



CHEROKEE NATION™
Businesses

Executive and Finance Report
Consolidated Financial Information
August 2014

Cherokee Nation Businesses

Executive and Finance Report

August 2014

Budget Highlights

- August 2014 CNB consolidated net income of \$9.9 million was \$885,000 above budget and \$3.1 million higher than prior year.
- CNE EBITDA of \$16.0 million was \$1.3 favorable to budget. Higher than budgeted revenue of \$2.6 million was driven by higher than anticipated gaming revenue at the Hard Rock location.
- Technology Portfolio EBITDA of \$1.4 million was \$631,000 above budget. The budget variance was driven by positive revenue adjustments taken at the end of some larger firm fixed price contracts as well as the first full month of a contract with the BIA.
- CNI EBITDA loss of \$585,000 was \$466,000 unfavorable to budget. This was primarily driven by lower than anticipated profitability in the Manufacturing and Distribution divisions of \$272,000 and \$218,000, respectively.
- The CNB Parent Company EBITDA was \$700,000 unfavorable to budget, which was driven by higher than anticipated operating expense.
- Combined, EBITDA at all other entities was \$96,000 above budget.

Capital Expenditures

August YTD capital expenditures were \$48.2 million for all entities.

- CNE: \$27.8 million
 - Expansion: \$9.3 million – Casino III Hard Rock rebuild, South Coffeyville, Roland, Cherokee Springs, WSS Langley Prop Purchase, WSS Water Tower
 - Strategic: \$11.1 million – Roland Structural Improvements, Route 66 Diner, Cherokee Tower Renovation, eGame purchase, Currency Counters, WRD Advantage
 - Maintenance - \$5.5 million
- CPM: \$13.6 million – Health clinic construction / expansion.
- CNB: \$6.2 million – IGT Advantage Enterprise upgrade, IT virtualization.
- CNCS: \$184,000 – Purchase new vehicles.
- CNI: \$335,000 – Relocate Mazak laser from Kellyville to Pryor and maintenance costs, Ditmo Test Unit (CND A&D), Company vehicles

Financing

- CNB has no outstanding borrowings as of August 31, 2014.

Cherokee Nation Entertainment

Executive and Finance Report

August 2014

Budget Highlights

<i>thousands (000's)</i>	<u>Period</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%</u>
• Revenue	Month -	\$48,957	\$46,320	\$2,637	6%
• Operating Expenses	Month -	\$32,922	\$31,625	(\$1,297)	4%
• EBITDA	Month -	\$16,036	\$14,695	\$1,340	9%

Operating Highlights

- CNE EBITDA of \$16.0 million in August was \$1.3 million above budget.
- Total revenue of \$49.0 million was \$2.6 million above budget due to higher than anticipated gaming revenue at the Hard Rock location.
- Total operating expense of \$32.9 million was \$1.3 million unfavorable to budget. The primary driver was an increase in gaming related expense and cost of goods sold, which was driven by higher revenue.
- Groundbreaking for the South Coffeyville casino took place on August 27th. The 17,000 square foot facility will offer 300 games and will take approximately 6 months to finish.
- CNB has agreed to lease property adjacent to the Hard Rock casino to Woodmont Outlets, which plans to invest \$80 million into premium outlet shops to be called "Cherokee Outlets." The Outlets, along with a new Entertainment area, called "The District," is expected to be completed in 2016.
- CNB also announced plans for the Cherokee Springs Plaza, which will include retail, restaurants, auto sales lots, office space, convention space, two hotels, and a casino adjacent to the Cherokee Springs golf course in Tahlequah.
- The Roland property held a groundbreaking event on April 29, 2014 for a new casino and hotel. The target date to open the casino is late May 2015, with the hotel scheduled to open later in the year.
- The Catoosa property is renovating the Cherokee hotel tower, two floors at a time, which began on August 1st.
- The Creek casino in Tulsa is planning a \$335 million expansion including a 500 room hotel tower, new casino and restaurant, pool bar, theater and event center, with an expected completion date of 2016.

