



*Excerpt from*

# The economic significance of the games machine industry 2022

Study for Die Deutsche Automatenwirtschaft e.V.

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Study

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# 1 Executive Summary

This study presents an up-to-date picture of the games machine industry, providing the first economic indicators for the period after COVID restrictions were lifted. The study is a continuation of last year's study by IW Consult.

In 2022, the first year the sector was no longer subject to any COVID restrictions, the operation of games and amusement with prizes machines (AWP) generated net sales of approximately EUR 4.46 billion (2021: EUR 2.9 billion) for operators. On the industry side (manufacturers), net sales of EUR 561 million (2021: EUR 577 million) were generated. Altogether, total sales for the games machine industry (operators and manufacturers) came to approximately EUR 5 billion. The figures for 2022 are thus considerably higher than in the COVID years 2020 and 2021. Compared with 2021 (EUR 3.5 billion), the turnover from both parts of the sector has risen by around 44%. Nonetheless, sales have yet to return to pre-pandemic levels, with 2022 sales in the sector down 11% compared with 2019 (EUR 5.7 billion).

Besides the financials, a further indicator of the state and performance of the gaming industry is the number of AWP machines installed in Germany. This figure is a good measure of long-term market trends since it is slower to react to changes than, for example, sales figures. At the end of 2021, there were around 180,000 AWP machines, equating to a drop of approximately 14% in 2021 compared with 2020 (210,000 terminals). At the end of 2022, the number of AWP machines was just 161,000, representing a further 11% drop compared with 2021 and a 28% drop compared with 2019 (225,000 terminals).

A third aspect for gauging the state of the sector is the amount of tax paid by operators. In 2022, their tax bill came to around EUR 1.72 billion, with the largest proportions coming from entertainment tax (EUR 872 million) and value added tax (EUR 832 million). Profit tax made up 0.4% of the tax burden – the smallest proportion. This figure is significantly down on the values from 2017 to 2019, in which profit tax made up around 1.8% of the tax burden. Since this tax is based on earnings rather than sales, it better reflects the economic state of the sector and shows that it is still performing far below pre-pandemic levels. The sector's total tax burden in 2022 came to 32.6% of sales.

## **Additional added value effects of EUR 1.04 billion generated by gaming industry**

In 2022, the direct value added at operator level was EUR 2.04 billion. In addition to this direct economic activity, the gaming industry also stimulated further activity in other sectors. In 2022, these indirect effects totalled approximately EUR 1.04 billion in added value. Around EUR 291 million of this went to machine manufacturers. Other sectors that reap the rewards of demand from operators are the property sector, companies leasing movable property and the construction industry. It is thus clear from these indirect effects that the economic significance goes beyond the direct value added. When combined with associated service providers, the German gaming industry in 2022 accounted for added value of EUR 3.08 billion and a total of around 62,000

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employees, of which 54,000 at operator level, 2,200 at manufacturer level and 5,700 indirectly at service providers.

### Long-term decline in sector not reversed by post-COVID recovery

As the figures in this study show, the long-term decline in the sector that was already apparent before the pandemic has not improved. Although there is an obvious recovery by comparison with 2020 and 2021 – the years subject to severe COVID restrictions – economic indicators have not reached pre-pandemic levels. Therefore, the decline that the sector has been seeing since 2017 is continuing, with both the number of installed AWP machines and turnover in the sector still falling. On the basis of the available indices and data, we can assume this trend will persist in the near future.

A decisive factor for this development was the Interstate Treaty on Gambling (the “Treaty”), which took effect as early as 2012. As a result of the Treaty, federal states (the “Länder”) enacted various laws, all regrettably aimed at reducing commercial gaming via quantitative, location-based restrictions. The transition periods for existing arcades under the 2012 version of the Treaty expired on 1 July 2017, leading to the closure of operations that were unable to comply with the minimum distance requirements and the ban on multiplex arcades.

