

Task 4 - Project Specific Gaming Revenue Projections

Southeast Gaming Zone - Cherokee County, Kansas



Prepared For:
Kansas Lottery Gaming Facility Review Board
July 23, 2008
Wells Gaming Research

Methodology

- **Used WGR's proprietary gravity model**
- **Defined trade area to include all counties that a 100-mile radius of the Penn National Cherokee site encompasses or touches**
- **Used 2007 data as status quo for baseline projections**
- **Population data at census tract level 2000 through 2012**
- **Utilized Penn National's size, scope, and location assumptions for the proposed Cherokee County casino for both Phase I and full 12-Year Phased Build Out**
- **Developed a custom gravity model for the Penn National Cherokee Casino**
- **Defined and ran 2 scenarios with low, mid, and high cases for Phase I and 12-Year Phased Build Out**
- **Ran additional cases without slots at Camptown Racetrack**

Methodology

- Visited existing casinos within the trade area (including new Quapaw Downstream) and made the following changes in assumptions:

Unlikely Proposed Casinos Removed from Competitive Set:

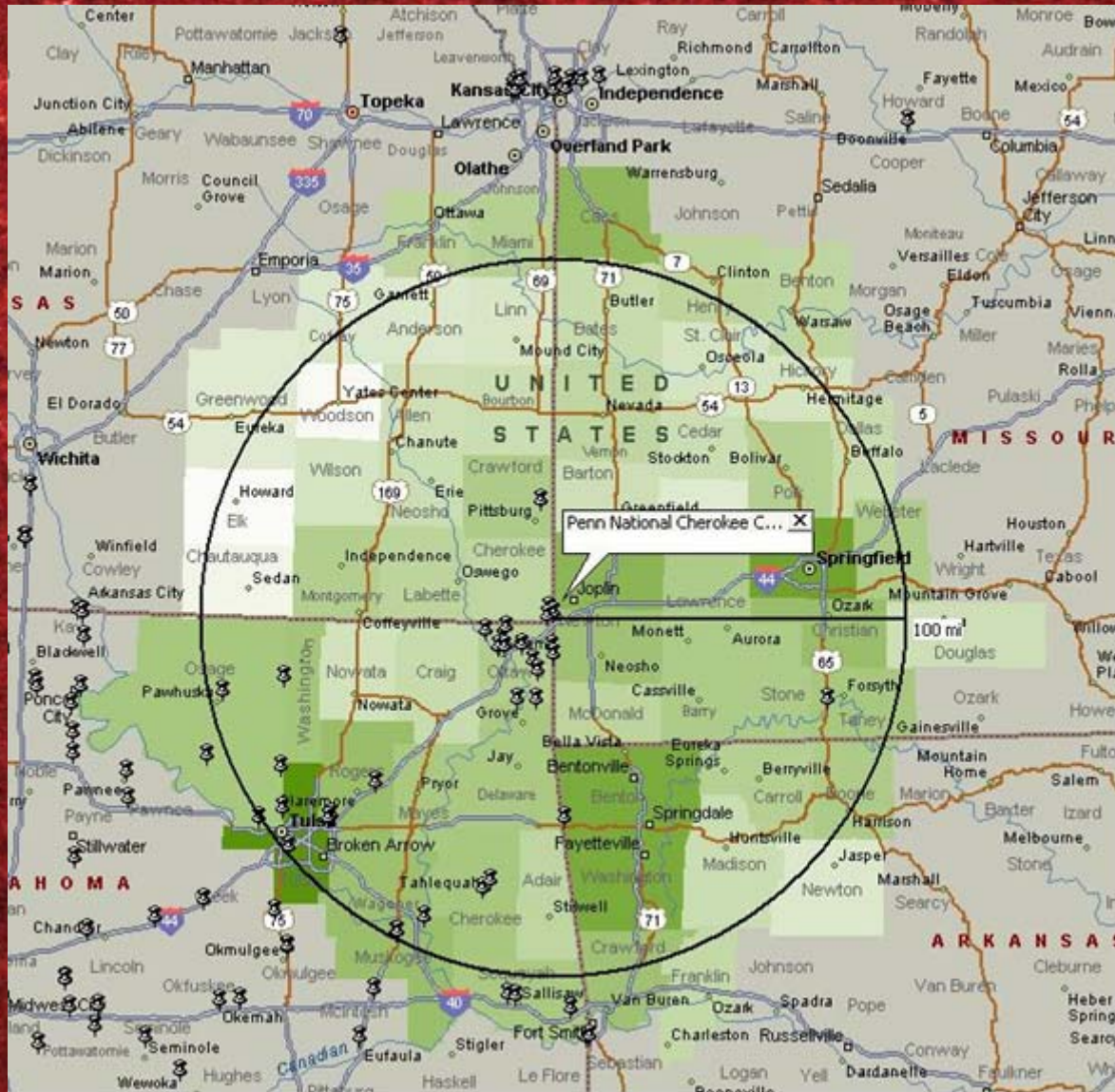
1 Barden Development Branson Planned	MO
2 Wild Rose Entertainment Sugar Creek Planned	MO
3 Pawnee Nation Pawnee Planned	OK
4 Ponca Fancy Dance Casino	OK
5 Seneca-Cayuga Tribe - Grand Lake Planned	OK

