

Dover Downs Gaming (DDE)

Price:	\$1.47	Net Tang. Bk Value Incl. Cash, Excl.	\$113,700,000.00	Net Tang. Book Yr. 5 (Inc. Cash):	\$126,186,604.89
Market Cap:	\$47,951,400	Goodwill (NTBVIC):		Avg. Year Op. Cash:	\$10,089,636.38
Cash:	\$14,390,000	NTBVIC/Market Downside Recovery:	237.12%	Year 5 Disposition FCF Multiple:	3.0
Debt:	\$52,500,000	Op. Cash Flow:	\$15,205,950	Year 5 Disposition Price:	\$156,455,514.03
Net Cash:	-\$38,110,000	Implied Years to Fill Gap:	-4.32		
Enterprise Value:	\$86,061,400	Today's Equity if 5x Op. CF:	\$159,317,849		
		Net Tang. Book+ Gain Disposition:			\$156,455,514.03
Shares Outstanding:	32,620,000	IRR:			26.68%
		Price:			\$4.80
		Target Market Cap:			\$156,455,514
		Target Enterprise Value:			\$194,565,514

* Our future intrinsic value measures the total return, which includes both capital appreciation and dividend income.

Why is the stock selling for less than tangible book value? Casino, hotel/conference center, horse raceway, sports themed restaurant, all sold for \$47MM equity and \$86MM EV? The operations generate \$20MM in operating cash flow. Seems awfully cheap, or the book value is overappraised.

The main concern is probably predatory competition, as the state allows more casinos to be built, situated at an arm's length from the casino. Investors are most likely skeptical of the company's cash flow projections. Also, the Price/Net tangible book value below 1.0x reveals investors are skeptical of the booked value of the PP&E. Did real estate prices for Dover, Maryland sink over the past few years?

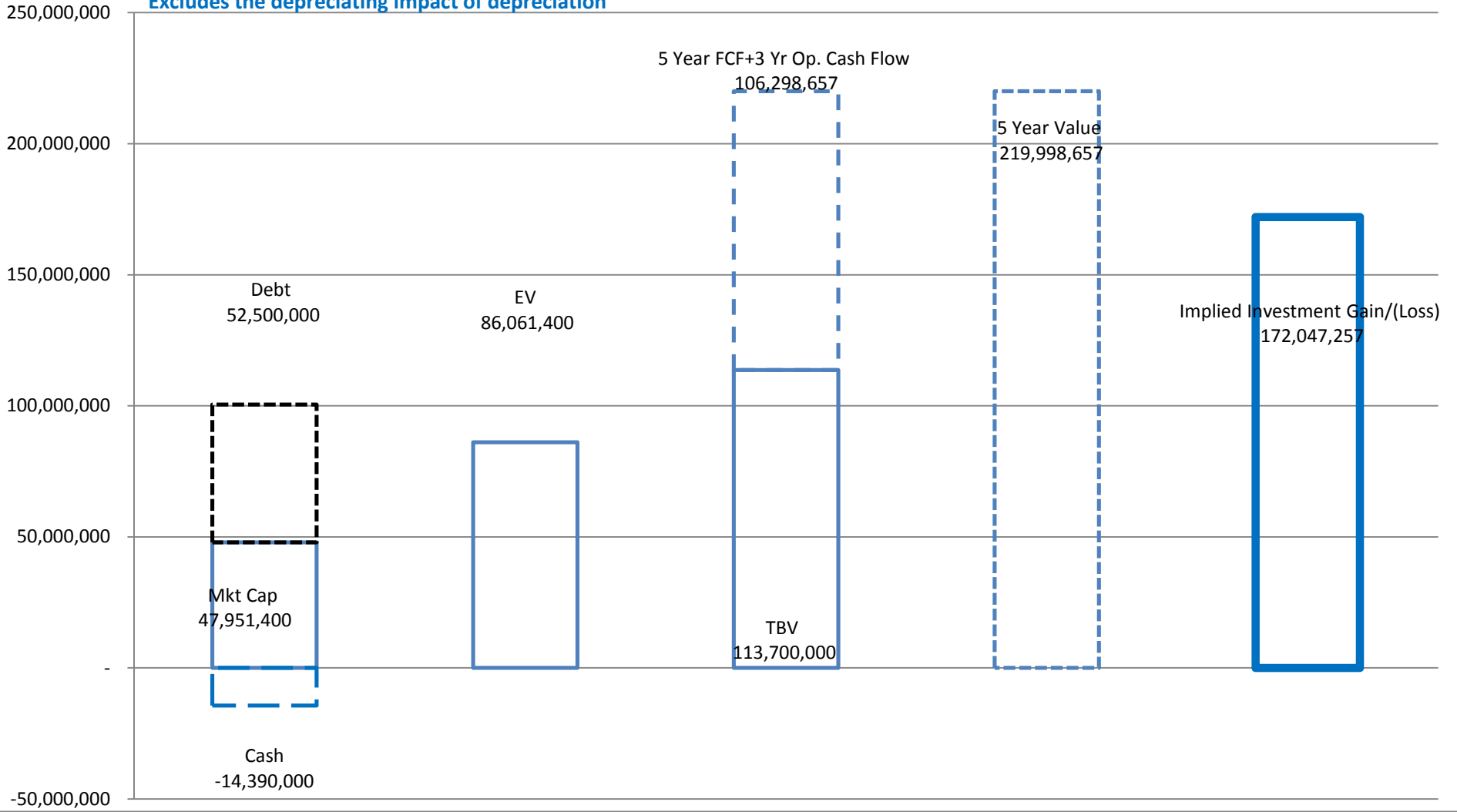
The valuation seems very cheap and the dividend yield is at +4%. Revenue will continue to diminish. The stock has fallen continuously for the past few years, and we don't think this is a temporary disconnect. We believe the business will continue to shrink.

