

2023 U.S. DIGITAL GAMBLING OUTLOOK

Preseason Is Over, and
the Regular Season Is
Only Beginning



Leading Independent, Global Advisory Firm

Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.



2,500+
EMPLOYEES

35
LOCATIONS

\$6.0 B+
MARKET CAP⁽¹⁾

\$2.3 B
ANNUAL
REVENUE⁽²⁾

~25%
EMPLOYEE-
OWNED

No
DEBT

Corporate Finance

- No. 1 Global M&A Advisor Under \$1 Billion
- Leading Capital Markets Advisor Raising More Than \$100 Billion in Past Five Years

2022 Investment Banking Rankings All Global Transactions Under \$1 Billion

Investment Bank	Deals
1 Houlihan Lokey	381
2 Rothschild	369
3 JP Morgan	217

Source: Refinitiv. Excludes accounting firms and brokers.

Financial Restructuring

- No. 1 Global Restructuring Advisor
- \$3.0 Trillion of Aggregate Transaction Value Completed

2022 Global Distressed Debt & Bankruptcy Restructuring Rankings

Investment Bank	Deals
1 Houlihan Lokey	58
2 PJT Partners	30
3 Lazard	29

Source: Refinitiv.

Financial and Valuation Advisory

- No. 1 Global M&A Fairness Opinion Advisor Over the Past 20 Years
- 1,000+ Annual Valuation Engagements

1998 to 2022 Global M&A Fairness Advisory Rankings

Investment Bank	Deals
1 Houlihan Lokey	1,232
2 JP Morgan	1,030
3 Duff & Phelps, A Kroll Business	938

Source: Refinitiv. Announced or completed transactions.

Financial Sponsors Coverage

- No. 1 Global M&A Advisor to Private Equity Firms
- 1,000+ Sponsors Covered Globally

2021 Most Active Global Investment Banks to Private Equity Firms

Investment Bank	Deals
1 Houlihan Lokey	323
2 Deloitte	218
3 William Blair	183

Source: PitchBook.

(1) As of December 2022.

(2) As of September 30, 2022.

No. 1 M&A Advisor

Global Technology Transactions

2022 Investment Banking Rankings—All Global Technology Transactions

Investment Bank	Deals
1 Houlihan Lokey	116
2 Goldman Sachs	106
3 Morgan Stanley	79
4 Rothschild	76
5 JP Morgan	75

Source: Refinitiv. Excludes accounting firms and brokers.

LEADING GLOBAL INDEPENDENT INVESTMENT BANK

North America

Atlanta
Miami
Boston
Minneapolis
Chicago
New York
Dallas
San Francisco
Houston
Washington, D.C.
Los Angeles

Europe and Middle East

Amsterdam **Milan**
Dubai
Munich
Frankfurt
Paris
London **Stockholm**
Madrid **Tel Aviv**
Manchester Zurich

Asia-Pacific

Beijing Nagoya
Fukuoka Osaka
Gurugram Shanghai
Ho Chi Minh City Singapore
Hong Kong SAR Sydney
Mumbai **Tokyo**

Bold denotes local Technology team























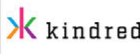

































































13
LOCATIONS
WORLDWIDE

200+
TECHNOLOGY
BANKERS

40+
MANAGING
DIRECTORS

250+
TECHNOLOGY DEALS IN CY '21

Industry-Leading Gaming Practice

 <p>has been acquired by</p>  <p>Sellside Advisor*</p>	 <p>has sold its Swedish brands to</p>  <p>Sellside Advisor*</p>	 <p>has sold</p>  <p>to</p>  <p>Sellside Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>	 <p>has received strategic investments from</p>  <p>and</p>  <p>Sellside Advisor</p>	 <p>has acquired</p>  <p>In a £3.126m cash and shares transaction, plus up to £827m in Contingent Value Rights</p> <p>Buyside & Financing Advisor</p>
 <p>has acquired</p>  <p>\$300,000,000 term loan facility €325,000,000 term loan facility £275,000,000 term loan facility £550,000,000 revolving credit facility</p> <p>Buyside & Financing Advisor</p>	<p>Series B Equity Financing for</p>  <p>Financial Advisor*</p>	<p>Series C Equity Financing for</p>  <p>Financial Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>	 <p>has acquired</p>  <p>Buyside Advisor</p>	 <p>a subsidiary of</p>  <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>
 <p>has been acquired by</p>  <p>Sellside Advisor*</p>	 <p>has acquired</p>  <p>Buyside & Financing Advisor</p>	 <p>Senior Secured Debt Acquisition Financing</p> <p>€400,000,000</p> <p>Exclusive Placement Agent</p>	 <p>has acquired</p>  <p>Buyside Advisor</p>	 <p>\$275,000,000 Series E Preferred Stock</p>     <p>Placement Agent*</p>	 <p>has sold its B2C assets for €425.8 million plus earn-out to</p>  <p>Sellside Advisor*</p>	 <p>has formed a joint venture in Latin America and Africa with</p>  <p>Financial Advisor*</p>
 <p>\$70,000,000 Series D Preferred Stock</p>    <p>Placement Agent*</p>	 <p>and</p>  <p>have been acquired by</p>  <p>Sellside Advisor</p>	 <p>has entered into a joint venture with</p>  <p>Financial Advisor*</p>	 <p>has acquired</p>  <p>Buyside Advisor*</p>	 <p>has received an investment from</p>  <p>EQT VI</p> <p>Financial Advisor*</p>	 <p>has acquired</p>  <p>has acquired</p>  <p>Intelligent payments</p> <p>Buyside Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>
 <p>has merged with</p>   <p>Financial Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>	 <p>has sold</p>  <p>to</p>  <p>Sellside Advisor*</p>	 <p>has received a minority investment from</p>  <p>EQT Expansion Capital</p> <p>Financial Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>	 <p>has acquired</p>  <p>Buyside Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>
 <p>\$29m Series B</p> <p>Financial Advisor*</p>	 <p>has merged with</p>  <p>€2.5 billion</p> <p>Financial Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor*</p>		

* Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company. Tombstones included herein represent transactions closed from 2006 forward.

Introduction

After more than two decades of deep involvement in the casino industry, it's great to be a part of the global Technology team at Houlihan Lokey. Historically, investment banking coverage of the gaming sector has resided in real estate or consumer groups. Here at Houlihan Lokey, we want to skate where the puck is going, as the sector transitions from one that is analog/land-based to a more dynamic digital/omnichannel industry. Moreover, with the casino sector's increased overlap with other technology verticals within sports, media, payments, and SaaS, we view this as the best way to support clients going forward.

In this primer, we will unpack the important trends that will shape the industry for years to come. Key topics to be addressed include the following:

- 1. Digital transformation will only accelerate:** Online sports betting (OSB) and iGaming will only accelerate, driven by increased legalization, consumer acceptance, and, importantly, convenience. Early revenue trends, while likely influenced by aggressive customer acquisition strategies, are still very encouraging, and with the maturation of existing sports betting markets plus iGaming (new jurisdictions will be added during a recession), it sets the stage for market growth.
- 2. Industry consolidation will likely increase by necessity and maturation:** After a significant pullback in valuation in the sector over the past 12 months, we see 2023 as a "reset" year. There are several factors that will drive consolidation, including 1) scarcity of capital, 2) leveraging costs and taking advantage of scale benefits, 3) the need for operators to insource their technologies, and 4) the need to operate more diversified businesses that reduce market risks, reduce customer concentration, and expand competitive moat.
- 3. Valuations were frothy, but they have likely overshot the downside case:** With multiples down roughly 50%+ since 2021 highs, investors are increasingly focusing on underlying fundamentals—we think this benefits the industry in the long run. We are still seeing plenty of investor interest in the digital transformation of the gaming sector and see strategics (e.g., European gaming operators) that want to be part of the first "wave" stepping up their interest in the U.S. online gaming rollout.
- 4. As OSB and iGaming mature, product differentiation, better price transparency, and a fully integrated gaming/content/cross-sell ecosystem will be of paramount importance:** Clear differentiation will only become more important in an increasingly commoditized OSB operator market. We are closely following new product innovations within fantasy sports, peer-to-peer wagering, betting exchanges, and player-based stock markets. As the novelty of legal sports betting and online gaming dissipates, the product and user experience must be improved. In addition, iGaming-only products (similar to Europe) will accelerate, and we are following the rise of businesses like Betty, a luxe online casino geared toward casual gamblers and females.
- 5. Compliance, regulatory tools, and other safety functions will be in high demand:** While there are well-known incumbents in categories like geolocation, many other verticals that service the industry are still relatively small businesses with revenue under \$10 million annually. Based on our frequent investor conversations, this will remain a highly sought-after sector and positioned for consolidation to build more scalable organizations. With swirling winds around problem gaming, overaggressive marketing, and the need for checks and balances around the online casino sector, pick-and-shovel businesses that protect the industry will be of paramount importance.
- 6. Lead with sport, follow with iGaming to drive profitability:** Although the sports-betting audience is a huge mass market, with iGaming revenues (in fewer jurisdictions) likely to make up 46% of online gambling revenue in 2021 and a much higher margin relative to this product (slots and table games are inherently more profitable), the ramp of iGaming over the next few years is critical. While most OSBs offer an iGaming capability, they are delivering ostensibly the same user experience: serving a male-oriented sports demographic.

Key Sector Themes

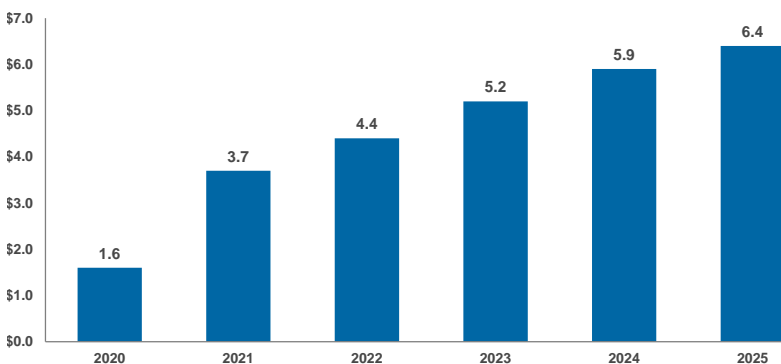
From Bricks to Clicks, the Digital Transformation Will Only Accelerate

During 2021, the U.S. online gambling market reached more than \$10 billion.⁽¹⁾ Based on available gaming data from the American Gaming Association, U.S. commercial revenues, including digital, were \$53 billion in 2021.⁽²⁾ Separately, the National Indian Gaming Commission estimates that revenue was \$39 billion in 2021.⁽³⁾ While it is impossible to get a great estimate on the illegal, offshore market, the American Gaming Association estimates the illegal iGaming market in the U.S. is nearly 3x the size of the legal U.S. iGaming market.⁽⁴⁾ Longer term, we expect some tightening around loopholes that allow this industry to exist, as it creates an unlevel playing field for rational actors and confuses consumers, all while reducing potential tax revenues to the government.

While the substantial brick-and-mortar infrastructure around destination gaming markets like Las Vegas will remain durable as the world's premier entertainment headquarters, and while demand for regional gaming will stay strong if properly nurtured, we expect that the digital transformation of the industry will only accelerate. With that said, seeing similar parallels to online commerce, given that the consumer is comfortable transacting online and demands it—**whereas the shift from brick-and-mortar retail took decades to march to 15%⁽⁵⁾ of retail sales presently—online gaming could quickly become 20%–25% of the business sooner than expected.** We see this largely driven by increased legalization, consumer acceptance, and, importantly, convenience.

It is important not to confuse our thesis with one that means digital will cannibalize bricks; we believe a certain amount of gaming revenue growth will be accretive to the total pie, as digital channels appeal particularly to a younger generation (adults aged 21–50). In our view, omnichannel operators have yet to fully leverage crossover play between online and physical channels, with learning lessons to be implemented in coming years. Overall, we are confident in this bull case, given the fact that the rollout of OSB and iGaming has not been uniform, and there are still many states just beginning to launch these businesses with a mishmash of rules, regulations, and offerings. In addition, despite all the hoopla around the more recent \$2 billion+ Powerball jackpot, most consumers are still unaware that their state might offer a digital outlet to purchase a lottery ticket vs. walking into a physical store. With greater consumer awareness of digital alternatives, OSB, iGaming, and lottery are still nicely positioned to benefit from greater consumer adoption.

Projected U.S. iGaming GGR 2020–2025 (U.S. \$B)⁽⁶⁾



"In our view, omnichannel operators have yet to fully leverage crossover play between online and physical channels, with learning lessons to be implemented in coming years."

(1) Statista, <https://www.statista.com/chart/29048/largest-regulated-online-gambling-markets>.

(2) American Gaming Association, 2021 Commercial Gaming Revenue.

(3) National Gaming Association, <https://www.nigc.gov/news/detail/2021-indian-gaming-revenue-jumps-to-record-high-39-billion-increases-40>.

(4) American Gaming Association 2022.

