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CHDN - Q4 2017 Churchill Downs Inc Earnings Call

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PRESENTATION

Operator

Good morning ladies and gentlemen and welcome to the Churchill Downs Incorporated 2017 Fourth Quarter and Year-End 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 conference, Mr. Nick Zangari, Vice President, Treasury and Investor Relations.

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

Thank you, Glenda. Good morning, and welcome to our Fourth Quarter and Year End 2017 Earnings conference call. After the company's prepared remarks, we will open the call for your questions.

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

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

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

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

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

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

Thanks Nick. Good morning, everyone. With me today are several members of our team including Marcia Dall, our Chief Financial Officer; and Brad Blackwell, our General Counsel. Bill Mudd, our President and Chief Operating Officer, is traveling and unable to join us this morning.

We had a productive 2017, and I am proud of what our management team accomplished especially in the second half of the year. Here are a few of the accomplishments. We had a record-setting Kentucky Derby day and Kentucky Derby week with respect to virtually all of our significant financial metrics despite poor weather on both Oaks and Derby day. Our market leading TwinSpires team outpaced the industries growth by 15 percentage points and all of our wholly owned casino properties grew market share and our equity investments in Miami Valley Gaming in Saratoga, along with our new equity investment in Ocean Downs, provided significant growth and adjusted EBITDA.

With that, we also accomplished three significant strategic objectives. We announced the sale of Big Fish in November, we refinanced all of our debt and in January we launched a $500 million share repurchase via a tender offer utilizing a portion of the proceeds from the sale of Big Fish. We accomplished all of these initiatives while returning approximately $212 million to shareholders through dividends and share repurchases in 2017 in addition to the $500 million share tender in early 2018.

I will provide some insight into why we undertook these three strategic initiatives to reposition the company but I will walk through some of the 2017 performance highlights and our positioning for growth for each of our core businesses. I will also comment on the transactions we announced late yesterday to acquire Presque Isle Downs and Casino and Lady Luck Pittsburgh.

Marcia will then provide additional details on the key strategic projects that I discussed along with details on our fourth quarter earnings which should help you understand how to think about our core earnings and capital management going forward. After she is finished with her comments, we will be happy to take your questions.

First some insights into why we took the three steps we did to strategically reposition the company. On November 29, we announced the sale of Big Fish for $990 million and on January 9 of this year we closed the transaction. The sales price represented an approximately [12.3] multiple to 2012 adjusted EBITDA. The after-tax proceeds are approximately $930 million. With the transaction closing in early 2018 and the passing of the U.S. tax reform law in late 2017, we are pleased that we were able to take advantage of the lower federal tax rate on the gain on the sale.

Since we acquired Big Fish in December 2014, it has contributed about a third of our revenue and about a fourth of our adjusted EBITDA. As we enter 2017 we though the M&A environment for social casino and mobile game companies was increasingly attractive and we saw the space experiencing consolidation which would produce larger and more capable competitors in an increasingly volatile and competitive online segment.

We concluded that Big Fish would be best positioned for growth with a larger deeper player in the space. In short, we liked the timing, we liked the price and we thought our company would be best served by focusing on our areas of greatest strength and competitive advantage; the Kentucky Derby, TwinSpires, along with mobile and online real money gaming and our casino segments.

The second step in our strategic repositioning was our debt refinancing. We wanted to accomplish the following objectives; extend the maturities on our debt structure, lock in lower rates with staggered maturities and improved loan covenants, have significant unused capacity on our credit facility to give us the strategic advantage of moving quickly if needed to acquire assets or make investments and by calling the existing high yield bonds and issuing new bonds enable the company to change our covenant package in order to have the right to buy a significant number of shares back with the proceeds from the Big Fish sale.

Our team achieved all of these objectives in a very compressed timeframe. Marcia will cover the specifics in more detail in a few minutes. And last, but certainly not least, the third step in our strategic repositioning was to return capital from the Big Fish sales proceeds to our investors by repurchasing shares in the tender offer. We launched the tender offer on January 10, the morning following the closing of the Big Fish sale and we completed the repurchase of 1.9 million shares on February 12, 2018.

