



# Harrah's Philadelphia Casino and Racetrack

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February 25<sup>th</sup>, 2015



## Presenting Today

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Ron Baumann, Senior Vice President & General Manager

Randall Conroy, Vice President and Ass't General Manager

Melissa Richards, Director of Human Resources/Community Relations

Susan Carletta, Vice President and Deputy Chief Regulatory &  
Compliance Officer

Eric Hession, CFO, Senior Vice President of Finance & Treasurer



## Community Commitment – A Promise Kept

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- \$2.2B in slot revenue & \$338M in table games revenue generated since opening
- \$1.4B in gaming related taxes and fees paid since opening
  - \$1.3B Slot Revenue Taxes/Fees
  - including nearly \$200M to City of Chester and Delaware County
  - \$71M Table Games & Poker Taxes/Fees
- ~33 million visitors since opening



# Harness Racing – A Promise Kept

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- Harness Racing Contributions
  - PA Horse Racing Development Funding: \$256M
  - PA Horse Harness Association Fees: \$18M
  - PA Pari-mutuel Taxes: \$4.5M
- Only PA track with system handle growth
- Racing Operations – 70+ jobs including affiliated vendors
- Account Wagering (on line horse betting) handle up 75% in 2014!
- 2015 Race Calendar: Mid-March through November
  - Large scale Kentucky Derby programming slated introducing gaming customers to racing industry



## Community Commitment – A Promise Kept

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Large supporter of local philanthropy & volunteerism:

- Over \$1M in charitable contributions 2009-present
- 58% of our team members volunteered 9,951 hours supporting over 125 non-profit organizations within the community
- 58% enrollment increase of Chester residents at Delaware County Comm. College as a result of our Table Games funding



## Community Commitment – A Promise Kept

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- \$25,000 Giving in December 2014 to Senior Community Services
- \$10,000 Giving in December 2014 to CityTeam Ministries





## Community Commitment – A Promise Kept

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Large purchaser of local and PA products:

- \$92M total vendor purchases (Licensing Period)
- 26% Local Business vendors (Licensing Period)
- 14% Minority & Women owned vendors (Licensing Period)



## Community Commitment – A Promise Kept

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Economic impact through sustained employment:

- Opened with 1,123 employees → grown to 1,442 employees
- Total salaries & wages paid since opening: \$275M
- Total payroll tax dollars paid since opening: \$35M
- Total employee benefits paid since opening: \$125M
- *Total Service* bonus payouts to team members in 2014: \$477,000





## Community Commitment – A Promise Kept

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Unwavering commitment to the workforce and the community:

- 53 % of our employees are minorities
- 43 % of our employees are female
- 39 % of our Supervisors and above are minorities
- 43 % of our employees are Delaware County residents
- 75 % of our employees are Pennsylvania residents
- 71 % of our Table Games employees are Pennsylvania residents



# Focus on Compulsive & Problem Gambling

Responsible Gaming is the foundation of Caesars Entertainment's ***Code of Commitment***

- Industry leading focus on Problem Gaming
  - Developed industry's first broadcast advertising campaign
  - Responsible Gaming collateral can be found at over 60 locations throughout the facility
  - More than 30 supervisory or management level employees serve as *Responsible Gaming Ambassadors*





# Focus on Compulsive & Problem Gambling

- Procedures developed specifically to identify and stop underage patrons at Harrah's Philadelphia
  - Traffic flow directs patrons through two main points of entry, manned by security guards with electronic ID verification devices
  - 2,500 – 3,000 patrons are turned away each year for failure to produce proper identification
  - In 2014, instituted security financial bonus for no underage entry (paid out over \$20,000 to security front line)





# Governance and Organization Structure

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Caesars has established an organizational structure, led by a senior corporate executive, to ensure compliance with Anti-Money Laundering (“AML”) & Bank Secrecy Act (“BSA”) regulations

