PACIFIC FUNDS insights
DECEMBER 2022

THE GAMING SECTOR HAS BEEN ON A ROLL

After a short COVID shutdown, pent-up demand and cost cuts have benefited the gaming industry.

We recently sat down with Michael Long, senior analyst for Pacific Asset Management (sub-advisor to Pacific Funds fixed-income funds), to get his insights into why the gaming sector has been far from going bust.

How is the gaming sector doing right now?

Las Vegas is very healthy, and that's been driven by strong leisure demand, the return of entertainment, a rebound in the convention business, and the return of international travel. You have two professional sports teams—the Las Vegas Raiders of the NFL and the Las Vegas Golden Knights of the NHL—attracting fans to the city, and a couple of new casinos have opened recently. Regional gaming has been stable. Last year, the sector benefited from stimulus payments, but 2022 has been holding up well. Gaming companies have reported record EBITDA and record margins. Additionally, names like Caesars and Boyd Gaming have been upgraded by S&P due to their strong financial performance and deleveraging trend.

Given pandemic-related challenges, how did the gaming sector hold up so well versus other hospitality sectors?

During the COVID shutdown, management teams in the gaming industry reduced operating costs, especially in labor and marketing, got rid of low-margin operations such as buffets, and overall expanded margins. And those margins have proven to be sustainable. Casinos across the country closed their doors in mid-March 2020 and began to open in May and June of 2020. They were really one of the first entertainment options to open. You didn't have to fly to regional casinos, so they were the first to recover, and Las Vegas followed. There was quite a bit of pent-up demand. From a performance standpoint, the sector really got hit hard in the first six month of 2020. Subsequently, we've seen a nice rebound with gaming poised to outperform the market in 2022. In fact, year-to-date, the gaming sector has been the third best performing sector behind energy and aerospace and defense, according to Barclays.

Can you give us a sense for how gaming names tapped the fixed-income markets over the past couple years? How have they generally used the proceeds from these new bond issues?

Gaming companies started 2020 in solid financial shape. Then the pandemic hit, and companies such as Wynn, MGM, and Boyd tapped the market for additional liquidity in April and May of 2020. As the markets opened in the summer of 2020, we saw mostly refinancing. We had one big acquisition

financing, and that was Caesars' acquisition of Eldorado. In 2021, it was mostly refinancing taking place with a couple of small acquisition-related financing deals. We've only had four gaming high-yield new issues this year. The biggest was Churchill Downs bond deal for the acquisition of Peninsula Pacific.

Are the gaming names generally investment-grade companies or below investment-grade companies, and how do you think about risk/reward here as a credit analyst with a capital preservation mindset?

Gaming companies are below investment grade, but there are two gaming REITs that are investment grade. We tend to gravitate towards names with positive ratings momentum. From a risk/reward standpoint, we've seen gaming companies generate solid free cash flow and have healthy balance sheets. Many gaming companies have paid down debt and have lower leverage compared to pre-COVID. They have good liquidity and access to capital markets as demonstrated by their ability to tap the markets in early 2020.

Let's talk about the increasing number of states that have been passing legislation to allow sports betting. How big of an opportunity this is going forward for the gaming sector?

Thirty-six states have legalized sports betting, which represents about 55% of the U.S. population. Twenty-six states have legalized online betting, which represents about 45% of the U.S. population. And seven states have legalized iGaming. According to several Wall Street analysts, the total addressable market for sports betting and iGaming combined will be nearly $30 billion by 2030, and that compares to about $9 billion currently. So, it's a growth opportunity. However, because of the high spending associated with technology and customer acquisitions, the main online companies don't expect to be profitable until 2023 or 2024.

What other factors will help the gaming sector continue its growth?

New York City, Chicago and other regional markets are expanding their gaming offerings. I think the biggest opportunity in the U.S. will be in New York City. Macau in China is an opportunity. Recent news there has been positive. Concessions or licenses in Macau were awarded recently to existing holders, including MGM, Wynn and Las Vegas Sands. And China has been easing COVID restrictions and gradually reopening. All this would be in addition to the prospects for more states such as California and Texas to legalize sports betting.

What about the headwinds?

Clearly, the biggest headwind right now is the potential for a recession and a slowdown in consumer spending. Obviously, higher unemployment would be a negative. Continued high inflation and higher interest rates would also be headwinds as well as increased competition.

Before we end, I got to ask you, what's your favorite game of chance?

Believe it or not, I am not a big gambler. I don't play the slots. I don't play blackjack. I don't play poker. I have occasionally put some money on sports teams, but that's about it.

For more insights from Pacific Funds, visit **PacificFunds.com**

Any performance data quoted represent past performance, which does not guarantee future results.

The views in this commentary are as of the publication date and are presented for informational purposes only. These views should not be construed as investment advice, an endorsement of any security, mutual fund, sector or index, or to predict performance of any investment. Any forward-looking statements are not guaranteed. All material is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. The opinions expressed herein are subject to change without notice as market and other conditions warrant. All third-party trademarks referenced belong to their respective owners.

All investing involves risk, including loss of principal.

Investors should consider a fund's investment goal, risks, charges, and expenses carefully before investing. The prospectus and/or summary prospectus contains this and other information and should be read carefully before investing. The prospectus can be obtained by visiting PacificFunds.com.

Pacific Funds are distributed by Pacific Select Distributors, LLC (member **FINRA** & **SIPC**),a subsidiary of Pacific Life Insurance Company (Newport Beach, CA), and are available through licensed third parties. Pacific Funds refers to Pacific Funds Series Trust.

Pacific Life Insurance Company is the administrator for Pacific Funds. It is not a fiduciary and therefore does not give advice or make recommendations regarding insurance or investment products.

PF-20221215-0930

Mailing address:
P.O. Box 9768, Providence, RI 02940-9768
(800) 722-2333 • www.PacificFunds.com

PACIFIC FUNDS