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June 2014

Pennsylvania

iPoker: The Potential 10 Year Market
An Independent Assessment



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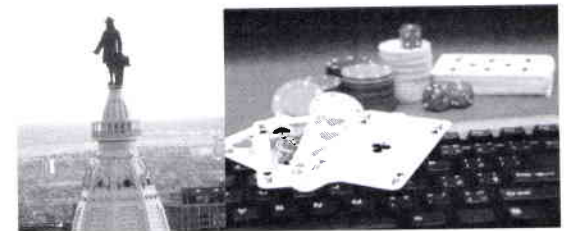
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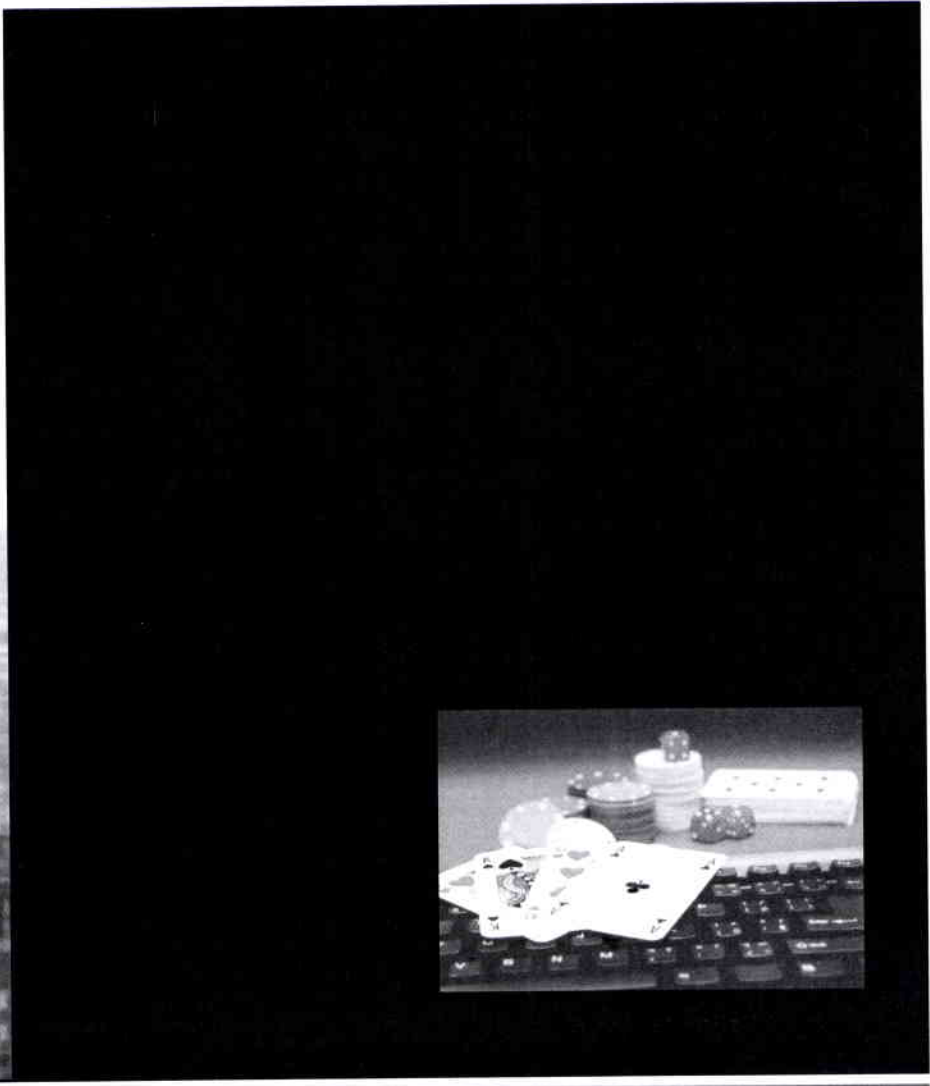
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Executive Summary – 5 Top Lines

- 1. Regulated iPoker Growing** - The regulated iPoker market is **growing** significantly around the world at **\$4.1bn** Gross Win in 2013, but while an increasingly important part of the **overall mix** of the commercial gambling offer today, the US onshore has seen a **slow start** due to a number of reasons which we outline. H2 remain confident that most of these can be overcome.
- 2. Strong Market Value** - The Pennsylvania iPoker market is expected to gross between **\$1.28bn** - or an average of **\$128m / year** (base case), and **\$1.96bn** - or an average of **\$196m / year** (best case) over 10 years.
NB: The \$128m / year figure above, while apparently similar to the \$129 m / year estimate provided recently by EConsult Solutions (May 2014), has been arrived at H2's proprietary modelling methods, our analysts were not aware of the Econsult Solutions data when the modelling was undertaken and reflects YoY growth from a start point of \$96m in 2016 to \$144 m in 2025.
- 3. Reasonable Tax Take** - At a reasonable iGaming **14% tax rate**, the amount generated for the State could be in the region of **\$18m** (base case) to **\$27-28m** (best case) per annum.
- 4. Advance Against Tax** - An estimated upfront license fee - levied as an advance against tax - in the range of **\$5m** is reasonable, and with up to 12 existing licensees applying equates to a potential advance tax total of **\$60m**.
- 5. No Cannibalization** - An onshore regulated iPoker market is **unlikely** to cannibalize Pennsylvania's existing land-based casino market, and will help significantly to **eradicate** the existing illegal market.



