
What is Revel Worth?:

Estimating EV for a casino with negative EBITDA

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This report is the first in a series that will examine Revel's current financial situation. This investor alert examines the question of the valuation of the Revel Casino in Atlantic City in light of recent reports that the property is for sale.

We find:

- Revel's financial projections are not realistic and should not be trusted. More realistic financial projections (though still, in our view, overly optimistic) based on historical comparisons suggest that Revel will not achieve positive EBITDA until 2024.
- Valuation, in the case of Revel, is best determined on the basis of land value or the number of hotel rooms—implying an Enterprise Value of between \$25 and \$73 million with an average of \$46 million. If the property is sold within this range, creditors would take a sizable haircut on the outstanding \$383 million in debt. It also implies that Revel has a substantial amount of negative equity.
- In filings for the period ending January 31, Revel's second largest shareholder carried the property's equity on its books at an implied total equity value of \$10 million.

For more, read on.

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Since exiting bankruptcy there have been periodic reports that Revel is for sale.¹ Very little, however, has been written about a potential sale price. This report aims to rectify that deficiency.

In the gaming industry, Enterprise Value is normally a multiple of EBITDA,² and while Revel's own projections from the bankruptcy filings project positive EBITDA in 2015, Revel's financial projections cannot to be trusted.³

Since emerging from bankruptcy, Revel has so far failed to meet financial projections. The company noted in its second quarter financial report that "On August 9, 2013, the Credit Agreements were amended to reduce the threshold under the minimum liquidity covenant."⁴ In November, the company announced that it had, effectively, doubled the size of its revolver.⁵ And while the company's projected EBITDA of -\$42.7 million for 2013, the actual EBITDA was -\$130 million.⁶

In 2013, Revel's gaming revenue totaled just \$155.2 million⁷—substantially less than its 2013 projection of \$182 million.⁸ Meanwhile, for the first two months of 2014, Revel has taken in just \$21 million in gaming revenues.⁹

To illustrate the problems with using the EBITDA method of determining Enterprise Value, we have constructed the following estimations. To be clear, these are not realistic estimations. The estimated expenses are significantly lower than Revel has ever actually achieved, and the yearly percent revenue increases are larger than the Borgata, the most successful Atlantic City casino, achieved during its first years of operation.

UNITE HERE Projections of Revel Revenues:						
(in millions)	2014	2015	2016	2017	2018	2019
Percent Increase in	10%	10%	7%	5%	4%	3%
Gaming Revenue	\$170.7	\$187.7	\$200.9	\$210.9	\$219.4	\$225.9
Non-Gaming Revenue	\$85.3	\$93.9	\$100.4	\$105.5	\$109.7	\$113.0
Comps (25%)	(\$64.0)	(\$70.4)	(\$75.3)	(\$79.1)	(\$82.3)	(\$84.7)
Net Revenue	\$192.0	\$211.2	\$226.0	\$237.3	\$246.8	\$254.2
Operating Expenses	\$255.0	\$255.0	\$255.0	\$261.4	\$266.6	\$270.6
Subsidies	\$4.57	\$4.78	\$4.94	\$5.1	\$5.2	\$5.2
EBITDA	(\$58.4)	(\$39.0)	(\$24.1)	(\$19.0)	(\$14.7)	(\$11.2)

