The New Jersey Gaming, Sports, and Entertainment Advisory Commission: Revitalizing Atlantic City

Final version

June 9, 2010

McKinsey&Company

Context

This document provides a synthesis of research on Atlantic City done by McKinsey & Company in October 2009

It includes a perspective on the city economics, as well as quantitative and qualitative consumer research led by McKinsey & Company

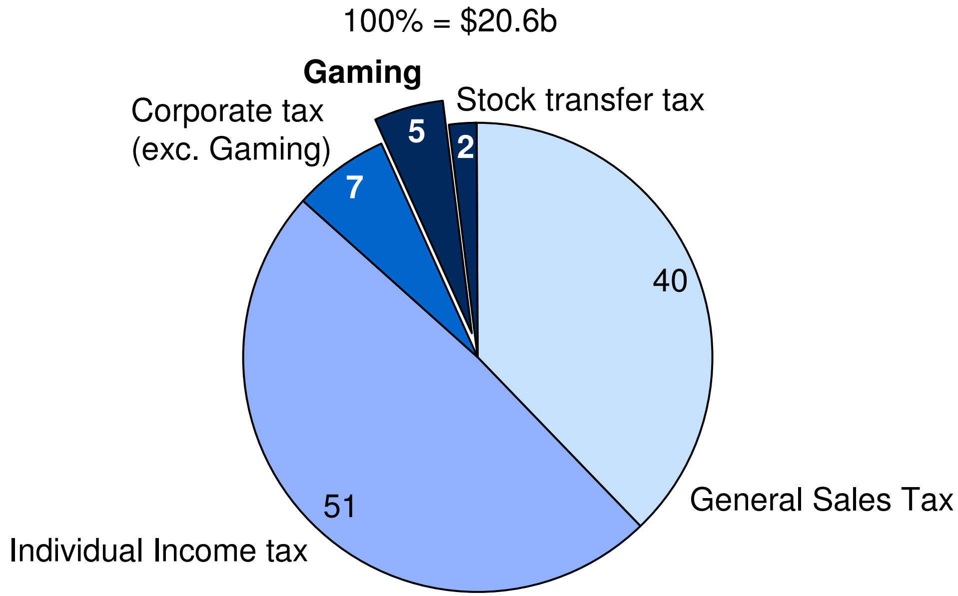
External sources and public reports were consulted and are referenced as appropriate

