Financial Analysis – Myriad Botanical Resort

Tunica, Mississippi

Prepared for:

Myriad World Resorts of Tunica, LLC

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Prepared by:

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Introduction

The Innovation Group was engaged by Myriad World Resorts of Tunica, LLC ("Company") to conduct a Return on Investment ("ROI") analysis for the Myriad Botanical Resort. We also completed a Gaming Resort Market Assessment ("Assessment"), which forecasts the revenue and EBITDA associated with the project. This Assessment provided the underlying basis for the ROI analysis. The development is expected to feature two (2) gaming and casino hotel centers, a convention hotel, golf course, entertainment venue, spa, water/snow park, family entertainment center, and a 475-foot observation wheel, complete with numerous food & beverage venues.

As part of the analysis, we generated a Pro-forma Sources & Uses Statement, an Income Statement and Cash Flow Statement. The analysis included the calculation of certain debt ratios and Equity IRR based on various assumptions provided by the Company. **The Innovation Group did not make a determination as to the reasonableness of the assumptions.** The major baseline assumption included the following:

- Senior Debt Interest Rate of 9%
- Equipment Financing Interest Rate of 9%
- Equity Participation Rate of 100%
- Sponsorship Equity of $250 million
- Asset Sales of $205 million

Phased Funding Approach

The Company has directed us to employ a phased funding approach with regard to the ROI analysis. The first funding, hereafter referred to as Funding I, includes the casinos and casino hotels, convention center, convention hotel, parking garage, golf course complex (including TopGolf), botanical icon and observation wheel as well as significant interior and exterior landscaping. The second funding phase, hereafter referred to as Funding II, contains the venues such as the water/snow park, family entertainment center, entertainment venue, water projection theater and multi-media nightclub. This funding phase also contains the Caves of Music, Ice Cavern, and Aquarina attractions.

The report includes the following sections for each funding phase:

1. Sources & Uses Statement
2. Income Statement
3. Cash Flow Statement
4. Return on Equity Analysis
5. Summary

Funding I

Sources & Uses

The Sources & Uses Statement for Funding I of the project is shown below. The total project costs for this phase were estimated at $1.6 billion. Again, this phase includes the major revenue generating components of the project such as the casinos and hotels as well as the all the land, site preparation and infrastructure costs. The Company has provided a detailed cost worksheet to support these figures.

Regarding the sources of funding, the sponsorship equity of $50.0 million reflects grants from state organizations. The company anticipates raising about $325.0 million of cash equity in exchange for a 100% equity participation in the project. The Company expects to finance about $156.0 million of the FF&E using traditional equipment financing. Also, the company expects to realize about $40.0 million related to a casino pad sale and an additional $45.0 million from residential unit sales. According to the company, an agreement contemplating the sale of this casino pad has already been signed. Finally, the Company assumed that Senior Debt would be utilized to finance the balance of Funding I. The following table details the sources and uses of funding:

Myriad Botanical Resort

Sources & Uses Statement

Sources:		Uses:	
Debt	$980,392,000	Land	$43,680,000
Equipment Financing	156,000,000	Land Improvements	127,956,000
Sponsorship Equity	50,000,000	Construction	875,905,000
Cash Equity	325,000,000	FF&E	213,369,000
Asset Sales - Casino Pads	40,000,000	Other Development	31,903,000
Asset Sales – Residential	45,000,000	Funding Interest	184,814,000
		Financing	60,275,000
		Pre-opening expense	35,000,000
		Opening Cash	23,490,000
Total	$1,596,392,000	Total	$1,596,392,000

Income Statement

The Innovation Group prepared a projected Income Statement for the first funding phase of the project. The EBITDA estimates were based on the results of the Assessment, adjusted to reflect the phased funding approach. EBITDA was estimated to stabilize in Year 3 at $180.4 million, increasing to $192.2 million by Year 5. A management fee of 4% for the benefit of the Company (project managers) was deducted from EBITDA. The depreciation & amortization estimates were based on straight-line depreciation assumptions applied to the depreciable assets.

