

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CHDN - Q2 2018 Churchill Downs Inc Earnings Call

EVENT DATE/TIME: AUGUST 02, 2018 / 1:00PM GMT



AUGUST 02, 2018 / 1:00PM, CHDN - Q2 2018 Churchill Downs Inc Earnings Call

CORPORATE PARTICIPANTS

Marcia Ann Dall *Churchill Downs Incorporated - Executive VP & CFO*

Nick Zangari *Churchill Downs Incorporated - VP of Treasury, IR & Risk Management*

William C. Carstanjen *Churchill Downs Incorporated - CEO & Director*

William E. Mudd *Churchill Downs Incorporated - President & COO*

CONFERENCE CALL PARTICIPANTS

Daniel Brian Politzer *JP Morgan Chase & Co, Research Division - Analyst*

Erik Hellquist

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Churchill Downs Incorporated 2018 Second Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I'd now like to introduce your host for today's conference, Mr. Nick Zangari, Vice President, Treasury and Investor Relations.

Nick Zangari - *Churchill Downs Incorporated - VP of Treasury, IR & Risk Management*

Thank you, Schnael. Good morning, and welcome to our 2018 Second Quarter Earnings Conference Call. After the company's prepared remarks, we will open the call for your questions. The company's 2018 second quarter 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-Q and 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-Q are available on our website at churchilldownsincorporated.com.

And now, I'll turn the call over to our Chief Executive Officer, Mr. Bill Carstanjen.

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Thanks, Nick. Good morning, everyone. 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 Brad Blackwell, our General Counsel. I'm going to focus on the higher-level things we see in our second quarter operating performance and provide an update on strategic initiatives we've previously disclosed. Marcia will then provide additional details on our earnings, which should further help you understand how to think about our performance and capital management, going forward. After she is finished with her comments, we will be happy to take your questions. As you may have seen in our press release, our company grew net revenues to \$379 million in the second quarter, an increase of 12% over prior year. Adjusted EBITDA was \$175 million, up 13% over prior year. These comparisons to prior year exclude Big Fish Games, the sale of which closed January 9 of this year. Just to give a sense of the strength of our quarter and of the first half of the year, if you include Big Fish's contributions in 2017, adjusted EBITDA for our company in the second quarter '18



AUGUST 02, 2018 / 1:00PM, CHDN - Q2 2018 Churchill Downs Inc Earnings Call

was still up 1%. For the first half of the year, adjusted EBITDA for the company was down only 3% compared to prior year. Big Fish contributed nearly \$39 million of adjusted EBITDA in the first half of 2017. So we're pleased we were able to grow organically to make up much of the difference.

Turning to the Racing segment. Kentucky Derby week is the biggest single contributor to our company's performance in the second quarter. We had decent weather over Kentucky Derby week, except for Derby day, which is, of course the day that matters the most. This year's Kentucky Derby was the wettest in the 144-year history of the event with over 2.5 inches of rain. Despite the terrible weather, adjusted EBITDA over Kentucky Derby week was up over \$12 million. This year's Kentucky Derby set records for net revenues, adjusted EBITDA and all sources wagering for the race itself as well as the entire Derby day and for the full week. Derby day attendance was the eighth highest ever at approximately 158,000, which was great, given the rainy weather and attendance for the week was the second highest ever at 375,000, up 7% from last year. All of the important metrics we measure ourselves by continue to trend nicely for our flagship event. That's gratifying for our team, but looking forward, we remain focused on and committed to improving everything we do surrounding the Kentucky Derby. This year's Derby marked the grand opening of our new \$37 million Starting Gate Suites, with seating for approximately 1,800 higher-end customers. We sold all of the suites this year, and received very positive reviews. We also completed the first portion of our \$32 million project to improve the transportation of our customers to and from the facility.

In addition, we wanted to upgrade the appearance of the facade of our facility. Phase 2 of this project will be completed in time for the Breeders' Cup, which we will hold on November 2 and 3.