- **Corporate AML Compliance Officer**
  - Senior Vice President & Corporate AML Compliance Officer, Benjamin J. Floyd
  - Reports directly to Caesars’ Executive Vice President, General Counsel and Chief Regulatory and Compliance Officer, Timothy R. Donovan
  - Has direct access to Caesars’ Audit Committee of the Board for reporting on AML/BSA matters
  - Supported by a corporate team of approximately 50 professionals, focused on SAR, CTR, patron due diligence, and program management activities
- **Property BSA Compliance Officers**
  - Each of Caesars’ properties has a designated BSA Compliance Officer
  - Maintains a dotted-line relationship to the Corporate AML Officer
  - Supported by additional property compliance staff for performance of AML/BSA related functions
  - Chairs a property SAR Review Committee with oversight over SAR decisions at the property level



## Policies, Procedures & Controls

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Caesars' program is comprised of a number of policies and operating procedures. Several key components are listed below

- Know Your Customer Policy
- OFAC Policy
- Anti-Money Laundering Discipline Policy
- Anti-Money Laundering Identification Policy
- Private Salon Procedures
- Walks-With-Chips Procedures
- 30-day Monthly SAR Review
- Slots-In Bill Review
- Security and Surveillance Review
- Cashier Generated Ticket Review
- Foreign Chip Exchange SAR Review
- Know Your Customer Escalation Process
- Casino Host Know Your Customer Form
- Back-end transaction review for suspicious activity and large currency transactions using Resort Advantage software
- Property-level AML risk assessment methodology



# Know Your Customer Due Diligence

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- The purpose of the KYC Policy is to ensure that Caesars conducts appropriate risk-based customer due diligence on its casino patrons and takes reasonable measures to ensure that its patrons have legal sources of funds to support their gaming activity and that they are not gambling with the proceeds of illegal activity
- Patrons are selected for due diligence based on certain risk-based gaming thresholds as well as specific event-driven triggers
- Caesars' revised and enhanced its AML training program in 2014
  - All US casino employees (including employees of their domestic and overseas marketing branches) who handle customer transactions or support the AML/BSA function receive appropriate AML training upon being hired and at least annually thereafter
  - Attendance at training sessions is tracked and maintained in property compliance files
  - Property Compliance monitors to ensure that new hires receive training



## Independent Review & Information Sharing

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- Caesars AML Policy and Program establishes Corporate Audit is responsible for conducting risk-based independent testing of the AML program, related procedures and internal controls.
- Caesars maintains procedures that govern information sharing with law enforcement and financial institutions regarding money laundering and terrorism financing matters.
  - Each Caesars licensee has been registered under FinCEN's 314(b) information sharing provision since July 2014
  - To our knowledge, Caesars was the first casino company to register under 314(b)



# Driving Gaming Revenues (AOC)

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- We operate in a highly competitive environment
  - Continuous competitor expansions since opening
  - We have four competitors within ~25-30 mile radius
  - Most of our business resides equal distance or closer to competitors
- Regional market challenges
  - Many markets challenged across US and PA
  - Local slot win has decreased each year since VF opening
- We are a successful regional casino
  - Harrah's is the #4 largest revenue producer in PA
  - Also #6 in local tri-state area (Philly/Delaware/AC)
  - Only PA track with system handle growth + 0.4%
- We are focused on growing our revenues, most notably our slot revenues by enhancing the property gaming and non-gaming amenities and experience, and by evolving our marketing efforts







# Reinvesting in our Gaming Experience

- Slot and Video Poker Product
  - 65% of slot units have been refreshed since 2011
- Opened New High Limit Area
- First Asian Gaming Area
- Opened Million Dollar Pit





## Reinvesting in our Non Gaming Amenities

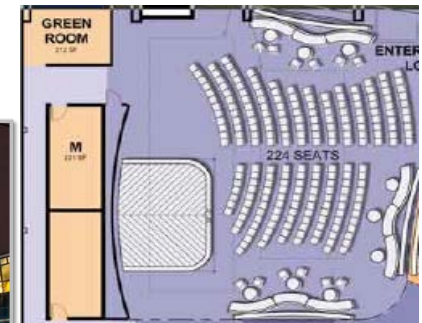
- \$800k Diamond Club Renovation
- Opened Cove Steakhouse & Raw Bar
- Opened Level Lounge





# Reinvesting in a new demographic

- Opening The Block Event Center this Summer
- Activating the Patio Area
- New Center Bar/Gaming Pit Including Massive Video Wall