Interest expense reflects the interest rate assumption, noted earlier, applied against the debt figures outlined in the Sources & Uses Statement. Again, the interest rate was set at 9.0% for both the Senior Debt and equipment financing. Note that interest expense decreases as excess cash is applied against the debt over time. The projected income statement is shown in the table below:

Myriad Botanical Resort

Projected Income Statement

	Year 1	Year 2	Year 3	Year 4	Year 5
EBITDA	151,447,027	167,615,572	180,366,060	186,294,955	192,214,690
Management Fee	20,577,337	22,028,929	23,154,360	23,735,773	24,333,667
Depreciation & Amortization	97,173,813	99,170,491	101,167,168	103,163,845	105,160,523
Income From Operations	33,695,877	46,416,152	56,044,533	59,395,336	62,720,500
Interest Expense:					
Senior Debt	88,235,280	87,515,280	84,815,280	80,484,030	75,275,280
PIK	0	0	0	0	0
Subordinated Debt	0	0	0	0	0
Lease Financing	14,040,000	14,040,000	14,040,000	14,040,000	14,040,000
Total Interest Expense	102,275,280	101,555,280	98,855,280	94,524,030	89,315,280
Pretax Income	-68,579,403	-55,139,128	-42,810,747	-35,128,694	-26,594,780
Loss Carry Forward	0	-68,579,403	-123,718,531	-166,529,278	-201,657,972
Tax Basis Income	-68,579,403	-123,718,531	-166,529,278	-201,657,972	-228,252,752
Income Tax Allocated (expense)	0	0	0	0	0
Net Income	-68,579,403	-55,139,128	-42,810,747	-35,128,694	-26,594,780

Source: The Innovation Group

Cash Flow Statement

The Innovation Group projected cash flow based on the Income Statement outlined earlier combined with capital expenditure projections. Capital expenditures for the five-year period totaled about $75 million. The analysis assumed that book cash over roughly $50 million would be applied to lower Senior Debt. We assumed there would be no additional equity contributions during the first five years of operation. The cash flow from operations for Funding I was projected to stabilized at $58.4 million in Year 3, increasing to $78.6 million by Year 5. The ending cash balance in Year 5 was estimated at $50 million. The projected income statement is shown in the table below:

Myriad Botanical Resort

Projected Cash Flows

	Year 1	Year 2	Year 3	Year 4	Year 5
Net Income	-68,579,403	-55,139,128	-42,810,747	-35,128,694	-26,594,780
Depreciation	81,294,647	83,291,324	85,288,001	87,284,679	89,281,356
Amortization	15,879,167	15,879,167	15,879,167	15,879,167	15,879,167
Non-cash Interest	0	0	0	0	0
Changes in W/C					
Cash from Operations	28,594,410	44,031,363	58,356,421	68,035,152	78,565,742
Cap Expenditures	-15,092,833	-15,092,833	-15,092,833	-15,092,833	-15,092,833
Equity Investment	0	0	0	0	0
Debt Borrowings/(Repayments)	0	-16,000,000	-44,000,000	-52,250,000	-63,500,000
Increase in cash	13,501,577	12,938,530	-736,412	692,319	-27,091
Beginning Cash	23,490,000	36,991,577	49,930,107	49,193,695	49,886,014
Ending Cash	36,991,577	49,930,107	49,193,695	49,886,014	49,858,923

Source: The Innovation Group

Return on Equity - IRR

The Innovation Group projected Internal Rate of Return ("IRR") associated with the cash equity investment of $325.0 million. According to the Company, this investment would give the cash equity holders a 100% participation interest in the project. The IRR model compares the initial investment with the Net Enterprise Value as various points in time. The Net Enterprise Value is defined as the expected sale price plus cash on hand less outstanding debt. The sales price was estimated based on a multiple of EBITDA, which is standard for the industry. We estimated IRR for various sales price assumptions. The estimated Equity IRR (Year 5) was 6.0%, 14.0% and 20.3% for the 7x, 8x and 9x sales price multiple, respectively. The equity IRR calculation is detailed below:

