



Attracting Investment to a New Brazil Gaming Industry

Presentation in connection with: The Brazilian Gaming
Congress

June, 2017



SPECTRUM
GAMING
CAPITAL

Introduction

- Brazil has the potential to be one of the largest jurisdictions globally, with gaming revenue potential of up to \$20b or more, generating \$4b or more just in annual gaming tax revenues, in addition to corporate and personal income tax revenues
- The purpose of this presentation is to briefly review the market potential, comment on the proposed gaming legislation from the point of view of international casino operators and investors, and illustrate comparable other countries' best practices in regulating gaming
- We cite key indicators that stakeholders and investors should consider including:
 - Size of the overall market
 - State by state demographics in Brazil
 - How other countries' gaming regimes can be bases for establishing the Brazil "gaming model"
- The Spectrum Gaming Group of Companies are eager to assist Brazilian government agencies and prospective operators in:
 - Helping to establish the regulatory framework for gaming
 - Establishing partnerships with international casino companies, and
 - Attracting international investment into Brazil

Brazil's Large Populace Would Make it Among the Most Compelling Markets for Foreign Investment

Extrapolating from win per adult statistics in other countries and adjusting for relative GDP, Brazil could be a \$10-20B+ market

Country	GDP (\$ Bil.)	Adult Pop (M)	GGR (1) (\$ Mil.)	GDP/Adult	GGR/Adult	Brazil GGR Projection
Brazil	\$2,183	190	NA	\$11,491	NA	NA
United States	\$19,503	251	\$89,685	\$77,637	\$357	\$10,041
Philippines	\$302	73	\$1,443	\$4,121	\$20	\$10,415
United Kingdom	\$2,545	52	\$5,798	\$48,942	\$112	\$4,975
France	\$2,502	60	\$2,459	\$41,758	\$41	\$2,146
Italy	\$1,880	58	\$12,608	\$32,408	\$217	\$14,645
Spain	\$1,261	38	\$4,045	\$33,348	\$107	\$7,007
Canada	\$1,416	32	\$8,726	\$44,191	\$272	\$13,459
Australia	\$1,348	19	\$14,369	\$72,878	\$777	\$23,269
Median	\$1,348		\$7,262	\$42,974	\$164	\$10,228
Mean	\$1,348		\$17,392	\$44,410	\$238	\$10,744

(1) Includes Casino, Gaming Machines and Bingo

Source: H2 Gambling Capital, SGC

These numbers do not take into account illegal gaming statistics, nor international tourism based gaming markets like Macau and Singapore

Differing State Economic Concentrations Will Allow for Multiple Casino Development Options

- Integrated resort investment by largest international gaming companies will be concentrated in the most populous and visited states such as Sao Paulo, Minas Gerais and Rio De Janeiro
- The abundance of opportunities nationally will exceed the capacity of the international casino operator and investment communities
- This will leave tremendous possibilities for local capital and operators as well.



Name	Pop.	GDP (\$B)	GDP (%)	Mo HHI/Capita
Roraima	0.5	3.4	0.2%	\$325
Rondonia	1.7	12.0	0.5%	\$274
Amapa	0.8	4.7	0.2%	\$268
Tocantins	1.5	9.2	0.4%	\$263
Acre	0.8	4.7	0.2%	\$232
Amazonas	4.0	30.6	1.4%	\$225
Para	8.3	43.9	2.0%	\$216
Subtotal - North	17.7	108.7	5.0%	
Rio Grande do Norte	3.5	19.1	0.9%	\$280
Sergipe	2.3	13.2	0.6%	\$267
Pernambuco	9.4	54.7	2.5%	\$266
Paraiba	4.0	18.7	0.9%	\$241
Bahia	15.3	79.0	3.6%	\$235
Ceara	9.0	44.5	2.0%	\$229
Piaui	3.2	13.3	0.6%	\$228
Alagoas	3.4	14.5	0.7%	\$202
Maranhao	7.0	27.1	1.2%	\$175
Subtotal - Northeast	56.9	284.0	13.0%	
Sao Paulo	44.7	706.3	32.3%	\$525
Minas Gerais	21.0	182.2	8.3%	\$356
Espirito Santo	4.0	45.4	2.1%	\$352
Rio De Janeiro	16.6	236.7	10.8%	\$435
Subtotal - Southeast	86.4	1,170.6	53.6%	
Rio Grande do Sul	11.3	126.2	5.8%	\$473
Santa Catarina	6.9	85.5	3.9%	\$444
Parana	11.2	122.8	5.6%	\$426
Subtotal - South	29.4	334.5	15.3%	
Distrito Federal	3.0	163.9	7.5%	\$716
Mato Grosso do Sul	2.7	27.8	1.3%	\$391
Mato Grasso	3.3	35.7	1.6%	\$347
Goiias	6.7	58.2	2.7%	\$347
Subtotal - Central West	15.7	285.6	13.1%	
Total	206	2,183	100%	

