



## **Presentation Given by Robert Heller, CEO of Spectrum Gaming Capital, on May 27, 2015 to a VIP Dinner at the East Coast Gaming Congress**

### **The Future of Gaming in Atlantic City and the US**

The futurist, James Burke said: "To predict the future we must look to the past, because...there is nowhere else to look!"

So I looked back to 1931 when gaming was legalized in NV and tracked it to today, in an effort to see where it is going. I found four themes to follow:

- I. The industry has been tamed - It has moved from the "wilds" of the desert to our cities and into our homes.
- II. Gaming has matured and stabilized - Moving from a few states to very many and from the hands of entrepreneurs to institutions.
- III. It is global - Moving from the US to circle the globe like fast food; it is a big business.
- IV. There are exceptions to convenience gaming - From the sameness of regional gaming based on convenience, unique entertainment cities, Las Vegas and Macau, have emerged. Atlantic City has a chance to reach those same heights.

#### **I. Domestication: The "big bad wolf" is now a puppy dog**

1. Gaming began in a place of frontier justice where gamblers and prostitutes could practice their professions, legally. Forty years later, a cleaned up version of gaming moved to Atlantic City, a somewhat isolated town, down on its luck.
2. Twenty years later it came to the rivers in America's Heartland, floating on boats down the Mississippi River in Iowa, Indiana and Mississippi, but still in no one's backyard. Then it came inland to other towns down on their luck and away from population, such as Tunica, MS and Black Hawk, CO.
3. But the draw of tax revenues and developers' aspirations brought gaming ever closer to population centers. It came to major downtowns in New Orleans and Detroit. It proliferated in the suburbs around places like St. Louis and Kansas City.
4. Ultimately, it came to Philadelphia, New York, Cleveland and other populous cities. In 1990, the closest casino to a top ten city, as measured by population, was Atlantic City to Philadelphia, about 60 miles. Now five of the big ten cities have their own casinos, often Native American - New York, Philadelphia, Phoenix, San Diego and San Jose.
5. Wynn Resorts is developing a \$2B project just six miles from Boston. Paul Fireman's \$4B project proposed for Jersey City, is just 3 miles from Wall Street, right on the banks of the Hudson River, overlooking the Statue of Liberty. Spectrum Gaming Capital is proud to be Paul's development and financial advisor for this project.

6. Casinos are now everywhere. So what is the future? It is coming right into our homes. If you live in New Jersey and Delaware, it's already there, and in Nevada, one can play poker online.
7. Eventually big stakes poker will come to our living rooms too, we just need interstate compacting, which is in the works. Daily Fantasy Sports games are available online in most US states. Moreover, while Social casinos are just a simulated experience, it has grown substantially, such that in 2014, Caesars generated as much EBITDA from their Caesars Interactive subsidiary as from all three of Caesars AC properties combined, about \$180M.

(\$M)	Caesars	Caesars
	Interactive	AC Casinos (1)
	2014	2014
Revenue	\$587	\$943
EBITDA	\$177	\$180
Margin	30%	19%
(1) Includes Harrah's Marina, Bally's & Caesars		
<i>Source: Company Filings</i>		

