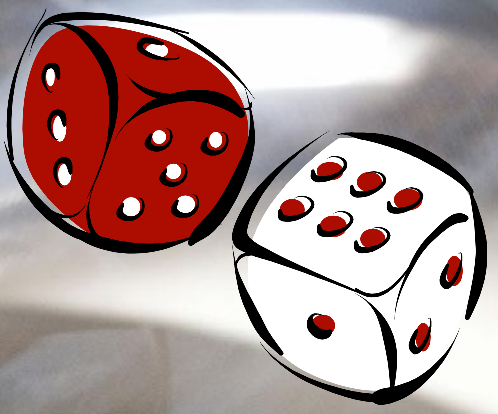
National Gambling Board
South Africa
a member of the dti group

GAMBLING SECTOR PERFORMANCE IN SOUTH AFRICA, WITH SPECIFIC REFERENCE TO IMPACT OF EBTs ON BINGO, LPM & CASINO SECTORS



Presentation to:

National Gambling Policy Council

12 March 2018

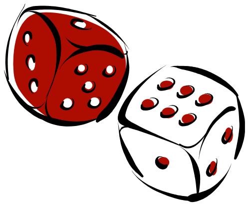
CONTENT

Part One

- Gambling Sector Performance: Market Conduct
  - Overview
  - Casino
  - Betting
  - LPM
  - Bingo
- Gambling Sector Performance: GGR & Market Share

Part Two

- Impact EBTs on bingo, LPM & casino sectors
- Key observations and conclusion
- B-BBEE FY2016/17
- Employment, FY2017
- Research Projects
- Questions and comments



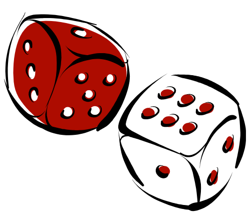
INTRODUCTION

- Based on Section 65(2)(e) in the National Gambling Act (No 7 of 2004), NGB monitors market conduct and market share.

- NGB gathers provincial gambling statistics (turnover, gross gambling revenue and taxes/levies) relevant to all regulated gambling modes i.e. casinos, racing and betting, limited pay-out machines and bingo, as well as information on market conduct (number of operational gambling positions, operators, outlets) and market share.

- Provincial gambling statistics are gathered from all Provincial Licensing Authorities (PLAs) on a quarterly basis (raw data) and verified annually referred to as audited figures.

- This presentation is based on the latest audited statistics/information received from PLAs during FY2017 and raw data relevant to FY2018 (quarters 1, 2 & 3). Where applicable, information is tracked from FY2010.



GAMBLING SECTOR PERFORMANCE
MARKET CONDUCT

OVERVIEW OF THE INDUSTRY AS AT 31 DECEMBER 2017

Variable	FY2017 Quarter 4 (audited)	FY2018 Quarter 1 (raw)	FY2018 Quarter 2 (raw)	FY2018 Quarter 3 (raw)
Number of operational casinos	38	38	38	38
Number of operational slots (casinos)	23 697	25 346	25 148	25 196
Number of operational tables (casinos)	907	948	954	964
Number of operational gambling positions (casinos)	33 249	35 909	35 800	36 037
Number of operational totalisator outlets	456	462	459	461
Number of operational bookmakers	266	259	270	268
Number of operational bookmaker outlets	515	504	527	527

Growth in all sectors from FY2017 to FY2018 (Qrt 3)

OVERVIEW OF THE INDUSTRY AS AT 31 DECEMBER 2017

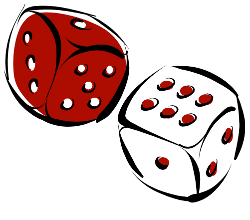
Variable	FY2017 Quarter 4 (audited)	FY2018 Quarter 1 (raw)	FY2018 Quarter 2 (raw)	FY2018 Quarter 3 (raw)
Number of operational Limited Payout Machine (LPM) site operators	2 188	2 174	2 187	2 160
Number of active LPMs	11 502	11 636	11 900	11 836
Number of operational bingo outlets	37	42	45	48
Number of operational bingo positions	6 497	7 314	7 394	8 033
Traditional	1 888	1 900	1 586	1 602
Electronic Bingo Terminals	4 609	5 414	5 808	6 431

Growth in all sectors from FY2017 to FY2018 (Qrt 3) - specifically bingo

OVERVIEW OF THE INDUSTRY AS AT 31 DECEMBER 2017

Variable	FY2017 All Quarters (audited)	FY2018 Quarter 1 (raw)	FY2018 Quarter 2 (raw)	FY2018 Quarter 3 (raw)
National gambling statistics: Turnover	R 372 987 955 104	R 93 930 699 879	R 95 458 200 029	R 101 796 355 638
National gambling statistics: GGR generated	R 26 961 888 560	R 6 770 505 493	R 7 149 889 898	R 7 566 801 174
National gambling statistics: Taxes/levies collected	R 2 743 112 930	R 636 643 792	R 715 085 080	R 762 494 828