Phase 2 will really tie together all of the elements of the project, and we think our customers will be excited when they see the completed product. We think there are many avenues to continue to grow our signature event. And our team is engaged in several growth initiatives that we will speak about publicly when our plans warrant disclosure. We do not anticipate any major capital projects prior to the 2019 Derby that are similar in size or scope to the Starting Gate Suites or the exterior and parking like projects. However, we will have a couple of smaller projects to announce at a later time this year that we are excited about and think will contribute to our growth.

Finally, a shout-out to Justify and its ownership and training connections. Justify captured the Triple Crown this year and this is only the second time that has happened in 37 years. It was a great moment for the sport and wonderful for our company to be a part of. Turning to our TwinSpires segment.

TwinSpires, once again, showed significant handle growth, up more than 12% compared to the second quarter of prior year. Adjusted EBITDA was up nearly 20%. TwinSpires recorded almost \$25 million of handle on the Derby race itself, an increase of 18%; and \$39 million, an increase of 15% on the entire Derby day card. With the Kentucky Derby and the 2 other Triple Crown races occurring in the second quarter each year, this quarter is an important one for us with respect to marketing and acquiring customers. This is our best chance to reach casual and new fans to introduce them to TwinSpires. We are confident that TwinSpires is a strong enough stand-alone product to attract and retain customers who are not traditional brick-and-mortar racetrack customers.

This quarter, we achieved unique player growth of 21%, which we believe is a healthy and successful result for our efforts. TwinSpires remains a strong performer, led by an experienced and disciplined management team, executing against a well-defined strategy. This team is also integral to our strategy of entering the online and sports wagering segments in New Jersey, Pennsylvania and Mississippi. We will talk about that in a few minutes.

Turning to our Casino segment. Our Casino properties delivered net revenues of over \$98 million in the second quarter, up 11% over prior year. Adjusted EBITDA was approximately \$44 million, up 17%.

Other than our Harlow's property in Mississippi, which was essentially flat, all of our properties grew adjusted EBITDA compared to prior year.

We're seeing the benefits of some of our modest capital investments. For example, we opened on December 30, a \$15 million, 35,000 square feet expansion at Ocean Downs with 10 live table games and 100 new slots. We opened in May a new outdoor gaming and smoking patio with Calder and a new OTB with video poker in Destrehan, Louisiana. But just as importantly, we're seeing strong operating environments across virtually all of our gaming markets and that is contributing to our encouraging performance. We've operated gaming assets in both good economic times as



AUGUST 02, 2018 / 1:00PM, CHDN - Q2 2018 Churchill Downs Inc Earnings Call

well as weak ones. We will continue to be conservative in how we invest and run our properties, and we'll also continue to look carefully at M&A opportunities that fit our profile.

A couple of updates on strategic opportunities that we have previously discussed. We are progressing through the regulatory and licensing processes to complete our acquisition of Presque Isle Downs & Casino in Erie, Pennsylvania; and now Lady Luck Casino Nemacolin in Farmington, Pennsylvania.

As we announced in the second quarter, we terminated our acquisition agreement to acquire the Lady Luck Casino in Vicksburg, Mississippi. After a series of exchanges with the Federal Trade Commission regarding Vicksburg, we received a second request in connection with our Hart-Scott-Rodino antitrust filing. After reviewing the second request and considering the potential time and cost associated with continuing the process, we and the seller, Eldorado Resorts, mutually agreed to terminate the Vicksburg transaction. We paid a \$5 million termination fee to Eldorado and agreed to purchase Nemacolin for \$100,000. Presque Isle was always our primary interest in entering into a transaction with Eldorado, while they had sought to have us acquire 1 other smaller asset that they were otherwise trying to sell. Nemacolin worked for them and for us. We previously disclosed that we hope to close Presque Isle in the fourth quarter. We still think that is achievable, but remind everyone that we are awaiting regulatory approval and the timing for receiving that is not within our control. We're on track to open Derby City Gaming in Louisville, Kentucky in September. This is our \$65 million state-of-the-art historical racing machine property. We're very encouraged by the quality of the games that we will be able to offer at the facility. Because of our confidence in the performance characteristics of the [developed] games, we elected to seek approval from the Kentucky horseracing commission to open with 900 games instead of the 600 we had previously announced. Our Derby City Gaming team is putting the final touches on the property and completing the process for hiring the full team.

