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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Churchill Downs Incorporated 2015 fourth-quarter and full-year conference call. (Operator Instructions) As a reminder, today's conference call is being recorded.

I would now like to introduce your host for today's conference, Mike Anderson, Vice President, Treasury and Investor Relations. You have the floor, sir.

Mike Anderson - ***Churchill Downs Incorporated - VP, Treasury and IR***

Great. Thank you, Andrew. Good morning and welcome to our fourth-quarter and full-year 2015 earnings conference call. After the Company's prepared remarks, we will open the call for your questions.

The Company's 2015 fourth-quarter and full-year business results were released yesterday afternoon. A copy of this release announcing results and other financial and statistical information about the period to be presented in this conference call, including information required by Regulation G, is available at the section of the Company's website titled news, located at churchilldownsincorporated.com, as well as in the website's investors section.

Before we get started, I would like to remind you that some of the statements that we make today may include forward-looking statements. These statements involve a number of risks and uncertainties that could cause actual results to differ materially.

All forward-looking statements should be considered in conjunction with the cautionary statements in our earnings release and the risk factors included in our filings with the SEC, specifically the most recent report on Form 10-K. Any forward-looking statements that we make are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events.

During this call we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. The press release and Form 10-K are available on our website at churchilldownsincorporated.com.

And now let me turn the call over to our Chief Executive Officer, Bill Carstanjen.

Bill Carstanjen - ***Churchill Downs Incorporated - CEO***

Thanks, Mike. With me today are several members of our team, including Bill Mudd, our President and Chief Operating Officer; Marcia Dall, our Chief Financial Officer; and Alan Tse, our General Counsel. I'll make a few general comments about the fourth quarter and the full 2015 fiscal year, and turn this over to Marcia. After she is finished with her comments, Bill Mudd, Marcia and I will be happy to take your questions.

The Company delivered record net revenues for the fourth quarter, up 62% over fourth-quarter 2014, and record adjusted EBITDA, up 109% over fourth-quarter 2014. For fiscal-year 2015, we delivered record net revenues, up 49% over prior year, and record adjusted EBITDA, up 66% over 2014.

We also generated cash from operating activities for 2015 of $264.5 million, up 87% over the prior year. All of our business divisions had strong years and contributed to our record results. Generally, we fired on all cylinders last year.

As you all know, Big Fish Games was the most significant contributor to our growth and I will provide detailed commentary in a moment on Big Fish, both with respect to 2015 and with respect to preliminary observations about 2016.

First, I have a few brief comments on our TwinSpires.com, racing and casino divisions. With respect to TwinSpires.com, wagering was up 11% over prior year in the fourth quarter but Adjusted EBITDA was down slightly as the revenue gains were offset by expense associated with becoming the official betting partner of the Breeders' Cup and higher regulatory costs. TwinSpires is excited to partner with the Breeders' Cup, and our return from this investment will come from the revenues generated by new customers acquired via our activation around this sponsorship.

For the full year, wagering was up 7.5% and adjusted EBITDA was up nearly 14%. Marcia will go into some of the details surrounding these results in her comments. From a macro perspective, wagering on horseracing was up slightly in 2015 as an industry while our TwinSpires.com team continued its long-term pattern of organic growth on the top and bottom lines above industry trends.

We continue to improve our marketing and customer retention strategies and we also continue to focus, and see results, from our efforts around mobile. In coming quarters, I hope this business will benefit from some of the learnings and capabilities of the Big Fish team, particularly around business analytics.

A few comments on the regional casino division. Net revenues were up 2% for the quarter and adjusted EBITDA was up close to 18%. For the full year, net revenues were up 1% and adjusted EBITDA was up 7%. A pretty solid year. Marcia will explain the variances over prior-year in more detail in her comments.

As I look across our portfolio, the bottom line is that some of our markets are a bit better than others but generally this remains a relatively stable and predictable segment for us. We have chosen over time to invest in properties that are relatively small without large capital footprints to maintain. We asked for our teams to focus on variable costs and other operating efficiencies in order to best adjust to the low-growth economic climate in which we find ourselves. The current macro environment looking across all of our properties as a whole is relatively stable, so we will continue to be conservative in our operating assumptions.

Now, moving on to our racing division. In the fourth-quarter, revenues declined $0.5 million, or 2%, while adjusted EBITDA improved $1 million, or 19% compared to fourth-quarter 2014. For the full year, net revenues decreased 5% while adjusted EBITDA was up 18% compared to the prior year. In addition to a very strong Kentucky Derby week and continued focus on costs efficiencies, our results improved as a result of our decision to lease our racing business at Calder.

