UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to______

Commission file number 001-33998

Churchill Downs Incorporated

(Exact name of registrant as specified in its charter)

Kentucky	**61-0156015**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 North Hurstbourne Parkway, Suite 400	
Louisville, Kentucky	**40222**
(Address of Principal Executive Offices)	(Zip Code)

(502) 636-4400

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, No Par Value	CHDN	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of registrant’s common stock at October 19, 2023 was 74,594,820 shares.

CHURCHILL DOWNS INCORPORATED
INDEX TO QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2023

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per common share data)	**2023**	**2022**	**2023**	**2022**
Net revenue:				
Live and Historical Racing	$ 219.5	$ 92.3	$ 818.9	$ 439.2
TwinSpires	108.5	106.2	340.7	343.3
Gaming	244.3	183.4	740.2	545.0
All Other	0.2	1.2	0.7	2.2
Total net revenue	572.5	383.1	1,900.5	1,329.7
Operating expense:				
Live and Historical Racing	158.2	80.1	505.7	269.2
TwinSpires	73.4	64.5	219.8	229.6
Gaming	175.6	133.0	528.3	387.0
All Other	1.3	2.9	12.0	8.8
Selling, general and administrative expense	50.2	38.4	150.6	112.7
Asset impairments	—	—	24.5	4.9
Transaction expense, net	1.5	1.2	1.8	7.4
Total operating expense	460.2	320.1	1,442.7	1,019.6
Operating income	112.3	63.0	457.8	310.1
Other (expense) income:				
Interest expense, net	(67.9)	(36.2)	(197.8)	(92.6)
Equity in income of unconsolidated affiliates	33.3	42.4	110.4	115.4
Gain on sale of assets	—	—	114.0	274.6
Miscellaneous, net	4.1	4.2	5.5	4.4
Total other (expense) income	(30.5)	10.4	32.1	301.8
Income from operations before provision for income taxes	81.8	73.4	489.9	611.9
Income tax provision	(20.8)	(16.4)	(130.2)	(173.5)
Net income	$ 61.0	$ 57.0	$ 359.7	$ 438.4
Net income per common share data:				
Basic net income	$ 0.81	$ 0.75	$ 4.78	$ 5.76
Diluted net income	$ 0.79	$ 0.74	$ 4.69	$ 5.68
Weighted average shares outstanding:				
Basic	75.2	75.6	75.3	76.1
Diluted	77.1	76.7	76.7	77.2

The accompanying notes are an integral part of the condensed consolidated financial statements.

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions)	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 129.9	$ 129.8
Restricted cash	63.3	74.9
Accounts receivable, net	102.2	81.5
Income taxes receivable	5.9	14.0
Other current assets	69.3	44.3
Total current assets	370.6	344.5
Property and equipment, net	2,383.6	1,978.3
Investment in and advances to unconsolidated affiliates	660.1	659.4
Goodwill	899.9	723.8
Other intangible assets, net	2,417.3	2,391.8
Other assets	19.0	27.0
Long-term assets held for sale	—	82.0
Total assets	$ 6,750.5	$ 6,206.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 169.0	$ 145.5
Accrued expenses and other current liabilities	401.4	363.1
Current deferred revenue	30.5	39.0
Current maturities of long-term debt	68.0	47.0
Dividends payable	1.0	27.0
Total current liabilities	669.9	621.6
Long-term debt, net of current maturities and loan origination fees	1,585.0	2,081.6
Notes payable, net of debt issuance costs	3,069.8	2,477.1
Non-current deferred revenue	9.5	11.8
Deferred income taxes	386.1	340.8
Other liabilities	141.5	122.4
Total liabilities	5,861.8	5,655.3
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	—	—
Common stock	—	—
Retained earnings	889.6	552.4
Accumulated other comprehensive loss	(0.9)	(0.9)
Total shareholders' equity	888.7	551.5
Total liabilities and shareholders' equity	$ 6,750.5	$ 6,206.8

The accompanying notes are an integral part of the condensed consolidated financial statements.

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(in millions)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 31, 2022	74.8	$ —	$ 552.4	$ (0.9)	$ 551.5
Net income			155.7		155.7
Issuance of common stock	0.2				—
Taxes paid related to net share settlement of stock awards	(0.1)	(8.6)	(2.7)		(11.3)
Stock-based compensation		8.6			8.6
Other			(0.3)		(0.3)
Balance, March 31, 2023	74.9	—	705.1	(0.9)	704.2
Net income			143.0		143.0
Taxes paid related to net share settlement of stock awards		(0.1)			(0.1)
Stock-based compensation		8.1			8.1
Other			(1.4)		(1.4)
Balance, June 30, 2023	74.9	8.0	846.7	(0.9)	853.8
Net income			61.0		61.0
Issuance of common stock		3.1			3.1
Repurchase of common stock	(0.3)	(19.2)	(18.1)		(37.3)
Stock-based compensation		8.1			8.1
Balance, September 30, 2023	74.6	$ —	$ 889.6	$ (0.9)	$ 888.7

(in millions)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 31, 2021	76.2	$ —	$ 307.7	$ (0.9)	$ 306.8
Net income			42.1		42.1
Issuance of common stock	0.2				—
Repurchase of common stock	(0.2)	(7.0)	(18.0)		(25.0)
Taxes paid related to net share settlement of stock awards	(0.2)		(13.1)		(13.1)
Stock-based compensation		7.0			7.0
Balance, March 31, 2022	76.0	—	318.7	(0.9)	317.8
Net income			339.3		339.3
Repurchase of common stock	(0.6)	(7.4)	(54.1)		(61.5)
Taxes paid related to net share settlement of stock awards			(0.1)		(0.1)
Stock-based compensation		7.4			7.4
Balance, June 30, 2022	75.4	—	603.8	(0.9)	602.9
Net income			57.0		57.0
Issuance of common stock		2.7			2.7
Repurchase of common stock	(0.6)	(11.8)	(47.2)		(59.0)
Stock-based compensation		9.1			9.1
Balance, September 30, 2022	74.8	$ —	$ 613.6	$ (0.9)	$ 612.7

The accompanying notes are an integral part of the condensed consolidated financial statements.

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash flows from operating activities:		
Net income	$ 359.7	$ 438.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	121.8	78.7
Distributions from unconsolidated affiliates	126.6	117.9
Equity in income of unconsolidated affiliates	(110.4)	(115.4)
Stock-based compensation	24.8	23.5
Deferred income taxes	45.3	26.7
Asset impairments	24.5	4.9
Amortization of operating lease assets	4.8	3.9
Gain on sale of assets	(114.0)	(274.6)
Other	6.5	5.8
Changes in operating assets and liabilities:		
Income taxes	6.0	127.3
Deferred revenue	(10.8)	(34.6)
Other assets and liabilities	14.0	22.0
Net cash provided by operating activities	498.8	424.5
Cash flows from investing activities:		
Capital maintenance expenditures	(52.4)	(37.1)
Capital project expenditures	(445.7)	(226.6)
Acquisition of businesses, net of cash acquired	(241.3)	(81.7)
Acquisition of gaming rights, net of cash acquired	—	(33.3)
Proceeds from sale of assets	195.7	279.0
Other	(5.8)	(7.3)
Net cash used in investing activities	(549.5)	(107.0)
Cash flows from financing activities:		
Proceeds from borrowings under long-term debt obligations	1,420.8	1,220.0
Repayments of borrowings under long-term debt obligations	(1,297.1)	(5.3)
Payment of dividends	(26.8)	(25.7)
Repurchase of common stock	(35.8)	(143.5)
Taxes paid related to net share settlement of stock awards	(13.2)	(13.2)
Debt issuance costs	(12.3)	(12.8)
Change in bank overdraft	1.4	(1.8)
Other	1.7	2.4
Net cash provided by financing activities	38.7	1,020.1
Cash flows from discontinued operations:		
Operating activities of discontinued operations	0.5	—
Net (decrease) increase in cash, cash equivalents and restricted cash	(11.5)	1,337.6
Cash, cash equivalents and restricted cash, beginning of period	204.7	355.6
Cash, cash equivalents and restricted cash, end of period	$ 193.2	$ 1,693.2

The accompanying notes are an integral part of the condensed consolidated financial statements.

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

	Nine Months Ended September 30,	
(in millions)	**2023**	**2022**
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 180.5	$ 66.4
Cash paid for income taxes	78.9	53.9
Cash received from income tax refunds	0.8	34.2
Schedule of non-cash operating, investing and financing activities:		
Deferred payment on gaming rights incurred during the period	$ —	$ 50.0
Property and equipment additions included in accounts payable and accrued expenses	52.0	45.0
Deferred payments for acquisition of business included in other liabilities	6.9	—
Right-of-use assets obtained in exchange for lease obligations in finance leases	33.4	6.2

The accompanying notes are an integral part of the condensed consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Basis of Presentation

Churchill Downs Incorporated (the "Company", "we", "our") financial statements are presented in conformity with the requirements of this Quarterly Report on Form 10-Q and consequently do not include all of the disclosures normally required by U.S. generally accepted accounting principles ("GAAP") or those normally made in our Annual Report on Form 10-K. The December 31, 2022 Condensed Consolidated Balance Sheet data was derived from audited financial statements but does not include all disclosures required by GAAP.

The following information is unaudited. All per share amounts assume dilution unless otherwise noted. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022.

In the opinion of management, all adjustments necessary for a fair statement of this information have been made, and all such adjustments are of a normal, recurring nature.

We conduct our business through three reportable segments: Live and Historical Racing, TwinSpires, and Gaming. We aggregate our other businesses as well as certain corporate operations, and other immaterial joint ventures, in All Other. We report net revenue and operating expense associated with these reportable segments in the accompanying Condensed Consolidated Statements of Comprehensive Income.

Acquisition of Exacta Systems

On August 22, 2023, the Company completed its previously-announced acquisition of Exacta Systems, LLC ("Exacta"). Refer to Note 3, Acquisitions for further information on the transaction.

Stock Split

Effective May 22, 2023, the Company's common stock was split two-for-one (the "Stock Split") with a proportionate increase in the number of its authorized shares of common stock. All share and per-share amounts have been retroactively adjusted to reflect the effects of the Stock Split. Refer to Note 8, Shareholders' Equity for further information on the Stock Split.

Presque Isle Impairment

During the second quarter, we evaluated economic conditions subsequent to the date of our annual impairment assessment on April 1, 2023, including competition in the market and inflationary pressures, which increased during the second quarter of 2023, and impacted the performance and outlook of Presque Isle Downs and Casino ("Presque Isle"). As a result, the Company concluded that a trigger event for impairment testing occurred related to the Presque Isle gaming rights, trademark, and the reporting unit's goodwill at the end of the second quarter. Based on the 2023 trigger event, the Company evaluated and subsequently updated the projected cash flows and discount rate to reflect the current environment. As a result, the Company recognized a non-cash impairment charge of $24.5 million in the second quarter of 2023 for the Presque Isle gaming rights and trademark. Refer to Note 5, Asset Impairments for further information on the impairment.

Arlington Sale

On February 15, 2023, we closed on the sale of the Arlington International Racecourse property ("Arlington") located in Arlington Heights, Illinois. We sold 326-acres to the Chicago Bears for $197.2 million. Refer to Note 4, Dispositions for further information on the transaction.

Acquisition of Peninsula Pacific Entertainment

On November 1, 2022, the Company completed the acquisition of substantially all of the assets of Peninsula Pacific Entertainment LLC ("P2E") with a base purchase price of $2.75 billion ("P2E Transaction") subject to working capital and other purchase price adjustments. The P2E assets acquired included Colonial Downs Racetrack ("Colonial Downs") and six Historical Racing Machine ("HRM") entertainment venues in Virginia, del Lago Resort & Casino in New York ("del Lago"), and Hard Rock Hotel & Casino in Iowa ("Hard Rock Sioux City"), as well as the development rights for the Dumfries and Emporia HRM facilities in Virginia, up to five additional HRM entertainment venues in Virginia, and the potential for ONE Casino and Resort in Virginia in collaboration with Urban One, Inc. ("Urban One"). Refer to Note 3, Acquisitions for further information on the transaction.

Acquisitions of Ellis Park and Chasers Poker Room

On September 26, 2022, we completed the acquisition of Ellis Park Racing and Gaming ("Ellis Park") in Henderson, Kentucky, from Enchantment Holdings, LLC, an affiliate of Laguna Development Corporation, for total consideration of $79.0 million in cash, subject to certain working capital and other purchase price adjustments (the "Ellis Park Transaction").

On September 2, 2022, the Company completed the acquisition of Chasers Poker Room ("Chasers") in Salem, New Hampshire (the "Chasers Transaction"). As part of the transaction, we made an initial payment to the sellers for rights to operate the poker room and to build an HRM venue. Additional payments will be made once all necessary permits are obtained, and the planned historical racing entertainment venue is opened. The Company plans to develop an expanded charitable gaming facility in New Hampshire to accommodate HRMs and table games.

