

WESTPEAK RESEARCH ASSOCIATION

Monarch Casino and Resort (NASDAQ:MCRI)

Consumer Discretionary – Casino Hotel

Know When to Hold 'Em

March 26th, 2018

Monarch Casino and Resort is a US-based holding company that, through its subsidiaries, owns and operates two casinos in Reno, Nevada, and Black Hawk, Colorado. The Reno property has a hotel and the Black Hawk property is slated to open a hotel in Q2 2019.

End of the Line for Growth

At this point, we believe the market has accounted for the casino expansion and hotel addition as well as the strong market outlook in Reno. Management has a track record for developmental success as evidenced by the Black Hawk acquisition in 2012 and has consistently captured market-share in Reno; however, we believe that management has over-optimistically forecasted demand in Black Hawk and thus are skeptical of future growth prospects.

City-Driven Success

The continued success of the Black Hawk expansion is contingent on the City of Black Hawk's strategic development plan, which aims to increase tourism traffic through recreational development; we are skeptical of the city's plan since Black Hawk is geographically constrained and it lacks recreational features, such as skiable terrain, which could transform the city into a recreation hub. In Reno, economic stimulus from the Tesla gigafactory will bolster earnings in the short run; however, as millennial gaming preferences demonstrate an increased desire for upscale bars, lounges, shows, and nightclubs, Reno may begin to lose gamblers and resort-goers to nearby Las Vegas.

Valuation

We believe that the market has fairly valued Monarch. While we are optimistic about increasing market share and discretionary spending, the future of the Black Hawk casino industry hinges on the success of the city's strategic development plan. Our target price is \$41.00 based on a 5-year Exit Multiple DCF (25%), a 5-Year 2% perpetuity growth DCF (25%), an EV/EBITDA comparable analysis (25%), and a P/E comparable analysis (25%).

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Equity Research US

Price Target	USD \$41.00
Rating	Hold
Share Price (Mar. 26th Close)	USD \$42.32
Total Return	-3.12%

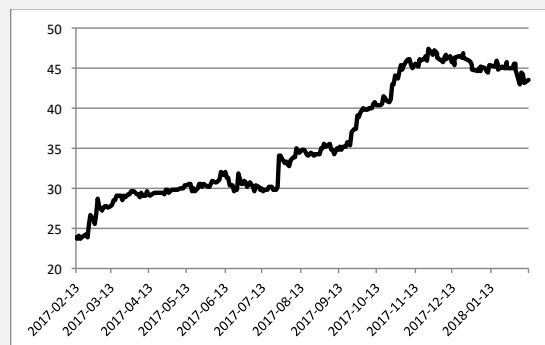
Key Statistics

52 Week H/L	\$47.92/\$23.10
Market Capitalization	\$769M
Average Daily Trading Volume	79.1K
Net Debt	\$26.2M
Enterprise Value	\$883.9M
Net Debt/EBITDA	1.5x
Diluted Shares Outstanding	18.4M
Free Float	65.6%
Dividend Yield	-

WestPeak's Forecast

	<u>2017A</u>	<u>2018E</u>	<u>2019E</u>
Revenue	\$231M	\$302M	\$366M
EBITDA	\$55.8M	\$59M	\$72M
Net Income	\$25.5M	\$31M	\$38M
EPS	\$1.45	\$1.70	\$2.08
P/E	29.36x	26.6x	21.0x
EV/EBITDA	13.7x	12.0x	11.1x

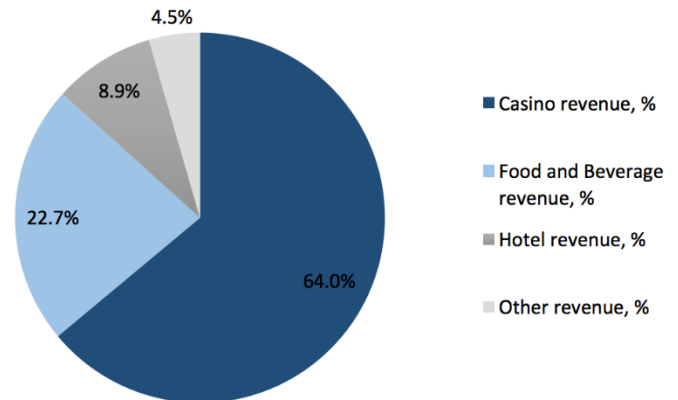
1-Year Price Performance



Business Overview/Fundamentals

Monarch Resort and Casino owns and operates the Atlantis Casino and Resort in Reno, Nevada and the Monarch Black Hawk Casino and Resort in Black Hawk, Colorado. Monarch strives to create resort-quality experiences for their guests that surpass expectations for regional casinos. USA Today Travel called the Atlantis property the “#1 casino outside Las Vegas” and TripAdvisor consistently ranks Atlantis the #1 casino resort in Reno. Although only recently acquired by Monarch, the Black Hawk property has also been well-reviewed and TripAdvisor ranked it the #3 casino in Black Hawk as of March 2018.

2017 Revenue Segmentation



Source: Company Filings

Casino

Casino revenue is comprised of the net-win of gaming activity. Monarch observed 5.8% casino revenue growth in 2017 compared to 2016 due to the increasing strength of the markets in Reno and Black Hawk. It should also be noted that Black Hawk’s revenue increased despite disruptions associated with construction for the expansion.



Source: Investor Presentations

Food and Beverage

Food and Beverage revenues increased 5.2% in 2017 compared to 2016 which can be attributed to higher average revenue per cover. Food and Beverage operating expenses a percentage of Food and Beverage revenue decreased from 40.9% (2016) to 40.6% (2017); however, we anticipate margins to compress in the future as Nevada has shown interest in reviewing its minimum wage legislation. An increase in the Nevada minimum wage will adversely effect margins.



