



SPECTRUM GAMING GROUP

Independent Research and Professional Services

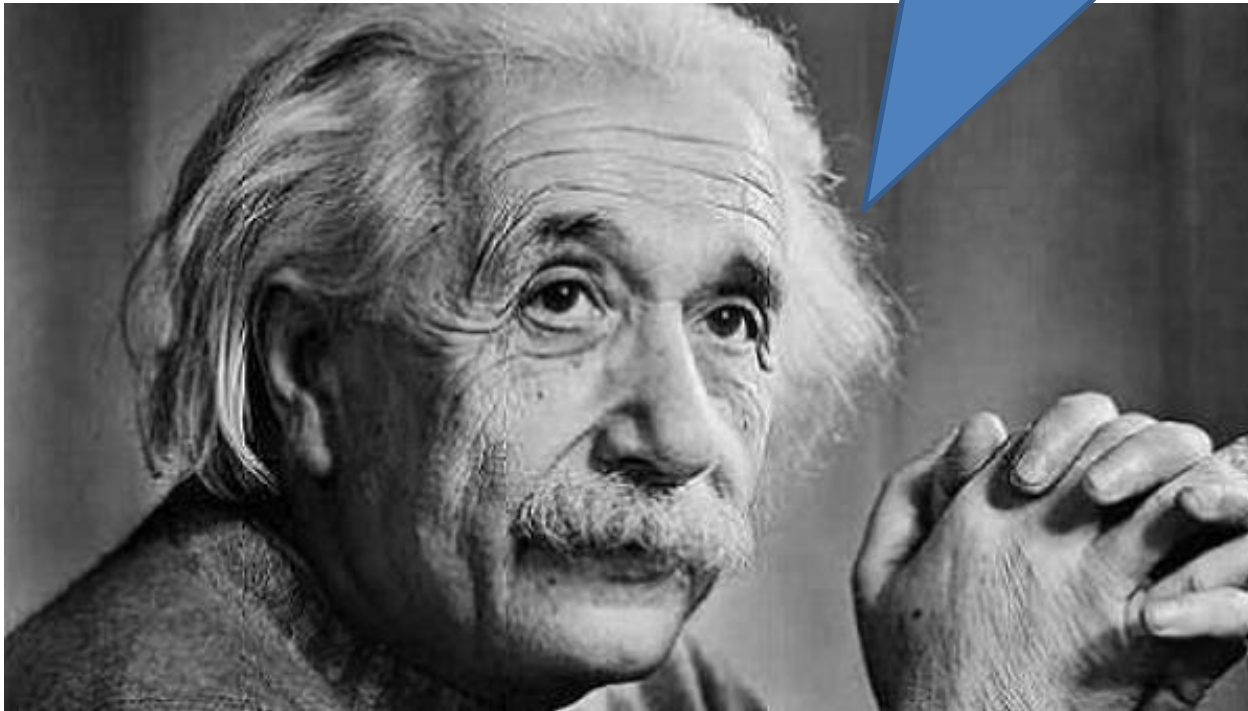
Competitive Challenges in an Expanding Commercial and Regulatory Marketplace



