

THE SOCIAL GAMING EFFECT

Ahead of their panel session at this year's iGaming North America Conference in Las Vegas on March 20, **Michael Carpenter**, CEO of Ruby Seven Studios; **Troy Ross**, President of TRM Consulting Ltd; and **Bob Hays**, Head of North America at Williams Interactive, discuss the potential effect of social gaming on brick-and-mortar casino businesses.

Michael Carpenter, **CEO, Ruby Seven Studios**

At this point in time, we've seen a lot of exciting developments in the space. Many of the most popular land-based casino games have been taken to the social/mobile casino and are now available on Facebook and mobile devices as free-to-play games. These classic casino brands and their proven game designs will have a major impact on the social space as this quality and authentic real casino game experience become what all players expect.

I believe we may also see the flipside of this knowledge sharing, with games originally developed for the social casino possibly appearing in the land-based casino world. One of the unique differences between land-based and social casino games is that on social, we have the ability to test and iterate products extremely quickly. This allows us to bring a constantly improving game to our players, based on massive amounts of user data.

As part of the bigger picture, we're now seeing (and I expect even more so in the future) a true convergence between social, land-based, and online casinos. Emerging technologies have revolutionized the way players play in all three arenas. Most notably for both online gaming and social casino games, tablets and mobile phones have become ways for casino lovers to play their slot and poker games on the go, when they

don't have the time and wherewithal to stop by their favorite casinos. And for all three sectors, new 3D technology and game innovations are creating exciting new game experiences for our players.

Troy Ross, President, **TRM Public Affairs**

There is no question that social gaming provides significant opportunities for land-based casinos. Some of the largest land-based casino companies in the world, such as Caesars Entertainment, WMS, MGM, and IGT, believe that social gaming provides them with opportunities to engage and interact with potential new customers, and the proof is in the millions of dollars that they have already invested.

There are a number of reasons driving these investments:

1. Social gaming is a growing marketplace and reaches a broad audience that enjoys casino-style games. In only a few short years, hundreds of millions of people have become regular players. Approximately 800 million people globally play social games, and nearly 175 million of those people play social casino games. These figures are expected to double by 2015.
2. Social gaming leverages the preferred distribution channel of a younger demographic that may not be as likely to visit a casino. Social gaming allows terrestrial casinos to target, engage, and

interact with that demographic using the communication channel of their choice. This offers casino operators the opportunity to create and execute more effective and precise marketing campaigns to acquire and develop new players.

3. Engaging these players gives land-based casino operators the opportunity to gather considerable information about these players and data mine that information for commercial purposes.

4. Digital and terrestrial gaming and gambling entertainment options are converging into one broad offering.

Currently, social gaming is unregulated and that may be one reason that the activity is thriving across North America, particularly in jurisdictions where traditional online gaming is prohibited.

While terrestrial casino operators might prefer to direct online players to their "real money" online gaming sites, that is not a legal option in most North American jurisdictions. From a longer-term player development perspective, it makes business sense to first acclimatize players by having them visit their branded websites, play casino-style games, and eventually shift those players from a *freemium* model to a pay-to-play model when legal conditions permit.

Bob Hays, **Head of North America,** **Williams Interactive**

Since our formation in July 2012, Williams Interactive has viewed social casino gaming as a key player engagement channel for casinos seeking to benefit from the convergence of online and offline gaming

experiences. With more than half of social casino gamers under the age of 40, and Smartphone sales rapidly overshadowing PC sales, casinos not leveraging a solution to engage players with social and mobile gaming entertainment will find themselves at great risk of falling behind their competition and missing out on new ways to engage their current players, as well as introduce their casino's brand and offerings to new and younger players.

Casino players already participate in social casino gaming when not visiting the land-based alternative, often with brands unaffiliated with an offline casino entity. According to our sister company's (WMS) Active Gambler Profile, 72 percent of Avid Gamblers (those of highest in-casino value) play social games regularly. Likewise, many casino players are engaged in mobile gaming through native apps, including slots, bingo, and poker games.

