



## Atlantic City Casino & Internet Gaming AC Market Turnaround Confirmed Part II

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*MSA's Sept 2017 white paper analysed Spectrumetrix™ Atlantic City (AC) gaming revenues from its introduction of Internet Gaming, which grew to end the 10 year AC gaming revenue decline in Fall 2016, as Internet Gaming's growth was also synergistic with casino slots gaming.*

*This 3 month analytic extension confirms MSA's previous insights, and examines how casinos' innovative Internet Games gained market share while also supporting retention of slots. The stage is now set for its continuing growth and for studies of opportunities available to AC's five casino management teams to prepare for the Hard Rock Casino's Memorial Day launch.*

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## Atlantic City Casino & Internet Gaming Test Market

The first MSA white paper using Atlantic City (AC) data illustrated that rapid market changes took place from the launch of Internet Gaming through Aug 2017 across Slots, Poker, and Casino Internet Games. Such changes had not been observed in Las Vegas (LV), where Internet Poker was launched 7 months prior to its entry in AC. LV casinos had done little with Internet Poker until its AC introduction, and also didn't pursue slots or Casino Internet Gaming, so AC became the only meaningful test market for overall Internet Gaming in the US.

This MSA white paper analyses 3 additional months of Spectrematrix data, confirming the initial insights that the 10-year AC casino revenue decline stopped in Sept-Nov 2016, and its casino revenue growth will likely continue through 2018. Growth of AC Internet Gaming is now synergistic with its Casino slots.

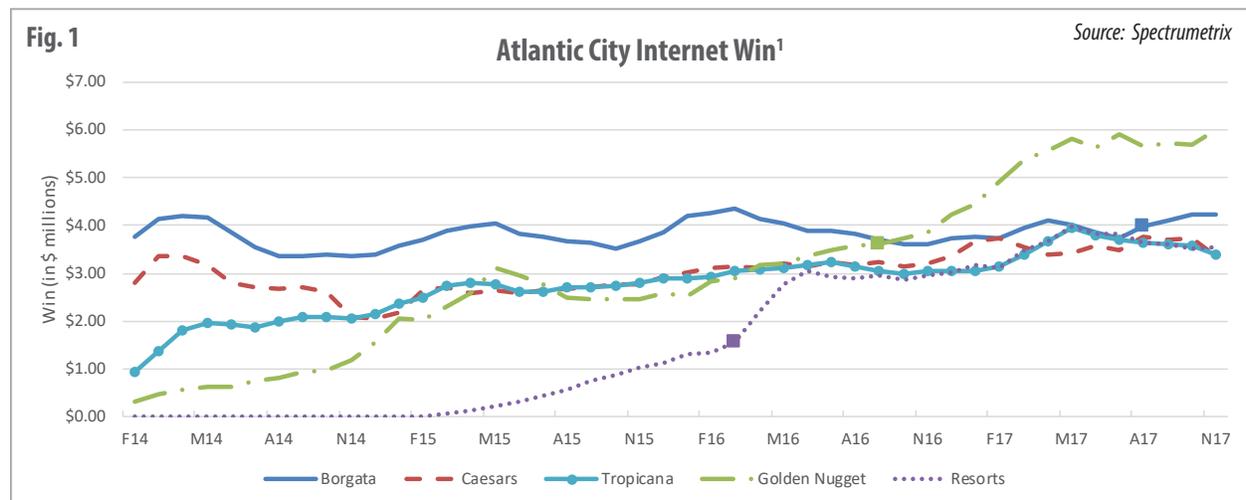
A major factor contributing to AC being a meaningful test market for Internet Gaming, and its relationships with Brick & Mortar (B&M) Casinos, was that its 3 smaller casinos operated independently of LV. MGM and Caesars, headquartered in LV, had 7 months to prepare for the AC introduction so they launched their AC Internet Poker & Casino Gaming quickly, but rapid innovations by Tropicana and Golden Nugget (GN) enabled them to rapidly gain a large market share.

