

# GGH Morowitz Perspectives

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Atlantic City Market Outlook & Forecast Executive Summary  
**April 2018**

**GGH MOROWITZ**

# AC Market Outlook & Forecast - Executive Summary

## The Market

- Recent economic and competitive conditions, and performance of casinos in Atlantic City point to a stabilization and potential resurgence of the City's casino industry.
  - Each of the seven Atlantic City casinos reported positive EBITDA in 2017 and industry EBITDA reached \$602 million in 2017, up from less than \$100 million in 2013 and the highest level since 2009.
  - The market and all of the casinos have been buttressed by a consolidation in the industry which saw the total number of casinos operating decline from twelve in 2013 to the current seven.
  - Additionally, internet gaming has become a major driver of profit growth and internet gaming revenues are expected to reach over \$300 million by 2019.
  - Despite the strength of the gaming market today, profits remain highly concentrated with the Borgata accounting for almost half (46%) of industry EBITDA.
  - The casinos in Atlantic City are located along the Boardwalk and in the Marina district. The Marina district casinos (including the Borgata) account for almost two thirds of industry profits.
- Atlantic City has long been dogged by competition. Casino gaming in Pennsylvania and New York, the two key feeder markets for Atlantic City, eroded gaming revenues from \$5.2 billion in 2006 to their current level of \$2.5 billion and EBITDA declined from a peak of over \$1.3 billion to the aforementioned \$100 million before recovering over the last several years. These competitors fundamentally changed Atlantic City from a high-frequency gamer market to a destination, weekend oriented market.
- The city is undergoing a resurgence, led by the strength of the remaining casinos, new gaming development (see below) and significant investment in non-gaming attractions and unrelated industries. Two repositioned casinos are slated to open during the summer of 2018 and the former Showboat is considering re-entering the gaming market as well.
- The first three months of 2018 have injected some uncertainty to this story. The opening of a destination resort in the Catskills and a casino in Long Island as well as bad winter weather have had some impacts on Atlantic City brick and mortar revenues (a 5.9% decline)

## What's on the horizon?

- The opening of Hard Rock (former Taj Mahal) and Ocean Resort (former Revel to be branded as Hyatt Unbound) with higher end amenities and signature entertainment should broaden the market and grow gaming revenues. The question is how much, and how will other casinos be affected.
- The continued specter of competition in northern New Jersey remains a risk for Atlantic City. Atlantic City must continue its evolution in order to insulate itself.
- Sports wagering looms large as a potential differentiator.

## What does the future hold for Atlantic City casinos?

- We anticipate a few key developments as Atlantic City absorbs its new casinos and grapples with continued competition. In the short run (next 3 years) assuming no north Jersey casinos and the eventual opening of a casino in Philadelphia we anticipate the following:
  - Atlantic City gaming revenues will grow by between 0.8% to 14.1%
  - Internet gaming revenues may eventually top \$350 million based on current growth rates
  - Non-gaming revenues will continue to grow in importance
    - Occupancy rates should range between 83% and 87%
    - ADRs will remain at current levels and might even increase slightly due to enhanced room product at new casinos
    - The MICE market will continue its recent growth trend
  - Net margins will decline
    - Promotional allowances and free play will spike up again
    - Labor costs will increase
    - Internet margins will decline with additional casinos
    - Concentration of EBITDA poses a challenge for existing casinos with potential revenue declines and pressure on operating costs.
  - There will be some cannibalization (4.1% to 28%) of legacy casinos. Weaker casinos will either re-invent or perish.
  - Sports wagering if approved, along with and potentially combined with internet gaming, can provide a significant boost, depending on how it is rolled out, the ability to pry customers away from existing illegal gaming sites, how the state regulates, taxes and licenses it, how revenues are split with partners, and what neighboring states do.

## What are the most likely scenarios for revenues in the future?

- The table below summarizes the range of potential revenues based on several operating scenarios.
- The key takeaway is that revenues should grow but the range of growth will depend on a host of factors.
  - In almost all scenarios, we expect legacy gaming operators will experience cannibalization. The extent will be dependent on the ability to leverage the growth expected from new supply, internet and potential sports wagering.

	Slot/TG	Slot/TG w/ Sports	Internet	Sports	Sports w/ Internet
Base Case	\$ 2,640,267,928	\$ 2,755,479,619	\$ 340,409,890	\$ 63,366,430	\$ 250,579,212
Mean	\$ 2,608,255,861	\$ 2,727,322,078	\$ 343,716,682	\$ 62,643,072	\$ 242,619,903
Median	\$ 2,614,346,428	\$ 2,729,606,620	\$ 342,998,110	\$ 62,579,781	\$ 241,182,920
Standard Deviation	\$ 66,241,557	\$ 79,037,578	\$ 8,399,946	\$ 9,797,001	\$ 53,136,514
Minimum	\$ 2,435,305,959	\$ 2,500,894,589	\$ 325,106,850	\$ 38,341,565	\$ 102,435,244
Maximum	\$ 2,752,145,399	\$ 3,041,175,268	\$ 365,447,504	\$ 89,432,925	\$ 417,321,935

# General

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# General

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