While everyday racing is challenging, the Kentucky Oaks and Kentucky Derby continues to be the crown jewel of our Company. We set a record for virtually every significant metric in 2015 from attendance, to wagering, to adjusted EBITDA and to recent television ratings. We are now 72 days away from the 2016 Kentucky Derby and our team is deep into the process of executing around the big day for those of you still looking for seats, please get on it now as there is very, very limited availability.

The big change for this year will be the completion of our $19 million renovation project at Churchill Downs Racetrack. As we have previously said, these improvements to several of the premium seating areas, including the Turf Club and the Stakes Room, will be done in time for the 2016 Kentucky Derby.

So far, the feedback from our customers has been very positive and I'm personally very excited that these improvements will exceed expectations. Every year, we want to be able to demonstrate how we made the event meaningfully better compared to prior year and I am confident, that with the capital improvements, we will meet this high standard for the 2016 Kentucky Oaks and Kentucky Derby.

Before I wrap up, I will make a few comments about Big Fish.

To remind everyone, we closed on the purchase of Big Fish in December of 2014. We knew the business was very good at several things. Big Fish is both a major content creator and an expert at content distribution.

With respect to content creation, we operate five internal studios each with different approaches to the same goal of producing popular and profitable mobile games. These studios both build games internally as well as partner with a network of third-party developers to greatly supplement our internal game production capabilities.

The goal is to always have a broad portfolio of content against which we can apply our world-class marketing and business analytics to achieve broad distribution of our most promising games, whether those be existing games we continue to innovate around and improve upon or entirely new games. While Big Fish Casino has been the flagship platform of Big Fish Games, we are fortunate that it is joined by an increasing portfolio of other games against which it will compete to be the highest and best use of our marketing resources.

Big Fish contributed $114 million of revenue and almost $27 million of adjusted EBITDA in the fourth quarter. You will notice the adjusted EBITDA margin was lower than our third quarter. I want to talk about this variance in margin rates for a moment because it's important that you understand some of the dynamics at play in this business.

The first point is that the adjusted EBITDA margin rates should be calculated using bookings, not revenues. The primary reason for this is the change in deferred revenue, which is the difference between bookings and revenues for the period, is included in the adjusted EBITDA. Our third-quarter deferred revenue increased by $10.9 million while our fourth-quarter deferred revenue only increased by $7.6 million. You should include these changes in the numerator and the denominator to get an accurate result.

In addition, EBITDA margin is going to vary from quarter to quarter driven largely by our customer acquisition spend as we scale distribution of our newer games. With a free-to-play game, customer and user acquisition marketing expense, UA as we call it, is recognized immediately but the revenue associated with that marketing expense is realized over the lifetime of those new users which can last from days or weeks to months or even years after they install the game.

In the third quarter, we did not heavily promote any significant new titles but we instead continued to invest in our growing but maturing existing successful titles, primarily Big Fish Casino and Gummy Drop!. Thus, we saw our EBITDA margin creep up in the third quarter.

In the fourth quarter of 2015, we spent approximately $9 million more on user acquisition marketing than we did in the third quarter. This impacted our margins. In addition to ramping up UA spend on Gummy Drop!, we also began investing in new releases, notably the mid-core game Dungeon Boss and increased UA on several of our new or improving games, like Sunken Secret, Fairway Solitaire Blast, Fairway Solitaire, Cascade, and Vegas Party Slots.

So, if you had the $9 million of increased UA spend back to the fourth-quarter results, you will get a margin rate, based on bookings, that is more consistent with our third quarter. We’ve continued and accelerated UA spending into 2016. Thus, while improving margins are generally a great thing, the long-term success of a business like Big Fish requires upfront user acquisition expense at the cost of quarterly margin and quarterly adjusted EBITDA to build a healthy suitable business in the long-term. Product improvements in existing games plus a healthy pipeline for new games creates an opportunity to spend aggressively on UA now for bigger returns later.

In the first quarter of 2015, we had essentially two games showing metrics to support meaningful UA spend: Big Fish Casino and Gummy Drop!. Currently, we are investing meaningful UA in 4 to 8 games in any given week. That does not mean that these other games will achieve the revenue scale of Big Fish Casino or Gummy Drop!, although they may and we certainly hope they do. Instead, it just means that these games show metrics that indicate we have the opportunity to invest in UA today that will need to yield higher EBITDA down the road. If the metrics hold up at higher UA levels, then we will just continue to increase the UA spend, again driving down short-term EBITDA to increase revenue and EBITDA down the road.