Source: Investor Presentations

Hotel

Hotel revenue at Atlantis increased by 6.0% in 2017 compared to 2016. Average Daily Revenue (ADR) was \$81.46 for 2017 compared to \$79.52 in 2016 and the occupancy rate increased from 88.2% in 2016 to 89.4% in 2017. Investors should note that this occupancy rate is high in comparison to the Reno average of 77.1% (Reno-Sparks Convention & Visitors Authority). The inflated occupancy rate is due, in part, to Atlantis’ proximity to the Reno Convention Centre. Atlantis is the only hotel to be directly connected to the convention centre and management specifically targets conventioners to



Source: Investor Presentations

supplement mid-week occupancy. Atlantis' overperformance in terms of occupancy may contribute to the exaggeration of the return on investment of the Black Hawk expansion.

Other

Other revenues consist of arcade revenue, spa and salon revenue, and retail revenue. This is expected to increase upon the addition of spa and pool facilities at Black Hawk.

Promotional Allowances

As a casino company, Monarch contributes a significant portion of its gross revenues to complimentary hotel rooms, food and beverage, and spa treatments in order to generate additional casino play. A computerized program called "Club Paradise" tracks the accumulation of points based on casino play in order to determine fair levels of complimentary goods and services. Management is confident that "Club Paradise" plays a large role in establishing loyalty and repeat visits. From 2013 to 2017, promotional allowance as a percentage of gross revenue averaged 18% with a downward trend. This can be attributed to the efficiencies of their computerized tracking.

Background and Strategy

Acquisitions and expansion have been integral components of Monarch's strategy since its inception. Monarch's founders, the Farahi family, first entered the casino and hotel industry in 1972 when they purchased the Golden Door Motel in Reno, Nevada. By 1987, they had purchased an additional 16 acres of land and begun their casino operations. Between 1991 and 2008, they constructed three high-rise towers and expanded the casino operation thirty-fold. In 2012, they acquired the Riviera Black Hawk casino in Colorado and increased EBITDA by 55% in just the first year of ownership. They have since built a new parking structure and begun construction to double the casino space and add a 500-room hotel tower.

Monarch's prevailing strategy has been to offer quality resort experiences that ultimately generate greater casino play. For example, in 2010, they demolished an old annex to their Atlantis property and reduced their total room supply by 149 rooms. This was done in order to revitalize Atlantis' image and achieve Four Diamond status. Monarch understands that differentiation in the casino industry comes not from the casino itself, but from the quality of the resort experience that casinos can offer. We believe that this is the guiding mission of the Black Hawk resort expansion.

Black Hawk Expansion

Monarch acquired its Black Hawk property in 2012 for \$76mm and has since engaged in an aggressive expansion plan. In 2013, they opened a new buffet restaurant and renovated the interior of the casino. By 2016, they had opened a nine-story parking facility with 1,350 spaces. Construction of the 23-story hotel with 500 guest rooms began in February 2017 and is expected to be complete by Q2-2019. They are simultaneously doubling the casino space and adding 3 additional restaurants. Management rationalizes the Black Hawk expansion through 3 arguments in their investor presentations:

1. **Attractiveness of Denver area** – Household income in Denver is 28% above the national average. Denver is the third largest supplier of air traffic to Las Vegas which may signal increased demand for resort-quality experiences.

2. **Black Hawk underserved by hotels** – The neighboring Ameristar resort is the only resort quality hotel in Black Hawk. Reno has similar gaming revenue but with 15x hotel rooms.
3. **Barriers to entry limit competition** – Both natural geographical constraints and limited zoning for gaming limits developable land. Commercial gaming in Colorado is restricted to three mountain towns.

Management's argument for expansion is largely based on Black Hawk's future prospects as a recreation hub which will in turn drive greater revenues. While our analysis shows that the expansion is in fact beneficial, investors should be wary of an over-exaggerated return on investment. Monarch believes that the barriers to entry (both geographical and legal) will limit new entrants and thus protect market share; however, these barriers may also prevent non-gaming businesses from entering, diversifying Black Hawk's recreational offerings, and consequently increasing visitor traffic. Furthermore, non-gaming businesses are disincentivized to enter Black Hawk because generous promotional allowances from gaming businesses attract greater market share. While barriers to entry are often a benefit to current inhabitants, they may prove detrimental in an expansion based on future market growth from non-gaming recreational businesses.

Management also argues that the Black Hawk market is underserved by hotel rooms. We believe this is true to a certain extent, yet investors should be aware that the expansion will increase the room supply by 50%. Such a drastic increase will shock the market, lower room rates, and require Monarch to increase promotional allowances in order to occupy these rooms. Additionally, management may have forecasted demand based on their Atlantis' property occupancy rates, which are abnormally high due to their proximity to the Reno convention centre.

Finally, management used the neighboring Ameristar Casino's expansion as a case study for expansion in the Black Hawk market. Ameristar's expansion was a success; however, investors should be wary of using this case study as a model for Monarch's return on investment. Ameristar's expansion coincided with Amendment 50 which increased gaming hours from 18 to 24 hours/day and raised the maximum table bet from \$5 to \$100. This legislation benefitted earnings and thus may have created the illusion of a larger return on investment from the expansion.

Monarch has spent approximately \$40.3mm so far and anticipates the remaining cost of the expansion to be \$188.7mm to \$193.7mm.





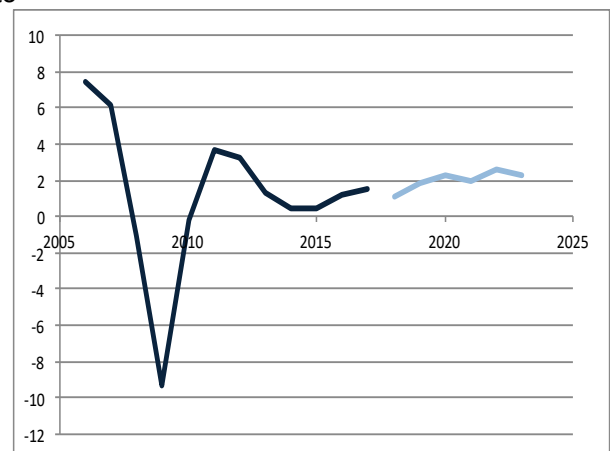
Source: Investor Presentations

Industry Analysis

The casino hotel industry in the United States was significantly affected by the 2008-2009 financial crisis, demonstrating that unlike lottery tickets, gambling is a normal good. The industry is in the process of recovering from the financial crisis and this can be attributed to decreasing unemployment rates, rising consumer spending, and increased inbound international travel. Hotel casinos generated \$60.5B in revenue and \$11B in profits in 2016 (IBIS World). Over the next 5 years, we anticipate revenue growth to increase steadily at a normalized rate of 1.9% due to greater social acceptance of gaming and rising disposable income.

