VIXIO GAMBLING COMPLIANCE

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U.S. M&A Activity Set To Continue As Sportsbooks Seek Tech, Online Casino Assets

U.S. gaming industry can expect more M&A, Bragg CEO says

Caesars signs NOLA.com media deal for Louisiana market

Sportsbooks tipped to acquire online gaming assets to ensure profits

The surge of merger and acquisition activity in the U.S. sports betting and online gaming market is likely to continue into 2022, according to the chief executive of Bragg Gaming and former CEO of SBTech.

Bragg Gaming CEO Richard Carter said he believed the ongoing M&A activity is being driven by compelling strategic reasons, including operators looking to own their own technology.

“There are some good reasons for that … scalability,” Carter said last week during the International Masters of Gaming Law (IMGL) 2021 Autumn Conference in Boston.

"You can see by how the U.S.A. market is shaping up; you’ve got about 70 percent of revenue going to three operators and the rest of the market is competing for scraps … the 30 percent.”

Carter said as companies grow into more markets there is a real need for scalability to leverage the marketing, technology and operating costs of running a sportsbook, and that is the key driver of M&A with the goal of making money over the medium term.

He noted several other reasons for M&A activity, including operators seeking to control their own product roadmap, which is becoming more important because it allows a company to deploy product and new features such as same-game parlays on their own timeline and not rely on third parties.

“A lot of companies were late to the party. There’s an element of catch-up and I think that’s going to continue,” said Carter, former CEO of platform provider SBTech when it merged with DraftKings in January 2020.

Both SBTech and DraftKings were technically acquired by Diamond Eagle Acquisition Corporation, a special-purpose acquisition company (SPAC) that is now publicly listed on Nasdaq.

“We still have a lot of major players in the U.S. that haven’t gotten into online sports betting or internet casino, and that’s going to be a tailwind for further M&A,” Carter added.

The boss of Toronto-based Bragg also said he expected the trend of media companies trying to align with sports-betting companies to continue through the new year.

Two of the more prominent deals to date in the U.S. include Penn National Gaming’s acquisition of Barstool Sports and 888 Holdings reaching a deal with Sports Illustrated’s parent company Authentic Brands Group to develop an SI-branded online sportsbook.

In another media partnership, Caesars Entertainment on Monday announced an agreement with NOLA.com, the publisher of the Times-Picayune and the New Orleans Advocate.

Under the terms of the deal, the newspaper and its website BetNOLA.com, which it launched in August as Louisiana was considering sports-betting regulations, will become an exclusive sports betting and odds partner of Caesars Sportsbook.

NOLA.com follows Gannett, which in June reached a deal with Tipico, and the Associated Press, which partnered with FanDuel in May, as newspaper companies partnering with gaming companies.

“You are seeing a lot of other operators cherry picking these assets with the hope of creating an ecosystem that at the end of the day leads to lower [customer] acquisitions costs, which is key for these products to make money,” Carter said.

Another reason for the increase in M&A activity is sportsbook operators expanding their reach into other product verticals such as the DraftKings deal to acquire leading New Jersey online casino operator Golden Nugget Online Gaming in a $1.56bn deal.

DraftKings CEO Jason Robins said the deal will allow DraftKings to bolster its online casino offerings by operating a multi-brand strategy that appeals to a larger demographic.

“It’s very clear when you look at most of the major sportsbook operators in Europe, they always drive about 50 percent of their revenue [from online casino] and that is where they have made a chunk of their profitability,” Carter said. “I think you are going to see the same trend in North

America."

Carter was joined for the hour-long IMGL discussion on mergers and acquisitions in the gaming industry by David Zeffman, a partner with CMS, William J. Pascrell III, a partner with Princeton Public Affairs Group, and Carl Sottosanti, former general counsel with Penn National.

The panel was moderated by Jeremy Kleiman, a gaming attorney with Saiber LLC.

Sottosanti said Penn's objective behind acquiring Barstool for up to $450m was simply that the company's established customer base did not have the demographics that might be the best opportunity for sports betting, nor did it have a catchy brand or content.

Kleiman asked Sottosanti if companies buying customer databases was the new trend in the gaming industry.

"Yes," the veteran gaming executive said, "and that takes place in different ways."

For example, Sottosanti joked that Bally's Corporation did not spend $90m earlier this year to acquire daily fantasy sports company Monkey Knife Fight and its 90,000 active users because "they were handsome or good dancers."

Instead, Bally's bought the company because Monkey Knife Fight has a customer database and is active in the fantasy sports vertical, whereas the casino operator was not.

"I would like to say we were the very first one to think about this but our European colleagues on the [panel] can tell you that this was invented in Europe with Sky Bet," he said. "They got content, a distribution channel and eyeballs."

"We got those with Barstool," Sottosanti added.

Companies

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