



Pennsylvania Gaming Market

Presented by:

Paul Girvan and Tom Zitt

The Innovation Group of Companies

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Objective of Analysis

- ✓ PA unique among states in that the Assembly allowed market factors to determine locations and sizes of facilities.
- ✓ PA recognized the need for significantly lower tax rate on table games. Result – success of table games compared to DE and WV.
- ✓ PA Act is now used as Gold Standard for gaming development
- ✓ Objective of this exercise - to provide the Assembly with information to assist it in identifying remaining Pennsylvania Gaming markets that would maximize benefits to the State

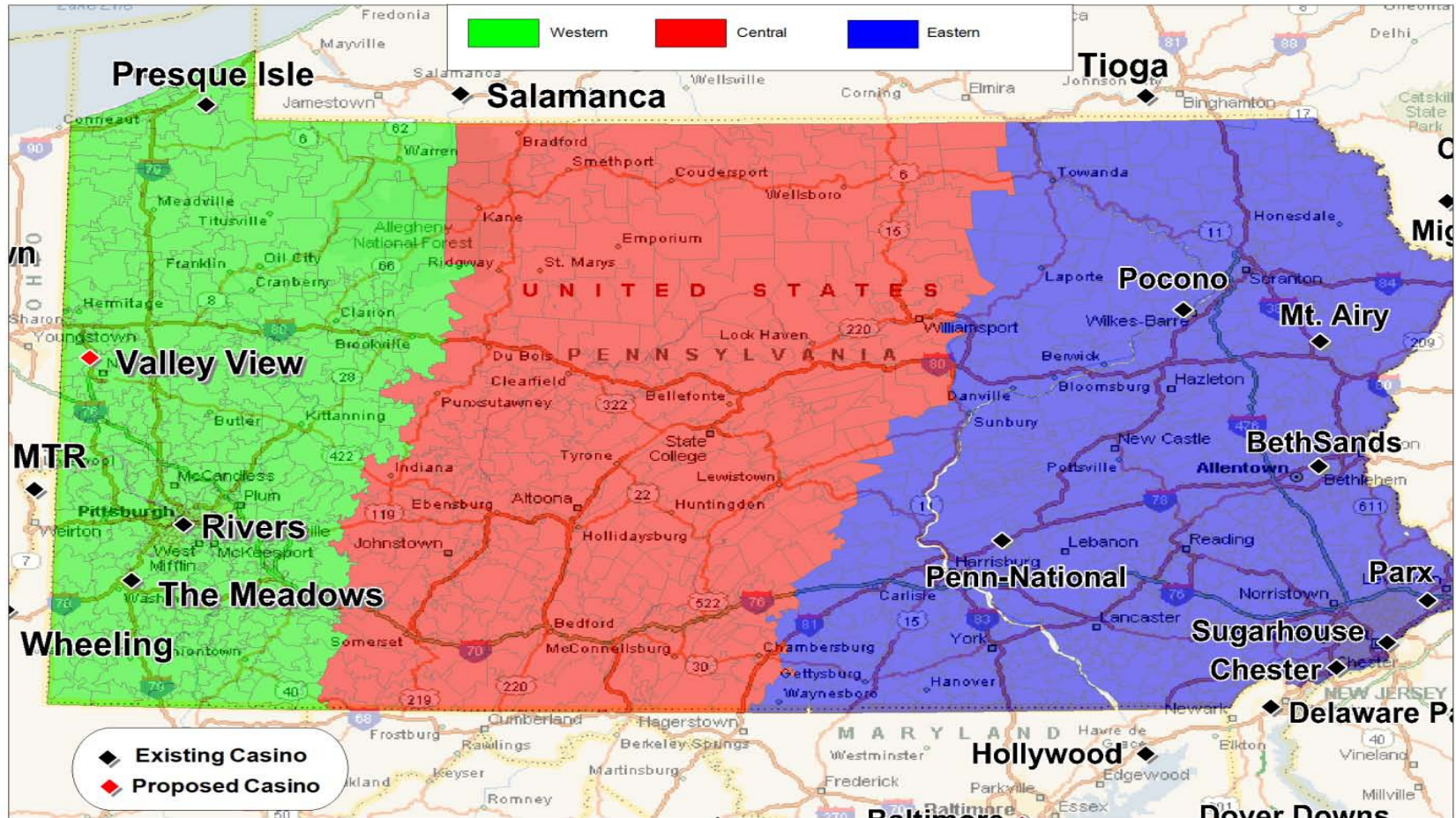


Information to be provided/considered :

- Market Demand
- Net Tax revenue to state
- Viability of operation
- Cannibalization of existing operators

