

MARKET INTELLIGENCE UPDATE | Coronavirus and the Gaming Industry

The Innovation Group (TIG) has been following the novel coronavirus closely since it entered the global stage in mid-January. Today, we have updates after our March 5 and March 13 releases, with more recent data and our current perspective on industry impacts. We recognize that gauging the effects of COVID-19 remains critical, but fleeting, with a constant flow of new information and media coverage, but few indicators of what it all means. The following sections provide an update to our historical and macroeconomic perspectives, and new considerations regarding the day-to-day struggles facing the industry and how we are beginning to measure the long-term effects.

The Innovation Group will continue to monitor developments over the weeks and months ahead, in consultation with operators and analysts.

WHAT HAS CHANGED?

Several changes, or themes within the last two weeks of covering COVID-19 are noteworthy, and have led to changes in how we are assessing any impacts and opportunities:

1. Most notably, since our initial coverage, casinos have closed their doors both in North America and most other jurisdictions. As a practical matter, this removes any question around the short-term revenue impacts on bricks-and-mortar establishments.
 2. Online gaming is expected to show notable revenue increases in March. While sports betting is limited by the number and types of events being held, live table games and proxy betting via online channels have new relevance where legal. The surge in online gaming was an expected development but the degree to which online play can offset losses in traditional casino play will be limited.
 3. Enhanced player engagement through online and social gaming channels is a positive way to add more meaningful content to otherwise sober releases from management.
 4. Casino properties and corporations are re-assessing their current employee status during closures based on emerging national regulatory parameters, which will affect short-term liquidity. Possible state and local regulatory relief is also entering the conversation. However, longer-term strategic matters primarily concerning debt are quickly reaching the forefront. (See the [Innovation Capital materials](#) also included in this release).
 5. Measured re-openings in Macau have shown the first signs of the eventual recovery of that market and the industry. Initial trial measures to reduce the risk of latent spread are a work in progress which could inform the overall industry as it moves painfully slowly in that direction.
 6. The near amelioration of new cases in China and leveling off in other regions is beginning to imply different COVID-19 cycle times. These cycles will become the impetus for the modeling exercise The Innovation Group is undertaking to forecast recovery and resulting economic and fiscal impact patterns as data becomes more available.
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THE CORONAVIRUS IN ASIA - RECAP AND UPDATE

As we covered previously, Macau confirmed its first case of the coronavirus on January 22. The next day, Macau's government cancelled all public celebrations of the Chinese New Year and later issued a mandatory 15-day closure of all 41 casinos in the territory to further prevent its spread.

On February 19, approximately two-thirds of Macau casinos were permitted to re-open with new, stricter safety measures in place. These precautions, which can be good exemplary measures for casinos in other jurisdictions around the world, included body temperature checks for all visitors and workers, a requirement that all guests and staff wear safety masks, and new casino floor operations restrictions – including a certain minimum space between tables in use, safe density of seating for players at gaming tables, and a cap on the number of operating tables in a given gaming area.

According to Macau Gaming Inspection and Coordination Bureau (DICJ), as of March 20, approximately 5,400 gaming tables at 38 of its 41 casinos resumed operations, representing over 80% of Macau’s total gaming capacity. Although it is expected that March GGR is likely to decline substantially on a year-on-year basis, the VIP segment has been stronger than mass, with high hold and significant volatility in smaller groups of players. Wynn and Melco properties in Macau are anticipated to have gained share on VIP relative outperformance.

More recently, as part of the effort to stop the spread of COVID-19, Macau has further tightened its entry controls due to an increased number of imported cases. The new measure, effective as of March 25, imposes a ban on entry for citizens of Hong Kong, Taiwan, and Mainland China if they have travelled to a foreign country in the past 14 days. Residents of the three locations are able to enter Macau if they have not been overseas but will need to go into a compulsory 14-day quarantine in a designated hotel. All other international visitors are barred entry for the time being.

The following table illustrates Macau’s monthly gross gaming revenue (GGR), according to the Macau Gaming Inspection and Coordination Bureau (DICJ). Looking at a two-month period from January through February year-over-year (which we do to account for changes in the Chinese New Year calendar), GGR in 2020 stood at only US\$3.1 billion versus US\$6.3 billion in 2019. This represents a 49.9% contraction that can arguably be attributed entirely to the impact of the coronavirus. The latest data shows that Macau’s gaming operators recorded GGR of US\$175 million through the first eight days in March, approximately \$22 million per day, down 79% year-on-year.

