countries. We estimate that discretionary income in the aforementioned countries will continue to worsen and households and consumers will come under unprecedented duress in the coming year.

UK - Turnover and GGY (€ m) 2011e-2012f

	Sports Betting		Horse Racing		Casino		EGM*		Lottery		Others (Bingo)		Total
	Handle	GGY	Handle	GGY	GGY	GGY	Sales	GGY			GGY		
2011 Est.	25002	3625	10231	1299	699	3292	5825	2840	1242	373	12128		
2012 Frct.	26377	3825	9617	1221	751	3381	6203	3021	1186	356	12555		
Var. %	5.5	5.5	-6.0	-6.0	7.5	2.7	6.5	6.4	-4.5	-4.5	3.5		

*Electronic Gaming Machines
Source: GBGC

The austerity measures undertaken by the government of the United Kingdom (UK) are the most severe since the end of the Second World War. The austerity measures with cost an average British household around £1000 in 2012, following the £900 in 2011. According to the Institute of Fiscal Studies, real disposable household income will decrease by 1.1% in the 2012, following the 3% decline in 2011. Real mean earnings growth (which take into consideration inflation) will diminish by 1.3% in 2012, following the -4.3% of 2011. This is the largest fall in British living standards since records began in mid-50s.

The UK gambling industry GGY is estimated to grow by around 0.5% in 2011 compared to 2010. Casino gaming is expected to have an excellent 2011, producing revenue growth of 9%. Lottery products also performed very well in 2011, with an estimated GGY growth of 6.5%. The National Lottery has been particularly aggressive in pushing sales throughout the year, as it is responsible to provide funds for the infrastructure projects of the London 2012 Olympic and Paralympic Games.

2011 was a bad year for betting activities; sports betting GGY is estimated to decline by 5% and horse racing GGY by a steeper 8.7%. Bingo gaming is also estimated to produce poor results, ending the year with -3%.

GBGC forecast the UK gambling industry GGY to grow by 3.5%. Like in 2011, the main boost to GGY growth will derive from Lottery products (+6.4%) and casinos gaming (+7.5%). Land based casinos, particularly in London, are expected to provide a

sustainable growth next year as they depend on high rollers, and high rollers are marginally affected by the general loss of disposable income. Casinos will also benefit from the high tourist traffic into London attracted by the Olympic Games.

Sports betting will also pick up activity in 2012. In an economic environment where income was increasing instead of falling, the growth rate of sports betting GGY would have surged by around 7% to 8% because of the Euro 2012 tournament in Poland and Ukraine, but under the current economic conditions sports betting handle and GGY are forecasted to grow by a more modest 5.5%. But if England does perform well and advances far in the tournament, UK bookmakers will produce a lower GGY will due to high pay-outs.

The UK horseracing handle and GGY is estimated to again decline in 2012 compared to 2011, but at a slower rate of -6%, as the industry continues to lose market share to other gambling activities, especially sports betting and fixed-odds betting terminals installed inside betting shops.

Land based Bingo operators, particularly outside the South East of England, will find 2012 another challenging year as their customer base is particularly vulnerable to the deterioration of disposable income due to austerity measures. Bingo's revenue loss is expected to slightly accelerate in the coming year (-4.5%) compared to 2011.

Greece - Turnover and GGY (€ m) 2011e-2012f

	Sports Betting		Horse Racing		Casino	EGM*	Lottery		Total
	Handle	GGY	Handle	GGY			Sales	GGY	
2011 Est.	1545	277	191	38	437	0	2742	705	1457
2012 Frct.	1579	283	168	34	399	220	2741	704	1640
Variance %	2.2	2.2	-12.0	-12.0	-8.6	n/a	-0.04	-0.04	12.5

*Electronic Gaming Machines
Source: GBGC

The Greek government issued the most draconian austerity measures in the Eurozone. By some estimates Greek austerity measures in 2011 make up a cut of more than 13% of take home household income. This dramatic situation is also accompanied by an unemployment rate of 18.4%.