Proposed Gaming Legislation in Brazil Includes Many Forms of Gaming, Similar to the US Model

Many countries employ multiple gaming business models. The US is the most diversified and generates \$260B in economic impact:

- 1.7M jobs - \$75B in wages - \$38B in tax revenue

	Integrated Resorts	Regional Casinos	Racinos/ Slot Parlors/Bingos	VLT's/ Routes	Internet Gaming	Tax Rate
Brazil	✓	✓	✓	✓	✓	
United States	✓	✓	✓	✓	✓	7-67%
Philippines	✓	✓	✓		✓	25%
United Kingdom		✓	✓	✓	✓	15-40%
France		✓	✓		✓	10-80%
Italy		✓	✓		✓	20%
Spain		✓	✓		✓	25%
Canada	✓	✓	✓		✓	20%
Australia	✓	✓	✓		✓	4-20%
Macau	✓					38%
Singapore	✓					5-15%

Source: World Casino Directory, Casinocity.com, H2 Gambling Capital, PWC

Gaming Policy Needs to Address the Interrelationship of the Various Forms of Gaming

Policymakers need to focus on introducing a comprehensive and controlled environment

- Legislation needs to coordinate and consider the interests of all stakeholders, including public social policy needs
- Must include effective regulation, emulating best practices from established gaming jurisdictions, and be backed up by enforcement
- Focus is needed on creating a supportive investment climate balanced between encouraging capital investment, job creation and overall economic impact
- Unifying policy needs to address the sometimes conflicting needs of the various forms of gaming: Integrated Resorts, regional casinos, local casinos (Bingos), distributed gaming in local F&B establishments, on-line gaming and lotteries

Spectrum, the global leader in gaming policy consulting, has advised governments around the world on such matters, including Singapore and multiple US states

Various Countries Offer Good Templates for Gaming Businesses that Can be Models for Brazil

As Brazil Modernizes its Lottery, Implements Sports Betting and Legalizes Casino Gaming it can model off best practices from other markets throughout the world

- The US gaming industry can offer good examples on gaming regulatory regimes
 - The US offers many of the same forms of casino gaming that are written in Brazil's proposed legislation including integrated resorts, regional land based casinos, slot/bingo parlors, and routes (BR-1 machines)
 - The US has the world's most productive regional casino model generating over \$8B in tax revenue and more than 300K jobs; most gaming companies are capitalized by institutional investors with publicly held securities
 - Unlike Brazil's planned federal regulatory model for gaming, US states oversee most gaming regulation – this system has developed over 85 years with vastly differing gaming models by jurisdiction
 - The US has few places that allow internet gaming and sports betting and therefore may not be a good model for Brazil
- Other markets around the globe can provide models for other gaming sectors
 - Singapore's integrated resort model with only two mega-casinos has been hugely successful with \$5B of gaming revenue in 2015 and a 50% increase in tourism since the developments opened in 2010
 - The United Kingdom has created a \$15 Billion online gaming industry over the last 15 years and also has the largest sports betting business in Europe

Modernization of Brazil's Lottery Business will Improve Revenue and Profitability

- Lotteries around the world face similar problems of losing effectiveness due to aging strategies and infrastructure
- Lottery modernization takes many forms and is an ongoing need including introduction of:
 - Differing sponsorship such as state lotteries
 - New forms of distribution like instant tickets
 - New games including branded forms, sometimes associated with popular non gambling themes
 - New media for distribution, such as on-line or internet based distribution
 - New bases for game play such as sports based vs random numbers
 - Various forms of wide area progressive accumulations (Powerball) to create more drama and larger prizes
- Included is modernization of lottery operational infrastructure, strategy, business practices and marketing approaches

Recent lottery consulting engagements in Ohio and Massachusetts in the US and the Republic of Georgia demonstrate the broad range of our expertise

Sports Betting Appears to be the First New Gaming Business to be Rolled-out in Brazil

On a per-capita basis, the UK has the most developed and productive sports betting industry making it a good business form for study