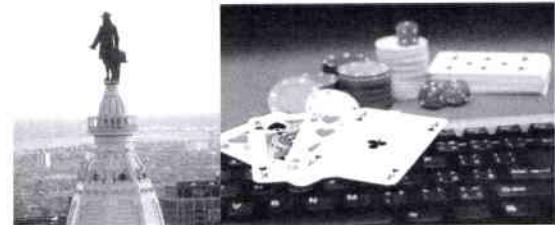


1. Our Brief

What We Were Asked To Do?

Independent check in Pennsylvania State against 4 areas:

1. Likely 10 year revenue model for iPoker only?
2. Likely tax rate?
3. Likely upfront license fee?
4. Likely cannibalization effect on existing land based casinos?
5. Likely effect of a new legal market eradicating the existing illegal market?



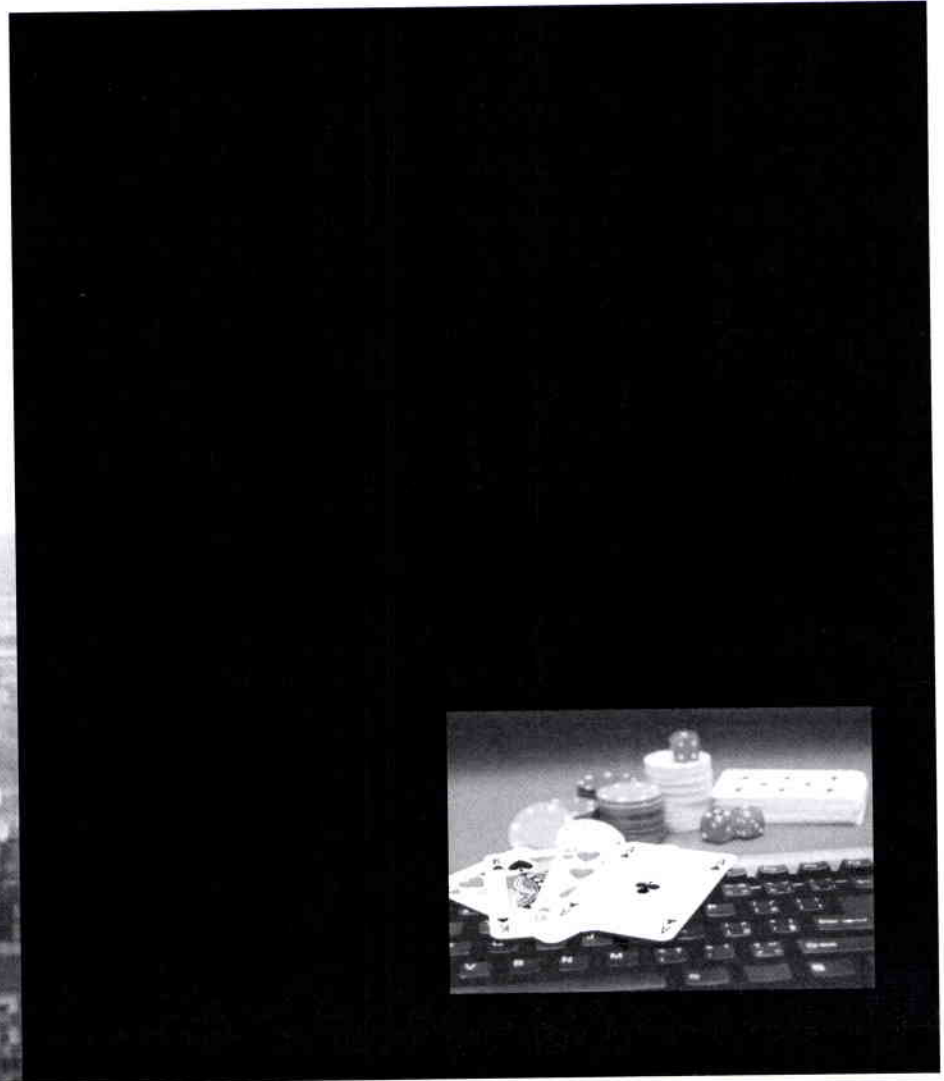
Pennsylvania – The Current Context

- ✓ Land-based casino gaming **first licensed** in 2004.
- ✓ **12** brick and mortar establishments currently.
- ✓ Strong revenue **growth** 2006-12, slight decline 2013.
- ✓ Over **90%** of revenue from slots.
- ✓ Casino growth in **surrounding states** – New Jersey, Delaware, West Virginia, New York, Maryland, Ohio.
- ✓ 2 estimate Pennsylvania's total offshore iGambling market gross win to have been just under **\$95m gross win in 2013**.
- ✓ Pennsylvania Legislative Budget and Finance Committee report - potential regulated iPoker market estimated at **\$129m / year** (EConsult Solutions, May 2014).

