

December 2016 Las Vegas Strip Gaming Revenue Analysis

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A couple late state reports has delayed the national analysis until next month, so we start with some interesting AI news and a year-end review of the Strip before we jump into the monthly analysis.

I, For One, Welcome Our New Robot Overlords

<https://www.wired.com/2017/01/ai-conquer-poker-not-without-human-help/>

<http://gizmodo.com/why-it-matters-that-human-poker-pros-are-getting-trounc-1791565551>

The linked articles are worth a read if you have a moment. It tells of a No-Limit Texas Hold'em poker battle between artificial intelligence (Libratus is the computer) and top-rated poker players. The computer, as of the time of the articles, has a distinct (perhaps insurmountable) chip lead against its human counterparts. What's particularly interesting in this match-up, what separates it from other AI/human contests, is that this kind of play requires decision making with imperfect information and guessing what other players might try to do.

To quote from the Gizmodo article:

"Limit Texas Hold'em was "solved" by AI back in 2015, but HUNL (Heads Up No Limit) represents a much bigger challenge for AI developers. Some cards are hidden, and competitors can only see a small portion of what's happening in the game at any given time. In order to win, players have to rely on their gut instincts, guessing what other players might be doing. In other words, unlike previous game-playing AI, Libratus has to deal with uncertainties and game-playing characteristics that were considered the exclusive domain of humans."

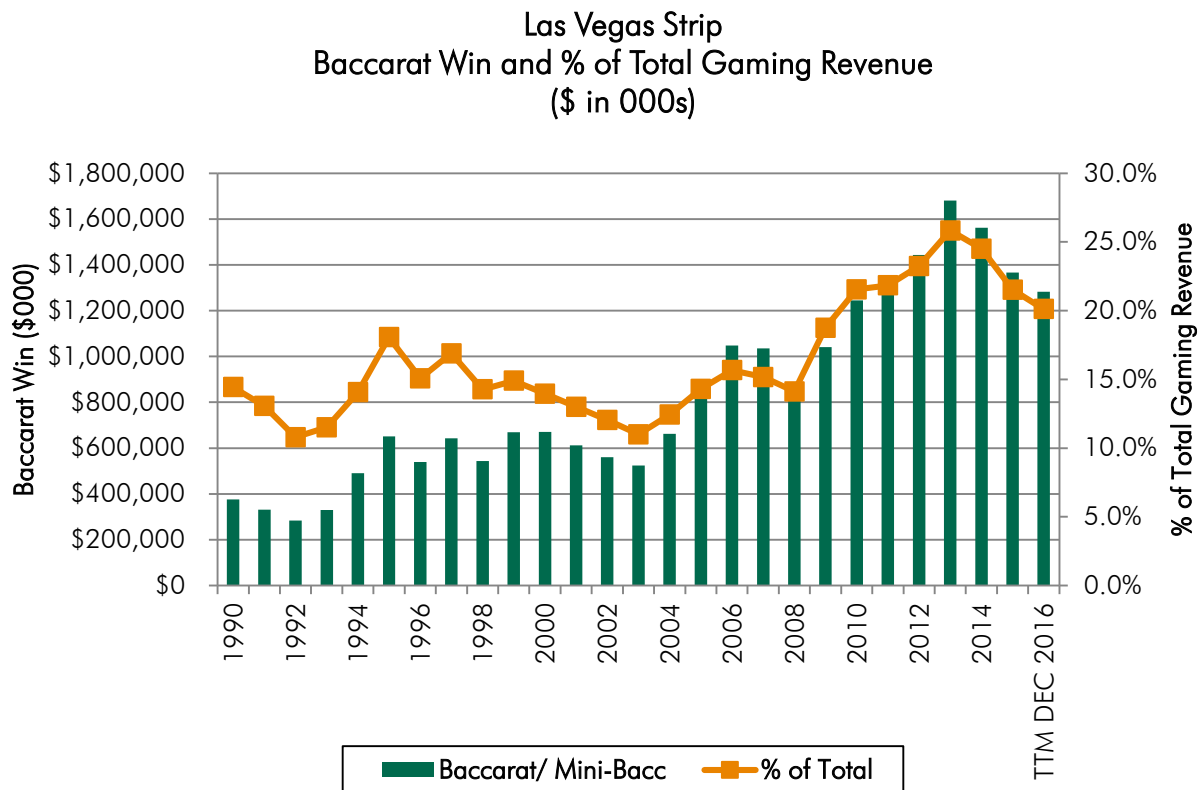
Additionally, while it is clear the computer is improving its play on a day-to-day basis, it is less clear how much help it is getting from the programmers during the tournament. Nevertheless, this kind of learning is different from the extremely narrow, closed system type learning involved in games like chess. In other words, the implication is that the computer can one day learn and apply information from real life “games” with imperfect information such as negotiation and stock trading.

