

Insight: Gaming Equity Performance-A Tale of Two Regions

- LTM equity performance of US Gaming companies appear to be largely dependent on exposure to Macau
- Juxtaposing share price growth of regional companies with those having exposure to Macau reflects the dichotomy
 - Avg. growth in share price for MGM/LVS/GXYEY/WYNN, which all operate in Macau is -30%
 - Avg. growth in share price for ISLE/PNK/PENN/BYD, all having zero exposure to non-US markets is +92%
 - MGM particularly supports our premise because it has the least exposure to Macau and its share price declined less than its peers

Benchmarking Equity Performance with Geographic diversification	Ticker	YOY Change	Revenue Sources	
		Sh. Price (1)	US/Other	Macau
Isle of Capri Casinos	ISLE	161.1%	100%	0%
Penn National Gaming	PENN	72.4%	100%	0%
Pinnacle Entertainment	PNK	70.6%	100%	0%
Boyd Gaming Corp.	BYD	64.2%	100%	0%
MGM Resorts International	MGM	-10.6%	82%	18%
Las Vegas Sands	LVS	-20.2%	36%	64%
Galaxy Entertainment	GXYEY	-38.7%	0%	100%
Wynn Resorts Limited	WYNN	-50.3%	33%	67%

(1) As of August 11
Source: Company Reports, Y-Charts

Macau

- Monthly average decline in gross gaming revenue (“GGR”) in Macau is -28%¹ on an LTM basis
- As generally reported, the declines are due to mainland China’s crackdown on corruption, most significantly impacting VIP play, but there are additional factors, including:
 - Stalling of the Chinese real estate (RE) market starting in the second quarter of 2014²
 - A Southwestern University survey found that China’s households held ~66% of their assets in RE
 - Real estate accounts for the creation of the greatest number of millionaires in China
 - Ramp-up of competition in nearby countries including the Philippines, Cambodia, Singapore and Australia
 - Tighter controls on transferring money out of China’s borders³ and stricter limits on trip length to Macau

Stateside

- Top-line growth, cost cutting and Gaming REIT’s are all important factors responsible for the uptick in equity prices
 - ISLE EBITDA grew 16% YOY, attributed partly to revenue growth and significantly to cost cutting
- Regional gaming, which has stabilized since the Great Recession, is now showing signs of growth
 - The 18 states that report monthly gaming revenue reported a 4.1% and 4.0% increase in year over year gaming revenue for April and May
 - Consequently, Moody’s Investors Service, the leading rating agency changed their industry outlook to stable from negative⁴
- Consideration and proliferation of REIT’s in gaming is also positively impacting stock price valuation
 - GLPI recently agreed to terms of buying Pinnacle Entertainment real estate assets for 13.3x lease income
 - MGM disclosed it is considering a REIT conversion
 - ISLE of Capri is widely believed to be a viable acquisition target for a REIT, given its diversified asset base

For questions/comments please feel free to reach out to us at www.spectrumgamingcapital.com

¹ Macau Gaming Inspection and Coordination Bureau

² http://www.nytimes.com/2014/05/14/business/china-real-estate-falls-back-to-earth.html?_r=0

³ <http://www.wsj.com/articles/china-cracks-down-on-money-leaking-out-of-its-borders-1408031457>

⁴ Foley, Keith, Moody’s Investors Service “Moving to Stable from Negative As Gaming Industry’s EBITDA Prospects Improve”, July 14, 2015