

## Fast-growing digital gaming market not such a gamble

Tuesday, 06/13/2017

Online gaming has been growing by an impressive compounded annual growth rate of around 12% over the last 10 years. Yet, this segment only represents close to 10% of the USD 400bn world gaming market's gross annual revenue. Fuelled by the accelerating transition from retail to digital gambling, a high single-digit growth is expected for the next 3 to 4 years, with mobile gaming set to accelerate even faster. The gaming industry can be split between three main actors: the operators, examples being Paddy Power Betfair, William Hill or Betsson; the suppliers, e.g., NetEnt, Evolution Gaming or Kambi; and the affiliates, eg., XLMedia or Catena Media.



**Michael Clements**

European Equities Expert

*« Affiliates have the big advantage to be operator agnostic and therefore to offer a broad and efficient exposure to the digital gaming market. »*

### How to play the gaming market

The key question for investors is how to play this compelling market. The operators are well known; we see their advertising campaigns everywhere: on TV, on social platforms and emblazoned on the shirts of famous football clubs. While the operator retail outlet market is quite consolidated, the online market, on the other hand, is very fragmented. With the barriers of entry being very low to the online segment, the number of operators has exploded over the last couple of years. On top of that, the diversification of their offerings is very limited; hence, they have to continuously spend large amounts of capital on marketing to attract and retain customers.

Meanwhile, suppliers have the advantage of being able to work with many operators and therefore offer wide exposure to the market. But again, differences between them are limited. Companies can launch new ideas to remain ahead of the competition; however, this edge lasts often only for a few months, before the other players counterattack with a similar product. Furthermore, the most attractive companies in this part of the industry are well known and valuations expensive.

### Affiliates offer most attractive entry point

This leaves us with the affiliates. These companies generate traffic for their customers, gambling operators, often through a network of their own websites, which act as portals, through which, customers gain access.

Affiliates have a major competitive advantage, as they can be operator agnostic, and therefore offer a broad and efficient exposure to the digital gaming market. Very few of these companies are listed and their size is usually much smaller than the other actors of the industry. A key reason for this is that the affiliate market remains hugely fragmented; another, is their business model is generally poorly understood.

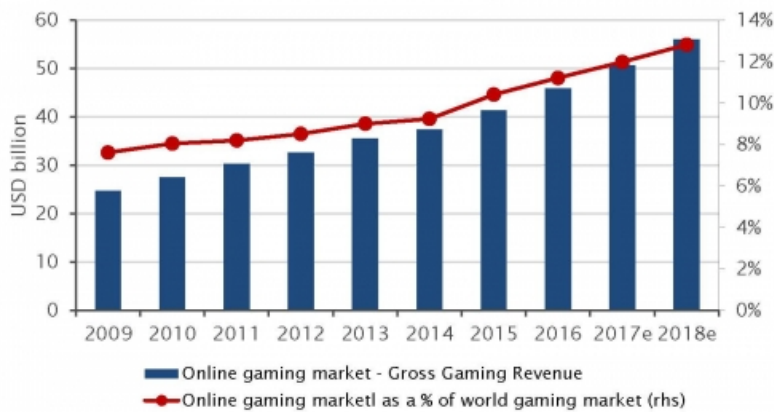
They use performance-based agreements, thus their clients don't have to spend a dime before the new customers become profitable. The most common agreement is a lifetime revenue sharing model where the affiliate shares 50/50 of the net gaming revenue generated by the user with the operator. Obviously such a business has its own related risks, but their attractive valuations, and the fact that they are operator agnostic, offers the most attractive characteristics to play the growing digital gaming market.

## A firm with XL potential

Within the affiliates, XL Media is offering interesting opportunities. The firm's performance marketing campaigns are very successful in delivering players to the gaming operators. Furthermore, it is rapidly expanding its presence into the online social gaming area, diversifying away from pure gambling. This is a segment that could have high growth potential as the digital world expands.

Regulation and maintaining margins will always be potential headwinds within the gaming industry, but the industry's resilience, demonstrated through the cycle, underpins the investment case.

### Online gaming market - Gross Gaming Revenue



Source  
Statista

---

## Disclaimer

This marketing document has been issued by Bank Syz Ltd. It is not intended for distribution to, publication, provision or use by individuals or legal entities that are citizens of or reside in a state, country or jurisdiction in which applicable laws and regulations prohibit its distribution, publication, provision or use. It is not directed to any person or entity to whom it would be illegal to send such marketing material. This document is intended for informational purposes only and should not be construed as an offer, solicitation or recommendation for the subscription, purchase, sale or safekeeping of any security or financial instrument or for the engagement in any other transaction, as the provision of any investment advice or service, or as a contractual document. Nothing in this document constitutes an investment, legal, tax or accounting advice or a representation that any investment or strategy is suitable or appropriate for an investor's particular and individual circumstances, nor does it constitute a personalized investment advice for any investor. This document reflects the information, opinions and comments of Bank Syz Ltd. as of the date of its publication, which are subject to change without notice. The opinions and comments of the authors in this document reflect their current views and may not coincide with those of other Syz Group entities or third parties, which may have reached different conclusions. The market valuations, terms and calculations contained herein are estimates only. The information provided comes from sources deemed reliable, but Bank Syz Ltd. does not guarantee its completeness, accuracy, reliability and actuality. Past performance gives no indication of nor guarantees current or future results. Bank Syz Ltd. accepts no liability for any loss arising from the use of this document. (6)