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CHDN - Q1 2018 Churchill Downs Inc Earnings Call

EVENT DATE/TIME: APRIL 26, 2018 / 1:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Churchill Downs Incorporated 2018 First Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

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

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

Thank you, Katrina. Good morning and welcome to our 2018 first quarter earnings conference call. After the company's prepared remarks, we will open the call for your questions.

The company's 2018 first quarter business results were released yesterday afternoon. A copy of this release announcing results and other financial and statistical information about the period to be presented in this conference call, including information required by Regulation G, is available at the section of the company's website titled, "News" located at churchhilldownsincorporated.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 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 Bill Mudd, our President and Chief Operating Officer; Marcia Dall, our Chief Financial Officer; and Brad Blackwell, our General Counsel.

Today I will focus on our operating performance and our plans to grow each of our business segments. Marcia will then provide additional details on our first quarter earnings, which should further 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.

To start, we are pleased with our operational performance in the first quarter. We had several strategic initiatives underway over the second half of 2017 through the first quarter of 2018 and it was very important for our business teams to stay focused on executing our plans during this period. Our 3 business segments grew net revenues 13% over the first quarter of prior year to $189 million and grew adjustment EBITDA 36% to $49.2 million.

Turning to the Racing segment, the first quarter is always very quiet. What is most important to the company and our Racing segment is the upcoming Kentucky Derby, a week from this Saturday. As you may recall, we put out a press release very shortly after each Kentucky Derby covering the key operating and financial results for the event. Please be on the lookout for that after this year's Derby.

Beyond the financial results, we are trying to improve everything we do around the Kentucky Derby. We have 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.

For this year's Derby, we are executing the first portion of our $32 million project to significantly improve the transportation of our customers to and from the facility. 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 hope will wow you, not only from an aesthetic perspective but also with respect to ease of entry and exit.

We have bundled parking passes with our higher end seats to a much greater extent than we ever could before, given these site changes and our plan to utilize a large satellite parking facility approximately 1 mile from the track. Phase 2 of this project will be completed after the Derby in time for the Breeders' Cup which will be held at Churchill Downs on November 2 and 3.

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, which is a good thing because all of the suites are sold.

Our strategy for long-term growth of the Derby is to invest in projects that help our guests to feel a part of our iconic event, and to experience as a participant, not just as a spectator, that unique magic and mystique that is the Kentucky Derby. We think there are many avenues to continue to grow our signature event and our team is engaged in numerous growth initiatives that we will speak about publicly when it is warranted.

Turning to our TwinSpires segment. Our market leading TwinSpires team once again showed significant handle growth, up 20% compared to the first quarter of prior year. Our BetAmerica acquisition in April 2017 contributed 2/3 of this growth and the core TwinSpires business contributed 1/3. Adjusted EBITDA was up $3.3 million to $16.5 million.

The first quarter each year is simply a lead up to the much bigger second quarter when we have the Kentucky Derby and the other Triple Crown races. While we are pleased with the performance of the segment in the first quarter, our team is now solely focused on all of our operational strategies to make the second quarter successful. Our team is continuing to drive organic growth in the advanced deposit wagering or ADW space. While we benefit from the trend of horse players moving their play online from traditional brick-and-mortar outlets, this is the time of year when we can most cost effectively acquire, reengage or incent many more new or casual customers to play.

Our TwinSpires business is the official ADW partner of the Kentucky Derby, which gives us the unique ability to reach a significant number of people who are either at the Kentucky Derby or watching television or online coverage. We will continue to improve upon the strategies and tactics we have emphasized over the last few years to fuel organic growth during this special time of year. It's worth noting that we acquired BetAmerica last April, so the quarterly comparisons will be tougher from this point forward because BetAmerica will be in both periods for comparison purposes.

Turning to our Casino segment. Our casino properties delivered net revenues of $98.1 million in the first quarter, up 12% over prior year. Adjusted EBITDA was $44.3 million, up 26% compared to prior year. Other than Saratoga, which faces competition from the newer and improving Rivers Casino in Schenectady, New York, all of our properties grew their market share and adjusted EBITDA compared to prior year despite difficult weather conditions for some of them.

