

ELFA ESG Workshop Briefing Paper: Gaming Sector

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Introduction

The European Leveraged Finance Association (ELFA) recently brought together sub-investment grade corporate borrowers, investors and credit rating agencies to discuss environmental, social and governance (ESG) topics relevant to the gaming sector (see Table 1 for attendees). The event attracted over 30 market participants, including nine representatives from four sub-investment grade corporate borrowers, 19 credit investors and three rating agency analysts.

Our key findings from the workshop discussions are grouped into three main areas:

- 1. Gaming is a diverse sector but often the diversity is not acknowledged.** More ESG information from borrowers is needed to help investors and other stakeholders to distinguish between gaming activities;
- 2. Social factors are key in the gaming sector.**
 - a. Investors are interested in companies' responsible gaming strategies and how they engage with their stakeholders, but often find there is a lack of disclosure;
 - b. Companies process high volumes of customer data that need to be protected and secured;
 - c. Human capital management is vital. Borrowers mentioned the difficulty to, for example, recruit and retain good engineers.
- 3. Investors are keen to see a solid corporate ESG strategy and links between executive performance and responsible gaming measures.**

Sector-specific considerations for the gaming sector

Key ESG Considerations

- Responsible gaming strategy
- Link between executive performance and responsible gaming measures
- Governance framework with strong anti-money laundering, anti-bribery and whistleblowing policies, procedures and controls
- Policy and processes in place to protect customer data
- Number of data breaches
- Employee turnover rate and retention plans

Gaming – A Diverse Sector

One of the challenges in the gaming sector is that the industry is a relatively diversified sector. Gaming encompasses a variety of activities, such as casinos, slot machines, sports and other betting, lotteries, scratch cards, bingo and other games, to name a few. These have historically been consumed at physical venues/shops, but have increasingly been moving online similar to trends seen in other sectors such as retail. Recently, the gaming industry has been affected by the COVID pandemic due to the closure of brick-and-mortar establishments and the pausing of major sports leagues. As a consequence, consumers turned towards the online gaming platforms instead. This trend has not reversed so far and has continued to gain traction. Gaming analysts also make a distinction between B2B versus B2C companies. The former typically do not have a direct connection with the players and clients could range from other businesses to government entities.

Different gaming activities carry different ESG issues. Lottery businesses, for example, are generally better perceived by external stakeholders and their revenues may also help support important causes or investments. As an example the UK National Lottery Fund has support causes from Early-stage development to reducing social isolation among the elderly.

Nevertheless, companies within the gaming sector tend to be considered equal by investors. For this reason, more awareness needs to be raised of the gaming sector's wide-ranging characteristics and more ESG data from borrowers would be beneficial in highlighting the differences.

Social Factors are Vital

Responsible gaming

Managing social factors well, such as safety of players and employees, is essential in the gaming sector. Investors are interested in companies' responsible gaming strategies and how they engage with their stakeholders. Regulators play an essential role with regards to player protection. With evolving gaming regulations in regions legalising gaming, some responsible gambling practices such as self-exclusion options are becoming more common.

Qualitative information that investors are seeking

Investors typically seek information on the company's responsible gaming strategy and what measures the company takes to prevent, in particular, excessive play and/or play by underage players. Some companies are using advanced technology to detect or prevent problem gaming behaviours. Others carry out audits or shop controls by sending out 'mystery shoppers' to sites, for example, to verify the implementation of age controls.

Companies can provide self-assessment tools for players and implement a variety of usage limits to ensure player protection, such as payment or spending limits, loss limits, time-based limits ('cooling-off period') and limits for maximum betting. Some companies allow customers to self-exclude. Self-exclusion is a tool for players who wish to stop gambling temporarily or permanently. There are also companies which provide a more advanced self-exclusion tool for all online gambling websites, supporting customers to effectively opt-out of having access to gambling online.

Investors at the ELFA workshop mentioned that there is often not much detail on companies' responsible gaming strategies beyond a generic commitment to responsible gambling. Investors would find it more helpful if borrowers, at the minimum, provided more information on the high-level measures that the company takes and, for example, data on product usage which can offer valuable colour to investors.

Workshop participants noted that advertising is one of the main ways customers know which companies are following regulations, as illegal operators do not advertise. Laws surrounding advertising vary by jurisdiction; for example, advertising is banned in Italy. Borrowers at the workshop said they respected industry codes and noted that there are different codes of advertising, broadly similar to one another; for example, each focuses on the protection of minors.

Some investors were of the view that simply operating within a legal framework is not sufficient – sustainability is bigger than just adhering to regulations.

