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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Churchill Downs Incorporated 2017 Second Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's call, Mr. Nick Zangari, Vice President, Treasury and Investor Relations.

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

Thank you, Michelle. Good morning, and welcome to our Second Quarter 2017 Earnings Conference Call. After the company's prepared remarks, we will open the call for your questions.

The company's 2017 second quarter business results were released yesterday afternoon. A copy of this release announcing results and other financial and statistical information about the period to presented in this conference call, including information required by Regulation G, is available at the section of the company's website titled "News" located at churchilldownsincorporated.com as well as in the website's Investor section.

Before we get started, I would like to remind you that some of the statements that we make today may include forward-looking statements. These statements involve a number of risks and uncertainties that could cause actual results to differ materially. All forward-looking statements should be considered in conjunction with the cautionary statements in our earnings release and the risk factors included in our filings with the SEC, specifically the most recent reports on Form 10-Q and Form 10-K.

Any forward-looking statements that we make are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events.

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

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

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

Thanks, Nick. Good morning, everyone. With me today are several members of our team, including Bill Mudd, our President and Chief Operating Officer; Marcia Dall, our Chief Financial Officer; and Brad Blackwell, our General Counsel. I'll make a few general comments and then turn this over to Marcia. After she is finished with her comments, Marcia, Bill Mudd and I will be happy to take your questions.

The company produced record net revenues, adjusted EBITDA and net income for the quarter. While the increases in adjusted EBITDA and these other metrics were significantly driven by another strong Kentucky Derby and by the performance of our Casino segment, all of our segments including Big Fish and TwinSpires were up. I am encouraged by the signs of operational strength across all of our businesses.

Let's start the discussion with the Racing segments given that Kentucky Derby week is the biggest single driver of our company's performance in the second quarter. Despite the truly miserable weather on Oak day and Derby day we had a fantastic Kentucky Derby week.

Adjusted EBITDA for the Racing segment increased $7.4 million from the prior year, driven by a $6.5 million increase at Churchill Down's racetrack, $4.8 million of which was a result of Kentucky Derby week. This year's Kentucky Derby set records for, among other things, net revenues, adjusted EBITDA and all sources wagering for the race, the entire Derby day as well as for the full week.

In addition, the 2017 Kentucky Derby delivered the largest media audience since 1989, peeking it over 19 million viewers and making it the most watched Saturday afternoon television program since the NFC divisional playoffs in the second week of January. We did not however, set any attendance marks on Oaks day or Derby day this year given the poor weather, but attendance across the entire Kentucky Derby week still totaled 350,000 people, which is the fifth highest total of all time.

While I have said this before, it bears repeating. The Kentucky Derby is a special event that does not follow the overall trends in horse racing. The Derby is its own incomparable thing. We plan to open in time for the 2018 Kentucky Derby, our new four-story starting gate suites containing 26 to 32 flexible configuration luxury suites for approximately 1,800 new customers. The starting gates suites is a $37 million project that we have previously announced and is a continuation of the capital investments we have made in our Louisville facility over the last number of years to grow our event. We expect to make further improvements in time for next year's Kentucky Derby related to our expansion of our parking and ingress and egress infrastructure.

We will disclose more information with respect to our Churchill Downs site improvement plans in the near future. The larger point for today is that we plan to continue to aggressively invest in growing the Kentucky Derby and that starts with focusing on enhancing the customers' experience not only once they are inside our facility but also as they travel to and from it.

With respect to our Casino segment, net revenues increased 5% over prior year and adjusted EBITDA increased $4.2 million or 13%. Marcia will explain the variances in more detail. I would just like to offer a couple of general comments.

We have been pleased with the contributions from our operations at Saratoga, Oxford Casino and Miami Valley Gaming. All of these properties are among our more recent projects and, with the exception of Oxford Casino, were done in conjunction with partners.

Of course, we have the balance sheet to always pursue opportunities without partners but we have demonstrated we will work with partners when the circumstances are right and that we can drive performance within partnership structures, particularly when we have material management authority over the ventures.

Oxford and Miami Valley continue to be strong and consistent performers for us. We believe that both properties have not yet reached their full potential in their respective markets. As you know we are constructing a 107 room hotel at Oxford. Severe weather conditions caused some delays to the construction process in the first and second quarter. But we still plan to open the hotel in the fourth quarter.

With respect to Ocean Downs casino in Berlin, Maryland, of which we own 62.5%, we are currently expanding the facility to increase the number of slot machines, and to add live table games which the property is permitted to do under existing law. We expect to open the expansion and the operating table games by New Year's Eve. This is a $15 million project that is being funded with debt at the joint venture level.

