The Gambling and Betting Activities industry (IBISWorld report R92.000) has been cresting a wave of consolidation activity since the Rank Group’s £179 million acquisition of Gala Casinos in 2013, and it is a trend that shows no sign of abating. Although revenue performance has been strong, with the Gambling and Betting Activities industry expected to grow at a compound annual rate of 7.5% over the five years through 2018-19, much of this growth has been online, and traditional operators have come under pressure from online-only bookies and gambling websites. Strong online competition and increasingly stringent regulation has caused profitability to fall, and the economies of scale, streamlining opportunities and stronger branding offered by merger activity have also stimulated consolidation.

Rising regulation has been a key factor in the push to consolidate, with the imposition of a 15% tax on online betting at the end of 2014 and the more recent National Responsible Gambling Strategy 2016, which requires operators to give consumers access to at least three months-worth of account and gambling data, provide account history information with a minimum period of 12 months on request, and give information related to deposits and financial limits, increasing operators’ costs and limiting their takings as the regulation is expected to discourage betting activity. Faced with rising compliance costs, gambling and betting operators’ profit has fallen to an average of 7.3%, from approximately 10% five years ago. Indeed, in 2016, Coral Group cited that tax and regulatory impacts were a factor in the swiftness with which the Ladbrokes-Coral merger, worth £3.9 billion, went ahead, to form Ladbrokes Coral Group plc. Continued regulatory pressure, such as the recent announcement that the maximum stake on fixed-odds betting terminals will be limited to £2.00 from 2020, down from £100 at present, is likely to ensure that consolidation remains prominent. Fixed-odds betting terminals provide one of the largest sources of revenue for retail bookmakers, and the cut has the potential to lead to hundreds of millions in lost earnings.

The Gambling and Betting Activities industry has also been significantly affected by the ongoing development of the online sphere. Remote gambling is by far the largest single product segment in the industry, accounting for 45.3% of revenue, and in 2017, 51% of gamblers gambled using mobile phones and tablets, up 8% on the previous year, according to the Gambling Commission. Even as consolidation has strengthened incumbents, this online shift has led to a decrease in establishment numbers, which are expected to fall at a compound annual rate of 0.3% over the five years through 2018-19, whilst enterprise numbers are expected to fall at a compound annual rate of 2.9% over the same period. In its 2014 annual report, Paddy Power stated that it...
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expected over 90% of future growth to be in mobile, setting the backdrop for its £5 billion merger with Betfair plc in 2016, which created the world’s largest online gambling business. Since then, Paddy Power Betfair has retained its appetite, reaching an agreement for the acquisition of FanDuel, an American daily fantasy sports provider, in May 2018.

The strength of the online sphere is evident in the series of acquisitions made by GVC Holdings, including the £1.1 billion acquisition of Bwin in 2015, and culminating in the acquisition of Ladbrokes Coral Group plc in March 2018, in a deal worth approximately £4 billion, which is expected to lead to both workforce streamlining and global investment. The development of online offerings has been the rationale behind many recent mergers, with Paddy Power Betfair investing over £300 million in digital marketing and the use of big data since the two companies merged, in addition to online product development. Smaller online start-ups in particular are expected to seek the benefits of united brand offerings, and either merge or be acquired by larger firms. Increased scale also boosts investment prospects, with GVC chief executive Kenneth Alexander noting that the ‘scale, diversity, proprietary technology and management expertise’ consolidation will allow the new company to improve its global reach. Although consolidation may slow as the pool of acquirable assets drains, having the scale to absorb significant development costs will be vital in a highly competitive and dynamic industry, in which the effective use of large data sets and technological development is key in providing new ways to play and easier ways to pay.
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