

GAMING INDUSTRY OUTLOOK: GAMING GROWTH SLOWS FOLLOWING PERIOD OF BRISK EXPANSION

U.S. gaming industry expansion slowed in recent quarters and the near-term outlook is more tempered than in prior years, according to the AGA Gaming Industry Outlook.

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 for Q3 2024 was 97.3, which is consistent with real annualized contraction of 2.7 percent. The Current Conditions Index measures real economic activity in the industry, as measured by gaming revenue, employment and employee wages and salaries.
- The Future Conditions Index, a leading indicator of changes in industry conditions, measured 98.9 in Q3. This indicates an environment in which real economic activity in the gaming sector, after controlling for underlying inflation, is expected to moderately decrease over the next six months (1.1% annualized rate).

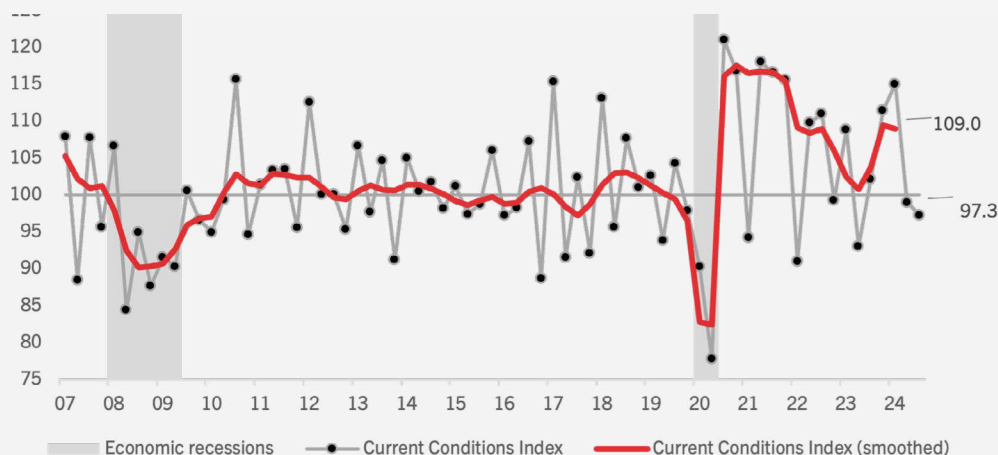
The Future Conditions Index reflects gaming CEO growth expectations that have softened relative to six months ago – with the share of executives expecting decelerating growth outweighing those expecting accelerating growth – and an economy that has shown solid growth recently, but which is expected to slow moderately in coming quarters.

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, expanded briskly during Q4 2023 and Q1 2024, but there are initial indications activity decelerated during the most recent two quarters. The Current Conditions Index for Q3 2024 was 97.3, which is consistent with real annualized contraction of 2.7 percent, following a reading of 99.0 in Q2 2024 (consistent with 1.0 percent annualized contraction). Because gaming revenues and employee wages are adjusted for inflation, the Current Conditions index was tempered by still-elevated inflation through Q2 2024, though inflation was less of a factor in slowing growth in Q3 2024.

The smoothed version of the Current Conditions Index, which is reported with a two-quarter lag and is less impacted by short-term fluctuations, stood at 109.0 in Q1 2024 (three-quarter weighted average). This indicates that industry activity has been expanding in recent quarters at an annualized pace of 9.0 percent, representing sustained real growth even when controlling for the effects of inflation.

