



# Casino gaming: Risks through recovery

Sector trends, challenges and opportunities in 2021 and beyond

May 2021



## Foreword

As the casino industry starts to emerge from one of the most difficult periods in its history, operators have a short window of time to assess the landscape. Issues arising since the emergence of COVID-19 include changing consumer and employee behavior; online gaming, touch-free interactions, and other digital innovation; and a developing regulatory environment.

In the pages that follow, KPMG is delighted to present our views on these and other trends impacting land-based casino operators in the United States based on our collective experience and analysis. By understanding the benefits and challenges of each, operators have an opportunity to mitigate risks, explore new avenues for growth, and ultimately, gain a competitive advantage heading into recovery.

# State of the industry

## Impact of COVID-19

Prior to COVID-19 shutdowns in 2020, the U.S. gaming industry was growing as a result of increased spending on domestic trips taken by U.S. consumers, and inbound trips taken by non-U.S. residents. At the same time, more states were authorizing gaming (including sports betting and online versions of both sports betting and casino gaming), resulting in new entrants and increasing domestic competition. Since the start of the pandemic, the industry has experienced the following impacts:

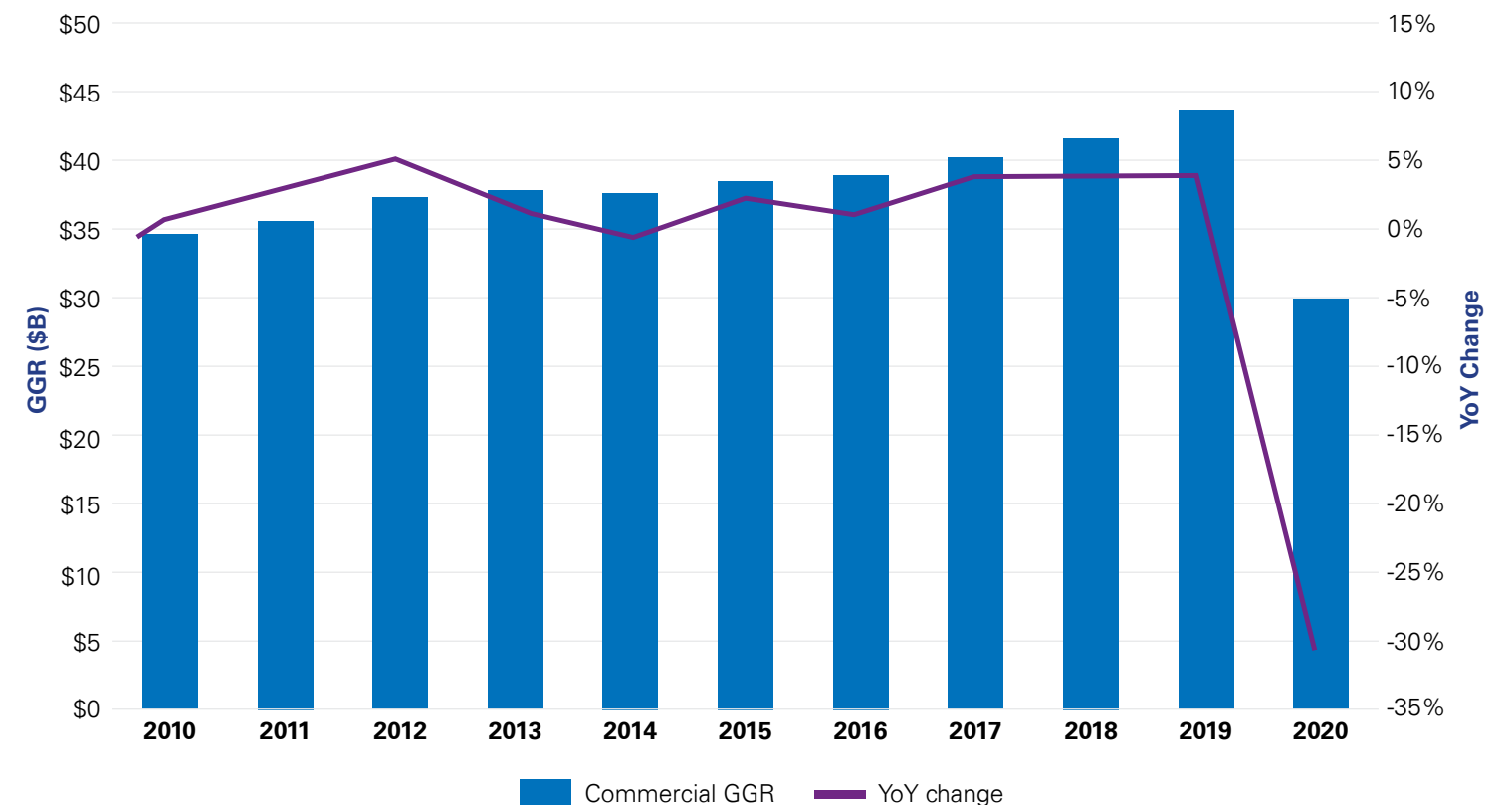
### Reduced revenues and economic fallout

U.S. commercial casino gaming revenue fell more than 31 percent to \$30 billion in 2020, the lowest level since 2003 despite three times as many legal jurisdictions, according to the American Gaming Association.

