

— PARTICIPANTS

Corporate Participants

John Asher – Vice President, Racing Communications, Churchill Downs Race Track

Robert L. Evans – Chairman & Chief Executive Officer, Churchill Downs, Inc.

William E. Mudd – Chief Financial Officer & Executive Vice President, Churchill Downs, Inc.

William C. Carstanjen – President, Chief Operating Officer & EVP, Churchill Downs, Inc.

Other Participants

Amit Kapoor – Analyst, Gabelli & Company, Inc.

Justin T. Sebastiano – Analyst, Brean Capital LLC

Cameron P. S. McKnight – Analyst, Wells Fargo Securities LLC

Steve T. Altebrando – Analyst, Sidoti & Co. LLC

— MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Churchill Downs Incorporated First Quarter Results Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this conference is being recorded.

Now I'd like to turn the call over to John Asher, Vice President of Communications, Churchill Downs. Mr. Asher, you may begin.

John Asher, Vice President, Racing Communications, Churchill Downs Race Track

Thank you, Kevin. Good morning, and welcome to this Churchill Downs Incorporated conference call to review the company's business results for the first quarter ended March 31, 2014. The company's first quarter business results were released yesterday afternoon in a news release that has been covered by the financial media. A copy of this release announcing results and any other financial and statistical information about the period to be presented in this conference call, including any 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. Let me also note that a news release was issued advising of the accessibility of this conference call on a listen-only basis via phone and over the Internet.

As we begin, let me express that some statements made during this call will be forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results, or otherwise are not statements of historical fact. The actual performance of the company may differ materially from what is projected in such forward-looking statements. Investors should refer to statements included in reports filed by the company with the Securities and Exchange Commission for a discussion of additional information concerning factors that could cause our actual results of operations to differ materially from the forward-looking statements made in this call.

The information being provided today is of this date only, and Churchill Downs Incorporated expressly disclaims any obligation to release publicly any updates or revisions to these forward-looking statements to reflect any changes and expectations.

I will now turn the call over to our Chairman and CEO, Bob Evans. Bob?

Robert L. Evans, Chairman & Chief Executive Officer

Thank you, John. We're all sitting here smiling, because nobody wants to follow John with that voice. So fortunately, I don't have any prepared remarks today. I'm going to turn it over to Bill Mudd, our CFO who will take you through the numbers. Then we'll be back and try to address any questions you might have. Bill?

William E. Mudd, Chief Financial Officer & Executive Vice President

Thank you, Bob, and good morning everyone. Overall, it was a solid quarter, setting records for both revenues and adjusted EBITDA. Revenues increased 13% to \$167 million, while adjusted EBITDA improved 16% to \$24.5 million. In the fourth quarter we made a few changes to our press release to make it easier to understand our results. The feedback has been positive, so I'll shorten my comments to highlight the most important and interesting elements of our earnings.

In our gaming segment, revenues increased 20% over the prior year to \$86.6 million. Increase was entirely driven by the July 2013 acquisition of the Oxford, Maine casino. Our other properties had mixed results largely [inaudible] (03:32) the markets where they operate.

Our Calder Casino revenues were consistent with the prior year. We saw gains in the number of players and a number of trips in every customer tier which is partly due to the closure of Internet cafes since 2013. These improvements were offset by a lower win per customer and the loss of a large VIP customer in April of last year. Our Louisiana and Mississippi operations experienced declines in trips and win per trip in nearly every customer segment. We believe both states continue to be hindered by our regional economic weakness, as our competitors are experiencing similar results.

Our Oxford property posted revenues that were flat to the prior year despite terrible weather. Gains from an 8% increase in February revenues were offset by 10% decline in March, which experienced nine days of bad weather compared to only four days in the prior year.