Joseph Weinert
Executive Vice President
March 8, 2018

$E_{\text{xcess}} = M_{\text{ultitudinous}} C_{\text{asinos}}^2$

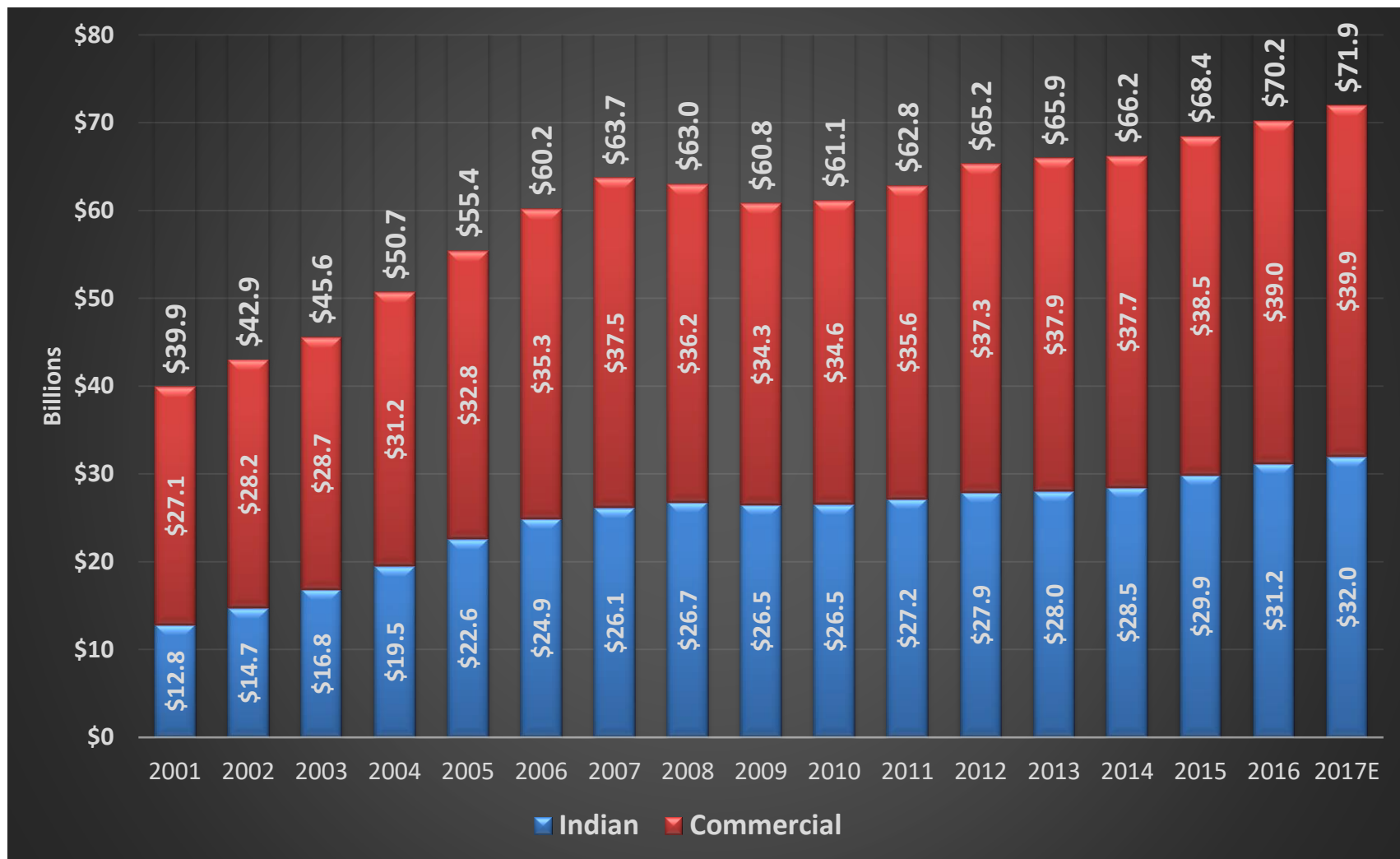
*The solution to
saturation is expansion.*



The United States of Casinos

- ~1,000 casinos in 42 states
 - The virgins
 - For now: GA, NH, VA
 - For near term: SC, TN
 - Forever: HI, UT, VT
- Creative options (legal)
 - Casinos: Racetrack ... mini/satellite ...
 - Not-really-casinos: VLT ... HHR ... truck stop ... bingo machines ... cardrooms

US Casino GGR, 2001-2017



Source: American Gaming Association, National Indian Gaming Commission, Spectrum Gaming Group

As Casino Revenues Flatten ...

- Commercial casino growth 2007-2017: +6.4%
 - Most growth from new states
 - Number of casinos essentially unchanged
 - Inflation in that period: + 17.4%
- Tribal casino growth 2007-2017: +22.3%
 - 100 more casinos

As Casino Revenues Flatten ...

“Odds were always stacked steep against the four new casinos Gov. Cuomo insisted would jolt new life into hard-knock corners of New York, with neighboring states already chockablock with gambling parlors and Native American gaming well entrenched here. And hello, here’s internet gambling to instantly scratch any itch. ...

“This state has a history of stepping in to aid ailing racetracks. If these misbegotten casinos go belly up, the only thing we should do is watch.”

- *New York Daily News*

February 23, 2018

As Casino Revenues Flatten ...

- ***Lawmakers look to other gambling options***
 - Key question: *Do they want economic development or revenue grab?*
 - Casinos = economic development
 - Jobs – construction and operations
 - Capital investment/reinvestment
 - Out-of-state visitors/spending
 - Other = revenue grab
 - High tax rate
 - Quick and easy start

As Casino Revenues Flatten ...

- Operators and States in conflict:
 - States:
 - Addicted to gaming-tax receipts
 - Seek higher taxes, more casinos, and/or new forms of gaming
 - Operators:
 - Higher taxes kill capital investment, make properties less attractive
 - Lower investment = lower tax receipts in both gaming and non-gaming, including sales tax, alcohol tax, hotel tax, employment-related tax revenues.
 - Expanded gaming = lower revenues = lower tax receipts
 - Seek tax cuts (IN, DE)

As Casino Revenues Flatten ...