As you know, an addition to our proposed Louisville facility, we announced a partnership with Keeneland Association in 2017 to pursue licenses to construct a historical racing facility in Corbin, Kentucky, which is in the Southeast corner of the state; and a facility in Oak Grove Kentucky, which is located off Interstate 24, approximately 55 miles from Nashville. While we believe we enjoy deep support in the relevant communities where these projects will be located and across many other constituencies in the state, we need to obtain licenses from the state in order to proceed. We are actively working with the commission with respect to next steps.

As many of you saw, we recently announced a transaction to acquire the remaining 50% ownership of the Casino at Ocean Downs in Berlin, Maryland, from Saratoga Casino Holdings in exchange for our 25% equity interest in Saratoga Casino Holdings. This entity, Saratoga Casino Holdings, is the parent company of Saratoga Casino-Hotel in Saratoga New York and Saratoga Casino Black Hawk in Black Rock, Colorado. In connection with the swap, we were granted exclusive rights to operate Internet, real money sports betting and real money iGaming on behalf of Saratoga in New York and Colorado for a period of 15 years. This transaction is the right move for us, and we hope to see it closed after various regulatory approvals in the third quarter.

We're excited about the prospects of continuing to grow the market of Ocean Downs, particularly as the new table games operation ramps up. Saratoga was a great partner for us, and they are deeply committed to their New York and Colorado properties. For us, it was important to obtain Internet rights in those jurisdictions and having achieved that, we were happy to each go our separate ways to focus on what was most important to each of us, respectively. When the swap is complete, we will have 7 casinos, 6 wholly owned and 1 equity investment in 5 different states.

We will also open Derby City Gaming shortly in Kentucky. Our portfolio reflects our strategy of investing in gaming properties with stable, predictable cash flows in diverse markets. We also like states that we believe may ultimately grant access to online casino gaming to their brick-and-mortar casino license holders should it become legal in the relevant jurisdiction. Following the U.S. Supreme Court's decision in May, overturning the federal ban on sports wagering, we have added sports wagering to the products we expect to offer through our platform in jurisdictions where we are licensed and it is permitted. We're currently pursuing business opportunities in 3 states where we will offer various forms of online casino or sports.

In Mississippi, where we have Harlow's and Riverwalk Pittsburgh, wagering on sports is now permitted in brick-and-mortar casinos, but not outside of the confines of the casinos. We expect to be operational in August with a new sports book at each property.



AUGUST 02, 2018 / 1:00PM, CHDN - Q2 2018 Churchill Downs Inc Earnings Call

In New Jersey, we've entered into what is known as a [scanned] agreement with the Golden Nugget Casino to gain access to the New Jersey online iGaming and sports wagering market. We do not have a casino in New Jersey to enter the market directly but are pleased with our arrangement with Golden Nugget, which will allow us full management and control of our own site. We are in the process of obtaining our company and key employee gaming licenses.

In addition, our gaming technology partner, SBTech, is in the process of getting their platform licensed. We hope to be operational in the fourth quarter with a suite of online casino and sports wagering projects.