Las Vegas Strip 2016 Year-End Review

As we’ve mentioned in the past, the mass market is the bread and butter for the average Strip property. The mass market was up 3.6% in 2015, which was a decent jump after anemic growth the three years prior, but mass market growth was up just 2.2% in 2016. In addition, the mass market revenue growth was fueled by better hold, rather than increases in volume. This is similar to the story last year, except at the end of 2015, slots volume was basically flat at a 0.2% increase and mass market table volume was up just 1.4%. At year-end 2016, both slots and table game volume were down (-0.2% and -4.4%, respectively).

Baccarat Struggled

Baccarat saw a 17.3% decrease in volume, but a slight improvement in the hold percentage mitigated the decline. In 2016, baccarat was 20.1% of total gaming win. In 2015, baccarat represented 21.5% of the total. At its peak in 2013, it represented 25.8% of the total. For some context, it was just 14.0% in 2000.

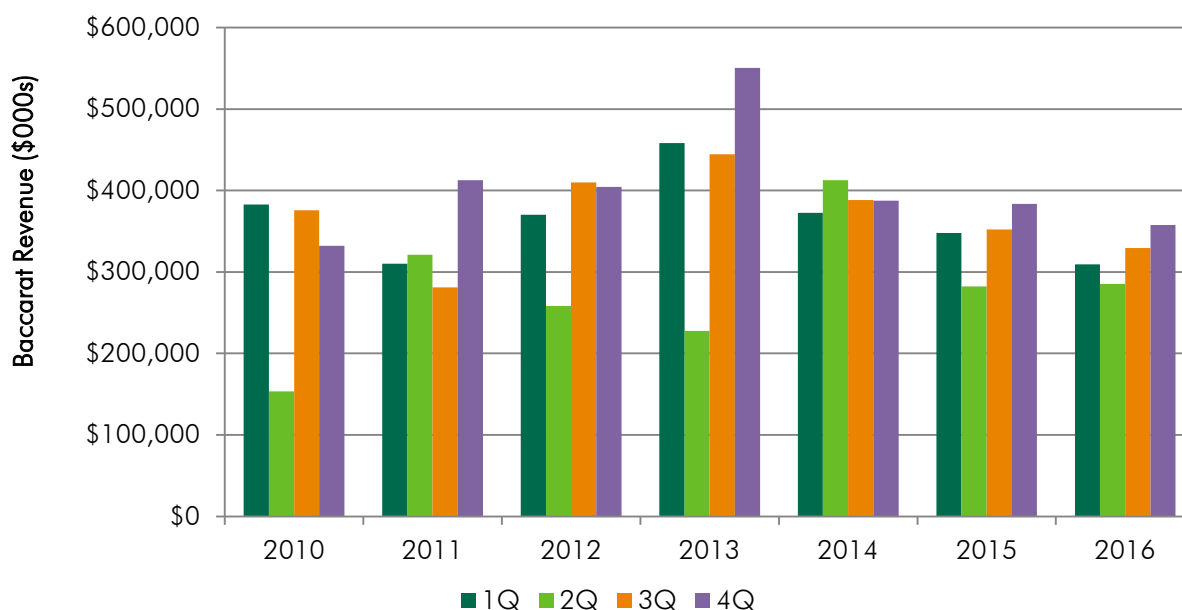


Source: NGCB; CBRE estimates

Diving a little bit deeper, we can see that baccarat revenue declined in nearly every quarter. 2013 was a record year of baccarat revenue, so the comparables since then have been tough to meet. When the Strip became more reliant on baccarat to drive top-line growth, the comparisons can't help but appear disappointing. Nevertheless, I remind my readers that baccarat goes to a small number of properties, and that the mass market performed adequately.

