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June 2014

Pennsylvania

iPoker: The Potential 10 Year Market
An Independent Assessment



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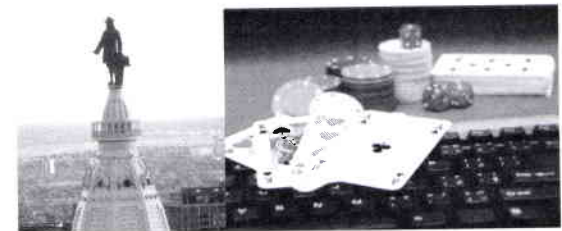
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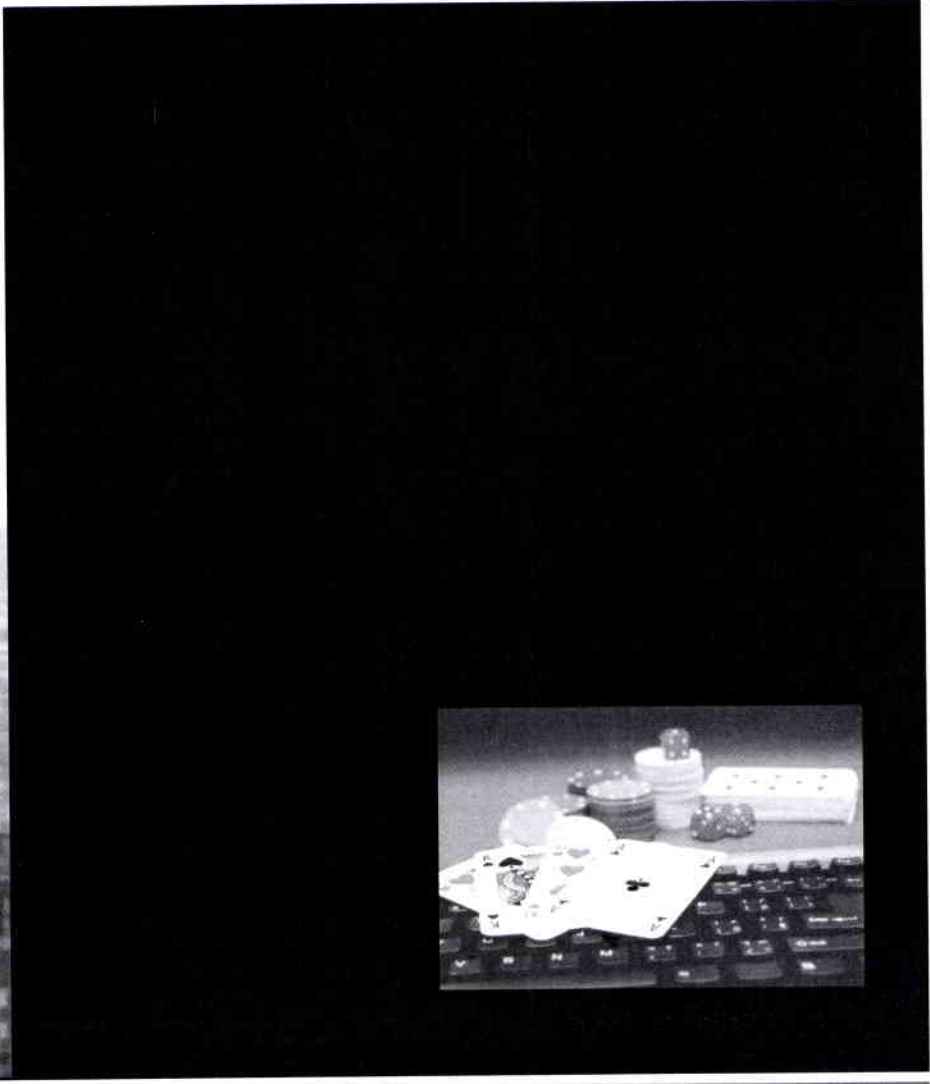
Appendix – Detailed Market Data



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.



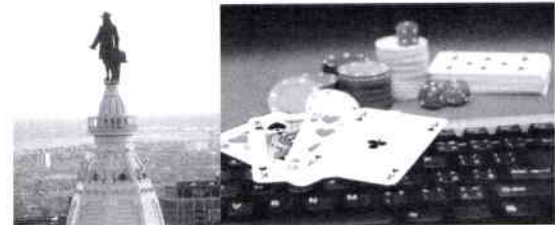


1. Our Brief

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?



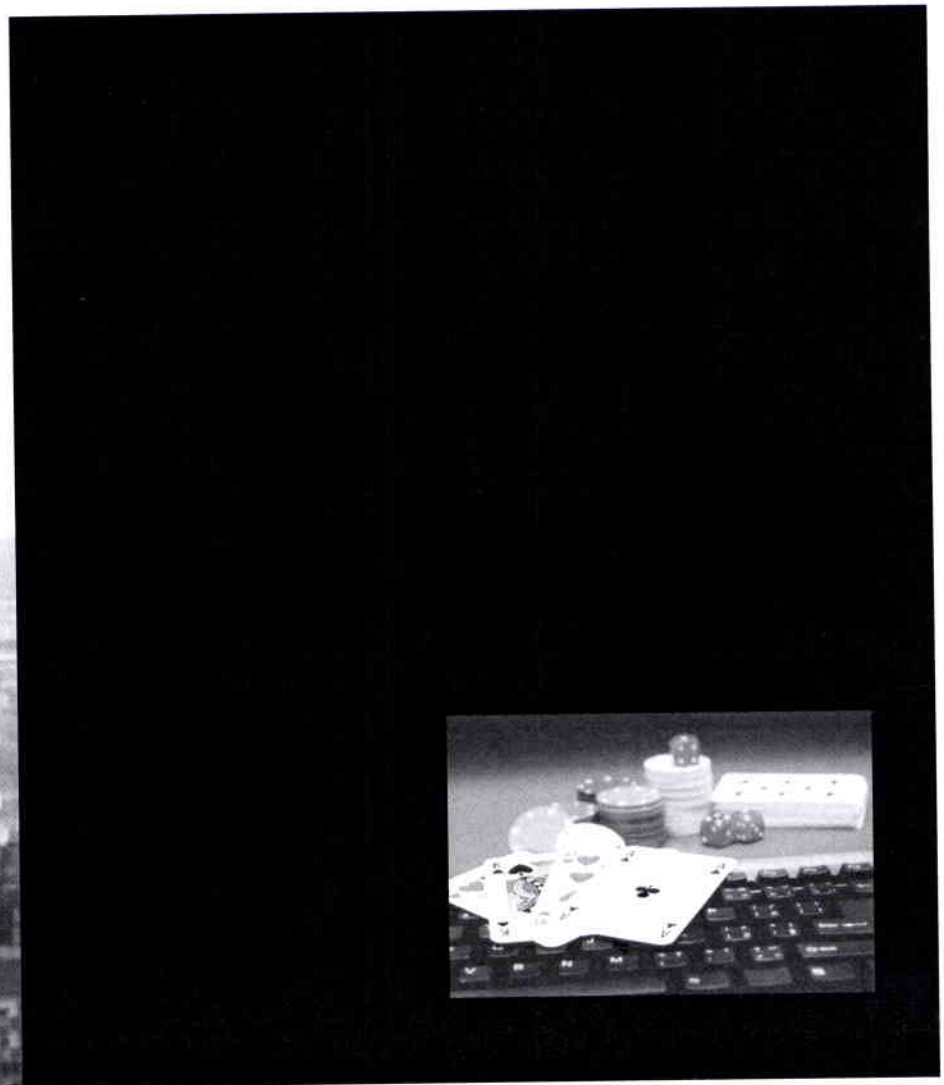
Pennsylvania – The Current Context

- ✓ 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.

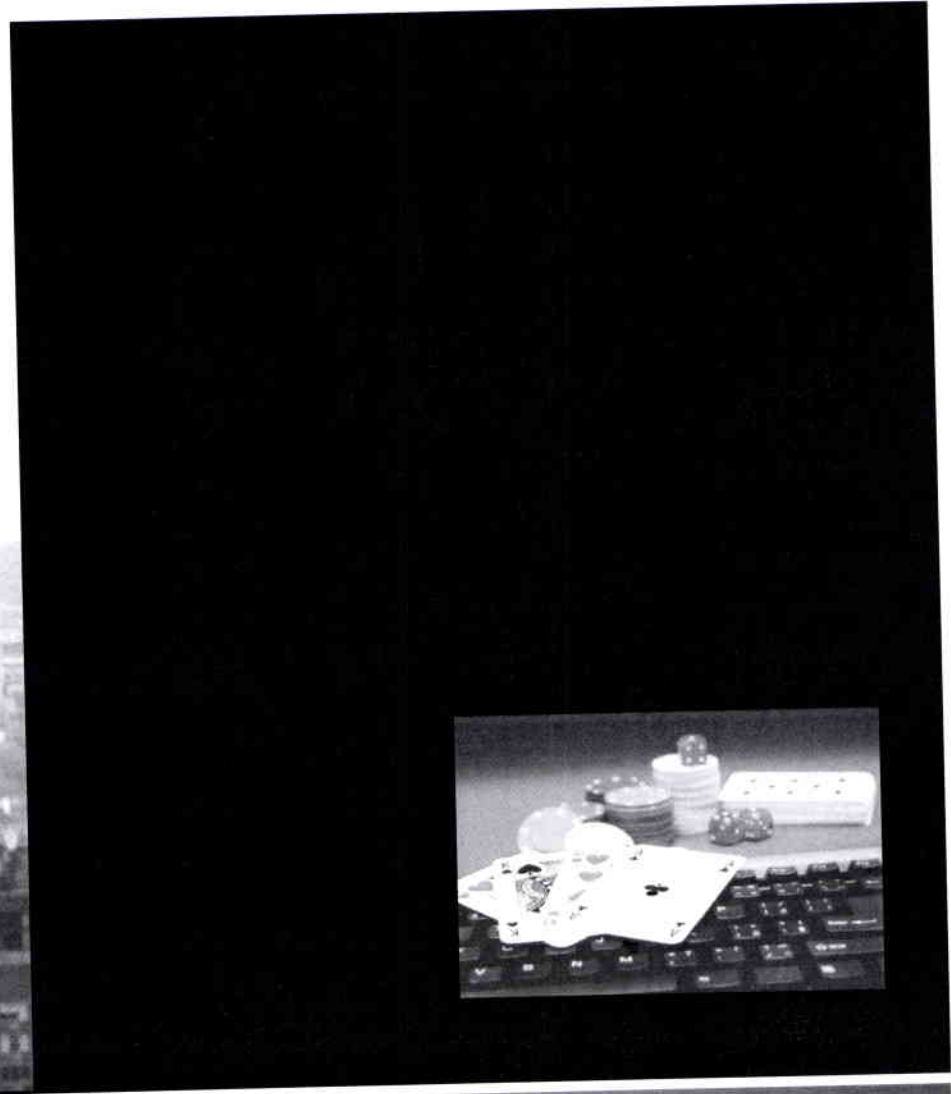
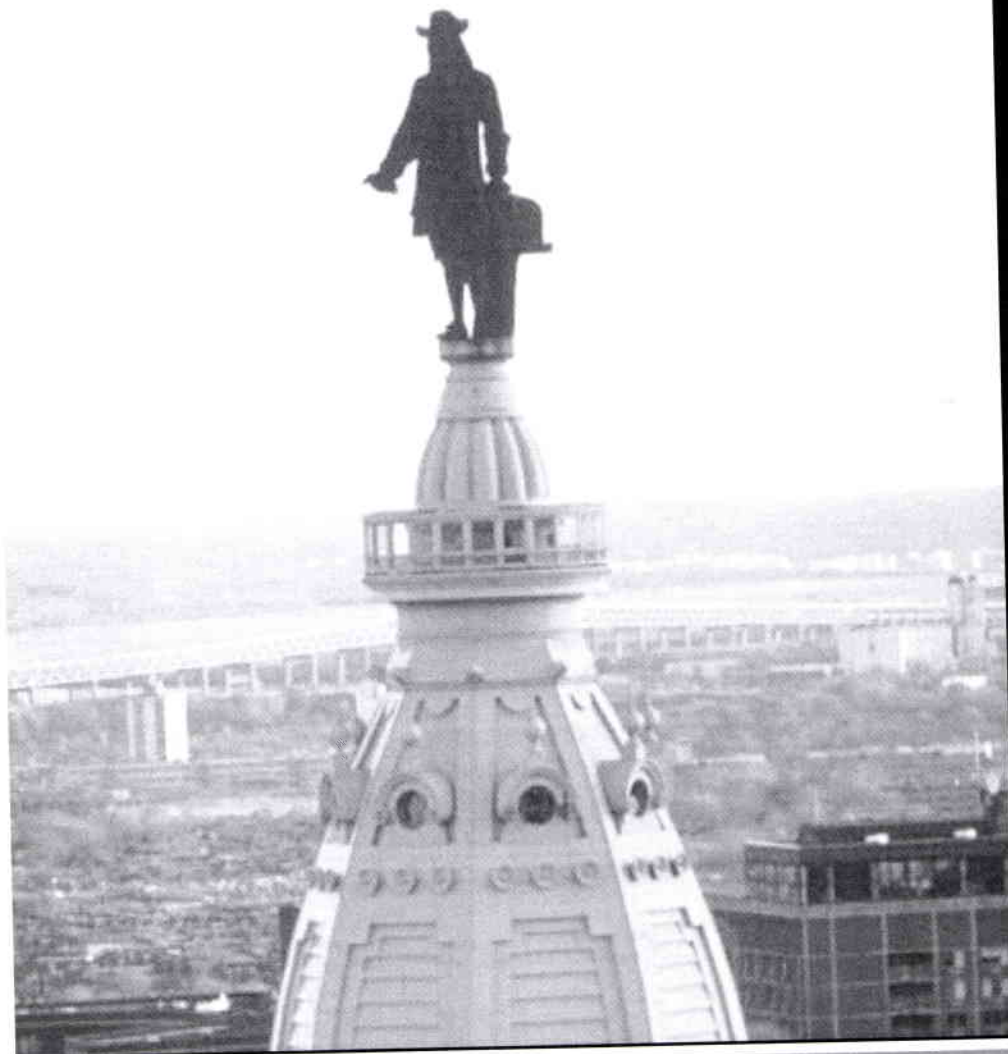


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3. Market Context – US v Global iPoker

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.

