

Evaluation of the Ancillary Non-Gaming Amenities Proposed by Kansas Entertainment for the Gaming Facility Located in the Northeast Zone, Wyandotte, KS

Prepared By:

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Raving Consulting Company

Challenges

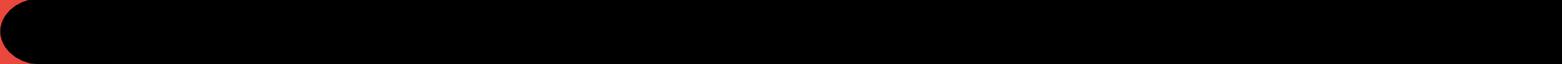
1. Becoming familiar with the 2008 history of the Kansas casino license bid process and the kinds of proposals (especially the non-gaming amenity components to the proposals) that were put forward in 2008.
2. Not duplicating any of the voluminous information already compiled or the extensive consulting work already performed in 2008.

Challenges

3. With the number of bidders quickly reduced from five bidders (when Raving was first engaged) to two (one each in the Northeast and South Central Zones), it became necessary to create an alternative method of assessing non-gaming amenity value for the State of Kansas, with comparisons BETWEEN bidder packages no longer possible.

Challenges

4. The previous PROBE consulting report, while full of some instructive data, did not appear to offer the Board enough position-taking consulting opinions that would strongly suggest which gaming amenity packages might be best for the State of Kansas (answering the question as so well put by one Board member, “What decision would you make if you were us?”).

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Focus

1. The breadth and scope of market
2. How the non-gaming amenities proposed create and promote tourism
3. Jobs creation
4. How the non-gaming amenities proposed translate into maximizing gaming revenue

The Raving Consulting Team

Dennis Conrad – Founder, President, and Chief Strategist of Raving Consulting

Dennis has 34 years of gaming industry experience and has held a number of senior level positions for major gaming companies. He is considered one of the gaming industry's marketing experts and preaches common sense, meaningful marketing principles and customer focus.

Dennis' company, Raving Consulting, has worked with scores of casinos around the world over the past 11 ½ years. Raving specializes in casino marketing, casino customer service program development, strategy development, casino conferences, and access marketing for gaming vendors. Raving has executed numerous marketing assessments for casino companies and helped many of them develop strategic marketing plans, which often have included how to leverage existing casino/hotel amenities.

The Raving Consulting Team

Scott Cooper – Consultant

Scott has almost 30 years of experience in the gaming industry with extensive expertise in opening nine start-up projects in six new jurisdictions, as COO of several gaming companies, and he has worked at many properties as General Manager, responsible for the overall operation of these land based, riverboat, racino, and Native American casinos.

All of the start-up experience has been in a "locals" type environment. In addition, Scott has led the operational development of four major expansions of existing casinos, ranging in infrastructure investment from \$110m to \$400m.

The Raving Consulting Team

Scott Cooper – Consultant (continued...)

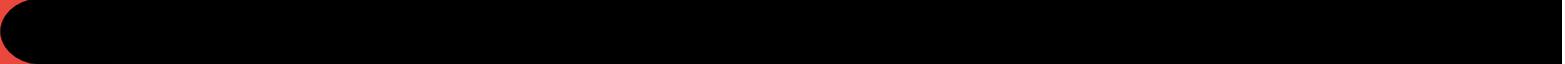
Inherent with each start-up and existing casino expansion project was the need to provide hands-on leadership, the creation/execution of the business plan, hiring and training of the management staff, development of the internal controls, the establishment of a working relationship with local governments and state regulatory agencies, and the responsibility to create and execute each property's marketing programs.

Methodology

1. Gather Information
2. Decide what information was most pertinent
3. Draw consulting insights
4. Share the consulting insights in a simple, clear, logical way

Raving Minimum

Since there is only one bid for the Northeast Zone, Raving will address the critical questions of this project by first determining what, in our opinion, the basic core level of amenity development (the Raving Minimum) should consist of, as follows:

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Raving Minimum

- Hotel – A hotel of at least 200 rooms with a level of finish consistent with the mid-range hotel product in the area. The hotel should include at least a small sized fitness center.

Raving Minimum

- Food – A mix of food product that provides a sufficient variety of outlets to offer customers food options. Also, the quality of food product should be such that customers will stay on site through a meal period to maximize their time at the facility. At a minimum, this food product should include a buffet (350 seats), a higher end product such as a Steakhouse or Italian restaurant (100), a casual outlet that provides breakfast, lunch, and dinner (150), and a deli type outlet (50). Food should be available 24 hours per day.

