Exhibit VIII.A.8.c – Securities Analysts' and Credit Rating Agencies Reports

Submit as Exhibit VIII.A.8.c. copies of securities analysts' and credit rating agencies' reports for the past three (3) years, if any, covering any Financing Source.

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Sidoti & Company, LLC
Member FINRA & SIPC

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$86.79) — BUY

Raise Price Target; Adjust Earnings Estimates — **Target: $109**

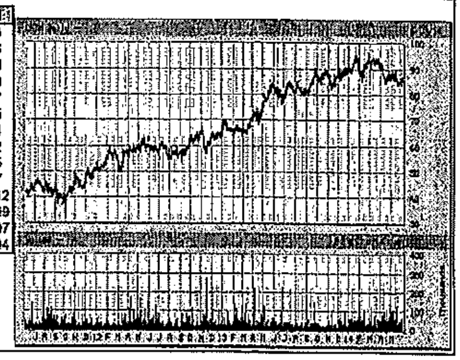
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

June 5, 2014

Market Cap (Mil)	**$1,550**	**Price to Book Value**	**2.7x**
Avg. Daily Trading Volume	**60,000**	**Return on Equity (2014E)**	**10.5%**
Shares Out (Mil)	**17.857**	**LT Debt to Total Capital**	**11%**
Float Shares (Mil)	**13.691**	**5-Year EPS Growth Rate Projection**	**19%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**97-76**
Dividend	**$0.87**	**Russell 2000**	**1131**
Dividend Yield	**1.0%**	**Short Interest (Mil)**	**0.874**

	2012	2013	2014E OLD	2014E NEW	2015E OLD	2015E NEW
Mar.	$0.00	$0.06	($0.05)		$0.25	$0.22
June	2.60	2.84	2.95	3.01	3.36	3.41
Sep.	0.34	0.36	0.37	0.39	0.52	0.54
Dec.	0.14	(0.18)	(0.02)	0.15	0.09	0.29
EPS	**$3.08**	**$3.09**	**$3.26**	**$3.50**	**$4.20**	**$4.43**
P/E				**24.8x**		**19.6x**
EBITDA (mil.) (Cal)	**$144.2**	**$154.7**	**$180.1**	**$187.3**	**$207.2**	**$214.8**
EV / EBITDA				**9.7x**		**8.1x**

Action	Date	Px	Rating	PT
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112
PT	2/27/14	95.1		109
PT	4/17/14	85.2		107
PT	4/24/14	87.8		104



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2012-2015E include respective $0.14, $0.78, $0.57 and $0.29 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Rev.(Mil.)	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$779.9	$835.4	$862.5
GAAP EPS	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.09	$3.50	$4.43

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Raise Target To $109 (From $104) On Higher Estimates; View Pullback As Fine Investment Opportunity; Reiterate BUY

- **We trace CHDN's pullback from February's all-time high of $96 to elevated online casino costs, greater losses at the Miami track, soft regional casino trends and lack of legislation to legalize slots at tracks in Kentucky and Illinois.**
- **However, we expect online gaming costs to drop in 2015 given the lack of Federal movement to legalize this gaming mode, while Florida racing losses are reduced with CHDN's recent lease of the track; thus, we boost our estimates.**
- **Our EPS forecasts for 2014 and 2015 EPS are now $3.50 (from $3.26) and $4.43 (from $4.20), respectively, to reflect better-than-expected broadcast terms, declining racing losses and the aforementioned lower online gaming costs.**
- **Given the pullback, the shares trade at just 12x our 2015 free cash flow per share forecast of $6.99.**
- **CHDN's over-capitalized balance sheet also offers multiple levers to create shareholder value, in our view, while we think the current multiple under-appreciates CHDN's Kentucky Derby franchise and online horse wagering growth.**
- **We reiterate our BUY rating.**
- **Our new $109 target (from $104) is based on a sum-of-the parts analysis (illustrated in Exhibits 1 and 2) and implies about 15x projected 2015 FCF per share of $7.22 (from $6.99).**

❑ **We increase our 2014 and 2015 EPS estimates to $3.50 (from $3.26) and $4.43 (from $4.20), respectively.** Our upward revision reflects reduced losses from CHDN's Florida track, lower online gaming costs in 2015 and likely better-than-anticipated broadcast revenue for the Kentucky Derby. Last week, CHDN announced an agreement to lease its money-losing Florida racetrack to the privately-held Stronach Group (The Stronach Group interests usually lie more in the sport of horse racing than in the economics of the game). We also suspect CHDN will look to pare back online casino gaming expenses given the lack of movement towards Federal legalization. Federal legalization is increasingly becoming a long shot, in our view (even the American Gaming Association recently withdrew support for online gaming legislation, preferring to stay neutral). Lastly, our upward EPS revision reflects CHDN's Kentucky Derby broadcast terms that are likely better than we previously anticipated.

- **The recent pullback in the shares represents an opportunity, in our view, with the shares trading at 12x our 2015 free cash flow forecast of $7.22.** While we still foresee sluggish regional casino trends, we expect the Florida racing and online gaming platform costs to abate. We think the shares understate the Kentucky Derby franchise and online horse wagering growth (as opposed to online casino gaming), trading at just 8x projected 2015 EBITDA. We estimate CHDN will generate free cash flow per share of $6.40 and $7.22 in 2014 and 2015, respectively, and have $147 million in net debt at 2015 year-end, amounting to just 0.7x projected 2015 EBITDA (versus 5x for peers).

- **We reiterate our BUY rating and increase our target to $109 (from $107).** Our target is based on a sum-of-the-parts methodology (see Exhibits 1 and 2) and implies about 15x projected 2015 free cash flow per share of $7.22 (from $6.99) and 10x projected 2015 EBITDA of $215 million less $147 million in projected net debt. Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois track. We view the shares' pullback as a compelling investment opportunity and our BUY rating is unchanged.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1. Churchill Downs, Sum of the Parts Analysis (Previously)

	EBITDA 2015E	Multiple	Value
Racing	$60,726	15	$929,108
Gaming	112,299	8	898,389
Online wagering	46,722	8	373,773
Corporate/United Tote	(12,500)	10	(123,750)
Enterprise Value			2,077,519
Plus projected net debt, 2015 year-end			180,621
Implied CHDN value			1,896,899
Price per share			$107
Potential upside to our target:			
Legalized gaming in IL.			$13
Legalized gaming in KY.			$20
Total			$33

Source: Sidoti & Company, LLC and company reports.

Exhibit 2. Churchill Downs, Sum of the Parts Analysis

	EBITDA 2015E	Multiple	Value
Racing	$67,788	15	$1,016,819
Gaming	111,548	8	892,383
Online wagering	46,722	8	373,773
Corporate/United Tote	(11,300)	10	(113,000)
Enterprise Value			2,169,975
Plus projected net debt, 2015 year-end			172,578
Implied CHDN value			1,997,396
Price per share			$109
Potential upside to our target:			
Legalized gaming in IL.			$13
Legalized gaming in KY.			$20
Total			$33

Source: Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement

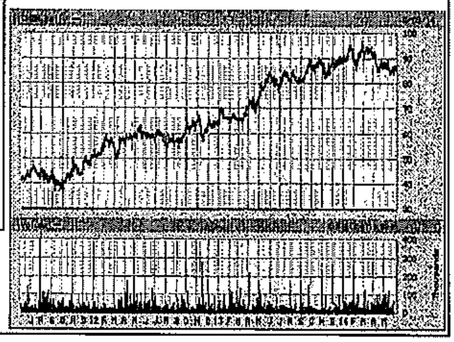
(000's, except where noted)	Mar	Jun	Sep	Dec	2013	MarA	Jun	Sep	Dec	2014E	Mar	Jun	Sep	Dec	2015E
Net Revenue															
Racing	$27,813	$157,387	$50,687	$38,382	$274,269	$30,579	$166,049	$50,687	$38,382	$285,697	$30,579	$170,727	$50,687	$38,382	$290,375
Gaming, LA	22,125	19,223	18,224	18,515	78,087	20,707	18,262	17,313	17,589	73,871	22,156	18,627	17,659	17,941	76,384
Gaming, FL	20,486	20,466	19,157	18,842	78,951	20,583	20,466	19,157	18,842	79,048	20,995	20,875	19,540	19,219	80,629
Gaming, MS (Harlows)	15,354	13,097	12,082	11,907	52,440	14,451	12,442	12,082	11,907	50,882	14,740	12,691	12,324	12,145	51,900
Gaming, MS (Riverwalk)	14,124	14,101	12,639	12,781	53,645	13,295	13,396	12,639	12,781	52,111	13,561	13,664	12,892	13,037	53,153
Gaming, ME	NM	NM	17,730	16,620	34,350	17,519	19,271	21,583	17,451	75,824	18,395	19,656	22,015	18,324	78,390
ADW (online)	42,916	52,531	48,522	40,572	184,541	46,084	55,158	50,948	43,412	195,602	49,310	59,019	54,514	46,451	209,294
Other	5,255	6,968	6,605	4,741	23,569	4,092	6,968	6,605	4,741	22,406	4,092	6,968	6,605	4,741	22,406
Net revenue	**148,073**	**283,773**	**185,646**	**162,360**	**779,852**	**167,310**	**312,012**	**191,014**	**165,105**	**835,441**	**173,828**	**322,227**	**196,236**	**170,239**	**862,530**
EBITDA															
Racing	(11,257)	70,517	(907)	(8,078)	50,275	(10,250)	77,213	1,014	(3,071)	64,906	(10,397)	80,242	1,014	(3,071)	67,788
Gaming	22,008	19,365	20,569	18,487	80,429	24,643	23,474	21,356	19,643	89,116	25,606	24,799	21,783	19,360	91,548
ADW (online)	11,335	14,091	12,998	10,698	49,122	9,950	12,686	11,209	9,377	43,222	10,848	13,574	12,266	10,033	46,722
Corp./United Tote	(852)	(86)	(899)	(1,758)	(3,595)	(2,459)	(1,000)	(2,000)	(1,800)	(7,259)	(1,500)	0	(1,000)	(800)	(3,300)
Stock compensation	(3,363)	(6,214)	(5,990)	(5,915)	(21,482)	(5,241)	(5,000)	(2,000)	(2,100)	(14,341)	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)
EBITDA	**17,871**	**97,673**	**25,771**	**13,434**	**154,749**	**16,643**	**107,373**	**29,578**	**22,049**	**175,644**	**22,558**	**116,615**	**32,062**	**23,522**	**194,757**
JV EBITDA	0	0	0	0	0	2,608	3,000	3,000	3,000	11,608	5,000	5,000	5,000	5,000	20,000
EBITDA including OH JV	**17,871**	**97,673**	**25,771**	**13,434**	**154,749**	**19,251**	**110,373**	**32,578**	**25,049**	**187,252**	**27,558**	**121,615**	**37,062**	**28,522**	**214,757**
D & A	(15,035)	(14,991)	(15,796)	(15,928)	(61,750)	(15,284)	(15,500)	(15,500)	(15,500)	(61,784)	(15,500)	(15,500)	(15,500)	(15,500)	(62,000)
Operating income	**2,836**	**82,682**	**9,975**	**(2,494)**	**92,999**	**3,967**	**94,873**	**17,078**	**9,549**	**125,468**	**12,058**	**106,115**	**21,562**	**13,022**	**152,757**
Interest expense	(1,466)	(1,167)	(1,401)	(2,085)	(6,119)	(5,509)	(5,600)	(5,500)	(5,500)	(22,109)	(5,500)	(5,500)	(5,500)	(5,500)	(22,000)
JV interest							0	0	0	0	0	0	0	0	0
Pre-tax income	**1,370**	**81,515**	**8,574**	**(4,579)**	**86,880**	**(1,542)**	**89,273**	**11,578**	**4,049**	**103,359**	**6,558**	**100,615**	**16,062**	**7,522**	**130,757**
Income tax (exp.) benefit	(311)	(30,813)	(2,058)	1,648	(31,533)	586	(34,817)	(4,400)	(1,539)	(40,169)	(2,492)	(38,234)	(6,104)	(2,859)	(49,688)
%	23%	38%	24%	36%	36%	38%	39%	38%	38%	39%	38%	38%	38%	38%	38%
Net income	**1,059**	**50,703**	**6,516**	**(2,931)**	**55,347**	**(956)**	**54,457**	**7,178**	**2,510**	**63,190**	**4,066**	**62,381**	**9,959**	**4,664**	**81,070**
Pro-forma EPS diluted	**$0.06**	**$2.84**	**$0.36**	**($0.18)**	**$3.09**	**($0.05)**	**$3.01**	**$0.39**	**$0.15**	**$3.50**	**$0.22**	**$3.41**	**$0.54**	**$0.29**	**$4.43**
Diluted avg. shares outstand.	17,828	17,882	17,955	17,370	17,938	17,419	18,100	18,300	18,300	18,030	18,300	18,300	18,300	18,300	18,300
Net Income GAAP	$1,059	$50,703	$9,158	($5,573)	$55,347	($956)	$54,457	$7,178	$2,510	$63,190	$4,066	$62,381	$9,959	$4,664	$81,070
EPS GAAP	$0.06	$2.84	$0.51	($0.32)	$3.09	($0.05)	$3.01	$0.39	$0.15	$3.50	$0.22	$3.41	$0.54	$0.29	$4.43
Margin analysis															
EBITDA	12.1%	34.4%	13.9%	8.3%	19.8%	9.9%	34.4%	15.5%	13.4%	21.0%	13.0%	36.2%	16.3%	13.8%	22.6%
Operating	1.9%	29.1%	5.4%	-1.5%	11.9%	2.4%	30.4%	8.9%	5.8%	15.0%	6.9%	32.9%	11.0%	7.6%	17.7%
Pre-tax	0.9%	28.7%	4.6%	-2.8%	11.1%	-0.9%	28.6%	6.1%	2.5%	12.4%	3.8%	31.2%	8.2%	4.4%	15.2%
Net income	0.7%	17.9%	3.5%	-1.8%	7.1%	-0.6%	17.5%	3.8%	1.5%	7.6%	2.3%	19.4%	5.1%	2.7%	9.4%
Y/Y growth %															
Revenue	7%	5%	13%	2%	6%	13%	10%	3%	2%	7%	4%	3%	3%	3%	3%
EBITDA	19%	8%	21%	-21%	8%	8%	13%	26%	86%	21%	43%	10%	14%	14%	15%
Operating income	NM	8%	26%	-209%	6%	NM	15%	71%	-483%	35%	NM	12%	26%	36%	22%
Pre-tax income	NM	8%	21%	-646%	4%	NM	10%	35%	-188%	19%	NM	13%	39%	86%	27%
Net income	NM	11%	9%	-255%	4%	NM	7%	10%	-186%	14%	NM	15%	39%	86%	28%
EPS	NM	9%	7%	-229%	1%	NM	6%	8%	-186%	14%	NM	13%	39%	86%	26%

Source: Sidoti & Company, LLC and company reports.

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$86.79) BUY Target: $109 June 5, 2014

Action	Date	Px	Rating	PT
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.6		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112
PT	2/27/14	95.1		109
PT	4/17/14	86.2		107
PT	4/24/14	87.6		104



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We reiterate our BUY rating and increase our target to $109 (from $107).** Our target is based on a sum-of-the-parts methodology (see Exhibits 1 and 2) and implies about 15x projected 2015 free cash flow per share of $7.22 (from $6.99) and 10x projected 2015 EBITDA of $215 million less $147 million in projected net debt. Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois track. We view the shares' pullback as a compelling investment opportunity and our BUY rating is unchanged.

Required Disclosures

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Appendix Continued

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Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$87.84) — BUY

Lower Price Target; Adjust Earnings Estimates — **Target: $104**

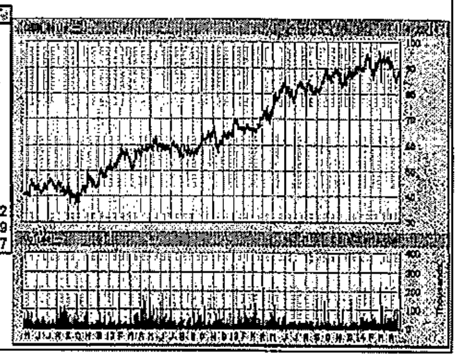
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

April 24, 2014

Market Cap (Mil)	**$1,590**	**Price to Book Value**	**2.7x**
Avg. Daily Trading Volume	**52,000**	**Return on Equity (2014E)**	**10.5%**
Shares Out (Mil)	**18.100**	**LT Debt to Total Capital**	**11%**
Float Shares (Mil)	**13.804**	**5-Year EPS Growth Rate Projection**	**19%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**97-70**
Dividend	**$0.87**	**Russell 2000**	**1147**
Dividend Yield	**1.0%**	**Short Interest (Mil)**	**0.895**

	2012	2013	2014E		2015E	
			OLD	NEW	OLD	NEW
Mar.	$0.00	$0.06	($0.10)	($0.05)A	$0.22	$0.25
June	2.60	2.84	3.00	2.95	3.38	3.36
Sep.	0.34	0.36	0.37		0.55	0.52
Dec.	0.14	(0.18)	0.05	(0.02)	0.13	0.09
EPS	**$3.08**	**$3.09**	**$3.30**	**$3.26**	**$4.26**	**$4.20**
P/E				**26.9x**		**20.9x**
EBITDA (mil.) (Cal)	**$144.2**	**$154.7**	**$183.3**	**$180.1**	**$212.1**	**$207.2**
EV / EBITDA				**10.2x**		**8.5x**

Action	Date	Px	Rating	P.T.
PT	6/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	63.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112
PT	2/27/14	95.1		109
PT	4/17/14	86.2		107



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2012-2015E include respective $0.14, $0.78, $0.57 and $0.29 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Rev.(Mil.)	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$779.9	$836.1	$863.1
GAAP EPS	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.09	$3.26	$4.20

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Trim Target To $104 (From $107), Lower Estimates To Reflect Narrower Online Wagering Margins; Maintain BUY Given Over-Capitalized Balance Sheet And Kentucky Derby Franchise

- **CHDN generated 1Q:14 revenue of $167 million (versus our in line-with-consensus forecast of $167 million) and a pro forma loss per share of $0.05 (versus our $0.10 loss per share forecast and the Street's expected EPS of $0.04).**
- **We reduce our 2014 and 2015 EPS estimates to $3.26 (from $3.30) and $4.20 (from $4.26), respectively, largely to reflect narrower online horse wagering margins and costs associated with online wagering initiatives.**
- **We were encouraged by a 10% year-over-year rise in short-term deferred revenue, which likely reflects strength in Kentucky Derby admissions, sponsorships and broadcast revenue.**
- **We still think the shares are attractive at just 13x our 2015 free cash flow per share forecast of $6.99, considering CHDN's valuable Kentucky Derby franchise.**
- **CHDN's over-capitalized balance sheet offers multiple levers for management to create shareholder value, in our view.**
- **We trim our price target to $104 (from $107), which is based on a sum-of-the parts analysis (see Exhibits 3 and 4) and implies about 15x projected 2015 FCF per share of $6.99 (from $7.12). However, we remain BUY-rated.**
- **Management will host a conference call at 9:00 a.m. ET; the call-in number is 877.372.0878 (ID 15773362).**

❑ **CHDN generated a pro forma loss per share of $0.05 in 1Q:14 versus our forecast of a $0.10 loss.** EBITDA of $17 million (including stock compensation but excluding CHDN's joint venture EBITDA) was in line with our projection. CHDN's loss per share of $0.05 was narrower than our $0.10 estimate due to lower-than-expected depreciation. CHDN's regional casino EBITDA of $25 million exceeded our $22 million estimate as CHDN's Mississippi casino declines were lower than we anticipated. However, CHDN's online wagering EBITDA was less than we projected due to higher state taxes and costs to develop an online platform for real money wagering (excluding horse wagering).

- **CHDN's over-capitalized balance sheet keeps us positive on the shares.** We cut our 2014 and 2015 EPS estimates to $3.26 (from $3.30) and $4.20 (from $4.26), respectively, to reflect narrower online margins. However, we remain positive on the shares, which are trading at 13x our 2015 free cash flow estimate, considering CHDN's valuable Kentucky Derby franchise, over-capitalized balance sheet and growth expectations (albeit lower than previously expected) for online horse wagering. We estimate every $100 million casino acquisition at current market multiples, or $100 million in share repurchases, adds $0.30 in annual EPS. CHDN's net debt to EBITDA of 2x at the end of 1Q:14 compared to 5x for peers. Also encouraging was the 10% year-over-year increase in short-term deferred revenue; while this may be partly due to timing, it is also likely a positive leading indicator for Kentucky Derby admissions, sponsorships and broadcast revenue.

- **We maintain our BUY rating, but lower our target to $104 (from $107).** Our target is based on a sum-of-the-parts analysis (see Exhibits 3 and 4) and implies about 15x projected 2015 free cash flow per share of $6.99 (from $7.12). Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	1Q:14A	1Q:14E	Variance	1Q:13A	YOY%
Revenue	$167,310	$166,659	$651	$148,073	13%
EBITDA	16,643	16,857	(214)	17,871	-7%
	9.9%	10.1%		12.1%	
Operating income	3,967	1,057	2,910	2,836	40%
	2.4%	0.6%		1.9%	
Net income	(956)	(1,887)	931	1,059	-190%
	-0.6%	-1.1%		0.7%	
Fully diluted EPS	($0.05)	($0.10)	$0.05	$0.06	-192%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis-EBITDA

(000's)	1Q:14A	1Q:14E	Var	1Q:13A	YOY%
Racing	($10,250)	($9,812)	($438)	($11,257)	-9%
Gaming	$24,643	$22,010	2,633	22,008	12%
ADW (online)	9,950	11,158	(1,208)	11,335	-12%
Corp./United Tote	(7,700)	(6,500)	(1,200)	(4,215)	NM
Total EBITDA	**$16,643**	**$16,857**	**($214)**	**$17,871**	**-7%**

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 3. Churchill Downs, Sum of the Parts Analysis (Previously)

	EBITDA 2015E	Multiple	Value
Racing	$62,665	15	$965,035
Gaming	106,860	8	854,877
Online wagering	54,162	8	422,461
Corporate/United Tote	(11,600)	10	(116,286)
Enterprise Value			2,126,087
Plus projected net debt, 2015 year-end			176,459
Implied CHDN value			1,949,628
Price per share			[redacted]

Potential upside to our target:	
Legalized gaming in IL.	$13
Legalized gaming in KY.	$20
Total	$33

Source: Sidoti & Company, LLC and company reports.

Exhibit 4. Churchill Downs, Sum of the Parts Analysis

	EBITDA 2015E	Multiple	Value
Racing	$60,726	15	$929,108
Gaming	112,299	8	898,389
Online wagering	46,722	8	373,773
Corporate/United Tote	(12,500)	10	(123,750)
Enterprise Value			2,077,519
Plus projected net debt, 2015 year-end			180,621
Implied CHDN value			1,896,899
Price per share			[redacted]

Potential upside to our target:	
Legalized gaming in IL.	$13
Legalized gaming in KY.	$20
Total	$33

Source: Sidoti & Company, LLC and company reports.

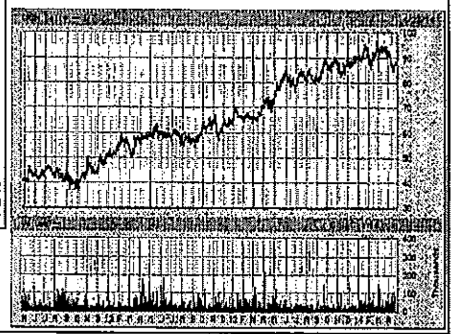
Table 1 : CHDN Income Statement															
(000's, except where noted)	Mar	Jun	Sep	Dec	2013	MarA	Jun	Sep	Dec	2014E	Mar	Jun	Sep	Dec	2015E
Net Revenue															
Racing	$27,813	$157,387	$50,687	$38,382	$274,269	$30,579	$163,884	$50,687	$38,382	$283,532	$30,579	$168,475	$50,687	$38,382	$288,123
Gaming, LA	22,125	19,223	18,224	18,515	78,087	20,707	19,223	18,224	18,515	76,669	22,156	19,607	18,588	18,885	79,238
Gaming, FL	20,486	20,466	19,157	18,842	78,951	20,583	20,466	19,157	18,842	79,048	20,995	20,875	19,540	19,219	80,629
Gaming, MS (Harlows)	15,354	13,097	12,082	11,907	52,440	14,451	12,442	12,082	11,907	50,882	14,740	12,691	12,324	12,145	51,900
Gaming, MS (Riverwalk)	14,124	14,101	12,639	12,781	53,645	13,295	13,396	12,639	12,781	52,111	13,561	13,664	12,892	13,037	53,153
Gaming, ME	NM	NM	17,730	16,620	34,350	17,519	19,271	21,583	17,451	75,824	18,395	19,656	22,015	18,324	78,390
ADW (online)	42,916	52,531	48,522	40,572	184,541	46,084	55,158	50,948	43,412	195,602	49,310	59,019	54,514	46,451	209,294
Other	5,255	6,968	6,605	4,741	23,569	4,092	6,968	6,605	4,741	22,406	4,092	6,968	6,605	4,741	22,406
Net revenue	**148,073**	**283,773**	**185,646**	**162,360**	**779,852**	**167,310**	**310,807**	**191,926**	**166,031**	**836,074**	**173,828**	**320,955**	**197,166**	**171,183**	**863,132**
EBITDA															
Racing	(11,257)	70,517	(907)	(8,078)	50,275	(10,250)	74,239	(1,014)	(8,060)	54,915	(10,397)	79,183	0	(8,060)	60,726
Gaming	22,008	19,365	20,569	18,487	80,429	24,643	24,591	21,591	19,874	90,699	25,606	25,083	22,023	19,586	92,299
ADW (online)	11,335	14,091	12,998	10,698	49,122	9,950	12,686	11,209	9,377	43,222	10,848	13,574	12,266	10,033	46,722
Corp./United Tote	(852)	(86)	(899)	(1,758)	(3,595)	(2,459)	(1,000)	(1,000)	(1,500)	(5,959)	(1,000)	(1,000)	(1,000)	(1,500)	(4,500)
Stock compensation	(3,363)	(6,214)	(5,990)	(5,915)	(21,482)	(5,241)	(5,000)	(2,000)	(2,100)	(14,341)	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)
EBITDA	**17,871**	**97,673**	**25,771**	**13,434**	**154,749**	**16,643**	**105,517**	**28,786**	**17,591**	**168,536**	**23,058**	**114,841**	**31,288**	**18,059**	**187,246**
JV EBITDA	0	0	0	0	0	2,608	3,000	3,000	3,000	11,608	5,000	5,000	5,000	5,000	20,000
EBITDA including OH JV	**17,871**	**97,673**	**25,771**	**13,434**	**154,749**	**19,251**	**108,517**	**31,786**	**20,591**	**180,144**	**28,058**	**119,841**	**36,288**	**23,059**	**207,246**
D & A	(15,035)	(14,991)	(15,796)	(15,928)	(61,750)	(15,284)	(15,500)	(15,500)	(15,500)	(61,784)	(15,500)	(15,500)	(15,500)	(15,500)	(62,000)
Operating income	**2,836**	**82,682**	**9,975**	**(2,494)**	**92,999**	**3,967**	**93,017**	**16,286**	**5,091**	**118,360**	**12,558**	**104,341**	**20,788**	**7,559**	**145,246**
Interest expense	(1,466)	(1,167)	(1,401)	(2,085)	(6,119)	(5,509)	(5,600)	(5,500)	(5,500)	(22,109)	(5,300)	(5,300)	(5,300)	(5,300)	(21,200)
JV interest							0	0	0	0	0	0	0	0	0
Pre-tax income	**1,370**	**81,515**	**8,574**	**(4,579)**	**86,880**	**(1,542)**	**87,417**	**10,786**	**(409)**	**96,251**	**7,258**	**99,041**	**15,488**	**2,259**	**124,046**
Income tax (exp.) benefit	(311)	(30,813)	(2,058)	1,648	(31,533)	586	(34,093)	(4,099)	156	(37,450)	(2,758)	(37,635)	(5,886)	(859)	(47,138)
%	23%	38%	24%	36%	36%	38%	39%	38%	38%	39%	38%	38%	38%	38%	38%
Net income	**1,059**	**50,703**	**6,516**	**(2,931)**	**55,347**	**(956)**	**53,324**	**6,687**	**(254)**	**58,802**	**4,500**	**61,405**	**9,603**	**1,401**	**76,909**
Pro-forma EPS diluted	**$0.06**	**$2.84**	**$0.36**	**($0.18)**	**$3.09**	**($0.05)**	**$2.95**	**$0.37**	**($0.02)**	**$3.26**	**$0.25**	**$3.36**	**$0.52**	**$0.09**	**$4.20**
Diluted avg. shares outstand.	17,828	17,882	17,955	17,370	17,938	17,419	18,100	18,300	18,300	18,030	18,300	18,300	18,300	18,300	18,300
Net Income GAAP	$1,059	$50,703	$9,158	($5,573)	$55,347	($956)	$53,324	$6,687	($254)	$58,802	$4,500	$61,405	$9,603	$1,401	$76,909
EPS GAAP	$0.06	$2.84	$0.51	($0.32)	$3.09	($0.05)	$2.95	$0.37	($0.02)	$3.26	$0.25	$3.36	$0.52	$0.09	$4.20
Margin analysis															
EBITDA	12.1%	34.4%	13.9%	8.3%	19.8%	9.9%	33.9%	15.0%	10.6%	20.2%	13.3%	35.8%	15.9%	10.5%	21.7%
Operating	1.9%	29.1%	5.4%	-1.5%	11.9%	2.4%	29.9%	8.5%	3.1%	14.2%	7.2%	32.5%	10.5%	4.4%	16.8%
Pre-tax	0.9%	28.7%	4.6%	-2.8%	11.1%	-0.9%	28.1%	5.6%	-0.2%	11.5%	4.2%	30.9%	7.9%	1.3%	14.4%
Net income	0.7%	17.9%	3.5%	-1.8%	7.1%	-0.6%	17.2%	3.5%	-0.2%	7.0%	2.6%	19.1%	4.9%	0.8%	8.9%
Y/Y growth %															
Revenue	7%	5%	13%	2%	6%	13%	10%	3%	2%	7%	4%	3%	3%	3%	3%
EBITDA	19%	8%	21%	-21%	8%	8%	11%	23%	53%	16%	46%	10%	14%	12%	15%
Operating income	NM	8%	26%	-209%	6%	NM	12%	63%	-304%	27%	NM	12%	28%	48%	23%
Pre-tax income	NM	8%	21%	-646%	4%	NM	7%	26%	-91%	11%	NM	13%	44%	-652%	29%
Net income	NM	11%	9%	-255%	4%	NM	5%	3%	-91%	6%	NM	15%	44%	-652%	31%
EPS	NM	9%	7%	-229%	1%	NM	4%	1%	-91%	6%	NM	14%	44%	-652%	29%

Source: Sidoti & Company, LLC and company reports.

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$87.84) BUY Target: $104 April 24, 2014

Action	Date	Px	Rating	PT
PT	5/10/11	40.6		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112
PT	2/27/14	95.1		109
PT	4/17/14	86.2		107



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating, but lower our target to $104 (from $107).** Our target is based on a sum-of-the-parts analysis (see Exhibits 3 and 4) and implies about 15x projected 2015 free cash flow per share of $6.99 (from $7.12). Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Required Disclosures

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Appendix Continued

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Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$86.16) — BUY

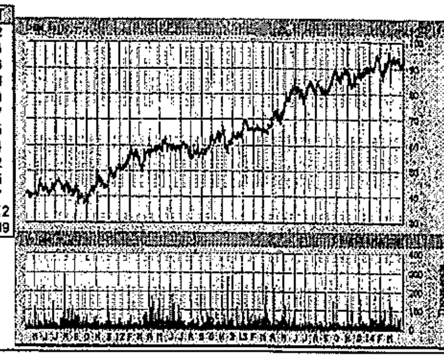
Lower Price Target; Adjust Earnings Estimates — **Target: $107**

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com) — **April 17, 2014**

Market Cap (Mil)	**$1,550**	**Price to Book Value**	**2.6x**
Avg. Daily Trading Volume	**50,000**	**Return on Equity (2014E)**	**10.5%**
Shares Out (Mil)	**17.945**	**LT Debt to Total Capital**	**11%**
Float Shares (Mil)	**13.715**	**5-Year EPS Growth Rate Projection**	**19%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**97-68**
Dividend	**$0.87**	**Russell 2000**	**1132**
Dividend Yield	**1.0%**	**Short Interest (Mil)**	**0.884**

	2012	2013	2014E		2015E	
			OLD	NEW	OLD	NEW
Mar.	$0.00	$0.06	$0.10	($0.10)	$0.36	$0.22
June	2.60	2.84	2.97	3.00	3.31	3.38
Sep.	0.34	0.36	0.37		0.55	
Dec.	0.14	(0.18)	0.07	0.05	0.19	0.13
EPS	**$3.08**	**$3.09**	**$3.48**	**$3.30**	**$4.38**	**$4.26**
P/E				**26.1x**		**20.2x**
EBITDA per share (Cal)	**$144.2**	**$154.7**	**$188.4**	**$183.3**	**$215.3**	**$212.1**
EV / EBITDA				**10.1x**		**8.3x**

Action	Date	Px	Rating	PT
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	68.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112
PT	2/27/14	95.1		109



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Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
April 23	April 24	9 AM	877.372.0878	NM	$0.01

Trim Target To $107 (From $109), Lower Estimates To Reflect Likely Slower Regional Casino Rebound; Maintain BUY Given Over-Capitalized Balance Sheet And Kentucky Derby Franchise

- **We lower our 2014 and 2015 EPS estimates to $3.30 (from $3.48) and $4.26 (from $4.38), respectively, to reflect a slower rebound in regional casino trends.**
- **However, we still think the shares are attractive at just 13x our 2015 free cash flow per share forecast of $7.12, particularly with projected 2014 year-end net debt of $278 million amounting to 1.5x EBITDA versus 5x for peers.**
- **CHDN's over-capitalized balance sheet offers multiple levers for management to create shareholder value; we estimate every $100 million casino acquisition or $100 million in share repurchases adds $0.30 in EPS.**
- **In our view, the shares understate CHDN's valuable Kentucky Derby franchise and online wagering growth.**
- **We maintain a BUY rating. However, we reduce our target to $107 (from $109), which is based on a sum-of-the parts analysis (see Exhibits 3 and 4) and implies about 15x projected 2015 FCF per share of $7.12 (from $7.23).**

❑ **We estimate CHDN generated a loss per share of $0.10 in 1Q:14 versus EPS of $0.06 in the year-earlier period. The** unfavorable results year over year largely reflect higher stock compensation (which we expect to normalize in 2H:14). We estimate online horse wagering EBITDA declined 2% year over year to $11 million, with Texas not currently permitting online wagering (CHDN has filed suit to reverse this). We also think soft regional gaming trends, particularly at the company's two Mississippi properties, affected CHDN. We reduce our 2014 and 2015 EPS estimates to $3.30 (from $3.43) and $4.26 (from $4.38), respectively. Our downward revisions mainly reflect softer regional casino tends—particularly at CHDN's Mississippi properties.

- **CHDN's over-capitalized balance sheet provides several levers to create shareholder value.** We think CHDN's first priority is regional casino acquisitions; we estimate every $100 million deal adds about $0.30 in EPS. In addition, CHDN has a yet-to-be used $100 million share repurchase program in place. We also think the shares understate CHDN's Kentucky Derby franchise and the company's market leading position in the online horse wagering segment (which we think remains in the early innings of growth).

- **We maintain our BUY rating, but lower our target to $107 (from $109).** Our target is based on a sum-of-the-parts analysis (see Exhibits 3 and 4) and implies about 10x projected 2015 EBITDA and 15x projected 2015 free cash flow per share of $7.12 (from $7.23). EBITDA includes CHDN's portion of the Ohio joint venture (which has minimal property level debt). Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	1Q:14E	1Q:13A	Variance	% Difference
Revenue	$166,659	$148,073	$18,586	13%
EBITDA	16,857	17,871	(1,014)	-6%
	10.1%	12.1%		
Operating income	1,057	2,836	(1,779)	-63%
	0.6%	1.9%		
Net income	(1,887)	1,059	(2,946)	-278%
	-1.1%	0.7%		
Fully diluted EPS	($0.10)	$0.06	($0.16)	-275%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis

(000's)	1Q:14E	1Q:13A	Variance	% Difference
Racing	($9,812)	($11,257)	$1,445	-13%
Gaming	$22,010	$22,008	2	0%
ADW (online)	11,158	11,335	(177)	-2%
Corp./United Tote	(6,500)	(4,215)	(2,285)	NM
Total EBITDA	**$16,857**	**$17,871**	**($1,014)**	**-6%**

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 3. Churchill Downs, Sum of the Parts Analysis (previously)

	EBITDA 2015E	Multiple	Value
Racing	$61,341	15	$919,509
Gaming	116,401	8	931,205
Online wagering	54,162	8	422,461
Corporate/United Tote	(11,800)	10	(115,666)
Enterprise Value			2,157,509
Plus projected net debt, 2015 year-end			171,104
Implied CHDN value			1,986,405
Price per share			$109
Potential upside to our target:			
Legalized gaming in IL.			$13
Legalized gaming in KY.			$20
Total			$33

Source: Sidoti & Company, LLC and company reports.

Exhibit 4. Churchill Downs, Sum of the Parts Analysis

	EBITDA 2015E	Multiple	Value
Racing	$62,665	15	$965,035
Gaming	106,860	8	854,877
Online wagering	54,162	8	422,461
Corporate/United Tote	(11,600)	10	(116,286)
Enterprise Value			2,126,087
Plus projected net debt, 2015 year-end			176,459
Implied CHDN value			1,949,628
Price per share			$107
Potential upside to our target:			
Legalized gaming in IL.			$13
Legalized gaming in KY.			$20
Total			$33

Source: Sidoti & Company, LLC and company reports.

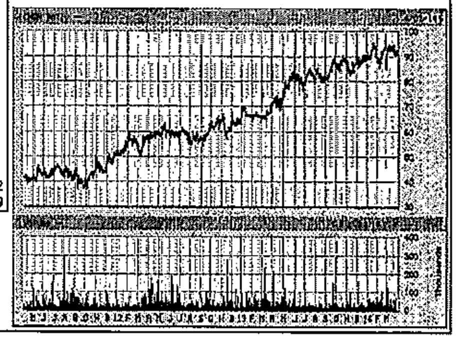
Table 1 : CHDN Income Statement															
(000's, except where noted)	**Mar**	**Jun**	**Sep**	**Dec**	**2013**	**Mar**	**Jun**	**Sep**	**Dec**	**2014E**	**Mar**	**Jun**	**Sep**	**Dec**	**2015E**
Net Revenue															
Racing	$27,813	$157,387	$50,687	$38,382	$274,269	$33,833	$163,884	$50,687	$38,382	$286,786	$33,833	$168,475	$50,687	$38,382	$291,377
Gaming, LA	22,125	19,223	18,224	18,515	78,087	21,019	19,607	18,588	18,885	78,100	22,490	20,000	18,960	19,263	80,713
Gaming, FL	20,486	20,466	19,157	18,842	78,951	20,486	20,466	19,157	18,842	78,951	20,896	20,875	19,540	19,219	80,530
Gaming, MS (Harlows)	15,354	13,097	12,082	11,907	52,440	13,819	11,787	12,082	11,907	49,595	14,095	12,023	12,324	12,145	50,587
Gaming, MS (Riverwalk)	14,124	14,101	12,639	12,781	53,645	12,712	12,691	12,639	12,781	50,823	12,966	12,945	12,892	13,037	51,839
Gaming, ME	NM	NM	17,730	16,620	34,350	16,620	18,282	20,476	17,451	72,829	17,451	18,648	20,885	18,324	75,308
ADW (online)	42,916	52,531	48,522	40,572	184,541	42,916	52,531	48,522	43,412	187,381	45,920	56,208	51,919	46,451	200,498
Other	5,255	6,968	6,605	4,741	23,569	5,255	6,968	6,605	4,741	23,569	5,255	6,968	6,605	4,741	23,569
Net revenue	**148,073**	**283,773**	**185,646**	**162,360**	**779,852**	**166,659**	**306,216**	**188,756**	**166,401**	**828,033**	**172,906**	**316,141**	**193,812**	**171,561**	**854,420**
EBITDA															
Racing	(11,257)	70,517	(907)	(8,078)	50,275	(9,812)	74,239	(1,014)	(8,060)	55,354	(8,458)	79,183	0	(8,060)	62,665
Gaming	22,008	19,365	20,569	18,487	80,429	22,010	24,022	21,399	19,967	87,398	22,853	24,502	21,827	19,677	88,860
ADW (online)	11,335	14,091	12,998	10,698	49,122	11,158	14,183	13,004	11,504	49,850	12,398	15,176	14,278	12,309	54,162
Corp./United Tote	(852)	(86)	(899)	(1,758)	(3,595)	(1,500)	(100)	(1,000)	(1,500)	(4,100)	(1,000)	(100)	(1,000)	(1,500)	(3,600)
Stock compensation	(3,363)	(6,214)	(5,990)	(5,915)	(21,482)	(5,000)	(5,000)	(3,000)	(2,000)	(15,000)	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)
EBITDA	**17,871**	**97,673**	**25,771**	**13,434**	**154,749**	**16,857**	**107,344**	**29,389**	**19,911**	**173,501**	**23,794**	**116,761**	**33,105**	**20,426**	**194,086**
JV EBITDA	0	0	0	0	0	1,750	2,000	3,000	3,000	9,750	4,200	4,600	4,600	4,600	18,000
EBITDA including OH JV	**17,871**	**97,673**	**25,771**	**13,434**	**154,749**	**18,607**	**109,344**	**32,389**	**22,911**	**183,251**	**27,994**	**121,361**	**37,705**	**25,026**	**212,086**
D & A	(15,035)	(14,991)	(15,796)	(15,928)	(61,750)	(15,800)	(15,800)	(15,800)	(15,800)	(63,200)	(15,800)	(15,800)	(15,800)	(15,800)	(63,200)
Operating income	**2,836**	**82,682**	**9,975**	**(2,494)**	**92,999**	**1,057**	**91,544**	**13,589**	**4,111**	**110,301**	**7,994**	**100,961**	**17,305**	**4,626**	**130,886**
Interest expense	(1,466)	(1,167)	(1,401)	(2,085)	(6,119)	(4,100)	(4,100)	(4,000)	(4,000)	(16,200)	(4,000)	(4,000)	(4,000)	(4,000)	(16,000)
JV interest						0	250	1,250	1,250	2,750	2,450	2,850	2,850	2,850	11,000
Pre-tax income	**1,370**	**81,515**	**8,574**	**(4,579)**	**86,880**	**(3,043)**	**87,694**	**10,839**	**1,361**	**96,851**	**6,444**	**99,811**	**16,155**	**3,476**	**125,886**
Income tax (exp.) benefit	(311)	(30,813)	(2,058)	1,648	(31,533)	1,156	(33,324)	(4,119)	(517)	(36,803)	(2,449)	(37,928)	(6,139)	(1,321)	(47,837)
%	23%	38%	24%	36%	36%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%
Net income	**1,059**	**50,703**	**6,516**	**(2,931)**	**55,347**	**(1,887)**	**54,371**	**6,720**	**844**	**60,048**	**3,995**	**61,883**	**10,016**	**2,155**	**78,049**
Pro-forma EPS diluted	**$0.06**	**$2.84**	**$0.36**	**($0.18)**	**$3.09**	**($0.10)**	**$3.00**	**$0.37**	**$0.05**	**$3.30**	**$0.22**	**$3.38**	**$0.55**	**$0.13**	**$4.26**
Diluted avg. shares outstand.	17,828	17,882	17,955	17,370	17,938	18,100	18,100	18,300	18,300	18,200	18,300	18,300	18,300	18,300	18,300
Net Income GAAP	$1,059	$50,703	$9,158	($5,573)	$55,347	($1,887)	$54,371	$6,720	$844	$60,048	$3,995	$61,883	$10,016	$2,155	$78,049
EPS GAAP	$0.06	$2.84	$0.51	($0.32)	$3.09	($0.10)	$3.00	$0.37	$0.05	$3.30	$0.22	$3.38	$0.55	$0.13	$4.26
Margin analysis															
EBITDA	12.1%	34.4%	13.9%	8.3%	19.8%	10.1%	35.1%	15.6%	12.0%	21.0%	13.8%	36.9%	17.1%	11.9%	22.7%
Operating	1.9%	29.1%	5.4%	-1.5%	11.9%	0.6%	29.9%	7.2%	2.5%	13.3%	4.6%	31.9%	8.9%	2.7%	15.3%
Pre-tax	0.9%	28.7%	4.6%	-2.8%	11.1%	-1.8%	28.6%	5.7%	0.8%	11.7%	3.7%	31.6%	8.3%	2.0%	14.7%
Net income	0.7%	17.9%	3.5%	-1.8%	7.1%	-1.1%	17.8%	3.6%	0.5%	7.3%	2.3%	19.6%	5.2%	1.3%	9.1%
Y/Y growth %															
Revenue	7%	5%	13%	2%	6%	13%	8%	2%	2%	6%	4%	3%	3%	3%	3%
EBITDA	19%	8%	21%	-21%	8%	4%	12%	26%	71%	18%	50%	11%	16%	9%	16%
Operating income	NM	8%	26%	-209%	6%	NM	11%	36%	-265%	19%	NM	10%	27%	13%	19%
Pre-tax income	NM	8%	21%	-646%	4%	NM	8%	26%	-130%	11%	NM	14%	49%	155%	30%
Net income	NM	11%	9%	-255%	4%	NM	7%	3%	-129%	8%	NM	14%	49%	155%	30%
EPS	NM	9%	7%	-229%	1%	NM	6%	1%	-129%	7%	NM	13%	49%	155%	29%

Source: Sidoti & Company, LLC and company reports.

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$86.16) BUY Target: $107 April 17, 2014

Action	Date	Px	Rating	PT
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	68.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112
PT	2/27/14	95.1		109



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating, but lower our target to $107 (from $109).** Our target is based on a sum-of-the-parts analysis (see Exhibits 3 and 4) and implies about 10x projected 2015 EBITDA and 15x projected 2015 free cash flow per share of $7.12 (from $7.23). EBITDA includes CHDN's portion of the Ohio joint venture (which has minimal property level debt). Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Required Disclosures

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Appendix Continued

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Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

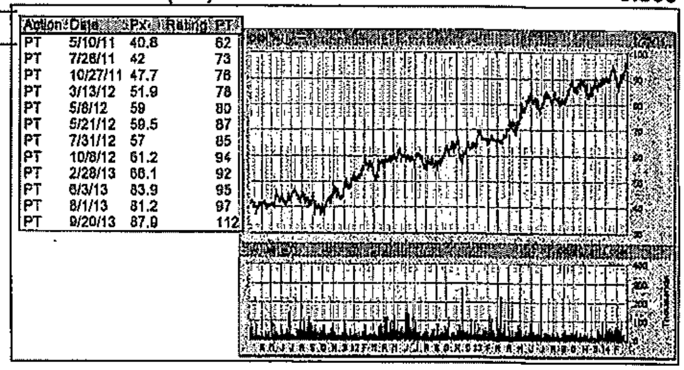
Churchill Downs Inc. (CHDN-$95.14) — BUY

Lower Price Target; Adjust Earnings Estimates — **Target: $109**

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com) — **February 27, 2014**

Market Cap (Mil)	$1,710	Price to Book Value	2.9x
Avg. Daily Trading Volume	45,000	Return on Equity (2014E)	10.5%
Shares Out (Mil)	17.977	LT Debt to Total Capital	11%
Float Shares (Mil)	13.672	5-Year EPS Growth Rate Projection	19%
Institutional Holdings	40%	52-Week Range (NASDAQ)	97-64
Dividend	$0.87	Russell 2000	1182
Dividend Yield	0.9%	Short Interest (Mil)	0.860

	2012	2013		2014E		2015E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	$0.00	$0.06A		$0.02	$0.10	$0.37	$0.36
June	2.60	2.84A		3.07	2.97	3.34	3.31
Sep.	0.34	0.36A		0.49	0.37	0.61	0.55
Dec.	0.14	0.09	(0.18)A	0.19	0.07	0.35	0.19
EPS	$3.08	$3.32	$3.09	$3.73	$3.48	$4.63	$4.38
P/E					27.3x		21.7x
EBITDA (mil.) (Cal)	$144.2	$160.7	$154.7	$195.8	$188.4	$222.7	$215.3
EV / EBITDA					10.7x		8.9x



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2012-2015E include $0.14, $0.78, $0.57 and $0.29 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Rev.(Mil.)	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$779.9	$825.3	$851.6
GAAP EPS	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.09	$3.48	$4.38

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Lower Target To $109 (From $112) On Lower Estimates; Still Favorably View Shares Given Balance Sheet, Kentucky Derby Franchise And Online Horse Wagering Growth; Maintain BUY

- **CHDN generated 4Q:13 revenue of $162 million (versus our $178 million projection and consensus of $188 million) and a pro forma loss per share of $0.18 (versus our $0.09 EPS estimate and consensus EPS of $0.17).**
- **Results were below our forecast due to soft regional gaming trends and a horseracing dispute in Florida having a greater-than-anticipated impact on the quarter, although we forecast the reverse will occur in 1Q:14.**
- **We cut our 2014 and 2015 EPS estimates to $3.48 (from $3.73) and $4.38 (from $4.63), respectively, mainly to reflect soft regional casino trends and to a smaller extent lower racing EBITDA in Florida.**
- **We still favorably view the shares; we estimate CHDN will have net debt to EBITDA of 1.5x by the end of 2014 versus 5x for peers giving considerable dry powder to create value through acquisitions or share repurchases.**
- **In our view, we think the shares understate CHDN's valuable Kentucky Derby franchise and online wagering growth; accordingly, we would view any weakness in the shares today as an opportunity to accumulate the stock.**
- **Management will host a conference call at 9:00 a.m. ET; the call-in number is 877.372.0878 (ID 2042254).**
- **We maintain a BUY rating but reduce our target to $109 (from $112 target); our target is based on a sum-of-the parts analysis (Exhibit 3 and 4) and implies about 15x projected 2015 FCF per share of $7.23.**

❑ **CHDN generated a pro forma loss per share of $0.18 in 4Q:13 versus our forecast of a $0.09 gain.** CHDN missed our estimates on weaker-than-expected regional casino results and a wider-than-expected loss in the racing segment (Exhibit 2). Due to a dispute with a competitor in Florida, CHDN had overlapping race dates in the quarter and the impact was worse than our expectation. However, this will partly be reversed in 1Q:14 when CHDN remains open (the Florida track historically was not open in the March quarter).

- **We cut our 2014 and 2015 EPS estimates to $3.48 (from $3.73) and $4.38 (from $4.63), respectively.** Our downward revision mainly reflects softer regional casino tends—particularly at CHDN's two Mississippi properties. However, we would view any weakness in the shares as an opportunity to accumulate CHDN as we still think the shares are favorably priced, trading at 13x our 2015 free cash flow per share forecast of $7.23. We anticipate additional regional casino acquisitions, which would spur upward EPS revisions (every $150 million casino acquisition at current multiples adds about $0.50-$0.60 per share in annual free cash flow). We also think the shares understate CHDN's online wagering prospects and the Kentucky Derby franchise. Online horse wagering still accounts for only about 20% of total wagering, providing a considerable growth runway, in our view (CHDN has about a 45% share of the market in the U.S.). Online wagering EBITDA of $11 million exceeded our $10 million forecast due to higher-than-expected margins. As expected, revenue declined 1% year over year in the quarter as the state of Texas is no longer permitting online horse wagering. We expect high single-digit revenue growth to return once CHDN anniversaries this legislation (later in 2014).

- **We maintain our BUY rating and reduce our price target to $109 (from $112).** Our target is based on a sum-of-the-parts analysis (Exhibit 3 and 4) and implies about 10x projected 2015 EBITDA and 15x projected 2015 free cash flow per share of $7.23 (from $7.62). EBITDA includes CHDN's portion of the Ohio joint venture. We model the JV partners financing the casino property and thus expect the JV to have no debt. Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	4Q:13A	4Q:13E	Variance	4Q:12A	YOY%
Revenue	$162,360	$177,820	($15,460)	$158,494	2%
EBITDA	13,434	19,393	(5,959)	17,071	-21%
	8.3%	10.9%		10.8%	
Operating income	(2,494)	3,593	(6,087)	2,286	-209%
	-1.5%	2.0%		1.4%	
Net income	(2,931)	1,403	(4,334)	1,890	-255%
	-1.8%	0.8%		1.2%	
Fully diluted EPS	($0.18)	$0.09	($0.27)	$0.14	-229%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis-EBITDA

(000's)	4Q:13A	4Q:13E	Var	4Q:12A	YOY%
Racing	($8,078)	($5,078)	($3,000)	($4,062)	99%
Gaming	$18,487	$21,559	(3,072)	16,794	10%
ADW (online)	10,698	9,832	866	9,267	15%
Corp./United Tote	(7,673)	(7,000)	(673)	(4,928)	NM
Total EBITDA	**$13,434**	**$19,393**	**($5,959)**	**$17,071**	-21%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 3. Churchill Downs, Sum of the Parts Analysis (Previously)

	EBITDA 2015E	Multiple	Value
Racing	$60,802	15	$936,344
Gaming	120,657	8	965,252
Online wagering	53,079	8	414,015
Corporate/United Tote	(11,800)	10	(116,503)
Enterprise Value			2,199,108
Plus projected net debt, 2015 year-end			149,908
Implied CHDN value			2,049,200
Price per share			[redacted]
Potential upside to our target:			
Legalized gaming in IL.			$13
Legalized gaming in KY.			$20
Total			$33

Source: Sidoti & Company, LLC and company reports.

Exhibit 4. Churchill Downs, Sum of the Parts Analysis

	EBITDA 2015E	Multiple	Value
Racing	$61,341	15	$944,659
Gaming	116,401	8	931,205
Online wagering	54,162	8	422,461
Corporate/United Tote	(11,800)	10	(116,946)
Enterprise Value			2,181,379
Plus projected net debt, 2015 year-end			171,104
Implied CHDN value			2,010,276
Price per share			[redacted]
Potential upside to our target:			
Legalized gaming in IL.			$13
Legalized gaming in KY.			$20
Total			$33

Source: Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement

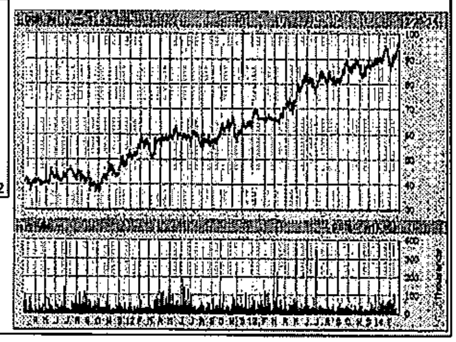
(000's, except where noted)	Mar	Jun	Sep	Dec	2013	Mar	Jun	Sep	Dec	2014E	Mar	Jun	Sep	Dec	2015E
Net Revenue															
Racing	$27,813	$157,387	$50,687	$38,382	$274,269	$33,833	$161,177	$50,687	$38,382	$284,079	$33,833	$165,659	$50,687	$38,382	$288,561
Gaming, LA	22,125	19,223	18,224	18,515	78,087	21,019	19,607	18,588	18,885	78,100	22,490	20,000	18,960	19,263	80,713
Gaming, FL	20,486	20,466	19,157	18,842	78,951	20,486	20,466	19,157	18,842	78,951	20,896	20,875	19,540	19,219	80,530
Gaming, MS (Harlows)	15,354	13,097	12,082	11,907	52,440	13,819	11,787	12,082	11,907	49,595	14,095	12,023	12,324	12,145	50,587
Gaming, MS (Riverwalk)	14,124	14,101	12,639	12,781	53,645	12,712	12,691	12,639	12,781	50,823	12,966	12,945	12,892	13,037	51,839
Gaming, ME	NM	NM	17,730	16,620	34,350	16,620	18,282	20,476	17,451	72,829	17,451	18,648	20,885	18,324	75,308
ADW (online)	42,916	52,531	48,522	40,572	184,541	42,916	52,531	48,522	43,412	187,381	45,920	56,208	51,919	46,451	200,498
Other	5,255	6,968	6,605	4,741	23,569	5,255	6,968	6,605	4,741	23,569	5,255	6,968	6,605	4,741	23,569
Net revenue	**148,073**	**283,773**	**185,646**	**162,360**	**779,852**	**166,659**	**303,509**	**188,756**	**166,401**	**825,326**	**172,906**	**313,326**	**193,812**	**171,561**	**851,604**
EBITDA															
Racing	(11,257)	70,517	(907)	(8,078)	50,275	(8,458)	73,013	(1,014)	(8,060)	55,481	(8,458)	77,860	0	(8,060)	61,341
Gaming	22,008	19,365	20,569	18,487	80,429	25,820	24,022	21,399	19,967	91,207	26,809	24,502	21,827	20,497	93,635
ADW (online)	11,335	14,091	12,998	10,698	49,122	11,158	14,183	13,004	11,504	49,850	12,398	15,176	14,278	12,309	54,162
Corp./United Tote	(852)	(86)	(899)	(1,758)	(3,595)	(852)	(100)	(899)	(1,000)	(2,851)	(900)	(1,000)	(1,000)	(900)	(3,800)
Stock compensation	(3,363)	(6,214)	(5,990)	(5,915)	(21,482)	(5,000)	(5,000)	(3,000)	(2,000)	(15,000)	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)
EBITDA	**17,871**	**97,673**	**25,771**	**13,434**	**154,749**	**22,668**	**106,118**	**29,490**	**20,411**	**178,687**	**27,849**	**114,538**	**33,105**	**21,846**	**197,338**
JV EBITDA	0	0	0	0	0	1,750	2,000	3,000	3,000	9,750	4,200	4,600	4,600	4,600	18,000
EBITDA including OH JV	**17,871**	**97,673**	**25,771**	**13,434**	**154,749**	**24,418**	**108,118**	**32,490**	**23,411**	**188,437**	**32,049**	**119,138**	**37,705**	**26,446**	**215,338**
D & A	(15,035)	(14,991)	(15,796)	(15,928)	(61,750)	(15,800)	(15,800)	(15,800)	(15,800)	(63,200)	(15,800)	(15,800)	(15,800)	(15,800)	(63,200)
Operating income	**2,836**	**82,682**	**9,975**	**(2,494)**	**92,999**	**6,868**	**90,318**	**13,690**	**4,611**	**115,487**	**12,049**	**98,738**	**17,305**	**6,046**	**134,138**
Interest expense	(1,466)	(1,167)	(1,401)	(2,085)	(6,119)	(4,000)	(4,000)	(4,000)	(4,000)	(16,000)	(4,000)	(4,000)	(4,000)	(4,000)	(16,000)
JV interest						0	250	1,250	1,250	2,750	2,450	2,850	2,850	2,850	11,000
Pre-tax income	**1,370**	**81,515**	**8,574**	**(4,579)**	**86,880**	**2,868**	**86,568**	**10,940**	**1,861**	**102,237**	**10,499**	**97,588**	**16,155**	**4,896**	**129,138**
Income tax (exp.) benefit	(311)	(30,813)	(2,058)	1,648	(31,533)	(1,090)	(32,896)	(4,157)	(707)	(38,850)	(3,990)	(37,084)	(6,139)	(1,861)	(49,072)
%	23%	38%	24%	36%	36%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%
Net income	**1,059**	**50,703**	**6,516**	**(2,931)**	**55,347**	**1,778**	**53,672**	**6,783**	**1,154**	**63,387**	**6,509**	**60,505**	**10,016**	**3,036**	**80,066**
Pro-forma EPS diluted	**$0.06**	**$2.84**	**$0.36**	**($0.18)**	**$3.09**	**$0.10**	**$2.97**	**$0.37**	**$0.07**	**$3.48**	**$0.36**	**$3.31**	**$0.55**	**$0.19**	**$4.38**
Diluted avg. shares outstand.	17,828	17,882	17,955	17,370	17,938	18,100	18,100	18,300	18,300	18,200	18,300	18,300	18,300	18,300	18,300
Net Income GAAP	$1,059	$50,703	$9,158	($5,573)	$55,347	$1,778	$53,672	$6,783	$1,154	$63,387	$6,509	$60,505	$10,016	$3,036	$80,066
EPS GAAP	$0.06	$2.84	$0.51	($0.32)	$3.09	$0.10	$2.97	$0.37	$0.07	$3.48	$0.36	$3.31	$0.55	$0.19	$4.38
Margin analysis															
EBITDA	12.1%	34.4%	13.9%	8.3%	19.8%	13.6%	35.0%	15.6%	12.3%	21.7%	16.1%	36.6%	17.1%	12.7%	23.2%
Operating	1.9%	29.1%	5.4%	-1.5%	11.9%	4.1%	29.8%	7.3%	2.8%	14.0%	7.0%	31.5%	8.9%	3.5%	15.8%
Pre-tax	0.9%	28.7%	4.6%	-2.8%	11.1%	1.7%	28.5%	5.8%	1.1%	12.4%	6.1%	31.1%	8.3%	2.9%	15.2%
Net income	0.7%	17.9%	3.5%	-1.8%	7.1%	1.1%	17.7%	3.6%	0.7%	7.7%	3.8%	19.3%	5.2%	1.8%	9.4%
Y/Y growth %															
Revenue	7%	5%	13%	2%	6%	13%	7%	2%	2%	6%	4%	3%	3%	3%	3%
EBITDA	19%	8%	21%	-21%	8%	37%	11%	26%	74%	22%	31%	10%	16%	13%	14%
Operating income	NM	8%	26%	-209%	6%	NM	9%	37%	-285%	24%	NM	9%	26%	31%	16%
Pre-tax income	NM	8%	21%	-646%	4%	NM	6%	28%	-141%	18%	NM	13%	48%	163%	26%
Net income	NM	11%	9%	-255%	4%	NM	6%	4%	-139%	15%	NM	13%	48%	163%	26%
EPS	NM	9%	7%	-229%	1%	NM	5%	2%	-139%	13%	NM	11%	48%	163%	26%

Source: Sidoti & Company, LLC and company reports.

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$95.14) BUY Target: $109 February 27, 2014

Action	Date	Px	Rating	PT
PT	5/10/11	40.6		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and reduce our price target to $109 (from $112).** Our target is based on a sum-of-the-parts analysis (Exhibit 3 and 4) and implies about 10x projected 2015 EBITDA and 15x projected 2015 free cash flow per share of $7.23 (from $7.62). EBITDA includes CHDN's portion of the Ohio joint venture. We model the JV partners financing the casino property and thus expect the JV to have no debt. Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Required Disclosures

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Other Disclosures

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Appendix Continued

market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Sidoti & Company, LLC
Member FINRA & SIPC

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$93.21) — BUY

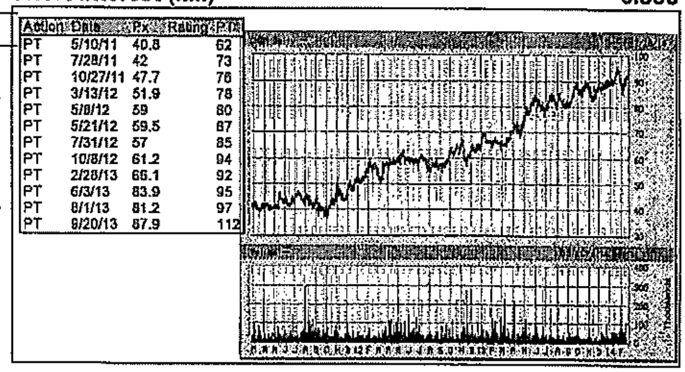
Adjust Earnings Estimates; Earnings Preview — **Target: $112**

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

February 24, 2014

Market Cap (Mil)	**$1,680**	**Price to Book Value**	**2.8x**
Avg. Daily Trading Volume	**44,000**	**Return on Equity (2014E)**	**10.5%**
Shares Out (Mil)	**17.977**	**LT Debt to Total Capital**	**11%**
Float Shares (Mil)	**13.672**	**5-Year EPS Growth Rate Projection**	**19%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**96-64**
Dividend	**$0.87**	**Russell 2000**	**1165**
Dividend Yield	**0.9%**	**Short Interest (Mil)**	**0.860**

	2012	2013E		2014E		2015E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	$0.00	$0.06A		$0.10	$0.02	$0.36	$0.37
June	2.60	2.84A		3.07		3.34	
Sep.	0.34	0.36A		0.49		0.61	
Dec.	0.14	0.13	0.09	0.22	0.19	0.36	0.35
EPS	**$3.08**	**$3.36**	**$3.32**	**$3.84**	**$3.73**	**$4.63**	
P/E			**28.1x**		**25.0x**	**20.1x**	
EBITDA (mil.) (Cal)	**$144.2**	**$161.9**	**$160.7**	**$198.9**	**$195.8**	**$222.8**	**$222.7**
EV / EBITDA			**11.8x**		**10.0x**		**8.3x**



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2012-2015E include $0.14, $0.78, $0.57 and $0.29 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Rev.(Mil.)*	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$795.3	$845.7	$871.2
GAAP EPS*	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.46	$3.73	$4.63

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
February 26	February 27	9 AM	877.372.0878	NM	$0.18

Think Shares Understate Over-Capitalized Balance Sheet, Kentucky Derby Franchise And Online Horse Wagering Growth Prospects; Maintain BUY And $112 Target

- **We reduce our 2013 and 2014 EPS estimates to $3.32 (from $3.36) and $3.73 (from $3.84), respectively, largely to reflect unfavorable weather and continued softness in regional gaming trends.**
- **However, we maintain our positive stance on the shares, which are trading at 13x our 2014 free cash flow per share forecast of $7.12, particularly considering CHDN's over-capitalized balance sheet.**
- **We estimate CHDN will have net debt to projected 2014 EBITDA of 1.3x at the end of 2014 versus 5x for peers; we estimate every $150 million casino acquisition adds $0.50-$0.60 in annual free cash flow.**
- **CHDN's online horse wagering prospects and valuable Kentucky Derby franchise are not reflected in the share price, in our view.**
- **We maintain our BUY rating and $112 target, which is based on a sum-of-the parts analysis (Exhibit 2).**

❑ **We reduce our 2013 and 2014 EPS estimates mainly to reflect bad weather and soft regional casino trends.** We now forecast 2013 and 2014 EPS of $3.32 (from $3.36) and $3.73 (from $3.84), respectively. Our 4Q:13 EPS projection of $0.09 compares to the consensus forecast of $0.18 (although we suspect investors are likely anticipating this given soft regional casino trends and poor weather). However, we remain positive on the shares, which are trading at just 13x our 2014 free cash flow estimate. At current multiples, we estimate every $150 million casino acquisition would cause us to upwardly revise our free cash flow forecast by $0.50-$0.60. We also think the shares understate CHDN's online wagering prospects and the Kentucky Derby franchise. Online horse wagering still accounts for only about 20% of total wagering, providing a considerable growth runway, in our view (CHDN has about a 45% share of the market in the U.S.).

- **Whether legalized gaming will advance in the Kentucky General Assembly is uncertain.** The legislative session runs through mid-April. We think the key road block remains getting the legislation through the senate. The racetracks also are not in agreement on the terms of potential legislation, with some tracks favoring guaranteed casino licenses for racetracks and others supporting an open process. According to media reports, several racetrack owners are meeting Wednesday with a pro gaming state congressman to attempt to unite.

- **We maintain our BUY rating and $112 target.** Our target is based on a sum-of-the-parts analysis (Exhibit 2) and implies about 10x projected 2015 EBITDA and 15x projected 2015 free cash flow per share of $7.62. EBITDA includes CHDN's portion of the Ohio joint venture. We model the JV partners financing the casino property and thus expect the JV to be debt-free. Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	4Q:13E	4Q:12A	Variance	% Difference
Revenue	$177,820	$158,494	$19,326	12%
EBITDA	19,393	17,555	1,838	10%
	10.9%	11.1%		
Operating income	3,593	2,770	823	30%
	2.0%	1.7%		
Net income	1,403	2,374	(971)	-41%
	0.8%	1.5%		
Fully diluted EPS	$0.09	$0.14	($0.05)	-38%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2. Churchill Downs, Sum of the Parts Analysis

	EBITDA 2015E	Multiple	Value
Racing	$60,802	15	$936,344
Gaming	120,657	8	965,252
Online wagering	53,079	8	414,015
Corporate/United Tote	(11,800)	10	(116,503)
Enterprise Value			2,199,108
Plus projected net debt, 2015 year-end			149,908
Implied CHDN value			2,049,200
Price per share			[redacted]
Potential upside to our target:			
Legalized gaming in IL.			$13
Legalized gaming in KY.			$20
Total			$33

Source: Sidoti & Company, LLC and company reports.

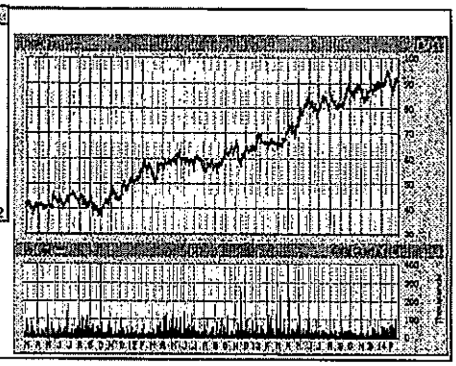
Table 1 : CHDN Income Statement																
(000's, except where noted)	Mar	Jun	Sep	Dec	2012	MarA	JunA	SepA	Dec	2013E	Mar	Jun	Sep	Dec	2014E	2015E
Net Revenue																
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$27,813	$157,387	$50,687	$48,359	$284,246	$27,813	$161,177	$50,687	$48,359	$288,035	$291,398
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,125	19,223	18,224	18,110	77,682	21,019	19,607	18,588	18,472	77,687	80,291
Gaming, FL	21,879	19,188	17,841	18,956	77,864	20,486	20,466	19,157	18,956	79,065	20,486	20,466	19,157	18,956	79,065	80,646
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	15,354	13,097	12,082	14,179	54,712	15,354	13,097	12,082	14,179	54,712	55,806
Gaming, MS (Riverwalk)	NM	NM	NM	10,330	10,330	14,124	14,101	12,639	14,000	54,864	14,124	14,101	12,639	14,000	54,864	55,961
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	17,730	18,000	35,730	18,000	21,000	22,163	18,360	79,523	82,204
ADW (online)	44,035	52,702	45,593	40,949	183,279	42,916	52,531	48,522	40,130	184,099	42,916	52,531	48,522	42,939	186,908	199,992
Other	4,643	6,303	6,872	6,086	23,904	5,255	6,968	6,605	6,086	24,914	5,255	6,968	6,605	6,086	24,914	24,914
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**148,073**	**283,773**	**185,646**	**177,820**	**795,312**	**164,967**	**308,947**	**190,443**	**181,351**	**845,708**	**871,212**
EBITDA																
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,257)	70,517	(907)	(5,078)	53,275	(11,403)	73,013	760	(5,078)	57,292	60,802
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,056	6,350	5,540	4,890	24,836	7,146	6,863	5,948	5,911	25,868	27,831
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,728	5,000	2,900	2,085	13,713	4,097	5,117	2,874	2,464	14,552	14,243
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	5,433	3,215	3,329	4,254	16,231	5,435	3,274	3,383	3,970	16,063	16,321
Gaming, MS (Riverwalk)	NM	NM	NM	2,800	2,800	4,791	4,800	3,300	4,830	17,721	4,802	4,865	3,286	3,500	16,453	17,112
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	5,500	5,580	11,080	5,400	7,140	7,535	6,242	26,318	27,949
ADW (online)	10,421	12,539	8,986	8,334	40,280	11,335	14,091	12,998	9,832	48,256	10,729	14,078	13,004	10,520	48,331	53,079
Corp./United Tote	1,253	2,642	1,991	(2,429)	3,457	(852)	(86)	(899)	(1,000)	(2,837)	(852)	(100)	(899)	(1,000)	(2,851)	(3,800)
Stock compensation	(3,184)	(4,715)	(2,968)	0	(10,867)	(3,363)	(6,214)	(5,990)	(6,000)	(21,567)	(5,000)	(5,000)	(3,000)	(3,000)	(16,000)	(8,000)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**25,771**	**19,393**	**160,708**	**20,355**	**109,250**	**32,891**	**23,530**	**186,026**	**205,537**
JV EBITDA	0	0	0	0	0	0	0	0	0	0	1,750	2,000	3,000	3,000	9,750	17,200
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**25,771**	**19,393**	**160,708**	**22,105**	**111,250**	**35,891**	**26,530**	**195,776**	**222,737**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,035)	(14,991)	(15,796)	(15,800)	(61,622)	(15,800)	(15,800)	(15,800)	(15,800)	(63,200)	(63,200)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**2,836**	**82,682**	**9,975**	**3,593**	**99,086**	**4,555**	**93,450**	**17,091**	**7,730**	**122,826**	**142,337**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,466)	(1,167)	(1,401)	(1,400)	(5,434)	(4,000)	(4,000)	(4,000)	(4,000)	(16,000)	(16,000)
JV interest											0	250	1,250	1,250	2,750	10,200
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**1,370**	**81,515**	**8,574**	**2,193**	**93,652**	**555**	**89,700**	**14,341**	**4,980**	**109,576**	**136,537**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(311)	(30,813)	(2,058)	(789)	(33,971)	(211)	(34,086)	(5,450)	(1,893)	(41,639)	(51,884)
%	41%	40%	16%	41%	36%	23%	38%	24%	36%	36%	38%	38%	38%	38%	38%	38%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,059**	**50,703**	**6,516**	**1,403**	**59,681**	**344**	**55,614**	**8,892**	**3,088**	**67,937**	**84,653**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.06**	**$2.84**	**$0.36**	**$0.09**	**$3.32**	**$0.02**	**$3.07**	**$0.49**	**$0.19**	**$3.73**	**$4.63**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,828	17,882	17,955	17,955	18,000	18,100	18,100	18,300	18,300	18,200	18,300
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,059	$50,703	$9,158	$1,403	$62,323	$344	$55,614	$8,892	$3,088	$67,937	$84,653
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.06	$2.84	$0.51	$0.08	$3.46	$0.02	$3.07	$0.49	$0.19	$3.73	$4.63
Margin analysis																
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.1%	34.4%	13.9%	10.9%	20.2%	12.3%	35.4%	17.3%	13.0%	22.0%	23.6%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	1.9%	29.1%	5.4%	2.0%	12.5%	2.8%	30.2%	9.0%	4.3%	14.5%	16.3%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	0.9%	28.7%	4.6%	1.2%	11.8%	0.3%	29.0%	7.5%	2.7%	13.0%	15.7%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	0.7%	17.9%	3.5%	0.8%	7.5%	0.2%	18.0%	4.7%	1.7%	8.0%	9.7%
Y/Y growth %																
Revenue	5%	8%	-1%	6%	5%	7%	5%	13%	12%	9%	11%	9%	3%	2%	6%	3%
EBITDA	35%	6%	-10%	-10%	3%	19%	8%	21%	10%	11%	24%	14%	39%	37%	22%	14%
Operating income	NM	8%	-23%	-51%	5%	NM	8%	26%	30%	12%	NM	13%	71%	115%	24%	16%
Pre-tax income	NM	12%	-20%	NM	11%	NM	8%	21%	66%	11%	NM	10%	67%	127%	17%	25%
Net income	NM	14%	-3%	NM	14%	NM	11%	9%	-41%	11%	NM	10%	36%	120%	14%	25%
EPS	NM	10%	-7%	NM	12%	NM	9%	7%	-38%	8%	NM	8%	34%	120%	13%	24%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$93.21) BUY Target: $112 February 24, 2014

Action	Date	PX	Rating	RT
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.8		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $112 target.** Our target is based on a sum-of-the-parts analysis (Exhibit 2) and implies about 10x projected 2015 EBITDA and 15x projected 2015 free cash flow per share of $7.62. EBITDA includes CHDN's portion of the Ohio joint venture. We model the JV partners financing the casino property and thus expect the JV to be debt-free. Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Required Disclosures

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Appendix Continued

market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$92.76)

BUY

Company Update

Target: $112

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

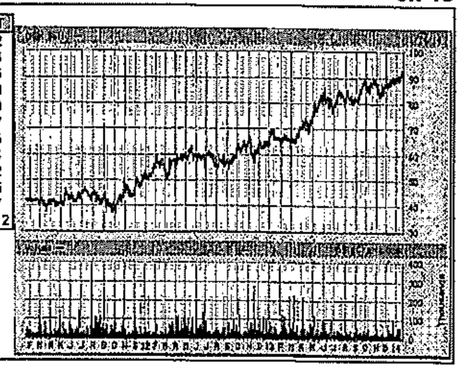
January 16, 2014

Market Cap (Mil)	**$1,670**
Avg. Daily Trading Volume	**35,000**
Shares Out (Mil)	**17.977**
Float Shares (Mil)	**13.657**
Institutional Holdings	**40%**
Dividend	**$0.87**
Dividend Yield	**0.9%**

Price to Book Value	**2.8x**
Return on Equity (2014E)	**10.5%**
LT Debt to Total Capital	**11%**
5-Year EPS Growth Rate Projection	**19%**
52-Week Range (NASDAQ)	**93-64**
Russell 2000	**1171**
Short Interest (Mil)	**0.746**

	2012	2013E	2014E		2015E	
			OLD	NEW	OLD	NEW
Mar.	$0.00	$0.06A	$0.10		$0.36	
June	2.60	2.84A	3.07		3.34	
Sep.	0.34	0.36A	0.49		0.61	
Dec.	0.14	0.13	0.22		0.36	
EPS	**$3.08**	**$3.36**	**$3.84**		**$4.63**	
P/E		**24.1x**	**24.1x**		**20.0x**	
EBITDA (mil.) (Cal)	**$144.2**	**$161.9**	**$198.9**		**$222.8**	
EV / EBITDA		**11.7x**	**9.8x**		**8.3x**	

Action	Date	Px	Rating	PT
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2012-2015E include $0.14, $0.78, $0.57 and $0.29 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Rev.(Mil.)*	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$796.8	$848.8	$872.2
GAAP EPS*	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.36	$3.84	$4.63

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Kentucky House Holds First Gaming Hearing Of 2014; Think New Kentucky Senate Leadership Elevates Chances Of Legalized Gaming; Maintain BUY And $112 Target

- **Yesterday, Kentucky's House Committee on Licensing and Occupations held a hearing on a constitutional amendment to legalize gaming; the 2014 session runs through April 15.**
- **House Bills 67 and 68 propose a public referendum to legalize eight casinos, require a $50 million license fee and 45% gaming tax rate (fair terms, in our view).**
- **Given that the tougher hurdle of passage lies in the senate, house Democrats are pushing for the senate to act first on legislation that has already been introduced (SB 33); the timing is not yet clear.**
- **Unlike prior leadership, the current senate president does not appear to be a vocal opponent of gaming legislation.**
- **Assuming the house's proposed terms of legislation, we estimate passage would be worth $20 per share in undiscounted equity value for CHDN.**
- **We also think a casino in Louisville would contribute over $2 per share in annual free cash flow.**
- **We maintain our BUY rating and $112 target, which is based on a sum-of-the parts analysis (Exhibit 2).**

❑ **We think Kentucky's new senate leadership increases the likelihood of gaming legislation.** First-year Senate President Robert Stivers has indicated he will not "impede the process" of gaming legislation (the prior senate president aggressively worked to block legislation for years). A constitutional amendment is required in Kentucky to legalize gaming—two-thirds passage of both legislative houses, gubernatorial support and a public referendum that would be held in November 2014. The governor has aggressively pushed for gaming legislation while public polling indicates likely support for a gaming bill. Historically, legislation has passed the Kentucky house—we view passage in the senate as the key barrier.

- **House Democrats have indicated they would like the bill to originate in the senate since passage in the house is likely easier.** Gaming bills were pre-filed in both the house and senate. HB 67 proposes the public referendum while HB 68 is a companion bill that specifies the gaming tax rate of roughly 45% (40% for the first three years), a $50 million license fee and the issuance of eight casino licenses—five to racetracks and three standalone casinos. The standalone licenses would not be permitted in a county with a racetrack (giving CHDN the sole casino license for the Louisville area). SB 33 only specifies sending the question to the voters, issuing up to seven casino licenses and guaranteeing 10% of gaming revenue to the horseracing industry (it does not automatically provide licenses to racetracks). We estimate a $250 million casino in Louisville (including license fee) would generate nearly $75 million in annual EBITDA—nearly a 30% cash on cash return (Exhibit 1). Our estimates assume the casino could generate $256 million in annual gross gaming revenue; we note the Horseshoe Southern Indiana (located 30 minutes from CHDN's racetrack) generated $263 million in 2013 according to the Indiana Gaming Commission.

- **We maintain our BUY rating and $112 target.** Our target is based on a sum-of-the-parts analysis (Exhibit 2) and implies about 10x projected 2015 EBITDA and 15x projected 2015 free cash flow per share of $7.62. EBITDA includes CHDN's portion of the Ohio joint venture. We model the JV partners financing the casino property and thus expect the JV to be debt-free. Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1. CHDN Louisville Casino Analysis

(millions)	Low	Base	High
Capex	$250	$250	$250
Slot machines	2,500	2,500	2,500
Win per day	$225	$250	$275
Slots rev.	$205	$228	$251
Table rev.	$25	$27	$30
Gross gaming rev.	$230	$256	$281
Food, bev. and other rev.	28	31	34
Promotional allowances	(39)	(43)	(47)
Total rev.	219	243	268
EBITDA margin	27%	30%	33%
EBITDA	$59	$73	$88
Cash-on-cash return	24%	35%	35%
Equity/share			
@ 7x	$10	$15	$22
@ 8x	$13	$20	$27
@ 9x	$17	$24	$32
Equity/share plus $4/share gaming tax reducti	$17	$24	$31
Initial accretion			
EPS	$1.44	$1.93	$2.46
FCF/share	$1.83	$2.37	$2.84

Note: Assumes $50 million license fee, $200 million construction cost and 45% gaming tax rate

Source: Sidoti & Company, LLC and company reports.

Exhibit 2. Churchill Downs, Sum of the Parts Analysis

	EBITDA 2015E	Multiple	Value
Racing	$60,802	15	$936,344
Gaming	120,746	8	965,970
Online wagering	53,079	8	414,015
Corporate/United Tote	(11,800)	10	(116,494)
Enterprise Value			2,199,834
Plus projected net debt, 2015 year-end			147,163
Implied CHDN value			2,052,671
Price per share			[redacted]
Potential upside to our target:			
Legalized gaming in IL.			$13
Legalized gaming in KY.			$20
Total			$33

Source: Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement

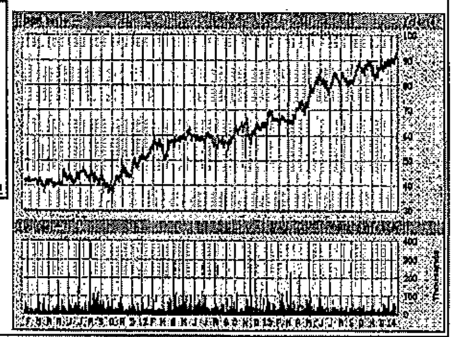
(000's, except where noted)	Mar	Jun	Sep	Dec	2012	MarA	JunA	SepA	Dec	2013E	Mar	Jun	Sep	Dec	2014E	2015E
Net Revenue																
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$27,813	$157,387	$50,687	$48,359	$284,246	$27,813	$161,177	$50,687	$48,359	$288,035	$291,398
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,125	19,223	18,224	20,524	80,096	22,568	19,607	18,588	20,935	81,698	83,332
Gaming, FL	21,879	19,188	17,841	18,956	77,864	20,486	20,466	19,157	18,008	78,117	20,486	20,466	19,157	18,008	78,117	79,680
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	15,354	13,097	12,082	14,179	54,712	15,354	13,097	12,082	14,179	54,712	55,806
Gaming, MS (Riverwalk)	NM	NM	NM	10,330	10,330	14,124	14,101	12,639	14,000	54,864	14,124	14,101	12,639	14,000	54,864	55,961
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	17,730	18,000	35,730	18,000	21,000	22,163	18,360	79,523	81,113
ADW (online)	44,035	52,702	45,593	40,949	183,279	42,916	52,531	48,522	40,130	184,099	42,916	52,531	48,522	42,939	186,908	199,992
Other	4,643	6,303	6,872	6,086	23,904	5,255	6,968	6,605	6,086	24,914	5,255	6,968	6,605	6,086	24,914	24,914
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**148,073**	**283,773**	**185,646**	**179,287**	**796,779**	**166,516**	**308,947**	**190,443**	**182,866**	**848,772**	**872,196**
EBITDA																
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,257)	70,517	(907)	(5,078)	53,275	(11,403)	73,013	760	(5,078)	57,292	60,802
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,056	6,350	5,540	6,157	26,103	8,297	6,863	5,948	6,699	27,807	28,417
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,728	5,000	2,900	1,981	13,609	4,097	5,117	2,874	2,341	14,428	14,117
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	5,433	3,215	3,329	4,254	16,231	5,435	3,274	3,383	3,970	16,063	16,321
Gaming, MS (Riverwalk)	NM	NM	NM	2,800	2,800	4,791	4,800	3,300	4,830	17,721	4,802	4,865	3,286	3,500	16,453	17,112
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	5,500	5,580	11,080	6,120	7,140	7,535	6,242	27,038	27,578
ADW (online)	10,421	12,539	8,986	8,334	40,280	11,335	14,091	12,998	9,832	48,256	11,330	14,078	13,004	10,520	48,932	53,079
Corp./United Tote	1,253	2,642	1,991	(2,429)	3,457	(852)	(86)	(899)	(1,000)	(2,837)	(852)	(100)	(899)	(1,000)	(2,851)	(3,800)
Stock compensation	(3,184)	(4,715)	(2,968)	0	(10,867)	(3,363)	(6,214)	(5,990)	(6,000)	(21,567)	(5,000)	(5,000)	(3,000)	(3,000)	(16,000)	(8,000)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**25,771**	**20,556**	**161,871**	**22,826**	**109,250**	**32,891**	**24,195**	**189,163**	**205,627**
JV EBITDA	0	0	0	0	0	0	0	0	0	0	1,750	2,000	3,000	3,000	9,750	17,200
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**25,771**	**20,556**	**161,871**	**24,576**	**111,250**	**35,891**	**27,195**	**198,913**	**222,827**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,035)	(14,991)	(15,796)	(15,800)	(61,622)	(15,800)	(15,800)	(15,800)	(15,800)	(63,200)	(63,200)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**2,836**	**82,682**	**9,975**	**4,756**	**100,249**	**7,026**	**93,450**	**17,091**	**8,395**	**125,963**	**142,427**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,466)	(1,167)	(1,401)	(1,400)	(5,434)	(4,000)	(4,000)	(4,000)	(4,000)	(16,000)	(16,000)
JV interest											0	250	1,250	1,250	2,750	10,200
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**1,370**	**81,515**	**8,574**	**3,356**	**94,815**	**3,026**	**89,700**	**14,341**	**5,645**	**112,713**	**136,627**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(311)	(30,813)	(2,058)	(1,208)	(34,390)	(1,150)	(34,086)	(5,450)	(2,145)	(42,831)	(51,918)
%	41%	40%	16%	41%	36%	23%	38%	24%	36%	36%	38%	38%	38%	38%	38%	38%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,059**	**50,703**	**6,516**	**2,148**	**60,426**	**1,876**	**55,614**	**8,892**	**3,500**	**69,882**	**84,708**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.06**	**$2.84**	**$0.36**	**$0.13**	**$3.36**	**$0.10**	**$3.07**	**$0.49**	**$0.22**	**$3.84**	**$4.63**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,828	17,882	17,955	17,955	18,000	18,100	18,100	18,300	18,300	18,200	18,300
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,059	$50,703	$9,158	$2,148	$63,067	$1,876	$55,614	$8,892	$3,500	$69,882	$84,708
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.06	$2.84	$0.51	$0.12	$3.50	$0.10	$3.07	$0.49	$0.22	$3.84	$4.63
Margin analysis																
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.1%	34.4%	13.9%	11.5%	20.3%	13.7%	35.4%	17.3%	13.2%	22.3%	23.6%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	1.9%	29.1%	5.4%	2.7%	12.6%	4.2%	30.2%	9.0%	4.6%	14.8%	16.3%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	0.9%	28.7%	4.6%	1.9%	11.9%	1.8%	29.0%	7.5%	3.1%	13.3%	15.7%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	0.7%	17.9%	3.5%	1.2%	7.6%	1.1%	18.0%	4.7%	1.9%	8.2%	9.7%
Y/Y growth %																
Revenue	5%	8%	-1%	6%	5%	7%	5%	13%	13%	9%	12%	9%	3%	2%	7%	3%
EBITDA	35%	6%	-10%	-10%	3%	19%	8%	21%	17%	12%	38%	14%	39%	32%	23%	12%
Operating income	NM	8%	-23%	-51%	5%	NM	8%	26%	72%	13%	NM	13%	71%	77%	26%	13%
Pre-tax income	NM	12%	-20%	NM	11%	NM	8%	21%	154%	13%	NM	10%	67%	68%	19%	21%
Net income	NM	14%	-3%	NM	14%	NM	11%	9%	-10%	12%	NM	10%	36%	63%	16%	21%
EPS	NM	10%	-7%	NM	12%	NM	9%	7%	-6%	9%	NM	8%	34%	63%	14%	21%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propety are Sidoti estimates

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$92.76) BUY Target: $112 January 16, 2014

Action	Date	Px	Rating	PT
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		76
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $112 target.** Our target is based on a sum-of-the-parts analysis (Exhibit 2) and implies about 10x projected 2015 EBITDA and 15x projected 2015 free cash flow per share of $7.62. EBITDA includes CHDN's portion of the Ohio joint venture. We model the JV partners financing the casino property and thus expect the JV to be debt-free. Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 01/16/14, Sidoti provides research on 449 companies, of which 287 (63%) are rated BUY and 162 (37%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 8 companies (2.79%). Of the NEUTRALS, Sidoti has received investment banking income from 2 companies (1.23%). Of the NEUTRALS, 93 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

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Appendix Continued

market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$90.00) — BUY

Adjust Earnings Estimates; Company Update

Target: $112

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

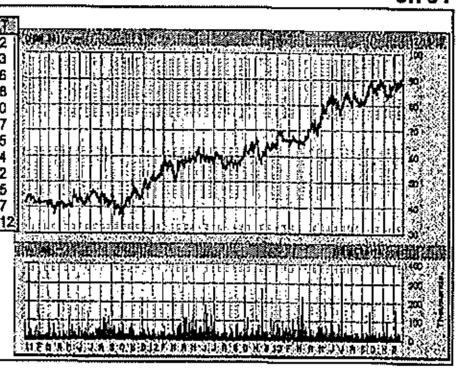
December 23, 2013

Market Cap (Mil)	$1,620
Avg. Daily Trading Volume	34,000
Shares Out (Mil)	17.977
Float Shares (Mil)	13.655
Institutional Holdings	40%
Dividend	$0.87
Dividend Yield	1.0%

Price to Book Value	2.7x
Return on Equity (2014E)	10.5%
LT Debt to Total Capital	11%
5-Year EPS Growth Rate Projection	19%
52-Week Range (NASDAQ)	91-63
Russell 2000	1146
Short Interest (Mil)	0.751

	2012	2013E		2014E		2015E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	$0.00	$0.06A		$0.30	$0.10	$0.43	$0.36
June	2.60	2.84A		3.25	3.07	3.35	3.34
Sep.	0.34	0.36A		0.51	0.49	0.66	0.61
Dec.	0.14	0.18	0.13	0.25	0.22	0.41	0.36
EPS (Cal.)	**$3.08**	**$3.40**	**$3.36**	**$4.27**	**$3.84**	**$4.81**	**$4.63**
P/E (Cal.)			**26.8x**		**23.4x**		**19.4x**
EBITDA (mil.) (Cal)	**$144.2**	**$163.0**	**$161.9**	**$198.1**	**$198.9**	**$218.5**	**$222.8**
EV / EBITDA			**11.4x**		**9.5x**		**8.1x**

Action	Date	Px	Rating	PT
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2012-2015E include $0.14, $0.78, $0.57 and $0.29 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Rev.(Mil.)*	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$796.8	$848.8	$872.2
GAAP EPS*	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.36	$3.84	$4.63

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Maintain BUY And $112 Target; Reduce 2014 And 2015 Estimates To Reflect High-Yield Offering; Expect Pro Gaming Legislation To Heat Up In Illinois And Kentucky

- **In our view, the current stock price underestimates the value of CHDN's Kentucky Derby franchise and growing online wagering segment plus potential optionality if gaming is legalized at racetracks in Illinois or Kentucky.**
- **To offset last week's issuance of $300 million senior unsecured notes, we reduce our 2013-2015 EPS estimates to $3.36 (from $3.40), $3.84 (from $4.27) and $4.63 (from $4.81), respectively**
- **Despite the downward EPS revision, the offering provides considerable flexibility for acquisitions, potential new casino developments in Illinois and Kentucky or share repurchases.**
- **We maintain our positive stance and our BUY rating on the shares trading at 12x our 2014 free cash flow forecast of $7.23, particularly considering CHDN's over-capitalized balance sheet.**
- **Our $112 target is based on a sum-of-the parts analysis (Exhibit 1).**

❑ **We maintain our favorable view, with the shares trading at 12x our 2014 free cash flow forecast and particularly considering CHDN's over-capitalized balance sheet.** Inclusive of CHDN's contribution to the Ohio casino joint venture, we estimate CHDN will have net debt of just $147 million at 2015 year-end, amounting to 0.7x projected 2015 EBITDA versus roughly 5x for peers. We estimate CHDN's $500 million credit facility will be untapped at the end of 2014, while CHDN will have gross cash of $43 million (implying $543 million in dry powder). We expect the gaming debate to heat up in Kentucky in early 2014, while we think the chances of pro-gaming legislation in Illinois increased with passage of the state's pension reform bill in early December. Previously, the governor indicated he would not support gaming legislation until the pension shortfall was resolved).

- **Reflecting last week's issuance of $300 million senior unsecured notes, we reduce our 2013-2015 EPS estimates to** The 5 3/8%, $300 million notes mature in 2021. We think the debt issuance provides considerable flexibility for management to construct casinos in Illinois or Kentucky if legislation is passed, acquire existing casinos and potentially repurchase shares. We estimate every $150 million casino acquisition contributes roughly $0.50-$0.60 in annual free cash flow (CHDN has acquired three casinos since 2010 at an average price of $146 million per deal). Our downward revision is partly offset by lower than previously forecast share-based compensation.

- **We maintain our BUY rating and $112 target.** Our target is based on a sum-of-the-parts analysis (Exhibit 1) and implies about 10x projected 2015 EBITDA and 15x projected 2015 free cash flow per share of $7.62 (from $7.80). EBITDA includes CHDN's portion of the Ohio joint venture. We model the JV partners financing the casino property and thus expect the JV to be debt-free. Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1. Churchill Downs, Sum of the Parts Analysis

	EBITDA 2015E	Multiple	Value
Racing	$60,802	15	$936,344
Gaming	120,746	8	965,970
Online wagering	53,079	8	414,015
Corporate/United Tote	(11,800)	10	(116,494)
Enterprise Value			2,199,834
Plus projected net debt, 2015 year-end			147,163
Implied CHDN value			2,052,671
Price per share			[redacted]

Potential upside to our target:	
Legalized gaming in IL.	$13
Legalized gaming in KY.	$25
Total	$38

Source: Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement

(000's, except where noted)	Mar	Jun	Sep	Dec	2012	MarA	JunA	SepA	Dec	2013E	Mar	Jun	Sep	Dec	2014E	2015E
Net Revenue																
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$27,813	$157,387	$50,687	$48,359	$284,246	$27,813	$161,177	$50,687	$48,359	$288,035	$291,398
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,125	19,223	18,224	20,524	80,096	22,568	19,607	18,588	20,935	81,698	83,332
Gaming, FL	21,879	19,188	17,841	18,956	77,864	20,486	20,466	19,157	18,008	78,117	20,486	20,466	19,157	18,008	78,117	79,680
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	15,354	13,097	12,082	14,179	54,712	15,354	13,097	12,082	14,179	54,712	55,806
Gaming, MS (Riverwalk)	NM	NM	NM	10,330	10,330	14,124	14,101	12,639	14,000	54,864	14,124	14,101	12,639	14,000	54,864	55,961
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	17,730	18,000	35,730	18,000	21,000	22,163	18,360	79,523	81,113
ADW (online)	44,035	52,702	45,593	40,949	183,279	42,916	52,531	48,522	40,130	184,099	42,916	52,531	48,522	42,939	186,908	199,992
Other	4,643	6,303	6,872	6,086	23,904	5,255	6,968	6,605	6,086	24,914	5,255	6,968	6,605	6,086	24,914	24,914
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**148,073**	**283,773**	**185,646**	**179,287**	**796,779**	**166,516**	**308,947**	**190,443**	**182,866**	**848,772**	**872,196**
EBITDA																
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,257)	70,517	(907)	(5,078)	53,275	(11,403)	73,013	760	(5,078)	57,292	60,802
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,056	6,350	5,540	6,157	26,103	8,297	6,863	5,948	6,699	27,807	28,417
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,728	5,000	2,900	1,981	13,609	4,097	5,117	2,874	2,341	14,428	14,117
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	5,433	3,215	3,329	4,254	16,231	5,435	3,274	3,383	3,970	16,063	16,321
Gaming, MS (Riverwalk)	NM	NM	NM	2,800	2,800	4,791	4,800	3,300	4,830	17,721	4,802	4,865	3,286	3,500	16,453	17,112
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	5,500	5,580	11,080	6,120	7,140	7,535	6,242	27,038	27,578
ADW (online)	10,421	12,539	8,986	8,334	40,280	11,335	14,091	12,998	9,832	48,256	11,330	14,078	13,004	10,520	48,932	53,079
Corp./United Tote	1,253	2,642	1,991	(2,429)	3,457	(852)	(86)	(899)	(1,000)	(2,837)	(852)	(100)	(899)	(1,000)	(2,851)	(3,800)
Stock compensation	(3,184)	(4,715)	(2,968)	0	(10,867)	(3,363)	(6,214)	(5,990)	(6,000)	(21,567)	(5,000)	(5,000)	(3,000)	(3,000)	(16,000)	(8,000)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**25,771**	**20,556**	**161,871**	**22,826**	**109,250**	**32,891**	**24,195**	**189,163**	**205,627**
JV EBITDA	0	0	0	0	0	0	0	0	0	0	1,750	2,000	3,000	3,000	9,750	17,200
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**25,771**	**20,556**	**161,871**	**24,576**	**111,250**	**35,891**	**27,195**	**198,913**	**222,827**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,035)	(14,991)	(15,796)	(15,800)	(61,622)	(15,800)	(15,800)	(15,800)	(15,800)	(63,200)	(63,200)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**2,836**	**82,682**	**9,975**	**4,756**	**100,249**	**7,026**	**93,450**	**17,091**	**8,395**	**125,963**	**142,427**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,466)	(1,167)	(1,401)	(1,400)	(5,434)	(4,000)	(4,000)	(4,000)	(4,000)	(16,000)	(16,000)
JV interest											0	250	1,250	1,250	2,750	10,200
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**1,370**	**81,515**	**8,574**	**3,356**	**94,815**	**3,026**	**89,700**	**14,341**	**5,645**	**112,713**	**136,627**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(311)	(30,813)	(2,058)	(1,208)	(34,390)	(1,150)	(34,086)	(5,450)	(2,145)	(42,831)	(51,918)
%	41%	40%	16%	41%	36%	23%	38%	24%	36%	36%	38%	38%	38%	38%	38%	38%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,059**	**50,703**	**6,516**	**2,148**	**60,426**	**1,876**	**55,614**	**8,892**	**3,500**	**69,882**	**84,708**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.06**	**$2.84**	**$0.36**	**$0.13**	**$3.36**	**$0.10**	**$3.07**	**$0.49**	**$0.22**	**$3.84**	**$4.63**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,828	17,882	17,955	17,955	18,000	18,100	18,100	18,300	18,300	18,200	18,300
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,059	$50,703	$9,158	$2,148	$63,067	$1,876	$55,614	$8,892	$3,500	$69,882	$84,708
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.06	$2.84	$0.51	$0.12	$3.50	$0.10	$3.07	$0.49	$0.22	$3.84	$4.63
Margin analysis																
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.1%	34.4%	13.9%	11.5%	20.3%	13.7%	35.4%	17.3%	13.2%	22.3%	23.6%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	1.9%	29.1%	5.4%	2.7%	12.6%	4.2%	30.2%	9.0%	4.6%	14.8%	16.3%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	0.9%	28.7%	4.6%	1.9%	11.9%	1.8%	29.0%	7.5%	3.1%	13.3%	15.7%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	0.7%	17.9%	3.5%	1.2%	7.6%	1.1%	18.0%	4.7%	1.9%	8.2%	9.7%
Y/Y growth %																
Revenue	5%	8%	-1%	6%	5%	7%	5%	13%	13%	9%	12%	9%	3%	2%	7%	3%
EBITDA	35%	6%	-10%	-10%	3%	19%	8%	21%	17%	12%	38%	14%	39%	32%	23%	12%
Operating income	NM	8%	-23%	-51%	5%	NM	8%	26%	72%	13%	NM	13%	71%	77%	26%	13%
Pre-tax income	NM	12%	-20%	NM	11%	NM	8%	21%	154%	13%	NM	10%	67%	68%	19%	21%
Net income	NM	14%	-3%	NM	14%	NM	11%	9%	-10%	12%	NM	10%	36%	63%	16%	21%
EPS	NM	10%	-7%	NM	12%	NM	9%	7%	-6%	9%	NM	8%	34%	63%	14%	21%

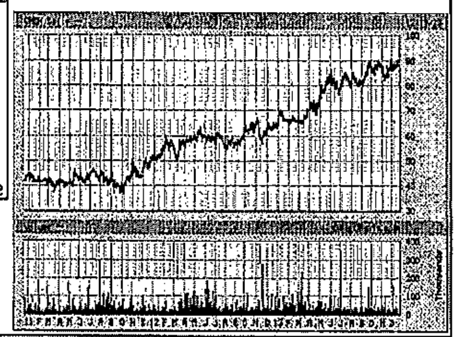
Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming property are Sidoti estimates

Appendix

Required Disclosures

Churchill Downs Inc. (CHDN-$90.00) BUY Target: $112 December 23, 2013

Action	Date	Px	Rating	PT
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $112 target.** Our target is based on a sum-of-the-parts analysis (Exhibit 1) and implies about 10x projected 2015 EBITDA and 15x projected 2015 free cash flow per share of $7.62 (from $7.80). EBITDA includes CHDN's portion of the Ohio joint venture. We model the JV partners financing the casino property and thus expect the JV to be debt-free. Our target does not yet contemplate potential legalized gaming in Kentucky or Illinois, or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view.

Required Disclosures

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Appendix Continued

market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$87.07) — BUY

Adjust Earnings Estimates; Earnings Release

Target: $112

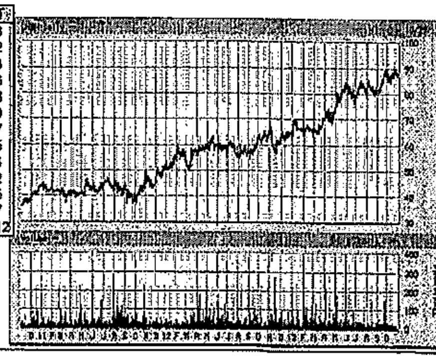
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

October 31, 2013

Market Cap (Mil)	**$1,560**
Avg. Daily Trading Volume	**30,000**
Shares Out (Mil)	**17.925**
Float Shares (Mil)	**13.602**
Institutional Holdings	**40%**
Dividend	**$0.87**
Dividend Yield	**1.0%**
Price to Book Value	**2.6x**
Return on Equity (2014E)	**10.5%**
LT Debt to Total Capital	**11%**
5-Year EPS Growth Rate Projection	**19%**
52-Week Range (NASDAQ)	**90-57**
Russell 2000	**1106**
Short Interest (Mil)	**0.764**

	2012	2013E		2014E		2015E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	$0.00	$0.06A		$0.24	$0.30	$0.36	$0.43
June	2.60	2.84A		3.10	3.25	3.25	3.35
Sep.	0.34	0.38	0.36A	0.64	0.51	0.72	0.66
Dec.	0.14	0.31	0.18	0.45	0.25	0.53	0.41
EPS (Cal.)	**$3.08**	**$3.54**	**$3.40**	**$4.38**	**$4.27**	**$4.81**	
P/E (Cal.)			**25.6x**		**20.4x**	**18.1x**	
EBITDA (mil.) (Cal)	**$144.2**	**$173.1**	**$163.0**	**$211.3**	**$198.1**	**$223.9**	**$218.5**
EV / EBITDA			**11.0x**		**9.3x**		**8.0x**

Action	Date	Px	Rating	PT
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	68.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2012-2015E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Rev.(Mil.)*	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$799.5	$858.4	$883.0
GAAP EPS*	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.40	$4.27	$4.81

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Reduce 2013 And 2014 EPS Estimates To Reflect Higher Stock Compensation, But Online Trends, Results At Newly-Acquired Maine Casino Are Encouraging; Maintain BUY, $112 Target

- **CHDN generated 3Q:13 revenue of $186 million (versus our $187 million projection and consensus of $193 million), and pro forma EPS of $0.36 (versus our $0.38 estimate and consensus of $0.43).**
- **Results were below our forecast due to higher stock compensation and challenging results at the Mississippi casinos, partly offset by solid online horse wagering growth and strength at the newly-acquired Maine casino.**
- **We reduce our 2013 and 2014 EPS estimates to $3.40 (from $3.54) and $4.27 (from $4.38), respectively, to reflect higher stock compensation that we expect to dissipate in 2015 (we maintain our 2015 EPS estimate).**
- **Management will host a conference call at 9 a.m. ET; the call-in number is 877.372.0878 (ID 90335059).**
- **In our view, the current multiple underestimates the value of CHDN's Kentucky Derby franchise and growing online wagering segment.**
- **We expect debate on casino gaming legislation at racetracks to pick up in both Illinois and Kentucky; the Illinois legislature reconvenes in mid-October and the Kentucky legislature opens in early January 2014.**
- **Lastly, we think CHDN's over-leveraged balance sheet—we project 2014 year-end net debt to projected 2014 EBITDA of just 1.3x versus 5x for peers—provides considerable dry powder for creating shareholder value.**
- **We maintain our BUY rating; our $112 target is based on a sum-of-the parts analysis (Exhibit 3).**

❑ **CHDN generated 3Q:13 pro forma EPS of $0.36 versus our $0.38 forecast.** A tax rate that was lower than our forecast added $0.05 to EPS. Including stock compensation, CHDN generated $26 million in EBITDA in 3Q:13 versus our $30 million estimate. Corporate expense of $7 million was well above our $1 million projection. Results at CHDN's Mississippi casinos were weak due to a soft area economy. However, the company's online horse wagering results were impressive, with EBITDA increasing over 30% year over year. Also notable were results at CHDN's recently-acquired Maine casino (Exhibit 2).

- **We maintain our favorable view, with the shares trading at 13x our 2014 free cash flow forecast and particularly considering CHDN's over-capitalized balance sheet.** We think management is still actively seeking regional gaming assets and estimate every $150 million casino acquisition contributes $0.50-$0.60 in annual FCF per share at current multiples. In our view, online horse wagering growth remains in the early innings, with just about 20% of wagering in the U.S. taking place online. Furthermore, we think CHDN shares harbor considerable upside if gaming is legalized at racetracks in Illinois or Kentucky, where the company owns tracks. We expect the gaming debate to heat up in Kentucky in early 2014, while in Illinois the House could take up a bill that permits slots at racetracks in the currently ongoing session. The Senate already passed the bill, although there does not appear to be much positive movement of late on the legislation.

- **We maintain our BUY rating and $112 target.** Our target is based on a sum-of-the-parts analysis (Exhibit 3) and implies about 10x projected 2015 EBITDA and 14.5x projected 2015 free cash flow per share of $7.80 (from $7.74). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	3Q:13A	3Q:13E	Variance	3Q:12A	YOY%
Revenue	$185,646	$187,104	($1,458)	$164,877	13%
EBITDA	25,771	30,361	(4,590)	21,281	21%
	13.9%	16.2%		12.9%	
Operating income	9,975	13,541	(3,566)	7,911	26%
	5.4%	7.2%		4.8%	
Net income	6,516	6,925	(408)	5,973	9%
	3.5%	3.7%		3.6%	
Fully diluted EPS	$0.36	$0.38	($0.02)	$0.34	7%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis-EBITDA

(000's)	3Q:13A	3Q:13E	Var	3Q:12A	YOY%
Racing	($907)	$930	($1,837)	$1,243	-173%
Gaming, LA	5,540	5,940	(400)	5,800	-4%
Gaming, FL	2,900	2,034	866	2,200	32%
Gaming, MS (Harlows)	3,329	4,238	(909)	4,029	-17%
Gaming, MS (Riverwalk)	3,300	4,830	(1,530)	NM	NM
Gaming, ME	5,500	2,880	2,620	NM	NM
ADW (online)	12,998	10,486	2,512	8,986	45%
Corp./United Tote	(6,889)	(977)	(5,912)	(977)	NM
Total EBITDA	**$25,771**	**$30,361**	**($4,590)**	**$21,281**	**21%**

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 3. Churchill Downs, Sum of the Parts Analysis

	EBITDA 2015E	Multiple	Value
Racing	$60,802	15	$936,344
Gaming	111,980	8	918,235
Online wagering	60,559	8	484,475
Corporate/United Tote	(14,800)	10	(148,358)
Enterprise Value			2,190,696
Plus projected net debt, 2015 year-end			145,595
Implied CHDN value			2,045,101
Price per share			[redacted]

<u>Potential upside to our target:</u>	
Legalized gaming or monetized excess real estate	$13
Legalized gaming in KY.	$25
Total	**$38**

Source: Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement

(000's, except where noted)	Mar	Jun	Sep	Dec	2012	MarA	JunA	SepA	Dec	2013E	Mar	Jun	Sep	Dec	2014E	2015E
Net Revenue																
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$27,813	$157,387	$50,687	$48,359	$284,246	$27,813	$161,177	$50,687	$48,359	$288,035	$291,398
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,125	19,223	18,224	20,524	80,096	22,568	19,607	18,588	20,935	81,698	83,332
Gaming, FL	21,879	19,188	17,841	18,956	77,864	20,486	20,466	19,157	18,008	78,117	19,462	20,466	19,157	18,008	77,093	78,635
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	15,354	13,097	12,082	14,179	54,712	15,661	13,359	12,324	14,463	55,806	56,923
Gaming, MS (Riverwalk)	NM	NM	NM	10,330	10,330	14,124	14,101	12,639	14,000	54,864	14,406	14,383	12,892	14,280	55,961	57,081
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	17,730	17,000	34,730	16,000	17,000	17,730	16,000	66,730	68,065
ADW (online)	44,035	52,702	45,593	40,949	183,279	42,916	52,531	48,522	43,815	187,784	48,066	58,835	54,345	46,883	208,128	222,697
Other	4,643	6,303	6,872	6,086	23,904	5,255	6,968	6,605	6,086	24,914	5,255	6,968	6,605	6,086	24,914	24,914
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**148,073**	**283,773**	**185,646**	**181,972**	**799,464**	**169,231**	**311,795**	**192,328**	**185,013**	**858,366**	**883,043**
EBITDA																
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,257)	70,517	(907)	(5,078)	53,275	(11,403)	73,013	760	(5,078)	57,292	60,802
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,056	6,350	5,540	6,157	26,103	8,297	6,863	5,948	6,699	27,807	28,417
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,728	5,000	2,900	1,981	13,609	3,892	5,117	2,874	2,341	14,223	13,919
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	5,433	3,215	3,329	4,254	16,231	5,544	3,340	3,451	4,050	16,384	16,648
Gaming, MS (Riverwalk)	NM	NM	NM	2,800	2,800	4,791	4,800	3,300	4,830	17,721	4,898	4,962	3,352	3,570	16,782	17,454
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	5,500	5,610	11,110	5,440	5,780	6,028	5,440	22,688	23,142
ADW (online)	10,421	12,539	8,986	8,334	40,280	11,335	14,091	12,998	10,735	49,159	13,218	16,474	14,673	11,721	56,086	60,559
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(4,215)	(6,300)	(6,889)	(6,800)	(24,204)	(4,215)	(5,000)	(6,889)	(6,800)	(22,904)	(14,800)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**25,771**	**21,689**	**163,004**	**25,672**	**110,548**	**30,197**	**21,943**	**188,359**	**206,141**
JV EBITDA	0	0	0	0	0	0	0	0	0	0	1,750	2,000	3,000	3,000	9,750	12,400
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**25,771**	**21,689**	**163,004**	**27,422**	**112,548**	**33,197**	**24,943**	**198,109**	**218,541**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,035)	(14,991)	(15,796)	(15,800)	(61,622)	(15,800)	(15,800)	(15,800)	(15,800)	(63,200)	(63,200)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**2,836**	**82,682**	**9,975**	**5,889**	**101,382**	**9,872**	**94,748**	**14,397**	**6,143**	**125,159**	**142,941**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,466)	(1,167)	(1,401)	(1,200)	(5,234)	(1,200)	(1,000)	(1,000)	(1,000)	(4,200)	(4,100)
JV interest											0	250	1,250	1,250	2,750	5,400
Pre-tax income	28	75,709	7,069	1,323	84,129	**1,370**	**81,515**	**8,574**	**4,689**	**96,148**	**8,672**	**93,998**	**14,647**	**6,393**	**123,709**	**144,241**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(311)	(30,813)	(2,058)	(1,688)	(34,870)	(3,252)	(35,249)	(5,493)	(2,397)	(46,391)	(56,254)
%	41%	40%	16%	41%	36%	23%	38%	24%	36%	36%	38%	38%	38%	38%	38%	39%
Net income	17	45,577	5,973	2,374	53,941	**1,059**	**50,703**	**6,516**	**3,001**	**61,279**	**5,420**	**58,749**	**9,154**	**3,995**	**77,318**	**87,987**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.06**	**$2.84**	**$0.36**	**$0.18**	**$3.40**	**$0.30**	**$3.25**	**$0.51**	**$0.25**	**$4.27**	**$4.81**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,828	17,882	17,955	17,955	18,000	18,100	18,100	18,100	18,100	18,100	18,300
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,059	$50,703	$6,516	$3,001	$61,279	$5,420	$58,749	$9,154	$3,995	$77,318	$87,987
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.06	$2.84	$0.36	$0.17	$3.40	$0.30	$3.25	$0.51	$0.25	$4.27	$4.81
Margin analysis																
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.1%	34.4%	13.9%	11.9%	20.4%	15.2%	35.5%	15.7%	11.9%	21.9%	23.3%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	1.9%	29.1%	5.4%	3.2%	12.7%	5.8%	30.4%	7.5%	3.3%	14.6%	16.2%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	0.9%	28.7%	4.6%	2.6%	12.0%	5.1%	30.1%	7.6%	3.5%	14.4%	16.3%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	0.7%	17.9%	3.5%	1.6%	7.7%	3.2%	18.8%	4.8%	2.2%	9.0%	10.0%
Y/Y growth %																
Revenue	5%	8%	-1%	6%	5%	7%	5%	13%	15%	9%	14%	10%	4%	2%	7%	3%
EBITDA	35%	6%	-10%	-10%	3%	19%	8%	21%	24%	13%	53%	15%	29%	15%	22%	10%
Operating income	NM	8%	-23%	-51%	5%	NM	8%	26%	113%	14%	NM	15%	44%	4%	23%	14%
Pre-tax income	NM	12%	-20%	NM	11%	NM	8%	21%	254%	14%	NM	15%	71%	36%	29%	17%
Net income	NM	14%	-3%	NM	14%	NM	11%	9%	26%	14%	NM	16%	40%	33%	26%	14%
EPS	NM	10%	-7%	NM	12%	NM	9%	7%	32%	11%	NM	14%	39%	33%	25%	13%

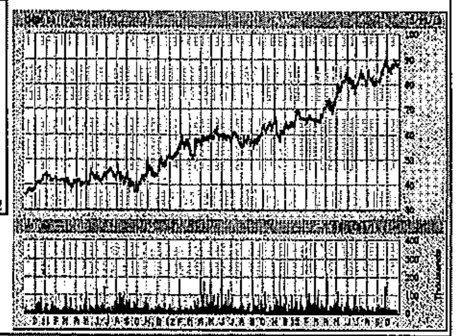
Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

Appendix

Required Disclosures

Churchill Downs Inc. (CHDN-$87.07) BUY Target: $112 October 31, 2013

Action	Date	Px	Rating	PT
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	63.9		95
PT	8/1/13	81.2		97
PT	9/20/13	87.9		112



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $112 target.** Our target is based on a sum-of-the-parts analysis (Exhibit 3) and implies about 10x projected 2015 EBITDA and 14.5x projected 2015 free cash flow per share of $7.80 (from $7.74). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Required Disclosures

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Appendix Continued

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317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$87.91) — BUY

Raise Price Target; Company Update — **Target: $112**

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

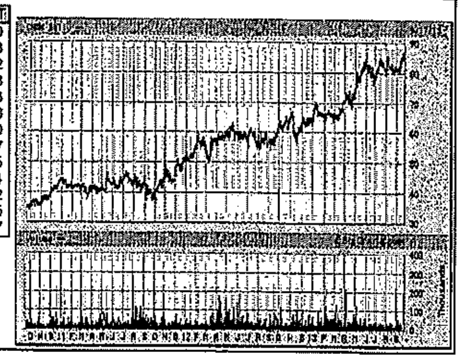
September 20, 2013

Market Cap (Mil)	$1,580
Avg. Daily Trading Volume	35,000
Shares Out (Mil)	17.925
Float Shares (Mil)	13.587
Institutional Holdings	40%
Dividend	$0.72
Dividend Yield	0.8%

Price to Book Value	2.6x
Return on Equity (2014E)	10.5%
LT Debt to Total Capital	11%
5-Year EPS Growth Rate Projection	19%
52-Week Range (NASDAQ)	88-57
Russell 2000	1075
Short Interest (Mil)	0.743

	2012	2013E	2014E OLD	2014E NEW	2015E OLD	2015E NEW
Mar.	$0.00	$0.06A	$0.24		$0.36	
June	2.60	2.84A	3.10		3.25	
Sep.	0.34	0.38	0.64		0.72	
Dec.	0.14	0.31	0.45		0.53	
EPS (Cal.)	$3.08	$3.54	$4.38		$4.81	
P/E (Cal.)		24.8x	20.1x		18.3x	
EBITDA (mil.) (Cal)	$144.2	$173.1	$211.3		$223.9	
EV / EBITDA		10.5x	8.7x		7.8x	

Action	Date	Px	Rating	PT
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		78
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2012-2015E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Rev.(Mil.)*	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$799.9	$865.5	$890.0
GAAP EPS*	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.54	$4.38	$4.81

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Raise Target To $112 (From $97); Think Shares Understate Value Of CHDN's Kentucky Derby; Possible Pro-Gaming Legislation In Illinois, Kentucky Provide Meaningful Upside Potential

- **We think CHDN's shares understate the value of the Kentucky Derby franchise—a growing and resilient cash cow.**
- **We expect debate on casino gaming legislation at racetracks to pick up in both Illinois and Kentucky; the Illinois legislature reconvenes in mid-October and the Kentucky legislature opens in early January 2014.**
- **Constructing a new casino in Illinois and Kentucky would be worth a respective $13 and $25 per share on an undiscounted basis, in our view, assuming an 8x EBITDA multiple (Exhibit 1 and 2).**
- **CHDN's online horse wagering segment is a secular growth business in the early innings, in our view, while the company's over-capitalized balance sheet provides dry power to acquire regional casino assets.**
- **We maintain our BUY rating; our new $112 target (from $97) is based on a sum-of-the parts analysis (Exhibit 4) and implies about 10x 2015 projected EBITDA and 14.5x projected 2015 free cash flow per share of $7.74.**
- **Previously, we valued CHDN on 13x our unchanged 2015 free cash flow per share forecast $7.47.**
- **We think a sum-of-the-parts analysis is more appropriate considering 50% of CHDN's EBITDA derives from higher-multiple racing (Kentucky Derby) and online wagering versus regional casinos.**

☐ **We expect pro-gaming legislation to heat up in Kentucky and Illinois.** The Illinois legislature will reconvene in mid-October. Earlier in the year, a bill to permit slots at racetracks (including at CHDN's Arlington Park) passed the state senate. The bill has not yet been brought to a vote in the house. In Kentucky, the state legislature opens in early January 2014; the session lasts 60 days (as opposed to 30 days in odd years), providing additional time for gaming debate. Gaming legislation in Kentucky requires a 60% vote of both houses, the governor's signature and a public referendum (which would take place in November 2014). We expect the governor to push for the legislation and based on historical polling, we think the measure would pass a public vote. Pro-gaming legislation passed the Kentucky house in the past (we view the senate as the key obstacle).

- **Online horse wagering is picking up in Illinois.** CHDN closed its online wagering to Illinois residents from mid-January 2013 to early June 2013 as the state's online wagering law sunset. The law has since been reinstated. As per the Illinois Racing Board, online handle (the total bets placed) via CHDN increased 3% year over year in July and August 2013, alleviating concerns that business would be slow to pick up after an extended outage.

- **Revenue trends are accelerating at CHDN's recently-acquired Maine casino (Exhibit 3).** CHDN announced the $160 million acquisition of a casino in Oxford, Maine in March 2013 and closed on the property in mid-July 2013. We estimate CHDN will have net debt of just $256 million at 2014 year-end, amounting to just 1.2x our projected 2014 EBITDA versus 5x for peers. We expect CHDN to continue buying regional gaming assets given its considerable dry powder; we estimate every $150 million acquisition adds about $0.50-$0.60 in annual free cash flow at current market multiples.

- **We maintain our BUY rating and increase our target to $112 (from $97).** Our new target is based on a sum-of-the-parts analysis (Exhibit 4) and implies about 10x projected 2015 EBITDA and 14.5x projected 2015 free cash flow per share of $7.74. Previously, our $97 target was based on 13x our unchanged 2015 free cash flow per share estimate of $7.47. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1. Arlington Park, Slots Facility

(millions)	Low	Base	High
Capex	$200	$200	$200
Slots	1,200	1,200	1,200
WPD	$350	$400	$450
Gaming Rev.	$153	$175	$197
Other Rev.	15	18	20
Promotional Allowance	(17)	(19)	(22)
Total Rev.	152	173	195
EBITDA Margin	28%	30%	32%
EBITDA	42	52	62
Cash-on-cash Return	21%	26%	31%
Equity/share			
@ 7x	$6	$10	$14
@ 8x	$8	$13	$18
@ 9x	$11	$16	$21
Initial accretion			
Annual EPS	$0.82	$1.13	$1.47
Annual FCF/share	$1.10	$1.40	$1.74

Source: Sidoti & Company, LLC and company reports.

Exhibit 2. CHDN Louisville Casino Analysis

(millions)	Low	Base	High
Capex	$250	$250	$250
Slot machines	2,500	2,500	2,500
Win per day	$225	$250	$275
Slots rev.	$205	$228	$251
Table rev.	$25	$27	$30
Gross gaming rev.	$230	$256	$281
Food, bev. and other rev.	28	31	34
Promotional allowances	(39)	(43)	(47)
Total rev.	219	243	268
EBITDA margin	32%	35%	38%
EBITDA	$70	$85	$102
Cash-on-cash return	28%	35%	41%
Equity/share			
@ 7x	$14	$20	$27
@ 8x	$18	$25	$33
@ 9x	$22	$30	$39
Initial accretion			
EPS	$1.74	$2.26	$2.83
FCF/share	$2.12	$2.71	$3.22

Note: Assumes $50 million license fee, $200 million construction cost and 40% gaming tax rate

Source: Sidoti & Company, LLC and company reports.