CASINO SECTOR

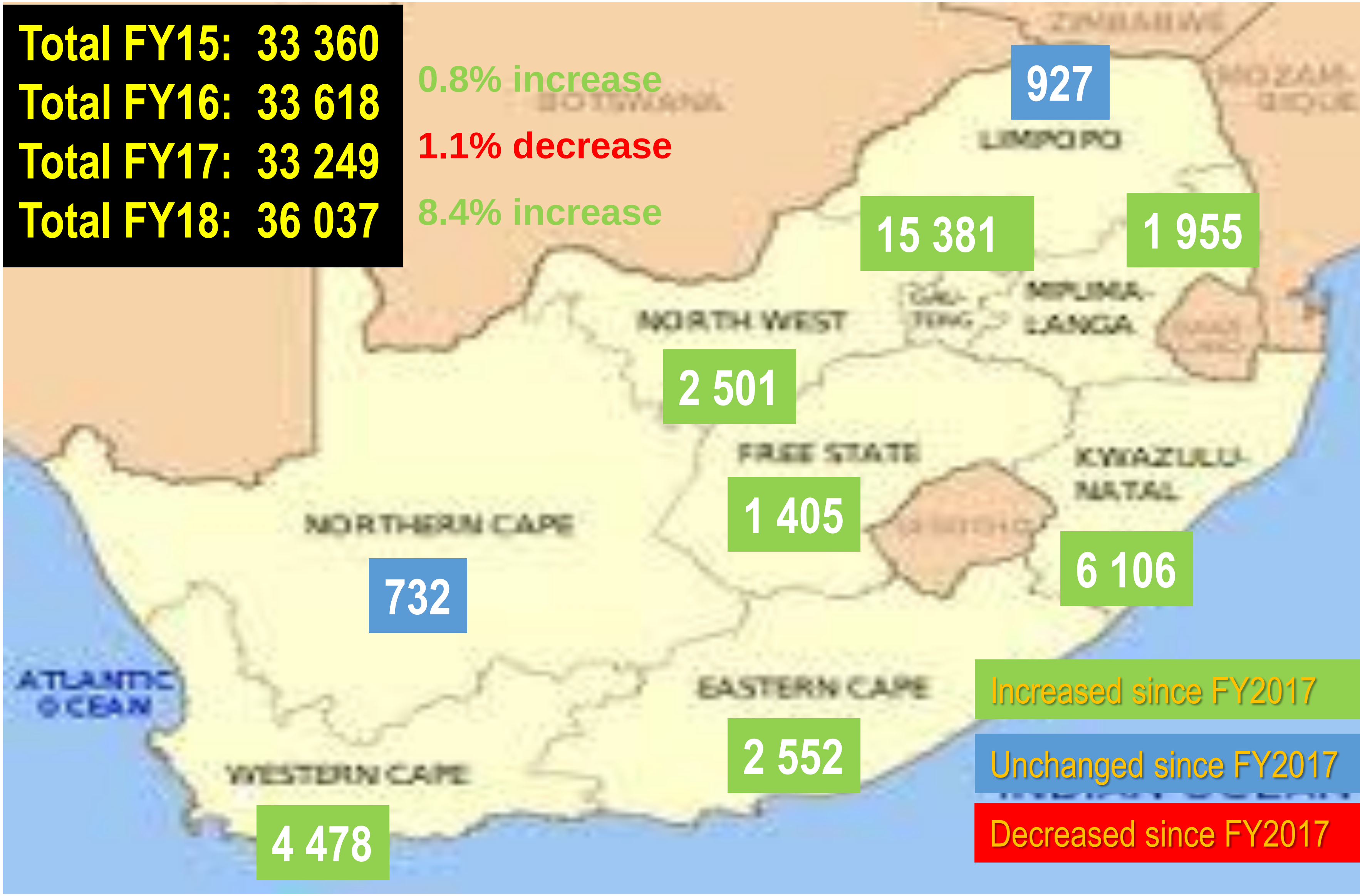


OPERATIONAL CASINOS AS AT 31 DECEMBER 2017

38 operational casinos out of 41 prescribed licences

Most casinos in Gauteng

OPERATIONAL CASINO POSITIONS AS AT 31 DECEMBER 2017



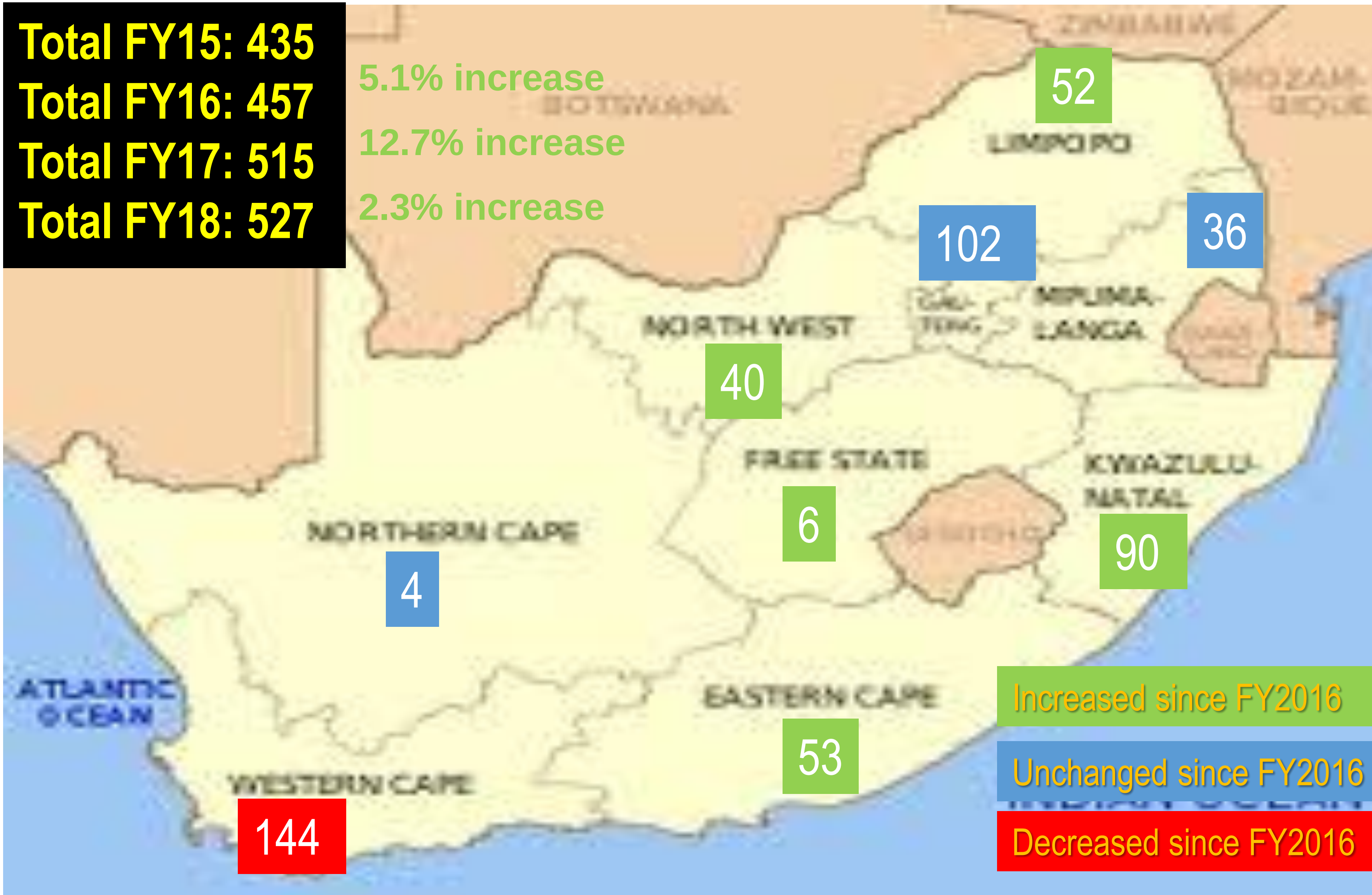
No growth in positions in Northern Cape and Limpopo