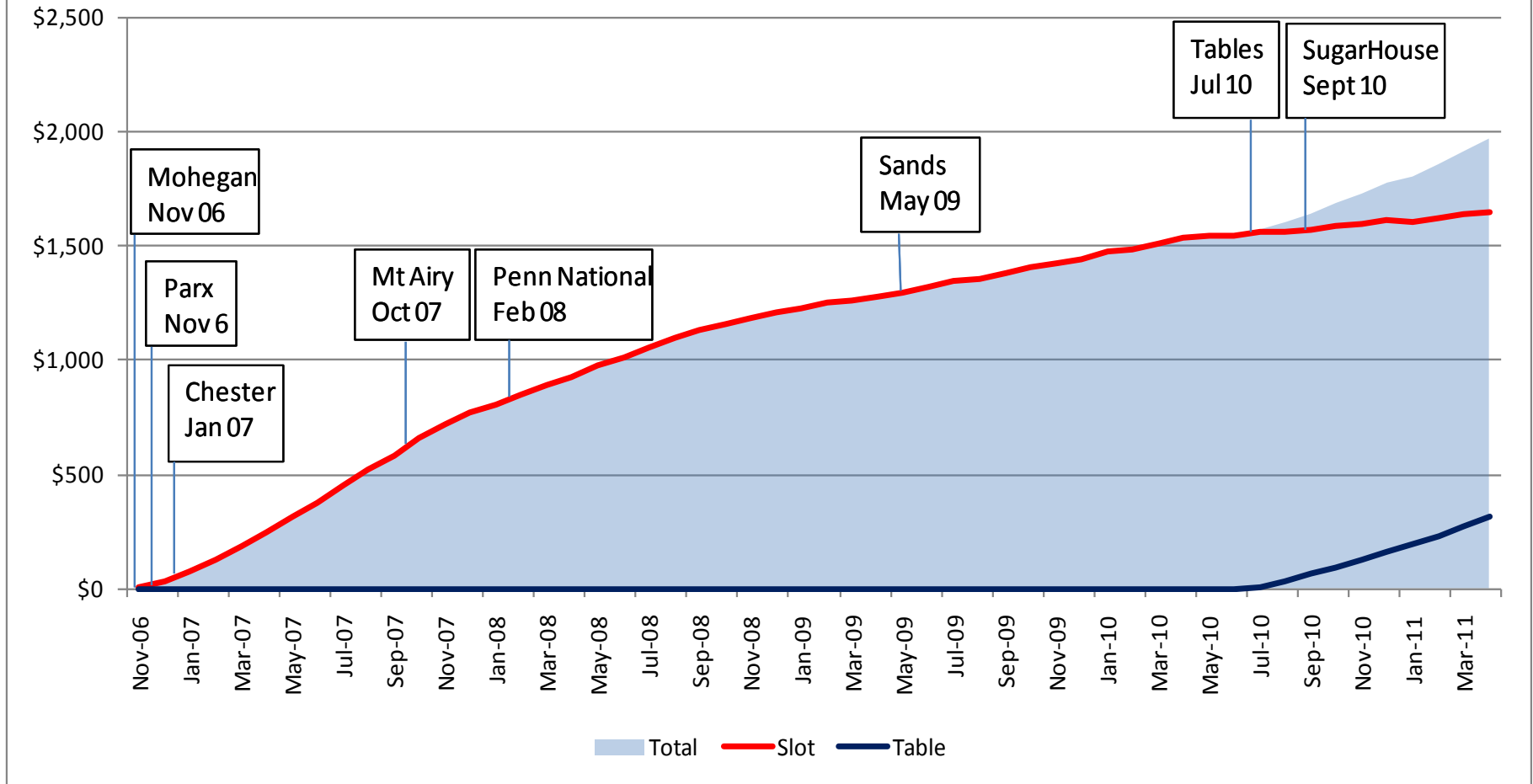


Pennsylvania Market



