

FALL 2023 GAMING INDUSTRY OUTLOOK

GAMING SECTOR EXPANSION CONTINUES AT SLOWER PACE, EXECUTIVE SENTIMENT REMAINS POSITIVE

The U.S. gaming industry continues to grow but has decelerated from the strong pace of sustained expansion in the wake of the pandemic, according to the AGA Gaming Industry Outlook, presented by Fitch Rating.

The Gaming Industry Outlook provides a snapshot of the current and future economic health of the industry based on executive sentiment, casino-visitation plans, gaming revenue and economic indicators. The Outlook includes two separate indices:

- The Current Conditions Index measured 100.6, reflecting slight growth in casino gaming-related economic activity in the third quarter relative to the prior quarter (index values above 100 indicate increasing activity is increasing).
- The Future Conditions Index increased to 99.6 but still indicates annualized industry activity over the next six months is expected to decrease slightly.

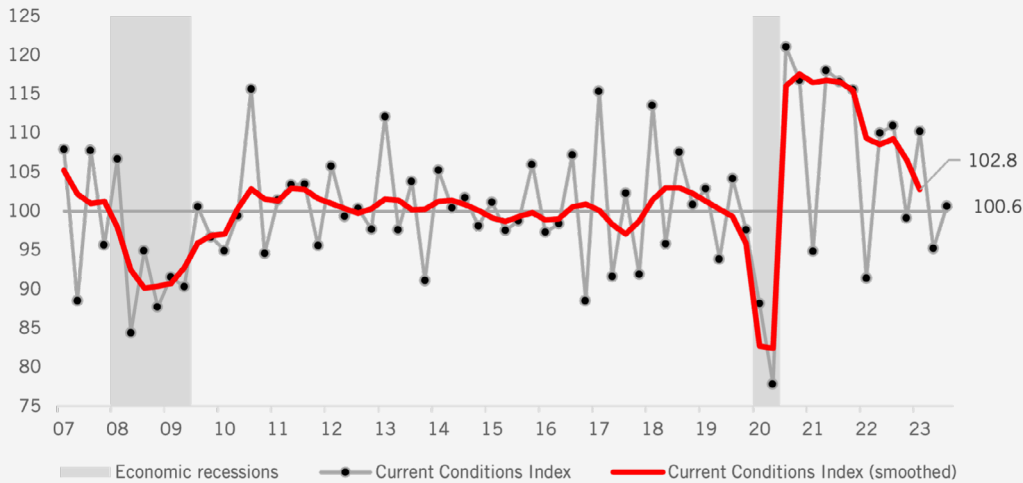
The Future Conditions Index reflects gaming CEO growth expectations that remain positive, but also a baseline economic outlook that anticipates a mild recession starting in the fourth quarter. While many gaming executives are positive about current conditions, views about future business conditions are more balanced.

INDEX HIGHLIGHTS

The Current Conditions Index indicates that real economic activity in the industry, as measured by gaming revenue, employment and employee wages and salaries, remains strong, but that the pace of growth has slowed relative to 2022 and 2021. The Current Conditions Index for the third quarter of 2023 was 100.6, which is consistent with real annualized growth of 0.6 percent. Because gaming revenues and employee wages are adjusted for inflation, the Current Conditions index was tempered by persistent high inflation through Q3 2023.

The smoothed version (effectively a three-quarter weighted average) of the Current Conditions Index, which is reported with a two-quarter lag and is less impacted by short-term fluctuations stood at 102.8 in Q1 2023. This indicates that industry activity has been expanding in recent quarters at an annualized pace of approximately 2.8 percent and reflects real underlying growth even when controlling for the effects of inflation.

