



GLOBAL EQUITY | MARCH 2023

Real Estate, Gaming & Lodging Industry Primer

Analysts:

James Tucker
Lead Analyst

Bob Han
Lead Analyst

Nolan Lu
Senior Analyst



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WESTPEAK RESEARCH ASSOCIATION

Gaming and Casino Industry

Industry Summary

Investors look for resilience and potential for accelerated recoveries in the gaming space as the effect of the pandemic eases. Companies with higher exposure in the Macau market are now under the spotlight as China's re-opening brings optimism to operations in Asia's biggest gaming and casino market. While key equities soared on the re-opening in Q4 2022, investors have also grasped the potential consequences of high consumer activities as Fed hawkishness persists into 2023.

Industry Overview

The gaming industry is a rapidly growing sector encompassing traditional casino-type gaming, online gaming (iGaming), and sports betting. The industry's growth had been driven by a growing global population, increasing levels of disposable income, and most importantly, the widespread adoption of mobile devices. At the same time, the sector faces key challenges via industry competition, disruption to underlying macroeconomic drivers, and license eligibility.

Industry Drivers

Macroeconomic factors and COVID-19-driven issues have been key headwinds for the past four years as volatility in the macroeconomy has impacted global equity markets. Gaming investors look for potential growth drivers as the pandemic eases and the market slowly adjusts to high-interest rate environments. However, a trade-off between consumer confidence and Fed pessimism presents a dilemma for investors to navigate.

US Market Statistics	
US Market Revenue, 2022	\$43.039M
US Market Growth, 2022	16.3%
Key Companies	
Las Vegas Sands Corp.	LVS
Enterprise Value	\$55.91B
EV/2022 EBITDA	16.7 x
MGM Resorts Ltd.	MGM
Enterprise Value	\$45.79B
EV/2022 EBITDA	10.7 x
WYNN Resorts	WYNN
Enterprise Value	\$22.36B
EV/2022 EBITDA	14.2 x
Caesars Entertainment Inc	CZR
Enterprise Value	\$36.14B
EV/2022 EBITDA	9.3 x
Churchills Downs Inc	CHDN
Enterprise Value	\$13.75B
EV/2022 EBITDA	12.5 x
S&P 1200 CAS & Gaming Index Performance	



Gaming & Casino Industry

Overview

The industry's core business is the **operation of casinos**, which typically offer a variety of table games, slot machines, and other forms of gaming. Casinos generate revenue by charging customers to play these games, with the amount of revenue generated depending on the specific games and the rules of the casino. Conventional revenue streams include customer bets, fees for entry or participation, and commissions earned on specific wagers.

In addition to casinos, the gaming industry includes other types of businesses, such as **lotteries and sports betting**. These business activities are shaped by the increasing popularity of online gaming in the past decade, also referenced as iGaming. Online gaming companies generate revenue by offering forms of entertainment to customers over the internet as well as advertisement and subscription fees for premium services. In contrast, physical lotteries services generate revenue through the sale of tickets, commissions, and the distribution of prizes.

Lastly, the gaming industry includes various supporting businesses, such as **gaming equipment manufacturers, gaming software developers, and gaming consultants**. These companies provide the tools, equipment, and expertise needed to run a successful gaming operation and generate revenue by selling their products and services to casino operators.



Figure 1-3: Sports Betting, General Casino Operation, and Gaming Equipment Manufacturer

Generally, the traditional gaming industry is susceptible to the macroeconomic environment and regulatory constraints. The macroeconomic environment defines the consumer behaviours that drive the industry's profit while its business operations are also strongly associated with the hospitality sector; therefore, the traditional gaming industry can be considered highly cyclical basing on what the market have demonstrated in the past decade. On the other hand, general business operations are subject to pervasive regulation required by law as it directly determines their eligibility to operate. Companies need to obtain gambling permits administered by the state's gaming commission which often requires significant operational expertise and liquidity capabilities.

