



THE
INNOVATION
GROUP

Come hear us at
Racino 2004
Presentations by
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& Alison Catarella-Michel



Client and Company News for November 2004

Today's racino: The appeal is a horse of a different color

Over ten years ago, we did a study for a racetrack to answer the question of whether adding slot machines could generate enough extra revenue for the state that legislators would find it worthwhile to legalize the process. Now, the studies we do for tracks are also determining whether racetracks can support the addition of spectacular entertainment facilities, upgraded restaurants and even golf courses, hotels, spas and conference centers. What's happening is that not only are more and more racinos coming into being, but they're a far cry from the ones that started just ten years ago.



When Dover Downs was voted "Best Racino" by the readers of *Strictly Slots* magazine last year, it wasn't because it had become popular as a track that had added slots. It was because the destination it had become, as Dover Downs Gaming and Entertainment, was regarded as the best example of the new trend in tracks-turned-casinos-turned-destination-resorts. 80,000 square-feet of slots, luxury accommodations with conference, banquet, fine dining, ballroom and concert hall facilities, and, of course, the racetrack. It's not the same Dover Downs. Others racinos that are raising the bar and defining this new standard are Charles Town Races and Slots, the biggest of West Virginia's four racinos with over 3,800 slots; and in the same state, Wheeling Island, with a hotel, showroom, conference center and an incredible range of restaurants. Woodbine in Toronto, with three tracks accommodating standardbred and thoroughbred races on the same day, is now the largest racino in North America. Mountaineer, since their first 80 test machines in 1990, has continued to reinvent itself and, today, it's one of the best examples of the racino resort around, with the casino on the opposite side of the track from the grandstand. Delta Downs, near the Texas/Louisiana border has added a hotel to compliment its upgraded entertainment and dining

offerings. And Evangeline Downs opened a new facility at the end of last year that was planned and built from the ground up as a racino entertainment destination resort.

What it all comes down to is giving the people what they want. Of course, if the competition is also trying to give the people what they want, that competitive landscape will influence what you have to give to stay in the game. Ten years ago, a racetrack with slots was a draw. Then the ones with upgraded restaurants became more appealing, and the ones with entertainment venues became even more appealing, and the ones with hotels and spas even more, and, well, you get the picture. And, obviously, the competitive landscape isn't just confined to the nearest racinos. Add to the mix riverboats, Native American and land-based casinos and resorts, which are also spiraling upward toward the goal of becoming the destination resort of choice, and you've got a vibrant, living example of textbook competition. When we do a study for a planned or existing racino, we study a series of factors that consider the economic potential of the market as well as what competitive drawing power the planned configuration will have. And, as a step up by one player in a market will often cause competitive reaction by others, whether it's by a neighboring casino or the legislature of a neighboring state, we put that into our model, too. A five- or ten-year analysis is not uncommon, and something investors always want to see. [More...](#)

 **CLIENTS MAKING NEWS** 

Iowa fishing for gaming revenues.

Florida heats up over gambling.

Las Vegas seems perfect place for Hooters.

INNOVATION CAPITAL UPDATE

Principals of Innovation Capital are advising Tollgate Venture LLC through its broker-dealer affiliate Growthink Securities.

Colorado Springs-based Century Casinos Inc. and Tollgate Venture LLC, owned by John and Jan Zimpel of Littleton, have announced plans for a \$40 million casino and hotel to be built in Central City, CO. The proposed 60,000-square-foot casino will have 625 slot machines, six table games, 35 hotel rooms, retail and a 500-

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space parking garage. Construction is expected to take a year.



The casino will capitalize on a new four-lane highway connecting Interstate 70 to Central City, which will revive the struggling gambling town. The Zimpel's didn't know of plans for the road when they bought the closed-down gaming properties. Century Casinos also owns Womack's Casino in Cripple Creek and operates casinos near Cape Town, South Africa; Prague, Czech Republic; on cruise lines; and one under development in Edmonton, Alberta.

Parties interested in learning more about Innovation Capital should contact Matt Sodl at (310) 335-2085 or msodl@innovation-capital.com.

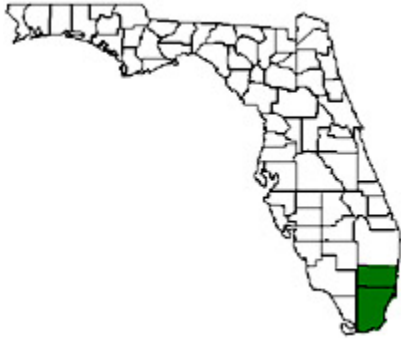
🎰 **CLIENTS MAKING NEWS** 🎰

Iowa fishing for gaming revenues.