On the other hand, the business for the time being is generating substantial cash flow and we want to be contrarian, because the variance between the book value and market value doesn't seem right. We believe the operational cashflow alone merits a second consideration. When factoring in the asset value, then it is quite cheap and discounted.

However, we ran into a similar issue with EXM, which seemed cheap on an asset and cash flow basis, but once the business slowed down, the cash flow dried up, the interest rate covenants went off, the co. couldn't service the loans, and the Co. eventually resorted to selling their boats at fire sale prices, finally leading to their bankruptcy filing.

Yet, we are willing to take the risk as the assets are buildings, and the cash flow reported in the recent quarter still shows life and should not be written off, even in light of the new casinos coming on line in 2014.

Excludes the depreciating impact of depreciation



Dover Downs Gaming & Entertainment, Inc., was incorporated in the State in December of 2001. The Company is a gaming and entertainment resort destination whose operations consist of: Dover Downs Casino - a 165,000-square foot casino complex featuring popular table games, including craps, roulette and card games such as blackjack, Spanish 21, baccarat, 3-card and pai gow poker, the latest in slot machine offerings, multi-player electronic table games, the Crown Royal poker room, a Race & Sports Book operation, the Dover Downs' Fire & Ice Lounge, the Festival Buffet, Doc Magrogan's Oyster House, Frankie's Italian restaurant, as well as several bars, restaurants and four retail outlets, Dover Downs Hotel and Conference Center - a 500 room AAA Four Diamond hotel with a full-service spa/salon, conference, banquet, ballroom and concert hall facilities, Dover Downs Raceway - a harness racing track with pari-mutuel wagering on live and simulcast horse races. All of its operations are located at its entertainment complex in Dover, the capital of the State of Delaware. Additional gaming venues have recently opened in Maryland, Pennsylvania and New Jersey. The Company reports information under a single gaming and entertainment segment. The casino facility includes the Dover Downs' Fire & Ice Lounge, the Festival Buffet, Doc Magrogan's Oyster House, Frankie's Italian restaurant, as well as several bars, restaurants and four retail outlets, all of which are located at its entertainment complex situated on approximately 69 acres of owned land. It competes in local and regional markets with horse tracks and racinos, off-track betting parlors, state run lotteries, casinos, internet gambling and other forms of gaming. The Company is subject to various federal, state and local regulations.