- The sports betting business consists of both retail betting shops and online betting
 - For retail, there is no requirement for an operator to prove unsatisfied demand in a certain location prior to opening a licensed retail betting shop
 - Demand tests do exist in Italy and France as a requirement prior to licensing
 - The UK also operates a third of all self-service betting terminals (“SSBT’s”) in Europe
 - SSBT kiosks, typically located in betting shops, allow for simple bet placement in different languages
 - For online, the UK regulator does not restrict types of available bets, but provides substantial oversight supported by strong codes of conduct

Sports Betting GGR - 2016			# Betting		GGR/
Country	GGR (M)	Tax Rate	Shops	GGR/Pop	Shop
United Kingdom	1,080	15%	8,788	23	\$122,932
Italy	861	6%	8,100	17	\$106,352
Spain	258	25%	4,480	7	\$57,568
France	651	9%	13,200	12	\$49,329
Australia	158	3%	8,400	9	\$18,841
Germany	101	5%	27,800	1	\$3,620
Canada	164	NA	NA	6	
China	5,819	NA	NA	4	
United States	217	7%	NA	1	

Source: H2 Gambling Capital, Gaming Economics

Proposed Casino Legislation Contains Certain Challenges for International Investors

	<u>Senate Bill 186/14</u>	<u>House Bill 442/91</u>
Casinos:		
Taxes	GGR - 3.65%; Corporate - 45%; Withholding Tax - 30%	GGR - 3.65%; Corporate - 34%; Withholding - 15%
Exclusivity	40% of licenses in North, N/East, Midwest	1 per state, 2 in Rio/Bahia/Minas Gerais, 3 in SP
License Duration	25 years	30 years
License Criteria	Highest concession fee	Prior Experience and highest concession fee
	25 year license, 1 lic./200K pop., No operator can have >10% of all licenses	20 year license, minimum investment based on population, 80% payout ratio
Bingos:		
Online Gaming:	Caixa	Casino/Bingo licenses
		Minimum investment, 5 machines per establishment, 40%/60% profit sharing
BR-1 Machines/VLT's:		

Potential Investor Concerns with Proposed Legislation

- ***Massive simultaneous gambling legalization*** – this will hamper investment in larger projects – gaming businesses need to be “rolled out” over time.
 - The extent of gaming competition needs to be understood as each successively smaller operation detracts from larger ones that are dependent on greater business volumes to support the development cost of more non-gaming amenities and more service jobs
 - Investors need to be able to evaluate extent of competition to assess potential return on investment
- ***Awarding licenses based on up front concession fees to the government*** – Up-front fees diminish project investment – the smaller the project, the less the economic impact and job creation

Integrated Resorts Would Thrive in Brazil's Largest Cities and Promote Tourism

- The Large Brazil cities such as Rio de Janeiro and Sao Paulo that garner significant tourism and benefit from a wealthy and populous demographic would be natural host cities for large, amenitized, integrated resort casinos
 - In the US, the Las Vegas Strip is home to 20+ integrated resorts, with 42M annual visitors both from the US and internationally - Las Vegas casinos pay a low 6.75% tax rate, allowing for substantial capital investment
 - Singapore allowed two large integrated resorts - Singapore has 5M residents but attracts three times as many tourists – Singapore's low tax rate of 5% for VIP gaming and 15% for mass gaming drove \$12B in investment
 - Manila's Entertainment City will provide for four integrated resorts each with a minimum investment of \$1B and a 25% tax rate

Bellagio, Las Vegas



Marina Bay Sands, Singapore



Resorts World Sentosa, Singapore



CityCenter, Las Vegas



Entertainment City, Manila



Regional Casinos Bring Investment, Jobs and Entertainment to the Nearby Populations

Regional casinos offer fewer non-gaming amenities and a smaller scale than integrated resorts

- These properties generally offer full casinos or just slots, 2-8 food & beverage outlets, and some form of live entertainment facility, often with a small hotel and meeting & events center
- Regional casinos cater primarily to the local population located between 50-100 mile radius of the casino
- Investment in regional casinos is less than integrated resorts and may be taxed at higher rates if they are given some geographic exclusivity
 - Although a regional casino will employ less people, it can generate substantial tax revenues
- When setting the casino tax rates, it is critical to weigh the priorities of economic impact/job creation vs. tax revenue for each size of casino operation

River City Casino, St. Louis



Casino Estoril, Portugal



Victoria Gate Casino, Leeds, UK



Bingos, Effectively Slots-Only Casinos, Create Jobs and Compete with Regional Casinos

Bingos and slot parlors, have relatively less economic impact and capital investment, but can generate significant tax revenue and jobs