Resorts hadn't provided poker table games in 2012/13, so lacked experience and quickly attracted Mohegan

Sun (MS) as an investor and to manage operations. But NJ Gaming Control Commission delayed approving MS, and also Poker Stars as a 2<sup>nd</sup> online casino partner. So Resorts entered Internet Gaming 15 months after its competitors, and another year was lost before Poker Stars was launched. Nevertheless, the "market disruptions" created by Internet Gaming enabled Resorts to become the leader in Internet Poker by May 2016 in conjunction with its Poker Stars online partner, while GN also became the leader in AC Internet Gaming by Oct 2016.

## Competitive market structures in 2017

Figure 1 shows that as of August 2017 the levels of AC Internet Win obtained by Borgata, Caesars, Tropicana and Resorts were closely grouped 1/3 below that of GN. Caesars' performance in Internet Gaming was held back by its 33 months in bankruptcy, and its AC market being of secondary importance to its LV HQ market although Caesars was first to develop Internet Gaming capabilities with 888 Holdings. Borgata may have been held back by MGM initially sharing 50-50 ownership with Boyd and its efforts to also launch National Harbor Casino in 2016. It recently said it would bring its LV capabilities and resources to bear on the AC market, and its recent growth suggests that is being done. So the Tropicana, GN and Resorts casinos that have grown most rapidly, and Borgata, will be highly competitive to prepare for the May introduction of Hard Rock Casino in newly reconstructed former Taj Mahal facilities. Only Caesars, which has the weakest Internet Gaming performance, lost AC gaming revenues in November 2017.



### Squares indicate major events:

- Mar 2016 - Resorts adds Poker Stars
- Sept 2016 - Golden Nugget adds Play Sugarhouse
- Aug 2017 - Borgata adds Play MGM & Scores

<sup>1</sup>3 month moving average    F = February, end of winter season; A = August, end of summer season

## Factors Leading to the AC Market Disruption

Tropicana Casino was able to hit the ground running in Nov/Dec 2013 due to it having established an online casino partnering arrangement with GameSys based in the UK, approved by the NJ Division of Gaming Enforcement (DGE). This provided an operating platform and some online unique games, and experience in Europe since 2001. Caesars and MGM Borgata also benefitted from experience in Europe since 888 Holdings was launched in 1997 when GVC, the platform relied upon by MGM, was also founded along with Bwin and Party Gaming, subsequently acquired by GVC. BetFair, established in 2000 in the UK, was also approved by the NJ DGE as an online casino partnering with Trump casinos in AC in 2013, prior to its subsequently becoming a GN partner.

GN was slower launching its Internet Game activities due to not having comparable capabilities to those of Tropicana, Borgata & Caesars, but in Nov 2014 acquired BetFair as an online gaming partner after the Trump casinos withdrew from Online Gaming. Resorts was the last casino to enter Online Gaming due to its online partner, MS, not being approved until after it partnered with Sportech and NYX in Nov 2014. GN in July 2015 also shifted to NYX from BallyTech, Caesars shifted in June 2016, and BetFair teamed with NYX recently to also benefit from its ability to support all games.

Technological changes and development of new online games enabled BetFair to assemble competitive systems and acquire exclusive games. MGM relied upon GVC from the UK to supply it with such capabilities. Delays in expanding such systems enabled GN and Resorts to