Company Name:	Dover Downs Gaming
Ticker Symbol:	DDE
Last Price:	\$1.47
Net Cash/Share:	-\$1.17
Net Cash to Last Price:	-79.48%
Shares Outstanding:	32,620,000
Industry:	Gambling
Sector:	Consumer Cyclical
Institutional Ownership:	40.85%
Mutual Fund Ownership:	9.37%
Insider Ownership:	2.90%
Float:	78.00%

Market Capitalization:	\$47,951,400.00
Total Debt:	\$52,500,000.00
Total Cash:	\$14,390,000.00
Net Cash/(Debt):	-\$38,110,000.00
Enterprise Value:	\$86,061,400.00
Current EV/Share:	\$2.64
EBITDA:	\$30,870,000.00
EV/EBITDA Multiple:	2.79
EV/EBITDA Multiple Average Year 1-5:	5.20
EV/FCF Multiple (excluding acquisition):	8.16
EV/FCF Multiple Average Year 1-5 (excluding acquisition):	12.14

Income Statement		
Revenue:	\$199,200,000.00	100.0%
Cost of Goods Sold:	\$156,240,000.00	78.4%
Gross Profit:	\$42,960,000.00	21.6%
EBITDA:	\$11,800,000.00	5.9%
Net Income:	#VALUE!	#VALUE!

Balance Sheet	
Cash:	\$14,390,000.00
Short Term Investment:	\$0.00
A/R:	\$4,000,000.00
PP&E:	\$162,000,000.00
Assets:	\$197,870,000.00

A/P:	\$3,000,000.00
Deferred Tax:	\$1,550,000.00
Other Liabilities:	\$26,840,000.00
Short term Debt:	\$52,500,000.00
Long Term Debt:	\$0.00
Liabilities:	\$83,890,000.00
Retained Earnings:	\$109,700,000.00
Paid-In Capital:	\$7,250,000.00
Treasury Stock:	\$0.00
Stockholder's Equity:	\$113,700,000.00

Technicals	
52 week low:	\$1.22
Today from 52 week low:	20.49%
52 week high:	\$2.58
Today from 52 week high:	75.51%

Analyst/Consensus	
Analyst Sales Growth FY1:	N/A
Analyst Sales Growth FY2:	-7.90%
SN Valuation Estimate FY1:	-10.00%
SN Valuation Estimate FY2:	-10.00%

Analyst Earnings Estimate FY1:	\$0.03
Analyst Earnings Estimate FY2:	\$0.17
SN Valuation Earnings Est. FY1:	\$0.18
SN Valuation Earnings Est. FY2:	\$0.12

Multiples	
Market Value to Book:	0.42
EV to Book:	0.76
Market Value to Tangible Net Assets:	0.58
P/E Ratio:	#VALUE!
Trailing P/E Ratio:	N/A
Forward P/E Ratio:	8.65
Beta:	1.15
Dividend:	0.08
Dividend Yield:	5.44%
Dividend Date:	Dec 10, 2012
Ex-Dividend Date:	Nov 7, 2012

Competitors	
Average EV to EBITDA:	N/A
Company EV to EBITDA:	2.79
Average EV to EBIT:	N/A
Company EV to EBITA:	8.38

Upper Range	
DCF: EV/EBITDA Terminal Value	
Implied TV from 3 X EV/EBITDA Multiple	\$16,007,711.51
Enterprise Value	\$16,007,711.51
Cash at Year 5:	\$49,838,181.89
Debt at Year 5:	\$52,500,000.00
Equity Value Year 5:	\$13,345,893.40
Equity/Share at Year 5:	\$0.41
Annualized Return:	-22.57%

Lower Range	
DCF: Net Tangible Asset excluding Cash/Debt Terminal Value	
Year 5 Net Tangible Assets excluding cash and debt	\$140,770,000.00
Enterprise Value	\$140,770,000.00
Cash at Year 5:	\$49,838,181.89
Debt at Year 5:	\$52,500,000.00
Equity Value Year 5:	\$138,108,181.89
Equity/Share at Year 5:	\$4.23
Annualized Return:	23.56%

EVA	
EVA today:	\$113,310,183.90
EVA in 5 Years:	\$137,909,089.07
EVA/Share:	\$4.23
Cash at Year 5:	\$49,838,181.89
Debt at Year 5:	\$52,500,000.00
Equity Value Year 5:	\$135,247,270.97
Equity/Share at Year 5:	\$4.15
Annualized return	4.01%

