

A REVIEW OF THE ANCILLARY FACILITY ELEMENTS
OF APPLICANT PROPOSALS
FOR THE PRINCE GEORGE'S COUNTY, MARYLAND
CASINO LICENSE

v.1.4. Final

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On behalf of:
Maryland Lottery Commission
Video Lottery Facility Location Commission

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EXECUTIVE SUMMARY

Subject to the contents of the body of the report.



Project renderings selected shown in MLC order and in relatively the same size after adjustment for aspect.

Source: Applicant Submissions.

OVERALL CONCLUSION

- Each Applicant has an established, proven, and successful business model.
- The Ancillary Facilities aspects of the Applicant's Submission appear to support the successful commercial execution of their proposed gaming facility employing their respective models. Doing so will optimize (i.e., maximize but risk adjusted) the achievement of the mandated Evaluation Criteria.
- MI leaves it to other MLC engaged independent consultants to quantify the benefits to Maryland over the term of the license

Macomber International, Inc. (“MI”) was asked by the Maryland Lottery Commission Video Lottery Facility Location Commission (combined “MLC”) to evaluate the ancillary facilities (“Ancillary Facilities”) as proposed in the submissions (“Submissions”) of the three applicants (“Applicants”) for the Prince George’s County, Maryland gaming facility license.

Ancillary Facilities refer to all activities except gaming: e.g., dining, bars/lounges, entertainment, retail, hotel, meeting and convention, and other relaxation (e.g., spa) and recreation (e.g., fitness center and swimming pool) facilities.

The three Applicants include: Prince George’s Racing Ventures, LLC which will do business as Hollywood Casino Resort at Rosecroft Raceway (to be referred to as “Hollywood/Penn”), Maryland Casino LLC which will do business as Parx Maryland (“Parx”), and MGM National Harbor, LLC doing business as MGM National Harbor (“MGM”),

When awarding the gaming license the MLC is obligated by law to follow the Maryland evaluation criteria as set forth on pages 222 and 223 of the State Government 2012 Supplement, §9-1A-36 (“Evaluation Criteria”). Essentially, the fourteen Evaluation Criteria are categorized into three sections with the following section weighting (there are no individual weighting factors stated for any of the fourteen criteria):

1. Business and Market Factors	70%
2. Economic Development Factors	15%
3. Siting Factors	15%
TOTAL	<u>100%</u>

MI reviewed the fourteen Evaluation Criteria to determine what was applicable to MI’s scope of work, i.e., evaluating Ancillary Facilities. In so doing, MI distilled the Evaluation Criteria must consider into the criteria shown below. Direct responsibilities are highlighted in gray, indirect in brown.

CRITERIA TO BE EVALUATED UNDER MI'S SCOPE OF RESPONSIBILITY

Reference	Category and Evaluation Criteria
BENEFITS TO THE STATE -- REVENUE	
(2) (i)	Highest potential benefit and potential prospective revenue to be derived by the State;
(2) (v)	Competitiveness of the proposed facility;
(2) (ii)	The potential revenues from a proposed location based on a market analysis;
(2) (iv)	The extent to which the proposed location demonstrates that the facility will be a substantial regional and national tourist destination;

Reference	Category and Evaluation Criteria	
BENEFITS TO THE STATE -- REVENUE ... continued		
(2)	(iii)	The extent to which the proposed location encourages Maryland gaming participants to remain in the State;
(2)	(vi)	The amount of gross revenues to be allocated to the video lottery operator over the term of the license;
BENEFITS TO THE STATE -- CAPITAL INVESTMENT		
(2)	(v)	The proposed facility capital construction plans and ...
JOB CREATION (because jobs are related to capital investment and revenue)		
(2)	(viii)	The extent to which the proposed location will preserve existing Maryland jobs and the number of net new jobs to be created;
(3)	(i)	The anticipated wages and benefits for new jobs to be created;

Source: MLC and Macomber International, Inc.

After reading and evaluating copious amounts of information available from the MLC and the Applicants, and recognizing that the Business and Market Evaluation Criteria are to constitute 70 percent of the weight in choosing the successful Applicant, MI made two early conclusions regarding the best approach to take when evaluating the Ancillary Facilities of the Applicants.

The first conclusion was that to optimize the Evaluation Criteria MI's evaluation should focus on determining which Submission achieved the best commercial success, i.e., revenue, profits, and financial return. This is because by optimizing¹ the commercial success to an Applicant the State income linked to Gross Gaming Revenue, jobs, the retention of Maryland gamers in Maryland, and the ability to attract Tourists (as defined) would, in turn, be optimized.

The second conclusion and corollary to the first, MI should then focus on determining whether the proposed gaming facility will be "The Best Locals / Regional Gaming Facility It Can Be" for both embedded Market reasons and embedded Maryland cost of doing business reasons. The former because the Prince George's County location is in the consistently dense and highly populated Market Area ... *and* ... because a limited oligopolistic number of licenses in that Market Area combine to create a very favorable demand-supply imbalance in favor of demand. But, this embedded advantage is offset by the also embedded disadvantageous Maryland dynamic of a high gaming revenue tax and cost of conducting a gaming business. These two forces, independently created but colliding in execution, inevitably mean that the Applicants must first be successful attracting and serving Local and Regional gamers before turning to Local / Regional non-gamers, gaming markets further afield, and Tourists.

¹ "Optimizing" is used carefully and intentionally to denote the maximum opportunity as adjusted by consideration for risk.

Once the gaming facility is positioned to best serve Local and Regional Gamers the property will be able to serve remaining Regional, National, and International Tourists with the remaining capital and operating marketing dollars available. To take the reverse approach does not optimize the achievement of the Evaluation Criteria.

To that end, MI evaluated the Ancillary Facilities from the perspective of how well they would attract, serve, and create a Gaming Related Experience that, in turn, would create value for the Local and Regional gamer causing them to first make a Trial Visit, then continue to make Repeat Visits, and finally convert to being a Loyal Player to the Prince George's County gaming facility. The table below provides a high level summary of the Ancillary Facilities as proposed by the Applicants in rank order of the gamer's importance. Note that the Ancillary Facilities are further categorized into three tiers. The level of importance between the three tiers is not linear; rather, the importance of Tier 2 Ancillary Facilities to a gamer is far less than Tier 1 as well as between Tier 3 and Tier 2 activities.

HOLLYWOOD (Penn)		PARX		MGM	
Some activities and venues may be shown in more than one category. See detail.					
TIER ONE -- GAMER'S TOP PRIORITIES					
PARKING		Shown with total spaces first / covered spaces after.			
Spaces	5,100 /3,000 spaces	5,317 / 5,011 spaces		4,988 / 4,988 spaces	
DINING					
Venues / seats	9 venues, 764 seats	6 venues, 690 seats		14 venues, 1,485 seats	
Includes a Food Court with ...	4 fast food outlets	Number of food outlets not specified.		5 fast food outlets	
BARS AND LOUNGES					
Venues / seats	6 venues, 286 seats	5 venues, 220 seats		4 venues, 263 seats	
HOTEL					
Number of keys	258 keys		250 keys		300 keys
Room Mix:		Number of keys / Square Feet each room			
Standard	126 keys / 360 sq. ft.	90 keys / 450 sq. ft.		221 keys / 431 sq. ft.	
Premium	114 keys / 360 sq. ft.	135 keys / 450 sq. ft.		n.a. / sq. ft.	
Suites	18 keys / see detail	25 keys / see detail		79 keys / see detail	
TIER TWO GAMER PRIORITIES					
ENTERTAINMENT					
Venues / Sq. Ft.	2 venues, unknown	3 venues, 57,000 sq. ft.		4 venues, 24,185 sq. ft.	
RETAIL					
Stores / Sq. Ft.	1 store, 500 sq. ft.	2 stores, 550 sq. ft.		12 stores, 42,419 sq. ft.	
TIER THREE GAMER PRIORITIES					
OTHER					
	Indoor swimming pool/Spa/Gym.	Spa, Salon, Fitness Top of hotel.		Outdoor rooftop pool with Whirlpool spas.	

		Box office.	Spa/Salon/Fitness/Gym
	HOLLYWOOD (Penn)	PARX	MGM
		Transportation Center	Conservatory
			Spectacle Garden
UNIMPORTANT TO GAMERS ... with rare exception			
MEETING, INCENTIVE, CONVENTION, AND EXHIBITION (“M.I.C.E.”)			
Spaces	4 “spaces”	4 “spaces”	8 “spaces”
Square Feet	69,000 sq. ft.	10,000 sq. ft., FOH only	Approx.. 68,000 sq. ft.

Source: Applicant submissions, website, articles, and Macomber International, Inc.

It is important to realize that each of the Applicants have and continue to conceptualize, develop, operate, and market very successful gaming-centric projects elsewhere. They do so, however, applying different business models any one of which is not “right” or “wrong” and will work in a Prince George’s County Marketplace. They come to this opportunity with different strategies about individual market segments and the optimal market mix they propose to target. They also have different strategies regarding how they intend to attract these target market segments via positioning, key selling propositions and by inference, capital investment and operating/marketing tactics. Accordingly, it was MI’s first objective to determine whether the Applicant’s Ancillary Facilities work “internally” and secondly to evaluate how the Ancillary Facilities work comparatively to help optimize the commercial success of their proposed gaming facility.

Evaluated independently, all of the Applicant’s Ancillary Facility proposals “work” in terms of being able to mechanically serve the 13,500 to 20,000 visitors a day forecast by the Applicants. This is important because the average time gamers spend gaming per day is four to six hours making certain non-gaming activities a required utility function (e.g., the gamer needs to eat) not a value added experience. Admittedly, depending upon the assumptions, it appears that some Applicant’s facilities do so with a higher utilization of the mix and capacity planned and, if more people eat or drink for example, they may have to employ some “stretch” operating measures to expand the physical capacity of what is contemplated. But, based upon the tools MI knows are available to operators, MI does not see any reasonably expected conditions to cause the proposed capacity not to be able to physically to serve forecast demand.

From a qualitative point of view – i.e., how the Non-gaming Experience supports the Gaming Experience (e.g., did the meal meet minimum expectations?) and/or is amplifies the Gaming Experience (e.g., was the meal a “great meal!” and made the sweetness of winning even more sweet or the sting of a loss less or disappear) – because of their business model each Applicant approaches the production and delivery of its Ancillary Services somewhat differently but still adhering to the core principles of a good (great?) dining or drink/bar experience.

In this regard, while not declared overtly by the Applicant’s, it is MI’s observation that each Applicant applies the following general business model:

- **Hollywood/Penn:** Target the dead-center middle of the Marketplace by providing comfortable, familiar, new and clean environments using relatively low price points accompanied by consistently good quality (content, ingredients, service, aesthetics) thereby creating price-value. This effort takes place within a Hollywood-inspired theme that has broad appeal. Hollywood/Penn then caters “up” or “down” the Middle or Mass Market income/budget chain with individual facilities (e.g., a food court for the low end and a steakhouse for their highest-most customer) and such artifices as an aspirational-ly tiered loyalty club program. As such, Hollywood/Penn will rarely spend the greatest amount per unit on the building and interior design or even discretionary marketing dollars relying instead on consistently meeting if not exceeding ‘average’ expectations at a price-value. Hollywood/Penn currently operates 26 such properties in 17 jurisdictions and has been one of if not THE fastest growing locals’ / regional focused U.S. gaming company. Their business model works.
- **Parx:** Parx is a newer company and only operates only one other casino under the Parx brand in the oligopolistic Philadelphia Market. Even so, their brand went through an evolution from an initial, rather opportunistic building to become Philadelphia’s gaming revenue leader. Parx appears to position its property slightly higher than say Hollywood/Penn still aiming at the Mass Market but probably with their “center” more in the upper half of the Mass Market continuum. As such they appear to spend more per unit to create a higher level bricks-and-mortar environment as well as to offer a slightly greater variety of activities thereby still allowing Parx to market “down” but able to more easily penetrate further “up” into the lower extremities of the Upper Market Segment than say Hollywood/Penn. It appears they are also more aggressive in spending discretionary dollars to incentivize Trial, Repeat Visitation, and Loyalty.
- **MGM:** MGM has grown from its MGM DNA but also through the clever and aggressive acquisition of a number of high quality brands and properties in Las Vegas (e.g., Bellagio, Mandalay Bay). In truth they have a multitude of brands that stretch from more Mass Market (e.g., New York. New York) to the best-of-the-best (e.g., Bellagio and aspects of City Center). The MGM brand is a brand unto itself and appears to be positioned to serve the dead center of what is commonly referred to as the “4-star” Market or the center of the Lower-Upper Market. In so doing, MGM presents a modern, sophisticated image allowing them to market “down” by making such visits somewhat aspirational and “up” by offering elements at the 5-star and *über*, world class quality levels. The MGM brand also appears to stand for “big” offering multiple options within a given activity (more restaurants than say Hollywood/Penn or Parx) and more types of activities. They also make larger capital investments, higher investments per unit, and will spend in aggregate large sums on incentive marketing (although ratios to revenue may not be the highest when comparing profit and loss statements because of the generally higher revenue from the cumulative effect of their business model).

Consistent with the above, see the following table:

	HOLLYWOOD (Penn)	PARX	MGM
Investment: Building, Equipment, & Supplies only	\$458M	\$379M Phase 1* \$589M Full build out*	\$735M
Gaming Positions	3,980 positions	4,190 positions 5,940 positions	4,481 positions
“Investment” (defined above) per Gaming Position	\$115,000	\$90,000 Phase 1 \$99,000 Full build out	\$164,000
Forecast Gross Gaming Revenue	\$334M 2016 \$413M 2019	\$660M 2016 \$809M 2019	\$599M 2016 \$688M 2019
Forecast Non-gaming Revenue	\$ 38M 2016 \$ 47M 2019	\$ 81M 2016 \$122M 2019	\$107M 2016 \$123M 2019
* Parx has proposed opening in 2016 Phase 1 with 3000 VLTs but by 2019 adding an additional 1750 VLTs (4750 VLTs total if the MLC is able and willing to allow additional units) and their 250 room hotel.			

Source: Applicant submissions and Macomber International, Inc.

There are some anomalies relative to MI’s contentions in the above table. Parx reaches the “middle” investment among the three Applicants after full build out because they are proposing a phased opening. Likewise, Parx’s Investment per Gaming Position is lower than Hollywood partially because Parx has proposed the maximum number of VLT units possible coupled with gaming revenue forecasts that appear to be possible but aggressive. For Parx to have an investment of \$128,000 per gaming position which would position Parx’s investment per gaming unit in direct proportion to their rate of increase in investment Parx would need approximately 4100 VLTs. Among the Applicants, the Non-gaming Revenue relationships hold true to MI’s contentions.

A careful review of the hard data points as well as the more subjective descriptions of the Ancillary Facilities convince MI that each Applicant’s concept, ancillary activity mix, capacity, and design proposal will live up to its business model. In a Marketplace as strong as expected for the Prince George’s County gaming facility the Ancillary Facilities as proposed should allow them to be successful either as defined by their internal forecasts or by the MLC independent consultants engaged by the MLC.

MARKETING OF THE ANCILLARY FACILITIES

The table below summarizes the Applicant’s various marketing related expenses items from the workbook the MLC asked them to prepare which summarizes certain key information from their Submissions. The information provides some insights to their Marketing approach.

	HOLLYWOOD (Penn)	PARX	MGM
	2016 / 2019 followed by % of gaming revenue for that year.		
GAMING REVENUE:	\$334M / \$413M	\$660M / \$809M	\$599M / \$688M
MARKETING:			
Promotional Allowances	\$ 13M / \$ 16M 3.9% / 3.9%	\$ 31M / \$ 43M 4.7% / 5.3%	\$ 27M / \$ 32M 4.5% / 4.7%
Marketing - General & Administrative	\$ 11M / \$ 14M 3.3% / 3.3%	\$ 34M / \$ 47M 5.1% / 5.9%	\$ 10M / \$ 10M 1.6% / 1.4%
Subtotal	\$ 24M / \$ 30M 7.2% / 7.2%	\$ 65M / \$ 90M 9.8% / 11.2%	\$ 37M / \$ 42M 6.1% / 6.1%
Entertainment Expenses	n.a. / n.a.	\$ 9 M / \$ 9M 1.4% / 1.2%	\$ 6M / \$ 6M 0.8% / 0.9%
Total Marketing	n.a. / n.a.	\$ 74M / \$ 100M 11.2% / 12.3%	\$ 43M / \$ 48M 7.1% / 7.0%

Source: Applicant “Workbooks” and Macomber International, Inc.

MI believes the above forecasts are more helpful in relative than absolute terms because there may be some inconsistencies between the assumptions used in the Applicant’s preparation of these numbers.

Regardless, at the combined Promotional Allowance and Marketing subtotal line, Parx outspends both of the other Applicants in both years by a fair amount translating into 9.8 percent of Gross Gaming Revenue in 2016 and 11.2% in 2019. It does so on the highest revenue albeit the 2019 forecast is predicated on receiving approval for the 4750 VLT units and the opening of their hotel.

But, all Applicants look willing to support their Ancillary Facility plan although Hollywood/ Penn taking the lower capital cost and lower marketing operating cost approach and Parx at the other extreme. MI suspects that MGM is fairly disciplined and will spend the ratio shown, more if needed to achieve target financial results and the market responds, less if it does not need to.

TOURISM

Due to the forecast high visitor volume, it appears that there will be little unused Ancillary Facility capacity as proposed to be used to market to and serve Tourists. In a sense, this is a good thing, sense this means “everything is full” but it may frustrate those in Government who were looking for more contribution to Tourism by the winning Applicant. Perhaps those frustrated can take solace knowing that the optimum number of construction and operating jobs as well as benefits to the State has been achieved and the retention of Maryland gamers accomplished only through other means.

QUANTITATIVE RATING

In order to help the MLC choose the Applicant that best optimizes the Evaluation Criteria MI offers the following summary and relative ranking

RATING SCHEME

Relative to the ability of the Ancillary Facilities to foster the commercial success of the proposed gaming facility.

Category	Weight	HOLLYWOOD / PENN		PARX		MGM	
		Score	Result	Score	Result	Score	Result
GOAL SET *	0%	0	n.a.	0	n.a.	0	n.a.
EXTERNAL-ITIES *	0%	0	n.a.	0	n.a.	0	n.a.
INTERNAL-ITIES *	0%	0	n.a.	0	n.a.	0	n.a.
PRODUCT MARKETING	50%						
TIER 1							
Casino **	0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Parking	18%	7	1.3	8	1.4	9	1.6
Food	30%	7	2.1	6	1.8	8	2.4
Beverage	25%	5	1.3	5	1.3	7	1.8
Hotel	15%	5	0.8	6	0.9	7	1.1
TIER 2							
Entertainment	8%	6	0.5	6	0.5	7	0.6
Retail	2%	3	0.1	4	0.1	6	0.1
TIER 3 / OTHER							
Other (cumulative) ***	1%	6	0.1	4	0.0	7	0.1
Meeting and Convention	1%	4	0.0	4	0.0	5	0.1
Subtotal - Product Marketing	100%	6.0	3.0	6.0	3.0	7.6	3.8
DEMAND STIMULATION	25%						
MARKETING							
Pre-opening	40%	6	2.4	7	2.8	8	3.2
Post opening	60%	6	3.6	7	4.2	8	4.8
	100%	6.0	1.5	7.0	1.8	8.0	2.0
SUM OF THE PARTS	25%	7	1.8	7	1.8	8	2.0
TOTAL	100%	6.3		6.5		7.8	

These ratings do not rate the real or perceived benefits to be generated by each Applicant.

* Note: MI has intentionally omitted any comparison of each applicant's Goal Set, consideration of External-ities and Internal-ities, and certain big-picture strategic statements because MI found (or speculates) that reference to these Marketing Plan elements were not explicitly requested in most instances by the MLC Submission process, each company may not 'think' about the development process in these terms. But, perhaps most importantly, it is the tactics and execution that in the final analysis are most important and telling about the applicant's development, operating, and marketing process.

** Note: The casino is not rated because MI's scope of responsibility for this engagement did not include a review of the gaming activities.

*** See body of report.

Source: Macomber International, Inc.

The final score was 6.3 for Hollywood/Penn, 6.5 for Parx, and 7.8 for MGM. On a relative basis, if MGM is a 100 then Parx's score would be 83 and Hollywood/Penn's 81.

These scores reflect MI's perception that while all three projects adhere to their company's business model and brand faithfully, that ultimately that MGM will produce more revenue thereby enabling it to spend more capital dollars, develop more assets, employ more people, pay more wages and benefits, generate more Government income, retain more Maryland gamers in Maryland, and possibly attract more Tourists all other things being equal.

It also reflects MI's perception that in the end, the Hollywood/Penn and Parx projects are very close in terms of commercial potential based upon their activity mix, capacity, configuration and design, and proposed operation and marketing strategies. Hollywood/Penn gets a slight lead because of MI's perception that it offers slightly more food variety and its racing/simulcast is a wild card but a potential incremental margin whose food, beverage, and other support facilities can, in any event be used for overflow and another choice when open.

MI scored Parx "one point" (before weighting) lower than Hollywood/Penn in the Sum of the Parts Category because of Parx's proposal to phase the hotel and other possible expansion versus the other two Applicants who have chosen to open with everything upon opening. That may be too high or too low a penalty depending upon your point of view.

These contentions need to be cross checked and counter-balanced against the independent forecasts being made by the MLC consultants and their ensuing quantification of benefits.

SUBJECTIVE "RATING" AND CLOSING COMMENTS

With all of these considerations in mind it seems to MI that the MGM is positioned to capture the greatest bandwidth of the marketplace positioning-wise (4-star that allows it to appeal both higher up as well as far down into the Mass Market category); has a property both in terms of scope, mix, and "excitement value" that will appeal to the Local / Regional gamer's non-gaming interests (starting with parking and extending to eating, drinking, and "having fun"); has the ability to leverage its Experience(s) with National Harbor and the Tanger Outlets; and, appears to have the bricks-and-mortar infrastructure and "chops" to get the job done as well as the company resources behind it to execute a more of a national/world class facility while not losing grasp of the Local / Regional Market. MI also believes that MGM will be more competitive to Maryland Live! (and its announced intention to add a new hotel) and the soon to open Baltimore Horseshoe both independently and in terms of their surrounding respective activity clusters.

From MI's point of view the Hollywood/Penn and Parx projects are very close from MI's point of view even though they get their in such different ways. Parx just seems more committed to working hard to earn the business. This starts with the seeming willingness to spend more on marketing than anyone else, appears to be appealing to a bit of a broader market with a greater variety than Hollywood/Penn (younger and more "hip"), and moves on to recognize that positioning a notch below MGM but a notch above Hollywood/Penn has the potential to create

greater market and marketing bandwidth. This may just be a perception but Parx just seems more aggressive.

But, MI likes Hollywood/Penn, too. Mass Market can be the sweet spot for a Marketplace and maybe Hollywood/Penn has picked up that scent and the other two have got it wrong. Hollywood/Penn feels more comfortable, warm, homey, and low key. It will definitely attract the middle and, with some steakhouses and other upscale-pointed activities perhaps higher than MI appreciates. It's multiple locations in the greater Eastern Corridor could be a boost much like Station Casinos made its empire around opening multiple company properties around Las Vegas allowing local players to move from casino-to-casino to gamble. They also have the site to expand probably three to four-fold from the plans being shown. Who knows what that site could develop into as business intelligence is gathered and the Marketplace settles down?

Three good established, proven, and successful casino operators

Three good projects with a mix and programming of Ancillary Facilities that work.

MI rejected none and believes all could work if the consideration for the sum of all fourteen Evaluation Criteria and the subjective assessment of the MLC so dictate.

TABLE OF CONTENTS

	<u>Pages</u>
EXECUTIVE SUMMARY	2 - 12
SECTION 1 ASSIGNMENT, OBJECTIVES, AND APPROACH	14 - 16
SECTION 2 EXTERNAL DYNAMICS TO BE CONSIDERED	17 - 39
SECTION 3 APPLICANT REVIEW	40 - 100
SECTION 4 COMPARISON, EVALUATION, AND RATING OF APPLICANT SUBMISSIONS	101 - 105
APPENDICES	106
Appendix 1 DEVELOPMENT THEORY	107 - 114
Appendix 2 MOTIVATINO AND BEHAVIOR OF THE GAMER vs. NON-GAMER, LOCAL/REGIONAL vs. TOURIST TARGET MARKET SEGMENTS	115 - 125

Section 1

ASSIGNMENT, OBJECTIVES, AND APPROACH

1. BACKGROUND

Macomber International, Inc. (“MI”) was engaged by the Maryland Lottery Commission and its Video Lottery Facility Location Commission (jointly hereafter referred to as “MLC”) to undertake an evaluation of the ancillary facilities (“Ancillary Facilities”) proposed by applicants (collectively “Applicants”) in their submissions for the Prince George’s County, Maryland gaming license (“Submission”). Applicants include: Prince George’s Racing Ventures, LLC which will do business as Hollywood Casino Resort at Rosecroft Raceway (to be referred to as “Hollywood/Penn”), Maryland Casino LLC which will do business as Parx Maryland (“Parx”), and MGM National Harbor, LLC doing business as MGM National Harbor (“MGM”).

When awarding the gaming license the MLC is obligated by law to follow the Maryland evaluation criteria as set forth on pages 222 and 223 of the State Government 2012 Supplement, §9-1A-36 (“Evaluation Criteria”). Essentially, the fourteen criteria are categorized into three sections with the following section weighting (there are no sub-weighting factors stated for any of the 14 criteria within a category):

1. Business and Market Factors	70%
2. Economic Development Factors	15%
3. Siting Factors	<u>15%</u>
TOTAL	<u>100%</u>

A more detailed review of the Evaluation Criteria will be presented in Section 2.1. Maryland Location Evaluation Criteria.

To meet the objectives of the Maryland gaming statutes the MLC established rigorous application and review procedures. To assist the MLC and its staff with the review of the applicant submissions and presentations MLC engaged an array of consultants each of whom bring a particular area of expertise to the review process.

MI was engaged for its expertise in the ancillary facility development aspects of the applications. Essentially, Ancillary Facilities refer to the non-gaming aspects of the project including but not necessarily limited to: dining, bars, lounges, clubs, entertainment, retail, hotel, meeting and convention, relaxation, and leisure activities.

2. APPROACH

In preparing its evaluation of the applicant submissions and presentations, MI took a holistic review of all the elements that contribute to a gaming project's success. MI reviewed the tangible, quantitative, and "hard" aspects of each Applicant's Submission as well as the intangible, qualitative, and "softer" elements. MI reviewed and evaluated the Submissions in terms how each Ancillary Facility element contributed positively or negatively to the performance of anticipated gaming activities, the primary marketing and economic driver of each project, as well as how each Ancillary Facility element independently contributed positively or negatively to the overall success of the project in terms of drawing non-gaming visitors to the proposed project and financial performance. MI also reviewed the Ancillary Facilities in terms of how these elements discretely, in aggregate, and synergistically accomplished the Evaluation Criteria.

MI took a linear sequential approach to its review. MI initially began with a top down review following the work plan outlined below but, as findings so dictated, iterated this sequential approach up, down, and across between and among steps until a holistic overall conclusion was reached:

1. Review and understand the driving goals and parameters established by Maryland gaming related laws, statutes, legislative imperatives, and regulations.
2. Evaluate external factors that influence or have the potential to influence gaming development in Prince George's County in the specific but also within the State of Maryland overall.
3. Evaluate internal factors that influenced or could influence the applicant's Submission (i.e., internal forces specific to the company of each applicant).
4. Evaluate the specifics of each applicant's proposal roughly following the outline below:
 - 4.1. Applicant's Goal Set.
 - 4.2. Applicant's Assessment and Reaction to External-ities (excluding Competition),
i.e., external forces that could impact project performance such as government/ regulatory conditions, gaming/entertainment/ tourism infrastructure, weather, and cost of doing business.
 - 4.3. Applicant's Assessment and Reaction to its own Internal-ities,
i.e., internal forces that could impact project performance such as site, human/ organizational capital, access to financial capital, intellectual property/systems/ practices, brand(s), database, track record and reputation.
 - 4.4. Applicant's Assessment and Reaction to Competition.
 - 4.5. Driving Project Concept.
 - 4.6. Definition of the Marketplace and Target Market Segment Strategy.
 - 4.7. Product Marketing Strategy and Execution.
i.e., all of the elements that produce and deliver the target guest experience ("TGE") to

include but not be necessarily limited to land / building development, programing, price-value propositions, design, production, and delivery.

4.7.1. Strategy.

4.7.2. Tactics / Execution.

4.8. Demand Stimulation Marketing Strategy and Execution.

i.e., pre-and post opening efforts to create awareness, motivate initial trial, spur repeat visitation, and develop loyalty via press and public relations, advertising, sales team efforts, promotions, incentives, and the use of third-party marketing representatives.

4.8.1. Strategy.

4.8.2. Tactics / Execution.

4.9. Other Ancillary Facility Execution Elements.

i.e., company infrastructure, employee motivation programs, accounting/ performance tracking, analyses, controls, and citizenship.

4.10. Sum of the Parts.

i.e., evaluate how effectively the sum of the parts contribute to or dilute the achievement of the Evaluation Criteria goals.

5. Evaluate and Compare each Applicant's Submission.

i.e., assign an objective rating accompanied by a subjective, narrative conclusion.

MI's assessed each Submission project as an independent business activity but also in the context of other existing and possible future gaming and non-gaming competition.

The sections that follow present the findings of MI's review.

Note: The Appendix includes a section that provides background to development theory and practice. It is this framework that MI used to evaluate the Applicant Submissions. Readers knowledgeable of gaming and gaming development probably need not read the Appendix. However, those who are and have the time along with readers new to the gaming industry may choose to do so to gain insight to MI's evaluation and review process.

Section 2

EXTERNAL DYNAMICS TO BE CONSIDERED

1. MARLYLAND LOCATION EVALUATION CRITERIA

When awarding the gaming license the MLC is obligated by law to follow the Maryland evaluation criteria as set forth on pages 222 and 223, §9-1A-36 of the State Government 2012 Supplement, (“Evaluation Criteria”).

Essentially, the law creates fourteen criteria categorized into three sections with the following section weighting (there are no weighting factors stated for any of the criteria individually):

1. Business and Market Factors	70%
2. Economic Development Factors	15%
3. Siting Factors	<u>15%</u>
TOTAL	<u>100%</u>

The fourteen location evaluation criteria are listed below in the order they appear in the State Government Supplement but are paraphrased in some instances.

MARYLAND LOCATION EVALUATION CRITERIA (paraphrased)

Reference	Category and Evaluation Criteria	Weight
(2)	BUSINESS & MARKETING FACTORS	70%
(i)	The highest potential benefit and potential prospective revenue ... to be derived by the State;	
(ii)	The potential revenues from a proposed location based on a market analysis;	
(iii)	The extent to which the proposed location encourages Maryland gaming participants to remain in the State;	
(iv)	The extent to which the proposed location demonstrates that the facility will be a substantial regional and national tourist destination;	
(v)	The proposed facility capital construction plans and competitiveness of the proposed facility;	

- (vi) The amount of gross revenues to be allocated to the video lottery operator over the term of the license;
 - (vii) The percent of ownership by entities meeting the definition of minority business enterprise under title 14, Subtitle 3 of the State Finance and Procurement Article;
 - (viii) The extent to which the proposed location will preserve existing Maryland jobs and the number of new jobs to be created; and ...
 - (ix) The contents of the licensee's plan to achieve minority business participation goals in accordance with the requirements described under § 9-1A-10(a)(1) and (2) of this subtitle.
- (3) ECONOMIC DEVELOPMENT FACTORS 15%**
- (i) The anticipated wages and benefits for new jobs to be created;
 - (ii) Any additional economic development planned in the area of the proposed facility.
- (4) LOCATION SITING FACTORS 15%**
- (i) The existing transportation infrastructure surrounding the proposed facility location;
 - (ii) The negative impact, if any, of a proposed facility location on the surrounding residential community; and
 - (iii) The need for additional public infrastructure expenditures at the proposed facility.

Source: MLC

As stated, the MLC has assembled an array of consulting resources to assist it in reviewing the Applicant Submissions. MI's scope of responsibility deals with Ancillary Facilities. In this context, MI reviewed the Evaluation Criteria and determined that the criteria listed below deal with MI's scope of responsibility.

In distilling the Evaluation Criteria into MI areas of responsibility, MI re-ordered and grouped criteria into what MI believes to be relevant categories. MI then further identified those criteria it believed were MI's direct versus indirect areas of responsibility to review as indicated by a color scheme defined in the table below.

CRITERIA TO BE EVALUATED UNDER MI'S SCOPE OF RESPONSIBILIITY

Direct MI area of responsibility

Indirect MI area of responsibility

Reference	Category and Evaluation Criteria	
BENEFITS TO THE STATE -- REVENUE		
(2)	(i)	Highest potential benefit and potential prospective revenue to be derived by the State;
(2)	(v)	Competitiveness of the proposed facility;
(2)	(ii)	The potential revenues from a proposed location based on a market analysis;
(2)	(iv)	The extent to which the proposed location demonstrates that the facility will be a substantial regional and national tourist destination;
(2)	(iii)	The extent to which the proposed location encourages Maryland gaming participants to remain in the State;
(2)	(vi)	The amount of gross revenues to be allocated to the video lottery operator over the term of the license;
BENEFITS TO THE STATE -- CAPITAL INVESTMENT		
(2)	(v)	The proposed facility capital construction plans and ...
JOB CREATION (because jobs are related to capital investment and revenue)		
(2)	(viii)	The extent to which the proposed location will preserve existing Maryland jobs and the number of net new jobs to be created;
(3)	(i)	The anticipated wages and benefits for new jobs to be created;

Source: MLC and Macomber International, Inc.

