

## Churchill Downs Incorporated

## Reinstating at Neutral: Unique growth, fully priced

Reinstating Coverage: NEUTRAL | PO: 135.00 USD | Price: 128.27 USD

## Reinstating coverage at Neutral

We are reinstating Churchill Downs (ticker: CHDN) at Neutral with a \$135 PO based on 13x our 2025E EBITDA. Churchill Downs is a unique idiosyncratic set of assets and capital-driven growth vs. our Gaming coverage, but also has structural challenges in the horseracing industry, negative estimate/margin revisions in core gaming, and volatility in its Historical Racing (HRM) segment. Leverage is elevated and valuation/free cash yield are high/low vs. peers, even vs. growth, which we see slowing down in coming years.

## Positives: Riders up! The Derby and capex drive growth

The Kentucky Derby is a one of a kind-asset and is hard to value in conventional terms. 2024 is the 150<sup>th</sup> running of the Derby with a \$200M investment including a fully redone paddock area. Inclusive of the Derby, CHDN has \$1.5B of capital investments coming online between 2023 and early 2025, which at a 14-18% ROI implies \$190-250M+ of incremental/organic EBITDA growth. New projects should drive 10% growth in 2024 and another +6% in 2025, vs. anemic Gaming sector growth of just very low single digits.

## Risks: Negative revisions and peak margins appear close

Consensus reflects much of CHDN's organic pipeline, calling for \$1.3B of EBITDA in 2025. Our build only gets us to \$1.18B for 2025 (-9% below Street), with the difference mostly due to pressure in core gaming and at JVs from competition. Core racing ex. HRMs and rising corporate costs to support a bigger portfolio may be further headwinds. Concerningly, estimates have been coming down over time, with 2023/2024 estimates - 6%/-13% from their peaks in June. Company wide-margins appear to have peaked in 2022 at 42%, though the Exacta acquisition and continued HRM mix-shift are tailwinds.

## Valuation: Still a premium multiple, but hard to find upside

Despite recent revisions, CHDN's stock performed well in 2023 resulting in an extended multiple. Our \$135 PO is 13x our 2025 EBITDA of \$1.18B and implies a 5-6% FCF yield, the lowest in Gaming. Our multiple is in-line with CHDN's recent trading and supported by scarcity value given double digit growth in 2024. However, even our upside case on project returns only yields ~\$1.25B of 2025E EBITDA (still below Consensus) making it hard for us to justify much earnings related upside, and with growth likely to decelerate beyond 2024 we see risk-reward as balanced.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.17	5.70	5.32	5.08	5.63
EPS Change (YoY)	NM	79.8%	-6.7%	-4.5%	10.8%
DPS	0.31	0.33	0.36	0.37	0.39
Valuation (Dec)					
P/E	40.5x	22.5x	24.1x	25.3x	22.8x
Dividend Yield	0.2%	0.3%	0.3%	0.3%	0.3%
EV / EBITDA*	23.6x	19.4x	14.6x	13.3x	12.6x
Free Cash Flow Yield*	2.5%	0.9%	-0.9%	0.2%	4.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 11.

08 January 2024

## Equity

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## Stock Data

Price	128.27 USD
Price Objective	135.00 USD
Date Established	8-Jan-2024
Investment Opinion	B-2-7
52-Week Range	106.45 USD - 150.45 USD
Mrkt Val (mn) / Shares Out (mn)	9,603 USD / 74.9
Free Float	90.2%
Average Daily Value (mn)	38.72 USD
BofA Ticker / Exchange	CHDN / NAS
Bloomberg / Reuters	CHDN US / CHDN.OQ
ROE (2023E)	59.4%
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

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12642416

Timestamp: 08 January 2024 06:38AM EST

# iQprofile<sup>SM</sup> Churchill Downs Incorporated

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	13.7%	11.2%	10.7%	9.5%	9.6%
Return on Equity	73.9%	102.5%	59.4%	37.5%	29.4%
Operating Margin	29.2%	28.3%	35.0%	30.8%	30.2%
Free Cash Flow	244	87	(91)	22	430

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	1.2x	1.5x	1.7x	1.6x
Asset Replacement Ratio	0.9x	3.7x	4.1x	3.0x	1.2x
Tax Rate	27.5%	NM	26.6%	26.5%	26.5%
Net Debt-to-Equity Ratio	NM	NM	NM	381.0%	255.6%
Interest Cover	5.5x	3.5x	3.2x	3.0x	3.3x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,597	1,810	2,467	2,738	2,946
% Change	51.5%	13.3%	36.3%	11.0%	7.6%
Gross Profit	1,597	1,810	2,467	2,738	2,946
% Change	51.5%	13.3%	36.3%	11.0%	7.6%
EBITDA	627	764	1,012	1,113	1,178
% Change	118.8%	21.8%	32.5%	10.0%	5.9%
Net Interest & Other Income	(46)	(110)	(228)	(238)	(229)
<b>Net Income (Adjusted)</b>	<b>249</b>	<b>440</b>	<b>408</b>	<b>385</b>	<b>427</b>
<b>% Change</b>	<b>NM</b>	<b>76.6%</b>	<b>-7.3%</b>	<b>-5.7%</b>	<b>10.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	249	440	408	385	427
Depreciation & Amortization	103	114	168	208	225
Change in Working Capital	78	37	9	0	0
Deferred Taxation Charge	(88)	(115)	(33)	0	0
Other Adjustments, Net	(6)	35	51	49	48
Capital Expenditure	(92)	(424)	(693)	(620)	(270)
<b>Free Cash Flow</b>	<b>244</b>	<b>87</b>	<b>-91</b>	<b>22</b>	<b>430</b>
<b>% Change</b>	<b>NM</b>	<b>-64.2%</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>
Share / Issue Repurchase	(298)	(175)	(160)	0	0
Cost of Dividends Paid	(25)	(26)	(27)	(28)	(29)
Change in Debt	343	2,630	393	0	(250)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	356	205	259	254	405
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	146	140	177	177	177
Property, Plant & Equipment	995	1,978	2,533	2,945	2,989
Other Non-Current Assets	1,485	3,884	3,996	3,996	3,996
<b>Total Assets</b>	<b>2,982</b>	<b>6,207</b>	<b>6,966</b>	<b>7,372</b>	<b>7,568</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	340	622	670	670	670
Long-Term Debt	1,968	4,559	4,936	4,936	4,686
Other Non-Current Liabilities	367	475	537	537	537
<b>Total Liabilities</b>	<b>2,675</b>	<b>5,655</b>	<b>6,143</b>	<b>6,143</b>	<b>5,893</b>
<b>Total Equity</b>	<b>307</b>	<b>552</b>	<b>823</b>	<b>1,229</b>	<b>1,675</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,982</b>	<b>6,207</b>	<b>6,966</b>	<b>7,372</b>	<b>7,568</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 11.

