

# FANTINI'S GAMING REPORT

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"The Gaming Investor's Daily Newspaper -- Without The Paper"

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## IGT, BYI WIN HARRAH'S CONTRACTS

**HARRAH'S** handed both IGT and Bally big contracts on Wednesday.

The rumored sale of IGT NexGen products to Harrah's has been confirmed.

IGT said it will place the display on 60,000 Harrah's slot machines as part of its next generation of customer relationship marketing products.

As part of the deal, Harrah's will deploy IGT's new Media Manager for its own Total Rewards and PRISM interactive customer marketing. IGT called that a key component of its server-based system.

Joe Greff of Bear Stearns estimates the deal will add about 12 cents a share to IGT's earnings.

The purchase "reaffirms our belief that smart operators will ultimately adapt to the IGT server-based technology solution," Greff said.

Celeste Mellet Brown of Morgan Stanley estimates a 4 to 7-cent addition to IGT earnings over the next year in just hardware sales.

"The long-term implications...are more significant...The size of the order, combined with the fact that Harrah's has traditionally not been an IGT systems customer indicates that IGT's products are meaningfully differentiated," she said.

Likewise, other companies may adopt IGT products to keep up with the world's biggest casino company, Brown said.

Prior to the announcement, Harry Curtis of JP Morgan wrote that if IGT won the NexGen contract it would indicate that IGT is making progress with its server-based gaming technology, and it would validate the SBG strategy and the R&D investment over the past few years.

Curtis also said Bally's "loss" of the contract would not have a near-term impact on its earnings.

And though Harrah's did not choose Bally's iView, it did order systems from BYI.

Harrah's is extending its casino management systems and network solutions to its international markets, BYI announced.

Harrah's also has licensed BYI's Bally Power Winners and Power Promotions technologies that it will incorporate in its proprietary PRISM customer relationship management systems.

Emphasizing its efforts internationally, BYI said that this spring it will open a Mexico City office to join recent openings in Spain and South Africa.

## **EARNINGS: BYI, PTEK**

**BALLY** scored record earnings in all categories as the company has completed its comeback.

On its first conference call since before its revenue recognition troubles began, CEO Dick Haddrill said BYI, which has 13 percent of North America's slot machines, is placing 19 to 28 percent in new casinos and is driving towards 30 percent.

BYI expects diluted earnings per share this fiscal year of \$1.60 to \$1.90 a share, and adjusted EPS of \$1.75 to \$2.05, which is up a nickel from earlier. The wide range reflects unpredictability of revenue recognition in the ever more complicated accounting environment.

Revenue forecast of \$875 million is \$10 million higher than previous guidance.

He also expects the company to improve margins.

### *Second Quarter Highlights:*

- Adjusted earnings per share: 45 cents vs. 39 cents consensus
- Revenue: \$230.652 million vs. \$150.946 million
- Adjusted EBITDA: \$63.884 million vs. \$23.451 million
- Balance sheet: term loan down to \$291 million
- Diluted shares: 58.524 million

### *Year-To-Date:*

- Adjusted earnings per share: 86 cents
- Revenue: \$419.682 million vs. \$304.711 million
- Adjusted EBITDA: \$122.384 million vs. \$49.812 million

**POKERTEK** improved its bottom line thanks to both cost controls and increased sales as the company continues to place a growing number of its electronic poker tables.

In addition to its PokerPro tables that are being ordered by casinos and cruise ships, PTEK placed 40 of its new non-gambling Heads-Up electronic poker games. It also has signed distribution agreements for the Heads-Up products in the United Kingdom and at U.S. military locations.