MI is mindful that Section (2) Business and Marketing Factors are mandated to receive a 70% weighting and Section (3) Economic Development Factors a 15% weighting.

In reviewing the Evaluation Criteria individually and in aggregate for which MI is responsible to evaluate, MI concluded that the Evaluation Criteria are best accomplished and optimized by making the gaming facility the best commercial success it can be. To foreshadow a more detailed discussion that appears later in this report the advantageous location of Prince George's County in the consistently densely and highly populated Primary and Secondary Greater Washington D.C. Market Area and tertiary-ly, the remainder of the East Coast Megalopolis that

stretches from Washington D. C. to Boston ... *and* ... the limited oligopolistic number of licenses issued in Maryland as well as other states in the feeder market that legalized casino gaming combine to create a very favorable demand versus supply imbalance (demand exceeds supply). But, this embedded advantage is offset by the also embedded disadvantageous dynamics of the high gaming revenue tax and cost of conducting a gaming business in Maryland. These two forces, independently created but colliding in execution, inevitably means that the Applicants must first be successful attracting and serving Local and Regional gamers before turning to Local / Regional non-gamers, markets further afield, and Tourists.

In terms of cause and effect, this means conceptualizing, developing, operating, and marketing a property that extracts the greatest physical demand (e.g., number of visitors) and financial demand (e.g., revenue) in reaction and alignment to the dynamics of the Marketplace.

Consequently, MI's report focuses on how each Applicant's proposal maximizes the commercial opportunity with direct references to the Evaluation Criteria when appropriate.

2. THE ROLE AND IMPORTANCE OF MARKET SEGMENTS

Consumers behave in ignorance of state laws and regulations (except for those that mandate them to do so), terms, conditions, and Evaluation Criteria. Not to say that government should not manipulate business and business should not manipulate consumers to achieve stakeholder goals, nevertheless, in the final analysis it is the behavior of the consumer that dictates success no matter what or how much manipulation is attempted. Therefore, it behooves readers to understand how gaming, leisure, entertainment, and tourist consumers generally are motivated and act.

To begin at the most basic point, intentionally or unintentionally, casinos market to market segments. So does every other business. Market segments are defined as a grouping of consumers with like demographics, psychographics, and behaviors who are likely to respond to similar marketing inspired motivators. While it is true that almost every consumer belongs to more than one market segment and, in fact, may move between and among market segments as circumstances so dictate over periods of time this does not spoil the utility of marketing to market segments since the objective is to catch them in the moment when they are going to act as that market segment is expected to act.

The process of marketing to market segments begins with identifying the marketplace that contains all of the realistic potential feeder markets that contain consumers that might patronize the project ("Marketplace"). From there those in the Marketplace are categorized into market segments following some relevant macro to micro structure as information is gathered and knowledge gained.

In Maryland, following both applicable casino market segmentation theory and the Evaluation Criteria MI believes that at the most simplistic, macro level the following initial target market segment matrix should be the starting point:

	1.__. GAMERS	2.__. NON-GAMERS	3.__. TOTAL
___. 1. LOCAL / REGIONAL RESIDENTS ___.2.1. Maryland Residents ___.2.2. Other Residents within 100 miles	Market Segment 1.1.	Market Segment 2.1.	
___. 2. TOURISTS ___.2.1. Leisure ___.2.2. Business	Market Segment 1.2.	Market Segment 2.2.	
___. 3. TOTAL			

Source: Macomber International, Inc.

Each of these four major target market segments is discussed below in terms of their typical needs, wants, expectations, and behavior but before doing a so, a word about distance.

3. THE IMPACT OF DISTANCE ON PROPENSITY TO VISIT

Before discussing each major target market segment, there is one universal truth that applies to all target market segments in terms of what motivates them to visit a casino and thereafter to patronize a given casino.

The science and art of feasibility studies that prospectively project demand for gaming projects has developed substantially over the last three decades. What has been discovered and proven during this period is that more than anything else the most important factor a gamer considers when deciding if they are going to visit a gaming-centric project and if so, which one is distance. A second critical revelation was that the propensity to patronize a gaming facility does not decrease linearly with distance. Although this is intuitive, it decreases faster than most would think. In fact, propensity to visit decreases at a negative exponential rate. For the non-mathematical, this results in a negative growth curve or a growth curve that is flipped on both its vertical and horizontal axes. When propensity is represented on the vertical axis and distance on the horizontal axes the percent of the population that will patronize the casino decreases from the upper left corner of the graph – or where the potential target market segment is closest to the casino – to the nil or zero as distance increases to the furthest point to the right. What was found is that, in general, the slope and curve of the propensity line decreases by one-fourth if the distance is doubled, one-ninth if distance is tripled and so on. In layperson's terms the further

away the population from the casino the number of adults who will patronize decrease at a higher and higher rate.

Thus, for those gaming-centric projects residing within relatively dense and steady population that extend radially outward from the location of the project, the “inner” ring of a market area is always the most prolific and valuable, all other considerations being equal. The “middle ring” drive-in market is second, and the “outer ring” drive-in market is tertiary.

There are anomalies of course, but applying this demand dynamic to specifics of the Greater Maryland Area, Maryland is part of the high population density East Coast Megalopolis Corridor that stretches from Washington D. C. to Boston. Prince George’s County sits in the middle of a reasonably consistent dense population that extends 100 miles from the specifically and relatively small defined location within Prince George’s County where the proposed gaming facility must be located. It is therefore inevitable that a Prince George’s County gaming facility will be heavily patronized by Maryland and other “close” adjoining District/state residents.

While it is true that Washington D.C., our nation’s capital, attracted close to 19 million visitors in 2012 it is unlikely that the new casino contemplated in Prince George’s County even when added to the five other casinos spread across Maryland and the one casino in West Virginia that is located close to the Washington D.C. border, will independently or collectively act to raise Maryland as a perceived Tourist driven gaming destination or even gamers from further away. Rather, it is more likely that some relatively small percentage of the tourists *who already decided* to visit Washington D.C. and the multitude of surrounding states tourism attractions will be inclined to visit a Maryland casino in general and the proposed Prince George’s County casino in the specific. This percentage is typically under five percent and can be much less depending upon circumstances. Even five percent of 19 million visitors on a daily basis spread among the soon-to-be six Maryland casinos results in only a little over 400 visitors per day per Maryland casino.

This point will be discussed throughout this report but suffice it to say maximizing the score of the fourteen Evaluation Criteria over three categories with the weighting stipulated by the Maryland gaming legislation can only be achieved by the Prince George’s County first optimizing² the potential from Local and Regional feeder markets.

4. THE NEEDS, WANTS, AND EXPECTATIONS OF THE FOUR INITIAL TARGET MARKET SEGMENTS

The needs, wants, and expectations of the four previously identified initial four target market segments is discussed in some detail in Appendix 2. For those new to gaming it may be worth reading before continuing to read this report. For those who do not, target market segments

² “Optimizing” is a carefully chosen word to represent the maximum potential after being adjusted for prudent business risk.

needs, wants, and expectations will be interlaced in the project-by-project review in Section 3 albeit discussed based upon the specific proposals not in terms theory or the universe of what is possible.

The key take-aways from the detailed discussion about the needs, wants, and expectations of the four initial target market segment are summarized below.

GAMERS

- After travel considerations for the true gambler direct, game-driven issues constitute 50% to 70% of the gamer's decision when and where to play.³
 - It is worth pointing out, however, that entrances to the gaming areas are free and direct gaming attributes are easily reproduce-able between and among casino developers and operators. The game of blackjack, for example, is largely the same from casino-to-casino.
- The next most important group of issues pertain to the incentives the casino offers its casino players. Incentives may be non-financial in the form of a perquisite (e.g., a preferred parking area) or financial (e.g., a discounted or complimentary meal). After travel considerations, incentives such as these generally comprise an additional 20% to 25% of a serious player's decision to patronize a casino. But, if most or all of the competitive casinos offer the same core direct gaming attributes, then incentives can, by default, become 50% to 75% of the decision to visit.
 - Incentives are used by casino marketers to motivate players to move in and through the Demand Cycle: i.e., first, create Awareness, second motivate Trial, third spur Repeat Visitation, ending with the engendering Loyalty.
 - In areas such as Maryland and the Greater Maryland Market Area that will produce a large number of repeat, multi-trip local and regional players (e.g., typically ranging from four visits per year to, in some instances, as many as one to two trips per week) such incentives are typically structured around and offered through a multi-tier loyalty club.
 - Like many industries and, in particular, where repeat purchases are at work, it is often the case that 25 to 30 percent of their Loyal customers will generate some 75 to 80 percent of their revenue.
- Other support facilities, services, and attributes constitute the remaining motivation to patronize a given casino, i.e., the remaining 10% to 25% to 50% of the decision depending upon what has taken place with the player, competitive circumstances, and company marketing philosophy as discussed above fore the player reaches this point.
 - Other considerations may include the softer side of the Gaming Experience, e.g., ambience, décor, and attractiveness of the playing environment.
 - But greater weight in this remaining decision making can also shift to non-gaming issues such as: parking, dining, bars, formal entertainment (e.g., lounges, cabarets,

³ All gamers are not the same. Thus, it may be argued that depending upon the circumstances core, direct game / gambling related issues may come first and distance second in the gamer's motivation to visit. Regardless, if gaming issues come first then distance comes second and for the rest distance considerations come first and gaming issues come second.

- and showrooms), day/nightclubs, retail, relaxation (e.g., spa, salons), recreation (e.g., health club, swimming pool, tennis, and golf), hotel and other forms of accommodations, the presence of family related activities (e.g., a Cineplex) and possibly related services such as free shuttle bus service or access to charter/scheduled bus service.
- Within the non-gaming category, for the Local/Regional gamer ...
 - Parking only becomes a factor if it is not available, convenient, and comfortable (read “weather friendly”). If parking is adequate then it disappears as an issue after the first trip unless conditions change.
 - Food then quickly rises to the most important non-gaming consideration.
 - As the players become younger or younger minded, the third most important non-gaming consideration centers around alcoholic beverages in the form of inexpensive drinks and fun bars to meet existing friends and new ones.
 - Fourth comes the availability of a hotel so the gamer can play longer, feel comfortable drinking and, if older not fear driving home at night. Staying at the hotel also makes the trip feel special and can act as a self-instilled celebration or reward or an incentive used by the casino marketing team to motivate a repeat visit and embed loyalty.
 - Again, all players are not the same. And, particularly in a competitive environment, casinos must provide a full array of gaming and non-gaming facilities and services as well as incentive-based marketing programs that matches, niches, and/or exceeds the competition in order to optimize the potential of the Marketplace.

NON-GAMERS

- Visitors for whom gaming is the secondary, tertiary, casual, or even a non-existing reason for the trip still patronize gaming-centric projects. Many non-gamers will end up gaming at some time at some level of play during this trip or on a return trip. They may also pass along good word-of-mouth advertising to their gaming and non-gaming acquaintances starting the cycle again.
- For the non-gamer target market segment the attributes of a single target non-gaming activity can motivate the trip (e.g., a ticket to entertainment taking place at the property) or the value of the overall experience involving a mix of several/many non-gaming activities will determine the value of the trip and the motivation to return.
- Non-gamers often seek to patronize casinos because they believe they receive better value as the prices are “underwritten” by the players and the casino owner will spend more to attract them

LOCALS AND REGIONAL VISITORS

- Local / Regional visitors can and will comprise both gamers and non-gamers and vice versa. But “locals” typically have a set of needs, wants, and expectations that separate them from “tourists,” the other target market segment in the second market segment layer.

- Local / Regional visitors are often repeat customers so they often are more concerned about convenience than other visitors.
- Local visitors, gamers and non-gamer alike tend to be very food-centric. Demographics and psychographics determine the range of dining needed to serve the Marketplace.
- Locals in high numbers by the Law of Large Numbers tend to default into the middle or Mass Market category and seek price-value. Non-gamers often gravitate to casinos because they expect greater value figuring that the gamers are paying for the lower prices at the VLTs and tables.
- The same precepts that drive food demand also drive bar, lounge, club, entertainment, retail, relaxation, and recreation options at a casino.
- As retail, restaurant, dining, other affinity activities reach a critical mass it may be offered formulated into a self-contained Lifestyle Center or Urban/Suburban Entertainment Center to not only create synergy within the Center but between the Center and the Casino Facility as well.
- By taking steps to keep underage visitors from gambling much less set foot on the casino floor, larger Locals' oriented casinos have come to successfully offer family-oriented activities, .e.g., supervised day care, arcade for older children not needing direct supervision, Cineplex, bowling alley, ice/roller skating rink, event center with family events, access to the swimming pool/wetscape area, and a fast food or other lower priced food outlets.

OUT-OF-MARKET TOURISTS

- Tourists can be gamers or non-gamers and vice versa.
- While many of the demand dynamics that apply to Locals and Regional visitors also apply to tourists, tourists tend to come to a casino with some important differences in mind-set, needs/wants/expectations, and budget.
- Tourists typically have a higher per diem budget than a local on a day trip. For the tourist, this is their "special trip," most will have travelled further, and their per diem/per capita budget is accordingly higher. Their mindset is also more focused on leisure for the entire day not just a part of the day as is the case for most Locals or Regional visits.
- Tourists generally are spending the night at a hotel at the casino or nearby meaning the facility needs to satisfy a greater array of needs, wants, and expectations.
- Although not universally true but often true, the Tourist imperative typically leads to a step-up in quality and depth/breadth of non-gaming activities. As a general rule, however, in establish market preference or tolerance for positioning ranges, it is better to peg the upper positioning to the Tourist expectation or "sweet spot" of a given Marketplace knowing that visitors with lower budgets will still patronize more upscale facilities but the reverse may not be true.

OPTIMIZING THE TARGET MARKET SEGMENT MIX

- Determining what can and should be offered is a function of: the site (e.g., size, zoning, build-ability, access/egress, and cost); Marketplace preferences, demographics/psychographics, and demand potential; the presence or absence of competition (current and in the near future); available financing; and, potential synergies with the gaming facility business/marketing plan.
- Today, casinos are as much about being real estate developments as being “just a casino” following the real estate development credo, “highest and best use” to maximize the opportunity of the site.
- The list of opportunities to maximize the potential of a given gaming project goes on as far as the imagination and vision of the developer/operator and their design resources can imagine and produce it.
- The importance of a given non-gaming activity is directly related to the reasons for the trip and the needs, wants, and expectations of the member of that target market segment.
- The possible list and execution of non-gaming activities that serve utility functions, act as independent leisure/entertainment experiences, differentiate one casino from another, and act as a marketing tool as well as a profit center is endless.
- For both the gamer and non-gamer alike, the real or perceived price-value of their visit to a gaming-centric complex is determined by the availability, mix, variety, quality, service levels, price-value propositions, unique/innovative/Wow! experiences, and their combined, total sum-of-the-parts experience.
- It is also determined by competitive reference points.

For the casino owner, developer, and operator they must get the non-gaming elements of their operation “right” to optimize the potential of the casino. They must also get the non-gaming elements “right” to broaden and deepen their market demand for non-gamers as both independent and synergistic profit centers with gaming.

Gaming is not un-complex.

3. COMPETITION

Those readers already familiar with the competitive environment may choose to skip this section.

Casinos do not operate in a void. At the very least, casinos compete with other leisure AND entertainment activities for the consumer’s free time and disposable income. And, in the East Coast Corridor, there is already an established level of casino gaming causing some observers to declare some areas as becoming saturated. And, new casinos are still being proposed, including this one.

This section summarizes the gaming and non-gaming competition for the proposed Prince George’s County gaming facility.

The MLC received a fair amount of information regarding competition contained in the Applicant Submissions generally presented as feasibility studies in sections pertaining to forecast demand and their business/marketing plan(s). The MLC also will have received independent reports from consulting resources engaged by the MLC to conduct independent forecasts of potential demand for a casino in Prince George's County at the locations and of the sort proposed by the Applicants. In so doing, the independent consultants will have discussed the impact of competition. And so, there is little need for MI to repeat in detail the same information but it is still worthwhile to summarize the competitive environment as a reference point for the discussion concerning the efficacy of Applicant's proposed Ancillary Facilities to follow.

Below is the Penn National consultant's definition of the Marketplace as foreseen Parx just below it.

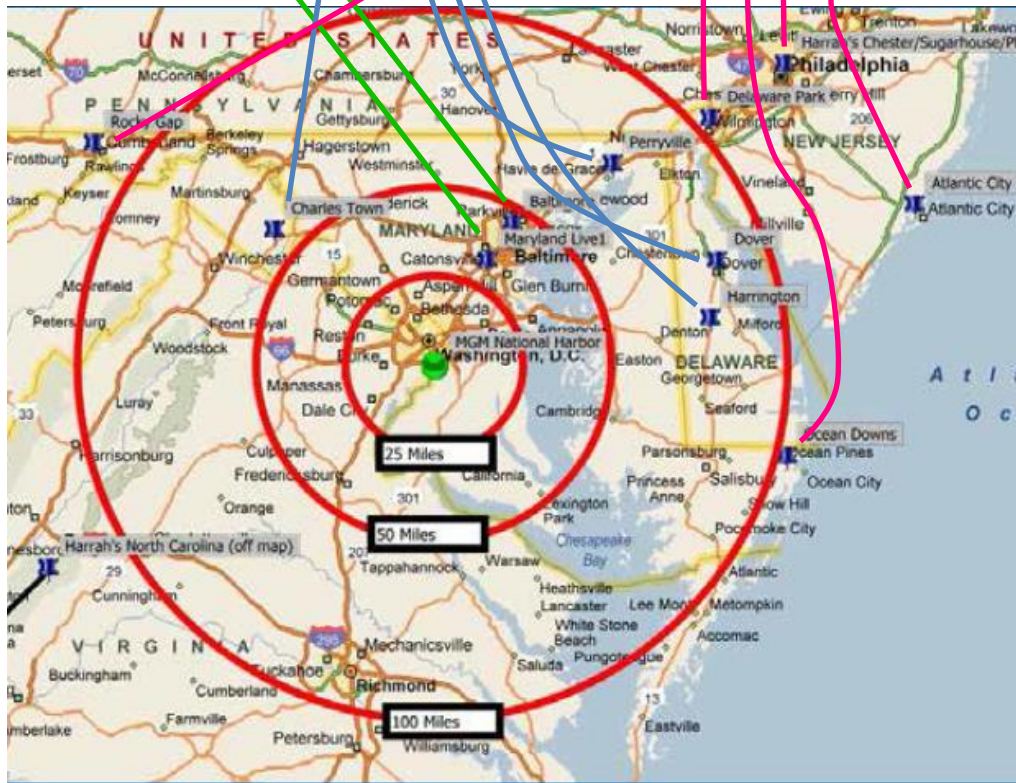


Source: MapPoint, Claritas Nielsen, Christiansen Capital Advisors

Source: Penn National Submission

Within the proscribed Marketplaces, the competition as identified by the Applicants has been more or less consistently defined as the current and under construction casinos either within Maryland or located at the border of a primary feeder market. MI has taken the liberty of using the MGM map of the Marketplace and MGM's identification of potential competition to the proposed Prince George's County gaming facility. Maryland casinos are highlighted.

WITHIN 25 MILES	WITHIN 26 TO 50 MILES	WITHIN 51 TO 100 MILES	GREATER THAN 100 MILES
None	Maryland Live! Maryland	Penn National – Hollywood Charles Town, West Virginia	Rocky Gap Maryland
	Baltimore Horseshoe Maryland (2014)	Penn National – Hollywood Perryville, Maryland	Delaware Park Delaware
		Dover Downs Delaware	Ocean Downs Maryland
		Harrington Racetrack Delaware	Philadelphia, PA: • Harrah's Chester • Sugarhouse • Parx • Valley Forge
Source: MGM Submission and Macomber International			Atlantic City, NJ: • 12 casinos



Radius	Population	Median Age	Male	Female	Median HH Income	Median Home Value
0 – 10 Miles	1,343,443	35.1	48.1%	51.9%	\$52,433	\$218,449
0 – 20 Miles	3,287,661	35.4	48.2%	51.8%	\$52,410	\$218,068
0 – 30 Miles	4,994,156	35.6	48.6%	51.4%	\$56,770	\$212,486
0 – 40 Miles	6,260,781	35.7	48.7%	51.3%	\$54,431	\$193,199
0 – 50 Miles	7,759,298	35.9	48.5%	51.5%	\$61,547	\$185,121
0 – 75 Miles	9,271,847	37.6	48.6%	51.4%	\$59,121	\$175,936
0 – 100 Miles	12,659,821	37.8	48.6%	51.4%	\$54,908	\$158,036

Source: MGM for map and demographics. Macomber International, Inc. for all other.

Note that the concentric circles denote straight line distance not travel time and in the congested East Coast Corridor, it is travel time that matters. Regardless, the straight line concentric circles provide easy visual references. The reports of the Submissions and those of the MLC consultants should be referred to for a more detailed discussion about travel distance versus time and overall competitiveness.

Regardless, all of the Applicants and consultant's consider the two casinos within 25 miles – Maryland Live! and the soon to open Horseshoe Baltimore – along with Penn National Charles Town (West Virginia), Penn National Perryville to be direct competition to the proposed Prince George's County gaming facility. Some include Harrington Racetrack (Delaware) and/or Ocean Downs (Maryland) as direct competition as well. But, even if not, these two gaming facilities are considered secondary competition along with Dover Downs (Delaware). Tertiary competition includes Delaware Park (Delaware), the four Philadelphia (Pennsylvania) casinos, and the 12 Atlantic City (New Jersey) casinos.

While MI does not discount the Delaware or Pennsylvania gaming competitors, MI speculates that the Maryland and Penn National Charles Town, West Virginia casino properties will present the most immediate and greatest competition to the proposed Prince George's County gaming facility. Accordingly, the discussion below will focus on these four properties with the caveat that the other named casinos are competition as well but, in terms of non-gaming facilities, the "quality" of competition does not differ substantially from the inner and middle market competitors. Those differences that do exist will be discussed toward the end of this section regarding Gaming Competition.

A simplistic review of the gaming (for reference purposes) and non-gaming facilities among the four subject casinos is presented below. Note that Horseshoe Baltimore is under construction and is scheduled to open in 2014.

* denotes information from company website	Maryland Live! Arundel Mills, Maryland	Horseshoe Baltimore, Baltimore, MD	Hollywood Charles Town, West Virginia	Hollywood Perryville, Perryville, MD
GAMING				
VLTs/Slot Machines	Over 4,300*	2,500 to 3,750	3,200*	Over 1,000*
Table Games	122*	Over 100	Over 100* to 159	20
Poker	52*	25	50*	Yes*
Other Gaming			Seasonal live thoroughbred racing plus simulcasting	
Source: Company website, Submissions, and Macomber International, Inc.				

* denotes information from company website	Maryland Live! Arundel Mills, Maryland	Horseshoe Baltimore, Baltimore, MD	Hollywood Charles Town, West Virginia	Hollywood Perryville, Perryville, MD
NON-GAMING				
Dining	6 outlets: Cheesecake Factory, Phillips Seafood, Bobby Flay Burger Palace, and buffet.	3 outlets: Jack Bunion's Steakhouse, 2 others affiliated with celebrity chefs (to be determined), and 20,000 sq. ft. "Food Hall."	8 outlets but one located in seasonal racing facility: Steakhouse, 9 Dragons (Asian), Zen Noodle, Skybox Sports Bar, deli, Epic Buffet, plus food court.	2 one of which includes a Celebrity Bar & Grill and a "grab-and-go" take away sandwich, salad, pizza outlet.
Bars / Lounges	2 ... Rams Head Center Stage and interactive R Bar.	3 bars and lounges including a "feature bar."	2 ... "H Lounge"/ Skybox Sports Bar (see also "Dining"), and racing facility when open.	1 ... at Celebrity Bar & Grill (also listed under "Dining.")
Clubs	None mentioned.	None mentioned.	None mentioned.	None.
Entertainment	Rams Head Center Stage. Nightly ranging from free to \$45. Mentioned also under "Bars / Lounges."	Large Event Center.	H Lounge/ Skybox Sports Bar. Live entertainment plus DJs. Mentioned under "Bars / Lounges."	Live entertainment Saturday nights, "booked acts" and Karaoke as scheduled. Also mentioned under "Dining" and "Bars/Lounges".
Retail	1 sundry/logo.	20,000 sq. ft.	Winners Gift Shop.	Rodeo Dr. Gifts.
Relaxation	None mentioned.	None mentioned.	None mentioned.	None mentioned.
Recreation	None mentioned.	None mentioned.	None mentioned.	None mentioned.
Hotel	None. But, recent press release by company official says "hotel" in planning stages.	None.	Inn at Charles Town. 153 rooms (18 suites, 135 standard). Adjoins racetrack. Shuttle to casino.	None.
Meeting, Convention, and/ or Banquet	Use of Rams Head Center Stage, Prime Rib restaurant, and Live! Buffet.	None mentioned but presumably the "Large event Center" referenced under "Entertainment."	None mentioned but Property Map refers to "3 rd Floor Ballroom."	Group reservations available for Celebrity Bar & Grill (see also other categories).
Source: Company website, Submissions, and Macomber International, Inc.				

* denotes information from company website	Maryland Live! Arundel Mills, Maryland	Horseshoe Baltimore, Baltimore, MD	Hollywood Charles Town, West Virginia	Hollywood Perryville, Perryville, MD
SUPPORT				
Adjacencies	Adjacent to Arundel Mills Mall: more than 200 outlet/value stores, 17 “over the counter” + 6 wait staff dining opportunities, Medieval Times Dinner & Tournament, and Cineplex.	In Downtown Baltimore adjacent to two stadiums: Orioles (baseball) and Ravens (football). Within walking distance of Inner Harbor Baltimore an mixed use dining, bar, entertainment, hotel, and harbor area.		Four hotels located within 8 to 14 miles (e.g., Holiday Inn Express and Hilton Garden Inn). Close to Perryville Outlet Center with over 20 stores.
Other	Website states local area provides access to 5000 hotel rooms.		Shuttle to Eden Center, “Northern Virginia’s premier Asian Center, 120 stores, Falls Church, VA.” \$10 round trip.	
Parking	5000 spaces. Valet \$10 but discounted or free for loyalty club members. Plus Mall parking.	3500 car parking structure “across the street” with walkways into casino building.	2 garages plus surface parking. Capacity unstated.	Unknown.

Source: Company websites, Applicant Submissions (including feasibility/market studies completed by independent third parties included in the Submission), and Macomber International, Inc.

As can be seen, except for Hollywood Perryville these are relatively large, local/regional casinos. Only one, Hollywood Charles Town has a hotel and it is located actually along the straight of the racetrack opposite the casino which is adjacent to the other straight linked only by a shuttle bus and walking paths. One casino, Horseshoe Baltimore, contends that one reason it does not have a hotel or a larger number of food and beverage outlets is that it does not want to compete with established Baltimore Central Business District and Inner Harbor Baltimore establishments. MI is skeptical that this is the real reason (see next section regarding the impact of tax rates on development), but it makes a good story.

Maryland Live! has a relatively large number of restaurants commensurate with its gaming capacity even though it is located right next to a large mall with 23 dining options. Maryland Live! has also announced they are in the planning stages of developing a hotel to be part of the casino complex despite their notation that there are already some "... 5000 hotel rooms in the local area."

Hollywood Charles Town has a relatively large number of dining options, too, but it is in a rather isolated location and prior to the advent of gaming in Maryland and in other feeder markets, the property had virtually an exclusive to westbound-facing Greater Washington D.C. / Maryland / Virginia Marketplace resulting in huge daily crowds.

All competitors appear to provide the *de rigueur* single casino bar or derivations thereof plus one or two others. Note that it is becoming more the norm for the casino to provide serve-yourself soda/coffee stations around the casino thereby reducing the number of casino cocktail/beverage servers as well as bar/beverage seats. Nevertheless, the bar count and being spread around the casino presumably to "liven up" and "pulse" the action among these competitors is low relative to say Las Vegas. Perhaps that is because Las Vegas is a true destination where people are staying overnight in hotel rooms and have come to "let their hair down" (reference the advertising by-lines: "What happens in 'Vegas, stays in 'Vegas" and "Just the Right Amount of Wrong."). Perhaps it is because the owner/developers are keeping capital investment to a minimum

Entertainment options also appear to being kept to one venue that is configured flexibly in an "event center"/ballroom or as a part of a bar, sports bar, bar/dining, bar/club, and other combinations allowing low to medium admission-based entertainment but giving the option to have free and less formal entertainment as well. This, too, is symptomatic of a locals/regional casino destination versus an urban/suburban Entertainment or LifeStyle Center or a resort destination such as Las Vegas that will provide many formal and informal, ad hoc entertainment venues.

Retail is rather sparse as well although, to be fair, Maryland Live! is literally next door to a 200-store mall and Horseshoe Baltimore is within eyesight of Inner Harbor Baltimore and the Central Business District of Baltimore suggesting that retail supply-and-demand might already be in balance for these two particular competitors.

Parking capacity is large commensurate with size, gaming capacity, and actual or anticipated visitor volume.

Other amenities are light relying more on adjacencies and area attractions than providing them on-site.

Hollywood Perryville appears to be the stunted casino in the group but when looking at the competitive map and keeping in mind the tax rate (again, see the next section), the supply-and-demand dynamics for the northeast, Delaware-Pennsylvania-Atlantic City facing side of a Greater Washington D.C. / Maryland / Virginia Marketplace diagonally cut into two hemispheres

that has much competition literally attacking from three of four compass points no doubt makes its size, concept, programming, and positioning appropriate. In other words, Penn National, the owner/developer/operator of Hollywood Charles Town chose to build it large right-sizing it to the Marketplace potential. There was no reason not to do the same at Perryville.

In all, the above four casinos appear to be creatures of their environment, opportunistically located in limited license conditions in diverse, spread out locations (so that there is no synergy among them) and then conceptualized, programmed, and designed to morph, fit, and align to the dynamics the Marketplace as well as the laws and regulations of their realm.

Turning to their brethren located in a vector that primarily extends northeast the potential secondary and tertiary competitive casinos in Delaware and Pennsylvania, these other competitors tend to follow the same Ancillary Facility development pattern as those found in Maryland and West Virginia.

Delaware casinos were required to be located at existing racetracks and so their location at Harrington, Dover Downs, and Delaware Park tracks whose locations were established long ago as racetracks. The Delaware racinos are developed largely as locals/regional-styled casinos, medium to large in size, of varying quality but very reminiscent of the four core Inner Market competitors already described in detail.

The casinos in the Greater Philadelphia Area are the same.

Atlantic City is different mostly because there are twelve casinos relatively close to each other, many within walking distance of each other. Atlantic City had gone through a long period of virtually shutting down as a large, viable beach resort to the Northeast Corridor and had hit a low point when casino gaming was legalized. Large, new casinos opened as fast as they could with long lines at opening filled with people waiting to play because there were no other choices on the Eastern Seaboard. The casinos had hotel rooms, not as many as a typical Las Vegas casino, but hotel rooms nevertheless. Even so, it was clear from the start that Atlantic City's future was going to be made primarily from day trip visitors with a sprinkling of overnight weekend local/regional visitors not wanting to drive home after drinking-and-gambling, gambling-and-drinking, or just plain "partying down." In the vernacular of good if not great casino design, few rose to this standard but they were new, bright, and worked because demand exceeded supply. The city tried to clean the rest of itself up, failed, tried again, and repeated this cycle multiple times since the first casino opened in 1978 never quite resulting in a "brand new" Atlantic City. A couple of casinos "made the grade" of being competitive on a broader scale – Wynn's Golden Nugget when it opened and the Borgata more recently – but they were not enough to overcome the weight of the lesser casinos and the general state of lingering disrepair and ill repute of the remainder of the city. To this day, Atlantic City still has as many eyesores as it has bright spots and so it should have been of no surprise that as soon as new casinos opened up in the surrounding feeder markets ranging from New York City to Washington D.C. people largely stayed closer to home and patronized rather uninspired but acceptable local/regional casinos. Distance matters.

As stated previously, some say the East Coast is becoming or already is saturated with casinos. MI takes issue with this notion. MI would agree that in some areas the East Coast is becoming saturated but this is only because of gaming legislation and regulation that artificially constrains casino gaming from growing faster and more. Were more licenses to become available with lower tax rates and costs of doing business, casino development would become viable in a greater number of locations and under a vastly more varied array of development that would range from small to medium sized locals oriented casinos, medium to large regional casinos, and no doubt the incomparable, iconic nationally and world competitive multi-billion dollar Integrated Resorts we are seeing built in offshore venues that support them.

If the current East Coast development *modus operandi* does not change then MI joins the others in speculating that the room for growth is slowing but “not dead yet.”

Competitive dynamics created by existing and proposed casino gaming facilities will be discussed further in the Applicant reviews that follow these introductory sections.

4. NON-GAMING COMPETITION

A book could be written about non-gaming competition along the East Coast Corridor, the Greater Washington D.C. Marketplace, and the more localized Prince George’s County / Alexandria, Virginia subset thereof. Suffice it to say that within these boundaries exist every known form of dining, bars, lounges, clubs, entertainment venues, retail, relaxation, recreation, hotels, convention and meeting facilities, and tourism options at every price point and value propositions anyone could imagine. And, this cornucopia of options is changing, morphing, and adapting all the time.

