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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Churchill Downs Incorporated 2018 Fourth Quarter and Year End Earnings Conference Call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. 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, Risk Management and Investor Relations.

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

Thank you, Tiffany. Good morning and welcome to our fourth quarter and year end 2018 earnings conference call. After the Company's prepared remarks, we will open the call for your questions.

The Company's 2018 fourth quarter and year-end 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 churchilldownsincorporated.com as well as in the website's Investors 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 SEC, specifically the most recent report on 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 assumptions 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-K are available on our website at churchilldownsincorporated.com.

One additional note, in the fourth quarter of 2018, we changed our TwinSpires segment name to Online Wagering as we continue to expand our online sports betting and iGaming platforms.

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 Bill Mudd, our President and Chief Operating Officer; Marcia Dall, our Chief Financial Officer and Brad Blackwell, our General Counsel. I will walk you through our key 2018 performance highlights and how we have positioned our Company for growth in each of our core business segments. Marcia will then provide additional details on our fourth quarter and full year earnings. After she is finished, we will be happy to take your questions.

In 2018, we executed on the sale of a non-strategic asset and demonstrated our ability to grow organically on multiple fronts, acquire strategic assets and effectively manage our capital to drive total shareholder return that exceeded the S&P 500, the Russell 2000 and virtually all of our gaming peers. We also returned over $555 million to our shareholders, while maintaining one of the lowest leverage levels in the gaming industry.

Here are few of the 2018 highlights. In early January last year, we completed the sale of Big Fish. In late February, we announced the signing of an agreement to acquire Presque Isle Downs & Casino in Pennsylvania, an excellent brick and mortar casino which will also provide access to sports and online wagering across the entire Pennsylvania market. In early May, we had a record-setting Kentucky Derby Day and Kentucky Derby Week with respect to all of our significant financial metrics.

In August, we opened our retail BetAmerica Sportsbook at our two Mississippi properties, leveraging the expertise of our TwinSpires team and using we believe best-in-class technology from our technology partner SBTech to produce our custom designed kiosks. At the end of August, we traded our 25% interest in Saratoga, New York and Colorado for the remaining interest in Ocean Downs so that we now own 100% of Ocean Downs while retaining the rights to online sports betting and iGaming it made available to the Saratoga, New York and Colorado properties.

In September, we opened Derby City Gaming, our 900-unit historical racing machine facility in Louisville, the performance of which has meaningfully exceeded our expectations. In November, the Kentucky Horse Racing Commission issued us a license to construct a $150 million facility in Oak Grove that will include, among other things, a harness racetrack and up to 1500-unit historical racing machine facility. And in October, we signed an agreement to acquire at least 50.1% of Midwest Gaming, which owns Rivers Casino Des Plaines in the Chicago region of Illinois. As a result of elections made by certain minority shareholders, we will actually acquire close to 62%.

While pursuing these initiatives, we stayed focused on the performance of our core businesses, delivering over $1 billion of net revenue and $329 million of adjusted EBITDA, up 14% and 15% respectively over prior year. As we begin 2019, we are pursuing the following strategic path to grow our Company. First, we remain committed to investing in the Kentucky Derby to grow this iconic piece of American culture and enables it to remain a healthy a lucrative financial asset.

Second, we are pursuing Greenfield opportunities with respect to historical racing machine facilities and believe we can achieve healthy returns for our shareholders from these investments. At the same time, we continue to be disciplined strategic buyers of existing casinos that meet our investment criteria.

And third, we are pursuing the expansion of our BetAmerica Sportsbook at iGaming platform. This effort will be led by our TwinSpires team. As state open up their markets, we will further invest in our team and our online footprint. New Jersey and Pennsylvania are the two states we are most excited about currently, but we hope that over time these are simply two of many states where we have opportunities to expand.

