

Pennsylvania Gaming Control Board Lawrence Downs Casino and Racing Resort Public Input Hearing

Lady Luck Casino- Actual Market Impact
Lawrence Downs- Expected Market Impact

Presented on May 8, 2014 by Sean A. Sullivan, Vice President & General Manager of the
Meadows Racetrack & Casino

Executive Summary

Lady Luck Casino at Nemaacolin (“Nemaacolin”)

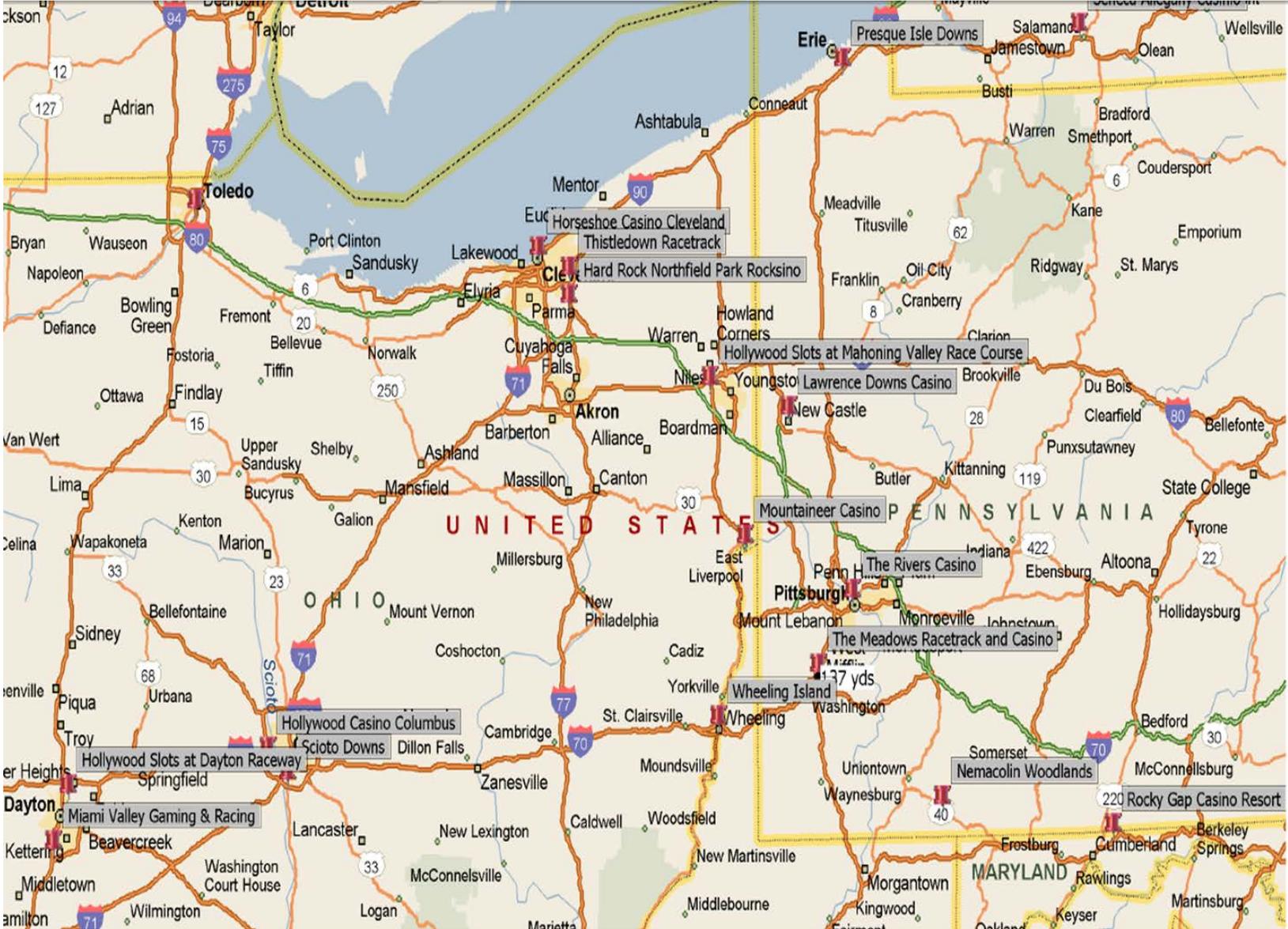
1. In 2010, The Meadows correctly predicted Nemaacolin would cannibalize a significant percentage of Pennsylvania gaming revenue while Nemaacolin officials believed the number to be less than one percent. The presence of Nemaacolin has had a direct and negative impact on The Meadows’ gaming revenue while producing no positive tax revenue for the Commonwealth of Pennsylvania
2. The Meadows also correctly predicted there was not a sufficient demand for another facility in Western PA; Nemaacolin’s current slot figures prove this to be correct
3. Nemaacolin officials promised they would focus on Maryland and the Baltimore/Washington DC region to bring new revenue to The Commonwealth. Rocky Gap Casino in Cumberland, MD blocks Nemaacolin’s access to out of state revenue; therefore, Nemaacolin has focused on the population within Pennsylvania, bringing no new revenue to The Commonwealth.

