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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Churchill Downs Incorporated 2017 Third Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I'd now like to introduce your host for today's conference, Mr. Nick Zangari, Vice President, Treasury and Investor Relations.

Nick Zangari - *Churchill Downs Incorporated - VP of Treasury, IR & Risk Management*

Thank you, David. Good morning, and welcome to our Third Quarter 2017 Earnings Conference Call.

After the company's prepared remarks, we will open the call for your questions.

The company's 2017 third quarter business results were released yesterday afternoon. A copy of this release announcing results and other financial and statistical information about the period to be presented in this conference call, including information required by Regulation G, is available at the section of the company's website titled, News, located at churchhilldownsincorporated.com, as well as in the website's investor section.

Before we get started, I would like to remind you that some of the statements that we make today may include forward-looking statements. These statements involve a number of risks and uncertainties that could cause actual results to differ materially. All forward-looking statements should be considered in conjunction with the cautionary statements in our earnings release and the risk factors included in our filings with the FCC, specifically, the most recent reports on Form 10-Q and Form 10-K.

Any forward-looking statements that we make are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. The press release and Form 10-Q are available on our website at churchhilldownsincorporated.com

And, now, I'll turn the call over to our Chief Executive Officer, Mr. Bill Carstanjen.

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Thanks, Nick. Good morning, everyone.

With me today are several members of our team, including Marcia Dall, our Chief Financial Officer, and Brad Blackwell, our General Counsel.

Bill Mudd, our President and Chief Operating Officer, is traveling and unable to join us this morning.

I'll make a few general comments about the third quarter and then turn this over to Marcia. After she has finished her comments, we will be happy to take your questions.

The company produced strong year-over-year growth for the third quarter in all of our key metrics. We saw nice gains in net revenues, adjusted EBITDA, net income and net income per diluted share.

Our casino, TwinSpires, and racing segments all produced strong growth in adjusted EBITDA for the quarter. Generally, there are a number of good factors influencing the performance of these segments, and I will touch on those in my comments.

Big Fish adjusted EBITDA was lower than last year, primarily because we ramped up marketing spend on our social casino and our new Cooking Craze Game. We saw solid sequential growth in social casino bookings again this quarter, and from Fairway Solitaire as well, and strong initial results from the worldwide launch of Cooking Craze. The segment performed better than we expected.

Turning to each of our businesses, with respect to our brick-and-mortar casinos, adjusted EBITDA was up $9.1 million or 30%. All of our properties produced improved results at the adjusted EBITDA line for the quarter. That's a hard feat to achieve and we're taking a brief moment to acknowledge.

Our strategy within our casino segment is to take numerous small bets on building or acquiring properties with the expectation that it is difficult to perform well all of the time across all markets. Thus, a diversified portfolio of properties with small capital footprints best suits our risk appetite for consistent predictable returns.

While we don't realistically expect all properties to perform well at all times, historically, when one or two properties have been soft, other properties have been able to outperform. As I said, in the third quarter, we did perform very well across all properties.

It is worth noting that Hurricane Irma caused our Calder Casino in Miami to close for eight-and-a-half days. However, Calder had been having a good quarter up until the hurricane and then enjoyed a partial offset afterwards with elevated business levels post hurricane. Calder ended the quarter slightly up and with no material damage from the storm.

Our equity investments -- Miami Valley Gaming, Saratoga Casino Hotel and Casino at Ocean Downs -- are performing very well for us. Miami Valley Gaming, our 50/50 joint venture with Delaware North, continues to enjoy the highest slots share in the Cincinnati-area market, despite not having any amenities besides harness racing to drive traffic. We also do not have table games. We believe there continues to be up side for us in this market as we have consistently improved our market share over the last several quarters.

We just completed a $5 million renovation at this facility to add a new smoking patio, expand the gaming floor and increase the number of games in our high-limit area. The renovations, which opened in late October, increased the number of gaming positions by 100 units or approximately 6%. We make these sorts of investments when we are confident we can generate a sufficient return on our capital.

Saratoga Casino Hotel, of which we own 25% and also manage the property under a management contract, grew adjusted EBITDA over the third quarter 2016, despite a 21% drop in net gaming revenue as a result of the February 2017 opening of the nearby Rivers Casino in Schenectady. The revenue decline was offset by the benefit of a tax-rebate program for our property that New York State instituted as part of the gaming expansion.