Adjusted Attraction Factors after Visits by RW:

1 Buffalo Run Casino	-10%
2 Grand Lake Casino	-10%
3 Kaw Southwind Casino	-50%
4 Osage Million Dollar Elm Casino - Tulsa	-10%
5 The Stables Casino	-10%
6 Tonkawa Casino	-20%
7 Wyandotte 7th Street Casino	-10%

- We estimate an additional 8.5M for the Final Phase with these changes in assumptions

Penn National Cherokee County Casino Trade Area Map



SE Kansas - Cherokee

- Trade area (approximate 125-mile radius) includes 17 counties in Kansas, 23 counties in southwestern Missouri, 14 counties in northeastern Oklahoma, and 8 counties in northwestern Arkansas
- The SE Kansas Gaming Zone trade area overlaps with the SC and NE Zones

SE Kansas - Cherokee

- The trade area population is 2,976,480; of which 2,072,654 are adults
- Of the adult population, only 254,869 (12%) live in Cherokee County and the surrounding ten counties

Capacity Statistics for Casinos Competing in the Southeast Kansas Trade Area

Existing Casinos:

- 58 casinos with 31,167 slots, 425 pit tables, and 182 poker tables

4 Expansions & 8 Proposed New Casinos Including Penn:

- 12 casinos with 13,656 slots, 296 pit tables, and 23 poker tables
- These expansions would represent a 44% increase in slots and a 70% increase in pit tables in this trade area

Assumptions for the Penn National - Cherokee Casino

- WGR's assumptions for Penn National Phase 1 in Cherokee County: 900 slots, 30 table games, 6,070 ft. of casino s.f., two restaurants, one entertainment venue, and 1,140 parking spaces (about 42% of Quapaw Downstream Casino's capacity)
- The casino is proposed to be located at Prairie Road and US Highway 166 near the US Interstate 44 Exit 1

Casino Visits Projections

Visitor Projections of Applicant & WGR's Projections of Applicant WGR's projections are based on Task 4, Scenario 3								
	2010	2011	2012	2013	2014	2015	CAGR	Periods
Penn National	558,232	862,616	1,022,590	1,219,991	1,261,471	1,304,750	10.90%	4
WGR's Projections	2010	2011	2012				CAGR	Periods
Penn National - Cherokee Phase 1								
Low	207,744	209,929	212,155				1.06%	2
Mid	386,938	391,078	395,298				1.07%	2
High	545,800	551,727	557,770				1.09%	2
Penn National - Cherokee Final								
Low	472,378	477,472	482,667				1.08%	2
Mid	826,933	836,139	845,530				1.12%	2
High	1,118,023	1,130,768	1,143,776				1.15%	2