Exhibit 3. CHDN Gaming Revenue
(000's, except where noted)

	New Orleans Video Poker		New Orleans Slots Facility		Miami Slots Facility		Maine Casino		Same Store
Jan-11	3,435	14%	4,228	9%	5,625	257%	NM	NM	11%
Feb-11	3,697	7%	4,454	-2%	6,628	29%	NM	NM	13%
Mar-11	3,762	11%	4,653	4%	6,859	19%	NM	NM	12%
Apr-11	3,538	8%	3,717	5%	6,912	21%	NM	NM	13%
May-11	3,508	6%	3,425	-6%	6,769	10%	NM	NM	5%
Jun-11	3,171	3%	3,650	4%	6,410	23%	NM	NM	12%
Jul-11	3,357	2%	3,867	5%	6,640	14%	NM	NM	8%
Aug-11	3,145	3%	3,501	4%	5,783	9%	NM	NM	6%
Sep-11	3,264	9%	3,592	5%	6,024	23%	NM	NM	14%
Oct-11	3,167	-1%	3,695	-5%	6,118	20%	NM	NM	6%
Nov-11	3,192	-1%	3,587	-3%	6,243	27%	NM	NM	10%
Dec-11	3,513	2%	3,799	-1%	6,151	18%	NM	NM	8%
Total	**40,750**	**5%**	**46,168**	**2%**	**76,161**	25%	NM	NM	13%
Jan-12	3,309	-4%	3,881	-8%	6,132	9%	NM	NM	-6%
Feb-12	3,890	5%	4,682	5%	6,865	4%	NM	NM	4%
Mar-12	3,963	5%	4,626	-1%	7,361	7%	NM	NM	4%
Apr-12	3,370	-5%	3,542	-5%	5,861	-15%	NM	NM	-10%
May-12	3,519	0%	3,491	2%	6,062	-10%	NM	NM	-5%
Jun-12	3,412	8%	3,804	4%	5,870	-8%	4,479	NM	-1%
Jul-12	3,219	-4%	3,814	-1%	5,595	-16%	5,297	NM	-9%
Aug-12	2,948	-6%	3,321	-5%	5,762	0%	5,534	NM	-3%
Sep-12	3,331	2%	4,031	12%	5,376	-11%	5,734	NM	-1%
Oct-12	3,413	8%	3,947	7%	5,307	-13%	5,474	NM	-2%
Nov-12	3,414	7%	4,011	12%	6,190	-1%	5,365	NM	5%
Dec-12	3,621	3%	4,174	10%	6,035	-2%	4,835	NM	3%
Total	**41,409**	**2%**	**47,324**	**3%**	**72,418**	-5%	36,718	NM	-1%
Jan-13	3,401	3%	4,015	3%	6,044	-1%	5,049	NM	3%
Feb-13	3,782	-3%	4,639	-1%	5,770	-16%	4,951	NM	-8%
Mar-13	4,189	6%	4,848	5%	7,267	-1%	6,676	NM	2%
Apr-13	3,602	7%	3,849	9%	6,283	7%	5,852	NM	8%
May-13	3,856	10%	3,651	5%	6,592	9%	6,335	NM	8%
Jun-13	3,292	-4%	3,749	-1%	6,262	7%	6,205	39%	2%
Jul-13	3,308	3%	3,662	-4%	6,172	10%	7,104	34%	4%
Aug-13	3,346	14%	3,781	14%	6,234	8%	7,136	29%	11%

Source: Sidoti & Company LLC, Louisiana Gaming Control Board, Florida Division of Pari-Mutuel Wagering, Gambling Control Board of Maine and company reports.
Note: CHDN owns a majority of the state's video poker units at OTB's
Note: CHDN announced and closed on the Maine casino on 3/29/2013 and 7/17/2013, respectively.
Note: The above properties represent roughly 30% of CHDN's EBITDA

Exhibit 4. Churchill Downs, Sum of the Parts Analysis

	EBITDA 2015E	Multiple	Value
Racing	$60,971	15	$914,569
Gaming	114,764	8	918,116
Online wagering	59,321	8	474,568
Corporate/United Tote	(11,192)	10	(109,858)
Enterprise Value			2,197,394
Plus projected net debt, 2015 year-end			140,369
Implied CHDN value			2,057,026
Price per share			[redacted]

Potential upside to our target:	
Legalized gaming or monetized excess real estate	$13
Legalized gaming in KY.	$25
Total	$38

Source: Sidoti & Company, LLC and company reports.

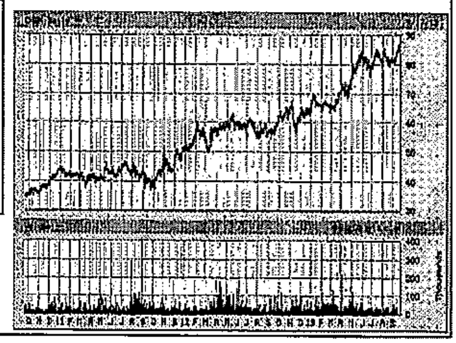
Table 1 : CHDN Income Statement																
(000's, except where noted)	Mar	Jun	Sep	Dec	2012	MarA	JunA	Sep	Dec	2013E	Mar	Jun	Sep	Dec	2014E	2015E
Net Revenue																
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$27,813	$157,387	$62,002	$48,359	$295,560	$27,813	$161,177	$62,002	$48,359	$299,350	$302,712
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,125	19,223	18,562	20,524	80,434	22,568	19,607	18,933	20,935	82,043	83,684
Gaming, FL	21,879	19,188	17,841	18,956	77,864	20,486	20,466	16,949	18,008	75,909	19,462	20,466	16,949	18,008	74,885	76,383
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	15,354	13,097	14,127	14,179	56,757	15,661	13,359	14,409	14,463	57,892	59,050
Gaming, MS (Riverwalk)	NM	NM	NM	10,330	10,330	14,124	14,101	14,000	14,000	56,225	14,406	14,383	14,280	14,280	57,350	58,496
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	9,000	16,000	25,000	16,000	16,000	16,000	16,000	64,000	65,280
ADW (online)	44,035	52,702	45,593	40,949	183,279	42,916	52,531	45,593	43,815	184,855	48,066	58,835	51,064	46,883	204,847	219,187
Other	4,643	6,303	6,872	6,086	23,904	5,255	6,968	6,872	6,086	25,181	5,255	6,968	6,872	6,086	25,181	25,181
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**148,073**	**283,773**	**187,104**	**180,972**	**799,922**	**169,231**	**310,795**	**200,509**	**185,013**	**865,548**	**889,973**
EBITDA																
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,257)	70,517	930	(5,078)	55,112	(11,403)	73,013	930	(5,078)	57,462	60,971
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,056	6,350	5,940	6,157	26,503	8,297	6,863	6,059	6,699	27,918	28,530
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,728	5,000	2,034	1,981	12,743	3,892	5,117	2,034	2,341	13,384	13,626
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	5,433	3,215	4,238	4,254	17,140	5,544	3,340	4,323	4,339	17,545	17,832
Gaming, MS (Riverwalk)	NM	NM	NM	2,800	2,800	4,791	4,800	4,830	4,830	19,251	4,898	4,962	4,927	4,927	19,714	20,181
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	2,880	5,280	8,160	5,440	5,440	5,440	5,440	21,760	22,195
ADW (online)	10,421	12,539	8,986	8,334	40,280	11,335	14,091	10,486	10,735	46,647	13,218	16,474	13,532	11,721	54,944	59,321
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(4,215)	(6,300)	(977)	(1,000)	(12,492)	(4,215)	(5,000)	(977)	(1,000)	(11,192)	(11,192)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**30,361**	**27,159**	**173,064**	**25,672**	**110,208**	**36,267**	**29,389**	**201,535**	**211,465**
JV EBITDA	0	0	0	0	0	0	0	0	0	0	1,750	2,000	3,000	3,000	9,750	12,400
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**30,361**	**27,159**	**173,064**	**27,422**	**112,208**	**39,267**	**32,389**	**211,285**	**223,865**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,035)	(14,991)	(16,820)	(16,820)	(63,666)	(16,820)	(16,820)	(16,820)	(16,820)	(67,280)	(67,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**2,836**	**82,682**	**13,541**	**10,339**	**109,398**	**8,852**	**93,388**	**19,447**	**12,569**	**134,255**	**144,185**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,466)	(1,167)	(2,000)	(2,000)	(6,633)	(1,800)	(1,700)	(1,700)	(1,700)	(6,900)	(5,400)
JV interest											0	250	1,250	1,250	2,750	5,400
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**1,370**	**81,515**	**11,541**	**8,339**	**102,766**	**7,052**	**91,938**	**18,997**	**12,119**	**130,105**	**144,185**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(311)	(30,813)	(4,616)	(3,336)	(39,076)	(2,750)	(35,856)	(7,409)	(4,726)	(50,741)	(56,232)
%	41%	40%	16%	41%	36%	23%	38%	40%	40%	38%	39%	39%	39%	39%	39%	39%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,059**	**50,703**	**6,925**	**5,003**	**63,690**	**4,301**	**56,082**	**11,588**	**7,392**	**79,364**	**87,953**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.06**	**$2.84**	**$0.38**	**$0.31**	**$3.54**	**$0.24**	**$3.10**	**$0.64**	**$0.45**	**$4.38**	**$4.81**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,828	17,882	18,000	18,000	18,000	18,100	18,100	18,100	18,100	18,100	18,300
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,059	$50,703	$6,925	$5,003	$63,690	$4,301	$56,082	$11,588	$7,392	$79,364	$87,953
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.06	$2.84	$0.38	$0.28	$3.54	$0.24	$3.10	$0.64	$0.45	$4.38	$4.81
Margin analysis																
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.1%	34.4%	16.2%	15.0%	21.6%	15.2%	35.5%	18.1%	15.9%	23.3%	23.8%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	1.9%	29.1%	7.2%	5.7%	13.7%	5.2%	30.0%	9.7%	6.8%	15.5%	16.2%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	0.9%	28.7%	6.2%	4.6%	12.8%	4.2%	29.6%	9.5%	6.6%	15.0%	16.2%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	0.7%	17.9%	3.7%	2.8%	8.0%	2.5%	18.0%	5.8%	4.0%	9.2%	9.9%
Y/Y growth %																
Revenue	5%	8%	-1%	6%	5%	7%	5%	13%	14%	9%	14%	10%	7%	2%	8%	3%
EBITDA	35%	6%	-10%	-10%	3%	19%	8%	43%	55%	20%	53%	15%	29%	19%	22%	6%
Operating income	NM	8%	-23%	-51%	5%	NM	8%	71%	273%	24%	NM	13%	44%	22%	23%	7%
Pre-tax income	NM	12%	-20%	NM	11%	NM	8%	63%	530%	22%	NM	13%	65%	45%	27%	11%
Net income	NM	14%	-3%	NM	14%	NM	11%	16%	111%	18%	NM	11%	67%	48%	25%	11%
EPS	NM	10%	-7%	NM	12%	NM	9%	13%	120%	15%	NM	9%	66%	48%	24%	10%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming property are Sidoti estimates

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$87.91) BUY Target: $112 September 20, 2013

Action	Date	Px	Rating	PT
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	68.1		92
PT	6/3/13	83.9		95
PT	8/1/13	81.2		97



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and increase our target to $112 (from $97).** Our new target is based on a sum-of-the-parts analysis (Exhibit 4) and implies about 10x projected 2015 EBITDA and 14.5x projected 2015 free cash flow per share of $7.74. Previously, our $97 target was based on 13x our unchanged 2015 free cash flow per share estimate of $7.47. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 09/20/13, Sidoti provides research on 482 companies, of which 323 (67%) are rated BUY and 159 (33%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 5 companies (1.55%). Of the NEUTRALS, Sidoti has received investment banking income from 3 companies (1.89%). Of the NEUTRALS, 78 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Other Disclosures

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Appendix Continued

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317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Sidoti & Company, LLC

Morning Meeting Note

Churchill Downs Inc. (CHDN-$81.21) — BUY

Raise Price Target; Adjust Earnings Estimates

Target: $97

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

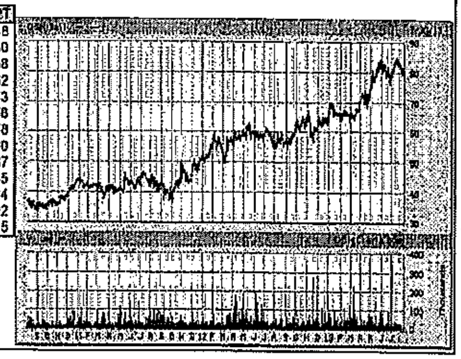
August 1, 2013

Market Cap (Mil)	**$1,460**
Avg. Daily Trading Volume	**44,000**
Shares Out (Mil)	**17.964**
Float Shares (Mil)	**13.624**
Institutional Holdings	**40%**
Dividend	**$0.72**
Dividend Yield	**0.9%**

Price to Book Value	**2.4x**
Return on Equity (2014E)	**10.5%**
LT Debt to Total Capital	**11%**
5-Year EPS Growth Rate Projection	**19%**
52-Week Range (NASDAQ)	**86-54**
Russell 2000	**1045**
Short Interest (Mil)	**0.763**

	2012	2013E		2014E		2015E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	$0.00	$0.06		$0.24		$0.40	$0.36
June	2.60	2.81	2.84A	3.09	3.10	3.23	3.25
Sep.	0.34	0.39	0.38	0.64		0.73	0.72
Dec.	0.14	0.33	0.31	0.46	0.45	0.53	
EPS (Cal.)	**$3.08**	**$3.54**		**$4.38**		**$4.82**	**$4.81**
P/E (Cal.)		**22.9x**		**18.5x**			**16.9x**
EBITDA (mil.) (Cal)	**$144.2**	**$176.0**	**$173.1**	**$213.3**	**$211.3**	**$226.8**	**$223.9**
EV / EBITDA			**9.8x**		**8.3x**		**7.4x**

Action	Date	Px	Rating	PT
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		78
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	6/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2012-2015E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Rev.(Mil.)*	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$799.9	$865.5	$890.0
GAAP EPS*	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.54	$4.38	$4.81

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Raise Target To $97 (From $95); 2Q:13 EBITDA 2% Shy Of Our Forecast On Softer Non-Derby Racing; Maintain BUY; Just Fine-Tune Estimates Expecting Reaccelerating Online Business

- **CHDN generated 2Q:13 revenue of $284 million (versus our $287 million projection), EBITDA of $98 million (versus our $100 million estimate) and pro forma EPS of $2.84 (versus our $2.81 estimate and consensus of $2.89).**
- **However, we just fine-tune our EPS estimates expecting online wagering growth to accelerate with Illinois reinstating online horse wagering late in the quarter.**
- **Management is hosting a conference call at 9 a.m. ET; the call-in number is 877.372.0878 (ID 23597619).**
- **We maintain our BUY rating with the shares trading at 11x our 2014 free cash flow per share forecast of $7.25.**
- **In our view, we think the current multiple underestimates the value of CHDN's Kentucky Derby franchise and growing online wagering segment.**
- **In addition, potential regional casino acquisitions would likely cause us to upwardly revise our EPS estimates; we estimate CHDN will have net debt of just $293 million at 2013 year-end (1.7x trailing EBITDA versus 5x for peers).**
- **We maintain our BUY rating and raise our price target to $97 (from $95).**
- **Our $97 target is based on 13x our 2015 free cash flow per share forecast $7.47. Our previous $95 target was based on 13x our prior 2014 free cash flow per share forecast of $7.24 (now $7.25).**

❑ **CHDN generated 2Q:13 pro forma EPS of $2.84 by our calculation.** EBITDA (including stock compensation) of $98 million in the June quarter was shy of our $100 million due to softer-than-expected racing profitability (excluding Kentucky Derby week). However, we just fine-tune our EPS estimates as we expect online wagering growth to reaccelerate with

Illinois now back online and also model a lower tax rate (we reduce our 2014 and 2015 EBITDA estimates by 1% reflecting lower non-Kentucky Derby week results).

- **We maintain our favorable view with the shares trading at 11x our 2014 free cash flow forecast and particularly considering CHDN's over-capitalized balance sheet.** We think management is still actively seeking regional gaming assets and estimate every $150 million casino acquisition contributes $0.50-$0.60 in annual FCF per share at current multiples. We think online horse wagering growth remains in the early innings with just about 20% of wagering in the U.S. taking place online. Furthermore, CHDN shares have considerable upside optionality if gaming is legalized at racetracks in Illinois or Kentucky where the company owns tracks.

- **We maintain our BUY rating and increase our target to 97 (from $95).** Our new target is based on 13x our 2015 free cash flow per share estimate of $7.47 and implies roughly 8.5x projected 2015 EBITDA. Previously, our $95 target was based on about 13x our prior 2014 free cash flow per share estimate of $7.24 (now $7.25). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Considering CHDN's over-capitalized balance sheet and expected online wagering and Kentucky Derby growth, we maintain our BUY rating.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	2Q:13A	2Q:13E	Variance	2Q:12A	YOY%
Revenue	$283,773	$286,926	($3,153)	$270,816	5%
EBITDA	97,673	100,185	(2,512)	90,294	8%
	34.4%	34.9%		33.3%	
Operating income	82,682	85,150	(2,468)	76,656	8%
	29.1%	29.7%		28.3%	
Net income	50,703	50,310	393	45,577	11%
	17.9%	17.5%		16.8%	
Fully diluted EPS	$2.84	$2.81	$0.02	$2.60	9%

Source: Sidoti & Company, LLC estimates and company financials

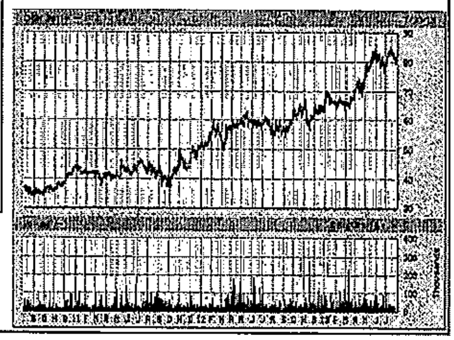
Table 1 : CHDN Income Statement																
(000's, except where noted)	Mar	Jun	Sep	Dec	2012	MarA	JunA	Sep	Dec	2013E	Mar	Jun	Sep	Dec	2014E	2015E
Net Revenue																
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$27,813	$157,387	$62,002	$48,359	$295,560	$27,813	$161,177	$62,002	$48,359	$299,350	$302,712
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,125	19,223	18,562	20,524	80,434	22,568	19,607	18,933	20,935	82,043	83,684
Gaming, FL	21,879	19,188	17,841	18,956	77,864	20,486	20,466	16,949	18,008	75,909	19,462	20,466	16,949	18,008	74,885	76,383
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	15,354	13,097	14,127	14,179	56,757	15,661	13,359	14,409	14,463	57,892	59,050
Gaming, MS (Riverwalk)	NM	NM	NM	10,330	10,330	14,124	14,101	14,000	14,000	56,225	14,406	14,383	14,280	14,280	57,350	58,496
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	9,000	16,000	25,000	16,000	16,000	16,000	16,000	64,000	65,280
ADW (online)	44,035	52,702	45,593	40,949	183,279	42,916	52,531	45,593	43,815	184,855	48,066	58,835	51,064	46,883	204,847	219,187
Other	4,643	6,303	6,872	6,086	23,904	5,255	6,968	6,872	6,086	25,181	5,255	6,968	6,872	6,086	25,181	25,181
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**148,073**	**283,773**	**187,104**	**180,972**	**799,922**	**169,231**	**310,795**	**200,509**	**185,013**	**865,548**	**889,973**
EBITDA																
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,257)	70,517	930	(5,078)	55,112	(11,403)	73,013	930	(5,078)	57,462	60,971
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,056	6,350	5,940	6,157	26,503	8,297	6,863	6,059	6,699	27,918	28,530
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,728	5,000	2,034	1,981	12,743	3,892	5,117	2,034	2,341	13,384	13,626
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	5,433	3,215	4,238	4,254	17,140	5,544	3,340	4,323	4,339	17,545	17,832
Gaming, MS (Riverwalk)	NM	NM	NM	2,800	2,800	4,791	4,800	4,830	4,830	19,251	4,898	4,962	4,927	4,927	19,714	20,181
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	2,880	5,280	8,160	5,440	5,440	5,440	5,440	21,760	22,195
ADW (online)	10,421	12,539	8,986	8,334	40,280	11,335	14,091	10,486	10,735	46,647	13,218	16,474	13,532	11,721	54,944	59,321
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(4,215)	(6,300)	(977)	(1,000)	(12,492)	(4,215)	(5,000)	(977)	(1,000)	(11,192)	(11,192)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**30,361**	**27,159**	**173,064**	**25,672**	**110,208**	**36,267**	**29,389**	**201,535**	**211,465**
JV EBITDA	0	0	0	0	0	0	0	0	0	0	1,750	2,000	3,000	3,000	9,750	12,400
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**97,673**	**30,361**	**27,159**	**173,064**	**27,422**	**112,208**	**39,267**	**32,389**	**211,285**	**223,865**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,035)	(14,991)	(16,820)	(16,820)	(63,666)	(16,820)	(16,820)	(16,820)	(16,820)	(67,280)	(67,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**2,836**	**82,682**	**13,541**	**10,339**	**109,398**	**8,852**	**93,388**	**19,447**	**12,569**	**134,255**	**144,185**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,466)	(1,167)	(2,000)	(2,000)	(6,633)	(1,800)	(1,700)	(1,700)	(1,700)	(6,900)	(5,400)
JV interest											0	250	1,250	1,250	2,750	5,400
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**1,370**	**81,515**	**11,541**	**8,339**	**102,766**	**7,052**	**91,938**	**18,997**	**12,119**	**130,105**	**144,185**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(311)	(30,813)	(4,616)	(3,336)	(39,076)	(2,750)	(35,856)	(7,409)	(4,726)	(50,741)	(56,232)
%	41%	40%	16%	41%	36%	23%	38%	40%	40%	38%	39%	39%	39%	39%	39%	39%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,059**	**50,703**	**6,925**	**5,003**	**63,690**	**4,301**	**56,082**	**11,588**	**7,392**	**79,364**	**87,953**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.06**	**$2.84**	**$0.38**	**$0.31**	**$3.54**	**$0.24**	**$3.10**	**$0.64**	**$0.45**	**$4.38**	**$4.81**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,828	17,882	18,000	18,000	18,000	18,100	18,100	18,100	18,100	18,100	18,300
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,059	$50,703	$6,925	$5,003	$63,690	$4,301	$56,082	$11,588	$7,392	$79,364	$87,953
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.06	$2.84	$0.38	$0.28	$3.54	$0.24	$3.10	$0.64	$0.45	$4.38	$4.81
Margin analysis																
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.1%	34.4%	16.2%	15.0%	21.6%	15.2%	35.5%	18.1%	15.9%	23.3%	23.8%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	1.9%	29.1%	7.2%	5.7%	13.7%	5.2%	30.0%	9.7%	6.8%	15.5%	16.2%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	0.9%	28.7%	6.2%	4.6%	12.8%	4.2%	29.6%	9.5%	6.6%	15.0%	16.2%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	0.7%	17.9%	3.7%	2.8%	8.0%	2.5%	18.0%	5.8%	4.0%	9.2%	9.9%
Y/Y growth %																
Revenue	5%	8%	-1%	6%	5%	7%	5%	13%	14%	9%	14%	10%	7%	2%	8%	3%
EBITDA	35%	6%	-10%	-10%	3%	19%	8%	43%	55%	20%	53%	15%	29%	19%	22%	6%
Operating income	NM	8%	-23%	-51%	5%	NM	8%	71%	273%	24%	NM	13%	44%	22%	23%	7%
Pre-tax income	NM	12%	-20%	NM	11%	NM	8%	63%	530%	22%	NM	13%	65%	45%	27%	11%
Net income	NM	14%	-3%	NM	14%	NM	11%	16%	111%	18%	NM	11%	67%	48%	25%	11%
EPS	NM	10%	-7%	NM	12%	NM	9%	13%	120%	15%	NM	9%	66%	48%	24%	10%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming property are Sidoti estimates

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$81.21) BUY Target: $97 August 1, 2013

Action	Date	Px	Rating	PT
PT	8/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		84
PT	2/28/13	68.1		92
PT	6/3/13	83.9		95



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:
- **We maintain our BUY rating and increase our target to 97 (from $95).** Our new target is based on 13x our 2015 free cash flow per share estimate of $7.47 and implies roughly 8.5x projected 2015 EBITDA. Previously, our $95 target was based on about 13x our prior 2014 free cash flow per share estimate of $7.24 (now $7.25). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Considering CHDN's over-capitalized balance sheet and expected online wagering and Kentucky Derby growth, we maintain our BUY rating.

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 08/01/13, Sidoti provides research on 496 companies, of which 331 (66%) are rated BUY and 165 (34%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 4 companies (1.21%). Of the NEUTRALS, Sidoti has received investment banking income from 2 companies (1.21%). Of the NEUTRALS, 71 trade above our price targets. Of the NEUTRALS, 75 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Other Disclosures

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Appendix Continued

analyst's short-term opinion may be different from what is published in this report. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

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317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$80.78) — BUY

Adjust Earnings Estimates; Earnings Preview — **Target: $95**

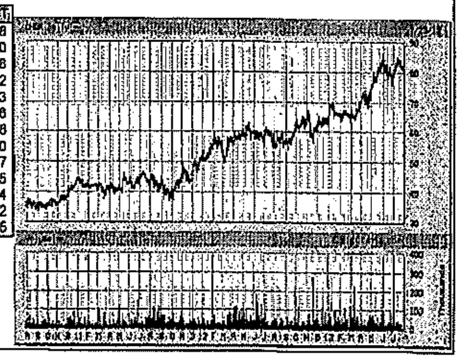
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

July 29, 2013

Market Cap (Mil)	**$1,450**	**Price to Book Value**	**2.4x**
Avg. Daily Trading Volume	**46,000**	**Return on Equity (2014E)**	**10.5%**
Shares Out (Mil)	**17.964**	**LT Debt to Total Capital**	**11%**
Float Shares (Mil)	**13.624**	**5-Year EPS Growth Rate Projection**	**19%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**86-54**
Dividend	**$0.72**	**Russell 2000**	**1049**
Dividend Yield	**0.9%**	**Short Interest (Mil)**	**0.763**

	2012	2013E		2014E		2015E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	$0.00	$0.06A		$0.24			$0.40
June	2.60	2.81		3.11	3.09		3.23
Sep.	0.34	0.39		0.67	0.64		0.73
Dec.	0.14	0.34	0.33	0.50	0.46		0.53
EPS (Cal.)	**$3.08**	**$3.55**	**$3.54**	**$4.47**	**$4.38**		**$4.82**
P/E (Cal.)			**22.8x**		**18.4x**		**16.8x**
EBITDA (mil.) (Cal)	**$144.2**	**$173.4**	**$176.0**	**$213.7**	**$213.3**		**$226.8**
EV / EBITDA			**9.5x**		**8.1x**		**7.2x**

Action	Date	Px	Rating	PT
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	68.1		92
PT	6/3/13	83.9		95



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2012-2015E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Rev.(Mil.)*	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$803.0	$868.6	$893.0
GAAP EPS*	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.54	$4.38	$4.82

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
July 31	August 1	9 AM	877.372.0878	NM	$2.89

Roll Out 2015 Free Cash Flow Forecast Of $7.44 Per Share; Maintain BUY Rating, $95 Target Given Over-Capitalized Balance Sheet, Under-Appreciated Derby And Online Assets

- **We reduce our 2014 EPS estimate to $4.38 (from $4.47) to reflect a slower projected ramp-up of profitability at CHDN's Ohio casino joint venture slated to open in December 2013.**
- **We roll out our 2015 EPS and free cash flow estimates of $4.82 and $7.44, respectively.**
- **We think CHDN will continue to seek out regional casino acquisitions and estimate every $150 million deal would increase our free cash flow per share forecast $0.50-$0.60 annually based on current market multiples.**
- **We maintain our BUY rating.**
- **Our $95 target is based on roughly 13x our revised 2013 FCF per share estimate of $7.24 (from $7.29).**

❑ **We forecast 2Q:13 EPS of $2.81 versus $2.60 in the year-earlier period.** Our estimate is modestly below consensus of $2.89. CHDN estimates EBITDA for Kentucky Derby week rose $4.5-$6.5 million versus 2Q:12 (we forecast a $5 million increase). We expect softness in CHDN's regional casino segment in the quarter to partly offset this strength.

❑ **We roll out our 2015 EPS and free cash flow per share forecasts of $4.82 and $7.44, respectively.** Our estimates do not include potential upside of yet-to-be-announced acquisitions. We estimate every $150 million casino acquisition would contribute $0.50-$0.60 in annual free cash flow based on current market multiples (7x-8x EBITDA). We reduce our 2014

EPS estimate to $4.38 (from $4.47) to reflect a slower ramp-up in profitability of CHDN's JV casino in Ohio. The casino is ahead of schedule and slated to open in December 2013 (from 1Q:14). However, most regional casino openings in the U.S. started off slow recently and we thought it appropriate to tamp down our projections. We think the $285 million racino (CHDN has 50% ownership) can generate roughly $40 million in annual EBITDA when it matures in a few years. However, our estimates assume the property generates EBITDA of $20 million and $25 million in 2014 and 2015, respectively.

- **We maintain our BUY rating and $95 target.** Our target is based on roughly 13x our revised 2014 free cash flow per share estimate of $7.24 (from $7.29). Our $1.7 billion market cap target implies a multiple of about 9x our new 2014 EBITDA estimate of $213 million (from $214 million) less projected net debt of $260 million (unchanged). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Considering CHDN's over-capitalized balance sheet and expected online wagering and Kentucky Derby growth, we maintain our BUY rating.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	2Q:13E	2Q:12A	Variance	% Difference
Revenue	$286,926	$270,816	$16,110	6%
EBITDA	99,591	90,294	9,297	10%
	34.7%	33.3%		
Operating income	84,556	76,656	7,900	10%
	29.5%	28.3%		
Net income	50,120	45,577	4,543	10%
	17.5%	16.8%		
Fully diluted EPS	$2.81	$2.60	$0.20	8%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis

(000's)	2Q:13E	2Q:12A	Variance	% Difference
Racing	$70,464	$65,390	$5,074	8%
Gaming, LA	6,569	6,200	369	6%
Gaming, FL	3,454	4,300	(846)	-20%
Gaming, MS (Harlows)	3,928	3,938	(10)	0%
Gaming, MS (Riverwalk)	3,900	NM	NM	NM
ADW (online)	13,176	12,539	637	5%
Corp./United Tote	(1,900)	(2,073)	173	NM
Total EBITDA	**$99,591**	**$90,294**	**$9,297**	**10%**

Source: Sidoti & Company, LLC estimates and company financials

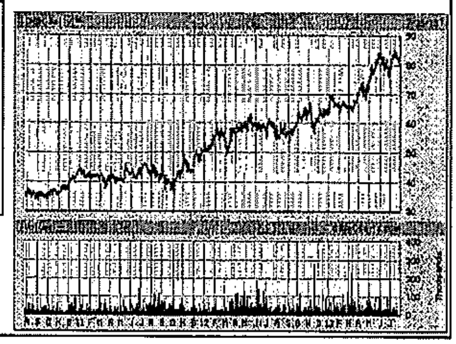
Table 1 : CHDN Income Statement																
(000's, except where noted)	Mar	Jun	Sep	Dec	2012	MarA	Jun	Sep	Dec	2013E	Mar	Jun	Sep	Dec	2014E	2015E
Net Revenue																
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$27,813	$163,871	$62,002	$48,359	$302,044	$27,813	$167,615	$62,002	$48,359	$305,789	$309,111
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,125	18,768	18,562	20,524	79,979	22,568	19,143	18,933	20,935	81,579	83,211
Gaming, FL	21,879	19,188	17,841	18,956	77,864	20,486	19,188	16,949	18,008	74,631	19,462	19,188	16,949	18,008	73,607	75,079
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	15,354	13,094	14,127	14,179	56,754	15,661	13,356	14,409	14,463	57,889	59,047
Gaming, MS (Riverwalk)	NM	NM	NM	10,330	10,330	14,124	13,000	14,000	14,000	55,124	14,406	13,260	14,280	14,280	56,226	57,351
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	9,000	16,000	25,000	16,000	16,000	16,000	16,000	64,000	65,280
ADW (online)	44,035	52,702	45,593	40,949	183,279	42,916	52,702	45,593	43,815	185,026	48,066	59,026	51,064	46,883	205,039	219,392
Other	4,643	6,303	6,872	6,086	23,904	5,255	6,303	6,872	6,086	24,516	5,255	6,303	6,872	6,086	24,516	24,516
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**148,073**	**286,926**	**187,104**	**180,972**	**803,075**	**169,231**	**313,892**	**200,509**	**185,013**	**868,645**	**892,985**
EBITDA																
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,411)	70,464	930	(5,078)	54,906	(11,403)	72,913	930	(5,078)	57,362	60,154
Gaming, LA	7,956	6,200	5,800	5,844	25,800	7,756	6,569	5,940	6,157	26,422	8,297	6,700	6,059	6,699	27,755	28,310
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,400	3,454	2,034	1,981	10,869	3,114	3,262	2,034	2,341	10,751	11,536
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	5,133	3,928	4,521	4,963	18,544	5,638	5,075	4,611	4,628	19,952	21,271
Gaming, MS (Riverwalk)	NM	NM	NM	2,800	2,800	4,491	3,900	4,830	4,830	18,051	4,682	4,575	4,927	4,927	19,110	19,786
Gaming, ME	NM	NM	NM	NM	NM	NM	NM	2,880	5,280	8,160	5,440	5,440	5,440	5,440	21,760	22,195
ADW (online)	10,421	12,539	8,986	8,334	40,280	10,444	13,176	10,486	10,735	44,841	12,016	15,642	13,532	11,721	52,911	57,204
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,942)	(1,900)	(977)	(1,000)	(5,819)	(1,942)	(2,100)	(977)	(1,000)	(6,019)	(6,019)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**99,591**	**30,644**	**27,868**	**175,973**	**25,842**	**111,507**	**36,555**	**29,678**	**203,582**	**214,438**
JV EBITDA	0	0	0	0	0	0	0	0	0	0	1,750	2,000	3,000	3,000	9,750	12,400
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**99,591**	**30,644**	**27,868**	**175,973**	**27,592**	**113,507**	**39,555**	**32,678**	**213,332**	**226,838**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,035)	(15,035)	(16,820)	(16,820)	(63,710)	(16,820)	(16,820)	(16,820)	(16,820)	(67,280)	(67,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**2,836**	**84,556**	**13,824**	**11,048**	**112,263**	**9,022**	**94,687**	**19,735**	**12,858**	**136,302**	**147,158**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,466)	(1,300)	(2,000)	(2,000)	(6,766)	(1,800)	(1,700)	(1,700)	(1,700)	(6,900)	(5,400)
JV interest											0	250	1,250	1,250	2,750	5,400
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**1,370**	**83,256**	**11,824**	**9,048**	**105,497**	**7,222**	**93,237**	**19,285**	**12,408**	**132,152**	**147,158**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(311)	(33,136)	(4,729)	(3,619)	(41,795)	(2,889)	(37,295)	(7,714)	(4,963)	(52,861)	(58,863)
%	41%	40%	16%	41%	36%	23%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,059**	**50,120**	**7,094**	**5,429**	**63,702**	**4,333**	**55,942**	**11,571**	**7,445**	**79,291**	**88,295**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.06**	**$2.81**	**$0.39**	**$0.33**	**$3.54**	**$0.24**	**$3.09**	**$0.64**	**$0.46**	**$4.38**	**$4.82**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,828	17,850	18,000	18,000	18,000	18,100	18,100	18,100	18,100	18,100	18,300
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,059	$50,120	$7,094	$5,429	$63,702	$4,333	$55,942	$11,571	$7,445	$79,291	$88,295
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.06	$2.81	$0.39	$0.30	$3.54	$0.24	$3.09	$0.64	$0.46	$4.38	$4.82
Margin analysis																
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.1%	34.7%	16.4%	15.4%	21.9%	15.3%	35.5%	18.2%	16.0%	23.4%	24.0%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	1.9%	29.5%	7.4%	6.1%	14.0%	5.3%	30.2%	9.8%	6.9%	15.7%	16.5%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	0.9%	29.0%	6.3%	5.0%	13.1%	4.3%	29.7%	9.6%	6.7%	15.2%	16.5%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	0.7%	17.5%	3.8%	3.0%	7.9%	2.6%	17.8%	5.8%	4.0%	9.1%	9.9%
Y/Y growth %																
Revenue	5%	8%	-1%	6%	5%	7%	6%	13%	14%	10%	14%	9%	7%	2%	8%	3%
EBITDA	35%	6%	-10%	-10%	3%	19%	10%	44%	59%	22%	54%	14%	29%	17%	21%	6%
Operating income	NM	8%	-23%	-51%	5%	NM	10%	75%	299%	27%	NM	12%	43%	16%	21%	8%
Pre-tax income	NM	12%	-20%	NM	11%	NM	10%	67%	584%	25%	NM	12%	63%	37%	25%	11%
Net income	NM	14%	-3%	NM	14%	NM	10%	19%	129%	18%	NM	12%	63%	37%	24%	11%
EPS	NM	10%	-7%	NM	12%	NM	8%	16%	138%	15%	NM	10%	62%	37%	24%	10%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$80.78) BUY Target: $95 July 29, 2013

Action	Date	Px	Rating	PT
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.6		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $95 target.** Our target is based on roughly 13x our revised 2014 free cash flow per share estimate of $7.24 (from $7.29). Our $1.7 billion market cap target implies a multiple of about 9x our new 2014 EBITDA estimate of $213 million (from $214 million) less projected net debt of $260 million (unchanged). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Considering CHDN's over-capitalized balance sheet and expected online wagering and Kentucky Derby growth, we maintain our BUY rating.

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 07/29/13, Sidoti provides research on 496 companies, of which 331 (66%) are rated BUY and 165 (34%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 4 companies (1.21%). Of the NEUTRALS, Sidoti has received investment banking income from 2 companies (1.21%). Of the NEUTRALS, 78 trade above our price targets. Of the NEUTRALS, 81 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

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Appendix Continued

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Churchill Downs Inc. (CHDN-$82.41) — BUY

Comprehensive Update — Target: $95

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

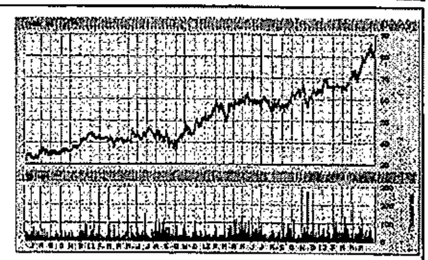
June 10, 2013

Market Cap (Mil)	**$1,450**
Avg. Daily Trading Volume	**60,000**
Shares Out (Mil)	**17.611**
Float Shares (Mil)	**13.411**
Institutional Holdings	**55%**
Dividend	**$0.72**
Dividend Yield	**0.9%**

Price to Book Value	**2.5x**
Return on Equity (2014E)	**10.9%**
LT Debt-to-Total Capital	**17%**
5-Year EPS Growth Rate Projection	**15%**
52-Week Range (NASDAQ)	**82-54**
Russell 2000	**990**
Short Interest (Mil)	**0.464**

	2011	2012	2013E	2014E
Mar.	$(0.19)	$0.00	$0.06A	$0.24
June	2.37	2.60	2.81	3.11
Sep.	0.36	0.34	0.39	0.67
Dec.	0.26	0.14	0.34	0.50
EPS (Cal.)	**$2.76**	**$3.08**	**$3.55**	**$4.47**
P/E (Cal.)			**23.2x**	**18.4x**
EBITDA (mil.) (Cal.)	**$139.4**	**$144.2**	**$173.4**	**$213.7**
EV / EBITDA			**9.8x**	**8.2x**

Action	Date	Px	Rating	PT
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2011-2014E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
Rev.(Mil.)	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$796.5	$871.1
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.53	$4.37

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. Churchill Downs also owns casinos in Vicksburg, MS; Greenville, MS and Oxford, ME as well as online horse-wagering website Twinspires.com. Headquarters are in Louisville, KY.

Shares Understate CHDN's Cash Flow Potential, In Our View; Maintain BUY Rating, $92 Target

- **We surmise management is hotly pursuing acquisitions, most likely in the regional gaming segment.** We estimate every $150 million casino acquisition at 7x-8x forward EBITDA contributes $0.50-$0.60 per share to Churchill Downs' annual free cash flow. Since 2007, the company has deployed $767 million for acquisitions and gaming developments that we estimate will provide $131 million in EBITDA in 2013, an impressive 17% cash-on-cash return. Moreover, of the company's five regional assets, the oldest was built in 2007, meaning minimal cap-ex requirements. We estimate Churchill has capacity for $3 billion in acquisitions at 7.5x EBITDA while keeping leverage below 5x (the median casino leverage). While acquisitions appear the top priority, a $100 million share buyback program was authorized in April 2013, and we estimate Churchill could return nearly $850 million in cash to shareholders through 2014 and keep leverage below 5x. At year-end 2012, net debt stood at $179 million, or 1.2x trailing EBITDA, versus the median regional casino operator's 5x.

- **Churchill's online horse wagering segment is showing signs of life as a secular growth business, in our view.** While 90% of horse wagering in the U.S. takes place off-track, online wagering (advance deposit wagering, or ADW) still accounts for just 20% of total wagers (up from 10% in 2007). We think wagering will continue to migrate online, causing off-track betting facilities (OTBs) to close, fueling even more wagering online. We estimate online EBITDA will rise 11% and 18% year over year in 2013 and 2014, respectively, to $45 million and $53 million. A new contestant in the online horse wagering arena would find it tough to achieve an adequate ROI in this niche market, in our view, and Churchill's scale is also an advantage in negotiating with each racetrack the percentage the company keeps of the wager. Churchill's brand name, technology and ownership of Bloodstock Research Information Services, Inc. (a popular database for handicappers) also afford the company a competitive edge.

- **CHDN shares understate the Kentucky Derby franchise, which we deem a trophy asset.** Despite the horse racing industry's woes, the Kentucky Derby franchise is as formidable as ever, posting record-high profits for Churchill Downs in 2012. We expect the franchise to maintain its competitive stranglehold and be a consistent, steady-growing source of cash. We estimate 27% of Churchill's 2014 EBITDA will derive from the racing segment, nearly all of which is generated from Kentucky Derby week. CHDN shares steadily increased from a low of $30 in early 2010 to current levels given the improving profitability of Kentucky Derby week, impressive organic online wagering growth and three highly accretive casino acquisitions. Despite the rally, we still find the shares' valuation attractive at 11x projected 2014 free cash flow.

- **Legalization of gaming at two prime Churchill Downs racetracks provides considerable upside potential.** Churchill's namesake track in Louisville, KY, and the Arlington Park track just outside Chicago have yet to obtain legal approval to operate slot machines. In Illinois, SB 1739 (which would allow Churchill to add 1,200 slot machines at Arlington) passed in the Senate in early March but was not brought to a vote by the House before adjourning for the summer. We expect the debate to pick up again in the October 2013 when the legislature reconvenes. We estimate a $200 million slots facility could generate $1.48 per share in annual free cash flow, or $13 per share in equity value assuming an 8x EV/EBITDA multiple (Exhibit 1). In Kentucky, we expect debate to heat up in early 2014 for a constitutional amendment legalizing casinos in the state. We estimate a $250 million casino development would contribute nearly $3 per share in annual free cash flow, or $25 per share in equity value assuming an 8x EV/EBITDA multiple (Exhibit 2).

- **The balance sheet is significantly overcapitalized, in our view.** We estimate Churchill will generate 2013 and 2014 free cash flow of $111 million ($6.20 per share) and $131 million ($7.29), respectively. Given a projected $10 million in expected annual dividend payments and $10 million in annual share repurchases, Churchill's $160 million Oxford, ME casino acquisition and a total $123 million contribution to a casino joint venture in Ohio (Churchill also contributed $20 million in 2012), we estimate net debt will rise to $260 million at 2014 year-end. However, that still amounts to just 1.2x projected 2014 EBITDA. Churchill's debt mainly consists of a bank revolver that has $500 million in total capacity maturing 2018 with a floating rate of LIBOR plus 1.13%-3.00%, depending on leverage.

- **We maintain our BUY rating and $95 price target.** We value CHDN shares on a multiple of free cash flow because depreciation expense generally outpaces maintenance capital spending by more than 2-to-1, while EV/EBITDA does not consider maintenance cap-ex or borrowing costs. Our target is based on 13x our 2014 free cash flow per share estimate of $7.29. Our $1.7 billion market cap target implies a multiple of roughly 9x our 2014 EBITDA estimate of $214 million less projected net debt of $260 million. EBITDA includes Churchill's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (and an asset sale of Churchill's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Historically, CHDN traded at 7x-12x forward EBITDA, versus regional casinos at 6x-9x. Our BUY rating for Churchill Downs remains in force.

Company Overview

Churchill Downs Inc. was founded in 1875. The company's namesake track is home to the premier horse racing event, the Grade I Kentucky Derby, first run in 1875. Directors and officers own 23% of outstanding shares, which includes a 17% stake from entities controlled by Richard Duchossois (former owner of Arlington Park, which merged with Churchill Downs in 2000).

After taking over as CEO in July 2006, Robert Evans, who owns a 1% stake (2% including options), dramatically reshaped the company. Churchill entered the ADW segment in 2007 by starting www.twinspires.com and combining it with two online wagering sites acquired for $80 million. In 2010, Churchill acquired Youbet.com for $134 million, or 11x forward EBITDA, but just 6x after $12 million-plus of duplicate costs were removed. The sites were subsequently integrated into the twinspires brand.

In 2008, Churchill opened a $32 million slots facility in New Orleans (the company also operates video poker machines at several New Orleans area off-track betting facilities) and another in Miami in 2010 ($85 million). In December 2010, Churchill acquired Harlow's Casino Resort & Hotel in Greenville, MS for $138 million (7x forward EBITDA excluding weather disruption). In 2012, the company bought the Riverwalk Casino & Hotel in Vicksburg, MS for $141 million (7.3x projected forward EBITDA) and expects to close on the Oxford Casino in Oxford, ME in 4Q:13 (7.3x projected 2014 EBITDA). We see all of these prices as favorable considering 1) the oldest acquired asset was built in 2007 (meaning minimal cap-ex requirements for the foreseeable future), 2) Churchill's low borrowing costs and 3) the properties' stable competitive positions (we do not envision many new rivals). Regional casinos usually trade at 6x-9x forward EBITDA. In 2006, Churchill generated $23 million in free cash flow ($1.68 per share); mainly owing to the acquisitions, we forecast 2014 FCF of $128 million ($7.10).

An Overcapitalized Balance Sheet Has Its Benefits

We think Churchill's significantly overcapitalized balance sheet will enable the company to take advantage of major acquisition and/or development opportunities.

We Expect Churchill To Pursue Acquisitions, Most Likely In The Regional Casino Market. We estimate every $150 million casino acquisition contributes $0.50-$0.60 per share in annual free cash. As the aforementioned deals demonstrate, management's track record for allocating capital is strong. Churchill generally seeks gaming assets that are in good physical shape (requiring minimal cap-ex), with high barriers to entry and sustainable cash flow.

Recent Legislation Allows Churchill To Explore Development Opportunities In Illinois. In March 2013, SB 1739 passed through a the Senate; the bill permits racetracks to add slot machines, issues five new stand-alone casino licenses (one in downtown Chicago) and allows racetracks and casino owners to offer online gaming. The House did not bring the measure to a vote before adjourning for the summer and will reconvene in October 2013. In our view, Churchill's Arlington Park in the northwest suburbs 40 minutes from downtown Chicago, is one of the state's best locations. The legislation permits Churchill to add 1,200 slot machines for a $36 million license fee ($30,000 per machine); the gaming tax rate (casinos are taxed on revenue) is scalable and would approximate 43% for Churchill, by our estimate. We calculate the development of a slots facility would add $13 per share to Churchill's equity value, assuming an 8x EV/EBITDA multiple (Exhibit 1).

Exhibit 1. Arlington Park, Slots Facility

(millions)	Low	Base	High
Capex	$200	$200	$200
Slots	1,200	1,200	1,200
WPD	$350	$400	$450
Gaming Rev.	$153	$175	$197
Other Rev.	15	18	20
Promotional Allowance	(17)	(19)	(22)
Total Rev.	152	173	195
EBITDA Margin	28%	30%	32%
EBITDA	42	52	62
Cash-on-cash Return	21%	26%	31%
Equity/share			
@ 7x	$6	$10	$14
@ 8x	$8	$13	$18
@ 9x	$11	$16	$21
Initial accretion			
Annual EPS	$0.86	$1.19	$1.54
Annual FCF/share	$1.15	$1.48	$1.83

Source: Sidoti & Company, LLC and company reports.

The new legislation satisfies the governor's wishes for stronger ethics language and allotment of some tax proceeds for education. The governor vetoed expanded gaming twice, citing these two issues. In Illinois, five riverboat operators in the Chicago area generated $1.1 billion in gaming revenue in 2012 (each casino is limited to 1,300 gaming positions by law). Roughly 85% of gaming revenue derives from slot machines in Illinois (the rest is from table games). The Rivers Casino in Des Plaines, IL is the closest property to Arlington (a 20-25-minute drive). The casino generated $417 million in gaming revenue in 2012, amounting to a win per day per gaming position of $875. The $445 million casino opened in 2011.

The bill would also likely permit Churchill Downs to develop a 900-machine slots facility at its Quad City Downs property (which does not currently operate live racing) for a $17,500 per gaming machine license fee. Generating a compelling return at this location would likely be highly challenging, but Churchill could attempt to move the machines to Arlington. If Arlington does not get gaming, we think Churchill will divest the 325-acre track and the land will likely be put to some other use.

Legalized Casino Gaming Is Looking More Likely In Kentucky. Legalizing casino gaming has been debated for years in Kentucky, usually more intensely in even-numbered years when the legislature meets for 60 days (versus 30 in odd-numbered years). Kentucky relies on horse racing and is surrounded by states that permit casino gaming (West Virginia, Indiana, Ohio and Illinois).

Governor Steve Beshear favors casinos, but State Senate President David Williams repeatedly thwarted legislation. In 2012, Mr. Williams accepted a judgeship, significantly boosting the chances of pro-gaming legislation, in our view. Passing gaming legislation requires a constitutional amendment—60% passage in both legislative houses, governor approval and statewide public referendum (requiring 50% approval). We expect debate to pick up in the 2014 legislative session, which should run from January through April. If passed, the amendment would be put up for a referendum in November 2014. Historically, legalizing casinos routinely garnered 55%-plus support in polls.

Exhibit 2. CHDN Louisville Casino Analysis

(millions)	Low	Base	High
Capex	$250	$250	$250
Slot machines	2,500	2,500	2,500
Win per day	$225	$250	$275
Slots rev.	$205	$228	$251
Table rev.	$25	$27	$30
Gross gaming rev.	$230	$256	$281
Food, bev. and other rev.	28	31	34
Promotional allowances	(39)	(43)	(47)
Total rev.	219	243	268
EBITDA margin	32%	35%	38%
EBITDA	$70	$85	$102
Cash-on-cash return	28%	35%	41%
Equity/share			
@ 7x	$14	$20	$27
@ 8x	$18	$25	$33
@ 9x	$22	$30	$39
Initial accretion			
EPS	$1.74	$2.26	$2.83
FCF/share	$2.12	$2.71	$3.22

Note: Assumes $50 million license fee, $200 million construction cost and 40% gaming tax rate

Source: Sidoti & Company, LLC and company reports.

Currently, one riverboat operates outside Louisville on the Indiana side. Caesars Entertainment (NASDAQ: CZR, NC) owns the Horseshoe Southern Indiana, which generated revenue of $273 million in 2012. Churchill's location would be a major competitive edge, in our view. While the riverboat is directly across the Ohio River from Louisville, bridge crossings are limited. The closest point in Louisville to the casino is about a 20-minute drive, while residents living right across the river must drive 30 minutes. In 2010, Louisville's 1.3 million MSA was the nation's 43rd largest; we estimate 80% of the population lives closest to Churchill Downs. We calculate passage of slots would increase Churchill's equity value by $25 per share, assuming an 8x EV/EBITDA multiple (Exhibit 2), $250 million development cost and a 40% gaming tax rate.

Operating Segments

Racing And The Kentucky Derby Are A Steadily Rising Cash Flow Source For Churchill. We see U.S. horse racing as in a secular decline. Pari-mutuel handle fell steadily from a peak of $15.2 billion 2003 to $10.8 billion in 2001, before rebounding 1% year over year in 2012, to $10.9 billion (Exhibit 3). Pari-mutuel betting pays winners in proportion to the wager after expenses are deducted from the total betting pool. We think a key reason for the stagnation is greater competition from other gaming venues (casinos/riverboats) and an aging customer base.

Still, we deem the Kentucky Derby one of the best franchises in sports; the event's growing popularity provides a steadily rising source of cash flow for Churchill. Premium tickets, wagering, sponsorships and TV/radio licensing account for roughly 45%, 20%, 12% and 12% of the event's EBITDA, respectively, with general admission tickets, parking, food and beverage and merchandise contributing the rest. A large percentage of the event's profitability is locked in well in advance, limiting risk from poor weather.

Exhibit 3. CHDN Racing Properties

	Location	Acres	Casino Gaming
Calder	Miami, FL	231	Yes
Fair Grounds	New Orleans, LA	145	Yes
Quad City Downs	East Moline, IL	122	No
Trackside OTB	Louisville, KY	88	No
Churchill Downs	Louisville, KY	147	No
Arlington Park	Arlington, IL	336	No

Note: Quad City Downs and Trackside Louisville do not offer live racing
Source: Sidoti & Company, LLC and company reports.

We estimate the racing segment will generate 27% of Churchill's 2014 EBITDA, nearly all of it reflecting Kentucky Derby week. The event is run annually on May's first Saturday and follows the Kentucky Oaks, held the day before the Derby.

Advanced Deposit Wagering (ADW) Is A Secular Growth Business. Despite the horse racing industry's struggles, we view this segment as a secular growth business as wagering shifts online from off-track betting facilities. According to The Jockey Club, 89% of wagering was placed off-track in 2012, but the Oregon Racing Commission posits that just 20% was placed online, leaving considerable room for growth, in our view. We forecast high-single-digit revenue growth for the foreseeable future.

Exhibit 4. U.S. Pari-Mutuel Handle versus Online Handle

billion)	Total Handle	YOY	Online Handle	YOY	% of U.S. Handle
2003	$15.2	0.7%	$0.8	NA	6%
2004	15.1	-0.7%	0.9	4%	6%
2005	14.6	-3.3%	1.3	42%	9%
2006	14.8	1.4%	1.3	7%	9%
2007	14.7	-0.7%	1.4	6%	10%
2008	13.6	-7.5%	1.5	5%	11%
2009	12.3	-9.4%	1.7	11%	13%
2010	11.4	-7.3%	1.7	1%	15%
2011	10.8	-5.6%	1.8	10%	17%
2012	10.9	1.0%	2.2	20%	20%

Source: Oregon Racing Commission, Equibase, Sidoti & Company, LLC and company reports.

In our view, online horse wagering has much higher entry barriers than the typical achieved scale. A new entrant would find it challenging to achieve an adequate ROI in this niche market, in our view, and Churchill's scale is also an advantage in negotiating with each racetrack the percentage Churchill keeps of the wager. Churchill's brand name, technology and ownership of Bloodstock Research Information Services, Inc. (a popular database for handicappers) also afford the company a competitive edge.

In 2012, Churchill Downs had a 42% market share, according to the Oregon Racing Commission, followed by TVG at 31% (acquired in 2009 by U.S.-based Betfair, one of the world's largest online gaming companies) and privately held Xpressbet at 18%. The other 9% is spread among nearly 10 small providers.

Churchill's Gaming Assets Require Little Cap-Ex. Since Churchill Downs' gaming assets are relatively young, cap-ex should be minimal for the foreseeable future (Exhibit 5). Harlow's, the oldest property, was opened in 2007 and acquired by Churchill in 2010.

Exhibit 5. CHDN Gaming Properties

	Location	Slots	Tables	Hotel Rooms	Opened
Harlow's	Greenville, MS	900	21	105	2007
Riverwalk	Vicksburg, MS	723	18	80	2008
Oxford	Oxford, ME	790	22	NM	2012
Fair Grounds	New Orleans, LA	625	NM	NM	2008
Video Services	New Orleans, LA	725	NM	NM	NM
Calder	Miami, FL	1,200	NM	NM	2010
Total		**4,963**	**61**	**185**	

Source: Sidoti & Company, LLC and company reports.

Mississippi. State law permits gaming in 14 counties bordering the Gulf Coast and Mississippi River. The state gaming tax rate is friendly—about 8% of gaming revenue plus a local municipality tax (generally 4%). Mississippi is not a limited casino license jurisdiction, but the gaming commission requires parking and infrastructure (i.e., hotel, restaurants) to equal 100% of the casino's capital investment. In early 2013, the commission heightened entry barriers by requiring new casinos to have at least 40,000 square feet of gaming space, 300 hotel rooms (from 250), each meeting quality criteria, and two restaurants with 275 total seats.

In January 2010, Churchill Downs acquired Harlow's Casino Resort & Hotel in Greenville, MS, which is 90 miles from Vicksburg, MS and 115 miles from Tunica, MS. The property, opened in 2007, vies with two area casinos: Lighthouse Point (557 slot machines) and Jubilee (485), both owned by Tropicana Entertainment (OTC:TPCA, NC), which is largely controlled by Carl Icahn. We note that Icahn-controlled gaming properties typically reflect thrifty marketing and restrained maintenance cap-ex. The facility mainly draws customers from Greenville (population of 55,000) and the surrounding 30-mile radius (population of 213,000 within the county and in surrounding counties).

In October 2012, Churchill Downs bought Vicksburg, MS's Riverwalk Casino & Hotel, one of four casinos in the city. Given the challenges of generating a compelling ROI, we expect no new competition for the foreseeable future. Vicksburg is 45 miles west of Jackson, MS, the nation's 93rd-largest MSA.

Maine. Churchill Downs expects to close on the Oxford, ME casino in 4Q:13. The casino is one of two in the state; the other is over two hours away. Maine limits casino licenses and subjects each to legislative approval and the governor's signature or a statewide public referendum. In 2011, a referendum permitting one new casino license failed by 10 percentage points and another considering permitting slots at two racetracks was defeated by 26 percentage points. A 2010 referendum permitting the Oxford casino passed by less than one percentage point. For Churchill's casino, the gaming tax rate is 46% for slots and 16% for table games.

Louisiana. In 2004, Churchill bought the Fair Grounds racetrack and several local OTBs that operate video poker machines for $60 million. In November 2008, the company completed a permanent slots facility for $32 million. The Fair Grounds is minutes from the French Quarter and vies with three nearby riverboat casinos, a land-based casino and several small video poker operations. Since Louisiana limits gaming licenses, we anticipate no new rivals. The roughly 20% gaming tax rate is favorable. Churchill markets largely to a local crowd looking to avoid the hassle of Harrah's, which is downtown and offers little parking.

Miami. Churchill Downs opened a slots facility at its Calder track in January 2010. South Florida's gaming environment is highly competitive—including Calder, there are six racinos in the area, operating 6,400 slot machines in total, according to the Florida Division of Pari-Mutuel Wagering. Also, the Seminole tribe operates three casinos with 6,000 machines in the area.

The Seminole have a competitive edge in a lower tax rate (15% versus 35% for the racinos) and the ability to offer table games (Churchill can offer only slots and poker). The low tax rate allows the Seminole to aggressively promote and operate more first-rate facilities, in our view, as the ROI is more compelling. We expect one more area slots-only facility to open in mid-2013 with nearly 900 slot machines (a 7% hike in capacity), constraining growth at Churchill's property due to the new competition.

Financial Overview

Recent Results. Revenue rose 5% year over year to $732 million in 2012, fueled by the ADW segment's 11% gain and the 4Q:12 Riverwalk casino acquisition. EBITDA gained 3% to $144 million, trailing revenue growth due to higher corporate expense, new competition in Florida that affected Calder and start-up expenses associated with Luckity.com (a website Churchill recently created that offers real live wagering similar to a scratch-off ticket). EPS advanced 12% year over year thanks to a lower tax rate and reduced interest expense.

In 1Q:13, revenue rose 7% year over year to $148 million, mainly thanks to the Riverwalk casino acquisition. EPS advanced to $0.06 from the year-earlier breakeven.

Sales And Earnings Outlook. For 2013, we project an 9% revenue advance to $796 million, on a full year of results from the Riverwalk casino plus the Oxford casino deal, slated to close in 4Q:13. We estimate EBITDA will rise 22% year over year to $173 million, fueled by the casino acquisitions, boosting EPS 16% to $3.55.

For 2014, we project a 9% revenue advance to $871 million, mainly due to a full year's results from Oxford and a 11% gain in online horse wagering, all of which together with the and 1Q:14's opening of Churchill's Ohio joint venture casino we model will fuel 23% EBITDA growth to $211 million. We expect a 24% year-over-year EPS gain, to $4.47.

Balance Sheet And Cash Flow. At the end of 1Q:13, Churchill Downs had $150 million net debt, or 1x trailing EBITDA, versus 5x for the median regional casino operator. Long-term debt-to-total capital was 17%.

Churchill generated free cash flow per share of $103 million ($5.88 per share) in 2012; we project $111 million ($6.20) in 2013 and $131 million ($7.29) in 2014. Given an expected $10 million in annual dividend payments, $10 million in projected annual share repurchases, the $160 million Oxford casino deal and a total $123 million contribution to the joint venture in Ohio (Churchill also contributed $20 million in 2012), we estimate net debt will rise to $264 million at 2014 year-end, but still equate to just 1.2x projected 2014 EBITDA. We think management is still aggressively seeking new acquisitions, likely in the casino segment.

Debt mainly consists of a bank revolver that has $500 million capacity maturing in 2018, with a floating rate of LIBOR plus 1.13%-3.00%, depending on leverage. Churchill is well within its senior leverage requirement of 3.25x debt-to-EBITDA, total leverage requirement of 5.0x and 3x interest rate coverage.

Risks

Competition And The Economy. Horse racing faces growing competition from an increasing number of gambling outlets, most notably the proliferating Native American casinos and regional riverboats. Higher unemployment and/or lower consumer confidence could also weaken Churchill Downs' revenue and earnings.

State Political Risk. Casinos pay gaming taxes based on revenue (accounted for as an operating expense) and are subject to potential changes by state governments seeking to close budget gaps. In addition, smoking bans proved devastating to the casino business. Smoking is legal at all Churchill Downs gaming facilities, but proposed bans are occasionally debated.

Valuation

We base our $95 target on 13x our 2014 FCF per share estimate of $7.29. Our $1.7 billion market cap target implies about a 9x multiple of our 2014 EBITDA estimate of $214 million less projected net debt of $260 million. EBITDA includes Churchill's portion of the Ohio joint venture (since we model the partners financing the casino property, we expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of the Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

We deem regional casinos and racinos (which trade within 6x-9x forward EBITDA) the closest comparison to CHDN (which trades at 7x-12x). We argue CHDN shares deserve a multiple at the high end of the regional casino range given excess real estate that does not generate EBITDA, the less capital-intensive ADW segment and the value of the Kentucky Derby franchise.

With the shares trading at 8x our 2014 EBITDA estimate and 11x our 2014 FCF estimate, we argue the valuation understates Churchill Downs' improving growth prospects and cash flow potential. Thus, our BUY rating on CHDN shares is intact.

Table 1 : CHDN Income Statement

(000's, except where noted)	Mar	Jun	Sep	Dec	2012	MarA	Jun	Sep	Dec	2013E	Mar	Jun	Sep	Dec	2014E
Net Revenue															
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$27,813	$163,871	$62,002	$48,359	$302,044	$27,813	$167,615	$62,002	$48,359	$305,789
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,125	18,768	18,562	20,524	79,979	22,568	19,143	18,933	20,935	81,579
Gaming, FL	21,879	19,188	17,841	18,956	77,864	20,486	19,188	16,949	18,008	74,631	19,462	19,188	16,949	18,008	73,607
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	15,354	14,472	14,127	14,179	58,132	15,661	14,762	14,409	14,463	59,295
Gaming, MS (Riverwalk)				10,330	10,330	14,124	14,000	14,000	14,000	56,124	14,406	14,280	14,280	14,280	57,246
Gaming, ME								0	16,000	16,000	16,000	16,000	16,000	16,000	64,000
ADW (online)	44,035	52,702	45,593	40,949	183,279	42,916	52,702	45,593	43,815	185,026	48,066	59,026	51,064	46,883	205,039
Other	4,643	6,303	6,872	6,086	23,904	5,255	6,303	6,872	6,086	24,516	5,255	6,303	6,872	6,086	24,516
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**148,073**	**289,304**	**178,104**	**180,972**	**796,453**	**169,231**	**316,318**	**200,509**	**185,013**	**871,071**
EBITDA															
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,411)	68,826	930	(5,078)	53,267	(11,403)	72,410	930	(5,078)	56,859
Gaming, LA	7,956	6,200	5,800	5,844	25,800	7,756	6,381	5,940	6,157	26,234	8,297	6,700	6,059	6,699	27,755
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,400	3,262	2,034	1,981	10,677	3,114	3,262	2,034	2,341	10,751
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	5,133	5,355	4,521	4,963	19,971	5,638	5,609	4,611	4,628	20,486
Gaming, MS (Riverwalk)				2,800	2,800	4,491	4,830	4,830	4,830	18,981	4,682	4,927	4,927	4,927	19,462
Gaming, ME								0	5,440	5,440	5,440	5,440	5,440	5,440	21,760
ADW (online)	10,421	12,539	8,986	8,334	40,280	10,444	13,176	10,486	10,735	44,841	12,016	15,642	13,532	11,721	52,911
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,942)	(2,073)	(977)	(1,000)	(5,992)	(1,942)	(2,073)	(977)	(1,000)	(5,992)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**99,756**	**27,764**	**28,028**	**173,419**	**25,842**	**111,917**	**36,555**	**29,678**	**203,992**
JV EBITDA	0	0	0	0	0	0	0	0	0	0	0	1,750	4,000	4,000	9,750
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**99,756**	**27,764**	**28,028**	**173,419**	**25,842**	**113,667**	**40,555**	**33,678**	**213,742**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,035)	(15,035)	(15,035)	(16,820)	(61,925)	(16,820)	(16,820)	(16,820)	(16,820)	(67,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**2,836**	**84,721**	**12,729**	**11,208**	**111,494**	**9,022**	**95,097**	**19,735**	**12,858**	**136,712**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,466)	(1,300)	(1,000)	(2,000)	(5,766)	(1,800)	(1,900)	(1,800)	(1,600)	(7,100)
JV interest											0	0	2,250	2,250	4,500
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**1,370**	**83,421**	**11,729**	**9,208**	**105,728**	**7,222**	**93,197**	**20,185**	**13,508**	**134,112**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(311)	(33,368)	(4,691)	(3,683)	(42,054)	(2,889)	(37,279)	(8,074)	(5,403)	(53,645)
%	41%	40%	16%	41%	36%	23%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,059**	**50,053**	**7,037**	**5,525**	**63,674**	**4,333**	**55,918**	**12,111**	**8,105**	**80,467**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.06**	**$2.81**	**$0.39**	**$0.34**	**$3.55**	**$0.24**	**$3.11**	**$0.67**	**$0.50**	**$4.47**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,828	17,828	18,000	18,000	17,914	18,000	18,000	18,000	18,000	18,000
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,059	$50,053	$7,037	$5,525	$63,674	$4,333	$55,918	$12,111	$8,105	$80,467
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.06	$2.81	$0.39	$0.31	$3.55	$0.24	$3.11	$0.67	$0.50	$4.47
Margin analysis															
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.1%	34.5%	15.6%	15.5%	21.8%	15.3%	35.4%	18.2%	16.0%	23.4%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	1.9%	29.3%	7.1%	6.2%	14.0%	5.3%	30.1%	9.8%	6.9%	15.7%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	0.9%	28.8%	6.6%	5.1%	13.3%	4.3%	29.5%	10.1%	7.3%	15.4%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	0.7%	17.3%	4.0%	3.1%	8.0%	2.6%	17.7%	6.0%	4.4%	9.2%
Y/Y growth %															
Revenue	5%	8%	-1%	6%	5%	7%	7%	8%	14%	9%	14%	9%	13%	2%	9%
EBITDA	35%	6%	-10%	-10%	3%	19%	10%	30%	60%	20%	45%	14%	46%	20%	23%
Operating income	NM	8%	-23%	-51%	5%	NM	11%	61%	305%	26%	NM	12%	55%	15%	23%
Pre-tax income	NM	12%	-20%	NM	11%	NM	10%	66%	596%	26%	NM	12%	72%	47%	27%
Net income	NM	14%	-3%	NM	14%	NM	10%	18%	133%	18%	NM	12%	72%	47%	26%
EPS	NM	10%	-7%	NM	12%	NM	8%	15%	143%	15%	NM	11%	72%	47%	26%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

Table 2 :CHDN Cash Flow Statement										
(000's, except where noted)	**2010**	**2011**	**Mar**	**Jun**	**Sep**	**Dec**	**2012**	**Mar**	**2013E**	**2014E**
Operating Activities:										
Net (loss) income	$16,353	$64,355	$1,353	$48,576	$5,973	$2,374	$58,276	$1,058	$63,674	$80,467
Depreciation and amortization	46,524	55,170	13,807	13,638	13,370	14,785	55,600	15,035	61,925	67,280
Other	12,457	20,609	3,720	4,373	(62)	11,749	19,780	3,770	7,500	7,500
change in operating assets and liabilities	(15,477)	33,044	36,229	(25,646)	(13,222)	13,390	10,751	26,852	0	0
Cash provided from (used for) oper. act.	**59,857**	**173,178**	**55,109**	**40,941**	**6,059**	**42,298**	**144,407**	**46,715**	**133,099**	**155,247**
Investing Activities:										
Acquisition of business			(6,630)	(98)	0	(136,187)	(142,915)	(13,694)	(160,000)	0
Investment in jv			(4,275)	(1,125)	(1,125)	(13,325)	(19,850)	(3,500)	(30,150)	(93,000)
Purchase of minority investments			(1,482)	(118)	(492)	(61)	(2,153)	(365)	0	0
Capital expenditures	(61,952)	(22,667)	(9,120)	(7,353)	(8,983)	(15,842)	(41,298)	0	(22,000)	(24,000)
Proceeds from the sale of equipment/property	0	0	0	0	0	0	0	0	0	0
(Purchase of)/proceeds from investments, net	(169,665)	(1,189)	0	0	0	0	0	0	0	0
Other	(3,324)	(3,205)	(1,341)	3,548	2,680	1,341	6,228	(2,244)	0	0
Cash provided from (used for) invest. act.	**(234,941)**	**(27,061)**	**(22,848)**	**(5,146)**	**(7,920)**	**(164,074)**	**(199,988)**	**(19,803)**	**(212,150)**	**(117,000)**
Financing Activities:										
Net (repayments) borrowings of LT debt	193,985	(137,555)	(23,042)	(40,276)	5,753	139,730	82,165	(22,409)	75,000	0
Proceeds from stock options	564	(583)	123	2,260	931	(2,031)	1,283	53	0	0
Dividends	(6,777)	(8,165)	(10,110)	0	0	(12,351)	(22,461)	0	(10,200)	(10,200)
Proceeds from senior notes	0	0	0	0	0	0	0	0	0	0
Repurchase of c.s.								(1,007)	(10,000)	(10,000)
Other	570	610	2,325	5,126	(6,611)	3,606	4,446	(1,438)	0	0
Cash provided from (used for) fin. act.	**188,342**	**(145,693)**	**(30,704)**	**(32,890)**	**73**	**128,954**	**65,433**	**(24,801)**	**54,800**	**(20,200)**
Cash at the beginning of the period	13,643	26,901	27,325	28,882	31,787	29,999	27,325	37,177	37,177	12,926
Inc.(dec.) in cash and cash equivalents	13,258	424	1,557	2,905	(1,788)	7,178	9,852	2,111	(24,251)	18,047
Cash at the end of the period	**26,901**	**27,325**	**28,882**	**31,787**	**29,999**	**37,177**	**37,177**	**39,288**	**12,926**	**30,973**
Free Cash Flow	(2,095)	150,511	45,989	33,588	(2,924)	26,456	103,109	46,715	111,099	131,247
Free Cash Flow per share	**($0.14)**	**$8.79**	**$2.64**	**$1.92**	**($0.17)**	**$1.50**	**$5.88**	**$2.62**	**$6.20**	**$7.29**

Source: Sidoti & Company, LLC and company reports.

Table 3 : CHDN Balance Sheet (000's, except where noted)	2010	2011	Mar	Jun	Sep	2012	MarA	2013E	2014E
Current assets:									
Cash and cash equivalents	$26,901	$27,325	$28,882	$31,787	$29,999	$37,177	$39,288	$12,926	$30,973
Restricted cash	61,891	44,559	41,907	53,619	44,985	38,241	33,727	38,241	38,241
Accounts receivables, net	33,307	49,773	24,118	44,111	38,210	47,152	26,630	47,152	47,152
Deferred income taxes	16,136	8,727	8,018	8,018	8,057	8,227	8,227	8,227	8,227
Income tax receivables	11,674	3,679	3,569	0	0	2,915	3,375	2,915	2,915
Other current assets	20,086	10,399	17,551	14,031	11,959	13,352	0	13,352	13,352
Assets held for sale	0	0	0	0	0	0	22,127	0	0
Total current assets	**169,995**	**144,462**	**124,045**	**151,566**	**133,210**	**147,064**	**133,374**	**122,813**	**140,860**
Other Assets	12,284	8,665	13,969	14,917	15,812	30,836	33,983	33,436	33,436
Plant and Equipment, net	507,476	477,356	475,480	471,954	469,520	542,882	539,238	575,957	532,677
Goodwill	214,528	213,712	216,883	217,741	217,741	250,414	250,414	286,414	286,414
Other intangible assets, net	113,436	103,827	106,811	103,237	102,907	143,141	140,131	192,641	191,141
Equity in JV								37,550	130,550
Total assets	**1,017,719**	**948,022**	**937,188**	**959,415**	**939,190**	**1,114,337**	**1,097,140**	**1,248,811**	**1,315,078**
Current liabilities:									
Accounts payable	47,703	56,514	53,422	68,930	59,000	62,278	63,516	62,278	62,278
Pursue payable	12,265	20,066	20,275	23,009	25,169	19,084	15,766	19,084	19,084
Accrued expense and other liabilities	49,754	47,816	39,649	49,358	51,336	65,537	44,925	65,537	65,537
Dividends payable	8,165	10,110	0	0		0	0	0	0
Income tax payable	0	0	0	27,314	8,470	0	0	0	0
Deferred revenue	24,512	33,472	56,035	10,528	12,231	43,916	64,333	43,916	43,916
Liabilities associated with assets held for sal	0	0		0	0	0	0	0	0
Current portion of LT debt	5,660	5,473	2,232	6,753	2,439	0	2,394	0	0
Other liabilities	40,492	0				0		0	0
Total current liabilities	**188,551**	**173,451**	**171,613**	**185,892**	**158,645**	**190,815**	**190,934**	**190,815**	**190,815**
Long term debt	280,192	127,563	107,761	62,964	69,998	215,755	187,318	290,755	290,755
Other liabilities	17,775	29,542	30,621	31,976	22,458	21,030	21,513	21,030	21,030
Deferred revenue	15,556	17,884	18,860	16,626	17,151	17,794	18,587	17,794	17,794
Deferred income taxes	9,431	15,552	15,552	16,356	16,583	24,648	24,648	24,648	24,648
Total liabilities	511,505	363,992	344,407	313,814	284,835	470,042	443,000	545,042	545,042
Total stockholder equity	**506,214**	**584,030**	**592,781**	**645,601**	**654,355**	**644,295**	**654,140**	**703,769**	**770,036**
Total liab. and shareholder equity	**1,017,719**	**948,022**	**937,188**	**959,415**	**939,190**	**1,114,337**	**1,097,140**	**1,248,811**	**1,315,078**
Financial Ratios									
Long term debt / total capital	28%	13%	11%	7%	7%	19%	17%	23%	22%
Book value per share	$32.65	$34.10	$34.00	$36.89	$37.23	$36.76	$36.69	$39.29	$42.78
Net debt (cash)	$253,291	$105,711	$81,111	$37,930	$42,438	$178,578	$150,424	$277,829	$259,782
Return on avg. equity	4.5%	8.7%	9.2%	9.3%	9.0%	8.8%	8.8%	9.4%	10.9%
Return on avg. assets	2.4%	4.8%	5.3%	5.7%	5.9%	5.2%	5.4%	5.4%	6.3%

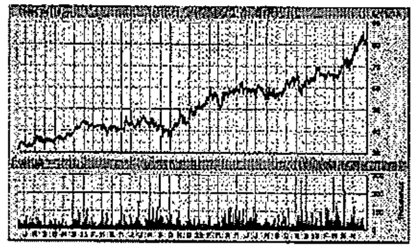
Source: Sidoti & Company, LLC and company reports.

Appendix

Required Disclosures

Churchill Downs Inc. (CHDN-$82.41) BUY Target: $95 June 10, 2013

Action	Date	Px	Rating	PT
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.8		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92
PT	6/3/13	83.9		95



Risks

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Valuation

We base our $95 target on 13x our 2014 FCF per share estimate of $7.29. Our $1.7 billion market cap target implies about a 9x multiple of our 2014 EBITDA estimate of $214 million less projected net debt of $260 million. EBITDA includes Churchill's portion of the Ohio joint venture (since we model the partners financing the casino property, we expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of the Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

We deem regional casinos and racinos (which trade within 6x-9x forward EBITDA) the closest comparison to CHDN (which trades at 7x-12x). We argue CHDN shares deserve a multiple at the high end of the regional casino range given excess real estate that does not generate EBITDA, the less capital-intensive ADW segment and the value of the Kentucky Derby franchise.

With the shares trading at 8x our 2014 EBITDA estimate and 11x our 2014 FCF estimate, we argue the valuation understates Churchill Downs' improving growth prospects and cash flow potential. Thus, our BUY rating on CHDN shares is intact

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 06/10/13, Sidoti provides research on 539 companies, of which 357 (66%) are rated BUY and 181 (34%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 3 companies (0.84%). Of the NEUTRALS, Sidoti has received investment banking income from 2 companies (1.10%). Of the NEUTRALS, 67 trade above our price targets. Of the NEUTRALS, 83 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Appendix

Other Disclosures

This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Sidoti does not maintain a predetermined schedule for publication of research and will not necessarily update this report. The stock rating on this report reflects the analyst's recommendation based on a 12 month period. Based on published near-term earnings estimates, the analyst's short-term opinion may be different from what is published in this report. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$83.94)

BUY

Raise Price Target; Adjust Earnings Estimates

Target: $95

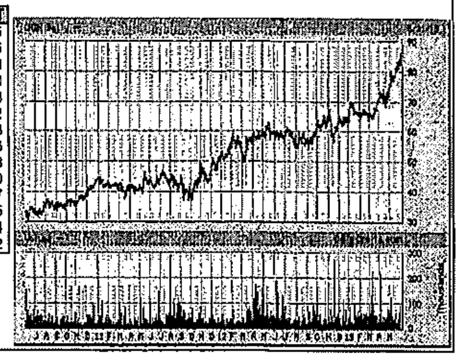
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

June 3, 2013

Market Cap (Mil)	**$1,510**
Avg. Daily Trading Volume	**54,000**
Shares Out (Mil)	**17.964**
Float Shares (Mil)	**13.705**
Institutional Holdings	**40%**
Dividend	**$0.72**
Dividend Yield	**0.9%**
Price to Book Value	**2.5x**
Return on Equity (2014E)	**10.5%**
LT Debt to Total Capital	**11%**
5-Year EPS Growth Rate Projection	**19%**
52-Week Range (NASDAQ)	**86-54**
Russell 2000	**984**
Short Interest (Mil)	**0.754**

	2011	2012	2013E		2014E	
			OLD	NEW	OLD	NEW
Mar.	($0.19)	$0.00	$0.06		$0.22	$0.24
June	2.37	2.60	2.81		3.07	3.11
Sep.	0.36	0.34	0.39		0.65	0.67
Dec.	0.26	0.14	0.31	0.34	0.47	0.50
EPS (Cal.)	**$2.76**	**$3.08**	**$3.53**	**$3.55**	**$4.37**	**$4.47**
P/E (Cal.)				**23.6x**		**18.8x**
EBITDA (mil) (Cal)	**$139.4**	**$144.2**	**$172.7**	**$173.4**	**$210.8**	**$213.7**
EV / EBITDA				**9.5x**		**8.3x**

Action	Date	Px	Rating	PT
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		84
PT	2/28/13	66.1		92



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2011-2014E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress and JV contributions not yet generating cash flow for CHDN. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$796.5	$871.1
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.55	$4.47

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns stand-alone casinos in Mississippi (two) and Maine as well as online horse-wagering Website Twinspires.com. Headquarters are in Louisville, KY.

Raise Target To $95 (From $92), Increase Estimates To Reflect Likely Reauthorization Of Online Horse Wagering For Illinois Residents; Maintain BUY Rating

- **On Friday night, the Illinois senate passed a bill reauthorizing online horse wagering for IL residents; we expect the governor to sign the legislation.**
- **Accordingly, we increase our 2013 and 2014 EPS estimates to $3.55 (from $3.53) and $4.47 (from $4.37), respectively.**
- **However, the Illinois house failed to act on gaming legislation passed by the senate that would have permitted CHDN to build a slots facility at its suburban Chicago track; the Assembly will reconvene in the fall.**
- **We would view any weakness in the shares as an opportunity for investors considering CHDN's over-capitalized balance sheet, its valuable Kentucky Derby franchise and quickly growing online horse wagering Website.**
- **We maintain our BUY rating.**
- **Our $95 target (from $92) is based on 13x our revised 2014 FCF per share estimate of $7.29 (from $7.10).**

❑ **We expect Illinois' governor to sign a bill passed Friday to permit IL residents to place online wagers on horse racing.** IL previously permitted online horse wagering but the law contained a sunset provision that expired at the end of 2012, requiring CHDN to stop accepting wagers. We expect the governor to sign the bill, which was more of a procedural rather than a controversial issue in the state. The house passed the legislation last week by a 90-18 margin (the senate passed the measure Friday night). The governor has 60 days to sign the legislation (although we expect him to do so earlier). Illinois is a particularly strong market for CHDN's Twinspires.com wagering site given the company's brick and mortar footprint (Arlington Park).

- **However, the house failed to bring gaming legislation to a vote.** The senate passed the gaming legislation in early May that would have allowed CHDN to construct a 1,200 gaming position slots facility. Unless a special session is called, the legislature is slated to reconvene in October 2013 (we note the bill remains open through January 2015 and accordingly would not need to pass the senate again). We estimate a slots facility is worth $13 per share in equity value on an undiscounted basis for CHDN assuming an 8x EBITDA multiple. We think the facility could generate $1.50 per share in annual free cash flow.

- **We think potential weakness in the shares today would represent a buying opportunity.** In our view, CHDN deserves a multiple at the high end of the range for regional casinos (6x-9x EBITDA), considering the franchise value of the Kentucky Derby and CHDN's quickly growing, non-capital intensive online wagering segment. The Derby and online wagering account for roughly 50% of CHDN's EBITDA. The company's balance sheet is highly overcapitalized, in our view, with net debt to trailing EBITDA of just 1x at the end of 1Q:13. We estimate every $150 million casino acquisition at current market multiples contributes $0.50-$0.60 per share in annual free cash flow. Lastly, CHDN shares provide upside should casino gaming at racetracks be legalized in Kentucky or Illinois.

- **We maintain our BUY rating and increase our target to $95 (from $92).** Our target is based on an unchanged 13x our revised 2014 free cash flow per share estimate of $7.29 (from $7.10). Our $1.7 billion market cap target implies a multiple of about 9x our revised 2014 EBITDA estimate of $214 million (from $211 million) less projected net debt of $260 million (from $264 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

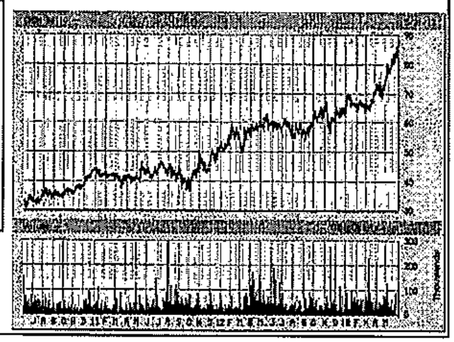
Table 1 : CHDN Income Statement															
(000's, except where noted)	Mar	Jun	Sep	Dec	2012	MarA	Jun	Sep	Dec	2013E	Mar	Jun	Sep	Dec	2014E
Net Revenue															
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$27,813	$163,871	$62,002	$48,359	$302,044	$27,813	$167,615	$62,002	$48,359	$305,789
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,125	18,768	18,562	20,524	79,979	22,568	19,143	18,933	20,935	81,579
Gaming, FL	21,879	19,188	17,841	18,956	77,864	20,486	19,188	16,949	18,008	74,631	19,462	19,188	16,949	18,008	73,607
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	15,354	14,472	14,127	14,179	58,132	15,661	14,762	14,409	14,463	59,295
Gaming, MS (Riverwalk)				10,330	10,330	14,124	14,000	14,000	14,000	56,124	14,406	14,280	14,280	14,280	57,246
Gaming, ME								0	16,000	16,000	16,000	16,000	16,000	16,000	64,000
ADW (online)	44,035	52,702	45,593	40,949	183,279	42,916	52,702	45,593	43,815	185,026	48,066	59,026	51,064	46,883	205,039
Other	4,643	6,303	6,872	6,086	23,904	5,255	6,303	6,872	6,086	24,516	5,255	6,303	6,872	6,086	24,516
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**148,073**	**289,304**	**178,104**	**180,972**	**796,453**	**169,231**	**316,318**	**200,509**	**185,013**	**871,071**
EBITDA															
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,411)	68,826	930	(5,078)	53,267	(11,403)	72,410	930	(5,078)	56,859
Gaming, LA	7,956	6,200	5,800	5,844	25,800	7,756	6,381	5,940	6,157	26,234	8,297	6,700	6,059	6,699	27,755
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,400	3,262	2,034	1,981	10,677	3,114	3,262	2,034	2,341	10,751
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	5,133	5,355	4,521	4,963	19,971	5,638	5,609	4,611	4,628	20,486
Gaming, MS (Riverwalk)				2,800	2,800	4,491	4,830	4,830	4,830	18,981	4,682	4,927	4,927	4,927	19,462
Gaming, ME								0	5,440	5,440	5,440	5,440	5,440	5,440	21,760
ADW (online)	10,421	12,539	8,986	8,334	40,280	10,444	13,176	10,486	10,735	44,841	12,016	15,642	13,532	11,721	52,911
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,942)	(2,073)	(977)	(1,000)	(5,992)	(1,942)	(2,073)	(977)	(1,000)	(5,992)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**99,756**	**27,764**	**28,028**	**173,419**	**25,842**	**111,917**	**36,555**	**29,678**	**203,992**
JV EBITDA	0	0	0	0	0	0	0	0	0	0	0	1,750	4,000	4,000	9,750
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**99,756**	**27,764**	**28,028**	**173,419**	**25,842**	**113,667**	**40,555**	**33,678**	**213,742**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,035)	(15,035)	(15,035)	(16,820)	(61,925)	(16,820)	(16,820)	(16,820)	(16,820)	(67,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**2,836**	**84,721**	**12,729**	**11,208**	**111,494**	**9,022**	**95,097**	**19,735**	**12,858**	**136,712**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,466)	(1,300)	(1,000)	(2,000)	(5,766)	(1,800)	(1,900)	(1,800)	(1,600)	(7,100)
JV interest											0	0	2,250	2,250	4,500
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**1,370**	**83,421**	**11,729**	**9,208**	**105,728**	**7,222**	**93,197**	**20,185**	**13,508**	**134,112**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(311)	(33,368)	(4,691)	(3,683)	(42,054)	(2,889)	(37,279)	(8,074)	(5,403)	(53,645)
%	41%	40%	16%	41%	36%	23%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,059**	**50,053**	**7,037**	**5,525**	**63,674**	**4,333**	**55,918**	**12,111**	**8,105**	**80,467**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.06**	**$2.81**	**$0.39**	**$0.34**	**$3.55**	**$0.24**	**$3.11**	**$0.67**	**$0.50**	**$4.47**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,828	17,828	18,000	18,000	17,914	18,000	18,000	18,000	18,000	18,000
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,059	$50,053	$7,037	$5,525	$63,674	$4,333	$55,918	$12,111	$8,105	$80,467
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.06	$2.81	$0.39	$0.31	$3.55	$0.24	$3.11	$0.67	$0.50	$4.47
Margin analysis															
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.1%	34.5%	15.6%	15.5%	21.8%	15.3%	35.4%	18.2%	16.0%	23.4%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	1.9%	29.3%	7.1%	6.2%	14.0%	5.3%	30.1%	9.8%	6.9%	15.7%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	0.9%	28.8%	6.6%	5.1%	13.3%	4.3%	29.5%	10.1%	7.3%	15.4%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	0.7%	17.3%	4.0%	3.1%	8.0%	2.6%	17.7%	6.0%	4.4%	9.2%
Y/Y growth %															
Revenue	5%	8%	-1%	6%	5%	7%	7%	8%	14%	9%	14%	9%	13%	2%	9%
EBITDA	35%	6%	-10%	-10%	3%	19%	10%	30%	60%	20%	45%	14%	46%	20%	23%
Operating income	NM	8%	-23%	-51%	5%	NM	11%	61%	305%	26%	NM	12%	55%	15%	23%
Pre-tax income	NM	12%	-20%	NM	11%	NM	10%	66%	596%	26%	NM	12%	72%	47%	27%
Net income	NM	14%	-3%	NM	14%	NM	10%	18%	133%	18%	NM	12%	72%	47%	26%
EPS	NM	10%	-7%	NM	12%	NM	8%	15%	143%	15%	NM	11%	72%	47%	26%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming property are Sidoti estimates

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$83.94) BUY Target: $95 June 3, 2013

Action	Date	Px	Rating	PT
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and increase our target to $95 (from $92).** Our target is based on an unchanged 13x our revised 2014 free cash flow per share estimate of $7.29 (from $7.10). Our $1.7 billion market cap target implies a multiple of about 9x our revised 2014 EBITDA estimate of $214 million (from $211 million) less projected net debt of $260 million (from $264 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

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Other Disclosures

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Appendix Continued

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Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$72.84)

BUY

Adjust Earnings Estimates; Earnings Release

Target: $92

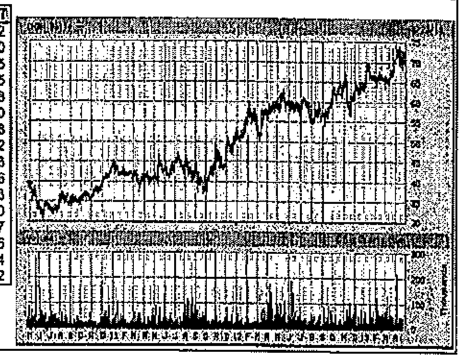
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

April 25, 2013

Market Cap (Mil)	**$1,280**
Avg. Daily Trading Volume	**54,000**
Shares Out (Mil)	**17.611**
Float Shares (Mil)	**13.352**
Institutional Holdings	**40%**
Dividend	**$0.72**
Dividend Yield	**1.0%**
Price to Book Value	**2.2x**
Return on Equity (2014E)	**10.5%**
LT Debt to Total Capital	**11%**
5-Year EPS Growth Rate Projection	**19%**
52-Week Range (NASDAQ)	**74-54**
Russell 2000	**934**
Short Interest (Mil)	**0.473**

	2011	2012	2013E		2014E	
			OLD	NEW	OLD	NEW
Mar.	($0.19)	$0.00	$0.09	$0.06A	$0.30	$0.22
June	2.37	2.60	2.78	2.81	3.03	3.07
Sep.	0.36	0.34	0.39		0.65	
Dec.	0.26	0.14	0.32	0.31	0.48	0.47
EPS (Cal.)	**$2.76**	**$3.08**	**$3.55**	**$3.53**	**$4.40**	**$4.37**
P/E (Cal.)				**20.6x**		**16.7x**
EBITDA (mil.) (Cal)	**$139.4**	**$144.2**	**$173.7**	**$172.7**	**$213.3**	**$210.8**
EV / EBITDA				**8.9x**		**7.5x**

Action	Date	Px	Rating	PT
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		86
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2011-2014E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$793.6	$860.9
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.53	$4.37

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering Websites and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Expect Casino Acquisitions, Online Wagering, Improving Kentucky Derby Profitability To Fuel 15% EPS Growth In 2013; $100 Million Share Repurchase Authorized; Maintain BUY, $92 Target

- **CHDN generated 1Q:13 revenue of $148 million (versus our $152 million projection) and EPS of $0.06 (versus our $0.09 estimate); CHDN largely missed our estimate on softer-than-expected results in the casino segment.**
- **However, we just slightly reduce our 2013 and 2014 EPS estimates to $3.53 (from $3.55) and $4.37 (from $4.40).**
- **Management is hosting a conference call at 9 a.m. ET; the call-in number is 877.372.0878 (ID 43482124).**
- **We continue to favorably view the shares, which are trading at 10x our 2014 free cash flow per share forecast of $7.10, particularly considering CHDN's over-capitalized balance sheet.**
- **We argue the shares deserve a higher multiple considering CHDN's ownership of the Kentucky Derby franchise and fast-growing online wagering segment.**
- **We maintain our BUY rating.**
- **Our $92 target is based on 13x our unchanged 2014 FCF per share estimate of $7.10.**

❑ **CHDN generated $0.06 in EPS in the seasonally weak 1Q:13 versus our and the consensus forecast of $0.09.** Revenue rose 7% year over year to $148 million mainly due to CHDN's Riverwalk casino acquisition, but was shy of our $152 million forecast due to soft results in the casino segment. We think an increase in the payroll tax, an unfavorable calendar and delayed tax returns affected January and February results. However, March gaming figures meaningfully improved around the U.S. and accordingly we just fine-tune our 2013 and 2014 EPS estimates to $3.53 (from $3.55) and $4.37 (from $4.40).

- **We view the shares, which are trading at 10x our 2014 free cash flow forecast of 7.10, favorably.** We argue the shares warrant a higher multiple considering 25% of profitability stems from the Kentucky Derby, a trophy asset, in our view. In addition, CHDN's gaming assets are new—the company's oldest casino was built in 2007, meaning minimal capex for the foreseeable future. We also think there is considerable room for growth in the online wagering segment—currently just 20% of online horse wagering is placed online in the U.S. Online gaming revenue declined 3% year over year as the provision permitting it in Illinois sunset in the quarter. We note our estimates do not include Illinois in 2013 or 2014 (when we expect growth to resume). We think the Illinois legislature will ultimately reinstate the provision, as there appears to be little opposition, but the timing is uncertain. Lastly, CHDN has considerable upside potential, in our view, if casinos are legalized in Kentucky or slots are legalized at racetracks in Kentucky.

- **CHDN remains over-capitalized, in our view.** After $145 million contribution to CHDN's Ohio casino JV and now modeled $10 million in annual share repurchases in both 2013 and 2014, we estimate CHDN will have net debt of just $264 million at 2014 year-end, amounting to 1.3x projected 2014 EBITDA (versus 5x for peers). We think CHDN will continue to actively seek out regional gaming assets. Every $150 million casino acquisition at 7x-8x EBITDA contributes about $0.50 in annual free cash flow per share for CHDN. We estimate CHDN has the capacity for $3 billion in acquisitions at 7.5x EBITDA while keeping leverage below 5x. Given CHDN's current valuation, we applaud the $100 million announced share repurchase program.

- **We maintain our BUY rating and $92 target.** Our target is based on 13x our unchanged 2014 free cash flow per share estimate of $7.10. Our $1.7 billion market cap target implies a multiple of about 9x our revised 2014 EBITDA estimate of $211 million (from $213 million) less projected net debt of $264 million (from $242 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	**1Q:13A**	**1Q:13E**	**Variance**	**1Q:12A**	**YOY%**
Revenue	$148,073	$152,482	($4,409)	$138,196	7%
EBITDA	17,871	19,199	(1,328)	15,040	19%
	12.1%	12.6%		10.9%	
Operating income	2,836	4,129	(1,293)	1,233	130%
	1.9%	2.7%		0.9%	
Net income	1,059	1,577	(518)	17	6310%
	0.7%	1.0%		0.0%	
Fully diluted EPS	$0.06	$0.09	($0.03)	$0.00	6168%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis-EBITDA

(000's)	**1Q:13A**	**1Q:13E**	**Var**	**1Q:12A**	**YOY%**
Racing	($11,411)	($11,362)	($49)	($11,539)	-1%
Gaming, LA	7,756	8,098	(342)	7,956	-3%
Gaming, FL	2,100	2,100	0	4,000	-48%
Gaming, MS (Harlows)	5,133	6,496	(1,363)	6,133	-16%
Gaming, MS (Riverwalk)	4,491	4,830	(339)	0	NM
ADW (online)	10,444	9,247	1,197	10,421	0%
Corp./United Tote	(1,942)	(1,931)	(11)	(1,931)	NM
Total EBITDA	**$17,871**	**$19,199**	**($1,328)**	**$15,040**	**19%**

Source: Sidoti & Company, LLC estimates and company financials

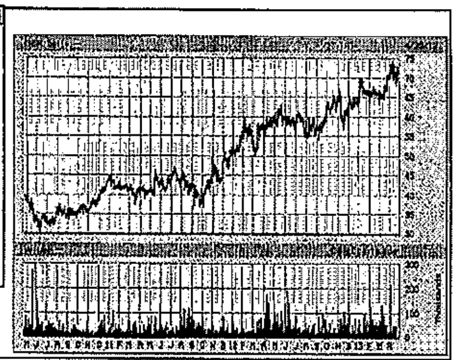
Table 1 : CHDN Income Statement															
(000's, except where noted)	Mar	Jun	Sep	Dec	2012	MarA	Jun	Sep	Dec	2013E	Mar	Jun	Sep	Dec	2014E
Net Revenue															
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$27,813	$163,871	$62,002	$48,359	$302,044	$27,813	$167,615	$62,002	$48,359	$305,789
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,125	18,768	18,562	20,524	79,979	22,568	19,143	18,933	20,935	81,579
Gaming, FL	21,879	19,188	17,841	18,956	77,864	20,486	19,188	16,949	18,008	74,631	19,462	19,188	16,949	18,008	73,607
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	15,354	14,472	14,127	14,179	58,132	15,661	14,762	14,409	14,463	59,295
Gaming, MS (Riverwalk)				10,330	10,330	14,124	14,000	14,000	14,000	56,124	14,406	14,280	14,280	14,280	57,246
Gaming, ME								0	16,000	16,000	16,000	16,000	16,000	16,000	64,000
ADW (online)	44,035	52,702	45,593	40,949	183,279	42,916	52,702	45,593	40,949	182,160	45,920	56,391	48,785	43,815	194,911
Other	4,643	6,303	6,872	6,086	23,904	5,255	6,303	6,872	6,086	24,516	5,255	6,303	6,872	6,086	24,516
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**148,073**	**289,304**	**178,104**	**178,106**	**793,587**	**167,085**	**313,682**	**198,230**	**181,946**	**860,943**
EBITDA															
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,411)	68,826	930	(5,078)	53,267	(11,403)	72,075	930	(5,078)	56,524
Gaming, LA	7,956	6,200	5,800	5,844	25,800	7,756	6,381	5,940	6,157	26,234	8,297	6,700	6,059	6,699	27,755
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,400	3,262	2,034	1,981	10,677	3,114	3,262	2,034	2,341	10,751
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	5,133	5,355	4,521	4,963	19,971	5,638	5,609	4,611	4,628	20,486
Gaming, MS (Riverwalk)				2,800	2,800	4,491	4,830	4,830	4,830	18,981	4,682	4,927	4,927	4,927	19,462
Gaming, ME								0	5,440	5,440	5,440	5,440	5,440	5,440	21,760
ADW (online)	10,421	12,539	8,986	8,334	40,280	10,444	13,176	10,486	10,033	44,138	11,480	14,944	12,928	10,954	50,305
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,942)	(2,073)	(977)	(1,000)	(5,992)	(1,942)	(2,073)	(977)	(1,000)	(5,992)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**99,756**	**27,764**	**27,326**	**172,716**	**25,306**	**110,883**	**35,951**	**28,911**	**201,051**
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**17,871**	**99,756**	**27,764**	**27,326**	**172,716**	**25,306**	**112,633**	**39,951**	**32,911**	**210,801**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,035)	(15,035)	(15,035)	(16,820)	(61,925)	(16,820)	(16,820)	(16,820)	(16,820)	(67,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**2,836**	**84,721**	**12,729**	**10,506**	**110,791**	**8,486**	**94,063**	**19,131**	**12,091**	**133,771**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,466)	(1,300)	(1,000)	(2,000)	(5,766)	(1,800)	(1,900)	(1,800)	(1,600)	(7,100)
JV interest											0	0	2,250	2,250	4,500
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**1,370**	**83,421**	**11,729**	**8,506**	**105,025**	**6,686**	**92,163**	**19,581**	**12,741**	**131,171**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(311)	(33,368)	(4,691)	(3,402)	(41,773)	(2,674)	(36,865)	(7,832)	(5,096)	(52,469)
%	41%	40%	16%	41%	36%	23%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,059**	**50,053**	**7,037**	**5,103**	**63,252**	**4,012**	**55,298**	**11,749**	**7,645**	**78,703**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.06**	**$2.81**	**$0.39**	**$0.31**	**$3.53**	**$0.22**	**$3.07**	**$0.65**	**$0.47**	**$4.37**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,828	17,828	18,000	18,000	17,914	18,000	18,000	18,000	18,000	18,000
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,059	$50,053	$7,037	$5,103	$63,252	$4,012	$55,298	$11,749	$7,645	$78,703
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.06	$2.81	$0.39	$0.28	$3.53	$0.22	$3.07	$0.65	$0.47	$4.37
Margin analysis															
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.1%	34.5%	15.6%	15.3%	21.8%	15.1%	35.3%	18.1%	15.9%	23.4%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	1.9%	29.3%	7.1%	5.9%	14.0%	5.1%	30.0%	9.7%	6.6%	15.5%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	0.9%	28.8%	6.6%	4.8%	13.2%	4.0%	29.4%	9.9%	7.0%	15.2%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	0.7%	17.3%	4.0%	2.9%	8.0%	2.4%	17.6%	5.9%	4.2%	9.1%
Y/Y growth %															
Revenue	5%	8%	-1%	6%	5%	7%	7%	8%	12%	8%	13%	8%	11%	2%	8%
EBITDA	35%	6%	-10%	-10%	3%	19%	10%	30%	56%	20%	42%	13%	44%	20%	22%
Operating income	NM	8%	-23%	-51%	5%	NM	11%	61%	279%	25%	NM	11%	50%	15%	21%
Pre-tax income	NM	12%	-20%	NM	11%	NM	10%	66%	543%	25%	NM	10%	67%	50%	25%
Net income	NM	14%	-3%	NM	14%	NM	10%	18%	115%	17%	NM	10%	67%	50%	24%
EPS	NM	10%	-7%	NM	12%	NM	8%	15%	124%	15%	NM	9%	67%	50%	24%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$72.84)   BUY   Target: $92   April 25, 2013

Action	Date	Px	Rating	PT
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $92 target.** Our target is based on 13x our unchanged 2014 free cash flow per share estimate of $7.10. Our $1.7 billion market cap target implies a multiple of about 9x our revised 2014 EBITDA estimate of $211 million (from $213 million) less projected net debt of $264 million (from $242 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 04/25/13, Sidoti provides research on 524 companies, of which 358 (68%) are rated BUY and 166 (32%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 4 companies (1.12%). Of the NEUTRALS, Sidoti has received investment banking income from 1 company (0.60%). Of the NEUTRALS, 66 trade above our price targets. Of the NEUTRALS, 63 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Other Disclosures

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Appendix Continued

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317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

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Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$70.04) — BUY

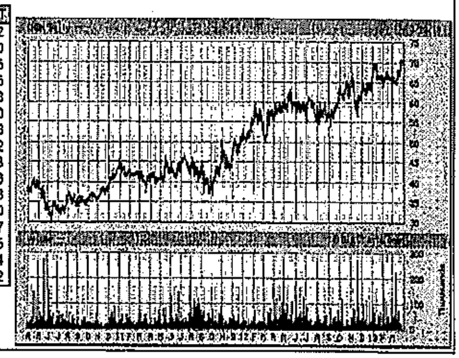
Adjust Earnings Estimates; Company Update — **Target: $92**

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com) — **April 1, 2013**

Market Cap (Mil)	**$1,230**	**Price to Book Value**	**2.1x**
Avg. Daily Trading Volume	**53,000**	**Return on Equity (2014E)**	**10.5%**
Shares Out (Mil)	**17.611**	**LT Debt to Total Capital**	**11%**
Float Shares (Mil)	**13.338**	**5-Year EPS Growth Rate Projection**	**19%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**71-54**
Dividend	**$0.72**	**Russell 2000**	**952**
Dividend Yield	**1.0%**	**Short Interest (Mil)**	**0.464**

	2011	2012	2013E		2014E	
			OLD	NEW	OLD	NEW
Mar.	($0.19)	$0.00	$0.11	$0.09	$0.24	$0.30
June	2.37	2.60	2.81	2.78	3.01	3.03
Sep.	0.36	0.34	0.42	0.39	0.59	0.65
Dec.	0.26	0.14	0.24	0.32	0.40	0.48
EPS (Cal.)	**$2.76**	**$3.08**	**$3.56**	**$3.55**	**$4.19**	**$4.40**
P/E (Cal.)				**19.7x**		**15.9x**
EBITDA (mil.) (Cal)	**$139.4**	**$144.2**	**$171.3**	**$173.7**	**$195.1**	**$213.3**
EV / EBITDA				**8.5x**		**7.1x**

Action	Date	Px.	Rating	PT
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2011-2014E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$799.8	$869.3
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.55	$4.40

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering Websites and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Increase 2014 EPS Estimate To Reflect CHDN's Definitive Agreement To Acquire Maine Casino For $160 Million In Cash; Reiterate BUY Rating, $92 Target

- **On Friday, CHDN announced it entered into a definitive agreement to acquire Oxford Casino in Maine for $160 million in cash, or 7.5x management's projected 2013 EBITDA; the deal is slated to close in 4Q:13.**
- **We like the deal considering Maine is a limited casino license state and the casino just recently opened in June 2012, meaning minimal required capex for the foreseeable future.**
- **According the Maine Gaming Control Board, the casino generated gross gaming revenue of $42 million in the first full eight months of operation; regional casinos typically take three years or so to fully ramp.**
- **We increase our 2014 EPS estimate to $4.40 (from $4.19) and free cash flow per share forecast to $7.10 (from $6.57).**
- **We note our model now excludes online horse wagering deriving from Illinois in 2013 and 2014 as the state's law has sunset without an extension.**
- **Although we think legalized online horse wagering in Illinois will be renewed, the timing is not clear; the removal of Illinois from our model tempers our 2014 upward EPS revision by $0.10.**
- **We reiterate our BUY rating.**
- **Our $92 target is now based on 13x (from 14x) our revised 2014 FCF per share estimate of $7.10 (from $6.57); the reduced multiple reflects CHDN's higher debt load.**

❑ **We increase our 2014 EPS and FCF per share estimates to $4.40 (from $4.19) and $7.10 (from $6.57), respectively, to reflect the acquisition.** The Oxford, Maine casino has 814 slot machines and 22 table games, according to the Maine Gambling Control Board. The casino opened in mid-2012, costing $165 million to develop and is one of just two licensed casinos in Maine. We do not expect any new competition for the foreseeable future (Massachusetts is in the process of issuing several casino license, but Oxford is located more than 100 miles away and the properties may not be open within five years).

- **We expect Illinois to re-pass online horse wagering, but we remove Illinois from our model as the timing remains unclear.** Illinois' online horse wagering law sunset at the end of 2012 and the legislature failed to renew the bill. We estimate the loss of Illinois affects CHDN's annual revenue and EPS by $8 million and $0.10, respectively.

- **CHDN remains over-capitalized, in our view, and we think management is still actively seeking out deals, most likely in the regional casino segment.** We now estimate CHDN will have net debt of $242 million (up from $94 million) at year-end 2014, amounting to 1.1x projected 2014 EBITDA of $213 million (up from 0.5x projected EBITDA), compared with 5x for the median regional casino operator. Every $150 million casino acquisition at 7x-8x EBITDA contributes about $0.50 in annual free cash flow per share for CHDN.

- **We maintain our BUY rating and $92 target.** Our target is based on 13x our revised 2014 free cash flow per share estimate of $7.10. We previously valued CHDN based on 14x our prior free cash flow per share estimate of $6.57. The reduced multiple reflects CHDN's higher debt load (and our prior multiple included the expectation of more casino acquisitions). Our $1.7 billion market cap target implies a multiple of 9x our revised 2014 EBITDA estimate of $213 million (from $195 million) less projected net debt of $242 million (from $94 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view):

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Table 1 : CHDN Income Statement															
(000's, except where noted)	**Mar**	**Jun**	**Sep**	**Dec**	**2012**	**Mar**	**Jun**	**Sep**	**Dec**	**2013E**	**Mar**	**Jun**	**Sep**	**Dec**	**2014E**
Net Revenue															
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$29,899	$163,871	$62,002	$48,359	$304,131	$29,899	$167,080	$62,002	$48,359	$307,340
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,026	18,768	18,562	20,524	79,880	22,466	19,143	18,933	20,935	81,478
Gaming, FL	21,879	19,188	17,841	18,956	77,864	21,223	19,188	17,841	18,956	77,208	21,647	19,572	18,198	19,335	78,752
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	16,656	14,472	14,127	14,179	59,434	16,989	14,762	14,409	14,463	60,623
Gaming, MS (Riverwalk)				10,330	10,330	14,000	14,000	14,000	14,000	56,000	14,280	14,280	14,280	14,280	57,120
Gaming, ME								0	16,000	16,000	16,000	16,000	16,000	16,000	64,000
ADW (online)	44,035	52,702	45,593	40,949	183,279	44,035	52,702	45,593	40,949	183,279	47,117	56,391	48,785	43,815	196,109
Other	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**152,482**	**289,304**	**178,996**	**179,053**	**799,836**	**173,043**	**313,531**	**199,478**	**183,273**	**869,325**
EBITDA															
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,362)	68,826	930	(5,078)	53,316	(11,362)	71,845	930	(5,078)	56,335
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,098	6,381	5,940	6,157	26,576	8,260	6,700	6,059	6,699	27,718
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,820	3,262	2,141	2,085	11,308	3,896	3,327	2,184	2,514	11,921
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	6,496	5,355	4,521	4,963	21,334	6,626	5,609	4,611	4,628	21,474
Gaming, MS (Riverwalk)				2,800	2,800	4,830	4,830	4,830	4,830	19,320	4,927	4,927	4,927	4,927	19,706
Gaming, ME								0	5,440	5,440	5,440	5,440	5,440	5,440	21,760
ADW (online)	10,421	12,539	8,986	8,334	40,280	9,247	12,648	10,486	10,033	42,415	11,779	14,944	12,928	10,954	50,605
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,931)	(2,073)	(977)	(1,000)	(5,981)	(1,931)	(2,073)	(977)	(1,000)	(5,981)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,199**	**99,229**	**27,871**	**27,430**	**173,728**	**27,636**	**110,719**	**36,101**	**29,084**	**203,539**
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,199**	**99,229**	**27,871**	**27,430**	**173,728**	**27,636**	**112,469**	**40,101**	**33,084**	**213,289**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,070)	(15,070)	(15,070)	(16,820)	(62,030)	(16,820)	(16,820)	(16,820)	(16,820)	(67,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**4,129**	**84,159**	**12,801**	**10,610**	**111,698**	**10,816**	**93,899**	**19,281**	**12,264**	**136,259**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,500)	(1,600)	(1,000)	(2,000)	(6,100)	(1,800)	(1,900)	(1,800)	(1,600)	(7,100)
JV interest											0	0	2,250	2,250	4,500
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**2,629**	**82,559**	**11,801**	**8,610**	**105,598**	**9,016**	**91,999**	**19,731**	**12,914**	**133,659**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(1,051)	(33,024)	(4,720)	(3,444)	(42,239)	(3,606)	(36,799)	(7,892)	(5,165)	(53,463)
%	41%	40%	16%	41%	36%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,577**	**49,535**	**7,080**	**5,166**	**63,359**	**5,409**	**55,199**	**11,839**	**7,748**	**80,195**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.09**	**$2.78**	**$0.39**	**$0.32**	**$3.55**	**$0.30**	**$3.03**	**$0.65**	**$0.48**	**$4.40**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,600	17,800	18,000	18,000	17,850	18,200	18,200	18,200	18,300	18,225
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,577	$49,535	$7,080	$5,166	$63,359	$5,409	$55,199	$11,839	$7,748	$80,195
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.09	$2.78	$0.39	$0.29	$3.55	$0.30	$3.03	$0.65	$0.48	$4.40
Margin analysis															
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.6%	34.3%	15.6%	15.3%	21.7%	16.0%	35.3%	18.1%	15.9%	23.4%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	2.7%	29.1%	7.2%	5.9%	14.0%	6.3%	29.9%	9.7%	6.7%	15.7%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	1.7%	28.5%	6.6%	4.8%	13.2%	5.2%	29.3%	9.9%	7.0%	15.4%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	1.0%	17.1%	4.0%	2.9%	7.9%	3.1%	17.6%	5.9%	4.2%	9.2%
Y/Y growth %															
Revenue	5%	8%	-1%	6%	5%	10%	7%	9%	13%	9%	13%	8%	11%	2%	9%
EBITDA	35%	6%	-10%	-10%	3%	28%	10%	31%	56%	21%	44%	12%	30%	6%	17%
Operating income	NM	8%	-23%	-51%	5%	NM	10%	62%	283%	26%	NM	12%	51%	16%	22%
Pre-tax income	NM	12%	-20%	NM	11%	NM	9%	67%	551%	26%	NM	11%	67%	50%	27%
Net income	NM	14%	-3%	NM	14%	NM	9%	19%	118%	17%	NM	11%	67%	50%	27%
EPS	NM	10%	-7%	NM	12%	NM	7%	16%	127%	15%	NM	9%	65%	50%	24%

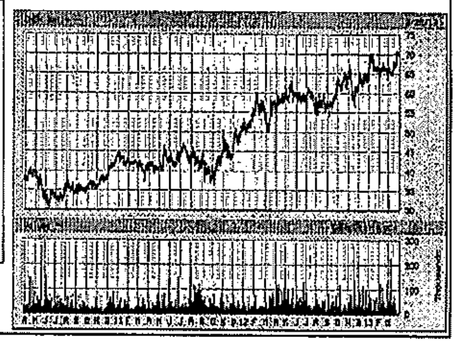
Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

Appendix

Required Disclosures

Churchill Downs Inc. (CHDN-$70.04) BUY Target: $92 April 1, 2013

Action	Date	Px	Rating	PT
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/26/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $92 target.** Our target is based on 13x our revised 2014 free cash flow per share estimate of $7.10. We previously valued CHDN based on 14x our prior free cash flow per share estimate of $6.57.. The reduced multiple reflects CHDN's higher debt load (and our prior multiple included the expectation of more casino acquisitions). Our $1.7 billion market cap target implies a multiple of 9x our revised 2014 EBITDA estimate of $213 million (from $195 million) less projected net debt of $242 million (from $94 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Required Disclosures

Other Disclosures

Appendix Continued

analyst's short-term opinion may be different from what is published in this report. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

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Gaming, FL	21,879	19,188	17,841	18,956	77,864	21,223	19,188	17,841	18,956	77,208	21,647	19,572	18,198	19,335	78,752
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Gaming, MS (Riverwalk)				10,330	10,330	14,000	14,000	14,000	14,000	56,000	14,280	14,280	14,280	14,280	57,120
Gaming, ME								0	16,000	16,000	16,000	16,000	16,000	16,000	64,000
ADW (online)	44,035	52,702	45,593	40,949	183,279	44,035	52,702	45,593	40,949	183,279	47,117	56,391	48,785	43,815	196,109
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EBITDA															
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,362)	68,826	930	(5,078)	53,316	(11,362)	71,845	930	(5,078)	56,335
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Gaming, MS (Riverwalk)				2,800	2,800	4,830	4,830	4,830	4,830	19,320	4,927	4,927	4,927	4,927	19,706
Gaming, ME								0	5,440	5,440	5,440	5,440	5,440	5,440	21,760
ADW (online)	10,421	12,539	8,986	8,334	40,280	9,247	12,648	10,486	10,033	42,415	11,779	14,944	12,928	10,954	50,605
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,931)	(2,073)	(977)	(1,000)	(5,981)	(1,931)	(2,073)	(977)	(1,000)	(5,981)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,199**	**99,229**	**27,871**	**27,430**	**173,728**	**27,636**	**110,719**	**36,101**	**29,084**	**203,539**
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,199**	**99,229**	**27,871**	**27,430**	**173,728**	**27,636**	**112,469**	**40,101**	**33,084**	**213,289**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,070)	(15,070)	(15,070)	(16,820)	(62,030)	(16,820)	(16,820)	(16,820)	(16,820)	(67,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**4,129**	**84,159**	**12,801**	**10,610**	**111,698**	**10,816**	**93,899**	**19,281**	**12,264**	**136,259**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,500)	(1,600)	(1,000)	(2,000)	(6,100)	(1,800)	(1,900)	(1,800)	(1,600)	(7,100)
JV interest											0	0	2,250	2,250	4,500
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**2,629**	**82,559**	**11,801**	**8,610**	**105,598**	**9,016**	**91,999**	**19,731**	**12,914**	**133,659**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(1,051)	(33,024)	(4,720)	(3,444)	(42,239)	(3,606)	(36,799)	(7,892)	(5,165)	(53,463)
%	41%	40%	16%	41%	36%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,577**	**49,535**	**7,080**	**5,166**	**63,359**	**5,409**	**55,199**	**11,839**	**7,748**	**80,195**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.09**	**$2.78**	**$0.39**	**$0.32**	**$3.55**	**$0.30**	**$3.03**	**$0.65**	**$0.48**	**$4.40**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,600	17,800	18,000	18,000	17,850	18,200	18,200	18,200	18,300	18,225
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,577	$49,535	$7,080	$5,166	$63,359	$5,409	$55,199	$11,839	$7,748	$80,195
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.09	$2.78	$0.39	$0.29	$3.55	$0.30	$3.03	$0.65	$0.48	$4.40
Margin analysis															
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.6%	34.3%	15.6%	15.3%	21.7%	16.0%	35.3%	18.1%	15.9%	23.4%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	2.7%	29.1%	7.2%	5.9%	14.0%	6.3%	29.9%	9.7%	6.7%	15.7%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	1.7%	28.5%	6.6%	4.8%	13.2%	5.2%	29.3%	9.9%	7.0%	15.4%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	1.0%	17.1%	4.0%	2.9%	7.9%	3.1%	17.6%	5.9%	4.2%	9.2%
Y/Y growth %															
Revenue	5%	8%	-1%	6%	5%	10%	7%	9%	13%	9%	13%	8%	11%	2%	9%
EBITDA	35%	6%	-10%	-10%	3%	28%	10%	31%	56%	21%	44%	12%	30%	6%	17%
Operating income	NM	8%	-23%	-51%	5%	NM	10%	62%	283%	26%	NM	12%	51%	16%	22%
Pre-tax income	NM	12%	-20%	NM	11%	NM	9%	67%	551%	26%	NM	11%	67%	50%	27%
Net income	NM	14%	-3%	NM	14%	NM	9%	19%	118%	17%	NM	11%	67%	50%	27%
EPS	NM	10%	-7%	NM	12%	NM	7%	16%	127%	15%	NM	9%	65%	50%	24%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$68.00) — BUY

Company Update — **Target: $92**

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

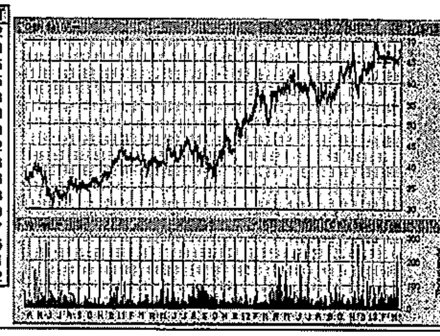
March 18, 2013

Market Cap (Mil)	**$1,200**
Avg. Daily Trading Volume	**54,000**
Shares Out (Mil)	**17.611**
Float Shares (Mil)	**13.411**
Institutional Holdings	**40%**
Dividend	**$0.72**
Dividend Yield	**1.1%**

Price to Book Value	**2.0x**
Return on Equity (2014E)	**10.5%**
LT Debt to Total Capital	**11%**
5-Year EPS Growth Rate Projection	**19%**
52-Week Range (NASDAQ)	**70-53**
Russell 2000	**952**
Short Interest (Mil)	**0.509**

	2011	2012	2013E OLD	2013E NEW	2014E OLD	2014E NEW
Mar.	($0.19)	$0.00	$0.11		$0.24	
June	2.37	2.60	2.81		3.01	
Sep.	0.36	0.34	0.42		0.59	
Dec.	0.26	0.14	0.24		0.40	
EPS (Cal.)	**$2.76**	**$3.08**	**$3.56**		**$4.19**	
P/E (Cal.)			**19.1x**		**16.2x**	
EBITDA (mil.) (Cal)	**$139.4**	**$144.2**	**$171.3**		**$195.1**	
EV / EBITDA			**7.4x**		**6.8x**	

Action	Date	Px	Rating	PT
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2011-2014E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$796.7	$819.1
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.56	$4.19

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering Websites and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Management Meeting Highlights; Illinois Gaming Bill Appears Likely To Heat Up Over Coming Months, While Kentucky Derby Ticket Prices Remain Strong; Maintain Buy, $92 Target

- **On Friday, we hosted investor meetings with CHDN management.**
- **Management reaffirmed premium ticket pricing for the Kentucky Derby remains strong.**
- **A gaming bill in Illinois that legalizes online wagering for racetracks and casinos and permits CHDN to add 1,200 slot machines to its suburban Chicago track appears likely to heat up over the next few months.**
- **Management continues to be focused on acquisitions, most likely in the regional casino segment, seeking out assets that are a strategic fit and have a defensible, competitive position with sustainable cash flow.**
- **We maintain our BUY rating.**
- **Our $92 target is based on 14x our 2014 FCF per share estimate of $6.57.**

❑ **Debate on a gaming bill in Illinois appears likely to heat up over the next few months.** SB 1739—which passed through a Senate committee in early March—would permit CHDN to add 1,200 slot machines to its suburban Chicago track and legalize online wagering (providing online licenses for casinos and racetracks). The bill provides stronger ethical language and directs proceeds towards education to meet the governor's demand for considering expanded gaming. We think the bill could be considered over the next few months. While the addition of legalized online gaming to the bill (versus previously-considered gaming bills that the governor vetoed) may attract the support of existing casino operators despite the added land-based competition, it also could delay passage, since this is the first time the legislature is considering the online component.

- **CHDN remains interested in being a meaningful player in the online gaming market.** We suspect the online gaming market will initially be fragmented, with legalized online gaming being considered on a state-by-state basis (generally requiring online operators to have a gaming asset in the state to be licensed). Recent online laws in New Jersey and Delaware require casino ownership, locking CHDN out of those markets (given these challenging land-based markets with new competition coming online, an acquisition in these states for CHDN seems unlikely). However, CHDN would be well-positioned in California if online poker is legalized, since the legislation being considered provides licenses for ADW providers (online horse wagering) such as CHDN (along with racetracks and tribes). CHDN also would likely consider participating as a B2B supplier in markets where the company is not licensed as a B2C, given its experience with online horse wagering (with good customer service and payment processing, as well as well-developed technology that has the ability to meet regulatory restrictions such as age and geographic verification). However, we note CHDN lacks a front-end product and we suspect the marketplace will be very competitive.

- **CHDN is still working to improve the recently-launched Luckity.com website.** The website legally provides online wagering by linking the gambler to the outcome of a real-live horse wager without requiring horse-racing knowledge (the front end is similar to a scratch-off ticket). While CHDN has had no trouble attracting customers, the company *has* struggled to get customers to fund their accounts. Management is working to supplement the site with entertainment between wagers to keep players engaged (since the time between placing a bet and finding the results can be several minutes). In addition, CHDN is working to improve the quality of the scratch-like ticket games. We suspect the company will have a better gauge of the site's potential later in 2013—management noted that the company is open to all options to create value from the site and would even consider a joint venture (we suspect with a partner that could bolster the entertainment value of the site).

- **Management still appears interested in acquisitions.** We suspect the most likely targets would be one-off regional casino assets; management has a track record of being disciplined when weighing an acquisition. M & A usually appears to be the focus rather than increasing cash to shareholders. Management reaffirmed that pricing for premium Kentucky Derby tickets is solid. Regarding the Ohio casino joint venture that is slated to open in 1Q:14, management still appeared confident in the return potential despite softer-than-expected revenue trends at Ohio casino openings. The company would not rule out slightly trimming the project's scope (although, given regulatory requirements, it could remove $25 million at most from the $285 million project).