Voters in Washington County, Iowa, recently approved riverboat gambling, clearing the first hurdle to allow Catfish Bend Casino to move forward with plans for their proposed \$80 million casino and 200-room resort near Riverside. The development would also include a golf course, an event center and RV park, and would generate 600 jobs for the area. The project still has to go before the Iowa Racino and Gaming Commission for approval in November. The Innovation Group did the market assessment that helped configure the right size and mix of



amenities for the project.
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Florida heats up over gambling.

With a November 2nd vote drawing near, the opposing sides on Amendment 4 are getting more vocal and hitting the air with their positions. The controversial bill would allow Miami-Dade and Broward counties to add slot machines to existing racetracks and jai-alai frontons. The Innovation Group performed a gaming market assessment to evaluate the economic potential of the proposed expansion and the revenue benefits to

the state, analyzing three main components of potential gaming demand: local patrons, tourists and seasonal residents. Passage of the bill would also allow the state's Native American casinos to upgrade their slots to the same class as the tracks.

You can read the whole story from the Palm Beach Post at:

http://www.palmbeachpost.com/politics/content/news/epaper/2004/10/13/m1a_ga

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Las Vegas seems perfect place for Hooters.

After a three-and-a-half-year search of prospective properties for a suitable location to get into the casino business, the Hooters restaurant chain has found it. Hooters will fully remodel and rebrand the Hotel San Remo with new restaurants, including one owned by the Miami Dolphins football star, Dan Marino, and an

expanded pool area that will include a Hooters Beach Club and tropical theme. The Innovation Group did the feasibility study for the project.




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📰 STAFF IN THE NEWS 📰

Steve Szapor reveals portrait of typical gamblers.

Gaming Today published an account of Innovation Group COO Steve Szapor's presentation at G2E last month in Las Vegas. Steve discussed some of the

 highlights of *Portrait of American Gamblers*, the research book published by Yesawich,

Pepperdine, Brown & Russell and The Innovation Group. Based on a poll of 2,500 gamblers across the country, Steve showed some findings of their

preferences in destinations, games and non-gaming considerations. You can read more at:

<http://www.gamingtoday.com/index.cfm?articleid=11366&AIN=477372>

🌀 THE INNOVATION GROUP NEWS 🌀

Steve Szapor high on Colorado.

In addition to serving as Chief Operating Officer of The Innovation Group, Steve Szapor heads another organization, as Chairman of the Board-Colorado Tourism Office. Steve was just appointed by Governor Bill Owens to his second term as Chairman in his home state of Colorado, where he also heads The Innovation Group's Denver office. In his tourism position, Steve was recently a featured speaker at the Governor's 2004 Colorado Tourism Conference. Colorado



has recently moved up to being the fifth-most popular state U.S. vacationers most wanted to visit this summer, according to a survey released by the Travel Industry Association of America. [Back to "The Innovation Group News."](#)

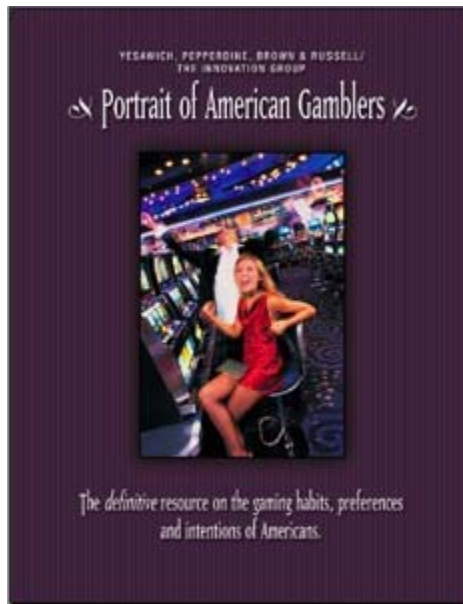


A banner year at G2E.

The Innovation Group and its sister companies went to G2E in a big way, with thirteen staff members, five of whom were speakers, and our first booth. The booth included staff and displays for the Innovation Group as well as Innovation Capital, our gaming/hospitality financial advisory practice, and Urban Systems

Associates, traffic and transportation planners and engineers. We also featured a display and ordering information for *Portrait of American Gamblers*. The booth included a comfortable place to sit and visit, and many clients did just that. And the chocolate casino chips were a big hit. We already have our space reserved for G2E 2005 and hope to see you there. [Back to "The Innovation Group News."](#)

Who are your customers, really? *Portrait of American Gamblers* sheds some light.



At The Innovation Group, we regularly conduct primary research and scour secondary research sources to gather information that enables us to make solid strategic recommendations to our clients. Now, there's a new definitive resource on the habits, preferences and intentions of gamers in

this country that will be an additional aid to these development and marketing decisions. It's *Portrait of American Gamblers*, an inaugural publication that represents a compilation of 2,500 in-depth surveys of a cross-section of U.S. adults who visit casinos. *Portrait of American Gamblers* is a joint publication of The Innovation Group and Yesawich, Pepperdine, Brown & Russell, the country's leading marketing services firm specializing the travel and leisure industries.