Under Consideration

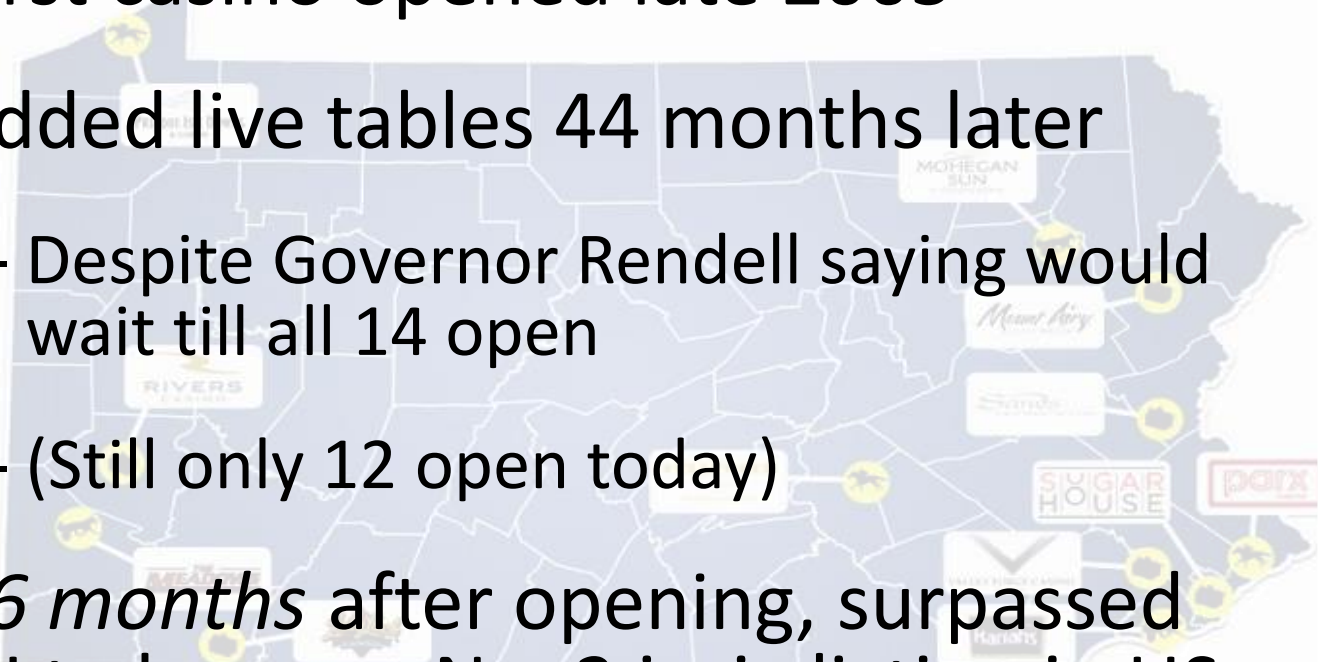
- AR: Full-service casinos
- CT: Third casino
- FL: Player-banked table games, racinos elsewhere
- GA: Legalize casinos
- ID: Historical horse racing
- IL: Racetrack casinos, standalone casinos
- IN: Retail gaming
- KY: Legalize casinos
- NH: Legalize casinos
- NJ: North Jersey casinos
- SC: Legalize casinos
- VA: Historical horse racing
- Numerous states: Sports betting, igaming

Outside-the-Box Competitors

- Retail gaming
- Lotteries
- Internet gaming
- Gray-market gaming
 - Internet cafes
 - Eight-liners
 - Pre-reveal games
- Bingo
- Pull tabs, punchboards, etc.

