

# OIC Research Group | Analyst Group Report

Analysts: Serena Lou, Felicia Ellenby, Theo Li, Elizabeth Low

Mar 23, 2024

## Blackstone Completes US\$6.1bn Crown Resorts Acquisition

### Transaction Summary

Announcement Date	March 22, 2021		
Transaction Size	A\$8.9bn (US\$6.1bn)		
Close Date	June 24, 2022		
Deal Structure	A\$13.10 per share (Cash)		
EV/LTM Sales	5.7x	EV/BV	2.1x

### Deal Background

- On June 24, 2022, real estate funds and private equity funds managed by Blackstone, one of the world's largest alternative asset managers, completed their 90% acquisition of Crown Resorts, an Australian entertainment group with core businesses and investments in the integrated resorts sector, through a tender offer. The deal comprises three premium resort and casino properties located in Melbourne, Perth, and Sydney. The transaction represents an all-cash deal valued at A\$8.9 billion.
- With its expertise in hospitality, Blackstone aims to assist Crown Resorts, one of Australia's largest casino operators, making a major contribution to the Australian economy, in reaching its full potential as a leading travel and leisure company.

### Deal Rationale

#### Acquirer

- Alignment with post-pandemic travel conviction theme:** Blackstone believes that [Australian tourism has entered a recovery phase](#), as Covid-19 vaccines have led to a resurgence in travel demand. The acquisition aligns with its aim to capitalize on the rebound in travel.
- Good deal on collection of real assets:** Despite facing pandemic and regulatory challenges, [Crown Resorts' assets have maintained a loyal customer base](#), making it an attractive investment opportunity. Blackstone intends to enhance the integrity and profitability of these assets. The success of Blackstone's turnaround of The Cosmopolitan in Las Vegas, which shares similarities in size and complexity with Crown Resorts, further bolsters its confidence in the deal's potential.
- Breaking into the Australian market:** Blackstone has been building presence in Australia for the past 12 years, and this transaction marks Blackstone's [largest-ever deal in the Asia-Pacific region](#).

#### Seller

- Opportunity to exit from business amid regulatory uncertainty:** With Crown Resorts facing [inquiries into the suitability of holding a gaming license](#) due to money laundering scandal, existing shareholders prior to the deal could leave the allegations behind and exit their investment.
- Favorable bid price as rival's interest faded:** The final bid price of A\$13.10 represents an [11% increase from the initial offer](#) in March 2021. As interest from rival Star Entertainment (SGR.AX) has waned, the one-third premium above the undisturbed price is enticing.

#### Acquirer

**Blackstone Inc. (NYSE: BX)**

**Blackstone**

Blackstone is the world's largest alternative asset manager, with \$1 trillion in AUM. The firm's portfolio features around 12,500 real estate assets and more than 230 portfolio companies. Blackstone specializes in a diverse range of investment strategies, including real estate, private equity, hedge fund solutions, credit, and more.

Founded Year	1985
HQ	New York, United States
Sector	Alternative Asset Management
Market Cap	US\$151.4bn (as of Mar 20, 2024)
Revenue (FY23)	US\$8.0bn
P/B Ratio	10.8x
Market Cap /Revenue	10.1x

#### Target

**Crown Resorts Limited**



Crown Resorts Limited is the leading entertainment and gaming group in Australia, holding and managing three major gambling and entertainment facilities: Crown Melbourne, Crown Perth, and Crown Sydney.

Founded Year	2007
HQ	Melbourne, Australia
Sector	Casinos and Gaming
Latest Valuation	US\$6.7bn
Revenue (FY21)	US\$1.1bn
P/B Ratio	2.0x
TEV/Revenue	6.1x

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## Short-term Implications

- **Revenue synergies:** In the short term, Blackstone's acquisition of Crown Resorts is anticipated to **yield immediate revenue synergies**. Leveraging Blackstone's expertise, Crown Resorts can swiftly optimize its operations, enhancing guest experiences and stimulating spending. Additionally, strategic initiatives may lead to the introduction of new amenities and entertainment options, **attracting more visitors and driving short-term revenue growth**. These synergies are expected to bolster Crown Resorts' market position and revenue streams, ensuring sustained profitability and competitiveness in the hospitality and leisure industries.
- **Improvements in operations:** Immediately post-acquisition, operational improvements driven by Blackstone's expertise will **elevate guest satisfaction and revenue streams**. Streamlining processes and refining resource allocation will ensure swift returns on investment and bolster profitability in the short term.

## Long-term Implications

- **Revitalisation of the tourism industry:** The Asia Pacific tourism market is anticipated to grow at a **CAGR of 11.6% from 2023 to 2033**, and experience a full recovery to pre-pandemic norms by 2025 or 2026. The return of Australia's Approved Destination Status, coupled with the reopening of China, has given a boost to visitor volumes in the last year. In particular, its **luxury tourism sector**, consisting of integrated resort developments and casinos, is expected to **outpace** the general market growth.
- **High stakes:** Blackstone's A\$799 million annual interest payments, quintupling Crown's FY22 EBITDA, raise investor concerns about potential overestimation in Crown's ability to rebound and meet debt servicing obligations. However, Blackstone management of \$1 trillion in funds and proven track record of transforming struggling companies offers reassurance.

## Risk and Considerations

- **Money laundering fines causing major financial losses:** The company's failure to track and report suspicious transactions has led to multiple money laundering issues in the past, incurring hefty fines and compliance costs that have resulted in financial setbacks totaling hundreds of millions of dollars.
- **Sharp decline in international VIP revenues:** Crown is seeing a decline that poses a major threat to its business model, which relies heavily on attracting international VIPs, particularly from China. With China enforcing stricter gambling laws and Crown ending ties with illegal junket partnerships to meet legal standards, the company is shifting focus to local and casual players, who may not generate as much revenue.
- **License revocation threat for Crown Sydney:** Crown Resorts, which relies heavily on its casino operations as its primary source of income, may face critical risk of losing its license after the conditional two years to operate in Sydney. The NSW Authority will rigorously oversee the casino's activities, and any instances of money laundering or illegal operations could result in the shutdown of its casino business.

## Precedent Transactions

Announcement Date	Target	Acquirer	Target Location	% Acquired	Deal Size (US\$)	EV/Sales	EV/EBITDA
03/22/2021	Crown Resorts Limited	Blackstone	Australia	100%	US\$6.4bn	5.7x	24.4x
11/10/2020	Great Canadian Gaming	Apollo Global Management (NYSE:APO)	Canada	100%	US\$1.9bn	20.0x	76.9x
06/24/2019	Caesars Entertainment (NasdaqGS:CZR)	Eldorado Resort (NasdaqGS:ERI)	United States	100%	US\$9.1bn	2.1x	7.8x
12/18/2017	Pinnacle Entertainment (NASDAQ:PNK)	Penn National Gaming (NASDAQ:PENN)	United States	100%	US\$1.9bn	2.3x	8.9x
06/12/2017	American Casino & Entertainment Properties	Golden Entertainment	United States	100%	US\$882mm	2.7x	12.0x
<b>Mean</b>	-	-	-	-	<b>US\$3.5bn</b>	<b>6.8x</b>	<b>26.4x</b>
<b>Median</b>	-	-	-	-	<b>US\$1.9bn</b>	<b>2.5x</b>	<b>10.5x</b>