Baccarat	2013	2014	2015	2016	'15-'16 % Change
1Q	\$458,091	\$372,490	\$348,026	\$309,431	-11.1%
2Q	\$227,508	\$412,840	\$282,165	\$285,365	1.1%
3Q	\$444,473	\$388,469	\$352,018	\$329,433	-6.4%
4Q	\$550,534	\$387,762	\$383,794	\$357,849	-6.8%
	\$1,680,606	\$1,561,561	\$1,366,003	\$1,282,078	-6.1%

Baccarat Revenue by Quarter
(\$'000s)



Source: NGCB; CBRE estimates

Fiscal Year Abstract

The Nevada Gaming Control Board released the Abstract this month, which reports data for Fiscal Year 2016 (ending June 30).

Total revenue grew 2.2% on the Strip for the fiscal year (FY) 2016, which also set a new record at \$17.10 billion. EBITDA grew by 13.7%. The Abstract sometimes includes non-recurring or non-cash items in its "Other Expenses" (simply a function of how properties report to the Board), which can

cloud the actual EBITDA picture. If we exclude Other Expenses, we get an EBITDA increase close to 15.0%. In either view, revenue gains on the Strip this year translated to strong operating leverage.

The table below highlights the Las Vegas Strip's revenue, EBITDA and per available room statistics for the last eleven fiscal years, 2006 to 2016. Total revenue on the Strip has grown every year since FY 2011, as the national economy and customer wealth has continued to improve since then. Prior to that, total revenue fell in FY 2008, 2009, and 2010 as the national economy struggled through a serious recession. Gaming revenue on the Strip has decreased at an average annual rate of 0.3% over the last 10 years, while non-gaming revenues have increased at an annual average rate of 2.4%. Overall, total revenue on Strip has grown at an average annual rate of 1.4% over the last ten fiscal years. Revenue per available room is just 3.4% below the peak set in FY 2008.

