

# Situational Analysis of Playtech During Economic and Industry Challenges (2020-2022)

## Understanding of the Economy, Industry, and Playtech's Position

### Economy

The global economic scenario from 2020 to 2022 was scarred by a pessimistic outlook, which was significantly influenced by the COVID-19 pandemic. Widespread business closures and heightened unemployment rates, evidence by the [U.S. Bureau of Labor Statistics](<https://fred.stlouisfed.org/series/UNRATE>), emphasized a substantial economic slowdown. The Federal Reserve's \$4.6 trillion injection aimed to stabilize the economy but resulted in inflation (<https://fred.stlouisfed.org/series/FPCPITOTLZGUSA>). However, an opposing viewpoint suggests a strong consumer capacity backed by surging savings rates (<https://fred.stlouisfed.org/series/PSAVERT>), which could potentially boost businesses and, by extension, the economy, returning us to normal conditions.

### Industry (Gambling and Online Gaming)

The gambling industry, especially brick-and-mortar casinos, experienced a fast decline during pandemic-induced lockdowns, while simultaneously online platforms navigated through hurdles caused by a surge in activity. The industry's trajectory, revealed by data from Consumer Expenditure on Gambling (<https://fred.stlouisfed.org/series/DGAMRC1A027NBEA>), indicates a potential declining interest or financial capacity for gambling activities, even with online platforms acting as a buffer. Furthermore, data ([https://fredblog.stlouisfed.org/2015/08/gamble-on-gambling/?utm\\_source=series\\_page&utm\\_medium=related\\_content&utm\\_term=related\\_resources&utm\\_campaign=fredblog](https://fredblog.stlouisfed.org/2015/08/gamble-on-gambling/?utm_source=series_page&utm_medium=related_content&utm_term=related_resources&utm_campaign=fredblog)) on the proportion of personal expenditures towards gambling has shown a consistent decline since the mid-2000s, suggesting a potential withdrawal in consumer interest in the sector, even prior to the pandemic.

### Playtech's Position

Playtech, though a significant technology provider for online gambling platforms, found itself in a risky position within the industry. A considerable portion of its assets was tied to strategic partnerships, such as Caliente, which presented limited liquidity. The optimistic valuation methods and strategic stories used by Playtech, during a general industry and economic downturn, indicated a potential misalignment with broader trends.

## Macro and Industry Dynamics and Asset Valuations (2020-2022)

The economic response to the pandemic saw a severe impact on businesses, particularly within the entertainment and gambling sectors, in 2020. In 2021, partial recoveries and adaptations to the online sector provided some relief, yet the industry continued to struggle with regulatory challenges and market saturation. Playtech, despite the out of control circumstances, opted for optimistic asset valuations, arguably to project

financial stability amidst widespread economic and industry challenges. However, given the macroeconomic challenges, regulatory difficulties, and declining industry trajectory, a more pessimistic asset valuation might have been wise during this timeframe.

## **Playtech's Accounting for Strategic Partnerships and Applicable Accounting Methods**

### **Cost Method**

Playtech initially employed the cost method, presenting assets at their purchase cost, thus offering a conservative valuation approach.

### **Fair Market Value**

However, the firm later transitioned to the fair market value method, which provides an inflated valuation based on external offers and discounted cash flow (DCF) models. While this method potentially offers an optimistic financial position, it may not accurately represent actual asset value during economic and industry downturns.

### **Equity Consolidation**

Equity consolidation, although not utilized by Playtech in this case, allows a company to combine its earnings with those from an associated company, providing a potentially more complete view of its financial health.

## **Playtech's Narrative (2020, 2021, & 2022)**

### **2020**

Playtech sought to communicate a story of stability and optimism in 2020, strategically establishing partnerships and utilizing online platforms while physical casinos were largely shutdown.

### **2021**

In 2021, the narrative evolved towards an optimistic depiction of asset valuation, particularly with the Caliplay partnership, and intended to show strong financial health through strategic investments despite ongoing economic challenges.

### **2022**

In 2022, despite the failed acquisition deal, Playtech persisted with its optimistic narrative, maintaining inflated asset valuations through alternative accounting methods in a bid to maintain stakeholder confidence.

## **Evaluation of Playtech's Narrative**

Playtech's narrative, whilst aiming to instill confidence and attract investment, may risk being perceived as misaligned with broader economic and industry contexts, potentially eroding investor trust in the long run. The asset valuation, especially of Caliplay,

seems contrasting with broader economic and industry trends, warranting a reevaluation of its position with external environments.

### **Further Considerations and Analysis**

Playtech, a smaller player in the industry with 1/5 of its total assets described as 'derivative financial assets', signifies a potentially vulnerable position in the industry. An increase of over 30 million in investment relations from 2021 to 2022 doesn't align with the estimated value of their company, indicating a potential lack of control or involvement with other significant players in the industry. Considering the uncertain economic state and a declining IPO market, the valuation of \$622 million, increasing to \$636.4 million post the Caliente deal fallout, may be viewed as overly optimistic. Even with optimal sensitivity analysis conditions, the asset is still valued at a maximum of \$601 million, prompting considerations of overvaluation.