Content

Atlantic City plays a large role in New Jersey's economy

NJ Gaming industry tax receipts in 2009: ~$1b

NJ Tax receipts breakdown in 2009

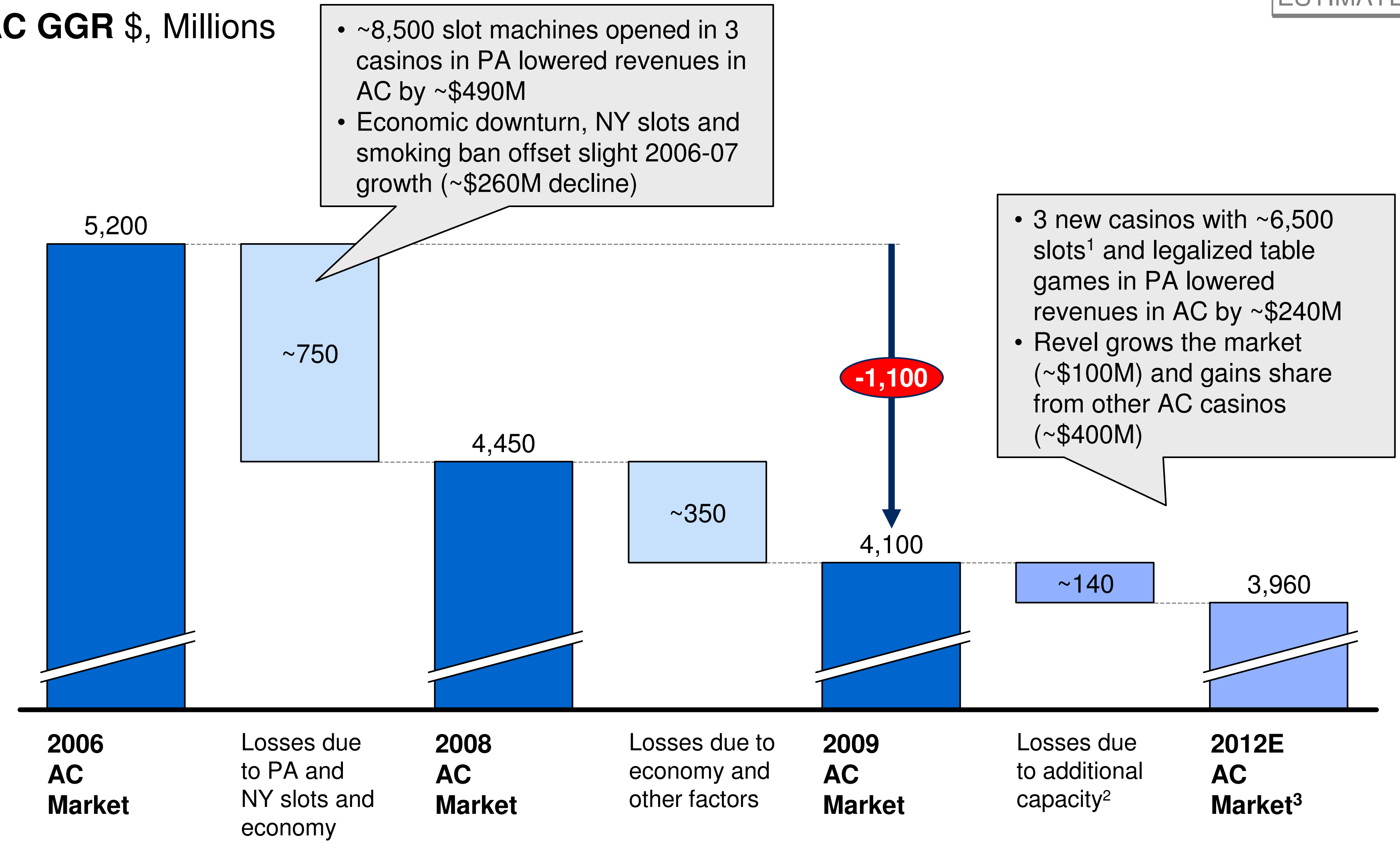


SOURCE: U.S. Census Bureau

However, Atlantic City gaming revenues (and tax base) have declined by $1b over the last 3 years

