



# HEDGEYE

GAMING, LODGING & LEISURE TEAM: TODD JORDAN, ANNA MASSION, FELIX WANG

***SLOT***HY GROWTH

OCTOBER 2013





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# BEARISH ON US SLOT SUPPLIERS



igt®

*Bally*  
TECHNOLOGIES®

WMS

SG  
SCIENTIFIC GAMES®



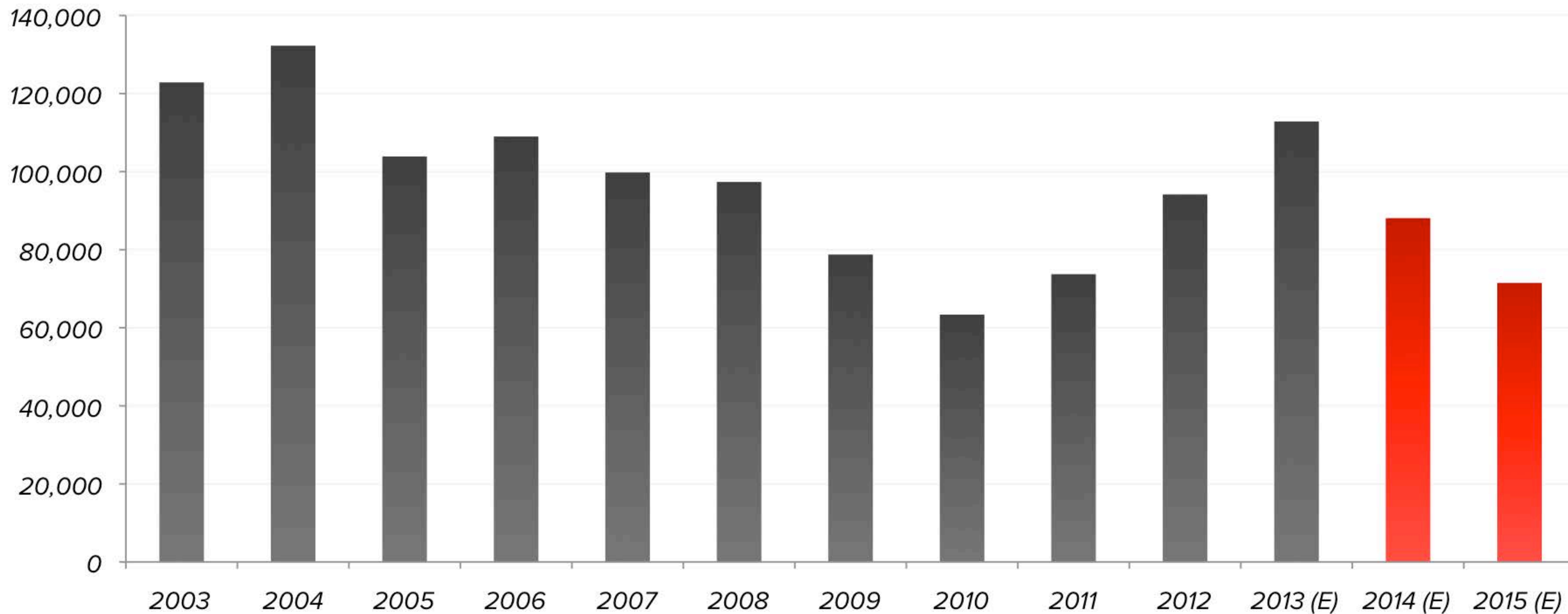


- Bad slot demographics
- Demand down, saturation up
- Stagnating replacement demand
- Fewer new casinos/expansions in 2014
- Some innovations but no real technological breakthroughs
- Fully baked pie – no pricing power
- Participation a zero ROI biz

# OVERVIEW - SLOT DEMAND



## NORTH AMERICA SLOT UNIT SHIPMENTS

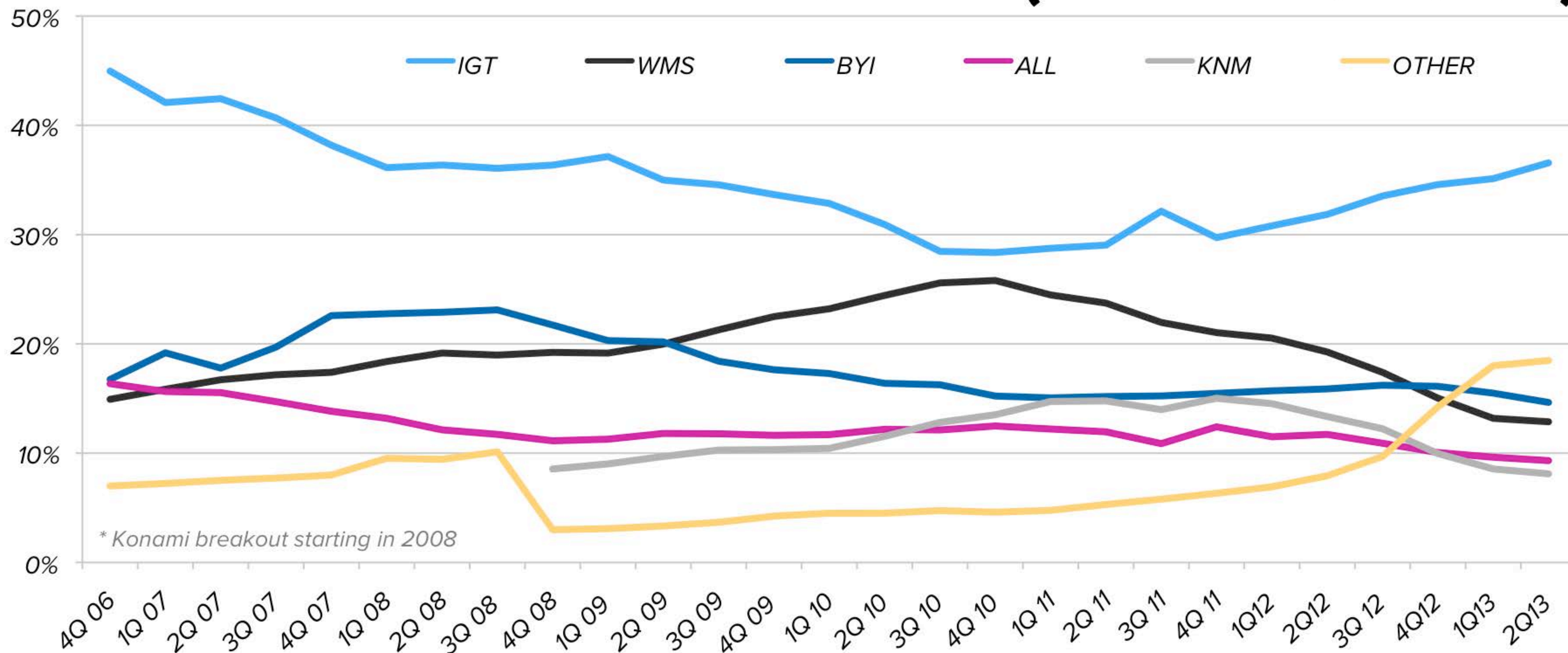




# OVERVIEW – SHIP SHARE



## SLOT ESTIMATED DOMESTIC SHIP SHARE (TRAILING 4 QUARTERS)



# BAD DEMOGRAPHICS



- **Where are the slot players?**
  - Baby boomers won't live forever
  - Efforts to appeal to younger generations have not worked
  - Video game generation not attracted to archaic technology and random outcomes



