The Playtika Prize

A hot, mobile gaming startup was born in Israel. Then Chinese investors, including Jack Ma, bought it. On Friday, it went public on Nasdaq.

By Eli Binder — January 17, 2021

Playtika debuted on the Nasdaq on Friday.
Credit: Playtika

Shares of Playtika, one of the world's hottest mobile gaming startups, soared about 17 percent on the first day of trading Friday, after the company raised nearly $2 billion in a huge initial public offering on the Nasdaq Stock Market.

The Israel-based maker of casino-style apps like Slotomania and World Series of Poker has more than 30 million active monthly users globally and generates about 70 percent of its business from gamers based in the United States.

The biggest winners in the listing, though, are based in China. Playtika was once owned by the American hotel and casino giant Caesars Entertainment, but Caesars ran into financial trouble and, in 2016, sold the unit that owned Playtika to a consortium of Chinese investors, including the internet tycoon Jack Ma and his longtime business partner, Shi Yuzhu. The group paid $4.4 billion for the company. Now, following the Nasdaq listing, it's worth more than three times that, at $13.5 billion, according to Capital IQ.

The offering is just the latest sign of the rising influence of globe-trotting Chinese entrepreneurs. Even though China has been the target of economic sanctions, tariffs and efforts aimed at decoupling its firms from U.S. money and technology, Chinese investors continue to build hot startups at home and finance others overseas — in Africa, India and the Middle East.

Playtika, analysts say, dominates the "free-to-play" gaming market. Users can download and play its games for free but are incentivized to spend money on in-app purchases of virtual poker chips, slot tokens and prizes. With 9 of the top 100 highest grossing games in the U.S., Playtika brought in $2.3 billion in revenue in the 12 months ending last September.

"Playtika has achieved a pretty impressive level of profitability and growth," says Stephen Morrison, an analyst who follows the company for Moody's, the global ratings agency. "Most people, even those who play iPhone-type games, might not even know that Playtika exists. But I think it's neat what they've been able to do with these casino themes."

While many of Playtika's apps make users feel like they are in Las Vegas, the company boasts an international footprint. It's headquartered in Herzliya, Israel, near Tel Aviv, and has offices on four continents. More than half of its 3,700 employees are based in Eastern Europe.

Its rise as a gaming powerhouse was swift. The company was founded in 2010 by a pair of Israeli entrepreneurs, Robert Antokol and Uri Shahak, son of the former chief of staff of the Israel Defense Forces.[1] A year later, Caesars Entertainment paid about $90 million to acquire the 10-person startup. Then, in 2016, with Caesars heading towards bankruptcy, it put Playtika up for sale, and a group of Chinese investors came knocking.

Shi's Giant Interactive led a consortium of acquirers to buy Playtika in 2016.
Credit: Giant Network

The consortium included Yunfeng Capital, a venture firm backed by Jack Ma, David Yu and Shi Yuzhu — founder of the gaming company, Giant Interactive — as well as China Minsheng Bank, China Oceanwide Holdings, CDH Investments and Hony Capital, an investment vehicle affiliated with Lenovo's parent, Legend Holdings.

According to Chinese media reports, the consortium planned to sell the firm to Shanghai-based Giant, which is listed on the Shenzhen Stock Exchange but the deal was blocked by the China Securities Regulatory Commission. Regulators in China also on three occasions blocked plans to take Playtika public on a Chinese stock exchange, said The South China Morning Post.

Shi eventually gained control of the company from the consortium and set his sights on a Nasdaq listing.

The American listing was the second for Shi, the billionaire serial entrepreneur who had dabbled in nutritional supplements, banking, property development and technology investments. In 2014, he moved to take Giant Interactive private and delist it from the New York Stock Exchange in order to return to China.

When the gaming company relisted in Shenzhen through a reverse merger with a Yangtze River cruise company, it joined a handful of Chinese companies that had left the U.S. markets and returned to China in search of a higher valuation. Today, Giant has a market capitalization of $5.2 billion.

Now, Shi has two major listed gaming companies: Shenzhen-listed Giant, and Nasdaq-listed Playtika.

His deal with Playtika highlights a growing trend in China: business elites who juggle public and privately held firms, venture capital funds and network with a larger group of entrepreneurs who co-invest in one another's businesses. (Ma and Shi are both partners in Yunfeng Capital, have co-invested in Alibaba and other ventures, and used Yunfeng to acquire and sell assets to other properties they hold stakes in. See a chart of Jack Ma's empire here.)

Taking control of Playtika, though, was a complex undertaking for investors from China. Gambling is illegal in mainland China, and the government has announced periodic crackdowns against online gaming firms because of concerns about addiction. And yet Giant and Tencent are gaming powerhouses. Tencent dominates China's market and also owns League of Legends creator Riot Games and has a large stake in Epic Games, maker of Fortnite. And Giant once had China's most popular game, ZT Online.

Giant now controls one of the world's hottest gaming brands, with a huge following in the U.S. In addition to Slotomania and World Series of Poker, Playtika's most popular offerings include Bingo Blitz, Solitaire Grand Harvest, and non-casino themed multiplayer games like June's Journey, in which users play an investigator set in the 1920s.

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> *Jawad Hussain, an analyst who covers the company for S&P Global*

"There's a lot of room for Playtika to continue to grow," says Brendan Bussmann, a partner at Global Market Advisors, a gaming consultancy. "Asia and Latin America are prime targets for long term growth, and China is the biggest question mark," he adds, noting that if regulators warm to gambling-style games, a vast new market with a fondness for online games and gambling will open to Playtika.

Experts say there are clear benefits for cross border tie-ups in the industry. "If you have a game that is already developed in the U.S. or Europe, it would be great to have a Chinese company that could help you into the market. There are obvious strategic advantages, especially because gaming is so big in China," says Jawad Hussain, an analyst who follows the company for S&P Global, the ratings agency.

But for Playtika, ties to China are a double-edged sword. Although it is now a public company, Shi continues to exercise full control. "The governance structure is a big red flag," Hussain adds, noting that it weighs against S&P

Global’s rating of Playtika’s debt.

And ties to Jack Ma, which until recently would have been a boon for Playtika, could now prove a liability. Chinese regulators abruptly canceled the initial public offering of Ant Group, which would have been the largest IPO in history, and announced probes of his businesses. Regulators have also announced probes of internet giants Tencent, Meituan and Pinduoduo.

Although Ma was involved in the 2016 purchase of Playtika, the company’s IPO prospectus makes no mention of him or whether the consortium he helped form sold its stakes. It only says Playtika is now controlled by Shi Yuzhu.

A spokesperson for Playtika declined to comment, citing the quiet period before an IPO, and Giant, Hony Capital and Yunfeng Capital did not respond to requests for comment.

The U.S. offers a similarly rocky landscape. Mobile games collect large amounts of data on users, and U.S. officials have expressed concern about Chinese firms gaining control of Americans’ personal data. That could make it especially hard for Playtika, which has largely grown through acquisition, to buy new companies with roots in the United States.

The incoming Biden administration, however, could provide a window for Chinese-owned businesses in commercial areas to operate with fewer restrictions.

“The Trump administration was reflexively acting to almost any Chinese investment or acquisition,” says Stephen R. Heifetz, a partner at Washington law firm Wilson Sonsini who previously served on the Committee on Foreign Investment in the United States. “While all indications are the Biden administration plans to be very tough on China, there is hope it will be more tethered and focused on real national security concerns.”

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