- **We maintain our BUY rating and $92 target.** Our target is based on 14x our 2014 FCF per share estimate of $6.57. Our $1.7 billion market cap target implies a multiple of 9x our 2014 EBITDA estimate of $195 million less projected net debt of $94 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Considering CHDN's lucrative Kentucky Derby franchise, online wagering growth trajectory and over-capitalized balance sheet, we still think the shares (trading at 11x our 2013 FCF per share forecast of $6.12) are attractive.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

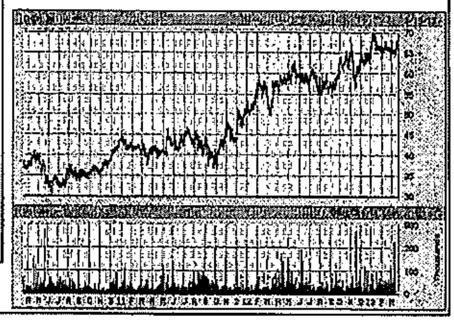
Table 1 : CHDN Income Statement (000's, except where noted)	Mar	Jun	Sep	Dec	2012	Mar	Jun	Sep	Dec	2013E	Mar	Jun	Sep	Dec	2014E
Net Revenue															
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$29,899	$163,871	$62,002	$48,359	$304,131	$29,899	$167,080	$62,002	$48,359	$307,340
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,026	18,768	18,562	20,524	79,880	22,466	19,143	18,933	20,935	81,478
Gaming, FL	21,879	19,188	17,841	18,956	77,864	21,223	19,188	17,841	18,956	77,208	21,647	19,572	18,198	19,335	78,752
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	16,656	14,472	14,127	14,179	59,434	16,989	14,762	14,409	14,463	60,623
Gaming, MS (Riverwalk)				10,330	10,330	14,000	14,000	14,000	14,000	56,000	14,280	14,280	14,280	14,280	57,120
ADW (online)	44,035	52,702	45,593	40,949	183,279	47,117	56,391	48,785	43,815	196,109	50,416	60,339	52,199	46,883	209,836
Other	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**155,565**	**292,993**	**182,188**	**165,920**	**796,665**	**160,341**	**301,479**	**186,893**	**170,340**	**819,053**
EBITDA															
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,362)	68,826	930	(5,078)	53,316	(11,362)	71,845	930	(5,078)	56,335
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,098	6,381	5,940	6,157	26,576	8,260	6,700	6,059	6,699	27,718
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,820	3,262	2,141	2,085	11,308	3,896	3,327	2,184	2,514	11,921
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	6,496	5,355	4,521	4,963	21,334	6,626	5,609	4,611	4,628	21,474
Gaming, MS (Riverwalk)				2,800	2,800	4,830	4,830	4,830	4,830	19,320	4,927	4,927	4,927	4,927	19,706
ADW (online)	10,421	12,539	8,986	8,334	40,280	9,895	13,534	11,220	10,735	45,384	12,604	15,990	13,833	11,721	54,147
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,931)	(2,073)	(977)	(1,000)	(5,981)	(1,931)	(2,073)	(977)	(1,000)	(5,981)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,846**	**100,114**	**28,605**	**22,692**	**171,257**	**23,020**	**106,325**	**31,566**	**24,410**	**185,321**
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,846**	**100,114**	**28,605**	**22,692**	**171,257**	**23,020**	**108,075**	**35,566**	**28,410**	**195,071**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(14,820)	(14,820)	(14,820)	(14,820)	(59,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**4,776**	**85,044**	**13,535**	**7,622**	**110,977**	**8,200**	**91,505**	**16,746**	**9,590**	**126,041**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,500)	(1,600)	(1,000)	(1,000)	(5,100)	(1,000)	(1,100)	(1,000)	(1,000)	(4,100)
JV interest											0	0	2,250	2,250	4,500
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**3,276**	**83,444**	**12,535**	**6,622**	**105,877**	**7,200**	**90,405**	**17,996**	**10,840**	**126,441**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(1,310)	(33,378)	(5,014)	(2,649)	(42,351)	(2,880)	(36,162)	(7,198)	(4,336)	(50,576)
%	41%	40%	16%	41%	36%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,966**	**50,067**	**7,521**	**3,973**	**63,526**	**4,320**	**54,243**	**10,797**	**6,504**	**75,865**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.11**	**$2.81**	**$0.42**	**$0.24**	**$3.56**	**$0.24**	**$3.01**	**$0.59**	**$0.40**	**$4.19**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,600	17,800	18,000	18,000	17,850	18,000	18,000	18,200	18,300	18,125
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,966	$50,067	$7,521	$3,973	$63,526	$4,320	$54,243	$10,797	$6,504	$75,865
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.11	$2.81	$0.42	$0.22	$3.56	$0.24	$3.01	$0.59	$0.40	$4.19
Margin analysis															
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.8%	34.2%	15.7%	13.7%	21.5%	14.4%	35.3%	16.9%	14.3%	22.6%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	3.1%	29.0%	7.4%	4.6%	13.9%	5.1%	30.4%	9.0%	5.6%	15.4%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	2.1%	28.5%	6.9%	4.0%	13.3%	4.5%	30.0%	9.6%	6.4%	15.4%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	1.3%	17.1%	4.1%	2.4%	8.0%	2.7%	18.0%	5.8%	3.8%	9.3%
Y/Y growth %															
Revenue	5%	8%	-1%	6%	5%	13%	8%	10%	5%	9%	3%	3%	3%	3%	3%
EBITDA	35%	6%	-10%	-10%	3%	32%	11%	34%	29%	19%	16%	6%	10%	8%	8%
Operating income	NM	8%	-23%	-51%	5%	NM	11%	71%	175%	25%	NM	8%	24%	26%	14%
Pre-tax income	NM	12%	-20%	NM	11%	NM	10%	77%	401%	26%	NM	8%	44%	64%	19%
Net income	NM	14%	-3%	NM	14%	NM	10%	26%	67%	18%	NM	8%	44%	64%	19%
EPS	NM	10%	-7%	NM	12%	NM	8%	23%	75%	16%	NM	7%	42%	64%	18%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$68.00) BUY Target: $92 March 18, 2013

Action	Date	Px	Rating	PT
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.6		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $92 target.** Our target is based on 14x our 2014 FCF per share estimate of $6.57. Our $1.7 billion market cap target implies a multiple of 9x our 2014 EBITDA estimate of $195 million less projected net debt of $94 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Considering CHDN's lucrative Kentucky Derby franchise, online wagering growth trajectory and over-capitalized balance sheet, we still think the shares (trading at 11x our 2013 FCF per share forecast of $6.12) are attractive.

Required Disclosures

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Appendix Continued

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Sidoti & Company, LLC
Member FINRA & SIPC
317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$66.10) — BUY

Lower Price Target; Adjust Earnings Estimates — **Target: $92**

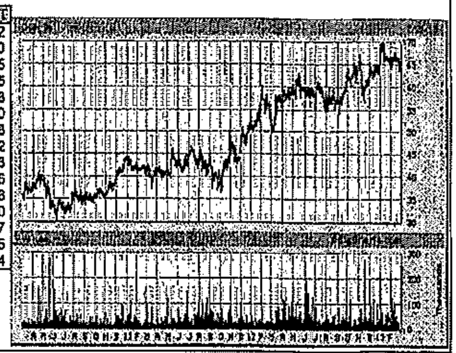
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

February 28, 2013

Market Cap (Mil)	**$1,150**	**Price to Book Value**	**1.9x**
Avg. Daily Trading Volume	**45,000**	**Return on Equity (2014E)**	**10.5%**
Shares Out (Mil)	**17.456**	**LT Debt to Total Capital**	**11%**
Float Shares (Mil)	**13.256**	**5-Year EPS Growth Rate Projection**	**19%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**70-50**
Dividend	**$0.72**	**Russell 2000**	**910**
Dividend Yield	**1.1%**	**Short Interest (Mil)**	**0.517**

	2011	2012		2013E		2014E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	($0.19)	$0.00A		$0.17	$0.11	$0.24	
June	2.37	2.60A		2.78	2.81	3.01	
Sep.	0.36	0.34A		0.42		0.61	0.59
Dec.	0.26	0.12	0.14A	0.32	0.24	0.47	0.40
EPS (Cal.)	**$2.76**	**$3.05**	**$3.08**	**$3.66**	**$3.56**	**$4.29**	**$4.19**
P/E (Cal.)					**18.6x**		**15.8x**
EBITDA (mil.) (Cal)	**$139.4**	**$145.0**	**$144.2**	**$175.1**	**$171.3**	**$197.5**	**$195.1**
EV / EBITDA					**7.3x**		**6.7x**

Action	Date	Px	Rating	PT
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		60
PT	11/4/10	37.6		56
PT	5/10/11	40.6		62
PT	7/26/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		76
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2011-2014E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$796.7	$819.1
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.56	$4.19

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering Websites, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Trim Target To $92 (From $94) On Lower Estimates To Reflect Reduced Online Profitability Forecast; With Shares Trading At 11x Our 2013 FCF Per Share Estimate Of $6.12, Maintain Buy

- **CHDN generated 4Q:12 revenue of $158 million (versus our $161 million projection) and EPS of $0.14 (versus our $0.12 estimate); excluding a tax benefit, CHDN missed our forecast by $0.07 mainly on higher corporate expense.**
- **We cut our 2013 and 2014 EPS estimates to $3.56 (from $3.66) and $4.19 (from $4.29), respectively, largely to reflect slightly lower expected growth in CHDN's online wagering segment.**
- **Considering CHDN's lucrative Kentucky Derby franchise, online wagering growth trajectory and over-capitalized balance sheet, we still think the shares (trading at 11x our 2013 FCF per share forecast of $6.12) are attractive.**
- **Our estimates still imply 16% and 18% year-over-year EPS growth in 2013 and 2014, respectively.**
- **Management is hosting a conference call at 9 a.m.; the call-in number is 877.372.0878 (ID 12356204)**
- **We maintain our BUY rating. Our new $92 target (from $94) is based on 14x our 2014 FCF per share estimate of $6.57 (from $6.70).**

❑ **Excluding a tax benefit, CHDN's 4Q:12 EPS were $0.07 shy of our forecast.** Revenue rose 6% year over year to $158 million versus our $161 million forecast; we trace the increase largely to CHDN's Riverwalk casino acquisition in late 2012. EBITDA of $17.6 million was shy of our $18.4 million forecast mainly due to greater corporate expense that reflected higher executive compensation due to the rise in the share price in 2012.

❑ **We cut our 2013 and 2014 EPS estimates to $3.56 (from $3.66) and $4.19 (from $4.29), respectively.** Our downward revisions reflect slower projected growth in the online wagering segment and slightly higher corporate expense. While

CHDN's online wagering segment EBITDA was in line with our forecast, the top line slowed to a 2% year-over-year increase. While we are not overly concerned considering the quarter is a seasonally slower period for horse racing, we think it is appropriate to reduce our 2013 revenue growth estimate to 7% year over year, from 10% (online wagering revenue rose 11% in 2012). With just about 17% of horse wagers in the U.S. currently placed online, we think there a long runway for growth remaining in the segment and foresee CHDN benefitting from the shuttering of off-track betting facilities.

- **Our estimates still imply 16% and 18% EPS growth in 2013 and 2014, respectively.** While we suspect this is partly due to timing, we note current deferred revenue (generally Kentucky Derby week ticket sales) rose 31% year over year at the end of 2012. During the earnings call, we look forward to management's commentary about the pace of ticket sales leading into CHDN's marquee event in early May. We estimate CHDN will have net debt of $110 million at the end of 2013, amounting to just 0.6x projected 2013 EBITDA versus 5x for peers; the strong balance sheet provides firepower for accretive acquisitions and potential share repurchases. We estimate a $150 million casino acquisition at 7x EBITDA would contribute about $0.50 in free cash flow per share.

- **We maintain our BUY rating, but trim our target to $92 (from $94).** Our new target is based on 14x our revised 2014 FCF per share estimate of $6.57 (from $6.70). Our $1.7 billion market cap target implies a multiple of 9x our revised 2014 EBITDA estimate of $195 million (from $198 million) less projected net debt of $94 million (from $100 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Considering CHDN's lucrative Kentucky Derby franchise, online wagering growth trajectory and over-capitalized balance sheet, we still think the shares (trading at 11x our 2013 FCF per share forecast of $6.12) are attractive.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	**4Q:12A**	**4Q:12E**	**Variance**	**4Q:11A**	**YOY%**
Revenue	$158,494	$160,787	($2,293)	$149,265	6%
EBITDA	17,555	18,403	(848)	19,556	-10%
	11.1%	11.4%		13.1%	
Operating income	2,770	3,903	(1,133)	5,705	-51%
	1.7%	2.4%		3.8%	
Net income	2,374	1,949	426	4,271	-44%
	1.5%	1.2%		2.9%	
Fully diluted EPS	$0.14	$0.12	$0.02	$0.26	-47%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis-EBITDA

(000's)	**4Q:12A**	**4Q:12E**	**Var**	**4Q:11A**	**YOY%**
Racing	($4,301)	($5,426)	$1,125	($3,266)	32%
Gaming, LA	5,844	6,107	(263)	6,000	-3%
Gaming, FL	2,100	2,421	(321)	3,000	-30%
Gaming, MS (Harlows)	5,900	4,284	1,616	4,550	30%
Gaming, MS (Riverwalk)	2,800	2,400	400	0	NM
ADW (online)	8,334	8,393	(59)	9,069	-8%
Corp./United Tote	(2,429)	224	(2,653)	224	NM
Total EBITDA	**$17,555**	**$18,403**	**($848)**	**$19,556**	**-10%**

Source: Sidoti & Company, LLC estimates and company financials

Table 1 : CHDN Income Statement															
(000's, except where noted)	Mar	Jun	Sep	Dec	2012	Mar	Jun	Sep	Dec	2013E	Mar	Jun	Sep	Dec	2014E
Net Revenue															
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$29,899	$163,871	$62,002	$48,359	$304,131	$29,899	$167,080	$62,002	$48,359	$307,340
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,026	18,768	18,562	20,524	79,880	22,466	19,143	18,933	20,935	81,478
Gaming, FL	21,879	19,188	17,841	18,956	77,864	21,223	19,188	17,841	18,956	77,208	21,647	19,572	18,198	19,335	78,752
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	16,656	14,472	14,127	14,179	59,434	16,989	14,762	14,409	14,463	60,623
Gaming, MS (Riverwalk)				10,330	10,330	14,000	14,000	14,000	14,000	56,000	14,280	14,280	14,280	14,280	57,120
ADW (online)	44,035	52,702	45,593	40,949	183,279	47,117	56,391	48,785	43,815	196,109	50,416	60,339	52,199	46,883	209,836
Other	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**155,565**	**292,993**	**182,188**	**165,920**	**796,665**	**160,341**	**301,479**	**186,893**	**170,340**	**819,053**
EBITDA															
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,362)	68,826	930	(5,078)	53,316	(11,362)	71,845	930	(5,078)	56,335
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,098	6,381	5,940	6,157	26,576	8,260	6,700	6,059	6,699	27,718
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,820	3,262	2,141	2,085	11,308	3,896	3,327	2,184	2,514	11,921
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	6,496	5,355	4,521	4,963	21,334	6,626	5,609	4,611	4,628	21,474
Gaming, MS (Riverwalk)				2,800	2,800	4,830	4,830	4,830	4,830	19,320	4,927	4,927	4,927	4,927	19,706
ADW (online)	10,421	12,539	8,986	8,334	40,280	9,895	13,534	11,220	10,735	45,384	12,604	15,990	13,833	11,721	54,147
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,931)	(2,073)	(977)	(1,000)	(5,981)	(1,931)	(2,073)	(977)	(1,000)	(5,981)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,846**	**100,114**	**28,605**	**22,692**	**171,257**	**23,020**	**106,325**	**31,566**	**24,410**	**185,321**
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,846**	**100,114**	**28,605**	**22,692**	**171,257**	**23,020**	**108,075**	**35,566**	**28,410**	**195,071**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(14,820)	(14,820)	(14,820)	(14,820)	(59,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**4,776**	**85,044**	**13,535**	**7,622**	**110,977**	**8,200**	**91,505**	**16,746**	**9,590**	**126,041**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,500)	(1,600)	(1,000)	(1,000)	(5,100)	(1,000)	(1,100)	(1,000)	(1,000)	(4,100)
JV interest											0	0	2,250	2,250	4,500
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**3,276**	**83,444**	**12,535**	**6,622**	**105,877**	**7,200**	**90,405**	**17,996**	**10,840**	**126,441**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(1,310)	(33,378)	(5,014)	(2,649)	(42,351)	(2,880)	(36,162)	(7,198)	(4,336)	(50,576)
%	41%	40%	16%	41%	36%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,966**	**50,067**	**7,521**	**3,973**	**63,526**	**4,320**	**54,243**	**10,797**	**6,504**	**75,865**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.11**	**$2.81**	**$0.42**	**$0.24**	**$3.56**	**$0.24**	**$3.01**	**$0.59**	**$0.40**	**$4.19**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,600	17,800	18,000	18,000	17,850	18,000	18,000	18,200	18,300	18,125
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,966	$50,067	$7,521	$3,973	$63,526	$4,320	$54,243	$10,797	$6,504	$75,865
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.11	$2.81	$0.42	$0.22	$3.56	$0.24	$3.01	$0.59	$0.40	$4.19
Margin analysis															
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.8%	34.2%	15.7%	13.7%	21.5%	14.4%	35.3%	16.9%	14.3%	22.6%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	3.1%	29.0%	7.4%	4.6%	13.9%	5.1%	30.4%	9.0%	5.6%	15.4%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	2.1%	28.5%	6.9%	4.0%	13.3%	4.5%	30.0%	9.6%	6.4%	15.4%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	1.3%	17.1%	4.1%	2.4%	8.0%	2.7%	18.0%	5.8%	3.8%	9.3%
Y/Y growth %															
Revenue	5%	8%	-1%	6%	5%	13%	8%	10%	5%	9%	3%	3%	3%	3%	3%
EBITDA	35%	6%	-10%	-10%	3%	32%	11%	34%	29%	19%	16%	6%	10%	8%	8%
Operating income	NM	8%	-23%	-51%	5%	NM	11%	71%	175%	25%	NM	8%	24%	26%	14%
Pre-tax income	NM	12%	-20%	NM	11%	NM	10%	77%	401%	26%	NM	8%	44%	64%	19%
Net income	NM	14%	-3%	NM	14%	NM	10%	26%	67%	18%	NM	8%	44%	64%	19%
EPS	NM	10%	-7%	NM	12%	NM	8%	23%	75%	16%	NM	7%	42%	64%	18%

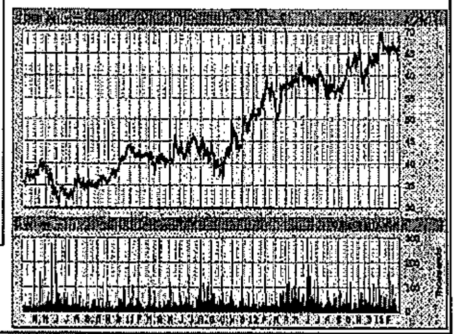
Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

Appendix

Required Disclosures

Churchill Downs Inc. (CHDN-$66.10) BUY Target: $92 February 28, 2013

Action	Date	Px	Rating	PT
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	6/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating, but trim our target to $92 (from $94).** Our new target is based on 14x our revised 2014 FCF per share estimate of $6.57 (from $6.70). Our $1.7 billion market cap target implies a multiple of 9x our revised 2014 EBITDA estimate of $195 million (from $198 million) less projected net debt of $94 million (from $100 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Considering CHDN's lucrative Kentucky Derby franchise, online wagering growth trajectory and over-capitalized balance sheet, we still think the shares (trading at 11x our 2013 FCF per share forecast of $6.12) are attractive.

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 02/28/13, Sidoti provides research on 509 companies, of which 352 (69%) are rated BUY and 157 (31%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 3 companies (0.85%). Of the NEUTRALS, Sidoti has received investment banking income from 1 company (0.64%). Of the NEUTRALS, 68 trade above our price targets. Of the NEUTRALS, 63 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Other Disclosures

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Appendix Continued

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Table 1 : CHDN Income Statement															
(000's, except where noted)	**Mar**	**Jun**	**Sep**	**Dec**	**2012**	**Mar**	**Jun**	**Sep**	**Dec**	**2013E**	**Mar**	**Jun**	**Sep**	**Dec**	**2014E**
Net Revenue															
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$29,899	$163,871	$62,002	$48,359	$304,131	$29,899	$167,080	$62,002	$48,359	$307,340
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,026	18,768	18,562	20,524	79,880	22,466	19,143	18,933	20,935	81,478
Gaming, FL	21,879	19,188	17,841	18,956	77,864	21,223	19,188	17,841	18,956	77,208	21,647	19,572	18,198	19,335	78,752
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	16,656	14,472	14,127	14,179	59,434	16,989	14,762	14,409	14,463	60,623
Gaming, MS (Riverwalk)				10,330	10,330	14,000	14,000	14,000	14,000	56,000	14,280	14,280	14,280	14,280	57,120
ADW (online)	44,035	52,702	45,593	40,949	183,279	47,117	56,391	48,785	43,815	196,109	50,416	60,339	52,199	46,883	209,836
Other	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**155,565**	**292,993**	**182,188**	**165,920**	**796,665**	**160,341**	**301,479**	**186,893**	**170,340**	**819,053**
EBITDA															
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,362)	68,826	930	(5,078)	53,316	(11,362)	71,845	930	(5,078)	56,335
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,098	6,381	5,940	6,157	26,576	8,260	6,700	6,059	6,699	27,718
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,820	3,262	2,141	2,085	11,308	3,896	3,327	2,184	2,514	11,921
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	6,496	5,355	4,521	4,963	21,334	6,626	5,609	4,611	4,628	21,474
Gaming, MS (Riverwalk)				2,800	2,800	4,830	4,830	4,830	4,830	19,320	4,927	4,927	4,927	4,927	19,706
ADW (online)	10,421	12,539	8,986	8,334	40,280	9,895	13,534	11,220	10,735	45,384	12,604	15,990	13,833	11,721	54,147
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,931)	(2,073)	(977)	(1,000)	(5,981)	(1,931)	(2,073)	(977)	(1,000)	(5,981)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,846**	**100,114**	**28,605**	**22,692**	**171,257**	**23,020**	**106,325**	**31,566**	**24,410**	**185,321**
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,846**	**100,114**	**28,605**	**22,692**	**171,257**	**23,020**	**108,075**	**35,566**	**28,410**	**195,071**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(14,820)	(14,820)	(14,820)	(14,820)	(59,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**4,776**	**85,044**	**13,535**	**7,622**	**110,977**	**8,200**	**91,505**	**16,746**	**9,590**	**126,041**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,500)	(1,600)	(1,000)	(1,000)	(5,100)	(1,000)	(1,100)	(1,000)	(1,000)	(4,100)
JV interest											0	0	2,250	2,250	4,500
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**3,276**	**83,444**	**12,535**	**6,622**	**105,877**	**7,200**	**90,405**	**17,996**	**10,840**	**126,441**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(1,310)	(33,378)	(5,014)	(2,649)	(42,351)	(2,880)	(36,162)	(7,198)	(4,336)	(50,576)
%	41%	40%	16%	41%	36%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,966**	**50,067**	**7,521**	**3,973**	**63,526**	**4,320**	**54,243**	**10,797**	**6,504**	**75,865**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.11**	**$2.81**	**$0.42**	**$0.24**	**$3.56**	**$0.24**	**$3.01**	**$0.59**	**$0.40**	**$4.19**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,600	17,800	18,000	18,000	17,850	18,000	18,000	18,200	18,300	18,125
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,966	$50,067	$7,521	$3,973	$63,526	$4,320	$54,243	$10,797	$6,504	$75,865
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.11	$2.81	$0.42	$0.22	$3.56	$0.24	$3.01	$0.59	$0.40	$4.19
Margin analysis															
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.8%	34.2%	15.7%	13.7%	21.5%	14.4%	35.3%	16.9%	14.3%	22.6%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	3.1%	29.0%	7.4%	4.6%	13.9%	5.1%	30.4%	9.0%	5.6%	15.4%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	2.1%	28.5%	6.9%	4.0%	13.3%	4.5%	30.0%	9.6%	6.4%	15.4%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	1.3%	17.1%	4.1%	2.4%	8.0%	2.7%	18.0%	5.8%	3.8%	9.3%
Y/Y growth %															
Revenue	5%	8%	-1%	6%	5%	13%	8%	10%	5%	9%	3%	3%	3%	3%	3%
EBITDA	35%	6%	-10%	-10%	3%	32%	11%	34%	29%	19%	16%	6%	10%	8%	8%
Operating income	NM	8%	-23%	-51%	5%	NM	11%	71%	175%	25%	NM	8%	24%	26%	14%
Pre-tax income	NM	12%	-20%	NM	11%	NM	10%	77%	401%	26%	NM	8%	44%	64%	19%
Net income	NM	14%	-3%	NM	14%	NM	10%	26%	67%	18%	NM	8%	44%	64%	19%
EPS	NM	10%	-7%	NM	12%	NM	8%	23%	75%	16%	NM	7%	42%	64%	18%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming property are Sidoti estimates

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Sidoti & Company, LLC
Member FINRA & SIPC

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$68.00) — BUY

Company Update — **Target: $92**

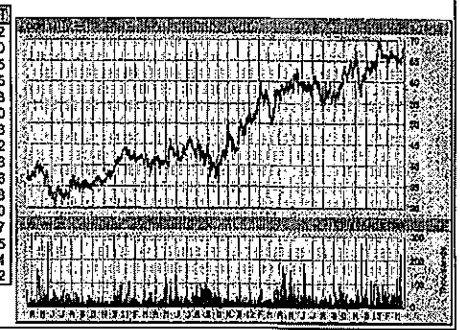
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

March 18, 2013

Market Cap (Mil)	**$1,200**
Avg. Daily Trading Volume	**54,000**
Shares Out (Mil)	**17.611**
Float Shares (Mil)	**13.411**
Institutional Holdings	**40%**
Dividend	**$0.72**
Dividend Yield	**1.1%**
Price to Book Value	**2.0x**
Return on Equity (2014E)	**10.5%**
LT Debt to Total Capital	**11%**
5-Year EPS Growth Rate Projection	**19%**
52-Week Range (NASDAQ)	**70-53**
Russell 2000	**952**
Short Interest (Mil)	**0.509**

	2011	2012	2013E		2014E	
			OLD	NEW	OLD	NEW
Mar.	($0.19)	$0.00	$0.11		$0.24	
June	2.37	2.60	2.81		3.01	
Sep.	0.36	0.34	0.42		0.59	
Dec.	0.26	0.14	0.24		0.40	
EPS (Cal.)	**$2.76**	**$3.08**	**$3.56**		**$4.19**	
P/E (Cal.)			**19.1x**		**16.2x**	
EBITDA (mil.) (Cal)	**$139.4**	**$144.2**	**$171.3**		**$195.1**	
EV / EBITDA			**7.4x**		**6.8x**	

Action	Date	Px	Rating	PT
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92



Note: 2012 EPS exclude $0.25 in one-time gains largely due to insurance proceeds. 2011-2014E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.4	$796.7	$819.1
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.33	$3.56	$4.19

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering Websites and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Management Meeting Highlights; Illinois Gaming Bill Appears Likely To Heat Up Over Coming Months, While Kentucky Derby Ticket Prices Remain Strong; Maintain Buy, $92 Target

- **On Friday, we hosted investor meetings with CHDN management.**
- **Management reaffirmed premium ticket pricing for the Kentucky Derby remains strong.**
- **A gaming bill in Illinois that legalizes online wagering for racetracks and casinos and permits CHDN to add 1,200 slot machines to its suburban Chicago track appears likely to heat up over the next few months.**
- **Management continues to be focused on acquisitions, most likely in the regional casino segment, seeking out assets that are a strategic fit and have a defensible, competitive position with sustainable cash flow.**
- **We maintain our BUY rating.**
- **Our $92 target is based on 14x our 2014 FCF per share estimate of $6.57.**

❑ **Debate on a gaming bill in Illinois appears likely to heat up over the next few months.** SB 1739—which passed through a Senate committee in early March—would permit CHDN to add 1,200 slot machines to its suburban Chicago track and legalize online wagering (providing online licenses for casinos and racetracks). The bill provides stronger ethical language and directs proceeds towards education to meet the governor's demand for considering expanded gaming. We think the bill could be considered over the next few months. While the addition of legalized online gaming to the bill (versus previously-considered gaming bills that the governor vetoed) may attract the support of existing casino operators despite the added land-based competition, it also could delay passage, since this is the first time the legislature is considering the online component.

- **CHDN remains interested in being a meaningful player in the online gaming market.** We suspect the online gaming market will initially be fragmented, with legalized online gaming being considered on a state-by-state basis (generally requiring online operators to have a gaming asset in the state to be licensed). Recent online laws in New Jersey and Delaware require casino ownership, locking CHDN out of those markets (given these challenging land-based markets with new competition coming online, an acquisition in these states for CHDN seems unlikely). However, CHDN would be well-positioned in California if online poker is legalized, since the legislation being considered provides licenses for ADW providers (online horse wagering) such as CHDN (along with racetracks and tribes). CHDN also would likely consider participating as a B2B supplier in markets where the company is not licensed as a B2C, given its experience with online horse wagering (with good customer service and payment processing, as well as well-developed technology that has the ability to meet regulatory restrictions such as age and geographic verification). However, we note CHDN lacks a front-end product and we suspect the marketplace will be very competitive.

- **CHDN is still working to improve the recently-launched Luckity.com website.** The website legally provides online wagering by linking the gambler to the outcome of a real-live horse wager without requiring horse-racing knowledge (the front end is similar to a scratch-off ticket). While CHDN has had no trouble attracting customers, the company *has* struggled to get customers to fund their accounts. Management is working to supplement the site with entertainment between wagers to keep players engaged (since the time between placing a bet and finding the results can be several minutes). In addition, CHDN is working to improve the quality of the scratch-like ticket games. We suspect the company will have a better gauge of the site's potential later in 2013—management noted that the company is open to all options to create value from the site and would even consider a joint venture (we suspect with a partner that could bolster the entertainment value of the site).

- **Management still appears interested in acquisitions.** We suspect the most likely targets would be one-off regional casino assets; management has a track record of being disciplined when weighing an acquisition. M & A usually appears to be the focus rather than increasing cash to shareholders. Management reaffirmed that pricing for premium Kentucky Derby tickets is solid. Regarding the Ohio casino joint venture that is slated to open in 1Q:14, management still appeared confident in the return potential despite softer-than-expected revenue trends at Ohio casino openings. The company would not rule out slightly trimming the project's scope (although, given regulatory requirements, it could remove $25 million at most from the $285 million project).

- **We maintain our BUY rating and $92 target.** Our target is based on 14x our 2014 FCF per share estimate of $6.57. Our $1.7 billion market cap target implies a multiple of 9x our 2014 EBITDA estimate of $195 million less projected net debt of $94 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Considering CHDN's lucrative Kentucky Derby franchise, online wagering growth trajectory and over-capitalized balance sheet, we still think the shares (trading at 11x our 2013 FCF per share forecast of $6.12) are attractive.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Table 1 : CHDN Income Statement															
(000's, except where noted)	Mar	Jun	Sep	Dec	2012	Mar	Jun	Sep	Dec	2013E	Mar	Jun	Sep	Dec	2014E
Net Revenue															
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$29,899	$163,871	$62,002	$48,359	$304,131	$29,899	$167,080	$62,002	$48,359	$307,340
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,026	18,768	18,562	20,524	79,880	22,466	19,143	18,933	20,935	81,478
Gaming, FL	21,879	19,188	17,841	18,956	77,864	21,223	19,188	17,841	18,956	77,208	21,647	19,572	18,198	19,335	78,752
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	16,656	14,472	14,127	14,179	59,434	16,989	14,762	14,409	14,463	60,623
Gaming, MS (Riverwalk)				10,330	10,330	14,000	14,000	14,000	14,000	56,000	14,280	14,280	14,280	14,280	57,120
ADW (online)	44,035	52,702	45,593	40,949	183,279	47,117	56,391	48,785	43,815	196,109	50,416	60,339	52,199	46,883	209,836
Other	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**155,565**	**292,993**	**182,188**	**165,920**	**796,665**	**160,341**	**301,479**	**186,893**	**170,340**	**819,053**
EBITDA															
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,362)	68,826	930	(5,078)	53,316	(11,362)	71,845	930	(5,078)	56,335
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,098	6,381	5,940	6,157	26,576	8,260	6,700	6,059	6,699	27,718
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,820	3,262	2,141	2,085	11,308	3,896	3,327	2,184	2,514	11,921
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	6,496	5,355	4,521	4,963	21,334	6,626	5,609	4,611	4,628	21,474
Gaming, MS (Riverwalk)				2,800	2,800	4,830	4,830	4,830	4,830	19,320	4,927	4,927	4,927	4,927	19,706
ADW (online)	10,421	12,539	8,986	8,334	40,280	9,895	13,534	11,220	10,735	45,384	12,604	15,990	13,833	11,721	54,147
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,931)	(2,073)	(977)	(1,000)	(5,981)	(1,931)	(2,073)	(977)	(1,000)	(5,981)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,846**	**100,114**	**28,605**	**22,692**	**171,257**	**23,020**	**106,325**	**31,566**	**24,410**	**185,321**
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,846**	**100,114**	**28,605**	**22,692**	**171,257**	**23,020**	**108,075**	**35,566**	**28,410**	**195,071**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(14,820)	(14,820)	(14,820)	(14,820)	(59,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**4,776**	**85,044**	**13,535**	**7,622**	**110,977**	**8,200**	**91,505**	**16,746**	**9,590**	**126,041**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,500)	(1,600)	(1,000)	(1,000)	(5,100)	(1,000)	(1,100)	(1,000)	(1,000)	(4,100)
JV interest											0	0	2,250	2,250	4,500
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**3,276**	**83,444**	**12,535**	**6,622**	**105,877**	**7,200**	**90,405**	**17,996**	**10,840**	**126,441**
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%	41%	40%	16%	41%	36%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,966**	**50,067**	**7,521**	**3,973**	**63,526**	**4,320**	**54,243**	**10,797**	**6,504**	**75,865**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.11**	**$2.81**	**$0.42**	**$0.24**	**$3.56**	**$0.24**	**$3.01**	**$0.59**	**$0.40**	**$4.19**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,600	17,800	18,000	18,000	17,850	18,000	18,000	18,200	18,300	18,125
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EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.11	$2.81	$0.42	$0.22	$3.56	$0.24	$3.01	$0.59	$0.40	$4.19
Margin analysis															
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.8%	34.2%	15.7%	13.7%	21.5%	14.4%	35.3%	16.9%	14.3%	22.6%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	3.1%	29.0%	7.4%	4.6%	13.9%	5.1%	30.4%	9.0%	5.6%	15.4%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	2.1%	28.5%	6.9%	4.0%	13.3%	4.5%	30.0%	9.6%	6.4%	15.4%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	1.3%	17.1%	4.1%	2.4%	8.0%	2.7%	18.0%	5.8%	3.8%	9.3%
Y/Y growth %															
Revenue	5%	8%	-1%	6%	5%	13%	8%	10%	5%	9%	3%	3%	3%	3%	3%
EBITDA	35%	6%	-10%	-10%	3%	32%	11%	34%	29%	19%	16%	6%	10%	8%	8%
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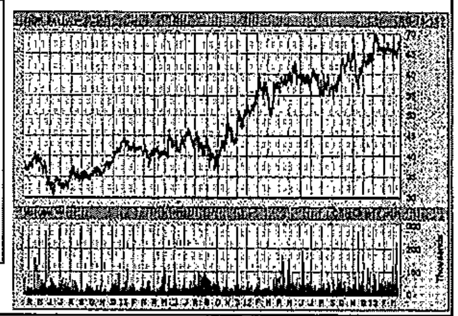
EPS	NM	10%	-7%	NM	12%	NM	8%	23%	75%	16%	NM	7%	42%	64%	18%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$68.00) BUY Target: $92 March 18, 2013

Action	Date	Px	Rating	PT
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/8/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94
PT	2/28/13	66.1		92



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $92 target.** Our target is based on 14x our 2014 FCF per share estimate of $6.57. Our $1.7 billion market cap target implies a multiple of 9x our 2014 EBITDA estimate of $195 million less projected net debt of $94 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt-free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view). Considering CHDN's lucrative Kentucky Derby franchise, online wagering growth trajectory and over-capitalized balance sheet, we still think the shares (trading at 11x our 2013 FCF per share forecast of $6.12) are attractive.

Required Disclosures

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Appendix Continued

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Table 1 : CHDN Income Statement															
(000's, except where noted)	Mar	Jun	Sep	Dec	2012	Mar	Jun	Sep	Dec	2013E	Mar	Jun	Sep	Dec	2014E
Net Revenue															
Racing	$30,182	$160,440	$62,919	$48,547	$302,088	$29,899	$163,871	$62,002	$48,359	$304,131	$29,899	$167,080	$62,002	$48,359	$307,340
Gaming, LA	21,594	18,400	18,198	20,122	78,314	22,026	18,768	18,562	20,524	79,880	22,466	19,143	18,933	20,935	81,478
Gaming, FL	21,879	19,188	17,841	18,956	77,864	21,223	19,188	17,841	18,956	77,208	21,647	19,572	18,198	19,335	78,752
Gaming, MS (Harlows)	15,863	13,783	13,454	13,504	56,604	16,656	14,472	14,127	14,179	59,434	16,989	14,762	14,409	14,463	60,623
Gaming, MS (Riverwalk)				10,330	10,330	14,000	14,000	14,000	14,000	56,000	14,280	14,280	14,280	14,280	57,120
ADW (online)	44,035	52,702	45,593	40,949	183,279	47,117	56,391	48,785	43,815	196,109	50,416	60,339	52,199	46,883	209,836
Other	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904	4,643	6,303	6,872	6,086	23,904
Net revenue	**138,196**	**270,816**	**164,877**	**158,494**	**732,383**	**155,565**	**292,993**	**182,188**	**165,920**	**796,665**	**160,341**	**301,479**	**186,893**	**170,340**	**819,053**
EBITDA															
Racing	(11,539)	65,390	1,243	(4,301)	50,793	(11,362)	68,826	930	(5,078)	53,316	(11,362)	71,845	930	(5,078)	56,335
Gaming, LA	7,956	6,200	5,800	5,844	25,800	8,098	6,381	5,940	6,157	26,576	8,260	6,700	6,059	6,699	27,718
Gaming, FL	4,000	4,300	2,200	2,100	12,600	3,820	3,262	2,141	2,085	11,308	3,896	3,327	2,184	2,514	11,921
Gaming, MS (Harlows)	6,133	3,938	4,029	5,900	20,000	6,496	5,355	4,521	4,963	21,334	6,626	5,609	4,611	4,628	21,474
Gaming, MS (Riverwalk)				2,800	2,800	4,830	4,830	4,830	4,830	19,320	4,927	4,927	4,927	4,927	19,706
ADW (online)	10,421	12,539	8,986	8,334	40,280	9,895	13,534	11,220	10,735	45,384	12,604	15,990	13,833	11,721	54,147
Corp./United Tote	(1,931)	(2,073)	(977)	(2,429)	(7,410)	(1,931)	(2,073)	(977)	(1,000)	(5,981)	(1,931)	(2,073)	(977)	(1,000)	(5,981)
EBITDA	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,846**	**100,114**	**28,605**	**22,692**	**171,257**	**23,020**	**106,325**	**31,566**	**24,410**	**185,321**
EBITDA including OH JV	**15,040**	**90,294**	**21,281**	**17,555**	**144,170**	**19,846**	**100,114**	**28,605**	**22,692**	**171,257**	**23,020**	**108,075**	**35,566**	**28,410**	**195,071**
D & A	(13,807)	(13,638)	(13,370)	(14,785)	(55,600)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(14,820)	(14,820)	(14,820)	(14,820)	(59,280)
Operating income	**1,233**	**76,656**	**7,911**	**2,770**	**88,570**	**4,776**	**85,044**	**13,535**	**7,622**	**110,977**	**8,200**	**91,505**	**16,746**	**9,590**	**126,041**
Interest expense	(1,205)	(947)	(842)	(1,447)	(4,441)	(1,500)	(1,600)	(1,000)	(1,000)	(5,100)	(1,000)	(1,100)	(1,000)	(1,000)	(4,100)
JV interest											0	0	2,250	2,250	4,500
Pre-tax income	**28**	**75,709**	**7,069**	**1,323**	**84,129**	**3,276**	**83,444**	**12,535**	**6,622**	**105,877**	**7,200**	**90,405**	**17,996**	**10,840**	**126,441**
Income tax (exp.) benefit	(11)	(30,132)	(1,096)	1,051	(30,189)	(1,310)	(33,378)	(5,014)	(2,649)	(42,351)	(2,880)	(36,162)	(7,198)	(4,336)	(50,576)
%	41%	40%	16%	41%	36%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Net income	**17**	**45,577**	**5,973**	**2,374**	**53,941**	**1,966**	**50,067**	**7,521**	**3,973**	**63,526**	**4,320**	**54,243**	**10,797**	**6,504**	**75,865**
Pro-forma EPS diluted	**$0.00**	**$2.60**	**$0.34**	**$0.14**	**$3.08**	**$0.11**	**$2.81**	**$0.42**	**$0.24**	**$3.56**	**$0.24**	**$3.01**	**$0.59**	**$0.40**	**$4.19**
Diluted avg. shares outstand.	17,433	17,502	17,575	17,590	17,525	17,600	17,800	18,000	18,000	17,850	18,000	18,000	18,200	18,300	18,125
Net Income GAAP	$1,354	$48,576	$5,973	$2,374	$58,277	$1,966	$50,067	$7,521	$3,973	$63,526	$4,320	$54,243	$10,797	$6,504	$75,865
EPS GAAP	$0.08	$2.78	$0.34	$0.13	$3.33	$0.11	$2.81	$0.42	$0.22	$3.56	$0.24	$3.01	$0.59	$0.40	$4.19
Margin analysis															
EBITDA	10.9%	33.3%	12.9%	11.1%	19.7%	12.8%	34.2%	15.7%	13.7%	21.5%	14.4%	35.3%	16.9%	14.3%	22.6%
Operating	0.9%	28.3%	4.8%	1.7%	12.1%	3.1%	29.0%	7.4%	4.6%	13.9%	5.1%	30.4%	9.0%	5.6%	15.4%
Pre-tax	0.0%	28.0%	4.3%	0.8%	11.5%	2.1%	28.5%	6.9%	4.0%	13.3%	4.5%	30.0%	9.6%	6.4%	15.4%
Net income	0.0%	16.8%	3.6%	1.5%	7.4%	1.3%	17.1%	4.1%	2.4%	8.0%	2.7%	18.0%	5.8%	3.8%	9.3%
Y/Y growth %															
Revenue	5%	8%	-1%	6%	5%	13%	8%	10%	5%	9%	3%	3%	3%	3%	3%
EBITDA	35%	6%	-10%	-10%	3%	32%	11%	34%	29%	19%	16%	6%	10%	8%	8%
Operating income	NM	8%	-23%	-51%	5%	NM	11%	71%	175%	25%	NM	8%	24%	26%	14%
Pre-tax income	NM	12%	-20%	NM	11%	NM	10%	77%	401%	26%	NM	8%	44%	64%	19%
Net income	NM	14%	-3%	NM	14%	NM	10%	26%	67%	18%	NM	8%	44%	64%	19%
EPS	NM	10%	-7%	NM	12%	NM	8%	23%	75%	16%	NM	7%	42%	64%	18%

Source: Sidoti & Company, LLC and company reports.
Note: EBITDA by gaming propery are Sidoti estimates

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$66.37) — BUY

Adjust Earnings Estimates; Earnings Preview — **Target: $94**

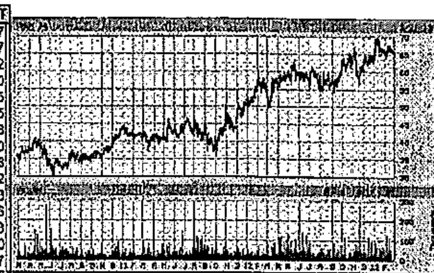
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

February 25, 2013

Market Cap (Mil)	$1,160	**Price to Book Value**	1.9x
Avg. Daily Trading Volume	46,000	**Return on Equity (2014E)**	10.5%
Shares Out (Mil)	17.456	**LT Debt to Total Capital**	11%
Float Shares (Mil)	13.256	**5-Year EPS Growth Rate Projection**	19%
Institutional Holdings	40%	**52-Week Range (NASDAQ)**	70-50
Dividend	$0.72	**Russell 2000**	916
Dividend Yield	1.1%	**Short Interest (Mil)**	0.517

	2011	2012E		2013E		2014E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	($0.19)	$0.00A		$0.16	$0.17	$0.24	
June	2.37	2.60A		2.81	2.78	3.02	3.01
Sep.	0.36	0.34A		0.41	0.42	0.61	
Dec.	0.26	0.12		0.31	0.32	0.46	0.47
EPS (Cal.)	**$2.76**	**$3.05**		**$3.66**		**$4.29**	
P/E (Cal.)		**21.8x**		**18.1x**		**15.5x**	
EBITDA (mil.) (Cal)	**$139.4**	**$143.9**	**$145.0**	**$175.9**	**$175.1**	**$197.1**	**$197.5**
EV / EBITDA			**8.3x**		**7.1x**		**6.6x**

Action	Date	Px	Rating	PT
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/8/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/26/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Note: 2012 exclude $0.25 in one-time gains largely due to insurance proceeds. 2011-2014E includes $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$734.7	$804.6	$827.5
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.30	$3.66	$4.29

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL, and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering Websites, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
February 27	February 28	9 a.m.	877.372.0878	NM	$0.19

Forecast Casino Acquisition, Improving Kentucky Derby Profitability And Online Wagering Will Fuel EPS Growth Of 20% In 2013 And 17% In 2014; Maintain BUY Rating, $94 Price Target

- **We estimate CHDN's seasonally weak 4Q:12 EPS declined to $0.12, from $0.26 in the year-earlier period, mainly due to CHDN hosting the Breeders Cup in 2012 and startup costs associated with Luckity.com.**
- **We think the shares are attractive, trading at 11x our 2013 FCF per share forecast of $6.23, considering CHDN's lucrative Kentucky Derby franchise, online wagering growth trajectory and over-capitalized balance sheet.**
- **On the earnings call, we look for management's commentary on the pace of ticket sales for Kentucky Derby in May and management's plans for its recently launched Luckity.com website.**
- **We maintain our BUY rating.**
- **Our $94 price target is based on 14x our revised 2014 FCF per share estimate of $6.70 (from $6.69).**

❑ **We estimate CHDN generated 4Q:12 EPS of $0.12 in the seasonally weak quarter, compared with $0.26 in the year-earlier period.** Our projected year-over-year decline stems from CHDN hosting the Breeders Cup in 2012, new competition in Florida (which will anniversary in 1Q:13) and some initial startup costs for Luckity.com.

❑ **We forecast 20% and 17% EPS growth in 2013 and 2014, respectively.** Our growth expectations are based on improving Kentucky Derby profitability, CHDN's Riverwalk casino acquisition in October 2012 and organic growth in online horse wagering. We estimate the "Mansion" addition at CHDN's namesake track will contribute an incremental $2 million in EBITDA for the Kentucky Derby in 2013 (the high end suites were constructed for $9 million). Our estimates do no include potential acquisitions—we think management is actively seeking regional casino assets (management has a disciplined track record on M & A). We estimate a $150 million casino acquisition at 7x EBITDA would contribute about $0.50 in free cash flow per share.

- **CHDN's balance sheet is overcapitalized, in our view, and we think the shares are attractive, trading at 7x our 2013 EBITDA forecast.** We estimate CHDN will have net debt of just $118 million at year-end 2013, amounting to 0.7x 2013 projected EBITDA, compared with 5x for the median regional casino operator. Historically, regional casinos generally have traded at 6x-9x forward EBITDA; with CHDN trading toward the low end of this range, we think the shares provide investors with an opportunity to accumulate shares.

- **We maintain our BUY rating and $94 price target.** Our target is based on 14x our revised 2014 FCF per share estimate of $6.70 (from $6.69). Our $1.7 billion market cap target implies a multiple of about 9x our unchanged 2014 EBITDA estimate of $197 million less projected net debt of $100 million (from $99 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	4Q:12E	4Q:11A	Variance	% Difference
Revenue	$160,787	$149,265	$11,522	8%
EBITDA	18,403	19,556	(1,153)	-6%
	11.4%	13.1%		
Operating income	3,903	5,705	(1,802)	-32%
	2.4%	3.8%		
Net income	1,949	4,271	(2,322)	-54%
	1.2%	2.9%		
Fully diluted EPS	$0.12	$0.26	($0.14)	-54%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis

(000's)	4Q:12E	4Q:11A	Variance	% Difference
Racing	($5,426)	($3,266)	($2,160)	NM
Gaming, LA	6,107	6,000	107	2%
Gaming, FL	2,421	3,000	(579)	-19%
Gaming, MS (Harlows)	4,284	4,550	(266)	-6%
Gaming, MS (Riverwalk)	2,400	0	2,400	NM
ADW (online)	8,393	9,069	(676)	-7%
Corp./United Tote	224	224	0	NM
Total EBITDA	**$18,403**	**$19,556**	**($1,153)**	**-6%**

Source: Sidoti & Company, LLC estimates and company financials

CHURCHILL DOWNS INC.

Table 1 : CHDN Income Statement

(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	JunA	SepA	Dec	2012E	Mar	Jun	Sep	Dec	2013E	2014E
Net Revenue																
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$62,919	$51,675	$305,216	$29,899	$162,842	$62,002	$51,459	$306,203	$309,381
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,198	19,085	77,277	22,026	18,768	18,562	19,467	78,822	80,399
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,841	18,625	77,533	19,691	19,188	17,841	18,625	75,346	76,852
Gaming, MS (Harlows)	16,510	9,501	13,441	13,387	52,839	15,863	13,783	13,454	13,387	56,487	16,656	14,472	14,127	14,056	59,311	60,498
Gaming, MS (Riverwalk)									8,000	8,000	14,000	14,000	14,000	14,000	56,000	57,120
ADW (online)	36,803	46,526	42,015	40,072	165,416	44,035	52,702	45,593	44,881	187,211	48,439	57,972	50,152	49,369	205,932	220,347
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	6,872	5,134	22,952	4,643	6,303	6,872	5,134	22,952	22,952
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**164,877**	**160,787**	**734,676**	**155,354**	**293,545**	**183,556**	**172,110**	**804,566**	**827,549**
EBITDA																
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	1,243	(5,426)	49,668	(11,362)	68,068	930	(5,403)	52,233	55,554
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,800	6,107	26,063	8,098	6,381	5,940	6,229	26,648	27,373
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	4,300	2,200	2,421	12,921	3,544	3,262	2,141	2,421	11,369	11,596
Gaming, MS (Harlows)	6,600	2,300	4,000	4,550	17,450	6,133	3,938	4,029	4,284	18,384	6,496	5,355	4,521	4,498	20,869	21,434
Gaming, MS (Riverwalk)									2,400	2,400	4,830	4,830	4,830	4,830	19,320	19,706
ADW (online)	7,545	11,308	9,818	9,069	37,740	10,421	12,539	8,986	8,393	40,339	11,867	13,913	11,535	12,095	49,411	56,822
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(977)	224	(4,757)	(1,931)	(2,073)	(977)	224	(4,757)	(4,757)
EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**18,403**	**145,018**	**21,543**	**99,736**	**28,919**	**24,895**	**175,093**	**187,728**
EBITDA including OH JV	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**18,403**	**145,018**	**21,543**	**99,736**	**28,919**	**24,895**	**175,093**	**197,478**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,370)	(14,500)	(55,315)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(59,280)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**7,911**	**3,903**	**89,703**	**6,473**	**84,666**	**13,849**	**9,825**	**114,813**	**128,448**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(842)	(600)	(3,594)	(1,500)	(1,600)	(1,300)	(1,000)	(5,400)	(4,100)
JV interest																4,500
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**7,069**	**3,303**	**86,109**	**4,973**	**83,066**	**12,549**	**8,825**	**109,413**	**128,848**
Income tax (exp.) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(1,096)	(1,354)	(32,594)	(2,014)	(33,642)	(5,082)	(3,574)	(44,312)	(51,539)
%	-39%	41%	30%	5%	38%	41%	40%	16%	41%	38%	41%	41%	41%	41%	41%	40%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**5,973**	**1,949**	**53,515**	**2,959**	**49,424**	**7,467**	**5,251**	**65,101**	**77,309**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.34**	**$0.12**	**$3.05**	**$0.17**	**$2.78**	**$0.42**	**$0.32**	**$3.66**	**$4.29**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,575	17,600	17,528	17,600	17,800	17,800	18,000	17,800	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$1,354	$48,576	$5,973	$1,949	$57,852	$2,959	$49,424	$7,467	$5,251	$65,101	$77,309
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.08	$2.78	$0.34	$0.11	$3.30	$0.17	$2.78	$0.42	$0.29	$3.66	$4.29
Margin analysis																
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	12.9%	11.4%	19.7%	13.9%	34.0%	15.8%	14.5%	21.8%	22.7%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	4.8%	2.4%	12.2%	4.2%	28.8%	7.5%	5.7%	14.3%	15.5%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	4.3%	2.1%	11.7%	3.2%	28.3%	6.8%	5.1%	13.6%	15.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.6%	1.2%	7.3%	1.9%	16.8%	4.1%	3.1%	8.1%	9.3%
Y/Y growth %																
Revenue	54%	16%	13%	9%	19%	5%	8%	-1%	8%	5%	12%	8%	11%	7%	10%	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	-10%	-6%	4%	43%	10%	36%	35%	21%	7%
Operating income	NM	39%	120%	NM	112%	NM	8%	-23%	-32%	6%	NM	10%	75%	152%	28%	12%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	-20%	NM	14%	NM	10%	78%	167%	27%	18%
Net income	NM	34%	236%	NM	130%	NM	14%	-3%	NM	13%	NM	8%	25%	169%	22%	19%
EPS	NM	18%	222%	NM	108%	NM	10%	-7%	NM	11%	NM	7%	23%	169%	20%	17%

Source: Sidoti & Company, LLC and company reports.

Appendix

Required Disclosures

Churchill Downs Inc. (CHDN-$66.37) BUY Target: $94 February 25, 2013

Action	Date	PX	Rating	PT
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	8/9/10	31.3	Buy	45
PT	8/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		78
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $94 price target.** Our target is based on 14x our revised 2014 FCF per share estimate of $6.70 (from $6.69). Our $1.7 billion market cap target implies a multiple of about 9x our unchanged 2014 EBITDA estimate of $197 million less projected net debt of $100 million (from $99 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 02/25/13, Sidoti provides research on 507 companies, of which 349 (68%) are rated BUY and 158 (32%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 3 companies (0.86%). Of the NEUTRALS, Sidoti has received investment banking income from 1 company (0.63%). Of the NEUTRALS, 76 trade above our price targets. Of the NEUTRALS, 75 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Other Disclosures

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Appendix Continued

market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Table 1 : CHDN Income Statement																
(000's, except where noted)	**Mar**	**Jun**	**Sep**	**Dec**	**2011**	**MarA**	**JunA**	**SepA**	**Dec**	**2012E**	**Mar**	**Jun**	**Sep**	**Dec**	**2013E**	**2014E**
Net Revenue																
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$62,919	$51,675	$305,216	$29,899	$162,842	$62,002	$51,459	$306,203	$309,381
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,198	19,085	77,277	22,026	18,768	18,562	19,467	78,822	80,399
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,841	18,625	77,533	19,691	19,188	17,841	18,625	75,346	76,852
Gaming, MS (Harlows)	16,510	9,501	13,441	13,387	52,839	15,863	13,783	13,454	13,387	56,487	16,656	14,472	14,127	14,056	59,311	60,498
Gaming, MS (Riverwalk)									8,000	8,000	14,000	14,000	14,000	14,000	56,000	57,120
ADW (online)	36,803	46,526	42,015	40,072	165,416	44,035	52,702	45,593	44,881	187,211	48,439	57,972	50,152	49,369	205,932	220,347
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	6,872	5,134	22,952	4,643	6,303	6,872	5,134	22,952	22,952
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**164,877**	**160,787**	**734,676**	**155,354**	**293,545**	**183,556**	**172,110**	**804,566**	**827,549**
EBITDA																
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	1,243	(5,426)	49,668	(11,362)	68,068	930	(5,403)	52,233	55,554
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,800	6,107	26,063	8,098	6,381	5,940	6,229	26,648	27,373
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	4,300	2,200	2,421	12,921	3,544	3,262	2,141	2,421	11,369	11,596
Gaming, MS (Harlows)	6,600	2,300	4,000	4,550	17,450	6,133	3,938	4,029	4,284	18,384	6,496	5,355	4,521	4,498	20,869	21,434
Gaming, MS (Riverwalk)									2,400	2,400	4,830	4,830	4,830	4,830	19,320	19,706
ADW (online)	7,545	11,308	9,818	9,069	37,740	10,421	12,539	8,986	8,393	40,339	11,867	13,913	11,535	12,095	49,411	56,822
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(977)	224	(4,757)	(1,931)	(2,073)	(977)	224	(4,757)	(4,757)
EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**18,403**	**145,018**	**21,543**	**99,736**	**28,919**	**24,895**	**175,093**	**187,728**
EBITDA including OH JV	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**18,403**	**145,018**	**21,543**	**99,736**	**28,919**	**24,895**	**175,093**	**197,478**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,370)	(14,500)	(55,315)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(59,280)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**7,911**	**3,903**	**89,703**	**6,473**	**84,666**	**13,849**	**9,825**	**114,813**	**128,448**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(842)	(600)	(3,594)	(1,500)	(1,600)	(1,300)	(1,000)	(5,400)	(4,100)
JV interest																4,500
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**7,069**	**3,303**	**86,109**	**4,973**	**83,066**	**12,549**	**8,825**	**109,413**	**128,848**
Income tax (exp.) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(1,096)	(1,354)	(32,594)	(2,014)	(33,642)	(5,082)	(3,574)	(44,312)	(51,539)
%	-39%	41%	30%	5%	38%	41%	40%	16%	41%	38%	41%	41%	41%	41%	41%	40%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**5,973**	**1,949**	**53,515**	**2,959**	**49,424**	**7,467**	**5,251**	**65,101**	**77,309**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.34**	**$0.12**	**$3.05**	**$0.17**	**$2.78**	**$0.42**	**$0.32**	**$3.66**	**$4.29**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,575	17,600	17,528	17,600	17,800	17,800	18,000	17,800	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$1,354	$48,576	$5,973	$1,949	$57,852	$2,959	$49,424	$7,467	$5,251	$65,101	$77,309
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.08	$2.78	$0.34	$0.11	$3.30	$0.17	$2.78	$0.42	$0.29	$3.66	$4.29
Margin analysis																
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	12.9%	11.4%	19.7%	13.9%	34.0%	15.8%	14.5%	21.8%	22.7%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	4.8%	2.4%	12.2%	4.2%	28.8%	7.5%	5.7%	14.3%	15.5%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	4.3%	2.1%	11.7%	3.2%	28.3%	6.8%	5.1%	13.6%	15.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.6%	1.2%	7.3%	1.9%	16.8%	4.1%	3.1%	8.1%	9.3%
Y/Y growth %																
Revenue	54%	16%	13%	9%	19%	5%	8%	-1%	8%	5%	12%	8%	11%	7%	10%	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	-10%	-6%	4%	43%	10%	36%	35%	21%	7%
Operating income	NM	39%	120%	NM	112%	NM	8%	-23%	-32%	6%	NM	10%	75%	152%	28%	12%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	-20%	NM	14%	NM	10%	78%	167%	27%	18%
Net income	NM	34%	236%	NM	130%	NM	14%	-3%	NM	13%	NM	8%	25%	169%	22%	19%
EPS	NM	18%	222%	NM	108%	NM	10%	-7%	NM	11%	NM	7%	23%	169%	20%	17%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$66.26)

BUY

Company Update

Target: $94

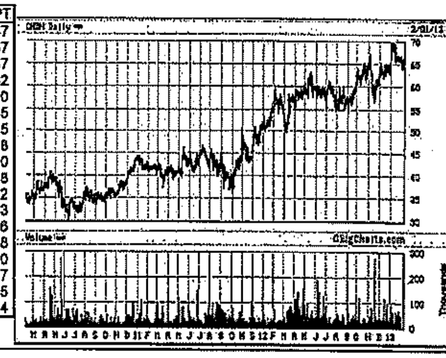
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

February 4, 2013

Market Cap (Mil)	**$1,160**
Avg. Daily Trading Volume	**48,000**
Shares Out (Mil)	**17.456**
Float Shares (Mil)	**13.256**
Institutional Holdings	**40%**
Dividend	**$0.72**
Dividend Yield	**1.1%**
Price to Book Value	**1.9x**
Return on Equity (2014E)	**10.5%**
LT Debt to Total Capital	**11%**
5-Year EPS Growth Rate Projection	**19%**
52-Week Range (NASDAQ)	**70-50**
Russell 2000	**911**
Short Interest (Mil)	**0.555**

	2011	2012E	2013E		2014E	
			OLD	NEW	OLD	NEW
Mar.	($0.19)	$0.00A	$0.16		$0.24	
June	2.37	2.60A	2.81		3.02	
Sep.	0.36	0.34A	0.41		0.61	
Dec.	0.26	0.12	0.31		0.46	
EPS (Cal.)	**$2.76**	**$3.05**	**$3.66**		**$4.29**	
P/E (Cal.)		**21.7x**	**18.1x**		**15.4x**	
EBITDA (mil.) (Cal)	**$139.4**	**$143.9**	**$175.9**		**$197.1**	
EV / EBITDA		**8.3x**	**7.1x**		**6.6x**	

Action	Date	Px	Rating	PT
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Note: 2011-2014E includes $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$725.3	$802.8	$825.7
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.30	$3.66	$4.29

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL, and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering Websites, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Illinois Legislature May Turn Attention To Legalizing Slots At Racetracks If Pension Reform Is Resolved; Poll Show Kentucky Voters Support Legalized Casinos; Maintain BUY, $94 Target

- **In Illinois, the state legislature appears mainly concerned with pension reform; we think the debate could shift to legalizing slots at racetracks if pension reform is resolved.**
- **Although legalized casinos in Kentucky would require a November 2014 public vote, the governor likely will announce this week whether he will push for a constitutional amendment in the 2013 session or wait for 2014.**
- **A public poll released last week showed 61% of registered voters supporting legalizing casinos in the state.**
- **If both measures passed, we estimate these opportunities are worth $45 per share in equity value on an undiscounted basis.**
- **We think the shares are attractive, trading at 1x our 2013 FCF per share forecast of $6.23, considering CHDN's lucrative Kentucky Derby franchise, online wagering growth trajectory and over-capitalized balance sheet.**
- **We maintain our BUY rating.**
- **Our $94 target is based on 14x our unchanged 2014 free cash flow per share estimate of $6.69.**

❑ **We expect the Illinois legislature to turn its attention to legalizing slots at racetracks if it is able to achieve pension reform.** The governor has continued to warm up to the issue, but generally has insisted the legislature must act on pension reform before considering gaming legislation (pension reform is currently under heavy debate). We estimate slots at CHDN's Arlington racetrack are worth $20 per share in equity value. The Illinois legislature meets year round.

❑ **A Kentucky poll released last week showed strong support for legalized casinos.** The poll, conducted by SurveyUSA, showed 61% of registered voters support amending the state constitution to permit casinos, 30% opposed and 9%

undecided. The governor is likely to announce this week whether he will push for a constitutional amendment this year, or wait until the 2014 session (either way, the amendment requires a public vote in November 2014). We estimate slots at CHDN's namesake racetrack are worth $25 per share in equity value (Exhibit 1).

- **We think CHDN's shares are undervalued given the company's solid balance sheet, Kentucky Derby franchise and market leading position on the online wagering segment.** Historically, regional casinos generally have traded at 6x-9x forward EBITDA; with CHDN trading toward the low end of this range, we think the shares provide investors with an opportunity to accumulate shares. We argue the shares deserve a premium to regional casino operators given its highly valuable Kentucky Derby franchise and market leading position in the online horse wagering segment (nearly a 50% market share in the secular growth, non-capital intensive industry). We estimate CHDN will have just $119 million in net debt at the end of 2013, amounting to 0.7x projected 2013 EBITDA compared with 5x for peers. The under-leveraged balance sheet enables CHDN to consider highly accretive regional gaming acquisitions and returning increased cash to shareholders through a higher dividend or additional share repurchases.

- **We maintain our BUY rating and $94 target.** Our target is based on 14x our unchanged 2014 FCF per share estimate of $6.69. Our $1.7 billion market cap target implies a multiple of about 8x our 2014 EBITDA estimate of $197 million less projected net debt of $99 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

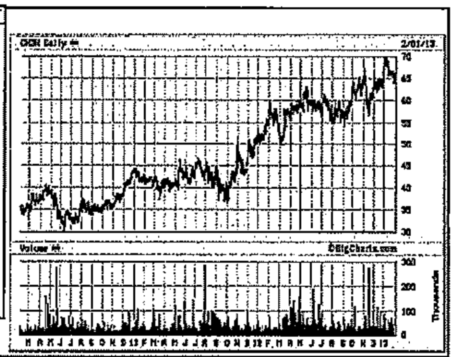
Table 1 : CHDN Income Statement (000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	JunA	SepA	Dec	2012E	Mar	Jun	Sep	Dec	2013E	2014E
Net Revenue																
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$62,919	$51,675	$305,216	$29,899	$162,842	$62,002	$51,459	$306,203	$309,381
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,198	18,529	76,721	22,026	18,768	18,562	18,900	78,255	79,821
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,841	17,816	76,724	19,254	19,188	17,841	17,816	74,098	75,580
Gaming, MS (Harlows)	16,510	9,501	13,441	13,387	52,839	15,863	13,783	13,454	13,387	56,487	16,656	14,472	14,127	14,056	59,311	60,498
Gaming, MS (Riverwalk)											14,000	14,000	14,000	14,000	56,000	57,120
ADW	36,803	46,526	42,015	40,072	165,416	44,035	52,702	45,593	44,881	187,211	48,439	57,972	50,152	49,369	205,932	220,347
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	6,872	5,134	22,952	4,643	6,303	6,872	5,134	22,952	22,952
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**164,877**	**151,422**	**725,311**	**154,917**	**293,545**	**183,556**	**170,734**	**802,751**	**825,698**
EBITDA																
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	1,243	(5,426)	49,668	(11,362)	68,068	930	(5,403)	52,233	55,554
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,800	5,929	25,885	8,098	6,381	5,940	6,048	26,467	27,188
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	4,300	2,200	2,316	12,816	3,466	3,262	2,141	2,316	11,185	11,408
Gaming, MS (Harlows)	6,600	2,300	4,000	4,550	17,450	6,133	3,938	4,029	4,284	18,384	6,496	5,355	4,521	4,498	20,869	21,434
Gaming, MS (Riverwalk)											4,830	4,830	4,830	4,830	19,320	19,706
ADW	7,545	11,308	9,818	9,069	37,740	10,421	12,539	8,986	8,393	40,339	11,867	15,073	11,535	12,095	50,571	56,822
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(977)	224	(4,757)	(1,931)	(2,073)	(977)	224	(4,757)	(4,757)
EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**17,320**	**143,935**	**21,464**	**100,896**	**28,919**	**24,608**	**175,887**	**187,356**
EBITDA including OH JV	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**17,320**	**143,935**	**21,464**	**100,896**	**28,919**	**24,608**	**175,887**	**197,106**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,370)	(13,370)	(54,185)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(59,280)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**7,911**	**3,950**	**89,750**	**6,394**	**85,826**	**13,849**	**9,538**	**115,607**	**128,076**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(842)	(600)	(3,594)	(1,600)	(1,800)	(1,300)	(1,000)	(5,700)	(4,000)
JV interest																4,500
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**7,069**	**3,350**	**86,156**	**4,794**	**84,026**	**12,549**	**8,538**	**109,907**	**128,576**
Income tax (exp.) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(1,096)	(1,373)	(32,613)	(1,942)	(34,030)	(5,082)	(3,458)	(44,512)	(51,430)
%	-39%	41%	30%	5%	38%	41%	40%	16%	41%	38%	41%	41%	41%	41%	41%	40%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**5,973**	**1,976**	**53,543**	**2,853**	**49,995**	**7,467**	**5,080**	**65,395**	**77,145**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.34**	**$0.12**	**$3.05**	**$0.16**	**$2.81**	**$0.41**	**$0.31**	**$3.66**	**$4.29**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,575	17,600	17,528	17,600	17,800	18,000	18,000	17,850	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$1,354	$48,576	$5,973	$1,976	$57,879	$2,853	$49,995	$7,467	$5,080	$65,395	$77,145
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.08	$2.78	$0.34	$0.11	$3.30	$0.16	$2.81	$0.41	$0.28	$3.66	$4.29
Margin analysis																
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	12.9%	11.4%	19.8%	13.9%	34.4%	15.8%	14.4%	21.9%	22.7%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	4.8%	2.6%	12.4%	4.1%	29.2%	7.5%	5.6%	14.4%	15.5%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	4.3%	2.2%	11.9%	3.1%	28.6%	6.8%	5.0%	13.7%	15.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.6%	1.3%	7.4%	1.8%	17.0%	4.1%	3.0%	8.1%	9.3%
Y/Y growth %																
Revenue	54%	16%	13%	9%	19%	5%	8%	-1%	1%	4%	12%	8%	11%	13%	11%	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	-10%	-11%	3%	43%	12%	36%	42%	22%	7%
Operating income	NM	39%	120%	NM	112%	NM	8%	-23%	-31%	7%	NM	12%	75%	141%	29%	11%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	-20%	NM	14%	NM	11%	78%	155%	28%	17%
Net income	NM	34%	236%	NM	130%	NM	14%	-3%	NM	13%	NM	10%	25%	157%	22%	18%
EPS	NM	18%	222%	NM	108%	NM	10%	-7%	NM	11%	NM	8%	22%	157%	20%	17%

Source: Sidoti & Company, LLC and company reports.

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$66.26) BUY Target: $94 February 4, 2013

Action	Date	Px	Rating	PT
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $94 target.** Our target is based on 14x our unchanged 2014 FCF per share estimate of $6.69. Our $1.7 billion market cap target implies a multiple of about 8x our 2014 EBITDA estimate of $197 million less projected net debt of $99 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Required Disclosures

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Appendix Continued

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317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Sidoti & Company, LLC
Member FINRA & SIPC

Required disclosures appear in the Appendix.

Intraday Note

Churchill Downs Inc. (CHDN-$63.65) — BUY

Company Update — **Target: $94**

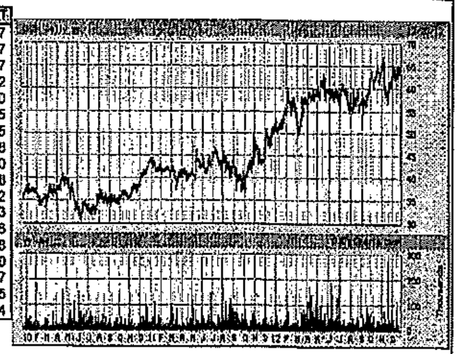
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

December 21, 2012

Market Cap (Mil)	**$1,110**	**Price to Book Value**	**1.8x**
Avg. Daily Trading Volume	**46,000**	**Return on Equity (2014E)**	**10.5%**
Shares Out (Mil)	**17.456**	**LT Debt to Total Capital**	**11%**
Float Shares (Mil)	**13.177**	**5-Year EPS Growth Rate Projection**	**19%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**67-49**
Dividend	**$0.60**	**Russell 2000**	**842**
Dividend Yield	**0.9%**	**Short Interest (Mil)**	**0.637**

	2011	2012E	2013E OLD	2013E NEW	2014E OLD	2014E NEW
Mar.	($0.19)	$0.00A	$0.16		$0.24	
June	2.37	2.60A	2.81		3.02	
Sep.	0.36	0.34A	0.41		0.61	
Dec.	0.26	0.12	0.31		0.46	
EPS (Cal.)	**$2.76**	**$3.05**	**$3.66**		**$4.29**	
P/E (Cal.)		**20.9x**	**17.4x**		**14.8x**	
EBITDA (mil.) (Cal)	**$139.4**	**$143.9**	**$175.9**		**$197.1**	
EV / EBITDA		**8.0x**	**6.8x**		**6.3x**	

Action	Date	Px	Rating	PT
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Note: 2011-2014E includes $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$725.3	$802.8	$825.7
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.30	$3.66	$4.29

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL, and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering Websites, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Expect Gaming Legislation Debate To Heat Up In January In Both Illinois And Kentucky; Think Shares Deserve Premium Multiple To Peers Given Derby Franchise; Reiterate BUY, $94 Target

- **We expect the Illinois legislature to consider permitting slots at racetracks when the session reconvenes on January 2, 2013; the 2013 legislative session opens on January 9.**
- **In Kentucky, we expect pro-gaming legislation to be introduced in the 2013 session that begins January 9 and runs through late March.**
- **If both measures passed, we estimate these opportunities are worth $45 per share in equity value on an undiscounted basis (Exhibit 1 and 2).**
- **We think the shares are oversold trading at 10x our 2013 FCF per share forecast of $6.23 considering CHDN's lucrative Kentucky Derby franchise, online wagering growth trajectory and over-capitalized balance sheet.**
- **We reiterate our BUY rating.**
- **Our $94 target is based on 14x our unchanged 2014 free cash flow per share estimate of $6.69.**

❑ **We expect the Illinois legislature to consider a new gaming bill when it reconvenes on January 2.** Earlier in the 2012 session, legalized slots at racetracks legislation was passed by both houses only to be vetoed by the governor. However, the governor has indicated he would be open to signing off on the bill if the legislature can complete pension reform and the gaming bill has stricter compliance measures. We estimate slots at CHDN's Arlington racetrack is worth $20 per share in equity value (Exhibit 2).

❑ **With Kentucky's anti-gaming senate president no longer in the picture, we think the likelihood of legalized casinos meaningfully increases.** The pro gaming governor is likely to make another push to legalize casinos. Gaming in Kentucky requires a constitutional amendment, which entails a 60% majority of both houses, governor signature and a state-wide public referendum (which would take place in 2014). We think approval in the state senate is the largest hurdle (public polls support gaming and we do not think passing a bill in the house will be a challenge). With long-time opponent state senate president David Williams no longer in the legislature, we think the chances of legislation are meaningfully higher. We estimate slots at CHDN's namesake racetrack are worth $25 per share in equity value (Exhibit 1).

- **This morning competitor Ameristar Casinos (NASDAQ: ASCA, NEUTRAL) was acquired by Pinnacle Entertainment (NYSE: PNK, NC).** We downgraded ASCA this morning after the takeout bid that amounted to about 8x our 2013 EBITDA estimate. While we do not expect significant industry consolidation, we think the deal underscores public multiples for regional casinos, which do not fully appreciate the powerful cash generation of the industry (particularly in light of extremely low yields for gaming high yield bonds). In addition, as competitor Penn National Gaming (NYSE: PENN, NC) splits into a gaming REIT and management company in late 2013, we think it will be actively looking for sale-leaseback opportunities at attractive multiples for existing casino operators. Lastly, we think CHDN deserves a premium to regional casinos given its Kentucky Derby franchise (a trophy asset, in our view) and rapidly growing online horse wagering segment.

- **We maintain our BUY rating and $94 target.** Our target is based on 14x our unchanged 2014 FCF per share estimate of $6.69. Our $1.7 billion market cap target implies a multiple of about 8x our 2014 EBITDA estimate of $197 million less projected net debt of $99 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1. CHDN Louisville Casino Analysis

(millions)	Low	Base	High
Capex	$250	$250	$250
Slot machines	2,500	2,500	2,500
Win per day	$225	$250	$275
Slots rev.	$205	$228	$251
Table rev.	$25	$27	$30
Gross gaming rev.	$230	$256	$281
Food, bev. and other rev.	28	31	34
Promotional allowances	(39)	(43)	(47)
Total rev.	219	243	268
EBITDA margin	32%	35%	38%
EBITDA	$70	$85	$102
Cash-on-cash return	28%	35%	41%
Equity/share			
@ 7x	$14	$20	$27
@ 8x	$18	$25	$33
@ 9x	$22	$30	$39
Initial accretion			
EPS	$1.74	$2.26	$2.83
Annual FCF	36	46	55
FCF/share	$2.12	$2.71	$3.22

Note: Assumes $50 million license fee, $200 million construction cost and 40% gaming tax rate

Source: Sidoti & Company, LLC and company reports.

Exhibit 2. Arlington Park, Slots Facility

(millions)	Low	Base	High
Capex	$200	$200	$200
Slots	2,100	2,100	2,100
WPD	$225	$250	$275
Gaming Rev.	$172	$192	$211
Other Rev.	17	19	21
Promotional Allowance	(19)	(21)	(23)
Total Rev.	171	190	209
EBITDA Margin	33%	35%	37%
EBITDA	56	67	77
Cash-on-cash Return	28%	33%	39%
Equity/share			
@ 7x	$11	$16	$20
@ 8x	$15	$20	$25
@ 9x	$18	$24	$29
Initial accretion			
Annual EPS	$1.33	$1.69	$2.04
Annual FCF	28	34	41
Annual FCF/share	$1.62	$1.98	$2.33

Source: Sidoti & Company, LLC and company reports.

Exhibit 3: Comparison Chart- Regional Casinos

	Ticker	Rating	Share Price	Mkt Cap	EPS			P/E			EV/EBITDA			Net Debt/ 2012 EBITDA
					CI2E	CI3	CI4	CI2E	CI3E	CI4E	CI2	CI3	CI4	
Ameristar	ASCA	NEUTRAL	$26.50	$908	$2.03	$2.16	$2.63	13.1	12.3	10.1	7.9	7.5	7.0	5.3
Isle of Capri	ISLE	BUY	$5.85	229	$0.37	$0.46	$0.63	15.8	12.7	9.3	7.3	6.4	6.1	6.0
Monarch Casino	MCRI	BUY	$9.37	152	$0.60	$0.82	$0.90	15.6	11.4	10.4	5.4	4.8	4.0	NM
Penn Natl Gaming	PENN	NC	$48.52	5,192	$2.29	$2.84	$3.03	21.2	17.1	16.0	10.1	7.9	7.2	3.2
Pinnacle	PNK	NC	$15.77	946	$0.95	$0.88	$0.97	16.6	17.9	16.3	7.6	7.0	7.1	4.4
Churchill Downs	CHDN	BUY	$63.62	1,145	$3.11	$3.73	$4.34	20.5	17.1	14.7	8.8	7.0	6.2	1.1

Source: Sidoti & Company, LLC estimates and company financials

Note: Regional operators EV/EBITDA includes the book value of construction in progress.

NC = Not covered by Sidoti & Co. LLC, estimates provided from First Call

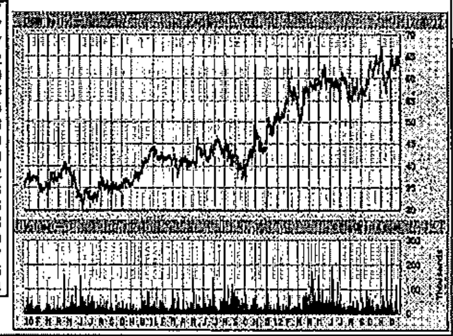
Table 1 : CHDN Income Statement																
(000's, except where noted)	**Mar**	**Jun**	**Sep**	**Dec**	**2011**	**MarA**	**JunA**	**SepA**	**Dec**	**2012E**	**Mar**	**Jun**	**Sep**	**Dec**	**2013E**	**2014E**
Net Revenue																
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$62,919	$51,675	$305,216	$29,899	$162,842	$62,002	$51,459	$306,203	$309,381
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,198	18,529	76,721	22,026	18,768	18,562	18,900	78,255	79,821
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,841	17,816	76,724	19,254	19,188	17,841	17,816	74,098	75,580
Gaming, MS (Harlows)	16,510	9,501	13,441	13,387	52,839	15,863	13,783	13,454	13,387	56,487	16,656	14,472	14,127	14,056	59,311	60,498
Gaming, MS (Riverwalk)											14,000	14,000	14,000	14,000	56,000	57,120
ADW	36,803	46,526	42,015	40,072	165,416	44,035	52,702	45,593	44,881	187,211	48,439	57,972	50,152	49,369	205,932	220,347
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	6,872	5,134	22,952	4,643	6,303	6,872	5,134	22,952	22,952
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**164,877**	**151,422**	**725,311**	**154,917**	**293,545**	**183,556**	**170,734**	**802,751**	**825,698**
EBITDA																
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	1,243	(5,426)	49,668	(11,362)	68,068	930	(5,403)	52,233	55,554
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,800	5,929	25,885	8,098	6,381	5,940	6,048	26,467	27,188
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	4,300	2,200	2,316	12,816	3,466	3,262	2,141	2,316	11,185	11,408
Gaming, MS (Harlows)	6,600	2,300	4,000	4,550	17,450	6,133	3,938	4,029	4,284	18,384	6,496	5,355	4,521	4,498	20,869	21,434
Gaming, MS (Riverwalk)											4,830	4,830	4,830	4,830	19,320	19,706
ADW	7,545	11,308	9,818	9,069	37,740	10,421	12,539	8,986	8,393	40,339	11,867	15,073	11,535	12,095	50,571	56,822
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(977)	224	(4,757)	(1,931)	(2,073)	(977)	224	(4,757)	(4,757)
EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**17,320**	**143,935**	**21,464**	**100,896**	**28,919**	**24,608**	**175,887**	**187,356**
EBITDA including OH JV	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**17,320**	**143,935**	**21,464**	**100,896**	**28,919**	**24,608**	**175,887**	**197,106**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,370)	(13,370)	(54,185)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(59,280)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**7,911**	**3,950**	**89,750**	**6,394**	**85,826**	**13,849**	**9,538**	**115,607**	**128,076**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(842)	(600)	(3,594)	(1,600)	(1,800)	(1,300)	(1,000)	(5,700)	(4,000)
JV interest																4,500
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**7,069**	**3,350**	**86,156**	**4,794**	**84,026**	**12,549**	**8,538**	**109,907**	**128,576**
Income tax (exp.) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(1,096)	(1,373)	(32,613)	(1,942)	(34,030)	(5,082)	(3,458)	(44,512)	(51,430)
%	-39%	41%	30%	5%	38%	41%	40%	16%	41%	38%	41%	41%	41%	41%	41%	40%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**5,973**	**1,976**	**53,543**	**2,853**	**49,995**	**7,467**	**5,080**	**65,395**	**77,145**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.34**	**$0.12**	**$3.05**	**$0.16**	**$2.81**	**$0.41**	**$0.31**	**$3.66**	**$4.29**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,575	17,600	17,528	17,600	17,800	18,000	18,000	17,850	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$1,354	$48,576	$5,973	$1,976	$57,879	$2,853	$49,995	$7,467	$5,080	$65,395	$77,145
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.08	$2.78	$0.34	$0.11	$3.30	$0.16	$2.81	$0.41	$0.28	$3.66	$4.29
Margin analysis																
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	12.9%	11.4%	19.8%	13.9%	34.4%	15.8%	14.4%	21.9%	22.7%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	4.8%	2.6%	12.4%	4.1%	29.2%	7.5%	5.6%	14.4%	15.5%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	4.3%	2.2%	11.9%	3.1%	28.6%	6.8%	5.0%	13.7%	15.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.6%	1.3%	7.4%	1.8%	17.0%	4.1%	3.0%	8.1%	9.3%
Y/Y growth %																
Revenue	54%	16%	13%	9%	19%	5%	8%	-1%	1%	4%	12%	8%	11%	13%	11%	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	-10%	-11%	3%	43%	12%	36%	42%	22%	7%
Operating income	NM	39%	120%	NM	112%	NM	8%	-23%	-31%	7%	NM	12%	75%	141%	29%	11%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	-20%	NM	14%	NM	11%	78%	155%	28%	17%
Net income	NM	34%	236%	NM	130%	NM	14%	-3%	NM	13%	NM	10%	25%	157%	22%	18%
EPS	NM	18%	222%	NM	108%	NM	10%	-7%	NM	11%	NM	8%	22%	157%	20%	17%

Source: Sidoti & Company, LLC and company reports.

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$63.65) BUY Target: $94 December 21, 2012

Action	Date	Px	Rating	PT
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $94 target.** Our target is based on 14x our unchanged 2014 FCF per share estimate of $6.69. Our $1.7 billion market cap target implies a multiple of about 8x our 2014 EBITDA estimate of $197 million less projected net debt of $99 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 12/21/12, Sidoti provides research on 504 companies, of which 373 (74%) are rated BUY and 131 (26%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 4 companies (1.07%). Of the NEUTRALS, 64 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Other Disclosures

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Appendix Continued

presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Table 1 : CHDN Income Statement																
(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	JunA	SepA	Dec	2012E	Mar	Jun	Sep	Dec	2013E	2014E
Net Revenue																
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$62,919	$51,675	$305,216	$29,899	$162,842	$62,002	$51,459	$306,203	$309,381
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,198	18,529	76,721	22,026	18,768	18,562	18,900	78,255	79,821
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,841	17,816	76,724	19,254	19,188	17,841	17,816	74,098	75,580
Gaming, MS (Harlows)	16,510	9,501	13,441	13,387	52,839	15,863	13,783	13,454	13,387	56,487	16,656	14,472	14,127	14,056	59,311	60,498
Gaming, MS (Riverwalk)											14,000	14,000	14,000	14,000	56,000	57,120
ADW	36,803	46,526	42,015	40,072	165,416	44,035	52,702	45,593	44,881	187,211	48,439	57,972	50,152	49,369	205,932	220,347
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	6,872	5,134	22,952	4,643	6,303	6,872	5,134	22,952	22,952
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**164,877**	**151,422**	**725,311**	**154,917**	**293,545**	**183,556**	**170,734**	**802,751**	**825,698**
EBITDA																
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	1,243	(5,426)	49,668	(11,362)	68,068	930	(5,403)	52,233	55,554
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,800	5,929	25,885	8,098	6,381	5,940	6,048	26,467	27,188
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	4,300	2,200	2,316	12,816	3,466	3,262	2,141	2,316	11,185	11,408
Gaming, MS (Harlows)	6,600	2,300	4,000	4,550	17,450	6,133	3,938	4,029	4,284	18,384	6,496	5,355	4,521	4,498	20,869	21,434
Gaming, MS (Riverwalk)											4,830	4,830	4,830	4,830	19,320	19,706
ADW	7,545	11,308	9,818	9,069	37,740	10,421	12,539	8,986	8,393	40,339	11,867	15,073	11,535	12,095	50,571	56,822
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(977)	224	(4,757)	(1,931)	(2,073)	(977)	224	(4,757)	(4,757)
EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**17,320**	**143,935**	**21,464**	**100,896**	**28,919**	**24,608**	**175,887**	**187,356**
EBITDA including OH JV	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**17,320**	**143,935**	**21,464**	**100,896**	**28,919**	**24,608**	**175,887**	**197,106**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,370)	(13,370)	(54,185)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(59,280)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**7,911**	**3,950**	**89,750**	**6,394**	**85,826**	**13,849**	**9,538**	**115,607**	**128,076**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(842)	(600)	(3,594)	(1,600)	(1,800)	(1,300)	(1,000)	(5,700)	(4,000)
JV interest																4,500
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**7,069**	**3,350**	**86,156**	**4,794**	**84,026**	**12,549**	**8,538**	**109,907**	**128,576**
Income tax (exp.) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(1,096)	(1,373)	(32,613)	(1,942)	(34,030)	(5,082)	(3,458)	(44,512)	(51,430)
%	-39%	41%	30%	5%	38%	41%	40%	16%	41%	38%	41%	41%	41%	41%	41%	40%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**5,973**	**1,976**	**53,543**	**2,853**	**49,995**	**7,467**	**5,080**	**65,395**	**77,145**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.34**	**$0.12**	**$3.05**	**$0.16**	**$2.81**	**$0.41**	**$0.31**	**$3.66**	**$4.29**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,575	17,600	17,528	17,600	17,800	18,000	18,000	17,850	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$1,354	$48,576	$5,973	$1,976	$57,879	$2,853	$49,995	$7,467	$5,080	$65,395	$77,145
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.08	$2.78	$0.34	$0.11	$3.30	$0.16	$2.81	$0.41	$0.28	$3.66	$4.29
Margin analysis																
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	12.9%	11.4%	19.8%	13.9%	34.4%	15.8%	14.4%	21.9%	22.7%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	4.8%	2.6%	12.4%	4.1%	29.2%	7.5%	5.6%	14.4%	15.5%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	4.3%	2.2%	11.9%	3.1%	28.6%	6.8%	5.0%	13.7%	15.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.6%	1.3%	7.4%	1.8%	17.0%	4.1%	3.0%	8.1%	9.3%
Y/Y growth %																
Revenue	54%	16%	13%	9%	19%	5%	8%	-1%	1%	4%	12%	8%	11%	13%	11%	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	-10%	-11%	3%	43%	12%	36%	42%	22%	7%
Operating income	NM	39%	120%	NM	112%	NM	8%	-23%	-31%	7%	NM	12%	75%	141%	29%	11%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	-20%	NM	14%	NM	11%	78%	155%	28%	17%
Net income	NM	34%	236%	NM	130%	NM	14%	-3%	NM	13%	NM	10%	25%	157%	22%	18%
EPS	NM	18%	222%	NM	108%	NM	10%	-7%	NM	11%	NM	8%	22%	157%	20%	17%

Source: Sidoti & Company, LLC and company reports.

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Sidoti & Company, LLC
Member FINRA & SIPC

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$65.40) — BUY

Adjust Earnings Estimates; Earnings Release — **Target: $94**

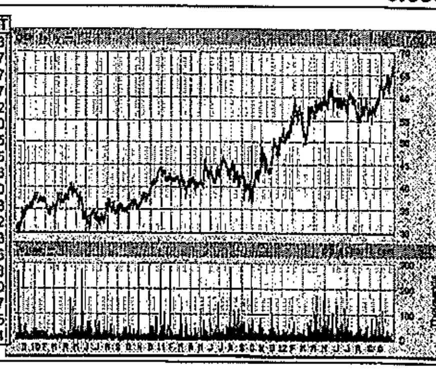
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

November 6, 2012

Market Cap (Mil)	$1,140	**Price to Book Value**	1.9x
Avg. Daily Trading Volume	38,000	**Return on Equity (2014E)**	10.5%
Shares Out (Mil)	17.452	**LT Debt to Total Capital**	11%
Float Shares (Mil)	13.036	**5-Year EPS Growth Rate Projection**	19%
Institutional Holdings	40%	**52-Week Range (NASDAQ)**	67-43
Dividend	$0.60	**Russell 2000**	820
Dividend Yield	0.9%	**Short Interest (Mil)**	0.636

	2011	2012E		2013E		2014E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	($0.19)	$0.00A		$0.15	$0.16	$0.23	$0.24
June	2.37	2.60A		2.77	2.81	3.01	3.02
Sep.	0.36	0.36	0.34A	0.52	0.41	0.67	0.61
Dec.	0.26	0.15	0.12	0.32	0.31	0.47	0.46
EPS (Cal.)	**$2.76**	**$3.11**	**$3.05**	**$3.73**	**$3.66**	**$4.34**	**$4.29**
P/E (Cal.)			**21.4x**		**17.9x**		**15.2x**
EBITDA (mil.) (Cal)	**$139.4**	**$148.7**	**$143.9**	**$179.9**	**$175.9**	**$199.7**	**$197.1**
EV / EBITDA			**8.2x**		**7.0x**		**6.5x**

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Note: 2011-2014E includes $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$725.3	$802.8	$825.7
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.30	$3.66	$4.29

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering websites, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Think Online Wagering Growth, Ohio Casino Joint Venture And Recent Casino Acquisition Will Fuel 20% And 17% EPS Growth In 2013 And 2014, Respectively; Maintain BUY, $94 Target

- **CHDN generated 3Q:12 revenue of $165 million (compared with our $170 million) and EPS of $0.34 (versus consensus of $0.36); excluding a favorable tax rate, CHDN missed our estimate by $0.12.**
- **We attribute the shortfall to lower-than-projected growth in the online wagering segment plus higher-than-forecast start-up costs for the launch of luckity.com.**
- **Accordingly, we just trim our 2012-2014 EPS estimates as we expect the recent launch of the site to mitigate start-up costs.**
- **We think CHDN is primed to generate EPS growth of 20% in 2013 and 17% in 2014 given the recent Riverwalk acquisition, the opening of the Ohio casino joint venture and organic growth in the online wagering segment.**
- **Management will host a conference call at 9:00 AM ET; the call-in number is 877.372.0878 (ID 59454442).**
- **We maintain our BUY rating.**
- **Our $94 target is based on 14x our revised 2014 free cash flow per share estimate of $6.69 (from $6.72).**

❑ **CHDN largely missed our estimates on slower-than-projected growth in the online wagering segment and higher-than-forecast start-up costs for luckity.com.** Revenue in CHDN's online wagering segment rose 9% year over year (compared with our estimate of 15%). Combined with higher-than-expected start-up costs for www.luckity.com, EBITDA of $9 million in the segment was shy of our $12 million forecast. CHDN's racing and regional casino segments were about in line with our forecast. We reduce our 2012-2014 EPS estimates to $3.05 (from $3.11), $3.66 (from $3.73) and $4.29 (from $4.34), respectively, largely to reflect slightly lower margins in the regional casino segment. We expect Luckity start-up costs to diminish and online margins to rebound as revenue builds with the recent launch of the website.

- **We forecast 20% and 17% EPS growth in 2013 and 2014, respectively.** We think CHDN's recently completed Mississippi casino acquisition, Ohio casino joint venture and online horse wagering segment will be the key growth drivers. We note our EPS estimates assume little contribution from the recent launch of Luckity.com—a real cash, online wagering site marketed to non-race fans. In addition, we expect improving pricing and a recent of expansion at CHDN's marquee track to bolster profitability for Kentucky Derby week.

- **In our view, CHDN's shares provide a compelling risk/reward, trading at just 11x our 2013 free cash flow per share forecast of $6.17.** CHDN's marquee Louisville track and Arlington Park located in the Chicago suburbs have yet to legalize casino gaming. In Illinois, we think the legislature will make another push to legalize slots at tracks in the lame duck session that ends in early to January 2013. We estimate slots at Arlington Park would contribute nearly $1.75 in annual EPS. In Kentucky, with the recent resignation of the anti-gaming senate president, we expect the pro-gaming governor to again push for a constitutional amendment legalizing casinos. Assuming CHDN is awarded an exclusive gaming license in Louisville—in line with previously discussed legislation—we estimate a casino would add about $2.25 in annual EPS. The 2013 Kentucky legislative session opens in early January. In our view, neither of these opportunities is priced in the shares, trading at just 11x our 2013 free cash flow estimate.

- **CHDN's balance sheet is solid, in our view.** At the end of 3Q:12, CHDN had just $42 million in net debt, amounting to 0.3x trailing EBITDA (versus the median regional casino of 5x trailing EBITDA). We estimate CHDN will generate $6.17 and $6.69 in free cash flow in 2013 and 2014, respectively; after dividends, CHDN's funding of the Ohio casino joint venture and the Riverwalk casino acquisition (which closed in October), we estimate CHDN will have just $99 million in net at 2014 year-end (0.5x projected 2014 EBITDA). In our view, there is considerable room to fund potential casinos in Illinois and Kentucky *and* return cash to shareholders (we think management ultimately will initiate a share repurchase program).

- **We maintain our BUY rating and $94 target.** Our target is based on 14x our revised 2014 FCF per share estimate of $6.69 (from $6.72). Our $1.7 billion market cap target implies a multiple of about 8x our revised 2014 EBITDA estimate of $197 million (from $200 million), less projected net debt of $99 million (from $95 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	3Q:12A	3Q:12E	Variance	3Q:11A	YOY%
Revenue	$164,877	$169,659	($4,782)	$166,349	-1%
EBITDA	21,281	24,863	(3,582)	23,697	-10%
	12.9%	14.7%		14.2%	
Operating income	7,911	11,225	(3,314)	10,254	-23%
	4.8%	6.6%		6.2%	
Net income	5,973	6,269	(296)	6,173	-3%
	3.6%	3.7%		3.7%	
Fully diluted EPS	$0.34	$0.36	($0.02)	$0.36	-7%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis-EBITDA

(000's)	3Q:12A	3Q:12E	Var	3Q:11A	YOY%
Racing	$1,243	$984	$259	$1,114	12%
Gaming, LA	5,800	5,950	(150)	5,800	0%
Gaming, FL	2,200	2,317	(117)	3,300	-33%
Gaming, MS (Harlows)	4,029	4,032	(3)	4,000	1%
ADW	8,986	12,079	(3,093)	9,818	-8%
Corp./United Tote	(977)	(500)	(477)	(383)	NM
Total EBITDA	**$21,281**	**$24,863**	**($3,582)**	**$23,697**	**-10%**

Source: Sidoti & Company, LLC estimates and company financials

Table 1 : CHDN Income Statement

(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	JunA	SepA	Dec	2012E	Mar	Jun	Sep	Dec	2013E	2014E
Net Revenue																
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$62,919	$51,675	$305,216	$29,899	$162,842	$62,002	$51,459	$306,203	$309,381
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,198	18,529	76,721	22,026	18,768	18,562	18,900	78,255	79,821
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,841	17,816	76,724	19,254	19,188	17,841	17,816	74,098	75,580
Gaming, MS (Harlows)	16,510	9,501	13,441	13,387	52,839	15,863	13,783	13,454	13,387	56,487	16,656	14,472	14,127	14,056	59,311	60,498
Gaming, MS (Riverwalk)											14,000	14,000	14,000	14,000	56,000	57,120
ADW	36,803	46,526	42,015	40,072	165,416	44,035	52,702	45,593	44,881	187,211	48,439	57,972	50,152	49,369	205,932	220,347
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	6,872	5,134	22,952	4,643	6,303	6,872	5,134	22,952	22,952
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**164,877**	**151,422**	**725,311**	**154,917**	**293,545**	**183,556**	**170,734**	**802,751**	**825,698**
EBITDA																
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	1,243	(5,426)	49,668	(11,362)	68,068	930	(5,403)	52,233	55,554
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,800	5,929	25,885	8,098	6,381	5,940	6,048	26,467	27,188
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	4,300	2,200	2,316	12,816	3,466	3,262	2,141	2,316	11,185	11,408
Gaming, MS (Harlows)	6,600	2,300	4,000	4,550	17,450	6,133	3,938	4,029	4,284	18,384	6,496	5,355	4,521	4,498	20,869	21,434
Gaming, MS (Riverwalk)											4,830	4,830	4,830	4,830	19,320	19,706
ADW	7,545	11,308	9,818	9,069	37,740	10,421	12,539	8,986	8,393	40,339	11,867	15,073	11,535	12,095	50,571	56,822
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(977)	224	(4,757)	(1,931)	(2,073)	(977)	224	(4,757)	(4,757)
EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**17,320**	**143,935**	**21,464**	**100,896**	**28,919**	**24,608**	**175,887**	**187,356**
EBITDA including OH JV	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**17,320**	**143,935**	**21,464**	**100,896**	**28,919**	**24,608**	**175,887**	**197,106**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,370)	(13,370)	(54,185)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(59,280)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**7,911**	**3,950**	**89,750**	**6,394**	**85,826**	**13,849**	**9,538**	**115,607**	**128,076**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(842)	(600)	(3,594)	(1,600)	(1,800)	(1,300)	(1,000)	(5,700)	(4,000)
JV interest																4,500
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**7,069**	**3,350**	**86,156**	**4,794**	**84,026**	**12,549**	**8,538**	**109,907**	**128,576**
Income tax (exp.) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(1,096)	(1,373)	(32,613)	(1,942)	(34,030)	(5,082)	(3,458)	(44,512)	(51,430)
%	-39%	41%	30%	5%	38%	41%	40%	16%	41%	38%	41%	41%	41%	41%	41%	40%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**5,973**	**1,976**	**53,543**	**2,853**	**49,995**	**7,467**	**5,080**	**65,395**	**77,145**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.34**	**$0.12**	**$3.05**	**$0.16**	**$2.81**	**$0.41**	**$0.31**	**$3.66**	**$4.29**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,575	17,600	17,528	17,600	17,800	18,000	18,000	17,850	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$1,354	$48,576	$5,973	$1,976	$57,879	$2,853	$49,995	$7,467	$5,080	$65,395	$77,145
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.08	$2.78	$0.34	$0.11	$3.30	$0.16	$2.81	$0.41	$0.28	$3.66	$4.29
Margin analysis																
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	12.9%	11.4%	19.8%	13.9%	34.4%	15.8%	14.4%	21.9%	22.7%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	4.8%	2.6%	12.4%	4.1%	29.2%	7.5%	5.6%	14.4%	15.5%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	4.3%	2.2%	11.9%	3.1%	28.6%	6.8%	5.0%	13.7%	15.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.6%	1.3%	7.4%	1.8%	17.0%	4.1%	3.0%	8.1%	9.3%
Y/Y growth %																
Revenue	54%	16%	13%	9%	19%	5%	8%	-1%	1%	4%	12%	8%	11%	13%	11%	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	-10%	-11%	3%	43%	12%	36%	42%	22%	7%
Operating income	NM	39%	120%	NM	112%	NM	8%	-23%	-31%	7%	NM	12%	75%	141%	29%	11%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	-20%	NM	14%	NM	11%	78%	155%	28%	17%
Net income	NM	34%	236%	NM	130%	NM	14%	-3%	NM	13%	NM	10%	25%	157%	22%	18%
EPS	NM	18%	222%	NM	108%	NM	10%	-7%	NM	11%	NM	8%	22%	157%	20%	17%

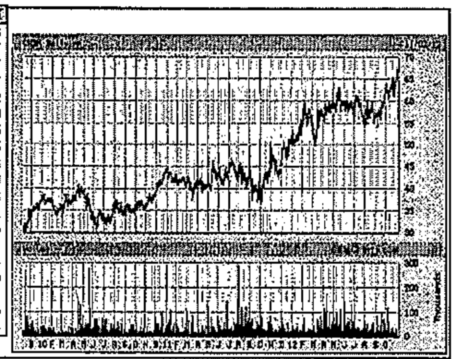
Source: Sidoti & Company, LLC and company reports.

Appendix

Required Disclosures

Churchill Downs Inc. (CHDN-$65.40) BUY Target: $94 November 6, 2012

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	8/9/10	31.3	Buy	45
PT	8/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $94 target.** Our target is based on 14x our revised 2014 FCF per share estimate of $6.69 (from $6.72). Our $1.7 billion market cap target implies a multiple of about 8x our revised 2014 EBITDA estimate of $197 million (from $200 million), less projected net debt of $99 million (from $95 million). EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Required Disclosures

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Appendix Continued

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Table 1 : CHDN Income Statement																
(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	JunA	SepA	Dec	2012E	Mar	Jun	Sep	Dec	2013E	2014E
Net Revenue																
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$62,919	$51,675	$305,216	$29,899	$162,842	$62,002	$51,459	$306,203	$309,381
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,198	18,529	76,721	22,026	18,768	18,562	18,900	78,255	79,821
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,841	17,816	76,724	19,254	19,188	17,841	17,816	74,098	75,580
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Gaming, MS (Riverwalk)											14,000	14,000	14,000	14,000	56,000	57,120
ADW	36,803	46,526	42,015	40,072	165,416	44,035	52,702	45,593	44,881	187,211	48,439	57,972	50,152	49,369	205,932	220,347
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	6,872	5,134	22,952	4,643	6,303	6,872	5,134	22,952	22,952
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**164,877**	**151,422**	**725,311**	**154,917**	**293,545**	**183,556**	**170,734**	**802,751**	**825,698**
EBITDA																
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	1,243	(5,426)	49,668	(11,362)	68,068	930	(5,403)	52,233	55,554
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,800	5,929	25,885	8,098	6,381	5,940	6,048	26,467	27,188
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	4,300	2,200	2,316	12,816	3,466	3,262	2,141	2,316	11,185	11,408
Gaming, MS (Harlows)	6,600	2,300	4,000	4,550	17,450	6,133	3,938	4,029	4,284	18,384	6,496	5,355	4,521	4,498	20,869	21,434
Gaming, MS (Riverwalk)											4,830	4,830	4,830	4,830	19,320	19,706
ADW	7,545	11,308	9,818	9,069	37,740	10,421	12,539	8,986	8,393	40,339	11,867	15,073	11,535	12,095	50,571	56,822
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(977)	224	(4,757)	(1,931)	(2,073)	(977)	224	(4,757)	(4,757)
EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**17,320**	**143,935**	**21,464**	**100,896**	**28,919**	**24,608**	**175,887**	**187,356**
EBITDA including OH JV	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**21,281**	**17,320**	**143,935**	**21,464**	**100,896**	**28,919**	**24,608**	**175,887**	**197,106**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,370)	(13,370)	(54,185)	(15,070)	(15,070)	(15,070)	(15,070)	(60,280)	(59,280)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**7,911**	**3,950**	**89,750**	**6,394**	**85,826**	**13,849**	**9,538**	**115,607**	**128,076**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(842)	(600)	(3,594)	(1,600)	(1,800)	(1,300)	(1,000)	(5,700)	(4,000)
JV interest																4,500
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**7,069**	**3,350**	**86,156**	**4,794**	**84,026**	**12,549**	**8,538**	**109,907**	**128,576**
Income tax (exp.) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(1,096)	(1,373)	(32,613)	(1,942)	(34,030)	(5,082)	(3,458)	(44,512)	(51,430)
%	-39%	41%	30%	5%	38%	41%	40%	16%	41%	38%	41%	41%	41%	41%	41%	40%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**5,973**	**1,976**	**53,543**	**2,853**	**49,995**	**7,467**	**5,080**	**65,395**	**77,145**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.34**	**$0.12**	**$3.05**	**$0.16**	**$2.81**	**$0.41**	**$0.31**	**$3.66**	**$4.29**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,575	17,600	17,528	17,600	17,800	18,000	18,000	17,850	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$1,354	$48,576	$5,973	$1,976	$57,879	$2,853	$49,995	$7,467	$5,080	$65,395	$77,145
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.08	$2.78	$0.34	$0.11	$3.30	$0.16	$2.81	$0.41	$0.28	$3.66	$4.29
Margin analysis																
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	12.9%	11.4%	19.8%	13.9%	34.4%	15.8%	14.4%	21.9%	22.7%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	4.8%	2.6%	12.4%	4.1%	29.2%	7.5%	5.6%	14.4%	15.5%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	4.3%	2.2%	11.9%	3.1%	28.6%	6.8%	5.0%	13.7%	15.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.6%	1.3%	7.4%	1.8%	17.0%	4.1%	3.0%	8.1%	9.3%
Y/Y growth %																
Revenue	54%	16%	13%	9%	19%	5%	8%	-1%	1%	4%	12%	8%	11%	13%	11%	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	-10%	-11%	3%	43%	12%	36%	42%	22%	7%
Operating income	NM	39%	120%	NM	112%	NM	8%	-23%	-31%	7%	NM	12%	75%	141%	29%	11%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	-20%	NM	14%	NM	11%	78%	155%	28%	17%
Net income	NM	34%	236%	NM	130%	NM	14%	-3%	NM	13%	NM	10%	25%	157%	22%	18%
EPS	NM	18%	222%	NM	108%	NM	10%	-7%	NM	11%	NM	8%	22%	157%	20%	17%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$63.45) — BUY

Company Update — **Target: $94**

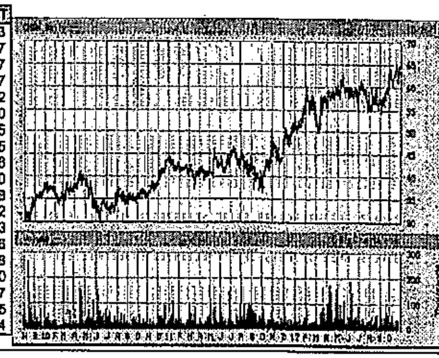
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

October 30, 2012

Market Cap (Mil)	$1,110	**Price to Book Value**	1.8x
Avg. Daily Trading Volume	38,000	**Return on Equity (2014E)**	10.5%
Shares Out (Mil)	17.452	**LT Debt to Total Capital**	11%
Float Shares (Mil)	13.036	**5-Year EPS Growth Rate Projection**	19%
Institutional Holdings	40%	**52-Week Range (NASDAQ)**	65-43
Dividend	$0.60	**Russell 2000**	813
Dividend Yield	0.9%	**Short Interest (Mil)**	0.636

	2011	2012E	2013E		2014E	
			OLD	NEW	OLD	NEW
Mar.	($0.19)	$0.00A	$0.15		$0.23	
June	2.37	2.60A	2.77		3.01	
Sep.	0.36	0.36	0.52		0.67	
Dec.	0.26	0.15	0.32		0.47	
EPS (Cal.)	**$2.76**	**$3.11**	**$3.73**		**$4.34**	
P/E (Cal.)		**20.4x**	**17.0x**		**14.6x**	
EBITDA (mil.) (Cal)	**$139.4**	**$148.7**	**$179.9**		**$199.7**	
EV / EBITDA		**7.7x**	**6.7x**		**6.2x**	

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		46
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	58.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Note: 2011-2014E includes $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$731.7	$809.5	$832.8
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.11	$3.73	$4.34

* 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering websites, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Argue The Resignation Of Kentucky's State Senate President Meaningfully Increases Chances Of Pro-Gaming Legislation; Reiterate BUY Rating, $94 Price Target

- **We estimate a casino development at CHDN's Louisville, KY track is worth $25 per share for CHDN, assuming the specifics of the legislation are in line with previously debated gaming legislation in Kentucky.**
- **On Friday, Kentucky senate president David Williams (Republican) resigned his position after being appointed to a circuit judgeship by Governor Steve Beshear (Democrat).**
- **As Mr. Williams has been instrumental in blocking gaming legislation in Kentucky year in and year out, we think his departure significantly increases the chances of pro-gaming legislation.**
- **We think it is likely the pro-gaming governor will again push for legislation; the 2013 Kentucky legislative session begins on January 8, 2013.**
- **We reiterate our BUY rating on CHDN, with a $94 price target based on 14x our unchanged 2014 free cash flow per share estimate of $6.72.**

❑ **The resignation of Mr. Williams removes a key roadblock to passage of gaming legislation in Kentucky, in our view.** Governor Beshear has actively supported gaming legislation since taking office in late 2007, but his efforts to pass a bill were consistently thwarted by Mr. Williams. In early 2012, when it appeared the senate had enough votes to pass a pro-gaming constitutional amendment, Mr. Williams forced a vote while several legislators were not present and the measure was defeated 21-16 (23 "yes" votes were required for passage, though several legislators that were likely to support the measure refused to vote for it when it was evident it would not pass). The measure would have permitted a public vote to legalize seven casinos licenses in Kentucky with no standalone casino allowed within 60 miles of a racetrack (essentially providing CHDN with a 60-mile radius of exclusivity around Louisville). Public opinion polls heavily support gaming. The bill did not address tax rates or license fees, as it required the legislature to pass enabling legislation. We also note the sponsor the bill (Damon Thayer) appears likely to run for a leadership position (majority leader). We do not think passing a gaming bill in the heavily Democratic-controlled House (58-41 as of now) will be a challenge. While 2013 is an abbreviated legislative session (30 days in odd years, 60 days in even years), the governor can simply call a special legislative session to extend the session if needed.

- **We estimate a casino development at CHDN's marquee track would add $25 per share in equity value, assuming legislation is in line with legislation historically debated in Kentucky.** We estimate a sole $250 million casino ($200 construction cost and $50 million license fee) in Louisville would generate $243 million annual revenue, $85 million annual EBITDA (35% cash-on-cash return) and $2.26 and $2.71 in annual EPS and free cash flow per share, respectively. We note that a Caesars property (NASDAQ: CZR, NC) in Indiana located just 15 miles from downtown Louisville generated trailing 12-month revenue of $263 million. Louisville's MSA of 1.3 million people is the 42nd-largest in the U.S.

- **We reiterate our BUY rating and $94 target.** Our target is based on 14x our 2014 FCF per share estimate of $6.72. Our $1.7 billion market cap target implies a multiple of 7.8x our 2014 EBITDA estimate of $200 million, less projected net debt of $95 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the partners financing the casino property and thus expect the joint venture to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Key Risks	Slowing economy	Construction cost overruns on new casino development	Increased competition

Exhibit 1. CHDN Louisville Casino Analysis

(millions)	Low	Base	High
Capex	$250	$250	$250
Slot machines	2,500	2,500	2,500
Win per day	$225	$250	$275
Slots rev.	$205	$228	$251
Table rev.	$25	$27	$30
Gross gaming rev.	$230	$256	$281
Food, bev. and other rev.	28	31	34
Promotional allowances	(39)	(43)	(47)
Total rev.	219	243	268
EBITDA margin	32%	35%	38%
EBITDA	$70	$85	$102
Cash-on-cash return	28%	35%	41%
Equity/share			
@ 7x	$14	$20	$27
@ 8x	$18	$25	$33
@ 9x	$22	$30	$39
Initial accretion			
EPS accretion	$1.74	$2.26	$2.83
Annual FCF accretion	36	46	55
FCF/share accretion	$2.12	$2.71	$3.22

Note: Assumes $50 million license fee, $200 million construction cost and 40% gaming tax rate

Source: Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement

(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	JunA	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E	2014E
Net Revenue																
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$65,613	$51,675	$307,910	$29,899	$162,842	$64,714	$51,459	$308,915	$312,094
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,595	18,900	77,488	22,026	18,768	18;966	19,278	79,038	80,619
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,821	17,816	76,703	19,254	19,188	17,821	17,816	74,078	75,560
Gaming, MS (Harlows)	16,510	9,501	13,441	13,387	52,839	15,863	13,783	13,441	13,387	56,474	16,656	14,472	14,113	14,056	59,298	60,484
Gaming, MS (Riverwalk)											14,000	14,000	14,000	14,000	56,000	57,120
ADW	36,803	46,526	42,015	40,072	165,416	44,035	52,702	48,317	46,083	191,137	48,439	57,972	53,149	50,691	210,251	224,968
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	5,873	5,134	21,953	4,643	6,303	5,873	5,134	21,953	21,953
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**169,659**	**152,994**	**731,666**	**154,917**	**293,545**	**188,637**	**172,434**	**809,533**	**832,797**
EBITDA																
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	984	(5,426)	49,409	(11,362)	68,068	971	(5,403)	52,274	55,595
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,950	6,048	26,154	8,098	6,381	6,069	6,169	26,717	27,443
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	3,200	2,317	2,316	11,833	3,466	3,262	2,317	2,316	11,360	11,588
Gaming, MS (Harlows)	6,600	2,300	4,000	4,550	17,450	6,133	5,038	4,032	4,284	19,487	6,496	5,355	4,940	4,498	21,288	21,862
Gaming, MS (Riverwalk)											4,830	4,830	4,830	4,830	19,320	19,706
ADW	7,545	11,308	9,818	9,069	37,740	10,421	12,539	12,079	11,060	46,099	11,867	15,073	13,819	12,419	53,178	58,026
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(500)	224	(4,280)	(1,931)	(2,073)	(500)	224	(4,280)	(4,280)
EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**24,863**	**18,506**	**148,702**	**21,464**	**100,896**	**32,445**	**25,053**	**179,858**	**189,939**
EBITDA including OH JV	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**24,863**	**18,506**	**148,702**	**21,464**	**100,896**	**32,445**	**25,053**	**179,858**	**199,689**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,638)	(13,638)	(54,721)	(15,338)	(15,338)	(15,338)	(15,338)	(61,352)	(60,352)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**11,225**	**4,868**	**93,981**	**6,126**	**85,558**	**17,107**	**9,715**	**118,506**	**129,587**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(600)	(600)	(3,352)	(1,600)	(1,800)	(1,300)	(1,000)	(5,700)	(4,000)
JV interest																4,500
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**10,625**	**4,268**	**90,629**	**4,526**	**83,758**	**15,807**	**8,715**	**112,806**	**130,087**
Income tax (exp.) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(4,356)	(1,750)	(36;250)	(1,833)	(33,922)	(6,402)	(3,530)	(45,686)	(52,035)
%	-39%	41%	30%	5%	38%	41%	40%	41%	41%	40%	41%	41%	41%	41%	41%	40%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**6,269**	**2,518**	**54,380**	**2,693**	**49,836**	**9,405**	**5,185**	**67,119**	**78,052**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.36**	**$0.15**	**$3.11**	**$0.15**	**$2.77**	**$0.52**	**$0.32**	**$3.73**	**$4.34**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,500	17,500	17,484	18,000	18,000	18,000	18,000	18,000	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$1,354	$48,576	$6,269	$2,518	$58,717	$2,693	$49,836	$9,405	$5,185	$67,119	$78,052
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.08	$2.78	$0.36	$0.14	$3.36	$0.15	$2.77	$0.52	$0.29	$3.73	$4.34
Margin analysis																
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	14.7%	12.1%	20.3%	13.9%	34.4%	17.2%	14.5%	22.2%	22.8%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	6.6%	3.2%	12.8%	4.0%	29.1%	9.1%	5.6%	14.6%	15.6%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	6.3%	2.8%	12.4%	2.9%	28.5%	8.4%	5.1%	13.9%	15.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.7%	1.6%	7.4%	1.7%	17.0%	5.0%	3.0%	8.3%	9.4%
Y/Y growth %																
Revenue	54%	16%	13%	9%	19%	5%	8%	2%	2%	5%	12%	8%	11%	13%	11%	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	5%	-5%	7%	43%	12%	30%	35%	21%	6%
Operating income	NM	39%	120%	NM	112%	NM	8%	9%	-15%	12%	NM	12%	52%	100%	26%	9%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	21%	NM	20%	NM	11%	49%	104%	24%	15%
Net income	NM	34%	236%	NM	130%	NM	14%	2%	NM	15%	NM	9%	50%	106%	23%	16%
EPS	NM	18%	222%	NM	108%	NM	10%	-2%	NM	13%	NM	6%	46%	106%	20%	16%

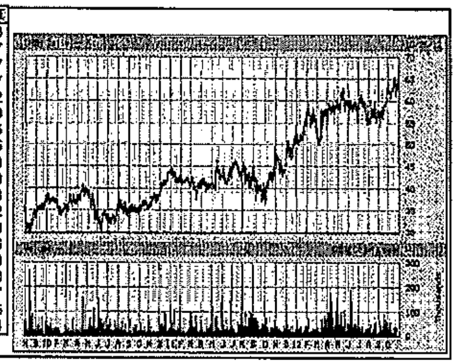
Source: Sidoti & Company, LLC and company reports.

Appendix

Required Disclosures

Churchill Downs Inc. (CHDN-$63.45) BUY Target: $94 October 30, 2012

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/26/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.6		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85
PT	10/8/12	61.2		94



Key Risks	Slowing economy	Construction cost overruns on new casino development	Increased competition

Valuation:

- **We reiterate our BUY rating and $94 target.** Our target is based on 14x our 2014 FCF per share estimate of $6.72. Our $1.7 billion market cap target implies a multiple of 7.8x our 2014 EBITDA estimate of $200 million, less projected net debt of $95 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the partners financing the casino property and thus expect the joint venture to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 10/30/12, Sidoti provides research on 512 companies, of which 364 (71%) are rated BUY and 148 (29%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 3 companies (0.82%). Of the NEUTRALS, Sidoti has received investment banking income from 1 company (0.68%). Of the NEUTRALS, 47 trade above our price targets. Of the NEUTRALS, 48 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Other Disclosures

This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Sidoti does not maintain a predetermined schedule for publication of research and will not necessarily update this report. The stock rating on this report reflects the analyst's recommendation based on a 12 month period. Based on published near-term earnings estimates, the analyst's short-term opinion may be different from what is published in this report. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of

Appendix Continued

market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$61.21)

BUY

Raise Price Target; Adjust Earnings Estimates

Target: $94

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

October 8, 2012

Market Cap (Mil)	**$1,070**	**Price to Book Value**	**1.7x**
Avg. Daily Trading Volume	**36,000**	**Return on Equity (2014E)**	**10.5%**
Shares Out (Mil)	**17.452**	**LT Debt to Total Capital**	**11%**
Float Shares (Mil)	**13.050**	**5-Year EPS Growth Rate Projection**	**19%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**64-40**
Dividend	**$0.60**	**Russell 2000**	**843**
Dividend Yield	**1.0%**	**Short Interest (Mil)**	**0.742**

	2011	2012E	2013E		2014E	
			OLD	NEW	OLD	NEW
Mar.	($0.19)	$0.00A	$0.08	$0.15		$0.23
June	2.37	2.60A	2.68	2.77		3.01
Sep.	0.36	0.36	0.45	0.52		0.67
Dec.	0.26	0.15	0.24	$0.32		0.47
EPS (Cal.)	**$2.76**	**$3.11**	**$3.42**	**$3.73**		**$4.34**
P/E (Cal.)		**19.7x**		**16.4x**		**14.1x**
EBITDA (mil.) (Cal)	**$139.4**	**$148.7**	**$160.5**	**$179.9**		**$199.7**
EV / EBITDA		**7.4x**		**6.5x**		**6.0x**

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
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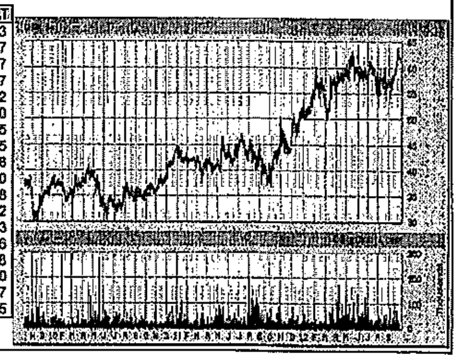
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85



Note: 2011-2014E include $0.14 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rev.(Mil.)*	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$731.7	$809.5	$832.8
GAAP EPS*	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.11	$3.73	$4.34

* 2004 and 2005 revenue exclude Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering Web sites, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Raise Target To $94 (From $85); Increase Estimates On CHDN's Mississippi Casino Acquisition; Roll Out 2014 FCF Per Share Forecast Of $6.72; Reiterate BUY Rating

- **On Friday night, CHDN announced it is acquiring the Riverwalk Casino in Vicksburg, Mississippi for $141 million in cash, equivalent to 6.4x trailing EBITDA on a tax-adjusted basis; the deal is expected to close in 4Q:12.**
- **We increase our 2013 EPS estimate to $3.73 (from $3.42) to reflect the acquisition and roll out our 2014 EPS estimate of $4.34 and free cash flow per share forecast of $6.72.**
- **We think the deal is favorable for CHDN given the price paid, the low gaming tax rate in Mississippi, historical stable regulatory market and lack of foreseeable new competition for the property given a challenging ROI proposition.**
- **We reiterate our BUY rating.**
- **Our new $94 target is based on 14x our just introduced 2014 free cash flow per share estimate of $6.72; our prior $85 target was based on 15x our prior 2013 FCF per share estimate of $5.64 (now $6.28).**
- **Our reduced multiple reflects CHDN's higher debt load; we still view CHDN as highly over capitalized with estimated net debt of just $112 million at 2013 year-end amounting to 0.5x projected 2013 EBITDA versus 5x for peers.**

❑ **We increase our 2013 EPS estimate to $3.73 (from $3.42) and roll out our 2014 EPS estimate of $4.34.** Our upward revision reflects the Riverwalk Casino acquisition that we model closing at the end of 2012. We roll out our 2014 free cash flow per share forecast of $6.72 which assumes CHDN's Ohio casino JV opens in early 2014. We think the JV can add about $24 million in EBITDA for CHDN when the property matures, but we model just a $10 million contribution in 2014 as it typically takes time for profitability to ramp up for new casinos. Achieving this $24 million in EBITDA for the JV in 2015 would imply EPS of over $5 per share and free cash flow per share of nearly $7.50.

- **We view the Riverwalk deal favorably for CHDN.** On a tax-adjusted basis, CHDN paid 6.4x trailing EBITDA for the property versus roughly 7x-8x for recent regional casino transactions. Mississippi is a solid gaming market, in our view, with a low gaming tax rate and a stable regulatory environment historically. Although there are lower barriers to entry versus other regional markets in the U.S., we think the lack of a compelling ROI for any new potential competition will serve as a considerable deterrent for the foreseeable future. In addition, the casino will require minimal cap-ex as the property just opened in 2008. The casino will be CHDN's fourth gaming property; none of CHDN's gaming properties are more than five years old.

- **CHDN's balance sheet remains over capitalized, in our view.** We estimate CHDN's net debt will peak at 2012 year-end at $170 million (1.1x trailing EBITDA or 1x on a pro forma basis adjusting for the new property's EBITDA). We estimate CHDN will generate free cash flow per share of $4.98, $6.28 and $6.72 in 2012, 2013 and 2014, respectively. Including CHDN's $0.60 per share annual dividend and an estimated $143 million contribution to fund the Ohio casino JV, we estimate net debt of just $95 million at 2014 year-end (0.5x projected 2014 EBITDA versus 5x for peers).

- **We reiterate our BUY rating and increase our target to $94 (from $85).** Our target is now based on 14x our just introduced 2014 FCF per share estimate of $6.72. Previously, we valued CHDN based on 15x our prior 2013 FCF per share estimate of $5.64 (now $6.28). Our reduced multiple reflects CHDN's higher debt load. Our new $1.7 billion market cap target implies a multiple of 7.8x our just introduced 2014 EBITDA estimate of $200 million less projected net debt of $95 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

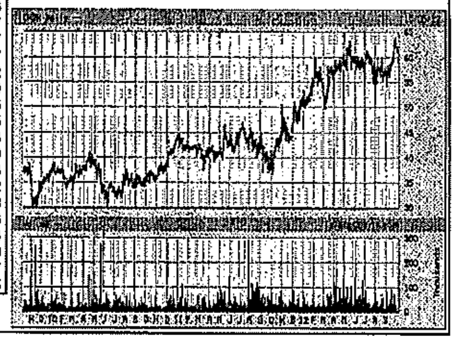
Table 1 : CHDN Income Statement																
(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	JunA	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E	2014E
Net Revenue																
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$65,613	$51,675	$307,910	$29,899	$162,842	$64,714	$51,459	$308,915	$312,094
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,595	18,900	77,488	22,026	18,768	18,966	19,278	79,038	80,619
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,821	17,816	76,703	19,254	19,188	17,821	17,816	74,078	75,560
Gaming, MS (Harlows)	16,510	9,501	13,441	13,387	52,839	15,863	13,783	13,441	13,387	56,474	16,656	14,472	14,113	14,056	59,298	60,484
Gaming, MS (Riverwalk)											14,000	14,000	14,000	14,000	56,000	57,120
ADW	36,803	46,526	42,015	40,072	165,416	44,035	52,702	48,317	46,083	191,137	48,439	57,972	53,149.	50,691	210,251	224,968
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	5,873	5,134	21,953	4,643	6,303	5,873	5,134	21,953	21,953
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**169,659**	**152,994**	**731,666**	**154,917**	**293,545**	**188,637**	**172,434**	**809,533**	**832,797**
EBITDA																
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	984	(5,426)	49,409	(11,362)	68,068	971	(5,403)	52,274	55,595
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,950	6,048	26,154	8,098	6,381	6,069	6,169	26,717	27,443
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	3,200	2,317	2,316	11,833	3,466	3,262	2,317	2,316	11,360	11,588
Gaming, MS (Harlows)	6,600	2,300	4,000	4,550	17,450	6,133	5,038	4,032	4,284	19,487	6,496	5,355	4,940	4,498	21,288	21,862
Gaming, MS (Riverwalk)											4,830	4,830	4,830	4,830	19,320	19,706
ADW	7,545	11,308	9,818	9,069	37,740	10,421	12,539	12,079	11,060	46,099	11,867	15,073	13,819	12,419	53,178	58,026
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(500)	224	(4,280)	(1,931)	(2,073)	(500)	224	(4,280)	(4,280)
EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**24,863**	**18,506**	**148,702**	**21,464**	**100,896**	**32,445**	**25,053**	**179,858**	**189,939**
EBITDA including OH JV	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**24,863**	**18,506**	**148,702**	**21,464**	**100,896**	**32,445**	**25,053**	**179,858**	**199,689**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,638)	(13,638)	(54,721)	(15,338)	(15,338)	(15,338)	(15,338)	(61,352)	(60,352)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**11,225**	**4,868**	**93,981**	**6,126**	**85,558**	**17,107**	**9,715**	**118,506**	**129,587**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(600)	(600)	(3,352)	(1,600)	(1,800)	(1,300)	(1,000)	(5,700)	(4,000)
JV interest																4,500
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**10,625**	**4,268**	**90,629**	**4,526**	**83,758**	**15,807**	**8,715**	**112,806**	**130,087**
Income tax (exp.) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(4,356)	(1,750)	(36,250)	(1,833)	(33,922)	(6,402)	(3,530)	(45,686)	(52,035)
%	-39%	41%	30%	5%	38%	41%	40%	41%	41%	40%	41%	41%	41%	41%	41%	40%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**6,269**	**2,518**	**54,380**	**2,693**	**49,836**	**9,405**	**5,185**	**67,119**	**78,052**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.36**	**$0.15**	**$3.11**	**$0.15**	**$2.77**	**$0.52**	**$0.32**	**$3.73**	**$4.34**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,500	17,500	17,484	18,000	18,000	18,000	18,000	18,000	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$1,354	$48,576	$6,269	$2,518	$58,717	$2,693	$49,836	$9,405	$5,185	$67,119	$78,052
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.08	$2.78	$0.36	$0.14	$3.36	$0.15	$2.77	$0.52	$0.29	$3.73	$4.34
Margin analysis																
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	14.7%	12.1%	20.3%	13.9%	34.4%	17.2%	14.5%	22.2%	22.8%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	6.6%	3.2%	12.8%	4.0%	29.1%	9.1%	5.6%	14.6%	15.6%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	6.3%	2.8%	12.4%	2.9%	28.5%	8.4%	5.1%	13.9%	15.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.7%	1.6%	7.4%	1.7%	17.0%	5.0%	3.0%	8.3%	9.4%
Y/Y growth %																
Revenue	54%	16%	13%	9%	19%	5%	8%	2%	2%	5%	12%	8%	11%	13%	11%	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	5%	-5%	7%	43%	12%	30%	35%	21%	6%
Operating income	NM	39%	120%	NM	112%	NM	8%	9%	-15%	12%	NM	12%	52%	100%	26%	9%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	21%	NM	20%	NM	11%	49%	104%	24%	15%
Net income	NM	34%	236%	NM	130%	NM	14%	2%	NM	15%	NM	9%	50%	106%	23%	16%
EPS	NM	18%	222%	NM	108%	NM	10%	-2%	NM	13%	NM	6%	46%	106%	20%	16%

Source: Sidoti & Company, LLC and company reports.