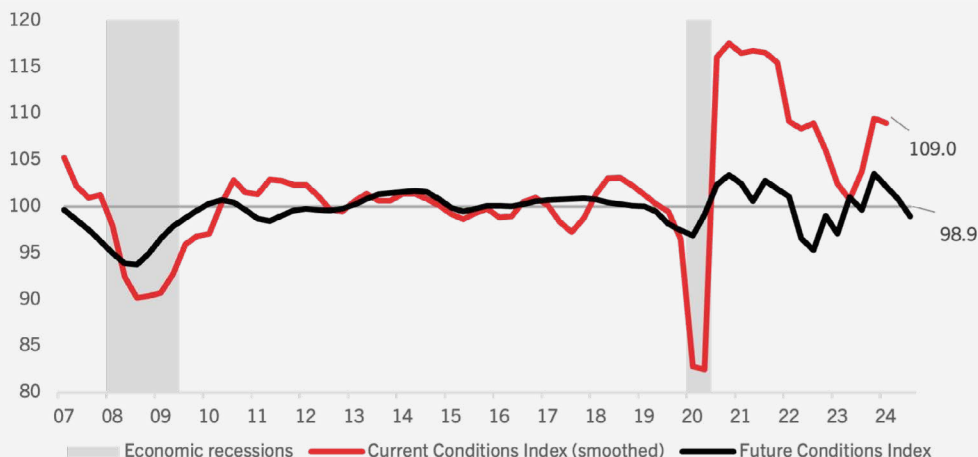
CURRENT CONDITIONS INDEX



Gaming CEO growth expectations have softened 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 more conservative responses on measures such as future business conditions outweighed more positive responses by 8.7 percentage points this quarter (8.7% net negative), compared to 6.3% net positive in Q1 2024. For example, in this quarter’s survey, slightly more gaming executives anticipate the pace of revenue growth to decelerate rather than accelerate over the next three to six months (16% net negative).

The Future Conditions Index also reflects Oxford Economics’ current forecast that the U.S. economic growth will slow in coming quarters relative to recent growth but avoid recession. It appears fears of labor market weakness are overdone, and consumer spending growth is expected to remain positive, accompanied by further gains in household net worth, and only a slight increase in the unemployment rate. The Federal Reserve recently made the first of what is anticipated to be a series of cuts in short-term interest rates, moderating one factor that is contributing to slower economic growth. Oxford Economics expects inflation, as measured by the PCE price index, will slow from 2.4% year-over-year in Q4 2024, to 2.2% by Q4 2025. The share of consumers that expect to visit a casino over the next 12 months remains solid, having improved relative to a year ago.

FUTURE CONDITIONS INDEX



The Future Conditions Index provides a leading indicator of changes in industry conditions. The 98.9 reading on the Future Conditions Index in the third quarter indicates an environment in which real economic activity in the gaming sector, after controlling for underlying inflation, is expected to moderately decrease over the next six months (1.1% annualized rate).

GAMING EXECUTIVE PANEL HIGHLIGHTS

A majority of gaming executives now cite uncertainty around the economic environment as a key factor limiting operations (56%). Also, there has been a notable shift since Q1, with a greater share of respondents now expecting a decrease in customer activity over the next three to six months (28% net negative, compared to 4% net negative in Q1), with respondents expecting slowing growth across each customer category.

More executives now expect a decrease in the pace of hiring (56% net negative), revenue growth (16% net negative), and capital investment (15% net negative), than expect an increase. Though panelists generally still see overall balance sheet health improving (34% net positive).

More executives (16%) are reporting a negative outlook of the business situation than in Q1 (10%), while fewer respondents characterize the current business situation as good or satisfactory (88% in Q3 compared to 94% in Q1).

Inflationary or interest rate concerns continue to be cited by some as a key factor limiting operations (28%). However, nearly all gaming executives report that financial conditions are accommodative, with more viewing access to credit as easy (19%) than restrictive (3%) for the first time in two years.

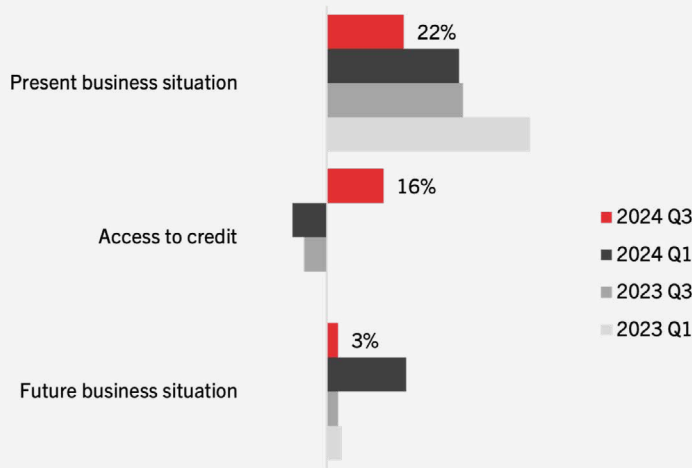
Gaming equipment suppliers now believe the pace of capital investment will decrease (13% net negative) and are cautious about the sale of gaming units for replacement use (13% net negative) and new or expansion use (13% net negative).

