



High school dropout has turned Amaya into a gaming and publicly traded powerhouse

David Baazov spent 10 years to transform his online gaming company from a penny stock with revenue of \$6 million into the industry leader with revenue of more than \$1.4 billion



Graham Hughes for National Post




The Amaya that David Baazov owned in 2010 was only a penny stock with revenue of roughly \$6 million from its electronic poker

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Two-year average compensation: \$490,000

Two-year return: 338.3%

Bang for the buck: \$10.02

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Today, the Montreal-based company has a market cap of \$4.2 billion, estimated 2015 revenue of more than \$1.4 billion, over double that posted a year ago, and a host of well-known online gaming brands such as PokerStars and Full Tilt that were acquired on Aug. 1, 2014, from Oldford Group Ltd. That US\$4.9-billion deal, backed partially by the credit division of U.S. financial giant Blackstone and another US\$2.9 billion from various banks, transformed Amaya into the largest player in the global poker industry, which will be worth US\$41.4 billion by the end of this year, according to U.K. researcher Statista Inc.

PokerStars holds approximately two-thirds market share and Amaya's poker revenues in 2014 were more than 12 times those of its closest competitor. Not a bad few years work for a high school dropout.

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Oh, there have been some hiccups along the way — most recently and notably, an investigation by Quebec's market regulator, Autorité des marchés financiers (AMF), into the trading of Amaya securities around the time its transformative acquisition was announced — but early investors can't help but like the more than 300% rise in the company's stock over the past couple of years. Baazov, by the way, says the company is confident the AMF will not find any violation of Canadian securities laws or regulations by Amaya's directors or officers, which should eliminate one overhang on the company.

"Obviously the acquisition of Oldford Group in 2014 catapulted Amaya to the highest ranks of the gaming industry," Baazov says. "But prior to that, we had already acquired five companies that had made us a B2B leader in the land-based, lottery and online gaming channels." That B2B business, including Cadillac Jack, which had

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institutional equity and lending markets was recently noted by the New Jersey Division of Gaming Enforcement, which granted it an online gaming licence for PokerStars and Full Tilt in the state, a licence that it had paused in 2013 when PokerStars was still part of Oldford Group. The decision will likely fuel further institutional investor interest since the legal ambiguity of the business is being reduced. Blackrock at 15% and PointState Capital at 8.6% are the two biggest shareholders behind Baazov.

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New Jersey's review of the suitability of Amaya and all of its subsidiaries was taken to a "whole new level," Dundee Capital Markets analyst Eyal Ofir said in an Oct. 13 note to clients, and will serve as a precedent for other states looking to cash in on the revenues offered by online gaming. Ofir reiterated his buy recommendation and \$52 price target on Amaya shares, almost \$20 higher than investors were paying in mid-October.

David MacNicol, president and portfolio manager at MacNicol & Associates Asset Management Inc. in Toronto, says Amaya is trading below its current intrinsic value by 56%. He also notes that organic revenues have been growing at about 20% year over year. "If Amaya continues growing at this organic pace, with the same multiples, it would be a \$118 stock by 2020," he says. "Even if it only grows revenues organically by 5%, with no new acquisitions, U.S. market entry, multiple expansion or any other catalyst, it would be \$50 stock in 2020, equating to a 10% average annual gain."

casino," MacNicol says. Another, he adds, is that Baazov is "the 800 pound gorilla in the room," given his "ambitious and brash" management style. "We believe that David is the right man for the job to navigate an industry which deals with consistent legal attention." Baazov still owns 18.4% of the company's shares and has apparently never sold a share.

Given the inherent popularity of poker and other games, the Amaya story as it stands would probably be enough to ensure its future in the short-to-mid-term at the very least. "We estimate we already have one of the largest online casinos in the world in terms of active players, despite the fact that the company's focus in 2015 is on simply closing product gaps by integrating casino games onto its mobile, web and desktop platforms across various geographies," Baazov says. "We are not offering such games in our major markets outside the EU, unlike competitors."

The global march to regulation is steady, in the U.S. We expect many states to come online in three to five years

But it's not done yet, not by a long shot. For one thing, there will likely continue to be consolidation in the gaming industry, and Baazov says Amaya will review any strategic opportunities as they arise. He's also comfortable with its organic growth plans, which now call for entry into other online gaming verticals, notably casinos and sportsbooks in the European Union, as well as daily fantasy sports, initiatives made easier by the 95 million cumulative customer registrations it already has. Poker, it should be noted, now accounts for 87% of Amaya's sales, versus 100% in 2014.

These new verticals, Baazov says, are estimated to be approximately eight times larger than the global online poker market, which is rapidly being legitimized. "The global march toward regulation is steady," he says. "It began in Western Europe — where we now hold more than a dozen jurisdictional licenses — and is now moving into Eastern Europe. In the U.S., we expect many states to come online in the next three to five years."

Amaya has also called on states to adopt "tougher restrictions" on daily fantasy sports. Baazov explains that it's not counterintuitive to ask for such regulation since his experience with online poker has shown that markets can significantly grow when strong consumer protections, legal clarity and a competitive marketplace are in place. And it doesn't hurt Amaya's future sports position that he can now rub shoulders with soccer stars Cristiano Ronaldo and Neymar Jr., who feature prominently in Amaya's poker advertising campaigns.

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