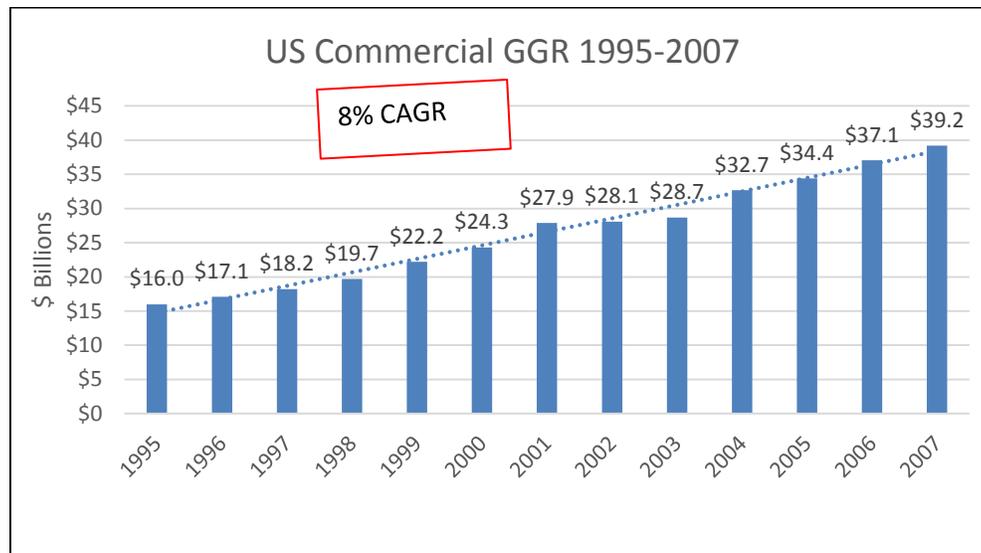
8. The "animal" that was gaming, has been tamed – it lives with us now and is becoming part of our household.

## II. Maturation, expansion and consolidation

9. The gaming business went from being a semi-criminal enterprise, to being the place where our pension funds now invest for a safe yield. From Las Vegas to Atlantic City, to the Heartland, the number of gaming markets grew, the number of casinos grew, and the number of players grew.
10. The passage of the Indian Gaming Regulatory Act in 1988 opened the door for tribal casinos, and by 2013, tribal gaming accounted for 42% of the total industry.

Gross Gaming Revenue (\$B)	Calendar Yr. 2013	
Commercial	\$38.7	58%
Native American	\$28.0	42%
Total	\$66.7	
<i>Source: American Gaming Association, NIGC</i>		

11. The massive expansion of gaming from 1995 to 2007 represented a 12 year compound growth rate of 8%, rising from \$16B in 1995 to almost \$40B in 2007.



12. But the industry now, just another form of entertainment, declined along with similar businesses in the 2008 recession. While it recovered from its 9% fall in 2007 and 2008, the growth rate since then, less than 1% per year, reflects a mature industry.



13. All this growth required a lot of capital. By the late 1960's, the plans for casinos in Las Vegas were so large, the mafia lenders couldn't keep up. Nevada changed the gaming laws in 1967 to allow public company ownership. Since then, the industry has been dominated by public companies accessing Wall Street capital to build ever-larger projects. Wall Street replaced the mafia as the primary funding source for casinos.
14. Like with most expanding businesses, gaming enterprises began to consolidate to gain operational and financial efficiency. Wall Street favors bigger enterprises. Larger amounts of capital are easier to raise because institutional investors dominate the scene, and those institutions need large, liquid deals so they can trade in and out of their

investments. Investors will pay for that liquidity by offering lower rates on loans, and lower expected returns on equity.

15. In 1995, when this was a \$16B industry, there were more at least 30 public gaming companies in the US. Now the industry is 2.5x the size, yet there are less than 20 public companies. Caesars, for example was made up of Harrahs, Park Place Entertainment, Ballys, Showboat, Harveys, and others. Penn National bought Hollywood, Argosy, and others; in fact, PENN only built 7 of its 26 casinos.

Public Company Landscape Today vs. 1995			
Ticker	Company Name	Today	1995
AGY	Argosy Casinos		✓
AZR	Aztar Corporation/Tropicana Ent.	✓	✓
ASCA	Ameristar Casinos		✓
BMTN	Boomtown		✓
BYD	Boyd Gaming	✓	✓
CMAG	Casino Magic		✓
CHDN	Churchill Downs	✓	✓
CNTY	Century Casinos	✓	✓
ERI	ElDorado Resorts	✓	
NYNY	Empire Resorts	✓	✓
FLL	Full House Resorts	✓	✓
GLPI	Gaming & Leisure Props.	✓	
HET	Harrah's Entertainment/Caesars	✓	✓
HWCC	Hollywood Casino Corp		✓
ISLE	Isle of Capri	✓	✓
KZL	Kerzner		✓
LACO	Lakes Entertainment	✓	
LUCK	Lady Luck		✓
LVS	Las Vegas Sands	✓	
CCE	Mandalay Bay		✓
MGM	MGM Resorts International	✓	✓
MIR	Mirage Resorts		✓
MCRI	Monarch Gaming	✓	✓
UWN	Nevada Gold	✓	✓
PPE	Park Place		
PENN	Penn National	✓	✓
PNK	Pinnacle Entertainment	✓	✓
PLAY	Players International		✓
PRMA	Primadonna Resorts		✓
RHC	Rio Hotel		✓
RIH	Resorts International		✓
SGM	Sahara Gaming/Archon	✓	✓
SBO	Showboat Inc		✓
STN	Station Casinos		✓
DJT	Trump		✓
WYNN	Wynn Resorts	✓	
<b>Total</b>		<b>19</b>	<b>30</b>