We feel this is a huge opportunity for casinos to provide an experience – on desktop, Smartphone and tablet – that players already seek, while surrounded by the casino's

“Approximately 800 million people globally play social games, and nearly 175 million of those people play social casino games. These figures are expected to double by 2015.”

unique brand and while being exposed to the casino's marketing messages and offers designed to drive those players back to the casino floor more often.

In deployments of our Play4Fun Network, a white-labeled social casino platform built and operated for land-based casino on desktop, iOS & Android apps, we've seen first-hand that terrestrial casino players follow the larger macro trends of both social

gaming and mobile gaming adoption. Anchored by our authentic Vegas-style slot games, we're seeing more than 2.5 visits per daily player, each

logging more than ten minutes and over 450 spins per session – all under the casino's unique brand. Combining this engagement with best-in-class marketing tools and capabilities empowers casinos to ensure the effect social gaming has on their operation drives increased revenue from their current player base, and allows them to engage players anytime and anywhere they want to play.

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The diagram is a circular hub-and-spoke model with 'INCOME ACCESS' at the center. It is surrounded by various digital marketing and technology services, including:

- Traffic Optimisation:** Increased Bandwidth, Retargeting Capabilities, Geo-targeting Strategies, Campaigns & Ad Creation, Channel Attribution, Media Library Management, Conversion Path Analysis, Campaign Management, Infrastructure Development, Social Media Strategy, Social Media Audit, Customer Acquisition Strategy, Drive Reputation Management, Customer Retention Strategy.
- Technology:** Robot Analytics Software, Affiliate Communication Tools, In-depth Reporting Options, Multi-channel Tracking, Payment Processing Tools, Diverse Commission Setups, Ongoing Training and Mentorship, Income Access Accreditation.
- Affiliate Marketing:** Strategy Development, GAP Analysis, Affiliate Recruitment, Campaign Optimization, Brand Building, Benchmarking, Conversions Tracking, Ad copy creation, Affiliate Programme Audit, Program Management, Competitive Analysis, SEO Audit, Keyword Ranking, Link Building Strategy.
- PPC:** Placements Targeting, Keyword Research, Geo-targeting, Landing Page Optimisation, Content Strategy Development, Database Segmentation, Customer Profiling, Mobile Marketing Solutions, Digital Media Buy Strategy, Performance Analysis, Campaign Optimisation, Email Marketing.
- Web Design:** Content Strategy, Banner Design, Microsite Development, Wireframe Setup, Landing Page Optimisation, SEO and PPC Strategy.
- Digital Marketing Strategy:** Social Media Strategy, Customer Retention Strategy, Guidance on Industry Best Practices, Software Service Support.
- Training:** Social Media Strategy, Customer Retention Strategy, Guidance on Industry Best Practices, Software Service Support.

Surrounding the diagram are various gaming categories: POKER, LIVE CASINO, SKILL GAMES, SCRATCH CARD, SPORTS BETTING, BINARY OPTIONS, SOCIAL FOREX, MOBILE, IGAMING, SLOTS, CASINO, and BLACK JACK.

MERGERS AND ACQUISITIONS IN SOCIAL GAMING

An M&A outlook for the social casino gaming sector in CY14, by **Adam Krejcik**, Managing Director of Digital and Interactive Gaming at Eilers Research, LLC.

Zynga's recent \$527 million acquisition of Natural Motion could help spur a wave of M&A activity in the digital and interactive game industry this year. In our opinion, the social casino game industry is ripe for consolidation and we have heard credible rumors of at least two deals in the \$50mm-\$100mm-plus range (very likely at least one of the deals gets done by the time this article is published). The social casino game category (free-to-play slots, poker, and bingo) has been one of the fastest growing sub-sectors within the broader casual game market for the past few years, reaching \$1.98 billion in 2013, based on our proprietary estimates. Given our expectations for the industry to experience double-digit growth over the next few years, various synergies, and few IPO opportunities, we believe M&A will likely remain a popular exit strategy for many small to mid-size companies in CY14. Land-based gaming equipment and technology providers have been among the most active in terms of pursuing M&A, with almost all of the major suppliers now operating a B2C social casino app. We expect gaming equipment suppliers to continue to evaluate new M&A opportunities, but also expect to see land-based casino operators and European iGaming providers get more involved during the upcoming year.

