

## International Game Technology

### Summary of Economic Downturn and Its Impact on the Gaming Industry and IGT

#### Prepared August 2010

- US Consumer Spending on Commercial Casino Gaming down (11%) from 2007 to 2009 (per AGA 2010 State of the States)
  - 2007 \$34.13 billion
  - 2008 \$32.54 billion
  - 2009 \$30.74 billion
  
- Las Vegas Visitation Rates and Las Vegas Strip Gaming Revenue (per LVCVA)
  - Since 2007, visitation rates have significantly declined by roughly 2 million or 5%
  - 2007 was peak year at 39 million visitors
  - 2010 is estimated to reach only 37 million
  - Gaming revenues for the Las Vegas Strip have declined from \$8.4 billion in 2007 to a projected \$5.7 billion in 2010 (-32%)
  
- Significant Las Vegas Strip casino resort projects impacted by the economic fallout
  - New Frontier site was sold to ELAD in May 2007 for \$1.2 billion or \$33 million per acre, which was the most expensive large-site transaction on the Strip
    - As of August 2010, no construction has begun on the site (originally planned to redevelop the property as the Las Vegas Plaza)
  - \$3 billion Fontainebleau project began in April 2007 (old El Rancho site), but construction was halted in June 2009 (project was 70% complete)
    - Recession led to company not being able to finance/sell the condo units to fund the construction costs
    - Bank of America, the biggest lender, refused to provide further funding for project
    - June 2009 - Chapter 11 bankruptcy filed
    - February 2010 - Carl Ichan assumed partial ownership for \$150 million
  - \$5 billion Echelon (Boyd) project halted in August 2008 (old Stardust site) and not expected to start up until 2012 through 2014
    - In 2008, Boyd stated that construction would be suspended for three to four quarters due to changes in US economic conditions
    - In 2009, Boyd stated that the project would be shelved for three to five years

#### Implications to IGT:

- IGT stock price \$44 at end of December 2007 vs about \$15 today --- has trended downward with the Dow Jones average

- IGT's domestic headcount was approximately 5,000 in 2007 and is now approximately 4,200, a decline of 16%.
- Domestic revenues have declined from \$2.02 billion in fiscal 2007 to a projected \$1.43 billion in fiscal 2010 (-29%)
  - Sharp decline in new/expansion opportunities since 2007
    - IGT sold 22,900 domestic new/expansion units in fiscal 2007 compared to 5,800 units expected for fiscal 2010
    - IGT's position as a market leader with broadest product offering means that we are more dependent than our competitors on new/expansion opportunities to drive organic growth
  - Lagging replacement demand based on tighter operator capex budgets
    - IGT sold 20,100 domestic replacement units in fiscal 2007 versus 14,200 units anticipated for fiscal 2010
    - Follows lower domestic replacement sales trend in the market overall
  - Downward trend in gaming operations revenue due to lower industry play levels
    - IGT has largest footprint in domestic participation market (we share net win with operators), therefore we have biggest exposure financially to industry play level volatility
- Reduction to interest rates has led to higher jackpot funding costs, which erodes gross margin
  - Cost only applicable to WAP games with progressive jackpots
  - IGT has largest footprint in WAP space, so we have a bigger exposure to interest rate volatility in our financial results than any of our competitors