As you know, we do not make forward projections and I am certainly not doing so here. I’m simply explaining that you have seen and will continue to see variations in our margins and adjusted EBITDA as we take advantage of attractive opportunities to increase UA spend for various games. In addition to our new or improving games, we increased UA spend on Gummy Drop! in the fourth quarter and continue to do so in 2016. The metrics are there. We have introduced several new and innovative features and numerous additional cities which continue to drive growth in long-term EBITDA for this promising game.

A few thoughts on Big Fish Casino. This property, which is actually a social platform as opposed to a game, continues to be a leader in the social casino segment. The growth rate for both this market segment overall as well as for Big Fish Casino has been decelerating. In the face of this deceleration, our focus has been on improving our product in a myriad of ways.

Big Fish Casino has completed a platform upgrade and implemented some new content and features. You will see us continue to consistently publish new slot themes on Big Fish Casino but also introduce or improve on new features, including social features around gifting, social status and achievement recognition. That is what we think matters over time.

We are seeing positive results with improved user retention and engagement but, right now, we're only adding new customers in sufficient quantity to essentially make up for the attrition in existing customers. What we are being careful not to do is to increase user acquisition spend when we don't have the metrics to support sufficient long-term EBITDA resulting from this spend.

Against this current set of facts, we are largely holding our UA spend on Big Fish Casino flat right now. As I said, while we have several ideas to get that platform back on a consistent growth path for bookings, we have not demonstrated yet internally that we can simply increase our marketing spend to do so. Our current focus is to improve the products key metrics around retention and monetization that will allow us to scale our UA in the future. I am not discouraged. We need to continue our work on this. Every game in Big Fish has to compete to show that its UA spend generates the highest return for the Company, and we are very fortunate that we have other games that compete for, and are worthy of, those resources. In the meantime, Big Fish Casino remains a consistent, steady and profitable performer for us. Our focus is to grow it though and while we are making strides, we still have some work to do, and we are doing that work.

Some of you may ask about Vegas Party Slots, which is our more immersive, Vegas-style 3D slot product. This is in contrast to Big Fish Casino, which is a social-first and more casual slots experience. Vegas Party Slots is still essentially in beta for us and while we are nicely growing bookings for this game, it is still at a low scale relative to Big Fish Casino.

We are going to keep working on it and turning up UA spend as the performance metrics allow, and we very much like what we have seen lately. As we complete the feature set and build out the content library, we hope to see continuing and improved metrics that will then justify continued increases in user acquisition spend.

Finally the premium game, PC segment… i.e., our traditional, personal computer-based, prepaid games business. This segment continues to experience secular decline, as we expected, as consumer preference shifts towards free-to-play products and mobile devices. Although it continues to contract, it also continues to be a profitable business with margins largely in line with recent quarters. This business is run in harvest mode and produces attractive margins by operating efficiently and sensibly. We have noticed the rate of decline in bookings has slowed but we do not know yet if that trend will hold up in subsequent quarters.

As I wrap up, it's worth pointing out that the Company repurchased almost 950,000 shares of its common stock from The Duchossois Group in November in a privately negotiated transaction for $138 million. This opportunity to acquire such a large block was not expected and largely consumed the capacity under our $150 million share repurchase plan authorized by our Board in 2015. Our Directors approved in our Board meeting earlier this week a new $150 million stock repurchase plan which replaces the previous plan and gives us the opportunity to further return value to our shareholders when the right circumstances present themselves.

Finally, in sum, our Company changed quite a bit over the last year we had a very good year as a whole. We are firmly focused on our future and think we have many opportunities to continue our story of smart and efficient growth.

Now I would like to turn the call over to Marcia Dall, our CFO, to provide some additional details on the quarter. After that we will answer any questions. Thank you. Marcia?

Marcia Dall - ***Churchill Downs Incorporated - EVP and CFO***

Thanks, Bill. As Bill shared with you, and as you can see from our press release, we delivered a strong performance for the year, with record levels of revenue, adjusted EBITDA, and net cash flow from operations. In 2015 we were able to grow adjusted EBITDA for our casinos, TwinSpires, and racing segments; and we also recognized a significant lift to our fourth-quarter and total-year performance from the acquisition of Big Fish Games. I will begin with a summary of our financial performance for the fourth quarter and then provide more detail on our total-year performance.

Total revenue for fourth quarter was up $104 million, driven primarily by the acquisition of Big Fish Games. From a Big Fish perspective, we also look closely at bookings, which is a non-GAAP measure equal to the revenue recognized plus the change in deferred revenue for the quarter. And it is an indicator -- a key indicator of the revenue growth of the business.