CURRENT CONDITIONS INDEX



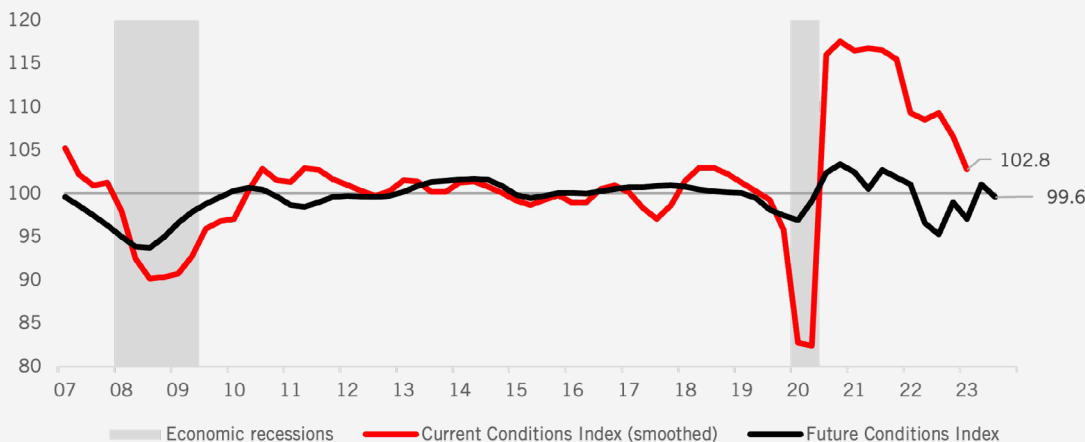
SOURCE: AMERICAN GAMING ASSOCIATION

Gaming CEO growth expectations have improved slightly relative to six months ago, according to the Gaming Executive Panel, a major input in the Future Conditions Index. In aggregate, across a set of outlook questions, the share of positive responses on measures such as future business conditions outweighed negative responses by 6.4 percentage points this quarter, compared to 4.1 percentage points in Q1 2023.

The Future Conditions Index also reflects the current Oxford Economics forecast that the U.S. economy will experience a mild recession, now anticipated to start in Q4 2023. The downturn will be driven by the impact of cumulative Fed rate hikes, tighter lending conditions and high inflation leading consumers and business to cut back on spending, hiring and investment. Even with these expectations that consumer spending will slow, consumer survey results continue to indicate that more than one-third of adults expect to visit a casino during the next 12 months, consistent with prior quarter results.

The Future Conditions Index is calculated to provide a leading indicator of changes in industry conditions. The 99.6 reading on the Future Conditions Index in Q3 indicates an environment in which real economic activity in the gaming sector, after controlling for underlying inflation, is expected to slightly decrease over the next six months (-0.4% annualized rate).

FUTURE CONDITIONS INDEX



SOURCE: AMERICAN GAMING ASSOCIATION



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GAMING EXECUTIVE PANEL HIGHLIGHTS

Gaming executives remain upbeat about present conditions, however their optimism has eased some since the prior survey, which is consistent with the deceleration in growth in the sector. Overall, almost all respondents characterized the current business situation as good (42%) or satisfactory (55%) and more than half expected the next three to six months to be about the same (58%), with the remainder almost evenly split between those who anticipate better or worse conditions.

Views on financial conditions are mixed, but slightly weaker than the prior survey, with about one quarter of gaming executives describing access to credit as tight (26%), which is slightly more than those reporting it is easy (19%). More than half of executives cited inflation or interest rate concerns as the top factor limiting operations (58%).

Gaming executives continue to have positive views that overall balance sheet health will improve (26% net positive), but they expect the pace of revenue growth (13% net negative) and new hiring to slow (19% net negative). Even with these expectations of decelerating growth, expectations for increases in capital investment and gaming units in operation remain net positive.

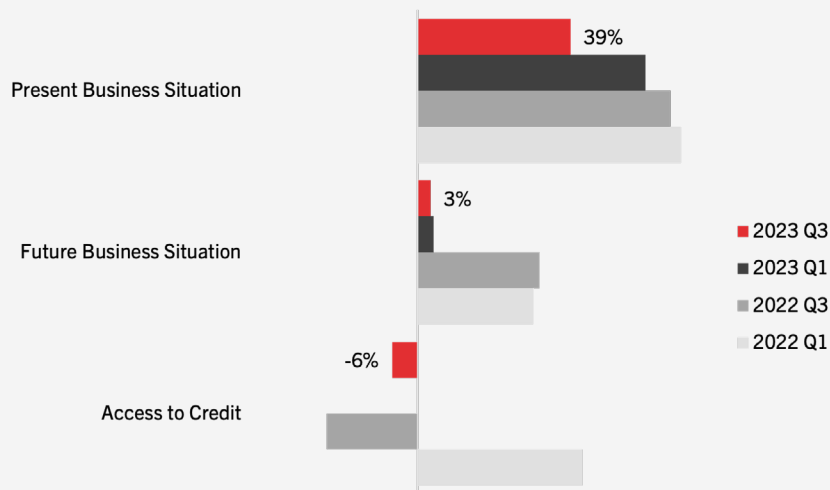
Gaming equipment suppliers are particularly optimistic about the pace of capital investment (44% net positive), with the same share anticipating the sale of gaming units for replacement use and new or expansion use to increase.