We expect the market dynamics will continue to evolve as the Schenectady property matures and refines its strategies, but we are encouraged by our property's initial performance in the face of this competition and feel that the hotel we opened in mid-2016 has added to our competitive positioning. We will pay close attention to any changing dynamics and adjust as necessary.

Ocean Downs, which we closed on in the first quarter, continues to exceed our expectations. During this past quarter, we completed the purchase of approximately 800 video lottery terminals in exchange for a 10% reduction in our gaming tax rate in connection with a law passed earlier this year by the State of Maryland. This project cost approximately $10 million and was funded with additional debt at the joint-venture level.

Our other Ocean Downs project, the $15 million expansion to increase the number of slot machines and to add live table games, is on target for completion and opening by New Year's Eve. This project is also being funded with debt at the joint-venture level.

Our $25 million project at Oxford Casino in Maine, to build a 107-room hotel, is on schedule to open before the end of November. Severe weather conditions caused some delay in the construction process this year. We are excited about this amenity and excited in general by the continued performance of this property.

As some of you may know, there is a Southern Maine Casino initiative on the ballot being voted on across the state on November 7. A casino in Portland would be harmful to our property and to employment in our community, so we are opposed to the initiative and believe the current polling strongly suggests the majority of voters agree.

Switching gears to the properties I have not mentioned yet, our Fair Grounds operations in New Orleans and our Vicksburg and Greenville properties in Mississippi, while stable right now, these are markets that have been challenging and are likely to continue to be so. Our focus has been to operate efficiently, provide great customer service and be extremely disciplined with our marketing programs and capital.

Each of these properties grew their market share this quarter on improved direct-mail campaigns and improved customer service. All of these properties also grew their adjusted EBITDA nicely.

Our Harlow's property also just completed a modest hotel refresh and we are underway with a similar hotel refresh at Riverwalk, which we expect to be completed by New Year's Eve.

We are also developing another off-track betting facility in Louisiana for our video-poker business that will have approximately 60 video poker terminals. This will be our eleventh such facility, and we hope to have it open by the end of the year.

Overall, the casino segment, with numerous small bets, continues to be stable and predictable for us. We like the space generally and we will continue to be conservative in how we invest in and operate our properties as well as in how we evaluate Greenfield and acquisition opportunities.

With respect to Greenfield Projects, we announced last quarter our intention to invest $60 million to construct a state-of-the-art historical racing machine facility in Louisville. We have received a conditional license, granted by the Kentucky Horse Racing Commission and the relevant zoning approvals. We have not provided details with respect to the historical racing machines we hope to introduce because we are still in the development and testing stage.

We are working closely with a partner on the development of the machines, and it is our intention to provide an innovative and competitive product in the Louisville market. The 85,000 square-foot facility will start with approximately 600 machines and will be located off Interstate 264 and close to Interstate 65, about five miles east of Churchill Downs Racetrack. If the machines perform well, our facility is sized to quickly add more.

We'll have more details on this project at a future date and hope to open the facility in the fall of 2018.

In addition to our proposed Louisville facility, we announced a partnership with Keeneland Association to purse licenses to construct a historical racing facility in Corbin, Kentucky, which is in the southeast corner of the state, and a facility in Oak Grove, Kentucky, which is located off of Interstate 24 approximately 55 miles from Nashville.

These projects are not on the same timetable as our Louisville facility. While we believe we enjoy deep support in the relevant communities where these projects will be located, as well as across many other constituencies in the state, we need to obtain licenses from the Kentucky Horseracing Commission in order to proceed.

The commission was not ready to consider our application for licenses at its most recent meeting, and we are actively and cooperatively working with the commission and Governor Bevin's administration with respect to next steps.

Turning to our racing segment, our third quarter is typically fairly quiet. Arlington Park is our only facility running a material amount of live thoroughbred racing. It had a good meet and is up over prior year in net revenue in adjusted EBITDA, despite running two fewer days.

Across all of our facilities, we have strong teams. We will continue to work very hard to keep adjusted EBITDA flat to slightly growing. This quarter, we were successful in growing adjusted EBITDA, but we do not, at this point, expect significant improvements to the longer-term trends in thoroughbred racing. It is a tough business, but we know how to do it and there are technology improvements and other efficiencies to help drive performance at our racetracks.