Cash Flow	
Net Income:	4,810,000.00
Depreciation/Amortization:	10,300,000.00
Change in Working capital:	-2,510,000.00
Cash from Operating Activities:	13,170,000.00
Capital Expenditures:	-2,620,000.00
Cash from Investing Activities:	-2,620,000.00
Total Cash Dividends Paid:	-3,580,000.00
Issuance (Retirement) of Stock:	-110,000.00
Issuance (Retirement) of Debt:	-10,500,000.00
Cash from Financing Activities:	-14,180,000.00

Profitability Margins	
Debt to Equity:	46.17%
Return on Assets:	2.43%
Return on Capital:	2.89%
Return on Equity:	4.23%

Current Net Tangible Asset	
Net Tangible Asset/Share:	\$3.49
Net Tangible Asset/Share in Year 5:	\$3.88
Annualized return	2.10%

Current Equity Price:	\$1.47
Selling at Discount?	Discount
Appreciation Potential:	137.70%

SN VALUATION

LBO Pro Forma Income Statement

Name:

Dover Downs Gaming

Ticker:

DDE

	Historical				Forecasted				
	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2013	2014	2015	2016	2017
Revenue	232.80	238.15	239.94	225.91	203.32	182.99	164.69	148.22	133.40
COGS	175.78	188.29	193.39	182.95	166.72	151.88	138.34	125.99	113.39
Gross margin	57.02	49.86	46.55	42.96	36.60	31.11	26.35	22.23	20.01
SG&A	6.89	6.92	6.29	6.03	6.10	5.49	4.94	4.45	4.00
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unusual expense	2.18	0.00	0.04	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expense	14.76	16.13	16.51	16.36	16.27	14.64	13.18	11.86	10.67
Depreciation is: Excluded from COGS					0.00	0.00	0.00	0.00	0.00
Operating Income (EBITA)	33.40	26.81	23.71	20.57	14.23	10.98	8.23	5.93	5.34
Interest income/(expense)	-2.37	-3.26	-2.87	-1.80	-5.10	-5.10	-5.10	-5.10	-5.10
Gain (loss) on sale of asset	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income before tax	19.09	11.49	9.17	8.47	9.13	5.88	3.13	0.83	0.24
Tax	7.81	4.75	3.61	3.66	3.20	2.06	1.10	0.29	0.08
Income after tax	11.28	6.74	5.36	4.81	5.94	3.82	2.04	0.54	0.15
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity in affiliates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income	11.28	6.74	5.36	4.81	5.94	3.82	2.04	0.54	0.15
*Figures are in millions (\$)									
EPS (based off today's share count)	\$0.35	\$0.21	\$0.16	\$0.15	\$0.18	\$0.12	\$0.06	\$0.02	\$0.00
P/E (historical today's price; forecasted intrinsic price)	4.25	7.11	8.95	9.97	10.23	20.14	47.85	229.28	1,020.77
Revenue Growth	N/A	2.30%	0.75%	-5.85%	-10.00%	-10.00%	-10.00%	-10.00%	-10.00%
Tax Rate	40.91%	41.34%	41.55%	43.21%	35.00%	35.00%	35.00%	35.00%	35.00%
Implied Debt Interest Rate	-2.49%	-4.15%	-4.16%	-3.08%	NA	NA	NA	NA	NA
Margins									
COGS	75.51%	79.06%	80.60%	80.98%	82.00%	83.00%	84.00%	85.00%	85.00%
Gross margin	24.49%	20.94%	19.40%	19.02%	18.00%	17.00%	16.00%	15.00%	15.00%
SG&A	2.87%	2.91%	2.62%	2.67%	3.00%	3.00%	3.00%	3.00%	3.00%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	0.94%	0.00%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other operating expense	6.34%	6.77%	6.88%	7.24%	8.00%	8.00%	8.00%	8.00%	8.00%
Depreciation is: Excluded from COGS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Income (EBITA)	14.35%	11.26%	9.88%	9.11%	7.00%	6.00%	5.00%	4.00%	4.00%
Interest income/(expense)	-1.02%	-1.37%	-1.20%	-0.80%	-2.51%	-2.79%	-3.10%	-3.44%	-3.82%
Gain (loss) on sale of asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	8.20%	4.82%	3.82%	3.75%	4.49%	3.21%	1.90%	0.56%	0.18%
Tax	3.35%	1.99%	1.59%	1.62%	1.57%	1.12%	0.67%	0.20%	0.06%
Income after tax	4.85%	2.83%	2.23%	2.13%	2.92%	1.88%	1.00%	0.26%	0.08%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in affiliates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	4.85%	2.83%	2.23%	2.13%	2.92%	2.09%	1.24%	0.36%	0.11%