We accomplished all of these things while at the same time our core business segments performed very strongly. Excluding Big Fish, the company produced net revenues of $883 million, up 7% over 2016 and adjusted EBITDA of $286 million, up 13% over 2016. Let's spend a few minutes discussing the 2017 highlights and strategy for growth for our racing, TwinSpires and Casino segments. Starting with the racing segment, the Kentucky Derby is the big driver of the growth. As I mentioned, we set the record for most of our significant financial metrics for the derby in 2017 and we did so despite unusually bad weather. For example, wagering on the entire Kentucky Derby day race card including the derby race itself, was up 9% to $209 million; the first time we have ever exceeded $200 million for the day. Wagering for the week also topped $285 million; a new record.

Beyond the metrics, what is most important is improving everything we do around the Kentucky Derby. We've consistently invested in our facility over the last number of years to make sure we can offer our customers a world-class experience. In 2017 we completed our $16 million upgrade to the clubhouse. Nearly 18,000 of our guests were directly affected by the improved amenities in this section of our facility. As we've discussed previously, we acquired 37 individual properties directly adjacent to our current footprint at Churchill Downs racetrack and we now own all of the properties surrounding Churchill Downs needed to execute our longer-term site development plan. In October, we announced a $32 million project to significantly improve the transportation of our customers to and from the derby.

For those of you coming to the derby this year, you will see we have greatly modified the front parking lot areas and the exterior of our facility in a manner that we are sure our customers will appreciate; not only from an aesthetic perspective but also we hope with respect to ease of entry and exit. We will be bundling parking passes with many of our higher end seats to a much greater extent then we ever could before given these site changes and our plan to utilize a large satellite parking facility approximately one mile from the track.

This year's Kentucky Derby will also mark the grand opening of our new $37 million Starting Gate Suites with flexible suite configurations for approximately 1,800 new customers as well as new premium entertainment spaces. These suites will be ready for derby and as of today are almost sold out. We are now 65 days away from the 144th Kentucky Derby. For those of you still looking for seats, inventory has never been tighter so please get on it now. Our strategy for long-term growth of the derby is to invest in projects to help our customers to feel a part of our iconic event and to experience, as a participant not just as a spectator, the unique magic and mystique that is the Kentucky Derby.

Our team works hard to create new, once in a lifetime experiences, every year and to demonstrate to our customers that we are making the event bigger, better and more fun for everyone. We think there are many avenues to continue to grow our signature event and our team is engaged in numerous growth initiatives that we speak about publically when it is warranted. One area that we have recently been asked about is with respect to our Japanese Road to the Derby and our European Road to the Derby. Both roads involve a series of races in those markets awarding points with the top point earner in each series receiving an invitation to run in the Kentucky Derby.

We think we have the greatest horse race in the world and we want international horses to aspire and see a pathway to entry. Ultimately, monetization may come from a number of paths but most directly we wish to increase demand for suites and hospitality from international customers and we think it makes sense to build interest internationally by providing a direct path to the race for international horses.

Also, Japan is a closed market with respect to wagering and it is our hope that with the Japanese entry that the Kentucky Derby would be granted one of the handful of exceptions that are given by the authorities each year permitting Japanese handicappers access to bet on the race.

Turning to our TwinSpires segment. For the full year, wagering at TwinSpires was up 17% while the industry was up only 1.6%. Our adjusted EBITDA was up 14.6% despite a $1.4 million increase in marketing and advertising spend which supported our 35% increase in active players. In addition, TwinSpires was positively impacted by our acquisition of BetAmerica in April of 2017 and by our continuing ability to drive increases in revenue per existing player.

Looking at the macro environment for the horse racing industry wagering was up modestly in 2017 after being slightly up in both 2016 and 2015. Our team believes there's organic growth to harvest in the ADW space and is continuing to prove it year-to-year.

While we benefit from the trend of horseplayers moving their play online from traditional brick and mortar outlets, we extensively market to new players around the Kentucky Derby, the Triple Crown season and the Breeders' Cup and are able to attract new and returning customers to our platform.

We also believe that customers value additional features and functionality and that we should continue to invest to make their experience competitive with the myriad of other online entertainment experiences that are truly a part of our competitive landscape. Beyond our plans to grow our top line we monitor carefully the cost we pay for horseracing content and the regulatory taxes across the various states in which we operate.

These are variables that we do not entirely control but we focus on influencing them to the extent that we can. TwinSpires is well positioned for 2018 with a deeply experienced management team who have a number of ideas that they are pursuing to grow the segment in 2018 and beyond.