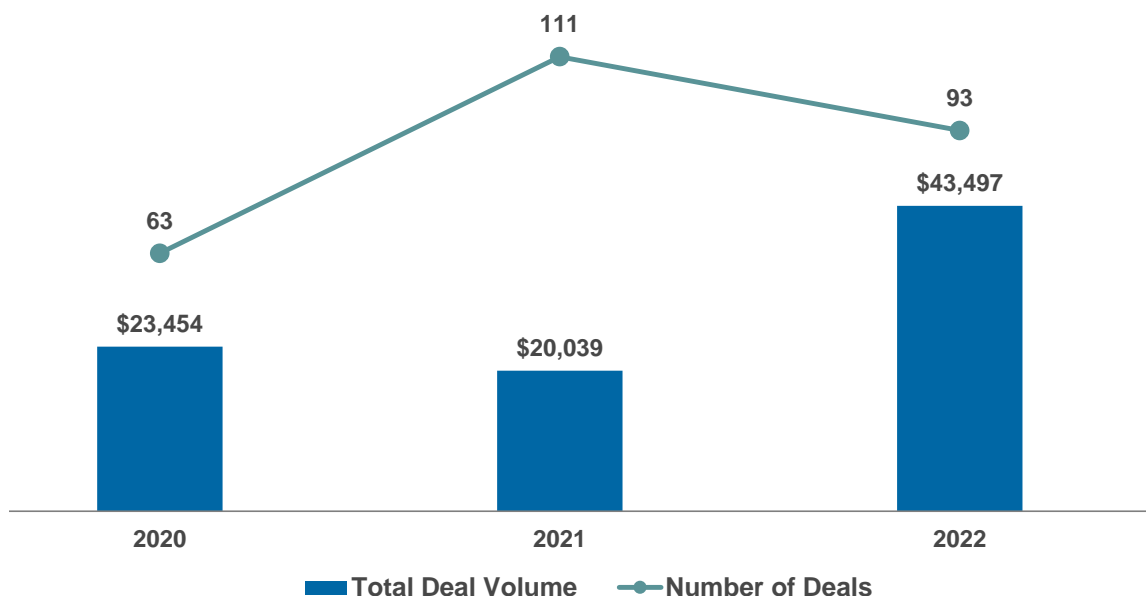
(5) Yahoo, https://ycharts.com/indicators/us_ecommerce_sales_as_percent_retail_sales.

(6) VIXIO Gambling Compliance U.S. Sports Betting & iGaming Outlook 2022.

We see supporting evidence of this theme as larger players expand their technological capabilities—including Boyd Gaming’s purchase of Pala Interactive (on November 1, 2022, for \$170 million) or MGM Resorts’ international purchase of LeoVegas (on August 31, 2022, for \$695 million)—while also expanding their in-house technologies.⁽¹⁾ Although exiting at a depressed valuation isn’t a preferred outcome in the short term, in the long run it can allow for value creation. We are old enough to remember the dozens of regional gaming companies that existed in the late ‘90s/early ‘00s (e.g., Boomtown, Casino Magic, Hollywood Park Entertainment, Hollywood Casinos, President Casinos, etc.). As these subscale platforms gave way to today’s consolidated land-based sector, it led to considerably more sustainable

businesses. As evidenced more recently by the exits of Fubo Sportsbook and MaximBet, which were either undercapitalized or didn’t have a distinct product offering from the business, there will also be a number of B2C and B2B players that simply don’t make it either. The difference between land-based gaming and digital is that most gaming companies that have restructured historically were kept alive since they could still generate cash flow under more supportive balance sheet structures. Outside of a handful of casino closures in legacy markets like Atlantic City or Reno, for instance, very few casinos stay closed permanently (even the failed and once-closed Revel Casino has emerged as the very profitable Ocean Casino today).

Gaming M&A Activity 2020–2022 (\$M)⁽¹⁾



(1) PitchBook.

New Jurisdictions, the Addition of iGaming, and the Crackdown on Illegal Gaming Remain Imperative

With OSB now legal in 36 states (and live in 31) and iGaming legal in six states,⁽¹⁾ more than half of the country can legally wager in their home state, at least on sports. Over the next few years, given the successful rollout of sports betting, we expect regulators to gradually consider iGaming where OSB is already up and running successfully. Throughout our more than two decades of sector observation, we have seen regulators either relax rules around existing gaming offerings or contemplate new forms repeatedly. The speed at which the industry can pivot to iGaming will be critical for overall digital sector sentiment, valuation, and ultimately profitability. Needless to say, though, we expect states will be clamoring for quick solutions that can add to tax revenue, and iGaming is an obvious solution.


We remember the days of relaxed rules for regional gaming as regulators eliminated riverboats/cruising

requirements and ultimately paved the way for new offerings, including distributed gaming/routes and historical horse racing. The velocity at which these changes occur will be paramount to expanding the TAM and allowing businesses that today are heavily reliant on a low-margin and ultra-competitive sports product to benefit from a fulsome suite of gaming options.

With many major OSB markets open, there are only a few big dominos that have yet to fall—including California (recent resounding defeats of Props 26 and 27), Texas (2023 legislative session), Georgia, and some clarity around Florida. While it makes all the sense in the world for these states to legalize sports betting and eventually iGaming, predicting how and when these states flip is fraught with challenges given the myriad of pro/anti-gaming interests.



(1) American Gaming Association (November 21, 2022). U.S. Legal Sports Betting Map. & Action (October 20, 2022). Where Are Online Casinos Legal? Tracking All 50 States.



“Whether it’s betting around the Super Bowl, March Madness, or, more recently, the World Cup, consumers are going to wager, and very little can stop that desire.”

We recognize some swirling winds around the growth of OSB, such as related lobbying to legalize online betting and the negative headlines certain personalities within the casino sector will attract, particularly around the recent November 2022 *New York Times* series of reports, among others, that have surfaced. While these stories didn’t reveal a lot of new news and painted the industry in a poor light, it is hard to deny that most consumers want new gaming options and want to engage with these products. Whether it’s betting around the Super Bowl, March Madness, or, more recently, the World Cup, consumers are going to wager, and very little can stop that desire.

What we believe bears more scrutiny is that the illegal offshore gaming industry is still massive and likely hindering the full potential of legalized markets. More recently, in April 2022, a Gaming Co-Caucus of prominent members of Congress sent a letter to the DOJ encouraging enforcement. This letter noted that these offshore operations, including Bovada, MyBookie, and BetOnline, continue to grow substantially. In addition, searches nationwide for offshore sportsbooks increased by almost 40% in 2021,⁽¹⁾ outpacing searches for legal ones (with Bovada constituting half of all sportsbook brand searches). We find this an amazing statistic given the amount of marketing heft that the industry has put forth in recent years via DraftKings, FanDuel (Flutter), BetMGM, Caesars, and others.

More recently, in November 2022, the American Gaming Association, the primary trade group for the industry, published a report that estimates that illegal offshore OSBs and online casinos generate revenue of \$3.8 billion and \$13.5 billion,⁽²⁾ respectively, indicating that the regulated industry is losing out on a huge piece of revenue and, more importantly, the states are missing out on taxable revenue. **If the federal government decides to crack down more forcefully going forward, we see the regulated sector benefiting, albeit it’ll be impossible to predict when and if this occurs as well as handicap the net benefit to the regulated commercial sector.** If a serious crackdown occurs, this would spark a tailwind for the regulated industry and prevent consumer confusion while preventing potential blowback that could hurt the legitimate sector.

Perhaps wishful thinking for some, the collapse of many crypto businesses and a major shakeup in confidence around this sector are a boon for gaming given substantial regulation, risk controls, audits, and other features that make the industry safer to invest in and safer to have your funds in as a consumer. In addition, with the incentive to gamble on illegal offshore platforms diminishing, the thought of trying to capture upside from cryptocurrency asset appreciation will look less appealing to gamblers vs. old-fashioned platforms where winning may mean some taxes but at least you have the confidence that your money will be there when you cash out. We remind investors that gaming is highly regulated as well as audited with safeguards in place to protect from the commingling of funds, unlike that of crypto given the FTX fallout.

(1) *The Center Square*, https://www.thecentersquare.com/national/action-sought-from-dept-of-justice-against-illegal-offshore-sportsbooks/article_19c54a3a-f8ab-11ec-825b-8faf4b0cfb85.html.

(2) *American Gaming Association*, <https://www.americangaming.org/resources/sizing-the-illegal-and-unregulated-gaming-markets-in-the-u-s>.



A Postmortem on SPACs: Where Does the Gaming Sector Go From Here?

Through Q4 '22, there were seven SPACs that executed deals and invested more than \$7.0 billion of capital in the gaming sector,⁽¹⁾ including notable transactions that facilitated the public market route for DraftKings, Golden Nugget, Rush Street, and others as well as B2B platforms like Genius Sports. **On average, gaming companies that have gone public through SPACs have declined 55% since listing.**⁽¹⁾ Common denominators have been the early-stage nature of many businesses, significant cash burn, path to profitability, and general hype around many technology-enabled businesses during the 2020/2021 COVID-19-related cycle. It is our view that the more recent IG Acquisition Corp./ PlayUp transaction (announced September 2022) will likely be one of the last gaming deals done in the sector for the foreseeable future, particularly as other SPACs that contemplated gaming investments (e.g., Tekkorp Capital's pursuit of Caliente Interactive, the leading Mexican sportsbook operator) ultimately chose not to execute a transaction. It will not surprise us to see other SPACs that still have not executed deals and were focusing on gaming wind down and return funds in 2023.

While growth at any cost was in vogue for a time, the rush to monetize through a SPAC and limited diligence has had sustained consequences, including some notable marks that put a taint on the gaming industry (e.g., accounting issues around Lottery.com, for instance). While it's easy for pundits to pick on gaming for its share price performance, we believe the industry will overcome some of these issues. In relation to other early-stage businesses in touted industries—whether it's crypto, eVTOLS, or electric vehicles, for instance—gaming has proven its durability time and time again. Simply put, the TAM is real and only likely to expand from here. Note that during the most recent cycle, there were a handful of small IPOs within the gaming sector—including Gambling.com and NeoGames—whose stock price performances were challenged, as well.

There will be challenges for many of the SPAC-listed companies ahead, particularly those that are small or lacking abundant comps. Other key challenges include being orphaned and lacking material institutional following (buyside and sellside coverage) and thin or limited trading liquidity until fundamentals improve. In our view, this means that many of these companies are going to have to explore consolidation or mergers that diversify their story, enhance their technological capabilities (e.g., OSB acquiring a player account management (PAM)/platform/payments capability), or allow them to more easily scale (e.g., U.S.-centric OSB merging with a more established international operator).

While it's hard for us to opine on the future shape of the SPAC product, it's pretty clear that the SPAC of the 2020–2022 era will not be the SPAC of the future as these platforms experience new regulation and other controls. Nevertheless, there are examples of legacy SPACs becoming substantial and successful businesses over time, and the evolution of gaming technology provider Inspired Entertainment (which went public via SPAC in December 2016) is a good example of a business that survived a tumultuous period and has emerged as a diversified, growing player straddling several verticals within equipment, game content, and online services.











(1) PitchBook and S&P Capital IQ.

Recent Gaming SPACs⁽¹⁾

(in \$M)

Company	Deal Size	Post Deal Value	Current EV	Deal Date	Description
 Supergroup	\$4,500.0	\$5,000.0	\$1,333.0	27-Jan-2022	Operator of global online sports betting and gaming businesses: Betway, a premier online sports betting brand, and Spin, a multi-brand online casino offering.
 codere	425.0	451.0	31.1	30-Nov-2021	Operator of an international online casino gaming and online sports betting group focused on providing its customers with a safe and enjoyable online gaming experience.
 Lotttery	45.0	526.0	9.5	01-Oct-2021	Provider of an online platform for players and commercial partners located in the U.S. and internationally to remotely purchase legally sanctioned lottery games.
 Genius Sports	1,500.0	1,500.0	594.9	20-Apr-2021	Provider of scalable, technology-led products and services to the sports, sports betting, and sports media industries.
 GOLDEN NUGGET	32.0	745.0	603.5 (Acquired by DraftKings)	29-Dec-2020	Provider of an online gaming platform that has Live Dealer and Live Casino Floor in the United States online gaming market.
 RUSH STREET INTERACTIVE	235.0	2,015.0	196.4	29-Dec-2020	Operator of online gaming and entertainment platform that focuses primarily on online casino and online sports betting in the U.S. and Latin American markets.
 DRAFT KINGS	400.0	3,300.0	4,910.0	15-Apr-2020	Provider of a daily fantasy sports (DFS), sports betting, and iGaming platform.

Recent Gaming IPOs⁽¹⁾

Company	Deal Size	Post Deal Value	Current EV	Deal Date	Description
 STS HOLDING	\$262.4	\$840.0	\$402.6	10-Dec-2021	Operator of an array of services including sports betting, virtual sports, an online casino, BetGames and a wide range of betting on the results of esports events.
 RIVALRY	21.9	109.4	30.0	05-Oct-2021	Operator of sports betting and sports media property offering regulated online wagering on esports, traditional sports, and casinos for the next generation of bettors.
 SPORTRADAR	513.0	8,000.0	2,327.3	13-Sep-2021	Provider of sports data services for the sports betting and media industries in the United Kingdom, the United States, Malta, Switzerland, and internationally.
 DOUBLE DOWN CASINO	113.7	892.0	217.5	31-Aug-2021	Developer and publisher of games on mobile and web-based platforms. The company focuses on the casino gaming segment. Its flagship game is DoubleDown Casino.
 gambling.com	42.0	270.5	254.1	22-Jul-2021	Operator of a performance marketing company for the online gambling industry worldwide. The company provides digital marketing services for the iGaming and sports betting.
 BlueBet	61.0	173.9	29.6	29-Jun-2021	Provider of sports and racing betting products and services to online and telephone clients through online wagering platform and mobile applications.
 HUUUGE	446.4	1,130.0	190.1	10-Feb-2021	Operator of a free-to-play games developer and publisher of digital games on mobile and web platforms. It focuses on casino, casual, and slot games.
 Playtika	1,876.5	11,060.0	5,175.4	14-Jan-2021	Developer of mobile games. The company owns a portfolio of casual and casino-themed games.
 neogames	81.7	418.6	419.6	19-Nov-2020	Provider of B2G and B2B technology and services to state lotteries and other lottery operators.
 ME2ZEN	78.0	314.3	66.4	18-Aug-2020	Developer of social casino and card games. Its products include Double hit casino, Vegas casino slots, solitaire tripeaks journey.

(1) PitchBook and S&P Capital IQ.

Yes, Valuations Were Frothy, but They Have Likely Overshot the Downside Case

Gaming industry multiples, whether for omnichannel casino operators or as B2C and B2B pure-play digital businesses, reached heights that have rarely been seen in the sector. Looking more recently at an index of U.S. and international companies we track across Australia, Sweden, and the U.K., where many mature digital gaming businesses trade, by the end of 2022, valuations have corrected by roughly 53% for EV/revenue and 56% for EV/EBITDA compared to the 2021 highs.⁽¹⁾

“There is no way to avoid the elephant in the room that the industry likely saw a once-in-a-generation boom in valuations that we liken to the dot-com 1.0 environment.”