Gaming, by interjecting itself into this milieu by public policy is joining the fray and the fight for the consumers leisure time and leisure dollar, both of the area’s residents as well as local, regional, national, and international “tourists.” Unlike non-gaming’s unfettered competition, gaming must compete under any number of constraints allowing it to do so only within the maneuvering room that remains.

While this description sound fatalistic – at least in terms of creating and generating non-gaming demand, profits, and return on investment – fortuitously for gaming owners/developers, gaming is a desirable adult activity that has the potential to generate high patron volume and high patron density who partake of gaming in two to four to six hour day trip visits to overnight to multiple-day episodes. This dynamic generates a captured demand that naturally generates associated non-gaming dining, bar/lounge, club, entertainment, retail, relaxation, recreation, hotel, and other leisure/ entertainment demand.

And, there are any number of examples where the proverbial “rising tide” raises all of the proverbial boats; in other words, leisure/entertainment activities beget other leisure / entertainment activities. Tourism activity begets other tourism activity.

Thus, in the context of raw market potential, it would also be disingenuous to say that non-gaming leisure / entertainment options do not exist either to fulfill the utility functions of gaming visitors, to complement and supplement the casino experience, and/or to drive non-gaming demand to gaming establishments for independent profit as well as synergistic reasons.

The caveat must be, however, that so doing is not and will not be easy. To a large degree this is because of the impact of the gaming revenue tax and cost of conducting a gaming business in the State of Maryland. This is the subject of the next section.

For readers seeking more non-gaming competitive information, MI refers them to the Applicant's Submissions and particularly those sections that reproduce their independent feasibility studies because a more specific discussion takes place therein regarding direct and indirect non-gaming competition for the Prince George's County gaming facility.

5. THE IMPACT OF GAMING TAX RATES AND COSTS OF DOING BUSINESS

Gaming revenue tax rates and the rates of other fees/assessments linked to gaming revenue vary from country to country, state to state and, in some instances, within smaller geo-political boundaries. Costs of doing business and, in particular *uncontrollable, fixed costs directly linked to revenue* such as gaming revenue tax, directly and indirectly have the potential to impact the inclination / justification of owner/developers to invest incremental capital dollars into a project upward or downward depending upon the costs. Such costs of doing business also directly and indirectly have the potential to reduce the inclination of management to spend operating dollars on marketing programs to protect and/or grow its business.

This is problematic for the gaming industry from both a capital investment and operating expenditure point of view because the increase or decrease of one or both impact physical demand (number of visitors), the revenue these visitors generate and, by implication, the profit that results from this revenue.

This is first because gaming is inherently a capital intensive business. The reason it is capital intensive is that gaming is an industry that is produced and delivered at its point of consumption, in the casino. The "product" of gaming is, at its core, an Experience ... an adult, gaming related experience. Raw gaming is not capital intensive, i.e., gaming can literally be placed in a tent, steel sided, or simple masonry building and a certain amount of the public will patronize such a casino. But, for most gaming customers, the Gaming Experience and hence the value of the price/cost of gaming is captured in the Entertainment Value of the Total Gaming Experience. The gambling aspects create much of that Entertainment Value via the anticipation, excitement, and upside of walking away not only a winner but with more money than it costs a player to play.

But, that is not enough anymore than most Broadway plays or musicals can only take place on a sterile, empty stage. Rather, to deepen and broaden the market, stage and musical producers learned that extravagant sets enhance the value of the experience. So, too, with gaming: casino buildings and environments have been designed and themed with iconic exteriors and extravagant, palatial over-the-top interior designs punctuated by innovative, unique, state-of-the-art Wow! Features for which no admission charge is made.

Admittedly there are many levels along the potential capital investment continuum for a given Marketplace that can align to the needs, wants, and expectations of the Marketplace and “work” just as there are 1, 2, 3, 4, and 5-star hotel properties that “work.” But, in most venues, gaming developers have found that the further up the quality/Wow!/“star” rating they go in positioning the gaming property the broader and deeper they expand the market, penetrate the marketplace, and optimize performance.

In competitive environments, the minimum ante, so to speak, may have been set by other casino owner/developers and/or non-gaming other leisure/entertainment / hospitality owner/developers. New entrants may therefore need to or voluntarily choose to up the ante to expand and/or niche the market as well as take market share away from their competitors. Regardless, building a modern day, competitive casino is not cheap: larger casino projects require a \$1 billion or more with at least one example of an approximately \$10 billion integrated casino-resort that opened in Las Vegas. Hence, the capital intensity.

As a service industry, gaming can also be labor intensive. This is truer of table game dominated casinos but also true of slot-dominated casinos that are not particularly labor intensive to operate the gaming portion but the food, beverage, and other non-gaming activities plus support functions can be.

Also involving operating dollars, casinos in competitive environments can be marketing intensive. As already mentioned, the raw gaming aspects of gaming are easily reproduced from casino-to-casino and generally produce a similar raw gaming experience within a rather tight range. It takes the aforementioned building, service levels (read “labor cost” again), an array of non-gaming activities and amenities that not only offer value but are unique, vibrant, and exciting. Beyond these capital/activity and service/operating investments, casinos also compete on incentives, both non-financial perquisites (but which still may cost capital dollars to build and operating dollars to deliver) and financial promotions, discounts, complimentaries, special events, and the like. In competitive conditions, marketing expenditures for players with higher and higher per trip or annual budgets rise non-linearly the shape of the upward sloping curve depending upon how competitive the other attributes are and the practices of competitors. Combined, both labor and marketing operating dollars can be intensive thereby taking what is often viewed as high revenue/high profit business and bringing them in line with other businesses. This not to forget to mention risk that the owner undertakes as banker for the casino but also because of the risk of capital intensity, changing competitive conditions, and other traditional business risks.

Where demand exceeds supply, casino owners, developers, operators, and marketers can and have situationally “take advantage” of a non-competitive, strong market with low costs of doing business and reap high absolute dollars of cash flow and returns on investment. Even for those who initially choose to build opportunistically, as competition increases market demand becomes more in balance with supply, and/or costs of doing business increase profitability and returns become threatened they, too, need to respond with bigger and/or better facilities. Assuming that more owner’s/investor’s are smart than dumb, ‘More’s the fool’ to not take advantage of the market potential and invest up to the last dollar necessary to extract the most of it. Within this range of extremes, each gaming market has different dynamics and a different optimization curve.

From the government perspective, since gaming is generally considered a privilege and not a right, governments control the gaming industry first by determining on behalf of their constituents or with their approval through a public vote whether gaming should be allowed. If allowed, the government often dictates where and how it can be developed and operated. And finally, governments also dictate to a large degree the cost of doing business, particularly when setting the aforementioned fixed, uncontrollable variable rate-oriented gaming revenue tax and related fees.

Thus, even on a theoretical basis, simultaneously trying to optimize the potential of the Marketplace in terms of figuratively the Private Investor coming “left to right” trying to achieve the best ROI or some other financial performance benchmark(s) while the Government is coming “right to left” trying to optimize taxable and other income to the government, jobs, new business incubation, and/or other government objectives any friction in the center can cause a walk up some three-dimensional cone of respective, interdependent Market Potential, Private Investor, and Government cost-benefit-risk curves.

Because of the aforementioned capital intensity and, in some cases, high voluntary or involuntary operating costs within the gaming industry, as the Cost of Doing Business increases break-even points rise at a “tightening” rate made more tender by associated increasing risk as the margin for error decreases (i.e., the ability to repay debt and/or worse, meet debt covenants much less achieve target return on investment). As conditions become less favorable at a non-linear rate the owner/operator inclinations to spend capital dollars and/or marketing dollars decreases at a non-linear rate as well.

Maryland is a high gaming revenue-driven tax/fee and cost-of-doing-business environment. To be fair, Maryland is not alone in this regard. The gaming revenue tax rates and uncontrollable, government imposed costs of doing business along the East Coast Corridor are also high.

Where gaming revenue tax rates and costs of doing business are homogenous among competitive feeder markets, the ability of competitors to invest and market fortuitously for those owners and investors participating falls into a rather similar, predictable range. Such is the current case – more or less – along the East Coast Corridor and among Maryland casinos and their direct competition. Despite a Marketplace that includes millions of potential consumers with higher-than-average per capita incomes and an artificially limited number of licenses that have and will

be issued in Maryland and the competing states that could have led to larger, more extravagant gaming facilities with a larger and more diverse array of non-gaming activities that could/would be national and/or world class recognized and leading facilities that would draw visitors from greater and greater distances, the inevitable result are essentially locals' and regional resident oriented gaming-centric properties. This is more a function of public policy than commercial drivers.

To be clear, this does not mean the laws, regulations, policies and practices of any of the governments involved in the development of gaming along the East Coast Corridor has done anything wrong or right. What it does mean is that the public policy of the governments involved as mandated by their constituents have made decisions leading to this condition which has done wonderful things for the patrons, employees, owners, residents, and the government on the one hand BUT, because of all of the aforementioned dynamics, has by intention or accident also limited what the gaming industry can and will be. These dynamics are immutable and dispute can only be a matter of degree.

The result is largely an array of Locals and Regional resident-oriented casinos stretching from Maryland to Massachusetts.

The reason MI raises this issue and explains it forthrightly is that there are a number of references to goals and objectives included in the Evaluation Criteria that refer to such things as:

- *Highest potential benefit and potential prospective revenue to be derived by the State ...* implying a goal to optimize the demand potential from the Marketplace;
- *Competitiveness of the proposed facility ...* implying a desire to initialize and maintain the Prince George's County casino as the most competitive casino among its peers (relative to its Market potential);
- *The extent to which the proposed location demonstrates that the facility will be a substantial regional and national tourist destination ...* implying the desire to attract visitors from greater distances outside the local boundary;
- *The extent to which the proposed location encourages Maryland gaming participants to remain in the State ...* this is another way of saying the property should be competitive and, in fact, more than competitive relative to casinos in surrounding states.
- *The amount of gross revenues to be allocated to the video lottery operator over the term of the license ...* this objective is in direct contradiction to the other objectives above when the minimum starting point is already as high as it is;
- *The proposed facility capital construction plans ...* seemingly saying the State seeks the practical maximum capital investment;
- *The extent to which the proposed location will preserve existing Maryland jobs and the number of net new jobs to be created; ...* and the corollary next criterion ... *The anticipated wages and benefits for new jobs to be created; ...* both of which, presumably would be a function of the capital investment and demand/revenue/profit generated.

MI suspects that those who drafted the gaming law and statues establishing the Evaluation Criteria knew what they were doing and have a shared reality with MI's contentions. This

shared reality is that the Evaluation Criteria represent an array of objectives that must and will be achieved within the (i) realities of the Marketplace, (ii) tax rates and cost of doing business in Maryland mandated by Maryland law, and (iii) incontrovertible goal that the out-of-shared-reality goals of the Evaluation Criteria can only hope to be achieved in some measure if the gaming facility achieves some minimum, sustainable commercially acceptable level of performance. The greater the commercial success, then and only then can the greater such goals as Tourism, job and investment optimization can take place.

6. GOING FORWARD CONCLUSION

This report has been shaped and written in the context of the external conditions, dynamics, and conclusions discussed in this section.

- The Evaluation Criteria are best achieved and optimized by the Prince George's County gaming facility being a commercial success.
- To generate the best commercial success the gaming facility must be "The best Locals' / Regional casino it can be."
- After sufficient development capital and operating marketing dollars have been budgeted to conceptualize, build, and operate the "Best Locals' / Regional Casino It Can Be" then any remaining capital and operating/marketing dollars should be spent to attract Tourists (as defined) along a prudent cost-benefit, risk-reward razor's edge.

MI is confident that its approach is not made in contradiction to the stated Evaluation Criteria. Quite the opposite, MI's approach is in utmost support of it.

* * *

The immediate section to follow contains a review of content of the Applicant's Submissions followed by a comparative evaluation composed of both an objective rating and an overall more subjective conclusion.

Section 3

APPLICANT SUBMISSION REVIEW



Project renderings shown in MLC order and relatively the same size after adjustment for aspect.

Source: Applicant Submissions.

OVERALL CONCLUSION

- Each Applicant has an established, proven, and successful business model.
- The Ancillary Facilities aspects of the Applicant's Submission appear to support the successful commercial execution of their proposed gaming facility employing their respective models. Doing so will optimize (i.e., maximize but risk adjusted) the achievement of the mandated Evaluation Criteria.
- MI leaves it to other MLC engaged independent consultants to quantify the benefits to Maryland over the term of the license.

MI concluded in Section 2 that individually and in aggregate the Evaluation Criteria for which MI is responsible to evaluate are best achieved and optimized by striving to make the gaming facility the best commercial success it can be. MI also made the argument why, because of embedded Marketplace sources of business, potential demand, and competitive conditions together with embedded cost of doing business conditions and dynamics, the Prince George's County gaming facility should and probably will primarily be a Locals' first, then Regional gaming facility. This conclusion does not preclude the owner from catering to Tourists and accomplishing the Evaluation Criteria linked to tourism. In fact, MI has argued that the ability to catering to Tourists, retaining Maryland gamers, optimizing jobs and State income / benefits is maximized by having a large, successful, and stable Local/Regional business as a foundation.

This section evaluates the Ancillary Facilities of each proposed gaming facility in terms of how well they are conceptualized, programmed, configured and designed, budgeted, operated, and marketed to first serve the Locals' Target Market Segments and then second in priority – but simultaneously where overlap occurs – to Regional, National, and International Target Market Segments in a manner that optimizes the commercial success of the proposed gaming facility.

1.0. ANCILLARY FACILITY OVERVIEW

The tables in this overview subsection present a high level side-by-side summary of each Applicant's proposed Ancillary Facilities. The basic gaming mix and capacity is shown first to act as a reference point. Then a high level summary of non-gaming facility mix and programming is shown next with comments. Detailed discussions of each activity follow.

1.1. GAMING FACILITIES SUMMARY AND REFERENCE POINT

	HOLLYWOOD (Penn)	PARX	MGM
VLTs / Slot Machines	3,000 units	3,000 units (Opening) 4,750 units (Phase 2)	3,600 units
Table Games	100 units	120 units (Opening)	110 units
Poker	40 units	50 units (Opening)	30 units
Total Positions (calculated)	3,980 positions	4,190 positions 5,940 positions	4,580 positions
Specialty Areas	High Limit/VIP Areas: 55 VLTs. 12 Tables.	High Limit/VIP Areas: 80 VLTs. 15 Tables.	Premium/VIP Areas: 64 VLTs. 15 Tables.
Lottery Sales	Yes.	Yes.	Yes.
Other Gaming	Hollywood/Penn only: Rosecroft Raceway to continue seasonal live harness racing and year around simulcast.		
Forecast visitors per day	11,300 2016 13,500 2019	16,000 2016 20,000 2019	18,600 2016 20,200 2019

Source: Applicant submissions, website, articles, and Macomber International, Inc.

Perhaps the first thing to recognize and acknowledge is that each of the three proposed Applicant gaming facilities is large reflecting the potential of a large, nearby Marketplace and the profit potential that results therefrom. Applicant forecasts indicate they expect to be hosting 11,300 to 20,200 visitors per day.

To put size of the proposed casinos into relative perspective, the 23 highest producing gaming revenue casinos on the Las Vegas Strip – among the largest gaming/leisure/hospitality facilities in the world – average 1,500 slot machines, 101 table games, and 19 poker tables.⁴

Large casino-wise, true to the magnitude of the Market potential and as befits Locals' / Regional casinos the Applicant proposals do not include a large number of hotel rooms and/or other non-gaming facilities (see next section). Referring to the same Las Vegas Strip casinos that are destination, almost exclusively tourism driven casinos catering to overnight weekend and long stay visitors, they average 3150 hotel rooms versus the Applicant's average of 280 rooms.

Simply looking at overall comparative mass using investment as a proxy, while this may not be a clean, apples-to-apples comparison of total investment because the accounting/preparation definitions may vary somewhat, the order of magnitude is so great as to make any accounting differences not pertinent to the overall conclusion: the average assets of a Las Vegas Strip casino-hotel for fiscal year 2012 was \$2.6 billion with the Upper Quartile Average reaching \$3.4 billion versus the \$736 million average of the three Applicant proposals.⁵

In terms of revenue generation, in Las Vegas total revenue averages \$607 million annually for the top Strip properties but reaches \$984 million for the Upper Quartile while Applicant total revenue averages \$670 million with the uppermost forecast among the Applicants reaching \$779 million. In Las Vegas the average casino in this category generates 36 percent of their total revenue from gaming and 28 percent of its departmental profit versus gaming generating 88 percent of their total annual average revenue for the Applicants and 102 percent of their average departmental profit.⁶

MI is mindful of the minimum 3000 VLT units the Applicants must be willing to accept but also is aware of the possibility of the winning Applicant being able potentially be authorized to operate up to a maximum of 4,750 VLT units. Hollywood/Penn appears to feel it can generate its target annual VLT gaming revenue with 3000 VLT units, whereas MGM seeks to operate 3,600 VLT units at opening if permitted. Parx seeks to open with 3000 VLT units but indicates it will be seeking permission to operate up to 4,750 units VLT units within three years after opening if Market conditions so dictate. It is not within MI's scope of responsibility to opine on gaming issues but suffice it to say that benchmark performance at other casinos indicate that Parx could achieve a substantial amount of the annual VLT gaming revenue it is forecasting with

⁴ Source: September 2013 Gaming Revenue Report, State Gaming Control Board, State of Nevada.

⁵ Source: Fiscal Year 2012 Nevada Gaming Abstract, State Gaming Control Board, State of Nevada.

⁶ This is possible because some non-gaming departments operate at a departmental loss.

3000 VLT and perhaps all of it with more than 3000 but less than 4750 units via higher physical utilization and applying a prudent mix of denominations to its VLT mix.

In all, the forecasts, the alignment of gaming capacity to the forecast, and the resulting size and positioning of the Applicant's proposed gaming facilities are reflective of the raw dynamics of the Marketplace: it is large with limited competition but with high cost of doing business making it predominantly a Local/Regional Marketplace. The proposed gaming facilities appear to be primarily designed to cope with the resulting high volume of forecast demand.

1.2. NON-GAMING OR ANCILLARY FACILITIES SUMMARY

As already stated the Applicant's own forecasts indicate high average per day visitor volume befitting the large gaming capacity contemplated ranging from 11,300 visitors per day to 20,200 visitors per day and averaging 16,500 visitors per day.

While MI has independently contended that the proposed Prince Georges' County gaming facility will inevitably be primarily a Local's / Regional casino, the forecasts of the Applicants seem to echo this opinion. In the MGM visitor forecast (the only applicant that forecasts feeder market visitation by state) the visitor count for Maryland plus Washington D.C. plus Virginia forecast visitors was 82% of the total visitor count. Measured another way, the Applicant's forecast of hotel visitor count – without distinguishing between Local, Regional, or Tourist visitors – ranges between 2% and 4% of total project visitor count. Cummings Associates, one of the two MLC independent consultants forecasting demand, projected visitor count from these three feeder markets at 96% to 97% of the total visitor count.

Despite their Local / Regional source, the Applicant's forecasts contemplate a reasonably high gaming budget per day ranging from a low of \$81 per day to \$113 per day and averaging \$95 per day. As a reference point the average gaming spend per day per Las Vegas Visitor was approximately \$113 per day but with an average stay of 4.3 days resulting in a per trip budget of \$485 per trip per visitor.⁷

Spend on non-gaming activities is relatively low in per visitor terms from gross revenue (i.e., before deduction for Promotional Allowances or discounted/free services given as marketing incentives) ranging from \$9 to \$17 per day averaging \$12 per day. In aggregate, gross non-gaming expenditures amount to substantial revenue ranging from \$38 million to \$123 million.

Given the forecast visitor count, feeder markets, and revenue mix it appears apparent that the dominant visitor will be a gamer, they will have a high per capita per day budget, and there will be a lot of them.

Gamers and, in particular Local and Regional high repeat gamers, typically rank the importance of Non-gaming facilities after distance and gaming beginning with Parking. But Parking holds

⁷ Source: Interpolated from the Las Vegas Convention and Visitors Authority 2012 Las Vegas Visitor Profile Study.

this top position in a bit of an odd way because it is “expected” and a “given” unless absent or poor. In other words, it is incumbent upon an owner/developer to provide good to excellent all weather parking not so much to gain market share by its presence (because competitor’s typically match parking facilities) but to prevent losing market share by its absence. Consequently, while Parking is shown first, it fades to the background what is provided meets or exceeds expectations on the first trip and does not change.

If Parking expectations are satisfied, then food and drinks (typically referring to alcohol for those who drink) climb to first and second in the Top Tier Gamer priority list.

A hotel facility creeps into the gamer’s top tier list of priorities over time. Typically, Locals’ and Regional casinos do not have a large number of hotel rooms. But, owners of Local / Regional casinos have found that even gamers living with 30 minutes to 2 hours travel time of the casino have the time, money, and sometimes prefer to stay overnight paying full price by themselves. This is particularly true of members of the retired, older market segments who do not like to drive at night, in inclement weather, and/or in peak traffic. It is also true of those who may want a one or two night “escape vacation” and can thereby drink more and/or longer.

For the repeat player, the casinos also found that those in the loyalty club who have accrued points can be sent promotions to receive an upgraded room, discount on the rack rate price, or a full complimentary room (read, “free”) thus precipitating a return trip. The hotel thereby became a marketing tool.

Note that loyalty clubs are structured to be multi-tiered and aspirational. A hotel with peak vs. off-peak pricing, different sized rooms, and even having a hotel-within-a-hotel VIP/VVIP section all can be used to create aspirational incentives.

It is not uncommon for casinos with established large loyalty club database to fill a 250 room hotel on peak nights (e.g., weekends, holidays, and special events) and 25 to 125 rooms on other days. Hence, for those gamers with a propensity and/or need to have a hotel room, an on-site hotel can be a boon, a reason to visit, and a competitive differentiator.

Entertainment and retail comprise Tier 2 but the importance of these two activities to a gamer can fall much more than a one-number sequential drop from Tier 2 to Tier 1 indicates. Likewise, most of the activities in the Tier 3 “Other Category” that include such things as swimming pools, spas, gyms, and the like also fall more than a one-number sequential drop from Tier 3 to Tier 2 indicates.

Meeting, Incentive, Convention, and Exhibition facilities typically do not even come up on the gamer’s radar screen as this is not typically the purpose of their trip.

A brief overview of the total mix will be discussed after the table below listing the Ancillary Facilities proposed by the Applicants.

HOLLYWOOD (Penn)		PARX	MGM
<i>Some activities and venues may be shown in more than one category. See detail.</i>			
TIER ONE -- GAMER'S TOP PRIORITIES			
PARKING Shown with total spaces first / covered spaces after.			
Spaces	5,100 / 3,000 spaces	5,317 / 5,011 spaces	4,988 / 4,988 spaces
DINING			
Venues / seats	9 venues, 764 seats	6 venues, 690 seats	14 venues, 1,485 seats
Includes a Food Court with ...	4 fast food outlets	Number of food outlets not specified.	5 fast food outlets
BARS AND LOUNGES			
Venues / seats	6 venues, 286 seats	5 venues, 220 seats	4 venues, 263 seats
HOTEL			
Number of keys	258 keys	250 keys	300 keys
Room Mix:	Number of keys / Square Feet each room		
Standard	126 keys / 360 sq. ft.	90 keys / 450 sq. ft.	221 keys / 431 sq. ft.
Premium	114 keys / 360 sq. ft.	135 keys / 450 sq. ft.	n.a. / sq. ft.
Suites	18 keys / see detail	25 keys / see detail	79 keys / see detail
TIER TWO GAMER PRIORITIES			
ENTERTAINMENT			
Venues / Sq. Ft.	2 venues, unknown	3 venues, 57,000 sq. ft.	4 venues, 24,185 sq. ft.
RETAIL			
Stores / Sq. Ft.	1 store, 500 sq. ft.	2 stores, 550 sq. ft.	12 stores, 42,419 sq. ft.
TIER THREE GAMER PRIORITIES			
OTHER			
	Indoor swimming pool/Spa/Gym.	Spa, Salon, Fitness Top of hotel.	Outdoor rooftop pool with Whirlpool spas,
		Box office.	Spa/Salon/Fitness/Gym
		Transportation Center	Conservatory
			Spectacle Garden
UNIMPORTANT TO GAMERS ... with rare exception			
MEETING, INCENTIVE, CONVENTION, AND EXHIBITION ("M.I.C.E.")			
Spaces	4 "spaces"	4 "spaces"	8 "spaces"
Square Feet	69,000 sq. ft.	10,000 sq. ft., FOH only	Approx.. 68,000 sq. ft.

Source: Applicant submissions, website, articles, and Macomber International, Inc.

In terms of "checking the activity boxes," all three Applicants provide an array of key Tier One Priority Ancillary Facilities. Outwardly, however, given the high anticipated visitor volume it appears that some may be programming the capacity on the low end of the range perhaps seeking to minimize initial capital investment in general and/or knowing that there are ways to build "stretch" into the capacity of initial activities. Others seem to follow the axiom that "You only

have one chance to make a first impression” (and derivatives thereof), may want to establish a clear distinction between their casino and their competitor’s (if such an opportunity exists), and believe the risk capital associated with the added capacity is worth the risk-reward (probably having undertaken a fair amount of research and evaluation to get to that point). Some owners/developers are simply more conservative while others more aggressive. Others simply have emotional preferences that simply do not fit into a neat, tidy, objective/quantitative explanation. Regardless, Tier One Ancillary Facilities satisfy the minimum market needs and provide insight how each Applicant perceives the Market opportunity and is responding to it with their company’s business model. More will be discussed about these matters in activity-by-activity review below.

The Second and Third Tier “boxes” are ticked as well by each applicant but with differences discussed below.

Bottom line, the Applicant’s should be able to achieve success through their business model using their proposed Ancillary Facilities.

2.0. TIER ONE – PARKING

First Gamer Priority until provided up to or exceeding expectations then defaults to a background issue.

	HOLLYWOOD (Penn)	PARX	MGM
Total spaces	5,100 spaces	5,317 spaces	4,988 spaces
“Covered”	3,000 spaces	5,011 spaces	4,988 spaces
Surface	2,100 spaces	300 spaces	0 spaces
Valet	Not separated	600 spaces	649 spaces
		Transportation Center 6,900 sq. ft. ... includes Waiting Lounge with seating, vending, and restrooms	Bus/Shuttle drop area.

Source: Applicant submissions, website, articles, and Macomber International, Inc.

2.1. QUANTITY – ABILITY TO SERVE DEMAND

Quantitatively, all three applicants have approximately 5000 parking spaces but with varying visitor projections, covered versus surface parking, and configuration. The sufficiency of this parking capacity can be estimated making certain assumptions: (i) an average day assumed peak hour parking usage (e.g., 8 a.m. to 1 a.m. per day or 17 hours out of a 24 hour day); (ii) the percent arriving during these defined peak hours (87% of total visitors); the percent of those

arriving by car (96%); and, (iv) the number of visitors per car (1.5). With the 2019 forecast 13,500 to 20,000 visitors per day forecast and these assumptions the proposed average peak hour parking utilization ranges from 38 percent to 69 percent. By implication, this means that peak seasons and/or days of the year or days of the month can increase 31 percent to 62 percent that make it appear that even the high utilization end of the range seems reasonable. The calculated utilization rates based upon these assumptions by Applicant is shown below:

Peak Daily Hour (defined) Parking Space Utilization
As forecast by the Applicants for 2016 / 2019

	HOLLYWOOD (Penn)	PARX	MGM
Utilization (defined)	38% / 45%	51% / 63%	64% / 69%

Source: Applicant submissions and Macomber International, Inc.

With regard to bus capacity, Parx has designated a “Transportation Center” as part of its Master Plan that includes a dedicated bus driveway, diagonal bus parking spaces with adjacent pedestrian/passenger areas in between, and an adjacent seating area with seating, vending, and restrooms. The current number of bus parking spaces appears to be four that may or may not be enough depending on how aggressive Parx and/or third-party operators intend to market regularly scheduled bus runs and/or charter busses. As capacity is approached, the operators can establish an off-site holding area for the busses and via mobile phones and/or radio advise them when to head for the site for drop-off or pickup to increase otherwise fixed capacity.

MGM has a separate bus drop off / pickup area which is beneficial particularly given the holding time needed upon arrival/departure not to mention the congestion of large number of people moving at one time, the noise and exhaust. Beneficially, the area is adjacent and on the same level as the casino but it requires parallel rather than diagonal “bus depot” type parking both limiting the number of busses that can be accommodated at one time or over a period. It, too, appears to have space for three to four busses at one time but managing in-and-out is more difficult with parallel or wait-for-the-next-bus-to-move-up and then move forward bus parking. If the property engages in a heavy bus program either through charters or regularly schedule runs then this area could prove to be too small and adjustments would need to be made.

For Hollywood/Penn MI could not find a bus depot or designated arrival/departure area on the architectural master plan or in the Submission narrative but it may still exist. Regardless, this is the largest site and most spread out master plan of the three with plenty of driveways, multiple surface parking lots, one large parking garage, and multiple building entry points all affording multiple options to designate a bus arrival/departure area and add a bus depot at a later date if one does not already exist.

2.2. QUALITY – ABILITY TO MOTIVATE VISITATION

Qualitative wise, during favorable weather periods frequent repeat casino patrons such as Local and Regional gamers tend to want to be as close to the entry and, more specifically, close to the entry to where they want to play in the casino as possible. To optimize these requirements in favorable weather areas means a large circular, square, or rectangular footprint wherein the center is the casino and the “diameter” of the outer surface parking ring made as small as possible relative to the capacity needed by surrounding the casino 360 degrees (or as much of it as possible) sprinkled with more than one enclosed parking facility and multiple entry points. In Maryland, MI suspects that covered parking would be more appealing for more times of the year. Therefore, MI speculates that covered parking would generally be an advantage of one applicant for another.

In this regard, taking them in order, Hollywood has a comparable number of total spaces at 5,100 spaces relative to the other two Applicants but “only” 3000 are covered. To be fair, the Hollywood site is retrofitting a casino to a racetrack configuration and, therefore one side of the recta-linear development is essentially precluded from development of any kind. And so, while there is only one covered parking structure the three surface lots are located to the left, “top,” and to the right of the casino providing multiple entries points of various distances. Hollywood could designate the surface spaces closest to the casino for gamers via pass-card gates and/or valet parking. They could also dedicate using more and more of the covered parking to cater to gamers vs. non-gamers, their better gamers versus lesser gamers (handicapped patrons excepted). They could build another covered parking garage on one of the surface lots if demand required it.

Note that one of the surface parking lots is closest to the hotel and event center which will probably both be a boon for those users but, during peak periods, could mean a gamer has to walk through them to get to the hotel. This situation could be aggravated during race days at the racetrack since the racing facilities are “in the middle” of the site development and between some of the parking and the casino. If racing patrons take the closest parking spaces this could push casino gamers further away unless managed delicately. It is unclear how Hollywood intends to use valet parking as a service but their design provides plenty of opportunity.

Regardless, the number of spaces appears to be more than adequate particularly relative to their daily headcounts that are the lowest among the three.

Parx has the greatest number of covered parking spaces at 5,011 spaces augmented by 300 surface parking for a total of 5,317 total spaces. Some of those parking spaces are under the casino providing multiple vertical entries while the large, main multi-store parking garage wrap around two sides of the building in an L-configuration. They have declared that they intend to devote some 600 spaces to valet but this initial allocation typically ebbs and flows as demand so dictates. Regardless, valet parking and/or preferred parking is often offered as a perk to gamers, particularly those in the loyalty club, so this is a benefit. MI admittedly is not exactly sure where the surface parking spaces are located but, regardless, they do not seem to play a major role. In general, Park has very favorable gamer parking facilities that should not result in any negative perceptions.

The MGM has all of its 4,988 parking spaces located in the recti-linear, multi-level covered parking structure atop which sits the casino and non-gaming facilities. Accordingly, this provides covered, direct vertical access to the casino. There are other “special” entry/exit and drop-off/pickup points at the hotel, for example, and a VIP casino entrance as well.

MGM proposes to begin with 649 spaces initially designated as valet parking that should be more than enough and may be expanded or retracted as necessary. They offer no surface parking but unless there is unexpected congestion within the various parking levels, MI suspects that MGM’s parking structure will be viewed positively.

So far as MI can discern, none of the Applicants propose to charge for parking even though the Maryland Live! website refers to various daily rates with discounts or comps given to loyalty club members. MI did not encounter a parking charge when visiting the site. It is unclear whether Horseshoe Baltimore will charge for parking.

Along with parking, access/egress to the site, of course, is an inextricable part of the arrival and departure experience but MI will defer to the traffic studies and the MLC traffic consultant to advise them on this issue.

In all, all of the Applicants pass what MI believes will be the minimum gamer expectations with individual personalities and preferences appreciated one more than the other but MI suspecting that MGM and Parx will be receive a slightly higher ranking “parking wise” because of their greater number of covered spaces and Hollywood slightly but slightly lower because of less. This distinction, of course, will disappear when the winner is chosen but all three appear to offer parking as good if not better than their existing and soon to open competition.