Myriad Botanical Resort

Equity IRR Analysis

	Year 3			Year 5		
EBITDA	180,366,060	180,366,060	180,366,060	192,214,690	192,214,690	192,214,690
Sales Multiple (EBITDA)	7.0	8.0	9.0	7.0	8.0	9.0
Sales Price	1,262,562,422	1,442,928,482	1,623,294,542	1,345,502,827	1,537,717,516	1,729,932,206
Add: Cash	49,193,695	49,193,695	49,193,695	49,858,923	49,858,923	49,858,923
Enterprise Value	1,311,756,116	1,492,122,177	1,672,488,237	1,395,361,750	1,587,576,439	1,779,791,129
Less:						
Senior Credit Facility						
Senior Debt	920,392,000	920,392,000	920,392,000	804,642,000	804,642,000	804,642,000
Subordinated Debt	0	0	0	0	0	0
Lease Financing	156,000,000	156,000,000	156,000,000	156,000,000	156,000,000	156,000,000
Termination fee	0	0	0	0	0	0
Net Enterprise Value	235,364,116	415,730,177	596,096,237	434,719,750	626,934,439	819,149,129
IRR Calculation:						
Investment	-325,000,000	-325,000,000	-325,000,000	-325,000,000	-325,000,000	-325,000,000
Year 1	0	0	0	0	0	0
Year 2	0	0	0	0	0	0
Year 3	235,364,116	415,730,177	596,096,237	0	0	0
Year 4				0	0	0
Year 5				434,719,750	626,934,439	819,149,129
IRR	-10.2%	8.6%	22.4%	6.0%	14.0%	20.3%

Source: The Innovation Group

Summary

The following table summarized the estimated leverage ratios and Equity IRR for Funding I of the project. The Innovation Group calculated the following leverage ratios based on the Income Statement and Cash Flow Statement projections:

- Total Debt to EBITDA - Divides the sum of Senior Debt and equipment financing by estimated EBITDA (after management fees).
- Senior Debt to EBITDA - Divides the Senior Debt balance by EBITDA (after management fees).
- The EBITDA Fixed Charge Coverage ("FCC") - Divides EBITDA (after management fees) by total interest expense. These variables are outlined in the income statement section of the report.

Leverage Ratios and Equity IRR - Base Case

	Year 3	Year 5
Leverage Ratios:		
Total Debt to EBITDA	6.8	5.7
Senior Debt to EBITDA	5.9	4.8
EBITDA Fixed Charge Coverage	1.6	1.9
Equity IRR:		
Sales Multiple - 7x	-10.2%	6.0%
Sales Multiple - 8x	8.6%	14.0%
Sales Multiple - 9x	22.4%	20.3%

Source: The Innovation Group

Interest Rate Sensitivity on Equity IRR

The following analysis displays the impact of various Senior Debt interest rate assumptions on Equity IRR for the five-year period only.

Interest Rate Sensitivity Analysis - Year 5

	Interest Rate Assumptions				
	6.0%	7.0%	8.0%	9.0%	10.0%
Leverage Ratios:					
Total Debt to EBITDA	4.8	5.1	5.4	5.7	6.1
Senior Debt to EBITDA	3.8	4.1	4.5	4.8	5.1
EBITDA Fixed Charge Coverage	3.0	2.6	2.2	1.9	1.6
Equity IRR:					
Sales Multiple - 7x	12.9%	10.9%	8.6%	6.0%	3.0%
Sales Multiple - 8x	19.4%	17.8%	16.0%	14.0%	11.8%
Sales Multiple - 9x	24.7%	23.4%	21.9%	20.3%	18.5%

Source: The Innovation Group

Funding II

Sources & Uses

The Sources & Uses Statement for Funding II of the project is shown below. The total project costs for this funding phase were estimated at $577 million. Again, this phase includes the major recreation and entertainment venues such as the water/snow park, family entertainment center, entertainment theater, water projection theater and multi-media nightclub. This funding phase also contains the Caves of Music, Ice Cavern, and Aquarina attractions.

Regarding the sources of funding, the sponsorship equity of $200.0 million reflects grants from state organizations. The company anticipates raising about $85.0 million of cash equity in exchange for a 100% equity participation in these components of the project. Also, the company expects to realize about $120.0 million from asset sales related to three casino pads. According to the company, agreements contemplating the sale of two out of three of these casino pads have already been signed. Finally, the Company assumed that Senior Debt of $172 million would be utilized to finance the balance of Funding II. The following table details the sources and uses of funding:

Myriad Botanical Resort
Sources & Uses Statement

Sources:		Uses:	
Debt	$172,299,000	Land	$0
Equipment Financing	0	Land Improvements	0
Sponsorship Equity	200,000,000	Construction	356,547,000
Cash Equity	85,000,000	FF&E	2,400,000
Asset Sales - Casino Pads	120,000,000	Other Development	160,502,000
Asset Sales - Residential	0	Funding Interest	0
		Financing	0
		Pre-opening expense	57,850,000
		Opening Cash	0
Total	$577,299,000	Total	$577,299,000

Income Statement

The Innovation Group prepared a projected Income Statement for the second funding phase of the project. The EBITDA estimates were based on the results of the Assessment, adjusted to reflect the phased funding approach. EBITDA was estimated to stabilize in Year 3 at $33.1 million, increasing to $35.9 million by Year 5. A management fee of 4% for the benefit of the Company (project managers) was deducted from EBITDA. The depreciation & amortization estimates were based on straight-line depreciation assumptions applied to the depreciable assets.

