

# Financial Suitability of Potential Kansas Casino Operators

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July 24, 2008

# Peer Group Composite

- Any financial analysis needs a comparative peer group base for the evaluation process. All current gaming jurisdictions provide analysis on a property basis, size or gaming revenues. See for example the Nevada Gaming Abstract which separates properties by location and size.
- Evaluation on a corporate level does not provide the same segmentation. There are a wider range of sizes and industry segments. Many of the corporations are diversified with different types of segments. It is more difficult to define peer groups.
- Example: International Gaming Technology (IGT). Classified in the manufacturing segment and the gaming segment. Yet does not have a single casino.

# Standard & Poor's Service

## Subgroup: Casino and Gaming

- This subgroup currently consists of 60 different companies
- The top corporations include several corporations who have submitted proposals: (June 11, 2008)

- Market Capitalization

	Millions
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# Volatility of Market

Market changes 7/23	Last 3 months	Last 6 months	last year
S&P 500	-7.19%	-2.56%	-15.49%
Casino & Gaming	-21.90%	-26.88%	-33.38%
July 14, 2008			
S&P 500			-13.40%
Casino & Gaming			-41.60%
	Sands	Penn	Pinnacle
\$Million			
June 11, 2008	19,111	3,729	736
July 14, 2008	14,280	2,117	562
July 24, 2008	18,500	2,500	705

# Stock price changes for last 12 months

- Industry (41.60%)
- LVS (54.14%)
- PENN (52.89%)
- PNK (65.12%)
- BUKS (06.55%)

# Diversity of Group

- One of the largest casino companies in the world, Harrah's, is missing because it has been bought out by a private group of Investors (Hamlet Holdings)
- includes International Gaming Technology (IGT) (\$7.9 b), a company that does not own one single casino.
- Includes Great American Financial Corp., a software development, marketing and Internet communications company specializing in the Internet market that conducts business in the gaming field.
- Medical Institutional Services Corp, is principally a provider of services to businesses engaged in electronic commerce on the Internet (e-commerce). Market Cap of \$290,000.

# Diverse Group of Proposal Corporations

	South East	South Central	South West	North East
<b>Completely new LLC</b>		Marvel	Dodge	Legends
<b>New LLC &amp; Public company</b>		Harrah & Sumner		Speedway & Entertainment
<b>100% Public company</b>	Penn	Penn	Butler	Pinnacle
				Sands

# Comparative Kansas Proposals

## By Public Corporations

In \$000	Harrah's	Sands	Penn	Pinnacle	Butler Nat. Co.
Total Assets	23,357,700	11,466,517	4,967,032	2,193,544	20,444
Total Equity	6,626,900	2,260,274	1,120,962	1,052,359	10,648
Total Cltd + ltd	12,440,400	7,572,330	2,974,922	841,301	6,971
At 12/31/2007					



# Comparative Financial Information

12/31/2007	In 000's				
	Harrah's	Sands	Penn	Pinnacle	Butler Nat. Co.
Sales	10,825,200	2,950,567	2,565,737	1,068,790	14,681
Net income before Taxes	892,500	138,279	292,240	(1,851)	717
Return on Income	8.24%	4.69%	11.39%	-0.17%	4.88%
Return on Assets	3.82%	1.21%	5.88%	-0.08%	3.51%
Return on Equity	13.47%	6.12%	26.07%	-0.18%	6.73%
Current Ratio	93.01%	92.35%	61.29%	132.77%	203.12%
Debt/Equity	187.73%	335.02%	265.39%	79.94%	65.47%
1st Quarter 2008					
% change in Sales	-2.07%	71.76%	3.16%	12.68%	27.33%
% change: Net income be	-231.25%	-1108.39%	-5.70%	-596.00%	-321.43%
Current Ratio	113.83%	100.00%	61.00%	167.00%	202.00%
Debt to Equity	612.53%	365.00%	262.00%	96.00%	73.00%