Given that some federal states are using their rights under the 2021 version of the Treaty to approve temporary exemptions, the factors reducing the games machine industry offering have been in play since 2017. All this suggests that we have likely not yet bottomed out in terms of the reduction in the numbers of AWP machines. This hypothesis also stems from the fact that uncertain legal arrangements, provisions governing hardship cases and pending litigation are slowing down the shrinking of the market.

### Regulation not tailored to demand, burgeoning illegal market

As sales figures decline in the gaming industry, we are simultaneously seeing a burgeoning illegal market, with more and more illegal gambling establishments emerging. By way of example, Jürgen Trümper, former director of the working group against gambling addiction, notes in his field study “Einblicke in den illegalen Glücksspielmarkt” [Insights into the illegal gambling market] that the operation of illegal gaming machines can be seen in 62% of local authorities (Trümper, 2020). And according to the Commissioner of the Federal Government for Drug and Addiction Policy, every third gaming machine in Germany is an illegal one and at least half of turnover can be attributed to this area (Commissioner of the Federal Government for Drug and Addiction Policy, 2023).

This is a sign that the gaming industry offering is no longer properly tailored to demand by comparison with illegal gambling. The industry therefore cannot fulfil its channelling responsibility under the Treaty to the extent necessary to safeguard young people and gamblers.

## 5 Classification of the results and outlook

This study analyses the current state of the games machine industry in Germany, providing the first figures from 2022 – the first year after the lifting of COVID restrictions, which had a severe impact on the sector. The data show clear signs of a recovery. By comparison with 2021, the number of employees is up by around 4%, with sales at businesses (operators + manufacturers) up around 44%. But the sector has yet to return to pre-COVID levels – by comparison with 2019, the number of employees is down 10% and sales are down 11%.

Therefore, the downward trend that had already begun before the pandemic is continuing. Both sales and employment levels in the sector have been falling since 2017 (see chapter 3.1). This is confirmed by an analysis of the long-term indicator of number of installed AWP machines. According to the calculations based on data from the working group against gambling addiction, the number of terminals fell again in 2022. As at 1 January 2022, it was around 180,000 (see chapter 4), i.e. almost 32% below the levels seen in 2016 (264,000 terminals). By the end of 2022, a total of 161,000 AWP machines was calculated on the basis of the number of leased terminals reported by machine manufacturers, equating to a 39% drop compared with 2016.

The signs of recovery are weaker in this sector than in the services sector overall and in the overarching “Art, entertainment and recreation” sector, even though these sectors also took a severe hit from COVID restrictions. This is clear evidence that the commercial gaming industry is under pressure not only from the after-effects of the COVID pandemic but also from other external factors, particularly more stringent regulation (see IW Consult 2023 for a comprehensive list of the regulations that have come into force over recent years).

The stricter regulatory measures currently in force that are putting pressure on turnover in the sector are summarised below:

- ▶ The maximum loss per hour was limited to EUR 60 (down from EUR 80) and the maximum win to EUR 400 (down from EUR 500).
- ▶ The average loss per hour was reduced to EUR 20 (down from EUR 33).
- ▶ A mandatory suspension of play after three hours was added to the five-minute break after an hour’s play, meaning that after three hours all readings on a machine have to be reset to zero.
- ▶ Automatic coin insertion has been abolished. Players now have to start each game manually by pushing a button.
- ▶ Some form of activation medium or code needs to be handed out before a terminal can be activated. Activation of another terminal is only permitted if the game on the first terminal has ended and a new activation has occurred.
- ▶ In bars, the maximum number of machines permitted has been reduced from three to two.
- ▶ Minimum distances between arcades have been introduced, along with a ban on multiple concessions.

- ▶ Arcades are now subject to mandatory closing times.