RACING AND BETTING SECTOR

OPERATIONAL BOOKMAKERS OUTLETS AS AT 31 DECEMBER 2017

Total FY15: 435
Total FY16: 457
Total FY17: 515
Total FY18: 527

5.1% increase
12.7% increase
2.3% increase



Growth in Limpopo, North West, Free State, KZN and Eastern Cape

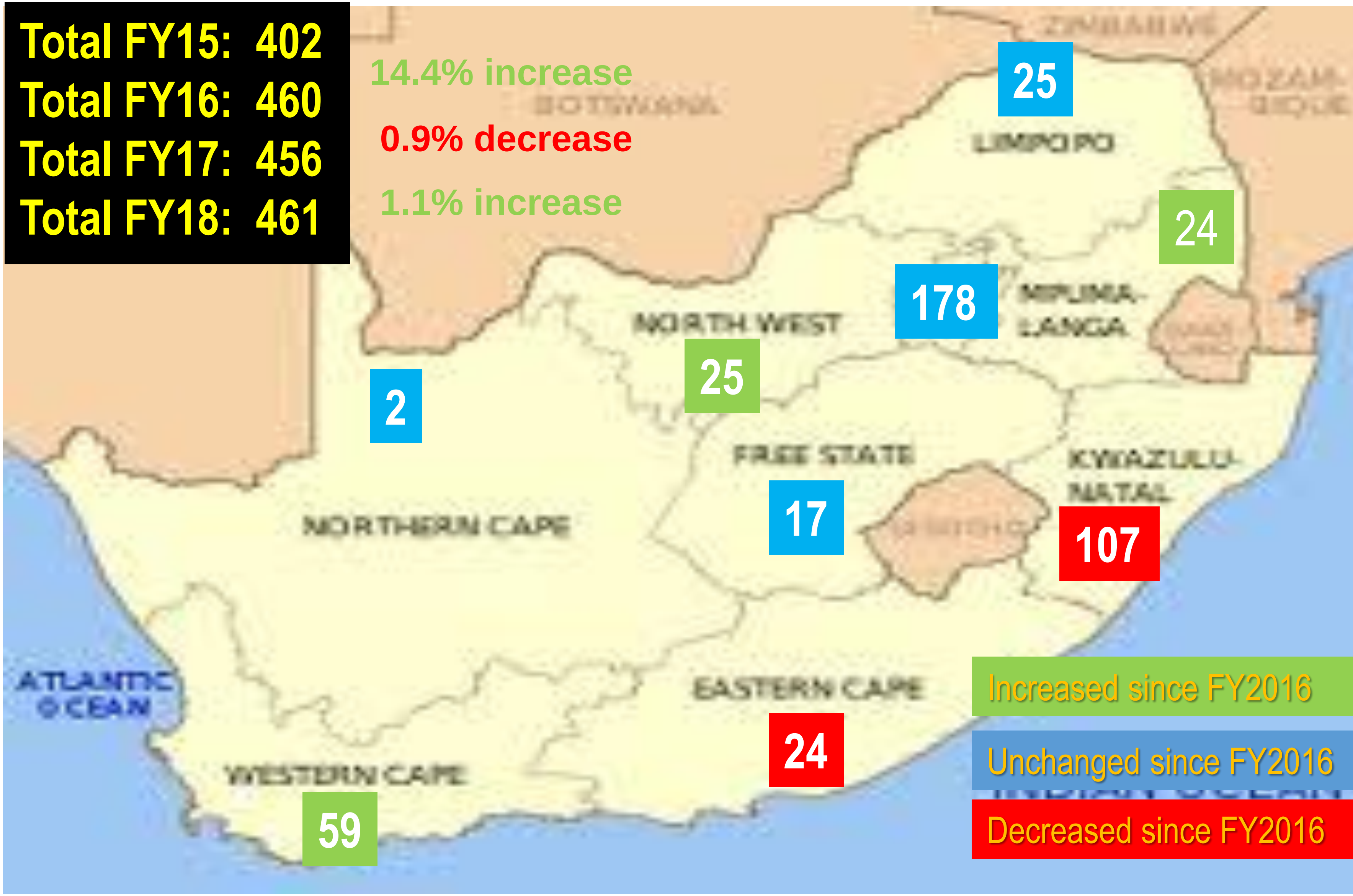
OPERATIONAL TOTALISATOR OUTLETS AS AT 31 DECEMBER 2017

Total FY15: 402
Total FY16: 460
Total FY17: 456
Total FY18: 461

14.4% increase

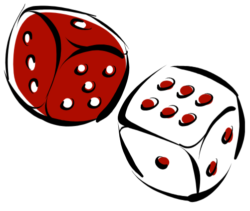
0.9% decrease

1.1% increase

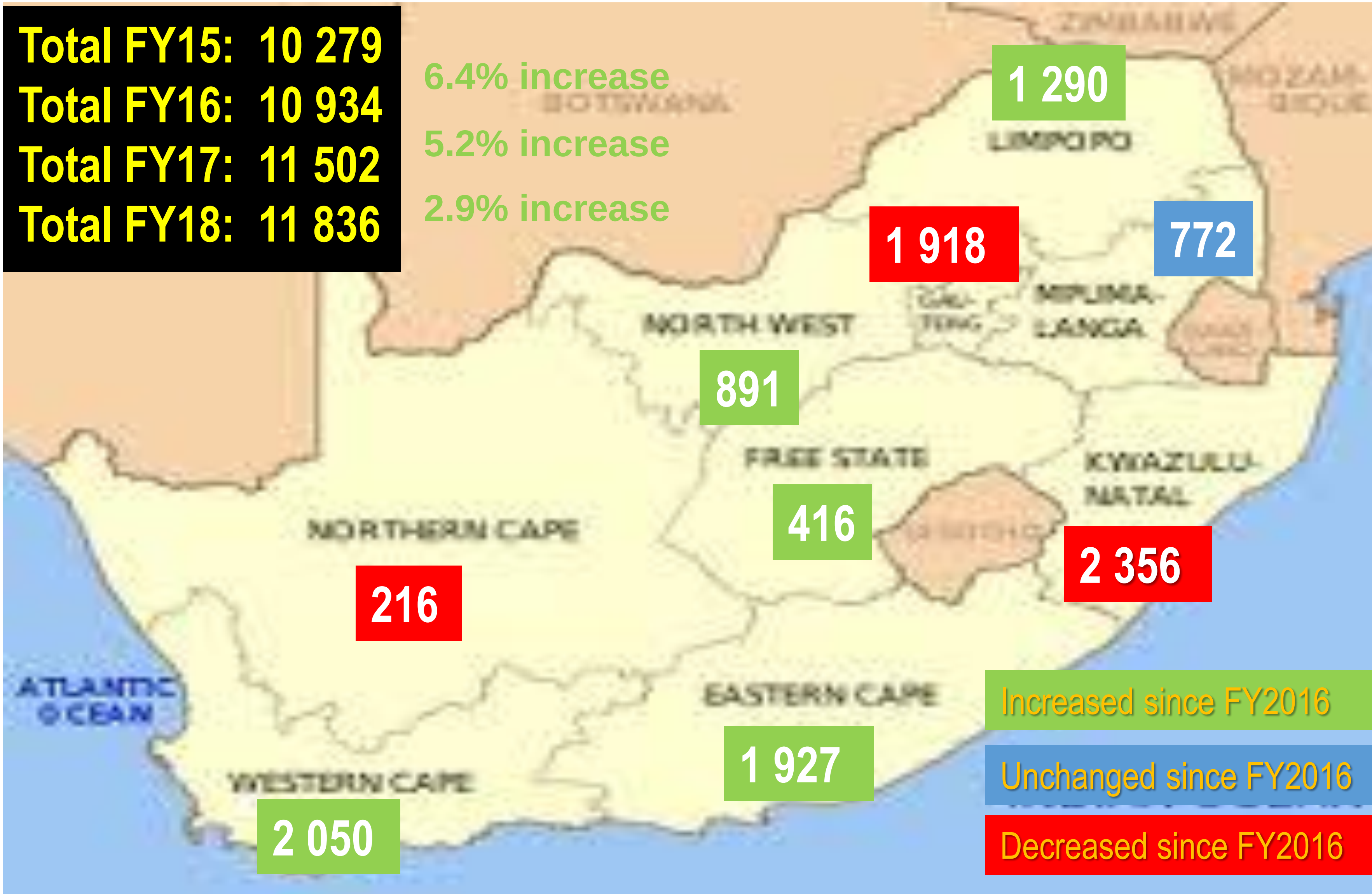


Growth in Western Cape, North West and Mpumalanga

LIMITED PAYOUT MACHINE SECTOR

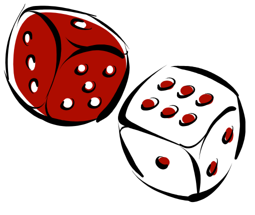


ACTIVE LPMs AS AT 31 DECEMBER 2017

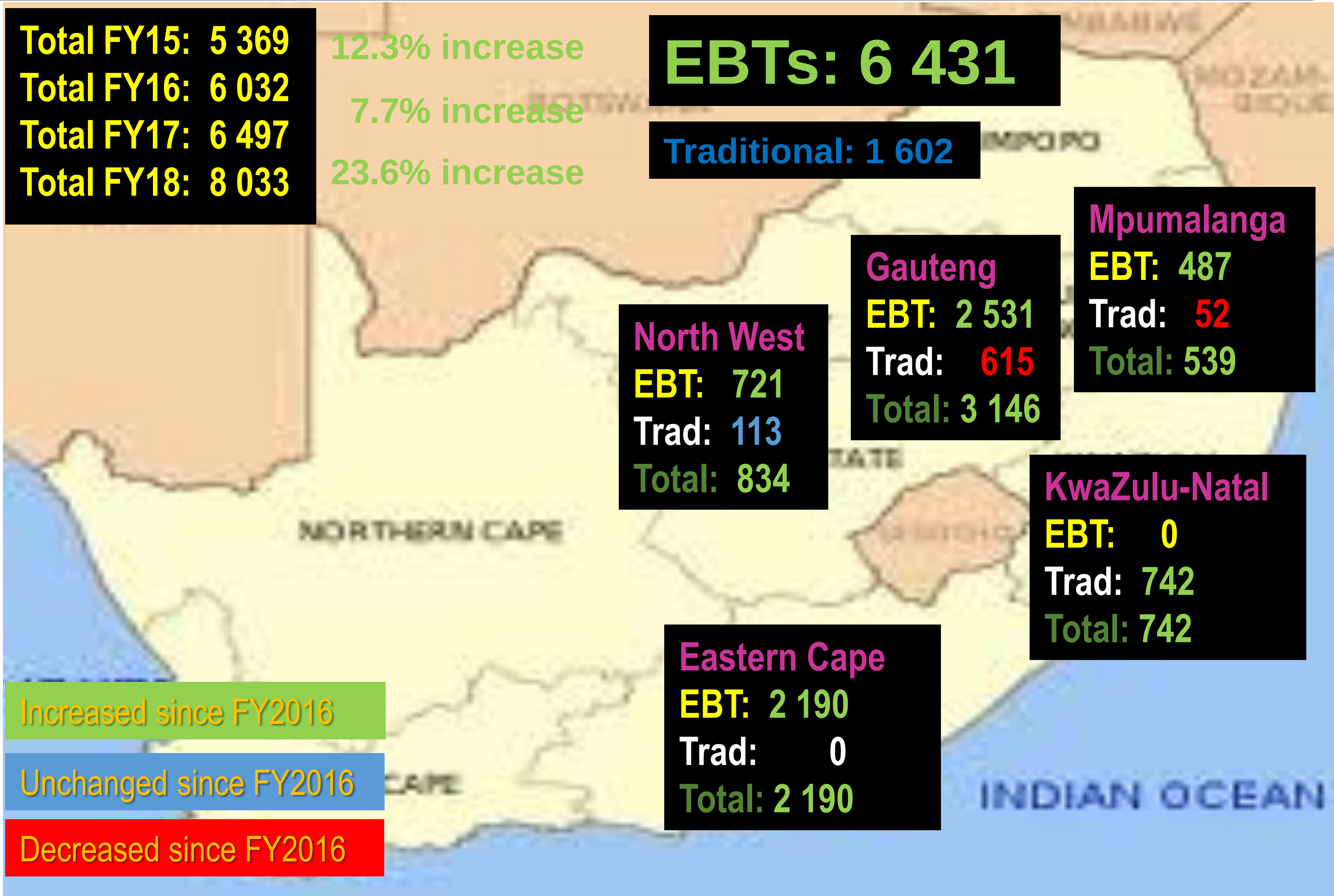


Growth in Western & Eastern Cape, Free State, North West and Limpopo

BINGO SECTOR



OPERATIONAL BINGO POSITIONS AS AT 31 DECEMBER 2017



Total FY15: 5 369
Total FY16: 6 032
Total FY17: 6 497
Total FY18: 8 033

12.3% increase
7.7% increase
23.6% increase

EBTs: 6 431

Traditional: 1 602

North West
EBT: 721
Trad: 113
Total: 834

Gauteng
EBT: 2 531
Trad: 615
Total: 3 146

Mpumalanga
EBT: 487
Trad: 52
Total: 539

KwaZulu-Natal
EBT: 0
Trad: 742
Total: 742

Eastern Cape
EBT: 2 190
Trad: 0
Total: 2 190

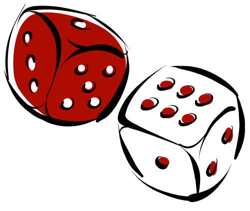
Increased since FY2016

Unchanged since FY2016

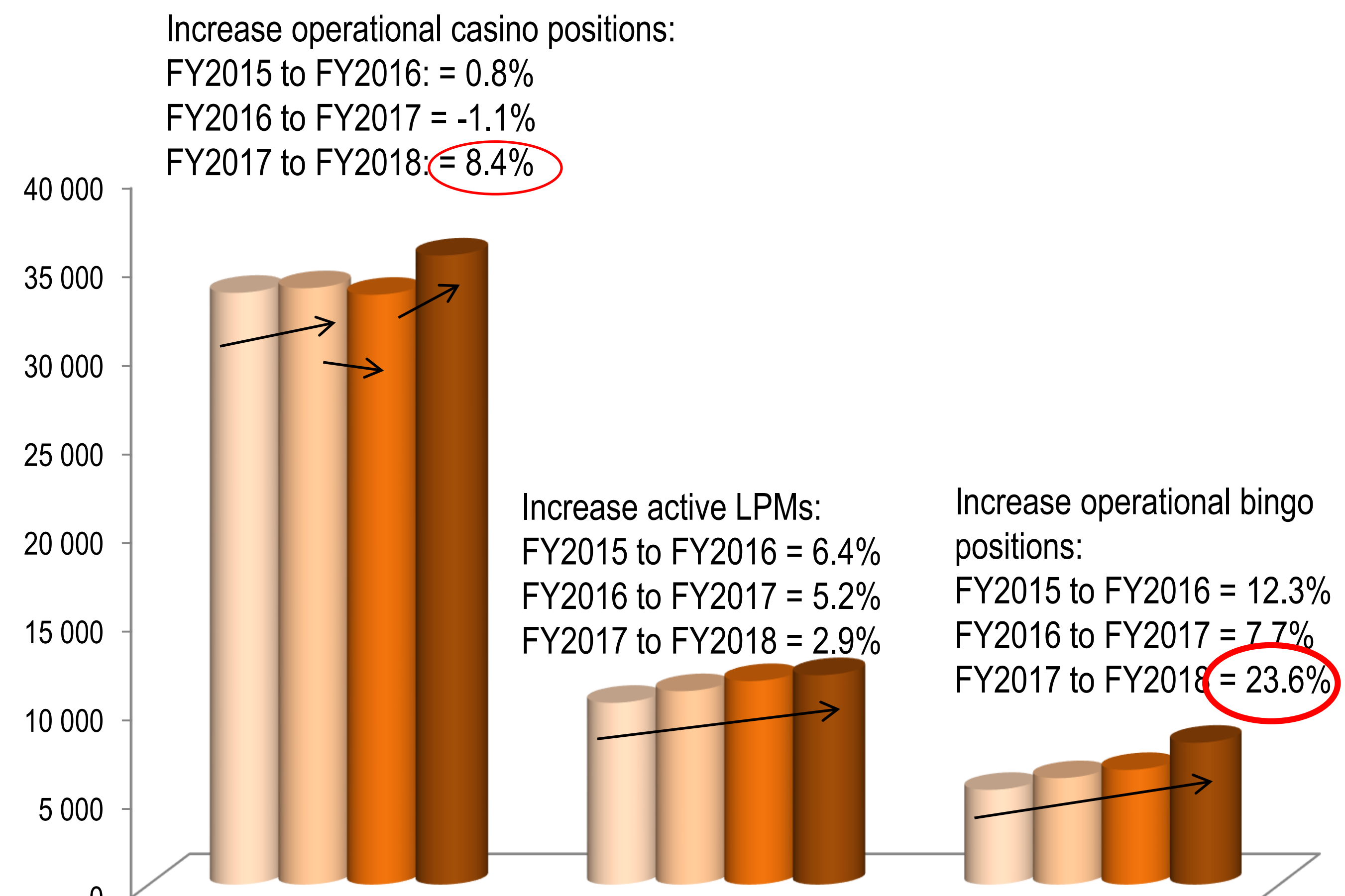
Decreased since FY2016

Growth in North West and Eastern Cape (EBT's)