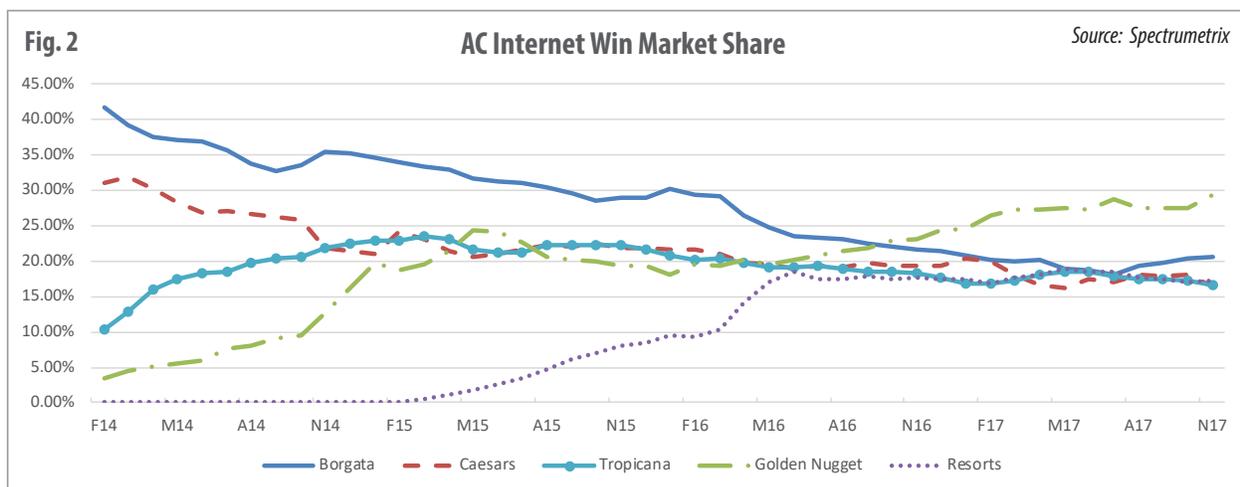
acquire platform systems from NYX, as well as online games, creating a race to add new game titles which culminated in GN being first to offer 400 games in May 2017. Both casinos have since then added games and featured them in promotions to attract and shift online potential users to their systems. BetFair brought the most exclusive games helping GN become the AC leader.

## Development of New Games

Since the cost of developing a new Internet Game may be only 1-10% of the cost of developing a new slot machine, it is not surprising to see hundreds of new games becoming available for use in NJ. In Oct 2017 over 7,550 games were available but only 609 were in use, and 264 of those were also B&M slots; 86 were table games. So 259 online-only games were in use, with prospects of another 100-150 being added during 2018. The 210 currently active developers of online games will be relying on extensive growth of Internet Gaming beyond AC.

## Evaluating & Predicting Success of Internet Games

Internet Gaming may provide great opportunities for evaluating the potential of online games to create and select more promising games for B&M use. MSA has evaluated performance of most of the above 264 B&M slot games in US casinos, observing a positive relationship between their performance and the number of online AC casinos using those games. We don't, however, have information of their performance at the AC online casinos or their AC B&M sites. The low cost of developing variations of online games will make it feasible to evaluate more alternatives to help guide development of B&M games.