Hotel (56%) and food and beverage facility (also 56%) investments continue to be the main and growing focus among respondents, followed by live entertainment (28%), which increased relative to the Q1 survey (16%).

Gaming executives report easier access to credit for the first time in two years.

Business Situation

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

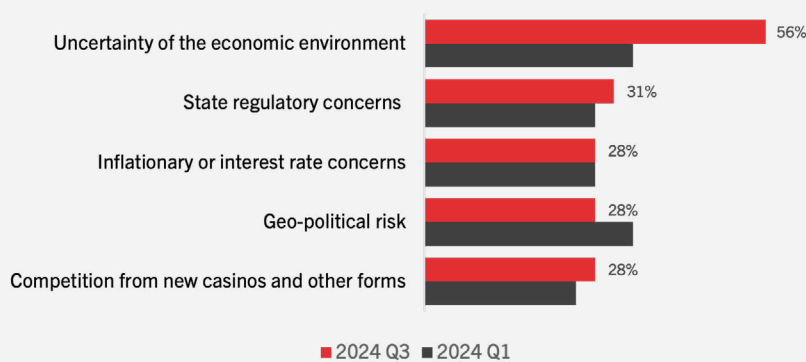


Response base: Gaming executive panel overall. Net positive calculated as share assessing present conditions for their company as "good" or future conditions as "expected to be better over the next three to six months" or access to credit as "easy", minus share assessing each measure as "bad" or "expected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

More focus has shifted to economic uncertainty as a factor limiting operations.

Factors Limiting Operations

Share of respondents



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

Executives noted that financial, regulatory and political considerations as issues requiring greater than normal levels of executive management.

Short-answer comments by executives on aspects of operations requiring greater than normal levels of management attention included the following responses:

FINANCIAL Revenue growth; cost containment across the board to fight inflationary issues and a general pullback in business; managing economic downturns; expense management.

POLITICAL Political considerations; potential forthcoming supply chain issues based on geo-political considerations related to Asia (China).

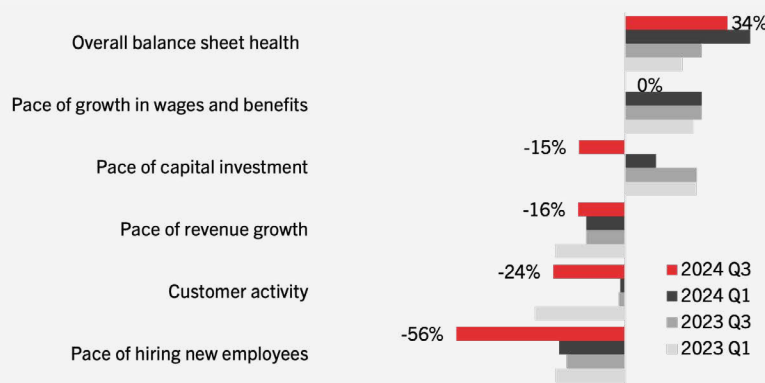
REGULATORY Regulatory management; communication and compliance.

HIRING Labor efficiency; the ability to retain hourly employees has become more difficult since COVID.

Growth expectations tilt negative, with more gaming executives expecting a reduction in the pace of hiring and reduced customer activity in coming months.

Growth Expectations

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

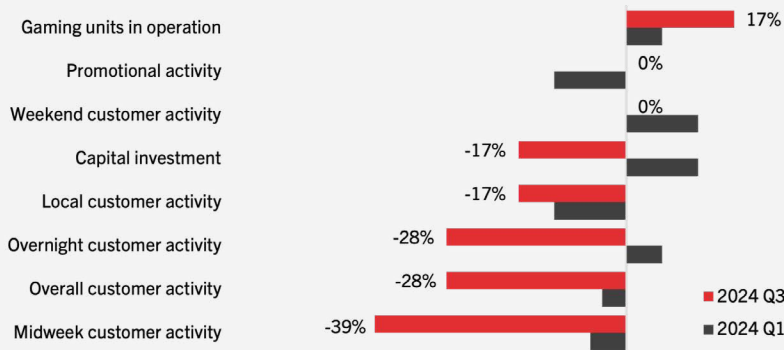


Response base: Gaming executive panel overall.
Source: American Gaming Association

On balance, executives expect declines in customer activity and capital investments.