Overall, the gaming and casino industry is highly competitive and requires a strong focus on customer service, effective marketing strategies, and adapting to changing consumer needs and preferences. As the sector is subject to regulatory pressure, we often see oligopoly market structures in some of the key geographical clusters in the gaming space. The most successful companies in this industry offer high-quality entertainment experiences with high customer retention rates while having abilities to manage economies of scope and scale effectively.

Geography Overview

A unique aspect of the Gaming and Casino industry is companies’ business concentration tends to be focused on designated locations, as casinos tend to be clustered around major hubs. Consequently, having business activities concentrated in geographical areas also drives the industry's cyclicity. Geography is a crucial factor to consider in the casino and gaming space. We identify several key factors that highlight the importance of geography in the gaming industry (outlined below).



- *Figure 4: Major Global Gaming Hubs Worldwide*

	Importance of Geography in the Gaming Space
Regulatory Environment	The regulatory environment varies significantly from country to country. Require a deep understanding of each operating market to ensure compliance.
Market Growth Potential	The potential for growth in the gaming space can vary significantly by geography. Major Asia hubs, such as Macau and Singapore, which have experienced accelerated and volatile growth compared to modest increases in the US Markets.
Competitive Landscape	Market structure can vary from oligopoly to a higher amount of competition. Market penetration by M&A activities is a common strategy for big players.
Risk Management	Companies are well incentivized to diversify their operations due to industry cyclicity. “Do not put your eggs in one basket” – a hard lesson learned for Macau in 2014.

Industry Analysis

Macro Overview

The industry has experienced a volatile decade, as demonstrated by the SP500 Casino and Gaming Index. Its returns have been inconsistent due to uncertainties in the administrative regulations, namely Macau, during 2014. While global equities thrived after the GFC under an ultra-low interest rate environment, the Macau economy shrank 20% in 2015 due to China's anti-corruption campaign, with stricter visa requirements diminishing tourism activities. The sector's behaviour in the past decade has warned investors that the space is highly subjective to regulations, macroenvironment, and, lastly, intricately linked to tourism, signalling a cyclical market.

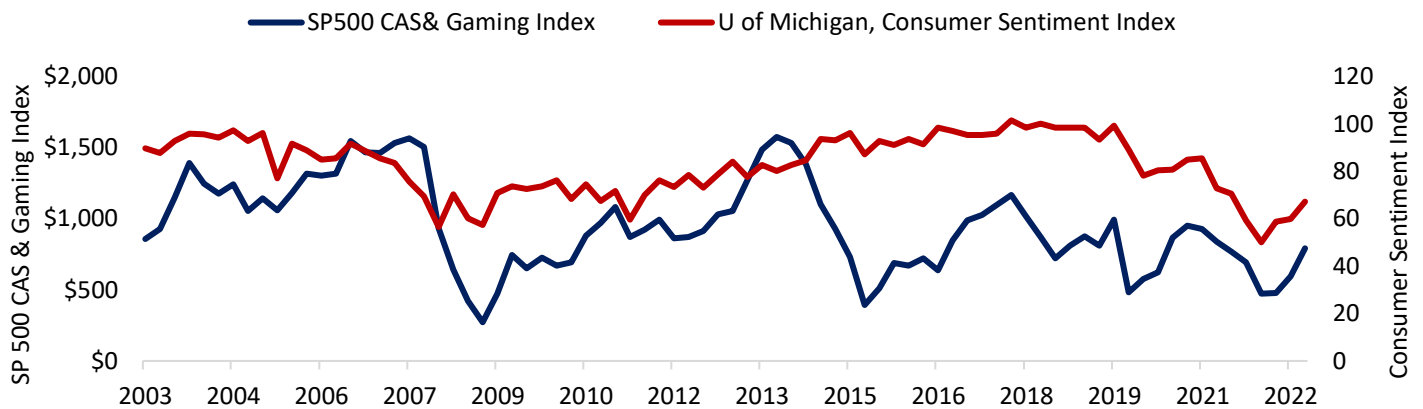


Figure 5: SP500 vs University of Michigan Consumer Sentiment Index (Source: Bloomberg)