Now I will make a few comments on our growth plans for each of our operating segments. Starting with the Racing segment, the Kentucky Derby is the big driver of our growth. As I mentioned, we set records last year for virtually all of our significant financial benchmarks despite suffering the wettest Kentucky Derby in history. Beyond the metrics, our mission is to improve everything we do surrounding the Kentucky Derby. We have consistently invested to deliver a world-class experience for our customers. Our strategy for the long-term growth of the Derby is to invest in projects that help more of our guests feel a strong connection to the event and to experience as a participant, not just as a spectator, the unique magic that is the Kentucky Derby.

For this year's Kentucky Derby, we will unveil our $5 million rooftop lounge and entertainment area on top of the Starting Gates suites. There are many avenues to grow our signature event over the coming years from additional pricing segmentation, additional seating capacity for portions of the roughly 110,000 guests who come to the Derby and do not have a seat, additional sponsorships, and leveraging the interest generated from the European and Japan roads to the Derby.

With respect to racing at Churchill Downs Racetrack, we are excited about the increase to the purse money account for 2019 generated by the historical racing machines at Derby City Gaming. Just as an example, we are increasing the prize money for the Kentucky Derby from $2 million to $3 million and on a smaller scale, increasing the purses meaningfully for every category of races we run. We believe increased purse money will help us attract more and better quality horses to Churchill Downs. Ultimately, this will increase the amount wagered on our races, which is good for horse ownership and other industry participants as well as for the Commonwealth of Kentucky.

Turning to our TwinSpires business and our Online Wagering segment. Adjusted EBITDA was up 6.1% for the quarter and 13% for the year. However, our TwinSpires handle was up 8.3% in 2018 and up only 1.2% in the fourth quarter. Clearly, we've experienced a decline in the handle growth rate over the second half of 2018. At the same time, total active players were up 19% in 2018 and up 13% in the fourth quarter. We continue to reach new customers and to engage or re-engage with existing ones with our marketing programs consistent with prior periods.

We had two conflicting trends, particularly in the fourth quarter, modest handle growth and yet strong double-digit growth in total active players. Our revenue per customer dropped by 12% in the fourth quarter and although we had strong growth in total active players, our overall handle growth was very modest. We still achieved solid adjusted EBITDA results because we pay close attention and respond quickly to our data, our business processes and focus on margins keep us very disciplined.

We believe there are two drivers of our trend towards declining revenue per customer. First, we are seeing increased competition for higher volume customers who receive rebates. As you know, rebates cut into our margins and high level of rebating has always been a slippery slope that can become an unwise, pervasive business practice. In the face of this increasing challenge, we revisited our business model with respect to player rebates and incentives. We concluded that we are best served by letting certain customer cohorts leave as margins become too thin. Our objective is always to grow our business profitably over the long-term and we will not sacrifice a sustainable business model in the face of shorter-term competitive pressures.

Second, as our customer base is growing, we expect the average handle per user to decline. Although we want to mitigate the rate of decline as best we can by retaining the more experienced, higher wagering customers who we can profitably retain. As new customers come into our platform in large numbers, as they did in 2018, these players are on average much less experienced and wager considerably less. They do tend to be higher margin for us however, because they do not require significant rebates.

The macro environment for horse racing is stable and our team believes there's still organic growth to harvest in the ADW space. We have the unique opportunity every year to market extensively during the Kentucky Derby and Triple Crown season to attract new players to our TwinSpires platform. This is still a very good business and we remain very optimistic about its long-term growth potential despite the recent competitive pressures.

Turning to our Casino segment. In 2018, we experienced relatively stable operating environments across all of our casino markets, and we grew revenue and adjusted EBITDA at each of our existing properties. 2019 so far has seen a continuation of these trends. However, we may see some increased competitive pressures in certain markets over the balance of the year. I'm excited about the future for the Casino segment, because we have a nice pipeline of growth beyond the continued performance of our existing properties. As you know, we issued a press release in the fourth quarter announcing our agreement to acquire at least 50.1% of Midwest Gaming, which owns the Rivers Casino Des Plaines in Illinois. Based upon our purchase of all of the ownership interest held by the Clairvest Group and the ownership interest tendered by certain minority shareholders with tag along rights, we estimate that we will own approximately 62% of Midwest Gaming after the subsequent recapitalization. We expect to pay approximately $407 million in cash.