## Company Sector

Gaming

## Company Description

Churchill Downs (ticker: CHDN) is a unique business underscored by its namesake racetrack and ownership of the iconic Kentucky Derby. CHDN operates in 4 main segments: 1) the Kentucky Derby, 2) regional casinos, 3) historical racing machines (HRMs), and 4) TwinSpires and online wagering.

## Investment Rationale

We rate Churchill Downs as Neutral given CHDN is a unique idiosyncratic set of assets and capital-driven growth vs. our Gaming coverage, but also has structural challenges in the horseracing industry, negative estimate/margin revisions, and volatility in the historical racing machine segment.

## Stock Data

Average Daily Volume

305,348

## Quarterly Earnings Estimates

	2022	2023
Q1	0.54A	2.04A
Q2	4.40A	1.86A
Q3	0.74A	0.79A
Q4	0.01A	0.63E

## Reinstating coverage of Churchill Downs at Neutral

We reinstate coverage of Churchill Downs (ticker: CHDN) at Neutral. CHDN is a unique and idiosyncratic growth story in our Gaming coverage, but also has structural challenges in the horseracing industry, negative estimate/margin revisions in core gaming, and volatility in its HRM segment. Leverage is elevated and valuation/free cash yield are high/low vs. peers, even vs. growth, which we expect to slow in 2025+.

- **Background:** CHDN operates 3 segments: 1) Live & Historical racing (HRMs and Churchill Downs Racetrack), 2) Casino gaming incl. both wholly owned regional properties and 2 joint ventures, 3) TwinSpires (online horse betting). Racing will drive CHDN's growth and move mix from ~25% of property EBITDA in 2021 to ~50% in 2024, with 1) the \$2.75B Peninsula Pacific (P2E) Acquisition, 2) HRM capital developments in Kentucky & Virginia.
- **2024 Growth:** CHDN has 3 main growth drivers in 2024 – 1) a \$185-200M capital plan and refurbishment at Churchill Downs Racetrack (CDRT), 2) the openings of Terre Haute casino in Indiana and the Rose Gaming Resort in Dumfries Virginia and 3) the \$250M acquisition of Exacta, a B2B HRM supplier completed in August 2023.

### Exhibit 1: Enterprise Value Build

RCHDN has an equity value of ~\$10B and EV of ~\$15B

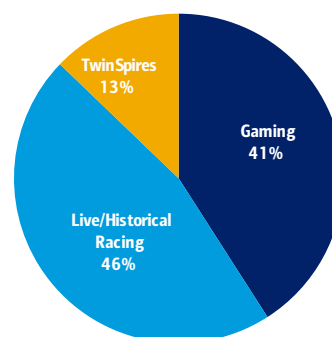
	2023E	2024E	2025E
Current share price	\$126.55	\$126.55	\$126.55
Diluted shares outstanding	76.6	75.8	75.8
<b>Equity market cap</b>	<b>9,694.0</b>	<b>9,593.4</b>	<b>9,593.4</b>
Consolidated debt	5,043.8	5,043.8	4,686.1
Cash and cash equivalents	259.4	253.8	404.9
JV Debt, Const. in Progress, Capitalized Lease	269.1	199.1	379.1
Net Debt	5,053.5	4,989.1	4,660.3
<b>Total Enterprise Value</b>	<b>14,747.5</b>	<b>14,582.5</b>	<b>14,253.7</b>

Source: Company filings, BofA Global Research

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### Exhibit 2: 2024E EBITDA mix by segment

Approx. half of CHDN's EBITDA comes from Live & Historical Racing



Source: Company filings

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### Exhibit 3: CHDN Bull-Bear Summary

Overview of the bull – bear debate for CHDN. Our PO is now \$135 based on 13x2025E EBITDA, in between our Bull-Bear scenarios.