Monthly GGR in 2020 and 2019 (U.S. Million)			
	Monthly GGR		
	2020	2019	YoY Change
January	\$2,760.8	\$3,112.2	-11.3%
February	\$387.3	\$3,165.6	-87.8%
Jan/Feb Combined	\$3,148.1	\$6,277.8	-49.9%

Source: Macau Gaming Inspection and Coordination Bureau (DICJ), 1 MOP = 0.1248 USD

More broadly, from prominent large-scale integrated resorts in top destinations to regional gaming properties in emerging markets, casinos across Asia Pacific already have felt an impact from coronavirus. Relatively high incidence in South Korea has driven the temporary closure of Kangwon Land Casino, the only Korean casino where locals are permitted to gamble. As of March 23, all of South Korea’s major casino firms have suspended operations as a measure to combat the spread of COVID-19, including state-run casino operator Grand Korea Leisure (GKL) and Paradise Co Ltd that were still operating when Kangwon Land closed its casino in late February. In line with government orders, the various casino operators of Australia and New Zealand have also suspended their operations. Moreover, effective on March 26, the two IRs in Singapore, Resorts World Sentosa and Marina Bay Sands, provide for casino access only to those who are existing players card members of certain levels and have paid the annual entry-levy, in addition to the fully implemented safe distancing and seating

density requirements of no more than one patron per 16 square meters (172 square feet) and not permitting entry to groups of more than ten patrons.

It is interesting to note, however, that GKL and Paradise Co Ltd in South Korea reported robust year-over-year GGR growth for the month of February and for the combined period of January/February, as shown in the following table, despite closure of some non-gaming facilities in response to the virus.

	Feb 2020 vs. Feb 2019			Accumulated
	Total GGR	Tables	Slots	Total GGR
GKL	38.1%	50.4%	-32.5%	48.1%
Paradise	16.2%	18.7%	-12.9%	21.8%

Source: GGRAsia

Besides the properties' enhanced service and offerings, this growth is also believed to have been driven by the displacement of both VIP and premium mass-market players from Macau and surrounding markets, similar to what some Las Vegas-based gaming companies had originally found in their VIP segment from Asia prior to closures. Macau has now seen some improvement in visitor numbers – from around 5,000 visitors per day in late February to 8,000 at the start of March, and 11,000 over last weekend – again with a stronger showing in the VIP segment.

CURRENT RELEVANCE OF PAST IMPACT AND RECOVERY PROFILES

While there is no historical event of comparable impact, the coronavirus pandemic has qualities of all three types of disruptions that have afflicted the gaming industry over the past two decades – terrorist attack, contagion outbreak, and recession.

The following table shows the dramatic magnitude of COVID-19 (as of March 24) compared to the SARS epidemic of 2003.

	SARS 2003		COVID as of March 29	
	Cases	Deaths	Cases	Deaths
China & Taiwan	7,429	721	82,198	3,308
United States	27	0	143,050	2,513
Rest of the World	667	53	512,681	29,198
Total	8,123	774	737,929	35,019
Mortality Rate	9.5%		4.7%	

Sources: WHO, Johns Hopkins

Though short-term regional closures have resulted from flooding and wildfires in the past, the closure of the entire U.S. casino industry is without precedent. But with social distancing and extensive testing, there is evidence that containment is possible, as shown by slowing growth trends in China and South Korea in the following table. Experts are also cautiously optimistic that aggressive testing (as many as 5,000 a day) and containment measures in Washington, the first U.S. state to have a reported case (on January 20), is beginning to bear fruit. The U.S. surpassed China and Italy on March 26.

Global Coronavirus Case Trends

	March 4	March 12	March 25	March 29	Daily Growth March 4-12	Daily Growth March 12-25	Daily Growth March 25-29
China & Taiwan	80,422	80,932	81,782	82,198	0.1%	0.1%	0.1%
United States	149	1,323	76,514	143,050	31.4%	36.6%	16.9%
Republic of Korea	5,328	7,869	9,241	9,661	5.0%	1.2%	1.1%
Italy	2,502	12,462	80,589	97,689	22.2%	15.4%	4.9%
Rest of the World	4,689	25,277	263,477	405,331	23.4%	19.8%	11.4%
Total	93,090	127,863	511,603	737,929	4.0%	11.3%	9.6%
Washington State	70	457	2,580	4,896	26.4%	14.2%	17.4%

Sources: WHO, Johns Hopkins, Washington Dept. of Health

A United States containment forecast remains uncertain. Some states may recover more quickly than others, potentially allowing casinos to re-open. However, the possibility of new outbreaks popping up in new states could hinder interstate travel and customer perception of safety.

The following three areas are where the pandemic intersects historical impacts and moves well beyond them.

Customer perception of safety: The terrorist attacks of 9/11 led to a sharp decline in air travel and visitation to Las Vegas, which saw gaming decline by 12% in Q4 2001. The impact of the coronavirus pandemic is more systemic and widespread, as it affects not just perception of air travel but of all public spaces. So regional markets – assuming they had stayed open – would not likely have benefitted from gamers staying closer to home as most states did after 9/11. Where weekly reporting is available, in New York and West Virginia for example, slot revenue for the first two weeks of March 2020 declined. Resorts World New York had an 18.5% decline and Empire City (Yonkers) a 20% decline. West Virginia, which did not have a single reported case of COVID-19 until March 17, had a decline in slot revenue of 10% in the March 1-14 period.

Going forward, once casinos re-open, measures will have to be taken to ease fears the way airport security screening re-established trust in air travel after 9/11.

