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**THE**  
**SYMPOSIUM**  
**ON RACING**  
*& Gaming*

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**Alternative Financing Sources  
in Racing and Gaming**

Tucson, Arizona

December 7, 2006

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# Overview of Discussion Topics

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## Today's Session:

- Speaker Biographies
- Current State of Financing Market
- Sources of Financing
  - Financing Costs & Return Criteria
  - Structured Alternatives
- Case Studies
- Recent Transactions

# Alternative Financing Sources

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Moderator

Panelists

Innovation  
Capital

Plainfield Asset  
Management

Wyoming  
Entertainment

DDJ Capital  
Management

Matt  
Sodl

Joe  
Bencivenga

Eric  
Spector

Ted  
Wagenknecht

*Managing  
Director  
& Co-  
Founder*

*Founding  
Partner  
&  
Head of  
Research*

*President  
&  
Chief  
Executive  
Officer*

*Vice  
President*

# Speaker Biographies

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## Moderator

**Matt Sodl**  
**Managing Director & Co-Founder**  
**Innovation Capital, LLC**

**Innovation Capital**  
*Investment Bankers*

As Managing Director and Co-Founder of Innovation Capital, Mr. Sodl brings to the firm more than ten years of investment banking experience in the gaming, hospitality and entertainment industries. Mr. Sodl has served in senior positions at Merrill Lynch, Schroder Wertheim and Murphy Noell. Mr. Sodl leads an investment banking practice that has been among the most active in the middle market in the gaming and hospitality segment. Mr. Sodl is widely quoted in business and news publications including *The Wall Street Journal*, *BusinessWeek* and the *Las Vegas Sun*.

Mr. Sodl's client base includes public and private gaming operators, Native American entities, management groups, equipment manufacturers and private investor groups. Mr. Sodl's past clients have included MGM Mirage, Mandalay Resort Group, Caesars Entertainment, Aladdin Gaming Holdings, SunCruz Casinos, President Casinos, Nevada Gold and Casinos, American Racing and Entertainment and Jumer's Casino Rock Island. In aggregate, Mr. Sodl has been involved in transactions aggregating over \$20 billion over the course of his career.

Mr. Sodl earned a Bachelor of Arts degree in Economics from Columbia University and a Masters of Business Administration with a concentration in Finance from The Anderson School at the University of California, Los Angeles. Mr. Sodl has served as a speaker at a number of gaming conferences pertaining to topics involving the capital markets and corporate finance.

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# Speaker Biographies

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## Panelists

**Joe Bencivenga**  
**Founding Partner & Head of Research**  
**Plainfield Asset Management**



Prior to joining Plainfield, Joe Bencivenga was a Managing Director of Guggenheim Capital Markets LLC from 2004 to 2005, where he was responsible for high yield capital markets, private equity and research. From 2002 to 2004, Mr. Bencivenga was Head of High Yield Research at Maxcor Financial with the same team as at Guggenheim.

From 1997 to 2001, Mr. Bencivenga was Global Head of High Yield at Barclays Capital Inc. During his tenure there, his team originated over 75 high yield, mezzanine and bridge loan transactions, 20 of which were lead managed. At Barclays Capital, Mr. Bencivenga also helped manage the firm's \$1 billion bridge loan and mezzanine fund.

From 1990 through 1996, he was Head of High Yield Research, Head of Fixed Income Credit Research (high yield and high grade) and Deputy Head of Equity Research at Salomon Brothers Inc.

Mr. Bencivenga also served as a Senior Vice President and Head of High Yield Research at Drexel Burnham Lambert in Beverly Hills, California, where he worked from 1985 to 1990. Mr. Bencivenga started his career as a Corporate Bond Analyst at Salomon Brothers Inc from 1983 to 1985.

Mr. Bencivenga received a B.S. in Marketing in 1981 and an M.B.A. in 1983 from Fairleigh Dickinson University.

