

Insight: Illinois Shows Route Gaming is Moving Into the Mainstream

After just 5 years of operations, VGT's in Illinois are generating >45% of state GGR

- Route gaming has grown at a 32% CAGR while the land based casinos declined by a CAGR of -2%
- Despite the negative impact that route gaming had on casinos growth, it almost doubled the state's gaming revenue
- Over the last twelve month period ended July, route gaming is growing at a slower pace

Figure 1: Illinois GGR Statistics 2013-LTM July 2017

(\$Millions)	2013	2014	2015	2016	Jul-17	CAGR	Jul-16	Jul-17	Growth
Gross Gaming Revenue									
Route Ops	\$301	\$659	\$914	\$1,108	\$1,202	32%	\$1,036	\$1,202	16%
Land-Based	<u>\$1,551</u>	<u>\$1,463</u>	<u>\$1,435</u>	<u>\$1,413</u>	<u>\$1,404</u>	-2%	<u>\$1,428</u>	<u>\$1,404</u>	-2%
Total	\$1,852	\$2,123	\$2,348	\$2,522	\$2,606	7%	\$2,464	\$2,606	6%
Share (%)									
Route Ops	16%	31%	39%	44%	46%		42%	46%	
Land-Based	84%	69%	61%	56%	54%		58%	54%	
Total	100%	100%	100%	100%	100%		100%	100%	

Source: Illinois Gaming Commission, SGC

Although there over 50 different terminal operators, the top thirteen operators control over 80% of the market

- The Illinois video gaming market is dominated by the top 13 operators, as measured by number of locations
 - Accel Entertainment and J&J Ventures represent the top tier, with far more locations than any competitor
 - The 2nd tier consists of 11 operators that each have over 100 locations
 - The 3rd tier is comprised of over 40 operators that each control under 100 locations
 - 30 operators each control less than 20 locations
 - WPU for tier 3 is skewed higher by truck stop and gaming lounge operators
- The disparity in size could result in a market with limited number of buyers and many potential sellers
- This market dynamic will lead to more consolidation as the top tiers pursue acquisitions for economies of scale

Figure 2: Top VGT Operators by Number of Locations and GGR for LTM Period Ended July 2017

Operator	# Locations	# slots	NTI (\$M)	Share	WPU/PD
Accel Entertainment Gaming, LLC	1,415	6,008	\$227	19.4%	\$104
J&J Ventures Gaming, LLC	856	3,622	146	12.4%	\$110
Grand River Jackpot	448	1,729	51	4.3%	\$81
GEM (Delaware North)	442	1,861	77	6.6%	\$113
Gold Rush Amusements, Inc.	403	1,754	81	6.9%	\$126
Illinois Gaming Investors LLC (PENN)	376	1,652	79	6.8%	\$132
Illinois Gaming Systems, LLC	267	1,251	94	8.0%	\$206
Midwest Electronics Gaming, LLC	258	1,073	41	3.5%	\$105
Tap Room Gaming, LLC	227	968	42	3.6%	\$120
Lattner Entertainment Group Illinois, LLC	223	966	40	3.4%	\$114
Awesome Hand Services, LLC	199	889	36	3.1%	\$111
Universal Gaming Group, LLC	190	791	31	2.6%	\$106
Melody Gaming, LLC	136	588	18	1.5%	\$84
Tier 1	2,271	9,630	373	31.8%	\$106
Tier 2	3,169	13,522	590	50.3%	\$120
Tier 3 (Rest of Market)	950	3,696	210	17.9%	\$156
Total Market	6,390	26,848	\$1,173	100.0%	\$120

Source: Illinois Gaming Commission, SGC Research

Operators with limited access to capital are more likely to become sellers as market dynamics become increasingly competitive

- Capital spending requirements are increasing due to customer demand for newer, more technologically advanced slot machines
- Operators are investing capital in systems and partnerships in order to eventually build, market to and reward a player database
- Well-capitalized public gaming companies that have entered the market, such as PENN, Delaware North and possibly CZR, increase the competitive pressure; others will soon follow

Sellers that will garner high valuations will have several key attributes

- Higher win per unit statistics than the state average of \$120
- Long contract duration of between 5-10 years at the locations that produce the highest win per unit per day
- A history of generating above average EBITDA margins (over 25%)

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