Revenue Projections

Revenue Projections of Applicant & WGR's Projections of Applicant

WGR's projections are based on Task 4, Scenario 3 data adjusted for inflation

	2010	2011	2012	2013	2014	2015	CAGR	Periods
Penn National	\$35,870,761	\$57,393,218	\$72,927,535	\$90,418,201	\$94,939,111	\$99,686,066	14.80%	4
WGR's Projections	2010	2011	2012				CAGR	Periods
Penn National - Cherokee Phase 1 w/inflation								
Low	\$14,684,240	\$15,136,098	\$15,610,560				3.11%	2
Mid	\$27,520,218	\$28,372,204	\$29,268,144				3.13%	2
High	\$39,021,458	\$40,235,252	\$41,511,504				3.14%	2
Penn National - Cherokee Final w/ inflation								
Low	\$33,692,055	\$34,737,610	\$35,838,048				3.14%	2
Mid	\$59,618,651	\$61,487,896	\$63,454,608				3.17%	2
High	\$81,216,367	\$83,782,506	\$86,484,048				3.19%	2

Penn National vs. Downstream

WGR Attraction/Mass Factor Comparisons where Downstream fully completed = 100%

% of Mid	2008	2011			
		Low	Mid	High	Penn Tuned
Downstream Mid Case	100%	100%	100%	100%	100%
Penn Cherokee Phase I		21%	42%	63%	97%
Penn Cherokee Final Build Out		53%	106%	160%	97%

WGR Revenue Projections w/ Inflation

Phase 1 Scenario 3	2008	2011			
		Low	Mid	High	Penn Tuned
Downstream Mid Case	\$70,663,560	\$62,787,378	\$59,376,914	\$56,552,894	\$52,828,650
Penn Cherokee Phase I		\$15,136,098	\$28,372,204	\$40,235,252	\$57,297,310

Final Phase Scenario 3	2008	2011			
		Low	Mid	High	Penn Tuned
Downstream Mid Case	\$70,663,560	\$57,836,146	\$51,969,542	\$47,714,036	\$52,828,650
Penn Cherokee Final Build Out		\$34,737,610	\$61,487,896	\$83,782,506	\$57,297,310

Revenue Projections

(With & Without Slots at Camptown Greyhound Park)

WGR Revenue Projections With Camptown Greyhound Park			
Mid Case w/ Inflation	2010	2011	2012
Penn National - Cherokee Phase 1	\$27,520,218	\$28,372,204	\$29,268,144
Penn National - Cherokee Final	\$59,618,651	\$61,487,896	\$63,454,608
WGR Revenue Projections Without Camptown Greyhound Park			
Penn National - Cherokee Phase 1	\$28,484,667	\$29,361,152	\$30,282,720
Penn National - Cherokee Final	\$61,400,070	\$63,314,312	\$65,329,200
Penn Cherokee Revenue Increase Without Camptown Greyhound Park			
Penn National - Cherokee Phase 1	\$964,449	\$988,948	\$1,014,576
Penn National - Cherokee Final	\$1,781,419	\$1,826,416	\$1,874,592

Summary Income Statement

Summary Income Statement Accounts

As a Percent of Total Revenue

Penn National Cherokee 2011 v FY2007 NV Gaming Abstract

(Penn National data is for Phase I)

	Gaming Revenue	Department Expenses	Adv & Prom	Interest Exp	G&A Payroll	Total G&A Exp	EBITDAR
Statewide \$1M+ w/ Hotel Rooms FY2007	48.5%	49.0%	1.7%	6.8%	6.8%	34.2%	23.6%
Elko County Wendover \$1M+ FY2007	73.0%	38.3%	4.6%	5.3%	9.9%	44.5%	25.8%
Douglas County South Lake Tahoe \$1M+ FY2007	61.4%	56.1%	3.1%	3.8%	3.7%	32.4%	18.4%
Penn National Cherokee Pro Forma for 2011	93.5%	61.1%	12.1%	22.0%	1.1%	56.3%	17.9%