### AC Experience with Internet Poker

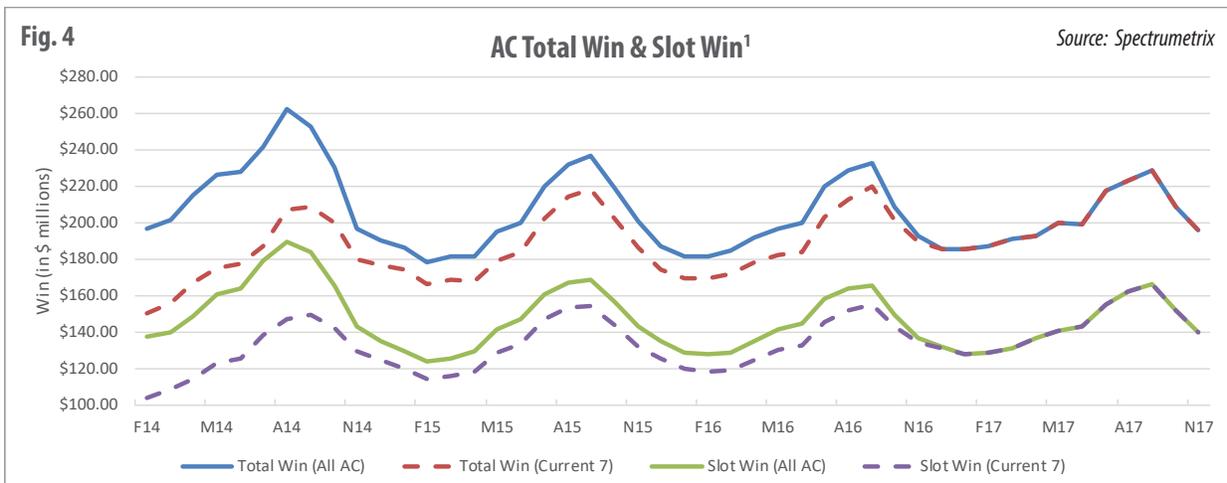
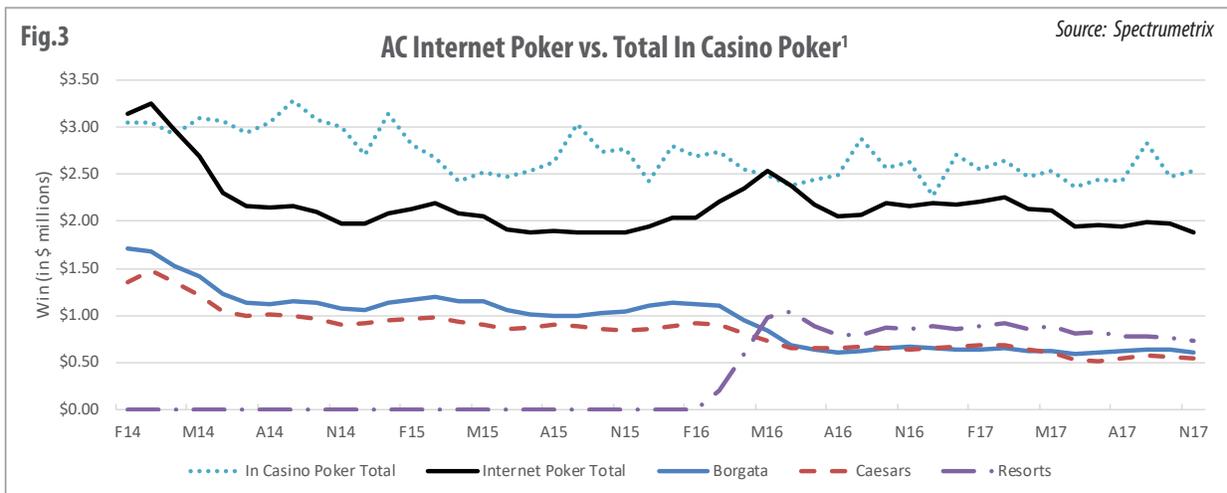
Figure 3 below shows poker gaming revenue data for AC during the last 4 years. Borgata and Caesars Internet Poker revenue were dominant in AC in 2014 as they remained in 2015, but Resorts quickly became the leader in 2016 with its Poker Stars online gaming partner. AC Internet Poker total win generally averaged about 80% of the AC B&M poker revenue throughout the past 3 years, much higher than Internet Poker in LV.

The February 2, 2016, Online Poker Report titled *If The "Party" Is Over For Borgata, What Does It Mean For NJ Online Poker?* discusses the alternatives available to Borgata, other poker gaming firms, and the entire industry much more extensively than would be relevant in this document. What is most important for the purpose of this white paper is to emphasize that Online Poker is much stronger in AC than in LV, so it is likely to be more relevant to other US Gaming States to study AC as a meaningful US test market.

### AC Experience with Internet Games

All AC casinos other than Resorts were introducing other Internet slots and casino games in late 2013 simultaneously with the emphasis of Borgata and Caesars/Harrah's on Internet and B&M Casino Poker. The Trump casinos were a minor participant in Internet Gaming but dropped out long before the Taj Mahal shut down. The initial growth of slots and casino Internet Gaming by Tropicana was restricted to that provided by GameSys, and what GN offered prior to partnering with BetFair in late 2014. The growth of those forms of Internet Gaming didn't lead to MGM Borgata or Caesars responding to the new potential opportunities, perhaps due to Caesars' bankruptcy or to their AC casinos not being organized to adapt to local market conditions.