Raving Minimum

- Beverage – The casino should have a minimum of two bars. One should be large enough to be able to offer live entertainment. One of the bars should have bar top slot machines.

Raving Minimum

- **Convention/Group Meeting Space** – The facility should have convention/meeting space of sufficient square footage to accommodate a minimum of 800 to 1,000 customers theater style and approximately 700 customers for a sit down dinner event. This roughly equates to building convention/meeting space totaling approximately 15,000 sq. ft. This space should also be flexible to provide smaller break out rooms, either in the main ballroom area or in dedicated smaller rooms adjacent to the main ballroom. If this space is to be used as a multi-purpose venue, then the size of the ballroom should be increased to accommodate a minimum of 1,600 customers.

Raving Minimum

- Pool Area – The facility should have a pool area.
- Parking – The facility should have a minimum of 2,500 parking spaces for customer self -service parking, 300 spaces for valet, 400 for employee parking, and a portion of the customer parking should be able to accommodate RV parking.
- Retail /Gift Shop – The facility should have dedicated retail space of a minimum of 800 sq. ft.

Raving Minimum Chart

Amenity	Raving Minimum Amenity Score	
	"Score" -3 to +3	Comments
Hotel = 200 Rooms	0	
Food/Restaurants (4)	0	
Casino Bars (2)	0	
Convention/Mtg. Space	0	
Other Amenities – Parking	0	
Other Amenities – Retail	0	
Total	0	

Kansas Entertainment Amenity Chart

Amenity	Phase I - Built as proposed Hollywood Casino at Kansas Speedway Amenity Score	
	Score" -3 to +3	Comments
Hotel = 200 Rooms	-3	Not planned in Phase 1; 1,000 rooms nearby
Food/Restaurants (4)	+1	Seats exceed the Raving Minimum
Casino Bars (2)	+1	Plus for one high energy, central bar
Convention/Mtg. Space	-3	None planned in Phase 1
Other Amenities – Parking	+1	Exceeds the Raving Minimum
Other Amenities – Retail	+1	Twice the Raving Minimum and add'l area
Other Amenities – RV Parking	0	Access to adjacent RV Parking
Total	-2	

Potential Amenity Chart

Amenity	Potential Amenity Score For Hollywood Casino at Kansas Speedway	
	"Score" -3 to +3	Comments
Hotel = 200 Rooms	+ 0	Assume well appointed
Hotel > 300 Rooms	+ 3	Assume well appointed
Food/Restaurants	+ 3	w/add'l outlets, seating
Casino Bars (3)	+ 3	w/ at least 3, live entertain
Convention/Mtg. Space	+ 2	w/ at least 15k sq. ft.
Other Amenities – Parking	+ 3	With parking structure
Other Amenities – Retail	+ 2	Assume add'l stores
Entertainment Venue	+ 2	1.8k seats, multi-purpose
RV Park	+ 2	50 space, full hookups
Truck Parking	+ 2	Room for 100 trucks
Spa - Fitness	+ 2	w/ 8 rooms, 600sf fitness
Pool	+ 1	Indoor preferred
Total	+25	

Potential Marketing Impacts

As important as the scope and quality of casino non-gaming amenities are to a successful casino development project, so too is effective marketing of those amenities. Great amenities with lousy marketing will not optimize visitation or gaming revenue. Likewise, a paucity of amenities, or a casino with sub-standard amenities, can be somewhat overcome by excellent marketing, especially if it includes outstanding casino customer service.

Potential Marketing Impacts (Continued...)

Thus, Raving felt it was instructive to examine the stated marketing intentions of Kansas Entertainment as expressed in its responses to Raving's request for its generally envisioned marketing strategy and tactics for its proposed opening and beyond, as well in Kansas Entertainment's comments in its bid presentation to the Board on September 15, 2009. The goal here was to attempt to determine, as a positive or negative potential, marketing impact on Kansas Entertainment's proposed non-gaming amenities. Knowledge of Penn National Gaming's current amenities and marketing strategies at its other casino properties, both current and past, also contributed to the discussion that follows.

The Raving Marketing Matrix

Marketing Elements Evaluated

- Pre-opening Marketing Spend
- Brand
- Marketing Reputation
- Database Marketing/VIP Player Focus
- Integrated Marketing
- Food as a Marketing Tool
- Tourism and Hotel Partnerships
- Bus Marketing
- Advertising Efficiency
- Listening to Guests
- Other Factors

Marketing Elements Evaluated

Pre-opening Marketing Spend – is the marketing spend adequate and targeted to create awareness of the new casino facility, including its amenities?