We have made modest investments recently in our properties to further grow our Casino segment. For example, we opened a $25 million hotel with a small floor expansion at Oxford in the fourth quarter of 2017. We also opened on December 30th, $25 million, 35,000 square foot expansion Ocean Downs with 10 live table games and 100 new slots. Additionally, we have a number of small projects underway, including a new outdoor gaming and smoking patio project at Calder and new OTBs with video poker machines in Morrow and Destrehan, Louisiana. All 3 of these projects are targeted to open in the second quarter of 2018.

We are working through the regulatory and licensing processes to complete our acquisitions of Presque Isle Downs and Casino in Erie, Pennsylvania and our Lady Luck Casino in Vicksburg, Mississippi. We had previously disclosed that we hope to close Lady Luck in the second quarter of 2018 and Presque Isle in the fourth quarter. We do not have an update at this time to those estimates but remind everyone that this timing is not within our control.

Presque Isle Downs and Casino gives us a foothold in Pennsylvania, which has recently passed legislation authorizing real money online gaming. Lady Luck, Vicksburg is immediately adjacent to our River Walk and offers us operational efficiencies in a stable region. Both properties fit our investment criteria and will be immediately accretive to our shareholders.

We are on track to complete Derby City Gaming in Louisville, Kentucky in the third quarter. This is our $60 million project to open a state-of-the-art historical racing machine facility. Ainsworth Game Technology who is manufacturing machines has begun the process of submitting the required games and components for certification. We are confident both the quality of the machines and the potential market will in Louisville.

As you know, 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 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.

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 diverse markets. We also like states that we believe may ultimately grant access to online gaming and even potentially to sports betting through the brick-and-mortar casino license holders should either form alternative gaming become legal in the relevant jurisdiction. Overall the Casino segment is performing nicely. We like this space generally and we will be conservative in how we invest in and operate our properties. We will also continue to look carefully at M&A opportunities that fit our profile.

A few final thoughts. First, we have received a couple of questions regarding the Kater litigation involving Big Fish Games. In 2015 we were granted a Motion to Dismiss the case with prejudice which the plaintiff subsequently appealed. Recently The United States Court of Appeals for the Ninth Circuit reversed and remanded the case back to the District Court. This case involves law in the State of Washington relating to whether free to play social casino games are a form of illegal gambling. Obviously, we believe social casino games do not run afoul of Washington State law. In the sale agreement under which we sold Big Fish, we agreed to indemnify the purchaser for losses and expenses associated with this litigation. Our company believes very strongly we have meritorious legal and factual defenses and we intend to vigorously defend ourselves in this matter against all allegations and requests for relief.

Next, I want to congratulate Alex Rankin, who became Chairman of the Board of Churchill Downs as of our Board of Directors' Meeting on Tuesday. I have worked with Alex closely over many years and I am thrilled for him and for the company. I also want to acknowledge and congratulate Karole Lloyd on her nomination by the shareholders to our board. She's an outstanding, deeply experienced board member and I believe will be a great asset to our board.

Regarding this year's Derby contenders there is quite a bit of buzz around the fact that many believe this is the most talented field of horse in recent memory. There have been a number of eye-popping performances that have been recorded by several of these horses and the depth of the field with demonstrated elite speed is truly remarkable. Those who know me well, know that there is no sense in asking me for my picks because given my track record, no horse or no their connections deserves to be called out by me as a favorite. That is a cruel and unfair stigma. In any case, I don't have any idea who is going to win this year, but I guarantee it will be a special race.

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

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

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

Thanks, Bill and good morning, everyone. As Bill said, I will provide additional details on our first quarter earnings and help you understand how to think about our core earnings and capital management going forward.

