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Dealing the Racino (Deck)

Moderator/Speaker:
Matt Sodl, Managing Director, The Innovation Capital LLC

Speakers:
Joe Bencivenga, Founding Partner, Plainfield Asset Management
Robert L. Decker, Managing Director, Global Leisure Partners, LLP
Eric Spector, President and CEO, Wyoming Entertainment

MR. STEVE BARHAM: Thanks to U.S. Banking Gaming Services, which is the sponsor of this panel. Caliente and AmTote, who are sponsors of the luncheon and the entertainment at the luncheon.

Matt Sodl is the moderator of this panel, and I also have to say, the guy who put it together, so he's also going to be the speaker, or a speaker. Matt is managing director and cofounder of Innovation Capital; he has more than 10 years of investment banking firm experience in gaming, hospitality and leisure industries. He has served in senior positions at Merrill Lynch and a number of other firms. His clients include public and private gaming operators, Native American entities, management groups, equipment manufacturers, and private investor groups. In the racing segment, Mr. Sodl has recently completed transactions with entities that own and operate Indiana Downs, Bedford Downs, Tioga Downs, and Vernon Downs. He earned his bachelor of arts degree in economics from Columbia University and a masters in business administration with a concentration in finance from the Anderson School at the University of California, Los Angeles. And recently he was named to Investor Dealers Digest "40 under 40" list in 2006. Matt, thank you very much.

MR. MATT SODL: Thank you for the nice introduction there. And thank you all for coming to our panel today, which really is to serve a purpose of talking about the racino industry and transactions that have been completed, where trends are headed, how the capital markets are looking, and in general, looking at racino's, how they stack up with respect to getting deals done.

So on our panel today, besides myself, we have Joe Bencivenga, to my left, he's a founding partner at Plainfield Asset Management; we also have Eric Spector, he's a president and CEO of Wyoming Entertainment, which operates Wyoming Downs. Not with us today is Bob Decker who was with Global Leisure Partners, an international merchant banking firm, he came down with an illness in the last couple days, and he extends his regards to everyone here.

I'm going to skip my bio, that's been done already. I'm going to turn it over to Joe B., from Plainfield, he can describe his background and once we go through the bios, each of us will provide some opening remarks on this topic today. Then we will go through a number of questions pertaining to today's topic and ultimately turn it over to questions out there. So, Joe B.

MR. JOSEPH BENCIVENGA: Thanks, Matt. I've been in the investment business since 1983, I worked in New York, I worked in L.A., and for the most part of my 20-plus year career, I worked on companies that were very risky or in trouble, which I think qualifies me specifically to sit to Matt's left. Recently, starting in 2005, myself and a couple other partners created a — started a new fund called Plainfield Asset Management. We're about a $4 billion fund and we can and do invest in the racino and the casino space, among a lot of other different investments. So Matt has called upon me for those two and a half years and, it's a pleasure to sit between a guy like Matt and an operator like Eric, so I'll turn it over to Eric.

MR. ERIC SPECTOR: Thank you. I've had the good fortune over the last 20-some years to be involved with the racing industry in one form or another as a service provider and most recently as an owner and operator of a racing facility. We're seeing, just in the last 10 years alone, just an inordinate amount of activity on evaluations for the potential sale or other disposition of racing assets. And so this is a unique moment in time and it's an appropriate moment in time to define banking or other resources that would be available to support that type of activity. It's with that thought in mind that we are here today, to discuss some of the things that we see in the marketplace generally and what's happening to capital markets.

MR. SODL: Just some quick opening remarks before we dive into some more specific questions. I think at a high level we see continued interest in racino assets, particularly from gaming operators, private equity firms, hedge funds like Plainfield, as well as the debt capital markets. State governments are increasingly more receptive to allowing slot machines at racetracks. I think that's good news for you all. Cases in point are Indiana and Maryland, they are great examples.

The bad news is that states are getting a lot more aggressive in terms of reaching into the economic pie that gaming and slot machines create. And they are finding unique ways of getting their share of the pie, whether it be in the form of an up-front licensing fee payment, front-end taxes, back-end taxes, they are becoming a lot more savvy and are utilizing finance and their understanding of how these gaming properties operate to really become a lot more aggressive in taking their piece of the economics there. That's the negative part of it.

The cost of building racino assets in general continues to escalate, which puts greater pressure on the equity sponsors behind racino properties. What that does is put economic returns generated by those private equity firms and it elevates the execution risk because you now have greater dollars at play and more equity at risk and the certainty of delivering the execution of building those racino assets and opening and operating them becomes heightened, and that increases the risk profile. I think performance of racino assets across the country, frankly, has been mixed. When you look at Pennsylvania, those properties are performing well, and the metric that we look at to gauge whether racino assets are doing well is in the win per unit of the slot machines that they employ. You see win per unit in Pennsylvania north of $400 a day, that's a very healthy metric. You look at Florida and you see win per units down in the hundreds, $100 or $125, $150. Unique circumstances point that the performance is very market driven and much like casinos, racino properties deal with the same kind of competitive pressures that you would see in Las Vegas. However, in racino markets, in many cases it's an uneven deck that they are playing with; you have Native American properties that in some cases are untaxed, unregulated and continue to operate without any jurisdictional oversights. So it's tough going; in Florida you see a compact being announced with the Seminoles, and that's going to put even greater pressure on the racetracks down there.