GBGC's 2011 estimates for the whole Greek gambling industry are a testament to this state of affairs. Combined GGY for 2011 is estimated to come out at €1,4bn, a drop of 17.1% compared to 2010. Not one of the Greek gambling segments was spared from the general revenue downfall, but sports betting GGY, with -21%, and land based casinos, with -17%, are the hardest hit.

GBGC's forecast for 2012 sees the Greek combined gambling market GGY increase by 13% compared to 2011. GGY growth is boosted by the introduction of 35,000 Video Lottery Terminals (VLTs) next year, that will be exclusively operated by the partially state owned monopolist OPAP. VLT's will add around €20m into the gambling market. Without the introduction of VLTs, aggregate Greek GGY would have shrunk by 2.5%.

GBGC's forecasts show a slight growth of around 2% of sports betting GGY due to the Euro 2012 tournament in the summer, where the Greek national team is participating. Greek land based casinos will face another difficult year, growth declining for the fifth year in a row.

Spain Turnover and GGY (€ m) 2011e-2012f

	Sports Betting		Horse Racing		Casino		EGM*		Lottery		Others (Bingo)		Total
	Handle	GGY	Handle	GGY	GGY	GGY	Sales	GGY					GGY
2011 Est.	507	221	18	6	315	3351	11256	4333	2032	752			8978
2012 Frct.	533	232	17	6	331	3301	11031	4247	1930	714			8830
Var. %	5.0	5.0	-3.0	-3.0	5.0	-1.5	-2.0	-2.0	-5.0	-5.0			-1.6

*Electronic Gaming Machines

Source: GBGC

The austerity measures took away around €1,100 from Spanish households in 2011, which is equivalent to 4.8% of the take home household income. Spanish unemployment rate is also over 21%, the highest in Europe, and rising. The new Conservative government elected in November of this year will undoubtedly pursue further austerity measures in 2012 to reduce public deficit considering that it has foregone the policy of partially privatising the lottery operator LAE and other state assets to pay down the national debt.

GBGC's 2011 GGY estimate for the comprehensive Spanish gambling market is €8,97bn, 3.3% less than the previous year. 2011 will be the third consecutive year that the Spanish gambling market has decreased compared to the previous year.

Apart from the challenging economic conditions, the gambling market in Spain was debilitated by the total smoking ban that came into force at the start of the year. The smoking ban had a severe negative impact on land based operators such as slot halls, bingo halls and casinos.

The revenue estimate for land based casinos for 2011 is expected to decrease by around 17%, while bingo operators are expected to lose around 24% compared to 2010.

For 2012, GBGC expects the entire Spanish market GGY to lose another 1.6% compared to 2011, mainly due to the -2% of lotteries and -5% of the land based bingo halls. The loss of revenue of the two gambling segments is mainly the result of shrinking gaming spend being channelled to the newly legalized online gambling market.

The opening of the online gambling market in January will help increase cumulative casino gaming by 5%, but land based casinos are expected to face another very difficult year. However, restrictions imposed on online gambling, such as €500, deposit limits for poker, roulette and blackjack players (which are the most popular games) will limit the growth potential of the market, as high rollers are for many operators detrimental in the creation of GGY

Italy - Turnover and GGY (€ m) 2011e-2012f

	Sports Betting		Horse Racing		Casino		EGM*		Lottery		Others (Bingo)		Total
	Handle	GGY	Handle	GGY	GGY	GGY	Sales	GGY					GGY
2011 Est.	4046	930	1383	415	896	8816	21909	8490	2307	646			20193
2012 Frct.	4248	977	1217	365	862	10138	21362	8278	2215	620			21240
Var. %	5.0	5.0	-12.0	-12.0	-3.8	15.0	-2.5	-2.5	-4.0	-4.0			5.2

*Electronic Gaming Machines

Source: GBGC

2011 will be the fourth consecutive year that household disposable income in Italy has been decreasing. In the last four years, households have lost 7% of their purchasing power. Austerity measures that will start to be implemented between 2012 and 2014 will cost average Italian households at least €3,300 by the end of 2014.

