Financial Capability

Massachusetts Gaming Commission

February 2014

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Introduction

The financial capability of the Applicant to develop (construct and open) and operate the proposed facility.

Key Considerations:

- Ability of Applicant to obtain project capital
- Current financial strength of Applicant
- Applicant's expected project return over 5 year term (term of license)

Ability to Obtain Capital: Introduction

Expectations of Applicant:

- Evidence of access to capital required to fund project cost as submitted.

Assessment Approach:

- Reviewed financing plan as submitted by Applicant
- Reviewed accompanying background materials (e.g. commitment letters, promissory notes, credit facilities, SEC filings, public representations, as well as Phase 1 Suitability Reports)

Ability to Obtain Capital: Funding Structure

The Applicants' proposed the following funding plans:

Financing Structure ($ millions)	Leominster/PPE	Plainville/Penn National	Raynham/PR
Capital Required	$215.7	$225.0	$227.3
Third Party Debt	$129.4	$225.0	$125.0
Equity	$86.3	$0.0	$102.3
Total	$215.7	$225.0	$227.3
Project Financed by Debt	60%	100%	55%
Project Financed by Equity	40%	0%	45%

Source: HLT Advisory Inc. based on Applicant submissions.

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Ability to Obtain Capital: Leominster/PPE

The legal name of the Applicant for Leominster/PPE is PPE Casino Resorts MA, LLC. The Applicant ownership has been detailed in the Phase 1 Suitability Investigation Report

Leominster/PPE plans to finance the $215.7 million project costs through a combination of principal equity and a senior bank credit facility. Leominster/PPE anticipates the equity to debt breakdown will be $86.3 Million /$129.4 Million (40% / 60%).

The debt portion of the project is supported by debt financing commitment letters from both KeyBanc and M&T Bank for up to [redacted]. This commitment letter [redacted] was based on a total estimated aggregate project cost of $200 million.

The equity portion of the project is supported by a loan promissory note [redacted] from The Cordish Family II, LLC. The note is for [redacted]. The Cordish Family II, LLC is owned by David Cordish and has sufficient liquid assets and net assets to cover the promissory note. Further, the [redacted] has sufficient assets to cover a prior representation of the applicant, in which they stated that they could fund the project in its entirety out of equity.

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Ability to Obtain Capital: Leominster/PPE (cont.)

Leominster/PPE stated that if debt was not available for the project, they would fund the entire amount. While the commitment letter does not cover the anticipated debt of $129.4 million and the amount of the [redacted] loan promissory note is only [redacted], the financial position (i.e. liquid assets and net assets) of Cordish Family II, LLC supports Leominster/PPE's ability to fund the total project costs of $215.7 million.

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Ability to Obtain Capital: Plainville/Penn National

Plainville/Penn National plans to finance the $225 million in total through its revolving credit facility. The total of the facility is $785 million of which $711 million was available at the time the Application was made. Penn's financial statements for September 30, 2013 show that the availability under this revolving credit facility increased to $762 million at September 30, 2013. The availability of this facility has been confirmed in our review of their financial statements. With this additional debt Penn's debt/equity ratio would increase from 1.18 to 1.28, still within an acceptable range.

Penn's 10-Q for September 30, 2013 was reviewed. Penn had $762.2 available for draw under this revolving credit facility as at September 30, 2013.

Note: Subsequent to the Applicant filing, Penn spun-off real property assets into a publically traded entity (GLPI REIT). As such, the revolving credit facility changed to $500 million of which $475 million was available as of the December 4, 2013 Host Community Hearing in Plainville.

Ability to Obtain Capital: Raynham/PR

The legal name of the Applicant is Raynham Park, LLC. The Applicant is owned [redacted] by Raynham Member Inc. and Carney Family Group LLC. As this Applicant was specifically formed for the Application, the Applicant has no financial history. The Carney Family Group is owned by three individuals as follows: George L. Carney Jr [redacted], Timothy Carney [redacted], Laetitia A. Carney [redacted]. Raynham Member Inc. is owned by Greenwood Racing Inc. ("Greenwood"). Greenwood owns and operates Parx Casino outside Philadelphia.

Raynham/PR plans to finance the $227 million with third party debt totaling $125 million and the balance from equity sources totaling $102 million.

The $102 million in equity is comprised of $11 million transfer of land from Carney, $45 million from Greenwood and $46 million from cash flow from the temporary facility.

Ability to Obtain Capital: Raynham/PR (cont.)

Raynham/PR plans to receive a [redacted] bank facility from a syndicate of lenders led by Credit Suisse. The availability of this bank debt is documented through a commitment letter from Credit Suisse, wherein Credit Suisse committed to provide the [redacted]. The primary conditions of this facility are:

- $45 million equity investment (Greenwood obligation)
- Transfer of land to Applicant (Carney obligation)
- [redacted]

The plan to use $46 million from the operation of the proposed temporary casino is not consistent with the condition contained in the commitment letter [redacted]

The $45 million equity contribution from Greenwood will be from utilizing available amounts under its existing revolving loan agreement. Greenwood has a [redacted] revolving loan agreement with Bank of America, [redacted] The addition of this [redacted] in debt would increase Greenwood's debt/equity ratio from 1.02 at December 31, 2012 to 1.21, still within an acceptable level.