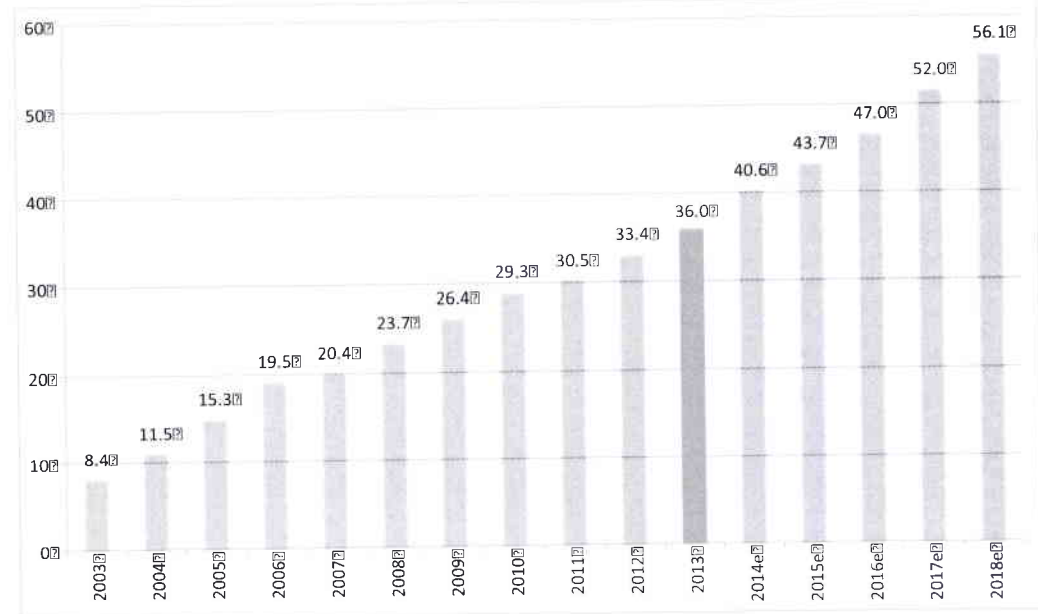
Across the EU, iGambling accounted for **14%** of gross win in 2013, with the rate in excess of **30%** across the Nordics and **25%** in the UK.

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**.

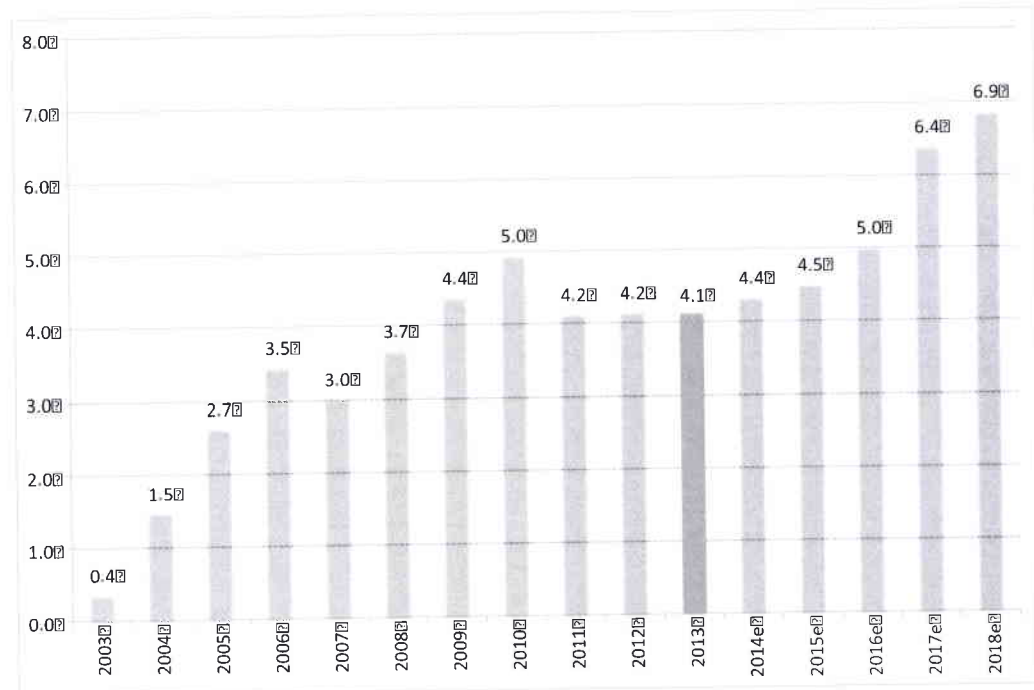
It is recognized that in many of the major markets iPoker is now relatively mature so going forward the majority of growth is in onshore markets that are now expected to regulate – **including the US**.

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)



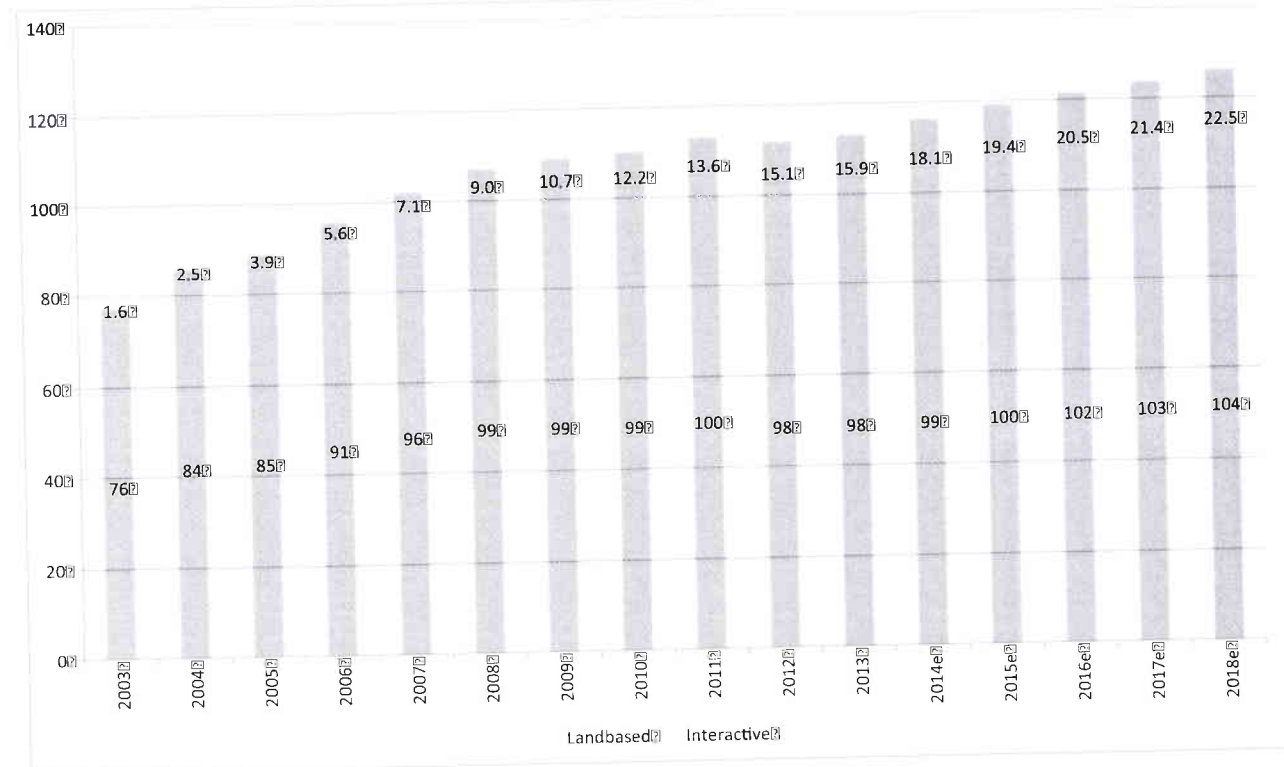
EU Total Gambling Market - Gross Win (\$114bn)

The EU has the strongest iGambling market despite the sector being regulated onshore.

The highly regulated EU market continues to **grow steadily**.

In 2013, all interactive gambling was worth **\$16bn** alone which equated to **14%** of the total gambling win generated across the EU.

European Union Gambling Gross Win (\$bn)



EU – Key Onshore Regulated iPoker Markets: Gross Win (\$m)

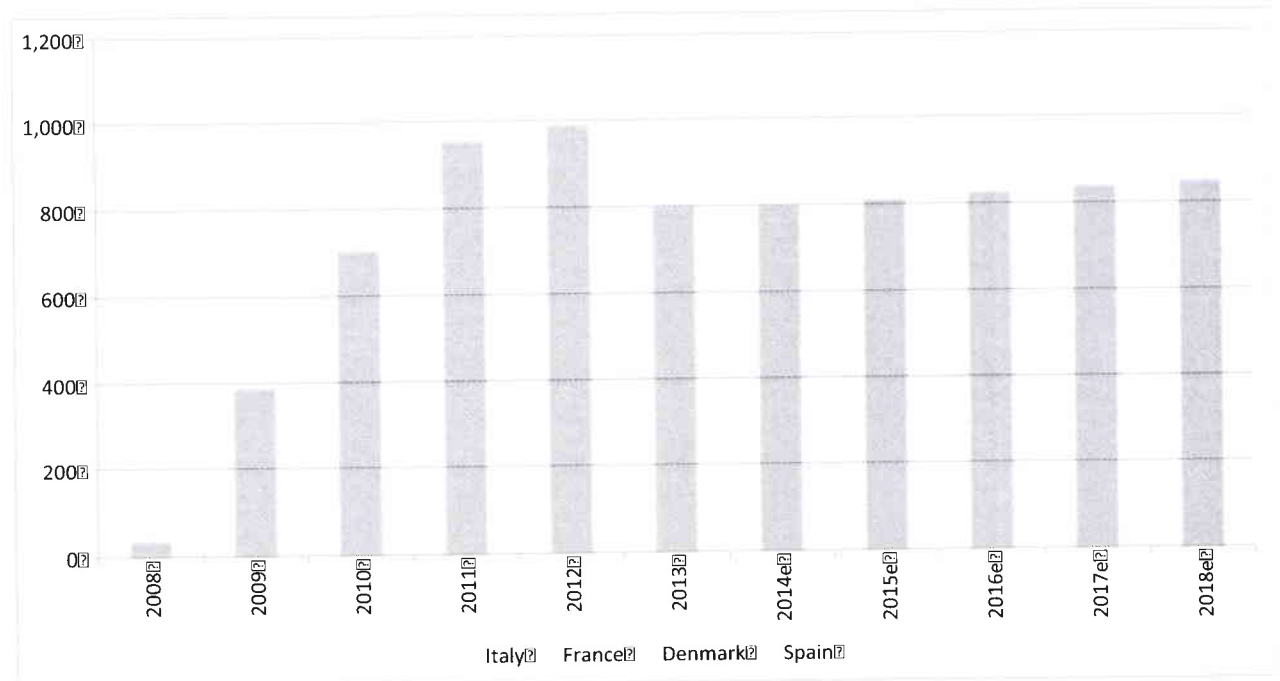
As a benchmark, the value of the main regulated EU iPoker markets represents 0.016% of GDP.

In 2013, the value of the European onshore regulated iPoker market ranged from **\$36m** in Denmark and **\$93m** in Spain to **\$355m** and **\$322m** in France and Italy respectively.

This equated to a full year equivalent across all four markets of nearly **\$805m** or just under **0.016%** of GDP.

This % of GDP figure provides some guidance about the **potential size** of markets in other jurisdictions though there are also many differences to be considered.

European Onshore Regulated iPoker Gross Win (\$m)



The Missed Opportunity

The US has lagged behind in the Global iPoker market and is losing out on a key new area of economic growth.

There are **2 main reasons** why the US fell from accounting for a **third** to just over a **quarter** of the value of the global regulated gambling market over the past 15 years:

1. The legitimizing of the Asian gambling market mainly via the development / growth of major **land casinos** (in Macau, Singapore and potentially next, in Japan).
2. A general failure to embrace interactive gambling. Across Europe players are able to play freely online with the region now accounting for **48% of the Global iGambling market** (Internet, mobile and interactive TV).

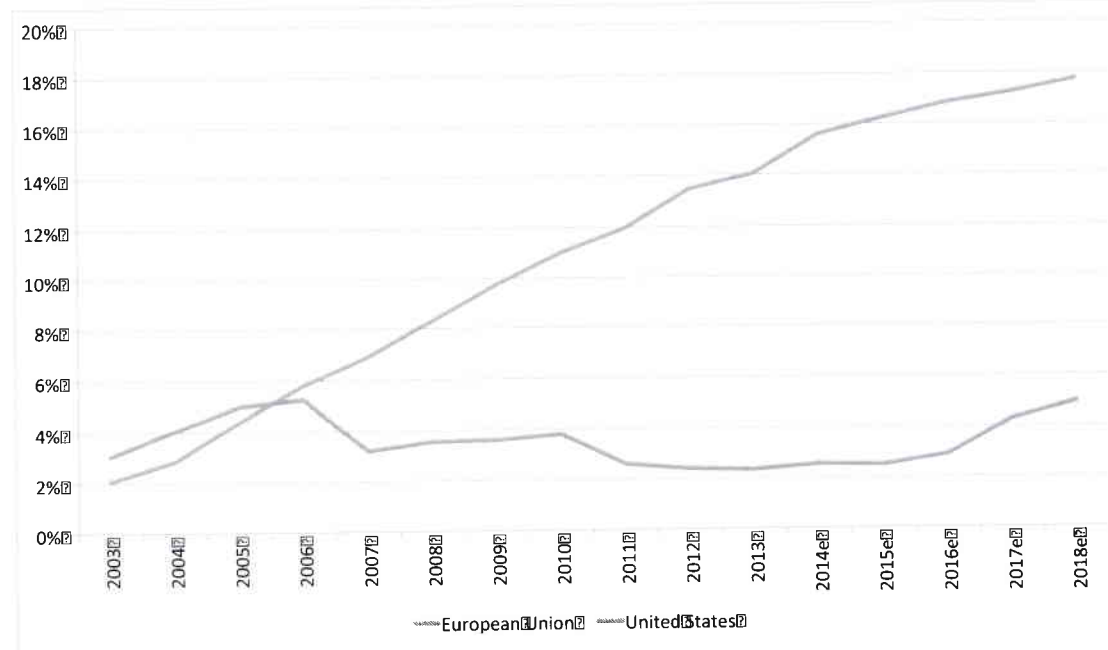
Prior to the UIGEA the US was the **largest iGambling market** with a similar proportion of its gambling taking place online. Today interactive channels account for just over **2%** of its total gross win. The global average is **8.2%**, the EU average is **14%** with highest rates in the Nordics at **30-40%**.

N.B. In our forecasts H2 has estimated for a total of 10 States regulating some form of iGaming by 2018.



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iGambling as a Percentage of Total Gross Win



Pennsylvania Pre-Black Friday Offshore iPoker Market Gross Win (\$m)

In Pennsylvania, the market value was an estimated c\$340m during the peak offshore years.