Turning to our casino segment. Our casino properties delivered adjusted EBITDA of $146 million, up 16% compared to 2016 and we exited the year with a strong fourth quarter delivering $34 million of adjusted EBITDA up 21% compared to the fourth quarter of 2016. As I mentioned a few minutes ago, all of our own properties grew their market share in 2017 and generally performed strongly compared to prior year despite some difficult weather conditions during the tail end of 2017. We made modest investments in our properties to grow the business including a $25 million hotel at Oxford. We have a number of fairly small projects underway including a new outdoor gaming and smoking patio project at Calder and new OTB's in Monroe and Destrehan, Louisiana; all three of which are targeted to open in second quarter 2018.

Our casino equity investments continue to provide significant growth in adjusted EBITDA in 2017. Our Miami Valley Gaming Casino completed a $5 million renovation in late October funded with debt at the joint venture level to add a new smoking patio, expand the gaming floor and increase the number of games in our high limit area.

We also acquired an effective 62.5% interest in Ocean Downs in the first quarter of 2017. Subsequently we opened a $15 million, 35,000 square foot expansion on December 30 with ten live table games and a hundred new slots bringing the total at the facility to 900.

This expansion was also funded at the joint venture level. We now have 9 casino properties, 5 wholly owned and 4 equity investments in 8 different states. This reflects our strategy of investing in modest sized casino properties with limited capital footprints and amenities and with stable predictable cash flows in different markets.

We also like states which we believe may ultimately grant access to online gaming and even potentially to sports betting to their brick and mortar casino license holders should either form of alternative gaming become legal in the relevant jurisdiction.

We announced last night our agreement to purchase two casino properties from Eldorado Resorts. The Presque Isle Downs and Casino in Erie, Pennsylvania and our Lady Luck Casino in Vicksburg, Mississippi for a total purchase price of $229.5 million to be paid in cash.

We expect to close the Vicksburg transaction in the second quarter of 2018 and the Presque Isle transaction in the fourth quarter of 2018. Presque Isle gives us a foothold in Pennsylvania which has recently passed legislation authorizing real money online gaming. The Lady Luck Vicksburg is immediately adjacent to our River Walk facility and offers us operational efficiencies in a stable region. Both properties fit our investment criteria and will be immediately accretive to our shareholders.

Overall, the casino segment continues to be stable and predictable for us. We like the space generally and will continue to be conservative on how we invest in and operate our properties. We'll also continue to look carefully at M&A opportunities that fit our profile as well as any opportunity to enter the online real money gaming and sports betting space should they become legal in the states we gain access to a license.

With respect to Greenfield projects, we announced in the third quarter our intention to invest $60 million to construct a state-of-the-art historical racing machine facility in Louisville. Construction is well underway at the site. Historical racing machines are being manufactured by Ainsworth Gaming Technology pursuant to a long-term agreement with us to help ensure we provide our customers with an innovative and competitive product in the Louisville market.

The 85,000 square foot facility will start with approximately 600 machines and will be located off of Interstate 264 and close to Interstate 65 about five miles east of Churchill Downs Racetrack. If the machines perform well, our facility is sized to easily add up to 300 more machines. We plan to open the facility in the fall of 2018. In addition to our proposed Louisville facility, we announced the partnership with Keeneland Association in 2017 to pursue licenses to construct a historical racing facility in Corbin, Kentucky which is in the southeast corner of the state and a facility in Oak Grove, Kentucky which is located off of Interstate 24 approximately 55 miles from Nashville. These projects are not on the same timetable as our Louisville facility. While we believe we enjoy deep support in the relevant communities where these projects will be located and across many other constituencies in the state we need to obtain licenses from the Kentucky Horse Racing Commission in order to proceed. We are actively working with the commission and Governor Bevin's administration with respect to next steps.

A few final thoughts. Between stock price appreciation and an increased dividend, our shareholders enjoyed a 56% total shareholder return in 2017. At the same time, we believe we have repositioned our company for the future with an efficient capital structure and plenty of free cash flow to grow and to replace the adjusted EBITDA that Big Fish Games generated with a more stable and predictable earnings stream.

We are currently leveraged approximately 2.5 times and less have plenty of capacity to pursue a variety of strategic options including reinvestment in our current businesses, M&A activity, dividends and share repurchases. We had a nice year in 2017 but the future is all that we are focused on now. I want to acknowledge our three long-term directors who are not standing for reelection at our next annual shareholder meeting in April. Watts Humphrey, our current Chairman of the Board, Bob Evans, our Former CEO and Chairman and Craig Ducheossois, a key and active board member in many capacities for the better part of 20 years. We are grateful for their exemplary service to our company over many years and each will be greatly missed.

