

Market trends

Regulation, technology and online: where the market is heading

Playtech operates in a dynamic, fast changing environment and is well placed to take advantage of marketplace trends. This section examines our operating environment across four trends around regulation, sustainability, technology and the shift to online.

1) A super-cycle driven by a trend towards regulation

Regulation is the key driver of growth in the gambling industry

Regulation is the key driver of growth in the gambling industry. Those countries that become newly regulated tend to see strong growth early on, which is why it is crucial for operators and technology partners to build a presence in a country that is about to be regulated or is newly regulated. However, growth typically slows down after a certain period. This tends to be driven by three main factors. Firstly, there is increased competition as new players enter the market, causing pricing pressure. Secondly, as markets mature, they become saturated due to limited demographic growth. Thirdly, regulation typically becomes more stringent over time. For example, in the mature UK market, we have seen a tightening of rules on age and identity checks and a ban on gambling using credit cards.

Deviations from the broad shape of the curve are mainly attributable to the stringency of regulations in a country. For example, Spain has implemented strict restrictions on advertising for the gambling sector.

At this point in time, we are in an advantageous position in multiple countries across the world which are moving towards regulating gambling or have newly regulated the sector. In the next section, we assess each of the major regions in the world and how Playtech has positioned itself.

Online growth rates moderate as regulation matures

Evolution of online gambling market growth rates following online regulation



Source: H2GC and Playtech estimates. Market growth based on 2022–2024e average online GGR; maturity of regulation is based on years since regulation of online adjusted for specifics of country.

US

State-by-state legislation in the US

The regulatory landscape in the US is subject to constant change and development. In the four years since the repeal of the Professional and Amateur Sports Protection Act of 1992 (PASPA) in 2018, regulation of sports betting has progressed with more than 30 states now offering or introducing legislation to allow sports betting. However, California recently voted to reject the legalisation of online sports betting and in-person sports betting at tribal casinos and private horse tracks. This may delay legislation in states that have yet to approve sports betting, but we expect these states to ultimately acquiesce.

iGaming, which was not subject to PASPA, is allowed at the discretion of individual states. In 2021, the Mohegan Tribe and the Mashantucket Pequot Tribe of Connecticut received federal approval to operate online casino games, while Michigan launched in 2021, joining New Jersey, Pennsylvania, Delaware and West Virginia, with Nevada allowing online poker only. No new states have authorised online casino in 2022, although legislation to regulate online casino is working its way through New York's legislature.

iGaming has not opened up at the same rate as sports betting...

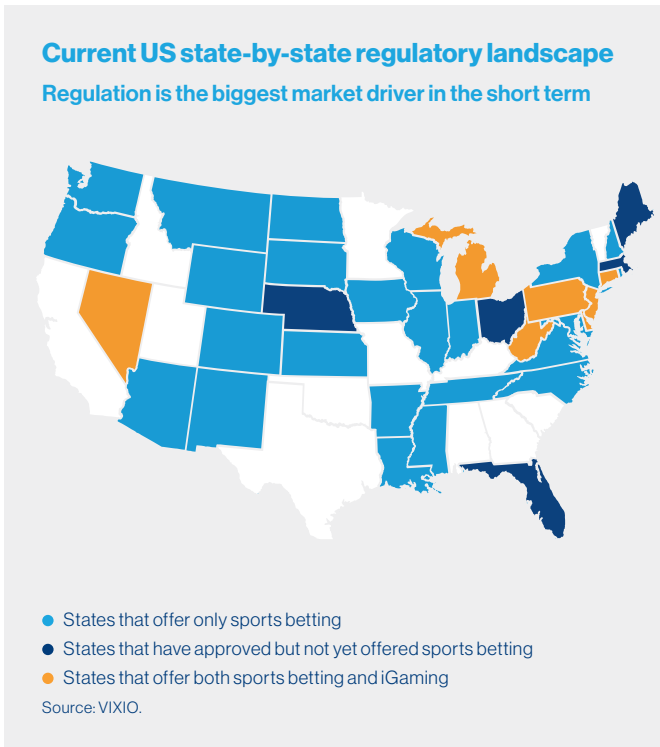
In the US, iGaming has not expanded at the same rapid pace as sports betting since the PASPA ruling in 2018 with just six states permitting iGaming compared to more than 30 states regulating sports betting.

...but this could change

As per VIXIO¹, the tax revenue generated from iGaming in these six states is nearly double that of the tax revenue generated from sports betting in 30 states, which could encourage state legislatures to consider regulating iGaming as these six states have already done.