Source: WGR, NV Gmg Abst, & Applicants Data

Casino Department Income Statement

Casino Department Income Statement Accounts As a Percent of Total Casino Revenue Penn National Cherokee 2011 v FY2007 NV Gaming Abstract (Penn National data is for Phase I)						
	Table Revenue	Comp Expense	Payroll	Tax & Lic	Dept Exp	Dept Profit
Statewide \$1M+ w/ Hotel Rooms FY2007	30.8%	17.5%	15.5%	7.7%	52.3%	47.7%
Elko County Wendover \$1M+ FY2007	20.6%	13.4%	8.8%	8.3%	34.9%	65.1%
Douglas County South Lake Tahoe \$1M+ FY2007	27.3%	26.2%	18.2%	7.5%	62.6%	37.4%
Penn National Cherokee Pro Forma for 2011	12.5%	3.5%	23.8%	27.0%	54.9%	45.1%
Source: WGR, NV Gmg Abst, & Applicants Data						

Food Department Income Statement

Food Department Income Statement Accounts

As a Percent of Total Food Revenue

Penn National Cherokee 2011 v FY2007 NV Gaming Abstract

(Penn National data is for Phase I)

	Food as % of Total Rev	Comp Food Sales	Cost of Goods	Payroll	Dept Profit - Loss
Statewide \$1M+ w/ Hotel Rooms FY2007	13.6%	20.9%	33.6%	55.8%	2.6%
Elko County Wendover \$1M+ FY2007	11.8%	48.0%	46.8%	38.9%	4.3%
Douglas County South Lake Tahoe \$1M+ FY2007	11.4%	26.9%	31.8%	45.5%	14.7%
Penn National Cherokee Pro Forma for 2011	4.5%	50.0%	44.1%	85.6%	-29.7%

Source: WGR, NV Gmg Abst, & Applicants Data

Beverage Department Income Statement

Beverage Department Income Statement Accounts

As a Percent of Total Beverage Revenue

Penn National Cherokee 2011 v FY2007 NV Gaming Abstract

(Penn National data is for Phase I)

	Beverage as % of Total Rev	Comp Beverage Sales	Cost of Goods	Payroll	Dept Profit - Loss
Statewide \$1M+ w/ Hotel Rooms FY2007	5.5%	44.4%	22.6%	28.3%	39.8%
Elko County Wendover \$1M+ FY2007	4.3%	77.6%	36.8%	26.0%	33.0%
Douglas County South Lake Tahoe \$1M+ FY2007	8.1%	46.8%	24.5%	20.0%	46.5%
Penn National Cherokee Pro Forma for 2011	1.1%	50.0%	30.1%	25.0%	-15.7%

Source: WGR, NV Gmg Abst, & Applicants Data

Other Department Income Statement

Other Department Income Statement Accounts

As a Percent of Other Revenue

Penn National Cherokee 2011 v FY2007 NV Gaming Abstract

(Penn National data is for Phase I)

	Other as % of Total Rev	Comp Other Sales	Cost of Goods	Payroll	Dept Profit - Loss
Statewide \$1M+ w/ Hotel Rooms FY2007	11.4%	5.6%	16.2%	22.2%	33.0%
Elko County Wendover \$1M+ FY2007	4.2%	39.5%	29.2%	5.6%	47.4%
Douglas County South Lake Tahoe \$1M+ FY2007	5.3%	13.0%	16.5%	30.8%	8.1%
Penn National Cherokee Pro Forma for 2011	0.9%	50.0%	50.0%	539.5%	-489.5%

Source: WGR, NV Gmg Abst, & Applicants Data

Richard H. Wells, Experience & Qualifications

Wells is founder and president of **Wells Gaming Research**, a Nevada Corporation that provides Casino Player Count Service™, a market share tracking service, to over 160 casino clients in Nevada, Mississippi, Louisiana, New Mexico, and California.

Wells Gaming Research also performs a wide range of consulting and gaming research assignments including casino market studies, financial feasibility studies, financial projections, due diligence, litigation support, legislative issue support, and gaming industry expert witness services for the gaming industry.

Wells has fifteen years experience as a senior executive in the casino-hotel industry with Holiday Inns, Harrah's, and Bally's. Wells has also held positions in management, planning, and financial analysis for a large regional bank and a major international oil company.

Wells has a B.S. degree in business from Oklahoma State University and completed a post-graduate program in Systems Dynamics at M.I.T. Wells has participated in a wide range of community service activities and is listed in Marquis Who's Who in Finance and Industry and Marquis Who's Who in America.

