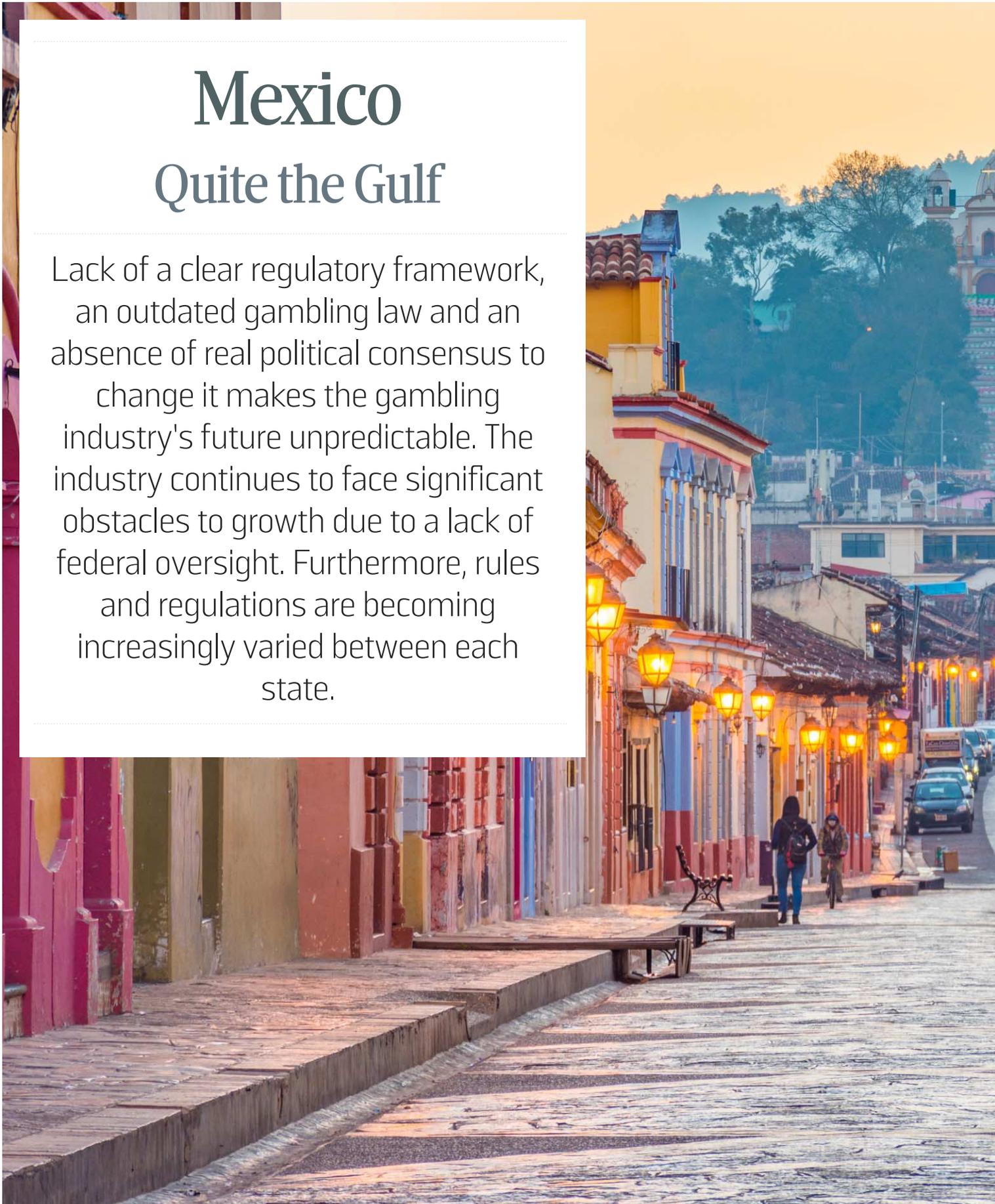


Mexico

Quite the Gulf

Lack of a clear regulatory framework, an outdated gambling law and an absence of real political consensus to change it makes the gambling industry's future unpredictable. The industry continues to face significant obstacles to growth due to a lack of federal oversight. Furthermore, rules and regulations are becoming increasingly varied between each state.





While the federal government is seeking to enforce more federal control, state governments have increased taxes on gambling, and have been looking at ways to regulate the industry on a local level. Consequently state and federal lawmakers are set for a showdown over the industry's future. Meanwhile lockdown has thrown the country into one of the worst economic slumps in the country's history.

ECONOMIC WOES

Before the current crisis Latin America's second largest economy in terms of GDP had already been struggling under President Andres Manuel López Obrador. López Obrador (known in Mexico by his initials AMLO) won in a landslide becoming the first leftist politician to be elected in Mexico in 30 years.

During the election, López Obrador promised to reduce unnecessary expenditure and expand social programmes without compromising the fiscal position of the country by putting an end to "neoliberal" policies that had been put in place by previous governments. López Obrador and his coalition, formed by his party Morena, and allied parties Encuentro Social and Partido del Trabajo, won a landslide. In a full sweep of power, Morena also took the federal congress and the mayor's office of Mexico City. His presidency began in December 2018.