It is not surprising to see hundreds of new games appearing first in NJ on Internet Gaming, as casinos provide a great location for players of such games to find and interact with each other. The NYX platform enabled GN and Resorts to easily add new games whether the



<sup>1</sup>3 month moving average

race to 400 games drove increased Internet Gaming, or the rapidly rising revenue was driving the addition of games! It didn't take long to exceed 450 games, as new games were featured each week! The leaders in conventional casino slot games, Borgata and Caesars/Harrah's, didn't engage in that competition so they lost Internet Gaming market share and "market experience" was rapidly gained by Resorts and GN, firms that hadn't been leaders in originally introducing AC Internet Poker!

### Online Games in Active Use at 21 Online AC Casinos

The NJ DGE required B&M casinos to partner with Online casinos to be accepted by the Commission, as security can be breached in new ways with mobile games. This differs from NV which excluded gaming other than Poker, and DE with 3 casinos directed by its Lottery Commission. States adding Internet Games may wish to create procedures other than NJ's solution that led to 21 Online Casinos, 5 for Poker. The 609 AC game title counts are in the 16 Online Casinos as follows:

- Borgata**–251, Pala 223, Scores 231, Play MGM, 211, Party Poker 234; (Unique Games 6); **Total Titles 385**
- Caesars**–354, 888 Casino 57, Harrah's 51, (Unique Games 14); **Total Titles 391**
- Tropicana**–183, Virgin 183; (Unique Games 2); **Total Titles 187**
- Golden Nugget**–415, BetFair 244, SugarHouse 367; (Unique Games 31); **Total Titles 467**
- Resorts**–432, Mohegan Sun 427, Poker Stars 54; (Unique Games 1); **Total Titles 438**

Tropicana launched AC Internet Gaming with all its games provided by Gamesys, exceeding those of Caesars and Harrah's as well as Borgata, enabling it to quickly

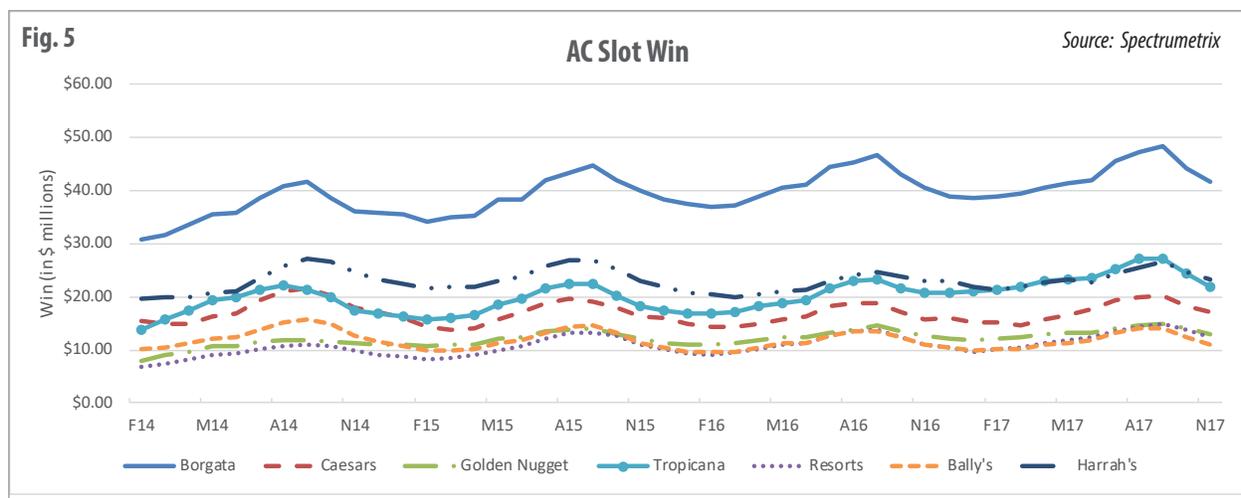
gain share of usage/win. GN's start was slower, gaining share in 2015 with the addition of BetFair. In 2015 Resorts also entered Online Gaming, and in 2016 added Poker. GN and Resorts then grew share and Game Titles, ending with GN winning the 400 game race by a week in May 2017. GN's adding SugarHouse, however, was more significant as it attracted NJ residents to a PA casino on NJ's border. This, and States' licensing fees and taxes, are relevant when casinos are located near State borders.