# DEMOGRAPHICS



## PROMOTION



## REALITY





# DEMOGRAPHICS



NOT COOL





# DEMOGRAPHICS



COOL



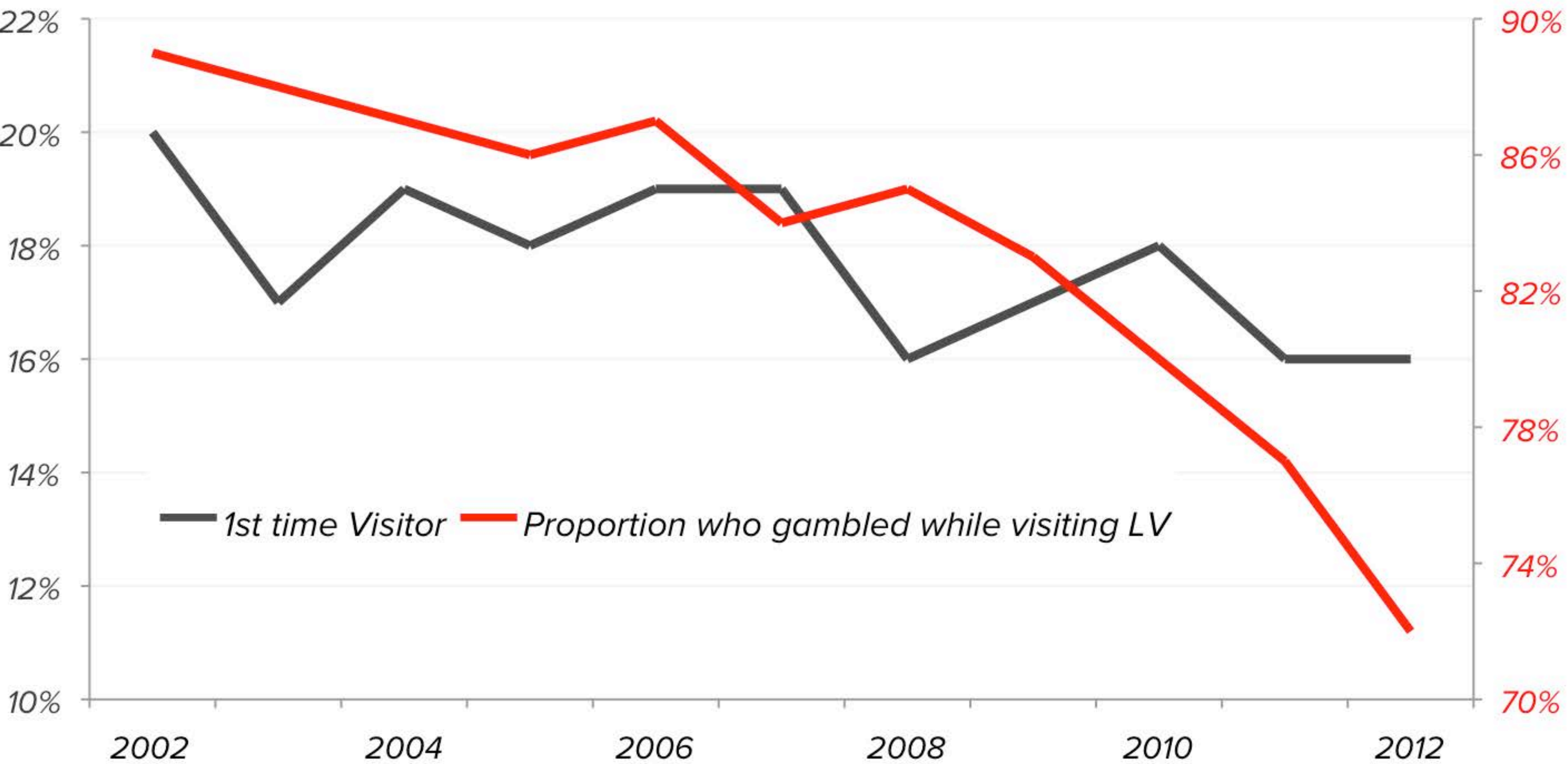


# LAS VEGAS SURVEY DATA



## LAS VEGAS MARKET

Less and less gamblers





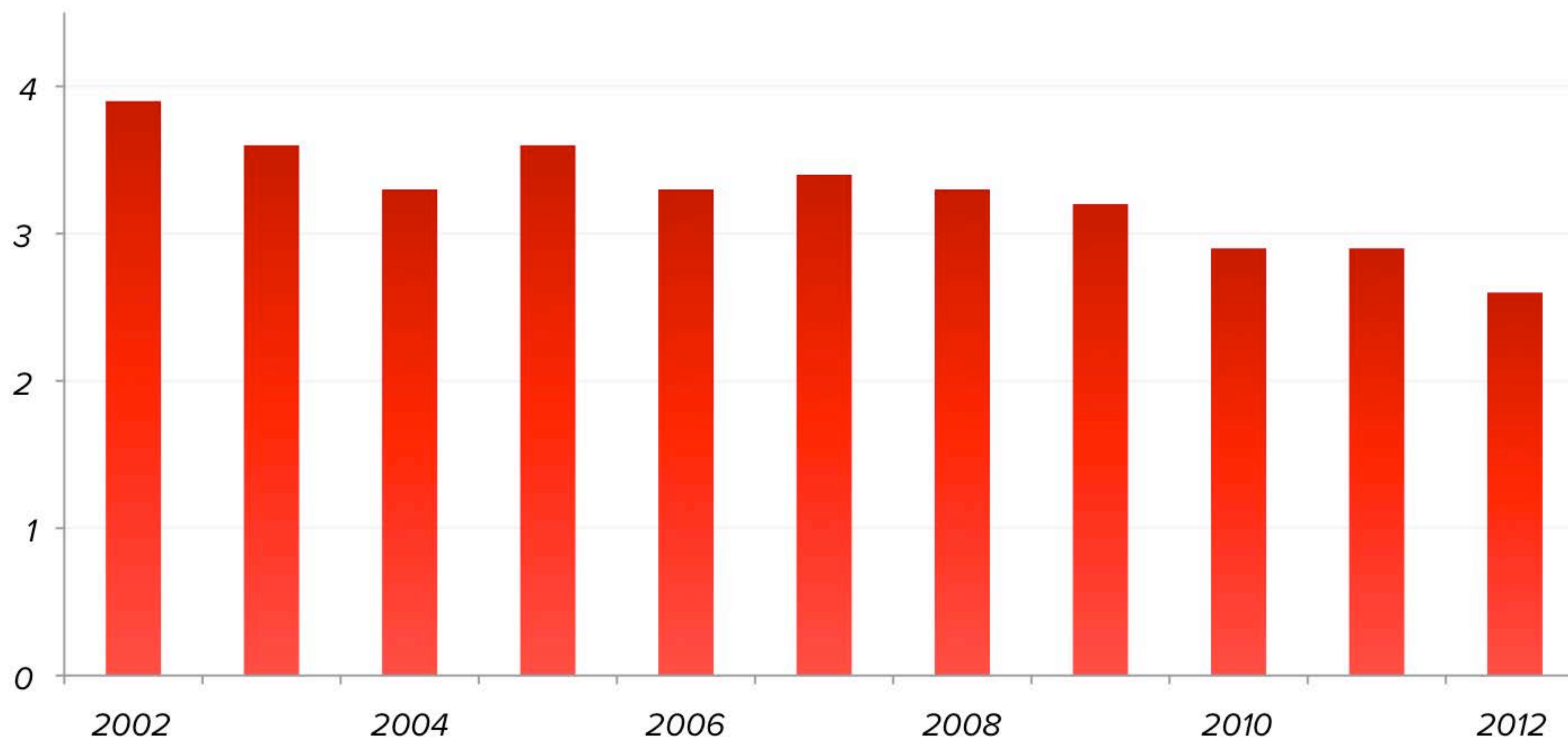
# LAS VEGAS SURVEY DATA



## LAS VEGAS MARKET

AVG NUMBER OF HOURS/DAY SPENT GAMBLING (AMONG THOSE WHO GAMBLE)