López Obrador has consistently criticised public officials and businesses working in tandem and his anti-corruption message is aimed not only at the gaming industry, but other businesses in Mexico. In September, he also proposed a referendum on possible corruption charges against five of his predecessors, accusing them of presiding over 'excessive concentration of wealth, monumental losses to the treasury, privatisation of public property and widespread corruption.' López Obrador's proposed 'people's consultation' is aimed at Carlos Salinas de Gortari, Ernesto Zedillo, Vicente Fox, Felipe Calderón and Enrique Peña Nieto, whose terms in power stretched from 1988 to 2018.

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Although the anti-corruption message has been welcomed there have been growing concerns over his handling of the economy. The administration struggled to boost growth to fund welfare and infrastructure plans well before COVID-19. The economy went into a mild recession in the first half of 2019 and in that same year, Mexico's gross domestic product (GDP) fell 0.5 per cent, the weakest showing

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since economic output fell 1.8 per cent in 2009 following the global financial crisis.

The forecasts for 2020 were already weak before the pandemic with speculation mounting by March that the slump could last for years. Analysts now predict that growth will slow to 0.9 per cent in the fourth quarter, with the economy shrinking 9.2 per cent overall in 2020. Meanwhile the percentage of workers living in poverty has grown from 35.7 at the start of the year to 44.5 per cent in the third quarter.

COVID-19 AND ITS IMPACT

Latin America has been particularly hard hit by the COVID-19 pandemic. In November, Mexico became the fourth country to cross the 100,000 threshold for confirmed COVID-19 deaths, joining the US, Brazil and India.

López Obrador has been criticised for initially downplaying the pandemic in hopes of keeping the economy open. His administration was slow to order lockdown measures and eased them too quickly.

Overall, the government's response has also been slow and erratic. In March, López Obrador told the media that his personal "protective shield" against the virus consisted of amulets and prayer. These amulets included a six-leaf clover, and a \$2 US bill. As governments around the world began to introduce social distancing measures, the government published public

messages that encouraged Mexicans to continue their normal routine and argued that there was no need to cancel mass events. Thankfully, this stance has shifted as the pandemic has worsened. The federal government finally announced that social distancing measures would begin on March 23.

Despite a lockdown the situation worsened. The World Health Organisation (WHO) warned of a "very worrisome" situation after the number of weekly deaths doubled between mid-October and late November. At the end of November WHO stated that "Mexico is in bad shape" after a 25 per cent increase in deaths. In December, López Obrador called on citizens to act responsibly after hospital occupancy in the capital rose sharply.

The pandemic has had a devastating affect on the economy, hitting the tourism industry especially hard. Tourism is one of Mexico's main sources of foreign revenue, along with automotive exports, oil and foreign direct investment. International tourism to Mexico plummeted 43.7 per cent in October year-on-year, according to the National Institute of Statistics and Geography (INEGI).

Since mid-July, the government has allowed hotels to operate at just 30 per cent of their capacity. About nine per cent of Mexico's gross domestic product comes from the tourism sector, which has been losing around US\$180m per day since the pandemic started.

Mexico's economy is forecast to contract by up to 9.3 per cent in 2020 after an easing of pandemic control measures that had caused an alarming 18.7 per cent decrease in the second quarter from a year earlier. The Bank of Mexico, (Banxico), said the economy could grow between 0.6 per cent and 5.3 per cent next year, after shrinking between 8.7 and 9.3 per cent in 2020. However, there is still a high degree of uncertainty about the effects of COVID-19 on the economy in the long-term.

COVID-19 AND ITS IMPACT ON THE GAMBLING INDUSTRY

COVID-19 has hit the industry hard. Around 400 gambling establishments were temporarily forced to close during the pandemic. Chihuahua's casinos, for example, have recorded losses of US\$11.3m affecting 80 per cent of the jobs generated by the industry.

President of the Mexican Gaming Association (AIEJA), Miguel Angel Ochoa Sanchez, said that it will take the sector two years to recover to similar revenues of 2019. The organisation has asked for the deferment of certain fees and taxes to get through the crisis.

In November, casinos in the Mexican capital suffered another setback as they had to reduce their operating hours for the second time in less than a month, as a preventive measure designed to stop the increase in infections due to the COVID-19 pandemic.



The Special Excise Tax on Production and Services (IEPS) tax is down significantly. From January to June 2020, the Ministry of Finance and Public Credit (SHCP) hoped to collect \$1,496m via the IEPS collection for games and draws. Due to lockdown, the government only received \$949.1m – \$547.1m pesos less than what the government had expected to receive before the pandemic began in Mexico.

The government is, as a result, losing out on tax revenue. The Special Excise Tax on Production and Services (IEPS) is down significantly. From January to June 2020, the Ministry of Finance and Public Credit (SHCP) hoped to collect \$1,496m via the IEPS collection for games and draws. Due to lockdown, the government only received \$949.1m in taxes, \$547.1m pesos less than what it had expected to receive before the pandemic began in Mexico.