The most significant remaining closing condition for this transaction is the regulatory approval of the Illinois Gaming Board. We are on the agenda for the March 1 meeting, that's tomorrow, but there is no guarantee that we will receive approval on that date. We would intend to close the transaction, including the recapitalization of the entity, within one to two weeks after we receive the Illinois Gaming Board approval.

We regard Rivers as an important strategic acquisition for the following reasons. It gives us an investment in a premier gaming property and a higher highly desirable location in the Chicago land market with future upside of gaming expansion has passed. We also believe it provides significant upside if Illinois ultimately grants sports betting and iGaming rights to brick and mortar casino license holders and it is in a casino gaming market we have always valued as we work with the Illinois legislature to determine the future of our Arlington Park racetrack.

In the past, we have not aggressively pursued regional casino acquisitions where multiples are comparatively high compared to prior periods. However, this asset is one of the few we have spent value for the reasons I just noted and because Neil Bloom and his organization with their deep understanding of the Illinois environment will be our partner.

We also consider our acquisition of Presque Isle Downs & Casino in Erie, Pennsylvania to be an important strategic move. We closed on this acquisition on January 11 of this year. Presque Isle has limited competition geographically and is a nicely constructed property. We will begin the construction of a new retail BetAmerica Sportsbook in the casino and plan to open it in the second quarter. Presque has already been approved for an interactive gaming certificate, as well as a sports betting certificate to offer online sports betting, both of which are subject to conditions such as testing and an ultimate go-live date that has not yet been set by the Gaming Control Board. We believe Presque Isle has potential for a very nice upside.

And last, in our other investments operating segment, we opened Derby City Gaming in Louisville mid-September. The results have been extremely encouraging. We will be adding another 100 machines to Derby City Gaming early in the second quarter, based on the significant growth we have seen in the last four months. We have approval for up to 2,000 machines under the Churchill Downs racing license and we will continue to evaluate adding more machines as warranted by the facility's performance.

As I mentioned earlier, we were awarded a racing license for our proposed Oak Grove Kentucky historical racing machine facility. We expect to conduct 12 harness racing days in October 2019 and plan to open the historical racing facility during the first half of 2020. We are excited about the opportunity to build this facility about an hour north of Nashville, Tennessee, which was ranked by Forbes as the seventh fastest growing city in America in 2018.

Our acquisitions in the casino space, and our pursuit of historical racing facilities reflect our long-held strategy of pursuing both acquisitions and Greenfield investments in gaming properties we believe will offer stable, predictable cash flows and diverse markets. We like states that we believe may ultimately grant access to sports and online casino gaming to their brick and mortar casino license holders as well. We have a deeply experienced online team and an important objective for this team is to lead us beyond horse racing into sports betting and online casino wagering. Our team has started to do this with our efforts in Mississippi, New Jersey and soon, Pennsylvania.

In Mississippi, where we have our Harlow's and Riverwalk, Vicksburg Casinos, wagering on sports is now permitted in the brick and mortar locations but not outside of the confines of the casino. We launched the Sportsbook at each property in late August. Given wagering is limited solely to the physical location, we view Mississippi as an excellent opportunity to test our technology and build our teams' expertise before the stakes are raised in more economically significant markets. The 2018 numbers have been released by the State of Mississippi and we've been very pleased so far with our performance in our local markets in Greenville and Vicksburg.

Our BetAmerica Sportsbooks were profitable in the fourth quarter of 2018 and are included in our Casino segment results. We believe they are also driving traffic to other gaming products on the floor. In all jurisdictions, BetAmerica will be our brand for both brick and mortar sportsbooks and online sports betting in casino wagering. In New Jersey, we have entered into what is known as a skin agreement with the Golden Nugget Atlantic City Casino to gain access to the New Jersey online market. We do not have a casino in New Jersey to enter in the market directly, but have an arrangement with Golden Nugget, which allows us full management and control of our own site.