Less hours spent  
ca-chinging

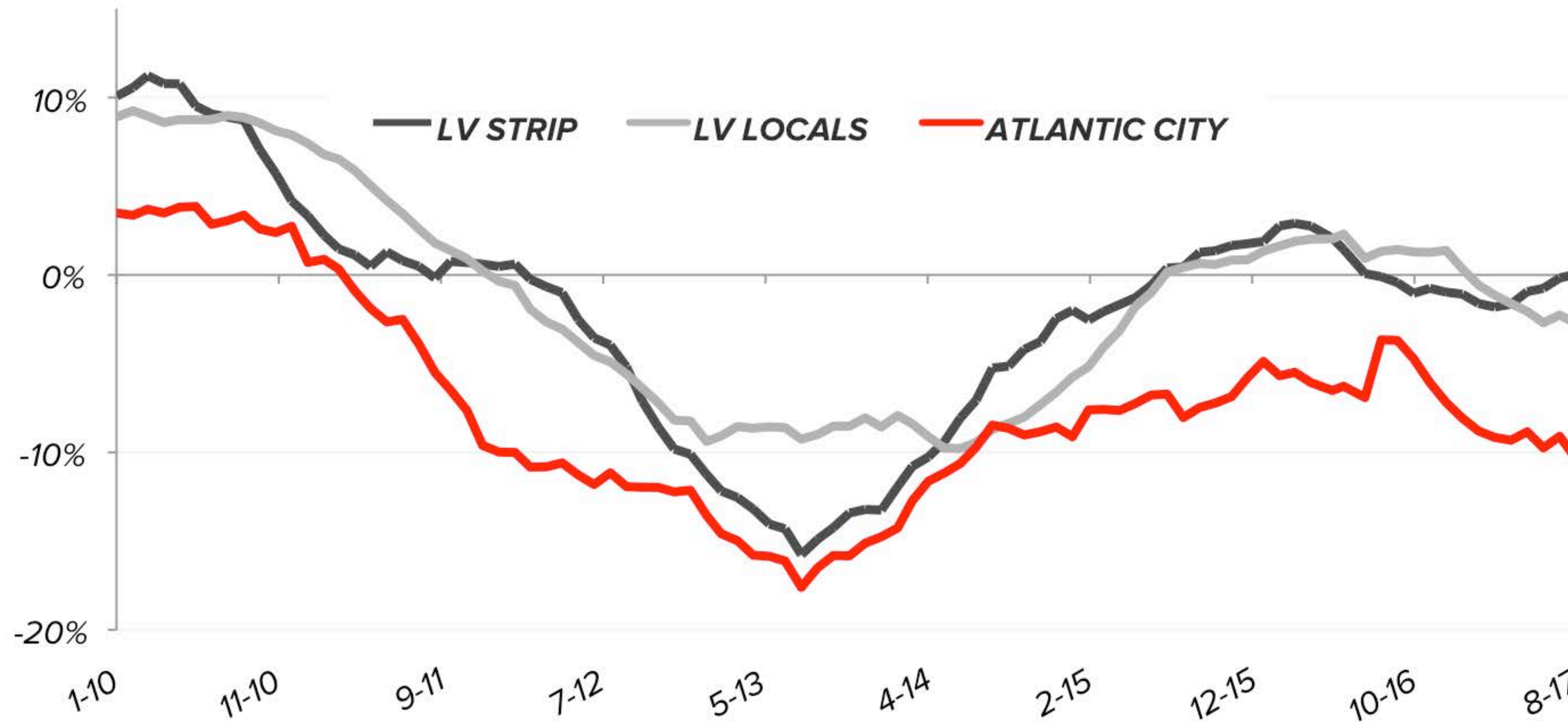




# SLOT VOLUMES



## SLOT VOLUMES YOY CHANGE (TTM)



Slumping slot volumes despite pick up in domestic economy

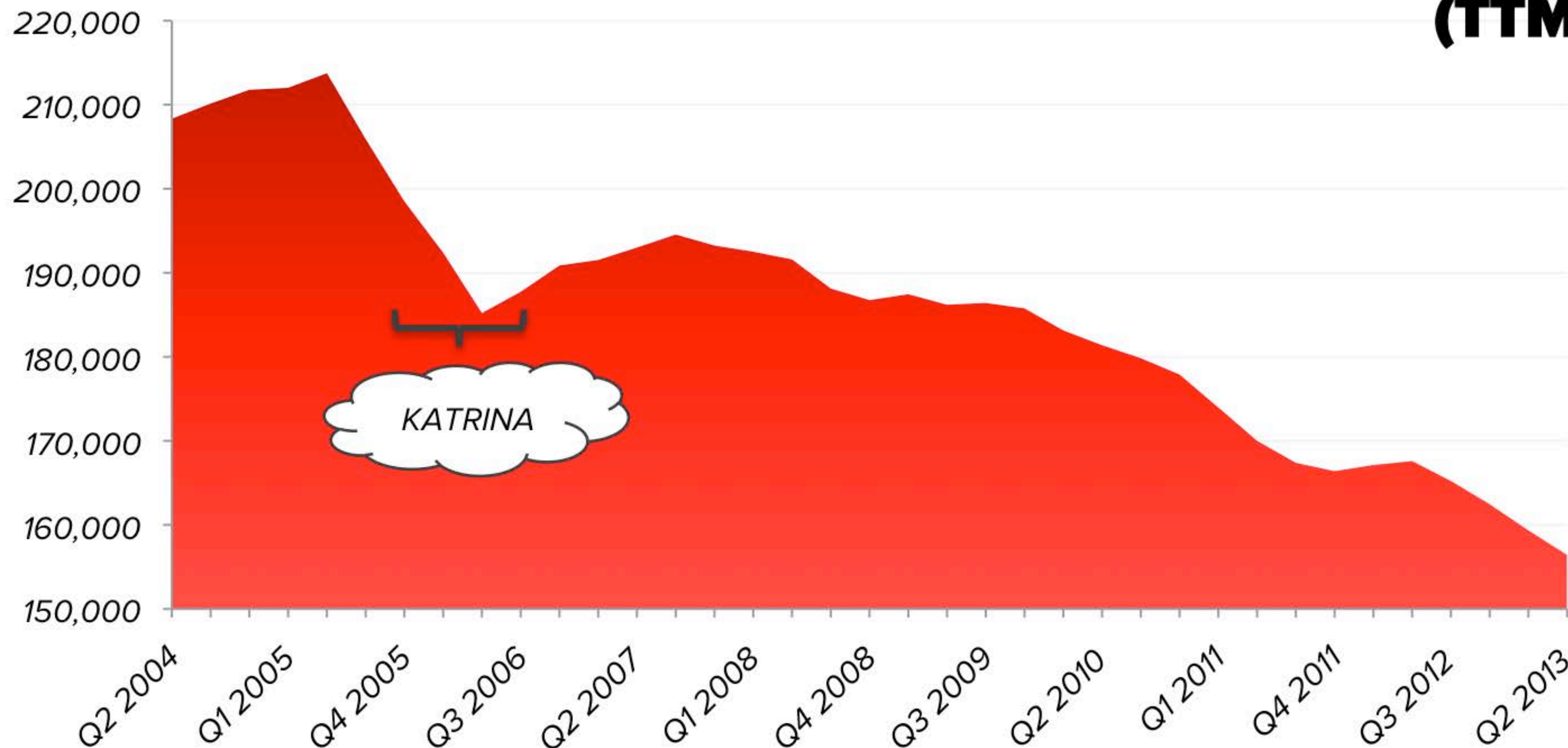


# ADMISSIONS



## MATURE REGIONAL MARKETS ADMISSIONS (TTM)

Declining admissions since late 2007





# SLOTS CONTRIBUTING LESS



## LV STRIP SLOT REVENUE AS A % OF TOTAL GAMING REVENUE (TTM)



Relative to tables, the popularity of slots is waning.