CASINOS IN MEXICO

Background

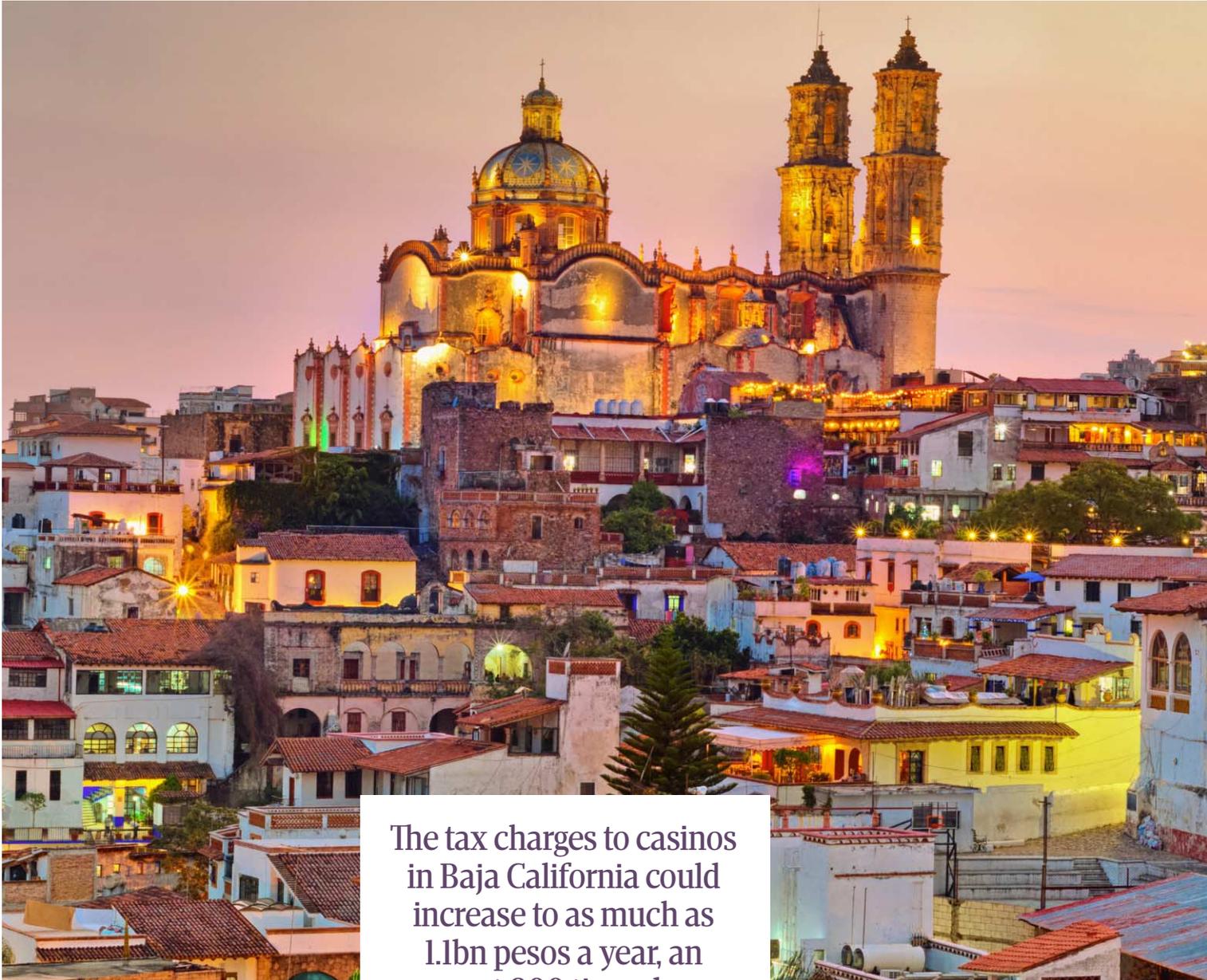
The Betting and Raffles Law of 1947 banned casinos and gaming throughout Mexico. In 2005, President Vicente Fox tried to overturn the act, but managed only to insert an amendment in

the form of an appendix to the old law. However, the changes to the law were highly significant as they allowed for sports betting, as well as the opening of bingo halls and slot parlours nationwide. The Secretary of Government (SEGOB), Mexico's interior ministry, was given responsibility for the granting of licences for these betting facilities. The decision was upheld by the Mexican Supreme Court in 2007.

For some years, attempts have been made to repeal the old act completely. Lawmakers also have been keen to put an end to Mexico's so-called 'umbrella licences,' whereby gaming operators have been able to operate a number of slot parlours and sports betting shops under a single licence.

There have also been allegations of corruption for years when it comes to the granting of licences. In 2005, just days before leaving office at SEGOB, Interior Minister Santiago Creel granted permission to Televisa, the largest Mexican mass multimedia company in Latin America and in the Spanish-speaking world to open 65 gambling houses in Mexico. The move came after President Vicente Fox granted the Santiago Creel the power to grant licences. Before leaving office in 2005, Mr. Creel had granted 763 licences to gaming parlours all over the country.