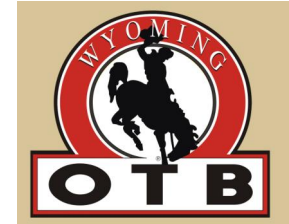
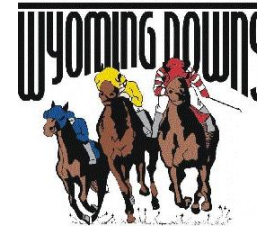
# Speaker Biographies

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## Panelists

**Eric Spector**  
**President & Chief Executive Officer**  
**Wyoming Entertainment**



Mr. Spector is President of Wyoming Entertainment and has over 15 years of experience in the gaming and racing industries. As CEO, Mr. Spector oversees the operations of Wyoming Downs and Wyoming Off-Track Betting, a horse racing and OTB network operator in Evanston, Wyoming.

In addition to his duties with Wyoming Entertainment, Mr. Spector currently serves as President of Trident Media Group, a service provider to the racing and gaming industries for over 30 years.

Prior to joining Wyoming Entertainment, Mr. Spector was CEO of Mid-State Raceway, which owned and operated Vernon Downs prior to its sale to American Racing. Mr. Spector also has executive-level experience with numerous entities formed to develop and acquire gaming and racing properties throughout the United States.

Mr. Spector also assisted in restructuring and selling Graff Pay Per View, a Nasdaq-listed company operating several partnerships and subsidiaries across a number of industries.

Mr. Spector received a B.S. from Cornell University and earned a J.D. from the Boston University School of Law.

# Speaker Biographies

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## Panelists

### **Ted Wagenknecht** **Vice President** **DDJ Capital Management**



**Ted Wagenknecht is a Vice President and Senior Analyst at DDJ Capital Management, LLC, a \$3 billion Boston-based investment firm focusing on special situations investing in the debt and equity of public and private companies. Mr. Wagenknecht sources, analyzes and executes investments for DDJ in the Gaming, Lodging and Leisure, Homebuilding, Building Products, Restaurant, Utility and Chemicals industries.**

**Prior to joining DDJ, Mr. Wagenknecht was an Associate at Boston-based Summit Partners, a \$10 billion private equity firm specializing in leveraged buyouts of middle-market companies, and was also an Investment banker for UBS Warburg in New York City specializing in Leveraged Finance. Mr. Wagenknecht has made a number of investments in the Gaming industry, most notably as a creditor in the Bankruptcy of Trump Hotels and Casino Resorts and as a mezzanine lender to The Silver Slipper Casino in Waveland, Mississippi.**

**Mr. Wagenknecht is a CFA Charterholder, a member of the Greater Boston Council of the Jimmy Fund, and a member of the Alumni Council of the Kent School in Kent, CT.**

**He graduated with a BA from Boston College.**

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# **Current State of Financing Market**

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# Current State of Financing Market

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## Stable Economic Environment

- Equity Financings
  - Private vs. Public Equity
- Role of Hedge Funds
- Acquisition vs. Expansion vs. Development
- Risk Appetite
  - Leverage Ratios
  - EBITDA Coverage Ratios
  - Interest Rates

# Current State of Financing Market

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## Gaming Industry Trends

- Leveraged Buyouts
    - Increasing acquisition / leverage multiples
    - Strong credit / high yield market
  - Privatization trend on the upswing
    - Driven by aggressive entry of private / institutional investors
  - Role of Hedge Funds / Private Equity
    - Equity partners
    - Senior debt and subordinated debt lenders
    - More aggressive than traditional lenders
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# **Sources of Financing**

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# Sources of Financing

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## Financing Options

- Debt
  - Commercial Banks
  - Commercial Finance Companies
  - Hedge Funds
  - Specialty Firms
- Equity
  - Private Equity
  - Public Equity