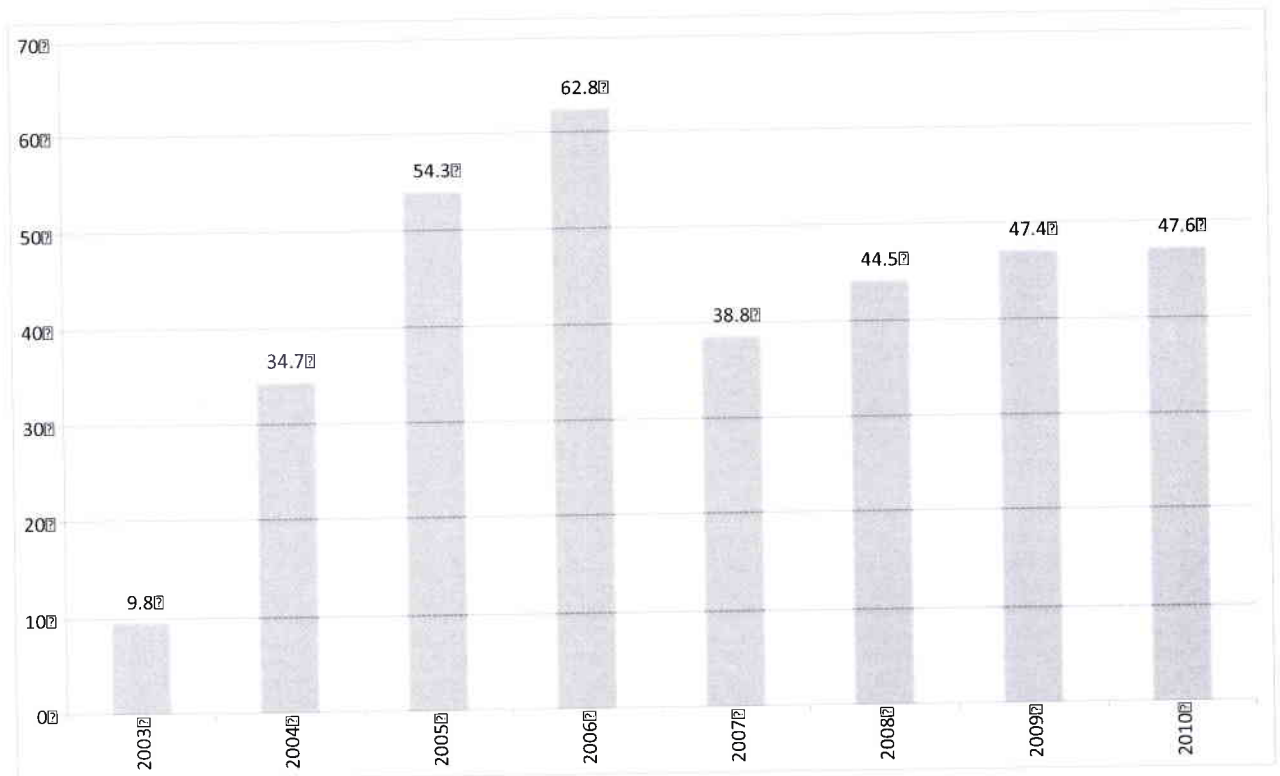
During the key eight years (2003 to 2010) of offshore iPoker, the total size of the Pennsylvania market is assessed as generating a total of **c\$340m** in gross win - despite the impact of UIGEA.

Prior to the signing into law of the UIGEA on 13 October 2006 the value of the Pennsylvanian iPoker market was at its peak generating a gross win that year of **c\$63m**.

Having falling away immediately afterwards the market rose to **c\$48m** in 2010 before the indictments of **Black Friday** (13 April 2011) closed down the majority of the offshore real money iPoker supply.

Today Pennsylvania's total offshore interactive gambling market is estimated at just under **\$95m gross win**.

Pennsylvania Offshore Real Money iPoker Gross Win (\$m)



Pennsylvania Pre-Black Friday

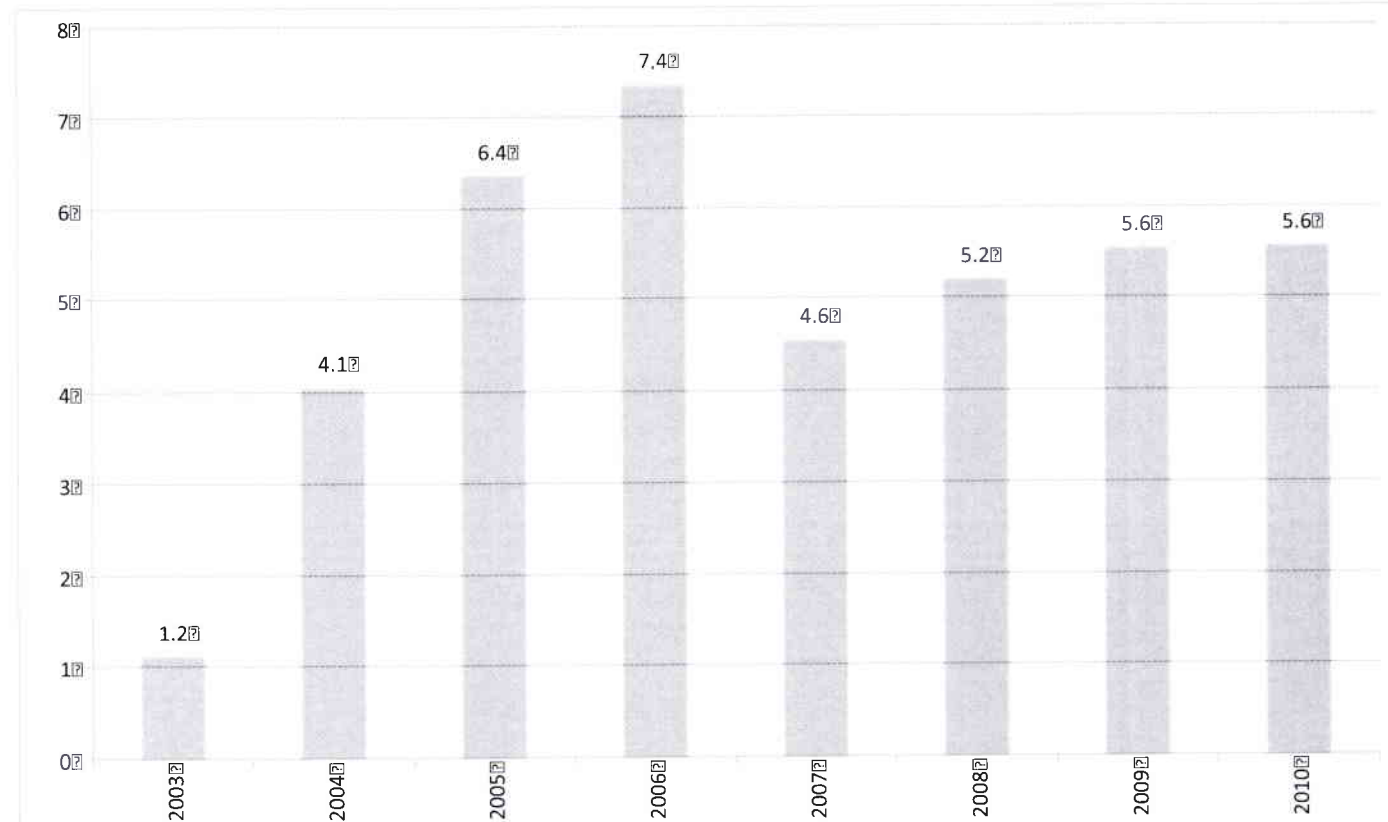
iPoker Lost Tax Take @ 14%

The lost tax take during the offshore years was c\$95m.

Simply applying an estimated 14% tax rate to the offshore gross win would have yielded a peak of **c\$9m** for the public purse and over **\$7m** following adjustment of the market size to reflect the payment of a tax.

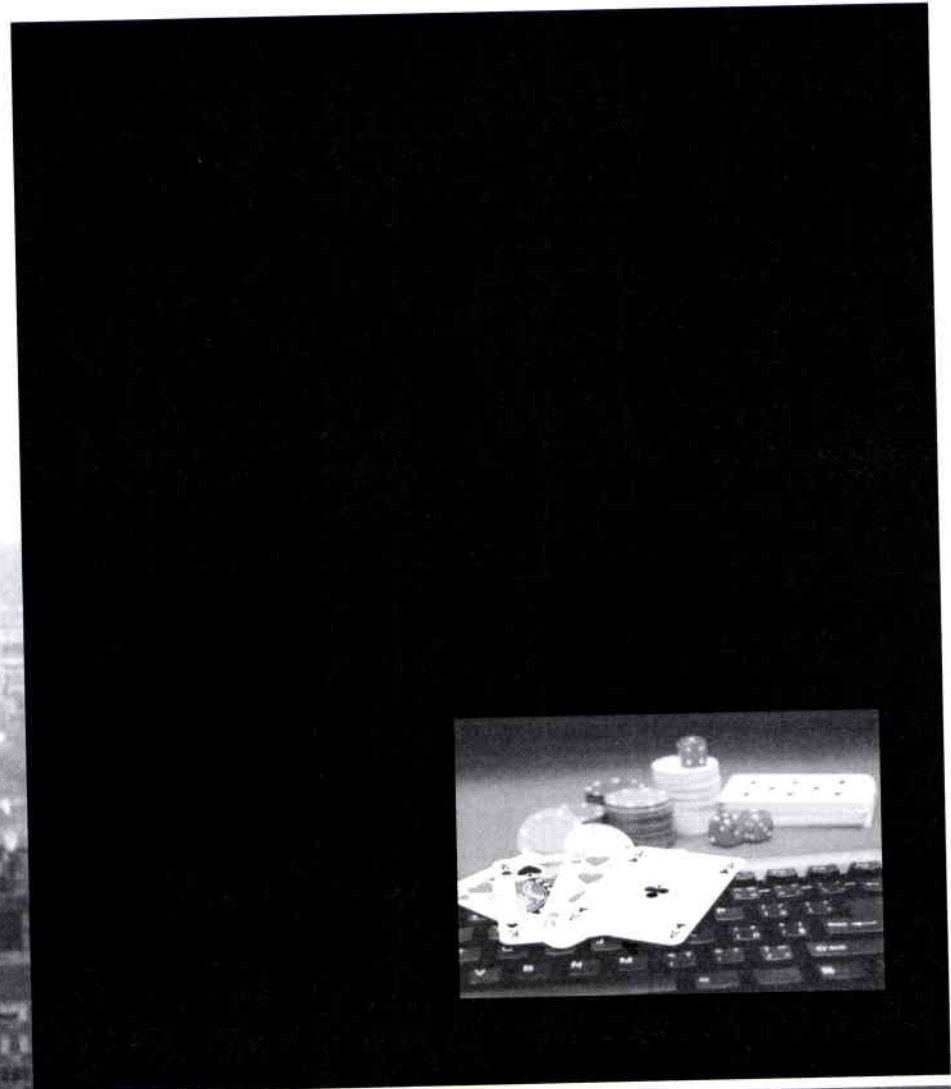
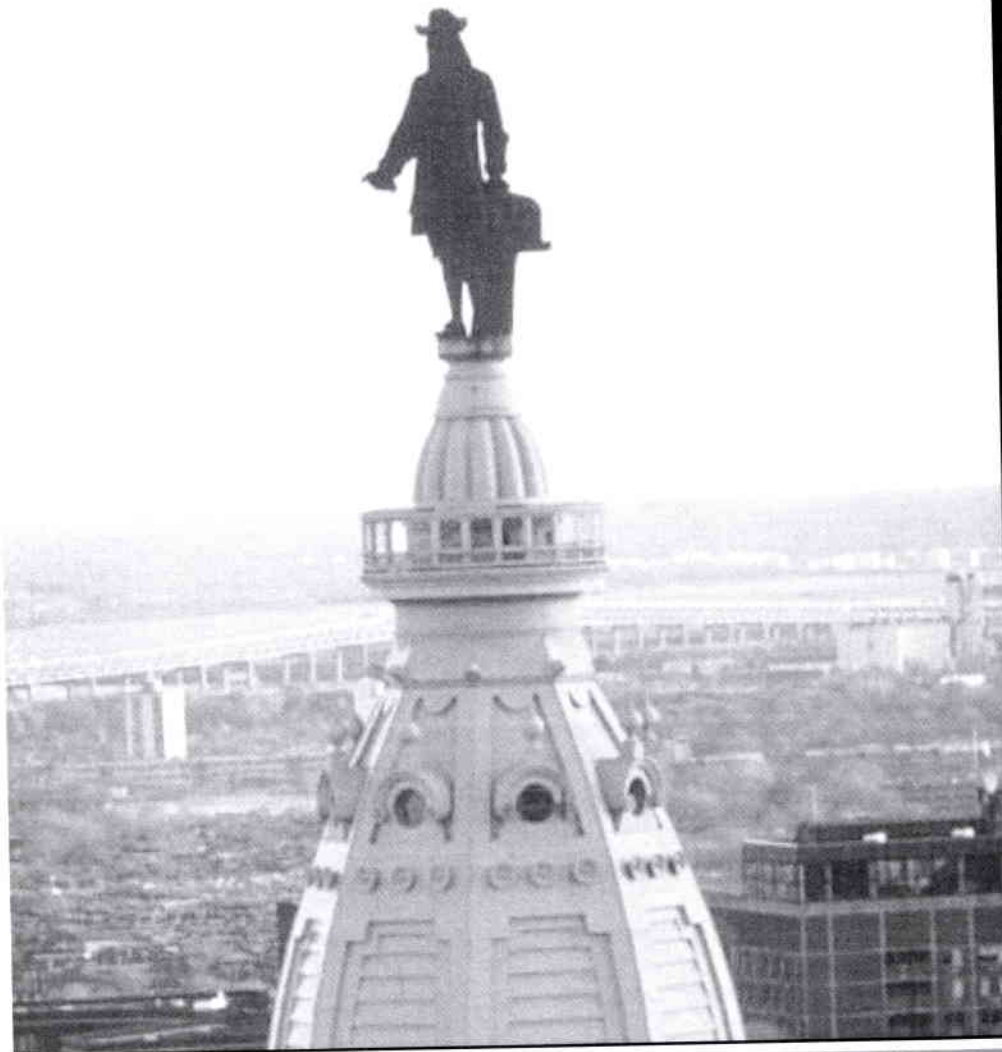
In total this would have equated to a total tax take of **c\$48m (\$40m adjusted)** over the course of eight years plus a further **c\$6-7m (\$5-6m adjusted)** per annum every year since.

14% Gross Win Tax Applied to Adjusted Pennsylvanian Offshore iPoker Gross Win (\$m)



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4. Pennsylvania iPoker - Key Economic & Policy Considerations

The Big Five

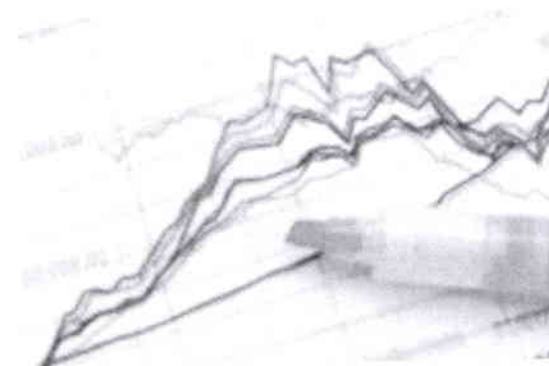
- i. Demand Elasticity
- ii. Liquidity / Market Concentration
- iii. Cannibalization
- iv. Economic Benefits
- v. Market Equilibrium



i. Demand Elasticity

The economic model for iPoker deviates significantly from traditional land-based casinos.

- ✓ **Price Sensitivity** - iPoker is very price (value) sensitive.
- ✓ **FOC (Free Of Charge) Offers up to 50% of Gross Win** - Sign ups are driven by bonuses / advertising / affiliates – free bets and marketing can represent over 50% of gross win.
- ✓ **Customer Retention Key** - Liquidity sign up rate / retention is key to maintaining the interest of established players.
- ✓ **Tough Competition / Not a Perfect Market** – Players can instantly move to other sites. One click and they're gone...



ii. Liquidity / Market Concentration

In all cases, market size is directly correlated to a limited number of long term operators.