Interest expense reflects the interest rate assumption, noted earlier, applied against the debt figures outlined in the Sources & Uses Statement. Again, the interest rate was set at 9.0% for both the Senior Debt and equipment financing. Note that interest expense decreases as excess cash is applied against the Senior Debt over time. The projected income statement is shown in the table below:

Myriad Botanical Resort

Projected Income Statement

	Year 1	Year 2	Year 3	Year 4	Year 5
EBITDA	24,270,868	29,042,039	33,071,332	34,536,951	35,902,444
Management Fee	3,748,352	4,106,596	4,400,616	4,519,939	4,642,847
Depreciation & Amortization	27,408,310	27,511,665	27,615,019	27,718,373	27,821,728
Income From Operations	-6,885,795	-2,576,221	1,055,697	2,298,639	3,437,869
Interest Expense:					
Senior Debt	15,506,910	15,169,410	14,303,160	13,133,160	11,726,910
PIK	0	0	0	0	0
Subordinated Debt	0	0	0	0	0
Lease Financing	0	0	0	0	0
Total Interest Expense	15,506,910	15,169,410	14,303,160	13,133,160	11,726,910
Pretax Income	-22,392,705	-17,745,631	-13,247,463	-10,834,521	-8,289,041
Loss Carry Forward	0	-22,392,705	-40,138,336	-53,385,799	-64,220,320
Tax Basis Income	-22,392,705	-40,138,336	-53,385,799	-64,220,320	-72,509,361
Income Tax Allocated (expense)	0	0	0	0	0
Net Income	-22,392,705	-17,745,631	-13,247,463	-10,834,521	-8,289,041

Source: The Innovation Group

Cash Flow Statement

The Innovation Group projected cash flow based on the Income Statement outlined earlier combined with capital expenditure projections. Capital expenditures for the five-year period totaled about $12.8 million. The analysis assumed that book cash over roughly $2.0 million would be applied to lower Senior Debt on an annual basis. We assumed there would be no additional equity contributions during the first five years of operation. The cash flow from operations for Funding II was projected to stabilized at $14.4 million in Year 3, increasing to $19.5 million by Year 5. The ending cash balance in Year 5 was estimated at $2.1 million. The projected income statement is shown in the table below:

Myriad Botanical Resort

Projected Cash Flows

	Year 1	Year 2	Year 3	Year 4	Year 5
Net Income	-22,392,705	-17,745,631	-13,247,463	-10,834,521	-8,289,041
Depreciation	17,766,644	17,869,998	17,973,352	18,076,707	18,180,061
Amortization	9,641,667	9,641,667	9,641,667	9,641,667	9,641,667
Non-cash Interest	0	0	0	0	0
Changes in W/C					
Cash from Operations	5,015,606	9,766,034	14,367,556	16,883,853	19,532,687
Cap Expenditures	-2,596,629	-2,596,629	-2,596,629	-2,596,629	-2,596,629
Equity Investment	0	0	0	0	0
Debt Borrowings/(Repayments)	0	-7,500,000	-11,750,000	-14,250,000	-17,000,000
Increase in cash	2,418,977	-330,595	20,927	37,224	-63,942
Beginning Cash	0	2,418,977	2,088,381	2,109,308	2,146,532
Ending Cash	2,418,977	2,088,381	2,109,308	2,146,532	2,082,589

Source: The Innovation Group

Return on Equity - IRR

The Innovation Group projected Internal Rate of Return ("IRR") associated with the cash equity investment of $85.0 million. According to the Company, this investment would give the cash equity holders a 100% participation interest in the project. The IRR model compares the initial investment with the Net Enterprise Value as various points in time. The Net Enterprise Value is defined as the expected sale price plus cash on hand less outstanding debt. Various sales prices points were analyzed. The assumed sales price was based on a multiple of EBITDA, which is standard for the industry. We estimated IRR for various sales price assumptions. The estimated Equity IRR (Year 5) was 9.1%, 14.5% and 19.1% for the 7x, 8x and 9x sales price multiple, respectively. The equity IRR calculation is detailed below:

Myriad Botanical Resort

Equity IRR Analysis

	Year 3			Year 5		
EBITDA	33,071,332	33,071,332	33,071,332	35,902,444	35,902,444	35,902,444
Sales Multiple (EBITDA)	7.0	8.0	9.0	7.0	8.0	9.0
Sales Price	231,499,323	264,570,655	297,641,986	251,317,106	287,219,549	323,121,993
Add: Cash	2,109,308	2,109,308	2,109,308	2,082,589	2,082,589	2,082,589
Enterprise Value	233,608,631	266,679,963	299,751,295	253,399,695	289,302,139	325,204,582
Less:						
Senior Credit Facility						
Senior Debt	153,049,000	153,049,000	153,049,000	121,799,000	121,799,000	121,799,000
Subordinated Debt	0	0	0	0	0	0
Lease Financing	0	0	0	0	0	0
Termination fee	0	0	0	0	0	0
Net Enterprise Value	80,559,631	113,630,963	146,702,295	131,600,695	167,503,139	203,405,582
IRR Calculation:						
Investment	-85,000,000	-85,000,000	-85,000,000	-85,000,000	-85,000,000	-85,000,000
Year 1	0	0	0	0	0	0
Year 2	0	0	0	0	0	0
Year 3	80,559,631	113,630,963	146,702,295	0	0	0
Year 4				0	0	0
Year 5				131,600,695	167,503,139	203,405,582
IRR	-1.8%	10.2%	20.0%	9.1%	14.5%	19.1%

Source: The Innovation Group

Summary

The following table summarized the estimated leverage ratios and Equity IRR for Funding II of the project. The Innovation Group calculated the following leverage ratios based on the Income Statement and Cash Flow Statement projections:

- Total Debt to EBITDA - Divides the sum of Senior Debt and equipment financing by estimated EBITDA (after management fees).
- Senior Debt to EBITDA - Divides the Senior Debt balance by EBITDA (after management fees).
- The EBITDA Fixed Charge Coverage ("FCC") - Divides EBITDA (after management fees) by total interest expense. These variables are outlined in the income statement section of the report.

Leverage Ratios and Equity IRR - Base Case

	Year 3	Year 5
Leverage Ratios:		
Total Debt to EBITDA	5.3	3.9
Senior Debt to EBITDA	5.3	3.9
EBITDA Fixed Charge Coverage	2.0	2.7
Equity IRR:		
Sales Multiple - 7x	-1.8%	9.1%
Sales Multiple - 8x	10.2%	14.5%
Sales Multiple - 9x	20.0%	19.1%

Source: The Innovation Group

Interest Rate Sensitivity on Equity IRR

The following analysis displays the impact of various Senior Debt interest rate assumptions on Equity IRR for the five-year period only.

Interest Rate Sensitivity Analysis - Year 5

	Interest Rate Assumptions				
	6.0%	7.0%	8.0%	9.0%	10.0%
Leverage Ratios:					
Total Debt to EBITDA	3.0	3.3	3.6	3.9	4.2
Senior Debt to EBITDA	3.0	3.3	3.6	3.9	4.2
EBITDA Fixed Charge Coverage	4.9	3.9	3.2	2.7	2.2
Equity IRR:					
Sales Multiple - 7x	13.3%	12.1%	10.7%	9.1%	7.4%
Sales Multiple - 8x	18.1%	17.0%	15.8%	14.5%	13.1%
Sales Multiple - 9x	22.1%	21.2%	20.2%	19.1%	17.9%

Source: The Innovation Group

Disclaimer

Certain information included in this report contains forward-looking estimates, projections and/or statements. The Innovation Group has based these projections, estimates and/or statements on our current expectations about future events. These forward-looking items include statements that reflect our existing beliefs and knowledge regarding the operating environment, existing trends, existing plans, objectives, goals, expectations, anticipations, results of operations, future performance and business plans. Further, statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," “project,” or other words or expressions of similar meaning have been utilized. These statements reflect our judgment on the date they are made and we undertake no duty to update such statements in the future.

Although we believe that the expectations in these reports are reasonable, any or all of the estimates or projections in this report may prove to be incorrect. To the extent possible, we have attempted to verify and confirm estimates and assumptions used in this analysis. However, some assumptions inevitably will not materialize as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties and unanticipated events and circumstances, which may occur. Consequently, actual results achieved during the period covered by our analysis will vary from our estimates and the variations may be material. As such, The Innovation Group accepts no liability in relation to the estimates provided herein.