Before we get into gaming adjusted EBITDA, I wanted to highlight that we reclassified our equity investment in Miami Valley Gaming from our other investment segment, through our gaming segment this quarter, coincide with first full quarter of operations. In total, gaming adjusted EBITDA improved \$5.3 million driven by the additions of Oxford Casino which added \$4.2 million and our Miami Valley Gaming joint venture which added \$2.7 million. Both properties met or exceeded our expectations in the first quarter.

I would like to highlight that our adjusted EBITDA metric which includes our share of Miami Valley Gaming earnings before interest and taxes which includes depreciation and amortization cost. You could find more details on the MVG financials in both the 10-Q and the press release. The first quarter adjusted EBITDA of the property including our partner share was \$8.6 million. Partly offsetting the adjusted EBITDA gains from our new properties were declines in our Mississippi operations of \$0.7 million and Louisiana operations of \$0.8 million driven by the revenue declines discussed earlier.

Our Online Business revenues improved 7% during the quarter, driven by an 8.8% increase in wagering. The reinstatement of wagering by Illinois residents was mostly offset by the late September 2013 cessation of wagering by Texas residents. When excluding wagering from Illinois and Texas residents from both periods, handle grew 8.6% in the quarter driven by 13% increase in

unique players. Betting on U.S. thoroughbred racing declined by 2.1% for the period, meaning that handle growth on TwinSpires outpaced the industry by nearly 11%. Our Online Business Adjusted EBITDA declined by \$1.4 million as organic revenue growth was offset by the disruption in Texas resident wagering and additional taxation of online wagering in certain states.

Our racing segment posted revenues of \$30.6 million, up 10% from the prior-year driven by the addition of 39 live race days at Calder. Partially offsetting this increase was a decline in revenues at Fair Grounds driven by inclement weather causing races to be removed from the turf and lower on-track attendance.

Racing operations adjusted EBITDA improved by \$1 million versus the prior-year driven by \$1.3 million increase at Calder from the addition of live racing. Partially offsetting this increase was \$0.2 million decrease at Churchill Downs Racetrack as unusual winter weather patterns negatively impacted revenues and expenses.

Other investments, EBITDA decreased \$1.7 million primarily driven by expenditures of \$1.1 million on the development of our iGaming platform. We also spent \$0.6 million on legislative gaming efforts in Kentucky during the quarter. Total adjusted EBITDA came in at \$24.5 million, an improvement of 16% over the prior year. Net losses from operations totaled \$0.7 million, down \$1.8 million from the prior year as improvements in adjusted EBITDA were offset by higher equity compensation expenses associated with the new long-term incentive plan, and higher interest expenses on higher debt balances and higher interest rates associated with our new senior unsecured notes.

As a reminder, the vast majority of expense related to the new long-term incentive plan is recognized over the first 14 months of the plan. The plan started at the end of March 2013. So the expenses will be greatly reduced starting in June of this year.

With that, I'll turn it back to over to Bob who will open the call up to questions. Bob?

Robert L. Evans, Chairman & Chief Executive Officer

Thanks, Bill. Also with me today are Alan Tse, our General Counsel; and Bill Carstanjen, our President and COO. So if there's any questions, Kevin, if you could check, we have to address those now.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Amit Kapoor of Gabelli & Company. Your line is now open.

<Q – Amit Kapoor – Gabelli & Company, Inc.>: Thank you. Thanks for taking my question. Good morning. Bob, can you provide us an update now that the legislative session has ended in Kentucky on the – essentially the roadmap and prospects of the House Bill, the two House Bills that were introduced in the Senate Bill, and how that might look? And then I have a separate question, please. Thank you.

<A – Bob Evans – Churchill Downs, Inc.>: Sure, Amit. Thanks for joining us this morning. Well, the legislative session has ended. We didn't get any of those bills passed and we'll have another shot in 2015, but that's a short year, a short session, and it's probably unlikely that anything material happens then. It could, but historically not a lot gets done in the short session. If the matter proceeds via a constitutional referendum which is what the intent was this year, our next shot would be 2016. And sort of too far away at this point given that there's elections in between to know just how that'll play out, but realistically probably our next best shot is in 2016.