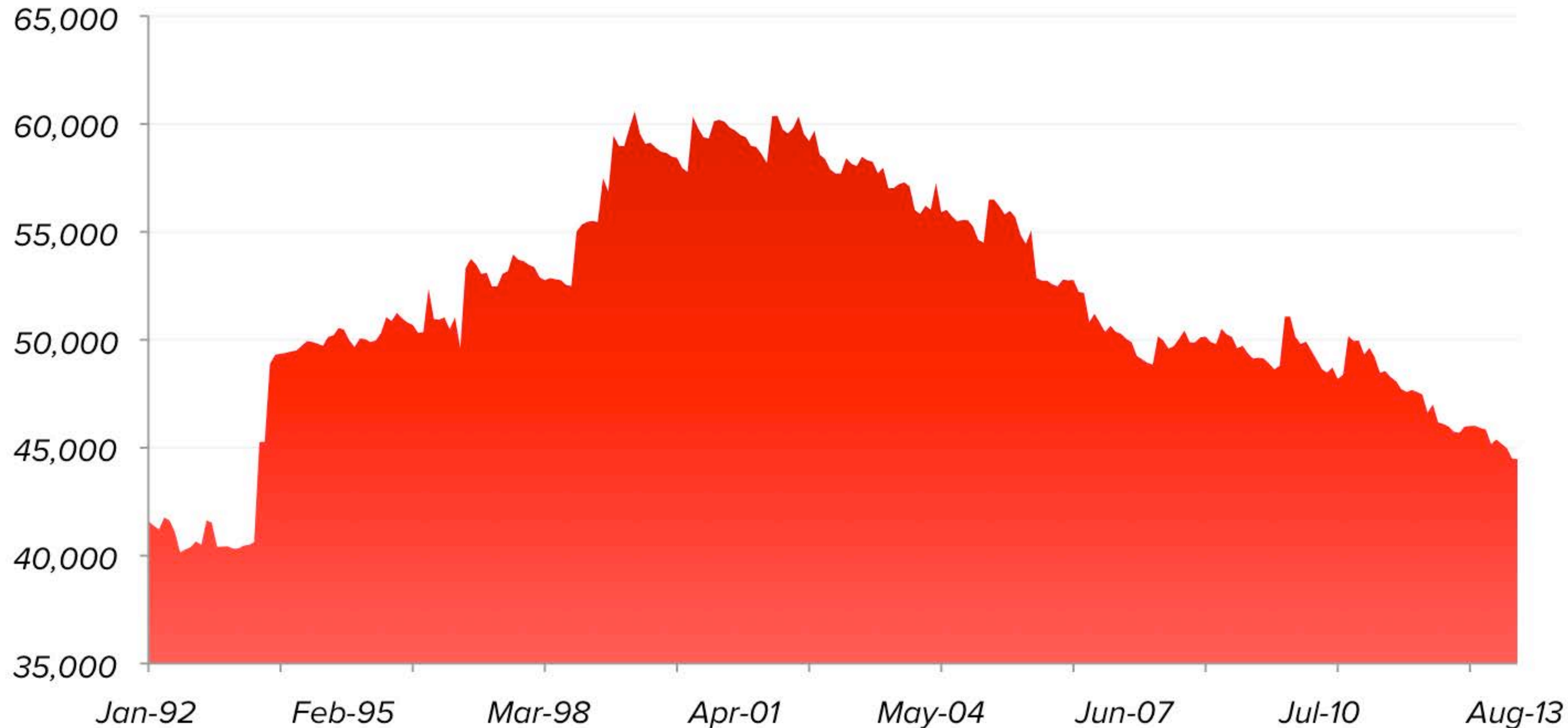


# DEMAND DOWN, SATURATION UP



## NUMBER OF SLOTS ON THE STRIP

Strip slot count  
in a downtrend  
for almost 15  
years

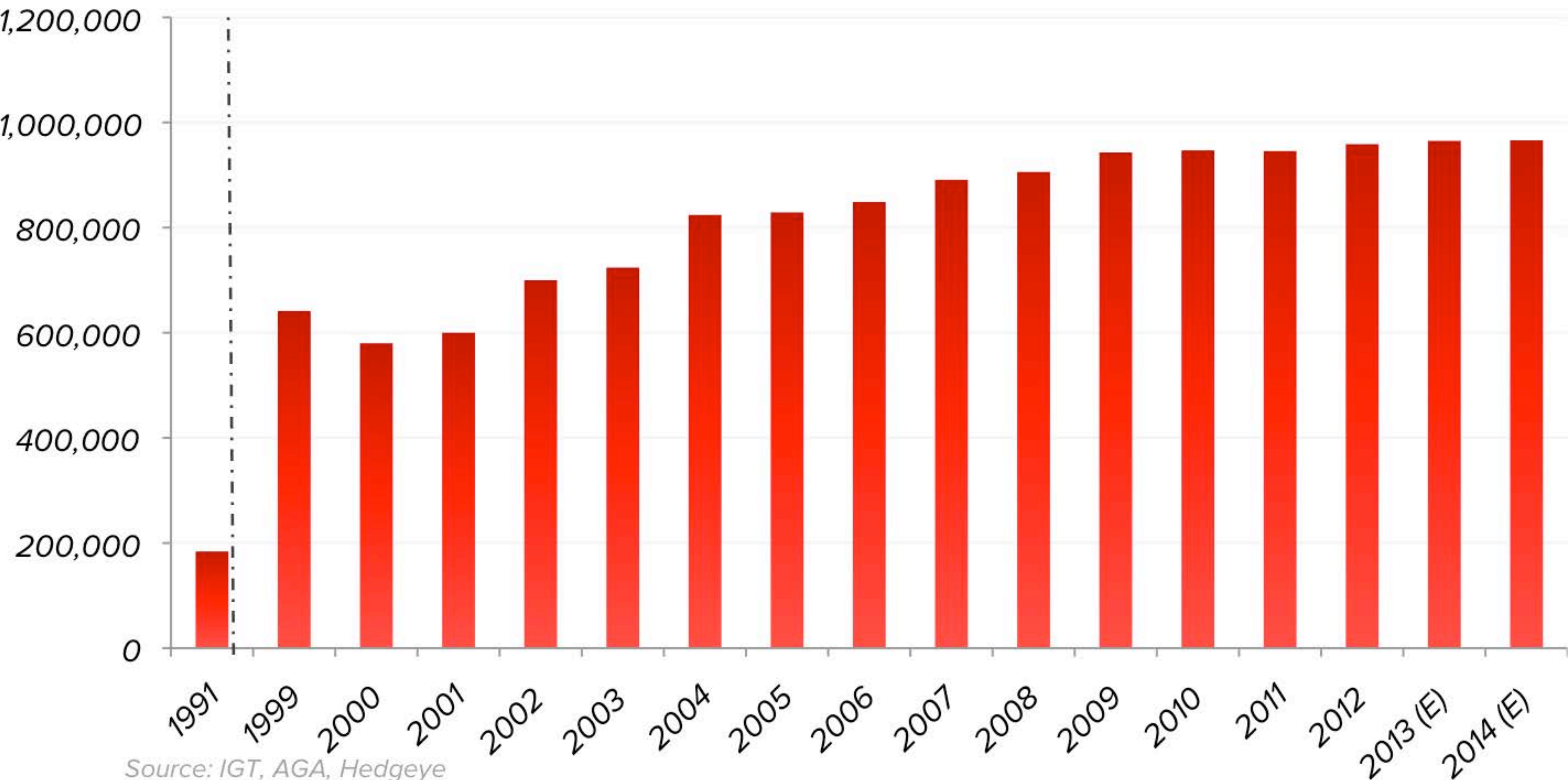




# DEMAND DOWN, SATURATION UP



## NORTH AMERICA SLOT INSTALLED BASE



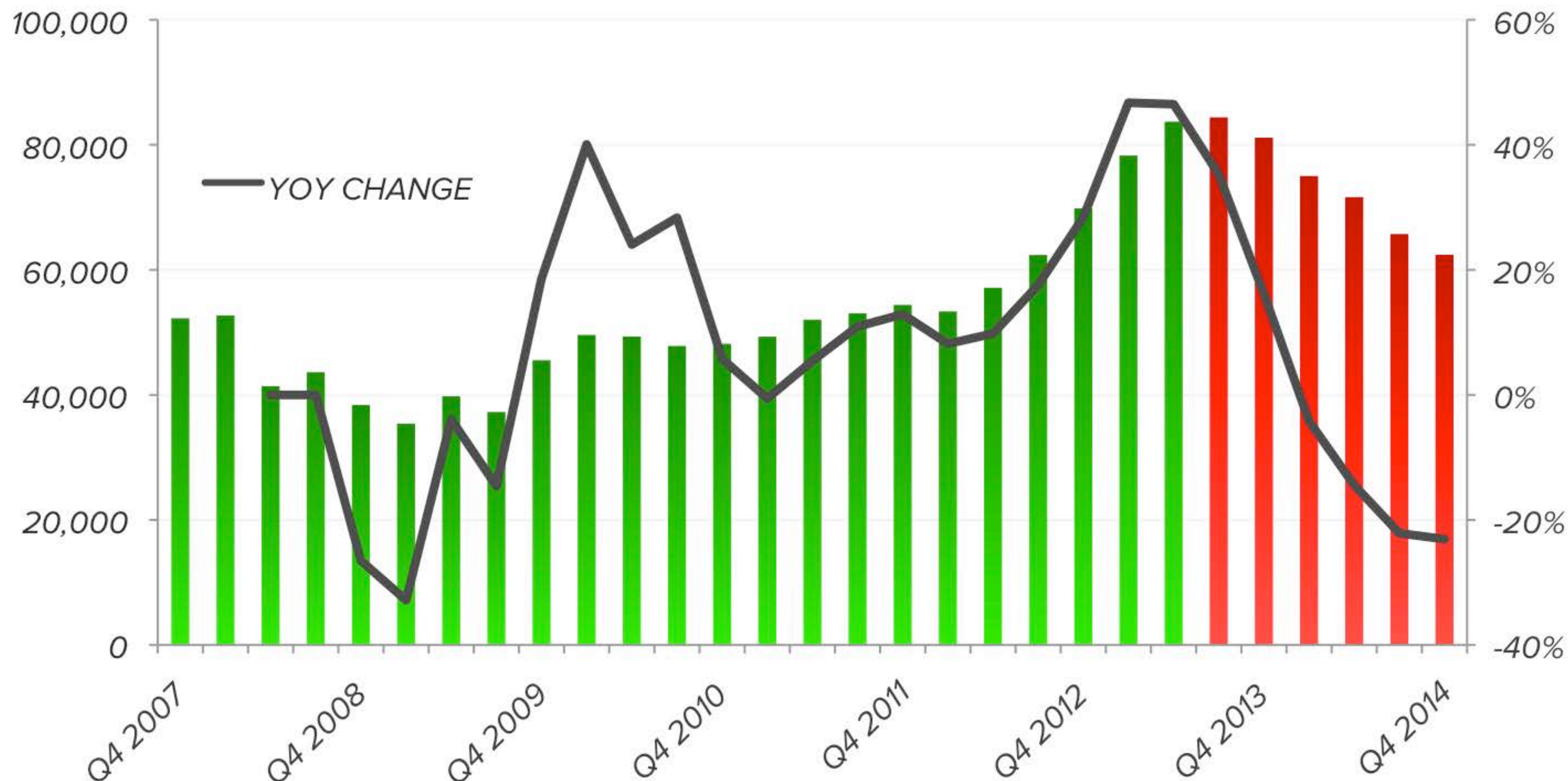
With a stable base, it's difficult to rely on replacement growth