A couple of investors mentioned they seek to understand how companies engage with stakeholders, including employees. One company explained they conduct regular employee and customer satisfaction surveys to see whether they are perceived as a responsible gaming company.

Example metrics that investors are seeking

Investors are looking for metrics around how companies are managing their responsible gaming strategy and at the same time educating consumers of the risk of excessive gaming.

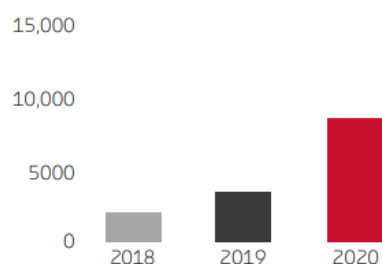
- Number of minors/underage players that have been identified
- Percentage of customers that have set a limit
- Percentage of customers that have self-excluded
- Percentage of customers that the company has excluded
- An estimate of the percentage of company revenues that is associated with problem gambling
- Customer satisfaction metrics (incl. number of customer complaints)
- Number of hours of employee training on responsible gambling
- Money donated (as a percentage of revenues) to responsible gambling initiatives or treatment of problem gambling
- Percentage of revenues and EBITDA derived from regulated markets

“Issuers need to go beyond just showing that they’re compliant with regulations.” – Investor

A couple of example metrics are shown below from Tipico’s 2020 Corporate Responsibility Report and Entain’s 2021 Annual Report.

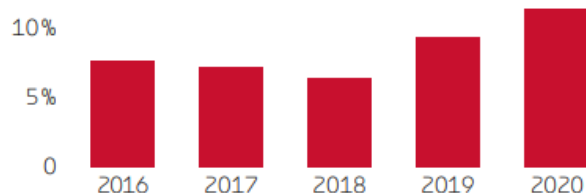
The “Online: minors identified” chart shows for example how detections have increased due to the strengthening of Tipico’s control framework over recent years, as (i) ID verification for online gambling has moved to an earlier point just after registration; and (ii) customers have been restricted to €150 in 2020 until they have proven identity via a verification method such as a video ID verification (in 2021, this deposit amount has been further restricted to €100).

ONLINE: MINORS IDENTIFIED



Source: Tipico 2020 Corporate Responsibility Report

USAGE OF LIMITS IN PERCENTAGES OF CUSTOMERS



Source: Tipico 2020 Corporate Responsibility Report

Safer betting and gaming performance	2021	2020	2019
Cash and in-kind contributions towards responsible betting and gaming initiatives	£12.9m	£9.7m	£3.6m
Customer interactions regarding problem gambling ^{1,2}	2,268,550	1,390,906	1,067,908
Customer complaints ^{1,2}	4,045	6,378	15,692
Customer complaints specifically related to a betting and gaming transaction ^{1,2}	655	919	2,031
Self-exclusions made ^{1,2,3}	61,644	59,465	137,391
Robberies	36	45	110
Anti-social behaviour	4,216	4,760	6,065
Assaults	132	204	345

1. Data covers all UK licences.

2. 2020 and 2019 data have been restated to removed discontinued licences, to be comparable to 2021 data.

3. Data only includes self-exclusions made via Entain’s own processes (eg via customer services), and does not include third-party self-exclusion schemes such as, for example, GAMSTOP (National Online Self-Exclusion Scheme) and the Multi Operator Self Exclusion Scheme.

Source: Entain 2021 Annual Report

Data privacy and security

Borrowers at the workshop mentioned they have focused on data privacy and security as they have high volumes of customer data. This data is essential because it is used to determine caps on amounts that can be bet or allow for self-exclusions. It can help anticipate problem gambling amongst customers.

Qualitative information that investors are seeking

Investors at the workshop mentioned that they typically request information on the policy and the processes in place to protect customer data. Investors are interested in the borrower's approach to identify and address data security risks, including any use of third-party cybersecurity software, services and standards. Apart from inquiring about data breaches, investors find it valuable to understand the impact of any data breaches (or, for that matter, any other ESG performance metrics) on executive compensation.

Example metrics that investors are seeking

Metrics are likely to be different across products and geographies; however, the following examples could be helpful to investors in their ESG analysis:

- Number of data breaches and potential breaches
- The percentage of data breaches that involve personally identifiable information (PII)
- Number of users affected by the data breaches
- Number of performance issues
- Number of service disruptions
- Total customer downtime
- Number of hours of employee training, including on GDPR

POTENTIAL DATA BREACHES REPORTED	2018	2019	2020
Observations reported to DPO (internal)	24	28	23
Incidents reported to IDPC by DPO	2	0	0
Within 72 hours (target 100%)	100%	N/A	N/A

Source: Tipico 2020 Corporate Responsibility Report

“We would prefer to find out from the firm itself about data breaches rather than the press.” – Investor

Human capital

Human capital management is vital in the gaming industry as it is for many industries especially in the current environment where labour shortages are more common. Borrowers at the workshop mentioned the difficulty to recruit and retain good engineers for example. They understand the importance of looking after their employees in order to attract, retain and develop a highly skilled workforce.