We are also in the process at Ocean Downs of purchasing the approximately 800 video lottery terminal machines in our facility in exchange for a 10% reduction in our gaming tax rate in connection with the law passed earlier this year by the state of Maryland. We expect this project will cost approximately $10.1 million and be completed by the end of July. It is being funded with additional debt at the joint venture level.

Harlow's is another one of our facilities that showed improvement this past quarter over prior year in both net revenues and adjusted EBITDA. We have had a couple of quarters now trending in the right direction. We are also encouraged with how well Saratoga is holding up in the face of the new Rivers Casino nearby in Schenectady, which opened in February. We do not have enough data points yet to understand the long-term impact of the new competition. Our facility is paying close attention to any changing dynamics in that market so that we can adjust accordingly.

We continue to be pressed at our operations in the New Orleans and Vicksburg, Mississippi markets. Our operating teams are very focused on cost efficiencies and that helps us manage to the bottom line. These are both challenging markets, although, we are showing some positive signs now in Vicksburg. In New Orleans, we are developing another off-track betting facility that will have 50 to 75 video poker terminals. This will be our 11th such facility and we hope to have it opened by the end of the year.

Overall, the Casino segment continues to be relatively stable and predictable for us. We like the space generally and we'll continue to be conservative in how we invest in and operate our properties as well as in how we evaluate greenfield and acquisition opportunities.

With respect to greenfield projects, we announced last month our intention to invest $60 million to construct a state-of-the-art historical racing machine facility in Louisville. A conditional license was granted by the Kentucky Horse Racing Commission last month.

We have not provided details with respect to the historical racing machines we hope to introduce because we are still in the development and testing stage. We are working closely with the partner on the development of the machines and it is our intention to provide an innovative and competitive product in the Louisville market.

The 85,000 square feet facility will start with approximately 600 machines and will be located off Interstate 264 and close to Interstate 65, about 5 miles east of Churchill Downs race track. If the machines perform well, our facility is sized to add more. We'll have more details on the project at a future date and hope to open the facility in the late summer or fall of 2018.

Turning to our TwinSpires segment. Wagering was up close to 20% in the second quarter. We saw a 34% increase in active players over prior year and adjusted EBITDA was up about $0.5 million or about 3%. Adjusted EBITDA would have been up $2.2 million but was partially offset by a $1.7 million tax refund in the prior year.

With the Kentucky Derby and the 2 other Triple Crown races occurring in the second quarter each year, this quarter is an important one for us with respect to marketing and acquiring customers. This is our best chance every year to reach casual and new fans to introduce them to our online product. We have confidence that TwinSpires is a good enough stand-alone product to attract and retain customers who are not traditional brick-and-mortar race track customers. This customer segment is a nice growth channel for us.

This year in the second quarter we spent approximately $800,000 more than prior year in customer acquisition cost, and we will continue to monetize these newly acquired customers over the coming quarters. We were more aggressive because we have developed better data indicating we will get an acceptable return over time.

TwinSpires.com remains a strong performer for us led by an experienced and disciplined management team executing against a well-defined strategy. We are also pleased that the leadership team successfully relocated its headquarters from California to Louisville over the first half of this year without missing a beat.

Let's turn to Big Fish Games. Adjusted EBITDA for the quarter was up slightly over the second quarter of 2016. Our user acquisition, or UA, spending declined $9.1 million and our other businesses -- our other business expenses declined $4 million, which more than offset the fact that our net revenues declined by $12.6 million. This resulted in our adjusted EBITDA and adjusted EBITDA margin increasing over the prior year quarter.

Consistent with our discussion in the first quarter, the reduction in UA spending in the second quarter occurred entirely within the Free-to-Play Casual and mid-core segment as we further implemented a disciplined data-driven approach to marketing our games in this segment. We reduced UA $16.1 million in this segment compared to the second quarter of 2016, and were flat on a sequential basis compared to the first quarter of 2017.

We actually increased UA in the social casino segment by $7 million over second quarter of last year and $3.5 million over first quarter of this year. The majority of the increase in UA spend was on our Jackpot City Slots game, which was launched in July of 2016, and rebranded Jackpot Magic Slots in the second quarter 2017.

In the second quarter, bookings across all of Big Fish Games were up about 1% compared to the first quarter of 2017, and down about 12% compared to second quarter of last year. This was consistent with our expectations.