I also want to acknowledge and congratulate Karole Lloyd, she has been nominated by the board to serve as a board member and will be included in the proxy for April shareholder meeting. She's an outstanding deeply experienced candidate and I believe will be a great asset to our board. Our next call is scheduled for the week before the Kentucky Derby. Our team has a lot to do before our big day but all looks good. Now I'd like to turn the call over to Marcia to provide some additional details. After that, we will answer any questions that you have. Thank you. Marcia?

Marcia A. Dall - *Churchill Downs Incorporated - Executive VP & CFO*

Thanks, Bill, and good morning, everyone. As Bill said, I will provide additional details on the three steps that we took to strategically reposition the company in the fourth quarter. After that I will provide some details on our fourth quarter earnings and help you understand how to think about our core earnings and capital management going forward. I'll start with the details on the three steps we took to strategically reposition the company.

The first step was the sale of Big Fish on January 9, 2018. As you look at our financials for year-end 2017, please be sure to notice the following. Since we sold Big Fish, we have classified Big Fish and discontinued operations and have excluded its results from GAAP net revenue and operating income. Adjusted EBITDA, net income, diluted earnings per share and the statement of cash flows include the Big Fish results. Also, please note that the Big Fish results and discontinued operations and in the segment footnote for 2017 exclude the corporate allocations that we have historically made to this segment. These corporate allocations are now included in the corporate segment for current and historical periods.

As Bill mentioned, we are projecting the after-tax net proceeds from the Big Fish sale to be $930 million which reflects a 24.5% tax on the $222 million estimated tax gain on the sale. The after-tax booking, which will be reflected in our first quarter 2018 financials, will be approximately $165 million. The second step that Bill discussed was the refinancing of our debt in December. We replaced our existing credit facility and the existing term loan A with a new $700 million senior secured five-year revolving credit facility with a lower pricing grid than we had previously based on LIBOR plus a spread, this based on the companies net debt to EBITDA ratio. And we issued a new $400 million, 7-year term loan B at LIBOR plus 200 basis points.

We also called our existing $600 million senior secured notes at 5.375% and issued $500 million of ten-year senior secured notes at 4.75%. All of this was done to improve the economic terms for the company, extend and stagger our debt maturities and enable the company to use $500 million of the proceeds from the sale of Big Fish to repurchase shares.

The third and final step was to launch and complete the tender offer for the $500 million share repurchase. The tender offer resulted in the repurchase of 1.9 million shares at a price of $265.00 per share. So turning to our fourth quarter results, we reported net revenue of $179 million for the fourth quarter excluding Big Fish. Up $17 million or 11% compared to the prior year quarter. The two primary drivers of this increase were growth in market share for Calder, Oxford and River Walk Casinos and the 19% increase [in handle] for our TwinSpires business of which approximately two-thirds was driven by the acquisition of BetAmerica in April of 2017 and the other third was from growth in our core TwinSpires business compared to the prior year quarter.

Our reported adjusted EBITDA, which includes Big Fish, was $60.2 million in the fourth quarter, up $3.7 million compared to the prior year quarter. Excluding Big Fish, adjusted EBITDA was up $7.1 million or 23% reflecting a solid contribution from Calder, Oxford and River Walk Casinos. Growth from our equity investments in Saratoga and MVG Casinos, the addition of our equity investment in the Ocean Downs Casino and growth from our TwinSpires business. Our racing segment adjusted EBITDA was down $1.6 million as it is a relatively quiet quarter for our racetracks and we had one fewer race day along with an increase in maintenance and other SG&A expenses at our Churchill Downs racetrack in the quarter.

Reported net income, which includes Big Fish, was $38.2 million in the fourth quarter, up $11.4 million and diluted earnings per share was $2.46 in the fourth quarter compared to $1.60 in the prior year quarter. There were a number of onetime items that impacted our reported net income and diluted EPS in the fourth quarter.

First, we had a onetime benefit of $57.7 million that we recorded related the re-measurement of the differed tax liabilities on our balance sheet as a result of the reduction in the U.S. corporate tax rate from 35% to 21%. Second, we recorded non-cash impairments of $21.7 million pre-tax related to 3 items: a tangible asset related to previously capitalized iGaming software; an intangible asset related to bluff, but it previously seized operations in our TwinSpires segment; and an intangible asset related to Arlington Racetrack. Third, we recorded a loss on the extinguishment of debt of $20.7 million pretax related to the debt refinancing we completed in December of last year. And lastly, we recorded $3.1 million pretax of transaction and other expense related to the Big Fish sale in the fourth quarter.