ESTIMATES

AC GGR $, Millions

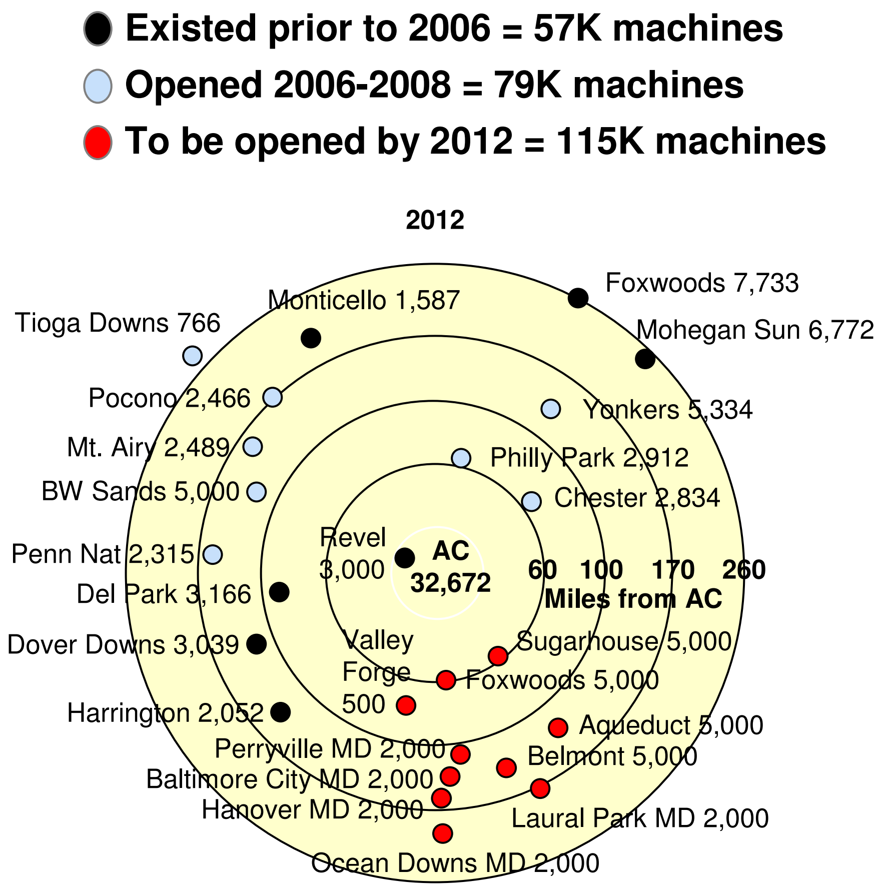


1 Bethlehem Sands (3,000 slots), Foxwoods (500 slots), Valley Forge (3,000 slots)
2 Includes estimated impact from PA slots ($90M), PA table gaming ($70M), Baltimore ($25M) and NY slots ($55M)
3 Assumes overall flat market growth from 2009 to 2012 due to off-setting economic downturn and rebound

SOURCE: American Gaming Association 2009 Casino Report; AC Visitor Profile; McKinsey analysis

Regional competition has driven about $750M of the gaming revenue decline

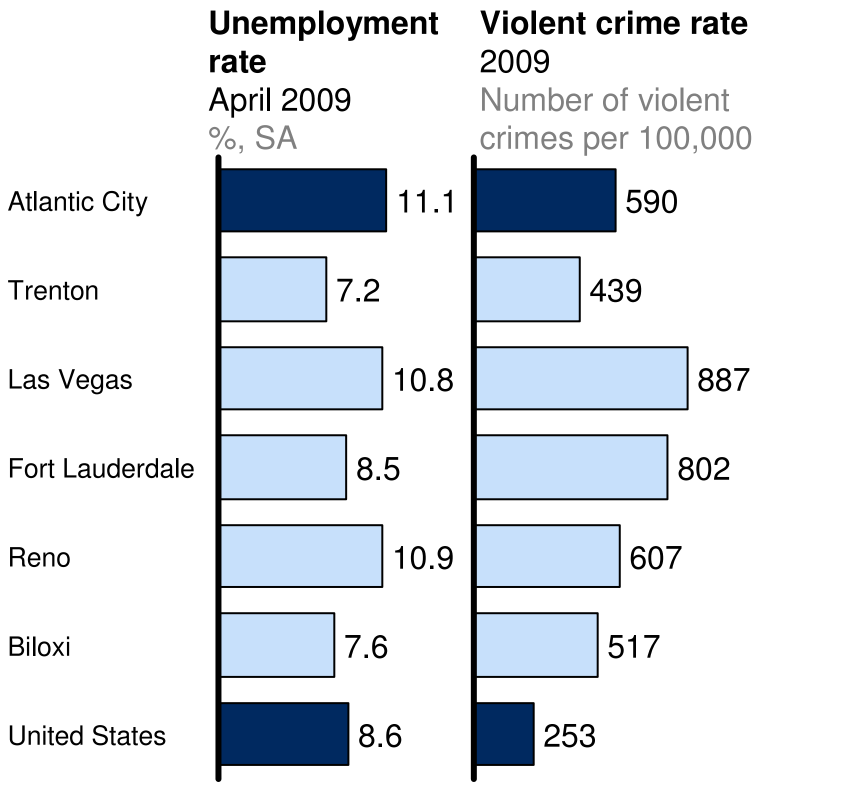
Regional slot machines



SOURCE: AC Visitor's Profile 2008, Las Vegas Visitor's profile 2008, McKinsey analysis