-1 Inadequate – marketing spend too little (or too much and wasteful) or not focused on appropriate opening goals

0 Adequate – marketing spend reasonable and mostly focused on appropriate goals for opening

+1 Superior – marketing spend reasonable, measurable and highly focused on pre-opening goals

Discussion of Kansas Entertainment Marketing Plans for Hollywood Casino at Kansas Speedway

Pre-Opening Marketing Spend

Kansas Entertainment's estimate of a pre-opening marketing budget of \$1.7 million appears to be more than adequate, although the discussion of that spend centered solely on advertising (25% TV, 25% Radio, 20% Print, 20% Outdoor, 5% Online and 10% Promotional/Entertainment/Misc).

The advertising mix would appear reasonable by industry standards. One concern would be that there was no mention in Kansas Entertainment's written comments of any pre-opening marketing spend against direct marketing to known gamers. However, in Penn National's portion of the proposal presentation to the Board it indicated strongly that it would utilize its Argosy Riverside database for "immediate population" of the Penn Hollywood/Kansas Speedway potential customer list.

Raving Marketing Matrix Grade = +1

Brand

The issue here is not the lack of a brand, but the fact that arguably, there are three brands involved: Hollywood Casinos, Kansas Speedway and to some extent, NASCAR. There was no mention made of what the Penn/Kansas Speedway/NASCAR amalgamated brand concept might be. “Hollywood” is certainly an emerging and positive casino brand but the fair brand question remains as to whether the project will be more of “a speedway with a casino” or a “casino at the speedway” (or something else altogether).

Matrix Grade = 0

Marketing Reputation

Penn National Gaming has an outstanding marketing reputation in the gaming industry and a marketing philosophy that allows its individual casino properties (who should know their market best) to define their own marketing strategies and tactics, with Penn corporate marketing available as a resource when needed. Penn's success in the Kansas City, MO market with its Argosy Riverside casino (recently overtaking Harrah's North Kansas City for #2 in the market) is impressive, further enhancing this reputation.

Matrix Grade = +1

Database Marketing/VIP Player Focus

While not articulated thoroughly in Kansas Entertainment's written response to marketing questions, the stated post opening marketing budget percentages (43% Customer Incentives/Offers and 39% Earned Comps) would indicate Kansas Entertainment understand the value of the "avid, experienced gamer," further confirmed by Penn National's history and marketing reputation.

Matrix Grade = +1

Integrated Marketing

Both Penn National's and Kansas Speedway's written and spoken comments regarding "community" involvement in the Kansas City area were exemplary, but neither addressed the "employee" component and how it would play into their marketing and service delivery at Hollywood Casino at Kansas Speedway.

Matrix Grade = 0

Food as a Marketing Tool

Penn's positive food reputation, Kansas Entertainment's written proposal comments on food strategy ("high quality, exemplary service, various price points") and the prominence of "Earned Comps" in the post-opening marketing budget breakdown, would indicate that Kansas Entertainment has a healthy understanding of food as a gaming business driver.

Matrix Grade = +1

Tourism and Hotel Partnerships

There was no mention by Penn or Kansas Speedway of utilizing tourism or hotel partnerships in the marketing of Hollywood Casino at Kansas Speedway. While this might be an omission, the marketing opportunities with tourism organizations and local hotels (especially with 1,000 rooms being within walking distance of the casino and no casino hotel being proposed for opening). This should be addressed.

Matrix Grade = -1

Bus Marketing

There was no overt mention by Kansas Entertainment to creating charter bus programs for potential out of market visitors to Hollywood Casino at Kansas Speedway (perhaps because of the lack of hotel at opening). It may be that other Kansas City competitors are aggressively using this bus marketing tactic (with possibly low ROI), but Penn has been known to use this tactic successfully in the past (especially at Casino Rama in Canada), where it makes sense. In this case, it may help create some tourist visitation.

Matrix Grade = 0

Advertising Efficiency

The advertising marketing plans discussed by Kansas Entertainment are aggressive and comprehensive. The post-opening advertising spend proposed (10% of the marketing budget) appears to be reasonable. Penn has a history and reputation for efficient advertising spend and focus.

Matrix Grade = +1

Listening to Guests

Both Penn and Kansas Speedway display a keen appreciation of market research and listening to customers and understanding guest preferences. They appear to especially understand the racing fans and their keen interest in the casino gaming experience.

Matrix Grade = +1

Other Factors

Although not described in the formal bid presentation or the original performance matrix, Kansas Speedway's written marketing discussion spoke of an 8,000 sq. ft., multi-purpose Entertainment Venue called Hollywood on The Roof. If it occurs, that would be a significantly positive marketing factor, as would a 2nd NASCAR Sprint Car Race if secured for Kansas Speedway. Penn and Kansas Speedway appear well aware of other potential factors with significant marketing opportunity.