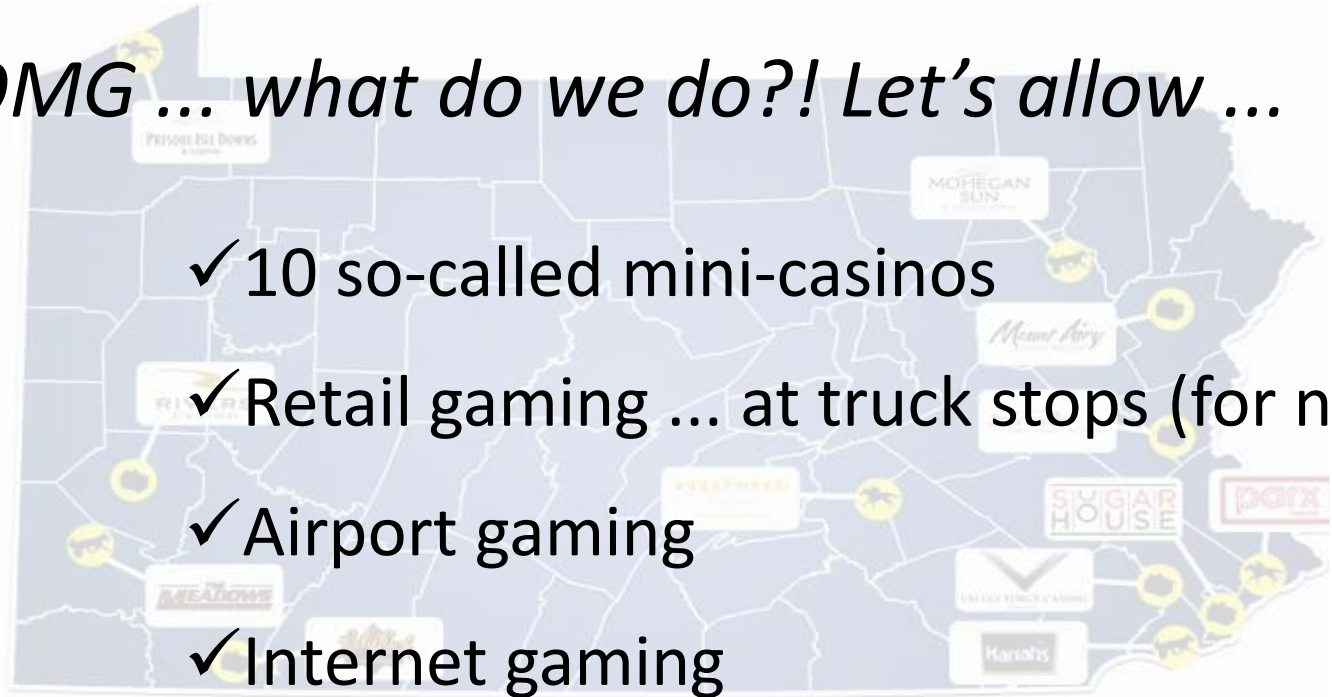
What's Next? PA Case Study

- First casino opened late 2005
- Added live tables 44 months later
 - Despite Governor Rendell saying would wait till all 14 open
 - (Still only 12 open today)
- *56 months* after opening, surpassed NJ to become No. 2 jurisdiction in US: \$3.46B



What's Next? PA Case Study

- After meteoric rise, revenues flattened
- *OMG ... what do we do?! Let's allow ...*
 - ✓ 10 so-called mini-casinos
 - ✓ Retail gaming ... at truck stops (for now)
 - ✓ Airport gaming
 - ✓ Internet gaming
 - ✓ Sports betting authorization



Public Policy = Public Mess

- Different regulators = different goals
- NJ Lottery:



**DRAWINGS EVERY
5 MINUTES**

Public Policy = Public Mess

“When you go from every five minutes doing keno in bars and restaurants, there becomes a question, is that expanding gaming outside of Atlantic City? That's where I draw the line with this bill.”

- NJ State Sen. Vincent Mazzeo

February 8, 2018

“People don't sit there for hours and hours at a time. It's just something they do and enjoy on an afternoon, buy a few tickets. But the overall experience has been they stay longer, they drink more, they eat more, it becomes just a nice, fun, welcoming atmosphere.”

- Diane Weiss, Executive Director, NJ Licensed Beverage Assn.

February 8, 2018

Public Policy - iGaming

- Who has primacy ...
 - Land-based casino operators?
 - iGaming operators?
- Should skins be allowed?
 - Betfair ad ... ‘Don’t go to Atlantic City’

Public Policy - iGaming

‘It’s amazing. I have a slot machine in my kitchen.’