While competition has been a factor, the City's atmosphere/environment has also contributed to the revenue decline

High unemployment and violent crime rate



Abandoned buildings and boardwalk

Abandoned lot 2 blocks from Convention Center

Former Sands casino property, Boardwalk

Consumer reactions

"..The beach is no better. You first have to get rid of the riff raff to get me to even consider it"

"It is seedy, not safe at all. There are prostitutes and drug dealers"

"I do not like seeing the abandoned buildings, pawn shops, and empty lots right next to Casinos. … at night it's like a ghost town"

SOURCE: US Bureau of Economic Analysis, US Bureau of Labor Statistics, Moody's Economy.com, FBI; AC June 20, 2009

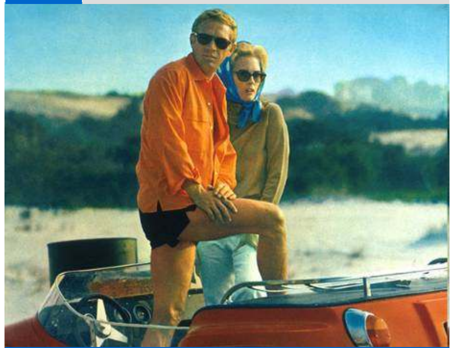
Content

8 customer segments were identified through consumer research

1 Recreation & scenery seekers

15% of population

2 Upscale resort and outdoors travelers



12%

3 Multi-experience gamers

11%

4 Young entertainment seekers

11%

5 Recreation-seeking boomers

13%

6 Gaming boomers

11%

7 Family vacationers

16%

8 Wealthier boomers

10%

SOURCE: McKinsey customer segmentation survey 2009 (N=5,793)

1 Recreation and scenery seekers

Basic description

- Average income ~$90,000 with 44% earning $45-74K
- Average age is 49 with 65% older than 45 years of age
- AC has lowest penetration of this segment, at 27%

15% of population

Attitudes & needs

- Do not like upscale amenities (94%)
- Do not like to go to places that are loud, bustling, and energetic (97%)
- Prefer to stay close to home and take short getaways (60%)
- Do not like to gamble and do not like having casinos in destinations where they travel (92%)
- Like to visit destinations “off the beaten path” (73%)

Travel behavior

- See an attraction or monument (~26%)
- Like to see change in scenery (27%)
- Participate in outdoor activities (19% on day trips and 31% on weekend)
- ~7% gamble
- Spend below average on all categories

Objections to Atlantic City

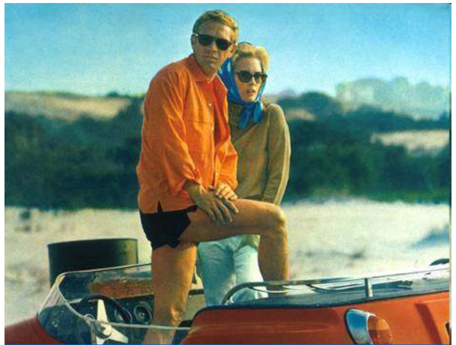
- Satisfaction with all features of AC is below average
- Dissatisfied with availability of affordable lodging (91%)
- Dissatisfied with availability of well known and reputable brands (9%)

SOURCE: McKinsey customer segmentation survey 2009 (N=5,793)

2 Upscale resort and outdoor travelers

Basic description

- Average income ~$103,000 with 45% earning >$100K
- Average age 51 and 72% are over 45 years in age



12%

Attitudes & needs

- Like to go on trips with upscale resorts and amenities (73%)
- Do not like to go to places that are loud, bustling, and energetic (96%)
- Like having casinos at destinations where they travel (32%)
- Prefer to go to places that are oriented towards adults, not children (64%)
- Go to locations with good weather and spend most of their time outdoors (79)

Travel behavior

- ~34% go to the beach
- 9% go to special hotels
- ~19% gamble
- Spend above average on lodging