- ✓ **Preserve of the Few** - In all established markets (Dot Com / Dot Country), iPoker liquidity is in the hands of a few.
- ✓ **Limited Technology Platforms** - Limited number of proven platforms. A market the scale of Pennsylvania can be sustained with up to 12 operators / brands.
- ✓ **Upfront License Fees against Number of Operators** - An estimated upfront license fee - levied as an advance against tax - in the range of **\$5m** is reasonable as it would equate to 33% of the taxation due over the first 10 years if the 12 existing brick and mortar licensees entered the iPoker market and would generate total advance tax payments of **\$60m**.



iii. Cannibalization

Cannibalization of land-based casinos is a non-issue, with the businesses more complementary, than substitutes.

- ✓ **Difference in customer types** – Poker unlike betting / lotteries is experience-based rather than being reliant on value / convenience - land-based gaming is mostly an 'out of home' social experience to rival going out for a meal or to the movies, interactive is mostly 'in home' or a 'time filler' competing with say, downloading a film.
- ✓ **Demographic profile** – iPoker customers tend to be younger, more affluent, tech savvy.
- ✓ **Complementary, land-based casino growth** – iPoker has previously been a reality in the US with national casino growth continuing during the height of the offshore 2003 to 2006, eg:
 - Nevada casinos actually installed poker tables / removed slots to take advantage of the poker boom;
 - Florida card room sector has grown nearly 50 times over the last 10 years.



Cannibalization a Non-Issue – The Examples (1/4)

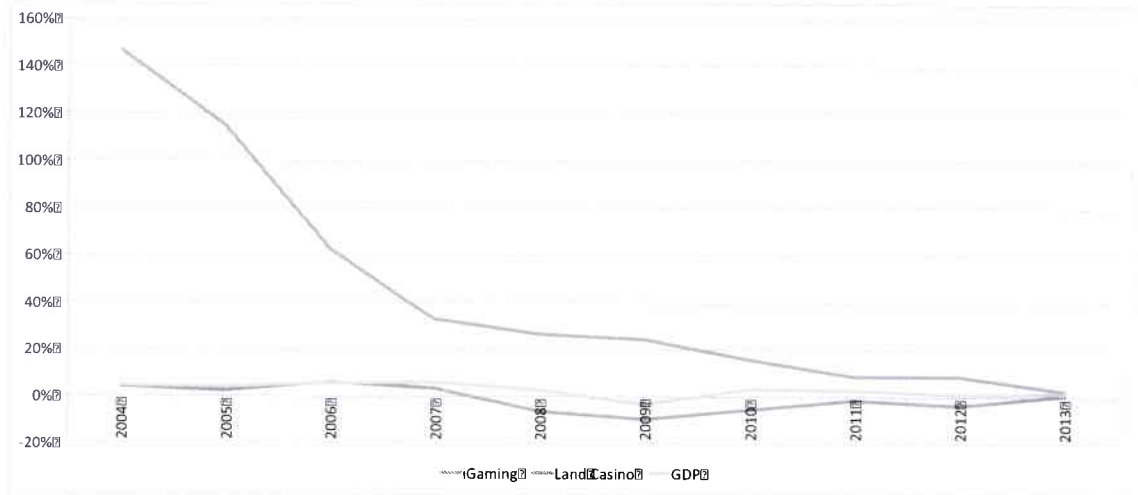
Globally, correlation with GDP shows clear examples of land-based casino growth, and **no evidence** of iGaming cannibalization.

The businesses are increasingly **'complementary'**, rather than **'substitutes'**.

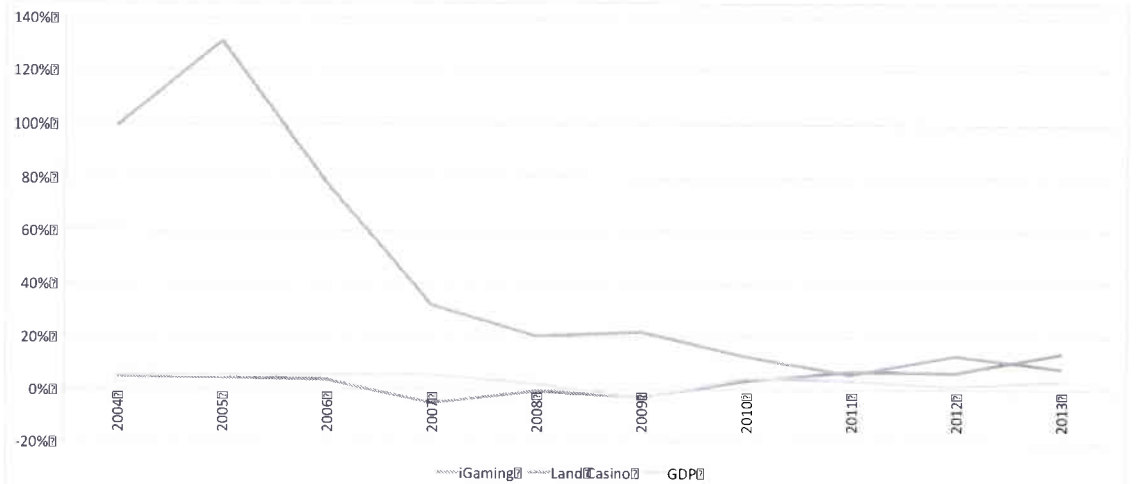
EU – **No evidence of substitution.** In all nations, players are able to freely gamble online though different onshore supply structures varying from **completely open** to all entrants (eg Italy) to **solely local monopolies** (eg Finland).

UK – Today the largest iGambling market in the world. No restrictions on casino market, often referred to as a mix of private members clubs and high-end establishments – again a **clear trend** (2007 Smoking Ban excepted).

EU GDP Growth Vs Land Based Casino and iGaming



UK GDP Growth Vs Land Based Casino and iGaming

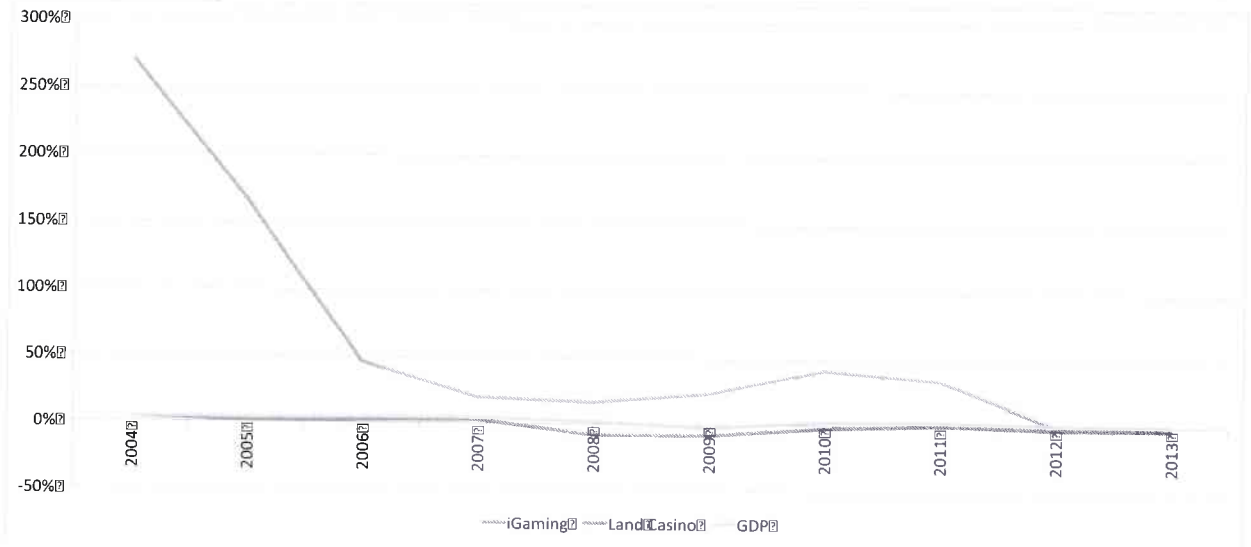


Cannibalization a Non-Issue – The Examples (2/4)

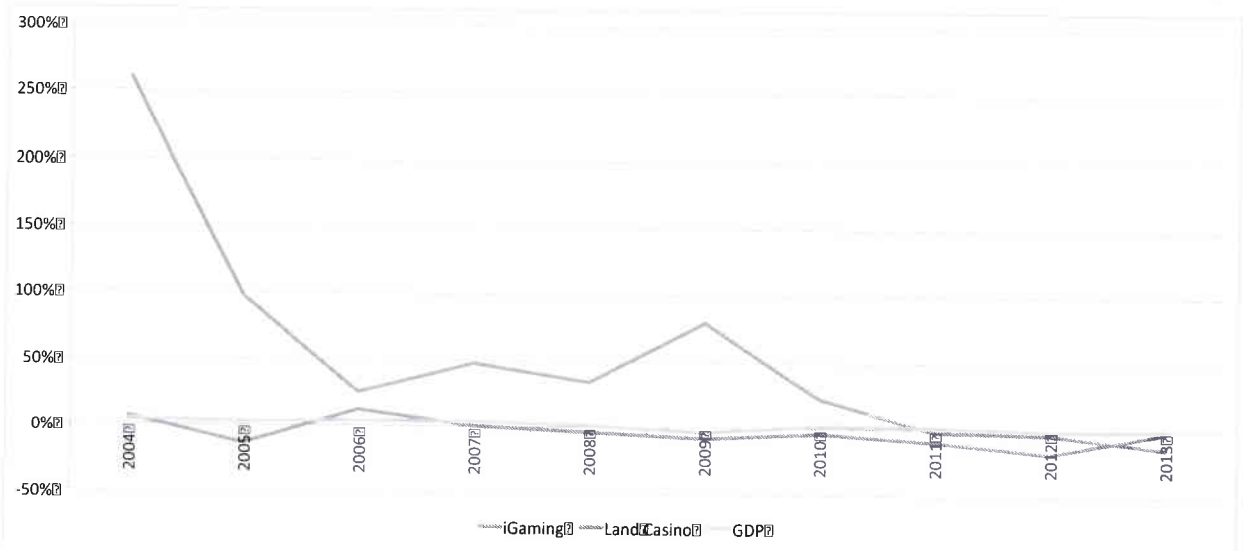
France – Poker only subject to onshore regulation with a strong casino market. Interactive gambling (horse / sports betting & poker). Onshore Regulation 2010, Smoking Ban 2008.

Italy – Limited number of casinos. Smoking Ban 2005, Interactive gambling regulation from 2008 to 2011.

French GDP Growth Vs Land Based Casino and iGaming



Italian GDP Growth Vs Land Based Casino and iGaming

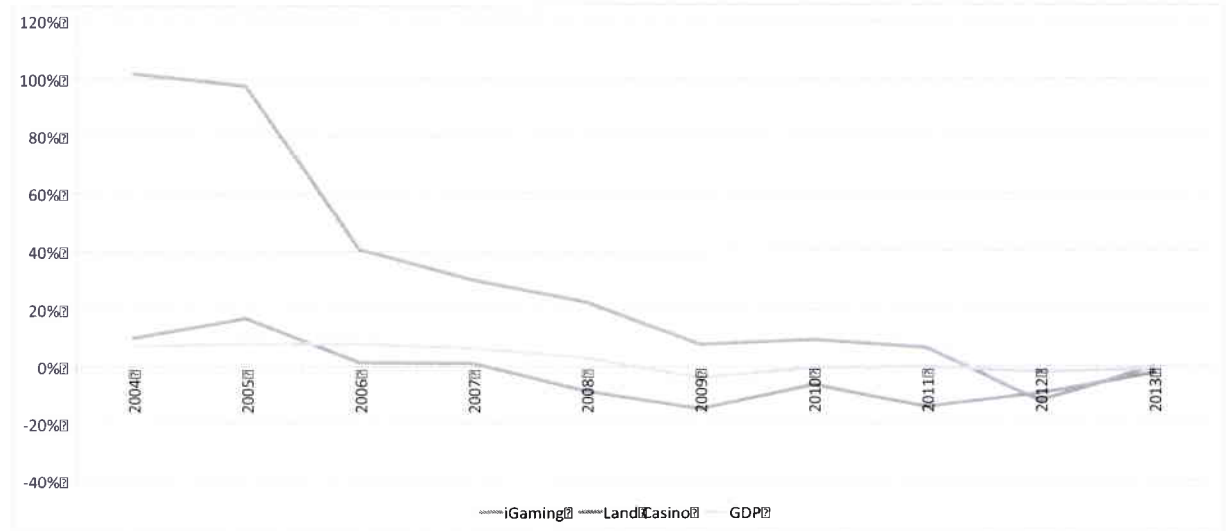


Cannibalization a Non-Issue – The Examples (3/4)

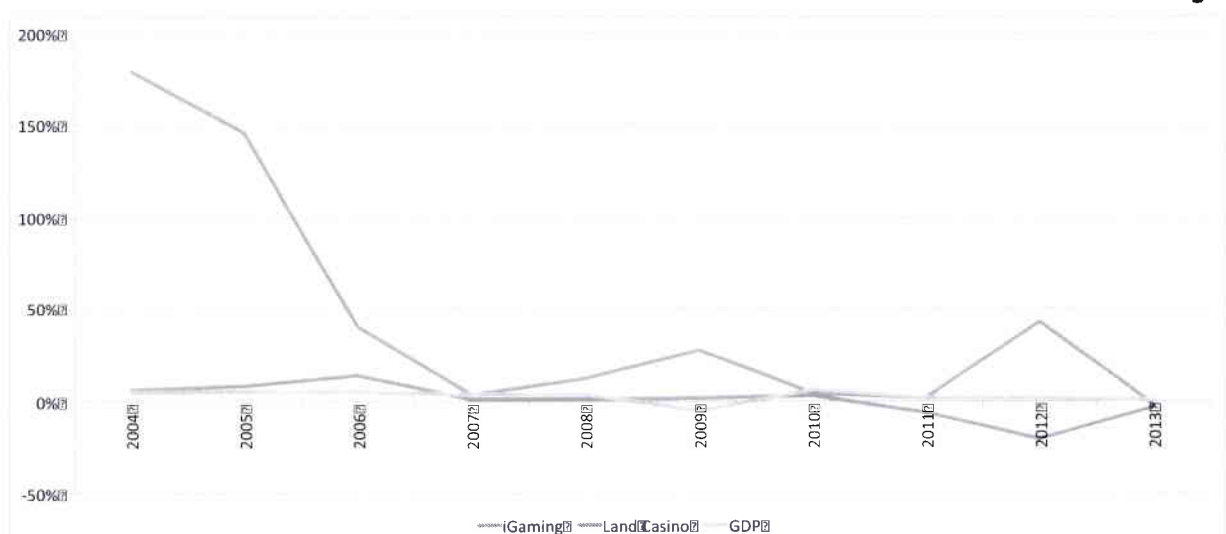
Spain – Deep recession so interactive gaming grown slower than in other markets – onshore regulation in mid 2011 but no slots as yet. Smoking Ban in 2011.

Denmark – Very limited casino sector. Onshore regulation 2012 - all open except horserace betting / bingo which were retained by monopoly. Smoking Ban in 2007 but not totally separate within casinos as some smoking rooms permitted.