In addition, while less visible and likely less severe, there will be a ripple as it relates to the valuations ascribed to VC-backed companies. There is no way to avoid the elephant in the room that the industry likely saw a once-in-a-generation boom in valuations that we liken to the dot-com 1.0 environment. We would argue that with multiples (particularly on an EV/revenue basis) likely correcting to more attractive levels, it will give way to new rounds of investment in 2023/2024, particularly for venture-backed companies.

We point to recent successful fundraises for Underdog (\$35 million in July 2022),⁽²⁾ Jackpot.com (\$35 million in June 2022),⁽²⁾ Betr (\$50 million in August 2022),⁽³⁾ and Mojo (\$100 million raised to date)⁽⁴⁾ as examples of relatively large-for-the-industry private raises.



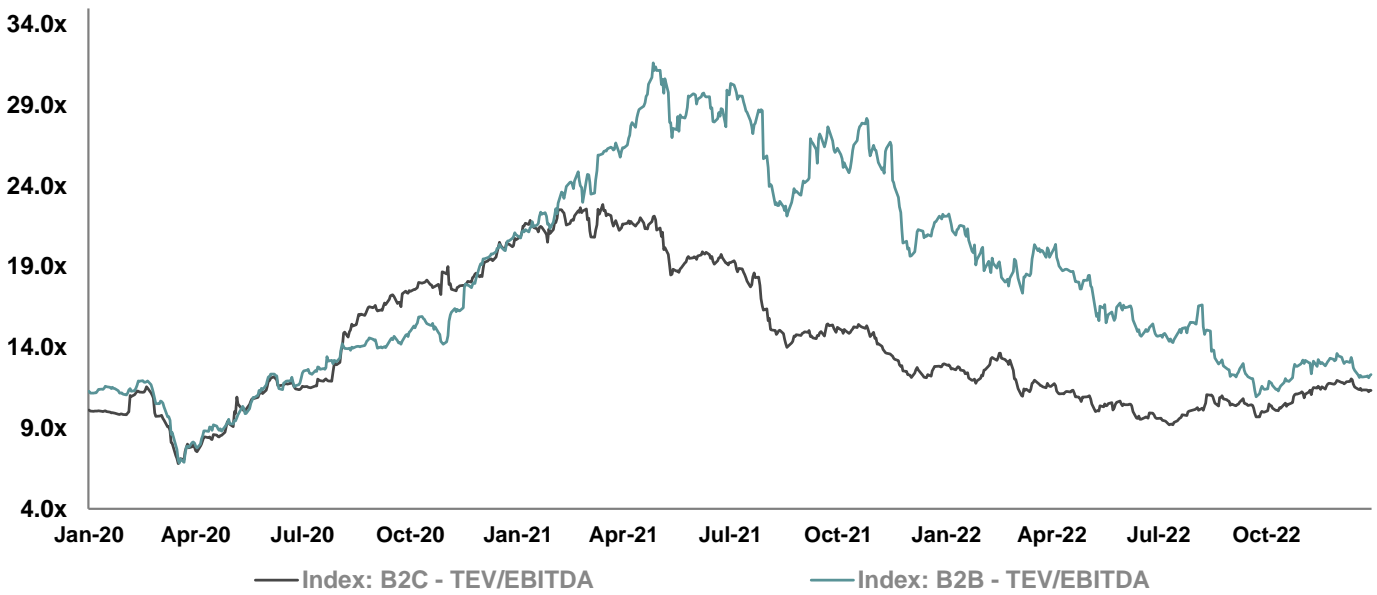
(1) S&P Capital IQ.

(2) PitchBook.

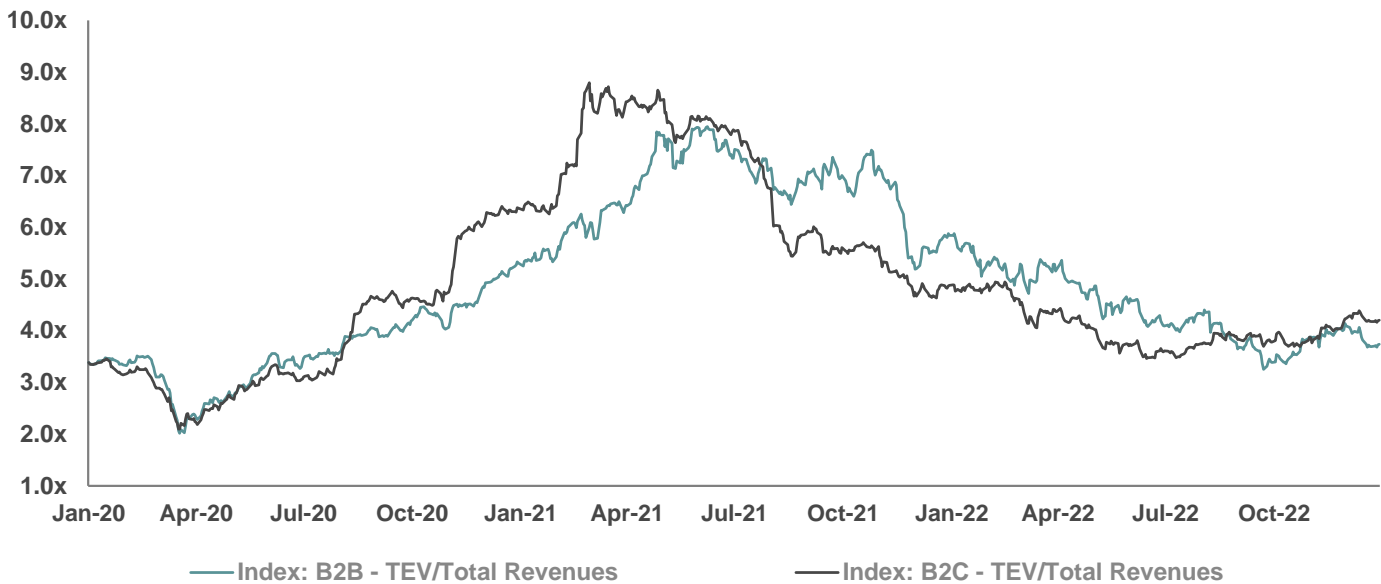
(3) Variety.com, <https://variety.com/2022/digital/news/jake-paul-betr-joe-levy-funding-1235335812>.

(4) Front Office Sports, <https://frontofficesports.com/a-rod-and-lores-athlete-stock-market-launches-with-100m-in-funding>.

Gaming B2B and B2C TEV/LTM EBITDA 2020–2022⁽¹⁾



Gaming B2B and B2C TEV/LTM Revenues 2020–2022⁽¹⁾



(1) S&P Capital IQ.

Venture Investors Will Increase Their Diligence and Focus on Differentiation and a Path to Profitability

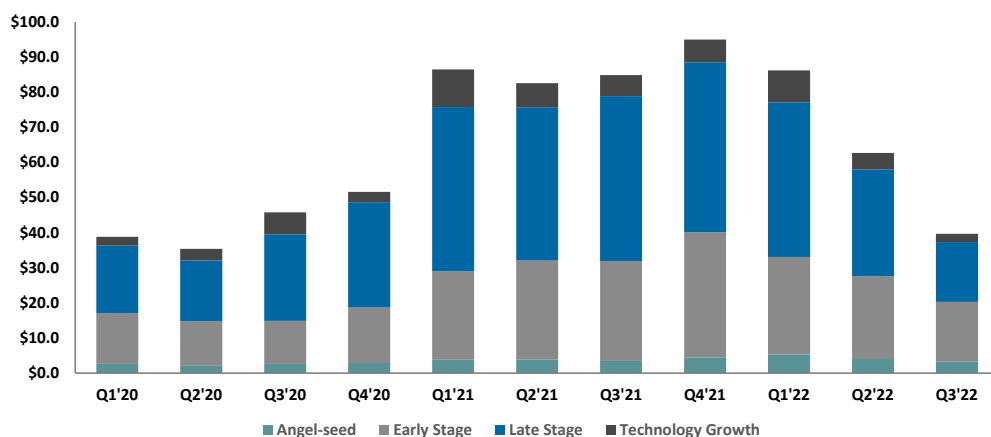
Given still strong secular tailwinds, our discussions with venture and growth capital investors indicate healthy interest in the digital transformation of the gaming industry. This isn't wishful thinking on our parts, and discussions with large capital sources remain very constructive on the sector. Like other technology verticals where capital chased a hot sector, we do expect a higher bar, as these groups will have greater flexibility to set terms around structure, can now enter at more attractive valuations, and will require considerably more diligence before investing. While there are many differences in the objectives and potential in the models for B2C and B2B companies, we believe certain features will help companies stand out to investors.

This may include **1) targeting unique, underserved, or less saturated markets (e.g., gaming tech that expands beyond the core male demographic); 2) technology that helps lower CAC and increase operator efficiency (e.g., risk/trading platforms); 3) technology that disrupts existing incumbents or provides more choice in the cost structure (e.g., geolocation, live dealer, payments); 4) businesses with a shorter ramp to profitability or meaningful, efficient top-line revenue; and 5) essential services that benefit from broader industry growth (e.g., regulatory/compliance technology).** Clearly, "business plan" companies with a limited path to revenue growth and/or a path to profitability, in addition to unseasoned founders, are potentially going to have a difficult time raising capital. We are also beginning to notice a trend toward entrepreneurs that have made past exits

reentering the space with their next ventures. We believe that seasoned entrepreneurs who have battle scars from prior efforts and a willingness to put in their own capital to fund the earlier stages of their new businesses will have an advantage when raising capital and generating credibility. We have seen a number of these individuals take advantage of the broader tech fallout to quietly build their teams, assemble talent in international markets, and prepare for a broader push in 2023. Bottom line, experience matters, and if you have been successful more recently in the U.S. or even in Europe (given the relative maturity of the industry in Malta, Sweden, and the U.K. in particular), having some gray hair and/or wrinkles may now be seen positively.

A potential limiting factor around the sector that we are monitoring and bears paying attention to is ESG. We are mindful that gambling is still defined as a "sin" business by many, and, as a result, that could limit the potential investor universe. To this end, businesses within the ecosystem that can demonstrate that they can help promote the integrity of sport and/or prevent problem gaming (or other negative consequences) may be able to avoid being tagged by ESG concerns. Those seeking to raise capital need to have definitive answers around ESG, how they plan to operate their gaming businesses in an ethical fashion, and how they will particularly address any potential gaming concerns. We are already seeing evidence of B2C operators limiting credit card deposits, reducing emphasis on younger gamblers (21-25 years old), and taking steps to reduce potential negative events.

North American Venture Dollar Volume (\$B)⁽¹⁾



(1) Crunchbase.

Digital Gaming Is Attracting Many New Entrants, and Fears of Licensing Probity Are Diminishing

The market opportunity around the digital gaming transformation is too substantial to ignore. For many years, the first questions we have received from potential investors and acquirers have been around the licensing process. While the privilege of being awarded a gaming license in most jurisdictions is a substantial and exhaustive process, particularly in the regulatory bellwether markets of Nevada and New Jersey where the tone is set around regulation, we believe concerns around the scrutiny of the process have softened.

The trend of new entrants emerging in gaming is evidenced by the arrival of groups such as Fanatics (retail), IAC (media/e-commerce) with its meaningful investment in MGM Resorts, and, more recently, Endeavor Group's purchase of OpenBet, which serves a broad base of customers. The acquisition of a B2B player is notable, as well, given the substantial number of jurisdictions it operates in. In addition to media investors, there will continue to be many other new parties dipping their toes into the gaming waters.

This likely includes groups from the payments sector, particularly as these organizations are used to the rigors of payment and banking regulations. For these groups, gaming shouldn't be too difficult of a regulatory gauntlet to overcome. To be clear, while there are many new players coming into gaming, it does not mean that Big Tech, such as Meta, Google, Amazon, and Apple, will be coming into the sector to knock over incumbents anytime soon. Gambling is a big business, except for these groups not substantial enough to warrant the effort yet—particularly when they are already capitalizing from marketing dollars and other access provided (e.g., an app store).

Integration of Sports, Media, Gaming, and Merchandising Will Only Accelerate

If you had asked us pre-PASPA whether the Big 4 sports leagues (NFL, NBA, MLB, and NHL), the PGA Tour, and even arguably parts of NCAA athletics would come to embrace betting, we would have been rightly skeptical. Today, it is impossible to watch a live sporting event in person or on viewing platforms (broadcast, streaming, etc.) without a betting integration before, during, and after the game. While this volume is likely going to be dialed back as marketing dollars become more rational and, we believe, the industry starts to understand the risk of potential negative media headlines, we see further growth in betting activity and integration with the secondary tier of sports (e.g., UFC, tennis, boxing, e-sports). Furthermore, even emerging sports (e.g., pickleball, fan-controlled sports, lacrosse, etc.) are collaborating with the OSB sector, allowing for 24/7 coverage of gaming options.

We see other distinguishing drivers that will separate the winners and losers as the industry moves from what we describe as the "1.0" stage to a "2.0" environment, particularly in OSB. This includes a truly seamless integration of live play-by-play action, such as in-app streaming, which will smooth the greater adoption of in-game betting and micro wagers, the ability to cross-sell merchandise (e.g., with Fanatics' entry into the industry), and the ability to market F&B/retail/

targeted offers to bettors (e.g., clicking on an ad to bet your friend a hamburger). In our view, the ramp-up of Fanatics' betting platform in early 2023 will be one of the most closely watched efforts in the sector, particularly with the ramifications to the current larger market-share players like DraftKings, FanDuel, BetMGM, and Caesars. Fanatics has demonstrated access to capital, a veteran management team in gaming, and a large sports enthusiast database; we will be closely evaluating if it can successfully monetize vs. large market-share players that have a few years' head start.

