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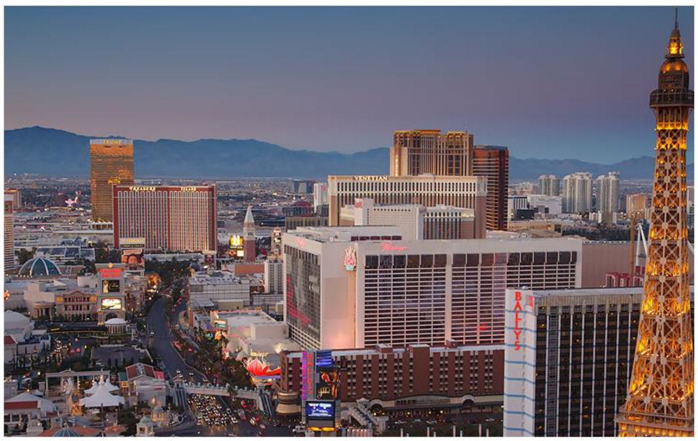
July 14, 2015

Gabelli & Company

Casinos



Source: Ron Niebrugge, Cotai Management, Mountainhighgambler.com, Time Magazine, and Borgata

Holding, Folding & Doubling Down

Companies	**Ticker**		**Price**		**Exchange**
Boyd Gaming Corp.	(BYD	-	$16.47	-	NYSE)
Churchill Downs, Inc.	(CHDN	-	129.95	-	NASDAQ)
Isle of Capri Casinos, Inc.	(ISLE	-	18.79	-	")
MGM Resorts International	(MGM	-	18.85		")

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-Please Refer To Important Disclosures On The Last Page of This Report-

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CASINOS – Holding, Folding & Doubling Down

OVERVIEW

Casino stocks have recovered considerably since the depths of the financial crisis with the Market Vectors Gaming ETF (BJK) up around 225% from its low in early March 2009. The Las Vegas Strip has taken a back seat to growth in Macau and regional US markets. Today, all three of the largest casino companies have properties and/or developments in Las Vegas, Macau, and regional US markets. For the past five years, Macau has been driving the narrative and, in large part, the financial performance of these firms. Macau's unprecedented growth, a 24% CAGR over the past ten years, has been propelled by high-stakes VIP gamblers from Mainland China. But due to the Chinese government's crackdown on corruption, Chinese gamblers have been staying away from the tables. Year-to-date, Macau gaming revenues are down 37%. In the US, low energy prices and an improving job market are driving an increasing number of casino visits and higher spending per visit. Moreover, an investor-led push to reorganize US casinos into tax-advantaged structures has led some companies to reassess the value of their properties. With these dynamics in place, the search for investment opportunities should be focused on margin of safety and the question: What has been priced in?

SUMMARY AND OPINION

Gaming assets operate as a function of the competitive, political and economic dynamics of their particular location and the geographies from which they draw patrons. Thus, casino assets must be assessed on a market-by-market basis.

Macau and Other Asia

While we would wait for greater visibility before putting money to work across the board in Macau, we think that the prospects for Macau look very good in the long-term.

- New infrastructure projects and development of the adjacent Hengqin Island will drive increased visitation from a rising Chinese middle class, while strict regulation will likely keep supply growth constrained.
- New casino openings in the Philippines and Southeast Asia threaten to steal some low-end VIP patrons, but weak infrastructure in those locales will moderate the risk.
- We expect Macau's 2015 gross gaming revenue to fall to $28 billion from $44 billion in 2014, a decline of 36%; however, we expect the market to stabilize in 2016 as Cotai property openings are offset by the effects of a full smoking ban.

Las Vegas Strip

Due in large part to the expansion of regional casinos, gaming revenue growth on the Strip has been challenged for some time, with gaming revenues (excluding baccarat) stagnant for the past ten years. Investment in non-gaming entertainment, dining, and retail assets has helped to offset the shortfall, but room revenues are the real driver of incremental profit.

- Events have become the major driver of visitation to Las Vegas and we think that new investments in convention and arena facilities will drive visitation growth and support room rates with limited room supply growth on the horizon.
- We view Genting's development of a $4 billion, 3,000-room casino as a neutral event as it will seek to leverage the company's extensive database in an attempt to draw incremental international visitors into the Las Vegas market.
- We expect Strip REVPAR to grow at a 3-4% rate over the next five years as increasing occupancy drives ADRs higher.

Regional US

While each market must be judged on its own merits, the following holds true across all US casino markets:

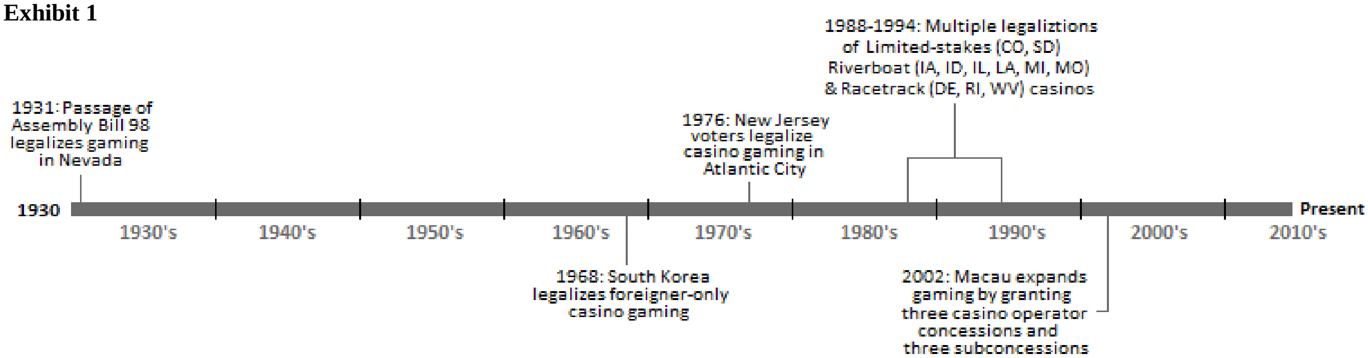
- Regional casinos have experienced macro headwinds with middle-class incomes slow to rebound after the recession and the industry's core +50 customers disproportionately harmed by lower home prices.
- To compound matters, many markets have become fully saturated due to expanded commercial gaming legislation as states legislatures have attempted to balance budgets and stimulate economic activity.
- With energy prices at lower levels and the job market beginning to show signs of wage growth, we are constructive on regional casinos in markets where the outlook for new supply is limited.
- We are less enthused by properties located in markets that are susceptible to in-state gaming expansion and/or border risk.
- Finally, we think that REIT conversions and industry consolidation could help surface value for shareholders.

CASINOS - MARKET OVERVIEW

Modern Gaming Overview

In the 84 years since the signing of Assembly Bill 98 legalized casino gambling in Nevada, the global gaming industry has grown to become a significant force in the economies in which its constituents operate. The law gave birth to Las Vegas, which today is home to roughly150 casinos. In 1976, New Jersey voters passed a referendum to legalize casino gambling in Atlantic City, thus creating a second US gaming destination and stripping Nevada of its status as the only state in the US with legal casino gambling. Within ten years of Atlantic City's first casino opening, the market grew to twelve properties that generated nearly $2.8 billion of net revenue by 1987.

Exhibit 1



Sources: State Gaming Regulators, Gabelli & Company

Also in 1987, the Supreme Court's decision in the *California v. Cabazon* case opened the door for the proliferation of tribal casinos and kicked off a five-year gaming expansion that saw eleven states legalize casino gambling in some form. The 2000s saw two more waves of gaming expansion (2004 & 2008-2009), primarily motivated by a need to fill gaps in state budgets and a desire to recapture tax revenue lost to adjacent states. Today, commercial casinos are allowed to operate in twenty-four states, while twenty-eight states are home to Native American casinos. Internationally, modern legalizations took place in Canada and Europe during the 1980s, while the 2000s saw a rash of gaming expansions in Asia, most notably in 2002, when Macau awarded six casino operator concessions. In 2014, casinos generated nearly $160 billion of gaming revenue globally, according to Statista, with the US and Macau accounting for roughly 70% of the total.

Table 1 **Major Global Casino Markets**

Market	Gaming Revenue *(in US$ billion)*	Number of Casinos	Gaming Table Units	Slot Machine Positions	Year Legalized	Gaming Taxes
US Regional	$28.7	457	NA	NA	1989	8-73%
Native American	28.0	492	NA	NA	1988	10-20%
Las Vegas Strip	6.0	39	2,755	48,186	1931	7%
Atlantic City	2.7	8	1,590	27,106	1976	9%
United States	**$65.4**	**996**	**NA**	**765,614**	**1931**	**7-73%**
VIP	$26.6					39%
Mass	17.4					"
Macau	**$44.0**	**35**	**4,838**	**14,316**	**1847/2002**	**39%**
Canada	**$6.0**	**67**	**1,121**	**60,265**	**1985**	**Gov. Owned**
VIP	$2.9					5%
Mass	3.0					15%
Singapore	**$5.9**	**2**	**1,101**	**2,998**	**2004**	**5-15%**
Australia	**$3.2**	**13**	**1,530**	**13,100**	**2000**	**11-28%**
France	**$2.5**	**188**	**1,100**	**21,500**	**1988**	**10-80%**
Korea	**$2.2**	**17**	**800**	**1,806**	**1968/2000**	**20%**

Sources: American Gaming Association, National Indian Gaming Association, Gaming Regulators, Company Reports, Gabelli & Company

CASINOS - MARKET OVERVIEW

Casino Market Segments

We recommend segmenting casinos and the markets in which they operate based on their customer reach in order to better assess competitive risk, unit economics, and capital spending needs. These distinctions are not mutually exclusive as many markets may contain a mix of casinos across segments.

- **Global Destination (e.g. Las Vegas Strip, Macau, Singapore)**
  - Resort properties with significant non-gaming amenities create a draw
  - Hotel room capacity and infrastructure drive traffic
  - Junkets often used to source international visitors
- **Regional Destination (e.g. Downtown Las Vegas, Atlantic City, Blackhawk - CO)**
  - Mix of overnight vacationers, regional day-trippers, and local crowd
  - Adding hotels and other non-gaming amenities can grow the market and sustain returns
  - Susceptible to competition from gaming expansions in the markets from which they draw visitors
- **Locals Markets (e.g. Boulder Strip - NV, Detroit, Philadelphia)**
  - Vast majority of visitors travel less than a one-hour drive by car
  - Less of a special occasion, more a part of regular discretionary spending
  - Building customer relationships via loyalty programs is critical

Licensing and Oversight

Casinos have natural barriers to entry as governing authorities put limits on gaming activity. Generally, the number of casino licenses and in some cases, the number of gaming devices, in a given market is limited to a finite number.

- In most jurisdictions, licensing and regulation are performed on a regional basis (e.g. state-level in the US, provincial-level in Canada and Australia) by governing bodies specifically tasked with gaming regulation.
- Typically, each casino property as well all key persons must be approved and licensed by a gaming regulator to operate.
- In the US, Native American tribes operate casinos on their lands based on compacts negotiated with the state in which the tribe is located; slot/table limits, ability to expand and taxation are subject to the terms agreed upon in the compact.

Online & Social Gaming

The €30 billion real-money online gaming industry has become a significant share of global gaming revenues and may offer casinos an opportunity to cross-market, however uptake in the US will likely be muted until interstate legislation is passed.

- The market is comprised of sports betting (48%), online casinos (19%), lottery (13%), poker (11%) and other (9%).
- The largest presence is in Europe (€15 billion in 2013), as online gaming is regulated in the majority of EU countries.
- Legalizations in Nevada, Delaware and New Jersey have had lackluster results.

Social casino gaming has become a source of growth for casino and gaming equipment companies.

- Social games are video game versions of casino games played mostly on smartphones and are typically free to download from app stores, such as iTunes. The games generate revenue from the sale of virtual goods, such as chips or coins.
- Leaders in the space include Caesars Interactive, Big Fish (Churchill Downs), and DoubleDown Casino (IGT).
- Casino operators are seeking to leverage their interaction with social gamers to cross-market their properties.

Exhibit 2 **Real-Money Online Gaming Market**

(in Euro billions)

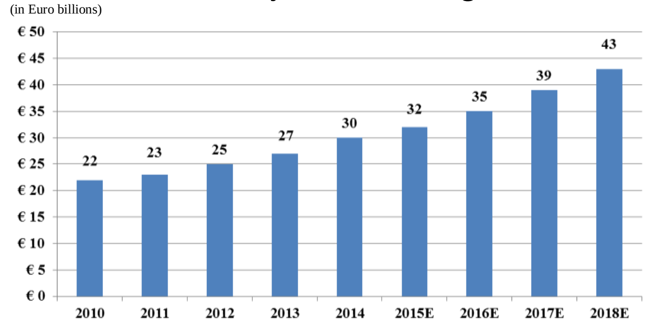


Exhibit 3 **Social Casino Market 2014E**

Source: H2 Gaming Capital; Superdata Research, Company Presentations, Gabelli & Company

CASINOS: UNIT ECONOMICS

Slots Machines

The revenue generated by a slot machine is a function of the amount of money wagered or "handle" times the win rate or "hold" percentage the machine is set to.

- Generally, hold rates are negatively correlated to the machine's denomination and the proportion of its players that are regular visitors.

Slots are highly efficient in terms of their footprint and the labor needed to operate; thus, they can be very profitable.

- Gaming taxes are a very important variable of slot machine economics, as they can range widely from 7-70%.

Slot margins differ based on financing and type of machine.

- Slots leased from the manufacturer allow for lower capital outlays, but also carry lower margins.
- Wide-Area Progressive (WAP) machines are part of a manufacturer-owned network of large jackpot slots.
- WAPs tend to generate more revenue versus other machines, but the vendor keeps a portion of the profit.

Table 3 **Total Market Profit & Loss**

Figures in millions	Las Vegas Strip		Boulder Strip		Black Hawk Colorado	
Casino Operations:						
Table Win	$2,889	*48%*	$63	*8%*	$69	*13%*
Slot Win	2,872	*48%*	724	*87%*	480	*87%*
Poker/Race/Sports	232	*4%*	41	*5%*	-	*0%*
Total Casino Revenue	**$5,994**	*100%*	**$828**	*100%*	**$549**	*100%*
Hotel Comp	(767)	*(13%)*	(16)	*(2%)*	(12)	*(2%)*
F&B Comp	(636)	*(11%)*	(87)	*(11%)*	(48)	*(9%)*
Other Guest Costs	(410)	*(7%)*	(35)	*(4%)*	(10)	*(2%)*
Gaming Taxes & Licenses	(451)	*(8%)*	(65)	*(8%)*	(100)	*(18%)*
Labor Payroll	(1,062)	*(18%)*	(95)	*(12%)*	(50)	*(9%)*
Other Casino Expenses	(497)	*(8%)*	(105)	*(13%)*	(21)	*(4%)*
Casino Op. Profit/(Loss)	**$2,171**	*36%*	**$424**	*51%*	**$307**	*37%*
Hotel Operations:						
Non-Comp Room Sales	3,485	*82%*	61	*79%*	28	*70%*
Comp Room Sales	767	*18%*	16	*21%*	12	*30%*
Total Hotel Revenue	**$4,251**	*100%*	**$77**	*100%*	**$40**	*100%*
Payroll	(1,060)	*(25%)*	(29)	*(38%)*	(16)	*(39%)*
Other Hotel Expenses	(600)	*(14%)*	(13)	*(17%)*	(5)	*(13%)*
Hotel Op. Profit/(Loss)	**$2,591**	*61%*	**$35**	*45%*	**$20**	*48%*
F&B Operations:						
Non-Comp F&B Sales	2,937	*79%*	133	*60%*	21	*31%*
Comp F&B Sales	780	*21%*	88	*40%*	48	*69%*
Total F&B Revenue	**$3,716**	*100%*	**$221**	*100%*	**$69**	*100%*
F&B COGS	(883)	*(24%)*	(87)	*(39%)*	(34)	*(49%)*
Payroll	(1,518)	*(41%)*	(129)	*(58%)*	(29)	*(42%)*
Other Expenses	(449)	*(12%)*	(20)	*(9%)*	(5)	*(7%)*
F&B Op. Profit/(Loss)	**$868**	*23%*	**($15)**	*(7%)*	**1**	*2%*

Sources: State Gaming Regulators, Company Reports, Gabelli & Company

Table 4 **Table Unit Economics**

	Las Vegas Table	Regional US Table	Macau Mass Table	Macau VIP Table
Games Per Day	300	300	300	300
Avg. Drop/Roll Per Game	$60	$30	$150	$4,000
Total Drop/Roll Per Day	**$18,000**	**$9,000**	**$45,000**	**$1,200,000**
Win %	11%	20%	24%	3%
Total Win Per Day	**$2,000**	**$1,800**	**$11,000**	**$35,000**
Junket Commission	0	0	0	(15,000)
Gaming Tax	(150)	(600)	(3,850)	(7,000)
Gaming Tax Rate	*8%*	*33%*	*35%*	*20%*
Complementary Services	(350)	(200)	(2,000)	(8,000)
Table/Floor Labor	(1,000)	(500)	(600)	(300)
Total Direct Expenses	**($1,500)**	**($1,300)**	**($6,450)**	**($30,300)**
Table Profit Per Day	**$500**	**$500**	**$4,600**	**$4,700**
Table Gross Profit Margin	*25%*	*28%*	*42%*	*13%*

Sources: State Gaming Regulators, Company Reports, Gabelli & Company

Table 2 **Slot Machine Unit Economics**

	Genaric Owned Slot	Genaric Leased Slot	Genaric WAP Slot		
Potential Games Per Day	10,000	10,000	10,000	*~7 games/minute x 1,440 mins*	
Utilization %	30%	30%	30%		
Actual Games Per Day	3,000	3,000	3,000		
Avg. Handle Per Game	$1.00	$1.00	$1.50	*credits per game x bet per credit*	
Total Handle Per Day	$3,000	$3,000	$4,500		
Hold %	10.0%	12.0%	12.0%		
Total Win Per Day	**$300**	**$360**	**$540**		
Slot Tax	(60)	(72)	(108)	*20% GGR tax rate*	20.0%
Free Play Accural	(30)	(30)	(45)	*$1 of points per $10*	10.0%
Complementary Services	(45)	(54)	(81)	*15% of win*	15.0%
WAP Contribution	-	-	(180)		
Daily Lease Fee	-	(50)	-		
Slot Labor Allocation	(15)	(15)	(15)	*$30/hour personel fo*	4.9%
Total Direct Expenses	**($150)**	**($221)**	**($429)**		
Per Day Slot Gross Profit	**$150**	**$139**	**$111**		
Slot Gross Profit Margin	*50%*	*39%*	*21%*		
Game Cost	(15,000)	-	-		
Installation Cost	(500)	(500)	(500)		
Intial Capital Outlay	($15,500)	($500)	($500)		

Sources: Gaming and Leisure, Company Reports, Gabelli & Company

Table Games

Revenue generated from table games is a function of the amount of money wagered (roll) for VIP players or the amount of chips purchased (drop) of mass players multiplied by a win rate or "hold" percentage of the game.

- Table games have natural odds that are a function of the rules of the game, but these odds can be increased through the addition of rules and alcohol.
- Tables are more labor intensive and have larger footprints than slots, so in some cases they are taxed at lower rates.

Asian gaming markets tend to be baccarat-oriented and utilize junkets to source VIP players. In a VIP model:

- The casino provides the facilities, table and dealer.
- The junket sources the patrons and lends the capital with which the patron gambles.
- Based on the outcome of the game, the junket is responsible for collecting lost funds from the player.
- The junket is paid a portion of the amount bet or a part of the house's win, usually ~1.25% of roll in total.

Non-Gaming Amenities

Casinos use discounted hotel rooms, meals and beverages to draw high roller "rated" players to their casinos; these are referred to as complementary expenses or "comps."

- Destination gaming markets rely heavily on comps, as properties compete to bring in valuable players.

Mature markets, such as Las Vegas and Atlantic City, tend to utilize these non-gaming assets as profit centers.

- On the Las Vegas Strip, hotel rooms generate more profit than the casino operations do.

In regional markets, non-gaming assets are operated at breakeven margins as they serve primarily as a draw.

- Loss leading meal offerings (especially buffets) are fairly typical in regional markets.

CASINOS: BUSINESS ANALYSIS

While each market and type of casino has idiosyncrasies, the casino business model is fairly universal. Below we have laid out the stages typical in the development of a gaming market, focusing on the operations of one generic casino. In the pages following, we detail three market case studies in order to uncover a few general principles of gaming market formation, growth and maturation.

Market Assessment

Gaming expansions have typically been motivated by the need to generate tax revenue to fill budget shortfalls, fund tax cuts, or to stimulate economic activity in depressed areas. The beginning stage of a gaming expansion typically includes a market assessment conducted by the supporters of expansion. Key factors in a market's potential are:

- Size and economic health of gaming customer set with employment and demographics as the two key drivers.
- Infrastructure to the location – Air, road, and rail capacity are key factors in gauging potential visitor volume.
- Existing competition within the jurisdiction or in jurisdictions that draw from the same customer pools.

Regulatory Clearance

Gaming expansions have been executed politically as both legislative actions and voter-lead initiatives.

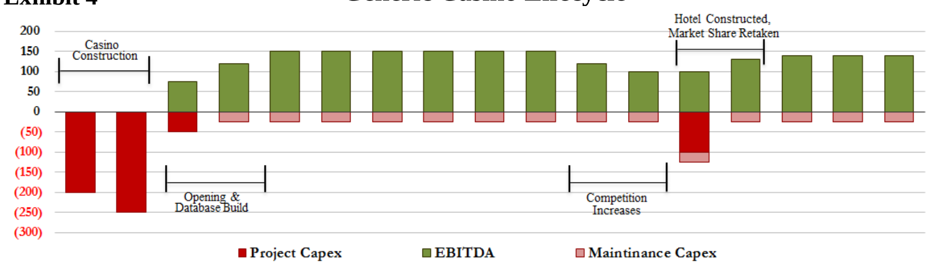
- Legalization is followed by the formation of a regulating body responsible for awarding operator licenses.
- Typically, casino licenses are awarded through a process, whereby proposals are submitted by casino operators.