Earlier this month, we launched our BetAmerica platform. We've been surprised how well we have started in New Jersey, because we have not yet marketed in any material way. We are still awaiting approval from Apple to put our iOS app in the Apple Store. Thus, our product is largely available only on desktop right now. We are also completing the implementation of our full list of payment and game vendors, which we think will give us an extremely competitive compelling product. Given we have outsourced technology, which we believe is best in class, while already building a team with significant online capabilities, the cost for entering into new markets is relatively modest for us and we've been thoughtful in our approach to working with vendors and market access partners to preserve as much upside for ourselves as practicable.

We expect to spend a modest amount on sports betting and iGaming marketing in 2019 in New Jersey and Pennsylvania, of which the timing and amounts will depend on a number of factors, including final regulatory approvals, sports seasonality and return on our ad spend.

A few final thoughts. Over the past five years, we have delivered a total shareholder return of 183% and have returned over $1 billion to our shareholders through share repurchases and dividends, while growing our operations significantly. We have accomplished this while remaining very modestly levered at 2.3 times as of year-end.

We have significant flexibility because of our strong operating performance and low leverage. This gives us the ability to invest in our existing businesses, as well as new Greenfield opportunities to drive organic growth and to also pursue strategic opportunities that we believe will create long-term shareholder value, while maintaining capacity for dividend growth and opportunistic share repurchases. We've done this for a while and plan to continue to be thoughtful stewards of our shareholder capital and assets. I'm excited about 2019 and beyond.

I want to acknowledge, Mr. Richard Duchossois, one of our long time stalwart directors who is retiring, he will not be standing for re-election at our next Annual Shareholder Meeting in April. Mr. D, as I call them, has been a source of inspiration and a true mentor for me personally and for so many of us in the Company. I'm so grateful for his significant contributions to the Company and for his friendship. On behalf of the Company, we thank him for his exemplary service and note that he will be greatly missed.

Our next call is scheduled for the week before the Kentucky Derby, our team has a lot to do before then, but everything is in good shape as of right now, 65 days out.

Now I'd like to turn the call over to Marcia to provide some additional details on the fourth quarter, after that we will answer any questions that you have. Thank you. Marcia?

Marcia Ann Dall - *Churchill Downs Incorporated - Executive VP & CFO*

Thanks, Bill and good morning, everyone.

As Bill said, I will provide some details on our fourth quarter and total year 2018 financial results and some thoughts regarding 2019. As you review our financials, it's important that you see that we have updated all of our historical shares and related measures such as EPS to reflect the impact of the 3-for-1 stock split that was effective on January 25, 2019.

So turning to our fourth quarter and total year 2018 results. We reported fourth quarter net revenue of $219 million, up $40 million or 22% compared to the prior year quarter. A little over half of this increase was driven by revenue growth from our casino properties. The acquisition of the remaining interest in Ocean Downs on August 31, 2018 and solid revenue growth compared to the prior year quarter at our Louisiana properties and our Oxford and Riverwalk Casinos drove a 26% increase in revenue for our Casino segment compared to the prior year.

The other major driver of fourth quarter revenue was Derby City Gaming. The first historical racing machine facility in Louisville, Kentucky that opened in September 2018 and is included in our Other Investments segment. Churchill Downs Racetrack and TwinSpires also contributed to the quarter-over-quarter revenue growth, which in part reflects a very successful Breeders' Cup at Churchill Downs in November.

Our fourth quarter adjusted EBITDA was up $5.2 million or 14% compared to the prior year quarter. The solid operating performance of our wholly owned casinos in TwinSpires, the addition of Derby City Gaming and our equity investment in Miami Valley Gaming, all contributed to the increase in adjusted EBITDA compared to the prior year quarter.