GROWTH: MARKET CONDUCT
CASINO, LPM & BINGO



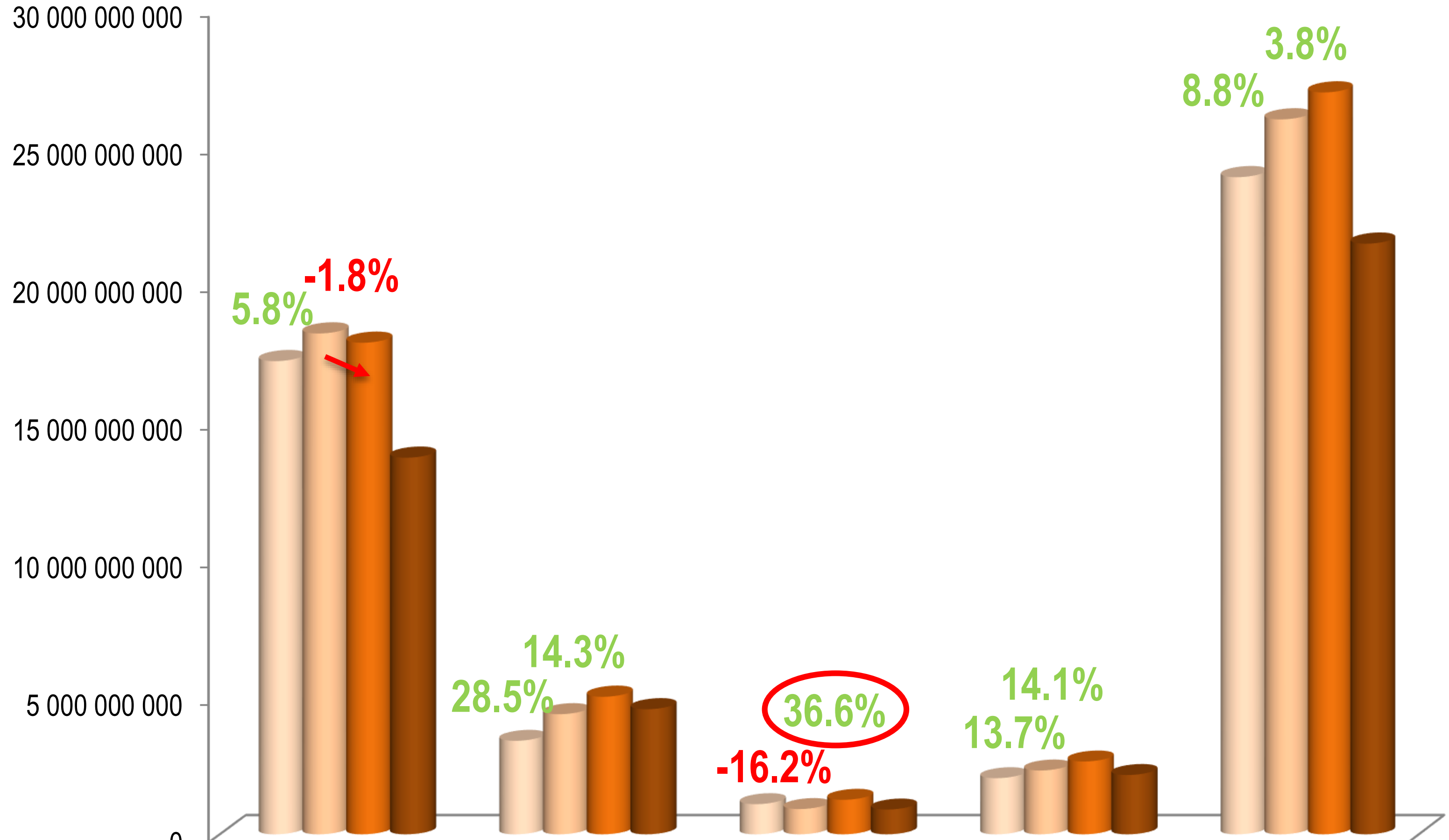
GROWTH OPERATIONAL GAMBLING POSITIONS - CASINO, LPM & BINGO: FY2015 – FY2018 (Qrt 3)



	Casino	Limited payout machines	Bingo
Operational positions, FY2015	33 360	10 279	5 369
Operational positions, FY2016	33 618	10 934	6 032
Operational positions, FY2017	33 249	11 502	6 497
Operational positions, FY2018 (Qrt 3)	35 461	11 836	8 033

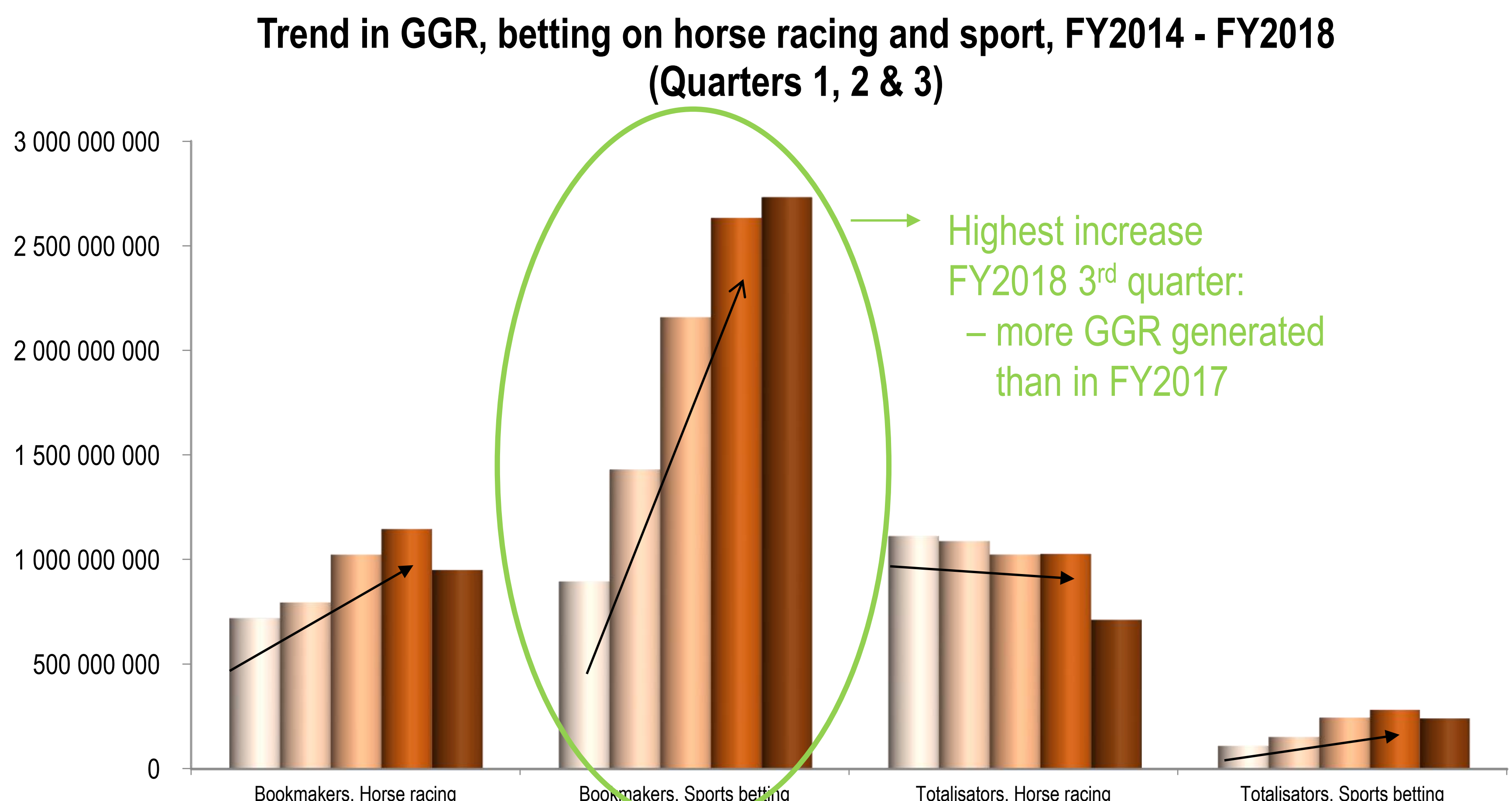
GROWTH: GROSS GAMBLING REVENUE

INCREASE IN GGR (ALL MODES): FY2015 – FY2018 (Qrt 1-3)



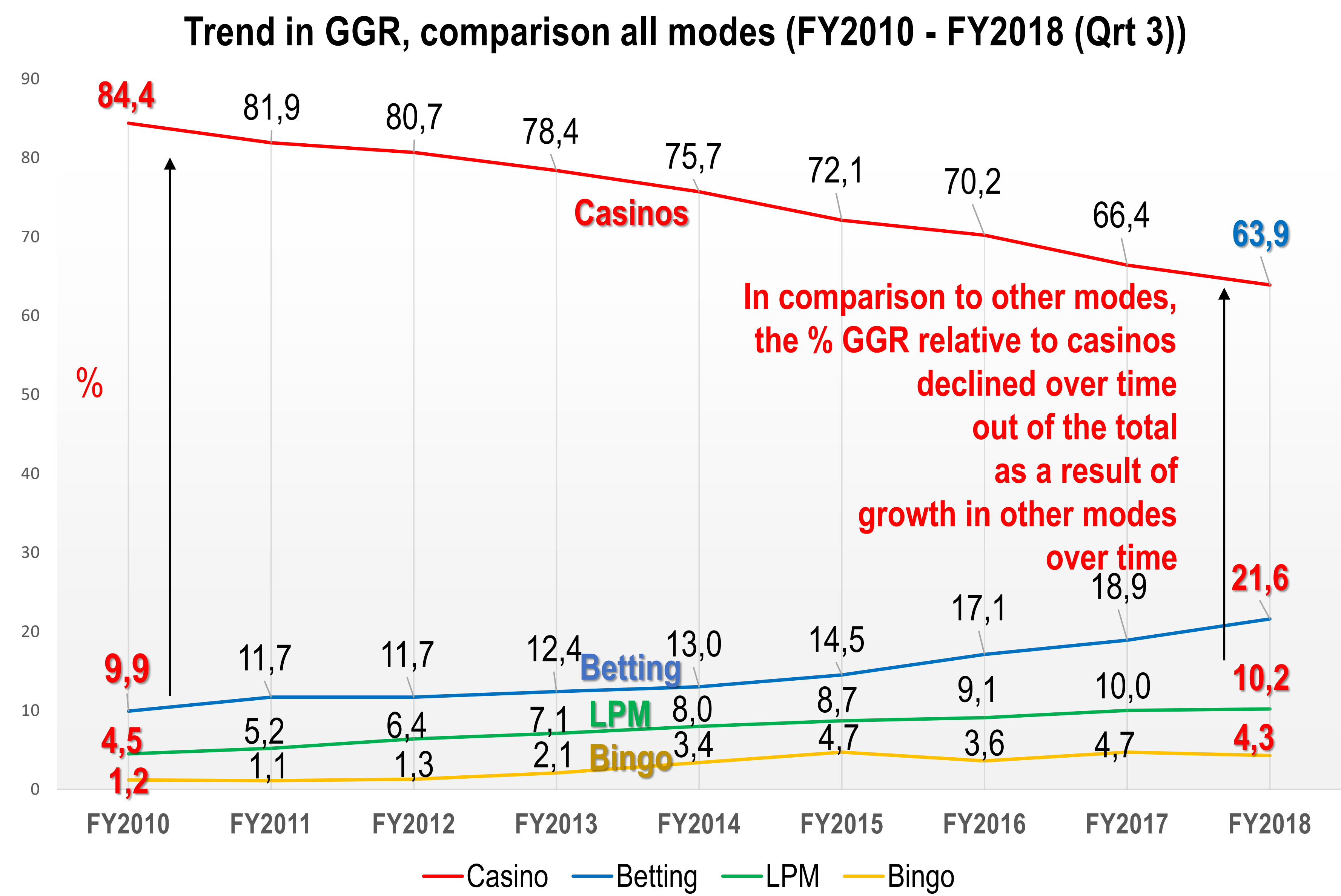
	GGR Casino	GGR Betting	GGR Bingo	GGR LPM	TOTAL
GGR, FY2015	17 234 928 081	3 462 994 717	1 116 673 081	2 079 338 389	23 893 934 269
GGR, FY2016	18 236 685 695	4 448 765 756	936 166 348	2 363 501 788	25 985 119 588
GGR, FY2017	17 900 747 071	5 085 630 664	1 278 664 383	2 696 846 443	26 961 888 560
GGR, FY2018 (Qrt 1, 2 & 3)	13 739 639 217	4 632 027 022	918 083 433	2 197 446 893	21 487 196 566