	As of 2009-12-31	As of 2010-12-31	As of 2011-12-31	As of 2012-12-31	As of 2013-09-30	Adjustment		Adjusted Proforma	2014	2015	2016	2017	2018
						+	-						
Cash	21.41	18.82	18.63	14.99	14.39			14.39	26.5959495	35.76	42.31	46.60	49.84
Short term investment	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	21.41	18.82	18.63	14.99	14.39			14.39	26.60	35.76	42.31	46.60	49.84
Accounts Receivable	2.64	3.10	3.98	4.09	4.00			4.00	4.00	4.00	4.00	4.00	4.00
Other receivables	0.00	0.00	0.00	0.00	9.30			9.30	9.30	9.30	9.30	9.30	9.30
Total Receivables	2.64	3.10	3.98	4.09	13.30			13.30	13.30	13.30	13.30	13.30	13.30
Total Inventory	2.17	1.99	1.86	1.92	2.03			2.03	2.03	2.03	2.03	2.03	2.03
Prepaid Expenses	2.15	2.55	3.66	3.21	3.89			3.89	3.89	3.89	3.89	3.89	3.89
Other Current Assets	1.21	1.35	1.32	1.28	1.29			1.29	1.29	1.29	1.29	1.29	1.29
Current Assets	29.58	27.81	29.45	25.49	34.90	0.00	0.00	34.90	47.1059495	56.27	62.82	67.11	70.35
PP&E, Gross	268.49	273.45	274.40	276.38	275.00			275.00	278.00	281.00	284.00	287.00	290.00
Change in Depreciation	11.94	12.06	11.66	10.30	10.30			10.30	9.27	8.34	7.51	6.76	6.08
Accumulated Depreciation	76.13	87.23	97.99	113.75	113.00			113.00	122.27	130.61	138.12	144.88	150.96
PP&E, Net	192.36	186.22	176.41	162.63	162.00			162.00	155.73	150.39	145.88	142.12	139.04
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00
Intangibles	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Long term investments	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	0.86	0.79	0.88	0.94	0.97			0.97	0.97	0.97	0.97	0.97	0.97
Long Term Assets	193.22	187.01	177.29	163.57	162.97			162.97	156.70	151.36	146.85	143.09	140.01
Total Assets	222.80	214.82	206.74	189.06	197.87	0.00	0.00	197.87	203.81	207.63	209.66	210.20	210.36
Accounts Payable	13.30	13.57	13.04	13.62	3.00			3.00	3.00	3.00	3.00	3.00	3.00
Accrued Expense	8.79	12.29	11.91	10.36	10.00			10.00	10.00	10.00	10.00	10.00	10.00
Other current Liabilities	0.31	0.00	0.71	0.35	0.60			0.60	0.60	0.60	0.60	0.60	0.60
Total Current Liabilities	22.40	26.17	25.66	24.33	13.60	0.00	0.00	13.60	13.60	13.60	13.60	13.60	13.60
Notes Payables/Short Term Debt	0.00	0.00	0.00	0.00	52.50			52.50	52.50	52.50	52.50	52.50	52.50
Current port. Of LT Debt/Capital Leases	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Long term Debt	95.12	78.60	69.00	58.50	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00
Capital Lease Obligations	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Interest Earning Debt	95.12	78.60	69.00	58.50	52.50	0.00	0.00	52.50	52.50	52.50	52.50	52.50	52.50
Deferred Income tax	4.17	4.22	3.30	1.99	1.55			1.55	1.55	1.55	1.55	1.55	1.55
Minority Interest	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	5.09	5.55	5.72	6.98	16.24			16.24	16.24	16.24	16.24	16.24	16.24
Total Liabilities	126.78	114.54	103.68	91.80	83.89	0.00	0.00	83.89	83.89	83.89	83.89	83.89	83.89
Redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Non-redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	3.21	3.22	3.24	3.25	3.25		0.00	3.25	3.25	3.25	3.25	3.25	3.25
Additional Paid-in capital	1.66	2.72	3.46	4.14	4.00	0.00		4.00	4.00	4.00	4.00	4.00	4.00
Dividends Paid	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	103.56	106.43	108.09	109.32	109.70			109.70	115.64	119.46	121.49	122.03	122.19
Treasury Stock	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Equity	-1.19	-1.63	-2.28	-3.25	-3.25		0.00	-3.25	-3.25	-3.25	-3.25	-3.25	-3.25
Total Equity	107.24	110.74	112.51	113.46	113.70	0.00	0.00	113.70	119.64	123.46	125.49	126.03	126.19
Liability + Equity	234.02	225.28	216.19	205.26	197.59	0.00	0.00	197.59	203.53	207.35	209.38	209.92	210.08
Variance	-11.22	-10.46	-9.45	-16.20	0.28			0.28	0.28	0.28	0.28	0.28	0.28
Debt/Equity	0.89	0.71	0.61	0.52	0.46			0.46	0.44	0.43	0.42	0.42	0.42
Inventory Turnover	107.28	119.67	129.00	117.66	100.16			111.29	100.16	90.14	81.13	73.01	65.71
Inventory Turnover Days	3.40	3.05	2.83	3.10	3.64			3.28	3.64	4.05	4.50	5.00	5.55
Days Inventory Outstanding	4.51	3.86	3.51	3.83	4.44			4.05	4.44	4.88	5.36	5.88	6.53
Accounts Receivable Turnover	88.18	76.82	60.29	55.23	50.83			16.99	15.29	13.76	12.38	11.14	10.03
Accounts Receivable Turnover Days	4.14	4.75	6.05	6.61	7.18			21.49	23.88	26.53	29.48	32.75	36.39
Days Payable Outstanding	27.62	26.31	24.61	27.17	6.57			5.99	6.57	7.21	7.92	8.69	9.66
Days Sales Outstanding	4.14	4.75	6.05	6.61	23.88			6.61	21.49	23.88	26.53	29.48	32.75
Cash Conversion Cycle	-18.97	-17.70	-15.05	-16.73	21.75			4.67	19.37	21.55	23.97	26.67	29.63
Net tangible assets/share	\$3.29	\$3.39	\$3.45	\$3.48	\$3.49				\$3.67	\$3.78	\$3.85	\$3.86	\$3.87