Build

Casino construction typically ranges between two to four years, and can include multiple regulatory hurdles.

- Costs range from hundreds of millions of dollars for regional properties to the billions for mega-resort casinos.

Exhibit 4 **Generic Casino Lifecycle**



Casino Construction Costs

Global Destination Resort: $1.0-4.0 billion

Regional Destination Resort: $0.5-1.5 billion

Local Casino: $100-500 million

Racetrack Casino Addition: $50-200 million

Source: Gabelli & Company

Draw

Casinos use loyalty programs (player's clubs) in conjunction with free game credits, hotel rooms, meals and beverages to draw "rated" players to their properties, these types of incentives are referred to as complementary expenses.

- Regional casinos are heavily reliant on the draw created by their player loyalty programs and use of data to target patrons. Revenues at new properties tend to ramp up in the first few years as local player databases are built out.
- In Asian markets, junkets are used to source and fund VIP baccarat players, while tour groups are used to source large groups of mass-market gamblers.

Competition

While strict regulation provides some cover, in most cases, successful casinos beget new competition. Whether it is from within the same jurisdiction or in a jurisdiction able to feed off of the same pool of patrons, the potential for new competition to enter the market is one of the most important factors, in assessing a casino property.

- In-market competition is usually motivated by the desire of government officials to raise additional tax revenues and can take the form of slot additions at existing race tracks or the licensing of new tribal or commercial properties.
- Border Risk is a term used to define the potential for new competition in other (typically neighboring) jurisdictions that would target the same customer base as the existing property.
- While it is very visible in regional US markets, border risk is also an issue in Asia where new markets (e.g. Manila, Vietnam and Cambodia) are attempting to poach Mainland Chinese traffic.

Sustain

Capital spending beyond regular maintenance capex may be required to sustain traffic levels in competitive markets.

- Casino floor refreshes can help to lift customer perceptions of an older facility versus younger competitors.
- New amenities, such as hotels and restaurants, can be built to use as complimentary goods to lure gamblers.

MARKET CASE STUDY: Black Hawk, CO – A Regional Destination Emerges

Key Takeaways

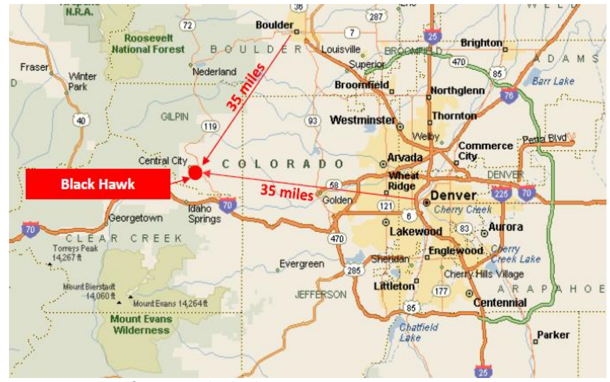
- A gaming destination that reaches critical mass will create a gravitational pull that will overwhelm competitor markets.
- Gaming markets that lay between another market and a target population will likely intercept the majority of visitor traffic.
- The addition of a hotel to a stand-alone casino can help increase its margins and returns.

Table 5

	Cripple Creek				Black Hawk				Central City			
	# of Casinos	Gaming Revenue ($mm)	# of Gaming Devices	GGR/ Device/ Day	# of Casinos	Gaming Revenue ($mm)	# of Gaming Devices	GGR/ Device/ Day	# of Casinos	Gaming Revenue ($mm)	# of Gaming Devices	GGR/ Device/ Day
1991	11	$ 6.0	907	NA	4	$ 6.6	453	NA	9	$ 10.5	848	NA
1992	23	52.5	2,824	$ 50.95	14	56.2	2,018	$ 76.33	19	71.4	2,979	$ 65.65
1993	27	68.8	3,525	53.47	21	112.1	3,650	84.17	17	79.0	3,392	63.78
1994	24	82.3	3,531	63.84	20	173.7	4,563	104.29	16	69.7	3,315	57.60
1995	25	94.0	3,918	65.56	19	195.9	4,848	110.38	14	94.5	3,978	64.88
1996	25	102.7	4,243	66.33	19	219.9	5,176	116.41	13	88.9	3,448	70.62
1997	23	108.6	4,568	65.15	19	234.6	5,410	118.82	12	87.4	3,384	70.75
1998	20	113.2	4,427	70.07	18	272.0	5,864	127.09	11	94.0	3,085	83.47
1999	18	122.6	4,110	81.50	19	354.9	7,127	136.05	11	73.8	2,750	73.33
2000	19	134.6	4,195	87.94	19	433.8	8,431	140.96	8	63.5	1,962	88.59
2001	18	138.6	4,208	90.26	20	478.3	8,707	150.51	5	59.7	1,683	97.23
2002	17	142.4	4,218	92.52	20	524.5	9,721	147.81	5	52.8	1,606	90.07
2003	17	142.5	4,247	91.69	22	506.5	9,602	144.12	5	49.9	1,610	84.69
2004	19	148.7	4,654	87.53	22	524.0	9,462	151.73	5	53.2	1,565	93.11
2005	19	151.0	4,795	86.29	21	531.9	9,543	152.69	6	72.6	2,105	94.49
2006	19	153.1	4,785	87.65	21	554.5	10,160	149.52	6	74.5	2,134	95.72
2007	17	155.0	4,591	92.21	20	581.4	10,036	158.28	6	79.8	2,210	98.62
2008	16	140.1	4,799	79.98	19	508.7	9,816	141.98	6	67.1	2,146	85.67
2009	16	140.4	4,679	82.18	18	530.0	9,386	154.70	6	64.3	2,071	85.00
2010	15	134.4	4,364	84.40	18	559.4	8,906	172.10	7	65.7	2,085	86.36
2011	14	131.4	3,879	92.55	18	550.9	8,570	175.62	8	67.8	2,240	82.72
2012	15	133.2	4,089	89.22	18	558.5	8,527	179.45	8	74.6	2,347	87.01
2013	14	128.0	4,001	87.67	18	553.1	8,470	178.90	8	67.6	2,176	85.11
2014	12	123.4	3,794	89.14	18	560.6	8,456	181.64	6	62.3	1,943	87.86

Source: Colorado Division of Gaming, Company Reports, Gabelli & Company

Exhibit 5



Source: Monarch Casino (MCRI) Company Presentation

Background

With the voter approval of Initiative 4 on November 6, 1990, Colorado became one of the first US states to legalize regional casinos.

- The amendment required that casinos be located in three Rocky mountain towns (Black Hawk, Central City and Cripple Creek), and limited wagers ($5) and the types of games allowed.
- Within one year, a regulatory framework was created and casino operators were licensed.
- A 2008 voter initiative increased the max bet limit to $100 and permitted roulette and craps.
- In 2014, Colorado's 36 casinos generated ~$750 million of gaming revenue, with Black Hawk's casinos comprising 75% of the total.

Resort Appeal

Black Hawk's evolution as a gaming destination diverged significantly from its sister markets.

- Four large resort-sized casinos were built in Black Hawk 1998, 2000, and 2001.
- These new resorts included hotel rooms that were used as promotions, a capability the casinos in Cripple Creek and Central City lacked.

Development in Central City was limited by building restrictions; consequently only small casinos were built.

- Moreover, the primary route from Denver to Central City passed through Blackhawk.

Casinos developed in Cripple Creek were also small, housing ~200 gaming devices on average.

Critical Mass

The opening of resort casinos in Black Hawk and its proximity relative to Central City created a visitation pull that overwhelmed its sister markets.

- Despite the construction of a direct access highway and the lifting of the town's building restrictions, Central City continues to suffer.
- Last year, Blackhawk's eighteen casinos generated $137 million of EBITDA vs. $20 million generated by the other two markets' eighteen casinos.

Table 6 **Black Hawk, CO Market Analysis**

Figures in $ millions	2008	2009	2010	2011	2012	2013	2014
Ameristar Casino							
Total Revenue, net	$80	$103	$152	$153	$160	$157	$156
EBITDA	$22	$36	$55	$59	$61	$62	$65
margin	*27%*	*35%*	*36%*	*38%*	*38%*	*39%*	*42%*
ROI ($450mm Cost)	**6%**	**8%**	**12%**	**13%**	**13%**	**13%**	**14%**
Isle & Lady Luck Blackhawk							
Total Revenue, net	$123	$126	$115	$124	$122	$122	$124
EBITDA	$33	$30	$23	$28	$29	$30	$32
margin	*27%*	*24%*	*20%*	*23%*	*24%*	*25%*	*26%*
ROI ($300mm Cost)	**11%**	**10%**	**8%**	**9%**	**10%**	**10%**	**11%**
Lodge & Gilpin Casinos (Jacob Ent)							
Total Revenue, net	$94	$95	$97	$98	$99	$98	$99
EBITDA	$31	$32	$31	$32	$33	$33	$34
margin	*33%*	*34%*	*32%*	*33%*	*33%*	*34%*	*34%*
Riviera > Monarch Casino							
Total Revenue, net	$42	$42	$40	$46	$49	$47	$44
EBITDA	$12	$10	$9	$14	$14	$16	$12
margin	*29%*	*23%*	*22%*	*32%*	*29%*	*35%*	*28%*
Total Blackhawk Market							
Casino Gaming Revenue	507	526	557	548	558	545	549
Food & Beverage Revenue	52	58	65	65	68	68	69
Hotel & Other Revenue	18	22	35	34	35	40	40
Promotional Allowances	(54)	(58)	(70)	(76)	(79)	(79)	(76)
Total Revenue, net	**523**	**549**	**587**	**570**	**582**	**574**	**583**
Adj EBITDA	**$108**	**$115**	**$116**	**$123**	**$127**	**$135**	**$138**
margin	21%	21%	20%	22%	22%	23%	24%

Source: Colorado Division of Gaming, Company Reports, Gabelli & Company

MARKET CASE STUDY: Detroit - Stability in an Unlikely Place

Key Takeaways

- Proximity and accessibility to a target population can help to fend off competitive headwinds.
- A population's propensity to gamble is important in assessing gaming income elasticity.
- Property investments can help to offset a negative macroeconomic backdrop.

Background

In 1996, Michigan voters passed Proposal E, allowing for the construction of three commercial casinos in downtown Detroit, and a regulatory body was created.

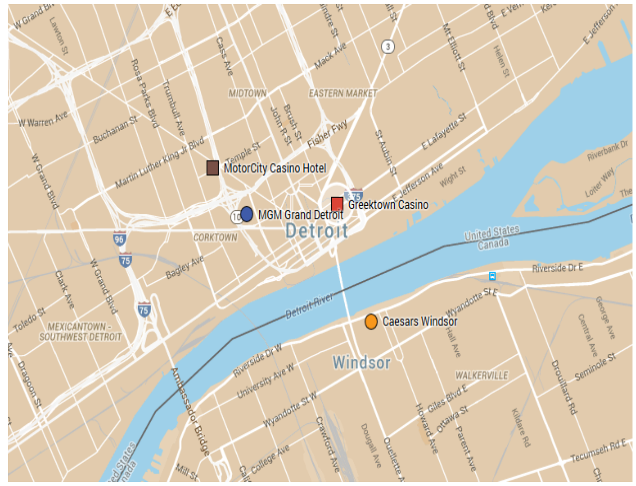
- Support for the proposal was boosted by the opening of a casino across the border in Windsor, Canada.
- Very local with 95% of patrons residing within 100 miles.
- The structures the casinos currently operate in were opened in 2007 (MGM & MotorCity) and 2009 (Greektown).
- Today, the Metro Detroit gaming market generates nearly $1.35 billion of gaming revenue.

Table 7 **Detroit, MI Market Analysis**

data in $ millions	2007	2008	2009	2010	2011	2012	2013	2014
MGM Detriot ($800mm Project Capex)								
Positions	4,946	4,946	4,672	4,672	4,596	4,527	4,492	4,408
Daily win / position	$381	$319	$321	$341	$357	$366	$346	$349
Casino Revenue	513	578	548	582	600	605	567	561
% change	*5%*	*13%*	*(5%)*	*6%*	*3%*	*1%*	*(6%)*	*(1%)*
EBITDA	139	138	138	155	166	166	156	145
% margin			*26.8%*	*28.8%*	*29.4%*	*29.1%*	*28.9%*	*27.3%*
Return on Investment	17%	17%	17%	19%	21%	21%	19%	18%
Greektown Casino ($400mm Project Capex)								
Positions			3,002	3,002	3,078	3,228	3,228	3,228
Daily win / position			$316	$319	$314	$299	$279	$277
Casino Revenue	341	316	346	350	353	352	328	327
% change	*(1%)*	*(7%)*	*9%*	*1%*	*1%*	*(0%)*	*(7%)*	*(1%)*
EBITDA			89	83	76	77	59	56
% margin			*26.9%*	*24.5%*	*22.7%*	*23.1%*	*19.1%*	*18.3%*
Return on Investment			22%	21%	19%	19%	15%	14%
MotorCity Casino ($825mm Project Capex)								
Positions			3,276	3,276	3,326	3,420	3,420	3,304
Daily win / position			$373	$373	$389	$368	$364	$369
Casino Revenue	480	465	446	446	472	459	454	445
% change	*2%*	*(3%)*	*(4%)*	*0%*	*6%*	*(3%)*	*(1%)*	*(2%)*
EBITDA			134	124	132	132	109	110
% margin			*26.9%*	*24.5%*	*22.7%*	*23.1%*	*19.1%*	*18.3%*
Return on Investment			16%	15%	16%	16%	13%	13%
Total Detroit Market								
Positions			10,950	10,950	11,000	11,175	11,140	10,940
Daily win / position			$335	$345	$355	$347	$332	$334
Casino Revenue	1,335	1,360	1,339	1,378	1,424	1,416	1,349	1,333
EBITDA			361	362	374	374	323	311
% margin			*26.9%*	*24.5%*	*22.7%*	*23.1%*	*19.1%*	*18.3%*

Source: Michigan Gaming Control Board, Gabelli & Company

Exhibit 6



Source: Google Maps

Stability Despite Headwinds

The region's economy collapsed in 2008, as the financial crisis pushed the automakers over the brink and into bankruptcy.

- New facility openings at the three properties and the population's high gaming demand helped to stabilize the market throughout the downturn.
- Total market gaming revenue was up nearly 7% between 2007 and 2011.

In 2012, Penn National opened Horseshoe Toledo, located ~60 miles from the Detroit casinos.

- Then in 2013, the city of Detroit's bankruptcy dampened market sentiment, as many feared that pension payments would be reduced.
- Despite these two headwinds, gaming revenue declined only 6% between 2011 and 2014, and ROIs have remained in the mid-to-high teens.
- Located in downtown Detroit, the casinos are well situated relative to the surrounding population.
- By leveraging its national database, brand, and relative size, MGM Detroit has been able to lead the market in revenue, margin, and returns.

Table 8 **Detroit Economic Stats**

	Detroit-metro Unemployment Rate	Case-Shiller Home Price Index: Detroit
2006	7%	123
2007	8	112
2008	9	92
2009	15	72
2010	14	70
2011	12	70
2012	10	75
2013	9	88
2014	8	96

Source: Federal Reserve Bank of St. Louis – Fed Fred

MARKET CASE STUDY: The Northeast – Competition Encroaches

Key Takeaways

- Markets that draw heavily from neighboring regions are exposed to competitive risk from reactive gaming expansions.
- Markets with target populations protected by a geographic buffer (+1 hour drive from a border) are less at risk.

Background

Atlantic City, NJ operated the only casinos in the eastern US until the gaming expansion wave of the 1990s created a new batch of casinos that, like Atlantic City, drew heavily from adjacent states. Philadelphia, PA and New York City are large AC feeder markets.

- **Delaware Racinos:** Drew mainly from Maryland & Virginia
- **Foxwoods/Mohegan Sun (CT):** NYC & MA destination
- **Rhode Island Racinos:** Pulled from Boston, MA metro

The new supply was easily absorbed as the market grew with Atlantic City maintaining a 3% growth rate from 2000-2006.

Reactive Expansion

Motivated by a need to raise revenues and the recognition of how much in potential taxes their citizens were spending in neighboring state's casinos, four states legalized casino gaming.

- **2001:** New York approved Video Lottery slots at racetracks
- **2004:** Maine approved slots at two racetracks
- **2004:** Pennsylvania approved thirteen casinos and racinos
- **2008:** Maryland voters approved six casinos

Downfall & Counter Measures

- **Atlantic City:** Openings in PA and NY devastated the city. Since 2006, revenue is down 45% and operating profit has fallen 75%. Four of the twelve casinos have closed with state and local officials attempting to support the surviving properties.
- **Delaware:** Revenues have fallen by more than one-third, despite the introduction of table games. The state's three casinos are lobbying for a reduced gaming tax rate and marketing funds.
- **Foxwoods:** Gaming revenue has fallen ~40% and the company has been restructuring its debt for more than five years.
- **Mohegan Sun:** Gaming revenue is down roughly 35% since 2006; the company had to restructure debt in 2012 and 2013.

Exhibit 7 **Northeast Casino Market Circa 2000**

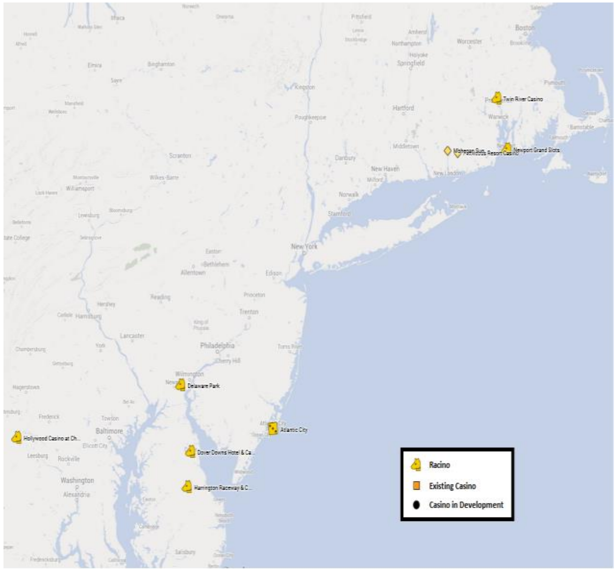
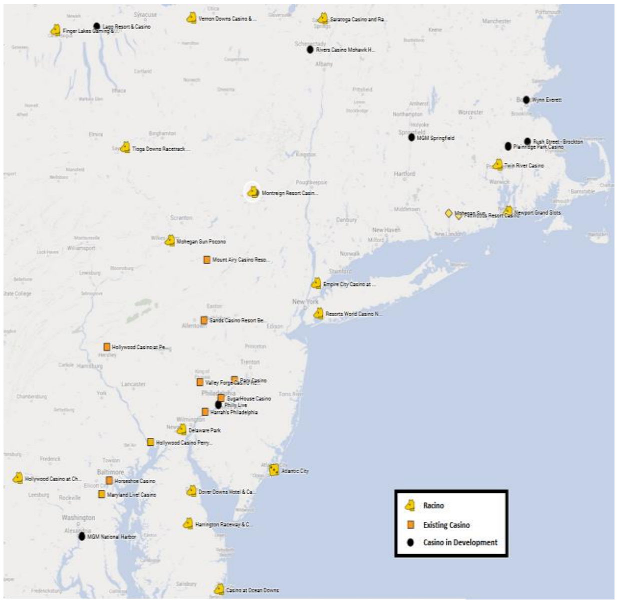


Exhibit 8 **Northeast Casino Market Mid-2015**



Source: Google Maps, State Gaming Regulators, Company Reports

Table 9 **Northeast US Gaming Revenue by State 2000-2014A**

Data in millions	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	GGR $ Δ '00 -'06	CAGR '00 -'06	GGR $ Δ '06 -'14	CAGR '06 -'14
Atlantic City	$ 4,301	$ 4,303	$ 4,382	$ 4,488	$ 4,807	$ 5,018	$ 5,218	$ 4,921	$ 4,545	$ 3,943	$ 3,564	$ 3,316	$ 3,051	$ 2,870	$ 2,742	$ 917	3%	$ (2,476)	(8%)
Delaware	485	527	566	502	553	579	652	612	589	564	571	548	550	472	408	167	5%	(244)	(6%)
West Virginia	283	438	596	717	882	932	976	932	951	906	878	959	805	784	704	693	23%	(272)	(4%)
Connecticut	1,810	1,859	2,116	2,202	2,337	2,370	2,468	2,378	2,262	2,064	1,950	1,923	1,768	1,647	1,536	658	5%	(932)	(6%)
Rhode Island	212	255	298	337	384	411	406	448	475	462	477	513	528	550	593	194	11%	187	5%
Existing Jurisdictions	**7,091**	**7,382**	**7,958**	**8,246**	**8,963**	**9,310**	**9,720**	**9,291**	**8,822**	**7,939**	**7,440**	**7,259**	**6,702**	**6,323**	**5,983**	**2,629**	**5%**	**(3,737)**	**(6%)**
New York	-	-	-	-	192	295	426	828	947	1,019	1,088	1,260	1,802	1,926	1,898			1,472	21%
Maine	-	-	-	-	-	4	38	43	51	59	62	59	100	126	127			89	16%
Pennsylvania	-	-	-	-	-	-	32	1,039	1,616	1,965	2,486	3,025	3,158	3,114	3,069			3,037	77%
Maryland	-	-	-	-	-	-	-	-	-	-	28	156	380	747	931			931	NA
New New Jurisdiction	-	-	-	-	**192**	**299**	**496**	**1,910**	**2,614**	**3,043**	**3,664**	**4,500**	**5,440**	**5,913**	**6,025**			**5,529**	**37%**
Total Northeast	**7,091**	**7,382**	**7,958**	**8,246**	**9,155**	**9,609**	**10,216**	**11,201**	**11,436**	**10,982**	**11,104**	**11,759**	**12,142**	**12,236**	**12,008**			**1,792**	**2%**

Sources: State Gaming Regulators, Company Reports, Gabelli & Company

CATALYSTS – REIT Conversions

Key Takeaways

- By separating real estate assets into a Real Estate Investment Trust (REIT) structure, gaming companies can surface value by arbitraging valuation multiples.
- Onerous fees, high pre-deal leverage, and ownership issues limit which firms can take advantage of REITs.