<Q – Amit Kapoor – Gabelli & Company, Inc.>: Great, thank you. And on a separate note, can you highlight some of the potential positive implications and uses of the new board, the big board at the track? And correct me if I'm wrong, it'll be unveiling this Saturday but the board's obviously been in use and I guess tested and how quickly can it be used going forward for events and other programs? Thank you.

<A – Bob Evans – Churchill Downs, Inc.>: Sure. The board is – the construction has been completed. It's been in testing for the last week and a half or so. I was over there yesterday and saw some video demonstrated, pretty cool stuff. I think people will be really excited about it. It lets us do a couple of things that we've never been able to do before, in fact, no race track's ever been – thoroughbred race track has ever been able to do before.

I guess I'll start with just everyone will be able to see the race, which is kind of – you think that that would've been true historically, but it unfortunately wasn't. But everybody will see the race this year from beginning to end. The horses themselves are about 70-feet tall on the screen. So I don't think it'll be too hard to find your favorite in the field.

Two other things we have planned. There will be some advertising, some sponsorship this year but that will probably kick in in a more significant way in 2015. We're going to do some fun stuff with the fans. Let the fans post pictures to the big board, appropriately view it of course, and probably my favorite part about the whole thing is that it makes the folks in the in-field, the tens of thousands of people that turn out to watch the Oaks and Derby in the in-field, it puts them in the front row seats. So rather than being in a place where they probably never saw a horse in years passed, they're going to have front row seats where the big board and I think that's a pretty cool thing.

<Q – Amit Kapoor – Gabelli & Company, Inc.>: Great. Thank you for the detail.

<A – Bob Evans – Churchill Downs, Inc.>: Sure.

Operator: And the next question comes from Justin Sebastiano of Brean Capital. Your line is now open.

<Q – Justin Sebastiano – Brean Capital LLC>: Thanks. Good morning, guys. Can you give us a little bit of update on the Fair Grounds licensing renewal process that's going on right now?

<A – Bob Evans – Churchill Downs, Inc.>: Sure. Bill Carstanjen will take that one.

<A – Bill Carstanjen – Churchill Downs, Inc.>: Sure. So the summary of that is that there's been a fairly active publicity campaign down there requesting that essentially we invest more in the racing side at the Fair Ground. And coincident with that, there was a bill that passed with the House Chamber of The Legislature that would require more investment in the Fair Grounds racing piece, if it were to get all the way through the legislature and be passed to the – signed by the governor. So in that context, we've also had a series of Racing Commission meetings where they wanted to understand more our plans on the racing side in conjunction with the licensing process.

In our view, we are licensed for 10 years. The Racing Commission still holds a yearly hearing to re-award our license. So if they were ever to withdraw our racing license, we would certainly dispute that very vigorously and we believe very strongly in our position. But the larger point is ensuring that we can continue to run that business in an economically sensible way, and that's what we're working towards both in the legislature and with the Racing Commission to explain our side of the story and what the economics are for racing in Louisiana.

<Q – Justin Sebastiano – Brean Capital LLC>: Okay. And as far as on the gaming side, can you give us a little bit more color on Mississippi that your two assets there. I mean, I've seen the properties. I assume it's more of the macro view in Mississippi as opposed to something specific to your properties? Can you give us maybe a little bit of color on what's actually impacting those properties this quarter?

<A – Bill Mudd – Churchill Downs, Inc.>: Yeah. This is Bill Mudd. I'll take that one. Let's start with the markets in both of them. If you look at the Mississippi market, those numbers are relatively well-publicized than what our competitors are doing. We do only have slots. We have to strip out the table games but if you look at market share, we might have eroded 0.2 points of market share over the last quarter. I think there is probably some stimulus money still left in the market last year after some of the hurricane money had come in. So maybe we were affected slightly more, but largely in line with what our competitors are doing in Louisiana.

