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## With a Focus on Diversification while Maintaining a Clean Balance Sheet, Churchill Downs Incorporated is No Longer Your Traditional Horse Racing Company



**William E. Mudd**  
**Executive vice President and  
Chief Financial Officer**

### **BIO:**

William "Bill" E. Mudd brings a broad business background, expertise in domestic and international markets, and exceptional leadership skills to his role as executive vice president and chief financial officer ("CFO") for Churchill Downs Incorporated, a position he assumed in October 2007.

A former General Electric ("GE") executive, Mudd oversees the Company's financial reporting, strategic planning, business planning, compli-

ance, capital management, risk management and investor relations.

Mudd began his career with GE in 1992, and rose rapidly to positions of increased responsibility. Prior to joining Churchill Downs, he served as Global Commercial CFO for GE Water & Process Technologies, a water process and filtration business based in Trevose, Pa. He has also served as CFO of Supply Chain, IT and Technology Finance for GE's Consumer and Industrial Europe, Middle East and Africa Division in Budapest, Hungary. Earlier in his career he served as a finance manager of Global Financial Planning & Analysis and Business Development for GE Fanuc, a joint venture between GE and Japanese partner, Fanuc.

A native of Marion County, Ky., he holds a bachelor of science degree in mathematics and actuarial science from Bellarmine University. He also holds a masters of business administration from Webster University and was a captain in the United States Army Reserves with 14 years of service.

### **Company Profile:**

Churchill Downs Incorporated ("CDI") (NASDAQ: CHDN), headquartered in Louisville, Ky., owns and operates four world-renowned Thoroughbred racing facilities: Arlington Park in Illinois, Calder Casino & Race Course in Florida, Churchill Downs Racetrack in Kentucky and Fair Grounds Race Course & Slots in Louisiana. CDI operates Harlow's Casino Resort & Hotel in Greenville, Miss., as well as slot and gaming operations in Florida and Louisiana. CDI tracks are host to North America's most prestigious

races, including the Arlington Million, the Kentucky Derby and the Kentucky Oaks, the Louisiana Derby and the Princess Rooney. Churchill Downs Racetrack will host the Breeders' Cup World Championships for a record eighth time Nov. 4-5, 2011. CDI also owns off-track betting facilities; Twin-Spires.com and other advance-deposit wagering providers; United Tote; television production, telecommunications and racing service companies such as Bloodstock Research Information Services; and an interest in the national cable and satellite network, HorseRacing TV. Information about CDI can be found online at [www.churchilldownsincorporated.com](http://www.churchilldownsincorporated.com).

**Interview conducted by:**  
**Lynn Fosse, Senior Editor**  
**CEOCFOinterviews.com**

**CEOCFO:** Mr. Mudd, what attracted you to Churchill Downs Incorporated?

**Mr. Mudd:** The main thing that attracted me to the company was the historical relevance and the standing that Churchill Downs Incorporated has in the Louisville community. That is what piqued my interest to begin with. Then, I came to meet with the management team, which has a very entrepreneurial spirit that is fostered across the organization. They were really looking for ways to grow and expand outside of their traditional horse racing assets. The vision that Chairman and CEO Bob Evans created, the strategy they were going down, and the ability to do new things with a clean balance sheet is what piqued my interest.

**CEOCFO:** 2010 was a transformational year, what has happened over the past year that has changed the

focus for Churchill Downs Incorporated?