Over the past few years, the pandemic has impacted the traditional gaming space as in-person operations and key tourism activities were put on hold. At the same time, consistent interest rate hikes and uncertainty regarding fed hawkishness continue to demise growth in global equities. According to Bloomberg, the US gaming industry shrank by 40% in 2020. The market also exhibits an increasing correlation with consumer sentiments post-pandemic as investors grasp the industry's sensitivity towards consumer activities and confidence.

All Eyes on Macau

After years of strict quarantine regulations, lockdowns, and seemingly desperation for the gaming industry, the world's biggest gaming hub (Macau) is now under the spotlight as China eliminates its COVID-19-related testing to stimulate mass-win growth in Mainland China. The industry expects recoveries under optimistic assumptions that expected tourism will drive foot traffic and overall Gross Gaming Revenue (GGR), a key metric that measure casino operators' gambling revenue performances. Furthermore, major gaming hubs worldwide also anticipate higher tourism volume from Asian areas especially under the rise of "revenge-travelling" after the lockdown. According to Bloomberg Intelligence analyst Brain Egger, Macau Casino revenue could reach 44% of pre-pandemic levels. Many key players in the industry are preparing for Macau's business recovery as the area consists of a crucial part of its operations. Large US players such as Las Vegas Sand and MGM Resorts will benefit from this recovery with its large geographical exposures in the Asia market.



Figure 6: China's Re-Opening Amidst COVID-19 Lockdown Puts Macau in the Centre of the Global Gaming Industry

As expected, Macau's first Chinese New Year post-reopening reached \$11.6B MOC (\$1.43B USD) in Gross Gaming Revenue (GGR), equal to 46% of January 2019's GGR. It is tracking ahead of the consensus expectation of 8.7B MOC, while most Macau gaming issuers are now expected to reach an EBITDA break-even during Lunar New Year. The growth expectation is further exemplified by pent-up demand from the mainland and the opening of tourist attractions around Macau, including Hong Kong, Guangzhou, and Hainan province.

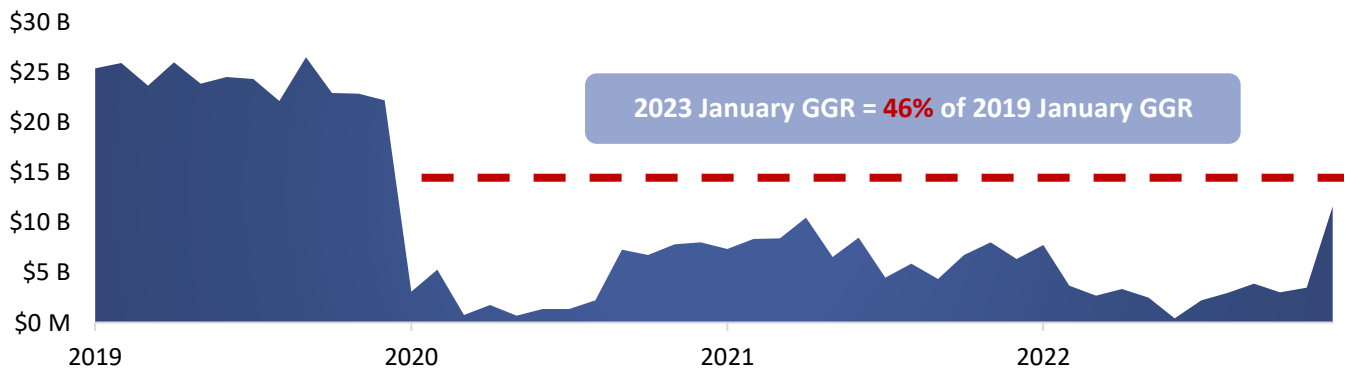


Figure 7: Macau Games of Fortune Revenue in Macanese Patatas, Millions (Source: Bloomberg)