INCREASE IN GGR (BETTING): FY2014 – FY2018 (Qrt 1 – 3)

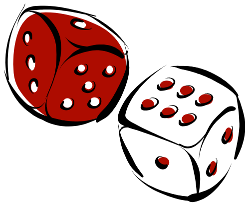


	Bookmakers, Horse racing	Bookmakers, Sports betting	Totalisators, Horse racing	Totalisators, Sports betting
FY2014	718 915 378	894 571 335	1 111 365 062	109 251 620
FY2015	793 930 124	1 430 026 112	1 087 285 775	151 752 708
FY2016	1 023 035 305	2 157 995 813	1 023 264 197	244 470 444
FY2017	1 145 152 334	2 632 669 149	1 026 450 253	281 358 927
FY2018 (Qrt 1, 2 & 3)	948 988 164	2 731 822 068	711 024 580	240 192 211

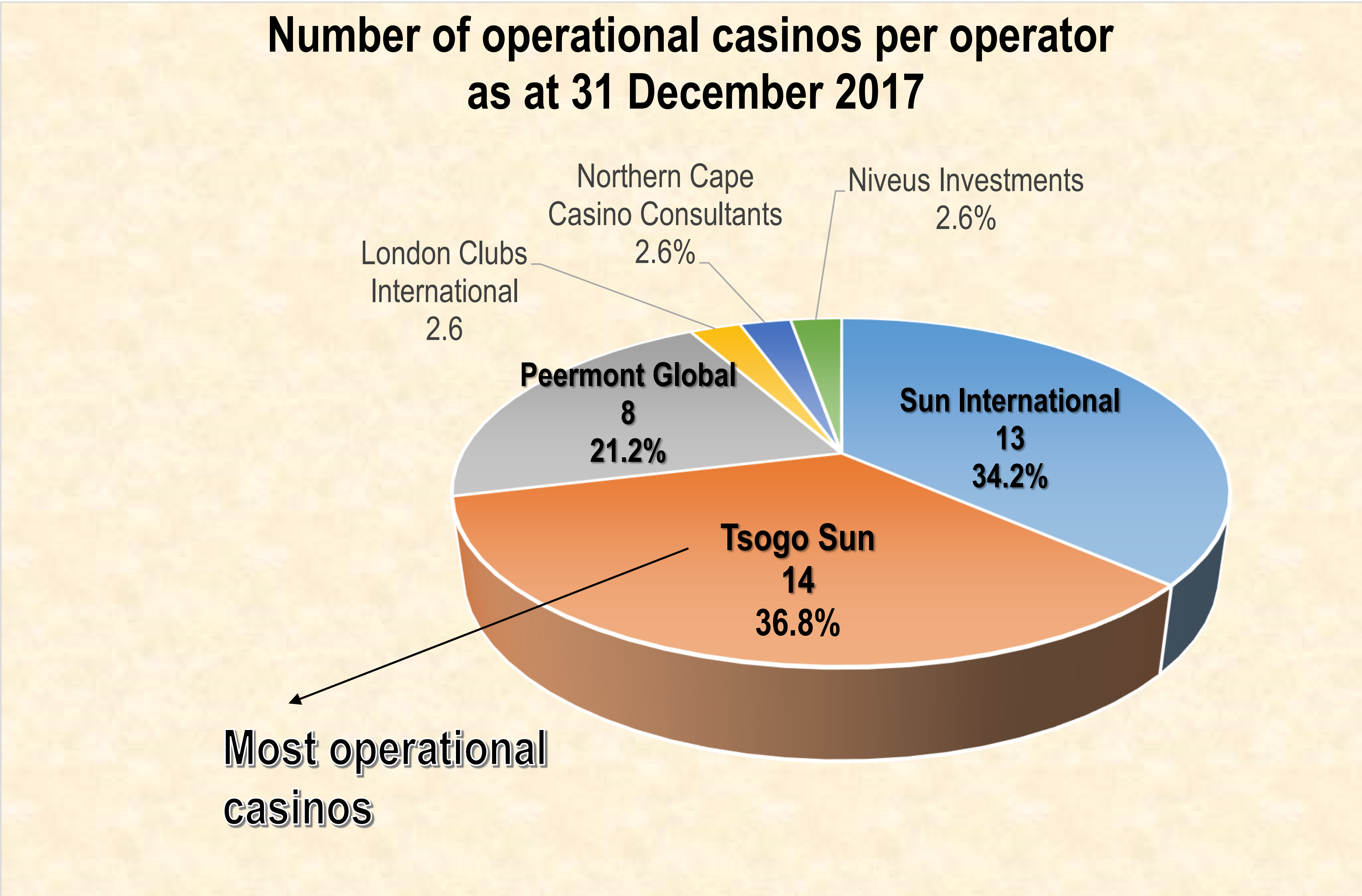
GGR – TRENDS OVER TIME: FY2010 – FY2018 (Qrt 1 - 3)