Example: PENN & GLPI

Penn National's first-of-its-kind reorganization was very complex and took over three years to complete.

- **2010:** Board began REIT conversion diligence process.
- **Nov 2012:** Announced intention to spin-off REIT.
- **Nov 2013:** Executed a tax-free spin-off (1:1) of its real estate assets directly into a triple-net REIT called GLPI.
- **Feb 2014:** Paid a purging distribution of $1.05 billion in cash and GLPI stock or ~$11.70 per share.

Penn National's REIT-conversion created significant value to shareholders through "multiple arbitrage."

- Penn Chairman, Peter Carlino, has said that the idea of a gaming REIT came from recognition that most of a casino's EBITDA remains stable over the cycle.
- REITs trade at a large premium to regional casinos. According to Penn, the average NTM EV/EBITDA multiple over July 2005 to July 2013 was:
  - Triple-net REITs: 13.0x
  - Regional Casinos: 7.8x

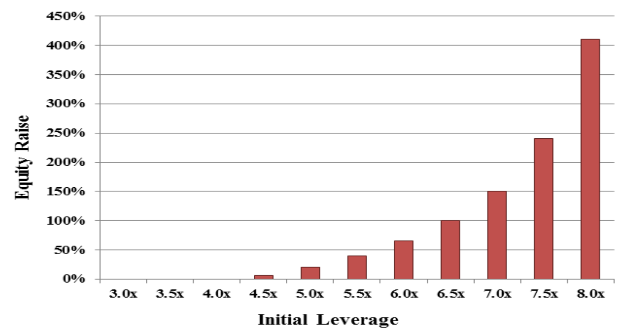
Table 10 **Penn REIT Conversion Mechanics**

Figures in millions	"Old" PENN[a]	"New" PENN[c]	PropCo +	TRS	= GLPI[c]	Combined	*$ Δ*	*% Return*
Property EBITDA	$816	$780	-	$36	$36	$816	-	
Lease Payment	-	(421)	421	-	421	-	-	
Corporate Expense	(75)	(73)	-	-	(35)	(108)	*+ 33*	
EBITDA[e]	**741**	**285**	**421**	**36**	**422**	**708**	***(33)***	
Multiple	8.6x	6.6x			16.2x	12.3x	*3.7x*	
Enterprise Value	**6,376**	**1,878**			**6,835**	**8,713**	***+ 2,337***	
Net Debt[f]	2,570	859			2,656	3,515	*+ 945*	
Leverage Ratio	*3.5x*	*3.0x*			*6.3x*	*5.0x*	*1.5x*	
Equity	**3,806**	**1,019**			**4,179**	**5,198**	***+ 1,392***	
Common Shares	78	78			89			
Purge Shares	-	-			22			
Total Shares	78	78			111			
Per share price	**$49.11[b]**	**$13.05[d]**			**$37.75[d]**	**$50.80**	***+$1.69***	***3%***
Profit Purge Cash *($4.358)*					$4.36	$4.36	*+$4.36*	*9%*
Profit Purge Stock *(0.1957 shares)*					$7.39	$7.39	*+$7.39*	*15%*
"Cash" Return					**$49.50**	**$62.55**	***+$13.44***	***27%***
Profit Purge Stock *(0.3098 shares)*					$11.69	$11.69	*+$11.69*	*24%*
"Stock" Return					**$49.44**	**$62.49**	***+$13.38***	***27%***

a) Balance sheet data as of 12/31/2012
b) Market data as of close on 12/31/2012
c) Balance Sheet data as of 12/31/2013
d) Market data as pf close on 1/9/2014
e) EBITDA is realized data from CY2014
f) Assumes $100mm of working capital for PENN

Source: Company Reports, Thompson One, Gabelli & Company estimates

Exhibit 9 **REIT Conversion Leverage**



Source: Gabelli & Company estimates

Mechanics

The mechanics and structure of the PENN-GLPI reorganization has become the standard that future splits will emulate.

- REITs by definition must generate at least 75% of their gross income from an asset base of at least 75% real estate.
- The company's triple-net master lease with PENN has a fifteen-year duration with the fixed portion of the rent payment initially targeted to a coverage ratio of 1.8x; as a result, the OpCo takes on the risk of EBITDA volatility.
- PENN-GLPI's post-split target leverage should be 6.0x for PropCo and 3.0x (6.0x rent adjusted) for OpCo. Given the typical EBITDA split and transaction costs, firms with initial leverage over 4x need to raise equity in order to convert to a REIT.
- Limits on concentrated ownership in REITs complicate conversions for firms with large-controlling shareholders.

Concerns

- Fixed leases could negatively affect capital investment at REIT-owned properties, putting them at a competitive disadvantage.
- As yield-producing assets with long-term fixed leases, triple-net REITs are adversely affected by rising interest rates.

Table 11 **Cash Flow Stability: Generic OpCo vs. PropCo Split**

	Year-0	Year-1	Year-2	Year-3	Year-4	Year-5	Year-6	Year-7	Year-8	Year-9	Year-10
Combined Company:											
Property EBITDA	100	110	118	124	125	121	109	104	101	101	104
Corp Expense	(10)	(11)	(12)	(12)	(12)	(12)	(11)	(10)	(10)	(10)	(10)
Combined EBITDA	90	99	106	111	112	109	98	93	91	91	94
% change	*0%*	*10%*	*7%*	*5%*	*1%*	*(3%)*	*(10%)*	*(5%)*	*(2%)*	*0%*	*3%*
Maintinance Capex	(25)	(26)	(26)	(27)	(27)	(28)	(28)	(29)	(29)	(30)	(30)
CF for Service Debt	65	74	80	85	85	81	70	64	62	61	64
OpCo/PropCo Split:											
Property EBITDAR	100	110	118	124	125	121	109	104	101	101	104
% change	*0%*	*10%*	*7%*	*5%*	*1%*	*(3%)*	*(10%)*	*(5%)*	*(2%)*	*0%*	*3%*
OpCo's Lease Payment	(50)	(51)	(52)	(53)	(54)	(55)	(55)	(55)	(55)	(55)	(55)
Rent Coverage	*2.0x*	*2.2x*	*2.3x*	*2.3x*	*2.3x*	*2.2x*	*2.0x*	*1.9x*	*1.8x*	*1.8x*	*1.9x*
OpCo Corp Expense	(10)	(11)	(11)	(11)	(12)	(12)	(12)	(12)	(13)	(13)	(13)
OpCo EBITDA	**40**	**48**	**54**	**59**	**59**	**54**	**42**	**36**	**34**	**33**	**36**
% change	-	*20%*	*13%*	*8%*	*(0%)*	*(9%)*	*(23%)*	*(14%)*	*(6%)*	*(1%)*	*8%*
Maintinance Capex	(25)	(26)	(26)	(27)	(27)	(28)	(28)	(29)	(29)	(30)	(30)
CF to Service Debt	15	23	28	33	32	26	13	7	4	3	6
PropCo's Lease Payment	50	51	52	53	54	55	55	55	55	55	55
PropCo Corp Expense	(5)	(5)	(5)	(5)	(5)	(6)	(6)	(6)	(6)	(6)	(6)
CF to Service Debt	**45**	**46**	**47**	**48**	**49**	**50**	**50**	**50**	**50**	**50**	**50**
% change	-	*2%*	*2%*	*2%*	*2%*	*2%*	*0%*	*0%*	*0%*	*0%*	*0%*

Source: Gabelli & Company estimates

CATALYSTS – Acquisitions/Mergers by REITs

Key Takeaways

- The difference between the multiples of REITs and regional casino operators permits REITs to make accretive acquisitions at valuations above the historic transaction range.
- By spinning off operations and merging real estate assets with existing REITs, companies can realize REIT conversion benefits while avoiding many of the risks and fees associated.

Single Asset Acquisition

Due to its premium valuation, GLPI can make accretive acquisitions at higher valuations than peers and in various forms.

Casino Queen (December 2013)

- Asset purchase of $140 million, leased back to ESOP seller on a triple-net basis for annual rent of $14 million, a 10% cap rate.
- GLPI provided financing via a $43 million 5-yr, 7.0% loan.

Meadows Racetrack & Casino (May 2014)

- Purchase of real estate and operations for $465 million or 9.0x EBITDA from Cannery Casino (backed by Oaktree & Crown).
- In October 2014, GLPI filed a lawsuit alleging that Cannery's executives distorted financial reports in order to conceal declining performance at the property.
- Whether the transaction moves forward is yet to be determined, as GLPI is claiming a material adverse event.

Table 12 GLPI Hypothetical Asset Purchase

Figures in $ millions			
Purchase Multiple	**8.0x**	**9.0x**	**10.0x**
EBITDA	63	56	50
Purchase Price	**500**	**500**	**500**
Rent Coverage	2.0x	2.0x	2.0x
Rent Payment	**31**	**28**	**25**
Operators EBITDA	31	28	25
Operator's Multiple	6.5x	6.5x	6.5x
Operator's Purchase Price	**203**	**181**	**163**
Real Estate EBITDA	31	28	25
Real Estate Purchase Price	297	319	338
Friction Costs	50	50	50
Total Transaction Cost	**347**	**369**	**388**
Real Estate Multiple	**11.1x**	**13.3x**	**15.5x**
Equity 50%	173	185	194
Incremental Shares @ $36.76	4.7	5.0	5.3
Debt 50%	173	185	194
Incremental Interest @ 6.0%	10	11	12
Transaction AFFO	21	17	13
2015 AFFO Guidance	320	320	320
Pro Forma AFFO	**341**	**337**	**333**
Pro Forma Diluted Shares	122.7	123.0	123.3
2015 Guidance AFFO per share	$2.71	$2.71	$2.71
Pro Forma AFFO per share	$2.78	$2.74	$2.70
AFFO per share Accretion	$0.07	$0.02	($0.01)
% Accretion	2.4%	0.9%	(0.3%)

Source: Company Reports, Gabelli & Company estimates

Table 13 GLPI-PNK Deal Analysis

GLPI's Original Offer (3/9/2015):

PF 2016 PNK OpCo EBITDA	$244
Trading Multiple	7.5x
PF OpCo. Ent. Value	$1,833
PF Net Debt & Other	(953)
PF OpCo. Equity Value	$880
PF OpCo. PS	**$13.64**
PF 2016 GLPI EBITDA	$810
Trading Multiple	14.7x
PF GLPI Ent. Value	$11,902
PF Net Debt & Other	(4,745)
PF GLPI Equity Value	$7,157
Share Exchange Ratio	0.5517
PNK Ownership	20%
PF PNK/GLPI PS	**$22.13**
PF OpCo. PS	**$13.64**
PF PNK Deal Value	**$35.77**
v. pre-GLPI Offer	*32%*
PF GLPI Stock Price	**$40.10**
v. current price	*14%*

	Existing GLPI	New Primary Shares	Exchanged Shares
Shares	118	25	36
Ownership %	66%	14%	20%

AFFO Accretion	Proforma
GLPI Stand-alone EBITDA	446
Less: Interest Expense	(110)
GLPI Stand-alone AFFO	**336**
per share	*$2.90*
PNK PropCo EBITDA	365
Less: Increm. Interest Exp.	(136)
New GLPI AFFO	**565**
per share	*$3.15*
AFFO Accretion	**13%**
PNK PropCo EBITDA	10
New GLPI AFFO	**575**
per share	*$3.20*
Accretion w/ synergies	**14%**

Increased Offer (7/7/2015):

PF 2016 PNK Op. EBITDA	$249
Trading Multiple	7.5x
PF OpCo. Ent. Value	**$1,868**
Plus: Belterra Land Value	$75
Plus: Other Land Value	$30
PF Net Debt & Other	(927)
PF OpCo. Equity Value	$1,046
PF OpCo. PS	**$15.83**
PF 2016 GLPI EBITDA	$823
Trading Multiple	14.7x
PF GLPI Ent. Value	$12,086
PF Net Debt & Other	(4,456)
PF GLPI Equity Value	$7,630
Share Exchange Ratio	0.850
PNK Ownership	28%
PF PNK/GLPI PS	**$31.65**
PF OpCo. PS	**$15.83**
PF PNK Deal Value	**$47.48**
v. current price	*21%*
PF GLPI Stock Price	**$37.25**
v. current price	*5%*

	Existing GLPI	New Primary Shares	GLPI Conv. Shares
Shares	117.9	30.6	56.5
Ownership %	58%	15%	28%

AFFO Accretion	Proforma
GLPI Stand-alone EBITDA	446
Less: Interest Expense	(110)
GLPI Stand-alone AFFO	**336**
per share	*$2.90*
PNK PropCo EBITDA	377
Less: Increm. Interest Exp.	(121)
New GLPI AFFO	**592**
per share	*$2.90*
AFFO Accretion	**0%**
PNK PropCo EBITDA	10
New GLPI AFFO	**602**
per share	*$2.95*
Accretion w/ synergies	**5%**

Source: GLPI Company Reports, Gabelli & Company estimates

OpCo Spin & PropCo Merge: GLPI & PNK

In March of this year, GLPI made an unsolicited proposal to Pinnacle Entertainment (PNK), in which, GLPI urged the company to spin-off its operating business and merge its real estate assets into GLPI.

- According to the proposal, each share PNK would receive 0.5517 shares of GLPI stock, which is valued at $22 per share assuming 14.7x GLPI PF 2016 EBITDA and 25 million new GLPI shares issued in order to reduce debt.
- OpCo value is $13 per share or 7.5x PF 2016 EBITDA.
- In total, the deal's valuation of ~$36 per share or an EV of $5.7 billion is 9.7x LTM EBITDA of $585 million.
- On July 7, 2015, GLPI announced a new and final offer amounting to $47.50 per share or 11.2x LTM EBITDA.

Exhibit 10 Regional Transaction Multiples

Date	Acquiror	Target (Location)	Deal Value	Deal Multiple
Jul-15	GLPI	Pinnacle Entertainment	$6,880	11.2x
May-14	GLPI	Meadows Racino (Pittsburg)	465	9.0
Dec-13	GLPI	Casino Queen (East St. Louis)	140	10.0
			GLPI Average	**10.1x**
Jul-13	Tropicana Entertainment	Lumiere Place (St. Louis)	$260	7.6x
Apr-13	Churchill Downs	Oxford Casino (Maine)	160	7.5
Jan-13	Rock Gaming	Greektown Casino (Detroit)	440	7.4
Oct-12	Churchill Downs	Riverwalk Casino (Vicksburg)	141	7.4
May-12	Pinnacle Entertainment	Ameristar Casinos	2800	8.0
May-12	Boyd Gaming	Peninsula Gaming	1450	7.0
May-12	Penn Gaming	Harrah's Maryland Heights	610	7.8
Mar-12	Landry's Restaurants	Isle of Capri (Biloxi)	45	8.7
		Regional Casino Acquirer Average		**7.7x**

Source: Company Reports, Gabelli & Company

CATALYSTS – Regional Gaming Consolidation

Key Takeaways

We contend that the regional US gaming sector would benefit from consolidation.

- Too much corporate overhead is being spent on managing regional casino assets.
- One/two-property operators can better leverage player databases by joining or forming a national operator.
- Opportunities to better utilize assets and grow revenues, especially for a large, well-resourced operator.

Value Creating Consolidation: PNK & ASCA

In December 2012, Pinnacle Entertainment acquired Ameristar Casinos for $26.50 per share at a $2.8 billion enterprise value or 7.6x LTM EBITDA of $370 million.

- The FTC forced the sale of Ameristar Lake Charles, LA and Lumiere Place in St. Louis, where the new company would have had three casinos and a 58% share.

Pinnacle's plans to realize $40 million of synergies, mostly through corporate cost cuts, have exceeded expectations.

- The $40 million represents more than 50% of Ameristar's pre-deal cash corporate expense.

Pinnacle has been able to realize a step-up in revenues at Ameristar properties by leveraging its players' club and better utilizing its gaming and non-gaming assets.

- The step-up is most significant in markets where it has two casinos, such as St. Louis, where Pinnacle has taken share, despite the Lumiere divestiture.

Potential Deals

The emergence of the gaming REIT structure and the sector's maturation have instigated an M&A cycle in its early innings. We expect the following to feed the trend:

- Post-bankruptcy emergence of a Caesars' REIT
- Improving consumer fundamentals (job/wage growth)

Single-Property Sale to REIT

- Sale would include both the real estate assets and the casino's gaming license.
- License held in taxable subsidiary until a replacement operator is chosen.

Single-Property Sale-Leaseback to REIT

- Assets are sold to the REIT concurrent with the signing of a long-term, triple-net lease.
- Gaming license remains with the seller.

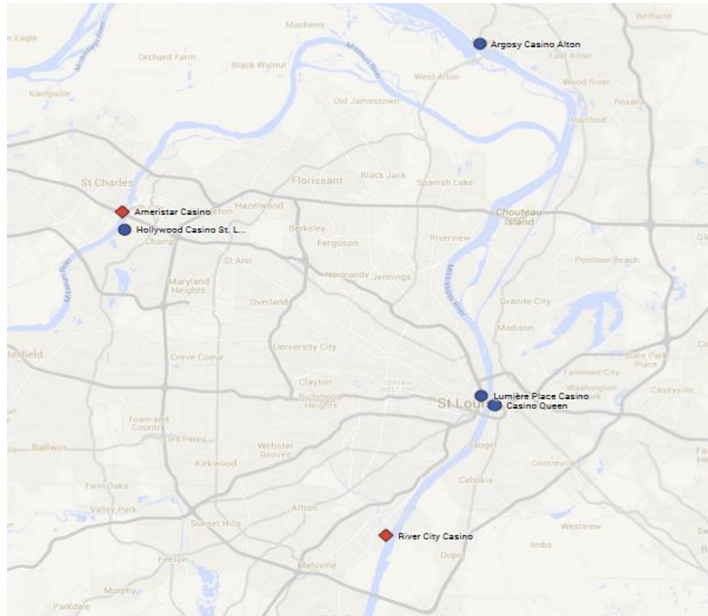
OpCo Spin & Asset Sale to REIT

- Gaming licenses and operations are spun-off from real estate assets.
- Casino assets are sold to an existing REIT for cash and/or stock.

Merger & REIT Conversion

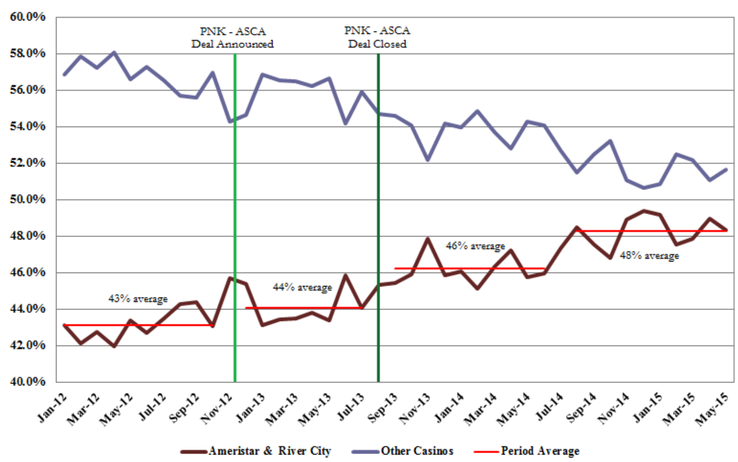
- Large merger precedes REIT conversion.
- Think PNK's acquisition of ASCA.

Exhibit 11 St. Louis Metro Gaming Market



Source: Google Maps

Exhibit 12 St. Louis Area Market Share



Source: Missouri Gaming Commission, Illinois Gaming Board, Gabelli & Company

Table 14 Regional Gaming Corporate Overhead

Company Name	Ticker	Casinos Owned/ Operated	Market Cap	Net Debt	TEV	2014 Revenue	2014 Prop. EBITDA	2014 Corp. Expense	Net Debt/ EBITDA	TEV/ EBITDA
1) Pinnacle Entertainment	PNK	15	$2,511	$3,789	$6,300	$2,211	$585	($86)	7.6x	12.6x
2) Boyd Gaming	BYD	22	1,845	3,274	5,119	2,142	527	(59)	7.0	11.0
3) Stations Casino[c]	Private	21	NA	2,025	NA	1,292	421	(35)[d]	5.2	NA
4) Isle of Capri	ISLE	15	767	966	1,732	982	215	(23)	5.0	9.0
5) Tropicana Entertainment	TPCA	8	421	108	529	747	112	(18)	1.1	5.6
6) Eldorado Resorts	ELI	5	414	704	1,118	714	131	(13)	6.0	9.5
7) Churchill Downs[a]	CHDN	6	2,321	650	2,971	591	162	(5)	4.1	11.5
8) Affinity Gaming	Private	9	NA	225	NA	388	65	(14)	4.5	NA
9) American Casino & Ente	Private	4	NA	234	NA	351	67	(8)[d]	4.0	NA
10) Lakes/Golden Gaming[b]	LACO	4	194	120	315	336	47	(12)[d]	3.4	9.0
11) Monarch Casino	MCRI	2	351	24	374	188	48	(5)[d]	0.5	8.6
12) Dover Downs	DDE	1	18	26	44	185	16	(6)	2.5	4.2
13) Fullhouse Resorts	FLL	5	31	70	101	120	15	(5)	6.6	9.6
Total		**117**				**9,910**	**2,365**	**(280)**		

a) *Only Racing and Casinos segments*
b) *Pro forma figures and estimates assuming Lakes acquisition closes*
c) *Total EBITDAM*
d) *Estimated*

% Savings	Decrease	Value @ 7x	Value @ 10x
20%	(60)	480	600
30%	(80)	640	880
40%	(110)	880	1,210

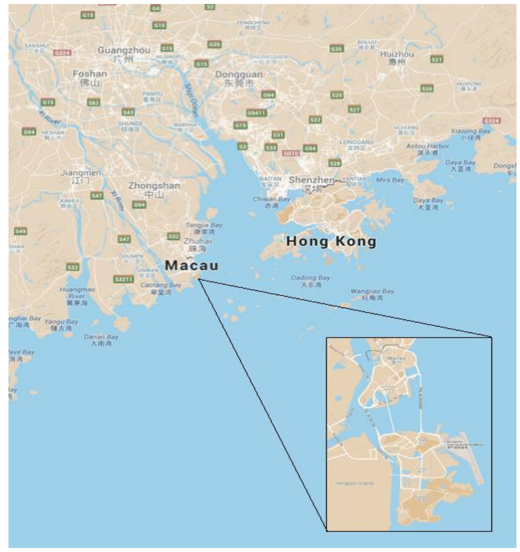
Source: Company Reports, Thompson One

MACAU: Market Overview

Macau is comprised of a peninsula and an island, a little less than twelve square miles in total, which sits across the Pearl River Delta from Hong Kong. The province was settled by the Portuguese in the mid-16th century and operated under Portuguese control until it was handed back to China in December 1999. The area now operates as one of two Special Administrative Regions of China (SARs), with the other being Hong Kong. The SAR structure is based on the "One Country, Two Systems" principle, which was formulated to enable market-based economies to persist under the jurisdiction of communist China. As a SAR, Macau acts with a certain level of autonomy, possessing its own legislative, legal, and monetary institutions.