3.0. TIER ONE – DINING Second Gamer Priority

	HOLLYWOOD (Penn)	PARX	MGM
Capacity			
Venues	9 venues	6 venues	14 venues
Seats	764 seats	690 seats	1,485 seats
Square Feet	20,138 sq. ft.	25,500 sq. ft.	60,097 sq. ft.
Applicant Financial Forecast: 2016 / 2019			
Food Revenue	\$ 10M / \$13M	\$ 41M / \$50M	n.a. / n.a.
F&B Revenue	\$ 17M / \$21M	\$ 63M / \$78M	\$ 66M / \$76M
Profit Margin	F&B: 23% / 23%	F&B: 21% / 19%	F&B: 11% / 17%

	HOLLYWOOD (Penn)	PARX	MGM
Outlet Mix: Seats/Ave. Check	Listed in perceived order of “formality” and price with MI attempt to position similar venues across from one another.		
		Coffee / Snack Bar	Coffee / Snack Bar 25 seats
	Food Court 120 seats, 4 outlets	Food Court 150 seats	Food Court 310 seats, 5 outlets
	Racing Facility Seasonal Concession – apron and gaming levels		Pool Seasonal 50 seats
	Sports Bar/Restaurant 150 seats		Sports Bar/Restaurant 270 seats
	Noodle Bar 20 seats	Asian Bistro 150 seats	Noodle Bar 90 seats
	Sushi Bar 25 seats		
	Asian 80 seats		
			American 180 seats
			Barbecue 130 seats
		Italian Trattoria 150 seats	Italian Bistro 135 seats
	Seafood 125 seats	Seafood Tavern 120	
	Racing Facility Seasonal Terrace Dining 120 seats		
			Asian fine dining 110 seats
	Steakhouse 100 seats / 24 seat private dining area	Steakhouse 120 seats	Steakhouse & Lounge 185 seats
Comments		All outlets branded to reflect area	

Source: Applicant submissions, website, articles, and Macomber International, Inc.

3.1. QUANTITY – ABILITY TO SERVE DEMAND

From a practical standpoint, gaming is typically a four hour event that ranges between two to six hours, the latter being more likely for gamers than casual players. This means that for the middle and upper ranges most gamers will want or have to eat during a visit to an Applicant's casino.

To some degree, the raw desire is for food of any type. But, with gamers for reasons already mentioned, they either want quick food (so they can get back to gaming), inexpensive food or good price-food value (so that they have more for gaming and/or as a silent gesture of good faith by the casino to "pay them back" for the casino "taking their money"), and or a food "experience" in terms of higher than expected quality, service, ambience, brand (e.g., Celebrity Chef), Wow! factors, and anything new, unique, innovative, chic, *avant garde*, or otherwise "interesting." Some gamers will have a meal after their gaming session to wind down, celebrate, or if a discount or a comp incentive earned by playing then to "earn back" or partially get "paid back" for their losses. In some instances, they may want to have a meal with a gaming or non-gaming spouse, friend, or others in the party.

It should also be pointed out at this point that all three casino locations are relatively isolated from other adjacent or walking distance food and beverage opportunities. True, there are more than enough dining options to take a meal before or after the visit in other Greater Washington D.C. points of origin. But, once at one of these sites, the gamer is relatively "captured." This is particularly true at Hollywood due to the long access driveway and seemingly residential, non-commercial approach neighborhoods.

This syndrome is also true in part for Parx that is across the street from a local mall with limited food available. But, given the site of the Parx building, site, access/egress pathways, and the need to cross a busy street many times of the year during inclement weather make these alternative food options marginal for a Parx visitor.

For MGM, it is within eyesight of National Harbor, the mixed use dining, bar/beverage, entertainment, retail, office, hotel/apartment, and harbor complex. MGM also indicates they intend to operate a 'rubber trolley' between the MGM site and National Harbor. The trolley route (or other shuttles) may include the nearer but still greater-than-walking-distance to the recently opened Tanger Outlet Mall with its own retail and informal food options. But, most gamers do not want to leave the casino to eat considering it an imposition to playing. Weather and/or wait time for the shuttles also add real or perceived obstacles to taking advantage of National Harbor or Tanger for spillover food demand. All in all, the MGM gamer too will need to be served on-site to maximize their patronage and loyalty.

With regard to satisfying the all important food priority among gamers, the first criteria is that a food opportunity be available. With 13,500 to 20,200 visitors per day this requires a fair amount of preparation and availability. Although each venue and casino can be different, applying some generalized benchmarks gives some indication of the Applicant's assumptions about the nature

of their visitor demand and the adequacy of the food capacity being contemplated by each Applicant.

For example, if it is assumed that visitors those visitors who want/need to eat will eat one meal per visit and, depending upon the restaurant, they will be able to turnover their food seats from 2.0 times per day (upscale, single meal, waiter service restaurants) to 10.0 times per day (informal counter service such as a Noodle Bar) to some 1500 meals per day at fast food outlets associated with food courts), the percent of visitors who want to eat in order for the number of meals forecast to equal the daily food capacity forecast above using MI assumptions means that 49 percent of the forecast visitors to Parx will eat one meal, 61 percent for Hollywood/Penn, and 74 percent for MGM. This “backed into” alignment of perceived dining capacity to meal demand per day is a function of restaurant mix, meals served/hours of operation, meal “speed,” Applicant visitor forecasts, MI’s above assumptions, and multiple other possible variables.

In the one sense a lower percentage may indicate plenty of intentional extra capacity to provide excellent service and room-to-grow. MI also suspects that other owners may use food as a marketing tool intentionally adding more food capacity at inception and forecasting the additional demand they expect to attract because of this strategy. In other words there are a lot of variables at work and MI did not see any secondary or primary market research to back up the programming of each applicant. More about this in the review below.

Quantitatively, it appears that each Applicant will be able to serve their forecast demand although using MI’s initial assumptions, proportionately ...

- Parx has the least number of venues (6 venues), low daily meal capacity (9,500 meals per day) with high projected visitor demand (19,500 visitors per day) resulting in an implied 49% of the visitors taking one meal on site to equal daily meal capacity;
- Hollywood/Penn being in-the-middle with 9 venues, the lowest meal capacity (8,200 meals per day) with low projected visitor demand (13,500) resulting in 61% of the visitors taking one meal on site to equal daily meal capacity; and, ...
- MGM with the most number of venues (14 venues), highest daily meal capacity (15,000 meals per day), and a relative to high projected visitor demand (20,000 visitors per day) resulting in 74% of the visitors taking one meal on site to equal daily meal capacity.

Note that if 90 percent of the forecast average daily visitors take one meal, 54 percent of the daily visitors to Park can be served under the present capacity and assumptions, 68 percent at Hollywood/Penn, and 82 percent at MGM. This implies un-served, hungry visitors. But, beneficially, there is a fair margin for error because of the ability of the owner/developer/operator ability to “stretch” initial meal capacity. For example, MacDonald’s average 2000 meals per day (versus the 1500 meals per day assumed by MI), grab-and-go sandwiches can be served from a coffee outlet or carts, food can be added to bars/lounges, additional meal periods can be added to otherwise closed restaurants, and even buffets or barbecues can be set up in unused meeting rooms or outdoors. If the site/building and kitchen/preparation/service infrastructure exists, there is also the ability to expand and/or add new food capacity.

Regardless, all things being equal, MGM has more estimated daily food capacity by approximately 70 percent than Parx and Hollywood. As a sprawling site with a seasonal racetrack facility with its own food and beverage capabilities, Hollywood/Penn appears to be in the easiest position to expand existing capacity or to build new. Parx has the fewest venues and fewest seats meaning if it “gets it wrong” it will need to expand or develop new dining options sooner than its counterparts but has the lowest current utilization estimated by MI.

3.2. QUALITY – ABILITY TO MOTIVATE VISITATION

Parx, with the least number of dining venues and seats (albeit the latter, not by a large amount, i.e., 690 seats at Park vs. 764 seats at Hollywood/Penn) numerically has the least variety. But, with a Coffee outlet, Food Court, Asian Bistro, Italian Trattoria, Seafood Tavern, and Steakhouse each, except for the Coffee outlet having over 100 seats, the array is diverse and capable of serving gamer demand at various ends of the speed, formality, price, and price-value Food Experience. Additionally, Parx also indicates that something to the effect that “all outlets will be branded to reflect the area” suggesting that either existing actual local name brands will be operating one or more of the dining establishments and/or the cuisine, ambience, price-value, and other attributes will reflect what is proven popular in the local/regional area. This “local/regional” approach may be a good thing and, in general, more “safe” but may lack the introduction of something new that might distinguish the property from other existing alternatives be they gaming or non-gaming. It is unclear whether Parx has developed a reputation in Philadelphia as a Food Destination as some local/regional casino are able to do via an overt, proactive strategy. In fact, the Parx submission admits they have not finalized their food and beverage plans with respect to prospective external operators and/or internal operations making further insight difficult.

Some insights may be deduced from Parx’s financial forecasts. While they show both food and beverage revenue and expenses separately (as does Hollywood/Penn), MGM does not. So, for comparison purposes when food and beverage revenue is combined, Parx forecasts \$63 million combined food and beverage revenue in 2016 and \$78 million in 2019 versus MGM forecasting combined food and beverage revenue at \$66 million and \$76 million, respectively, with some 70 percent greater seat capacity but about the same daily visitor forecast of 20,000 visitors per day each in 2019. Hollywood/Penn forecasts combined food and beverage revenue of \$17 million and \$21 million, respectively, in the same years that is significantly lower even on lower forecast daily visitor volume of approximately 13,500 visitors per day (\$4 food and beverage revenue per visitor vs. approximately \$10 per visitor for Hollywood/Penn and MGM). Ostensibly, Parx and MGM are aggressively pursuing food and beverage revenue relative to Hollywood/Penn.

From another perspective, none of the Applicants submitted detailed breakdown of their Promotional Allowances, i.e., the value of complimentary food, beverage, entertainment, and other services, gifts, and perquisites to players. But, MGM via a note to their Promotional Allowance line item said something to the effect that: “Approximately one-third each of the Promotional Allowance is from Food and Beverage with the bulk of the remainder from Hotel.” If this basic allocation holds true across all three Applicants, then the total dollar Promotional

Allowance would indicate relative spend. In this regard, in 2019 Parx forecasts spending \$43 million on Promotional Allowances or 5.3 percent of Gross Gaming Revenue versus MGM forecast of \$32 million or 4.7 percent and Hollywood/Penn \$16 million or 3.9 percent. In other words, it would appear that Parx intends to be most aggressive in the use of Promotional Allowance incentives in absolute terms as well as a percent of Gross Gaming Revenue a large part of which could be food and beverage. It remains to be seen whether they can service the forecast demand with the capacity they have planned

Hollywood/Penn comes in “second” ostensibly with 9 venues but, to be fair if the three Noodle Bar, Sushi Bar, and Asian Restaurant of 20 seats, 25 seats, and 80 seats respectively, then there are “seven venues” and even six venues if you further remove the Racing Facility Terrace Dining for seasonal reasons (even though it could or will be opened year around). Hollywood/Penn’s Sports Bar/Restaurant with 150 seats holds one of the positions of Parx’s Italian Trattoria of 150 seats even though they are two different food concepts. Other than that, they are pretty similar dining-wise without the Hollywood/Penn reference to their restaurants reflecting the local area. Hollywood/Penn’s description of its proposed food and beverage facilities is a bit more descriptive than Parx’s, but still reduced to a couple of sentences or a short paragraph. There is no reference that MI could discern regarding use of Celebrity Chefs, internal brands, or the like.

But, as already noted it does not appear that Hollywood/Penn is planning to aggressively use food and beverage as a marketing tool, or, to be more accurate, as aggressively as Parx. Moreover, its combined food and beverage departmental profit margin is the highest at 23 percent. Admittedly, because of the combined nature of food and beverage between the other two applicants, it is hard to tell whether this is due to more aggressive pricing, a lower cost of food sold, or labor cost or whether it could just be a higher percent of beverage revenue to the combined total since the profit margin on beverage versus food can be twice or more. Whereas some gaming companies establish “Great Food” as one of their company hallmarks, MI does not get the impression that Penn National either tries to do that or has accomplished it. Rather, it appears to try to do a consistently “good job” at dining and that may be enough. At least until competition forces you do choose otherwise or find other ways to compete.

MGM by far has the greatest number of venues (14 venues) and seats (1,485 seats). In the “big restaurant” category it offers American, Barbecue, a fine dining Asian restaurant in addition to a small, 90 seat Asian Noodle Bar plus it also includes a Sports Bar/Restaurant like Hollywood/Penn but larger at 270 seats vs. 120 seats. MGM’s Food Court also includes five outlets and double the seats of both Parx and Hollywood/Penn giving what MI believes to me a good component in which to be able to “stretch” the potential capacity of meals served. It should also be pointed out that a number of MGM’s restaurants are positioned around the building glass walled perimeter and the building is positioned on the site to provide some pretty impressive views and ambience of National Harbor, the river, and possibly peeks at the Washington D.C. building and monument roofline.

MGM goes to some length to present their roster of restaurants including naming the “celebrity chefs” in five of their restaurants and taking multiple pages to describe them. Celebrity Chef Restaurants as they are known can both be a boon or a bane, the former in the context if the

celebrity chef is known to the market segments targeted and resonates with them. Additionally, most Celebrity Chef Restaurants are leased thereby requiring the casino to lose some control over the restaurant, e.g., possibly in terms of pricing, hours of operation, and providing special services to gaming patrons. This said, Celebrity Chef Restaurants have become a fixture in destination as well as Regional/Local casinos becoming in and out of favor with the public as well as the gaming companies who invite them.

In capacity and underscored by the forecast food and beverage revenue (per person equal to but in absolute dollars slightly below Parx) as well as the level of promotional allowances (second to Parx in terms of absolute dollars and ratio to Gross Gaming Revenue) MGM appears to be making a commitment to food and beverage.

In all, the three Applicants offer a range of dining opportunities capable of satisfying most gamer's minimum expectations in terms of dining capacity/availability, quality of food/service/ambience, and as having access to a variety via cuisines and price. This said, it appears that Hollywood/Penn is taking a less aggressive approach, Parx may be stressed with capacity issues if food demand manifests different than MI forecasts but appear to be very aggressive in their plan to use food and beverage as a marketing tool, and MI perceives that MGM is taking the highest, most sophisticated, and broad range of dining experiences situated within their building plan to provide unique and memorable views.

Here again, once one wins the gaming license the other two do not meaning the winning gaming facility will be competing with competitors outside of Prince George's County. It would appear that on independent basis all are following their company's successful business models.

4.0. TIER ONE – BARS AND LOUNGES

Third Gamer Priority

	HOLLYWOOD (Penn)	PARX	MGM
Note: [E] denotes if also listed under "Entertainment"			
Capacity			
Number of venues	6 venues (does not include 150 seat Sports Bar/ Restaurant listed under "Dining")	5 venues	4 venues (does not include 270 seat Sports Bar/ Restaurant listed under "Dining")
Seats	286 seats	220 seats	263 seats
Square Feet	7,600 sq. ft.	9,000 sq. ft.	10,576 sq. ft.
Applicant Financial Forecast: 2016 / 2019			
Beverage Revenue	\$ 7M / \$ 9M	\$ 22M / \$27M	n.a. / n.a.
F&B Revenue	\$ 17M / \$ 21M	\$ 63M / \$78M	\$ 66M / 76M
Profit Margin	F&B: 23% / 23%	F&B: 21% / 19%	F&B: 11% / 17%

	HOLLYWOOD (Penn)	PARX	MGM
Outlet Mix: Seats / Sq. Ft. / Entertainment “Yes” / ”No”			
		Casino Center Bar 80 seats. 3000 sq. ft. Yes. [E]	Casino Bar 38 seats. 3252 sq. ft. Yes.
		Casino High Limit Bar 10 seats. 1000 sq. ft.	“Living Room” ... High limit area lounge area that serves drinks.
	Entertainment Lounge 150 seats. 4200 sq. ft. Yes. [E]		Casino Overlook Bar 150 seats. 4072 sq. ft. Yes
	Sports Bar 30 seats. 600 sq. ft.		
	Restaurant Holding Bar #1 10 seats. 250 sq. ft.	Restaurant Holding Bar 40 seats. 1500 sq. ft.	
	Restaurant Holding Bar #2 36 seats. 900 sq. ft.		
	Hotel Lobby Bar 10 seats. 250 sq. ft.	Hotel Lobby Bar 60 seats. 2500 sq. ft.	Hotel Lobby Bar 75 seats. 3252 sq. ft.
	Showroom/Pre- Function Bar 50 seats 1400 sq. ft.	Showroom/Pre-Function Bar 30 seats 1000 sq. ft.	Pre-function area(s).

Source: Applicant submissions, website, articles, and Macomber International, Inc.

4.1. QUANTITY – ABILITY TO SERVE DEMAND

Bar and lounge venue capacity can be a bit deceiving as anyone who has been to a busy bar on a weekend, holiday, or special event knows. The ability of patrons to pack a bar-front served by an increasing number of bartenders and bar backs (to a point) makes many bars and lounges very expandable capacity-wise.

Each of the Applicants offers between 220 and 286 bar seats and 7,600 to 10,600 square feet, perhaps the better measure. Hollywood/Penn gets there with the most venues, six venues, then Parx with five venues, and MGM with four venues.

Keep in mind that the above listing of beverage facilities do not count either the free self-serve soda/coffee stations that are prevalent these days (to reduce labor) and, whatever cannot be served in the casino in this manner, then via live cocktail/beverage serves to the table or VLT. And, both Hollywood/Penn and MGM did not list each of their self-described Sports Bar /

Restaurant of 150 and 270 seats, respectively. The above referenced bars and lounges serve what is left.

So, one way to look at the adequacy of the capacity is to assume what percent of the visitors will want a beverage (exclusive from one of the previously mentioned dining venues) and how many beverages each person may want. Based upon hours of operation and ability to serve some volume of drinks the capacity of the formal bars and lounges listed in the table above can be determined with the remaining un-served demand to be accommodated by the self-serve beverage stations and cocktail/beverage servers who will bring it to the table or VLT used as a reasonableness check. Assuming 60 percent of the visitors want a beverage besides that taken at a food venue and that each wants one drink, based upon the capacity of each outlet and hours of operation MI forecasts that 38 percent of Hollywood/Penn's beverage demand can be served by formal bars and lounges, 24 percent of Parx's, and 15 percent of MGM's. This leaves 359 beverages to be served per hour at Hollywood/Penn by the self-service stations and by the cocktail/beverage servers, 634 at Parx, and 733 at MGM. This may seem like a lot at the upper end of the ranges but these are big casinos and a good portion will be taken by the self-service kiosks and the remainder spread around over 4000 gaming positions at each gaming facility. Alternatively, speculators can plug in "stretch" capacity at the formal bars from the walk-up-and-order-a-drink-then-stand option and everything seems to look feasible at this point.

Note that while Hollywood/Penn's beverage revenue forecast for 2016 was \$7 million and 2019 it was \$9 million whereas Parx, once again, was significantly higher at \$22M and \$27M respectively. MGM did not breakout beverage revenue from the combined food and beverage revenue it forecast. But MGM's food and beverage forecast was in line with Parx and so one can assume that MGM's beverage volume is anticipated to track accordingly. Remembering that forecast beverage revenue was 35 percent to 40 percent of combined food and beverage revenue and assuming a per drink price in the formal bars and lounges being discussed in this section leads to a forecast that approximates those of the Applicants.

The reader may recall that Promotional Allowances that include beverage among other services was \$13M and \$16M, respectively at Hollywood Penn but \$31M and \$43M at Parx, respectively, and \$27M and \$32M at MGM with ratios to Gross Gaming Revenue tracking accordingly. Accordingly, these forecasts suggest that as with food, Parx intends to use beverage aggressively as a marketing tool via comp drinks and MGM only slightly less so but with Hollywood/Penn using them the least or, most carefully.

4.2. QUALITY – ABILITY TO MOTIVATE VISITATION

Other than beverage service with meals (both alcoholic and non-alcoholic) together with the casino-based self-service beverage stations and at the VLT/table cocktail and beverage servers, the formal bar and lounge approach to creating Bar and Lounge Experiences is not all that dissimilar among the Applicants. For example, both Parx and MGM have a casino bar, the former 80 seats with entertainment and the latter 38 seats but both with about 3000 square feet of space devoted to the venue. Hollywood/Penn then follows its brand approach of offering what

they refer to as an Entertainment Lounge (versus calling it a Casino Center Bar or Casino Bar) with 150 seats, offering (by definition) entertainment and occupying approximately 4200 square feet. MGM offers its counterpart, a Casino Overlook Bar with 150 seats that is ostensibly on the casino level but raised and approximately 4100 square feet in footprint. Note that both Parx and MGM offer a form of more private “high limit” bar option, Parx a 10 seat, 1000 square foot Casino “High Limit” Bar and MGM as part of their “Living Room” Lounge approach to a high limit area that has its own semi-private bar.

Beyond this, Hollywood/Penn offers a 30 seat, 600 square foot Sports Bar that appears to be on a Mezzanine level perhaps affording overlook views of the casino while also serving the Poker Room and Racetrack Sky Terrace on the same level.

Both Hollywood/Penn and Parx offer a Restaurant Holding Bar, Hollywood/Penn two of 10 and 36 seats and Parx one with 40 seats. For those seeking a typically still quieter refuge, all three offer a Hotel Lobby Bar: Hollywood/Penn a 10 seat version, Parx 60 seats, and MGM 75 seats.

Both Hollywood/Penn list the Showroom/Pre-function area as a beverage area that MI believes MGM could do as well but chose not to.

Aesthetically, Hollywood/Penn’s and Parx’s bar face inward to typically exciting casino floor and other people-watching-people activities. Hollywood/Penn offers an opportunity to look over the racetrack but, other than the grandstand and Terrace Dining it is not apparent where else that might occur (which could be a “good thing” since the racetrack operates seasonally). MGM bar and lounges offer the casino inward facing option as well as certain outward facing options overlooking presumably National Harbor, the river, and possibly the roofline of Washington D.C.’s buildings and monuments which, again, could be memorable.

In all, besides the utility function of getting beverages to thirst gamers via restaurants, self-serve kiosks, cocktail servers, or former bars often it is about the synergy and energy that the bars create within the people within them as well as those that surround them and they overlook if that is the case that makes a bar a fun, entertaining bar. Add a plethora of televisions, piped music, live music, or anything else you can think of bars and operating/marketing executives find ways to start-the-party and keep it going. Casino gaming is the “kindling” for this and the bars are often the “match” which is what can make casinos so much fun to visit. It would appear that all three Applicant’s proposals have done a good job of at least providing the “bones” for this aspect of a gamer’s visit.

5.0. TIER ONE – HOTEL
Fourth Gamer Priority

	HOLLYWOOD (Penn)	PARX	MGM
Capacity			
Number of rooms	258 rooms	281 rooms	300 rooms
Number of keys	258 keys	250 keys	300 keys
Applicant Financial Forecast: 2016 / 2019			
Hotel Revenue	\$ 8M / \$ 11M	\$ n.a. / \$ 23M	\$ 25M / \$ 28M
Profit Margin	60% / 60%	n.a. / 23%* * may include other activities	58% / 62%
Room Mix: Number of keys / Square Feet each room			
Standard/sq. ft.	126 keys / 360 sq. ft.	90 keys / 450 sq. ft.	221 keys / 431 sq. ft.
Premium/sq. ft.	114 keys / 360 sq. ft.	135 keys / 450 sq. ft.	n.a. / sq. ft.
Suites/sq. ft.	18 keys / see below	25 keys / see below	79 keys / see below
Suite Mix:= Number of keys / Square Feet each suite			
1 Bedroom	12 keys / 525 sq. ft.	18 keys / 600 sq. ft. to 900 sq. ft.	72 keys / 861 sq. ft. to 1292 sq. ft.
2 Bedroom	6 keys / 780 sq. ft.	4 keys / 1300 sq. ft.	6 keys / 2153 sq. ft.
3 Bedroom	but 1140 sq. ft.	2 keys / 1600 sq. ft.	n.a. / sq. ft.
President/Super Suite	with second bedroom option.	1 key / 3200 sq. ft. President Suite	1 key / >3500 sq. ft. Super Suite Two bedroom suites include 4 Hospitality Suites
Average Daily Rate (opening)	\$100 ADR	\$150 ADR	\$259 ADR
Rate Detail (opening year)			
Casino:			
Full room rate	\$100	Not provided	\$279
Discounted rate	\$100	Not provided	n.a.
Other promotion	\$100	Not provided	n.a.
Property comps	\$100	Not provided	\$279
Group	\$100	Not provided	\$209
FIT	\$100	Not provided	\$303
Other	\$100	Not provided	\$199
Forecast Occupancy (opening year)	95%	70%	94%

	HOLLYWOOD (Penn)	PARX	MGM
Room-night Mix (Opening Year):	Percent of Total Room-nights		
Casino	49%	45%	21%
FIT	50%	45%	36%
Group	0%	10%	36%
Other	0%	0%	4%
Other Comp	1%	0%	4%
Total	100%	100%	100%
Comments		Includes Business Center 2000 sq. ft.	

Source: Applicant submissions, website, articles, and Macomber International, Inc.

5.1. QUANTITY – ABILITY TO SERVE DEMAND

It is somewhat difficult to discuss what adequate room capacity means for a given market because for a casino-hotel so much of that depends upon the marketing plan and the company's philosophy and strategy of how to use and fill those hotel rooms. Each Applicant is submitting for a large casino within a Marketplace with a large population that should produce the visitor volumes somewhere in the magnitude of those forecast by the Applicants. Enough is known about gamer behavior to know with some confidence that some portion of this expected high gamer visitor traffic will convert to loyalty club members or the casino's database in another manner. Regardless, as the loyalty base and database grows and repeat visitation grows with it demand from gamers will grow "pushed" or requested by the gamers for cash or "pulled" (read, "incentivized") by the casino marketer using promotions, discounts and comps.

The hotels of the size contemplated ranging from 250 keys to 300 keys should be sufficient to satisfy gamer demand in the start-up years. In fact, once the operations pick up headway, the hotels should be full with gamers on weekends and other peak nights. But, given these numbers, even during the start-up period there conceivably be times where the casino runs out of rooms. Then, as loyalty club and database membership increases, those instances where the casino runs out of rooms could increase.

Pre-emptively, when witnessing decreasing room inventory the casino can choose to start raising the qualifying threshold for a room and/or proactively making off-site reservations for them but this risks alienating those who are used to but cannot now get a room. This is a time when players defect voluntarily or are poached by competitors. After-the-fact in oversold conditions, the casino can 'walk' the lowest ranking guest but doing so risks alienating this group.

Even using off-site accommodations has a threshold issue: although relatively nearby off-site rooms are available to each of the three Applicant's locations (assuming traffic is able to move on the roadways), the further away alternative accommodations are located and/or the further they fall below the gamer's expectations quality, these alternatives becomes less effective and

potentially counterproductive. After all, most gamers want to stay in the casino's hotel so they can leave their room, go down the elevator, and open onto the casino floor.

So, all in all, while the initial scope of rooms and mix of standard, premium, and suite rooms appears adequate for the opening years, MI is a bit surprised that it could only find one reference to a possible expansion site among the three Applicants and that was Hollywood/Penn on a designated surface parking lot near the initial hotel tower. Parx and MGM apparently did not build into their architectural master plan the provision for expansion of the number of hotel rooms not to compete with local, existing hoteliers, per se, but to serve their gamers.⁸

Parx's site appears to have the available green space to do so including close or adjacent to the first hotel tower but MI did not see any reference to it. Regardless, they appear to have room on the site to build it somewhere. By contrast, the MGM property looks so purposely built and appears to occupy curb-to-curb limits of the site that unless expansion were master planned into the carefully designed and presumably structurally engineered into the building from the start, it does not appear that it could be easily retrofit. If MGM has not made any noises to this point about master planning hotel expansion MI would think their options have or are rapidly waning.

5.2. QUALITY – ABILITY TO MOTIVATE VISITATION

The standard for a four-star "resort" oriented hotel room in most venues is 450 or so square feet per room. In order to meet or exceed gamer's expectations – particularly those who want to get "paid back" for the money the casino "took" from them not to mention the more vibrant, zesty, exorbitant nature and psyche of gaming and its gamers – most casinos tend to go more "over the top" than average in order to woo and retain their gamers.

The Hollywood/Penn Standard and Premium Rooms are the smallest at 360 square feet. This seems to be keeping with a theme that Hollywood/Penn knows its customer and is confident they can provide the room type that has worked for them and their database that has made it one of the fastest growing Local/Regional gaming company's in the United States. Even so, Parx is offering Standard and Premium Rooms at 450 square feet and more Premium Rooms (generally the same room configuration as a Standard Room but with higher quality furniture, fixtures, equipment, technology, linens, services, and the like). MGM offers only Standard Rooms but has forthrightly said this is going to be a 4-star hotel while the other two Applicants have been a bit quieter about their hotel quality rating. Some insight can be gleaned from their forecast average daily rate that is \$100 for Hollywood/Penn, \$150 for Parks, and \$259 for MGM which says it all.

In terms of suites, MGM offers the most at 72 keys perhaps somewhat because it has the most room count to do so but it seems to also reflect a more upscale image and the confidence they will need more upscale rooms for upscale gamers and non-gamers alike. Parks is expectedly and

⁸ This is a bit disingenuous because the casino hotel manager's rooms will not be full with gamers every night and therefore the manager will turn to non-gamer target market segments to fill empty rooms.

consistently next with 18 suite keys and Hollywood/Penn 12 suite keys. Size matters even more so in this category to transmit a feeling of importance, stature, and to have more to work with in terms of excitement and Wow! features. Consistent with everything so far, MGM's one bedrooms suites are the largest ranging from 861 to 1292 square feet, Parx is second with 600 to 900 square feet, and Hollywood/Penn's one bedroom suites are 525square feet. Both MGM and Parx offer a Super Suite or Presidential suite over 3000 square feet. Note that suites such as these are used to reward better players sometimes as something beyond-the-expected typical room (particular if the suite is empty anyway during an off-peak day) but as importantly to reward the really high budget players whose budget justifies it. The revenue potential of the better players give plenty of scope to comp suites of all times as casinos will comp from 10 percent to 40 percent of a player's theoretical win depending upon the level of play and competitive conditions. A \$1000 suite at even a 20 percent comp rate would require a \$5000 theoretical win rate or even less if an actual loss, a surprisingly not unfamiliar personage in upscale casinos.

Before going further, MI wants to be careful here. Going upscale or downscale is not necessarily right or wrong as long as the strategy does not go so far up or down the income/budget scale that it outpaces the Market. Concomitantly, the range of the "reach" of that hotel should not miss a "sweet spot" in the Marketplace. In other words, a casino owner/developer does not want to position its property to "low" and miss the viable middle and upper end business any more than it wants to position too "high" and alienate the lower and middle markets who may feel out-of-place. In this context, it seems clear that MGM is comfortable pursuing the "4-star," higher end of the range extending downward, Parx occupying the "upper middle" (e.g., a 3.5 star level) apparently trying to reach both up and down within some unstated range, and Hollywood/Penn more toward the middle-middle of the Market Range with the ability to stretch upward in appeal but probably not as far as MGM can take it. All of these perceived positioning strategies MI believes to be consistent with the existing respective brands, their business models, and the pathway to their success in other markets, right or wrong (wrong in the context not that they might fail but that the might have done better in one venue or another, using another strategy or derivation thereof).

The Applicant forecast room-mix may be insightful. Of the total room-nights forecast, Parx contemplates the most room-nights driven by the casino marketing department at 49 percent presumably using various promotion/perquisite offers (e.g., automatic upgrades or celebrate your anniversary/birthday promotions) or harder discounts and full complimentary programs. Hollywood/Penn has the next highest casino percentage at 45 percent of their total room-night mix forecast to be from the casino. Even with the largest number of rooms, MGM forecasts only 21 percent of their rooms going to casino invited guests that seems a bit odd. This could be bid gamesmanship to show more non-gamer, tourism oriented utilization but maybe not.

FIT is high for all Applicants: 50 percent for Hollywood/Penn, 45 percent for Parx, and 36 percent for MGM. Group is next but varies: 0% for Hollywood/Penn (perhaps revealing their gaming focus and/or the practicalities of a small hotel with not enough available rooms to book groups), 10 percent for Parx (same reason), but 36 percent for MGM. Here again the MGM group forecast appears to be problematic since groups often book in advance with contracts. The

percentage shown is an “average” so presumably a given group could be more than 100 rooms at a time which in multiples thereof might not leave enough room for casino players. This again leads MI to believe this might be bid gamesmanship to show a desire to cater to non-gamer regional, domestic, or international group business. Or, they might be serious and be willing to risk alienating their casino players to accomplish a Maryland goal.

A trickling of other room nights appear in the remaining Other and Other Comp categories but they are relatively meaningless to the overall picture.

Once again, the hotels of all three Applicants work although “in their own way” following what appears to be their brand and business model. Hollywood/Penn’s approach appears to provide room inventory to players but not as inspired or inspirational as Parx and MGM who appear to want to “push some player’s buttons” with the aggressive marketing of their hotel rooms to motivate trial, repeat visitation, and ultimately loyalty one-on-one with the player but also in the context of a fairly competitive East Coast Corridor. Despite this, as before, once one Applicant wins the other two competitors evaporate and the remaining winner is free to market their hotel the way that optimizes their profit and return to investors. MI suspects that strategy will be to fill the hotel with Local and Regional gamers as possible.