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$61.21) BUY Target: $94 October 8, 2012

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We reiterate our BUY rating and increase our target to $94 (from $85).** Our target is now based on 14x our just introduced 2014 FCF per share estimate of $6.72. Previously, we valued CHDN based on 15x our prior 2013 FCF per share estimate of $5.64 (now $6.28). Our reduced multiple reflects CHDN's higher debt load. Our new $1.7 billion market cap target implies a multiple of 7.8x our just introduced 2014 EBITDA estimate of $200 million less projected net debt of $95 million. EBITDA includes CHDN's portion of the Ohio joint venture (we model the JV partners financing the casino property and thus expect the JV to be debt free). Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value, in our view).

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Appendix Continued

analyst's short-term opinion may be different from what is published in this report. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Required disclosures appear in the Appendix.

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$59.74) — BUY

Company Update — **Target: $85**

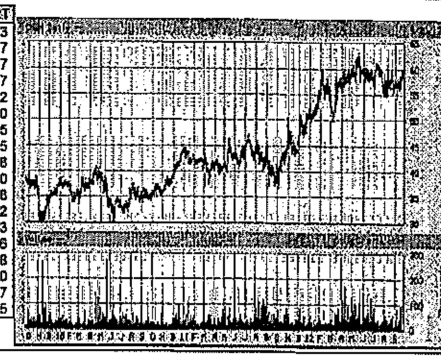
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

September 25, 2012

Market Cap (Mil)	$1,040	**Price to Book Value**	2.0x
Avg. Daily Trading Volume	39,000	**Return on Equity (2013E)**	10.2%
Shares Out (Mil)	17.452	**LT Debt to Total Capital**	11%
Float Shares (Mil)	13.030	**5-Year EPS Growth Rate Projection**	15%
Institutional Holdings	40%	**52-Week Range (NASDAQ)**	63-37
Dividend	$0.60	**Russell 2000**	852
Dividend Yield	1.0%	**Short Interest (Mil)**	0.748

	2010	2011	2012E OLD	2012E NEW	2013E OLD	2013E NEW
Mar.	($0.63)	($0.19)	$0.00A		$0.08	
June	2.01	2.37	2.60A		2.68	
Sep.	0.11	0.36	0.36		0.45	
Dec.	(0.17)	0.26	0.15		0.24	
EPS (Cal.)	**$1.33**	**$2.76**	**$3.11**		**$3.42**	
P/E (Cal.)			**19.2x**		**17.5x**	
EBITDA per share (Cal)	**$85.6**	**$139.4**	**$148.7**		**$160.5**	
EV / EBITDA			**7.2x**		**6.3x**	

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85



Note: 2010 excludes $0.16 in one-time charges. 2010-2013E include $0.14 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. The Russell 2000 Index includes CHDN. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$731.7	$753.5
GAAP EPS	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.11	$3.42

* 2004 and 2005 revenue exclude Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks: one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. The Miami and Louisiana tracks and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, online horse-wagering Web sites, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Management Meeting Highlights; View October Launch Of Real-Cash Wagering Web Site Luckity.Com As Low-Risk/High-Return Opportunity; Reiterate BUY Rating, $85 Target

- **On Monday, we hosted investor meetings with CFO William Mudd and VP of Finance Michael Anderson.**
- **CHDN's www.luckity.com Web site is slated to launch within weeks. The real-cash wagering site will debut with 25 games and operate in nearly 40 states in the U.S.**
- **We think CHDN's Ohio racino JV acquisition will close in 4Q:12 with construction ensuing immediately, setting up the property for an early 2014 opening.**
- **We expect debate on gaming legislation to pick up again in Illinois' looming lame duck session, which ends January 9, 2013.**
- **We maintain our BUY rating.**
- **Our $85 target applies a 15x multiple to our 2013 FCF per share estimate of $5.64.**

❑ **CHDN is slated to launch its real-money wagering Web site, www.luckity.com, in October.** The Web site will accept real-cash wagers by linking casual gaming to outcomes based on live horse races taking place around the world (making the wagers legal given that horse racing is the only interstate online form of gaming permitted in the U.S.). Typically, there is a horse race every few minutes somewhere in the world. While players can view the actual horse wager generated off the casual game, the Web site is targeted to non-racing fans (similar to playing a scratch ticket). In our view, the strategy is an innovative, low-risk approach with significant upside potential. We know of no other wagering site with a similar format.

- **We view CHDN's technology, first-mover status, scale, and multiple gaming licenses as competitive advantages.** The wagers will be directed to a pari-mutuel pool where the live race is physically held; CHDN's existing scale in the online horse wagering segment (roughly 45% market share via www.twinspires.com) provides considerable leverage negotiating pricing with host tracks. Also, we view CHDN's contracts with hundreds of tracks around the world as a barrier to entry for competitors.

- **We expect debate over adding slots at Illinois racetracks to pick up in the lame duck session that ends January 9, 2013.** The Governor of Illinois recently vetoed a gaming bill that would have permitted CHDN to add slots at its suburban Chicago track. However, the governor suggested he is open to a similar bill if the state legislature bans political contributions by casino operators and changes language of the previous bill to ensure that a separate standalone Chicago casino falls under the state's gaming commission (as opposed to a Chicago city agency). In our view, CHDN's location is one of the state's best; a riverboat less than 10 miles from CHDN's racetrack generated trailing-12-month revenue of $404 million through August 2012 according to the Illinois Gaming Commission.

- **CHDN appears on track to close on its Ohio casino JV acquisition in 4Q:12 with construction likely ensuing immediately.** On this timeline, the property should be open by early 2014. We estimate CHDN's 50% share of the project will contribute $0.38 in EPS and $0.57 in free cash flow per share annually. We forecast the $285-million casino (including a $50-million license fee) will generate $48 million in annual EBITDA ($24 million for CHDN's 50% share).

- **CHDN is now marketing tickets for its new ultra high-end "Mansion" for the 2013 Kentucky Derby.** According to media reports, the 320 tickets for the sixth-floor, finish-line area are being marketed for nearly $10,000 each (about $3 million in high-margin revenue). CHDN spent $9 million on the expansion/renovation.

- **We think management is increasingly considering returning cash to shareholders.** We estimate that CHDN will have $17 million in net cash ($1 per share) at 2013 year-end versus median leverage of 5x for regional casino operators. While management has been keeping dry powder for acquisitions and to fund growth (possible casino developments in Illinois and Kentucky), the company's sharp ramp in profitability in recent years suggests that it can achieve both.

- **We maintain our BUY rating and $85 target.** Our target is based on 15x our 2013 FCF per share estimate of $5.64. Our $1.5 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $161 million plus $17 million in projected net cash and $50 million book value for CHDN's Ohio casino JV. Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Table 1 : CHDN Income Statement

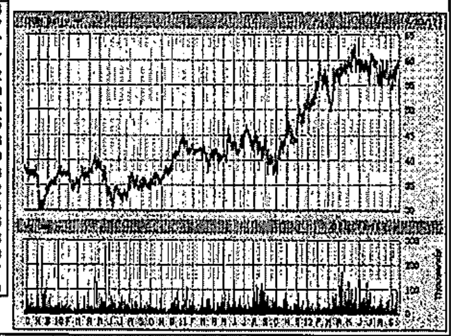
(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	JunA	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E
Net Revenue															
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$65,613	$51,675	$307,910	$29,899	$162,842	$64,714	$51,459	$308,915
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,595	18,900	77,488	22,026	18,768	18,966	19,278	79,038
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,821	17,816	76,703	19,254	19,188	17,821	17,816	74,078
Gaming, MS	16,510	9,501	13,441	13,387	52,839	15,863	13,783	13,441	13,387	56,474	16,656	14,472	14,113	14,056	59,298
ADW	36,803	46,526	42,015	40,072	165,416	44,035	52,702	48,317	46,083	191,137	48,439	57,972	53,149	50,691	210,251
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	5,873	5,134	21,953	4,643	6,303	5,873	5,134	21,953
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**169,659**	**152,994**	**731,666**	**140,917**	**279,545**	**174,637**	**158,434**	**753,533**
EBITDA															
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	984	(5,426)	49,409	(11,362)	68,068	971	(5,403)	52,274
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,950	6,048	26,154	8,098	6,381	6,069	6,169	26,717
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	3,200	2,317	2,316	11,833	3,466	3,262	2,317	2,316	11,360
Gaming, MS	6,600	2,300	4,000	4,550	17,450	6,133	5,038	4,032	4,284	19,487	6,496	5,355	4,940	4,498	21,288
ADW/HRTV	7,545	11,308	9,818	9,069	37,740	10,421	12,539	12,079	11,060	46,099	11,867	15,073	13,819	12,419	53,178
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(500)	224	(4,280)	(1,931)	(2,073)	(500)	224	(4,280)
Operating expenses	120,380	164,703	142,652	129,709	557,444	123,156	180,522	144,797	134,489	582,963	124,282	183,480	147,022	138,211	592,995
Consolidated EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**24,863**	**18,506**	**148,702**	**16,634**	**96,066**	**27,615**	**20,223**	**160,538**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,638)	(13,638)	(54,721)	(13,638)	(13,638)	(13,638)	(13,638)	(54,552)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**11,225**	**4,868**	**93,981**	**2,996**	**82,428**	**13,977**	**6,585**	**105,986**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(600)	(600)	(3,352)	(600)	(800)	(300)	0	(1,700)
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**10,625**	**4,268**	**90,629**	**2,396**	**81,628**	**13,677**	**6,585**	**104,286**
Income tax (exp.) benefi	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(4,356)	(1,750)	(36,250)	(982)	(33,467)	(5,608)	(2,700)	(42,757)
%	-39%	41%	30%	5%	38%	41%	40%	41%	41%	40%	41%	41%	41%	41%	41%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**6,269**	**2,518**	**54,380**	**1,414**	**48,160**	**8,069**	**3,885**	**61,529**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.36**	**$0.15**	**$3.11**	**$0.08**	**$2.68**	**$0.45**	**$0.24**	**$3.42**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,500	17,500	17,484	18,000	18,000	18,000	18,000	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$1,354	$48,576	$6,269	$2,518	$58,717	$1,414	$48,160	$8,069	$3,885	$61,529
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.08	$2.78	$0.36	$0.14	$3.36	$0.08	$2.68	$0.45	$0.22	$3.42
Margin analysis															
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	14.7%	12.1%	20.3%	11.8%	34.4%	15.8%	12.8%	21.3%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	6.6%	3.2%	12.8%	2.1%	29.5%	8.0%	4.2%	14.1%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	6.3%	2.8%	12.4%	1.7%	29.2%	7.8%	4.2%	13.8%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.7%	1.6%	7.4%	1.0%	17.2%	4.6%	2.5%	8.2%
Y/Y growth %															
Revenue	54%	16%	13%	9%	19%	5%	8%	2%	2%	5%	2%	3%	3%	4%.	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	5%	-5%	7%	11%	6%	11%	9%	8%
Operating income	NM	39%	120%	NM	112%	NM	8%	9%	-15%	12%	NM	8%	25%	35%	13%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	21%	NM	20%	NM	8%	29%	54%	15%
Net income	NM	34%	236%	NM	130%	NM	14%	2%	NM	15%	NM	6%	29%	54%	13%
EPS	NM	18%	222%	NM	108%	NM	10%	-2%	NM	13%	NM	3%	25%	54%	10%

Source: Sidoti & Company, LLC and company reports.

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$59.74) BUY Target: $85 September 25, 2012

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/26/10	35.9	Neutral	37
PT	2/26/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	46
PT	6/9/10	31.3		46
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $85 target.** Our target is based on 15x our 2013 FCF per share estimate of $5.64. Our $1.5 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $161 million plus $17 million in projected net cash and $50 million book value for CHDN's Ohio casino JV. Our target excludes potential legalized gaming in Kentucky or Illinois (or an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value).

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The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 09/25/12, Sidoti provides research on 502 companies, of which 353 (70%) are rated BUY and 149 (30%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 3 companies (0.85%). Of the NEUTRALS, Sidoti has received investment banking income from 1 company (0.67%). Of the NEUTRALS, 76 trade above our price targets. Of the NEUTRALS, 72 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Other Disclosures

This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Sidoti does not maintain a predetermined schedule for publication of research and will not necessarily update this report. The stock rating on this report reflects the analyst's recommendation based on a 12 month period. Based on published near-term earnings estimates, the analyst's short-term opinion may be different from what is published in this report. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be

Appendix Continued

presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

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Morning Meeting Note

Churchill Downs Inc. (CHDN-$56.72)

BUY

Adjust Earnings Estimates; Earnings Release

Target: $85

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

August 7, 2012

Market Cap (Mil)	$980
Avg. Daily Trading Volume	55,000
Shares Out (Mil)	17.330
Float Shares (Mil)	12.908
Institutional Holdings	40%
Dividend	$0.60
Dividend Yield	1.1%

Price to Book Value	1.9x
Return on Equity (2013E)	10.2%
LT Debt to Total Capital	11%
5-Year EPS Growth Rate Projection	15%
52-Week Range (NASDAQ)	63-37
Russell 2000	794
Short Interest (Mil)	0.803

	2010	2011	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)	$0.00A		$0.08	
June	2.01	2.37	2.43	2.60A	2.68	
Sep.	0.11	0.36	0.37	0.36	0.48	0.45
Dec.	(0.17)	0.26	0.15	0.15	0.23	0.24
EPS (Cal.)	**$1.33**	**$2.76**	**$2.94**	**$3.11**	**$3.46**	**$3.42**
P/E (Cal.)				**18.2x**		**16.6x**
EBITDA (mil.) (Cal)	**$85.6**	**$139.4**	**$146.6**	**$148.7**	**$160.0**	**$160.5**
EV / EBITDA				**6.9x**		**6.0x**

Action	Date	Px	Rating	PT
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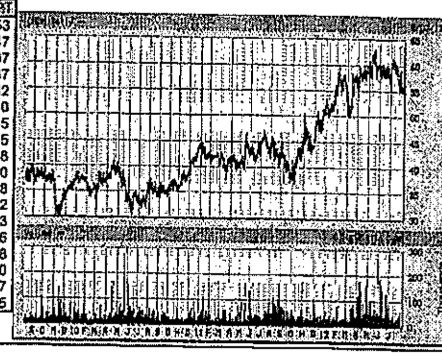
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85



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GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.11	$3.42

* 2004 and 2005 revenue exclude Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering Web site, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

2Q:12 EPS $0.04 Ahead Of Consensus; Shares Attractive, In Our View, At Just 10x Our 2013 FCF Per Share Forecast Of $5.64; Maintain BUY Rating, $85 Target

- **CHDN generated 2Q:12 revenue of $271 million (versus our $261 million estimate) and EPS of $2.60 (versus our $2.43 forecast and consensus of $2.54).**
- **We increase our 2012 EPS estimate to $3.11 (from $2.94), but just fine-tune our 2013 EPS estimates.**
- **Management is hosting a conference call today at 9 AM ET; the call-in number is 877.372.0878 (ID 75239964).**
- **We continue to think CHDN's shares are considerably undervalued, trading at just 10x our 2013 free cash flow per share estimate of $5.64— particularly in light of the overcapitalized balance sheet.**
- **We estimate CHDN's Kentucky Derby franchise and online wagering segment will fuel 10% year-over-year EPS growth in 2013.**
- **We maintain our BUY rating.**
- **Our unchanged target is based on a 15x multiple applied to our revised 2013 FCF per share estimate of $5.64 (from $5.66).**

❑ **CHDN topped our reduced 2Q:12 EPS estimate of $2.43 by $0.17.** Revenue increased 8% year over year, fueled by a 9% increase in racing (Kentucky Derby), a 45% advance at CHDN's Harlow's casino (which was closed for roughly a month in 2Q:11 due to flooding) and a 13% rise in the online wagering segment. CHDN largely exceeded our forecast on better-than-expected results in the racing segment.

- **We increase our 2012 EPS estimate to 3.11 (from $2.94) but just fine-tune our 2013 EPS estimates.** We expect CHDN's online wagering segment and Kentucky Derby franchise to fuel 10% EPS growth in 2013. In our view, the shares are attractive, trading at just 10x our 2013 free cash flow per share forecast of $5.64. Even accounting for an annual $0.60 dividend and $50 million contribution for the Ohio casino joint venture, we estimate CHDN will have $10 million in net cash at 2013 year-end versus leverage of 5x EBITDA for regional casinos. As the market leader for online horse wagering (nearly 50% market share), CHDN is well-positioned to benefit from a secular shift in wagering online from off-track betting facilities (just 17% of wagering in the U.S. is currently placed online). In addition, the Kentucky Derby asset is a reliable, growing cash cow. We also think potential legalized gaming in Illinois or Kentucky would spark material upside to the shares.

- **We maintain our BUY rating and $85 target.** Our $85 target is based on an unchanged 15x our revised 2013 free cash flow per share estimate of $5.64 (from $5.66). Our $1.5 billion market cap target implies a multiple of roughly 7.8x our 2013 EBITDA estimate of $161 million (from $160 million) plus $10 million (from $6 million) in projected net cash and $50 million book value for CHDN's Ohio casino JV. Our target does not include potential legalized gaming in Kentucky or Illinois (or alternately an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	**2Q:12A**	**2Q:12E**	**Variance**	**2Q:11A**	**YOY%**
Revenue	$270,816	$260,647	$10,169	$249,686	8%
EBITDA	90,294	87,652	2,642	84,983	6%
	33.3%	33.6%		34.0%	
Operating income	76,656	73,845	2,811	71,093	8%
	28.3%	28.3%		28.5%	
Net income	45,577	42,389	3,188	39,990	14%
	16.8%	16.3%		16.0%	
Fully diluted EPS	$2.60	$2.43	$0.17	$2.37	10%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis

(000's)	**2Q:12A**	**2Q:12E**	**Var**	**2Q:11A**	**YOY%**
Racing	$65,390	$60,475	$4,915	$58,447	12%
Gaming, LA	6,200	6,022	178	6,200	0%
Gaming, FL	3,200	2,540	660	4,300	-26%
Gaming, MS	5,038	4,704	334	2,300	119%
ADW/HRTV	12,539	13,911	(1,372)	11,308	11%
Corp./United Tote	(2,073)	0	(2,073)	2,430	NM
Total EBITDA	**$90,294**	**$87,652**	**$2,642**	**$84,983**	**6%**

Source: Sidoti & Company, LLC estimates and company financials

Table 1 : CHDN Income Statement

(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	JunA	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E
Net Revenue															
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$160,440	$65,613	$51,675	$307,910	$29,899	$162,842	$64,714	$51,459	$308,915
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,400	18,595	18,900	77,488	22,026	18,768	18,966	19,278	79,038
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,188	17,821	17,816	76,703	19,254	19,188	17,821	17,816	74,078
Gaming, MS	16,510	9,501	13,441	13,387	52,839	15,863	13,783	13,441	13,387	56,474	16,656	14,472	14,113	14,056	59,298
ADW	36,803	46,526	42,015	40,072	165,416	44,035	52,702	48,317	46,083	191,137	48,439	57,972	53,149	50,691	210,251
Other	4,036	5,496	5,873	5,134	20,539	4,643	6,303	5,873	5,134	21,953	4,643	6,303	5,873	5,134	21,953
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**270,816**	**169,659**	**152,994**	**731,666**	**140,917**	**279,545**	**174,637**	**158,434**	**753,533**
EBITDA															
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	65,390	984	(5,426)	49,409	(11,362)	68,068	971	(5,403)	52,274
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,200	5,950	6,048	26,154	8,098	6,381	6,069	6,169	26,717
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	3,200	2,317	2,316	11,833	3,466	3,262	2,317	2,316	11,360
Gaming, MS	6,600	2,300	4,000	4,550	17,450	6,133	5,038	4,032	4,284	19,487	6,496	5,355	4,940	4,498	21,288
ADW/HRTV	7,545	11,308	9,818	9,069	37,740	10,421	12,539	12,079	11,060	46,099	11,867	15,073	13,819	12,419	53,178
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	(2,073)	(500)	224	(4,280)	(1,931)	(2,073)	(500)	224	(4,280)
Operating expenses	120,380	164,703	142,652	129,709	557,444	123,156	180,522	144,797	134,489	582,963	124,282	183,480	147,022	138,211	592,995
Consolidated EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**90,294**	**24,863**	**18,506**	**148,702**	**16,634**	**96,066**	**27,615**	**20,223**	**160,538**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,638)	(13,638)	(13,638)	(54,721)	(13,638)	(13,638)	(13,638)	(13,638)	(54,552)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**76,656**	**11,225**	**4,868**	**93,981**	**2,996**	**82,428**	**13,977**	**6,585**	**105,986**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(947)	(600)	(600)	(3,352)	(600)	(800)	(300)	0	(1,700)
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**75,709**	**10,625**	**4,268**	**90,629**	**2,396**	**81,628**	**13,677**	**6,585**	**104,286**
Income tax (exp.) benefi	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(30,132)	(4,356)	(1,750)	(36,250)	(982)	(33,467)	(5,608)	(2,700)	(42,757)
%	-39%	41%	30%	5%	38%	41%	40%	41%	41%	40%	41%	41%	41%	41%	41%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,577**	**6,269**	**2,518**	**54,380**	**1,414**	**48,160**	**8,069**	**3,885**	**61,529**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.60**	**$0.36**	**$0.15**	**$3.11**	**$0.08**	**$2.68**	**$0.45**	**$0.24**	**$3.42**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,502	17,500	17,500	17,484	18,000	18,000	18,000	18,000	18,000
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$17	$45,577	$6,269	$2,518	$54,380	$1,414	$48,160	$8,069	$3,885	$61,529
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.00	$2.60	$0.36	$0.15	$3.11	$0.08	$2.68	$0.45	$0.24	$3.42
Margin analysis															
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.3%	14.7%	12.1%	20.3%	11.8%	34.4%	15.8%	12.8%	21.3%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	6.6%	3.2%	12.8%	2.1%	29.5%	8.0%	4.2%	14.1%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	28.0%	6.3%	2.8%	12.4%	1.7%	29.2%	7.8%	4.2%	13.8%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.8%	3.7%	1.6%	7.4%	1.0%	17.2%	4.6%	2.5%	8.2%
Y/Y growth %															
Revenue	54%	16%	13%	9%	19%	5%	8%	2%	2%	5%	2%	3%	3%	4%	3%
EBITDA	NM	35%	39%	108%	62%	35%	6%	5%	-5%	7%	11%	6%	11%	9%	8%
Operating income	NM	39%	120%	NM	112%	NM	8%	9%	-15%	12%	NM	8%	25%	35%	13%
Pre-tax income	NM	36%	187%	NM	124%	NM	12%	21%	NM	20%	NM	8%	29%	54%	15%
Net income	NM	34%	236%	NM	130%	NM	14%	2%	NM	15%	NM	6%	29%	54%	13%
EPS	NM	18%	222%	NM	108%	NM	10%	-2%	NM	13%	NM	3%	25%	54%	10%

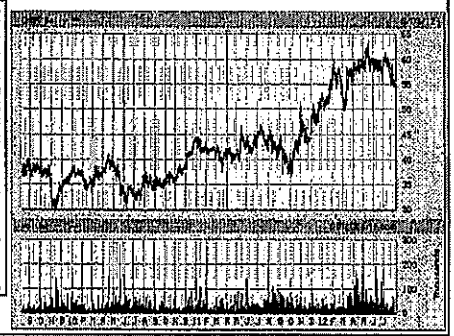
Source: Sidoti & Company, LLC and company reports.

Appendix

Required Disclosures

Churchill Downs Inc. (CHDN-$56.72) BUY Target: $85 August 7, 2012

Action	Date	PX	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $85 target.** Our $85 target is based on an unchanged 15x our revised 2013 free cash flow per share estimate of $5.64 (from $5.66). Our $1.5 billion market cap target implies a multiple of roughly 7.8x our 2013 EBITDA estimate of $161 million (from $160 million) plus $10 million (from $6 million) in projected net cash and $50 million book value for CHDN's Ohio casino JV. Our target does not include potential legalized gaming in Kentucky or Illinois (or alternately an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value).

Required Disclosures

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Other Disclosures

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Appendix Continued

guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov on the internet. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Sidoti & Company, LLC
Member FINRA & SIPC
317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$55.34)

BUY

Adjust Earnings Estimates; Company Update

Target: $85

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

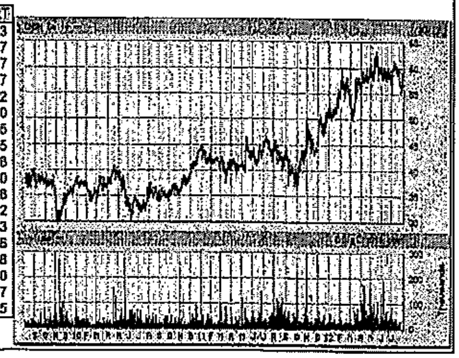
August 1, 2012

Market Cap (Mil)	**$960**
Avg. Daily Trading Volume	**59,000**
Shares Out (Mil)	**17.330**
Float Shares (Mil)	**12.908**
Institutional Holdings	**40%**
Dividend	**$0.60**
Dividend Yield	**1.1%**

Price to Book Value	**1.8x**
Return on Equity (2013E)	**10.2%**
LT Debt to Total Capital	**11%**
5-Year EPS Growth Rate Projection	**15%**
52-Week Range (NASDAQ)	**63-37**
Russell 2000	**787**
Short Interest (Mil)	**0.803**

	2010	2011	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)	$0.00A		$0.08	
June	2.01	2.37	2.59	2.43	2.76	$2.68
Sep.	0.11	0.36	0.37		0.48	
Dec.	(0.17)	0.26	0.15		0.23	
EPS (Cal.)	**$1.33**	**$2.76**	**$3.10**	**$2.94**	**$3.54**	**$3.46**
P/E (Cal.)				**18.8x**		**16.0x**
EBITDA (mil.) (Cal)	**$85.6**	**$139.4**	**$151.5**	**$146.6**	**$162.2**	**$160.0**
EV / EBITDA				**6.8x**		**5.7x**

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/8/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	38.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		75
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	57		85



Note: 2010 excludes $0.16 from one-time charges. 2010-2013E include $0.14 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$722.3	$746.8
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$2.94	$3.46

* 2004 and 2005 revenue exclude Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering Web site, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Cut 2012-2013 EPS Estimates To Reflect Higher Corporate Expense; Shares Attractive, In Our View, At Just 10x Our 2013 FCF Per Share Forecast Of $5.66; Maintain BUY Rating, $85 Target

- **After more thoroughly reviewing CHDN's filings, we cut our 2012 and 2013 EPS estimates to $2.94 (from $3.10) and $3.46 (from $3.54).**
- **Our revisions largely reflect a one-time corporate benefit in 2Q:11 and higher expected stock-based compensation due to the company's recent solid performance.**
- **We continue to think CHDN's shares are considerably undervalued, trading at just 10x our 2013 free cash flow per share estimate of $5.66— particularly in light of the overcapitalized balance sheet.**
- **We forecast CHDN's Kentucky Derby franchise and online wagering segment will fuel 18% year-over-year EPS growth in 2013.**
- **We maintain our BUY rating.**
- **Our unchanged target is based on a 15x multiple applied to our revised 2013 FCF per share estimate of $5.66 (from $5.68).**

❑ **We cut our 2012 and 2013 EPS estimates to $2.94 (from $3.10) and $3.46 (from $3.54).** Our downward revisions largely reflect higher corporate expenses; as we more thoroughly reviewed CHDN filings, the company benefited from a one-time corporate gain in 2Q:12 not factored in our year-over-year estimates. In addition, given CHDN's recent performance (projected EPS of $2.94 for 2012 versus just $1.33 in 2010), we expect stock based compensation charges to rise. Our new 2Q:12 EPS estimate of $2.43 compares to consensus of $2.54.

- **We expect CHDN's online horse wagering segment and Kentucky Derby franchise to fuel 17% year-over-year EPS growth in 2013.** We estimate CHDN's EBITDA in the racing segment will rise 9% year over year to $48 million, entirely fueled by Kentucky Derby week and the company's namesake track. Our expectation for growth is based on escalators in the broadcast contract as well as improving corporate and admissions pricing. We estimate EBITDA in CHDN's online wagering segment will rise 27% and 13% year over year in 2012 and 2013, respectively, to $48 million and $54 million, based on our expectation of a secular shift in wagering from off-track betting facilities.

- **We maintain our BUY rating and $85 target.** Our $85 target is based on an unchanged 15x our revised 2013 free cash flow per share estimate of $5.66 (from $5.68). Our $1.5 billion market cap target implies a multiple of roughly 8x our 2013 EBITDA estimate of $160 million (from $162 million) plus $6 million (from $9 million) in projected net cash and $50 million book value for CHDN's Ohio casino JV. Our target does not include potential legalized gaming in Kentucky or Illinois (or alternately an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

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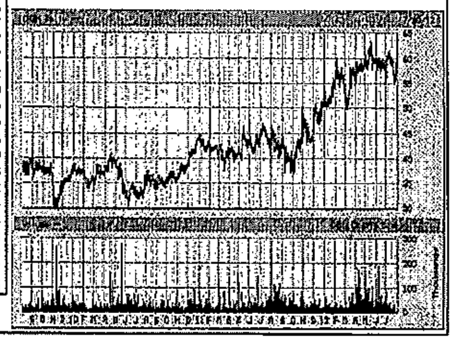
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,247	18,595	18,900	77,335	22,026	18,612	18,966	19,278	78,882
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,540	18,226	18,221	77,865	21,879	19,540	18,226	18,221	77,865
Gaming, MS	16,510	9,501	13,441	13,387	52,839	15,863	13,441	13,441	13,387	56,132	16,656	14,113	14,113	14,056	58,939
ADW	36,803	46,526	42,015	40,072	165,416	44,035	53,505	48,317	46,083	191,940	48,439	58,855	53,149	50,691	211,134
Other	4,036	5,496	5,873	5,134	20,539	4,643	5,496	5,873	5,134	21,146	4,643	5,496	5,873	5,134	21,146
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**260,647**	**170,065**	**153,399**	**722,307**	**143,542**	**269,355**	**175,042**	**158,839**	**746,777**
EBITDA															
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	60,475	984	(5,426)	44,494	(11,362)	64,150	971	(5,403)	48,356
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,022	5,950	6,048	25,976	8,098	6,514	6,069	6,169	26,850
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	2,540	2,369	2,369	11,278	3,938	2,540	2,369	2,369	11,216
Gaming, MS	6,600	2,300	4,000	4,550	17,450	6,133	4,704	4,032	4,284	19,153	6,496	5,363	4,940	4,498	21,296
ADW/HRTV	7,545	11,308	9,818	9,069	37,740	10,421	13,911	12,562	11,060	47,955	11,625	15,891	14,350	12,419	54,286
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	0	(500)	224	(2,207)	(1,931)	0	(500)	224	(2,207)
Operating expenses	120,380	164,703	142,652	129,709	557,444	123,156	172,995	144,666	134,841	575,658	126,677	174,896	146,843	138,563	586,980
Consolidated EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**87,652**	**25,399**	**18,558**	**146,649**	**16,865**	**94,458**	**28,199**	**20,276**	**159,798**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,807)	(13,807)	(13,807)	(55,228)	(13,807)	(13,807)	(13,807)	(13,807)	(55,228)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**73,845**	**11,592**	**4,751**	**91,421**	**3,058**	**80,651**	**14,392**	**6,469**	**104,570**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(2,000)	(600)	(600)	(4,405)	(600)	(800)	0	0	(1,400)
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**71,845**	**10,992**	**4,151**	**87,016**	**2,458**	**79,851**	**14,392**	**6,469**	**103,170**
Income tax (exp.) benefi	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(29,457)	(4,507)	(1,702)	(35,677)	(1,008)	(32,739)	(5,901)	(2,652)	(42,300)
%	-39%	41%	30%	5%	38%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**42,389**	**6,485**	**2,449**	**51,340**	**1,450**	**47,112**	**8,491**	**3,816**	**60,870**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.43**	**$0.37**	**$0.15**	**$2.94**	**$0.08**	**$2.68**	**$0.48**	**$0.23**	**$3.46**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,433	17,500	17,500	17,467	17,600	17,600	17,600	17,600	17,600
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$17	$42,389	$6,485	$2,449	$51,340	$1,450	$47,112	$8,491	$3,816	$60,870
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.00	$2.43	$0.37	$0.15	$2.94	$0.08	$2.68	$0.48	$0.23	$3.46
Margin analysis															
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	33.6%	14.9%	12.1%	20.3%	11.7%	35.1%	16.1%	12.8%	21.4%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	28.3%	6.8%	3.1%	12.7%	2.1%	29.9%	8.2%	4.1%	14.0%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	27.6%	6.5%	2.7%	12.0%	1.7%	29.6%	8.2%	4.1%	13.8%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	16.3%	3.8%	1.6%	7.1%	1.0%	17.5%	4.9%	2.4%	8.2%
Y/Y growth %															
Revenue	54%	16%	13%	9%	19%	5%	4%	2%	3%	4%	4%	3%	3%	4%	3%
EBITDA	NM	35%	39%	108%	62%	35%	3%	7%	-5%	5%	12%	8%	11%	9%	9%
Operating income	NM	39%	120%	NM	112%	NM	4%	13%	-17%	9%	NM	9%	24%	36%	14%
Pre-tax income	NM	36%	187%	NM	124%	NM	6%	25%	NM	15%	NM	11%	31%	56%	19%
Net income	NM	34%	236%	NM	130%	NM	6%	5%	NM	9%	NM	11%	31%	56%	19%
EPS	NM	18%	222%	NM	108%	NM	3%	2%	NM	7%	NM	10%	30%	56%	18%

Source: Sidoti & Company, LLC and company reports.

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$55.34) BUY Target: $85 August 1, 2012

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	46
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87
PT	7/31/12	67		85



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We maintain our BUY rating and $85 target.** Our $85 target is based on an unchanged 15x our revised 2013 free cash flow per share estimate of $5.66 (from $5.68). Our $1.5 billion market cap target implies a multiple of roughly 8x our 2013 EBITDA estimate of $160 million (from $162 million) plus $6 million (from $9 million) in projected net cash and $50 million book value for CHDN's Ohio casino JV. Our target does not include potential legalized gaming in Kentucky or Illinois (or alternately an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value).

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 08/01/12, Sidoti provides research on 499 companies, of which 366 (73%) are rated BUY and 132 (27%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 4 companies (1.09%). Of the NEUTRALS, 42 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti & Company, LLC does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Other Disclosures

This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Sidoti does not maintain a predetermined schedule for publication of research and will not necessarily update this report. The stock rating on this report reflects the analyst's recommendation based on a 12 month period. Based on published near-term earnings estimates, the analyst's short-term opinion may be different from what is published in this report. A risk to our price target is that the analyst's estimates or forecasts may not be met. Information contained herein is based on sources we believe to be reliable but we do not

Appendix Continued

guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov on the internet. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Churchill Downs Inc. (CHDN-$57.01)

BUY

Lower Price Target; Adjust Earnings Estimates

Target: $85

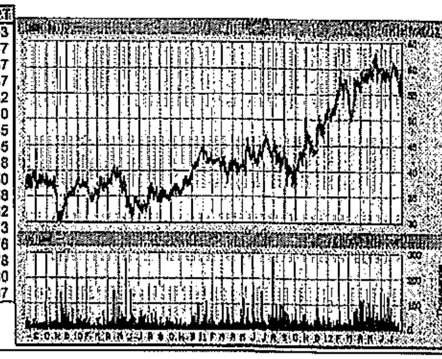
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

July 31, 2012

Market Cap (Mil)	**$990**	**Price to Book Value**	**1.9x**
Avg. Daily Trading Volume	**59,000**	**Return on Equity (2013E)**	**10.2%**
Shares Out (Mil)	**17.330**	**LT Debt to Total Capital**	**11%**
Float Shares (Mil)	**12.908**	**5-Year EPS Growth Rate Projection**	**15%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**63-37**
Dividend	**$0.60**	**Russell 2000**	**792**
Dividend Yield	**1.1%**	**Short Interest (Mil)**	**0.803**

	2010	2011	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)	$0.00A		$0.09	$0.08
June	2.01	2.37	2.66	2.59	2.83	2.76
Sep.	0.11	0.36	0.40	0.37	0.52	0.48
Dec.	(0.17)	0.26	0.17	0.15	0.26	0.23
EPS (Cal.)	**$1.33**	**$2.76**	**$3.21**	**$3.10**	**$3.69**	**$3.54**
P/E (Cal.)				**18.4x**		**16.1x**
EBITDA (mil.) (Cal)	**$85.6**	**$139.4**	**$154.8**	**$151.5**	**$166.6**	**$162.2**
EV / EBITDA				**6.8x**		**5.8x**

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/8/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87



Note: 2010 excludes $0.16 from one-time charges. 2010-2013E include $0.14 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. EV/EBITDA includes construction in progress. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$722.3	$746.8
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.10	$3.54

* 2004 and 2005 revenue exclude Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering Web site, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
August 6	August 7	9 AM	877.372.0878	NM	$2.59

Trim Target To $85 (From $87) On Slightly Lower Estimates; Look For Online Horse Wagering To Fuel 12% And 14% EPS Growth In 2012, 2013, Respectively; Maintain BUY Rating

- **We reduce our 2012 and 2013 EPS estimates to $3.10 (from $3.21) and $3.54 (from $3.69), respectively, to reflect softer regional casino trends; our 2Q:12 EPS estimate is now in line with the consensus forecast.**
- **We continue to think CHDN's shares are considerably undervalued trading at just 10x our 2013 free cash flow per share estimate of $5.68— particularly in light of the overcapitalized balance sheet.**
- **In our view, CHDN's online horse wagering segment has a long runway for growth with just 17% of U.S. wagering currently placed online.**
- **We maintain our BUY rating.**
- **We lower our price target to $85 target (from $87), which is based on an unchanged 15x multiple applied to our revised 2013 FCF per share estimate of $5.68 (from $5.82).**

❑ **We slightly reduce our estimates based on softer regional casino trends ...** Our new 2Q:12 EPS estimate is in line with the consensus forecast. We estimate EPS rose 10% year over year fueled by a strong Kentucky Derby week and growth in the online wagering segment. We reduce our 2012 and 2013 EPS estimates to $3.10 (from $3.21) and $3.54 (from $3.69), respectively, to reflect softer regional casino trends. Our new estimates are roughly in with the 2012 and 2013 full year EPS consensus forecast of $3.15 and $3.50, respectively.

- **... but still look for CHDN's online horse wagering segment to fuel 12% and 14% EPS growth in 2012 and 2013, respectively.** With only 17% of wagering in the U.S. currently placed online, we see considerable room for future growth (just 11% of wagering was placed at tracks). In our view, with off-track betting spiraling downward, as online continues to gain share, OTB facilities will continue to close, fueling further online share gains.

- **In Illinois, the state legislature has passed a gaming bill that is currently sitting on the governor's desk.** While we think it is unlikely the governor will sign the bill, it is possible a legislative override of the veto may take place in the lame duck session after the November elections.

- **CHDN's balance sheet is significantly over-capitalized, in our view.** At the end of 1Q:12, CHDN had $81 million in net debt amounting to 0.6x trailing EBITDA, versus 5x for the median regional casino operator. Even considering CHDN's $50 million cash contribution to its Ohio racino JV, we estimate the company will have net cash of $9 million at 2013 year-end. CHDN has considerable dry powder to finance accretive acquisitions, develop its JV racino in Ohio and eventually construct racinos in Illinois (two) and Kentucky, if favorable legislation is passed.

- **We reduce our target to $85 (from $87) but maintain our BUY rating.** Our new $85 target (from $87) is based on an unchanged 15x our revised 2013 free cash flow per share estimate of $5.68 (from $5.82). Our $1.5 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $162 million (from $166 million) plus $9 million (from $14 million) in projected net cash and $50 million book value for CHDN's Ohio casino JV. Our target does not include potential legalized gaming in Kentucky or Illinois (or alternately an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	2Q:12E	2Q:11A	Variance	% Difference
Revenue	$260,647	$249,686	$10,961	4%
EBITDA	92,482	84,983	7,499	9%
	35.5%	34.0%		
Operating income	78,675	71,093	7,582	11%
	30.2%	28.5%		
Net income	45,238	39,990	5,248	13%
	17.4%	16.0%		
Fully diluted EPS	$2.59	$2.37	$0.23	10%

Source: Sidoti & Company, LLC estimates and company financials

Table 1 : CHDN Income Statement

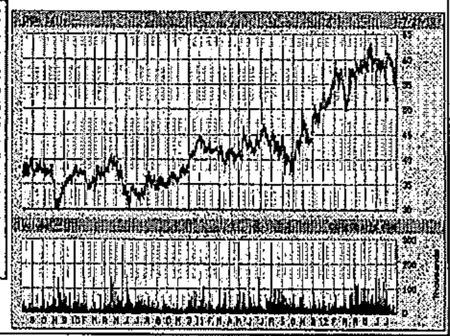
(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	Jun	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E
Net Revenue															
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$150,419	$65,613	$51,675	$297,889	$29,899	$152,738	$64,714	$51,459	$298,812
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,247	18,595	18,900	77,335	22,026	18,612	18,966	19,278	78,882
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,540	18,226	18,221	77,865	21,879	19,540	18,226	18,221	77,865
Gaming, MS	16,510	9,501	13,441	13,387	52,839	15,863	13,441	13,441	13,387	56,132	16,656	14,113	14,113	14,056	58,939
ADW	36,803	46,526	42,015	40,072	165,416	44,035	53,505	48,317	46,083	191,940	48,439	58,855	53,149	50,691	211,134
Other	4,036	5,496	5,873	5,134	20,539	4,643	5,496	5,873	5,134	21,146	4,643	5,496	5,873	5,134	21,146
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	696,854	**138,196**	**260,647**	**170,065**	**153,399**	**722,307**	**143,542**	**269,355**	**175,042**	**158,839**	**746,777**
EBITDA															
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	62,875	984	(5,426)	46,894	(11,362)	64,150	971	(5,403)	48,356
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,022	5,950	6,048	25,976	8,098	6,514	6,069	6,169	26,850
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	2,540	2,369	2,369	11,278	3,938	2,540	2,369	2,369	11,216
Gaming, MS	6,600	2,300	4,000	4,550	17,450	6,133	4,704	4,032	4,284	19,153	6,496	5,363	4,940	4,498	21,296
ADW/HRTV	7,545	11,308	9,818	9,069	37,740	10,421	13,911	12,562	11,060	47,955	11,625	15,891	14,350	12,419	54,286
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	2,430	(500)	224	223	(1,931)	2,430	(500)	224	223
Operating expenses	120,380	164,703	142,652	129,709	557,444	123,156	168,165	144,666	134,841	570,828	126,677	172,466	146,843	138,563	584,550
Consolidated EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**92,482**	**25,399**	**18,558**	**151,479**	**16,865**	**96,888**	**28,199**	**20,276**	**162,228**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,807)	(13,807)	(13,807)	(55,228)	(13,807)	(13,807)	(13,807)	(13,807)	(55,228)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**78,675**	**11,592**	**4,751**	**96,251**	**3,058**	**83,081**	**14,392**	**6,469**	**107,000**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(2,000)	(600)	(600)	(4,405)	(600)	(800)	0	0	(1,400)
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**76,675**	**10,992**	**4,151**	**91,846**	**2,458**	**82,281**	**14,392**	**6,469**	**105,600**
Income tax (exp.) benefi	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(31,437)	(4,507)	(1,702)	(37,657)	(1,008)	(33,735)	(5,901)	(2,652)	(43,296)
%	-39%	41%	30%	5%	38%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,238**	**6,485**	**2,449**	**54,189**	**1,450**	**48,546**	**8,491**	**3,816**	**62,304**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.59**	**$0.37**	**$0.15**	**$3.10**	**$0.08**	**$2.76**	**$0.48**	**$0.23**	**$3.54**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,433	17,500	17,500	17,467	17,600	17,600	17,600	17,600	17,600
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$17	$45,238	$6,485	$2,449	$54,189	$1,450	$48,546	$8,491	$3,816	$62,304
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.00	$2.59	$0.37	$0.15	$3.10	$0.08	$2.76	$0.48	$0.23	$3.54
Margin analysis															
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	35.5%	14.9%	12.1%	21.0%	11.7%	36.0%	16.1%	12.8%	21.7%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	30.2%	6.8%	3.1%	13.3%	2.1%	30.8%	8.2%	4.1%	14.3%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	29.4%	6.5%	2.7%	12.7%	1.7%	30.5%	8.2%	4.1%	14.1%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	17.4%	3.8%	1.6%	7.5%	1.0%	18.0%	4.9%	2.4%	8.3%
Y/Y growth %															
Revenue	54%	16%	13%	9%	19%	5%	4%	2%	3%	4%	4%	3%	3%	4%	3%
EBITDA	NM	35%	39%	108%	62%	35%	9%	7%	-5%	9%	12%	5%	11%	9%	7%
Operating income	NM	39%	120%	NM	112%	NM	11%	13%	-17%	14%	NM	6%	24%	36%	11%
Pre-tax income	NM	36%	187%	NM	124%	NM	13%	25%	NM	21%	NM	7%	31%	56%	15%
Net income	NM	34%	236%	NM	130%	NM	13%	5%	NM	15%	NM	7%	31%	56%	15%
EPS	NM	18%	222%	NM	108%	NM	10%	2%	NM	12%	NM	6%	30%	56%	14%

Source: Sidoti & Company, LLC and company reports.

Appendix
Required Disclosures

Churchill Downs Inc. (CHDN-$57.01) BUY Target: $85 July 31, 2012

Action	Date	Px	Rating	PT
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.6		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87



Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Valuation:

- **We reduce our target to $85 (from $87) but maintain our BUY rating.** Our new $85 target (from $87) is based on an unchanged 15x our revised 2013 free cash flow per share estimate of $5.68 (from $5.82). Our $1.5 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $162 million (from $166 million) plus $9 million (from $14 million) in projected net cash and $50 million book value for CHDN's Ohio casino JV. Our target does not include potential legalized gaming in Kentucky or Illinois (or alternately an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative-use real estate value).

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 07/31/12, Sidoti provides research on 499 companies, of which 365 (73%) are rated BUY and 133 (27%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 4 companies (1.10%). Of the NEUTRALS, 48 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti & Company, LLC does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues.

Other Disclosures

This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Sidoti does not maintain a predetermined schedule for publication of research and will not necessarily update this report. The stock rating on this report reflects the analyst's recommendation based on a 12 month period. Based on published near-term earnings estimates, the analyst's short-term opinion may be different from what is published in this report. A risk to our price target is that the analyst's estimates or forecasts may not be met. Information contained herein is based on sources we believe to be reliable but we do not

Appendix Continued

guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov on the internet. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

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317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$58.79)

BUY

Adjust Earnings Estimates; Company Update

Target: $87

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

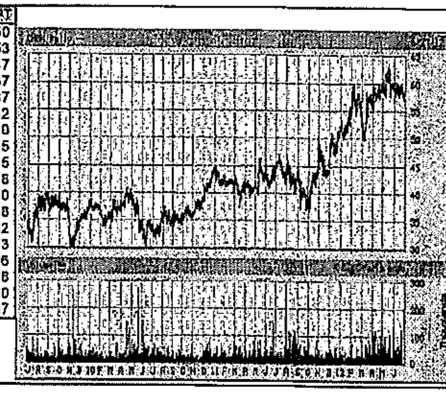
July 2, 2012

Market Cap (Mil)	**$1,020**
Avg. Daily Trading Volume	**70,000**
Shares Out (Mil)	**17.330**
Float Shares (Mil)	**12.910**
Institutional Holdings	**40%**
Dividend	**$0.60**
Dividend Yield	**1.0%**

Price to Book Value	**2.0x**
Return on Equity (2013E)	**10.2%**
LT Debt to Total Capital	**11%**
5-Year EPS Growth Rate Projection	**15%**
52-Week Range (NASDAQ)	**63-37**
Russell 2000	**798**
Short Interest (Mil)	**0.648**

	2010	2011	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)	$0.00A		$0.08	$0.09
June	2.01	2.37	2.68	2.66	2.85	2.83
Sep.	0.11	0.36	0.41	0.40	0.51	0.52
Dec.	(0.17)	0.26	0.18	0.17	0.25	0.26
EPS (Cal.)	**$1.33**	**$2.76**	**$3.26**	**$3.21**	**$3.67**	**$3.69**
P/E (Cal.)				**18.3x**		**15.9x**
EBITDA (mil.) (Cal)	**$85.6**	**$139.4**	**$156.1**	**$154.8**	**$165.6**	**$166.6**
EV / EBITDA				**6.8x**		**5.8x**

Action	Date	Px	Rating	PT
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80
PT	5/21/12	59.5		87



Note: 2010 excludes $0.16 from one-time charges. 2010-2013E include $0.14 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$725.7	$752.6
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.21	$3.69

* 2004 and 2005 revenue exclude Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering Web site, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Expect Online Horse Wagering To Fuel 17% And 15% EPS Growth In 2013; Forecast Nearly $6 Per Share In Free Cash Flow In 2013; Reiterate BUY Rating, $87 Target

- **In our view, CHDN's online horse wagering segment has a long runway for growth with just 17% of U.S. wagering currently placed online, up from 6% in 2003 (Exhibit 2).**
- **We fine-tune our 2012 and 2013 EPS estimates to reflect some weakness in the regional casino markets offset by higher online wagering growth assumptions.**
- **With the shares trading at just 10x our 2013 free cash flow per share estimate of $5.83 and 5.8x our 2013 EBITDA projection, we maintain CHDN is significantly undervalued, particularly in light of the overcapitalized balance sheet.**
- **We reiterate our BUY rating.**
- **Our $87 target is based on 15x our 2013 FCF per share estimate of $5.82.**

❑ **We fine-tune our 2012 and 2013 EPS estimates.** Our revision reflects softer monthly regional casino revenue trends offset by more robust growth in CHDN's online wagering segment. Of CHDN's regional casino properties where monthly statistics are publicly available (25% of total EBITDA and 68% of gaming EBITDA), gaming revenue declined 10% and 5% year over year in April and May, respectively. We note an unfavorable calendar accounted for roughly a 4%-5% decline in April.

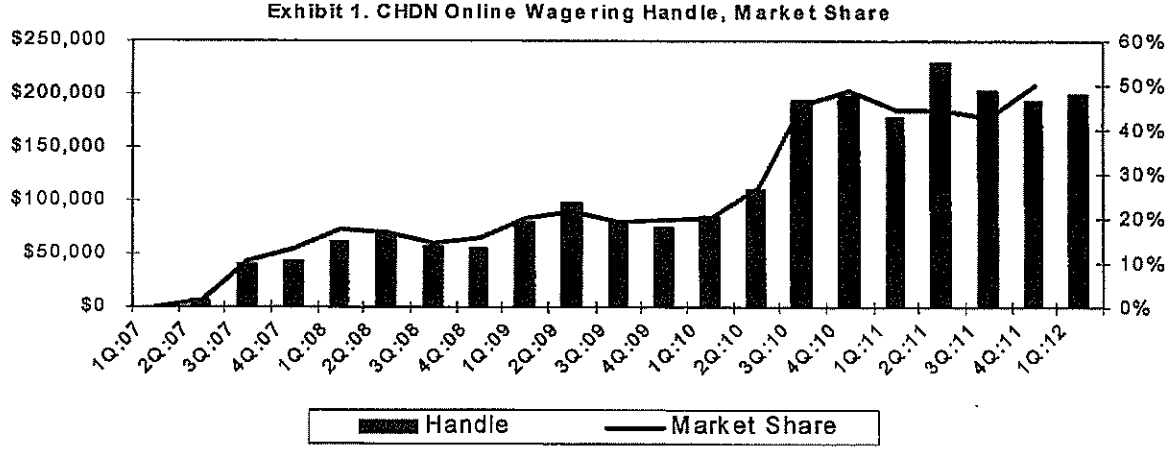
❑ **We look for robust growth in CHDN's online horse wagering segment to fuel 17% and 15% EPS growth in 2012 and 2013, respectively.** In 2011, CHDN's Twin Spires website (www.twinspires.com) had a 45% market share of the online segment in the U.S. (Exhibit 1) based on compiled data from the Oregon Racing Commission). In our view, CHDN has the best technology platform as well as proprietary handicapping data players rely on. With only 17% of wagering in the U.S. currently placed online, we see considerable room for future growth (we note just 11% of wagering was placed at tracks). In our view, with off-track betting facilities spiraling downward, as online continues to gain share, OTB will continue to close, fueling further online share gains.

- **CHDN's balance sheet is significantly over-capitalized, in our view.** At the end of 1Q:12, CHDN had $81 million in net debt amounting to 0.6x trailing EBITDA, versus 5x for the median regional casino operator. The company has considerable dry powder to finance accretive acquisitions, develop its JV racino in Ohio and eventually construct racinos in Illinois and Kentucky, if favorable legislation is passed. In Illinois, both chambers of the legislature have passed legislation permitting slots at racetracks (SB 1849). The governor has indicated he is currently opposed to the bill unless a stronger gaming ethics bill is also passed (for example, limiting campaign contributions from casino operators). We expect the legislature to attempt to push forward with this trailer bill, likely starting in the Senate (although the timeline is still not clear). The legislation would permit CHDN to open racinos in Arlington (40 minutes from downtown Chicago) and East Moline (on the western border of the state).

- **We maintain our BUY rating and $87 target.** Our $87 target is based on 15x our 2013 free cash flow per share estimate of $5.82. Our $1.5 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $166 million plus $14 million in projected net cash and $50 million book value for CHDN's Ohio casino JV. Our target does not include potential legalized gaming in Kentucky or Illinois (or alternately an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative use real estate value).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1. CHDN Online Wagering Handle, Market Share



Source: Oregon Racing Commission, Sidoti & Company, LLC and company reports. Note: wagering handle (000's)

Exhibit 2. U.S. Pari-Mutuel Handle versus Online Handle

(million)	Total Handle	YOY	Online Handle	YOY	% of U.S. Handle
2003	$15.2	0.7%	$0.8	NA	6%
2004	15.1	-0.7%	0.9	4%	6%
2005	14.6	-3.3%	1.3	42%	9%
2006	14.8	1.4%	1.3	7%	9%
2007	14.7	-0.7%	1.4	6%	10%
2008	13.6	-7.5%	1.5	5%	11%
2009	12.3	-9.4%	1.7	11%	13%
2010	11.4	-7.3%	1.7	1%	15%
2011	10.8	-5.6%	1.8	7%	17%

Source: Oregon Racing Commission, Equibase, Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement															
(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	Jun	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E
Net Revenue															
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$151,377	$65,613	$51,675	$298,847	$29,899	$153,726	$64,714	$51,459	$299,799
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,612	18,595	18,900	77,700	22,026	18,984	18,966	19,278	79,254
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	19,540	19,238	19,233	79,890	22,535	20,126	19,816	19,810	82,287
Gaming, MS	16,510	9,501	13,441	13,387	52,839	15,863	13,441	13,441	13,387	56,132	16,656	14,113	14,113	14,056	58,939
ADW	36,803	46,526	42,015	40,072	165,416	44,035	53,505	48,317	46,083	191,940	48,439	58,855	53,149	50,691	211,134
Other	4,036	5,496	5,873	5,134	20,539	4,643	5,496	5;873	5,134	21,146	4,643	5,496	5,873	5,134	21,146
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**261,971**	**171,077**	**154,412**	**725,655**	**144,198**	**271,300**	**176,631**	**160,428**	**752,558**
EBITDA															
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	63,276	984	(5,426)	47,295	(11,362)	64,565	971	(5,403)	48,770
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,142	5,950	6,048	26,096	8,098	6,644	6,069	6,169	26,981
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	3,908	3,271	2,885	14,063	4,282	4,025	3,567	3,170	15,043
Gaming, MS	6,600	2,300	4,000	4,550	17,450	6,133	4,704	4,032	4,284	19,153	6,496	5,363	4,940	4,498	21,296
ADW/HRTV	7,545	11,308	9,818	9,069	37,740	10,421	13,911	12,562	11,060	47,955	11,625	15,891	14,350	12,419	54,286
Corp./United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	2,430	(500)	224	223	(1,931)	2,430	(500)	224	223
Operating expenses	120,380	164,703	142,652	129,709	557,444	123,156	167,600	144,777	135,337	570,870	126,990	172,382	147,235	139,352	585,959
Consolidated EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**94,371**	**26,300**	**19,075**	**154,786**	**17,208**	**98,918**	**29,397**	**21,076**	**166,600**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,807)	(13,807)	(13,807)	(55,228)	(13,807)	(13,807)	(13,807)	(13,807)	(55,228)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**80,564**	**12,493**	**5,268**	**99,558**	**3,401**	**85,111**	**15,590**	**7,269**	**111,372**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(2,000)	(600)	(600)	(4,405)	(600)	(800)	0	0	(1,400)
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**78,564**	**11,893**	**4,668**	**95,153**	**2,801**	**84,311**	**15,590**	**7,269**	**109,972**
Income tax (exp.) benefi	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(32,211)	(4,876)	(1,914)	(39,013)	(1,148)	(34,568)	(6,392)	(2,980)	(45,088)
%	-39%	41%	30%	5%	38%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**46,353**	**7,017**	**2,754**	**56,140**	**1,653**	**49,744**	**9,198**	**4,289**	**64,883**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.66**	**$0.40**	**$0.17**	**$3.21**	**$0.09**	**$2.83**	**$0.52**	**$0.26**	**$3.69**
Diluted avg. shares outstand.	16,358	16,899	16,974	17,125	17,125	17,433	17,433	17,500	17,500	17,467	17,600	17,600	17,600	17,600	17,600
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$17	$46,353	$7,017	$2,754	$56,140	$1,653	$49,744	$9,198	$4,289	$64,883
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.00	$2.66	$0.40	$0.17	$3.21	$0.09	$2.83	$0.52	$0.26	$3.69
Margin analysis															
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	36.0%	15.4%	12.4%	21.3%	11.9%	36.5%	16.6%	13.1%	22.1%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	30.8%	7.3%	3.4%	13.7%	2.4%	31.4%	8.8%	4.5%	14.8%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	30.0%	7.0%	3.0%	13.1%	1.9%	31.1%	8.8%	4.5%	14.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	17.7%	4.1%	1.8%	7.7%	1.1%	18.3%	5.2%	2.7%	8.6%
Y/Y growth %															
Revenue	54%	16%	13%	9%	19%	5%	5%	3%	3%	4%	4%	4%	3%	4%	4%
EBITDA	NM	35%	39%	108%	62%	35%	11%	11%	-2%	11%	14%	5%	12%	10%	8%
Operating income	NM	39%	120%	NM	112%	NM	13%	22%	-8%	18%	NM	6%	25%	38%	12%
Pre-tax income	NM	36%	187%	NM	124%	NM	16%	35%	NM	26%	NM	7%	31%	56%	16%
Net income	NM	34%	236%	NM	130%	NM	16%	14%	NM	19%	NM	7%	31%	56%	16%
EPS	NM	18%	222%	NM	108%	NM	12%	10%	NM	16%	NM	6%	30%	56%	15%

Source: Sidoti & Company, LLC and company reports.

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317 Madison Ave
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Morning Meeting Note

Churchill Downs Inc. (CHDN-$59.50) — BUY

Raise Price Target; Adjust Earnings Estimates — **Target: $87**

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

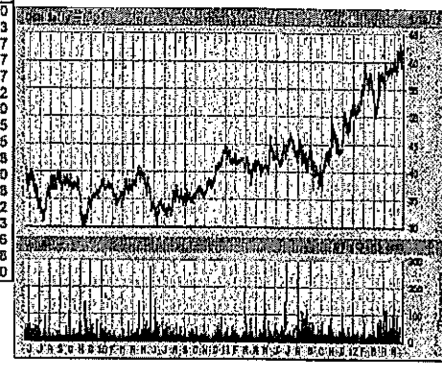
May 21, 2012

Market Cap (Mil)	$1,030
Avg. Daily Trading Volume	59,000
Shares Out (Mil)	17.330
Float Shares (Mil)	12.918
Institutional Holdings	40%
Dividend	$0.60
Dividend Yield	1.0%

Price to Book Value	2.0x
Return on Equity (2013E)	9.7%
LT Debt to Total Capital	11%
5-Year EPS Growth Rate Projection	15%
52-Week Range (NASDAQ)	63-37
Russell 2000	747
Short Interest (Mil)	0.428

	2010	2011	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)	$0.00A		$0.06	$0.08
June	2.01	2.37	2.61	2.68	2.73	2.85
Sep.	0.11	0.36	0.33	0.41	0.41	0.51
Dec.	(0.17)	0.26	0.33	0.18	0.39	0.25
EPS (Cal.)	**$1.33**	**$2.76**	**$3.25**	**$3.26**	**$3.57**	**$3.67**
P/E (Cal.)				**18.3x**		**16.2x**
EBITDA (mil.) (Cal)	**$85.6**	**$139.4**	**$156.6**	**$156.1**	**$163.6**	**$165.6**
EV / EBITDA				**6.7x**		**5.7x**

Action	Date	Px	Rating	PT
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/26/10	35.9	Neutral	37
PT	2/26/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78
PT	5/8/12	59		80



Note: 2010 excludes $0.16 from one-time charges. 2010-2013E include $0.14 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$732.3	$750.6
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.26	$3.67

* 2004 and 2005 revenue exclude Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering Web site, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Raise Target To $87 (From $80) On Higher Estimates To Reflect Strength In Online Horse Wagering, Improved Mix Of Profitability From Higher Multiple Segments; Reiterate BUY Rating

- **We increase our 2012 and 2013 EPS estimates to $3.26 (from $3.25) and $3.67 (from $3.57), respectively, to reflect strength in CHDN's online wagering segment.**
- **We think there is considerable room for multiple expansion with the shares trading at just 10x our 2012 free cash flow per share estimate of $5.82 given impressive growth in the online wagering segment, CHDN's under-appreciated Kentucky Derby trophy franchise and over-capitalized balance sheet.**
- **We raise our price target to $87 target (from $80); our new target is based on 15x (from 14x) our revised 2013 FCF per share estimate of $5.82 (from $5.71); we reiterate our BUY rating.**
- **Our increased multiple reflects higher growth assumptions and more meaningful profit contribution from CHDN's higher multiple segments, the Kentucky Derby franchise and online horse wagering.**

❑ **We increase our 2012 and 2013 EPS estimates to $3.26 (from $3.25) and $3.67 (from $3.57), respectively.** We now estimate CHDN's online horse wagering segment will generate 2012 and 2013 EBITDA of $48 million (from $43 million) and $52 million (from $45 million), respectively, compared with $38 million in 2011. In our view, the segment has a long runway of growth with just 15% of horse wagering currently done online in the U.S. Our estimates now exclude payment to CHDN of the Illinois race subsidy given the unclear timing of collection from the state of Illinois (the payment would boost our EPS estimates by about $0.25 annually). Although the money is legally owed to CHDN by the state, the legislature needs to appropriate the funds.

❑ **We think CHDN shares are considerably undervalued given its overcapitalized balance sheet, ownership of the Kentucky Derby franchise and online horse wagering exposure.** We estimate CHDN will have net cash of $14 million at year-end 2013 (compared with 5x leverage for the median regional casino). In our view, the shares under-appreciate CHDN's Kentucky Derby franchise, which is a consistent, growing cash cow and trophy asset.

- **The state of Illinois' budget woes may open the door for legalized slots at racetracks.** Illinois currently has 10 operating riverboats and legalized video gaming machines at bars, restaurants, truck stops and fraternal organizations (the latter of which are not yet operating), but no legalized slot machines at racetracks. Governor Pat Quinn has been a consistent opponent of legalizing slots at racetracks (a pro gaming bill passed both houses of the state legislature last year, but was not signed by the governor). However, his anti-"slots-at-the-racetracks" rhetoric has softened of late. The legislature is currently considering Senate Bill 1849, which legalizes slots at racetracks, issues five new riverboat licenses and permits existing casinos to expand (the bill is scaled down version of the measure that passed in the last session, so it likely will have a high level of legislative support).

- **We reiterate our BUY rating and increase our target to $87 (from $80).** Our new $87 target is based on 15x our revised 2013 free cash flow per share estimate of $5.82. (Our previous $80 target was based on 14x our prior 2013 FCF per share estimate of $5.71.) We think a higher multiple is appropriate given our higher growth assumptions and greater mix of profitability from higher multiple segments of the Kentucky Derby franchise and online horse wagering (compared with casino gaming). We estimate these two segments will account for 61% of CHDN's 2013 EBITDA, from 58% in 2011. Our $1.5 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $166 million (from $164 million) plus $14 million (from $12 million) in projected net cash and $50 million book value of CHDN's Ohio casino JV. Our new target implies the sum-of-the-parts valuation reflected in Exhibit 1. Our target does not include potential legalized gaming in Kentucky or Illinois (or alternately an asset sale of CHDN's Illinois racetrack, which is not generating EBITDA but has considerable alternative use real estate value).

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1. Churchill Downs, Sum of the Parts Analysis

	EBITDA 2013E	Multiple	Value
Racing	$48,770	12	$585,245
Gaming	64,282	7	449,976
Online wagering	52,312	8	418,494
Corporate/United Tote	223	8	1,784
Book value of JV			50,000
Enterprise Value			1,505,499
Plus projected net cash, 2013 year-end			(13,738)
Implied CHDN value			1,519,237
Price per share			$87
Potential upside to our target:			
Legalized gaming or monetized excess real estate in IL.			$20
Legalized gaming in KY.			$30
Total			$50

Source: Sidoti & Company, LLC and company reports.

REQUIRED DISCLOSURES

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Table 1 : CHDN Income Statement															
(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	Jun	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E
Net Revenue															
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$151,377	$65,613	$51,675	$298,847	$29,899	$153,726	$64,714	$51,459	$299,799
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,612	18,595	18,900	77,700	22,026	18,984	18,966	19,278	79,254
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	22,362	20,859	20,852	85,952	22,535	23,033	21,484	21,478	88,531
Gaming, MS	16,510	9,501	13,441	13,387	52,839	15,863	14,000	13,441	13,387	56,691	16,339	14,420	13,844	13,789	58,392
ADW	36,803	46,526	42,015	40,072	165,416	44,035	53,505	48,317	46,083	191,940	46,677	56,715	51,216	48,848	203,456
Other	4,036	5,496	5,873	5,134	20,539	4,643	5,496	5,873	5,134	21,146	4,643	5,496	5,873	5,134	21,146
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**265,352**	**172,697**	**156,031**	**732,276**	**142,120**	**272,374**	**176,099**	**159,985**	**750,578**
EBITDA															
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	63,276	984	(5,426)	47,295	(11,362)	64,565	971	(5,403)	48,770
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,142	5,950	6,048	26,096	8,098	6,644	6,069	6,169	26,981
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	4,472	3,546	3,128	15,146	4,282	4,607	3,867	3,436	16,192
Gaming, MS	6,600	2,300	4,000	4,550	17,450	6,133	4,900	4,032	4,284	19,349	6,372	5,480	4,845	4,412	21,110
ADW/HRTV	7,545	11,308	9,818	9,069	37,740	10,421	13,911	12,562	11,060	47,955	11,203	15,313	13,828	11,968	52,312
Corporate/United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	2,430	(500)	224	223	(1,931)	2,430	(500)	224	223
Operating expenses	120,380	164,703	142,652	129,709	557,444	123,156	170,221	146,122	136,714	576,212	125,458	173,336	147,018	139,179	584,990
Consolidated EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**95,131**	**26,575**	**19,318**	**156,064**	**16,662**	**99,039**	**29,081**	**20,806**	**165,587**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,807)	(13,807)	(13,807)	(55,228)	(13,807)	(13,807)	(13,807)	(13,807)	(55,228)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**81,324**	**12,768**	**5,511**	**100,836**	**2,855**	**85,232**	**15,274**	**6,999**	**110,359**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(2,000)	(600)	(600)	(4,405)	(600)	(600)	0	0	(1,200)
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**79,324**	**12,168**	**4,911**	**96,431**	**2,255**	**84,632**	**15,274**	**6,999**	**109,159**
Income tax (expense) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(32,523)	(4,989)	(2,013)	(39,537)	(924)	(34,699)	(6,262)	(2,870)	(44,755)
Effective tax rate	-39%	41%	30%	5%	38%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**46,801**	**7,179**	**2,897**	**56,894**	**1,330**	**49,933**	**9,012**	**4,129**	**64,404**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.68**	**$0.41**	**$0.18**	**$3.26**	**$0.08**	**$2.85**	**$0.51**	**$0.25**	**$3.67**
Diluted average shares outstandin	16,358	16,899	16,974	17,125	17,125	17,433	17,433	17,500	17,500	17,467	17,500	17,500	17,600	17,600	17,550
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$17	$46,801	$7,179	$2,897	$56,894	$1,330	$49,933	$9,012	$4,129	$64,404
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.00	$2.68	$0.41	$0.18	$3.26	$0.08	$2.85	$0.51	$0.25	$3.67
Margin analysis															
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	35.9%	15.4%	12.4%	21.3%	11.7%	36.4%	16.5%	13.0%	22.1%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	30.6%	7.4%	3.5%	13.8%	2.0%	31.3%	8.7%	4.4%	14.7%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	29.9%	7.0%	3.1%	13.2%	1.6%	31.1%	8.7%	4.4%	14.5%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	17.6%	4.2%	1.9%	7.8%	0.9%	18.3%	5.1%	2.6%	8.6%
Y/Y growth %															
Revenue	54%	16%	13%	9%	19%	5%	6%	4%	5%	5%	3%	3%	2%	3%	2%
EBITDA	NM	35%	39%	108%	62%	35%	12%	12%	-1%	12%	11%	4%	9%	8%	6%
Operating income	NM	39%	120%	NM	112%	NM	14%	25%	-3%	20%	132%	5%	20%	27%	9%
Pre-tax income	NM	36%	187%	NM	124%	NM	17%	38%	NM	27%	7953%	7%	26%	43%	13%
Net income	NM	34%	236%	NM	130%	NM	17%	16%	NM	20%	7953%	7%	26%	43%	13%
EPS	NM	18%	222%	NM	108%	NM	13%	13%	NM	18%	7922%	6%	25%	43%	13%

Source: Sidoti & Company, LLC and company reports.

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

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Company Update — **Target: $78**

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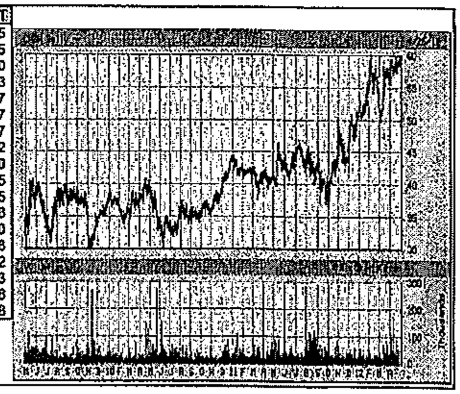
April 30, 2012

Market Cap (Mil)	$1,030	**Price to Book Value**	2.0x
Avg. Daily Trading Volume	48,000	**Return on Equity (2013E)**	8.6%
Shares Out (Mil)	17.173	**LT Debt to Total Capital**	16%
Float Shares (Mil)	12.760	**5-Year EPS Growth Rate Projection**	15%
Institutional Holdings	40%	**52-Week Range (NASDAQ)**	60-37
Dividend	$0.60	**Russell 2000**	825
Dividend Yield	1.0%	**Short Interest (Mil)**	0.433

	2010	2011	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)	($0.15)		($0.08)	
June	2.01	2.37	2.57		2.70	
Sep.	0.11	0.36	0.33		0.42	
Dec.	(0.17)	0.26	0.32		0.39	
EPS (Cal.)	**$1.33**	**$2.76**	**$3.05**		**$3.40**	
P/E (Cal.)			**19.7x**		**17.6x**	
EBITDA (mil.) (Cal)	**$85.6**	**$139.4**	**$148.9**		**$156.1**	
EV / EBITDA			**7.1x**		**6.3x**	

Action	Date	Px	Rating	PT
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		78
PT	3/13/12	51.9		78



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GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.05	$3.40

* 2004 and 2005 revenue exclude Hollywood Park, divested in September 2005.

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Reiterate BUY Rating, $78 Target Following Investor Meetings With Management; Shares Undervalue Kentucky Derby Franchise, Growing Online Wagering Segment, In Our View

- **We hosted investor meetings with CHDN management on Thursday and Friday in New York.**
- **Management is aiming to be a significant player if online gaming is passed; we think CHDN will likely enter joint ventures (JVs) with several other entities to capture liquidity (a key barrier to entry).**
- **CHDN's JV casino in Ohio can likely be up and running within one year of legal challenges being resolved; a court decision is expected within a month, although it is widely expected to be appealed.**
- **Given CHDN's fast-growing online assets, overcapitalized balance sheet, excess real estate, and ownership of the Kentucky Derby franchise, we think the shares warrant a meaningful premium to regional casino operators.**
- **Our $78 target is based on 14x our 2013 FCF per share estimate of $5.61; we reiterate our BUY rating.**

❑ **CHDN is aiming to be a top player in the online poker arena; we think the company will likely enter JVs to capture liquidity.** In our view, CHDN has a head start with an existing customer base as the market leader in online horse wagering. The company has bolstered its political affairs team over the last year and acquired Bluff Media. Bluff Media operates as a publisher of poker-based content and owns a ThePokerDB—an online database that tracks and ranks poker players and tournaments. We note that Bluff Media has not engaged in online poker in the U.S., providing a clean track record that will be beneficial come licensing. We think poker may be legalized on a federal basis in 2012.

❑ **We estimate that once mature, CHDN's Ohio racino JV, will add $0.60 to annual FCF per share.** Assuming all legal challenges are settled by the end of 2012, the property can likely be open by the end of 2013. The JV is actively planning the design and should be ready to start construction quickly after legal hurdles are settled. We expect an initial court decision in May (although we think that regardless which way the decision falls, it is highly likely to be appealed).

- **We think CHDN warrants a premium multiple to regional casinos given its overcapitalized balance sheet, ownership of the Kentucky Derby franchise, excess real estate, and online horse wagering exposure.** We estimate that CHDN will be nearly debt free by the end of 2013 (versus 5x leverage for the median regional casino) and is positioned well to consistently boost its annual dividend. We view the Kentucky Derby franchise as one of the best brands in sports; the event is a consistent, reliable, and growing cash cow. In terms of real estate, we estimate that CHDN's Arlington Park track in suburban Chicago (336 owned acres) is generating minimal EBITDA. While CHDN is working toward legislative approval to construct a slots facility at the racetrack (we estimate its worth at $25 per share on an undiscounted basis), we think the land is worth more than $15 per share (as an alternative use). Our target excludes this potential upside. In addition, CHDN has significant upside from potential legalization of online poker and slots at its racetracks in Louisville and suburban Chicago.

- **We reiterate our BUY rating and $78 target.** Our target is based on 14x our 2013 free cash flow per share estimate of $5.61. Our $1.3 billion market cap target implies a multiple of 7.5x our 2013 EBITDA estimate of $155 million less $7 million projected net debt plus $50 million book value of CHDN's Ohio casino JV. We argue that CHDN deserves a premium to the peer group multiple (generally 7x-9x), based on the company's Kentucky Derby franchise and online wagering segment, which has better growth potential and is less capital intensive than asset-based wagering.

Key Risks	Slowing economy	Construction cost over runs on new casino development	Increased competition

Table 1 : CHDN Income Statement															
(000's, except where noted)	**Mar**	**Jun**	**Sep**	**Dec**	**2011**	**Mar**	**Jun**	**Sep**	**Dec**	**2012E**	**Mar**	**Jun**	**Sep**	**Dec**	**2013E**
Net Revenue															
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$31,348	$149,939	$65,613	$51,675	$298,575	$31,076	$151,754	$64,714	$51,459	$299,003
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,639	18,612	18,595	18,900	77,745	22,072	18,984	18,966	19,278	79,300
Gaming, FL	20,029	21,711	20,251	20,245	82,236	20,029	22,362	20,859	20,852	84,102	20,630	23,033	21,484	21,478	86,625
Gaming, MS	16,510	9,501	13,441	13,387	52,839	13,387	14,000	13,710	13,655	54,752	13,655	14,000	13,984	13,928	55,567
ADW	36,803	46,526	42,015	40,072	165,416	39,000	47,922	43,275	41,274	171,471	40,170	49,359	44,574	42,512	176,616
Other	4,036	5,496	5,873	5,134	20,539	4,036	5,496	5,873	5,134	20,539	4,036	5,496	5,873	5,134	20,539
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**129,439**	**258,332**	**167,924**	**151,490**	**707,185**	**131,638**	**262,627**	**169,596**	**153,789**	**717,650**
EBITDA															
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,912)	59,976	984	574	49,622	(11,809)	60,701	971	597	50,460
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,142	5,950	6,048	26,096	8,115	6,644	6,069	6,169	26,998
Gaming, FL	3,100	4,300	3,300	3,000	13,700	3,205	4,472	3,546	3,128	14,351	3,301	4,607	3,867	3,436	15,211
Gaming, MS	6,600	2,300	4,000	4,550	17,450	4,685	4,900	4,113	4,370	18,068	5,189	5,320	4,894	4,457	19,860
ADW/HRTV	7,545	11,308	9,818	9,069	37,740	8,190	11,980	10,386	9,328	39,885	8,837	13,327	10,921	9,608	42,693
Corporate/United Tote	(1,266)	2,430	(383)	224	1,005	(1,266)	2,430	(500)	224	888	(1,266)	2,430	(500)	224	888
Operating expenses	120,380	164,703	142,652	129,709	557,444	118,581	168,431	143,445	127,819	558,275	119,271	169,597	143,374	129,298	561,540
Consolidated EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**10,858**	**89,901**	**24,479**	**23,671**	**148,909**	**12,367**	**93,030**	**26,222**	**24,491**	**156,110**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,851)	(13,851)	(13,851)	(13,851)	(55,404)	(13,851)	(13,851)	(13,851)	(13,851)	(55,404)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**(2,993)**	**76,050**	**10,628**	**9,820**	**93,505**	**(1,484)**	**79,179**	**12,371**	**10,640**	**100,706**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(800)	(800)	(300)	0	(1,900)
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**(4,493)**	**74,550**	**9,628**	**8,820**	**88,505**	**(2,284)**	**78,379**	**12,071**	**10,640**	**98,806**
Income tax (expense) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	1,842	(30,565)	(3,948)	(3,616)	(36,287)	936	(32,135)	(4,949)	(4,362)	(40,510)
Effective tax rate	-39%	41%	30%	5%	38%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**(2,651)**	**43,984**	**5,681**	**5,204**	**52,218**	**(1,347)**	**46,243**	**7,122**	**6,277**	**58,295**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**($0.15)**	**$2.57**	**$0.33**	**$0.32**	**$3.05**	**($0.08)**	**$2.70**	**$0.42**	**$0.39**	**$3.40**
Diluted average shares outstandir	16,358	16,899	16,974	17,125	17,125	17,125	17,125	17,125	17,125	17,125	17,125	17,125	17,125	17,125	17,125
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	($2,651)	$43,984	$5,681	$5,204	$52,218	($1,347)	$46,243	$7,122	$6,277	$58,295
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	($0.15)	$2.57	$0.33	$0.32	$3.05	($0.08)	$2.70	$0.42	$0.39	$3.40
Margin analysis															
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	8.4%	34.8%	14.6%	15.6%	21.1%	9.4%	35.4%	15.5%	15.9%	21.8%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	-2.3%	29.4%	6.3%	6.5%	13.2%	-1.1%	30.1%	7.3%	6.9%	14.0%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	-3.5%	28.9%	5.7%	5.8%	12.5%	-1.7%	29.8%	7.1%	6.9%	13.8%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	-2.0%	17.0%	3.4%	3.4%	7.4%	-1.0%	17.6%	4.2%	4.1%	8.1%
Y/Y growth %															
Revenue	54%	16%	13%	9%	19%	-2%	3%	1%	1%	1%	2%	2%	1%	2%	1%
EBITDA	NM	35%	39%	108%	62%	-3%	6%	3%	21%	7%	14%	3%	7%	3%	5%
Operating income	NM	39%	120%	NM	112%	NM	7%	4%	72%	11%	-50%	4%	16%	8%	8%
Pre-tax income	NM	36%	187%	NM	124%	NM	10%	9%	NM	17%	-49%	5%	25%	21%	12%
Net income	NM	34%	236%	NM	130%	NM	10%	-8%	NM	11%	-49%	5%	25%	21%	12%
EPS	NM	18%	222%	NM	108%	NM	9%	-9%	NM	11%	-49%	5%	25%	21%	12%

Source: Sidoti & Company, LLC and company reports.

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$58.95) — BUY

Raise Price Target; Adjust Earnings Estimates — **Target: $80**

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

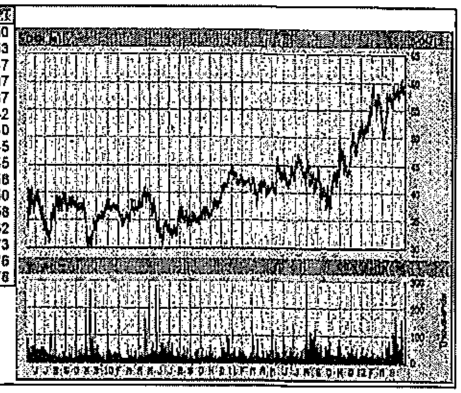
May 8, 2012

Market Cap (Mil)	**$1,030**
Avg. Daily Trading Volume	**52,000**
Shares Out (Mil)	**17.400**
Float Shares (Mil)	**12.760**
Institutional Holdings	**40%**
Dividend	**$0.60**
Dividend Yield	**1.0%**

Price to Book Value	**2.0x**
Return on Equity (2013E)	**8.6%**
LT Debt to Total Capital	**16%**
5-Year EPS Growth Rate Projection	**15%**
52-Week Range (NASDAQ)	**61-37**
Russell 2000	**794**
Short Interest (Mil)	**0.433**

	2010	2011	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)	($0.15)	$0.00	($0.08)	$0.06
June	2.01	2.37	2.57	2.61	2.70	2.73
Sep.	0.11	0.36	0.33		0.42	0.41
Dec.	(0.17)	0.26	0.32	0.33	0.39	
EPS (Cal.)	**$1.33**	**$2.76**	**$3.05**	**$3.25**	**$3.40**	**$3.57**
P/E (Cal.)				**18.1x**		**16.5x**
EBITDA (mil.) (Cal)	**$85.6**	**$139.4**	**$148.9**	**$156.6**	**$156.1**	**$163.6**
EV / EBITDA				**6.6x**		**5.7x**

Action	Date	Px	Rating	PT
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.6		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76
PT	3/13/12	51.9		78



Note: 2010 excludes $0.16 from one-time charges. 2010-2013E include $0.14 in annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$707.2	$717.7
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.25	$3.57

* 2004 and 2005 revenue exclude Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering Web site, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Raise Target To $80 (From $78) On Higher Estimates To Reflect Strength In Online Horse Wagering, Positive Kentucky Derby Guidance; See Shares As Very Undervalued; Reiterate BUY

- **CHDN generated 1Q:12 revenue of $138 million (versus consensus of $135 million) and break-even EPS versus the consensus forecast of a loss per share of $0.11.**
- **CHDN largely exceeded our forecast on better-than-expected results in the online wagering segment.**
- **Management noted EBITDA for the Kentucky Derby (2Q:12) rose $4.5-$5.5 million year over year based on preliminary estimates.**
- **We increase our 2012 and 2013 EPS estimates to $3.25 (from $3.05) and $3.57 (from $3.40), respectively, to reflect strength in both online wagering and Kentucky Derby profitability.**
- **Our new $80 target (from $78) is based on 14x our revised 2013 FCF per share estimate of $5.71 (from $5.61); we reiterate our BUY rating.**

❑ **CHDN exceeded our loss per share estimate of $0.15 mainly on strength in the online wagering segment.** EBITDA in CHDN's online horse wagering segment rose 38% year over year to $10.4 million versus our $8.2 million estimate (Exhibit 2). We increase our 2012 and 2013 EPS estimates to $3.25 (from $3.05) and $3.57 (from $3.40), respectively, to reflect higher online wagering growth assumptions and better-than-expected profitability from Kentucky Derby week at CHDN's namesake track. Management noted EBITDA rose $4.5-$5.5 million year over year based on preliminary estimates.

❑ **We think CHDN shares are considerably undervalued given its overcapitalized balance sheet, ownership of the Kentucky Derby franchise and online horse wagering exposure.** We estimate CHDN will have net cash of $12 million at 2013 year-end (versus 5x leverage for the median regional casino). In our view, the shares under-appreciate CHDN's Kentucky Derby franchise, which is a consistent, reliable and growing cash cow. Lastly, CHDN is well-positioned as the market leader in the online horse wagering industry, in our view, and will continue to benefit from a secular shift to wagering online from off-track betting facilities (currently just 15% of horse wagering in the U.S. is online).

- **We reiterate our BUY rating and increase our target to $80 (from $78).** Our new $80 target is based on 14x our revised 2013 free cash flow per share estimate of $5.71 (from $5.61). Our $1.4 billion market cap target implies a multiple of 7.2x our 2013 EBITDA estimate of $164 million plus $12 million in projected net cash (versus our prior estimate of $7 million in net debt) plus $50 million book value of CHDN's Ohio casino JV.

Key Risks	Slowing economy	Construction cost over-runs on new casino development	Increased competition

Exhibit 1 : CHDN Variance Table

(000's)	1Q:12A	1Q:12E	Variance	1Q:11A	YOY%
Revenue	$138,196	$129,439	$8,757	$131,554	5%
EBITDA	15,040	10,858	4,182	11,174	35%
	10.9%	8.4%		8.5%	
Operating income	1,233	(2,993)	4,226	(2,812)	NM
	0.9%	-2.3%		-2.1%	
Net income	17	(2,651)	2,667	(3,186)	NM
	0.0%	-2.0%		-2.4%	
Fully diluted EPS	$0.00	($0.15)	$0.16	($0.19)	NM

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis

(000's)	1Q:12A	1Q:12E	Var	1Q:11A	YOY%
Racing	($11,539)	($11,912)	$373	($12,638)	-9%
Gaming, LA	7,956	7,956	0	7,800	2%
Gaming, FL	4,000	3,205	795	3,100	29%
Gaming, MS	6,133	4,685	1,448	6,600	-7%
ADW/HRTV	10,421	8,190	2,231	7,545	38%
Corporate/United Tot	(1,931)	(1,266)	(665)	(1,266)	NM
Total EBITDA	**$15,040**	**$10,858**	**$4,182**	**$11,174**	**35%**

Source: Sidoti & Company, LLC estimates and company financials

REQUIRED DISCLOSURES

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 05/08/12, Sidoti provides research on 507 companies, of which 379 (74%) are rated BUY and 128 (26%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 3 companies (0.79%). Of the NEUTRALS, 37 trade above our price targets. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, but compensation is not directly related to investment banking revenues. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti & Company, LLC does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company.

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Table 1 : CHDN Income Statement

(000's, except where noted)	Mar	Jun	Sep	Dec	2011	MarA	Jun	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E
Net Revenue															
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$30,182	$151,377	$65,613	$51,675	$298,847	$29,899	$153,227	$64,714	$51,459	$299,300
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,594	18,612	18,595	18,900	77,700	22,026	18,984	18,966	19,278	79,254
Gaming, FL	20,029	21,711	20,251	20,245	82,236	21,879	22,362	20,859	20,852	85,952	22,535	23,033	21,484	21,478	88,531
Gaming, MS	16,510	9,501	13,441	13,387	52,839	15,863	14,000	13,710	13,655	57,228	16,180	14,000	13,984	13,928	58,092
ADW	36,803	46,526	42,015	40,072	165,416	44,035	48,852	44,116	42,076	179,079	45,356	50,318	45,439	43,338	184,451
Other	4,036	5,496	5,873	5,134	20,539	4,643	5,496	5,873	5,134	21,146	4,643	5,496	5,873	5,134	21,146
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**138,196**	**260,700**	**168,764**	**152,292**	**719,952**	**140,640**	**265,058**	**170,461**	**154,615**	**730,774**
EBITDA															
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,539)	62,821	984	574	52,841	(11,362)	63,589	971	597	53,795
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,142	5,950	6,048	26,096	8,098	6,644	6,069	6,169	26,981
Gaming, FL	3,100	4,300	3,300	3,000	13,700	4,000	4,472	3,546	3,128	15,146	4,282	4,607	3,867	3,436	16,192
Gaming, MS	6,600	2,300	4,000	4,550	17,450	6,133	4,900	4,113	4,370	19,515	6,310	5,320	4,894	4,457	20,982
ADW/HRTV	7,545	11,308	9,818	9,069	37,740	10,421	12,213	10,588	9,509	42,731	10,885	13,586	11,133	9,794	45,398
Corporate/United Tote	(1,266)	2,430	(383)	224	1,005	(1,931)	2,430	(500)	224	223	(1,931)	2,430	(500)	224	223
Operating expenses	120,380	164,703	142,652	129,709	557,444	123,156	167,721	144,083	128,439	563,399	124,357	168,882	144,027	129,937	567,204
Consolidated EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**15,040**	**92,979**	**24,681**	**23,852**	**156,553**	**16,283**	**96,176**	**26,434**	**24,677**	**163,571**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,807)	(13,807)	(13,807)	(13,807)	(55,228)	(13,807)	(13,807)	(13,807)	(13,807)	(55,228)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**1,233**	**79,172**	**10,874**	**10,045**	**101,325**	**2,476**	**82,369**	**12,627**	**10,870**	**108,343**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,205)	(2,000)	(1,000)	(1,000)	(5,205)	(800)	(800)	(300)	0	(1,900)
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**28**	**77,172**	**9,874**	**9,045**	**96,120**	**1,676**	**81,569**	**12,327**	**10,870**	**106,443**
Income tax (expense) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	(11)	(31,641)	(4,048)	(3,709)	(39,409)	(687)	(33,443)	(5,054)	(4,457)	(43,641)
Effective tax rate	-39%	41%	30%	5%	38%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**17**	**45,531**	**5,826**	**5,337**	**56,711**	**989**	**48,126**	**7,273**	**6,413**	**62,801**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**$0.00**	**$2.61**	**$0.33**	**$0.33**	**$3.25**	**$0.06**	**$2.73**	**$0.41**	**$0.39**	**$3.57**
Diluted average shares outstandin	16,358	16,899	16,974	17,125	17,125	17,433	17,433	17,500	17,500	17,467	17,600	17,600	17,600	17,600	17,600
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	$17	$45,531	$5,826	$5,337	$56,711	$989	$48,126	$7,273	$6,413	$62,801
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	$0.00	$2.61	$0.33	$0.33	$3.25	$0.06	$2.73	$0.41	$0.39	$3.57
Margin analysis															
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	10.9%	35.7%	14.6%	15.7%	21.7%	11.6%	36.3%	15.5%	16.0%	22.4%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	0.9%	30.4%	6.4%	6.6%	14.1%	1.8%	31.1%	7.4%	7.0%	14.8%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	0.0%	29.6%	5.9%	5.9%	13.4%	1.2%	30.8%	7.2%	7.0%	14.6%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	0.0%	17.5%	3.5%	3.5%	7.9%	0.7%	18.2%	4.3%	4.1%	8.6%
Y/Y growth %															
Revenue	54%	16%	13%	9%	19%	5%	4%	1%	2%	3%	2%	2%	1%	2%	2%
EBITDA	NM	35%	39%	108%	62%	35%	9%	4%	22%	12%	8%	3%	7%	3%	4%
Operating income	NM	39%	120%	NM	112%	NM	11%	6%	76%	20%	101%	4%	16%	8%	7%
Pre-tax income	NM	36%	187%	NM	124%	NM	14%	12%	NM	27%	5885%	6%	25%	20%	11%
Net income	NM	34%	236%	NM	130%	NM	14%	-6%	NM	20%	5885%	6%	25%	20%	11%
EPS	NM	18%	222%	NM	108%	NM	10%	-8%	NM	18%	5828%	5%	24%	20%	10%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$51.93)

BUY

Raise Price Target; Adjust Earnings Estimates

Target: $78

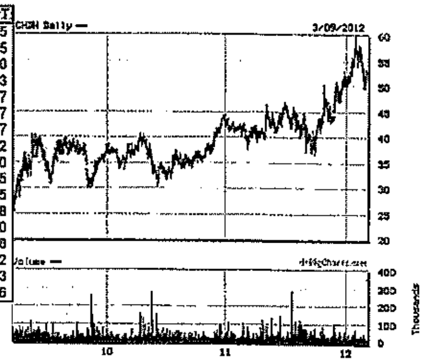
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

March 13, 2012

Market Cap (Mil)	**$890**
Avg. Daily Trading Volume	**28,000**
Shares Out (Mil)	**17.200**
Float Shares (Mil)	**12.806**
Institutional Holdings	**40%**
Dividend	**$0.60**
Dividend Yield	**1.2%**
Price to Book Value	**1.8x**
Return on Equity (2013E)	**8.6%**
LT Debt to Total Capital	**16%**
5-Year EPS Growth Rate Projection	**15%**
52-Week Range (NASDAQ)	**60-37**
Russell 2000	**814**
Short Interest (Mil)	**0.270**

	2010	2011		2012E		2013E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)A		($0.13)	($0.15)	($0.05)	($0.08)
June	2.01	2.37A		2.60	2.57	2.73	2.70
Sep.	0.11	0.36A		0.35	0.33	0.43	0.42
Dec.	(0.17)	(0.01)	0.26A	0.12	0.32	0.19	0.39
EPS (Cal.)	**$1.33**	**$2.54**	**$2.76**	**$2.94**	**$3.05**	**$3.30**	**$3.40**
P/E (Cal.)					**17.0x**		**15.3x**
EBITDA (mil.) (Cal)	**$85.6**	**$134.3**	**$139.4**	**$143.4**	**$148.9**	**$150.8**	**$156.1**
EV / EBITDA					**6.1x**		**5.4x**

Action	Date	PX	Rating	PT
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76



Note: 2010 excludes $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.9	$707.2	$717.7
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.76	$3.05	$3.40

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Raise Target To $78 (From $76) On Increased Estimates; 4Q:11 EPS Were Well Ahead Of Our Forecast On Online Wagering Strength; Reiterate BUY Rating

- **CHDN posted 4Q:11 EPS of $0.26, compared with consensus of breakeven; CHDN exceeded our forecast on better-than-expected results in the online wagering division and a lower tax rate (which accounted for $0.10 of the beat).**
- **We increase our respective 2012 and 2013 EPS estimates to $3.05 (from $2.94) and $3.40 (from $3.30) to reflect the stronger-than-anticipated trends in the online horse wagering segment.**
- **Management is hosting a conference call at 9:00 AM ET; the call-in number is 877.372.0878 (ID 44275812).**
- **We continue to like the shares based on CHDN's young gaming assets, compelling valuation of 11x our 2012 free cash flow estimate, the company's growing online horse wagering segment and an over-capitalized balance sheet.**

- **Our new $78 target (from $76) is based on 14x our revised 2013 FCF per share estimate of $5.61 (from $5.42).**
- **We reiterate our BUY rating.**

- **CHDN generated 4Q:11 EPS of $0.26, compared with consensus of breakeven.** EBITDA in CHDN's online wagering segment rose to $9 million (compared with our $5 million estimate and $4 million in the prior-year period) on an 18% year over year rise in online wagering revenue. Casino gaming EBITDA of $14 million compared with our $12 million estimate.

- **We increase our respective 2012 and 2013 EPS estimates to $3.05 (from $2.94) and $3.40 (from $3.30) to reflect the stronger-than-anticipated trends in the online horse wagering segment.** We now forecast CHDN's online wagering segment will generate 2012 and 2013 EBITDA of $40 million (from $36 million) and $43 million (from $39 million), respectively, as CHDN benefits from a secular shift in wagering online from on-track and off-track betting facilities.

- **CHDN's shares are attractive at just 9x our 2013 free cash flow estimate of $5.61 per share.** CHDN's three gaming assets are young (still ramping-up and require minimal cap-ex), the Kentucky Derby franchise is underappreciated and competition-resistant, in our view, and we expect the company's online horse wagering assets to benefit from a secular shift in wagering from off track betting facilities to online. Inclusive of CHDN's $50 million investment in its Ohio casino joint venture, we estimate the company will have just $8 million in net debt at year-end 2013 (compared with 5x EBITDA for peers). The casino is slated to open in late 2013 (no earnings contribution in our estimates), and we estimate the property will contribute nearly $0.60 per share in annual FCF per share for CHDN.

- **We reiterate our BUY rating and increase our target to $78 (from $76).** Our target is based on 14x our revised 2013 free cash flow per share estimate of $5.61 (from $5.42). Our $1.3 billion market cap target implies a multiple of 7.5x our revised 2013 EBITDA estimate of $155 million (from $151 million), less $7 million projected net debt plus $50 million book value of CHDN's Ohio casino JV. We argue CHDN deserves a premium to the peer group multiple (which is generally in a 7x-9x range), not a discount, based on the company's Kentucky Derby franchise and online wagering segment, which has better growth potential and is less capital intensive than asset-based wagering.

Exhibit 1 : CHDN Variance Table

(000's)	4Q:11A	4Q:11E	Variance	4Q:10A	YOY%
Revenue	$149,265	$148,659	$606	$137,241	9%
EBITDA	19,556	14,430	5,126	9,402	108%
	13.1%	9.7%		6.9%	
Operating income	5,705	987	4,718	(2,712)	NM
	3.8%	0.7%		-2.0%	
Net income	4,271	(244)	4,515	(2,687)	NM
	2.9%	-0.2%		-2.0%	
Fully diluted EPS	$0.26	($0.01)	$0.28	($0.17)	NM

Source: Sidoti & Company, LLC estimates and company financials

Table 1 : CHDN Income Statement															
(000's, except where noted)	Mar	Jun	Sep	Dec	2011	Mar	Jun	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E
Net Revenue															
Racing	$31,628	$148,205	$66,539	$51,898	$298,270	$31,348	$149,939	$65,613	$51,675	$298,575	$31,076	$151,754	$64,714	$51,459	$299,003
Gaming, LA	21,215	18,247	18,230	18,529	76,221	21,639	18,612	18,595	18,900	77,745	22,072	18,984	18,966	19,278	79,300
Gaming, FL	20,029	21,711	20,251	20,245	82,236	20,029	22,362	20,859	20,852	84,102	20,630	23,033	21,484	21,478	86,625
Gaming, MS	16,510	9,501	13,441	13,387	52,839	13,387	14,000	13,710	13,655	54,752	13,655	14,000	13,984	13,928	55,567
ADW	36,803	46,526	42,015	40,072	165,416	39,000	47,922	43,275	41,274	171,471	40,170	49,359	44,574	42,512	176,616
Other	4,036	5,496	5,873	5,134	20,539	4,036	5,496	5,873	5,134	20,539	4,036	5,496	5,873	5,134	20,539
Net revenue	**131,554**	**249,686**	**166,349**	**149,265**	**696,854**	**129,439**	**258,332**	**167,924**	**151,490**	**707,185**	**131,638**	**262,627**	**169,596**	**153,789**	**717,650**
EBITDA															
Racing	(12,638)	58,447	1,114	(3,266)	43,657	(11,912)	59,976	984	574	49,622	(11,809)	60,701	971	597	50,460
Gaming, LA	7,800	6,200	5,800	6,000	25,800	7,956	6,142	5,950	6,048	26,096	8,115	6,644	6,069	6,169	26,998
Gaming, FL	3,100	4,300	3,300	3,000	13,700	3,205	4,472	3,546	3,128	14,351	3,301	4,607	3,867	3,436	15,211
Gaming, MS	6,600	2,300	4,000	4,550	17,450	4,685	4,900	4,113	4,370	18,068	5,189	5,320	4,894	4,457	19,860
ADW/HRTV	7,545	11,308	9,818	9,069	37,740	8,190	11,980	10,386	9,328	39,885	8,837	13,327	10,921	9,608	42,693
Corporate/United Tote	(1,266)	2,430	(383)	224	1,005	(1,266)	2,430	(500)	224	888	(1,266)	2,430	(500)	224	888
Operating expenses	120,380	164,703	142,652	129,709	557,444	118,581	168,431	143,445	127,819	558,275	119,271	169,597	143,374	129,298	561,540
Consolidated EBITDA	**11,174**	**84,983**	**23,697**	**19,556**	**139,410**	**10,858**	**89,901**	**24,479**	**23,671**	**148,909**	**12,367**	**93,030**	**26,222**	**24,491**	**156,110**
D & A	(13,986)	(13,890)	(13,443)	(13,851)	(55,170)	(13,851)	(13,851)	(13,851)	(13,851)	(55,404)	(13,851)	(13,851)	(13,851)	(13,851)	(55,404)
Operating income	**(2,812)**	**71,093**	**10,254**	**5,705**	**84,240**	**(2,993)**	**76,050**	**10,628**	**9,820**	**93,505**	**(1,484)**	**79,179**	**12,371**	**10,640**	**100,706**
Interest expense	(2,392)	(3,405)	(1,460)	(1,199)	(8,456)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(800)	(800)	(300)	0	(1,900)
Pre-tax income	**(5,204)**	**67,688**	**8,794**	**4,506**	**75,784**	**(4,493)**	**74,550**	**9,628**	**8,820**	**88,505**	**(2,284)**	**78,379**	**12,071**	**10,640**	**98,806**
Income tax (expense) benefit	2,018	(27,698)	(2,621)	(235)	(28,536)	1,842	(30,565)	(3,948)	(3,616)	(36,287)	936	(32,135)	(4,949)	(4,362)	(40,510)
Effective tax rate	-39%	41%	30%	5%	38%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**(3,186)**	**39,990**	**6,173**	**4,271**	**47,248**	**(2,651)**	**43,984**	**5,681**	**5,204**	**52,218**	**(1,347)**	**46,243**	**7,122**	**6,277**	**58,295**
Pro-forma EPS diluted	**($0.19)**	**$2.37**	**$0.36**	**$0.26**	**$2.76**	**($0.15)**	**$2.57**	**$0.33**	**$0.32**	**$3.05**	**($0.08)**	**$2.70**	**$0.42**	**$0.39**	**$3.40**
Diluted average shares outstandir	16,358	16,899	16,974	17,125	17,125	17,125	17,125	17,125	17,125	17,125	17,125	17,125	17,125	17,125	17,125
Net Income GAAP	($3,186)	$39,990	$19,780	$4,271	$60,855	($2,651)	$43,984	$5,681	$5,204	$52,218	($1,347)	$46,243	$7,122	$6,277	$58,295
EPS GAAP	($0.19)	$2.37	$0.36	$0.26	$2.76	($0.15)	$2.57	$0.33	$0.32	$3.05	($0.08)	$2.70	$0.42	$0.39	$3.40
Margin analysis															
EBITDA	8.5%	34.0%	14.2%	13.1%	20.0%	8.4%	34.8%	14.6%	15.6%	21.1%	9.4%	35.4%	15.5%	15.9%	21.8%
Operating	-2.1%	28.5%	6.2%	3.8%	12.1%	-2.3%	29.4%	6.3%	6.5%	13.2%	-1.1%	30.1%	7.3%	6.9%	14.0%
Pre-tax	-4.0%	27.1%	5.3%	3.0%	10.9%	-3.5%	28.9%	5.7%	5.8%	12.5%	-1.7%	29.8%	7.1%	6.9%	13.8%
Net income	-2.4%	16.0%	3.7%	2.9%	6.8%	-2.0%	17.0%	3.4%	3.4%	7.4%	-1.0%	17.6%	4.2%	4.1%	8.1%
Y/Y growth %															
Revenue	54%	16%	13%	9%	19%	-2%	3%	1%	1%	1%	2%	2%	1%	2%	1%
EBITDA	NM	35%	39%	108%	62%	-3%	6%	3%	21%	7%	14%	3%	7%	3%	5%
Operating income	NM	39%	120%	NM	112%	NM	7%	4%	72%	11%	-50%	4%	16%	8%	8%
Pre-tax income	NM	36%	187%	NM	124%	NM	10%	9%	NM	17%	-49%	5%	25%	21%	12%
Net income	NM	34%	236%	NM	130%	NM	10%	-8%	NM	11%	-49%	5%	25%	21%	12%
EPS	NM	18%	222%	NM	108%	NM	9%	-9%	NM	11%	-49%	5%	25%	21%	12%

Source: Sidoti & Company, LLC and company reports.

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317 Madison Ave
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(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$55.65) — BUY

Company Update — **Target: $76**

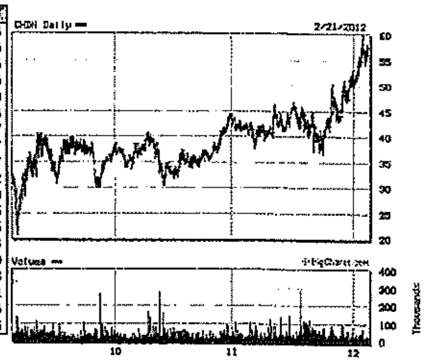
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

February 23, 2012

Market Cap (Mil)	$960
Avg. Daily Trading Volume	31,000
Shares Out (Mil)	17.181
Float Shares (Mil)	12.806
Institutional Holdings	40%
Dividend	$0.60
Dividend Yield	1.1%
Price to Book Value	1.9x
Return on Equity (2013E)	8.6%
LT Debt to Total Capital	16%
5-Year EPS Growth Rate Projection	15%
52-Week Range (NASDAQ)	60-37
Russell 2000	817
Short Interest (Mil)	0.291

	2010	2011E	2012E OLD	2012E NEW	2013E OLD	2013E NEW
Mar.	($0.63)	($0.19)A	($0.13)		($0.05)	
June	2.01	2.37A	2.60		2.73	
Sep.	0.11	0.36A	0.35		0.43	
Dec.	(0.17)	(0.01)	0.12		0.19	
EPS (Cal.)	$1.33	$2.54	$2.94		$3.30	
P/E (Cal.)		21.9x	18.9x		16.9x	
EBITDA (mil.) (Cal)	$85.6	$134.3	$143.4		$150.8	
EV / EBITDA		8.2x	7.2x		6.3x	

Action	Date	Px	Rating	PT
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	6/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		60
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76



Note: 2010 excludes $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.2	$707.5	$717.8
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.54	$2.94	$3.30

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Pro-Gaming Constitutional Amendment Clears Kentucky State Senate Committee, Heads To Full Senate For Possible Vote This Week; Maintain BUY Rating, $76 Target

- **Yesterday, a constitutional amendment in Kentucky to legalize up to seven casinos passed the Senate State and Local Government Committee by a seven-to-four vote; the measure now goes to the full Senate for consideration.**
- **While the measure specifically removes language ensuring licenses for up to five racetracks, it maintains language that no casino may be located within 60 miles of a racetrack.**
- **Accordingly, it ensures CHDN is the only potential casino operator in/around the Louisville area, the state's largest city and the 42nd largest MSA in the U.S.**
- **We estimate passage of the bill is worth nearly $30 per share in equity value for CHDN on an undiscounted basis.**

- **We expect Senate passage to be the most difficult hurdle; should the bill pass the Senate, we think it likely will pass the House, sending the amendment to a statewide referendum in November 2012, where polls indicate support.**
- **We maintain our BUY rating and $76 target, which is based on 14x our 2013 free cash flow per share estimate of $5.42.**

❑ **Yesterday, a pro-gaming bill passed through committee in Kentucky's Senate; the bill now heads to the full Senate for consideration with a possible vote this week.** SB 151 passed the Republican-dominated committee (seven Republicans, four Democrats) by a seven-to-four vote. The language on the amendment was changed to allow up to seven casinos; previous legislation permitted casinos at up to five racetracks plus two standalone locations. However, we still view the amended language as favorable for CHDN, as the amendment still stipulates that no standalone casino may be developed within 60 miles of a racetrack. Accordingly, CHDN remains the only potential developer for the most lucrative Louisville license. Considering casinos are taxed on revenue, it would be hard to imagine Kentucky not issuing a license in Louisville that would maximize tax revenue. Senate leadership, which is not supportive of the bill, may push for a vote today given that two likely supporters of the bill will not be in attendance, reducing the chances of passage (so a delayed vote is a positive for CHDN). If the measure fails today, it could still come up again this session which runs through April 9.

❑ **As debate begins on the measure in the full Senate, we expect language will evolve.** Two possible changes include 1) eliminating or modifying the racetrack exclusivity areas and 2) changing the amendment to permit the legislature to legalize casinos (as opposed to current language, which states the legislature "shall" legalize gaming if the amendment passes the public referendum). Both potential changes would be negative for CHDN, in our view, as the former would diminish CHDN's home base advantage while the latter could delay gaming legalization. Future gaming legislation would require a considerably smaller hurdle for passage (50% vote in the legislature versus 60% for the constitutional amendment and no public vote required), but the constitutional amendment would not expressly prohibit gaming.

❑ **We view the Senate as the key hurdle.** In order to pass, the amendment requires 60% passage of both houses, gubernatorial support and a public referendum (a recent Garin-Hart-Yang Research Group poll indicates 64% of Kentuckians support legalized gaming). Democratic Governor Steve Beshear actively supports the amendment, while the State House passed gaming legislation in the past (Democratic House Speaker Greg Stumbo appears to support the measure). We think passage in the State Senate is the key hurdle for gaming legislation and note the passage through the Senate committee is the first ever for a casino bill in Kentucky.

❑ **We estimate the passage of legalized casino gaming is worth nearly $30 per share in equity value to CHDN on an undiscounted basis assuming the gaming tax rate and license fee are in line with previous legislation.** Our estimates assume CHDN is the sole Louisville casino developer, a $50 million one-time casino license, 40% gross gaming tax rate for the first five years and 50% gross thereafter. These estimates are based on historical gaming bills debated in Kentucky; we note the enabling legislation is not likely to be passed until after potential passage of the referendum (likely in a special legislative session called by the governor). Please see our January 3, 2012 and February 3, 2012 CHDN notes for further details on our Louisville casino forecast.

❑ **We maintain our BUY rating and $76 target.** Our target is based on 14x our 2013 free cash flow per share estimate of $5.42. Our $1.3 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $151 million, less $3 million projected net debt. We argue CHDN deserves a premium to the peer group multiple (which is generally in a 7x-9x range), not a discount, based on the company's Kentucky Derby franchise and online wagering segment, which has better growth potential and is less capital-intensive than asset-based wagering.

Table 1 : CHDN Income Statement

(000's, except where noted)	Mar	Jun	Sep	Dec	2010	MarA	JunA	SepA	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																
Racing	$33,014	$147,440	$67,348	$59,742	$307,544	$31,628	$148,205	$66,539	$59,506	$305,878	$31,348	$149,939	$65,613	$59,278	$306,177	$306,599
Gaming, LA	19,865	17,629	17,578	18,910	74,373	21,215	18,247	18,230	20,100	77,792	21,639	18,612	18,595	20,502	79,348	80,935
Gaming, FL	12,918	18,219	17,089	16,400	65,200	20,029	21,711	20,251	18,040	80,031	20,630	22,362	20,859	18,581	82,432	84,905
Gaming, MS				2,700	2,700	16,510	9,501	13,441	14,000	53,452	15,000	14,000	13,710	14,280	56,990	57,850
ADW	18,295	29,847	39,232	34,032	121,407	36,803	46,526	42,015	34,713	160,057	37,907	47,922	43,275	35,754	164,858	169,804
Other	107	2,260	6,299	5,457	14,121	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705	17,705
Net revenue	**85,164**	**215,395**	**147,546**	**137,241**	**585,345**	**131,554**	**249,686**	**166,349**	**148,659**	**696,248**	**130,560**	**258,332**	**167,924**	**150,695**	**707,510**	**717,798**
EBITDA																
Racing	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	1,114	(2,600)	44,323	(11,912)	59,976	984	(224)	48,824	49,663
Gaming, LA	6,439	6,006	5,492	5,126	23,063	7,800	6,200	5,800	5,427	25,227	7,956	6,142	5,950	5,536	25,584	26,684
Gaming, FL	(400)	900	2,400	2,600	5,500	3,100	4,300	3,300	2,796	13,496	3,301	4,472	3,546	2,973	14,292	14,936
Gaming, MS	0			1,200	1,200	6,600	2,300	4,000	4,200	17,100	5,250	4,900	4,113	4,284	18,547	20,689
ADW/HRTV	3,995	6,854	5,818	3,759	20,426	7,545	11,308	9,818	5,207	33,878	7,960	11,980	10,386	5,721	36,048	38,730
Corporate/United Tote	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	(383)	(600)	181	(1,266)	2,430	(500)	(600)	64	64
Operating expenses	88,428	152,312	130,494	127,839	499,072	120,380	164,703	142,652	134,229	561,964	119,271	168,431	143,445	133,006	564,152	567,032
Consolidated EBITDA	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**23,697**	**14,430**	**134,284**	**11,289**	**89,901**	**24,479**	**17,689**	**143,358**	**150,766**
D & A	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,443)	(13,443)	(54,762)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)	(53,772)
Operating income	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**10,254**	**987**	**79,522**	**(2,154)**	**76,458**	**11,036**	**4,246**	**89,586**	**96,994**
Interest expense	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(1,460)	(1,400)	(8,657)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(1,900)
Pre-tax income	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**8,794**	**(413)**	**70,865**	**(3,654)**	**74,958**	**10,036**	**3,246**	**84,586**	**95,094**
Income tax (expense) benefit	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(2,621)	169	(28,131)	1,498	(30,733)	(4,115)	(1,331)	(34,680)	(38,988)
Effective tax rate	41%	40%	40%	41%	39%	-39%	41%	30%	41%	40%	41%	41%	41%	41%	41%	41%
Net income	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**6,173**	**(244)**	**42,734**	**(2,156)**	**44,225**	**5,922**	**1,915**	**49,906**	**56,105**
Pro-forma EPS diluted	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.36**	**($0.01)**	**$2.54**	**($0.13)**	**$2.60**	**$0.35**	**$0.12**	**$2.94**	**$3.30**
Diluted average shares outstandin	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,974	17,000	16,808	17,000	17,000	17,000	17,000	17,000	17,000
Net Income GAAP	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$19,780	($244)	$56,340	($2,156)	$44,225	$5,922	$1,915	$49,906	$56,105
EPS GAAP	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.13)	$2.60	$0.35	$0.12	$2.94	$3.30
Margin analysis																
EBITDA	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	14.2%	9.7%	19.3%	8.6%	34.8%	14.6%	11.7%	20.3%	21.0%
Operating	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	6.2%	0.7%	11.4%	-1.6%	29.6%	6.6%	2.8%	12.7%	13.5%
Pre-tax	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.3%	-0.3%	10.2%	-2.8%	29.0%	6.0%	2.2%	12.0%	13.2%
Net income	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.7%	-0.2%	6.1%	-1.7%	17.1%	3.5%	1.3%	7.1%	7.8%
Y/Y growth %																
Revenue	23%	20%	46%	61%	34%	54%	16%	13%	8%	19%	-1%	3%	1%	1%	2%	1%
EBITDA	NM	8%	149%	799%	36%	NM	35%	39%	53%	56%	1%	6%	3%	23%	7%	5%
Operating income	26%	0%	NM	-60%	20%	NM	39%	120%	NM	100%	NM	8%	8%	330%	13%	8%
Pre-tax income	NM	-3%	NM	NM	4%	NM	36%	187%	NM	110%	NM	11%	14%	NM	19%	12%
Net income	NM	-3%	NM	NM	4%	NM	34%	236%	NM	108%	NM	11%	-4%	NM	17%	12%
EPS	NM	-9%	NM	NM	-6%	NM	18%	222%	NM	92%	NM	10%	-4%	NM	15%	12%

Source: Sidoti & Company, LLC and company reports.

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

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Morning Meeting Note

Churchill Downs Inc. (CHDN-$56.92) — BUY

Company Update — **Target: $76**

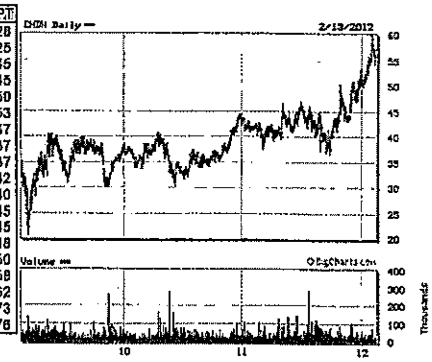
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

February 15, 2012

Market Cap (Mil)	**$980**	**Price to Book Value**	**1.9x**
Avg. Daily Trading Volume	**31,000**	**Return on Equity (2013E)**	**8.6%**
Shares Out (Mil)	**17.181**	**LT Debt to Total Capital**	**16%**
Float Shares (Mil)	**12.806**	**5-Year EPS Growth Rate Projection**	**15%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**60-37**
Dividend	**$0.60**	**Russell 2000**	**821**
Dividend Yield	**1.1%**	**Short Interest (Mil)**	**0.291**

	2010	2011E	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)A	($0.13)		($0.05)	
June	2.01	2.37A	2.60		2.73	
Sep.	0.11	0.36A	0.35		0.43	
Dec.	(0.17)	(0.01)	0.12		0.19	
EPS (Cal.)	**$1.33**	**$2.54**	**$2.94**		**$3.30**	
P/E (Cal.)		**22.4x**	**19.4x**		**17.2x**	
EBITDA (mil) (Cal)	**$85.6**	**$134.3**	**$143.4**		**$150.8**	
EV / EBITDA		**8.4x**	**7.3x**		**6.4x**	

Action	Date	Px	Rating	PT
PT	2/24/09	30.7		28
PT	3/5/09	28.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76



Note: 2010 exclude $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.2	$707.5	$717.8
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.54	$2.94	$3.30

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Pro-Gaming Constitutional Amendment Filed In Kentucky; Think Legalized Gaming There Would Add $30 Per Share In Undiscounted Equity Value For CHDN; Maintain BUY, $76 Target

- **Yesterday, a constitutional amendment was filed in Kentucky to legalize casinos at up to five racetracks plus two stand-alone locations, which are required to be at least 60 miles from a racetrack.**
- **The amendment does not stipulate the gaming tax rate or potential license fee and requires the legislature to take up enabling legislation to decide the terms should the amendment succeed.**
- **Although the details are light, they are so far positive for CHDN given the 60-mile radius of exclusivity; we note CHDN owns the only racetrack in/around Louisville, the state's largest city and 42nd largest MSA in the U.S.**
- **We expect passage in the senate to be the most difficult hurdle; should the bill pass there, we think it likely will pass**

the house, sending the amendment to a statewide referendum in November 2012, where polls indicate support.

- **We maintain our BUY rating and $76 target, which is based on 14x our 2013 free cash flow per share estimate of $5.42.**

- **A pro-gaming constitutional amendment was filed in Kentucky yesterday.** In order to pass, the amendment requires 60% approval in both the state senate and house, gubernatorial support and a public referendum (a recent Garin-Hart-Yang Research Group poll indicates 64% of Kentuckians support legalized gaming). The Kentucky legislative session runs through April 9, although the governor has the ability to call a special session after that date. Democratic governor Steve Beshear is actively supporting the amendment, while the state house has passed gaming legislation in the past (Democratic House Speaker Greg Stumbo appears to support the measure). We think passage in the state senate is the key hurdle for gaming legislation. Republican Senate president David Williams has been a key opponent of gaming historically, but the amendment is sponsored by a Republican, and we think Mr. Williams' influence is diminished after he lost the gubernatorial election to Mr. Beshear in a landslide (56% to 35%) last November .

- **The one page amendment states the legislature "shall" pass a bill to authorize up to five casinos at racetracks and two stand-alone casinos.** The particulars of the bill—e.g., the gaming tax rate and potential license fees—would be decided with enabling legislation that would likely be taken up in a special session should the amendment pass in November).

- **We estimate the passage of legalized casino gaming in Kentucky is worth nearly $30 per share in equity value to CHDN on an undiscounted basis assuming the gaming tax rate and license fee are in line with previous legislation.** Our estimates assume a $50 million one-time casino license, a 40% gross gaming tax rate for the first five years and 50% gross thereafter. Please see our January 3, 2012 and February 3, 2012 CHDN notes for further details on our Louisville casino forecast.

- **We maintain our BUY rating and $76 target.** Our target is based on 14x our 2013 free cash flow per share estimate of $5.42. Our $1.3 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $151 million, less $3 million projected net debt. We argue CHDN deserves a premium to the peer group multiple (which is generally in a 7x-9x range), not a discount, based on the company's Kentucky Derby franchise and online wagering segment, which has better growth potential and is less capital intensive than asset-based wagering.

Table 1 : CHDN Income Statement																
(000's, except where noted)	Mar	Jun	Sep	Dec	2010	MarA	JunA	SepA	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																
Racing	$33,014	$147,440	$67,348	$59,742	$307,544	$31,628	$148,205	$66,539	$59,506	$305,878	$31,348	$149,939	$65,613	$59,278	$306,177	$306,599
Gaming, LA	19,865	17,629	17,578	18,910	74,373	21,215	18,247	18,230	20,100	77,792	21,639	18,612	18,595	20,502	79,348	80,935
Gaming, FL	12,918	18,219	17,089	16,400	65,200	20,029	21,711	20,251	18,040	80,031	20,630	22,362	20,859	18,581	82,432	84,905
Gaming, MS				2,700	2,700	16,510	9,501	13,441	14,000	53,452	15,000	14,000	13,710	14,280	56,990	57,850
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Other	107	2,260	6,299	5,457	14,121	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705	17,705
Net revenue	**85,164**	**215,395**	**147,546**	**137,241**	**585,345**	**131,554**	**249,686**	**166,349**	**148,659**	**696,248**	**130,560**	**258,332**	**167,924**	**150,695**	**707,510**	**717,798**
EBITDA																
Racing	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	1,114	(2,600)	44,323	(11,912)	59,976	984	(224)	48,824	49,663
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Gaming, FL	(400)	900	2,400	2,600	5,500	3,100	4,300	3,300	2,796	13,496	3,301	4,472	3,546	2,973	14,292	14,936
Gaming, MS	0			1,200	1,200	6,600	2,300	4,000	4,200	17,100	5,250	4,900	4,113	4,284	18,547	20,689
ADW/HRTV	3,995	6,854	5,818	3,759	20,426	7,545	11,308	9,818	5,207	33,878	7,960	11,980	10,386	5,721	36,048	38,730
Corporate/United Tote	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	(383)	(600)	181	(1,266)	2,430	(500)	(600)	64	64
Operating expenses	88,428	152,312	130,494	127,839	499,072	120,380	164,703	142,652	134,229	561,964	119,271	168,431	143,445	133,006	564,152	567,032
Consolidated EBITDA	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**23,697**	**14,430**	**134,284**	**11,289**	**89,901**	**24,479**	**17,689**	**143,358**	**150,766**
D & A	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,443)	(13,443)	(54,762)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)	(53,772)
Operating income	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**10,254**	**987**	**79,522**	**(2,154)**	**76,458**	**11,036**	**4,246**	**89,586**	**96,994**
Interest expense	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(1,460)	(1,400)	(8,657)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(1,900)
Pre-tax income	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**8,794**	**(413)**	**70,865**	**(3,654)**	**74,958**	**10,036**	**3,246**	**84,586**	**95,094**
Income tax (expense) benefit	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(2,621)	169	(28,131)	1,498	(30,733)	(4,115)	(1,331)	(34,680)	(38,988)
Effective tax rate	41%	40%	40%	41%	39%	-39%	41%	30%	41%	40%	41%	41%	41%	41%	41%	41%
Net income	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**6,173**	**(244)**	**42,734**	**(2,156)**	**44,225**	**5,922**	**1,915**	**49,906**	**56,105**
Pro-forma EPS diluted	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.36**	**($0.01)**	**$2.54**	**($0.13)**	**$2.60**	**$0.35**	**$0.12**	**$2.94**	**$3.30**
Diluted average shares outstandin	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,974	17,000	16,808	17,000	17,000	17,000	17,000	17,000	17,000
Net Income GAAP	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$19,780	($244)	$56,340	($2,156)	$44,225	$5,922	$1,915	$49,906	$56,105
EPS GAAP	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.13)	$2.60	$0.35	$0.12	$2.94	$3.30
Margin analysis																
EBITDA	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	14.2%	9.7%	19.3%	8.6%	34.8%	14.6%	11.7%	20.3%	21.0%
Operating	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	6.2%	0.7%	11.4%	-1.6%	29.6%	6.6%	2.8%	12.7%	13.5%
Pre-tax	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.3%	-0.3%	10.2%	-2.8%	29.0%	6.0%	2.2%	12.0%	13.2%
Net income	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.7%	-0.2%	6.1%	-1.7%	17.1%	3.5%	1.3%	7.1%	7.8%
Y/Y growth %																
Revenue	23%	20%	46%	61%	34%	54%	16%	13%	8%	19%	-1%	3%	1%	1%	2%	1%
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Operating income	26%	0%	NM	-60%	20%	NM	39%	120%	NM	100%	NM	8%	8%	330%	13%	8%
Pre-tax income	NM	-3%	NM	NM	4%	NM	36%	187%	NM	110%	NM	11%	14%	NM	19%	12%
Net income	NM	-3%	NM	NM	4%	NM	34%	236%	NM	108%	NM	11%	-4%	NM	17%	12%
EPS	NM	-9%	NM	NM	-6%	NM	18%	222%	NM	92%	NM	10%	-4%	NM	15%	12%

Source: Sidoti & Company, LLC and company reports.