The push for new gaming legislation has been motivated by a desire to improve the tourism industry, concern over the fast expansion of gaming nationwide, and controversy gathering around SEGOB's issuing of licences. Also leading to renewed calls for urgent reform was The Casino Royale tragedy. In 2011, a group of armed men attacked and then set fire to a licenced



casino in Monterrey in the state of Nuevo León, leaving 52 people dead.

In the aftermath of this tragedy lawmakers seemed close to finally changing Mexico's gaming laws in 2015, but this attempt ultimately failed to gather enough support in Congress.

THE SIZE OF THE LAND-BASED INDUSTRY

According to the AIEJA, gaming establishments in Mexico house around 100,000 machines and generate 50,000 direct and 125,000 indirect jobs. The highest concentration is mostly across six states: Baja California, Mexico City, Nuevo León, Sonora, Jalisco and Estado de Mexico. More than half of the casinos in the country are located in these states.

Casinos make up around 0.5 per cent of the Gross Domestic Product (GDP) have around five million customers in the 380 establishments.

In December 2019, in an interview with Forbes Mexico, Miguel Ángel Ochoa said that one of the pending issues for its members was the opening of gambling halls that are already licensed. Although 850 rooms are authorised in Mexico for 37 permit holders, so far only 379 are in

The tax charges to casinos in Baja California could increase to as much as 1.1bn pesos a year, an amount 900 times larger than the amount generated before the amendment to the Baja California Treasury Law. Extra taxes have also been imposed in the state of Sonora, Pueblo and Mexico City.

operation. As a result there is still significant room for growth.

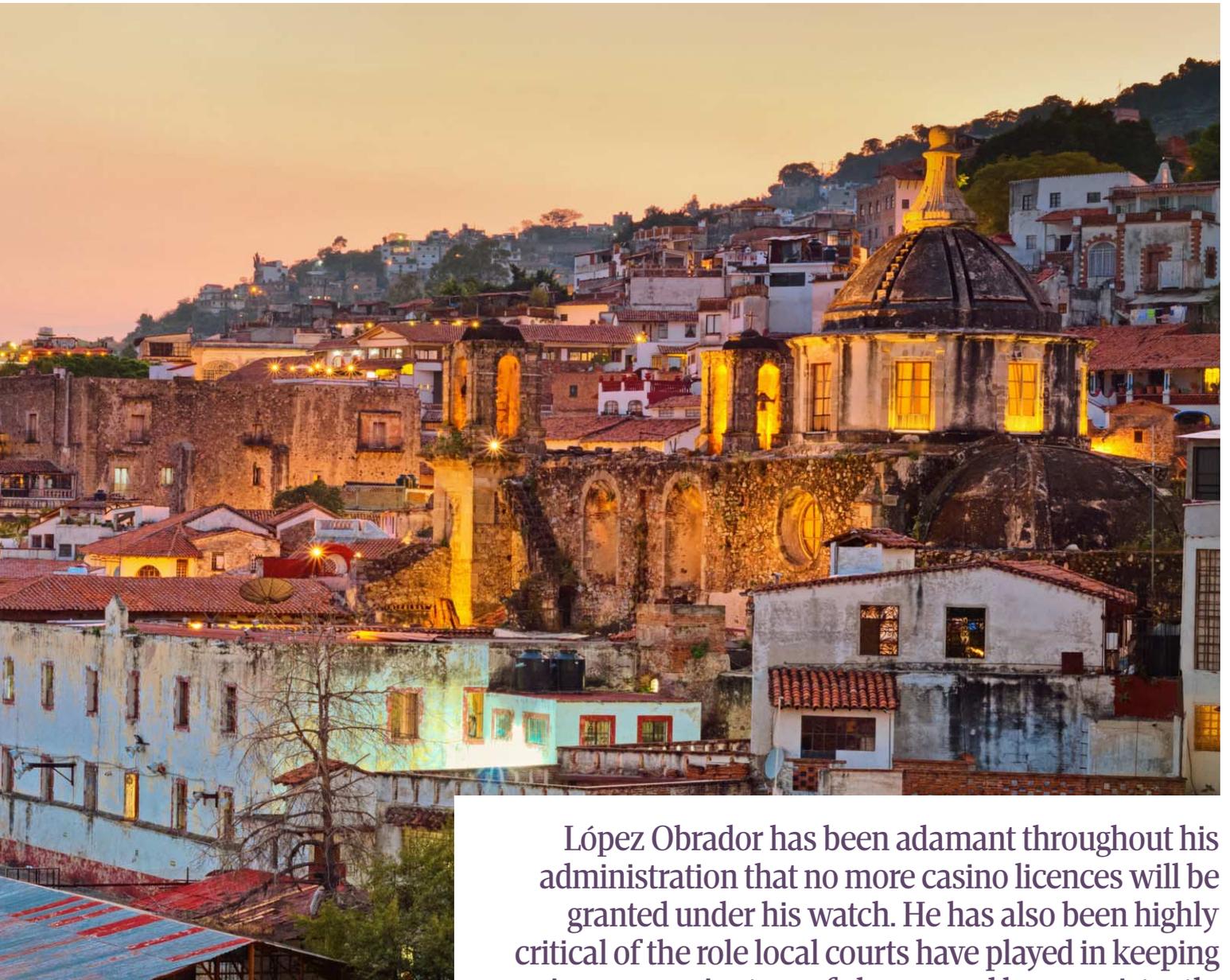
STATES TAKING THE INITIATIVE

States are increasingly going it alone, granting licences, raising taxes and putting in place their own regulations. In March 2020, lawmakers in the state of Tabasco in the southeast of Mexico increased taxes on gambling after it was approved by members of the Finance Commission in the State Congress.