Despite optimism about Macau's re-opening, analysts have identified potential sources of friction that could prevent the realization of the implied growth. Namely, as COVID-19 escalates in the mainland China area, the US is posting stricter entrance requirements for Chinese tourism. While China's removal of travel restrictions drives residents to visit North America, the imposition of COVID-19 testing in the US and a recent surge in Chinese virus cases could disrupt tourism in sector destinations such as Las Vegas. Correspondingly, Las Vegas is now more dependent on Europeans to drive overseas visits. Overall recoveries in overseas tourism are also taking longer than expected, with international arrivals reaching only 66% of 2019 levels, while US flights were at 105% of pre-pandemic levels.

Industry Trends

Emerging Trend: iGaming

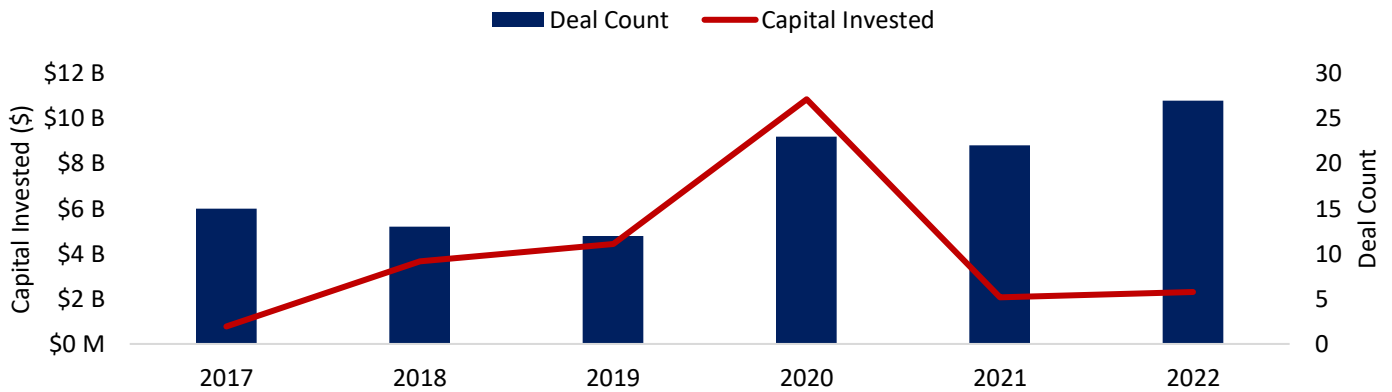


Figure 8: Deal Count and Capital Invested in Global iGaming Industry, 2017 to 2022 (Source: PitchBook)

iGaming, also known as online gambling or internet gambling, refers to betting on games of chance or other events via the internet. iGaming includes traditional casino games and different types of gambling-related activities via online channels. Following the Global Financial Crisis, iGaming has emerged as a significant trend in the global gambling industry with the rise of digital technology as consumers turn to online gambling as a convenient and accessible alternative. The global online gambling market was valued at \$65.52B USD in 2022, with an expected CAGR OF 11.27% from 2023 to 2030. This industry segment also drives many supporting businesses, such as virtual casino developers, that provide solutions to improve user experience, cyber security, and other components to industry operator success.