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

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Morning Meeting Note

Churchill Downs Inc. (CHDN-$51.61) — BUY

Company Update — **Target: $76**

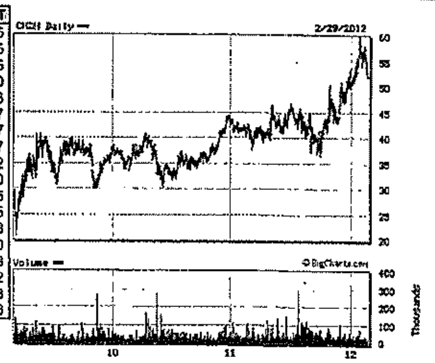
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

March 2, 2012

Market Cap (Mil)	$890	**Price to Book Value**	1.8x
Avg. Daily Trading Volume	31,000	**Return on Equity (2013E)**	8.6%
Shares Out (Mil)	17.181	**LT Debt to Total Capital**	16%
Float Shares (Mil)	12.806	**5-Year EPS Growth Rate Projection**	15%
Institutional Holdings	40%	**52-Week Range (NASDAQ)**	60-37
Dividend	$0.60	**Russell 2000**	815
Dividend Yield	1.2%	**Short Interest (Mil)**	0.269

	2010	2011E	2012E OLD	2012E NEW	2013E OLD	2013E NEW
Mar.	($0.63)	($0.19)A	($0.13)		($0.05)	
June	2.01	2.37A	2.60		2.73	
Sep.	0.11	0.36A	0.35		0.43	
Dec.	(0.17)	(0.01)	0.12		0.19	
EPS (Cal.)	**$1.33**	**$2.54**	**$2.94**		**$3.30**	
P/E (Cal.)		**20.3x**	**17.6x**		**15.6x**	
EBITDA (mil.) (Cal)	**$85.6**	**$134.3**	**$143.4**		**$150.8**	
EV / EBITDA		**7.7x**	**6.7x**		**5.8x**	

Action	Date	Px	Rating	PT
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76



Note: 2010 excludes $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.2	$707.5	$717.8
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.54	$2.94	$3.30

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Estimate CHDN's Joint Venture With Delaware North To Acquire Cincinnati Casino Will Contribute $0.38 In EPS In 2014; Reiterate BUY Rating, $76 Target

- **CHDN and privately-held Delaware North will acquire Lebanon Raceway just outside of Cincinnati, Ohio for $60 million; the 50/50 JV intends to construct a $225 million slots facility inclusive of the state's $50 million license fee.**
- **We estimate the facility will generate $48 million in EBITDA in 2014 ($24 million for CHDN), the first full year of operation, amounting to a 17% cash on cash return and adding $0.57 in annual FCF/share for CHDN.**
- **Importantly, the closing of the deal is contingent on the current legal challenge of slots at racetracks in Ohio being thrown out (as well as any other potential legal challenges).**
- **We maintain our BUY rating and $76 target, which is based on 14x our 2013 free cash flow per share estimate of**

$5.42.

- **By our model, CHDN's new casino joint venture will generate $48 million in EBITDA in 2014, which equates to a 17% cash-on-cash return, $0.38 in EPS and $0.57 per share in free cash flow for the company.** CHDN and privately-held Delaware North will acquire Lebanon Raceway for $60 million ($10 million in cash and a $50 million promissory note). The property is located about 30 miles northeast of Cincinnati. The JV plans to construct a $225 slots facility, inclusive of the state's $50 million licensing fee. CHDN and Delaware North each plan to contribute $45 million in equity, with the remaining $135 million financed with property level debt. We estimate the gaming facility will generate $48 million in EBITDA in 2014, the first full year of operation, amounting to a 17% cash-on-cash return, $0.38 in EPS and $0.57 in free cash flow for CHDN. The legalization of slots at racetracks in Ohio is currently under legal challenge, though it appears likely the challenge will be thrown out, in our view. Closing of the deal is contingent on gaming being upheld (in this particularly case or any other). Earlier this month, the Ohio House passed a bill enabling legislation for slots at tracks, which included a state-owned land sale to Lebanon Raceway for a more favorable location several miles from the current location (closer to the interstate). We think it is likely the measure will pass the Senate. Ohio's gaming tax rate of 33% is favorable for gaming operators, in our view, and licenses are limited to four standalone facilities plus slots at the states' seven racetracks. The JV plans to open the facility in fall 2013, though we think the timeline could be fluid based on the current legal challenge.

- **We maintain our BUY rating and $76 target.** Our target is based on 14x our 2013 free cash flow per share estimate of $5.42. Our $1.3 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $151 million, less $3 million projected net debt. We argue CHDN deserves a premium to the peer group multiple (which is generally in a 7x-9x range), not a discount, based on the company's Kentucky Derby franchise and online wagering segment, which has better growth potential and is less capital intensive than asset-based wagering.

Exhibit 1. Cincinnati, Slots Facility

(millions)	Bear	Base	Bull
Capex	$285	$286	$286
Slots	2,000	2,000	2,000
WPD	$185	$200	$215
Gaming Rev.	$135	$146	$157
Other Rev.	14	15	16
Promotional Allowance	(15)	(16)	(17)
Total Rev.	134	145	155
EBITDA margin	30%	33%	36%
EBITDA	40	48	56
Cash-on-cash Return	14%	17%	20%
CHDN Proportionate Share (50%)			
Capex	$143	$143	$143
EBITDA	$20	$24	$28
@ 7x	($0)	$1	$3
@ 8x	$1	$3	$5
@ 9x	$2	$4	$6
Annual EPS accretion	$0.25	$0.38	$0.52
Annual FCF/share accre	$0.43	$0.57	$0.71

Source: Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement																
(000's, except where noted)	Mar	Jun	Sep	Dec	2010	MarA	JunA	SepA	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																
Racing	$33,014	$147,440	$67,348	$59,742	$307,544	$31,628	$148,205	$66,539	$59,506	$305,878	$31,348	$149,939	$65,613	$59,278	$306,177	$306,599
Gaming, LA	19,865	17,629	17,578	18,910	74,373	21,215	18,247	18,230	20,100	77,792	21,639	18,612	18,595	20,502	79,348	80,935
Gaming, FL	12,918	18,219	17,089	16,400	65,200	20,029	21,711	20,251	18,040	80,031	20,630	22,362	20,859	18,581	82,432	84,905
Gaming, MS				2,700	2,700	16,510	9,501	13,441	14,000	53,452	15,000	14,000	13,710	14,280	56,990	57,850
ADW	18,295	29,847	39,232	34,032	121,407	36,803	46,526	42,015	34,713	160,057	37,907	47,922	43,275	35,754	164,858	169,804
Other	107	2,260	6,299	5,457	14,121	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705	17,705
Net revenue	**85,164**	**215,395**	**147,546**	**137,241**	**585,345**	**131,554**	**249,686**	**166,349**	**148,659**	**696,248**	**130,560**	**258,332**	**167,924**	**150,695**	**707,510**	**717,798**
EBITDA																
Racing	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	1,114	(2,600)	44,323	(11,912)	59,976	984	(224)	48,824	49,663
Gaming, LA	6,439	6,006	5,492	5,126	23,063	7,800	6,200	5,800	5,427	25,227	7,956	6,142	5,950	5,536	25,584	26,684
Gaming, FL	(400)	900	2,400	2,600	5,500	3,100	4,300	3,300	2,796	13,496	3,301	4,472	3,546	2,973	14,292	14,936
Gaming, MS	0			1,200	1,200	6,600	2,300	4,000	4,200	17,100	5,250	4,900	4,113	4,284	18,547	20,689
ADW/HRTV	3,995	6,854	5,818	3,759	20,426	7,545	11,308	9,818	5,207	33,878	7,960	11,980	10,386	5,721	36,048	38,730
Corporate/United Tote	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	(383)	(600)	181	(1,266)	2,430	(500)	(600)	64	64
Operating expenses	88,428	152,312	130,494	127,839	499,072	120,380	164,703	142,652	134,229	561,964	119,271	168,431	143,445	133,006	564,152	567,032
Consolidated EBITDA	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**23,697**	**14,430**	**134,284**	**11,289**	**89,901**	**24,479**	**17,689**	**143,358**	**150,766**
D & A	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,443)	(13,443)	(54,762)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)	(53,772)
Operating income	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**10,254**	**987**	**79,522**	**(2,154)**	**76,458**	**11,036**	**4,246**	**89,586**	**96,994**
Interest expense	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(1,460)	(1,400)	(8,657)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(1,900)
Pre-tax income	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**8,794**	**(413)**	**70,865**	**(3,654)**	**74,958**	**10,036**	**3,246**	**84,586**	**95,094**
Income tax (expense) benefit	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(2,621)	169	(28,131)	1,498	(30,733)	(4,115)	(1,331)	(34,680)	(38,988)
Effective tax rate	41%	40%	40%	41%	39%	-39%	41%	30%	41%	40%	41%	41%	41%	41%	41%	41%
Net income	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**6,173**	**(244)**	**42,734**	**(2,156)**	**44,225**	**5,922**	**1,915**	**49,906**	**56,105**
Pro-forma EPS diluted	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.36**	**($0.01)**	**$2.54**	**($0.13)**	**$2.60**	**$0.35**	**$0.12**	**$2.94**	**$3.30**
Diluted average shares outstandin	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,974	17,000	16,808	17,000	17,000	17,000	17,000	17,000	17,000
Net Income GAAP	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$19,780	($244)	$56,340	($2,156)	$44,225	$5,922	$1,915	$49,906	$56,105
EPS GAAP	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.13)	$2.60	$0.35	$0.12	$2.94	$3.30
Margin analysis																
EBITDA	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	14.2%	9.7%	19.3%	8.6%	34.8%	14.6%	11.7%	20.3%	21.0%
Operating	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	6.2%	0.7%	11.4%	-1.6%	29.6%	6.6%	2.8%	12.7%	13.5%
Pre-tax	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.3%	-0.3%	10.2%	-2.8%	29.0%	6.0%	2.2%	12.0%	13.2%
Net income	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.7%	-0.2%	6.1%	-1.7%	17.1%	3.5%	1.3%	7.1%	7.8%
Y/Y growth %																
Revenue	23%	20%	46%	61%	34%	54%	16%	13%	8%	19%	-1%	3%	1%	1%	2%	1%
EBITDA	NM	8%	149%	799%	36%	NM	35%	39%	53%	56%	1%	6%	3%	23%	7%	5%
Operating income	26%	0%	NM	-60%	20%	NM	39%	120%	NM	100%	NM	8%	8%	330%	13%	8%
Pre-tax income	NM	-3%	NM	NM	4%	NM	36%	187%	NM	110%	NM	11%	14%	NM	19%	12%
Net income	NM	-3%	NM	NM	4%	NM	34%	236%	NM	108%	NM	11%	-4%	NM	17%	12%
EPS	NM	-9%	NM	NM	-6%	NM	18%	222%	NM	92%	NM	10%	-4%	NM	15%	12%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Morning Meeting Note

Churchill Downs Inc. (CHDN-$55.86)

BUY

Company Update

Target: $76

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

February 24, 2012

Market Cap (Mil)	$960
Avg. Daily Trading Volume	31,000
Shares Out (Mil)	17.181
Float Shares (Mil)	12.806
Institutional Holdings	40%
Dividend	$0.60
Dividend Yield	1.1%

Price to Book Value	1.9x
Return on Equity (2013E)	8.6%
LT Debt to Total Capital	16%
5-Year EPS Growth Rate Projection	15%
52-Week Range (NASDAQ)	60-37
Russell 2000	829
Short Interest (Mil)	0.291

	2010	2011E	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)A	($0.13)		($0.05)	
June	2.01	2.37A	2.60		2.73	
Sep.	0.11	0.36A	0.35		0.43	
Dec.	(0.17)	(0.01)	0.12		0.19	
EPS (Cal.)	**$1.33**	**$2.54**	**$2.94**		**$3.30**	
P/E (Cal.)		**22.0x**	**19.0x**		**16.9x**	
EBITDA (mil.) (Cal)	**$85.6**	**$134.3**	**$143.4**		**$150.8**	
EV / EBITDA		**8.2x**	**7.2x**		**6.3x**	

Action	Date	PX	Rating	PT
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
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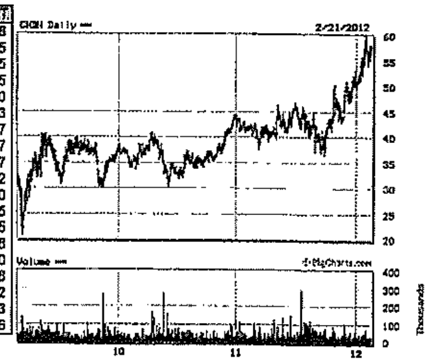

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Gaming Constitutional Amendment Fails In Kentucky State Senate Committee; Shares Remain Attractive At Less Than 11x Our 2013 Free Cash Flow Forecast; Maintain BUY, $76 Target

- **Yesterday, a constitutional amendment to legalize gaming in Kentucky failed in the state senate with 21 no votes and 16 yes votes (23 yes votes were needed for passage).**
- **While the session runs through mid-April and possibly may be brought up again, the measure largely appears dead for 2012.**
- **However, we continue to like the shares based on CHDN's young gaming assets, compelling valuation of 11x our 2012 free cash flow estimate, its growing online horse wagering segment and over-capitalized balance sheet.**
- **We maintain our BUY rating and $76 target, which is based on 14x our 2013 FCF per share estimate of $5.42.**

- **Yesterday, a pro-gaming bill failed in the Kentucky Senate.** SB 151 failed 21-16 as several potential pro-gaming senators voted no when it became clear the measure would not pass (aided by a rushed vote by the anti-gaming Senate leadership with one pro-gaming senator absent). We think it is possible for the bill to be reintroduced in the 2012 session, which runs through mid April; however a successful push in 2012 now appears unlikely (the issue will likely be brought up in 2013 and 2014).

- **While the failure of the vote is clearly disappointing for CHDN, we continue to view the shares as undervalued, particularly considering the company's over-capitalized balance sheet.** We estimate CHDN will be nearly debt free by 2013 year-end versus net debt to EBITDA of roughly 5x for peers. While we suspect management will keep some dry powder for possible casino developments from legalization of gaming in Kentucky and Illinois, the lack of these projects nearer term may allow management to return more capital to shareholders. CHDN's three gaming assets are young (still ramping-up and require minimal cap-ex), the Kentucky Derby franchise is underappreciated and competition-resistant, in our view, and we expect the company's online horse wagering assets to benefit from a secular shift in wagering from off track betting facilities to online.

- **We maintain our BUY rating and $76 target.** Our target is based on 14x our 2013 free cash flow per share estimate of $5.42. Our $1.3 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $151 million, less $3 million projected net debt. We argue CHDN deserves a premium to the peer group multiple (which is generally in a 7x-9x range), not a discount, based on the company's Kentucky Derby franchise and online wagering segment, which has better growth potential and is less capital-intensive than asset-based wagering.

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Other	107	2,260	6,299	5,457	14,121	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705	17,705
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Gaming, FL	(400)	900	2,400	2,600	5,500	3,100	4,300	3,300	2,796	13,496	3,301	4,472	3,546	2,973	14,292	14,936
Gaming, MS	0			1,200	1,200	6,600	2,300	4,000	4,200	17,100	5,250	4,900	4,113	4,284	18,547	20,689
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Corporate/United Tote	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	(383)	(600)	181	(1,266)	2,430	(500)	(600)	64	64
Operating expenses	88,428	152,312	130,494	127,839	499,072	120,380	164,703	142,652	134,229	561,964	119,271	168,431	143,445	133,006	564,152	567,032
Consolidated EBITDA	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**23,697**	**14,430**	**134,284**	**11,289**	**89,901**	**24,479**	**17,689**	**143,358**	**150,766**
D & A	(10,025)	(11,990)	(12,395)	(12,314)	(46,524)	(13,986)	(13,890)	(13,443)	(13,443)	(54,762)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)	(53,772)
Operating income	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**10,254**	**987**	**79,522**	**(2,154)**	**76,458**	**11,036**	**4,246**	**89,586**	**96,994**
Interest expense	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(1,460)	(1,400)	(8,657)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(1,900)
Pre-tax income	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**8,794**	**(413)**	**70,865**	**(3,654)**	**74,958**	**10,036**	**3,246**	**84,586**	**95,094**
Income tax (expense) benefit	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(2,621)	169	(28,131)	1,498	(30,733)	(4,115)	(1,331)	(34,680)	(38,988)
Effective tax rate	41%	40%	40%	41%	39%	-39%	41%	30%	41%	40%	41%	41%	41%	41%	41%	41%
Net income	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**6,173**	**(244)**	**42,734**	**(2,156)**	**44,225**	**5,922**	**1,915**	**49,906**	**56,105**
Pro-forma EPS diluted	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.36**	**($0.01)**	**$2.54**	**($0.13)**	**$2.60**	**$0.35**	**$0.12**	**$2.94**	**$3.30**
Diluted average shares outstandin	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,974	17,000	16,808	17,000	17,000	17,000	17,000	17,000	17,000
Net Income GAAP	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$19,780	($244)	$56,340	($2,156)	$44,225	$5,922	$1,915	$49,906	$56,105
EPS GAAP	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.13)	$2.60	$0.35	$0.12	$2.94	$3.30
Margin analysis																
EBITDA	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	14.2%	9.7%	19.3%	8.6%	34.8%	14.6%	11.7%	20.3%	21.0%
Operating	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	6.2%	0.7%	11.4%	-1.6%	29.6%	6.6%	2.8%	12.7%	13.5%
Pre-tax	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.3%	-0.3%	10.2%	-2.8%	29.0%	6.0%	2.2%	12.0%	13.2%
Net income	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.7%	-0.2%	6.1%	-1.7%	17.1%	3.5%	1.3%	7.1%	7.8%
Y/Y growth %																
Revenue	23%	20%	46%	61%	34%	54%	16%	13%	8%	19%	-1%	3%	1%	1%	2%	1%
EBITDA	NM	8%	149%	799%	36%	NM	35%	39%	53%	56%	1%	6%	3%	23%	7%	5%
Operating income	26%	0%	NM	-60%	20%	NM	39%	120%	NM	100%	NM	8%	8%	330%	13%	8%
Pre-tax income	NM	-3%	NM	NM	4%	NM	36%	187%	NM	110%	NM	11%	14%	NM	19%	12%
Net income	NM	-3%	NM	NM	4%	NM	34%	236%	NM	108%	NM	11%	-4%	NM	17%	12%
EPS	NM	-9%	NM	NM	-6%	NM	18%	222%	NM	92%	NM	10%	-4%	NM	15%	12%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Intraday Note

Churchill Downs Inc. (CHDN-$57.86) — BUY

Company Update — **Target: $76**

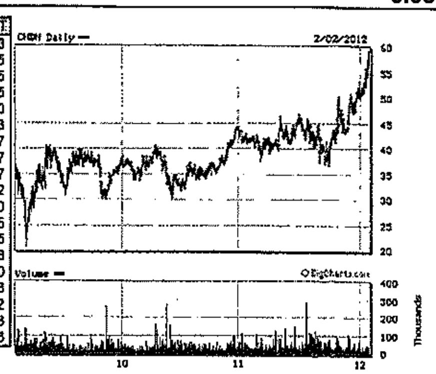
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

February 3, 2012

Market Cap (Mil)	**$990**	**Price to Book Value**	**1.9x**
Avg. Daily Trading Volume	**31,000**	**Return on Equity (2013E)**	**8.6%**
Shares Out (Mil)	**17.181**	**LT Debt to Total Capital**	**16%**
Float Shares (Mil)	**12.806**	**5-Year EPS Growth Rate Projection**	**15%**
Institutional Holdings	**40%**	**52-Week Range (NASDAQ)**	**60-37**
Dividend	**$0.60**	**Russell 2000**	**831**
Dividend Yield	**1.0%**	**Short Interest (Mil)**	**0.303**

	2010	2011E	2012E OLD	2012E NEW	2013E OLD	2013E NEW
Mar.	($0.63)	($0.19)A	($0.13)		($0.05)	
June	2.01	2.37A	2.60		2.73	
Sep.	0.11	0.36A	0.35		0.43	
Dec.	(0.17)	(0.01)	0.12		0.19	
EPS (Cal.)	**$1.33**	**$2.54**	**$2.94**		**$3.30**	
P/E (Cal.)		**22.8x**	**19.7x**		**17.5x**	
EBITDA (mil.) (Cal)	**$85.6**	**$134.3**	**$143.4**		**$150.8**	
EV / EBITDA			**7.4x**		**6.5x**	

Action	Date	Px	Rating	PT
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.8		53
PT	2/8/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76



Note: 2010 exclude $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.2	$707.5	$717.8
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.54	$2.94	$3.30

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Expect Kentucky Gaming Amendment To Be Filed Next Week; Think Passage Would Add Nearly $30 Per Share In Undiscounted Equity Value For CHDN; Reiterate BUY, $76 Target

- **We expect a gaming bill to be introduced in the Kentucky Senate next week.**
- **Although the structure of the bill is not yet clear, based on the terms of previous gaming bills in Kentucky, we estimate passage is worth nearly $30 per share in equity value for CHDN on an undiscounted basis (Exhibit 1).**
- **We expect passage in the senate to be the most difficult hurdle; should the bill pass the senate, we think it likely will pass the house, sending the amendment to a statewide referendum in November 2012, where polls indicate a high likelihood of passing.**
- **We think the shares are attractively priced at 12x our 2012 FCF per share estimate of $5.07, given that CHDN's**

gaming assets are still ramping up, as well as the lucrative Kentucky Derby franchise and over-capitalized balance sheet.

- **We reiterate our BUY rating and $76 target, which is based on 14x our 2013 free cash flow per share estimate of $5.42.**

- **We expect a state constitutional amendment as the likely avenue of attempted gaming legislation.** An amendment requires 60% passage of both houses, gubernatorial support and a public referendum. The Kentucky legislative session runs through April 9, though the governor has the ability to call a special session after April 9.

- **We think passage in the state senate is the key hurdle for gaming legislation.** A recent Garin-Hart-Yang Research Group poll indicated 64% of Kentuckians support legalized gaming. Democratic governor Steve Beshear is actively supporting the amendment, while the state house has passed gaming legislation in the past (Democratic House Speaker Greg Stumbo appears to support the measure). We expect the amendment to be filed in the senate next week and view the senate as the key hurdle to passage. Republican Senate president David Williams has been a key opponent of gaming historically, but the amendment likely will be sponsored by a Republican, and we think Mr. Williams support is diminished after he lost the gubernatorial election to Mr. Breshear in a landslide November 2011 (56% to 35%). The governor has stated his belief he has enough support for the measure, but we anticipate a close call. Kentucky relies on the horseracing industry and is increasingly surrounded by states that permit casino gaming. Bordering states West Virginia (racinos), Indiana (racinos and riverboats), Ohio (casinos opening in 2012), Illinois (riverboats) and Missouri (riverboats) permit gaming. In addition, Ohio appears likely to soon permit slots at racetracks, while Aqueduct Park in New York City recently opened a slots facility; legalized slots at racetracks bolster the racing industry through breeding incentives and higher payouts for horsemen (thus attracting larger and higher-quality racing fields). Kentucky competes with New York for racing fields.

- **Our initial estimates are based on assumptions of previous gaming bills in Kentucky.** Our estimates assume a $50 million one-time casino license, 40% gross gaming tax rate for the first five years and 50% gross thereafter, and one casino license awarded in the Louisville area.

- **We estimate the passage of legalized casino gaming is worth nearly $30 per share in equity value to CHDN on an undiscounted basis (Exhibit 1).** For a comparison, we note a Caesars property in southern Indiana that feeds primarily from the Louisville area (located about 30 minutes from downtown Louisville) generated $252 million in gaming revenue in 2011 ($277 million in 2010 before a key bridge from Louisville was closed in late 2011). In our view, CHDN's location in Louisville is far superior given its proximity to the population base. In addition, there are limited Ohio River crossings to get to southern Indiana from the Louisville area. Louisville's MSA of 1.6 million ranks 42nd in the U.S., while nearby Elizabethtown, KY (about a 50-minute drive) has another 113,000. Our estimates assume CHDN's property garners a 65% market share of projected per capita gaming revenue of $350 (comparables include: $390 for St. Louis, $345 for Kansas City and $321 for Detroit). Typically casinos take two years to develop (one year of design and one year of construction). With passage of a late 2012 referendum, we think the Kentucky casino could be open in 2015 (or earlier if CHDN elects to construct a temporary facility). CHDN's 147 acre property has ample room for a casino and parking, and the company should be able to obtain debt financing for the project easily given its over-capitalized balance sheet. We estimate CHDN will be virtually debt free by year-end 2013 with EBITDA of $151 million, thus giving the company the ability to finance about $750 million of expansion (5x leverage) by 2013 and about $1 billion by 2015.

- **We reiterate our BUY rating and $76 target.** Our target is based on 14x our 2013 free cash flow per share estimate of $5.42. Our $1.3 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $151 million, less $3 million projected net debt. We argue CHDN deserves a premium to the peer group multiple (which is generally in a 7x-9x range), not a discount, based on the company's Kentucky Derby franchise and online wagering segment, which has better growth potential and is less capital intensive than asset-based wagering.

Exhibit 1. CHDN Louisville Casino Analysis

(millions)	Bear	Base	Bull
Capex	$300	$300	$300
Slot machines	2,500	2,500	2,500
Win per day	$270	$300	$320
Slots rev.	$246	$274	$292
Table rev.	$37	$41	$44
Gross gaming rev.	$283	$315	$336
Food, bev. and other rev.	34	38	40
Promotional allowances	(48)	(53)	(56)
Total rev.	270	300	320
EBITDA margin	27%	30%	34%
EBITDA	$73	$90	$109
Cash-on-cash return	24%	30%	36%
Equity/share			
@ 7x	$12	$19	$27
@ 8x	$17	$25	$34
@ 9x	$21	$30	$40
Equity/share plus $4/share gaming tax reduction	$21	$29	$38
Initial accretion (with 50% gaming tax):			
EPS accretion	$1.64	$2.24	$2.89
FCF/share accretion	$2.17	$2.77	$3.42
Initial accretion (with 40% gaming tax):			
EPS accretion	$2.58	$3.28	$4.00
FCF/share accretion	$3.11	$3.81	$4.53

Note: Capex includes $50 million license fee contemplated in 2008 legislation.
Note: EBITDA, FCF and EPS estimate assumes 50% gaming tax rate;
Note: 2008 legislation proposed a 40% gaming taxing rate for the first 5 years and 50% thereafter resuling in an aggregate gaming tax savings of $150 million over five years assuming our base forecast.
Note: The interim reduced gaming tax rate amounts to $75 million savings discounted '@ 10% or $4 p. share of equity value after corporate tax assuming an 8x EV/EBITDA multiple
Source: Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement																
(000's, except where noted)	Mar	Jun	Sep	Dec	2010	MarA	JunA	SepA	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																
Racing	$33,014	$147,440	$67,348	$59,742	$307,544	$31,628	$148,205	$66,539	$59,506	$305,878	$31,348	$149,939	$65,613	$59,278	$306,177	$306,599
Gaming, LA	19,865	17,629	17,578	18,910	74,373	21,215	18,247	18,230	20,100	77,792	21,639	18,612	18,595	20,502	79,348	80,935
Gaming, FL	12,918	18,219	17,089	16,400	65,200	20,029	21,711	20,251	18,040	80,031	20,630	22,362	20,859	18,581	82,432	84,905
Gaming, MS				2,700	2,700	16,510	9,501	13,441	14,000	53,452	15,000	14,000	13,710	14,280	56,990	57,850
ADW	18,295	29,847	39,232	34,032	121,407	36,803	46,526	42,015	34,713	160,057	37,907	47,922	43,275	35,754	164,858	169,804
Other	107	2,260	6,299	5,457	14,121	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705	17,705
Net revenue	**85,164**	**215,395**	**147,546**	**137,241**	**585,345**	**131,554**	**249,686**	**166,349**	**148,659**	**696,248**	**130,560**	**258,332**	**167,924**	**150,695**	**707,510**	**717,798**
EBITDA																
Racing	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	1,114	(2,600)	44,323	(11,912)	59,976	984	(224)	48,824	49,663
Gaming, LA	6,439	6,006	5,492	5,126	23,063	7,800	6,200	5,800	5,427	25,227	7,956	6,142	5,950	5,536	25,584	26,684
Gaming, FL	(400)	900	2,400	2,600	5,500	3,100	4,300	3,300	2,796	13,496	3,301	4,472	3,546	2,973	14,292	14,936
Gaming, MS	0			1,200	1,200	6,600	2,300	4,000	4,200	17,100	5,250	4,900	4,113	4,284	18,547	20,689
ADW/HRTV	3,995	6,854	5,818	3,759	20,426	7,545	11,308	9,818	5,207	33,878	7,960	11,980	10,386	5,721	36,048	38,730
Corporate/United Tote	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	(383)	(600)	181	(1,266)	2,430	(500)	(600)	64	64
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Consolidated EBITDA	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**23,697**	**14,430**	**134,284**	**11,289**	**89,901**	**24,479**	**17,689**	**143,358**	**150,766**
D & A	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,443)	(13,443)	(54,762)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)	(53,772)
Operating income	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**10,254**	**987**	**79,522**	**(2,154)**	**76,458**	**11,036**	**4,246**	**89,586**	**96,994**
Interest expense	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(1,460)	(1,400)	(8,657)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(1,900)
Pre-tax income	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**8,794**	**(413)**	**70,865**	**(3,654)**	**74,958**	**10,036**	**3,246**	**84,586**	**95,094**
Income tax (expense) benefit	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(2,621)	169	(28,131)	1,498	(30,733)	(4,115)	(1,331)	(34,680)	(38,988)
Effective tax rate	41%	40%	40%	41%	39%	-39%	41%	30%	41%	40%	41%	41%	41%	41%	41%	41%
Net income	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**6,173**	**(244)**	**42,734**	**(2,156)**	**44,225**	**5,922**	**1,915**	**49,906**	**56,105**
Pro-forma EPS diluted	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.36**	**($0.01)**	**$2.54**	**($0.13)**	**$2.60**	**$0.35**	**$0.12**	**$2.94**	**$3.30**
Diluted average shares outstandin	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,974	17,000	16,808	17,000	17,000	17,000	17,000	17,000	17,000
Net Income GAAP	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$19,780	($244)	$56,340	($2,156)	$44,225	$5,922	$1,915	$49,906	$56,105
EPS GAAP	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.13)	$2.60	$0.35	$0.12	$2.94	$3.30
Margin analysis																
EBITDA	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	14.2%	9.7%	19.3%	8.6%	34.8%	14.6%	11.7%	20.3%	21.0%
Operating	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	6.2%	0.7%	11.4%	-1.6%	29.6%	6.6%	2.8%	12.7%	13.5%
Pre-tax	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.3%	-0.3%	10.2%	-2.8%	29.0%	6.0%	2.2%	12.0%	13.2%
Net income	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.7%	-0.2%	6.1%	-1.7%	17.1%	3.5%	1.3%	7.1%	7.8%
Y/Y growth %																
Revenue	23%	20%	46%	61%	34%	54%	16%	13%	8%	19%	-1%	3%	1%	1%	2%	1%
EBITDA	NM	8%	149%	799%	36%	NM	35%	39%	53%	56%	1%	6%	3%	23%	7%	5%
Operating income	26%	0%	NM	-60%	20%	NM	39%	120%	NM	100%	NM	8%	8%	330%	13%	8%
Pre-tax income	NM	-3%	NM	NM	4%	NM	36%	187%	NM	110%	NM	11%	14%	NM	19%	12%
Net income	NM	-3%	NM	NM	4%	NM	34%	236%	NM	108%	NM	11%	-4%	NM	17%	12%
EPS	NM	-9%	NM	NM	-6%	NM	18%	222%	NM	92%	NM	10%	-4%	NM	15%	12%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC

Morning Meeting Note

Churchill Downs Inc. (CHDN-$52.13)

BUY

Company Update

Target: $76

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

January 3, 2012

Market Cap (Mil)	$900
Avg. Daily Trading Volume	35,000
Shares Out (Mil)	17.181
Float Shares (Mil)	12.791
Institutional Holdings	40%
Dividend	$0.60
Dividend Yield	1.2%

Price to Book Value	1.7x
Return on Equity (2013E)	8.6%
LT Debt to Total Capital	16%
5-Year EPS Growth Rate Projection	15%
52-Week Range (NASDAQ)	52-37
Russell 2000	741
Short Interest (Mil)	0.389

	2010	2011E	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)A	($0.13)		($0.05)	
June	2.01	2.37A	2.60		2.73	
Sep.	0.11	0.36A	0.35		0.43	
Dec.	(0.17)	(0.01)	0.12		0.19	
EPS (Cal.)	**$1.33**	**$2.54**	**$2.94**		**$3.30**	
P/E (Cal.)		**20.5x**	**17.7x**		**15.8x**	
EBITDA (mil.) (Cal)	**$85.6**	**$134.3**	**$143.4**		**$150.8**	
EV / EBITDA		**7.8x**	**6.7x**		**5.9x**	

Note: 2010 exclude $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.2	$707.5	$717.8
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.54	$2.94	$3.30

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Estimate Legalized Gaming In Kentucky Would Contribute Nearly $30 Per Share In Equity Value On Undiscounted Basis; Reiterate BUY Rating, $76 Target

- **The Kentucky legislative session opens today; Governor Steve Beshear—recently elected in a landslide—has stated legalized gaming is a top legislative priority and is likely to unveil a proposal shortly.**
- **Based on a projected $50 million license fee, 40% gaming tax rate for the first five years and 50% thereafter (similar to prior legislation), we estimate passage is worth nearly $30 per share in equity value for CHDN (Exhibit 1).**
- **Assuming a $300 million investment (including the license fee) and 50% tax rate, we estimate a Louisville casino would generate $90 million in annual EBITDA amounting to a 30% cash on cash return and $2.24 in annual EPS.**
- **We also note the Illinois legislative session is slated to open January 11; we think passage of previously debated slots at tracks legislation would be worth $15 per share in equity value for CHDN.**

- **In addition to this potential, the shares are attractively priced at 10x our 2012 FCF per share estimate of $5.07, given CHDN's still-ramping up gaming assets, lucrative Kentucky Derby franchise and over-capitalized balance sheet.**
- **We reiterate our BUY rating with a $76 target, which is based on 14x our 2013 free cash flow per share estimate of $5.42.**

❑ **Kentucky's legislative session opens today and runs through April 9.** Legalized casinos or slots at racetracks likely requires a constitutional amendment which entails 60% support in both legislative houses, a signature by the governor and a state-wide referendum that would likely be held in November 2012. Some Democrats favor a plan that would not require a constitutional amendment (as they fear a public vote will bolster conservative turnout), although this approach may be suspect legally and could ultimately lengthen legal challenges; thus we expect the constitutional amendment to be the chosen route. The legislature meets for 60 days in even years versus 30 days in odd years (increasing the likelihood of passage in 2012). The governor also has the ability to call a special session after April 9.

❑ **Kentucky relies on the horse racing industry and is increasingly surrounded by states that permit casino gaming.** Bordering states West Virginia (racinos), Indiana (racinos and riverboats), Ohio (casinos opening in 2012), Illinois (riverboats) and Missouri (riverboats) permit gaming. In addition, Ohio appears likely to soon permit slots at racetracks while Aqueduct Park in New York City recently opened a slots facility; legalized slots at racetracks bolster the racing industry via breeding incentives and higher payouts for horsemen (thus attracting larger and higher-quality racing fields). Kentucky competes with New York for racing fields.

❑ **We expect the governor to introduce a pro-gaming proposal shortly.** Pro-gaming Democratic governor Steve Beshear easily won re-election in late 2011 with 56% of the vote, versus 35% for Republican David Williams, who is state senate president and has blocked gaming legislation in the past. We find Mr. Williams' power diminished by his poor showing in the gubernatorial race, there appears to be considerable Republican support for legalized slots at tracks or casinos and Mr. Williams' public commentary has softened of late, in our view. Democratic House Speaker Greg Stumbo appears to support the measure—pro gaming legislation passed in the house in 2008 but was blocked by Mr. Williams in the senate. In terms of a public vote, while there are no public polls that are current, gaming measures have had overwhelming success over the last five years in the U.S.

❑ **We estimate the passage of legalized casino gaming is worth nearly $30 per share in equity value to CHDN on an undiscounted basis.** Our estimates assume a $50 million one-time casino license, 40% gross gaming tax rate for the first five years and 50% gross thereafter and one casino license awarded in the Louisville area (similar to prior legislation). For a comparison, we note a Caesars property in southern Indiana that feeds primarily from the Louisville area (located roughly 30 minutes from downtown Louisville) generated $255 million in gross gaming revenue in the trailing 12 months ending November 2011. In our view, CHDN's location in Louisville is far superior given its proximity to the population base. In addition, there are limited Ohio River crossings to get to southern Indiana from the Louisville area. Louisville's MSA of 1.6 million ranks 42nd in the U.S. while nearby Elizabethtown, KY (roughly a 50-minute drive) has another 113,000. Our estimates assume CHDN's property garners a 65% market share of projected per capita gaming revenue of $350 (comparables include: $390 for St. Louis, $345 for Kansas City and $321 for Detroit). Typically casinos take two years to develop (one year of design and one year of construction). With passage of a late 2012 referendum, we think the Kentucky casino could be open in 2015 (or earlier if CHDN elects to construct a temporary facility). CHDN's 147 acre property has ample room for a casino and parking, and the company should easily be able to obtain debt financing for the project given its over-capitalized balance sheet. We estimate CHDN will be virtually debt free by 2013 year-end with EBITDA of $151 million, thus giving it the ability to finance roughly $750 million of expansion (5x leverage) by 2013 and about $1 billion by 2015.

❑ **We reiterate our BUY rating and $76 target.** Our target is based on 14x our 2013 free cash flow per share estimate of $5.42. Our $1.3 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $151 million, less $3 million projected net debt. We argue CHDN deserves a premium to the peer group multiple (which is generally in a 7x-9x range), not a discount, based on the company's Kentucky Derby franchise and online wagering segment, which has better growth potential and is less capital-intensive than asset-based wagering.

Table 1 : CHDN Income Statement

(000's, except where noted)	Mar	Jun	Sep	Dec	2010	MarA	JunA	SepA	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																
Racing	$33,014	$147,440	$67,348	$59,742	$307,544	$31,628	$148,205	$66,539	$59,506	$305,878	$31,348	$149,939	$65,613	$59,278	$306,177	$306,599
Gaming, LA	19,865	17,629	17,578	18,910	74,373	21,215	18,247	18,230	20,100	77,792	21,639	18,612	18,595	20,502	79,348	80,935
Gaming, FL	12,918	18,219	17,089	16,400	65,200	20,029	21,711	20,251	18,040	80,031	20,630	22,362	20,859	18,581	82,432	84,905
Gaming, MS				2,700	2,700	16,510	9,501	13,441	14,000	53,452	15,000	14,000	13,710	14,280	56,990	57,850
ADW	18,295	29,847	39,232	34,032	121,407	36,803	46,526	42,015	34,713	160,057	37,907	47,922	43,275	35,754	164,858	169,804
Other	107	2,260	6,299	5,457	14,121	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705	17,705
Net revenue	**85,164**	**215,395**	**147,546**	**137,241**	**585,345**	**131,554**	**249,686**	**166,349**	**148,659**	**696,248**	**130,560**	**258,332**	**167,924**	**150,695**	**707,510**	**717,798**
EBITDA																
Racing	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	1,114	(2,600)	44,323	(11,912)	59,976	984	(224)	48,824	49,663
Gaming, LA	6,439	6,006	5,492	5,126	23,063	7,800	6,200	5,800	5,427	25,227	7,956	6,142	5,950	5,536	25,584	26,684
Gaming, FL	(400)	900	2,400	2,600	5,500	3,100	4,300	3,300	2,796	13,496	3,301	4,472	3,546	2,973	14,292	14,936
Gaming, MS	0			1,200	1,200	6,600	2,300	4,000	4,200	17,100	5,250	4,900	4,113	4,284	18,547	20,689
ADW/HRTV	3,995	6,854	5,818	3,759	20,426	7,545	11,308	9,818	5,207	33,878	7,960	11,980	10,386	5,721	36,048	38,730
Corporate/United Tote	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	(383)	(600)	181	(1,266)	2,430	(500)	(600)	64	64
Operating expenses	88,428	152,312	130,494	127,839	499,072	120,380	164,703	142,652	134,229	561,964	119,271	168,431	143,445	133,006	564,152	567,032
Consolidated EBITDA	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**23,697**	**14,430**	**134,284**	**11,289**	**89,901**	**24,479**	**17,689**	**143,358**	**150,766**
D & A .	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,443)	(13,443)	(54,762)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)	(53,772)
Operating income	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**10,254**	**987**	**79,522**	**(2,154)**	**76,458**	**11,036**	**4,246**	**89,586**	**96,994**
Interest expense	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(1,460)	(1,400)	(8,657)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(1,900)
Pre-tax income	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**8,794**	**(413)**	**70,865**	**(3,654)**	**74,958**	**10,036**	**3,246**	**84,586**	**95,094**
Income tax (expense) benefit	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(2,621)	169	(28,131)	1,498	(30,733)	(4,115)	(1,331)	(34,680)	(38,988)
Effective tax rate	41%	40%	40%	41%	39%	-39%	41%	30%	41%	40%	41%	41%	41%	41%	41%	41%
Net income	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**6,173**	**(244)**	**42,734**	**(2,156)**	**44,225**	**5,922**	**1,915**	**49,906**	**56,105**
Pro-forma EPS diluted	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.36**	**($0.01)**	**$2.54**	**($0.13)**	**$2.60**	**$0.35**	**$0.12**	**$2.94**	**$3.30**
Diluted average shares outstandin	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,974	17,000	16,808	17,000	17,000	17,000	17,000	17,000	17,000
Net Income GAAP	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$19,780	($244)	$56,340	($2,156)	$44,225	$5,922	$1,915	$49,906	$56,105
EPS GAAP	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.13)	$2.60	$0.35	$0.12	$2.94	$3.30
Margin analysis																
EBITDA	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	14.2%	9.7%	19.3%	8.6%	34.8%	14.6%	11.7%	20.3%	21.0%
Operating	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	6.2%	0.7%	11.4%	-1.6%	29.6%	6.6%	2.8%	12.7%	13.5%
Pre-tax	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.3%	-0.3%	10.2%	-2.8%	29.0%	6.0%	2.2%	12.0%	13.2%
Net income	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.7%	-0.2%	6.1%	-1.7%	17.1%	3.5%	1.3%	7.1%	7.8%
Y/Y growth %																
Revenue	23%	20%	46%	61%	34%	54%	16%	13%	8%	19%	-1%	3%	1%	1%	2%	1%
EBITDA	NM	8%	149%	799%	36%	NM	35%	39%	53%	56%	1%	6%	3%	23%	7%	5%
Operating income	26%	0%	NM	-60%	20%	NM	39%	120%	NM	100%	NM	8%	8%	330%	13%	8%
Pre-tax income	NM	-3%	NM	NM	4%	NM	36%	187%	NM	110%	NM	11%	14%	NM	19%	12%
Net income	NM	-3%	NM	NM	4%	NM	34%	236%	NM	108%	NM	11%	-4%	NM	17%	12%
EPS	NM	-9%	NM	NM	-6%	NM	18%	222%	NM	92%	NM	10%	-4%	NM	15%	12%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166

Morning Meeting Note

Churchill Downs Inc. (CHDN-$49.02)

BUY

Company Update

Target: $76

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

December 19, 2011

Market Cap (Mil)	**$840**
Avg. Daily Trading Volume	**37,000**
Shares Out (Mil)	**17.181**
Float Shares (Mil)	**12.791**
Institutional Holdings	**40%**
Dividend	**$0.60**
Dividend Yield	**1.2%**

Price to Book Value	**1.6x**
Return on Equity (2013E)	**8.6%**
LT Debt to Total Capital	**16%**
5-Year EPS Growth Rate Projection	**15%**
52-Week Range (NASDAQ)	**51-37**
Russell 2000	**722**
Short Interest (Mil)	**0.389**

	2010	2011E	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)A	($0.13)		($0.05)	
June	2.01	2.37A	2.60		2.73	
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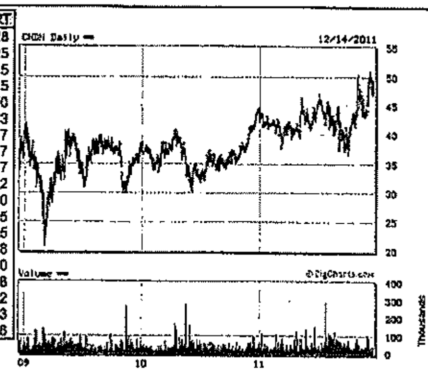
Dec.	(0.17)	(0.01)	0.12		0.19	
EPS (Cal.)	**$1.33**	**$2.54**	**$2.94**		**$3.30**	
P/E (Cal.)		**19.3x**	**16.7x**		**14.9x**	
EBITDA (mil.) (Cal)	**$85.6**	**$134.3**	**$143.4**		**$150.8**	
EV / EBITDA		**7.4x**	**6.4x**		**5.5x**	

Action	Date	PX	Rating	PT
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/26/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73
PT	10/27/11	47.7		76



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* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

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Same-Casino Revenue Increases 10% Year Over Year In November, Fueled By 27% Rise In Miami; Reiterate BUY Rating, $76 Price Target

- **November same-casino revenue increased 27% year over year at CHDN's Miami facility and declined 2% at CHDN's New Orleans gaming operations; the two properties account for 20% of CHDN's EBITDA.**
- **CHDN's gaming assets are young and still ramping-up, in our view.**
- **We expect the legalized casino gaming debate in Kentucky to heat up in early 2012. If passed, we expect CHDN to be a significant beneficiary, given the company's flagship track in Louisville, KY.**
- **We find CHDN shares attractively valued at just 6.4x and 10x respective 2012 EBITDA estimates of $143 million and $151 million ($5.42 per share) and we like CHDN's overcapitalized balance sheet.**
- **We reiterate our BUY rating with a $76 target based on 14x our 2013 free cash flow per share estimate of $5.42.**

IMPORTANT DISCLOSURES

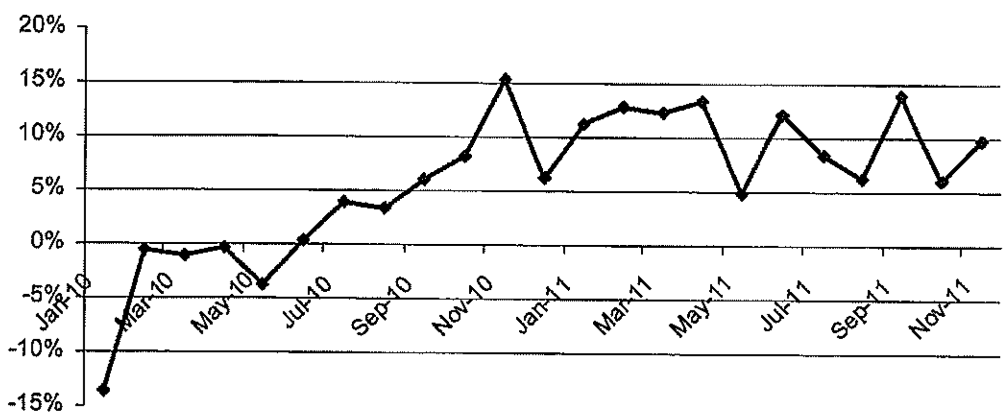
- **Same-casino revenue increased 10% year over year in November at Churchill's properties where data is publicly available (20% of EBITDA).** At CHDN's Miami slots facility, gaming revenue increased 27% year over year, while gaming revenue declined 2% at CHDN's New Orleans gaming operations. CHDN's gaming assets are young and still ramping up, in our view. Our BUY thesis is based on Churchill Downs' attractive valuation (10x our 2012 FCF per share estimate of $5.07), overcapitalized balance sheet (we estimate CHDN will be nearly debt free at 2013 year-end, versus 5x leverage for peers), underappreciated and competition-resistant Kentucky Derby franchise, and expected same-casino EBITDA growth (given the young age of the company's assets).

- **We expect a push to legalize slots at racetracks in Kentucky in early 2012.** Pro-gaming Democratic governor Steve Beshear overwhelmingly won re-election in late 2011 with 56% of the vote, versus 35% for Republican David Williams, who is state senate president and has blocked gaming legislation in the past. We find Mr. Williams' power diminished by his poor showing in the gubernatorial race, and there appears to be some Republican support for legalized slots at tracks. Kentucky relies on the horse racing industry and is surrounded by states that permit casino gaming—West Virginia, Indiana, Ohio and Illinois. Currently, one riverboat operates just outside Louisville on the Indiana side. Harrah's owns the Horseshoe Southern Indiana; the property generated revenue of $255 million as of the 12 months trailing November 2011. For gaming to pass in Kentucky via constitutional amendment, the measure would need support from 60% of both legislative houses and a public referendum. Some Democrats favor a plan that would not require a constitutional amendment (as they fear a public vote will bolster conservative turnout), though this approach may be suspect legally and could ultimately lengthen legal challenges. The legislature meets for 60 days in even years versus 30 days in odd years (making the likelihood of passing in even years greater than in odd years).

- **CHDN's Harlow's resort property improvements are slated to be complete in early 2013.** The resort, which opened in 2007 and was acquired by CHDN in late 2010, sustained damage in early 2011 from Mississippi River flooding. The casino temporarily closed from early May 2011 to early June, while the hotel re-opened in late June. However, the events center, buffet and steak house required extensive repairs. While CHDN has not disclosed the price, we expect the cost largely to be funded from insurance proceeds.

- **We reiterate our BUY rating and $76 target.** Our target is based on 14x our 2013 free cash flow per share estimate of $5.42. Our $1.3 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $151 million, less $3 million (up from $1 million) projected net debt. Our higher debt forecast reflects CHDN's annual dividend hike to $0.60 per share (from $0.50). We argue CHDN deserves a premium to the group (which generally garners a 7x-9x multiple), not a discount, based on its Kentucky Derby franchise and online wagering segment, which offers a better growth profile and is less capital-intensive than asset-based wagering.

Exhibit 1. CHDN Y/Y S.S. Rev.- FL and LA



Source: Sidoti & Company LLC, Louisiana Gaming Control Board, Florida Division of Pari-Mutuel Wagering and company reports

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Gaming, LA	6,439	6,006	5,492	5,126	23,063	7,800	6,200	5,800	5,427	25,227	7,956	6,142	5,950	5,536	25,584	26,684
Gaming, FL	(400)	900	2,400	2,600	5,500	3,100	4,300	3,300	2,796	13,496	3,301	4,472	3,546	2,973	14,292	14,936
Gaming, MS	0			1,200	1,200	6,600	2,300	4,000	4,200	17,100	5,250	4,900	4,113	4,284	18,547	20,689
ADW/HRTV	3,995	6,854	5,818	3,759	20,426	7,545	11,308	9,818	5,207	33,878	7,960	11,980	10,386	5,721	36,048	38,730
Corporate/United Tote	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	(383)	(600)	181	(1,266)	2,430	(500)	(600)	64	64
Operating expenses	88,428	152,312	130,494	127,839	499,072	120,380	164,703	142,652	134,229	561,964	119,271	168,431	143,445	133,006	564,152	567,032
Consolidated EBITDA	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**23,697**	**14,430**	**134,284**	**11,289**	**89,901**	**24,479**	**17,689**	**143,358**	**150,766**
D & A	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,443)	(13,443)	(54,762)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)	(53,772)
Operating income	**(13,289)**	**51,093**	**4,657**	**(2,712)**	39,749	**(2,812)**	**71,093**	**10,254**	987	79,522	**(2,154)**	**76,458**	**11,036**	4,246	**89,586**	**96,994**
Interest expense	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(1,460)	(1,400)	(8,657)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(1,900)
Pre-tax income	**(14,436)**	**49,690**	**3,062**	**(4,554)**	33,762	**(5,204)**	**67,688**	**8,794**	**(413)**	**70,865**	**(3,654)**	**74,958**	**10,036**	**3,246**	**84,586**	**95,094**
Income tax (expense) benefit	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(2,621)	169	(28,131)	1,498	(30,733)	(4,115)	(1,331)	(34,680)	(38,988)
Effective tax rate	41%	40%	40%	41%	39%	-39%	41%	30%	41%	40%	41%	41%	41%	41%	41%	41%
Net income	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**6,173**	**(244)**	**42,734**	**(2,156)**	**44,225**	**5,922**	**1,915**	**49,906**	**56,105**
Pro-forma EPS diluted	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.36**	**($0.01)**	**$2.54**	**($0.13)**	**$2.60**	**$0.35**	**$0.12**	**$2.94**	**$3.30**
Diluted average shares outstandin	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,974	17,000	16,808	17,000	17,000	17,000	17,000	17,000	17,000
Net Income GAAP	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$19,780	($244)	$56,340	($2,156)	$44,225	$5,922	$1,915	$49,906	$56,105
EPS GAAP	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.13)	$2.60	$0.35	$0.12	$2.94	$3.30
Margin analysis																
EBITDA	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	14.2%	9.7%	19.3%	8.6%	34.8%	14.6%	11.7%	20.3%	21.0%
Operating	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	6.2%	0.7%	11.4%	-1.6%	29.6%	6.6%	2.8%	12.7%	13.5%
Pre-tax	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.3%	-0.3%	10.2%	-2.8%	29.0%	6.0%	2.2%	12.0%	13.2%
Net income	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.7%	-0.2%	6.1%	-1.7%	17.1%	3.5%	1.3%	7.1%	7.8%
Y/Y growth %																
Revenue	23%	20%	46%	61%	34%	54%	16%	13%	8%	19%	-1%	3%	1%	1%	2%	1%
EBITDA	NM	8%	149%	799%	36%	NM	35%	39%	53%	56%	1%	6%	3%	23%	7%	5%
Operating income	26%	0%	NM	-60%	20%	NM	39%	120%	NM	100%	NM	8%	8%	330%	13%	8%
Pre-tax income	NM	-3%	NM	NM	4%	NM	36%	187%	NM	110%	NM	11%	14%	NM	19%	12%
Net income	NM	-3%	NM	NM	4%	NM	34%	236%	NM	108%	NM	11%	-4%	NM	17%	12%
EPS	NM	-9%	NM	NM	-6%	NM	18%	222%	NM	92%	NM	10%	-4%	NM	15%	12%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
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Churchill Downs Inc. (CHDN-$43.57)

BUY

Comprehensive Update

Target: $76

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

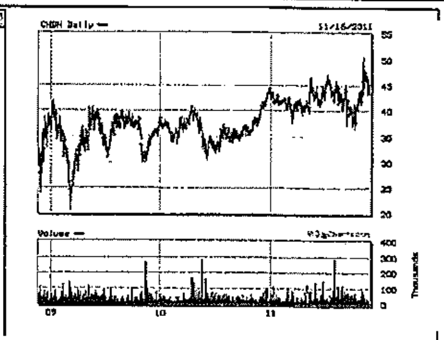
November 17, 2011

Market Cap (Mil)	**$747**
Avg. Daily Trading Volume	**65,000**
Shares Out (Mil)	**17.150**
Float Shares (Mil)	**12.013**
Institutional Holdings	**45%**
Dividend	**$0.50**
Dividend Yield	**1.1%**

Price to Book Value	**1.3x**
Return on Equity (2013E)	**8.5%**
LT Debt-to-Total Capital	**16%**
5-Year EPS Growth Rate Projection	**15%**
52-Week Range (NASDAQ)	**49-35**
Russell 2000	**730**
Short Interest (Mil)	**0.415**

	2010	2011E	2012E	2013E
Mar.	($0.63)	($0.19)A	($0.13)	($0.05)
June	2.01	2.37A	2.60	2.73
Sep.	0.11	0.36A	0.35	0.43
Dec.	(0.17)	(0.01)	0.12	0.19
EPS	**$1.33**	**$2.54**	**$2.94**	**$3.30**
P/E		**19.2x**	**16.6x**	**14.8x**
EBITDA (mil.)	**$86.3**	**$134.3**	**$143.4**	**$150.8**
EV / EBITDA		**6.7x**	**5.7x**	**4.9x**

Action	Date	Px	Rating	PT
Rating	11/21/08	25.3	Buy	38
Rating	12/4/08	35.9	Neutral	38
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62



Note: 2010 EPS exclude $0.16 in one-time charges. 2010 and 2011E-2013E include $0.14 annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.2	$707.5	$717.8
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$1.34	$1.20	$1.33	$2.54	$2.94	$3.30

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks, one each in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Shares Understate CHDN's Cash Flow Potential, In Our View; Maintain BUY Rating, $76 Target

- **CHDN's young gaming assets are still growing.** CHDN's three casino assets, in Mississippi, Louisiana and Florida, were constructed in 2007, 2008 and 2010, respectively; CHDN acquired the Mississippi property in 2010. These fresh properties require minimal maintenance capital expenditures and are still penetrating the local customer base. Gaming accounts for roughly 45% of CHDN's EBITDA, versus just 19% in 2007. We estimate CHDN's EBITDA in the segment will rise 5% in 2012 and 7% in 2013. We credit management, which came from outside the industry, for allocating capital in the gaming niche to produce a cash-on-cash return of 19% (on average) for these three facilities (Exhibit 4).

- **We estimate free cash flow per share of $5.07 in 2012 and $5.42 in 2013.** Despite the horse racing industry's woes, the Kentucky Derby franchise is as formidable as ever, posting record-high profitability for Churchill Downs in 2011. We expect the franchise to maintain its competitive stranglehold and be a consistent source of cash. CHDN also has nearly a 45% market share in the online horse wagering segment (advanced deposit wagering; ADW) via its Twinspires.com site, where its scale is a significant barrier to entry. We find the industry at the outset of secular growth, as wagering shifts online from on-track and off-track betting facilities; currently, online wagering accounts for just 15% of total horse wagering in the U.S. We estimate CHDN's ADW EBITDA will rise 6% in 2012 and 7% in 2013, and account for 25% of total EBITDA.

- **Legalization of gaming at two prime CHDN racetracks could prompt higher estimates.** Churchill's namesake track in Louisville, KY, and Arlington Park (just outside Chicago, IL) track have yet to obtain legal approval to operate slot machines. A recent bill in Illinois (SB 744) to permit slots passed both houses of the legislature, but was not backed by the governor (whose term runs through 2014). A similar version (SB 1849) narrowly failed in the house in November 2011, but the

317 Madison Avenue
New York, NY 10017

Phone: 212-297-0001
www.sidoti.com

sponsor of the bill appears likely to bring the bill up again in late 2011 or 2012. We estimate passage would add $10-$17 per share in equity value for CHDN (Exhibit 5). In Kentucky, gaming has generally been debated in even-numbered years, where the legislative session is longer. The state's Senate President has been instrumental in repeatedly blocking gaming legislation, but he has also been suggested to be a candidate for a federal judgeship, which would remove a key obstacle to passage, in our view. Kentucky is reliant on a successful horse racing industry and is now virtually surrounded by states where race tracks are bolstered by casino gaming, including West Virginia, Indiana and Ohio, or gaming riverboats (Illinois).

- **CHDN is significantly overcapitalized, in our view, given its tangible assets, the Kentucky Derby franchise and free cash flow.** At the end of 3Q:11, CHDN had $140 million net debt, or 1.1x trailing EBITDA versus 5x for the median regional casino operator; long-term debt to total capital ratio was 16%. We estimate CHDN will have *net cash* of $7 million at 2013 year-end. We expect cash will be used to fund the $0.50 per share annual dividend (1% yield), pursue acquisitions (likely in the gaming market) and repay debt. Although we doubt the company would take on leverage greater than 4x EBITDA, CHDN was leveraged at nearly 6x EBITDA in 2004, prior to divesting Hollywood Park race track in California. Accordingly, the company has considerable financial strength. CHDN's debt mainly consists of a bank revolver that has $375 million in total capacity maturing in late 2013 with a floating rate of LIBOR plus 1.63%-3.13%, depending on leverage.

- **We maintain a BUY rating and $76 price target.** This target is based on 14x our 2013 free cash flow per share estimate of $5.42. We value CHDN on a multiple of free cash flow because depreciation expense generally outpaces maintenance capital spending by more than 2-to-1. The $1.2 billion market cap implied by this price target translates into a multiple of 7.8x our 2013 EBITDA estimate of $151 million, less projected net cash of $7 million. Our target implies no value for CHDN's 325-acre Arlington Park northwest of Chicago, which is not contributing material cash flow and is not targeted for sale anytime soon. Historically, CHDN traded in 7x-12x forward EBITDA. The stock traded in a $30-$40 range in 2010, but broke out as high as $47 by mid-2011 as the company began to recognize the earnings power of its two recent acquisitions and the Miami slots facility. The stock fell to as low as $37 in September, with pullback in the broader market sparked by concerns of an economic slowdown. CHDN, however, has since rebounded amid robust business trends.

Company Overview

Churchill Downs Inc. was founded in 1875. The company's namesake track is home to the premier horse racing event, the Grade I Kentucky Derby, which was first run in 1875. Robert Evans has served as CEO since July 2006. Since taking the helm, CHDN expanded into the online wagering segment by starting www.twinspires.com, acquiring two online wagering sites in 2007 for $80 million and Youbet.com for $134 million. CHDN opened slots facilities in New Orleans, LA ($32 million) in 2008 and Miami, FL ($85 million) in 2010 after legislative approval; the company also operates video poker machines at several New Orleans area off-track betting facilities. In December 2010, CHDN acquired Harlow's Casino Resort & Hotel in Greenville, Mississippi for $138 million.

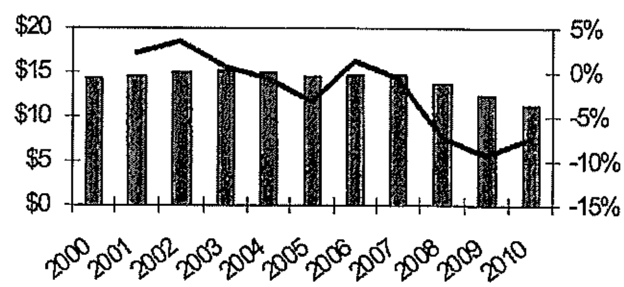
Directors and officers own 40% of the shares outstanding, which includes a 20% stake from entities controlled by Richard Duchossois (former owner of Arlington Park, which merged with CHDN in 2000).

Operating Segments—Racing

U.S. horse racing is in a secular decline, in our view. Pari-mutuel handle was essentially stagnant from 2001-2007, but has steadily contracted since 2007 (Exhibit 1). Pari-mutuel betting refers to sports wagering that pays winners in proportion to the wager after expenses are deducted from the total betting pool. A key reason for the stagnation, in our view, is the increased competition from other gaming venues (casinos/riverboats) and an aging customer base.

For many years, most states only allowed horse wagering and state lotteries. We do not see this trend reversing; as such, we expect stagnant handle for the industry for the foreseeable future. In addition, the industry is marked by significant overcapacity that is unlikely to self correct, given subsidization by slot machines. In some states, the track is the means to which owners can obtain legal authority to operate slot machines, while in other states racetracks continue to operate in hopes of future slot legislation.

Exhibit 1. U.S. Annual Pari-Mutuel Handle, YOY Change (billions)



CHDN owns and operates tracks in Louisville, KY (Churchill Downs), Arlington Heights, IL (Arlington Park); Miami, FL (Calder Race Course) and New Orleans, LA (Fair Grounds). We estimate nearly all of the company's racing EBITDA is generated from its flagship property in Kentucky; mostly from Kentucky Derby week. The Kentucky Derby is run annually on the first Saturday of May and follows the Kentucky Oaks, which is held the day before the Derby.

Operating Segments—Gaming

CHDN's gaming assets are fresh (Exhibit 2)—Harlow's is the oldest property and was opened in 2007 (acquired in 2010). Same-casino results (those open at least a year) have been solid in 2011 (Exhibit 3), which we attribute to a stronger economy and the youth of the properties.

Exhibit 2. CHDN Gaming Properties

	Location	Slots	Tables	Hotel Rooms	Opened
Harlow's	Greenville, MS	900	21	105	2007
Fair Grounds	New Orleans, LA	600	NM	NM	2008
Video Services	New Orleans, LA	800	NM	NM	NM
Calder	Miami, FL	1200	NA	NM	2010

Source: Sidoti & Company, LLC and company reports.

Exhibit 3. CHDN Y/Y S.S. Rev.- FL and LA

Source: Sidoti & Company LLC, Louisiana Gaming Control Board, Florida Division of Pari-Mutuel Wagering and company reports.

New Orleans. CHDN acquired the Fair Grounds racetrack and several local OTBs that operate video poker machines in 2004 for $60 million. In November 2008, the company completed its permanent slots facility for $32 million (including a temporary facility since replaced). The Fair Grounds is located minutes from the French Quarter and competes with three nearby riverboat casinos, a land-based casino and several small video poker operations. Since gaming licenses are limited in Louisiana, we anticipate no new competition. The gaming tax rate of roughly 20% is favorable. CHDN largely markets to a local crowd looking to avoid the hassle of Harrah's, which is located downtown and offers little parking.

Miami. CHDN opened an $85 million slots facility at its Calder track in January 2010. The facility generated $6 million EBITDA in 2010, but we estimate EBITDA will rise to $13 million in 2011, $14 million in 2012 and $15 million in 2013 as business ramps up and efficiencies improve.

South Florida's gaming environment is competitive, though there is no other slots facility within 10 miles of CHDN's facility, which has abundant parking. Including Calder, there are five racinos located in South Florida, operating 5,400 slot machines in total. In addition, the Seminole tribe operates three casinos with 4,900 machines in the area. The Seminole have a competitive advantage in a lower tax rate (15% versus 35% for the racinos) and ability to offer table games (CHDN can only offer slots and poker). The low tax rate allows the Seminole to aggressively promote and operate more first-rate facilities, in our view, as the ROI is more compelling.

Legislation also has been debated to permit three casinos in South Florida and require a $2 billion investment. Although the additional competition would adversely impact CHDN's facility if passed, we think it is unlikely any new facilities would open before 2015. Moreover, the measure would likely reduce the gaming tax for racinos to 10% (which would increase EBITDA by roughly $20 million annually assuming with no change in revenue). Lastly, we note CHDN's facility caters to locals seeking convenience, whereas the standalone casinos would likely be much higher-end and cater to tourists. We do not expect CHDN to pursue one of the licenses.

Mississippi. In January 2010, CHDN acquired Harlow's Casino Resort & Hotel in Greenville, MS for $138 million in cash; we estimate the purchase price implied 7x trailing EBITDA—favorable, in our view, considering CHDN's low borrowing costs and the newness of the facility, which had opened in 2007 (regional casinos typically trade in a 7x-9x range). Mississippi has a favorable regulatory environment and friendly low gaming tax rate.

The property competes with two area casinos: Lighthouse Point (557 slot machines) and Jubilee (485 slot machines); both are owned by Tropicana Entertainment, which is largely controlled by Carl Icahn. We view these competitors favorably, as Icahn-controlled gaming properties typically are thrifty in both marketing and maintenance capex. The facility mainly draws customers from Greenville (population of 55,000) and the surrounding 30-mile radius (population of 213,000 within the county and in surrounding counties). Little Rock, AR (685,000) is roughly three hours away. The property is located 90 miles from Vicksburg, MS and 115 miles from Tunica, MS.

State law permits gaming in 14 counties that border the Gulf Coast and Mississippi River. The state gaming tax rate is friendly—roughly 8% of gaming revenue plus 4% local tax to the city of Greenville. Mississippi is not a limited casino license jurisdiction, but the gaming commission requires parking and infrastructure (i.e., hotel, restaurants) to be equal to 100% capital investment of the casino.

The property was damaged by Mississippi River flooding in 2Q:11 and is operating without its permanent buffet, events center and steakhouse. We expect these to be back online in 2012, but management has yet to formalize a timeline.

Gaming Acquisitions Or Development

We expect CHDN to pursue acquisitions in the regional casino market given management's prior (and effective) allocation of capital in developing gaming assets (Exhibit 4). We think that CHDN has looked at dozens of acquisition targets, but acted on just one, thus demonstrating its fiscal discipline. In gaming development in Miami and New Orleans, management elected to build small slot facilities (versus industry norms) to fit the specific market and maximize ROI. CHDN also owns two tracks where casino gaming has yet to be legalized.

Exhibit 4. Impressive Historical Returns

	Capex	EBITDA 2012E	
Harlow's	$138	$19	13%
Fair Grounds	92	26	28%
Calder	85	14	17%
Total	$315	$58	19%

Source: Sidoti & Company, LLC and company reports.

Arlington Heights. CHDN had to gain legal authority to operate slots at Arlington Park, 40 minutes from downtown

Chicago. Arlington's location is one of the best in the state, in our view, and CHDN would have an advantage of being land-based (versus existing riverboats in Illinois). In mid-2011, both the Illinois senate and house passed legislation permitting slots at racetracks (SB 744), but the measure died on the Governor's desk. The legislation would have permitted Arlington to add 1,200 machines.

In addition, CHDN's Quad Cities property in western Illinois was allocated 900 machines, which CHDN likely would have sought to move to Arlington. We estimate passage of slots would add $10-$17 per share in equity value for CHDN, assuming an 8x EV/EBITDA multiple (Exhibit 5) and a gaming tax rate of 25% (the legislation provides a scaled tax rate that would approximate 25% assuming $150 million in annual revenue). In November 2011, a scaled back version of the bill (no change for CHDN), narrowly failed the Illinois house (SB 1849). The sponsor of the bill, however, appears likely to bring back the legislation in late 2011 or 2012. The governor has not been adamant about opposing gaming, but is seeking increased regulation and a smaller version of the bill.

Exhibit 5. Arlington Park, Slots Facility

(000's)	Bear	Base	Bull
Capex	$150,000	$150,000	$150,000
Days	365	365	365
Slots	2,100	2,100	2,100
WPD	$185	$200	$215
Gaming Rev.	$141,803	$153,300	$164,798
Other Rev.	14,180	15,330	16,480
Total Rev.	155,983	168,630	181,277
EBITDA Margin	25%	27%	29%
EBITDA	38,996	45,530	52,570
EV @ 8x	311,966	364,241	420,563
Equity Value	161,966	214,241	270,563
Per Share	$10.12	$13.39	$16.91
Annual EPS accretion	$0.91	$1.14	$1.38
Annual FCF/share accre	$1.20	$1.43	$1.68

In Illinois, there are five riverboat operators in the Chicago area, each limited to 1,300 gaming positions by law. Penn National Gaming (NASDAQ: PENN, NEUTRAL) owns two properties on the Illinois side, which generated $56 million and $32 million in EBITDA, respectively, for the trailing 12 months ending 2Q:11. These are the only publicly available comps on the Illinois side. In July 2011, the privately-held Rivers casino opened in Des Plaines, IL, and is thus far generating 2x more revenue than PENN's largest property.

CHDN's Arlington Park contributes minimal EBITDA, in our estimation. The company does not disclose individual racetrack performance, but we think the property generates about $6 million in annual EBITDA, nearly all from a state law that allocates a portion of the Des Plaines casino gross gaming revenue to racetracks. Arlington's underlying real estate (roughly 40 minutes from downtown Chicago) has considerable value. We acknowledge that this real estate is worth much less than the peak of more than $200 million in 2006, but CHDN's current stock price implies no value, in our view. That said, we do not think the company has plans to sell the asset. Prior to the real estate downturn, CHDN appeared open to divesting the asset were gaming not legalized. Arlington Park sits on 325 acres.

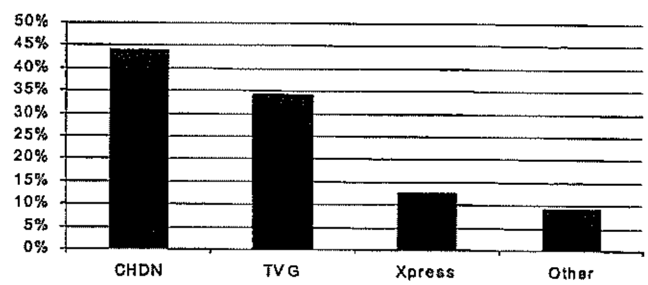
Louisville. Legalized casino gaming at tracks has been debated for years in Kentucky, typically more seriously in even-numbered years where the legislator meets for 60 days, versus 30 days in odd-numbered years. Governor Steve Beshear is a proponent of slots, but legislation has repeatedly been stymied by state senate president David Williams. Mr. Williams, however, has been suggested to be a candidate for a federal judgeship. Should this scenario unfold, his departure likely would provide an easier pathway toward legislation. Kentucky is reliant on the horse racing industry and is surrounded by states that permit casino gaming, namely West Virginia, Indiana, Ohio and Illinois. Currently, one riverboat operates just outside Louisville on the Indiana side. Harrah's owns the Horseshoe Southern Indiana; the property generated revenue of $264 million as of the 12 months trailing September 2011.

Advanced Deposit Wagering (ADW)

Horse wagering and lottery are the only forms of online gaming permitted in the U.S. Despite the horse racing industry's struggles, we view this segment as a secular growth business as wagering shifts online from on-track and off-track betting facilities.

In May 2007, CHDN launched www.twinspires.com. In June 2007, the company acquired two online sites for $80 million in cash (financials of the deal were not disclosed). In June 2010, CHDN acquired Youbet.com for $134 million cash and stock, implying 11x EBITDA, but just 6x after $12 million-plus of duplicate costs were removed; we view the acquisition price to be compelling.

Exhibit 6. ADW Market Share, 1H:11



Source: Oregon Racing Commission, Sidoti & Company, LLC and company reports

In 1H:11, CHDN had nearly a 45% market share, according to the Oregon Racing Commission. TVG, a subsidiary of U.K.-based Betfair, had a 34% share. Betfair is one of the largest online gaming companies in the world and acquired TVG in 2009. CHDN's increased scale in the segment should aid fixed-cost absorption, make the company more resistant to competition and improve leverage when negotiating pricing with tracks (i.e. the percentage CHDN keeps of every wager); generally, pricing needs to be worked out between the ADW and each host track before the start of every season.

Financial Overview

Recent Results. Through the first three quarters of 2011, revenue rose 22% year over year to $548 million, fueled by a 29% increase at CHDN's Miami slots facility (opened in January 2010), and a 5% rise at CHDN's New Orleans gaming operations, Youbet.com and Harlow's Casino. EPS increased to $2.54, from $1.50 in the year-earlier period.

EBITDA rose to $120 million, from $77 million in the year-earlier period. CHDN's Miami slots facility generated $11 million EBITDA versus $3 million a year ago as the property ramped up via expanding its customer base and improved efficiencies. The New Orleans slot operations yielded $20 million in EBITDA, up from $18 million a year ago, while Racing's EBITDA rose to $47 million, from $39 million.

We mostly attribute these increases to improved economic conditions. CHDN's Harlow's casino acquisition added $13 million in EBITDA even as the Mississippi River flooding disruption cost the facility roughly $3 million in 2Q:11 (it was closed for nearly a month). The property contributed $1.2 million in EBITDA in 2010 (CHDN owned the property for just the last two weeks of the year). ADW EBITDA rose to $29 million, from $16 million a year prior. CHDN closed on the Youbet.com acquisition in June 2010.

Sales and Earnings Outlook. For 4Q:11 we estimate revenue will increase 8% year over year to $149 million, fueled by the Harlow's acquisition and a 10% rise in gaming revenue at CHDN's Miami slots facility. We forecast the company's loss per share will narrow to $0.01, from $0.17 in 4Q:10, in this seasonally weak quarter.

For 2012, we project revenue will advance 2% to $708 million, fueled by a 3% year-over-year increase in gaming revenue. We estimate EBITDA will advance 7% year over year to $143 million and EPS will rise 16% to $2.94 due to aforementioned improved trends, lower interest expense and the opening of the Rivers Casino in Illinois in 2010 (a third-party facility, but CHDN's Chicago racetrack collects a percentage of the gross gaming revenue).

For 2013, we project revenue will rise 1% to $718 million fueled by a 2% advance in gaming revenue. We estimate EBITDA will increase 5% to $151 million and EPS will rise 12% to $3.30 due to improved trends and lower interest expense as CHDN retires debt.

Balance Sheet and Cash Flow. At the end of 3Q:11, CHDN had $140 million net debt, representing 1.1x trailing EBITDA, versus 5x for the median regional casino operator. Long-term debt was 16% to total capital. We project free cash flow of $109 million ($6.48 per share) in 2011, $86 million ($5.07 per share) in 2012 and $92 million ($5.42 per share) in 2013, and *net cash* of $7 million at 2013 year-end.

We expect Churchill to use cash to fund the $0.50 per share annual dividend, pursue gaming market acquisitions, and pare debt. We find the company highly underleveraged given its tangible assets, free cash flow and solid Kentucky Derby franchise.

While we doubt CHDN would incur leverage greater than 4x EBITDA, the company was leveraged at nearly 6x EBITDA in 2004 prior to divesting the Hollywood Park racetrack in California. Thus, we find that CHDN has considerable financial heft. The company debt mainly consists of a bank revolver that has $375 million capacity maturing in 2013, with a floating rate of LIBOR plus 1.63%-3.13%, depending on leverage. CHDN is well within its leverage requirement of 3.25x debt-to-EBITDA and interest rate coverage of 3.5x.

Risks

Competition and the economy. Horse racing will continue to face growing competition from an increasing number of gambling outlets, most notably, the proliferation of Native American casinos and regional riverboats. In addition, higher unemployment and/or lower consumer confidence could weaken CHDN's revenue and earnings.

Regional casinos face state political risk. Casinos pay gaming taxes based on revenue (accounted as an operating expense) and are subject to potential changes by state governments seeking to close budget gaps. In addition, smoking bans proved devastating to casino business; smoking is legal at all of CHDN's gaming facilities but proposed bans are regularly debated.

Valuation

We regard regional casinos and racinos as the closest comparison to CHDN. Regional casinos typically trade within 7x-9x forward EBITDA. Historically, CHDN traded in between 7x and 12x given: (1) real estate that does not generate EBITDA; (2) the less-capital intensive ADW segment; and (3) the stranglehold of the Kentucky Derby franchise. CHDN traded in a $30-$40 range in 2010, but jumped as high as $47 by mid-2011 as Churchill began to realize the earnings power from its two recent acquisitions and the Miami slots facility. The stock subsequently fell to as low as $37 in September with a pullback in the broader market sparked by concerns about an economic slowdown. The stock, however, has since rebounded to the $40s as business trends have remained robust.

Our $76 target is based on 14x our 2013 free cash flow per share estimate of $5.42. This $1.2 billion implied market cap translates to nearly 8x our $151 million 2013 EBITDA estimate, plus projected net cash of $7 million, and implies no value for the 325-acre Arlington Park, which contributes minimal cash flow but is not targeted for sale anytime soon. We think the land value exceeded $200 million at the peak of the real estate cycle as an alternative-use property, or $13 per share, but acknowledge the land is worth less now, given the decline in real estate values.

Trading at 5.7x our 2012 EBITDA estimate and 8.6x our 2012 FCF estimate of $5.07 per share, we argue the valuation understate CHDN's improving growth profile and cash flow potential; thus, we maintain our BUY rating.

Table 1 : CHDN Income Statement																	
(000's, except where noted)	**Mar**	**Jun**	**Sep**	~~Dec~~	**2010**	**MarA**	**JunA**	**SepA**	**Dec**	**2011E**	**Mar**	**Jun**	**Sep**	**Dec**	**2012E**	**2013E**
Net Revenue																
Racing	$33,014	$147,440	$67,348	$59,742	$307,544	$31,628	$148,205	$66,539	$59,506	$305,878	$31,348	$149,939	$65,613	$59,278	$306,177	$306,599
Gaming, LA	19,865	17,629	17,578	18,910	74,373	21,215	18,247	18,230	20,100	77,792	21,639	18,612	18,595	20,502	79,348	80,935
Gaming, FL	12,918	18,219	17,089	16,400	65,200	20,029	21,711	20,251	18,040	80,031	20,630	22,362	20,859	18,581	82,432	84,905
Gaming, MS				2,700	2,700	16,510	9,501	13,441	14,000	53,452	15,000	14,000	13,710	14,280	56,990	57,850
ADW	18,295	29,847	39,232	34,032	121,407	36,803	46,526	42,015	34,713	160,057	37,907	47,922	43,275	35,754	164,858	169,804
Other	107	2,260	6,299	5,457	14,121	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705	17,705
Net revenue	**85,164**	**215,395**	**147,546**	**137,241**	**585,345**	**131,554**	**249,686**	**166,349**	**148,659**	**696,248**	**130,560**	**258,332**	**167,924**	**150,695**	**707,510**	**717,798**
EBITDA																
Racing	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	1,114	(2,600)	44,323	(11,912)	59,976	984	(224)	48,824	49,663
Gaming, LA	6,439	6,006	5,492	5,126	23,063	7,800	6,200	5,800	5,427	25,227	7,956	6,142	5,950	5,536	25,584	26,684
Gaming, FL	(400)	900	2,400	2,600	5,500	3,100	4,300	3,300	2,796	13,496	3,301	4,472	3,546	2,973	14,292	14,936
Gaming, MS	0			1,200	1,200	6,600	2,300	4,000	4,200	17,100	5,250	4,900	4,113	4,284	18,547	20,689
ADW/HRTV	3,995	6,854	5,818	3,759	20,426	7,545	11,308	9,818	5,207	33,878	7,960	11,980	10,386	5,721	36,048	38,730
Corporate/United Tote	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	(383)	(600)	181	(1,266)	2,430	(500)	(600)	64	64
Operating expenses	88,428	152,312	130,494	127,839	499,072	120,380	164,703	142,652	134,229	561,964	119,271	168,431	143,445	133,006	564,152	567,032
Consolidated EBITDA	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**23,697**	**14,430**	**134,284**	**11,289**	**89,901**	**24,479**	**17,689**	**143,358**	**150,766**
D & A	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,443)	(13,443)	(54,762)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)	(53,772)
Operating income	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**10,254**	**987**	**79,522**	**(2,154)**	**76,458**	**11,036**	**4,246**	**89,586**	**96,994**
Interest expense	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(1,460)	(1,400)	(8,657)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(1,900)
Pre-tax income	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**8,794**	**(413)**	**70,865**	**(3,654)**	**74,958**	**10,036**	**3,246**	**84,586**	**95,094**
Income tax (expense) benefit	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(2,621)	169	(28,131)	1,498	(30,733)	(4,115)	(1,331)	(34,680)	(38,988)
Effective tax rate	41%	40%	40%	41%	39%	-39%	41%	30%	41%	40%	41%	41%	41%	41%	41%	41%
Net income	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**6,173**	**(244)**	**42,734**	**(2,156)**	**44,225**	**5,922**	**1,915**	**49,906**	**56,105**
Pro-forma EPS diluted	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.36**	**($0.01)**	**$2.54**	**($0.13)**	**$2.60**	**$0.35**	**.$0.12**	**$2.94**	**$3.30**
Diluted average shares outstandin	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,974	17,000	16,808	17,000	17,000	17,000	17,000	17,000	17,000
Net Income GAAP	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$19,780	($244)	$56,340	($2,156)	$44,225	$5,922	$1,915	$49,906	$56,105
EPS GAAP	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.13)	$2.60	$0.35	$0.12	$2.94	$3.30
Margin analysis																
EBITDA	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	14.2%	9.7%	19.3%	8.6%	34.8%	14.6%	11.7%	20.3%	21.0%
Operating	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	6.2%	0.7%	11.4%	-1.6%	29.6%	6.6%	2.8%	12.7%	13.5%
Pre-tax	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.3%	-0.3%	10.2%	-2.8%	29.0%	6.0%	2.2%	12.0%	13.2%
Net income	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.7%	-0.2%	6.1%	-1.7%	17.1%	3.5%	1.3%	7.1%	7.8%
Y/Y growth %																
Revenue	23%	20%	46%	61%	34%	54%	16%	13%	8%	19%	-1%	3%	1%	1%	2%	1%
EBITDA	NM	8%	149%	799%	36%	NM	35%	39%	53%	56%	1%	6%	3%	23%	7%	5%
Operating income	26%	0%	NM	-60%	20%	NM	39%	120%	NM	100%	NM	8%	8%	330%	13%	8%
Pre-tax income	NM	-3%	NM	NM	4%	NM	36%	187%	NM	110%	NM	11%	14%	NM	19%	12%
Net income	NM	-3%	NM	NM	4%	NM	34%	236%	NM	108%	NM	11%	-4%	NM	17%	12%
EPS	NM	-9%	NM	NM	-6%	NM	18%	222%	NM	92%	NM	10%	-4%	NM	15%	12%

Source: Sidoti & Company, LLC and company reports.

Table 2 :CHDN Cash Flow Statement							
(000's, except where noted)	2010	MarA	JunA	SepA	2011E	2012E	2013E
Operating Activities:							
Net (loss) income	$16,353	($3,185)	$40,147	$19,780	$56,340	$49,906	$56,105
Depreciation and amortization	46,524	13,986	13,892	13,441	54,762	53,772	53,772
Other	12,457	2,074	(1,940)	3,875	7,773	6,500	6,500
change in operating assets and liabilities	(15,477)	47,600	(7,765)	(10,273)	10,000	0	0
Cash provided from (used for) oper. act.	**59,857**	**60,475**	**44,334**	**26,823**	**128,875**	**110,178**	**116,377**
Investing Activities:							
Acquisition of business	0	0	0	0	0	0	0
Capital expenditures	(61,952)	(5,517)	(5,350)	(5,935)	(20,000)	(24,000)	(24,200)
Proceeds from the sale of equipment/property	0	0	0	0	0	0	0
(Purchase of)/proceeds from investments, net	(169,665)	0	0	0	0	0	0
Other	(3,324)	388	(3,511)	873	(2,200)	0	0
Cash provided from (used for) invest. act.	**(234,941)**	**(5,083)**	**(8,861)**	**(5,333)**	**(22,200)**	**(24,000)**	**(24,200)**
Financing Activities:							
Net (repayments) borrowings of LT debt	193,985	(42,247)	(37,910)	(28,690)	(80,000)	(75,000)	(80,000)
Proceeds from stock options	564	(151)	(294)	(287)	0	0	0
Dividends	(6,777)	(8,165)	0	0	(8,165)	(8,165)	(8,165)
Proceeds from senior notes	0	0	0	0	0	0	0
Other	570	(4,382)	6,414	3,339	5,000	0	0
Cash provided from (used for) fin. act.	**188,342**	**(54,945)**	**(31,790)**	**(25,638)**	**(83,165)**	**(83,165)**	**(88,165)**
Cash at the beginning of the period	13,643	26,901	27,348	31,031	26,901	50,411	53,424
Inc.(dec.) in cash and cash equivalents	13,258	447	3,683	(4,148)	23,510	3,013	4,012
Cash at the end of the period	**26,901**	**27,348**	**31,031**	**26,883**	**50,411**	**53,424**	**57,437**
Free Cash Flow	(2,095)	54,958	38,984	20,888	108,875	86,178	92,177
Free Cash Flow per share	**($0.14)**	**$3.36**	**$2.31**	**$1.23**	**$6.48**	**$5.07**	**$5.42**

Source: Sidoti & Company, LLC and company reports.

Table 3 : CHDN Balance Sheet (000's, except where noted)	2010	MarA	JunA	SepA	2011E	2012E	2013E
Current assets:							
Cash and cash equivalents	$26,901	$27,348	$31,031	$26,883	$50,411	$53,424	$57,437
Restricted cash	61,891	54,956	67,371	50,472	50,472	50,472	50,472
Accounts receivables, net	33,307	15,143	41,196	33,083	33,307	33,307	33,307
Deferred income taxes	16,136	16,136	17,875	16,417	16,136	16,136	16,136
Income tax receivables	11,674	6,504	0	0	11,674	11,674	11,674
Other current assets	20,086	25,215	20,210	18,782	20,086	20,086	20,086
Assets held for sale	0	0	0	0	0	0	0
Total current assets	**169,995**	**145,302**	**177,683**	**145,637**	**182,086**	**185,099**	**189,112**
Other Assets	12,284	11,864	10,463	8,787	8,700	8,700	8,700
Plant and Equipment, net	507,476	501,977	486,973	482,005	472,714	442,942	413,370
Goodwill	214,528	214,318	213,752	213,712	214,528	214,528	214,528
Other intangible assets, net	113,436	110,409	109,632	106,729	113,436	113,436	113,436
Total assets	**1,017,719**	**983,870**	**998,503**	**956,870**	**991,464**	**964,705**	**939,146**
Current liabilities:							
Accounts payable	47,703	46,240	56,302	42,512	47,703	47,703	47,703
Pursue payable	12,265	9,075	18,293	23,315	12,265	12,265	12,265
Accrued expense and other liabilities	49,754	45,050	49,191	47,826	49,754	49,754	49,754
Dividends payable	8,165	0	0		8,165	8,165	8,165
Income tax payable	0	0	19,658	16,120	0	0	0
Deferred revenue	24,512	50,127	14,388	18,750	24,512	24,512	24,512
Liabilities associated with assets held for sal	0		0	0	0	0	0
Current portion of LT debt	5,660	1,597	6,819	10,279	5,660	5,660	5,660
Other liabilities	40,492				0	0	0
Total current liabilities	**188,551**	**194,484**	**208,890**	**158,802**	**148,059**	**148,059**	**148,059**
Long term debt	280,192	238,051	184,961	156,270	200,192	125,192	45,192
Other liabilities	17,775	18,887	16,035	30,181	30,181	30,181	30,181
Deferred revenue	15,556	16,679	15,518	17,025	17,025	17,025	17,025
Deferred income taxes	9,431	9,431	8,803	8,803	9,431	9,431	9,431
Total liabilities	**511,505**	**477,532**	**434,207**	**371,081**	**404,888**	**329,888**	**249,888**
Total stockholder equity	**506,214**	**506,338**	**564,296**	**585,789**	**586,576**	**634,817**	**689,258**
Total liab. and shareholder equity	**1,017,719**	**983,870**	**998,503**	**956,870**	**991,464**	**964,705**	**939,146**
Financial Ratios							
Long term debt / total capital	28%	4%	19%	16%	20%	13%	5%
Book value per share	$32.65	$30.95	$33.39	$34.51	$34.90	$37.34	$40.54
Net debt (cash)	$253,291	$212,300	$160,749	$139,666	$155,441	$77,428	($6,585)
Return on avg. equity	4.5%	5.7%	6.7%	7.3%	7.8%	8.2%	8.5%
Return on avg. assets	2.4%	3.0%	3.8%	4.5%	4.3%	5.1%	5.9%

Source: Sidoti & Company, LLC and company reports.

IMPORTANT DISCLOSURES

The Sidoti & Company, LLC Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 11/17/11, Sidoti & Company, LLC provides research on 487 companies, of which 388 (79%) are rated BUY and 99 (21%) are rated NEUTRAL. Of the BUYS, Sidoti & Company, LLC has received investment banking income from 3 companies (0.77%). Of the NEUTRALS, 53 trade above our price targets. Based on published near-term earnings estimates, the analyst's short-term opinion may be different from what is published in this report. Any estimates or forecasts may not be met. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Reprints of Sidoti & Company, LLC reports are prohibited without permission. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Occasionally, Sidoti & Company, LLC may receive a fee, directly or indirectly, at the time of an underwriting for an individual company already under research coverage, for which the covering analyst will not be compensated. Sidoti & Company, LLC does NOT own securities of the issues described herein. Sidoti & Company, LLC policy does not allow any analyst to own shares in any company he/she covers. No employee or household member thereof, serves as an officer or director of a covered company. Sidoti & Company, LLC does not make a market in any securities. Additional information is available upon request.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166

Morning Meeting Note

Churchill Downs Inc. (CHDN-$44.74)

BUY

Adjust Earnings Estimates; Earnings Release

Target: $73

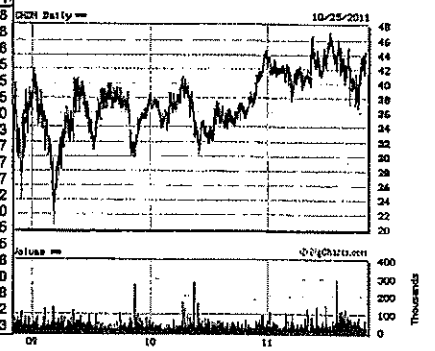
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

October 27, 2011

Market Cap (Mil)	$740	**Price to Book Value**	1.5x
Avg. Daily Trading Volume	58,000	**Return on Equity (2013E)**	8.6%
Shares Out (Mil)	17.150	**LT Debt to Total Capital**	16%
Float Shares (Mil)	12.760	**5-Year EPS Growth Rate Projection**	15%
Institutional Holdings	40%	**52-Week Range (NASDAQ)**	47-35
Dividend	$0.50	**Russell 2000**	727
Dividend Yield	1.2%	**Short Interest (Mil)**	0.426

	2010	2011E OLD	2011E NEW	2012E OLD	2012E NEW	2013E OLD	2013E NEW
Mar.	($0.63)	($0.19)A		($0.11)	($0.08)	($0.04)	($0.01)
June	2.01	2.37A		2.57	2.61	2.68	2.73
Sep.	0.11	0.33	0.36A	0.41	0.35	0.51	0.41
Dec.	(0.17)	(0.10)	(0.01)	(0.09)	(0.10)	(0.01)	(0.03)
EPS (Cal.)	**$1.33**	**$2.42**	**$2.54**	**$2.79**		**$3.13**	**$3.11**
P/E (Cal.)			**17.6x**	**16.0x**			**14.4x**
EBITDA (mil.) (Cal)	**$85.6**	**$135.7**	**$134.3**	**$142.2**	**$139.2**	**$147.4**	**$145.3**
EV / EBITDA			**6.9x**		**6.1x**		**5.3x**

Action	Date	Px	Rating	PT
Rating	11/21/08	25.3	Buy	38
Rating	12/4/08	35.9	Neutral	38
PT	2/24/09	30.7		28
PT	3/6/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	46
PT	6/9/10	31.3		46
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73



Note: 2010 exclude $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 of annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.2	$709.4	$719.7
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.54	$2.79	$3.11

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

3Q:11 Pro-Forma EPS Slightly Above Consensus; Fine-Tune Estimates; Shares Attractive, In Our View, At 9x Our 2012 FCF Per Share Estimate Of $4.92; Maintain BUY Rating, $73 Target

- **CHDN posted pro-forma 3Q:11 EPS of $0.31 versus consensus of $0.29 and our $0.33 forecast assuming a normalized tax rate and excluding a one-time gain,**
- **CHDN's 3Q:11 EBITDA of $24 million fell short of our $26 million estimate owing to higher corporate expense and lower-than-forecast results at CHDN's Harlow's casino, but pretax income was in line due to lower interest expense.**
- **Same-casino EBITDA rose 15% year over year; CHDN's assets are still ramping up, in our view, particularly in Miami.**
- **We see the shares, which are trading at just 9x our 2012 FCF per share estimate of $4.92, as attractively valued, particularly given the company's over-capitalized balance sheet.**

- **Management is hosting a conference call at 9 AM ET today; call-in # is 877.372.0878.**
- **We reiterate our BUY rating. Our $73 target is based on 14x our 2013 free cash flow per share estimate of $5.23 (from $5.20).**

❑ **CHDN generated 3Q:11 EPS in line with consensus.** Adjusted EBITDA of $24 million was shy of our $26 million forecast on higher-than-forecast corporate expense (which can be lumpy quarter to quarter), while EBITDA of $4 million at CHDN's Harlow's casino fell short of our $5 million forecast. Results at CHDN's Louisiana, Florida and online segment were impressive, in our view, with EBITDA up 6%, 38% and 69% year over year, respectively. We fine-tune our 2011 estimate to $2.54 (from $2.42) and our 2013 forecast to $3.11 (from $3.13). Our 2012 projection remains $2.79.

❑ **CHDN's gaming assets are still ramping up and the company is highly overcapitalized, in our view.** In our view, the shares are attractive at just 9x our 2012 FCF per share estimate of $4.92. We estimate CHDN will have net debt of only $7 million at 2013 year-end versus leverage of 5x for the median peer, providing considerable firepower for acquisitions (management has a solid track record), a higher dividend or share repurchases. Given CHDN's Kentucky Derby franchise value, tangible assets and free cash flow, we think the company is highly over-capitalized. We estimate every $25 million in share repurchases at current levels would add nearly $0.10 in annual EPS and CHDN's $0.50 annual dividend is covered by nearly 10x. We look for continued growth in CHDN's gaming assets, none of which is older than four years (which also means lower maintenance capex for the foreseeable future).

❑ **We reiterate our BUY rating and $73 target.** Our $73 target is based on 14x our 2013 free cash flow per share estimate of $5.23 (from $5.20). Our $1.2 billion market cap target implies a multiple of 8x our 2013 EBITDA estimate of $145 million (from $147 million) less $7 million projected net debt (from $19 million). We argue CHDN deserves a premium to the group (which generally garners a 7x-9x multiple), not a discount, based on its Kentucky Derby franchise and online wagering segment, which offers a better growth profile and is less capital-intensive than asset-based wagering. Our BUY rating remains in force.

Exhibit 1 : CHDN Variance Table

(000's)	3Q:11A	3Q:11E	Variance	3Q:10A	YOY%
Revenue	$166,349	$163,231	$3,118	$147,545	13%
EBITDA	23,697	26,035	(2,338)	17,052	39%
	14.2%	15.9%		11.6%	
Operating income	10,254	12,145	(1,891)	4,657	120%
	6.2%	7.4%		3.2%	
Net income	6,173	5,513	660	1,837	236%
	3.7%	3.4%		1.2%	
Fully diluted EPS	$0.36	$0.33	$0.04	$0.11	222%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis

(000's)	3Q:11A	3Q:11E	Var	3Q:10A	YOY%
Racing	$1,114	$657	$457	$1,254	-11%
Gaming, LA	5,800	6,052	(252)	5,492	6%
Gaming, FL	3,300	3,595	(295)	2,400	38%
Gaming, MS	4,000	4,900	(900)	0	NM
ADW/HRTV	9,818	8,631	1,187	5,818	69%
Corporate/United Tot	(383)	2,200	(2,583)	2,088	NM
Total EBITDA	**$23,697**	**$26,035**	**($2,338)**	**$17,052**	**39%**

Source: Sidoti & Company, LLC estimates and company financials

Table 1 : CHDN Income Statement																				
(000's, except where noted)	Mar	Jun	Sep	Dec	2010	MarA	JunA	SepA	Dec	2011E	Mar	Jun	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E
Net Revenue																				
Racing	$33,014	$147,440	$67,348	$59,742	$307,544	$31,628	$148,205	$66,539	$59,506	$305,878	$31,348	$149,939	$65,613	$59,278	$306,177	$31,076	$151,754	$64,714	$59,056	$306,599
Gaming, LA	19,865	17,629	17,969	18,910	74,373	21,215	18,247	18,230	20,100	77,792	21,639	18,612	18,595	20,502	79,348	22,072	18,984	18,966	20,912	80,935
Gaming, FL	12,918	18,219	17,663	16,400	65,200	20,029	21,711	20,251	18,040	80,031	20,630	22,362	20,859	18,581	82,432	21,249	23,033	21,484	19,139	84,905
Gaming, MS				2,700	2,700	16,510	9,501	13,441	14,000	53,452	16,840	14,000	13,710	14,280	58,830	17,177	14,000	13,984	14,566	59,727
ADW	18,295	29,847	39,233	34,032	121,407	36,803	46,526	42,015	34,713	160,057	37,907	47,922	43,275	35,754	164,858	39,044	49,359	44,574	36,827	169,804
Other	107	2,260	6,297	5,457	14,121	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705
Net revenue	85,164	215,395	147,545	137,241	585,345	131,554	249,686	166,349	148,659	696,248	132,400	258,332	167,924	150,695	709,351	134,654	262,627	169,596	152,799	719,675
EBITDA																				
Racing	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	1,114	(2,600)	44,323	(11,912)	59,976	984	(6,224)	42,824	(11,809)	60,701	971	(6,201)	43,663
Gaming, LA	6,439	6,006	5,492	5,126	23,063	7,800	6,200	5,800	5,427	25,227	7,956	6,142	5,950	5,536	25,584	8,115	6,644	6,069	5,855	26,684
Gaming, FL	(400)	900	2,400	2,600	5,500	3,100	4,300	3,300	2,796	13,496	3,301	4,472	3,546	2,973	14,292	3,400	4,607	3,867	3,062	14,936
Gaming, MS	0			1,200	1,200	6,600	2,300	4,000	4,200	17,100	6,736	5,250	4,113	4,284	20,383	7,043	5,320	4,335	4,515	21,213
ADW/HRTV	3,995	6,854	5,818	3,759	20,426	7,545	11,308	9,818	5,207	33,878	7,960	11,980	10,386	5,721	36,048	8,590	13,327	10,921	5,892	38,730
Corporate/United Tote	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	(383)	(600)	181	(1,266)	2,430	(500)	(600)	64	(1,266)	2,430	(500)	(600)	64
Operating expenses	88,428	152,312	130,493	127,839	499,072	120,380	164,703	142,652	134,229	561,964	119,625	168,081	143,445	139,006	570,156	120,581	169,597	143,933	140,275	574,386
Consolidated EBITDA	(3,264)	63,083	17,052	9,402	86,273	11,174	84,983	23,697	14,430	134,284	12,775	90,251	24,479	11,689	139,194	14,073	93,030	25,663	12,524	145,289
D & A	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,443)	(13,443)	(54,762)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)
Operating income	(13,289)	51,093	4,657	(2,712)	39,749	(2,812)	71,093	10,254	987	79,522	(668)	76,808	11,036	(1,754)	85,422	630	79,587	12,220	(919)	91,517
Interest expense	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(1,460)	(1,400)	(8,657)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(800)	(800)	(300)	#VALUE!	(1,900)
Pre-tax income	(14,436)	49,690	3,062	(4,554)	33,762	(5,204)	67,688	8,794	(413)	70,865	(2,168)	75,308	10,036	(2,754)	80,422	(170)	78,787	11,920	(919)	89,617
Income tax (expense) benefit	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(2,621)	169	(28,131)	889	(30,876)	(4,115)	1,129	(32,973)	70	(32,303)	(4,887)	377	(36,743)
Effective tax rate	41%	40%	40%	41%	39%	-39%	41%	30%	41%	40%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	(8,517)	29,913	1,837	(2,687)	20,546	(3,186)	39,990	6,173	(244)	42,734	(1,279)	44,432	5,922	(1,625)	47,449	(101)	46,484	7,033	(542)	52,874
Pro-forma EPS diluted	($0.63)	$2.01	$0.11	($0.17)	$1.33	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.08)	$2.61	$0.35	($0.10)	$2.79	($0.01)	$2.73	$0.41	($0.03)	$3.11
Diluted average shares outstandin	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,974	17,000	16,808	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000
Net Income GAAP	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$19,780	($244)	$56,340	($1,279)	$44,432	$5,922	($1,625)	$47,449	($101)	$46,484	$7,033	($542)	$52,874
EPS GAAP	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.08)	$2.61	$0.35	($0.10)	$2.79	($0.01)	$2.73	$0.41	($0.03)	$3.11
Margin analysis																				
EBITDA	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	14.2%	9.7%	19.3%	9.6%	34.9%	14.6%	7.8%	19.6%	10.5%	35.4%	15.1%	8.2%	20.2%
Operating	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	6.2%	0.7%	11.4%	-0.5%	29.7%	6.6%	-1.2%	12.0%	0.5%	30.3%	7.2%	-0.6%	12.7%
Pre-tax	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.3%	-0.3%	10.2%	-1.6%	29.2%	6.0%	-1.8%	11.3%	-0.1%	30.0%	7.0%	-0.6%	12.5%
Net income	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.7%	-0.2%	6.1%	-1.0%	17.2%	3.5%	-1.1%	6.7%	-0.1%	17.7%	4.1%	-0.4%	7.3%
Y/Y growth %																				
Revenue	23%	20%	46%	61%	34%	54%	16%	13%	8%	19%	1%	3%	1%	1%	2%	2%	2%	1%	1%	1%
EBITDA	NM	8%	149%	799%	36%	NM	35%	39%	53%	56%	14%	6%	3%	-19%	4%	10%	3%	5%	7%	4%
Operating income	26%	0%	NM	-60%	20%	NM	39%	120%	-136%	100%	-76%	8%	8%	-278%	7%	-194%	4%	11%	-48%	7%
Pre-tax income	NM	-3%	NM	NM	4%	NM	36%	187%	NM	110%	-58%	11%	14%	567%	13%	-92%	5%	19%	-67%	11%
Net income	NM	-3%	NM	NM	4%	NM	34%	236%	NM	108%	-60%	11%	-4%	567%	11%	-92%	5%	19%	-67%	11%
EPS	NM	-9%	NM	NM	-6%	NM	18%	222%	NM	92%	-61%	10%	-4%	567%	10%	-92%	5%	19%	-67%	11%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166

Intraday Note

Churchill Downs Inc. (CHDN-$47.70)

BUY

Raise Price Target; Adjust Earnings Estimates

Target: $76

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

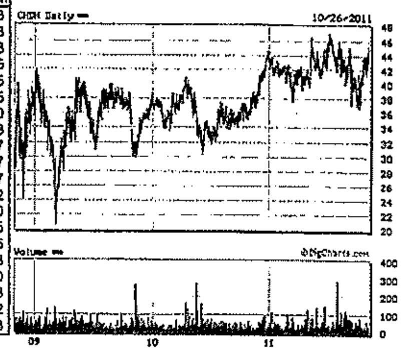
October 27, 2011

Market Cap (Mil)	$820
Avg. Daily Trading Volume	57,000
Shares Out (Mil)	17.181
Float Shares (Mil)	12.791
Institutional Holdings	40%
Dividend	$0.50
Dividend Yield	1.0%

Price to Book Value	1.6x
Return on Equity (2013E)	8.6%
LT Debt to Total Capital	16%
5-Year EPS Growth Rate Projection	15%
52-Week Range (NASDAQ)	48-35
Russell 2000	761
Short Interest (Mil)	0.426

	2010	2011E	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)A	($0.08)	($0.13)	($0.01)	($0.05)
June	2.01	2.37A	2.61	2.60	2.73	
Sep.	0.11	0.36A	0.35		0.41	0.43
Dec.	(0.17)	(0.01)	(0.10)	0.12	(0.03)	0.19
EPS (Cal.)	**$1.33**	**$2.54**	**$2.79**	**$2.94**	**$3.11**	**$3.30**
P/E (Cal.)		**18.8x**		**16.2x**		**14.5x**
EBITDA (mil.)(Cal)	**$85.6**	**$134.3**	**$139.2**	**$143.4**	**$145.3**	**$150.8**
EV / EBITDA		**7.3x**		**6.3x**		**5.4x**

Action	Date	Px	Rating	PT
Rating	11/21/08	25.3	Buy	38
Rating	12/4/08	35.9	Neutral	38
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	8/9/10	31.3	Buy	45
PT	8/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73



Note: 2010 exclude $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 of annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

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Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$696.2	$707.5	$717.8
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.54	$2.94	$3.30

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Raise Target To $76 (From $73) On Increased Estimates; Shares Attractive, In Our View, At 9x Our 2012 FCF Per Share Estimate Of $5.06; Reiterate BUY Rating

- **We increase our 2012 and 2013 EPS estimates to $2.94 (from $2.79) and $3.30 (from $3.11), respectively, to incorporate to Arlington Park's share of gross gaming revenue from the recently-opened Rivers Casino.**
- **The property is owned and operated by a third party; however, state legislation allocates 15% of the gross gaming revenue of the property to the racetracks (which we model adding $6 million in annual EBITDA for CHDN).**
- **We see the shares, trading at just 9x our 2012 FCF per share estimate of $5.06, as attractively valued, particularly given the company's over-capitalized balance sheet (we estimate net debt of just $1 million at 2013 year-end).**
- **We reiterate our BUY rating.**
- **Our new $76 target (from $73) is based on 14x our 2013 free cash flow per share estimate of $5.42 (from $5.23).**

- **We increase our 2012 and 2013 EPS estimates to $2.94 (from $2.79) and $3.30 (from $3.11), respectively.** In July 2011, the Rivers Casino opened as the tenth and final casino license in Illinois (for now, considering the annual debate about legislation to increase the number of licenses in the state). As part of legislation allowing gaming in Illinois, 15% of the gross gaming revenue is allocated to the state's racetracks for this final casino property. Our previous estimates did not account for this state subsidy. We note the timing of the payments remains unclear; for now, we are modeling the payment entirely in the December quarter of each year for 2012 and 2013. Legislation requires the funds to automatically be allocated to a fund for the racetracks, but the physical disbursement of the funds to the tracks requires an appropriation.

- **CHDN's gaming assets are still ramping up, and the company is highly overcapitalized, in our view.** Our BUY thesis is based on CHDN's attractive valuation (9x our 2012 FCF per share estimate of $5.06), over-capitalized balance sheet (we estimate net debt of just $1 million at 2013 year-end versus 5x leverage for peers), underappreciated, competition-resistant Kentucky Derby franchise and expected same-casino EBITDA growth (given the young age of its assets).

- **We reiterate our BUY rating and increase our target to $76 (from $73).** Our new target is based on 14x our revised 2013 free cash flow per share estimate of $5.42 (from $5.23). Our $1.3 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $151 million (from $145 million) less $1 million projected net debt (from $7 million). We argue CHDN deserves a premium to the group (which generally garners a 7x-9x multiple), not a discount, based on its Kentucky Derby franchise and online wagering segment, which offers a better growth profile and is less capital-intensive than asset-based wagering.

Table 1 : CHDN Income Statement																				
(000's, except where noted)	Mar	Jun	Sep	Dec	2010	MarA	JunA	SepA	Dec	2011E	Mar	Jun	Sep	Dec	2012E	Mar	Jun	Sep	Dec	2013E
Net Revenue																				
Racing	$33,014	$147,440	$67,348	$59,742	$307,544	$31,628	$148,205	$66,539	$59,506	$305,878	$31,348	$149,939	$65,613	$59,278	$306,177	$31,076	$151,754	$64,714	$59,056	$306,599
Gaming, LA	19,865	17,629	17,969	18,910	74,373	21,215	18,247	18,230	20,100	77,792	21,639	18,612	18,595	20,502	79,348	22,072	18,984	18,966	20,912	80,935
Gaming, FL	12,918	18,219	17,663	16,400	65,200	20,029	21,711	20,251	18,040	80,031	20,630	22,362	20,859	18,581	82,432	21,249	23,033	21,484	19,139	84,905
Gaming, MS				2,700	2,700	16,510	9,501	13,441	14,000	53,452	15,000	14,000	13,710	14,280	56,990	15,300	14,000	13,984	14,566	57,850
ADW	18,295	29,847	39,233	34,032	121,407	36,803	46,526	42,015	34,713	160,057	37,907	47,922	43,275	35,754	164,858	39,044	49,359	44,574	36,827	169,804
Other	107	2,260	6,297	5,457	14,121	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705	4,036	5,496	5,873	2,300	17,705
Net revenue	**85,164**	**215,395**	**147,545**	**137,241**	**585,345**	**131,554**	**249,686**	**166,349**	**148,659**	**696,248**	**130,560**	**258,332**	**167,924**	**150,695**	**707,510**	**132,777**	**262,627**	**169,596**	**152,799**	**717,798**
EBITDA																				
Racing	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	1,114	(2,600)	44,323	(11,912)	59,976	984	(224)	48,824	(11,809)	60,701	971	(201)	49,663
Gaming, LA	6,439	6,006	5,492	5,126	23,063	7,800	6,200	5,800	5,427	25,227	7,956	6,142	5,950	5,536	25,584	8,115	6,644	6,069	5,855	26,684
Gaming, FL	(400)	900	2,400	2,600	5,500	3,100	4,300	3,300	2,796	13,496	3,301	4,472	3,546	2,973	14,292	3,400	4,607	3,867	3,062	14,936
Gaming, MS	0			1,200	1,200	6,600	2,300	4,000	4,200	17,100	5,250	4,900	4,113	4,284	18,547	5,814	5,320	4,894	4,661	20,689
ADW/HRTV	3,995	6,854	5,818	3,759	20,426	7,545	11,308	9,818	5,207	33,878	7,960	11,980	10,386	5,721	36,048	8,590	13,327	10,921	5,892	38,730
Corporate/United Tote	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	(383)	(600)	181	(1,266)	2,430	(500)	(600)	64	(1,266)	2,430	(500)	(600)	64
Operating expenses	88,428	152,312	130,493	127,839	499,072	120,380	164,703	142,652	134,229	561,964	119,271	168,431	143,445	133,006	564,152	119,933	169,597	143,374	134,129	567,032
Consolidated EBITDA	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**23,697**	**14,430**	**134,284**	**11,289**	**89,901**	**24,479**	**17,689**	**143,358**	**12,844**	**93,030**	**26,222**	**18,670**	**150,766**
D & A	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,443)	(13,443)	(54,762)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)	(13,443)	(13,443)	(13,443)	(13,443)	(53,772)
Operating income	(13,289)	51,093	4,657	(2,712)	39,749	(2,812)	71,093	10,254	987	79,522	(2,154)	76,458	11,036	4,246	89,586	(599)	79,587	12,779	5,227	96,994
Interest expense	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(1,460)	(1,400)	(8,657)	(1,500)	(1,500)	(1,000)	(1,000)	(5,000)	(800)	(800)	(300)	0	(1,900)
Pre-tax income	(14,436)	49,690	3,062	(4,554)	33,762	(5,204)	67,688	8,794	(413)	70,865	(3,654)	74,958	10,036	3,246	84,586	(1,399)	78,787	12,479	5,227	95,094
Income tax (expense) benefit	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(2,621)	169	(28,131)	1,498	(30,733)	(4,115)	(1,331)	(34,680)	574	(32,303)	(5,116)	(2,143)	(38,988)
Effective tax rate	41%	40%	40%	41%	39%	-39%	41%	30%	41%	40%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	(8,517)	29,913	1,837	(2,687)	28,546	(3,186)	39,990	6,173	(244)	42,734	(2,156)	44,225	5,922	1,915	49,906	(825)	46,484	7,363	3,084	56,105
Pro-forma EPS diluted	($0.63)	$2.01	$0.11	($0.17)	$1.33	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.13)	$2.60	$0.35	$0.12	$2.94	($0.05)	$2.73	$0.43	$0.19	$3.30
Diluted average shares outstandin	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,974	17,000	16,808	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000
Net Income GAAP	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$19,780	($244)	$56,340	($2,156)	$44,225	$5,922	$1,915	$49,906	($825)	$46,484	$7,363	$3,084	$56,105
EPS GAAP	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.36	($0.01)	$2.54	($0.13)	$2.60	$0.35	$0.12	$2.94	($0.05)	$2.73	$0.43	$0.19	$3.30
Margin analysis																				
EBITDA	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	14.2%	9.7%	19.3%	8.6%	34.8%	14.6%	11.7%	20.3%	9.7%	35.4%	15.5%	12.2%	21.0%
Operating	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	6.2%	0.7%	11.4%	-1.6%	29.6%	6.6%	2.8%	12.7%	-0.5%	30.3%	7.5%	3.4%	13.5%
Pre-tax	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.3%	-0.3%	10.2%	-2.8%	29.0%	6.0%	2.2%	12.0%	-1.1%	30.0%	7.4%	3.4%	13.2%
Net income	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.7%	-0.2%	6.1%	-1.7%	17.1%	3.5%	1.3%	7.1%	-0.6%	17.7%	4.3%	2.0%	7.8%
Y/Y growth %																				
Revenue	23%	20%	46%	61%	34%	54%	16%	13%	8%	19%	-1%	3%	1%	1%	2%	2%	2%	1%	1%	1%
EBITDA	NM	8%	149%	799%	36%	NM	35%	39%	53%	56%	1%	6%	3%	23%	7%	14%	3%	7%	6%	5%
Operating income	26%	0%	NM	-60%	20%	NM	39%	120%	-136%	100%	-23%	8%	8%	330%	13%	-72%	4%	16%	23%	8%
Pre-tax income	NM	-3%	NM	NM	4%	NM	36%	187%	NM	110%	-30%	11%	14%	-886%	19%	-62%	5%	24%	61%	12%
Net income	NM	-3%	NM	NM	4%	NM	34%	236%	NM	108%	-32%	11%	-4%	-886%	17%	-62%	5%	24%	61%	12%
EPS	NM	-9%	NM	NM	-6%	NM	18%	222%	NM	92%	-35%	10%	-4%	-886%	15%	-62%	5%	24%	61%	12%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166

Morning Meeting Note

Churchill Downs Inc. (CHDN-$42.12) — BUY

Adjust Earnings Estimates; Earnings Preview — **Target: $73**

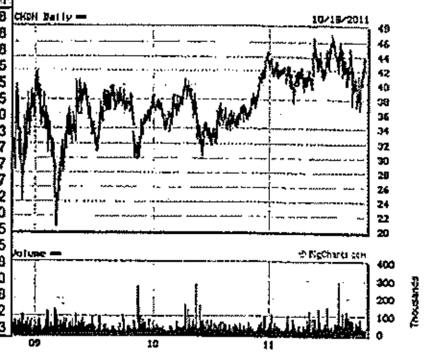
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com) — **October 21, 2011**

Market Cap (Mil)	$720
Avg. Daily Trading Volume	58,000
Shares Out (Mil)	17.150
Float Shares (Mil)	12.760
Institutional Holdings	40%
Dividend	$0.50
Dividend Yield	1.2%

Price to Book Value	1.5x
Return on Equity (2012E)	5.9%
LT Debt to Total Capital	19%
5-Year EPS Growth Rate Projection	15%
52-Week Range (NASDAQ)	47-35
Russell 2000	696
Short Interest (Mil)	0.434

	2010	2011E		2012E		2013E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)A		($0.10)	($0.11)	($0.04)	
June	2.01	2.37A		2.59	2.57	2.70	2.68
Sep.	0.11	0.33		0.40	0.41	0.48	0.51
Dec.	(0.17)	(0.15)	(0.10)	(0.10)	(0.09)	(0.01)	
EPS (Cal.)	$1.33	$2.38	$2.42	$2.79		$3.13	
P/E (Cal.)			17.4x	15.1x		13.5x	
EBITDA (mil.) (Cal)	$85.6	$133.1	$135.7	$141.8	$142.2	$146.7	$147.4
EV / EBITDA			6.5x		5.7x		4.9x

Action	Date	PX	Rating	PT
Rating	11/21/08	25.3	Buy	38
Rating	12/4/08	35.9	Neutral	38
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73



Note: 2010 exclude $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 of annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$695.8	$707.4	$716.0
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.42	$2.79	$3.13

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
October 26	October 27	9 a.m.	877.372.0878	NM	$0.29

Same-Casino Revenue Jumps 14% In September At CHDN's Louisiana And Florida Properties; Reiterate BUY Rating, $73 Target

- **Same-casino revenue increased 14% year over year in September at CHDN's Louisiana and Florida gaming facilities, which account for nearly 30% of EBITDA.**
- **We attribute the strength to CHDN's casinos' fresh assets that are still ramping up, particularly in Miami, which posted a 23% year-over-year increase in the month (New Orleans gaming operations' revenue increased 7%).**

- **CHDN's shares are attractively valued, in our view, trading at just 9x our 2012 FCF per share estimate of $4.86; particularly given the company's over-capitalized balance sheet.**
- **We reiterate our BUY rating. Our $73 target is based on 14x our 2013 free cash flow per share estimate of $5.20.**

❑ **We forecast 3Q:11 EPS of $0.33 versus consensus of $0.29.** We estimate revenue increased 11% year over year thanks to improving same-casino trends in Miami and CHDN's New Orleans gaming operations plus CHDN's Harlows casino acquisition that closed in 4Q:10. We model an EPS increase to $0.33 from $0.11 in the year-earlier period. We raise our 2011 EPS projection to $2.42 (from $2.38) as our previous estimates did not include CHDN's hosting of the Breeders' Cup in 4Q:11 (CHDN is not hosting the event in 2012 or 2013).

❑ **CHDN is highly overcapitalized, in our view.** We think it is only a matter of time before CHDN's begins more aggressively returning capital to shareholders; we estimate every $25 million in share repurchases at current levels would add nearly $0.10 in annual EPS and CHDN's $0.50 annual dividend is covered by nearly 10x. We project CHDN will generate free cash flow of $76 million ($4.51 per share), $82 million ($4.86) and $88 million ($5.20) in 2011, 2012 and 2013, respectively, and have net debt of just $19 million at 2013 year-end, down from $161 million at the end of 2Q:10. We project 2013 EBITDA estimate of $147 million while the current value of CHDN's float is roughly $550 million ; the median regional casino is leveraged at 5x EBITDA.

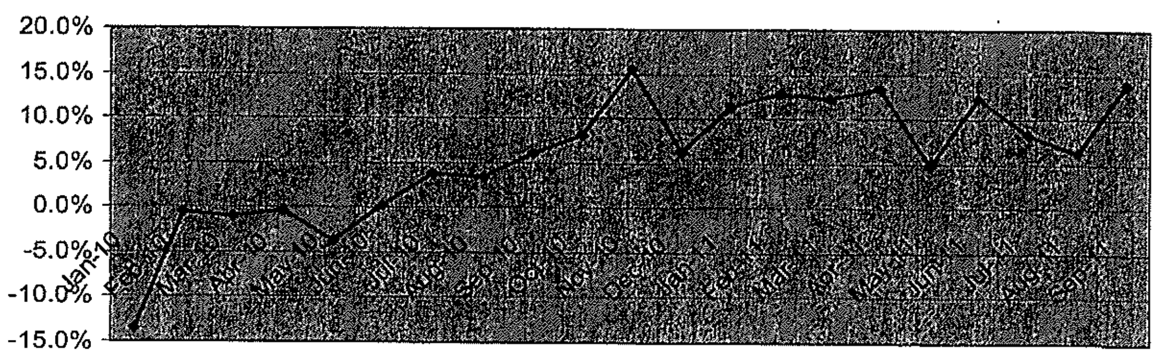
❑ **We reiterate our BUY rating and $73 target.** Our $73 target is based on 14x our 2013 free cash flow per share estimate of $5.20. Our $1.2 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $147 million less $19 million projected net debt (from $13 million). We argue CHDN deserves a premium to the group (which generally garners a 7x-9x multiple), not a discount, based on its Kentucky Derby franchise and online wagering segment, which offers a better growth profile and is less capital-intensive than asset-based wagering.

Exhibit 1 : CHDN Variance Table

(000's)	3Q:11E	3Q:10A	Variance	% Difference
Revenue	$163,231	$147,545	$15,686	11%
EBITDA	26,035	17,052	8,983	53%
	15.9%	11.6%		
Operating income	12,145	4,657	7,488	161%
	7.4%	3.2%		
Net income	5,513	1,837	3,676	200%
	3.4%	1.2%		
Fully diluted EPS	$0.33	$0.11	$0.21	189%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2. CHDN Y/Y S.S. Rev.- FL and LA



Source: Sidoti & Company LLC, Louisiana Gaming Control Board, Florida Division of Pari-Mutuel Wagering and company reports.