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# Marketing Approach

- Initial slot market share improvement with new marketing strategy rolled out in September
- Making industry-leading player loyalty program, **Total Rewards**, more relevant
  - Earn Locally, Total Rewards Visa
- Enhancing slot technology
  - Free play offers sent directly to slot machine
  - Expedited slot service
- Digitalization of efforts
  - Communicating to guests electronically to align with changing preferences
- Evolving entertainment approach
  - Appealing to a younger demographic

2014 Philadelphia Net Win Slot Share			
	Q3	Q4	Var
Harrah's	\$53,420,139	\$54,021,905	1%
Competitors	\$152,930,106	\$150,504,823	-2%
Market	\$206,350,245	\$204,526,727	-1%
Harrah's Share	25.89%	26.41%	53 bps





## CEOC Financial Condition (AOC)

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- **Caesars Entertainment Corporation (“CEC”) and its subsidiary, Caesars Entertainment Operating Company, Inc. (“CEOC”), have focused on a broad, multi-pronged capital structure management strategy for CEOC since 2008:**
  - Executing over 40 separate capital markets transactions to proactively address CEOC’s debt balances
  - Maintaining cash available to fund operations, interest payments and capital expenditures
  - Extending maturity dates of debt to minimize default and refinancing risks
  - Managing cash and debt levels and amending CEOC’s credit agreement to avoid covenant default
  - Ensuring financial flexibility through the establishment and use of public equity currency
  - CEC and Caesars Acquisition Company (“CAC”) capitalizing a new growth-oriented entity with over \$1.1 billion of new 3rd party equity capital to fund growth projects, Caesars Growth Partners (“CGP”)
- **Throughout this time, at Harrah’s Philadelphia, CEOC has continued to focus on its employees, customers, service, and has made significant capital investments at the property**
- **At this point, attention is turning to what is believed to be the next component of the strategic plan to fully address capital structure issues at CEOC**



## Next Steps in Strategic Plan

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- **Two important transactions:**

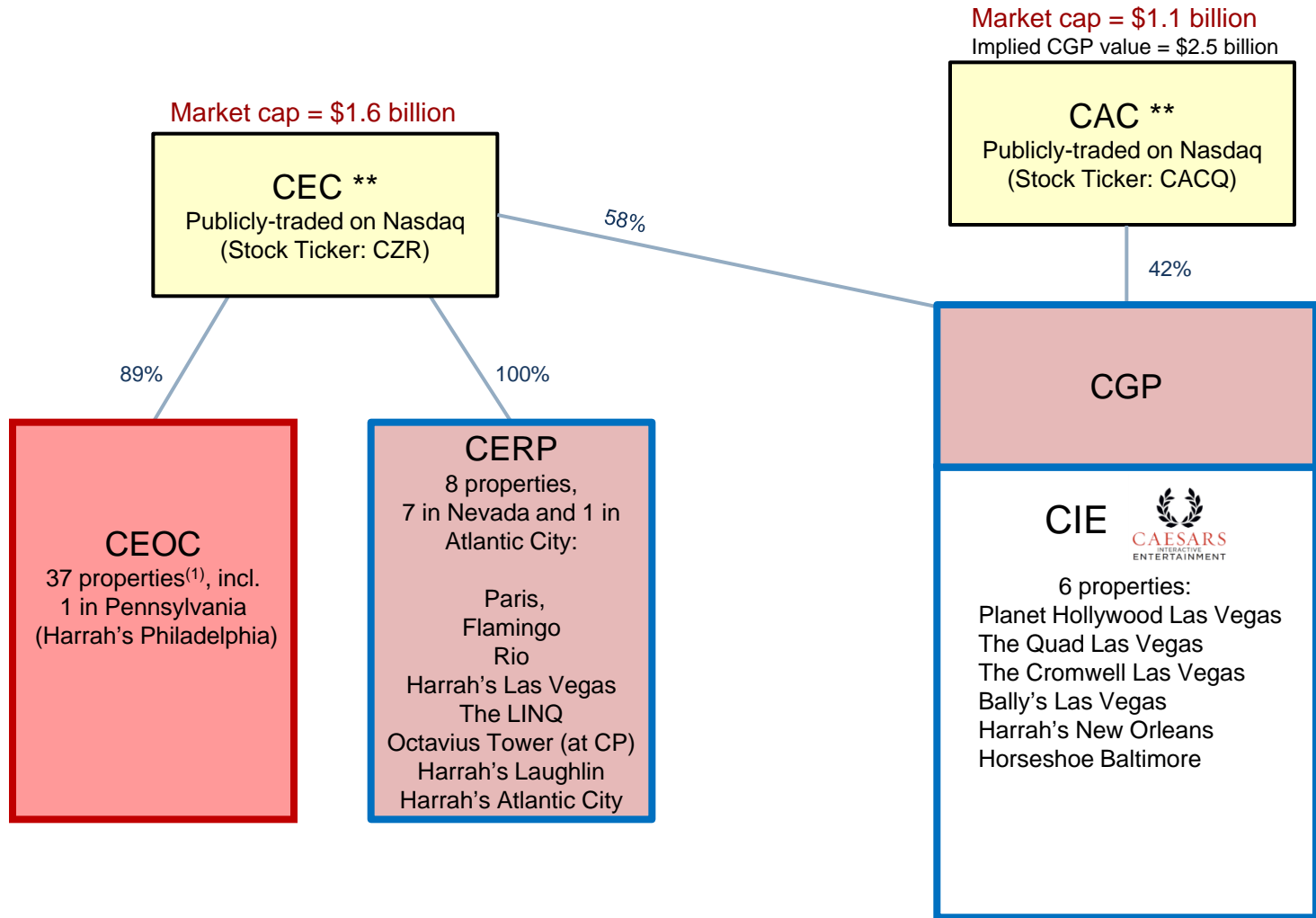
1. A comprehensive balance sheet restructuring of CEOC; and
2. A merger of CEC and CAC