Topic	Bull Case	Bear Case
Valuation / Growth	CHDN possess higher EBITDA & FCF/share growth vs. the U.S. gaming avg. CHDN's '24 multiple is below its Revenue/EBITDA growth, with the lowest beta of U.S. Gaming De-levering + greater EBITDA creates capacity for M&A and/or development in 2025 and beyond	CHDN's '24 EBITDA multiple of is a premium to the U.S. gaming, with the lowest FCF yield Project capex of ~\$1.4B in the next two years could fail to deliver ROIs or be delayed EBITDA and FCF/Share growth in 2025 and beyond could be below historical rates Core horse racing trends remain under pressure due largely to demographics Horse fatalities are a risk after challenges at the Spring meet and in Saratoga Slower than expected productivity ramp / delays at expansion projects weighs on margins Few identified projects beyond 2025 and company has already re-levered
Live & Historical Racing	CHDN can more than double its existing HRM base of ~6,800 to ~14,800 P2E acquired HRM properties carry a higher margin than CHDN's existing HRMs Project capex from 2022-2024 at CDRT will be complete by the 2024 Derby \$400M Dumfries project could be a significant ROI generator and catalyst Exacta acquisition should drive margin upside	
Gaming	P2E acquired properties carry higher margins than CHDN's existing properties GGR growth at JV properties have outpaced broader regional gaming Terre Haute casino in 2024 + development rights in Richmond, VA	Regional gaming margins peaked in 2021 and continue to see headwinds Regional revenue growth is slowing with consumer challenges & competition in key markets Terre Haute has been delayed and budget increased which could impact ROI
TwinSpires	Exit from online sports betting helps margins Recent technology partnerships with FanDuel and DraftKings drives B2B growth U.S. online horse wagering handle is ~45% above 2019 levels	TwinSpires doesn't participate in a fast-growing online sports betting market Partnerships with sports betting operators limits TwinSpires' handle and/or creates share losses U.S. online horse wagering handle has declined from 2020 to 2022
Risk / Reward	12x multiple on ~\$1.3B of 2025 EBITDA (0% vs. us/Consensus) 5.5% Yield on ~\$10.25 of 2025E FCF/Share Implied Value Per Share = \$185 (44% Upside)	10x multiple on ~\$1.15B of 2025 EBITDA (-12% vs. us/Consensus) 8.5% Yield on ~\$10.25 of 2025E FCF/Share Implied Value Per Share = \$120 (6% Downside)

Source: BofA Global Research

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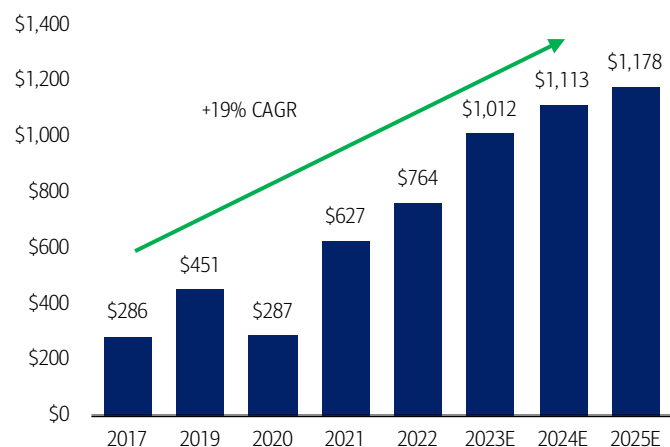
## Investment Positives: 150<sup>th</sup> Derby + capex driven growth

The Kentucky Derby is a one of a kind-asset and is hard to value in conventional terms. 2024 is the 150<sup>th</sup> running of the Derby with a \$200M capital investment opening including a fully redone paddock area. Inclusive of the Derby, CHDN has \$1.5B of capital investments coming online between 2023 and early 2025, which at a 14-18% ROI implies \$190-250M+ of incremental/organic EBITDA growth. Capex should drive 10% growth in 2024 and another +6% in 2025, vs. anemic Gaming sector growth of just very low single digits.

- We estimate CHDN will grow EBITDA at an 8% CAGR from 2023-2025, slowing from their long-term growth rate of +19%. Capex investments in the Derby, Virginia and Kentucky HRMs, Terre Haute Indiana, and Exacta should drive near-term growth and offset core gaming declines.
- Kentucky Derby EBITDA reached an all-time high of \$141M in 2023, and we think Derby EBITDA could grow another 12% in 2024 supported by growth investments.

### Exhibit 4: CHDN EBITDA and EBITDA growth

Churchill Downs has grown EBITDA by a +19% CAGR over the last 9 years, driven by the buildout of HRM facilities and the acquisition of P2E Gaming



Source: Company filings, BofA Global Research

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### Exhibit 5: CHDN BofA EBITDA Growth Bridge 2023-2025

Below shows major project contributions for the buildup to our current 2024 and 2025 EBITDA; Churchill Downs, Terre Haute and the Rose Gaming Resort should be the largest growth contributors

2023E EBITDA	\$1,012.0
Derby City Downtown (12/23)*	10.8
Churchill Downs Capex	25.8
Terre Haute - IN (2Q24)*	13.9
Rose Gaming Resort - N. VA (2Q24)*	28.0
Other Project Capex	8.3
Exacta Acquisition	31.3
Less: Core Gaming/IL Competition	(17.0)
2024E EBITDA	\$1,112.7
Terre Haute – Year 2	17.4
Rose Gaming Resort – Year 2	35.0
Ellis Park	7.5
Plus: Organic Growth/Capex Net of Competition	7.5
2025E EBITDA	\$1,177.9

\*Assumes 80% Year 1 productivity and adjusted for timing of opening

Source: Company filings, BofA Global Research

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### Exhibit 6: CHDN Project Capex Summary and ROI/Bull Case Assumptions

CHDN has \$1.5B of capital investments coming online between 2023-2025, which at a 14-18% ROI implies \$190-250M+ of incremental/organic EBITDA growth

