

Illinois Gross Gaming and Tax Revenue Scenarios

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Introduction

We have run several independent scenarios that analyze the potential revenue impact from (1) reversing the state's tax increase on gaming revenues implemented July 1, 2002; (2) increasing the number of gaming positions allowed to 2,000 positions from the current 1,200 positions; (3) the potential revenue and tax implications from adding 1,000 slot machines to the state's six racetracks; and (4) the potential value of the 10th license for the state under various scenarios and at various tax rates. We caution that our estimates are built on reasonable assumptions based on industry experience. The actual outcomes could be meaningfully different than our estimates.

Overall, it is our view that the gross gaming revenue tax increases implemented in July 2002 has resulted in lost jobs, lower overall revenues and a significant decline in potential capital investment in the state. Since the tax increase (July 1, 2002-February 1, 2003), gaming revenues in Illinois have declined 2.1%, to \$1.02 billion. This is the first sustained period of decline we have seen in the history of the Illinois market and comes despite the addition of significant capital investments at properties like Harrah's Joliet and Hollywood Aurora (total of \$150 million or more in capital).

While the market has been affected by dockside gaming in Indiana, as well as the slowing economic trends, we believe operators have also had their hands tied with regard to marketing expenses, as it is simply not profitable to market to certain customer segments under the new tax structure. With little incentive to market or invest capital into their properties at a 50% top tax rate, we see no reason why Illinois casinos should show any significant growth, which is disappointing because it has historically been one of the strongest markets in the country. Additionally, Indiana facilities now operate dockside, have unlimited positions and a meaningfully lower tax rate. We believe these dynamics provide Indiana facilities, particularly those that compete with Illinois Chicagoland properties, a sustainable competitive advantage, absent a regulatory/tax change in Illinois. We also think Indiana could eventually consider allowing barge facilities, which would put the Illinois Chicago land properties at a further disadvantage.

Additional Position Analysis

In our view, Illinois, and Chicagoland in particular, remains one of the most compelling casino markets in the country given the favorable demographics in and around the state. There are approximately 8.4 million adults living within 100 miles of Chicago, while the market is currently under served in terms of gaming capacity, with only 547 adults per gaming position. This compares to other markets like Kansas City (237 adults per gaming position) and St. Louis (239 adults per gaming position). As such, we believe the state could easily support additional gaming positions over and above the current 1,200 cap. We do not view this as an expansion of gaming since it would be done at the existing casino facilities.

We have run several scenarios that estimate the potential for incremental tax revenues as a result of raising the position cap. For these scenarios, we have assumed that the position limit is raised to 2,000. Our scenarios look at both a 50% top tax rate and a 35% top tax rate. Under a 35% top tax rate, we expect casinos could invest approximately \$600 million on facility expansions. Under a 50% tax rate, we believe the capital investment would be limited to the minimum required to increase to 2,000 positions, or approximately \$200 million for the entire state, since we believe capital is better deployed in lower tax rate markets. This could have a meaningful impact on the future revenue generating

potential of the market, as operators typically look for 15%-20% EBITDA return on capital investments.

Even under our conservative scenario at the 35% tax rate (2,000 positions), we estimate the state would generate an incremental \$43 million in tax revenues over the current operating structure (50% tax rate, 1,200 positions). In reality, we think after an initial shock period as the market absorbs the incremental gaming capacity, there is likely to be only a nominal (10%-15%) dilution in win per position for the Illinois market.

Under a 35% tax rate, we assume operators would invest the capital necessary to broaden their market penetration by adding additional amenities (room, food and beverage and entertainment) that bring in new customers to the property. In addition to the incremental tax revenues, new jobs and capital investment would be stimulated to accommodate the construction related to the expanded gaming as well as to support the expansion. The long-term ripple effect of these types of capital investment on the local and state economy are compelling, in our view.

Additionally, the rollback of the tax rate to a more reasonable level is likely to stimulate the type of long-term capital investment that facilitates a stable long-term economic base for the industry and long-term growth in gaming revenues. Casino gaming operations are typically capital intensive, requiring large capital infusions every year/few years to keep the product fresh and add new amenities to stimulate visitation. However, at a 50% top tax rate, it is difficult for operators to generate a reasonable return on their incremental capital, making compelling capital investment projects very limited, ultimately stagnating revenue growth and jobs growth. As such, we think the long-term revenue growth potential of the market, even with 2,000 positions under a 50% tax rate would be limited.