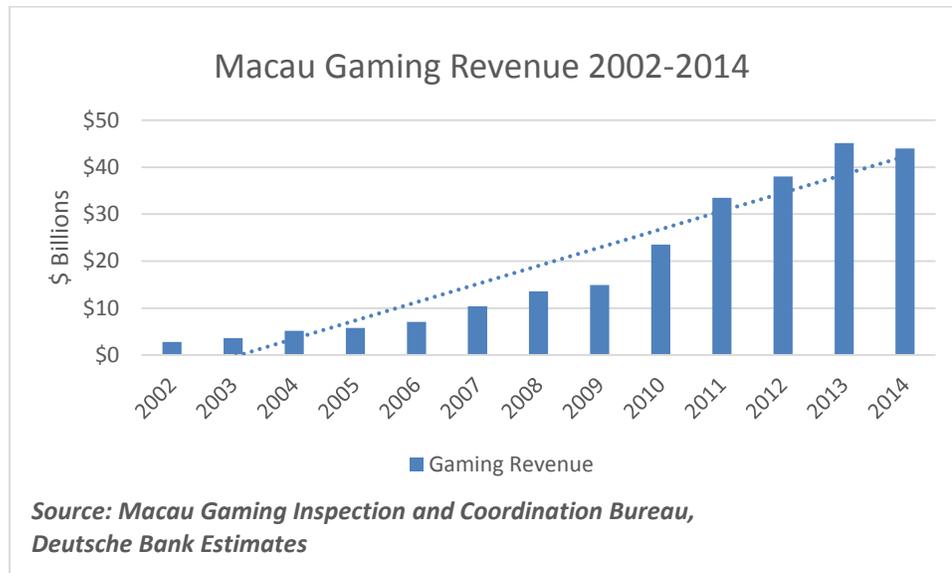
*Source: Y-Charts.com, SGC*

16. Today, public gaming companies own 90% of the 85,000 rooms on the LV Strip, with MGM and Caesars owning over 80% of that. In Atlantic City, only Resorts and Golden Nugget are private companies.
17. Where is this going in the future? We predict that within five years there will only be about 2/3rds of today's US public gaming companies left.
18. Consolidation in gaming has led to institutional ownership. Pension funds, mutual funds, and hedge funds have replaced the entrepreneurs that used to control gaming. Almost every public gaming company is majority owned by institutional investors.
19. Several gaming companies are even outright controlled by private equity and hedge funds. For example in Atlantic City, Apollo Global Management and TPG Capital own Caesars, and Icahn Enterprises owns Tropicana and Trump Resorts.
20. As the business moves from the hands of the entrepreneurs to institutional investors, the funding approach is changing. The institutions look at gaming as a real estate based entertainment business, much like hotels, ski resorts and theme parks. Part of the business' success comes from its real estate elements – the building and location - separate from the quality of the operation.
21. So why not split off the real estate element to a separate company that can be financed cheaper because investors will perceive it as less risky? Enter the Real Estate Investment Trust, also known as a REIT.  
  