Executive Summary

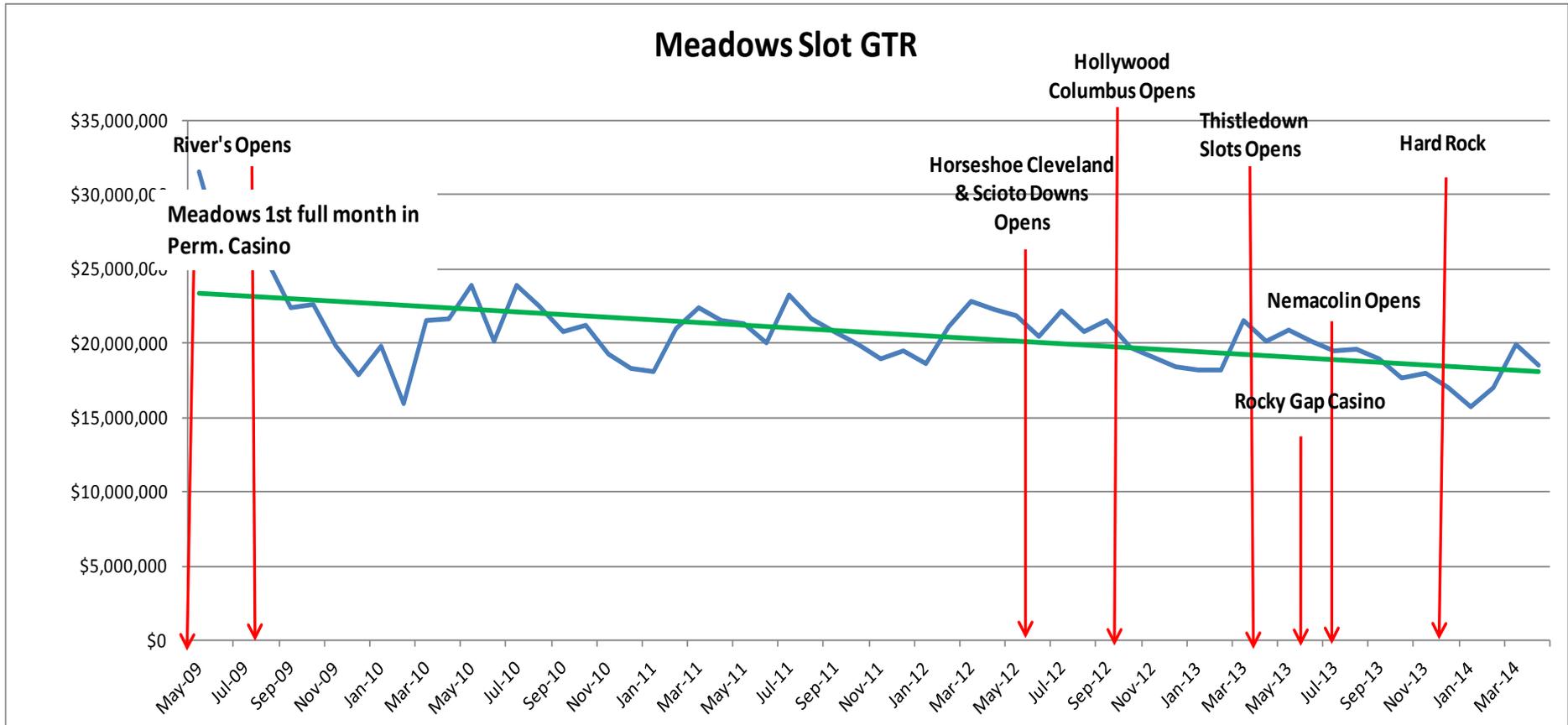
Lawrence Downs Casino and Racing Resort (“Lawrence”)