- **We believe these transactions will:**

1. Resolve all existing financial and legal issues at CEOC
2. Simplify Caesars' corporate structure
3. Allow management and employees to focus on the business
4. Importantly, there will be no change of control at CEC or CAC as both will continue to be controlled by funds managed by Apollo / TPG and persons affiliated with Apollo and TPG, and there will be no change in the management of Harrah's Philadelphia
5. Be in the best interests of Pennsylvania, Harrah's Philadelphia, and our employees, vendors and customers



# CEC/CEOC Corporate Structure



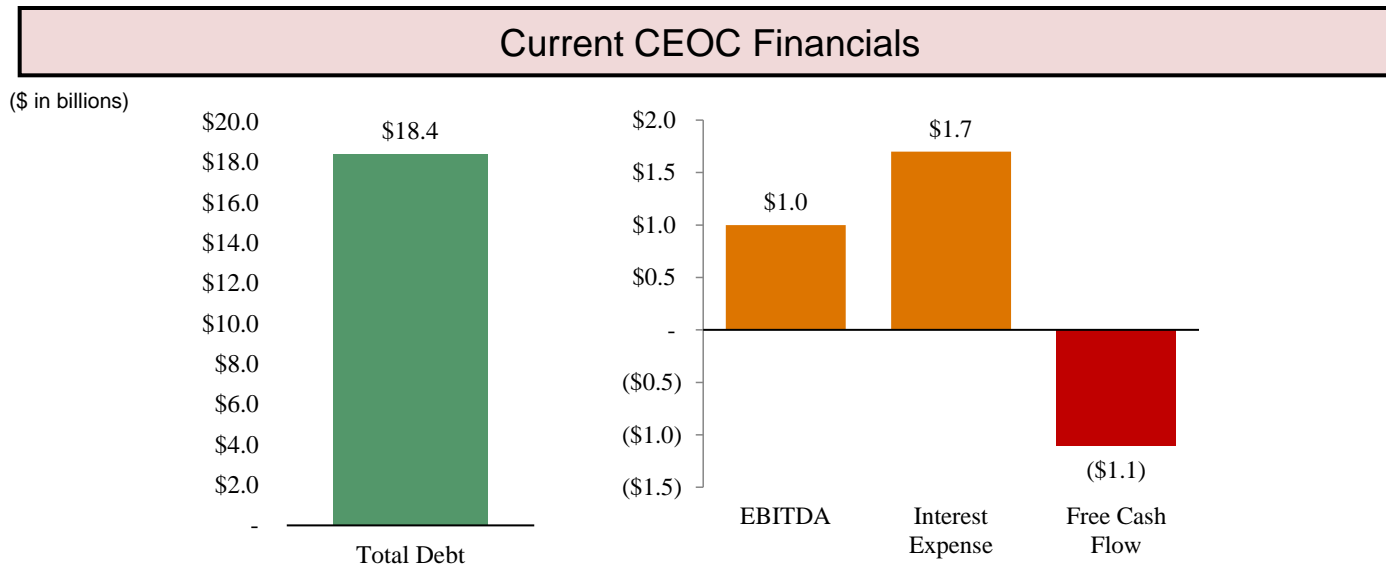
\*\* Note: Funds managed by Apollo and TPG still maintain ownership positions in both publicly-traded entities (CEC and CAC), and persons affiliated with Apollo and TPG still maintain voting control of CEC and CAC. Share prices as of 1/31/2015