In our opinion, there are a number of key trends emerging in the social casino game

industry; some that are obvious, while others may not be *that* clear yet. Key considerations for M&A transactions will likely include:

1) Mobile/tablet presence: mobile is not only the fastest growing distribution platform, but will also be the biggest revenue contributor for most companies within the next few years. Companies that have a strong mobile presence, including both iOS and Android capabilities, will garner a premium multiple.

2) Premium land-based content: we believe consumers are becoming much

more selective when it comes to playing social casino games, and believe they will continue to favor and spend more on games that provide familiar land-based slot content. Companies with access to proven content or developers with real money online or land-based casino development skills will be in high demand.

3) Innovation: this can appear in many forms including differentiated product offerings, experimenting with different revenue models, mini-games, brands, prize/sweepstake model functionality, integrating chat and other social features into the game. While it's much easier said than done, we believe

Figure 1

Company	Ticker	Core Business	Social Casino Offering	CY13 Social Casino Rev (Est)
Big Fish Games	Private	Social Games	Big Fish Casino	\$100-120 million
Bash Gaming	Private	Social Games	Bingo Bash	\$55-65 million
High 5 Games	Private	Land Developer & Social Casino	High 5 Casino	\$50-60 million
Gamesys	Private	RMG & Social	Jackpot Joy	\$35-45 million
DoubleU Games	Private	Social Games	DoubleUCasino	\$30-40 million
Plumbee	Private	Social Games	Mirrorball Slots	\$20-30 million
Blue Shell Games	Private	Social Games	Blue Shell Slots	\$20-30 million
Pacific Interactive	Private	Social Games	House of Fun	\$20-30 million
Playstudios	Private	Social Games	MyVegas	\$20-30 million
Dragonplay	Private	Social Games	Dragonplay Poker	\$15-20 million
Diwip	Private	Social Games	Best Casino	\$10-15 million
KamaGames	Private	Social Games	Texas Poker	\$10-15 million
Storm8	Private	Social Games	Shark Party, TeamLava	under \$10 million
TOPGAME	Private	Social Games	Titan Slots	under \$10 million
Idle Games	Private	Social Games	Fresh Deck Poker	under \$10 million

Social casino revenue estimates are on a gross basis and derived from our Social Casino Tracker, a quarterly publication that tracks revenue trends among the largest social casino game publishers on Facebook and Mobile. Source: Eilers Research, LLC.

game companies that can create a unique and fun experience for their players on a recurring basis will be among the most coveted.

We believe the most likely buyers include existing social casino game leaders such as: Caesars Acquisition Corporation, IGT, Zynga, Williams Interactive (owned by SciGames), and Greentube (owned by Novomatic); land-based casino operators include: Wynn, MGM, Boyd, Pinnacle and European iGaming providers such as bwin.party, Playtech, 888, Rational Group and Gamesys.

In terms of acquisition targets, we provide a list (see Figure 1) of private companies that we believe could be attractive candidates for a number of different companies. Our CY13 gross revenue estimate for each company is derived from our quarterly "Social Casino Tracker" report, which tracks revenue for all the major social casino publishers on both Facebook and mobile.

Large-scale targets:

- Candidates: Big Fish Games, High 5 Games, and Gamesys.
- These would be very large and high profile deals if they were to occur. If any of these companies were to be acquired, it would dramatically alter the competitive landscape. Moreover, all three of the companies could very well be acquirers.

Mid-size targets:

- Candidates: Bash Gaming, DoubleU Games, Plumbee, Blue Shell Games, Pacific Interactive, Dragonplay, and Playstudios.
- We believe there is a high probability that at least one of these companies gets acquired within the next 12 months. We note GSN was reportedly willing to pay up to \$160 million for Bash Gaming (including all earn-outs), implying a P/S multiple of 2 to 3x, based on our estimates.