Growth Expectations

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



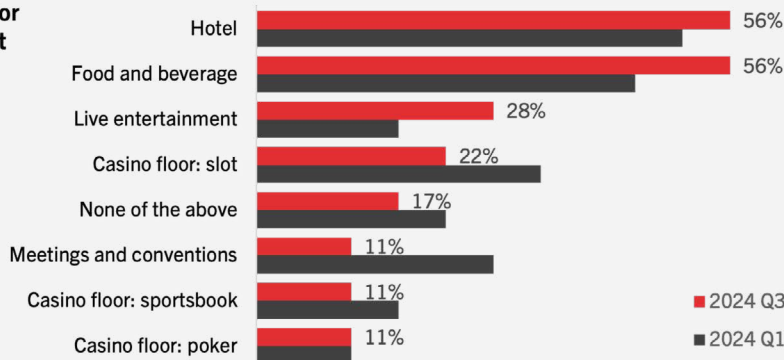
Note: Response base consists of casino operators and owners. Net balance calculated as share expecting an increase in each measure over next three to six months, minus share expecting a decrease.

Source: American Gaming Association

Hotel and F&B facility investment continues to be a focus, followed by an increase in targeting of live entertainment.

Casino Areas Targeted for Extra Captail Investment

Share of respondents



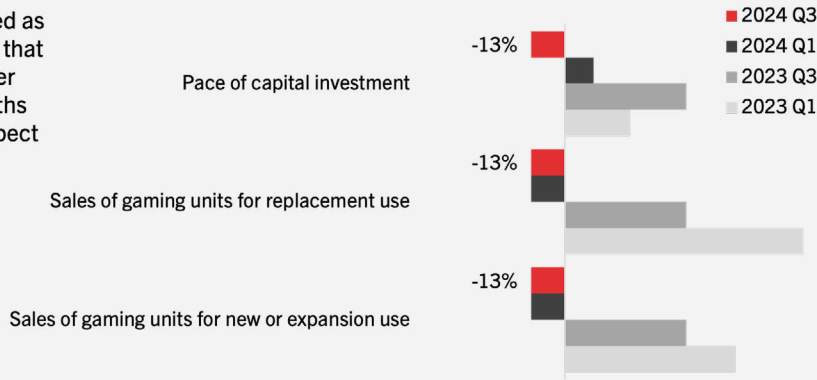
Note: Response base consists of casino operators and owners. Result shows the share of respondents expecting to make greater than normal levels of capital investment in each area over the next six to 12 months.

Source: American Gaming Association

Supplier growth expectations have eased; slightly more suppliers now expect a decrease in capital investment and sales.

Growth Expectations

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



Response base: Gaming equipment suppliers.
Source: American Gaming Association

BACKGROUND & METHODOLOGY

The Gaming Industry Outlook Index is prepared on the behalf of the American Gaming Association by Oxford Economics. It provides a timely measure of recent growth and future expectations. This is the seventh 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 three 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 three 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:
 - U.S. economic growth will slow in coming quarters relative to recent growth but avoid recession. It appears fears of labor market weakness are overdone. The unemployment rate is rising because recent hiring is not strong enough to fully absorb new labor force entrants. This type of rebalancing in the labor market is not significantly undercutting household spending trends. Also, while the personal saving rate remains low, it's justified by near-record levels of household wealth relative to incomes. While the presidential election introduces a source of uncertainty, it typically takes time before policies of a new president can shape the economy, and the likely outcome with divided government further limits policy shifts. The Federal Reserve recently made the first of what is anticipated to be a series of cuts in short-term interest rates, moderating one factor that is contributing to slower economic growth.
 - Each of the economic drivers in the Future Conditions Index (disposable income growth, household net worth and consumer spending) are expected to show positive growth in real terms, though growth the remainder of the year and into 2025 is expected to be weaker.

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 2024 survey was conducted between August 21 and September 6, 2024. A total of 32 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.