So turning to our first quarter results. We reported net revenue of $189 million for the first quarter up $22 million or 13% compared to the prior year quarter. Adjusted EBITDA was $49 million in the first quarter, up nearly $13 million or 36% compared to the prior year quarter. We benefited from strong contributions from each of our wholly-owned casino properties, solid performance from our equity investments in the Ocean Downs and Miami Valley Gaming and a 20% increase in handle for our TwinSpires business.

Our Casino segment contributed $9 million of increase in adjusted EBITDA in first quarter versus the prior year quarter, with our wholly owned casinos delivering $8 million of the increase and our equity investments delivering the balance. Although inclement weather resulted in a slower January for some of our properties, their strong results in February and March mitigated the impact for the quarter. A small, very focused team at corporate, helps ensure that our casino properties share and execute effective marketing and promotional best practices and they also work closely with our casino property leadership teams to maintain disciplined cost controls to effectively flex variable cost based on the revenue trends for their respective properties.

The growth in our wholly-owned casino properties in the quarter reflects some of the benefits of this approach as well as our strong property level leadership. In addition, our Calder Casino benefited from the continued closure of a nearby competitor and our Oxford Casino enjoyed the first winter with our new hotel and expanded casino floor.

Our casino equity investments also benefit from our corporate team and the leadership of the casino properties working closely together. Ocean Downs delivered strong adjusted EBITDA growth for the quarter compared to last year driven by their investment in an expanded casino floor and new table games. Miami Valley grew due to the new capacity added in the fourth quarter of 2017 and also benefited from the closure of one of its competitors for a few days due to flooding.

Turning to TwinSpires. TwinSpires contributed $3 million to the growth and adjusted EBITDA for the first quarter compared to the prior year quarter. As Bill discussed, TwinSpires' handle was up 20% for the quarter, 14 percentage points higher than the industry growth for the quarter. The acquisition of BetAmerica along with the movement of the Louisiana Derby from the second quarter to the first quarter this year helped fuel the growth in handle, which enabled the TwinSpires team to deliver a 25% growth in adjusted EBITDA for the quarter.

Turning to our Racing segment. Our Racing segment adjusted EBITDA was relatively consistent with the prior year quarter. However, there are couple things to note as you look at the Racing segment results. First as a reminder, in the first quarter last year, Fair Grounds was impacted by the equine virus that reduced the number of horses that were able to race. And secondly, we moved to Louisiana Derby from the second quarter into the first quarter this year.

Overall, we generally do lose money in the Racing segment in first quarter given we do not have live racing at Churchill Downs or Arlington in the first quarter. We will kick off the start of Derby week on Saturday night with our opening night festivities at Churchill Downs and live racing will begin May 4th at Arlington.

Reported net income, which includes the gain on the sale of Big Fish, was $182 million in the first quarter and diluted earnings per share was $12.55 in first quarter. Our adjusted net income was $15.8 million in the first quarter compared to $2.2 million in the prior year quarter, up $13.6 million, reflecting the growth in income from our continuing operations, and excluding certain transaction expenses, pre-opening costs related to our Derby City Gaming facility and the gain on sale of Big Fish, as well as the net income earned by Big Fish prior to the sale in 2018. We have included the supplemental schedule in our press release with the reconciliation to help you better understand the core continuing operating results.

Turning to cash flow, we had $56 million of cash flow from operations in first quarter, down $9 million from the prior year quarter. This decrease is due to the elimination of the Big Fish operating cash flows from the sale, the timing of payments related to Kentucky Derby and Oaks events and the fair value adjustment impacts related to the final Big Fish earned out payments that were made at the beginning of January. We had strong cash flow generation from our core continuing operations and we did not make any tax payments in the quarter.

As we look forward to the balance of 2018 for operating cash flows, there are 3 things to keep in mind. First, we will only make one cash interest payment on our bonds July this year due to the timing of when we issued the bonds. After 2018, our cash interest payments from the bonds will be in January and July. Secondly, in 2018, we will pay $59 million of tax related to the gain on sale and the impact of ASC 606 adoption for Big Fish. However, this tax will be partially offset by the $35 million tax receivable we have on our balance sheet as of December 31st.