I'm going to talk separately about each of our major segments within Big Fish, social casino, casual and mid-core and finally premium. Social casino had a second quarter of sequential growth with bookings increasing $3.1 million or nearly 7% over first quarter and increasing $3.2 million or 7% over second quarter of 2016. We saw the full quarter impact of the new community and social features including Clubs and Club Tournaments that were introduced into our flagship social casino platform, Big Fish Casino, as well as into Jackpot Magic Slots in first quarter of this year. These features allow players to team up with other players and earn in-game rewards as well as compete against other clubs in tournaments.

Jackpot Magic Slots has steadily been climbing the download and top grossing charts. This game was ranked the #1 free-to-download casino game in the U.S. iOS store in April and #2 in May and June in per app data. Overall we are pleased with the performance of this game and have plans to continue to grow it.

As I mentioned last quarter, we are working on new stand-alone products for our social casino segment. We soft launched a new game called Sunset Riches that combines classic 3-reel slot machines with a travel theme and are incorporating the learnings from the soft launch into the game so that it will be ready for worldwide launch later this year.

Our deeply experienced and capable Big Fish team has demonstrated that Big Fish Casino remains a leader in the social casino genre and that Big Fish can effectively introduce new successful products such as Jackpot Magic Slots to support its continued profitable growth over the long term. The team has built a social casino offering with significant scale and sustainable profitability that provides a foundation for growth and opportunity for ongoing development of new products in the space.

Now let's discuss the Free-to-Play Casual and mid-core segment. As expected, bookings declined about 4% compared to the first quarter of 2017, and approximately 27% compared to the second quarter of 2016, as we focused our UA spending primarily on our 2 strongest performing games in this segment Fairway Solitaire and Gummy Drop!.

Fairway Solitaire is an internally developed game that has a significant user base and a steady flow of bookings on both iOS and Android. We plan on introducing a number of social features into this game over the balance of the year that have proven successful in other solitaire titles.

Gummy Drop! is an example of a highly profitable, well-performing game that was created through our partnership with a low-cost third-party developer that produces high-quality games.

We are working with our developer on a number of content initiatives including [city] release cadence, city progression and difficulty level as well as a number of product features that will enhance the game play experience.

As I discussed on our first quarter earnings call, we have reinvigorated our pipeline for casual and mid-core games. We have a long history with an extensive network of premium PC developers that has enabled Big Fish to identify best-in-class, low-cost developer talent for our casual and mid-core games.

We use a data-driven game selection process to maximize our ability to deliver new games to the market cheaply and then iterate quickly in response to customer feedback.

The Big Fish team launched worldwide a new Casual Free-to-Play Game called Cooking Craze at the end of June. Cooking Craze is a time management game that leverages the popularity of cooking-themed games with an innovative tap core mechanic. The team was able secure key featuring from the iOS, Android and Amazon app stores, which helps to build the audience and elevate the game to a top grossing position. Early metrics and customer feedback suggest that this game has great potential. And only a month since launch, the game has nearly 1 million daily average users and is currently generating approximately $140,000 in daily bookings. This is a faster growth than we saw with Gummy Drop! and the game is already ranked in the U.S. iOS stores' top 100 grossing titles. We're pretty excited about this one.

We have a number of other Casual Free-to-Play games that are currently in soft launch in various countries. We are using the feedback from the soft launch process and user intelligence insights to refine the games and prepare for worldwide launch in future quarters. As I said, our pipeline looks very strong in the casual and mid-core segment.

Finally, we have a mid-core game that is nearing completion that will be ready for soft launch later this year. This mid-core game is a high-quality game that incorporates all of the learnings from our Dungeon Boss game, which was our first significant effort in the mid-core genre. We expect this to be a very credible and sophisticated offering.

Lastly, the Premium segment. As expected, bookings were flat the first quarter of 2017 and down 14% the second quarter of 2016, as customers transitioned to mobile devices and free-to-play games. The Big Fish team has now renegotiated its contracts with all of its third-party Premium developers to help sustain the attractive margins of the Premium segment.

As I discussed on last quarter's earnings call, we are on track to launch a mobile game subscription service in the Apple Store in the fourth quarter of 2017, using as a base our Premium PC game expertise. We have the opportunity to secure first-mover advantage while leveraging the unique experience with our Premium PC game subscription model. We will have approximately 20 titles available at launch, and through our strong relationships with existing premium third-party game developers, we will be able to create and launch 2 to 3 new low-cost titles per week.