Generally I would say racino assets have been mixed, it's these new jurisdictions that are about to come online in the next year or two that remain to be seen how they perform. One thing is for sure, the states' receptivity is increasing and their aggressiveness in looking for their piece of the pie is going up.

So at a high level, that's kind of my view on the industry. Deal activities continue to increase, it's very driven around legislative events getting gaming passed as you saw in Maryland and it will continue along those lines in my view. So, with that I will turn it over to Joe B.

MR. BENCIVENGA: From my point of view, I've had a limited experience with racino's as an investor, the bulk of my experience has been with New York State, although I'm partners with Eric in Wyoming and we've certainly looked at facilities in 15 or 20 other states. From an investor point of view, the slot machine or the VLT aspect is what's provided, from a flat to declining business or a troubled business, which is racing in general in many jurisdictions, to a potential growth industry which has attracted people like myself and other investors' attention.

One comment I'll make is there is often this question of whether you're a horseman or you just want the slot machines and, you know, I'm an investor, I'm blind to whether horses make money or slot machines make money. What I want to do is find a situation where the project or the legislation or the industry might be slightly dented, banged up or maybe broken and that's usually an opportunity to get in and do some investing without having to spend the top dollar price on something because there is no easy answer when you get involved. So we, I know, and myself, we look at this as a very long-term project and one that is going to require diversification from an investor standpoint; picking one track or one jurisdiction, that's putting a lot of eggs in one basket, and whether it's a new Indian casino opening up next-door to you or legislative change, as an investor you can't afford to just have that risk, so some kind of diversification is important, which may go a little bit to Matt's comment on desirability of the asset class among a broader group of people.

You know, I think the other piece, from an investor standpoint, is to be involved in pure racing, and I know from my point of view, it helps me a lot because I can understand the economic decisions one has to make around a racetrack specifically, with no distractions about whether or not we are marketing correctly to the slot machine people, it's a much clearer and purer understanding of how the industry functions. So I appreciate and I think as an investor I get a lot smarter when I have a different set of criteria for my investments, I learn things.

I'm here to really overlay the capital markets although Matt is quite capable of jumping on that, I have the — Matt and I, in many ways, we're at odds with each other. Matt represents people who are trying to raise money and he is coming to people like me for that money, so I want to pay less and he wants me to pay more and so we fight all the time, but I'm here today to maybe talk about what the capital markets realities are, at least today from my point of view, and how that's going to impact fundraising for both the pure horsetracks and the racino's in general.

MR. SPECTOR: I think Joe raised some poignant issues. For those of us that have been in the industry for quite some time, you remember back to a period of time when simulcasting was legalized and then we went to full-card simulcasting, the bump that the operations would have received from that moment in time was meaningful, it helped to defray the operating costs that we would suffer from paying out purses to maintaining our racing schedules or to attract quality horses and to just make our capital expenditure budgets. But that didn't cure the ills of the underlying problem with racing, which is that you are earning a commission that you are then splitting with a variety of other parties that are interested in the process and there is not a lot left over at the end of the day to pay for things, let alone build your facility into what you think it can be. And so with that as the background, we're now looking at jurisdictions where some form of enhancement has become available as of late and those enhancements, although we're calling them racino's, we're looking at enhancements that include cardroom operations to a bingo or RaceTech machines or VLTs or slot machines. Any one of those enhancements, assuming that they are operated properly and that we aren't being taxed to death by the local government officials, will, longer term, help stabilize not just the track operation, but the entire industry that supports it, that's the breeding industry, and the supportive industries to that.

So it's vital to understand the process of how to go out and raise the capital, and it's also vital to understand how that capital cost impacts your operations. For the cost, especially as we are seeing it escalate right now, and the price of these projects are escalating, it's not necessarily fair to say that to have a racino means that we're minting money and we're making a fortune.

MR. SODL: The current state of the racino market, this will be a question for Eric, consolidation continues to take place at a pretty brisk pace out in the marketplace, what are the catalysts that you kind of see driving this underlying activity? .... **Other terms, concepts and keywords contained in the balance of this transcript are:** Oneida Capital, legislation, M&A, racino, Indiana Downs, Penn National, Boyd Gaming, Plainfield, invest, licensing, slot machines, VLT, casino, New York, revenue, operating costs, OTB, EBITDA, capital, equity, referendums, acquisition, Magna Entertainment, restructuring, restructure, Remington Park, Native American gaming, Gulfstream, Seminole Nation, Maryland, Pennsylvania, New Jersey, Delaware, Wyoming, Ohio, Centaur, sub-prime, alternative gaming, New Mexico, YouTube channel......If you desire a full transcript contact bprewitt@ag.arizona.edu