Objections to Atlantic City

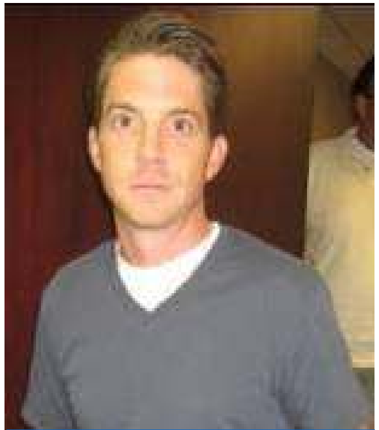
- Satisfaction with AC similar to average of other segments
- Particularly dissatisfied with art and cultural events and historic buildings

SOURCE: McKinsey customer segmentation survey 2009 (N=5,793)

3 Multi-experience gamers

Basic description

- Average income ~$110,000 with 53% earning >$100K
- Age skews younger (25-45)
- AC has high penetration of this segment, at 58%



11%

Attitudes & needs

- Like to go on trips with upscale resorts and amenities (80%)
- Like to go to places that are loud, bustling, and energetic (61%)
- Take trips to city locations (68%)
- Like having casinos at destinations where they travel (66%)
- Prefer to go to places that are oriented towards adults, not children (54%)

Travel behavior

- ~33% have gambled on most recent trips
- 46% have gambled in Atlantic City in last 12 months
- Go to nightclubs, concerts, special events, sporting events, special hotels, spas and beach when they travel
- Spend more than average on gambling, average on other categories

Objections to Atlantic City

- Dissatisfied with affordable lodging (60%)
- Dissatisfied with quality of hotels (50%) and hotel amenities (55%)

SOURCE: McKinsey customer segmentation survey 2009 (N=5,793)

4 Young entertainment seekers

Basic description

- Average income ~$90,000, 45% are in lower income bracket
- Average age is 35, 87% are in 21-45 age group
- 27% are from New York

11%

Attitudes & needs

- Like to go to places that are loud, bustling, and energetic (47%)
- Take trips to city locations (66%)
- Prefer to go to places that are oriented towards adults, not children (54%)
- Like to go on trips where they can walk everywhere (71%)

Travel behavior

- Spend less than average on all categories
- ~19% have gambled on most recent trips
- Go to nightclubs, concerts, special events, sporting events, special hotels, spas and beach when they travel
- Some feeder markets (e.g., Philadelphia and DC) do not fulfill this segment’s entertainment needs

Objections to Atlantic City

- Dissatisfied with availability of affordable lodging (60%)
- Dissatisfied with quality of hotels (50%) and hotel amenities (55%)

SOURCE: McKinsey customer segmentation survey 2009 (N=5,793)

5

Recreation seeking boomers

Basic description

- Average income ~$110,000, 57% are in higher income brackets
- Average age 61, 37% are in 65+ age cohort
- AC has low penetration of this segment, at 30%

13%

Attitudes & needs

- Do not like to go to places that are loud, bustling, and energetic (94%)
- Take trips to city locations (66%)
- Do not like having casinos at destinations where they travel (94%)
- Like to visit destinations “off the beaten path” (71%)

Travel behavior

- Travel to see attractions and national monuments (30%)
- Go shopping (39%)
- Change in scenery (31%)
- ~7% gamble
- Spend below average on all categories, except lodging and transportation

Objections to Atlantic City

- General satisfaction with AC much lower than average for all segments
- Particularly dissatisfied with affordable lodging options and retail shopping

SOURCE: McKinsey customer segmentation survey 2009 (N=5,793)

6 Gaming boomers

Basic description

- Average household income ~$92,000, overrepresented in $45,000-75,000 income bracket
- Average age is 58, overrepresented in 45+ age cohort
- AC has highest penetration of this segment, at 61%

11%

Attitudes & needs

- Like having casinos at destinations where they travel (77%)
- Prefer to go to places that are oriented towards adults, not children (56%)
- Prefer to stay close to home and take short getaways (50%)
- Do not like loud, bustling, energetic places (88%)

Travel behavior

- Go for food and drink experience (~61%)
- ~43% gambled on their last trip
- 53% gambled most in AC in past 12 months
- Active in other categories, at average level to total population
- Spend above average on gambling and below average on other categories

