

*Presentation to:*

# 2009 Canadian Gaming Summit

*by:*

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# Discussion Topics - US Supply Impacts from Economic Situation

- "The Perfect Storm"
- Detroit / Windsor Gaming Market Case Study
- Nevada and Atlantic City Markets
- Restructuring Activities Overview and Impacts on Supply
  - Restructuring Activities Overview
  - Impacts on Supply
- Future Predictions

# *"The Perfect Storm"*

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- Credit Crunch and Housing Market Woes
- Rising Unemployment
- Flagging Discretionary Income and Consumer Confidence

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- Excessive Growth in Supply Over Past 20 Years
- Aggressive Capital Investment and Highly Leveraged Corporate Balance Sheets
- Revenue Contraction

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**The Perfect Storm**

# *Detroit / Windsor Gaming Market Case Study*

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## Overview and Timeline of Events:

- Limited license jurisdiction with 3 commercial casinos in Detroit and 1 in Windsor
- Area faced economic challenges long before “The Perfect Storm” took place
- **1995** - Casino Windsor opens and reaches gaming revenues of C\$450 million in the first year of operations in temporary facility
- **1999** - Permanent Casino Windsor facility opens and reaches gaming revenues in excess of C\$825 million
- **1999** - Detroit casinos open and Detroit market experiences compound annual growth rate since inception of 4.4%, while economic data suggests that Detroit region GDP demonstrated the slowest growth among the top 25 metropolitan statistical areas
- **2003** - Casino Windsor gaming revenues drop to approximately C\$600 million
- **2007** - two Detroit casinos open permanent facilities
- **2008** - remaining Detroit casino opens permanent facility

# *Detroit / Windsor Gaming Market Case Study*

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Fast forward to today...

- Windsor property's FY 2008 gaming revenues expected to approximate C\$300 million
- One Detroit casino operates in Chapter 11 bankruptcy
- Owner of second Detroit casino recently injected significant new equity to address a default under its credit agreement and avoid a showdown with its creditors
- Parent of third Detroit casino is on the verge of bankruptcy and has announced its intention to sell the Detroit property

# *Detroit / Windsor Gaming Market Case Study*


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## Conclusions:

- Even properties operating in limited license jurisdictions have been affected by “The Perfect Storm”
- Although aggressive capital investment can clearly provide an advantage to operators, it is often the riskiest strategy of all
- Markets may not have capacity to grow commensurate with the addition of supply, and often times one operator’s gains come at the direct expenses of others
- Once easily obtainable, covenant light loans are now the cause of major distress to many gaming companies
- Although the supply base in limited license jurisdictions may not change, its composition might as properties are transferred to new owners and operators

# *Nevada and Atlantic City Markets*

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- Two markets that were once considered recession proof are currently among the industry's most distressed
  - Think of "The Perfect Storm" when reviewing the below
  - Nevada
    - Excessive supply, especially as it pertains to Las Vegas Strip
    - Highly leveraged corporate balance sheets as a result of aggressive capital investment
    - Industry consolidation combined with market contraction is causing revenue cannibalization for many operators
    - Companies inability to service debt as a result of above factors are resulting in a number of in and out-of-court restructurings
  - Atlantic City
    - Competition from Connecticut, New York, and Pennsylvania has and continues to cause contraction in AC market
    - More than half of the market's 11 properties could be in bankruptcy proceedings by the end of 2009

# *Nevada and Atlantic City Markets*

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## Conclusion

- There is no better indicator of excess supply in the gaming market than the distress facing the Las Vegas and Atlantic City markets, two premier destinations, which house the industry's preeminent bricks and mortar, that have historically fared well during recessionary times and are now among the most distressed

# Restructuring Activities Overview and Impacts on Supply

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## Restructuring Activities Overview


- Forbearance Agreement / Debt Restructure
- Debt Exchange
- Equity Infusion
- Asset Sales
- Chapter 11 Filing
- Lender Foreclosure and Operational Take Over
- Temporary or Permanent Facility Closure

## Impacts on Supply

- Existing ownership operates under new capital structure
- New ownership operates under new capital structure
- Industry deconsolidates as major players sell assets to finance debt and finish in-process projects
- New owners and operators enter the market, while supply remains constant
- In-process projects are halted and fewer new projects are undertaken
- Regional properties owned by industry titans will be impacted significantly—ownership changes, changes in operating strategy, etc.
- Ultimately, some supply may need to exit the market both temporarily and permanently

# *Future Predictions*

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- **Distress in the gaming industry will continue as companies face both default and maturity risk**
    - Financial institutions will seek prohibitively expensive terms for new financing
    - New projects will be much harder to finance as investors look to purchase distressed properties at discounted prices
    - The “bricks and mortar” arms race is over
  - **Restructurings will occur to make existing properties more profitable and less leveraged**
    - What new money is needed when the properties emerge from restructuring and who will provide it?
    - How will new owners manage the casinos?
      - Suitability licensing requirements may complicate this process
    - How will creditors monetize their investments?