Spanish GDP Growth Vs Land Based Casino and iGaming



Danish GDP Growth Vs Land Based Casino and iGaming

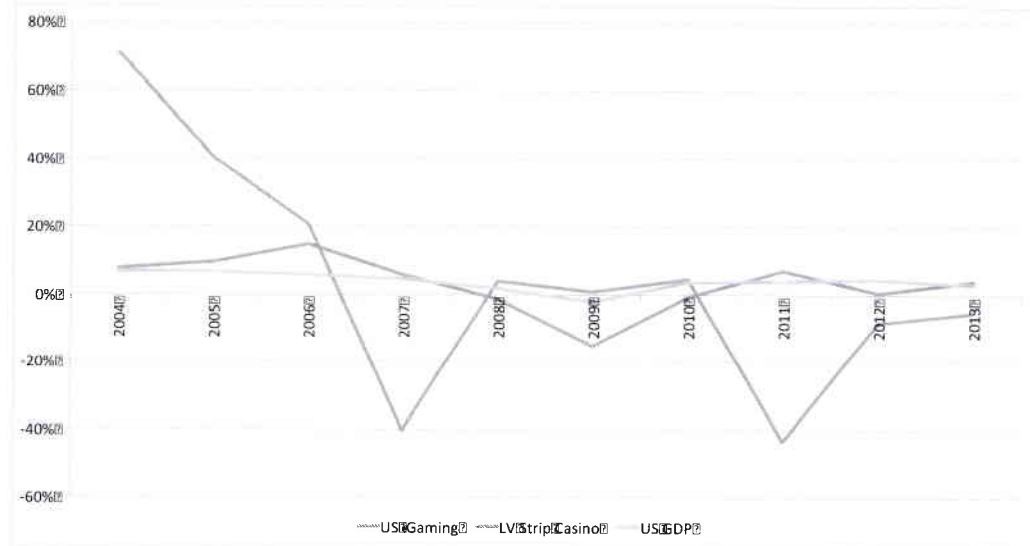


Cannibalization a Non-Issue – The Examples (4/4)

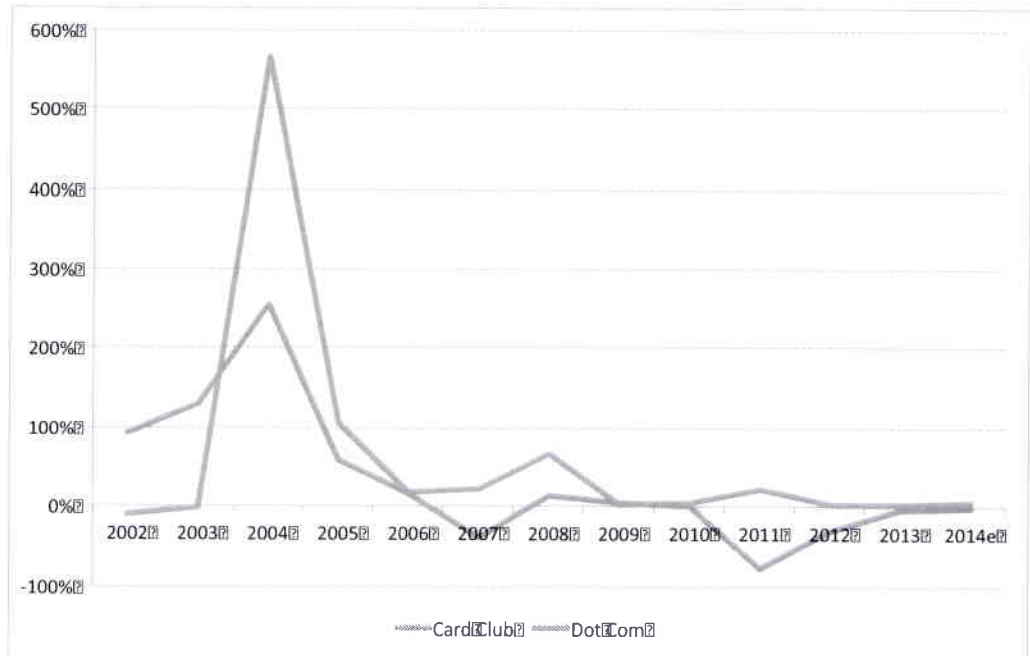
Las Vegas Strip - No impact from 2 big declines of interactive activity - again trend is more in line with national GDP. During the peak of offshore iPoker, the Las Vegas casinos replaced some slot machines with poker tables to 'cash in' on the game's popularity and new players' desire to move from online and experience playing 'live'.

Florida – The State poker card clubs were a marginal business generating only \$2-3m per annum before the development of iPoker. Since then, the development of the land-based game mirrors growth of online and is today nearly a \$100m per annum business.

US GDP Growth Vs Las Vegas Strip Casino and US iGaming



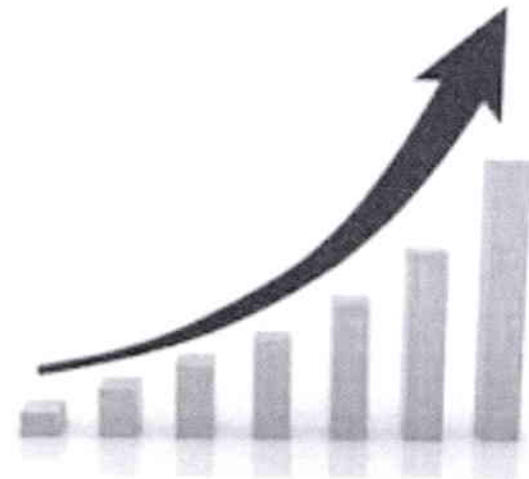
FL GDP Growth Vs Land Based Card Room and iGaming



iv. Economic Benefits

Benefits are not just financial.

- ✓ **Regulation** – More player protection and customer satisfaction.
- ✓ **Security** – Legal place to play safe, in a straightforward manner, and secure.
- ✓ **Jobs** – Upturn in employment with the potential to create an estimated 300+ full-time equivalent jobs in a state the size of Pennsylvania – the majority within indirect sectors eg marketing (as onshore regulated activity leads to more use of the mainstream media), payments and geo-location.
- ✓ **Growth** – Enhanced cross-channel marketing opportunities for new operators, brands and sectors.



v. Market Equilibrium

'Something for everyone' – Optimum performance is achieved when stakeholder input is evenly balanced.

✓ **For the State** - *Regulating for the future:*

- Tax revenues
- Player protection
- Eradication of black market

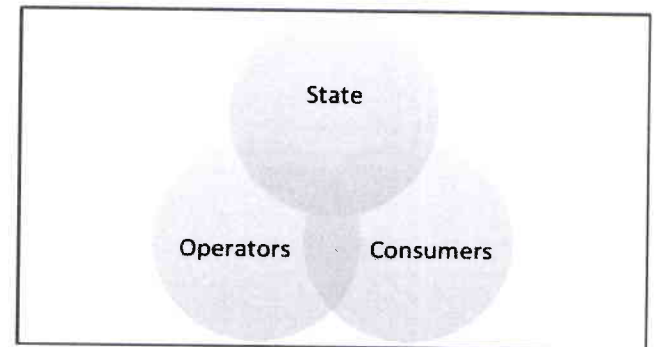
✓ **For Consumers** - *What they want, where they want it:*

- Attractive / High quality product
- Safe / Straightforward environment
- Value for money

✓ **For Operators** – *Continued presence where the consumers play:*

- Development of their business online
- Profitability.

Optimum iPoker Market Performance – Equal Market Benefits



But...Operator Profitability is Tight

The iPoker market is highly sensitive to key economic changes particularly Tax Rate.

Given the competitive environment in interactive poker and the fact that it is based solely on gaming rather than the benefiting from the ancillary services that a land based facility is able to offer, the players' demand is **highly elastic**.

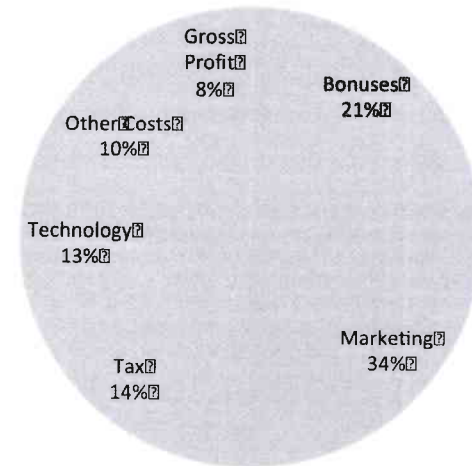
Based on experience the in the Dot Com market place and Dot Country markets applied to a market of the potential scale of Pennsylvania, an increase in the headline gross win tax rate from 14% to 20% (42.8%) would only raise the the tax and license fees yielded by **22%** as the reduced profitability would be expected to reduce the number of market entrants paying the license fee from 5 to 4.

The headline impact would be to reduce operator EBIT margin **by 25%** from 8% to 6%. However, because bonuses and marketing will also be squeezed, the overall market size will fall by 15% meaning the absolute fall in operator profitability would be **over 42%**.

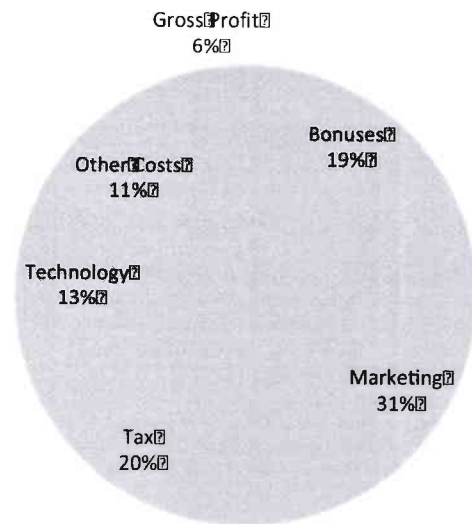
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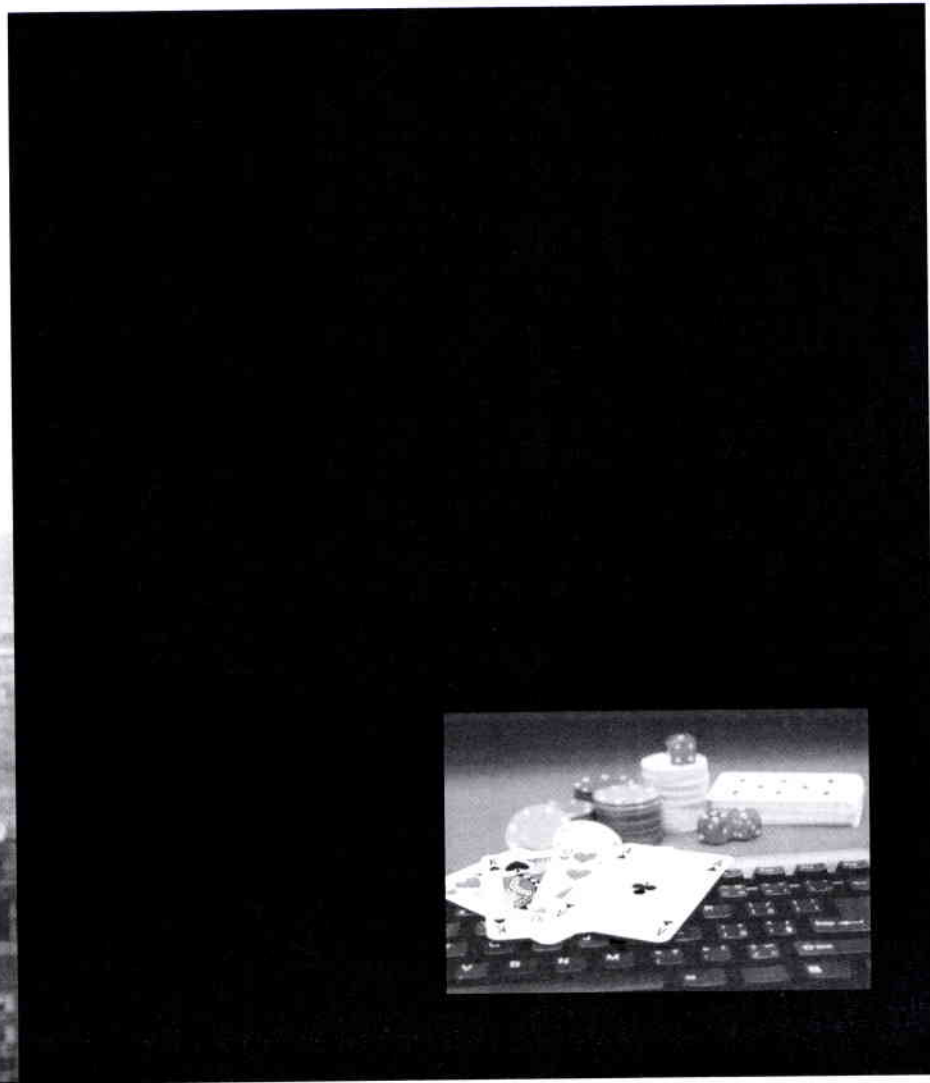
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iPoker Operator Cost Structure 14% Gross Win Tax



iPoker Operator Cost Structure 20% Gross Win Tax





5. Pennsylvania iPoker - 10 Year Market Assessment

10 Year Market Assessment – Key Parameters

1. Two scenarios have been modeled:
 - i. a conservative base case which would reflect the lower end of our expectations and suggest development at a rate similar to that which has been seen thus far in New Jersey;
 - ii. a best case scenario that would be more akin to what has been seen in some European onshore iGaming markets / previous Dot Com activity.

N.B. The actual outcome could reasonably be expected to be somewhere between the two.

2. As previously outlined, the taxation rate is key in optimizing the market in the highly competitive iGaming sector. Assessment of the effectiveness of taxation rates in other benchmarks suggest that in a market the size of Pennsylvania, a rate in the range of 12-15% on gross win would balance both market size and likely taxation take. We have also modeled the effects of both a lower (10% gross win) and a higher (20% gross win) taxation rate to highlight the impact differing rates would have.

N.B. There is full disclosure of the results under all three taxation scenarios in the Deck Appendix.

3. As with the level of taxation any upfront license fee, even if it may be offset against future taxation liabilities, acts as a barrier to entry. Based on the potential scale of the market and a sustainable number of entrants a \$5m license fee would seem optimal as under our base case it would account for just under 15% of the total taxation liability over the first 10 years of the operation of the Pennsylvania iPoker market.