Refer to Note 3, Acquisitions for further information on the transactions.

Exit of the Direct Online Sports and Casino Business

On February 24, 2022 the Company announced plans to exit the direct online Sports and Casino business. The Company has exited the direct online Sports and Casino business in every state except for Arizona. The Company continues to operate retail sports betting at certain of its racetracks and HRM and gaming facilities.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements - effective in 2023 or thereafter

In March 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions to applying the guidance on contract modifications, hedge accounting, and other transactions, and to simplify the accounting for transitioning from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. The guidance was effective upon issuance. In December 2022, the FASB deferred the date for which this guidance can be applied from December 31, 2022 to December 31, 2024. The use of LIBOR was phased out at the end of 2021, although the phase-out of U.S. dollar LIBOR for existing agreements was delayed until June 2023. During the second quarter of 2023, the Company completed the transition of its financing from LIBOR to the Secured Overnight Financing Rate ("SOFR"). These transition activities did not have a material impact on the Company’s financial statements.

3. ACQUISITIONS

Exacta Systems

On August 22, 2023, the Company completed its previously-announced acquisition of Exacta for preliminary purchase consideration of $248.2 million, net of cash acquired, consisting of a $241.3 million cash payment and $6.9 million of deferred payments, which is payable over two years (the "Exacta Transaction"). The preliminary purchase consideration is subject to working capital and other purchase price adjustments. Exacta is a leading provider of technology to support historical horse racing (“HHR”) operations across the country. The Exacta Transaction is expected to enable the Company to realize significant and immediate synergies related to the Company’s Virginia operations. The Company also expects to realize additional operational improvements over time through the diversification of games available at its HRM facilities. Exacta will operate within the Company’s TwinSpires segment and will continue to service its growing portfolio of third-party HHR operators in Kentucky, Wyoming, and New Hampshire.

The Company recorded the fair values of the assets of the Exacta Transaction as of August 22, 2023 based upon preliminary valuations. Estimates and assumptions used in such valuations are subject to change, which could be significant, within the measurement period up to one year from the acquisition date. The areas of the preliminary valuations that are not yet finalized relate to the amounts for income taxes, property and equipment, inventory, intangible assets, adjustments to working capital, the final amount of residual goodwill, and final allocation of goodwill between segments. The residual goodwill will be allocated between the TwinSpires and the Live and Historical Racing segments based upon the projected future benefits to be realized as a result of the Exacta Transaction. The Company expects to continue to obtain information to assist in determining fair values of net assets acquired at the acquisition date during the measurement period.

The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed, net of cash acquired of $1.8 million, as of August 22, 2023:

(in millions)	Total
Accounts receivable	$ 9.0
Other current assets	3.0
Property and equipment	9.0
Goodwill	177.1
Other intangible assets	54.3
Other assets	0.9
Total assets acquired	$ 253.3
Accounts payable	2.7
Accrued expenses and other current liabilities	1.8
Other liabilities assumed	0.6
Total liabilities assumed	5.1
Net assets acquired (net of cash)	$ 248.2

The fair value of the intangible assets consists of the following:

(in millions)	Fair Value Recognized	Weighted-Average Useful Life
Technology asset	$ 23.9	7.0 years
Customer relationships	21.3	15.0 years
Trademark	8.7	10.0 years
Other	0.4	5.0 years
Total intangible assets	$ 54.3	

Goodwill of $177.1 million related to the Exacta Transaction was recognized as of September 30, 2023, of which $95.9 million was preliminarily allocated to the Live and Historical Racing segment and $81.2 million was preliminarily allocated to the TwinSpires segment. The goodwill related to the Exacta Transaction is deductible for tax purposes.

P2E Transaction

On November 1, 2022, the Company completed the acquisition of substantially all the assets of P2E for preliminary purchase consideration of $2,835.9 million, net of cash acquired. The P2E assets acquired included Colonial Downs and six HRM entertainment venues in Virginia, del Lago in New York, and Hard Rock Sioux City in Iowa, as well as the development rights for Dumfries and Emporia HRM facilities in Virginia, up to five additional HRM entertainment venues in Virginia, and the potential for ONE Casino & Resort in Virginia in collaboration with Urban One.

The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed, net of cash acquired of $126.4 million, as of November 1, 2022:

(in millions)		**Total**
Accounts receivable	$	9.8
Other current assets		7.2
Property and equipment		611.2
Goodwill		347.8
Other intangible assets		1,941.5
Deferred taxes		20.8
Other assets		16.0
Total assets acquired	$	2,954.3
Accounts payable		4.0
Accrued expenses and other current liabilities		96.9
Other liabilities assumed		17.5
Total liabilities assumed		118.4
Net assets acquired (net of cash)	$	2,835.9

The fair value of the intangible assets consists of the following:

(in millions)		**Fair Value Recognized**
Gaming rights	$	1,865.6
Trademark		75.9
Total intangible assets	$	1,941.5

Goodwill of $347.8 million was recognized due to the expected contribution of P2E to the Company's overall business strategy. The goodwill was assigned to the Gaming segment in the amount of $129.1 million and to the Live and Historical Racing segment in the amount of $218.7 million and is mostly deductible for tax purposes.

The gaming rights intangible assets were assigned an indefinite useful life based on the Company's expected use of the assets and determination that no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of the gaming rights. The trademarks were assigned an indefinite useful life based on the Company’s intention to keep the trademarks for an indefinite period of time.

Estimates and assumptions used in such valuations are subject to change, which could be significant, within the measurement period up to one year from the acquisition date. The preliminary purchase consideration is subject to adjustment upon finalization of customary post-closing adjustments. The primary areas of the preliminary valuation that are not yet finalized relate to the adjustments to working capital and the final amount of residual goodwill. The Company expects to continue to obtain information to assist in determining fair values of net assets acquired at the acquisition date during the measurement period.

The following unaudited pro forma consolidated financial information for the Company has been prepared assuming the P2E Transaction had occurred as of January 1, 2021. The unaudited pro forma financial information is not necessarily indicative of either future results of operations or results of operations that might have been achieved had the acquisition been consummated as of January 1, 2021.

(in millions)		**Three months ended September 30, 2022**		**Nine months ended September 30, 2022**
Net revenue	$	552.9	$	1,811.7
Net income	$	70.0	$	471.4

Ellis Park

On September 26, 2022, the Company completed the Ellis Park Transaction for total consideration of $79.0 million in cash, plus $3.5 million in working capital and other purchase price adjustments. The fair values as of September 30, 2023 for the assets acquired and liabilities assumed, net of cash acquired of $1.4 million, at the date of acquisition are as follows: property and equipment of $19.3 million, indefinite-lived gaming rights of $47.4 million, indefinite-lived trademark of $3.6 million, goodwill of $9.3 million, and net working capital of $1.5 million.

Chasers Poker Room

On September 2, 2022, the Company completed the Chasers Transaction which was treated as an asset acquisition because substantially all the value of the gross assets acquired was concentrated in gaming rights. The Company made an initial payment at closing and recorded a liability for the remaining payments due on a future date. In conjunction with the acquisition, the Company recorded an $82.2 million indefinite-lived gaming rights intangible asset which represented its fair value at the date of acquisition.

Valuation Techniques

For these transactions any current assets and current liabilities were valued at the existing carrying values, as these items are short term in nature and represent management's estimated fair value of the respective items.

Property and equipment acquired primarily relates to land, buildings, equipment, and furniture and fixtures. The fair value of the land was determined using the market approach and the fair values of the remaining property and equipment were primarily determined using the cost replacement method which is based on replacement or reproduction costs of the assets.

The fair value of gaming rights was determined using the Greenfield Method, which is an income approach methodology that calculates the present value of the overall business enterprise based on a projected cash flow stream. This method assumes that the gaming rights intangible assets provide the opportunity to develop a casino or historical racing facility in a specified region, and that the present value of the projected cash flows are a result of the realization of advantages contained in these rights. Under this methodology, the acquirer is expected to absorb all start-up costs, as well as incur all expenses pertaining to the acquisition and/or the creation of all tangible and intangible assets. The estimated future revenue and operating expenses, start-up costs, and discount rates were the primary assumptions and estimates in the valuation of the gaming rights. The gaming rights intangible assets were assigned an indefinite useful life based on the Company's expected use of the assets and determination that no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of the gaming rights.

Trademark intangible assets were valued using the relief-from-royalty method of the income approach, which estimates the fair value of the intangible assets by discounting the fair value of the hypothetical royalty payments a market participant would be willing to pay to enjoy the benefits of the assets. The estimated future revenue, royalty rates, and discount rates were the primary assumptions and estimates in the valuation of the trademarks.

The Company has not included other disclosures regarding the Exacta, Chasers, or Ellis Park Transactions as these transactions are immaterial to our business.

4. DISPOSITIONS

Lady Luck Casino Nemacolin

On June 26, 2023, the Company's management agreement for Lady Luck Casino Nemacolin ("Lady Luck") in Farmington, Pennsylvania expired and was not renewed. The Company completed the sale of substantially all its assets at Lady Luck for an immaterial amount.

Arlington

On February 15, 2023, we closed on the sale of the Arlington property in Arlington Heights, Illinois, to the Chicago Bears for $197.2 million. We received net proceeds of $195.7 million for the 326-acres and recognized a gain of $114.0 million on the sale, which is included in other income in the accompanying Condensed Consolidated Statements of Comprehensive Income. Certain assets of Arlington totaling $82.0 million were classified held for sale as of December 31, 2022 on the accompanying Condensed Consolidated Balance Sheets. Arlington’s operations and assets are included in All Other in our consolidated results.

The Company executed a forward like-kind exchange transaction by purchasing certain property as part of the P2E Transaction for $197.2 million, which qualified as an Internal Revenue Code §1031 transaction. An exchange accommodation titleholder ("EAT"), a type of variable interest entity, was used to facilitate this reverse like-kind exchange. The Company determined that it is the primary beneficiary of the EAT, thus the property held by the EAT has been consolidated and recorded in property and equipment, net on the Condensed Consolidated Balance Sheets.

As of September 30, 2023, the Company has a $27.8 million deferred tax liability related to the Arlington sale on the Condensed Consolidated Balance Sheets.

5. ASSET IMPAIRMENTS

Presque Isle Impairment

We performed our annual goodwill and indefinite-lived intangible assets impairment analysis for Presque Isle as of April 1, 2023. Based on the results of this analysis, no impairments for Presque Isle were identified. Subsequent to the annual test, we continued to evaluate economic conditions, including competition in the market and inflationary pressures, which increased during the second quarter of 2023, and impacted the performance and outlook of Presque Isle. As a result, the Company concluded that a trigger event for impairment testing occurred related to the Presque Isle gaming rights, trademark, and the reporting unit's goodwill at the end of the second quarter.

Based on the 2023 trigger event, the Company evaluated and subsequently updated the projected cash flows and discount rate to reflect the current environment. As a result, the Company recognized a non-cash impairment charge of $24.5 million in the second quarter of 2023 for the Presque Isle gaming rights and trademark, which are included in the Gaming segment. The fair value of the Presque Isle gaming rights was determined using the Greenfield Method, an income approach methodology that calculates the present value based on a projected cash flow stream. The fair value of the trademark was determined by using the relief-from-royalty method of the income approach.

The fair value of the Presque Isle reporting unit's goodwill was determined under the market and income valuation approaches using inputs primarily related to discounted projected cash flows and price multiples of comparable publicly traded companies. No impairment was recognized for the Presque Isle goodwill in 2023.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill, by segment, is composed of the following:

(in millions)	Live and Historical Racing	TwinSpires	Gaming	All Other	Total
Balances as of December 31, 2022	$ 280.3	$ 152.2	$ 290.3	$ 1.0	$ 723.8
Additions	95.9	81.2	—	—	177.1
Adjustments	—	—	—	(1.0)	(1.0)
Balances as of September 30, 2023	$ 376.2	$ 233.4	$ 290.3	$ —	$ 899.9

Goodwill of $177.1 million related to the Exacta Transaction was recognized as of September 30, 2023, of which $95.9 million was allocated to the Live and Historical Racing segment and $81.2 million was allocated to the TwinSpires segment. The goodwill related to the Exacta Transaction is deductible for tax purposes. Refer to Note 3, Acquisitions for further information on the transaction.

We performed our annual goodwill impairment analysis as of April 1, 2023, and no adjustment to the carrying value of goodwill was required. We assessed goodwill for impairment by performing qualitative or quantitative analyses for each reporting unit. We concluded that the fair values of our reporting units exceeded their carrying values, and therefore no impairments were identified.