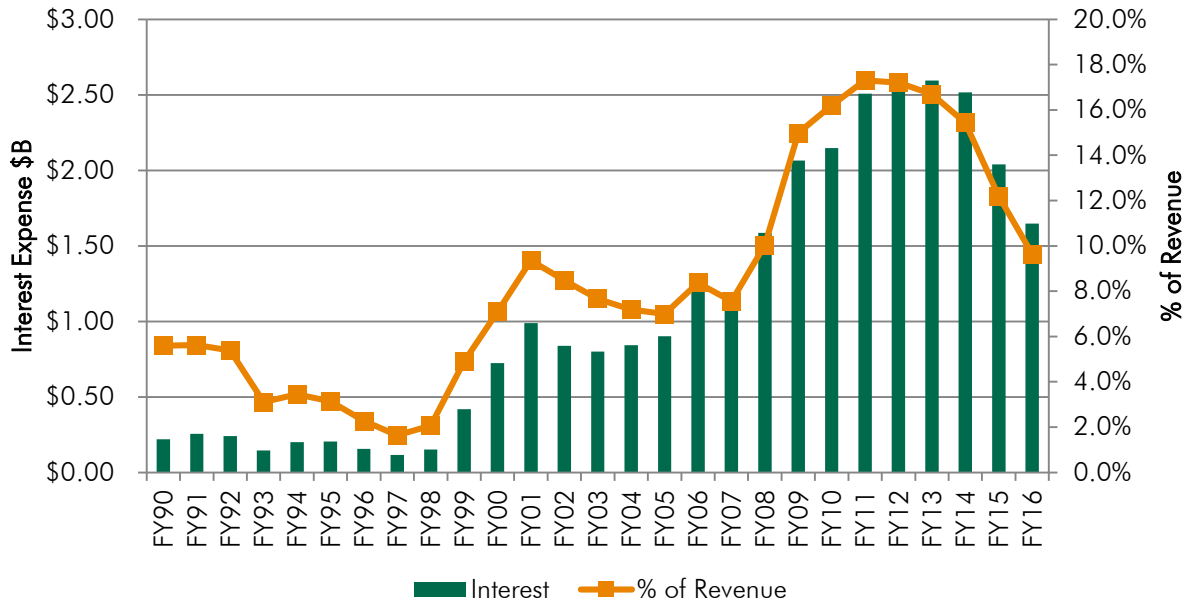
Las Vegas Strip Revenues, EBITDA and Room Statistics											
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenue											
Gaming	\$6,040.9	\$6,490.9	\$6,266.1	\$5,330.2	\$5,167.1	\$5,496.7	\$5,556.4	\$5,751.6	\$5,993.8	\$5,842.3	\$5,856.3
Rooms	\$3,849.2	\$4,082.3	\$4,070.0	\$3,370.5	\$3,106.5	\$3,517.8	\$3,864.0	\$3,928.7	\$4,251.1	\$4,468.3	\$4,809.2
Food	\$2,145.5	\$2,179.2	\$2,320.9	\$2,066.3	\$2,013.3	\$2,241.8	\$2,404.5	\$2,414.0	\$2,514.9	\$2,655.4	\$2,733.4
Beverage	\$822.7	\$890.3	\$826.5	\$847.1	\$909.6	\$1,044.2	\$1,153.5	\$1,194.3	\$1,201.5	\$1,243.5	\$1,226.8
Other	\$2,078.7	\$2,180.5	\$2,310.9	\$2,169.5	\$2,061.1	\$2,193.6	\$2,294.1	\$2,249.9	\$2,346.5	\$2,532.2	\$2,476.3
Total Revenue	\$14,937.0	\$15,823.2	\$15,794.4	\$13,783.7	\$13,257.6	\$14,494.1	\$15,272.5	\$15,538.6	\$16,307.8	\$16,741.6	\$17,102.1
EBITDA (1)	\$3,619.9	\$3,981.7	\$3,634.4	\$2,365.2	\$2,028.7	\$2,532.7	\$2,734.1	\$2,919.5	\$3,282.5	\$3,250.0	\$3,695.9
# of Available Rooms	29.9	29.5	29.0	30.2	31.3	32.7	32.6	32.7	32.8	32.8	32.5
# of Occupied Rooms	28.1	27.9	27.3	27.0	27.7	29.2	29.5	29.4	29.6	29.6	29.8
Hotel Occupancy	94.0%	94.7%	94.1%	89.5%	88.4%	89.1%	90.4%	89.9%	90.4%	90.2%	91.7%
EBITDA Change \$	\$633.8	\$361.9	(\$347.4)	(\$1,269.1)	(\$336.5)	\$503.9	\$201.4	\$185.4	\$363.0	(\$32.5)	\$445.9
EBITDA Change %	21.2%	10.0%	-8.7%	-34.9%	-14.2%	24.8%	8.0%	6.8%	12.4%	-1.0%	13.7%
Revenue Change \$	\$2,031.0	\$886.2	(\$28.9)	(\$2,010.7)	(\$526.1)	\$1,236.5	\$778.4	\$266.1	\$769.2	\$433.8	\$360.4
Revenue Change %	15.7%	5.9%	-0.2%	-12.7%	-3.8%	9.3%	5.4%	1.7%	5.0%	2.7%	2.2%
EBITDA/Available Room	\$121.15	\$135.14	\$125.22	\$78.34	\$64.77	\$77.42	\$83.89	\$89.33	\$100.19	\$99.20	\$113.59
% Change	17.3%	11.5%	-7.3%	-37.4%	-17.3%	19.5%	8.4%	6.5%	12.2%	-1.0%	14.5%
Revenue/Available Room	\$499.92	\$537.03	\$544.20	\$456.51	\$423.26	\$443.05	\$468.61	\$475.42	\$497.75	\$511.01	\$525.62
% Change	12.0%	7.4%	1.3%	-16.1%	-7.3%	4.7%	5.8%	1.5%	4.7%	2.7%	2.9%

Source: NGCB; CBRE estimates

The Abstract report also includes balance sheet data, which can help identify financial health.