Destination casinos took the hardest hit, impacted by steep declines in business and leisure air travel as well as canceled meetings and conventions. Local and regional casinos performed more strongly, representing an easier and less expensive alternative for customers to visit without flying or staying overnight.

Casino closures had a cascading negative impact on their communities and regions, leading to thousands of employees out of work and reduced revenues to surrounding businesses.

## U.S. Annual Commercial Gross Gaming Revenue



Source: American Gaming Association, Annual Commercial Revenue (April 2021)



The U.S. experienced **\$43.5 billion** in lost economic activity in April and May 2020 when **98 percent** of all gaming properties temporarily closed.<sup>1</sup>



Nearly **\$74 billion** in total annual wages for **649,000 employees** were at risk as casinos were forced to reduce their workforce and continue to keep staffing levels lower.<sup>2</sup>



Closures also impacted the local communities around the casinos, which help drive an estimated **\$52 billion** in small business revenues annually.<sup>3</sup>

<sup>1</sup> iGB North America, "US economy faces \$43.5bn hit from casino closures" (March 20, 2020).

<sup>2</sup> iGB North America, "Final US commercial casinos close amid Covid-19 outbreak" (March 20, 2020).

<sup>3</sup> American Gaming Association, "AGA CEO Statement on Economic Impact of COVID-19 on U.S. Casino Gaming Industry press release" (March 19, 2020).



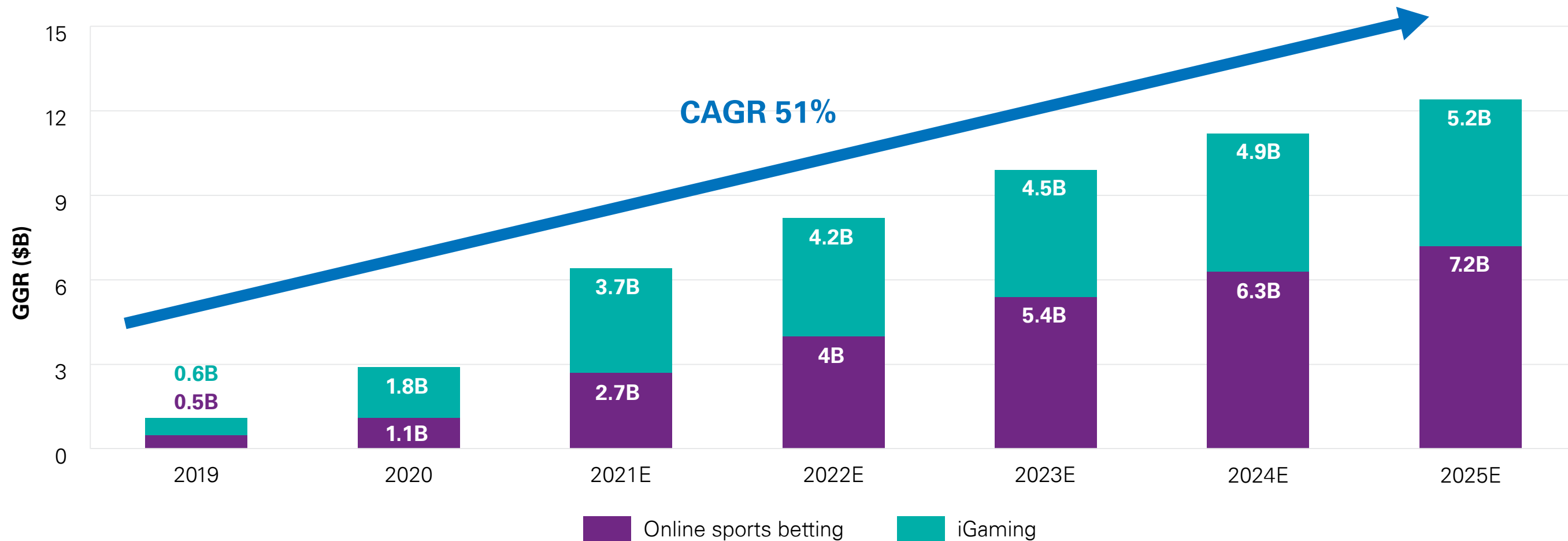
## Digital transformation

Customers increasingly demand omnichannel experiences with brands across all sectors—a trend that was accelerating even before COVID-19 made digital access to goods and services a necessity. Digital connections are complementing or replacing the in-person interactions of more traditional business models, requiring investment in IT infrastructure and security. The desire to participate in this industry transformation is leading to partnerships and deals.