David
Real

 **betfair**CASINO.COM

**GET UP TO A
\$1,500 BONUS**

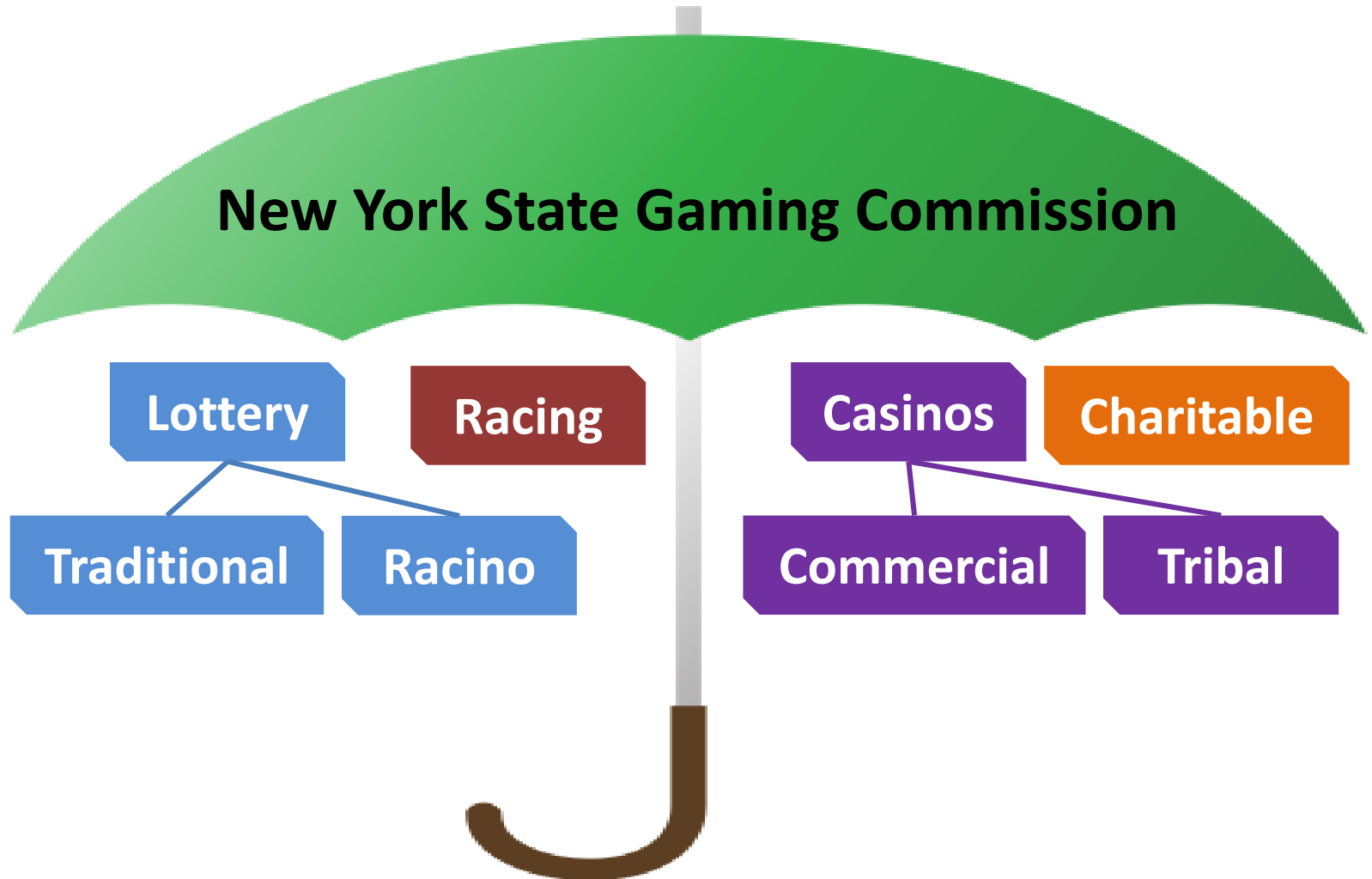
 **LEGAL IN NJ**
FOR REAL MONEY GAMING

21+. Must be physically present in NJ. Excluded persons prohibited. Terms and conditions apply. Gambling problem? Call 1-800-GAMBLER.

Public Policy - Sports Betting

- Who can offer sports betting? Begs the question:
- Who *regulates* sports betting ...
 - Casino commission?
 - Lottery?
 - Racing commission?
- How does tribal sports betting fit in scheme?

New York Unifies Regulation



Tribal-Commercial Clashes

- **Indiana**

- Class II Pokagon South Bend opened Jan 2018
- 0% GGR tax vs. 15% to 40% for commercial casinos

- **Massachusetts**

- Mashpee Wampanoag effectively supplants third commercial license
- First Light casino in legal limbo

- **Connecticut**

- MGM big push in Bridgeport
- Instead of(?) third tribal casino by Foxwoods/Mohegan

- **Florida**

- Ongoing debate over exclusivity, parity among Seminole Tribe, racinos, other counties

Retail Gaming: The Big Lie

“In addition to bolstering the bottom lines of our local clubs and taverns, legalizing VGTs will help to eliminate the ‘underground’ video poker economy.”

- PA State Rep. Paul Costa

Philadelphia Inquirer, September 17, 2017

“We need to legalize this industry to bring it out of the shadows.”