Our favorite aspect of thoroughbred racing is always the Kentucky Derby. We believe strongly in this amazing asset, our signature event and the crown jewel of our company, and we continue to make investments in our facility and event in order to grow.

As we discussed last quarter, we plan to open our new Starting-Gate Suites, containing 36 flexible-configuration luxury suites for approximately 1,800 new customers in time for the 2018 Kentucky Derby. The Starting-Gate Suites is a $37 million project. We are on time and on budget and are fully engaged in the suite sales process, which is going very well at this time.

We also expect to make further improvements in time for next year's Kentucky Derby related to our expansion of parking and ingress and egress infrastructure. We issued a press release earlier this week describing in more detail this $32 million project.

The larger point for today is that we plan to continue to aggressively invest in growing the Kentucky Derby, and that starts with focusing on enhancing the customer's experience, not only once they are inside our facility, but also as they travel to and from it.

Many of you saw last week the announcement we made with Brown-Forman Corporation that their premium bourbon, Woodford Reserve, will be the new presenting sponsor of the Kentucky Derby for the next five years, beginning in 2018. The Kentucky Derby will now be referred to as the Kentucky Derby Presented by Woodford Reserve.

Brown-Forman has been a longtime partner of ours, and we were very pleased to significantly expand our relationship to include the presenting sponsorship. We elected to accommodate Yum Brands in their request to exit their previous presenting-sponsorship agreement with us three years earlier.

The Brown-Forman sponsorship provides a partner with a strong brand that fits incredibly well with the derby and provides overall enhanced economics.

In addition to Brown-Forman signing up to be the presenting sponsor, each of the pathways to the Kentucky Derby -- through the American, Japanese and European racing circuits -- will be known as the Woodford Reserve Road to the Kentucky Derby.

While, of course, the Kentucky Derby is an iconic American event, we are very focused on developing our brand in key markets around the globe. We introduced the Japanese Road to the Kentucky Derby this past year, while 2018 will be the inaugural European Road to the Kentucky Derby. Both these series will involve multiple races, allowing horses to acquire derby entry points. The winner of each respective series receives an invitation for a spot in the starting gate at the Kentucky Derby.

The other pathway to the Kentucky Derby is, of course, the American series of races, which fills the other 18 spots.

In general, we have a great deal of work to get done before next year's Kentucky Derby, but all is on course, and I've never been more excited than I am now about our future.

Turning to the TwinSpires segment, this segment of our company has performed very well. Wagering was up 20.6% in the third quarter, after being up 19.6% in the second quarter and 6.8% in the first quarter.

According to the industry resource, Equibase, (inaudible) across the industry as a whole was up 3.7% in the third quarter, meaning we outgrew the industry by approximately 16.9 percentage points. TwinSpires adjusted EBITDA was up $4.1 million or 28% in the third quarter.

Our team believes there is organic growth to harvest in the ADW space. Our team continues to prove it can acquire new users and also improve revenues per existing user. While we benefit from the trend of horse players moving their play online from traditional brick-and-mortar outlets, we extensively market for new players around the Kentucky Derby, the Triple Crown season and the Breeders' Cup, since that is when new and more casual fans enter or reenter the game.

This weekend is the Breeders' Cup and you will see that TwinSpires has a heavy presence, including serving as the official ADW waging partner of the Breeders' Cup.

Let's turn to Big Fish Games. There is a lot to be excited about in this segment, but before we get too far into that, let me comment on the adjusted EBITDA. Adjusted EBITDA was $17 million in the quarter, compared to $27 million last year in the same quarter.

The decrease compared to the prior-year quarter was driven by three factors. First, we increased our user acquisition or UA spending by $5.5 million over the third quarter of last year of which the majority, $4.1 million, was spent on our Big Fish Casino and Jackpot Magic Slots Games.

Also, we successfully launched Cooking Craze at the beginning of the third quarter, increased our UA spending for the free-to-play casual segment by $1.4 million, compared to the third quarter of last year, to support this worldwide launch.

Second, as expected, our revenue net of platform and development fees was lower by $1.3 million. We reduced our UA spending significantly beginning in the third quarter of last year through the second quarter of this year in our free-to-play casual and mid-core segment. This resulted in a decrease in revenue in the third quarter of this year compared to the same quarter last year.

And, third, our SG&A and all other expenses were up $3.4 million. There's a lot of noise and one offs in this, so I've asked Marcia to go through this in more detail in her comments.