And third, in the recent investor presentation that you can access on our website, you will see an estimated tax rate of 24.5% for 2018 based on the Tax Reform Bill that was passed late last year. We do expect to get some additional reduction in cash paid taxes from the ability to deduct a 100% of non-real property investments we make in 2018 instead of approximately 60% under the prior accelerated depreciation rules.

We spent $7.5 million on maintenance capital in first quarter, which was down $2.7 million from the prior year, primarily due to the timing of planned spending. We expect the majority of the spending to qualify for the immediate expensing provision and the new tax regulations. We are projecting maintenance capital to be up slightly in 2018 and we expect the majority of the spending to qualify for the immediate expensing provision.

Regarding project capital for the quarter, we spent $26.5 million in the first quarter, of which approximately 80% related to the work on the Starting Gate Suites and other capital improvements at Churchill Downs Racetrack and the majority of the remaining dollars were spent on the build out of the Derby City Gaming historical racing machine facility in Louisville, which is on target to open in the fall of this year. We do not expect any of this spending to qualify for the immediate expensing provision in the new tax regulations.

Our forecast for project capital spending in 2018 has not changed. We anticipate spending $125 million to $135 million, of which we estimate the $25 million to $30 million will qualify for immediate expensing provision in the new tax regulations. As I discussed on our year-end earnings call, the majority of the project capital has and will be spent on 3 projects. $60 million on the new Derby City Gaming, $30 million on the parking lot and infrastructure project and $20 million on the Starting Gate Suites at Churchill Downs. Remaining the $15 million to $25 million of project capital will be primarily focused on 2 new OTBs in Louisiana and our wholly owned casino properties.

And finally, I'll close with just a few summary comments. First, as Bill discussed, regarding our net leverage, we are currently at 2.3x, giving us significant capacity for strategic investments to support organic growth, acquisitions, dividends and share repurchases over the coming years. As we discussed on our February call, this strategic repositioning of our company in fourth quarter with an efficient capital structure and 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.

Second, we adopted the new Accounting Standard on revenue recognition, known as ASC 606 on January 1st of this year using the modified retrospective method, which simply means that we are able to adopt the new standard and record any historical adjustments as a result of the adoption of the new standard to equity as of January 1st. I would like to point out that although the adoption of ASC 606 will not materially impact our adjusted EBITDA and net income, there will be some modification reporting of net revenue and operating expenses in certain segments. We have highlighted these changes in our 10-Q. I encourage you to read it and follow up with us if you have any questions. And lastly, I like everyone in the room here, am excited for all of you to see the wonderful improvements that we made to Churchill Downs Racetrack this year. I hope to see many of you at the Oaks & Derby.

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

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

Thanks, Marcia. I think we are now ready to take questions for those of you that have any, so fire away.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Dan Politzer with JP Morgan.

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

So Casino performance was a lot better than I think we expected and flow through was pretty high. What factors have enabled you to improve margin there so dramatically? And are there any specific operating or marketing initiatives that you would highlight?

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

I think every location is -- Hi, Dan, this is Bill Mudd. I think every location is a little bit unique. What is consistent across all properties is the higher end customers have made more frequent trips. So they had more trips per week than what they've had in recent memory. Some of that's driven by more marketing and promotion programs, some of its driven by better weather in certain areas we have. And then even some of the improvement is driven by whether it be smoking patios of the new hotel at Oxford, all kind of comes, kind of, comes into play. It's not one thing. It's multiple things that we're doing across each of our properties and each market is unique.

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

Thanks a lot, Bill. And then just as far as your capital allocation, obviously you had a big tender offer in -- that you completed in the prior quarter. I mean given where the stock is now, is it reasonable to expect that you would be buyers of the stock at these levels or certainly below the level that you'd purchased previously?