That said, we have also run various scenarios under the existing 50% tax structure. Under our most conservative scenario, the state could generate an incremental \$78 million in tax revenues from allowing the existing casinos to operate 2,000 positions each. We have not factored the potential revenues from the 10th license into any of these scenarios. These are sensitivities are just on the existing casinos.

Figure 1: Sensitivity Analysis for Illinois Gaming Revenues and Taxes (\$ MM)

<u>Status Quo 1,200 positions</u>	<u>Gross Revenues</u>	<u>Gaming Tax</u>	<u>Admissions Tax</u>	<u>Total Tax</u>
35% Tax Structure	\$1,831.5	\$533.8	\$37.5	\$571.3
50% Tax Structure	1,794.9	626.2	55.7	681.9
Difference	36.6	(92.4)	(18.2)	(110.6)
<u>Base Case Scenario: 2,000 positions</u>				
35% Tax Structure	2,399.7	726.1	50.0	776.1
50% Tax Structure	2,039.8	751.5	63.8	815.3
Difference	360.0	(25.4)	(13.8)	(39.1)
<u>Aggressive Case Scenario: 2,000 positions</u>				
35% Tax Structure	2,540.9	774.8	52.9	827.7
50% Tax Structure	2,159.8	803.8	67.5	871.3
Difference	381.1	(29.0)	(14.6)	(43.6)
<u>Conservative Case Scenario: 2,000 positions</u>				
35% Tax Structure	2,258.6	677.5	47.1	724.5
50% Tax Structure	1,919.8	699.9	60.0	759.9
Difference	338.8	(22.5)	(12.9)	(35.4)

Assumptions:

- All operators opt to go to 2,000 positions. This may or may not be the case due to facility constraints.
- The current formula for calculating positions in Illinois actually results in most operator having more than the current 1,200 position cap. We have assumed 2,000 positions for simplicity sake.
- We have not factored in the potential impact of a 10th license on the Chicagoland region in any of these scenarios.
- We have scaled the admissions with the expected increase in number of positions diluted by the win per unit dilution.
- Underlying data is based on 2002 gaming revenues as reported by IGB. We have factored in a 2% growth rate decline under a 50% tax rate due to less incentive to market to certain customer segments.
- Under 35% tax rate we assume \$600MM is invested in the market, under a 50% tax rate we assume \$200MM is invested.

Source: Deutsche Bank Securities; Illinois Gaming Board

Slots at the state's racetracks

We have also prepared an analysis on the potential revenue/tax implications from adding 1,000 slot machines at each of the state's racetracks. Our assumptions in these scenarios are as follows:

- Each track adds 1,000 slot machines
- Each casino is allowed 2,000 positions
- The tax structure stays at a top rate of 50%
- The 10th license is auctioned and built in Chicagoland with 2,000 positions. We have estimated operating metrics to the property that are in line with or slightly ahead of those currently generated by Illinois properties in the market.
- The racetracks operate under the same admissions and gaming tax structure as the casinos.
- Quad Cities Downs does not reopen and Springfield Horse Racing and Du Quoin State Park do not get slots.
- Sportsman's Park stays open or reopens once it is allowed to have slots.

Based on this set of assumptions we have run base case, conservative and aggressive scenarios. The underlying assumptions are basically the same for each; however, we have adjusted the win per unit dilution factor for the incremental supply being added to the market. With each casino allowed 2,000 positions, the 10th license built out and 6,000 slots at tracks in the state, the state would be increasing its gaming capacity by 130% (11,300 positions to approximately 26,000 positions). The real question to be answered is not if there would be dilution to the win per unit in the market, but how much and what the potential implications of this are. Additionally, markets that are tangential to Illinois including St. Louis, Missouri; East Chicago, Indiana; and Iowa would also be affected by such a dramatic increase in supply in Illinois. There could be a meaningful level of cannibalization of revenues from St. Louis Missouri operators and East Chicago, Indiana operators. While this is not a concern for the state, casino operators will certainly take this into consideration as they make their capital allocation decisions across the Midwestern markets.