Debt Levels Are Moderating

Total revenue improved on the Strip by 2.2%, while long-term debt decreased 7.8%. As operators have worked to improve their balance sheets, interest expense for Strip properties also fell 19.3% (following an 18.9% decline the year before). Consequently, interest expense as a percent of revenue fell to 9.6%, which is closer to the pre-recession range of sub-10%. At its peak in FY 2011, interest as a percent of revenue was 17.3%.



Source: NGCB; CBRE estimates

Balance sheet strength obviously varies from company to company, but high debt loads and interest payments can impede important capital spending that keeps properties exciting and relevant to repeat visitors. Consequently, most properties have focused development dollars on smaller outlays with quicker returns (new retail and restaurant space, for instance) and this trend will likely continue.

December 2016 Las Vegas Strip Analysis

This year, December had an extra Friday and Saturday compared to last year, but it is likely some collections from this year will be pushed into 2017.

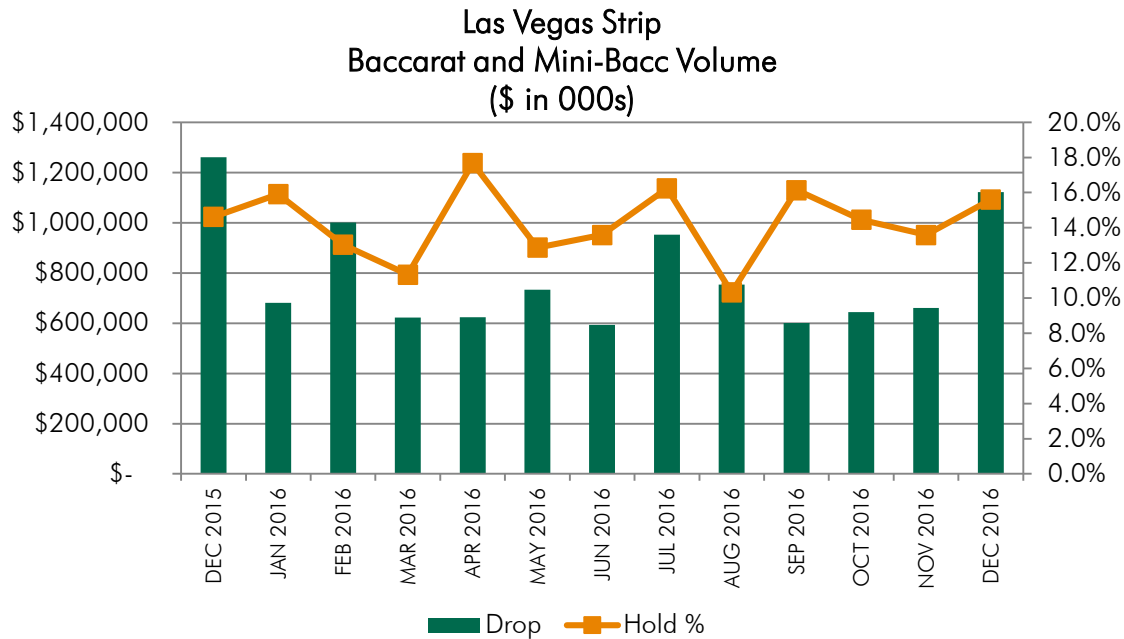
Unadjusted for luck factors and calendar issues, according to the Nevada Gaming Control Board, December 2016 revenue was as follows:

- Las Vegas Strip gaming revenue was \$590.7 million, down -1.7% for the month, but up 0.4% YTD.
- Table games revenue, excluding bacc/mini bacc, was \$141.4 million, down -3.2% for the month, but up 3.7% YTD.
- Bacc/mini bacc revenue was \$175.1 million, down -5.0% for the month, and down -6.1% YTD.
- Slot revenue was \$259.9 million, up 2.1% for the month, and up 2.0% YTD.

Mass market table games (excluding bacc/mini bacc) hold was 14.69% in December 2016, 80 bps below the hold of 15.49% in December 2015 and 57 bps below the trailing twelve-month average. Bacc/mini bacc hold was 15.60%, 98 bps above December 2015, and 133 bps above the trailing twelve-month average.