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

Dan, that's a tricky question. We can't comment or hint about things like that looking forward. But still it's a fair question that you have in your mind, but it's hard for us to give you any guidance or comfort on that, because of rules that govern all these sorts of conversations. But I would say that we remain dispassionate and inclusive in our senior management team as we think about options that are available for our company. All sorts of different options, whether -- all that you can think of. So we continue to consider all the opportunities that are available to us, but also we believe very, very strongly in the future growth of this company. So we have to balance across the range of capital deployments that are possible. And I'm sorry I can't be more specific than that. I wish I could be. But the best I can tell you is, we think carefully about it and we believe very, very strongly in the future of our company. So I know the stock price is something everybody focuses on this call a lot. I understand that. But I believe long term always in the strength of our future, so I don't sweat it day-to-day.

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

I know there was a press release out in the last couple weeks issued by Double Down on the Kater case in Washington and also there was ISG analysis out as well, both of which highlighted a number of issues with that Circuit Court ruling on the Kater litigation related to Big Fish. Can you just provide your perspective on the point they made or possibly add anything additional regarding the case?

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

Sure, Dan. We don't usually comment on active litigation other than the disclosure in our 10-Q. But I certainly want to address your question to the extent that I can. First, I would encourage you and everybody to review the disclosure on our 10-Q which provides some background information and a timeline of events to date that relate to the case. As you know, the Double Down and the International Social Games Association or the ISGA have offered their views on the Ninth Circuit's legal reasoning. Both Double Down and ISGA disagreed pretty strongly with the Ninth Circuit's legal analysis related to the Kater case and that's their prerogative to do so. With respect to us, we strongly believe that Big Fish Casino did not violate Washington State Law and we have a very strong legal and factual series of defenses to assert as the Kater case goes forward. So as I said in my earnings comments, we're going to vigorously defend ourselves as matter against all allegations and that's all I can responsibly say at this point, Dan. But, certainly, we will keep investors informed as appropriate going forward.

Operator

(Operator Instructions) Your next question is from David Katz with Jefferies.

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

Hey, that's an easy question. Don't get many of those.

Operator

Your next question is from the line of Adam Trivison from Gabelli Company.

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

Kind of a high-level question on PASPA appeal and opening up of sports betting in regional market. Could you just give us your high-level thoughts on how you're positioning the company and how you see yourself positioned to take advantage of those changes?

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

Sure. And first, you don't ever want to count your chickens before they hatch. So PASPA is before the Supreme Court now and it's expected that the Supreme Court will rule sometime in the near future, presumably in the second quarter to give some guidance for all of us to follow these issues, what the landscape will be for sports wagering in the country going forward. And until they provide that guidance than PASPA stands as it does now and it's fairly restrictive in this country. So for us, as we stated over time and I mentioned in my comments a few minutes ago. We're very interested in online wagering where legal. We're very interested in alternative products that are made available by different jurisdictions and opening of PASPA and opening of sports wagering would be something that we would be very interested in and that we would look to pursue licenses, however, those licenses are made available, presumably tied to brick-and-mortar facilities on a state-by-state basis. We would be interested in pursuing those subject to the tax rate and other regulatory restrictions on those. So I think it would be exciting if it were possible to conduct sports wagering in this country and we will monitor it carefully. We have a lot of experience with different forms of wagering, including online wagering through TwinSpires and we think our company and our team is well situated and experienced in ancillary products in order to transition into this one if it were made available to us in this country.

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

Any update on situation in Illinois in terms of potential gaming expansion or where you think things stand there and I guess you're thinking just on the real estate value -- under Arlington and how you view that asset?

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

Well, Illinois politics has defied prediction. Generally, I would say that there is some level of discussion about expanded gaming in the state, that's something that we always are very heavily involved in and are always very thoughtful about that, that is our long-term plan for that property. That is the requirement for that property to remain as a viable asset long-term. So it's very important to us that we achieve that for that property. And I don't -- I'm not afraid of the appetite in the state for expanded gaming. I don't think it's a negative to us. I think there's a lot of interest in expanded gaming for Arlington Park, but it's caught up in a larger series of issues in the state legislature and between the state legislature and the Governor and those have to be sorted out concurrently for us to receive any benefit at Arlington Park. So we'd try to trip water. We'd try to play our cards patiently and smartly and be there when the circumstances are right for us to get expanded gaming and maybe it'll happen and maybe it won't. But certainly, the long-term viability of that property requires additional forms of gaming. Long term it is not viable as simply a racetrack. So we've been patiently working with our legislative friends to explain that to them and to discuss potential solutions for the long term.