(1) Includes international properties and managed Indian casinos.



## Situation at CEOC

- Despite its efforts to create liquidity, manage its maturities, and comply with all of its debt covenants over the years, CEOC's current debt load is not sustainable:



CEOC is currently over-levered with over \$18 billion of debt and \$1.7 billion of annual interest expense

- A permanent fix has been structured that will create a fully sustainable capital structure for CEOC. This will allow CEOC to:
  - Focus on running its business
  - Free up cash flow and capital to invest in its properties





# Restructuring Summary

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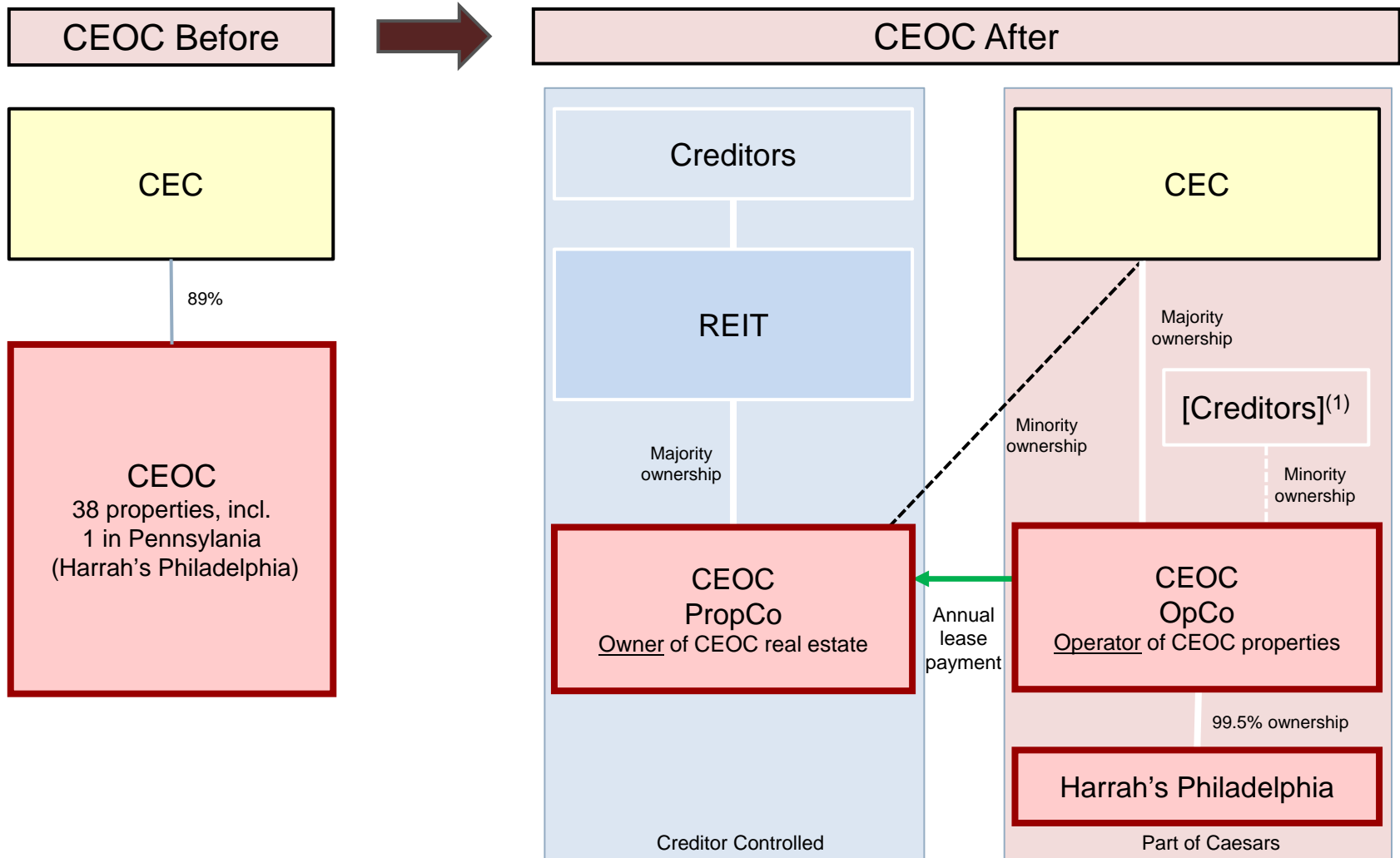
- On December 19, 2014, CEOC announced that it had reached an agreement with certain lenders on a restructuring plan to strengthen CEOC's financial position by reducing long-term debt and interest payments, and enhancing liquidity
- Under the terms of this plan, CEOC will change its corporate structure by separating its gaming operating assets and its real property assets into two separate companies: an operating entity ("OpCo") and a newly formed, publicly traded REIT ("PropCo")
  - PropCo would own substantially all of CEOC's real property, and would lease back those assets to OpCo in exchange for annual lease payments