1. Lawrence does not satisfy the intentions of the PA Race Horse Development and Gaming Act
 2. Lawrence does not offer a significant new source of revenue
 3. Lawrence officials promise that 69% of their revenue will come from Ohio and West Virginia. Similar to Rocky Gap’s impact on Nemaquin, Mahoning Valley Race Course Hollywood (“Mahoning Valley”) in Austintown, OH will block Lawrence’s access to Ohio. Like Nemaquin, Lawrence will focus on the PA market, cannibalizing revenue from current PA Casino operators
 4. In 2011 Pennsylvania State Treasurer Robert M. McCord recommended 8 alternative locations which projected higher net gains to PA gaming revenues than a Lawrence
 5. If permitted, Lawrence will be one of 9 casino operators in a 90 mile radius saturated with 18,000 slot machines and 450 table games. This market saturation has forced Mahoning Valley to drop its VLT count from its original plan of 1,500 to 850.
- Industry analyst Alex Bumazhny:
 - “It’s a pretty speculative project given that there is such a cluster of casinos already in the region”
 - “It’s a sign that the project is too risky and/or the return prospects are not lucrative enough for the private investors to participate using 100 percent of their own money”
 - “Two million visitors is pretty outlandish. Two-million levels are typically reserved for casinos located in populous areas with competitive locations or destination resorts with a lot of amenities. The Lawrence County casino does not seem to fit either of these categories.”

Market Saturation



Western PA Market Saturation and Casino Opening Milestones:



Lady Luck Casino at Nemaquin

Actual Market Impact

Nemacolin's Effect On the Southwestern PA Gaming Market

What We Said...

In October, 2010 Washington Trotting Association, Inc. d/b/a The Meadows Racetrack & Casino ("WTA") petitioned to intervene in the Category 3 license application of Woodlands Fayette, LLC ("Nemacolin"). The following arguments were set forth.

1. Approximately thirty-six percent of Nemacolin's projected slot revenue will be cannibalized from the Meadows and The Commonwealth
2. Cannibalization of revenue from the Meadows and The Commonwealth only creates minimal incremental revenue and minimal incremental tax relief for Pennsylvania residents
3. There is not sufficient demand for another facility in Southwestern Pennsylvania to support **\$62m** in gaming revenue that Nemacolin projects

Nemacolin's Year One Performance

Over Promising and Under Delivering...

1. Nemacolin's promised year one Gaming Revenue- **\$61m**
 - **Actual** year one Gaming Revenue- **\$30m** (10 months actual, 2 months estimated)
2. Nemacolin's promised year one Gaming Tax **\$30.1m**
 - **Actual** year one gaming tax- **\$15m** (10 months actual, 2 months estimated)
3. No New Gaming Revenue for the Commonwealth
4. No incremental tax benefit for the Commonwealth
5. We expect the same results for the Lawrence
6. Not good for the Commonwealth, not good for local markets, not good for the racing industry

Nemacolin's Effect On Meadows GTR:

Meadows Patrons within Nemacolin markets				
Pre Nemacolin	2013 Q2	2012 Q2	Inc/(Dec)	%
Carded GTR	\$24,925,012	\$24,767,364	\$157,648	0.6%
Uncarded GTR (25%)	\$8,308,337	\$8,255,788	\$52,549	0.6%
Net Prior to Nemacolin	\$33,233,349	\$33,023,152	\$210,197	0.6%
Post Nemacolin	July 2013 - Apr 2014	July 2012 - Apr 2013		
Carded GTR	\$36,409,533	\$43,761,585	(\$7,352,052)	(16.8%)
Uncarded GTR (25%)	\$12,136,511	\$14,587,195	(\$2,450,684)	(16.8%)
Net Post Nemacolin	\$48,546,044	\$58,348,780	(\$9,802,736)	(16.8%)
Estimated Impact of Nemacolin on Meadows GTR since July 2013			(\$9,865,132)	

In 2013 Q2, (directly prior to the opening of Nemacolin) the Meadows experienced year on year growth of **0.6%** (lost opportunity) from Meadows players residing within Nemacolin's market