Turning to net income. Fourth quarter net income from continuing operations was $7.3 million compared to $34.4 million in the prior year quarter. There were a number of items that impacted the comparability of our fourth quarter net income from continuing operations. Our press release walks through these items in detail.

Excluding these items, our fourth quarter net income from continuing operations grew $2.7 million compared to the prior year quarter due to the following. Our after-tax interest expense was lower by $1.5 million as a result of lower outstanding debt and our operating segment results were higher by $1.2 million after tax. The fourth quarter operating income from our segments includes a $1.8 million after-tax expense related to an increase in accrued bonuses and stock-based compensation expense compared to the prior year quarter.

Fourth quarter cash flow from operations was $62 million, up $14 million from the prior year quarter. We benefited from growth in operating cash flow from our core operations, significantly lower cash paid taxes and lower cash paid interest in fourth quarter of 2018, all of which more than offset the reduction in operating cash flow as a result of the sale of Big Fish.

We spent $10 million in maintenance capital in the fourth quarter, which was $3 million higher than the prior year quarter due to the increased slot capital purchases in the fourth quarter 2018 compared to the prior year.

Regarding project capital, we spent $14 million in fourth quarter, primarily on three major items, finishing the second phase of the Churchill Downs parking lot project, purchasing land for the future side of our Oak Grove HRM facility and finishing the build out of Derby City Gaming. When we reflect on the results for the total year, we're proud of all of our Churchill Downs employees who helped the Company to deliver double-digit growth in revenue, adjusted EBITDA and net income and diluted EPS from continuing operations.

And finally, here are some thoughts on 2019. First, we are looking forward to an exciting 145th Derby in 65 days. In 2018, our adjusted EBITDA from the Derby grew $12 million, which was driven by the additional capacity from the Starting Gates Suites project, incremental pricing and the impact of the new revenue accounting standard, ASC 606. Given the onetime impact of ASC 606, and that we are only completing one smaller capital project prior to the Derby, the rooftop area of the Starting Gates Suites, which will add approximately 260 new reserve seats and an additional access experience for another 800 guests. We anticipate that the Derby adjusted EBITDA growth will return to more historical levels in the $4 million to $6 million range.

Second, regarding our Online Wagering segment, we expect TwinSpires handle growth to be lower in the first quarter, given a number of factors, including the increased competitive pressure that Bill discussed, the shift of the start of the Oakland Racing from the first week of January to the last week of January and the impact of weather on cancellation of racing events in different states. We also are planning to spend money on marketing in 2019 to launch the BetAmerica Sportsbook and iGaming in New Jersey and Pennsylvania. The amount we ultimately spend this year will depend upon a number of factors, including the timing of final regulatory approvals, sports seasonality and the return on ad spend.

Third, regarding our Casino platform, we have a number of transactions that will impact our 2019 results. Ocean Downs will contribute a full year of revenue, adjusted EBITDA and operating cash flow given the purchase of the remaining interest in the property last year.

Presque Isle will contribute nearly a full year of revenue, adjusted EBITDA and operating cash flow based on the closing of the transaction on January 11, 2019. Note that due to the tax rate in Pennsylvania, Presque Isle has a lower margin than our existing wholly owned Casinos. When we complete the Midwest Gaming transaction, involving the Rivers Des Plaines Casino in Illinois, we are currently planning to reflect this investment as a joint venture. As a reminder, we include our equity interest in the adjusted EBITDA of our joint venture partners in our reported adjusted EBITDA for our Casino segment. However, in our operating cash flow, we only include the actual cash distributions that we received from these joint ventures.

Fourth, regarding our historical racing machine facilities in Kentucky, we will have a full year impact of Derby City Gaming operations in 2019. As you may recall, we opened the facility on September 14th, 2018. Many of our investors are following the monthly results that reported by the HRM facilities to the Kentucky Horse Racing Commission. The results for our first four full months of operation, October 2018 through January 2019, reflects significantly increasing gross gaming commission per machine and we are seeing continued growth in the (inaudible) gaming database and attractive margins for the property.

