



SPECTRUM
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National, Illinois Gaming Trends

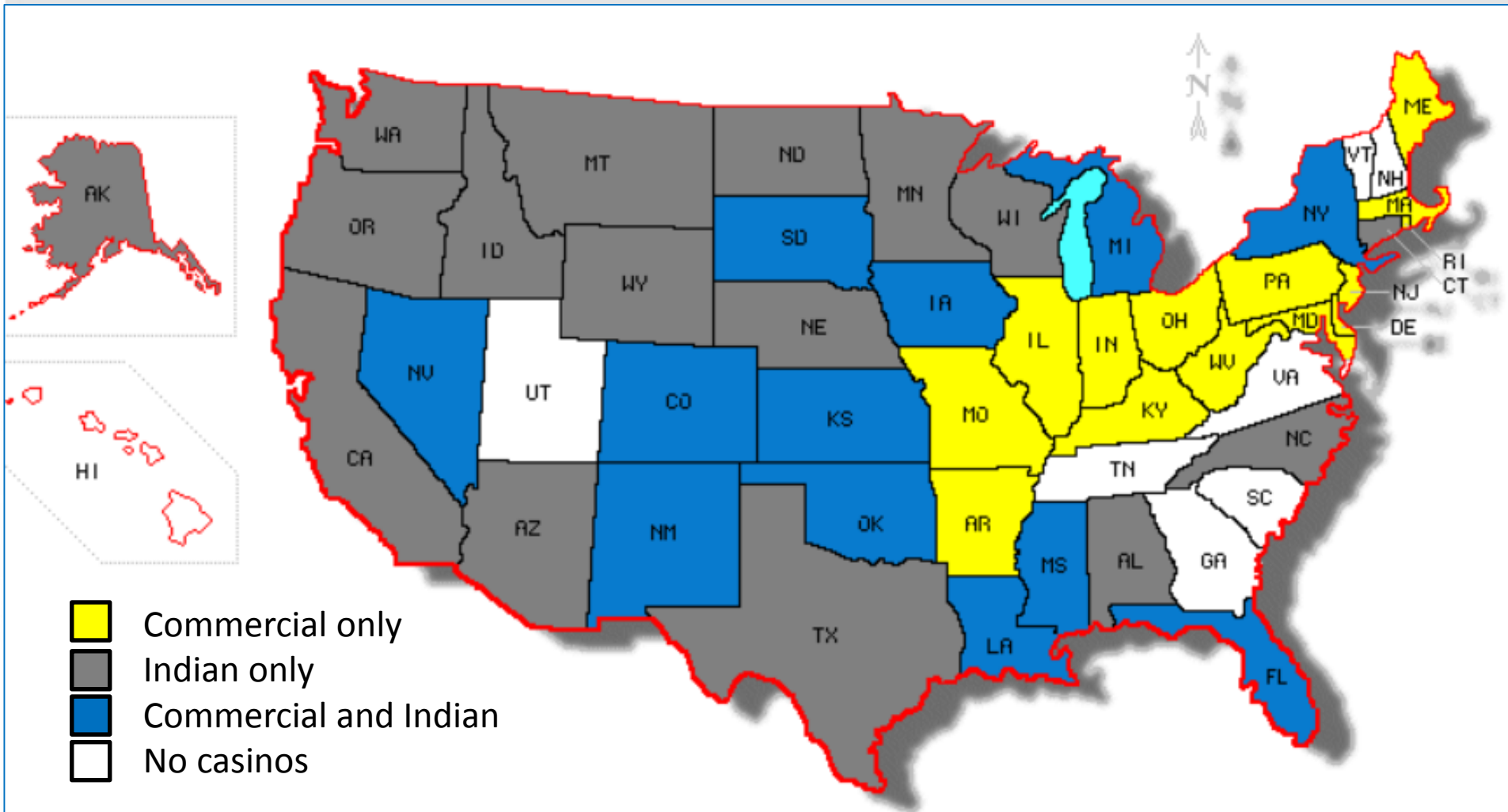
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May 4, 2015

Prepared for State of Illinois
House Executive Committee
Daniel J. Burke, Chairperson
Robert Rita, Vice-Chair
Chad D. Hayes, Republican Spokesperson