6.0. TIER 2 – ENTERTAINMENT

Fifth Gamer Priority but in Tier 2

Entertainment drops in importance to the player to a second tier Ancillary Facility and, as mentioned, this tier is a big drop in priority vis a vis the Ancillary Facilities already mentioned. This is because the activities in Tier One are either necessary to facilitate the gaming trip or likely something they will partake of during a gaming trip whereas in Tier Two and Tier Three they are not. Entertainment is not critical to gaming; rather, it is a complementary activity.

Informal entertainment such as a band in an ad hoc or small band area next to or as part of a bar where the player may anyway already be having a drink is a value-added element to the visit (if, of course, the music aligns with the players tastes and preferences). Entertainment that is in a semi-enclosed or fully enclosed lounge or cabaret is a bigger commitment, particularly if admission is charged and/or there are show times. Such an activity may be used by a player after a quick loss or win with time on a day or night trip to kill, when traveling with non-gaming companions who want something to do, or when staying overnight in the hotel. The entertainment is rarely the primary reason for the trip for a gamer.

The formal showroom steps up the time commitment and possibly cost (if not discounted or comped by casino marketing). Going to a formal showroom with an admission of \$30 or more and a two-hour or so could be a whimsical choice if the player is staying in the hotel anyway or, in this case, the reason for the trip, their companion’s or theirs. Depending upon the show, the casino may schedule specific starts and acts that appeal to the tastes and preferences of their players in order to reward play-to-date or motivate an extra trip, often during an otherwise slow

period. The show may be accompanied by an invitation only private player's party before the show with a meet-and-greet with the players or afterward. The show itself may even be "invitation" only.

Although listed under Meeting, Incentive, Convention, and Exhibition (M.I.C.E.), event space can be used to host stars, acts, sporting events (e.g., video feed or live boxing), festivals, and any number of other types of events the mind can imagine.

Entertainment is a great marketing tool to be used by casino marketers to reward players, motivate them to make additional visits, and to differentiate their casino from the competition.

	HOLLYWOOD (Penn)	PARX	MGM
See also "Convention/Meeting (M.I.C.E.)" space for other venues that can be used for entertainment. [B&L] denotes listing also under "Bars and Lounges."			
Capacity			
Venues	2 venue	3 venues	4 venues
Seats	2,650 seats	2680 seats	1150 - 1350 seats "plus"
Square Feet	unknown	57,000 sq. ft.	24,185 sq. ft. "plus"
Applicant Financial Forecast: 2016 / 2019			
Revenue	Not separated	\$ 10M / \$ 10M	\$ 4M / \$ 5M
Profit margin	Not separated	10% / 10%	-41% / -28%
Outlet Mix: Shown in decreasing order of size.			
Seats / Sq. Ft.	Event Center 2500 seats - flexible	Event Center 2000 seats - flexible. 34,000 sq. ft. 20K FOH, 6K Pre- function, 8K BOH	Theater 1000 to 1200 seats Flexible. 20,113 sq. ft.
	Entertainment Lounge 150 seats. 4200 sq. ft. [B&L]		Fred's Lounge Seats/sq. ft. unknown
		Casino Center Bar 80 seats. 3000 sq. ft. [B&L]	Casino Overlook Bar 150 seats. 4072 sq. ft. Yes
		Lounge/Bar & Ultra- lounge 600 seats. 20,000 sq. ft.	Ultra Club Seats / space unknown.

Source: Applicant submissions, website, articles, and Macomber International, Inc.

6.1. QUANTITY – ABILITY TO SERVE DEMAND

None of the Applicants entertainment package is what might be referred to as “Entertainment Heavy” in the context of what a destination casino might want or even have to offer to attract players and visitors alike longer distances and for longer periods of time. But, as a Locals’ / Regional casino MGM comes as close to being “heavier” in providing various options by providing a formal theater/showroom, formal lounge with entertainment, casino bar with ad hoc informal entertainment, and an ultra-club. The number of seats in the Theater will constrain the type of acts and shows they will be able to attract simply because the economics of certain acts/shows do not work with only 1000 to 1200 seats. But, many will still “fit” and “work” probably resulting in lower ticket prices more in the \$35 to \$75 range than \$75 to \$150 in the larger showrooms featuring better stars and acts. There also appears to be some scope for outdoor entertainment at the pool and/or the Level 1 deck facing the river and National Harbor.

Parx appears to be second tying MGM with one less venue (the dedicated casino entertainment lounge) but still offering a full panoply of entertainment options via an Event Center (at 2000 seats it is larger than MGM’s showroom with the ability to justify better entertainment because of it), Casino Center Bar with ad hoc entertainment (80 seats), and a Lounge Bar/Ultra-lounge as they refer to it (accommodating 600).

While programming only two entertainment venues, Hollywood Penn includes a 2500 Event Center which appears to be highly flexible and, if used aggressively, could be used creatively and intensively and catch up with Parx and even MGM because of the seat capacity and ability to book more expensive rotating stars/acts. Hollywood/Penn also offers a 150 seat entertainment lounge in the “middle of the casino” more or less. It should be said that MI has seen racetracks hold events before or after races or when no racing is taking place in the infield of the track and/or with a bandstand facing the grandstands allowing raised seating and direct food and beverage service.

6.2. QUALITY – ABILITY TO MOTIVATE VISITATION

All three Applicants have one or more Entertainment “tools” to push or pull gamers to the property. MGM has a greater array of options but their liability is a smaller showroom with no event center allowing seating of 2000 or 2500 seats as available at Parx and Hollywood/Penn, respectively. And, MI will admit that by now it is becoming apparent to MI that MGM is assuming the role of the “quality” cum “upscale” leader among the three Applicants although as mentioned, this is not a good or bad “thing,” it is just a “thing” the efficacy of which will depend upon the owner/developers total development, operations, and marketing approach.

As MGM points out because of their entertainment commitment at other MGM properties (particularly those in Las Vegas), they have access to entertainment providers including *Cirque de Soleil*, Live Nation, and AEG. But, if MGM does not win, it evaporates from St. George’s County and presumably the other two Applicants could vie for the same talent with some but limited exceptions.

Event centers, particularly if a property is going to only have a showroom *or* an event center, not both, can be powerful entertainment tools if designed correctly. The floor space can be used for rotating stars and shows, sporting events of all types (from ice hockey one day to a horse event within 24 hours), short run festivals and celebrations, longer run productions, as well as used for exhibition and meeting space. Hence the event centers at Parx and Hollywood/Penn are advantageous.

On a daily use, music in formal entertainment areas and/or taped and piped in to locations ranging from the garage/parking lot to throughout the casino and other public areas “liven up” the space, amplify and pulse the fun and excitement. The informal live band options at all three proposed projects provide a free value added to those who normally do not come in contact with live entertainment. Within eyesight of the casino and vice versa, synergy is created between and betwixt the two making a “casino trip” something special. For the gamer, of course, this is incidental and unnoticed by some but not all.

The ultra-club seems to cater to a younger demographic/psychographic and/or the older but young-at-heart. An ultra-club is not typically a very good alignment with a gamers demographic or psychographic but such clubs do inject a high voltage dose of energy into the property when operating and can be act as a rare source of value to a gamer (going with a non-gamer companion after playing, just wanting “to feel young again,” or to “look at the pretty girls and handsome guys”).

Before finishing this section, it should be noted that some of the more effective Entertainment Tools are those events that go beyond the traditional following the notion that casinos are supposed to be edgy, avant garde, “hip” and “cool.” Thus, medium to large blocks of open space that can be turned into an ad hoc entertainment venue can work. The large Hollywood/Penn site and track infield already mentioned are one such area that could be used. At Park, the undeveloped grassy/tree-ed space could be used as well. MGM has the least space but perhaps the best views to do so on the Level 1 deck, temporary use of adjacent undeveloped parcels, and/or joint events developed, marketed, and operated in partnership with National Harbor (and/or their tenants such as the huge, 2000 room Gaylord National Resort & Convention Center) and/or recently opened Tanger Outlet Mall. There is also the option to work cooperatively with the dozens of entertainment options in the Greater Washington D.C. Market Area. MGM has already mentioned cooperating with the local professional sports teams. There is a fair amount of scope to continue this approach.

In all, each of the Applicants have provided more than sufficient entertainment options at each property, perhaps with MGM being the more upscale/variety leader but Parx and Hollywood/Penn both having a larger even center venue to work with and still options within their respective casinos. The difference would be more in execution if all three were to open at once. In this instance, only one will.

7.0. TIER 2 – RETAIL

Sixth Gamer Priority but in Tier 2

Like entertainment, retail is a Tier 2 priority to gamers. As long as the sundry and necessity items are available, the large majority of gamers will be satisfied. Like entertainment, however, retail could be of some benefit to a non-gamer companion or the opportunity to buy an unexpected gift for them, a friend, or a loved one upon benefiting from an unexpected win thereby funding this purchase. This somewhat hedonistic but exciting aspect of gaming is part of its personality although, to be fair, if such purchases are not available immediately at the casino as an ‘impulse buy’ there are certainly enough shopping opportunities in the Greater Washing D.C. Area to find what the gamer needs.

	HOLLYWOOD (Penn)	PARX	MGM
Capacity			
Number of stores	1 store	2 stores	12 stores (9 leased)
Square Feet	500 sq. ft.	550 sq. ft.	42,419 sq. ft.
Financial forecast			
Revenue	Not separated	\$ 1 / \$ 3M	\$ 4M / \$ 4M
Profit margin	Not separated	Not separated	45% / 47% includes leased stores
Store Mix: Sq. Ft.			
	Gift Shop 500 sq. ft.	Newsstand / Gift Shop 200 sq. ft.	Sundry 920 sq. ft.
			Logo 1,702 sq. ft.
		“Grab and Go” 350 sq. ft.	
			“Entertainment” Retail 1,042 sq. ft. Features items from shows at this and other MGM properties.
			Leased – 9 stores 38,755 sq. ft. total 1200 to 9500 sq. ft. featuring many top retailers at other MGM properties
Comments		Coffee/snack shop listed under “Dining”	

Source: Applicant submissions, website, articles, and Macomber International, Inc.

7.1. QUANTITY – ABILITY TO SERVE DEMAND

All three Applicants offer a sundry/gift shop/newsstand-type store to serve the basic needs of the gamer. Parx additionally offers a “Grab-and-Go” store while MGM offers a 1700 square foot “logo” store and a 1000 square foot “Entertainment Retail” store that ostensibly will sell memorabilia from entertainment appearing at the Prince George’s property as well as other properties in the MGM Resort empire but primarily Las Vegas.

MGM is the only Applicant to go beyond the minimum retail offering providing an almost 40,000 square foot, 9 store “leased” array of stores that they say will feature the top retailers found at other MGM properties. Such stores may provide opportunities for gamers to satisfy the aforementioned impulse purchase but are value added not critical to most gamers.

7.2. QUALITY – ABILITY TO MOTIVATE VISITATION

The sundry/gift shop/newsstand and “Grab-and-Go” stores are fairly utilitarian and just need to have the right inventory but not any other particular attributes. The Entertainment Retail store at MGM is a larger 1000-plus square foot store that will no doubt be an upscale store designed to match the entertainment value of the goods being sold. The MGM series of 9 retail stores are another matter. Qualitatively, MGM is touting that the store mix will feature top stores from other MGM properties. Such stores include the best-of-the-best as MGM operates and/or leases many upscale retail stores in Las Vegas. Over the MGM empire they also offer a variety of lesser stores so they are well able to align the store mix to the needs, wants, and expectations of their target markets. MI suspects, however, that such targets will not be gamers as much as they will be the “tourists” visiting the site and National Harbor as Local and Regional visitors have access to these same stores as MI suspects the same stores were available elsewhere in the Greater Washington D.C. area.

Five of the nine proposed MGM stores appear to be along what appear to be (or could be) glass walls affording views while strolling and shopping down the slope of the hill toward National Harbor as well as the river creating a nice shopping aesthetic which although such an experience would not add to the gamer’s gambling experience it should be said that there still could be some “memory glue” that recalls enjoying their way along this promenade to and from the casino whether they intend to enter for a purchase or not.

In all, MGM goes several steps further than the other two Applicants in terms of its retail offering. This will only indirectly positively impact Local / Regional gamers and only to a minor extent but could be of interest to a national/international player visiting for the first time adding value to the Total Trip Experience.

8.0. TIER 3 – OTHER ANCILLARY FACILITIES

Seventh Gamer Priority but in Tier 3

The Other Ancillary Facilities category drops the discussion to Tier 3 in rank of priority of importance to a gamer but as with Tier 2, the distance between Tier 2 and Tier 3 is greater than the next sequential number. Almost all “other” activities not already mentioned are going to be inconsequential to a gamer’s decision to visit and if it does appeal to some niche of the Local / Regional gamer target market segment it will be small.

	HOLLYWOOD (Penn)	PARX	MGM
Activity mix:			
Swimming pool	Indoor swimming pool and gym, 6,240 sq. ft.		Outdoor rooftop pool with Whirlpool spas, 7,000 sq. ft.
	Spa and Gym 6,560 sq. ft.	Spa, Salon, Fitness 13,000 sq. ft. Top of hotel.	Spa and Salon 15,170 sq. ft. Fitness / Gym 1,365 sq. ft.
		Box office. 800 sq. ft.	Conservatory 11,547 sq. ft. ... Like Conservatory in Bellagio and Mirage.
			Spectacle Garden 133,556 sq. ft. ... On roof facing Woodrow Wilson Bridge.

Source: Applicant submissions, website, articles, and Macomber International, Inc.

8.1. QUANTITY – ABILITY TO SERVE DEMAND

The presence of a swimming pool at a gaming facility – at least in Local / Regional-driven gaming facilities – is designed almost exclusively for the hotel guests. Exceptions occur at full destination resorts where the pool/wetscape areas are large if not “huge, “ heavily landscaped, and punctuated with Wow! features and various outdoor places to eat and drink (including areas for entertainment) as well as serve as backdrops for surrounding restaurants, bars, spas, gyms, and the like. Such facilities can be designed to serve day trippers in addition to hotel guests.

Such is not the case with any of the three Applicants, i.e., none of this magnitude are being proposed. Each of the pools is appropriately sized to serve the proposed hotel although only one, the Hollywood/Penn pool is designated as “indoors.” Parx does not offer one and MGM’s is reasonably small, outdoors, and on the podium building’s rooftop. As such the MGM pool area

could be pretty neat during the better weather but since no apparent attempt is being made to enclose it, its year around use is limited.

Each Applicant is proposing a spa plus salon plus fitness/gym as well. Parx's and MGM's space dedicated to these activities is twice as large as proposed by Hollywood/Penn that gives them the potential for each to be "serious" spa/salon venues but all serve the raw given hotel capacity and possible day use demand adequately a few gamers will be attracted regardless.

The Box Office proposed by Parx appears to be more of an in-house amenity for its own functions but could presumably be used for area activities, events, and entertainment as well.

It may be speculated that the MGM's Conservatory and Spectacle Garden are there to create two value-added attractions that are in keeping with its 4-star value-added positioning and reflecting an MGM legacy developed from properties it acquired. See more discussion on this in sub-section 8.2. below.

8.2. QUALITY – ABILITY TO MOTIVATE VISITATION

Parx and MGM have the space to make their spa, salon, and fitness efforts something more than fulfilling a need of their guests but creating a true Experience. MGM's particular rooftop design, configuration, and location of these facilities coupled with somewhat of a hill-top location could make views from these facilities if they are available another value added benefit to patrons.

The MGM Conservatory and Garden Spectacle are general contributors to ambience for those walking through them and/or activities surrounding and overlooking them but for gamers they will not patronize a casino because of flowers no matter how configured or arranged. As destinations, these are more for non-gamers and visitors from further afield.

And so, again, a nod to MGM for quality and going a bit beyond gamer-only activities but Parx and Hollywood/Penn also have what they need to cater to gamers.

9.0. MEETING, INCENTIVE, CONVENTION, AND EXHIBITION

Not a Gamer Priority unless an entertainment event or special events activity is taking place in a dual purpose M.I.C.E. facility.

MI has chosen not to even list Meeting, Incentive, Convention, and Exhibition or "M.I.C.E." facilities as activities that would motivate a gamer to patronize a casino with the exception if certain forms of entertainment (e.g., a boxing match or an invitation only dinner/party for casino players only) are being offered in these facilities.

	HOLLYWOOD (Penn)	PARX	MGM
Capacity:			
Number of venues	4 “spaces” plus pre-function	4 “spaces”	8 “spaces” plus pre-function
Square Feet	69,000 sq. ft. FOH and BOH	10,000 sq. ft. Probably FOH only	Approx.. 68,000 sq. ft. FOH and BOH
M.I.C.E. detail:			
Pre-function & BOH	31,800 sq. ft.		41,746 sq. ft.
Space 1	Main Ballroom, 8175 sq. ft.	1 space, 2500 sq. ft.	Main Ballroom, 15,507 sq. ft.
Space 2	Ballroom #2, 2340 sq. ft.	1 space, 2500 sq. ft.	Ballroom #2, 3,354 sq. ft.
Space 3	Ballroom #3, 2000 sq. ft.	1 space, 2500 sq. ft.	6 Breakout Rooms, total 7,783 sq. ft.
Space 4	Ballroom #4, 2000 sq. ft.	1 space, 2500 sq. ft.	
	Above 4 ballrooms total to 25,100 sq. ft. FOH and BOH.	Each space can be expanded or sub- divided.	Breakout rooms: 3 meeting rooms and 3 board rooms.
Comments	No financials for M.I.C.E. income or profit shown separately.		

Source: Applicant submissions, website, articles, and Macomber International, Inc.

9.1. QUANTITY – ABILITY TO SERVE DEMAND

Entertainment aspects discussed above under “Entertainment.”

M.I.C.E. aspects covered when discussing catering to Tourists later in this report.

9.2. QUALITY – ABILITY TO MOTIVATE VISITATION

Entertainment aspects discussed above under “Entertainment.”

M.I.C.E. aspects covered when discussing catering to Tourists later in this report.

10.0. OVERALL BUILDING DESIGN, AMBIENCE, APPEAL, AND THE SUM OF THE PARTS

Notwithstanding the individual elements, there is also a contributing element of the Gaming Experience that has to do with the functionality of the site and building, the

friendliness/warmth/overall environment of the interior design, and how any particular unique, innovative, Wow! features, and/or other attributes contribute to the overall Gaming Experience.

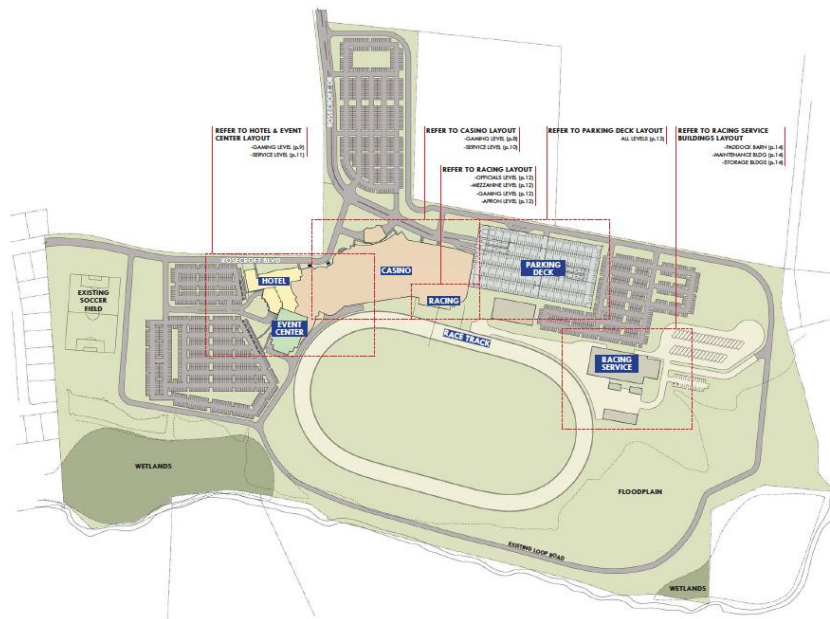
10.1. HOLLYWOOD / PENN

Going left-to-right in the order presented in the tables, the Hollywood/Penn project is another execution of their well developed “Hollywood” branded and designed properties that already exists by MI’s count at thirteen. MI regards it as a Mass Market positioned brand aimed dead center at the Middle Market with appeal fully within the upper and lower limits of the Middle Market Target Segment range. The brand appeal spills over into the Lower-Upper Market segment via its steakhouse and other facilities but it does not penetrate too deeply. This should not be off-putting since Penn National, Inc. has been one of, if not “The” fastest growing Locals’ / Regional gaming company MI is aware of.

The site is MI believes the largest site of the three Applicants and even the current new facility will not occupy anywhere near all of it. To enter, a visitor drives down a rather long, meandering driveway among grassy, tree-ed hills looking upon a cleared “bowl” in the middle where the current racetrack now sits.



Source: Hollywood/Penn



Source: Hollywood/Penn

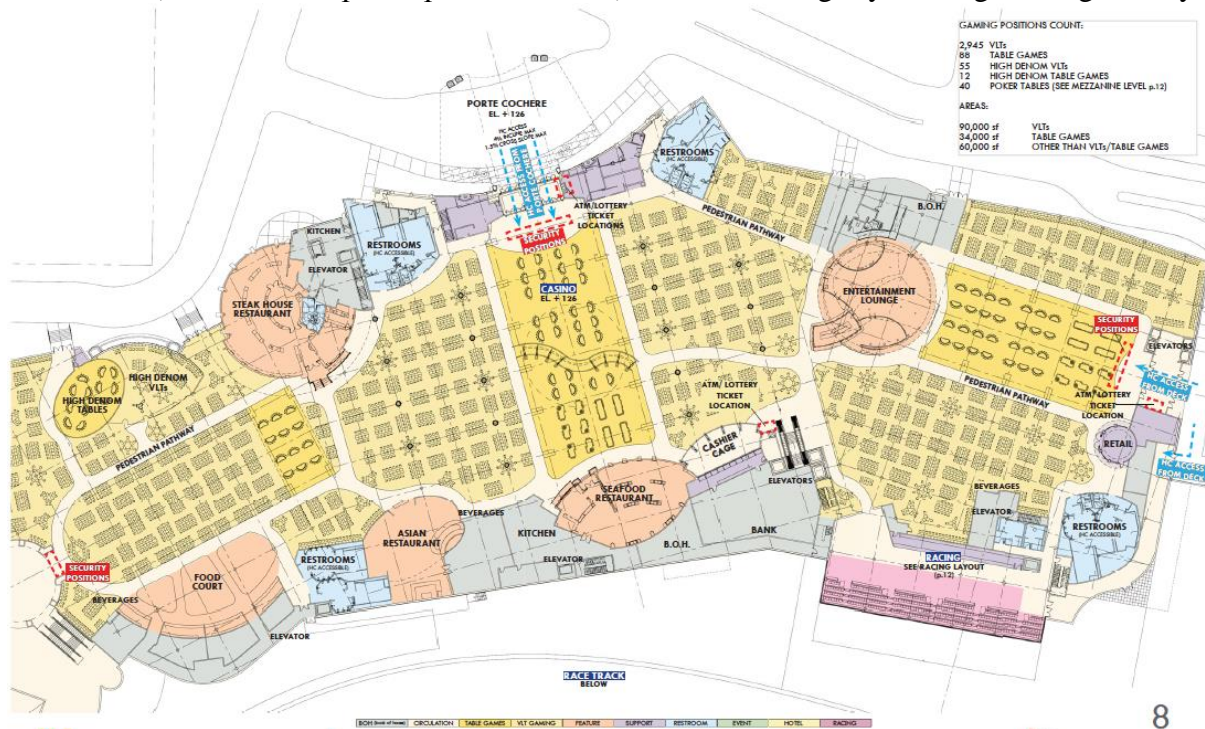
The master plan for the new casino is retrofit to retain the existing racetrack although the grandstand and other public racing facilities will be new or completely renovated. This results in a development that wraps along the starting straight, the beginning of one curve on the track at one end and the end of the final curve at the other. Viewed from above, it may be generally said that the racing activities are in the first third of the master plan “to the right” (e.g., racetrack truck-horse trailer/employee parking, barns, paddock, and then the grandstand, apron, and finish line), then the casino and related activities “in the center,” and the hotel, event center, and related activities “on the left.”

Reversing the above master plan around and taking an “eagle eye” view approaching from over the entry driveway, the rendering of the project will look as follows:



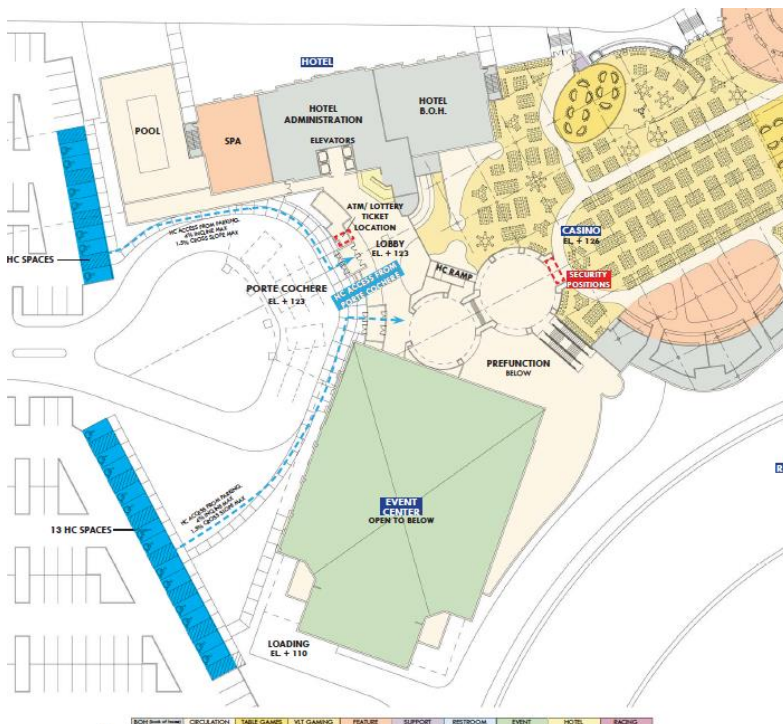
Source: Hollywood/Penn

Once inside, the casino “opens up” into a broad, recti-linear, slightly curving and organic layout.



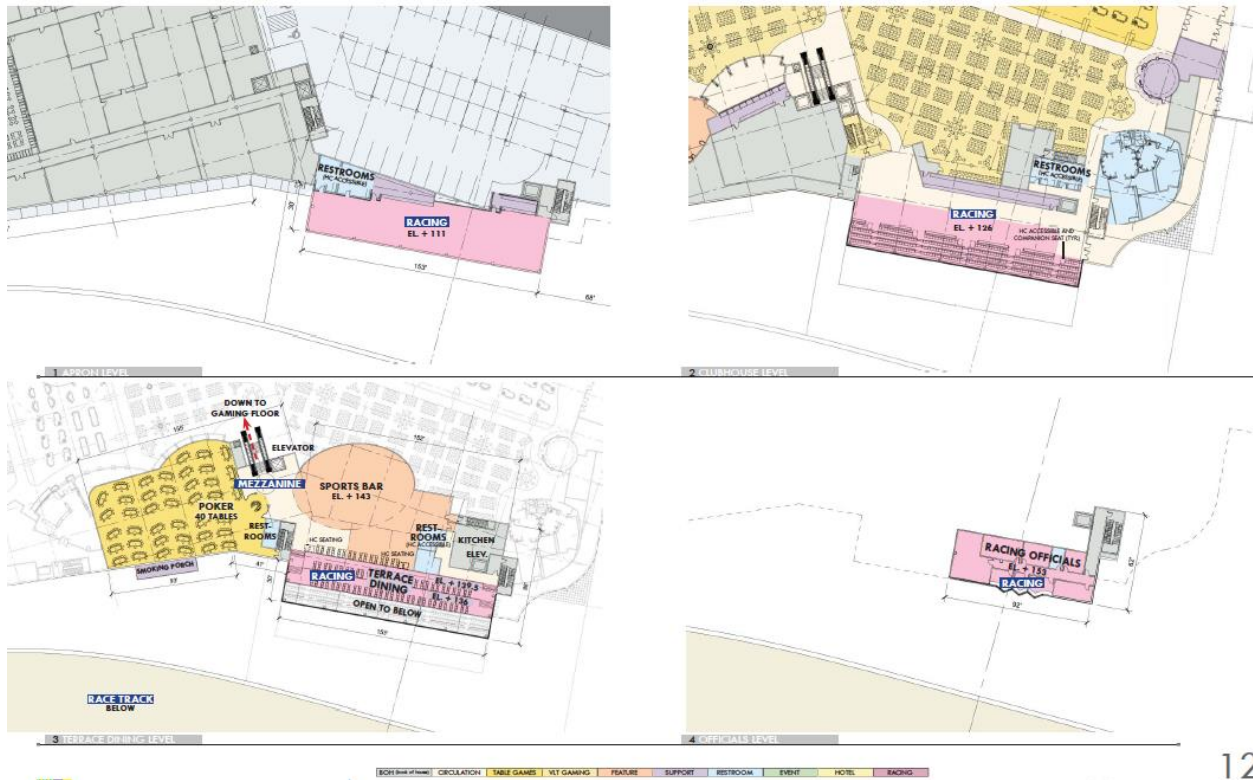
Source: Hollywood/Penn

The hotel, spa, swimming pool, and event center that is cut off in the above picture on the left is detailed below:



Source: Hollywood/Penn

The mezzanine floor of the casino containing the Poker Room, Casino Sports Bar, and the upper floor of the racing grandstand that includes the Terrace Dining plus the lower floors of the racing grandstand are depicted below.



12

Source: Hollywood/Penn

There are no interior design renderings but MI would expect it to be very reminiscent of Hollywood Charles Town and other Hollywood branded Penn National properties. Some insight to the Hollywood/art deco look may be gleaned from this outdoor arrival area rendering.



Source: Hollywood/Penn

In all, as expected, the casino flows well with primary and secondary circulation aisles provided excellent movement through the large casino area and an array of niche gaming areas (e.g., high limit tables and high definition VLTs), food, beverage, support (e.g., casino cage and loyalty club desks), restrooms, and passageways to other parts of the building (e.g., the racetrack grandstand or hotel and event center), entrances and exits causing destinations around and through the casino to promote traffic and energy. MI would expect piped music to amplify the experience aurally and the execution of the Hollywood theme to do so visually.

The vast majority of the food and beverage venues face inward (except for the steak restaurant that appears to have windows facing the entry and the Terrace Dining facility which faces the racetrack which operates seasonally. This is not fatal but for gamers coming from urban/suburban areas that are often vertical, steel-and-glass, it sometimes helps to provide a relief and alternative to this look and feel. Again, however, the Hollywood brand is well proven and apparently their customers across multiple states like it.

An additional observation: It is true that the Hollywood brand is well established in terms of its visual, ambience, and experiential cues. But, the Hollywood Charles Town and Hollywood Perryville already serve the Greater Washington D.C. Market Area albeit at different compass points. In competing with other Maryland open casinos as well as the soon to open Horseshoe Baltimore plus Delaware, Pennsylvania, and Atlantic City casinos will “two” Hollywood branded casinos do better, equal, or less if familiarity and shared database cause better results or the “I-want-something-different” and/or lost opportunity to capture/grow new niche markets cause lesser results and anything in the middle “breaks even”?

MI will leave the location, access/egress, and other (important) issues to other MLC consulting resources to evaluate, but from an Ancillary Facility point of view MI believes that gamers will find this to be a Mid-Market building, ambience, and environment albeit a nice one. To use

another reference point, MI believes this will be a well proven, successful three-star property “stretching” into the Lower Upper Market making the mid-market most comfortable.

10.2. PARX

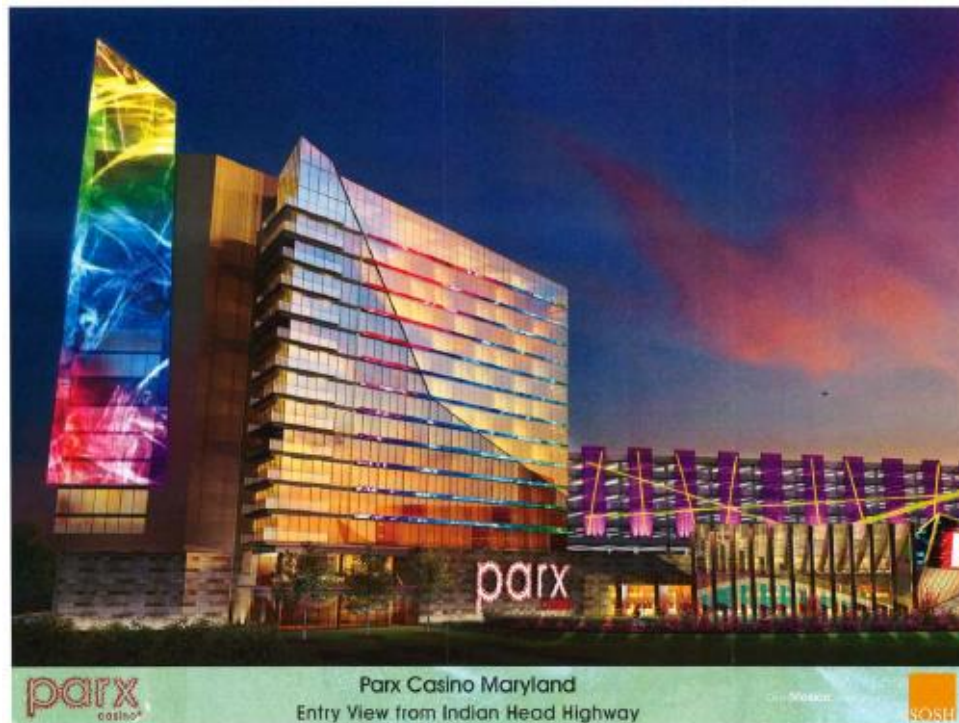
Parx is located on a less large site in a bit of what appears to be the same kind of area and neighborhoods as Hollywood/Penn but on a site closer to major roads, on a smaller site without a long driveway isolating it, appearing more compact (less recti-linear and more just rectangular), and projecting more “verticality.” Whereas Hollywood/Penn will disappear down a driveway and never be seen by those not wanting to, Parx’s upper extremities will be witnessed by all passing by. This can be an advantage, i.e., using the hotel tower as its own form of advertising and merchandising. It creates a different feel, however.