**Mr. Mudd:** Yes. We came out of the tough period of 2008. If you look at what happened to the horse racing industry during that period, lots of new forms of gaming were occurring with the proliferation of regional gaming assets, which really created a much more competitive environment for the horse racing business. We saw that coming and as part of that, we decided to diversify what we are doing in order to survive that. Betting on U.S. thoroughbred racing since the end of 2007 is down almost 25%, even with what we have done since that period. Over that time we were able to grow revenues and grow our earnings by going into other forms of gaming. We started that with the 'green field' development of TwinSpires.com, which we rolled out just before the Kentucky Derby in 2007. In June of 2007, we purchased AmeriCaTAB, which was another online horse-betting platform and then we augmented that with a purchase of YouBet.com in June of 2010 and that now is what we call TwinSpires.com. In addition to that, we were able to build a casino at Fair Grounds, our property in New Orleans, Louisiana. The permanent facility opened at the end of 2008. We got the ability to create a casino in Calder Race Course, our Miami Gardens, Florida, property, which opened in January of 2010. And then we purchased Harlow's Casino Resort & Hotel, which is in Greenville, Mississippi, and that closed in December of 2010. Therefore, the transformation that occurred was really less focused on racing and more focused in the online segment, which we really enjoy in horse racing because we see that growing and it is a much better channel for our customers. They can wager, handicap, and place bets off the same screen from the comfort of their own homes. So, that transformation to online gaming has really been able to allow us to offset the decline in the horse racing business.

**CEOCFO:** You are also involved in

two casinos. Was it strategic diversification or was it more opportunistic?

**Mr. Mudd:** It was very strategic. When we sat down and did our strategic planning back in 2007-2008, we said horse racing is going to continue to come under pressure because of the proliferation of regional gaming. That is really what led to our diversification and to retailing horse racing bets online as well as entering the regional gaming market.

**CEOCFO:** Churchill Downs Incorporated had a good quarter; would you tell us about the results?

**Mr. Mudd:** The results were very broad-based. We had the first true quarter where we showed our ability to capitalize on our diversification

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**- William E. Mudd**

strategy. It resulted in both top line and bottom line growth. We have hit on our three big platforms. First of all, our key assets, the Kentucky Derby and the Kentucky Oaks, realized \$6.4 million in growth year over year, very strong growth. And it was broad-based. We got it in pari-mutuel wagering; we got it in sponsorships; we got it broadcast right fees; we got it in admissions, and other ancillary revenues. Therefore, it was very broad-based. That asset continues to be very profitable and our marquee asset. In the online space, our revenue was up 58%. That does include an additional two months of the Youbet.com acquisition that we closed on in June of last year. More importantly, you really got to see the benefit of the cost synergy savings across both of those platforms and

that asset really performed well for us this quarter. In addition, our gaming properties did extremely well despite the fact that Harlow's was closed for twenty-five days during May as a result of the Mississippi River flooding. In our Calder property, which opened in January last year, we saw very good growth of 20% increase in slots and a 59% increase in average daily poker win, due to a much better marketing program as well as an improved economic environment in South Florida. We hope this will continue in future quarters. Therefore, we had broad-based strength across the portfolio in the 2<sup>nd</sup> Quarter and we are very happy with the results.

**CEOCFO:** Churchill Downs Incorporated has taken on so many new ventures at one time; how are you confident in your ability to perform up to your standards in these diverse areas?

**Mr. Mudd:** Of these areas, while it is diversification, it is not like we are entering something completely different from what we are doing today. We are all still in the entertainment and gaming space, so we are very well aware of all the regulatory and other issues associated with acquiring this type of asset. The other thing I would say is we are

very conscious of what we pay. We look for opportunities such as in the Youbet transaction, where it was very clear we could get a number of synergies with cost savings out of that asset. In addition, we acquired \$28 million worth of net operating losses, which is real cash over the next couple of years. If you look at Harlow's we got a very good value on that asset in terms of purchase price, and it was an LLC, so we were able to step the assets up for tax purposes and take advantage of that benefit over the next fifteen years. All in all, when we look at the items we are very conscious of whether they are defensible, what the returns on those purchases will be and we always look for advantages from a cash flow perspective when we do those transactions.