# STAGNATING REPLACEMENT



## NORTH AMERICA SLOT REPLACEMENTS (TTM)



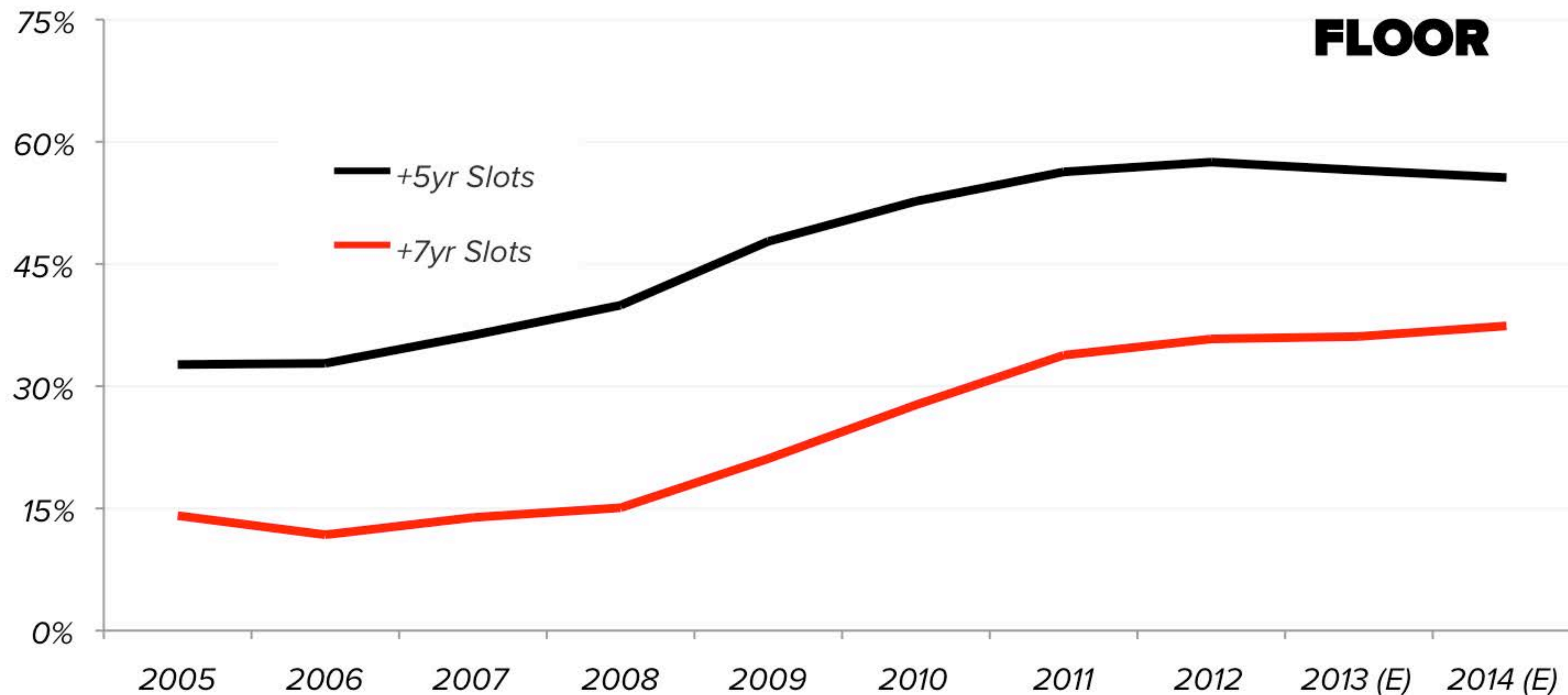
Near-term replacement peak may be coming



# STAGNATING REPLACEMENT



## % OF +5 YEAR AND +7 YEAR SLOTS ON SLOT FLOOR



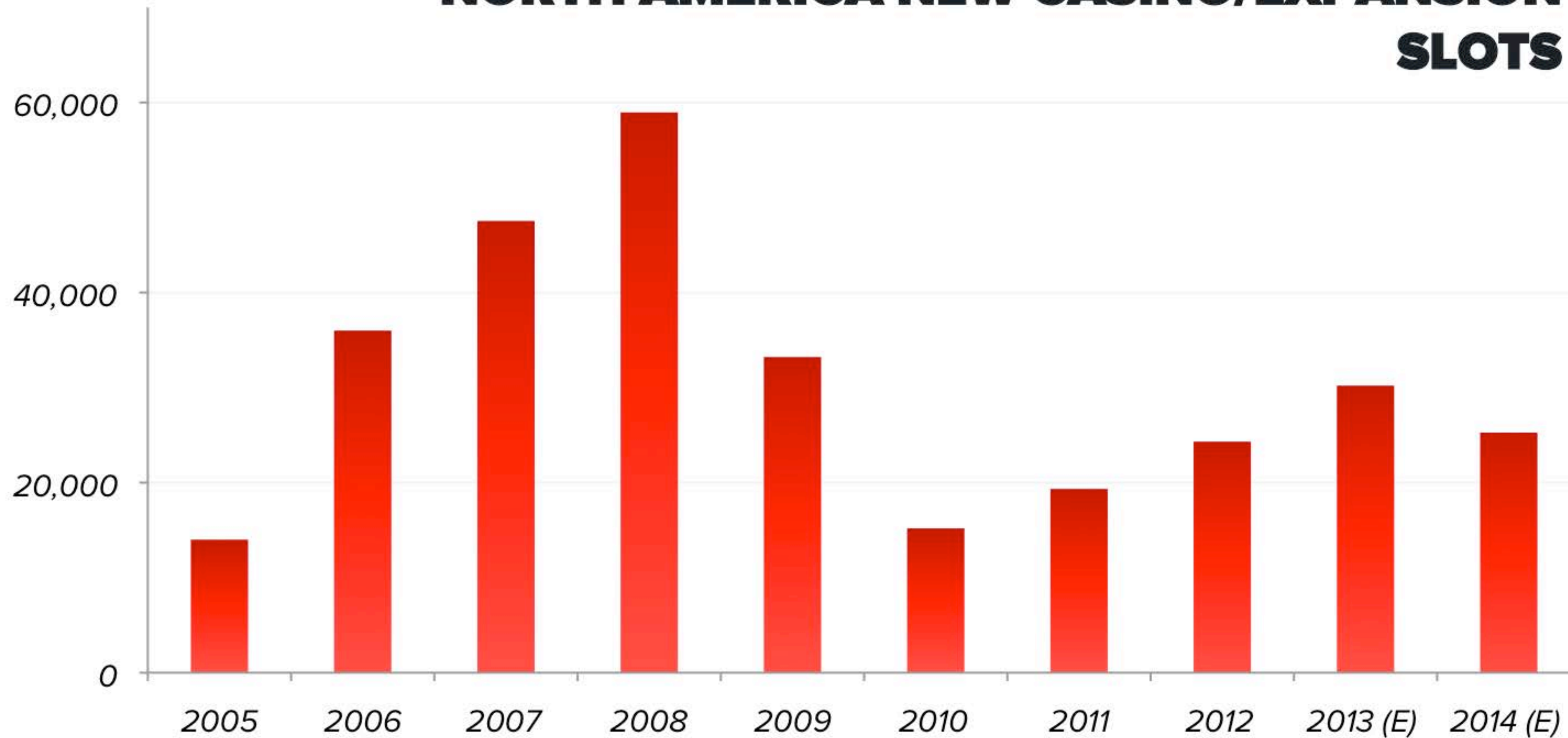
Slot age equilibrium – no longer a catalyst for replacement acceleration



# FEWER NEW CASINO/EXPANSIONS



## NORTH AMERICA NEW CASINO/EXPANSION SLOTS



Expect a 10% decline in new/expansion units YoY in 2014



# NO INNOVATIVE BREAKTHROUGHS



- TITO drove the last big replacement cycle
- Innovative concepts not compelling enough
- Recent new features focused on social gaming, bonusing elements, and game personalization