# Sources of Financing

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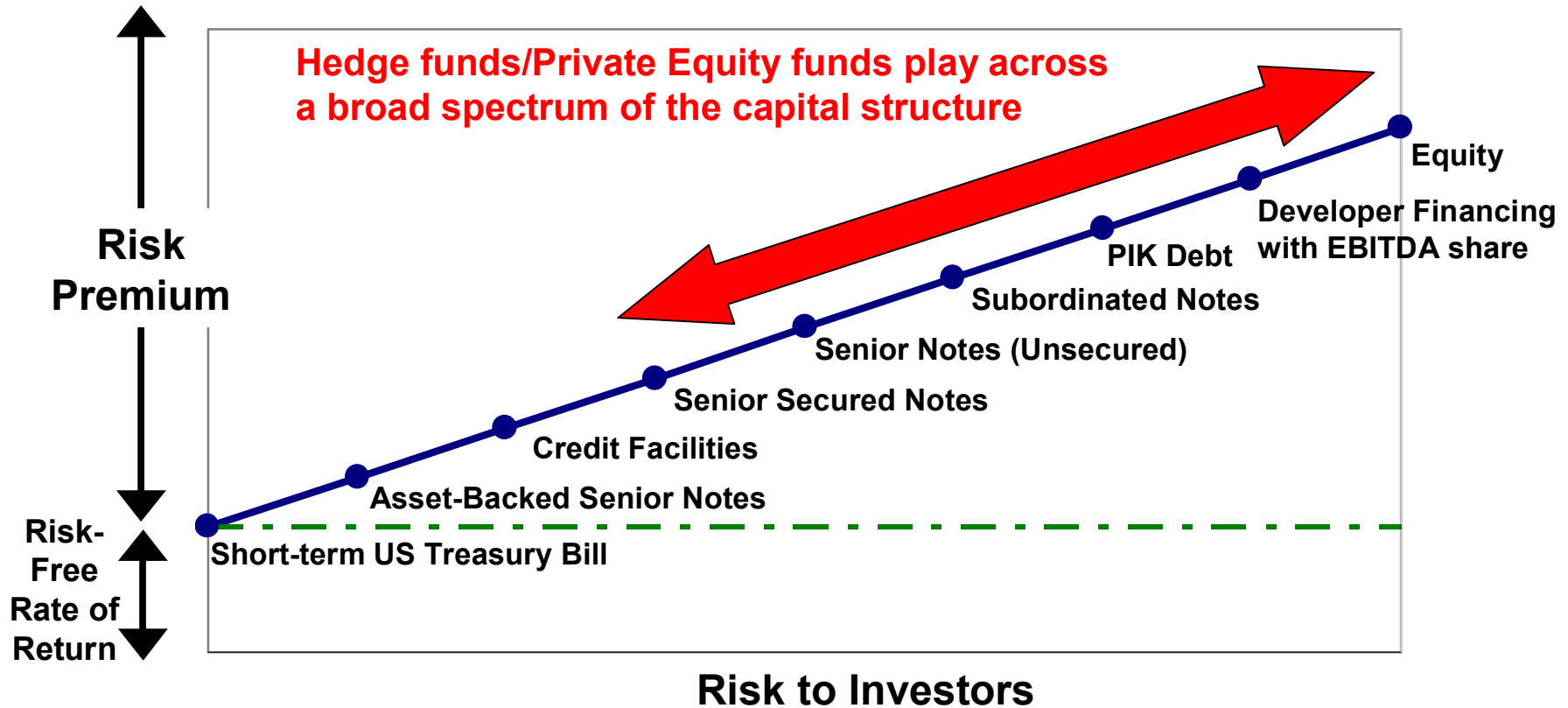
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## Financing Costs & Return Criteria

- Debt Investor Framework
  - Variable Rate indexed to Prime or LIBOR
  - Security
  - Warrants
  - Early Pre-payment structures
- Equity Investor Framework
  - Ownership interest
  - Exit strategy
  - Regulatory / Licensing issues

# Sources of Financing

## Tools of the Trade



# Sources of Financing

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## Structured Alternatives

- Lenders (Hedge Funds) use structure to enhance risk / return profile of investments
  - Delayed draw features [during construction period] in senior credit facilities
  - Longer amortizations
  - Excess cash flow sweeps to reduce debt balance
  - Dividend baskets
  - Pricing grid which benefits the borrower and mitigates re-finance

# Sources of Financing

## Opportunity Costs of Various Financing Instruments

Instrument	Advantages / Disadvantages	Typical Cost
Equity / Operating Company	Early in enterprise often the only capital available Require gaming commission approvals Potential issues of control	< 15 – 25%
Subordinated Debt	No issues of control Often requires PIK interest payments	14 – 18%
High Yield Bonds	Traditional source of gaming industry capital Large investor market -- understands project finance Owner distributions may depend on leverage ratio	8 – 14%
Private Placement Bonds	New entrant in gaming sector Proven interest for secured structure Bonds not publicly-traded	5 – 12% LIBOR + 75 – 500 bps
Syndicated Bank Loans	Traditional source of funding No prepayment penalty Heavy restrictions / covenants in credit agreement	LIBOR + 100 – 300 bps