In Pennsylvania, our entry into iGaming and sports wagering will be through Presque Isle Downs. Given we have not closed yet, we are working cooperatively with Eldorado to submit for licenses to conduct online slots and table games. We are not pursuing our poker license in Pennsylvania at this time. We are, of course, also very interested in sports wagering but like the other operators in Pennsylvania, we are concerned about the tax rate and initial licensing fee, and we'll continue to monitor the situation prior to making any decisions. It is worth noting that a sports wagering license would allow a brick-and-mortar sports book at Presque Isle Downs as well as an online offering available throughout the state.

Our TwinSpires team will be responsible for running our business on the SBTech platform. Our TwinSpires platform is very good technology, and we have deep experience operating it. Ultimately, however, we always want technology to be an advantage for us and certainly never a disadvantage. Thus, we want best-in-class technology for online casino and sports wagering, and that's not something the TwinSpires team has built since there has not been anywhere we could have previously deployed this product in the United States. Our TwinSpires team itself includes very strong talent from iGaming markets outside of the U.S. and deep experience in sports wagering and online casino products. We are excited for them to utilize the SBTech platform. I am not going to give you estimates of market sizes or market share we might obtain over time. We will be operational soon enough and that will begin the sharpened expectations. Given we have outsourced technology, while already building a team with significant iGaming capabilities, the cost for entry is relatively modest for us, given the size of the potential opportunity.

A few final thoughts. With significant flexibility because of both our cash flow and low leverage, we are reinvesting in our current businesses where appropriate and evaluating a number of strategic opportunities that we hope will create increased long-term shareholder value, while maintaining capacity for dividend growth and opportunistic share repurchases. We have done this for a while and plan to continue to be thoughtful stewards of our shareholders' capital and assets.

Now, I'd like to turn the call over to Marcia to provide some additional details. After that, we will answer any questions you have. Thank you. Marcia?

Marcia Ann Dall - Churchill Downs Incorporated - Executive VP & CFO

Thanks, Bill, and good morning, everyone. As Bill said, I will provide additional details on our second quarter earnings and capital management. Overall, we are very pleased with our results for second quarter. We reported net revenue from our continuing operations of \$379 million, up \$40 million or 12% compared to the prior year quarter. Adjusted EBITDA from our continuing operations was \$175 million, up nearly \$21 million or 13% compared to the prior year quarter. If you compare our adjusted EBITDA results in second quarter 2017, including Big Fish to our results for the second quarter 2018, our 3 segments have essentially replaced the adjusted EBITDA we lost with the sale of Big Fish. And we have replaced the Big Fish adjusted EBITDA we sold with less volatile and more predictable earnings. As we highlighted in our press release after the Derby in May, we had tremendous results this year despite running the Derby race in some of the wettest conditions ever. We also benefited from strong contributions from our wholly-owned Casino properties, solid performance from our equity investments in Ocean Downs and Miami Valley gaming and a 12% increase in handle for our TwinSpires business.

Turning to our racing segment for second quarter. Our racing segment adjusted EBITDA was up \$10.4 million or nearly 11% compared to the prior year quarter. Derby Week delivered \$12.3 million of the growth. Churchill Downs racetrack, excluding Derby week, was down \$1.2 million, primarily due to the adoption of the new revenue recognition standard ASC 606. And Fair Grounds in Arlington collectively decreased \$700,000.

Approximately half of the \$12.3 million of the growth in adjusted EBITDA for Derby Week was driven by increased revenue as a result of the new Starting Gate Suites, the revenue from the new parking component of the seat ticket sales and increased pricing for certain sections of our facility. New sponsorships and increased wagering contributed to the growth as well. We also recognized \$2.8 million of additional adjusted EBITDA for



AUGUST 02, 2018 / 1:00PM, CHDN - Q2 2018 Churchill Downs Inc Earnings Call

the Derby related to the adoption of ASC 606, which resulted in certain revenue being recognized in the second quarter as part of the Derby revenue that historically had been recognized as part of the Churchill Downs racetrack revenue in the latter part of the year.

