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Financing New Slot Machines—Evaluating Buy or Lease Options

By David Howard

Over the past two plus years, the US economy has experienced several dramatic changes that could impact the analysis of whether to buy or lease new slot machines. Interest rates have shot up, potential supply chain issues due to tariffs, and inflation all prove to be major concerns.

Tribes considering upgrading their casino's slot floors to address competition or increase cash flow may benefit from understanding the math involved in evaluating buying or leasing new machines, given current economic conditions.

Of course, in a Class 2-only state, and for as long as the Class 2 machine vendors hold the line and won't sell equipment but require leasing, this analysis is not yet relevant.

For the large market that does have access to and can operate Class 3 products, the following tables provide some example analysis. We will assume the following: the Tribe has proven demand for **100** new slot machines; the purchase price of the machines is **$25,000** per device; the financing rate is **8%** per year; and the new machines are expected to produce a win per unit of **$175** per day. Let's calculate the cash flow:

At the end of five years, the Tribe would have repaid the debt in full, would own the machines outright and would have **increased cash flow by over $28 million**. Note, to keep the analysis simple, we assumed that the machines had zero value at the end of the five years and we are

Slot Purchase Analysis
($ in millions, except per unit amounts)

Number of Machines	100
Unit Price	$ 25,000
Total Machine Cost	$ 2,500,000
WPU	$ 175

Cash Flows	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Slot Win	$ 6.39	$ 6.39	$ 6.39	$ 6.39	$ 6.39
Interest Expense	(0.20)	(0.16)	(0.12)	(0.08)	(0.04)
Debt Repayment	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
Cash Flow	**$ 5.69**	**$ 5.73**	**$ 5.77**	**$ 5.81**	**$ 5.85**
Total Cash Flow before Operating Expenses					**$ 28.84**

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IN THE NEWS

Navajo Nation Plans Casino on Northeast Edge of Flagstaff
02/10/2025 – flagstaffbusinessnews.com

New Indian Health Clinic Breaks Ground on Morongo Reservation
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Native Farm Bill Coalition urges new Ag Secretary to expand tribal self-governance
02/23/2025 – tribalbusinessnews.com

Virginia: Construction under way for $750M Norfolk Casino
02/25/2025 – cdcgaming.com

Bill would create alert system for missing Indigenous people
02/25/2025 – ictnews.org

Federal budget cuts "cause real harm to tribal communities"
02/26/2025 – ictnews.org

Redding Rancheria to Break Ground on Health & Wellness Campus
02/27/2025 – indiangaming.com

Sports futures threaten tribal gaming rights, groups tell CFTC
02/27/2025 – cdcgaming.com

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not including any increase in operating expenses.

Now, using the same need of 100 new slot machines, we assume the Tribe leases the machines by paying the vendor 20% of the win per unit.

Over the five-year period, the total net cash flow is over **$25 million,** and because there was no investment required by the Tribe, the rate of return on invested capital is excellent.

Although this example is admittedly simplistic, the implication is clear: purchasing the machines, even with debt financing, results in higher cash flow available to the Tribe. This is because the lease payment is significantly higher than the combined principal and interest payments in the purchase option. In the above high-level example, the lease payment is the equivalent of paying over **50%** in interest expense versus **8%** on the borrowed money. This works out to be a very lucrative return for the vendor.

As with any business decision, there are numerous factors to consider, including:

Funding Availability for a Purchase. Does the Tribe have access to either excess cash or access to borrow the necessary capital to purchase slot machines? Unlike when Tribes were first seeking capital to finance slot machine purchases, today most banks are willing to provide the less expensive loans to fund slot machine purchases. In a start-up situation, however, this capital may not be readily available due to overall leverage constraints.

Expected Win per Unit. Because the lease payment is tied to WPU, the vendor "shares the pain" with the Tribe in the event the WPU is less than expected. However, these leases typically have a lot of cushion built into them. For example, based on the scenarios presented here, the WPU would need to be approximately $**60** per day for the two scenarios to generate similar net cash flows.

Risk: If the machines perform well, the Tribe captures most of the benefit from owning the machines. However, if the machines underperform, in this example, the Tribe would have the burden of debt without cash flow to pay back the debt or interest expense. A benefit to lease arrangements is that the risk of slot machine performance is also borne by the investor financing the slot machine purchase. Often, lease contracts have provisions that require lessors to replace underperforming product – clearly, this benefit does not exist when you purchase the machines.

What Happens at the End of 5 Years: Using our simplistic examples, at the end of the lease term, the casino must either enter into a new lease agreement or purchase new machines to replace the leased devices. If the machines are purchased, the Tribe owns them and can either replace them or leave them on the floor. Managing the age of the slot floor coupled with having the highest yielding product on the floor is always the goal. Given the continually improving slot technology, leasing can provide the best and newest machines on the floor.

Operating cost impact: Many lease contracts also provide other tangible benefits to the casino owner and may include up front floor space payments, marketing expense contributions and slot maintenance. These can weigh heavily upon the decision process.

Clearly, benefits exist to both purchasing and leasing machines – we hope the example above provides a sound framework by which to start evaluating your Tribe's options. Understanding the cost of capital and the risk of a project remain key components to maximizing casino cash flow.

Concluding Thoughts:

- There are benefits to both purchasing and leasing slot machines, although the math usually tilts towards purchasing
- Be sure to do your research and weigh all your options before making any decisions
- It's important to consider all these factors in order to make the best decision for your business

Slot Lease Analysis
($ in millions, except per unit amounts)

Number of Machines	100
WPU	$ 175
Lease Payment	20%

Cash Flows	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Slot Win	$ 6.39	$ 6.39	$ 6.39	$ 6.39	$ 6.39
Lease Payment	(1.28)	(1.28)	(1.28)	(1.28)	(1.28)
Cash Flow	**$ 5.11**	**$ 5.11**	**$ 5.11**	**$ 5.11**	**$ 5.11**

Total Cash Flow before Operating Expenses **$ 25.55**

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