On a sequential basis, adjusted EBIDA was down $1 million from second quarter to third quarter 2017. We increased our UA spend $4 million versus second quarter, primarily reflecting the increased UA spend on the launch of Cooking Craze.

We had strong sequential growth in revenue net of platform and development fees from our social casino and free-to-play casual games that offset the majority of the sequential increase in UA spending.

In third quarter, bookings across all of Big Fish Games were up 10.6% compared to the second quarter of 2017 and up 4.6% compared to the third quarter of last year. We were pleased with this growth and this was higher than our expectations for the quarter.

Overall, for the third quarter, we believe Big Fish was the number three top grossing mobile IOS publisher in the U.S.

The social-casino segment generated its highest level of quarterly bookings ever and had its third quarter in a row of sequential growth. Social-casino bookings increased $3.9 million or nearly 8% over second quarter and increased $10.4 million or nearly 21% over third quarter of 2016.

In the third quarter, our flagship social casino platform, Big Fish Casino, remained a leader in the social casino genre as the number two top grossing casino app, and also was number two in free downloads and IOS in the United States.

The industry publication, Eilers, expects the social-casino genre to grow 10% per year for the next five years. The team has built social-casino offerings with significant scale, sustainable profitability and unique game play that provides a strong foundation for growth in the future for our company.

Regarding the free-to-play casual mid-core segment, bookings increased 22% on a sequential basis from the second quarter of 2017 and were down about 1% compared to the third quarter 2016.

Our UA spend in the segment is focused primarily on our two strongest performing games in the segment, Fairway Solitaire and Gummy Drop. And, in this quarter, we launched Cooking Craze worldwide and are pleased with its progress to date with over 10.4 million installed since launch.

As I discussed on our last two quarterly earnings calls, we have reinvigorated our pipeline for casual and mid-core games. We have a number of games that are currently in tech beta or soft launch, and we are using the preliminary data to refine the games and prepare for worldwide launch in future quarters.

Lastly, the premium segment. As expected, bookings were down 6% from the second quarter of 2017 and down 14% through third quarter of 2016 as customers transitioned to mobile devices and free-to-play games.

As I discussed on last quarter's call, we are on track to launch a mobile game subscription service in the Apple Store in the first quarter of 2018, using as a base our premium PC game, Expertise. We have the opportunity to secure first-mover advantage while leveraging the unique experience with our premium PC game subscription model.

We will have approximately 20 titles available at launch, and through our strong relationships with existing premium third-party game developers, we will be able to create and launch two to three new low-cost titles per week.

Two final topics quickly. I can congratulate Alex Rankin on his appointment as Vice Chairman of the Churchill Downs Incorporated Board. Alex has been a board member since 2008, and it is wonderful to see his contributions and leadership recognized by his peers on the board.

Finally, we announced last week a 15% increase in our next annual dividend. The holder of record of each share on December 1, 2017, will receive $1.52 on January 5, 2018. We are committed to generating strong total shareholder returns for our investors and are confident in our opportunities to do so as we look towards the future.

With that, I would like to turn this over to Marcia to provide some additional details on the quarter.

After that, we'll be happy to take questions. Thank you.

Marcia.

Marcia A. Dall - *Churchill Downs Incorporated - Executive VP & CFO*

Thanks, Bill, and good morning, everyone.

I will provide some high-level comments on our overall results and some highlights for each of our segments, and then I will provide an update on our capital-investment plan.

Starting with our overall results, net revenue was $314.8 million for the third quarter, up $11.4 million or 3.8% compared to the prior-year quarter.

Adjusted EBITDA for the third quarter was $76 million, reflecting a $4.9 million, a 6.9% increase over the prior year quarter.

Net income was $16.7 million in the third quarter, up $8 million, compared to the prior-year quarter.

We also delivered diluted net income of $1.08 per share, up from $0.52 per share in third quarter 2016.

Turning to our segments, adjusted EBITDA for our racing segment was $1.7 million, compared to $400,000 in the prior year quarter. The $1.3 million increase reflected a favorable insurance reserve adjustment at Fair Grounds, (inaudible) performance at Arlington from increased handle and admission revenue and a slight decrease in revenue at Churchill Downs due to one less live racing day in the quarter, compared to a year ago.

Adjusted EBITDA for the casino segment was $39.5 million, compared to $30.4 million in the prior-year quarter, up $9.1 million or nearly 30%.