Other intangible assets are comprised of the following:

	September 30, 2023			December 31, 2022		
(in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets	$ 95.8	$ (25.6)	$ 70.2	$ 31.0	$ (21.4)	$ 9.6
Indefinite-lived intangible assets			2,347.1			2,382.2
Total			$ 2,417.3			$ 2,391.8

We established definite-lived intangible assets of $54.3 million for the technology asset, customer relationships, trademark and other intangibles related to the Exacta Transaction. Refer to Note 3, Acquisitions for further information on the transaction.

We performed our annual indefinite-lived intangible assets impairment analysis as of April 1, 2023. We assessed our indefinite-lived intangible assets for impairment by performing qualitative or quantitative analyses for each asset. Based on the results of these analyses, no indefinite-lived intangible asset impairments were identified in connection with our annual impairment testing.

Refer to Note 5, Asset Impairments, for information regarding the intangible asset impairment recognized during the second quarter of 2023.

7. INCOME TAXES

The Company's effective income tax rate for the three months ended September 30, 2023 was higher than the U.S. federal statutory rate of 21.0% primarily resulting from state income taxes. The Company's effective income tax rate for the nine months ended September 30, 2023 was higher than the U.S. federal statutory rate of 21.0% primarily resulting from state income taxes and non-deductible officer's compensation.

The Company's effective income tax rate for the three months ended September 30, 2022 was higher than the U.S. federal statutory rate of 21.0% primarily resulting from state income taxes and non-deductible officer's compensation, partially offset by tax benefits resulting from certain tax credits and incentives. The Company's effective income tax rate for the nine months ended September 30, 2022 was higher than the U.S. federal statutory rate of 21.0% primarily resulting from state income taxes and non-deductible officer's compensation.

8. SHAREHOLDERS' EQUITY

Stock Repurchase Programs

On September 29, 2021, the Board of Directors of the Company approved a common stock repurchase program of up to $500.0 million ("2021 Stock Repurchase Program"). Repurchases may be made at management's discretion from time to time on the open market (either with or without a 10b5-1 plan) or through privately negotiated transactions. The repurchase program has no time limit and may be suspended or discontinued at any time. The Company repurchased $37.3 million of its common stock during the three months ended September 30, 2023 and had approximately $232.9 million of repurchase authority remaining under the 2021 Stock Repurchase Program at September 30, 2023, based on trade date.

We repurchased the following shares under the 2021 Stock Repurchase Program:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions, except share data)	2023		2022		2023		2022	
Repurchase Program	**Shares**	**Aggregate Purchase Price**	**Shares**	**Aggregate Purchase Price**	**Shares**	**Aggregate Purchase Price**	**Shares**	**Aggregate Purchase Price**
2021 Stock Repurchase Program [1]	310,367	$ 37.3	577,562	$ 59.0	310,367	$ 37.3	1,454,396	$ 145.5

[1] Number of shares have been adjusted for the Stock Split.

Stock Split

On April 25, 2023, the Company's Board of Directors approved a two-for-one Stock Split and an amendment to the Company's Articles of Incorporation to increase the number of shares of common stock the Company is authorized to issue from 150,000,000 shares, no par value, to 300,000,000 shares, no par value. This amendment to the Company's Articles of Incorporation became effective on May 19, 2023 and our common stock began trading at the split-adjusted price on May 22, 2023. All share and per-share amounts in the Company's consolidated financial statements and related notes have been retroactively adjusted to reflect the effects of the Stock Split.

9. STOCK-BASED COMPENSATION PLANS

We have stock-based employee compensation plans with awards outstanding under the Churchill Downs Incorporated 2016 Omnibus Stock Incentive Plan (the "2016 Plan") and the Executive Long-Term Incentive Compensation Plan, which was adopted pursuant to the 2016 Plan. Our total stock-based compensation expense, which includes expenses related to restricted stock awards ("RSAs"), restricted stock unit awards ("RSUs"), performance share unit awards ("PSUs"), and stock options associated with our employee stock purchase plan was $8.1 million and $24.8 million for the three and nine months ended September 30, 2023, and $9.1 million and $23.5 million for the three and nine months ended September 30, 2022, respectively.

During the nine months ended September 30, 2023, the Company awarded RSUs to employees, RSUs and PSUs to certain named executive officers ("NEOs"), and RSAs and RSUs to directors. The vesting criteria for the PSU awards granted in 2023 were based on a three-year service period with two performance conditions and a market condition related to relative total shareholder return ("TSR") consistent with prior year grants. The total compensation cost we will recognize under the PSUs is determined using the Monte Carlo valuation methodology, which factors in the value of the TSR market condition when determining the grant date fair value of the PSU. Compensation cost for each PSU is recognized during the performance and service period based on the probable achievement of the two performance criteria. The PSUs are converted into shares of our common stock at the time the PSU award value is finalized.

A summary of the RSAs, RSUs and PSUs granted during 2023 is presented below (units in thousands):

Grant Year	Award Type	Number of Units Awarded[(1)(2)]	Vesting Terms
2023	RSU	121	Vest equally over three service periods ending in 2026
2023	PSU	62	Three year performance and service period ending in 2025
2023	RSU	10	Three year service period ending in 2026
2023	RSU	6	One year service period ending in 2024
2023	RSA	4	One year service period ending in 2024

(1) PSUs reflect the target number of units for the original PSU grant.

(2) Number of units awarded have been adjusted for the Stock Split.

10. DEBT

The following table presents our total debt outstanding:

(in millions)	September 30, 2023	December 31, 2022
Term Loan B due 2024	$ —	$ 380.0
Term Loan B-1 due 2028	292.5	294.7
Term Loan A due 2027	1,251.3	800.0
Revolver	118.7	664.1
2027 Senior Notes	600.0	600.0
2028 Senior Notes	700.0	700.0
2030 Senior Notes	1,200.0	1,200.0
2031 Senior Notes	600.0	—
Total debt	4,762.5	4,638.8
Current maturities of long-term debt	(68.0)	(47.0)
Unamortized premium and deferred finance charges	(39.7)	(33.1)
Total debt, net of current maturities and costs	$ 4,654.8	$ 4,558.7

Credit Agreement

At September 30, 2023, the Company’s senior secured credit facility (as amended from time to time, the “Credit Agreement") consisted of a $1.2 billion revolving credit facility (the "Revolver"), $300.0 million senior secured term loan B-1 due 2028 (the "Term Loan B-1"), $1.3 billion senior secured term loan A due 2027 (the "Term Loan A"), and $100.0 million swing line commitment. Certain amendments to the Credit Agreement entered into during 2022 and 2023 are described below.

On April 13, 2022, we amended the Credit Agreement to extend the maturity date of its Revolver to April 13, 2027, to increase the commitments under the existing revolving credit facility from $700.0 million to $1.2 billion, and to increase the swing line commitment from $50.0 million to $100.0 million. This amendment also provided for the senior secured Term Loan A due April 13, 2027 in the amount of $800.0 million, which was drawn on November 1, 2022 as part of the financing for the P2E Transaction. Refer to Note 3, Acquisitions for more information regarding the P2E Transaction. The Company capitalized $3.5 million of debt issuance costs associated with the Revolver commitment increase and $6.4 million of debt issuance costs associated with the Term Loan A which are being amortized as interest expense over the 5-year term.

On February 24, 2023, we amended our Credit Agreement to increase the loans under the existing Term Loan A due 2027 from $800.0 million to $1.3 billion and made certain other changes to the existing credit agreement. The Company used the net proceeds from the borrowings under the increased Term Loan A to repay outstanding loans under its Revolver, pay related transaction fees and expenses, and for general corporate purposes. The Company capitalized $2.6 million of debt issuance costs associated with the increased Term Loan A which are being amortized as interest expense over the remainder of the 5-year term.

The Company is required to pay a commitment fee on the unused portion of the Revolver as determined by a pricing grid based on the consolidated total net secured leverage ratio of the Company. For the period ended September 30, 2023, the Company's commitment fee rate was 0.25%.

The Revolver and Term Loan A bear interest at SOFR plus 10 basis points, plus a variable applicable margin which is determined by the Company's net leverage ratio. As of September 30, 2023, that applicable margin was 150 basis points. The Term Loan B-1 bears interest at SOFR plus 210 basis points.

The Company completed the transition of its financing from LIBOR to SOFR during the second quarter of 2023. These transition activities did not have a material impact on the Company’s financial statements.

2031 Senior Notes

On April 25, 2023, the Company completed an offering of $600.0 million in aggregate principal amount of 6.750% senior unsecured notes that mature on April 25, 2031 (the "2031 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The Company used a portion of the net proceeds from the offering to repay indebtedness outstanding under its Term Loan B Facility due 2024 and to fund related transaction fees and expenses, working capital and other general corporate purposes. The Company recognized a loss on extinguishment on Term Loan B of $1.3 million, which is included in miscellaneous, net in the accompanying Condensed Consolidated Statements of Comprehensive Income. The Company capitalized $10.7 million of debt issuance costs associated with the 2031 Senior Notes which are being amortized as interest expense over the remainder of the 8-year term.

The 2031 Senior Notes were issued at 100% of the principal amount, plus interest deemed to have accrued from April 25, 2023, with interest payable in arrears on May 1st and November 1st of each year, commencing on November 1, 2023. The 2031 Senior Notes will vote as one class under the indenture governing the 2031 Senior Notes.

The 2031 Senior Notes were issued pursuant to an indenture, entered into on April 25, 2023 (the "2031 Indenture"), among the Company, certain subsidiaries of the Company as guarantors, and U.S. Bank National Association, as trustee. The Company may redeem some or all of the 2031 Senior Notes at any time at redemption prices set forth in the 2031 Indenture. The terms of the 2031 Indenture, among other things, limit the ability of the Company to: (i) incur additional debt and issue preferred stock, (ii) pay dividends or make other restricted payments, (iii) make certain investments, (iv) create liens, (v) allow restrictions on the ability of certain of our subsidiaries to pay dividends or make other payments, (vi) sell assets, (vii) merge or consolidate with other entities, and (viii) enter into transactions with affiliates.

In connection with the issuance of the 2031 Senior Notes, the Company and the guarantors entered into a Registration Rights Agreement to register any notes under the Securities Act for resale that are not freely tradable 366 days from April 25, 2023.

11. REVENUE FROM CONTRACTS WITH CUSTOMERS

Performance Obligations

As of September 30, 2023, our Live and Historical Racing segment had remaining performance obligations on contracts with a duration greater than one year relating to television rights, sponsorships, personal seat licenses, and admissions, with an aggregate transaction price of $138.5 million. The revenue we expect to recognize on these remaining performance obligations is $1.0 million for the remainder of 2023, $54.9 million in 2024, $41.7 million in 2025, and the remainder thereafter.

As of September 30, 2023, our remaining performance obligations on contracts with a duration greater than one year in segments other than Live and Historical Racing were not material.

Contract Assets and Contract Liabilities

As of September 30, 2023 and December 31, 2022, contract assets were not material.

As of September 30, 2023 and December 31, 2022, contract liabilities were $48.1 million and $58.7 million, respectively, which are included in current deferred revenue, non-current deferred revenue, and accrued expense in the accompanying Condensed Consolidated Balance Sheets. Contract liabilities primarily relate to the Live and Historical Racing segment and the decrease was primarily due to revenue recognized for fulfilled performance obligations. We recognized $1.2 million and $43.6 million of revenue during the three months and nine months ended September 30, 2023, respectively, which was included in the contract liabilities balance at December 31, 2022. We recognized $1.3 million and $48.1 million of revenue during the three months and nine months ended September 30, 2022, respectively, which was included in the contract liabilities balance at December 31, 2021.

Disaggregation of Revenue

The Company has included its disaggregated revenue disclosures as follows:

- For the Live and Historical Racing segment, revenue is disaggregated between Churchill Downs Racetrack and historical racing properties given that our racing facilities revenues primarily revolve around live racing events while our historical racing properties revenues primarily revolve around historical racing. This segment is also disaggregated by location given the geographic economic factors that affect the revenue of service offerings. Within the Live and Historical Racing segment, revenue is further disaggregated between live and simulcast racing, historical racing, racing event-related services, and other services.

- For the TwinSpires segment, revenue is disaggregated between live and simulcast racing, gaming, and other services.
- For the Gaming segment, revenue is disaggregated by location given the geographic economic factors that affect the revenue of gaming service offerings. Within the Gaming segment, revenue is further disaggregated between live and simulcast racing, racing event-related services, gaming, and other services.