GAMBLING SECTOR PERFORMANCE
MARKET SHARE



MARKET SHARE CASINOS
OPERATIONAL CASINO OPERATORS AS AT 31 DECEMBER 2017



MARKET SHARE TOTALISATORS
OPERATIONAL TOTALISATORS AS AT 31 DECEMBER 2017

Phumelela

Gauteng
Mpumalanga
Limpopo
North West
Northern Cape
Eastern Cape
Free State

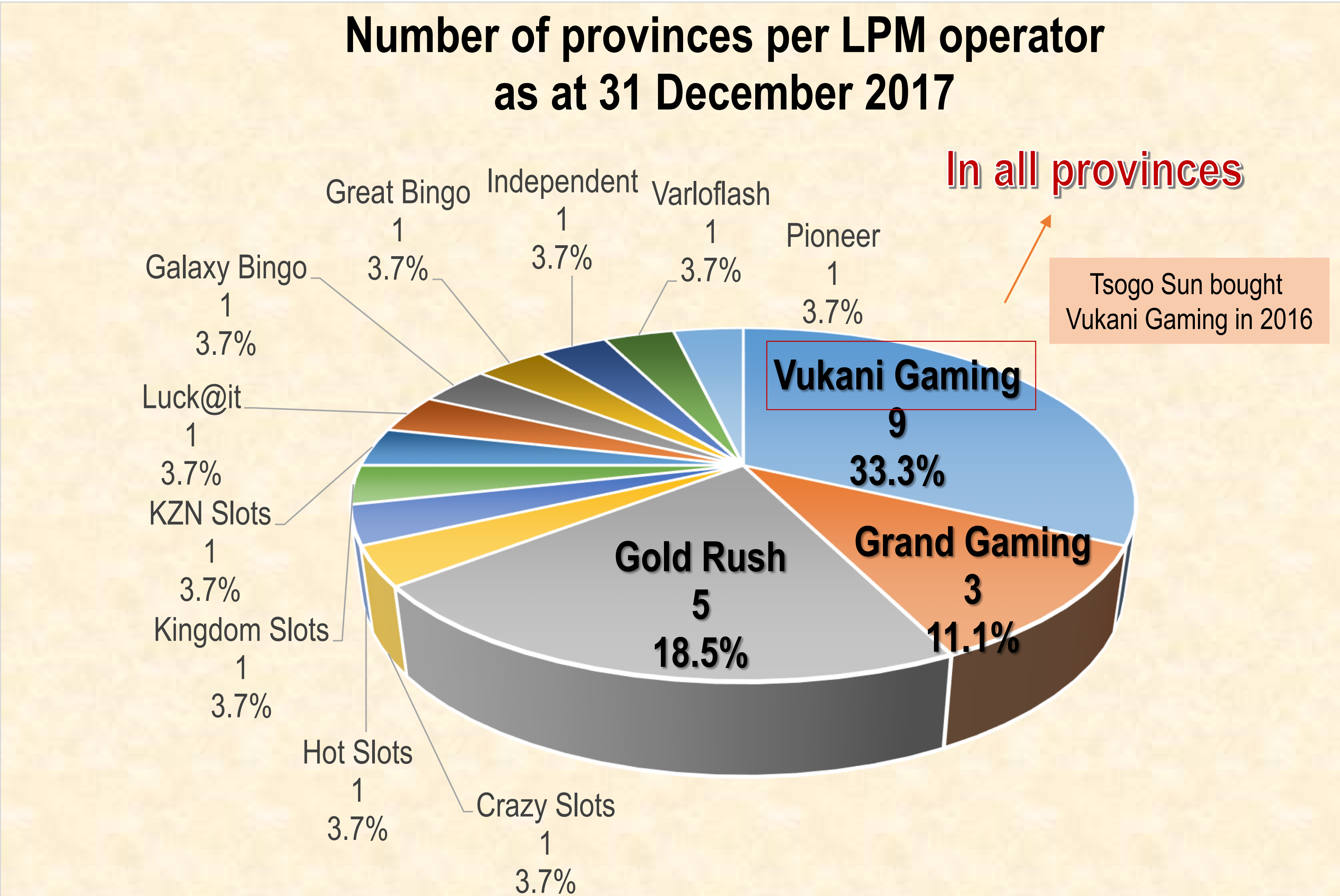
Gold Circle

Western Cape
KwaZulu-Natal

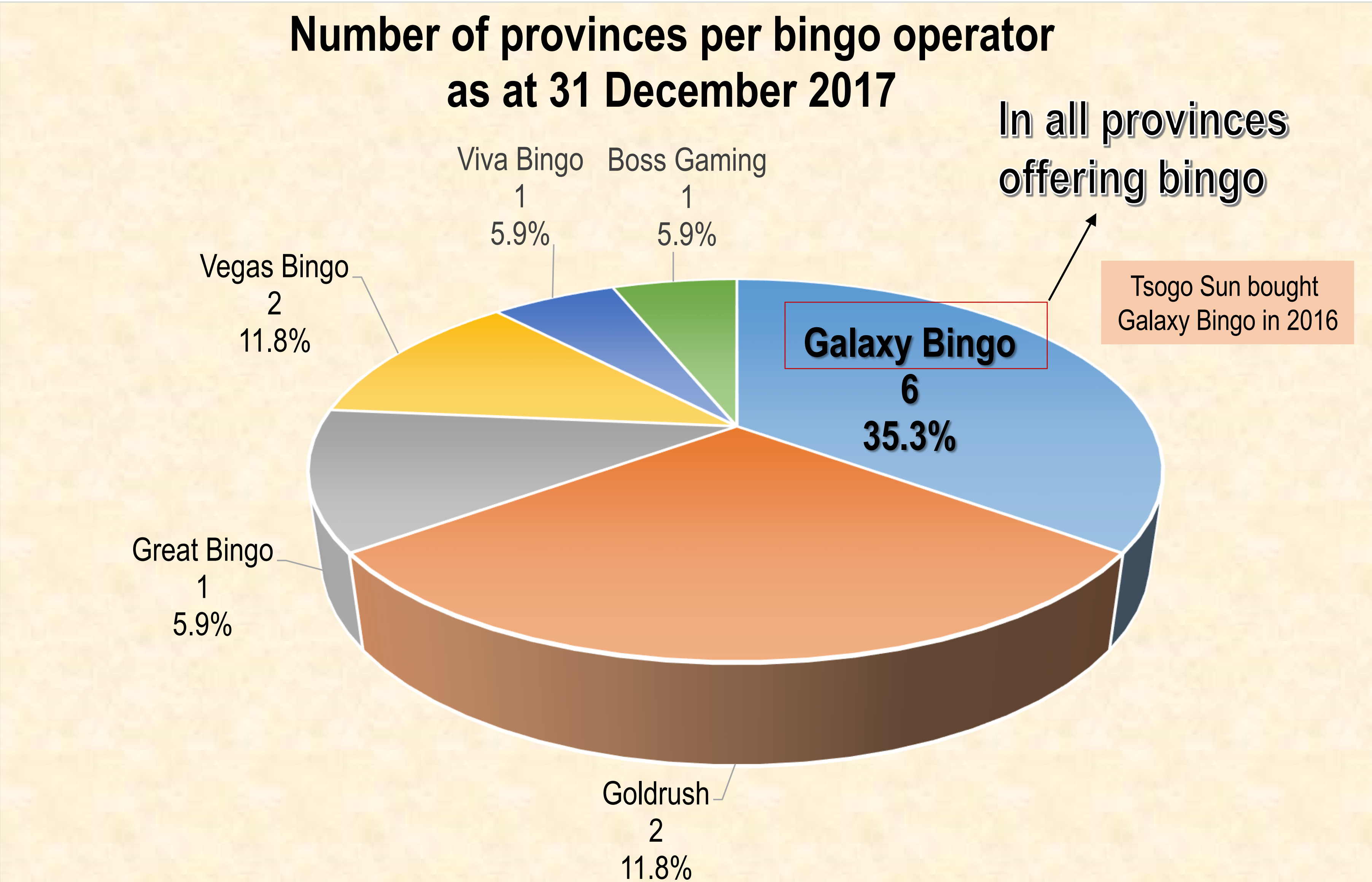
The Competition Commission has approved with conditions the intermediate merger whereby Phumelela intends to acquire 50% of the issued share capital in Supabets (24 August 2016)

Impact Unknown

MARKET SHARE LPMs
OPERATIONAL LPM OPERATORS AS AT 31 DECEMBER 2017



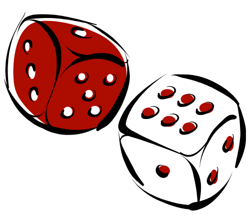
MARKET SHARE BINGO
OPERATIONAL BINGO OPERATORS AS AT 31 DECEMBER 2017



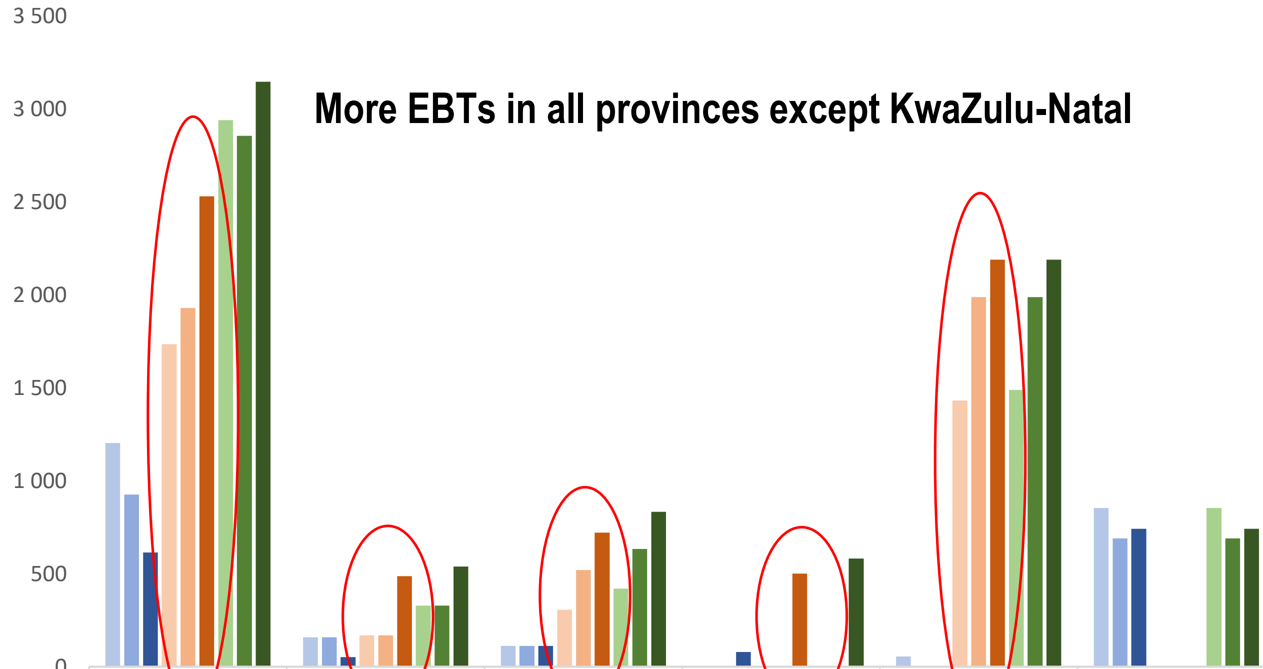
CONCLUSION

- ✓ Overall trends:
  - ❖ Huge increase in betting on sport – the comfort of betting on online and on various contingencies might be contributing factors
  - ❖ Substantial growth in the bingo sector (increase of EBTs and decrease in traditional bingo positions)
  - ❖ Slight growth in the casino and LPM sectors
  - ❖ The implementation of the new B-BBEE codes had a negative impact on the gambling industry
  - ❖ Casinos, Gauteng, Western Cape, followed by Kwa-Zulu Natal are the main contributors to employment in the gambling industry