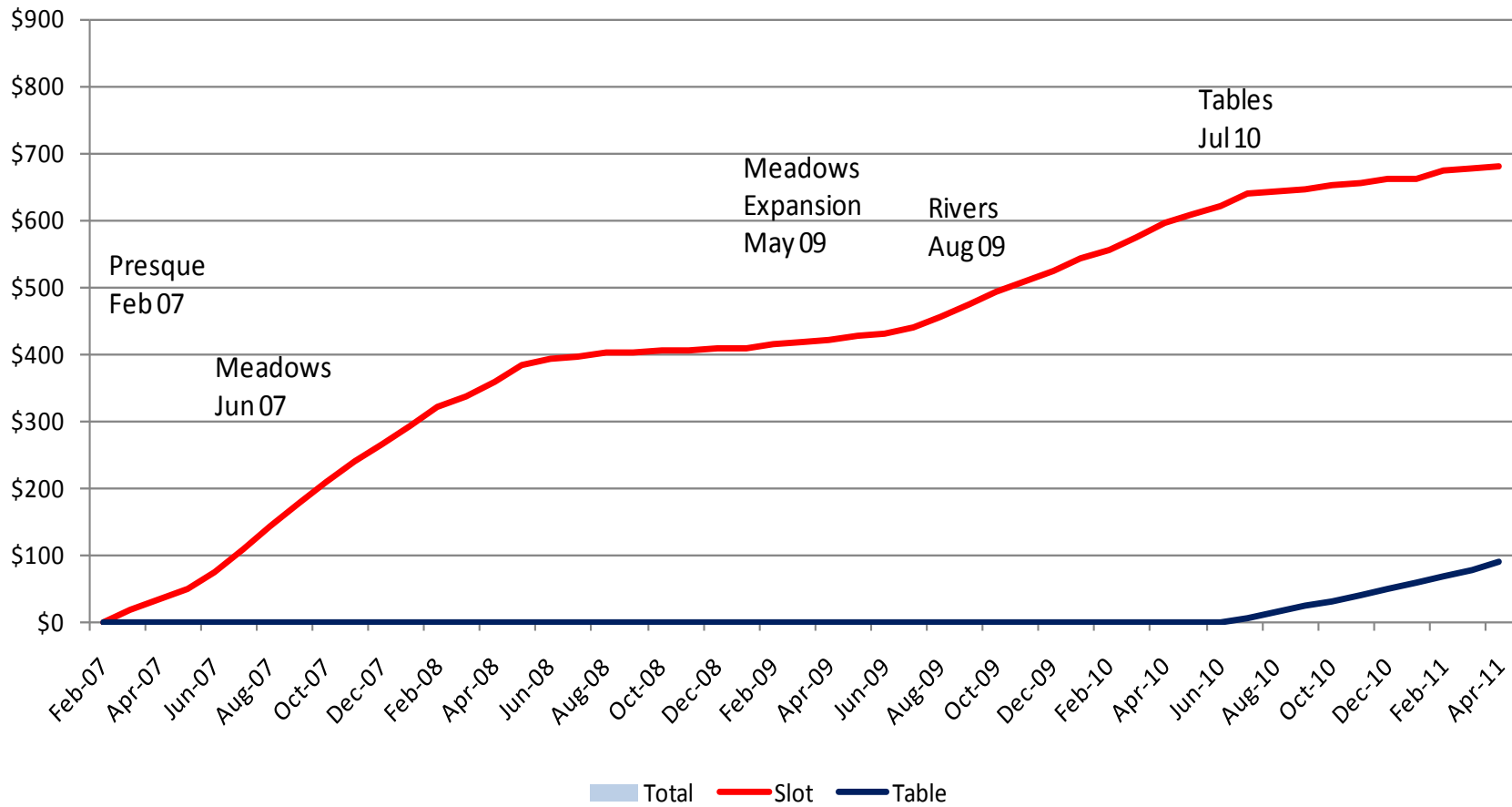


Eastern Region Gaming Revenue (MMs, Trailing 12 Months)