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Financial Strength: Introduction

All three of the Applicants own and operate significant gaming facilities. This sub-section focuses on the financial strength of the gaming operations that the Applicants are using to directly support project financing. NOTE: while Leominster/PPE owns and operates Maryland Live Casino, this casino is not being used by Leominster/PPE to directly support project financing and as such an analysis of Maryland Live! Casino is not included in this subsection. Also, for Penn Gaming, the analysis presented in this subsection was based on the company prior to its "spin-off" transaction in December 2013.

Expectations of Applicant:

- To ensure existing operations of Applicant would not negatively impact Massachusetts casino operation. Provide evidence of a strong balance sheet, reasonable levels of existing debt and positive operating results.

Assessment Approach:

- Reviewed financial statements submitted by Applicants for either the Applicant or the Applicant's equity provider and performed financial ratio analyses to assess financial strength.

Financial Strength: Definition of Ratios

Liquidity ratios-Liquidity ratios are meant to provide information about an organization's ability to meet its short-term financial obligations. Liquidity ratios are not meant to assess the long-term sustainability of an organization, moreover, they are short-term in nature, defined within a one year time frame. In respect of liquidity ratios we used the current ratio in our analysis.

Financial Leverage Ratios-Financial leverage ratios provide information about an organization's debt structure and its ability to repay long-term debt. In respect of Financial Leverage Ratio, we used a debt/equity ratio in our analysis.

Asset Turnover Ratios-Asset turnover ratios provide information about how efficiently an organization is making use of its assets. The more times an organization can turnover its assets (in terms of revenue) the greater the productivity of the operation. In respect of Asset Turnover Ratios we used the capital asset turnover ratio in our analysis.

Profitability Ratios-Profitability ratios provide information about a company's ability to generate profits. In respect of our Profitability Ratios we utilized a return on investment ("ROI") ratio in our analysis.

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Financial Strength: Financial Ratios, Publically Traded Gaming Companies

Financial Ratios - Publically Traded Gaming Companies

($ millions)

	Isle of Capri Casinos, Inc.	Ameristar Casinos, Inc.*	Caesars Entertainment Corporation	MGM Resorts International	Boyd Gaming Corporation	Pinnacle Entertainment, Inc.*	Las Vegas Sands Corp.	Wynn Las Vegas, LLC	American Casinos & Entertainment Properties, LLC	Station Casinos LLC
Current Assets	$132	$136	$3,494	$2,507	$356	$185	$4,478	$380	$79	$197
Current Liabilities	$156	$194	$2,588	$1,926	$751	$198	$2,623	$330	$34	$171
Current Ratio	0.85	0.70	1.35	1.30	0.47	0.94	1.71	1.15	2.34	1.16
Total Capital Assets (Net Book Value)	$1,034	$1,742	$15,702	$14,195	$3,625	$1,696	$15,767	$3,216	$1,098	$2,212
Net Revenue	$965	$1,195	$8,587	$9,161	$2,487	$1,197	$11,131	$1,488	$340	$1,229
Capital Asset Turnover	0.93	0.69	0.55	0.65	0.69	0.71	0.71	0.46	0.31	0.56
Long Term Debt	$1,157	$1,880	$20,532	$13,589	$4,828	$1,437	$10,132	$3,125	$329	$2,056
Total Shareholder Equity	$142	-$22	-$432	$6,672	$467	$114	$8,658	$67	$829	$839
Debt Equity Ratio	8.12	n/m	n/m	2.04	10.34	12.61	1.17	46.64	0.40	2.45
EBITDA (excludes unusual items)	$172	$334	$1,751	$1,590	$413	$276	$3,387	$354	$61	$305
Investment	$1,299	$1,858	$20,100	$20,261	$5,295	$1,551	$18,790	$3,192	$1,158	$2,895
Return on Investment	13%	18%	9%	8%	8%	18%	18%	11%	5%	11%
Year End	4/28/2013	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2012

Source: HLT Advisory Inc. based on most recent annual audited financial statements

**In August 2013, Pinnacle Entertainment Inc. acquired Ameristar Casinos, Inc.*

n/m-Not measurable

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Financial Strength: Applicants' Financial Ratios

The financial ratio analysis based on financial statements submitted by the Applicants shows the following results:

Financial Ratios

($ millions)

	Greenwood Racing Inc.*	Penn National Gaming**
Current Assets	[redacted]	$487
Current Liabilities	[redacted]	$499
Current Ratio	[redacted]	0.98
Total Capital Assets (Net Book Value)	[redacted]	$2,730
Net Revenue	[redacted]	$2,899
Capital Asset Turnover	[redacted]	1.06
Long Term Debt	[redacted]	$2,649
Total Shareholder Equity	[redacted]	$2,250
Debt Equity Ratio	[redacted]	1.18
EBITDA	[redacted]	$687
Investment***	[redacted]	$4,695
Return on Investment	[redacted]	15%

Source:HLT Advisory Inc. based on company financial statements.