Employment: As we have noted in previous posts, during the Great Recession there was a clear correlation between employment and gaming revenue, with every 1% decline in employment matched by a 0.8%-0.9% decline in revenue. Recovery followed a similar trajectory and took approximately five years given the severity of the recession (8.8 million jobs lost over a 24-month period; an average of more than 600,000 a month during a 5-month peak). Many gamers cut back on gaming budgets or dropped out of the market altogether as a result of reduced income.

Unemployment claims last week reached 3.3 million, the highest ever by a factor of 4.7, and the ultimate impact will not be known for weeks or months. Many casinos and casino companies are continuing to pay their employees, and the \$2 trillion relief package will ameliorate the severity of the economic fall-out in the short-to-medium term. More relief packages may be forthcoming. Moreover, even in the case of a quick employment recovery, impacts on savings and retirement accounts are likely to be felt in reduced gaming budgets and patronage.

We offer further thoughts on casino staffing below as operational considerations.

Credit Markets: As we also noted in previous posts, a major issue faced by the gaming industry – and leisure in general – throughout the Great Recession was the inaccessibility of capital. This constrained greenfield and expansion planning, as well as upkeep at properties, which set the industry back a decade. Despite reduced interest rates today, there will likely be ongoing constraints within the financial markets for some time.

Finally, we would point out that areas of Asia could cycle through impacts and move to recovery ahead of other parts of the world where it appears COVID-19 could peak months later. Already, we have seen a downgrade in the number of new cases being reported in China, from an average of thousands per day six weeks ago and 400 per day a month ago to an average of approximately 60 new cases daily over the last three weeks. This should help offset impacts for companies with heavy exposure in Asia.

ONLINE GAMING

In our last update, we mentioned that we expected to see increases in online gaming numbers in the jurisdictions where iGaming is regulated. We have connected with several operators and they have confirmed that there has been significant growth relative to periods before government mandated bricks-and-mortar closures and stay-at-home measures were implemented. One operator indicated that there has been growth in both desktop and mobile channels and that the costs per acquisition have decreased considerably. Another online organization observed that both daily active users and revenues have increased with daily active users growing relatively more than revenue, which could be attributed to players facing uncertainty around future income leading them to tighten their entertainment wallets. A third group that offers both a real-money and social online platform has seen considerable increases in both businesses, with the boost in real-money revenues attributed to players migrating from bricks-and-mortar play and the social gaming increases coming from players who have established accounts in the past but who are making purchases for the first time. Once industry numbers are available for March, we will have a clearer idea how gaming customers are shifting play from bricks-and-mortar (and other leisure spend) to online channels.

OPERATIONAL CONSIDERATIONS

With the closing of all commercial casinos and most tribal casino operations, this is an unprecedented time for the U.S. gaming and hospitality industry, and the industry worldwide. The conversation has unfortunately but necessarily shifted from controlling labor and expenses in a reduced-volume environment to weathering full closures, managing cash flow to cover debt service, and – perhaps most difficult – an approach to staffing.

Labor: Casinos, like other businesses, are left in the predicament of balancing many decisions with an emphasis on labor. Casinos generally have loyal and hard-working workforces, and this brings real long-term value to the companies. Likewise, many operators have been working in tight labor markets recently, and the likely cost and duration of a rehire process that involves having to recruit hundreds of line-level employees is daunting. This combination has caused much of the industry to retain its workforce to date, but mixed messages from government, and many recent forecasts that push the pandemic's effects out into the medium term, have caused more operators to furlough workforces if not to reduce overall headcount in an effort to balance cash flow versus reserves. The impact of the relief bills will be different for everyone, and these are difficult and highly individual decisions to make.

Engagement: In the meantime, emerging from the crisis with strength requires engagement with guests. We see casinos sending communication ranging widely. Operators have sent personalized notes from the CEO with messages of care and well-being, and many have ramped up their social media presence to push engagement. Social gaming and iGaming are obvious outlets for the unmet demand, and in the absence of major sports leagues operating in the U.S., we're also seeing sports betting operators sending reminders of the limited slate of events – sumo wrestling, table tennis, and so on – still available for watching and wagering.

Looking Forward: Lastly, as Macau casinos come slowly back to life, we are left wondering what U.S. casinos will look like when they do re-open. We expect to see – at least at the outset – social distancing measures enacted on both slot and table floors, and highly frequent (and visible) cleaning on casino floors and in hotels and amenities. Such measures may be necessary to provide comfort to guests regardless of where we are scientifically or from a healthcare perspective. However, as we expect demand in most locations to require a ramp-up period, the relationship between supply and demand should be manageable.

The Innovation Group will continue to monitor impacts and developments related to COVID-19, pooling the feedback we receive from operators, investors, and customers. On the market front we are weighing methodological approaches to modeling potential demand recovery patterns. Operationally, we are tracking re-opening measures in Asia seeking best practices, and refining tools for addressing labor and marketing analytics during this difficult period with an eye toward recovery. Our team is available to discuss these services and the current market environment as needed.