US casino hotels are facing increased pressure from international gaming centres such as Macau and Singapore which have drawn a portion of high-stakes players away from Las Vegas. Many US operators have expanded to these international centres where operating costs are lower and the market is growing more rapidly. International competition has also caused US-based hotel casinos to renovate and improve their facilities to maintain their market share of high-stakes players.

**Industry-Wide Revenue Growth,
Actual + Estimated, %**



Source: IBISWorld

Consumer Spending

Labour market growth, taxes, and interest rates all contribute to levels of consumer spending and consequently demand for gambling. From 2018 to 2023 the levels of consumer spending are expected to increase at an annual average rate of 1.9% (IBISWorld).

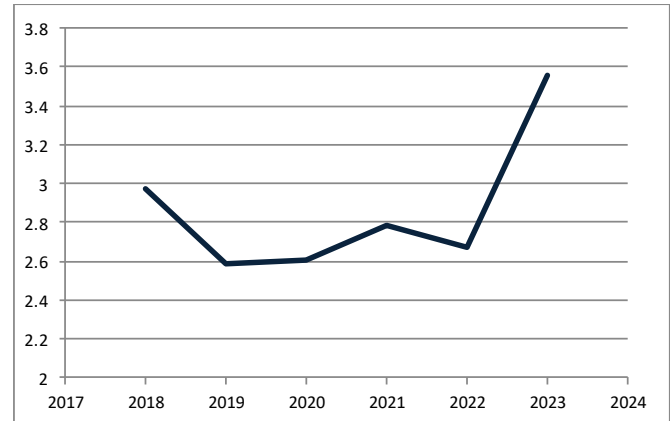
Disposable Income

Gambling is strongly correlated with a rise in disposable income. Management justified the Black Hawk expansion partly through the high disposable income in the Denver area. From 2018 to 2023 the levels of disposable income are expected to increase at an annual average rate of 2.9% (IBISWorld).

Reno

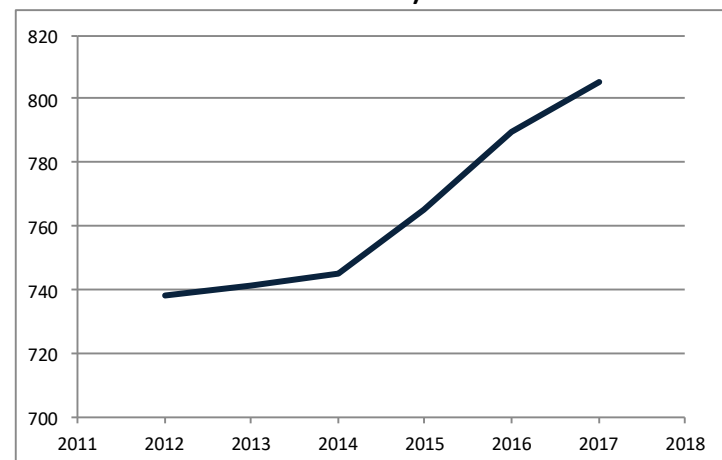
The Reno Casino industry is highly competitive with 12 casino hotels and 8 standard casinos. Despite this, Monarch has consistently grown their market share from 5% (2000) to 15.1% (2016). On the whole, Reno casino revenues have demonstrated large growth in the last 5 years. We attribute this growth to the economic stimulus brought by the migration of start-ups to Reno. Since 2008, start-ups have created an additional 30,000 jobs and Tesla is currently building their Gigafactory which will add another 10,000 jobs. Consequently, Reno unemployment dropped from 14.5% in 2011 to 4.0% in 2017. The Reno population is also expected to grow 7.1% from 2014 to 2019.

Expected Disposable Income Growth, %



Source: IBISWorld

Reno-Wide Net Gaming Win (2012-2017, millions)



Source: Nevada Gaming Commission

Black Hawk

With a permanent resident population of only 127, Black Hawk is a dedicated gaming town that hosts 20,000 gaming visitors daily. There are 17 casinos and approximately 988 hotel rooms (Investor Presentations).

In 2004, the city unveiled a strategic vision to “create the first gaming-centric destination in the state with all of the amenities of a premiere resort location resulting in the fusion of gaming, entertainment, shopping, exceptional culinary experiences and outdoor recreation” (Colorado Real Estate Journal). The city envisions up to 3,000 hotel rooms in the entertainment district (they will be half-way to this landmark upon completion of Monarch’s expansion). The goal is to develop a non-gaming related tourism industry, but success may translate into growth for casinos.

Barriers to Entry

Barriers to entry in the casino industry are considerable and this diminishes the threat of new entrants. The development process is capital intensive and government regulation restricts new entrants; however, more states are willing to licence casinos in order to increase tax revenue. The industry is in a period of consolidation in order to increase efficiencies and economies of scale.

Black Hawk Competitive Landscape

Property	Slots	Tables	Rooms
Ameristar	1129	34	536
Isle of Capri	993	25	238
The Lodge	971	25	50
Monarch Black Hawk	755	14	0
Saratoga Black Hawk	460	9	0
Mardi Gras	454	5	0
Z Casino	440	5	0
Lady Luck	430	11	164
Gilpon Casino	365	6	0
Wild Card Saloon	249	0	0
Sasquatch Casino	218	0	0
Bull Durham	184	0	0
Golden Gates	176	17	0
Red Dolly	131	0	0
Golden Gulch	64	0	0
Black Hawk Total	7019	151	988

Source: Investor Presentations

In Black Hawk, there is limited developable land and the city has recently favored non-gaming developments (Colorado Real Estate Journal). We do not anticipate new casino entrants in the Black Hawk market, nor do we anticipate the levels of non-gaming entrants that the city hopes for in their strategic development plan. The barriers that prevent further casino development are beneficial for Monarch, yet Monarch should be concerned that the barriers for non-gaming entrants will detract from future visitor traffic.