See “aerial view” and representative master plan below.



Source: Parx Submission.

The Parx design is less curvy, art deco and more geometric, angular, and glass with apparently lots of use of exterior electronic signage and video making it more brash, a bit younger, “newer,” “hip” and edgier, and other words that the reader can discern for themselves by the following exterior rendering.

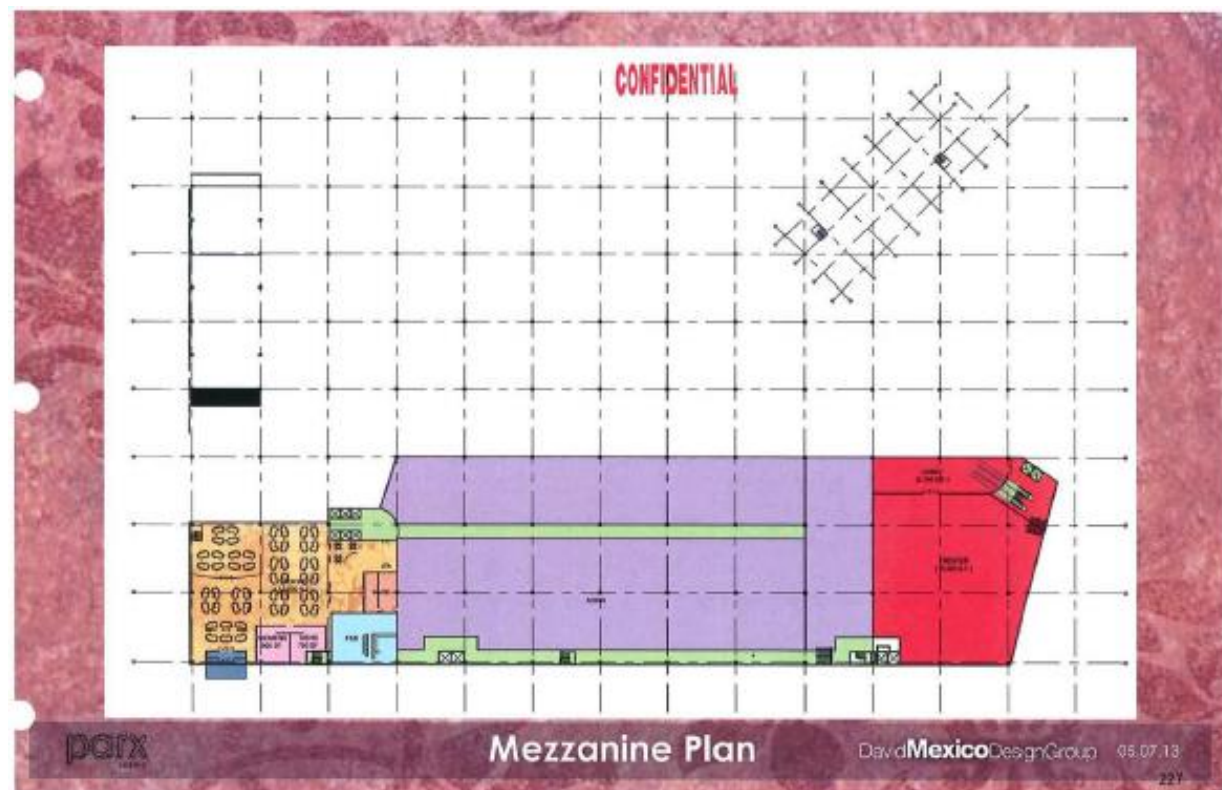


Source: Parx Submission.

Because of an obvious effort to provide excellent traffic flow to the site and the building entry points but made difficult by the size of the footprint and proximity of the facility to lot lines, the entry compresses what the other two Applicants must do as well but into what appears to be a smaller space making it look more spaghetti-like. MI says this not because it is necessarily a negative – after all, repeat gamers will no exactly how to get where they are going after the first trip – but more as a juxtaposition to the more rural, serene Hollywood/Penn arrival experience.

Parx has chosen to use almost exclusively covered structured parking that exists underneath the casino and in an L-shaped multi-story parking garage that wraps and hugs two sides of the casino and other activities. The aforementioned Transportation Center is at the ground floor of the Parking Structure affording direct entry into the casino. The hotel, with a separate entrance is at the opposite side of the building and the casino drop off/pick-up and valet entrance is at the front.

Once inside, the casino is on the entry level. The poker room and Lounge Bar/Ultra-lounge is on the mezzanine above the casino, the latter accessed by escalators in the bottom, right corner of the Casino Plan shown below.



Source: Parx Submission.

As with Hollywood Penn, the casino floor is actively and proactively interlaced with organic primary and secondary circulation aisles that connect the insides with various parts of other insides and the perimeter with various parts of the inside and vice versa. Following good casino design theory, the perimeter is dotted with niche casino areas, dining, beverage, entertainment, casino support, hotel, Transportation Center, parking, entrances and exits all acting to synergistically stir and “froth up” the casino action, energy, fun and excitement taking place.

Note that Parx placed a large casino center bar smack dab in the middle of the casino that many owners/developers/operators like to do to create both centrifugal social destination and a centripetal source to push energy and gamers outward. Pulsed with an array of television sets, music (piped or live), some “show bartenders,” and some cute girls/handsome men and the center bar becomes a Wow! feature without using too many artificial, expensive contrivances.

MI suspects that the poker room is on the mezzanine floor simply because the designers ran out of room. And, having the loud, noisy club on the mezzanine floor is sometimes preferential as long as the bulk of the casino crowd can see a stream of young, hip, “hot,” and smiling/laughing humanity transporting up and down the escalator for all to see.

Parx did provide some renderings that are helpful since while their Parx Casino in Philadelphia has been around it is their only other casino. In MI’s opinion the Parx-Philadelphia is very well done for a Locals/Regional casino once inside (even though the approach is a little stark and commercial due to the surrounding, long standing existing neighborhood. The first picture is a rendering of the Center Bar and the second the loyalty club desk.





Players card desk, Parx Casino, Fort Washington, Maryland

Source: Parx Submission.

The Parx in Philadelphia and the renderings for Parx Maryland appear to suggest that the company is positioning their properties (and the Maryland project in particular) as a notch up from the dead center “middle” or Mass Market. It is hard to tell from a limited number of renderings and without a detailed cost of the construction and interior design components but there are several evaluations that can help define the quality level.

MI has taken only the Building, Equipment, and Supply hard costs as submitted by the Applicants thereby not counting Land, Soft Costs, Public Sector Infrastructure, “Other,” and Contingencies. Then MI divides this amount by the number of gaming positions (one gaming position per VLT and seven gaming positions per live table game and poker table). Keep in mind that the gamers space for the vast duration of their trip and the only part that really matters to them is the relatively small cubic space of their VLT or chair at a table game or poker table. Most everything else “fades away” unless they are walking to or from a gaming session. Regardless, the Building, Equipment, and Supply Hard Cost per Gaming Position for Hollywood/Penn with 3000 VLTs is approximately \$115,000 per position, Parx in 2016 with 3000 VLTs is \$90,000 and in 2019 with 4750 VLTs \$99,000, and MGM is \$164,000. In absolute dollars the same Building, Equipment, and Supply Hard Cost is \$458 million for Hollywood/Penn, \$379 million for Parx in 2016 and \$589 million in 2019, and \$735 million for MGM. And so, despite pictures and subjective conclusions, empirically, Hollywood/Penn is spending more capital investment at the 3000 VLT unit level than Parx but Parx jumps ahead in 2019 with 1750 more VLTs but also their 250 room hotel that translates into \$131 million more for Parx than Hollywood/Penn which is a lot even including the cost of some 1750 additional VLTs that should range in the \$35 million to \$40 million if Parx purchases them.

Moreover, looking at average daily rate in their respective hotels, Hollywood Penn forecasts a \$120 ADR in 2019 versus Parx at \$150 when it opens in 2019. As a reference point MGM’s forecast ADR for 2019 is \$272.

While TripAdvisor is viewed as a popularity contest by its critics that can be “gamed” by having employees or even paid services submit reviews, then there are several hundred reviews they can serve as a good relative benchmark. By taking their five ratings and giving them a score of 5 to 1 highest-to-lowest, a numerical ranking can be derived. As a reference point, Hollywood Charlestown had a weighted average score of 2.9 (416 reviews) and Hollywood Perryville 2.6 (69 reviews) while Parx Philadelphia was 3.2 (770 reviews), and MGM Grand Las Vegas a 4.2 (4,795 reviews) and MGM Detroit 4.4 (469 reviews).

Again, MI wants to state that taking a strategic quality position is neither right nor wrong in a void. After all, WalMart is the largest and most successful retail store being a pure, value-conscious, Middle Class positioned commercial enterprise. The objective is to find the broadest “sweet spot” that maximizes the goals of the stakeholders, private, government, and public.

But, the above rough analyses does suggest that Parx will probably be, or try to position itself to be one notch above Hollywood/Penn but perceptively lower than MGM.

A closing comment about Parx. They have proposed to phase their property. While the hotel is in Phase 2 to be open in 2019 that is not fatal to most Local / Regional gamers because of the overpowering distance factor but could incrementally affect their decision where they will play as their loyalty club points accrue and they make their umpteenth return visit. The additional number of VLT units is not a big issue to MI since there is “stretch” in the ability of slot machines, table games, and poker tables to earn more per unit. And, MI assumes that should demand for more units increases the obvious need for more VLT units that the MLC will do everything it can to provide the units for Parx or whichever company wins the Prince George’s County license or holds another Maryland license. Parx is committing to shelling out the building to provide the extra casino space to expand when conditions so dictate. In all, MI believes this topic needs to be reviewed along with the Applicant forecasts as well as those made by the independent MLC consultant forecasts.

10.3. MGM

MGM is located fortuitously at the crest of two upward slopes, one originating from the Potomac River and one from National Harbor, a relative large, mixed use hotel, dining, bar, entertainment, retail, office, residential, and marina lifestyle development that extends perpendicularly also from the banks of the Potomac River but a little further downstream. On one of the remaining two sides lies Washington D.C. with some of its buildings and monuments, if not their tops, potentially with eyesight of the visitors to the MGM proposed casino and for certain, those facing that direction staying in the hotel.

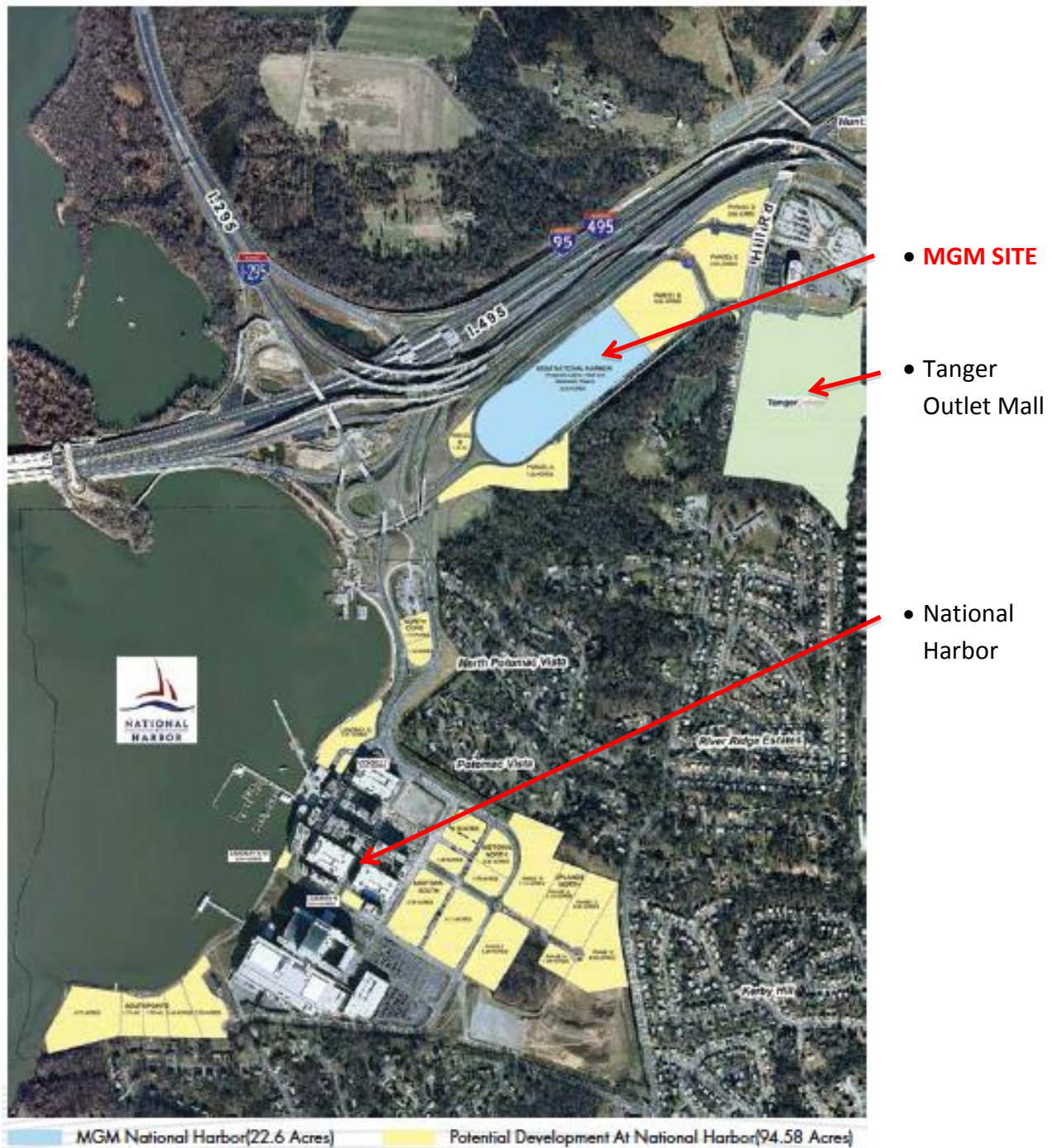
The long side of a recti-linear site also aligns in parallel and abuts the east-west Interstate exchange on the Maryland side of the river and within eyesight of the north-south connectors on either side of the river.



Source: MGM Submission

Perched as it is, the building is designed to provide all of the activities and support necessary but also to afford the visitors of the National Harbor, Potomac River, and Washington D.C. skyline views. Even in inclement weather these views should at a minimum be a pleasant deviation from the dense urban/suburban/exurban sprawl where most of the Local/Regional visitors will be coming from and for those appreciate these kinds of things, a reasonably impressive commanding view of countryside, river, and history.

MGM touts that the building will be visible from approaching traffic from all four compass points and this appears to be true. But, having driven the bridge crossing and interchange plus the road network in and through to the MGM and National Harbor sites, MI must admit it found the pathways confusing. This is less of an issue for repeat Local and Regional visitors because they only have to “figure it out” once, but it could be frustrating for the first time visitors and/or tourists. Then again, once to this point they are also unlikely to “turn around.”



Source: MGM Submission

The architects accomplished this by building up layer by layer of parking structure over the entire sloping footprint and then placing the casino, dining, beverage, entertainment, retail, M.I.C.E. space, and hotel on top of the final “plate” that spans virtually the entire length except

for required minimum setbacks, allowances for traffic entrances and exits, and allowances for an architectural theme and statement to be made.



Source: MGM Submission

The parking garage steps up in a plinth (a new word to MI that means “a heavy base supporting a statue or vase” according to Google Search) that starts a crisp, geometric design then ends with a long, curvy linear ceiling to the public area and a modest (relative to the mass of the plinth) vertical knife-edged hotel in juxtaposition. It is all very modern, at times seeming out of place with the historic buildings and heavily tree-ed countryside and pastoral river that floats by, but like so many modern buildings, its opposition also causes it to stand out, force you take notice, and if you like it, admire. At night it will be no less: the top, glass enclosed casino and other public areas extending almost the full length lit up along with huge vid-walls, a fountain, and a rather impudent up lit, glass enclosed hotel at the far bend almost like a nail that had not been pounded in far enough. Like all statements trying to be architectural, it will be noticed by all passerby's on land, water, and even for those landing at Reagan National Airport.



Source: MGM Submission

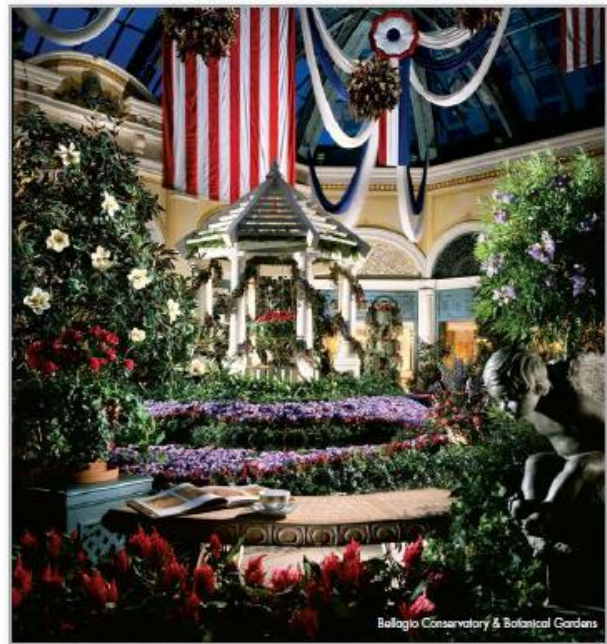
Once inside the casino “behaves normally” in the context that it is another recta-linear casino with organic primary and secondary circulation aisles connecting the various points inside the core of the casino and connecting the perimeter niche casino, food, beverage, entertainment, retail, casino support, connections with other activities (e.g., to meeting rooms above), and entrances and exits.

[illegible]

Source: MGM Submission

As can be seen by the renderings, most of the exterior walls are made of glass so as to provide users of passageways as well as those using the activities fronting these glass walls the already mentioned views of National Harbor, the Potomac River, and the Washington D.C. skyline. At least three of the major restaurants on the casino level plus possibly portions of the food court diners, four of the retail stores on the casino level, presumably the spa facing more or less north, the pool facing more or less south, and the hotel rooms formed on the same axes.

MGM adds in a Conservatory and Spectacle Gardens to make the passageway unexpectedly perhaps providing “surprises” that change by season or when the need arises as done in some of their other properties.



Source: MGM Submission

Essentially, the MGM will be elegant, edgy, aspiring, and “worldly” versus Hollywood/Penn that appears to be more familiar, low key, and casual and Parx that appears to try to bridge both worlds by using incrementally newer design cues, incrementally more options, adding something younger, and incrementally edgier.

While MI may be a bit guilty of spending more time to describe the MGM property as an aesthetic experience but believes its additional investment, selection of the site, and careful execution deserves some reward. And, to temper any perceived exuberance, some gamers will not even care or notice. On the other hand, since casinos in the United States are always “for free” (i.e., no admission charge), the other argument goes why not play in the best place you can if all other things are equal? The answer is because all other things are rarely equal nor are they among the three Applicants, including MGM. Capital investment may mean fewer operating/marketing dollars for service and incentives. A “too uppity” property may make

certain individuals, Locals and Regional gamers, domestic and international uncomfortable in kind of “I don’t belong” sort of way.

But, all in all, MGM has positioned this property to be a four-star property, the previous notes while describing Parx indicated MGM had the highest Building, Equipment, and supply cost at \$164,000 per gaming position that is 40 percent to 65 percent greater than the other two Applicants, and it has consistently offered more venues, higher capacity, and more “stuff” than their counterparts as well.

While aware that anything off-site from a casino-project – sometimes even if it is literally ‘across the street’ – falls off in appeal quickly (particularly during inclement weather, when parking is difficult, during a short-stay visit where time cannot be wasted, and a myriad of other reasons), MI in this instance is relatively intrigued by the market potential to cross market with the National Harbor current and potential future development and the just opened Tanger Outlet Mall. MGM speaks about a ‘rubber trolley’ shuttle connecting at least National Harbor and implying there may be some real opportunity for synergy. At the very least, it provides MGM with a minimum of 2000 more quality hotel rooms at the Gaylord National Resort & Convention Center as well as the Westin, and smaller hotels/inns not to forget to mention the residences and offices there as well. MI is aware that the closest competitor is Maryland Live! that has the large Arundel Mills Mall next to it as well as BWI Airport and the soon to open Horseshoe Baltimore located near two professional sports stadiums, Inner Harbor Baltimore, and the Baltimore Central Business District. In terms of clusters-of-competitiveness, for those target market segments that care, the MGM/National Harbor/Tanger Outlet Mall appears to put the MGM site on par with Maryland Live! and the soon to open Horseshoe Baltimore.

MGM appears to be the quality, size, investment, and national/international brand leader. That is not enough. Nor do these statements yet conclude that the MGM or, for that matter, either of the other two Applicants, achieve, optimize, and are able to sustain the objectives of the Evaluation Criteria. This conclusion takes more input from other MLC consulting sources and certainly more deliberation of all the data points and considerations.

11.0. EXECUTION – DEMAND STIMULATION MARKETING

11.1. INTRODUCTION TO DEMAND STIMULATION MARKETING AND ITS ROLE IN PROMOTING ANCILLARY FACILITIES

Demand Stimulation Marketing takes off where Product Marketing ends. Product Marketing attempts to align the concept, programming, design, production, and delivery of the Target Guest Experience to the needs, wants, and expectations of the Marketplace. If Product Marketing does its job right, it will attract the greatest natural demand from the marketplace. To extract the remaining latent potential demand, move peak demand where there is not sufficient capacity to off-peak demand where there is, take market share from competitors, and to continue to find new

target market segments to harvest the owner/developer/operator/marketer must employ Demand Stimulation Marketing techniques and programs.

Execution of Demand Stimulation Marketing Programs should follow the Demand Cycle: Create Awareness ... then ... Motivate Trial ... then ... Spur Repeat Visitation ... and then finally ... Engender Loyalty.

Awareness and Trial programs begin before opening and then once open, continue but joined by achieving Repeat Visitation and Loyalty. The lucky part for this for the casino marketer – particularly when there are monopoly, duopoly, or oligopolistic competitive conditions – is that once gamers are made aware of a casino opening that is often enough to precipitate Trial. During the first gamer's Trial visit or as soon afterwards as possible, the casino marketer wants to learn the qualifying player's name, address, and other contact points and enroll them in their Loyalty Program so the player can start accruing points and the casino marketer can start sending a continuous stream of incentives to return. The loyalty program is structured in tiers and aspirationally to lead to loyalty under the "Why would you want to play anywhere else (and lose points)?" Theory.

Market never stops: marketing must be dynamic not static having to change with every and ever changing conditions.

In this context MI will review the Demand Stimulation Marketing Programs of each Applicant from a gaming point of view. This again will be a comparative evaluation categorized first into: (i) trying to gain insight into which market segments they are targeting; then (ii) looking at their Demand Stimulation Marketing Programs during the pre- and post opening periods each in the context of their efforts to achieve Awareness, Trial, Repeat Visitation, and Loyalty.

11.2. TARGET MARKET SEGMENTS

Because distance is one of two primary determinants of a player's decision to choose a casino, gaming owners/developers/marketers often begin their Marketing Plan by defining the Marketplace in terms of travel time. This is a bit simplistic and quantitatively convenient and MI would rather see an unrestricted start with a blank sheet of paper and a listing of all potential target market segments ("TMSs") followed by an evaluation of those to determine which have highest potential (based upon distance and other factors), and then a rank order listing finally formulated into the project's Optimal TMS Mix.

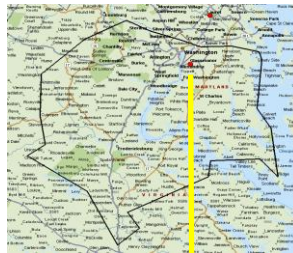
Ideally, this process would start with an independent third-party market / feasibility study that, indeed, each Applicant included in their Submission. But, this is where the process seemed to stall out because any more rigorous and detailed discussion about Target Market Segments seemed to diminish or end except for MGM.

This is not to be overly critical since the development of the Optimal TMS Mix could undoubtedly still be a work in progress and what was submitted is generally what is available at

this stage in the deliberation. The remainder of the work may remain in the subconscious for now. So, let us default first to the Marketplace definition.

By and large the Applicants defined the catchment area or Marketplace in about the same manner. See the three Marketplace boundary depictions of each Applicant are shown below. In order to provide a common reference point, a yellow vertical line is used to center Prince George's County and a rough attempt to make the geography similar in size by shrinking or expanding each individual map. This was done by “eyeballing” and therefore should be viewed as a relative not exact comparison.

HOLLYWOOD / PENN

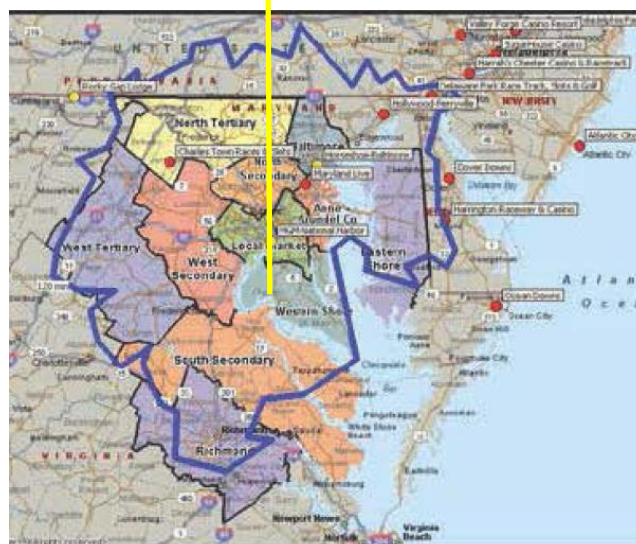


PARX



Source: MapPoint, Claritas Nielsen, Christiansen Capital Advisors

MGM



As can be seen, the catchment area seems to have a great deal of commonality although Hollywood/Penn's boundary seems to be the smallest, Parx the next largest, and MGM'S the largest of them all. Perhaps this is because of the professional opinion of the consultant where the boundary lays. Or, it could also reflect the added breadth that Parx and MGM feel they can attract with their facilities and marketing effort. These studies were conducted without any one company seeing the work of the other so the studies are rather prescient in the way they track the increasing forecasts in revenues as well as the resulting increase in capital investment purchasing both capacity and/or quality.

Within these market boundaries, each Applicant makes the following extracted statements about target market segments within them.

HOLLYWOOD (Penn)	PARX	MGM
"Hollywood will compete with other casinos within 90 miles. However, our customer target is a combined adult population (age 25+) of 2,377,000 people in Washing D.C. and Northern VA markets based upon drive times."	From CCA Report, page 816 footnote: "For modeling purposes, we have defined the primary market area of the proposed Park Maryland Casino as ZIP codes within a 60 minute drive time of the proposed facility and its larger, secondary market area as the ZIP codes within a 90 minute drive time of the proposed facility."	LOCAL / REGIONAL MARKET: Defined visitors primarily from VA, DC, MD and to a lesser extent DE and WV
	The market area contains 6,245,658 adults.	Total Regional Market estimated at 7,898,799 adults.
		M LIFE ... is the MGM Loyalty Club and has >31M members. 200,000 who visited MGM Resorts within last 18 months live within 200 miles of National Harbor.
LOCAL		
"98% of gaming density falls within the Washington DC Designated Market Area."	We have assumed that 72% of the forecast Gross Gaming Revenue will come from those residing with a 60-minute drive time.	Local / Regional - Car
		Local / Regional - Bus
Cross market with Hollywood Charles Town and Hollywood Perryville.	The Defined Market Area	M.I.C.E. Travelers
		VIP-M Life players

Cross market with Hollywood Charles Town and Perryville.	will be more than sufficient to achieve forecasts.	
HOLLYWOOD (Penn)	PARX	MGM
	The main focus of marketing will be to create a database of players on whom we can focus our marketing efforts.	
Marquee Rewards loyalty club.		
REGIONAL		
Cross market with Hollywood Charles Town and Hollywood Perryville.	We have assumed that 82% of the forecast Gross Gaming Revenue will come from those residing in the secondary market area with a 90 minute drive time.	Local / Regional - Car
Marquee Rewards loyalty club.		Local / Regional - Bus
		F.I.T.
		M.I.C.E. Travelers
		Tour & Travel
		VIP-M Life players
	A large proportion of the proposed casino’s revenue would come from the Washington D.C. metropolitan area and from essentially untapped areas of Virginia.	
	We will implement plans to attract patrons from outside the primary market by promoting tourism and partnering with the numerous existing national and regional tourism destinations in the surrounding region.	
	The defined market will be more than sufficient to sustain forecasts.	
NATIONAL		
	Management may decide to market outside the market area which, if successful, could represent a significant upside.	F.I.T.
		M.I.C.E. Travelers
		Tour & Travel
		VIP-M Life players
INTERNATIONAL		
		F.I.T.
		M.I.C.E. Travelers

		Tour & Travel
		VIP-M Life players
HOLLYWOOD (Penn)	PARX	MGM
OTHER		
Target Entertainment-oriented visitors with large event center.	Collaborate with National Harbor.	Highway intercept customers
		Gaylord National R&C Ctr.
		Guests – other local hotels
		Washington D.C. visitors
		Baltimore visitors
		Regional conference guests
		“The market hosts 18 million visitors who spend \$6 billion annually. ... 27% of spending is derived from international visitors.”

Source: Applicant Submissions.

In truth, Hollywood/Penn and Parx seemed to defer to their feasibility study resources to define their Marketplace and their Target Market Segments. This produced commentary focusing on distance and boundaries but no much detail or insight on who they would be targeting within those boundaries. MGM was the exception going further to specifically (or more specifically) identify its Optimal TMS Mix. See above.

All three Applicants are successful owners, developers, operators, and marketers and therefore it may be assumed that they know what they are doing. If nothing else, they have the confidence to spend the money and time to apply and submit for the Prince George’s County gaming facility license, testimony enough in one sense that at least they feel they can do the marketing job necessary to achieve their forecasts.

The evaluation will now shift to execution plans without getting into too much detail but still trying to determine if they have sufficient plans in place to accomplish what they say they are going to do.

The Marketing Plans of each Applicant are available to the reader. Since Demand Stimulation Marketing Programs are not just about Ancillary Facilities but about marketing gaming and the rest of the property (but primarily gaming in a Locals / Regional casino), MI does not believe there is a great need to review the Marketing Plans or evaluate the efficacy of the plans in detail. Rather, MI will recount the summary content and opine about whether it feels the material presented appears to give confidence that the Applicant will be able to “market” the gaming facility effectively once open.

Because most of the applicants wove pre and post opening marketing programs together, MI will do the same in the description below. Rather than make a side-by-side comparison, MI will briefly review each Applicant's Submission independent of the other.

11.3. HOLLYWOOD / PENN NATIONAL

Suffice it to say that Hollywood/Penn who did not provide too much information regarding Target Market Segment mix did provide a fairly detailed Power Point oriented presentation (52 slides) of their Pre-opening Marketing Plan including strategies and tactics.

The Plan began with a situation analysis and project scope. They then delved into their Brand and how they would use Public Relations to create Awareness. They also provided a fairly extensive description of their media and creative strategies to also create Awareness and Promote Trial. With respect to creative they show a fairly extensive list of mock-ups of proposed or similarly used Billboards, Websites, and various media placement advertisements and program campaigns. As expected they described the use of Direct Marketing, Loyalty Program to effectuate Repeat Visitation and Engender Loyalty. The plan closed with a discussion on how they would use internal communications with their employees to market the property.

Even though the plan bounced around a bit between Pre-opening and Post Opening periods and did not link its programs to specific Target Market Segments, with some 26 properties, they have clearly been through the pre-opening marketing drill before.

The end result is that MI acquired confidence that Hollywood/Penn could execute an effective Demand Stimulation Marketing Program.

11.4. PARX

While Hollywood/Penn's 'Marketing Plan' included some 52 Power Point slides, the Parx 'Marketing Plan' was four typed pages long. Certainly the quality of the content is more important than weight but even so, four pages makes short shrift for such a document for a project of this size. Again, this may be because they relied on the independent feasibility study to answer Submission marketing questions, the Marketing Plan is a work-in-progress and/or this company considers such information highly, highly, highly confidential and only wants to reveal the minimum amount, and/or other reasons. Regardless here is a brief review of what was provided.

The Parx Marketing Plan structures their plan into acquisition, database, retail, and advertising strategies.

Acquisition, according to Parx, is all about building data base before, during, and after opening so that they have a list of names and a means to contact them to work with.