Gaming was first legalized in Macau in 1847, in an effort by the government to raise revenues. The market was comprised primarily of Fantan houses until 1937 when the government gave a monopoly license to the Hou Heng Company. In 1962, the government awarded the monopoly license to Sociedade de Turismo e Diversões de Macau (STDM), a company founded by Stanley Ho and a group of Hong Kong businessmen. Under STDM, Western games (specifically baccarat) were widely adopted.

Exhibit 13



Source: Google Maps

Ho's monopoly was broken in 2001 as Macau's government increased the number of gaming licenses to three with the goal of stimulating broader tourism development. A bidding process was held and concessions were awarded to SJM (a subsidiary of STDM), Galaxy Casinos, and Wynn Resorts. Less than a year later, the government altered the contracts to allow three sub-concession grants. Galaxy awarded their sub-concession to Las Vegas Sands, Wynn awarded a sub-concession to MGM, and SJM awarded a concession to Melco Crown.

Casino Summary

Macau has 41 casinos and slot parlor properties currently operating with six new casino projects in various stages of development. Macau's peninsula is home to twenty-nine properties including Wynn/Encore, MGM Grand, Sands Macao and the Grand Lisboa, SJM's flagship property. Taipa, the northern section of Macau's island, is home to five casinos. The remaining seven casinos are in Cotai, a section of reclaimed land that now links the once separate islands of Taipa and Coloane. The casinos of Cotai are larger than Macau's other properties, similar to those on the Las Vegas Strip. With all of its new casino development, Cotai will become the center of gaming activity in Macau.

Visitors Summary

Most of Macau's visitors are from Mainland China, with the highest concentration coming from the adjacent Guangdong province, which has China's largest province-level population (~107 million) and economy (US$1.1 trillion). The majority of visitors enter through the Goibei Gate at the top of the Peninsula. Due to a lack of hotel rooms, nearly one-half of Macau's patrons visit on a day-trip. Hotel room supply growth in Cotai should help to increase the number of overnight visitors.

Table 15 **Macau Property Summary**

	Hotel Rooms	Casino Sq/Ft	Slots	Tables	VIP % of total win	2014 Net Revenue	2014 EBITDA	EBITDA Margin
Venetian Macao	2,900	376,000	2,080	590	43%	4,041	1,539	38%
Four Seasons Macao	360	105,000	150	140	75%	1,108	372	34%
Sands Cotai Central	6,400	370,000	1,700	510	48%	3,134	993	32%
Sands Macao	289	241,000	910	270	38%	1,175	337	29%
Sands China	**9,949**	**1,092,000**	**4,840**	**1,510**	**77%**	**9,457**	**3,241**	**34%**
Casino Grand Lisboa	400	406,326	749	441	73%	3,897	578	15%
Other Casinos	389	-	2,107	1,325	53%	6,402	405	6%
SJM Holdings	**789**	**NA**	**2,856**	**1,766**	**60%**	**10,300**	**983**	**10%**
Galaxy Macau	3,550		644	1,454	68%	6,046	1,272	21%
Other Casinos	1,111				78%	3,069	472	15%
Galaxy Entertainment	**4,661**	**-**	**644**	**1,454**	**71%**	**9,114**	**1,744**	**19%**
City of Dreams	1,400	448,000	1,400	500	64%	3,849	1,166	30%
Other Casinos	216	173,000	1,266	120	91%	894	121	14%
Melco Crown	**1,616**	**621,000**	**2,666**	**620**	**55%**	**4,743**	**1,287**	**27%**
Wynn Macau	**1,008**	**284,000**	**625**	**498**	**75%**	**3,796**	**1,208**	**32%**
MGM China	**582**	**274,000**	**423**	**1,197**	**70%**	**3,282**	**850**	**26%**
Peninsula	3,779	1,378,326	6,080	3,851	66%	21,684	3,860	18%
Cotia/Taipa	14,826	1,472,000	7,240	3,314	60%	19,071	5,463	29%
Total Macau	**18,605**	**2,850,326**	**13,320**	**7,165**	**63%**	**40,755**	**9,323**	**23%**

Source: Company Reports, Thompson One, Gabelli & Company

Table 16 **Macau Visitor Summary**

Total Visitors	**31 525 632**	**100%**
Origin:		
Guangdong	9,008,942	29%
Fujian	902,303	3%
Hunan	750,687	2%
Zhejiang	694,678	2%
Hubei	668,188	2%
Other Provinces	9,227,612	29%
Mainland China	21,252,410	67%
Hong Kong	6,426,608	20%
Taiwan	953,753	3%
Other	2,892,861	9%
Foreign	10,273,222	33%
Arrived by:		
Goibei Gate	15,573,944	49%
Harbor Ferry	7,836,189	25%
Taipa Ferry	4,244,354	13%
Airline	2,055,199	7%
Lotus Bridge	1,815,946	6%
Stay Lenght:		
Same-day	16,959,949	54%
Overnight	14,565,683	46%

Source: Macau Statistics and Census Service

LAS VEGAS: Market Overview

Las Vegas is the birthplace of modern gaming. Issues ranging from casino design to player marketing to regulatory oversight have taken form based on the lessons learned during the city's development. Nevada's legislature legalized casino gambling in 1931 motivated by the need to raise tax revenue and stimulate economic activity. The passage of the Corporate Gaming Act in 1967 legitimized the industry, which prior to the bill's passage had been associated with organized crime. The entry of corporate capital fueled tremendous growth as the State's gross gaming revenues grew from $390 million in 1968 to just under $4.1 billion in 1988, a 12.5% CAGR.

With the Supreme Court's *California v. Cabazon* decision in 1987 and the riverboat gaming expansions of the late 1980s, a reinvention of the city was sparked. The opening of Steve Wynn's Mirage in November 1989 heralded the age of the mega-resort. Mega-resorts were distinct from their predecessors in terms of their size (3k+ rooms), design (Y-shape), breadth of non-gaming amenities, and their focus on street accessibility. The wide appeal of the resorts and their large hotel room supply allowed the city to stave off competition from a series of regional gaming expansions; primarily tribal casino expansion in California, a key Las Vegas feeder market. Over the next twenty years, nearly twenty mega-resort properties were built culminating with the City Center/Cosmopolitan complex, which opened during the depths of the Great Recession.

In the years leading up to the Great Recession, the housing markets of Las Vegas and its key feeder markets in southern California and Arizona saw some of the largest increases in home prices and construction activity. When the housing market collapsed, those economies were hit the hardest. While the City Center complex was able to open, a few developments were not so lucky. Many planned megaresorts (Fontainebleau, Viva, Echelon, Crown LV, and The Plaza) were halted at different stages in their development. More than five years later, the remnants of the crisis are still clearing as Genting begins construction on a $4 billion casino at the former Echelon site and City Center's unfinished Harmon tower is taken down.

Casino Summary

Two companies, MGM Resorts and Caesars Entertainment, dominate the Las Vegas Strip. Together, the two own 70% of the hotel rooms, 75% of the slots, 62% of the tables, and generate ~68% of the total revenue on the Strip, according to our estimates. Las Vegas Sands, Wynn Resorts and various single-property operators, including recent entrant Penn Gaming, own the remaining capacity on the Strip. Two forthcoming entrants to the Strip include:

- Genting Group, which recently broke ground on the 3,000-room Resorts World LV, set to open in Spring 2018.
- Crown Resorts, which purchased a 35-arce site across from the Wynn/Encore complex in 2014 for $280mm.

Visitor Summary

Visitor traffic to Las Vegas can best be grouped into distinct categories based on origin, age and purpose of visit. The average Las Vegas Visitor stays for ~3 nights, and spends $280 on F&B and $150 shopping per trip. 71% of Las Vegas visitors gamble, spending ~3 hours per day in the casino with an average trip gambling budget of $530. Below are key visitor groups:

- The Californians: Frequent visitors (~2x/year) in two groups, older, weekday gamblers and younger, weekend partygoers
- Convention Set: Primarily educated, middle-aged males – less likely to gamble (56%), but higher room and F&B spend
- Foreign Tourists: Big F&B and shopping spend group with high gambling proportion (76%) and longer stays (4 nights)

Table 17 **Las Vegas Strip Property Summary**

	Hotel Rooms	Casino Sq/Ft	Slots	Tables	Total Net Revenue	EBITDA	EBITDA Margin
MGM Total	33,834	1,048,000	13,453	734	5,192	1,263	24%
City Center Total	5,450	150,000	1,969	122	1,120	274	24%
MGM + City Center Total	**39,284**	**1,198,000**	**15,422**	**856**	**6,312**	**1,537**	**24%**
Caesars Entertainment	**21,098**	**718,100**	**9,210**	**880**	**3,256**	**792**	**24%**
Las Vegas Sands	**7,093**	**225,000**	**2,350**	**240**	**1,480**	**314**	**21%**
Wynn Resorts	**4,748**	**284,000**	**625**	**498**	**1,636**	**515**	**31%**
Cosmopolitan (Blackstone)	2,959	100,000	1,364	124	739	152	21%
Treasure Island (Phil Ruffin)	2,885	87,000	1,620	65	265	66	25%
Stratosphere (ACEP)	2,427	80,000	816	45	203	37	18%
SLS LV (SBE)	1,600	54,000	792	74	150	NA	NA
Tropicana (PENN)	1,467	50,000	844	38	110	20	18%
Total Independent	**12,620**	**371,000**	**5,436**	**346**	**1,467**	**275**	**19%**
Total On-Strip Properties	**84,843**	**2,796,100**	**33,043**	**2,820**	**14,152**	**3,433**	**24%**
Downtown Las Vegas	**6,832**	**523,024**	**10,600**	**400**	**977**	**78**	**8%**
Las Vegas Metro	**151,236**	**6,733,845**	**130,391**	**4,272**	**21,397**	**3,986**	**19%**

Source: Company Reports, Thompson One, Gabelli & Company

Table 18 **Las Vegas Visitors Summary**

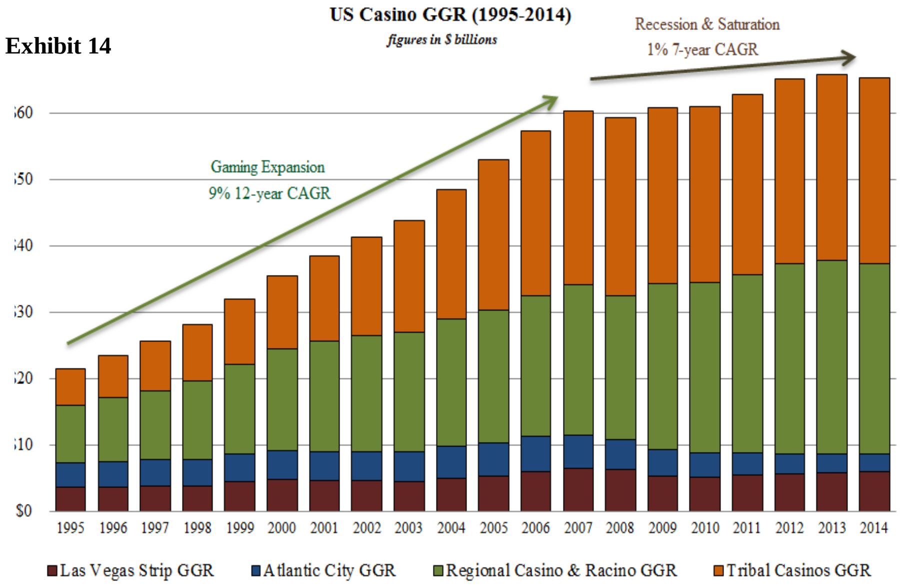
Total Visitors (2014)	**41,126,512**
Origin:	
Southern California	27.0%
Northern California	6.0
Arizona	6.0
Other Western states	14.0
Southern states	12.0
Midwestern states	9.0
Eastern states	7.0
Total U.S.	**81.0%**
Foreign	**19.0%**
Arrived by:	
Ground Transportation	58.0%
Airline	42.0%
Lodging:	
Strip Corridor	76.0%
Downtown LV	5.0%
Other	19.0%

Source: Las Vegas Convention and Visitors Authority

REGIONAL US: Market Overview

Aside from Nevada and Atlantic City, the expansion of casino gaming across the US began in the late 1980s instigated by the legalization of gaming on Native American lands and the end of Nevada's ban on operating casinos in other jurisdictions. In total, eleven states legalized casino gambling between 1989 and 1994. The initial gaming expansion laws limited gaming activities with either wager maximums (CO, SD), or confinement to riverboats (IA, MS, IL, LA, IN, MO) and racetracks (DE, RI, WV). A second wave of legalizations took place between 2004 and 2009 primarily as a reaction to the success of early-adopter states in generating tax revenues from neighboring states' citizens.

Exhibit 14



Sources: American Gaming Association, National Indian Gaming Association, Gaming Regulators, Company Reports, Gabelli & Company.

Table 19 **Regional US Summary**

Figures in $ millions	Gaming Revenue	Casino Properties	Gaming Legalization	GGR Tax Rate (Slots/Tables)
Nevada *(ex-LV Strip)*	$4,450	212	1931	6.75%
Pennsylvania	3,070	12	2004	55 / 16%
NJ/Atlantic City	2,620	8	1976	11%
Louisiana	2,470	20	1991	21.5 / 18.5%
Indiana	2,160	13	1993	40 / 35%
Mississippi	2,070	28	1990	12%
New York	1,900	9	2001	65%
Missouri	1,660	13	1993	21%
Illinois	1,470	10	1990	50%
Ohio	1,460	11	2009	33.0 / 33.5%
Iowa	1,400	19	1989	22 / 24%
Michigan	1,330	3	1996	19%
Maryland	930	5	2008	67%
Colorado	750	36	1990	20%
West Virginia	710	5	1994	53%
Rhode Island	610	2	1992	72%
Florida	510	8	2006	35%
Delaware	360	3	1994	56%
Kansas	350	3	2007	27%
New Mexico	270	5	1997	46%
Maine	130	2	2004	39 / 1%
Oklahoma	110	2	2004	39%
South Dakota	100	35	1989	9%
Massachusetts	-	4	2011	67%
Commercial Casinos	**$30,890**	**468**		
California	6,990	65		
Eastern US	5,210	26		
Connecticut	1,540	2		
Upper Midwest	4,750	128		
Low Midwest	3,900	128		
Northwest	2,900	51		
Southwest	2,740	49		
Indian Casinos	**$28,030**	**449**		
US Adult Population	244,563,362			
% Gambled LTM	*32%*			
Total US Casino Patrons	**78,260,276**			
Annual Win per Patron	$750			
Disposable Income Per Capita	$37,420			
Win as % Disposible Income	**2.00%**			

Sources: American Gaming Association, National Indian Gaming Association, Gaming Regulators, US Census Bureau, Gabelli & Company estimates

Casino Summary

A group comprised of both multinational and regionally focused gaming companies dominates the regional casino market. Las Vegas stalwarts Caesars Entertainment and MGM Resorts will likely be the #1 and #2 regional gaming companies, respectively, once MGM's properties in Maryland and Massachusetts open. Penn National Gaming manages the operations of twenty-six Gaming and Leisure Properties-owned casinos. Assuming Pinnacle Entertainment accepts GLPI's recent offer, its arrangement will be similar. Boyd Gaming, Stations Casino, and Eldorado Resorts have portfolios that skew toward non-Strip markets in Nevada including Reno and the Boulder Strip.

Table 20 **Regional Gaming Operators**

Figures in $ millions	# of Casinos	2014 Revenue	Jurisdictions
Caesars Entertainment	28	$4,400	IL, LA, MO, MS, NJ
Penn Gaming	26	2,590	IL, MD, MO, MS, OH
Pinnacle Entertainment	15	2,211	CO, IA, LA, MO, MS
Boyd Gaming	22	2,142	IA, KS, LA, MS, NV
MGM Resorts	7	1,519	IL, MI, MS, NJ, NV
Stations Casino	21	1,292	NV
Isle of Capri	15	982	CO, FL, IA, MO, MO
Tropicana Entertainment	8	747	IN, LA, MO, MS, NJ
Eldorado Resorts	5	714	LA, NV, OH, PA, WV

Sources: Company Reports

Visitor Summary

According to the American Gaming Association, 32% of US adults have gambled at a casino in the past twelve months. Given the current US adult population of 245 million, more than 78 million US adults have gambled in a casino within the past twelve months. This number has grown substantially over the past twenty years, as access to gaming is a key factor in driving the behavior. The proliferation of casino gaming has increased tolerance among non-gamblers as well.

MACAU: Betting on the Long-Term

Growth of the gaming industry in Macau has been unprecedented. Levered almost entirely to Chinese gamblers, the island's casino operators have been the beneficiaries of the economic rise of China. But with President Xi Jinqing's push to eliminate corruption within the government, gaming revenues, especially in the VIP segment of the market, have fallen substantially. Notwithstanding the current tumult, we believe that Macau sits as an important piece of the government's push to move the Chinese economy to a consumption-based model.

We contend that the long-term prospects for Macau are attractive as new infrastructure and development on Hengqin Island feed a Cotai Strip, which will grow to be more akin to Las Vegas in terms of the mix of gaming to non-gaming assets than the current set of assets. While we expect aggregate net revenue and EBITDA to regain lost ground by 2018, we think that property returns are unlikely to reach what was previously seen in 2013 and early 2014, but Macau casino returns will still be more attractive than those of Las Vegas properties for the reasons explained below.

Our positive long-term outlook is based on the following premises:

- The number of potential Macau visitors will continue to increase
- Asian consumers will gamble more than Western counterparts
- Access to Macau will continue to improve
- Macau will remain Asia's premier gaming destination
- Supply limitations will keep operator returns buoyed

With regards to the near-term outlook for Macau, we are more cautious. Although we recognize the positive signal sent by the government's recent move to ease visa restrictions, we contend that a few headwinds have yet to fully play out. New casino openings in Australia, the Philippines and Southeast Asia threaten to steal VIP business. The junket health remains unclear in terms of its capital base and liquidity. The threats of a full smoking ban and less-than-planned table allocation are yet to be fully realized, thus we would wait for greater visibility before putting money to work across the board.

Our cautious stance on the near-term outlook is set in the context of the following issues:

- Slower Chinese economic growth
- PRC's anti-corruption campaign
- Junket liquidity and consolidation
- Casino labor cost pressures
- Full smoking ban legislation
- New casino table allocations
- Construction labor restrictions
- Macau urban congestion and visa policy
- Infrastructure timeline delays
- New Asian competition for VIPs

Table 21

Macau Monthly Gross Gaming Revenue

(in billions of US$)	2010	% Δ	2011	% Δ	2012	% Δ	2013	% Δ	2014	% Δ	2015E	% Δ	2016P	% Δ	2017P	% Δ	2018P	% Δ
January	$1.7	62%	$2.3	33%	$3.1	35%	$3.4	7%	$3.6	7%	$3.0	(17%)						
Febuary	1.7	70%	2.5	47%	3.0	23%	3.4	12%	4.8	40%	2.4	(49%)						
March	1.7	42%	2.5	47%	3.1	25%	3.9	25%	4.4	13%	2.7	(39%)						
April	1.8	70%	2.6	44%	3.1	22%	3.5	13%	3.9	11%	2.4	(39%)						
May	2.1	93%	3.0	43%	3.3	7%	3.7	14%	4.1	9%	2.5	(37%)						
June	1.7	64%	2.6	52%	2.9	13%	3.5	21%	3.4	(4%)	2.2	(36%)						
July	2.0	70%	3.0	48%	3.1	2%	3.7	20%	3.6	(4%)	2.2	(40%)						
August	2.0	40%	3.1	57%	3.3	6%	3.8	18%	3.6	(6%)	2.1	(42%)						
September	1.9	40%	2.6	38%	3.0	13%	3.6	21%	3.2	(12%)	2.1	(34%)						
October	2.4	50%	3.4	42%	3.5	4%	4.6	32%	3.5	(23%)	2.1	(40%)						
November	2.2	42%	2.9	32%	3.1	8%	3.8	21%	3.0	(20%)	2.2	(28%)						
December	2.4	66%	2.9	25%	3.5	20%	4.2	18%	2.9	(30%)	2.3	(23%)						
Total	**$23.5**	*57%*	**$33.4**	*42%*	**$38.1**	*14%*	**$45.2**	*19%*	**$44.0**	*(3%)*	**$28.0**	*(36%)*	**$29.0**	*4%*	**$36.0**	*24%*	**$40.0**	*11%*

Sources: Macau Gaming Inspection and Coordination Bureau, Gabelli & Company estimates

MACAU: Long-Term Outlook

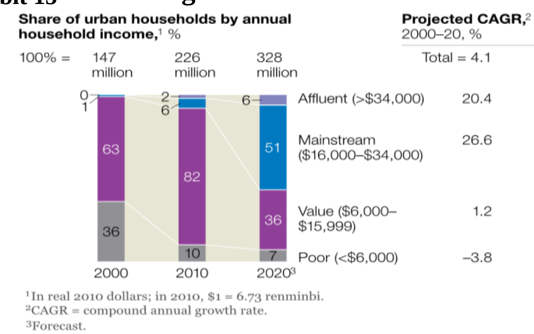
We contend that the long-term prospects for Macau are positive as the gaming market evolves to become more mass market orientated with a greater focus on non-gaming amenities. We expect GGR to grow to over $45 billion by 2020, implying a five-year CAGR of over 10% compared to our 2015 GGR estimate of $28 billion.