GBGC estimates that for 2011 the whole of the Italian gambling

industry will grow by 24%, on the back of the extraordinary growth of gaming machines, VLTs in particular, and the very strong growth of lotto and lottery products.

Sport and horserace betting had a particularly poor year, as did land based casinos, although the introduction of internet cash based poker and casino gaming helped increase aggregate casino gaming revenue by around 7%.

GBGC expects 2012 to be a year where the growth rate of the gambling market will slow down markedly. The average growth of the Italian gambling industry in the last five years has been 12%.

The forecast for GGY growth of the industry for 2012 is around 5%. A slowdown of the market will put many operators that have recently entered the Italian market, enticed by the recently legalised online cash poker and casino games and the stellar growth of the VLT market, under increasing pressure as profitability will decrease. The high expectations of the cash based online poker and casino gaming to boost online gambling GGY have yet not been satisfied, as the newly permitted games cannibalised online tournament poker, which is much more profitable for online operators.

As in 2011, growth will be fuelled by VLTs, including the 6,600 licenses assigned in the November 2011 tender, which will be installed as the year progresses. Out of the 56,697 licenses issued in 2010, more than 20,000 have yet to enter the market, and will certainly do so by the end of the second quarter of next year.

The Italian sports betting sector will produce growth of 5% compared to 2011, helped by the Euro 2012 football championship in Poland and Ukraine in the summer. The introduction of betting exchanges will also contribute to growth, but the impact of betting exchanges will be limited until Italian players become more familiar with the product.

France - Turnover and GGY (€ m) 2011e-2012f

	Sports Betting		Horse Racing		Casino	Lottery		Total
	Handle	GGY	Handle	GGY	GGY	Sales	GGY	GGY
2011 Estimate	1239	229	10465	2302	2927	9551	3581	9040
2012 Forecast	1291	232	10675	2242	3044	9953	3732	9251
Variance %	4.2	1.4	2.0	-2.6	4.0	4.2	4.2	2.3

*Electronic Gaming Machines

Source: GBGC

The 2012 French austerity measures are not as austere as those that will be implemented in the other Eurozone countries and as such, their impact on household spending will be rather limited.

GBGC estimates that the French gambling market will grow by around 6.7% in 2011, dragged by the good performance of online poker, which helped casino gaming GGY rise by 20%. Horse race betting and lotteries, both big segments of the French gambling market, are expected to produce a GGY growth of 1.2% and 1.3% respectively.

For 2012, GBGC forecasts the French gambling market to grow again by 2.3%. The main drivers of 2012 growth will be sports betting, online casino gaming and lotteries.

The contribution of online sports betting will be minimal due to the tax system (which GBGC highlighted in the September 2010 edition of its Interactive Gambling Report). The current 7.5% tax on handle is equivalent to 50% tax on profits and operators are unable to offer punters competitive betting products, thus losing customers to unlicensed betting websites. Even the regulator ARJEL, despite its best of efforts, admits that French players continue to use offshore betting websites.

Ireland - Turnover and GGY (€ m) 2011e-2012f

	Sports Betting		Horse Racing		EGM*	Lottery		Others (Bingo)		Total
	Handle	GGY	Handle	GGY	GGY	Sales	GGY	GGY		
2011 Est.	633	87	3029	407	116	782	357	61	18	987
2012 Frct.	671	93	2877	387	111	798	365	55	16	971
Var. %	6.0	6.0	-5.0	-5.0	-5.0	2.0	2.0	-10.0	-10.0	-1.6

*Electronic Gaming Machines
Source: GBGC

Ireland, as a country that required a bailout, implemented one of the most punitive austerity measures in the Eurozone. The measures adopted in the last two years have wiped off 8.5% take home household income. Other measures to take effect in the coming year will cost an average Irish household an additional €1,800.