We believe that these disclosures depict how the amount, nature, timing, and uncertainty of cash flows are affected by economic factors. The tables below present net revenue from external customers and intercompany revenue from each of our segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2023**	**2022**	**2023**	**2022**
Net revenue from external customers:				
Live and Historical Racing:				
Churchill Downs Racetrack	$ 10.6	$ 6.4	$ 191.3	$ 182.6
Louisville	48.9	41.5	138.2	128.5
Northern Kentucky	19.5	10.0	63.1	29.2
Southwestern Kentucky	37.6	33.3	111.7	97.8
Western Kentucky	11.6	0.2	25.8	0.2
Virginia	88.1	—	280.4	—
New Hampshire	3.2	0.9	8.4	0.9
Total Live and Historical Racing	$ 219.5	$ 92.3	$ 818.9	$ 439.2
TwinSpires:	$ 108.5	$ 106.2	$ 340.7	$ 343.3
Gaming:				
Florida	$ 24.4	$ 26.3	$ 76.5	$ 81.2
Iowa	24.0	—	72.5	—
Louisiana	32.2	28.5	110.1	107.2
Maine	30.9	31.6	88.1	87.8
Maryland	32.0	33.3	82.9	82.0
Mississippi	24.2	24.5	77.5	78.0
New York	46.2	—	135.3	—
Pennsylvania	30.4	39.2	97.3	108.8
Total Gaming	$ 244.3	$ 183.4	$ 740.2	$ 545.0
All Other	0.2	1.2	0.7	2.2
Net revenue from external customers	$ 572.5	$ 383.1	$ 1,900.5	$ 1,329.7
Intercompany net revenues:				
Live and Historical Racing	$ 6.0	$ 10.1	$ 30.4	$ 26.3
TwinSpires	3.9	1.2	7.1	4.0
Gaming	0.6	2.5	4.2	4.6
All Other	—	—	—	—
Eliminations	(10.5)	(13.8)	(41.7)	(34.9)
Intercompany net revenue	$ —	$ —	$ —	$ —

	Three Months Ended September 30, 2023											
(in millions)	**Live and Historical Racing**		**TwinSpires**		**Gaming**		**Total Segments**		**All Other**		**Total**	
Net revenue from external customers												
Pari-mutuel:												
Live and simulcast racing	$	16.0	$	86.3	$	5.1	$	107.4	$	—	$	107.4
Historical racing[(a)]		179.9		—		7.5		187.4		—		187.4
Racing event-related services		3.3		—		1.4		4.7		—		4.7
Gaming[(a)]		3.1		5.3		203.0		211.4		—		211.4
Other[(a)]		17.2		16.9		27.3		61.4		0.2		61.6
Total	$	219.5	$	108.5	$	244.3	$	572.3	$	0.2	$	572.5

	Three Months Ended September 30, 2022											
(in millions)	**Live and Historical Racing**		**TwinSpires**		**Gaming**		**Total Segments**		**All Other**		**Total**	
Net revenue from external customers												
Pari-mutuel:												
Live and simulcast racing	$	1.8	$	91.0	$	3.6	$	96.4	$	—	$	96.4
Historical racing[(a)]		78.7		—		3.5		82.2		—		82.2
Racing event-related services		3.0		—		0.1		3.1		—		3.1
Gaming[(a)]		0.9		5.3		160.6		166.8		—		166.8
Other[(a)]		7.9		9.9		15.6		33.4		1.2		34.6
Total	$	92.3	$	106.2	$	183.4	$	381.9	$	1.2	$	383.1

[(a)] Food and beverage, hotel, and other services furnished to customers for free as an inducement to wager or through the redemption of our customers' loyalty points are recorded at the estimated standalone selling prices in other revenue with a corresponding offset recorded as a reduction in historical racing pari-mutuel revenue for HRMs or gaming revenue for our casino properties. These amounts were $13.3 million for the three months ended September 30, 2023 and $8.4 million for the three months ended September 30, 2022.

	Nine Months Ended September 30, 2023					
(in millions)	Live and Historical Racing	TwinSpires	Gaming	Total Segments	All Other	Total
Net revenue from external customers						
Pari-mutuel:						
Live and simulcast racing	$ 67.2	$ 283.2	$ 19.9	$ 370.3	$ —	$ 370.3
Historical racing[a]	549.3	—	20.5	569.8	—	569.8
Racing event-related services	141.0	—	4.8	145.8	—	145.8
Gaming[a]	8.2	10.9	615.4	634.5	—	634.5
Other[a]	53.2	46.6	79.6	179.4	0.7	180.1
Total	$ 818.9	$ 340.7	$ 740.2	$ 1,899.8	$ 0.7	$ 1,900.5

	Nine Months Ended September 30, 2022					
(in millions)	Live and Historical Racing	TwinSpires	Gaming	Total Segments	All Other	Total
Net revenue from external customers						
Pari-mutuel:						
Live and simulcast racing	$ 53.9	$ 290.9	$ 22.0	$ 366.8	$ —	$ 366.8
Historical racing[a]	230.7	—	4.8	235.5	—	235.5
Racing event-related services	125.4	—	0.7	126.1	—	126.1
Gaming[a]	0.9	21.8	469.6	492.3	—	492.3
Other[a]	28.3	30.6	47.9	106.8	2.2	109.0
Total	$ 439.2	$ 343.3	$ 545.0	$ 1,327.5	$ 2.2	$ 1,329.7

[a] Food and beverage, hotel, and other services furnished to customers for free as an inducement to wager or through the redemption of our customers' loyalty points are recorded at the estimated standalone selling prices in other revenue with a corresponding offset recorded as a reduction in historical racing pari-mutuel revenue for HRMs or gaming revenue for our casino properties. These amounts were $37.8 million for the nine months ended September 30, 2023 and $23.2 million for the nine months ended September 30, 2022.

12. OTHER BALANCE SHEET ITEMS

Accounts receivable, net

Accounts receivable, net is comprised of the following:

(in millions)	September 30, 2023	December 31, 2022
Trade receivables	$ 36.0	$ 12.5
Simulcast and online wagering receivables	47.3	54.1
Other receivables	24.9	20.6
	108.2	87.2
Allowance for credit losses	(6.0)	(5.7)
Total	$ 102.2	$ 81.5

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following:

(in millions)	September 30, 2023	December 31, 2022
Account wagering deposits liability	$ 53.0	$ 57.8
Accrued salaries and related benefits	38.6	39.6
Purses payable	44.3	46.1
Accrued interest	76.7	47.8
Accrued fixed assets	41.9	39.5
Accrued gaming liabilities	28.3	26.3
Other	118.6	106.0
Total	$ 401.4	$ 363.1

13. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

Investments in and advances to unconsolidated affiliates as of September 30, 2023 primarily consisted of an interest in Rivers Casino Des Plaines ("Rivers Des Plaines"), an interest in Miami Valley Gaming and Racing ("MVG"), and an interest in RVA Entertainment Holdings, LLC ("RVA").

Rivers Des Plaines

The ownership of Rivers Des Plaines is comprised of the following: (1) the Company owns 61.3%, (2) High Plaines Gaming, LLC ("High Plaines"), an affiliate of Rush Street Gaming, LLC, owns 36.0%, and (3) Casino Investors, LLC owns 2.7%. Both the Company and High Plaines have participating rights over Rivers Des Plaines, and both must consent to certain operating, investing and financing decisions. As a result, we account for Rivers Des Plaines using the equity method. As of September 30, 2023, the net aggregate basis difference between the Company’s investment in Rivers Des Plaines and the amounts of the underlying equity in net assets was $832.6 million.

Our investment in Rivers Des Plaines was $531.6 million and $544.9 million as of September 30, 2023 and December 31, 2022, respectively. The Company received distributions from Rivers Des Plaines of $93.1 million and $92.8 million for the nine months ended September 30, 2023 and 2022, respectively.

Miami Valley Gaming

The Company owns a 50% interest in MVG and Delaware North Companies Gaming & Entertainment Inc. ("DNC") owns the remaining 50% interest. Since both the Company and DNC have participating rights over MVG, and both must consent to certain operating, investing and financing decisions, we account for MVG using the equity method.

Our investment in MVG was $114.2 million and $114.4 million as of September 30, 2023 and December 31, 2022, respectively. The Company received distributions from MVG of $33.5 million and $25.0 million for the nine months ended September 30, 2023 and 2022, respectively.

RVA

The Company owns a 50% interest in RVA and Urban One owns the remaining 50% interest. Since both the Company and Urban One have participating rights over RVA, and both must consent to certain operating, investing and financing decisions, we account for RVA using the equity method.

Our investment in RVA was $14.2 million as of September 30, 2023.

Summarized Financial Results for our Unconsolidated Affiliates

Summarized below are the financial results for our unconsolidated affiliates.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2023**	**2022**	**2023**	**2022**
Net revenue	$ 208.9	$ 221.5	$ 648.2	$ 613.3
Operating and SG&A expense	135.1	131.5	407.3	380.4
Depreciation and amortization	5.9	5.9	17.5	17.5
Total operating expense	141.0	137.4	424.8	397.9
Operating income	67.9	84.1	223.4	215.4
Interest and other, net	(11.1)	(10.6)	(32.7)	(13.8)
Net income	$ 56.8	$ 73.5	$ 190.7	$ 201.6

(in millions)	**September 30, 2023**	**December 31, 2022**
Assets		
Current assets	$ 127.7	$ 91.0
Property and equipment, net	340.3	345.7
Other assets, net	268.8	265.0
Total assets	$ 736.8	$ 701.7
Liabilities and Members' Deficit		
Current liabilities	$ 120.9	$ 97.9
Long-term debt	846.8	838.6
Other liabilities	0.3	0.2
Members' deficit	(231.2)	(235.0)
Total liabilities and members' deficit	$ 736.8	$ 701.7

14. FAIR VALUE OF ASSETS AND LIABILITIES

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate.

Restricted Cash

Our restricted cash accounts held in money market and interest-bearing accounts qualify for Level 1 in the fair value hierarchy, which includes unadjusted quoted market prices in active markets for identical assets.

Debt

The fair value of the Company’s 2031 Senior Notes, 2030 Senior Notes, 2028 Senior Notes, and 2027 Senior Notes are estimated based on unadjusted quoted prices for identical or similar liabilities in markets that are not active and as such are Level 2 measurements. The fair values of the Company's Term Loan B, Term Loan B-1, Term Loan A, and Revolver under the Credit Agreement approximate the gross carrying value of the variable rate debt and as such are Level 2 measurements.

The carrying amounts and estimated fair values by input level of the Company's financial instruments are as follows:

	September 30, 2023				
(in millions)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Restricted cash	$ 63.3	$ 63.3	$ 63.3	$ —	$ —
Financial liabilities:					
Term Loan B-1	$ 289.8	$ 292.5	$ —	$ 292.5	$ —
Term Loan A	1,244.5	1,251.3	—	1,251.3	—
Revolver	118.7	118.7	—	118.7	—
2027 Senior Notes	596.2	570.0	—	570.0	—
2028 Senior Notes	698.7	629.1	—	629.1	—
2030 Senior Notes	1,185.0	1,081.4	—	1,081.4	—
2031 Senior Notes	589.9	566.4	—	566.4	—

	December 31, 2022				
(in millions)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Restricted cash	$ 74.9	$ 74.9	$ 74.9	$ —	$ —
Financial liabilities:					
Term Loan B	$ 378.4	$ 380.0	$ —	$ 380.0	$ —
Term Loan B-1	291.6	294.8	—	294.8	—
Term Loan A	794.5	800.0	—	800.0	—
Revolver	664.1	664.1	—	664.1	—
2027 Senior Notes	595.3	574.5	—	574.5	—
2028 Senior Notes	698.4	626.5	—	626.5	—
2030 Senior Notes	1,183.4	1,079.4	—	1,079.4	—

15. CONTINGENCIES

We may be involved in litigation arising in the ordinary course of conducting business. We carry insurance for workers' compensation claims from our employees and general liability for claims from independent contractors, customers and guests. We are self-insured up to an aggregate stop loss for our general liability and workers' compensation coverages.

We review all litigation on an ongoing basis when making accrual and disclosure decisions. For certain legal proceedings, we cannot reasonably estimate losses or a range of loss, if any, particularly for proceedings that are in the early stages of development or where the plaintiffs seek indeterminate damages. Various factors, including but not limited to, the outcome of potentially lengthy discovery and the resolution of important factual questions, may need to be determined before probability can be established or before a loss or range of loss can be reasonably estimated. In accordance with current accounting standards for loss contingencies and based upon information currently known to us, we establish reserves for litigation when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss or range of loss can be reasonably estimated. When no amount within the range of loss is a better estimate than any other amount, we accrue the minimum amount of the estimable loss. To the extent that such litigation against us may have an exposure to a loss in excess of the amount we have accrued, we believe that such excess would not be material to our consolidated financial condition, results of operations, or cash flows. Legal fees are expensed as incurred.

If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. In the event that a legal proceeding results in a substantial judgment against us, or settlement by us, there can be no assurance that any resulting liability or financial commitment would not have a material adverse impact on our business.