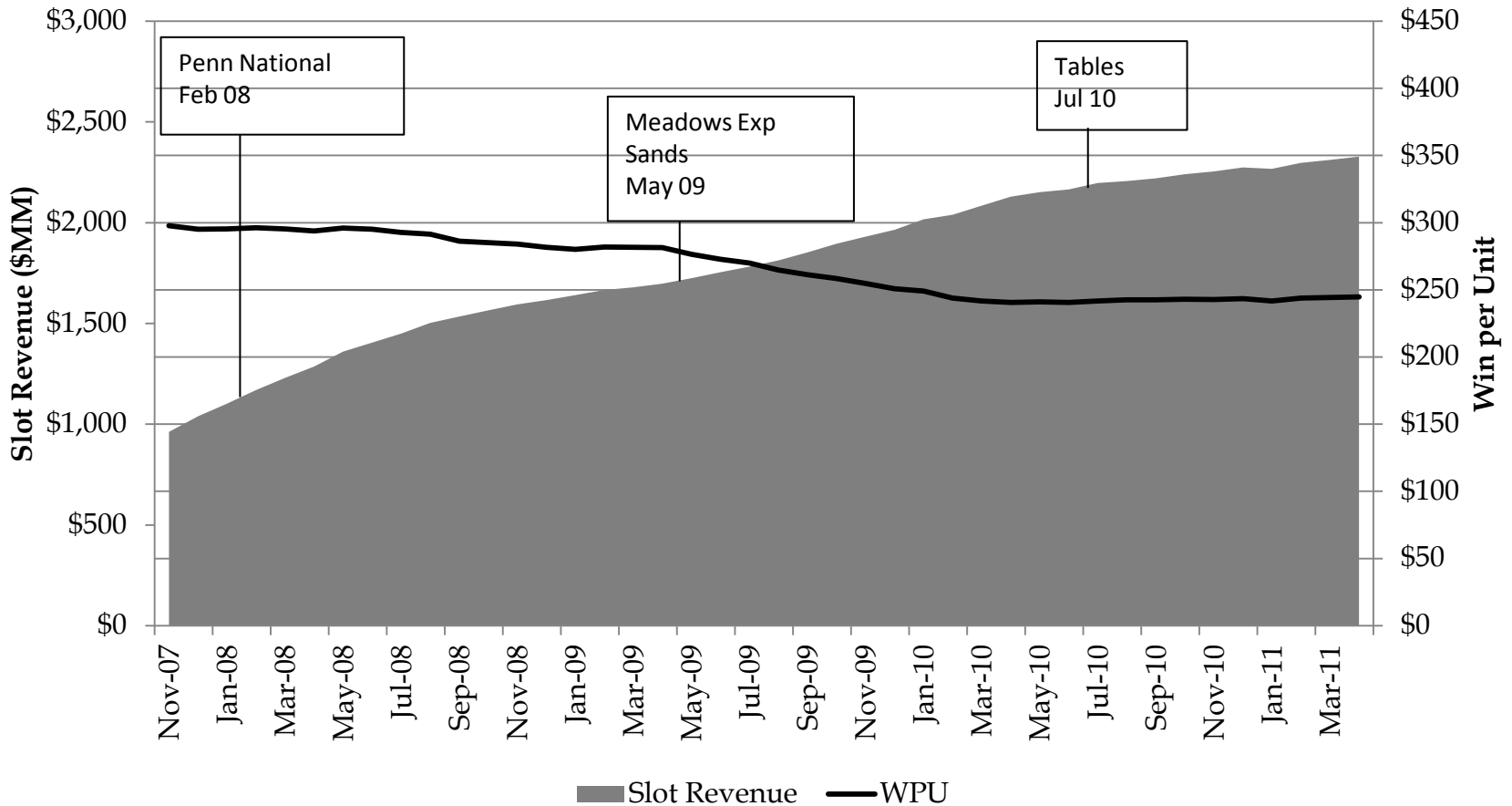


Western Region Gaming Revenue (MMs, Trailing 12 Months)