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2. H2 Credentials

Independent Expertise

- ✓ The gambling industry's **leading** quoted source globally.
- ✓ Real time **data** tracking and forecasting – subscriber service annually, monthly, weekly, daily.
- ✓ Supplied data / market intelligence to or worked with nearly **700** clients globally including:

Morgan
Stanley

Goldman
Sachs

pwc

BARCLAYS
CAPITAL

CREDIT SUISSE

citibank

Merrill Lynch

McKinsey & Company

WELLS
FARGO

- ✓ H2's Data is regularly quoted in the media:

Bloomberg

REUTERS

The New York Times

The
Economist

FT

FINANCIAL
TIMES

THE WALL STREET JOURNAL

BBC
NEWS

- ✓ Underpinned PwC's scoring of the **Frank Legislation 2006**.
- ✓ Presented market evidence at the **California Senate** Financial Services Committee.
- ✓ **Similar** bespoke assessments conducted for New York State, Belgium, Denmark, Greece, the Netherlands, Norway and Sweden.

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Tried and Tested Methodology

H2 Approach

H2's general **market data** is refined and compiled via sources that include actual published primary / secondary market and organization data; knowledge / assessment of the supply side by product vertical; H2's in house tracking of activity; generic information assimilated under NDA; contact with private organizations / investors; and knowledge / opinion of third parties - including service providers and other industry analysts / Nearly 15 years of experience of sizing the global gambling sector and in particular interactive gambling.

Forecasts developed based on a number of drivers including maturity of product; expected product development; GDP / broadband / mobile growth, and benchmark markets; and incorporating the impact of past and expected legislation including the UIGEA (Unlawful Internet Gaming Enforcement Act) 2006.

In terms of our assessment for the potential for a **US onshore regulated market** our starting point has been actual pre UIGEA state by state data. We have built on this by considering 10 factors including:

- **GDP growth** since this time;
- Relative performance of iGaming **products** internationally;
- The performance of the **major onshore regulated markets** in Europe (Dot Country – Denmark, France, Italy and Spain).

N.B. Full details are outlined in the appendix

H2 Disclaimer

Whilst great care has been taken in the preparation of this publication H2 Gambling Capital accept no liability whatsoever for the accuracy or completeness of the data and information provided, and no warranty is given as to its correctness or forecast estimates herein.