They are most common in Latin America and Europe

- In Mexico most bingo halls are part of gaming facilities that operate slot machines alongside traditional bingo products
 - There are ~160 bingos, which are taxed at 20% of gross income
 - Caliente, Codere and Televisa are the main bingo/slot operators in the country
- In Argentina, bingo is prevalent throughout the country and each province sets the rules for licensing
- The United Kingdom has 500 bingos that generate ~\$700M of GGR
 - Bingos are taxed at 10% of gross profits



Big Bola Queretaro, Mexico



Calder Casino, Miami

Deployment of Slots (BR-1) in Bars Create a Few Jobs and Some Tax Revenue, but Compete with Local Casinos

Can generate substantial tax revenue, but dilute economic effectiveness of other casinos

- US market offers slots at taverns/bars, restaurants and truck stops in several states including Montana, Nevada, North Carolina and Louisiana
- Illinois might be the best example of how impactful this business can be
 - Video Gaming was introduced in 2012; by March 2017 there were 26,000 machines in 5,900 establishments generating \$1.15B of GGR, but they diminished land-based gaming, taking away all growth

Type	2013	2014	2015	2016	CAGR
Gross Gaming Revenue					
Route Ops	\$301	\$659	\$914	\$1,108	39%
Land-Based	<u>\$1,551</u>	<u>\$1,463</u>	<u>\$1,435</u>	<u>\$1,413</u>	-2%
Total	\$1,852	\$2,123	\$2,348	\$2,522	8%

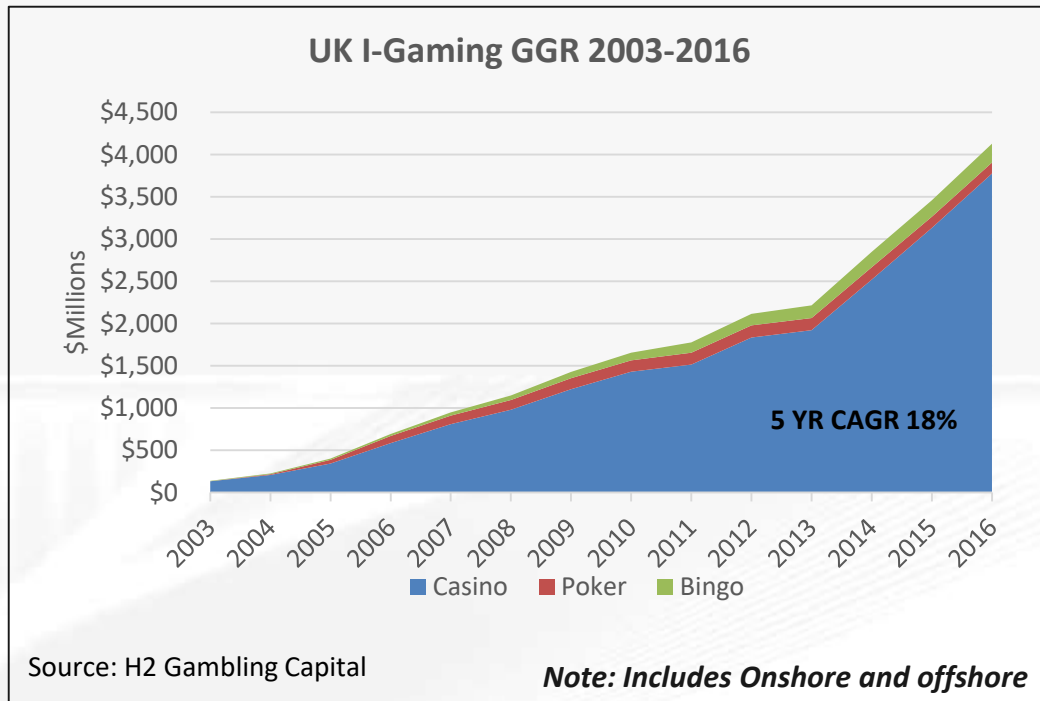


Much can be Learned from the UK, the Leader in Regulated Online Gaming

- Of the top five European markets, the United Kingdom generates the most internet gaming GGR and the highest GGR/capita
- The UK has been at the forefront of internet gaming regulation since the passage of the Gambling Act of 2005, which enabled operating an internet gaming business from the UK
 - 15% tax rate on gross profits
 - Major operators include Ladbrokes-Coral, Paddy Power and Betfair
- A UK internet gaming license is seen as a stamp of approval for I-gaming operators
- The UK model might be a good template for development of this sector in Brazil

Top 4 Euro Markets for Onshore I-gaming	GGR	Adult Pop.	GGR/Pop
United Kingdom	1,239	52	24
Italy	1,022	58	18
France	973	60	16
Germany	835	81	10

