



XST CAPITAL GROUP LLC
CAPITAL. M&A. STRATEGY

CONSIDERATIONS

XST CAPITAL GROUP INSIGHTS

Fear & Loathing in Gaming Will Accelerate M&A

Websters Dictionary: Consideration (kun-sid-uh-RAY-shun) - a careful weighing of the reasons for or against something.

Joel Simkins - Founder and CEO

Bringing Some Perspective & Clarity to Uncertainty

I just passed a milestone birthday, let's put it that way, and I'll let you guess what big number I surpassed. That age has been bringing incredible clarity as of late. I've been at this gaming industry thing for a long time; in fact, nearly 28 years since I landed in the fixed income group at Moody's Investors Service in fall 1998. I had no idea what the heck was going on in the capital markets, but at that time, the short-lived Russian debt crisis (doesn't that seem like an oxymoron?) was in full bloom and my bosses were worried. Eventually, that period of uncertainty quickly blew over, and I'm hopeful the current period quickly passes. With all these years of experience around the industry, from bond analyst to equity analyst to hedge fund investor, back to equity research, and then on to being a banker for the last decade, I have a lot of perspective. I guess that comes with some increasingly gray hair and a lot of reps.

This tumult has come through a variety of factors, including consumer softness, structural challenges (e.g., the impact of AI on search), the recent war related market correction, and of course the #1 topic du jour: the rise of prediction markets.

Gaming Stocks Across the Board Have Been Hammered

Throughout the early part of 2026, and candidly through the end of the prior year, it's been a brutal period for all gaming stocks. That includes the regional land-based incumbents (e.g., Churchill Downs -19.1%, Bally's -21.6%, and PENN -7.8% over the past year) that I covered very closely and helped IPO in some instances during my previous sojourn as an equity analyst, the "new incumbents" (e.g., DraftKings -34.9% and Flutter -54.0% over the past year), and other varied small-cap digital players (e.g., Gambling.com -69.3%, Genius -55.7%, and SportRadar -22.6% over the past year). In our view, this tumult has come through a variety of factors, including consumer softness, structural challenges (e.g., the impact of AI on search), the recent war related market correction, and of course the #1 topic du jour: the rise of prediction markets.

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We Aren't Going to Make Any Predictions on Predictions in This Piece

I'm not going to dive too deep into a big sermon on prediction markets, and that isn't the purpose of this volume of *Considerations*. But stepping back, sometimes I have to pinch myself and think back to a time just a few years ago. I was shortly on the job as a Managing Director at my former employer, going through my target list of prospective clients. I would regularly assemble lists of Tier 1/2/3 candidates for prospecting; needless to say, Kalshi, which I might have confused at the time with a breakfast cereal, was likely a Tier 2 candidate for business prospects (along with most other bankers, if they are being honest). While this "predictions thing" had been discussed for a long time, nobody was taking it seriously.

The punchline here is that when sentiment is approaching its most negative, there is opportunity if you step back and look at fundamentals.

Wow, the world has changed. And if anything is ever evident in gaming, new boundaries and form factors will always be tested. I've said it many times, but I've seen the evolution of online poker, Class II gaming, historical horseracing, ADW gaming, social gaming, skill-based gaming, P2P games, DFS 1.0, DFS 2.0, crypto casinos, sweepstakes, and now prediction markets. I'm sure someone else is already working on the next product - dare I guess prediction-powered slot machines and lotteries? All I know from my experience in gaming is that it rarely backpedals and one has to assume that the newest rising form factor is here for the foreseeable future; likely yielding greater M&A activity in the sector.

At XST Capital, We Are Here to Support Our Clients Through These Challenging Times

At the end of the day, our mission at XST Capital Group is to guide our clients around the industry, principally through M&A processes, capital raising support, and strategic advisory (e.g., business development, investor relations, and talent acquisition). The purpose of this report is to discuss one of the hot-button questions that our clients and prospective clients have about the state of the industry: with all of the uncertainty out there, how is sector M&A going to be impacted by current conflict, weakened equity prices, and current venture capital trends? Please see below for a lively discussion on these themes, and we look forward to picking up the conversation with you.

It's Different This Time; Isn't That What They Always Say?