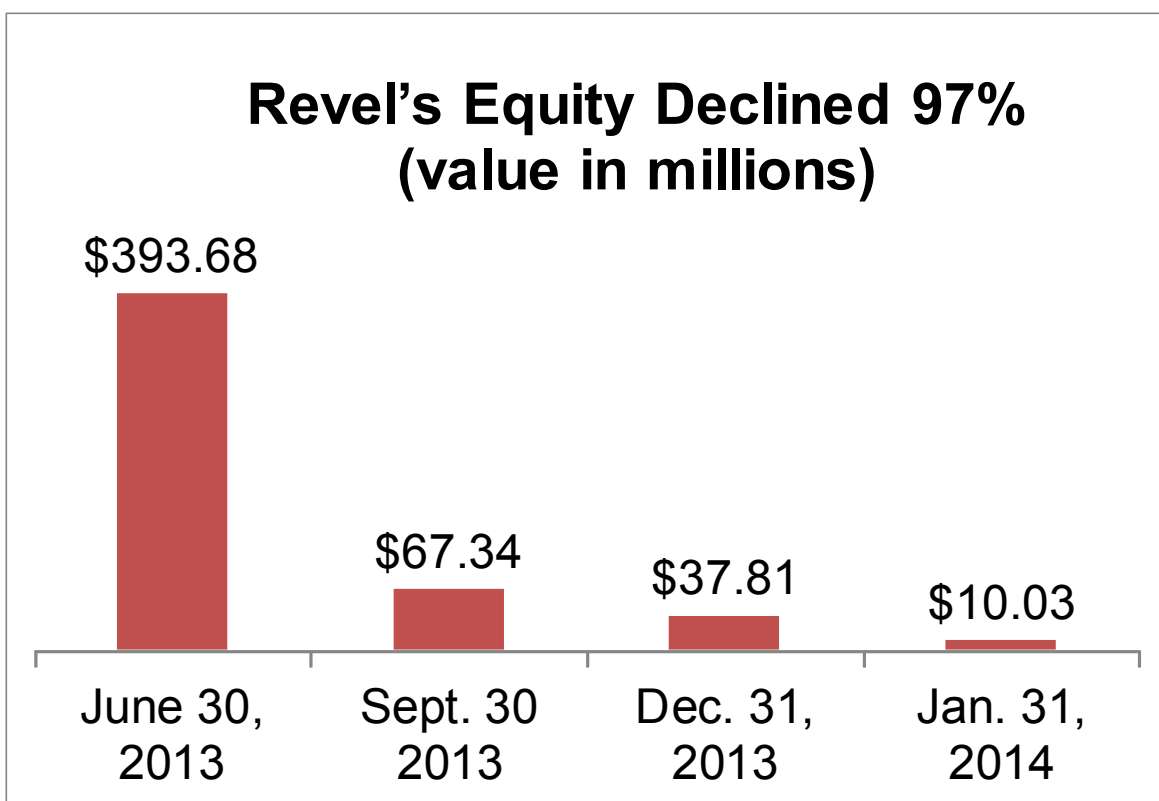
To put this in perspective, in a **growing** market, Borgata saw annual gaming revenue growth of 10.7%, 5.0%, 1.6% and -1.6% in its second through fifth full years of operation.¹⁰ If Revel meets our projections, it

will have had better growth during a period of prolonged international economic instability and declining Atlantic City gaming revenues than the Borgata did during a stock and housing market bubble that occasioned an upswing in overall Atlantic City gaming revenues.

Our projections do not have Revel achieving positive EBITDA until 2024, and will require an additional \$186 million (past 2013) to offset EBITDA losses. Any realistic valuation, therefore, cannot be based on future EBITDA, but should, instead be based primarily on the value of the underlying land or based on the number of hotel rooms. Recent sales in Atlantic City indicate a land value of between \$1.25 million per acre and \$2.71 million and a price per key of between \$28,925 and \$52,198.¹¹ **This implies a range of the Enterprise Value of Revel of between \$25 and \$73 million, with an average of \$46 million.**¹²

If the property is sold within this range, creditors would take a sizable haircut on the outstanding \$383 million in debt.¹³ It also implies that Revel has a substantial amount of negative equity.

According to numbers from Capital Group, Revel's second largest shareholder, Revel's equity has declined precipitously since exiting bankruptcy. As of January 31, Capital Group valued Revel's equity at \$1.27 per share. At this price, Revel would have a total equity value of \$10 million.¹⁴



Capital Group runs the American Funds family of mutual funds through which it owns shares in Revel. Because they are mutual funds, American Funds are required to regularly utilize mark-to-market accounting. Since hedge funds are not required to utilize mark-to-market, it would be interesting to know how Revel's owners that are hedge funds (Chatham Asset Management and Canyon Capital) value the property.

Our next investor alert will examine the unique (for Atlantic City) business model of Revel in which almost all of the food outlets are run by third party vendors.

¹ C.f. Palmeri, Chris, "Revel in Atlantic City Mulls Sale 6 Months After Bankruptcy Exit." *Bloomberg*, November 9, 2013; Kosman, Josh, "Failed Revel casino on block." *New York Post*, June 1, 2013; Kosman, Josh, "Hard Rock in talks to buy troubled Revel Casino: sources." *New York Post*, December 19, 2013; and Palmeri, Chris and Krista Giovacco, "Caesars is Said to Weigh Bid for Atlantic City's Revel." *Bloomberg*, January 29, 2014.

² See: Shaun Kelly and Matthew Cole, "BofAML Gaming Primer 2013: How to play the game." Bank of America Merrill Lynch, March 2013, p. 115.