Visitor Growth

With more than 90% of its visitor base coming from Mainland China and Hong Kong, Macau's fate is inevitably tied to that of the Chinese economy. Despite what looks to be a more challenged economic environment in the near-term, the long-term prospects for the Chinese economy look favorable. Evolving consumer habits and the growing spending power of Chinese consumers is a trend we want to be levered to. According to a McKinsey report, by 2020 the number of Chinese urban households with annual income over $16k will grow to nearly 190 million, from 18 million in 2010.

Chinese consumer habits are growing, more akin to those of Western consumers. Macau currently hosts ~1.5% of the Mainland Chinese population annually, while Las Vegas hosts a little over 10% of the US population. The difference in penetration rates is a function of infrastructure, consumer disposable income, and government policies regarding travel. We expect new infrastructure projects, increased hotel room supply, disposable growth, and greater travel liberalization to drive increased penetration over time. For context, if Macau reached 10% visitation penetration of China's top-eight GDP/capita provinces, (all within a four hour flight of Macau), annual visitation would increase by 33 million visitors per year or ~150%.

Exhibit 15 **Rising Chinese Consumer**



Source: McKinsey & Co.

Table 22 **Macau Visitation Penetration**

	2014 Visitors	Population	Penetration Rate %	GDP Per Capita
Beijing	378,296	21,150,000	1.8%	$15,051
Shanghai	543,891	24,150,000	2.3%	$14,547
Jiangsu	583,640	79,390,000	0.7%	$12,047
Zhejiang	697,980	54,980,000	1.3%	$11,054
Liaoning	342,504	43,900,000	0.8%	$9,961
Guangdong	9,160,041	106,440,000	8.6%	$9,452
Fujian	916,013	37,740,000	2.4%	$9,342
Shandong	309,456	97,330,000	0.3%	$9,094
Total	**12,931,821**	**465,080,000**	**2.8%**	**$10,556**
10% penetration rate	**46,508,000**			
Difference	***33,576,179***			

Source: Macao DSEC; National Bureau of Statistics of China; Gabelli & Company

High Propensity to Gamble

Gambling and other risk-taking activities have been part of Chinese culture for thousands of years. The success of China's two lottery systems is evidence of Chinese consumers' willingness to partake in gaming activities. We expect that as Chinese disposable incomes rise, they will demonstrate a higher willingness to gamble relative to US consumers.

Improving Access

Improving infrastructure and increasing hotel room capacity is key to Macau's growth story. The existence of able and willing casino patrons is nothing without the ability to facilitate their visits to Macau's casinos. Currently, access is constrained by the interrelated factors of air and land transportation, intra-Macau traffic flow, and hotel room supply. As new infrastructure projects open in the coming years, we expect visitor volumes to increase significantly.

Exhibit 16 **Infrastructure Projects**

Project	Expected Completion	Goal
Perminate Taipa Ferry Terminal	Year-end 2015	Expands to 19 berths from 3 - capacity to 40 ferries/hour
Macau Airport Expansion	2016	Expansion allows for incremental 1.5 million of passangers
Gongbei-Hengqin Rail Link	Mid-2017	Improve access to Hengqin Island
Macau Light Rail (Cotia section)	2018	Provides a link between Cotai casinos
Hong Kong-Zhuhai-Macau Bridge	2020	Cut drive time from HK to Macau to 45 min from 4 hours
Macau Light Rail (Peninsula section)	2018	Connects Gongbei border crossing to Cotai casinos

Source: ggrasia.com, macaubusiness.com, airportbusiness.com, hzmb.hk

Dominance Retained

We contend that with the opening of new developments in Cotai, Macau will reach a level of critical mass that will allow it to fend off competition from competing gaming jurisdictions. In the same way that Las Vegas is able to draw more than 33 million of American patrons every year, despite the existence of casinos in 39 US states in every region of the county, Macau will be able to draw significant visitor volumes even if gambling is expanded within China, which we think is highly unlikely in the near-term. Moreover, the development of amusement, convention, and hotel facilities on Hengqin Island will help to further increase the gravitational pull of Macau relative to other gaming and tourist destinations.

Supply Restrictions & Returns

The government of Macau has laid out a plan for table growth based on a 3% CAGR over the 2012-2022 timeframe from a base of 5,485 tables. The government has remained ambiguous with regards to how the calculation is computed and how it will be implemented. Enforcement of the policy has become a topic of focus as operators look to open a batch of properties in Cotai with aggregate planned tables well above the number implied by the calculation. While in the short-term, supply restrictions on new gaming tables may be a headache for operators opening large properties in Cotai, in the long-term the limits to new supply entering the market will help to protect table revenue yields, margins and returns.

MACAU: Near-Term Concerns

While we estimate that the market is near a monthly GGR run rate base (of around US$2 billion) off of which it can grow as new properties open, profitability is still at risk. As the issues creating uncertainty and risk dissipate, we would expect Macau's casino stocks to begin working higher. However, with a number of outstanding issues yet to be determined, we would wait for greater visibility before putting money to work across the board.

Anti-Corruption and Economic Growth

Since the Communist Party began its corruption probe in November 2012, the Central Commission for Discipline Inspection (CCDI) has taken down a series of "Tigers and Flies" as they have termed it. The list includes top Communist Party officials and the heads of large state-owned enterprises (SOE). While the stated intent of the corruption purge is to return legitimacy to the Communist Party in the eyes of the Chinese people, the campaign is in actively consolidating power around President Xi and his inner circle. Power struggles within the Communist Party have been well documented over time and some experts have drawn corollaries with historical episodes. The campaign's effect on Macau has been two fold. The direct result has been fewer VIP and premium mass visits by government officials and SOE leadership, driven by fear that being seen in Macau opens one up to the scrutiny by the CCDI. The campaign has also had the indirect effect of disrupting the Chinese economy, especially within the construction and mining sectors, from which many of Macau's VIP visitors come. These effects have been exacerbated by a liquidity crunch within Macau's junket industry. After the conviction of Zhou Yongkang, a member of the elite Politburo Standing Committee, many suspected that the campaign had hit its apex. However, after late June's announcement of new investigations launched on 26 SOE targets, it looks as though the campaign will persist through the balance of the year. We believe that the ultimate outcome is a positive one. We think that the campaign is the set-up for a larger reform effort intended to move China to a more market-driven, consumer-lead economy. Also note that President Xi's father was a leading voice on market-based economic reforms and a close confidant of 1980s reformer Deng Xiaoping.

Exhibit 17 Anti-Corruption Campaign's Tigers

Target	Date Announced	Position
Liu Han	Mar. 2013	Hanlong Group head
		Zhou Yongkang associate
Jiang Jiemin	Sept. 2013	Former SOE Commission head
		Zhou Yongkang associate
Su Rong	June 2014	Political Consultative Conference head
		Communist Party Secretary Jiangxi
Wan Qingliang	June 2014	Former Guangzhou party secretary
Xu Caihou	June 2014	Central Military Commission vice chairman
Zhou Yongkang	July 2014	Public Security Minister
		Politburo Standing Committee
Bai Enpei	Aug. 2014	Former Yunnan party secretary
Ling Jihua	Dec. 2014	United Work Front head
Xu Gang	March 2015	Vice Governor of Fujian

Source: South China Morning Post

Labor Costs

Rigid labor requirements and pressure from Macau's government will make it hard for casino operators to scale labor costs as the market weakens. Tensions between the Macau's citizens and casino operators have given the government and labor unions leverage to demand bonuses, pay raises, and a tacit no lay-off policy, which the government has reinforced.

Table Limits

Table restrictions are a double-edged sword for operators because they force many new properties to open with less than planned capacity, but they will also limit the number of tables entering the market during a time of weak demand. Operators will manage the issue by moving tables between their properties.

Exhibit 18 New Property Summary

Development	Operator	Opening Date	Cost (in $mm)	Hotel Rooms	Table Capacity	Estimated Allocation
Studio City	Melco	3Q15	$3,200	2,000	400	200
Wynn Palace	Wynn	March 2016	4,000	1,700	500	250
Louis the XIII	Louis XIII	July 2016	800	200	66	66
Parisian	LV Sands	Late-2016	2,700	3,000	450	200
MGM Cotai	MGM	4Q16	2,900	1,500	500	250
Lisboa Palace	SJM	2017	3,900	2,000	700	250

Source: Company Reports, Gabelli & Company estimates

Smoking Ban

The smoking bans are negative as they disrupt gamblers' play flow and may push some patrons to casinos in other markets. After Macau enacted a mass floor smoking ban last year, mass gaming revenues fell. Based on our conversations with operators, it seems that a full smoking ban is inevitable, while the fate of smoking rooms is still unclear.

Visa Policy

In the past, visa policy adjustments have noticeably impacted gaming revenue. In early July, Macau increased the number of days Mainland Chinese citizens could stay in Macau with a transit visa from 5 to 7. We view the policy change as Beijing acknowledging the negative effect the anti-corruption campaign has had on gross gaming revenue and, consequently, the government of Macau's fiscal position.

New Asian Competition

Other jurisdictions have been moving to take some of Macau's VIP play as Beijing has cracked down on activities on the island. Multiple Macau junket operators have opened up gaming rooms at casino properties throughout Southeast Asia, including Manila and Cambodia. While we expect these destinations to steal some VIP revenues, we contend that infrastructure in these new jurisdictions must improve for these markets to become a viable threat.

Exhibit 19 Asian Competition

Casino	Operator	Opening
Entertainment City - Manila:		
Solaire Resort & Casino	BLOOM-PH	March 2013
City of Dreams Manila	MPEL	Febuary 2014
Manila Bay Resorts	6425-JA	Expected 2017
Resorts World Bayshore	0678-HK	Expected 2018
Cambodia:		
Nagaworld	3918-HK	1995
Naga2	3918-HK	Expected 2017
Vietnam:		
Grand Ho Tram Strip	NA	July 2013
Laguna Lang Co	NA	Expected 2016

Source: Company Reports, Gabelli & Company estimates

LAS VEGAS: Looking Like a Safe Wager

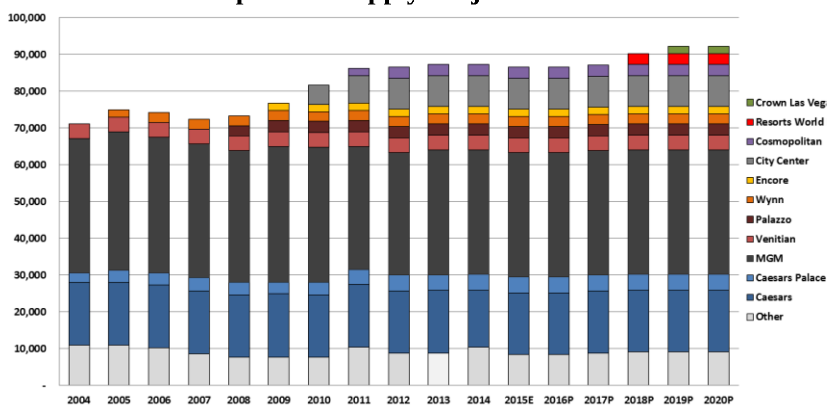
Due in large part to the expansion of gambling across the US, growth in Las Vegas has been challenged as gaming revenue (excluding baccarat) have been stagnant for the past ten years. Hotel revenues make up an increasingly significant portion of incremental profit. With little new hotel room supply coming online over the next few years, we expect room ADRs to grow at a low-single digit rate over the next five years with occupancy increasing in tandem.

Hotel Room Supply Dynamics

Since Cosmopolitan's opening in 2010, hotel room supply growth on the Las Vegas Strip has been virtually non-existent, as the city is still in the process of clearing the mess caused by the financial crisis and ensuing recession. The recent Caesars' bankruptcy filing and MGM's settlement on the Harmon portion of the City Center complex are evidence of this recovery.

- The two significant prospects in terms of capacity expansion are Genting's Resorts World development, a $4.0 billion property across from Wynn/Encore, and a project from Crown Resorts, an Australian operator controlled by casino magnet James Packer with partial ownership in Macau concessionaire Melco Crown.
- Both projects will seek to "grow the pie" leveraging their databases in an attempt to draw new visits to Las Vegas.
  - With their China-themed property, Genting will likely focus on drawing Asian traffic, a good portion of whom will be high-value players from its Singapore and Malaysian properties.
  - Crown's project, also located on the north end of the Strip, would likely seek to do the same at the high-end.
- Another significant development is Penn National's takeover of the Tropicana resort, located across from the Luxor.
  - We view Penn's entry as a slight negative for the rest of the Strip as it will likely seek to capture Vegas visits from rated-players in its database that would otherwise visit other Strip properties.
- Although the near term picture is unclear, Caesars' eventual move into a more sustainable operating structure may help to moderate competition on room rates and casino comp levels.

Exhibit 20 Strip Room Supply Projections



Source: Company Reports, Nevada Gaming Control Board, Gabelli & Company estimates

Exhibit 21 LV Strip Construction

	Rooms	Opening Date	Cost ($mm)
Riviera Closure	(2,075)	May 2015	NA
Linq Room Renovation	1,400	Aug. 2015	NA
All Net Resort	500	2017	NA
Lucky Dragon Hotel & Casino	200	2017	NA
Resorts World (Phase I)	3,000	Spring 2018	$4,000
Crown Resorts	2,000e	2019e	NA
	Convention / Meeting Sq. Ft.	**Opening Date**	**Cost ($mm)**
Mandalay Bay Expansion	350,000	Aug. 2015	$66
Las Vegas Global Business District	1,800,000	+2020	2,300
	Purpose	**Opening Date**	**Cost ($mm)**
Omnia Nightclub	Club	March 2015	$38
Rock in Rio Festival Grounds	Events	May 2015	20
Fashion Show Expansion	Retail	Fall 2015	NA
Toshiba Plaza	Retail	April 2016	50
MGM Resorts Arena	Events	April 2016	375
All Net Arena	Events	2017	1,400

Source: Las Vegas Visitors Authority

Conventions & Events

Events have become the major driver of visitation to Las Vegas. We contend that visitation by both convention and leisure travelers will continue to grow at low to mid-single digit rates through 2020 with limited supply growth helping to drive occupancy levels to the high-80% range and room rates above the prior peak of $132 per night, from $117 per night in 2014.

- Most of the new development on the Strip will come in the form of event-focused facilities, which we believe will facilitate Strip visitation to grow to 46 million by 2020 from 41 million in 2014, representing a CAGR of 2.0%.

We believe attendance will reach its prior peak by 2019 due to a healthy business climate and capacity expansion.

- Convention attendance in 2014 of 5.2 million is up 16%, from a low of 4.5 million in 2010, but still off 18% versus the 2006 peak of 6.3 million. The figure is highly correlated to mid-week occupancy, currently 84% versus 89% in 2007.
- Longer term, the opening of the Las Vegas Visitors Authority's Global Business District, which will include a 1.8 million square foot convention space expansion, will further solidify the Strip as the premier convention destination.

Millennials, Boomers, and the Future of Gaming

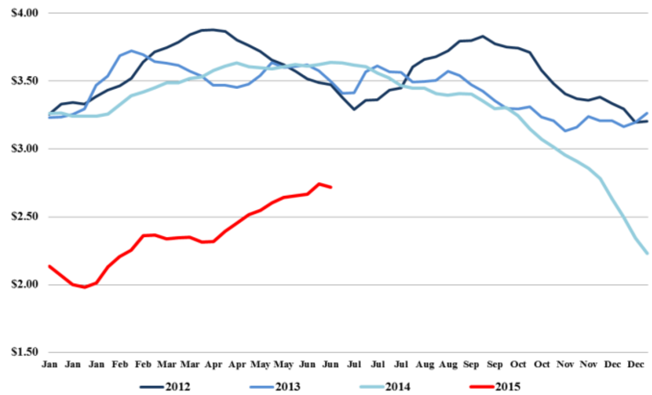
With Baby Boomers aging and financially limited, engaging the Millennial consumer has become a key issue. High student debt, a weak economy, and changing social patterns have caused the economic maturation of Millennials to lag behind prior generations. Moreover, Millennial preferences have skewed away from slot machines and toward table games. But the industry is pushing for legislation that will enable slot makers to create games that have video game characteristics. The evolution of skill-based gaming, as it is called, is worth taking note of as it could pave the way for the future of the industry.

REGIONAL US: Place Bets Wisely

The regional casino business has been tough as low-to-middle incomes have been slow to recover following the Great Recession and the casinos target demographic has been disproportionately harmed by the collapse of home prices. To compound matters, the market has become oversupplied in certain geographies as state legislatures have expanded commercial gaming licensing in an effort to balance budgets. Recently, the macroeconomic environment has begun to improve, but due to supply issues, investment in regional casinos must still be assessed on a market-by-market basis.

Positive Macro Trends
We expect US consumer spending growth to increase and remain strong over the medium term as disposable income levels rise. Three forces are working to drive disposable income growth: lower energy prices, an improving job market, and wage growth. Moreover, a prolonged recovery in housing activity is a positive for consumer balance sheets.

Exhibit 22 **US Conventional Gasoline Prices**



Source: St. Louis Federal Reserve – Fed FRED

Exhibit 23 **Announced Wage Increases**

Employer	Employees Affected	Announced
Ikea	68k	June 2015
McDonalds	90k	April 2015
Target	NA	March 2015
Walmart	500k	Febuary 2015
T.J Maxx	NA	Febuary 2015
Gap Inc.	65k	Febuary 2015
Aetna	6k	January 2015
Starbucks	125k	October 2014

Source: Company Reports

Investment by Market
In light of the positive macro backdrop, we are constructive on markets where the outlook for new supply is limited:

- **Las Vegas Valley and Reno**
  - Economic recovery driven by job growth and housing recovery
  - New construction on the Strip (30k person-years for Resorts World LV) is a positive for Las Vegas Locals.
- **Detroit Metro**
  - Economic recovery of the metro Detroit area, post-bankruptcies of the auto companies and the city of Detroit.
  - With Penn's Toledo opening lapped and no new tribal casinos in the outlook, competitive situation is favorable
- **Florida**
  - Favorable economic trends as home prices recover and aging Boomer flock
  - Movement on compact with Seminole tribe could shift competitive dynamics in racinos' favor

Properties in highly competitive geographies can earn solid returns, but they need to offer the market a unique experience and operationally outperform competitors by leveraging extensive databases and cross promoting destination properties:

- **Wynn Everett in Boston Metro**
  - Well-crafted property with great brand
  - Literally embedded in a great market with little competition
- **MGM National Harbor in Maryland**
  - Well-crafted property with great brand close to major population centers
  - Part of a great property complex that will hit critical mass with MGM's opening.
- **Borgata in Atlantic City**
  - Resort is unique to Atlantic City and stealing market share
  - Near-term supply/demand rebalance

We are less enthused by properties located in markets susceptible to in-state gaming expansion and/or border risk. Border risk is a particular issue in Northeast, where the states' small footprints are a liability:

- **Chicago Metro (Illinois and Indiana)**
  - Gaming expansion in-state bill, new casino in South Chicago
  - Indiana gaming expansion
- **New England**
  - Connecticut tribes may build new casino in Hanover, CT to compete with MGM's Springfield property.
  - New York's new commercial casinos poach drivers from the NYC and Albany areas
  - New Hampshire gaming expansion has been discussed

Other Companies Mentioned:

Boyd Gaming	(BYD	-	NYSE)
Caesars Entertainment	(CZR	-	")
Churchill Downs	(CHDN	-	NASDAQ)
Dover Downs	(DDE	-	NYSE)
Eldorado Resorts	(ELI	-	")
Fullhouse Resorts	(FLL	-	")
Gaming & Leisure	(GLPI	-	NASDAQ)
Genting	(G13.SI	-	Singapore)
International Game Technology	(IGT	-	NYSE)
Isle of Capri Casions	(ISLE	-	NASDAQ)
Lakes Entertainment	(LACO	-	")
Las Vegas Sands	(LVS	-	NYSE)
MGM Resorts International	(MGM	-	")
Monarch Casino	(MCRI	-	NASDAQ)
Tropicana Entertainment	(TPCA	-	")
Penn National	(PENN	-	")
Pinnacle Entertainment	(PNK	-	NYSE)
Wynn Macau	(1128	-	Hong Kong)
Wynn Resorts	(WYNN	-	NASDAQ)

I***, Adam Trivison,*** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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July 14, 2015
Gabelli & Company

Boyd Gaming Corporation (BYD - $16.47 - NYSE) Multiple Ways to Win - Buy

Year	EPS	P/E	PMV	
2017P	$0.65	25.3x	$24	Dividend: None Current Return: Nil
2016P	0.50	32.9	21	Shares O/S: 110.4 million
2015E	0.30	54.9	18	52-Week Range: $16.55 - $8.78
2014A	0.06	--	--	

COMPANY OVERVIEW

Las Vegas, NV-based Boyd Gaming Corporation is an owner and operator of twenty-two gaming properties located in Nevada, New Jersey, Mississippi, Illinois, Indiana, Kansas, Louisiana, and Mississippi. In addition to three downtown Las Vegas properties, Boyd operates six Las Vegas Locals' properties. Boyd's seven Midwest and South properties include Sam's Town in Tunica County, MS; IP Casino in Biloxi, MS; and Treasure Chest near New Orleans, LA. Boyd also owns a 50% interest in Borgata Hotel & Casino in Atlantic City, NJ; the other 50% is owned by MGM Resorts International. We expect the company to generate 2015 revenue, EBITDA and EPS of $2.2 billion, $570 million and $0.30, respectively.