As a reminder, we also had some unusual onetime items in net income in the fourth quarter of 2016, the largest of which was the gain on the Calder land sale of $23.7 million pretax. Our adjusted net income for fourth quarter, excluding these onetime items and the Big Fish results, would have been $5.1 million in the fourth quarter, up $2.4 million and our adjusted diluted EPS would have been $0.33 per share, up $0.17 per share. We have included the supplemental schedule in our press release with a reconciliation from a reported net income including Big Fish to an adjusted net income excluding Big Fish to help you better understand the quarterly and total year core ongoing operating results.

Turning to cash flow. We have $54 million of cash flow from operations in fourth quarter which is up $16 million from the prior year quarter. Our strong cash flow generation from our core operations and higher levels of derby sponsor payments and ticket sales in the quarter, more than offset higher interest payments and a $29 million overpayment of taxes based on the [true-up] of our projected cash taxes as a result of the onetime items we recorded in December versus our estimated tax payment assumptions.

We spent $7 million on maintenance capital in the fourth quarter which was consistent with the prior year quarter. We continued to maintain our discipline related to the maintenance capital. We do expect our maintenance capital spending to increase slightly in 2018 based on replacement of aging slot inventory and infrastructure improvements at our Churchill Downs Racetrack.

Regarding project capital for the quarter, we spent $21 million in the fourth quarter of which approximately 55% related to the work on the Starting Gate Suites and other capital improvements at Churchill Downs Racetrack and about 40% was related to the construction of the hotel at our Oxford property.

In 2018 we anticipate spending $125 million to $135 million on project capital primarily on three significant projects. First the construction of the new Derby City gaming historical racing machine facility in Louisville continues with approximately $55 million of spending prior to the grand opening in the fall of this year. Second, we will spend approximately $20 million to finish the new Starting Gate Suites at Churchill Downs in time for the derby in May. Third, we will spend approximately $30 million to complete the parking lot and infrastructure project with the first phase completed by Derby and the final phase completed in time for the Breeders' Cup in November.

The remaining $20 million to $30 million of project capital will primarily be focused on the balance of our wholly owned casino properties. So let me close with a few summary remarks. As Bill discussed, we returned $212 million of cash flow to our shareholders in the form of dividends and share repurchases in 2017 and we completed $500 million of additional share repurchases in February with a portion of the proceeds for the Big Fish sale.

As Bill mentioned, our net leverage is currently about 2.5 times giving us significant capacity for strategic investments to support organic growth, acquisitions, dividends and share repurchases over the coming years. The strategic repositioning of our company in the fourth quarter was an efficient capital structure and a portfolio of assets that generate strong free cash flow provides a platform for future growth and adjusted EBITDA with a more stable and more predictable earnings stream.

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

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

Thank you Marcia. Nick, I think we're ready for questions if we want to open it up to the audience?

QUESTIONS AND ANSWERS

Operator

[Operator Instructions.] And our first question comes from the line of Dan Politzer from JPMorgan.

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

So you spent a good time talking about -- a good amount of time talking about the strategic repositioning with your sale of Big Fish, the refinancing and the tender offer. I guess as far as the opportunities from here, could you give us some further color on where we go and what your priorities are for your free cash flow?

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

Dan, sure it's Bill. I'm happy to do that. First, we still see a very strong future for the Kentucky Derby and so the growth projects that we have in mind for that we will execute on and the ones we've done in the recent past have only reinforced our confidence in continuing to make those investments. I think TwinSpires, that's an organic growth story for now. I think there are some very modest projects to improve the platform but not big capital expenditure projects so that's more of an organic growth story in the nearer term. I think the Greenfield's that we talked about within the casino space, the Louisville facility, perhaps some other HRM facilities if we can make those happen in Kentucky. I think those are priorities for us. So, I think to understand our company and to think about it, you ought to always break it down now into the three main segments that we have; racing really led by the Kentucky Derby, TwinSpires and then the casino side.

The casino opportunities, we have our own Greenfield's but also we continue to, in a very disciplined and I think consistent way, look beyond the organic opportunities at the M&A markets and if we find them we go after them and if we don't, we don't. We don't need to do those things and then I think we're also pretty excited about developments in the iGaming front, you know, real money gaming. I think Pennsylvania is a really interesting opportunity for us with our long experience in TwinSpires, we've always been very interested in applying that experience to new markets. I think iGaming, Pennsylvania in particular will be one where you see us act on but I don't think those are big expenditures from a capital perspective.