Operators that can immerse consumers in their app experiences by leveraging content, news, and social connectivity with betting could accelerate their market share. Clearly, when evaluating the efforts made by DraftKings with its VSIN acquisition and FanDuel through its adoption of TVG, fusing betting and broadcasting will become more apparent in 2023/2024. We are also paying close attention to social and influencer-based betting options that are still in their nascent stages, such as U.K.-based Goss or Betty Gaming. Goss is a mobile gaming application platform for women to bet on their interests in a fun, social, and gamified way, while Betty (launching in Ontario in 2023) is developing a female-oriented iGaming product with a luxury feel to appeal to this segment of the marketplace.

The U.S. Industry Must Learn From Europe's Past Mistakes

With the steady growth of online gambling in the U.S., we are mindful of elevating risks in the industry, such as scandal (e.g., sports cheating), problem gaming, youth gambling, payment-related fraud, and technological issues (e.g., account hacks). These concerns have more recently bubbled up in media reports and have been visible with some major operators. To be clear, as a "sin" business, gaming is always going to have a target on its back, and the industry must self-police and state regulators must operate with a fair but firm structure. The fact that regulators in Massachusetts and other markets have been levying fines on operators, given aggressive marketing campaigns toward college-age gamblers, is a clear signal that states are ready to clamp down on highly visible players. Gaming, whether bricks or digital, has always had colorful and outward-facing characters; putting appropriate checks and balances on these figures may be required from corporate entities, as the paradigm is much different in 2023 than the late '90s/early '00s.

If the industry experiences a rash of negative issues, it creates the risk of additional scrutiny and unwarranted attention that could lead to regulatory blowback. While our current concern is relatively low, we remind investors and industry participants that there is one big point of differentiation between the U.S. and international operators, and that is state by state vs. national regulation. The bottom line is we see very low risk for federal regulation of the gaming industry, and there has never been tremendous support or enthusiasm for federal gaming regulation. The last major brush with federal oversight occurred in the late 1990s, when the expansion of regional casino gaming was a hot-button topic.

This ultimately led to the National Gambling Impact Study Commission, which published a 265-page report examining the growth of the business. We believe this report set the stage for better industry behavior. Note that regional gaming regulators in many states were just beginning to learn the nuances of the industry. The industry must be mindful not to oversaturate the market from a marketing perspective to avoid raising the ire of local regulators or concerned residents, particularly when minors may be viewing.

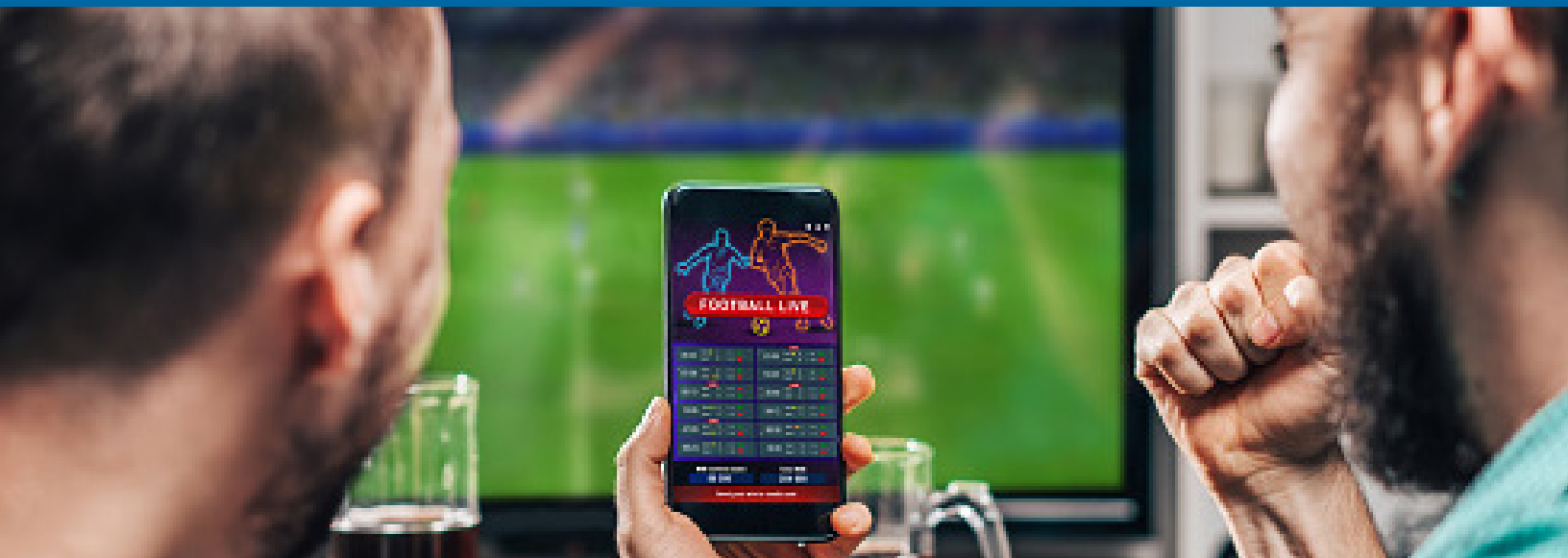
Given the broadly changing sentiment around the sector, the capital constraints for those that cannot tap into EBITDA-generating brick-and-mortar assets to fund spend, and the focus on profitable growth/player retention, we believe marketing spend could cool down relative to expectations in the near term. We are pleased

to see industry leaders like MGM Resorts commit to research around marketing spend and how it impacts potential players; this is a prudent act that we are hopeful other operators will follow. During 2023, we expect a bigger transition to social media marketing and potentially more efficient or targeted channels vs. linear television, which, in our view, has provided a more shotgun approach for the industry to date.

As online gambling continues to expand, certain companies will become indispensable, particularly those companies that help police the sector by handling geolocation and licensing, manage risk/trading, support the integrity of sport, and prevent problem gaming.

These companies are well positioned to capitalize on the broader growth of the industry. While it is easy for the major operators to point to how much money they spend on marketing, we see a much greater focus in the coming years toward player retention tools and technologies that keep players coming back.

While customer acquisition remains key, those that can help operators retain vs. simply sign up and churn will be prized. We will be closely monitoring efforts from both large and small operators to self-regulate, as well, and expect to see some interesting signals from emerging players to offset concerns about gaming activity by younger players. Betr, which is launching in early 2023 (Ohio), plans to ban credit card deposits, and for players aged 21–25, they will be limiting deposits/wagering activity, which we find of interest.



Native American Expansion and Investment Into Digital Channels Will Accelerate

While commercial gaming tends to generate the most focus, the expansion of digital efforts that capitalize on the robust Native American casino industry should be followed closely. In particular, the adoption of digital gaming by tribes represents a rich opportunity for both B2Bs and B2Cs. Anyone that has followed the land-based transformation of gaming over the past 20 years has seen tribal interests grow up from mostly Class II limited gaming operations to powerhouse businesses, as these groups capitalized on improved Class II products and the eventual onboarding of Class III full-service casino operations. In many cases, the quality, scale, and sophistication of tribal casino operators exceed that of commercial operators, sometimes aided by lower tax rates. However, it's more reflective of a longer-term approach to their businesses vs. managing shorter-term expectations.

Within land-based gaming, many of the leading tribal operators are the first call when it comes to sector M&A given their access to capital. In the coming years, as the leading Native American operators gain comfort with OSB/iGaming and define their own strategies (e.g., Mohegan, Seminole, Poarch Creek, and Pala have been leading examples of tribes capitalizing on the digital transformation), we expect these groups will invest heavily in developing or acquiring their own technologies and look to expand commercially in the business as well as collaborate with other tribes beyond their home jurisdictions. Historically, tribes hired outsourced casino

managers (largely due to capital constraints in the earlier days of their gaming activities), and in the future, we see these groups wanting to control their own tech stack and insource certain capabilities.

We believe the early examples of iGaming that exist in both commercial and Native American channels (e.g., Michigan) foretells that other major tribal markets in Alabama, Arizona, California, and Oklahoma are among those pursuing OSB/iGaming offerings. **Something that has slipped below the radar in our view is the potential deployment of Class II iGaming, which will likely proceed in California and Oklahoma over time. There, tribes operate on large swaths of land that are well populated by non-tribal members (e.g., Palm Springs), so it could accelerate iGaming deployment without a Class III regulation requirement.**

While it generated limited headlines in October 2022, the National Indian Gaming Association approved Class II online gaming for the Chickasaw tribe in Oklahoma (but only for bettors within the boundaries of its reservation). Note that Chickasaw lands comprise 1,230 square miles in Oklahoma and have more than 1 million residents, making this a potentially substantial market.⁽¹⁾ With the genie out of the bottle, we expect other Native American operators will try and follow this path over the next few years, which could be a potential win—particularly for B2B providers that can provide platforms, game content, payment solutions, and other functions to support this rollout.

(1) Casino.org, <https://www.casino.org/news/feds-approve-chickasaw-nation-for-on-reservation-mobile-gaming-in-oklahoma>.

Online Sportsbook

Moving Beyond the Basics: Peer-to-Peer Wagering, Micro Betting, and Player Market Products

As state taxpayers, we acknowledge that the New Jersey model of competition has given way to an abundance of choice and the ability to try out platforms first before they become available in other markets, allowing the state to become a hotbed for innovation in gaming. Given that New Jersey was the first state to allow iGaming beyond Nevada, as well as sports betting, many of the current operators launched their development efforts in the Garden State. We have a strong view that as the OSB market becomes more seasoned in other states over the coming years, consumers will crave real product differentiation, better price transparency, and a fully integrated gaming/content/cross-sell ecosystem as the initial thrill of sports betting subsides. **When evaluating the current OSB product in the marketplace, it is hard not to argue that it is very much a commodity.** While it's still early days, we are closely following the ramp of peer-to-peer wagering platforms in New Jersey and their path in other states. While the concept of peer-to-peer betting exchanges has long existed in Europe, around the start of the 2022 NFL season, Hoboken-based Prophet Exchange began to take bets, followed by Camden-based Sporttrade.

Both Prophet Exchange and Sporttrade offer a different user interface than what is typically found on more legacy platforms. However, in a nutshell, they are delivering better pricing for the highly active, more experienced player that wants the best price and execution as well as liquidity to trade in and out of bets. We often see sports betting as analogous to online travel agencies (OTA)—while some consumers want to shop directly with an airline or hotel chain, many just want to see the best price and will gravitate to a product that serves this need. While it's still early, our channel checks suggest that these platforms have been successful in ramping operations, the number of markets being made has steadily increased (NCAA sports, NHL, MLB, etc.), and the velocity of bets made by players is far above the norm for the traditional sportsbooks (suggesting a high-volume, lower-margin model). As these platforms launch into additional states in 2023, we see consumer awareness and interest for peer-to-peer continuing to accelerate. We have been regularly checking in with Prophet Exchange on its progress in executing the P2P market, and some of the early metrics it has shared are quite interesting—mainly that the average deposit is more than 14x higher than that of typical

mass-market OSBs, suggesting that serious gamblers are engaging in its platform. From our conversations, Prophet Exchange also noted that its signup-to-bet conversion is 2,000 bps higher than these peers, and, more importantly, week-to-week retention during NFL season (meaning players that come back to bet weekly) is often 1,500 bps higher than that of mass-market sites, also suggesting a sophisticated and experienced betting population (with \$0 spent to date on retention vs. mass sites that are constantly spending to get players back). We believe that other permutations of gaming that can attract new customers (e.g., Gen Z or Millennials) or offer a unique experience to feel invested in athletes or teams are worth paying very close attention to in 2023. One group that has garnered considerable attention is Betr (Joey Levy, Co-Founder of Simplebet), which raised \$50 million in 2022⁽¹⁾ and has the notable social media clout of Jake Paul behind it (currently offering free-to-play money micro betting) and will be rolling out in early 2023 in Ohio for real money wagering. Of interest to us as well is Mojo, an athlete stock market (reminiscent of Hollywood Stock Exchange) that has launched in New Jersey and has raised \$100 million to date,⁽²⁾ backed by Marc Lore, Alex Rodriguez, and others.

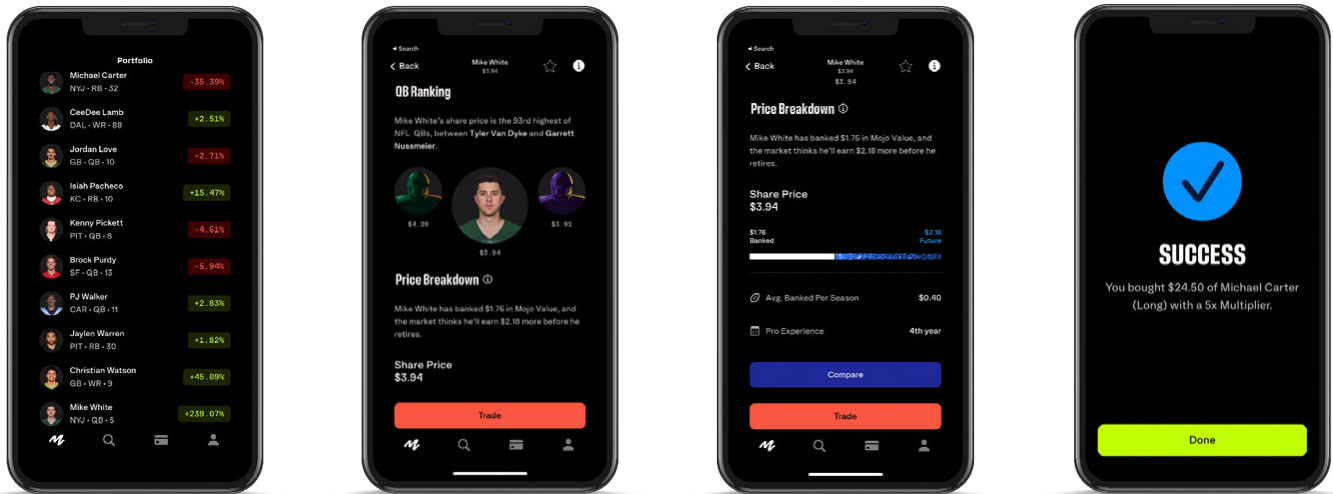
We were initially skeptical before signing up for Mojo, but we have found this platform to be fun, capable of driving regular engagement to see how player valuations change pre- and post-game, and able to deliver a real money fantasy experience to “long and short” individual players (it's currently football only with a name image and likeness deal with the NFL). While there will be a learning curve for consumers around new betting permutations, these products advance the industry in the right direction and should be closely followed in the near term for green shoots of success. They will be likely targets for acquisition further down the line if they can have a mass market appeal as the novelty of moneyline parlay betting fades. We are mindful that it's our day job to be deep in the weeds around all things gaming. Whether or not esoteric betting options like horse racing NFTs (that was a thing) or DeFi sports betting catch on seems to be more questionable.