Looking to the second half of the year, we expect Big Fish bookings to continue to grow on a sequential basis overall and its financial performance to continue to improve as the team focuses on growing the social casino business and reinvigorating its pipeline of new game launches.

As most of you will have seen, we repurchased 1 million shares of our common stock for $158.78 per share from The Duchossois Group using our senior secured credit facility and a privately negotiated transaction. Our Board of Directors authorized this transaction under our $250 million share repurchase program, which was approved in April 2017. This transaction reduced The Duchossois Group's ownership from approximately 14% to slightly below 8%. Also in connection with this transaction, the 2 members of our board affiliated with TDG, Richard Duchossois and Craig Duchossois, agreed they would not stand for reelection when their current board terms expire. One is up in April of 2018, and one in April of 2019.

Finally, as many of you will have seen, we were pleased to announce the election of Doug Grissom to our Board of Directors effective as of Tuesday, July 25. Doug is a Managing Director at Madison Dearborn Partners, the prominent private equity investment firm headquartered in Chicago. He brings a deep background in business strategy and transactional expertise. If you are listening today, welcome Doug.

With that, I would like to turn this over to Marcia to provide some additional details on the quarter. After that, we'll be happy to take questions. Thank you. Marcia?

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

Thanks, Bill, and good morning, everyone. First, I will provide some high-level comments on our overall results and then I will provide some additional highlights for each of our segments. I'll close with some additional insight on our cash flow for the quarter and our share repurchases.

Starting with our overall results. Net revenue was $451.9 million for the second quarter, up $13.4 million or 3.1% compared to the prior year quarter. Adjusted EBITDA for the second quarter was $173 million, reflecting a $12.8 million or 8% increase over the prior year quarter. Net income was $78.3 million in the second quarter, up $8.5 million compared to the prior year quarter. We also delivered diluted net income of $4.81 per share, up from $4.11 per share in second quarter 2016.

Turning to our segments. Our Racing segment had a $7.4 million or 8.1% increase in adjusted EBITDA compared to the prior year quarter. As Bill discussed, we had a successful Kentucky Derby week, but despite rainy weather conditions, contributed $4.8 million of this increase. We also had a strong Spring Meet at Churchill Downs outside of Derby week with attendance up 10% and handle up 6.9% compared to the prior year. Arlington racetrack also had solid growth in the second quarter compared to the prior year.

Adjusted EBITDA for the Casino segment was up $4.2 million or 12.6% compared to the prior year quarter. We benefited from the addition of our Ocean Downs equity investment and our Saratoga and Miami Valley Gaming equity investments delivered strong growth in the quarter compared to last year.

Our Oxford and Calder casinos also delivered strong top line growth in the quarter as a result of increased marketing and promotional efforts that, along with the growth from our equity investments, helped to more than offset weakness in our Riverwalk and Fair Grounds facilities due to economic weakness and weather-related issues.

The TwinSpires segment adjusted EBITDA grew $2.2 million or 12.9% compared to the prior year quarter excluding the impact of a $1.7 million Pennsylvania tax refund in 2016 that did not recur in 2017. TwinSpires benefited from a number of big race days that helped drive strong top line growth from a 34% increase in active players. The TwinSpires team continues to outperform the industry with handle up nearly 20%, compared to only a 1.2% growth in industry handle for the quarter.

Big Fish adjusted EBITDA was $18.3 million in the quarter compared to $17.8 million in the prior year quarter, up $0.5 million even though revenue was down $12.6 million. The decline in revenue was more than offset by a $9.1 million reduction in user acquisition spending and a $4 million reduction in all other expenses.

As Bill discussed, we decreased our UA spend on free-to-play Casual and mid-core games by $16.1 million, and increased our UA spend on our social casino games by $7 million compared to the prior year quarter. We continue to invest meaningful UA dollars in our Big Fish Casino, Jackpot Magic Slots, Gummy Drop! and Fairway Solitaire games based on their solid performance and long-term profitability.

Overall, on a sequential basis from first quarter to second quarter 2017, bookings were up 1%. We believe second quarter was an inflection point for our Big Fish Games business, based on the return to sequential growth and overall bookings and based on the social casino segment hitting the highest level of bookings ever in its history.

Our social casino bookings were up nearly 7%, reflecting the second consecutive growth of sequential bookings growth. Our Free-to-Play Casual and mid-core bookings were down 4% sequentially as expected. And lastly, our Premium bookings were essentially flat on a sequential basis.