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

And so if you had to kind of rank and file, you know, returning capital of the shareholders, building out some dry powder for further M&A, or any -- I don't think deleveraging is really a priority, but I guess how do you kind of think about the (inaudible) for those?

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

Well, we're fortunate with the free cash flow that we generate that we haven't had to make short-term choices that are not good for us overall long-term because of insufficient capital. We've had the capital to do what we see fit. So first and foremost, it's about reinvesting in our business where we see growth that will be accretive to our shareholders. First and foremost, that's what we look at. Given the strength of our free cash flow and the efficiency of our debt structure, we've proven in the recent past, particularly 2017, but sometimes we've got plenty of capital to return to shareholders and we will do that. So, we've been able to do both of those things, but first we look at how do we most effectively grow our company and create the greatest return for our shareholders? We do that first and we've been fortunate enough to have the opportunity to also be able to return capital directly to our shareholders through dividends and through share repurchases. So I don't think those two things are mutually exclusive. I think we've demonstrated that we can do both and we'll see what the future holds for us.

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

Got it, that makes sense. And then just on the acquisition, can you talk a little bit about these assets and what kind of shape they're in? If there's any differed CapEx or anything like that there and I guess how should we think about free cash flow there given you called out some tax benefits from the acquisition?

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

Yes, I'll start on this and then I think Marcia you may want to jump in on some of it too. Both properties fit our, one of our, filters. We have several filters and that is they are not capital starved with a great deal of differed maintenance and differed capital investment. Both properties, [particularly] Presque Isle are in relatively good shape so when I look at -- we'll start with Vicksburg, the smaller one first. That one is directly adjacent to our property, we share a parking lot, clearly our customers flow back and forth between the two properties so that's one where we think we can show some margin improvement, run it efficiently. I don't think it's a heavy capital reinvestment play at all, I don't think that's required. I think there's just some efficiencies of operations we can derive and some logic to holding that property. As I said, it's directly adjacent to ours. Presque Isle, I've always like that property since it opened. It opened in 2007. I've been up there many times since then. We understand that property. That property does a lot of racing, it does a hundred days of racing a year. We understand that kind of racing that it does. It's in very good shape, we're very pleased with the state of that property [while there] be improvements or changes and new machines here and there perhaps. It's generally a property in really good shape and we feel pretty good about it. That's not a margin play. There might be things we can do here and there but Eldorado I think is a very good operating that was operating that property very, very well. For us, that property is something that we're excited about because we think we can run it just as well, maybe find a little upside here and there in racing or small opportunities but the larger play is, it's important for our company strategically to start participating in the online gaming piece. In Pennsylvania with its 13 million people, relatively progressive gaming infrastructure and gaming regulatory process, we think that's a place where for now and for the long term, we need to go build our iGaming capabilities.

Marcia, could you comment on that tax piece?

Marcia A. Dall - *Churchill Downs Incorporated - Executive VP & CFO*

Yes, and then Dan also, you know, as you're aware our corporate tax rate has gone from 35% down to 21% and so when you're just simply looking at a multiple of EBITDA you really don't pick up that value that's created also from that reduction in our tax rate. And then also just on the capital investment, you know, we also see the benefit from the tax reform coming through around the option to immediately expense any non-real property capital investments that we make as well into our properties. And so we view that as a benefit as well going forward.

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

Got it, and just one last one, obviously you had a pretty large board reshuffle. Three members who have been on the board anywhere from 10 to 20 years are coming off. So -- and last year you had Doug Grissom on too. So, how should we think about these moves in conjunction with how you're repositioning the company? It seems like there's obviously been a lot going on and I guess how should we think about this going forward along with that new board?

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

Really good question, a really fair question. I think the three board members who are not standing for reelection are -- have been over a long period of time heavy hitters on our board, really important board members, really active, really influential board members but they've been on the board for a long time and they've had a long run. I think all of them share a deep commitment to the company and wanting to see what's best for the company and as a company, as we look forward, you see us adding board members too with Doug Grissom and his private equity and strategic skillset, Karole Lloyd hopefully will be voted on by the shareholders with her extensive public company expertise. So we're a company that I think is continuing to evolve. We've come a long way over the last number of years and we're continuing to evolve and I think the board process is part of that. I think people -- they have their run, they make their contribution and they feel like it's time for the next generation to keep the energy and keep the excitement and keep the momentum going. So I think generally our board is getting a little smaller than it has been historically but I think some of this also is just timing where there was a generation of board members that they came on and as the years go by, some of them are reaching the retirement age and otherwise we're just as a company moving along with our operating businesses towards a slightly different configuration that's only healthy, only a sign of strength and a sign of our boards, our current boards commitment to making sure it has in place for the future the right types of people with the right level of energy and the right commitment to do the work going forward.