Objections to Atlantic City

- Rate AC highest along all dimensions, compared to other segments
- Most disappointed by fair rewards, comps, and mail offers in AC (83%) and odds of winning (88%)

SOURCE: McKinsey customer segmentation survey 2009 (N=5,793)

7 Family vacationers

Basic description

- Average household income ~$100,000 overrepresented in $75,000-150,000 income bracket
- Overrepresented in 25-45 age cohort

Attitudes & needs

- Like to go on trips with upscale resorts and amenities (53%)
- Prefer to stay close to home and take short getaways (37%)
- Only go to destinations with nice weather and refer to spend most of their time outside (65%)

16%

Objections to Atlantic City

- Rate AC lowest along all dimensions, compared to other segments, except kid friendly amenities where they are just above average, but still poor (only 12% in top 2 satisfaction boxes, compared to 11% for other segments)
- Most disappointed by availability of affordable lodging, outdoor activities, and quality of the beach

Travel behavior

- Go to the beach (36% day trips and 43% weekend trips)
- Go to an amusement park (~18% compared to 9% average)
- Go to water parks (11% compared to 5% average)
- Go to see change in scenery (26%)
- Participate in outdoor activity (27%)
- ~12% gambled during last trip and 32% enjoy gambling
- Spend more than average on most categories, including gambling

SOURCE: McKinsey customer segmentation survey 2009 (N=5,793)

8 Wealthier boomers

Basic description

- Average household income ~$227,000
- Overrepresented in 45-60 age cohort (60%)
- AC has 48% penetration and 14% have been to AC more than 6 times in the past 24 months

10%

Travel behavior

- Gamble slightly above average (21% on weekend trips)
- Go to spas, attend concerts and special events, and stay at nice hotels more than the average
- Spend more on all categories and more than twice the average on gaming

Attitudes & needs

- Like to go on trips with upscale resorts and amenities (79%)
- Do not prefer to stay close to home and take shorter vacations (81%)
- Only go to destinations with nice weather and prefer to spend most of their time outside (65%)

Objections to Atlantic City

- Rate AC similarly as other segments and slightly higher on fair comps, loyalty rewards, and availability of affordable lodging

SOURCE: McKinsey customer segmentation survey 2009 (N=5,793)

Consumer study suggests that addressing the gaps in AC safety and amenities could significantly increase AC revenue potential

Based on 6 focus markets

Assuming AC "antes" and improved offerings were delivered…

Antes

1. Cleaner and safer environment
2. Revitalized boardwalk and beach with unique shops and some family-friendly activities
3. Easier to get between casinos

Broad-based

4. More affordable restaurant options
5. Renovated and updated hotels & casinos
6. More affordable hotels & condos

Segment-focused

7. Better hotel availability when I want to visit
8. More entertainment options (e.g., concerts, comedy shows, bowling alleys, arcades, movie theaters)
9. Las Vegas style casinos and hotels
10. Some family oriented resorts with beach access

…the impact on AC spend by segment was estimated:

Number of trips

Days/trip

Spend/day

% of market segment visiting AC

- Increased spend potential varies by segment
- Total AC spend increase estimated at 65% to more than double
- Assumes all antes and new amenities are put in place

SOURCE: McKinsey customer segmentation survey 2009 (N=5,793)

Content

1. Atlantic City's economic situation
2. Segmentation of potential Atlantic City customers
3. **Overview of current unmet needs**

Amenities: Many visitors require non-gaming options to want to come to Atlantic City

Non-Gamers

"I like having the hotel set up with a pool and beach access…it's easier to deal with my kids

Non-gamers go to other Jersey Shore towns and activity-oriented destinations for day & multi-day trips and vacations

- Want a variety activities and family friendly amenities
- Resorts and more lodging options, access to clean and safe beaches and freedom to walk around town safely
- Nostalgic and vibrant boardwalk with more shopping options
- Entertainment options (e.g., sports, leisure activities, amusement or water parks)
- A main attraction or icon (e.g., aquarium, museum)