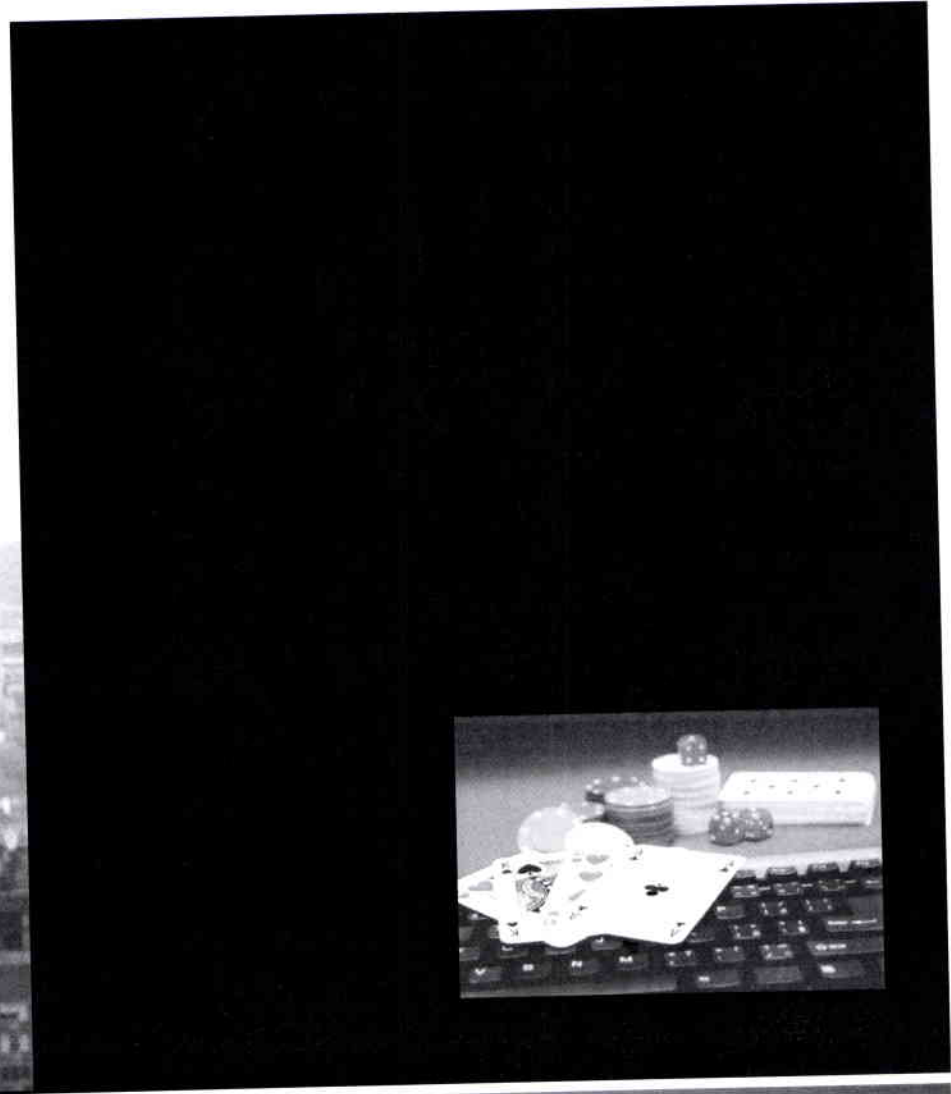


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3. Market Context – US v Global iPoker

Global iGambling Market – Gross Win (\$36bn)

The global iGambling market is well developed and growing over 15 years.

H2 figures value the iGambling market at **\$36bn Gross Win** in 2013 accounting for **8.2%** of the total global gambling (betting, gaming and lottery) market.

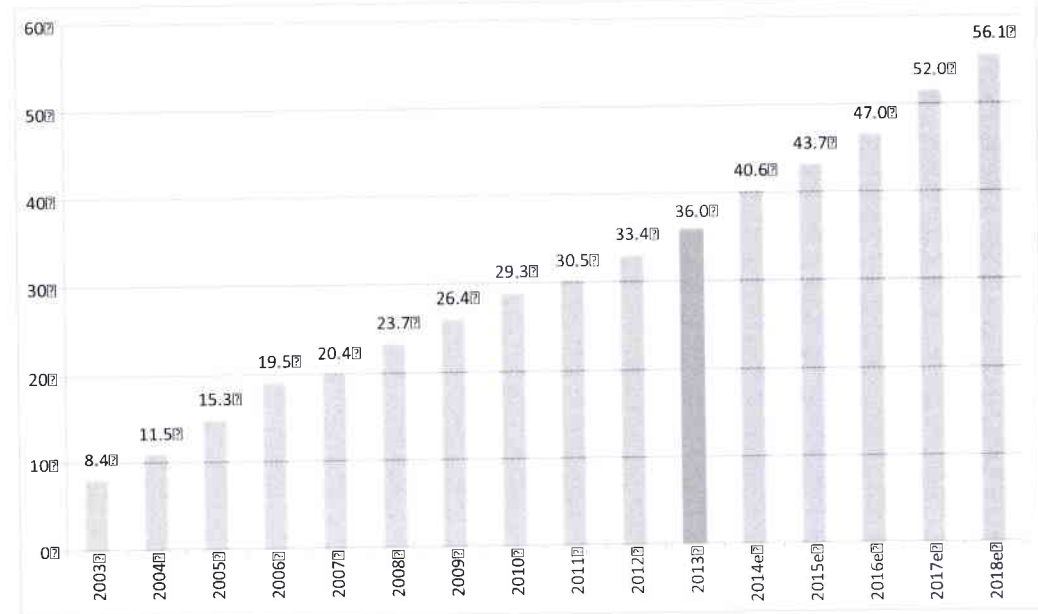
Across the EU, iGambling accounted for **14%** of gross win in 2013, with the rate in excess of **30%** across the Nordics and **25%** in the UK.

Global iPoker accounted for a gross win of **\$4.1bn** in 2013 but the product vertical has been impacted most by prohibition in the US - previously hitting peaks of **\$3.5bn pre UIGEA** in 2006 and **\$5.0bn** in 2010 **prior to Black Friday**.

It is recognized that in many of the major markets iPoker is now relatively mature so going forward the majority of growth is in onshore markets that are now expected to regulate – **including the US**.

NB. Gross Win is stakes less prizes but including bonuses – in the case of iPoker this is the rake for ring games and entry fees for tournaments.

Global iGambling Gross Win (\$bn)



Global iPoker Gross Win (\$bn)