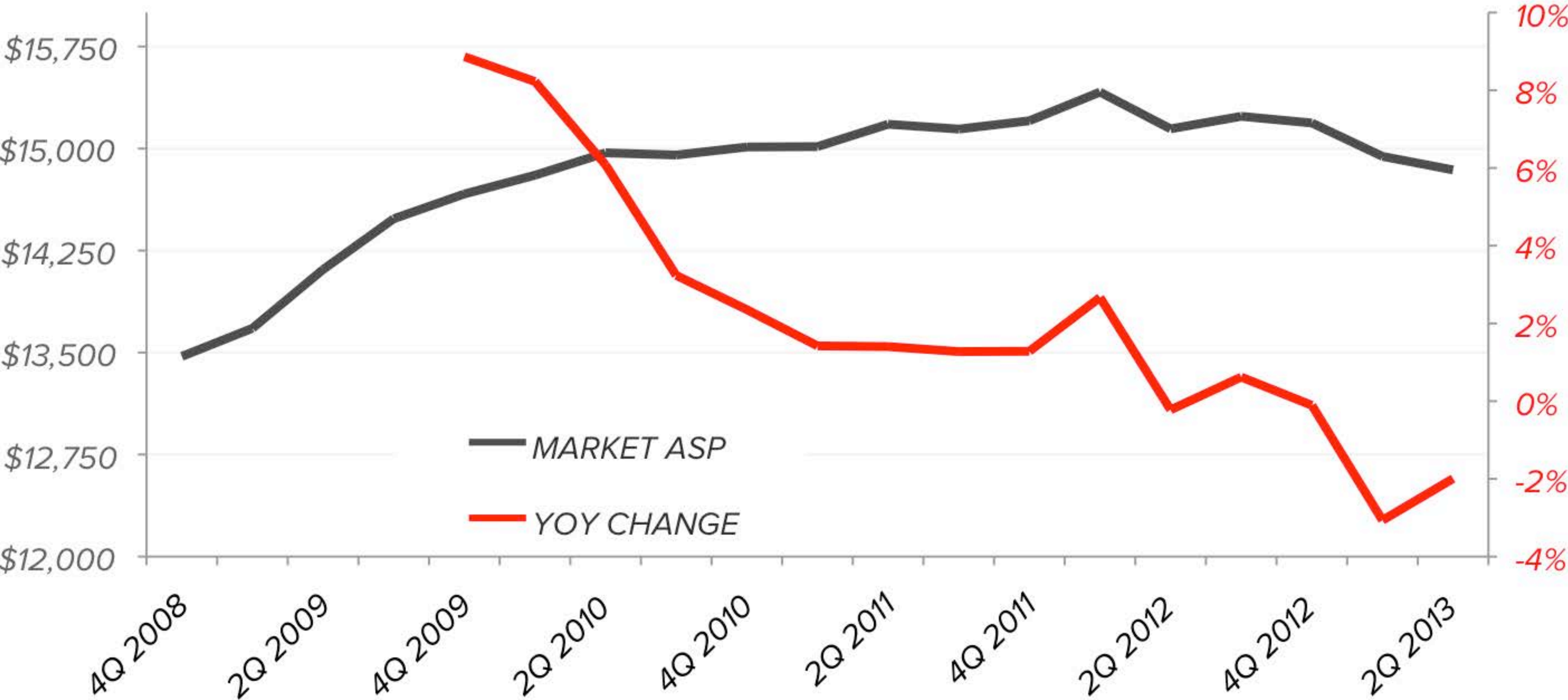


# FULLY BAKED PIE



## NEW SLOT UNITS MARKET ASP (TTM)

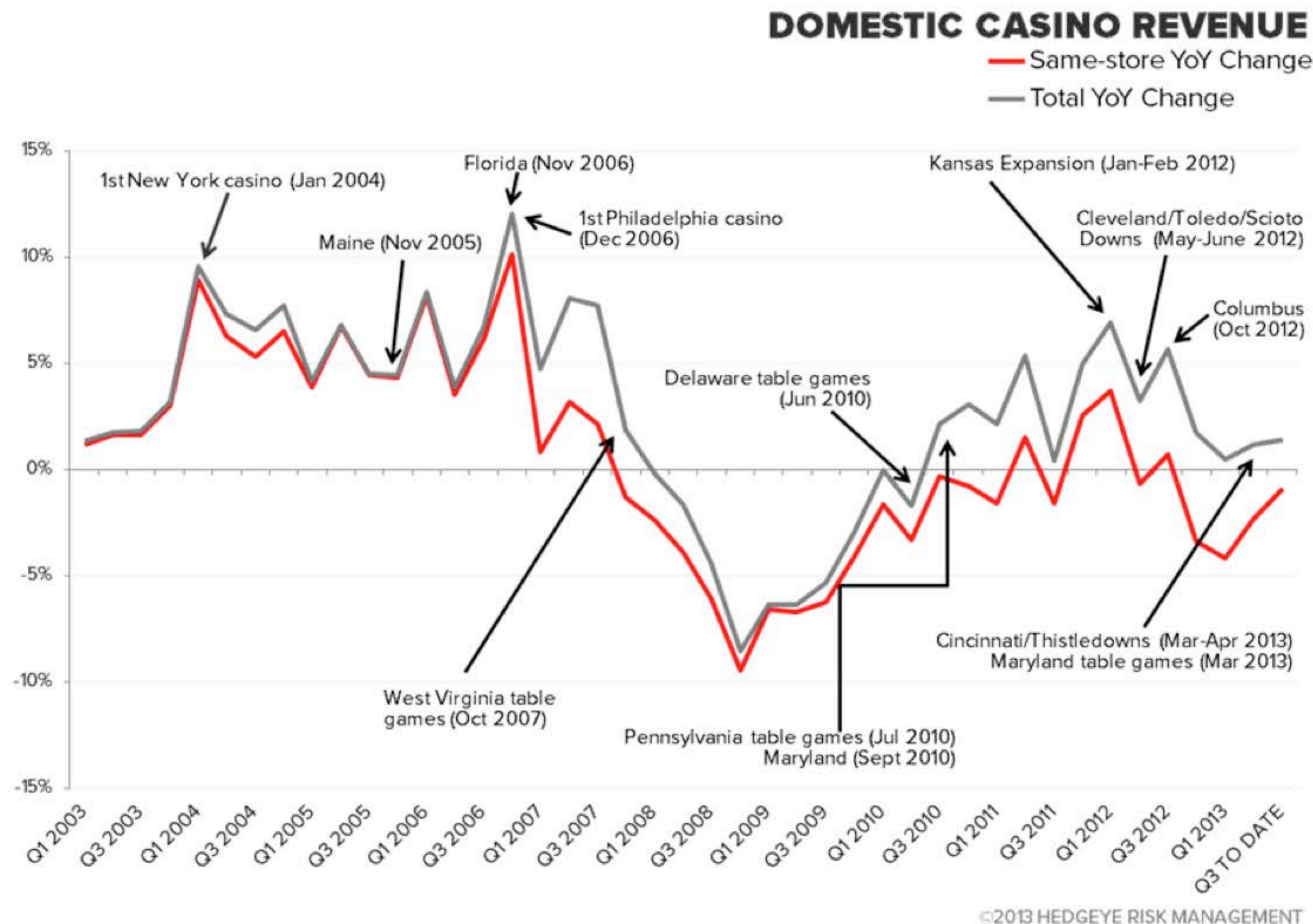
Have ASPs hit a brick wall?