Project	Description/Capacity	Opening	Investment	ROI	EBITDA	Revenue	Bull Case ROI	Bull EBITDA	Bull Revenue
Derby City Expansion	Hotel and Expansion	2Q23	\$80	15%	\$6.0	\$13.3	20%	\$16.0	\$35.6
Exacta Acquisition	Acquisition	8/22/2023	\$250	13%	31.3	104.2	17%	41.7	138.9
Rose's Emporia	150 HRMs in VA	Sept. 2023	\$30	10%	2.3	5.6	15%	4.5	11.3
Churchill Downs Racetrack	Paddock + Jockey Club Suites	May-24	\$207	13%	25.8	36.9	15%	31.0	44.3
Derby City Gaming Downtown	500 HRMs	Q4 2023	\$90	15%	13.5	33.8	15%	13.5	33.8
Ellis Park / Owensboro Annex	300 Add'l HRMs	1Q25	\$105	10%	10.5	26.3	10%	10.5	26.3
The Rose Gaming Resort (N. VA)	1000 Add'l HRMs + Parking/Hotel	Late 2Q 2024	\$400	18%	70.0	175.0	25%	100.0	250.0
Terre Haute (IN)	Greenfield Build	2Q24	\$290	12%	34.8	116.0	15%	43.5	145.0
New Hampshire HRM Facility	Property Build Out	TBD	\$150	10%	15.0	37.5	10%	15.0	37.5
<b>Total Project Capex</b>			<b>\$1,452</b>	<b>14%</b>	<b>\$194</b>	<b>\$511</b>	<b>18%</b>	<b>\$261</b>	<b>\$685</b>
<i>BofA Growth 2023-2025 (Net)</i>					<i>\$166</i>	<i>\$479</i>		<i>\$166</i>	<i>\$479</i>

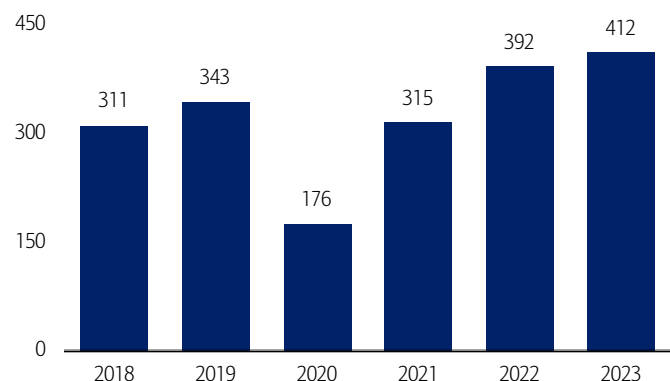
Source: Company filings, BofA Global Research

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**Exhibit 7: All Sources Wagering: Derby Week (\$M)**

All sources wagering for Derby week was +5% Y/Y &amp; +20% vs. 2019

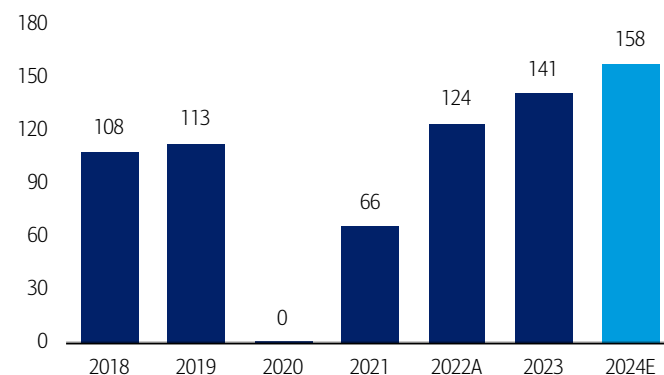


Source: BofA Global Research, Company Presentation &amp; Filings

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**Exhibit 8: Kentucky Derby EBITDA**

Kentucky Derby EBITDA has grown at a 7% CAGR since 2018



Source: Company filings, BofA Global Research

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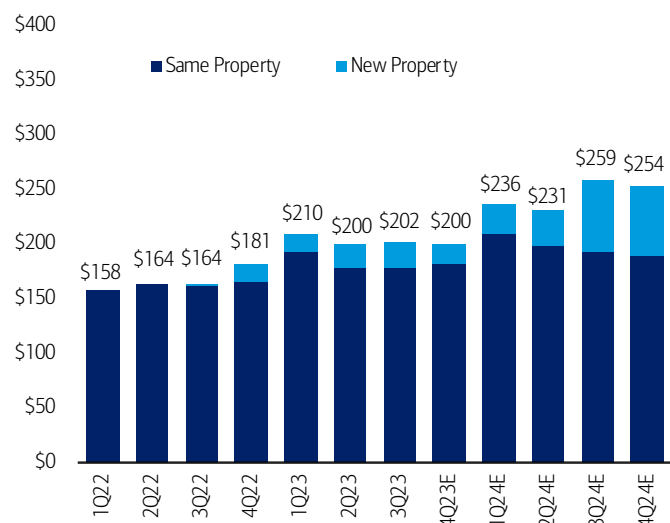
**Investment Risks: Negative revisions, peak margins**

Consensus reflects much of CHDN's organic pipeline, calling for \$1.3B of EBITDA in 2025. Our build only gets us to \$1.18B for 2025 (-9% below Street), with the difference mostly due to pressure in core gaming and at JVs from competition. Core racing ex. HRMs and rising corporate costs to support a bigger portfolio may be further headwinds. Concerningly, estimates have been coming down over time, with 2023/2024 estimates - 6%/-13% from their peaks in June. Company wide-margins appear to have peaked in 2022 at 42%, though the Exacta acquisition and continued HRM mix-shift are tailwinds.

- CHDN's overall HRM's are still growing at 20%+; however, the growth is increasingly driven by new openings and same-property growth rates are slower than we initially expected.
- Similar to domestic gaming peers (see report), CHDN faces margin pressure from rising costs and tepid same-store revenue growth.