Our equity investments contributed $5.5 million to the growth, and our owned casinos contributed $3.6 million to the growth in adjusted EBITDA for the quarter, compared to the prior year.

Once again, we benefitted from the addition of our Ocean Downs equity investment in January of this year, and our Saratoga equity investment delivered strong growth compared to the prior year quarter.

As Bill mentioned, our Riverwalk, Harlow's and Fair Grounds team have effectively executed enhancements to their marketing programs over the past three months to help grow revenue and also have maintained their cost disciplines to support their growth in adjusted EBITDA for the quarter compared to the prior year.

As Bill discussed, these numerous smaller bets provide Churchill Downs with a diversified portfolio of properties that require relatively nominal levels of incremental capital and yet have the opportunity for solid growth over the long term.

The TwinSpires segment adjusted EBITDA was $18.8 million compared to $14.7 million in the prior-year quarter. TwinSpires had strong top-line growth from a 23.9% increase in active players. The TwinSpires team continues to outperform the industry with handle up nearly 20.6% compared to only 3.7% growth in industry handles for the quarter.

Big Fish adjusted EBITDA was $17 million in the quarter compared to $27.2 million in the prior-year quarter, down $10.2 million.

As Bill discussed, this decrease was due to three factors. First, the $5.5 million increase in user-acquisition spending in the quarter compared to the prior year. Second, the $1.3 million decline in revenue net of platform and development fees from the pullback in UA spending in the free-to-play casual segment beginning in July of last year. And, lastly, SG&A in all other expenses increased $3.4 million in the quarter compared to the prior year.

The increase in SG&A in all other expenses relates to an increase in head count to support the growth in the business, the non-cash impact of unfavorable foreign exchange rates, the non-returning impact of a reduction in the bonus accrual in third quarter 2016 due to lower-than-expected performance in play last year and increased legal fees incurred to successfully defend patent litigation.

Overall, on a sequential basis from second quarter to third quarter 2017, bookings were up 10.6%. The social-casino segment, once again, hit the highest level of bookings ever in its history and reflected the third consecutive quarter of sequential bookings growth with bookings up nearly 8%.

Our free-to-play casual and mid-core bookings were up 22% sequentially reflecting the successful worldwide launch of Cooking Craze at the end of June.

And, lastly, our premium bookings were down 6% on a sequential basis reflecting the continued evolution of customers to mobile devices and free-to-play games.

And, finally, regarding Big Fish, two thoughts as we look to the remainder of the year. First, we expect our social-casino bookings to go modestly on a sequential basis through the end of the year in line with our long-term strategy to continue to grow this very profitable segment of our business.

And, second, we do anticipate a very modest increase in user acquisition spending on a sequential basis from third quarter to fourth quarter primarily focused on our social-casino games.

Turning to cash flow, we had a negative $7 million of cash flow from operations in third quarter because we made a large third-quarter estimated tax payment based on our higher second-quarter earnings primarily from the derby.

Turning to maintenance capital spending, we spent $8.8 million on maintenance capital in the third quarter, which was slightly higher than the prior year quarter.

We expect our fourth quarter maintenance-capital spending to continue on this run rate, based on replacement of aging slot inventory.

Regarding project capital for the quarter, we spent $16.3 million in the third quarter of which approximately 40% related to the work on the Starting-Gate Suites and other capital improvements at Churchill Downs Racetrack, and another 40% was related to the construction of the hotel at our Oxford property.

In fourth quarter, we anticipate spending $35 million to $40 million on project capital, primarily on three significant projects. First, the work is continuing on the new Starting-Gate Suite addition at Churchill Downs, and we estimate that we will spend approximately $15 million in fourth quarter.

Second, we anticipate spending approximately $10 million to finish the new Oxford Hotel for the opening by the end of November.

And, lastly, we have begun the recently-announced Churchill Downs parking lot and infrastructure improvements that Bill discussed and anticipate spending $5 million to $10 million prior to the end of this year on the project.

With that, I'll turn the call back over to Bill, so he can open the call for questions. Bill.

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Yes. Thank you, Marcia.

We're prepared now to take your questions. We hope you have some for us. So, with that, we'd like to open this up.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from Dan Politzer with JP Morgan. Your line is now open.

Daniel Brian Politzer - *JP Morgan Chase & Co, Research Division - Analyst*

Hey, guys. Thanks for taking my question.