	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2014	2015	2016	2017	2018
Net Income	11.28	6.74	5.36	4.81	5.94	3.82	2.04	0.54	0.15
Depreciation	11.94	12.06	11.66	10.30	9.27	8.34	7.51	6.76	6.08
Net Income + Depreciation	23.22	18.80	17.02	15.11	15.21	12.16	9.55	7.30	6.24
Amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	0.19	-0.09	-0.39	-0.32	0.00	0.00	0.00	0.00	0.00
Non Cash Items	3.17	1.26	1.04	0.89	0.00	0.00	0.00	0.00	0.00
Change in Working capital	1.17	3.51	-2.02	-2.51	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	0.00	-0.46	-0.88	-0.11	0.00	0.00	0.00	0.00	0.00
Other Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	0.00	0.18	0.13	-0.06	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	0.00	-0.40	-1.11	0.45	0.00	0.00	0.00	0.00	0.00
Accounts Payable	0.00	0.27	-0.53	0.58	0.00	0.00	0.00	0.00	0.00
Cash from Operating Activities	27.75	23.48	15.65	13.17	15.21	12.16	9.55	7.30	6.24
Capital Expenditures Expenditures	-4.54	-5.58	-1.85	-2.62	-3.00	-3.00	-3.00	-3.00	-3.00
Long term investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Investing Activities	0.00	0.00	-0.08	0.00	0.00	0.00	0.00	0.00	0.00
Cash from Investing Activities	-4.54	-5.58	-1.93	-2.62	-3.00	-3.00	-3.00	-3.00	-3.00
Financing Cash flow items	0.00	0.00	-0.27	0.00	0.00	0.00	0.00	0.00	0.00
Total Cash Dividends Paid	-6.42	-3.87	-3.89	-3.58	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Stock	-0.06	-0.12	-0.15	-0.11	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Current Portion Debt	-	-	-	-	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Long Term Debt	-13.20	-16.52	-9.60	-10.50	0.00	0.00	0.00	0.00	0.00
Cash from Financing Activities	-19.68	-20.51	-13.91	-14.19	0.00	0.00	0.00	0.00	0.00
Foreign Exchange effect	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Beginning Cash Balance	-3.53	0.00	0.00	0.00	14.39	26.60	35.76	42.31	46.60
Net Change in Cash	3.53	-2.60	-0.18	-3.64	12.21	9.16	6.55	4.30	3.24
Ending Cash Balance	0.00	0.00	-0.18	-3.64	26.60	35.76	42.31	46.60	49.84
Capex to Revenue	1.95%	2.34%	0.77%	1.16%	1.48%	1.64%	1.82%	2.02%	2.25%
Depreciation to Sales	5.13%	5.06%	4.86%	4.56%	4.56%	4.56%	4.56%	4.56%	4.56%
Amortization to Sales	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A/R to Sales	1.13%	1.30%	1.66%	1.81%	2.01%	2.24%	2.48%	2.76%	3.07%
Distributable FCF/EV Yield	26.97%	20.80%	15.94%	12.26%	14.18%	10.65%	7.61%	4.99%	3.76%
Dividend Yield	-13.39%	-8.07%	-8.11%	-7.47%	0.00%	0.00%	0.00%	0.00%	0.00%
FCF (Ops-Investing)	29.63	21.77	17.69	14.13	12.21	9.16	6.55	4.30	3.24