As sales figures decline in the gaming industry, we are simultaneously seeing a burgeoning illegal market (see Trümper 2020; 2021; 2023). More and more illegal gaming establishments are emerging, passing themselves off as café casinos, sports bars and clubs, for example. Often, these premises also operate “fun games”, which are gaming machines that have not been approved by the National Metrology Institute, the PTB, and have been banned since 2006 under the Gaming Ordinance (Trümper, 2021). By way of example, Jürgen Trümper, former director of the working group against gambling addiction, notes in his field study “Einblicke in den illegalen Glücksspielmarkt” that the operation of illegal “fun games” can be seen in 62% of local authorities. And according to the Commissioner of the Federal Government for Drug and Addiction Policy (2023), every third gaming machine in Germany is an illegal one and at least half of turnover can be attributed to this area. These terminals do not recognise any limits on winnings or losses and do not have any of the legally prescribed breaks with enforced termination of play. The commercial attraction for operating these machines is their high degree of attraction to players and their simpler handling compared with legal AWP machines. They can be operated in illegal venues and illicit restaurants and bars, without entertainment tax being charged on turnover generated from AWP machines. This form of illegal gambling poses a particular threat to young people and gamblers, but consistent and comprehensive enforcement against it by local government agencies – which are generally the responsible authorities – fails in many cases due to staff shortages and information deficits (Trümper, 2023). Trümper concludes, “Pragmatically, it needs to be accepted that the legal gaming offering must be attractive enough for all customers to use it. Illegal gambling offerings essentially breach the legislative and safeguarding limits in order to make the offering more attractive than legal gambling. When regulating gambling, therefore, legislators need to think of ways of circumventing illegal venues and illegal gambling media and take steps to obstruct them. Otherwise, there is a risk that the channelling purpose of legal gambling is pursued ad absurdum as what it offers is no longer taken up by gamers since they have already turned their attention to what is available illegally.” (Trümper, 2023).

The DICE Consult study (2023), which estimates the size of the black market on the basis of the number of illegal gaming machines, comes to the same conclusion. According to this study, stricter regulatory measures (for example regarding the minimum length of games, the quantity of AWP machines available or the attractiveness of the game) are diverting demand for legal AWP machines to illegal gambling machines. Specifically, a rise in the black-market share from around 4% (2012) to 30-46% (2022) has been noted. The study concludes that safeguarding measures are only effectively applied in the legal area, and therefore successfully channelling user demand should be seen as the overarching purpose of regulatory measures.

The financial performance of the gaming industry is likely to be determined by the regulatory backdrop for the next few years. The regulatory situation, which has contributed to the decline in the games machine industry, will either remain in place or tend towards being tightened even further in future. The reason for this is a transition provision in the 2021 version of the Treaty which is intended to mitigate the shock of adjustment resulting from the ban on multiple concessions. The federal states that opt to apply the transition clause in their implementing laws may grant temporary permits for up to three arcades per building or building complex at the joint request

of operators. Ten of the sixteen federal states have adopted the transition provision in their own state legislation. Depending on the particular state, the term of the transition provisions varies from three to fifteen years. For this reason, and in view of the fact that uncertain legal arrangements in some cases, provisions governing hardship cases and pending litigation are considerably slowing down the shrinking of the market, we have not yet hit bottom in terms of the reduction in the numbers of AWP machines. Instead, the decline is expected to continue in 2023 and beyond.

In summary, the downturn in the gaming industry is primarily the result of a combination of stricter regulatory measures, which have decimated the size of the gaming industry's offering, and the simultaneous increase in illegal, land-based gambling. These external factors will continue to weigh heavy on the sector over the next few years. Since 2022 sales did not reach pre-pandemic levels and the long-term indicator of the number of AWP machines continues to fall, this likewise suggests that the games machine industry will continue to decline. This documents the fact that, compared with illegal gambling, the gaming industry's offering is no longer properly tailored to demand to fulfil its channelling responsibility under the Treaty to the extent necessary to safeguard young people and gamblers.

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