### *Fourth Quarter Highlights:*

- Diluted earnings per share: (30 cents) vs. (32 cents) vs. (29 cents) consensus
- Revenue: \$1.421 million vs. \$953.695
- Diluted shares: 10.934 million vs. 9.472 million

### *Full Year:*

- Diluted earnings per share: (\$1.23) vs. (97 cents)
- Revenue: \$4.005 million vs. \$1.980 million

## TOP DOGS AND UNDERDOGS

- Big cap gaming stocks fell despite the strong market on Wednesday as just two companies – MGM Mirage and Penn National – managed games. Wynn, which recorded blow-out earnings on Tuesday, fell sharply, down 7.45 percent.
- All the mid-size stocks – market caps of \$500 million to \$4 billion – rose, led by Bally's 3.01 percent leap.
- Small stocks rose 1.14 percent on average
- Stocks moving more than 5 percent in addition to WYNN:
  - Youbet.Com +9.57 percent
  - Riviera Holdings +6.42
  - Florida Gaming -5.00
  - Empire Resorts -8.53
  - Century Casinos -8.85
  - American Vantage -11.11
- There were no 52-week closing highs or lows.

## ANALYST ACTION: ASCA, IGT, PNK, WYNN

- **AMERISTAR.** Joel Simkins of Macquarie cut ASCA to under perform with a \$22 target. Simkins had been at neutral believing the company might be sold, but that opportunity appears to have receded given "weak operating fundamentals, tight credit markets and our view that the Craig Nielsen Foundation (majority shareholder) would not sell at recent depressed prices," Simkins said. Simkins forecasts ASCA to earn \$1.19 a share this year and \$1.44 next.
- **IGT.** Steve Kent of Goldman Sachs has removed IGT from his firm's Conviction List but maintains a buy rating. He cited the 15.9 percent rise in IGT stock since being added to the list on January 23. His 12-month target on the stock is \$47.
- **PINNACLE.** Joel Simkins of Macquarie upgraded PNK to neutral, saying he remains cautious about "potential erosion in near-term business fundamentals," but citing its recent 36.8 percent decline in the stock price. "We believe most of the bad news already reflected in the share price," Simkins said. Simkins forecasts PNK to earn 56 cents a share this year and 77 next. He shaved his target a buck to \$21.
- **WYNN.** In the wonderful world of Wall Street, Wynn Resorts blew past analyst estimates in the fourth quarter, conducted a confident, business-like conference call, and the stock sold off.

Celeste Mellet Brown of Morgan Stanley attributed the decline to anticipation of an even bigger beat than 72 cents a share vs. consensus of 68 cents. "We remain bullish on the name longer term, and expect the company's properties to continue to outperform, especially in Macau," Brown said, though noting that CEO Steve Wynn did express "somewhat cautionary language" on Las Vegas prospects in a soft economy during WYNN's conference call.

Elsewhere, analysts mostly sounded the same theme: WYNN beat, near-term may be soft in Las Vegas, long-term prospects remain bright. Several, however, did cut their price targets and earnings estimates.

Josh Attie of Citigroup cut his target \$12 to \$133 and reiterated his hold rating.

Results were positive overall, but investor expectations were high based on reports of strong revenue and market share at Wynn Macau, he said.

Larry Klatzkin of Jefferies maintains a buy and lowered his target \$6 to \$141 to reflect higher debt levels, increased capital expenditure and lower Las Vegas forecasts.

Klatzkin lowered his 2008 earnings estimate from \$3.47 to \$3.02, and introduced a 2009 at \$3.02 a share.

David Katz of Oppenheimer praised WYNN and its results, but maintains a perform rating, saying he expects "rising development costs and compressing returns to limit the upside in the shares."

Katz lowered his 2008 earnings estimate to \$3.57 a share.

Jeffrey Logsdon of BMO Capital maintains a market perform rating and \$108 target. He remains cautious on Las Vegas in 2008, and lowered his earnings estimate 4 cents to \$3.20 on slightly reduced expectations. His 2009 estimate remains \$3.63.

Steve Weiczynski of Stifel Nicolaus maintains a hold rating and raised his 2008 estimate 18 cents to \$3.32 a share. He introduced his 2009 estimate of \$3.69.

His estimates may understate the potential value of WYNN's future Cotai Strip and Las Vegas developments, but that cash flow is three to four years down the road, Weiczynski said.

He still favors Las Vegas Sands over WYNN.

Shaun Kelley of Bank of America reiterated his buy rating and said WYNN is positioned to deliver strong same-store results at both properties.