They emphasize that they are going to proactively work to develop a vigorous mobile and Email component to their database. They then suggest that they will use the database to drive Trial, Repeat Visitation, and Loyalty after opening.

They discuss the use of Advertising and Promotion within the metro DC, Maryland, Virginia, and West Virginia feeder markets to deliver promotions, events, and entertainment offerings.

They talk a little bit about a proposed sales and banquet group that will sell meetings and banquets.

Sequentially they then speak about Social Media that seems to bounce back to the mobile and Email discussion rather than appear with it.

They also refer to Sponsorship Marketing working with partners to develop events, programs, and advertising.

They then migrate to a discussion about how they will integrate with the community although it is less clear how this effort will directly promote the casino as much as it will accomplish other valid company objectives.

But, they close with a paragraph about Regional Tourism Collaboration including use of linked shuttles, joint promotion, and cross marketing.

In all, their designated Marketing Plan effort is pretty anemic but MI has seen the effort that went into the rest of their Submission that appeared monumental. MI also regains confidence knowing that Parx is an established, East Coast, successful Locals' / Regional casino operator that generates the most Gross Gaming Revenue among the several that operate in Philadelphia.

From all of that, not the Marketing Plan per se, MI speculates that Parx can execute an effective Demand Stimulation Marketing Program with the caveat that MI does not have much insight to know how.

11.5. MGM

At 12 pages long in a length wise, three column layout that overall is the slickest visually of all of the Applicant Submissions it is also the best structured Marketing Plan of the three in terms of covering all of the aspects of a classical Marketing Plan.

The MGM Plan begins with Market Area, presents Strategic Marketing Priorities, and talks about Brand (including its self-ascribed M life company loyalty program that MGM declares is "differentiating"). It moves on to discuss their marketing partnerships with local and regional Entertainment and Tourism enterprises, their affiliation with Radio One, and their plans to cross market with National Harbor.

They then dive into a description of their Marketing strategies by Target Market Segments split both by geography (Local, Regional, National, and International) and then by Local/Regional-Car, Local/Regional-Bus, FIT, Convention/Meeting/Incentive Travelers, Tour and Travel, and VIP-M life Members). They go on to describe each segment and then to list their Marketing Strategies for each segment.

They highlight their opening strategies both leading up to and on the day(s) of opening. Then they tout their 60 million name MGM Resort guest database, their 31 million M life Loyalty Program members and 11 million active members and how they will use that database to promote the proposed gaming facility. They also identify their established casino programs. They refer to their various marketing resources both corporate, at other properties, and in field offices located around the world.

The plan wraps up with a discussion of their communication strategies to include the use of PR, advertising, Social, Partnership, and the M life communication channels.

It is a tight but effective overview that reflects their long and varied efforts in marketing across multiple jurisdictions, in good times and bad, with a multitude of properties in a number of situations including opening.

By the Submission alone, MI has confidence that MGM can execute Demand Stimulation Marketing programs to achieve the Ancillary facility goals.

11.6. FORECAST MARKETING EXPENSES – SOME INSIGHTS

The table below summarizes the Applicant's various marketing related expenses items from the workbook the MLC asked them to prepare which summarizes certain key information from their Submissions. The information provides some insights to their Marketing approach.

Shown as \$ 2016 / \$2019 then % of gaming revenue for that year			
	HOLLYWOOD	PARX	MGM
Gaming Revenue	\$334M / \$413M	\$660M / \$809M	\$599M / \$688M
Marketing Expenses			
Promotional Allowances	\$ 13M / \$ 16M 3.9% / 3.9%	\$ 31M / \$ 43M 4.7% / 5.3%	\$ 27M / \$ 32M 4.5% / 4.7%
Marketing - General & Administrative	\$ 11M / \$ 14M 3.3% / 3.3%	\$ 34M / \$ 47M 5.1% / 5.9%	\$ 10M / \$ 10M 1.6% / 1.4%
Subtotal	\$ 24M / \$ 30M 7.2% / 7.2%	\$ 65M / \$ 90M 9.8% / 11.2%	\$ 37M / \$ 42M 6.1% / 6.1%
Entertainment Expenses	n.a. / n.a.	\$ 9 M / \$ 9M 1.4% / 1.2%	\$ 6M / \$ 6M 0.8% / 0.9%
TOTAL	n.a. / n.a.	\$ 74M / \$ 100M 11.2% / 12.3%	\$ 43M / \$ 48M 7.1% / 7.0%

Source: Applicant "Workbooks" and Macomber International, Inc.

Several observations, several of which have been made before.

The reporting of these numbers were a bit sporadic and some “don’t look right.” In one case they conflict with those found in another submitted document but that might just be the Work-in-Progress Syndrome at work.

Regardless, MI believes the above forecasts are helpful in relative terms.

At the Promotional Allowance and Marketing subtotal line, Parx outspends both of the other Applicants in both years by a fair amount translating into 9.8 percent of Gross Gaming Revenue in 2016 and 11.2% in 2019. It does so on the highest revenue albeit the 2019 forecast is predicated on receiving approval for the 4750 VLT units and the opening of their hotel.

Hollywood/Penn comes in next in terms of ratio at 7.2 percent of Gross Gaming Revenue for both years while MGM is at 6.1% also for both years. But, MGM is forecasting much more Gross Gaming Revenue and so MGM is outspending Hollywood/Penn ... \$37M vs. \$24M for MGM vs. Hollywood in 2016 and \$42M versus \$30M in in 2019.

Essentially, if the numbers are valid even on a relative basis, Parx would enter the Marketplace the most aggressively Marketing-wise, then Hollywood/Penn as a percent of Gross Gaming Revenue but MGM significantly outspending in absolute dollar terms. Some of the Marketing expenditure is no doubt cause-and-effect: i.e., the company may spend more or less depending upon results and the resistance to meeting objectives, favorable or unfavorable.

All look willing to support their Ancillary Facility plan although Hollywood/Penn taking the lower capital cost and lower marketing operating cost approach and Parx at the other extreme. MI suspects that MGM is fairly disciplined and will spend the ratio shown, more if needed to achieve target financial results and the market responds, less if it does not need to.

12.0. TOURISM

At this juncture it appears that each Applicant will be able to develop, open, and operate its Ancillary Facilities in a manner consistent with its business model that will make their gaming facility a success as a Locals / Regional casino.

But, due to this high expected visitor volume, it appears that there will be little unused Ancillary Facility capacity for Tourists to use. This is particularly acute with accommodations as the casino ramps up its database and loyalty program. The casino should need almost all of the hotel rooms proposed on peak weekend, holiday, and special event nights after a year or two of operation. This leaves little room to sign groups of more than 50 attendees far in advance or to make it difficult to get the attention of Tour and Travel and FIT intermediaries.

The capital investment dollars needed to better market to and serve Tourism related target market segments and/or the marketing dollars to proactively promote Tourism from feeder markets at the fringe of and outside the Region, Nationally, and/or Internationally appear to be limited.

For a Prince George's County gaming facility to promote tourism further, it will need to find justification to add hotel rooms in multiples of 500 rooms to make a difference. As the available rooms sum to 1000 rooms or more then Meeting, Incentive, Convention, and Exhibition space can be added: the rule of thumb is between 50 to 55 square feet per hotel room excluding synergies. This, in turn, would precipitate the need for more food and beverage venues. A dose of additional Wow! Factors coupled with a full 2000 seat showroom and/or a 5,000 to 10,000 seat event center would help, too. Depending upon the site, this could also motivate more retail and other related mixed use real estate development although MI does not see this being very appropriate at National Harbor, at least not by the casino owner/operator.

In all, to be candid, the embedded and consciously created Market, Government, and Private conditions conspired to constrain the boon to Tourism that gaming could bring but by doing so also conspired to make conditions that should lead to a very successful Locals / Regional casino.

In a sense, this is a good thing, since this means “everything is full” but it may frustrate those in Government who were looking for more contribution to Tourism by the winning Applicant. Perhaps those frustrated can take solace knowing that the optimum number of construction and operating jobs as well as benefits to the State has been achieved and the retention of Maryland gamers accomplished only through other means.

13.0. SUMMARY, CAVEATS, AND OBSERVATIONS

“BEING THE BEST LOCALS / REGIONAL CASINO YOU CAN BE”

Although generalizations sometimes do a disservice to complex evaluations nevertheless, in an attempt to simplify MLC’s retention of the findings of MI’s report, the key takeaways from this section are:

- Each of the Applicants has established business models all of which have worked and worked well in one or more locations and circumstances. MI has concluded that all of their proposals will work in the terms of their Business Model and Submission. The companies are capable of doing what they propose to do subject to:
 - Confirmation of their demand forecasts and any adjustments needed thereto.
 - And, subject to the independent MLC consultants quantifying the benefits so that the MLC will have hard comparative numbers to evaluate the overall efficacy of the proposals.
- Some open issues that might be worth exploring with the Applicants and/or within the MLC are:

- How should Parx's request to be able to open in phases be treated, e.g., evaluated only on the apples-to-apples what they are willing to open with, on a hotel addition without the added VLTs, as submitted, or some scenario in between?
- Is another Hollywood / Penn National branded property accretive to the marketplace or dilutive versus a Parx or MGM entry?
- From a competitive standpoint, is an MGM/National Harbor/Tanger Outlet Mall more competitive to say Maryland Live!/Arundel Mills Mall and the soon-to-open Horseshoe Baltimore/Inner Harbor/Central Business District/Stadium clusters ... or ... is an entirely different positioning statement, environment, and aesthetic as proposed more by Hollywood/Penn and Parx more accretive?
- What, if any, are considerations that the MLC should make to preserve and retain horse racing at Rosecroft Raceway?
- If one or more of the neighboring states "fight back" with whatever Government and/or owner/operator tools they have, which Applicant will be the best situated to defend itself? For example, what if Delaware reduces its tax rate significantly allowing Delaware casinos to more aggressively spend on operating marketing incentives and/or new capital expenditure programs for new and Wow! facilities?
- Intuitively, Parx's revenue forecasts seem high and Hollywood/Penn's seem low. MI encourages the MLC to evaluate the forecasts of its independent hired consultants to not only provide a neutral forecast but also to quantify the benefits to the State based upon the Applicant's as well as the MLC independent consultant's forecasts.

Section 5

**COMPARISON, EVALUATION, AND RATING
OF THE APPLICANT SUBMISSIONS**

MI framed the evaluation in this report for reasons already stated around the notion that to optimize the goals of the Evaluation Criteria the Ancillary Facilities need to optimize the commercial success of the proposed project. MI developed a quantitative rating scheme to reflect MI's evaluation of the ability of each proposed Submission to become a commercial success. See Section 5.1. next.

MI also strongly believes, however, that the quantitative rating should not be used in isolation. It should be dimensionalized, tempered, and considered at the same time by the subjective evaluation and conclusions to follow in the Section 5.2.

**1. A QUANTITATIVE COMPARISON IN TERMS OF THE ABILITY OF THE
PROJECT TO BE A COMMERCIAL SUCCESS**

Before reading the rating sheet on the next page, please be aware of all of the frailties that surround such an approach.

Mechanically, possible areas of initial debate could be not only the contents of this report but also the categories, the selection and mix of rated items in each category, the weighting of each item, the final score, and the implication of that final score and its components on the rating scheme.

The rating is also very much influenced by the assumptions, values, experiences, and business philosophies of MI. Other stakeholders and smart people may view the opportunity differently. MI encourages and welcomes any and all debate on the issues knowing that different points of view and unemotional discussion typically do a better job at getting to the proverbial Truth than one person's or even several people's opinion, no matter how enlightened they may be.

MI asks the reader to keep in mind that in development where things move quickly, the rating that follows is "as of this date" and based upon what information is available and what MI knows at this date. Any changes could cause a change in the rating.

Finally, the scores are best evaluated in relative not absolute terms.

RATING SCHEME

Relative to the ability of the Ancillary Facilities to foster the commercial success of the proposed gaming facility.

Category	Weight	HOLLYWOOD / PENN		PARX		MGM	
		Score	Result	Score	Result	Score	Result
GOAL SET *	0%	0	n.a.	0	n.a.	0	n.a.
EXTERNAL-ITIES *	0%	0	n.a.	0	n.a.	0	n.a.
INTERNAL-ITIES *	0%	0	n.a.	0	n.a.	0	n.a.
PRODUCT MARKETING	50%						
TIER 1							
Casino **	0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Parking	18%	7	1.3	8	1.4	9	1.6
Food	30%	7	2.1	6	1.8	8	2.4
Beverage	25%	5	1.3	5	1.3	7	1.8
Hotel	15%	5	0.8	6	0.9	7	1.1
TIER 2							
Entertainment	8%	6	0.5	6	0.5	7	0.6
Retail	2%	3	0.1	4	0.1	6	0.1
TIER 3 / OTHER							
Other (cumulative) ***	1%	6	0.1	4	0.0	7	0.1
Meeting and Convention	1%	4	0.0	4	0.0	5	0.1
Subtotal - Product Marketing	100%	6.0	3.0	6.0	3.0	7.6	3.8
DEMAND STIMULATION	25%						
MARKETING	25%						
Pre-opening	40%	6	2.4	7	2.8	8	3.2
Post opening	60%	6	3.6	7	4.2	8	4.8
	100%	6.0	1.5	7.0	1.8	8.0	2.0
SUM OF THE PARTS	25%	7	1.8	7	1.8	8	2.0
TOTAL	100%	6.3		6.5		7.8	

These ratings do not rate the real or perceived benefits to be generated by each Applicant.

* Note: MI has intentionally omitted any comparison of each applicant's Goal Set, consideration of External-ities and Internal-ities, and certain big-picture strategic statements because MI found (or speculates) that reference to these Marketing Plan elements were not explicitly requested in most instances by the MLC Submission process, each company may not 'think' about the development process in these terms. But, perhaps most importantly, it is the tactics and execution that in the final analysis are most important and telling about the applicant's development, operating, and marketing process.

** Note: The casino is not rated because MI's scope of responsibility for this engagement did not include a review of the gaming activities.

*** See body of report.

Source: Macomber International, Inc.

The final score was 6.3 for Hollywood/Penn, 6.5 for Parx, and 7.8 for MGM. On a relative basis, if MGM is a "100" then Hollywood/Penn's score would be a "81" and Parx's "83."

Note that if the Demand Simulation Marketing category is removed and MGM is still indexed to 100 then Hollywood then scores 83 and Parx 81, more or less the same relative rating among and between the three Applicants but with Hollywood and Park reversed in final score.

These scores reflect MI's perception that while all three projects adhere to their company's business model and brand faithfully, and will be successful that ultimately that MGM will produce more revenue from more visitors thereby enabling it to spend more capital dollars, develop more assets, employ more people, pay more wages and benefits, retain more Maryland gamers in Maryland, and attract more Tourists (as defined. Ironically, their strategy is a bit of a gamble as the development plans of the other two Applicants underscore as their lesser investment still produces significant earnings and return on investment.

The Rating Table should also be interpreted that is MI's perception that the Hollywood/Penn and Parx projects are very close in terms of commercial potential.

MI scored Parx "one point" (before weighting) lower than Hollywood/Penn in the Sum of the Parts Category because of Parx's proposal to phase the hotel and other possible expansion versus the other two Applicants who have chosen to open with everything upon opening. Some may feel this point deduction is too harsh while others may feel it is too light.

In any case, Parx gains ground and overtakes Penn by its positioning one notch above Hollywood/Penn leading MI to believe that Parx can market more easily to Target Market Segments at and above this level while still being able to penetrate deep into the Middle Market aspect of the Market. Parx is aggressive in capital spending, the development of incrementally more entertainment facilities which could prove important in a high repeat venues like this one, and very aggressive in Demand Stimulation Marketing commitments.

Hollywood/Penn does nothing really wrong, is incrementally more aggressive in the number of food and beverage facilities (albeit some of this is due to a seasonal racetrack and it is unclear what they will operate year around), and they will have the largest capacity event center. The racing/simulcast is a wild card but a potential incremental value added. Their ability to cross-market could be a boon but if the Hollywood theme is already prevalent in the Marketplace and has lost its luster then it may be a disadvantage or the absence of a competitive edge when compared to other competitors. The site is huge and provides the ability for all kinds of expansion in the future. Hollywood/Penn is a competitor.

These contentions, however, are more of a subjective evaluation that need to be cross checked against the more empirical approach being used by the MLC consultants responsible for forecasting demand and quantifying benefits.

2. SUBJECTIVE MI EVALUATION AND CLOSING STATEMENTS

MI can envision all three projects being of benefit to the State. MI can also envision a scenario wherein because of other decisions made by the Applicants their project (e.g., a lower retention of VLT gaming revenue) could offset other factors more closely linked to bricks-and-mortar issues by generating more benefits to the State than a project empirically higher ranked or

subjectively considered higher than another. And, MI can also envision other matters important to the State that MI is simply not aware could become a deciding issue.

MI will also declare again that each Applicant's Submission appears to have the potential to be a commercial success as a Locals / Regional casino in the context of that company's business model which has worked in other locations and situations.

With all of these considerations in mind it seems to MI that the MGM is positioned to capture the greatest bandwidth of the marketplace positioning-wise (4-star that allows it to appeal both higher up as well as far down into the Mass Market category); has a property both in terms of scope, mix, and "excitement value" that will appeal to the Local / Regional gamer's non-gaming interests (starting with parking and extending to eating, drinking, and "having fun"); has the ability to leverage its Experience(s) with National Harbor and the Tanger Outlets; and, appears to have the bricks-and-mortar infrastructure to get the job done as well as the company resources behind it to execute a more of a national/world class facility while not losing grasp of the Local / Regional Market. MI also believes that MGM will be more competitive to Maryland Live! (and its announced intention to add a new hotel) and the soon to open Baltimore Horseshoe both independently and in terms of their surrounding respective activity clusters.

From MI's point of view the Hollywood/Penn and Parx projects are very close even though they get there in different ways. Parx just seems more committed to working hard to earn the business. This starts with the seeming willingness to spend more on marketing than anyone else, appears to be appealing to a bit of a broader market with a greater variety than Hollywood/Penn (younger and more "hip"), and moves on to recognize that positioning a notch below MGM but a notch above Hollywood/Penn has the potential to create greater market and marketing bandwidth. This may just be a perception but Parx just seems more aggressive.

But, MI likes Hollywood/Penn, too. Mass Market can be the sweet spot for a Marketplace and maybe Hollywood/Penn has picked up that scent and the other two have got it wrong. Hollywood/Penn feels more comfortable, warm, homey, and low key. It will definitely attract the middle and, with some steakhouses and other upscale-pointed activities perhaps higher than MI appreciates. It's multiple locations in the greater Eastern Corridor could be a boost much like Station Casinos made its empire around opening multiple company properties around Las Vegas allowing local players to move from casino-to-casino to gamble. They also have the site to expand probably three to four-fold from the plans being shown. Who knows what that site could develop into as business intelligence is gathered and the Marketplace settles down?

Conclusion:

- Three good established, proven, and successful casino operators.
- Three good projects with a mix and programming of Ancillary Facilities that work.
- MI rejected none and believes all could work if the consideration for the sum of all fourteen Evaluation Criteria and the subjective assessment of the MLC so dictate.

APPENDICES

Appendix 1

DEVELOPMENT THEORY

Note: Those who are experienced in the development, operation, and marketing of casinos most likely do not need to read this section. It does, however, provide a background and a rationale for MI's review and evaluation process to follow.

DEVELOPMENT THEORY OVERVIEW

Development of destination casino-resorts typically follows the principles and approach described below.

1. BUILD THE PROJECT CONCEPT, PROGRAMMING⁹, AND DESIGN AROUND PRODUCT(S)
... i.e., the fundamental goal of business is ...

... to conceptualize, produce, and deliver goods and services ("Products") that meet or exceed the needs, wants, and expectations of the consumer at a price that creates a real or perceived value.

To be totally successful, this effort must niche or beat the competition and produce financial and non-financial results that meet or exceed stakeholder expectations consistently and over time.

In casino gaming, the most basic definition of the gaming Product is an experience ("Experience"). Because casino gaming needs and benefits from non-gaming activities taking place at the same time in the same venue, a gaming experience for a given trip is actually a series of gaming and associated non-gaming related leisure and/or entertainment experiences.¹⁰

2. BUILD THE CONCEPT, PROGRAMMING, AND DESIGN OF MULTIPLE GAMING AND NON-GAMING EXPERIENCES AROUND THE NEEDS, WANTS, AND EXPECTATIONS OF

⁹ Programming is an architectural term that refers to the list of activities that will take place at the property, their capacity, positioning, layout/configuration guidelines, price-value propositions, X-Factors and sum-of-the-parts assessment which together, when all of these and other elements fit together, optimize the commercial value of the "product" or, in gaming, the project.

¹⁰ Among casino players there is a relatively small segment that enjoys gaming less for the entertainment and leisure aspects of it and more for the pure gambling nature of it, e.g., the excitement of win / loss cycles, the perceived competitive aspects of gaming, the potential to win money (sometimes large sums), and in some cultures the opportunity to test fate (Asians).

TARGET MARKET SEGMENTS (“TMSs”)

Casinos “Market to Market Segments.” That is, casinos cater to groups with similar demographics, psychographics, motivations, budgets, and other attributes otherwise known as Market Segments ... grouping of individuals with similar characteristics. Properly defined, those in a given Market Segment have similar needs, wants, and expectations.¹¹ As will be explained further below, properly selecting independently productive TMSs and grouping and aggregating them into a synergistic optimal mix (“Optimal TMS Mix”) is an initial critical development decision and, after opening, a constant continuing task to update so that the optimization is kept current as Market conditions and competition changes.

- 2.1. First Market to TMSs using Product Marketing: Following the driving business goal above, it is the job of a developer to align the Experiences of the Project to the needs, wants, and expectations of individual, grouped, and aggregate TMSs. The greater the alignment of these Experiences to predetermined TMSs the more effective the casino will be in extracting the greatest “natural” demand from the Marketplace (i.e., unaided).
- 2.2. Second, Market to TMSs using Demand Stimulation Marketing: To extract the remaining demand from the Marketplace, casinos must employ Demand Stimulation Marketing programs. Demand Stimulation Marketing recognizes that besides providing great Products / Experiences additional efforts may be needed to maximize demand.

Demand Stimulation Marketing programs should be developed around and follow the Demand Cycle, i.e., ...

First ...	Create Awareness
Second ...	Provoke Trial (a first time visit)
Third ...	Motivate Repeat Visitation
And, finally ...	Engender Loyalty

Demand Stimulation Marketing Programs are typically designed to (i) extract latent demand within an existing TMS, (ii) move peak demand to off-peak periods when peak demand exceeds capacity, and/or (iii) take market share from the competition.

To achieve these objectives, Demand Stimulation Marketing relies upon a variety of tools some of which include but are not limited to: press and public relations, advertising, promotion, sales teams, branding, incentives (non-financial such as increased service, perquisites, and other benefits as well as financial such as discounts, complimentaries, cash back, casino credit, and loyalty programs), special events, hosts/hosting, satellite offices, and the use of third-party representatives).

By continually conceptualizing and executing an array of Demand Stimulation Marketing programs casinos are able to extract the remaining potential from the Marketplace.

Prospectively, it provides developers the justification to forecast the full potential of a Project with the provision of the cost of Demand Stimulation Marketing Programs is provided for in the profit and loss forecast.

¹¹ It is understood that a given potential patron may belong to more than one Market Segment at one time, may visit a casino because of different motivations from trip to trip (and even within a trip), and over time, may move and shift between and among Market Segments including creating a new Market Segment. Admittedly, this makes Marketing to Market Segments more difficult but it does not eliminate or reduce the necessity of Marketing to Market Segments. In fact, if anything, it makes this necessity even more compelling.

- 2.3. Once the above first cycle to develop a Optimal TMS Mix is completed, the results need to be further refined to consider other forces such as:
 - 2.3.1. Overcoming embedded Project negatives ... e.g., the additional effort, Concept development, and/or Programming needed to overcome distance, travel inconvenience, weather, high costs of doing business, internal company weaknesses, the need to hurdle return on investment targets, and risk.
 - 2.3.2. Competition ... i.e., the extra effort needed to mitigate, niche, and/or beat the competition.
 - 2.3.3. Taking advantage of embedded Project positives ... e.g., expending the extra effort to leverage monopolistic or conditions of limited competition, a favorable location, company strengths, positive Project attributes (e.g., aesthetics, size, quality, brand, innovation, uniqueness), and access to capital.
 - 2.3.4. Leaving room for ad hoc, intuitive, new, and even untested ideas. At its core, gaming is a leisure and entertainment industry. In a sense, creating successful, market leading, and sustainable gaming and non-gaming leisure and entertainment Experiences is as much a subjective as objective process that benefits from both proactive and reactive inputs and decisions, intuitive as well as well analyzed decisions, and total new, untested ideas as well as repeats of established, successful options. As such, the above rather formal and linear thought process must leave room for ad hoc injections at any time of good ideas where it is worth the risk to try them.
 - 2.3.5. Risk ... i.e., adjusting for the differing risk tolerance among companies because of their personal preference, imposition by third-parties (e.g., debt holders), the company conditions under which they operate (low or high tolerance for setbacks), and/or macro local/regional/country/international economic conditions. Concept, activity mix, capacity, positioning, capitalization / funding, operating structure, operating leverage, and countless other factors can be tweaked and tuned to align to owner's and stakeholder's risk tolerance.
 - 2.3.6. Sum of the Parts ... The final consideration is to review each of the individual decisions in combination to make sure that the Sum of the Parts Business Plan optimizes the opportunity. Few if any world class, industry-leading projects achieve their position by doing everything perfect. Rather, the objective is to balance strengths and weakness, opportunities and threats so that the Sum of the Parts efforts produces risk-adjusted optimal and sustainable results.
 - 2.3.7. Submit all of the above considerations while in progress, at various decision points, and "at completion" to test and validate feasibility to a quantitative feasibility model that takes the Project Concept, Programming, and Design and plugs it into a quantitative model that determines the potential of the marketplace ("Market Potential"), properly adjusts for the competitive dynamics of the Marketplace ("Competition"), and adjusts for other external and internal factors in a manner that properly forecasts demand for the Project, revenue, expenses, profit, and the financial performance of the Project.

The end result of the above process is a single refined Concept, Programming, and Design that optimizes the potential for the Project.

3. DESIGN STAGES

- 3.1. Design involves the following components:
 - 3.1.1. A Master Site Plan and Interim Development Phases

- 3.1.2. Exterior Building Design
 - 3.1.3. Floor Layouts and Configurations
 - 3.1.4. Interior Design Drawings
 - 3.1.5. Engineering, Structural, and other Technical Drawings
 - 3.1.6. Construction Drawings
 - 3.1.7. Other Drawings as needed, e.g., three-dimensional drawings
- 3.2. In architectural terms there are several phases that describe how the design evolves as the Concept and Programming is developed, refined, and completed.
- 3.2.1. First Phase – Concept Drawings: Concept Drawings attempt to portray the most general and least detailed drawings of the Project but still render it in a manner that the development participants can visualize the theme, general layout, and configuration. Concept Drawings typically include one or more of the following: the rough development of a site plan (master plan), design theme, exterior building design, layout of major functional areas (i.e., exterior and interior space allocation, walls, and height determinations), identification of Wow! Factors, address the need for any additional structural considerations, and other greater-than-usual construction or cost considerations, and other issues so that the internal Team as well as external third-parties can visualize the project. Depending upon the situation, the architectural drawings may also be augmented by some preliminary Interior Design Drawings. Preliminary cost estimates can be forecast from Concept Drawings but they cannot be relied upon.
 - 3.2.2. Second Phase – Schematic Drawings: Schematic Drawings take Concept Drawings to the next level of detail. Schematic drawings include basic dimensions of the building, the major architectural elements, and the structural systems. These basic drawings are used as a primary depiction of the project. They are not detailed so that major changes can be made quickly and easily before the real detail design begins.

Schematic Drawings provide the means for the “idea” to be refined so that operations and management personnel can be assured that the design “works.”

Schematic Drawings can be used to estimate the cost of the building the project with greater accuracy but still cannot be relied upon as a final estimate.
 - 3.2.3. Third Phase – Construction Drawings: Construction Drawings take the Schematic Drawings to the detail necessary for the building to be constructed. Construction Drawings will form the basis for the final cost estimate for the Project, for bidding the work, and will be used to secure approvals and to build the project.
 - 3.2.4. There will always be some waste of time, energy, and cost in the above Concept, Schematic, and Construction Drawing sequence but initiating and finalizing the drawings in this sequential manner actually leads to less work because designs are pursued in increasing detail only as they receive hierarchal approvals.

4. FUNDING

While strictly speaking funding may not be considered part of the development process, the funding of a project typically takes place somewhere between or at the end of the development process (i.e.,

finalization of the Concept, Programming, Design, and Business Plan) and the start of the Construction and Pre-opening Period.

Projects may be self-capitalized or have raised the funds necessary to construct, open, and operate the project independent of any third parties. However, if third parties are needed to raise and/or fund equity and/or debt then there is typically a large amount of work that must be expended by the owner and their management/resource team to support third-party fund raising. Much of this work involves sharing the work already completed but putting into a summary format or custom formats required by the third-parties. But, typically there is additional information that third-parties request that the owner/resource team may not have developed. The character, depth, and breadth of this information varies from situation to situation but suffice to say that if third-party funding is needed additional time, resources, and capital must be anticipated, planned, fit into the schedule, and paid for.

5. PUTTING THE CONCEPT, PROGRAMING, AND DESIGN INTO AN EXECUTABLE PLAN – A BUSINSS PLAN

The Concept, Programming, and Design – as well as all of the elements, considerations, and outputs that went into it – must ultimately be organized, integrated, and formalized into a comprehensive, holistic plan, a business plan (“Business Plan”).

Business Plans must address the various elements and forces that determine results independently and interdependently via multiple operating department, overhead department, and functional cascading and inter-connecting sub-Business Plans.

5.1. Casino-resort destination projects do not operate in a void. Rather, they operate in the context of many external, competitive, and internal factors before thought can even be given to the Business Plan. Consequently, before beginning to develop a Business plan information needs to be gathered about the following factors, evaluated, and understood in terms of how they will or can affect the development of a project:

- 5.1.1. External Factors (excluding the Competition): Includes such forces as market boundaries, population, demographics, psychographics and X-Factors; government forces; regulatory forces; the economy and economic forces; labor; transportation; utilities; tourism infrastructure; cultural drivers; weather; and the like.
- 5.1.2. Competition: Gaming and non-gaming competition in terms of location, concept, positioning, quantity/capacity, quality, unique selling principles, brand, price-value propositions, Demand Stimulation Marketing, X-factors, and the sum-of-the-parts.
- 5.1.3. Internal Factors: Includes such factors as the existing, embedded strengths and weaknesses of the internal ownership and resource team; access to other resources; site (if already chosen); access to and terms and conditions of capital; brand; intellectual property; management style; systems; and other advantages and disadvantages of the owner/developer/operator.

5.2. Business Plans must also be developed around certain guiding principles. The start of developing a comprehensive, holistic approach to achieving world class standards is to build such effort around Key Success Drivers (“KSDs”). While there is more than one way to categorize KSDs, the category structure that MI has found comprehensive and valid is:

- 5.2.1. Product Marketing KSD ... aligns the activities, services, and guest experiences to the needs, wants, and expectations of individual, grouped, and aggregate Target Market Segments ("TMS"). The Product of a casino-resort visit may be generally referred to as an Experience, a Leisure Time, Entertainment, Resort Experience. Such Experiences are generated by bricks-and-mortar buildings and improvements, interior design, 'ingredients,' preparation, delivery, and not to mention a rather long list of other production elements and X Factors. The Product Marketing KSD refers to the conceptualization, production, and deliver of the gaming and non-gaming Experiences of a Project. Aligning the Products/Experiences to the needs, wants, and expectations of Target Market Segments extracts the greatest natural demand from the Marketplace.
- 5.2.2. Demand Stimulation Marketing KSD ... In order to extract the remaining latent demand from the Marketplace, Demand Stimulation Marketing Programs must be implemented following the Demand Cycle: Creating Awareness, Motivating Trial, Stimulating Repeat Visitation, and Engendering Loyalty. Demand Stimulation Marketing involves a multitude of marketing tools, e.g., press and public relations, advertising (e.g., signage, media, Internet, social media), and incentives (e.g., perquisites, discounts, complimentaries, hosts/hosting, loyalty clubs, special events, satellite offices, and third-party marketing representatives).
- 5.2.3. Employee KSD ... The medium through which casinos produce and deliver their Product are its Employees. As such, hiring the right employees in the first place, orienting/training/calibrating them to achieve predetermined standards, motivating them to consistently do so, and providing for their professional and personal growth, health, and happiness must be a KSD.
- 5.2.4. Accounting and Finance KSD ... The tracking of funds flow, managing the balance sheet and financial statement, meeting debt terms and conditions, and achieving or exceeding target financial and non-financial goals takes an intricate and inter-dependent structure of accounting, controls, auditing, systems, technology, management of capital and capitalization, analytics, dashboards, and planning.
- 5.2.5. Control KSD ... Gaming is a high cash flow business handled largely by customers and employees that requires controls to properly account for funds flow, revenue, and to prevent leakage, theft, and embezzlement. Control is vested both in discrete departments (e.g., surveillance, security, and auditing) but also must be implemented via inter-departmental policies, procedures, systems, equipment, and other technology.
- 5.2.6. Citizenship KSD ... Casinos do not operate in a void. Rather, they operate among a number of external constituencies and forces. Accordingly, casinos need to be part of and manage its relations with government, law enforcement, fire, and other safety agencies, strategic tourism partners, other businesses and business matters, education, philanthropy, and the community at large.
- 5.2.7. Infrastructure KSD ... There are many tangible and intangible infrastructural forces that shape a gaming operation and determines its performance. Some of these are: company culture and values, communication, leadership, management/supervisory styles, purchasing, technology/ systems, monitoring and measurement programs, planning and decision making.
- 5.2.8. Sum of the Parts KSD ... Rarely is it that even a world class operation rates a 10 out of 10 score on all of the factors that drive its performance. Rather, it is more important

that the character and shape of a company combine in a synergistic manner to consistently produce world class Experiences and investment grade, industry leadership growth.

