

26 April 2017

North American Research

# Global Gaming Operators

Industry Update

## Massachusetts/Connecticut Gaming Update

- MGM Springfield on track and on budget
- MGM expected opening September 2018
- CT legislature considering gambling expansion via competitive bidding process
- Under penetrated NYC area likely to draw substantial interest from major casino operators
- Several major operators bid over \$500m for NY license near Manhattan in 2014

## Industry Update: CT gambling expansion, MGM Springfield on track

We have recently visited the MGM Springfield site and met with property management to get an update on the project. The building was topped off at the end of March, scheduled to be completely enclosed by this fall, on track to open in September 2018, and on budget (\$865m excluding land).

In our second visit to the site since construction had started, we can begin to see the early days of a transformation in Springfield. Residential development is picking up and more retailers are starting to move in to the city. We expect the revitalization will take some time, anchored by MGM Springfield, but progress is apparent.

While we wouldn't expect MGM Springfield to hit the ground running out of the gate like its sister property in National Harbor, we do think the opportunity is underappreciated and think the asset could be a sleeper. Being located directly downtown on Main Street in an urban market is advantageous. Not to mention, the over 100,000 cars that travel past the property on the I-91 and I-291 corridors every day. We believe some key fundamentals of the city are often overlooked, including the recent retention of an AHL team, the reopening of Union Station, and the opportunity to yield up the Mass Mutual Center. Further out, with MGP as a capital partner for MGM, we see the opportunity for accelerated returns in a sale-leaseback transaction after the property ramps.

The biggest risk facing the Springfield development today is the threat of a potential casino going up just over the border in East Windsor, CT. However, it is unclear to us today whether the East Windsor project will get approved or if the state will launch a competitive process to award an additional gaming license. We question the viability of a development in East Windsor and if it would be able to grow the market or just cannibalize the existing operators.

Ultimately, we think the state takes the proven path of authorizing a competitive bidding process like nearly every other jurisdiction in recent history. Most recently, New York and Massachusetts have run competitive RFP processes to award casino licenses that have attracted significant interest and levels of investment.

In fact, we believe there are a number of operators watching the legislative developments in CT closely. Given the substantial level of interest in the Orange County, NY opportunity (60 miles from Manhattan) in 2014, we suspect a license opportunity in CT would attract significant attention from operators and developers to the southern part of the state given the proximity to the population and wealth centers in and around Manhattan.

In 2014, Caesars, Full House Resorts, Rush Street Gaming, Penn National, Cordish and Genting had all proposed sizeable casino resort developments located 50-60 miles from New York City. Assuming the tax regime and regulatory framework for a potential third casino in Connecticut is reasonable, we believe there would be strong interest from major operators, particularly given the limited casino development opportunities in the US today.

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\*Please see analyst certification and required disclosures starting on page 4 of this report.

## ***MGM Springfield Development Progress***

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We recently met with property management and got a fresh look at the building since it was topped off (on March 29) along with an update on programming, budget and timeline. Construction is moving full speed ahead and is on budget (\$865m excluding land and capitalized interest) and on track to open in September 2018. The mild winter in New England allowed construction to move ahead mostly uninterrupted. The building is expected to be fully enclosed this fall with the parking garage likely to be completed by early 2018. From there, the interior fit and finishings will ramp up.

While we certainly wouldn't want to get expectations out of line, we do think MGM Springfield could be a sleeper given the lack of investor focus on the project today. Most importantly, Springfield will provide MGM with a nice growth driver at the end of 2018 and into 2019 to supplement growth from the ramp of MGM Cotai. We think the line for the new Springfield property is at \$100m of EBITDA. In the long-run, we would take the over, but we do realize it might take more time to ramp given the limited reinvestment in the city in recent years. That said we are beginning to see signs of reinvestment into the city, particularly with retailers beginning to move in on Main Street and residential construction.

**Springfield beginning to transform.** We think the potential of the Springfield market is being overlooked and see upside with the urban revitalization already underway, including retail reinvention along Main Street, the reopening of Union Station (expected later this year) after being shuttered for decades, and the retention of the American Hockey League team (Springfield Thunderbirds). In addition, we see an opportunity to yield up the multi-purpose Mass Mutual Center to drive incremental events and convention business to the market. Overall, Springfield is an urban market with the diversity and employment base (including shift workers) that really support a 24-hour casino operation unlike rural regional markets that generally do not see as much business during late night/early morning hours.