As we look to the second half of the year for Big Fish, first we expect our overall bookings to grow modestly on a sequential basis through the end of the year driven by continued growth in our social casino games as well as from the successful launch of our new Cooking Craze game that as Bill discussed. Overall bookings are still anticipated to be down for the total year compared to last year due to the declines we saw in the first half of this year compared to the prior year.

Second, we do anticipate a modest increase in user acquisition spending on a sequential basis from second quarter to third quarter as we increase our UA spending related to our Cooking Craze game. We will be monitoring the longer-term performance of this game to ensure that the game is achieving the metrics required to support the UA investment and achieve our expected returns.

And lastly, related to Big Fish, we are excited that the team has reintegrated its new game pipeline and has a disciplined process for moving games from concept to production to launch with our extensive network of third-party developers. Just as Gummy Drop! was built from this model, now Cooking Craze has been created and there are a number of creative and unique games in the pipeline that we believe will provide a catalyst for long-term sustainable growth for Big Fish.

Turning to cash flow. We produced $96.5 million of cash flow from operations in the second quarter, a decrease of $3.7 million from the prior year quarter primarily related to the timing in collection of Derby and Oaks admission revenue.

Turning to maintenance capital spending. We spent $7.7 million on maintenance capital in the second quarter, which was down $0.7 million compared to the prior year quarter. We continue to expect our maintenance capital spending to tick up slightly in 2017, based primarily on replacement at aging slot inventory.

Regarding project capital for the quarter. We spent $18.8 million in the second quarter, of which the majority related to the finishing of the second-floor clubhouse renovation prior to the Derby in May, and other capital improvements at Churchill Downs racetrack, as well as the construction of the hotel at our Oxford property.

As we look to the second half of the year, we are anticipating the following major project capital investments. The work is continuing on the $37 million new starting gate suite addition at Churchill Downs. We estimate that we will spend approximately $20 million to $25 million of this capital in 2017, with the bulk of this amount coming in the third and fourth quarters and the balance in the early part of 2018.

The work to finish the new $25 million Oxford Hotel is on target to be completed for the opening in fourth quarter of this year. To date, we have spent a little less than $10 million on this project and anticipate that the balance will be invested in the third and fourth quarter.

And lastly, the work to finalize the plans and begin construction of a new $60 million state-of-the-art historical racing machine facility in Louisville is underway. We anticipate that a small portion of this capital will be invested prior to the end of 2017, and we will have a clearer view of the timing of the capital spend for you at our third quarter earnings call.

Turning to share repurchases. We repurchased approximately $1.1 million of our stock, 1.1 million shares of our stock in second quarter for a total price of $171.7 million as part of our stock repurchase program. As Bill discussed, 1 million of the shares repurchased were completed in a privately negotiated transaction within an affiliate of The Duchossois Group for a price of $158.78 per share. We have $78 million of repurchase authority remaining under this program.

Our net leverage remains low at 2.9x adjusted EBITDA giving us significant capacity to support organic growth, strategic investments, acquisitions, dividends and share repurchases over the coming years.

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

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

Thank you, Marcia. Okay, everyone, we're ready to take some questions if you have any for us. Fire away.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Dan Politzer of JP Morgan.

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

I guess let's start with TwinSpires. Can you -- as far as the margin, could you guys just walk us through the cost and kind of the long-term viability for margin expansion here?

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

Dan, why don't I start. This is Marcia and then Bill may want to join in as well. I think when you look at the second quarter, what you need to think about is you need to back out the impact on the margins and the Pennsylvania tax that did not reoccur. That occurred in 2016; that did not reoccur in 2017. You need to factor that in from a comparison perspective. And then really, if you think about second quarter of this year, there's a more significant amount of marketing spend related to marketing around the Derby to attract new players, new unique players to TwinSpires that we anticipate we will recoup those marketing dollars over the coming months. And so you do see in our financials an uptick in the marketing dollars for the quarter and that, obviously, impacted the margin but that should come back in future quarters.

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

Got it, okay. And then for the historical horseracing, I guess, you're planning the one facility. But do you think that there's potential for additional facilities? And what would be necessary in order to achieve that? Is that a regulatory -- something granted on the regulatory side or what?

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

I think that -- it's Bill Carstanjen. I think that's a really interesting and fair question, but at this point, we don't really have anything else we can add to our discussion on historical racing machines. Certainly, we put a lot of energy, time, creative thinking into how to develop a product and how to develop a facility, and we'd love to apply that more than one time, but other than an aspiration -- other than confirming that we would have that aspiration, there isn't anything else specifically we can offer at this point.