16. NET INCOME PER COMMON SHARE COMPUTATIONS

The following is a reconciliation of the numerator and denominator of the net income per common share computations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share data)	2023	2022	2023	2022
Numerator for basic and diluted net income per common share:				
Net income	$ 61.0	$ 57.0	$ 359.7	$ 438.4
Denominator for net income per common share:				
Basic	75.2	75.6	75.3	76.1
Plus dilutive effect of stock awards	1.9	1.1	1.4	1.1
Diluted	77.1	76.7	76.7	77.2
Net income per common share data:				
Basic net income	$ 0.81	$ 0.75	$ 4.78	$ 5.76
Diluted net income	$ 0.79	$ 0.74	$ 4.69	$ 5.68

All share and per-share amounts have been retroactively adjusted to reflect the effects of the Stock Split. Refer to Note 8, Shareholders' Equity for further information on the Stock Split.

17. SEGMENT INFORMATION

We manage our operations through three reportable segments: Live and Historical Racing, TwinSpires, and Gaming. Our operating segments reflect the internal management reporting used by our chief operating decision maker to evaluate results of operations and to assess performance and allocate resources.

On September 7, 2023, the Company began operating retail sports betting at its racetracks and HRM facilities in Kentucky. In addition to retail sports betting, third-party service providers began operating online sports wagering in partnership with the Company’s racetracks on September 28, 2023. Our retail and online sports betting business is included in the TwinSpires segment.

We have aggregated Arlington as well as certain corporate operations in All Other to reconcile to consolidated results.

Eliminations include the elimination of intersegment transactions. We utilize non-GAAP measures, including EBITDA (earnings before interest, taxes, depreciation and amortization) and Adjusted EBITDA. Our chief operating decision maker utilizes Adjusted EBITDA to evaluate segment performance, develop strategy, and allocate resources. Adjusted EBITDA includes the following adjustments:

Adjusted EBITDA includes our portion of EBITDA from our equity investments.

Adjusted EBITDA excludes:

- Transaction expense, net which includes:
  - Acquisition, disposition, and property sale related charges;
  - Direct online Sports and Casino business exit costs; and
  - Other transaction expense, including legal, accounting, and other deal-related expense;
- Stock-based compensation expense;

- Rivers Des Plaines' impact on our investments in unconsolidated affiliates from:
  - The impact of changes in fair value of interest rate swaps; and
  - Legal reserves and transaction costs;
- Asset impairments;
- Gain on property and asset sales;
- Legal reserves;
- Pre-opening expense; and
- Other charges, recoveries, and expenses

On June 26, 2023, the Company's management agreement for Lady Luck expired and was not renewed. The Company completed the sale of substantially all its assets at Lady Luck for an immaterial amount.

As of December 31, 2021, Arlington ceased racing and simulcast operations and the property was sold on February 15, 2023 to the Chicago Bears. Arlington's results and exit costs in 2022 and 2023 are treated as an adjustment to EBITDA.

We utilize the Adjusted EBITDA metric to provide a more accurate measure of our core operating results and enable management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. Adjusted EBITDA should not be considered as an alternative to operating income as an indicator of performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure provided in accordance with GAAP. Our calculation of Adjusted EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited. For segment reporting, Adjusted EBITDA includes intercompany revenue and expense totals that are eliminated in the accompanying Consolidated Statements of Comprehensive Income.

The tables below present net revenue from external customers, Adjusted EBITDA by segment and reconciles comprehensive income to Adjusted EBITDA:

Net revenue by segment is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2023**	**2022**	**2023**	**2022**
Live and Historical Racing	$ 219.5	$ 92.3	$ 818.9	$ 439.2
TwinSpires	108.5	106.2	340.7	343.3
Gaming	244.3	183.4	740.2	545.0
All Other	0.2	1.2	0.7	2.2
Net Revenue	$ 572.5	$ 383.1	$ 1,900.5	$ 1,329.7

Adjusted EBITDA by segment is comprised of the following:

	Three Months Ended September 30, 2023		
(in millions)	Live and Historical Racing	TwinSpires	Gaming
Revenues	$ 225.5	$ 112.4	$ 244.9
Taxes and purses	(62.0)	(5.8)	(81.4)
Marketing and advertising	(7.6)	(1.3)	(8.9)
Salaries and benefits	(27.9)	(7.0)	(35.2)
Content expense	(1.6)	(49.4)	(2.4)
Selling, general and administrative expense	(7.4)	(3.0)	(9.9)
Other operating expense	(39.0)	(12.0)	(32.1)
Other income	0.9	—	47.3
Adjusted EBITDA	$ 80.9	$ 33.9	$ 122.3

	Three Months Ended September 30, 2022		
(in millions)	Live and Historical Racing	TwinSpires	Gaming
Revenues	$ 102.4	$ 107.4	$ 185.9
Taxes and purses	(31.6)	(6.6)	(70.6)
Marketing and advertising	(3.6)	(1.3)	(4.1)
Salaries and benefits	(13.3)	(6.3)	(24.6)
Content expense	(0.6)	(49.3)	(2.7)
Selling, general and administrative expense	(3.4)	(2.7)	(7.1)
Other operating expense	(15.6)	(10.1)	(21.7)
Other income	0.2	—	56.5
Adjusted EBITDA	$ 34.5	$ 31.1	$ 111.6

	Nine Months Ended September 30, 2023		
(in millions)	**Live and Historical Racing**	**TwinSpires**	**Gaming**
Revenues	$ 849.3	$ 347.8	$ 744.4
Taxes and purses	(203.9)	(17.8)	(246.7)
Marketing and advertising	(27.9)	(8.0)	(26.5)
Salaries and benefits	(80.0)	(20.7)	(109.2)
Content expense	(5.1)	(161.1)	(6.9)
Selling, general and administrative expense	(23.4)	(8.1)	(32.4)
Other operating expense	(123.6)	(36.0)	(92.1)
Other income	1.1	1.1	144.6
Adjusted EBITDA	$ 386.5	$ 97.2	$ 375.2

	Nine Months Ended September 30, 2022		
(in millions)	**Live and Historical Racing**	**TwinSpires**	**Gaming**
Revenues	$ 465.5	$ 347.3	$ 549.6
Taxes and purses	(118.0)	(21.3)	(206.1)
Marketing and advertising	(12.9)	(11.4)	(11.3)
Salaries and benefits	(43.1)	(19.9)	(72.0)
Content expense	(2.2)	(160.5)	(6.4)
Selling, general and administrative expense	(9.7)	(7.9)	(20.4)
Other operating expense	(53.6)	(37.2)	(63.9)
Other income	0.3	—	140.0
Adjusted EBITDA	$ 226.3	$ 89.1	$ 309.5

Adjusted EBITDA by segment is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2023	2022	2023	2022
Reconciliation of Comprehensive Income to Adjusted EBITDA:				
Net income and comprehensive income	$ 61.0	$ 57.0	$ 359.7	$ 438.4
Additions:				
Depreciation and amortization	42.1	27.5	121.8	78.7
Interest expense, net	67.9	36.2	197.8	92.6
Income tax provision	20.8	16.4	130.2	173.5
EBITDA	$ 191.8	$ 137.1	$ 809.5	$ 783.2
Adjustments to EBITDA:				
Stock-based compensation expense	$ 8.1	$ 9.1	$ 24.8	$ 23.5
Legal reserve	—	—	—	3.2
Pre-opening expense	5.0	4.2	11.4	8.9
Arlington exit costs	0.1	1.4	9.4	5.7
Other expenses, net	0.7	—	7.6	—
Transaction expense, net	1.5	1.2	1.8	7.4
Asset impairments	—	—	24.5	4.9
Other income, expense:				
Interest, depreciation and amortization expense related to equity investments	10.1	10.1	29.8	31.7
Changes in fair value of Rivers Des Plaines' interest rate swaps	—	—	—	(12.6)
Rivers Des Plaines' legal reserves and transaction costs	—	0.1	—	0.6
Other charges and recoveries, net	0.9	—	—	1.0
Gain on sale of assets	—	—	(114.0)	(274.6)
Total adjustments to EBITDA	26.4	26.1	(4.7)	(200.3)
Adjusted EBITDA	$ 218.2	$ 163.2	$ 804.8	$ 582.9
Adjusted EBITDA by segment:				
Live and Historical Racing	$ 80.9	$ 34.5	$ 386.5	$ 226.3
TwinSpires	33.9	31.1	97.2	89.1
Gaming	122.3	111.6	375.2	309.5
Total segment Adjusted EBITDA	237.1	177.2	858.9	624.9
All Other	(18.9)	(14.0)	(54.1)	(42.0)
Total Adjusted EBITDA	$ 218.2	$ 163.2	$ 804.8	$ 582.9

The table below presents total asset information for each of our segments:

(in millions)	September 30, 2023	December 31, 2022
Total assets:		
Live and Historical Racing	$ 3,742.1	$ 3,345.4
TwinSpires	461.4	287.9
Gaming	1,844.2	1,824.2
Total segment assets	6,047.7	5,457.5
All Other	702.8	749.3
Total assets	$ 6,750.5	$ 6,206.8

The table below presents total capital expenditures for each of our segments:

	Nine Months Ended September 30,	
(in millions)	2023	2022
Capital expenditures:		
Live and Historical Racing	$ 358.3	$ 177.4
TwinSpires	12.0	9.3
Gaming	120.5	63.0
Total segment capital expenditures	490.8	249.7
All Other	7.3	14.0
Total capital expenditures	$ 498.1	$ 263.7

18. SUBSEQUENT EVENTS

At its regularly scheduled meeting held on October 24, 2023, the Board of Directors of the Company declared an annual cash dividend on the Company's common stock of $0.382 per outstanding share, to be paid on January 5, 2024, to shareholders of record as of the close of business on December 1, 2023, with aggregate cash dividend paid to each shareholder rounded to the nearest whole cent.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains various "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), which provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this report are made pursuant to the Act. The reader is cautioned that such forward-looking statements are based on information available at the time and / or management’s good faith belief with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Forward-looking statements speak only as of the date that the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Forward-looking statements are typically identified by the use of terms such as “anticipate,” "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "seek," "should," "will," and similar words, although some forward-looking statements are expressed differently.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from expectations include the following:

- the occurrence of extraordinary events, such as terrorist attacks, public health threats, civil unrest, and inclement weather, including as a result of climate change;
- the effect of economic conditions on our consumers' confidence and discretionary spending or our access to credit, including the impact of inflation;
- additional or increased taxes and fees;
- the impact of the novel coronavirus (COVID-19) pandemic, including the emergence of variant strains, and related economic matters on our results of operations, financial conditions and prospects;
- lack of confidence in the integrity of our core businesses or any deterioration in our reputation;
- loss of key or highly skilled personnel, as well as general disruptions in the general labor market;
- cyber security risk, including breaches, or loss or misuse of our stored information as a result of a breach, including customers’ personal information, could lead to government enforcement actions or other litigation;
- the impact of significant competition, and the expectation the competition levels will increase;
- changes in consumer preferences, attendance, wagering, and sponsorships;
- risks associated with equity investments, strategic alliances and other third-party agreements;
- inability to respond to rapid technological changes in a timely manner;
- concentration and evolution of slot machine and historical racing machine ("HRM") manufacturing and other technology conditions that could impose additional costs;
- failure to enter into or maintain agreements with industry constituents, including horsemen and other racetracks; inability to successfully focus on market access and retail operations for our TwinSpires Sports and Casino business and effectively compete;
- reliance on our technology services and catastrophic events and system failures disrupting our operations;
- inability to identify, complete, or fully realize the benefits of, our proposed acquisitions, divestitures, development of new venues or the expansion of existing facilities on time, on budget, or as planned;
- difficulty in integrating recent or future acquisitions into our operations;
- cost overruns and other uncertainties associated with the development of new venues and the expansion of existing facilities;

- general risks related to real estate ownership and significant expenditures, including risks related to environmental liabilities;
- personal injury litigation related to injuries occurring at our racetracks;
- compliance with the Foreign Corrupt Practices Act or applicable money-laundering regulations;
- payment-related risks, such as risk associated with fraudulent credit card and debit card use;
- work stoppages and labor issues;
- risks related to pending or future legal proceedings and other actions;
- highly regulated operations and changes in the regulatory environment could adversely affect our business;
- restrictions in our debt facilities limiting our flexibility to operate our business;
- failure to comply with the financial ratios and other covenants in our debt facilities and other indebtedness;
- increase to interest rates (due to inflation or otherwise);
- disruptions in the credit markets or changes to our credit ratings may adversely affect our business;
- increase in our insurance costs, or inability to obtain similar insurance coverage in the future, and inability to recover under our insurance policies for damages sustained at our properties in the event of inclement weather and casualty events; and
- other factors described in our most recent Annual Report on Form 10-K and in other filings we make with the Securities and Exchange Commission.