**Audited Financial Statements for year ending December 30, 2012*

***Audited Financial Statements for year ending December 31, 2012*

****Investment defined as long term debt plus shareholders equity (including shareholder loans), less excess working capital*

Financial Strength: Ratio Analysis

Current Ratio – (Current Assets/Current Liabilities)

This ratio assesses the ability of an entity to meet its short term (defined as one year) obligations. A current ratio of one or higher demonstrates an organization's ability to satisfy its short term obligations.

Both Greenwood and Penn have a current ratio of less than one, however, both organizations generate positive cash flow on an ongoing basis ensuring their ability to meet these obligations.

Debt/Equity Ratio – (Total Debt/Total Equity)

The higher the proportion of debt to equity in an operation, the more vulnerable the organization is in terms of financial sustainability.

Greenwood and Penn both have a debt/equity ratio slightly greater than 1, indicating they fund capital projects with slightly more debt than equity but each has a ratio considered acceptable. The level of debt in each Applicant is reasonable and does not present any financial uncertainty.

Financial Strength: Ratio Analysis

Capital Asset Turnover – (Net Revenues/Net Book Value of Capital Assets)

This ratio assesses the productivity of an entity in respect of its capital assets. Capital assets in land based gaming facilities typically comprise the most significant balance in respect of total assets.

Penn showing a return on capital assets in excess of 1 demonstrates a healthy return on capital assets, considering the multitude of markets Penn operates in. Penn also out performs all other publically traded gaming companies in capital asset productivity.

Greenwood is generating significant revenue levels relative to their invested capital in the property they operate.

Financial Strength: Ratio Analysis

Return on Investment – (EBITDA/(Total Debt + Equity)

This ratio provides the extent an organization is able to generate cash flow from operations when compared to its investment in the operation. EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

In the casino industry we would suggest that a reasonable return on investment would approximate 15% (defined as EBITDA divided by debt and equity invested). The best measure of a reasonable expected rate of return on investment would be based on examples where casinos have been bought and sold in an open market; i.e. what would a third party be prepared to pay to purchase a casino. Casinos have been purchased between 6 and 8 times earnings multiples in North America. This would equate to an investor expecting a return of anywhere between 12.5% to 17% on their investment.

Penn's return at 15% is well within this expected range.

Greenwood at [redacted] is far in excess of this amount, indicating an above average return.

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Expected Project Return: Introduction

Expectations of Applicant:

- Earn a commercially reasonable return on investment.
- Ability to pay back development costs over term of license (5 years).

Assessment Approach:

- Return on investment calculation based on Applicant submitted 5-year EBITDA. This calculated return was assessed under two annual discount rates (4%-15% as contained in Application document).

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Expected Project Return: Applicants' ROI

Applicant's expected project returns (5 years, length of license)

Simple Return on Investment Calculation	Leominster/ PPE	Plainville/Penn National	Raynham/PR
EBITDA			
Year 1	[redacted]		
Year 2			
Year 3			
Year 4			
Year 5			
Total EBITDA			
Average EBITDA			
Development Budget			
Average Return	[redacted]	[redacted]	[redacted]

Source: HLT Advisory Inc. based on Applicant submissions.
No discount rate used

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Expected Project Return: Applicants' ROI

Applicant's expected project returns (5 years, length of license)

The tables below calculate the internal rate of return ("IRR") using discount rates of 4% and 15% as requested in Question 2-11, Pro Forma Cash Flow of the Application.

Internal Rate of Return (Discount Rate 4%)

	Leominster/ PPE	Plainville/Penn National	Raynham/PR
EBITDA			
Year 1	[redacted]		
Year 2	[redacted]		
Year 3	[redacted]		
Year 4	[redacted]		
Year 5	[redacted]		
Total EBITDA	[redacted]		
Year 5 Casino Valuation	[redacted]		
Total Cash Inflows	[redacted]		
Development Budget	[redacted]		
Internal Rate of Return	[redacted]	[redacted]	[redacted]

Source: HLT Advisory Inc. based on Applicant submissions.
Discout Rate Used 4%

Internal Rate of Return (Discount Rate 15%)

	Leominster/ PPE	Plainville/Penn National	Raynham/PR
EBITDA			
Year 1	[redacted]		
Year 2	[redacted]		
Year 3	[redacted]		
Year 4	[redacted]		
Year 5	[redacted]		
Total EBITDA	[redacted]		
Year 5 Casino Valuation	[redacted]		
Total Cash Inflows	[redacted]		
Development Budget	[redacted]		
Internal Rate of Return	[redacted]	[redacted]	[redacted]

Source: HLT Advisory Inc. based on Applicant submissions.
Discout Rate Used 15%