Table 1 : CHDN Income Statement																	
(000's, except where noted)	2009	Mar	Jun	Sep	Dec	2010	MarA	JunA	Sep	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																	
Kentucky operations	$110,045	$2,585	$92,019	$6,005	$17,757	$118,366	$2,322	$95,839	$5,226	$17,757	$121,144	$2,322	$98,235	$5,226	$17,757	$123,540	$125,996
Arlington Park	77,848	9,836	23,950	30,209	7,856	71,851	9,348	22,050	29,303	7,620	68,321	9,068	21,389	28,424	7,392	66,271	64,283
Calder Race Course	66,347	2,973	20,647	24,395	23,287	71,302	2,668	19,412	24,395	23,287	69,762	2,668	19,412	24,395	23,287	69,762	69,762
Fair Grounds (Racing)	45,902	17,620	10,824	6,739	10,842	46,025	17,290	10,904	6,739	10,842	45,775	17,290	10,904	6,739	10,842	45,775	45,775
Gaming (casino)	62,296	33,748	35,848	34,667	38,010	142,273	59,087	49,459	52,039	52,140	212,725	59,109	54,974	53,279	53,363	220,726	225,682
ADW/HRTV	70,891	18,295	29,847	39,233	34,032	121,407	36,803	46,526	39,233	34,032	156,594	37,539	47,457	40,018	34,713	159,726	162,920
Other	2,072	107	2,260	6,297	5,457	14,121	4,036	5,496	6,297	2,300	18,129	4,036	5,496	6,297	2,300	18,129	18,129
Net revenue	**435,401**	**85,164**	**215,395**	**147,545**	**137,241**	**585,345**	**131,554**	**249,686**	**163,231**	**147,978**	**692,450**	**132,032**	**257,866**	**164,377**	**149,654**	**703,929**	**712,548**
EBITDA																	
Racing	29,419	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	657	(4,165)	42,300	(11,912)	59,976	648	(6,224)	42,487	42,421
Gaming (casino)	20,587	6,039	6,706	7,892	8,926	29,563	17,533	12,798	14,547	13,123	58,001	17,993	15,864	15,067	13,792	62,717	64,529
ADW/HRTV	14,149	3,995	6,854	5,818	3,759	20,426	7,545	11,308	8,631	5,105	32,589	7,883	11,627	9,204	5,554	34,268	37,717
Corporate/United Tote	(822)	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	2,200	(600)	2,764	(1,266)	2,430	2,200	(600)	2,764	2,764
Consolidated EBITDA	**63,333**	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**26,035**	**13,463**	**135,654**	**12,698**	**89,897**	**27,119**	**12,522**	**142,236**	**147,431**
D & A	(30,256)	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,890)	(13,890)	(55,656)	(13,890)	(13,890)	(13,890)	(13,890)	(55,560)	(55,560)
Operating income	**33,077**	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**12,145**	**(427)**	**79,998**	**(1,192)**	**76,007**	**13,229**	**(1,368)**	**86,676**	**91,871**
Interest expense	(761)	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(2,800)	(2,400)	(10,997)	(1,900)	(2,400)	(1,400)	(1,000)	(6,700)	(2,100)
Pre-tax income	**32,316**	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**9,345**	**(2,827)**	**69,001**	**(3,092)**	**73,607**	**11,829**	**(2,368)**	**79,976**	**89,771**
Income tax (expense) benefit	(12,590)	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(3,831)	1,159	(28,352)	1,268	(30,179)	(4,850)	971	(32,790)	(36,806)
Effective tax rate	39%	41%	40%	40%	41%	39%	-39%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**19,726**	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**5,513**	**(1,668)**	**40,649**	**(1,824)**	**43,428**	**6,979**	**(1,397)**	**47,186**	**52,965**
Pro-forma EPS diluted	**$1.41**	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.33**	**($0.10)**	**$2.42**	**($0.11)**	**$2.57**	**$0.41**	**($0.09)**	**$2.79**	**$3.13**
Diluted average shares outstandir	14,040	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,899	16,899	16,764	16,899	16,899	16,899	16,899	16,899	16,899
Net Income GAAP	$16,828	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$5,513	($1,668)	$40,649	($1,824)	$43,428	$6,979	($1,397)	$47,186	$52,965
EPS GAAP	$1.20	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.33	($0.10)	$2.42	($0.11)	$2.57	$0.41	($0.09)	$2.79	$3.13
Margin analysis																	
EBITDA	14.5%	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	15.9%	9.1%	19.6%	9.6%	34.9%	16.5%	8.4%	20.2%	20.7%
Operating	7.6%	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	7.4%	-0.3%	11.6%	-0.9%	29.5%	8.0%	-0.9%	12.3%	12.9%
Pre-tax	7.4%	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.7%	-1.9%	10.0%	-2.3%	28.5%	7.2%	-1.6%	11.4%	12.6%
Net income	4.5%	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.4%	-1.1%	5.9%	-1.4%	16.8%	4.2%	-0.9%	6.7%	7.4%
Y/Y growth %																	
Revenue	1%	23%	20%	46%	61%	34%	54%	16%	11%	8%	18%	0%	3%	1%	1%	2%	1%
EBITDA	0%	NM	8%	149%	799%	36%	NM	35%	53%	43%	57%	14%	6%	4%	-7%	5%	4%
Operating income	-3%	26%	0%	NM	-60%	20%	NM	39%	161%	-84%	101%	-58%	7%	9%	220%	8%	6%
Pre-tax income	-1%	NM	-3%	NM	NM	4%	NM	36%	205%	NM	104%	-41%	9%	27%	-16%	16%	12%
Net income	5%	NM	-3%	NM	NM	4%	NM	34%	200%	NM	98%	-43%	9%	27%	-16%	16%	12%
EPS	5%	NM	-9%	NM	NM	-6%	NM	18%	189%	NM	83%	-45%	9%	27%	-16%	15%	12%

Source: Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement																	
(000's, except where noted)	2009	Mar	Jun	Sep	Dec	2010	MarA	JunA	Sep	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																	
Kentucky operations	$110,045	$2,585	$92,019	$6,005	$17,757	$118,366	$2,322	$95,839	$5,226	$17,757	$121,144	$2,322	$98,235	$5,226	$17,757	$123,540	$125,996
Arlington Park	77,848	9,836	23,950	30,209	7,856	71,851	9,348	22,050	29,303	7,620	68,321	9,068	21,389	28,424	7,392	66,271	64,283
Calder Race Course	66,347	2,973	20,647	24,395	23,287	71,302	2,668	19,412	24,395	23,287	69,762	2,668	19,412	24,395	23,287	69,762	69,762
Fair Grounds (Racing)	45,902	17,620	10,824	6,739	10,842	46,025	17,290	10,904	6,739	10,842	45,775	17,290	10,904	6,739	10,842	45,775	45,775
Gaming (casino)	62,296	33,748	35,848	34,667	38,010	142,273	59,087	49,459	52,039	52,140	212,725	59,109	54,974	53,279	53,363	220,726	225,682
ADW/HRTV	70,891	18,295	29,847	39,233	34,032	121,407	36,803	46,526	39,233	34,032	156,594	37,539	47,457	40,018	34,713	159,726	162,920
Other	2,072	107	2,260	6,297	5,457	14,121	4,036	5,496	6,297	2,300	18,129	4,036	5,496	6,297	2,300	18,129	18,129
Net revenue	**435,401**	**85,164**	**215,395**	**147,545**	**137,241**	**585,345**	**131,554**	**249,686**	**163,231**	**147,978**	**692,450**	**132,032**	**257,866**	**164,377**	**149,654**	**703,929**	**712,548**
EBITDA																	
Racing	29,419	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	657	(4,165)	42,300	(11,912)	59,976	648	(6,224)	42,487	42,421
Gaming (casino)	20,587	6,039	6,706	7,892	8,926	29,563	17,533	12,798	14,547	13,123	58,001	17,993	15,864	15,067	13,792	62,717	64,529
ADW/HRTV	14,149	3,995	6,854	5,818	3,759	20,426	7,545	11,308	8,631	5,105	32,589	7,883	11,627	9,204	5,554	34,268	37,717
Corporate/United Tote	(822)	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	2,200	(600)	2,764	(1,266)	2,430	2,200	(600)	2,764	2,764
Consolidated EBITDA	**63,333**	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**26,035**	**13,463**	**135,654**	**12,698**	**89,897**	**27,119**	**12,522**	**142,236**	**147,431**
D & A	(30,256)	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,890)	(13,890)	(55,656)	(13,890)	(13,890)	(13,890)	(13,890)	(55,560)	(55,560)
Operating income	**33,077**	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**12,145**	**(427)**	**79,998**	**(1,192)**	**76,007**	**13,229**	**(1,368)**	**86,676**	**91,871**
Interest expense	(761)	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(2,800)	(2,400)	(10,997)	(1,900)	(2,400)	(1,400)	(1,000)	(6,700)	(2,100)
Pre-tax income	**32,316**	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**9,345**	**(2,827)**	**69,001**	**(3,092)**	**73,607**	**11,829**	**(2,368)**	**79,976**	**89,771**
Income tax (expense) benefit	(12,590)	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(3,831)	1,159	(28,352)	1,268	(30,179)	(4,850)	971	(32,790)	(36,806)
Effective tax rate	39%	41%	40%	40%	41%	39%	-39%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**19,726**	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**5,513**	**(1,668)**	**40,649**	**(1,824)**	**43,428**	**6,979**	**(1,397)**	**47,186**	**52,965**
Pro-forma EPS diluted	**$1.41**	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.33**	**($0.10)**	**$2.42**	**($0.11)**	**$2.57**	**$0.41**	**($0.09)**	**$2.79**	**$3.13**
Diluted average shares outstandii	14,040	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,899	16,899	16,764	16,899	16,899	16,899	16,899	16,899	16,899
Net Income GAAP	$16,828	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$5,513	($1,668)	$40,649	($1,824)	$43,428	$6,979	($1,397)	$47,186	$52,965
EPS GAAP	$1.20	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.33	($0.10)	$2.42	($0.11)	$2.57	$0.41	($0.09)	$2.79	$3.13
Margin analysis																	
EBITDA	14.5%	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	15.9%	9.1%	19.6%	9.6%	34.9%	16.5%	8.4%	20.2%	20.7%
Operating	7.6%	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	7.4%	-0.3%	11.6%	-0.9%	29.5%	8.0%	-0.9%	12.3%	12.9%
Pre-tax	7.4%	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.7%	-1.9%	10.0%	-2.3%	28.5%	7.2%	-1.6%	11.4%	12.6%
Net income	4.5%	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.4%	-1.1%	5.9%	-1.4%	16.8%	4.2%	-0.9%	6.7%	7.4%
Y/Y growth %																	
Revenue	1%	23%	20%	46%	61%	34%	54%	16%	11%	8%	18%	0%	3%	1%	1%	2%	1%
EBITDA	0%	NM	8%	149%	799%	36%	NM	35%	53%	43%	57%	14%	6%	4%	-7%	5%	4%
Operating income	-3%	26%	0%	NM	-60%	20%	NM	39%	161%	-84%	101%	-58%	7%	9%	220%	8%	6%
Pre-tax income	-1%	NM	-3%	NM	NM	4%	NM	36%	205%	NM	104%	-41%	9%	27%	-16%	16%	12%
Net income	5%	NM	-3%	NM	NM	4%	NM	34%	200%	NM	98%	-43%	9%	27%	-16%	16%	12%
EPS	5%	NM	-9%	NM	NM	-6%	NM	18%	189%	NM	83%	-45%	9%	27%	-16%	15%	12%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166

Morning Meeting Note

Churchill Downs Inc. (CHDN-$43.78)

BUY

Adjust Earnings Estimates; Company Update

Target: $73

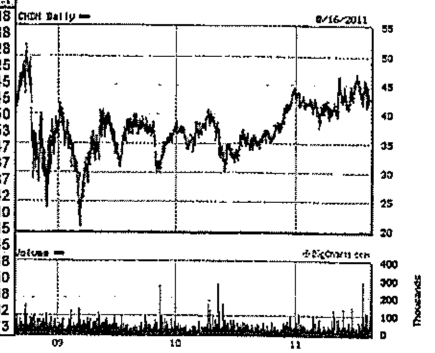
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

September 1, 2011

Market Cap (Mil)	$750	**Price to Book Value**	1.5x
Avg. Daily Trading Volume	48,000	**Return on Equity (2012E)**	6.9%
Shares Out (Mil)	17.150	**LT Debt to Total Capital**	15%
Float Shares (Mil)	11.946	**5-Year EPS Growth Rate Projection**	15%
Institutional Holdings	40%	**52-Week Range (NASDAQ)**	47-34
Dividend	$0.50	**Russell 2000**	727
Dividend Yield	1.1%	**Short Interest (Mil)**	0.314

	2010	2011E		2012E		2013E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)A		($0.10)		($0.03)	(0.04)
June	2.01	2.37A		2.59		2.72	2.70
Sep.	0.11	0.32	0.33	0.38	0.40	0.47	0.48
Dec.	(0.17)	(0.14)	(0.15)	(0.08)	(0.10)	(0.04)	(0.01)
EPS (Cal.)	**$1.33**	**$2.38**		**$2.79**		**$3.13**	
P/E (Cal.)		**18.4x**		**15.7x**		**14.0x**	
EBITDA (mil.) (Cal)	**$85.6**	**$133.1**		**$142.2**	**$141.8**	**$148.6**	**$146.7**
EV / EBITDA		**6.8x**			**5.8x**		**5.1x**

Action	Date	Px	Rating	PT
Rating	11/21/08	25.3	Buy	38
Rating	12/4/08	35.9	Neutral	38
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73



Note: 2010 exclude $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 of annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$695.8	$707.4	$716.0
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.38	$2.79	$3.13

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

CHDN's Miami Slots Facility Continued Posting Strong Results Through August; Gaming Revenue Up Roughly 15% Year Over Year; Reiterate BUY Rating, $73 Target;

- **CHDN's new Miami slots facility (opened in January 2010) continues to post strong results; through the first three weeks of August, gaming revenue was up about 15% year over year, according to the Florida Gaming Commission.**
- **Despite recent economic weakness, we maintain our estimates are achievable as the company's three racinos remain relatively new and are still ramping up.**
- **We think CHDN's shares are attractively priced, yielding 10% and 11% based on our 2011 and 2012 free cash flow per share estimates of $4.47 and $4.83 per share.**
- **The company is highly overcapitalized, in our view; we estimate net debt of just $13 million at 2013 year-end versus leverage of 5x for the median regional casino operator.**

- **We reiterate our BUY rating. Our $73 target is based on 14x our 2013 free cash flow per share estimate of $5.20 and implies 8x our 2013 EBITDA estimate of $149 million.**

- **We do not expect recent economic softness to derail CHDN's solid growth.** We estimate racing, casino gaming and online wagering will account for 30%, 45% and 25% of CHDN's 2012 EBITDA, respectively. We think nearly all of CHDN's racing EBITDA derives from Kentucky Derby week; and the franchise is highly economically resilient, in our view. Despite real GDP contraction of 8.9% and 6.7% (annualized and seasonally adjusted) in 4Q:08 and 1Q:09, respectively, leading into the Kentucky Derby in 2Q:09, EBITDA declined just 6% year over year in 2009. CHDN's casino gaming assets are fairly new, with its Mississippi casino open since just 2007 (CHDN acquired the property in 4Q:10), Florida since 2010 and the New Orleans permanent slots facility since 2008. In our view, these properties are still growing the respective area customer base. Same-casino revenue rose 12% and 10% in 1Q:11 and 2Q:11, respectively, despite real GDP growth of only 0.4% and 1.0%. Lastly, we view CHDN's online wagering segment as a secular growth business as wagering shifts online from off-track betting facilities.

- **CHDN is highly overcapitalized, in our view, providing multiple levers to enhance shareholder value.** We estimate CHDN will generate FCF of $75 million ($4.47 per share), $82 million ($4.86) and $88 million ($5.20) in 2011, 2012 and 2013, respectively, implying compelling yields of 10%, 11% and 12%. We estimate CHDN will have net debt of just $13 million at 2013 year-end, from $161 million at the end of 2Q:10; the median regional casino is leveraged at 5x EBITDA. CHDN's balance sheet should provide various ways to boost shareholder value, such as buybacks, a higher dividend, opportunistic acquisitions or casino development of Churchill Downs' Kentucky or Illinois racetracks with legislative approval.

- **We reiterate our BUY rating and $73 target.** Our $73 target is based on 14x our 2013 free cash flow per share estimate of $5.20 (from $5.19). Our $1.2 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $147 million (from $149 million) less $13 million (from $31 million) projected net debt. Our reduced debt projection reflects the loss of a court challenge from several riverboat operators in Illinois regarding casino funds that were to be directed to the state's racetracks (as a result, CHDN received roughly $19 million from casinos; the cash had been held in escrow and categorized as restricted cash on CHDN's balance sheet). We argue CHDN deserves a premium to the group, not a discount, based on its Kentucky Derby franchise and online wagering segment, which offers a better growth profile and is less capital-intensive than asset-based wagering.

Exhibit 1. CHDN Gaming Revenue
(000's, except where noted)

	New Orleans Video Poker		New Orleans Slots Facility		Miami Slots Facility		Same Store
Jan-10	3,012	-15.5%	3,874	-12.0%	1,575	NM	-13.5%
Feb-10	3,453	-1.2%	4,522	-0.1%	5,130	NM	-0.6%
Mar-10	3,383	-6.4%	4,459	3.3%	5,758	NM	-1.1%
Apr-10	3,274	-0.3%	3,527	-0.4%	5,697	NM	-0.3%
May-10	3,297	-7.0%	3,652	-0.5%	6,129	NM	-3.7%
Jun-10	3,066	0.6%	3,502	0.0%	5,224	NM	0.3%
Jul-10	3,292	2.4%	3,697	5.2%	5,811	NM	3.9%
Aug-10	3,053	2.4%	3,355	4.3%	5,287	NM	3.4%
Sep-10	2,998	9.5%	3,408	3.2%	4,898	NM	6.0%
Oct-10	3,213	8.2%	3,907	8.2%	5,116	NM	8.2%
Nov-10	3,219	22.9%	3,711	9.7%	4,928	NM	15.4%
Dec-10	3,434	14.0%	3,855	0.3%	5,198	NM	6.3%
Total	**38,694**	**1.6%**	**45,469**	**1.4%**	**60,750**	NM	**1.5%**
Jan-11	3,435	14.0%	4,228	9.1%	5,625	257%	11.3%
Feb-11	3,697	7.1%	4,454	-1.5%	6,628	29%	12.8%
Mar-11	3,762	11.2%	4,653	4.4%	6,859	19%	12.3%
Apr-11	3,538	8.1%	3,717	5.4%	6,912	21%	13.4%
May-11	3,508	6.4%	3,425	-6.2%	6,769	10%	4.8%
Jun-11	3,171	3.4%	3,650	4.2%	6,410	23%	12.2%
Jul-11	3,357	2.0%	3,867	4.6%	6,640	14%	8.3%

Source: Sidoti & Company LLC, Louisiana Gaming Control Board, Florida Division of Pari-Mutuel Wagering and company reports.
Note: CHDN opened its permanent slots facility in November 2008
Note: CHDN owns a majority of the state's video poker units at OTB's

Table 1 : CHDN Income Statement																		
(000's, except where noted)	2009	Mar	Jun	Sep	Dec	2010	MarA	JunA	Sep	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																	
Kentucky operations	$110,045	$2,585	$92,019	$6,005	$17,757	$118,366	$2,322	$95,839	$5,226	$17,757	$121,144	$2,322	$98,235	$5,226	$17,757	$123,540	$125,996
Arlington Park	77,848	9,836	23,950	30,209	7,856	71,851	9,348	22,050	29,303	7,620	68,321	9,068	21,389	28,424	7,392	66,271	64,283
Calder Race Course	66,347	2,973	20,647	24,395	23,287	71,302	2,668	19,412	24,395	23,287	69,762	2,668	19,412	24,395	23,287	69,762	69,762
Fair Grounds (Racing)	45,902	17,620	10,824	6,739	10,842	46,025	17,290	10,904	6,739	10,842	45,775	17,290	10,904	6,739	10,842	45,775	45,775
Gaming (casino)	62,296	33,748	35,848	34,667	38,010	142,273	59,087	49,459	53,929	52,140	214,615	59,109	54,974	55,211	53,363	222,658	227,656
ADW/HRTV	70,891	18,295	29,847	39,233	34,032	121,407	36,803	46,526	40,018	34,713	158,059	37,539	47,457	40,818	35,407	161,220	164,445
Other	2,072	107	2,260	6,297	5,457	14,121	4,036	5,496	6,297	2,300	18,129	4,036	5,496	6,297	2,300	18,129	18,129
Net revenue	**435,401**	**85,164**	**215,395**	**147,545**	**137,241**	**585,345**	**131,554**	**249,686**	**165,907**	**148,669**	**695,806**	**132,032**	**257,866**	**167,110**	**150,348**	**707,356**	**716,046**
EBITDA																	
Racing	29,419	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	0	(6,248)	39,561	(11,912)	59,976	0	(6,224)	41,840	41,462
Gaming (casino)	20,587	6,039	6,706	7,892	8,926	29,563	17,533	12,798	14,420	13,123	57,875	17,993	15,794	15,025	13,792	62,604	64,480
ADW/HRTV	14,149	3,995	6,854	5,818	3,759	20,426	7,545	11,308	8,804	5,207	32,864	7,883	11,627	9,388	5,665	34,563	38,041
Corporate/United Tote	(822)	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	2,200	(600)	2,764	(1,266)	2,430	2,200	(600)	2,764	2,764
Consolidated EBITDA	**63,333**	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**25,424**	**11,482**	**133,063**	**12,698**	**89,827**	**26,613**	**12,633**	**141,771**	**146,748**
D & A	(30,256)	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,890)	(13,890)	(55,656)	(13,890)	(13,890)	(13,890)	(13,890)	(55,560)	(55,560)
Operating income	**33,077**	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**11,534**	**(2,408)**	**77,407**	**(1,192)**	**75,937**	**12,723**	**(1,257)**	**86,211**	**91,188**
Interest expense	(761)	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(2,000)	(1,800)	(9,597)	(1,800)	(1,700)	(1,400)	(1,400)	(6,300)	(1,500)
Pre-tax income	**32,316**	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**9,534**	**(4,208)**	**67,810**	**(2,992)**	**74,237**	**11,323**	**(2,657)**	**79,911**	**89,688**
Income tax (expense) benefit	(12,590)	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(3,909)	1,725	(27,864)	1,227	(30,437)	(4,642)	1,089	(32,764)	(36,772)
Effective tax rate	39%	41%	40%	40%	41%	39%	-39%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**19,726**	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**5,625**	**(2,483)**	**39,947**	**(1,765)**	**43,800**	**6,681**	**(1,568)**	**47,148**	**52,916**
Pro-forma EPS diluted	**$1.41**	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.33**	**($0.15)**	**$2.38**	**($0.10)**	**$2.59**	**$0.40**	**($0.10)**	**$2.79**	**$3.13**
Diluted average shares outstandin	14,040	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,899	16,899	16,764	16,899	16,899	16,899	16,899	16,899	16,899
Net Income GAAP	$16,828	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$5,625	($2,483)	$39,947	($1,765)	$43,800	$6,681	($1,568)	$47,148	$52,916
EPS GAAP	$1.20	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.33	($0.15)	$2.38	($0.10)	$2.59	$0.40	($0.10)	$2.79	$3.13
Margin analysis																	
EBITDA	14.5%	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	15.3%	7.7%	19.1%	9.6%	34.8%	15.9%	8.4%	20.0%	20.5%
Operating	7.6%	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	7.0%	-1.6%	11.1%	-0.9%	29.4%	7.6%	-0.8%	12.2%	12.7%
Pre-tax	7.4%	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.7%	-2.8%	9.7%	-2.3%	28.8%	6.8%	-1.8%	11.3%	12.5%
Net income	4.5%	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.4%	-1.7%	5.7%	-1.3%	17.0%	4.0%	-1.0%	6.7%	7.4%
Y/Y growth %																	
Revenue	1%	23%	20%	46%	61%	34%	54%	16%	12%	8%	19%	0%	3%	1%	1%	2%	1%
EBITDA	0%	NM	8%	149%	799%	36%	NM	35%	49%	22%	54%	14%	6%	5%	10%	7%	4%
Operating income	-3%	26%	0%	NM	-60%	20%	NM	39%	148%	-11%	95%	-58%	7%	10%	-48%	11%	6%
Pre-tax income	-1%	NM	-3%	NM	NM	4%	NM	36%	211%	NM	101%	-43%	10%	19%	-37%	18%	12%
Net income	5%	NM	-3%	NM	NM	4%	NM	34%	206%.	NM	94%	-45%	10%	19%	-37%	18%	12%
EPS	5%	NM	-9%	NM	NM	-6%	NM	18%	195%	NM	80%	-46%	10%	19%	-37%	17%	12%

Source: Sidoti & Company, LLC and company reports.

Table 1 : CHDN Income Statement																	
(000's, except where noted)	2009	Mar	Jun	Sep	Dec	2010	MarA	JunA	Sep	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																	
Kentucky operations	$110,045	$2,585	$92,019	$6,005	$17,757	$118,366	$2,322	$95,839	$5,226	$17,757	$121,144	$2,322	$98,235	$5,226	$17,757	$123,540	$125,996
Arlington Park	77,848	9,836	23,950	30,209	7,856	71,851	9,348	22,050	29,303	7,620	68,321	9,068	21,389	28,424	7,392	66,271	64,283
Calder Race Course	66,347	2,973	20,647	24,395	23,287	71,302	2,668	19,412	24,395	23,287	69,762	2,668	19,412	24,395	23,287	69,762	69,762
Fair Grounds (Racing)	45,902	17,620	10,824	6,739	10,842	46,025	17,290	10,904	6,739	10,842	45,775	17,290	10,904	6,739	10,842	45,775	45,775
Gaming (casino)	62,296	33,748	35,848	34,667	38,010	142,273	59,087	49,459	53,929	52,140	214,615	59,109	54,974	55,211	53,363	222,658	227,656
ADW/HRTV	70,891	18,295	29,847	39,233	34,032	121,407	36,803	46,526	40,018	34,713	158,059	37,539	47,457	40,818	35,407	161,220	164,445
Other	2,072	107	2,260	6,297	5,457	14,121	4,036	5,496	6,297	2,300	18,129	4,036	5,496	6,297	2,300	18,129	18,129
Net revenue	**435,401**	**85,164**	**215,395**	**147,545**	**137,241**	**585,345**	**131,554**	**249,686**	**165,907**	**148,659**	**695,806**	**132,032**	**257,866**	**167,110**	**150,348**	**707,356**	**716,046**
EBITDA																	
Racing	29,419	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	0	(6,248)	39,561	(11,912)	59,976	0	(6,224)	41,840	41,462
Gaming (casino)	20,587	6,039	6,706	7,892	8,926	29,563	17,533	12,798	14,420	13,123	57,875	17,993	15,794	15,025	13,792	62,604	64,480
ADW/HRTV	14,149	3,995	6,854	5,818	3,759	20,426	7,545	11,308	8,804	5,207	32,864	7,883	11,627	9,388	5,665	34,563	38,041
Corporate/United Tote	(822)	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	2,200	(600)	2,764	(1,266)	2,430	2,200	(600)	2,764	2,764
Consolidated EBITDA	**63,333**	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**25,424**	**11,482**	**133,063**	**12,698**	**89,827**	**26,613**	**12,633**	**141,771**	**146,748**
D & A	(30,256)	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,890)	(13,890)	(55,656)	(13,890)	(13,890)	(13,890)	(13,890)	(55,560)	(55,560)
Operating income	**33,077**	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**11,534**	**(2,408)**	**77,407**	**(1,192)**	**75,937**	**12,723**	**(1,257)**	**86,211**	**91,188**
Interest expense	(761)	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(2,000)	(1,800)	(9,597)	(1,800)	(1,700)	(1,400)	(1,400)	(6,300)	(1,500)
Pre-tax income	**32,316**	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**9,534**	**(4,208)**	**67,810**	**(2,992)**	**74,237**	**11,323**	**(2,657)**	**79,911**	**89,688**
Income tax (expense) benefit	(12,590)	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(3,909)	1,725	(27,864)	1,227	(30,437)	(4,642)	1,089	(32,764)	(36,772)
Effective tax rate	39%	41%	40%	40%	41%	39%	-39%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**19,726**	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**5,625**	**(2,483)**	**39,947**	**(1,765)**	**43,800**	**6,681**	**(1,568)**	**47,148**	**52,916**
Pro-forma EPS diluted	**$1.41**	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.33**	**($0.15)**	**$2.38**	**($0.10)**	**$2.59**	**$0.40**	**($0.10)**	**$2.79**	**$3.13**
Diluted average shares outstandi	14,040	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,899	16,899	16,764	16,899	16,899	16,899	16,899	16,899	16,899
Net Income GAAP	$16,828	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$5,625	($2,483)	$39,947	($1,765)	$43,800	$6,681	($1,568)	$47,148	$52,916
EPS GAAP	$1.20	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.33	($0.15)	$2.38	($0.10)	$2.59	$0.40	($0.10)	$2.79	$3.13
Margin analysis																	
EBITDA	14.5%	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	15.3%	7.7%	19.1%	9.6%	34.8%	15.9%	8.4%	20.0%	20.5%
Operating	7.6%	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	7.0%	-1.6%	11.1%	-0.9%	29.4%	7.6%	-0.8%	12.2%	12.7%
Pre-tax	7.4%	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.7%	-2.8%	9.7%	-2.3%	28.8%	6.8%	-1.8%	11.3%	12.5%
Net income	4.5%	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.4%	-1.7%	5.7%	-1.3%	17.0%	4.0%	-1.0%	6.7%	7.4%
Y/Y growth %																	
Revenue	1%	23%	20%	46%	61%	34%	54%	16%	12%	8%	19%	0%	3%	1%	1%	2%	1%
EBITDA	0%	NM	8%	149%	799%	36%	NM	35%	49%	22%	54%	14%	6%	5%	10%	7%	4%
Operating income	-3%	26%	0%	NM	-60%	20%	NM	39%	148%	-11%	95%	-58%	7%	10%	-48%	11%	6%
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Net income	5%	NM	-3%	NM	NM	4%	NM	34%	206%	NM	94%	-45%	10%	19%	-37%	18%	12%
EPS	5%	NM	-9%	NM	NM	-6%	NM	18%	195%	NM	80%	-46%	10%	19%	-37%	17%	12%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166

Morning Meeting Note

Churchill Downs Inc. (CHDN-$40.30)

BUY

Company Update

Target: $73

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

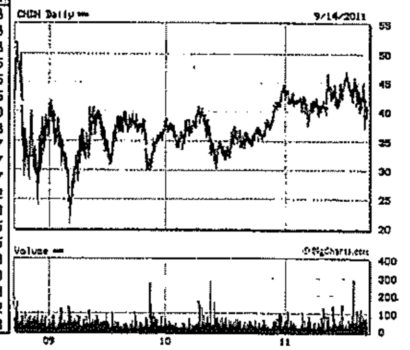
September 16, 2011

Market Cap (Mil)	**$690**
Avg. Daily Trading Volume	**56,000**
Shares Out (Mil)	**17.150**
Float Shares (Mil)	**12.013**
Institutional Holdings	**40%**
Dividend	**$0.50**
Dividend Yield	**1.2%**

Price to Book Value	**1.4x**
Return on Equity (2012E)	**5.9%**
LT Debt to Total Capital	**19%**
5-Year EPS Growth Rate Projection	**15%**
52-Week Range (NASDAQ)	**47-34**
Russell 2000	**714**
Short Interest (Mil)	**0.387**

	2010	2011E	2012E		2013E	
			OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)A	($0.10)		($0.04)	
June	2.01	2.37A	2.59		2.70	
Sep.	0.11	0.33	0.40		0.48	
Dec.	(0.17)	(0.15)	(0.10)		(0.01)	
EPS (Cal.)	**$1.33**	**$2.38**	**$2.79**		**$3.13**	
P/E (Cal.)		**16.9x**	**14.4x**		**12.9x**	
EBITDA (mil.) (Cal)	**$85.6**	**$133.1**	**$141.8**		**$146.7**	
EV / EBITDA		**6.3x**	**5.4x**		**4.7x**	

Action	Date	Px	Rating	PT
Rating	11/21/08	25.3	Buy	38
Rating	12/4/08	35.9	Neutral	38
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.8		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/8/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62
PT	7/28/11	42		73



Note: 2010 exclude $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 of annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$695.8	$707.4	$716.0
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.33	$2.38	$2.79	$3.13

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Same-Casino Revenue Jumps 6% In August At CHDN's Louisiana And Florida Properties; Company Is Highly Overcapitalized, In Our View; Reiterate BUY Rating, $73 Target

- **CHDN's Louisiana and Florida gaming facilities account for nearly 30% of EBITDA; casino assets in total account for nearly 45% (monthly statistics are not available at CHDN's Mississippi property).**
- **We attribute the strength to CHDN's casinos fresh assets that are still ramping up.**
- **We think CHDN's shares are attractively priced, yielding 11% and 12% based on our 2011 and 2012 free cash flow per share estimates of $4.47 and $4.86 per share.**
- **The company is highly overcapitalized, in our view; we estimate net debt of just $13 million at 2013 year-end versus leverage of 5x for the median regional casino operator.**

IMPORTANT DISCLOSURES

The Sidoti & Company, LLC Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 09/15/11, Sidoti & Company, LLC provides research on 463 companies, of which 368 (79%) are rated BUY and 94 (21%) are rated NEUTRAL. Of the BUYS, Sidoti & Company, LLC has received investment banking income from 3 companies (0.82%). Of the NEUTRALS, 17 trade above our price targets. Based on published near-term earnings estimates, the analyst's short-term opinion may be different from what is published in this report. Any estimates or forecasts may not be met. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Reprints of Sidoti & Company, LLC reports are prohibited without permission. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Occasionally, Sidoti & Company, LLC may receive a fee, directly or indirectly, at the time of an underwriting for an individual company already under research coverage, for which the covering analyst will not be compensated. Sidoti & Company, LLC does NOT own securities of the issues described herein. Sidoti & Company, LLC policy does not allow any analyst to own shares in any company he/she covers. No employee or household member thereof, serves as an officer or director of a covered company. Sidoti & Company, LLC does not make a market in any securities. Additional information is available

- **We think there is room for a substantial dividend hike; CHDN's current $0.50 annual dividend is covered nearly 10x by free cash flow.**
- **We reiterate our BUY rating. Our $73 target is based on 14x our 2013 free cash flow per share estimate of $5.20 and implies 8x our 2013 EBITDA estimate of $149 million.**

❑ **Gaming revenue increased 4% year over year at CHDN's Louisiana gaming operations in August, according to data released yesterday by the state's gaming board.** At CHDN's Miami, Florida slots facility, gaming revenue increased 9% year over year. We expect CHDN's Louisiana, Florida and Mississippi gaming operations to account for 18%, 10% and 16% of CHDN's 2012 EBITDA, respectively. All three facilities are less than five years old and are thus still building up a customer base while requiring minimal capex. The balance of CHDN's EBITDA mainly stems from the Kentucky Derby franchise (which we view as highly immune to the economy) and online horse wagering (a secular growth business, in our view, as wagering shifts online, from OTBs and on-track betting).

❑ **We see CHDN as highly overcapitalized; we think there is room for a substantial dividend hike.** Even tripling CHDN's $0.50 annual dividend would amount to a payout of just about 30% of CHDN's free cash flow (based on our 2012 estimate), still permitting the company to be opportunistic in terms of acquisitions or casino development of Churchill Downs' Kentucky or Illinois racetracks with legislative approval. We estimate CHDN will generate FCF of $75 million ($4.47 per share), $82 million ($4.86) and $88 million ($5.20) in 2011, 2012 and 2013, respectively, implying compelling yields of 11%, 12% and 13%. We estimate CHDN will have net debt of just $13 million at 2013 year-end, from $161 million at the end of 2Q:10; the median regional casino is leveraged at 5x EBITDA.

❑ **We reiterate our BUY rating and $73 target.** Our $73 target is based on 14x our 2013 free cash flow per share estimate of $5.20 (from $5.19). Our $1.2 billion market cap target implies a multiple of 7.8x our 2013 EBITDA estimate of $147 million less $13 million projected net debt. We argue CHDN deserves a premium to the group, not a discount, based on its Kentucky Derby franchise and online wagering segment, which offers a better growth profile and is less capital-intensive than asset-based wagering.

Exhibit 1. CHDN Gaming Revenue

(000's, except where noted)

	New Orleans Video Poker		New Orleans Slots Facility		Miami Slots Facility		Same Store
Jan-10	3,012	-15.5%	3,874	-12.0%	1,575	NM	-13.5%
Feb-10	3,453	-1.2%	4,522	-0.1%	5,130	NM	-0.6%
Mar-10	3,383	-6.4%	4,459	3.3%	5,758	NM	-1.1%
Apr-10	3,274	-0.3%	3,527	-0.4%	5,697	NM	-0.3%
May-10	3,297	-7.0%	3,652	-0.5%	6,129	NM	-3.7%
Jun-10	3,066	0.6%	3,502	0.0%	5,224	NM	0.3%
Jul-10	3,292	2.4%	3,697	5.2%	5,811	NM	3.9%
Aug-10	3,053	2.4%	3,355	4.3%	5,287	NM	3.4%
Sep-10	2,998	9.5%	3,408	3.2%	4,898	NM	6.0%
Oct-10	3,213	8.2%	3,907	8.2%	5,116	NM	8.2%
Nov-10	3,219	22.9%	3,711	9.7%	4,928	NM	15.4%
Dec-10	3,434	14.0%	3,855	0.3%	5,198	NM	6.3%
Total	**38,694**	**1.6%**	**45,469**	**1.4%**	**60,750**	NM	1.5%
Jan-11	3,435	14.0%	4,228	9.1%	5,625	257%	11.3%
Feb-11	3,697	7.1%	4,454	-1.5%	6,628	29%	12.8%
Mar-11	3,762	11.2%	4,653	4.4%	6,859	19%	12.3%
Apr-11	3,538	8.1%	3,717	5.4%	6,912	21%	13.4%
May-11	3,508	6.4%	3,425	-6.2%	6,769	10%	4.8%
Jun-11	3,171	3.4%	3,650	4.2%	6,410	23%	12.2%
Jul-11	3,357	2.0%	3,867	4.6%	6,640	14%	8.3%
Aug-11	3,145	3.0%	3,501	4.3%	5,783	9%	6.3%

Source: Sidoti & Company LLC, Louisiana Gaming Control Board, Florida Division of Pari-Mutuel Wagering and company reports.
Note: CHDN opened its permanent slots facility in November 2008
Note: CHDN owns a majority of the state's video poker units at OTB's

Table 1 : CHDN Income Statement (000's, except where noted)	2009	Mar	Jun	Sep	Dec	2010	MarA	JunA	Sep	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																	
Kentucky operations	$110,045	$2,585	$92,019	$6,005	$17,757	$118,366	$2,322	$95,839	$5,226	$17,757	$121,144	$2,322	$98,235	$5,226	$17,757	$123,540	$125,996
Arlington Park	77,848	9,836	23,950	30,209	7,856	71,851	9,348	22,050	29,303	7,620	68,321	9,068	21,389	28,424	7,392	66,271	64,283
Calder Race Course	66,347	2,973	20,647	24,395	23,287	71,302	2,668	19,412	24,395	23,287	69,762	2,668	19,412	24,395	23,287	69,762	69,762
Fair Grounds (Racing)	45,902	17,620	10,824	6,739	10,842	46,025	17,290	10,904	6,739	10,842	45,775	17,290	10,904	6,739	10,842	45,775	45,775
Gaming (casino)	62,296	33,748	35,848	34,667	38,010	142,273	59,087	49,459	53,929	52,140	214,615	59,109	54,974	55,211	53,363	222,658	227,656
ADW/HRTV	70,891	18,295	29,847	39,233	34,032	121,407	36,803	46,526	40,018	34,713	158,059	37,539	47,457	40,818	35,407	161,220	164,445
Other	2,072	107	2,260	6,297	5,457	14,121	4,036	5,496	6,297	2,300	18,129	4,036	5,496	6,297	2,300	18,129	18,129
Net revenue	**435,401**	**85,164**	**215,395**	**147,545**	**137,241**	**585,345**	**131,554**	**249,686**	**165,907**	**148,659**	**695,806**	**132,032**	**257,866**	**167,110**	**150,348**	**707,356**	**716,046**
EBITDA																	
Racing	29,419	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	0	(6,248)	39,561	(11,912)	59,976	0	(6,224)	41,840	41,462
Gaming (casino)	20,587	6,039	6,706	7,892	8,926	29,563	17,533	12,798	14,420	13,123	57,875	17,993	15,794	15,025	13,792	62,604	64,480
ADW/HRTV	14,149	3,995	6,854	5,818	3,759	20,426	7,545	11,308	8,804	5,207	32,864	7,883	11,627	9,388	5,665	34,563	38,041
Corporate/United Tote	(822)	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	2,200	(600)	2,764	(1,266)	2,430	2,200	(600)	2,764	2,764
Consolidated EBITDA	**63,333**	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**25,424**	**11,482**	**133,063**	**12,698**	**89,827**	**26,613**	**12,633**	**141,771**	**146,748**
D & A	(30,256)	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,890)	(13,890)	(55,656)	(13,890)	(13,890)	(13,890)	(13,890)	(55,560)	(55,560)
Operating income	**33,077**	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**11,534**	**(2,408)**	**77,407**	**(1,192)**	**75,937**	**12,723**	**(1,257)**	**86,211**	**91,188**
Interest expense	(761)	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(2,000)	(1,800)	(9,597)	(1,800)	(1,700)	(1,400)	(1,400)	(6,300)	(1,500)
Pre-tax income	**32,316**	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**.(5,204)**	**67,688**	**9,534**	**(4,208)**	**67,810**	**(2,992)**	**74,237**	**11,323**	**(2,657)**	**79,911**	**89,688**
Income tax (expense) benefit	(12,590)	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(3,909)	1,725	(27,864)	1,227	(30,437)	(4,642)	1,089	(32,764)	(36,772)
Effective tax rate	39%	41%	40%	40%	41%	39%	-39%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**19,726**	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**5,625**	**(2,483)**	**39,947**	**(1,765)**	**43,800**	**6,681**	**(1,568)**	**47,148**	**52,916**
Pro-forma EPS diluted	**$1.41**	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.33**	**($0.15)**	**$2.38**	**($0.10)**	**$2.59**	**$0.40**	**($0.10)**	**$2.79**	**$3.13**
Diluted average shares outstandi	14,040	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,899	16,899	16,764	16,899	16,899	16,899	16,899	16,899	16,899
Net Income GAAP	$16,828	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$5,625	($2,483)	$39,947	($1,765)	$43,800	$6,681	($1,568)	$47,148	$52,916
EPS GAAP	$1.20	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.33	($0.15)	$2.38	($0.10)	$2.59	$0.40	($0.10)	$2.79	$3.13
Margin analysis																	
EBITDA	14.5%	-3.8%	29.3%	11.6%	6.9%	14.7%	8.5%	34.0%	15.3%	7.7%	19.1%	9.6%	34.8%	15.9%	8.4%	20.0%	20.5%
Operating	7.6%	-15.6%	23.7%	3.2%	-2.0%	6.8%	-2.1%	28.5%	7.0%	-1.6%	11.1%	-0.9%	29.4%	7.6%	-0.8%	12.2%	12.7%
Pre-tax	7.4%	-17.0%	23.1%	2.1%	-3.3%	5.8%	-4.0%	27.1%	5.7%	-2.8%	9.7%	-2.3%	28.8%	6.8%	-1.8%	11.3%	12.5%
Net income	4.5%	-10.0%	13.9%	1.2%	-2.0%	3.5%	-2.4%	16.0%	3.4%	-1.7%	5.7%	-1.3%	17.0%	4.0%	-1.0%	6.7%	7.4%
Y/Y growth %																	
Revenue	1%	23%	20%	46%	61%	34%	54%	16%	12%	8%	19%	0%	3%	1%	1%	2%	1%
EBITDA	0%	NM	8%	149%	799%	36%	NM	35%	49%	22%	54%	14%	6%	5%	10%	7%	4%
Operating income	-3%	26%	0%	NM	-60%	20%	NM	39%	148%	-11%	95%	-58%	7%	10%	-48%	11%	6%
Pre-tax income	-1%	NM	-3%	NM	NM	4%	NM	36%	211%	NM	101%	-43%	10%	19%	-37%	18%	12%
Net income	5%	NM	-3%	NM	NM	4%	NM	34%	206%	NM	94%	-45%	10%	19%	-37%	18%	12%
EPS	5%	NM	-9%	NM	NM	-6%	NM	18%	195%	NM	80%	-46%	10%	19%	-37%	17%	12%

Source: Sidoti & Company, LLC and company reports.

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166

Morning Meeting Note

Churchill Downs Inc. (CHDN-$43.98)

BUY

Adjust Earnings Estimates; Earnings Preview

Target: $62

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

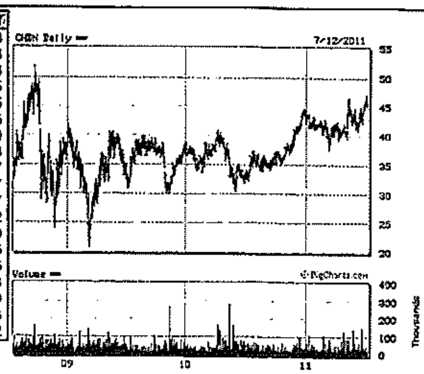
July 20, 2011

Market Cap (Mil)	**$735**
Avg. Daily Trading Volume	**39,000**
Shares Out (Mil)	**16.703**
Float Shares (Mil)	**11.627**
Institutional Holdings	**40%**
Dividend	**$0.50**
Dividend Yield	**1.1%**

Price to Book Value	**1.5x**
Return on Equity (2012E)	**6.9%**
LT Debt to Total Capital	**15%**
5-Year EPS Growth Rate Projection	**15%**
52-Week Range (NASDAQ)	**47-32**
Russell 2000	**835**
Short Interest (Mil)	**0.378**

	2009	2010	2011E		2012E	
			OLD	NEW	OLD	NEW
Mar.	($0.47)	($0.63)	($0.19)A		($0.10)	
June	2.20	2.01	2.08	1.94	2.21	
Sep.	(0.02)	0.11	0.32		0.36	
Dec.	(0.33)	(0.17)	(0.14)		(0.09)	
EPS (Cal.)	**$1.41**	**$1.33**	**$2.07**	**$1.94**	**$2.38**	
P/E (Cal.)				**22.7x**	**18.5x**	
EBITDA (mil.) (Cal)	**$63.3**	**$85.6**	**$123.4**	**$119.5**	**$130.2**	
EV / EBITDA				**7.8x**	**6.6x**	

Action	Date	Px	Rating	PT
Rating	11/21/08	25.3	Buy	38
Rating	12/4/08	35.9	Neutral	38
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62



Note: 2009 and 2010 exclude $0.21 and $0.16, respectively, from one-time charges. 2009 and 2010E-2012E include $0.14 of annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Rev.(Mil.)*	$444.1	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$674.1	$685.2
GAAP EPS*	$1.75	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.08	$1.94	$2.38

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
July 27	July 28	9 AM	NM	NM	$2.20

Anticipate Improving Profitability At CHDN's Florida Slots Facility, But Think Flooding Disruption in Mississippi Will Affect 2Q:11 Results; Maintain BUY Rating, $62 Target

- **We reduce our 2Q:11 EPS estimate to $1.94 (from $2.07) due to flooding disruption at CHDN's recently acquired Harlow's casino in Mississippi.**

IMPORTANT DISCLOSURES

- **In our view, the shares understate CHDN's considerable cash flow potential that we expect to emerge in 2011-2012 given accretion from the company's Youbet.com and Harlow's acquisitions and ramp-up of the new Miami casino.**
- **We maintain our BUY rating. Our $62 target is based on a multiple of 14x our 2012 free cash flow estimate of $4.43 per share.**

❑ **We reduce our 2Q:11 EPS estimate to $1.94 (from $2.07) to reflect disruption from the Mississippi River flooding.** CHDN's recently acquired Harlow's casino was closed for nearly a month in the quarter; we now estimate the casino will generate breakeven EBITDA versus our prior forecast of $3.8 million (the casino generated $6.6 million in 1Q:11, CHDN's first full quarter of ownership). We expect the company to be largely reimbursed from its business interruption insurance. Our 2Q:11 EPS estimate of $1.94 compares to consensus of $2.20.

❑ **CHDN's shares are attractive, in our view, at just 10x our 2012 free cash flow per share estimate of $4.43.** We anticipate CHDN's cash flow potential will emerge in 2011 and 2012 given accretion from the Harlow's casino acquisition, elimination of duplicate costs from the Youbet.com acquisition and the continued ramp-up at CHDN's Miami slots facility that opened in January 2010. At CHDN's Florida slots facility, revenue rose 18% year over year in the June quarter, according to the Florida Division of Pari-Mutuel Wagering and we anticipate continued margin expansion in CHDN's online wagering segment in the quarter. We estimate CHDN will generate free cash flow of $67 million ($3.98 per share) and $74 million ($4.43 per share) in 2011 and 2012, respectively, implying a 9% and 10% yield, respectively. We estimate CHDN's net debt will decline to $126 million at 2012 year-end, from $211 million at the end of 1Q:10.

❑ **We maintain our BUY rating and $62 target.** Our target is based on a multiple of 14x our unchanged 2012 free cash flow estimate of $4.43 per share. Our $1.04 billion market cap target implies a multiple of 8.3x our 2012 EBITDA estimate of $130 million less projected net debt of $126 million. We argue CHDN deserves to trade at a premium to the group, not a discount, based on its Kentucky Derby franchise and online wagering segment, which offers a better growth profile and is less capital-intensive than asset-based wagering. Our BUY rating remains in force.

Exhibit 1 : CHDN Variance Table

(000's)	2Q:11E	2Q:10A	Variance	% Difference
Revenue	$237,984	$200,512	$37,472	18.7%
EBITDA	71,621	63,083	8,538	13.5%
	30.1%	31.5%		
Operating income	57,635	51,093	6,542	12.8%
	24.2%	25.5%		
Net income	32,589	29,913	2,675	8.9%
	13.7%	14.9%		
Fully diluted EPS	$1.94	$2.01	($0.06)	-3.2%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis

(000's)	2Q:11E	2Q:10A	YOY%
Racing	$54,876	$50,628	8%
Gaming	9,025	6,706	35%
ADW	8,820	6,854	29%
Corporate	(1,100)	(1,105)	NM
Total EBITDA	**$71,621**	**$63,083**	14%

Source: Sidoti & Company, LLC estimates and company financials

Table 1 : CHDN Income Statement																
(000's, except where noted)	**2009**	**Mar**	**Jun**	**Sep**	**Dec**	**2010**	**MarA**	**Jun**	**Sep**	**Dec**	**2011E**	**Mar**	**Jun**	**Sep**	**Dec**	**2012E**
Net Revenue																
Kentucky operations	$110,045	$2,585	$89,390	$5,449	$17,757	$118,366	$2,322	$93,860	$5,226	$17,757	$119,165	$2,322	$95,737	$5,226	$17,757	$121,042
Arlington Park	77,848	9,836	23,050	29,445	7,856	71,851	9,348	22,359	28,562	7,620	67,888	9,068	21,688	27,705	7,392	65,852
Calder Race Course	66,347	2,973	18,294	21,604	23,287	71,302	2,668	18,294	21,604	23,287	65,853	2,668	18,294	21,604	23,287	65,853
Fair Grounds (Racing)	45,902	17,620	9,898	5,942	10,842	46,025	17,290	9,898	5,942	10,842	43,972	17,290	9,898	5,942	10,842	43,972
Gaming (casino)	62,296	33,748	28,186	28,306	38,010	142,273	59,087	49,274	51,617	54,100	214,078	59,109	53,240	52,829	55,382	220,560
ADW/HRTV	70,891	18,295	29,393	38,739	34,032	121,407	36,803	42,000	39,514	35,734	154,050	38,275	43,680	41,094	37,163	160,212
Other	2,072	107	2,301	6,259	5,457	14,121	4,036	2,300	6,259	2,300	14,895	4,036	2,300	6,259	2,300	14,895
Net revenue	**435,401**	**85,164**	**200,512**	**135,744**	**137,241**	**585,345**	**131,554**	**237,984**	**158,723**	**151,640**	**679,901**	**132,768**	**244,836**	**160,659**	**154,123**	**692,386**
EBITDA																
Racing	29,419	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	54,876	0	(6,248)	35,990	(11,912)	55,334	0	(6,224)	37,198
Gaming (casino)	20,587	6,039	6,706	7,892	8,926	29,563	17,533	9,025	14,074	13,427	54,059	17,993	14,136	14,382	13,830	60,340
ADW/HRTV	14,149	3,995	6,854	5,818	3,759	20,426	7,545	8,820	8,693	5,360	30,418	8,038	10,046	9,452	5,946	33,482
Corporate/United Tote	(822)	(435)	(1,105)	2,088	(594)	(46)	(1,266)	(1,100)	2,000	(600)	(966)	(1,266)	(1,100)	2,000	(600)	(966)
Consolidated EBITDA	**63,333**	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**71,621**	**24,767**	**11,939**	**119,500**	**12,853**	**78,416**	**25,834**	**12,951**	**130,054**
D & A	(30,256)	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,986)	(13,986)	(13,986)	(55,944)	(13,986)	(13,986)	(13,986)	(13,986)	(55,944)
Operating income	**33,077**	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**57,635**	**10,781**	**(2,047)**	**63,556**	**(1,133)**	**64,430**	**11,848**	**(1,035)**	**74,110**
Interest expense	(761)	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(2,400)	(1,800)	(1,800)	(8,392)	(1,800)	(1,700)	(1,600)	(1,500)	(6,600)
Pre-tax income	**32,316**	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**55,235**	**8,981**	**(3,847)**	**55,164**	**(2,933)**	**62,730**	**10,248**	**(2,535)**	**67,510**
Income tax (expense) benefit	(12,590)	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(22,646)	(3,682)	1,577	(22,733)	1,203	(25,719)	(4,202)	1,039	(27,679)
Effective tax rate	39%	41%	40%	40%	41%	39%	-39%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**19,726**	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**32,589**	**5,299**	**(2,270)**	**32,431**	**(1,731)**	**37,011**	**6,046**	**(1,495)**	**39,831**
Pro-forma EPS diluted	**$1.41**	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$1.94**	**$0.32**	**($0.14)**	**$1.94**	**($0.10)**	**$2.21**	**$0.36**	**($0.09)**	**$2.38**
Diluted average shares outstandi	14,040	13,600	14,895	16,768	16,760	15,506	16,358	16,760	16,760	16,760	16,760	16,760	16,760	16,760	16,760	16,760
Net Income GAAP	$16,828	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$32,589	$5,299	($2,270)	$32,431	($1,731)	$37,011	$6,046	($1,495)	$39,831
EPS GAAP	$1.20	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$1.94	$0.32	($0.14)	$1.94	($0.10)	$2.21	$0.36	($0.09)	$2.38
Margin analysis																
EBITDA	14.5%	-3.8%	31.5%	12.6%	6.9%	14.7%	8.5%	30.1%	15.6%	7.9%	17.6%	9.7%	32.0%	16.1%	8.4%	18.8%
Operating	7.6%	-15.6%	25.5%	3.4%	-2.0%	6.8%	-2.1%	24.2%	6.8%	-1.3%	9.3%	-0.9%	26.3%	7.4%	-0.7%	10.7%
Pre-tax	7.4%	-17.0%	24.8%	2.3%	-3.3%	5.8%	-4.0%	23.2%	5.7%	-2.5%	8.1%	-2.2%	25.6%	6.4%	-1.6%	9.8%
Net income	4.5%	-10.0%	14.9%	1.4%	-2.0%	3.5%	-2.4%	13.7%	3.3%	-1.5%	4.8%	-1.3%	15.1%	3.8%	-1.0%	5.8%
Y/Y growth %																
Revenue	1%	23%	11%	35%	61%	34%	54%	19%	17%	10%	16%	1%	3%	1%	2%	2%
EBITDA	0%	NM	8%	149%	799%	36%	NM	14%	45%	27%	39%	15%	9%	4%	8%	9%
Operating income	-3%	26%	0%	NM	-60%	20%	NM	13%	131%	-25%	60%	-60%	12%	10%	-49%	17%
Pre-tax income	-1%	NM	-3%	NM	NM	4%	NM	11%	193%	NM	63%	-44%	14%	14%	-34%	22%
Net income	5%	NM	-3%	NM	NM	4%	NM	9%	188%	NM	58%	-46%	14%	14%	-34%	23%
EPS	5%	NM	-9%	NM	NM	-6%	NM	-3%	180%	NM	46%	-47%	14%	14%	-34%	23%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166

Morning Meeting Note

Churchill Downs Inc. (CHDN-$41.95) — BUY

Raise Price Target; Adjust Earnings Estimates — **Target: $73**

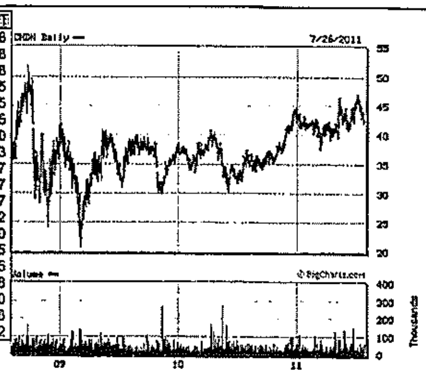
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

July 28, 2011

Market Cap (Mil)	$700	**Price to Book Value**	1.4x
Avg. Daily Trading Volume	40,000	**Return on Equity (2012E)**	6.9%
Shares Out (Mil)	16.703	**LT Debt to Total Capital**	15%
Float Shares (Mil)	11.492	**5-Year EPS Growth Rate Projection**	15%
Institutional Holdings	40%	**52-Week Range (NASDAQ)**	47-34
Dividend	$0.50	**Russell 2000**	801
Dividend Yield	1.2%	**Short Interest (Mil)**	0.329

	2010	2011E		2012E		2013E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	($0.63)	($0.19)A		($0.10)			($0.03)
June	2.01	1.94	2.37A	2.21	2.59		2.72
Sep.	0.11	0.32		0.36	0.38		0.47
Dec.	(0.17)	(0.14)		(0.09)	(0.08)		(0.04)
EPS (Cal.)	**$1.33**	**$1.94**	**$2.38**	**$2.38**	**$2.79**		**$3.13**
P/E (Cal.)			**17.6x**		**15.0x**		**13.4x**
EBITDA (mil.) (Cal)	**$85.6**	**$119.5**	**$133.1**	**$130.2**	**$142.2**		**$148.6**
EV / EBITDA			**6.7x**		**5.7x**		**4.9x**

Action	Date	PX	Rating	PT
Rating	11/21/08	25.3	Buy	38
Rating	12/4/08	35.9	Neutral	38
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62



Note: 2010 exclude $0.16 from one-time charges. 2010 and 2011E-2013E include $0.14 of annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
Rev.(Mil.)*	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$691.6	$706.3	$718.4
GAAP EPS*	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.08	$2.38	$2.79	$3.13

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website, and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Raise Price Target To $73 (From $62) On Increased Estimates; Roll Out 2013 Free Cash Flow Estimate Of $5.19 Per Share; 2Q:11 EPS Well Above Expectations; Reiterate BUY Rating

- **CHDN reported 2Q:11 EPS of $2.37 versus consensus of $2.20, despite significant disruption from Mississippi River flooding. The racing, online racing and casino segments handily beat our expectations, prompting higher forecasts.**
- **2Q:11 results support our thesis that CHDN's earnings power would materialize beginning in 2011, given the benefit of the company's Youbet.com and Harlow's acquisitions and ramp-up of the new Miami casino.**
- **We increase our 2011 and 2012 EPS estimates to $2.38 (from $1.94) and $2.79 (from $2.38), respectively, and roll out our 2013 EPS estimate of $3.13, mainly on improved casino and online margins, strength in Miami and cost cuts.**

- **Management will host a conference call at 9 AM ET: 877.372.0878 (ID 52962971).**
- **We reiterate our BUY rating. Our new $73 target is based on 14x our 2013 free cash flow per share estimate of $5.19 and implies 8x our 2013 EBITDA estimate of $149 million; the prior $62 target had been based on 2012 projections.**

- **2Q:11 easily exceeded our forecast.** EPS of $2.37 were well ahead of consensus of $2.20 despite Mississippi River floods crimping EPS by roughly $0.17. The company handily beat our forecast in all business segments, as detailed in Exhibit 2.

- **CHDN's robust cash flow potential is emerging.** We expect robust EPS growth through 2013, citing the Harlow's casino acquisition, elimination of duplicate costs from the Youbet.com acquisition and continued ramp-up at the Miami slots facility opened in January 2010. We increase our 2011 and 2012 EPS estimates to $2.38 (from $1.94) and $2.79 (from $2.38), respectively, and roll out our 2013 EPS estimate of $3.13. We forecast our forecast for CHDN's casino segment by 5% to $63 million EBITDA in 2012 after CHDN's Miami slots facility generated an impressive $4.3 million in 2Q:11 (versus $5.5 million for all of 2010). We increase our 2012 online wagering EBITDA forecast to $35 million (from $33 million) mainly for greater-than-expected duplicate-cost reductions spurring higher margins, and we increase our 2012 racing EBITDA estimate to $42 million (from $37 million) owing to improving profitability at CHDN's Kentucky Derby franchise.

- **The company is overcapitalized, in our view, providing multiple levers to enhance shareholder value.** Our free cash flow per share estimates of $4.47 in 2011, $4.86 in 2012 (12% yield) and $5.19 in 2013. We estimate CHDN's net debt will decline to $31 million at 2013 year-end (0.2x EBITDA), from $161 million at the end of 2Q:10; the median regional casino is leveraged at 5x EBITDA. CHDN's balance sheet should provide various ways to boost shareholder value, such as buybacks, a higher increased, opportunistic acquisitions or casino development of Churchill Downs' Kentucky or Illinois racetracks with legislative approval.

- **We reiterate our BUY rating and increase our price target to $73 (from $62).** Our $73 target is based on a constant 14x our 2013 free cash flow per share estimate of $5.19; our prior $62 target was based on projected 2012 free cash flow. Our $1.2 billion market cap target implies a multiple of 8x our 2013 EBITDA estimate of $149 million less $31 million projected net debt. We argue CHDN deserves a premium to the group, not a discount, based on its Kentucky Derby franchise and online wagering segment, which offers a better growth profile and is less capital-intensive than asset-based wagering.

Exhibit 1 : CHDN Variance Table

(000's)	2Q:11A	2Q:11E	Variance	2Q:10A	YOY%
Revenue	$249,686	$237,984	$11,702	$200,512	25%
EBITDA	84,983	71,621	13,362	63,083	35%
	34.0%	30.1%		31.5%	
Operating income	71,093	57,635	13,458	51,093	39%
	28.5%	24.2%		25.5%	
Net income	39,990	32,589	7,401	29,913	34%
	16.0%	13.7%		14.9%	
Fully diluted EPS	$2.37	$1.94	$0.42	$2.01	18%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis

(000's)	2Q:11A	2Q:11E	Var	2Q:10A	YOY%
Racing	$58,447	$54,876	$3,571	$50,628	15%
Gaming	12,798	9,025	3,773	6,706	91%
ADW	11,308	8,820	2,488	6,854	65%
Corporate	2,430	(1,100)	3,530	(1,105)	NM
Total EBITDA	**$84,983**	**$71,621**	**$13,362**	**$63,083**	35%

Source: Sidoti & Company, LLC estimates and company financials

Table 1 : CHDN Income Statement

(000's, except where noted)	2009	Mar	Jun	Sep	Dec	2010	MarA	JunA	Sep	Dec	2011E	Mar	Jun	Sep	Dec	2012E	2013E
Net Revenue																	
Kentucky operations	$110,045	$2,585	$89,390	$5,449	$17,757	$118,366	$2,322	$95,839	$5,226	$17,757	$121,144	$2,322	$98,235	$5,226	$17,757	$123,540	$125,996
Arlington Park	77,848	9,836	23,050	29,445	7,856	71,851	9,348	22,050	28,562	7,620	67,580	9,068	21,389	27,705	7,392	65,553	63,586
Calder Race Course	66,347	2,973	18,294	21,604	23,287	71,302	2,668	19,412	21,604	23,287	66,971	2,668	19,412	21,604	23,287	66,971	66,971
Fair Grounds (Racing)	45,902	17,620	9,898	5,942	10,842	46,025	17,290	10,904	5,942	10,842	44,978	17,290	10,904	5,942	10,842	44,978	44,978
Gaming (casino)	62,296	33,748	28,186	28,306	38,010	142,273	59,087	49,459	51,617	54,100	214,263	59,109	54,974	52,829	55,382	222,295	227,282
ADW/HRTV	70,891	18,295	29,393	38,739	34,032	121,407	36,803	46,526	39,514	35,734	158,576	38,275	48,387	41,094	37,163	164,919	171,516
Other	2,072	107	2,301	6,259	5,457	14,121	4,036	5,496	6,259	2,300	18,091	4,036	5,496	6,259	2,300	18,091	18,091
Net revenue	**435,401**	**85,164**	**200,512**	**135,744**	**137,241**	**585,345**	**131,554**	**249,686**	**158,723**	**151,640**	**691,603**	**132,768**	**258,797**	**160,659**	**154,123**	**706,347**	**718,420**
EBITDA																	
Racing	29,419	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	58,447	0	(6,248)	39,561	(11,912)	59,676	0	(6,224)	41,540	41,781
Gaming (casino)	20,587	6,039	6,706	7,892	8,926	29,563	17,533	12,798	14,074	13,427	57,832	17,993	15,794	14,668	14,115	62,570	64,445
ADW/HRTV	14,149	3,995	6,854	5,818	3,759	20,426	7,545	11,308	8,693	5,360	32,906	8,038	11,855	9,452	5,946	35,290	39,599
Corporate/United Tote	(822)	(435)	(1,105)	2,088	(594)	(46)	(1,266)	2,430	2,200	(600)	2,764	(1,266)	2,430	2,200	(600)	2,764	2,764
Consolidated EBITDA	**63,333**	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**84,983**	**24,967**	**11,939**	**133,063**	**12,853**	**89,755**	**26,319**	**13,237**	**142,164**	**148,590**
D & A	(30,256)	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,890)	(13,890)	(13,890)	(55,656)	(13,890)	(13,890)	(13,890)	(13,890)	(55,560)	(55,560)
Operating income	**33,077**	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**71,093**	**11,077**	**(1,951)**	**77,407**	**(1,037)**	**75,865**	**12,429**	**(653)**	**86,604**	**93,030**
Interest expense	(761)	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(3,405)	(2,000)	(1,800)	(9,597)	(1,800)	(1,700)	(1,600)	(1,500)	(6,600)	(3,500)
Pre-tax income	**32,316**	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**67,688**	**9,077**	**(3,751)**	**67,810**	**(2,837)**	**74,165**	**10,829**	**(2,153)**	**80,004**	**89,530**
Income tax (expense) benefit	(12,590)	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(27,698)	(3,721)	1,538	(27,863)	1,163	(30,408)	(4,440)	883	(32,802)	(36,707)
Effective tax rate	39%	41%	40%	40%	41%	39%	-39%	41%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**19,726**	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**39,990**	**5,355**	**(2,213)**	**39,946**	**(1,674)**	**43,757**	**6,389**	**(1,270)**	**47,202**	**52,823**
Pro-forma EPS diluted	**$1.41**	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.37**	**$0.32**	**($0.14)**	**$2.38**	**($0.10)**	**$2.59**	**$0.38**	**($0.08)**	**$2.79**	**$3.13**
Diluted average shares outstandi	14,040	13,600	14,895	16,768	16,760	15,506	16,358	16,899	16,899	16,899	16,764	16,899	16,899	16,899	16,899	16,899	16,899
Net Income GAAP	$16,828	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$39,990	$5,355	($2,213)	$39,946	($1,674)	$43,757	$6,389	($1,270)	$47,202	$52,823
EPS GAAP	$1.20	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.37	$0.32	($0.14)	$2.38	($0.10)	$2.59	$0.38	($0.08)	$2.79	$3.13
Margin analysis																	
EBITDA	14.5%	-3.8%	31.5%	12.6%	6.9%	14.7%	8.5%	34.0%	15.7%	7.9%	19.2%	9.7%	34.7%	16.4%	8.6%	20.1%	20.7%
Operating	7.6%	-15.6%	25.5%	3.4%	-2.0%	6.8%	-2.1%	28.5%	7.0%	-1.3%	11.2%	-0.8%	29.3%	7.7%	-0.4%	12.3%	12.9%
Pre-tax	7.4%	-17.0%	24.8%	2.3%	-3.3%	5.8%	-4.0%	27.1%	5.7%	-2.5%	9.8%	-2.1%	28.7%	6.7%	-1.4%	11.3%	12.5%
Net income	4.5%	-10.0%	14.9%	1.4%	-2.0%	3.5%	-2.4%	16.0%	3.4%	-1.5%	5.8%	-1.3%	16.9%	4.0%	-0.8%	6.7%	7.4%
Y/Y growth %																	
Revenue	1%	23%	11%	35%	61%	34%	54%	25%	17%	10%	18%	1%	4%	1%	2%	2%	2%
EBITDA	0%	NM	8%	149%	799%	36%	NM	35%	46%	27%	54%	15%	6%	5%	11%	7%	5%
Operating income	-3%	26%	0%	NM	-60%	20%	NM	39%	138%	-28%	95%	-63%	7%	12%	-67%	12%	7%
Pre-tax income	-1%	NM	-3%	NM	NM	4%	NM	36%	196%	NM	101%	-45%	10%	19%	-43%	18%	12%
Net income	5%	NM	-3%	NM	NM	4%	NM	34%	191%	NM	94%	-47%	9%	19%	-43%	18%	12%
EPS	5%	NM	-9%	NM	NM	-6%	NM	18%	180%	NM	80%	-49%	9%	19%	-43%	17%	12%

Source: Sidoti & Company, LLC and company reports.

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Morning Meeting Note

Churchill Downs Inc. (CHDN-$40.79)

BUY

Raise Price Target; Adjust Earnings Estimates

Target: $62

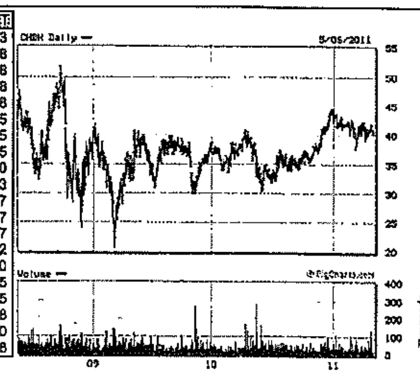
Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

May 10, 2011

Market Cap (Mil)	$680
Avg. Daily Trading Volume	33,000
Shares Out (Mil)	16.695
Float Shares (Mil)	11.610
Institutional Holdings	40%
Dividend	$0.50
Dividend Yield	1.2%
Price to Book Value	1.4x
Return on Equity (2012E)	6.9%
LT Debt to Total Capital	15%
5-Year EPS Growth Rate Projection	15%
52-Week Range (NASDAQ)	45-30
Russell 2000	843
Short Interest (Mil)	0.290

	2009	2010	2011E		2012E	
			OLD	NEW	OLD	NEW
Mar.	($0.47)	($0.63)	($0.31)	($0.19)A	($0.26)	($0.10)
June	2.20	2.01	2.08		2.18	2.21
Sep.	(0.02)	0.11	0.28	0.32	0.32	0.36
Dec.	(0.33)	(0.17)	(0.15)	(0.14)	(0.10)	(0.09)
EPS (Cal.)	**$1.41**	**$1.33**	**$1.91**	**$2.07**	**$2.14**	**$2.38**
P/E (Cal.)				**19.7x**		**17.1x**
EBITDA (mil.) (Cal)	**$63.3**	**$85.6**	**$117.8**	**$123.4**	**$122.6**	**$130.2**
EV / EBITDA				**7.1x**		**6.2x**

Action	Date	PX	Rating	PT
PT	5/28/08	41.8		43
PT	7/3/08	33.9		38
Rating	11/21/08	25.3	Buy	38
Rating	12/4/08	35.9	Neutral	38
PT	2/24/09	30.7		28
PT	3/5/09	26.9		25
Rating	5/7/09	33.5	Buy	45
PT	5/7/09	33.5		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/26/10	35.7		50
PT	11/4/10	37.6		58



Note: 2009 and 2010 exclude $0.21 and $0.16, respectively, from one-time charges. 2009 and 2010E-2012E include $0.14 of annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Rev.(Mil.)*	$444.1	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$674.1	$685.2
GAAP EPS*	$1.75	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.08	$2.07	$2.38

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Raise Target To $62 (From $58) On Increased Estimates; CHDN's Powerful Cash Flow Potential In Early Stages Of Materializing, In Our View; Reiterate BUY Rating

- **CHDN reported a loss per share of $0.19 in its seasonally weakest quarter, versus the consensus loss projection of $0.32; results exceeded our forecast on better-than-expected results in the online and gaming segment.**
- **Management noted it expects a $5-$6 million year-over-year gain in EBITDA from last weekend's Kentucky Derby.**
- **We increase our 2011 and 2012 EPS estimates to $2.07 (from $1.91) and $2.38 (from $2.14), respectively, to reflect solid Kentucky Derby results and better-than-expected profitability at CHDN's recently acquired Harlow's casino.**

- **CHDN's shares are attractive, in our view, at just 10x and 9x our 2011 and 2012 revised FCF per share estimates of $4.12 (from $3.91) and $4.43 (from $4.14), respectively.**
- **In our view, the shares understate CHDN's considerable cash flow potential that we expect to emerge in 2011-2012 given accretion from the company's Youbet.com and Harlow's acquisitions and ramp-up of the new Miami casino.**
- **Management is hosting a conference call at 9 AM ET; the call-in number is 877.372.0878 (ID 52962800).**
- **Our new $62 target (from $58) is based on a multiple of 14x our revised 2012 free cash flow estimate of $4.43 (from $4.14) per share.**
- **We reiterate our BUY rating.**

❑ **CHDN's 1Q:11 loss per share of $0.19 compared to the consensus projection of a $0.32 loss.** CHDN largely exceeded our forecast on better-than-expected results in its online and gaming segment (Exhibits 1 and 2).

❑ **We increase our 2011 and 2012 EPS estimates to $2.07 (from $1.91) and $2.38 (from $2.14), respectively.** Our upward revisions reflect solid Kentucky Derby results and better-than-expected profitability at CHDN's recently acquired Harlow's casino. Our 2011 adjustment is tempered by the temporary closure of the Harlow's casino due to the rising Mississippi.

❑ **We look for CHDN's cash flow potential to materialize in 2011 and 2012 after a noisy 2010.** We anticipate CHDN's cash flow potential will emerge in 2011 given 1) accretion from the Harlow's casino acquisition, 2) elimination of duplicate costs from the Youbet.com acquisition and 3) the ramp-up and mid-year 2010 reduced tax rate at CHDN's Miami slots facility that opened in January 2010. In our view, the shares understate CHDN's considerable cash flow power; we expect CHDN's free cash flow to exceed EPS based on maintenance capex of less than half of GAAP depreciation and inherited NOLs from the Youbet.com acquisition. Given CHDN's significant capex over the last few years, all three of the company's gaming assets are less than three years old (and should thus require minimal capex for the foreseeable future).

❑ **CHDN's balance sheet is solid.** At the end of 1Q:11, CHDN had net debt of $211 million, representing 2.1x trailing EBITDA versus 5x for the median regional casino operator. We estimate net debt will decline to $126 million at 2012 year-end amounting to just 1.0x our estimated 2012 EBITDA. In our view, CHDN is well-positioned to return capital to shareholders (the $0.50 annual dividend is covered nearly 10x based on our projected 2012 FCF per share estimate of $4.43).

❑ **We reiterate our BUY rating and increase our target to $62 (from $58).** Our new target is based on a multiple of 14x our revised 2012 free cash flow estimate of $4.43 per share (from $4.14). Our $1.04 billion market cap target implies a multiple of 8.3x our revised 2012 EBITDA estimate of $130 million (from $125 million) less projected net debt of $126 million (from $134 million). The shares currently trade at 7x and 6x our 2011 and 2012 EBITDA estimates, respectively, representing discounts to the typical trading range for regional casinos of 7x-9x forward EBITDA. We argue that CHDN deserves to trade at a premium to the group, not a discount, based on its Kentucky Derby franchise and online wagering segment, which offers a better growth profile and is less capital-intensive than asset-based wagering. Our target implies no value for CHDN's 325-acre Arlington Park just northwest of Chicago, as it does not contribute to cash flow and is not targeted for sale any time soon.

Exhibit 1 : CHDN Variance Table

(000's)	1Q:11A	1Q:11E	Variance	1Q:10A	YOY%
Revenue	$131,554	$121,834	$9,720	$85,164	54%
EBITDA	11,174	7,434	3,740	(3,264)	-442%
	8.5%	6.1%		-3.8%	
Operating income	(2,812)	(6,380)	3,568	(13,289)	-79%
	-2.1%	-5.2%		-15.6%	
Pre-tax income	(5,204)	(8,680)	3,476	(14,436)	-64%
	-4.0%	-7.1%		-17.0%	
Net income	(3,186)	(5,121)	1,935	(8,517)	-63%
	-2.4%	-4.2%		-10.0%	
Fully diluted EPS	($0.19)	($0.31)	$0.11	($0.63)	-69%

Source: Sidoti & Company, LLC estimates and company financials

Exhibit 2 : CHDN Segment Analysis

(000's)	1Q:11A	1Q:11E	Var	1Q:10A	YOY%
Racing	($12,638)	($11,546)	($1,092)	($12,863)	NM
Gaming	17,533	13,730	3,803	6,039	190%
ADW	7,545	5,250	2,295	3,995	89%
Corporate	(1,266)	0	(1,266)	(435)	NM
Total EBITDA	**$11,174**	**$7,434**	**$3,740**	**($3,264)**	NM

Source: Sidoti & Company, LLC estimates and company financials

Table 1 : CHDN Income Statement

(000's, except where noted)	2009	Mar	Jun	Sep	Dec	2010	MarA	Jun	Sep	Dec	2011E	Mar	Jun	Sep	Dec	2012E
Net Revenue																
Kentucky operations	$110,045	$2,585	$89,390	$5,449	$17,757	$118,366	$2,322	$93,860	$5,226	$17,757	$119,165	$2,322	$95,737	$5,226	$17,757	$121,042
Arlington Park	77,848	9,836	23,050	29,445	7,856	71,851	9,348	22,359	28,562	7,620	67,888	9,068	21,688	27,705	7,392	65,852
Calder Race Course	66,347	2,973	18,294	21,604	23,287	71,302	2,668	18,294	21,604	23,287	65,853	2,668	18,294	21,604	23,287	65,853
Fair Grounds (Racing)	45,902	17,620	9,898	5,942	10,842	46,025	17,290	9,898	5,942	10,842	43,972	17,290	9,898	5,942	10,842	43,972
Gaming (casino)	62,296	33,748	28,186	28,306	38,010	142,273	59,087	50,117	51,617	54,100	214,921	59,109	52,549	52,829	55,382	219,870
ADW/HRTV	70,891	18,295	29,393	38,739	34,032	121,407	36,803	42,000	39,514	35,734	154,050	38,275	43,680	41,094	37,163	160,212
Other	2,072	107	2,301	6,259	5,457	14,121	4,036	2,300	6,259	2,300	14,895	4,036	2,300	6,259	2,300	14,895
Net revenue	**435,401**	**85,164**	**200,512**	**135,744**	**137,241**	**585,345**	**131,554**	**238,827**	**158,723**	**151,640**	**680,744**	**132,768**	**244,146**	**160,659**	**154,123**	**691,696**
EBITDA																
Racing	29,419	(12,863)	50,628	1,254	(2,689)	36,330	(12,638)	54,876	0	(6,248)	35,990	(11,912)	55,334	0	(6,224)	37,198
Gaming (casino)	20,587	6,039	6,706	7,892	8,926	29,563	17,533	12,924	14,074	13,427	57,957	17,993	14,284	14,382	13,830	60,489
ADW/HRTV	14,149	3,995	6,854	5,818	3,759	20,426	7,545	8,820	8,693	5,360	30,418	8,038	10,046	9,452	5,946	33,482
Corporate/United Tote	(822)	(435)	(1,105)	2,088	(594)	(46)	(1,266)	(1,100)	2,000	(600)	(966)	(1,266)	(1,100)	2,000	(600)	(966)
Consolidated EBITDA	**63,333**	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**75,519**	**24,767**	**11,939**	**123,399**	**12,853**	**78,565**	**25,834**	**12,951**	**130,203**
D & A	(30,256)	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,986)	(13,986)	(13,986)	(55,944)	(13,986)	(13,986)	(13,986)	(13,986)	(55,944)
Operating income	**33,077**	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**61,533**	**10,781**	**(2,047)**	**67,455**	**(1,133)**	**64,579**	**11,848**	**(1,035)**	**74,259**
Interest expense	(761)	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(2,400)	(1,800)	(1,800)	(8,392)	(1,800)	(1,700)	(1,600)	(1,500)	(6,600)
Pre-tax income	**32,316**	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**59,133**	**8,981**	**(3,847)**	**59,063**	**(2,933)**	**62,879**	**10,248**	**(2,535)**	**67,659**
Income tax (expense) benefit	(12,590)	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(24,245)	(3,682)	1,577	(24,331)	1,203	(25,780)	(4,202)	1,039	(27,740)
Effective tax rate	39%	41%	40%	40%	41%	39%	-39%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**19,726**	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**34,889**	**5,299**	**(2,270)**	**34,731**	**(1,731)**	**37,098**	**6,046**	**(1,495)**	**39,919**
Pro-forma EPS diluted	**$1.41**	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.08**	**$0.32**	**($0.14)**	**$2.07**	**($0.10)**	**$2.21**	**$0.36**	**($0.09)**	**$2.38**
Diluted average shares outstandi	14,040	13,600	14,895	16,768	16,760	15,506	16,358	16,760	16,760	16,760	16,760	16,760	16,760	16,760	16,760	16,760
Net Income GAAP	$16,828	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$34,889	$5,299	($2,270)	$34,731	($1,731)	$37,098	$6,046	($1,495)	$39,919
EPS GAAP	$1.20	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.08	$0.32	($0.14)	$2.07	($0.10)	$2.21	$0.36	($0.09)	$2.38
Margin analysis																
EBITDA	14.5%	-3.8%	31.5%	12.6%	6.9%	14.7%	8.5%	31.6%	15.6%	7.9%	18.1%	9.7%	32.2%	16.1%	8.4%	18.8%
Operating	7.6%	-15.6%	25.5%	3.4%	-2.0%	6.8%	-2.1%	25.8%	6.8%	-1.3%	9.9%	-0.9%	26.5%	7.4%	-0.7%	10.7%
Pre-tax	7.4%	-17.0%	24.8%	2.3%	-3.3%	5.8%	-4.0%	24.8%	5.7%	-2.5%	8.7%	-2.2%	25.8%	6.4%	-1.6%	9.8%
Net income	4.5%	-10.0%	14.9%	1.4%	-2.0%	3.5%	-2.4%	14.6%	3.3%	-1.5%	5.1%	-1.3%	15.2%	3.8%	-1.0%	5.8%
Y/Y growth %																
Revenue	1%	23%	11%	35%	61%	34%	54%	19%	17%	10%	16%	1%	2%	1%	2%	2%
EBITDA	0%	NM	8%	149%	799%	36%	NM	20%	45%	27%	43%	15%	4%	4%	8%	6%
Operating income	-3%	26%	0%	NM	-60%	20%	NM	20%	131%	-25%	70%	-60%	5%	10%	-49%	10%
Pre-tax income	-1%	NM	-3%	NM	NM	4%	NM	19%	193%	NM	75%	-44%	6%	14%	-34%	15%
Net income	5%	NM	-3%	NM	NM	4%	NM	17%	188%	NM	69%	-46%	6%	14%	-34%	15%
EPS	5%	NM	-9%	NM	NM	-6%	NM	4%	180%	NM	56%	-47%	6%	14%	-34%	15%

Source: Sidoti & Company, LLC and company reports.

Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166

Intraday Note

Churchill Downs Inc. (CHDN-$43.49)

BUY

Company Update

Target: $62

Stephen Altebrando (212) 894-3347 (saltebrando@sidoti.com)

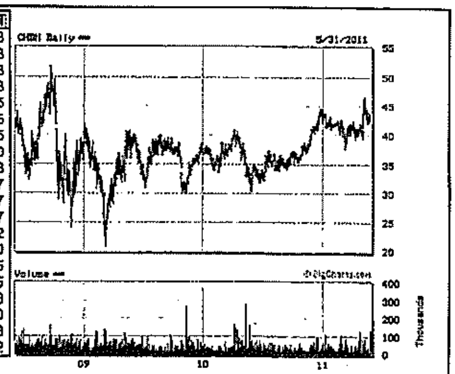
June 1, 2011

Market Cap (Mil)	$730
Avg. Daily Trading Volume	37,000
Shares Out (Mil)	16.703
Float Shares (Mil)	11.627
Institutional Holdings	40%
Dividend	$0.50
Dividend Yield	1.1%

Price to Book Value	1.5x
Return on Equity (2012E)	6.9%
LT Debt to Total Capital	15%
5-Year EPS Growth Rate Projection	15%
52-Week Range (NASDAQ)	46-30
Russell 2000	831
Short Interest (Mil)	0.331

	2009	2010	2011E		2012E	
			OLD	NEW	OLD	NEW
Mar.	($0.47)	($0.63)	($0.19)A		($0.10)	
June	2.20	2.01	2.08		2.21	
Sep.	(0.02)	0.11	0.32		0.36	
Dec.	(0.33)	(0.17)	(0.14)		(0.09)	
EPS (Cal.)	**$1.41**	**$1.33**	**$2.07**		**$2.38**	
P/E (Cal.)			**21.0x**		**18.3x**	
EBITDA (mil.) (Cal)	**$63.3**	**$85.6**	**$123.4**		**$130.2**	
EV / EBITDA			**7.5x**		**6.6x**	

Action	Date	Px	Rating	PT
PT	7/3/08	33.9		38
Rating	11/21/08	25.3	Buy	38
Rating	12/4/08	35.9	Neutral	38
PT	2/24/09	30.7		28
PT	3/5/09	28.9		25
Rating	5/7/09	33.6	Buy	45
PT	5/7/09	33.6		45
PT	7/30/09	35.1		50
PT	11/12/09	31.6		53
PT	2/9/10	34.2		47
Rating	2/25/10	35.9	Neutral	37
PT	2/25/10	35.9		37
PT	5/4/10	39.4		42
PT	5/6/10	37.9		40
Rating	6/9/10	31.3	Buy	45
PT	6/9/10	31.3		45
PT	9/13/10	35.4		48
PT	10/25/10	35.7		50
PT	11/4/10	37.6		58
PT	5/10/11	40.8		62



Note: 2009 and 2010 exclude $0.21 and $0.16, respectively, from one-time charges. 2009-2010, and 2011E-2012E include $0.14 of annual stock-based compensation expense. Sum of quarterly data may not equal full-year total due to rounding and/or varying share count. CHDN is included in the Russell 2000 Index. NC = Not covered by Sidoti & Company, LLC.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Rev.(Mil.)*	$444.1	$361.2	$408.8	$406.9	$410.7	$430.6	$435.4	$585.3	$674.1	$685.2
GAAP EPS*	$1.75	$0.67	$5.86	$2.11	$1.13	$2.07	$1.20	$1.08	$2.07	$2.38

* 2004 and 2005 revenue excludes Hollywood Park, divested in September 2005.

Description: Churchill Downs Inc. (www.churchilldowns.com) owns four horse racing tracks in Louisville, KY, Arlington Heights, IL, Miami, FL and New Orleans, LA. CHDN's Miami track, Louisiana track and nearby off-track betting facilities feature 2,500-plus slot/poker machines. The company also owns Twinspires.com and Youbet.com, an online horse wagering website and Harlow's Casino in Greenville, MS. Headquarters are in Louisville, KY.

Pending Slots Legislation In Illinois Has The Potential To Boost CHDN's Equity Value By About $5, In Our View; Reiterate BUY Rating, $62 Target

- **Yesterday, the Illinois Senate approved a significant gaming expansion bill; if the governor signs off on the legislation, it would permit CHDN to add 1,200 and 900 slot machines at its two Illinois tracks.**
- **We estimate the addition of slots at CHDN's Arlington Park would add $3-$8 per share in equity value (Exhibit 1) based on a similar sized addition to CHDN's recent Miami slots facility.**
- **CHDN's shares are attractive, in our view, at just 10x our 2011 FCF per share estimate of $4.12 (previously $3.91) and 9x our 2012 FCF per share estimate of $4.43 (previously $4.14); our model excludes slots in Illinois.**

- **In our view, the shares understate CHDN's considerable cash flow potential that we expect to emerge in 2011-2012 given accretion from the company's Youbet.com and Harlow's acquisitions and ramp-up of the new Miami casino.**
- **We reiterate our BUY rating. Our $62 target is based on a multiple of 14x our 2012 free cash flow estimate of $4.43 per share.**

❑ **We estimate the addition of slot machines at CHDN's Arlington Park track would add about $5 per share to the company's equity value.** Both houses of the Illinois legislature have passed a significant gaming expansion. Governor Pat Quinn (D) has not yet made it clear whether he will sign the legislation, which was passed by a Democratic controlled house and senate. The legislation would permit CHDN to add 1,200 gaming positions to its geographically well-positioned Arlington Park (45 minutes from Chicago) paying a $30 million license fee ($25,000 per gaming position). The gaming tax rate would be scalable (Exhibit 2) and reduced from current levels. CHDN also would be permitted to add 900 machines to its Quad Cities facility (which we think CHDN likely would attempt to shift to another location).

❑ **We reiterate our BUY rating and $62 target.** Our target is based on a multiple of 14x our 2012 free cash flow estimate of $4.43 per share. Our $1.04 billion market cap target implies a multiple of 8.3x our 2012 EBITDA estimate of $130 million less projected net debt of $126 million. The shares currently trade at 7x and 6x our 2011 and 2012 EBITDA estimates, respectively; this represents discounts to the typical trading range for regional casinos of 7x-9x forward EBITDA. We argue CHDN deserves to trade at a premium to the group, not a discount, based on its Kentucky Derby franchise and online wagering segment, which offers a better growth profile and is less capital-intensive than asset-based wagering. Our target implies no value for CHDN's 325-acre Arlington Park just northwest of Chicago, as it does not contribute to cash flow and is not targeted for sale anytime soon.

Exhibit 1. Arlington Park, Slots Facility

(000's)	Bear	Base	Bull
Capex	$150,000	$150,000	$150,000
Gaming Rev.	$87,600	$102,054	$116,508
Other Rev.	8,760	10,205	11,651
Total Rev.	96,360	112,259	128,159
EBITDA Margin	25%	26%	27%
EBITDA	24,090	29,187	34,603
EV @ 8x	192,720	233,500	276,823
Equity Value	42,720	83,500	126,823
Per Share	$2.67	$5.22	$7.93
Annual EPS accretion	$0.42	$0.61	$0.81
Annual FCF/share accretion	$0.73	$0.92	$1.12

Source: Sidoti & Company, LLC and company reports.

Exhibit 2. Illinois Gaming Tax Rate

AGR	Current*	1-Jan-12 30-Jun-13 Slots	1-Jul-13 thereafter Slots
up to $25	15.0%	12.0%	10.0%
$25-$50	22.5%	19.5%	17.5%
$50-$75	27.5%	24.5%	22.5%
$75-100	32.5%	29.5%	27.5%
$100-$150	37.5%	34.5%	32.5%
$150-$200	45.0%	39.0%	35.0%
$200+	50.0%	44.0%	40.0%
		Tables	Tables
up to $25		12.0%	10.0%
$25-$50		19.5%	17.5%
$50-$70		24.5%	22.5%
$70+		16.0%	16.0%

Source: Sidoti & Company, LLC and company reports.
AGR = Adjusted gross revenue
*Rates for slots and tables

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(000's, except where noted)	2009	Mar	Jun	Sep	Dec	2010	MarA	Jun	Sep	Dec	2011E	Mar	Jun	Sep	Dec	2012E
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Fair Grounds (Racing)	45,902	17,620	9,898	5,942	10,842	46,025	17,290	9,898	5,942	10,842	43,972	17,290	9,898	5,942	10,842	43,972
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Net revenue	**435,401**	**85,164**	**200,512**	**135,744**	**137,241**	**585,345**	**131,554**	**238,827**	**158,723**	**151,640**	**680,744**	**132,768**	**244,146**	**160,659**	**154,123**	**691,696**
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Corporate/United Tote	(822)	(435)	(1,105)	2,088	(594)	(46)	(1,266)	(1,100)	2,000	(600)	(966)	(1,266)	(1,100)	2,000	(600)	(966)
Consolidated EBITDA	**63,333**	**(3,264)**	**63,083**	**17,052**	**9,402**	**86,273**	**11,174**	**75,519**	**24,767**	**11,939**	**123,399**	**12,853**	**78,565**	**25,834**	**12,951**	**130,203**
D & A	(30,256)	(10,025)	(11,990)	(12,395)	(12,114)	(46,524)	(13,986)	(13,986)	(13,986)	(13,986)	(55,944)	(13,986)	(13,986)	(13,986)	(13,986)	(55,944)
Operating income	**33,077**	**(13,289)**	**51,093**	**4,657**	**(2,712)**	**39,749**	**(2,812)**	**61,533**	**10,781**	**(2,047)**	**67,455**	**(1,133)**	**64,579**	**11,848**	**(1,035)**	**74,259**
Interest expense	(761)	(1,147)	(1,403)	(1,595)	(1,842)	(5,987)	(2,392)	(2,400)	(1,800)	(1,800)	(8,392)	(1,800)	(1,700)	(1,600)	(1,500)	(6,600)
Pre-tax income	**32,316**	**(14,436)**	**49,690**	**3,062**	**(4,554)**	**33,762**	**(5,204)**	**59,133**	**8,981**	**(3,847)**	**59,063**	**(2,933)**	**62,879**	**10,248**	**(2,535)**	**67,659**
Income tax (expense) benefit	(12,590)	5,919	(19,777)	(1,225)	1,867	(13,216)	2,018	(24,245)	(3,682)	1,577	(24,331)	1,203	(25,780)	(4,202)	1,039	(27,740)
Effective tax rate	39%	41%	40%	40%	41%	39%	-39%	41%	41%	41%	41%	41%	41%	41%	41%	41%
Net income	**19,726**	**(8,517)**	**29,913**	**1,837**	**(2,687)**	**20,546**	**(3,186)**	**34,889**	**5,299**	**(2,270)**	**34,731**	**(1,731)**	**37,098**	**6,046**	**(1,495)**	**39,919**
Pro-forma EPS diluted	**$1.41**	**($0.63)**	**$2.01**	**$0.11**	**($0.17)**	**$1.33**	**($0.19)**	**$2.08**	**$0.32**	**($0.14)**	**$2.07**	**($0.10)**	**$2.21**	**$0.36**	**($0.09)**	**$2.38**
Diluted average shares outstandin	14,040	13,600	14,895	16,768	16,760	15,506	16,358	16,760	16,760	16,760	16,760	16,760	16,760	16,760	16,760	16,760
Net Income GAAP	$16,828	($8,668)	$27,605	($689)	($2,687)	$15,561	($3,186)	$34,889	$5,299	($2,270)	$34,731	($1,731)	$37,098	$6,046	($1,495)	$39,919
EPS GAAP	$1.20	($0.64)	$1.85	($0.04)	($0.17)	$1.00	($0.19)	$2.08	$0.32	($0.14)	$2.07	($0.10)	$2.21	$0.36	($0.09)	$2.38
Margin analysis																
EBITDA	14.5%	-3.8%	31.5%	12.6%	6.9%	14.7%	8.5%	31.6%	15.6%	7.9%	18.1%	9.7%	32.2%	16.1%	8.4%	18.8%
Operating	7.6%	-15.6%	25.5%	3.4%	-2.0%	6.8%	-2.1%	25.8%	6.8%	-1.3%	9.9%	-0.9%	26.5%	7.4%	-0.7%	10.7%
Pre-tax	7.4%	-17.0%	24.8%	2.3%	-3.3%	5.8%	-4.0%	24.8%	5.7%	-2.5%	8.7%	-2.2%	25.8%	6.4%	-1.6%	9.8%
Net income	4.5%	-10.0%	14.9%	1.4%	-2.0%	3.5%	-2.4%	14.6%	3.3%	-1.5%	5.1%	-1.3%	15.2%	3.8%	-1.0%	5.8%
Y/Y growth %																
Revenue	1%	23%	11%	35%	61%	34%	54%	19%	17%	10%	16%	1%	2%	1%	2%	2%
EBITDA	0%	NM	8%	149%	799%	36%	NM	20%	45%	27%	43%	15%	4%	4%	8%	6%
Operating income	-3%	26%	0%	NM	-60%	20%	NM	20%	131%	-25%	70%	-60%	5%	10%	-49%	10%
Pre-tax income	-1%	NM	-3%	NM	NM	4%	NM	19%	193%	NM	75%	-44%	6%	14%	-34%	15%
Net income	5%	NM	-3%	NM	NM	4%	NM	17%	188%	NM	69%	-46%	6%	14%	-34%	15%
EPS	5%	NM	-9%	NM	NM	-6%	NM	4%	180%	NM	56%	-47%	6%	14%	-34%	15%

Source: Sidoti & Company, LLC and company reports.

Moody's INVESTORS SERVICE

Rating Action: Moody's assigns B1 to Churchill Downs' proposed $250 mil. notes; Ba3 CFR, stable outlook

Global Credit Research - 09 Dec 2013

New York, December 09, 2013 -- Moody's Investors Service assigned a B1 to Churchill Downs Incorporated's ("Churchill") $250 million senior unsecured notes due 2021. A Ba3 Corporate Family Rating, Ba3-PD Probability of Default Rating, SGL-1 Speculative Grade Liquidity Rating, and stable rating outlook were also assigned.

This is a first time rating assignment.

Proceeds from the proposed note issuance will be used to repay outstanding borrowings under Churchill's existing $500 million revolver (not rated) that expires in 2018.

Churchill is a provider of pari-mutuel horse racing, casino gaming, entertainment, and online account wagering on horse racing events. For the latest 12-month period ended September 30, 2013, the company generated net revenues of about $776 million. The company's largest asset is Churchill Downs Racetrack in Louisville, Kentucky, a thoroughbred racing operation and home of the Kentucky Derby.

New Ratings Assigned:

Corporate Family Rating at Ba3

Probability of Default Rating at Ba3-PD

$250 million senior unsecured notes 2021 at B1 (LGD 5, 77%)

Speculative Grade Liquidity rating at SGL-1

Stable rating outlook

RATINGS RATIONALE

Churchill's Ba3 Corporate Family Rating considers the strong history, popularity and performance stability of the Kentucky Derby, the company's annual thoroughbred live horse racing event held at Churchill Downs in Louisville, Kentucky. Also supporting the rating is Moody's expectation that Churchill will continue to generate substantial cash flow after interest, taxes, capital expenditures and dividends as well as maintain its relatively low leverage. Pro forma debt/EBITDA (incorporating Moody's standard adjustments) is about 2.5 times. In addition to the new note offering, this pro forma calculation includes an estimate of a full year's worth of EBITDA from the Oxford Casino located in Oxford, ME that the company acquired for $169 million in July 2013.

Key credit concerns include Moody's opinion that pari-mutuel horse racing, casino gaming, entertainment, and online account wagering on horse racing events a highly discretionary leisure activity with respect to consumer spending. Additionally, despite diversification efforts to date, a significant portion of Churchill's revenues and earnings still come from activities related to the Kentucky Derby.

The B1 rating on Churchill's proposed notes, one--notch lower than the company's Corporate Family Rating, acknowledges the potential for a considerable amount of secured debt ahead of it in the capital structure. The company has a $500 million senior secured revolving credit facility, approximately $80 million of which will be drawn pro forma for the note offering, that Moody's expects the company will use to fund expansion and diversification opportunities.

The stable rating outlook considers Moody's expectation that the company will continue to maintain debt/EBITDA at/or below 3.0 times over the long-term, while recognizing that there may be short periods where debt/EBITDA rises above 3.0 times as a result of acquisition activity.

The stable rating outlook also takes into account Churchill's very good liquidity profile, as indicated by its SGL-1 Speculative Grade Liquidity Rating. In addition to the company's positive free cash flow profile and significant availability under its revolver, there will be no significant long-term debt maturities until the proposed notes mature in 2021. Additionally, Moody's expects Churchill will easily maintain compliance with the leverage-based and coverage-based maintenance covenants contained in its bank agreement.

Although Churchill has achieved the financial metrics it needs to achieve a higher rating, an upgrade would require that the company achieve a greater degree of earnings diversification, while continuing to maintain debt/EBITDA at/or below 3.0 times. A negative rating action could result if, for any reason, Moody's believes debt/EBITDA will rise to and remain at/or above 4.5 times.

The principal methodology used in this rating was Global Gaming published in December 2009. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Keith Foley
Senior Vice President
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Janice Ann Hofferber
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.

JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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Research Update:

Churchill Downs Inc. Assigned 'BB' Corporate Credit Rating, Stable Outlook; $250 Million Proposed Notes Rated 'BB'

Primary Credit Analyst:
Melissa A Long, New York (1) 212-438-3886; melissa.long@standardandpoors.com

Secondary Contact:
Stephen Pagano, New York (1) 212-438-4484; stephen.pagano@standardandpoors.com

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Research Update:

Churchill Downs Inc. Assigned 'BB' Corporate Credit Rating, Stable Outlook; $250 Million Proposed Notes Rated 'BB'

Overview

- U.S. gaming and racing operator Churchill Downs Inc. plans to issue $250 million of senior unsecured notes to repay borrowings under its revolving credit facility.
- We are assigning our 'BB' corporate credit rating to Churchill Downs. We are assigning the notes our 'BB' issue-level rating with a recovery rating of '3'.
- The stable rating outlook reflects our expectation that leverage will remain in the low- to mid-1x area over the next two years, providing ample cushion for the company to pursue acquisition and development opportunities.

Rating Action

On Dec. 9, 2013, Standard & Poor's Ratings Services assigned its 'BB' corporate credit rating to Louisville, Ky.-based gaming and racing operator Churchill Downs Inc. The rating outlook is stable.

At the same time, we assigned Churchill Downs' proposed $250 million senior unsecured notes our 'BB' issue-level rating, with a recovery rating of '3', indicating our expectation for meaningful (50% to 70%) recovery for lenders in the event of a default.

The company will use the proceeds to repay borrowings under its revolving credit facility, and to pay transaction fees and expenses.

Rationale

Our assessment of Churchill Downs' business risk profile as "fair" reflects the company's exposure to consumer discretionary spending in the gaming space, the second-tier nature of some of the gaming markets in which the company operates, increasing competition in the online gaming space, participation in the horse racing industry, which has struggled to maintain profitability in the face of increasing competition from other forms of gaming, and a concentration of EBITDA in its racing segment in a single event (the Kentucky Derby).

These risks are mitigated by the strength of the Kentucky Derby, the company's focus on regional gaming markets, moderate geographic diversity of gaming assets, and the company's online business. The Kentucky Derby draws strong and consistent attendance, allowing the company to command ticket price premiums, as well as sizable viewership numbers, leading to long-term media contracts. The company's position in regional gaming markets provides moderate geographic diversity and greater stability of revenue, as regional gaming markets experienced a lower level of revenue volatility over the last economic cycle than destination markets. The company's position as a leading online pari-mutuel wagering company allows for the potential to leverage its online platform into new markets as states liberalize online gaming.

Our assessment of Churchill Downs' financial risk profile as "modest" reflects our expectation that leverage over the next two years will be in the low- to mid-1x area and that EBITDA coverage of interest will exceed 10x. Our assessment also takes into account the company's strong free operating cash flow generation.

We apply a downward adjustment of two notches to the rating because of our assessment of the company's financial policy. We believe that management actions could increase leverage compared with our base-case forecast. Churchill Downs has a history of making opportunistic acquisitions, and we expect the company will continue to do so if further opportunities arise. Additionally, we believe Churchill Downs could pursue development opportunities, if gaming were approved, at its Illinois and Kentucky racetracks. The uncertain timing of future opportunities in various states depends on the timeline of gaming legislation, licensure, and project development completion. We believe the company's actions regarding acquisitions and developments could lead to higher debt than assumed in our base case, and consequently weaker credit measures. We expect that in the event management pursued additional acquisitions or developments that leverage would remain below 4x, in line with previous historical peaks. This level of leverage would be consistent with a "significant" financial risk profile assessment, which is two categories weaker than our assessment of the company's current financial risk profile and the reason for the two-notch adjustment downward.

Our base case assumes:

- U.S. GDP and consumer spending growth of 2.6% and 2.5%, respectively, in 2014, and 3.1% and 2.7%, respectively, in 2015.
- Relatively flat racing revenue in 2014, and low single-digit growth in 2015. We expect growth in Kentucky Derby-related revenue will offset any further declines at the company's other three racetracks.
- Gaming revenue growth of about 15% in 2014, largely reflecting a full year of the Oxford Casino in the company's portfolio. In 2015, we expect gaming revenue growth to moderate to the low-single-digit percentage area, more in line with consumer spending growth.
- Online revenue growth in the low- to mid-single-digit percentage area over the next two years, reflecting improvement in economic indicators as well as increased liberalization of online gaming.
- On a consolidated basis, revenue growth in the mid-single-digit

percentage area in 2014 and in the low-single-digit percentage area in 2015.
- EBITDA growth in the mid-teens percentage area in 2014 reflecting incremental EBITDA in the higher margin gaming segment resulting from an acquisition and a more normalized level of corporate expenses. We expect EBITDA to grow in the low- to mid-single-digit percentage area in 2015.

Based on these assumptions, we arrive at the following credit measures:
- Leverage remains in the low- to mid-1x area through 2015.
- EBITDA coverage of interest remains above 10x through 2015.
- FFO/debt averages more than 50% the next two years.

Liquidity

We assess Churchill Downs' liquidity profile as "strong", according to our criteria, based on the company's likely sources and uses of cash over the next 12 to 18 months, and incorporating our performance expectations. We expect liquidity sources over this period to exceed uses by 1.5x or more and believe sources would exceed uses even if forecasted EBITDA declines by 30%. We believe Churchill Downs has a well-established and solid relationship with its bank group and generally very prudent risk management. We expect the company will maintain ample headroom under its covenants, such that a 30% decline in forecasted EBITDA would not result in a breach of financial covenants. Churchill Downs has no debt maturities until 2018 when its revolving credit facility matures.

Principal liquidity sources

- Unrestricted cash on the balance sheet, which totaled $43.8 million on Sept. 30, 2013. We believe most of this cash is required for operations.
- Availability under a $500 million revolving credit facility. Pro forma for this transaction, we expect the company will have about $413 million of availability under its revolver.
- Operating cash flow, which we expect to be about $150 million to $160 million over the next two years.

Principal liquidity uses

- Capital expenditures averaging about $30 million over the next two years.
- Capital contributions to its joint venture in Ohio with Delaware North of about $50 million.
- Dividends in the range of $15 million to $20 million over the next two years.
- Other possible uses of liquidity include share repurchases under its $100 million share repurchase authorization, additional acquisitions, or additional development spending.

Outlook

The stable rating outlook reflects our expectation that leverage will remain in the low- to mid-1x area over the next two years, providing ample cushion for the company to pursue acquisition and development opportunities. We expect leverage will remain below 4x, even in a scenario where the company completes additional acquisitions or pursues development opportunities.

Upside scenario

An upgrade could result if we came to believe that the company's financial policy would likely lead to leverage remaining below 3x even factoring in development and acquisition opportunities. We could also consider rating upside if future acquisitions and developments meaningfully increased the size and diversity of the company's cash flow base, such that our assessment of the company's competitive position improved.

Downside scenario

We believe a downgrade is unlikely given the company's low leverage and our expectation of relatively stable operating performance. While unlikely, we could lower the ratings if the company took a more aggressive approach toward acquisitions, development opportunities or returns to shareholders and/or operating performance deteriorated meaningfully, resulting in leverage remaining close to 4x.

Ratings Score Snapshot

Corporate Credit Rating: 'BB'

Business risk: Fair
- Country risk: Very low
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Modest
- Cash flow/leverage: Modest

Anchor: 'bbb-'

Modifiers
- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Negative (-2 notches)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Recovery analysis

For the complete recovery analysis, please see our recovery report on Churchill Downs Inc., to be published on RatingsDirect as soon as possible following the release of this report.

Related Criteria And Research

- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - Recovery: Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009

Ratings List

New Ratings

Churchill Downs Inc.	
Corporate Credit Rating	BB/Stable/--
Senior Unsecured	
$250 mil sr unsecd notes	BB
Recovery Rating	3

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Credit Suisse AG

Primary Credit Analyst:
Sean Cotten, Stockholm (46) 8-440-5928; sean.cotten@standardandpoors.com

Secondary Contacts:
Thierry Grunspan, Paris (33) 1-4420-6739; thierry.grunspan@standardandpoors.com
Markus W Schmaus, Frankfurt (49) 69-33-999-155; markus.schmaus@standardandpoors.com

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Credit Suisse AG

SACP	bbb+	+	Support	+2	+	Additional Factors	0

Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	0
Sovereign Support	+2

Issuer Credit Rating
A/Stable/A-1

Major Rating Factors

Strengths:	Weaknesses:
• A leading global private banking and investment banking franchise. • Demonstrated asset quality and a highly collateralized lending book. • Successful track record of improving cost efficiency and capitalization.	• Pronounced earnings volatility from investment banking. • International pressures on the investment banking and offshore wealth-management business model. • Considerable exposure to operational, litigation, and reputation risks.

Outlook: Stable

The stable outlook on Credit Suisse reflects Standard & Poor's Ratings Services' expectation that the bank's improving capital, earnings, and cost management mitigate further downside ratings pressure. Furthermore, we believe that the bank continues to have a strong global private banking franchise, and that it runs market leading and sustainable domestic operations.

We might take a positive rating action if the bank exceeded our expectations for capital generation, compensating for the inherent volatilities in its business and complex risks that could affect earnings.

We might consider a negative rating action if volatility in the investment banking business led to significantly weaker profitability.

Additionally, we note that the Swiss government is still considering measures to ensure that its support of highly systemic banking groups in a crisis would result from choice rather than necessity. We could lower our ratings on Credit Suisse if we saw materially diminished prospects that the government would provide support to the bank's senior creditors in a crisis, unless we see offsetting improvements in the bank's stand-alone credit profile (SACP).

Rationale

We base our ratings on Credit Suisse on its 'a-' anchor and our view of its "adequate" business position, reflecting the balance between the inherent volatility and uncertainty of its investment banking revenues and the strength and diversification of its global franchise. We view capital and earnings as "adequate," reflecting significant recent improvements in our capital ratios for Credit Suisse, inherent revenue volatilities, and the complexity of underlying risks in our forecasts of Credit Suisse's capital ratios.

We view Credit Suisse's risk position as "moderate," reflecting tail risks, complex market risks from investment banking, and substantial litigation and operational risks in the private and investment banking activities. We view funding as "average" and liquidity as "adequate," owing to Credit Suisse's relatively solid funding and liquidity metrics, but high share of nonguaranteed deposits and high market-confidence sensitivity.

In addition, we view Credit Suisse as having high systemic importance in Switzerland, which adds two notches of uplift to the SACP of 'bbb+'.

Anchor: 'a-', owing to the Swiss home market and a global blend of exposures

The 'a-' anchor reflects Credit Suisse's regulatory domicile, Switzerland, and its mix of exposures in Europe, North America, and Asia-Pacific.

Our bank criteria use the economic risk and industry risk scores from our Banking Industry Country Risk Assessment methodology to determine a bank's anchor, the starting point in assigning an issuer credit rating. We assess the economic risk for Credit Suisse based on our calculation of the weighted average of its regulatory gross credit exposure in the countries and regions in which it operates: 35% in Switzerland, 35% in Europe, 25% in the U.S. and the rest of the Americas, and 5% in Asia-Pacific. Consequently, our anchor for Credit Suisse is 'a-', lower than the 'a' anchor for a bank operating only in Switzerland.

We view Switzerland as a highly diversified and competitive economy, benefiting from one of the highest GDPs per capita in the world and very robust government finances. We believe Switzerland demonstrates a conservative risk and lending culture, which has accompanied recent moderate growth of house prices and loan portfolios.

The Swiss banking industry is supported by its sizable and very stable customer deposit base. Pure domestic Swiss banks have not loosened credit standards in recent years, thanks to sound earnings potential from core products. We consider regulatory standards to be more stringent than in other developed countries.

Table 1

Credit Suisse Group AG Key Figures

		--Year-ended Dec. 31--			
(Mil. CHF)	**2013***	**2012**	**2011**	**2010**	**2009**
Adjusted assets	886,845.0	915,648.0	1,040,286.0	1,022,949.0	1,021,832.0
Customer loans (gross)	240,903.0	237,145.0	229,323.0	213,859.0	230,644.0
Adjusted common equity	31,432.0	24,466.0	16,891.8	16,283.0	16,137.2
Operating revenues	18,547.0	23,111.0	22,322.0	28,160.0	31,547.0

Table 1

Credit Suisse Group AG Key Figures (cont.)					
Noninterest expenses	13,545.0	19,003.0	20,555.0	21,795.0	22,634.0
Core earnings	3,466.3	3,341.0	987.2	4,808.1	6,527.0

*Data as of Sept. 30. CHF--Swiss franc.

Business position: Pressure on investment banking model and revenues, despite resilience of domestic operations and global franchises

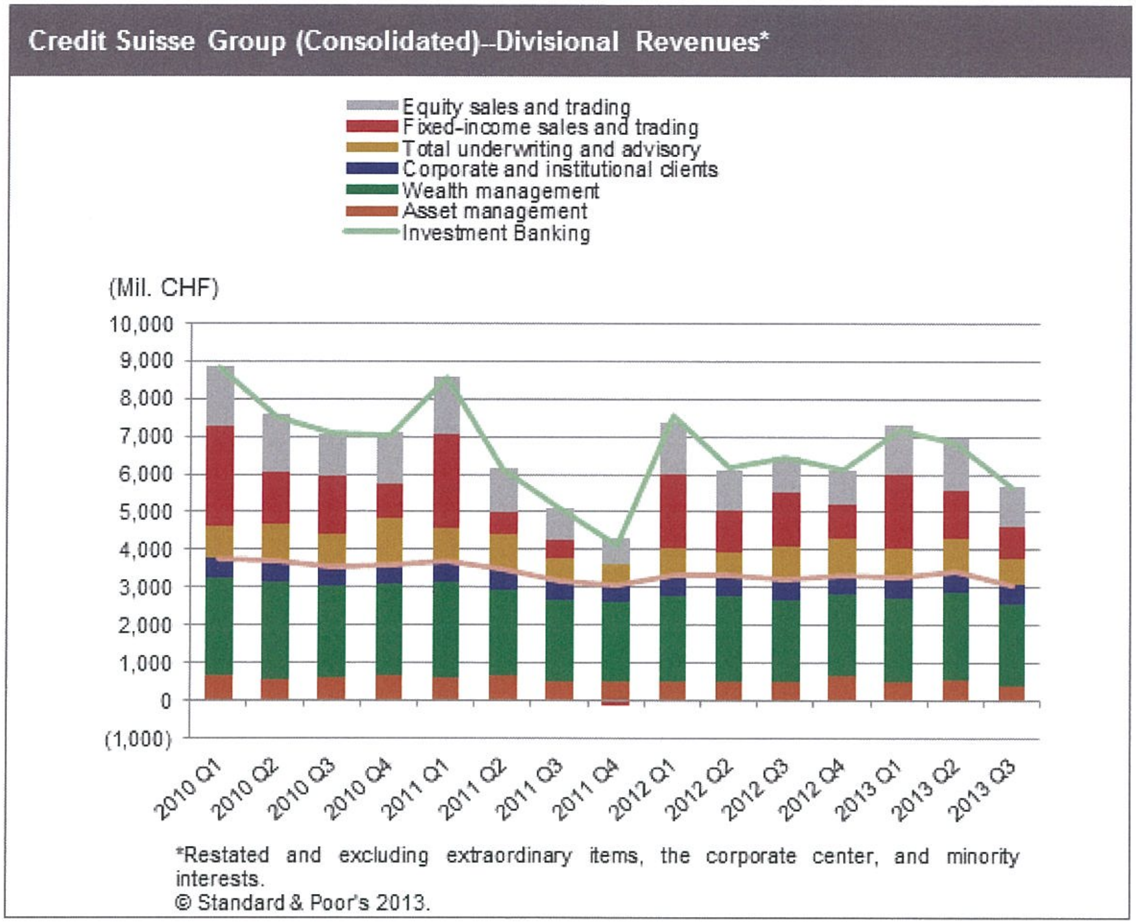
We regard Credit Suisse's business position as "adequate." This reflects the balance between volatilities inherent to the investment banking business and the strength and diversification of Credit Suisse's global franchises in wealth management and investment banking. We view the group's domestic position in corporate and residential lending, and diverse revenues by geography and business line, as stabilizing factors.

In our view, international regulatory pressures could significantly affect revenues and funding costs and lead to potential further changes to the bank's business model. We believe global regulatory initiatives are increasingly demanding for capital market operations. As a result, there will likely be fewer attractive business opportunities for regulated and systemically important banks. We believe that future regulations could lead to further restructuring of banks' business models and legal structures.

We see Credit Suisse's recent decisions to create nonstrategic units within its investment- and private-banking divisions as signs that the global universal banking model is changing. The announcement in November 2013 of changes in the bank's legal structure serves as additional evidence that resolution regimes and nationalized regulation of legal entities are affecting Credit Suisse's operating model.

The 2013 implementation of Basel III capital requirements in Switzerland forced Credit Suisse to act sooner than European and many global peers in terms of regulatory compliance and business restructuring. However, ongoing market volatility, regulatory pressures, and uncertainty about global monetary policy continue to affect the bank's strategy. In our view, Credit Suisse's plan to reduce capital allocated to investment banking in favor of the private banking operations will improve overall business and revenue stability. This is shown by the significant difference in volatility of quarterly revenues of the investment bank and the private banking and wealth management divisions (see chart 1).

Chart 1



Investment banking contributes a significant share of Credit Suisse's revenues, making it one of the most reliant among U.S. and large European peers on capital market revenues. In the first three quarters of 2013, sales and trading represented 39% of the bank's revenues, and origination and advisory 12%. This is in line with the 54% aggregate from investment banking in 2012. In our view, these revenues are susceptible to the unwinding of global stimulus measures, as shown by the impact of speculation on U.S. monetary policy and depressed market activity on revenues over the past two quarters. These market pressures are compounded by regulatory pressure on the business models, legal structures, capital, and leverage of Credit Suisse and its global peers. Although we expect Credit Suisse to maintain its strong equity and securitization franchises, we note that it is further reducing its fixed-income interest rates business to address the unit's poor return on Basel III capital requirements.

The Private Banking & Wealth Management division generates reliable revenues and profits for the group (see chart 1). However, considerable changes are underway and tax authorities' challenge of banking secrecy laws will continue to affect all Swiss private banks. In this respect, we believe Credit Suisse's global reach and investment banking services make it better able than smaller peers to overcome these hurdles. We view Credit Suisse's decision to scale back its private banking operations in certain countries and exit smaller or less profitable markets as a means to reallocate capital to business in emerging markets and with high- and ultra-high net worth individuals, which provide higher net margins than the mass-affluent customer segment. In addition, the domestic operations, serving corporate and institutional clients, provide stable revenues and strong asset quality.

Credit Suisse has recently announced the improved transparency of its nonstrategic businesses. As of Sept. 30, 2013, the bank reported Swiss franc (CHF) 25 billion (about €20 billion) of regulatory risk-weighted assets as nonstrategic, including existing wind-down and restructuring initiatives. We expect the run-off of legacy and capital-intensive exposures to free up capital for growth in Private Banking & Wealth Management and higher dividends. Importantly, the run-offs should remove more than CHF60 billion from the Swiss leverage ratio calculations by 2015 and lower the bank's total regulatory capital requirements.

Table 2

Credit Suisse Group AG Business Position

		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Total revenues from business line (mil. CHF)	18,575.0	22,191.0	23,532.0	28,160.0	32,386.0
Commercial banking/total revenues from business line	8.4	9.6	8.1	6.5	5.6
Retail banking/total revenues from business line	36.2	40.3	37.6	34.2	29.9
Commercial & retail banking/total revenues from business line	44.5	49.9	45.7	40.7	35.5
Trading and sales income/total revenues from business line	41.9	43.6	34.5	45.0	57.7
Corporate finance/total revenues from business line	12.8	14.5	12.8	14.2	9.6
Asset management/total revenues from business line	9.5	11.1	9.5	8.7	6.0
Other revenues/total revenues from business line	(8.7)	(19.1)	(2.5)	(8.6)	(8.9)
Investment banking/total revenues from business line	54.7	58.1	47.3	59.2	67.3
Return on equity	9.6	3.2	5.2	13.9	18.9

*Data as of Sept. 30. CHF--Swiss franc.

Capital and earnings: Significant ratio improvements, due to deleveraging and capital initiatives

Our assessment of Credit Suisse's capital and earnings as "adequate" reflects our conservative approach; in our base case, we project the risk-adjusted capital (RAC) ratio to approach 12% over the next 18-24 months. Although this RAC ratio level exceeds our 7%-10% range for "adequate" capital, we continue to view Credit Suisse's capital and earnings as neutral to the rating. The main reason is that our capital framework doesn't fully capture the risk and earnings profile inherent to investment banking. We remain cautious about our ability to evaluate the bank's market and operational tail risks and forecast potential capital-market returns, litigation and restructuring costs, or regulatory fines. Consequently, we reflect the inherent volatilities in Credit Suisse's businesses and the complexity of the underlying risks in our overall assessment of capital and earnings.

The improvement of Credit Suisse's capital over the past two years reflects the bank's efforts to comply with Basel III regulatory capital requirements. Credit Suisse has increased its core equity, restructured business that tied up capital, and reduced its balance sheet to meet Swiss leverage requirements. In June 2013, the RAC ratio was 10.7%, twice that at year-end 2011 and among the highest ratios for Europe's largest banks. We also note an increase in the bank's reported exposure at default (EAD), due to Basel III implementation, which we estimate reduces our ratio by 30 basis points versus peers', which will continue to report according to Basel 2.5 until 2014. In addition, our RAC methodology does not take account of two new items under Basel III: reported exposures to central counterparties and credit exposures on uncollateralized derivative contracts. We therefore have not included associated exposures in our calculation of the RAC ratio for Credit Suisse or its peers.

We expect further capital improvements to be more modest. Credit Suisse's recent guidance indicates that the reduction of noncore portfolios will largely be replaced by additional lending at the Private Banking & Wealth Management division. Also, as of second-quarter 2013, the bank had reached its look-through Swiss core equity Tier 1 target of 10%, and indicated an increase in cash dividends starting this year. Our RAC ratio calculations already include the maximum admissible hybrid capital instruments, which limits the upside of future hybrid issuance.

Our capital and earnings assessment considers Credit Suisse's comparably higher reliance on hybrids. In Europe, Credit Suisse has one of the highest shares of hybrids and deferred tax assets (DTA) in our total adjusted capital (TAC) measure: 36% as of September 2013. TAC is the numerator of the RAC ratio, and this measure reflects DTA due to timing differences, and excludes tax loss carry forwards. We expect Credit Suisse's DTA to decrease somewhat, given the impact of excess DTA on the bank's Basel III regulatory capital ratios.

However, we expect Credit Suisse to maintain a high share of high- and low-trigger convertible hybrids. As of Sept. 30, 2013, TAC contained more than CHF10 billion of hybrids, including CHF4.1 billion of legacy Tier 1 instruments that were converted to Basel III-compliant contingent capital instruments in October 2013. We note that the bank issued $2.25 billion in additional Tier 1 capital instruments in December 2013, which more than compensates for the call of a $1.5 billion loss-absorbing hybrid in the same month and could improve the capital position further.

Table 3

Credit Suisse Group AG Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Tier 1 capital ratio	17.0	19.4	15.2	17.2	16.3
S&P RAC ratio before diversification	N.M.	9.3	5.2	5.4	5.2
S&P RAC ratio after diversification	N.M.	11.2	6.1	6.4	6.2
Adjusted common equity/total adjusted capital	75.2	67.7	75.2	75.2	75.2
Net interest income/operating revenues	34.4	30.9	28.8	23.2	21.8
Fee income/operating revenues	45.8	48.9	49.1	42.4	37.3
Market-sensitive income/operating revenues	14.1	8.4	17.1	31.9	37.7
Noninterest expenses/operating revenues	73.0	82.2	92.1	77.4	71.7
Preprovision operating income/average assets	0.7	0.4	0.2	0.6	0.8
Core earnings/average managed assets	0.5	0.3	0.1	0.5	0.6

*Data as of Sept. 30. N.M.--Not meaningful.

Table 4

Credit Suisse Group AG RACF [Risk-Adjusted Capital Framework] Data

(Mil. CHF)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	64,841	4,257	7	2,034	3

Table 4

Credit Suisse Group AG RACF [Risk-Adjusted Capital Framework] Data (cont.)

Institutions	53,655	15,426	29	12,340	23
Corporate	187,381	85,253	45	138,903	74
Retail	162,025	22,027	14	38,977	24
Of which mortgage	97,905	10,675	11	27,165	28
Securitization§	44,973	14,309	32	22,916	51
Other assets	7,682	30,319	395	8,514	111
Total credit risk	520,557	171,591	33	223,685	43
Market risk					
Equity in the banking book†	4,725	11,580	281	32,783	694
Trading book market risk	--	42,987	--	58,399	--
Total market risk	--	54,567	--	91,181	--
Insurance risk					
Total insurance risk	--	--	--	2,375	--
Operational risk					
Total operational risk	--	44,788	--	68,308	--
(Mil. CHF)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		289,747		385,548	100
Total Diversification/Concentration Adjustments		--		(58,985)	(15)
RWA after diversification		289,747		326,563	85
(Mil. CHF)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		45,989	15.9	41,339	10.7
Capital ratio after adjustments‡		45,989	15.9	41,339	12.7

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CHF--Swiss franc. Sources: Company data as of June. 30, 2013, Standard & Poor's.

Risk position: Vulnerable to capital market fluctuations, regulatory developments, and litigation risks

We assess Credit Suisse's risk position as "moderate," reflecting the bank's vulnerability to capital market developments and the liquidity necessary for trading in securities and derivatives. The group is also exposed to risks in securities underwriting and private equity, and in particular litigation risks in its investment banking and wealth management lines. In our view, these risks remain high, despite the bank's ongoing progress in improving its risk profile, and continue to overshadow the asset quality strengths in the bank's loan book.