We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts assume dilution unless otherwise noted. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022, including Part I - Item 1A, "Risk Factors" of our Form 10-K for a discussion regarding some of the reasons that actual results may be materially different from those we anticipate.

Our Business

Churchill Downs Incorporated ("CDI" or the "Company") has been creating extraordinary entertainment experiences for nearly 150 years, beginning with the Company's most iconic and enduring asset, the Kentucky Derby. Headquartered in Louisville, Kentucky, CDI has expanded through the development of live and historical racing entertainment venues, the growth of the TwinSpires horse racing online wagering business and the operation and development of regional casino gaming properties.

We conduct our business through three reportable segments: Live and Historical Racing, TwinSpires, and Gaming. We aggregate our other businesses as well as certain corporate operations, in All Other. For additional information about our segments, refer to Note 17, Segment Information in the notes to our Condensed Consolidated Financial Statements.

Acquisition of Exacta Systems

On August 22, 2023, the Company completed its previously-announced acquisition of Exacta Systems, LLC ("Exacta"). Refer to Note 3, Acquisitions in the notes to our Condensed Consolidated Financial Statements for further information on the transaction.

Lady Luck Casino Nemacolin

On June 26, 2023, the Company's management agreement for Lady Luck Casino Nemacolin ("Lady Luck") in Farmington, Pennsylvania expired and was not renewed. The Company completed the sale of substantially all its assets at Lady Luck for an immaterial amount.

Stock Split

Effective May 22, 2023, the Company's common stock was split two-for-one with a proportionate increase in the number of its authorized shares of common stock.

Presque Isle Impairment

During the second quarter, we evaluated economic conditions subsequent to the date of our annual impairment assessment on April 1, 2023, including competition in the market and inflationary pressures, which increased during the second quarter of 2023, and impacted the performance and outlook of Presque Isle Downs and Casino ("Presque Isle"). As a result, the Company concluded that a trigger event for impairment testing occurred related to the Presque Isle gaming rights, trademark, and the reporting unit's goodwill at the end of the second quarter. Based on the 2023 trigger event, the Company evaluated and subsequently updated the projected cash flows and discount rate to reflect the current environment. As a result, the Company recognized a non-cash impairment charge of $24.5 million in the second quarter of 2023 for the Presque Isle gaming rights and trademark. Refer to Note 5, Asset Impairments in the notes to our Condensed Consolidated Financial Statements for further information on the impairment.

Arlington Sale

On February 15, 2023, we closed on the sale of the Arlington property in Arlington Heights, Illinois. We sold 326-acres to the Chicago Bears for $197.2 million. The net proceeds of $195.7 million were used to pay down the outstanding balance amount on our Revolver that was drawn on to fund the acquisition of substantially all the assets of Peninsula Pacific Entertainment ("P2E"). Refer to Note 4, Dispositions in the notes to our Condensed Consolidated Financial Statements for further information on the transaction.

Financing Transactions

On April 25, 2023, we completed an offering of $600.0 million in aggregate principal amount of 6.750% senior notes that mature in 2031. The Company used a portion of the net proceeds from the offering to repay indebtedness outstanding under its Term Loan B Facility due 2024 and to fund related transaction fees and expenses, working capital and other general corporate purposes.

On February 24, 2023, we entered into an incremental joinder to our senior secured credit agreement to increase the loans under the existing Term Loan A credit facility due 2027 by $500.0 million. This joinder increases the existing Term Loan A credit facility due 2027 from $800.0 million to $1.3 billion and makes certain other changes to the existing credit agreement. The Company used the net proceeds from the borrowings under the increased Term Loan A to repay outstanding loans under its senior secured revolving credit facility, pay related transaction fees and expenses, and for general corporate purposes.

Transaction Update

On August 11, 2022, the Company entered into an agreement to sell 49% of United Tote, a wholly-owned subsidiary of the Company to NYRA Content Management Solutions, LLC, a subsidiary of the New York Racing Association. The transaction is subject to usual and customary closing conditions, including applicable regulatory notices and approvals, and is expected to close during the fourth quarter of 2023.

Key Indicators to Evaluate Business Results and Financial Condition

Our management monitors a variety of key indicators to evaluate our business results and financial condition. These indicators include changes in net revenue, operating expense, operating income, earnings per share, outstanding debt balance, operating cash flow and capital spend.

Our consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). We also use non-GAAP measures, including EBITDA (earnings before interest, taxes, depreciation and amortization) and Adjusted EBITDA. We believe that the use of Adjusted EBITDA as a key performance measure of results of operations enables management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. Our chief operating decision maker utilizes Adjusted EBITDA to evaluate segment performance, develop strategy and allocate resources. Adjusted EBITDA is a supplemental measure of our performance that is not required by, or presented in accordance with, GAAP. Adjusted EBITDA should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with GAAP) as a measure of our operating results.

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, adjusted for the following:

Adjusted EBITDA includes our portion of EBITDA from our equity investments.

Adjusted EBITDA excludes:

- Transaction expense, net which includes:
  - Acquisition, disposition, and property sale related charges;
  - Direct online Sports and Casino business exit costs; and
  - Other transaction expense, including legal, accounting and other deal-related expense;
- Stock-based compensation expense;
- Rivers Des Plaines' impact on our investments in unconsolidated affiliates from:
  - The impact of changes in fair value of interest rate swaps, and
  - Legal reserves and transaction costs;
- Asset impairments;
- Gain on property and asset sales;
- Legal reserves;
- Pre-opening expense; and
- Other charges, recoveries and expenses

On June 26, 2023, the Company's management agreement for Lady Luck expired and was not renewed. The Company completed the sale of substantially all its assets at Lady Luck for an immaterial amount.

As of December 31, 2021, Arlington ceased racing and simulcast operations and the property was sold on February 15, 2023 to the Chicago Bears. Arlington's results and exit costs in 2022 and 2023 are treated as an adjustment to EBITDA.

For segment reporting, Adjusted EBITDA includes intercompany revenue and expense totals that are eliminated in the Condensed Consolidated Statements of Comprehensive Income. See the Reconciliation of Comprehensive Income to Adjusted EBITDA included in this section for additional information.

Governmental Regulations and Legislative Changes

We are subject to various federal, state, and international laws and regulations that affect our businesses. The ownership, operation and management of our Live and Historical Racing, TwinSpires, and Gaming segments, as well as our other operations, are subject to regulation under the laws and regulations of each of the jurisdictions in which we operate. The ownership, operation, and management of our businesses and properties are also subject to legislative actions at both the federal and state level. The following update on our regulatory and legislative actions should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022, including Part I - Item 1, "Business" for a discussion of regulatory and legislative changes.

Specific State Gaming Regulations

Kentucky

In 2023, the Kentucky General Assembly passed a bill to authorize the Kentucky Horse Racing Commission to regulate sports betting. Only licensed racetracks and their extensions can operate retail sports betting. Each racetrack is allowed to contract with up to three providers to carryout online or retail sports betting. Retail sports betting commenced on September 7, 2023 and online sports betting began on September 28, 2023.

Consolidated Financial Results

The following table reflects our net revenue, operating income, net income, Adjusted EBITDA, and certain other financial information:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Net Revenue	$ 572.5	$ 383.1	$ 189.4	$ 1,900.5	$ 1,329.7	$ 570.8
Operating income	112.3	63.0	49.3	457.8	310.1	147.7
Operating income margin	20 %	16 %		24 %	23 %	
Net income	61.0	57.0	4.0	359.7	438.4	(78.7)
Adjusted EBITDA	218.2	163.2	55.0	804.8	582.9	221.9

Three Months Ended September 30, 2023, Compared to Three Months Ended September 30, 2022

- Net revenue increased $189.4 million driven by a $127.2 million increase in Live and Historical Racing revenue primarily due to the Virginia properties acquired in the P2E Transaction, the properties acquired in the Ellis Park and Chasers Transactions, the opening of Turfway Park in Northern Kentucky in September 2022, and continued growth at our other Kentucky properties, a $60.9 million increase in Gaming revenue primarily due to the New York and Iowa properties acquired in the P2E Transaction, and a $2.3 million increase in TwinSpires primarily due to the Exacta Transaction. These increases were partially offset by a $1.0 million decrease in All Other net revenue.

- Operating income increased $49.3 million driven by a $49.1 million increase in Live and Historical Racing income primarily from the Virginia properties acquired in the P2E Transaction, an $18.3 million increase in Gaming income primarily from the New York and Iowa properties acquired in the P2E Transaction, and a $0.6 million increase in All Other. These increases were partially offset by an $11.8 million increase in selling, general and administrative expenses primarily due to the P2E Transaction, a $6.6 million decrease in TwinSpires income, and a $0.3 million increase in transaction costs.

- Net income increased $4.0 million. The following items impacted comparability of the Company's net income from continuing operations for the three months ended September 30, 2023, compared to three months ended September 30, 2022: a $0.9 million after-tax net increase in other nonrecurring expenses. Excluding these items, net income increased $4.9 million due to a $34.5 million after-tax increase primarily driven by the addition of the properties acquired as part of the P2E Transaction in the results of our operations, partially offset by a $22.7 million after-tax increase in interest expense associated with higher outstanding debt balances and higher interest rates, and a $6.9 million after-tax decrease in the equity income from our unconsolidated affiliates.

- Adjusted EBITDA increased $55.0 million driven by a $46.4 million increase in Live and Historical Racing Adjusted EBITDA primarily from the Virginia properties acquired in the P2E Transaction and continued growth at our Kentucky HRM properties, a $10.7 million increase in Gaming Adjusted EBITDA primarily from the New York and Iowa properties acquired in the P2E Transaction, and a $2.8 million increase in TwinSpires Adjusted EBITDA primarily due to the Exacta Transaction, partially offset by a $4.9 million increase in corporate general administrative expenses.

Nine Months Ended September 30, 2023, Compared to Nine Months Ended September 30, 2022

- Net revenue increased $570.8 million driven by a $379.7 million increase in Live and Historical Racing revenue primarily attributable to the Virginia properties acquired in the P2E Transaction, the opening of Turfway Park in Northern Kentucky in September 2022, a record-breaking Derby Week at Churchill Downs Racetrack, the properties acquired in the Ellis Park and Chasers Transactions, and continued growth at our other Kentucky properties and a $195.2 million increase in Gaming revenue primarily due to our New York and Iowa properties acquired in the P2E Transaction. These increases were partially offset by a $2.6 million decrease in TwinSpires revenue primarily due to the exit of the direct online Sports and Casino business in the first quarter of 2022 and a $1.5 million decrease in All Other net revenue.

- Operating income increased $147.7 million driven by a $143.2 million increase in Live and Historical Racing income primarily from the Virginia properties acquired in the P2E Transaction, a $53.9 million increase in Gaming income primarily from the New York and Iowa properties acquired in the P2E Transaction, a $7.2 million increase in TwinSpires income, and a $5.6 million decrease in transaction costs. These increases were partially offset by a $37.9 million increase in selling, general and administrative expenses primarily due to the P2E Transaction, a $19.6 million increase in non-cash impairment costs due to the 2023 impairment of Presque Isle intangible assets, and a $4.7 million decrease in All Other operating income primarily related to Arlington exit costs.

- Net income decreased $78.7 million. The following items impacted comparability of the Company's net income from continuing operations for the nine months ended September 30, 2023, compared to nine months ended September 30, 2022: a $107.4 million decrease in after-tax gains on property sales, a $14.9 million increase in after-tax non-cash impairment costs, a $9.2 million after-tax benefit related to our equity portion of the non-cash change in the fair value of Rivers Des Plaines' interest rate swap that did not recur in 2023, and a $2.4 million increase in other nonrecurring costs. Excluding these items, net income increased $55.2 million due to a $135.5 million after-tax increase primarily driven by the addition of the properties acquired as part of the P2E Transaction in the results of our operations, partially offset by a $76.0 million after-tax increase in interest expense associated with higher outstanding debt balances and higher interest rates, and a $4.3 million after-tax decrease in the equity income from our unconsolidated affiliates.

- Adjusted EBITDA increased $221.9 million driven by a $160.2 million increase in Live and Historical Racing Adjusted EBITDA primarily from the Virginia properties acquired in the P2E Transaction, a record-breaking Derby Week at Churchill Downs Racetrack, and continued growth at our other Kentucky properties, a $65.7 million increase in Gaming Adjusted EBITDA primarily from the New York and Iowa properties acquired in the P2E Transaction, and an $8.1 million increase in TwinSpires Adjusted EBITDA primarily due to the exit of the direct online Sports and Casino business in the first quarter of 2022 and the Exacta Transaction, partially offset by a $12.1 million increase in corporate general administrative expenses.