Qualitative information that investors are seeking

Investors seek to understand employees' satisfaction levels and the borrower's staff retention plans. Often investors will ask for an employee turnover rate, for example. One borrower noted caution regarding turnover figures as location matters; for example, in his view, the employee turnover in Rome is likely to be lower than in London or New York City.

Regular employee satisfaction surveys can help borrowers determine employees' satisfaction levels on work-related issues, such as job satisfaction, compensation/benefits, company policies, retention and workhours. Disclosure of such surveys creates transparency into this process for investors. It is also one of the data points in the ESG Data Convergence Project so would therefore be useful in comparing companies between sectors.

Example metrics that investors are seeking

Some suggested social metrics are as follows, disclosed by some gaming companies but applicable across sectors.

Governance Remains of Paramount Importance

Credible ESG strategy and good governance

As mentioned in ELFA's previous Insights reports, governance and transparency remain essential focus areas for investors. Some investors at the workshop said they value a credible ESG strategy with a good governance structure, where incentives are aligned.

Qualitative information that investors are seeking

The importance of good governance is not unique to the gaming sector, but it is particularly critical given the broader sector's historical links to illicit activities, bribery and organised crime, which is still a potential factor in some markets. Investors at the workshop emphasised they would like to see if there is a solid corporate ESG strategy in place and whether there are any links between executive performance and responsible gaming measures.

Best place to work performance indicators	2021	2020	2019
Customer Satisfaction	60%	60%	60%
Central L&D investment	£2.6m	£1.2m	n/a
Average hours per employee of training and development	10.5 hours	n/a	n/a
Average amount spent per employee on training and development	£116	n/a	n/a
Average hours per manager of training and development	38.5 hours	n/a	n/a
Average amount spent per manager on training and development	£577	n/a	n/a
Employee turnover – all	32%	26%	44%
Employee turnover – voluntary	25%	17%	33%
Whistleblowing incidents reported and investigated	29	34	34
Employee accidents	117	137	179
Employee reportable incidents	5	4	8
Public accidents	9	31	24
Public reportable incidents	1	0	0

Source: Entain 2021 Annual Report



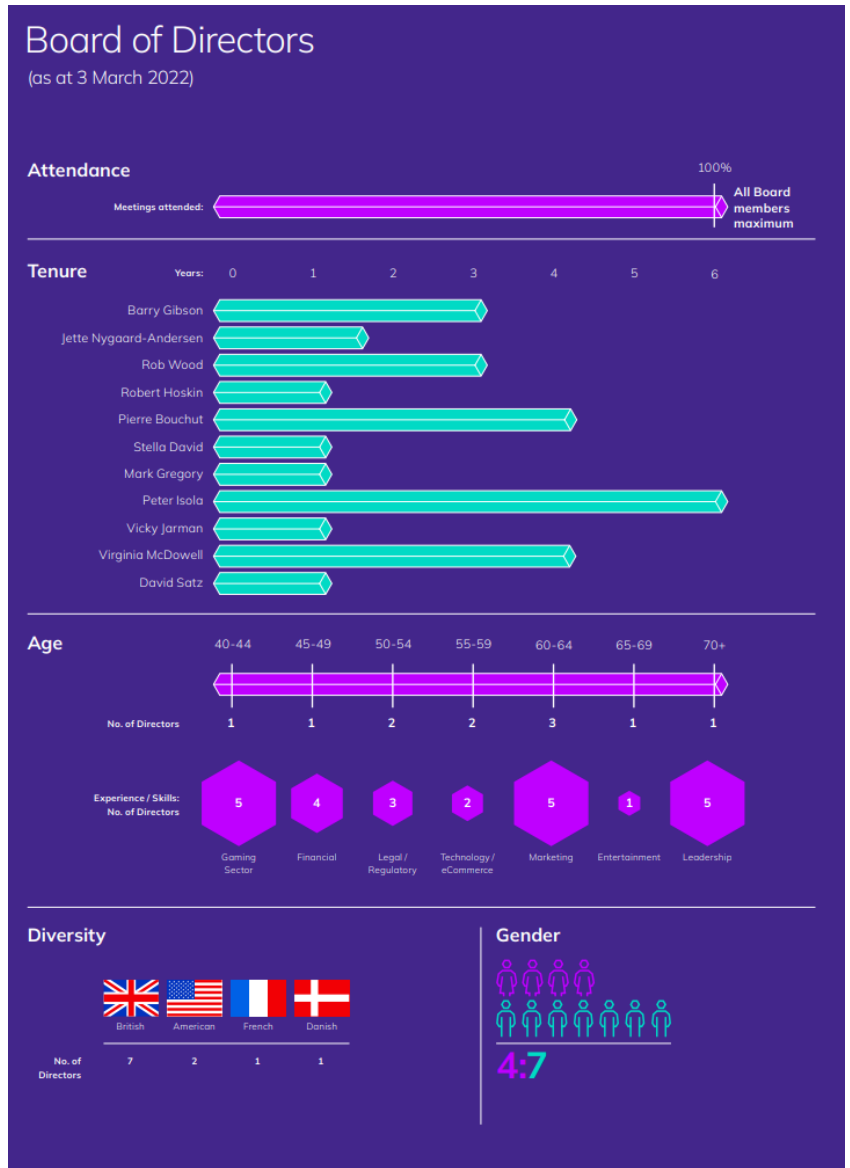
Across sectors, investors seek appropriate information on, for example:

1. The board composition, including details on each member’s tenure, gender and experience, and to what extent the board is run independently from management;
2. Control committees, such as audit, risk and remuneration;
3. Anti-bribery, anti-money laundering and whistleblowing policies; and
4. Auditors used and any regular frequency of replacement.

Example metrics that investors are seeking

Some suggested governance metrics are as follows, disclosed by some gaming companies but applicable across sectors:

- Number of whistleblowing cases that have been reported to the external ombudsman or the respective regulator
- Number of suspicious transactions that have been investigated
- Board composition, with respect to experience/skills, tenure and gender and/or ethnic diversity
- Percentage of revenue and EBITDA generated in unregulated markets (including JVs and minority investments)



Source: Entain 2021 Annual Report

“In Italy, when it comes to returns and how much asset managers are willing to give up for ESG, a large number of investors accepted ESG over returns.” – Investor

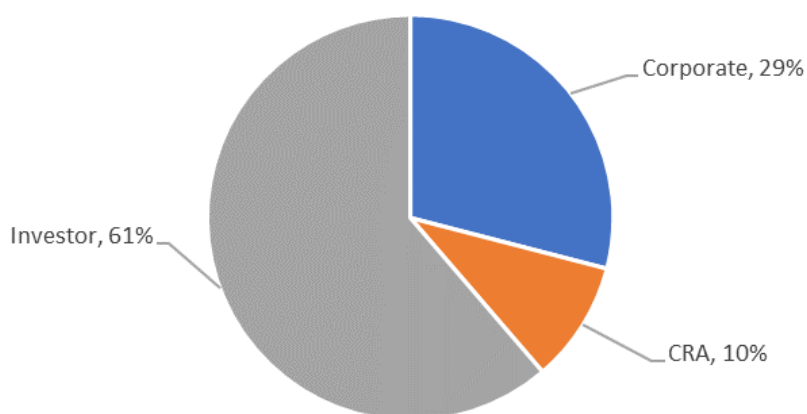
Participating sub-investment grade borrowers

Participating sub-investment grade borrowers - Gaming Sector

IGT, Lottomatica, Sazka Group, Tipico

This was the fifth ESG Workshop presented as part of our ESG Disclosure Initiative, designed to increase ESG disclosure and deepen engagement between corporate borrowers and lenders in the European leveraged finance market. ELFA has used the feedback gained from the workshop to develop an [ESG Fact Sheet for the gaming sector](#), which is published together with this Insights report. ELFA's ESG Fact Sheets support borrowers in preparing ESG disclosure and facilitate engagement between European leverage finance investors and the companies to which they lend on important ESG topics.

Event Attendees by Company Type (in %)



Source: ELFA

The recent event follows workshops held throughout 2020 and 2021. Each workshop has led to the publication of sector-specific ESG Fact Sheets and also a sector-agnostic General ESG Fact Sheet. These ESG resources, and a Guide for Company Advisers to ESG Disclosure in Leveraged Finance Transactions, are available for download [here](#).

We plan to host additional events for sub-investment grade corporate borrowers and credit analysts to incorporate additional sectors not currently covered by the existing ESG Fact Sheets. If you are a corporate borrower or a credit analyst and would like to propose a sector for inclusion in the ESG Disclosure Initiative or participate in an event, please contact Sabrina Fox, CEO of ELFA, at sfox@elfainvestors.com.

About ELFA:

ELFA is a professional trade association comprised of European leveraged finance investors from over 55 institutional fixed income managers, including investment advisors, insurance companies, and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information please visit the ELFA's website: www.elfainvestors.com.

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