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

Okay. And just one final, kind of, high-level question. I'm sure you guys are seeing across the interactive landscape, the social casino landscape, what some other stocks have been doing and what transactions have gone for. So it seemed like you guy are pivoting back to just focusing on social casino and obviously, that the metrics are encouraging for Cooking Craze, but I guess what's your long-term strategy envisioned for the Big Fish business?

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

That's a broad question. So I'm going to start talking and if you want more specificity, just jump in and steer me in the right direction. I would say that starting with the social casino segment, the online game space, it's an evergreen, it has some stability and yet, at the same time, continues as a segment across that industry to show growth. So we have refined our strategy over that -- with respect to that over the last 3 years because we realized we needed to continue to focus heavily on it because it's a market or a segment of the market where there's opportunity long term for stability and continued growth. So that's really a foundation for us. That's an important foundation and we hope -- we continue to see it as a profitable and sustainable foundation. We think the Big Fish business in that respect is special. When it comes to some of the other segments, there are some really attractive markets in there and we played in those. We've demonstrated that we can create casual games in the mastery and other genres that are sustainable and profitable, and we have a mechanism to take lots of swings and can do so in a cost-effective and low-cost basis. So we'll continue to play in that space, which is a series of different subsegments of types of games and we leverage our third-party developer network in order to take shots across a variety of genres within the casual segment. So you'll see us continue to do that. We've already demonstrated we can do that successfully and it looks like with Cooking Craze, we may be off to a very good start on doing it again. The mid-core segment is one that's very, very large, as demonstrated if you look at the top grossing charts. That's one where we think our team has developed capabilities and expertise and so we'll continue to rely on the strength of our foundation in some of the areas where we've already demonstrated success to give us the flexibility and some of the expertise to take shots here and there at the mid-core, but we'll always do that sort of wisely and at a sensible pace because it's not a segment that we have deep, deep experience in yet. So generally, backing up or pulling back to 35,000 feet, we rely on the foundation of our social casino business to give us the flexibility to take smart bets across other genres within the social game space.

Operator

Our next question comes from David Katz of Telsey Group.

David Brian Katz - *Telsey Advisory Group LLC - MD & Senior Research Analyst*

And I will apologize at the outset, as I'm sort of going back and forth between 2 calls at once, and I will admit that I didn't hear every word you said so far, but if I can just follow up that previous question. I suppose the specific question is, based on the investment on the acquisition so far, irrespective of the ongoing operating expenses to ramp it up, are you all comfortable that it can get to what you would consider to be a reasonable return on that investment within your sort of operating, sort of, grasp and control? Whether the trajectory is longer or shorter is, I suppose, an issue we can discuss, but are you still comfortable right if all in, you paid what you paid, that you can get to a level that is an appropriate return?

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

Well, the short answer to that is yes. This business already throws off really good cash flow. We continue to monetize this business and we've got a good strategy for continuing to grow it and our team is very strong, our business processes are very strong. We keep making corrections and improvements on how we run the business and our team keeps getting better and better. So in my opinion, we have a very high degree of confidence that we're on the right path and we will demonstrate a very effective return for our investors over time with that asset.

David Brian Katz - *Telsey Advisory Group LLC - MD & Senior Research Analyst*

Right. My second question, and again, if you've addressed this, I'll apologize. But since we last had an earnings call, there is some change within your ownership and board base. And as of last night, an addition to the board, which is -- I think we have to admit is directionally different from what we've seen, I think, on your board before. How should we take this information or these 2 events, given the Duchossois family has been involved for very long time and been committed for a very long time and that appears to be moving in a direction? What are your thoughts around all that?

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

I'm going to start with the Duchossois family comment that you just made. It seemed like that's where we ended up. You may want me to also take it in a different direction and I'll do so. But help me on the first part of your last question. With respect to The Duchossois Group, they have sold down twice over the last number of years. They are a fantastic shareholder, a fantastic long-term stable shareholder. They've commented in the past about estate planning and family planning issues and they are still a very material shareholder in our company at around 8%, and a very committed and I'd say supportive and informed shareholders. So they've been a pleasure to deal with, an important part of our journey over the last 20 years, which certainly precedes my time in the company. I've been in the company for 12 or 13 years. So tremendous shareholders, large family investment considerations on their part and they have to make choices that make sense across their portfolio of investments and assets. So we'll continue to work with them as a large shareholder in our company and it's been a pleasure to do so. Did you want to ask something about our board as well Dave?