Summary and Opinion

We are initiating coverage on Boyd Gaming with a Buy recommendation:

- Boyd is well positioned to drive EBITDA growth over the next few years as Las Vegas' economy continues to improve, specifically within the construction employment to which the company's Locals' properties are levered.
- After last year's closure of four Atlantic City casinos, supply and demand in the market have re-balanced. The Borgata is well positioned to continue taking share.
- Management's plan to tactically add and upgrade non-gaming amenities will improve the competitive positioning and gaming floor productivity at those properties, including the recently announced hotel addition at Delta Downs.
- Cannibalization at the company's Mideast properties has largely abated, while performance at the company's other Midwest and Southern properties have turned positive with a more favorable macro backdrop.
- Improved financial performance and opportunistic refinancing of high-cost debt is aiding free cash flow generation, furthering the company's ability to reduce its debt burden and execute high ROI investments.
- Valuation is supported by the potential for a REIT conversion, which management continues to assess. We calculate that a REIT conversion would create pro forma value of $18 per share assuming that the company is able to raise $700 million of equity at above $14 per share pre-split and $460 million at the REIT after the split.
- The company could also merge with another regional gaming company with lower leverage, and then execute a REIT conversion, thereby reducing or eliminating the need for a dilutive equity raise and increasing the quality of the OpCo. We estimate that a merger and split with Buy-rated Churchill Downs could create a proforma value of $22 per share.
- We project 2016 EBITDA of $595 million and PMV of $21 per share. Given the upside potential of a REIT conversion and the fact that the stock is trading at a 22% discount to our 2016 PMV, we recommend buying the shares. Shares currently trade at 9.0x and 8.6x our 2015 and 2016 EBITDA, respectively.

Table 1 **Boyd Gaming Projections**
($ in millions, except per share data) **2012A – 2019P**

FYE 12/31	2012A	2013A	2014A	2015E	2016P	2017P	2018P	2019P
Revenue	$1,797	$2,199	$2,142	$2,180	$2,230	$2,260	$2,280	$2,300
% Growth	*12%*	*22%*	*(3%)*	*2%*	*2%*	*1%*	*1%*	*1%*
EBITDA	385	394	551	570	595	610	625	635
% Margin	*21.4%*	*17.9%*	*25.7%*	*26.1%*	*26.7%*	*27.0%*	*27.4%*	*27.6%*
% Growth	*2%*	*40%*	*40%*	*3%*	*4%*	*3%*	*2%*	*2%*
Earnings Per Share	($0.74)	($0.58)	$0.06	$0.30	$0.50	$0.65	$0.75	$0.90
% Growth	*NA*	*NA*	*NA*	*NA*	*67%*	*30%*	*15%*	*20%*
Maintinance Capex	93	125	125	120	120	120	125	125
EBITDA Multiple	13.3x	13.0x	9.3x	9.0x	8.6x	8.4x	8.2x	8.1x
P/E Multiple	NA	NA	NA	54.9	32.9	25.3	22.0	18.3

Source: Company Reports, Gabelli & Company estimates

Company Background

With roots dating back to the 1940s, the Boyd family has a long history of operating casinos in the Las Vegas Valley. In 1975, founder Sam Boyd and his son, Bill Boyd, opened the California casino in Downtown Las Vegas. Four years later, the company opened Sam's Town Casino in a key locals' market, now known as the Boulder Strip. After Sam Boyd's passing in 1993, Bill Boyd took over as CEO and the company held an IPO.

Over the next fifteen years, the company expanded outside of Nevada, building and purchasing properties in Louisiana, Mississippi, and the Midwest. In 2003, the company, in a joint venture with MGM, opened Borgata, a $1.1 billion resort property in Atlantic City. One year later, the company acquired Coast Casinos, a leader in the Las Vegas Locals' market for $1.3 billion. In 2006, the company began development on a $4.8 billion project on the Strip called Echelon. The project was delayed and later canceled due to the recession. Genting Group purchased the land for $350 million in 2013. In late 2012, Boyd purchased Midwest casino operator Peninsula Gaming for $1.45 billion. Bill Boyd, 87, acts as the company's chairman and along with other family members, owns 25% of the company's shares.

Exhibit 1 **BYD Company Summary**

	Location	Opened / Acquired	Slot Machines	Table Games	Hotel Rooms
Las Vegas Locals					
Gold Coast	Las Vegas, NV	2004	1,842	49	712
The Orleans	Las Vegas, NV	2004	2,584	60	1,885
Suncoast	Las Vegas, NV	2004	1,955	28	645
Eldorado Casino	Henderson, NV	1993	1,914	32	427
Jokers Wild Casino	Henderson, NV	1993	369	-	-
Sam's Town	Las Vegas, NV	1979	417	6	-
Downtown Las Vegas					
California	Las Vegas, NV	1975	996	28	781
Fremont	Las Vegas, NV	1985	1,016	26	447
Main Street Station	Las Vegas, NV	1993	834	19	406
Midwest & South					
IP Casino	Biloxi, MS	2011	1,715	62	1,088
Sam's Town	Shreveport, LA	2004	1,016	29	514
Delta Downs	Vinton, LA	2001	1,639	-	203
Blue Chip	Michigan City, IN	1999	1,808	44	486
Treasure Chest	Kenner, LA	1997	976	36	-
Par-A-Dice	E. Peoria, IL	1996	1,002	24	202
Sam's Town	Tunica, MS	1994	963	20	873
Peninsula					
Diamond Jo	Dubuque, IA	2012	996	20	-
Diamond Jo	Northwood, IA	2012	1,000	30	-
Evangeline Downs	Opelousas, LA	2012	1,373	-	-
Amelia Belle	Amelia, LA	2012	838	19	-
Kansas Star	Mulvane, KS	2012	1,815	53	-
Borgata (50% JV)	**Atlantic City, NJ**	**2003**	**3,094**	**173**	**2,767**

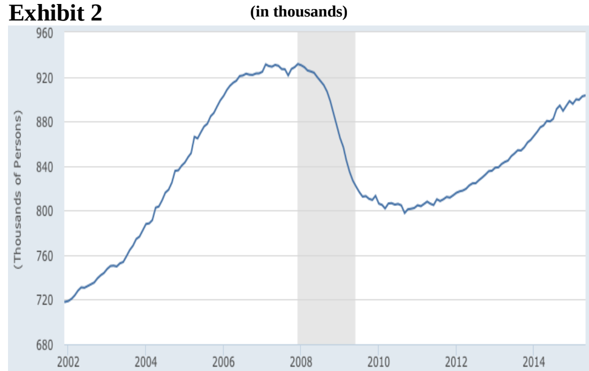
Source: Company Reports

Las Vegas Locals

The casinos that make up the Las Vegas Locals' market draw primarily from the neighborhoods of the Las Vegas Valley. According to the Las Vegas Visitors Authority, 58% of residents gamble at least occasionally, 26% gamble weekly. The gaming habits of the local population function as a part of regular entertainment spending, and thus are highly correlated to discretionary spending. Boyd and competitor Stations Casino together make up a vast majority of the Locals market. Las Vegas was one of the areas hardest hit by the housing crisis and unemployment, especially within core patron groups such as construction workers, has been slow to heal. A rebound in home prices (up ~50% from early 2012) and the construction of new resorts and events facilities on the Strip will provide the jobs and income to fuel a continued recovery.

Las Vegas Metro Non-Farm Employment

Exhibit 2 **(in thousands)**



Source: Bureau of Labor Statistics

REIT Conversion

As the third-largest regional casino company, Boyd has the scale to profitably execute a REIT transaction. Leverage is a key factor for companies thinking about a REIT conversion, as it dictates how large of an equity raise is required to meet post-conversion leverage targets. Boyd is currently leveraged 6.3x our 2016P EBITDA of ~$570 million, taking into account its 50% portion of the Borgata's debt. With that initial leverage level, the company would be required to raise a significant amount of equity to complete a conversion, $1.1 billion or two-thirds of the company's current equity cap assuming target leverage of 3.0x at the OpCo and 6.0x leverage at the PropCo. Following the model Pinnacle laid out for its similarly sized equity raise, Boyd could raise a portion before the split and the remainder at the high multiple PropCo in an effort to limit the dilution of existing shareholders. The value created by a possible deal is dependent on the multiples assigned to the companies post-split, so REIT multiple compression with higher interest rates is a risk to the model.

Table 2 **BYD REIT Conversion Analysis**

Sources		Uses	
Debt Addition	-	Fees	$150
Pre-Split Equity Raise	562	Debt Paydown	1,176
PropCo Equity Raise	375	Debt Breakage	59
Year's CF	448	Share Repo	-
Total	**1,384**	**Total**	**1,384**

Figures in millions	BYD	OpCo	PropCo	+	TRS	=	BYD REIT	Combined	*$ Δ*	*% Return*
Property EBITDA	$635	$547	-		$89		$89	$635	-	
Lease Payment	-	(273)	273		-		273	-	-	
Corporate Expense	(63)	(59)	(31)		-		(31)	(91)	*+ 28*	
EBITDA	**573**	**214**	**242**		**89**		**331**	**545**	***(28)***	
Multiple	8.9x	7.0x	14.0x		9.0x		12.7x	10.4x	*1.5x*	
Enterprise Value	**5,100**	**1,498**	**3,389**		**797**		**4,186**	**5,684**	***+ 584***	
Net Debt	3,620	642	1,453		350		1,803	2,444	*(1,176)*	
Leverage Ratio	*6.3x*	*3.0x*	*6.0x*		*4.0x*		*5.5x*	*4.5x*	*-1.8x*	
Equity	**1,818**	**856**					**2,384**	**3,239**	***+ 1,422***	
Common Shares	110	110					110			
Pre-Split New Equity Shares	-	36					36			
PropCo New Equity Shares	-	-					24			
Total Shares	**110**	**147**					**170**			
Per share price	**$16.47**	**$5.75**					**$14.00**	**$19.75**	***+$3.30***	***20%***

a) Balance sheet data are our year end 2015 estimates
b) Market data as of close on 7/14/2015

Source: Company Reports, Gabelli and Company Estimates

Merger + REIT Conversion Analysis

The case for a Boyd REIT conversion is legitimate, but the company's high leverage, management's concerns regarding the viability of the remaining operating company and the Boyd family's sizeable ownership interest create complications and risk to the deal. We believe that a more viable scenario would be for Boyd to combine with another less levered gaming company in an all-stock merger, then split off the real estate assets into REIT. By structuring the conversion this way, Boyd can lower its pre-conversion leverage to the point where it can avoid an equity raise. Moreover, the companies can create a more attractive and highly valued OpCo by placing non-casino operations from the acquired company in that entity. In the case of Churchill Downs, those assets could include the high-growth social gaming segment, Big Fish Games and licensing deals associated with the Kentucky Derby. We estimate that BYD could offer CHDN a 10:1 exchange ratio or a proforma valuation of $135 per share, a 5% premium to the current price. Once the assets are separated, shares would be worth more than $23 per share. We would like to emphasize this transaction's complexity and dependence on key variables including the terms of the merger between the two companies and post-conversion valuation.

Table 3 **Hypothetical BYD-CHDN Merger & REIT Conversion**

Sources		Uses	
Debt Addition	-	Fees	$100
Pre-Split Equity Raise	-	Debt Paydown	44
PropCo Equity Raise	-	Debt Breakage	4
Year's CF	774	Share Repo	626
Total	**774**	**Total**	**774**

Figures in millions	BYD	+ CHDN	+ Adjust	NewCo	OpCo	PropCo	+ TRS	= REIT	Combined	*$ Δ*	*% Return*
Asset EBITDA	$656	$197	$30	$883	$744	-	$139	$139	$883	-	
Lease Payment	-	-	-	-	(372)	372	-	372	-	-	
Kentucky Derby TV Deal	-	30	-	30	30	-	-	-	30	-	
Big Fish EBITDA	-	115	-	115	115	-	-	-	115	-	
Corporate Expense	(63)	(8)	-	(70)	(60)	(20)	(20)	(40)	(100)	*(29)*	
EBITDA	**594**	**334**	**30**	**958**	**457**	**352**	**119**	**471**	**929**	***(29)***	
Multiple	8.6x	8.6x	-	8.5x	9.0x	14.0x	9.0x	12.7x	10.9x	*2.4x*	
Enterprise Value	**5,100**	**2,887**	-	**8,141**	**4,114**	**4,927**	**1,075**	**6,002**	**10,116**	***+ 1,975***	
Net Debt	3,514	602	100	4,216	1,600	2,288	285	2,573	4,173	*(44)*	
Leverage Ratio	*5.9x*	*1.8x*	-	*4.4x*	*3.5x*	*6.5x*	*2.4x*	*5.5x*	*4.5x*	*0.1x*	
Equity	**1,818**	**2,321**	-	**3,925**	**2,514**			**3,429**	**5,944**	***+ 2,019***	
Common Shares	110	18	179	289	217			289			
Total Shares	**110**	**18**	-	**289**	**217**			**289**			
Per share price	**$16.47**	**$129.95**		**$13.50**	**$11.50**			**$11.75**	**$23.25**	***+$9.80***	***41%***

a) Balance sheet data are our year end 2015 estimates
b) Market data as of close on 7/14/2015
Source: Company Reports, Gabelli and Company Estimates

Valuation

We value Boyd within the context of GLPI's 11.2x bid for Pinnacle and the possibility of merger-REIT conversion transactions. Our 2015-2017 Private Market Values for Boyd's equity are $18, $21, and $24 per share, respectively. Our PMVs assume EBITDA multiples of 10.0x for the Las Vegas properties, 8.0x for the Midwest and South segment, and 9.0x for the high-margin Peninsula properties and the Borgata. At our 2015 PMV of $18 per share, Boyd is valued at $5.5 billion, or 10.2x trailing EBITDA of $535 million. Shares have upside into the low-$20s if a merger/REIT conversion is undertaken.

BYD Private Market Value Analysis
2012-2019P

Table 4

FYE 12/31	2012A	2013A	2014A	2015E	2016P	2017P	2018P	2019P	CAGR 14A-19P
Las Vegas Properties[a]									
Revenues	$815	$814	$817	$826	$843	$851	$860	$868	1%
EBITDA	162	173	182	186	193	199	205	212	3%
Valuation Multiple	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x	
Private Market Value	**$1,616**	**$1,725**	**$1,817**	**$1,860**	**$1,929**	**$1,990**	**$2,053**	**$2,117**	
Midwest & South									
Revenue	$924	$864	$831	$850	$867	$884	$893	$902	2%
EBITDA	192	180	170	181	185	190	193	194	3%
Valuation Multiple	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	
Private Market Value	**$1,539**	**$1,440**	**$1,360**	**$1,445**	**$1,481**	**$1,518**	**$1,540**	**$1,556**	
Peninsula Gaming									
Revenue	$57	$520	$494	$506	$516	$521	$527	$532	1%
EBITDA	21	185	175	180	188	193	195	197	2%
Valuation Multiple	NA	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	
Private Market Value	**$1,334**	**$1,667**	**$1,576**	**$1,620**	**$1,696**	**$1,737**	**$1,754**	**$1,771**	
Borgata JV[b]									
Revenues	$343	$348	$348	$371	$374	$376	$378	$380	2%
EBITDA	58	60	69	89	90	91	92	92	6%
Valuation Multiple	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	
Private Market Value	**$526**	**$537**	**$621**	**$797**	**$810**	**$822**	**$826**	**$830**	
Corporate Expense (at 4.0x)	**(320)**	**(373)**	**(475)**	**(250)**	**(251)**	**(250)**	**(248)**	**(245)**	
Total Private Market Value				**$5,473**	**$5,665**	**$5,817**	**$5,926**	**$6,029**	
Less: Net Debt				(3,368)	(3,229)	(3,058)	(2,865)	(2,648)	
Less: Borgata JV Debt[b]				(321)	(274)	(215)	(153)	(83)	
Less: Option Payments				(19)	(25)	(30)	(35)	(41)	
Add: PV of NOL Tax Asset[c]				232	206	192	170	138	
Equity Private Market Value				**$1,996**	**$2,343**	**$2,707**	**$3,043**	**$3,395**	
Shares Outstanding				110.4	111.1	111.9	112.7	112.7	
PMV per share				**$18**	**$21**	**$24**	**$27**	**$30**	
Current Market - Discount to PMV				*9%*	*22%*	*32%*	*39%*	*45%*	

Notes:
a) Contains both Las Vegas Locals and Downtown Las Vegas segments
b) Borgata figures represent 50% of total figures to represent Boyd's 50% ownership share
c) Present Value of $1.05 billion NOL, discounted at 10%
Source: Company Reports, Gabelli and Company Estimates

Other Companies Mentioned:

Churchill Downs	(CHDN – NASDAQ)
Pinnacle Entertainment	(PNK – NYSE)

I***, Adam Trivison,*** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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Churchill Downs Inc. (CHDN - $129.95 - NASDAQ) Holding a Winning Hand - Buy

Year	EPS	P/E	PMV	
2017P	$6.70	19.4x	$195	Dividend: $1.00 Current Return: 0.8%
2016P	5.90	22.0	165	Shares O/S: 17.58 million
2015E	5.00	26.0	147	52-Week Range: $130.49 - $85.65
2014A	3.75	34.6	--	

COMPANY OVERVIEW

Louisville, KY-based Churchill Downs Inc.'s operations consist of two stand-alone race tracks, Churchill Downs Racetrack in Louisville, KY and Arlington Park Racecourse in Arlington Heights, IL; two racino properties, Calder Race Course in Miami Gardens, FL and Fair Grounds Race Course in New Orleans, LA; three stand-alone casinos, Harlow's Casino in Greenville, Mississippi, Riverwalk Casino Hotel in Vicksburg, Mississippi, and Oxford Casino in Oxford, Maine; a pari-mutuel wagering website, TwinSpires; and a casual gaming company, Big Fish Games. The company also owns a 50% stake in Miami Valley Gaming, a racino in Lebanon, Ohio. We expect the company to generate 2015 revenue, EBITDA and EPS of $1.2 billion, $300 million and $5.00, respectively.

Summary and Opinion

We are initiating coverage on Churchill Downs with a Buy recommendation:

- Churchill's assets are under-appreciated as the company's other loss-making racetrack assets dilute the high-quality cash flow of the Kentucky Derby. Around 75% of the Kentucky Derby's EBITDA comes from sources with high visibility and pricing power such as TV licenses, sponsorship agreements, and contracted premium seating.
- Big Fish is a growing business (1Q'15 bookings up 40%) with a sticky social casino product that can eventually be used to cross-market with CHDN's casino properties. Management will not move to glean cost synergies until later this year, so healthy segment margins of ~22% could see upside in 2016.
- Potential upside in shares from multiple sources:
  - Slots addition at Arlington Park provides $6-28 of upside to shares if Illinois gaming expansion bill is passed.
  - Slots addition at Churchill Downs provides $12-15 of upside to shares if Kentucky legalizes.
- While too small to convert to a REIT, Churchill is an attractive candidate for a merger with another regional gaming company with the intention to gain scale, before spinning-off real estate assets into a REIT. We estimate that a merger and split with Buy-rated Boyd could create a proforma value of $225 per share and that a similar transaction with Buy-rated Isle of Capri could create a proforma value of $200 per share.
- We project 2016 EBITDA of $330 million and a PMV of $165 per share. Given the upside potential of a REIT conversion and the fact that the stock is trading at a 21% discount to our 2016P PMV of $165 per share, we recommend buying the shares. Shares currently trade at 9.9x and 9.0x our 2015 and 2016 EBITDA, respectively.

Table 1

($ in millions, except per share data)

Churchill Downs Projections

2012A – 2019P

FYE 12/31	2012A	2013A	2014A	2015E	2016P	2017P	2018P	2019P
Churchill Down	$732	$780	$799	$790	$810	$820	$830	$840
Big Fish			14	390	460	530	590	660
Total Revenue	732	780	813	1,180	1,270	1,350	1,420	1,500
% Growth	*5%*	*6%*	*4%*	*45%*	*8%*	*6%*	*5%*	*6%*
Churchill Down	$151	$174	$198	$210	$217	$222	$227	$232
Big Fish			4	85	110	130	155	180
Total EBITDA	151	174	202	300	330	350	380	410
% Margin	*20.7%*	*22.4%*	*24.8%*	*25.4%*	*26.0%*	*25.9%*	*26.8%*	*27.3%*
% Growth	*7%*	*15%*	*16%*	*49%*	*10%*	*6%*	*9%*	*8%*
Earnings Per Share	$3.17	$3.52	$3.75	$5.00	$5.90	$6.70	$7.50	$8.40
% Growth	*19%*	*11%*	*7%*	*33%*	*18%*	*14%*	*12%*	*12%*
Maintinance Capex	17	15	20	30	30	30	35	35
EBITDA Multiple	19.6x	17.0x	14.7x	9.9x	9.0x	8.5x	7.8x	7.2x
P/E Multiple	41.0	36.9	34.6	26.0	22.0	19.4	17.3	15.5

Source: Company Reports, Gabelli & Company estimates

Company Background

Churchill Downs Inc. operated in a variety of forms from the opening of the historic Churchill Downs track in 1875 until the late 1990s when the company began acquiring additional properties. Those acquisitions included Hooiser Park in 1994, Ellis Park in 1998, Calder and Hollywood Park racetracks in 1999, Arlington racetrack in 2000, and Fair Grounds Race Course in 2004. The company sold Hollywood, Ellis, and Hoosier in 2005, 2006, and 2007, respectively. Churchill Downs has been home to the Kentucky Derby from its opening to its 141st running this year. In 2007, the company launched TwinSpires, an online wagering business, and added a casino facility to its Fair Grounds property. A casino was added to Calder in 2010. That same year, the company purchased Harlow's Casino located in Greenville, Mississippi for $138 million. In 2012, the company acquired Riverwalk Casino in Vicksburg, MS and as part of a joint venture with Delaware North Companies, purchased Lebanon Raceway in Lebanon, OH. The 50/50 venture transferred the license to build a new $215 million racino property called Miami Valley Gaming. In 2013, the company purchased Oxford Casino, one of Maine's two casinos, for $160 million. Big Fish Games, a social casino and casual free-to-play game developer was purchased for upfront consideration of $485 million with an earnout payment of $350 million based on certain goals. Former Arlington Park owner and Chicago-based investor Richard Duchossois owns 17% stake in the company.