Calculating PA iPoker Market Value – 'The Bridge from 2006 Offshore to 2016 Onshore' – Base Case

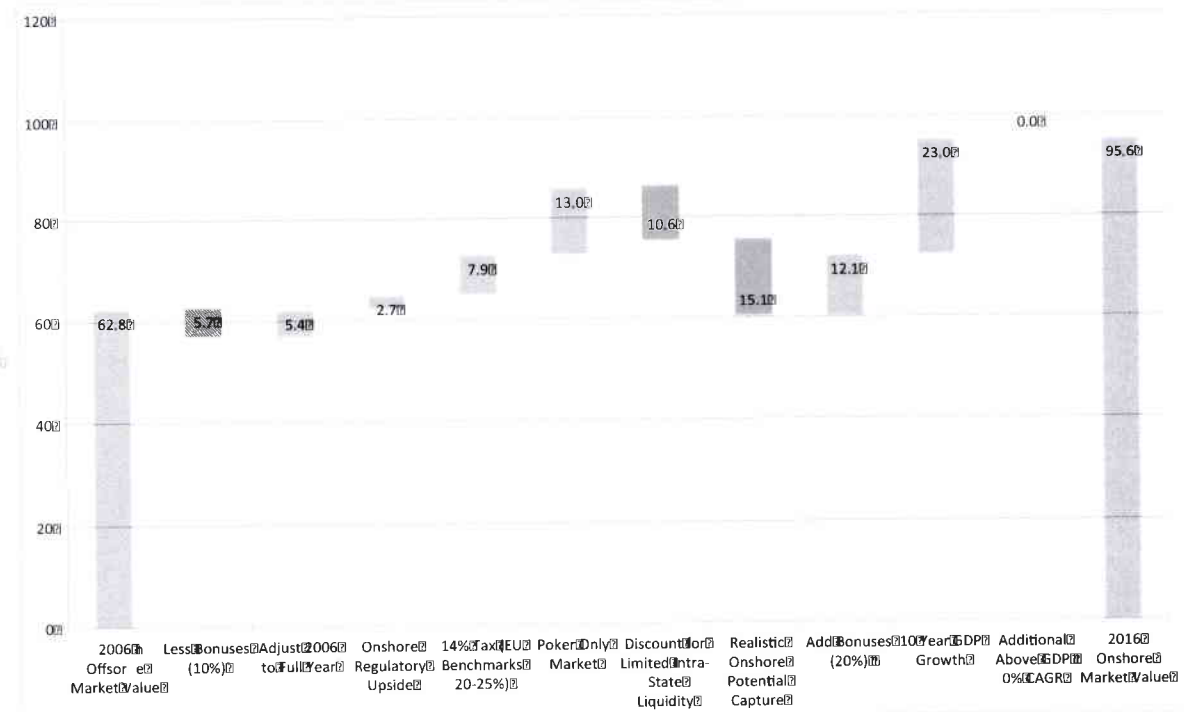
2006 Actual PA iPoker Market Value
\$63m

- Less 2006 Bonuses rate -10%
- Plus Full Year Adjustment +9.5%
- Plus EU Onshore Regulatory Upside +5%
- Plus Lower Tax / Fee Rate @ 14% +13%
- Plus Poker Market Only Upside +20%
- Less Discount for Intra-State Liquidity -16%
- Less Expected Net Capture of Market Potential -20%
- Plus Bonuses @ Today's Onshore Rate +20%
- Plus 10 Year GDP Growth +38%
- 0% CAGR Over and Above GDP 0%

Equates to...

2016 Expected PA iPoker Market Value
\$96m

Base Case - Bridging the 2006 to 2016 Gap in PA iPoker Market Value (\$m)



Notes

- Onshore regulation increases market potential as mainstream media can be used, land based brands will enter, the sector is legalized and it is more straightforward to pay and play.
- Poker by itself means less choice of product so more people play plus there is no opportunity to cross sell so money won at poker ends up lost somewhere else in the iGaming ecosystem.

Calculating PA iPoker Market Value – 'The Bridge from 2006 Offshore to 2016 Onshore' – Best Case

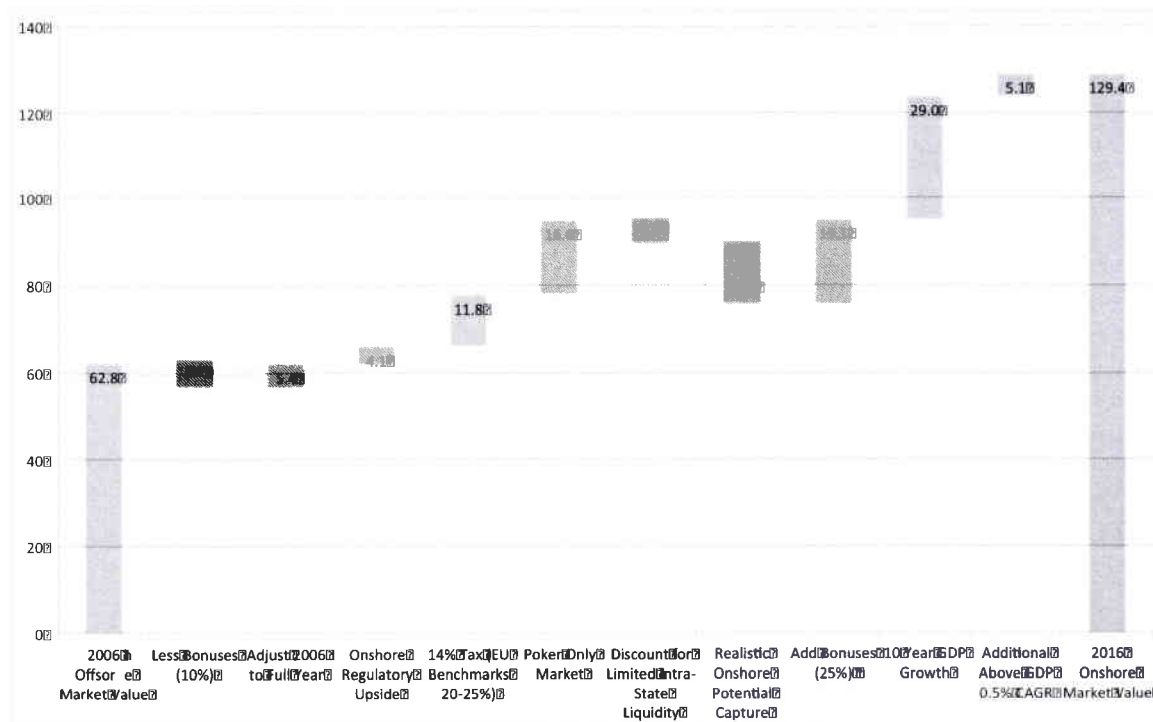
2006 Actual PA iPoker Market Value
\$63m

- Less 2006 Bonuses rate -10%
- Plus Full Year Adjustment +9.5%
- Plus EU Onshore Regulatory Upside +7%
- Plus Lower Tax / Fee Rate @ 14% +19%
- Plus Poker Market Only Upside +25%
- Less Discount for Intra-State Liquidity -8%
- Less Expected Non-Capture of Market Potential -10%
- Plus Bonuses @ Today's Onshore Rate +25%
- Plus 10 Year GDP Growth +38%
- Plus 0.5% CAGR Over and Above GDP +4%

Equates to...

2016 Expected PA iPoker Market Value
\$129m

Best Case - Bridging the 2006 to 2016 Gap in PA iPoker Market Value (\$m)



Notes

- Onshore regulation increases market potential as mainstream media can be used, land based brands will enter, the sector is legalized and it is more straightforward to pay and play.
- Poker by itself means less choice of product so more people play plus there is no opportunity to cross sell so money won at poker ends up lost somewhere else in the iGaming ecosystem.

Pennsylvania iPoker – Base Case

Base Case - Potential PA iPoker Market is c\$1.28bn of gross win over 10 years (base case) with an average Tax Take of \$18m per annum.

c\$96m Gross Win in 2016 rising to **c\$144m** by 2025 which is a total of **c\$1.28bn** or an average of just under **\$128m per annum**.

Actual US iPoker gross win was \$1.72bn in 2006 but our full year expectation would have been nearer \$1.9bn. Without the UIGEA the latter would have equated to **c\$63m** in Pennsylvania alone.

Our estimates are conservative and take into account iPoker never realizing its market potential in the US after **UIGEA 2006**.

Assumed 1 Jan 2016 start based on 2 years reasonable run in for legislation, regulations and licensing.

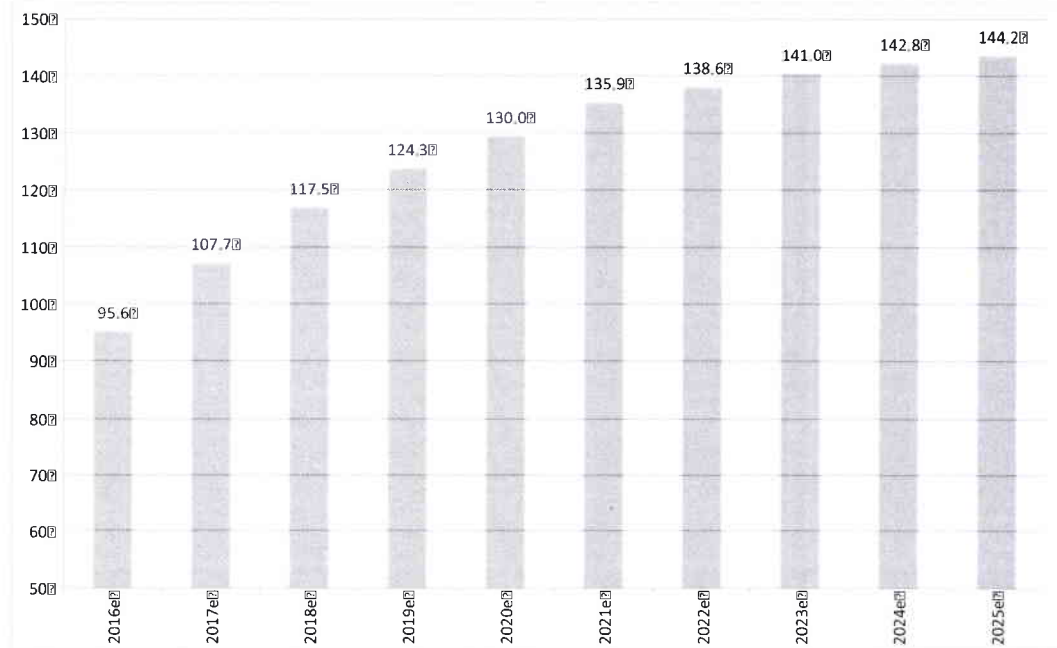
On a like-for-like basis the **base case** 2016 starting market value assumes **no additional** growth above the GDP on the 2006 offshore market value.

Translates to a headline tax take calculated with respect to a base rate **14%** of gross win of **c\$179m** over 10 years or an average of **c\$18m per annum**.

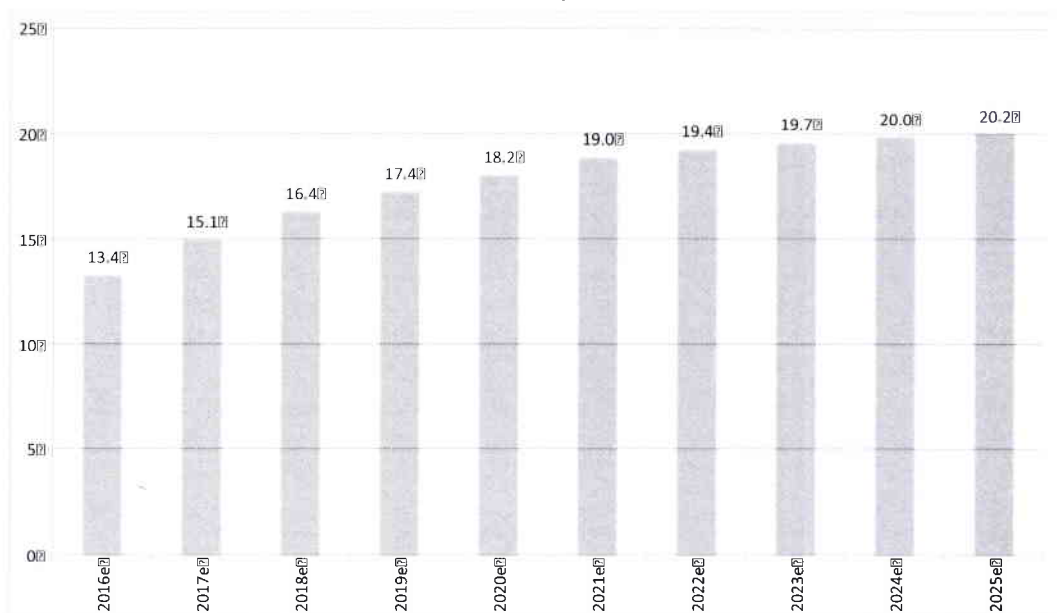


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Base Case Pennsylvania iPoker Potential Gross Win (\$m)



Base Case Pennsylvania iPoker Headline Tax Take (\$m)



Pennsylvania iPoker – Best Case

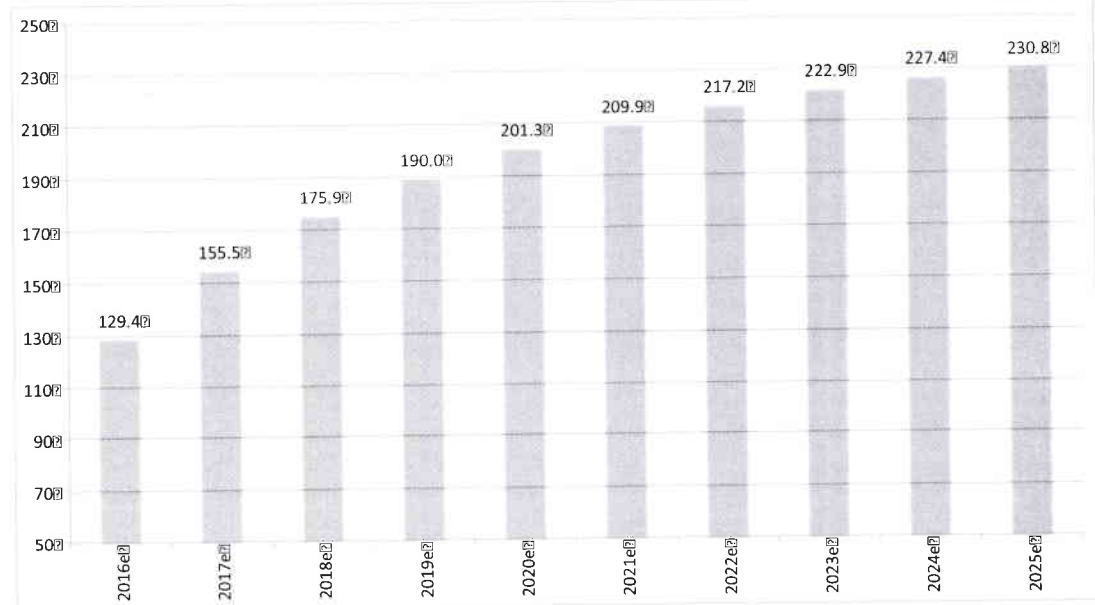
Best Case - Potential PA iPoker Market is c\$1.96bn of gross win over 10 years (best case) with an average Tax Take of \$27-28m per annum.

c\$129m Gross Win in 2016 rising to **c\$231m** by 2025 which is a total of **c\$1.96bn** or an average of **\$196m per annum**.

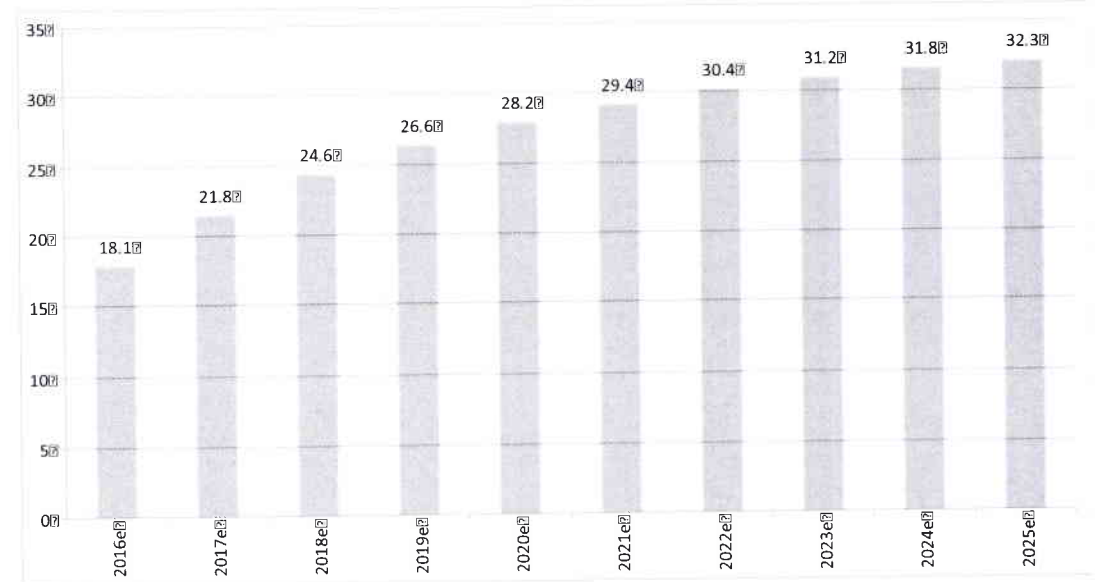
On a like-for-like basis the 2016 starting market value is assumed a **+0.5% CAGR** ahead of GDP on the 2006 offshore market value.