David Brian Katz - *Telsey Advisory Group LLC - MD & Senior Research Analyst*

Well, yes.

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

And I'm maybe [happy] with that company and I'm happy to comment on it. All right. Help me with that question, I'm happy to comment on it.

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David Brian Katz - *Telsey Advisory Group LLC - MD & Senior Research Analyst*

Sure. You've added an incremental board member. How did you think about what your -- what kind of, sort of, needs, experiences or perspectives you wanted to bring? And I don't mean you specifically, but the company wanted to bring to the board in making that selection?

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

That's a really fair question and it's a good question. I can offer one perspective, but of course, we have a nominating and governance committee of our board as well as the input of the full board in making a determination of who comes on the board and what skill sets we look for. But I think of the case of Doug, his broad, broad experience over more than a couple of decades in strategy work, in technology, in software, in transactions, his finger on the pulse of the modern M&A environment, that's all extremely helpful to our company, an important skill set for us to have on our board as well as in our management team. Because if you look at our company over the last decade or so, we've relied, in part, on acquisitions and careful strategy work in order to build the company that we've built over the last decade-plus because you've seen us make a lot of changes. You've seen us go from solely a brick-and-mortar horseracing company to a company that's got a large brick-and-mortar casino business, that has a large online business with TwinSpires, that's reduced its exposure to brick-and-mortar horseracing and also has this large social games business with a number of components within it called Big Fish. So our company has been fairly dynamic over the last decade-plus. We hope to continue to be dynamic. We know we need to be -- continue to be dynamic and thoughtful and aware of our environment. So with a dynamic company, with a growing company, you need to make sure that you understand a lot about your markets in addition to your own participation in those. So Doug helps us, gives us a frame of reference and an experience base that's a nice add to our team.

David Brian Katz - *Telsey Advisory Group LLC - MD & Senior Research Analyst*

Got it. And if I can just ask one more detail about Big Fish. What have you said about strategic spending or kind of investment spending for future periods in terms of recent game launches? Is there some -- in that 18 point -- sorry, that was my estimate. In your $18 million or so of EBITDA for the quarter, is there some embedded acquisition spending that we're going to see the fruits of in the future?

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

David, what we've said is that when you look at our trends from a UA spend from first quarter to second quarter, you can see Bill and I both talked about the fact that we invested $3.5 million more in UA spending casino in second quarter than we did in first quarter. And obviously, that supports continued growth in our social casino various games. We also said from first quarter to second quarter Free-to-Play Casual, UA investment was relatively flat. And so the only caveat there is that Cooking Craze launched at the end of June. We got a lot of the free featuring in the App Store and Google and Amazon that really helped the initial growth. We are spending some money on Cooking Craze, but in my comments, I included a discussion about the fact that we're being very careful and thoughtful to make sure that we keep the metrics and we're watching the long-term metrics around the Cooking Craze game to make sure that it's achieving our long-term retention targets and our long-term return targets. But that game is performing very well. We have almost 1 million daily average users playing that game and it's performing very well. Bill talked about the bookings being almost $140,000 a day already on that game in less than 30 days. So that game is performing actually better than Gummy Drop! did during the same time frame. And I also talked about the fact that in second quarter, social casino actually hit its highest level of bookings ever in its history. So we do -- we remain committed to continuing to support the growth in the social casino segment, continuing to invest in our Jackpot Magic Slot, game in particular, as well as our Big Fish Casino app, and then selectively investing in the Free-to-Play Casual games that we're committed to. We talked about Solitaire, Gummy Drop! and then obviously, Cooking Craze coming here. And then Bill also talked a little bit about the fact that we have a game in the mid-core space that is targeted to come out later this year, but that would have very limited UA spend associated with towards the end of the year. So overall, we're pretty excited about where Big Fish is positioned at this point.

David Brian Katz - *Telsey Advisory Group LLC - MD & Senior Research Analyst*

Got it. And just last one if I may. I think we have lively debate and discussion with investors about -- and with you frankly, about the sort of portfolio of assets that the company owns and whether or not there are bids for them at high multiples and sort of the highest and best use of the assets within your portfolio and whether those bids are appropriate to consider or not. Since we last spoke a quarter ago, do you have any updated views about the M&A market and any inbound interest on any of the assets within the portfolio and their current highest and best use within Churchill Downs?