  - OpCo and its subsidiaries would own all gaming assets
- CEC will contribute (i) \$1.0 billion in cash to acquire all of OpCo's equity<sup>(1)</sup> and a minority stake in PropCo's equity, and (ii) an additional \$375 - \$450 million in cash to CEOC
- This plan would reduce CEOC's existing debt by approximately \$10.1 billion (from \$18.4 billion to \$8.3 billion)
- This plan would also reduce CEOC's existing annual interest payment by ~\$1.2 billion (from \$1.7 billion to \$0.4 billion)
- All claims between CEC, CEOC and their creditors will be resolved as part of the plan

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(1) Creditors can decide not to sell all of OpCo's equity to CEC and keep up to 49%



# CEOC Corporate Restructure Detail



(1) Creditors have the option to purchase up to 49% of OpCo



# Recovery Summary

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- Bank debt: 100% recovery
  - 100% recovery in cash and debt
  - No equity ownership
- 1<sup>st</sup> lien secured bonds: 92% recovery
  - 61% recovery in cash and debt
  - 31% recovery in equity (OpCo/PropCo): 100% ownership of OpCo and 70% of PropCo<sup>(1)</sup>
- 2<sup>nd</sup> lien secured debt and unsecured creditors
  - 30% of PropCo equity and the opportunity to buy up to 95% of PropCo