Turning to TwinSpires. TwinSpires grew nearly 20% and contributed \$3.8 million for the growth and adjusted EBITDA for the second quarter compared to the prior year quarter. As Bill discussed, TwinSpires' handle was up 12% for the quarter, 7 percentage points higher than the reported industry growth, which enables the TwinSpires team to deliver 20% growth and adjusted EBITDA for the quarter. TwinSpires' strong growth in second quarter reflects the unique advantage that our market-leading platform has as a result of its linkage to the Kentucky Derby.

As a reminder, as you look at our TwinSpires segment operating results, while there is no impact on adjusted EBITDA or net income, there have been certain modifications between the classification of net revenue and operating expenses in the TwinSpires segment in the current period as a result of the adoption of ASC 606. For example, certain promotional expenses that were previously reported in marketing expense, are now netted against gross revenue. And second quarter 2018, if you excluded this adjustment, marketing expense for TwinSpires was increased \$600,000 compared to the prior year quarter, reflecting the increased marketing focused on the Derby and the other 2 Triple Crown race events to acquire profitable new customers that Bill discussed.

Turning to our Casino segment. Our Casino segment grew over 17% and contributed \$6.4 million of the increase in adjusted EBITDA in second quarter, versus the prior year quarter. With our wholly-owned casinos delivering over \$4.3 million for the increase and our equity investments delivering the balance, this strong growth reflects the ongoing benefit from our strategy of placing smaller bets in different geographies with stable, predictable cash flows.

Our Calder Casino benefited from the addition of a smoking patio and from the closure of a nearby competitor for a portion of the quarter. Our Oxford Casino continued to benefit from the opening of its hotel and expanded gaming floor.

Our Louisiana properties and Riverwalk Casino continue to deliver strong growth from successful marketing and promotional activities. Ocean Downs delivered strong adjusted EBITDA growth, again, this quarter as a result of their investment in an expanded casino floor and new table games near the end of last year. Miami Valley's growth was strong again due to the new capacity added in the fourth quarter of 2017. Reported net income was \$103 million in the second quarter, up \$25 million or 32% compared to the prior year quarter, driven primarily by the strong operating performance and lower corporate tax rate. Diluted earnings per share was \$7.55, up 57%, reflecting the strong growth in net income as well as the \$2.7 million reduction (technical difficulty) and average shares outstanding as a result of share repurchases. Our adjusted net income was \$105 million, up \$32 million or 43%, reflecting the growth in income from our continuing operations, a lower corporate tax rate and the exclusion of certain transaction expenses and preopening costs related to our Derby City Gaming facility. We've included a supplemental schedule in our press release with the reconciliation to help you better understand the core continuing operating results. Turning to cash flow. We had \$106 million of cash flow from operations in the second quarter, up \$3 million from the prior year quarter. Excluding the impact of the sale of Big Fish, our cash flow from operations in the second quarter was up \$41 million from strong cash flow generation from our core continuing operations. The timing of the interest payment on our debt, as a result of our refinancing in December of last year and lower cash paid taxes as a result of tax reform.

Turning to capital. We spent \$6.2 million on maintenance capital in second quarter, which was down \$1.5 million from the prior year primarily due to timing. We are projecting maintenance capital to be slightly up in 2018 when compared to 2017. Regarding project capital for the quarter, we spent \$32 million in the second quarter, of which approximately 50% related to the work on the Starting Gate Suites and the other capital improvements at Churchill Downs Racetrack. And the majority of the remaining dollars were spent on the build-out of the Derby City Gaming historical racing machine facility in Louisville, which is on target to open in September. The balance of the project capital was used for other smaller capital projects at our other properties, including the addition of our 12th off-track betting location in Louisiana and the addition of a smoking patio at Calder. We anticipate spending \$130 million to \$140 million on project capital in 2018. The majority of the project capital has or will be spent on 3 projects. \$65 million on the new Derby City Gaming facility; \$55 million to \$60 million at Churchill Downs Racetrack to support the growth of the Derby, which includes \$30 million on the parking lot and infrastructure project; and \$20 million on the Starting Gate Suites. The remaining \$10 million to \$15 million of project capital will primarily be focused on additional smaller investments at our Casino properties, including a 13th OTB in Louisiana.