For discussion purposes I will share our bookings growth rate on a comparable basis to Big Fish bookings in the fourth-quarter 2014. We experienced a 27% growth in bookings for the quarter over the prior year, as the growth in our casino and casual free-to-play business lines more than offset the expected decline in our premium business line. Our growth in bookings in the quarter reflects the continuing success of Big Fish Casino and Gummy Drop! as well as the successful recent launches of Dungeon Boss and Sunken Secrets.

Turning to our other segments, our racing revenue was down slightly in the quarter as the strong Churchill Downs Fall Meet and growth at our Fair Grounds racetrack was more than offset by lower revenue at Arlington. Our casino segment revenue increased $1.9 million for the quarter compared to the prior year, primarily due to organic growth at our Oxford, Maine, casino and from share growth as a result of new and upgraded video poker machines throughout our Louisiana properties.

We did experience a decline in revenue at our Mississippi and Fair Grounds slots facilities for the quarter compared to the prior year. And lastly, our TwinSpires revenue increased $2.9 million for the quarter compared to the prior year, primarily due to a 10.8% increase in handle, which was 8.5 points higher than the industry growth in the quarter.

Our adjusted EBITDA for the quarter was up $31 million compared to the prior year, again, primarily due to the acquisition of Big Fish Games. Our racing segment adjusted EBITDA improved by $1 million in the quarter from a strong Churchill Downs Fall Meet. Our casino segment adjusted EBITDA improved by $4 million from the strong top-line growth at our Oxford, Maine, casino and the effective cost management at all of our properties.

We also had a $2.8 million correction in corporate segment related to deferred compensation. $1.3 million of this correction related to prior periods, and $1.5 million of the correction was related to the first nine months of 2015.

Turning to our 2015 total-year performance, total net revenue increased $400 million, primarily as a result of four drivers. First, we delivered a record-setting Kentucky Oaks and Derby week in the second quarter. Second, our Oxford, Maine, casino had strong organic growth. Third, our TwinSpires segment benefited from the ongoing shift from brick-and-mortars to online wagering, resulting in handle growth that outpaced the industry growth by 6.3 points for the year.

And last, but certainly not least, the acquisition of Big Fish Games contributed a significant amount of revenue in 2015. We did have $17 million of lower revenue in 2015 as a result of the cessation of pari-mutuel operations at Calder; the $6 million of lower revenue from Arlington as a result of 12 fewer live race days; and lower levels of pari-mutuel wagering and other revenue.

We grew Big Fish bookings 35% in 2015 on a comparative basis to 2014. This growth in bookings reflects the 23% growth in our Big Fish Casino platform, primarily due to a 12% increase in average paying users, coupled with a 10% increase in average bookings per paying user and a nearly quadrupling of bookings from our casual free-to-play games. That was partially offset by an expected 22% decline in our premium games. Our premium division decline reflects the ongoing shift from paid PC games to free-to-play mobile games as well as the impact of a strengthening US dollar, as approximately 36% of these bookings came from non-US dollar currencies.

We also delivered a record level of adjusted EBITDA in 2015 as a result of four drivers: first, from the strong organic growth from the Kentucky Derby and Oaks week and from TwinSpires and our Oxford, Maine, casino; second, from the full-year impact of our Big Fish Games acquisition; third, cost reductions at our racing and casino properties helped to offset revenue pressure. In the racing segment we reduced costs as a result of the cessation of Calder pari-mutuel operations. And as I mentioned earlier, we had a $1.3 million benefit from a correction in the corporate segment related to deferred compensation in prior periods.

Our net income in 2015 grew $19 million, primarily as a result of strong adjusted EBITDA performance and $6 million from a gain on sale of our remaining HRTV investment. These items were partially offset by four significant items that were related to the Big Fish acquisition: [$50] million of additional depreciation and amortization; $35 million related to higher levels of deferred revenues, as bookings exceeded revenue recognized and from the impact of business combination accounting rules in the quarter; $12 million related to increases in non-cash adjustments and the change in fair value of Big Fish Games's earnout and deferred founder liabilities that were partially offset by prior-year transaction expenses; and $5 million of additional income tax expense as a result of certain nondeductible Big Fish acquisition expenses. In addition, we incurred $12 million of higher exit costs related to our Calder facility.

We also produced record net operating cash flow of $265 million in 2015, and we maintained our discipline related to maintenance capital spending. One item to note is that our net operating cash flow for 2015 includes $17.7 million of tax refunds that belongs to the prior owners of Big Fish, and these tax refunds were shown as an outflow in the financing activities section of the cash flow statement.