SN VALUATION

LBO Debt Schedule

Ticker:

DDE

	Proforma	2013	2014	2015	2016	2017
Net Change in Cash	-3.64	12.21	9.16	6.55	4.30	3.24
Current Portion Debt Repayment						
Long Term Debt Repayment						
Outstanding Debt	52.50	52.50	52.50	52.50	52.50	52.50
Current Portion Debt Balance	52.50	52.50	52.50	52.50	52.50	52.50
Long Term Debt Balance	0.00	0.00	0.00	0.00	0.00	0.00
Forward Libor Curve		3.00%	3.00%	3.00%	3.00%	3.00%
Spread		7.00%	7.00%	7.00%	7.00%	7.00%
Interest Rate		10.00%	10.00%	10.00%	10.00%	10.00%
Interest Expense		5.25	5.25	5.25	5.25	5.25
Cash Balance		14.99				
Interest @ 1.0%		0.15	0.15	0.15	0.15	0.15
Net Interest Expense/(Income)		5.10	5.10	5.10	5.10	5.10
Net Interest Rate		N/A	N/A	N/A	N/A	N/A
EBITDA		14.23	10.98	8.23	5.93	5.34
EBITDA/Interest Expense Coverage		2.71	2.09	1.57	1.13	1.02

Interest Rate Coverage Table

Debt Rating					
AAA					
AA					
A+					
A					
A-					
BBB					
BB+					
BB					
B+	B+				
B		B			
B-			B-		
CCC					
CC				CC	CC
C					
D					

*Source: NYU; Professor Damodaran

Altman Z Score

Company Name:

Dover Downs Gaming

Ticker:

DDE

Period	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital	7.18	1.64	3.79	21.30	33.51	42.67	49.22	53.51	56.75
Total Assets	222.80	214.82	206.74	197.87	203.81	207.63	209.66	210.20	210.36
X1	0.03	0.01	0.02	0.11	0.16	0.21	0.23	0.25	0.27
Retained Earnings	103.56	106.43	108.09	109.70	115.64	119.46	121.49	122.03	122.19
Total Assets	222.80	214.82	206.74	197.87	203.81	207.63	209.66	210.20	210.36
X2	0.46	0.50	0.52	0.55	0.57	0.58	0.58	0.58	0.58
EBITDA	33.40	26.81	23.71	20.57	14.23	10.98	8.23	5.93	5.34
Total Assets	222.80	214.82	206.74	197.87	203.81	207.63	209.66	210.20	210.36
X3	0.15	0.12	0.11	0.10	0.07	0.05	0.04	0.03	0.03
Market Value of Equity	47.95	47.95	47.95	47.95	60.75	76.96	97.49	123.50	156.46
Total Liabilities	126.78	114.54	103.68	83.89	83.89	83.89	83.89	83.89	83.89
X4	0.38	0.42	0.46	0.57	0.72	0.92	1.16	1.47	1.87
Net Sales	232.80	238.15	239.94	225.91	203.32	182.99	164.69	148.22	133.40
Total Assets	222.80	214.82	206.74	197.87	203.81	207.63	209.66	210.20	210.36
X5	1.04	1.11	1.16	1.14	1.00	0.88	0.79	0.71	0.63
Altman Z Score	2.46	2.47	2.57	2.73	2.65	2.66	2.71	2.80	2.97