**Exhibit 9: HRM revenue growth**

HRM revenues remain the key growth driver, but growth is increasingly being driven by new property openings, rather than same-facility ramp up

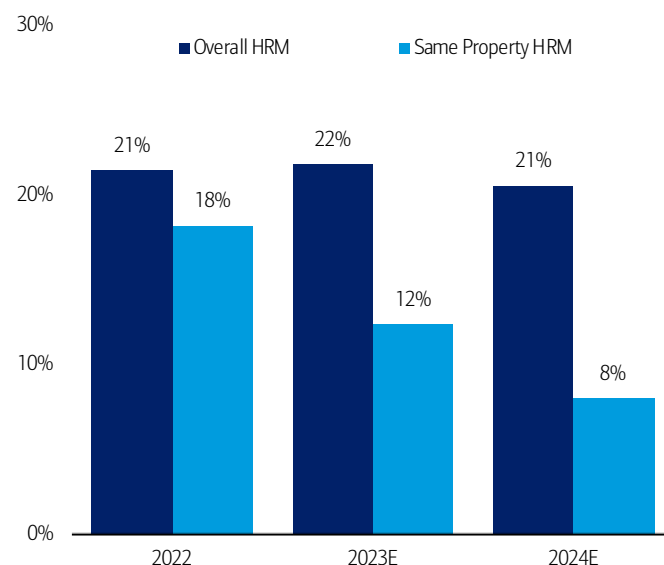


Source: Company filings, State Gaming Control Boards

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**Exhibit 10: Overall vs. Same Property HRM growth**

We still expect low 20% growth rates but same property revenue growth in both KY and VA is expected to slow to below 10%



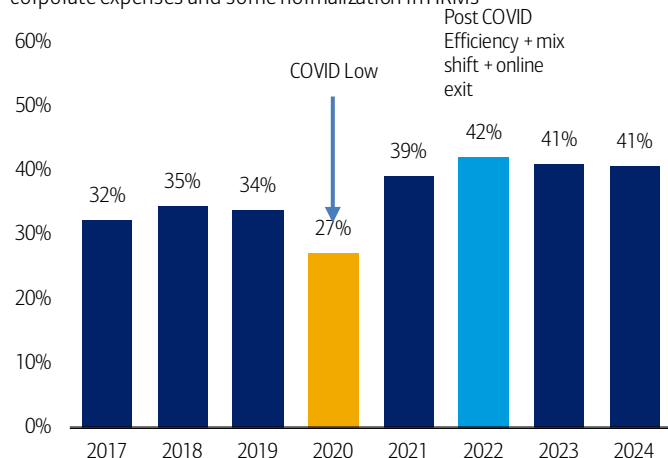
Source: Company filings, State Gaming Control Boards

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**Exhibit 11: CHDN EBITDA margins over time (2017-2024E)**

CHDN margins jumped from 34% in 2019 to 42% by 2022 but we think this is the peak, given pressures primarily in the Gaming segment, higher corporate expenses and some normalization in HRMs

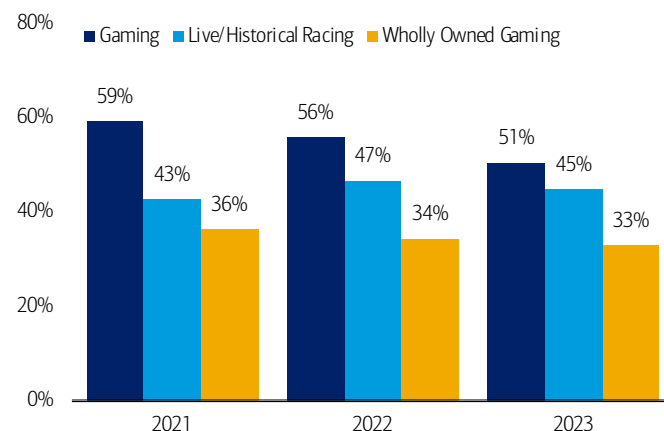


Source: Company filings

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**Exhibit 12: EBITDA margin declines for key segments**

CHDN is seeing the biggest margin pressures in its Gaming segment driven by both JVs and wholly-owned properties; they have also seen some normalization in HRMs after a strong 2022 given the ramp of new facilities

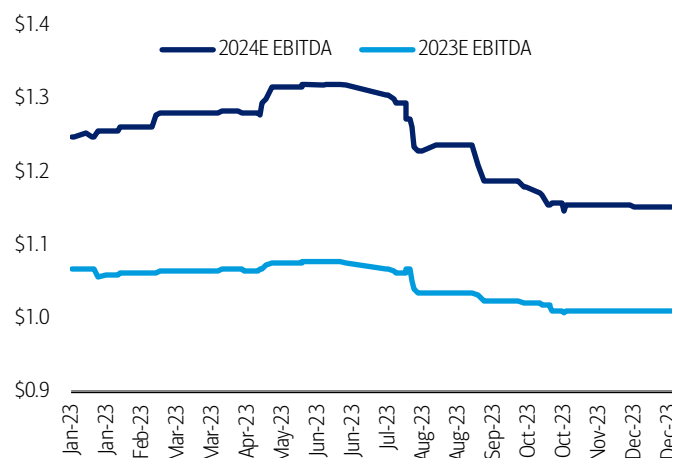


Source: Company filings

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**Exhibit 13: CHDN EBITDA Consensus Estimate Revisions**

CHDN estimates dropped by 6% for 2023 and by 13% for 2024 since June; from \$1.32B to the current \$1.15B; some is timing, but the core Gaming segment has also struggled since the post-COVID boom