Based on our 2015 Big Fish Games adjusted EBITDA, we do expect $350 million related to the Big Fish earnout as part of the acquisition. We are obligated to pay the earnout in three installments: $282 million in March 2016, $34 million in March 2017, and $34 million in December 2017. We plan to fund the March 2016 installment with the remaining proceeds from the December 2015 $300 million tack-on bond offering and available borrowings under our revolving credit facility.

Last week we closed on an amendment to our credit facilities in which we extended the maturities to 2021. We also were able to lower the upper limit in the pricing grid by 50 basis points and reduce the pricing schedule for outstanding borrowings and commitment fees across all leveraged pricing levels.

With that, I will turn the call back over to Bill so that he can open the call for questions. Bill?

Bill Carstanjen - ***Churchill Downs Incorporated - CEO***

Thanks, Marcia. I think we are ready, Andrew, for any questions people have.

QUESTION AND ANSWER

Operator

(Operator Instructions) Robert Shore, Wells Fargo.

Robert Shore - ***Wells Fargo Securities, LLC - Analyst***

Can you provide some color on the opportunity to leverage Big Fish's content to other segments? And how should we think about timing of this?

Bill Carstanjen - ***Churchill Downs Incorporated - CEO***

Bobby, it's Bill. Help us understand that question, and then we will try to answer it accurately. We could take that in a couple different directions. But would you just clarify what you had in mind?

Robert Shore - ***Wells Fargo Securities, LLC - Analyst***

Yes. I guess -- I know in the past, you talked about a lot of opportunities for Big Fish's kind of content and analytics to leverage on to TwinSpires and other platforms throughout your business.

Bill Carstanjen - ***Churchill Downs Incorporated - CEO***

Sure. So I'll give you three examples. One, a lot of the analytics and processes around analytics and marketing spend really are very similar between Big Fish and TwinSpires. So a lot of the testing and a lot of the measuring use similar sets of processes. So that's something we've asked the Big Fish folks to really assist with, and they have been. And it will improve the business by allowing us to leverage our spend better.

There's also a lot of potential opportunity to leverage marketing resources across the organizations. But of course, real-money gaming is different than social games. So we will have to take our time and make sure we understand where there are opportunities to leverage the different groups within the Company.

In terms of content, maybe over time there will be a blurring of real-money gaming and social gaming, but there isn't right now. They are very different things. And real-money gaming, which is what you have with horseracing, is a very regulated business.

So we think sometimes about adding additional non-real-money gaming to the platforms like TwinSpires, and that's something we will explore over time. But right now Big Fish designs games, builds games; whereas Twin Spires really takes wagers on existing products, existing real-world events that are happening -- horse races. So over time maybe you will see some crossover, and we will have to see. But right now they are pretty separate and distinct businesses when it comes to what do you sell to the customer.

Robert Shore - ***Wells Fargo Securities, LLC - Analyst***

Got you. Thanks, guys. That's definitely very helpful.

Operator

David Katz, Telsey Group.

David Katz - ***Telsey Advisory Group - Analyst***

Congratulations on a good quarter. And I'm going to apologize if some of this was on my line -- on my side rather than yours; but Bill, I missed some of the information that you were giving out around Big Fish, all of which is, obviously, of high interest. And so if you are repeating yourself again, I'll apologize.

But can you just explain what the near-term landscape -- and by near-term, the next, say, four quarters-ish -- looks like, or how he could take about game introductions and your customer acquisition costs through that process? It sounds as though you are maintaining a relatively stable set of customers. But the earnings on those should ebb and flow as new games come out, and there are costs associated with that. If you could go back over that, I'd really appreciate it.

Bill Carstanjen - ***Churchill Downs Incorporated - CEO***

Sure. I, of course, want to be deeply respectful of the legal framework under which we conduct these calls, and we don't make forward-looking statements. So I'm going to talk generally and repeat a couple of the current facts that I talked about in my comments, starting with -- if you roll back the clock a year ago, so go back to first-quarter 2015 -- that was a time period where we really had two games that demonstrated metrics that supported significant UA spend. We had Gummy Drop! and we had Big Fish Casino.

As we roll into fourth-quarter 2015 and then into 2016, we simply have more games right now. They haven't scaled to the level of Gummy Drop! or Big Fish Casino, and I'm not saying that they will. We hope that they would, but I'm not saying that they will. We don't know yet.

But we have, at this time, 4 to 8 games where we are spending more UA than we have previously, because the metrics continue to support us doing so. So I wish there were a formula that told us when the metrics stop holding up, but there isn't. So you just have to continue the experiment.

So right now, when our return on ad spend metrics and some of our other metrics we use around marketing -- when they demonstrate that games support additional spend, we are spending it. We are trying to grow these games to be profitable, long-term games.

