

The Digital Revolution

How U.K. server-based gaming is spawning the next generation of technology



The out-of-home gaming market in the U.K. is undergoing a major revolution with the next generation of new technology and the transfer towards server-based gaming (SBG). The U.S. will likely follow shortly, triggering a global machine replacement cycle involving hundreds of thousands of machines.

A U.K. Reality

There are currently around 50,000 SBG devices installed across the U.K., a number that could easily double over the next few years. The drivers of change are varied but include a combination of technological advancement, regulatory change and customer acceptance. Technology is now an ever-important component of the gaming, leisure and entertainment environment, involved in every step of the value chain from product development to point of sale, operational management and regulatory compliance. Ultimately, the gaming industry is performance-led with SBG systems offering improving economics for everyone with profit uplift to retailer, operator and supplier alike.

Technological

Advancement. Fixed-Odds-Betting-Terminals (FOBTs) in betting shops were the first to harbor this server technology to exploit a legal loophole in the definition of a "gaming machine." Server-based gaming is now infiltrating beyond FOBTs in bookmakers with applications across many leisure, gaming and entertainment venues. SBG technology can now be seen as Skills-With-Prize (SWP) and Amusement-With-Prize (AWP) machines in pubs and slot machines in casinos. Legacy systems were manufacturer-driven and early technology had signifi-

cant integration difficulties. The early stumbling issues of poor quality, increased downtime and limited network flexibility have now been overcome. The size of the providers has also been increased with the likes of GlobalDraw, Inspired Gaming and Cyberview now operating on an international scale. The issue of compatibility with independent software (i.e., games providers) has also been overcome with the development of open platform architecture and the provision of software tool kits.

Regulatory Change. Machine codes of conduct and regulations are subject to change and reporting requirements are increasingly cumbersome. Managing change in a timely and efficient manner, while complying with ever-increasing reporting requirements, is easier if done centrally (from a central server). Many jurisdictions require reporting of machine take to central government agencies. Server interfaces facilitate such reporting and improve transparency. Impending regulatory changes to allow profit/revenue sharing across the U.K.

should give a significant boost to SBG switchover as should the opportunity to offer more automated banker games in casinos and betting shops.

Customer Acceptance. Players were initially resistant to change and did not trust the video style format. Retailers (pub and gaming venue operators) also did not want to undermine the existing product offer and infrastructure by unravelling long-standing contracts with operators and suppliers. However, in the face of declining machine revenues, we believe site owners have become more willing to try new formats and reduce their reliance on one supplier, so are thus turning to the wider content choice of SBG platforms.

U.S., World to Follow

So while SBG has a real and visible presence in the U.K., it is also now on the near horizon in the U.S. Nevada's Gaming Control Board has already pulled together a steering committee on SBG made up of representatives from across the industry. It has set a target deadline of December 2008 to have all the relevant MICS (minimum internal control standards)

in place, suggesting implementation in 2009. Technological standards are being drawn up in full consultation with the industry. Given Nevada's significant influence as a global gaming regulatory leader, we would expect other states (and other countries) to quickly follow, triggering a global machine replacement cycle involving hundreds of thousands of machines. Operators are investing heavily with WMS, Bally Technologies, Aristocrat Leisure, Scientific Games and International Game Technology all joining the race for downloadable games in the U.S.

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GAMING INDUSTRY STOCK PRICE PERFORMANCE For Week Ending May 10, 2007

TOP 5	Price on 5/10/07	% Change
WMS Industries (WMS)	\$42.38	9.5%
Progressive Gaming (PGIC)	\$4.75	9.4%
Pinnacle Entertainment (PNK)	\$28.98	3.2%
Dover Downs (DDE)	\$14.01	3.1%
Scientific Games (SGMS)	\$36.49	2.1%

BOTTOM 5

Trump Entertainment (TRMP)	\$14.17	-9.2%
Las Vegas Sands (LVS)	\$77.20	-8.2%
Wynn Resorts (WYNN)	\$96.00	-7.4%
Ameristar Casinos (ASCA)	\$29.92	-4.2%
MGM Mirage (MGM)	\$62.97	-3.7%

THE MARKETS

S&P	1491.47	-0.7%
Dow Jones	13215.13	-0.2%
Nasdaq	2533.74	-1.2%