We are planning to have 12 days of standard-bred racing in Oak Grove in 2019 and anticipate incurring in relatively small reduction in adjusted EBITDA from the racing operations there in 2019.

Turning to maintenance and project capital for 2019. We anticipate that our maintenance capital will increase to $45 million to $55 million as a result of capital spend to newly acquired properties, including new slot capital, the timing of fourth quarter 2018 carryover projects and additional maintenance capital at Churchill Downs. In 2019, we currently anticipate spending approximately $110 million to $130 million on project capital. Our investment in Oak Grove, to build the track in HRM facility along with the other amenities will represent a significant portion of the spend.

We're investing $5 million in the Starting Gates Rooftop lounge and entertainment area at Churchill Downs and are making other smaller investments at Churchill Downs to improve the Infield Gate experience and guest experience for this iconic event. We are also in process of building a (inaudible) at our Calder facility and anticipate beginning performances in May of this year.

And finally, regarding capital management, in fourth quarter, we repurchased $32 million of our stock at an average share price of approximately $86 per share. We have $268 million of remaining capacity under our existing share repurchase program.

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

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

Thanks, Marcia. Okay, everybody, if you have any questions please let us know, we'll be happy to answer them.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from David Katz with Jefferies. Please proceed.

Erik Steven Hellquist - *Jefferies LLC, Research Division - Equity Associate*

It's Erik Hellquist on for David. I just had a few questions on historical racing facilities. First on the Oak Grove opportunity. How are you viewing the landscape there with the prospective competition?

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

This is, Bill Erik. So, the competition that is most relevant is a facility called Kentucky Downs, which is another historical racing facility sitting on the Kentucky side of the border. Our property will be on Route 24, coming out of Nashville, which is the road that heads directly north, but to the western side. And then the other road that heads out of Nashville directly north is I-65. Kentucky Downs sits on I-65 just on the Kentucky side of the border. They've been in operation for a number of years, they have different machines than ours, much fewer machines, but they will be the primary competition. There are also other facilities that Nashville residents can drive to, but I wouldn't bother getting into those on this call, because there's sufficient drives that I don't view them as primary competition.

Erik Steven Hellquist - *Jefferies LLC, Research Division - Equity Associate*

And as far as potential new states go with regulation, as far as to our racing machines go, what the latest you're hearing on potential new regulation?

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

I think it's -- are you talking about for new states, did I hear you correctly?

Erik Steven Hellquist - *Jefferies LLC, Research Division - Equity Associate*

Yeah.

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

At this stage in the state legislative cycles, there is always lots of noise and confusion and fog, certainly there are a lot of states that are talking about sports wagering or online iGaming. But other than that I'm sorry, are we talking about -- I may have misheard that question, are we talking about HRM or just online and sports wagering?

Erik Steven Hellquist - *Jefferies LLC, Research Division - Equity Associate*

HRM.

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

HRM, I'm sorry. Gosh, other states considering new HRM, there are some HRMs opportunities in other states like Virginia, we don't have an opportunity there, but I'm not aware, Bill, are you aware of any states that are considering new HRM legislation?

William E. Mudd - *Churchill Downs Incorporated - President & COO*

Illinois kicked that ramp from time to time that I'm not sure how -- how much -- any legs that legislation will actually have.

Erik Steven Hellquist - *Jefferies LLC, Research Division - Equity Associate*

And just one more question on historical racing machines themselves, so obviously Ainsworth has been a great partner for you so far, but as you look to expand a little further, do you think that other suppliers could make sense as well?

William E. Mudd - *Churchill Downs Incorporated - President & COO*

Yes, I think is the opportunity grows with Oak Grove and Virginia and other states that are considering it, whether it be Illinois or other existing states like Wyoming that has it, I think there's an opportunity for other manufacturers to come in at some point.