Catalysts

Opening of Monarch Black Hawk

At this point, management predicts that the overall expansion (casino, hotel, restaurants, spas) will be complete by Q2-2019. The earnings reports that follow the completion will dictate whether or not management’s projected demand meet actual demand.

Completion of the Tesla Gigafactory

Although the gigafactory officially opened on July 29th, 2016, the capacity at the time was only 14% of the final project. As blocks of the gigafactory continue to open leading up to the anticipated completion date in 2020, Reno will continue to see economic growth and increased traffic to the casinos and hotels.

Management Team

John Farahi – Chief Executive Officer

John Farahi has been the CEO and Secretary of Monarch since 1993. He is also a partner in Farahi Investment Company currently engaged in real estate development. He has experience in the tourism industry, having held positions on the Nevada Commission on Tourism and the Reno-Sparks Convention and Visitors' Authority. John Farahi holds a political science degree from the California State University, Hayward. Mr. Farahi received total compensation of \$1.3M in 2016 and he personally owns 16.3% of common shares outstanding. His ownership, combined with his two brothers, totals 34% of the company.

David Farahi – Chief Operating Officer

David Farahi has been the COO since 2012, although he began his career in the gaming and hospitality industry in 1998. Prior to working in the industry, David Farahi worked for HSBC in their investment and private banking divisions. He is the President of the Colorado Gaming Association. He holds an MBA from Columbia Business School. In 2016 his compensation totaled \$510K.

Richard Cooley – Vice President Finance

Richard Cooley has served as the VP Finance since 2016, although he has served in an executive role at Monarch and its subsidiaries since 1993. Mr. Cooley holds a Bachelor of Business Administration from the University of Nevada and is a certified public accountant. In 2016 his compensation totaled \$354K.

Darlyne Sullivan – Chief Product and Service Officer

Darlyne Sullivan has served as the Chief Product and Service Officer since 2015. In the past, she worked as a General Manager at the Atlantis Casino and Resort, VP Marketing, EVP Operations, and Hotel Manager. She has been with Monarch and its subsidiaries since 1977.

Management Summary

We believe that Monarch's management is knowledgeable, competent, and experienced in the industry. We are confident in their ability to oversee the Black Hawk expansion and continue to capture market share in Reno.

Shareholder Base and Liquidity

Shareholder Base

Monarch's stock is heavily concentrated in insider ownership with the Farahi family owning a significant stake of common stock. We believe the high concentration of insider ownership signals management's alignment with investors' interests.

Top 10 MCRI Shareholders

Shareholder	Stock Held	% Of CSO	Insider?	Position Date
Farahi, John CEO	2,894,277	16.351	Yes	Nov-01-2017
Farahi, Ben former CFO	1,758,772	9.936	Yes	Oct-31-2017
BlackRock, Inc.	1,480,831	8.366	No	Sep-30-2017
Farahi, Bahram President	1,347,700	7.614	Yes	Dec-15-2017
Park West Asset Management LLC	1,339,583	7.568	No	Sep-30-2017
J.P. Morgan Asset Management, Inc.	1,032,558	5.833	No	Sep-30-2017
Lafitte Capital Management, L.P.	877,275	4.956	No	Sep-30-2017
Davenport Asset Management	803,404	4.539	No	Sep-30-2017
The Vanguard Group, Inc.	621,279	3.51	No	Sep-30-2017
Wellington Management Group LLP	524,461	2.963	No	Sep-30-2017

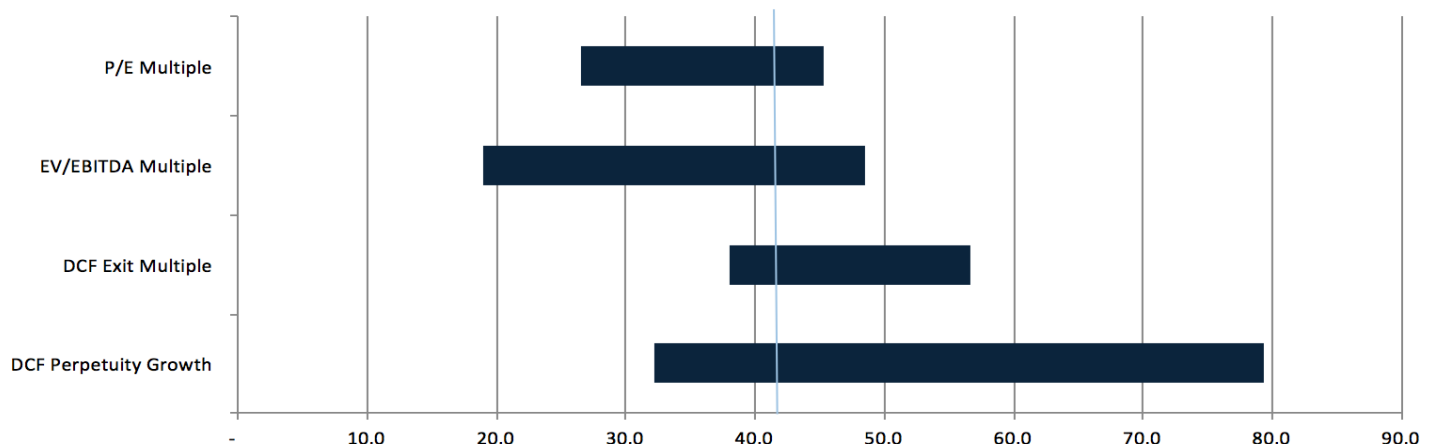
Source: Bloomberg

Liquidity

From January 23rd, 2017 to January 23rd, 2018 Monarch had a yearly average trading volume of 50,135 shares. This is equivalent to \$1,734,417.40. We believe this is healthy relative to casino hotels with similar market capitalizations.