AUGUST 02, 2018 / 1:00PM, CHDN - Q2 2018 Churchill Downs Inc Earnings Call

And finally, I'll close with just a few summary comments. Our results for this quarter reflect the continued execution of a focused strategy to grow the Derby through ongoing investment in creating unique experiences for our customers. Execution of our strategy to grow our industry-leading online wagering for horseracing platform and operational discipline and executing growth through the smaller casino property bets we have placed in diverse geographies with stable, more predictable cash flows. We are currently at 2x net leverage, giving us significant capacity for strategic investments to support organic growth, acquisitions, dividends and share repurchases over the coming years. We have an efficient capital structure, a portfolio of assets that generate strong free cash flow and a solid platform for future growth and adjusted EBITDA with a more stable and more predictable earnings stream.

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

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Thanks, Marcia. If anybody has any questions now, we'd be happy to take them.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Dan Politzer of JPMorgan.

Daniel Brian Politzer - *JP Morgan Chase & Co, Research Division - Analyst*

So the first question on capital allocation, you guys mentioned your net leverage right now is around 2x and that compares to your target range of around 3x to 4x. So can you just kind of frame or bridge that gap or how we should think about it going forward, bearing in mind that Presque -- the acquisition of Presque's is still going to put you well below that target range?

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Sure, Dan. It's Bill. As we said previously, we do set a target range but more importantly than the target range is the opportunities we have to deploy our capital. So it's always been important. We've always done this over the number of years that this team has been in place to be patient and to be disciplined. So I would say that we do feel like it's a fairly target-rich environment. There are lots of things that can be of interest to us that we look at closely, but a target range for leverage is really not the primary driver. Really, it's about the best opportunities that fit our long-term strategic profile of how we think we can best grow our company. So the good news is, is we have capacity and we also think we have opportunities out there that are worth looking at, but we're going to be patient and disciplined and things will sort out over time.

Daniel Brian Politzer - *JP Morgan Chase & Co, Research Division - Analyst*

And just to confirm, you guys have a 10b5-1 plan in place. That's correct, right?

Marcia Ann Dall - *Churchill Downs Incorporated - Executive VP & CFO*

Dan, we actually don't comment on that.



AUGUST 02, 2018 / 1:00PM, CHDN - Q2 2018 Churchill Downs Inc Earnings Call

Daniel Brian Politzer - JP Morgan Chase & Co, Research Division - Analyst

Okay. All right. All right. So I guess kind of shifting gears. On the sports betting side, obviously, you've been active there, and you mentioned kind of where you guys stood across the market. I want to confirm for the -- for Atlantic City, you guys expect to be active in the fourth quarter, you said?

William C. Carstanjen - Churchill Downs Incorporated - CEO & Director

Oh, we hope to be. That's an estimate. Ultimately, how we're going to be active depends on getting our license process complete. So if we get that done in time, then, yes, we will be active in the fourth quarter.

William E. Mudd - Churchill Downs Incorporated - President & COO

And we're also working with SBTech to get their platform approved by the commission in New Jersey.

Daniel Brian Politzer - JP Morgan Chase & Co, Research Division - Analyst

Okay. Thanks. And then on the regulatory front, can you give us an update on what you're seeing or hearing in Illinois and Florida? And I know in Illinois, there's been some news on potential historic horseracing facilities, similar to what you guys have in Kentucky. So I guess, what are you kind of hearing or seeing there?