Source: H2 Gambling Capital



Investors Will Need to Have Total Confidence in the Brazil Gaming Regulatory Environment

The US and Singapore are considered the best models for safe regulatory environments from the institutional investor standpoint

- Gaming Regulation
 - Rules of the games
 - Credit and collection
 - Required supervision and surveillance
 - Background investigations of casino licensees
 - Financial stability of operators
- Regulation Enforcement
 - Government supervision of gaming floor
 - Extensive reporting of operations and rule compliance
 - Special purpose investigative and adjudicative bodies
 - Punishment for regulatory violations
- Visibility of Gaming Performance
 - Public reporting of individual casino performance

Spectrum professionals have decades of global experience in multiple disciplines relating to advising and attracting investors to casino development

About The Spectrum Gaming Group of Companies

Spectrum Gaming Capital

- Casino Development Support
 - Strategic partnerships
 - Capital raising
 - Financial planning and analysis
- Mid-Market Investment Banking and Strategic Advice
 - Capital raising
 - M&A execution
 - Valuation
- Casino Advisory and Litigation Support
 - Valuation
 - Complex analysis
 - Gaming investment advisory
 - Evaluations for governments

Spectrum Gaming Group

- Economic Analysis
 - Gaming market analysis and benchmarking
 - Feasibility of casinos, lotteries and gaming related businesses
 - Economic Impact and operational upgrade
- Regulatory Consulting
 - Gaming Regime Development
 - Corruption and Anti-Money Laundering Prevention
 - Casino Licensing Investigations
- Business Intelligence
 - Research and Due Diligence
 - Fraud Detection and Prevention
 - Global database research

The SGC Team is Comprised of Professionals with Complementary Skills in the Gaming Industry



Robert Heller, President and CEO

- 30+ year career as an investment banker at Solomon, Bear Stearns, Lehman and UBS specializing in gaming, lodging and resort finance, and M&A
- \$50bn in transactional history - \$40bn in financings including 11 project financings in the gaming, lodging, leisure and real estate sectors
- Founding president and CFO of the developer of the \$3.5 billion Baha Mar Resort



Adam Steinberg CFA, Senior Vice President

- 15+ year career as an equity analyst, high yield analyst and investment banker specializing in gaming, lodging and leisure
- Experience at bulge bracket and boutique investment advisory firms, such as Bear Stearns, CIBC World Markets, Morgan Joseph, and FBR Capital Markets
- Operational experience as Director of Business Evaluation at GTECH Corporation



David Isaacson, Vice President

- Credit analyst at Moody's Investors Service, covering gaming, lodging and cruise companies
- Assigned ratings and wrote credit related research on gaming companies including distressed credits and project finance



Lilliana Costa, Brazil Advisor, Spectrum Associate

- Leading government and international relations expert specializing in public policy in complex sectors in challenging markets
- Her strategic insight into process and policy enables her to create constructive dialogue between all stakeholders in gaming and to advise suppliers and operators on their Latin American and Brazilian expansion and development strategies

Spectrum Gaming Group has Been in Business for 25 Years, Assisting Governments and Operators Globally



Fredric Gushin, Managing Director

- Founded Spectrum Gaming Group in 1993 where he led engagements for public and private sector including the government of Singapore and the State of Massachusetts
- Served as Assistant Director and Attorney General for the NJ Division of Gaming Enforcement (NJ DGE)
- At the NJ DGE he oversaw the openings of 12 Atlantic City casinos and managed civil and administrative litigation before the NJ Casino Control Commission



Michael Pollock, Managing Director

- Oversees a broad portfolio of Spectrum services including policy and impact studies for county, state and local governments and financial and market studies for private-sector clients
- Served as a spokesman for the NJ Casino Control Commission from 1991-1996
- Served as the editorial page editor of the "Press of Atlantic City" and authored the award-winning book *From Hostage to Fortune: Atlantic City and Casino Gambling*



Lee Richardson, Sports Betting and iGaming Advisor/Spectrum Associate

- 20 year career in sports betting industry, with operational experience in Europe, Asia and North America
- Held CEO/COO roles with UK Tote, Coral-Eurobet plc and Boyle Sports
- CEO of Gaming Economics, an international i-gaming consultancy and advisory business



Bill Egan, Senior Lottery Associate

- General Counsel of Massachusetts State Lottery Commission
- Experienced in several areas including technology, game and concept development, marketing and sales, finance and compliance
- Key contributor to Spectrum's lottery consulting engagement in the State of Ohio