Revenue by Segment

The following table presents revenue for our segments, including intercompany revenue:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Live and Historical Racing	$ 225.5	$ 102.4	$ 123.1	$ 849.3	$ 465.5	$ 383.8
TwinSpires	112.4	107.4	5.0	347.8	347.3	0.5
Gaming	244.9	185.9	59.0	744.4	549.6	194.8
All Other	0.2	1.2	(1.0)	0.7	2.2	(1.5)
Eliminations	(10.5)	(13.8)	3.3	(41.7)	(34.9)	(6.8)
Net Revenue	$ 572.5	$ 383.1	$ 189.4	$ 1,900.5	$ 1,329.7	$ 570.8

Three Months Ended September 30, 2023, Compared to Three Months Ended September 30, 2022

- Live and Historical Racing revenue increased $123.1 million driven by an $89.0 million increase attributable to the Virginia properties acquired in the P2E Transaction, a $14.7 million increase attributable to the properties acquired in the Ellis Park and Chasers Transactions, an $8.8 million increase primarily due to the opening of Turfway Park in Northern Kentucky in September 2022, a $7.4 million increase from our Derby City Gaming property in Louisville, and a $4.3 million increase from our Oak Grove property in Southwestern Kentucky. These increases were partially offset by a $1.1 million decrease at Churchill Downs Racetrack due to the decision to move July race days as part of the Churchill Downs Racetrack Spring Meet to Ellis Park.
- TwinSpires revenue increased $5.0 million driven by a $5.5 million increase attributable to the Exacta Transaction and a $0.9 million increase in all other Horse Racing revenue primarily from the B2B expansion strategy associated with United Tote totalisator fees. These increases were partially offset by a $1.4 million reduction in Sports and Casino revenue.
- Gaming revenue increased $59.0 million driven by a $70.2 million increase attributable to the New York and Iowa properties acquired in the P2E Transaction, partially offset by an $8.7 million decrease in Pennsylvania primarily due to our decision not to renew the management agreement at Lady Luck, and a $2.5 million net decrease from our other gaming properties.

Nine Months Ended September 30, 2023, Compared to Nine Months Ended September 30, 2022

- Live and Historical Racing revenue increased $383.8 million driven by a $281.3 million increase attributable to the Virginia properties acquired in the P2E Transaction, a $34.8 million increase primarily due to the opening of Turfway Park in Northern Kentucky in September 2022, a $34.2 million increase attributable to properties acquired in the Ellis Park and Chasers Transactions, a $20.7 million increase due to a record-breaking Derby Week at Churchill Downs Racetrack, a $14.0 million increase from our Oak Grove property in Southwestern Kentucky, and a $9.6 million increase from our Derby City Gaming property in Louisville. These increases were partially offset by a $10.8 million decrease for non-Derby Week racing operations primarily due to the decision to move a portion of the Churchill Downs Racetrack Spring Meet to Ellis Park.
- TwinSpires revenue increased $0.5 million driven by a $5.5 million increase attributable to the Exacta Transaction and a $5.2 million increase in all other Horse Racing revenue primarily from the B2B expansion strategy associated with United Tote totalisator fees, partially offset by a $10.2 million reduction in Sports and Casino revenue due to the exit of the direct online Sports and Casino business in the first quarter of 2022.
- Gaming revenue increased $194.8 million driven by a $207.8 million increase attributable to the New York and Iowa properties acquired in the P2E Transaction, partially offset by an $11.4 million decrease in Pennsylvania primarily due to our decision not to renew the management agreement at Lady Luck, and a $1.6 million net decrease from our other gaming properties.

Consolidated Operating Expense

The following table is a summary of our consolidated operating expense:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Taxes and purses	$ 149.1	$ 108.9	$ 40.2	$ 468.7	$ 345.5	$ 123.2
Salaries and benefits	70.6	45.3	25.3	211.3	137.5	73.8
Content expense	46.1	39.1	7.0	135.4	135.4	—
Selling, general and administrative expense	50.2	38.4	11.8	150.6	112.7	37.9
Depreciation and amortization	42.1	27.5	14.6	121.8	78.7	43.1
Marketing and advertising	18.0	10.0	8.0	62.4	36.8	25.6
Transaction expense, net	1.5	1.2	0.3	1.8	7.4	(5.6)
Asset impairments	—	—	—	24.5	4.9	19.6
Other operating expense	82.6	49.7	32.9	266.2	160.7	105.5
Total expense	$ 460.2	$ 320.1	$ 140.1	$ 1,442.7	$ 1,019.6	$ 423.1

Three Months Ended September 30, 2023, Compared to Three Months Ended September 30, 2022

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses, salaries and benefits, selling, general and administrative, marketing and advertising, depreciation and amortization, and other operating expenses increased due to the P2E, Ellis Park and Chasers Transactions, as well as the opening of Turfway Park in September of 2022.

Nine Months Ended September 30, 2023, Compared to Nine Months Ended September 30, 2022

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses, salaries and benefits, selling, general and administrative, marketing and advertising, depreciation and amortization, and other operating expenses increased due to the P2E, Ellis Park and Chasers Transactions, as well as the opening of Turfway Park in September of 2022.
- Asset impairments increased $19.6 million due to the non-cash impairment of Presque Isle intangible assets in the second quarter of 2023.
- Transaction expenses decreased $5.6 million due to the 2022 P2E Transaction.

Adjusted EBITDA

We believe that the use of Adjusted EBITDA as a key performance measure of the results of operations enables management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. Adjusted EBITDA is a supplemental measure of our performance that is not required by or presented in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to operating income as an indicator of performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure provided in accordance with GAAP.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Live and Historical Racing	$ 80.9	$ 34.5	$ 46.4	$ 386.5	$ 226.3	$ 160.2
TwinSpires	33.9	31.1	2.8	97.2	89.1	8.1
Gaming	122.3	111.6	10.7	375.2	309.5	65.7
Total Segment Adjusted EBITDA	237.1	177.2	59.9	858.9	624.9	234.0
All Other	(18.9)	(14.0)	(4.9)	(54.1)	(42.0)	(12.1)
Total Adjusted EBITDA	$ 218.2	$ 163.2	$ 55.0	$ 804.8	$ 582.9	$ 221.9

Three Months Ended September 30, 2023, Compared to Three Months Ended September 30, 2022

- Live and Historical Racing Adjusted EBITDA increased $46.4 million driven by a $38.3 million increase attributable to the Virginia properties acquired in the P2E Transaction and a portion of the benefit from the Exacta Transaction, a $7.3 million increase from continued growth at our Derby City Gaming property in Louisville and our Oak Grove property in Southwestern Kentucky, and a $2.9 million increase attributable to our other Live and Historical Racing properties. These increases were partially offset by a $2.1 million decrease at Churchill Downs Racetrack primarily due to the decision to move July race days as part of the Churchill Downs Racetrack Spring Meet to Ellis Park.
- TwinSpires Adjusted EBITDA increased $2.8 million driven by a $3.1 million increase attributable to the Exacta Transaction, partially offset by a $0.3 million net decrease in Horse Racing and Sports and Casino.
- Gaming Adjusted EBITDA increased $10.7 million driven by a $25.0 million increase attributable to the New York and Iowa properties acquired in the P2E Transaction, partially offset by a $6.5 million decrease from our equity investments, a $4.9 million decrease from our other wholly-owned gaming properties, and a $2.9 million decrease attributable to proceeds for business interruption insurance claims related to Hurricane Ida. We received $4.1 million of proceeds in the third quarter of 2022, compared to $1.2 million received during the third quarter of 2023.
- All Other Adjusted EBITDA decreased $4.9 million primarily driven by increased corporate compensation and benefits related expenses and legal and professional fees.

Nine Months Ended September 30, 2023, Compared to Nine Months Ended September 30, 2022

- Live and Historical Racing Adjusted EBITDA increased $160.2 million driven by a $128.8 million increase attributable to the Virginia properties acquired in the P2E Transaction and a portion of the benefit from the Exacta Transaction, a $16.3 million increase due to a record-breaking Derby Week at Churchill Downs Racetrack, a $14.3 million increase from continued growth at our Derby City Gaming property in Louisville and our Oak Grove property in Southwestern Kentucky, and an $8.5 million increase attributable to our other Live and Historical Racing properties. These increases were partially offset by an $7.7 million decrease for non-Derby Week racing operations primarily driven by the decision to move a portion of the Churchill Downs Racetrack Spring Meet to Ellis Park in June 2023.

- TwinSpires Adjusted EBITDA increased $8.1 million driven by a $9.6 million increase in Sports and Casino from significant cost reductions associated with the exit of the direct online Sports and Casino business in the first quarter of 2022, a $3.3 million increase in Horse Racing primarily from the B2B expansion strategy associated with United Tote totalisator fees, and a $3.1 million increase from the Exacta Transaction. These increases were partially offset by a $7.9 million decrease primarily as a result of lower retail Horse Racing handle due to industry race day cancellations and the decision to move a portion of the Churchill Downs Racetrack Spring Meet to Ellis Park in June 2023 as well as higher content related expenses and higher advance deposit wagering taxes in certain jurisdictions.

- Gaming Adjusted EBITDA increased $65.7 million driven by a $72.8 million increase attributable to the New York and Iowa properties acquired in the P2E Transaction and a $6.9 million increase from our equity investments. These increases were partially offset by an $11.5 million decrease from our other wholly-owned gaming properties and a $2.5 million decrease attributable to proceeds for business interruption insurance claims related to Hurricane Ida. We received $4.1 million of proceeds in 2022 compared to $1.6 million received in 2023.

- All Other Adjusted EBITDA decreased $12.1 million primarily driven by increased corporate compensation and benefits related expenses and legal and professional fees.

Reconciliation of Comprehensive Income to Adjusted EBITDA

(in millions)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Three Months Change	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Nine Months Change
Net income and comprehensive income	$ 61.0	$ 57.0	$ 4.0	$ 359.7	$ 438.4	$ (78.7)
Additions:						
Depreciation and amortization	42.1	27.5	14.6	121.8	78.7	43.1
Interest expense, net	67.9	36.2	31.7	197.8	92.6	105.2
Income tax provision	20.8	16.4	4.4	130.2	173.5	(43.3)
EBITDA	$ 191.8	$ 137.1	$ 54.7	$ 809.5	$ 783.2	$ 26.3
Adjustments to EBITDA:						
Stock-based compensation expense	$ 8.1	$ 9.1	$ (1.0)	$ 24.8	$ 23.5	$ 1.3
Legal reserves	—	—	—	—	3.2	(3.2)
Pre-opening expense	5.0	4.2	0.8	11.4	8.9	2.5
Arlington exit costs	0.1	1.4	(1.3)	9.4	5.7	3.7
Other expense, net	0.7	—	0.7	7.6	—	7.6
Transaction expense, net	1.5	1.2	0.3	1.8	7.4	(5.6)
Asset impairments	—	—	—	24.5	4.9	19.6
Other income, expense:						
Interest, depreciation and amortization expense related to equity investments	10.1	10.1	—	29.8	31.7	(1.9)
Changes in fair value of Rivers Des Plaines' interest rate swaps	—	—	—	—	(12.6)	12.6
Rivers Des Plaines' legal reserves and transactions costs	—	0.1	(0.1)	—	0.6	(0.6)
Other charges and recoveries, net	0.9	—	0.9	—	1.0	(1.0)
Gain on sale of assets	—	—	—	(114.0)	(274.6)	160.6
Total adjustments to EBITDA	26.4	26.1	0.3	(4.7)	(200.3)	195.6
Adjusted EBITDA	$ 218.2	$ 163.2	$ 55.0	$ 804.8	$ 582.9	$ 221.9

Consolidated Balance Sheet

The following is a summary of our overall financial position:

(in millions)	September 30, 2023	December 31, 2022	Change
Total assets	$ 6,750.5	$ 6,206.8	$ 543.7
Total liabilities	5,861.8	5,655.3	206.5
Total shareholders' equity	888.7	551.5	337.2

Significant items affecting the comparability of our Condensed Consolidated Balance Sheets include:

- Total assets increased $543.7 million primarily driven by increased capital expenditures and assets acquired in the Exacta Transaction, partially offset by the sale of our Arlington property and the Presque Isle impairment in 2023.
- Total liabilities increased $206.5 million primarily driven by a net increase in long-term debt, income tax liabilities and increased accrued interest, partially offset by decreased dividends payable due to the payment of our annual dividends.
- Total shareholders' equity increased $337.2 million driven by increased net income and stock-based compensation, partially offset by share repurchases.