AS REPORTED BY IGT, BYI, WMS, ALL.AX



# FULLY BAKED PIE



New units not translating into bigger sales

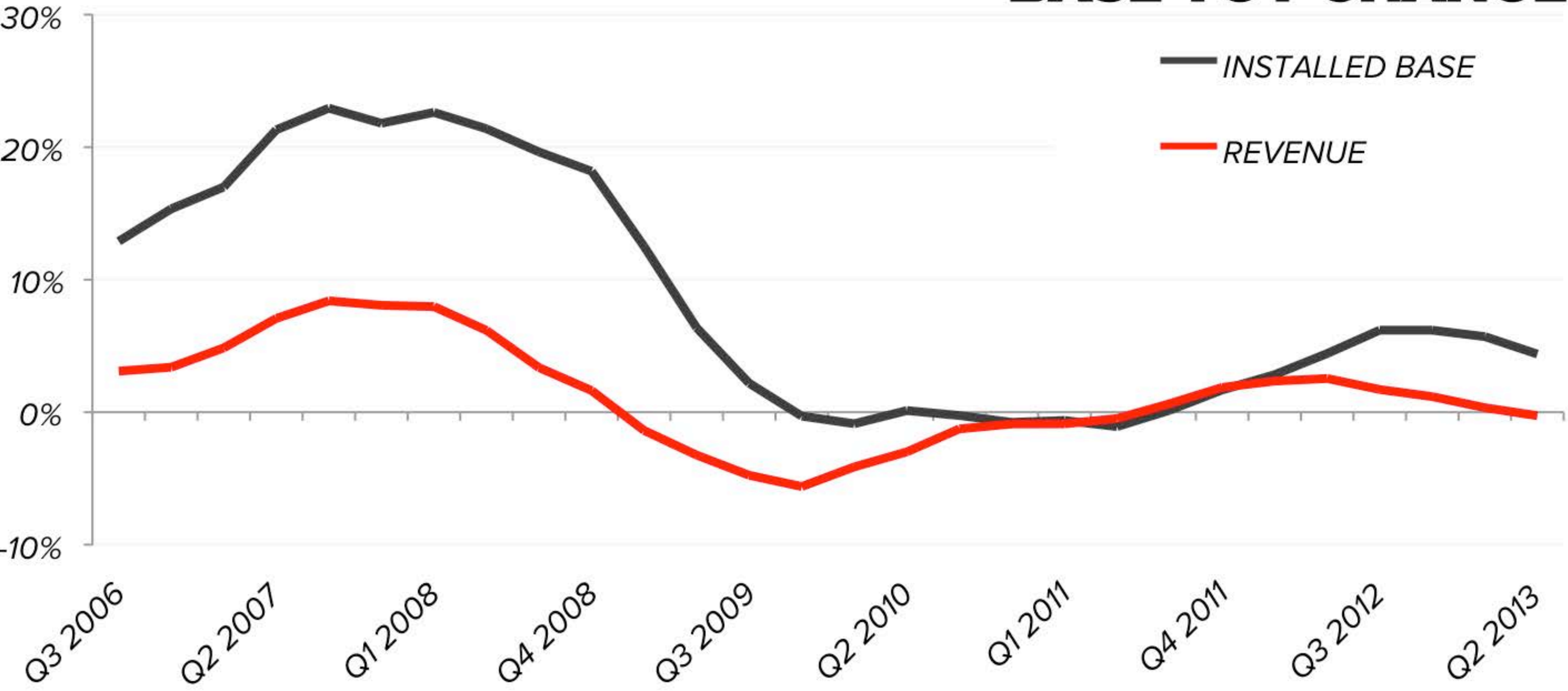


# PARTICIPATION: ZERO ROI



## PARTICIPATION REVENUE AND INSTALLED BASE YOY CHANGE

Bad economics

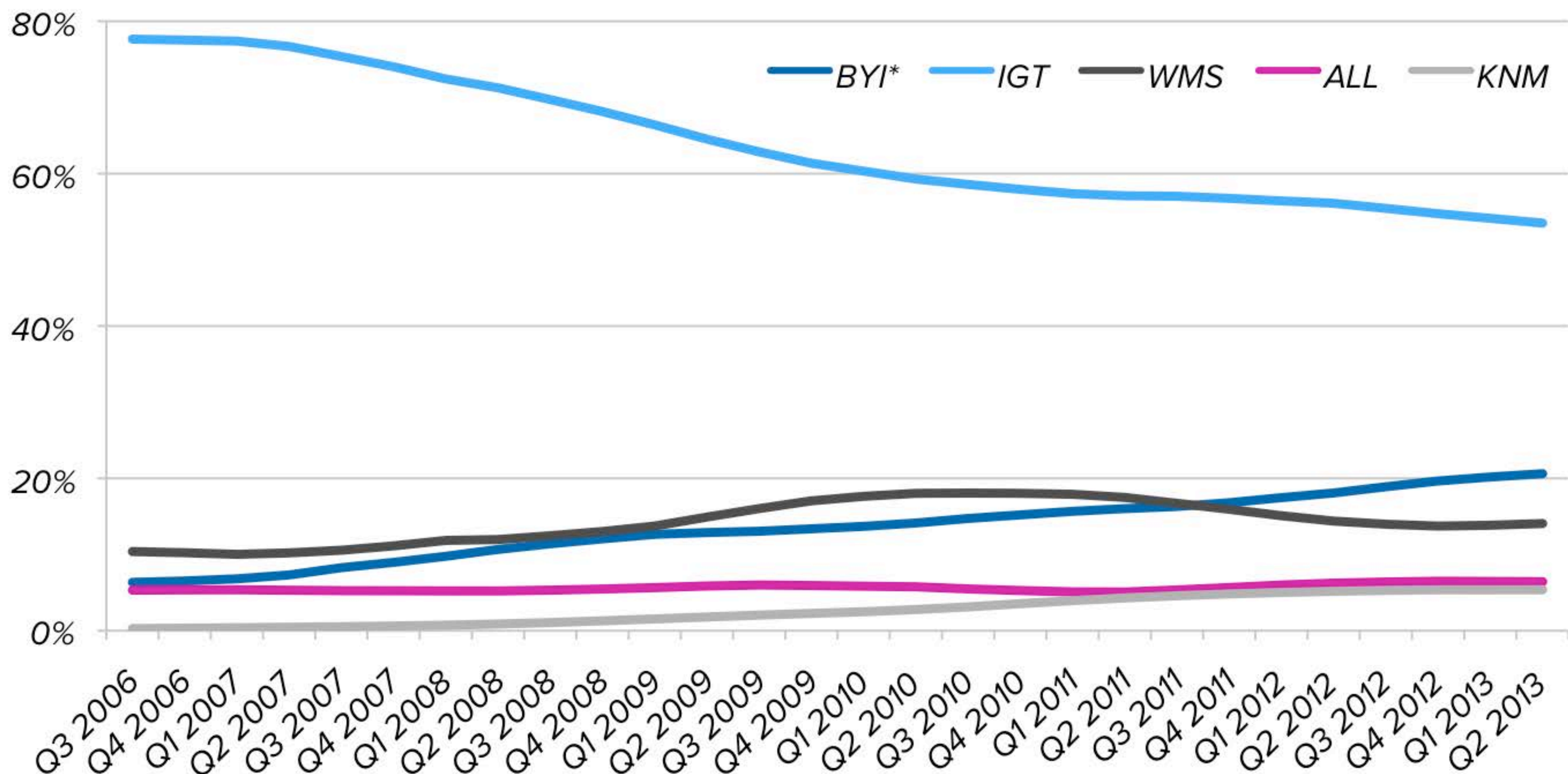




# PARTICIPATION: ZERO ROI



## SLOT PARTICIPATION REVENUE SHARE (TTM)



BYI is gaining share at the expense of IGT

*\*Includes Mexico but excludes the estimates of centrally determined game revenues from other countries*

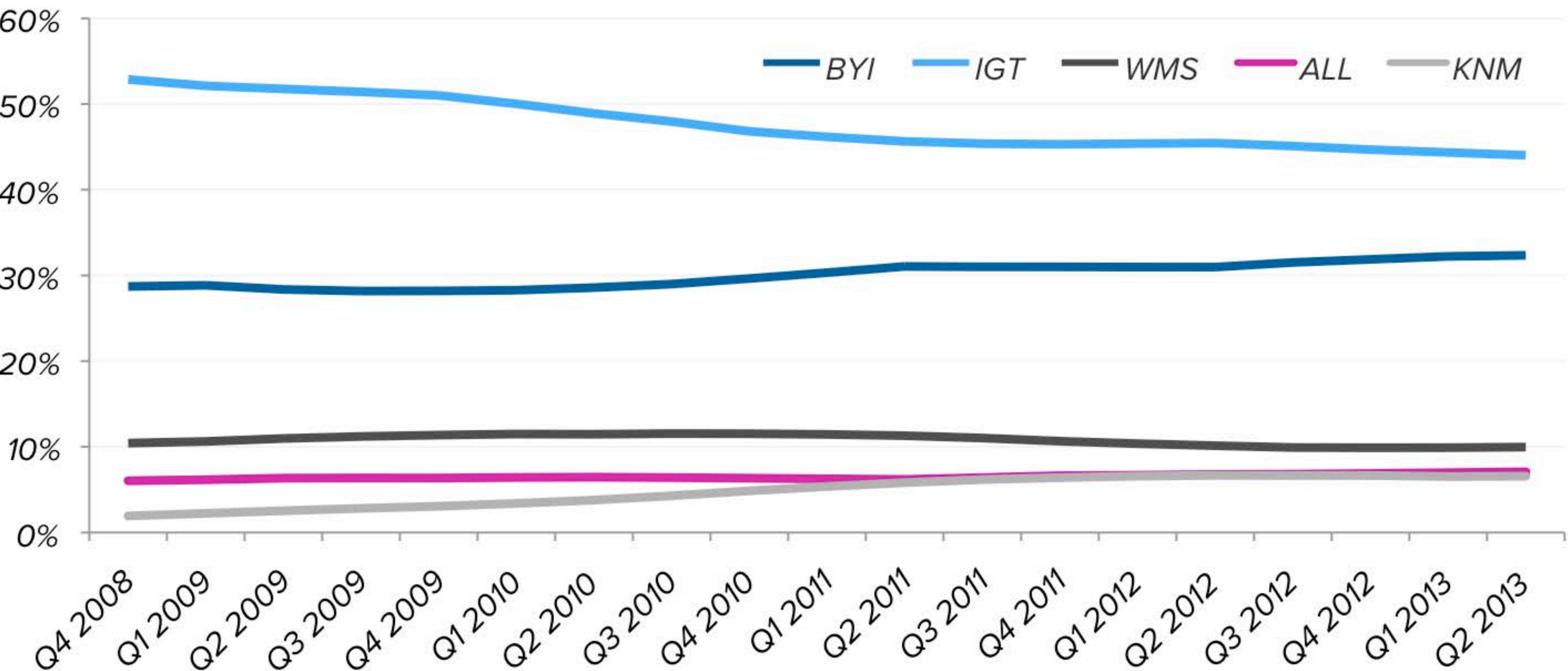


# PARTICIPATION: ZERO ROI



## GAMING OPERATIONS INSTALLED BASE MARKET SHARE (TTM)

BYI is gaining share at the expense of IGT







- Social gaming and demographics
- Innovative concepts not compelling enough
- Recent new features focused on social gaming, bonusing elements, and game personalization
- Regulation