Our base case scenario assumes that statewide win per unit declines 35% in the Chicagoland market, given that there are five racetracks that would be eligible for slots. Most of these tracks are as close to or closer to downtown Chicago than the existing casinos. Outside of Chicago, our dilution assumptions vary by property and by market depending on what capacity already exists in the region. The casinos would have a first mover advantage including: table games, existing customer databases and years of operating history in the market. We also think the Indiana operators in the Chicagoland market could experience a loss of revenues ranging from 20% -30% due to the significant increase in capacity on the Illinois side of the market. While this is may not be a primary concern for Illinois legislators, it would be a huge concern for diversified operators like Harrah's, which operate properties on both sides of the market, as well as in St. Louis, Missouri, in our view.

In our base-case scenario, Illinois would generate approximately \$3.0 billion in gaming revenues and approximately \$1.08 billion in gaming taxes. This is only \$402 million above our status quo tax level of approximately \$682 million (50% tax rate, 1,2000 positions). Even in our aggressive scenario, a 130% increase in gaming capacity would yield only approximately \$500 million in incremental gaming taxes, given the high level of expected win per unit dilution from such a substantial increase in capacity.

Figure 2: Sensitivity Analysis for Slots at Tracks with the 10th license
Status Quo: 1,200 positions, 50% tax rate

	Gross Revenues	Gaming Tax	Admissions Tax	Total Tax
Casino revenues	1,794.9	626.2	55.7	681.9
Positions	11,288			
Win per position market wide	445			

Base case scenario: 50% tax rate, 2000 positions for casinos, 1,000 slots at tracks

	Gross Revenues	Gaming Tax	Admissions Tax	Total Tax
Casinos	2,231.5	793.4	62.4	855.8
Racetracks	757.7	206.5	21.3	227.8
Total	2,989.2	999.9	83.7	1,083.6
Positions	26,000			
Win per position market wide	315			

Conservative case scenario: 50% tax rate, 2000 positions for casinos, 1,000 slots at tracks

	Gross Revenues	Gaming Tax	Admissions Tax	Total Tax
Casinos	2,099.3	728.7	58.8	787.6
Racetracks	695.5	183.4	19.5	203.0
Total	2,794.8	912.1	78.4	990.5
Positions	26,000			
Win per position market wide	295			

Aggressive case scenario: 50% tax rate, 2000 positions for casinos, 1,000 slots at tracks

	Gross Revenues	Gaming Tax	Admissions Tax	Total Tax
Casinos	2,385.4	867.2	66.8	934.0
Racetracks	814.2	228.6	22.8	251.4
Total	3,199.7	1,095.8	89.6	1,185.4
Positions	26,000			503.5
Win per position market wide	337			

Source: Deutsche Bank Securities; Illinois Gaming Board

Beyond the Tax Dollars, There May Be Several Other Consequences

While the incremental taxes might seem relatively compelling at first glance, there are several potential consequences we would highlight that make the prospect of adding 1,000 slots at each of the Illinois racetrack a less than optimal solution to the state's budget crisis, in our view:

- The incremental return on adding 800 incremental positions for the existing Illinois casino operators could be a net loser. In our base scenario, we forecast the four Chicago properties would generate \$12 billion in revenues, slightly less than what they generated in the last twelve months (\$1.23 billion). This is primarily because there would be five new potential competitors in the market (tracks), as well as the 10th license.
- In our view, the prospect of investing significant capital to upgrade to 2,000 positions for zero return could have a chilling effect on equity valuations for the existing Illinois Chicago operators.
- All other things equal, no casino operator would invest money in their Illinois properties with the prospect of 6,000 slots at tracks on the horizon, in our view. Yet they would be essentially forced to invest the capital just to preserve their existing revenue stream. From a bondholders and shareholders standpoint, this could be the worst of both worlds--new competition and a significant capital call. This essentially could translate to diluted returns on invested capital and the destruction of shareholder value.
- Just the prospect of significant new competition from slots at tracks in Illinois could further solidify current investor sentiment on Wall Street that Illinois is a less than favorable place for casinos to do business putting further pressure on capital investment and jobs in the state.