Since the opening of Nemacolin, The Meadows has experienced a **(16.8%)** or **(\$9.8m)** decline in GTR from players residing in Nemacolin's market

The net effect on Meadows GTR (lost opportunity plus current decline) of Nemacolin's opening results in a reduction of **(\$9.9m)** or **(17.4%)** in 10 months

Nemacolin's Cannibalization of Meadows GTR:

Meadows Lost GTR as a % of Nemacolin's GTR	
Jul 2013 - Apr 2014	
Est. Meadows GTR Cannibalized	\$9,865,132
Nemacolin GTR	\$18,884,707
Percentage Cannibalized	52%

In the First **10** Months' Operations, Nemacolin cannibalizes **\$9.9m** of the Meadows GTR.

Nemacolin GTR- Estimated first year of operation		Cannibalized From Meadows	
Actual	Jul-13	\$2,357,083	\$1,231,310
	Aug-13	\$2,032,473	\$1,061,738
	Sep-13	\$1,968,755	\$1,028,453
	Oct-13	\$1,727,860	\$902,612
	Nov-13	\$1,727,816	\$902,589
	Dec-13	\$1,570,498	\$820,408
	Jan-14	\$1,518,052	\$793,011
	Feb-14	\$1,671,415	\$873,126
	Mar-14	\$2,207,009	\$1,152,914
	Apr-14	\$2,103,745	\$1,098,970
LTD WPU applied to estimate May and June	May-14	\$2,285,101	\$1,193,708
	Jun-14	\$2,211,388	\$1,155,201
	Year 1	\$23,381,196	\$12,214,041

In other words, **52%** of Nemacolin's GTR is directly at the Meadows expense.
Annually, **\$12.2m** GTR is expected to be cannibalized

Southwestern PA Market- Nemaocolin Impact:

Meadows, Rivers, & Nemaocolin Market Growth/(Decline)				
GTR	Jul 2013 - Apr 2014	Jul 2012 - Apr 2013	Variance	%
Meadows GTR	\$181,763,123	\$199,741,303	(\$17,978,180)	(9.0%)
Rivers GTR	\$231,634,267	\$235,962,223	(\$4,327,957)	(1.8%)
Nemaocolin GTR	\$18,884,707	\$0	\$18,884,707	
Net GTR	\$432,282,096	\$435,703,526	(\$3,421,430)	(0.8%)
Commonwealth Tax (60%)	Jul 2013 - Apr 2014	Jul 2012 - Dec 2012		
Meadows Contribution	\$109,057,874	\$119,844,782	(\$10,786,908)	(9.0%)
Rivers Contribution	\$138,980,560	\$141,577,334	(\$2,596,774)	(1.8%)
Nemaocolin Contribution	\$11,330,824	\$0	\$11,330,824	
Net Contribution	\$259,369,258	\$261,422,116	(\$2,052,858)	(0.8%)

In the first 10 months with three casinos in the same market The Commonwealth lost **(\$3.4m)** GTR or **(0.8%)**

Furthermore, The Commonwealth and its residents saw a loss of **(\$2.1m)** in taxes

Nemaocolin's first 10 months of operations prove that Western Pennsylvania market is over saturated

Lawrence Downs Casino & Racing Resort

Expected Market Impact

The Commonwealth's Interest

Intention of Pennsylvania Race Horse Development and Gaming Act (the "Act")

- Provide a "significant source of new revenue to the Commonwealth to support property tax relief, wage tax reduction, economic development opportunities and other similar initiatives"
- Positively assist the Commonwealth's horse racing industry, support programs intended to foster and promote horse breeding and improve the living and working conditions of personnel who work and reside in and around the stable and backside areas of the racetracks."