Slot volume was up 3.0% for the month, but is down -0.2% YTD. Hold was 7.03% this month, versus the 7.09% hold of last December.

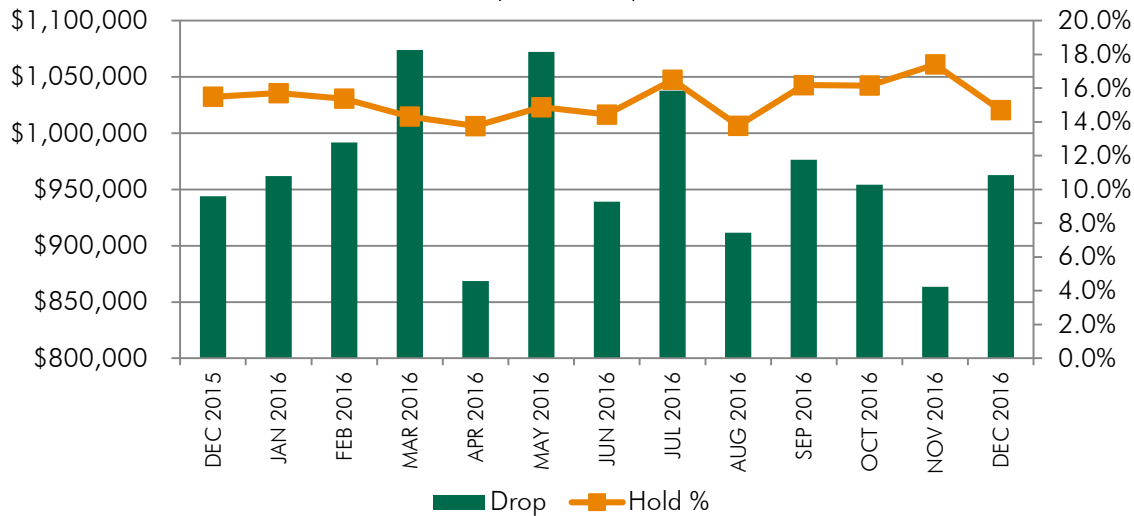
The following graphs show the drop/handle and win percentage for the Las Vegas Strip for the trailing thirteen months.



Source: NGCB; CBRE estimates

In the trailing twelve months ending December 2016, baccarat volume was down -17.3% over the TTM ending December 2015. Baccarat hold in the current TTM is significantly higher (up by 169 bps) over the previous TTM, and win is down by -6.1% in the period.

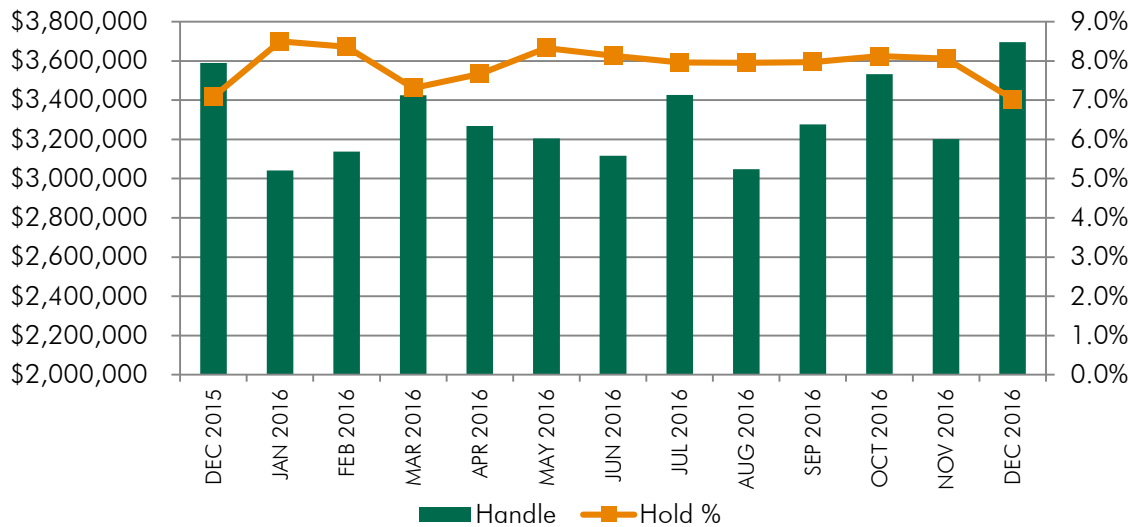
Las Vegas Strip Mass Market Table Games Volume (\$ in 000s)