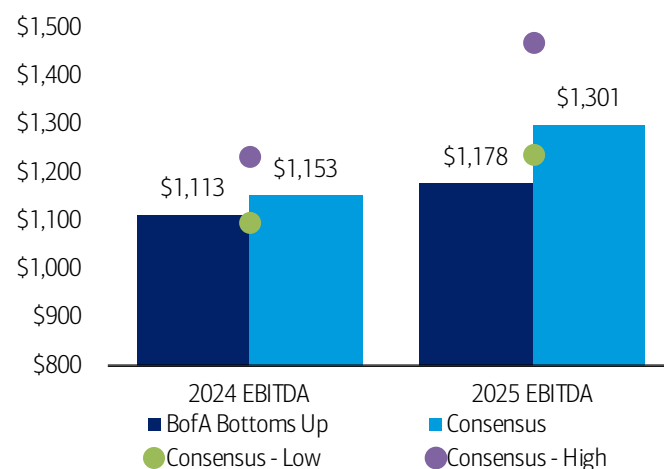


Source: Bloomberg

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**Exhibit 14: BofA EBITDA estimates vs. Consensus (2024 and 2025)**

Our estimates are -3% below Consensus for 2024 and -9% below for 2025; even our bull case numbers are about 4% below for 25 and we think the Street is likely factoring meaningfully more same-property growth than BofA

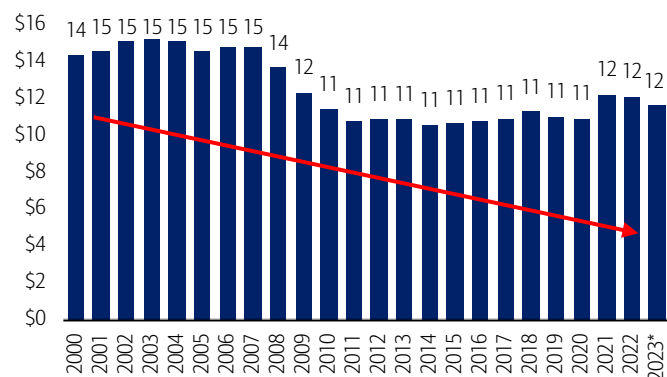


Source: Bloomberg, BofA Global Research

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**Exhibit 15: Total Pari-Mutuel Handle by year (on and off track)**

Since its peak in 2003, pari-mutuel handle has declined at a CAGR of -1% annually



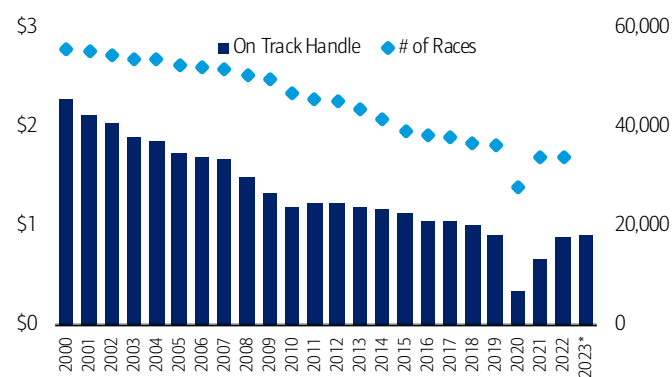
Source: Equibase

Note: 2023 estimate based on YTD growth rates

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**Exhibit 16: Annual Para-Mutuel Horse Races vs. On-Track Handle**

Horse races in the US have declined at a CAGR of -2% per year, since 2003 and over the same period, on-track handle has declined 4% per year



Source: Equibase

Note: 2023 estimate based on YTD growth rates

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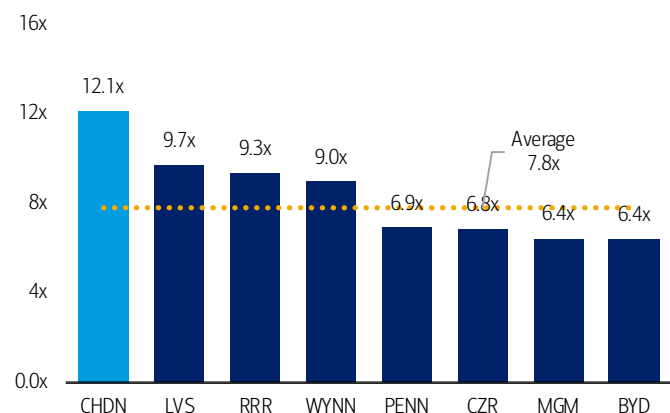
**Valuation: Reinstating with a \$135 PO**

CHDN is trading at 12.1x 2025E EBITDA, a premium to other gaming operators peer average of 7.8x. However, CHDN's valuation is consistent with its long term (since 2018) EV/EBITDA multiple of 12.8x and in-line with other "unique" growth comps, reflecting its organic growth profile and the value of the Derby. Our upside case on project returns only yields ~\$1.25B of 2025E EBITDA (still below Consensus) making it hard for us to justify much earnings related upside, and with growth likely decelerating beyond 2024, we see a balanced risk-reward at present.

- **Premium valuation.** CHDN currently trades at 12.1x 2025E EBITDA, a premium to gaming peers at 7.8x, with the valuation premium driven by 1) organic EBITDA growth that has averaged +19% since 2017 and should remain at +10% in 2024; 2) ownership of the Kentucky Derby, 3) TwinSpires, and 4) a largely wholly owned real estate portfolio.
- **Valuation risks.** CHDN's 1) trades fully in-line with other unique growth stocks on 2025E EV/EBITDA and free cash flow metrics and is the most expensive gaming stock, 2) estimate revisions have been negative but the stock still outperformed most gaming peers in 2023, 3) leverage has pushed up with the P2E and acquisition and organic growth.