Kelley's target is \$127. His 2008 estimate goes up a penny to \$3.22 a share.

Robert LaFleur of Susquehanna reiterated his positive rating. He noted WYNN has solid operating properties in the best two gaming markets, with growth pipelines in both.

LaFleur lowered his 2008 earnings estimate 8 cents to \$3.24 and raised his 2009 estimate 16 cents to \$4.10.

Harry Curtis of JP Morgan did not adjust 2008 estimates and he maintains his overweight rating. He continues to believe Wynn Macau's earnings will grow throughout 2008.

Bill Lerner of Deutsche Bank reduced his target from \$175 to \$167 to account for his earnings model adjustment, WYNN's one-time \$6 dividend and to reflect an enterprise value to EBITDA ratio of 12.5 times.

He sees WYNN earning \$2.53 a share this year and \$3.45 next.

Joe Greff of Bear Stearns reduced his earnings estimates to \$2.67 a share this year and \$2.56 next to reflect a weaker Las Vegas market. He sees the stock valued at \$109 to \$139 a share.

Steve Kent of Goldman Sachs shaved his target from \$127 to \$125. He lowered his earnings estimates to \$2.85 a share this year and \$3.00 next to reflect a slowing economy, and higher interest expense and depreciation.

Kent remains neutral on the stock.

Robin Farley of UBS sliced her forecast \$2 to \$124, which reflects a 9-10 times EBITDA in Las Vegas and 13.5-15.5 times in Macau. Her rating remains neutral.

Andrew Zarnett of Deutsche Bank maintains a buy on WYNN notes but cautioned that, while WYNN is more resilient than mid-market operators because it caters to high-end clients, it is not immune to a troubled economy.

Dennis Farrell of Wachovia maintains an outperform recommendation on notes.

## **BOUGHT AND SOLD: BYI, CRYP, DDE, EGT, FLL, GCA, GPTX, IGT, LTFD, MGAM, PLA, PGIC, SGMG, UBET**

- **BALLY TECHNOLOGIES.** Highline Capital Management increased its holdings by 91,400 shares to 3.119 million equating to 5.73 percent of BYI outstanding shares.
- **CRYPTOLOGIC.** Renaissance Technologies reported that it currently holds 943,730 shares equating to 6.79 percent of CRYP outstanding shares.
- **DOVER DOWNS GAMING AND ENTERTAINMENT.** Renaissance Technologies reduced its holdings by 105,500 shares to 916,000 equating to 5.85 percent of DDE outstanding shares.
- **ELIXIR GAMING TECHNOLOGIES.** Strata Capital Management reported that it currently holds 9.803 million shares equating to 8.5 percent of EGT outstanding shares.
- **FULL HOUSE RESORTS.** Jeffrey Feinberg reported that he no longer holds shares in FLL.
- **GLOBAL CASH ACCESS HOLDINGS.** Co-Chairman of the Board Karim Abdul Maskatiya reported that he currently holds 9.835 million shares equating to 11.8 percent of GCA outstanding shares. Director Robert Cucinotta reported that he currently holds 9.761 million shares equating to 11.8 percent of GCA outstanding shares. M & C International reported that it no longer holds shares in GCA.
- **GLOBAL PAYMENT TECHNOLOGIES.** Laurus Master Fund increased its holdings by 275,000 shares equating to 8.6 percent of GPTX outstanding shares.
- **INTERNATIONAL GAME TECHNOLOGY.** T. Rowe Price Associates increased its holdings by 1.474 million shares to 31.220 million equating to 9.8 percent of IGT outstanding shares.
- **LITTLEFIELD CORP.** Boston Avenue Capital bought 500 shares at \$1.35 for a total of \$675. Boston Avenue Capital now owns 20.34 percent of LTFD outstanding shares.
- **MULTIMEDIA GAMES.** Magnetar Capital Partners increased its holdings by 492,451 shares to 1.691 million equating to 6.44 percent of MGAM outstanding shares.
- **PLAYBOY ENTERPRISES.** Pequot Capital Management reported that it no longer holds shares in PLA.
- **PROGRESSIVE GAMING INTERNATIONAL.** Capital Research Management reported that it no longer holds shares in PGIC.
- **SPECTRE GAMING.** White Pine Capital reduced its holdings by 1.418 million shares to 140,168 equating to 0.37 percent of SGMG outstanding shares.
- **YOUBET.COM.** Magnetar Capital Partners reduced its holdings by 467,628 shares and no longer holds shares in UBET.

