

Behemoth or die, say casino experts

Jacob Greber and **Jemima Whyte**

Apr 12, 2019

Wynn Resorts is an increasingly attractive global partner for James Packer's Crown Resorts as the Las Vegas giant cleans up its corporate reputation under new management and confronts the hard reality of a globalising industry, say US-based industry experts.

Observers say Wynn may have shut down talks with James Packer's Crown gaming company after confidential discussions were revealed partly because it was fighting its own battle with regulators in Boston, where Wynn is building a multibillion-dollar casino due to open mid-year.

Wynn this week terminated \$10 billion takeover talks with Crown after [the AFR's Street Talk column revealed the discussions on Tuesday](#).

Crown confirmed it was in talks with Wynn about a \$14.75-a-share offer, split between cash and scrip.

Weathering the Boston storm

The discussions were revealed as the Las Vegas giant neared the final stages of a regulatory process with the Massachusetts Gaming Commission about its \$US2.6 billion (\$3.65 billion) Boston casino resort.

Brendan Bussman, a Vegas-based partner at Global Market Advisers – one of America's top gaming industry advisory firms – believes Wynn will overcome its regulatory challenges in Massachusetts, where authorities are reviewing management's suitability to run a major new casino in Boston Harbour.

"The company that Wynn is today is not the company that Wynn was a year ago," Mr Bussman told *AFR Weekend* on Thursday (Friday AEST).

Cleared this week by Nevada's gambling authority, Wynn is still awaiting a green light from Boston, which is probing how the company addressed sexual misconduct allegations levelled by staff against its founder and former chief executive Steve Wynn.

As part of its settlement with the Nevada gambling regulator, Wynn offered to bar Mr Wynn from any of the company's properties, according to reports out of Vegas.

"From a Nevada perspective, Wynn is in the clear," Mr Bussman said.

"And I think when push comes to shove I would hope that Massachusetts [gaming regulators] would continue to move forward. The company has gone through a transformation in leadership." Analysts, investors and other

observers say this regulatory inquiry in Boston was among reasons the company shut down the Crown negotiations. By implication Wynn is likely to re-enter the fray once those regulatory issues are resolved.

"They do need to sort that out for certain because a lot of the company's value is going to be dependent on a favourable decision in Massachusetts," said Anthony Cabot, a leading expert in gaming law at the University of Nevada Law Vegas law school.

"Whether that's the motivating factor determining a potential deal with Crown, I don't know," he told *AFR Weekend*. "But clearly the company needs to weather this storm."

A bad result in Boston also could harm its ability to move into a market like Australia.

"A very negative decision in Massachusetts would have implications in probably every jurisdiction they'd want to go into because it raises questions of suitability," said Mr Cabot, who has almost four decades' experience as a lawyer in the field.

"It may not be something they can't overcome in different jurisdictions, but it makes the journey a lot tougher."

Other suitors

Local analysts and investors agree Wynn is a good fit for Crown, not least because they argue Wynn's top-tier gaming assets and global reach would make a scrip component attractive to Mr Packer.

"They're good operators, with high-quality assets," said one analyst. "Why would you want to roll in your stock with second-tier assets?" Mr Packer, who owns 46.1 per cent of Crown, declined to comment on Friday.

Investors and analysts are pondering whether other suitors may emerge for Crown.

Among the possible suitors that have been mooted are Hong Kong-listed Melco Resorts and Entertainment, and Resort World Genting, based in Malaysia, as well as private equity funds that are seeking to deploy funds at a time when funding is freely available.

Analysts are considering how locally listed Star Entertainment Group, which owns Sydney's Star casino and has a market capitalisation of just \$4 billion, may be caught up in the fallout of Crown's terminated discussions. They downplayed the chance of Star considering a deal with Crown, partly because of scale, adding they believed it was unlikely Mr Packer would find Star scrip tempting.

Crown shares were down 8¢ to \$13.03 on Friday, still higher than the \$11.68 level at which they were trading before the discussions were made public but well below the \$14.30 the shares hit during the week.

Developing scale

One investor said he did not believe the sharemarket was factoring in the prospect of a deal.

Instead, he said the talks may have refocused attention on the value of Crown's long-term Sydney licence and the earnings potential once the Barangaroo site was complete. Crown is building a second casino in Sydney, which will operate for only VIPs, and a six-star luxury hotel resort.

On the forces of consolidation starting to hit the gaming industry, experts agree there is a compelling logic to developing scale.

"For large companies that want to grow, there are only a couple of ways to do it; one is obviously through large acquisition," Mr Bussman said.

While Crown and Wynn have been sidelined for now, such deals "make sense", he said.

"You can say this across the board – whether it's Asia, the US or Australia in this case as well – there just aren't a lot of growth opportunities.

You've got to figure out how to grow the company and increase shareholder value."

"The trend in the gaming industry in the past 10 years has been for consolidation," said Mr Cabot, who said motivations for scaling up included being able to bid for some of the mega-projects on the horizon.

These include a planned casino in Tokyo in coming years, which Mr Cabot believes would be an investment of the order of \$US12 billion.

"The reality is that if you're going to be a major casino company that has an opportunity to bid on a new casino in Tokyo, you've got to be a behemoth," he said.

"There are only a handful of companies in the world that can compete for it ... that's what's at stake for a lot of these companies – it's to have that scale."