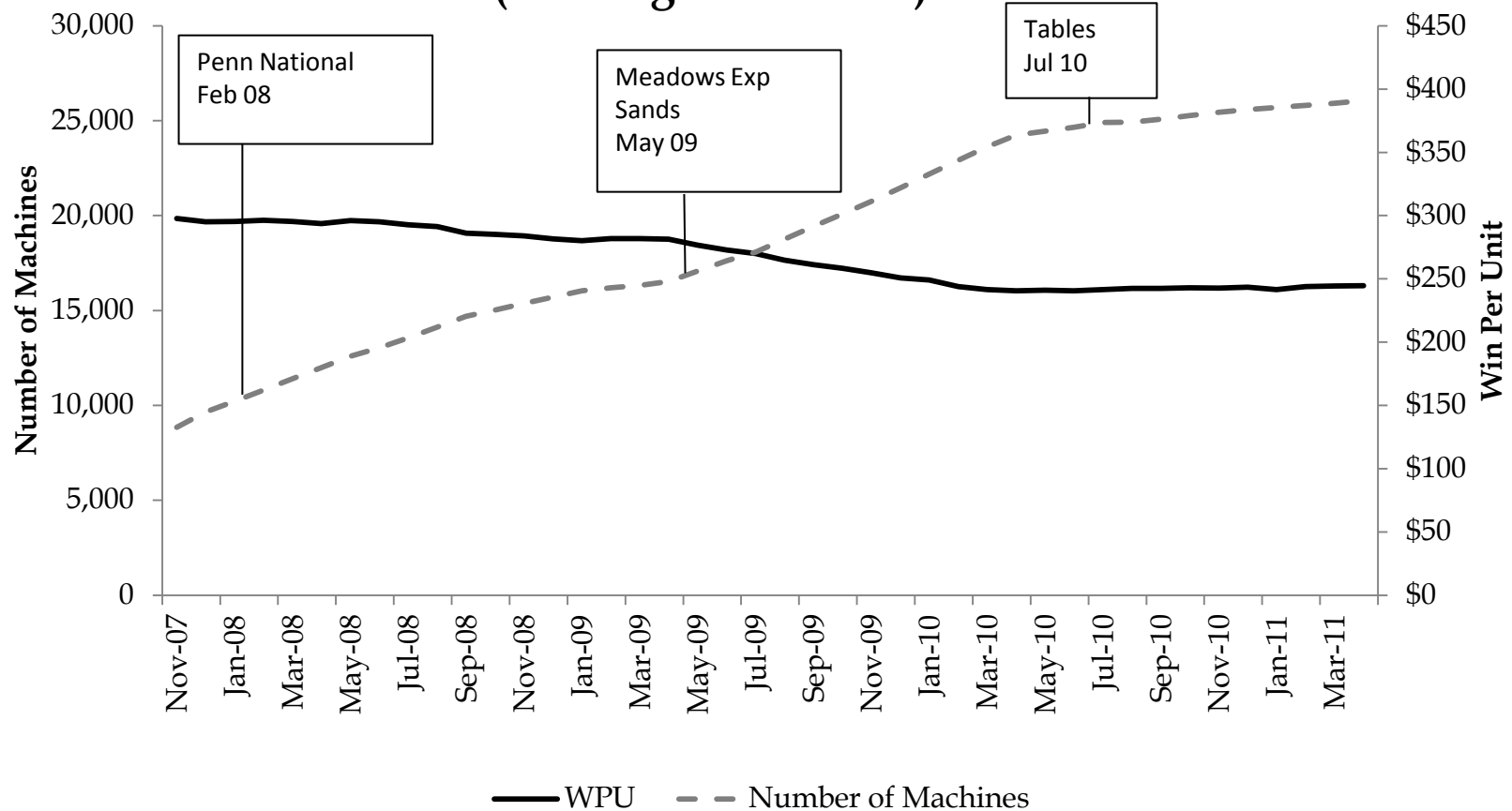


Slot Revenue and Win Per Unit (Trailing 12 Months)





Number of Machines and Win Per Unit (Trailing 12 Months)





Innovation Group (2003 Report) Comparison of Projected 2006 versus Actual 2010

	2006 Projection	2010	Difference	Difference %
<i>Philadelphia Area Subtotal</i>	\$1,197,336,173	\$836,572,290*	-\$360,763,883	-30.1%
<i>Eastern Region Subtotal</i>	\$1,804,214,545	\$1,717,286,341	-\$86,928,204	-4.8%
<i>Pittsburgh Area Subtotal</i>	\$522,514,421	\$523,259,530	\$745,109	0.1%
<i>Western Region Subtotal</i>	\$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%



