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## Confusion in Maryland; Slot ASPs Aren't Going to \$46K

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**News:** Because of our ties to Maryland we have been asked multiple times over the past three days about the purchase prices the MD Lottery paid for its first order of slot machines. The MD Lottery paid \$49M for 1,062 VLTs which, to the untrained eye, equates to an ASP of ~\$46K. The going industry rate for a slot machine (VLT) is somewhere between \$13K-\$21K depending on the manufacturer, the content, and the cabinet. Recall, the State of MD is responsible for purchasing all the VLTs for the state and then leasing them to the operator of each gaming property. MD is expected to make an additional purchase of ~400 games shortly. The first shipment of games will be directed to Penn National's (PENN/Buy) Hollywood Perryville Casino, which is scheduled to open at the end of September.

**Thoughts:** To the untrained eye, one would think the MD Lottery grossly overpaid for its initial slot purchase but after going through the numbers we believe the MD Lottery paid inline prices. Looking at Exhibit 1 below, after stripping out five years of maintenance fees, software updates, daily fees, and repairs, we believe the State of MD paid roughly \$20K-\$25K per gaming device, putting its initial purchase slightly ahead of current industry metrics. The slight premium paid by MD is not surprising either as MD only purchased 1K devices limiting the bulk discounts which normally would have been received from a larger gaming operator or state whose purchase could be 10x what MD ordered.

**Market Share:** We calculate initial MD market share as follows: International Game Technology (IGT/Buy) 32%, Spielo (Lottomattica/LTO.MI/NR) 28%, Bally Technologies (BYI/Hold) 22%, Aristocrat (ARLUF/NR) 17%, and Konami (KNM/NR) 1%.

### EXHIBIT 1: MD LOTTERY VLT PURCHASES

| KONAMI                  |         |               |                 |                      | SPIELO                              |         |               |                 |                      |
|-------------------------|---------|---------------|-----------------|----------------------|-------------------------------------|---------|---------------|-----------------|----------------------|
| Contract Type           | # Units | Cost per Unit | Contract Length | TOTAL COST           | Contract Type                       | # Units | Cost per Unit | Contract Length | TOTAL COST           |
| Purchase                | 12      | \$ 19,476.50  | N/A             | \$ 233,718           | Purchase                            | 290     | \$ 20,516.53  | N/A             | \$ 5,949,792         |
| Maintenance             | 12      | \$ 990.32     | 5               | \$ 59,419            | Maintenance                         | 290     | \$ 2,795.94   | 5               | \$ 4,054,111         |
| <b>KONAMI TOTAL</b>     |         |               |                 | <b>\$ 293,137</b>    | <b>SPIELO TOTAL</b>                 |         |               |                 | <b>\$ 10,003,903</b> |
| BALLY (BYI)             |         |               |                 |                      | SHUFFLE MASTER (SHFL)               |         |               |                 |                      |
| Contract Type           | # Units | Cost per Unit | Contract Length | TOTAL COST           | Contract Type                       | # Units | Cost per Unit | Contract Length | TOTAL COST           |
| Lease*                  | 185     | \$ 5,520.48   | 5               | \$ 5,106,444         | Buy                                 | 6       | \$ 19,999.00  | N/A             | \$ 599,970           |
| Fixed Daily Rate        | 46      | \$ 30,135.41  | 5               | \$ 6,931,144         | Maintenance                         | 6       | N/A           | 5               | \$ 100,826           |
| <b>BALLY TOTAL</b>      |         |               |                 | <b>\$ 12,037,588</b> | <b>SHUFFLE MASTER TOTAL</b>         |         |               |                 | <b>\$ 700,796</b>    |
| ARISTOCRAT (ARLUF)      |         |               |                 |                      | INTERNATIONAL GAME TECHNOLOGY (IGT) |         |               |                 |                      |
| Contract Type           | # Units | Cost per Unit | Contract Length | TOTAL COST           | Contract Type                       | # Units | Cost per Unit | Contract Length | TOTAL COST           |
| Buy                     | 158     | \$ 18,028.20  | N/A             | \$ 2,848,456         | Purchase                            | 329     | \$ 24,990.44  | N/A             | \$ 8,221,855         |
| Maintenance             | 158     | \$ 2,102.44   | 5               | \$ 1,660,925         | Maintenance                         | 329     | \$ 4,046.70   | 5               | \$ 6,656,830         |
| Lease*                  | 24      | \$ 13,801.20  | 5               | \$ 1,656,144         | Fixed Daily Rate & License Fees**   | 12      |               |                 | \$ 3,450,387         |
| <b>ARISTOCRAT TOTAL</b> |         |               |                 | <b>\$ 6,165,525</b>  | <b>IGT TOTAL</b>                    |         |               |                 | <b>\$ 18,329,072</b> |

\* All lease contracts assume \$210 win per unit per day and include maintenance costs

\*\* The IGT fixed daily rate includes 12 machines and 59 software licenses to run on machines purchased from the manufacturer

Source: The Maryland Lottery

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