This is a very common financing approach for hotels, office buildings, shopping centers, nursing homes, and ski resorts, but is brand new in gaming.
22. In 2013, Peter Carlino, one of the great visionaries of the regional casino business split his company, Penn National Gaming, into two parts with the REIT being called Gaming & Leisure Properties, Inc. Because of the difference in valuation metrics of real estate and gaming, PENN stockholders generated about 30% profit just from the changeover.
23. My outlook for the future: Five years from now, we will have at least three gaming REIT's, one possibly spun out of MGM or BYD, and GLPI will be double in size.  
  
Caesars, which is going through a bankruptcy restructuring, is spinning off a REIT that will own Bally's and Caesars. I believe that the Caesar's REIT could become a big force in the business.

### III. Globalization

24. There is only so much gaming to exploit in the US, so bigger gaming companies looked abroad for high growth new market opportunities.
25. In 2001, Las Vegas Sands made a deal to build a casino in Macau and got a coveted license that made Sheldon Adelson one of the richest men in the world. Wynn Resorts and MGM Resorts followed suit. By the time Caesars tried to enter the market, it was too late.

26. Macau was a brilliant move. Gaming was legal there since 1850 when it was a Portuguese Colony. In 1999 it was returned to China and maintained as a Special Administrative District, like Hong Kong. Three years later, Macau issued just three gaming licenses in exchange for multi-billion dollar development commitments.
27. China had a population three times the size of the US, the economy was growing at three times the rate of the US and gambling is more socially acceptable there. The GGR results were extraordinary - \$3B in gaming revenue in 2002 to \$44B in 2014, a 12-year compound annual growth rate of 32%. One city generated 68% as much as all US GGR.



28. After results like that, it was no wonder that gaming spread to neighboring countries like Singapore and Philippines, looking for a piece of the Asian gaming action.
29. While other Asian countries like Korea, Cambodia and Vietnam have offered some good and some not-so-good opportunities, the next big prize is Japan, where two casinos could cost up to \$10B each to build.
30. But like all run ups, there are some bumps along the road, and being dependent on a control-economy, such as China, is risky. Now we are seeing 40% year-over-year declines in Macau gaming revenue, as the Chinese Government started its crackdown on corruption, and at the same time, the economy slowed and credit markets tightened.

Macau GGR, May 2014-May 2015 (\$Millions)	Current Year	Prior Year	Variance
May, 2014	\$4,044	\$3,699	9%
June	\$3,402	\$3,534	-4%
July	\$3,552	\$3,686	-4%
August	\$3,610	\$3,842	-6%
September	\$3,196	\$3,620	-12%
October	\$3,503	\$4,560	-23%
November	\$3,034	\$3,772	-20%
December	\$2,911	\$4,183	-30%
January	\$2,969	\$3,592	-17%
February	\$2,443	\$4,751	-49%
March	\$2,686	\$4,432	-39%
April	\$2,396	\$3,915	-39%
May, 2015	\$2,546	\$3,491	-37%

Source: Macau Gaming Inspection Bureau

31. This is happening just as six new multi-billion dollar properties are set to open over the next three years. This is why WYNN stock price is down over 50% over the last twelve months, LVS is down a third and MGM is down almost 25%.