Translates to a headline tax take calculated with respect to a base rate **14%** of gross win of **c\$275m** over 10 years or an average of **c\$27-28m per annum**.

Best Case Pennsylvania iPoker Potential Gross Win (\$m)



Best Case Pennsylvania iPoker Headline Tax Take (\$m)



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Pennsylvania iPoker – Likely Tax Take

The total benefit to the PA public purse would be at least \$179m over the first 10-years of the regulation of iPoker with 33% paid as an upfront license fee.

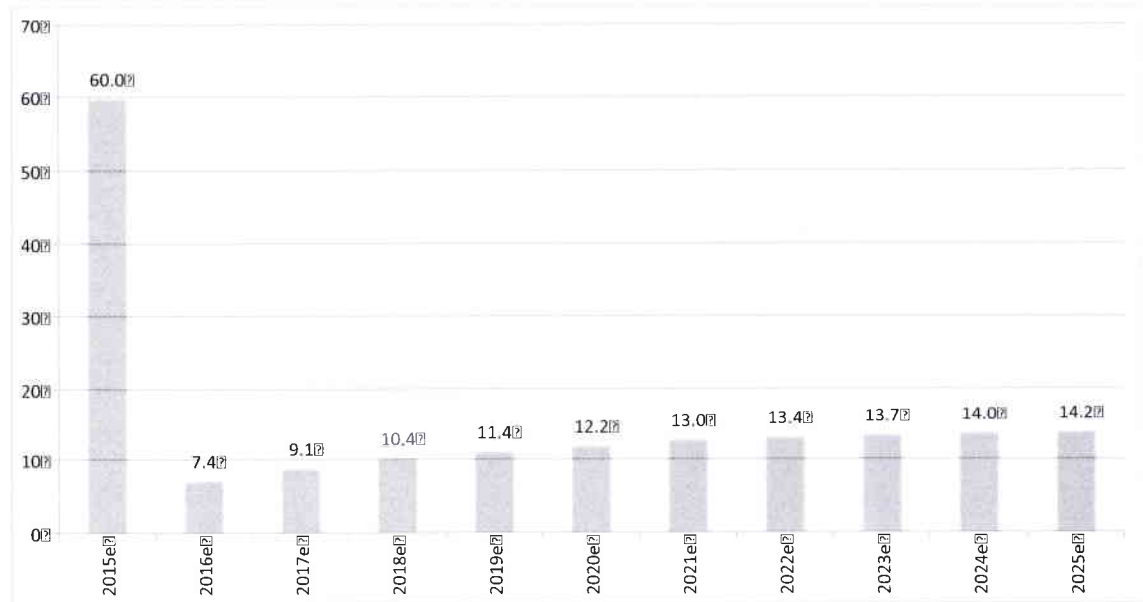
Under our **base case** and with a tax rate of 14% on gross win, all **12 current land based licensees** would be expected to enter the iPoker market generating a total tax take of **c\$179m** over the first 10-years - the equivalent of **c\$18m** per annum with **\$60m** payable before the program commences as a result of the \$5m upfront license fee.

Under the **best case** at the same tax rate, **we have assumed 14 iPoker licenses** (i.e. reflected the case should the two unissued land based licenses be released) would be expected to be taken up generating a total tax take of **c\$275m** over the first 10-years - the equivalent of **\$27-28m** per annum with **\$70m** payable before the program commences as a result of the upfront license fee.

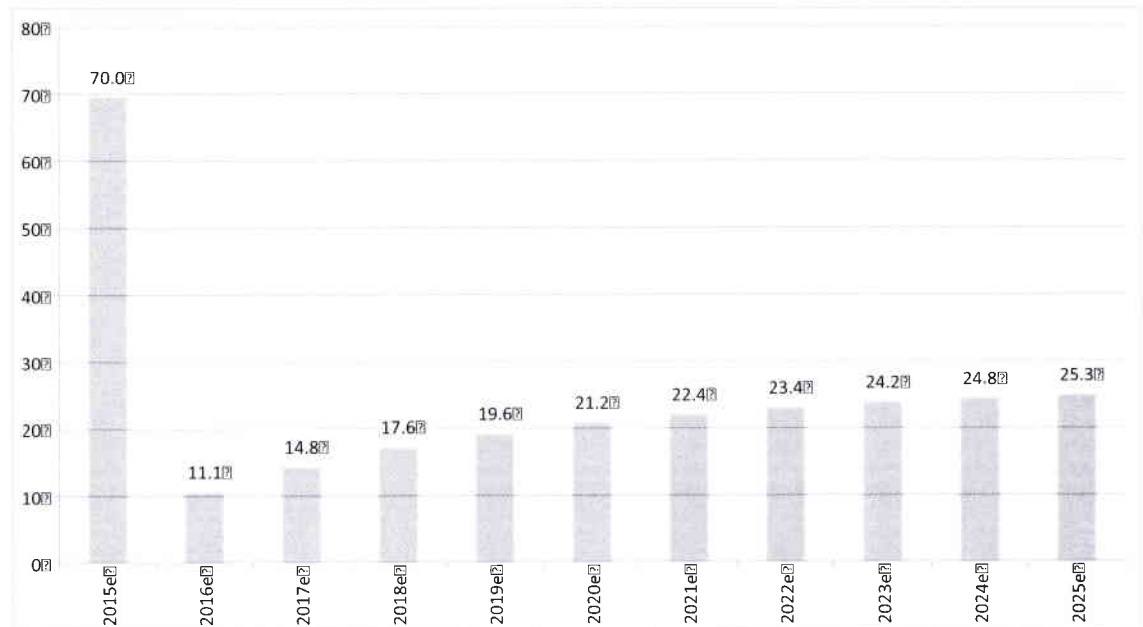
If a **higher tax rate of 20%** on gross win was imposed on iPoker the result on tax take and payments in the base case would be an increase of 22% to **\$217m** over the first 10 years - though with an assumption of only 10 licensees expected under this scenario the up front licensee fee would only yield **\$50m**.

If a **lower tax rate of 10%** on gross win was imposed on iPoker the result on tax and payments in the base case would be a fall of 15% to **\$152m** over the first 10 years – again with the assumption of all 12 land based licensees expected under this scenario the up front licensee fee would only yield **\$60m**.

Base Case Pennsylvania iPoker Tax and License Tax Actual Payments @ a 14% Rate (\$m)

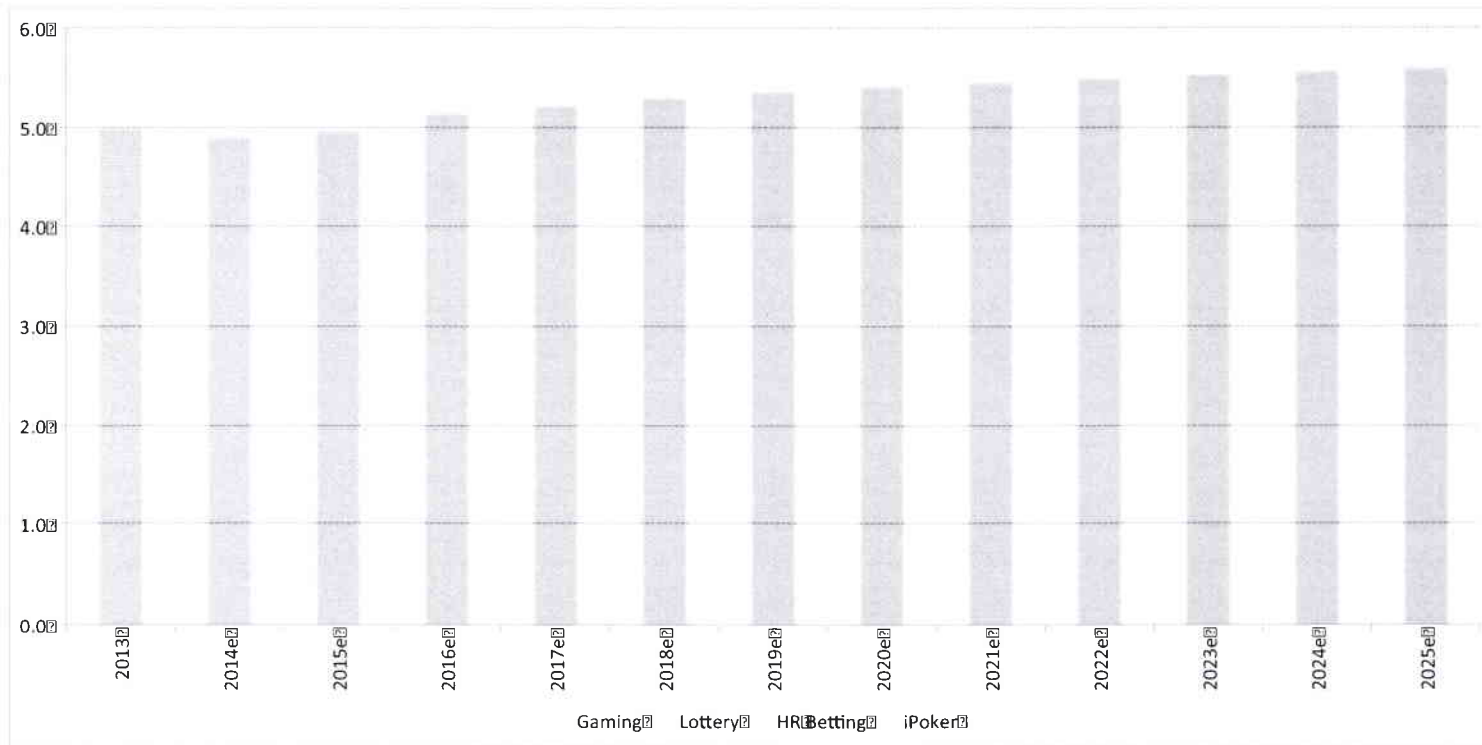


Best Case Pennsylvania iPoker Tax and License Tax Actual Payments @ a 14% Rate (\$m)



iPoker Still Only a Small Percentage of All Regulated Gaming in Pennsylvania

Market only accounts for c6-7% of overall land based gaming gross win total during the first 10-years even under the Best Case



Provisional data for **2013** suggests that PA pari mutuel horserace betting, land based casinos and lottery will generate a gross win of **c\$5bn**.

By **2016**, the yield of these products could reasonably be expected to reach **c\$5.1-5.2bn** with **gaming** accounting for just over **\$3bn** of this – therefore, iPoker under the **Best Case** would only account for **c4.2%** of the overall state gross win total, with the rate growing to 7.5% over the course of the first 10 years.

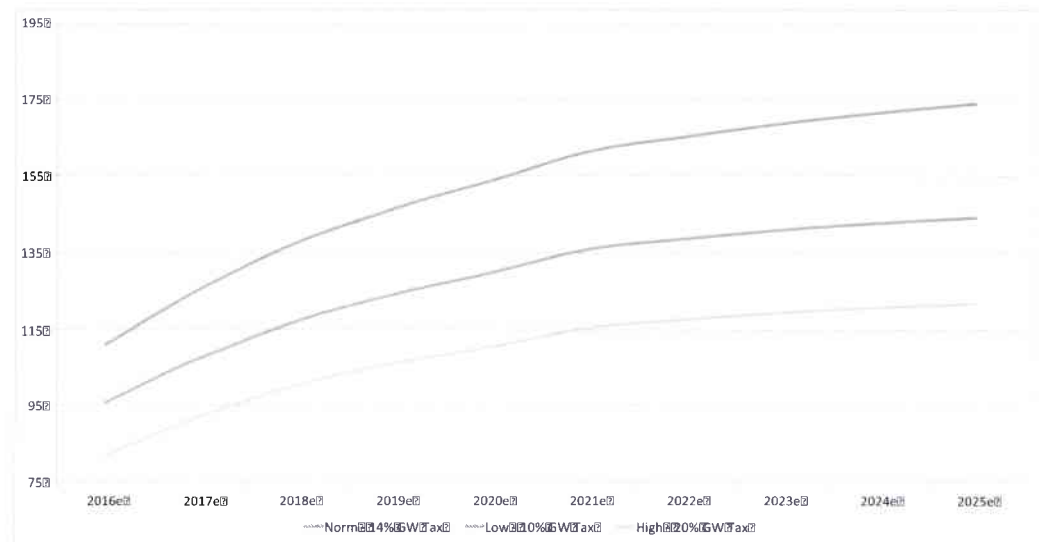
But... Remember iPoker is Very Sensitive to Tax Rate Imposed

A high level of State tax will impact the commercial viability of a PA market.

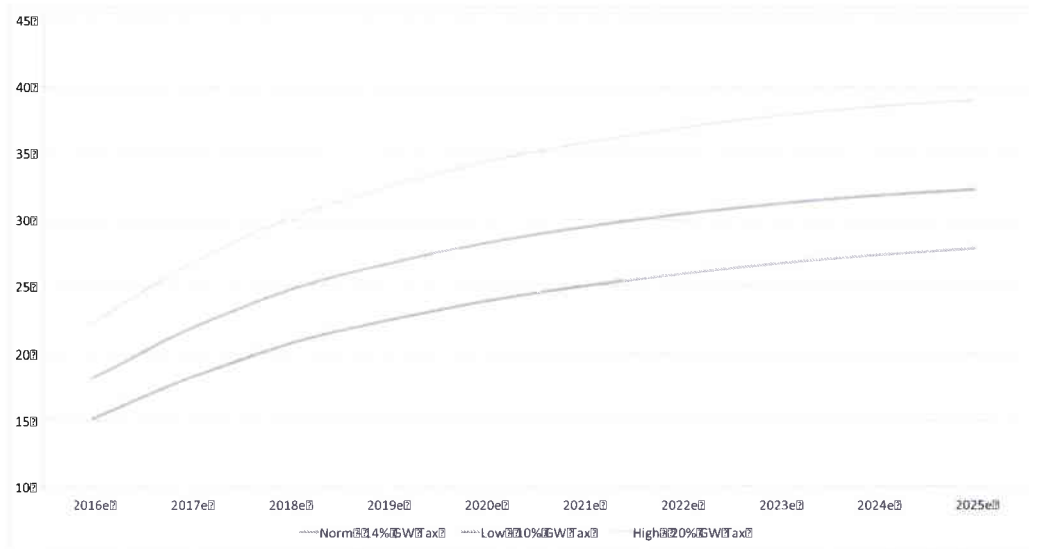
In Europe, higher tax rates of 20-25% have **stifled growth** and have had an adverse impact on sustainability.