- PA State Sen. Guy Reschenthaler

Penn Live, March 28, 2017

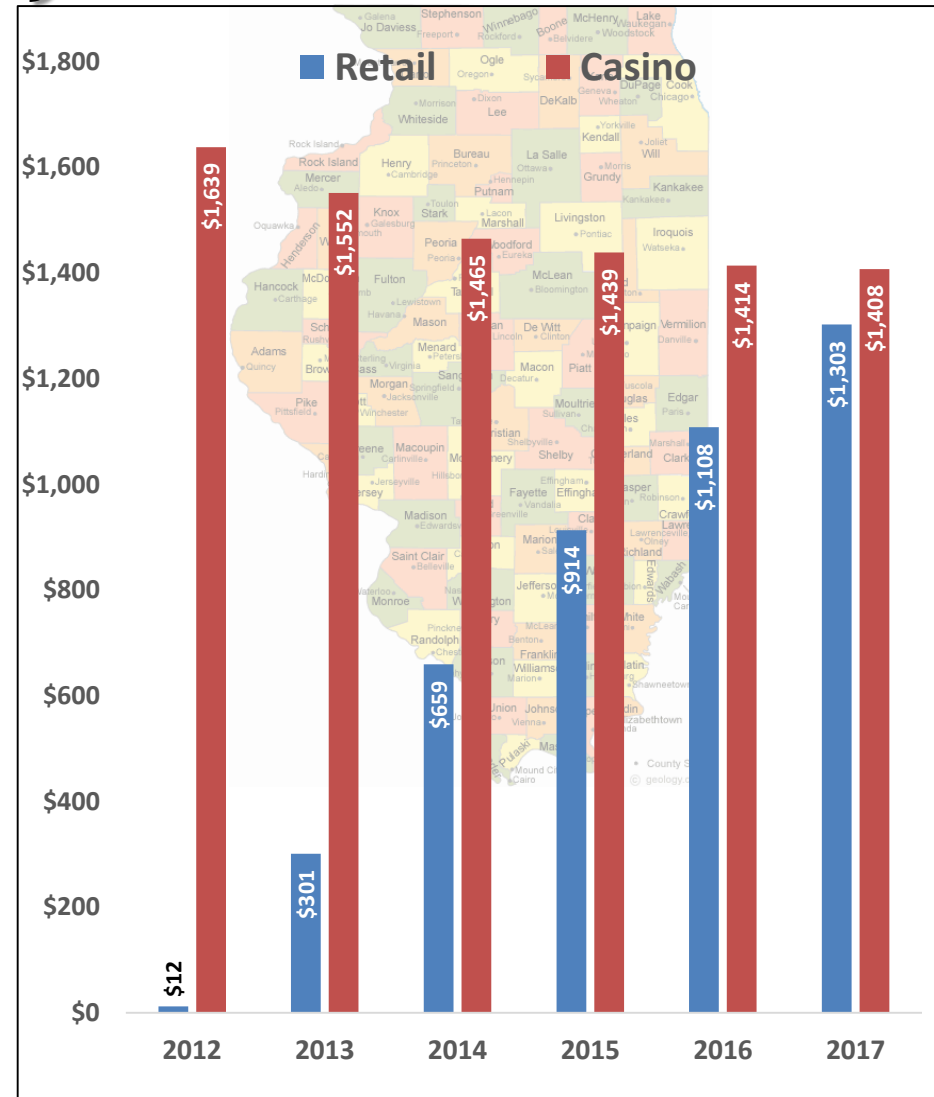
Retail Gaming Legal in 7 States

- **By Lottery**
 - Oregon
 - South Dakota*
 - West Virginia*
- **By Gaming Commission/Control Board**
 - Illinois*
 - Louisiana*
 - Montana
 - Nevada*

** Also has state-regulated casinos*

Illinois Case Study

- Hurt casinos some, but casino+retail growth up 65% vs. casino peak GGR (2017 vs. 2012)
- 28,271 retail VGMs in 6,359 locations
 - Equivalent of 23.5 more casinos
- Penn National bought IL route operator



Illinois Case Study

“I have to say that your organization [ICGA] did not take the lead in stopping anything in video gaming. As a matter of fact your position was ‘Well, it won’t hurt us.’ That was contrary to the belief of a lot of people. Now you come to us and say, ‘We’re hurting.’”

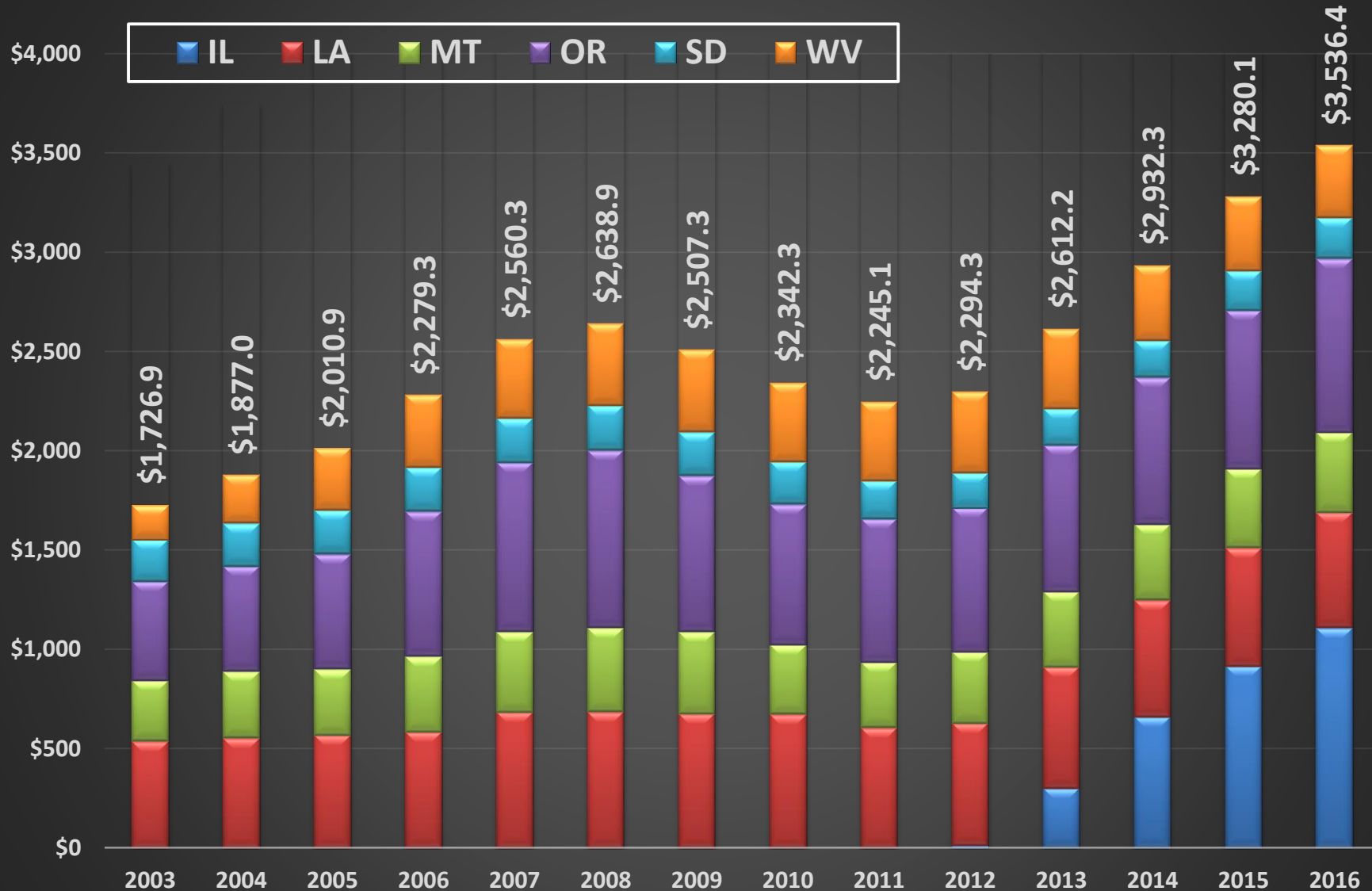
- Aaron Jaffe, Chairman, Illinois Gaming Board