William C. Carstanjen - Churchill Downs Incorporated - CEO & Director

Yes. The racing commission in Illinois is exploring rules to regulate historical racing machines. But I think that's a process that will have to be sorted out over time because certainly, the legislative body there is also part of a process for historical racing in Illinois. So I didn't take that development as particularly a good sign or a particularly optimistic sign. I think it's more noise out of that jurisdiction, more discussion and there's been lots of discussion over time. So that happens. Certainly, that's something that was reported in the media, but Illinois is a complicated jurisdiction. It's also an election year there. And I guess, it's becoming a theme in answering some of these questions. Patience and being thoughtful about how to best play our cards and how to best participate in the process, I think, is critical to long-term success. So just because the racing commission made some commentary and proposed some action doesn't mean we're jumping on that. It's a broader landscape that we want to pay attention to because ultimately at Arlington Park, what we seek there has been full casino gaming, not historical racing machines.

Operator

And our next question comes from the line of David Katz of Jefferies.

Erik Hellquist

This is Erik Hellquist on for David. So I know you guys just outlined some of the -- the more state-by-state specifics on the sports betting rollout. But if you could just talk about more about the broader, cohesive strategy behind how you're viewing the opportunity, just on a more nationwide level as opposed to state-by-state.

William C. Carstanjen - Churchill Downs Incorporated - CEO & Director

Sure, Erik. I'll take that question. I think one of the things we've learned in TwinSpires is no individual state in and of itself is a game changer for the company. What's important is to build a capability and an infrastructure that hopefully over time will allow you to participate in a number of states. And as you participate in more and more states, that's where you can leverage your cost structure and your personnel to really drive increases in



AUGUST 02, 2018 / 1:00PM, CHDN - Q2 2018 Churchill Downs Inc Earnings Call

your profitability. So long term, we're very excited with the current environment that we're seeing activities so quickly with sports wagering in the face of the Supreme Court overruling past that. But ultimately, our excitement is a long-term play that hasn't happened yet that we're hopeful will develop over time where more and more states are interested in seeing a product like sports wagering offered in their market. And the realization that if they do so, and if we have access to a license in those jurisdictions, well, then we already have the personnel and platform capability that will allow us to participate in a cost-effective lucrative way. So that's a goal, and that's a strategy. That's not an event that happened yet. But we think some of the dynamics are aligning where it can be a real possibility for us over the next number of years.

Erik Hellquist

Great. And just a quick follow-up on that. Do you have -- what would you say would be any kind of unique competitive capability that you guys have within the market that you could exploit?

William E. Mudd - *Churchill Downs Incorporated - President & COO*

Yes. This is Bill Mudd. I think the unique capability we have in the online space is we already have a team of sophisticated people that know how to acquire customers, that know how to manage those customers with good CRM capabilities, to bonus them, to take good care of the VIPs, to market and grow our brand. We do this right now in TwinSpires. We've got a lot of experience doing this as we own Big Fish Games. And we have, on our TwinSpires team, a number of folks that have real money online gaming expertise coming out of the European countries. So while other people are out searching and scrambling, putting teams together, we already have those teams, the customer service teams and the marketing and the user acquisition teams largely in place. We'll obviously augment them with new folks, but I think that puts us a step ahead of everybody else. And on top of that, we have -- I think our partner on the technology space is, in my opinion, the best that there is out there. So I think between the technology and all of our human resource capabilities, I think we're well positioned.

Operator

And I'm showing no further questions at this time. I would now like to turn the call over to Mr. Bill Carstanjen for closing remarks.

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Thank you, everybody. We appreciate you joining us on our call, and we appreciate those of you who are investors for trusting us with your capital and giving us a chance to demonstrate what we can do. We'll continue to be or attempt to be good stewards of your capital and make wise decisions that can grow the size of our company and grow our returns. So thanks, everybody. We'll see you next quarter and we hope we can continue a very good run that we're on right now. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's conference. You may all disconnect. Everyone, have a great day.



AUGUST 02, 2018 / 1:00PM, CHDN - Q2 2018 Churchill Downs Inc Earnings Call

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.