Okay, before you give me a little bit of grief for saying "this time is different," I've seen a few movies before in the gaming industry. For the first two-thirds of my career, I was largely focused on the land-based gaming sector, having seen the rise of regional gaming markets, various regulatory rule changes (does anyone remember dockside gaming, a boon for long forgotten companies like Argosy Gaming and Hollywood Casinos?), the steady ascent of Las Vegas as a global tourism destination (I was recently watching *Rain Man* with my teenage son and marveling at how different the Strip looked even in the late 1980s), the boom-bust cycle of the poker craze, and other key events that have shaped my career, like PASPA, which opened up a whole new world for the companies I work closely with today.

I distinctly remember being on a tour of the regional gaming markets throughout northern Illinois and northern Indiana as an early-career senior analyst at Macquarie Capital in 2008, when the market was absolutely cratering and it felt like the sector was going to implode as the GFC was in full bloom. I also remember urging a multi-billion-dollar portfolio manager in Boston, who shall remain unnamed, to buy Penn National Gaming stock when it was sitting in the single digits, hung up by their ill-fated acquisition with a private equity firm at the time. They were sitting on substantial cash, owned all of their real estate, and had a well-regarded management team. When I walked out of that meeting in Boston, the portfolio manager told me that I was likely going to be out of a job given the state of the sector. Fast forward 18 years later, and I guess I proved them wrong; the sector only continued to expand. The punchline here is that when sentiment is approaching its most negative, there is opportunity if you step back and look at fundamentals.

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Digital Gaming Sector Tailwinds Are Not Going to Change

While there is a lot of doom and gloom prevailing at the moment for some of the aforementioned reasons, we think this time is different and there is reason for continued optimism around the digital gaming sector continuing to thrive in a soft economic backdrop. Do I worry about an existential event hitting the gaming industry? Of course, and this is why the industry must do a better job policing itself and protecting the consumer, as sentiment will turn amongst users; just look at the social media industry. However, having lived through Dotcom 1.0 and the rise of internet retail, the parallels remain consistent. Just like the introduction of regional gaming in the late '90s/early '00s, consumers want convenience. Digital gaming will only continue to pull share (and grow the market) against land-based alternatives. With \$4+ gas at the pump (nationally and potentially rising or sustained) likely going to crimp summer travel trends (and unfortunately, disposable income), we see this further shifting consumers into online options. As the land based gaming industry learned in the GFC, gambling isn't recession proof.

Prediction Markets Are Going to Drive Online Casino Legalization and Resistance Is Likely Futile

We have worked closely with the land-based gaming industry throughout our entire career and still work closely with this segment at XST Capital Group. Most in the industry have learned to embrace the digital opportunity, with a few holdouts that remain highly opposed to expansion for protectionist reasons. While I don't want to say that resistance is futile for those opposed to digital expansion, particularly online casino, the "holy grail" needed to create a fully competitive product, we believe one of the positive byproducts of prediction sector growth is that it will tip the hand of already-pressured state legislators to allow for online casino. If you can't beat 'em, you might as well join 'em, as they say. We expect 2026/2027 to be critical years for momentum in online casino legislation, particularly given the success observed in states like Pennsylvania and New Jersey, as well as in markets like Ontario, where the results have been impressive.

Big Will Acquire Small - Simply Put, They Need the Technology and Talent

One of the great joys of XST Capital Group is our focus on advising the small, fast-growing, and highly innovative companies that are shaping the sector. To address the primary topic of this note head-on: we have seen no apparent slowdown in M&A appetite or demand from strategic acquirers to onboard the technologies, teams, and critical skills that they need to either pivot into the sector or beef up their capabilities. In fact, while we may be benefiting from being the "new advisor on the block" and our lane focusing on \$25M-\$1B EV businesses, the amount of new clients we are onboarding and the deals we are snaking through various processes has only accelerated. While we expect minnows will be swallowed by whales, there is some likely validity that there will be a fair amount of MOE (merger of equals) activity as well, as groups with complimentary businesses try to add scale.

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VC Interest Remains Healthy, and the Sector Isn't Currently Reliant on IPO Exits

Given that we are also actively involved in capital raising, we haven't seen any demonstrable evidence of VC capital being on the sidelines, at least not yet. Clearly, while fast money and broader tech capital has been chasing the predictions opportunity (we are personally skeptical of \$20B+ valuations being attractive entry points relative to well-established companies with actual cash flow and billions in revenue trading like they are going out of business, but we could be wrong), we haven't seen material softness in VC activity as it relates to many of the Late Seed - Series B companies we work closely with.