Online gambling and online sports betting surged due to the closure of casinos. Major players are entering both sectors, further accelerating growth since the 2018 repeal of PASPA, and that growth is expected to continue.

Based on 2020 U.S. gaming revenue by segment, as well as several industry forecasts, online gaming revenues could expand from just around 1 percent of all U.S. gaming revenues today to more 15 percent by 2030.<sup>4</sup>

### Online gaming and sports betting forecasts through 2025



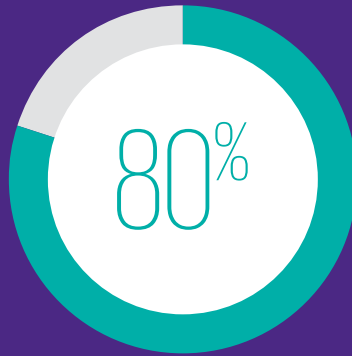
Source: State gaming boards; Vixio GamblingCompliance estimates; KPMG estimates

<sup>4</sup> Eilers & Krejcik Gaming, Truist Securities, H2 Gambling Capital, Union Gaming, American Gaming Association

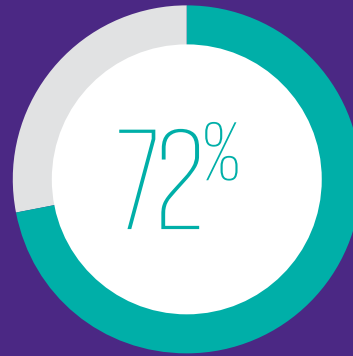


## Consumer interest in cashless wagering

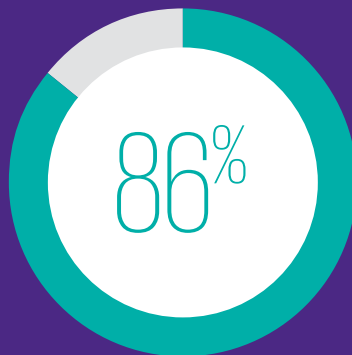
Growing interest in digital payment and cashless wagering also reflects COVID-19 trends, accelerated by the pandemic. U.S. contactless transactions could multiply an estimated eight times from \$178 billion in 2020 to \$1.5 trillion in 2024.<sup>5</sup>



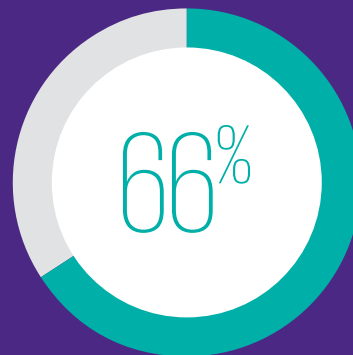
Would consider using a mobile application or other contactless method of wagering and payment at the casino if given the option\*



Likely to use cashless payments in casinos\*\*



Concerned regarding acquiring COVID-19 through cash payments\*\*



Likely to visit casinos offering cashless gaming\*\*

Source: \* KPMG, "Gaming companies place their bets" (September 2020).

\*\* The Innovation Group, "Coronavirus Recovery Consumer Research Casino Industry" (August 12, 2020).

<sup>5</sup> Keefe, Bruyette & Woods citing Juniper Research, PYMNTS.com, company filings. June 7, 2020.

## Industry activity

As traditional operators have worked to integrate online offerings, and as new entrants are attracted by increased availability of online gaming and sports betting in the U.S., a wave of mergers and acquisitions and other transactions have occurred. The timing coincides with the wave of SPAC offerings and transactions, where emerging companies are going public as well.



Penn National Gaming entered into an agreement with Barstool Sports in January 2020 to acquire a 36 percent interest in return for being Barstool's exclusive gaming partner. Barstool is now the brand on several sportsbooks at Penn National resorts, and the company's Barstool-branded betting app was launched in early 2021.

DraftKings went public through a merger with SPAC Diamond Eagle Acquisition Corp., a transaction worth approximately \$3 billion. Diamond Eagle also bought SBTech, an online sports betting platform provider.