On TwinSpires, could you guys kind of break out or, you know, the difference that BetAmerica contributed and maybe, you know, over the last two, you know, over 2Q and 3Q, the extent of the organic growth versus the impact from that?

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Sure, Dan. This is Bill. So I don't think we have that information right here to break out in front of us, but let me give you some perspective on it.

When I think about that acquisition, certainly it contributes some to the top line, but the underlying TwinSpires business is very, very healthy and growing very, very well organically. So I don't pay personally much attention to the top line. Longer term, for that business, I really like the brand and it's really important that we harness the technology advantages we have in our core TwinSpires business and apply them to BetAmerica and also capture any other synergies that we can to integrate it successfully.

So we haven't been disclosing just the company as we get larger as we have been getting. It just doesn't make sense to get into that level of minutia of disclosing, you know, the organic contribution of BetAmerica, nor do we run the business now or think about it that way, because, again, long term, that's really not what its importance to us is.

Daniel Brian Politzer - *JP Morgan Chase & Co, Research Division - Analyst*

Got it. Okay. And then turning to casinos, you guys touched a little bit on the marketing spend and kind of how you're deploying that across Fair Grounds, Harlow's, Riverwalk. I guess, more generally across the portfolio, are you -- is marketing a real focus in opportunity to reduce costs from where we sit today? And, I guess, are there any other areas where -- within your casino portfolio -- you would look to reduce costs?

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

You know, that's a really good question. Something that we think about a lot. Fundamentally, it's about understanding the math. It's about understanding the results you are actually getting from different campaigns, and while it seems very easy to analyze and simplistic, there's just always lots and lots of factors that impact the true performance of your programs. So I think as a focus for the company, what we've tried to do is be consistent and get smarter about how we use our data, because there is growth, but, ultimately, what you're interested in is bottom-line growth, not top-line growth at the expense of bottom-line growth.

So I think, as we get confidence -- more confidence within our organization that we understand the true implications of our marketing plans and we can nimbly modify them based on results, we'll get better at marketing. But, to me, ultimately, that is the power of marketing, and that is the importance. It's not just trying to grow top line. It's being very, very smart about what kind of return you're actually getting from your marketing spend.

So, as a company, we are getting better across everything we do. I think Big Fish taught us a lot. The TwinSpires team has learned and taught us a lot. And trying to share some of those lessons across the entire company, I think, makes us better at efficient marketing.

Daniel Brian Politzer - *JP Morgan Chase & Co, Research Division - Analyst*

Got it. One last quick one. On the Mississippi properties, was there anything in the quarter you would call out that kind of pointed to this or can better explain the strength that you're seeing or was this more just kind of a one off?

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

I don't know that it's necessarily just one off. I think we focused and need to give credit to our team in Mississippi. We focused very, very intensely on how do we run our business better, how do we serve our customers better, how do we understand the impact of our marketing programs.

We have had to -- as you often find in challenging market environments, we've had to focus very, very intensely on what we do to provide service to our customers and think about every place we can improve our performance. And so sometimes that's not starting and stopping on a dime. Sometimes, the results of that kind of effort takes a little bit of time to get recognized and to be understood and to get built upon.

So I don't think these were necessary one-off factors in Mississippi at all. I think it's a reflection of a commitment by the overall teams, including corporate, to run those properties as well as we can run them, assuming that we're looking at environments like we've seen over the last couple of years.

Daniel Brian Politzer - *JP Morgan Chase & Co, Research Division - Analyst*

Got it. Great job. Thanks. Thanks so much.

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Well, thank you.

Operator

Thank you. And our next question comes from Adam Trivison with Gabelli and Company. Your line is now open.

Adam Trivison

Hi. Thanks for taking my question.

First, on Big Fish, can you quantify the non-cash and non-recurring portions of the SG&A increase in the quarter?

Marcia A. Dall - *Churchill Downs Incorporated - Executive VP & CFO*

Yes. So the way I would think about it is that, you know, the head count piece was directionally -- and that is a recurring piece, so that's directionally about a million-two of it.

The FX and the bonus accrual and the increased legal fees, which, again, are the -- you know, in a way non-recurring because we've spent that money to successfully defend that patent litigation, the balance of that announced for the quarter was the non-recurring.

Adam Trivison

Okay. That's helpful. Thank you.