Portrait of American Gamblers is in-depth analysis of the lifestyles and gaming behavior of American adults.

Topics covered in the study include:

- Incidence of day and overnight casino visitation during the previous 12 months.
- Previous day and overnight visitation of specific gaming destinations and of specific casinos.
- Future interest in visiting specific gaming destinations and in visiting specific casinos.
- Future day and overnight casino visitation intentions and frequency.
- Preferred casino hotel/resort brands.
- Visitation and experience with Native American casinos.
- Average expenditures on gambling, entertainment, food and beverage, lodging and shopping for both day and overnight casino visits.
- Desirability of specific attributes when selecting a casino.
- Preferred games.
- Interest in specific casino slots.
- Interest in specific table games.
- Players Club program membership and preferences.
- Influence of specific promotional offers when selecting a casino.

- Vacation habits.
- Leisure time habits and preferences.
- Social values.
- Media habits.
- General consumption preferences and behavior.
- Political and religious affiliations.
- Demography.

Portrait of American Gamblers is a nationally representative telephone survey of 2,500 U.S. adults who gambled in a casino on at least one occasion during 2003/2004. The results are projectable to the population of all active American gamblers with a margin of error equal to +/- 3% at 95% confidence.

To order your copy of the *Portrait of American Gamblers*, please visit the Publications section of http://www.ypbr.com/page_loader.php?tid=v3&sid=publications&pid=gambler. For information on the preparation of a custom analysis, please contact Dennis Marzella, Executive Vice President/Partner, Research and Brand Strategy, Yesawich, Pepperdine, Brown & Russell at 407.875.1111 or dennis_marzella@ypbr.com. [Back to "The Innovation Group News."](#)

Today' racino: The appeal is a horse of a different color. (Continued)

Now, along with all of this upgrading of amenities spurred by the casino side of the business, something just as powerful is occurring on the track side. Purses are changing. Rather, they're exploding. Most racino laws require racetracks to allocate a portion of revenue to purses. So, now you have purses being a factor of something other than just wagering on the races. Slot revenues impacted Prairie Meadows purses six-fold in 1997. And bigger purses attract better quality horses and make for better quality races. California has long been known for having the strongest track purses in the country. Now, the expectation is that Pennsylvania's tracks, which will soon be transformed into racinos, will generate so much purse money that they'll eclipse California. And Pennsylvania will then attract horse owners from Kentucky and Florida, putting the pressure on legislatures in those states.

A key to understanding the success of racinos is to look at the customer base that racetracks already had. Racetracks' existing patrons were already gamblers - adults who enjoyed wagering as part of their lifestyle. We undertook a large study of gamblers, including racino gamblers, and published those findings in [Portrait of American Gamblers](#). It's a joint effort of The Innovation Group and

Yesawich, Pepperdine, Brown & Russell, the country's leading marketing firm in the tourism and travel industry. *Portrait of American Gamblers* is the definitive study of the habits, motivations and intentions of adults who visit casinos. We tabulated interviews from 2,500 gamblers from around the country and studied not only who they are demographically, but what they're looking for in gaming venues, brands and destinations. We think it's a must-have for anyone in the business and plan to make it an annual edition, so the tracking data can uncover trends. Not only is the information in the book very revealing, but we have the ability to take the raw data and generate any number of custom analyses.

So what's next for racinos? Now that track operators are seeing what the standard is for racino conversions, you're going to see tracks ready to jump into it for the first time at the resort level. And you're going to see more upgrades of existing facilities, as tracks respond to and, subsequently, stir up competition. Casinos have become destination resort incubators. The trend for gambling facilities around the country is to move in that direction, driven by demand and competition. You can see it in the dockside gaming in Mississippi, the riverboat casinos in Louisiana, Native America casinos everywhere. Where the market justifies it, they upgrade in a progression of adding better food, entertainment, hotels, retail, parking garages, golf courses, and so on. And as laws change to allow tracks to open casinos, they follow the model, too. One issue that will keep the growth of racinos at the state's control is how much of its winnings the state lets the track keep. A track in a state that only allows it to retain 25-30% of its take obviously doesn't have the same incentives as a track that's allowed by its state to keep 70%. That's why tracks in Louisiana can justify the investment to create such outstanding destinations as Delta Downs and Evangeline Downs.

Although horse racing goes back thousands of years and pari-mutuel wagering more than a century, the industry has never changed so much as it has in the last ten years. Tracks that were struggling in the 80's are now booming. The credit goes to bold state governments and visionary track owners and developers who recognized the opportunity and knew how to make the most of it.

And they're off.

Steve Rittvo
President

For more information on The Innovation Group, visit <http://www.theinnovationgroup.com/> or contact [Steve Rittvo](#) or [Stephen J. Szapor, Jr.](#)

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