Taxes have been also raised in Baja California, which has the most casinos in the country. Up until now tax collection has been very low, standing at just 144,000 pesos per month. The tax charges to casinos in Baja California could increase to as much as 1.1 billion pesos a year, an amount 900 times larger than the amount generated before the amendment to the Baja California Treasury Law. Extra taxes have also been imposed in the state of Sonora, Pueblo and Mexico City. In September 2020, the government of the state of Jalisco announced that players will be charged 10 per cent of the amount they gamble regardless of whether the player wins or loses. Jalisco has six casinos.

Going in the opposite direction in terms of taxation is the state of Quintana Roo - home to Cancun as well as a string of other resorts and popular destinations. The fiscal measures planned for 2020 included an exemption of taxes on the establishment of new gaming rooms for new investors, meaning that all companies that set up a casino would not pay taxes that year. However, this new rule was revoked after a growing public outcry.

Other states have also begun to look to expand gaming without the authorisation of SEGOB. In



López Obrador has been adamant throughout his administration that no more casino licences will be granted under his watch. He has also been highly critical of the role local courts have played in keeping casinos open via stays of closure and has consistently criticised the way licences have been granted by SEGOB under previous administrations

February 2020, the government of Tampico, a tropical city on the Gulf of Mexico, said that it was looking to introduce casinos in order to bring back tourists.

COLLISION COURSE

The federal government is now trying to reassert the authority of SEGOB in relation to the way in which gambling is regulated and taxed and has announced that it will not grant any new licences. In January 2020, López Obrador went further and said that the government would obstruct licences that are being granted by local governments in court. A month later the Minister of the Supreme Court of Justice of Mexico, Yasmín Esquivel, put forward a proposal to the Second Chamber of the Supreme Court to rule against an additional tax that states such as Nuevo León, Mexico City and Puebla have imposed on casinos. The draft ruling of the Minister argues that the Mexican Constitution gives the federal government power to legislate on gambling, since Mexico passed its gaming laws in 1947.

The Secretary of the Interior, Olga Sánchez Cordero, has also pointed out that the Federal Law of Gaming stipulates that SEGOB is the only

body allowed to grant licences to gambling establishments. "In this term of office there has been no authorisation to open a single casino," she said, adding that new casinos had only been licensed locally, which was in contravention of federal gaming laws.

López Obrador has been adamant throughout his administration that no more casino licences will be granted under his watch. He has also been highly critical of the role local courts have played in keeping casinos open via stays of closure and has consistently criticised the way licences have been granted by SEGOB under previous administrations. In September, SEGOB announced that it had closed 25 casinos from May 2019 to August 10, 2020 and had not granted permits for the opening of any new gambling establishments.

In the same month, López Obrador asked SEGOB to investigate and, where appropriate, revoke permits granted for the opening of casinos by the former head of Games and