# OPPORTUNITIES/RISKS - IGT



## OPPORTUNITIES

Video poker replacements

DoubleDown

FCF

New Markets

## RISKS

Gaming ops challenges

Fierce competition

Upcoming share losses

Poor demographics

Slowing growth

igt



# OPPORTUNITIES/RISKS - BYI



## OPPORTUNITIES

Slot Line

WAVE cabinet

Successful SHFL integration

Online gaming

Systems dominance

## RISKS

Expensive valuation

Poor SHFL integration

Overspending

Overexposed to North America

Poor demographics

Slowing growth





# OPPORTUNITIES/RISKS - WMS/SGMS

## OPPORTUNITIES

More titles offered on their two new cabinets

Good integration of WMS



## RISKS

Poor WMS integration/loss of talent once lock ups expire

Too much leverage hampering competition in lottery segment

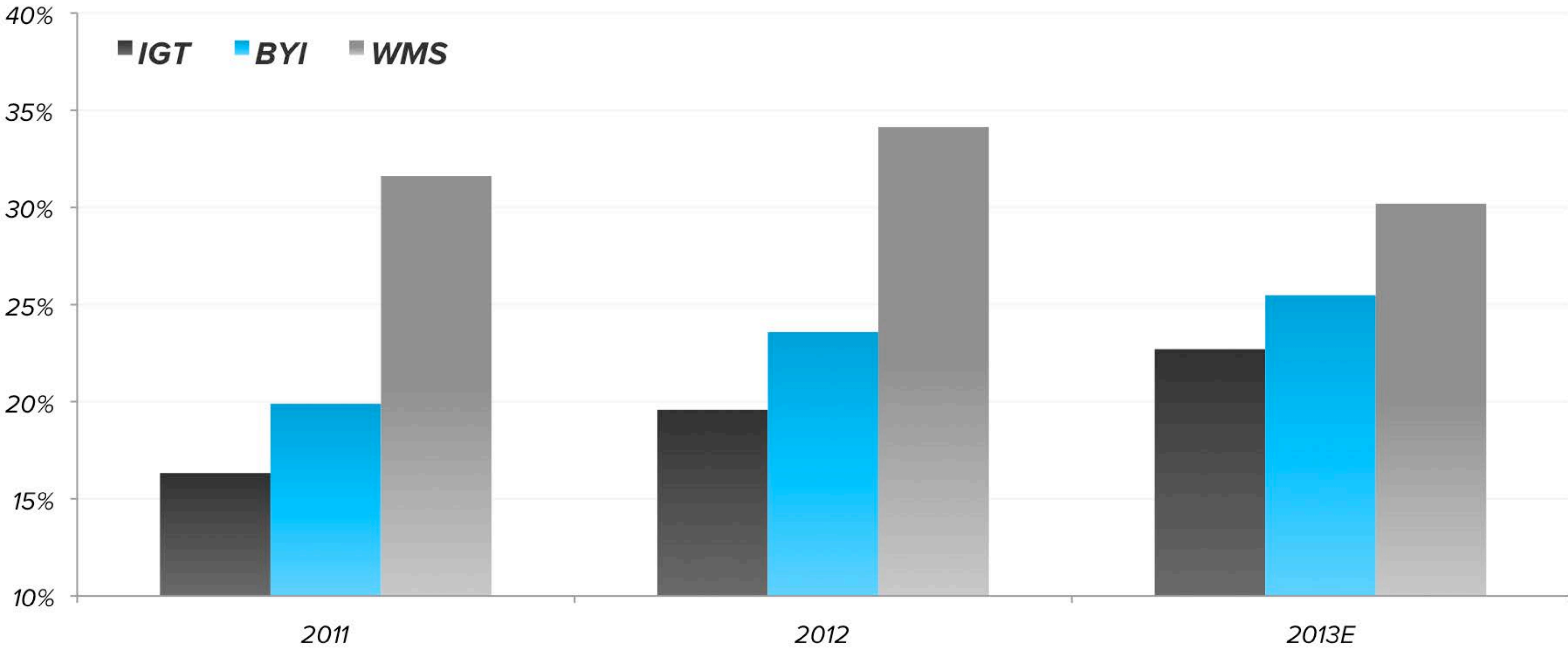
Poor demographics

Slowing growth





## NA BOX SALES AS A% OF REVENUE

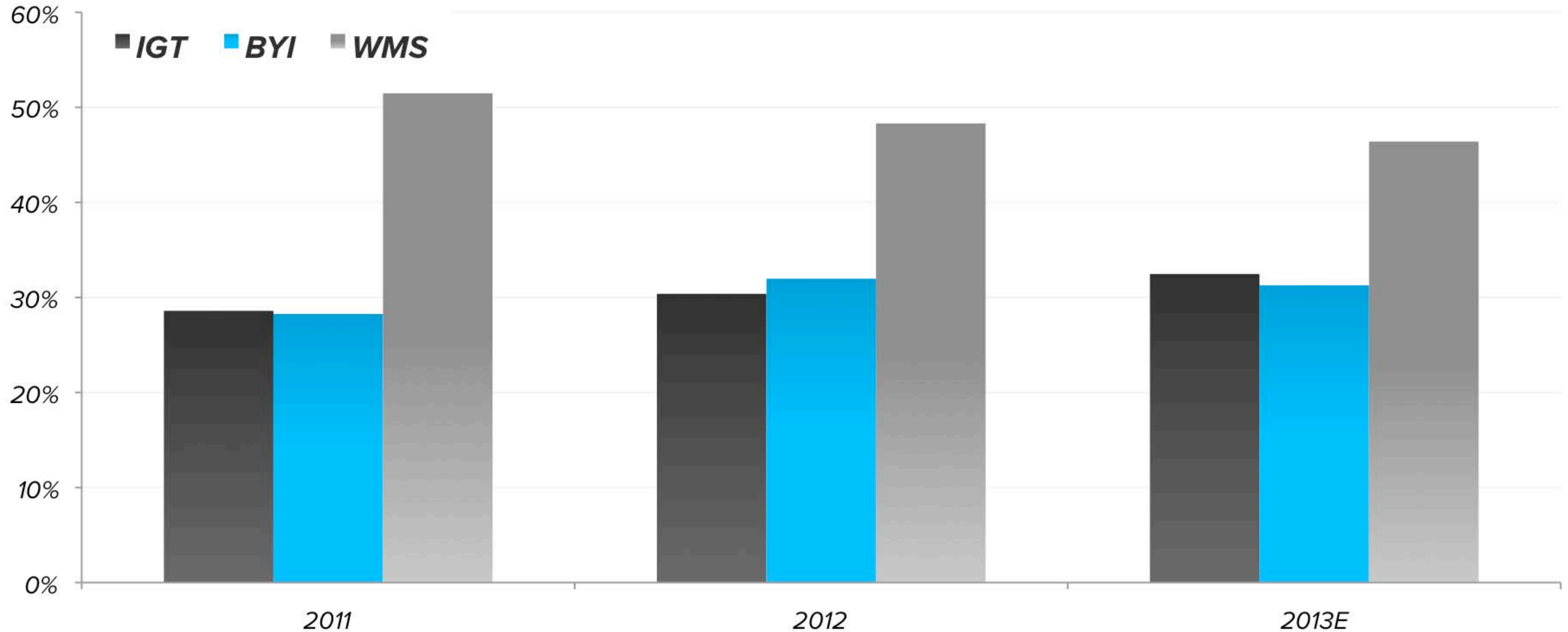




# BOX SALES



## TOTAL BOX SALES AS A % REVENUE





# FY2014 ESTIMATES



## FY2014 ESTIMATES

	BYI	WMS *	IGT
REVENUES	\$1.01BN	\$744MM	\$2.32BN
EPS	\$3.52	\$1.00	\$1.35
EBITDA	\$316MM	\$241MM	\$607MM
EV/EBITDA	9.1x	6.1x	9.1x
P/E	19.3x	26.0x	13.6x
FCF YIELD	7.4%	0.3%	8.2%

\*acquired by SGMS



# COMPANY CONCLUSIONS



## **IGT – TOO MUCH TO LOSE**

- Participation share losses, no ROI
- Discounting to maintain ship share, lack of new markets hurts disproportionately

## **BYI – PERFECTLY PRICED**

- Ship share at risk
- 19x P/E and growth slowing

## **SGMS/WMS – EXPENSIVE ATTEMPT AT GROWTH**

- Double zero cash flow is still zero



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**(203) 562-6500**





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