Table 2 **CHDN Company Summary**

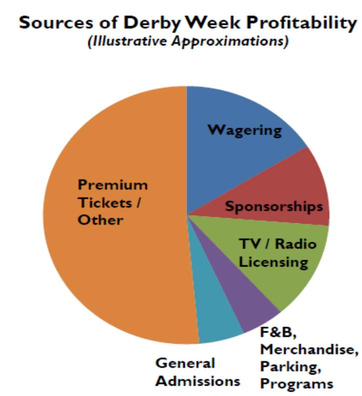
Property	Location	Opened / Acquired	Property Type	Slot Machines	Tables Games
Physical Properties:					
Churchill Downs	Louisville, KY	1875	Throughbred Track	-	-
Arlington International	Arlington Heights, IL	2000	Throughbred Track	-	-
Fair Grounds	New Orleans, LA	2004	Throughbred Racino	620	-
Video Services	Louisana	2004	OTB w/ Slots	710	0
Calder Race Course	Miami Gardens, FL	2010	Throughbred Racino	1,130	-
Harlow's Casino	Greenville, MS	2010	Casino w/ Hotel	750	13
Riverwalk Casino	Vicksburg, MS	2012	Casino w/ Hotel	690	15
Miami Valley 50% JV	Lebanon, OH	2012	Harness Racino	1,580	-
Oxford Casino	Oxford, ME	2013	Casino	860	26
Total				**6,340**	**54**
Digital Properties:					
TwinSpires	Lexington, KY	2007	Online Wagering		
Big Fish Games	Seattle, WA	2014	Social Gaming		

Source: Company Reports

Kentucky Derby

We contend that the value of the Kentucky Derby property is not properly reflected in Churchill's current price. Unlike the rest of the company's racetrack assets, the Churchill Downs racetrack generates a substantial profit, around $75 million of EBITDA in 2014 according to our estimates. Moreover, the profit generated from the Kentucky Derby is of very high-quality with ~75% of it coming from sponsorships, TV and radio licensing, and premium tickets all of which are under contract or purchased in advance. For example, the track's 77 permanent suites are sold on three to seven year contracts and a new Kentucky Derby TV deal with NBC was signed last year through 2025. With regard to momentum, this year's event attracted 16 million viewers, up 4% from last year and its best overnight TV rating in twenty-three years. CHDN expects continued growth resulting from TV licensing price escalators and investment in new premium seating. Churchill's three other racetracks operate at losses, a function of the thoroughbred racing's secular decline. We content that valuation methods, which apply multiples to the racing segment as a whole, understate the earnings power and quality of the Kentucky Derby asset.

Exhibit 1



Source: Company Presentation

Slot Expansion

Churchill operates its racetracks so it can operate profitable casino facilities adjacent to them, as the company does at its Fair Grounds and Calder tracks. Management intends to do the same at Arlington Park if a gaming expansion bill is passed by the Illinois legislature. If legislation does not pass, it will seek to monetize Arlington's real estate by other means. Churchill has also pushed for the addition of slot machines at racetracks in Kentucky, a change we view as unlikely near term.

Illinois Gaming Expansion

- Rep. Bob Rita driving Assembly push; Sen. Terry Link driving Senate effort.
- Public pension shortfalls and budget deficits are driving the initiatives.
- Gaming expansion bills were passed in prior years, but were twice vetoed by former governor Pat Quinn; new governor Bruce Ratner is open to expansion.

Kentucky Gaming Expansion

- Churchill Downs management has been a driving force behind the effort to legalize slots at existing Kentucky racetracks.
- Pressure comes from the fact that in 2010, Kentuckians spent ~$450 million gambling in neighboring states according to Spectrum Gaming Group.
- No current bill of initiative is pending, thus likely not a near-term catalyst.

Table 3 **Slot Expansion Scenario Analysis**

	Arlington Park, IL		Churchill Downs, KY	
	Low	High	Low	High
Win per day	$ 250	$ 500	$ 200	$ 400
Machines	1,200	1,200	2,750	2,750
Gross Gaming Revenue	**110**	**219**	**201**	**402**
Margin	30%	37%	20%	28%
EBITDA	**33**	**81**	**40**	**111**
Multiple	8.0x	8.0x	8.0x	8.0x
Gross Value	**264**	**649**	**323**	**885**
Total Machine Cost	(20)	(20)	(45)	(45)
Licensing Fee	(30)	(30)	(55)	(55)
Building Cap-Ex	(100)	(100)	(150)	(150)
Total Cap-Ex	(150)	(150)	(250)	(250)
Net Value	**114**	**498**	**73**	**636**
Shares	17.58	17.58	17.58	17.58
Value per share	**$ 6.50**	**$ 28.50**	**$ 4.00**	**$ 36.00**

Source: Spectrum Gaming Group, Company Reports, Gabelli & Company Estimates

Merger + REIT Conversion Analysis

The case for a Churchill Downs merger-REIT conversion is significant as the company's low leverage profile can be used by another company to de-leverage prior to a conversion, while the company's high quality Derby and social gaming assets can be used to make a compelling operating company. In our merger-REIT conversion scenario, we assume that Churchill would have quite a bit of negotiating power as it is the quality of their assets and their low leverage that make these transactions possible.

We estimate that BYD could offer CHDN 11 shares for 1 with a proforma valuation of $135 per share, a 10% premium to the current price; Boyd would still have upside of 40% once the split is complete, while CHDN would have 85% upside from current levels.

Churchill could also acquire an equally sized competitor such as Isle of Capri and then split off the casino assets into a REIT. We estimate that CHDN could offer ISLE 0.13 shares for 1 with a proforma valuation of $18 per share, essentially at the current price; Isle would still have upside of 41% once the split is complete, while CHDN would have 57% upside. We would like to reiterate that we use these scenarios to highlight the value of the assets and that their execution is highly complex.

Table 4 **Hypothetical CHDN-ISLE Merger & REIT Conversion**

Sources		Uses	
Debt Addition	$479	Fees	$100
Pre-Split Equity Raise	-	Debt Paydown	-
PropCo Equity Raise	-	Debt Breakage	-
Year's CF	394	Share Repo	773
Total	**873**	**Total**	**873**

Figures in millions	CHDN	+	ISLE	+	Adjust	NewCo.	OpCo	PropCo	+	TRS	=	REIT	Combined	*$ Δ*	*% Return*
Asset EBITDA	$208		$243		$10	$461	$401	-		$51		$51	$451	(10)	
Lease Payment	-		-		-	-	(200)	200		-		200	-	-	
Kentucky Derby Licensing	30		-		-	30	30	-		-		-	30	-	
Big Fish EBITDA	110		-		-	110	110	-		-		-	110	-	
Corporate Expense	(8)		(27)		-	(35)	(33)	(10)		-		(10)	(43)	*(8)*	
EBITDA	**340**		**216**		**10**	**567**	**307**	**190**		**51**		**241**	**548**	***(18)***	
Multiple	8.7x		7.6x		-	8.5x	8.0x	13.0x		9.0x		12.2x	9.8x	*1.3x*	
Enterprise Value	**2,971**		**1,652**		-	**4,815**	**2,457**	**2,475**		**456**		**2,931**	**5,389**	***+ 573***	***12%***
Net Debt	650		885		50	1,585	922	1,143				1,143	2,064	*+ 479*	
Leverage Ratio	*1.9x*		*4.1x*		-	*2.8x*	*3.0x*	*6.0x*				*4.7x*	*3.8x*	*1.0x*	
Equity	**319**		**767**		-	**3,230**	**1,536**					**1,789**	**3,325**	***+ 94***	
Common Shares	17.9		40.8		5.3	23.2	12.1					23.2			
Total Shares	**17.9**		**40.8**		-	**23.2**	**12.1**					**23.2**			
Per share price	**$129.95**		**$18.79**			**$139.50**	**$127.25**					**$77.25**	**$204.50**	***+$65.00***	***57%***

a) Balance sheet data are our year end 2015 estimates
b) Market data as of close on 7/15/2015

Source: Company Reports, Gabelli & Company Estimates

Valuation

We recommend purchasing Churchill's shares. We value the company within the context of the potential for a merger-REIT conversion transaction and possible upside from gaming expansions in Illinois and Kentucky. Our 2015 and 2016 Private Market Values for Churchill are $147 and $165 per share, respectively. Our PMVs assume EBITDA multiples of 14.0x for the Kentucky Derby, 8.0x for corporate expense and the remaining tracks/casinos, and 9.0x for the TwinSpire and Big Fish businesses. At our 2015 PMV of $147 per share, Churchill is valued at $3.0 billion, or 14.4x trailing EBITDA of $212 million.

CHDN Private Market Value Analysis
2012A-2019P

Table 5

FYE 12/31	2012A	2013A	2014A	2015E	2016P	2017P	2018P	2019P	CAGR 14-19P
Kentucky Derby[a]									
Revenue	$124	$133	$143	$152	$159	$167	$172	$177	4%
EBITDA	61	66	77	83	89	95	98	102	6%
Valuation Multiple	14.0x	14.0x	14.0x	14.0x	14.0x	14.0x	14.0x	14.0x	
Kentucky Derby PMV	**$851**	**$923**	**$1,079**	**$1,163**	**$1,242**	**$1,326**	**$1,379**	**$1,433**	
Casinos & Racing									
Revenue	$401	$439	$447	$430	$431	$432	$434	$436	(1%)
EBITDA	58	65	74	82	99	100	101	103	7%
Valuation Multiple	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	
Casinos & Racing PMV	**$463**	**$518**	**$591**	**$660**	**$789**	**$800**	**$811**	**$821**	
Big Fish & TwinSpire									
Revenue	$183	$185	$204	$584	$660	$734	$798	$872	34%
EBITDA	40	48	49	133	161	182	209	236	37%
Valuation Multiple	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	
Big Fish & TwinSpire PMV	**$363**	**$434**	**$442**	**$1,200**	**$1,446**	**$1,640**	**$1,880**	**$2,120**	
Corporate Expense (at 8.0x)				**(61)**	**(62)**	**(62)**	**(63)**	**(64)**	
Total Private Market Value				**$2,962**	**$3,416**	**$3,703**	**$4,006**	**$4,310**	
Less: Net (Debt)/Cash				(496)	(615)	(346)	(25)	325	
Plus: Miami Valley Equity Interest[b]				111	124	134	145	156	
Plus: Equity Investments[c]				31	31	31	31	31	
Less: Net Option Payments				(31)	(34)	(34)	(47)	(55)	
Equity Private Market Value				**$2,577**	**$2,922**	**$3,488**	**$4,109**	**$4,767**	
Shares Outstanding				17.6	17.8	17.9	18.1	18.3	
PMV per share				**$147**	**$165**	**$195**	**$227**	**$261**	
Current Market - Discount to PMV				*11%*	*21%*	*33%*	*43%*	*50%*	

Notes:
a) Based on Gabelli & Co Estimates
b) Valued at 10.0x EBIT less net debt

Source: Company Reports, Gabelli & Company estimates

<u>Other Companies Mentioned:</u>

Boyd Gaming	(BYD – NYSE)
Isle of Capri Casinos	(ISLE – NADSDAQ)

I, ***Adam Trivison,*** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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<u>Important Disclosures</u>

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Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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As of June 30, 2015, our affiliates beneficially own on behalf of their investment advisory clients or otherwise approximately 5.86% of Churchill Downs, 3.71% of Boyd Gaming and less than 1% of Isle of Capri Casinos. Because the portfolio managers at our affiliates make individual investment decisions with respect to the client accounts they manage, these accounts may have transactions inconsistent with the recommendations in this report. These portfolio managers may know the substance of our research reports prior to their publication as a result of joint participation in research meetings or otherwise. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. The analyst, who wrote this report, or members of his household, owns no shares of the above mentioned companies.

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Gabelli & Company

Isle of Capri Casinos Inc. (ISLE - $18.79 - NASDAQ) Slots of Potential - Buy

Year	EPS	P/E	PMV	
2017P	$1.10	17.1x	$28	Dividend: None Current Return: Nil
2016P	1.00	18.8	25	Shares O/S: 40.0 million
2015E	0.85	22.1	23	52-Week Range: $21.17 - $6.25
2014A	0.13	--	--	

COMPANY OVERVIEW

St. Louis, MO-based Isle of Capri Casinos is an owner and operator of fifteen gaming properties located in Colorado, Florida, Iowa, Louisiana, Mississippi, Missouri, and Pennsylvania. The company operates their casino assets under the Isle of Capri and Lady Luck brands. Isle of Capri's Midwest and Gulf Coast casino assets are, or once were, riverboat casinos, while its Florida property is a harness racetrack and casino. We expect the company to generate 2015 revenue, adjusted EBITDA and EPS of $1.0 billion, $210 million and $0.85, respectively.

Summary and Opinion

We are initiating coverage on Isle of Capri with a Buy recommendation:

- With a mid-to-low end customer base, Isle is well positioned to benefit from lower gas prices and rising wages.
- Isle management's efforts to improve operational performance have driven cost savings at both the operating and corporate levels. With more work to be done, we expect the company to continue to drive EBITDA growth. Management's new attitudes regarding capital spending and operational quality may also enable the company to narrow its persistent valuation gap relative to its peers.
- Management has been candid about its desire to sell the company. With little competitive risk and room to improve financial performance, we believe the company could be an acquisition target for a gaming company looking to execute a REIT conversion. We estimate that merger-REIT conversion transactions with buy-rate Boyd Gaming and Churchill Downs could generate upside for Isle shares of 37% and 40%, respectively.
- While Isle's real estate is a potential target for Gaming and Leisure Properties, Isle management has expressed concern about the size of a resulting OpCo, which would have a market cap of less than $400 million by our estimates. Although, if GLPI is able to close on its acquisition of Pinnacle's real estate assets, it could potentially buy Isle and find an operator at a later time (as it had intended to with the Meadows' acquisition), without tripping the 25% level of the taxable REIT subsidiary.
- We project 2016 EBITDA of $215 million and PMV of $25 per share. With recognition that the company is a likely acquisition target and that the stock is currently trading at a 16% discount to our 2015 PMV, we recommend buying ISLE stock. The shares currently trade at 8.0x and 7.8x our 2015 and 2016 EBITDA estimates, respectively.

Table 1 **Isle of Capri Projections**
($ in millions, except per share data) **2012A – 2019P**

FYE 4/30	2012A	2013A	2014A	2015E	2016P	2017P	2018P	2019P
Revenue	$923	$955	$996	$1,020	$1,030	$1,040	$1,060	$1,070
% Growth	*(6%)*	*3%*	*4%*	*2%*	*1%*	*1%*	*2%*	*1%*
EBITDA	176	173	200	210	215	225	230	235
% Margin	*19.1%*	*18.2%*	*20.1%*	*20.6%*	*20.9%*	*21.6%*	*21.7%*	*22.0%*
% Growth	*(12%)*	*(1%)*	*15%*	*5%*	*2%*	*5%*	*2%*	*2%*
Earnings Per Share	$0.23	($0.06)	$0.42	$0.85	$1.00	$1.10	$1.20	$1.30
% Growth	*NA*	*NA*	*NA*	*NA*	*18%*	*10%*	*9%*	*8%*
Maintinance Capex	38	47	38	90	60	40	40	40
EBITDA Multiple	9.5x	9.7x	8.4x	8.0x	7.8x	7.4x	7.3x	7.1x
P/E Multiple	NA	NA	NA	22.1	18.8	17.1	15.7	14.5

Source: Company Reports, Gabelli & Company estimates

Company Description

Founded by riverboat casino pioneer Bernie Goldstein, Isle of Capri Casinos was one of the first companies to take advantage of the wave of legalizations that took place across the Midwest and South during the late 1980s and early 1990s. In 1992, Isle was founded, listed on the NASDAQ, and opened its first riverboat in Biloxi, Mississippi. Over the next few years, the company opened three more riverboats, a land-based property in Blackhawk, Colorado, and a harness track in Pompano Beach, Florida. In March of 2000, Isle acquired Lady Luck Gaming for $400 million; four of the company's casinos came as a result of the purchase. In 2007, the company opened a casino at Pompano after gaming was expanded in Florida. Most recently, Isle opened Lady Luck Nemacolin in Pennsylvania. While Mr. Goldstein passed in 2009, his family still owns a 36% stake, most recently selling 1.5 million shares in the low $20s.

Table 2 **ISLE Company Summary**

Property	Opened / Acquired	Slot Machines	Tables Games	Hotel Rooms
Colorado:				
Isle Black Hawk	December 1998	1087	35	238
Lady Luck Black Hawk	April 2003	466	15	164
Iowa:				
Isle Bettendorf	March 2000	964	21	514
Lady Luck Marquette	March 2000	541	8	-
Isle Waterloo	June 2007	955	27	195
Mississippi:				
Isle of Capri Lula	March 2000	897	20	451
Isle of Capri Natchez	March 2000	520	6	141
Lady Luck Vicksburg	June 2010	596	8	-
Missouri:				
Isle of Capri Boonville	December 2001	935	20	140
Isle Cape Girardeau	October 2012	937	24	-
Lady Luck Caruthersville	June 2007	544	11	-
Isle of Capri Kansas City	June 2000	1,015	18	-
Isle Pompano Park (FL)	April 2007	1,458	38	-
Isle of Capri Lake Charles (LA)	July 1995	1,175	46	493
Lady Luck Nemacolin (PA)	July 2013	596	29	-
Company Total		**12,686**	**326**	**2,336**

Source: Company Reports

Turnaround Efforts

After discussions with both corporate and operating-level leadership, we believe that the changes management has been driving over the past couple years are more substantial than just cost cuts. The company's culture has changed in terms of:

- Cost Discipline – Management has instituted a culture of cost awareness as functions have been consolidated, processes scrutinized, financing costs reduced, and middle management removed at both the corporate and property-level.
- Marketing and Customer Retention – Brought in an entirely new marketing organization that is leveraging analytics to focus on ROI positive marketing initiatives versus the prior practice of over-marketing with low visibility on outcome.
- Capital Spending – No growth for growth's sake. Capital spending decisions are focused on low risk, high IRR projects. Facilities have been modernized and competitive position improved. Management is not afraid to shed low-return assets.

As a result, the company has seen improved performance on both top and bottom line performance:

- Last quarter, two-thirds of Isle's casinos saw share gains with total revenue up more than 6% in the last six months.
- In the fiscal year ending April 2015, EBITDA margin increased to 20.1%, up nearly 200 bps versus the prior year.

Merger + REIT Conversion Analysis

We view Isle of Capri as a possible acquisition target for another gaming company looking to execute a REIT conversion. Isle's low competitive risk, moderate leverage profile and financial performance improvement potential, would allow a peer such as Boyd to reduce the size of the equity offering needed to execute the conversion. For a peer such as Churchill Downs, acquiring Isle would provide the scale and property diversification necessary to create a formidable PropCo.

We estimate that Boyd could offer Isle 1.25 shares for 1 at a proforma valuation of $19 per share, near the current price; Boyd would still have upside of 25% once the split is complete, while Isle would have 35% upside. The combination could create an issue in Iowa, where the combined OpCo would own 5 of 12 casinos.

With regards to a merger with Churchill, we estimate that the company could offer Isle 0.13 CHDN shares for 1 with a proforma valuation of $18 per share, essentially at the current price, however Isle would still have upside of 40% once the split is complete, while CHDN would have 60% upside. Although, we should note that both have properties in Vicksburg, MS and they could be forced to dispose of one of the properties.

Table 3 **Hypothetical ISLE-BYD Merger & REIT Conversion**

Sources		Uses	
Debt Addition	-	Fees	$100
PropCo Equity Raise	698	Debt Paydown	1,084
Year's CF	594	Debt Breakage	108
Total	**1,292**	**Total**	**1,292**

Figures in millions	BYD	+ ISLE	+ Adjust	Combined Co.	OpCo	PropCo	+ TRS	= REIT	Combined	*$ Δ*	*% Return*
Asset EBITDA	$656	$243	$25	$925	$835	-	$90	$90	$925	-	
Lease Payment	-	-	-	-	(417)	417	-	417	-	-	
Corporate Expense	(63)	(27)	-	(90)	(85)	(40)	-	(40)	(125)	*(36)*	
EBITDA	**594**	**216**	**25**	**835**	**332**	**377**	**90**	**467**	**799**	***(36)***	
Multiple	8.6x	7.7x	-	8.5x	6.5x	13.0x	9.0x	12.2x	9.8x	*1.3x*	
Enterprise Value	**5,100**	**1,655**	-	**7,097**	**2,159**	**4,905**	**810**	**5,715**	**7,874**	***+ 777***	
Net Debt	3,699	880	50	4,629	996	2,264	285	2,549	3,546	*(1,084)*	
Leverage Ratio	*6.2x*	*4.1x*	-	*5.5x*	*3.0x*	*6.0x*	*3.2x*	*5.5x*	*4.4x*	*-1.1x*	
Equity	**1,818**	**766**	-	**2,467**	**1,162**			**3,166**	**4,328**	***+ 1,861***	
Common Shares	110	41	51	161	161			161			
PropCo New Equity Shares	-	-	-	-	50			50			
Total Shares	**110**	**41**	-	**161**	**211**			**211**			
Per share price	**$16.47**	**$18.79**		**$15.25**	**$5.50**			**$15.00**	**$20.50**	***+$5.30***	***34%***

a) Balance sheet data are our year end 2015 estimates
b) Market data as of close on 7/14/2015

Source: Company Reports, Gabelli & Co Estimates

Asset Sale

We believe that Isle's real estate is a potential target for Gaming and Leisure Properties or any future gaming REIT. However, Isle's management has expressed concern about the size of the resulting operating company, which would have a market cap of less than $400 million by our estimates. Moreover, we believe that a potential three-party transaction, with GLPI purchasing the real estate and another gaming company purchasing the operations, may be too difficult to execute. We contend that, assuming GLPI is able to close on its acquisition of Pinnacle's real estate assets; GLPI could potentially buy Isle completely. GLPI could then find an operator to take over at a later time without tripping the 25% level in its taxable REIT subsidiary. Note that the transaction described above is what GLPI had intended to do with the Meadows' acquisition. We estimate that GLPI could pay up to 9.0x our 2016 EBITDA estimate or ~$25 per share for Isle and still have the deal be 4% accretive in the first year, assuming that GLPI can sell the operations/licenses to another party at 6.0x EBITDA. The deal's accretion would increase 1-2% as escalators increase rents in future years, assuming financing is fixed. Given the implied accretion of GLPI's recent increased bid for Pinnacle's assets, we view a 9.0x acquisition of ISLE as a possible catalyst for shares.