- Win per unit dilution could be much greater than expected from slots at tracks. Given the huge potential increase in capacity, it is impossible to accurately forecast what kind of win per unit dilution there would actually be. Market saturation occurs at various levels and the cannibalization of revenues from existing operators could be significantly higher than even our conservative scenario.
- Cannibalization from Indiana and Missouri operators could be also significant, most notably Indiana Chicagoland operators. This could further pressure the public companies who do business in those states having unintended consequences on capital investment and jobs in both Indiana and Missouri, as well as Illinois.
- **With the prospect of slots at tracks the implied value of the 10th license plummets for three reasons, in our view:** (1) the potential earnings power of the property becomes much less; (2) the potential risk increases substantially increasing investors required rate of return on any venture; and (3) the build versus buy equation shifts dramatically toward acquiring an existing racetrack rather than assuming construction risk. Under our various scenarios, the value of the 10th license is between \$76 million and approximately \$225 million versus between \$353 million and \$753 million without slots at tracks (see further discussion in the next section)

Value of the 10th License for Illinois

As the state looks to raise revenues for the 10th license, we estimate the potential sale value of that license declined by approximately \$236 million as a result of the July tax increase. Before the tax increase, we estimate the sale value of the 10th license in Illinois was approximately \$590 million, in line with rumored bids for the license. This is in addition to the approximately \$225 million we think would be invested to construct the facility. Our estimates are based on win/position estimates for a Chicagoland facility and margin assumptions that are in line with or slightly ahead of the current operators in the market. This is based on our expectation that the site would have an "A" location and would be the newest property in the market.

In our analysis, we assume the buyer of the license would target a minimum 14% -15% EBITDA return on capital in order to earn a reasonable spread over their cost of capital for their shareholders/bondholders. This is in line with the hurdle rates that most publicly traded gaming companies set for returns on invested capital. With a higher tax rate, the implied hurdle rate of the license increases. Likewise, with slots at tracks we believe the implied hurdle rate is even higher given the higher risk to the potential earnings power of the property.

Pre-Tax Increase Scenario: 1,200 positions, 35% tax rate, no slots at tracks

Based on a \$225 million construction cost and an EBITDA run rate of approximately \$117 million (at 1,200 positions and a 35% tax rate), this would imply an all-in EBITDA multiple of 7.0x. The implied EBITDA multiple is slightly ahead of where similar assets have traded in the public markets given a more reasonable tax structure and the favorable demographics of the Chicagoland market (We assume the state would select a site where revenues would likely be maximized in our analysis). More importantly, we estimate total annual gaming tax revenues for the state would equal more than \$106 million, while the license could be sold for approximately \$590 million. We note our win per unit assumptions are slightly above the current market average, but less than what the two top revenue generators—Grand Victoria Elgin and Hollywood Aurora currently generate in win per unit.

Status Quo: 1,200 positions, 50% top tax rate, \$3 admissions tax

This is the scenario under which Illinois currently operates. We estimate gaming taxes to the state are approximately \$132 million versus \$106 million in our pre-tax scenario. However, since the earnings power of the property (EBITDA) declines by \$31 million, and the inherent risk profile of the property increases, we think the underlying value of the license is only approximately \$353 million versus \$590 million in our base case scenario.

Under a higher tax rate and a less predictable legislative environment, we think the license is worth far less and investors would require a higher rate of return on their investment to compensate for the additional legislative/regulatory risk. Since the cost of developing the property remains basically the

same at \$225 million, the potential sale price of the license under a 50% top tax rate plummets by approximately \$236 million.

While the state makes an additional \$26 million in taxes, by our estimates, it will take 9.0 years for the state to break-even on the lost value related to the sale of the casino license. With an estimated \$236 million decline in the sale value of the 10th license, every riverboat in the state needs to operate under the higher tax structure for approximately two years to make up the lost revenue opportunity.

Scenario 1: 2,000 positions, 35% top tax rate, \$2 admissions tax, no slots at tracks

With a 2,000 position limit, we estimate the total incremental taxes to the state climbs to \$143 million from \$132 million in the status quo scenario, while the intrinsic value of the license increases to approximately \$753 million from \$590 million, as the potential earnings power of the property is much higher. We have assumed the required return on invested capital remains constant at approximately 14% -15% and the implied EBITDA multiple in the transaction is approximately 6.7x. We note that the implied EBITDA multiple is approximately 30 bps lower than in the pre-tax increase scenario even though the tax rate has been rolled back to 35%. It is our view, that the value of the 10th license has in part been permanently impaired by the tax increase as potential investors now perceive that there could be future risk to the stability of the operating environment. Nevertheless, with a rollback in the tax rate to 35%, the license is potentially worth far more than in any other scenario.