Valuation

Our valuation incorporated a 5-year Exit Multiple DCF (25%), a 5-Year 2% perpetuity growth DCF (25%), an EV/EBITDA comparable analysis (25%), and a P/E comparable analysis (25%).



Discounted Cash Flow Assumptions

Revenue

Casino – After the expansion, casino revenue was forecasted proportional to the increased square footage of casino space. From 2019 to 2020 we forecasted an additional \$67mm of casino revenue (34.4% increase from 2018E) commensurate with the increase in square footage. In the years following the expansion, we reduced the growth rate to 5% which is notably lower than from 2015-2017. While we believe that the Reno market will continue to grow with the decrease in unemployment, we anticipate a shift in gaming preferences that will ultimately drive some of Reno's younger, newly employed gamblers to Las Vegas.

Food and Beverage – Our food and beverage forecasts for 2019/2020 were based on the anticipated expansion from 9 full service restaurants to 12 full service restaurants. Accordingly, we anticipate an additional \$21.9mm over 2019/2020. In the years following the expansion, we reduced the growth rate to 6.7% as normalized over the years 2014 to 2016.

Hotel – Upon the completion of the Black Hawk tower, we anticipate rapid revenue growth throughout 2019/2020 of \$15.6mm. This based on our estimates of the Black Hawk average daily revenue per room (ADR) of \$130, historical occupancy rates, and the expected number of rooms in the new tower. We used this occupancy rate as opposed to the Atlantis occupancy rate (~90%) because Atlantis occupancy is supplemented by conventioners and we believe the expansion in Black Hawk supply is not immediately commensurate with current demand (although this may change in as Black Hawk's strategic growth plan is implemented). In the years following the expansion we reduced the growth rate to 5%.

Capex

Capital expenditures were forecasted to rise throughout 2018 and 2019 in order to account for the remaining construction of the Black Hawk expansion. We set our target capex over the 2 years to be \$180mm using management's most recent disclosure of the expenses remaining (in addition to regular maintenance of the Black Hawk and Atlantis properties). Capex falls significantly in 2020 compared to 2014-2016 rates, but this is because 2014-2016 saw the construction of the new parking structure at Black Hawk. We believe that 3.5% of beginning property and equipment is in line with pre-expansion figures.

Costs

Cost assumptions were primarily based on historical averages. SG&A was forecasted to increase by 3% to account for rising wages, as well as a potential increase in the Nevada minimum wage.

WACC

The Weighted Average Cost of Capital (WACC) was calculated to be 7.19%. This took into consideration the risk-free rate, equity beta, expected market return, tax rate, and financing methods. In order to consider changes in Monarch's WACC, we have included a sensitivity analysis in the appendix.

Tax

In light of recent tax legislation, we have adjusted the effective tax rate to 23.5%. This number takes into account the 21% federal corporate tax rate, Nevada's lack of state tax, and Colorado's 5% state tax. In the absence of exact revenue reported by state, we applied an approximate weighted average of the tax rates to arrive at 23.5%.

Comparable Company Analysis

The following companies were included in our comparable analysis:

1. Pinnacle Entertainment

Pinnacle Entertainment is a US-based gambling and hospitality company with 16 properties in Colorado, Indiana, Iowa, Louisiana, Mississippi, Missouri, Nevada, Pennsylvania, and Texas.

2. Boyd Gaming

Boyd Gaming is based in Paradise, Nevada, and operates 15 casino hotels across the United States.

3. Penn National Gaming

Penn National Gaming is headquartered in Pennsylvania and owns and operates 26 casinos and race tracks in 18 states.

4. Golden Entertainment

Golden Entertainment is a Nevada-based gaming company that owns and operates casinos, taverns, and slot routes.

5. Las Vegas Sands

Las Vegas Sands is a Nevada-based gaming company that owns and operates high-end casinos and hotels in the United States and China, as well as a museum in Singapore.

All of our comparable companies are US-based casino hotels with operations in and Colorado and Nevada. Since the market has priced Monarch with a considerable amount of expected growth, we looked for hotel casinos undergoing expansion. Unfortunately, few of the comparable companies were expected to grow EBITDA at similar levels to the Black Hawk expansion, which may contribute to the fact that Monarch trades at a relative premium.

Risks

Government Regulation

Monarch's operations are subject to strict state and local government regulation. The Nevada and Colorado gaming commissions can, at any time, restrict or revoke gaming licences. Although not anticipated, non-compliance with regulations can result in large fines, future sanctions, and seizure of assets. Both Nevada and Colorado impose state taxes on revenues and the Federal Government has often considered imposing a Federal tax.

Sensitivity to Discretionary Consumer Spending

The gaming industry is particularly sensitive to changes in discretionary consumer spending, both in terms of preferences and capacity to spend. As proven during 2008, a recession has an extreme effect on demand for gaming and leisure experiences that negatively affects earnings.

Increasing Competition

Monarch faces intense competition in both the Reno and Black Hawk markets. Aggressive marketing strategies from competitors may require Monarch to increase their promotional allowances as a percentage of revenue and consequently reduce earnings. For example, Native American casinos often operate under less regulations and thus are able to commit larger sums to promotional activities. Monarch also faces increasing competition from online gaming.

Black Hawk Strategic Plan Failure

Much of Monarch's valuation rests on future earnings prospects from the Black Hawk expansion. Lack of demand for the new hotel rooms or failure of the Black Hawk city strategic plan may adversely affect Monarch's earnings.

Recommendation

We believe that the market has fairly valued Monarch Casino and Resort. The two main catalysts that drove the price to its current state were the Black Hawk expansion and Reno's economic growth. At the current price, we believe that the market has already adjusted for this growth and that there are a number of limiting factors that will prevent the price for surging higher.