So part of my comments went to that phenomenon. When you have those games, you have to invest in them now. And the fact is, when you acquire that customer, you take all the expense. But the monetization of that customer is over a much longer period of time.

Once the customer is in the game, you don't have any expense to acquire them. And any purchases they make in the game, whether they are tomorrow or a year from now, really flow pretty well to your bottom line. So right now we are at the beginning of the cycle -- not necessarily always new games. The Fairway Solitaire Blast is not a new game, but it's a game that we've made improvements to that now demonstrates that it makes sense to increase UA.

So we were doing that in the fourth quarter. And I was just making the observation that that's something we're continuing into the first quarter. Does that help, David?

David Katz - ***Telsey Advisory Group - Analyst***

That is enormously helpful, yes.

Bill Mudd - ***Churchill Downs Incorporated - President and COO***

David, this is Bill Mudd. One other thing I would point out is -- Bill talked in his comments about UA spending in the fourth quarter, that it was $9 million more than the third quarter. The way that these new games work is you get a game with Gummy Drop! or Casino, where you have a lot of history -- your confidence interval on what you are willing to spend on a game is much higher, because you know how long you're going to have the customer.

So a game like Casino, where the lifetime of those customers are very long patterns -- you are willing to go spend a lot more, what we call, recoupment of ad spend -- a lot more months to recoup those dollars than you are on a game that's brand-new. So at the beginning of a game like Sunken Secrets or Dungeon Boss, you start out very disciplined. You put money in to market it, if you have a game you think has good monetization and retention patterns; but when you only have three months of data, you are not going to spend more than three months of recoupment of ad spend, because you don't know if you are going to keep them six, or nine, or 12.

But the longer that game is in place, the more money you are willing to spend in terms of monthly value. So on a new game, if you are at three months, you might go into six months. After six months, if you are still maintaining those customers -- you know, you take a game like Casino, where you've got three or four years of data, you might go 18 months. For a game that's brand-new, you might on the go two or three until you have more data. So it ramps up over time. So it's not just upon introduction you spend a bunch of money.

So, for example, the nine months -- and this is the other point I wanted to make: the $9 million we spent in the fourth quarter -- and this is completely theoretical, but just to make the point, let's assume that we have a nine-month recoupment of ad spend. That means we will make $1 million per month for the next nine months. We take all $9 million of UA spend in the current period. Hopefully, that will help highlight how we think about this business.

David Katz - ***Telsey Advisory Group - Analyst***

Perfect. So just to repeat back what I think the message is: if we look at other types of businesses, for example, a hard asset business -- you know, you build a building, your investment is upfront. You may promote more heavily when it opens. And then over time you ramp that down and harvest greater and greater returns. But there's a counterintuitive element to this that's (inaudible).

Bill Mudd - ***Churchill Downs Incorporated - President and COO***

Yes. I think both elements are correct in this situation. There will be a period where you can't acquire customers any more efficiently, because the cost to acquire those customers -- they have already seen the product before. They may not be interested in it, so you are spending a lot more dollars to get fewer people come in. That's when you start going into harvest mode. We are not there yet on either one of these games. But that is the right logic on the front end, certainly.

David Katz - ***Telsey Advisory Group - Analyst***

Right. And if I can just follow that up: in terms of the prospective scale of a business like this, are there any -- what are the capacity constraints that you would have, right? If you were able to create 25 great games in some future year, other than the upfront development and marketing of those games, are there other capacity constraints that we should consider? Or can you just keep scaling this as long as you are successful?

Bill Mudd - ***Churchill Downs Incorporated - President and COO***

I think it's closer to the latter than the former. We are not worried -- I hope we have that problem, David. Let's just put it that way.

David Katz - ***Telsey Advisory Group - Analyst***

Right, understood. Thank you very much.

Operator

Adam Trivison, Gabelli & Company.

Adam Trivison - ***Gabelli & Co. - Analyst***

On Big Fish, on the Casino segment it looks like user growth did stall there, as you had mentioned in the comments. But there was still some really good growth on bookings per user. What's your ability to continue to drive that even in a flat user growth environment?

Bill Carstanjen - ***Churchill Downs Incorporated - CEO***

That's a really good question, and that goes to sort of a general theme in life, that you need to make sure you focus on what you can better control. So we do have a lot of understanding of our customers within our casino segment. And so we are constantly focused on tinkering with features and functionality to improve their time in the game and to improve monetization of our existing customers.

So driving spend per customer is an important focus for us, and it's one that we feel we are pretty good at. So we still think there is always opportunity there, always things to pursue there.