Scenario 2: 2,000 positions, 50% top tax rate, \$3 admissions tax

While 2,000 positions makes the 10th license more saleable, the higher legislative/regulatory risk would still increase the required return of the project for investors, while the higher tax rate severely depresses the EBITDA to \$104 million versus our pre-tax case of \$117 million. This is despite 800 additional positions. Since properties are bought/sold and built based on their future earnings power, we estimate the value of the license is approximately \$445 million versus \$590 million in our pre-tax scenario, but approximately \$92 million ahead of the status quo scenario. Again, this reflects the higher implicit tax/regulatory risk of operating under the 50% tax structure, as well as the truncated earnings power of the property.

Figure 3: Value of the 10th License Under Various Operating/Tax Structures, No Slots at tracks (\$ MM)

	Pre tax 35% rate 1,200 pos.	Status Quo 50% tax rate 1,200 pos.	Scenario 1 35% rate 2,000 pos.	Scenario 2 50% tax rate 2,000 pos.
10th license				
Operating Results Summary				
Casino revenue (MM)	\$323.6	\$317.1	\$426.5	\$418.0
Food & beverage, other (MM)	38.8	38.1	51.2	50.2
% Casino	12%	12%	12%	12%
Gross revenue (MM)	362.4	355.2	477.7	468.1
Promotional allowances (MM)	-43.5	-42.6	-57.3	-56.2
Net revenue (MM)	318.9	312.5	420.4	412.0
Casino taxes (MM)	100.8	124.2	136.8	174.6
Admissions taxes (MM)	5.4	8.1	6.5	9.7
<i>Total gaming taxes (MM)</i>	<i>106.2</i>	<i>132.3</i>	<i>143.3</i>	<i>184.3</i>
Operating expenses (MM)	96.0	94.1	126.6	124.1
EBITDA (MM)	116.7	86.1	150.5	103.6
Margin %	36.6%	27.6%	35.8%	25.1%
Casino				
Number Slots	1,100	1,100	1,670	1,670
Number Tables	32	32	55	55
Positions (1)	1,292	1,292	2,000	2,000
Win/day/slot	675	662	574	562
Win/Table/day	4,500	4,410	3,825	3,749
Slot revenue (MM)	271.0	265.6	349.7	342.7
% total	83.8%	83.8%	82.0%	82.0%
Table revenue (MM)	52.6	51.5	76.8	75.3
% total	16.2%	16.2%	18.0%	18.0%
Days	365	365	365	365
Admissions (MM)	2.7	2.7	3.2	3.2
Win/Admission	120	117	132	129
Capital Investment (MM)	225.0	225.0	250.0	250.0
License purchase price (MM)	589.5	353.2	752.7	445.4
Total capital investment (MM)	814.5	578.2	1,002.7	695.4
EBITDA ROI	14%	15%	15%	15%
Total gaming taxes and license sale price	\$695.6	\$485.5	\$895.9	\$629.7
Implied EBITDA multiple	7.0x	6.7x	6.7x	6.7x

Assumptions:

a. Base case win per slot of \$675 and win per table of \$4,500.

Chicago's Illinois facilities averaged \$631 win per slot/day and \$4,017 win per table/day, respectively.

b. Pre-tax EBITDA margin of 36.6% is consistent with pre-tax increase margins being generated by leading operators in the market like Harrah's, Hollywood and Grand Victoria.

c. Pre-tax increase admissions of 2.7 million is in line with the market average of 2.7 million in 2002

d. Expected capital investment of \$225-\$250MM is based on what comparable barge-based facilities have been built for in the past few years (Hollywood Shreveport \$230MM, Belterra \$225MM)

Our construction cost assumptions are based on a ground-up development.

e. We assume an EBITDA ROI hurdle rate of 14%-15% consistent with guidance offered by most companies on new project development. On a 50% marginal tax rate, we think the hurdle rate increases because of the higher implied risk in the development of the projects.

f. Implied EBITDA multiple of 6.7x-7.0x is in line with where comparable assets have traded in public/private market transactions with comparable potential earnings power.

Source: Deutsche Bank Securities; Illinois Gaming Board

Value of the 10th license with slots at tracks

We have also run scenarios on the potential value of the 10th license if Illinois were to legalize slots at racetracks. We think the value of the 10th license becomes dramatically less given that there are five potential racino competitors, as well as four existing competitors in Illinois. This is primarily as a result of the permanently lower earnings expectations that would come from operating in a market with more than twice the gaming capacity it currently has. In our most aggressive scenario, we think the property can earn \$75 million in EBITDA versus \$117 in pre-tax increase scenario. At 2,000 positions in our slots at track base case scenario, the 10th license would generate roughly as much in gaming taxes as it would with 1,200 positions and no slots at racetracks.