Investment in food and beverage offerings has risen as a priority area for investment in the coming year among 67 percent of respondents, compared to 39 percent of respondents stating hotel investment will be targeted.

Gaming executives positive about present conditions, remain net neutral on outlook over the next six months.

Business Situation

Net positive calculated as share of respondents that assess present conditions as "good" minus share assessing conditions as "bad."



Source: American Gaming Association

Response base: Gaming executive panel overall. Net positive calculated as share assessing present conditions for their company as "good" or future conditions as "expected to be better over the next three to six months" or access to credit as "easy", minus share assessing each measure as "bad" or "expected to be worse" or access to credit as "tight."



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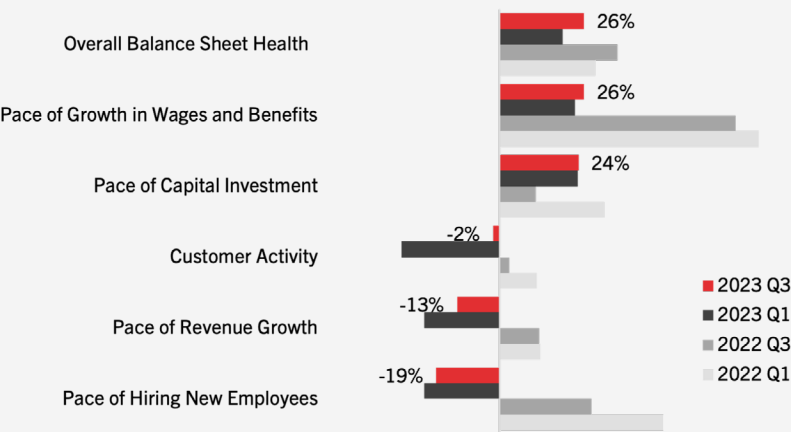
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Gaming executives expect improving balance sheets against a backdrop of slowing revenue growth and hiring.

Growth Expectations

Net positive calculated as share of respondents that "expect increase" over next three to six months minus share that "expect decrease."

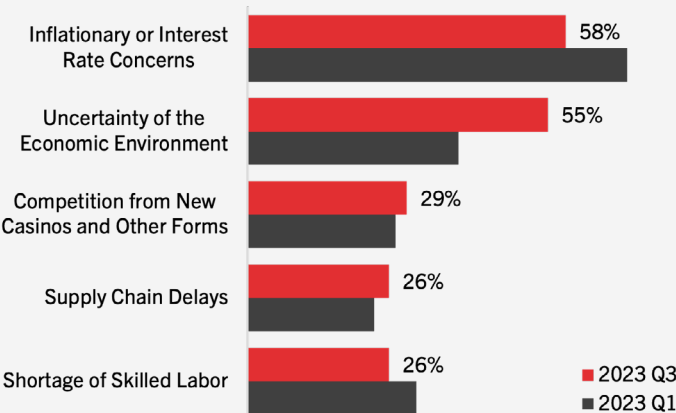


Source: American Gaming Association
Response base: Gaming executive panel overall.

Inflation or interest rate concerns, coupled with greater uncertainty about the economic environment are primary factors limiting operations.

