PENN NATIONAL GAMING, INC.®

REVENUE ESTIMATE AND TAX RATE JUSTIFICATION FOR I-GAMING IN PENNSYLVANIA

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Revenue Estimate

Penn National Gaming estimates that the Pennsylvania I-Gaming market will be able to ramp up relatively quickly and will generate approximately $250 million in total revenue in year one; approximately $300 million in year two; and approximately $350 million in year three and beyond. Thus, at the 14 percent tax rate currently being considered in House Bill 649, Pennsylvania would be on track to receive approximately $49 million in annual tax revenues by the third full year of full operations. These estimates are similar to the forecast supplied by Econsult Solutions, which predicted $307 million in total revenue per year from I-Gaming. In addition, research from H2 Gambling forecasts a range of between $225 million to $315 million in annual I-Gaming revenues.

Our forecast is based on the following assumptions:

1. The current monthly I-Gaming revenue from New Jersey is showing signs of encouraging growth. Last month the market generated just over $13 million in revenues. If that run rate continues, we believe the New Jersey market can generate upwards of $200 million in annual revenues based on current performance and new entrants such as Resorts increasing the potential size of the market.

2. It is clear that the New Jersey market has undergone significant growing pains, from which Pennsylvania can benefit. In particular, acceptance of transactions by approved banks has caused major problems with New Jersey's business model. Overall, more than 50 percent of all valid card transactions have been declined thus far. However, within the last two weeks, the major credit card companies implemented a new code that identifies transactions associated with only legal online gaming, which should dramatically reduce decline rates. In fact, Visa is already showing a 20 percent improvement as a result. Notably, Visa represents 65 percent of the U.S. card market. It can be assumed that some, or all, of these issues would be resolved by the time I-Gaming is authorized in Pennsylvania.

3. The New Jersey model has been negatively impacted by a number of other factors that would have significant impact on the scale of revenues for I-Gaming. In particular, Google, which is primary driver for online and mobile customer acquisition in Europe, currently do not allow I-Gaming operators to promote their products online using PPC advertising. We believe that by the time Pennsylvania authorized I-Gaming, improvements in advertising models, and affiliates will have at least a 10 percent positive impact on revenues.

   This is an area that also justifies and supports a policy of only allowing land-based casinos, trading under land-based brands, to operate in Pennsylvania. White label operators (skins) are difficult for companies such as Google to police and verify and can be confusing to the consumer as there is no linkage to a bricks and mortar business. We believe that if Pennsylvania adopted a more strict approach to land-based only, distribution partners such as Google would be more comfortable allowing I-Gaming businesses to promote their product via this channel.

4. While online poker has not fulfilled expectations within New Jersey, and is currently in decline, we believe the model there is fundamentally flawed. There is certainly not enough liquidity within New Jersey to generate a healthy poker network, and making matters worse the market is divided between operators and two poker networks. We would urge Pennsylvania to consider the implementation of a single poker network across the Commonwealth that is seeded by all operators, which would generate a healthy and profitable poker infrastructure. We believe that this approach to I-Gaming regulation in Pennsylvania would also have a very positive impact on revenues when compared to New Jersey.

5. The New Jersey model imposes taxation on promotional activity, which significantly hinders recruitment and retention of IGaming customers. This has restricted the promotional activity of operators within New Jersey and restricted the growth of the market. We believe that the more common model of removing bonus and promotion costs from gross revenue to generate taxable revenue, as applied to land based businesses in Pennsylvania, would also have a positive impact on the model, generating at least a 10 percent uplift in revenues.

Many positive lessons can be drawn from New Jersey, which now operates a highly regulated I-Gaming industry, protecting minors, the financially vulnerable and it successfully contains the activity within its borders. As the problems above are addressed it is clear revenue will continue to improve in New Jersey and there is now some agreement within the industry that this will likely be a $200 million market. Pennsylvania will be a much larger market and the focus on issues such as payment and advertising channels will have a significant impact on revenue potential and forms the basis of our optimism that revenues can easily achieve upwards of $350 million annually.

Finally, we would also urge that when new legislation is considered for the Commonwealth the Gibraltar model is adopted, which was formulated to create local jobs and revenues for the principality alongside gaming tax revenues. The Gibraltar regulators strictly enforce staffing levels and roles that must be staffed within the territory by the I-Gaming industry. This has created a local workforce of around 3,000 who are involved at all levels of their I-Gaming businesses, which has generated huge economic benefits for the region. This model has not been adopted in New Jersey, with operators providing many services from "off shore" and skeleton staff locally. In our view, if the Gibraltar model were adopted up to 1,000 new jobs could be created across the I-Gaming spectrum, which would have a positive financial impact on many areas within the Commonwealth.

Tax Rate Justification

Penn National believes the 14 percent tax rate and $5 million upfront license fee proposed in House Bill 649 strikes the right balance between maximizing tax revenues for the Commonwealth, while incentivizing the operator to invest in the significant upfront and annual costs of running a successful I-Gaming business.

Unlike land-based gaming, an I-Gaming operator has to pay a platform provider a revenue share of approximately 20 percent. In addition, there is typically a revenue sharing agreement with the game content providers of between 5 to 15 percent. Example of cost structure below:

Gross revenue

- 10 % promotion costs
- 5 % transactions / chargeback / verification / geolocation costs
- 20 % platform cost
- 10 % game / content costs / royalties
- 20 % marketing costs
- 20 % staff and other expenses

As you can see, this does not leave much for the operator and a tax rate of higher than 14 percent could make the venture altogether unprofitable. Betfred, one of Europe's largest I-Gaming operators, achieves bottom line margins of approximately 15 percent, after paying a four percent gaming tax in Gibraltar. Since the United Kingdom increased its tax rate to 15 percent at start of this year, I-Gaming operators there have been struggling and are having to lay off workers and reduce operating and marketing costs.