# Market conditions for 2008

- Analysts outlook for the casinos and gaming sub-industry is negative. Based on a difficult consumer spending environment, higher discounting, airline capacity cutbacks and likely weakening in convention business, the gaming industry will continue to be challenged through 2008 and 2009
- Nevada casino regulators said Strip gaming revenues fell more than 16 percent in May from a year ago and are down 5.4 percent for the first five months of 2008. It was reported that gaming revenues in Atlantic City declined 11 percent in June.
- Credit-rating agencies have been hitting casinos hard. Moody's Investors Service, which rates \$79 billion in debt at casino companies, has downgraded 17 casino companies this year. Eleven more are on review for possible downgrade,

# Penn National Proposal for Cherokee County

# Corporate Structure

- Gaming Zone: Southeast
- County: Cherokee and Crawford County
- Property Name: Hollywood Casino
- Company Name: Kansas Penn Gaming LLC
- Parent Company: Penn National Gaming, Inc.
- Ownership Interest: 100%

# Penn National Proposal For Cherokee County

- Cost of Project \$150,000,000
- Funding of project \$150,000,000
- Equity funding \$ 37,500,000 parent contribution
- Debt funding \$112,500,000 Loan from Parent line of credit.

# Penn Earnings

- Penn has been able to generate a steady growth in revenues for all years including the first quarter of this year despite the downturn of the economy.
- Penn has had an average revenue growth rate of 28% per year between 2004 and 2007.
- Penn acknowledges that most of the properties operate in mature competitive markets and as a result, they expect future growth to come from future facilities investments. \* see Table from 1<sup>st</sup> quarter

# Basic Fundamentals For Penn National Prior to Failed Merger

Liquidity and Solvency	2007	2006	2005	2004
Current Ratio	0.61	0.97	0.90	1.04
CFO \$000	431,219	281,809	150,475	197,164
Interest coverage	2.51	2.92	2.66	2.87
Debt/Equity	2.65	3.07	5.10	2.16
CFO Interest charge	3.22	2.46	2.77	3.68
Free Cash Flow	70,064	-127,074	29,340	128,207

# Financial Trends: Positive

- Consistent increase in Revenues and Earnings
- Consistent increase in CFO
- Debt to Equity ratio, while still high, shows declining trend
- Interest coverage greater than 2.5 times



# Financial Trends: Negative

- Decreasing current ratio trend
- Highly leveraged
- Large decrease in cash for 1<sup>st</sup> Quarter of 2008 (by -48.66%)
- Will have \$940 million due within 3 years

# Major Positive Event: Failed Merger Takeover

- \$200,000,000 cash break-up fee
- \$1,250,000,000 redeemable preferred equity with a repurchase date of 2015
- The preferred equity allows Penn to forgo any interest or dividend payments
- Provides ability to reduce debt or invest in new proposals.

# Possible Changes In Financial Ratios

	Prior Bal	Addition	Debt payment
	3/31/2008	7/14/2008	7/14/2008
Current Ratio	0.61	4.88	2.11
Debt/Equity	2.62	1.12	0.71

# Latest Information On Use Of New Cash

- Debt payment of \$600 million
- Repurchase of Stock \$200 million
- Remainder for new developments

Source: Susquehanna Financial Group, LLLP, July 8, 2008

# Concluding Points for Consideration

- **Positives**

- Healthy growth rate in revenues.
- Healthy growth rate in earnings.
- Healthy growth rate in cash flows from operations (CFO).
- CFO has exceeded capital expenditures.
- Failed merger generates \$1.475 billion in cash.
- The additional cash flow changes the financial flexibility of company.

# Concluding Points for Consideration

- **Negatives**

- Maintains extremely low current ratio (changed)
- Currently has high debt/equity ratio (Changed)
- First quarter cash flow significantly down
- For current project, has not clearly defined its debt/equity financing approach.

# Concluding Points for Consideration

- **Additional factors**

- One of the top Casino Corporations in America
- Owns or operates nineteen facilities in fifteen jurisdictions
- Has experience in running smaller properties
- Has large number of employees and managers
- After the failed merger, has the cash and or financing to close a deal for either of its projects.
- Has cut back its original plans and is doing a two phase project. Taking a very conservative approach toward competition.