Operator

(Operator Instructions) Your next question is from David Katz with Jefferies.

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

What I wanted to ask is, as a sort of long time follower of the stock, I think we had a discussion a few years back about where the value on the shares was and where the company was headed. And without commenting on the value, I think, we can probably agree that the market's perspective of value has changed considerably the past few years. Where the company is headed today is really the issue that we contemplate on a regular basis. Where are the avenues of growth? I know that we are building some facilities in Louisville and you made an acquisition in regional. Can you paint us a little bigger picture of what you envision the company to be in a few years in terms of size and in what kinds of businesses and what those strategic discussions look like?

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

Sure, happy to do that. We're very comfortable as a senior management team in our 3 core segments that we have now. So we're thrilled to have an asset like the Kentucky Derby. Not only is it a trophy asset, but it's an asset that has so much potential. And we see a path continued to grow it if we are smart and disciplined and focused. And we expect to do that and I think our track record so far has shown that we have been doing that. So taking our company and dividing it into segments, that's how to think about the Kentucky Derby. We still see organic growth and responsible capital projects that can drive further growth for that segment. TwinSpires, a similar story. That's a business that I think has demonstrated to all of you that there's organic growth and also it's a linchpin for our understanding and ability to conduct other forms of online wagering like we plan to do in Pennsylvania assuming we are -- we close that transaction as we expect to and in the property -- the business lines are made available to us. So those 2 segments taking them first show real organic growth and a real pathway to use that team and to use those skill sets to further grow that business -- those segments. The Casino segment, brick-and-mortar casino, we demonstrated that we can drive margin improvements. We've demonstrated that we can make smart capital investments and I think we've demonstrated that we can do smart deals there when they become available. So that's another segment that over time we've become much more comfortable with and achieved a better understanding of and built a really, really strong team under Bill Mudd's leadership. He has really pushed that team forward and really developed a lot of skills and capabilities that are helping our company grow. So I like all 3 of our segments. I think we have a lot to do, both from an organic perspective, whether it be Greenfields or otherwise, and even from M&A, to grow our company. So I think we're focused right now within the confines of our existing business segments because we see great opportunities in all 3 of those segments. I would say that having been here a while and having worked with core team here for a while, we're all very disciplined people individually and as a team. We have a long-term focus on creating shareholder value and we'll continue to do that. And I have to say right now, though, that I like the prospects if you take our business and divide it into the 3 segments, I like where we're going in all 3 segments and collectively that's a good story I hope for the company.

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

Now just to follow up with respect to the Casino space and I fully recognize that you've made an acquisition that's pending. But the big players keep getting bigger and they build loyalty programs, they're building data analytics teams. They're focused on how best they can use their scale. And it does seem that the population of smaller operators, and I realize you're not as small as the really small ones, but they're becoming the endangered species. How do you process that matter and that issue and do you contemplate the notion of a potential larger step to build a little more scale with that could reflect the brand, a loyalty program, players card those sorts of things in the future?