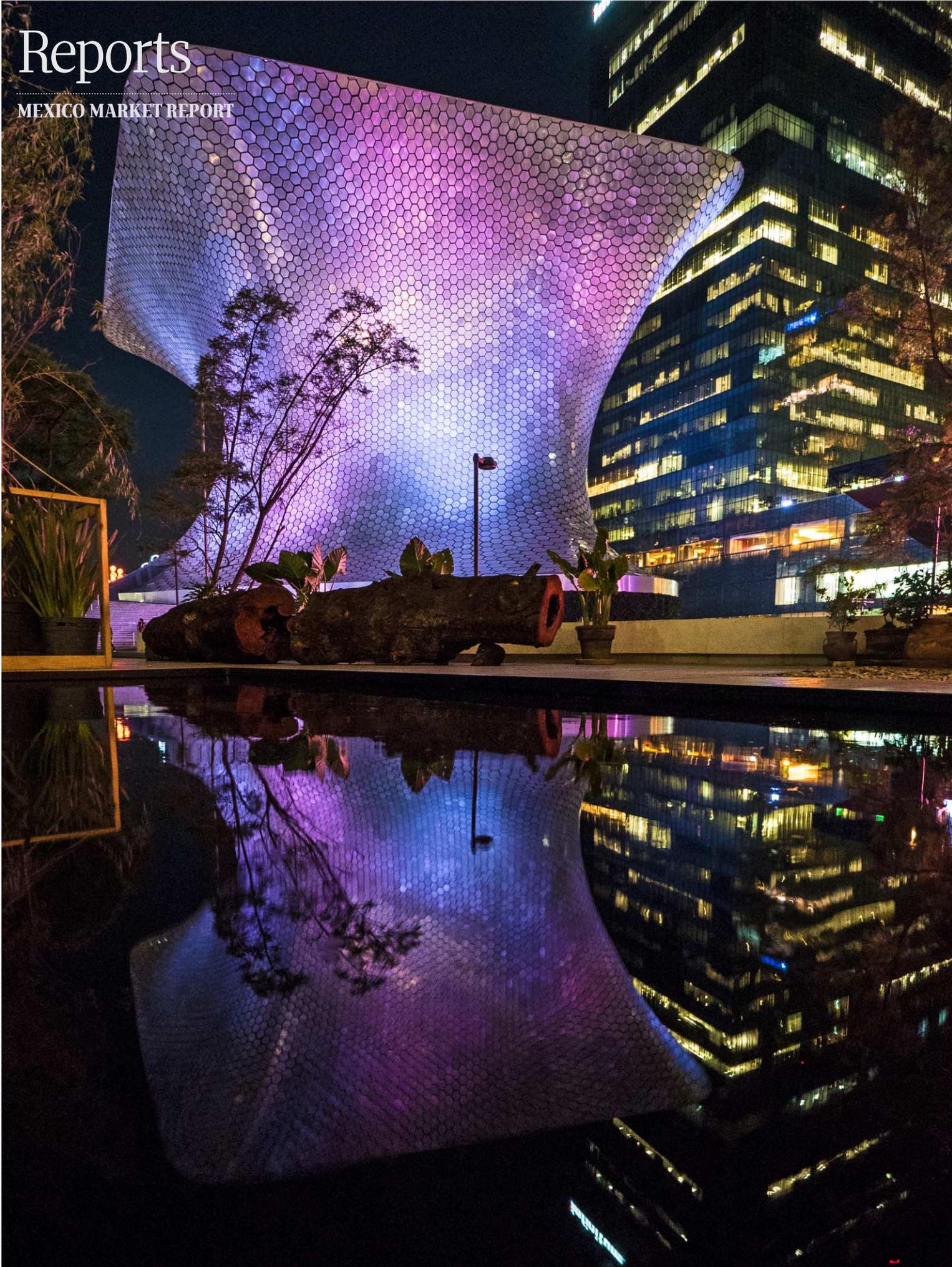
Raffles within SEGOB to previous operators of Casino Royale in the state of Nuevo León.

Battles in court are likely to continue. Thanks to an authorisation obtained by a federal court, long established gambling operator Attractions y Emociones Vallarta S.A. de C.V. was able to assign its 50 licences to four companies to operate betting centres. After the court decision, 19 licences were granted to Latam Operations, 11 for Wadcor, 10 for True Win Group and 10 more for Grupo Blue Bet México. However, SEGOB intervened and requested that the new permit holders comply with federal law and criticised the magistrates who voted in favour of the resolution. All the same, gaming operator Wadcor was still given a licence to open 10 properties and True Win Group was granted a further licence for one property by SEGOB.

In October 2020, López Obrador doubled down on his promise saying in a press conference that he would block these licences granted by a court.

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No more licences, an anti gambling stance, an economy in sharp decline combined with the devastating effects of COVID -19 could spell a rough period for the land based gambling industry. But it's not all bad news. In fact, stricter government control and a more cohesive long-term approach to gambling could be beneficial. More federal control over the industry could mean a more uniform set of regulations on the industry going forwards. In March Miguel Angel Ochoa Sanchez reiterated his support for the new rules.

THE SIZE OF THE ONLINE MARKET

The growth of casino-style gaming has led to an increased interest in betting online and growth is also being driven by sports betting. Although there is no data yet on online gambling during the lockdown, it will have undoubtedly increased significantly in common with other jurisdictions. According to the latest figures, online gambling in Mexico stands at US\$2bn to \$2.5bn, but around 90 per cent is still derived from illegal online sites. According to data from the National Institute of Statistics and Geography (INEGI), gambling income grew by an average of six per cent from January to August 2017, while gaming online saw a 21 per cent increase in that same period.

GOVERNMENT PLANS FOR ONLINE

Online gambling regulation could fall under the scope of new rules and regulations currently being considered by senators belonging to the Morena party. In October 2019, a parliamentary bloc belonging to the Morena party in the Chamber of Deputies presented initiatives to charge a 20 per cent Special Tax on Production and Services (IEPS) to online bets.

"The point is that we live in an economic market in which online gambling is increasing every day, and they still do not have any concise regulation in this regard... In this form of betting there are still many tax loopholes and they continue to be a tax haven for online casinos and sports betting houses," concluded lawmakers in the explanatory statement prepared for the new initiative.

In January 2020, federal deputy and member of the Morena bloc, Ulises Murguía Soto, put forward another initiative to allow for online gambling. Under the new proposals, SEGOB would authorise gambling and online gambling sites, which would mean better player protection measures that in turn would help safeguard against underage gambling and prevent money laundering.

NEW ONLINE TAXES

In June 2020, the Mexican government also introduced a new VAT tax rate of 16 per cent on

"In effect, they (the operators) obtained new authorisations because they went to the Judiciary, and the instruction had already been given that they should be cancelled. I asked the Secretary of the Interior to attend to this matter and she just informed me recently that the authorisations will be cancelled."