Playtech is well placed to benefit from the trend towards regulating iGaming

This development bodes well for Playtech. We are very strong in this vertical and have been building the necessary foundations to ensure we can benefit when states begin to regulate iGaming. We have signed multi-state deals for iGaming with multiple key operators, while we see sports betting as strategically important for key partners in the US.



\$3bn

Revenue opportunity for Playtech

US B2B revenue opportunity

Total long-term B2B addressable market of c.\$3 billion

	Market size ¹	Third-party share	Royalty share	Revenue opp.
iGaming	\$18bn x	75% x	10%–15%	= c.\$1.7bn
Sports betting (online)	\$23bn x	33% x	10%–15%	= c.\$950m
Platform (PAM)	\$41bn x	25% x	3%–5%	= c.\$410m
Total B2B opportunity (excl. structured agreements)				c.\$3bn

¹ Market sizes are GGR based on forecasts for online sports betting/iGaming.

Source: FanDuel CMD (2022) and Jefferies research (2021).



¹ VIXIO is an independent source on fast-moving regulatory developments in the gambling sector.

Market trends continued

Latin America

A region trending towards regulation

The region is shifting towards regulating the gambling industry. In the past few years, Mexico and Colombia have both seen the regulation of the online segment, while Peru has recently enacted legislation that regulates sports betting and online gambling. Brazil and Chile have gambling regulation underway with expectations of enactment in the near future.

Several countries in LatAm with large populations and GDP

Significant opportunity in LatAm

Country	Population	GDP (million)
Brazil	213,000,000	1,600,000
Mexico	129,000,000	1,300,000
Colombia	51,000,000	314,000
Argentina	45,000,000	492,000
Peru	33,000,000	223,000
Chile	19,000,000	317,000
Guatemala	18,000,000	86,000
Costa Rica	5,000,000	64,000
Panama	4,000,000	64,000

Source: Worldometer, World Bank.

Well placed with our structured agreements

Playtech has structured agreements in place where we expect to see growth. Our success with Caliente in Mexico is well known (see page 13 in the “Our strategy” section), while Wplay in Colombia continues to perform well. To take advantage of the huge potential in the Brazilian market, we have signed a structured agreement with Galerabet in 2021. As with other partnerships, the Galerabet agreement includes the customer software licence agreement in addition to an option over a significant non-controlling equity stake in the operation.

Our structured agreement with Tenlot and the Red Cross brings exclusivity in Costa Rica, where Playtech operates under the only licence available. During 2021, we launched in Costa Rica and also launched our structured agreement in Panama with Onjoc, under the brand betcha, where we had the first to market advantage. Looking ahead, we are focused on executing these opportunities to drive growth in the region.

Several structured agreements in place in LatAm

Executing on our other structured agreements



Europe

Europe – a mix of newly regulating and mature markets

The market in Europe is more nuanced than the Americas region. Some countries are opening up their online gambling market such as the Netherlands and Germany while others are mature but still have an underpenetrated online market, such as Italy, Spain and France. And finally, there is the UK, which is the most mature market of all with high online penetration rates.

Well positioned in the Netherlands and Germany

During 2021, Playtech signed a new, expanded long-term strategic software and services agreement with Holland Casino, the state-owned land-based casino operator in the Netherlands. This agreement, as well as the launch of Casino and Poker with Bet365 in the Netherlands in early 2022, means Playtech is well positioned to capitalise on the newly regulated Dutch market.

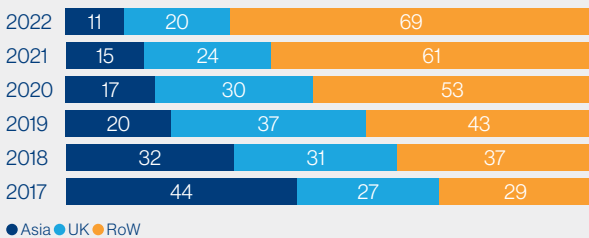
Playtech has significant exposure to the underpenetrated online Italian market, via Snaitech, and the German market, through our B2C HAPPYBET business. Although HAPPYBET has underperformed as a business, a turnaround plan is underway to focus the business on capturing the online opportunity.

The UK is reducing in importance

Although the UK has historically contributed a significant proportion of revenue to the B2B division, its importance is declining. In 2019, it made up 37% of B2B revenues, which has reduced to 20% in 2022 due to a maturing UK market and the faster growing Americas and European regions.