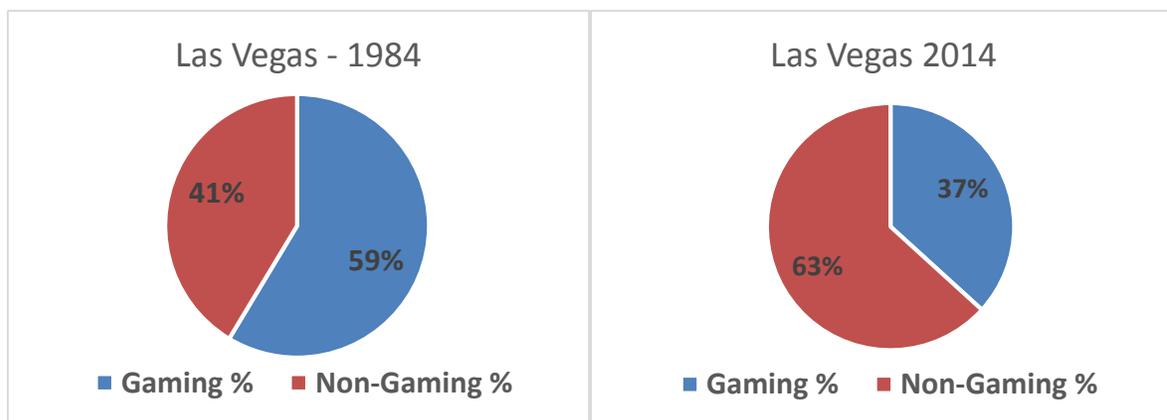


32. But it's a big globe, so global business will continue to be an important part of gaming. Some Asian gaming companies are now here in the US. Genting, which owns casinos in Malaysia, Singapore and Manila, owns the #1 grossing casino in America – Resorts World at Aqueduct Racetrack in NYC, ~\$850M of GGR last year. By comparison, Wynn Resorts grossed 80% of that from both Las Vegas properties, Wynn and Encore, combined.

33. Genting bought the largest remaining strip fronting development tract and just broke ground on a \$4B Asian themed casino that will include 3,000 rooms, a 4,000 -seat theatre, a replica of Great Wall of China, an aquarium, a panda exhibit, and a water park.
34. Las Vegas Sands spent three prime years working on a \$40B development in Madrid, which did not obtain enough support from the EU to make it feasible. However, Europe may now be ready for a transformation.
35. The government of Cyprus is trying to get an integrated resort by offering one gaming license for a 15-year period of exclusivity. Two and half million tourists visit Cyprus annually, a quarter of them are Russians. 375M people live within a two hour flight of Cyprus. This compares favorably to Macau and Las Vegas, where 300M and 75M are within a two-hour flight, respectively. Cyprus aims to be the Bahamas of Europe – think Paradise Island and Atlantis. Spectrum Gaming Capital is proud to be the development and financial advisor for one of potential projects there.
36. So what is the future of gaming globalization? More of it! More US companies will seek growth overseas, more foreign gaming companies will come here. We may even see a foreign company buy a US operator.
37. More foreign jurisdictions will legalize gaming around the world: Japan will be the prize, but Korea and Vietnam may open to locals instead of just foreigners, and the early participants will reap the rewards. Eventually, a US company will step foot into a big project in Latin America, most likely in Mexico or Panama.

#### IV. The Outliers

38. Concluding with the final theme - if everything is so big, bland and corporate, where is the opportunity for differentiation? Where are the outliers?
39. Las Vegas has already shown how to be different, how to reinvent itself via consolidation of gaming, lodging and leisure into enormous entertainment department stores. Gaming is the base in that city, but is a shrinking base - in the 1980's, gaming revenue accounted for about two-thirds of the casinos' total revenue and today it is about one-third – but GGR was up: \$6B in 2014 versus \$1.3B in 1984.



40. Las Vegas transformation, over the last 25 years happened while gaming spread all over the US. Las Vegas had visionaries - Bugsy Siegel, Jay Sarno, Kirk Kerkorian, Steve Wynn and Sheldon Adelson, that made transformation happen, and it evolved over time. When the mob was impeding the growth of LV, the gaming commission changed the laws to let in Wall Street and LV threw out the mob.
41. In the early 1990's, MGM built a theme park and Wynn built Treasure Island, focusing on bringing families to LV. When that trend didn't develop, it was replaced with celebrity chef restaurants, Cirque du Soleil shows, and the theme - "What happens in Vegas, Stays in Vegas". Strip clubs became abundant. LV knew what it was - Fantasy Island.
42. Comparable to Las Vegas, Macau will remain a unique gaming and entertainment hub. Macau Downtown is like downtown Las Vegas. It is old school Asian gaming with a few showpieces.
43. In Cotai (Macau), Sheldon Adelson had the vision to re-create the Las Vegas Strip. Now six major casinos operate there with about 14,000 rooms - about the same amount as in Macau proper. There are six new properties under construction that will almost double the number of rooms in Cotai by 2017. Accompanying this expansion are some great non-gaming attractions including a movie studio, themed hotels, and LV-like shows and architecture. Macau, like Las Vegas, had visionaries - Stanley and Lawrence Ho, Sheldon Adelson and Lui Che Woo to make it happen.