Bally's Corporation (formerly Twin River Holdings) has entered into several transactions with a stated goal to be an omnichannel gaming company, including the purchase of Bet.works (a U.S.-based online betting platform), Monkey Knife Fight (a daily fantasy company), and Gamesys (a U.K.-based online platform). In parallel, Bally's and Sinclair Broadcasting joined forces for regional sports networks with Sinclair taking a 15 percent stake in Bally's.

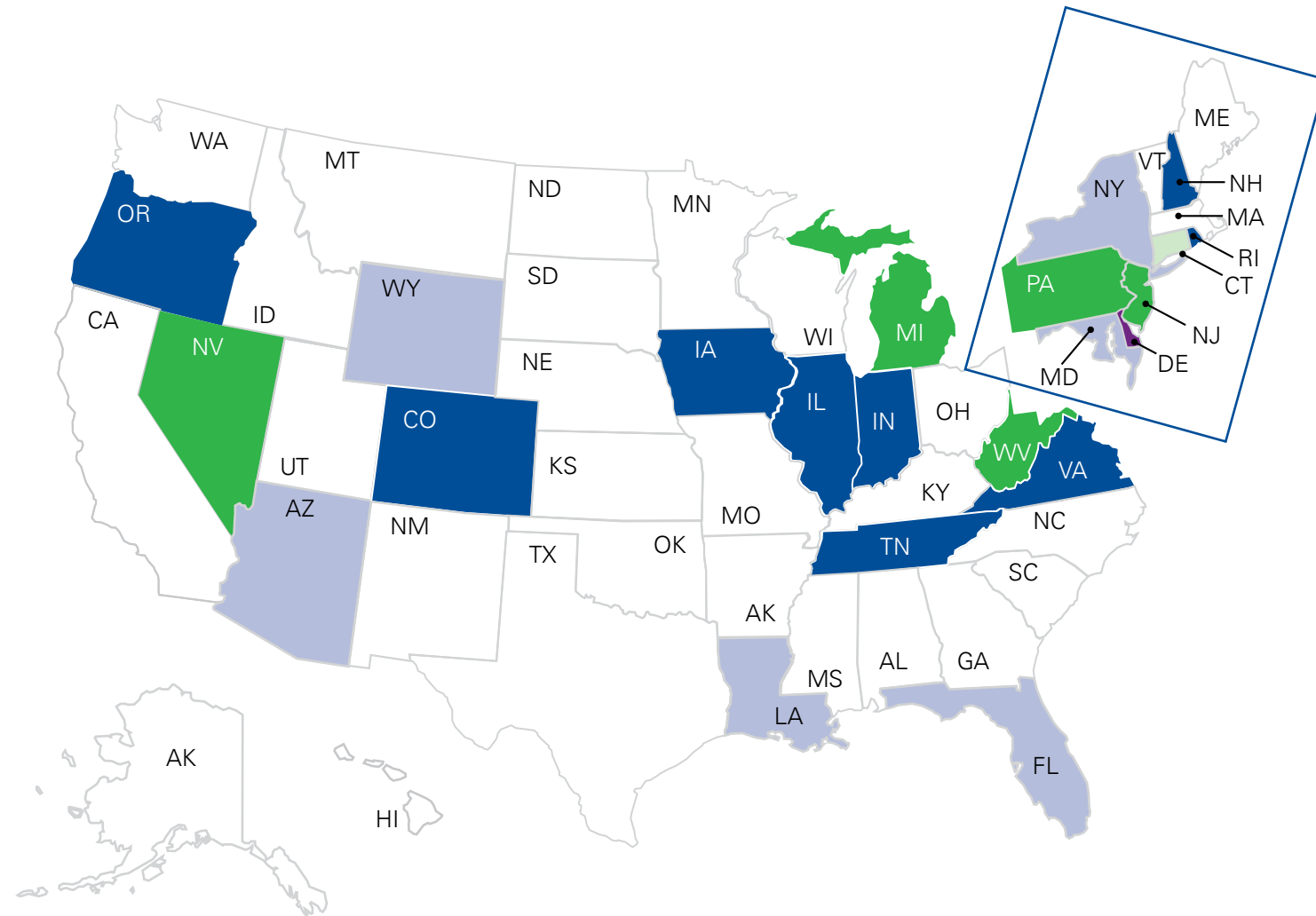
Caesars Entertainment, Inc. acquired William Hill Plc. for \$4 billion in a deal that closed in April 2021. The combined online presence of Caesars now covers most states in the U.S., where online betting is legal and covers sports, iGaming, and poker, with a goal to have all play linked to the Caesars' Rewards loyalty program.



Source: Company websites and quarterly earnings announcements

## Expanding markets and competition

More states are expected to legalize gambling to generate tax revenues to compensate for lost revenues during COVID-19.



