

Churchill Downs, Inc. (CHDN-NASDAQ)

CHDN: Zacks Company Report - BUY

Current Recommendation	Buy
Prior Recommendation	Hold
Date of Last Change	11/19/2007
Current Price (07/29/09)	\$35.11
Six- Month Target Price	\$43.00

OUTLOOK

We reiterate our Buy rating on shares of Churchill Downs following the release of Q2 results. We remain encouraged by the increasing impact of the company's online advance-deposit wagering business, as well as the growth in Churchill's alternative gaming segment. Additional growth in these areas could provide a catalyst going forward. Our 12-month price target of \$43 per share equates to approximately 8x our 2009 EBITDA estimate.

SUMMARY DATA

52-Week High	\$50.48	Risk Level	Above Average
52-Week Low	\$22.17	Type of Stock	Small-Value
One-Year Return (%)	-4.57	Industry	Leisure&Rec/Gmg
Beta	1.29	Zacks Rank in Industry	7 of 27
Average Daily Volume (sh)	29,398		

Shares Outstanding (mil)	14
Market Capitalization (\$mil)	\$481
Short Interest Ratio (days)	6.17
Institutional Ownership (%)	33
Insider Ownership (%)	31

Annual Cash Dividend	\$0.50
Dividend Yield (%)	1.42

5-Yr. Historical Growth Rates	
Sales (%)	-1.4
Earnings Per Share (%)	4.9
Dividend (%)	0.0

P/E using TTM EPS	20.2
P/E using 2009 Estimate	18.7
P/E using 2010 Estimate	17.9

Zacks Rank	3
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ZACKS ESTIMATES

Revenue (in millions of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2007	47.8 A	169.9 A	103.9 A	89.1 A	410.7 A
2008	65.7 A	179.3 A	99.6 A	85.9 A	430.6 A
2009	73.7 A	180.0 A	105.9 E	93.2 E	453.0 E
2010					473.0 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2007	-\$0.63 A	\$2.12 A	\$0.08 A	-\$0.38 A	\$1.19 A
2008	-\$0.67 A	\$2.10 A	\$0.17 A	-\$0.26 A	\$1.34 A
2009	-\$0.37 A	\$2.20 A	\$0.22 E	-\$0.18 E	\$1.88 E
2010					\$1.96 E

Note: Historical quarterly EPS do not sum to annual EPS due to variations in share count.

CHURCHILL REPORTS SECOND QUARTER FINANCIAL RESULTS

On July 30, 2009, Churchill Downs Incorporated held its conference call to discuss financial results for the second fiscal quarter of 2009. Net revenues from continuing operations increased slightly year-over-year to \$180.0 million.

Within the company's Racing Operations segment, Calder Race Course posted an increase in revenues of 5% year-over-year, reflecting weakness in the year-ago period. Revenues declined at the company's other three tracks, however, with declines of 15% at Fair Grounds Race Course, 6% at Churchill Downs, and 9% at Arlington. Total Racing Operations revenue was down 6% year-over-year.

Revenues generated within the company's on-line and gaming businesses fared better, however. On-line revenues were up 33% year-over-year, and gaming revenues were up 31%, reflecting the impact of the expansion of gaming at Fair Grounds Race Course in New Orleans.

Operating expenses increased 2% over the year-ago period, while SG&A expenses declined 12% year-over-year. Operating income was up slightly at \$51.1 million.

On a per-diluted-share basis, net income from continuing operations was \$2.20 versus \$2.10 in the year-ago period. The results were \$0.02 below our estimate, but \$0.08 above the Street consensus. Our estimate was the high on the Street.

EBITDA improved to \$58.6 million versus \$57.5 million in the year-ago quarter, marking the sixth consecutive quarterly increase in EBITDA.

SLOTS FACILITY AT CALDER UPDATE

The company stated that it continues to expect the slot machine facility to be built at Calder Race Course in Miami, Florida to open on budget and on time in early 2010. Construction began on the facility in June. Management expects to create a 108,000 square-foot stand-alone facility, initially containing 1,225 slot machines. The poker room is expected to be open in late October. Including machine acquisitions, the company plans to invest approximately \$85 million to develop the property.

KENTUCKY GAMING UPDATE

In June, a measure that would have legalized video lottery terminals at Kentucky racetracks was blocked in the state Senate. The company stated that it will continue to work with legislators to pass this bill. We consider the addition of alternative gaming to be vital to the industry's long-term health, and expect that similar legislation will eventually be passed. The timing of such a move, however, remains very much uncertain.

NIGHT RACING AT CHURCHILL

During the quarter, the company experimented with night racing at Churchill Downs Racetrack. Attendance over the three evenings was 89,115, as was deemed to be successful by the company. Management is currently reviewing the financial results of the night racing experiment, and we would expect the company to offer more evening post-times going forward.

INVESTMENT THESIS & RECOMMENDATION

We believe that a proper valuation of Churchill's shares should reflect not only the value of the current operations, but also the potential for increased revenue and earnings stemming from additional alternative gaming at the company's properties. Further, the company's low leverage and significant real estate holdings should be taken into account.