“There is no doubt the casino industry simply underestimated the impact these machines would have on our industry.”

- Tom Swoik, Executive Director, Illinois Casino Gaming Assn.

Chicago Tribune, June 27, 2014

Retail Gross Gaming Revenue



Historical Horse Racing

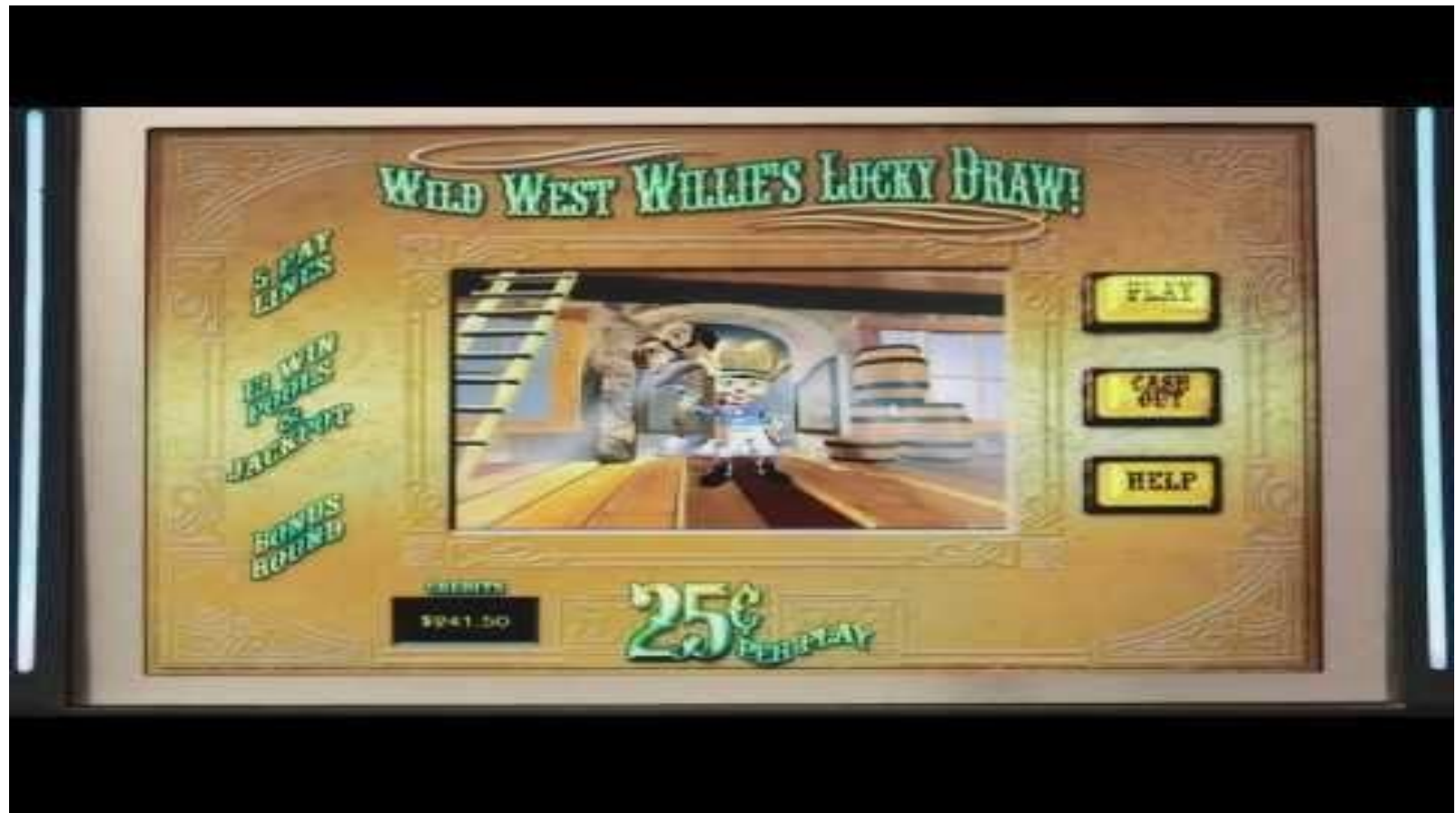
- The better-than-nothing alternative
- Exploits pari-mutuel authorization
 - KY the leader
 - Three HHR casinos, Churchill Downs opening fourth later this year
 - VA's only racetrack - Colonial Downs - reopening contingent on HHR approval
 - Other states: AR, OR, WY