Gamers

"I can't gamble for an entire week, I need other things to do. There is nothing else to do…nothing at 1:00AM"

Gamers do not come to Atlantic City because they are satisfied with their local casino and need more to make the trip to AC

- Vibrant nightlife and entertainment (e.g., Las Vegas-quality shows)
- More shopping options and a nostalgic boardwalk
- Younger, higher-charged atmosphere with "glitzier" casinos and more gaming options (particularly table games)
- Safer and cleaner surroundings outside the casinos

SOURCE: Pennsylvania Focus Groups Sept 2009, McKinsey analysis

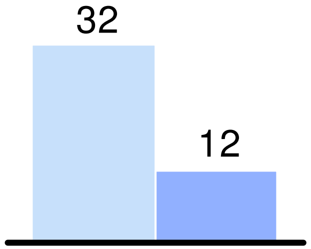
Amenities: Compared to Vegas, AC lacks in non-gaming amenities

Las Vegas
Atlantic City

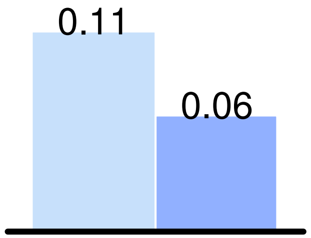
Non-gaming supply
Amenities

Per thousand sq. ft. casino space

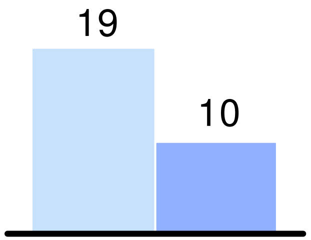
Rooms



Restaurants



Showroom Seats



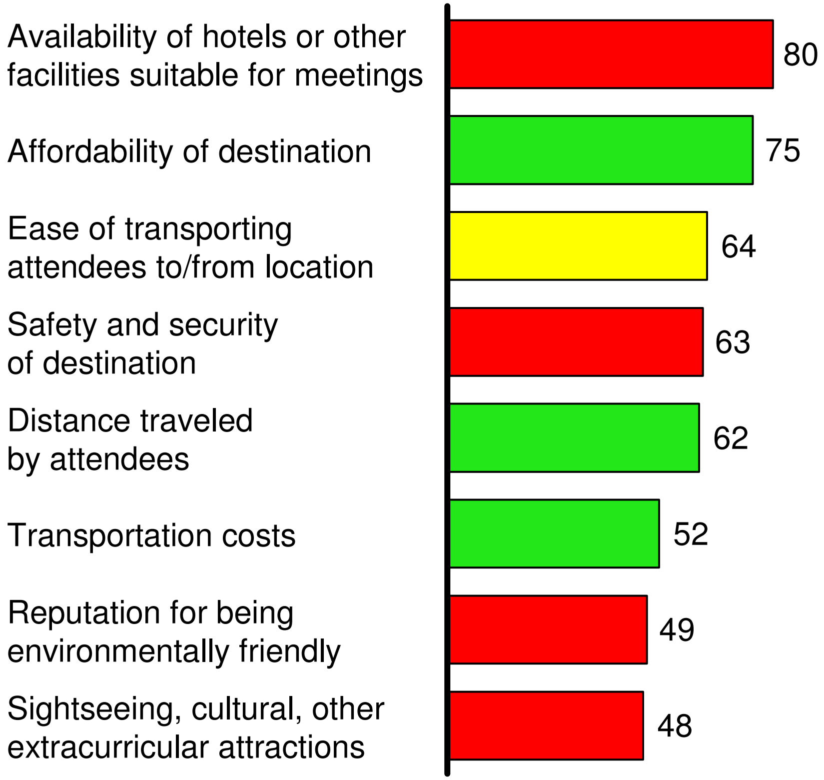
SOURCE: Simmons Consumer Behavior survey (2009)

AC has advantage
Neutral
AC had disadvantage

Amenities: Better hotel facilities suitable for meetings and recreational activities are important for corporate customers

Corporate Meeting Planners are demanding in their selection of a meeting destination …

"What factors considered are very important in selection of a destination[1]"
Percent that agreed