Capital Expenditure Highlights – Year to Date

- Expansion related costs for Tahlequah, South Coffeyville, Roland, Catoosa, and WSS Langley Purchase – \$11.2 million
- Currency Counters - \$1.4 million
- Cherokee Tower Renovation - \$3.1 million
- Route 66 Diner at Hard Rock - \$1.2 million
- Backup Power (Tahlequah, Sallisaw, Roland, WRD) - \$1.5 million
- Roland Structural Improvements - \$653,000

- Install of Micros Symphony (F&B System) - \$376,000
- LED light conversions - \$378,000
- Revolving Doors at Catoosa - \$278,000

Cherokee Nation Industries

Executive and Finance Report August 2014

Budget Highlights

<i>thousands (000's)</i>	<u>Period</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%</u>
• Revenue	Month -	\$5,037	\$6,590	(\$1,553)	-24%
• Operating Expenses	Month -	\$5,622	\$6,709	\$1,087	-16%
• EBITDA	Month -	(\$585)	(\$119)	(\$466)	-391%

Operating Highlights

- EBITDA loss of \$585,000 was \$466,000 unfavorable to budget. The negative variance was driven by lower than expected profitability in the Manufacturing and Distribution divisions of \$218,000 and \$272,000, respectively.
- CNI's revenue totaled \$5.0 million, which was \$1.6 million below budget. This was driven by lower than budgeted revenue in Distribution Services of \$1.7 million.
- Total operating expenses of \$5.6 million were \$1.1 million lower than budget, primarily driven by lower cost of goods sold associated with lower revenue.

Technology Portfolio

Executive and Finance Report

August 2014

Budget Highlights

<i>thousands (000's)</i>	<u>Period</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%</u>
• Revenue	Month -	\$14,442	\$8,858	\$5,584	63%
• Operating Expenses	Month -	\$13,079	\$8,126	(\$4,953)	61%
• EBITDA	Month -	\$1,364	\$732	\$631	86%

Operating Highlights

- The IT Portfolio generated revenue of \$14.4 million compared a budget of \$8.9 million.
- August EBITDA was \$1.4 million compared to budgeted EBITDA of \$732,000. The variance was the result of positive revenue adjustments taken at the end of some larger firm fixed price contracts. The first full month of activity on the BIA contract in CNT also added to the positive budget variance.
- CSG and CNT revenue of \$3.8 million was unfavorable to budget by \$67,000. The budget variance was due to contract opportunities not being awarded.
- CNGS, CNTS, and CNMC revenue of \$10.2 million was \$5.3 million favorable budget. The favorable budget variance was attributable to the timing of revenue recognition on some firm fixed price contracts and higher than planned contracting volume.
- CNA revenue of \$360,000 was favorable to budget by \$128,000. August revenue was comprised primarily of a firm fixed price contract with the United States Coast Guard.

Other Diversified Businesses

Executive and Finance Report

August 2014

EBITDA Budget Highlights

	<u>Period</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%</u>
• CNSD	Month -	\$190	\$128	\$63	49%
• Construction	Month -	(\$183)	\$160	(\$342)	-214%
• Mobility Plus	Month -	\$0	\$35	(\$35)	-100%
• CMS / CNHS	Month -	\$173	\$69	\$104	150%
• Aerospace Products S.E.	Month -	\$41	\$90	(\$49)	-54%
• CCRC*	Month -	(\$43)	\$101	(\$144)	-143%

APSE and CCRC are reported on net income instead of EBITDA as they are partially owned subsidiaries

Operating Highlights

- **CNSD** EBITDA of \$190,000 was \$63,000 favorable to budget. This was primarily due to increased fee recognition on the SAMD contract due to several tasks approaching the end of their performance as well as the start of new tasks that will extend into FY15.
- **Construction** EBITDA loss of \$183,000 was \$342,000 unfavorable to budget. Profitability was negatively impacted by cost overruns in the Freezer/Chiller roof replacement in Hawaii.
- **Mobility Plus** Sold in May 2014
- **CMS / CNHS** resulted in an EBITDA of \$173,000 which was unfavorable to budget by \$104,000. The favorable budget variance was primarily related to additional revenue recognized on the Humana and Medical Coders contracts.
- **APSE** net income was \$49,000 unfavorable to budget. Lower revenue of \$560,000 was due to a reduction in Activity in San Antonio in addition to a hold on the 345 kits.
- **CCRC** net loss of \$43,000 was \$144,000 below budget. Lower revenues related to the Picatinny project as well as delays in budgeted contract awards drove the unfavorable budget variance.