Liquidity and Capital Resources

The following table is a summary of our liquidity and cash flows:

(in millions)	Nine Months Ended September 30,		
Cash flows from:	2023	2022	Change
Operating activities	$ 498.8	$ 424.5	$ 74.3
Investing activities	(549.5)	(107.0)	(442.5)
Financing activities	38.7	1,020.1	(981.4)

Nine Months Ended September 30, 2023, Compared to the Nine Months Ended September 30, 2022

- Cash flows provided by operating activities increased $74.3 million driven by increased operating income and increased distributions from unconsolidated affiliates. These increases were partially offset by an increase in net interest paid and net income taxes paid. We anticipate that cash flows from operations and availability of borrowings under our credit facility over the next twelve months will be adequate to fund our business operations and capital expenditures.
- Cash flows used in investing activities increased $442.5 million driven by increased capital project expenditures in 2023 primarily at Churchill Downs Racetrack and for the Dumfries project in Virginia, increased cash used in acquisitions, and decreased proceeds from the sale of assets.
- Cash flows provided by financing activities decreased $981.4 million primarily driven by repayments of long-term debt in 2023 and higher levels of financing than in the prior year period.

We have spent $445.7 million year to date on project capital investments. We expect to spend approximately $575 to $675 million for the year on project capital investments. The significant project capital investments planned for the fourth quarter of 2023 include: Churchill Downs Racetrack Paddock Project, Derby City Gaming Downtown, the Ellis Park HRM facility in Eastern Daviess County, Kentucky, the Terre Haute Casino Resort in Vigo County, Indiana, a New Hampshire HRM Facility, and the Virginia HRM entertainment venue in Dumfries. The planned amount may vary significantly based on the timing of work completed, unanticipated delays, and timing of payments to third parties.

Common Stock Repurchase Program

On September 29, 2021, the Board of Directors of the Company approved a common stock repurchase program of up to $500.0 million ("2021 Stock Repurchase Program"). Repurchases may be made at management's discretion from time to time on the open market (either with or without a 10b5-1 plan) or through privately negotiated transactions. The repurchase program has no time limit and may be suspended or discontinued at any time. The Company repurchased $37.3 million of its common stock during the three months ended September 30, 2023 and had $232.9 million of repurchase authority remaining under this program on September 30, 2023, based on trade date.

Credit Facilities and Indebtedness

The following table presents our debt outstanding:

(in millions)	September 30, 2023	December 31, 2022	Change
Revolver	$ 118.7	$ 664.1	$ (545.4)
Term Loan B due 2024	—	380.0	(380.0)
Term Loan B-1 due 2028	292.5	294.7	(2.2)
Term Loan A due 2027	1,251.3	800.0	451.3
2027 Senior Notes	600.0	600.0	—
2028 Senior Notes	700.0	700.0	—
2030 Senior Notes	1,200.0	1,200.0	—
2031 Senior Notes	600.0	—	600.0
Total debt	4,762.5	4,638.8	123.7
Current maturities of long-term debt	(68.0)	(47.0)	(21.0)
Total debt, net of current maturities	4,694.5	4,591.8	102.7
Issuance costs, net of premiums and discounts	(39.7)	(33.1)	(6.6)
Net debt	$ 4,654.8	$ 4,558.7	$ 96.1

Credit Agreement

At September 30, 2023, the Company’s senior secured credit facility (as amended from time to time, the “Credit Agreement") consisted of a $1.2 billion revolving credit facility (the "Revolver"), $300.0 million senior secured term loan B-1 due 2028 (the "Term Loan B-1"), $1.3 billion senior secured term loan A due 2027 (the "Term Loan A"), and $100.0 million swing line commitment. Certain amendments to the Credit Agreement entered into during 2022 and 2023, are described below.

On April 13, 2022, we amended the Credit Agreement to extend the maturity date of its Revolver to April 13, 2027, to increase the commitments under the existing revolving credit facility from $700.0 million to $1.2 billion, and to increase the swing line commitment from $50.0 million to $100.0 million. This amendment also provided for the senior secured Term Loan A due April 13, 2027 in the amount of $800.0 million, which was drawn on November 1, 2022 as part of the financing for the P2E Transaction. Refer to Note 3, Acquisitions in the notes to our Condensed Consolidated Financial Statements for further information regarding the P2E Transaction. The Company capitalized $3.5 million of debt issuance costs associated with the Revolver commitment increase and $6.4 million of debt issuance costs associated with the Term Loan A which are being amortized as interest expense over the 5-year term.

On February 24, 2023, we amended our Credit Agreement to increase the loans under the existing Term Loan A due 2027 from $800.0 million to $1.3 billion and made certain other changes to the existing credit agreement. The Company used the net proceeds from the borrowings under the increased Term Loan A to repay outstanding loans under its Revolver, pay related transaction fees and expenses, and for general corporate purposes. The Company capitalized $2.6 million of debt issuance costs associated with the increased Term Loan A which are being amortized as interest expense over the remainder of the 5-year term.

The Company is required to pay a commitment fee on the unused portion of the Revolver as determined by a pricing grid based on the consolidated total net secured leverage ratio of the Company. For the period ended September 30, 2023, the Company's commitment fee rate was 0.25%.

The Revolver and Term Loan A bear interest at SOFR plus 10 basis points, plus a variable applicable margin which is determined by the Company's net leverage ratio. As of September 30, 2023, that applicable margin was 150 basis points. The Term Loan B-1 bears interest at SOFR plus 210 basis points. The estimated contractual payments, including interest, under the Credit Agreement for the next twelve months are estimated to be $181.2 million assuming no change in the weighted average borrowing rate of 7.01%, which was in place as of September 30, 2023.

During the nine months ended September 30, 2023, we had net repayments of principal and interest on the Revolver of $548.6 million.

The Company completed the transition of its financing from LIBOR to SOFR during the second quarter of 2023. These transition activities did not have a material impact on the Company’s financial statements.

2027 Senior Notes

As of September 30, 2023, we had $600.0 million in aggregate principal amount of 5.500% senior unsecured notes that mature on April 1, 2027 (the "2027 Senior Notes"). The 2027 Senior Notes were issued at par in a private offering to qualified institutional buyers, with interest payable in arrears on April 1st and October 1st of each year, commencing on October 1, 2019. The Company may redeem some or all of the 2027 Senior Notes at redemption prices set forth in the 2027 Indenture.

2028 Senior Notes

As of September 30, 2023, we had a total of $700.0 million in aggregate principal amount of 4.750% senior unsecured notes (collectively, the “2028 Senior Notes”) maturing on January 15, 2028. The 2028 Senior Notes consist of $500.0 million notes issued at par and $200.0 million notes issued at 103.25%. The 2028 Senior Notes were issued in a private offering to qualified institutional buyers, with interest payable in arrears on January 15th and July 15th of each year, commencing on July 15, 2018. The 3.25% premium is being amortized through interest expense, net over the term of the notes. The Company may redeem some or all the 2028 Senior Notes at redemption prices set forth in the 2028 Indenture.

2030 Senior Notes

As of September 30, 2023, we had $1.2 billion in aggregate principal amount of 5.750% senior unsecured notes that mature on April 13, 2030 (the "2030 Senior Notes"). The 2030 Senior Notes were issued at par in a private offering to qualified institutional buyers, with interest payable in arrears on April 1st and October 1st of each year, commencing on October 1, 2022.

In connection with the offering, we capitalized $18.3 million of debt issuance costs which are being amortized as interest expense over the term of the 2030 Senior Notes. The Company held the net proceeds of this transaction of $1.2 billion in escrow until the proceeds were utilized to complete the P2E Transaction on November 1, 2022. The Company may redeem some or all the 2030 Senior Notes at redemption prices set forth in the 2030 Indenture.

2031 Senior Notes

On April 25, 2023, the Company completed an offering of $600.0 million in aggregate principal amount of 6.750% senior unsecured notes that mature on April 25, 2031 (the "2031 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act, and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The Company used a portion of the net proceeds from the offering to repay indebtedness outstanding under its Term Loan B Facility due 2024 and to fund related transaction fees and expenses, working capital and other general corporate purposes. The Company recognized a loss on extinguishment on Term Loan B of $1.3 million, which is included in miscellaneous, net in the accompanying Condensed Consolidated Statements of Comprehensive Income. The Company capitalized $10.7 million of debt issuance costs associated with the 2031 Senior Notes which are being amortized as interest expense over the remainder of the 8-year term.

The 2031 Senior Notes were issued at 100% of the principal amount, plus interest deemed to have accrued from April 25, 2023, with interest payable in arrears on May 1st and November 1st of each year, commencing on November 1, 2023. The 2031 Senior Notes will vote as one class under the indenture governing the 2031 Senior Notes.

The Company may redeem some or all of the 2031 Senior Notes at any time prior to April 25, 2025, at redemption prices set forth in the 2031 offering memorandum.

Leases

The Company leases certain real estate and other property. Most of our building and land leases have terms of 2 to 10 years and include one or more options to renew, with renewal terms that can extend the lease term from 1 to 5 years or more. Certain of our lease agreements include lease payments based on a percentage of net gaming revenue and others include rental payment adjustments periodically for inflation. As of September 30, 2023, minimum rent payable under operating leases was $28.0 million, with $6.3 million due in the next twelve months. As of September 30, 2023, minimum rent payable accounted for as financing obligations was $56.3 million, with $4.4 million due in the next twelve months.

Other Contractual Obligations

The Company has other contractual obligations that consist primarily of minimum guarantees with commitments of $21.6 million, $0.9 million of which is due within the next twelve months.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks arising from adverse changes in:

- general economic trends; and
- interest rate and credit risk.

General economic trends

Our business is sensitive to consumer confidence and reductions in consumers' discretionary spending, which may result from challenging economic conditions, inflation, unemployment levels and other changes in the economy. Demand for entertainment and leisure activities is sensitive to consumers’ disposable incomes, which can be adversely affected by economic conditions and unemployment levels. This could result in fewer patrons visiting our racetracks, gaming and wagering facilities, and online wagering sites and/or may impact our customers’ ability to wager with the same frequency and to maintain wagering levels.

Interest rate and credit risk

Our primary exposure to market risk relates to changes in interest rates. On September 30, 2023, we had $1.7 billion outstanding under our Credit Agreement, which bears interest at SOFR based variable rates. We are exposed to market risk on variable rate debt due to potential adverse changes in these rates. Assuming the outstanding balance of the debt facility remains constant, a one-percentage point increase in the SOFR rate would reduce net income and cash flows from operating activities by $12.1 million. The Company completed the transition of its financing from LIBOR to SOFR during the second quarter of 2023. These transition activities did not have a material impact on the Company's financial statements.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports that we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As required by the Securities and Exchange Commission Rule 13a-15(e), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2023. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in ordinary routine litigation matters which are incidental to our business. Refer to Note 15, Contingencies, in the notes to our Condensed Consolidated Financial Statements, for further information.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Common Stock

The following table provides information with respect to shares of common stock that we repurchased during the quarter ended September 30, 2023:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in millions) (1)
July 2023	94	$ 120.37	—	$ 270.2
August 2023	147,124	122.55	146,753	252.2
September 2023	163,614	118.10	163,614	232.9
Total	310,832	$ 120.21	310,367	

(1) On September 29, 2021, the Board of Directors of the Company approved a common stock repurchase program of up to $500.0 million. The repurchase program has no time limit and may be suspended or discontinued at any time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Securities Trading Plans of Directors and Executive Officers

During the fiscal quarter ended September 30, 2023, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1 or any non-Rule 10b5-1 trading arrangement.

ITEM 6. EXHIBITS

Number	Description	By reference to:
31(a)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*	
31(b)	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*	
32	Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Rule 13a – 14(b))**	
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	
101.SCH	Inline XBRL Taxonomy Extension Schema Document*	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*	
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*	
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*	
104	Cover Page Interactive Data File (embedded as Inline XBRL and contained in Exhibit 101)	
	*filed herewith	
	**furnished herewith	

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHURCHILL DOWNS INCORPORATED

October 25, 2023	/s/ William C. Carstanjen
	William C. Carstanjen Chief Executive Officer (Principal Executive Officer)
October 25, 2023	/s/ Marcia A. Dall
	Marcia A. Dall Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT 31(a)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, William C. Carstanjen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Churchill Downs Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2023

/s/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31(b)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Marcia A. Dall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Churchill Downs Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2023

/s/ Marcia A. Dall

Marcia A. Dall
Executive Vice President and Chief Financial Officer
(Principal Financial & Accounting Officer)

EXHIBIT 32

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Churchill Downs Incorporated (the "Company") for the quarterly period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William C. Carstanjen, as Chief Executive Officer (Principal Executive Officer) of the Company, and Marcia A. Dall, as Executive Vice President and Chief Financial Officer (Principal Financial & Accounting Officer) of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his or her knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
(Principal Executive Officer)
October 25, 2023

/s/ Marcia A. Dall

Marcia A. Dall
Executive Vice President and Chief Financial Officer
(Principal Financial & Accounting Officer)
October 25, 2023

This certification is being furnished to the Securities and Exchange Commission as an exhibit to the Report and shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Churchill Downs Incorporated and will be retained by Churchill Downs Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.