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As a “recovering” sell-side equity analyst, when later-stage growth companies ask me, “Joel, should I go public?,” I usually chuckle and respond with “don’t do it.” I’m sure my old colleagues in equity capital markets wouldn’t love that sentiment, but it reflects my view that being public isn’t for all given the short-term treadmill that it can put even the best run companies on. Most of the companies we speak with that have the potential to IPO in the next one to three years do not appear inclined to be thinking about a public market exit at this point or taking the steps to get ready.

Clearly, with the current state of public equities, unless you have absolute lightning in a bottle or a white-hot predictions story, the IPO door is closed for now. This leads us to M&A, which will be the most likely alternative and a circular reference to what we have been discussing. Given political uncertainty, we have even had some international diverse companies express interest in listing in the UK (LSE) or AUS (ASX) as an alternative, or dual listings. However, we still see the US equity markets as the most attractive in the long-term for many reasons.

Down With the Discount, More Equity and Creative Earnouts: How M&A Will Get Done

This should continue to create a perception that the digital gaming industry is potentially more inclusive to groups across FinTech, crypto, sports, and media entering the space today...the interest level from newer groups and buyers across the globe has only intensified.

While we hate to generalize, you generally don’t get into the gaming industry without some sort of interest in the product and a bit of a gambler’s mentality. Given our prevailing view that gaming industry M&A will continue to accelerate, we see greater use of equity and discounted shares as the carrot to get deals done. In addition, given the core belief from most founders, CEOs, and other key stakeholders that digital gaming will further expand, we expect some creativity around the structuring of earnouts during negotiations, something we have already been seeing implemented firsthand. Unlike the land-based gaming industry, which is heavily reliant on the debt capital markets and the OPCO/PropCo model to effectuate deals, these tools are not part of the digital gaming M&A equation, potentially for the better, at least at the moment. While we have worked on debt capital transactions at XST Capital Group, including our 2025 financing of Northstar Gaming in Canada, the credit market uncertainty currently in the private capital markets

will likely limit capital or raise its cost for only the most compelling stories and consistent cash generators.

Global Convergence with FinTech, Crypto, Sports, and Media Bodes Well for M&A

As it relates to land-based gaming M&A, this sub-sector was always heavily reliant on demand from strategics and private equity buyers who had the capability to raise huge sums of primarily debt capital and run the gauntlet of regulatory and licensing approvals. While there are still plenty of hoops to jump through in fully regulated statewide gambling to gain admission to the club, with the rise of predictions and other form factors that have differing levels of regulation, this should continue to create a perception that the digital gaming industry is potentially more inclusive to groups across FinTech, crypto, sports, and media entering the space today. When we are marketing our deals, are the usual strategics the first call to evaluate deals? Of course. But generally speaking, the interest level from newer groups and buyers across the globe has only intensified, providing a great tailwind to M&A demand and processes.

Public Company M&A Strategy Needs to Be Very Clear to Public Investors

Having taken companies like AGS, Caesars, Gambling.com, NeoGames, and others across leisure public in my former career and spending most of my days talking to the buy side (long only and hedge funds), I still have a good understanding of what makes these groups tick. As I often advise management teams, the buy side is more astute than you might think, and if they feel something is off about a story, they will shoot first and ask questions later as it relates to evaluating the merits of an M&A deal.

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This is further compounded by the shrinking number of equity analysts covering the sector or certain companies, relatively thin liquidity within most gaming stocks (I often remind companies that gaming stocks aren't core holdings for institutional money managers and are "rented"), and their relatively small scale versus other consumer verticals. It's not our intention to critique some of the more recent deals that have taken place in the sector, but we have seen some very immediate blow-back in the case of the Genius purchase of Legend and the Gambling.com purchase of Oddsjam (the case of a great purchase of a fast growing target being offset by core business headwinds).

Bottom line: if we were to advise public companies on the purchase of what you may see as complementary businesses, either fast-growing or cash-flowing, the rationale for your deal and the ultimate lead-up to transformative M&A is that your intention must be clearly signaled over time. We believe the aftermath of how recent M&A was perceived will be closely followed by those announcing the next substantial deals in the industry, although we don't see recent transactions having a chilling effect on industry deal flow at all.