**Upside in valuation to boost returns.** When Massachusetts first awarded MGM a license to build and operate a casino in Springfield, the company did not yet have its REIT partner (MGP). While some investors may be more cautious on the operating outlook of the new property, we believe the market is underestimating the returns Springfield can generate for MGM in a sale-leaseback transaction with MGP.

Ultimately, the likely monetization of MGM Springfield with MGP should serve as both a deleveraging event and valuation driver that we believe is overlooked today. We would ascribe a blended multiple of at least 10x-11x EBITDA to capture the value of a sale-leaseback deal. We suspect the eventual monetization of MGM National Harbor would provide a template for the accelerated returns attainable by Springfield and could begin to see more enthusiasm for Springfield once the Street has a better grasp on what a monetization event would look like for one of the ROFO assets under MGM's master lease with MGP.

## ***Update on Connecticut Gambling Expansion***

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**While we are feeling good overall with the progress of MGM Springfield, the prospective third casino in CT remains the primary concern.** The legislature has seen three separate bills so far regarding the potential expansion in the state. Two of those bills include opening up a competitive process for a casino license in the state while one bill still focuses on allowing the state's two existing gaming tribes to open a joint operation in East Windsor along the Massachusetts border. We question the viability of a casino located in East Windsor near the Massachusetts border, particularly facing the competitiveness of MGM Springfield and level of supply in the nearby market when considering drive times to the existing Connecticut casino operators.

**We question whether a casino in East Windsor would actually help CT retain gaming dollars or just cannibalize the existing tribal operations.** When considering the Wynn Boston project will also likely cut into Foxwoods and Mohegan Sun, we would expect CT could take a more strategic approach to gambling expansion and open up the process and geography. Adding more supply along the MA/CT border would do very little to grow the market, if at all, and create an unfavorable supply/demand dynamic when considering MGM Springfield, Plainridge Park, Wynn Boston, the Twin River project in Tiverton, RI, the existing Twin River property in Lincoln, RI and the two Connecticut casinos, Foxwoods and Mohegan Sun. That said it is unlikely a casino in East Windsor would generate any meaningful incremental revenue for the state.

**The NYC market remains underserved and undersupplied.** Considering the proximity to NYC, and the wealth and population centers in and around NYC, we believe there would be notable interest in a potential casino license opportunity in Southern Connecticut. Given the limited availability of new casino licenses and opportunities for expansion in the US, coupled with the favorable demographics of the NYC market area, most all major casino

operators would need to consider a CT gaming opportunity, assuming the regulatory framework, licensing process and tax regimes all make sense of course. In fact, a number of operators have already indicated they are keeping a close eye on how the Connecticut issue plays out.

**Expecting a competitive process to be preferred method of expansion.** While the CT state legislature is embattled with how to deal with recent competitive gaming incursions, ultimately we would expect CT to run a formal process to evaluate gambling expansion like nearly every other jurisdiction in recent history. The competitive RFP process has been a proven method for attracting the most level of interest and highest investment levels in recent history, with Massachusetts, New York and Singapore all relevant examples.

Massachusetts had run a licensing process that yielded three premier gaming companies, including MGM, WYNN and PENN, which created a favorable geographic landscape allowing companies to invest big dollars in the state, totaling upwards of \$3bn.

We have already heard from a number of casino operators that they would be interested in competing for a gaming license in Connecticut. In fact, 22 companies submitted applications for four available casino licenses up for bid in New York in 2014 during the state's competitive RFP process. Substantial investment proposals had been outlined for the counties nearest to New York City, but ultimately licenses were awarded to Upstate locations as the state stayed true to its mission of stimulating economic development and tourism to other regions in New York. That said we would suspect many of the same operators that bid for a NY license within striking distance of New York City would likely be interested in a Southern CT license, including Caesars, Genting, Penn National, etc.

**Notable New York State Bids in 2014:**

- Caesars New York: Woodbury, NY: \$880m proposed casino resort located 50 miles from NYC
- New Windsor Casino & Resort, Greenetrack and Full House Resorts, New Windsor, NY: \$660m proposed casino resort located 70 miles from NYC
- Live Hotel & Casino NY, Orange County, NY: Penn National and Cordish Co: \$750m proposed casino resort located 60 miles from NYC
- Sterling Forest Resort: Genting/Resorts World, \$1.5bn proposed casino resort located in Tuxedo, NY 50 miles from NYC
- Hudson Valley Casio & Resort, Orange County, NY, Saratoga Casino & Raceway and Rush Street Gaming

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