Matrix Grade = +1

RAVING MARKETING MATRIX AS APPLIED TO KANSAS ENTERTAINMENT AND ITS HOLLYWOOD CASINO AT KANSAS SPEEDWAY PROPOSAL

Categories	Kansas Entertainment Score
Pre-Opening Marketing Spend	+1
Brand	0
Marketing Reputation	+1
Database/Player Development Focus	+1
Integrated Marketing	0
Food	+1
Tourism and Hotel Partnerships	-1
Bus Marketing	0
Advertising Efficiency	+1
Listening to Guests	+1
Other	+1
TOTAL	+6

Raving Matrix Scoring Scale

- 4 to -11 Inadequate** – unlikely to achieve additional marketing impact on financial performance
- 3 to +3 Adequate** – likely to achieve an average, mostly adequate marketing impact on financial performance
- +4 to +11 Superior** – likely to achieve a superior marketing impact on financial performance

Revenue and Jobs Comparisons as Related to Various Amenity Scenarios

Category	Total \$ Gaming Revenue	Hotel Revenue	Restaurant Revenue	Beverage Revenue	Retail Revenue	Entertainment Revenue	Number of Amenity Related Jobs			Total Jobs of Project
							Hotel	F/B	Retail	
Applicant-Phase 1 - 1st year, '13	\$ 220		\$ 11.1	\$ 4.8	\$ 2.0			206	24e	1,136
Wells/Cummings avg. Phase 1 - 1st year, '13	\$ 180									
Wells/Cummings avg. w/Raving Minimums Phase 1 - 1st year, '13	\$ 200									
If Raving Minimums Were Built Phase 1		\$ 8.0 (200 rooms)	\$ 11.0	\$ 5.0	\$ 2.0	\$ 2.4	120	210	25e	1,290 (+154)
Applicant - 2015	\$ 231		\$ 11.8	\$ 5.0	\$ 2.2			209	24e	1,151
Wells/Cummings avg. - 2015	\$ 228									
Raving Projections 2015		\$ 10.0 (250 rooms)	\$ 12.0	\$ 5.0	n/a		160	210	25e	1,360 (+224)

Consultants' Conclusions

- Kansas Entertainment's non-gaming ancillary amenity package proposed for Hollywood Casino at Kansas Speedway is not extensive, but appears to have several quality elements that would serve to promote tourism and assist in promoting gaming revenue.

Consultants' Conclusions

- If some anticipated circumstances occur (hotel build-out, securing 2nd NASCAR race, entertainment district build-out, etc.), the Kansas Entertainment project may have the opportunity to drive significantly more tourism and gaming revenue.

Consultants' Conclusions

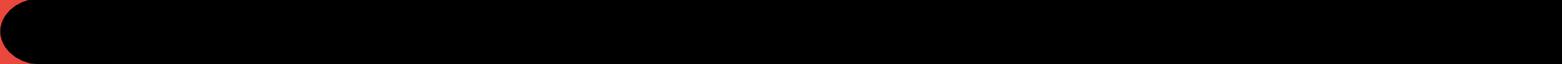
- Kansas Entertainment's marketing savvy and experience is a positive and likely enables Kansas Entertainment to achieve somewhat more benefit from its non-gaming amenity package than would otherwise be realized from a less impactful marketing program or philosophy.

Consultants' Conclusions

- The connection between auto racing and casino gaming appears to be a positive one for Kansas Entertainment if it can effectively blend several brands (Hollywood, Kansas Speedway, NASCAR) into one clear, powerful brand positioning.

Consultants' Conclusions

- Penn National's existing player database from its nearby Argosy Riverside operation offers significant opportunity for the Kansas Entertainment operation, as does the existing International Speedway Corporation database (but to a significantly lesser extent).

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Consultants' Conclusions

- The ability to create synergy with the nearby Legends development and the adjacent hotels, will be a critical success factor in Kansas Entertainment's proposed project.

Consultants' Conclusions

- The current Kansas City casino competition is significant, with significant non-gaming ancillary amenities, and should be expected to aggressively respond to the Kansas Entertainment's new facility after it opens.

Consultants' Conclusions

- It is clear what the Hollywood Casino at Kansas Speedway experience would be like during busy race weeks, but the key strategic challenge appears to be “What is Hollywood Casino’s experience like when the race track is dark and the vast surrounding parking areas are empty?”

Consultants' Conclusions

- Penn National's past track record of non-gaming amenity build-out and effective casino management is impressive and likely should merit some consideration as a future indicator of Kansas Entertainment's future amenity addition intentions and their likely speed of implementation.

Thank You