(1) Variety.com, <https://variety.com/2022/digital/news/jake-paul-betr-joe-levy-funding-1235335812>.

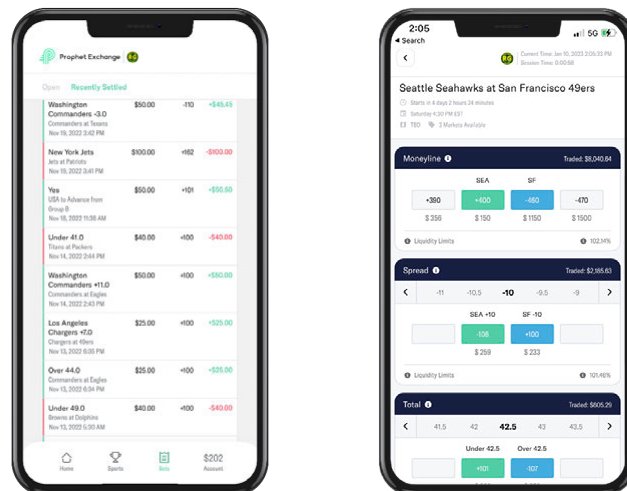
(2) Front Office Sports, <https://frontofficesports.com/a-rod-and-lores-athlete-stock-market-launches-with-100m-in-funding>.

Screenshots of Wagering Activity and User Interface for Mojo and Prophet Exchange⁽¹⁾

Mojo:



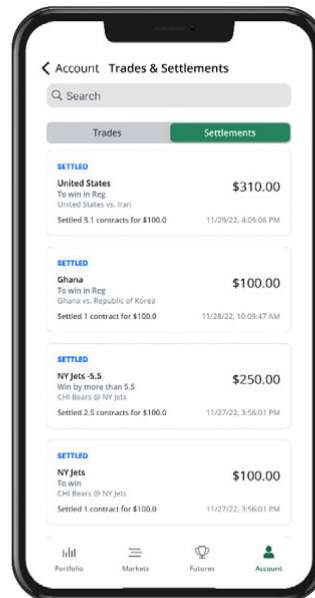
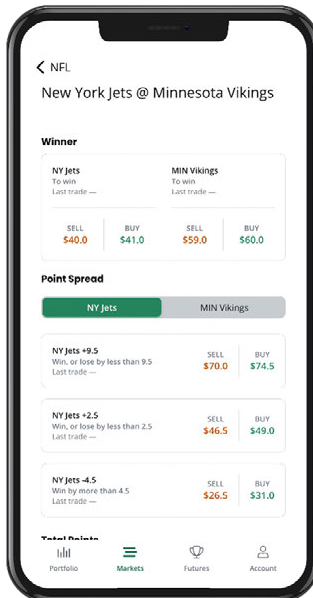
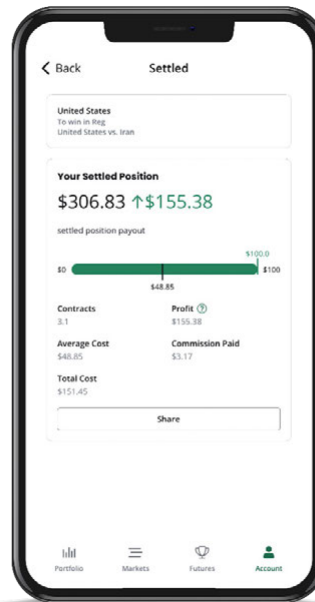
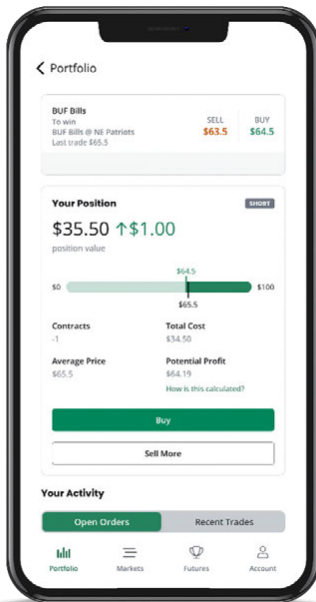
Prophet Exchange:



(1) Screenshots from apps downloaded in the App Store.

Screenshots of Wagering Activity and User Interface for Sporttrade (1)

Sporttrade:



(1) Screenshots from apps downloaded in the App Store.

In-Play Betting Will Likely Expand and Aid OSB Profitability

With gamblers more comfortable with OSB and the nuances around traditional bets, the next step in the evolution is toward greater in-play betting. Paddy Power and Bet365 claim that 70%–80% of their wagers in Europe are in-play. Recently, a former senior vice president of the American Gaming Association claimed that in the U.S., 70% of sports betting wagers will be coming from in-game wagers.⁽¹⁾ To some degree, European metrics are skewed by the popularity of games like soccer vs. NBA/NFL/MLB where the speed of the game can influence the amount of in-play action.

Nevertheless, given the higher velocity of play and volatility, margins on in-play betting are more attractive, and we expect overall participation to gain momentum in the coming years. We see increased momentum for Simplebet (powering DraftKings, Betr, and others) and upstarts like Kero Sports as well as other risk/data providers that are addressing this market as OSBs onboard more capabilities in 2023. We temper our enthusiasm to some degree on the need for OSBs to better incorporate streaming into their apps and other data feeds that allow the consumer to feel like they are getting as much real-time information as possible to make informed betting decisions.

During 2023, we will be closely watching the rollout of streaming content along with betting, given some initial forays into this capability. More recently, in December 2022, the NFL, along with Genius Sports, announced an expansion of their partnership to connect fans with live, select NFL games through major U.S. sports betting platforms. As part of this deal, Caesars Entertainment will become the first sportsbook operator to provide its U.S. customers with live watch and bet video streams for select NFL games on their mobile phones or tablets via the Caesars Sportsbook app. We will be curious to see how this unfolds on Caesars' legacy William Hill technology and potential implications for other operators, as well as the addition of other content across the Big 4 sports (NFL, MLB, NBA, NHL).

Affiliate Business Model Will Further Evolve With a Focus on Aiding Retention and Growing iGaming

Relative to B2C operators, affiliates find themselves in the favorable position of generating substantial cash flow and benefiting from broader industry growth. Despite that, valuation multiples for affiliates have also compressed. Presently, we believe that affiliates account for about 10% of new account sign-ups in the U.S. and a higher amount for the small/mid-sized OSBs vs. the household Big 5 operators in the U.S. (BetMGM, DraftKings, Caesars, FanDuel, and Barstool) that leverage their own brand-related marketing.

While there will be a bull/bear debate on the future of affiliates in the sector, if evidenced by their importance in European gaming, they are going to serve a relevant role in the ecosystem for many years to come. **In our view, much like the online travel agencies that are heavily entrenched in the hospitality sector despite the brand power of big hotel chains and airlines, we see affiliates playing a sustained role for OSBs and, more importantly, iGaming in future years given their**

ability to drive sign-ups and likely support customer-retention tools in the future. Whether operators like it or not, affiliates are going to play an important role in the industry for the long-term. With the coming pivot toward iGaming as more states allow for this product, it will be important for affiliates to continue migrating their business models and content toward assets that attract casino players, particularly in slots. This might entail greater alignment with social casino partners that are also adept at attracting and retaining players that are monetized in a different way. Note that in the more mature European market, iGaming is a much larger piece of the pie relative to sports, and typically affiliates have played a greater role in driving overall levels of business.

Traditionally, the major affiliate platforms have engaged in growth through acquisition, and we expect that trend to continue over the coming years given a still robust landscape of affiliates that have developed unique user

(1) Sports Business Journal (November 3, 2021). In-Play Wagering Will Dominate the U.S. Sports Betting Market.

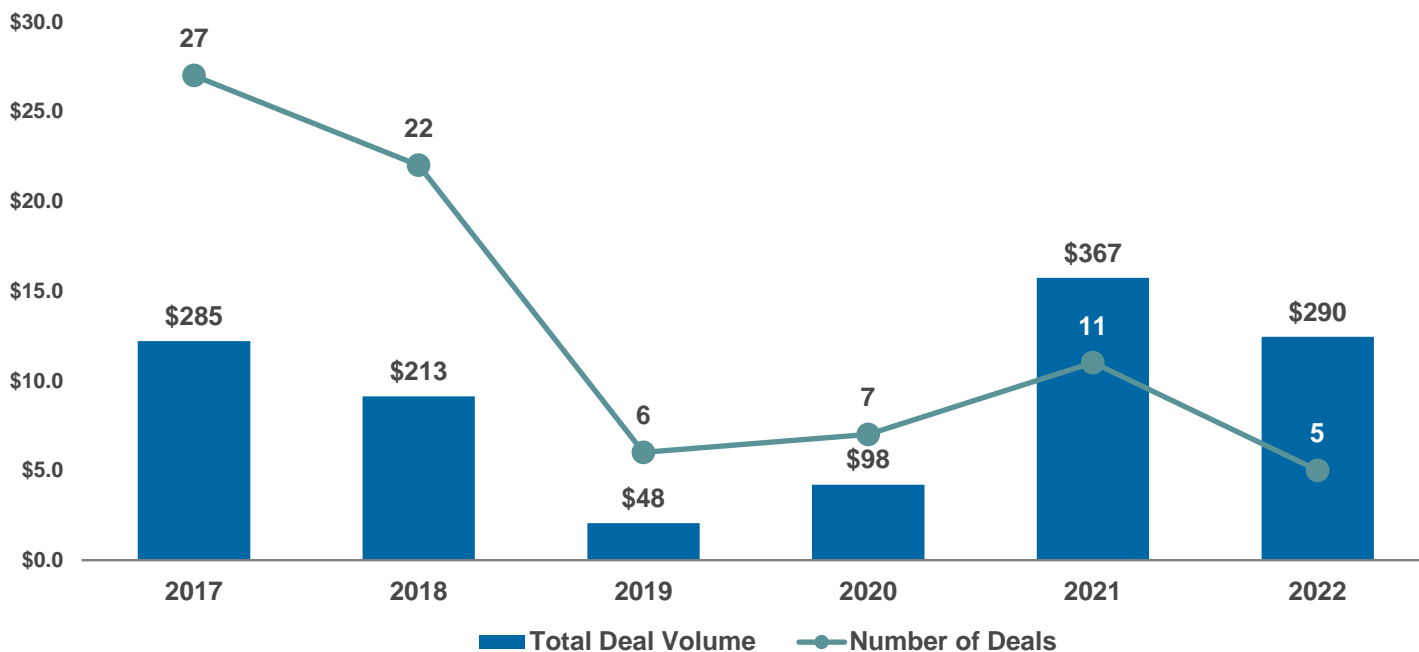


bases—whether through in-house differentiated content, podcasts, user metadata, and/or betting advice. Many of these platforms should be able to acquire smaller operations through cash and/or funds from operations relative to using equity and comparatively against OSBs, which are going to engage in stock-for-stock deals, leading to more robust deal activity.

In our conversations with fast-growing affiliate platforms such as Betsperts—which has been developing its own new content, podcast platforms, and other tools to drive community, engagement, and customer acquisition—there appears to be a large focus on not just helping

OSBs sign up customers but ultimately retain them. We believe that by driving regular player engagement and retention, affiliates like Betsperts have the ability to see granular details on the quality of the players it delivers to sportsbooks. As each new gaming jurisdiction approaches its second or third season with the NFL, NBA, MLB, and other sports, affiliates will need to work with their key OSB partners to reactivate players that have previously gambled but may not have been active. If affiliates can successfully crack the code on driving reengagement, this can offset the notion that they are only value-adds to OSBs at the time of initial customer acquisition.

Affiliate M&A Activity 2020–2022 (\$M)⁽¹⁾



(1) PitchBook; includes M&A activity from the following publicly traded companies: Better Collective, Gaming Innovation Group, Gambling.com, Raketech Group, XLMedia, and Catena Media.

OSB Platforms Will Modernize Further, Evolving Beyond Legacy Tech and Homogenous UX

As we have noted, with the growth in OSB to date in the U.S., the industry has become heavily reliant on technology that is quite dated. Much of this technology traces its roots to the mature European gaming market (including physical sportsbooks) and, in our view, has been sufficient to get the industry up and running to date given the substantial growth over the past few years. **With that said, in our discussions with industry participants on all sides, most point out that this technology is difficult to maintain, may not be stable, is hard to scale, is difficult to customize for the myriad of potential commercial/tribal jurisdictions, and is not designed for micro markets, cloud infrastructure, or third-party integrations.** We have been closely following new groups that are trying to update this technology

and will likely begin to deliver modernized solutions, such as SB22. We have been able to demo SB22's product, which offers virtual reality betting options and other features, including live streaming, that deliver a much more immersive gaming experience than what is available in the marketplace currently. While the cost to switch out platforms is substantial and not without risk, we do expect incumbent platforms to begin migrating to new solutions in 2023/2024. For new market entrants either coming in from Europe or starting up in the U.S., we expect a fresh approach to the consumer-facing experience, particularly when evaluating some of the progress that groups like Sporttrade and Prophet Exchange are delivering with their own in-house tech.