$$Z = 1.2 \times X1 + 1.4 \times X2 + 3.3 \times X3 + 0.6 \times X4 + 1.0 \times X5$$

Z-SCORE ABOVE 3.0 –The company is considered 'Safe' based on the financial figures only.

Blue

Z-SCORE BETWEEN 2.7 and 2.99 – 'On Alert'. This zone is an area where one should 'Exercise Caution'.

Green

Z-SCORE BETWEEN 1.8 and 2.7 – Good chance of the company going bankrupt within 2 years.

Yellow

Z-SCORE BELOW 1.80- Probability of Financial Catastrophe is Very High.

Red

Year	Present Value	Holding Period					Terminal Value			Sale Price
	0	1	2	3	4	5	6	7	8	TBV at Year 5 + 3 Years FCF
Tangible Book Value	113.70	119.64	123.46	125.49	126.03	126.19				126.19
Annual Change		5.94	3.82	2.04	0.54	0.15				
Annual FCF	10.55	12.21	9.16	6.55	4.30	3.24	7.09	7.09	7.09	21.27
Annual Op. Cash Flow	13.17	15.21	12.16	9.55	7.30	6.24	10.09	10.09	10.09	
Annual PP&E Investment	(2.62)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	
Today's Tangible Book Value	113.70	116.09	118.54	121.04	123.58	126.19				147.46
Intrinsic Value IRR	2.11%									
Market Price	47.95	60.03	75.15	94.08	117.78	147.46				147.46
Market Price IRR	25.19%									

Debt	50.00%	23.98
Equity	50.00%	23.98
Total	100.00%	47.95

	Present Value	Holding Period					Terminal Value			Sale Price	
	Historic	ProForma	1	2	3	4	5	6	7	8	
Book Equity	113.7	23.98	31.67	37.25	41.04	43.34	45.25				
Goodwill	0	(65.75)	(65.75)	(65.75)	(65.75)	(65.75)	(65.75)				
Debt	0	23.98	23.98	23.98	23.98	23.98	23.98				
Debt Interest Rate		10.00%	10.00%	10.00%	10.00%	10.00%	10.00%				
Additional Interest Expense		-2.70	-2.70	-2.70	-2.70	-2.70					
Tangible Book Value	113.7	89.72	97.42	102.99	106.79	109.08	110.99				110.99
Annual Change			7.69	5.58	3.79	2.30	1.91				
Annual FCF	10.55		13.96	10.92	8.30	6.05	4.99	4.99	4.99	4.99	14.98
Annual Net Income	4.81		7.69	5.58	3.79	2.30	1.91	1.91	1.91	1.91	
Annual Op. Cash Flow	13.17		16.96	13.92	11.30	9.05	7.99	7.99	7.99	7.99	
Dividend Payments											
Annual PP&E Investment	(2.62)		(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	
Debt Paydown	0.00							0.00	0.00	0.00	
Sale Price in Year 5											125.97
Capital Left for Equity Investor											125.97
Dividend Payments											0.00
Total Cash In Flow											125.97
Invested Equity	23.98	33.41	46.56	64.87	90.40	125.97					
IRR	39.35%										

We assume the debt taken on by the investor is now on the Co's books, so the investor has no more liability from the deal.

<u>Value Creation</u>	
TBV Growth (equals sum of NI Year 1-5)	21.27
Cash Flow (Year 6-8)	14.98
	36.25

<u>Value Dilution</u>	
Debt	23.98
Goodwill	-65.75
Additional Interest	-13.51
	(55.29)