And then on TwinSpires, in your key you noted that the IRS has made some changes to reporting withholding requirements. Can you maybe help us think about the magnitude of the impact on specifically the TwinSpires business?

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Sure, Adam. It's Bill again.

So what happened was, both with respect to the rules around reporting of gambling winnings and of withholding, the IRS made some changes. So quantifying the impact of that, it's all upside. It's potentially pretty important to our larger customers, but we'll have to see exactly how it gets reflected.

But, essentially, there'll be, in our view -- we'll see if the data bears this out going forward -- in our view, there will be significantly less occurrences of withholding and less occurrences of reporting, particularly on the withholding. That means, there's more money in your customers' pockets, which they can turn around and reinvest in placing more bets.

On reporting, similarly, it makes for a more efficient day at the racetrack or a more efficient day on TwinSpires, when you're not sitting there trying to parse through reporting obligations or looking to see what they are. So, generally, it makes for a more efficient game, and, certainly, the larger customers, who are the ones generally in a situation where they're dealing with withholding and reporting, it makes for a better experience and an easier experience.

So there ought to be some benefit from that efficiency, but that's not something that we can directly quantify. Although, someone that's been around gambling businesses for a number of years and certainly understands horse racing, I think it was a really nice thing for our game and I think our customers are really going to appreciate it.

Adam Trivison

Okay. That makes a lot of sense. Thank you very much.

Operator

Thank you. And our next question comes from Jeffrey Thomison with Hilliard Lyons. Your line is now open.

Jeffrey Thomison

Thanks. Good morning. I had two questions. First, I was wondering if you could comment on the transportation infrastructure project as it relates to the capital spend. I'm curious how you will measure the benefits or success of that project, such as ROI, and how you determined the optimum spend there.

And then the second question is hoping you could just comment on the plans for the racing facilities in Kentucky in a vein similar to the previous question, how you arrive at the proper capital commitment there, relative to the expected returns for those markets.

And then is it a bit different of an approach for you to announce the projects without having the legislative or industry approvals?

Thanks so much.

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Okay. So there's a whole lot there. I'm going to take it one step at a time, and you may need to jump back in and direct me to make sure that I cover everything that you want to cover. If I'm not covering something, it's because I forgot, not that I don't want to cover it.

Jeffrey Thomison

I have confidence in you. Okay.

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

So, first, the parking lot in the external capital project, one of our challenges for any of you -- and one of our challenges for the Kentucky Derby -- and for any of you have been there, you will understand this challenge -- one of our challenges is the size of our footprint and the fact that we don't have sufficient parking. There is only so much we can do about that.

Our property sits in a residential neighborhood and people live in the homes in our neighborhood. So there's a limit to how much property we can acquire to expand our parking, and we've already done that. We've maximized our footprint.

So what we decided to do is create an extremely efficient bus depot and transportation infrastructure, so that we can go leverage other parking nearby, because, if any of you know, within a couple of miles of our facility, there is a fairgrounds complex with lots and lots of parking, for example, and there is other parking facilities across the city that maybe, over time, we'll look to those as well.

But really what we wanted to do was package more parking with our tickets, and since we could not place those people at our facility, we needed an infrastructure and an arrangement with others to park those people at other places and then bus them into our facility to try to create a better ingress and egress process for them.

So, fundamentally, while we would love our customers' experience to start once they're inside the gate, fundamentally, that's not when their experience starts. Their experience starts when they leave their home and when they sit in traffic and all of that. We can't help all the way back to that point, but, certainly, we want to get better and work closer to improving their experience from the time they park their car.

So, ultimately, we were faced with the challenge of limitation of space, and that's how we decided to solve it. We decided to solve it with an efficient transportation infrastructure and leveraging another large parking facility close by.

In terms of ROI, you'll see that over time here. What's important is that we give them an excellent parking experience, so that we can consistently package parking with tickets. Historically, we have not been able to do that. That is something that we want to do. We haven't had the parking to do that, but we are going to work forward now to include parking with ticketing, so long as we can acquire parking and so long as we can deliver a worthy experience for the consumer in terms of the efficiency of them from the time they park their car to the time they get to our facility.

Jeffrey Thomison

Bill, before you go to the second question --

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Before we move on to other questions, though, let's make sure we finish talking about this one, if you have more questions about it. I have more to say about it, but I want to pause to make sure I'm covering what you want to cover.