Compliance, Regulatory Tools, and Other Safety Functions Will Be in High Demand















While there have been some small-scale issues around the rollout of OSB and iGaming in the post PASPA world, we would argue that the industry's business has ramped up fairly smoothly during the depths of COVID-19. While there have been a handful of negative headlines (e.g., alleged accounting issues around Lottery.com, a SPAC) and some small account hacks more recently, a majority of the gaming ecosystem has managed to avoid any major pitfalls and blowups that could have disrupted growth. What we have stressed to investors in the industry over many years is that gaming is highly regulated with significant licensing standards, and operators are very interested in avoiding fines and penalties, among other restrictions.

The glaring issues that impacted the crypto market have an extremely low probability of occurring in the gaming sector. In retrospect, there were media headlines around FTX trying to get into the casino industry in late 2021/early 2022; did anyone think gaming regulators would have approved Sam Bankman-Fried for licensing once real diligence was conducted? As the digital gaming TAM continues expanding in the U.S., we believe service providers that deliver consumer protection (e.g., tracking the performance of sports-betting touts), maintain the integrity of sports (of paramount importance for leagues and operators), streamline compliance/licensing functions, provide geolocation, and support key payment functions (e.g., AML, KYC, player verification, and self-exclusion) are well placed to ride this tide. Historically, many of these back-office functions have been siloed and/or viewed as a cost center; we see the philosophy around how important these capabilities are in flux.

While there are well-known incumbents in categories like geolocation, many of the other verticals that service the industry are still relatively small businesses with revenue under \$10 million annually. Based on our frequent investor conversations, this will remain a highly sought-after sector and positioned for consolidation to build more scalable organizations. In summation, regulatory technology will remain capable of generating recurring service and fee revenue and likely has sustained pricing power, depending on the level of competition within each vertical.

Given that regulations will continue to vary across a myriad of jurisdictions, this provides a greater opportunity for companies that provide several options to B2C operators to increase revenue and their foothold. In addition, on the consumer front, we continue to notice the rise of data services such as SharpRank that aim to be the “Morningstar” of the sector by tracking the real batting average of sports touts and other so-called experts (we are dating ourselves but remember Jimmy the Greek) and provide a good means of potentially protecting consumers and helping them make informed decisions. We think data service tools like SharpRank, among others (particularly if mandated by regulators), that help to better inform consumers will be important as the sector matures while benefiting from necessity and recurring revenues.

List of RegTech Businesses and Descriptions⁽¹⁾

Company	Employees	Headquarters	Description
 ACUMINOR	29	Stockholm, Sweden	Developer of a risk management platform designed to manage risks from money laundering, counter-terrorist financing, and sanctions.
 ALESSA	80	Ottawa, Canada	Developer of software for financial crime prevention for banks, credit unions, money services businesses, casinos and FinTechs.
 CLEARVIEW STRATEGIC PARTNERS	16	Toronto, Canada	Provider of ethics reporting and management systems intended for retailers, mall operators, gaming corporations and financial institutions.
 FEATURE SPACE	400	Cambridge, United Kingdom	Developer of an adaptive behavioral analytics platform designed to protect against threats of fraud and financial crime.
 FinScan	33	Pittsburgh, PA	Provider of AML & KYC compliance solutions. Platform utilizes advanced data quality and linking capabilities via its parent company Innovative Systems, Inc.
 GeoComply®	490	Vancouver, Canada	Developer of geolocation compliance technology intended to provide reliable, accurate and precise geolocation services for the iGaming industry.
 jumio	1,500	Palo Alto, CA	Developer of digital identity management and authentication platform designed to reduce business fraud and financial crimes.
 ODDS ON COMPLIANCE	21	Parkland, FL	Operator of a consulting firm specialized in sports betting, intended to help clients navigate the complex U.S. regulatory compliance landscape.
 OneComply	19	Vancouver, Canada	Developer of regulatory compliance management software designed to transform the industry of state regulatory compliance.
 SharpRank	10	Baltimore, MD	Developer of proprietary ratings and performance metrics for sports personalities, content creators, predictive machines, media properties, enabling users to find data insights and track progress.
 Secure	505	Incline Village, NV	Developer of a digital identity authentication technology and platform designed to mitigate identity fraud risks for financial, gaming, telecom, and e-commerce industries.
 US INTEGRITY	29	Henderson, NV	Provider of sports protection, game integrity, and fraud prevention services intended to monitor and safeguard sports betting.
 VIXIC	60	London, United Kingdom	Provider of regulatory intelligence intended to offer in-depth insight, analysis, commentary and research information to its clients.
 XPOINT	65	Miami, FL	Developer of geolocation security technologies intended to offer regulatory compliance in the US iGaming market.

iGaming

Lead With Sports, Follow With iGaming to Drive Profitability

Although the sports-betting audience is a huge mass market, with iGaming revenues (in fewer jurisdictions) likely to make up 46%⁽²⁾ of online gambling revenue in 2021 and a much higher margin relative to this product (slots and table games are inherently more profitable), the ramp of iGaming over the next few years is critical. While most OSBs offer an iGaming capability, they are delivering ostensibly the same user experience: serving a male-oriented sports demographic. Near-term, those that can crack the code and attract women (making up approximately 30%–40%⁽³⁾ of the iGaming mix, of which slots are 70%–80%⁽⁴⁾ of the market) will benefit. We also see a market opportunity for those purely focused on iGaming, where the focus is solely on delivering the best online casino experience, to begin including onboarding, retention, and the types of products that gear toward targeting demographics. Note that pure-play iGaming platforms (e.g., Golden Nugget Online or, more recently, Playstar in New Jersey) represent a lower percentage of the market vs. the U.K., which is a mature locale.

(1) Company websites and PitchBook.

(2) Casino.org (May 14, 2022). American Gaming Association Report Highlights iGaming Profitability.

(3) Translation Royale, <https://www.translationroyale.com/how-are-women-changing-the-online-gambling-industry>.

(4) DataGenetics, <https://datagenetics.com/blog/october12018/index.html>.

Content Is King: Quality of Game Libraries and Product Merchandising Are Essential

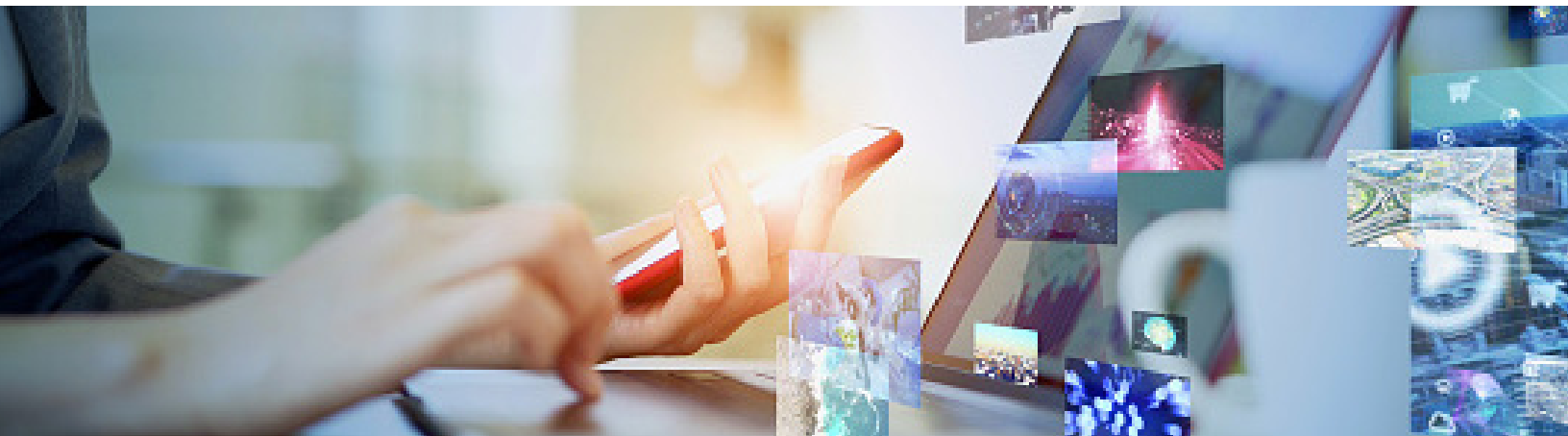
The next few years will be defining, particularly as mature OSB markets begin to capitalize on iGaming where available and additional iGaming markets are added. For some of the larger OSBs where online casino products can be offered, we have heard of conversion rates as high as 80% from sports. Given the vast sums spent to acquire players through sports, getting these players to convert to online casinos and monetize will be important. With iGaming products (including iLottery), the ability for operators to access robust libraries of game content will grow in importance, particularly as a point of differentiation given the commoditization of the offering that exists today.

The ability to offer hundreds of games, including games that are exclusive for certain periods of time (not dissimilar to the physical casino world) or have been developed by in-house studios (e.g., DraftKings' highly successful game Rocket) that allow for greater controlled economics, will be important—not just for gaining market share but also retaining customers. **From an M&A standpoint, independent game content studios will remain sought after for scarcity value.** We also expect that many of the European-based game studios that have not participated in the U.S. market to date will enter the business, bringing their knowledge of what works with consumers into the local industry. In our view, investors will be closely following the path of groups like Games Global, which is a rollup of a number of content platforms—for instance, as they potentially tap the capital markets for sentiment on content supplier valuation.

Many of the legacy gaming-equipment suppliers have substantial libraries that have not been adequately mined or leveraged in the online channel. We expect these groups to be targets, look to JV with online partners on the B2B side (RGS providers), or have more exclusive deals with B2C operators. We also see potential for many of the small and medium-sized land-based suppliers (e.g., AGS, Bluberi, Gaming Arts, Incredible Technologies, etc.) to go from strength to strength and make a bigger push to get their content into

more digital channels. While skill-based gaming was often seen as a panacea in the physical environment, due to many factors, it never scaled (such as limited game libraries and slow regulatory approvals), particularly as it was too big of a risk for slot managers to make way for games without proven returns. In the digital world, with potentially millions of users at scale, we believe these types of games will begin to gain traction. In addition, a core younger demographic that is used to casual games is likely to embrace skill-based games in the online channel through more trial and error.

We expect to see early inroads around the merchandising of the iGaming experience and improved product placement by many leading operators soon as well as upstarts. Given our experience playing with many of the existing platforms over the past few years in New Jersey, very few operators are doing much in the way of providing a curated/customized experience. We expect that, much in the way that streaming services serve curated content as they learn viewing preferences, iGaming will see a similar push. We have already had a chance to demo several emerging platforms currently in development. Whether it's providing VR experiences, curated content, or better product placement/merchandising (think animated and enriched signage within apps), we expect to see a much different user experience and consumer journey in 2023.



B2B Services

Pick-and-Shovel Providers Will Improve Product Offerings, Focus on Client Retention, and Diversify

We still believe the providers of picks and shovels (data/platforms/other software tools) are an important facet of the industry and will prove to be vital, particularly for small and medium-sized OSBs and iGaming businesses. With that said, many of the B2B providers, large and small, have faced headwinds around softening valuations, execution issues, or ill-timed M&A that may have varied against expectations. **During 2023, we expect a continued refinement in the strategy of these players to develop new capabilities (e.g., acquire or create game studios in-house to support/enhance RGS platforms), modernize their product offering (refresh PAMs and other infrastructure), and/or pursue mergers to take advantage of synergy opportunities while reducing customer concentration.**

We believe some of the larger operators will look to insourced capabilities over time and/or acquire B2B tools outright; however, for the most part, developing the technology infrastructure to support digital gaming is easier said than done. Simply put, most OSBs and iGaming operators are strong in marketing and customer acquisition, not always in coding or building the tech teams to create these tools in-house. Furthermore, not dissimilar to when land-based casino operators opt to replace casino management system vendors, the cost to switch out providers of integral B2B technologies is high and/or potentially disruptive, which, in our view, lessens the risk of dramatic change for many larger providers. In some niches, like live dealer, there are many providers of the technology; however, a preponderance of market share lies with one major vendor, Evolution, due its scale and resources.

Data Service Platforms Will Begin to Benefit From Market Maturation and Demand

Within the B2B category, sports information and analytical tools that power betting decisions for both consumers and operators have faced challenges due to aggressive pricing for initial deals with the major sports leagues and cascading ripple effects through this chain. **We are beginning to see green shoots in the path to profitability as betting volumes increase broadly, various states begin to mature, and consumers begin to wager more frequently on emerging sports.** We believe the curation and specialization of data/AI within OSB can help operators reduce costs, gain additional business insights, and ultimately operate more profitably. More recently, there are positive signs that fundamentals are turning a corner in the path to profitability, particularly as Sportradar demonstrated positive EBITDA within its U.S. division during Q3 '22.

Data that powers prop bets and manages risk will also be of expanding importance to OSBs. We are tracking a number of smaller (<\$10 million ARR) platforms that help

operators with this analysis, which ultimately helps them improve their profitability. From a consumer perspective, we are also seeing some interesting businesses that use consumer metadata to track wagering activity, provide predictive analysis across various betting platforms, and deliver real-time insights into sharp activity that can also be monetized through consumer purchase, subscription, and other platforms. While there have been many subscription-driven apps (e.g., BetQL, SportsLine) in the field, we see these types of services and the insights they can provide undergoing meaningful evolution, providing info that gamblers can leverage and, in turn, information that OSBs can utilize to provide more targeted bet marketing and player retention.