## Chapter 11 Process

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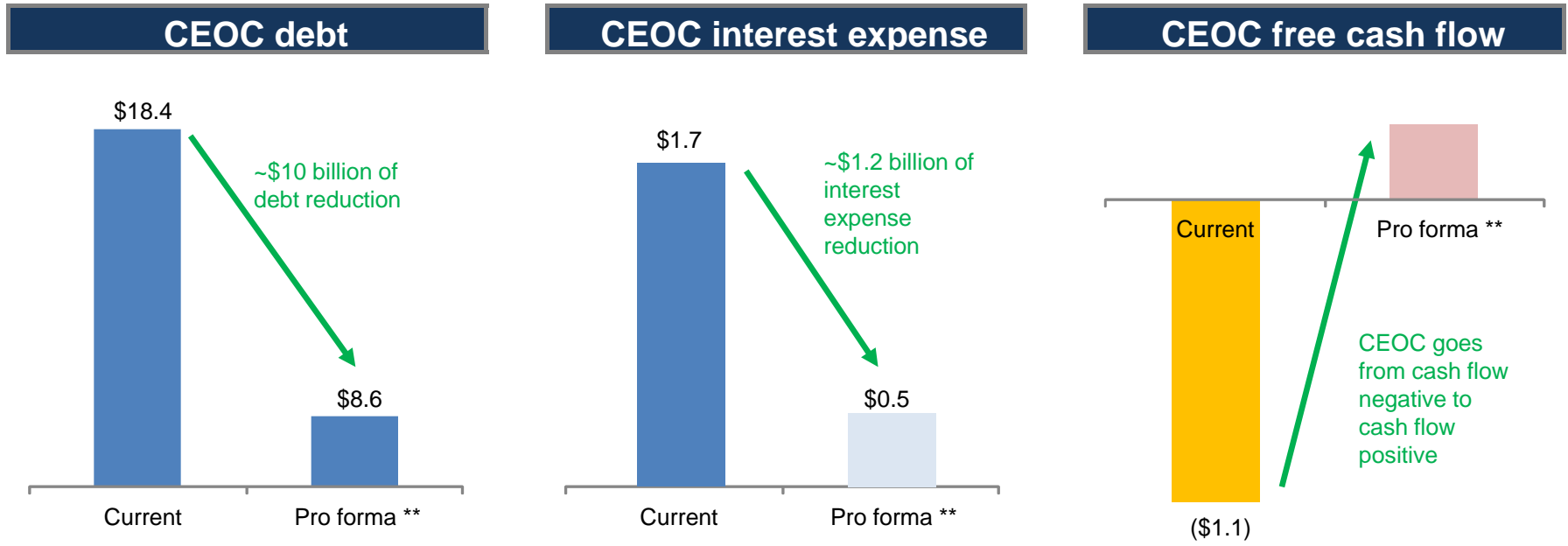
- CEOC and many of its operating subsidiaries voluntarily filed to reorganize under Chapter 11 of the U.S. Bankruptcy Code in January 2015 in order to implement the plan
- The Chapter 11 cases will be heard in the Bankruptcy Court in Chicago as a result of the Delaware Bankruptcy Judge granting CEOC's motion to transfer the involuntary case filed by the 2nds from Delaware to Chicago
- Chapter 11 process has the benefit of binding all creditors to the plan and allowing OpCo and PropCo to emerge as “clean”, sustainable entities
- CEOC and all of its subsidiaries/properties are expected to continue to operate normally throughout the court-supervised financial restructuring process

Harrah's Philadelphia is EXCLUDED from the CEOC Chapter 11 filing



# CEOC Deleveraging (After Approval of Chapter 11 Plan)

(\$ in billions)



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- ✓ Proposed restructuring results in significant deleveraging at CEOC
- ✓ CEOC transformed into two viable companies with positive free cash flow and extended maturities

\*\* Pro-forma numbers reflect combined OpCo/PropCo financials and use PF 2015 EBITDA as highlighted in RSA of \$1.024 billion.