Jeffrey Thomison

Just a clarification, though. So the spending that you will do relates to the physical construction of new assets or new infrastructure, not using existing infrastructure down the street from you?

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Well, at our facility, we have to put in infrastructure because we do not efficiently move buses in and out.

Jeffrey Thomison

Got you.

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

And, also, we have people wandering across the streets, which slow down the ability of buses to get in and out quickly. So we needed to significantly change the parking design, so that we could have a very large multi-bus drop-off, pickup concurrent operation, and then get those buses to the street, up and down the street, away from our facility without blocking.

So you will see -- Again, this is not the most exciting part. I'll talk about some of the esthetics in a minute, but you'll see a -- what I hope will be a very, very well-designed bus ingress and egress infrastructure, so that we can move large, you know, buses in and out very, very quickly and get them out of our facility and up the road to the fairgrounds as quickly as possible.

We will also have temporary pedestrian bridges placed over Central Avenue, so that those people that are trying to wander across the street will now be directed to the bridges, so they will not be interrupting traffic as we move people away from the facility or towards the facility, depending on the time of day.

There are some aesthetic improvements that are more than aesthetics. They're part of efficiently getting people in and out of our facility. So you will see a redesigned front portion of the facility, a new gate, a new entrance gate. Instead of the two traditional gates that you come in off Central Avenue, there'll be a large, well-designed central gate that will allow us to bring people into our facility very quickly and also exit them very quickly.

And, again, with a project like this, there is some portion of it devoted to the idea that you have to overall improve your experience to keep up with the best experiences that other people have in the country. So we've looked at ingress and egress at Super Bowl, at NASCAR events, which also have large crowds coming in and leaving very quickly.

Yes, there is some ROI associated with this, but some of this is just necessary to maintain an economic event. So we plan on monetizing this by charging people for parking and acquiring parking spaces that are not our own and not on our facility, but servicing those parking spaces and thus packaging them with our tickets. So there will be ROI associated with that, but this is broader than that. I don't want to characterize this as a straight-up ROI project that you might see, you know, when we decide to deploy a new slot machine versus keeping an old one.

Some of this goes to the aesthetics of the event and improving the things that our customers tell us are the most frustrating and unpleasant parts of their experience. To maintain what we have, to maintain sort of the iconic, extravaganza that we are, we have to do better at consistently getting people in and out of our facility efficiently.

Jeffrey Thomison

I think you covered that very well. I appreciate that, Bill.

Then, just secondly, a comment on the approval process that's hopefully forthcoming, but, we'll see, on the racing facilities in Kentucky.

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

Yeah. They're not on the same timeframe. Remember, we're talking about three of them. We have the Louisville facility, which is, of course, right here five miles away from Churchill Downs Racetrack. We have the Corbin, Kentucky facility, which is out in the southeast portion of the state, and we have the Oak Grove facility, which is down in the southern portion of the state up I-24.

With respect to the Louisville facility, we have the conditional approval of the Kentucky Horseracing Commission, and we also have the Zoning Board approvals. So we are beginning to move dirt. We are going to very shortly start moving dirt and constructing our facility.

With respect to the Corbin and Oak Grove facilities, we don't have licenses yet, but, of course, in a process like this, this is a public process. So we have to declare our intentions and publicly present our work and our plans to the Racing Commission in order to obtain a license.

So we have started that process. We have applied, and it's a fairly extensive application process. We have applied for the two additional licenses, the Corbin license and the Oak Grove license. We've applied for those licenses, but the Racing Commission has only had a single meeting since our application was submitted and they elected at that time to not hear those applications.

So that is something that we are working on with the Racing Commission and also the Bevin administration to try to find some process and some parameters on how that licensing application process will proceed, because it isn't something that happens frequently in the state, so there is some ambiguity on the timing and the scope of the work necessary for new licenses.

But that's a cooperative respectful process. It's just one that's different than the Louisville timeframe and the timeline, so we'll take it one step at a time.

Jeffrey Thomison

Okay. I appreciate it.

Operator

Thank you. And I'm showing no further questions in queue. I would now like to turn the call back over to Bill Carstanjen for any closing remarks.

William C. Carstanjen - *Churchill Downs Incorporated - CEO & Director*

I don't have any closing remarks, other than to say thank you for your interest in our company. Thank you for being on the call today. We're available for further discussions off line for those of you who are interested in that.

But I appreciate your time today and we'll see you next time. Thank you, everyone.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.
