



Private equity and online gambling: shy no more

Mervyn Metcalf, managing director, Global Leisure Partners



Over the recent past, private equity has invested heavily in the leisure sector, in everything from restaurants to gyms and from casinos to theme parks.

The simple reason was the industry delivered top-line growth with high-cash generation and banks were prepared to offer large amounts of cheap debt. These characteristics resulted in high returns for private equity investors.

However, the market has changed. Leverage is no longer available (cheap or otherwise) and a good performer talks of "flat is the new up".

With a significant amount of money still available to invest, private equity has started to assess investment opportunities in non-traditional leisure asset classes, especially online gaming assets.

Online gaming benefits from high growth and strong cash generation, so even in a low leverage environment, private equity returns appear interesting.

Online gaming, however, has historically been a difficult asset class for investors, which has meant there have been few transactions.

Primarily the reason for this has been the continued negative headlines surrounding the regulatory position of the industry. However, with DoJ settlements starting to fade and the ECJ fighting successfully against monopoly-dominated jurisdictions', it is now possible to gain comfort on many of the historical legal risks.

So where might private equity invest? B2B suppliers may be interested in the context of a technology investment, especially in light of increasing non-gaming players looking to enter the market.

B2C players offer options to grow a brand and own and monetise a customer demographic. In return, private equity provides potential liquidity to investors and/or firepower and management expertise to capitalise on attractive growth opportunities.

With attractive growth, potential for consolidation and an improving regulatory environment, private equity investors are spending an increasing amount of time laying their electronic chips.

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