A Lawrence Racetrack and Casino does not satisfy these intentions

- Revenue will not be significant
- The source of the revenue will not be new
- Cannibalization will hinder current economic development opportunities in Southwestern PA
- The impact on the Commonwealth's horse racing industry will be negative
- Support for racing programs will decrease

Meadows Slot Activity in Lawrence Region

Actual Meadows Player Activity in Each Region*

GTR	Lawrence Region**	Nemacolin Region***	Nemacolin Year 1 GTR (est.)	Lawrence Projection
Carded	\$24,700,000	\$43,200,000		
Uncarded	\$8,233,333	\$14,400,000		
Net	\$32,933,333	\$57,600,000	\$23,400,000	\$98,000,000

* Each Region is defined by a 60 minute drive time radius

** Lawrence Region data is for the period of 12 months ended 4/30/2014

*** Nemacolin Region data is the exact data presented in October 2010 for the 12 months ended 9/30/2010

- The Meadows experienced a **(17.5%)** decline in slot revenue from patrons residing in it's Nemacolin market. A similar decline in it's Lawrence region would result in an additional **(\$5.8m)** decline in revenue
- The Commonwealth would lose **(\$3.5m)** Tax Revenue
- Furthermore, if our current Lawrence market GTR is **\$25m** less than our previous Nemacolin market GTR, how does Lawrence project **4 times** the revenue as Nemacolin's current run rate?

Lawrence Downs Casino & Racing Resort

Financial Performance Projections

Should these estimates really be trusted?

- **\$115m** Gross Gaming Revenue Projection – Year 1
 - **\$57m** Gaming Tax
 - **\$98m** GTR / **85%** of Total / **\$215** WPUPD
 - **\$17m** Table Revenue (inc. Poker) / **15%** of Total / **\$913** WPUPD
- **\$142m** Gaming Revenue Projection – Year 2
 - **\$71m** Gaming Tax – Year 5 (**5%** Growth)
 - **\$120m** GTR / **85%** of Total / **\$263** WPUPD
 - **\$21m** Table Revenue (inc. Poker) / **15%** of Total / **\$1,128** WPUPD
- **2.91m** customer visits, of which **2m** come from outside of the Commonwealth (**67.5%** of visits will come from Ohio & WV).

Other Regional Projections

Pennsylvania Gaming Market Assessment & Competitive Analysis
(Innovation Group Study 2011)

Alternatives: Net Gain to PA Gaming Revenues (MMs)

South York	\$153.99
Reading	\$124.75
Valley View	\$122.65
Chambersburg	\$106.59
W. Philly/City Line	\$98.43
Beaver Valley	\$98.27
Altoona	\$96.11
Port Jervis	\$95.56
Foxwoods Site	\$89.96
Valley View w/ Youngstown Impact	\$83.39
Johnstown	\$76.85
Williamsport	\$54.82

Note Lawrence GGR
without Youngstown
Impact

Note Lawrence GGR with
Youngstown Impact

As presented by Pennsylvania State Treasurer Robert M. McCord in September 2011, the next project should be in York County

Innovation Group – 2003 Projections

Statewide Machine Revenues: 2003 Report vs. 2010 Actuals

	2006 Projection	2010	Difference	Difference %
PARX	\$307,763,421	\$382,978,796*	\$75,215,375	24.4%
Chester	\$233,514,145	\$287,176,968*	\$53,662,823	23.0%
SugarHouse	\$656,058,607	\$166,416,527*	-\$489,642,080	-74.6%
Philadelphia Area Subtotal	\$1,197,336,173	\$836,572,290*	-\$360,763,883	-30.1%
Penn National	\$182,214,268	\$253,403,976	\$71,189,708	39.1%
Mohegan @ Pocono	\$90,151,538	\$224,762,570	\$134,611,032	149.3%
Mt Airy	\$92,715,175	\$143,811,645	\$51,096,470	55.1%
BethSands	\$241,797,391	\$258,735,860	\$16,938,469	7.0%
Eastern Region Subtotal	\$1,804,214,545	\$1,717,286,341	-\$86,928,204	-4.8%
The Meadows	\$153,329,630	\$249,131,455*	\$95,801,825	62.5%
The Rivers	\$369,184,791	\$274,128,075*	-\$95,056,716	-25.7%
Pittsburgh Area Subtotal	\$522,514,421	\$523,259,530	\$745,109	0.1%
Presque Isle	\$113,790,574	\$170,387,248	\$56,596,674	49.7%
Western Region Subtotal	\$636,304,995	\$693,646,778	\$57,341,783	9.0%
Total	\$2,440,519,540	\$2,410,933,119	(\$29,586,421)	-1.2%

Source: Pennsylvania Gaming Control Board; Innovation Group. *Note: Annualized based on most recent performance (Jan-April)

In 2003 Innovation group projected the Pittsburgh Area slot machine revenue within 0.1% of actual 2010 figures and within 1.2% of the statewide figures