The Big Conclusion

If there is one thing that nearly three decades in this industry has taught me, it's that gaming always finds a way. The sector has survived and thrived through recessions, regulatory upheavals, technological disruption, and more "this is the end" moments than I can count. What we are experiencing right now with the convergence of battered equity prices, prediction market disruption, and macroeconomic uncertainty is not the beginning of the end for digital gaming; it's the beginning of the next chapter. The companies that move decisively during periods of dislocation, whether through strategic acquisitions, product innovation, or smart capital deployment, are the ones that will define the industry for the next decade. History has shown this time and again, and I would "bet" on it once more.

What we are experiencing right now with the convergence of battered equity prices, prediction market disruption, and macroeconomic uncertainty is not the beginning of the end for digital gaming; it's the beginning of the next chapter. The companies that move decisively during periods of dislocation are the ones that will define the industry for the next decade.

At XST Capital Group, we remain deeply convicted in the long-term trajectory of digital gaming and the M&A cycle that will power its growth. We are actively working with clients across the ecosystem - founders looking for the right exit, strategics looking to scale, and investors looking for the next platform opportunity - and the pace of those conversations has only intensified. If you're a founder, operator, or investor in this space and want to talk through what's ahead, we're here for it.

Key Takeaways

1. Gaming stocks have been broadly hammered, but dislocation creates opportunity. The sell-off across land-based incumbents, new entrants, and small-cap digital players has created significant valuation gaps that strategic acquirers are already looking to exploit.
2. Digital gaming's secular tailwinds remain intact. Consumer demand for convenience and accessibility will continue to drive share from land-based to digital and rising gas prices and a softer macro backdrop will only accelerate that shift.
3. Prediction markets are a catalyst, not a killer. While prediction platforms have disrupted the competitive landscape and drawn capital away from traditional gaming names, their growth will ultimately pressure state legislators to legalize online casino expanding the total addressable market for everyone.

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4. M&A appetite from strategic acquirers has not slowed down. Large operators need the technology, talent, and innovation that smaller companies bring to the table, and we are seeing that demand firsthand across our deal pipeline.
5. Expect more equity-heavy and earnout-driven deal structures. With public equity valuations depressed and debt capital markets less relevant to digital gaming M&A, buyers and sellers will get creative leaning into discounted equity, structured earnouts, and performance-based consideration to bridge valuation gaps.
6. VC interest in digital gaming remains healthy. Despite the hype cycle around predictions, Series A–C fundraising activity for core digital gaming companies has not materially softened.
7. The IPO window is effectively closed for now. Most growth-stage companies we speak with are not planning for a public exit in the near term, which makes M&A the primary liquidity path and reinforces the bullish outlook for deal activity.
8. Global convergence across FinTech, crypto, sports, and media is expanding the buyer universe. The digital gaming M&A market is no longer limited to traditional gaming strategics and PE firms; new entrants from adjacent sectors are creating competitive dynamics that benefit sellers.
9. Public companies pursuing M&A must clearly signal their strategic rationale. The buy side will punish deals that lack a clear thesis. Management teams need to lay the groundwork with investors well before announcing transformative transactions.
10. The companies that lean in during uncertainty will win. Whether you're acquiring, raising, or building, the window to act is now. The next wave of industry leaders will be defined by what they do during this period of dislocation, not after it.



Joel Simkins - Founder and CEO

Joel Simkins is the CEO & Founder of XST Capital Group LLC and brings a reputation for trusted industry insights, market relationships, and a rare track record of success advising both sell-side and buy-side clients for more than 25 years across the land-based and digital gaming (casino) industries. Prior to his recent tenure at Houlihan Lokey, Mr. Simkins was Head of Gaming & Leisure investment banking at Truist Securities, growing its business from a nascent state in 2016 to a top-seven platform during his tenure through March 2022. He is a known thought-leader in the industry, being named Best Up & Coming Analyst in the 2009 Institutional Investor Poll, ranked No. 6 overall in 2012, and is a repeat expert guest on CNBC, Bloomberg, Fox Business, and Yahoo Finance and at many industry conferences.

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