Although the Black Hawk expansion will bolster earnings, investors should be wary of the return on investment that management predicts. In the short run, the 50% increase in Black Hawk's room supply will drive down prices and Monarch will likely have to increase promotional allowances in order to occupy the rooms. In the long run, the city's growth prospects are limited due to geographical constraints and the potential disinterest of non-gaming businesses.

While Reno's current growth prospects appear strong due to the rapid decrease in unemployment, these growth rates are unsustainable and will likely taper out upon the completion of the Tesla Gigafactory. This growth may be further diminished by changing gaming preferences which favor upscale bars, lounges, shows, and nightclubs. After all, with Las Vegas a mere 1-hour flight away, Reno gamblers may eventually seek out a more complete resort experience elsewhere.

We have initiated a **Hold** rating with a target price of \$41.

Pro Forma Income Statement

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Income Statement										
Revenue	231.9	229.6	247.2	264.1	279.3	298.0	360.9	404.3	426.2	449.4
Promotional Allowances	43.2	41.8	44.9	47.1	48.5	53.6	65.0	72.8	76.7	80.9
Gross revenue	188.7	187.8	202.2	217.0	230.7	244	295.9	331.5	349.5	368.5
COGS	89.2	92.5	99.0	105.2	112.2	120.3	145.6	163.1	172.0	181.3
Gross profit	99.5	95.2	103.3	111.8	118.5	124	150.3	168.4	177.5	187.2
SG&A	52.3	53.0	54.8	57.7	62.7	73.3	88.8	99.5	104.9	110.6
EBITDA	47.3	42.3	48.5	54.1	55.8	51	61.5	68.9	72.7	76.6
D&A	16.6	17.8	15.9	14.8	15.1	18.6	22.4	26.5	25.6	24.8
EBIT	30.6	24.4	32.6	39.2	40.7	32	39.1	42.4	47.0	51.8
Interest expense	1.9	1.1	0.7	0.6	1.0	1.3	1.3	1.3	1.3	1.3
Other expenses (income)	0.2	2.2	0.0	0.7		-				
EBT	28.6	21.1	31.9	37.9	39.7	31	37.8	41.1	45.7	50.5
Income taxes	10.6	6.9	11.2	13.4	14.2	7.3	8.9	9.7	10.7	11.9
Net income	18.0	14.2	20.7	24.6	25.5	24	28.9	31.4	35.0	38.6
Shares outstanding, basic	16.3	16.7	16.9	17.3	17.6	17.6	17.6	17.6	17.6	17.6
Shares outstanding, diluted	16.9	17.1	17.3	17.7	18.4	18.4	18.4	18.4	18.4	18.4
Earnings per share, basic	\$ 1.10	\$ 0.85	\$ 1.22	\$ 1.42	\$ 1.45	\$ 1.34	\$ 1.64	\$ 1.79	\$ 1.99	\$ 2.20
Earnings per share, diluted	\$ 1.06	\$ 0.83	\$ 1.19	\$ 1.39	\$ 1.39	\$ 1.29	\$ 1.57	\$ 1.71	\$ 1.90	\$ 2.10

Pro Forma Cash Flow Statement

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Cash Flow Statement										
Operating activities										
Net income	18.0	14.2	20.7	24.6	25.5	23.7	28.9	31.4	35.0	38.6
Depreciation and amortization	16.6	17.8	15.9	14.8	15.1	18.6	22.4	26.5	25.6	24.8
Amortization of deferred loan costs	0.3	0.3	0.3	0.4	0.5	-	-	-	-	-
Stock-based compensation	1.2	1.2	1.5	1.7	7.1	-	-	-	-	-
Excess tax benefit from stock-based comp	(0.4)	(1.1)	(0.9)	(0.7)	-	-	-	-	-	-
Provision for bad debts	(0.2)	0.1	0.2	0.1	0.1	-	-	-	-	-
Loss on disposition of assets	0.2	0.3	(0.0)	0.7	0.0	-	-	-	-	-
Deferred income taxes	0.8	0.3	(0.2)	0.8	3.8	-	-	-	-	-
Cash flow before working capital	36.5	33.2	37.6	42.3	52.2	42.2	51.3	57.9	60.6	63.4
Accounts receivable	0.1	(0.5)	(0.9)	(1.4)	(2.0)	(0.5)	(1.7)	(1.1)	(0.6)	(0.6)
Inventories	(0.3)	(0.2)	(0.0)	(0.2)	(0.2)	(0.2)	(0.8)	(0.5)	(0.3)	(0.3)
Prepaid expenses	(0.2)	(1.2)	(0.3)	(1.1)	(0.1)	(0.3)	(1.2)	(0.7)	(0.4)	(0.4)
Accounts payable	0.6	(0.7)	(1.2)	2.0	(0.4)	0.6	2.1	1.3	0.7	0.7
Accrued liabilities	0.3	1.2	2.5	1.9	1.6	1.7	6.4	4.0	2.0	2.1
Income Taxes receivable	(0.9)	(0.5)	0.5	0.2	(1.6)	-	-	-	-	-
Cash flow from operating activities	36.1	31.2	38.2	43.7	49.5	43.5	56.0	60.9	62.1	65.0
Investing activities										
Capital expenditures	(12.4)	(21.7)	(37.7)	(26.1)	(50.0)	(97.5)	(82.4)	(13.6)	(13.2)	(12.8)
Acquisitions	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of assets	0.0	0.1	0.0	0.0	0.1	-	-	-	-	-
Change in construction payable	-	1.8	(0.4)	1.2	3.2	-	-	-	-	-
Cash used in investing activities	(12.4)	(19.8)	(38.0)	(24.9)	(46.7)	(97.5)	(82.4)	(13.6)	(13.2)	(12.8)
Financing activities										
Dividends paid	-	-	-	-	-	-	-	-	-	-
Net exercise of stock options	3.4	(2.7)	3.9	2.9	-	-	-	-	-	-
Excess tax benefit from stock based comp	0.4	1.1	0.9	0.7	-	-	-	-	-	-
Principal payments on long term debt	(27.3)	(7.5)	(5.4)	(14.7)	-	-	-	-	-	-
Loan Issuance Cost	-	-	-	(2.6)	-	-	-	-	-	-
Cash from financing activities	(23.4)	(9.1)	(0.6)	(13.6)	-	-	-	-	-	-
Net change in cash	0.3	2.3	(0.4)	5.2	2.8	(54.0)	(26.4)	47.3	48.9	52.3
Beginning cash balance	19.0	19.3	21.6	21.2	26.4	29.2	(24.9)	(51.3)	(4.0)	44.9
Ending cash balance	19.3	21.6	21.2	26.4	29.2	(24.9)	(51.3)	(4.0)	44.9	97.2

