VIXIO GAMBLING COMPLIANCE

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MGM REIT Sale Fuels Speculation At Second Bid For Entain

VICI buying MGM Resorts stake in REIT spin-off MGM Growth Properties

$4.4bn proceeds fuels speculation of second bid for BetMGM partner

VICI Properties set to own 660 acres on the Las Vegas Strip

VICI Properties plans to acquire MGM Growth Properties (MGP), including MGM Resorts International's stake in the real estate investment trust (REIT), in a deal that values the REIT at $17.2bn and will provide some $4.4bn to fund MGM's expansion initiatives.

The deal, announced on Wednesday, will create the largest U.S. owner of experiential real estate, valued at $45bn, and see VICI buy most of the operating partnership units held by MGM Resorts in MGM Growth for about $4.4bn in cash.

VICI, a REIT initially formed from the real-estate assets of MGM rival Caesars, will acquire the rest of MGP in a stock-for-stock transaction.

Bill Hornbuckle, CEO and president of MGM Resorts, said the transaction "strengthens our ability to execute key growth initiatives."

Following the transaction, MGM expects to have $11.6bn of domestic liquidity available to enable execution of its growth opportunities with its digital business and in Japan.

In terms of using a portion of the company's liquidity to acquire the outstanding 50 percent share in BetMGM owned by its partner Entain Plc, Hornbuckle admitted the company has expressed a desire to grow its digital business but declined to comment on a potential second run at Entain now that a mandatory six-month waiting period per London Stock Exchange rules has lapsed.

“Our desire doesn’t hinge on one other company,” Hornbuckle told analysts Wednesday during a second-quarter earnings conference call. “We are very excited about our [joint venture] with BetMGM and we continue to grow that.”

“We have a great working relationship with that and it’s productive,” Hornbuckle said.

Hornbuckle said MGM will continue to look for opportunities but “the good news is we have six to nine months before these transactions close and time is our friend.”

“We are going to be disciplined about [our] approach,” he said.

Despite Hornbuckle’s comments, gaming analysts believe the sale of its MGM Growth Properties stake does create an opportunity for MGM to re-approach Entain to gain control of the U.S. online gaming and sports-betting joint venture.

“We believe BetMGM is extremely well positioned in the U.S. market, and we would favor MGM’s potential opportunity to acquire more of the joint venture,” said Chad Beynon, an analyst with Macquarie Capital.

Brendan Bussmann, a partner with Global Market Advisors, said MGM clearly has several expansion initiatives on the table, including its continued investment in sports betting, as well as international developments in Japan.

“Hornbuckle continues to put his stamp on MGM’s growth going forward and there will undoubtable be some new options that he can consider with the moves [made on Wednesday],” Bussmann said.

Bussmann told VIXIO GamblingCompliance that selling underlying real estate to a REIT has been a tool for some time for casino operators to go asset-light while they focus on operations.

“It poses some interesting dynamics on how MGM will use the cash going forward as it takes that focus into other aspects of the gaming, entertainment, sports, and hospitality sectors.”

As part of the agreement, MGM Resorts will own about 1 percent in the VICI operating partnership, worth approximately $370m. VICI will also assume MGP’s $5.7bn of outstanding debt.

“This is large scale and high-quality real estate within the triple-net REIT sector acquired at a significant discount to replacement cost and an attractive cap rate,” VICI CEO Ed Pitoniak told analysts on a conference call Wednesday.

Pitoniak described the deal as a “very compelling transaction” that will be immediately accretive to earnings upon closing. The transaction is expected to close in the first half of 2022, pending regulatory approvals and approval by VICI stockholders.

Pitoniak said VICI is not currently anticipating any state restrictions that might force the company to sell off assets to gain approval for the deal.

VICI CFO David Kieske said the asset and tenant quality, combined with MGP and VICI's balance sheets, strengthens VICI's overall credit profile and accelerates the company toward an investment-grade rating.

That should provide VICI with additional opportunities in sectors beyond gaming, Pitoniak said.

VICI will enter into an amended and restated master lease with MGM with an initial annual rent of $860m. The escalator is fixed at 2 percent for years two through ten and capped at 3 percent starting in year 11.

The agreement expires in the first half of 2047 with three ten-year extension options. The capex requirement is 1 percent of revenues, the company said.

Additionally, VICI will retain MGP's existing 50.1 percent ownership stake in the joint venture with Blackstone Real Estate Investment Trust, which owns the real estate assets of MGM Grand and Mandalay Bay in Las Vegas.

That joint venture provides annual rent of $298m for an initial 30 years with two ten-year renewal options.

VICI's portfolio will include 43 properties in 15 states, with ten of the most financially productive assets on the Las Vegas Strip, COO John Payne said. Following the close of the deal, VICI's largest tenant, Caesars, will account for 41 percent of rent, down from 84 percent.

MGM will account for 40 percent, with 45 percent of rent coming from Las Vegas, Payne said.

When the deal closes, VICI will own 660 acres of property on the Las Vegas Strip, including the real estate associated with Venetian, Palazzo and Sands Expo Center that it acquired for $4bn from Las Vegas Sands.

VICI and Apollo Funds spent $6.25bn to acquire the gaming company's Las Vegas business.

"Today's landmark move between VICI and MGP as well as the upcoming Las Vegas Sands deal puts most of the major Strip properties in the hands of one landlord," Bussmann said. "It shows the bullish attitude that VICI has toward the long-term prospects of Las Vegas and the recovery post-pandemic."

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