### Game and Platform Effects on Player Choice

Many factors affecting player choice of casinos and games haven't yet been measured, but capabilities to do that will soon be available, so let us explore the use of analytics to estimate such effects in AC and across US. We do not know if Tropicana's early growth in online gaming reached its limit due to its GameSys operating platform, other online casinos offering more games, its AC site, marketing/promotional activities or the attraction of games it doesn't offer. Tropicana offered the fewest game titles. Did Resorts and GN benefit from having more games, publicity from their race to 400 games, or the weekly news of their featuring another new game? MSA's study of B&M games across the US may enable game data from de-identified AC players to be integrated with their online and B&M data to provide new insights.

### Effect of Specific Games Upon Player Behavior

About 45% of the 609 game titles available in AC have been evaluated at other B&M casinos. That information, coupled with Internet pathways of player Internet searches and web accesses may provide insight as to the value of specific games. B&M player data integrated



with Internet Gaming data would help us evaluate the importance of specific games at B&M sites, online casinos and their relationship with each other.

MSA has studied 127 leading games across B&M casinos on a day-by-day basis for 2 years, and has identified that 66 of those games are also leading Internet Games in AC. Greater depth of such analyses in AC in coming months may be of great value to those casinos as well as for the implementation of Internet Gaming in other US Gaming states. Integration of AC players' online and B&M gaming data would help provide such insights.

### Atlantic City State-of-Art Gaming Test Capabilities

This white paper extends the Sept 2017 analysis in which MSA reported the AC Internet Gaming "market disruption" and identified events differentiating its impact in AC from Internet Poker's minor role in NV.

The unique success of Internet Gaming in AC, including reversal of AC's 10-year decline in Gaming, stands in sharp contrast to the Internet Poker role in LV. Its continuing growth will provide new opportunities for the development of AC, its casinos and game providers. It will also expand the opportunities for Internet Gaming for casinos, game creators and other States that may now be able to learn from the AC experience.

AC B&M and Online Casino data, and related gaming and behavioral use of PC and mobile/smartphone devices, may now facilitate its analysis. Benefits from confidential data integration of such gaming behavior and analytic insights would be unique to AC participants! Security and analytics that have satisfied HIPAA and antitrust requirements in other US and foreign markets appear applicable to the AC Internet Gaming Test Market. That may be of help to enhance the future of AC, its casino gaming participants, and Internet Gaming elsewhere. Many insights are yet to be gained from the AC Internet experience of the past 4 years!

### Unique Internet Gaming Potential R&D Benefits

Innovations in using new technology and analytics have created benefits for industries to study their data in ways not originally perceived as feasible: CPG firms' TV ad statistical evaluations; Cable TV ad scheduling system for 107 networks; 46 States Attorneys General approving a 25-year \$246B tobacco Master Settlement Agreement; and a patented De-Identification system used by healthcare to protect patient identity. Luth Research mobile/PC panel Internet gaming data, and analyses of B&M slots gaming data at game level/position and player (de-identified) level are available. These capabilities can now be applied to AC B&M and Online Casino data in conjunction with AC casinos, game manufacturers and other potential participants.

### Conclusions

Game titles at AC online casinos have been matched with B&M game performance in NV and other States. These analyses of detailed AC past data can be expected to help AC in the expansion of Internet Gaming and Sports Betting. Some form of Internet Sports Betting is likely to result in a rush towards Internet Gaming capabilities as legalization of Sports Betting could increase NJ's Internet Gaming services several-fold. That and other above factors suggest AC casino gaming should prepare for a great future in 2018 and subsequent years, as development of AC as an East Coast US destination gaming and entertainment market need no longer merely be wishful thinking.

MSA hopes to team with AC gaming partners in integrating and analyzing data to obtain benefits that can be achieved with casinos and game providers while satisfying security and privacy requirements.

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