Pro Forma Balance Sheet

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Balance Sheet										
Current assets										
Cash and cash equivalents	19.3	21.6	21.2	26.4	29.2	(24.9)	(51.3)	(4.0)	44.9	97.2
Accounts receivable	2.6	3.0	3.7	5.0	6.9	7.4	9.1	10.2	10.8	11.4
Income Taxes receivable	0.6	1.1	0.6	0.4	2.0	2.0	2.0	2.0	2.0	2.0
Inventories	2.7	2.8	2.9	3.1	3.3	3.6	4.4	4.9	5.2	5.5
Prepaid expenses	2.8	4.0	3.4	4.5	4.6	4.9	6.1	6.8	7.2	7.6
Deferred Income Taxes	5.9	1.6				-	-	-	-	-
Total current assets	34.0	34.3	31.8	39.4	46.0	(7.0)	(29.6)	20.0	70.1	123.6
Non-current assets										
Property and equipment	175.6	180.3	203.2	214.9	250.7	329.7	389.6	376.8	364.3	352.3
Goodwill	25.1	25.1	25.1	25.1	25.1	25.1	25.1	25.1	25.1	25.1
Intangible assets, net	8.5	7.4	6.2	5.0	3.9	3.9	3.9	3.9	3.9	3.9
Deferred Income taxes	0.4	4.7	7.4	7.4	3.5	3.5	3.5	3.5	3.5	3.5
Other assets, net	0.9	0.6	1.2	3.4	2.8	2.8	2.8	2.8	2.8	2.8
Total non-current assets	210.5	218.0	243.1	255.8	286.1	365.0	425.0	412.1	399.7	387.6
Total assets	244.5	252.3	274.8	295.2	332.1	358.0	395.4	432.1	469.8	511.3
Current liabilities										
Current portion of long-term debt			40.9			-	-	-	-	-
Accounts payable	8.7	7.9	6.7	8.7	8.2	8.7	10.8	12.1	12.8	13.4
Construction Accounts Payable		1.8	1.4	2.6	5.8	5.8	5.8	5.8	5.8	5.8
Accrued liabilities	18.2	19.3	21.9	23.8	25.4	27.1	33.5	37.5	39.6	41.7
Income Taxes Payable						-	-	-	-	-
Total current liabilities	26.8	29.1	70.9	35.1	39.4	41.7	50.1	55.5	58.2	61.0
Non-current liabilities										
Long-term debt	53.8	46.3		26.2	26.2	26.2	26.2	26.2	26.2	26.2
Total non-current liabilities	53.8	46.3	-	26.2	26.2	26.2	26.2	26.2	26.2	26.2
Total liabilities	80.6	75.4	70.9	61.3	65.6	67.9	76.3	81.7	84.4	87.2
Shareholders' equity										
Common stock	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Additional paid-in capital	30.9	23.0	22.7	23.8	26.9	26.9	26.9	26.9	26.9	26.9
Treasury stock	(39.8)	(33.0)	(26.4)	(22.2)	(18.1)	(18.1)	(18.1)	(18.1)	(18.1)	(18.1)
Retained earnings (accumulated deficit)	172.6	186.7	207.4	232.0	257.5	281.2	310.1	341.5	376.5	415.1
Total shareholders' equity	163.9	177.0	203.9	233.8	266.5	290.1	319.0	350.5	385.4	424.1

Revenue Analysis

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Growth Analysis										
Casino revenue growth, %		-3.2%	8.1%	7.7%	5.8%	7.0%	20.0%	12.0%	5.0%	5.0%
Food and Beverage revenue growth, %		5.4%	8.0%	6.7%	5.2%	6.7%	20.0%	10.0%	6.7%	6.7%
Hotel revenue growth, %		-4.2%	4.1%	3.3%	6.0%	5.0%	35.0%	20.0%	5.0%	5.0%
Other revenue growth, %		7.4%	7.7%	3.9%	7.1%	6.3%	15.0%	5.0%	6.3%	6.3%
Total revenue growth, %		-1.0%	7.7%	6.9%	5.7%	6.7%	21.1%	12.0%	5.4%	5.4%
Segment Breakdown										
Casino, mm	149.9	145.1	156.8	168.9	178.6	191.1	229.3	256.8	269.7	283.1
Food and Beverage, mm	49.6	52.3	56.5	60.3	63.4	67.7	81.2	89.3	95.3	101.7
Hotel, mm	22.7	21.7	22.6	23.4	24.8	26.0	35.1	42.2	44.3	46.5
Other, mm	9.7	10.4	11.2	11.6	12.5	13.3	15.2	16.0	17.0	18.1
Total revenue, mm	231.9	229.6	247.2	264.1	279.3	298.0	360.9	404.3	426.2	449.4
Casino revenue, %	64.6%	63.2%	63.5%	63.9%	64.0%	64.1%	63.5%	63.5%	63.3%	63.0%
Food and Beverage revenue, %	21.4%	22.8%	22.9%	22.8%	22.7%	22.7%	22.5%	22.1%	22.4%	22.6%
Hotel revenue, %	9.8%	9.5%	9.2%	8.8%	8.9%	8.7%	9.7%	10.4%	10.4%	10.3%
Other revenue, %	4.2%	4.5%	4.5%	4.4%	4.5%	4.4%	4.2%	4.0%	4.0%	4.0%
Total revenue, %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