GBGC estimates the Irish gambling market to decrease by 4.5% in 2011. The fall of gambling revenue will not spare any segment, but horserace wagering and land based bingo, with a GGY decline of -7% and -5% respectively, will take the brunt of the decline.

2012 will be another year with declining revenue for operators working in the Irish market; however, the rate of decline will slow. GBGC forecasts the Irish gambling market to decrease by 1.6% in 2012 compared to 2011, with lottery sales and sports betting bucking the downward trend and producing growth of 2% and 6% respectively.

Summary

2012 will be a tough year for gambling operators not only in the jurisdictions analysed, but in the whole of the European Union. Next year could be the year that the Eurozone crisis stabilises, but it could just as easily deteriorate, which would trigger further austerity measures that would cut even more into household income and consumer confidence that would require adjustments to our forecasts.

In the coming year policy-makers will undoubtedly shape the gambling market by the fiscal and regulatory decisions that will directly affect the gambling industry, and indirectly through the income of customers. However, operators, be it land based or online, will unquestionably improve their chances by adapting their strategies for the incoming tough environment by attracting new customers with clever marketing strategies and innovative products, and more importantly, not losing the acquired ones.

GBGC also estimates that the gambling industry will undergo through significant consolidation and the privatisation process of state controlled gambling operators will enter a crucial phase. ♦

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GBGC has established itself as the most credible specialist international gambling consultancy in the world. The company has work with or supplied information to over 400 clients the majority of whom are 'blue chip'. In addition to its consultancy GBGC has produced six reviews of the global gambling market that have been widely acknowledged to be the best available both in terms of both their detail and accuracy. The latest Global Gambling Report was published in April 2011 and extends to over 1,500 pages, covering more than 250 individual markets on every continent.

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players and more liquidity to appeal to U.S. players. That is why it's still necessary to consider federal legislation to establish some minimum standards that will strengthen and clarify the effectiveness of UIGEA tools to enforce the laws.

I can see that states will always need the agency of the federal government to assist in the enforcement of state laws, especially as it applies to foreign operators. I agree that a UIGEA is a very serviceable tool to accomplish that and so therefore the federal application of UIGEA is needed. But why do we need the federal government to do anything other than assist in the implementation of state laws? State laws vary in the other areas of gambling, like casino gambling. Why do we need to have a federal government overlay on top of states?

F. Fahrenkopf: Because brick and mortar gambling establishments, pari-mutuels and state lotteries are all operated within the physical boundaries of the state. There is no inter-state component to the operation of a casino. Where the activity is strictly intra-state, the federal government has no interest. But when you have a situation where a state might want to do something inter-state, as would likely be pursued with i-gaming, then I think it's important to have some minimum standards.

Would you agree that the role of the federal government should be contained. For instance, the federal government should not be involved in the determination of licensing. The states are perfectly capable of deciding the terms and conditions for all licensing within the borders of their state.

F. Fahrenkopf: Agreed. I am not recommending that the federal government should actually do the licensing. I do envision that there are issues that require the involvement of the federal government. There is the question of Native American tribes, for instance. The sovereign rights of Tribes will likely conflict with the rule of state laws and that will require federal involvement to sort those issues out, and to possibly be involved in licensing procedures. But whenever and wherever possible, I would propose that the federal governing body of the Department of Commerce or Treasury would delegate the licensing, regulatory, and taxing authorities to the states and that those functions would not be performed at the federal level. States will almost certainly need to enter into inter-state compacts to collaborate on certain kinds of internet gaming initiatives. That will require the approval of the federal government. These are practical matters that do not need to be seen as impeding on states' rights. And as regards to taxation, the only federal taxation should be the income tax applied to the winnings. That, of course, is to be expected because the federal government taxes all income, including lottery and casino winnings.

I believe in the Tenth Amendment rights of states to control intra-state activity. And that applies to gambling. There are, though, some fundamentally inter-state aspects to internet gaming. It is these inter-state issues that clearly require a federal government presence and involvement. ♦