Historical Horse Racing

- Like VLTs, bingo-based slots and ‘reel’ games, HHR games continuously become more like Class III slots
- Providers: Instant Racing, Exacta Systems
 - Ainsworth Game Technology entering the space

Historical Horse Racing

Player instructional video for Red Mile (Lexington, KY)



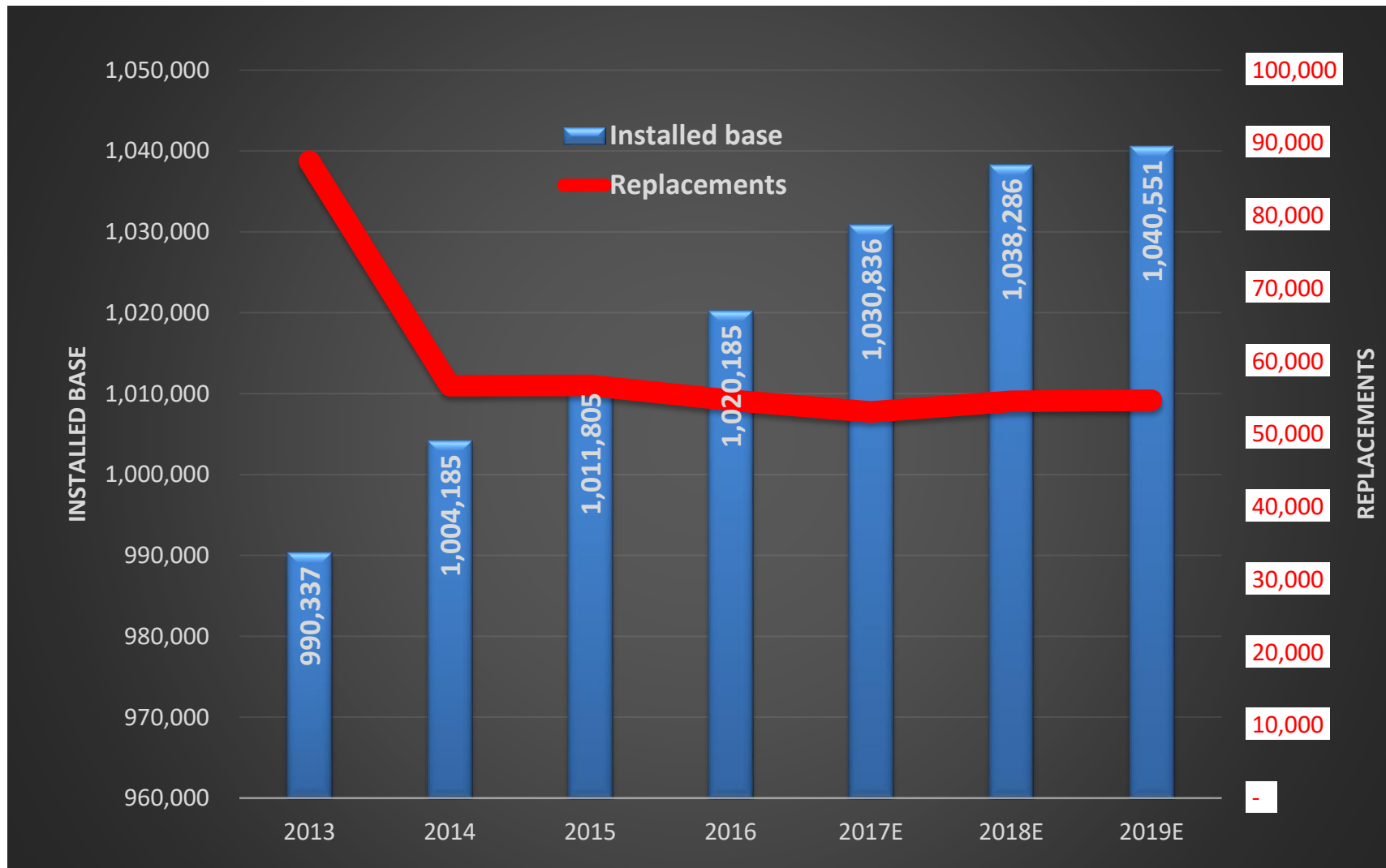
Supply Side

- Today's suppliers are 'technology providers' - no longer just 'slot manufacturers'
- Offer total solutions ... from games to systems to support
 - Gaming
 - Lottery systems
 - Internet

Supply Side

- The Big Winners in gaming expansion
 - Every ...
 - legislative change,
 - regulatory change,
 - expansion, and
 - court ruling
 - ... is opportunity for suppliers
- Machine shipments just one metric
 - Installed base, replacement machines
 - Participation revenue, systems revenue are key

North America Installed Base



Source: Deutsche Bank January 2018 Gaming Statistical Summary

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