- Legal online sports betting
- Pending online sports betting
- Legal online casino
- Legal online casino AND sports betting
- Pending online casino AND sports betting

Source: Vixio GamblingCompliance, Legal Sports Report, American Gaming Association, various news articles.

## New health and safety measures

The industry introduced a host of practices to keep customers safe and comfortable.

### Social distancing

Between customers and with casino staff, enforced and suggested through clearly marked spacing and physical barriers.

### Clear communication

Through onsite and digital channels that demonstrate operator efforts to safeguard customer health and safety.

### Keeping sick people out

Through rigorous employee health protocols, and customer temperature checks, surveys and other measures.

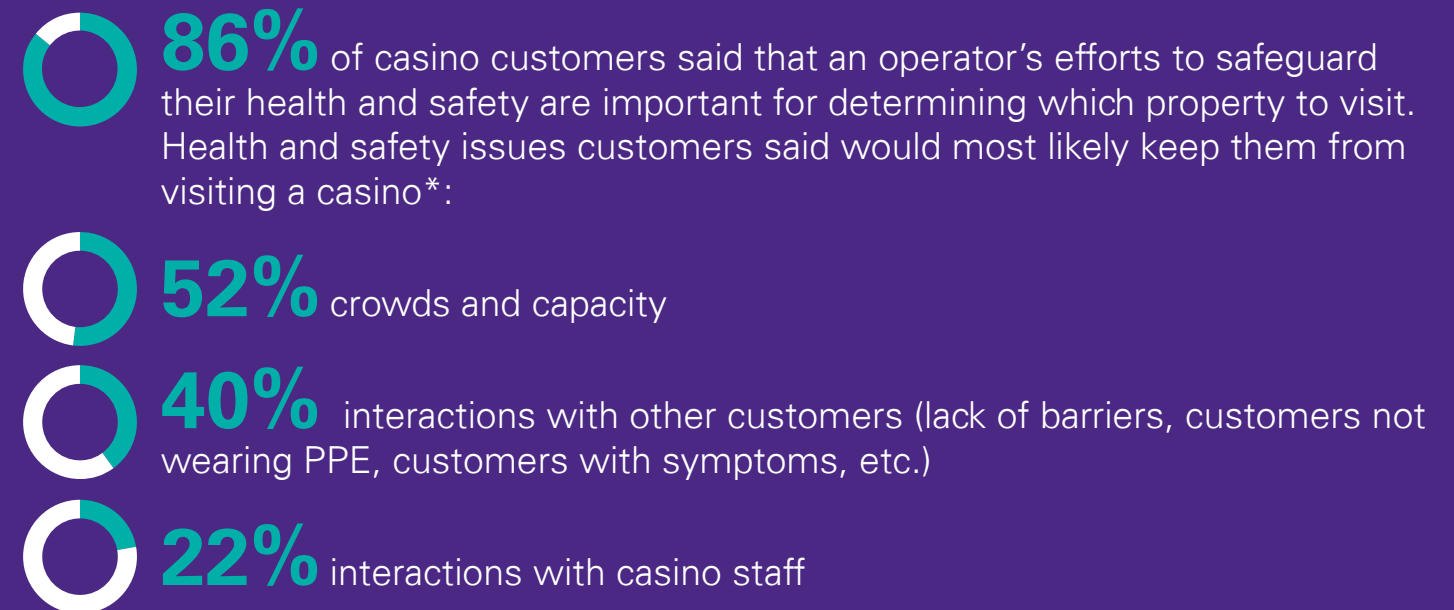


### Heightened facility cleanliness

For surfaces such as slot machines, chips and dice, in addition to surfaces around the property.

### Touch-free options

In the form of digital payment and cashless wagering.



More insights from KPMG surveys of casino customers can be found in our thought leadership, [Gaming companies place their bets](#) and [Casinos play their next hand](#).

\* September 2020

## Recovery scenarios

The speed and depth of the recovery casino operators can anticipate is influenced by the pace their customers have the will and spending power to return, plus the potential for permanent structural change in the industry.

### Factors impacting destination and regional casinos

#### *Growth in online gaming*

Consumers grew comfortable with online and virtual interactions during shutdowns and may not fully return to in-person activities such as working in an office, retail and grocery shopping, and healthcare visits. Online gaming saw increased activity in tandem with demand for other virtual experiences, and companies with the resources to invest in digital options can participate in a faster “surge” recovery.