## **AROUND THE USA: DE, DETROIT, LV, MI**

- **DELAWARE** is going to expand its electronic table games to include roulette. The state lottery said it is sending an RFP to potential bidders and hopes to install the first machines in Delaware's three racinos by fall.
- **DETROIT.** The new MGM Grand casino continues to grow the market as gamblers flock to it. It also may be taking some away from MotorCity and Greek Town as seen below in January gaming revenues:
  - MGM Grand(MGM) \$46.6 million +15.1 percent
  - MotorCity \$39.4 - 2.7
  - Greektown \$27.5 - 3.2
  - Total \$113.5 million + 3.8 percent
- **LAS VEGAS.** Bill Lerner thinks LV hotels will be fine over the next two years with room capacity due to grow 4.3 percent this year and 3.7 percent next. However, a visitor shortfall could occur in 2010 and 2011 given 8.1 and 12 percent room increases and issues about airport capacity, Lerner said.
- **MICHIGAN.** Muskegon city commissioners struck a pact with the Lac Vieux Desert Indians for a proposed casino, the Muskegon Chronicle reported. The non-exclusive agreement would give the town \$4.5 million a year in revenue if the casino is built. The Little River Ottawa Indians presented plans for a larger casino in the town the day before, and a deal could still be forged with them.

## OVER THERE: UK

In a clearly anti-gambling position, The Church of England said the country's gambling industry should be taxed to fund education and treatment of gambling addiction. The organization also noted the liberalization of gaming laws has increased spending on gambling by 10 times.

## SHORT AND TO THE POINT

- **YOUBET** has thrown in the towel on IRG, the off-shore racebook it bought several years ago. UBET is shutting down IRG as of February 15 and taking a \$6.7 million hit to earnings. IRG became a drag on UBET when federal investigators seized accounts in an investigation of some of IRG's customers. Since then, business has dropped dramatically, UBET said. The investigation involved customers, and not UBET itself. UBET also said that its banker, Wells Fargo Foothill, will allow it to draw up to \$500,000 from its line of credit for legal bills associated with the investigation. UBET shares are down more than 8 percent in after-hours trading to under \$1.
- **LOTTOMATICA** subsidiary GTECH and its partner Medstroms have increased the previously announced cash offer to purchase Boss Media to €2.66 a share up from €2. BOSS' board of directors has unanimously recommended that shareholders accept the offer. GTECH and Medstroms already own about 28.6 percent of BOSS. Todd Eilers of Roth Capital continues to believe the offer puts BOSS' competitor Cryptologic in play. Eilers said applying the same multiple to the BOSS takeover price works out to \$29 a share for CRYP.
- **ARISTOCRAT** has licensed Certicom's Game Guardian SBG, a server-based gaming security platform to protect its casino systems by securing connections between gaming machines.
- **MAJESTIC STAR**. Don Barden is suing the city of Gary, IN, for failure to build an agreed-upon highway interchange and access road to his casino, the Indianapolis Star reported. The casino is threatening to withhold tax payments to the city. Separately, the Riverlife Task Force is taking Majestic Star to the Supreme Court over the size of its parking garage for its casino project in Pittsburgh, PA. Barden is unsure what impact the lawsuit will have on construction or the casino's planned May 1 opening, the Pittsburgh Post-Gazette reported.
- **TABLEMAX** has appointed Stephen Crystal as CEO. Crystal was previously president and chief marketing officer for Las Vegas Gaming, Inc.