- 5.2.9. Monitoring and Measurement ... Note that for each KSD one or more performance metric(s) are assigned so that performance can be monitored and measured. Performance above expectations is reinforced and performance below expectations is remedied when discovered.
- 5.3. A complete Business Plan must take the enterprise from Concept through to Development through to Funding through Pre-Opening and then the through the initial dial-in and calibration immediate Post Opening Period until initial performance targets are achieved and then, thereafter, through the Growth and Expansion Phases.
 - 5.3.1. Core Concept and Plan (the majority of the Business Plan)
 - 5.3.2. Additional Sub-plans to Address Certain Specialized Periods
 - 5.3.2.1. Funding
 - 5.3.2.2. Construction
 - 5.3.2.3. Pre-opening Legal/Administrative, Organization, Operations, and Marketing
 - 5.3.2.4. Initial Post Opening Period ... i.e., achievement of initial target performance levels within the first three to 12 months.
 - 5.3.2.5. Long Term Improvement and Growth Period ... e.g., embedded programs that will ensure the company continues to improve and grow.
- 5.4. A full Business Plan typically includes but is not necessary limited to the subject areas listed below. Some business plans can be reasonably short depending upon the uses and users preferences (e.g., 25 pages) but others may be several hundreds of pages long. is, by definition, a plan that describes how the business will be developed, funded, prepared (pre-opening), operated and marketed once open, and how it will continue to improve and grow.

SECTION 1 – INTRODUCTION AND OVERVIEW

- 5.4.1. GOAL SET
- 5.4.2. CONTEXT AND CONSIDERATIONS – external factors, competition, and internal factors
- 5.4.3. DRIVING STRATEGIES AND CONCEPT
- 5.4.4. TEAM – ownership, development, and funding

SECTION 2 – CORE CONCEPT AND PLAN

- 5.4.5. MARKETING – OPTIMAL TMS MIX – identification, quantification, prioritization, and optimization into a TMS mix that produces risk adjusted optimal results
- 5.4.6. MARKETING – PRODUCT MARKETING PLAN – concept, programming, design, production, and delivery
- 5.4.7. MARKETING – DEMAND STIMULATION PLAN – programs to Create Awareness, Promote Trial, Motivate Repeat Visitation, and Engender Loyalty by TMS until full market segment penetration is achieved and potential realized
- 5.4.8. INFRASTRUCTURE – e.g., culture, values, leadership, management/supervisory style, decision making, communication, technology/systems/data processing, and monitoring and measurement programs

- 5.4.9. ORGANIZATION AND MANAGEMENT – e.g., organization chart, job descriptions, recruiting, orientation/training/calibration, employee motivation, employee professional and personal development, building depth, and improving the value of human capital
- 5.4.10. OPERATIONS – e.g., goal set, policies, procedures, systems/equipment/supplies, budgets/analysis/reports, inter-departmental coordination
- 5.4.11. ACCOUNTING AND REPORTING – e.g., system of accounts, payroll and benefits, accounts payable, accounts receivable, income audit, and third-party reporting
- 5.4.12. CONTROL – accounting, income audit, internal audit, security, surveillance, and third-parties (e.g., regulators)
- 5.4.13. CITIZENSHIP – integration with outside government and regulatory agencies, law enforcement and safety entities, businesses, groups, philanthropic organizations, and individuals
- 5.4.14. SUM OF THE PARTS

SECTION 3 – ADDITIONAL PLANS TO ADDRESS SPECIFIC PERIODS

- 5.4.15. FUNDING PLAN – development period soft costs, construction and pre-opening period funding, and permanent takedown funding including debt and/or equity
- 5.4.16. CONSTRUCTION PLAN – management, contractor(s) oversight, purchasing, site security and safety, accounting, audit
- 5.4.17. PRE-OPENING PLAN – work plan, schedule, resource list, budget
- 5.4.18. POST OPENING ACHIEVEMENT OF INITIAL TARGET PERFORMANCE OBJECTIVES – embedded monitoring and measurement programs, reinforcement programs, and remedial action programs
- 5.4.19. IMPROVEMENT AND GROWTH – formation of *kaisen*-like work groups, monitoring/measurement/improvement programs, closed loop decision processes, research, evaluation, and planning

6. NEED FOR AN ARRAY OF INTERNAL AND THIRD-PARTY RESOURCES

Need for Other Internal Team Additions and Additional Third-Parties: There will be a need for other third-party resources and/or their counterparts to join and work with the internal development Team. The timing of the need, scope, and duration of third-party work is difficult to predict but could possibly include but not be limited to the following areas and personnel:

- 6.1. Market research
- 6.2. Design resources: architects, master plan architects, landscape architects, interior designers, engineers, Wow! Factor and other design specialists.
- 6.3. Construction cost estimators
- 6.4. Legal counsel
- 6.5. Government liaison and lobbyists
- 6.6. Construction management, security, and auditing specialists
- 6.7. Purchasing specialists – construction and operations
- 6.8. Technology/equipment/systems resources
- 6.9. Software resources
- 6.10. Specialty areas: e.g., surveillance, communication, kitchen layout and equipment selection, audio-visual equipment and systems, swimming pool/wetscape, and Wow! Feature specialists
- 6.11. Press and public relations
- 6.12. Advertising – creative and placement

- 6.13. Promotion – pre-opening press and public relations
- 6.14. Specialty Marketing Areas: general marketing strategy development, brand development, database marketing, customer relations management, website development, social media, meeting & convention sales and marketing, banquets, strategic tourism partnering
- 6.15. Recruiting, drug testing, orientation, and training
- 6.16. Budgeting
- 6.17. Scheduling (e.g., build up of schedules using Microsoft Project and/or other critical path software programs).

7. CLOSING COMMENTS

To consistently achieve high standards takes a comprehensive, holistic, systems-like, and proactive approach to development, pre-opening, and post opening management and marketing of the Project but which also leaves room for ad hoc, reactive, creative, and intuitive input and decisions due to the leisure/entertainment nature of the gaming business.

In all, weaving the multiple considerations and cause-and-effect elements into a concept, plan, and finally execution is a large, complex, detailed and dynamic exercise that never ends. To do it right, there are no shortcuts and it takes an extreme dedication of time, resources (human and capital), passion, attention to detail, and effort to accomplish and sustain.

Appendix 2

MOTIVATION AND BEHAVIOR
OF THE
GAMER vs. NON-GAMER,
LOCAL / REGIONAL vs. TOURIST
TARGET MARKET SEGMENTS

5. GAMERS VERSUS NON-GAMER TARGET MARKET SEGMENTS

5.1. GAMERS

After consideration for travel time, visitors for whom gaming is the primary reason for a gamer to visit a gaming facility, by definition, will be based upon factors primarily centered around their gaming experience.

Direct production and delivery elements that combine to form the Gaming Experience and therefore influence a consumer's decision whether to patronize a given casino include the type, mix, denomination (if VLTs/slot machines) or minimum/maximum bet (if table games/poker), rules of the game (which lead to the statistical advantage in terms of the player and casino), and other such direct gaming/gambling matters.

Specifically, for example, with respect to VLTs/slot machines, other considerations may include such things as hit frequency or how often a winning bet occurs, payout schedule or the amount paid out when a winning bet sequence occurs), bonus plays, "jackpot" size including fixed and progressive jackpots, individual game and linked games, and other elements that define the game being played and the chance of winning.

After travel considerations for the true gambler these direct, game-driven issues constitute 50% to 70% of their decision to where to play depending upon the player. It is worth pointing out that entrances to the gaming areas are free and direct gaming attributes are easily reproduce-able between and among casino developers and operators. The game of blackjack, for example, is largely the same from casino-to-casino either at the start of operation or as competitive forces force casinos to mimic the others on direct gaming attributes. The same is largely true for VLTs/slot machines. The VLT/slot manufacturers sell the same machines to anyone who has the

funds to purchase them; there are few examples of “exclusives” when it comes to the availability of a particular slot machines and those that exist are usually short lived.

The second most important issues pertain to the incentives the casino offers its casino players. Incentives may be non-financial in the form of a perquisite (e.g., a preferred parking area) or financial (e.g., a discounted or complimentary meal). Incentives are used by casino marketers to motivate players to move in and through the Demand Cycle: i.e., first, create Awareness, second motivate Trial, third spur Repeat Visitation, ending with the engendering Loyalty. Like many industries and, in particular, where repeat purchases are at work, it is often the case that 25 to 30 percent of their Loyal customers will generate some 75 to 80 percent of their revenue. The end goal in such situations is to move gaming customers through the Demand Curve as quickly as possible to the Loyal Stage so as to capture highest “share of wallet.”

In areas such as Maryland and the Greater Maryland Market Area that will produce a large number of repeat, multi-trip local and regional players (e.g., typically ranging from four visits per year to, in some instances, as many as one to two trips per week) such incentives are typically structured around and offered through a multi-tier loyalty club. Loyalty clubs typically have from two to five tiers that are designed to be aspirational and filled with non-financial perquisites and financial incentives. As already mentioned, perquisites may include access to preferred parking but could also include free valet parking, access to loyalty club member lounges, priority seating in restaurants/entertainment, automatic upgrades if a hotel is operated by the casino, availability and access to hosts, hostesses, and/or a casino concierge dedicated to players not to forget invitations to loyalty club only events and promotions. Financial incentives include the many forms of promotions, discounts, “cash back,” complimentaries, points to be spent (on site or at other company casinos, catalogues provided by the casino, and/or at local businesses), access to credit (primarily table game players), and other forms of financial incentives. Incentives such as these generally comprise an additional 20% to 25% of a serious player’s decision to patronize a casino. But, if most or all of the competitive casinos offer the same core direct gaming attributes that was their primary concern, then incentives can, by default, become 50% to 75% of the decision to visit.

Other support facilities, services, and attributes constitute the remaining motivation to patronize a given casino, i.e., the remaining 10% to 25% to 50% of the decision depending upon what has taken place with the player, competitive circumstances, and company marketing philosophy as discussed above before the player reaches this point.

These other considerations may include the softer side of the Gaming Experience, e.g., ambience, décor, and attractiveness of the playing environment. But greater weight in this remaining decision making tends to shift to non-gaming issues such as whether support activities, facilities, and services are convenient, ‘always available,’ and range from “meeting minimum expectations” to “good” to “great” depending upon the gamer.

First on the list is parking. But, if surface, covered, and/or valet parking is available, convenient, and comfortable (read “weather friendly”) then parking becomes a “given” and the next tier of non-gaming activities and facilities come into play: dining, bars, formal entertainment (e.g.,

lounges, cabarets, and showrooms), day/nightclubs, retail, relaxation (e.g., spa, salons), recreation (e.g., health club, swimming pool, tennis, and golf), hotel and other forms of accommodations, the presence of family related activities (e.g., a Cineplex) and possibly related services such as free shuttle bus service or access to charter/scheduled bus service. Across all of these non-gaming factors the quality, price-value propositions, service levels, brand equity, presence of Wow! and/or X Factors (the latter including such things as being the “hip” or “in” place to see and be seen), and the real or perceived value sum-of-the-parts that combine to form the overall non-gaming experience can all be important individually, in groups, or collectively.

As might be expected, for the player the primary gaming experience has to be “right” while secondary, tertiary, and even incidental experiences need only meet some personal minimal expectation. The caveat here, however, that if the experience at one of the lesser activities is below some minimal expectation, or worse is the source of a poor or disastrous experience, then that non-gaming aspect of the experience can dilute and ruin the joy of a given trip and even risk causing the player not to return.

Within the non-gaming category, for the frequent, repeat day trip local/regional gaming-centric visitor, after parking has met the minimum requirements and disappears as an issue after the first trip if nothing changes, then typically food is the next most important non-gaming consideration second after parking. The food experience expected by most VLT/slot players generally means some higher-than-expected food quality and higher-than-expected price-value overall that may additionally include other desirable attributes such as service, ambience, and variety. But, to place this in context, the food expectation for the majority of VLT/slot player and lower limit table game player is focused at the lower end of the price-value food spectrum. Most gamers do not want gourmet food, they just want food. This is why in most Locals’ and Regional oriented casinos the 24 hour coffee shop and/or the buffet is the most important restaurant in the building. As the player’s budget increases or if a lower level player is celebrating a special occasion or just won/lost a greater than normal amount then the food experience expectations rises accordingly. Above the utility function of “just eating” additional expectations may include simply having more dining options at the lower end but then progress up the restaurant value chain to mid-priced specialty restaurants to more expensive steak and gourmet restaurants to unique, rare, and outlandishly expensive *haute cuisine*.

After food, as the players become younger or younger minded, the third most important non-gaming consideration center around alcoholic beverages in the form of inexpensive drinks. Admittedly, some players come to gamble-and-drink with little regard for food. Regardless, drinking (read “alcohol”) comes second and the places to drink. After or along with cheaper prices, the players will seek out fun and vibrant bars/sports bars, a place to socialize (and meet members of the opposite sex), and/or in “cool,” “hip,” and/or unique and innovative environments (e.g., nightclubs, bars overlooking pool/wetscape areas, and/or adjacent to Wow! factors such as man-made waterfalls or natural views).

There are, of course, considerations that need to be made for player niches and/or, in some instances, individual players. For example, Asian players often appreciate Asian games, Asian food, Asian-sensitive interior design cues, and casino/marketing staff who speak their language.

Higher budget players, stars and celebrities may want semi-private or private gaming areas with enhanced service levels and perquisites and the higher level of non-gaming quality and service that goes along with it. The premium über-player, “high roller,” or “whale” as they are sometimes referred to may want outsized suites with butler service that are 3,500 to 10,000 sq. ft. in size, gourmet restaurants and/or private dining with an “Anything. Anytime.” menu and attitude. Some casinos have gone so far as to provide private free standing villas and/or “mansions” where the players can come and go anonymously. Private limousines and/or jet service can be made available if the level of play justifies it.

Gifts, private parties, and VIP/VVIP tickets to all sorts of events plus anything a player might want or a casino marketing executive might think of are all possible given the competition for the upper, upper end of the market which has the potential to generate high revenue but comprises a surprisingly few number of players.

All players are not created equal, however. And, when in a competitive environment, casinos must provide a full array of gaming and non-gaming facilities and services as well as incentive-based marketing programs that matches, niches, and/or exceeds the competition in order to optimize the potential of the Marketplace.

5.2. NON-GAMERS

Visitors for whom gaming is the secondary, tertiary, casual, or even a non-existing reason for the trip still patronize gaming-centric projects. This target market segment also includes the friends, spouse, and/or family of a pure gaming visitor.

Many non-gamers will end up gaming at some time at some level of play during this trip or on a return trip. They may also pass along good word-of-mouth advertising to their gaming and non-gaming acquaintances starting the cycle again.

As non-gaming facilities increase in size and the variety of non-gaming activities they offer a growing number of their visitors will choose not to gamble and in such situations, casino-centric owner/developers respond to that demand and profit opportunity.

For the non-gamer target market segment the attributes of a single target non-gaming activity can motivate the trip (e.g., a ticket to entertainment taking place at the property) or the value of the overall experience involving a mix of several/many non-gaming activities will determine the value of the trip and the motivation to return. Examples in this category include an escape weekend vacation that will include dinner at an always-wanted-to-visit celebrity chef restaurant, a relaxing day at the pool, and perhaps a visit to an off-site local tourist venue.

6. LOCALS / REGIONAL VERSUS OUT-OF-MARKET TOURISTS

6.1. LOCALS AND REGIONAL VISITORS

As just stated, Local visitors can and will comprise both gamers and non-gamers and vice versa. But “locals” typically have a set of needs, wants, and expectations that separate them from “tourists,” the other target market segment in the second market segment layer.

The “local” boundary is often fuzzy, is subject to the rapid drop-off of propensity once a certain step-point is reached, and therefore often bifurcated into local and regional players (or their surrogate labels, “Inner” and “Middle” markets or “Primary” and “Secondary” markets. As a reference point the overall definition of the first two markets whatever they are called includes those who arrive via surface transportation (e.g., automobile, bus, subway, train, and even in some cases, ferries and watercraft) and can leave their home, travel to the casino, play, and return home all in one day. The surface travel time limit at the extreme is generally approximately 6 hours one-way but there are psychological and practical freedoms and barriers at the 30 minute, 1 hour, 2 hour, and 4 hour milestones depending upon the venue. In locations with peak versus off-peak differences in travel time, the priority for potential markets may change by time of day or day of week. Within the Locals designation a true “local” is generally considered to be one who travels under one hour to one and one-half hours one way to reach the casino with the Regional connotation applying to those who must travel more than one and one-half hours one-way travel.

Since Locals are often repeat customers, they often are more concerned about convenience than other visitors. For example, ample parking near the entrance and weather-friendly in seasonal environments becomes a minimum expectation the presence of which does not necessarily act to independently motivate increased visitation as the absence of it does to remove it. Local visitors, gamers and non-gamer alike tend to be very food-centric. Locals in high numbers by the Law of Large Numbers tend to default into the middle or Mass Market category thereby resulting in wanting not average food but good food at less-than-expected prices. Sometimes less-than-expected prices can be mitigated by greater-than-expected value created via oversized portions, better-than-average service, a unique but energizing ambience, and the like). Because of this dynamic, Local/ Regional casinos typically strive for a reputation of offering not just good food but rather “Great Food” for these reasons.

Local/Regional casinos locked in by a lower or middle income demographic but whom are present in large numbers will tend to offer multiple food experiences within an aligned value-pricing band. For a lower to middle income demographic, beyond the requisite 24-hour coffee shop and/or three-meal buffet a casino may offer a Starbuck-esque coffeehouse (i.e., that also offers sandwiches and other informal food), a deli (take-away and/or sit down with counter or waiter service), fast food outlets and/or fast food courts (various types, price points, and service levels), sports bars that serves food, and even informal, lower priced specialty restaurants.

Since casinos tend to produce winners the “winner” may want to celebrate in a restaurant that is beyond their normal experience. Accordingly, Local/Regional Casinos often have at least one restaurant that goes beyond the demographic center of their Feeder Markets.

Depending again upon the number of local gaming and non-gaming visitors and the upper limit of their income range, Locals' Casinos will also offer higher quality venues of those just mentioned and then higher level restaurants (e.g., "linen" waiter service, higher level steak restaurants, gourmet, and *haute cuisine* restaurants). Niche markets may justify specific cuisines, e.g., various Asian restaurants for Asians, Google Cuisines to get "Other" List, and _____.

Non-gamers often gravitate to casinos because they expect greater figuring that the gamers are paying for the lower prices at the VLTs and tables.

The same precepts that hold true for restaurants also apply to bars and lounges in terms of positioning, price-value propositions, design/décor, and other attributes. Other attributes may be used to make the bar more fun, exciting, unique, and/or innovative. For example, a casino owner may choose to include a greater-than-expected number of televisions showing live feed or taped sports, news, music videos, soap operas, or other visuals that vary during the day, days of the week, or seasons of the year based upon the market segments in the casino at the time. Other venues may benefit from taped or live entertainment in small, informal venues or in larger, more formal set-ups. Still other bars may be located adjacent to one or more restaurants to capture dining guests before and/or after their meal and to provide a quieter, more intimate and romantic setting. Depending upon the weather, they can be located indoors or outdoors and, if outdoors, overlooking the pool or wetscape to create further interest and to distinguish the bar from those found in other urban/suburban locations.

Depending on the needs, wants, and expectations of the Marketplace there may be demand for nightclubs (or even day clubs that exist at the pool or are configured to morph into nightclubs after the sun sets). Night clubs, discos, Western Dance Halls and other forms of such entertainment can be of various types, levels of service and sophistication, and price (e.g., a \$3 Western Dance Hall beer versus a Hollywood-driven nightclub with cover charges and \$1000 bottle service). Some large locals' oriented casinos may offer more than one club seasonally or year around.

The offering of live entertainment follows the strategies and tactics of clubs: align the entertainment to the targeted market segments needs, wants, and expectations. Thus, entertainment may be informal and free or formal with various levels of admission charges. The entertainment venue may be an ad hoc location or a formal lounge, cabaret, showroom, or event center planned from inception for the types of entertainment to be offered. Flexible entertainment venues are becoming more popular that can feature solo artists, bands of varying sizes and types, acts, "shows," festivals, sporting events, and other types of celebrations so that various target market segments can be appealed to throughout the year, during a season, month, week, and even daily.

Turning to retail, a minimal retail offering is generally necessary to fulfill basic utility needs such as sundry items like gum and mints, take-away snacks and beverages, aspirin and other over-the-counter drugs, personal items, newspapers/magazines, and the like. Most Local/Regional casinos will either offer a separate logo-store or one combined with the sundry store in order to

have their customers promote the property. Often loyalty club points can be spent in the so-called “logo store” justifying a broader range of items for sale and a larger. Some casinos provide a free standing point redemption store with a full array of items and services.

In other venues there may be sufficient demand from the Local/Regional visitors and/or out-of-town visitors staying in the casino or nearby hotels for more retail, say another five to seven shops to form a minimal retail critical mass. In larger metropolitan areas the retail offering can step up to 50,000 square feet of retail space, 100,000 sq. ft., 250,000 sq. ft., 500,000 sq. ft., to 1 million or more sq. ft. full sized malls. Retail ranges from low end, value conscious outlet malls to *haute couture* and fine jewelry. The retail may be developed by the casino owner/developer, a master planned development land owner of which the casino is only a part, or separate land owners with shared boundaries. Large, independent, free standing stores with established brand equity have worked as well: e.g., Bass Pro Shops which is a tourist as well as a retail attraction.

As retail, restaurant, dining, other affinity activities reach a critical mass it may be offered formulated into a self-contained Lifestyle Center or Urban/Suburban Entertainment Center to not only create synergy within the Center but between the Center and the Casino Facility as well.

As gaming and casinos have become more socially accepted casino owner/operators have developed more stringent and effective under-age enforcement policies and programs that make the overall property potentially family friendly. These may include heavy on-the-floor enforcement by security and casino supervisory personnel; prohibiting non-gaming age visitors from setting foot on the gaming floor by limiting entry points with uniformed security guards checking those who enter up; and/or semi or fully walling in the additionally keeping underage gamers from even seeing the gaming taking place. By taking steps such as these the larger Locals’ oriented casinos in Las Vegas have come to successfully offer family-oriented activities in a clustered “Family Area” of the complex. The Family Area may include one or more of the following: supervised day care, arcade for older children not needing direct supervision, Cineplex, bowling alley, ice/roller skating rink, event center with family events, access to the swimming pool/wetscape area, and a fast food or other lower priced food outlets. Some or all of the Family Activities may be integrated into the aforementioned Retail/Entertainment/Lifestyle Center concept. While granted the Las Vegas local community is predisposed to offer family and gaming activities side-by-side, other venues may embrace this notion as well.

Casino developer/operators/marketers continue to find new activities that are synergistic with gaming and/or independent profit centers. Other activities include: banquet facilities for reunions, celebrations, and parties; wedding chapel and reception/banquet facilities; tattoo parlors; new and antique car showrooms; horse and auto racetracks; golf courses/clubs; and residential/retirement/office centers.

Sum of the Parts: In all, determining what can and should be offered as part of a Local / Regional Casino development is a function of: the site (e.g., size, zoning, build-ability, access/egress, and cost); Marketplace preferences, demographics/psychographics, and demand potential; the presence or absence of competition (current and in the near future); available financing; and, potential synergies with the gaming facility business/marketing plan. Today,

casinos are as much about being real estate developments as being “just a casino” following the real estate development credo, “highest and best use” to maximize the opportunity of the site.

6.2. OUT-OF-MARKET TOURISTS

Here again, Tourists can be gamers or non-gamers and vice versa. Tourists are typically those who travel six or more hours if by surface transportation and any who travel to the property by air. They may, of course, also be those Tourists who are in a multi-stop vacation/trip in which case they may already “be in the area” where the casino is located but for another reason. The travel time to the casino for these tourists already in town is therefore minimal.

Regardless of their point of origin, while many of the demand dynamics that apply to locals also apply to tourists, tourists tend to come to a casino with some important differences in mind-set, needs/wants/expectations, and budget.

Tourists typically have a higher per diem budget than a local on a day trip. For the tourist, this is their “special trip,” most will have travelled further, and their per diem/per capita budget is accordingly higher. Their mindset is also more focused on leisure for the entire day not just a part of the day as is the case for most Locals or Regional visits.

Tourists generally are spending the night at a hotel at the casino or nearby meaning the facility needs to satisfy a greater array of needs, wants, and expectations. Many will spend more than one night at the casino further expanding the need for even further dining, bar/lounge, entertainment, and other non-gaming options if for no other reason but for the sake of change.

Tourists under the MLC definition include “Leisure” and “Business” the latter presumably referring to those for whom the primary or at least secondary reason for the visit is business-oriented, e.g., attending a business meeting, convention, or exhibition.

If a U.S. based casino caters to tourists, most are not pure casino-resorts even though they are often so named. Indeed, the facility is more likely to be a composite of Local / Regional patrons and Tourist oriented facilities with no obvious, recognizable boundaries distinguish a so-called resort from an Entertainment Destination or a Casino. The distinction is moot if both of the target market segments choose to patronize the facility but the owner, developer, operator, and marketer must recognize the distinct needs, wants, and expectations of each in order to provide for them with individually targeted or shared facilities.

Although not universally true but often true, the Tourist imperative typically leads to a step-up in quality and depth/breadth of non-gaming activities. And so, a casino that might otherwise be a “3-star” Mass Market facility might step up half a star to be a 3½ star or even up a full star to a 4-star overall facility with 3 and 4-star areas. The quality range can slide up or down the quality scale within some quality center and range about that center that a given situation and Market will accept. Setting the boundaries is highly situational. Monaco, for example, has a fairly “tight” range almost exclusively focused at the top end making those below feel uncomfortable

at best or unwanted at worst. By contrast, an upwardly mobile young executive and his wife may not want anything less than a four-star property. And not to profile any given demographic or psychographic, but the “pickup” crowd may simply feel more comfortable where they can get a cheap beer and be able to hoot-n-holler!

As a general rule, however, in establish market preference or tolerance for positioning ranges, it is better to peg the upper positioning to the Tourist expectation or “sweet spot” of a given Marketplace knowing that visitors with lower budgets will still patronize more upscale facilities but the reverse may not be true. This notion applies to public areas, individual facilities, and the collection of those facilities.

But, having said this, casino-centric projects have gone from small to medium to large to mega to “meta” properties in size and cost. As they have become larger, the owner/developer and their design teams have been clever in segregating areas aimed at one price point. Some of the largest casino-hotels in the world are in Macau. One casino there has four hotel towers all connected by one podium with each hotel tower being a different brand, star-level, and price point. The podium, too, has obvious and not-so-obvious carve outs, clusters, enclaves, and semi and fully private areas. The larger the total project the more components may be offered that individually cater to a particular price-point, value proposition, or niche activity, need, want, or expectation. It is also not unusual in large casino room towers to design a hotel-within-a-hotel with separate entrances at the podium/entry level complete with their own set of elevators and prohibited cross access except in case of an emergency..

Another example is when the demand for food seats increases, the casino developer can fine tune and aim a multitude of individual food outlets for each cuisine in demand at each price point, quality level, service level, ambience/theme/design, and other attribute needed to cater to a broad array of visitors. As travellers come from greater distance, casinos may choose to feature one or more restaurants owned or managed by a celebrity chef, something that otherwise may be prohibitive if positioned to serve only locals. Indoor/outdoor dining becomes more important to emphasize the resort/vacation/escape experience and Wow! Factors differentiate a casino restaurant from its run-of-the-mill, “typical” everyday local/regional counterparts.

The strategy of being something special extends to other non-gaming facilities and activities as well. For example, the nightclub may be incrementally bigger, of higher quality with more exotic, innovative, and new design elements featuring name/celebrity DJ’s and artists. Hotel rooms may need to be less “corporate” and “branded” and be infused with more exotic, edgy, sexy/romantic design to once again distinguish the casino-resort experience from a typical urban/suburban/highway hotel/motel stay. Wow! features can be placed in public areas as well as sprinkled around the site to pulse energy and excitement.

And on the list of opportunities to maximize the potential goes on as far as the imagination and vision of the developer/operator and their design resources can imagine and produce it. They need only reactively or proactively align the project’s concept, programming, design, and operating/marketing plan to the needs, wants, and expectations of the targeted market segments that lie dormant within the Marketplace waiting to be served.

7. A WORD ABOUT THE ROLE OF HOTELS WITH LOCALS / TOURIST ORIENTED CASINOS

While it may not intuitively seem to be true, experience throughout North America has shown time and time again that a hotel associated with a Locals'/Regional oriented property broadens and deepens the Locals / Regional market as well as generates good returns on investment. Even for the pure Locals' Casino –those within 30 minutes to a 1 hour travel time to the casino – the option of being able to stay in a hotel room is welcome. This is because it allows: greater playing/leisure/relaxation time; visitors to drink alcohol without having to worry about the drive home that night; older visitor whose night vision may be failing to avoid having to drive home past the dinner hour; a couple or group of friends to tag along with the gamer providing them time and flexibility to do a variety of things on and off-site; a visitor to more leisurely enjoy the non-gaming facilities (and more of them); and, finally, to make the trip more special, reward / award, and more of an mini-vacation overall.

For the casino, a gamer that stays in the casino's hotel will play longer and that translates into higher revenue. By cause-and-effect, knowing they are going to stay in the hotel that night often causes the gamer to increase their gaming budget.

For the loyalty club member it provides opportunities for the casino marketer to upgrade the loyalty club member at little cost or, if warranted, to offer the room at a discount or even as a full complimentary. The hotel incentive can be used, "turned" up or down depending upon peak versus off-peak demand and/or based upon unfilled room occupancy. To the player receiving such incentives, the hotel is often seen as an unexpected "gift" or, if expected, a reward for playing at this casino. Other players consider staying at the hotel either a perquisite or more blatantly, "payback" for the money they lost at the casino. The hotel can also be a differentiator among and between other casinos who do not have a hotel and/or have a lesser hotel.

While not always the case, typically the gamer in a hotel room produces the highest enterprise value because their gaming budget added to room, food, beverage, and other activities is difficult to match by non-gamers. But, a relatively recent trend is that casinos are finding hotel guests for whom gaming is not the primary reason for the visit to be able to spend amounts on non-gaming activity that cumulate to sums and profits that match or even exceed those generated by casino players. For example, the host of a four-day exhibition with associated fees, banquet charges, and ancillary expenditures in the other bars, lounges, entertainment venues, retail stores, and the like can cumulate to large sums. There are multiple other examples.

But beyond acting as healthy competition for a finite amount of rooms, when the casino cannot fill all of the available rooms non-gaming visitors can be used to fill the vacant rooms thereby generating higher asset utilization and marginal cash flow. Doing so also introduces the casino and other activities to market segments that otherwise might not have visited the casino. And,

finally, hotel patrons may return as a gaming patron on their next trip and/or spread positive word-of-mouth advertising for the property.

All in all, a hotel right-sized the size and the needs, wants, and expectations of the Marketplace – both gamers and non-gamers alike – is both synergistic with the casino and, in most cases, an independent marginal profit center as well.

8. SYNERGY

The importance of a given non-gaming activity is directly related to the reasons for the trip and the needs, wants, and expectations of the member of that target market segment. A gamer may need to fulfill a utility function of eating so he or she can enjoy more time in the casino. Or, a gamer may also seek a respite from the intensity of gambling by having a cold beer at a sports bar. Winners may want to celebrate over sizzling, thick steak and a precocious glass of Cabernet possibly paid for by the casino as a “thank you” and marketing tool to engender loyalty. For non-gamers, an upwardly mobile, professional, young-married couple may be looking merely for an escape vacation that could include seeing a show or playing a round of golf or a romantic weekend with spa treatments and a candle-lit dinner if the facility provides it. Their trip may even include a flutter in the casino. A meeting, convention, and exhibition attendee will be concerned about the meeting/exhibition facilities plus the hotel room, and maybe also the “fun” that is available after the business day ends. A family may want a splashy, splashy pool area for the kids where the family can enjoy the sun together during the day but some adult activities for themselves at night.

The possible list and execution of non-gaming activities that serve utility functions, act as independent leisure/entertainment experiences, differentiate one casino from another, and act as a marketing tool as well as a profit center is endless.

For both the gamer and non-gamer alike, the real or perceived price-value of their visit to a gaming-centric complex is determined by the availability, mix, variety, quality, service levels, price-value propositions, unique/innovative/Wow! experiences, and their combined, total sum-of-the-parts experience. It is also determined by competitive reference points.

For the casino owner, developer, and operator they must get the non-gaming elements of their operation “right” to optimize the potential of the casino. They must also get the non-gaming elements “right” to broaden and deepen their market demand for non-gamers as both independent and synergistic profit centers with gaming.

Gaming is not un-complex.