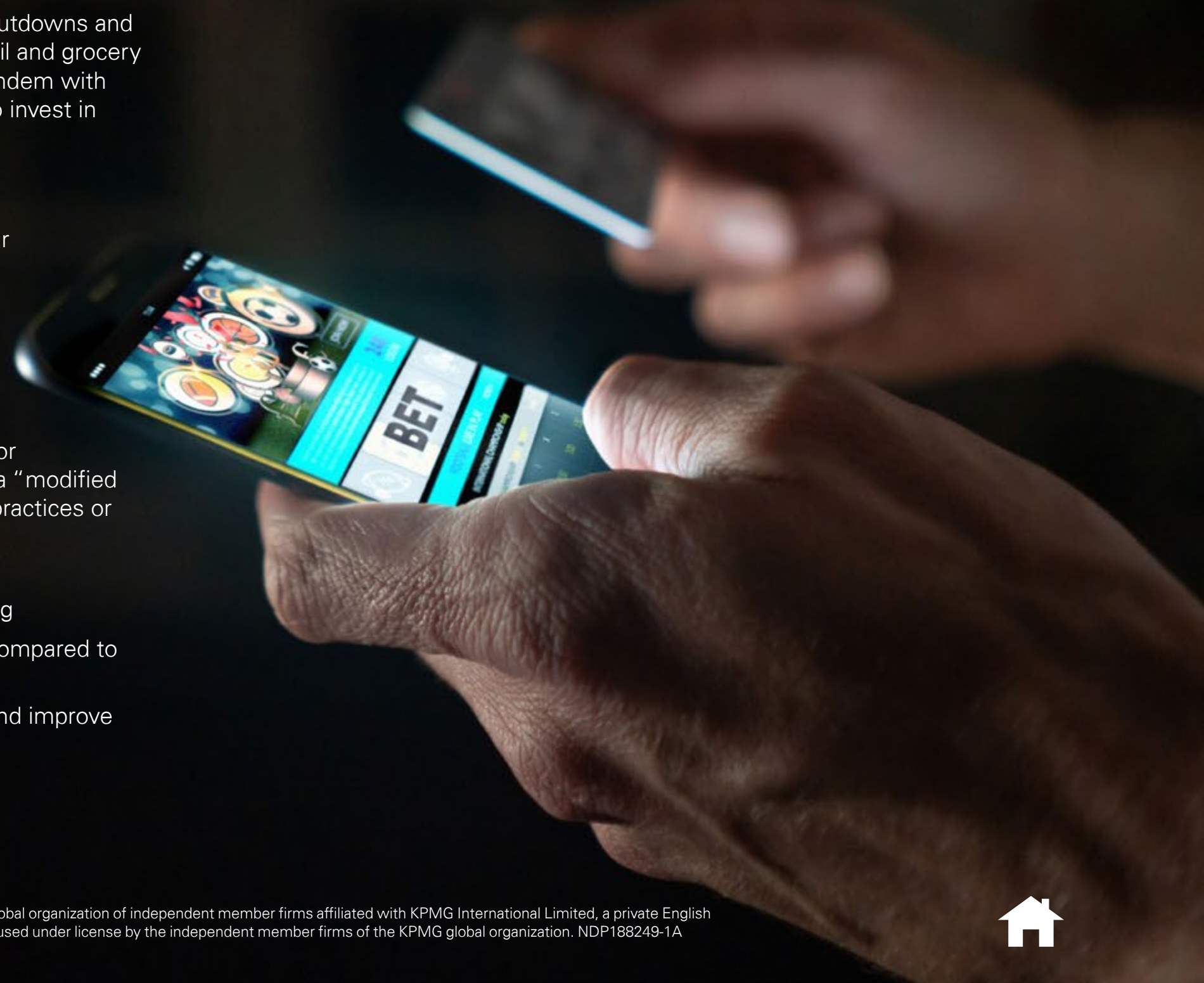
#### *Rollout of vaccines*

Destination casinos rely heavily on the return of air travel, conventions, and meetings. With millions receiving vaccinations daily in the U.S., domestic air travel is growing quickly. However, for these operators, a faster distribution of vaccines may be offset by a slow return of consumer discretionary spending. Casino gaming and other leisure activities are expected to recover more slowly as unemployment remains higher and average income lower than before COVID-19.

Meanwhile, regional casinos will benefit from an increasingly vaccinated population as consumers overcome their health and safety fears and look for short-distance entertainment. Ultimately, these operators may experience a “modified business-as-usual” recovery, without the major changes to their business practices or customer expectations.