The company faced a number of irregular issues in 2008, including disputes with horsemen's groups in Florida and Kentucky. These disputes hindered the company's ability to fully utilize its ADW operations, including twinspires.com, as the company was unable to receive wagers on races from Churchill Downs racetrack during the 2008 meet. Additionally, the dispute with the Florida HPBA negatively impacted operations at Calder Race Course, and delayed the announcement of the company's plans to introduce slot operations at Calder.

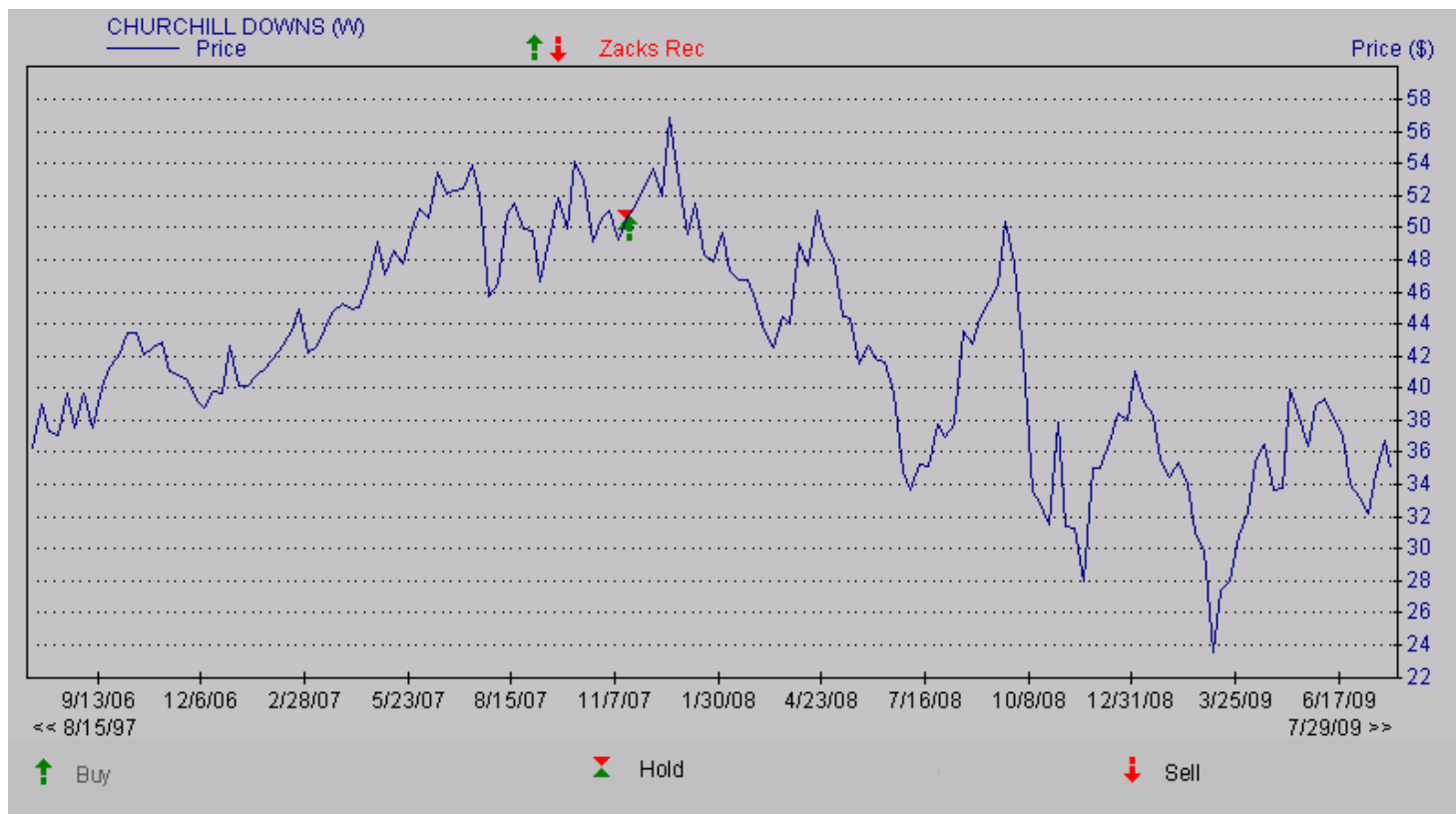
We believe that the company's operations weathered these issues well, and we are encouraged by the growing impact of the company's ADW business and gaming operations on its overall EBITDA generation.

Additionally, we continue to believe that the expansion of alternative gaming holds significant potential for Churchill. The temporary slots facility at Fair Grounds in New Orleans generated better-than-anticipated returns, and the company opened the permanent slots facility in mid-November. This permanent facility features approximately 600 slot machines, and should enable record purses for the 2008-2009 Thoroughbred racing meet at Fair Grounds. Although slot gaming will not be introduced at Calder before early 2010, we continue to believe that such an operation could generate significant returns for CHDN.

The shares are currently trading at approximately 6.6x our 2009 EBITDA estimate.

Our 12-month price target of \$43 per share equates to approximately 8x our 2009 EBITDA estimate. While we expect that the current economic recession will create challenges for the company during 2009, we believe that the stock could trade higher as the year progresses and focus turns towards 2010 and the expansion of alternative gaming at Calder.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

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