Lottery

Mobile Lottery Ticket Sales (Lottery Courier) Will See Continued Steady Growth

While sports and online casinos attract a lot of headlines given their mass appeal, we believe the lottery industry is ripe for continued innovation and the embrace of new technologies that modernize the experience and expand demographics. During 2022, lottery interest reached a fever pitch with the massive \$2.0 billion (Powerball) and \$1.3 billion (Mega Millions) jackpots. **Despite the buzz around these drawings, consumer awareness that there are mobile options to purchase lottery tickets on their smartphones or desktop is still exceptionally low.** In the U.K., for instance, roughly 45% of lottery sales occur online vs. the paltry figures in the U.S.

Industry data highlights that while more than half of American adults purchase lottery tickets in a given year, approximately 5% transact online through platforms like Jackpocket, Lotto.com, and Jackpot.com.⁽¹⁾ These businesses operate under lottery courier frameworks available in 13 states plus Washington, D.C. Lottery courier platforms have demonstrated the ability to operate in a highly regulated fashion (e.g., customer verification, geolocation, appropriately managing payments), attract younger and higher-income demographics that are new to lottery, and not cannibalize retailers. We don't believe the issues around Lottery.com, a SPAC-listed company that went sideways, will have any lasting impact on the lottery courier space.

We note that during 2022, there were several times that Jackpocket was among the most downloaded iOS Apps (No. 4 in entertainment as of November 8, 2022, ahead of Netflix, Peacock TV, the Roku App, Disney+, and Hulu). While we believe headline-grabbing jackpots and the embrace of new platforms will yield growth from established lottery courier markets, it will be important for major players to work closely with lottery regulators, who are oftentimes slow to embrace change, and launch new markets and incremental games or services (e.g., instant tickets and lottery pools).

As courier companies open new markets and drive conversion from physical to digital channels while expanding the pie with their high-frequency, repeat customers, there will be potential for cross-sell opportunities into bingo, social gaming, and iGaming. While the longer-term ability to cross-sell other betting products is important, the lottery industry has had plenty of runway by expanding its core demographic and increasing awareness that digital options exist. This reminds us very much of the transition of event ticketing 20 years ago that Vivid Tickets, StubHub, and others capitalized on vs. trying to go head to head with the major OSB/iGaming players.

iLottery Can Successfully Co-Exist With iGaming

In 2020, iLottery moved to the forefront of industry awareness during the COVID-19 shutdown as companies like NeoGames (NASDAQ:NGMS) benefited from being early movers with this product relative to incumbent gaming equipment suppliers that have had this technology for many years. The more casual iLottery product benefited from stay-at-home demand, while casinos were shuttered. More recently, sentiment around iLottery has corrected along with valuation, not for lack of growth in this business but, in our view, a slowdown in the expansion of new jurisdictions.

Also given that iLottery offers a somewhat less robust user experience where it competes head to head with iGaming (e.g., Michigan), which benefits from having a wide amount of developers, game providers and well-known gaming brands can give off the feeling of a workaround solution. Per our earlier commentary around lottery couriers, we believe iLottery suffers from relatively low awareness in established markets (studies have pointed to less than 20% of crossover play vs. physical offerings) given that these games are typically promoted by the state vs. the larger marketing capabilities of commercial gaming companies promoting iGaming.

(1) CNBC, <https://www.cnbc.com/2022/06/22/online-lottery-ticket-firm-jackpot-gets-funding-from-top-sports-execs.html>.

Given that revenue trends in states like Michigan, where there are abundant land-based casino, online casino, and sports-betting options plus iLottery, we see this as a solid example that this product can co-exist with alternatives—particularly for players that want a more casual experience. As markets that have both product offerings mature over the next few years, this proof point should allow states offering one or both solutions to consider alternatives that allow both products to flourish, somewhat tempered by the willingness of lottery officials to onboard this product offering.

Daily Fantasy and Social Gaming

The Cream Is Rising to the Top in DFS and SPF

We have been impressed with the rise of single-player fantasy (SPF) platforms in recent years, most notably that of companies like Underdog and PrizePicks (which has 50,000 reviews on iOS alone), as both businesses are reported to have substantial revenues (>\$50 million) and large, passionate user bases. In addition, these industry leaders and some of the emerging upstarts that we track (like Thrive Fantasy, among others) have developed slick user experiences (including a seamless mix of data, social connectivity, content, and a fun approach) and customer engagement that, we would argue, many of the OSBs that are delivering a homogenous experience lack.

Despite strong demand for fantasy products, there are still questions that surround this category as these players seek to raise additional capital, cross over into OSB or iGaming, and onboard other capabilities. While there were early noted exits, such as Monkey Knife Fight's sale to Bally's or Betcha's (now rebranded as Vivid Picks) sale to ticket platform Vivid Seats, both occurred in the early 2021 bull-market days for the broader sector. Today, we see the path toward a strategic exit as less certain. **Over time, we believe many of these platforms will pivot toward OSB, as signaled by Underdog's late 2021 purchase of Goat Gaming, to provide them with an OSB platform. Additionally, with the exit of several OSB players from the industry (e.g., Fubo Gaming and Maxim winding down operations), the price to acquire skins in many jurisdictions could decline meaningfully.** With strong brand awareness, large player databases, and the ability to acquire customers at relatively low customer acquisition costs (CACs), the math may work out for them to pivot to OSB or iGaming.

We are additionally constructive on fantasy, as this product has appealed to certain demographics, particularly the younger, Gen Z male player given the social/community allure of these platforms. While strident gamblers will say that parlay betting favors the house long-term (which is true), winning a multileg parlay bet is exciting to many players and can deliver the same thrill of having a multibagger stock investment (at a smaller scale). Given the recent failure to expand gaming in California, for instance, and our view that the timetables for expansion in other big states like Georgia and Texas are still uncertain, we argue that the top-line revenues are not likely to melt as fast as many may be predicting. When these states ultimately flip (in our view, a matter of when, not if), DFS/SPF operators (such as PrizePicks) will benefit from having large userbases and substantial intelligence on player worth and profitability that will be attractive to operators looking to enter the market.

Social Convergence With Real Money Gaming?

With the rise of the app economy, social-gaming businesses serving casino content (along with increasingly casual games)—like Playtika, Playstudios, Pixel United (division of Aristocrat), and SciPlay, among other platforms—have been prolific at developing cash-generative, EBITDA-positive businesses. All of these groups have proven that there is a base of casual players

who want to play these games for fun and status vs. real money. Despite large user bases and a proficiency for attracting players, this business is maturing, it remains highly competitive, and monetization is still relatively low, with a small number of customers driving a disproportionate number of purchases.

During 2023, we will be interested to see whether social gaming companies utilize their cash and cash-flow-generation abilities to pivot into real money gaming, whether in OSB or iGaming, through outright M&A that allows them to quickly enter these spaces, onboard licenses/skins, and adopt all the other technology infrastructure (PAM, payments, platform) required to take real money wagers. We recognize that this leap is easier said than executed; however, when OSB/iGaming valuations reset from more recent depressed levels, this could help shift the overall narrative around social gaming, positioning it as a faster-growing enterprise with a more diverse set of businesses. We really see no good reason, minus more recent valuation froth, as to why these groups haven't moved into iGaming—particularly given the likely overlap in players.

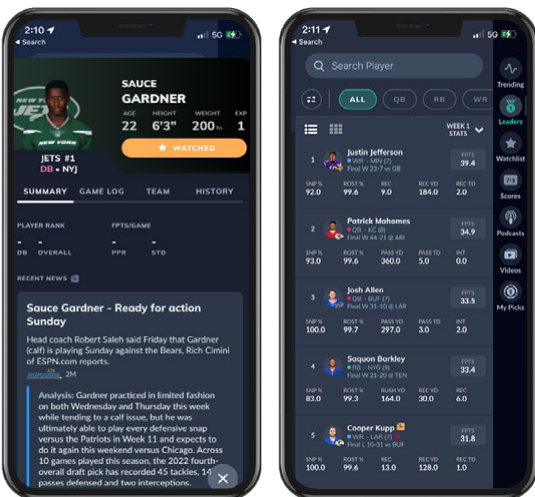
Sleeper, Lucra, and Fliff Are Three Platforms We Are Closely Following in 2023

Within the fantasy sports and social (peer-to-peer betting) realms, we see some interesting platforms that could be disruptive to the broader industry. These include Sleeper (backed by Andreessen Horowitz), which has emerged as one of the most popular news/information/social platforms, particularly when it comes to the NFL/NBA, and an essential tool for fantasy sports players; and Lucra Sports (backed by SeventySix Capital, Victress Capital, and Raptor Group), which has gained a significant following by enabling highly viral peer-to-peer wagering available in 37 states.

Sleeper has quietly moved into games where it can monetize, including daily drafts (a similar product to incumbent players like Underdog and PrizePicks) where it can leverage its millions of users/downloads to acquire players at a low CAC. Lucra is offering legal head-to-head wagering that extends across state lines for the NFL, NBA, MLB, and NHL; golf (PGA Tour); tennis (WTA and ATP); and soccer (MLS, UEFA Champions League, and Premier League), for instance. We see both of these players as offering a very different experience, particularly one that is more casual and engaging than many of the more established operators in the market.

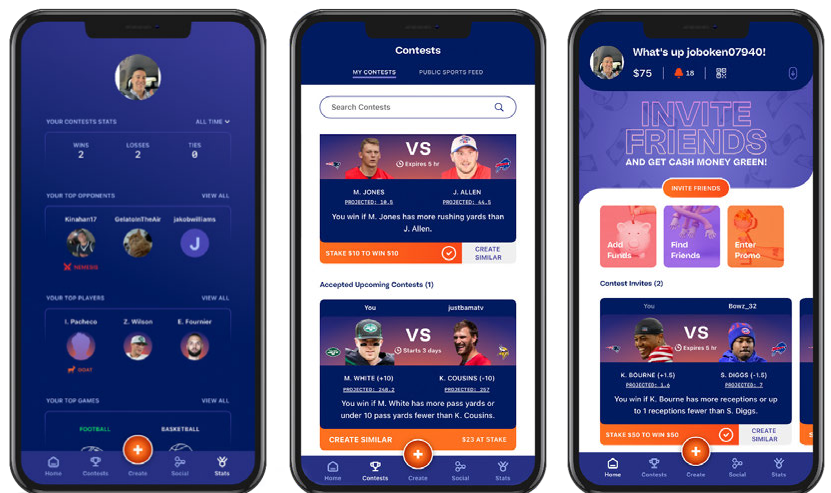
Another group we are paying close attention to is Fliff out of Philadelphia. From a consumer perspective, we have been engaging in activity with Fliff, which is a play-for-fun predictive gaming experience where consumers can purchase and/or earn coins in a social sportsbook format. Under a sweepstakes format, players can cash out for gift cards and other forms of value. Ultimately, these sweepstakes platforms could raise the ire of existing OSBs and/or regulators, so we will be closely following the news flow. Again, in closing, the gaming sector remains dynamic, and we will see what comes down the path near-term and long-term.

Sleeper:



Lucra:

(1)



Houlihan Lokey's Role

The digital gambling landscape will remain dynamic for years to come as the sector continues to evolve. Houlihan Lokey is well positioned to help investors, executives, and operators navigate this complexity by virtue of its deep industry experience and platform, including its:

- Business model expertise
- Deep network across the gaming space
- Best-of-breed M&A and financing execution capabilities
- Extensive global knowledge of the relevant M&A and financing market trends
- Hands-on approach with senior-level attention that ensures an optimal outcome for our clients

Please feel free to reach out to any of the Houlihan Lokey contacts listed in this primer for a conversation about how we can work together. We look forward to hearing from you!

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Public Gaming Comparables – Trading Metrics

(in \$M, except Stock Price)

	Company	Stock Price	52-wk High	% of 52-wk High	Cash & ST Inv	Equity Mkt Cap	Enterprise Value	EV/Revenue		EV/EBITDA	
								CY 2022E	CY 2023E	CY 2022E	CY 2023E
Affiliate	BETTER COLLECTIVE	\$12.84	\$19.58	65.6%	\$32	\$700	\$919	3.3x	2.9x	10.4x	8.5x
	GiG	2.58	2.90	89.0%	14	317	379	3.9x	3.1x	10.8x	7.1x
	gambling.com	9.12	12.96	70.4%	35	308	281	3.8x	3.0x	12.2x	8.2x
	catenamedia	1.90	5.51	34.4%	28	137	184	1.2x	1.4x	3.9x	3.6x
	RAKETECH	1.72	2.61	66.0%	6	73	82	1.5x	1.3x	3.8x	3.2x
	Median					\$308	\$281	3.3x	2.9x	10.4x	7.1x
Land-Based	Sands	\$49.33	\$49.78	99.1%	\$5,836	\$37,695	\$47,152	11.1x	5.8x	NM	15.3x
	MGM RESORTS INTERNATIONAL	33.28	49.00	67.9%	5,295	12,780	41,412	3.2x	3.0x	12.1x	10.6x
	CAESARS ENTERTAINMENT	42.26	96.10	44.0%	944	9,068	33,616	3.1x	2.9x	10.5x	8.9x
	Wynn Resorts	85.61	96.50	88.7%	1,944	9,624	19,905	5.4x	3.9x	27.2x	14.8x
	PENN ENTERTAINMENT	29.27	51.72	56.6%	1,728	4,474	15,662	2.4x	2.4x	8.0x	7.8x
	CHURCHILL DOWNS	210.25	249.33	84.3%	111	7,726	10,838	6.0x	4.3x	14.2x	10.1x
	BOYD	54.39	72.72	74.8%	253	5,677	9,148	2.6x	2.7x	7.2x	7.8x
	red rock resorts	40.80	54.29	75.2%	101	2,348	5,130	3.1x	3.1x	7.0x	7.2x
	Bally	18.46	38.67	47.7%	171	872	4,954	2.2x	2.0x	9.2x	9.2x
	GOLDEN ENTERTAINMENT	37.40	59.96	62.4%	170	1,066	1,996	1.8x	1.8x	7.4x	7.8x
	MONARCH CASINO & RESORT, INC.	75.94	94.26	80.6%	33	1,440	1,447	3.0x	2.9x	8.6x	8.6x
	ACE ENTERTAINMENT	7.93	14.04	56.5%	251	694	964	1.0x	0.9x	6.0x	5.8x
	CENTURY CASINOS	6.95	13.55	51.3%	99	208	773	1.8x	1.5x	7.2x	5.6x
	FULL HOUSE RESORTS	7.40	11.94	62.0%	86	255	589	3.7x	2.0x	16.8x	7.7x
	CROWN EAST	5.92	7.01	84.4%	12	132	170	3.3x	2.9x	9.4x	7.7x
	Median				\$2,348	\$5,130	3.1x	2.9x	8.9x	7.8x	

Source: S&P Capital IQ as of January 3, 2023.