### Opportunities

- Diversification through online gambling, social gaming, and sports betting
- Improved customer experience in clean and safe casino environments compared to prepandemic norms and perceptions is a competitive advantage
- Restructured or new business models that expand the customer base and improve operational cost efficiencies
- Improved shareholder value and employee loyalty with greater focus on environmental, social, and governance issues



# Industry risk profile

## Potential challenges facing the U.S. casino industry



### Consumer hesitancy to return

- Operators could still face significant pressures in regaining lost revenue and profit margin as new social distancing standards and public gathering restrictions may stay in place for some time.
- With continued U.S. unemployment and an uncertain recovery in some sectors, casino operators could face sustained lower revenues. For example, it took several years for business levels to recover after the financial crisis to prerecession levels.
- Consumer confidence could rebound with successful vaccine distribution, but consumers may not have the budget for travel and leisure, or they may remain concerned about travel for health and safety reasons.
- As of September 2020, 63 percent of casino customers surveyed by KPMG said they expect to visit less or not at all in the next 12 months.<sup>6</sup>



### Changing competitive landscape and market oversupply

- Against the backdrop of COVID-19 and the desire to generate additional tax revenue, more legislatures are considering or passing laws making it easier for gaming companies to operate in their states.
- New operations in online gaming, which increased legalized online gambling in states including New York, Florida, and others, could lead to a significant rise in gaming platforms and result in oversupply.
- Increasing competition compounds the impact of consumer hesitancy, creating the more competitive marketplace.



### Increasing cybersecurity challenges

- The increasing traction for online gambling and betting, and cashless wagering, can open companies up to cyber breaches.
- Greater cybersecurity challenges require more investment to secure the infrastructure.
- Regulations are increasing due to the high amount of consumer information being obtained by companies (GDPR, CCPA, etc.).



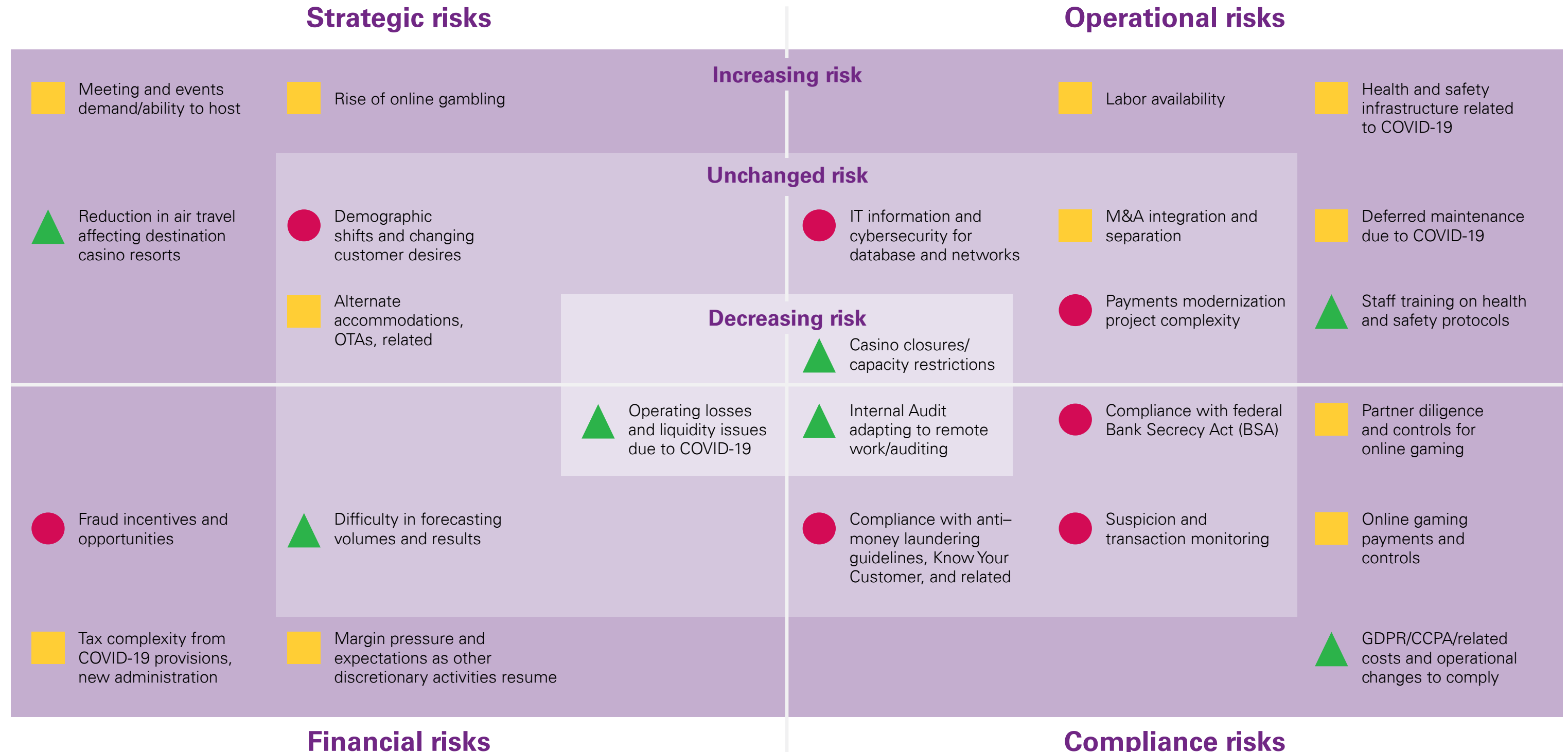
### Operational challenges due to regulations