³ See, NJ Division of Gaming Enforcement, "RE: In the Matter of the Petition of Revel Entertainment Group, LLC and Revel AC, Inc. for Approval of a Prepackaged Plan of Bankruptcy and Related Rulings." May 10, 2013, p. 27. "Revel management's inability to accurately forecast operating results was not limited to the Casino License Forecasts, and in fact, has been an ongoing issue. Beginning in May 2012 and continuing to date, Revel has been required to submit actual EBITDA results for the prior month and updated monthly forecasts going forward. **In every monthly submission thus far, actual results have been below those projected approximately two weeks before the month began, with most of the variances at a significant level** [emphasis added]."

⁴ Revel Entertainment Group, LLC "Quarterly Report: For the Quarter Ending June 30, 2013." Submitted to the Division of Gaming Enforcement of the State of New Jersey, p. 14.

⁵ Press Release, "Revel Secures Additional Financing." November 8, 2013, <http://www.prnewswire.com/news-releases/revel-secures-additional-financing-231214591.html>.

⁶ See "Disclosure Statement for the Joint Plan of Reorganization of Revel AC, Inc. and its Debtor Affiliates Pursuant To Chapter 11 of the Bankruptcy Code," Exhibit C. And Revel Entertainment Group, LLC, "Quarterly Report: For the Quarter Ending December 31, 2013." Submitted to the Division of Gaming Enforcement of the State of New Jersey, Form DGE 210.

⁷ NJ Division of Gaming Enforcement, "DGE Announces December 2013 Casino Win Results." January 14, 2014, p. 4.

⁸ See "Disclosure Statement for the Joint Plan of Reorganization of Revel AC, Inc. and its Debtor Affiliates Pursuant To Chapter 11 of the Bankruptcy Code," Exhibit C, where Revel projects \$182.2 million in gaming revenue in 2013.

⁹ NJ Division of Gaming Enforcement, "DGE Announces February 2014 Casino Win Results." March 12, 2013, p. 4.

¹⁰ Press Release, "Casino Revenues pass \$5.0 billion mark." Casino Control Commission, January 10, 2006, p. 6. Press Release, "Casino Revenues hit \$5.2 billion." Casino Control Commission, January 10, 2007, p. 6. Press Release, "CCC announces 2007 Casino Revenue." Casino Control Commission, January 10, 2008, p. 6. Press Release, "CCC announces 2008 Casino Revenue." Casino Control Commission, January 9, 2009, p. 6.

¹¹ We include here the sale of Resorts (\$31.5 million for 25.3 acres and 942 rooms), Trump Marina (\$38 million for 14 acres and 728 rooms) and Atlantic Club (\$23.4 million for 13.6 acres and 809 rooms). While these properties posted negative annual EBITDA every year since 2009 (Resorts and Atlantic Club) or 2010 (Trump Marina), their combined EBITDA was -\$46 million in 2010, -\$37 million in 2011 and -\$38 million in 2012 for a total of -\$122 million over 3 years, or about 80% of the \$151 million that Revel lost in its first year of operation (April 2012-March 2013). Sources: On the size and sale price of Trump Marina (Trump Entertainment Resorts 10-K, 2011, p. 3), for Atlantic Club (Deed, RIH Acquisition and BPP Providence Acquisition, Feb. 3, 2014, Exhibit A, and Parry, Wayne, "Atlantic Club to be Sold for parts, closed," *Associated Press*, December 20, 2013), for Resorts (Colony RIH Holdings, Inc, 10-K, 2006, p.14, and DGMB Casino, LLC, "Quarterly Report for the Period ended September 30, 2013," p. 1). For number of rooms, see Press Release, "DGE Announces Quarterly Results." November 22, 2013, p. 7. For EBITDA numbers see DGE Press Releases for Fourth Quarter 2012, 2011 and 2010. Revel sits on 20 acres and has 1,399 hotel rooms, Revel Factsheet, p. 1.

¹² See: Shaun Kelly and Matthew Cole, "BofAML Gaming Primer 2013: How to play the game." Bank of America Merrill Lynch, March 2013, p. 129. For Resorts casino, which had negative EBITDA, Kelly and Cole note that Resorts sale price "represents \$37,155/key and \$1.5 million/acre [sic]."

¹³ Revel Entertainment Group, LLC "Quarterly Report: For the Quarter Ending December 31, 2013." Submitted to the Division of Gaming Enforcement of the State of New Jersey, p. 12.

¹⁴ For the graphs as well, American High-Income Trust Forms N-Q and N-CSR for the periods ending June 30, September 30 and December 31, 2013, and the Form N-CSR for the Income Fund of American for the period ending January 31, 2014, and Revel Entertainment Group LLC Quarterly Report for the Quarter ended December 31, 2013, form DGE-220.