Smaller targets:

- Candidates: Diwip, KamaGames, Storm8, Top Game, Idle Games.
- We also expect these companies, and other smaller companies not listed, to be actively pursued. Given the varying growth rates and positioning of these companies, it is very difficult to apply any broad valuation parameters. That said, we would expect any deals to be under the \$100 million price range (including earn-outs).

Valuations

Valuations for social casino game companies can vary dramatically and are dependent upon a number of factors including: revenues, growth rate, profitability, web versus mobile exposure, strategic partnerships, and competitive advantages are just a few of the important considerations. In our opinion, 3 to 4x EV/Sales is a reasonable take-out multiple based on recent transactions.

Figure 2

Date	Acquirer	Target	Total Price	EV/Revenue
Jan-14	Zynga	Natural Motion	\$527	6.0x
Oct-13	Private	Supercell (51% stake)	\$3,000	3.6x
Jun-13	Zynga	Spooky Cool	\$31	NA
Jul-13	Hasbro	Backflip Studios (70% stake)	\$160	2.0x
Dec-12	Caesars	Buffalo Studios	\$45	0.9x
Nov-12	Aristocrat	Product Madness	\$20	1.0x
Jul-12	GREE	Funzio	\$210	3.5x
Mar-12	Zynga	OMGPOP	\$180	NM
Jan-12	IGT	DoubleDown	\$500	3.9x
Dec-11	Caesars	Playtika	\$103	0.5x
Jul-11	EA	PopCap	\$1,300	9.3x
Jul-10	Disney	Playdom	\$763	8.7x
Oct-10	DeNA	ngmoco	\$400	13.4x
Nov-09	EA	Playfish	\$400	5.3x
Average				4.8x

Source: Company reports and filings, Eilers Research, LLC

Conclusion

We expect CY14 to be a record year for M&A deals as the social casino sector is overdue for consolidation, in our opinion. With a large group of established companies, with strong balance sheets looking for new growth opportunities, we expect valuation multiples to remain at a premium level.

Authors note: this is a highly subjective analysis and is not meant as an endorsement or to disparage any companies – moreover, any information regarding acquirers and acquires is purely speculation.

Eilers Research, LLC is a boutique research firm focused on servicing the gaming equipment, technology, and interactive gaming sectors within the global gaming industry. For more information about the firm and services please visit www.eilersresearch.com.



Adam Krejcik is a partner at Eilers Research, LLC as well as the firm's Managing Director of Digital and Interactive Gaming. Mr. Krejcik has over ten years of equity research experience primarily covering the global interactive entertainment industry. He has become one of the authoritative voices on the social casino gaming industry and his proprietary research has been cited by various industry executives. Additionally, he is a regular contributor to various trade publications and a frequent guest speaker at industry conferences. Mr. Krejcik started his career at Bank of America Securities, LLC where he helped cover the Leisure sector and was most recently Senior Analyst of Global Consumer and Internet Research at ROTH Capital Partners, a boutique investment bank based in Newport Beach, CA. For more information, please contact Adam Krejcik at akrejcik@eilersresearch.com or phone 714-769-9156.

The Future of Social:

Gaming, Gambling and Betting

This report aims to help you take advantage of the growing social gaming industry by addressing the key factors of size, trends, predictions, and the impact of the swift rise and recent demise of Zynga, as the industry's first ground-breaking company.

KEY FEATURES:

- **Marketing of social games:** Discover the marketing strategies of social games companies.
- **Virtual Goods and Currencies:** Revenues generated by virtual goods is staggering. Analyse how a digital trophy or gift can have satisfying value to customers.
- **Convergence and Consolidation:** Discover how many operators are hoping to convert social players into real money and the struggles they face.
- **Platforms and Networks:** Find out which platforms are currently driving much of the growth in social gaming.
- **Regulation and Responsibility:** Hear the debate surrounding regulation in social gambling and how different countries define gambling.



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