WACC Calculations

Cost of Equity	
Risk-free rate	2.4%
Expected market return	6.9%
Market risk premium	4.5%
Beta	1.17
Cost of equity	7.7%

Cost of Debt	
Pre-tax cost of debt	1.8%
Effective tax rate	23.5%
Cost of debt	1.4%

WACC	
Total outstanding debt	26.2
Total shareholders' equity	260.2
Total capitalization	286.4
Cost of equity	7.7%
Cost of debt	2.2%
WACC	7.2%

		WACC				
		8.19%	7.69%	7.19%	6.69%	6.19%
Perpetuity Growth Rate	1.00%	\$ 30.45	\$ 33.36	\$ 36.76	\$ 40.77	\$ 45.55
	1.50%	\$ 32.56	\$ 35.87	\$ 39.78	\$ 44.45	\$ 50.13
	2.00%	\$ 35.01	\$ 38.82	\$ 43.38	\$ 48.93	\$ 55.80
	2.50%	\$ 37.89	\$ 42.34	\$ 47.75	\$ 54.47	\$ 63.01
	3.00%	\$ 41.33	\$ 46.61	\$ 53.16	\$ 61.51	\$ 72.48
		WACC				
		8.19%	7.69%	7.19%	6.69%	6.19%
Terminal EV/EBITDA Multiple	11.4x	\$ 35.50	\$ 36.37	\$ 37.27	\$ 38.20	\$ 39.15
	12.4x	\$ 38.42	\$ 39.36	\$ 40.33	\$ 41.33	\$ 42.36
	13.4x	\$ 41.34	\$ 42.35	\$ 43.39	\$ 44.46	\$ 45.56
	14.4x	\$ 44.26	\$ 45.34	\$ 46.45	\$ 47.59	\$ 48.77
	15.4x	\$ 47.18	\$ 48.33	\$ 49.51	\$ 50.72	\$ 51.97

Discounted Cash Flow Analysis

	Dec-13	##	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Free Cash Flow										
EBIT	30.6	#	32.6	39.2	40.7	32.2	39.1	42.4	47.0	51.8
Less: Tax expense	(7.2)	##	(7.7)	(9.2)	(9.6)	(7.6)	(9.2)	(10.0)	(11.1)	(12.2)
Add: Depreciation and amortization	16.6	#	15.9	14.8	15.1	18.6	22.4	26.5	25.6	24.8
Less: Capital expenditures	(12.4)	##	(37.7)	(26.1)	(50.0)	(97.5)	(82.4)	(13.6)	(13.2)	(12.8)
Less: Change in net working capital	(0.4)	##	0.6	1.4	(2.8)	1.3	4.7	3.0	1.5	1.6
Unlevered free cash flow	27.3	#	3.8	20.1	(6.5)	(53.0)	(25.4)	48.3	49.9	53.3
Discount factor					-	1.00	2.00	3.00	4.00	5.00
Present value of unlevered free cash flow					-	(50.6)	(22.1)	39.2	37.8	37.6

Perpetuity Growth Method	
Perpetuity growth rate	2.0%
PV sum of unlevered FCF	42.0
PV of terminal value	725.3
Enterprise value	767.3
Add: Cash	26.8
Less: Debt	26.2
Less: Other EV adjustments	-
Equity value	767.9
Shares outstanding	17.7
Implied share price	\$ 43.38

Current price	\$ 44.01
Implied price	\$ 43.38
Total return	-1.4%

Exit Multiple Method	
Terminal EV/EBITDA multiple	3.4x
PV sum of unlevered FCF	42.0
PV of terminal value	723.8
Enterprise value	765.8
Add: Cash	26.8
Less: Debt	26.2
Less: Other EV adjustments	-
Equity value	766.4
Shares outstanding	17.7
Implied share price	\$ 43.30

Current price	\$ 44.01
Implied price	\$ 43.30
Total return	-1.6%

Comparable Company Analysis

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple		
				NTM EV/EBITDA	2018E EV/EBITDA	2019E EV/EBITDA	NTM P/E	2017E P/E	2018E P/E
Pinnacle Entertainment	PNK	1,876.7	5,618.4	7.8 x	7.8 x	7.6 x	22.2 x	22.2 x	20.3 x
Boyd Gaming	BYD	3,657.9	6,530.7	10.6 x	10.6 x	9.6 x	25.4 x	25.4 x	19.8 x
Penn National Gaming	PENN	2,483.1	6,996.6	7.6 x	7.6 x	7.4 x	17.9 x	17.9 x	15.0 x
Golden Entertainment	GDEN	724.5	1,606.9	8.5 x	8.5 x	7.9 x	20.0 x	20.0 x	14.6 x
Las Vegas Sands Corp	LVS	56,365.7	63,586.7	13.4 x	12.8 x	12.1 x	21.5 x	21.5 x	19.7 x
Monarch Casino & Resort	MCRI	842.4	839.4	12.6 x	12.8 x	10.4 x	35.3 x	27.0 x	18.6 x
Median				8.5 x	8.5 x	7.9 x	21.5 x	21.5 x	19.7 x
Mean				9.6 x	9.5 x	8.9 x	21.4 x	21.4 x	17.9 x
High				13.4 x	12.8 x	12.1 x	25.4 x	25.4 x	20.3 x
Low				7.6 x	7.6 x	7.4 x	17.9 x	17.9 x	14.6 x
				EV/EBITDA Implied Price			P/E Implied Price		
Median				\$ 28.66	\$ 28.35	\$ 31.99	\$ 25.79	\$ 33.74	\$ 44.61
Mean				\$ 32.17	\$ 31.46	\$ 36.16	\$ 25.67	\$ 33.59	\$ 40.54
High				\$ 44.82	\$ 42.57	\$ 49.11	\$ 30.43	\$ 39.81	\$ 46.04
Low				\$ 25.68	\$ 25.39	\$ 30.11	\$ 21.46	\$ 28.08	\$ 33.13

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