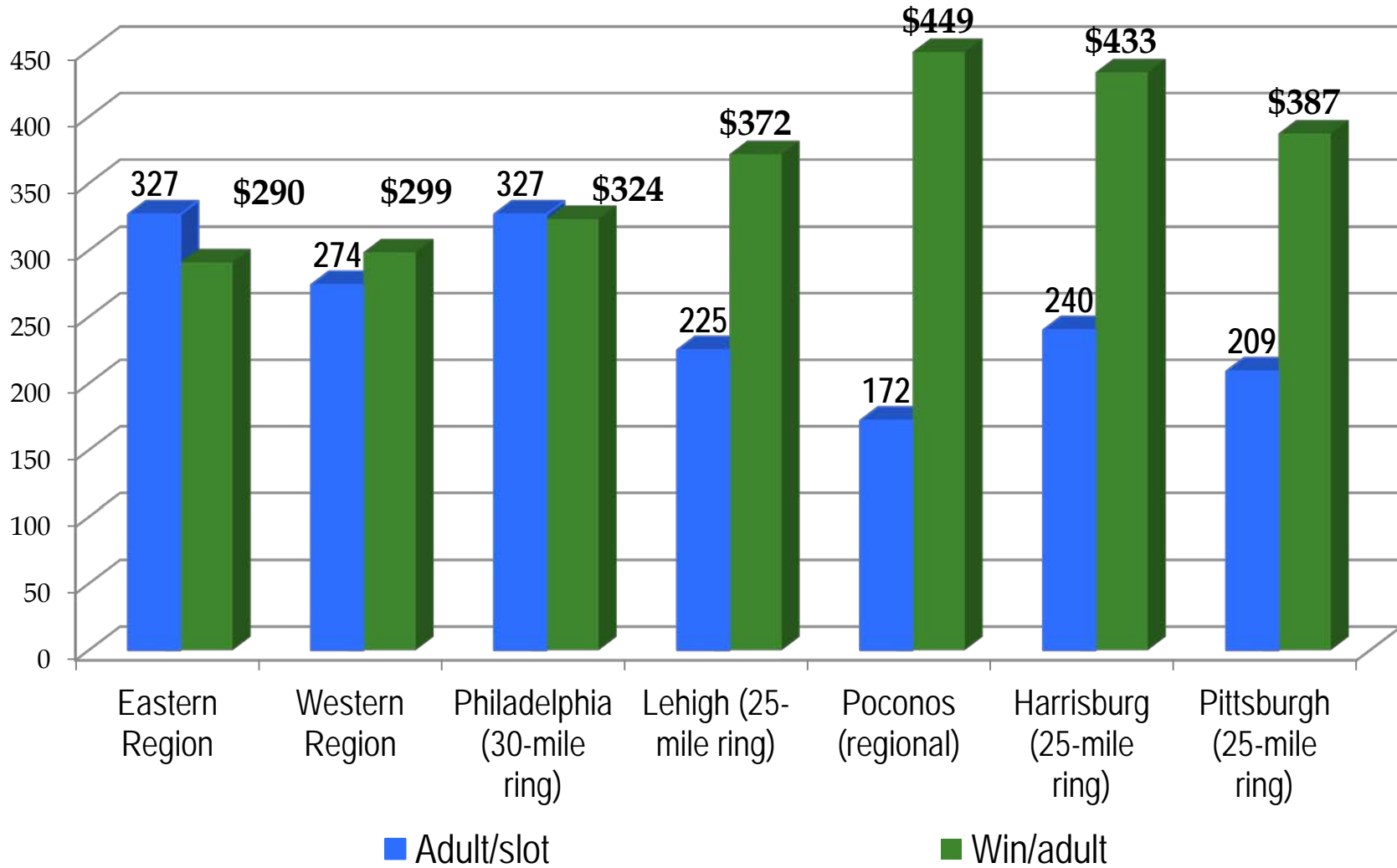
Noteworthy Trends