UK and Asia becoming a smaller proportion of B2B

Asia and UK as % of B2B revenues



Asia

Asia remains broadly unregulated

Gambling is a very popular pastime in Asia, which possesses structural growth drivers such as a passion for sport, large populations and above average GDP growth, not dissimilar to the LatAm region. However, the majority of markets remain unregulated. Over the long term, we see Asia following a similar path as the Americas towards regulating the sector, but the visibility of this path remains unclear at the present time.

Asia is increasingly a smaller part of B2B

While there have been issues in Asia with currency controls and volatile government attitudes towards the gambling sector, it is becoming an increasingly smaller part of the business – 44% of B2B revenues in 2017 compared to 11% in 2022 driven by a combination of declining Asia revenues and accelerated growth in other regions.



2) Growing importance of sustainability to build long-term value

ESG performance has moved from something that was of interest to a small number of investors to a subject that commands the attention of both the wider investment community and stakeholders more generally. The gambling sector is no exception and, alongside issues such as safer gambling, climate change and DEI, there is a particular focus on how companies are demonstrating their commitment to ethical and responsible behaviour across their business. Having comprehensive and effective policies and practices in place is therefore essential if the industry is to gain and retain the trust of customers and society at large.

Safer gambling is a material ESG topic for the gambling industry. Both regulators and the gambling industry recognise the

importance of developing safer gambling solutions, evaluating their effectiveness and helping support research that leads to the development of evidence-based regulation. Playtech has been at the forefront of this process to ensure gambling customers are able to enjoy the benefits of a safe and secure playing environment.

BetBuddy is becoming an increasingly important tool

As player protection tools become an increasingly important factor in a customer's decision in choosing where to play, Playtech's analytics-driven BetBuddy tool (see page 36) is an integral tool within the IMS platform.

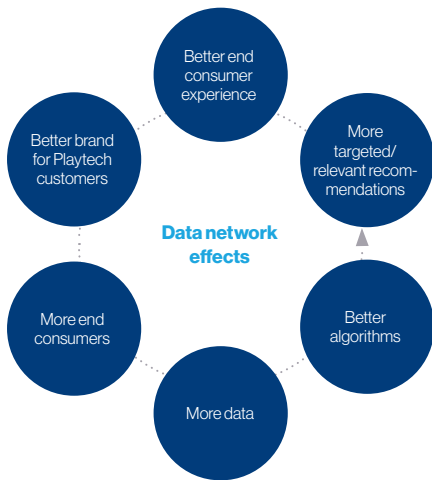
Market trends continued

3) Technology – multiple technologies about to hit mainstream adoption

Data and AI

Overview

The digitisation of the world is creating unimaginable amounts of data from all kinds of sources. More data is being generated every two years than in all of time before that point. However, the key to obtaining a competitive advantage is getting access to the right data sets and drawing insights from them. Those companies that are able to attract a large number of users gain access to the most data, which allows them to train their algorithms to give more accurate results. This in turn attracts more users, triggering data network effects that become difficult to compete against.



Impact on the industry/Playtech

The use of data to gain actionable insights into customers is a cornerstone of the online gaming industry. It facilitates:

- the delivery of a personalised experience for each user, thus increasing revenue per customer;
- new customers being acquired through intelligent marketing;
- players being verified and the detection of fraud; and
- tackling gambling addiction, encouraging a more responsible industry.

Given Playtech’s sheer scale, it has access to vast amounts of data. Playtech is investing heavily in its analytics, business intelligence (BI) and safer gambling tools to ensure that it makes use of this data to retain its competitive advantage and ensures a sustainable future for the industry.

Link to strategy



Virtual reality/augmented reality

Overview

Augmented reality (AR) is focused on enhancing the real-world experience, with real-time, virtual information overlaying physical objects delivered through a device such as a headset or mobile phone. Virtual reality (VR) provides a completely immersive, computer-generated 3D environment that replaces the real world. With tech titans such as Apple and Meta releasing next generation headsets, we can expect to see significant, as yet unknown, new use cases arise within the gambling sector.

Impact on the industry/Playtech

- Should AR and VR gain broad adoption, they could be used to vastly improve the player experience.
- With VR, players will be able to engage with other players and experience walking the halls of a physical casino in the comfort of their own home.
- With AR, there is the ability to customise a player’s experience in a physical casino, or within Live, to overlay real-time information on the video stream.
- Playtech has begun to incorporate some of these technologies in its offering. The Greatest Cards Show within Live has augmented reality features, while the Poker vertical has released customisable digital avatars.

Link to strategy



5G roll-out

Overview

5G is the latest new global wireless standard and enables a new kind of network that is designed to connect everyone and everything together including machines, objects and devices. It is predicted to deliver much higher data speeds, ultra-low latency, more reliability, a big increase in network capacity and a more uniform experience to more users. These benefits can usher in new immersive experiences such as VR and AR.