A NEW APPROACH

No more licences, an anti gambling stance, an economy in sharp decline combined with the devastating effects of COVID -19 could spell a rough period for the land-based gambling industry. But it's not all bad news. In fact stricter government control and a more cohesive long-term approach to gambling could be beneficial.

More federal control over the industry could mean a more uniform set of regulations for the industry going forwards. In March, Miguel Angel Ochoa Sanchez reiterated his support for new rules that would change taxes on the industry.

Mr. Ochoa said that new taxes at a federal level would lead to more certainty for national and foreign investors, which would in turn lead to greater foreign investment and more jobs.

"The three proposals, put forward by the National Regeneration Movement (Morena) in the Chamber of Deputies and the Senate, we like because it is something that we have been asking for more than 10 years, since there are

currently three tax regimes for the sector: one that is charged by the government at the federal level, another on a state level and a third via the municipalities," he said in an interview with a news local news service.

He explained that these charges generated a lot of confusion and uncertainty since each state levies its own taxes. In addition, taxes on the industry have increased significantly on a local level. Mr. Ochoa said the industry wanted an even playing field and be charged fairly, since that "would generate greater certainty to domestic and foreign investors when it comes to knowing clearly how much they will pay in taxes when they decide to enter this sector."

ONLINE GAMBLING

Regulation

Online gaming has been permitted via special licence in Mexico since 2000, but only land-based operators have been allowed to offer their services locally. As land-based operators may offer online services via a licence granted to them by SEGOB, a number of foreign operators have signed agreements with local operators.

However, online gambling via licensed sites in Mexico still accounts for a small proportion of casino revenue. Offshore operators continue to target the market operating in a grey area as there are no specific rules in place at the federal level when it comes to online gambling,

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Sports betting is also increasingly visible via sponsorship deals in Mexico. Around, 13 of the 18 teams that make up the top flight of Mexican football are now sponsored by betting companies. Most recently Mexican casino group Corporación Caliente inked a deal with top flight football team Club Deportivo Guadalajara.

all foreign providers of digital services that operate within the country. However, it is unclear how the government would actually impose these taxes on gambling sites not licensed to operate their services locally, as the government has yet to legislate in regards to how exactly the offshore market should be regulated.

SPORTS BETTING AND HORSE RACING

Mexico has permitted sports betting since 2005 due to the amendment to Mexico's 1947 gaming laws, which allowed SEGOB to grant gaming licences. Since then sports betting has spread quickly and sports betting shops are often part of much larger gaming establishments.

Today, the most popular sports betting product is football, national, foreign and international competitions, followed by NFL football and baseball, with NBA basketball and combat sports – especially boxing – in fourth and fifth place respectively.

However, in 2020 the NBA replaced baseball as the third most preferred option, due to the fact that the American basketball championship was completed in the NBA "bubble" – an isolation zone created by the NBA to protect its players from COVID-19.

Faced with the pandemic, the growth of football betting in Mexico during 2020 has been largely

driven by the resumption of the main European leagues and competitions as of June, but above all by the start, at the end of July, of top-flight Mexican football.

Sports betting is also increasingly visible via sponsorship deals in Mexico. Around, 13 of the 18 teams that make up the top flight of Mexican football are now sponsored by betting companies. Most recently, Mexican casino group Corporación Caliente inked a deal with major football team, Club Deportivo Guadalajara. As well as operating one of the most popular online gambling sites in Mexico, Caliente also offers sports betting in all of its many casinos nationwide.

LOTTERIES

In July 2019, López Obrador confirmed that two of Mexico's lotteries would merge creating one of the largest lotteries in the region. In October 2019, The Plenary of the Chamber of Deputies approved the repeal of Mexico's Lottery Laws to



In July 2019 López Obrador confirmed that two of Mexico's lotteries would merge creating one of the largest lotteries in the region. In October 2019 The Plenary of the Chamber of Deputies approved the repeal of Mexico's Lottery Laws to merge La Lotería Nacional para la Asistencia Pública (LOTENAL) with the other state lottery Pronósticos para la Asistencia Pública (Pronósticos). Lottery tickets went on sale again on June 29, 2020 after a break of three and a half months.

merge La Lotería Nacional para la Asistencia Pública (LOTENAL) with the other state lottery, Pronósticos para la Asistencia Pública (Pronósticos).

The Senate later approved the merger and in March 2020 the director of the National Lottery, Ernesto Prieto, indicated that both were now joined adding that the institution "had got out of the economic doldrums that it had been in for more than 10 years."

Lottery tickets went on sale again on June 29 after a break of three and a half months, as did the lottery for the luxurious Presidential aeroplane.

In February, López Obrador presented a new lottery ticket offering the Presidential plane as a prize. López Obrador insisted on raffling the plane in case the government was unable to find a buyer. The plane was held up as an example of corruption. The President has described the aircraft as "a palace of the heavens" and said

that it was an offense to the people of Mexico.

Ultimately, López Obrador decided that the raffle would be a 'symbolic' cash prize divided among 100 winners. The final were sold through to September 15. Each winner will receive 20 million pesos, the equivalent of about \$1m.