**CEOCFO:** What is the competitive landscape for Churchill Downs Incorporated in the online segment?

**Mr. Mudd:** The competitive landscape for the online segment is interesting in the United States. We are probably the biggest online provider, but there are two other big providers. There is TVG, which is owned by a British book-making company Betfair.com and another one, which is XpressBet.com that is owned by the Stronach Group, previously owned by Magna Entertainment. All three are very strong products. Then there are a number of big, regional platforms to include; NYRA (New York Racing Association) for example, which has a very strong regional platform. Therefore, it is a very competitive space, but when you look at Churchill Downs Incorporated, we have a lot of optionality. One of the options is if online poker is legalized in the United States, we feel like we have a decent installed base and a decent opportunity to compete in that space.

**CEOCFO:** How do you attract people online?

**Mr. Mudd:** Predominantly today, we do a lot of industry publication advertising. If you look at the horse racing business there are a number of publications that include The Blood-Horse and the Daily Racing Form. In addition, we have our own business, Blood Stock Research and Information Systems, which provides handicapping information. We do a lot of on-track marketing, both to get new customers as well as to bring our existing online customers to the racetrack. We have had our most successful program where we brought online customers to a racing facility. We had about 5,000 people show up over the course of 20 'day at the races' promotions. We have been very successful at moving our online customers to the racing, to actual live racing at the racetracks where they are located.

**CEOCFO:** What are the plans for the next year or so for Churchill Downs Incorporated?

**Mr. Mudd:** Our Chairman and CEO, Robert L. Evans said it best at the earnings call this morning where we reviewed multiple paths to grow our company. First, we believe our existing businesses will continue to benefit as the economy continues to improve. Second, we are pretty optimistic about the resolution of Illinois Gaming bill that was recently passed. That bill will allow us to add up to 1,200 slots in our Arlington Park facility in Arlington Heights, Illinois, and up to 900 slot machines in our Quad City Downs facility in East Moline, Illinois. Third, we believe there is an opportunity ahead for our online business with the growth of TwinSpires.com, as customers continue to shift wagers from other channels such as off-track betting locations, dog tracks, and casinos to the Internet. Finally, we have a very clean balance sheet and the ability to continue to look for opportunities to acquire assets at reasonable prices to grow our regional gaming facilities and elsewhere.

**CEOCFO:** Is this a good time to be looking?

**Mr. Mudd:** It is a good time to be looking in our space, because if you look at the competitive landscape, we are clearly one of the most healthy companies from a debt perspective, within the gaming space. That provides us an opportunity to borrow money at lower rates than some of our competition to allow us to do more acquisitions that are meaningful to our bottom line.

**CEOCFO:** Churchill Downs Incorporated is a well-known name; do people at the casinos know that you own it and do they care?

**Mr. Mudd:** That is a very good question. I would say that by and large when people think of Churchill Downs they think of the 'Greatest Two Min-

utes in Sports' or the Kentucky Derby. However, for folks within the investment community, we have done a number of road shows that really highlight the fact that racing—in terms of how we make our money—is a very small part of the overall portfolio. However, the acquisition of Harlow's Casino Resort last year really highlighted the fact that we are also looking at doing regional gaming without a racetrack next to it—where it makes sense of course. So, I would say we are still in the middle of that transformation.

**CEOCFO:** In closing, why should potential investors pay attention to Churchill Downs Incorporated today?

**Mr. Mudd:** The reason investors would want to pay attention to Churchill Downs Incorporated today is that we have a proven track record of revenue growth and EBITDA growth, despite what has happened in the horse racing industry in the last three years. We have a very strong management team that looks for opportunities outside of what we have traditionally known as our core racing product. We have a proven track record of delivering results, and we have a great balance sheet to continue to do so. In addition to that, our company today is valued on existing cash flows that in large part are not taking into account the optionality on gaming at Arlington Park in Illinois or Churchill Downs Racetrack, should gaming be legalized in Louisville. If the online space is legalized at the state or federal level, we have an opportunity to leverage our online horse racing gaming asset to compete in that space. That is kind of the 'thirty-second elevator speech' on why you consider investing in Churchill Downs Incorporated.



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