Factors Limiting Operation

Share of respondents

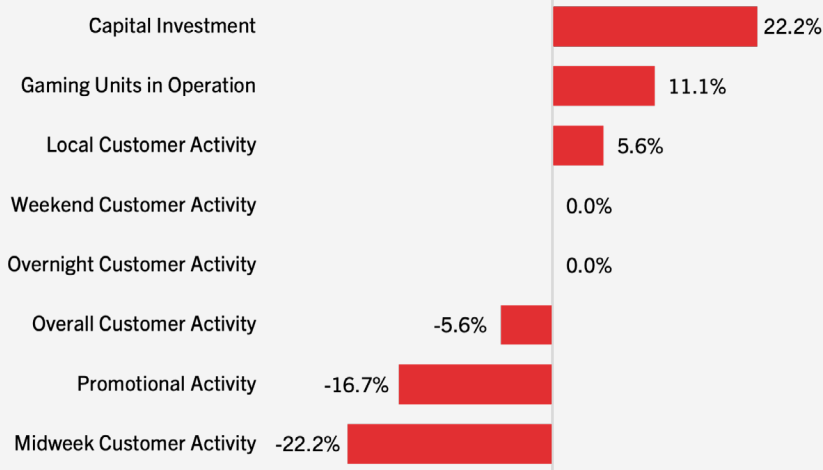


Source: American Gaming Association
Response base: Gaming executive panel overall.

Executives expect slower customer activity in most segments, but say capital investments will continue to increase.

Growth Expectations

Share of respondents that "expect increase" over next three to six months minus share that "expect decrease."

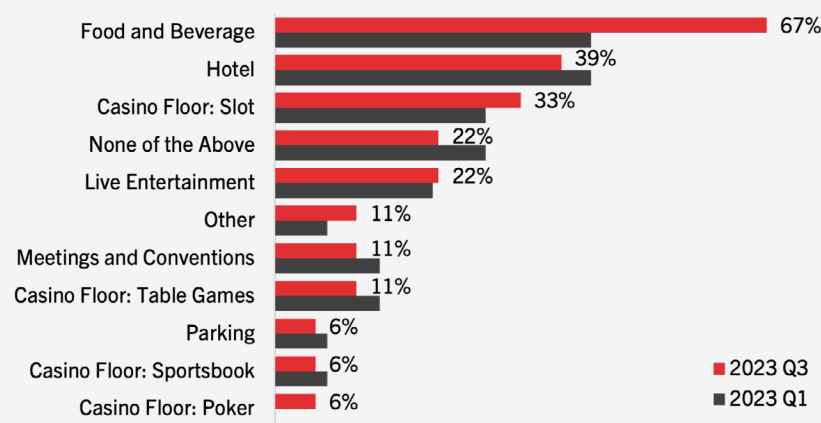


Source: American Gaming Association
 Note: Response base consists of casino operators and owners. Net balance calculated as share expecting an increase in each measure over next three to six months, minus share expecting a decrease.

Investment in food and beverage offerings has risen as a priority area for investment in the coming year.

Casino Areas Targeted for Extra Capital Investment

Share of respondents

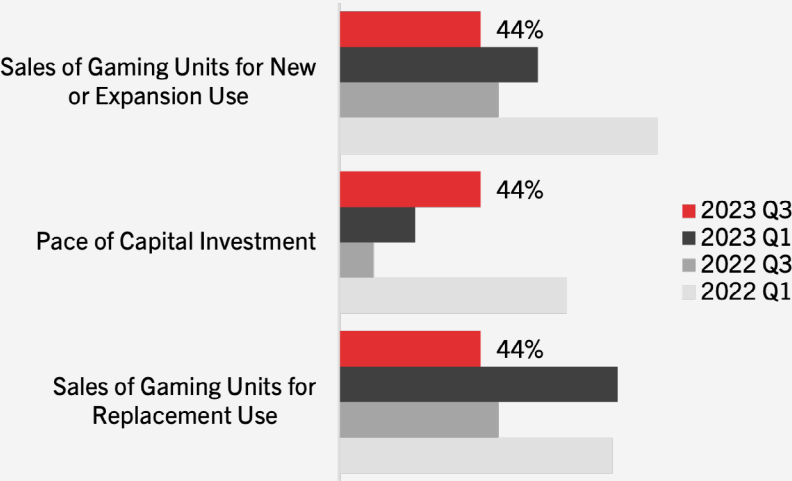


Source: American Gaming Association
 Note: Response base consists of casino operators and owners. Result shows the share of respondents expecting to make greater than normal levels of capital investment in each area over the next six to 12 months.