## CONTRIBUTING TO TODAY'S REPORT:

- Matt Bellia, senior researcher
- Lisa Sitko, administrative assistant

## WEBCASTS

- **ROTH CAPITAL INVESTOR CONFERENCE**. February 19, 20; webcast available at [www.wsw.com/webcast/roth16/TICKER](http://www.wsw.com/webcast/roth16/TICKER).
- Tuesday (all times ET)
  - Bally: 11:30 am
  - GigaMedia: 12 pm
  - Cryptologic: 12:30 pm
  - Elixir: 1 pm
  - Shuffle Master: 1:30 pm
  - GameTech: 2 pm
  - Progressive Gaming: 2:30 pm
  - Century Casinos: 3 pm
  - Lakes Entertainment: 4:30 pm
  - PokerTek: 5 pm
  - Sona Mobile: 4 pm
  - Transact Technologies: 5:30 pm
  - Electronic Game Card: 4:30 pm
- Wednesday (all times ET)
  - WMS Industries: 11 am
  - Paradise Entertainment: 8 pm



## CONFERENCE CALLS

- **WELLS GARDNER.** February 14, 4:30 pm ET. Phone: 888-713-4215; pass code 29930251, and webcast at [www.wellsgardner.com](http://www.wellsgardner.com). Replay available through March 14 at 888-286-8010; pass code 58484670.
- **MELCO PBL.** February 19, 8:30 am ET. Phone: 800-260-8140 US toll free, 617-614-3672 US toll/international, 852-3002-1672 Hong Kong, 1-800-002-971 Australia, 00-800-280-02002 UK toll free; pass code MPEL. Replay available through March 4 at 888-286-8010 US toll free, 617-801-6888 US toll/international, pass code 89509685.
- **PROGRESSIVE GAMING.** February 19, 11 am ET. Phone: 866-700-5192 or 617-213-8833 international, and via webcast at [www.progressivegaming.net](http://www.progressivegaming.net) and archived on the website through March 19.
- **MGM MIRAGE.** February 21, 11 am ET
- **HARRAHS.** February 27, 11 am ET. Phone: 877-876-8924 or 706-758-4271 international, pass code 3075198. Replay available through March 5 at 800-642-1687 or 706-645-9291 international; pass code 3075198.
- **BOYD GAMING.** February 27, 12 pm ET. Phone: 888-680-0890, pass code 99385796, and via webcast at [www.boydgaming.com](http://www.boydgaming.com). Replay available through March 5 at 888-286-8010; pass code 62317249.
- **GLOBAL CASH ACCESS.** February 29, 2 pm ET. Phone: 888-561-2718 or 617-614-3525 international; pass code 71858824, and via webcast at [www.globalcashaccess.com](http://www.globalcashaccess.com). Replay available through March 6 at 888-286-8010 or 617-801-6888; pass code 80972275.
- **LITTLEFIELD CORP.** March 4, 12 pm ET. Phone: 877-407-9205; reference Littlefield Corp, and via webcast at [www.vcall.com](http://www.vcall.com). Archived on the website through April 4.
- **RIVIERA HOLDINGS.** March 7, 2 pm ET. Phone: 800-268-8047, webcast at [www.theriviera.com](http://www.theriviera.com). Replay available at 888-203-1112; pass code 2829744.

## CONFERENCE CALL REPLAYS

- **BALLY.** Replay archived at [www.ballytech.com](http://www.ballytech.com), through March 13.
- **MOHEGAN SUN.** Replay available through February 21 at 800-642-1687 or 706-645-9291; pass code 32008737.
- **MULTIMEDIA GAMES.** Replay will be archived at [www.multimedialogames.com](http://www.multimedialogames.com).
- **POKERTEK.** Replay available through February 14 at 888-286-8010 or 617-801-6888; pass code 81235534, and archived at [www.pokertek.com](http://www.pokertek.com).
- **WMS INDUSTRIES.** Replay available at [www.wms.com](http://www.wms.com) through March 6.
- **WYNN.** Replay at 800-642-1687 domestic and 706-645-9291 international; pass code 34251187, and at [www.wynnresorts.com](http://www.wynnresorts.com).

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