Mississippi market though, both of our properties have gained market share. They're slightly ahead of last year. When you look at the customer database, we're getting hit across the database from high tier customers, low tier customers; million tier, both in trips and wins per trip. But our properties in Mississippi, we've done a nice job of trimming expenses. So we were able to offset a good portion of that, at least in our Vicksburg property we didn't have quite as much luck in our Greenville property but still nonetheless we were able to offset a good portion of it. So yeah, the whole market in that region we believe is just economically...

<Q – Justin Sebastiano – Brean Capital LLC>: Okay. And you haven't seen trends improve over the past few – as we got into April here versus Q1?

<A – Bill Mudd – Churchill Downs, Inc.>: No. I think it bounces around. And some of it has to do with what your table hold rate was in the prior year. But it was pretty constant and a lot of it, if there was any change, there is also – maybe a little bit easier comparison to the prior year.

<Q – Justin Sebastiano – Brean Capital LLC>: Okay.

<A – Bill Mudd – Churchill Downs, Inc.>: This year we should start to hit easier comparison points. That's the bright spot in it.

<Q – Justin Sebastiano – Brean Capital LLC>: Okay. And then, just lastly, you spent another \$1 million plus on your Internet gaming platform. Is this something that you're going to continue to invest in? Is there an ROI on this facet? I mean, where can we think this is going and when will we – maybe start to see some good returns on this?

<A – Bob Evans – Churchill Downs, Inc.>: Hey, that's a good and fair question. I've got a short and sweet answer which is that we believe that over time, the Internet gaming market in the U.S. will develop into a significant opportunity for us and for others as well, of course. We plan to be a significant player in that. We'll continue to make the investments at about the current rate, at least through the rest of this year, building the technology platform which I think we've got some real advantages in. And we've got a long-term view on this. We can't make states to legalize Internet gaming any faster than they would otherwise. But as that occurs, we want to be a player and we'll make the appropriate investments to do that. Bill, is there anything else you want to add.

<A – Bill Mudd – Churchill Downs, Inc.>: No. I would just highlight that we did have \$1.1 million as expense in our fourth quarter of last year. [ph] I said that would continuously (18:25) we had about \$1.1 million in this quarter also. I think it's fair to assume that if that would continue as Bob just mentioned.

<A – Bob Evans – Churchill Downs, Inc.>: At least through this year.

<Q – Justin Sebastiano – Brean Capital LLC>: Okay. All right. Great. Thanks, guys.

<A – Bob Evans – Churchill Downs, Inc.>: You're welcome. Thanks, Justin. [ph] Do we have next, Kevin (18:40)

Operator: Yeah. We have next question from Cameron McKnight of Wells Fargo. Your line is now open.

<Q – Cameron McKnight – Wells Fargo Securities LLC>: Good morning. Thanks. Just one question from me. On Ohio, it looks like the properties opened well and things are off to a good start. Could you give some broad thoughts on perhaps how deep you think the market is, where do you think the property will help grow the market, and if you are taking some share, who you think you might be taking some share from? Thanks.

<A – Bill Carstanjen – Churchill Downs, Inc.>: Cameron, hi. It's Bill Carstanjen. I'll take the first stab at that one. Yes, we think we can grow the market and we think that because of where we're located within the market. We like how we're situated between Dayton and Cincinnati where we can draw pretty well from those southern portion of the Dayton suburbs, and from the Northern Cincinnati suburbs and we're tucked right in there on route 75. So I think we feel very good about the start so far. We think we fill a niche in the market, geographical niche where there's some good population basis to pull from. So over time, there'll be two other properties that open in that market, one fairly far away from us, the Belterra property. We feel pretty good that we're pretty distant from that. And then the Penn property which will open north of Dayton. We'll have to watch and see how they do when they do open. But our niche is really that corridor between southern portion of Dayton and northern portion of Cincinnati.