… and Atlantic City falls short on several dimensions[2]

*"(AC needs) **higher quality meeting space**...Limited (now)"*

*"**Upgraded technology** in guest rooms and **meeting rooms**"*

*"AC needs to promote **the safety and cleanliness** of the city"*

"Limited alternatives to recreational activities"

1 Meetings and Conventions, 2008 Market Report
2 NE Meeting Planner Survey 2008

SOURCE: NE Meeting Planner Survey 2008; Meetings and Conventions, 2008 Market Report; McKinsey Analysis

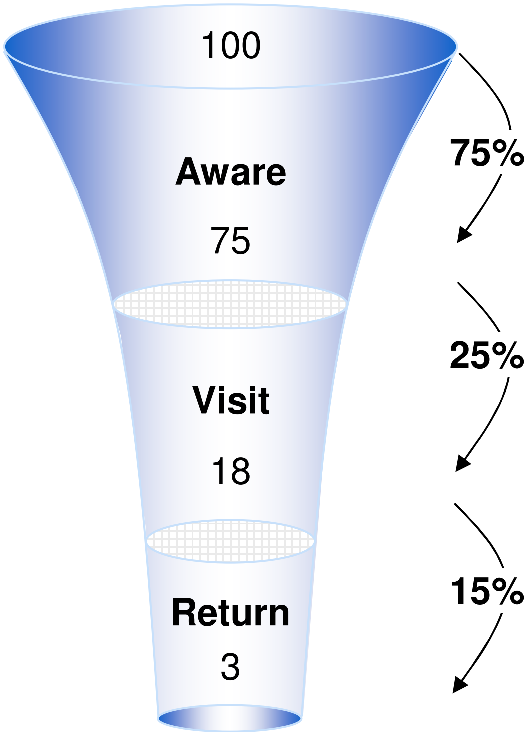
Competition: There are few large, world-class NE destinations that can compete for corporate meetings

Location	Meeting planners experience[1]	Perception of meeting planners[2]
Mohegan Sun, Uncasville ▪ 100K sq. ft. space ▪ Uncas ballroom 40K sq. ft. ▪ 20 breakout rooms	▪ Emphasized professionalism, high quality and quantity of meeting space and testimonials ▪ Courteous, knowledgeable staff that paid attention to client needs. 9 sales mgrs. ▪ Followed up with great marketing material, proposal and calls	▪ "Mohegan Sun is the Nordstrom of the business"
Gaylord National, D.C. ▪ 160K sq. ft. space ▪ Potomac ballroom 50K sq. ft.	▪ Emphasized service level, state-of-art space, pedigree. Disassociated with Foxwoods ▪ Courteous, knowledgeable staff that paid attention to client needs. 20 sales mgrs. ▪ Easy to reach sales team. Excellent follow-up with proposal, plans and calls	▪ "Gaylord National is one of the best in the business"
MGM Grand, Foxwoods ▪ 115K sq. ft. space ▪ Premier ballroom 48K sq. ft.	▪ Emphasized new MGM Grand property, 115K sq. ft. space, golf course, theater ▪ Courteous, knowledgeable staff that paid attention to client needs. 6 sales mgrs. ▪ Easy to reach sales team. Excellent follow-up with proposal, plans and calls	▪ n/a
Hilton Washington, D.C. ▪ 110K sq. ft. space ▪ 36K sq. ft. ballroom	▪ n/a	▪ n/a

1 Secret shopper calls
2 Interviews
SOURCE: McKinsey Analysis

Environment: Current awareness of AC is very high but visitation is low due to the environment

Atlantic City Marketing Funnel



70% of potential NYC customers are aware of AC advertising

Focus Group quotes

"It is seedy, not safe at all. There are prostitutes and drug dealers"

"I do not like seeing the abandoned buildings, pawn shops, and empty lots right next to Casinos. … at night it's like a ghost town"

"..The beach is no better. You first have to get rid of the riff raff to get me to even consider it"

SOURCE: Pennsylvania Focus Groups Sept 2009, McKinsey analysis