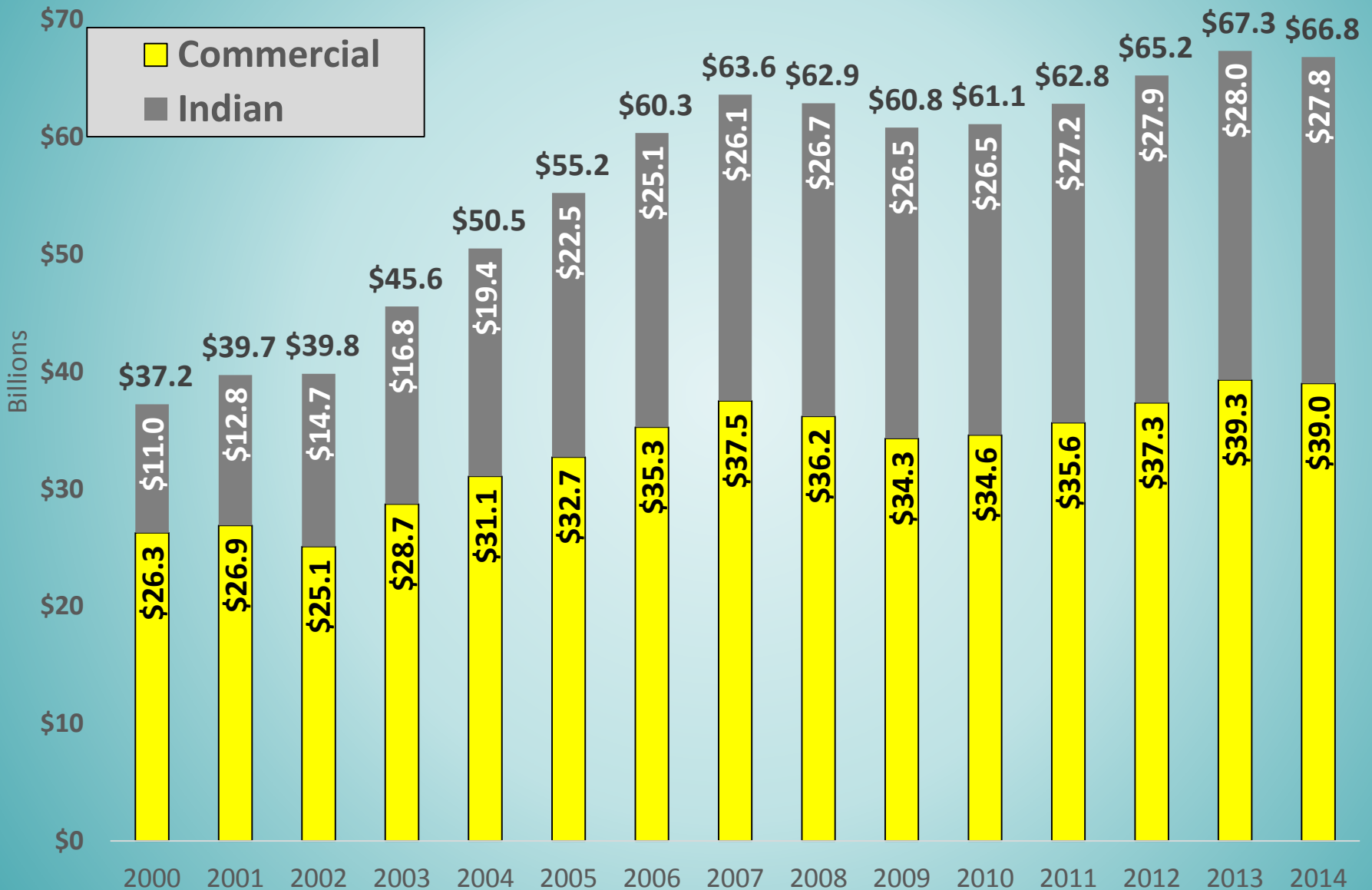
The United States of Casinos

~ 985 casinos of all types in 42 states

(includes MA, where first casino opens June 2015)



US Gross Gaming Revenue



Sources: American Gaming Association, National Indian Gaming Commission,. Spectrum Gaming Group

Great Recession Changed Industry

- Discretionary spending has dropped, while savings rate has increased
- Industries such as gaming that depend on discretionary spending suffer
- Recession has demonstrated that gaming is not recession-proof