<Q – Cameron McKnight – Wells Fargo Securities LLC>: Great. Thanks very much. And then just as a follow-up on the – as far as the gaming segment's concerned outside of Maine, just broadly and generally what are you seeing with the consumer, I mean to the extent that you can comment. Is it just the low end consumer that's challenged, or is it more broad based or more geographically specific?

<A – Bill Mudd – Churchill Downs, Inc.>: I would say it's more geographically specific, Cameron. In Mississippi and Louisiana, we're seeing all segments of the customer database being affected. And I think our competitors are seeing the same thing. In Florida, all segments of our customer database is doing very well. And then, I discussed Maine, we've done a nice job of growing that upper end by making some changes through our player rewards program, so.

<A – Bob Evans – Churchill Downs, Inc.>: Yeah. There's no blinding insight here but we need job growth and we need growth in personal disposable income. And until that occurs, I think same-store sales across all of gaming are going to be pretty soft.

<Q – Cameron McKnight – Wells Fargo Securities LLC>: Great, thanks. That's really helpful.

Operator: Your next question comes from Steve Altebrando of Sidoti & Company. Your line is now open.

<Q – Steve Altebrando – Sidoti & Co. LLC>: Hi, good morning. Getting back to the online costs that we're seeing run through the P&L, how much of that is head count. Is it substantially head count?

<A – Bill Mudd – Churchill Downs, Inc.>: No, I think, Steve the loss of Texas is a big margin driver. That was a nice margin state for us. And then there were some new taxes that were imposed in Pennsylvania starting in October last year.

<A – Bob Evans – Churchill Downs, Inc.>: The online gaming play.

<Q – Steve Altebrando – Sidoti & Co. LLC>: Yeah. Sorry. Non-racing.

<A – Bill Mudd – Churchill Downs, Inc.>: I'm sorry. Yeah. It's mainly head count.

<Q – Steve Altebrando – Sidoti & Co. LLC>: Okay.

<A – Bill Mudd – Churchill Downs, Inc.>: [indiscernible] (22:19)

<Q – Steve Altebrando – Sidoti & Co. LLC>: And then, in terms of short-term – it looks like short-term deferred revenue was up 10%. How much of that is timing, how much does that reflect strength hiding into the Derby?

<A – Bob Evans – Churchill Downs, Inc.>: I think we get this question every year.

<Q – Steve Altebrando – Sidoti & Co. LLC>: Usually from me.

<A – Bob Evans – Churchill Downs, Inc.>: Could be.

<A – Bill Mudd – Churchill Downs, Inc.>: Well, I mean, Steve maybe some of it's timing and some of it's early business volumes. I don't want to make any forward-looking statements but I think all the metrics that we discussed on the last earnings call which, I think it was only like month-and-a-half ago, are all trading very positive and I think we're going to have a great Derby this year.

<Q – Steve Altebrando – Sidoti & Co. LLC>: Okay. And then just last one. I guess you funded \$6 million for the JV. Does that complete the cash contribution? And assuming all proceeds going forward, will be paid back to you in dividends. Is that correct?

<A – Bill Mudd – Churchill Downs, Inc.>: Yeah. Right now, obviously, we're generating cash and we're using some of that cash to continue to pay for the development cost and the sellers note. So I think [ph] today (23:30), we're about \$97 million or so. There was going to be a \$25 million license fee payment at the end of this year. So one year out, we opened the second half of the license fee. There'll obviously be another cash contribution to help cover that. But otherwise yes, we should start seeing cash flowing back to us.

<Q – Steve Altebrando – Sidoti & Co. LLC>: Okay. Okay. Thank you.

Operator: Now I'm not showing any further questions at this time.

Robert L. Evans, Chairman & Chief Executive Officer

All right, cool. Thanks everyone for joining us. Appreciate your time and attention. We're looking forward to Great Oaks and Derby week starting this Saturday night with opening night. And we'll issue a press release at the end of that week with some of the details of how it went. So look forward to that. And if you're in town, please join us. Thanks.

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

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