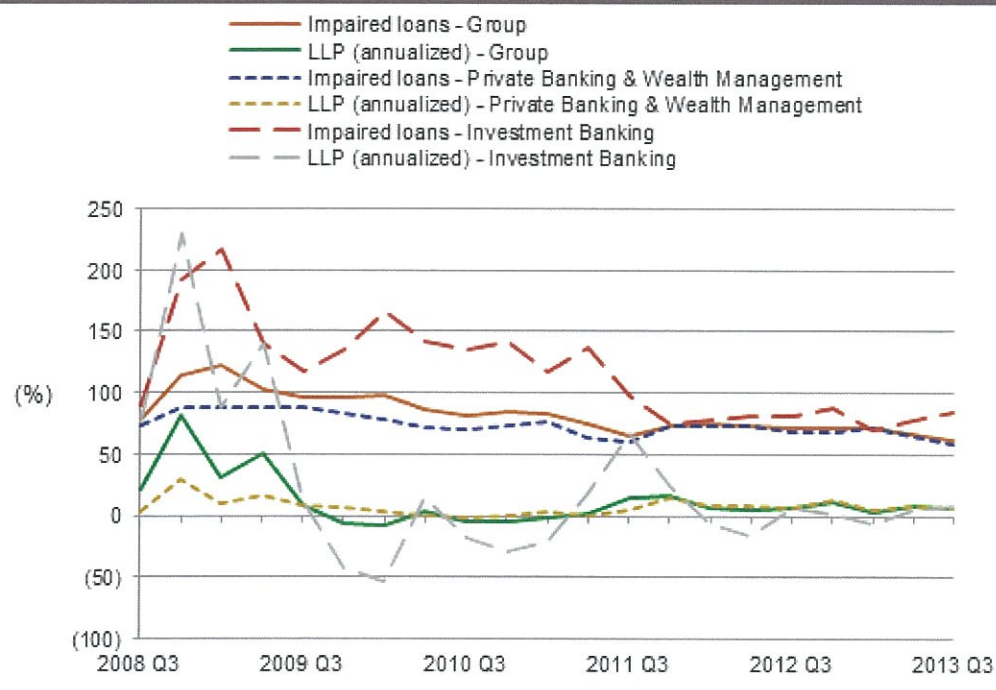
Credit Suisse's risk profile includes a relatively high share of market and operational risks. The bank has significant trading and private-equity portfolios, given its position as a major global investment bank, significant issuer of securitized instruments, and alternative asset manager. These risks continue to cause volatility of bottom-line earnings at the Investment Banking division. This is even though the bank has made significant progress in reducing its cost base, including changes that lowered our risk-weighted assets figure for total market risk by 38% as of June 30, 2013, compared with December 2011.

We believe litigation risk remains a threat to Credit Suisse's profitability, although it has so far avoided some of the larger fines received by several global peers. Nevertheless, we note that litigation risks and regulatory fines have been increasing across the industry, with a specific focus on large, global investment banks. We understand that Credit Suisse is cooperating in several proceedings and believe the group could be subject to further litigation, leading to increases in extraordinary reserves. We also note that Credit Suisse and most of its Swiss private banking peers are still waiting for resolution of the U.S. tax evasion investigation. We believe that indicative potential fines may exceed current provisions, and we have factored these expectations into our assessment of capital.

The asset quality of the lending book remains high, and we expect it to be solid over our two-year rating horizon, given the resilience of the Swiss economy and high collateral levels. Even at the peak of the 2008 financial crisis, Credit Suisse's impaired loans and provisions were minimal, in particular within the private bank, which comprises nearly 85% of total lending (see chart 2).

Chart 2

Credit Suisse Group (Consolidated)--Gross Impaired Loans And Loan Loss Provisions As A Share Of Gross Loans



We don't foresee a dramatic increase in provisions for the domestic loan book in the next two years, despite our concerns about growing economic imbalances. Switzerland, alongside Germany, has the lowest economic risks of any country covered by our Banking Industry Country Risk Assessments, and we regard individual and corporate repayment capacity as high. We believe that the present low-interest-rate environment and our view of the bank's strong underwriting, high-wealth clients, and high share of collaterized Lombard loans and income-generating commercial property loans continue to support the bank's low credit risk.

In our view, volatility in capital markets and assumptions for modeling asset valuations can significantly affect Credit Suisse's profits. Lending comprises less than 40% of Credit Suisse's earning assets. Trading securities, including illiquid or marked-to-model securities, reverse repos (repurchase agreements), market-making, and trading positions comprise 55%-60% of the balance-sheet assets. We note that Credit Suisse reported 47% of its consolidated assets and 33% of its liabilities at fair value in September 2013, of which 8% (mainly trading assets and investments) and 6% (mainly long-term funding and derivatives) were classified as Level 3, which means they are valued based on unobservable assumptions, and could be subject to stepwise changes in value.

Table 5

Credit Suisse Group AG Risk Position

		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Growth in customer loans	2.1	3.4	7.2	(7.3)	0.7
Total diversification adjustment / S&P RWA before diversification	N.M.	(17.2)	(14.9)	(16.6)	(15.7)
Total managed assets/adjusted common equity (x)	28.5	37.8	62.1	63.4	63.9
New loan loss provisions/average customer loans	0.1	0.1	0.1	(0.0)	0.2
Net charge-offs/average customer loans	0.1	0.1	0.1	0.1	0.3
Gross nonperforming assets/customer loans + other real estate owned	0.5	0.5	0.5	0.6	0.7
Loan loss reserves/gross nonperforming assets	71.7	76.7	87.7	75.2	85.1

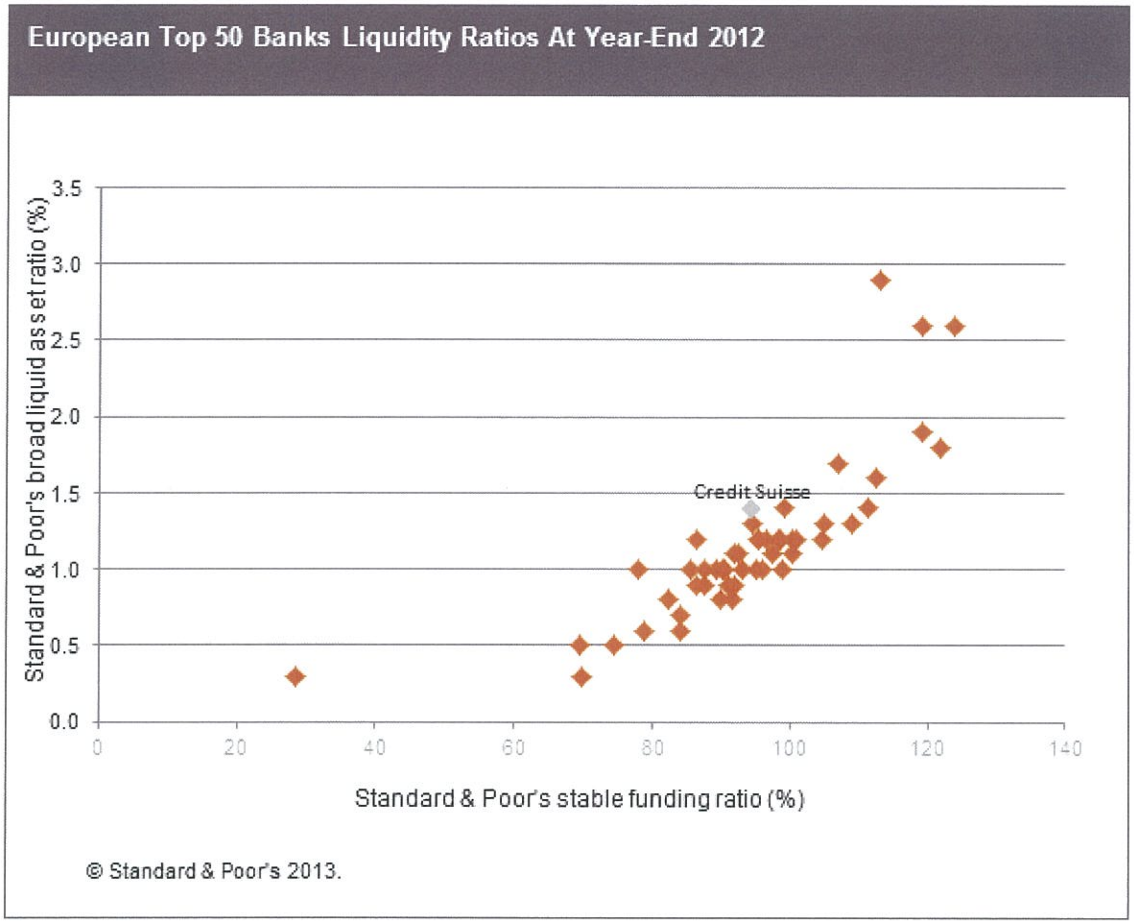
*Data as of Sept. 30. N.M.--Not meaningful.

Funding and liquidity: Significant matched funding and a large deposit base

We view Credit Suisse's funding as "average" compared with that of domestic peers, and its liquidity position as "adequate." This assessment considers both the bank's active management of asset and liability mismatches and the inherent funding risks associated with the low share of deposit guarantees and high market-confidence sensitivity, given the short-term nature of a large portion of the balance sheet.

We believe that the bank adequately manages its asset and liability mismatches. This is supported in part by the bank's early adoption of the regulatory net stable funding ratio and management of liquidity risks. The ratio of broad liquid assets to short-term wholesale funding was 1.5x in September 2013, and the stable funding ratio was 95%, showing an adequate match of assets and liabilities. Both measures are above the average among large European banks (see chart 3). However, they are somewhat lower than those of smaller domestic peers. We note that netting brokerage receivables and payables would improve our stable funding ratio by about 10 percentage points, given the large share of brokerage receivables on the bank's balance sheet.

Chart 3



Despite adequate ratios, there are additional factors that we consider in our assessment of Credit Suisse's funding. We consider wealth management deposits to be more sensitive to bank-specific risks than those in mass-market retail banking, given the lack of guaranteed deposits and higher proportion of high net worth and ultra-high net worth individuals in the deposit base. Moreover, we consider the risks from structured funding to be higher, given uncertain maturity, which could significantly shorten the anticipated duration of approximately 20% of the bank's long-term debt.

The rapid contraction of the bank's balance sheet has resulted in a lower reliance on wholesale funding and issuance of senior debt in recent years. Customer deposits now represent 45% of the funding base, compared with 34% at year-end 2011. As of Sept. 30, 2013, the tenor and size of about one-third of Credit Suisse's reported assets and liabilities on its CHF895 billion balance sheet were substantially equivalent. The remaining CHF595 billion in assets (62% loans and illiquid assets and 38% liquid assets) were funded by 20% of short-term borrowings, 22% long-term debt, 50% customer deposits, and 8% equity.

Table 6

Credit Suisse Group AG Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Core deposits/funding base	44.9	40.3	34.5	33.5	35.5
Customer loans (net)/customer deposits	80.5	82.8	82.0	80.0	82.3
Long term funding ratio	65.4	61.9	56.3	58.3	58.3
Stable funding ratio	95.4	94.1	96.3	95.7	92.9
Short-term wholesale funding/funding base	37.1	40.5	45.9	44.2	44.3
Broad liquid assets/short-term wholesale funding (x)	1.5	1.4	1.4	1.4	1.3
Net broad liquid assets/short-term customer deposits	86.6	85.2	118.2	135.7	126.7
Short-term wholesale funding/total wholesale funding	65.4	65.5	68.5	64.4	67.1

*Data as of Sept. 30.

External support: Two notches of uplift to the SACP for potential government support

The long-term rating on Credit Suisse is two notches higher than the SACP, reflecting Credit Suisse's high systemic importance in Switzerland and our assessment of the Swiss government as supportive to the local banking industry. However, the Swiss authorities are taking steps to strengthen the major banks under the so-called "too-big-to-fail" regime, which requires higher capital buffers and includes provisions relating to recovery, resolution plans, and intervention measures. Their aim is to ensure that, over the long term, the government's provision of wide-ranging support to highly systemic banking groups in a crisis would stem from choice rather than necessity.

We continue to monitor developments but, despite the existence of the bank resolution regime, we currently expect the Swiss government to remain "supportive" of the domestic banking system. In our view, the orderly resolution of a systemically important Swiss bank would be technically very difficult, and we are not certain it would preserve systemic stability today. Therefore, we continue to include government support uplift in our ratings on the largest Swiss banks, including Credit Suisse. However, success in regulatory reforms targeting balance-sheet repair and strengthening via the too-big-to-fail regime, together with the bank resolution regime, could in future reduce the prospect of government capital support for banks' senior bondholders, in our opinion.

We may begin to reduce or remove uplift for potential extraordinary government support if we consider that the success of regulatory reforms is credible and predictable enough to prevent contagion risk and significant negative unintended consequences related to the disruption of essential banking services to the economy.

Additional rating factors: None

No other factors affect the ratings.

Group ratings: Credit Suisse Group AG and core subsidiaries

Credit Suisse Group AG (CSG) is the group's holding company and parent company of Credit Suisse, which is by far CSG's largest subsidiary. Credit Suisse and its subsidiaries conduct the majority of banking business, and Credit Suisse owns stakes in most other group subsidiaries. Due to structural subordination, we rate CSG one notch lower than Credit Suisse.

In November 2013, Credit Suisse announced future changes to its legal structure, most notably, the creation of an entity for all its Swiss operations. In our view, the changes are driven by the Swiss regulator's aim to simplify resolution of the country's global banks. The changes also prepare the group for the issuance of senior debt with bail-in features out of the holding company, Credit Suisse Group AG. We continue to regard the four rated subsidiaries--Credit Suisse (USA) Inc., Credit Suisse Securities (USA) LLC, Credit Suisse Securities (Europe) Ltd., and Credit Suisse International--as core to Credit Suisse's global operations. Our ratings on these entities are therefore in line with those on Credit Suisse AG.

We also rate Credit Suisse's New York and Cayman Islands branches at the same level as Credit Suisse AG. We rate two highly strategic Mexican subsidiaries--Casa de Bolsa Credit Suisse Mexico and Banco Credit Suisse Mexico--'mxAAA', using our Mexico national scale.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Analytical Approach To Assessing Nonoperating Holding Companies, March 17, 2009

Related Research

- Western European Banks Race To Plug Their €110 Billion Capital Shortfall, Dec. 12, 2013
- Banking Industry Country Risk Assessment: Switzerland, Dec. 6, 2013
- Resolution Plans For Global Banks May Eliminate Government Support For Some, But Progress Is Varied, Dec. 4, 2013
- Mainly Negative Rating Actions Taken On 4 Large European Banks, July 3, 2013
- Credit Suisse Long-Term Rating Lowered To 'A' On Revised Assessment of Investment Banking Risks; Outlook Stable, July 2, 2013
- How The Swiss Bank Resolution Regime Affects Government Support For Its Banks, Nov. 29, 2012
- Bulletin: Credit Suisse AG Ratings And Outlook Unaffected By Announced Capital Measures, July 19, 2012

Anchor Matrix

Industry Risk	Economic Risk 1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	**a-**	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 20, 2013)

Credit Suisse AG	
Counterparty Credit Rating	A/Stable/A-1
Commercial Paper	
Foreign Currency	A-1
Junior Subordinated	BBB-
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Subordinated	BBB-
Counterparty Credit Ratings History	
02-Jul-2013	A/Stable/A-1
29-Nov-2011	A+/Negative/A-1
19-Dec-2008	A+/Stable/A-1
Sovereign Rating	
Swiss Confederation (Unsolicited Ratings)	AAA/Stable/A-1+
Related Entities	
Banco Credit Suisse Mexico S.A.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
Casa de Bolsa Credit Suisse Mexico S. A. de C. V.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
Credit Suisse AG (Cayman Islands Branch)	
Issuer Credit Rating	A/Stable/A-1
Credit Suisse AG (New York Branch)	
Issuer Credit Rating	A/Stable/A-1
Short-Term Debt	A-1

Ratings Detail (As Of December 20, 2013) (cont.)	
Credit Suisse Group AG	
Issuer Credit Rating	A-/Stable/NR
Junior Subordinated	BB+
Junior Subordinated	BB-
Preferred Stock	BB+
Preferred Stock	BBB
Senior Unsecured	A
Senior Unsecured	A-
Short-Term Debt	A-1
Subordinated	BBB-
Credit Suisse International	
Issuer Credit Rating	A/Stable/A-1
Junior Subordinated	BBB-
Senior Unsecured	A
Senior Unsecured	B-
Short-Term Debt	A-1
Credit Suisse Securities (Europe) Ltd.	
Issuer Credit Rating	A/Stable/A-1
Credit Suisse Securities (USA) LLC	
Issuer Credit Rating	A/Stable/A-1
Credit Suisse (USA) Inc.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preferred Stock	BBB-
Senior Unsecured	A
Subordinated	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Summary:
Credit Suisse AG

Primary Credit Analyst:
Sean Cotten, Stockholm (46) 8-440-5928; sean_cotten@standardandpoors.com

Secondary Contacts:
Thierry Grunspan, Paris (33) 1-4420-6739; thierry_grunspan@standardandpoors.com
Markus W Schmaus, Frankfurt (49) 69-33-999-155; markus_schmaus@standardandpoors.com

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Summary:

Credit Suisse AG

SACP	a-	+	Support	+2	+	Additional Factors	0

Anchor	a-	
Business Position	Strong	+1
Capital and Earnings	Adequate	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	0
Sovereign Support	+2

Issuer Credit Rating
A+/Negative/A-1

Major Rating Factors

Strengths:

- A global private banking and investment banking franchise.
- Demonstrated asset quality and a highly collateralized lending book.
- Successful track record of improving cost efficiency and capitalization.
- Solid funding and liquidity profile and management.

Weaknesses:

- Pronounced earnings volatility from investment banking.
- International pressures on the wealth and asset management business model.
- High reliance on market and customer confidence.
- Considerable exposure to operational, litigation, and reputation risks.

Outlook: Negative

Standard & Poor's Ratings Services' negative outlook on Switzerland-based Credit Suisse AG reflects the uncertainty of the bank's business position given international pressures on cross-border tax collection. In addition, persistent macroeconomic deterioration and regulatory pressures are suppressing revenues and activity in the capital markets and remain a threat to the bank's business model.

Since November 2011, Credit Suisse has made significant progress in implementing measures to improve risk-adjusted returns in its investment- and private-banking divisions and to reduce costs. We also note that the capital position has improved substantially following capital measures announced in July 2012.

We could change the outlook to stable if Credit Suisse appeared able to maintain a strong overall franchise over the coming years and reduce risks in the investment banking division, leading to more predictable earnings and capital generation. We could also revise the outlook to stable if we were to take a more positive view of the bank's capital. In particular, we note the bank's announcement of a 12% reduction in total assets by year-end 2013, which could significantly improve our view on its capital and leverage.

We could lower the ratings if international pressures on the private banking business model or subdued activity in capital markets weakened Credit Suisse's global business position. Furthermore, we anticipate that regulatory measures to isolate investment banking activities and limit trading activity (the "Volcker" rule) could lead us to reevaluate Credit Suisse's business position.

Finally, we note the Swiss government's measures to ensure that, over the long term, its provision of wide-ranging support to highly systemic banking groups in a crisis would stem from choice rather than necessity. We continue to monitor developments, but for now remain unconvinced that the government would risk the potential adverse economic consequences of allowing a major financial institution to default. However, we could lower the ratings on Credit Suisse if we saw diminished prospects that the government would provide support to the bank to the benefit of senior creditors.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Bulletin: Credit Suisse AG Ratings And Outlook Unaffected By Announced Capital Measures, July 19, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Group Methodology, April 22, 2009
- Analytical Approach To Assessing Nonoperating Holding Companies, March 17, 2009

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
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2	a	a-	**a-**	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:
Credit Suisse AG

Primary Credit Analyst:
Sean Cotten, Stockholm (46) 8-440-5928; sean.cotten@standardandpoors.com

Secondary Contacts:
Thierry Grunspan, Paris (33) 1-4420-6739; thierry.grunspan@standardandpoors.com
Markus W Schmaus, Frankfurt (49) 69-33-999-155; markus.schmaus@standardandpoors.com

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Summary:

Credit Suisse AG

SACP	bbb+
Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

\+

Support	+2
GRE Support	0
Group Support	0
Sovereign Support	+2

\+

Additional Factors	0

Issuer Credit Rating
A/Stable/A-1

Major Rating Factors

Strengths:

- A leading global private banking and investment banking franchise.
- Demonstrated asset quality and a highly collateralized lending book.
- Successful track record of improving cost efficiency and capitalization.

Weaknesses:

- Pronounced earnings volatility from investment banking.
- International pressures on the investment banking and offshore wealth-management business model.
- Considerable exposure to operational, litigation, and reputation risks.

Outlook: Stable

The stable outlook on Credit Suisse reflects Standard & Poor's Ratings Services' expectation that the bank's improving capital, earnings, and cost management mitigate further downside ratings pressure. Furthermore, we believe that the bank continues to have a strong global private banking franchise, and that it runs market leading and sustainable domestic operations.

We might take a positive rating action if the bank exceeded our expectations for capital generation, compensating for the inherent volatilities in its business and complex risks that could affect earnings.

We might consider a negative rating action if volatility in the investment banking business led to significantly weaker profitability.

Additionally, we note that the Swiss government is still considering measures to ensure that its support of highly systemic banking groups in a crisis would result from choice rather than necessity. We could lower our ratings on Credit Suisse if we saw materially diminished prospects that the government would provide support to the bank's senior creditors in a crisis, unless we see offsetting improvements in the bank's stand-alone credit profile (SACP).

Rationale

We base our ratings on Credit Suisse on its 'a-' anchor and our view of its "adequate" business position, reflecting the balance between the inherent volatility and uncertainty of its investment banking revenues and the strength and diversification of its global franchise. We view capital and earnings as "adequate," reflecting significant recent improvements in our capital ratios for Credit Suisse, inherent revenue volatilities, and the complexity of underlying risks in our forecasts of Credit Suisse's capital ratios.

We view Credit Suisse's risk position as "moderate," reflecting tail risks, complex market risks from investment banking, and substantial litigation and operational risks in the private and investment banking activities. We view funding as "average" and liquidity as "adequate," owing to Credit Suisse's relatively solid funding and liquidity metrics, but high share of nonguaranteed deposits and high market-confidence sensitivity.

In addition, we view Credit Suisse as having high systemic importance in Switzerland, which adds two notches of uplift to the SACP of 'bbb+'.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Analytical Approach To Assessing Nonoperating Holding Companies, March 17, 2009

Related Research

- Western European Banks Race To Plug Their €110 Billion Capital Shortfall, Dec. 12, 2013
- Banking Industry Country Risk Assessment: Switzerland, Dec. 6, 2013
- Resolution Plans For Global Banks May Eliminate Government Support For Some, But Progress Is Varied, Dec. 4, 2013
- Mainly Negative Rating Actions Taken On 4 Large European Banks, July 3, 2013
- Credit Suisse Long-Term Rating Lowered To 'A' On Revised Assessment of Investment Banking Risks; Outlook Stable, July 2, 2013
- How The Swiss Bank Resolution Regime Affects Government Support For Its Banks, Nov. 29, 2012
- Bulletin: Credit Suisse AG Ratings And Outlook Unaffected By Announced Capital Measures, July 19, 2012

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	**a-**	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

STANDARD & POOR'S

Global Credit Portal®

RatingsDirect®

July 4, 2011

Summary:

Credit Suisse AG

Primary Credit Analyst:
Markus Schmaus, Frankfurt (49) 69-33-999-155; markus_schmaus@standardandpoors.com

Secondary Contact:
Thierry Grunspan, Paris (33) 1-4420-6739; thierry_grunspan@standardandpoors.com

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Summary:

Credit Suisse AG

Credit Rating: A+/Stable/A-1

Rationale

The ratings on Credit Suisse AG, its holding company Credit Suisse Group AG (CSG), and their related entities reflect Standard & Poor's Rating Services' opinion of the stand-alone credit profile of the consolidated Credit Suisse group of companies (collectively CS). Standard & Poor's does not allocate specific uplift for potential extraordinary government support above the group's stand-alone credit profile. Nevertheless, we consider CS to be of high systemic importance to the Swiss Confederation (Switzerland; unsolicited AAA/Stable/A-1+) and hence would expect extraordinary and timely government support to be forthcoming if needed.

Our ratings reflect CS's status as a large internationally active financial services group with strong global franchises in investment banking and private banking. We believe that CS has an established brand in private banking services including wealth management for individual, corporate, and institutional clients. In addition, the group's market position benefits from its sound client franchises in the investment banking division, in particular in cash equities, prime services for hedge funds, and trading of residential mortgage-backed securities. We expect CS to continue to expand these divisions, thereby defending its leading market positions.

We consider CS's solid liquidity and proven access to funding distinct rating strengths. CS benefits from a substantial deposit base, which stood at Swiss franc (CHF) 293 billion (about $350 billion) at end-March 2011, mostly generated by the group's private banking activities, which gives it a favorable loan-to-deposit ratio of 76% (2010: 76%, 2009: 83%). At end-March 2011, 39% of CS's balance sheet was match funded and CS reportedly had liquid assets for emergency use totaling CHF150 billion. We expect CS to maintain strong a liquidity position in comparison with other large European banks, as it already has to comply with rigorous Swiss legislation governing large institutions.

Furthermore, we take a positive view of CS's diverse customer loan base and lack of extraordinary concentration risks. Unlike its global peers, CS's loan portfolio includes a large proportion of highly collateralized loans complemented by residential mortgages which we believe are generally less risky due to CS's strict underwriting standards and the absence of a housing bubble in the domestic real estate market. Of gross loans, private banking accounted for 83% and investment banking 17% at end-March 2011 (2009: 74% and 26%, respectively). Gross impaired loans (including potential problem loans) decreased to a moderate 0.8% of gross loans (2010: 0.9%, 2009: 1.1%). We expect CS to maintain very sound loan quality coupled with reduced reliance on static models when deriving credit decisions.

We believe that the pronounced earnings volatility of the investment banking division is a rating weakness, though we expect lower amplitudes in future. Revenues in both the investment banking and private banking divisions fluctuate in line with market conditions. Although revenues are mostly client related, volatility persists due to dependence on trading. In our view, however, CS's record in managing costs should allow the bank to at least partly offset profit fluctuations induced by market sentiment. In 2009-2010, the average contribution of investment banking revenues amounted to 56% of net revenues on a quarterly basis. This compares with 59% in the first quarter of 2011, a maximum 65% in the second quarter of 2009, and a minimum 47% in the fourth quarter of 2010.

Trading and private equity continue to expose CS to significant market risk. However, we believe that the bank's focus on more liquid and less volatile customer-related businesses are positive developments. In addition, the bank's improved value-at-risk method addresses past weaknesses in accurately assessing volatility levels. We will closely monitor how CS and its competitors adjust their risk appetite in a more positive operating environment and how potentially higher risks are managed.

We believe that heavy reliance on market and customer confidence exposes CS to various risks, which could damage its business model. Those risk categories include operational, legal, reputational, and regulatory risk.

Capital under our methodology remains a comparative weakness. At end-2010, CS's risk adjusted capital (RAC) ratio (as adjusted by Standard & Poor's) stood at 5.4% before diversification adjustments (6.5% after), a level similar to that of the previous year (5.3% and 6.2%, respectively). We expect that moderate risk-weighted asset growth, lower tax losses carried forward, a decrease in the fair value of own debt, and declining non-loss absorbing minorities will, in line with profit retention, lead to a materially improved RAC ratio by end-2011. Total adjusted capital, our key capital measure, improved by 17% to €25.7 billion at end-March 2011 due to retained earnings, lower equity deductions, and a higher proportion of allowable hybrids. This lifts the RAC ratio to 6.4% of risk weighted assets as at end-2010, before diversification. We expect that the bank's active preparations for increased capital requirements under Basel III through its issuance of convertible contingent capital notes in 2011 and potentially other measures will support its overall capital position.

Outlook

The stable outlook reflects our view that CS will be able to continue to build on its resilient performance during the recent global crisis by leveraging its leading global franchise. We believe that CS could benefit from extraordinary government support given its high systemic importance. While we do not expect CS to require support in the short term, such support would provide a buffer against any unexpected weakening of its stand-alone credit profile.

We could consider downgrading CS, notwithstanding our view that the government would likely provide support if needed, if the group's RAC ratio does not increase sustainably or if its credit profile significantly weakens. We believe the most likely scenario for a downgrade would be unexpected extreme market events causing strong credit deterioration across the overall portfolio. Furthermore, we would view it negatively if declining wealth management margins were to lead to more pronounced reliance on volatile investment banking revenues. Finally, reputational issues remain a key risk stemming from both the investment banking and private banking operations.

A positive rating action could result from a materially stronger capital position according to our definitions combined with a continued stable business profile and continued focus on risk reduction. We expect that stricter regulatory rules will positively impact CS's risk management and ultimately the group's financial profile.

Additional Contacts:
Scott Bugie, Paris (33)1-4420-6680; scott_bugie@standardandpoors.com
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Additional Contacts:

Scott Bugie, Paris (33)1-4420-6680; scott_bugie@standardandpoors.com
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Global Credit Portal®
RatingsDirect®

April 28, 2010

Summary:
Credit Suisse AG

Primary Credit Analyst:
Markus Schmaus, Frankfurt (49) 69-33-999-155; markus_schmaus@standardandpoors.com

Secondary Credit Analyst:
Thierry Grunspan, Paris (33) 1-4420-6739; thierry_grunspan@standardandpoors.com

Table Of Contents

Summary:
Credit Suisse AG

Credit Rating: A+/Stable/A-1

Rationale

The ratings on Credit Suisse AG, Credit Suisse Group AG (CSG), and their related entities reflect Standard & Poor's Ratings Services' opinion of the stand-alone credit profile (SACP) of the consolidated Credit Suisse group of companies (collectively CS) and do not include specific uplift for potential future government support. Nevertheless, we believe that government support would be forthcoming if needed because it considers Credit Suisse to be of high systemic importance to the Swiss Confederation (Switzerland; AAA/Stable/A-1+).

The ratings are based on CS' major franchises and what we regard as the sound profitability of its private banking unit. This is thanks to its: resilient generation of new business, mainly in onshore markets; highly-collateralized loan book that is a lower risk than peers'; absence of an outsized, illiquid, structured portfolio risk; strong liquidity position; and high share of retail and private banking customer deposits.

In our opinion, these factors are partly offset by CS' business profile as an investment-banking and wealth management-oriented institution that has inherently high earnings volatility and sensitivity to investor and counterparty confidence; general pressure on the Swiss offshore private banking market, as well as sizable operational and reputational risks derived from the business model of a combined investment and private bank; uncertainties about investment banks' general lack of preparation to tackle events linked to tail risks, mainly in market risk; and the asset management unit, which is still underperforming compared with the rest of the group.

Nevertheless, CS has so far weathered the ongoing market turbulence comparably well, in our view. CS acted early in 2007, by swiftly reducing the volume and proprietary trades on non-core and illiquid assets. Consequently, we believe that earnings volatility in 2010 will be lower than in previous quarters.

However, in our view, CS is still dependent on overall capital market activity because we expect investment banking to continue determining the level of top-line revenues. We believe that CS' private banking unit will report resilient results, although we expect the operating margins to become increasingly squeezed by the unit's investment in more costly onshore private banking operations. At the same time, we think that the deferred variable compensation elements that CS introduced in early 2009 may weigh on bottom-line performance in the coming years.

On Dec. 31, 2009, CS reported market-leading regulatory capital levels and a Tier 1 ratio of 16.3%, a figure that substantially strengthened during the year. We estimate our risk-adjusted capital (RAC) ratio for CS to be around 8%, based on preliminary data at the same date. Capitalization remains sound, and our estimated 8% ratio at year-end 2009 effectively exceeds the average RAC ratio of 6.7% for the world's top 45 banks, based on end-June 2009 data. However, the level remains well below CS' regulatory capital levels. We expect CS to continue to prepare the group for the pending regulatory adjustments on capital requirements, which, in our view, will likely challenge its currently comfortable position.

Outlook

The stable outlook on CS reflects our belief that the risk of further material trading-related charges is now well within the group's capability to absorb losses through operating profitability and sound capitalization. Balance sheet downsizing should, in our opinion, further benefit capital and liquidity, but might also squeeze earnings. We believe that CS is prepared for continued pressure on the Swiss offshore private banking market, because of the group's broad international network to provide onshore services. However, in our view, this will result in cost increases in the short term. Moreover, we believe that potential government support-- although we see this as unlikely to be needed in the near term--would mitigate a further pronounced dilution of CS' SACP. We expect the group to further continue shifting its risk-weighted assets (RWAs) to strategic areas, and to reduce the volatility of its bottom-line performance. This should, in our opinion, further benefit capital and liquidity, but might also squeeze earnings.

We could downgrade CS, notwithstanding our assumption of government support in case of need, if volatile trading results or charges threaten capital or customer confidence. We see positive rating implications coming from a return to stronger profitability, together with structurally lower risk-taking and strong capitalization under our RAC methodology, although we consider this to be currently unlikely.

Related Criteria And Research

- FI Criteria: Bank Rating Analysis Methodology Profile, published on March 18, 2004
- Methodology And Assumptions: Risk_adjusted Capital Framework For Financial Institutions, published on April 21, 2009
- "Methodology: Hybrid Capital Issue Features: Update On dividend Stoppers, Look-Backs, And Pushers, published on Feb. 10, 2010
- Assumptions: Clarification Of The Equity Content Categories Used For bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, published on Feb. 9, 2010
- Assumptions: Implications Of The December 2009 Basel III Proposals For Our Bank Hybrid Criteria, published on Feb. 9, 2010
- A Turbulent 2009 for European Bank Hybrids, With More Change To Come In 2010, published on Feb. 9, 2010

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

MOODY'S
INVESTORS SERVICE

Credit Opinion: Credit Suisse Group AG

Global Credit Research - 30 Dec 2013

Zurich, Switzerland

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured MTN	(P)A2
Subordinate MTN	(P)Baa3
Jr Subordinate MTN	(P)Ba1
Credit Suisse AG	
Outlook	Stable
Bank Deposits	A1/P-1
Bank Financial Strength	C-
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Issuer Rating	A1
Senior Unsecured	A1
Subordinate -Dom Curr	Baa2
Jr Subordinate MTN	(P)Baa3
Pref. Stock	(P)Ba1 (hyb)
Pref. Stock Non-cumulative	Ba1 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1

Contacts

Analyst	Phone
David Fanger/New York City	1.212.553.1653
Alessandro Roccati/London	44.20.7772.5454
Robert Young/New York City	1.212.553.1653
Mario Mico/London	44.20.7772.5454

Key Indicators

Credit Suisse Group AG (Consolidated Financials)[1]

	[2]**9-13**	[3]**12-12**	[3]**12-11**	[4]**12-10**	[4]**12-09**	**Avg.**
Total Assets (CHF million)	**895,169.0**	**924,280.0**	**1,049,165.0**	**1,032,005.0**	**1,031,427.0**	[5]**-3.5**
Total Assets (EUR million)	**731,321.1**	**765,899.8**	**864,296.1**	**825,305.1**	**695,423.8**	[5]**1.3**
Total Assets (USD million)	**989,957.4**	**1,009,755.8**	**1,121,981.6**	**1,107,182.7**	**997,752.8**	[5]**-0.2**
Tangible Common Equity (CHF million)	**41,370.0**	**34,285.4**	**29,485.0**	**30,035.9**	**30,634.7**	[5]**7.8**
Tangible Common Equity (EUR million)	**33,797.8**	**28,410.4**	**24,289.6**	**24,020.0**	**20,655.0**	[5]**13.1**
Tangible Common Equity (USD million)	**45,750.6**	**37,456.0**	**31,531.4**	**32,223.9**	**29,634.5**	[5]**11.5**
Net Interest Margin (%)	**1.2**	**0.9**	**0.8**	**0.8**	**0.8**	[6]**0.9**
PPI / Average RWA (%)	**2.8**	**2.0**	**1.0**	**3.2**	**5.0**	[7]**2.8**
Net Income / Average RWA (%)	**1.7**	**1.6**	**0.6**	**2.5**	**3.4**	[7]**2.0**
(Market Funds - Liquid Assets) / Total Assets (%)	**-13.9**	**-10.1**	**-9.9**	**-8.6**	**-7.7**	[6]**-10.0**
Core Deposits / Average Gross Loans (%)	**133.1**	**129.1**	**139.2**	**126.0**	**119.1**	[6]**129.3**
Tier 1 Ratio (%)	**17.0**	**19.4**	**15.2**	**15.9**	**14.5**	[7]**16.4**
Tangible Common Equity / RWA (%)	**15.5**	**15.3**	**12.2**	**13.7**	**12.3**	[7]**13.8**
Cost / Income Ratio (%)	**70.1**	**79.5**	**88.9**	**73.2**	**59.5**	[6]**74.2**
Problem Loans / Gross Loans (%)	**0.6**	**0.7**	**0.7**	**0.8**	**1.0**	[6]**0.8**

Problem Loans / (Equity + Loan Loss Reserves) (%)	**3.0**	**3.9**	**4.4**	**4.7**	**5.5**	[6]**4.3**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Swiss Capital Requirements/Basel III; US GAAP [3] FINMA Basel II.5; US GAAP [4] Basel II; US GAAP [5] Compound Annual Growth Rate based on US GAAP reporting periods [6] US GAAP reporting periods have been used for average calculation [7] FINMA Basel II/II.5 and US GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Credit Suisse Group AG is the parent bank holding company of Credit Suisse AG, a systemically important Swiss-based bank with sizeable international operations. The bank is rated A1/P-1 for deposits and senior debt, while the holding company's senior unsecured MTN program is rated (P)A2. The holding company is rated one notch below the senior rating of Credit Suisse AG to reflect the structural subordination inherent in holding company obligations. The bank financial strength rating (BFSR) of Credit Suisse, which reflects the stand-alone baseline credit assessment of the bank, is currently C-, mapping to a baa1 equivalent on Moody's long-term scale.

Credit Suisse's baseline credit assessment of baa1 reflects the risks posed to creditors by the firm's significant exposure to capital market activities, offset by the lower risk profile and more stable earnings derived from its large global wealth management franchise and well-positioned domestic Swiss banking franchise, the bank's pro-active approach to risk management, and the bank's sound liquidity management. The assessment also reflects Credit Suisse's regulatory risk-based capital position, which, consistent with our expectations, has improved significantly over the past year and is now above the median of its peers. This is somewhat offset by the firm's still relatively high leverage, although we expect that this position will also improve. Finally, the bank's stand-alone credit assessment also incorporates Switzerland's "safe haven" status which we believe has helped to insulate Credit Suisse from market instability and the more volatile funding environment elsewhere in Europe.

The bank's deposit and senior debt ratings benefit from three notches of uplift from the stand-alone credit assessment, reflecting our assumptions about the likelihood of support from the Swiss government for senior creditors in the event such support was required to prevent a default.

Rating Outlook

The outlook on all ratings is stable. Notwithstanding profit pressures stemming from the challenging macroeconomic and regulatory environment, we believe the ratings are well positioned, reflecting the firm's strengths as well as the cyclical nature of its business.

Rating Drivers

- Large global capital markets intermediary with a significant level of wholesale funding, a more volatile earnings profile, and a confidence-sensitive customer base.

- Large global wealth management franchise and well positioned domestic retail and commercial banking franchise generate a stable stream of earnings, mitigating to some extent the volatility of the capital markets business.

- Good risk management, with a highly proactive approach to risk taking, risk limits and controls.

- Sound liquidity position and conservative liquidity management, although an extended period without access to wholesale funding would nonetheless mandate significant balance sheet shrinkage that could impair franchise value and earnings.

- Improved capital ratios, albeit still high balance sheet leverage.

- Switzerland's "safe haven" status has helped to insulate Credit Suisse from market instability and the more volatile funding environment elsewhere in Europe.

- Improving profitability although still under pressure from regulatory changes and macroeconomic uncertainty.

What Could Change the Rating - Up

Given the bank's high ratings compared with most of its global capital markets peers, we do not expect significant upward pressure on the bank's ratings absent a significant and sustainable reduction in the bank's reliance on earnings from its global capital markets business (e.g. to less than 30% of total profits).

Upward pressure on the ratings could also arise if Credit Suisse were to have earnings from non-capital markets businesses, capital, liquidity, and risk management and controls that were all unambiguously stronger than most peers.

What Could Change the Rating - Down

Our C-/baa1 standalone credit assessment incorporates a degree of volatility stemming from Credit Suisse's large global investment bank. However, any indications of control or risk management failures, a marked increase in risk appetite, a significant decline in the Swiss economy or deterioration in the trajectory of the bank's capital or liquidity position would put downward pressure on the ratings.

A downgrade could also result from a reduction in our assumptions regarding the likelihood of support for senior creditors from the Swiss government in the event such support was required to prevent a default. We expect to closely monitor the changes the bank has proposed to redefine its legal entity structure as well as the implementation of the Swiss "too big to fail" legislation. We believe that in simplifying its structure, Credit Suisse may reduce one of the main obstacles to the resolvability of global and highly interconnected institutions like Credit Suisse. This could make an orderly resolution without government support more feasible, reducing the likelihood of systemic support for senior creditors in the future.

Recent Results

For a discussion of recent results, please see Moody's latest earnings commentary at http://www.moodys.com/credit-ratings/Credit-Suisse-Group-AG-credit-rating-446100?atagqt=001&viewtabid=0

DETAILED RATING CONSIDERATIONS

LARGE GLOBAL INVESTMENT BANKING ACTIVITIES CONSTRAIN CREDITWORTHINESS

In Moody's opinion, firms with sizeable global capital markets activities such as Credit Suisse pose risks for creditors. Adverse developments in such activities, whether systemic or idiosyncratic, can often lead to rapid deterioration in the creditworthiness of a firm. Negative credit attributes of global investment banks include the confidence sensitivity of customers and funding counterparties, substantial interconnectedness with other large capital markets intermediaries, a heavy reliance on wholesale funding, a high degree of opacity of risk taking, a high velocity of risk positions (including periodic large concentrated positions), and a more volatile earnings profile. While a more diversified business profile can provide some offset to these risks, rapidly changing capital markets risk positions may expose these firms to unexpected losses that can overwhelm the resources of even the largest, most diversified groups.

While Credit Suisse is more reliant on earnings from its capital markets activities than many of its large universal bank peers, the bank is nonetheless rated higher than most of its global capital markets peers. One key factor supporting the bank's ratings are the stronger (on a risk-adjusted basis) and more stable earnings generated by the bank's large global wealth management franchise (CHF 812.1 billion of assets under management as of 30 September 2013) and its well-positioned domestic retail and commercial banking franchise. Together, these businesses contribute roughly half of the bank's total earnings. Although the wealth management business is not immune to cyclical variables, Moody's believes that wealth management earnings are generally less volatile than earnings from the more traditional banking activities at many of Credit Suisse's universal bank peers because the wealth management business has more limited credit risk and greater geographic diversification.

Despite the buffers provided by its more stable businesses, Credit Suisse's earnings volatility was higher than the median of its global investment bank peers during the financial crisis. In response, Credit Suisse's investment bank has undergone a significant restructuring that is intended to reduce the level of earnings volatility going forward. In October 2013, Credit Suisse announced further efforts to restructure some of its businesses, most notably by restructuring its rates business within fixed income sales and trading, and by exiting a large number of smaller international markets within wealth management. The bank also announced it is forming a non-strategic unit within each of its two principal business segments to contain all businesses being runoff or restructured. In addition, Credit Suisse announced a long term target for Basel III risk-weighted assets (RWA) allocated to

Investment Banking of around 50% from its prior target of 57%. Investment Banking RWA currently account for 65% of groupwide RWA. We view these as positive further steps in the bank's efforts to achieve stronger and less volatile returns from less capital intensive businesses, and ultimately to achieve returns on capital that satisfy shareholders. Nonetheless, the execution risk around such changes poses risks for bondholders in the interim.

We believe that the firm's goal of stronger and less volatile returns has yet to be achieved. And with roughly half of its earnings coming from investment banking, we believe Credit Suisse may be challenged to step back from excessive risk taking when markets become more ebullient and its peers become more aggressive. We believe the high level of historical earnings volatility and the relative reliance on investment banking undermines any argument for a higher standalone credit assessment based on franchise value.

PRO-ACTIVE RISK MANAGEMENT A CRITICAL STRENGTH GIVEN OPPORTUNISTIC RISK APPETITE

Credit Suisse's pro-active approach to risk management is a critical strength supporting the bank's ratings. In Moody's view, the financial crisis significantly tested Credit Suisse's risk positioning. While some elements held up well, in other areas the bank's risk positioning was found wanting. The firm's large exposures in leveraged loans, residential real estate/RMBS and commercial real estate/CMBS, revealed a sizeable risk appetite, and the protection provided by hedges was by no means complete. This led to a greater level of earnings volatility than expected, exceeding that of many of the bank's global investment bank peers.

In the aftermath of the crisis Credit Suisse has implemented several programs to reduce risk positions and volatility in its investment banking business, often in advance of its peers. The bank has also adopted a more pro-active approach to risk management, reducing position limits, introducing more robust stress testing, enhanced risk monitoring, and exiting a number of more capital intensive trading and investment banking activities. Initially the bank also aggressively built out other, less capital intensive capital markets activities to offset the lost earnings. However, some of those efforts, most notably in commodities and foreign exchange, have been scaled back after meeting with only mixed success.

During 2013 the bank further refined its investment banking business in response to the increased capital requirements under Basel III. While these actions resulted in a significant reduction in Basel III risk-weighted assets in the Investment Bank (down 16% from September 2012 to September 2013) and the risk management average Value-at-Risk within the Investment Bank (down 31% from the 9 months September 2012 to the 9 months September 2013), total utilized economic capital allocated to the Investment Bank under the bank's economic capital framework was little changed over the same time period. We think the divergent signals sent by these various risk metrics highlights the importance of using a variety of risk metrics in assessing the riskiness of capital markets activities.

We believe Credit Suisse's risk management will be tested by the bank's plans to grow RWA in its wealth management business. While credit risk within this business segment has traditionally been relatively modest, the bank plans to accelerate loan growth, which could expose the bank to greater credit risk. In addition, the bank's exposure to Swiss mortgages is substantial, and we believe that portions of the Swiss real estate market are vulnerable to a correction which would likely increase credit costs for the bank. We view positively the fact that the bank has been willing to cede market share rather than compete more aggressively on underwriting; to the extent this were to change, it could put pressure on the ratings.

Prior to and during the financial crisis Credit Suisse experienced a number of significant control issues. In each case Credit Suisse discontinued the business and/or took steps to correct the problems and enhance its procedures to prevent practices of this type for occurring in the future. Nonetheless, the seriousness of these control issues remains a concern for Moody's. While the bank has already accrued significant litigation provisions (CHF 1.2 billion at year-end 2012 plus CHF 0.5 billion in net litigation provisions recorded during the first nine months of 2013), we believe it remains exposed to potential additional litigation-related charges stemming from past control failures. As of 30 September 2013 the bank estimated that its range of possible but not probable losses not covered by existing reserves for which an estimate is possible was between zero and CHF 2.2 billion.

HIGHER REGULATORY CAPITAL REQUIREMENTS BEING ADDRESSED BUT LEVERAGE REMAINS ELEVATED

While Credit Suisse has long reported strong risk-based regulatory capital ratios, until recently these ratios reflected relatively low risk weights on the bank's capital markets activities as well as a relatively sizeable reliance on hybrid capital securities qualifying as Tier 1 capital. The Swiss adoption of Basel 2.5 in 2011 and Basel III in 2013 significantly increased the risk weights on many capital markets-related exposures and also imposed restrictions on the use of hybrid capital. As a result, Credit Suisse is facing significantly higher capital requirements, although the stricter Basel III requirements are being phased in over six years.

During 2013 the bank made significant progress in improving its capital structure in response to the increased capital requirements. Much of the improvement was due to significant reductions in both the bank's Basel III "look-through" risk-weighted assets (down 15% from CHF 307 billion at September 2012 to CHF 261 billion at September 2013) and its total leverage exposure (down 16% from CHF 1,405 billion to CHF 1,184 billion over the same period). In addition Credit Suisse added capital through the retention of earnings, the exchange of existing non-qualifying subordinated debt and hybrid securities, the conversion of CHF 3.6 billion in mandatory and contingent convertible securities and the issuance of CHF 4.1 billion in low trigger capital notes with contractual principal write-down clauses.

These and other actions have resulted in a more than doubling of Credit Suisse's Basel III "look-through" common equity tier 1 (CET1) ratio in a little over a year, to 10.2% as of September 2013, up from 8.0% at year-end 2012 and an 4.7% at June 2012. The bank's look-through CET1 ratio now exceeds the Swiss minimum required by 2019. In addition, the quality of Credit Suisse's other capital ratios have improved. As of September 2013 95% of the bank's reported tier 1 capital was compromised of common equity tier 1, in contrast with 61% at year-end 2011.

Credit Suisse's Swiss leverage ratio has also improved, to 4.5% at September 2013 on a phase-in basis and 3.2% on a look-through basis (3.5% pro forma for an already agreed upon exchange of legacy Tier 1 hybrid capital into high-trigger Tier 1 contingent convertible securities). The phase-in leverage ratio exceeds the current Swiss phase-in minimum requirement by a considerable amount. However, bank's common equity tier 1 leverage ratio on a look-through basis was only 2.2% at the same date, and its tier 1 leverage ratio was 2.4% (2.7% pro forma for the exchange of Tier 1 instruments). These are low relative to many of the bank's peers and as such are a credit weakness. However, we expect that the bank's leverage position will improve to a level more in line with peers. In this regard, the bank has revised its long-term target Swiss leverage exposure to CHF 1,070 billion, which is 10% below its September 2013 level. In addition, the bank issued $2.25 billion in additional tier 1 capital in December 2013. Both of these will help boost the bank's leverage ratio.

With the achievement of Credit Suisse's previously announced look-through Swiss core capital ratio target of 10%, the bank plans to begin making significant cash returns to shareholders. We therefore expect the rate of improvement in Credit Suisse's capital ratios is likely to slow in 2014 as the bank returns more capital to shareholders. Depending upon the extent of any dividend hikes or share buybacks, this could weaken the bank's credit standing relative to its peers. To the extent that the bank's capital position were to fall significantly below that of its peers, it could put negative pressure on the bank's ratings.

LIQUIDITY POSITION IS SOUND, ALTHOUGH WHOLESALE FUNDING RELIANCE REMAINS SIGNIFICANT

Credit Suisse, as the second largest commercial bank in Switzerland and the second largest private bank globally, retains a large and stable base of retail and private bank customer deposits. At 30 September 2013, customer deposits (excluding wholesale certificates of deposit) exceeded loans (excluding loans with banks) by a factor of 1.24, up slightly from 1.20 at December 2012. Total liquid assets exceeded total market funds by 13.9% of total assets at 30 September 2013, up from 10% as of year-end 2012.

Credit Suisse's liquidity management is based on a prudent liquidity model which incorporates a severe stress scenario and it has maintained its liquidity well in excess of its minimum coverage level. At 30 September 2013, Credit Suisse had a CHF 137 billion liquidity pool, compromised of CHF 55 billion in cash held at major Central Banks, CHF 51 billion in securities issued by highly rated governments and government agencies, and CHF 31 billion in other highly liquid assets including equity securities that form the part of major equity indices. This liquidity pool was 115% of the bank's CHF 119 billion in total short-term unsecured wholesale borrowing, excluding LT debt maturing within one year. Given the bank's sizeable reliance on capital markets activities and secured short-term wholesale funding, we believe this excess is prudent, reflecting the potential additional collateral calls and cash outflows to which the firm could be subject in a stress scenario.

At 30 September 2013 the bank estimated that its Basel III net stable funding ratio (NSFR) was in excess of 100%, although it did not publish details of this calculation. The bank has not published an estimate of what its liquidity coverage ratio (LCR) would be under the Basel III framework. During the first half of 2013 the bank's liquidity profile deteriorated slightly as the bank reduced its more liquid assets to shrink its balance sheet while also reducing its long-term debt. We estimate that at 30 June 2013 the bank's core funding, including shareholders' equity, long-term debt maturing beyond one year and Moody's estimate of the bank's core deposits, was 93% of its illiquid assets, down from 100% at year-end 2012 and 101% at year-end 2011. In contrast, most of the bank's peers improved their structural liquidity profile over this time period. However, in the third quarter the bank's liquidity profile improved, and this ratio increased to 103%. With the pending adoption of the LCR we believe the bank will take the necessary steps to strengthen its liquidity profile.

Notwithstanding the reduction in the bank's balance sheet during the first nine months of 2013, the bank still has a heavy reliance on wholesale funding to fund liquid trading inventory and customer positions, and its overall volume of secured and unsecured wholesale funding is substantial. As a result, in the event the bank's access to market funding (including secured wholesale funding) was disrupted for an extended period of time, it would likely lead to a significant reduction in capital markets assets held on the bank's balance sheet, or else require the bank to access central bank financing. This could increase the stress on franchise value and earnings at what would likely already be a highly stressful period.

SYSTEMIC SUPPORT REMAINS LIKELY FOR SENIOR UNSECURED CREDITORS, BUT CERTAINTY COULD DIMINISH GOING FORWARD

Moody's deposit and senior unsecured debt ratings of A1/Prime-1 for Credit Suisse AG incorporate three notches of uplift from the baa1 stand-alone baseline credit assessment. This reflects our view that there is a very high likelihood of support from the Swiss government for senior creditors in the event such support was required to prevent a default, given Credit Suisse's importance to the Swiss financial system as a whole and to the nation's payment systems, as well as its role as a major counterparty in global financial markets.

In September 2011 the Swiss Parliament passed into law requirements that systemically important financial institutions (SIFIs) comply with more comprehensive and stricter regulations. As of January 1, 2013, the Swiss version of the Basel III framework along with the Swiss "Too Big To Fail" legislation and regulation came into force. These regulations apply to Credit Suisse and require higher capital charges, higher liquidity shock absorbing capacity, and lower limits on concentration risks. In addition, the SIFIs including Credit Suisse have to provide a Recovery and Resolution Plan (RRP) to FINMA for approval. If effective, this will allow the Swiss regulator (FINMA) to split off the important functions from the rest of the institution and let the less relevant parts wind down in a controlled manner.

In August 2013, FINMA published a position paper outlining possible resolution strategies for Switzerland's two global systemically important banks, UBS and Credit Suisse. The paper stated the Swiss banking regulator's preference for a Single Point of Entry (SPE) approach for the resolution of these institutions. Under the SPE approach the resolution authority would sit with the national regulator responsible for the consolidated supervision of the group and would focus on the top level company within the group.

We consider this position paper an important step towards an effective resolution regime for these two banks. However, given the very limited amount of debt outstanding at Credit Suisse Group AG, the top tier entity in the group, we believe that SPE would be difficult to implement successfully at present. Furthermore, a considerable amount Credit Suisse's outstanding debt has been issued by legal entities outside of Switzerland and not under Swiss law. We believe this is also significant hurdle to the successful implementation of SPE.

The fallback option for Swiss authorities would be the break-up of the group which might include a sale of entities and business lines or a wind-down of the non-viable parts of the group while the systemically important functions are preserved. We believe the current structure of the group would make this difficult to achieve, but it could potentially put senior unsecured creditors at greater risk of loss since, in a resolution, bondholders could end up in the part of the bank that is not systemically relevant and hence is less likely to survive. However, given the high risk of contagion across the banking system, we think burden-sharing with senior debt holders is still unlikely for Swiss SIFIs.

In November 2013 Credit Suisse unveiled a plan that would modify its legal entity structure whereby, amongst other actions, a newly created banking subsidiary would be set up in Switzerland acting as the booking centre for domestic retail, corporate and wealth management businesses. In addition, Credit Suisse would reorganize its Investment Banking business, more closely aligning the location where activities are booked with the location of clients. Once the legal framework is finally decided, Credit Suisse plans to issue bail-in eligible debt out of Credit Suisse Group AG, aiming to enable the SPE approach for its resolution. In doing this, Credit Suisse expects to be granted a limited reduction in capital requirements

Given the banking sector's large size relative to that of the Swiss economy, we believe that there are strong incentives for the Swiss government to limit the potential need for the sovereign to use its own balance sheet to support the sector. However, many details about Credit Suisse's plan and FINMA's resolution strategies are not yet resolved. A key question is to what extent the separate legal structures contemplated would reduce contagion risk and preserve the systemically important functions of the bank in the event that a resolution was required.

Furthermore, with the broad international scope of the bank's operations, this question may extend beyond those operations located solely in Switzerland.

While implementation is planned from mid-2015, Credit Suisse's proposal still requires regulatory approvals. We expect to closely monitor the changes the bank has proposed to redefine its legal entity structure as well as the implementation of the Swiss "too big to fail" legislation. We believe that in simplifying its structure, Credit Suisse may reduce one the main obstacles to the resolvability of global and highly interconnected institutions like Credit Suisse. This could make an orderly resolution without government support more feasible, reducing the likelihood of systemic support for senior bondholders in the future.

Notching Considerations

The ratings for Credit Suisse's subordinated debt and hybrid capital instruments are based off the bank's adjusted baseline credit assessment (adjusted BCA). The adjusted BCA incorporates both the firm's standalone credit assessment as well as any uplift stemming from parental and/or cooperative support, if applicable, but excludes government support. The adjusted BCA for Credit Suisse AG is baa1 -- the same as the standalone credit assessment, since parental and/or cooperative support does not apply.

For securities issued or backed by the holding company Credit Suisse Group AG, an additional notch from the bank's adjusted BCA is incorporated into the ratings to reflect holding company structural subordination.

Credit Suisse's lower tier 2 subordinated debt is rated one notch below the adjusted BCA. These instruments are all dated, and do not have any coupon deferral features. These securities are therefore rated Baa2 if issued by Credit Suisse AG or one of its branches, or Baa3 if issued or guaranteed by Credit Suisse Group AG.

Credit Suisse's upper tier 2 securities which have a junior subordinated claim and allow for optional coupon deferral and cumulative coupon payments are rated two notches below the adjusted BCA. These securities are therefore rated Baa3(hyb) if issued by Credit Suisse AG or one of its branches, or Ba1(hyb) if issued or guaranteed by Credit Suisse Group AG.

Credit Suisse's non-cumulative, tier 1 securities (with a deeply subordinated claim in liquidation and coupon payments that are not subject to any net loss triggers) are rated at a level three notches below the adjusted BCA. These securities are therefore rated Ba1(hyb) if issued by Credit Suisse AG or one of its branches, or Ba2(hyb) if issued or guaranteed by Credit Suisse Group AG. The tier 1 securities with skipped coupon payments covered by an equity settlement mechanism, which in Moody's opinion is equivalent to a cumulative coupon, are rated two notches below the adjusted BCA, at Baa3(hyb).

NOTE ON DATA

Unless noted otherwise, data in this report is sourced from company reports and our Banking Financial Metrics. All figures are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the documents entitled "Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies" and "Frequently Asked Questions: Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies", both published on 19 July 2010. The financial factors in the table below reflect the average adjusted results for Credit Suisse Group AG for 2010 through 2012.

Rating Factors

Credit Suisse Group AG

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						D+	
Factor: Franchise Value						D-	Neutral
Market share and sustainability				x			
Geographical diversification				x			
Earnings stability					x		
Earnings Diversification [2]							
Factor: Risk Positioning						D	Neutral

Corporate Governance [2]				**x**			
- Ownership and Organizational Complexity				x			
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management				**x**			
- Risk Management			x				
- Controls				x			
Financial Reporting Transparency			**x**				
- Global Comparability	x						
- Frequency and Timeliness			x				
- Quality of Financial Information				x			
Credit Risk Concentration	**--**	**--**	**--**	**--**	**--**		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			**x**				
Market Risk Appetite			**x**				
Factor: Operating Environment						**B**	**Neutral**
Economic Stability			**x**				
Integrity and Corruption		**x**					
Legal System	**x**						
Financial Factors (50%)						**C+**	
Factor: Profitability						**C**	**Improving**
PPI % Average RWA (Basel II)			2.08%				
Net Income % Average RWA (Basel II)			1.56%				
Factor: Liquidity						**C+**	**Neutral**
(Market Funds - Liquid Assets) % Total Assets		-9.55%					
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio (%) (Basel II)	16.83%						
Tangible Common Equity % RWA (Basel II)	13.74%						
Factor: Efficiency						**E**	**Improving**
Cost / Income Ratio					80.55%		
Factor: Asset Quality						**A**	**Neutral**
Problem Loans % Gross Loans	0.76%						
Problem Loans % (Equity + LLR)	4.32%						
Lowest Combined Financial Factor Score (15%)						**D+**	
Economic Insolvency Override						**Neutral**	
Aggregate BFSR Score						**C**	
Aggregate BCA Score						**a3**	
Assigned BFSR						**C-**	
Assigned BCA						**baa1**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
[2] - A blank score under Earnings Diversification or Corporate Governance indicates the risk is neutral.

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Macquarie Group Ltd.

Primary Credit Analyst:
Gavin J Gunning, Melbourne (61) 3-9631-2092; gavin.gunning@standardandpoors.com

Secondary Contact:
Nico N DeLange, Sydney (61) 2-9255-9887; nico.delange@standardandpoors.com

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades firms with global capital markets operations

Global Credit Research - 21 Jun 2012

Actions conclude review initiated on 15 February 2012

New York, June 21, 2012 -- Moody's Investors Service today repositioned the ratings of 15 banks and securities firms with global capital markets operations. The long-term senior debt ratings of 4 of these firms were downgraded by 1 notch, the ratings of 10 firms were downgraded by 2 notches and 1 firm was downgraded by 3 notches. In addition, for four firms, the short-term ratings of their operating companies were downgraded to Prime-2. All four of those firms also now have holding company short-term ratings at Prime-2. The holding company short-term ratings of another two firms were downgraded to Prime-2 as well.

"All of the banks affected by today's actions have significant exposure to the volatility and risk of outsized losses inherent to capital markets activities", says Moody's Global Banking Managing Director Greg Bauer. "However, they also engage in other, often market leading business activities that are central to Moody's assessment of their credit profiles. These activities can provide important 'shock absorbers' that mitigate the potential volatility of capital markets operations, but they also present unique risks and challenges." The specific credit drivers for each affected firm are summarized below.

Today's rating actions conclude the review initiated on 15 February 2012 when Moody's announced a ratings review prompted by its reassessment of the volatility and risks that creditors of firms with global capital markets operations face. In the past, these risks have led many institutions to fail or to require outside support, including several firms affected by today's rating actions. Today's actions, however, reflect not only the credit implications of capital markets operations. They also reflect (i) the size and stability of earnings from non-capital markets activities of each firm, (ii) capitalization, (iii) liquidity buffers, and (iv) other considerations, including, as applicable, exposure to the operating environment in Europe, any record of risk management problems, and risks from exposure to US residential mortgages, commercial real estate or legacy portfolios.

OVERVIEW OF TODAY'S RATING ACTIONS

Moody's has taken action on the following holding company ratings:

Bank of America Corporation

Long-term senior unsecured debt to Baa2 from Baa1, outlook negative; Short-term P-2 affirmed

Barclays plc

Long-term issuer rating to A3 from A1, outlook negative; Short-term to P-2 from P-1

Citigroup Inc.

Long-term senior debt to Baa2 from A3, outlook negative; short-term P-2 affirmed

Credit Suisse Group AG

Provisional senior debt to (P)A2 from (P)Aa2, outlook stable; Provisional Short-term (P)P-1 affirmed

The Goldman Sachs Group, Inc.

Long-term senior unsecured debt to A3 from A1, outlook negative; Short-term to P-2 from P-1

HSBC Holdings plc

Long-term senior debt to Aa3 from Aa2, outlook negative; Provisional Short-term (P)P-1 affirmed

JPMorgan Chase & Co.

Long-term senior debt to A2 from Aa3, outlook negative; Short-term P-1 affirmed

Morgan Stanley

Long-term senior unsecured debt to Baa1 from A2; outlook negative; Short-term to P-2 from P-1

Royal Bank of Scotland Group plc

Long-term senior debt to Baa1 from A3, outlook negative; Short-term P-2 affirmed

Moody's has taken action on the following operating company ratings:

Bank of America, N.A.

Long-term deposit rating to A3 from A2, outlook stable; Short-term to P-2 from P-1

Barclays Bank plc

Long-term issuer rating to A2 from Aa3, outlook negative; Short-term P-1 affirmed

BNP Paribas

Long-term debt and deposit rating to A2 from Aa3; outlook stable; Short-term P-1 affirmed

Citibank, N.A.

Long-term deposit rating to A3 from A1, outlook stable; Short-term to P-2 from P-1

Credit Agricole S.A.

Long-term debt and deposit rating to A2 from Aa3, outlook negative; Short-term P-1 affirmed

Credit Suisse AG

Long-term deposit and senior debt rating to A1 from Aa1, outlook stable; Short-term P-1 affirmed

Deutsche Bank AG

Long-term deposit rating to A2 from Aa3, outlook stable; Short-term P-1 affirmed

Goldman Sachs Bank USA

Long-term deposit rating to A2 from Aa3, outlook stable; Short-term P-1 affirmed

HSBC Bank plc

Long-term deposit rating to Aa3 from Aa2, outlook negative; Short-term P-1 affirmed

JPMorgan Chase Bank, N.A.

Long-term deposit rating to Aa3 from Aa1, outlook stable; Short-term P-1 affirmed

Morgan Stanley Bank, N.A.

Long-term deposit rating to A3 from A1, outlook stable; Short-term to P-2 from P-1

Royal Bank of Canada

Long-term deposit rating to Aa3 from Aa1, outlook stable; Short-term P-1 affirmed

Royal Bank of Scotland plc

Long-term deposit rating to A3 from A2; outlook negative; Short-term to P-2 from P-1

Societe Generale

Long-term debt and deposit to A2 from A1; outlook stable; Short-term P-1 affirmed

UBS AG

Long-term debt and deposit to A2 from Aa3, outlook stable; Short-term P-1 confirmed.

Please click on the following link to access the full list of affected credit ratings. This list is an integral part of this press release and identifies each affected issuer: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143274.

RATINGS RATIONALE -- STANDALONE CREDIT DRIVERS

Moody's assessment of each firm's standalone credit profile led to the following relative positioning of the firms:

--FIRST GROUP

The first group of firms includes HSBC, Royal Bank of Canada and JPMorgan. Capital markets operations (and the associated risks) are significant for these firms. However, these institutions have stronger buffers, or 'shock absorbers,' than many of their peers in the form of earnings from other, generally more stable businesses. This, combined with their risk management through the financial crisis, has resulted in lower earnings volatility. Capital and structural liquidity are sound for this group, and their direct exposure to stressed European sovereigns and financial institutions is contained.

Firms in this group now have standalone credit assessments of a3 or better (on a scale from aaa, highest, to c, lowest). Their main operating companies now have deposit ratings of Aa3, and their holding companies, where they exist, have senior debt ratings between Aa3 and A2. Their short-term ratings are Prime-1 at both the operating and holding company level.

--SECOND GROUP

The second group of firms includes Barclays, BNP Paribas, Credit Agricole SA (CASA), Credit Suisse, Deutsche Bank, Goldman Sachs, Societe Generale and UBS. Many of these firms rely on capital markets revenues to meet shareholder expectations. Their relative position reflects a combination of differentiating and sometimes adverse factors. Capital markets operations constitute a large part of the overall franchises for Credit Suisse, Goldman Sachs, Barclays, and Deutsche Bank, but less so for UBS, Societe Generale, BNP Paribas and CASA's cooperative group, Groupe Credit Agricole.

Other factors contribute to the relative positioning. For example, Barclays, BNP Paribas and Groupe Credit Agricole have, to varying degrees, relatively robust shock absorbers. Exposure to capital markets businesses is very high for Goldman Sachs, but this is balanced by a record of effective risk management. Barclays, BNP Paribas, Groupe Credit Agricole, and Deutsche Bank also have sizeable but varying degrees of exposure to weaker European economies. Some firms are relatively weak with regard to structural liquidity or reliance on wholesale funding.

Firms in this group now have standalone credit assessments of baa1 or baa2. Their deposit ratings range between A1 and A2, and their short-term ratings are Prime-1 at the operating company level. Their holding companies, where they exist, have senior debt ratings between A2 and A3 and short-term ratings between Prime-1 and Prime-2.

--THIRD GROUP

The third group of firms includes Bank of America, Citigroup, Morgan Stanley, and Royal Bank of Scotland. The capital markets franchises of many of these firms have been affected by problems in risk management or have a history of high volatility, while their shock absorbers are in some cases thinner or less reliable than those of higher-rated peers. Most of the firms in this group have undertaken considerable changes to their risk management or business models, as required to limit the risks from their capital markets activities. Some are implementing business strategy changes intended to increase earnings from more stable activities. These transformations are ongoing and their success has yet to be tested. In addition, these firms may face remaining risks from run-off legacy or acquired portfolios, or from noteworthy exposure to the euro area debt crisis.

Firms in this group now have standalone credit assessments of baa3. Their deposit ratings are A3 at the operating company level. Their holding companies, where they exist, have senior debt ratings between Baa1 and Baa2. Their short-term ratings are Prime-2 at both the operating and holding company level.

Moody's has today published a special comment titled "Key Drivers of Rating Actions on Firms with Global Capital Markets Operations" (http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143246), which provides more detail, including the rating rationale for each firm affected by today's actions. Please refer to the following webpage for additional related announcements: http://www.moodys.com/bankratings2012

RATINGS RATIONALE - SENIOR DEBT AND DEPOSITS

Moody's systemic support assumptions for firms with global capital markets operations remain high, given their systemic importance, and have not been a key driver of today's rating actions. While Moody's recognizes the clear intent of governments around the world to reduce support for creditors, the policy framework in many countries remains supportive for now, not least because of the economic stress currently stemming from the euro area and the potential systemic repercussions of large, disorderly bank failures and the difficulty of resolving large, complex and interconnected institutions.

However, reflecting the view that government support is likely to become less certain and predictable over time, Moody's has assigned negative outlooks on certain supported ratings of entities affected by today's actions, particularly at the holding company level, as discussed in detail in the firm-specific summaries below. Moody's view on support considers efforts by policymakers globally to create resolution and bail-in regimes that allow for more flexible and limited support in a stress scenario.

RATINGS RATIONALE -- SUBORDINATED DEBT AND HYBRIDS

In addition, Moody's has today downgraded the subordinated debt and hybrid ratings of the firms whose senior debt ratings have been repositioned. The downgrades reflect the revised senior debt ratings and, in some cases, also the removal of systemic support assumptions from subordinated debt classes. In Moody's view, systemic support in many countries is no longer sufficiently predictable and reliable going forward to warrant incorporating systemic-support driven uplift into these debt ratings.

RATING IMPLICATIONS FOR SOME SUBSIDIARIES WILL BE ASSESSED SEPARATELY

Moody's has also today taken rating actions on a number of subsidiaries and legal entities of firms with global capital markets activities, as summarized below. However, for some other subsidiaries of firms included in today's announcement, Moody's will separately assess the impact of their parents' reduced credit strength.

RATING REVIEWS OF MACQUARIE AND NOMURA WERE CONCLUDED EARLIER

Of the 17 banks and securities firms with global capital market operations that were placed on review for downgrade in February, the reviews of two firms were concluded separately. Please see the following press releases for further information: "Moody's downgrades Nomura Holdings to Baa3 from Baa2; outlook stable, (http://v3.moodys.com/viewresearchdoc.aspx?docid=PR_240381) published 15 March 2012, and "Moody's downgrades Macquarie Bank to A2, Macquarie Group to A3," (http://v3.moodys.com/viewresearchdoc.aspx?docid=PR_240306) published 16 March 2012.

ISSUER SPECIFIC CONSIDERATIONS (ALPHABETICAL ORDER)

BANK OF AMERICA

Bank of America Corporation's (BAC) senior unsecured debt ratings were downgraded to Baa2 from Baa1 and the deposit ratings of Bank of America, N.A. (BANA) were downgraded to A3/Prime-2 from A2/Prime-1. Bank of America Corporation's Prime-2 short-term rating was affirmed. Moody's also downgraded the bank's standalone credit assessment to D+/baa3 from C-/baa2. The outlook on the standalone credit assessment and the ratings of BAC's operating subsidiaries is stable, while that on the senior debt and subordinated debt ratings of (or guaranteed by) the parent holding company is negative.

BAC's ratings benefit from three notches of uplift from the standalone credit assessment at the subsidiary bank level, and two notches of uplift at the holding company level, reflecting Moody's assumptions about the very high likelihood of support from the US government for bondholders or other creditors in the event that such support is required to prevent a default.

The lowering of the standalone credit assessment to baa3 positions Bank of America in the third group of firms with significant global capital markets activities. This position reflects (i) the large absolute size and funding requirements of the bank's capital markets activities; (ii) the bank's relatively high historical earnings volatility and the problems in risk management and controls it experienced during the crisis, and (iii) constraints on the ability of

Bank of America's other businesses to provide strong earnings buffers to protect against capital markets risks, given the potential for additional losses on the bank's large residential mortgage-related exposures (including its mortgage-related litigation exposures). Partly mitigating these risks are (i) the bank's sound structural liquidity profile and large global excess liquidity pool; (ii) its improving capital levels and leverage that is below that of many of its peers; and (iii) enhancements to corporate governance and the risk management function.

The stable outlook on Bank of America's standalone credit assessment and its bank-level ratings reflects the view that these risk factors have now been fully incorporated into the bank's ratings. A significant reduction in the bank's mortgage-related exposures could lead to upward pressure on the rating, while any indications of control failures, a marked increase in risk appetite or deterioration in capital levels would lead to downward pressure on the ratings.

The negative outlook on the parent holding company's supported ratings reflects Moody's view that government support for US bank holding company creditors is becoming less certain and less predictable, given the evolving attitude of US authorities to the resolution of large financial institutions, whereas support for creditors of operating entities remains sufficiently likely and predictable to warrant stable outlooks.

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BARCLAYS

Barclays Bank (Barclays) plc's long-term deposit and debt ratings were downgraded to A2 from Aa3 and the bank's Prime-1 short-term ratings were affirmed. The bank's standalone credit assessment was lowered to C-/baa2 from C/a3. The senior debt and deposit ratings benefit from three notches of uplift from the standalone rating, reflecting Moody's expectation of a very high probability of government support for the bank in the event of stress. The ratings of the holding company, Barclays plc, were downgraded to A3/ P-2 from A1/P-1. The outlook on the C-standalone rating is stable, whereas that on the A2 long-term deposit rating is negative, reflecting the view that government support for large UK banks will reduce over the medium term.

The lowering of the standalone credit assessment to baa2 places Barclays in the second group of firms with significant global capital market activities, that is, those with baseline credit assessments of baa1 or baa2. This position reflects (i) a relatively high proportion of revenues and earnings from global investment banking (GBP10.3 billion, representing 40% of revenues adjusted for fair value of own debt over 2009 - 2011); (ii) concentration risks inherent in investment banking (particularly to other financial institutions); and (iii) sensitivity to the weak operating environment in Europe, given the bank's operations in Spain and Italy, as well as to the challenging environment in the UK. These factors are somewhat mitigated by (i) strong franchises in non-investment banking activities (albeit not all producing the returns targeted by management); (ii) track record of low historical earnings volatility compared with the peer group; (iii) good liquidity management, including a high-quality liquidity buffer, and an adequate funding profile; and (iv) capital levels that remain resilient under stress tests.

The stable outlook on Barclays' standalone credit assessment reflects the view that capital markets-related risk factors have now been fully incorporated into the bank's ratings.

If the more immediate risks in the operating environment in the UK and Europe were to recede or Barclays were to significantly strengthen the profitability of its non-investment banking businesses, the bank's ratings could come under upward pressure. On the other hand, any indications of control failures, a marked increase in risk appetite or a deterioration in capital levels could lead to downward pressure on the ratings.

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BNP PARIBAS

BNP Paribas's (BNPP) long-term debt and deposit ratings were downgraded by two notches, to A2 from Aa3. The bank's Prime-1 short-term rating was affirmed. The standalone credit assessment was lowered by two notches, to C-/baa2 from C/a3. The outlook on both the standalone credit assessment and the long-term debt and deposit ratings is stable.

Senior debt and deposit ratings are rated A2 and incorporate three notches of uplift from government support assumptions.

BNPP's dated subordinated and junior subordinated debt ratings were downgraded to Baa3 and (P)Ba1, respectively (one and two notches below its baa2 standalone credit assessment). The downgrades reflect the removal of government support assumptions from the dated subordinated debt instruments. In Moody's view, government support in many European countries, including France, is no longer sufficiently predictable and reliable to warrant incorporating government support-driven uplift into these debt ratings. Ratings on preference shares were downgraded by two notches, to Ba2(hyb), and continue to be positioned three notches below the standalone credit assessment.

The lowering of the standalone credit assessment to baa2 places BNPP in the second group of firms with significant global capital market activities. This position reflects (i) the significant proportion of BNPP's revenues generated by its capital markets business, which contributed 18% of group revenues on average between 2009 and 2011, and is a very significant business in its own right; (ii) the view that BNPP is more dependent on short-term wholesale funding and its liquidity position weaker compared to many of its global peers; and (iii) BNPP's large exposures to economies under pressure from the broader euro area crisis, in particular Italy through its subsidiary BNL, which has a loan book of EUR71 billion, in addition to BNPP's portfolio of sovereign bonds, of which EUR11 billion are Italian.

These factors are somewhat mitigated by BNPP's (i) broad spread of generally strong businesses, predominantly in retail and commercial banking, which provide a more dependable stream of earnings and resultant advantages in terms of risk diversification and loss absorption capacity; (ii) strengthened capital position in anticipation of Basel III standards; (iii) materially reduced dependence on short-term US dollar funding, which proved unreliable; and (iv) relatively good track record in terms of risk management, including in its capital markets business.

BNPP's ratings could come under upward pressure from a combination of (i) a material structural improvement in the bank's liquidity and funding position; (ii) a reduction in the weight of the capital markets business within the group; and (iii) improving conditions in European markets. On the other hand, any indications of control failures, an increase in risk appetite or a willingness to increase leverage could lead to downward pressure on the bank's ratings.

BANCA NAZIONALE DEL LAVORO

Banca Nazionale del Lavoro's (BNL) long- and short-term deposit ratings were downgraded by three notches, to Baa2 (negative outlook)/Prime-2 from A2/Prime-1. This was prompted by the downgrade of its BFSR to D+ with a negative outlook (mapping to a ba1 standalone credit assessment), from C-/baa1.

The downgrade of BNL's standalone credit assessment reflects the combined pressures on the bank's asset quality, profitability and funding from the difficult operating environment. It also reflects BNL's reliance on parental funding.

BNL's long-term global local-currency (GLC) deposit rating is Baa2, based on Moody's assessment of a very high probability of support from parent BNPP and a high probability of government support, if needed, which results in two notches of rating uplift from the ba1 standalone credit assessment. The negative outlook reflects the challenging operating environment in Italy.

With a reported problem loan ratio of 12.3% in 2011 (compared with 11.2% for the system), up from 10.6% in 2010, the bank's focus on midsize corporate loans in central and southern Italy has weakened its asset quality. Profitability was low in 2011 and is unlikely to improve significantly in 2012. These factors create some vulnerability in BNL's capital under Moody's central scenario.

With loans equivalent to a high 212% of retail funding, BNL's reliance on the ECB is above that of its Italian peers; it also relies heavily on BNPP. Moody's believes that over time BNL may be required to reduce its use of parental funding, which may in turn create pressure to reduce its own balance sheet.

FORTIS BANK

Fortis Bank SA/NV's (Fortis Bank) long-term debt and deposit ratings were downgraded by one notch, to A2 from A1, and are now in line with those of BNPP. The bank's Prime-1 short-term rating was affirmed. The C-/baa1 standalone credit assessment is unaffected by today's rating actions. The rating action reflects the downgrade of BNPP and the resultant impact on the parental support assumptions Moody's incorporates into its long-term ratings. Further, the bank's dated subordinated and junior subordinated debt ratings were downgraded to Baa2 and Baa3(hyb), respectively (one and two notches below its baa1 standalone credit assessment), following the removal of government support assumptions. The outlook on all the ratings is stable.

BGL BNP PARIBAS

BGL BNP Paribas's long-term debt and deposit ratings were downgraded by one notch, to A2 from A1, and are in line with those of BNPP. The Prime-1 short-term rating was affirmed. The C/a3 standalone credit assessment is unaffected by today's rating actions. The rating action reflects the downgrade of BNPP and the resultant impact on the parental support assumptions Moody's incorporates into its long-term ratings. Further, the bank's dated subordinated and junior subordinated debt ratings were downgraded to Baa1 and (P)Baa2, respectively (one and two notches below its a3 standalone credit assessment), following the removal of government support assumptions. The outlook on all the ratings is stable.

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CITIGROUP

Citigroup Inc.'s (Citi) long-term senior rating was lowered to Baa2 from A3. Citigroup Inc.'s Prime-2 short-term rating was affirmed. In addition, the long-term and short-term deposit ratings of Citibank N.A. were lowered to A3 and Prime-2 from A1 and Prime-1, respectively. Moody's also downgraded the bank's standalone credit assessment to D+/baa3 from C-/baa1. The outlook on the standalone credit assessment and the ratings of Citi's operating subsidiaries are stable, while that on the senior debt and subordinated debt ratings of (or guaranteed by) the parent holding company is negative.

Citi's ratings benefit from three notches of uplift from the standalone credit assessment at the subsidiary bank level, and from two notches of uplift at the holding company level, reflecting Moody's assumption of a very high likelihood of government support for bondholders or other creditors in the event such support was required to prevent a default.

Citi is in the third group of firms with significant global capital markets activities. This position reflects i) the bank's very high commitment to the capital markets; ii) the bank's historically high earnings volatility and the problems Citi experienced during the crisis in terms of risk management and controls; and iii) the challenges of instilling a risk culture that results in low volatility, considering Citi's commitment to the capital markets business and the pressure to return capital to shareholders. Partly mitigating these factors are (i) Citi's sizable "shock absorbers" in the form of earnings from other, more stable businesses, although this benefit is somewhat less than it is for banks with a dominant domestic franchise. Other mitigating factors are the bank's (ii) strong liquidity; (iii) sound capital; and (iv) the visible progress Citi has made in rebuilding its corporate governance and risk management structure.

The stable outlook (on Citi's standalone credit assessment and its bank-level ratings) reflects the view that these risk factors have now been fully incorporated into the bank's ratings. Upward rating pressure would emerge if Moody's felt that Citi's improved risk management structure had traction throughout the bank's large and complex global network. Signals of traction would include a superior comparative performance in adverse market conditions. Other indicators would be conservative capital management and maintenance of a prudent liquidity profile. Upward rating pressure would also emerge if Citi were successful in gaining market share, in a controlled manner, in its global branch banking business. Any indications of control failures, a marked increase in risk appetite or deterioration in capital levels would lead to downward rating pressure.

The negative outlook on the holding company ratings reflects Moody's view that government support for US bank holding company creditors is becoming less certain and less predictable, given the evolving attitude of US authorities to the resolution of large financial institutions, whereas support for creditors of operating entities remains sufficiently likely and predictable to warrant stable outlooks.

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CREDIT AGRICOLE SA

Credit Agricole SA's (CASA) long-term debt and deposit ratings were downgraded by two notches, to A2 from Aa3. The bank's Prime-1 short-term rating was affirmed. The standalone credit assessment was lowered by three notches, to D/ba2 from C-/baa2, and the adjusted baseline credit assessment -- incorporating cooperative support from Groupe Credit Agricole (GCA) -- to baa2 from a3. The outlook on both the standalone credit assessments and the long-term debt and deposit ratings is negative.

The bank's senior debt and deposit ratings are rated A2 and incorporate three notches of uplift from government support assumptions.

CASA's dated subordinated and junior subordinated debt ratings were downgraded to Baa3 and Ba1(hyb), respectively (one and two notches below its baa2 adjusted BCA). The downgrade reflects the removal of government support assumptions from the dated subordinated debt instruments. In Moody's view, government support in many European countries, including France, is no longer sufficiently predictable or reliable to warrant incorporating government support-driven uplift into these debt ratings. The ratings on preference shares were downgraded by two notches, to Ba2(hyb), and continue to be positioned three notches below the baseline credit assessment.

The lowering of the adjusted baseline credit assessment to baa2 places CASA in the second group of firms with significant global capital market activities. This position reflects (i) the risks to CASA from its significant exposure to the Greek economy, particularly in view of the EUR4.6 billion of financing currently extended to its local subsidiary, Emporiki (Caa2, E/caa3 negative); and (ii) the bank's greater dependence compared to many peers on short-term wholesale funding and a higher reliance on central bank eligible loans for its liquidity reserves, which Moody's thus considers to be of lower intrinsic quality. Moody's considers that capital markets activities, which have contributed about 8% of group revenue over the past three years, are a more marginal risk factor for CASA than for most other banks, even if their earnings remain volatile.

Moody's also recognizes some mitigating factors: (i) GCA is primarily a retail and commercial bancassurance group whose activities generate stable revenue streams, which allows the group to withstand substantial shocks within its smaller, more volatile business lines; (ii) the group has taken strategic decisions to reduce its riskier activities and has invested in improving its risk management; and (iii) group capital resources have been increased, and display a good level of resistance under Moody's stress tests.?

The negative outlook on the standalone credit assessment and long-term ratings recognizes that the balance of risks lies to the downside, given the increased probability Moody's attaches to a potential exit of Greece from the euro area. Although such an event would likely be financially manageable for the group, it would nonetheless be very significant. An increase in the likelihood of a Greek exit could result in further downward rating pressure. ?

Given the negative outlook on long-term ratings and the BFSR, the probability of an upgrade is low for either rating. The outlook could revert to stable if the risks associated with a Greek exit from the euro area subside significantly, such that CASA's standalone credit strength stabilizes.

Downward pressure on the ratings could result from (i) an increase in the risk of a Greek exit from the euro area; (ii) further deterioration in funding conditions; (iii) an aggressive recommitment to the capital markets business, as evidenced through greater balance sheet usage or market risk appetite; (iv) a weakening in the availability of cooperative support mechanisms; and/or (v) a marked weakening in the capacity or willingness of the French government to provide support for the benefit of creditors.

CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK (CACIB)

CACIB's long-term debt and deposit ratings were downgraded by two notches, to A2 from Aa3, in line with those of CASA. The Prime-1 short-term rating was affirmed. The standalone credit assessment was lowered by one notch, to D-/ba3 from D/ba2, and the adjusted baseline credit assessment -- incorporating cooperative support from GCA -- to baa2 from a3. The lowering of CACIB's standalone credit assessment reflects principally the wholesale bias of CACIB, and hence its exposure to both capital markets and funding constraints, as evidenced by its current deleveraging program. The outlook on the standalone credit assessment is stable and that on the long-term debt and deposit ratings is negative. The downgrade in the long-term rating principally reflects the decline in the creditworthiness of GCA, which Moody's expects to support CACIB in the event of need.

LE CREDIT LYONNAIS SA (LCL)

LCL's long-term debt and deposit ratings were downgraded by two notches, to A2 from Aa3, in line with those of CASA. The Prime-1 short-term rating was affirmed. The standalone credit assessment was lowered by one notch, to C/a3 from C+/a2. The outlook on the standalone credit assessment is stable and that on the long-term debt and deposit is negative. The lowering of LCL's standalone credit assessment reflects the more difficult operating environment in which LCL operates, and which is expected to modestly impact profitability and asset quality going forward. The downgrade of the long-term debt and deposit ratings for the most part reflects the decline in the creditworthiness of GCA, which Moody's expects to support LCL in the event of need.

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CREDIT SUISSE

Credit Suisse AG's deposit and senior debt ratings were downgraded to A1 from Aa1 and the bank's Prime-1 short-term rating was affirmed. The bank's standalone credit assessment was downgraded to C-/baa1 from B/aa3. The provisional senior debt ratings of the bank's parent holding company, Credit Suisse Group AG, were downgraded to (P)A2 from (P)Aa2 and its provisional short-term rating was affirmed at (P)Prime-1. The outlook on all the ratings is stable.

Credit Suisse's deposit and senior debt ratings benefit from three notches of uplift from the bank's standalone credit assessment, reflecting Moody's assumptions about a very high likelihood of support from the Swiss government for senior bondholders and other senior creditors in the event that such support was required to prevent a default.

On the other hand, Credit Suisse's subordinated debt ratings (at Baa2 for Credit Suisse AG) are now notched off the bank's standalone credit assessment, following the removal of the assumption of government support for this class of debt at Swiss banks. Moody's views government support for the subordinated debt of Swiss banks as no longer sufficiently predictable or reliable to warrant incorporating any related uplift into its ratings.

The lowering of the standalone credit assessment to baa1 positions Credit Suisse in the second group of firms with significant global capital markets activities. This position reflects (i) a relatively high proportion of revenues and earnings from, and a clear commitment to, the global capital markets business; (ii) the large absolute size of the bank's wholesale funding requirements; and (iii) relatively high historical earnings volatility. These factors are partly mitigated by (i) the stable stream of earnings from the bank's wealth management and Swiss banking businesses; (ii) a highly pro-active approach to risk management; (iii) a sound structural liquidity profile and strong liquidity risk management; (iv) an improving capital position that is expected to result in lower leverage and capital ratios above the average for the bank's peers; and (v) resilience to the weak operating environment in Europe, given low exposures to peripheral Europe and Switzerland's perceived safe-haven status among investors.

The stable outlook on Credit Suisse's ratings reflects the view that capital markets-related risk factors have now been fully incorporated into the bank's ratings. Given the bank's high ratings compared with those of most of its global capital markets peers, Moody's does not expect significant upward pressure on the bank's ratings absent a significant reduction in the bank's reliance on earnings from its capital markets business. Any indications of control failures, a marked increase in risk appetite, a significant decline in the Swiss economy or deterioration in capital levels would lead to downward pressure on the ratings.

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DEUTSCHE BANK AG

Deutsche Bank AG's long-term deposit ratings were downgraded to A2 from Aa3. The downgrade resulted from the lowering of Deutsche Bank's standalone credit assessment to C-/baa2 from C+/a2. The outlook on all the ratings is stable. All the bank's Prime-1 short-term ratings were affirmed. This rating action is consistent with Moody's 15 February guidance and concludes a review for downgrade undertaken as part of an industry review of global investment banks.

Deutsche Bank AG's debt and deposit ratings benefit from three notches of uplift from the standalone credit assessment, reflecting Moody's assumptions about a very high likelihood of support from the German government for senior bondholders in the event such support was required to prevent a default.

The lowering of the standalone credit assessment to baa2 positions Deutsche Bank in the second group of firms with significant global capital markets activities. The position in the second group reflects Deutsche Bank's (i) very large capital markets business (representing 45% of firm-wide revenues in 2011) and unwavering commitment to these businesses; (ii) relatively high level of secured and unsecured wholesale funding within the overall balance sheet; (iii) balance sheet leverage that is higher than the industry average; and (iv) its vulnerabilities to weaknesses in the euro area. These factors are partly mitigated by Deutsche Bank's (i) more stable earnings from private clients, asset management and global transaction banking; (ii) an acceptable structural liquidity position and strengthened liquidity pool; and (iii) adequate capital levels relative to Moody's stress assumptions on the bank's loan book.

The expectation that these risk factors have been fully incorporated into the current standalone rating underlies the stable outlook on the bank's BFSR. However, any indications of control failures, a marked increase in risk appetite, or a willingness to increase leverage could lead to downward pressure on the ratings. Upward rating pressure could develop if Deutsche Bank were to scale back its ambitions in capital markets businesses (which Moody's considers unlikely), or if more predictable business lines become a much larger portion of the earnings mix.

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GOLDMAN SACHS

The Goldman Sachs Group, Inc.'s senior unsecured debt ratings and short-term ratings were downgraded to A3/Prime-2 from A1/Prime-1 and the long-term deposit ratings of Goldman Sachs Bank USA to A2 from Aa3. The Goldman Sachs Bank USA's Prime-1 short-term rating was affirmed. Moody's also downgraded Goldman Sachs' standalone credit assessment, to C-/baa1 from B-/a1. The outlook on the standalone credit assessment and the ratings of Goldman Sachs' operating subsidiaries is stable, while that on the senior debt and subordinated debt ratings of (or guaranteed by) the parent holding company is negative.

Goldman Sachs' ratings benefit from two notches of uplift from the standalone credit assessment at the subsidiary bank level and at the holding company, reflecting Moody's assumptions about a high likelihood of support from the US government for bondholders or other creditors in the event such support was required to prevent a default.

The lowering of the standalone credit assessment to baa1 positions Goldman Sachs in the second group of firms with significant global capital markets activities. The position in the second group reflects Goldman Sachs' (i) clear commitment to the global capital markets business; (ii) its lack of significant earnings from other more stable businesses; and (iii) the large absolute size of its wholesale funding requirements. These factors are partly mitigated by (i) the firm's superior track record of risk management and comprehensive risk controls; (ii) moderate historical earnings volatility compared with that of many of its peers; (iii) low leverage; and (iv) a large positive structural liquidity position.

The stable outlook on Goldman Sachs' standalone credit assessment and the ratings of its operating subsidiaries reflects the view that the risk factors related to capital markets activities are now fully incorporated into the bank's ratings. Moody's does not expect significant upward pressure on the ratings, absent a significant reduction in the firm's reliance on earnings from its capital markets business. Any indications of control failures, a marked increase in risk appetite or deterioration in leverage or other capital metrics would lead to downward pressure on the ratings.

The negative outlook on the parent holding company reflects Moody's view that government support for US bank holding company creditors is becoming less certain and less predictable, given the evolving attitude of US authorities to the resolution of large financial institutions, whereas support for creditors of operating entities remains sufficiently likely and predictable to warrant stable outlooks.

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HSBC

HSBC Holdings' senior debt rating was downgraded to Aa3 from Aa2. The provisional short-term rating was affirmed at (P)Prime-1. Moody's considers the intrinsic standalone financial strength of the consolidated group as equivalent to a1, one notch lower than previously. The group benefits from two notches of uplift from government support assumptions, and the rating of HSBC Holdings is notched down by one notch for the structural subordination of the holding company. The outlook on the Aa3 long-term debt rating is negative, reflecting the view that government support for large UK banks may be lowered over the medium term.

The downgrade of HSBC Holdings' ratings positions the group in the first group of firms with global capital market activities, that is, with baseline credit assessments of a3 and above. This position reflects (i) HSBC's moderately large capital markets operation, which emphasizes plain vanilla businesses (Moody's estimates that the capital market activities within Global Banking & Markets represent 10%--15% of the group's total revenues); and (ii) interconnectedness with other, often less highly rated, financial institutions, given the size and presence of the group and its role in the interbank and repo market.

Despite the downgrade, Moody's still views HSBC as one of the strongest banking groups globally. This view is supported by (i) low historical earnings volatility across the group due to very strong geographic diversification, which has enabled the group to absorb even large losses in certain businesses; and (ii) a conservative funding profile based on a strong global retail deposit base and a strict liquidity framework at each subsidiary.

The subordinated and junior capital instruments of HSBC Holdings have been downgraded by two notches, as they are notched down from the standalone intrinsic strength of the group, but now also incorporate one notch for the structural subordination of the holding company.

HSBC BANK

HSBC Bank's senior debt and deposit ratings were downgraded by one notch, to Aa3 from Aa2, and the bank's standalone ratings to C/a3 from C+/a2. The Prime-1 short-term rating was affirmed. The senior debt and deposit ratings of HSBC Bank, which represents the group's European operations, benefit from a very high level of support from the consolidated HSBC group, which has an intrinsic financial strength of a1 (two notches of uplift), and from very high government support assumptions (one notch of uplift). The outlook on the standalone rating is stable, and that on the senior debt and deposit ratings is negative, reflecting the view that government support for large UK banks may be lowered over the medium term.

The downgrade reflects the fact that as one of four hubs within the HSBC group for capital market activities, HSBC Bank has a relatively high proportion of such activities, which can increase the volatility of its earnings. The downgrade also incorporates the fact that the bank operates in tougher operating environments in the UK and Europe.

Offsetting these risks, HSBC Bank benefits from a strong franchise in UK retail and commercial banking, good capitalization, a strong liquidity and funding profile and a conservative risk culture.

Upward pressure on the standalone ratings over the medium term could result from a further reduction in the bank's ABS exposures and a decreased reliance on the more volatile capital markets earnings streams.

Deterioration in financial performance, a further weakening of the capital base and/or a significant decline in asset quality that places stress on the capital base could lead to downward pressure on the standalone rating.

The subordinated and junior capital instruments of HSBC Bank have been confirmed at their current level, as Moody's is notching them down from the adjusted baseline credit assessment, which remains at a1, to recognize the expectation of a very high level of group support for this entity, in line with other group entities.

HSBC FRANCE

HSBC France's bank financial strength rating was downgraded to C- from C, equivalent to a baseline credit assessment of baa2, and its long-term rating to A1 from Aa3. The short-term ratings were affirmed at Prime-1. The rating outlook is stable.

The downgrade of HSBC France's standalone bank financial strength rating reflects Moody's expectation of further pressure on the bank's profitability in the current environment, and also incorporates the challenges facing institutions with large capital markets activities.

HSBC France derives a significant proportion of its earnings from its global banking and markets activities, particularly from its rates business (government bond trading). This reflects HSBC France's role as a hub for all euro area sovereign trading of the HSBC group, and renders the bottom-line profitability at the HSBC France level inherently more volatile. Evidence of this volatility are the market losses it took in Q4 2011 on its euro area sovereign exposures to France and Italy, which resulted in a 70% drop in net profitability at fiscal year-end 2011.

The downgrade of the bank's standalone credit assessment reflects Moody's expectation that the continued challenges facing sovereigns in the euro area will likely continue to pressure the performance of the rates activities, the main contributor to the bank's bottom-line profitability in recent years.

Set against these weaknesses, the bank's standalone financial strength is supported by an adequate level of capitalization and strong liquidity positioning. HSBC France's bank financial strength rating also reflects the tangible benefits of being highly integrated within the HSBC group, which has a global reach, and of its role as an important hub for the group's global banking and markets activities.

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JP MORGAN CHASE

JP Morgan Chase & Co.'s senior long-term debt was downgraded to A2 from Aa3. At the bank level, JP Morgan Chase Bank's long-term deposit and debt ratings were downgraded to Aa3 from Aa1. All Prime-1 short-term ratings were affirmed. The downgrade resulted from the lowering of JP Morgan's standalone credit assessment to C/a3 from B/aa3. The outlook on the standalone credit assessment and the ratings of JP Morgan's operating subsidiaries is stable, while that on the senior debt and subordinated debt ratings of (or guaranteed by) the parent holding company is negative.

JP Morgan's ratings benefit from three notches of uplift from the standalone credit assessment at the bank level, and from two notches of uplift at the holding company, reflecting Moody's assumptions about a very high likelihood of support from the US government for bondholders or other creditors in the event such support was required to prevent a default.

The negative outlook on the parent holding company reflects Moody's view that government support for US bank holding company creditors is becoming less certain and less predictable, given the evolving attitude of US authorities to the resolution of large financial institutions, whereas support for creditors of operating entities remains sufficiently likely and predictable to warrant stable outlooks.

The lowering of the standalone credit assessment to a3 positions JP Morgan in the first group of firms with significant global capital market activities. This position reflects the risks related to JP Morgan's (i) very large capital markets business (representing 26% of reported firm-wide revenues in 2011); (ii) relatively high absolute level of secured and unsecured wholesale funding within the overall balance sheet; and (iii) the recent control failure within its Chief Investment Office (CIO), which has tarnished JP Morgan's otherwise strong track record of risk management. These factors are mitigated by (i) JP Morgan's diversified and sustainable earnings streams from its five other lines of business; (ii) relatively low earnings volatility compared with the peer group; (iii) good structural liquidity and large liquidity pool; (iv) capital levels that are solid and resilient under Moody's stress tests; and (iv) leverage that is below the industry median.

JP Morgan's recently announced loss within the CIO was an important factor in the downgrade of the standalone credit profile. It illustrates the challenges of monitoring and managing risk in a complex global organization -- and highlights the opacity of such risks. The firm has substantial earnings and liquidity, which affords it the time to work out of the positions. Management is also acting aggressively to stem the losses and has already added new controls to the CIO.

These risk factors have been fully incorporated into the current standalone assessment. Since JP Morgan is positioned in the first group of firms with global capital markets operations, upward pressure on the rating is unlikely, absent a material shrinking and de-risking of the investment bank, which Moody's does not anticipate. Any further control failures, a marked increase in risk appetite or a willingness to increase leverage could lead to downward pressure on the ratings.

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MORGAN STANLEY

Morgan Stanley's senior unsecured long-term debt ratings were downgraded to Baa1 from A2 and the long-term deposit and issuer ratings of Morgan Stanley Bank, N.A. were downgraded to A3 from A1. The short-term ratings of both firms were lowered to Prime-2 from Prime-1. Moody's also downgraded Morgan Stanley's standalone credit assessment, to D+/baa3 from C/a3. The outlook on the standalone credit assessment and the ratings of Morgan Stanley's operating subsidiaries is stable, while that on the senior debt and subordinated debt ratings of (or guaranteed by) the parent holding company is negative.

Morgan Stanley's ratings benefit from three notches of uplift due to external support assumptions. This includes one notch of uplift from its largest shareholder, Mitsubishi UFJ Financial Group (MUFG, deposits Aa3, standalone credit assessment at C/a3 at Bank of Tokyo-Mitsubishi UFJ, Ltd), and two notches of uplift owing to Moody's belief that there is a high likelihood that Morgan Stanley, as a systemically important financial institution, would receive support from the US government in the event such support was required to prevent a default. The one notch of uplift reflecting potential support from MUFG is the reason the downgrade was less than the guidance Moody's provided on 15 February.

The lowering of the standalone credit assessment to baa3 positions Morgan Stanley in the third group of firms with significant global capital markets activities. This position reflects (i) the firm's commitment to the global capital market business, on which it relies heavily for earnings; (ii) its historically high level of earnings volatility; and (iii) the problems in risk management and controls the firm suffered during the crisis. Partly mitigating these factors are (i) the firm's gradually increasing "shock absorbers" in the form of earnings from other more stable businesses (albeit still below that of most peers); (ii) its reduced risk appetite, improved liquidity profile and stronger capital position; and (iii) enhancements to risk management, internal processes and controls.

The stable outlook on Morgan Stanley's standalone credit assessment and the ratings of its operating subsidiaries reflects the view that the capital markets-related risk factors have now been fully incorporated into the ratings. Moody's does not expect significant upward pressure on the firm's ratings. Any indications of control failures, a marked increase in risk appetite or deterioration in leverage or other capital metrics would lead to downward pressure on the ratings.

The negative outlook on the parent holding company reflects Moody's view that government support for US bank holding company creditors is becoming less certain and less predictable, given the evolving attitude of US authorities to the resolution of large financial institutions, whereas support for creditors of operating entities remains sufficiently likely and predictable to warrant stable outlooks.

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ROYAL BANK OF CANADA

Royal Bank of Canada (RBC)'s long-term deposits were downgraded to Aa3 from Aa1. RBC's standalone credit assessment was lowered to C+/a2 from B/aa3. The long term debt and deposit ratings incorporate two notches of uplift from government support assumptions, reflecting Moody's assessment of a very high probability of support from the Canadian government. Moody's has also attached a hybrid (hyb) indicator to the junior subordinated debt of RBC. All Prime-1 short-term ratings were affirmed. The outlook on all the ratings is stable.

The a2 standalone credit assessment places RBC in the first group of firms with significant global capital market activities. This position reflects: (i) RBC's significant commitment to global investment banking activities (C$5.9 billion in revenues representing 22% of firm-wide revenues in 2011 on a CGAAP basis); (ii) management's commitment to growing its position, particularly in the US, acknowledging that the contribution to RBC of capital markets activities may decline if other lines of business grow at a faster rate; (iii) the high degree of interconnectedness or concentration risks inherent to capital markets activities; and (iv) the view that global capital markets activities expose RBC to risks that could result in comparatively rapid deterioration in its creditworthiness.

These factors are mitigated by: (i) the fact that RBC is a strong and diversified universal bank with sustainable leading market shares across many retail products and services in its home market; (ii) RBC has the lowest earnings volatility in the global investment banking peer group, which is evidence of the stability of its franchises, its sound risk management infrastructure and embedded risk culture; (iii) a business mix within capital markets that is more heavily weighted toward client-driven primary origination and advisory businesses; and (iv) a large core deposit base and strong capital levels.

The stable outlook on RBC's ratings reflects the view that the capital markets-related risk factors have now been fully incorporated into the ratings. RBC is very highly rated and upward pressure on the rating is not currently anticipated, however management action signaling a change in direction and scaling-down of the commitment to the capital markets business would further stabilize the standalone credit assessment.

Any indications of control failures, a change in risk appetite, a reduced commitment to strong capital and liquidity, or management increasing its commitment to the capital markets business, either organically over time or through a capital markets business acquisition, could lead to downward pressure on the ratings.

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ROYAL BANK OF SCOTLAND

Royal Bank of Scotland plc's (RBS) long-term deposit and debt ratings were downgraded to A3 from A2, and the bank's Prime-1 short-term rating was downgraded to Prime-2. The bank's standalone credit assessment was lowered to D+/baa3 from C-/baa2. The senior debt and deposit ratings benefit from three notches of uplift from the standalone rating, reflecting Moody's expectation of a very high probability of government support for the bank. The ratings of the holding company, Royal Bank of Scotland Group plc, were downgraded to Baa1/ P-2 from A3/P-2.The outlook on the D+/baa3 standalone ratings is stable, whereas the outlook on the A3 long-term deposit rating is negative, reflecting the view that government support for large UK banks may be lowered in the medium-term.

The downgrade of the standalone credit assessment to baa3 positions RBS in the third group of firms with significant capital market activities, with baseline credit assessments of baa3 and below. This position reflects (i) high historical earnings volatility across the bank; (ii) relatively large capital markets business (expected to stabilize at around 20% of revenues) even after recent de-risking and exiting of certain business lines; (iv) further potential earnings volatility as a result of large loan books in Ireland; and (v) ongoing challenges of winding down non-core assets. These factors are somewhat mitigated by (i) strong underlying earnings in non-investment banking activities; (ii) a large and high-quality liquidity buffer relative to short-term liabilities; (iii) the strong track record of the current management team in de-risking and restructuring the group; and (iv) sufficient long-term capital to meet short-term funding vulnerabilities, reflected in a net cash capital surplus according to Moody's metrics.

The stable outlook on RBS' standalone ratings reflects the view that the capital markets-related risk factors have now been fully incorporated into the bank's ratings. Given the bank's strong retail and banking franchise and its moderated risk appetite for capital markets activities, if the more immediate risks in the operating environment in the UK and Europe were to recede and RBS were to return to a stable earnings profile, there could be upward pressure on the bank's ratings. On the other hand, any indications of control failures, a marked increase in risk appetite or a deterioration in capital levels could lead to downward pressure on the rating.

Moody's took a variety of actions on RBS' May-Pay securities. These are the securities on which RBS omitted coupons due to European Commission restrictions following the receipt of state aid over the period 30 April 2010 to 30 April 2012. On 4 May 2012 RBS announced its intention to resume dividend payments on certain May-Pay instruments and Moody's now considers that the risks for these instruments are in line with the Must Pay instruments. The ratings of these instruments have now all been moved so that they are in line with the Must Pay securities, which are rated in line with hybrid notching guidelines. Click on the following link for a list of the affected May-Pay securities: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143289.

RBS NV

The ratings of RBS NV have been moved to be aligned with those of RBS plc, reflecting the ongoing process of transfer of assets and liabilities from RBS NV to RBS plc, and the explicit commitment by RBS plc to support RBS NV. The senior debt and deposit and issuer ratings have been downgraded to A3 from A2. The short-term rating was downgraded to Prime-2 from Prime-1. And the standalone credit assessment has been raised to D+/ baa3 from D/ ba2, in line with RBS plc. The outlook on the standalone rating is stable and that on the senior debt rating is negative, in line with RBS. The dated subordinated debt instruments have been downgraded to Ba1 from A3, in line with RBS plc, while assumptions of support from the Dutch government are no longer being incorporated into these instruments. The ratings of RBS NV will continue to move in line with those of RBS plc.

ULSTER BANK LIMITED AND ULSTER BANK IRELAND LIMITED

The long-term bank deposit ratings of Ulster Bank Limited (UBL) and Ulster Bank Ireland Limited (UBIL) have been downgraded to Baa2 from Baa1, the long-term issuer rating of UBL to Baa2 from Baa1, the (P) senior unsecured debt rating of UBIL to (P)Baa2 from (P)Baa1 and the dated subordinated rating of UBIL to Ba1 from Baa3. This follows the downgrade of the ratings of its parent, RBS plc, to A3/P-2 from A2/P-1. The outlook on the ratings of UBL and UBIL is negative, in line with the outlook on the senior ratings of RBS and that on the standalone ratings of UBL and UBIL. There is no impact on the D-/ba3 standalone credit assessment of either UBL or UBIL or on the negative outlooks that continue to reflect the significant uncertainty about the speed and magnitude of further asset quality deterioration on Ulster Bank's asset quality. The ratings continue to reflect the incorporation of a very high level of parental support into the ratings of both UBL (incorporated in Northern Ireland) and UBIL (incorporated in Ireland). This is based on Moody's assessment that Ulster Bank Group (which includes both UBL and UBIL) is a core subsidiary of Royal Bank of Scotland Group (RBS Group) and is likely to remain so. Ulster Bank Group (the consolidated entity) is an integral part of RBS Group's strategy and this has been evidenced by the ongoing high levels of support through the provision of capital and funding support. Moody's expects this high commitment to continue and therefore have maintained a high level of parental support in the supported ratings of UBL and UBIL.

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SOCIETE GENERALE

Societe Generale's (SocGen) long-term debt and deposit ratings were downgraded by one notch, to A2 from A1. The Prime-1 short-term rating was affirmed. The standalone credit assessment was also lowered by one notch, to C-/baa2 from C-/baa1. The outlook on both the standalone credit assessment and long-term debt and deposit ratings is stable.

Senior debt and deposit ratings are rated A2 and incorporate three notches of uplift from government support assumptions. SocGen's dated subordinated and junior subordinated debt ratings were downgraded to Baa3 and Ba1(hyb), respectively (one and two notches below its baa2 standalone credit assessment). The downgrades reflect the removal of government support assumptions from the dated subordinated debt instruments. In Moody's view, government support in many European countries, including France, is no longer sufficiently predictable and reliable to warrant incorporating government-support-driven uplift into these debt ratings. Ratings on preference shares were downgraded by one notch, to Ba2(hyb), and continue to be positioned three notches below the standalone credit assessment.

The lowering of the standalone credit assessment to baa2 places SocGen in the second group of firms with significant global capital market activities. This position reflects (i) the significant and relatively volatile nature of the bank's capital markets business, which contributed 18% of revenues between 2009 and 2011; (ii) SocGen's continued relative reliance on short-term wholesale funding and its smaller liquidity pool compared with some other banks; and (iii) challenges arising from the expected deterioration in macroeconomic conditions in western Europe, which will affect many of the countries in which SocGen operates.

These factors are somewhat mitigated by (i) SocGen's good spread of generally solid businesses focused on retail and commercial banking, which provide more stable revenues and help ensure that the capital markets business does not dominate the group; (ii) the bank's relatively small exposure to more problematic sovereign debt; (iii) diversification into central and eastern Europe, which brings a less correlated source of earnings; and (iv) improving trends in capital and liquidity, partly the consequence of a deleveraging program that is, however, still in progress.

The rating could be upgraded in the event of a material structural improvement in the bank's funding and liquidity profile and a further reduction in the weight of capital markets-related activity within the group.

The rating could be downgraded in the event of (i) the re-emergence of deteriorating funding conditions; (ii) risk management failures or material unexpected losses, for example in the capital markets business; (iii) worsening macroeconomic conditions; (iv) a reduced probability of meeting its capitalization target of a 9-9.5% Core Tier 1 ratio under Basel III by end-2013; and (v) a marked weakening in the capacity or willingness of the French government to provide support to the benefit of creditors.

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UBS

UBS AG's deposit and senior debt ratings were downgraded to A2 from Aa3 and the bank's Prime-1 short-term rating was confirmed. The bank's standalone credit assessment was downgraded to C-/baa2 from C/a3. The outlook on all the ratings is stable.

UBS's deposit and senior debt ratings benefit from three notches of uplift from the bank's standalone credit assessment, reflecting Moody's assumptions about a very high likelihood of support from the Swiss government for senior bondholders and other senior creditors in the event such support was required to prevent a default.

On the other hand, UBS's subordinated debt ratings (at Baa3) are now notched off the bank's standalone credit assessment following the removal of the assumption of government support for this class of debt at Swiss banks. Moody's views government support for the subordinated debt of Swiss banks as no longer sufficiently predictable or reliable to warrant incorporating uplift into its ratings.

The lowering of the standalone credit assessment to baa2 positions UBS in the second group of firms with significant global capital markets activities. This position reflects (i) the bank's high historical earnings volatility; (ii) its relatively large capital markets business; and (iii) the problems in risk management and controls from which the bank suffered during the crisis. Partly mitigating these factors are (i) the bank's reduced ambition in investment banking; (ii) its significant and stable earnings from non-investment banking activities; (iii) positive structural liquidity and a large liquidity reserve; (iv) an improving capital position and capital targets well above peers; (v) ongoing enhancements to corporate governance, risk management and controls; and (vi) resilience to the weak operating environment in Europe given low exposures to peripheral Europe and Switzerland's perceived safe-haven status among investors.

The stable outlook on UBS's ratings reflects the view that capital markets-related risk factors have now been fully incorporated into the bank's ratings. Moody's does not expect significant upward pressure on the bank's ratings absent a significant reduction in the bank's reliance on earnings from its capital markets business. Any indications of control failures, a marked increase in risk appetite, a significant decline in the Swiss economy or a deterioration in capital levels or targets would put downward pressure on the ratings.

RESEARCH REFERENCES

For further detail please refer to:

- Special Comment: Key Drivers of Rating Actions on Firms with Global Capital Markets Operations (http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143246), 21 June 2012

- Press Release: Moody's Reviews Ratings for Banks and Securities Firms with Global Capital Markets Operations (http://www.moodys.com/research/Moodys-Reviews-Ratings-for-Banks-and-Securities-Firms-with-Global--PR_238006), 15 Feb 2012

- Special Comment: Challenges For Firms with Global Capital Markets Operations: Moody's Rating Reviews and Rationale (http://www.moodys.com/research/Challenges-For-Firms-With-Global-Capital-Markets-Operations-Moodys-Rating--PBC_139659), 15 Feb 2012

- Special Comment: Euro Area Debt Crisis Weakens Bank Credit Profiles (http://www.moodys.com/research/Euro-Area-Debt-Crisis-Weakens-Bank-Credit-Profiles--PBC_137981), 19 Jan 2012

Moody's webpages with additional information:

- http://www.moodys.com/bankratings2012

- http://www.moodys.com/eusovereign

REGULATORY DISCLOSURES

The principal methodologies used in ratings of Bank of America, Barclays, BNP Paribas, Citigroup, Credit Agricole, Credit Suisse, Deutsche Bank, HSBC, JPMorgan, Royal Bank of Canada, Royal Bank of Scotland Societe Generale and UBS were Bank Financial Strength Ratings: Global Methodology, published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: Global Methodology published in March 2012.

The principal methodologies used in ratings of Goldman Sachs and Morgan Stanley were Global Securities Industry Methodology published in December 2006, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: Global Methodology published in March 2012.

Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Please click on this link: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143274 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

•Endorsement

•Person approving the credit rating

•Releasing office

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings for Barclays PLC, BNP Paribas, Credit Agricole S.A., HSBC Holdings plc, Royal Bank of Scotland Group plc, Societe Generale and their subsidiaries have been disclosed to the rated entities or their designated agent(s) and issued with no amendment resulting from that disclosure.

Information sources used to prepare the ratings are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's adopts all necessary measures so that the information it uses in assigning the ratings is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Moody's considers the quality of information available on the rated entities, obligations or credits satisfactory for the purposes of issuing these ratings.

Royal Bank of Scotland N.V. has received a Rating Assessment Service within the last two years preceding the Credit Rating Action.

Moody's Investors Service may have provided Ancillary or Other Permissible Service(s) to the rated entities or their related third parties within the two years preceding the credit rating action. Please see the special report "Ancillary or other permissible services provided to entities rated by MIS's EU credit rating agencies" on the ratings disclosure page on Moody's website www.moodys.com for further information.

The below contact information is provided for information purposes only. Please see the issuer page on www.moodys.com for Moody's regulatory disclosure of the name of the lead analyst and the office that has issued the credit rating.

The relevant Releasing Office for each rating is identified under the Debt/Tranche List section on the Ratings tab of each issuer/entity page on moodys.com.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Robert?Franklyn?Young
MD - Financial Institutions
Financial Institutions Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Gregory?Winans?Bauer
MD - Global Banking
Financial Institutions Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376

MOODY'S
INVESTORS SERVICE

Announcement: Moody's Disclosures on Credit Rating of Credit Suisse Group AG

Global Credit Research - 31 May 2012

New York, May 31, 2012 -- The following release represents Moody's Investors Service's summary credit opinion on Credit Suisse Group AG and includes certain regulatory disclosures regarding its ratings. This release does not constitute any change in Moody's ratings or rating rationale for Credit Suisse Group AG and its affiliates.

Moody's current ratings on Credit Suisse Group AG and its affiliates are:

Credit Suisse Group AG

Senior Unsecured MTN Program (foreign currency) ratings of (P)Aa2, on review for downgrade

Subordinate MTN Program (foreign currency) ratings of (P)Aa3, on review for downgrade

Junior Subordinate MTN Program (foreign currency) ratings of (P)A2, on review for downgrade

Senior Unsecured Shelf (foreign currency) ratings of (P)Aa2, on review for downgrade

Subordinate Shelf (foreign currency) ratings of (P)Aa3, on review for downgrade

Other Short Term (foreign currency) ratings of (P)P-1

Credit Suisse AG

Senior Unsecured (domestic and foreign currency) ratings of Aa1, on review for downgrade

Senior Unsecured MTN Program (domestic and foreign currency) ratings of (P)Aa1, on review for downgrade

Long Term Bank Deposits (domestic and foreign currency) ratings of Aa1, on review for downgrade

Long Term Deposit Note/CD Program (foreign currency) ratings of (P)Aa1, on review for downgrade

Long Term Issuer rating of Aa1, on review for downgrade

Bank Financial Strength ratings of B, on review for downgrade

Subordinate (domestic currency) ratings of Aa2, on review for downgrade

Subordinate MTN Program (domestic and foreign currency) ratings of (P)Aa2, on review for downgrade

Junior Subordinate MTN Program (foreign currency) ratings of (P)A1, on review for downgrade

Preferred Stock (foreign currency) ratings of (P)A3(hyb), on review for downgrade

Preferred Stock Non-cumulative (foreign currency) ratings of A3(hyb), on review for downgrade

Commercial Paper (foreign currency) ratings of P-1

Short Term Bank Deposits (domestic and foreign currency) ratings of P-1

Other Short Term (domestic and foreign currency) ratings of (P)P-1

Credit Suisse (USA) Inc.

Senior Unsecured (domestic and foreign currency) ratings of Aa1, on review for downgrade

Credit Suisse AG (Guernsey) Branch

Senior Unsecured (foreign currency) ratings of Aa1, on review for downgrade

Senior Unsecured MTN Program (foreign currency) ratings of (P)Aa1, on review for downgrade

Junior Subordinate (foreign currency) ratings of Aa3(hyb), on review for downgrade

Preferred Stock (foreign currency) ratings of A2(hyb), on review for downgrade

Preferred Stock Non-cumulative (foreign currency) ratings of A3(hyb), on review for downgrade

Other Short Term (foreign currency) ratings of (P)P-1

Credit Suisse AG (London) Branch

Senior Unsecured (foreign currency) ratings of Aa1, on review for downgrade

Senior Unsecured MTN Program ratings of (P)Aa1, on review for downgrade

Senior Unsecured MTN Program (foreign currency) ratings of (P)Aa1, on review for downgrade

Long Term Bank Deposits (foreign currency) ratings of Aa1, on review for downgrade

Subordinate (domestic and foreign currency) ratings of Aa2, on review for downgrade

Subordinate MTN Program (foreign currency) ratings of (P)Aa2, on review for downgrade

Junior Subordinate MTN Program (foreign currency) ratings of (P)A1, on review for downgrade

Other Short Term ratings of (P)P-1

Other Short Term (foreign currency) ratings of (P)P-1

Credit Suisse AG (Nassau) Branch

Senior Unsecured (foreign currency) ratings of Aa1, on review for downgrade

Senior Unsecured MTN Program (domestic and foreign currency) ratings of (P)Aa1,on review for downgrade

Subordinate (foreign currency) ratings of Aa2, on review for downgrade

Subordinate MTN Program (domestic and foreign currency) ratings of (P)Aa2, on review for downgrade

Other Short Term (domestic and foreign currency) ratings of (P)P-1

Credit Suisse AG (New York) Branch

Senior Unsecured (domestic and foreign currency) ratings of Aa1, on review for downgrade

Senior Unsecured MTN Program (domestic and foreign currency) ratings of (P)Aa1, on review for downgrade

Long Term Bank Deposits (domestic currency) ratings of Aa1, on review for downgrade

Subordinate (foreign currency) ratings of Aa2, on review for downgrade

Subordinate MTN Program (domestic and foreign currency) ratings of (P)Aa2,on review for downgrade

Junior Subordinate MTN Program (foreign currency) ratings of (P)A1, on review for downgrade

Senior Unsecured Shelf (domestic currency) ratings of (P)Aa1, on review for downgrade

Commercial Paper (domestic currency) ratings of P-1

Other Short Term (domestic currency) ratings of (P)P-1

Credit Suisse AG (Sydney) Branch

Senior Unsecured (domestic currency) ratings of Aa1, on review for downgrade

Senior Unsecured MTN Program (domestic currency) ratings of (P)Aa1, on review for downgrade

Commercial Paper (foreign currency) ratings of P-1

Credit Suisse Capital (Guernsey) I Limited

BACKED Preferred Stock (foreign currency) ratings of (P)A3(hyb), on review for downgrade

BACKED Preferred Stock Non-cumulative (foreign currency) ratings of A3(hyb), on review for downgrade

Credit Suisse Group Capital (DE) Trust I

BACKED Preferred Shelf (domestic currency) ratings of (P)Baa1

Credit Suisse Group Finance (Guernsey) Ltd.

BACKED Senior Unsecured (foreign currency) ratings of Aa2,on review for downgrade

BACKED Senior Unsecured MTN Program (foreign currency) ratings of (P)Aa2, on review for downgrade

BACKED Subordinate (foreign currency) ratings of Aa3, on review for downgrade

BACKED Subordinate MTN Program (foreign currency) ratings of (P)Aa3, on review for downgrade

BACKED Junior Subordinate (domestic currency) ratings of A2(hyb), on review for downgrade

BACKED Junior Subordinate MTN Program (foreign currency) ratings of (P)A2, on review for downgrade

BACKED Other Short Term (foreign currency) ratings of (P)P-1

Credit Suisse Group Finance (US) Inc.

BACKED Senior Unsecured (foreign currency) ratings of Aa2, on review for downgrade

BACKED Subordinate (foreign currency) ratings of Aa3, on review for downgrade

Credit Suisse Group Finance Luxembourg SA

BACKED Senior Unsecured MTN Program (domestic currency) ratings of (P)Aa2, on review for downgrade

BACKED Subordinate MTN Program (domestic currency) ratings of (P)Aa3, on review for downgrade

BACKED Junior Subordinate MTN Program (domestic currency) ratings of (P)A2, on review for downgrade

BACKED Other Short Term (domestic currency) ratings of (P)P-1, on review for downgrade

Credit Suisse Grp. Capital (Guernsey) III Ltd

BACKED Preferred Stock Non-cumulative (domestic currency) ratings of Baa1(hyb), on review for downgrade

Credit Suisse International

Long Term Issuer Rating of Aa1, on review for downgrade

Senior Unsecured (foreign currency) ratings of Aa1, on review for downgrade

Subordinate (foreign currency) ratings of Aa2, on review for downgrade

Junior Subordinate (domestic currency) ratings of A1(hyb), on review for downgrade

BACKED Senior Unsecured (foreign currency) ratings of Aa1, on review for downgrade

BACKED Long Term Bank Deposits ratings of Aa1, on review for downgrade

BACKED Senior Unsecured Shelf (foreign currency) ratings of (P)Aa1, on review for downgrade

BACKED Short Term Bank Deposits ratings of P-1

DLJ Cayman Islands LDC

BACKED Senior Unsecured (foreign currency) ratings of Aa1, on review for downgrade

RATINGS RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of B to Credit Suisse AG, the primary operating unit within Credit Suisse Group AG. The BFSR translates into a Baseline Credit Assessment (BCA), or unsupported rating of aa3. Moody's believes that the probability of government support for Credit Suisse is very high, resulting in a two-notch uplift in the bank's senior debt and deposit ratings to Aa1. The (P)Aa2 senior rating for Credit Suisse Group is the provisional rating assigned to the Group's senior unsecured MTN programme, and is rated one notch below the senior rating of Credit Suisse to reflect the structural subordination inherent in holding company obligations.

The rating reflects the relatively stable earnings derived from the bank's strong franchises in Swiss retail and commercial banking and international wealth management, as well as the bank's robust liquidity and strong regulatory capital ratios. While the bank possesses a top tier global investment banking franchise, risk management errors and high leverage led to greater earnings volatility than expected during the financial crisis. In response, the bank implemented a risk reduction program to reduce risk positions and volatility in its investment banking business, and has adopted a more pro-active approach to risk management. Nonetheless, earnings from the business continue to exhibit a relatively high degree of volatility. We believe that the challenges the bank now faces, and the re-engineering those challenges will require, increase the risks to bondholders relative to other similarly rated companies such that a lower rating may be more appropriate.

Rating Outlook

The long-term ratings for the bank and the group, including the B BFSR, are currently under review for downgrade.

What Could Change the Rating - Up

Currently, long-term ratings of Credit Suisse are on review for possible downgrade. Therefore, it is unlikely in the short to medium term that any positive pressure on ratings will materialise.

What Could Change the Rating - Down

The long-term ratings are currently on review for downgrade to consider the challenges to creditors posed by deteriorating underlying profitability trends in Credit Suisse's Investment Banking and Wealth Management divisions. The review will consider the likelihood of success of the bank's restructuring efforts in addressing its profitability challenges without an increase in risk taking, the inherent vulnerabilities of Credit Suisse presented by its capital markets business, including confidence-sensitivity of customers and funding counterparties, risk management and governance challenges and high degree of interconnectedness and opacity, and the challenges caused by the more difficult operating environment in Europe.