Result

- Pullback in consumer spending combined with increasing gambling options have created saturation in many markets
 - More pressure on profits
 - Heightened competition
 - Cutbacks on property reinvestment
 - Fewer opportunities to grow total market size

States' Casino Performance

- Mixed bag, last 12 months (thru Feb 2015):
 - 14 states increase
 - 11 states decrease
- Signs of improvement, 1Q 2015
 - Same-store GGR increase 1%
 - Mostly declines in mature jurisdictions

Response

- To combat flat/declining gaming receipts, or to develop new revenue sources, states seek to add more gambling
 - More casinos (CT, DE, FL, IL, ME, NJ, NY)
 - Retail gaming (PA, VT)
 - Internet gambling (CA, MS, NY, PA)
 - Sports betting (IN, MN, NJ, NY, SC)
- In addition to initial legalization in other states (AL, KY, NH, TN, TX, VA)

Unintended Consequences

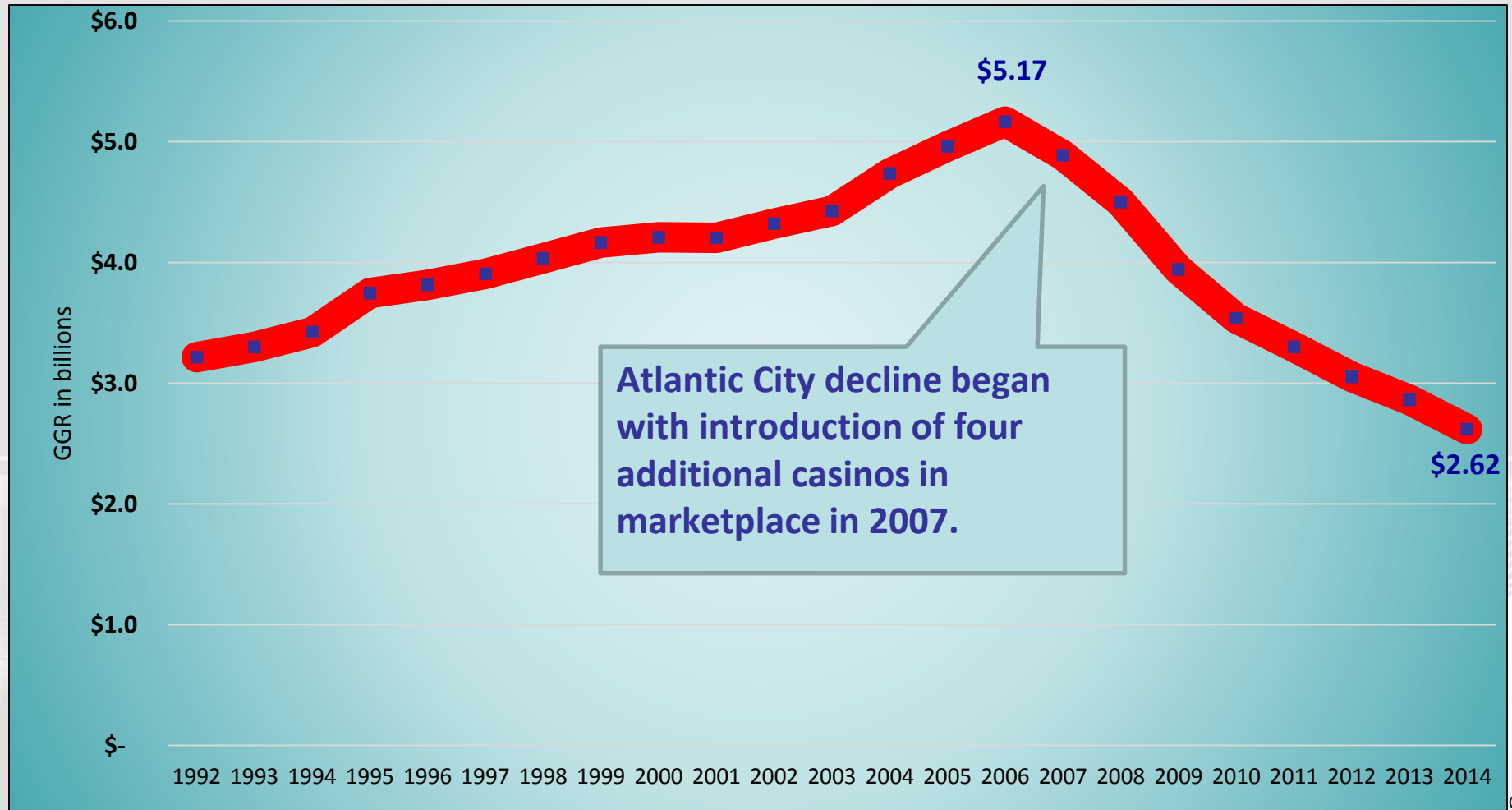
- Signals unstable, risky investment climate
 - Instability, uncertainty lead to investment risk, which increases cost of capital and lowers chance of expansion by lowering potential return
 - Existing operators face new competition, but cannot add new tools – such as more, better attractions – to maintain or increase market share
- Cannibalization: Casinos fighting over same-size (or reduced) pieces of pie