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

I don't think there is a single roadmap for success. I think, we as a team, pay attention to what we see in the space and what we see other people doing. And in fairness, we have followed a slightly different model than most of them. We have a very disciplined filter for how we look at deals. We generally have shied away from the really large individual property deals. We generally wanted -- we generally focused on smaller properties, smaller bets, markets we understood, stable tax rates et cetera. We've generally followed a path that works for us over a number of years. But at every time we always talk about different paths or who's doing it better or who we should emulate and who we can learn from, and we will continue to do that. But I do think the model that we have followed for building our casino company is been very, very focused on the returns we thought we could generate on the efficiency of those deals, on the best application of capital versus other avenues where we can place that capital, and that's how we've built that company. So that's first and primarily -- first and foremost how we do it. But we do pay attention to what other people are doing so that we can learn from them. But we tend to be, I think, very focused on what is the best application of our capital vis-à-vis our alternatives and I think that's a good way to be. I think it works for us. It's great to see other people in the space have lots of success and get bigger and all of that. And I hope we continue to grow our company because we have efficiently grown it by every metric over the last number of years. But I think, in some sense, we started from a smaller place than some of these other companies might have. So we'll keep doing what we're doing because it works for us. But I don't want you to think that we don't pay attention to others or we don't understand what others are doing. We do, we watch them. It's just, it's not one size fits all. Everybody has their different criteria and their different philosophies for what they are doing and so do we. So I think, Bill -- as we've acquired more properties, Bill Mudd has maybe the case that it was important to build some centralization to drive efficiency in margins and it keeps improving when we add those resources that it does drive those things. So I think that's part of it as you pick up more properties. But fundamentally it's not about getting as big as possible. It's about efficiently growing and allocating our capital in the most efficient, responsible way that we can.

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

And I'll apologize, I know -- my sense is that this issue may have come up already. But I did want to just ask a question about sports betting since it's been really a heightened focus among our clients and for us as well. And I wanted to try and be just a little more specific about what roles within the value chain you expect to potentially play? And I suppose what I'm asking is, would you play role that includes the bookmaking aspect of it for yourselves and I assume that you -- I'd love to hear you just talk about how big an opportunity this might be for you. Is this a game changer or is it a nice opportunity or is it incremental?

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

Well, first, it's always tough on these calls to talk about hypotheticals and it's potentially dangerous to talk about hypotheticals.

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

It's the best part, Bill.

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

I understand. I think we'll have to wait and see what happens with the Supreme Court case because that really will drive the potential scope of the opportunity. So sometimes I think people talk about that in black and white. PASPA is going to be overturned or PASPA is going to be confirmed. Well, it might be something in between. It might be something in the middle. We'll have to wait and see what the Supreme Court does in this case because that really is the driver of the potential opportunity. To the extent that there is an opportunity for expanded wagering, including sports wagering, sports betting, for us, it looks to us like it's likely that that will be a state-by-state determination potentially driven by access to a brick-and-mortar gaming license. We have some of those and I think we have a fairly good understanding of how the product works, but of course, we don't currently operate or offer anywhere in the world sports wagering. And our thought on that is, to always offer when we do have a product. We want to make sure we offer a best-in-class product, a sophisticated of product is we can make available in the market. And so we don't take any pride as to, well, we have to build that ourselves versus outsource some of that capability, you mentioned bookmaking. We will have to evaluate it at the time. But our perspective on this would be to offer as a competitive of a product as we responsibly could offer if we were allowed to offer such a product, and we're not hung up -- we are not dogmatic on where we get that product from. We will seek with our teams to identify the best customer offering that we can come up with and then the best marketing programs around that offering to give us the best opportunity to be successful. And I'm sorry I'm being vague. It's just we're building hypotheticals upon hypotheticals and all I can do is talk philosophically and conceptually until there's more meat around the potential opportunity, which will -- as in the gambling space in general, the opportunity is really something that is at the discretion of the state or the regulatory authority, so you always have to wait for them to provide guidance on the parameters that you can do business. Thank you. Appreciated.

Operator

There are no further questions at this time. I now turn the call back over to Mr. Bill Carstanjen.

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

Thanks, Katrina. Thanks, everybody for joining us this morning, for investing in our company or thinking about investing in our company. We always appreciate your feedback and we also appreciate your investment. So with this, it's happy Derby as far as I'm concerned. We're going to put all this aside and go get busy and have a great Derby. So happy Derby everyone. I hope to see many of you out there and if you're not out there at the track, then open up your TwinSpires account and participate online and watch us on television. Thanks, everyone. Bye-bye.

Operator

This concludes today's call. You may now disconnect.