Table 4 **GLPI-ISLE Accretion Analysis**

Purchase Multiple	**8.0x**	**9.0x**	**10.0x**
Isle 2016P EBITDA	215	215	215
Purchase Price	1,720	1,935	2,150
Isle 2016P Net Debt	(930)	(930)	(930)
Equity Value	790	1,005	1,220
Isle Value Per Share	**$19.50**	**$24.75**	**$30.25**
GLPI Accretion:			
Implied Operator's Multiple	6.0x	6.0x	6.0x
Implied Real Estate Multiple	9.6x	11.3x	13.0x
Rent Payment	125	125	125
Equity 50%	600	708	815
Incremental Shares @ $36	16.7	19.7	22.6
Debt 50%	600	708	815
Incremental Interest @ 6.0%	36	42	49
Transaction AFFO	89	83	76
2016 AFFO Estimate	600	600	600
Pro Forma AFFO	**689**	**683**	**676**
Pro Forma Diluted Shares	221.7	224.7	227.6
Pre-Deal 2016E AFFO per share	$2.93	$2.93	$2.93
Post-Deal AFFO per share	$3.11	$3.04	$2.97
AFFO per share Accretion	**$0.18**	**$0.11**	**$0.04**
% accretion	***6.2%***	***3.8%***	***1.5%***

Source: Company Reports, Gabelli & Co Estimates

Valuation

We recommend purchasing ISLE shares and view GLPI's recently increased bid for Pinnacle at 11.0x forward EBITDA and the possibility of a merger with a peer seeking to convert to a REIT as supportive of valuation. Our 2015 and 2016 Private Market Values for Isle are $23 and $25 per share, respectively. Our PMVs assume EBITDA multiples of 8.0x for the Midwest, Colorado and Florida-based properties and 7.0x for the Southern properties with corporate expenses excluded from the calculation. At our 2015 PMV of $23 per share, Isle is valued at $1.9 billion, or 9.3x trailing EBITDA of $200 million.

ISLE Private Market Value Analysis
2012A-2019P

Table 5

FYE 12/31	2012A	2013A	2014A	2015E	2016P	2017P	2018P	2019P	CAGR 14A-19
Midwest Properties									
Revenue	$451	$437	$462	$478	$485	$491	$497	$502	2%
EBITDA (margin)	118	103	115	124	128	132	135	137	4%
Valuation Multiple	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	
Private Market Value	**$940**	**$824**	**$918**	**$992**	**$1,025**	**$1,055**	**$1,078**	**$1,099**	
Southern Properties									
Revenue	$236	$231	$231	$226	$224	$227	$229	$232	0%
EBITDA (margin)	46	33	37	36	36	37	39	40	2%
Valuation Multiple	7.0x	7.0x	7.0x	7.0x	7.0x	7.0x	7.0x	7.0x	
Private Market Value	**$322**	**$231**	**$258**	**$252**	**$251**	**$262**	**$270**	**$278**	
Black Hawk & Pompano									
Revenue	$277	$286	$303	$313	$319	$326	$331	$336	2%
EBITDA (margin)	56	62	72	77	79	82	85	88	4%
Valuation Multiple	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	
Private Market Value	**$445**	**$496**	**$577**	**$613**	**$634**	**$659**	**$680**	**$701**	
Total Private Market Value				**1,857**	**1,910**	**1,977**	**2,028**	**2,077**	
Less: Net Debt				(946)	(885)	(818)	(747)	(672)	
Add: PV of NOL DTA[a]				32	19	-	-	-	
Less: Options Payments				(14)	(17)	(20)	(23)	(27)	
Equity Private Market Value				**$905**	**$1,000**	**$1,111**	**$1,229**	**$1,346**	
Shares Outstanding				40.2	40.5	40.7	40.9	41.1	
PMV per share				**$23**	**$25**	**$28**	**$30**	**$33**	
Current Market - Discount to PMV				*16%*	*23%*	*32%*	*37%*	*43%*	

Notes:

a) NOL tax benefit is discounted at 10% rate

Source: Company Reports, Gabelli & Company Estimates

Other Companies Mentioned:

Boyd Gaming	(BYD – NASDAQ)
Churchill Downs	(CHDN – ")
Pinnacle Entertainment	(PNK – NYSE)

I***, Adam Trivison,*** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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As of June 30, 2015, our affiliates beneficially own on behalf of their investment advisory clients or otherwise approximately 5.86% of Churchill Downs, 3.71% of Boyd Gaming, 1.14% of Pinnacle Entertainment and less than 1% of Isle of Capri Casinos. Because the portfolio managers at our affiliates make individual investment decisions with respect to the client accounts they manage, these accounts may have transactions inconsistent with the recommendations in this report. These portfolio managers may know the substance of our research reports prior to their publication as a result of joint participation in research meetings or otherwise. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. The analyst, who wrote this report, or members of his household, owns no shares of the above mentioned companies.

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July 14, 2015

Gabelli & Company

MGM Resorts International (MGM - $18.85 - NYSE) A Good Bet - Buy

Year	EPS	P/E	PMV	
2017P	$1.05	10.7x	$28	Dividend: None Current Return: Nil
2016P	0.70	16.1	25	Shares O/S: 563.0 million
2015E	0.30	12.5	24	52-Week Range: $27.64 - $17.25
2014A	(0.67)	--	--	

COMPANY OVERVIEW

Las Vegas-based MGM Resorts owns and operates fifteen casino resorts including the Bellagio, MGM Grand Las Vegas, The Mirage, Mandalay Bay, Luxor, New York-New York, Monte Carlo, and Excalibur, MGM also owns MGM Grand Detroit; 51% of MGM China Holdings Limited; a 50% interest in Borgata Hotel & Casino in Atlantic City, NJ; and 50% of CityCenter, a five property complex on the Las Vegas Strip. MGM Resorts is currently developing two regional US properties, MGM National Harbor in Maryland and MGM Springfield in southwest Massachusetts. Meanwhile, MGM China is developing a second Macau-based casino, MGM Cotai. We expect the company to generate ex-Macau 2015 revenue, EBITDA and EPS of $6.5 billion, $1.35 billion and $0.30, respectively.

Summary and Opinion

We are initiating coverage on MGM Resorts with a Buy recommendation:

- Negative news flow from Macau has been the major force behind MGM's poor stock price performance over the past year. While we are not willing to call the bottom in Macau, MGM Resort's exposure to their Macau assets is small enough for us to be comfortable buying shares.
- The rest of MGM's business is levered to assets that are set to perform well over the next few years including its Las Vegas Strip properties, City Center, MGM Detroit and the Borgata in Atlantic City, which is substantially healthier after last year's closure of four casinos.
- The company's regional developments in Maryland and Massachusetts, which are not accounted for in the next two year's estimates, both represent significant value for shareholders. Moreover, MGM's government relations efforts give it an advantage in potential licensing scenarios in Atlanta, Japan, and other prospective gaming regions.
- While activist fund Land and Buildings' proposal for an REIT conversion fell flat, it did force management to actively explore restructuring options. We contend that due to high leverage and the small difference between the trading multiples of Las Vegas Strip assets and triple-net REITs, a REIT conversion is tough to justify. We see the sale of non-core regional assets and joint venture ownership stakes as a better route to unlocking value.
- We project 2016 EBITDA ex-joint ventures of $1.55 billion and PMV of $25 per share. Given the upside potential of asset sales and the fact that the stock is trading at a 23% discount to our 2016P PMV, we recommend buying the shares. Shares currently trade at 12.5x and 9.7x our 2015 and 2016 ex-Macau EBITDA estimates, respectively.

Table 1 **MGM Resorts Projections**

($ in millions, except per share data) **2012A – 2019P**

FYE 12/31	2012A	2013A	2014A	2015E	2016P	2017P	2018P	2019P
Revenue	$5,943	$6,053	$6,342	$6,470	$7,230	$7,560	$8,000	$8,420
% Growth	*(7%)*	*2%*	*5%*	*2%*	*12%*	*5%*	*6%*	*5%*
EBITDA	1,091	1,248	1,314	1,350	1,550	1,740	1,890	2,020
% Margin	*18.4%*	*20.6%*	*20.7%*	*20.9%*	*21.4%*	*23.0%*	*23.6%*	*24.0%*
% Growth	*(2%)*	*14%*	*5%*	*3%*	*15%*	*12%*	*9%*	*7%*
Earnings Per Share	($0.27)	($0.13)	($0.67)	$0.30	$0.70	$1.05	$1.30	$1.55
% Growth	*NA*	*NA*	*NA*	*NA*	*133%*	*50%*	*24%*	*19%*
Maintinance Capex	367	374	381	370	420	510	570	590
EBITDA Multiple	15.5x	13.5x	12.8x	12.5x	10.9x	9.7x	8.9x	8.4x
P/E Multiple	NA	NA	NA	37.5	16.1	10.7	8.6	7.2

**Revenue and EBITDA figures exclude MGM China*
Source: Company data, Gabelli & Company estimates

Company Background

Founded in 1986 by casino icon Kirk Kerkorian, MGM Resorts International was a leading player in the mega-resort wave of the 1990s. The company opened the $1.0 billion MGM Grand in 1993, the $460 million New York-New York resort in 1997 and MGM Grand Detroit in 1999. In May 2000, MGM acquired Steve Wynn's Mirage Resorts for $6.4 billion, assuming control of 11 casinos and a 50% interest in Borgata resort. The company formed a 50/50 partnership with Pansy Ho, Stanley Ho's daughter, to develop a Macau-based casino in 2004; MGM Grand Macau opened in December of 2007. In April of 2005, MGM acquired Mandalay Resort Group for $7.9 billion, adding the Mandalay Bay and fourteen other properties to its portfolio. In 2007, Dubai World purchased a 9.5% stake in MGM and 50% of the company's $7.4 billion City Center development. In 2013, the company's HK-listed subsidiary, MGM China (1128-HK) began development of a second Macau property in Cotai; MGM Cotai is expected to open in late 2016. Also in 2013, MGM won approval for a $1.4 billion casino in National Harbor, a multi-use complex outside of Washington DC, expected to open in early 2016. MGM is also developing an $800 million casino in Springfield, MA, expected to open in late 2017. Just recently, founder and chairman Kirk Kerkorian passed; his 16% position will be liquidated in a controlled fashion.

Table 2 **MGM Company Summary**

Location	Opened / Acquired	Orgin	Slot Machines	Tables Games	Hotel Rooms
Las Vegas Properties:					
Mandalay Bay	2005	Mandalay	1,396	82	4,752
Luxor	2005	Mandalay	1,182	55	4,400
Excalibur	2005	Mandalay	1,421	53	3,981
Circus Circus Las Vegas	2005	Mandalay	1,400	47	3,755
Bellagio	2000	Mirage	1,895	132	3,933
The Mirage	2000	Mirage	1,686	91	3,044
Monte Carlo	2000	Mirage	1,319	63	2,992
New York-New York	1997	MGM	1,334	72	2,024
MGM Grand Las Vegas	1993	MGM	1,820	139	6,017
Las Vegas Total			**13,453**	**734**	**34,898**
Regional Properties:					
MGM Springfield	2017E	MGM	4,000	120	250
MGM National Harbor	2016E	MGM	3,600	140	300
Gold Strike (Tunica, MS)	2005	Mandalay	1,372	59	1,133
Beau Rivage (Biloxi, MS)	2000	Mirage	1,915	83	1,740
MGM Grand Detroit (Detroit, MI)	1999	MGM	3,856	92	400
Regionals Total			**14,743**	**494**	**3,823**
Joint Venture Properties:					
CityCenter 50% owned (Las Vegas, NV)	2009	MGM	1,969	122	5,816
MGM Macau 51% owned (Macau, China)	2007	MGM	1,197	423	582
Grand Victoria 50% owned (Elgin, IL)	2005	Mandalay	1,133	24	-
Borgata 50% owned (Atlantic City, NJ)	2003	Mirage	3,094	184	2,767
Joint Venture Total			**7,393**	**753**	**9,165**
Company Total			**35,589**	**1,981**	**47,886**

Source: Company Reports

Regional Developments

We estimate the MGM's new regional developments currently represent around $3.50 per share of value in our 2016 PMV of $23.50 per share. We are confident MGM's premium product will be able to steal and defend share in what are increasingly competitive markets. Earlier this year, we toured MGM Grand Detroit and met with the facility's CFO. The $800 million property, with its Vegas-like look and feel, is distinctly different from its two competitors, the $400 million Greektown and $825 million MotorCity Casino. The property has had a high-single-digit lead in market share (42% in 2014) for the past 10 years and operates at a notably higher EBITDA margin relative to its two competitors (27% versus 18% for both properties in 2014). We expect MGM to operate at a similar advantage in both the National Harbor, MD and Springfield, MA markets. We are especially positive on the National Harbor property as its addition to the complex creates critical mass with its neighbors, including the 2,000 room Gaylord National Resort aiding and benefiting from the presence of the new property. MGM Springfield has a much tougher competitive situation. The planned addition of three properties in New York, Wynn's resort in Boston metro, and a possible casino development in Hartford by Mohegan Sun and Foxwood's owners adds risk to the Springfield project. Thus, we model conservative returns from this property. Moreover, MGM's government relations' efforts give it an advantage in potential legalizations in Atlanta, Japan, and other jurisdictions.

At-Maturity Asset Performance

Table 3 **2020P Estimates**

	National Harbor	Springfield Mass
Daily Win / Slot	$480	$340
Daily Win / Table	$3,240	$2,260
Total Revenue	**$980mm**	**$660mm**
Property EBITDA	**$290mm**	**$120mm**
Margin	*30%*	*18%*
Investment Cap Ex	$1,400mm	$800mm
ROI	*21%*	*15%*

Source: Gabelli & Company estimates

Financial Engineering

While activist fund Land and Buildings proposal for an OpCo/PropCo split fell flat, it did focus the company on actively exploring potential restructuring options. We believe that because of a smaller delta between the trading multiples of Las Vegas Strip gaming companies (11x-12x) and triple net REITs (13-15x) as well as MGM's high debt load, a REIT conversion seems unlikely. We think it is more likely that the company opportunistically sells assets in order to hone its portfolio of properties. Potential transactions could include a sale-leaseback of its regional properties to GLPI. We also see a break-up of the City Center JV as a transaction that can unlock significant value. Based on a sum of the parts analysis, we argue that if City Center were to be broken up, it would likely fetch a valuation between $2.5 and $4.1 billion, which would represent $2.25 to $3.75 of per share value to shareholders. Moreover, in this scenario we think MGM would most likely buyout the other 50% of Aria and add it to its collection of wholly owned Strip properties. However, a transaction of this sort is dependent on the cooperation of Dubai World.

Table 4 **City Center Asset Valuation**

	Low	High
Aria:		
2016P EBITDA	$248	$248
Multiple	11.0x	14.0x
Aria Value	$2,730	$3,470
Mandarin Oriental:		
Rooms	392	392
Value per Key	$400k	$800k
MO Value	$160	$310
Vdara:		
Rooms	1,495	1,495
Value per Key	$250k	$500k
Vdara Value	$370	$750
Crystals:		
NOI	$47	$47
Cap Rate	6.0%	4.0%
Crystals Value	$780	$1,170
Total Value	**$4,040**	**$5,700**
Net Debt	($1,545)	($1,545)
Equity Value	**$2,500**	**$4,150**
MGM's Equity Value	**$1,250**	**$2,075**
Per Share	*$2.25*	*$3.75*

Source: Company Reports, Gabelli & Company estimates

Macau Exposure

MGM Resorts owns 3.8 million shares or 50% of Hong Kong-traded MGM China (2282-HK). With MGM China's shares trading at HK$17.30, the holding represents $4.3 billion of market value, or $7.60 of MGM's $18.88 of equity value per share. With such a large portion of the company's market cap exposed to the value of MGM China, a valuation of MGM requires a valuation of MGM China shares. We estimate MGM China will generate $390 million of EBITDA in 2015, down 54% from 2014 EBITDA of $850 million. Currently, the stock looks expensive, trading at 18.3x our 2015 estimate. But with an expectation that China's anti-corruption efforts begin to ease in 2016 and that the company is able to manage through a less-than-planned table allocation at MGM Cotai, we expect China to generate EBITDA of $435, $870, and $935 million in 2016, 2017, and 2018, respectively. We impute China per share value of $3, $4, $9 and $11, respectively, assigning a multiple 12.0x, in line with premium Las Vegas properties.

Table 5 **MGM China Valuation**

(Figures in $ millions, except per share)	2015E	2016P	2017P	2018P
MGM Resorts (Ex-China):				
Ex-MGM China Equity PMV	**8,894**	**9,613**	**11,222**	**13,216**
Shares Outstanding	563	564	566	567
PMV Per Share	**$ 16**	**$ 17**	**$ 20**	**$ 23**
MGM China:				
MGM Grand Macau	$410	$400	$300	$340
MGM Cotia	-	140	870	980
MGM China EBITDA	**410**	**540**	**1,170**	**1,320**
Multiple	12.0x	12.0x	12.0x	12.0x
MGM China PMV	**4,920**	**6,480**	**14,040**	**15,840**
Less: MGM China Net Debt	(1,102)	(2,073)	(1,352)	(604)
MGM China Equity PMV	**3,818**	**4,407**	**12,688**	**15,236**
MGM's Equity Allocation	1,947	2,248	6,471	7,770
China PMV Per MGM Share	**$ 3**	**$ 4**	**$ 11**	**$ 14**
Total PMV	**$ 19**	**$ 21**	**$ 31**	**$ 37**
Market Discount to PMV	*3%*	*10%*	*40%*	*49%*

Source: Gabelli and Company Estimates

Valuation

We contend that shares of MGM are very attractive at current levels. Based on our 2015 and 2016 Private Market Values for ex-Macau MGM equity of $16 and $17 per share, respectively, investors are getting the company's MGM China holdings for free. Our PMVs assume EBITDA multiples of 12.0x for Las Vegas properties (including the company's 50% stake in City Center), 9.0x for existing regional properties (including the company's 50% stake in Borgata), and a 10.0x multiple on at-maturity EBITDA for the company's projects in Maryland and Massachusetts. For the two regional developments, we assume they reach maturity in 2020. For prior periods, we discount the developments' values at a 10% rate. At our 2015 ex-Macau PMV of $16 per share, MGM is valued at $17.2 billion, or 13.0x trailing ex-Macau EBITDA of $1.3 billion.

MGM Private Market Value Analysis
2012A-2019P

Table 6

FYE 12/31	2012A	2013A	2014A	2015E	2016P	2017P	2018P	2019P	CAGR 14A-19P
Las Vegas Strip Properties									
Revenues	$4,744	$4,903	$5,192	$5,283	$5,386	$5,460	$5,537	$5,604	2%
EBITDA	1,046	1,179	1,263	1,296	1,354	1,395	1,439	1,474	3%
Valuation Multiple	11.0x	11.0x	11.0x	11.0x	11.0x	11.0x	11.0x	11.0x	
Private Market Value	**$11,509**	**$12,972**	**$13,895**	**$14,253**	**$14,891**	**$15,348**	**$15,830**	**$16,210**	
Existing Regional US Properties									
Revenues	$1,199	$1,150	$1,150	$1,189	$1,220	$1,248	$1,267	$1,279	2%
EBITDA	279	263	255	277	292	303	310	315	4%
Valuation Multiple	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	
Private Market Value	**$2,511**	**$2,370**	**$2,296**	**$2,491**	**$2,626**	**$2,726**	**$2,786**	**$2,832**	
New Regional US Properties									
Revenues				-	$628	$849	$1,197	$1,537	NA
EBITDA				-	111	226	307	378	NA
Valuation Multiple				-	25.6x	13.8x	11.0x	10.0x	
Private Market Value				**$2,582**	**$2,840**	**$3,124**	**$3,376**	**$3,780**	
Corporate Expense (at 8.0x)				**(2,147)**	**(2,167)**	**(2,187)**	**(2,207)**	**(2,228)**	
Enterprise Private Market Value				**17,179**	**18,191**	**19,011**	**19,785**	**20,595**	
Add: NPV of LV Arena JV Stake				82	90	99	109	120	
Add: City Center Equity Value (at 12x)				1,154	1,274	1,432	1,625	1,801	
Add: Borgata Equity Value (at 9x)				527	687	862	1,000	1,115	
Add: Development Land & Other JVs				246	253	261	269	277	
Less: Net Debt				(10,801)	(11,661)	(11,580)	(10,912)	(9,964)	
Less: Net Option Payments				(109)	(45)	(80)	(117)	(163)	
Equity Private Market Value				**8,894**	**9,613**	**11,222**	**13,216**	**15,532**	
Shares Outstanding				563	564	566	567	569	
PMV Per Share				**$16**	**$17**	**$20**	**$23**	**$27**	
Implied Market Discount to PMV				*30%*	*34%*	*44%*	*52%*	*59%*	
MGM China Market Price (at market)				HK$17.30	HK$17.30	HK$17.30	HK$17.30	HK$17.30	
Value to MGM Resorts (HK$mm)				33,527	33,527	33,527	33,527	33,527	
Value to MGM Resorts (US$mm)				4,322	4,322	4,322	4,322	4,322	
Per MGM Share				**$8**	**$8**	**$8**	**$8**	**$8**	
TOTAL PMV				**$24**	**$25**	**$28**	**$31**	**$35**	
Current Market - Discount to PMV				*20%*	*23%*	*31%*	*39%*	*46%*	

Source: Gabelli and Company Estimates

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