But what you really want is to also be able to acquire new customers, because inevitably, in any game out there -- whether it be our game or anybody else's game -- there is a level of attrition that occurs. So one of the things you are doing to combat that is improving your monetization around the customers that you retain and also adding new customers, whether they be as good a customer, or just more customers that aren't as good that maybe you can grow to be as good.

So it's really a two-pronged approach. We are pretty good at and are spending a lot of time and focus on improving our game in order to better monetize and retain our existing customers. And we also face the challenge of the second prong of, well, how do we consistently find new customers that are good customers we can monetize around?

Adam Trivison *- Gabelli & Co. - Analyst*

Okay, that's helpful. And then related to Gummy or just the higher UA spending in the fourth quarter, how much of that was Gummy versus the new launches? And I guess the underlying question there is: if I look back at the third quarter and the margin on bookings, is that a baseline I could use for kind of a no-launch scenario, and then the incremental cost is around launches? Is that something kind of planned going forward?

Bill Carstanjen *- Churchill Downs Incorporated - CEO*

It's hard to really give you a great baseline on that, because we actually don't follow a formula like that internally when we launch games. We generally -- given that we are not capital constrained, we have access to funds, and we have a lot of confidence in our metrics and our system for evaluating performance, we tend to be willing to fund games based on meeting our metrics. So it really depends on how games perform as we launch them. They are not on some path are they are guaranteed a certain amount of money or they can't have more money for marketing because we don't spend more, etc. We don't have a rule like that.

So going forward, in addition to want to be real careful about forward guidance, I think you have some ballpark; you can look at our business over time quarter to quarter to understand generally the size and scale of our business. But generally as we launch new games or as new games perform on and get improved upon, there's not a formula that you can follow for sure that allows you to predict what we're going to be spending on marketing for those games.

I wish there were. But generally, across the business as a whole you, at least have some guidance based on past behavior or past numbers of the general size and scale of the business.

Adam Trivison *- Gabelli & Co. - Analyst*

Okay, that's helpful. And one more thing -- on the two bills around the renegotiation of the Seminole gaming pack, the few things in there that, I guess, could be pretty advantageous to the Calder property -- primarily the tax cut; and the operating hours; and, I guess, comp drinks and potentially blackjack tables -- how would you guys change your strategy there if a couple of those things got through in terms of capital spending and maybe a focus on the property?

Bill Mudd *- Churchill Downs Incorporated - President and COO*

Well, I think if we get blackjack, there are a lot of constraints that are in that bill. Right now we are just working with the legislator to get a bill passed that works for all the constituents. I think it's very possible to do that.

And obviously there's two racetracks that sit very close to one another down there, starting [40 days of ours]. So it would give us some opportunities. But right now we're just working with the legislature to get something done that works for everyone. So beyond that it's kind of hard to say.

Adam Trivison *- Gabelli & Co. - Analyst*

Okay, great. Thank you very much.

Operator

Jeffrey Thomison, Hilliard Lyons.

Jeffrey Thomison *- Hilliard Lyons - Analyst*

Congrats on a strong quarter -- and year, I might add. I have a question on the Churchill Downs track. Last month you announced the addition of premium Derby experiences in the newly renovated seating area. This follows several years of significant CapEx spending at the track to increase the premium seating opportunities and premium experiences.

So I'm wondering if you feel you have reached or nearly reached a max, so to speak, on these premium experiences at that track for Derby day or Derby week. And have you considered any strategies or CapEx projects that would target what one might call the average demographic or a less expensive experience? Or would that not be as attractive from an IRR perspective?

Bill Carstanjen - ***Churchill Downs Incorporated - CEO***

Thanks for that question. There are a couple parts to that question, so I'll progress through it sequentially. But if I skip anything, Marcia or Bill, please jump in. First of all, we are very, very disciplined on our capital investments around Churchill Downs Racetrack. They have to stand up. They have to generate or prove that they can generate the return. And of course, our team there is very passionate about what they do, and they are very passionate about the Derby and the opportunities.

So from my perspective, there is no hard and fast limit that we are approaching. The team keeps getting better. We keep getting smarter. We keep learning from what other events and what other people are doing out there in the United States and outside of the United States. So we keep learning of new ideas and exploring things we might do in the future.

So there's no limit on our team, and there's no hard and fast feeling that we are about to approach that I'm aware of. We are just going to keep doing what we are doing and challenging our teams to come up with strategies to grow that event. And there's no guarantee that they can or that they will, but that's the challenge. And we have been doing it for a while, and there is a sense of optimism about that.