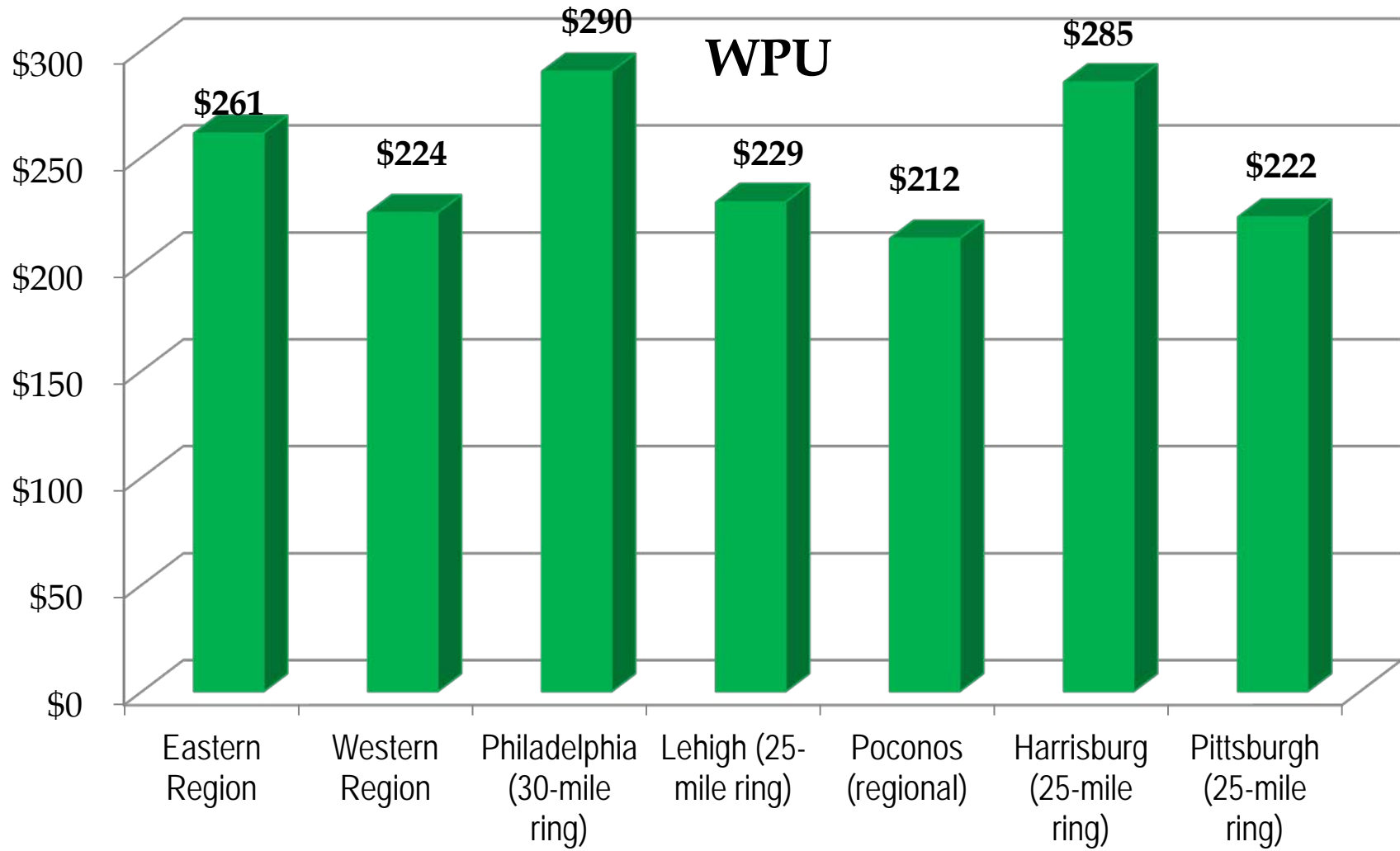
✓ First to Market Advantage:

