

April 08, 2021 03:35 PM

Ilitches' Atlantic City casino purchase signals new strategy for its gaming expansion

KURT NAGL

- Ilitch affiliate to buy into troubled Atlantic City resort
- The move marks family's first non-pizza enterprise outside Detroit area
- More expansion might be in play

The Ilitch organization's pending ownership stake in an Atlantic City casino announced earlier this week caught many off guard, but the family's gaming expansion plan has been more than 15 years in the making.

The original strategy of developing new casinos, devised back when family matriarch Marian Ilitch, 88, took complete ownership of MotorCity Casino Hotel in 2005, failed to come to fruition. But gaming experts say the family's [purchase](#) of up to 50 percent of the Ocean Casino Resort in the New Jersey tourist town signals a new strategy for an expansion plan still very much on the table.

They say it could be the first of more deals to come for the Ilitches in an industry in which M&A activity has heated up during the COVID-19 pandemic. Sources told Crain's that the family has recently looked into properties in other markets, including in Las Vegas, though the organization has not confirmed or denied it is pursuing other acquisitions.

It is a curious time for the family behind the Little Caesars pizza empire — whose portfolio also includes the Detroit Tigers and Red Wings, and who controls most of the Detroit area's largest entertainment venues — to make its first non-pizza play outside the Detroit market. Much of its core business has been [battered by the pandemic](#), including MotorCity, which is suing its property insurer for more than \$270 million in losses related to COVID-19, according to a lawsuit filed in Wayne County Circuit Court in February.

Casinos across the country are dealing with similar financial issues, but with great disruption comes great opportunity, said Roger Gros, longtime publisher of trade magazine Global Gaming Business and who has covered the industry for 40 years. For the Ilitches, it's a prime opportunity to evolve from hometown casino to major resort operator.

"Gaming companies are really hot right now," Gros said. "If they can catch a tiger by the tail, they can grow very rapidly."

Terms of the deal between the Ilitches and the Ocean Casino Resort's owner, private equity firm Luxor Capital Group LP, have not been disclosed. Pending regulatory approval, "the Ilitch

organization would own, through an affiliate, up to 50 percent of Ocean," according to a Luxor Capital news release.

"We are extremely excited about the proposed investment by the Ilitch organization, which, if approved, will give Ocean access to growth capital and provide a strategic partner to Luxor," the release said. "We look forward to continuing to grow Ocean in partnership with the Ilitch organization for years to come."

Neither the Ilitches nor Luxor would comment further.

Gros said he expects that New Jersey regulators will give temporary approval to the deal in about a month and full approval by the end of the year. He said he could see the Ilitches taking full ownership in the next two or three years.

"For Ocean, it was not surprising," Gros said. "It's not a surprise that they were selling to somebody. It's a little bit of a surprise that it was the Ilitch organization ... It could be a marriage made in heaven here, and they could really transform Ocean and eventually be the full owners of it. The hedge fund isn't going to be there forever."

Sitting on 20 acres with 1,400 hotel rooms, Ocean Casino Resort is the tallest structure in Atlantic City and exudes potential, observers say. But it has been marked by bad luck from the beginning.

Morgan Stanley signed on as the primary investor for the project in 2007. A year later, a plane crash killed top executives of the development company and general contractor. The resort opened in 2012 after a \$2.4 billion build-out, according to a [report](#) by the Press of Atlantic City. The ownership group filed for bankruptcy two years later, leaving Morgan Stanley to take a billion-dollar bath.

The resort was sold to Denver-based developer Bruce Deifik for \$200 million in 2018. Deifik died in a car crash in 2019. A year later, Luxor Capital was approved to take ownership of the casino.

After years of bleeding money, the resort has showed recent signs of rebounding. Last year, it was the only casino in the city that did not suffer losses amid the pandemic, bringing in a \$12 million profit in the first three quarters of 2020 compared to a \$2.5 million loss for the same time the previous year, according to its earnings report.

"The Ilitch family has many years of experience in the gaming industry, and it makes sense to put that experience to use in other markets," said Mike Dietz, president of Farmington Hills-based Dietz Sports & Entertainment Management who worked in senior positions at Ilitch Holdings until 2003. "Ilitch Holdings has been positively growing for many decades and this is a natural evolution of that growth."

In 2019, MotorCity was the second highest performing casino in Detroit with [\\$494 million in revenue](#) and 34 percent of the market share.

Its rough 2020 was an anomaly. MotorCity, along with MGM Grand Detroit and Greektown Casino-Hotel, had their worst years since opening, with total

revenues down 57 percent due to the pandemic. In its lawsuit against American Guarantee and Liability Insurance Co., MotorCity argues that the commercial property insurer should cover losses related to the pandemic and state-mandated closures. The insurance company contends the coronavirus is not covered in the casino's plan.

Bruce Dall, president of MotorCity, has led daily operations of the casino since 2016 and is believed to be leading its expansion efforts. Last month, the company promoted senior vice president of marketing John Policicchio to general manager.

Marian Ilitch's ambitions to grow the family's gaming enterprise date to the early 2000s when she and developer Michael Malik, a former partner in MotorCity, set out to develop casinos. The pair worked for years to win approval for new gambling properties in Port Huron and on the East and West coasts.

"All of them have pretty much gone by the wayside," said Tom Shields, who represented Ilitch and Malik when they were pursuing the projects.

Shields said the Atlantic City deal was separate from that work and that he was not involved in it. He is working with the Little River Band of Ottawa Indians on the tribe's plan for a new casino in Muskegon County — the only active application for a new casino in Michigan.

State law forbids one entity from owning more than one casino in Detroit — Marian Ilitch took over MotorCity when MGM was forced to sell it 15 years ago because of the law. Other than that, there are no state rules prohibiting expansion.

"The new property will broaden the casino gaming expertise of the Ilitch organization, which will be considered in Michigan's annual casino licensing process," Mary Kay Bean, spokeswoman for the Michigan Gaming Control Board, said of the Atlantic City purchase.

Having a destination property would increase the value that the Ilitches could offer its customers and increase competition with hometown rivals MGM and Greektown, both of which are owned by gaming giants with a large portfolio of casinos around the country. At the same time, MotorCity would bring its operations and sportsbook expertise to a property in need of a recharge, Gros said.

Some in the industry are skeptical that the Atlantic City deal would set off a tear of new acquisitions, but there is precedent for such unexpected, explosive growth.

"If you would have told me a year ago that Bally's would be a dominant brand and have as many properties as it does, I would be shocked," said Brendan Bussman, director of government affairs for Las Vegas-based consulting firm Global Market Advisors LLC.

Bally's Corp. was established in 2020 when Rhode Island-based Twin River Worldwide Holdings, formed 10 years prior, bought the rights to the iconic Bally's name, which had been

attached to everything from pinballs to fitness centers. In the last several years, the company has grown its portfolio to 12 casinos and become a marketing juggernaut.

Earlier this year, Bally's bought the naming rights for regional sports networks recently purchased by Sinclair from Fox, including Bally Sports Detroit — formerly Fox Sports Detroit — on which the Tigers and Red Wings games are broadcast. The Ilitches have said they are [still considering](#) launching their own regional sports network.

With the popularity of sports betting in Michigan, and legalization taking place in other states, gambling and sports have never been closer, and the Ilitches' expertise in each area give them an advantage, Gros said.

"The deal in Atlantic City could provide lots of positive synergies for all of Ilitch Holdings," Dietz added.