

FROM VISION TO FRUITION

BRAZIL GAMING MARKET RECONNAISSANCE

The Innovation Group has continued to study Brazil's pending gaming legislation and potential opportunities and impacts.

By way of background, Brazil's effort to address gaming regulation and development is the most ambitious since the technical prohibition of gaming 70 years ago. Continued economic stress in Brazil has been the main catalyst. The standing legislation would allow as many as 35 casinos with a maximum of three per state. In addition, bingo and slot halls could be authorized, allowing for hundreds of thousands of machines in the country at a ratio of one slot hall to 150,000 residents.

The Special Commission on National Development approved SB 186/2014 by a wide margin in December, but the path forward remained unclear. Since that time, a series of amendments to the legislation have been proposed. The following are key tenants of the proposed bill and its amendments:

- Most overarching regulatory controls are at the national level and drawn from respected global market comparables
- Distribution of destination resorts at 1-3 per state appears to be widely accepted
- 10% tax rate on resorts and in bingos has not yet been challenged
- Amendments have emerged seeking to add economic and tourism impacts as resort criteria
- Distribution of bingo/slot halls is currently at one venue per 150,000 residents with amendments proposing one per 250,000 with a 500 unit maximum per venue
- Specific allowable games for bingo halls have not been determined and the tax rate is currently at 10% along with resorts
- Duration of licenses is still being debated between 20 and 30 years
- Integration of Internet licenses is still being structured
- Tax for Internet appears to be 20% with minimal debate
- Several amendments address more robust problem gaming policy angling in on global industry standards

Ultimately, the law will require a vote of the Senate and the lower house, and approval of the President. Legislators have been vocally supportive of the legislation, and interim President Michel Temer, who replaced Dilma Rousseff, now facing impeachment charges, seems more adamant about getting the legislation passed than his predecessor. Most recently, Tourism Minister Henrique Eduardo Alves offered a vote of confidence.

So far, there has been limited opposition to the proposed gaming bill from traditional opposition groups, such as religious groups or other moral opponents. However, several distractions are at play. First, the country is preparing for the 2016 Summer Olympics while dealing with the Zika Virus. Secondly, the impeachment process itself will keep many legislators very busy for the next several months. Finally, amendments to SB 186/2014 will have to be accepted and the bill must outlive new attempts to introduce competing proposals should any be generated.

Despite these challenges, the effort to pass gaming legislation has momentum. Understandably, international gaming operators, who consider Brazil to be one of the last great untapped gaming markets in the world, are paying careful attention. Larger operators from North America and Asia will likely flock to Rio de Janeiro and/or Sao Paulo with large integrated resort proposals. For a few, this may be a home run. Others will stick to route operations in bingo or slot halls, a proven high ROI play globally. However, the market will be extremely sensitive to the diversity of socio-economic strata in Brazil. Intense poverty, unpredictable local politics, and security concerns could make some of the most obvious locations the most difficult and the least lucrative. However, we believe that there will be “sleepers” throughout the vast stretches of Brazil, pockets of opportunity that are insulated from all the noise.

While bullish on the market, The Innovation Group is still urging clients to plan carefully with regard to market entry, both in assessing the commercial viability of potential developments, and in developing strategies for local partnerships. The Innovation Group has made the following observations regarding the process:

- While the expectation is that the bill could be passed by November, amendments to the bill must be sorted
- There could still be attempts to replace the legislation with something less comprehensive than the standing legislation
- Various criteria driving capital investment decisions remain open, including whether the tax rate for Bingos and full resorts will vary
- Local contacts and knowledge are key, and local incorporation is required technically and as a practical matter to advance development efforts
- The international language barrier in Portuguese-speaking Brazil is more substantial than in Spanish-speaking Latin America

Brazil should offer substantial opportunities for landbased and online gaming development, pending the passage of enabling legislation. Reliable forecasts for revenue potential can be generated by The Innovation Group by scenario, based on widely variable distribution patterns. We remain committed to studying opportunities, keeping our clients informed, and communicating the status of the pending legislation.

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