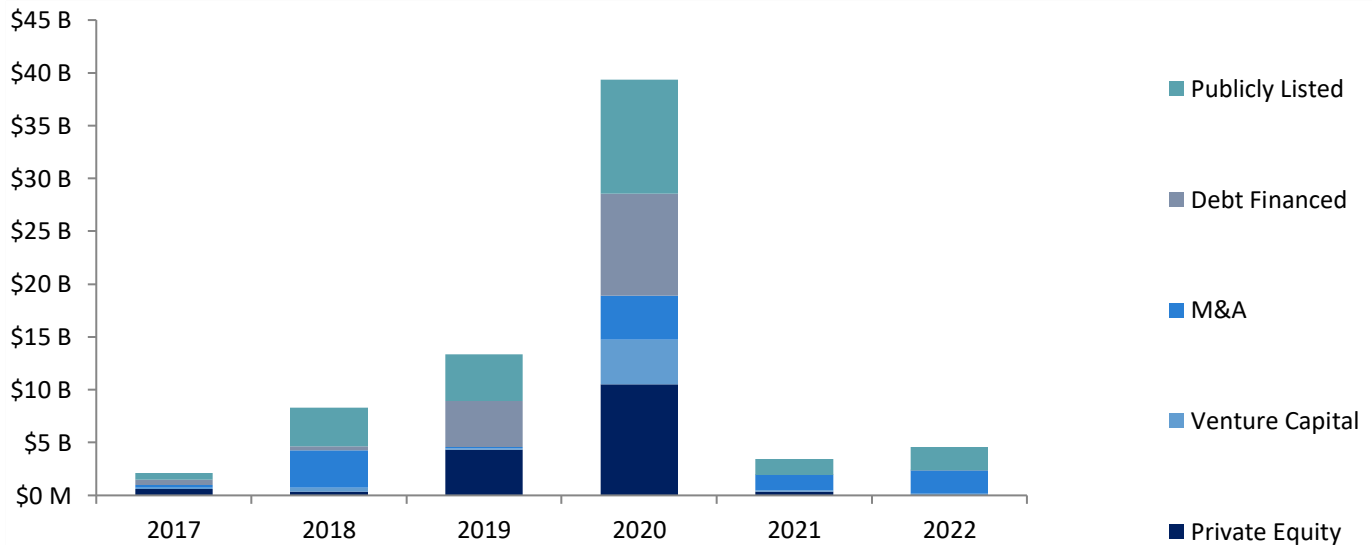


Figure 9: Capital Invested in Global iGaming Industry by Deal Type, 2017 to 2022 (Source: PitchBook)



Figure 10: Slots Million, SLTM LTD, One of the First iGaming Dealers Offering VR Online Casino

Key market drivers that have helped accelerate iGaming space growth in the decade include:

Adoption of Technology: Advancement in the digital space has catalyzed iGaming's growth during the past decade. The rise of mobile devices and internet penetration has driven many demands in the industry to the online space. In 2022, internet penetration in the US was 92% of the country's total population. Furthermore, cultural and legalization approvals, such as celebrity endorsements and corporate sponsorships, further accelerate market growth. For instance, in October 2022, Betsson AB, a Swedish company specializing in iGaming, acquired 80% shares in KickerTech Malta Limited, a B2B sportsbook operator. This acquisition helped Betsson to grow its B2B client base and provide additional scalable technology namely with the firm's advanced odds models, trading modules and lastly premium sportsbook features.

Looking forward, the industry is expected to be further disrupted by technological innovation, namely Virtual Reality (VR) and Cryptocurrency. VR integration aims to allow users to interact with virtual gaming functions in 3D space, offering more realistic gambling experiences. On the other hand, Blockchain and Cryptocurrency technology have also created various alternatives for iGaming companies to accept payments via digital channels. Investors are now more aware of technological advancement in the sector than ever, with a corresponding expectation of future developments.

Regulation: Another factor contributing to the growth of iGaming is the increasing regulation of the gambling industry. In many jurisdictions worldwide, online gambling is subject to stricter regulations than traditional land-based casinos and sportsbooks. This has led to a new generation of iGaming operators that can meet these regulatory requirements and provide a safe, secure environment for customers to bet online. Furthermore, the pandemic accelerated this trend as land-based casinos and sportsbooks were strictly shut down while individuals began transitioning to online betting. Looking at Europe, for example, land-based establishments in the continents saw their revenue decline by over 30% in 2020, revenue from online gambling grew 7%, while countries such as Italy saw more significant increases by up to 80%. The emergence of COVID-19 might have accelerated the adoption of iGaming faster than participated, but investors have now convinced more than ever that this trend is here to stay.