- As land-based companies expand into online operations, lack of familiarity with regulations, controls, and audit procedures may cause heightened risk and failures.
- State-by-state regulations continue to evolve, with expanded casino gaming and the rollout of online gaming. Keeping abreast and current and adopting practices and controls to these regulations is, critical to avoid penalties and sanctions.
- Payments processing—whether online or cashless in a casino—is potentially a major change for many traditional casino companies. Exposure to KYC and AML violations and fraud may increase if controls and processes do not evolve.

<sup>6</sup> KPMG, "Gaming companies place their bets" (September 2020).



# Casino industry risk matrix 2021



Long term risks
 Medium term risks
 Short term risks





## Risk mitigation strategies

Casino operators introduced new technologies and processes upon reopening after COVID-19 shutdowns, some of which will likely be permanent changes designed to protect their business and improve efficiencies.

### Ongoing health and safety protocols

- Conduct health screenings of employees and customers prior to entering the establishment.
- Incentivize employees to receive vaccines.
- Improve ventilation in consultation with HVAC professionals to improve airflow.
- Install hands-free technologies to reduce contact with common touchpoints.
- Install physical barriers such as sneeze guards and partitions, particularly where it is difficult for individuals to remain 6 feet apart.



### Workforce management

- Invest in workforce training to adapt and operate during and after recovery from COVID-19.
- Implement workforce management tools that allow casino operators to schedule employees, manage payroll, and centrally run employee management tasks, including technology that allows employees to access their work schedules, request time off, trade shifts, and even set alerts for work timings.
- Consider staggered or rotated shifts to limit the number of staff on the floor at the same time.
- Encourage staff to avoid mass transit options such as trains and buses.
- Appoint a designated staff member in each shift to respond to COVID-19-related concerns.



### Diversification into online gambling

- Explore diversification into online gaming businesses to tap the growth in this area, expanded further during COVID-19 shutdowns.
- Consider partnering with location API companies that offer platforms that deliver critical location data, consent management, compliance services, and device profiling to ensure compliance with local and state regulations.
- Develop a robust financial management framework for transactions, particularly for online gaming.



### Centralized regulatory function

- Establish an enterprise-wide controls program across all lines of business and business functions. It should validate, through a risk-based approach, design and operating effectiveness of control on a recurring basis; therefore, creating an effective control environment keeping in mind key compliance obligations and strategic priorities.
- Invest in a workflow tool to reduce administrative costs, and streamline reporting within the regulatory compliance function.
- Conduct evaluation of existing processes and controls to consider automation and technology where possible.



# How KPMG can help

KPMG is working closely with companies in the hospitality and leisure sector, including hotels and casinos, to mitigate the impact of COVID-19 and other risks on their business, as well as uncover opportunities arising from emerging trends and new technologies.

Our U.S. Casino & Gaming team covers all subsectors in the industry, including suppliers, online gaming, and commercial and tribal operators, allowing us to provide a look ahead as the industry experiences rapid change. We also are deeply connected with our global gaming colleagues and in tune with market dynamics that continue to transform the industry worldwide.

KPMG has significant gaming industry experience across multiple corporate functions and needs, including the following:

- **Internal audit and compliance assistance**
- **Audit and tax**
- **AML compliance**
- **Finance transformation**
- **Operational efficiency and process improvement**
- **Risk assessment and management**
- **Cybersecurity**
- **Transactions and valuation**
- **Customer experience**
- **Organizational restructuring and workforce management**
- **Systems integrations**

Looking beyond today, we can work with industry participants to develop strategies for growth and leverage the data, analytics, automation, and artificial intelligence technologies that can transform companies. KPMG is committed to working with the gaming industry to create the future—now.



# Contact us

We look forward to discussing how we can bring our extensive experience to bear and assist you in addressing the challenges and capitalizing on the opportunities at your company.



**Rick Arpin**  
**Office Managing Partner**  
**Las Vegas**  
**T:** 702-498-7663  
**E:** rarpin@kpmg.com



**Debbie Biddle-Castillo**  
**Managing Director**  
**Advisory**  
**T:** 310-977-4853  
**E:** dlbiddle@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP188249-1A