When it comes to the breadth of different experiences that you have on that day, from the very high-end, most expensive seats and premium experience to the average fan in the infield, I think sometimes more attention is given to things like the Mansion or the renovation of the Turf Club. But we constantly look to make improvements where we see value, and we have made a lot of improvements for all segments of the fan base, not just the segments at the very high end.

So I hope there is opportunity to improve the experience for the more casual fan, and we will keep looking at that. And when it's there, and we think we can justify to our Board the capital to do so, then that's what we try to do. But I am optimistic on all segments of our customer base, not just the one that gets the most attention, which is the higher end.

Bill Mudd - ***Churchill Downs Incorporated - President and COO***

Well, I will add to that, Jeffrey. If you go back to 2014, so just two years ago, we renovated the Grandstand Terrace and Rooftop Garden. And they were all the lower-cost tickets in the Grandstand area that were affected. So 40% of the customer base was impacted by that relatively large project -- actually, it was more than twice as big as the mansion project.

And it affected 40%. We quadrupled the number of restrooms, which was applauded by our female guests the most, I think. We also doubled the number of pari-mutuel lines and dramatically improved the number of food and beverage offerings. So I think that was a huge impact to the lower-priced ticket areas.

The other thing I would highlight is the big board, which we spent -- I think it was $12 million or so on was also a vast improvement for everyone in the facility. Everything from the general admission ticket to the Mansion guests and everything in between. So I guess I take a little bit of your comment as -- I think we've done a whole lot for the lower-level tickets -- in fact, more than we have even for the higher-end guests.

Jeffrey Thomison - ***Hilliard Lyons - Analyst***

Glad to hear that, Bill. By the way, you mentioned the big board. I might even only person on the call today who is actually looking at your big board out my window right now, from several miles away, I might add.

Bill Mudd - ***Churchill Downs Incorporated - President and COO***

Well, I will be disappointed if some of my guys at the racetrack aren't listening to the call, too.

Jeffrey Thomison - ***Hilliard Lyons - Analyst***

(laughter) Okay. And I had a second question about Big Fish, but Bill's prepared comments and the follow-up Q&A covered it well. So thank you for that color.

Bill Mudd - ***Churchill Downs Incorporated - President and COO***

Thank you.

Bill Mudd - ***Churchill Downs Incorporated - President and COO***

Thanks, Jeffrey.

Operator

David Katz, Telsey Group.

David Katz - ***Telsey Advisory Group - Analyst***

I wanted to ask just about capital allocation. And I think in the context that -- and we've discussed this before. But as you continue to do better and better and there is more and more free cash flow, the decisions, while high-class, become arguably harder. Do you have a view about initiating a dividend at some point, or any major obstacles to doing so versus continuing to buy back stock? As the trading on it can be thin, it can be as challenging for you to buy stock, effectively, as anyone else. So I just wanted your updated thoughts on those issues, please.

Bill Carstanjen - ***Churchill Downs Incorporated - CEO***

Sure. The short answer is we look at all of those possibilities. We think through all of those potentials, both in terms of reinvesting our free cash flow in our business, repurchasing debt, and other ways to return value to shareholders. So all of them are things that we consider. We watch what other people do. We watch what our business is doing, what we think our business is going to do, what our opportunities are.

So we keep our eye on all of that. But of course, in calls like this or in any public forum, it's hard to say anything beyond that.

Bill Mudd - ***Churchill Downs Incorporated - President and COO***

One other thing I would add is we actually do pay a dividend. We increased it 15%, I think, this year, to $1.15 a share. We have been paying dividends, I think, for a long time.

I'm looking at my team here -- it's been since 1993. And we have increased the dividend for the last -- from $0.50 to $1.15 over the last six years or so, five or six years. So we will continue to be disciplined. I think you have to be very disciplined in a market where you can borrow debt on an unsecured basis at less than 5.5%. Obviously, you can do lots of things with that debt that are accretive. So we have to balance growth with opportunistic share repurchases and dividend payments.

David Katz - ***Telsey Advisory Group - Analyst***

Understood. Thank you very much.

Operator

(Operator Instructions) No other questioners are in the queue at this time, so I would like to turn the call back over to management for closing remarks.

Bill Carstanjen - ***Churchill Downs Incorporated - CEO***

I want to thank everybody for your time today and your interest in our Company. We very much appreciate it. And we appreciate your thoughtful questions on the Q&A section. So thanks, everybody. Talk to you next time.

Bill Mudd - ***Churchill Downs Incorporated - President and COO***

Thanks.

Operator

Ladies and gentlemen, thank you again for your participation on today's conference. This now concludes the program, and you may all disconnect your telephone lines at this time. Everyone have a great day.