Competitive Landscape



We identified the top 10 public companies by market share in North America’s Gaming and Casino space to investigate the current competitive landscape of the gaming industry. We can see that the market shows a certain extent of an oligopoly structure, with around 75% of the US market share dominated by four companies. As mentioned above, this is characterized by the market’s dependence on license eligibility, especially in foreign markets where gaming licenses can be exceptionally scarce. For example, Las Vegas Sand, the most prominent player as of Q4 2022, holds one of two gaming licenses to operate within Singapore and one out of six licenses to operate in Macau.

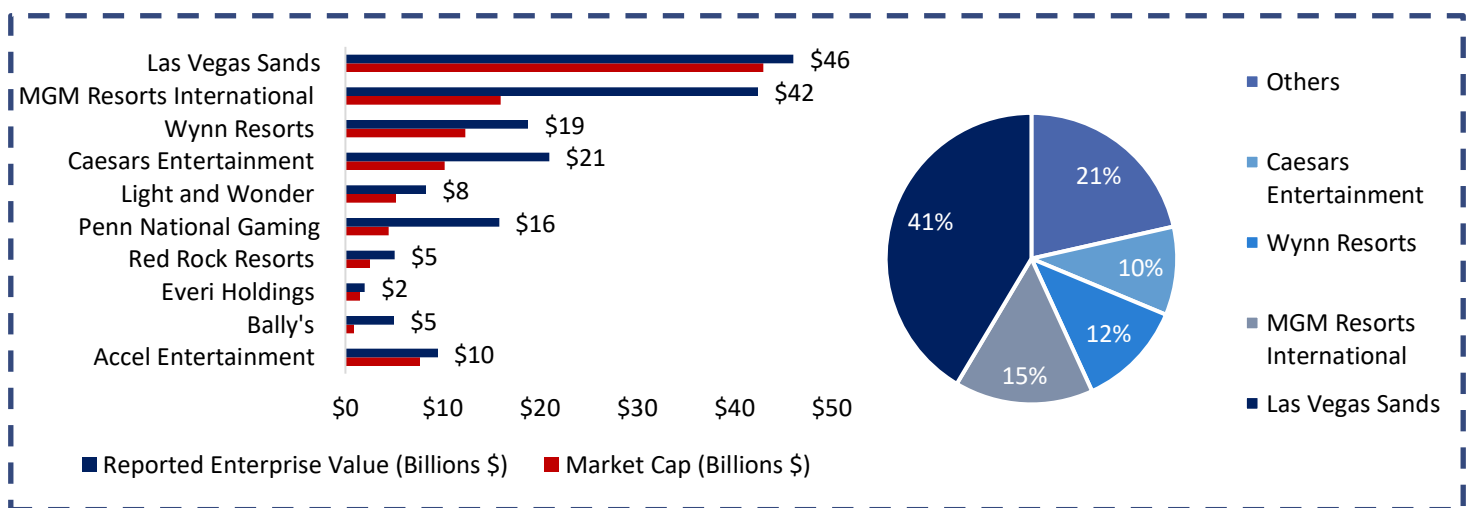


Figure 11, 12: Companies by Top 10 Market Cap and % of Market Share Out of Peers (Source: PitchBook)

Notable Transactions



Deal Metrics	Caesars & Caesar Interactive	Flutter & The Stars Group	Blackstone & Crown Resort
Deal Type	M&A	M&A	LBO
Deal Size (USD)	\$8.5B	\$7.8B	\$6.5B
Date Completed	July 2020	May 2020	June 2022
Valuation / EBITDA	5.54 x	10.34 x	(69.72) x
Deal Summary:	The acquisition comprises \$6.09B in cash, \$2.4B in common stock, \$2.4B related to the repayment debt balances, and \$48M in other considerations. The acquisition enables Eldorado (now Caesars Entertainment) to gain a complementary national operating platform and strategic industry alliances.	The Stars Group was acquired by Flutter Entertainment for \$7.8B billion on May 5, 2020, in an all-stock transaction. The merger is expected to bring together two of the largest plays online while generating a combined revenue of \$4.7B.	The \$6.5B buyout of Crown Resort represents one of the largest transactions by Blackstone in the Asia Pacific. The deal comprises three resorts in Australia, and Blackstone is expected to bring substantial operational expertise to consider Asia travel recoveries.