Supplier expectations for growth in sales of gaming units remain quite positive.

Growth expectations

Net positive calculated as share of respondents that "expect increase" over next three to six months minus share that "expect decrease."



Source: American Gaming Association

BACKGROUND & METHODOLOGY

The Gaming Industry Outlook Index is prepared on the behalf of the American Gaming Association by Oxford Economics and presented in partnership with Fitch Ratings. It provides a timely measure of recent growth and future expectations. This is the fifth release of the index.

Current Conditions Index:

- The Current Conditions Index measures activity in the U.S. casino gaming industry during the most recent quarter. It is based on three components: gaming revenue, employment and wages and salaries. Each component is adjusted to control for seasonal patterns and monetary measures are adjusted for inflation. Data is estimated through the most recent quarter for each index component based on available monthly data as of the point of index calculation. The index is re-estimated as additional information becomes available for past quarters.
- The Current Conditions Index reflect the composite growth of the three components, on an annualized basis. Index values above 100 indicate activity expanded during the quarter, while index values below 100 indicate a contraction. Index values are scaled to be consistent with annualized growth. For example, an index values of 103 is consistent with a 3 percent annualized pace of growth. The index controls for typical seasonal patterns, and index values may be directly compared to the pace of change in previous periods.
- When shown graphically, the Current Conditions Index compresses the most extreme values (index values below 80 or above 120). Individual observations are shown as well as a smoothed series, similar to a moving average, to help convey shifts in industry conditions.

Future Conditions Index:

- The Future Conditions Index measures the expected direction of conditions in the U.S. casino gaming industry over the coming six months. It is based on the following three components: economic conditions (measured as Oxford Economics' forecast for growth in personal disposable income, household net worth and consumer spending on services), consumer intentions to visit a casino in the future, and the aggregate sentiment expressed in the Gaming Executive Panel. The Future Conditions Index is scaled so that index values correspond to the expected growth rate in industry conditions as measured by the Current Conditions Index. For example, an index values of 103 is consistent with a 3 percent annualized pace of expected growth.
- The economic conditions measure is based on Oxford Economics' forecast of growth in real disposable income, household net worth, and consumer spending on services. The components of the index were selected based on the contribution each indicator makes to predicting future movements in the Current Conditions Index. Casino executive sentiment is measured through the aggregate measure of positive responses minus negative responses across a set of survey questions.
 - For example, one of the survey questions included in this aggregate is the pace of hiring new employees. The net positive response for that question is calculated as the share of responses that expect an increase in the pace of hiring new employees over the next three to six months, minus the share that expect a decrease in hiring. This net positive response is averaged with responses to a selected set of other survey questions (e.g., pace of revenue growth, pace of growth in wages and benefits, expectations of future business conditions) to calculate the average net positive response as a measure of casino executive sentiment.
- The Future Conditions Index is based in part on Oxford Economics' outlook for the economy:
 - The economy is expected to experience a mild recession starting in the Q4 2023. This view reflects three key forces expected to cause growth to weaken into year-end. The peak impact of the Fed's tightening is yet to come on the economy, fiscal policy is set to switch from a boost to a drag, and there are growing headwinds to household incomes from a deteriorating labor market and the resumption of student loan payments.
 - Each of the economic drivers in the Future Conditions Index (disposable income growth, household net worth and consumer spending) are expected to decline in real terms during the fourth quarter of 2023 before improving in the first half of 2024.

Gaming Executive Panel

- The Gaming Executive Panel consists of senior-level AGA member executives selected to represent the breadth of the casino gaming sector. Respondents were segmented across three primary categories: casinos operators and owners, gaming equipment suppliers and iGaming and/or sportsbook operators.
- The Q3 2023 survey was conducted between August 28 and September 6, 2023. A total of 33 executives responded, including executives at the major international and domestic gaming companies, tribal gaming operators, single unit casino operators, major gaming equipment suppliers, and major iGaming and/or sports betting operators.

ABOUT FITCH RATINGS

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