The methodologies used in these ratings were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: Global Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare each of the ratings are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on the rated entities, obligations or credits satisfactory for the purposes of issuing these ratings.

Moody's adopts all necessary measures so that the information it uses in assigning the ratings is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

David Fanger
Senior Vice President
Financial Institutions Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Johannes Wassenberg
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007

U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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INVESTORS SERVICE

Announcement: Moody's places Credit Suisse AG's Aa1 rating under review for possible downgrade

Global Credit Research - 14 Nov 2011

New York, November 14, 2011 -- Moody's Investors Service has placed on review for downgrade the long-term ratings of Credit Suisse Group AG (senior at (P)Aa2) and subsidiaries, including subsidiaries Credit Suisse AG (deposits and senior debt at Aa1, bank financial strength rating at B) and Credit Suisse International (deposits and senior debt at Aa1). The short-term ratings of Credit Suisse AG (Prime-1), Credit Suisse Group AG ((P)Prime-1), Credit Suisse International (Prime-1), and affiliates were affirmed.

RATING RATIONALE

The rating action follows Credit Suisse's announcement that it had a pre-tax loss of CHF0.8 billion, excluding fair value gains on its own debt due to widening of credit spreads, for the third quarter of 2011. Credit Suisse also reported that its Investment Banking segment had a pre-tax loss of CHF681million (excluding fair value gains and losses on its own debt), and its Private Banking segment also suffered a sharp decline in pre-tax profits, down 14% from the second quarter and 21% from a year ago (excluding provisions for litigation charges in Wealth Management related to US and German tax matters).

Moody's stated that Credit Suisse's results were weaker than expectations, and highlighted the challenges that the bank faces in the current environment. Although the appreciation of the Swiss Franc against the US dollar has put some pressure on the bank's results, much of the decline was driven by the overhang of macroeconomic uncertainty and the adverse impact of illiquid markets during the quarter on fixed income sales and trading revenues. Moody's also noted that despite steps taken to strengthen its client-facing trading franchise over the past two and a half years, Credit Suisse's fixed income sales and trading revenues suffered a more significant year-over-year decline than many of its peers. The rating agency believes this reflects the bank's greater reliance on credit and mortgage trading, and its relatively weaker positioning vis a vis peers in foreign exchange and rates. The bank's quarterly results have been more volatile than similarly rated peers and its year-to-date returns relative to risk-weighted assets are weaker.

The rating agency noted that Credit Suisse has demonstrated consistent strength in risk management since the start of the financial crisis, has significantly lowered its risk appetite, and has maintained robust liquidity and strong regulatory capital ratios throughout. "Credit Suisse is among the highest rated banks in the world today. The bank's numerous strengths left it well positioned relative to peers during and in the immediate aftermath of the financial crisis," said David Fanger, Moody's Senior Vice President. "However, we believe that the challenges the bank now faces, and the re-engineering those challenges will require, increase the risks to bondholders relative to other similarly rated companies such that a lower rating may be more appropriate."

Credit Suisse has announced plans to refine its Investment Banking strategy and modestly re-position its Private Banking business. This is the second strategic realignment Credit Suisse has undertaken in its Investment Bank since 2008 and in Moody's view the need for a second initiative highlights the continuing challenges faced by Credit Suisse in its Investment Banking division. "We believe the need for further restructuring is driven by both the continuing macroeconomic uncertainty and the increased pressure on shareholder returns that is likely to result from higher regulatory capital requirements," said Mr. Fanger. "While this pressure also exists at many of Credit Suisse's peers, we believe Credit Suisse is more challenged due to its mix of business," he added. "As a result of the declining profitability of the bank's Wealth Management businesses, stemming from the strong Swiss Franc, low interest rate environment and cautious client behavior, Credit Suisse has become more reliant on its investment banking business, at a time when that business is also under significant pressure."

Moody's review will focus on the restructuring steps announced by Credit Suisse and its implementation, as well as on the underlying profitability trends, particularly in its Investment Banking and Wealth Management divisions, going forward.

The methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

For a full list of Credit Suisse Group subsidiaries and the ratings affected by this action, please refer to www.moodys.com.

Credit Suisse Group AG is headquartered in Zurich, Switzerland. At 30 September 2011 it had total assets of CHF 1061 billion.

REGULATORY DISCLOSURES

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David Fanger
Senior Vice President
Financial Institutions Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Johannes Wassenberg
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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Macquarie Group Ltd.

Primary Credit Analyst:
Gavin J Gunning, Melbourne (61) 3-9631-2092; gavin.gunning@standardandpoors.com

Secondary Contact:
Nico N DeLange, Sydney (61) 2-9255-9887; nico.delange@standardandpoors.com

Table Of Contents

Macquarie Group Ltd.

SACP	bbb+	+	Support	0	+	Additional Factors	-1

Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BBB/Stable/A-2

Major Rating Factors

Strengths:

- Well-diversified business position, strong Australian market share, and strong market position in specialized commercial banking, investment banking and asset management
- Very good risk-management track record
- Main operating entity, Macquarie Bank Ltd. (MBL), is a potential recipient of extraordinary Australian government support, in the unlikely event it were required

Weaknesses:

- Moderate risk position, due to the wide range and complex nature of credit, market, operational, and other risks
- Reliant on non-deposit funding sources

Rationale

Our ratings on MGL Group Ltd. (MGL) reflect the anchor stand-alone credit profile (SACP) for a financial institution operating mainly in Australia; plus the group's "adequate" business position, "adequate" capital and earnings, "moderate" risk position; "adequate" liquidity; "average" funding and its status as a holding company for MGL group of businesses.

Anchor:

Our bank criteria use the BICRA economic risk and industry risk scores to determine a bank's anchor SACP, the starting point in assigning an issuer credit. The anchor SACP for a bank operating only in Australia is 'a-'. MGL, as a diversified financial institution whose main operating entity is Macquarie Bank Ltd (MBL; A/Stable/A-1), conducts more than 40% of its business in its Australian home market. The BICRA score is informed by our evaluation of economic risk, whereby we view Australia as a wealthy, open, and resilient economy. We consider that build-up of private sector credit and asset prices has eased in the recent years, and that moderate private sector debt is offset by conservative lending practices and a creditor-supportive legal framework. With regard to industry risk, our assessment of the Australian banking industry is underpinned by the country's conservative and comprehensive regulation, and the banking sector's very low risk appetite, partly offset by limited funding support from customer deposits and a material dependence on net external borrowings. MGL conducts most of the remainder of its business in regions that overall have weaker economic risk scores than Australia, including countries in the Americas, Europe, and Asia. Consequently, the weighted average economic risk score for MGL is weaker than that for Australian financial institutions that have higher proportions of domestic business, although not to the extent that it affects MGL's anchor SACP.

The group credit profile (GCP) of MGL--being the group entity that takes into account all economic risks associated with MGL and subsidiaries--is 'bbb+'. As a holding company, however, under our rating criteria, the long-term counterparty credit rating of MGL is one notch lower than the GCP, mainly due to MGL's reliance on operating companies within the group. We note that the main operating entity and Australian-licensed bank within the Macquarie group is MBL. MBL accounts for a significant proportion of MGL's on-balance sheet activities.

Table 1

Macquarie Group Ltd. Key Figures

	--Year-ended March 31--				
(Mil. A$)	**2013**	**2012**	**2011**	**2010**	**2009**
Adjusted assets	142,317	146,371	151,192	139,638	144,071
Customer loans (gross)	51,136	48,280	49,955	49,468	50,069
Adjusted common equity	9,295	9,300	9,258	9,235	7,607
Operating revenues	6,768	7,076	7,650	6,371	6,027
Noninterest expenses	5,246	5,863	6,329	5,357	4,542
Core earnings	834	770	922	688	931

Business position:

In our opinion, MGL's business position is "adequate." MGL's business position benefits from high levels of business and geographic diversity, and our overall favorable view of MGL's management and strategy. MGL is Australia's most diversified rated financial institution, considering its relatively small size by international standards and compared with Australia's four major banking groups. Under six main operating divisions, MGL demonstrates a broad spread of business lines, and is well-diversified internationally. We view the diversity of MGL's operations, which assist it in managing the vagaries of economic and business cycles, as a relative strength underpinning our assessment. Further, our view is that MGL's performance has been relatively good in response to the global financial crisis as it now has transitioned to a broader business base emphasizing higher levels of annuity-like revenues. That said, many markets in which MGL operates are inherently complex and volatile, which has a counterbalancing and constraining effect on our view of MGL's business stability, and our otherwise favorable view of its business position.

Compared with buoyant economic times prior to the global financial crisis (GFC), the contribution from MGL's securities and capital markets divisions has been well down, negatively impacted by low market volumes, depressed prices, and generally quiet market activity. Supporting MGL's business position, however, are other of its businesses that we would typically expect to demonstrate more stable and predictable revenues, such as those associated with asset management, corporate, and asset finance, and banking and financial services businesses. While still well below pre-GFC levels, the profitability from the securities and capital markets divisions continues to improve, with Sept. 30, 2013, half-year results well up on the corresponding period last year.

MGL's business position also benefits from its strong market position and market share in its Australian home market in a range of specialized commercial banking and investment banking business lines, and in asset management. Affording us a degree of comfort concerning the continuing adequacy of MGL's business position at the current rating level is the resilience that MGL has demonstrated during its 44 year operating history in Australia (since its genesis in 1969 as the small Sydney branch operations of the U.K. based Hill Samuel). MGL has endured a wide range and intensity of economic and business cycles, at the same time transforming itself into a significantly larger and more diverse financial institution. MGL has generally been successful over the years in warding off periodic forays into the Australian market by foreign commercial and investment banks interested in expanding in some of the markets and product lines in which MGL operates.

In our opinion, MGL's strategy is sound. MGL made a strategic shift following the GFC toward broadening its business base and reducing its reliance on equity markets by expanding into sectors with generally stable revenue characteristics and/or low loss expectations. We believe this trend will continue, and that there is the potential for MGL to execute its strategies by acquisition as well as organic growth. We expect that any acquisition opportunities, should they arise, will be conceptualized on sound foundations and will not detract from the group's sound financial position. Should this not occur, there is the possibility for negative ratings momentum.

Table 2

Macquarie Group Ltd. Business Position

	--Year-ended March 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Total revenues from business line (mil. A$)	6,889	7,142	7,793	6,854	6,027
Commercial & retail banking/total revenues from business line	30.9	22.5	22.2	16.1	17.8
Trading and sales income/total revenues from business line	18.7	19.1	18.2	21.6	17.2
Corporate finance/total revenues from business line	15.4	15.1	10.1	6.7	3.5
Brokerage/total revenues from business line	10.8	21.7	29.5	46.2	47.6
Asset management/total revenues from business line	21.7	19.1	18.1	6.2	5.6
Other revenues/total revenues from business line	1.3	1.5	0.8	2.5	7.4
Investment banking/total revenues from business line	34.1	34.2	28.3	28.2	20.7
Return on equity	7.31	6.19	8.18	10.26	9.07

Capital and earnings:

We assess MGL's capitalization and earnings as "adequate." Our opinion is that over the next 12 to 18 months the group's pre-diversification risk-adjusted capital (RAC) ratio will rest comfortably within our "adequate" range under our ratings criteria. We expect that MGL's RAC will migrate to below 9% for its full year ended March 31, 2014, due mainly to the effects of the distribution of Sydney airport securities to MGL shareholders. The quality of the group's capital is also good, by domestic and international standards, being mainly comprised by common equity and retained earnings. Hybrid capital instruments play an important but supplemental role in capital management. While we continue to monitor future regulatory developments for their potential impact on our view of MGL's capital, our current belief is that MGL will be likely to maintain capital consistent with our current assessment.

Recent earnings have been sound in the context of the rating assigned, with MGL generating A$501 million of reported earnings for its fiscal half year ended Sept. 30, 2013. MGL's future earnings prospects remain adequate at the current rating level, noting that we retain our view that its earnings profile remains leveraged to an equity and capital markets recovery. Future profitability should continue to be assisted by the generally stable outlook for its businesses with annuity-like earnings profiles.

Table 3

Macquarie Group Ltd. Capital And Earnings

	--Year-ended March 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Adjusted common equity/total adjusted capital	85.1	85.1	87.1	95.3	90.6
Net interest income/operating revenues	20.2	18.8	16.7	17.0	15.6
Fee income/operating revenues	49.4	46.5	49.8	57.7	66.2
Market-sensitive income/operating revenues	16.5	15.3	20.7	20.7	16.5
Noninterest expenses/operating revenues	77.5	82.9	82.7	84.1	75.4
Preprovision operating income/average assets	1.0	0.8	0.8	0.7	0.9
Core earnings/average managed assets	0.5	0.5	0.6	0.5	0.6

Risk position:

We continue to view MGL's risk position as "moderate", noting that no new or material risks have emerged during 2013 that cause us any rating concerns. Our opinion is that many of the risks that MGL must routinely manage are broad ranging, complex, and inherently difficult to model, manage, and predict, and that MGL must contend with a broader range and complexity of credit and non-credit risks associated with its entrepreneurial culture compared with Australian retail and commercial banks, including the four major banking groups. We believe that careful management of these risks is a precursor to continuing investor and stakeholder confidence in the institution and to the maintenance of our ratings at current levels.

Offsetting our concerns regarding the inherent nature and complexity of the group's risk position, to an extent, are diversification benefits associated with the group's broad spread of risks, and the group's growth appetite--which has historically been quite strong but well-managed. Further, MGL has a very good risk-management track record, and a continuation of this trend is viewed as important in us retaining confidence at the current rating level. We note that net charge-offs continue to be lower than normalized losses that we would expect to be associated with MGL's business base. More generally, we note that asset quality metrics improved slightly during fiscal 2013, and we believe provisioning coverage associated with impairments is adequate.

Table 4

Macquarie Group Ltd. Risk Position

	--Year-ended March 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Growth in customer loans	5.9	(3.4)	1.0	(1.2)	(10.7)
Total managed assets/adjusted common equity (x)	16.2	16.5	17.0	15.8	19.6
New loan loss provisions/average customer loans	0.4	0.3	0.2	0.3	0.9
Net charge-offs/average customer loans	0.4	0.1	0.2	0.3	0.1
Gross nonperforming assets/customer loans + other real estate owned	2.5	3.0	3.0	3.9	3.9
Loan loss reserves/gross nonperforming assets	44.3	43.6	37.6	29.7	33.5

Funding and liquidity:

We assess MGL's funding as "average" and liquidity as "adequate". While MGL is considered by us to be reliant on wholesale funding and non-deposit sources of funding, we note that MGL has progressively strengthened funding over recent years. We do not consider MGL as materially differing from the funding profile represented in the industry risk score, and because, on balance, funding exhibits broadly similar funding metrics when compared to banks in the same country. Against some quantitative funding metrics, however, such as the loan-to-deposits ratio, MGL compares slightly more favorably to some rated Australian financial institutions, including the Australian major bank peer average. Considering factors such as their extensive retail deposit-gathering capabilities and branch networks, and highly prominent retail brands, however, the Australian major banks are considered as demonstrating some qualitative funding strengths compared with MGL and other Australian financial institutions.

We regard MGL as having good liquidity-management capabilities under normal and difficult market conditions. Holdings of on-balance sheet liquid assets are large relative to MGL's size, and MGL's liquidity ratios are materially more favorable than the four Australian major banks'. Further, other sources of potential liquidity available to MGL give us additional comfort, such as internal securitization and the repo-eligibility of assets with The Reserve Bank of Australia (RBA). We note that the RBA will step in so banks can comply with Basel III liquidity rules by making available a committed liquidity facility (CLF) for banks in order to meet the liquidity-coverage-ratio requirements, effective Jan. 1, 2015. We understand that securities to be used under the CLF would also include self-securitised mortgages in addition to the securities eligible for the RBA's normal market operations. We currently believe it is likely that the CLF will function in the same way in stressed market conditions as high-quality liquid assets would do. MGL is considered as having a well-developed liquidity risk management framework, and we do not currently envisage MGL as facing any major unusual or large liquidity needs in the short-to-medium term.

Table 5

Macquarie Group Ltd. Funding And Liquidity

	--Year-ended March 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Core deposits/funding base	40.1	37.9	34.3	23.8	22.6
Customer loans (net)/customer deposits	123.0	128.2	139.8	217.4	226.0
Long term funding ratio	73.6	76.5	71.6	69.5	71.5
Stable funding ratio	95.3	97.5	94.6	92.3	96.4
Short-term wholesale funding/funding base	29.5	26.3	31.6	33.8	31.1

Table 5

Macquarie Group Ltd. Funding And Liquidity (cont.)					
Broad liquid assets/short-term wholesale funding (x)	1.3	1.5	1.3	1.2	1.3
Net broad liquid assets/short-term customer deposits	22.8	34.8	31.6	33.8	38.5
Short-term wholesale funding/total wholesale funding	47.9	41.2	47.1	44.1	39.7

Table 6

Standard & Poor's Risk-Adjusted Capital Framework, Macquarie Group Ltd.

	`--Year ended March 31--				
	EAD*	Basel II RWA¶	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Government and central banks	11,212	0	0	358	3
Institutions	17,755	0	0	3,630	20
Corporate	32,602	0	0	22,267	68
Retail	21,314	0	0	10,392	49
Of which mortgage	11,229	0	0	3,762	34
Securitization§	4,210	0	0	5,233	124
Other assets	4,388	0	0	4,438	101
Total credit risk	91,481	0	0	46,317	51
Equity in the banking book**	5,595	0	0	36,402	651
Trading book market risk	--	4,925	--	10,739	--
Total market risk	--	4,925	--	47,141	--
Total insurance risk	--	--	--	2,113	--
Total operational risk	--	0	--	24,634	--
RWA before diversification	--	4,925	--	120,204	100
Total diversification/concentration adjustments	--	--	--	(5,447)	(5)
RWA after diversification	--	4,925	--	114,757	95
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio before adjustments		N/A	N/A	10,926	9.1
Capital ratio after adjustments¶¶		N/A	N/a	10,926	9.5

*Exposure at default. ¶Risk-weighted assets. §Securitisation exposure includes the securitisation tranches deducted from capital in the regulatory framework. **Includes the minority equity holdings in financial institutions. ¶¶For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons).

Support:

Our counterparty credit rating on MGL mainly reflects MGL's SACP characteristics, as we believe that MGL has a low likelihood of extraordinary government support in a crisis. Our counterparty credit rating on MGL is one notch below the GCP of the Macquarie group, considering MGL's status as a holding company.

Our counterparty credit rating on MBL, however, is two notches higher than the GCP, reflecting our view of MBL's "moderately high" likelihood of extraordinary government support in a crisis. We believe this is due to MBL's "moderate" systemic importance to Australia's economy, and our assessment of the Australian government as being "highly supportive" of institutions that are core to the national economy. We believe such potential government support may only be available to MBL, as the Australian licensed banking entity, and not to other entities within MGL. We note that future regulatory developments, including on the topic of bank resolution frameworks have the potential to negatively influence our ratings view on MBL and other systemically important Australian banks.

While non-banking parts of MGL are supervised by the Australian Prudential Regulation Authority (APRA), our opinion is that they would be less-likely to be a potential recipient of Australian government support. We believe this would particularly be the case for non-banking businesses of MGL, with a less direct or obvious connection to Australia. We also note that retail deposits are generated by MBL, and, in our view, the Australian government would have more incentives to provide support to retail depositors than non-bank, non-Australian stakeholders in MGL. We believe that the government would be most likely to expect that the beneficiaries of any support provided to MGL would be for the benefit of MBL, and in particular, Australian stakeholders in MBL. Further, in a hypothetical stress scenario, if the government were to consider extending support to MBL, our opinion is that it may have a contemporaneous expectation that MGL would find financial strength from elsewhere within the group, including from non-bank parts of the group, with a less-direct business or geographic connection to Australia, to support Australian stakeholders in MBL.

Additional rating factors:

The issue ratings on MGL's non-deferrable subordinated debt are 'BBB-', which is one notch below MGL's issuer credit rating, reflecting structural subordination behind senior obligations of MGL. We note that the short-to-medium term prospects for MGL experiencing financial stress requiring a restructuring of the bank or group to the detriment of non-deferrable subordinated debt holders is low. MGL's hybrid capital instruments are rated 'BB+', which is two notches below its SACP.

Outlook: Stable

The stable outlook reflects our view that the ratings are likely to remain unchanged over the next one-to-two years. To maintain the stable outlook, we expect that:

- Continuing good performance and risk management by MGL and key operating units, in particular, by the licensed banking entity Macquarie Bank Ltd (MBL);
- MGL's risk position or earnings will not deteriorate materially or unexpectedly, and there will be no material increase by MGL in its risk appetite;
- Risk-adjusted capitalization will remain consistent with our current view;
- Recent funding improvements can be sustained, on an ongoing basis, and funding and liquidity risks including potential confidence sensitivity will continue to be adequately managed;
- Regulatory developments will continue to be supportive of our current ratings, and we continue to believe that there will be a moderately high likelihood of extraordinary government support for MBL (in unlikely event that it were required).

We believe that the prospects for our ratings on MGL being raised are relatively low over the short-to-medium term. We could lower our ratings if we believed that risk-adjusted capital were likely to migrate toward or below the 7% range, noting that we do not expect this to occur. Should acquisition opportunities arise, our expectation is the MGL would maintain a risk adjusted capital ratio of above 7%, even if capital ratios may decline from their current levels. We currently believe that a potential negative revision of our economic risk score for Australia to '3' from '2', all other rating factors remaining equal and unchanged, would be unlikely by itself to cause a negative revision of our opinion concerning MGL's capital. Further, we note that negative ratings momentum could arise if our view of MGL's funding or liquidity weakens materially.

Related Criteria And Research

Related Criteria

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Group Rating Methodology, Nov 19, 2013

Anchor Matrix

Industry Risk	Economic Risk 1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	**a-**	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 19, 2013)

Macquarie Group Ltd.	
Counterparty Credit Rating	BBB/Stable/A-2
Preferred Stock	BB+
Senior Unsecured *South Africa National Scale*	zaAA
Senior Unsecured	BBB
Short-Term Debt *South Africa National Scale*	zaA-1
Short-Term Debt	A-2
Subordinated	BBB-
Counterparty Credit Ratings History	
01-Dec-2011	BBB/Stable/A-2
17-Feb-2010	A-/Stable/A-2
17-Sep-2008	A-/Negative/A-2
Sovereign Rating	
Australia (Commonwealth of) (Unsolicited Ratings)	AAA/Stable/A-1+
Related Entities	
Macquarie Bank Ltd.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Foreign Currency	A/A-1
Preference Stock	BBB-
Senior Unsecured *Greater China Regional Scale*	cnAA+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB

Ratings Detail (As Of December 19, 2013) (cont.)	
Macquarie Capital Loans Management Ltd.	
Preference Stock	BB+
Macquarie Finance Ltd.	
Junior Subordinated	BBB-
Macquarie Financial Holdings Ltd.	
Issuer Credit Rating	BBB/Stable/A-2
Macquarie International Finance Ltd.	
Issuer Credit Rating	A-/Stable/A-2
Macquarie Life Ltd.	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Macquarie's ratings and stable outlook

Global Credit Research - 28 May 2014

Sydney, May 28, 2014 -- Moody's Investors Service has today affirmed the A3 long-term senior unsecured debt rating of Macquarie Group Limited (MGL). It has also affirmed the A2 long-term senior unsecured debt rating of Macquarie Bank Limited (MBL) and the A3 long-term issuer rating of Macquarie Financial Holdings Limited (MFHL). The outlook on ratings assigned to MGL, MBL and MFHL (collectively Macquarie) remains stable.

A full list of the affected ratings can be found at the end of this press release.

RATINGS RATIONALE

"The rating affirmation reflects Macquarie's progress in orienting its operations towards lines of business that have historically been relatively more stable. However, the firm remains reliant on capital markets activities for a meaningful portion of firm-wide profits," says Ilya Serov, a Moody's Senior Credit Officer.

"While the recent performance of Macquarie's capital markets businesses has improved, they remain subject to a variety of earnings pressures. Furthermore, the firm's opportunistic approach to business strategy could result in a reversal of these trends if management identified new business opportunities in capital markets that it considered to be more favourable", Serov adds.

In Moody's view, Macquarie's shock-absorbing capacity has been strengthening, reflecting the rising contribution of earnings sources that have historically been more stable for Macquarie -- such as Macquarie Funds Group, asset finance and its traditional banking businesses -- which offsets the inherent volatility of its capital market-facing operations. "In addition, Macquarie's risk appetite in capital markets appears contained: its trading revenues, while weighted toward the commodities business, have historically been less volatile than trading revenues at other capital markets firms", says Serov.

Macquarie's ratings also reflect its resilient balance sheet. The firm has historically maintained a cautious approach to its liquidity policy, ensuring it is able to meet all of its obligations for a period of 12 months, assuming no access to new funding sources and substantial outflows.

Macquarie has also run significant capital buffers. As at March 2014, MBL reported a Basel III Common Equity Tier 1 of 9.6%, calculated in accordance with Australian Prudential Regulation Authority's standards, and 11.4% on a Basel III internationally harmonised basis. For its non-bank operations, Macquarie holds additional capital calculated on the basis of an economic capital adequacy model, reviewed by APRA. On an overall group basis, MGL maintains a surplus to minimum capital requirements of AUD 1.75 billion, a decline from AUD 2.1 billion recorded in September 2013, primarily due to the in-specie distribution of its stake in Sydney Airport.

"We continue to regard Macquarie's balance sheet position as a central support to its credit profile and a strength relative to its peers", says Serov. "However, we note that the rapid growth of longer-dated and funding-intensive products could, if unchecked, stretch the firm's balance sheet.

"Equally, the trend toward smaller capital and liquidity cushions would be detrimental to the firm's manoeuvrability. How Macquarie chooses to deploy its balance sheet as its business model evolves is a key credit consideration", Serov adds.

In Moody's view while Macquarie's increasingly diverse business profile and ability to respond swiftly to market opportunities have benefited the firm in the past, it has come at the expense of growing complexity and elevated risk management challenges.

Moody's notes Macquarie's well-embedded risk culture, as well as the discipline displayed by the firm with regard recent acquisition bids where Macquarie was ultimately an unsuccessful under-bidder. However, Macquarie also retains vulnerabilities associated with its capital markets businesses, such as the confidence-sensitivity of its customers, a high degree of interconnectedness, and opaque and rapidly changing risk positions.

"Although Macquarie's risk challenges are considerable, particularly as the group grows larger or pursues further opportunities to grow by acquisition, its track record and its ability to limit earnings volatility are an important support to its current rating,", says Serov.

Moody's believes the regulatory and political framework in Australia will continue to be favorable to the interests of bank creditors. Accordingly, the A2 senior debt rating of MBL incorporates two notches of uplift, relative to its baseline credit assessment of Baa1. This reflects the systemic support the bank is likely to receive, in case of need, as a consequence of its significant presence in Australia's financial markets and its deposit base, whose size is on par with Australia's regional banks. The A3 debt ratings of MGL and MFHL also incorporate uplifts from this systemic support, in recognition of their close operational relationship with the bank.

WHAT COULD CHANGE THE RATINGS -- UP

Even if operating conditions improve markedly, the prospect of an upgrade is remote as long as Macquarie retains its current business mix. The standalone ratings of Baa1 on Macquarie's operating units, MBL and MFHL, position the firm at the higher end of the range applicable to wholesale banks.

WHAT COULD CHANGE THE RATINGS -- DOWN

Macquarie's ratings would come under negative pressure should the trend towards a more diversified business profile reverse itself and result in a higher exposure to volatile financial markets businesses. Any signs of a loss of discipline in its risk management or a material reduction in its capital and liquidity buffers would also be detrimental to its ratings.

As the ratings of MGL, MBL and MFHL incorporate the potential for systemic support, any signal from the regulator or government that suggests a less creditor-friendly stance on bank resolution could create downward pressure on the supported ratings.

LIST OF AFFECTED RATINGS

Among others, the following ratings were affirmed:

MBL:

- Bank Financial Strength Rating (BFSR) at C-;

- Long-term local-currency and foreign-currency issuer ratings at A2;

- Senior unsecured local-currency and foreign-currency ratings at A2;

- Senior unsecured foreign-currency MTN program at (P)A2;

- Subordinate local-currency rating and foreign-currency ratings at Baa2, and subordinate foreign-currency MTN program at (P)Baa2;

- Backed senior unsecured foreign-currency MTN program at (P)Aaa and backed subordinate foreign-currency rating at Aaa;

- Short-term local-currency and foreign currency issuer and commercial paper ratings at P-1 and other short-term foreign-currency program ratings at (P)P-1;

- Baseline credit assessment (BCA) and adjusted baseline credit assessment were maintained at baa1.

MGL:

- Long-term local-currency and foreign-currency issuer ratings at A3;

- Senior unsecured foreign-currency rating at A3;

- Senior unsecured foreign-currency MTN program at (P)A3;

- Subordinate foreign-currency MTN program at (P)Baa3;

- Short-term local-currency and foreign currency issuer ratings at P-2 and other short-term foreign-currency program ratings at (P)P-2.

MFHL:

- Long-term local-currency and foreign-currency issuer ratings at A3;

- Short-term local-currency and foreign currency issuer ratings at P-2.

Macquarie International Finance Limited

- Long-term foreign-currency issuer ratings at A3 and senior unsecured foreign-currency MTN program at (P)A3;

- Subordinate foreign-currency MTN program at (P)Baa3;

- Short-term foreign currency issuer ratings at P-2 and other short-term foreign-currency program ratings at (P)P-2.

Macquarie Finance Limited

- Backed pref. stock non-cumulative (domestic) rating at Ba1 (hyb)

Macquarie Capital Funding L.P.

- Backed pref. stock non-cumulative (domestic) rating at Ba1 (hyb)

Macquarie PMI LLC

- Backed pref. stock (domestic) rating at Ba1 (hyb)

The principal methodology used in these ratings was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Macquarie Group Limited is headquartered in Sydney, Australia. It reported assets of AUD 153.9 billion at March 2014.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Ilya Serov
VP - Senior Credit Officer
Financial Institutions Group

Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney NSW 2000
Australia
JOURNALISTS: (612) 9270-8102
SUBSCRIBERS: (612) 9270-8100

Stephen Long
MD - Financial Institutions
Financial Institutions Group
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Releasing Office:
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney NSW 2000
Australia
JOURNALISTS: (612) 9270-8102
SUBSCRIBERS: (612) 9270-8100

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McGRAW HILL FINANCIAL

RatingsDirect®

Citizens Financial Group Inc.

Primary Credit Analyst:
Barbara Duberstein, New York (1) 212-438-5656; barbara.duberstein@standardandpoors.com

Secondary Contact:
E.Robert R Hansen, CFA, New York (1) 212-438-7402; robert.hansen@standardandpoors.com

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Citizens Financial Group Inc.

Major Rating Factors

Counterparty Credit Rating
BBB+/Negative/A-2

Strengths

- One of the largest U.S. regional banks, with a good market presence, particularly in New England
- Generally basic, lower-risk business model than peers'
- Strong capital ratios

Weaknesses:

- Mediocre core earnings
- High exposure to the risks of home equity lending
- Planned ownership change to public company that may increase some strategic risks

Outlook

The negative outlook on Citizens Financial Group Inc. mirrors the outlook on its parent, The Royal Bank of Scotland PLC (RBS; A-/Negative/A-2). Under Standard & Poor's Ratings Services' group rating methodology, the ratings on Citizens are currently capped by the ratings on RBS. Therefore, since we currently rate the two companies the same, we could downgrade Citizens if we were to downgrade RBS.

As Citizens' plans to separate from RBS (through a series of public stock offerings) progress, we expect that we will view our ratings on Citizens independently from those on RBS in the event that, in our determination, RBS no longer has control over Citizens. This likely would the case when RBS owns less than 50% of Citizens, which could occur as early as 2015. At that time, we would likely affirm our ratings on Citizens' operating banks at 'A-' (equivalent to its stand-alone credit profile) and affirm the holding company rating at 'BBB+'.

Otherwise, we expect that Citizens' asset quality will remain relatively good and that earnings will continue to benefit from low loan loss provisions over the next two years. The stand-alone credit profile (SACP) reflects our expectation that capital ratios will decline, but that management is committed to maintaining strong capital ratios, including a projected risk-adjusted capital (RAC) ratio, according to our measure, of at least 10%.

Rationale

Standard & Poor's ratings on Citizens take into account the company's "adequate" business position, reflecting its solid market positions and valuable franchise as a major U.S. regional bank operating in the economically diverse New England and Mid-Atlantic markets. Still, we believe that strategic risks are modestly elevated for Citizens because it plans to separate from RBS and become a 100% publicly owned company through a series of public offerings from late 2014 to 2016. We also take into account Citizens' "strong" capital position, which improved sharply over the past few years. However, we expect the company to make substantial capital payouts to RBS in 2014 and possibly in 2015. We believe that, despite the expected decline in capitalization, Citizens will maintain solid capital ratios, including a RAC ratio above 10%, over the next two years.

Citizens' loan portfolio is fairly well-diversified by borrower, in our view, reflecting the company's focus on middle-market commercial and prime consumer customers. Net credit losses have sharply declined as a result of the runoff of certain troubled loans, and we expect net loan losses will remain relatively low in 2014, aided by the improved regional economies. However, we are watchful of Citizens' significant exposure to home equity loans and lines that will revert from interest-only to fully amortizing (higher monthly payment obligations) in the next few years. Based on these factors, we view the company's risk position as "adequate." In addition, an advantageous factor to Citizens' funding and liquidity, which we view as "average" and "adequate," respectively, is its sizable retail deposit base, as well as its reduced reliance on wholesale funding over the past few years.

Anchor: 'bbb+' anchor for a U.S. regional bank

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a bank operating only in the U.S. is 'bbb+', based on an economic risk score of '3' and an industry risk score of '4'.

We view the U.S. as a highly diversified and market-oriented economy, with an adaptable and resilient economic structure. Despite several years of deleveraging, the appetite for bank credit remains generally restrained, and consumers show few signs of having initiated another debt-fueled spending spree, in our view. We view the economic risk trend for the U.S. banking sector as stable, based on the anemic pace of the recovery and our expectation that an improvement in economic risk, which we associate with lower credit losses or higher bank loan growth, for example, will be gradual.

With regard to industry risk, we view the U.S. financial system as innovative, complex, and dynamic, and this, in turn presents considerable regulatory challenges. We believe the continued prominent role of the government in the U.S. mortgage market and the large shadow banking segment create distortions for the industry in the long term. However, we view funding risk favorably because U.S. banks typically benefit from a high and stable share of core deposits and exceptionally deep capital markets. We view the trend for industry risk as stable.

Table 1

Citizens Financial Group Inc. Key Figures

	--Year ended Dec. 31--				
(Mil. $)	**2013**	**2012**	**2011**	**2010**	**2009**
Adjusted assets	115,723.9	117,229.7	119,074.3	118,607.0	136,145.1
Customer loans (gross)	87,093.6	87,842.8	87,319.7	87,708.0	96,000.2
Adjusted common equity	13,050.9	13,381.3	12,831.7	11,810.8	11,253.9
Operating revenues	4,693.1	4,891.0	5,019.4	5,094.4	5,327.4
Noninterest expenses	3,244.5	3,434.5	3,324.3	3,074.1	3,542.9
Core earnings	1,010.4	643.3	528.2	435.9	(578.5)

Business position: Major New England regional bank transforming to public ownership

Citizens has a large-scale competitive position in several of its local markets, good geographic diversification, and a relatively low-risk, basic regional banking business model. However, we also consider that the company's business and financial strategies are in transition as it prepares to become a public company.

With $122 billion in total assets at year-end 2013, Citizens is the nation's 13th-largest bank holding company, and it operates through its main bank subsidiary, Citizens N.A., a national banking organization, and Citizens Bank of Pennsylvania, a state-charted savings bank. It operates a sizable 1,366 branch network in 12 states. Citizens, which is based in Providence, R.I., has significant market shares in New England and the Mid-Atlantic. As a result of its merger with Charter One in 2004, Citizens also has a presence in the Midwest (mainly the Cleveland and Detroit areas). However, Citizens' largest deposit market shares continue to be in the economically diverse markets of New England and Pennsylvania. Citizens has particularly large deposit franchises in Boston, Philadelphia, and Providence. Citizens considers the Cleveland and Detroit areas as part of its core franchise, but we expect the company to focus less on growth in these Midwestern cities.

In contrast with its long history as an acquirer, Citizens has been consolidating its branch network since about 2007. Most recently, in January 2014, the company reached an agreement to sell 94 of its branches in the Chicago area to U.S. Bancorp. The proposed sale includes $5.3 billion of deposits and $1.1 billion of loans as of year-end 2013, and the company plans to finalize the sale in the second quarter of 2014. Over the past few years, Citizens has closed low-performing branches, including about 100 branches in 2012 and 2013 because of low profitability. In a more significant move, in 2009, Citizens sold or closed about 10% of its branch network--mainly branches in noncore markets of Indiana and upstate New York. We expect Citizens will continue its efforts to make its branch network more efficient by selling or closing a small number of branches.

Citizens' strategic focus is dominated by its plans to separate from its parent, RBS, and become an independent, publicly owned company. In February 2013, RBS announced it was targeting a partial public stock offering of Citizens. In the fourth quarter of 2013, RBS said it intended to accelerate its plans for a partial IPO of Citizens in the second half of 2014 and a full divesture by the end of 2016. Based on Citizens' large size, we expect that the public offerings will be executed in three or four tranches from late 2014 to 2016. We believe that the sale of Citizens is a major part of RBS' plan to raise funds to repay the U.K. government's ownership in RBS. Therefore, we believe that both RBS and Citizens have strong incentives to separate.

As a part of Citizens' plans to become a public company, we believe that management will likely focus on improving returns to common shareholders by striving to somewhat boost net income and lowering its above-peers capitalization over the next two years. For example, to improve profitability, Citizens will probably seek to grow its balance sheet in various ways, such as through purchases of securities and jumbo residential mortgage portfolios, and by maintaining more of its residential mortgage originations on its balance sheet. The company may also seek higher growth in its auto and student lending. Citizens has initiatives in place to increase originations in midcorporate lending, which is a core business strength. Still, we believe that these growth strategies will not significantly increase business risk. We expect the company will likely retain its current basic regional banking business model and relatively conservative organic growth strategies.

We expect that Citizens will seek to further strengthen its corporate governance and enterprise risk management. We note that the Federal Reserve in March 2014 objected to the company's capital plan under the Fed's Comprehensive Capital Analysis and Review (CCAR). Although Citizens' capital ratios exceeded the Fed's minimum ratios in the stress tests, the Fed objected to the company's capital plan for qualitative reasons, related to Citizens' capital planning process. In particular, the Fed cited deficiencies in Citizens' practices for estimating revenue and losses in stress scenarios and ensuring the appropriateness of loss estimates across business lines in stress scenarios. Citizens is a new entrant to the CCAR capital planning process, and we expect that it will address these process-related issues over time.

Capital and earnings: Capital ratios will likely decline but remain above average

Our "strong" assessment of capital and earnings is mainly based on our view that Citizens' capital ratios will remain strong relative to many peers', despite the company's plans to moderately reduce its common equity. Our assessment also takes into account our expectation that earnings will continue to improve somewhat over the next couple of years, reflecting relatively low loan loss provisions and some balance sheet growth.

The company's capital measures have risen sharply since 2008 as a result of the conversion of junior capital instruments (held by RBS) to common equity and a significant contraction of total assets. That said, Citizens accelerated its return of capital to its parent in 2013, and we expect additional transactions with RBS, such as dividends and share buybacks, in 2014 and 2015. We expect that Citizens' capital ratios will decline but, in the intermediate term, will still remain robust and somewhat higher than those of its peers. According to our RAC framework, we expect Citizens' RAC ratio to decline in the next two years--from 11.5% as of year-end 2013--but remain slightly in excess of our "strong" threshold of 10%. We expect the ratio to decline because capital redeployment to RBS will likely offset earnings retention. Our forecast also assumes that low loan growth in 2014 and 2015 will accelerate and boost risk-weighted assets, pressuring the RAC ratio.

In addition to Citizens' strong RAC ratio, its tangible common equity to tangible assets was solid relative to peers' at about 10.9% as of Dec. 31, 2013, down from 11.5% at year-end 2012, but up sharply from about 7.7% at year-end 2009. Basel 1 regulatory capital ratios were also robust, with Tier 1, total capital, and leverage ratios of 13.5%, 16.1%, and 11.6%, respectively. Under the Basel III rules that are effective as of Jan. 1, 2015, the company estimates its common equity Tier 1 ratio was 13.1% as of year-end 2013.

After resuming paying a moderate dividend to RBS in 2012 (for the first time since 2007), Citizens boosted its return of capital to RBS in 2013. In 2013, the company paid $1.0 billion of special common dividends to RBS while issuing a like amount of subordinated debt to its parent. Citizens redeemed $280 million of trust preferred held by RBS and paid a total of $185 million in ordinary dividends, equating to a moderate 28% payout ratio.

We believe that Citizens will return a substantial amount of capital to its parent in 2014. We believe that regulators will allow this because Citizens' capital levels are substantially higher than those of its peers, and despite the Fed's objection to the company's capital plan in the 2014 CCAR because of qualitative reasons. We expect that in 2014, the company will enter into a similar amount of exchange transactions with its parent as in 2013. However, we expect Citizens' issuance of preferred stock to RBS will partly offset this capital outflow. We also expect that Citizens' dividend payout ratio will be moderate in 2013.

We consider Citizens' quality of capital as relatively good, considering that its capital base is mostly common equity. In our view, Citizens' financial flexibility will significantly improve when it issues common equity to the public and establishes its direct access to the public equity markets.

In our assessment of earnings, we recognize that Citizens' core profitability improved in recent years, and we expect adequate profitability in the next few years, reflecting only moderate loan loss provisions and potentially higher net interest income because of planned balance sheet growth. After posting losses in 2008 and 2009 and only $11 million of net income in 2010, Citizens returned to satisfactory profitability in 2011. Earnings improvement has stemmed from a very sharp decline in loan loss provisions, partly reflecting the further runoff of its poorly performing purchased serviced-by-others (SBO) home equity portfolio. In 2013, the company posted $654 million of adjusted net income, excluding a large $4.4 billion pretax goodwill impairment charge. Although we expect loan loss provisions to increase in the next few years as the loan portfolio grows, we do not expect them to rise sharply.

Overall, however, we view Citizens' inherent earnings power as mediocre. In 2013, Citizens' adjusted return on average assets (ROAA) remained subpar at about 0.54%, mainly reflecting the company's narrow net interest margin (NIM). Citizens' NIM has been lower than peers', mainly because of its large proportion of lower-risk and lower-yielding loans. The NIM was about 2.83% in fourth-quarter 2013. We expect the NIM to stabilize or rise slightly but remain below peers in 2014, even as the company may seek to add slightly higher yielding assets. Also, Citizens has a somewhat high noninterest expense-to-revenue ratio of about 70%. We expect the company to continue to seek to control expenses, but we do not anticipate significant improvement in the expense base any time soon. Revenue diversification is about average relative to peers, as is its noninterest income contribution, at about 35% of total revenue.

Table 2

Citizens Financial Group Inc. Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Tier 1 capital ratio	13.5	14.2	13.9	13.0	11.6
Standard & Poor's RAC ratio before diversification	11.5	12.3	11.6	10.2	8.8
Standard & Poor's RAC ratio after diversification	12.1	12.9	12.2	10.8	9.4
Adjusted common equity/total adjusted capital	100.0	97.9	96.3	95.9	95.7
Double leverage	102.1	96.8	97.9	92.7	95.5
Net interest income/operating revenues	65.4	66.2	66.4	66.7	65.4
Fee income/operating revenues	20.1	18.6	20.3	14.9	21.3
Market-sensitive income/operating revenues	6.0	4.3	3.9	9.7	0.2
Noninterest expenses/operating revenues	69.1	70.2	66.2	60.3	66.5

Table 2

Citizens Financial Group Inc. Capital And Earnings (cont.)					
Preprovision operating income/average assets	1.2	1.1	1.3	1.5	1.2
Core earnings/average managed assets	0.8	0.5	0.4	0.3	(0.4)

Risk position: Asset quality trends remain good, but exposure to home equity is a risk

Citizens' risk position is about average relative to most other U.S. commercial banks', in our view. This assessment reflects the company's somewhat well-diversified loan portfolio, its substantial progress in reducing its asset quality risk over the past few years, the stability of the New England regional economy, and our expectation that net charge-offs (NCOs) will remain manageable over the next few years. We also take into account that Citizens plans to increase the growth in its loan portfolio in the next couple of years. We assume that the growth will not add outsize credit risk or concentrations.

Citizens' assets declined about 17% from year-end 2009 to year-end 2013. This partially reflects the company's liquidation of loan pools that it identified as noncore, although these pools represented only 4% of total loans as of year-end 2013, down sharply from 20% of loans as of year-end 2009. The largest of these is its poorly performing purchased SBO home equity portfolio, which shrank to $2.2 billion as of year-end 2013. Although this portfolio has never accounted for more than 10% of loans, it has generated substantial NCOs that have depressed the company's results over the past few years. Positively, the portfolio continues to run off and was only 2.6% of loans as of year-end 2013.

Citizens' $85.9 billion loan portfolio remains skewed toward retail lending, with a mix of about 54% retail and 46% commercial, although the company's goal is to bolster the proportion of commercial lending over time. The mix is 27% home equity loans and lines, 38% commercial and industrial (C&I; including leasing), 11% residential mortgages, 10% auto loans, 8% commercial real estate (CRE), and 6% other consumer (including student loans, credit cards, and marine). Total loans dipped slightly in 2013 as loan runoff offset growth from C&I and auto loan originations and whole loan residential mortgage purchases.

Citizens' large exposure to home equity loans and lines remains an asset quality risk. The bulk of this exposure is the company's $23 billion core home equity portfolio. Positively, this portfolio was originated mainly in the states where Citizens has branches and somewhat high-quality underwriting standards, such as fairly low loan-to-value ratios and relatively high FICO scores. However, we are watchful of the substantial amount of home equity loans and lines that will revert from interest-only to fully amortizing in the next few years, resulting in higher monthly payment obligations that could possibly cause an increase in delinquencies in that portfolio. As of year-end 2013, the company estimated that $3.1 billion would convert from interest-only to fully amortizing or maturity by year-end 2015. Like other banks, Citizens has instituted mitigation plans to communicate with borrowers and provide refinancing or loan modification options.

Otherwise, Citizens' overall retail portfolio appears to be high credit quality as the company focuses on prime borrowers. The total consumer real estate-secured portfolio's average updated FICO score was 754 as of Dec. 31,

2013. Excluding the SBO portfolio, the real estate combined LTV ratio was 65.1% as of Dec. 31, 2013, down from 71.4% a year earlier, reflecting improved home values and higher quality originations.

Citizens' CRE exposure as a percentage of total loans is much lower than that of peers, and performance in this portfolio has improved significantly in the past few years. However, we expect the company may target accelerated growth in CRE originations as part of its efforts to increase loan yields and better align its loan mix with peers. We estimate that riskier construction lending exposure is low, at less than 2% of total loans, and we expect that this exposure will remain low.

Given the seasoning of Citizens' weaker portfolios and economic improvement in its markets, we expect its asset quality to remain relatively good in 2014. Citizens' nonperforming assets (NPAs) ratio--NPAs including troubled debt restructurings to loans plus real estate owned--declined to 2.44% as of year-end 2013 from 2.92% at year-end 2012. NCOs, which had been quite elevated in recent years, mainly because of net losses in the SBO home equity portfolio, continue to significantly decline. The NCO rate dropped to 0.57% in 2013 from 1.00% in 2012 and 1.33% in 2011. Reserves to NPAs increased to 54% as of year-end 2013, while reserves to loans were 1.40%. We expect that Citizens may need to increase loan loss reserves in the next few years to match NCOs and keep pace with loan growth.

Citizens employs traditional bank stress testing in its evaluation of interest-rate risk and uses interest-rate swaps to manage the risk. As of year-end 2013, the balance sheet was substantially asset sensitive and positioned so that net interest income would significantly benefit from an increase in interest rates. The company's high asset sensitivity partly stems from its large proportion of floating rate loans.

Otherwise, we do not consider market risk as high for Citizens. The company increased its securities portfolio to $20.3 billion (17% of total assets) as of year-end 2013 from $18 billion as of year-end 2012. We expect the company will increase the securities portfolio further as part of its strategy to increase total assets and net interest income. Still, we expect the credit quality of the portfolio to remain good. The portfolio consisted largely of U.S. government agency mortgage-backed securities (MBS). However, the company had some credit risk in its approximate $2.3 billion nonagency residential MBS portfolio (about 12% of securities) as of year-end 2013. It also had a relatively small, 'AAA' rated commercial MBS portfolio.

Citizens' unrealized loss on both its available-for-sale investment portfolio and its interest-rate swaps portfolio was about $389 million at year-end 2013, up from 2012 year-end but down sharply from a year-end peak of $2.2 billion in 2008.

Table 3

Citizens Financial Group Inc. Risk Position

	--Year ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Growth in customer loans	(0.9)	0.6	(0.4)	(8.6)	(13.7)
Total diversification adjustment/Standard & Poor's risk-weighted assets before diversification	(4.8)	(4.6)	(4.7)	(5.9)	(6.1)

Table 3

Citizens Financial Group Inc. Risk Position (cont.)					
Total managed assets/adjusted common equity (x)	9.4	9.6	10.1	11.0	13.2
New loan loss provisions/average customer loans	0.5	0.5	1.0	1.8	2.7
Net charge-offs/average customer loans	0.6	1.0	1.3	2.0	2.2
Gross nonperforming assets/customer loans plus other real estate owned	2.6	3.0	2.7	3.2	2.6
Loan loss reserves/gross nonperforming assets	54.4	47.1	70.9	72.1	89.9

Funding and liquidity: Benefits from sizable retail deposit base

Citizens has a fairly large retail deposit base and has strategically reduced its reliance on wholesale funding over the past few years, which we believe lowers refinancing risk. We estimate that, as of Dec. 31, 2013, total deposits (excluding deposits held for sale) relative to liabilities was 84%, illustrating the company's satisfactory deposit funding.

However, we expect that Citizens' loans-to-deposits ratio may increase in 2014 because of both its pending sale of its Chicago branches (divesting $5.3 billion or about 6% of total deposits) and its plans to grow its loan portfolio. Excluding loans and deposits held for sale, the loans to deposits ratio was 99% at year-end 2013. We believe that the company will generate deposits so that its loans to deposits ratio will not substantially exceed 100% in 2014 and 2015. Citizens may increase funding through insured brokered deposits programs, but we do not expect brokered deposits to be a substantial proportion of total liabilities.

Citizens' other main funding sources include borrowings from the Federal Home Loan Bank, and we believe the company has ample capacity to increase outstandings in 2014. At year-end 2013, Citizens' long-term funding included about $1 billion of subordinated debt held by RBS, and we expect additional subordinated debt issuance to the parent in 2014.

We evaluate Citizens' liquidity on the asset side of its balance sheet as comparable to its peers', given its high-quality, fairly liquid securities portfolio and cash equivalents, which accounted for about 20% of total assets as of year-end 2013. Although Citizens has transferred some securities to held to maturity (HTM), we do not expect the HTM portion of the portfolio to grow substantially.

Table 4

Citizens Financial Group Inc. Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Core deposits/funding base	90.7	91.5	84.5	81.8	72.0

Table 4

Citizens Financial Group Inc. Funding And Liquidity (cont.)					
Customer loans (net)/customer deposits	94.0	94.3	98.4	100.3	107.3
Long-term funding ratio	92.9	92.8	88.0	85.9	78.3
Stable funding ratio	104.8	104.8	102.5	N/A	N/A
Short-term wholesale funding/funding base	7.9	4.1	7.7	9.2	14.7
Broad liquid assets/short-term wholesale funding (x)	2.2	4.3	2.6	N/A	N/A
Net broad liquid assets/short-term customer deposits	12.9	18.5	18.5	N/A	N/A
Short-term wholesale funding/total wholesale funding	85.0	46.2	48.1	49.3	51.8

N/A--Not applicable.

External support: Nonstrategic subsidiary of RBS

RBS has owned 100% of Citizens since 1988. Under our group rating methodology, we view Citizens as a "nonstrategic" subsidiary of RBS, reflecting RBS's plans to sell Citizens though public stock offerings. Still, RBS currently has control over Citizens, as a wholly owned subsidiary, and because Citizens' SACP is the same as the counterparty credit rating on RBS, our ratings on Citizens are currently capped by those on ratings.

As Citizens' IPO plans progress, we expect that we will view Citizens' ratings independently from those on RBS in the event that, in our determination, RBS no longer has control over Citizens. This would likely be at the time when RBS owns less than 50% of Citizens, which could occur as early as 2015.

Additional rating factors: None

We do not consider any additional factors in our ratings on Citizens.

Table 5

Ratings Score Snapshot	
Issuer Credit Rating	A-/Negative/A-2
Bank Holding Company Rating	BBB+/Negative/A-2
SACP	a-
Anchor	bbb+
Business Position	Adequate (0)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings Detail (As Of May 29, 2014)	
Citizens Financial Group, Inc.	
Counterparty Credit Rating	BBB+/Negative/A-2
Subordinated	BBB
Counterparty Credit Ratings History	
07-Nov-2013	BBB+/Negative/A-2
31-May-2013	A-/Negative/A-2
27-Sep-2012	A-/Stable/A-2
Sovereign Rating	
United States of America (Unsolicited Ratings)	AA+/Stable/A-1+
Related Entities	
Citizens Bank, N.A.	
Issuer Credit Rating	A-/Negative/A-2
Citizens Bank of Pennsylvania	
Issuer Credit Rating	A-/Negative/A-2
National Westminster Bank PLC	
Issuer Credit Rating	A-/Negative/A-2
Junior Subordinated	BB+
Preference Stock	BB+
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB-
RBS Holdings N.V.	
Preferred Stock	BB+
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB-
RBS Securities Inc.	
Issuer Credit Rating	A-/Negative/A-2
Royal Bank of Scotland Mexico, S.A. Institucion de Banca Multiple (The)	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxBBB+/Stable/mxA-2

Ratings Detail (As Of May 29, 2014) (cont.)	
Royal Bank of Scotland N.V. (Milan Branch)	
Issuer Credit Rating	A-/Negative/A-2
Royal Bank of Scotland PLC (Connecticut Branch) (The)	
Issuer Credit Rating	A-/Negative/A-2
The Royal Bank of Scotland Group PLC	
Issuer Credit Rating	BBB+/Negative/A-2
Commercial Paper	A-2
Junior Subordinated	BB
Junior Subordinated	BB+
Preference Stock	BB
Preferred Stock	BB
Senior Unsecured	A-
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BB+
Subordinated	BBB-
The Royal Bank of Scotland N.V.	
Issuer Credit Rating	A-/Negative/A-2
Certificate Of Deposit	A-/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB-
The Royal Bank of Scotland PLC	
Issuer Credit Rating	A-/Negative/A-2
Certificate Of Deposit	A-/A-2
Commercial Paper	A-2
Junior Subordinated	BB
Junior Subordinated	BB+
Senior Unsecured *Greater China Regional Scale*	cnAA-
Senior Unsecured	A-
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BB+
Subordinated	BBB-
Ulster Bank Ireland Ltd.	
Issuer Credit Rating	BBB+/Negative/A-2
Certificate Of Deposit	BBB+/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Ulster Bank Ltd.	
Issuer Credit Rating	BBB+/Negative/A-2

Ratings Detail (As Of May 29, 2014) (cont.)	
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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RBS Citizens Financial Group Inc.

Primary Credit Analyst:
Barbara Duberstein, New York 212-438-5656; barbara.duberstein@standardandpoors.com

Secondary Contact:
E.Robert Hansen, CFA, New York 212-438-7402; robert.hansen@standardandpoors.com

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RBS Citizens Financial Group Inc.

Major Rating Factors

Counterparty Credit Rating
A-/Negative/A-2

Strengths:

- One of the largest U.S. regional banks, with a good market presence, particularly in New England
- Lower-risk business model than peers'
- Strong capital ratios

Weaknesses:

- High exposure to the risks of home equity lending
- Continues to work out distressed loan portfolio, but it is sharply reduced
- Mediocre core earnings

Outlook

The negative outlook on RBS Citizens Financial Group Inc. (Citizens) mirrors the outlook on its parent, The Royal Bank of Scotland PLC (RBS). Otherwise, we consider that Citizens' stand-alone fundamentals are stable. We expect that earnings will continue to improve through 2013, mainly because of a further decline in loan losses. We also anticipate that Citizens will maintain capital ratios that are higher than those of its peers. Specifically, we expect the company will maintain its risk-adjusted capital (RAC) ratio, based on our measurement, in excess of 10%, despite potential moderate payouts of capital to RBS.

If, however, Citizens' asset quality shows signs of worsening, or if its earnings do not continue to improve, we could lower the ratings. We could also lower the ratings if the company's capital payout to RBS is higher than we expect, causing capital ratios to decline significantly. If we were to lower our ratings on Citizens, we would also lower our short-term ratings on the bank subsidiaries to 'A-2' from 'A-1'. However, the short-term rating on the holding company would remain at 'A-2'.

Rationale

Standard & Poor's ratings on Citizens; its main bank subsidiary, RBS Citizens N.A.; and its smaller bank subsidiary, Citizens Bank of Pennsylvania, take into account Citizens' "strong" business position (as our criteria define it) as a major U.S. regional bank with good market shares, particularly in New England and some Mid-Atlantic areas, as well as in the Midwest. Other significant positives are Citizens' buildup of its capital ratios in recent years and our view that the bank's RAC ratios are relatively strong. We consider Citizens' risk profile "adequate" and in line with its U.S. peers'. The company's loan portfolio is fairly well diversified, and we expect net credit losses to continue to decline as a result of the runoff of certain troubled loans and the generally stable economic conditions in its markets.

Anchor: 'bbb+' anchor for a U.S. regional bank

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a bank operating only in the U.S. is 'bbb+', based on an economic risk score of '3' and an industry risk score of '4'.

We view the U.S. as a highly diversified and market-oriented economy, with an adaptable and resilient economic structure. Loan losses continue to abate in line with a gradual economic recovery, and we view the potential for systemwide releveraging as slim. However, the economic recovery remains fragile, and private-sector leverage is still high (nearly 160% of GDP) despite several years of deleveraging. With regard to industry risk, we view the U.S. financial system as innovative, complex and dynamic, and this, in turn, presents considerable regulatory challenges. We believe the continued prominent role of the government in the U.S. mortgage market and the large shadow banking segment create distortions for the industry in the long term. However, we view funding risk favorably because U.S. banks typically benefit from a high and stable share of core deposits and exceptionally deep capital markets.

Table 1

RBS Citizens Financial Group Inc. Key Figures

	--Year ended Dec. 31--				
(Mil. $)	**2012**	**2011**	**2010**	**2009**	**2008**
Adjusted assets	117,229.7	119,074.3	118,607.0	136,145.1	148,423.0
Customer loans (gross)	87,842.8	87,319.7	87,708.0	96,000.2	111,195.5
Adjusted common equity	13,381.3	12,831.7	11,810.8	11,253.9	8,781.0
Operating revenues	4,891.0	5,019.4	5,094.4	5,327.4	6,053.6
Noninterest expenses	3,434.5	3,324.3	3,074.1	3,542.9	3,236.6
Core earnings	643.3	528.2	435.9	(578.5)	717.4

Business position: Sizable and stable New England and Mid-Atlantic franchise

Our assessment of Citizens' business position as strong reflects the company's large-scale, good competitive position in several of its local markets and its good geographic diversification. It also recognizes Citizens' relatively low-risk, basic regional banking business model and stable organic growth strategy.

Citizens is the nation's 12th-largest bank, with about $128 billion in assets as of year-end 2012, and it operates about 1,500 branches in 12 states. Citizens is based in Providence, R.I., and its main markets are New England and the Mid-Atlantic, but it also has a presence in the Midwest (mainly Ohio, Michigan, and Illinois). Citizens' largest deposit market shares continue to be in New England and Pennsylvania, and we expect the company to focus less on growth in the Midwest.

In contrast with its history as an acquirer, Citizens has been making more divestitures in the past few years. For example, in March 2012, Citizens agreed to sell 52 in-store and four traditional branches (representing about $325 million in deposits), mainly in what it considers the nonstrategic areas of Long Island and a few other New York state areas. Additionally, in 2012, Citizens closed about 70 of its branches that had low profitability. In a more significant move, in 2009, Citizens sold or closed about 10% of its branch network--mainly branches in noncore markets of Indiana and upstate New York. We continue to expect that Citizens will make its branch network more efficient by selling or closing a small number of branches. We currently don't anticipate that Citizens will do any large transactions (either large branch or business sales) or acquisitions. Otherwise, we anticipate that Citizens will increase its loans at a moderate pace consistent with the economic growth in its markets.

In February 2013, RBS announced it was targeting a partial public stock offering of Citizens about two years from then. Based on Citizens' large size, we expect that any public offering would not be more than 25% of the company's common stock. We believe this development heightens the uncertainty about Citizens' ownership in the intermediate term. However, we do not expect that this uncertainty will significantly affect the company's operations or alter its current conservative organic growth strategy.

Table 2

RBS Citizens Financial Group Inc. Business Position

	--Year ended Dec. 31--				
(%)	**2012**	**2011**	**2010**	**2009**	**2008**
Loan market share in country of domicile	1.1	1.2	N/A	N/A	N/A
Deposit market share in country of domicile	0.9	0.9	N/A	N/A	N/A
Total revenues from business line (mil. $)	4,895.1	5,024.7	5,073.1	5,320.4	6,121.3
Commercial and retail banking/total revenues from business line	92.9	93.0	87.6	91.1	89.8
Trading and sales income/total revenues from business line	0.2	0.6	0.4	(0.2)	1.5
Corporate finance/total revenues from business line	2.8	3.0	7.9	0.1	1.4
Brokerage/total revenues from business line	1.3	1.1	1.0	0.7	0.6
Insurance activities/total revenues from business line	2.0	1.8	1.8	1.8	1.6
Agency services/total revenues from business line	0.5	0.5	0.5	0.5	0.4
Payments and settlements/total revenues from business line	0.3	(0.0)	0.8	6.1	4.6
Investment banking/total revenues from business line	3.0	3.6	8.3	(0.2)	2.9
Return on equity	2.7	2.1	0.1	(3.6)	(4.7)

N/A--Not applicable.

Capital and earnings: We expect capital ratios to remain above average

Our "strong" assessment of capital and earnings is mainly based on our view that Citizens' capital ratios will remain strong relative to many peers' and our expectation that the company's earnings will continue to improve over the next couple of years. The company's capital measures have risen sharply since 2008 as a result of the conversion of junior capital instruments (held by RBS) to common equity and a significant contraction of total assets. That said, we anticipate that Citizens will accelerate its return of capital to its parent in 2013 and 2014 through transactions such as dividends and share buybacks. However, we still expect that Citizens' capital ratios will remain robust and somewhat higher than those of its peers.

According to our RAC framework, we expect Citizens' RAC ratio to decline in the next two years but remain in excess of our "strong" threshold of 10%. We expect the ratio to decline because capital redeployment to RBS may offset earnings retention. Our forecast also assumes low loan growth, consistent with general economic growth expectations, and Citizens' conservative growth strategy.

As of year-end 2012, Citizens' RAC ratio was high at 12.3%, and this assessment adds a notch to our rating on Citizens. In addition, Citizens' tangible common equity to tangible assets was very solid relative to peers' at about 11.5% as of

Dec. 31, 2012, up sharply from about 7.7% at year-end 2009. Regulatory capital ratios were also robust, with Tier 1, Tier 1 common, and total capital ratios at 14.2%, 13.9%, and 15.8%, respectively.

In 2012, Citizens resumed paying dividends to RBS for the first time since 2007. The company paid a total of $150 million in dividends to RBS in 2012, equating to a moderate 23% payout ratio. We anticipate that Citizens will increase its dividend payout ratio in 2013, but we expect the ratio will remain below 30%. However, we believe the total payout (dividends and other cash outlays to RBS) could exceed 100% of earnings in 2013.

We view Citizens' quality of capital as relatively good, considering that its capital base is mostly common equity. It has a small amount of trust preferred securities outstanding--mainly a $290 million issue that RBS holds. (We assume this issuance will be redeemed, and we do not include it in our RAC ratio.) Still, Citizens has less financial flexibility than most of its peers, which slightly tempers our capital assessment because the company currently cannot directly access the public equity markets.

In our assessment of Citizens' earnings, we recognize that its profitability improved significantly in 2011 and 2012, and we expect further progress in 2013 as the company reduces its loan loss provisions. After posting losses in 2008 and 2009 and only $17 million of net income in 2010, Citizens earned $643 million of net income in 2012 and $506 million in 2011. (Excluding extraordinary items, including a $138 million litigation settlement, adjusted net income was $731 million in 2012.) Earnings improvement has stemmed from a very sharp decline in loan loss provisions, partly reflecting the further runoff of its poorly performing purchased serviced-by-others (SBO) home equity portfolio.

However, we view Citizens' inherent earnings power as mediocre. In 2012, Citizens' adjusted return on average assets (ROAA) was a subpar 0.57%, and we expect the ROAA to improve but remain below peers', mainly reflecting the company's narrow net interest margin (NIM). Citizens' NIM has been lower than peers', mainly because of its large proportion of lower-risk and lower-yielding loans. The NIM slipped to about 2.80% in fourth-quarter 2012, reflecting low reinvestment yields, and we expect a slight further decline in the NIM in the coming quarters, given current interest rates. Also, Citizens has a relatively high noninterest expense-to-revenue ratio of more than 65%. We expect the company to continue to cut expenses, but we do not anticipate significant improvement in the expense base any time soon. Revenue diversification is about average relative to peers, as is its noninterest income contribution, at 30%-35% of total revenue.

Table 3

RBS Citizens Financial Group Inc. Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2012**	**2011**	**2010**	**2009**	**2008**
Tier 1 capital ratio	14.2	13.9	13.0	11.6	9.2
Standard & Poor's RAC ratio before diversification	12.3	11.6	10.2	8.8	8.5
Standard & Poor's RAC ratio after diversification	12.9	12.2	10.8	9.4	8.4
Adjusted common equity/total adjusted capital	97.9	96.3	95.9	95.7	80.8
Double leverage	96.8	97.9	92.7	95.5	101.8
Net interest income/operating revenues	66.2	66.4	66.7	65.4	67.3
Fee income/operating revenues	18.6	20.3	14.9	21.3	18.3
Market-sensitive income/operating revenues	4.3	3.9	9.7	0.2	2.9

Table 3

RBS Citizens Financial Group Inc. Capital And Earnings (cont.)					
Noninterest expenses/operating revenues	70.2	66.2	60.3	66.5	53.5
Preprovision operating income/average assets	1.1	1.3	1.5	1.2	1.8
Core earnings/average managed assets	0.5	0.4	0.3	(0.4)	0.4

Risk position: Loan net charge-offs likely will decline further

We view Citizens' risk position as adequate and about average relative to most other U.S. commercial banks'. This assessment reflects the company's somewhat well-diversified loan portfolio, its substantial progress in reducing its asset quality risk over the past few years, and our expectation that net charge-offs (NCOs) will continue to decline.

Citizens' assets declined about 20% from year-end 2008 to year-end 2012. This partially reflects the company's liquidation of loan pools that it identified as noncore, which represented 6% of total loans as of year-end 2012, down sharply from 20% of loans as of year-end 2008. The largest of these is its poorly performing purchased SBO home equity portfolio, which shrank to $3.0 billion as of year-end 2012. Although this portfolio has never accounted for more than 10% of loans, it has generated substantial net charge-offs that have depressed the company's results over the past few years. Positively, the portfolio continues to run off and was only 3.4% of loans as of year-end 2012, and net losses in this portfolio should continue to decline as the portfolio shrinks and seasons.

Citizens' $88 billion loan portfolio remains skewed toward retail lending, with a mix of about 59% retail and 41% commercial, although the company's goal is to bolster the proportion of commercial lending over time. The mix includes 28% home equity loans and lines, 37% commercial and industrial (C&I; including leasing), 11% residential mortgages, 10% auto loans, 7% CRE, 2% other consumer (including marine), 3% student loans, and 2% credit cards. Total loans were basically flat from year-end 2010 to 2012 because C&I and auto loan growth offset the decline in loans from the runoff portfolios.

Still, Citizens' large exposure to home equity loans and lines, which account for nearly 30% of total loans, remains an asset quality risk. However, the bulk of this exposure is the company's $25 billion core home equity portfolio, which has so far performed satisfactorily and was originated largely within the states where Citizens has branches. The portfolio has somewhat high-quality underwriting standards, such as fairly low loan-to-value ratios and relatively high FICO scores. However, we are watchful of the substantial amount of home equity loans and lines that will revert from interest-only to fully amortizing in the next few years, resulting in higher monthly payment obligations that could possibly cause an increase in delinquencies in that portfolio.

Citizens' CRE exposure is much less than that of peers, and its performance has improved in the past two years. We estimate that riskier construction-lending exposure, including residential construction, is low, at less than 2% of loans.

Given the seasoning of Citizens' weaker portfolios and economic improvement in its markets, we expect its asset quality to improve in 2013. Citizens' nonperforming assets (NPAs) ratio--NPAs including troubled debt restructurings to loans plus real estate owned--increased slightly in 2012 because of higher trouble debt restructurings (TDRs). However, the NPA ratio of 2.92% as of year-end 2012 was still in line with most regional bank peers'. TDRs rose partly as a result of regulatory guidance in the second half of 2012 on the classification of home equity loan for borrowers in Chapter 7 bankruptcy.

NCOs, which had been quite elevated in recent years, mainly because of net losses in the SBO home equity portfolio, continue to significantly decline. The NCO rate dropped to 1.00% in 2012 from 1.33% in 2011 and 2.00% in 2010. Reserves to NPAs declined to 47% as of year-end 2012, while reserves to loans dropped to 1.43%. We expect Citizens to continue to reduce the dollar amount of its reserves in the near term, reflecting lower forecasted loan losses, but we believe that reserve levels will stabilize in 2014.

Citizens' interest-rate risk sensitivity is moderate. The company employs traditional bank stress testing in its evaluation of interest-rate risk and uses interest-rate swaps to manage the risk. As of year-end 2012, the balance sheet was substantially asset sensitive and positioned so that net interest income would significantly benefit from an increase in interest rates.

Otherwise, we do not consider market risk as high for Citizens. The company reduced its investment portfolio to $18 billion (only 14% of total assets) as of year-end 2012 from $22 billion as of year-end 2011. The credit quality of the portfolio remained good, as it consisted largely of U.S. government agency mortgage-backed securities (MBS). However, the company has some credit risk in its $1.2 billion nonagency residential MBS portfolio (7% of securities). The company also had a relatively small, 'AAA' rated commercial MBS portfolio.

Citizens' unrealized loss on both its available-for-sale investment portfolio and its interest-rate swaps portfolio was $312 million as of year-end 2012, down sharply from a year-end peak of $2.4 billion in 2008.

Table 4

RBS Citizens Financial Group Inc. Risk Position

	--Year ended Dec. 31--				
(%)	**2012**	**2011**	**2010**	**2009**	**2008**
Growth in customer loans	0.6	(0.4)	(8.6)	(13.7)	(0.5)
Total diversification adjustment/Standard & Poor's risk-weighted assets before diversification	(4.6)	(4.7)	(5.9)	(6.1)	0.8
Total managed assets/adjusted common equity (x)	9.6	10.1	11.0	13.2	18.3
New loan loss provisions/average customer loans	0.5	1.0	1.8	2.7	1.7
Net charge-offs/average customer loans	1.0	1.3	2.0	2.2	1.1
Gross nonperforming assets/customer loans plus other real estate owned	3.0	2.7	3.2	2.6	1.1
Loan loss reserves/gross nonperforming assets	47.1	70.9	72.1	89.9	147.4

Funding and liquidity: Funding proportion from retail deposits has improved

We assess Citizens' funding as "average" and its liquidity as "adequate." A key strength is Citizens' sizable retail deposit base, and the company has strategically reduced its reliance on wholesale funding over the past few years, which we believe lowers refinancing risk. As of Dec. 31, 2012, total deposits comprised a very high 97% of total liabilities, and core deposits to total liabilities were a substantial 91%, illustrating the company's good deposit funding. Furthermore, loans to core deposits were 94%, sharply improved from about 140% at year-end 2008. Citizens' other main funding source is borrowings from the Federal Home Loan Bank, and we believe the company has ample capacity. We evaluate Citizens' liquidity on the asset side of its balance sheet as comparable to its peers', given its fairly liquid securities portfolio and cash equivalents, which account for about 19% of total assets.

Table 5

RBS Citizens Financial Group Inc. Funding And Liquidity

	--Year ended Dec. 31--				
(%)	2012	2011	2010	2009	2008
Core deposits/funding base	91.5	84.5	81.8	72.0	58.0
Customer loans (net)/customer deposits	94.3	98.4	100.3	107.3	140.2
Long-term funding ratio	92.8	88.0	85.9	78.3	65.6
Broad liquid assets/short-term wholesale funding (x)	4.8	2.8	2.2	1.6	0.1
Net broad liquid assets/short-term customer deposits	21.3	20.2	17.5	15.5	(73.9)
Net short-term interbank funding/total wholesale funding	8.6	4.9	0.8	(7.4)	4.0
Short-term wholesale funding/total wholesale funding	46.2	48.1	49.3	51.8	83.8

External support: Nonstrategic subsidiary of RBS

RBS has owned 100% of Citizens since 1988. Still, we view Citizens as a "nonstrategic" subsidiary of RBS under our ratings criteria. Therefore, the ratings on Citizens would not benefit from any uplift, or implied support, related to Citizens' ownership by RBS. Citizens' stand-alone credit profile is the same as the counterparty credit rating on RBS.

We consider Citizens a nonstrategic subsidiary because we believe that its long-term position within the RBS group is uncertain. Supporting our view, RBS announced in February 2013 that it was beginning work on a partial public offering of Citizens' stock targeted at about two years from that time. We believe this may signal RBS' willingness to sell Citizens, in whole, to another financial institution. Proceeds from the sale could partly aid RBS' repurchase of the U.K. government's ownership in the group, in our opinion.

Still, we recognize that, despite RBS' financial difficulties, RBS has provided material support to Citizens and has not detracted from the company's overall credit quality. In fact, RBS converted most of its junior securities holdings in Citizens to common equity in 2009, which significantly increased Citizens' capital ratios. Citizens did not pay any dividends to RBS from 2008 to mid-2012. We expect that Citizens will accelerate its returns to RBS in 2013 and 2014 but that these actions will probably not have a materially negative effect on Citizens' financial condition.

Additional factors: None

We do not consider any additional rating factors.

Table 6

Ratings Score Snapshot	
Issuer Credit Rating	A/Negative/A-1
Bank Holding Company Rating	A-/Negative/A-2
SACP	a
Anchor	bbb+
Business Position	Strong (+1)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support	0
GRE Support	0
Group Support	0

Table 6

Ratings Score Snapshot (cont.)	
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

- Group Rating Methodology, May 7, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of June 5, 2013)	
RBS Citizens Financial Group, Inc.	
Counterparty Credit Rating	A-/Negative/A-2
Subordinated	BBB+
Counterparty Credit Ratings History	
31-May-2013	A-/Negative/A-2
27-Sep-2012	A-/Stable/A-2
Sovereign Rating	
United States of America (Unsolicited Ratings)	AA+/Negative/A-1+
Related Entities	
Citizens Bank of Pennsylvania	
Issuer Credit Rating	A/Negative/A-1
National Westminster Bank PLC	
Issuer Credit Rating	A/Negative/A-1
Junior Subordinated	BB+
Preference Stock	BB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB-
RBS Citizens N.A.	
Issuer Credit Rating	A/Negative/A-1
RBS Holdings N.V.	
Preferred Stock	C
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB-
RBS Securities Inc.	
Issuer Credit Rating	A/Negative/A-1
Royal Bank of Scotland Mexico S.A. Institucion de Banca Multiple (The)	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxBBB+/Stable/mxA-2

Ratings Detail (As Of June 5, 2013) (cont.)	
Royal Bank of Scotland N.V. (Milan Branch)	
Issuer Credit Rating	A/Negative/A-1
Royal Bank of Scotland PLC (Connecticut Branch) (The)	
Issuer Credit Rating	A/Negative/A-1
The Royal Bank of Scotland Group PLC	
Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	A-2
Junior Subordinated	BB
Junior Subordinated	BB+
Preference Stock	BB
Preferred Stock	BB
Senior Unsecured	A
Senior Unsecured	A-
Short-Term Debt	A-1
Short-Term Debt	A-2
Subordinated	BB+
Subordinated	BBB-
The Royal Bank of Scotland N.V.	
Issuer Credit Rating	A/Negative/A-1
Certificate Of Deposit	A/A-1
Senior Unsecured	A
Short-Term Debt	A-1
The Royal Bank of Scotland PLC	
Issuer Credit Rating	A/Negative/A-1
Certificate Of Deposit	A/A-1
Commercial Paper	A-1
Junior Subordinated	BB
Junior Subordinated	BB+
Senior Unsecured *Greater China Regional Scale*	cnAA+
Senior Unsecured	A
Senior Unsecured	A-
Short-Term Debt	A-1
Short-Term Debt	A-2
Subordinated	BB+
Subordinated	BBB-
U K Insurance Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+
Ulster Bank Ireland Ltd.	
Issuer Credit Rating	BBB+/Stable/A-2

Ratings Detail (As Of June 5, 2013) (cont.)	
Certificate Of Deposit	BBB+/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Ulster Bank Ltd.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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May 10, 2012

Citizens Financial Group Inc.

Primary Credit Analyst:
Barbara Duberstein, New York (1) 212-438-5656; barbara_duberstein@standardandpoors.com

Secondary Contact:
Robert Hansen, CFA, New York (1) 212-438-7402; robert_hansen@standardandpoors.com

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Citizens Financial Group Inc.

Major Rating Factors

Corporate Credit Rating

None

Strengths:

- One of the largest U.S. regional banks, with a good market presence, particularly in New England
- Lower-risk business model than peers'
- Strong risk-adjusted capital ratios

Weaknesses:

- High exposure to the risks of home equity lending
- Credit losses that are elevated but improving
- Mediocre core earnings

Outlook

The stable outlook reflects our expectation that Citizens Financial Group Inc.'s (not rated) earnings will continue to improve through 2012, mainly because of a further decline in loan losses. It also assumes that Citizens will maintain its Standard & Poor's risk-adjusted capital (RAC) ratio above 10%. If, however, the company's asset quality shows signs of worsening or if earnings do not continue to improve, we could revise the outlook to negative or lower the ratings. We could also revise the outlook to negative or lower the ratings if the company pays dividends to its parent, The Royal Bank of Scotland PLC (RBS; A/Stable/A-1), that are higher than we expect, causing capital ratios to decline significantly. In addition, the ratings on Citizens are currently the same as those on RBS, and we would probably not rate Citizens higher than its parent under our group rating methodology.

Rationale

Standard & Poor's ratings on Citizens' main bank subsidiary, RBS Citizens N.A., and its smaller bank subsidiary, Citizens Bank of Pennsylvania, take into account Citizens' "strong" business position (as defined by our criteria) as a major U.S. regional bank with good market shares, particularly in New England and a few Mid-Atlantic areas, as well as in the Midwest. Other significant positives are Citizens' build-up of its capital ratios and our view that the bank's RAC ratios are relatively strong. We consider Citizen's risk profile "adequate" and in line with its U.S. peers'. The company's loan portfolio is fairly well diversified, and we expect net credit losses to continue to decline as a result of the runoff of certain troubled loans and the generally stable economic conditions in its markets.

Anchor: 'bbb+' anchor for a U.S. regional bank

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a bank operating only in the U.S. is 'bbb+'. Our economic risk score of '3' for the U.S. reflects our view that the U.S. has a highly competitive, resilient, and diverse economy. However, the economic recovery remains weak, and private-sector leverage is still high despite four years of deleveraging. Our industry risk score of '4' reflects the U.S. financial system's considerable regulatory challenges and the competition from a large and active shadow banking segment.

However, we view funding risk favorably because U.S. banks typically benefit from a high and stable share of core deposits and exceptionally deep capital markets.

Table 1

Citizens Financial Group Inc. Key Figures

	--Year-ended Dec. 31--				
(Mil. $)	**2011**	**2010**	**2009**	**2008**	**2007**
Adjusted assets	119,074	118,607	136,145	148,423	146,585
Customer loans (gross)	87,320	87,708	96,000	111,196	111,763
Adjusted common equity	12,832	11,811	11,254	8,781	8,031
Operating revenues	5,019	5,094	5,327	6,054	6,059
Noninterest expenses	3,324	3,074	3,543	3,237	2,964
Core earnings	528	436	(579)	717	(381)

Business position: Sizable and stable New England and Mid-Atlantic franchise

Our assessment of Citizens' business position as strong reflects the company's large-scale, good competitive position in several local markets and good geographic diversification. It also recognizes Citizens' relatively low-risk, basic regional banking business model and stable organic growth strategy.

Citizens is the nation's 12th-largest bank, with about $130 billion in assets, and it operates about 1,500 branches in 12 states. Citizens is based in Providence, R.I., and its main markets are New England and the Mid-Atlantic, but it also has a presence in the Midwest (mainly Ohio, Michigan, and Illinois). Citizens' largest deposit market shares continue to be in New England and Pennsylvania, and we expect the company to focus less on growth in the Midwest.

In contrast with its history as an acquirer, Citizens has been making more divestitures in the past few years. For example, in March 2012, Citizens agreed to sell 52 in-store and four traditional branches (representing about $325 million in deposits), mainly in what it considers the nonstrategic areas of Long Island and a few other New York state areas. In a more significant move, in 2009, Citizens sold or closed about 10% of its branch network--mainly branches in noncore markets of Indiana and upstate New York. We continue to expect that Citizens will make its branch network more efficient by selling or closing a small number of branches. We currently don't anticipate that Citizens will do any large transactions (either large branch or business sales) or acquisitions. Otherwise, we anticipate that Citizens will grow its loans at a moderate pace consistent with the economic growth in its markets.

Capital and earnings: We expect capital ratios to remain above average

Our "strong" assessment of capital and earnings is mainly based on our view that Citizens' capital ratios are strong relative to many peers' and our expectation that the company's earnings will continue to improve over the next couple of years. The company's capital measures have risen sharply over the past few years as a result of the conversion of junior capital instruments (held by RBS) to common equity and a significant contraction of total assets.

According to Standard & Poor's RAC framework, we expect Citizen's RAC ratio to remain in excess of 10% in the next couple of years, given earnings retention and the possibility of only moderate dividends to RBS. Our forecast also assumes low loan growth, consistent with general economic growth expectations. As of year-end 2011, Citizens' RAC ratio was 11.6%, which we consider "strong," and this assessment adds a notch to our rating on Citizens. In addition, Citizen's tangible common equity to tangible assets was very solid relative to peers' at 10.63%

as of Dec. 31, 2011, up sharply from 7.65% as of year-end 2009. Regulatory capital ratios are also high, with Tier 1, Tier 1 common, and total capital at 13.8%, 13.3%, and 15.1%, respectively. We assume that Citizens may resume dividends to RBS in 2012 and 2013, but we expect that the payouts will not be large.

We consider that Citizens' quality of capital is relatively good, considering that its capital base is mostly common equity. It has a small amount of trust preferred outstanding--mainly a $480 million issue that RBS holds. Still, the fact that Citizens has less financial flexibility than most peers' slightly tempers our capital assessment because the company cannot directly access the public equity markets.

In our assessment of Citizens' earnings, we recognize that the company's profitability improved significantly in 2011, and we expect further progress through 2012 and 2013 as the company reduces its loan-loss provisions. After posting losses in 2008 and 2009 and only $17 million of net income in 2010, Citizens was solidly profitable in 2011, earning $506 million in net income. The improvement stemmed from a nearly 50% decline in loan-loss provisions, partly reflecting the further runoff of its poorly performing purchased serviced-by-others (SBO) home equity portfolio.

However, we view Citizen's inherent earnings power as mediocre. In 2011, Citizens' return on average assets (ROAA) was a subpar 0.39%, and we expect the ROAA to improve but remain below peers', mainly reflecting the company's narrow net interest margin (NIM). Citizens' NIM has been lower than peers', mainly because of its large proportion of lower-risk and lower-yielding loans. The NIM improved to about 3% in mid-2011, partially because of management's focus on deposit pricing. However, the NIM slipped to about 2.95% in fourth-quarter 2011, reflecting low reinvestment yields, and we expect a slight further decline in the NIM in coming quarters, given current rates. Also, Citizens maintained a fairly high noninterest expense-to-revenue ratio of 65% in 2011, down slightly from 66% in 2011. We expect the company to continue to cut expenses, but we do not anticipate significant improvement in the expense base any time soon. Revenue diversification is about average relative to peers. Noninterest income comprises about 30%-35% revenues.

Table 2

Citizens Financial Group Inc. Capital And Earnings Ratios

	--Year-ended Dec. 31--				
(%)	**2011**	**2010**	**2009**	**2008**	**2007**
Tier 1 capital ratio	13.85	13.04	11.62	9.15	9.13
Adjusted common equity/total adjusted capital	96.32	95.89	95.70	80.77	79.23
Double leverage	97.93	92.72	95.49	101.83	101.02
Net interest income/operating revenues	66.42	66.65	65.41	67.34	67.37
Fee income/operating revenues	20.27	14.93	21.26	18.28	17.71
Market-sensitive income/operating revenues	3.93	9.69	0.19	2.89	3.22
Noninterest expenses/operating revenues	66.23	60.34	66.50	53.47	48.92
Preprovision operating income/average assets	1.31	1.45	1.16	1.76	1.93
Core earnings/average managed assets	0.41	0.31	(0.38)	0.45	(0.24)

Risk position: Loan net-charge-offs likely will decline further

We consider Citizens' risk position as adequate and about average relative to most other U.S. commercial banks. This assessment reflects the company's somewhat well-diversified loan portfolio, its substantial progress in reducing its asset quality risk over the past few years, and our expectation that net charge-offs will continue to decline.

Citizens' assets shrunk about 19% from year-end 2008 to year-end 2011. This partially reflects the company's liquidation of loan pools that it identified as noncore, which accounted for 9% of total loans as of year-end 2011. The largest of these is its poorly performing purchased SBO home equity portfolio of approximately $3.7 billion. Although this portfolio has never accounted for more than 10% of loans, it has generated substantial net charge-offs that have depressed the company's results over the past few years. Positively, the portfolio is running off and is currently less than 5% of loans. Although Citizens will likely need to take additional large provisions related to this portfolio, we believe the net losses will continue to decline as the portfolio shrinks and seasons. Other noncore loan portfolios are $1.2 billion in purchased residential mortgages, $1.2 billion in student loans, and $1.5 billion in commercial real estate (CRE).

Citizens' $87 billion loan portfolio remains skewed toward retail lending, with a mix of about 58% retail and 42% commercial, although the company's goal is to bolster the proportion of commercial lending over time. The mix includes 31% home equity loans and lines, 33% commercial and industrial (C&I; including leasing), 11% residential mortgages, 9% auto loans, 9% CRE, 2% other consumer (including marine), 3% student loans, and 2% credit cards. Total loans were flat from year-end 2010 to 2011 because C&I growth offset the decline in loans from the runoff portfolios.

Still, Citizens' large exposure to home equity loans and lines, which accounts for nearly one-third of total loans, remains an asset-quality risk. However, the bulk of this exposure is the company's $23 billion core home equity portfolio, which has so far performed satisfactorily and was originated largely within Citizens' branch footprint. The portfolio has somewhat high-quality underwriting standards, such as fairly low loan-to-value ratios and relatively high FICO scores. CRE is another relatively weak portfolio, but it accounts for only about 9% of loans, and its performance has improved in recent quarters. We estimate that riskier construction-lending exposure, including residential construction, is low at less than 2% of loans.

Given the seasoning of Citizens' weaker portfolios and some economic improvement in its markets, we expect its asset quality to continue to stabilize or improve in the coming quarters. Citizens' nonperforming assets (NPAs) ratio (NPAs to loans plus real estate owned) declined to 2.64% as of December 2011 from 3% as of year-end 2010, which is better than that of most regional bank peers. Still, net charge-offs have been elevated, mainly because of net losses in the SBO home equity portfolio, but are improving. However, the net-charge-off rate declined to 1.33% in 2011 (1.53% in the fourth quarter), down from 2% in 2010. Citizens substantially bolstered its loan-loss reserves over the past few years. Reserves to NPAs were 71% as of year-end 2011, and reserves to total loans were 1.94%. We expect Citizens to continue to reduce the dollar amount of its reserves in the near term, reflecting lower-forecasted loan losses.

Citizens' interest-rate risk sensitivity is moderate. Because of its high proportion of residential-mortgage-secured assets, the company's net interest income has historically been particularly vulnerable to significant declines in long rates, causing prepayments to rise. The company employs traditional bank stress testing in its evaluation of interest-rate risk and uses interest-rate swaps to manage the risk. As of year-end 2011, the balance sheet was asset sensitive and positioned so that net interest income would benefit from an increase in interest rates.

We do not consider that market risk is high for Citizens. The company's investment portfolio totaled about $22 billion, or approximately 17% of total assets as of year-end 2011, and consisted largely of U.S. government agency mortgage-backed securities (MBS). To date, Citizens has not had to take large write-downs on its investment portfolio. Still, the company may have certain risks in its $1.7 billion nonagency residential MBS portfolio (8% of investment securities) as of year-end 2011. The company also had a relatively small, 'AAA' rated commercial MBS portfolio (2% of investment securities) as of year-end 2011. Citizens' unrealized loss on both its available-for-sale investment portfolio and its interest-rate swaps portfolio was $528 million as of year-end 2011, down from $1.1 billion as of year-end 2009 and $2.4 billion in 2008.

Table 3

Citizens Financial Group Inc. Risk Position Ratios

	--Year-ended Dec. 31--				
(%)	2011	2010	2009	2008	2007
Growth in customer loans	(0.44)	(8.64)	(13.67)	(0.51)	5.37
Total managed assets/adjusted common equity (x)	10.12	11.01	13.15	18.27	19.98
New loan loss provisions/average customer loans	1.02	1.79	2.67	1.73	0.67
Net charge-offs/average customer loans	1.33	2.01	2.21	1.05	0.48
Gross nonperforming assets/customer loans plus other real estate owned	2.74	3.17	2.56	1.06	0.60
Loan loss reserves/gross nonperforming assets	70.93	72.06	89.88	147.38	145.04

Funding and liquidity: Funding proportion from retail deposits has improved

We assess Citizens' funding as "average" and its liquidity as "adequate." A key strength is Citizens' sizable retail deposit base, and the company has strategically reduced its reliance on wholesale funding over the past few years, which we believe lowers refinancing risk. As of Dec. 31, 2011, total deposits to total liabilities were 92%, and core deposits to liabilities were a substantial 85%, illustrating the company's good deposit funding. Furthermore, loans to core deposits were 98%, sharply improved from about 140% at year-end 2008. Citizens' other main funding source is borrowings from the Federal Home Loan Bank, and we believe the company has ample capacity. We evaluate Citizens' liquidity on the asset side of its balance sheet as comparable to its peers', given its fairly liquid securities portfolio and cash equivalents, which account for about 23% total assets.

Table 4

Citizens Financial Group Inc. Funding And Liquidity Ratios

	--Year-ended Dec. 31--				
(%)	2011	2010	2009	2008	2007
Core deposits/funding base	84.51	81.75	72.00	57.98	59.56
Customer loans (net)/customer deposits	98.38	100.25	107.25	140.24	138.73
Long term funding ratio	88.03	85.92	78.32	65.59	66.63
Short-term wholesale funding/total wholesale funding	48.09	49.29	51.78	83.84	84.81

External support: Moderately strategic subsidiary of RBS

RBS has owned 100% of Citizens since 1988. We view Citizens as a "moderately strategic" subsidiary under our new ratings criteria. However, because Citizens' stand-alone credit profile is the same as the counterparty credit rating on RBS, we do not incorporate any ratings uplift related to the implied support from RBS. The U.K. government has been the majority owner of RBS since October 2008, which subjects RBS to heightened regulation. RBS has stated that it intends to retain Citizens, but, in our view, Citizens' long-term position within the RBS group is uncertain. For instance, RBS could still sell Citizens to improve or accelerate returns to the U.K. taxpayers. Still, we recognize that, despite RBS' financial difficulties, RBS has provided material support to Citizens and has not detracted from the company's overall credit quality. In fact, RBS converted most of its junior securities holdings in Citizens to common equity in 2009, which significantly increased Citizens' capital ratios. RBS has taken no dividends from Citizens since 2007. However, we expect that Citizens may begin paying moderate dividends to RBS in 2012 and 2013.

Additional factors: None

There are no additional rating factors.

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology For Banks, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011

Ratings Detail (As Of May 10, 2012)	
Citizens Financial Group Inc.	
Related Entities	
Citizens Bank of Pennsylvania	
Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	
Local Currency	A/A-1
National Westminster Bank PLC	
Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Commercial Paper	
Foreign Currency	A-1
Junior Subordinated	BB+
Preference Stock	BB+
Senior Unsecured	A
Short-Term Debt	A-1
RBS Citizens N.A.	
Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	
Local Currency	A/A-1
Subordinated	A-
RBS Securities Inc.	
Issuer Credit Rating	A/Stable/A-1
Royal Bank of Scotland PLC (Connecticut Branch) (The)	
Issuer Credit Rating	A/Stable/A-1
The National Insurance and Guarantee Corporation Ltd. (Unsolicited Ratings)	
Financial Strength Rating	
Local Currency	NRpi/--/--
Issuer Credit Rating	
Local Currency	NRpi/--/--
The Royal Bank of Scotland Group PLC	
Issuer Credit Rating	A-/Stable/A-2

Ratings Detail (As Of May 10, 2012) **(cont.)**	
Certificate Of Deposit	A-/A-2
Commercial Paper	A-2
Junior Subordinated	BB
Junior Subordinated	BB+
Junior Subordinated	C
Preference Stock	BB
Preference Stock	C
Senior Unsecured	A
Senior Unsecured	A-
Short-Term Debt	A-1
Short-Term Debt	A-2
Subordinated	BB+
Subordinated	BBB-
The Royal Bank of Scotland Mexico S.A. Institucion de Banca Multiple	
Issuer Credit Rating	
CaVal (Mexico) National Scale Rating	mxA-/Stable/mxA-2
The Royal Bank of Scotland PLC	
Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Commercial Paper	A-1
Senior Unsecured *Greater China Regional Scale*	cnAA+
Short-Term Debt	A-1
U K Insurance Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+
Ulster Bank Ireland Ltd.	
Issuer Credit Rating	BBB+/Negative/A-2
Certificate Of Deposit	BBB+/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Ulster Bank Ltd.	
Issuer Credit Rating	BBB+/Negative/A-2
Certificate Of Deposit	BBB+/A-2
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

FitchRatings

Fitch Downgrades RBS Citizens Financial Group's IDR to 'BBB+'; Outlook Stable

Ratings Endorsement Policy
04 Nov 2013 3:06 PM (EST)

Fitch Ratings-New York-04 November 2013: Fitch Ratings has downgraded the long-term and short-term Issuer Default Ratings (IDRs) of RBS Citizen's Financial Group, Inc. (CFG) and its subsidiaries to 'BBB+'/'F2' from 'A-'/'F1', following CFG's parent, Royal Bank of Scotland Group plc (RBSG), announcing its intention to fully divest of the company by 2016. The Support Rating of CFG and subsidiaries was also downgraded to '2' from '1'. The Rating Outlook is Stable. In addition, CFG's Viability Rating (VR) has also been affirmed at 'bbb+'. A complete list of rating actions follows at the end of this release.

KEY RATING DRIVERS
CFG's 'bbb+' VR, which embodies the standalone assessment of CFG, has been affirmed reflecting the company's solid capital strength and stable asset quality. Further, the rating and Outlook are supported by CFG's strong liquidity profile and deposit mix. These strengths are tempered by CFG's below-peer profitability and relatively high home equity exposure.

As a wholly owned subsidiary of RBSG, CFG's long- and short-term IDRs are linked to those of its parent company. Fitch classifies each rated subsidiary as being either 'core', 'strategically important' or of 'limited importance' to the parent institution. Prior to today's downgrade, Fitch classified CFG as a 'strategically important' subsidiary of RBSG, and CFG's IDR benefited from a one-notch link to its parent's Support Floor of 'A'. However, due to RBSG's recent announcement to divest of CFG entirely, Fitch now believes CFG is of 'limited importance' to RBSG. See Fitch's criteria report 'Rating FI Subsidiaries and Holding Companies' for more information on this topic.

On March 4, 2013, Fitch maintained that CFG would remain strategically important to RBSG despite RBSG's announced plan to sell a portion of its ownership in CFG via an initial public offering (IPO). At that point, RBSG was expected to retain majority control and remain subject to Dodd-Frank's 'source of strength' provision. Therefore, CFG's ratings were situated one-notch below RBSG. However, Fitch maintained that a divestiture beyond 25% of equity would likely result in an additional review. On Sept. 23, 2013, Fitch affirmed CFG's ratings and Outlook under the same premise and stated further developments regarding the partial public offering could affect Fitch's view of the rating linkage. On Nov. 1, 2013, RBSG announced that CFG is not a fundamental business, there is limited connectivity with the group, the IPO process will be accelerated, and the business will be divested by 2016. While Fitch believes that there is a high probability of support from RBSG until a sale is executed, Fitch now views CFG as of 'limited importance' to RBSG.

As discussed in Fitch's last review of CFG, Fitch considers CFG's capital levels to be solid and managed conservatively on both a consolidated level and at the respective banks. CFG and each of its banking subsidiaries remain well-capitalized with a consolidated tangible common equity ratio of 11.44% at the end of the second quarter. Liquidity levels are also solid, as CFG is primarily deposit-funded with minimal reliance on wholesale borrowings or RBSG.

KEY RATING SENSITIVITIES
CFG's long- and short-term IDRs are now equalized to CFG's VR at 'BBB+' and will the anchor ratings going forward, subject to the limitation that a subsidiary's VR is limited to three notches above the parent's long-term IDR, which is not currently a constraining factor. Fitch considers CFG's VR to be solidly situated at its current level. Nonetheless, positive rating momentum could occur should CFG improve its profitability levels commensurate with those of higher rated regional banks while reducing its home equity exposure.

Conversely, factors that could lead to negative pressure on the VR include a reversal of improving credit quality and regulatory capital trends or increased growth in higher risk commercial lending.

Subordinated debt issued by CFG is unaffected by the downgrade of the IDR as it is notched down from its VR in accordance with Fitch's assessment of each instrument's respective nonperformance and relative loss severity risk profiles. Ratings are all primarily sensitive to any changes in the VRs of CFG.

The rating actions are as follows:

RBS Citizens Financial Group, Inc.
--Long-term IDR downgraded to 'BBB+' from 'A-'; Outlook Stable;
--Short-term IDR downgraded to 'F2' from 'F1';

--Viability rating affirmed at 'bbb+';
--Subordinated debt affirmed at 'BBB';
--Support rating downgraded to '2' from '1'.

RBS Citizens, NA
--Long-term IDR downgraded to 'BBB+' from 'A-'; Outlook Stable;
--Short-term IDR downgraded to 'F2' from 'F1';
--Viability rating affirmed at 'bbb+';
--Support rating downgraded to '2' from '1';
--Long-term deposits downgraded to 'A-' from 'A';
--Senior Unsecured downgraded to 'BBB+' from 'A-';
--Short-term deposits downgraded to 'F2' from 'F1'.

Citizens Bank of Pennsylvania
--Long-term IDR downgraded to 'BBB+' from 'A-'; Outlook Stable;
--Short-term IDR downgraded to 'F2' from 'F1';
--Viability rating affirmed at 'bbb+';
--Support rating downgraded to '2' from '1';
--Long-term deposits downgraded to 'A-' from 'A';
--Short-term deposits downgraded to 'F2' from 'F1'.

Contact:
Primary Analyst
Ryan Doyle
Director
+1-212-908-9162
Fitch Ratings, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Jaymin Berg, CPA
Director
+1-212-908-0368

Committee Chairperson
Nathan Flanders
Managing Director
+1-212-908-0827

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Global Financial Institutions Rating Criteria' (Aug. 15, 2012);
--'U.S. Banks - Home Equity Reset Risk Hitting the Reset Button in 2014' (Apr 29, 2013)
--'Bank Support: Likely Rating Paths' (Sept 11, 2013)
--'Rating FI Subsidiaries and Holding Companies' (Aug. 10, 2012)

Applicable Criteria and Related Research:
Rating FI Subsidiaries and Holding Companies
Bank Support: Likely Rating Paths
U.S. Banks -- Home Equity Reset Risk Hitting the Reset Button in 2014
Global Financial Institutions Rating Criteria

Additional Disclosure
Solicitation Status

FitchRatings

Fitch Affirms RBS Citizens Financial Group's Ratings; Outlook Stable

Ratings Endorsement Policy
10 Oct 2012 5:12 PM (EDT)

Fitch Ratings-New York-10 October 2012: Fitch Ratings has affirmed RBS Citizen's Financial Group's (CFG) ratings. A complete list of rating actions follows at the end of this release.

Today's rating action on CFG was taken in conjunction with Fitch's Global Trading and Universal Bank (GTUB) review. As part of this review, Fitch affirmed the Royal Bank of Scotland Group plc's (RBSG) IDRs at 'A/F1'. (See separate press release dated Oct. 10, 2012 for additional details.)

RATING ACTION AND RATIONALE

As a wholly owned subsidiary of RBSG, CFG's long- and short-term IDRs are linked to those of its parent company. Fitch continues to regard CFG as strategically important to RBSG. This is reflected in CFG's Support Rating of '1', which articulates Fitch's belief that there is an extremely high probability that RBSG would support CFG if necessary. Therefore, any change in RBSG's IDRs could result in a change of CFG's ratings.

Fitch has also affirmed CFG's viability rating at 'bbb+', which embodies the standalone assessment of CFG. The affirmation reflects CFG solid capital strength at its current rating coupled with strong liquidity. These strengths are tempered by CFG's below peer profitability and relatively high home equity exposure.

Fitch considers CFG's capital levels to be solid and managed conservatively on both a consolidated level and at the respective banks. CFG's tangible common equity ratio totaled 10.5% at the end of second quarter, up 25bps on a linked quarter basis. Liquidity levels are also solid as CFG is primarily deposit funded with minimal reliance on wholesale borrowings or RBSG.

CFG's earnings improved on a linked quarter basis due to a one-time legal expense recognized in the first quarter. However, year-to-date return on average assets still remains low at 0.52%. Fitch expects that earnings performance will continue to perform below levels experienced pre-crisis as loan growth is sluggish and net interest margins are pressured by low rates.

Fitch also has general industry concerns surrounding home equity loans as articulated in the Fitch special report 'U.S. Housing and Bank Balance Sheets' dated Feb. 27, 2012. Given CFG's relatively higher level of home equity loans at 25% of total loans, Fitch believes CFG would be more affected if home equity loans were to underperform. Fitch recognizes that CFG's core home equity book performs adequately, and that it a disproportionate amount of losses has occurred in a portfolio of acquired home equity loans that is in run-off.

RATING DRIVERS AND SENSITIVITIES - VR, IDRs & SENIOR DEBT

As previously mentioned, CFG's IDRs are linked to those of its parent. As such, CFG's IDRs will likely be affected by any changes to the ratings of RBSG itself. In addition, although not anticipated, any changes to CFG's ownership would also prompt a review its ratings.

Fitch considers CFG's VR's to be solidly situated at their current levels. Nonetheless, positive rating momentum could occur should CFG improve its profitability levels commensurate to those of higher rated regional banks while reducing its home equity exposure. Conversely, factors that could lead to negative pressures on the VR include a reversal of improving credit trends and/or relatively high growth in commercial lending.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt issued by CFG is notched down from its VR in accordance with Fitch's assessment of each instrument's respective nonperformance and relative loss severity risk profiles. Ratings are all primarily sensitive to any changes in the VRs of CFG.

HOLDING COMPANY RATING DRIVERS AND SENSITIVITIES

CFG's IDRs and VR are equalized with those of its operating companies and banks reflecting its role as the bank holding company, which is mandated in the U.S. to act as a source of strength for its bank subsidiaries.

Fitch has affirmed the following ratings:

RBS Citizens Financial Group, Inc.
--Long-term IDR at 'A-'; Outlook Stable;
--Short-term IDR at 'F1';
--Viability rating at 'bbb+';
--Subordinated debt at 'BBB';
--Support rating at '1'.

RBS Citizens, NA
--Long-term IDR at 'A-'; Outlook Stable;
--Short-term IDR at 'F1';
--Viability rating at 'bbb+';
--Support rating at '1';
--Long-term deposits at 'A';
--Senior Unsecured at 'A-';
--Short-term deposits at 'F1'.

Citizens Bank of Pennsylvania
--Long-term IDR at 'A-'; Outlook Stable;
--Short-term IDR at 'F1';
--Viability rating at 'bbb+';
--Support rating at '1';
--Long-term deposits at 'A';
--Short-term deposits at 'F1'.

Contact:

Primary Analyst
Jaymin Berg, CPA
Director
+1-212-908-0368
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Christopher Wolfe
Managing Director
+1-212-908-0771

Committee Chairperson
Joo-Yung Lee
Managing Director
+1-212-908-0560

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Global Financial Institutions Rating Criteria' (Aug. 15, 2012);
--'U.S. Housing and Bank Balance Sheets' (Feb. 27, 2012);
--'Rating FI Subsidiaries and Holding Companies' (Aug. 10, 2012).

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
U.S. Housing and Bank Balance Sheets
Rating FI Subsidiaries and Holding Companies

FitchRatings

Fitch Affirms Citizens Financial Group's Individual Rating at 'B/C'

Ratings Endorsement Policy

11 Jul 2011 4:35 PM (EDT)

Fitch Ratings-New York-11 July 2011: Fitch Ratings has affirmed Citizens Financial Group's (CFG) Individual Rating at 'B/C'. All other ratings of CFG were affirmed on June 29, 2011 in conjunction with a review of CFG's ultimate parent, The Royal Bank of Scotland Group (RBSG) (please see separate release). Fitch continues to regard CFG as a strategic holding of RBSG.

CFG's Individual Rating is supported by its sound franchise in its key markets, good core capital levels and sound liquidity. The company's franchise remains strong as reflected in high deposit market share rankings in its footprint, particularly in the New England and Mid-Atlantic states. CFG's capital is sound for the rating and its Fitch Core Capital (FCC) was 11.35% to risk-weighted assets. In addition, Fitch regards CFG's liquidity as solid as CFG has materially reduced its reliance on wholesale funding and is predominantly deposit funded. Moreover, CFG is not reliant on funding from RBSG.

Although broad asset quality measures compare well to peers, Fitch's rating concerns center on CFG's large portfolio of home equity / second lien mortgages, which totaled $28 billion at March 31, 2011 or more than 2.0 times (x) Tier 1 Capital. Within this portfolio, $4.4 billion classified as serviced by others (SBO) has produced disproportionate losses relative to the total second-lien book. Fitch continues to have concerns regarding residential mortgages given the continued pressures in the housing market and broader economy. While CFG has returned to profitability, Fitch regards it as below longer term normalized levels for the institution and would anticipate improvements in earnings over the intermediate term. Fitch also notes that CFG's core earnings power, as measured by net interest margin, is lower than peer institutions.

As a wholly owned subsidiary of RBSG, CFG's long- and short-term Issuer Default Ratings (IDRs) are linked to those of its parent company. CFG's support rating of '1' articulates Fitch's belief that there is an extremely high probability that RBSG would support CFG if necessary, although there is no support floor at CFG. Therefore, any change in RBSG's IDRs would result in the revision of CFG's debt ratings. CFG's long- and short-term IDRs ('A+'/'F1' respectively) were affirmed with a Stable Outlook in June 2011 when RBSG's long- and short-term IDRs were also affirmed.

Fitch has affirmed the following ratings:

Citizens Financial Group, Inc.
--Individual at 'B/C'.

Citizens Bank of Pennsylvania
--Individual at 'B/C'.

RBS Citizens, NA
--Individual at 'B/C'.

Contact:

Primary Analyst
Christopher D. Wolfe
Managing Director
+1-212-908-0771
Fitch Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Ilya Ivashkov
Associate Director
+1-212-908-0769

Committee Chairperson
Thomas Abruzzo

+1-212-908-0793

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Global Financial Institutions Rating Criteria' (Aug. 16, 2010)
--'Short-Term Ratings Criteria for Corporate Finance' (Nov. 2, 2010);
--'Bank Holding Companies' (Dec. 30, 2009).

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
Short-Term Ratings Criteria for Corporate Finance
Bank Holding Companies

MOODY'S
INVESTORS SERVICE

Credit Opinion: RBS Citizens Financial Group, Inc.

Global Credit Research - 17 Mar 2014

Providence, Rhode Island, United States

Ratings

Category	Moody's Rating
Citizens Bank of Pennsylvania	
Outlook	Negative
Bank Deposits	A3/P-2
Bank Financial Strength	C
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Issuer Rating	A3
Parent: Royal Bank of Scotland Group plc	
Outlook	Negative
Senior Unsecured	Baa2
Subordinate	B1
Jr Subordinate	B1 (hyb)
Pref. Stock -Fgn Curr	B2 (hyb)
Pref. Stock -Dom Curr	B2 (hyb)
Pref. Stock Non-cumulative	B2 (hyb)
Preference Shelf	(P)B2
Commercial Paper	P-2
Other Short Term	(P)P-2

Contacts

Analyst	Phone
Rita Sahu/New York City	1.212.553.1653
Joseph Pucella/New York City	
Robert Young/New York City	
Nataliya Loengard/New York City	

Key Indicators

RBS Citizens Financial Group, Inc. (Consolidated Financials)[1]

	[2]**12-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	**Avg.**
Total Assets (USD billion)	**122.3**	**127.9**	**129.8**	**130.0**	**148.0**	[3]**-4.7**
Tangible Common Equity (USD billion)	**13.0**	**13.1**	**12.6**	**12.0**	**11.5**	[3]**3.0**
Net Interest Margin (%)	**2.8**	**2.8**	**2.9**	**2.7**	**2.5**	[4]**2.7**
PPI / Average RWA (%)	**1.5**	**1.5**	**1.7**	**1.6**	**1.5**	[5]**1.6**
Net Income / Average RWA (%)	**0.7**	**0.6**	**0.5**	**0.0**	**-0.7**	[5]**0.2**
(Market Funds - Liquid Assets) / Total Assets (%)	**-4.5**	**-9.7**	**-6.1**	**-4.2**	**0.4**	[4]**-4.8**
Core Deposits / Average Gross Loans (%)	**100.7**	**102.1**	**97.4**	**91.4**	**83.7**	[4]**95.0**
Tier 1 Ratio (%)	**13.5**	**14.2**	**13.8**	**13.0**	**11.6**	[5]**13.2**
Tangible Common Equity / RWA (%)	**13.1**	**13.3**	**12.8**	**12.5**	**11.1**	[5]**12.6**
Cost / Income Ratio (%)	**69.1**	**69.7**	**66.8**	**68.3**	**69.3**	[4]**68.6**
Problem Loans / Gross Loans (%)	**2.4**	**2.8**	**2.5**	**3.0**	**2.4**	[4]**2.6**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**10.2**	**9.8**	**8.7**	**10.5**	**9.6**	[4]**9.8**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel I; US GAAP [3] Compound Annual Growth Rate based on US GAAP reporting periods [4] US GAAP reporting periods have been used for average calculation [5] Basel I & US GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

RBS Citizens, N.A. and Citizens Bank of Pennsylvania (RBS Citizens) are rated A3 for long-term deposits and have standalone bank financial strength ratings (BFSR)/baseline credit assessments (BCA) of C/a3. These entities are the bank subsidiaries of RBS Citizens Financial Group, Inc., a non-rated intermediate holding company within the US organization structure of the Royal Bank of Scotland, plc (RBS, BFSR/BCA D+/ba1, LT Deposits baa1).

In March of 2014, we confirmed the ratings of RBS Citizens following the lowering of RBS' BCA to ba1 from Baa3. The confirmation was based on the view that its parent's weaker credit profile will not have significant negative effect on its US subsidiary. First, Moody's expects that RBS will not own RBS Citizens by the end of 2016. In the fall of 2013, a UK government report was published evaluating the merit of a possible separation of certain RBS assets. Following this report, RBS announced that the partial initial public offering (IPO) of RBS Citizens would be accelerated to the second half of 2014 and RBS Citizens would be fully divested by the end of 2016. Other than this acceleration, the announcement did not indicate any major changes regarding the franchise of RBS Citizens.

Meanwhile, RBS Citizens is an independently-managed franchise, which is self-funded primarily with deposits. Because of US regulatory requirements and supervision, capital distributions to RBS will remain relatively constrained. Additionally, infrastructure is not shared with RBS. There has been a history of credit issues at the parent and to date, none have had a significant negative influence on RBS Citizens' franchise. As a result of these characteristics, in combination with the eventual change in ownership of RBS Citizens, we are comfortable with a four notch difference between the stand-alone BCA of subsidiary and parent. In Moody's practice, there are very few cases where this difference exceeds three notches.

RBS Citizens' ratings are supported by a good retail and commercial banking franchise in a footprint that spans 12 states in the Northeast, Mid-Atlantic and Midwest regions of the US. Its risk profile benefits from high capital ratios and good deposit funding. However, its profitability is below the same-rated peer median.

Rating Drivers

- Maintaining a conservative risk profile while preparing for its partial IPO and separation from RBS

- Earnings are below similarly-rated peers, driven by a relatively low net interest margin

- Comparatively high quality capital ratios compared to similarly-rated peers

- Improved core deposit funding of the loan portfolio

Rating Outlook

The rating outlook is negative based on RBS Citizens' weak profitability and issues related to the change in ownership. We expect that RBS Citizens may experience pressure to improve its profitability in preparation for its public offering. If there are changes to RBS Citizens' risk profile, such as aggressive loan growth, this could create negative rating pressure.

What Could Change the Rating - Up

There is little probability of an upgrade given our negative outlook. Ratings are constrained by its ownership by the lower rated RBS as well as it profitability, which is below-average relative to peers.

What Could Change the Rating - Down

If efforts to improve profitability change RBS Citizens' risk profile, such as through aggressive loan growth, this could create negative rating pressure. Although not expected given the IPO plans, a reorganization of RBS' North

America operations which creates greater linkage between the US bank subsidiaries and the parent's US broker dealer (unrated) would also be negative.

DETAILED RATING CONSIDERATIONS

MAINTAINING A CONSERVATIVE RISK PROFILE WHILE PREPARING FOR ITS PARTIAL IPO AND SEPARATION FROM RBS

In late 2013, the UK government concluded its independent review and announced that it is not going to separate RBS legally into a good bank and bad bank. As a result of this review, RBS has stated that it plans to exit from RBS Citizens by a partial initial IPO in the second half of 2014 and divestiture of the rest by the end of 2016. In preparation of the IPO, we expect that RBS Citizens will take actions to improve its below average profitability and low ROE, which is exacerbated by its above-average capital. If efforts to improve profitability change RBS Citizens' risk profile this could create negative rating pressure. Because of US regulation, we view RBS Citizens' ability to reduce its capital significantly as strongly restricted, which is positive for creditors. However, RBS Citizens will likely seek growth in order to improve returns, and if this growth is aggressive, it could increase the company's risk profile.

EARNINGS BELOW SIMILARLY-RATED PEERS; LOW NIM

Regarding profitability, RBS Citizens' is well below the median of its C/a3 peer group. Preprovision income has been improving since 2010, but is still depressed as a result of a low NIM and some reduction in noninterest income. The NIM was 2.86% in 2013 compared to 2.9% in 2012. The low NIM is a function of RBS Citizens' low yielding loan portfolio and large cash and investment balances, as well as the low interest rate environment. NIM and the smaller asset base have contributed to lower net interest income. These revenue pressures result in very low ROE of 3.28% and ROAA of 0.59%. These ratios are adjusted to exclude the $4.4 billion goodwill impairment recognized in 2013, which resulted in a reported loss for the year.

HIGH CAPITAL RATIOS

Capital is a key credit strength of the company and has been increasing with positive earnings and a smaller balance sheet. Tier 1 common and tier 1 RBC were both 13.49% as of December 31, 2013. The capital strength, however, augments its above-stated ROE challenge.

RBS Citizens resumed common dividends to RBS in 2012. Prior to this, RBS Citizens had not paid a dividend to RBS since 2007, when it paid a substantial $2 billion dividend to help pay a part of the cost of RBS' acquisition of ABN AMRO. RBS has injected capital in the form of subordinated debt and conversion of subordinated debt and preferred stock to common equity, all together increasing common equity by approximately $4 billion during the crisis. During this time assets have also decreased as the result of decreasing loan balances, including run-off of non-core portfolios, investment sales, and the sale of the payment processing business.

RBS Citizens has been a participant in the Federal Reserve's Capital Plan Review and joins the Comprehensive Capital Analysis Review in 2014, which mean that its results will be public. This regulatory oversight provides assurance that RBS Citizens will continue to maintain a prudent capital position. Its 2013 capital actions included a moderate dividend and issuance of $1 billion of subordinated debt to RBS in exchange for special dividends. In relation to the IPO, there could be management incentive to decrease tangible common equity, which is high relative to peers.

GOOD LIQUIDITY

RBS Citizens' core deposit funding is good and has improved from several years ago to about 102% of loans. This reflects both growth in deposits and contraction of the loan portfolio. The bank also holds a substantial level of liquid securities, which is funded by deposits.

Global Local Currency Deposit Rating (Joint Default Analysis)

RBS Citizens' deposit ratings are based on its BFSR/BCA of C/a3. Moody's ratings do not incorporate systemic or parental support for RBS Citizens. The application of JDA results in no lift to the two bank subsidiaries' long-term deposit and debt ratings of A3 because of the lower BFSR/BCA of RBS (D+/ba1).

Sources: Moody's Banking Financial Metrics and company reports

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Ratings

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Ratings

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the GLC rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of government support for the bank in case a stress situation occurs and the degree of dependence between the issuer rating and the LCDC.

National Scale Ratings

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. An Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Ratings

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be reminded that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Ratings

The foreign currency country ceiling for bonds is Aaa because the foreign currency government bond rating is Aaa, reflecting minimal risk of a government bond default or payments moratorium. The government bond rating, first assigned in 1917, is supported by the moderate level of government debt in relation to GDP that should not deteriorate greatly during the next several years despite budget deficits. Additional information about country ceilings for the United States as well as rating for government bonds are found in the United States' Credit Opinion, published on November 14, 2006.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

RBS Citizens Financial Group, Inc.

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**B-**	
Factor: Franchise Value						**C**	**Neutral**
Market share and sustainability			**x**				
Geographical diversification			**x**				
Earnings stability			**x**				
Earnings Diversification [2]							
Factor: Risk Positioning						**B-**	**Neutral**
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management		**x**					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency		**x**					
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information			x				
Credit Risk Concentration	**--**	**–**	**--**	**–**	**–**		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			**x**				
Market Risk Appetite		**x**					
Factor: Operating Environment						**A-**	**Neutral**
Economic Stability	**x**						
Integrity and Corruption		**x**					
Legal System	**x**						
Financial Factors (50%)						**C+**	
Factor: Profitability						**D+**	**Neutral**
PPI % Average RWA (Basel I)			1.57%				
Net Income % Average RWA (Basel I)				0.62%			
Factor: Liquidity						**C+**	**Improving**
(Market Funds - Liquid Assets) % Total Assets		-6.75%					
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio (%) (Basel I)	13.85%						
Tangible Common Equity % RWA (Basel I)	13.06%						
Factor: Efficiency						**D**	**Neutral**
Cost / Income Ratio				68.52%			
Factor: Asset Quality						**B**	**Improving**
Problem Loans % Gross Loans			2.57%				
Problem Loans % (Equity + LLR)	9.56%						
Lowest Combined Financial Factor Score (15%)						**D+**	
Economic Insolvency Override						**Neutral**	

Aggregate BFSR Score		**C+**	
Aggregate BCA Score		**a2**	
Assigned BFSR		**C**	
Assigned BCA		**a3**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
[2] - A blank score under Earnings Diversification or Corporate Governance indicates the risk is neutral.

MOODY'S
INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's confirms RBS Citizens (deposits A3)

Global Credit Research - 06 Nov 2013

Actions follow confirmation of parent RBS's standalone credit assessment

New York, November 06, 2013 -- Moody's Investors Service has confirmed the long-term ratings of RBS Citizens, N.A. and Citizens Bank of Pennsylvania (RBS Citizens). Both banks are US subsidiaries of Royal Bank of Scotland Group plc (RBS). The US banks are rated A3 for long-term deposits and C/a3 for bank financial strength rating (BFSR)/baseline credit assessment (BCA). The rating outlook is stable. The banks are subsidiaries of the unrated intermediate holding company, RBS Citizens Financial Group. This concludes the review that began on July 8, 2013.

The confirmation of RBS Citizens follows the November 5, 2013 confirmation of Royal Bank of Scotland plc's D+ standalone BFSR, equivalent to a baa3 BCA. The conclusion of Moody's review on RBS' ratings follows the publication of a report outlining the findings from the independent review announced by the UK Chancellor of the Exchequer on June 19, 2013. (See 'Moody's confirms Royal Bank of Scotland's A3 ratings, concluding review for downgrade,' published on November 5, 2013, for further details).

RATINGS RATIONALE

The confirmation was based on Moody's view that the plan announced by the UK government and RBS should not change the risk profile of RBS Citizens and reduces the uncertainty regarding the US banking franchise. The announcement stated that the partial initial public offering (IPO) of RBS Citizens would be accelerated to the second half of 2014 and RBS Citizens would be fully divested by the end of 2016. Other than this acceleration, the announcement did not indicate any major changes regarding the franchise of RBS Citizens, which supports its ratings confirmation.

Moody's stated that the US regional retail and commercial bank has made progress in improving its risk profile over the last several years. Its financial profile is supported by high capital ratios and solid asset quality relative to peers. However, its profitability is below average.

If efforts to improve profitability change RBS Citizens' risk profile, such as through aggressive loan growth, this could create negative rating pressure. Although not expected given the IPO plans, a reorganization of RBS' North America operations which creates greater linkage between the US bank subsidiaries and the parent's US broker dealer (unrated) would also be negative.

Moody's added that the stand-alone credit assessment of RBS Citizens is 3 notches higher than its parent. This is justified by RBS Citizens' independently managed franchise, which is self-funded primarily with deposits. Because of US regulatory requirements and supervision, capital distributions to RBS should remain relatively constrained. Additionally, infrastructure is not shared with RBS. These characteristics will also support RBS Citizens' as it separates from RBS.

The principal methodology used in this rating was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Rita Sahu
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Robert Franklyn Young
MD - Financial Institutions
Financial Institutions Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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Rating Action: Moody's downgrades the ratings of RBS' US bank subsidiaries

Global Credit Research - 22 Jun 2012

Actions follow downgrade of parent's standalone rating

New York, June 22, 2012 -- Moody's Investors Service has today downgraded the ratings of Royal Bank of Scotland Group's (RBS) US bank subsidiaries, including RBS Citizens, N.A. and Citizens Bank of Pennsylvania, which are subsidiaries of the unrated intermediate holding company, Citizens Financial Group. The outlooks are stable on all of the ratings.

Today's announcement concludes the reviews initiated on 22 February 2012, when RBS' US subsidiaries' ratings were placed on review for downgrade.

See List of Affected Ratings below.

LIST OF AFFECTED RATINGS

- RBS Citizens, N.A.: long-term bank deposit rating downgraded to A3 from A2; short-term bank deposit rating downgraded to Prime-2 from Prime-1; the standalone BFSR/standalone credit assessment downgraded to C/a3 from C+/a2

- Citizens Bank of Pennsylvania: long-term bank deposit rating downgraded to A3 from A2; short-term bank deposit rating downgraded to Prime-2 from Prime-1; the standalone BFSR/standalone credit assessment downgraded to C/a3 from C+/a2

For additional information on bank ratings, please refer to the webpage containing Moody's related announcements: http://www.moodys.com/bankratings2012.

RATINGS RATIONALE

Today's announcement follows the one-notch downgrade of RBS' standalone bank financial strength rating (BFSR) to D+, mapping to a standalone credit assessment of baa3, from C-/baa2 (see "Moody's downgrades firms with global capital markets operations," dated 21 June 2012 and available on moodys.com).

The subsidiaries' ratings, including their standalone credit assessments, were downgraded to reflect the potential adverse effects of the challenges faced by RBS, which are incorporated in RBS' lower standalone credit assessment. This includes the risk that an unexpected event at RBS could undermine the risk profile of Citizens; for example, through asset sales or customer attrition. Additionally, Citizens' profitability performance has been below-average relative to peers since it returned to profitability in 2010.

Moody's added that the gap between the standalone credit assessments of RBS and its US subsidiaries, while wide, is justified by Citizens' independently managed franchise, which is self-funded and has limited direct exposures to or in common with RBS, as well as US regulatory requirements and supervision. Nonetheless, the transition risk associated with its ownership by a significantly lower rated entity led the rating agency to reconsider the suitability of Citizens' long- and short-term ratings.

RATIONALE FOR THE STABLE OUTLOOKS

Following today's actions, the outlooks are stable on the ratings of these subsidiaries, consistent with the stable outlook on the parent's standalone credit assessment. The outlooks on the standalone BFSRs are also stable, reflecting the improved asset quality and solid liquidity and capital metrics.

RATING METHODOLOGIES

The methodologies used in these ratings were Bank Financial Strength Ratings: Global Methodology published in February 2007, Incorporation of Joint-Default Analysis into Moody's Bank Ratings: Global Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare each of the ratings are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on the rated entities, obligations or credits satisfactory for the purposes of issuing these ratings.

Moody's adopts all necessary measures so that the information it uses in assigning the ratings is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

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Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

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Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Rita Sahu
Vice President - Senior Analyst
Financial Institutions Group
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JOURNALISTS: 212-553-0376

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JOURNALISTS: 212-553-0376
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