Impact on the industry/Playtech

- 5G is an enabler of VR and AR technologies and thus helps to create games that are richer and more immersive than before.
- Video streaming of Live dealer games can be of a much greater quality with higher speeds and a more reliable network.
- In-game sports betting will benefit, particularly on mobile. Inside stadiums, more devices can be connected at once with reduced latency, thus enabling fans to place bets as they watch the game. Outside stadiums, 5G enables fans to simultaneously make bets and stream the game on their mobile phones.
- The low latency of 5G could help to facilitate more social iCasino games, as players will be able to enjoy real-time interactions with other players.

Link to strategy



4) Shift to online continues, accelerated by the pandemic

Live

Overview

Live is an extremely attractive vertical that is expected to grow significantly over the coming years. This is driven by two major trends:

- Firstly, there is a shift to online from retail as the world digitises and this has accelerated due to the pandemic.
- Secondly, within online, there is a growing trend away from random number generation (RNG) towards Live, as players want more of an interactive, immersive experience. With the imminent launch of VR by tech companies such as Apple, we expect this shift to accelerate.

The combination of these drivers means industry analysts predict the Live market to reach \$18 billion based on GGR by 2025, up from \$6.9 billion in 2021, a CAGR of 28%.

Impact on industry/Playtech

Playtech has already made significant investments to capitalise on this attractive product vertical:

- Ten studios are currently operational with a further one in Pennsylvania under construction. The latest one to open is in Peru which was launched earlier this year and will help us to support growth within the attractive LatAm region, particularly Brazil.
- The number of tables has more than doubled over the past four years.
- Significant investment has been made to ensure we have the latest cutting-edge technology and access to branded gaming rights such as Jumanji™.

These investments have already been made, and the nature of the Live business model is such that additional players can be added to tables at minimal cost. This creates significant operating leverage and leads to Live being margin accretive to the overall B2B division.

Link to strategy



Underpenetrated online markets in Europe

Overview

The pandemic accelerated the shift towards online gambling as retail shops were closed during lockdown and customers, with plenty of time to pass, played online. We await to see how structural this shift is over the coming year. However, early indications suggest the migration to online has remained sticky post pandemic, with all major countries in the EU seeing at least a seven percentage point rise in online penetration from prior to the pandemic in 2019 compared to 2022.

There is ample scope for the migration to online to continue. Looking to the UK as an example of a mature market, online penetration in 2022 was just under 60%, far in excess of Spain, Italy and Germany.

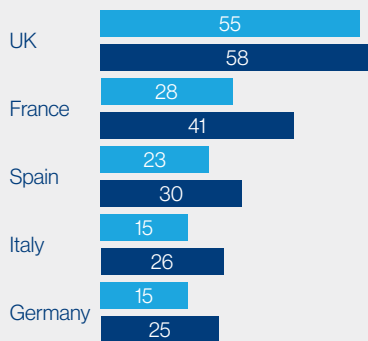
Impact on industry/Playtech

Within the B2C division, Playtech is very well placed to continue to benefit from an underpenetrated online market in Europe. In Italy, Snaitech gives Playtech exposure to a large market where online penetration remains at 26%, far below the UK at 58%. In addition, the online business is higher margin and less capital intensive, meaning it generates higher returns. Aside from Italy, Playtech is also well placed in Germany with HAPPYBET, which possesses one of the few available online sports betting licences in Germany.

Within the B2B division, Playtech has a strong presence in Spain across Live, Casino and Sports, and is well positioned to take advantage of the continued shift to online.

Several large European countries have an underpenetrated online market

Online penetration as % of GGR



● 2019 ● 2022

Source: H2GC (includes betting and gaming and excludes lotteries).

Link to strategy



Sports

Overview

As the market shifts to online, the Sports segment is impacted by multiple trends:

- convergence of sports betting, media streaming and social;
- emerging markets shifting towards embedded betting within streaming services;
- shift to in-play betting with the types of bets becoming more granular; and
- more and more data sources being used to come up with sports betting odds such as fitness of players.

Impact on industry/Playtech

- Our Sports offering is targeted at those areas where we see strategic benefits. One such region is LatAm, where many of the countries enjoy a rich sporting culture and we have made good progress in Mexico, Colombia and Panama.
- Our Betbuilder product, now available for football with other sports to follow, will be a focus of our Sports offering given the trend of shifting towards offering more granular types of bets.

Link to strategy