**Exhibit 21: 2025 U.S. Gaming EV/EBITDA**

CHDN has highest multiple of gaming operators, with peers trading at 7.8x 2025E EBITDA

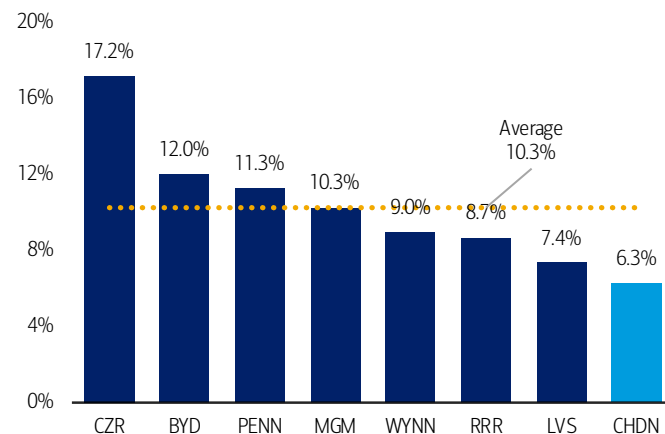


Source: Company filings, BofA Global Research

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**Exhibit 17: 2025 U.S. Gaming Free Cash Flow Yield**

But the lowest free cash flow yield

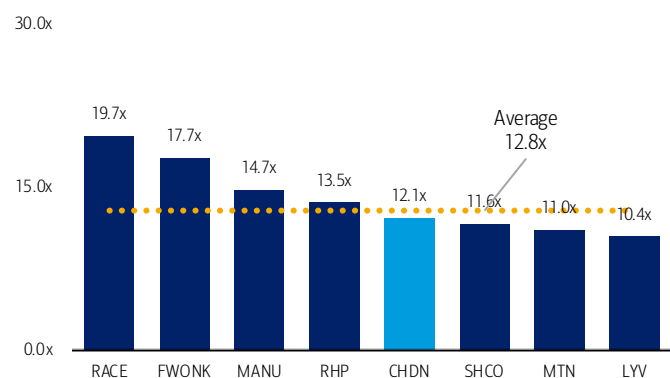


Source: Company filings, BofA Global Research

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**Exhibit 18: 2025 EV / EBITDA: "unique" growth comps**

CHDN'25 EBITDA multiple is in-line with other "unique" growth comps

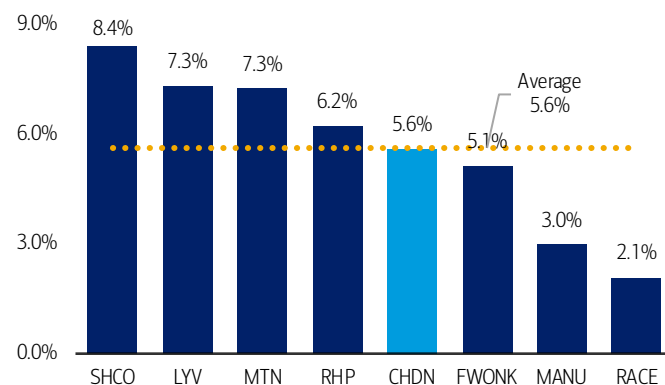


Source: Company filings Bloomberg, BofA Global Research

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**Exhibit 19: 2024 Free Cash Flow: "unique" growth comps**

CHDN'25 FCF Yield is in-line with other "unique" growth comps

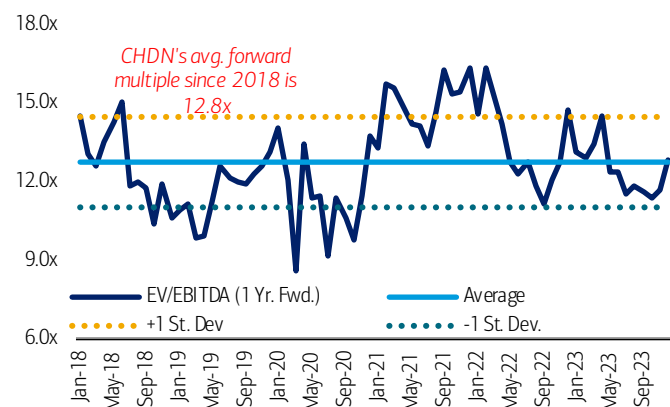


Source: Company filings Bloomberg, BofA Global Research

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**Exhibit 20: CHDN Forward EV/EBITDA multiple since 2018**

CHDN's current EBITDA multiple is in-line with its historical average

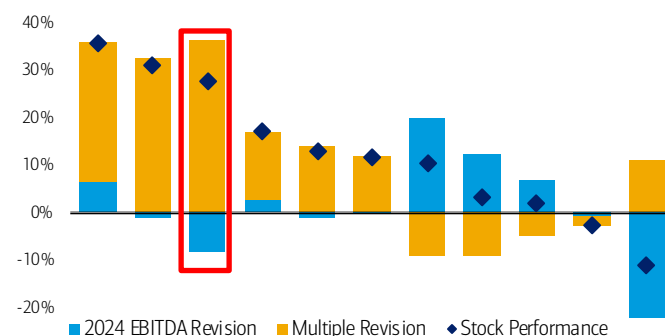


Source: Company filings Bloomberg, BofA Global Research

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**Exhibit 21: 2023 Gaming Stock Performance**

Despite negative EBITDA revisions, CHDN outperformed in 2023



Source: Company filings Visible Alpha, BofA Global Research

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## Price objective basis & risk

### Churchill Downs Incorporated (CHDN)

Our \$135 PO is based on approximately 13x 2025E EBITDA. This is a premium to both CHDN's historic average valuation and domestic gaming peers which we view as warranted given 1) the one-of-a-kind and irreplaceable nature of the Kentucky Derby, 2) the substantial future growth pipeline coming via the company's HRM expansion and developments and 3) an established, unique, and profitable online growth platform in TwinSpires.

