



HOULIHAN LOKEY

CASINO GAMING

MARKET UPDATE | COVID-19



Casino Gaming Market Update: COVID-19

The outbreak of COVID-19 has resulted in a global health emergency and sent financial markets into a frenzy. Houlihan Lokey presents an assessment of the virus' impact on the casino gaming industry below.

Market Update

In recent weeks, COVID-19 (better known as coronavirus) has globally sent shock waves through markets and captured the attention of the world. Since mid-February, the outbreak has accelerated and infections have become widespread, resulting in significant market volatility that is expected to continue in the near term. Substantial disruption to business operations has occurred, and all sectors of the economy have been impacted, especially the casino gaming industry.

The general outlook of the industry is varied, and uncertainty is likely to persist until the duration and overall impact of COVID-19 can be determined. However, there are key trends in the space that demand attention:

- ① U.S. gaming industry has been effectively shut down, with all 465 commercial casinos now closed
 - Online casino gaming is seeing growth, although only live in four states (New Jersey, Pennsylvania, Delaware, and Nevada), and represents a very small percentage of revenue for most U.S. gaming companies
 - Online sports betting is live in nine states, but cancellation of almost all sporting events worldwide has significantly reduced revenue stream
- ② Focus has shifted to the balance sheet and liquidity
 - Operators and suppliers drawing available credit facilities and evaluating liquidity runway
 - Almost all except best capitalized furloughing and/or terminating most employees
 - Evaluating ability to make vendor, rent, and interest payments
- ③ Navigating an environment with many uncertainties, including:
 - Length of closure period
 - Time to reopen and ramp up once reopened
 - Impact of COVID-19 on the economy and consumer behavior in the short and long term
 - Federal government support in the form of loans or loan guarantees
- ④ Heightened concerns surrounding COVID-19 continue to cause volatility across markets with a flight to cash
 - The syndicated market has seen an effective shutdown; focus shifts to direct lenders, some that will be willing to provide financing but will be seeking significantly higher yields
 - Private equity, multi-strategy, and special situations funds have capital to deploy and began evaluating opportunities for investments

At this point, it is impossible for us to predict how long the outbreak and shutdown will last, as well as the lingering effects on businesses, the economy, and the credit and M&A markets. The U.S. Centers for Disease Control and Prevention (CDC) recently recommended no gatherings with 50 or more people take place for the next eight weeks. Earlier this week, President Trump said it may take until July/August for the U.S. to get the outbreak under control. We will continue to monitor this rapidly evolving situation and its impact on the gaming industry.

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Questions and Considerations

Volatile market conditions have created many questions for businesses. Houlihan Lokey's significant product and end-market expertise positions us to help review a variety of strategic alternatives.

How have the syndicated loan markets been affected by COVID-19?



Syndicated loan markets sold off to 90% of par, and new issuances have slowed to a trickle. Private market issuances are open, but on a case-by-case basis. Lenders are willing to provide financing, but are starting to seek higher yields and more structure on terms (i.e., covenants and definitions).

Can/should I refinance my existing capital structure? What about other options, such as a dividend recapitalization?



Due to current market volatility, opportunistic refinancing transactions have been shelved as issuers and underwriters opt to wait to understand how the financial performance will be impacted and to hold out for stable markets. Despite recent outflows, market liquidity remains stable, and opportunities to refinance will be available once volatility cools down.

What should I do if my covenants are tightening or my lenders are being difficult?



There are a number of alternative capital providers willing to engage in refinancing discussions. Please reach out to us directly to discuss your particular situation.

What should I do if I'm considering a sale?



Our relationships in the gaming industry, along with Wall Street's best private equity coverage group, gives us unmatched, real-time insights into current buyer sentiment and potential diligence and other concerns related to COVID-19 that directly inform our ability to construct a sale process roadmap to maximize value.

What should I do if I'm considering an acquisition?



As companies analyze inorganic growth opportunities, it's important to understand risks to target businesses posed by COVID-19, in addition to understanding the ideal structure for a potential acquisition. Now is a great opportunity to accelerate M&A dialogue. Our substantial buy-side expertise and leading Capital Markets Group position us to provide guidance and capital in the current environment.

Do I need to discuss COVID-19 as it relates to due diligence in a sale or financing process?



Yes. COVID-19 is part of the world we now live in. It is crucial to have a clear description of COVID-19 protocols in place, a plan of attack to ensure employees are safe, and an understanding of potential business impacts from COVID-19 moving forward.

How Houlihan Lokey Can Help

Our firm is extremely well equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients analyze, structure, negotiate, and execute the best possible solutions from both strategic and financial perspectives.

What We Offer

1 Corporate Finance

Mergers and Acquisitions

Capital Markets

Private Funds Advisory

Board Advisory Services

2 Financial Restructuring

Company Advisory

Financial Restructuring

Distressed M&A

Liability Management

Creditor Advisory

3 Financial and Valuation Advisory

Portfolio Valuation and Fund Advisory

Transaction Opinions

Corporate Valuation Advisory Services

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

Corporate Finance

We are widely recognized as a leading M&A advisor to the middle market and have long-standing relationships with capital providers, including commercial banks and other senior credit providers, insurance funds, asset managers, and mezzanine fund investors. Few other investment banks maintain the breadth of relationships and capital markets intelligence that we do.

Financial Restructuring

We have the largest restructuring practice of any global investment bank. Since 1988, we have advised on more than 1,000 restructuring transactions (with aggregate debt claims in excess of \$2.5 trillion). We served as an advisor in 12 of the largest 15 bankruptcies from 2000 to 2019.

Financial and Valuation Advisory

For nearly four decades, we have established ourselves as one of the largest financial and valuation advisory firms. Our transaction expertise and leadership in the field of valuation help inspire confidence in financial executives, boards of directors, special committees, investors, and business owners we serve.

Why We're Different

- ✓ Dominant in Special Situations and Restructuring
- ✓ Significant Experience With Financing Markets
- ✓ Senior-Level Commitment and Dedication
- ✓ Deep, Industry-Specific Expertise
- ✓ Superior Work Product/Technical Abilities
- ✓ Creativity, Imagination, Tenacity, and Positivity

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