Figure 13: Notable Transactions Summaries from 2020 to 2023 (Source: PitchBook)

US Equities: Key Players

Las Vegas Sand Corp. (NYSE: LVS)



Las Vegas Sands Corp (NYSE: LVSC): Las Vegas Sands Corp. (LVSC) is a Fortune 500 company and the leading global developer of destination projects that feature premium accommodations, world-class gaming, entertainment, and retail malls, convention and exhibition facilities, celebrity chef restaurants and other amenities. Through its majority-owned Sands China subsidiary, the company operates The Venetian Macao on the Cotai Strip (the Chinese equivalent of the Las Vegas Strip) and four other properties in Macao, the only place in China where gambling is legal. LVSC's portfolio includes the Marina Bay Sands in Singapore, The Venetian Resort, and the Sands Expo and Convention Center (Las Vegas). Approximately 80% of the company's revenue is generated outside the US.



MGM Resorts (NYSE: MGM)

MGM Resorts is the largest resort operator on the Las Vegas Strip, with 35,000 guest rooms and suites, representing about one-fourth of all units in the market. The company's Vegas properties include MGM Grand, Mandalay Bay, Park MGM, Luxor, New York-New York, and Bellagio. The Strip contributed approximately 74% of total EBITDAR in 2022. MGM also owns U.S. regional assets, representing 31% of 2022 EBITDAR (MGM's Macao EBITDAR was negative in 2022). MGM's U.S. sports and iGaming operations are currently a mid-single-digit percentage of its total revenue. The company also operates the 56%-owned MGM Macau casinos with a new property that opened on the Cotai Strip in early 2018. Further, we estimate MGM will open a resort in Japan in 2029.



WYNN Resort Limited (NASDAQ: Wynn Resort)

Wynn Resorts operates luxury casinos and resorts. The company was founded in 2002 by Steve Wynn, the former CEO. The company operates four megaresorts: Wynn Macau and Encore in Macao and Wynn Las Vegas and Encore in Las Vegas. Cotai Palace opened in August 2016 in Macao, and Encore Boston Harbor in Massachusetts opened in June 2019. Consensus expects the company to begin constructing a new building next to its existing Wynn Palace resort in 2024, which is forecasted to open around 2027. The company also operates Wynn Interactive, a digital sports betting and iGaming platform. The company received 76% and 24% of its 2019 pre-pandemic EBITDA from Macao and Las Vegas, respectively.