# Merger Summary

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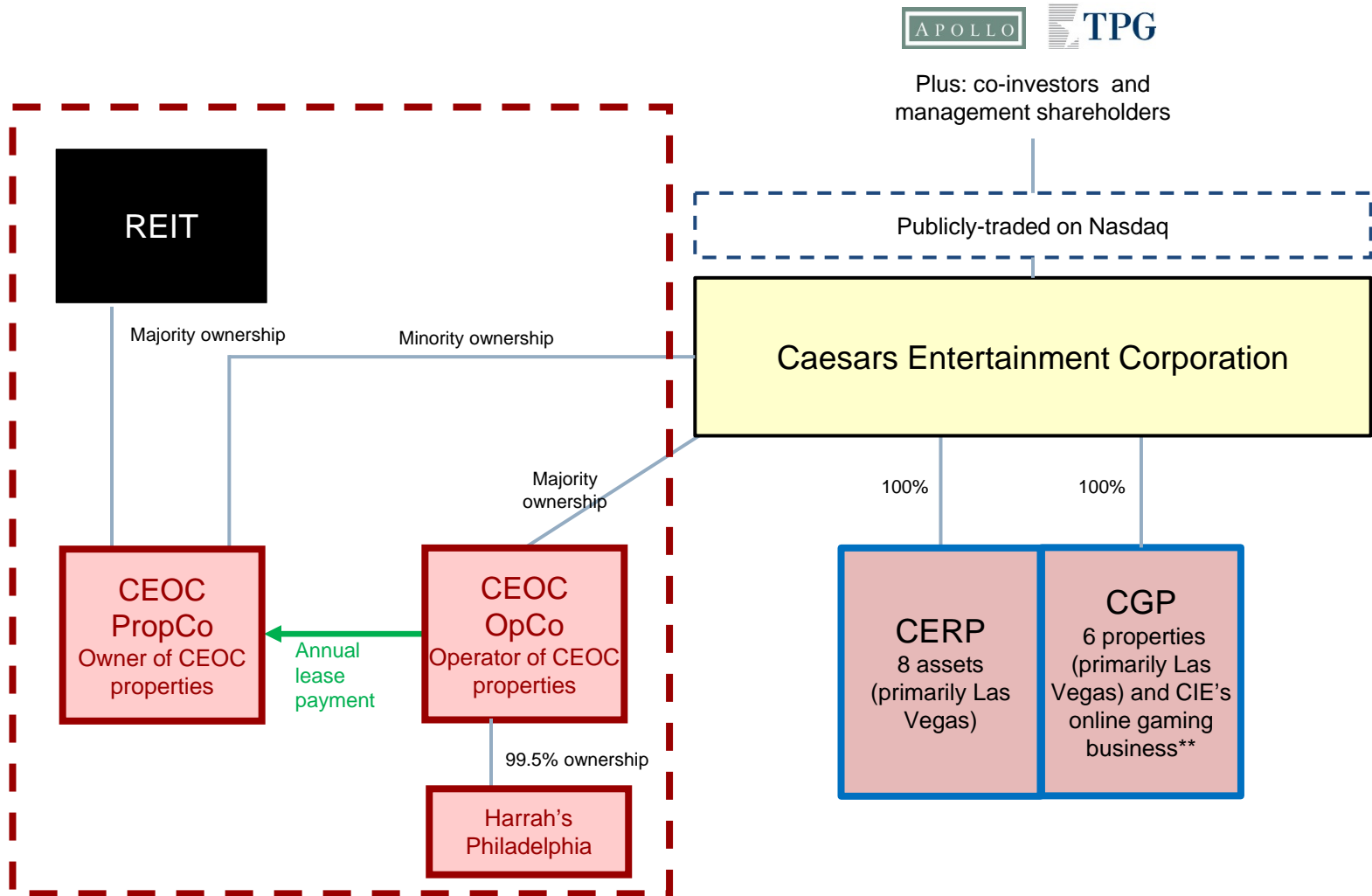
- On December 22, 2014, CEC and CAC announced that they have entered into a definitive agreement to merge in a stock-for-stock transaction the two public companies, with the merged company being valued at over \$3 billion<sup>(1)</sup>
  - CAC's shareholders to receive 38% of the combined company
  - CEC's shareholders to receive 62% of the combined company
- Transaction was negotiated by independent special committees of the boards of directors on both sides
- Transaction expected to close concurrently with CEOC's restructuring transaction and is contingent on the closing of CEOC's restructuring transaction

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(1) Based on combined market capitalization of CEC and CACQ as of 12/22/2014, the date of the announcement



# Pro Forma Organizational Structure (After Approval of Chapter 11 Plan)



\*\*CGP owns ~75% of CIE on a fully diluted basis, with management and Rock Ohio owning the balance



## Summary

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- The plan and its implementation represent a significant step for CEC / CEOC and their futures
  - The plan will allow each of CEC and CEOC (OpCo/PropCo) to have a simpler, more sustainable organizational and capital structure
- The plan removes the significant uncertainty and overhang around CEOC, allowing CEOC and its employees to focus on CEOC's business
  - The plan also ensures that CEC, CEOC (OpCo/PropCo), CERP and CGP will have greater access to capital to invest in their businesses