Operator

Thank you. And our next question comes from Dan Politzer with JPMorgan. Please proceed.

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

So the first one on TwinSpires, I was hoping you could talk a little bit more about the competitive dynamics there, can you walk us through your thought process on waiting -- waiting it out and not getting more competitive and have you seen flare-ups in competition in the past? And I guess on a similar note, how do you think about cannibalization long-term from online sports betting here? Thanks.

William E. Mudd - *Churchill Downs Incorporated - President & COO*

Thanks, Dan. I think the competition in this space ebbs and flows. As you know, the channel, the market through online and ADW has grown over time as people shifted their behavior out of wagering at brick and mortar facilities, predominantly OTBs, into the online space. We do think that trend will continue, I do think there is a little bit of episodic aspect to it in that you saw OTBs like New York City OTBs that left or if you see tracks that used to conduct simulcasting when they weren't live that it becomes a point where they can't afford to do that.

So we will continue to grow, I think the competition is that the high end of the market where you have people that really have a lot of handle, but there is very low margin, I think ultimately, there's an end to that and in terms of sports wagering, and the impact it will have on horseracing, sports wagering exists in the United States today, but it's all the offshore bookmakers that aren't licensed in the US. So a lot of people that wager on sports are already wagering on sports. I don't think it -- I don't think it will have a whole lot of impact from a cannibalization perspective and in fact, it could even help drive people toward horse racing to the extent that there on and they have the ability to wager on horse racing in addition to sports and other things on applications like what we have at BetAmerica.

So ultimately, I don't see a whole lot of impact one way or the other and it could be positive just as much as it could be unfavorable to us.

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

And then turning to Derby City, you guys mentioned you're adding 100 machines there. How should we think about that relative to kind of what's maybe a longer term opportunity to add machines at the Churchill Downs track and similarly at 1000 machines the Derby City, is that pretty much at capacity without you having to physically expand it?

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

Well, the second part first, we don't have to expand the Derby City facility to add the extra 100 games, as I remarked in my comments, our license allows us up to 2000 games and those games have to be at Churchill Downs, whether they'd be a Derby City Gaming or the racetrack, certainly we've thought about how can we best take advantage of the Louisville market in terms of where we place the machines and so that's something we'll continue to think about and certainly Derby City would not be able to absorb, in its current structure, 2000 machines.

Right now the market doesn't warrant putting 2000 machines in, but over time as the product improves and as Bill mentioned, maybe we'll have opportunities to add additional manufacturers that even further enrich the quality of the product. We hope to have opportunities where it makes sense to explore significantly adding machine -- to the machine total and at that point, maybe we'll have something to talk about in something to announce publicly about where we place those machines. But right now, I would just acknowledge that it is possible to put machines at the track property, I'd acknowledge that that's a possibility. I'm not saying it's something we're doing right now, it's not something we are doing right now, but it's our job to consider the data both in the short-term and in the long term so that's something we'll think about as the performance warrants.

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

And then one more on leverage, do you guys still maintain that long-term target leverage of 3 times to 4 times? And just wanted to make sure, is that the consolidated target grant, I guess, the Rivers is going to be at the JV level anyway.

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

Yeah, that's not a hard and fast rule, that's the target, so we constantly think about our capital structure, we constantly think about not just the amount of leverage we have, but the terms of debt that we take on, we're constantly exploring it. It's something that I think is a core competence and a core interest of ours, because it's critical as we plan the long-term growth of our Company. So yeah, like most companies, we have some guidelines, some benchmarks we are constantly paying attention to, but we're also always testing our assumptions to see if we're optimizing how to responsibly grow our Company.

Operator

Thank you. And at this time, I'm showing no further questions in queue.

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

Okay. Well, thanks, everybody. We appreciate your time today and your support and your investment in our Company, we will try to do the best job we possibly can to earn you a return and to sensibly and responsibly invest your capital. So thanks for participating today and we'll see you in a couple months right before the Derby.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Everyone, have a great day.