IMPACT EBTs ON BINGO, LPM & CASINO SECTORS

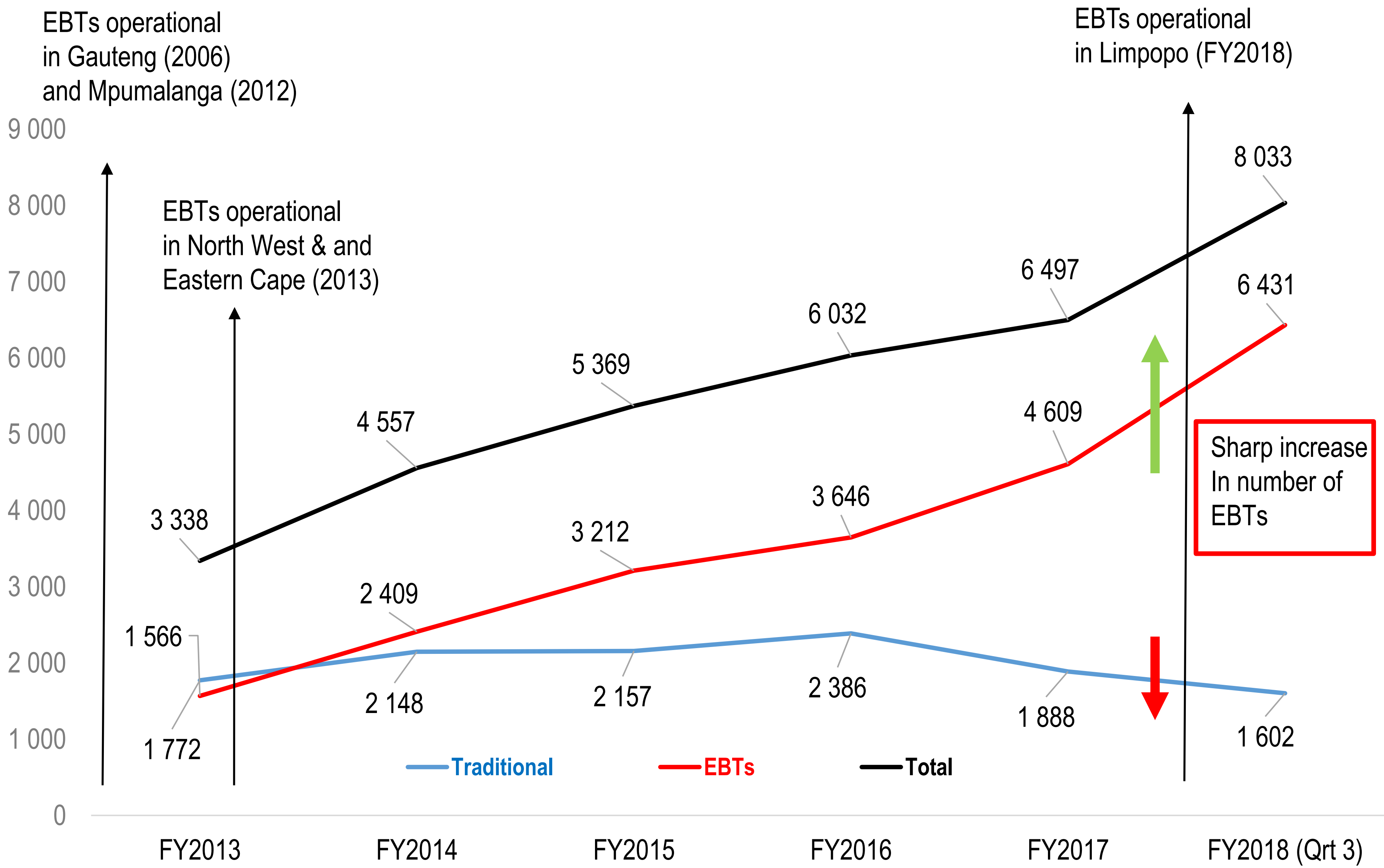


NUMBER OF EBTs vs TRADITIONAL BINGO POSITIONS PER PROVINCE

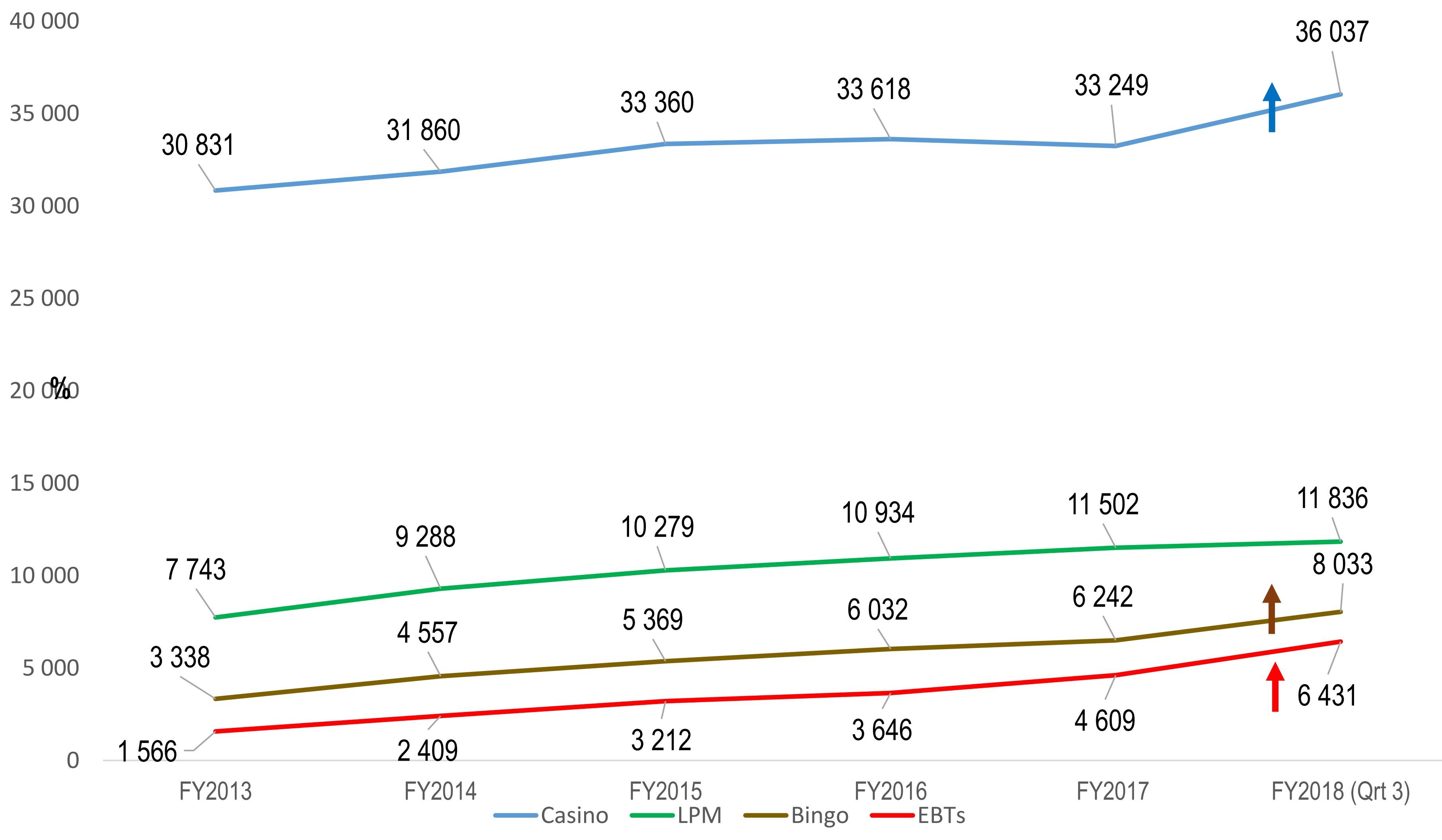


	Gauteng	Mpumalanga	North West	Limpopo	Eastern Cape	KwaZulu-Natal
Operational traditional bingo positions, FY2016	1 204	159	113	0	56	854
Operational traditional bingo positions, FY2017	926	159	113	0	0	690
Operational traditional bingo positions, FY2018 (Qrt 3)	615	52	113	80	0	742
Operational EBTs, FY2016	1 736	170	307	0	1 433	0
Operational EBTs, FY2017	1 930	170	521	0	1 988	0
Operational EBTs, FY2018 (Qrt 3)	2 531	487	721	502	2 190	0
Operational bingo positions, FY2016	2 940	329	420	0	1 489	854
Operational bingo positions, FY2017	2 856	329	634	0	1 988	690
Operational bingo positions, FY2018 (Qrt 3)	3 146	539	834	582	2 190	742

INCREASE EBTs vs TRADITIONAL BINGO POSITIONS



TREND IN GROWTH MARKET CONDUCT (CASINOS & BINGO POSITIONS, ACTIVE LPMS & EBTs): FY2013 – FY2018 (Qrt 3))



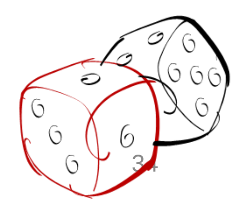
IMPACT EBTs - KEY OBSERVATIONS

- ✓ **Goldrush operates in the bingo and LPM industries**.

- ✓ **Tsogo Sun (biggest casino operator) bought Vukani Gaming (biggest LPM operator) and Galaxy Bingo – biggest bingo operator.**

- ✓ **Out of a total number of 37 licences awarded in the bingo industry, only 17 were operational** (as at April 2017)**.** When the **remaining licences become operational** (assumed that it will be mainly EBTs), it **might have a huge impact** on the current status of the bingo industry, as well as the LPM and casino industry **in the future** specifically taking into account that **decreases were recorded in the number of traditional bingo positions, and substantial increases noted in the number of operational EBTs (growth expected).**

- ✓ As at 31 December 2017, Eastern Cape accounted for the highest number of licensed bingo outlets (15, 28.8%) followed by Gauteng (11, 21,2%). **Eastern Cape also accounted for the most operational bingo outlets (15, 31.3%) followed by Gauteng (11, 22.9%)** out of the total number.



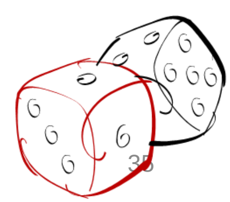
IMPACT EBTs - KEY OBSERVATIONS

- ✓ Gauteng accounted for the highest number of licensed bingo seats (5,275, 39.7%), followed by Eastern Cape (2 660, 20.0%) as at 31 December 2017. **The highest number of operational bingo seats were recorded in Gauteng (3 146, 39.2%) followed by Eastern Cape (2 190, 27.3%)** out of the total number.

- ✓ **Overall, more EBTs (6 431) were operational than traditional bingo seats (1 602) as at 31 December 2017.**

- ✓ The % increase in the number of operational bingo positions and specifically EBTs in Gauteng and Eastern Cape from FY2013 to FY2018 (Qrt 3) was recorded as follows:

FY	Gauteng	% increase	Eastern Cape	% increase
2013	1 585		387	
2014	1 731	9.2%	1 004	159.4%
2015	1 736	0.3%	1 433	42.7%
2016	1 930	11.2%	1 988	38.7%
2017	2 531	31.1%	2 190	10.2%



IMPACT EBTs -KEY OBSERVATIONS

- **Introduction and roll-out of EBTs resulted in high increases in the number of operational bingo seats and generation of GGR since FY2013.**

- **Increases in the number of EBTs showed a steady increase from FY2013 to FY2018 (Qrt 3),** compared to a continuous decrease in the number of operational traditional bingo seats during the same period.

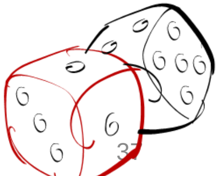
- In terms of the generation of GGR, expressed in %, the **bingo industry showed the highest % increase in GGR (by 36.6%) from FY2016 to FY2017** compared to the casino (by -1.8%) and LPM (by 14.1%) industries.

IMPACT EBTs - KEY OBSERVATIONS

✓ From FY2015 to FY2018 (Qrt 3), the **highest % increase** in the number of operational positions was recorded in the bingo industry as reflected below:

Increase operational casino positions:	Increase active LPMs:	Increase operational bingo positions:
FY2015 to FY2016 = 0.8%	FY2015 to FY2016 = 6.4%	FY2015 to FY2016 = 12.3%
FY2016 to FY2017 = -1.1%	FY2016 to FY2017 = 5.2%	FY2016 to FY2017 = 7.7%
FY2017 to FY2018 = 8.4%	FY2017 to FY2018 = 2.9%	FY2017 to FY2018 = 23.6%

✓ **11 836 active LPMs were recorded as at 31 December 2017 out of the total allocation of 25 000. An industry growth of 0.94% was achieved this FY2018. It is unclear when the remaining LPMs will be rolled out and what the impact will be on other modes in terms of GGR generated and the impact on other modes (specifically the bingo and the casino industries) in terms of the preferred choice for participation by gamblers.**



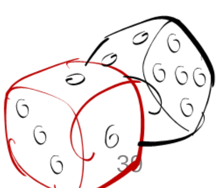
IMPACT EBTs - KEY OBSERVATIONS

- ✓ It is clear from the report that in terms of the bingo industry, **the number of traditional bingo seats has decreased, whereas huge increases were noted in the number of operational EBTs** over time. **Taking into account that currently only 17 out of 73 awarded licenses are operational (as at April 2017), further roll-out of specifically EBTs will impact on other industries, however, the estimated pace of roll-out and impact at this stage is unknown.** It is noted, however, that the **roll-out of EBTs has a negative impact on traditional bingo** and that it seems that gamblers prefer EBTs to traditional bingo.

