Callidus draws OSC scrutiny on its $200-million casino-game play

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Callidus Capital Corp., the publicly traded lender run by financier Newton Glassman, has been under scrutiny from Ontario's securities regulator for its disclosure about an investment in a casino-game company.

Callidus controls Bluberi Gaming Technologies Inc., a Quebec company that produces slot machines. The Toronto-based firm took ownership of Bluberi after it filed for protection under the Companies' Creditors Arrangement Act in late 2015. Callidus was a lender to it.

Today, Mr. Glassman's firm values the investment at about $200-million. In a first-quarter earnings release on Tuesday night, Callidus gave investors additional information about the investment "in connection with an Ontario Securities Commission continuous disclosure review."

Provincial securities commissions have a detailed rule book, known as National Instrument 51-102, that outlines how public companies must give information to the market on a continual basis. The commissions review public company filings and, from time to time, tell companies to improve the quality and detail of what they give to investors.

Much of the new disclosure from Callidus is about risks to Bluberi's business and the assumptions used to assess its value. The firm said it is giving the new information to help investors better understand the numbers and "to meet the disclosure requirements in [two sections of] NI 51-102." Neither Callidus nor the OSC would comment further.

The disclosure makes it clear that Callidus' $200-million valuation is predicated on the gambling company showing significant growth and profitability in the coming years. Bluberi's revenue was less than $20-million in the 12 months ended March 31, 2018.

Callidus had previously disclosed Bluberi is seeking to grow by expanding in an unnamed South American country that is expected to "create a regulatory framework for the gaming industry by 2019." In the new disclosure, it clarified that gambling isn't legal in this jurisdiction.

"Legislation to legalize regulated gaming in this country remains pending," the firm said, adding that it was still confident the government would pursue it, partly because the "poor economic backdrop of the country in recession" would create pressure to find new sources of revenue.

The new Callidus disclosure also reveals that while Bluberi has applied for regulatory approval for its games in Ontario, British Columbia and Alberta, that process is expected to unfold slowly. In its most recent report, Callidus said Bluberi "anticipates" getting approval in Ontario and B.C. by the end of this year, but not until 2019 in Alberta.

Callidus's updated financial projections no longer include the potential sale of 7,000 Bluberi slot machines that the company said last year would be deployed by another Glassman-controlled investment, Gateway Casinos & Entertainment Ltd.

Both Gateway and Bluberi are ultimately controlled by Mr. Glassman's Catalyst Capital Group Inc., which is currently attempting to cash in on its ownership stake in Gateway though either an initial public offering or a sale to another casino operator.

Despite those obstacles, Callidus last year raised its estimate of Bluberi's earnings power, saying its average annual EBITDA over four years could be $59.1-million, a figure it said was backed by positive market reception to new products. That was a 33-per-cent increase from previous projections. (EBITDA is earnings before interest, taxes, depreciation and amortization.)

The $59.-1-million EBITDA projection, Callidus added, is "not representative of Bluberi's current results."

Together, Catalyst and Callidus manage billions of dollars in assets, mostly in the debt and equity of companies that are in financial distress or are being restructured.

But questions have arisen in recent months about Mr. Glassman's ability to turn those investments into cash at desired prices and about Catalyst's practice of extending the lives of its funds, allowing it to hold on to investor capital for longer than is typical for private equity funds. The concerns were brought to the fore in a Reuters news article in March. Catalyst disputed the article's conclusions in a subsequent statement.

Complicating matters for Catalyst is the fact that its private funds – which have raised money from institutions such as the pension plans at McGill University and the University of Toronto – own significant amounts of Callidus stock and debt. Callidus shares have performed poorly, losing more than half their value since being floated in 2014.

Callidus announced weak financial results on Tuesday, posting a quarterly loss of $7-million, compared with a $3.5-million loss in the same quarter a year ago. The company lost $218.5-million in 2017.

It reported loan losses of $15-million in the first quarter of 2018, and took control of Minnesota-based paving company Midwest Asphalt Corp. Callidus now owns six businesses where it was originally a lender, including Bluberi and Midwest, and has 19 loans outstanding. The company values its overall portfolio at $1.2-billion, including a $414-million valuation on companies it has acquired.

Among other revelations in the earnings release, Callidus said it is considering additional loans to an unnamed energy company that operates in South America and is facing financial difficulties. Regulatory filings show that parent Catalyst is prepared to lend Callidus US$150-million to meet that commitment. Callidus said it may lend the energy company more money, but is not required to do so.

In 2017, Callidus took a $132-million provision against its loans to the unnamed company, which analysts have identified as Oklahoma-based Horizontal Well Drillers, which has extensive operations in Venezuela. At the time, Callidus said it may have to write off a further $64-million on this loan.

Mr. Glassman has repeatedly discussed taking Callidus private over the past two years and at one point set out a target price of $18 to $22 a share, based on a valuation by National Bank Financial. In a conference call on Wednesday, Mr. Glassman said Callidus is continuing to work on a privatization and "has no material facts or changes to report." The stock closed at $6.90 on Thursday in Toronto.