US Equities: Analysis

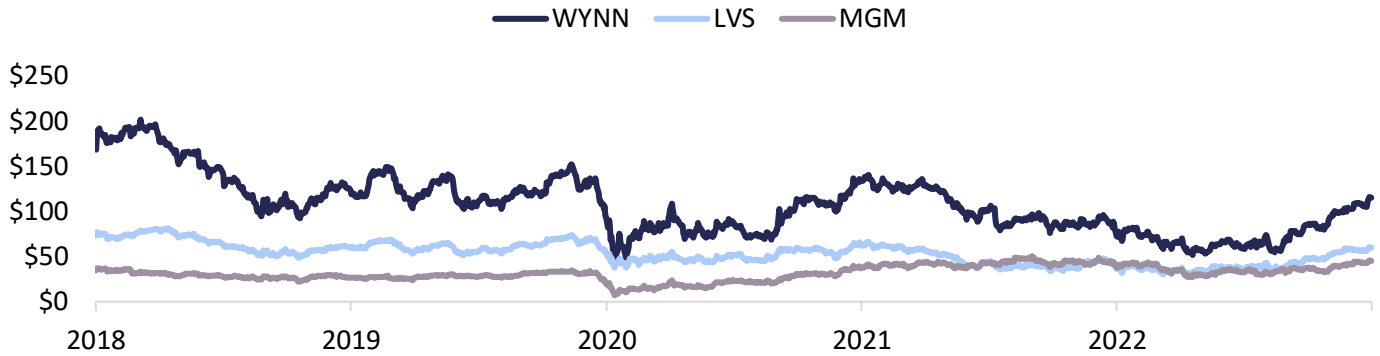


Figure 14: 5-Year Performances of Key Players (Source: Bloomberg)

We can see that the 5-year total return of the industry has not been impressive, given the degree of influence the pandemic has induced on the industry overall. However, we can see a sign of recovery and surging market prices primarily driven by China’s re-opening. When we analyze the return of selected gaming peers in the Bloomberg Intelligent Casino Competitive Peers, 12 out of 20 companies have exhibited positive YTD returns ranging from 2.09% to 39.93%. Furthermore, most returns in the space are driven by Q4 2022, with WYNN nearly doubling its market price, further showing the Macau market’s importance to the Global gaming industry.

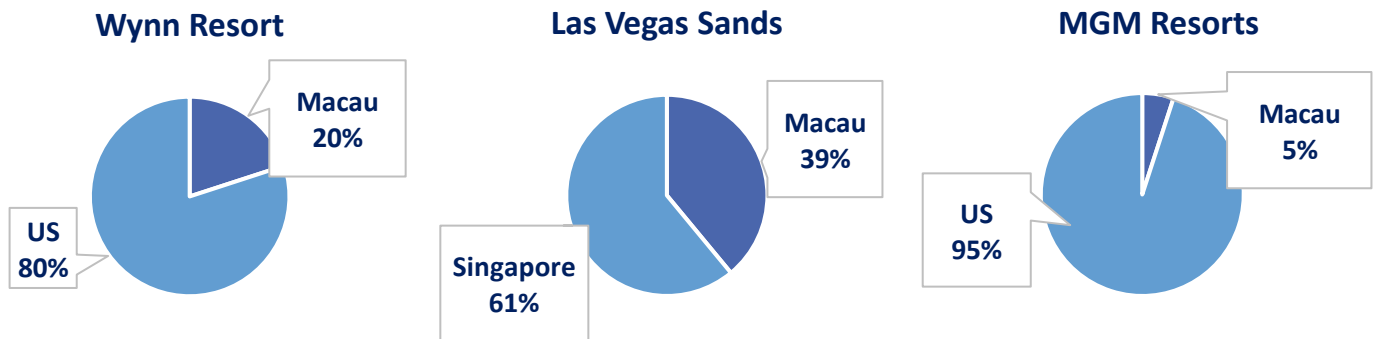


Figure 15: Key Player’s Geographical Exposure According to 2022 Q1-Q3 EBITDA (Source: Bloomberg)

We identify three top players in the US market who have operating businesses in the Chinese Gaming enclave. While Wynn Resort has experienced the greatest recovery in its stock prices, Las Vegas Sand certainly has the most exposure to the Asia market, with 39% of its 1Q-31 2022 sales generated in Macau. Although US casinos were generally profitable in 2022, Macau firms lost EBITDA, while MGM AND Wynn’s Vegas resorts had a 27% combined EBITDA margin in the first three quarters. In contrast, the combined Macau EBITDA deficit of all three companies was equivalent to 26 of those companies’ total sales. We recognize LVS has potential implied upside as it is well positioned for the recovery in the Macau market as the biggest Asia gaming market operator while preserving a healthy balance sheet that kept the company solvent during the pandemic.

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WestPeak Research Association
contact@westpeakresearch.com