

Insight: Why We are Still Bullish on Atlantic City

- Since 4 out of 12 casinos shuttered, Atlantic City has undergone significant changes including:
 - Overall market decline of LTM GGR to \$2.5B from \$2.9B, ~-13%
 - Introduction of two sound and light shows, Harrah’s conference center and Borgata outdoor festival park
 - Announcement of substantial non-gaming investment including a water park and possibly a major NJ energy company relocating its headquarters
 - Possible expansion of gaming to northern New Jersey
 - Municipal credit rating downgrade to Caa1 from Baa1 (speculative grade from investment grade)
 - State appointment of emergency manager to oversee the city’s finances
 - Two casinos, Revel and Showboat, are for sale, likely at starting prices of \$100M and \$25M, respectively
- Since the casino closures, we note two important developments borne out of our analysis of monthly GGR numbers:
 1. **There is a flight to quality in the land based segment: casinos that have a history of substantive reinvestment perform better, even in a declining market like AC**

(\$In Millions)	LTM GGR		YOY	4 Yr. Avg.	Capex/	Operating Profit	
	Aug-15	Aug-14	Growth	Capex	GGR (%)	Q1 2015	Q1 2014
Golden Nugget	\$205	\$158	29%	\$29	14%	\$4.1	(\$1.8)
Resorts	\$154	\$134	15%	\$18	12%	(\$1.4)	(\$2.4)
Tropicana	\$282	\$271	4%	\$20	7%	\$2.4	\$32.1
Borgata	\$689	\$654	5%	\$27	4%	\$38.5	\$21.0
Harrah's Marina	\$381	\$355	7%	\$10	3%	\$27.7	\$21.2
Average			12%	\$21	8%	\$14.2	\$14.0
Caesars	\$327	\$347	-6%	\$14	4%	\$14.9	\$6.1
Bally's Park Place	\$216	\$225	-4%	\$9	4%	\$4.6	(\$1.6)
Trump Taj Mahal	\$186	\$238	-22%	\$4	2%	(\$8.7)	(\$3.2)
Average			-11%	\$9	4%	\$3.6	\$0.5

Source: NJDGE

2. **The land based success of Golden Nugget and Tropicana could be aiding their I-gaming results, which are coming on strong**
 - The operators credit Betfair (Nugget) and Gamesys (Tropicana) for strong marketing
 - Amenities at the land based casino are being offered as comps to I-gaming players
 - Each operation is focused exclusively on casino games, not poker, results of which have been disappointing
 - Trump Plaza and Taj Mahal closed their internet operations

Casino	3 mos. GGR ended		
	Aug-15	Aug-14	Growth (%)
Borgata	11.1	10.1	9.4%
Golden Nugget	7.6	2.4	209.8%
Caesars	8.1	8.0	1.1%
Tropicana	8.1	6.0	35.8%
Resorts	<u>1.7</u>	<u>0.0</u>	NA
Total	36.5	26.5	37.5%

Source: NJDGE.com