IMPACT EBTs - CONCLUSIONS

1. The trend analysis is indicative of the fact that there is a **huge potential for proliferation**. This is based on the **potential for huge roll out of the number of EBTs versus traditional bingo**.

2. It is evident that **EBTs within the bingo mode of gambling depict a potential to phase out traditional bingo**. This is based on the trend analysis whereby a clear increase in the number of EBTs was recorded from FY2016 to FY2018 (Qrt 3), compared to a substantial drop in the number of operational traditional bingo positions.



IMPACT EBTs - CONCLUSIONS

3. There is **no prescribed national limit in as far as issuance of bingo licences and more specifically the number of EBTs that can be made available for play in the Republic as compared to LPMs.** The rate at which LPMs are rolled out is not on par with the rate at which EBTs are also rolled out yet there is a prescribed limit to the rollout of LPMs for example the number of active LPMs in Gauteng as at 31 December 2017 was 1 918 whilst EBTs were 2 531. Active LPMs in the Eastern Cape amounted to 1 927 whilst EBTs were 2 190. The concern is that;
   - Whilst it has taken both provinces 15 years to roll out the current number of LPMs, it has only taken 3 years for almost the same number of EBTs to be rolled out.
   - There is no limit imposed on the winnings from EBTs whereas a limit of R500 per game is imposed on LPMs
   - There are jackpots permitted on EBTs whilst there are none on LPMs
   - Advertising of bingo (EBTs) is permitted whilst that of LPMs is restricted

IMPACT EBTs - CONCLUSIONS

4. Whilst it appears that there are similar licensing requirements for LPMs and bingo (EBTs), the number of EBTs permitted can compare to the number of slot machines permitted in a casino. There are stringent conditions for the operation of casinos and restrictions on LPMs than there are for EBTs. A case in point is the Eastern Cape province with 2552 casino positions, 1927 LPMs and 2190 EBTs. Whilst it has taken the province 23 years to attain the current number of casino positions, it has only taken 3 years for almost the same number of EBTs to be rolled out

5. Trend in **growth of the roll out of EBTs and their impact**:
   i. Relative to the reported increase or decrease in other modes i.e. casinos and LPMs, **bingo (specifically EBTs) appear to have the highest proportionate increase in the number of operational EBTs**. Based on The Year on Year analysis, the percentage increase in the number of operational EBTs has been significantly higher in comparison to bingo overall, LPM and casinos.
   ii. From FY2010 to FY2018 (Qrt 3), the total share of GGR in terms of bingo reported a huge and **steady increase in relative GGR from 1.2% in FY2010 to 4.3% in FY2018 (Qrt 3). This period includes the introduction of EBTs and EBTs increased in number** as compared to traditional bingo positions. Evidence shows that the **increase in bingo GGR is as a result of the introduction of EBTs**.

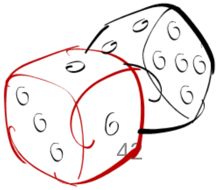
IMPACT EBTs - CONCLUSIONS

6. The licensing regime of EBTs is presented with some **illegality**:

   i. There are **no technical standards for EBTs**. Currently the technical standards for casino and LPMs are used to certify **EBTs**.

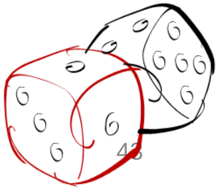
   ii. There are **no national regulations for EBTs**.

7. Whereas there is a clear legislative requirement to have national central monitoring systems for the LPM industry, **no such system is legislated for EBTs**. This increases regulatory risks of failure to **adequately account for all operational EBTs and revenue generated** thereof.



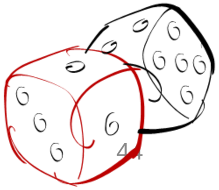
IMPACT EBTs - CONCLUSIONS

8. Requirements for casino versus bingo license:
   - Certain percentage owned by PDIs and certain percentage in management (PDIs) is higher for casinos than for bingo.
   - License fee is higher for casinos than for bingo.
   - Casinos have to contribute to both CSI and Social Enterprise Development (SED), whereas a bingo licence only requires contribution to CSI *OR* SED.
   - Casinos and bingo both have to have guarantees (development and licence period) – for casinos the guarantee is higher than for bingo.
   - The development guarantee (guarantee for the development of the site) to ensure that the building and infrastructure is complete, is higher than for bingo.
   - The licence period guarantee (to guarantee in cases of non-compliance to ensure that all taxes and commitment are paid by the licensee or operator) is also higher for casinos.



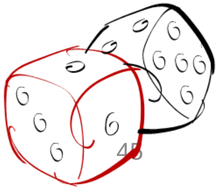
IMPACT EBTs - CONCLUSIONS

8. Requirements for casino versus bingo license:
   - Number of employees employed is higher in casino than for bingo.
   - Percentage for skills development might be higher than for bingo licences e.g. 1% or 3% of net profit after tax – depending on what the RFP requires.
   - The development expenditure for casinos is higher than for bingo licenses i.e. new casinos, and entire infrastructure – much bigger outlet.
   - With regard to bingo, no national legislation that stipulate the number of bingo licenses allowed in provinces, whereas with casinos, it is clearly stipulated.
   - General comment - requirements are the same but the amounts or percentages differ.
   - Casino license: Required gambling machine and tables area, hotel, conference facilities with break away rooms, restaurants, child minding facility and bar. With regard to bingo only a bingo hall with machines, traditional bingo tables, restaurant, bar and child minding facility.



IMPACT EBTs - CONCLUSIONS

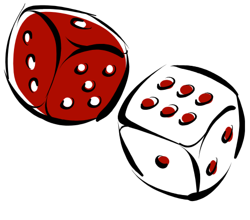
9. The NGB recommends that:
   i. The EBTs be **linked directly to the existing NCEMS** for consolidation of revenues and reporting of significant events. The links to the NCEMS would also be extended systematically to casino as well as horseracing and sports betting industries in order to consolidate all gambling revenues.
   ii. **National regulations** with regards to bingo industry are promulgated
   iii. There should be **maximum bet and win amounts (in Rands) per game imposed with regards to the EBTs** to curb increased stimulation as observed in the research data.
   iv. Only **EBTs that conform to the NGA's definition of electronic bingo** be allowed to operate at bingo sites.
   v. A **limit be imposed on the number of EBT's per site, the proximity of bingo establishments to other gambling establishments be legislated, and total number of EBTs that may be rolled out per province be prescribed**



IMPACT EBTs - CONCLUSIONS

10. In terms of **competition**, **a decrease was noted in the number of operational casino positions from FY2016 to FY2017, but followed by an 8.4% increase during FY2018 (as a result of the opening of the new Time Square Casino in Pretoria); and increases recorded in the number of active LPMs and bingo seats. Tsogo Sun bought Vukani Gaming and Galaxy Bingo**. The dominant player in the LPM (Vukani Gaming) and biggest operator in the bingo industry (Galaxy Bingo) have been acquired by the dominant casino operator (Tsogo Sun).

B-BBEE & EMPLOYMENT



B-BBEE CONRIBUTOR LEVELS AS AT 31 MARCH 2016

Based on the information submitted by PLAs, the average B-BBEE status or contributor level of the South African gambling industry as at **31 March 2016 and 2017** per gambling mode and operator, was as follows:

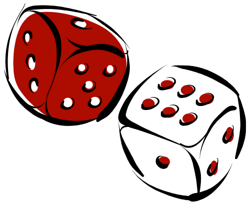
AVERAGE B-BBEE CONTRIBUTOR LEVELS		
INDUSTRY	**31 March 2016 [Old codes]**	**31 March 2017 [New codes]**
CASINO	2.2	2.5
TOTALISATORS	2.3	4.6
LPM	2.7	3.4
BINGO	1.6	3.4

DIRECT EMPLOYMENT AS AT 31 MARCH 2017

DIRECT EMPLOYMENT PER PROVINCE AND MODE, FY2017										
Gambling mode	**Gauteng**	**Western Cape**	**KwaZulu-Natal**	Mpuma-langa	Limpopo	North West	Northern Cape	Eastern Cape	Free State	TOTAL
Casinos	6 241	3 139	2 677	655	228	797	248	863	740	**15 588**
Totalisators	316	20	60	63	35	123	13	75	77	782
Bookmakers	539	237	2 076	770	547	470	56	29	118	4 842
LPMs	243	3 733	106	139	510	48	23	218	131	5 151
Bingo	**61**	**N/A**	**386**	**61**	**28**	**106**	**N/A**	**379**	**N/A**	**1 021**
Regulators										
NGB	21	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**21**
PLAs	94	72	72	49	55	83	19	48	76	**568**
Total	**7 515**	**7 201**	**5 377**	1 737	1 403	1 627	359	1 612	1 142	**27 973**

Biggest contributors: Casinos, Gauteng, Western Cape, followed by KZN

RESEARCH PROJECTS = FY2018/FY2019



RESEARCH PROJECTS: FY2018/19

- ✓ NGB is embarking on the following research studies in FY2018/19 to determine:
  - ❖ The current status of transformation and growth in the South African gambling industry to ascertain the case for further expansion of the gambling industry.
  - ❖ **The impact of EBTs on the traditional bingo, LPM and casino sectors within the regulated gambling industry in South Africa to ascertain the case for the further expansion of EBTs in the bingo industry.**
  - ❖ The impact of the fourth industrial revolution on the current and and future regulation of gambling in South Africa i.e. virtual reality, crypto-currencies, advanced technological devices, equipment and games, facial recognition, appetite of younger generation for use of latest technology in terms of gambling, the impact on SMMEs, as well as betting on other contingencies.

/wEPDwU

FURTHER INFORMATION

Visit the NGB website

www.ngb.org.za

for more information to view

research reports and bulletins,

national gambling statistics and

gambling sector performance reports.

QUESTIONS AND COMMENTS

Presenters:

Ms Estelle Jonkheid
Mr Dennis Makhari
Questions & Answers: Ms Caroline Kongwa

National: 01000 33475
E-mail: ejonkheid@ngb.org.za
Web: www.ngb.org.za
Address: 420 Witch-Hazel Avenue, Eco-Glades 2, Block C, Eco-Park, Centurion, 0144

NGB
National Gambling Board
South Africa
a member of the dti group