Source: NGCB; CBRE estimates

Mass market table games volume was down by -4.4% in the TTM through December 2016. The hold percentage is up by 119 basis points, which pushes the TTM revenue increase to 3.7%.

Las Vegas Strip Slot Volume (\$ in 000s)



Source: NGCB; CBRE estimates

Slot volumes are down -0.2% in the TTM comparison, but win is up by 2.0% in the period, due to a 17 bps increase in hold.

Downtown Las Vegas

Downtown gaming revenue fell 2.2% this month (likely because of calendar issues), but the year was up a solid 4.2%. Table games drop (+2.8%) and slot volume (+2.2%) increased for the year, and Downtown was a pretty consistent bright spot throughout the year.

Please see the attachment for more detail on the Downtown market.

Las Vegas Locals Market

The locals gaming market was down 13.2% this month versus December 2015, which was likely due to calendar issues. For the year, the locals market was up 1.7%, and both table games and slot volumes eked out improvements (+0.8% and +1.5%, respectively).

Please see the attachment for more details on the local market.

Las Vegas Locals Gaming Revenue

<u>Period</u>	<u>Revenue (\$000)</u>	<u>% Change</u>
TTM Ending DEC 2014	\$2,097,456	-0.1%
TTM Ending DEC 2015	\$2,145,393	2.3%
TTM Ending DEC 2016	\$2,181,966	1.7%

Source: NGCB; CBRE estimates

Nevada Statewide

Nevada ended the year 1.3% above last year, with nearly every submarket showing improvement. Backing out the Strip, Nevada was up 2.4%, which is a decent showing compared to the national numbers.

Area	Trailing Twelve Months			% of State
	2015 DEC	2016 DEC	TTM % Change	
Statewide	\$11,114,911,839	\$11,256,343,180	1.3%	100.0%
Clark County	\$9,617,671,321	\$9,712,797,130	1.0%	86.3%
LV Strip	\$6,347,845,118	\$6,376,041,749	0.4%	56.6%
Downtown	\$541,747,396	\$564,637,364	4.2%	5.0%
North Las Vegas	\$271,713,118	\$275,245,862	1.3%	2.4%
Laughlin	\$467,789,570	\$472,430,400	1.0%	4.2%
Boulder Strip	\$784,351,817	\$788,078,226	0.5%	7.0%
Mesquite	\$114,319,193	\$117,718,376	3.0%	1.0%
Balance of County	\$1,089,905,109	\$1,118,645,155	2.6%	9.9%
Washoe County	\$776,410,280	\$809,714,109	4.3%	7.2%
Reno	\$570,601,948	\$596,381,110	4.5%	5.3%
Sparks	\$123,402,103	\$127,081,375	3.0%	1.1%
North Lake Tahoe	\$24,811,349	\$26,358,927	6.2%	0.2%
Balance of County	\$57,594,880	\$59,892,698	4.0%	0.5%
South Lake Tahoe	\$205,713,469	\$216,427,395	5.2%	1.9%
Elko County	\$265,817,650	\$268,606,506	1.0%	2.4%
Wendover	\$175,274,527	\$175,836,276	0.3%	1.6%
Balance of County	\$90,543,123	\$92,770,231	2.5%	0.8%
Carson Valley Area*	\$100,588,315	\$100,400,893	(0.2%)	0.9%
Other	\$148,710,803	\$148,397,144	(0.2%)	1.3%

* Carson Valley Area includes Carson City, Gardnerville, Minden and all other areas of Douglas County except South Lake Tahoe.

Source: NGCB; CBRE estimates

Please feel free to contact me if you have questions at 702.369.4803 or brent.pirosch@cbre.com.