



# Economics in the gaming sector



---

[kpmg.com/uk/leisure](https://kpmg.com/uk/leisure)

# Introduction

## The gaming industry is maturing.

- Jurisdictions continue to **regulate** and the more established markets have maturing regulators that are increasingly reviewing operators' business practices.
- In terms of **industry structure**, it is no longer a case of "when will consolidation happen?", more "which firm will be the next to enter into a multi-billion pound merger?".
- From a fiscal perspective, **tax compliance requirements** are increasing and regimes changing in a number of jurisdictions.
- The rising costs of regulation, taxation, and competition continue to squeeze margins and reward innovation and efficiency, leaving those resting on their laurels behind.

KPMG's Economics team has over 10 years' experience working in the gaming sector, helping clients navigate complex issues.

Our areas of expertise include the following.



# Our approach

The economist's toolkit, utilised in the right way, can provide insight that cuts through complex issues. This is especially important in the heavily regulated gaming sector.

Once we have agreed the objectives with our clients, each and every engagement we undertake follows two key steps: **thinking from first principles** and **challenging the status quo**. We continually critically assess and develop the techniques we use, and look to build on our experience as opposed to settling for what has been done before.

We bring together economists and experts from across the KPMG international network to ensure a greater level of insight. This includes working with experts in our customer and digital practice looking at how operators could manage the customer journey, M&A experts during transactions, anti-money laundering and conduct risk specialists during regulatory engagements, and specialist data scientists using cutting edge analytical techniques.



# Economics in commercial strategy

We utilise both economic theory and empirical analysis to help clients make **better commercial decisions.**

Our work in this area includes:

**Demand estimation:** using econometric techniques to help operators better understand and quantify how different variables may influence demand (e.g. in relation to slots: top prize, licensed content, time on site, and so on). The outputs from these models can be used to optimise the content that gets displayed for given cohorts of consumers.

**Market assessments:** using data analysis, alongside the economist toolkit and sector insight, to help clients understand the key opportunities and risk across different geographies. This type of analysis includes market sizing, tax revenue estimation and regulatory assessments.



- ✓ **1.** Conducting market reviews with a focus on the competitive make up of markets.
- ✓ **2.** Helping clients understand the demand levers for different products and what this means for game and portfolio design.
- ✓ **3.** Quantifying the responsiveness of demand to price, odds and RTP changes.



# Regulation

Gambling markets, and the online market in particular, are maturing at a rapid pace and so are the regulatory behaviours of those overseeing the sector.

We help clients **navigate tough regulatory environments** by helping them understand the various constraints and the potential impacts these could have on their business. This can help with both strategic business planning as well as helping to facilitate evidence-based engagements with regulators and governments. Our economists, as well as having experience in the gaming sector, also have an in-depth knowledge of different regulatory regimes and processes across a range of industries and geographies. We not only have experience of engaging with regulators on a range of complex issues but also have first-hand experience as regulators; experience that has proved vital in driving positive outcomes for our clients.

Furthermore, in addition to gaming-specific regulatory matters, KPMG's Competition Economics practice advises clients across M&A (explored further below), market inquiries, abuses of dominance, vertical and horizontal agreements, state aid and private litigation.



## How we have helped our clients

- ✓ **1.** Understanding consumer behaviour and how this is relevant in a regulatory context.
- ✓ **2.** Helping clients understand the effect changes to current regulation could have on their business.
- ✓ **3.** Providing an understanding of how regulation can affect not only our client but the development of the market on the whole.



# Taxation

Increased market presence usually comes with increased tax obligations.

This is relevant in markets where governments are considering regulation, and in regulated markets looking to increase tax revenues.

We have experience **answering complex questions about different tax regimes in the gambling industry across a number of jurisdictions**. Taxation in the gambling sector comes with specific complexities, meaning knowledge of the industry, as well as the relevant taxation experience, is essential.



- ✓ **1.** Measuring the impact of changes in the tax rate on the demand for gambling products.
- ✓ **2.** Understanding how different tax regimes and rates will impact outcomes for both government and operators.
- ✓ **3.** Understanding how changes to the tax position can affect the competitive landscape for certain products.



Our team has worked across numerous proposed and completed transactions in the sector from an economics perspective, covering both **competition and strategic issues**.