MAJOR OPERATORS IN MEXICO

Codere SA

Codere operates in Mexico in association with two groups that are leaders in the domestic market: Grupo Caliente and Compañía Interamericana de Entretenimiento (CIE). Codere SA continues to be a market leader in Mexico and plans to continue to expand as its growth in other markets, such as Argentina, declines.

In 2016, Codere launched its online gaming platform under the Codere Apuestas brand. In December 2019, Codere renewed the operating licences of its gaming halls in Mexico, owned by

its affiliate Administradora Mexicana de Hipódromo (AMH) and Operadora Cantabria for 15 years, until 2033, as well as the use of the land for the Hipódromo de las Américas racetrack for another 25 years, until 2048. Codere operates more than 19,600 gaming terminals, has around 95 establishments and 90 betting points, in addition to activity at the racecourse.

Codere is currently developing a \$1bn Mexico City casino resort project with US entertainment group Hard Rock International. In August 2019, Codere signed an agreement with Hard Rock to grant it a parcel of land in Mexico to build a tourist complex valued at close to US\$1bn. Codere secured rights to become the minority partner. In March 2020, Codere SA informed investors that it has secured a further €20m loan that will support its Mexican business unit. Codere said the loan was approved to safeguard stability for its Mexican properties, resolving COVID-19 sports and business disruption caused by the pandemic.

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In March 2019 Betcris announced that it would become the official betting site for the National Football Team of Mexico as well as for the Mexican Football Federation (FMF). Under the terms of the new agreement Betcris will be the official sponsor of the national team for the next four years.

Caliente

Grupo Caliente is Mexico's largest sports betting company. The company is owned by Mexican businessman Jorge Hank Rhon. Caliente has 41 establishments in Mexico. As well as operating one of the most popular online gambling sites in Mexico, Caliente also offers sports betting in all of its many casinos nationwide. However, in March, Grupo Caliente announced that it had decided to temporarily suspend the activity of 40 establishments located in Sonora, Nuevo León, Mexico City, Sinaloa, the State of Mexico and Baja California during the pandemic.

Caliente's online arm, Caliente Interactive, provides around 45 per cent of its revenue according to the company's owners. Caliente is one of Mexican football's most visible sponsors.

TV Azteca

In June 2019, bet365 launched its – bet365.mx – in partnership with the gambling subsidiary of Mexican national broadcaster, TV Azteca. In October 2018, SEGOB granted TV Azteca a 25-year licence that grants the company permission to operate a land-based casino as well as offer online gambling. In 2018, the company

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possible sale of its PlayCity Casino betting business as part of its divestiture of non-strategic assets. PlayCity Casino is a business segment that operates under subsidiary Apuestas Internacionales, which also controls Sorteos del Trébol - its lottery and raffles brand.

Compañía Interamericana de Entretenimiento
Compañía Interamericana de Entretenimiento (CIE) is Mexico's leading live entertainment group and since 1999 has been the leader of the Latin American entertainment sector. It serves the Spanish and Portuguese-speaking markets in Latin America, the US and Spain. Its activities include nearly all aspects of the live entertainment industry, promoting various events such as live music, theatre productions and the management and operation of fairs, shows, auditoriums and sporting events.

Compañía Interamericana de Entretenimiento operates the Citibanamex Centre in Mexico City, which is one of the largest and most important international exposition and convention centres in the country. It also produces and organises special and corporate events in the Mexican market, including the Mexico F1 Grand Prix. Before Codere bought 84.8 per cent of CIE, the company owned outright betting establishments right across Mexico, including those located in popular tourist hotspots such as Cancun and Tijuana.

Betcris

In March 2019, Betcris announced that it would become the official betting site for the National Football Team of Mexico as well as for the Mexican Football Federation (FMF). Under the terms of the new agreement, Betcris is the official sponsor of the national team for the next four years. The company is headquartered in San José, Costa Rica with satellite offices in Mexico, Ecuador, and Dominican Republic, Panama, Peru and 12 other countries.

The company opened the first sports book in the Dominican Republic in 1985 and has over 100 sports betting shops in Latin America.

Recently, Betcris and the Buffalo Wild Wings (BWW) sports bar brand announced a new partnership in Mexico. Betcris and BWW have launched 10 sports gambling BWW restaurants in Mexico, and plan to add more locations to be added in the near future.

established its Ganador Azteca division. Ganador Azteca has the right to establish a casino property in the Yanga province in the state of Veracruz, a licence that could be expanded to allow for online gambling provisions.

TV Azteca will be able to operate an online casino and will be allowed to take bets on sporting events, which take place either abroad, or in Mexico, as well as on horse and greyhound racing. TV Azteca is a Mexican multimedia conglomerate owned by Grupo Salinas, a

corporate conglomerate formed in 2001 by several Mexican companies. It is the second-largest mass media company in Mexico after Televisa.

Televisa

Televisa was given permission to open a total of 65 bingo halls in 2005. Today, Televisa's gaming division operates 7,200 electronic gaming machines, 17 land-based gambling establishments as well as a sports betting website. However, in August 2018 it was revealed that Televisa was contemplating the