Under our three scenarios (which roughly match the slots at tracks scenarios), the 10th license is worth between \$76 million and \$225 million. Several factors result in this depressed valuation. Investors will only pay so much for a given stream of cash flows. They need to be compensated for that risk over and above their investment. If the potential cash flows are at risk, then the risk premium is higher. If the potential cash flows are lower, investors will not pay as much for them.

Figure 4: Value of the 10th license with slots at tracks (\$ millions)

	Base Case 50% 2,000 pos	Conservative 50% 2,000 pos	Aggressive 50% 2,000 pos
10th license			
Operating Results Summary			
Casino revenue (MM)	\$326.2	\$301.1	\$351.2
Food & beverage, other (MM)	39.1	36.1	42.1
% Casino	12%	12%	12%
Gross revenue (MM)	365.3	337.2	393.4
Promotional allowances (MM)	-43.8	-40.5	-47.2
Net revenue (MM)	321.5	296.7	346.2
Casino taxes (MM)	128.7	116.2	141.2
Admissions taxes (MM)	9.7	9.7	9.7
Total gaming taxes (MM)	138.4	125.9	151.0
Operating expenses (MM)	120.3	120.3	120.3
EBITDA (MM)	62.7	50.5	74.9
Margin %	19.5%	17.0%	21.6%
Casino			
Number Slots	1,670	1,670	1,670
Number Tables	55	55	55
Positions (1)	2,000	2,000	2,000
Win/day/slot	439	405	473
Win/Table/day	2,925	2,700	3,150
Slot revenue (MM)	267.4	246.9	288.0
% total	82.0%	82.0%	82.0%
Table revenue (MM)	58.7	54.2	63.2
% total	18.0%	18.0%	18.0%
Days	365	365	365
Admissions (MM)	3.2	3.2	3.2
Win/Admission	101	93	109
Capital Investment (MM)	250.0	250.0	250.0
License purchase price (MM)	150.5	75.8	224.7
Total capital investment (MM)	400.5	325.8	474.7
EBITDA ROI	16%	16%	16%
Total gaming taxes and license sale price	\$288.9	\$201.7	\$375.6
Implied EBITDA multiple	6.4x	6.4x	6.3x

Source: Deutsche Bank Securities; Illinois Gaming Board

What is the best option for the state, in our view?

In our final analysis, we have rolled together our various scenarios to see which scenario has the most potential revenue implications for the state. Quite simply, our analysis indicates that the state's best decision would be to (1) roll the tax back to 35% (2) allow the existing operators to have 2,000 positions; and (3) not move forward with slots at tracks. In our final analysis we used our base case scenario from the increased capacity in the market. While the overall taxes to the state would be the lowest of any scenario, we think the estimated sale value of the 10th license would be far higher than in any other scenario. Additionally, we believe the incremental capital investment that would be stimulated by rolling the tax rate back to 35% would generate long-term revenue growth in the market.

Recognizing that the state may be wary about rolling back the tax increase of a year ago, we think the second best option to maximize revenue would be to keep the 50% tax rate and allow operators to have 2,000 positions. We note that revenue growth is likely to be truncated by a lack of capital investment over the long-term, since capital is likely to flow to markets with more favorable tax rates. The overall taxes are higher, but this is offset by the lower earnings power/higher risk and consequently lower potential sale price of the 10th license.

Our scenarios for slots at tracks yields higher potential taxes for the state (includes the 10th license) at \$1.08 billion (the base case with slots), but not that much higher than the scenario which has no slots at tracks a 50% tax rate and 2,000 positions for the operators (\$1.0 billion). This is primarily because we think there could be a large dilution of the overall win per unit in the market as a result of adding 6,000 potential slots at the tracks. Additionally, as we outlined above, there could also be several other potential risks that do not justify the relatively small incremental tax revenues in comparison to the capacity increase in the market.

