

Insight: Brazilian Casinos Could well Exceed \$9 Billion Gross Gaming Revenue

Amidst its longest recession since the 1930's, Brazil legislators are paving the way for legalizing gaming. For operators, slot manufacturers and investors, Brazil represents the next big opportunity.

I. Current Status of Gambling in Brazil

- Ban on land based casinos was instituted in 1946 (online gaming is also illegal)
- Bingo halls outlawed in 2007 due to fear of money laundering
- Illegal gambling is estimated to be a \$5.3B revenue industry, mostly consisting of a local numbers game, "Jogo de Bicho"
- Lottery and betting on horseracing generates \$4B in revenue¹

II. Legislative status

- There are two bills, one each in the Senate and House; once approved in one house will be voted in the other house²

Figure 1: Comparison between Senate and House Bills

Side by Side Comparison of Two Bills	Senate Bill 186	House Bill 422
Games Legalized	Lottery, Casinos, Online Gaming, Bingo, Jogo de Bicho	Lottery, Casinos, Bingo, Online Gaming, Jogo de Bicho
Tax Rate	Land Based: 10%, Online:20%	TBD
Concession Process	RFP tender process criteria includes hotel operators, concession fee	RFP tender process, criteria includes: hotel operators, previous experience and fee
Number of licenses	35 in total, 1-3 per state based on population	32 in total
Geographic Preferences	40% established in the North/Northeast regions	None
Concession Caps	1 concession per state	none
Concession Term	30 Years, renewable once	20 Years, renewable once

II. Based on current illegal gambling activity Brazil could generate \$9 billion of gaming revenue

- Using the \$5.3B estimate for illegal gambling in Brazil suggests GGR/Capita of \$26
- Because illegal gambling activity consists of the popular, localized "Jogo de Bicho" game, we assume with many more forms of legal gambling available, GGR/capita would increase
- GGR/Capita in the US is \$216
- Applying the relationship between US and Brazil GDP/Capita yields a GGR/Capita estimate of \$45
- If Brazil's gaming industry generates \$45/Capita that would equate to \$9.2B of GGR
- Figure 2 below illustrates the build up to our GGR projection

Figure 2: Quantifying the Size of a Legal Brazilian Gaming Industry

Country	Pop. (M)	GDP (\$B)	GDP/ Capita	GGR/ Capita	GGR (\$M)
As Compared to the US					
Brazil Currently (a)	207	\$2,376	\$11,481	\$26	\$5,300
United States	325	\$17,950	\$55,241	\$216	\$70,107
GGR Projection-Brazil	207	\$2,376	\$11,481	\$45 (b)	\$9,280

(a) Estimate of \$5.3B in illegal gambling in Brazil
(b) Estimate of \$45 GGR/capita based on ratio of GDP/Capita between US and Brazil
Source: CIA World Factbook, UNLV Center for Gaming Research, SGC

If illegal gaming estimate of \$5.3B is correct, our \$9B projection could be the low case scenario

Even at \$9B, Brazil would be the third largest Gaming jurisdiction, surpassed only by the US and Macau

NOTE: To access Gaming industry analytics please visit our website at www.spectrumgamingcapital.com/analytics.

There we provide equity and debt comparisons for global gaming companies and gaming technology companies, a list of recent debt financings and a list of recent M&A transactions, updated weekly.

¹ <http://www.reuters.com/article/us-brazil-economy-gambling-idUSKCN0RM2D520150922>

² Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, "Gambling in Brazil – A New Bet for Foreign Investors".