Public Gaming Comparables – Trading Metrics (cont.)

(in \$M, except Stock Price)

	Company	Stock Price	52-wk High	% of 52-wk High	Cash & ST Inv	Equity Mkt Cap	Enterprise Value	EV/Revenue		EV/EBITDA	
								CY 2022E	CY 2023E	CY 2022E	CY 2023E
B2B	Evolution	\$100.46	\$124.71	80.6%	\$313	\$21,418	\$21,172	13.6x	11.1x	19.7x	16.0x
	ARISTOCRAT	20.62	30.87	66.8%	1,962	13,564	13,397	3.5x	3.3x	10.4x	10.1x
	IGT	22.55	30.84	73.1%	401	4,494	9,847	2.4x	2.4x	6.0x	6.0x
	LIGHT & WONDER	58.12	68.84	84.4%	1,277	5,444	8,121	3.3x	3.1x	9.0x	8.2x
	KONAMI	45.64	69.12	66.0%	1,578	6,185	5,183	2.2x	1.9x	7.7x	6.9x
	sportradar	9.71	19.48	49.8%	503	2,886	2,616	3.4x	2.8x	19.7x	14.8x
	playtech	6.42	8.91	72.1%	712	1,927	2,389	1.4x	1.4x	5.7x	5.5x
	EVERI	14.24	24.23	58.8%	272	1,274	2,004	2.6x	2.5x	5.4x	5.1x
	aqs	4.89	8.68	56.3%	43	185	712	2.3x	2.2x	5.2x	5.0x
	Genius SPORTS	3.39	7.92	42.8%	117	685	582	1.7x	1.5x	NM	14.2x
	Kambi	18.29	25.79	70.9%	45	561	538	3.0x	2.6x	8.8x	6.9x
	neogames	12.91	30.77	42.0%	61	330	471	2.3x	1.5x	8.6x	6.0x
	BRAGG	3.95	7.39	53.5%	17	83	72	0.8x	0.8x	6.4x	5.1x
GAN	1.38	9.38	14.7%	49	58	37	0.3x	0.2x	3.8x	2.4x	
	Median				\$1,600	\$2,196	2.4x	2.3x	7.7x	6.5x	
B2C	Flutter	\$137.25	\$148.22	92.6%	\$1,826	\$24,164	\$27,579	3.1x	2.6x	21.3x	14.7x
	Zintain	16.19	21.27	76.1%	566	9,532	12,222	2.4x	2.2x	10.8x	9.6x
	The Lottery Corporation	3.06	3.29	92.8%	374	6,806	8,145	3.6x	3.4x	17.0x	16.0x
	FDJ	40.41	41.82	96.6%	628	7,710	7,580	2.9x	2.8x	12.0x	11.7x
	DRAFT KINGS	11.05	27.98	39.5%	1,383	4,960	4,909	2.3x	1.7x	NM	NM
	kindred	10.66	10.89	98.0%	297	2,320	2,229	1.7x	1.4x	13.3x	8.3x
	Rank Group	0.95	2.04	46.6%	119	445	641	0.8x	0.7x	5.1x	4.7x
	JUMBO	9.65	13.43	71.8%	47	605	560	7.0x	5.7x	13.9x	12.5x
	888 HOLDINGS	1.06	3.75	28.1%	300	471	190	0.1x	0.1x	0.5x	0.4x
	GALAXY GAMING	2.33	5.39	43.2%	19	57	92	NM	NM	NM	NM
	RUSH STREET GAMING	3.67	16.55	22.2%	195	235	42	0.1x	0.1x	NM	NM
	Median				\$2,320	\$2,229	2.3x	2.0x	12.6x	10.7x	

Source: S&P Capital IQ as of January 3, 2023.

Public Gaming Comparables – Operating Metrics

(in \$M, except Stock Price)

	Company	Stock Price	Equity Mkt Cap	Enterprise Value	Revenue		EBITDA		Revenue Growth		EBITDA Margin	
					CY 2022E	CY 2023E	CY 2022E	CY 2023E	2021-2022E	2022-2023E	2021-2022E	2022-2023E
Affiliate	BETTER COLLECTIVE	\$12.84	\$700	\$919	\$282	\$322	\$88	\$109	40.0%	14.2%	31.3%	33.8%
	GiG	2.58	317	379	96	123	35	53	2.7%	27.5%	36.5%	43.3%
	gambling.com	9.12	308	281	74	94	23	34	73.8%	27.8%	31.2%	36.4%
	catenamedia	1.90	137	184	148	132	47	51	NM	NM	31.6%	39.0%
	RAKETECH	1.72	73	82	55	61	21	26	25.7%	10.5%	38.8%	42.5%
	Median			\$308	\$281	\$96	\$123	\$35	\$51	32.9%	20.9%	31.6%
Land-Based	Sands	\$49.33	\$37,695	\$47,152	\$4,232	\$8,108	\$841	\$3,076	NM	91.6%	19.9%	37.9%
	MGM RESORTS	33.28	12,780	41,412	12,847	13,782	3,433	3,913	35.9%	7.3%	26.7%	28.4%
	CAESARS ENTERTAINMENT	42.26	9,068	33,616	10,783	11,400	3,207	3,784	12.7%	5.7%	29.7%	33.2%
	Wynn RESORTS	85.61	9,624	19,905	3,717	5,152	732	1,346	NM	38.6%	19.7%	26.1%
	PENN ENTERTAINMENT	29.27	4,474	15,662	6,403	6,436	1,951	2,000	8.4%	0.5%	30.5%	31.1%
	CHURCHILL DOWNS	210.25	7,726	10,838	1,805	2,511	764	1,075	13.0%	39.1%	42.3%	42.8%
	BOYD	54.39	5,677	9,148	3,521	3,451	1,263	1,172	4.5%	NM	35.9%	34.0%
	red rock resorts	40.80	2,348	5,130	1,659	1,639	736	712	2.5%	NM	44.4%	43.5%
	Bally	18.46	872	4,954	2,249	2,459	538	540	70.1%	9.3%	23.9%	22.0%
	GOLDEN ENTERTAINMENT	37.40	1,066	1,996	1,120	1,082	270	257	2.1%	NM	24.1%	23.8%
	MONARCH CASINO & RESORT, INC.	75.94	1,440	1,447	478	494	167	169	21.0%	3.3%	35.0%	34.2%
	ACE ENTERTAINMENT	7.93	694	964	967	1,057	162	165	31.6%	9.3%	16.7%	15.7%
	CENTURY CASINOS	6.95	208	773	433	529	108	139	11.4%	22.3%	24.9%	26.2%
	FULL HOUSE RESORTS	7.40	255	589	159	302	35	77	NM	89.6%	22.0%	25.4%
	CAMEO HOSPITALITY	5.92	132	170	52	58	18	22	96.3%	12.3%	35.1%	38.0%
Median			\$2,348	\$5,130	\$1,805	\$2,459	\$732	\$712	12.8%	10.8%	26.7%	31.1%

Source: S&P Capital IQ as of January 3, 2023.

Public Gaming Comparables – Operating Metrics (cont.)

(in \$M, except Stock Price)

	Company	Stock Price	Equity Mkt Cap	Enterprise Value	Revenue		EBITDA		Revenue Growth		EBITDA Margin	
					CY 2022E	CY 2023E	CY 2022E	CY 2023E	2021-2022E	2022-2023E	2021-2022E	2022-2023E
B2B	Evolution	\$100.46	\$21,418	\$21,172	\$1,551	\$1,908	\$1,076	\$1,327	27.6%	23.0%	69.4%	69.5%
	ARISTOCRAT	20.62	13,564	13,397	3,843	4,035	1,293	1,638	5.8%	5.0%	33.6%	32.9%
	IGT	22.55	4,494	9,847	4,146	4,124	1,634	988	1.4%	NM	39.4%	39.7%
	LIGHT & WONDER	58.12	5,444	8,121	2,486	2,644	898	747	15.5%	6.4%	36.1%	37.4%
	KONAMI	45.64	6,185	5,183	2,409	2,666	677	177	NM	10.7%	28.1%	28.0%
	sportradar	9.71	2,886	2,616	769	935	133	432	20.5%	21.5%	17.2%	18.9%
	playtech	6.42	1,927	2,389	1,654	1,707	418	392	20.7%	3.2%	25.3%	25.3%
	EVERI	14.24	1,274	2,004	775	814	374	143	17.3%	5.1%	48.2%	48.2%
	QGS	4.89	185	712	306	320	136	41	17.8%	4.6%	44.4%	44.6%
	Genius SPORTS	3.39	685	582	340	391	15	78	29.5%	15.0%	4.3%	10.5%
	Kambi	18.29	561	538	177	203	61	79	NM	15.2%	34.8%	38.1%
	neogames	12.91	330	471	202	315	55	79	NM	55.4%	27.0%	25.1%
	BRAGG	3.95	83	72	85	95	11	14	28.9%	11.5%	13.3%	14.9%
	GAN	1.38	58	37	142	157	10	16	14.2%	10.7%	6.8%	10.0%
	Median		\$1,600	\$2,196	\$772	\$874	\$255	\$160	17.8%	10.7%	30.9%	30.4%
B2C	Flutter	\$137.25	\$24,164	\$27,579	\$9,038	\$10,551	\$1,297	\$1,876	10.6%	16.7%	14.3%	17.8%
	Zintain	16.19	9,532	12,222	5,179	5,512	1,136	1,269	NM	6.4%	21.9%	23.0%
	The Lottery Corporation	3.06	6,806	8,145	2,279	2,415	479	511	NM	5.9%	21.0%	21.1%
	FDJ	40.41	7,710	7,580	2,618	2,675	631	649	2.1%	2.2%	24.1%	24.2%
	DRAFT KINGS	11.05	4,960	4,909	2,172	2,901	789	509	67.6%	33.6%	-36.3%	-17.5%
	kindred	10.66	2,320	2,229	1,315	1,557	168	270	NM	18.4%	12.8%	17.3%
	Rank Group	0.95	445	641	814	881	125	137	23.8%	8.3%	15.4%	15.5%
	JUMBO	9.65	605	560	80	98	40	45	15.4%	22.3%	50.5%	46.0%
	888 HOLDINGS	1.06	471	190	2,252	2,249	376	450	129.8%	NM	16.7%	20.0%
	GALAXY GAMING	2.33	57	92	NA	NA	NA	NA	NM	NM	NM	NM
	RUSH STREET GAMING	3.67	235	42	590	701	92	26	20.9%	18.8%	-15.6%	-3.7%
		Median		\$2,320	\$2,229	\$2,212	\$2,332	\$428	\$480	20.9%	16.7%	16.0%

Source: S&P Capital IQ as of January 3, 2023.

Recent Gaming M&A Transactions

(in \$M)

Close Date	Acquiror	Target	EV	EV / LTM Revenue	EV / LTM EBITDA
19-Dec-2022*	CHURCHILL DOWNS <small>INCORPORATED</small>	EXACTA	\$250.0	NA	NA
19-Dec-2022**	Hard Rock	Mirage LAS VEGAS	1,075.0	NA	NA
23-Nov-2022	Zintain	SuperSport World of Champions	712.5	NA	NA
01-Nov-2022	CHURCHILL DOWNS <small>INCORPORATED</small>	PENINSULA PACIFIC	2,750.0	NA	NA
01-Nov-2022	BOYD	PALA INTERACTIVE	170.0	NA	34.0x
30-Sep-2022	ENDEAVOR	OpenBet	800.0	NA	NA
27-Sep-2022**	Bally	Tropicana LAS VEGAS	148.0	NA	NA
26-Sep-2022	CHURCHILL DOWNS <small>INCORPORATED</small>	Ellis Park RACING • GAMING	79.0	NA	NA
31-Aug-2022	MGM RESORTS INTERNATIONAL	LeoVegas	694.5	1.5x	15.1x
16-Aug-2022	heads up	SPINOLA	66.3	NA	NA
08-Aug-2022	Evolution	nolimit CITY	360.2	10.0x	NM
04-Aug-2022	Flutter	Sisal	2,164.8	NA	NA
05-Jul-2022	IGT	iSOFTBET	167.3	5.5x	20.8x
01-Jul-2022	888 .com	William HILL Betting Shops/ European Arm	2,350.0	NA	7.5x
16-Jun-2022	neogames	aspireglobal	490.0	2.3x	15.4x
02-Jun-2022	ACELENTERTAINMENT	CENTURY GAMING TECHNOLOGIES YOUR TRUE GAMING PARTNER	164.2	NA	NA
17-May-2022**	MGM RESORTS INTERNATIONAL	Operations of THE COSMOPOLITAN of LAS VEGAS	1,625.0	NA	NA
05-May-2022	DRAFT KINGS	GOLDEN NUGGET	1,560.0	14.5x	NM
29-Apr-2022	VICI	MGM GROWTH PROPERTIES	17,200.0	3.4x	12.3x
01-Apr-2022	GiG	sportsbook by Golden Nugget	56.5	10.3x	NM
31-Jan-2022	gambling.com	BONUS FINDER	67.9	NA	NA
Median			\$490.0	5.5x	15.3x

Source: PitchBook.

* Based on announced date.

** Note that the Bally/Tropicana, Hard Rock Café/Mirage, and MGM/Cosmopolitan reflect transactions involving the operating assets.

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