Figure 5: Rolling together the various scenarios (\$ millions)

Status Quo: 1,200 positions, 50% tax rate, 10th license sale ⁽¹⁾

	Gross Revenues	Gaming Tax	Admissions Tax	Total Tax
Existing Operators	1,794.9	626.2	55.7	681.9
Value of the 10th license				353.2
Estimated proceeds to the state				\$1,035.1

(1) Does not factor in future tax revenues from 10th license once it is open

Slots at tracks, Base case scenario, 10th license built, 50% tax rate

	Gross Revenues	Gaming Tax	Admissions Tax	Total Tax
Casinos (including the 10th license)	2,231.5	793.4	62.4	855.8
Racetracks	757.7	206.5	21.3	227.8
Subtotal	2,989.2	999.9	83.7	1,083.6
Value of the 10th license				150.5
Estimated proceeds to the state				\$1,234.1

No slots at tracks, Base case scenario, 2000 positions, 10th license built, 50% tax rate

	Gross Revenues	Gaming Tax	Admissions Tax	Total Tax
Existing casinos	2,039.8	751.5	63.8	815.3
10th license	418.0	174.6	9.7	184.3
Subtotal	2,457.8	926.1	73.5	999.6
Value of the 10th license				445.4
Estimated proceeds to the state				\$1,445.0

No slots at tracks, Base Case Scenario, 2000 positions, 10th license built, 35% tax rate

	Gross Revenues	Gaming Tax	Admissions Tax	Total Tax
Existing casinos	2,399.7	726.1	50.0	776.1
10th license	426.5	136.8	6.5	143.3
Subtotal	2,826.2	862.9	56.5	919.4
Value of the 10th license				752.7
Estimated proceeds to the state				\$1,672.0

Source: Deutsche Bank Securities; Illinois Gaming Board

Final comments

In our view, the state needs to balance providing its existing casino operators with a fair and stable environment with its desires to raise incremental tax dollars from the gaming industry. Making one industry disproportionately pay its share of taxes and potentially selling the 10th license under the premise of a certain operating environment and then opening it up to massive new competition seems

on its face patently unfair, in our view, not to mention potentially risky to the stability of the ongoing operations of some operators in the state.

Gaming stocks like Harrah's Entertainment and International Game Technology are members of the S&P 500 for instance, while most gaming company stocks are also held by the largest mutual and pension funds in the world. If the state wants to grow its gaming revenues, we think it has an obligation to be fair to the shareholders and bondholders who invest in these companies under the expectation that they will be treated equitably by the governments where they do business. Typically, investors have historically held that they can expect rational and equitable treatment from the U.S. government as well as state governments. This is the reason that the equity risk premiums on U.S. stocks are some of the lowest in the world. Stability and reasonable treatment from government authorities are tantamount to capital allocation decisions, which ultimately create jobs and long-term growth in the economy, in our view.

Biographies

Marc Falcone

Marc J. Falcone is a Managing Director at Deutsche Bank Securities covering the Gaming, Lodging, and Leisure industries. The group's universe includes more than 60 companies covering both large- and small-cap gaming and lodging companies, as well as a variety of leisure and land-based entertainment companies.

Mr. Falcone is a contributor to several major industry publications and has also appeared on CNBC and CNN and has been quoted in several major newspapers, magazines, and financial publications worldwide including the Wall Street Journal, New York Times, Fortune, Forbes, and Business Week.

Prior to joining Deutsche Bank, Mr. Falcone worked for five years at Bear Stearns & Co. Inc. covering the gaming, lodging, and leisure industries, where the platform earned the number one *Institutional Investor* ranking for four consecutive years. Prior to Bear Stearns, Mr. Falcone served as the Associate Director for a multi-million dollar development project for the 1996 Summer Olympics, and was formally part of a management team that oversaw the redevelopment and operation of a beach-front resort in Southern Florida. Mr. Falcone holds an undergraduate degree from the Cornell School of Hotel Administration.

Eric L. Hausler

Eric L. Hausler is an associate analyst with Deutsche Bank Securities covering the Gaming, Lodging, and Leisure industries. Mr. Hausler has been quoted in several major newspapers and financial publications worldwide including Bloomberg and Reuters.

Prior to joining Deutsche Bank in mid 2002, Mr. Hausler worked for three years at Bear Stearns & Co. Inc covering the gaming, lodging and leisure industries, where the platform earned the number one *Institutional Investor* ranking for four consecutive years. From 1996-1999, Mr. Hausler worked for the New Jersey Casino Control Commission in various capacities in the Chairman's office, including serving as Governmental and Community Affairs Coordinator. Mr. Hausler holds an MS in Management from New Jersey Institute of Technology and a BA in English from Binghamton University.