Unintended Consequences

- More gambling options without corresponding, demonstrated demand creates problems for existing operators that ripple to communities
 - Cuts in employment
 - Lower tax receipts
- Less capital investment
 - Less-attractive properties
 - Vicious cycle
- Worst-case scenario: closure

Case Study: Revel Atlantic City

- Atlantic City was \$5.2B market at peak in 2006



Case Study: Revel Atlantic City

- In 3-year span, 4 southeastern PA casinos opened in crowded market, sending AC into tailspin
- Revel opened in saturated/declining market
 - \$2.4B price tag built with state subsidies
 - Opened in April 2012, closed 29 months later
 - Sold at bankruptcy auction for 4 cents on dollar

Case Study: Revel Atlantic City

- Landmark failure
 - 2,500 jobs lost
 - Loss of attractions and infrastructure for city
 - Restaurants
 - Meeting space
 - Nightlife/entertainment
 - Parking
 - Exacerbated funding declines for 18 state programs reliant on gaming taxes
 - 710-foot monument to failure for city

More Effective Response

- Focus on health of existing licensees
 - Signal stable, improving investment climate
 - Encourage operators to improve, innovate:
 - Reinvest in properties
 - Help them maintain, grow revenues
 - Graduate to higher gaming-tax bracket
 - Reach new demographics



Non-Gaming is Not Easy

- Widespread desire for casino properties to add non-gaming amenities, attractions
- Laudable yet largely tantalizing goal, as critical factors needed:
 - Major investment
 - Critical mass
 - Within the casino property(s)
 - In the host community/region
 - Favorable and stable tax and regulatory climate

Las Vegas is Unique

- Primary trip purpose: Vacation/pleasure
 - Gambling primary trip purpose: 8% - 15%
- Percent of Strip revenue from gambling: 37%
- Convention attendance: 5.1 million
 - 22,027 conventions and meetings
- Room inventory: 150,593

Outside of Las Vegas ...

- Non-gaming is only 5% – 20% of total revenue
- Higher tax rates discourage investment
- Expansion leads to smaller facilities, difficult to justify including significant non-gaming amenities
- Highest margins are on the gaming floor

Looking at Illinois

- Only 4 states' GGR declines more severe than Illinois' 3.9% decrease over LTM
 - From gaming-position standpoint, IL has added equivalent of 16 casinos statewide last 2.5 years
 - From GGR standpoint, IL has added equivalent of 6 casinos statewide in last 2.5 years
 - These numbers are growing and will continue to grow – and continue to cannibalize casino revenues, threatening jobs

Illinois Supply Shock

- Current bills would allow for addition of 11,225 – 20,700 gaming positions
- Most recent states adding to established casino industries:
 - **IN**, 2007: 2 racinos, 4,000 slots, no tables
 - **MD**, 2012: 1 casino ... 1,500 VLTs, no table limit
 - **NY**, 2013: 7 casinos (4 now, 3 more in 7 years) ... no position limits; may be stipulated by regulators

Downtown Chicago?

- Casino with 4,000 – 10,000 gaming positions would have such pull that it would exacerbate declines currently experienced by the 5 Chicagoland properties in IL
 - Size alone would create an unlevel playing field with competitors
 - The thousands of gaming positions would require substantial non-gaming amenities to support casino operation
 - This would require initial capital investment approaching or, more likely, surpassing \$1B
 - This, in turn, would create an attraction that would dwarf offerings and attraction of suburban casinos

Thank You

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