And (inaudible) more specifically than that but hopefully that gives you at least a philosophical perspective of how our board members and how our management team thinks about how we're evolving.

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

Yes, I think that really help to connect the dots between everything. Anyway, thanks so much guys and I appreciate it.

Operator

And our next question comes from the line of David Katz from Jefferies, your line is now open.

David Brian Katz - *Jefferies LLC, Research Division - MD and Senior Equity Analyst of Gaming, Lodging & Leisure*

I wanted to just ask about specifically TwinSpires and I recall that some of its evolution was around the acquisition of Youbet. Which at the time my, if my memory serves, was a platform that was well suited for sports betting and other kinds of account wagering applications. Can you talk about how you -- how much you may have thought about that concept and what would need to be done to TwinSpires to apply it in a sports betting environment and I know we have a fair amount of uncertainties around what could happen, sports betting wise, on a state-by-state basis. But whatever thoughts you have around the opportunity for that and how you're thinking about that would be helpful.

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

Sure David, let me get started on that very meaty subject. Being in the ADW space for our ten-plus years now through acquisitions of platforms like Youbet and through a whole bunch of organic growth, we've paid a lot of attention over time to the evolution of online gaming both here and sports wagering as well; both here and primarily overseas. So I think as the years have gone by, our thoughts on that have changed and when I think about it now there's been so much development say in New Jersey and overseas. I would say right now I don't really look at TwinSpires as the platform itself from which to conduct iGaming, I think that it partially explains some of the write-offs we did last quarter. It's time to look at the very best technology that's out there and look at the evolution both here and overseas of that space and you see some very, very capable, credible, B2B businesses that really provide the infrastructure backbone, you know, bonus system, wallets, interface with content providers. You see some very credible third-party B2B businesses which I think are more economically efficient for a company like ours as we look at a market-by-market sort of stutter step entry into iGaming based on markets as they open up.

So I see the team that we have as incredibly capable, very sophisticated, we have a number of personnel in our shop that come out of the European markets so in terms of understanding marketing, understanding the mindset of the customers, understanding bonus infrastructure and how to operate a platform, I like our team for doing that but when it comes to the technology I think that is best suited to maximize your competitive positioning. I think at this point, in our company, not having had the opportunity over the last number of years to directly do online real money gaming, we're more interested at this point in looking at some of the B2B solutions which I think allow us and favor us to have a more cost-effective entry into the space.

I bet David that was more than you expected to hear but I'm comfortable going ahead and covering that on this call.

David Brian Katz - *Jefferies LLC, Research Division - MD and Senior Equity Analyst of Gaming, Lodging & Leisure*

No, not at all, in fact, I wanted to follow that up because I wonder how much, you know, work or substantive work you may have done around the size of the opportunity for sports betting. You know, it's certainly a lively debate and a little more than that at this stage, right, but estimates in terms of the wagering in the U.S., you know that, opportunity -- certainly read estimates that are in the hundreds of billions of dollars, right, but can you sort of bring that home to what you think a business opportunity could be for you all?

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

Yes, I don't want to use numbers because I think the general counsel is within range of kicking me in the shins and I don't need to be kicked in the shins. I think we need to be sort of careful and cautious about making up numbers or repeating numbers that others have said but I would say that we have a perspective on the value of different states in part based on our TwinSpires footprint and the differences in activities we see across different states based on that business.

But also we've paid a lot of attention to the size and behavior of different European markets to try to use those as proxies to what we think can be the U.S. market. I think the U.S. markets probably will always underperform some of those direct European comparisons for the following reasons; one it would be new activity for the consumer base in the country to adapt to, so they take some familiarity and I think you might have seen some of that in New Jersey as it ramps up slowly. Secondly, you have to look at the impact of tax rate and how that affects marketing and bonusing and you have to look at the regulatory infrastructure and what kind of impediment that imposes on how the market would otherwise develop on its own.