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# Case Studies

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## American Racing & Entertainment – New York

- Operating Assets – Tioga Downs and Vernon Downs
    - 1,750 Video Gaming Machines
    - Tioga Downs – Greenfield project
    - Vernon Downs - Acquired out of bankruptcy
  - Role of Plainfield in Investor Group also consisting of Jeff Gural, Nevada Gold and TrackPower
    - Bridge Notes
    - Subordinated Notes
    - Equity Investment
      - Willingness to get licensed in New York
  - Plainfield's comfort level with racing operations was augmented by its relationship with Eric Spector, a veteran racetrack investor/operator
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## MTR Gaming Group

- MTR Gaming operates Mountaineer Gaming Center in West Virginia, Scioto Downs in Ohio and Binion's Gambling Hall in downtown Las Vegas and is currently developing Presque Isle Downs in Pennsylvania
- MTR Gaming stock reached a 52-week low in August-2006 after an earnings disappointment
- Management-led buyout @ \$9.50/share (~\$260 million) announced in January-2006
- Independent Committee was formed to evaluate the MBO and strategic alternatives
  - Buyout was ultimately rejected by Committee
- Company has since financed Presque Isle and is trading near 52-week highs
- Hedge Funds comprise 8 of the top 10 largest holders of the stock
  - Over 32.5% Ownership

## The Meadows - Pennsylvania

- Racetrack 20 miles south of Pittsburgh licensed to operate up to 5,000 slot machines
- Millennium Gaming/Oaktree Capital Management own VLT Facility
  - Joint Venture to develop VLT Facility and purchase rights from Magna Entertainment
  - \$200.0 million purchase price
  - Use of assets on balance sheet as security for Letter of Credit to pay \$50.0 million Pennsylvania license fee
  - \$300.0-\$350.0 million total acquisition/development cost
  - Oaktree Capital providing lion's share of equity capital
  - Institutional investors and hedge funds providing debt capital
  - Millennium Gaming providing gaming management expertise

## Riviera Holdings Acquisition Offer

- Assets include Riviera-Las Vegas and Riviera-Black Hawk
- \$262.5 Million takeover bid by Ian Bruce Eichner and D.E. Shaw Group
  - \$21/share represents 4% premium to previous day's closing price
  - Major Holders:
    - D.E. Shaw Group - 9.8%
    - Plainfield - 8.8%
    - Eichner - 4.8%
  - Stock has traded up to \$22.61 (as of 11/29), indicating the market's belief that higher bidder will emerge

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## **Recent Transactions**

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# Recent Transactions

## Recent Racino Developments

<u>Project</u>	<u>Cost (\$m)</u>	<u>Owner</u>
Penn National Race Course (PA)	\$310.0	Penn National Gaming
Yonkers Raceway (NY)	\$240.0	Private
Mohegan Sun at Pocono Downs (PA)	\$200.0	Mohegan Tribal Gaming Authority
Presque Isle Downs (PA)	\$200.0	MTR Gaming
Gulstream Park (FL)	\$176.5	Magna Entertainment
Hollywood Slots at Bangor (ME)	\$160.0	Penn National Gaming
Pompano Park (FL)	\$140.0	Isle of Capri
Vernon Downs (NY)	\$47.0	American Racing (Plainfield)
Tioga Downs (NY)	\$40.0	American Racing (Plainfield)

# Recent Transactions

## Recent Acquisitions

<u>Target</u>	<u>Acquiror</u>	<u>Amount (\$m)</u>
Harrah's Entertainment	Texas Pacific Group	\$15,500.0
	Apollo Management	
Station Casinos	Management-led Investor Group	\$4,700.0
	Colony Capital	
Kerzner International	Management-led Investor Group	\$3,800.0
Aztar Corporation	Columbia Sussex	\$2,750.0
South Coast Casino	Michael Gaughan	\$533.0
MGM Primm Properties	Herbst Gaming	\$400.0
Sands Atlantic City	Pinnacle Entertainment	\$250.0
MGM Laughlin Properties	M Resorts	\$200.0
Zia Park Racetrack	Penn National Gaming	\$200.0
The Meadows	Magna Ent./Oaktree Capital Mgt.	\$200.0
Sands Regent	Herbst Gaming	\$115.0