

Playtika purchase points to Asia's social casino potential

A consortium led by one of China's leading online games companies sent ripples through the online gaming community in July, announcing it would buy Israel's Playtika for \$4.4 billion in cash.

The deal is the largest transaction in the social casino industry to date, and in fact one of the largest transactions in the entire gaming industry in 2016. It also served as a wake up call as to the industry's potential and the growing interest in Asia.

"The scale of the sector has taken people a little bit by surprise," said John Lin, managing director of Playstudios. "Historically, there was a lot of skepticism about the free-to-play model as applied to the games of chance," he said, recalling conversations he had some years ago.

"Following the Playtika acquisition, people are starting to recognize that [social casino] is a very lucrative field, growing much faster than the land-based market," he said.

Playtika is a social games company, previously owned by Caesars Interactive Entertainment (CIE). It is the creator of a highly-popular social casino app - Slotomania, a "no-money out" free-to-play slots style game available on iOS and Android devices.

While social casino features a free-to-play, no money out experience, there are quite a few parallels that could be drawn between social casino and the land-based market, evident especially in North America.

According to Andrew Hughes, chief executive of Novomatic-owned Abzorba Games, "80 percent of footfall inside real bricks and mortar casinos play social casino games on a regular basis," which is a staggering number. "There's a huge crossover between the unregulated, no-money out social casino experience, and the desire to go into a bricks and mortar casino."

In June, analyst Adam Krejcik from Eilers Research forecast the social casino gaming market would grow from its current \$3.4 billion level to \$4.4 billion by 2017. The number will account for 4 percent of the overall gaming industry, which is a \$91 billion market.

While the North American market continues to be the hotspot for social casino operators (\$1.6 billion of all social casino revenue), Asia is well positioned to steal the spotlight, says Lin.

“[The] mobile games sector [in Asia] is already so many multiples larger than North America, but the social casino sector isn’t,” said Lin, who moved to Hong Kong in mid-2015 to expand Playstudios’ Asian presence. “But there is no doubt, that Asian players love games of chance,” he said. “Our conviction is that the social casino sector [in Asia] will one day be larger than North America and Europe.”

According to Statista, Asia’s social casino revenues are already in second place and forecast to reach \$926 million in 2016.

John says PlayStudios’ Hong Kong team recently developed its first app, called myVEGAS Lucky Life, designed specifically for Asian mobile games players.

But Asia is not an easy market to tap into.

“If we’re just talking about social casino, even the big players vary by country,” says Lin. In Japan, the top operators are Japanese gaming companies including GREE, CommSeed and COLOPL.

In Korea, the leaders in social are also local Korean companies (required by law), those being NHN, NeoWiz and Netmarble.

Tencent runs the gambit in China, which operates a Texas Holdem Poker game, Dou Di Zhu (Beat the Landlord) and a Mahjong game. Boyaa is also a known player in the market.

However, while competition is strong, the markets are not impenetrable, says Lin. “Regionally we think the whole sector is still in its early stages. And so there’s an opportunity to be part of the evolution as players mature, distribution channels mature and the game genres themselves continue to evolve.”

“Thus, we don’t necessarily think our competitors’ early leads are eternally impregnable,” he said. Hughes also sees a lot of potential in Asia’s growing social casino market.

The Athens and Vienna-based social casino company is already successful in the US and European markets, and recently launched a free-to-play Live Baccarat offering which has been gaining traction amongst Asian players.

“We have a significant footprint in the US, particularly with our Android multiplayer Blackjack, and at the time, we wanted to see if there was a translation from that genepool into a Baccarat product [for that domestic market].”

“Now we’re beginning to localize our titles into Asian languages and format, and will be testing them [in Asia] over the coming months,” said Hughes.

On top of their recently launched Baccarat Game, Abzorba also offers a Live Poker Game, Live Blackjack and Live Roulette - which have also been doing well in Asia.

“We are finding that as the game-play is multiplayer, which is common to most of our games, it’s quite representative to an Asian format of chance and social, in its integrity of design. It has actually appealed to the Asian market quite significantly already.”

However, “the competition is very fierce,” says Hughes and adding an Asian dimension to that makes it that much more difficult.

An easy way to look at the Asia Pacific market is to split it into three tiers, according to Playstudios.

The first are the “big 3”, including Japan, Korea and China, each are multi-billion dollar mobile games markets, which are still developing their own social casino sectors.

“Their mobile games markets are the biggest in the world,” said Lin. “Japan and China are each one and a half times bigger than the US... that’s massive.”

On the other hand, Korea is not quite as big as the US, with only \$2 billion in mobile game revenue annually.

“Considering its small population, it’s actually much bigger on a per capita basis,” Lin noted.

The mid tier includes Hong Kong, Taiwan and Australia. Each are several hundred million dollar mobile game markets.

Finally, the third tier includes the remaining Asian countries, including Malaysia, Indonesia, Thailand, Singapore, etc.

“If you add all of Asia outside of the ‘big 3’, it adds up to the equivalent of South Korea in terms of mobile games revenue,” says Lin.

But don’t be fooled, said Lin.

“The trick is that [the social casino market in Southeast Asia is] growing at a 70 percent year-on-year growth rate. To many, this is where the most exciting growth is,” he said.

Lin notes that many are focused on Indonesia, where volumes are high, and momentum is building. “It’s just massive. Ultimately people know it may not mature this year or this quarter, but people have a view that it will become big.”

With so many potential markets, an operator must carefully choose where to focus. The fragmented nature of Asia’s countries will pose a challenge for those accustomed to uniform or mature markets, such as North America.

“Each of these markets have their own complexities that make them difficult to navigate, whether it be distribution, payments or political.”

“On top of regulatory nuances in some Southeast Asian countries, the other challenges you’ll run into in developing countries will include the ranges of device quality, and 3G/4G connectivity,” he said, adding these are not just challenges to the social casino genre, but for mobile games in general.

“It’s something we contend with a lot, because our games are super high quality, a lot of animations, particle effects - of course that’s designed for the US which generally has uniformly high-device quality, very high 4G penetration and high WI-FI penetration... You take that game, and try to put it into a entry-level handset in Indonesia, and it won’t play as well.” Even some of the bigger studios have trouble.

“Just hiring out a studio in India, and putting your brand to it, won’t work. There are really huge challenges that even some of the best studios in the world have trouble with.” “We have teams spending their entire life just testing to understand what the social casino player is trying to achieve, how much of that time will be spent in the game, which features they like, and what chat areas they frequent, etc. You have big studios ‘have it’ one month, and the next don’t.. It’s the secret sauce,” said Hughes.

The Asian social casino market is not for the faint-hearted. While there is potential to earn millions, penetrating the market and keeping at the top of the game is an ongoing struggle that even the best don’t always get right.

“But if you get it right, there are some significant whales,” concludes Hughes.