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More M&A Activity Expected Amid Stock Sell-Offs

Macquarie analyst says deals driven by tech needs, customer acquisition

Kambi, Rush Street Interactive, DraftKings potential takeover targets

Fanatics building a customer base for sports betting ahead of launch

U.S. gaming stocks continue to extend their recent losing as investors worry about ongoing inflationary pressures, but there are still merger and acquisition opportunities within the industry, according to a panel of financial analysts.

“Certainly, the market is having a hard time now evaluating unprofitable companies,” said Chad Beynon, an equity analyst with Macquarie Securities.

“What we are hearing from all the companies, whether it's Caesars Entertainment or DraftKings, is that the playback is working and from a gross contribution standpoint they are on [track] to have a profit in that state ... within the next two years and that is what they had been telling us.”

But the problem, Beynon said, is that when you see these massive losses, such as Caesars at more than \$550m in the first quarter, it is hard for investors to believe that they are going to get to that “profitability inflection point.”

“Clearly, U.S. operators have sold off with the losses,” he added, but more surprising was the fact that “the business-to-business operators who are actually generating a profit have sold off to the same degree.”

Beynon told attendees at the iGaming Next conference in New York City on Thursday (May 12) that companies such as GAN or NeoGames have 20 percent-plus margins, and yet they are selling off at the same pace as the business-to-consumer companies.

Beynon joined Edward King, co-founder and co-chief investment officer at Acies Investment; Rob Heller, CEO of Spectrum Gaming; and Wayne Kimmel, managing partner at SeventySix Capital, for a panel discussion on new trends driving M&A activity that was moderated by Contessa Brewer of CNBC.

Brewer asked Beynon if the quarterly losses and declining share prices would have any impact on M&A activity within the sports betting or online gaming industry.

Beynon said for the companies that Macquarie covers there are two reasons to look at acquisitions.

“One is to improve the acquisition funnel to get a core demographic, get some users that you are not able to acquire through media outlets. The second reason would be from a tech standpoint and that’s more the retention side.”

He cited DraftKings, which purchased Golden Nugget Online Gaming for \$1.56bn, as an example of acquisition funnel deal, while the company's prior combination with SBTech was for the technology.

“I think a lot of other companies are thinking about it,” Beynon said. “I think there are going to be some opportunities.”

Brewer noted other reasons for deals were market expansion. She cited MGM Resorts International’s recent move to **acquire LeoVegas** as giving the casino giant a company that is already licensed in a number of international markets.

“We are seeing the beginning of cross-border consolidation and more consolidation between the online and land-based businesses,” Heller said. “[LeoVegas] came to the online business fairly late but they proved themselves with better technology and maybe a better operating model and as a result were a very good candidate.”

MGM confirmed its offer to acquire LeoVegas for \$607m in cash on May 2, a move that would grant the company a global online presence but teeing up potential problems with BetMGM partner Entain.

Heller reminded attendees that **MGM previously wanted to buy Entain**, but was unsuccessful after “the pricing was not in the right place for Entain.”

“It’s an interesting play because [Entain] are partners with BetMGM and now [MGM is] a competitor with them in certain markets,” Heller said. “I think the LeoVegas deal was brilliant, and it is just a harbinger of things to come in that space.”

When asked by Brewer about the potential of Amazon or Google getting into the gaming business by acquiring a company, Beynon said a deal could make sense for some of these companies but the difficulty would be becoming licensed in the gaming industry.

“That is still one of the major barriers for a lot of people,” he said. “It is not a fun process. So that could be a barrier for some.”

Heller agreed, saying there have been so many companies that have wanted to get into the gaming market and “once they get into the licensing and what impact that is going to have on their business, they say it’s not worth it.”

One other company in focus is Fanatics, the global digital sports platform that primarily operates as a seller of sporting merchandise, which has said it expects to be a top-three player in U.S. sports betting long term.

“They’ve been building their users and investing in a few different things,” Beynon said. “So I do think there are companies like Fanatics ... who have the stated goal of becoming a top player.

“They view it as, we are going to let everyone else lose money here and then we are going to come in next football season, or the following season and we won’t have to lose a billion dollars. So I do think there will be more players coming into the market.”

The other issue is that internet gaming or online casino is the long-term profit center for many online gambling companies, Beynon said.

“If you look at the numbers, we are seeing right now from Rush Street Interactive 60 percent to 75 percent of revenue came from iGaming. What we are seeing right now is that the average iGaming player (using Rush’s numbers) spends about \$300 a month, sports betting is about \$100 a month.”

Beynon added that these companies are being patient because ultimately there will be cross-selling opportunities from sports betting to iGaming once more states legalize online casino gaming.

Currently, there are just six states — Connecticut, Delaware, Michigan, New Jersey, Pennsylvania and West Virginia — that have legalized full internet gaming, while Nevada has legalized online poker in addition to mobile sports betting.

In speculating about potential deals, Beynon called Rush Street Interactive, GAN and Kambi attractive merger or acquisition targets. Heller named DraftKings as a potential takeover target, especially for a major European operator.

Companies

Entain

MGM Resorts
International

Rush Street Gaming

Kambi Group

DraftKings

Caesars Entertainment

Jurisdictions

New York

United States

Europe

Sectors

Online Gambling

Sports Betting

Specialisms

Corporate

Company Updates

M&A/Partnership