Future Development on the Cotai Strip				
Operator	Property	Budget (\$M)	Rooms	Opening
Melco	Studio City	\$3,200	1,600	2015
Galaxy	Galaxy Macau (II)	\$2,500	1,300	2015
Sands China	Parisian	\$2,700	3,300	2016
Wynn Macau	Wynn Palace	\$400	1,700	2016
MGM China	MGM Cotai	\$2,950	1,600	2016
SJM	Lisboa Palace	\$3,850	2,000	2017
Total		\$15,600	11,500	

*Source: Deutsche Bank*

44. Like LV and Macau, Atlantic City too, can offer something special. It has close proximity to massive population, a large, mostly unused airport, a world-class beach, and a history to tell. What American hasn't played Monopoly?
45. Atlantic City has a lot of infrastructure:
- i. Over 20,000 rooms
  - ii. 1.3M SF convention space
  - iii. A 4-mile boardwalk, the longest in the US
  - iv. A 700-slip marina
  - v. 19 golf courses within 1-hours' drive

- There is great shopping including the Quarter, The Walk, The Pier Shops and even a Bass Pro Shop.
46. What is the Atlantic City story of re-emergence and who is writing it? We need an author. We need several authors. We need a political base that supports the authors.
  47. We are seeing inklings of a renaissance. Tilman Fertitta redid the old Trump Marina. He spent \$150M and converted the property to the Golden Nugget brand. The casino is now posting 40% year-over-year growth consistently.
  48. At Tropicana Atlantic City, Carl Icahn and Tony Rodio have renovated the property and are using the Boardwalk as an amenity. They now have an amazing sound and light show there that will help the bottom line.
  49. At Resorts Atlantic City, Morris Bailey and Mohegan Sun introduced Margaritaville - also using the Boardwalk and beach amenities. Resorts is bridging the worlds of land based and internet gaming with the first internet gambling lounge adjacent to the casino floor. The property has started to turn profitable.
  50. Harrah's Atlantic City introduced a dome-covered pool/club experience in 2008 to create a summer atmosphere year-round, and is now building a new convention center. Harrah's has had a long history of success in AC.
  51. Revel could still be a catalyst for Atlantic City if a big vision is executed like combining with Showboat and building a water park between the two projects.
  52. The city has the right mayor now – Don Guardian – a booster and facilitator of change and improvement.
  53. The state's legislative leadership – Governor Christie, Senate President Sweeney and Assembly Speaker Prieto all want to see Atlantic City thrive, but the town needs a big boost of capital into non-gaming, quickly.
  54. Surprisingly, the answer could come from NNJ. Casinos in NNJ will hurt the gaming business in Atlantic City a bit, but as one observer astutely stated "Northern New Jersey already has gambling – its just in New York and Pennsylvania". However, a portion of NNJ GGR can flow back to help the city and be used to develop more non-gaming attractions. This is a big opportunity.
  55. With Paul Fireman's \$4B project in Jersey City, made possible only by a low tax rate, about \$100M per year can go to a newly created "New Jersey Possibilities Fund", which could be privately controlled and as part of its mission drive and underwrite non-gaming development.
  56. Jeff Gural has a different type of project planned for the Meadowlands, but also proposes large amounts to go to Atlantic City.

57. NNJ gaming could send a billion dollars to AC over ten years and such a fund could lever this into \$5B – \$10B in development – big numbers that could bring a “sea change” for AC’s future.
58. The industry should seize this opportunity quickly, as its monopoly on gaming in the Northeast is long gone, and the state needs the tax revenues. Atlantic City needs a new game, and it’s not called Monopoly. It’s called “Reinvention”, with money from Northern New Jersey. In the near future Atlantic City could join Las Vegas and Macau as one of the three unique gaming and entertainment hubs in the world.