- Earlier developments generally exceeded projections.
 - Three most recently opened casinos (BethSands, The Rivers, and SugarHouse) are below or very close to projections (BethSands being 7% higher).
- ✓ In Pittsburgh, The Meadows generates \$95.8 million more than projected, nearly identical to the deficit at Rivers.
- ✓ PARX and Chester generated \$129 million more than projected but not enough to overcome lack of second Philadelphia casino, resulting in a deficit of \$361 million for the market.



Saturation Analysis







Market Analysis

- ✓ Gravity model analysis
- ✓ Alternative Locations within the 3 regions:
 - Modeled one location per region at a time.
 - Foxwoods Philadelphia site and Valley View were included.
- ✓ Produced gross gaming revenue and net gaming revenue impact for each alternative.
 - Net revenue impact = gross gaming revenue minus cannibalization of existing PA casinos.



Location Alternatives

Eastern Region

- Foxwoods Site
- City Line
- Port Jervis
- Reading
- South York
- Chambersburg

Western Region

- Valley View Site
- Beaver Valley

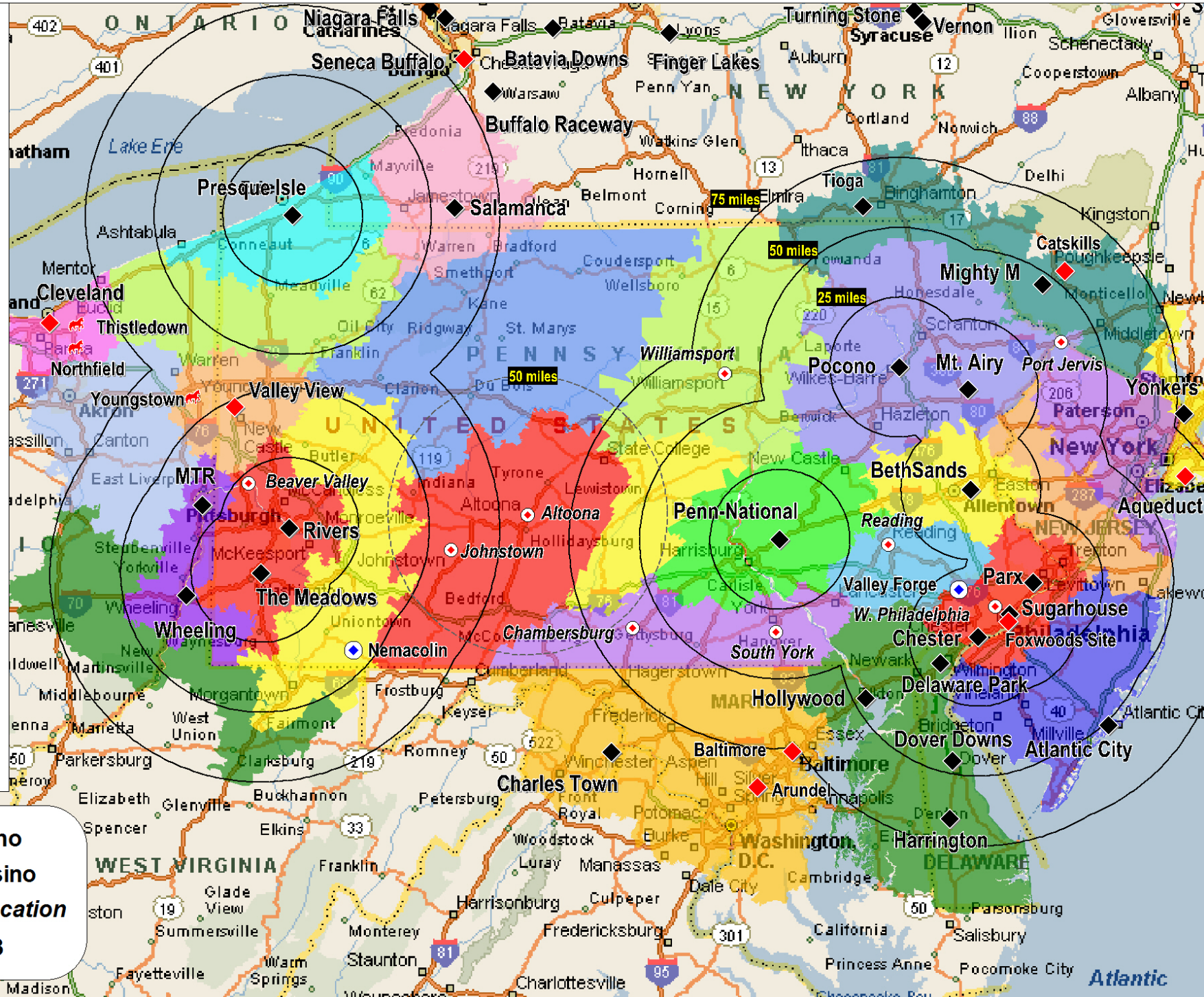
Central Region

- Altoona
- Johnstown
- Williamsport

Pennsylvania Casino Market Areas with Alternative Locations

- Philadelphia
- Atlantic City
- Bethlehem
- Central NJ
- Newark
- New York
- Reading
- Chambersburg-York
- DelMar
- Maryland
- Harrisburg
- Central South
- Poconos
- Catskills
- Williamsport
- Central North
- Altoona
- Pittsburgh Sec East
- Pittsburgh
- WV Primary
- WV Secondary
- Erie
- Erie Secondary
- Ohio Tertiary
- Cleveland
- Newcastle
- Salamanca

- Existing Casino
- Proposed Casino
- Alternative Location
- PA Category 3





	Net statewide gain	GGR	Cannibalization
South York	\$153.99	\$219.97	\$65.98
Reading	\$124.75	\$191.97	\$67.21
Valley View	\$122.65	\$160.17	\$37.51
Chambersburg	\$106.59	\$128.23	\$21.64
W. Philly/City Line	\$98.43	\$290.96	\$192.54
Beaver Valley	\$98.27	\$144.66	\$46.39
Altoona	\$96.11	\$112.15	\$16.04
Port Jervis	\$95.56	\$130.13	\$34.57
Foxwoods Site	\$89.96	\$269.06	\$179.09
Valley View w/ Youngstown	\$83.39	\$109.34	\$25.95
Johnstown	\$76.85	\$97.64	\$20.79
Williamsport	\$54.82	\$68.98	\$14.17



Financial Analysis

- ✓ Purpose was to compare relative financial strength across alternative locations, not intended as a thumbs-up or thumbs-down verdict.
- ✓ Industry Norms for EBITDA, Developments Costs & Financing Terms. 3 financial measurements:
 - Discounted Cash Flow
 - Internal Rate of Return
 - Payback Period
- ✓ Categorized locations according to revenue potential and development costs.



Financial Results

	Large	Medium	Medium/ Small	Small	Outlier
Total Revenues	\$299.6	\$220.4	\$150.7	\$113.8	\$73.8
EBITDA	\$66.0	\$48.5	\$29.4	\$21.6	\$13.3
Adjusted Net Present Value (\$M)	\$105.4	\$69.2	\$4.3	(\$23.1)	(\$51.8)
Internal Rate of Return	17.9%	17.4%	12.5%	9.1%	3.7%
Payback Period (in years)	5.3	5.5	7.0	8.5	10 +



Implications

- ✓ Locations with a GGR potential of \$150m show positive feasibility.
- ✓ License Fee of \$66.5 million a hurdle for Small category locations:
 - Altoona
 - Valley View in the Youngstown scenario
- ✓ The leading net-gainers in the East—South York and Reading—are toward the higher end of the range for feasibility. Reminder: analysis was based on one location at a time in each region.