So I think on a call like this, I wouldn't be comfortable in using any numbers but I look at states like New Jersey, which we are not in, and I look at states like Pennsylvania which if everything goes according to plan and we're able to close our acquisition which we expect to, we will be in, I start with the population size and the wealth demographics of the population and then look to European markets to serve as analogies of what we can expect and how much we should spend and invest to start taking advantage of the opportunity.

David Brian Katz - *Jefferies LLC, Research Division - MD and Senior Equity Analyst of Gaming, Lodging & Leisure*

Certainly big enough for you to put some thought and resources into it is a fair answer, correct?

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

Yes, quite a bit. I mean, we've been excited about this for a while. It's been a process of watching to see how the country would develop and it looks like what we're seeing now is a state-by-state approach which is fine. A federal approach would have opened up the opportunity all at once but that's not what's happening in the United States. Instead it's going state-by-state and so I think that puts a finer point on making sure you really have a model and really have a plan for an individual state and a sense of what the market for that state will be.

So obviously we're interested enough to be pursuing it because we are pursuing it and it is something we've spent a decent amount of time over the last few years focusing on.

Operator

And our next question comes from the line of Adam Trivison from Gabelli & Company.

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

If we take a look at the TwinSpires segment, you take out BetAmerica, it looks like [handle] is growing mid-single digits. How should we think about organic growth going forward given -- I know there was some changes to the cost structure and maybe reallocation of spending toward marketing post the move to Louisville.

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

Yes, you might have keyed off the comment that Marcia made in her comments. How should we think about it? It's been pretty consistent over time. It bounces around. I've made the comment in other earnings calls that please don't think about the long-term growth rates of TwinSpires based on any particular quarter. It's more complicated than that. Some quarters are better than others, some quarters we don't understand exactly why the rates fluctuate, other quarters we think we do have good theories. Generally we put the bulk of our investment around the larger events in the industry which attract returning players and new players to the game, that's where we make our biggest push. But also I think with the BetAmerica property, we've liked that brand we've liked that platform so we've invested around growing that platform too, that's not a static thing, that is a dynamic growing platform itself so we have more pieces on the chest board to play with and I don't know that you should simply say TwinSpires core, BetAmerica core, it's one business, we flow investment between the two assets based on what we see as our returns so generally I don't analyze it as TwinSpires core but I think -- I understand why others would look at it and comment on it. I still feel pretty good about the growth of TwinSpires. Part of that is based on the historical performance of the team, they keep finding ways to continue to grow it so beyond that I'm optimistic for 2018 but I wouldn't tell you that as a manager I'm solely focused on core versus BetAmerica static, it's one thing. Resources and marketing materials or marketing efforts flow between those platforms based on where we produce the best result and it's the aggregate result that I care about.

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

Okay, that makes sense. And then on the acquisition, specifically Vicksburg, the $1.1 million in synergies, is that just initial cost takeouts overhead or how should we think about potential? You mentioned efficiencies between the two properties. How should we think about maybe value accretion, [does that yield] specifically as we move forward a couple of years?

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

Yes, that was -- Vicksburg cost out that largely has taken place. So prior to our assumptions -- because we haven't assumed operational ownership of the property yet but that's largely personnel, low-hanging fruit.

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

Okay.

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

We haven't built in a lot of synergies into the Presque Isle property. Like I said, I think that's a very well run property. I don't think they'll be material synergies up there but certainly there are some things we're going to try and some things we're going to look at particularly around the racing side.

Marcia A. Dall - *Churchill Downs Incorporated - Executive VP & CFO*

And Adam, just to follow-up on your TwinSpires question. You know, when you look at a [handle] growth for TwinSpires as a whole for last year, not just for the quarter because my comments were for the quarter, TwinSpires growth was almost 17% in the handle for the total year of which about half was related to core kind of TwinSpires and then the other half was the acquisition of BetAmerica.

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

Okay, good, that's helpful. Thank you very much.

Operator

Thank you, and that concludes our question and answer session for today. I'd like to turn the call back over to Bill Carstanjen for closing remarks.

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

Great, thank you. Everybody, thank for being on the call. Thank for investing in our company, thanks for sticking with us through all that we've done. It's been a busy year, we've given you a lot to chew on in 2017, especially recently, and I hope we give you more to chew on going forward. But again, thanks for your confidence in our management team and in our company. We appreciate it. We'll try to be good stewards of your investment. Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program and you may now disconnect. Everyone, have a great day.