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A high-stakes gamble

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Think Pennsylvania's decision to double down on table games at casinos is a sure moneymaker?

Think again.

Analysts who handicap the betting on Wall Street said the payoff will depend upon casinos' ability to attract higher-end gamblers who typically drive table game profits. And they predicted there will be a wide gulf between table game winners and losers among casinos across the state.

"I think table games are going to take a long time to ramp up to be profitable," said Christopher Jones, a senior research analyst with Telsey Advisory Group.

Speaking at a two-day conference of gaming industry officials in King of Prussia on Tuesday, the five-member panel of Wall Street analysts cited the need for more amenities, such as fancy restaurants, luxury hotels and top-notch show-business talent, to attract high rollers to poker and blackjack tables.

"A table player is a bit different," John Kempf, an analyst at Barclays Capital, told the gathering at the Pennsylvania Gaming Congress and Mid-Atlantic Racing Forum. "They do need to be taken care of."

If they were betting on which Pennsylvania casinos will come up big at table games, the analysts would place their money on casinos near major population centers, such as Philadelphia and Bethlehem. But they might take a pass on the facilities in smaller markets with little pizzazz, as they're likely to be limited to local gamblers who play more conservatively.

Hollywood Casino at Penn National Race Course in East Hanover Twp. likely will fall somewhere in the middle.

Jones listed its proximity to Harrisburg and its placement along a major transportation corridor to Penn State as pluses. But others said the headwinds of high unemployment and a still-strained middle class will limit the upside in all but the most affluent markets.

"In general, it's going to be a challenge," said Dennis Farrell, senior analyst with Wells Fargo Securities.

Even the general manager at Hollywood Casino is slow-playing his casino's venture into table games.

While he expects his casino to file its petition for table games as early as today, Hollywood general manager Frank Quigley said he will wait to see how well blackjack, poker and baccarat do with central Pennsylvania gamblers.

"We really don't know what the market will bear," Quigley said. "I'd much rather under-promise and over-deliver."

Initially, Hollywood will seek to add 52 table games as a way of testing the local market for table gambling. A planned expansion of the casino could double the number of table games at Hollywood, while also making room for more slots, Quigley added.

But he doesn't foresee the casino ever reaching the ceiling of 250 table games allowed under state law.

"I can't see our property getting close to that," Quigley said, adding that the tables could generate as little as 5 percent of Hollywood's gross revenue or as much as 13 percent to 14 percent.

"It's an exciting time," he said.

It's also a busy time, with casinos like Hollywood hoping to have their tables open this summer.

First, there is the 60-day application review by the Pennsylvania Gaming Control Board that will include a public hearing near the casino. Then the casino must hire and train up to 350 table game operators and other employees.

It is here where a casino's plunge into table gambling can falter, said Rich Carretta, a senior associate with Spectrum Gaming Group.

Fresh from a trip to the Far East, Carretta told of watching as table gaming ground to a halt at a Singapore casino that added 400 tables staffed by newly hired employees who weren't adequately trained. The uncertainty of the dealers led to grumbling gamblers, stagnant games and low profits, he said.

Pennsylvania casinos will face some of the same hurdles as they ramp up table games, all while trying to hit a daily revenue goal of \$2,600 per table, Carretta said.

Given that just the top four properties in Atlantic City reached daily revenues of \$3,500 per table game, he wouldn't bet on it.

"I don't think you are going to achieve some of the revenue estimates that have been touted," Carretta said.

Finally, there's the coming competition for gamblers from states surrounding Pennsylvania, including Delaware, Maryland, Ohio and a possible expansion of gambling beyond Atlantic City in deficit-strapped New Jersey.

On one hand, Pennsylvania has a head start, with many of its casinos built before tight credit markets sucked some of the grandeur from casino projects.

Wall Street analysts predicted finicky financing will limit the scale of planned casinos in competing states to more basic operations, giving Pennsylvania an edge that will keep it among the top five gambling states in the nation.

But analysts warned that as more states bet on gambling to cure their budget problems, it will shrink the pot for all. "This industry was born for one reason - to fill the tax coffers in the states," Kempf said. "There is no other reason."