Downside risk to our PO comes from 1) slower and less profitable development of HRM facilities, 2) failure to maintain elevated EBITDA margins, and 3) a smaller valuation premium being awarded to category defining consumer companies. Upside risk is driven by 1) quicker and more meaningful EBITDA growth than we anticipate, 2) better ROI on project capex, and 3) continued multiple inflation across consumer stocks.

## Analyst Certification

I, Shaun C. Kelley, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Boyd Gaming Corp	BYD	BYD US	Shaun C. Kelley
	Choice Hotels International	CHH	CHH US	Dany Asad
	DraftKings, Inc.	DKNG	DKNG US	Shaun C. Kelley
	Hilton Worldwide	HLT	HLT US	Shaun C. Kelley
	Host Hotels & Resorts Inc.	HST	HST US	Shaun C. Kelley
	Hyatt Hotels	H	H US	Shaun C. Kelley
	Marriott International Inc.	MAR	MAR US	Shaun C. Kelley
	Penn Entertainment	PENN	PENN US	Shaun C. Kelley
	Ryman Hospitality Properties	RHP	RHP US	Shaun C. Kelley
	Soho House & Co Inc	SHCO	SHCO US	Shaun C. Kelley
	Vail Resorts, Inc	MTN	MTN US	Shaun C. Kelley
	VICI Properties	VICI	VICI US	Shaun C. Kelley
	Wyndham Hotels & Resorts, Inc.	WH	WH US	Dany Asad
<b>NEUTRAL</b>				
	Apple Hospitality REIT Inc.	APLE	APLE US	Dany Asad
	Caesars Entertainment Inc	CZR	CZR US	Shaun C. Kelley
	Hilton Grand Vacations Inc	HGV	HGV US	Dany Asad
	Las Vegas Sands	LVS	LVS US	Shaun C. Kelley
	MGM Resorts International	MGM	MGM US	Shaun C. Kelley
	Park Hotels & Resorts Inc.	PK	PK US	Dany Asad
	Wynn Resorts Ltd	WYNN	WYNN US	Shaun C. Kelley
<b>UNDERPERFORM</b>				
	DiamondRock Hospitality	DRH	DRH US	Dany Asad
	Gaming & Leisure Properties, Inc.	GLPI	GLPI US	Shaun C. Kelley
	Marriott Vacations Worldwide	VAC	VAC US	Shaun C. Kelley
	Pebblebrook Hotel Trust	PEB	PEB US	Shaun C. Kelley
	Playa Hotels & Resorts	PLYA	PLYA US	Shaun C. Kelley
	Red Rock Resorts, Inc.	RRR	RRR US	Shaun C. Kelley
	RLJ Lodging Trust	RLJ	RLJ US	Dany Asad
	Sportradar Holding AG	SRAD	SRAD US	Shaun C. Kelley
	Summit Hotel Properties	INN	INN US	Dany Asad
	Sunstone Hotel Investors	SHO	SHO US	Dany Asad
	Travel + Leisure Co	TNL	TNL US	Dany Asad

## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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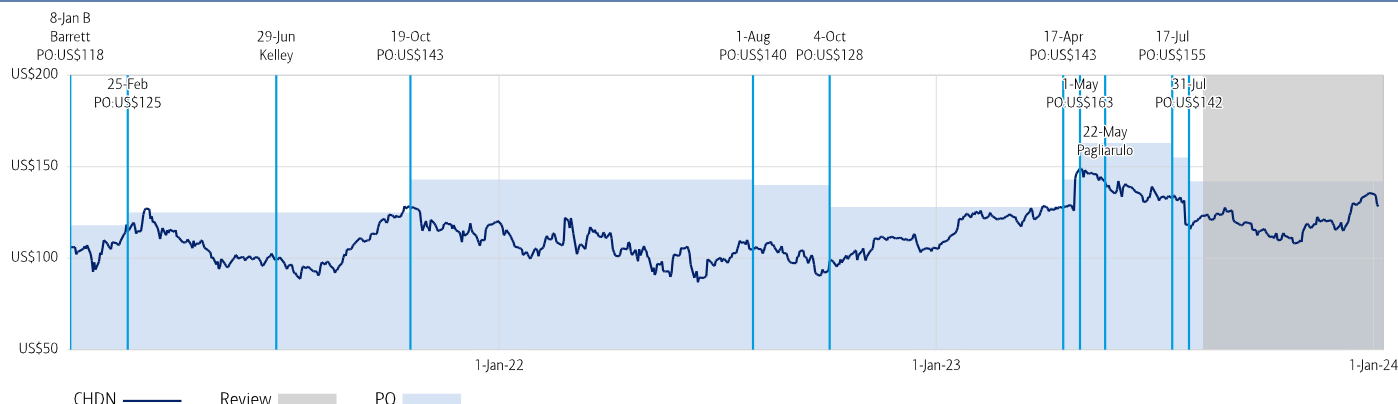
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### Churchill Downs (CHDN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Gaming Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	22	50.00%	Buy	10	45.45%
Hold	12	27.27%	Hold	6	50.00%
Sell	10	22.73%	Sell	3	30.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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