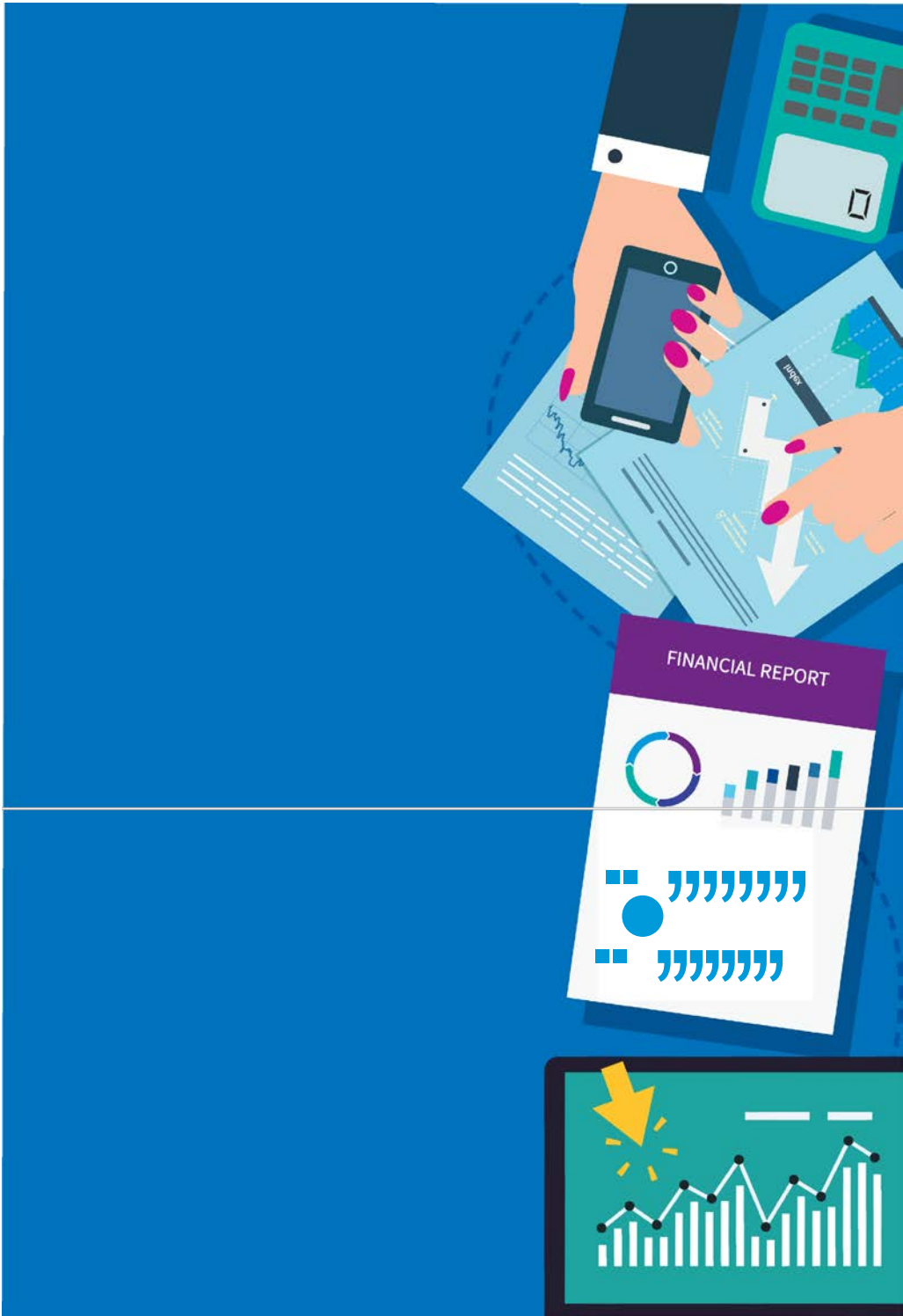
The industry has seen many large transactions take place over the past few years, and many expect this trend to continue. These types of transactions often need to be notified to the relevant competition authorities. This usually includes written responses which seek to define the relevant product and geographic markets and estimate market shares.

As well as assisting during the 'clearance' phase of such mergers, we have also been involved in strategic competition assessments and economic due diligence work, advising clients in the industry who are considering M&A. Our experience working on such cases means we are well-practiced in helping clients put forward effective and well-reasoned arguments which will have an impact when used to engage with the relevant competition authorities.



## How we have helped our clients

- ✓ **1.** Identifying potential competition risks of undertaking particular transaction.
- ✓ **2.** Assessing potential regulatory risks going forward if a transaction is undertaken.
- ✓ **3.** Economic due diligence on models presented during of transactions.



# Economic impact and evaluation

We bring extensive experience in analysing firms' economic impacts and impacts associated with policy and regulatory changes, as well as evaluation expertise.

We believe that understanding the value that individual companies or initiatives create for the economy and society as a whole is becoming increasingly important for consumers, employees and investors. It is also of interest to broader stakeholders, such as governments and regulators.

Our deep expertise in conducting economic and social impact assessments can help you to measure, and articulate, the value generated, beyond financial performance.

Additionally, with evolving policy and regulatory landscapes, it is important to understand how proposed changes may impact different market players - from customers and operators within the sector to society and the economy more widely. Ex-post evaluations are also an important tool for understanding the actual costs and benefits of policies and projects, including any unintended consequences.

Using robust economic techniques to objectively analyse impacts can help to inform decision making and policy responses. Our economic analysis has been used to effectively engage with a range of stakeholders, including government policy makers and regulators.



## How we have helped our clients

- ✓ **1.** Assessing clients' economic and social impacts in their areas of operation, both locally, nationally and internationally.
- ✓ **2.** Analysing the impact of proposed regulatory and policy changes at the company, sector and economy levels.
- ✓ **3.** Evaluating the impacts of policies and projects to understand effectiveness.



# Key contacts



## **Adam Rivers**

Director, KPMG Economics

Tel:+44 (0) 20 7694 1376

E-mail: [adam.rivers@kpmg.co.uk](mailto:adam.rivers@kpmg.co.uk)



## **Séamus McGowan**

Associate Director, KPMG

Economics

Tel:+44 20 7694 1195

E-mail: [seamus.mcgowan@kpmg.co.uk](mailto:seamus.mcgowan@kpmg.co.uk)



## **Nicola Mazzarotto**

Global Head of Economics

Tel: +44 20 73113768

E-mail: [nicola.mazzarotto@kpmg.co.uk](mailto:nicola.mazzarotto@kpmg.co.uk)



## **Will Hawkley**

Global Head of Leisure & Hospitality

Tel: +44 20 76944879

E-mail: [will.hawkley@kpmg.co.uk](mailto:will.hawkley@kpmg.co.uk)

## **[kpmg.com/uk/leisure](https://kpmg.com/uk/leisure)**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2019 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the United Kingdom.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

KPMG Create | CRT100451A