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

David, that's an impossible question to really answer in a public company context. But I'm -- nevertheless, I'm going to try to answer it the best that I can. On a daily basis, we work with our teams across our businesses to run these businesses in the best manner that we possibly can. And we try to learn from everybody else out there in terms of what they're doing so that we can borrow from them best practices that we think they might be doing better than us and we try to improve on what we think we might be doing better than them. So on a day-to-day basis, that's what we spend our time mostly focused on. We also have a responsibility to our board and to our shareholder base at large, to always have our businesses placed in the context of a larger market and we work for the shareholders of this company. So we always have our eyes open. We are always thoughtful about whether we're growing through acquisitions or not and what the competitive market and the long-term strategies for each of our businesses are. So that's an obligation that we have. We know who we work for. We always remember that. So we never lose sight of those obligations and we always try to be thoughtful about what's best for our shareholders, what's best for our businesses and our employees long term. So that's what we -- in essence, having answers to the questions that you just asked really, I think is what our job is and the C-Suite in particular and for our board. So yes, we do focus on it, we do care about it a great deal. And on the other hand, paradoxically, it's not something that we can discuss at great length in a public environment.

David Brian Katz - *Telsey Advisory Group LLC - MD & Senior Research Analyst*

I understand. I appreciate the answer and your stock would certainly provide support for being a good answer.

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

Any time, David. Thank you.

Operator

Our next question comes from Adam Trivison of Gabelli & Company.

Adam Joseph Trivison - *G. Research, LLC - Research Analyst*

First up on the TwinSpires margin, are the cost savings from the move to Louisville fully reflected in the results? And if not, how should we think about that going forward?

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

I will take that call. When you think about our numbers for TwinSpires, the transition has really occurred, the people have back. So the -- some of the severance costs that would have been incurred, that has already been sort of flushed through the system below adjusted EBITDA prior to this quarter. We are spending some money on recruiting additional people to support the growth of the company and, obviously, the build-out of the additional space here in Louisville, that's really a leasehold improvement. So there's no real additional cost here that you're not seeing already in the P&L.

Adam Joseph Trivison - *G. Research, LLC - Research Analyst*

Okay, what about...

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

We do have about 15 open positions. They were still -- but a good portion of those positions are on the development team which that cost will be capitalized. And the way to think about it is it's really to expand the team to accelerate our growth and accelerate the number of features and appearances and our ability to compete within that space. And that's really what we're doing, is taking some of that savings and plowing it back into accelerating our ability to grow that product.

Adam Joseph Trivison - *G. Research, LLC - Research Analyst*

Okay, that makes sense. And then on Big Fish, can you just help us think about how the Premium vertical may be dragging on the full segment EBITDA? I guess said another way, you get a sense for detrimental margins there and I know you're kind of going back to -- and renegotiating some contracts, but just how should we think about that?

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

I'll take that one and Bill may want to jump back in. The Premium segment is actually a relatively higher-margin segment for the Big Fish team. When you think about it, I've discussed in the past that there's very little UA spent regarding that particular business, but we're really pleased with the Big Fish team. What they've done is with the challenges around, the transition of Premium PC to mobile and the declining sort of top line pressure that they've had, they worked and went out and renegotiated all of their contracts and have effectively got that taken care of so that they can get additional savings that are going to kick in later this year as well that will incrementally hit next year. That will help them hold their margin as that business continues to sort of decline. But what's also exciting is as Bill mentioned in his conversation and discussion is that they have also worked with Apple to build out this mobile subscription business, where they're able to use some of the titles that they currently have and be able to -- and are working to port those over and offer a subscription service in a mobile capacity that they believe will be very interesting for people to -- who, similar to like a Netflix, to other type of subscription services. There are who people will be interested in obtaining games in a mobile environment through a subscription service and that should come out later this year, towards the end of this year.

Adam Joseph Trivison - *G. Research, LLC - Research Analyst*

Okay. And then I guess one last little detail. Have you guys quantified the effect of weather on the Derby or whether significant or...

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

Yes, this is Bill Mudd. I think when you look at the performance this year, our handle I think was a record. It was over $200 million this year on Derby day, 8% above the prior record. In terms of the effect, that was probably -- you can look at -- the attendance was down about 5%. That's largely going to be for the general admission patron, which is $75 a ticket on that day. So if you figure 10,000 people don't up, you can figure out what the impact of that was and I wouldn't say it was real big from an economic perspective.

Operator

There are no further questions. I'd like to turn the call back over to Bill Carstanjen for any closing remarks.

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

Thank you. Everybody, thank you for your time. We appreciate your time this morning. Thank you for our interest -- your interest in our company. We'll do our best to be good stewards of your investments and we'll talk to you soon. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.