Under the base case at a tax rate of 14% the gross win for iPoker would include taxation on bonuses at c20%. The 'effective' tax rate would be still equate to **18%** of the operator's net win.

Base Case Pennsylvania 10 iPoker Gross Win by Tax Rate (US\$m)



Base Case Pennsylvania 10 iPoker Tax Take by Tax Rate (US\$m)



And...

No Onshore US Market Is Yet Operating at Full Potential

Reasons why:

New Jersey

- Real issues with **payments** and player (age / geo) **verification** (mostly teething troubles) - operators are reporting losing c50% of potential deposits lost due to these 2 issues alone.
- 50% of the **brands** are yet to launch.
- No **live dealer** yet.
- No **European slot content** due to patent issues not being sorted as yet.
- IGT **only** US land slot supplier that is integrated - others to come.
- Most **mobile** offerings are not live not live yet - mobile can be up to 40% of gross win for iGaming in Europe today.
- c50% of all NJ iGaming **job roles** remain unfilled
- All of the above are compounded by high **marketing spend** held back pending resolution of above issues.

Nevada

- In addition to some of the above, a poker only market in Nevada will struggle without federal style liquidity – there are a large number of **professional players** in the state who only play online to make money.

Delaware

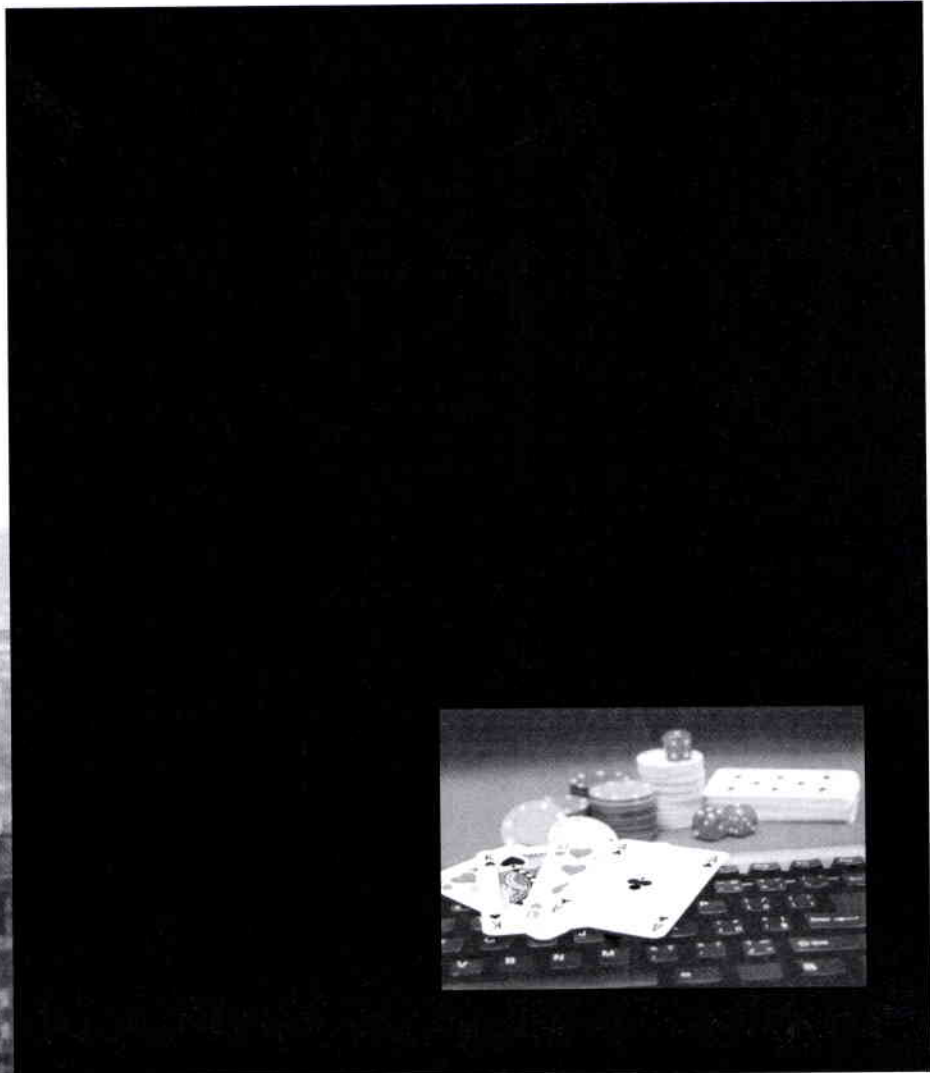
- The state is so small that **without inter-state liquidity** it will never reach its potential.
- It has a **monopoly** supply structure which is another limiting factor in terms of achieving market potential.



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Appendix – Detailed Market Data

Summary Market Data Pennsylvania

– Base Case

\$m	2013	2014e	2015e	2016e	2017e	2018e	2019e	2002e	2021e	2022e	2023e	2024e	2025e	10 Year Total 2016-25e
PM Horserace Betting	480.6	455.3	442.0	430.0	418.9	408.9	400.4	393.0	386.7	380.8	375.5	370.8	366.6	3,931.8
Gaming (VGMs/ Native/Charity)	3,142.0	3,048.8	3,046.9	3,047.2	3,048.6	3,051.7	3,052.9	3,054.5	3,055.1	3,058.3	3,062.2	3,066.9	3,071.9	30,569.3
Lottery	1,400.7	1,436.5	1,503.0	1,569.6	1,634.0	1,698.2	1,751.0	1,797.8	1,836.6	1,873.9	1,907.2	1,936.7	1,962.1	17,967.2
iPoker (14% GW Tax Base Case)	0.0	0.0	0.0	95.6	107.7	117.5	124.3	130.0	135.9	138.6	141.0	142.8	144.2	1,277.7
Total Gross Win Regulated Gambling	5,023.2	4,940.6	4,991.9	5,142.5	5,209.2	5,276.3	5,328.7	5,375.2	5,414.3	5,451.6	5,486.0	5,517.2	5,544.8	53,745.9
Plus Offshore Interactive Gambling	94.1	93.6	92.3	89.0	87.0	85.4	82.9	80.8	79.0	77.3	75.9	74.6	73.5	805.3
Less Out Of State Casino Play	607.2	578.2	575.7	573.8	572.1	571.0	569.5	568.1	566.5	565.6	565.0	564.5	564.2	5,680.3
Total PA Player Gambling Spend	4,510.1	4,455.9	4,508.5	4,657.7	4,724.0	4,790.7	4,842.1	4,887.9	4,926.7	4,963.3	4,996.9	5,027.3	5,054.1	48,870.9
Number of Adults (millions)	10.8	10.9	11.0	11.1	11.2	11.3	11.3	11.3	11.4	11.4	11.4	11.4	11.4	11.3
Average Spend per Adult (\$)	419	410	410	419	421	423	427	431	434	437	439	442	444	432
GDP (\$bn)	617.1	634.2	665.1	699.1	735.6	772.3	807.7	844.5	881.1	922.4	966.5	1,013.3	1,062.1	8,704.6
Percentage of GDP	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.6%
Percentage Interactive	2.1%	2.1%	2.0%	4.0%	4.1%	4.2%	4.3%	4.3%	4.4%	4.4%	4.3%	4.3%	4.3%	4.3%



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Summary Market Data Pennsylvania

– Best Case

\$m	2013	2014e	2015e	2016e	2017e	2018e	2019e	2002e	2021e	2022e	2023e	2024e	2025e	10 Year Total 2016-25e
PM Horserace Betting	480.6	455.3	442.0	430.0	418.9	408.9	400.4	393.0	386.7	380.8	375.5	370.8	366.6	480.6
Gaming (VGMs/ Native/Charity)	3,142.0	3,048.8	3,046.9	3,047.2	3,048.6	3,051.7	3,052.9	3,054.5	3,055.1	3,058.3	3,062.2	3,066.9	3,071.9	3,142.0
Lottery	1,400.7	1,436.5	1,503.0	1,569.6	1,634.0	1,698.2	1,751.0	1,797.8	1,836.6	1,873.9	1,907.2	1,936.7	1,962.1	1,400.7
iPoker (14% GW Tax Best Case)	0.0	0.0	0.0	129.4	155.5	175.9	190.0	201.3	209.9	217.2	222.9	227.4	230.8	0.0
Total Gross Win Regulated Gambling	5,023.2	4,940.6	4,991.9	5,176.3	5,257.0	5,334.6	5,394.4	5,446.6	5,488.3	5,530.2	5,567.9	5,601.8	5,631.4	5,023.2
Plus Offshore Interactive Gambling	94.1	93.6	92.3	88.8	86.6	84.8	82.2	80.0	78.2	76.5	75.0	73.6	72.5	94.1
Less Out Of State Casino Play	607.2	578.2	575.7	573.8	572.1	571.0	569.5	568.1	566.5	565.6	565.0	564.5	564.2	607.2
Total PA Player Gambling Spend	4,510.1	4,455.9	4,508.5	4,691.3	4,771.4	4,848.5	4,907.1	4,958.5	4,999.9	5,041.0	5,077.9	5,111.0	5,139.7	4,510.1
Number of Adults (millions)	10.8	10.9	11.0	11.1	11.2	11.3	11.3	11.3	11.4	11.4	11.4	11.4	11.4	10.8
Average Spend per Adult (\$)	419	410	410	423	425	428	433	437	440	444	447	449	451	419
GDP (\$bn)	617.1	634.2	665.1	699.1	735.6	772.3	807.7	844.5	881.1	922.4	966.5	1,013.3	1,062.1	617.1
Percentage of GDP	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.8%
Percentage Interactive	2.1%	2.1%	2.0%	4.7%	5.1%	5.4%	5.5%	5.7%	5.8%	5.8%	5.9%	5.9%	5.9%	2.1%



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iPoker – PA Market Forecasts 14% Gross Win Tax

\$m	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	10 Year Total 2016-25
Gross Win												
Best		129.4	155.5	175.9	190.0	201.3	209.9	217.2	222.9	227.4	230.8	1,960.3
Base		95.6	107.7	117.5	124.3	130.0	135.9	138.6	141.0	142.8	144.2	1,277.7
Tax Take												
Best		18.1	21.8	24.6	26.6	28.2	29.4	30.4	31.2	31.8	32.3	274.4
Base		13.4	15.1	16.4	17.4	18.2	19.0	19.4	19.7	20.0	20.2	178.9
Tax Payments												
Best	30.0	15.1	18.8	21.6	23.6	25.2	26.4	27.4	28.2	28.8	29.3	274.4
Base	25.0	10.9	12.6	13.9	14.9	15.7	16.5	16.9	17.2	17.5	17.7	178.9

iPoker – PA Market Forecasts 10% Gross Win Tax

\$m	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	10 Year Total 2016-25
Gross Win												
Best		150.6	181.7	206.3	223.8	238.1	249.2	258.8	266.7	273.1	278.3	2,326.7
Base		111.3	125.9	137.8	146.4	153.7	161.4	165.2	168.7	171.5	173.9	1,515.8
Tax Take												
Best		15.1	18.2	20.6	22.4	23.8	24.9	25.9	26.7	27.3	27.8	232.7
Base		11.1	12.6	13.8	14.6	15.4	16.1	16.5	16.9	17.2	17.4	151.6
Tax Payments												
Best	35.0	11.6	14.7	17.1	18.9	20.3	21.4	22.4	23.2	23.8	24.3	232.7
Base	30.0	8.1	9.6	10.8	11.6	12.4	13.1	13.5	13.9	14.2	14.4	151.6

iPoker – PA Market Forecasts 20% Gross Win Tax

\$m	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	10 Year Total 2016-25
Gross Win												
Best		111.0	133.1	150.3	162.1	171.6	178.6	184.5	189.0	192.5	195.1	1,667.8
Base		82.0	92.2	100.4	106.1	110.7	115.6	117.7	119.5	120.9	121.9	1,087.2
Tax Take												
Best		22.2	26.6	30.1	32.4	34.3	35.7	36.9	37.8	38.5	39.0	333.6
Base		16.4	18.4	20.1	21.2	22.1	23.1	23.5	23.9	24.2	24.4	217.4
Tax Payments												
Best	25.0	19.7	24.1	27.6	29.9	31.8	33.2	34.4	35.3	36.0	36.5	333.6
Base	20.0	14.4	16.4	18.1	19.2	20.1	21.1	21.5	21.9	22.2	22.4	217.4

H2 Approach – 3 Steps to the Pre-UIGEA Offshore iPoker Market Assessment

1. Assessment of the scale of the global sector based on actual results / tracking of real money player traffic;
2. Allocation to US market based on actual information from the major platforms (larger companies disaggregated gross win for US at time / all listed companies provided it when they exited following UIGEA) / timing of real money player activity (two clear peaks in play each day reflecting European / US time zones);
3. Allocation of US market to each state – two major operators provided H2 with state-by-state data by product for the years 2004-06 during the period when we were assisting PwC in the scoring to the federal Frank Legislation.

N.B. It was clear that pre-UIGEA did not just reflect macro factors such as GDP, there was still a concentration on the low hanging fruit i.e. larger states / those located on either seaboard. In the case of poker there were other factors such as the location of a high number of professional players in the state of Nevada.

H2 Approach –

PA Onshore iPoker Market Potential Bridging 2006 to 2016

10-Step Bridge to span the ten years between the offshore market peak and the assumed onshore regulated iPoker market start date:

1. Subtract bonuses which were running at c10% at the time to get from 'Gross Win' back to "Net Win";
2. Full year adjustment for 2006 as UIGEA was signed into law on 13 October;
3. Apply the regulatory upside typically seen for iPoker when it has been regulated onshore;
4. Make an adjustment for a lower tax rate – typically tax rates for iGaming have been set at between 20-25% of gross win in the European markets that have regulated;
5. Apply a premium for a iPoker only – with the absence of other iGaming products players will spend more time / money on poker;
6. Discount for limiting liquidity to 'intra-state' – an assumption has been made that any state with a market potential of less than \$500m (base case) will not realize its fully potential without 'inter-state' liquidity;
7. Europe has seen no onshore regulated iGaming scheme capture all activity therefore a discount linked to the tax rate has been made – with higher tax rates there are less funds for operators to invest in marketing and bonuses so there will be a direct impact on player take up based on price and awareness;
8. Add back bonuses which are current running at around 20% for iGaming in onshore regulated markets in Europe – this rate could be slightly higher in the early days of a significant US state market due to an aggressive land grab particularly if an up front license fee is not applied to balance market entrants with the optimum number of longer-term market participants;
9. Ten year GDP is applied;
10. An adjustment to GDP CAGR is applied – during the three years leading up to 2006 offshore iPoker growth in the US had been outstripping GDP growth by an average of 94% per annum - since 2006 iPoker growth across the European Union has outstripped GDP by in the region of 9.5% - however, in the past three years the rate has been -0.8% - we are of the opinion that the US iPoker market was far more mature than its European counterpart in 2006 therefore, no additional growth above GDP was applied to the base case..

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Prepared for Caesars Entertainment
June 2014

Pennsylvania

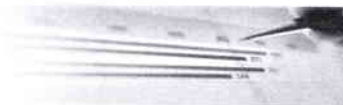
iPoker: The Potential 10 Year Market
An Independent Assessment



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