THE INNOVATION GROUP

Michigan Senate Regulatory Reform Committee Hearing

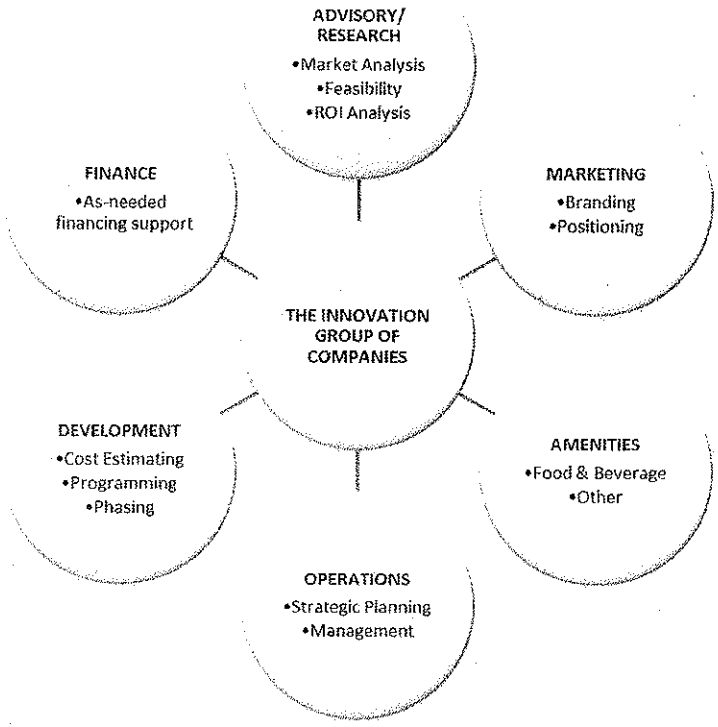
March 8, 2017

THE INNOVATION GROUP

Qualifications & Experience

Innovation Group of Companies

THE INNOVATION GROUP
Feasibility Studies, Economic Impact Analyses, Ops Analysis, Strategy

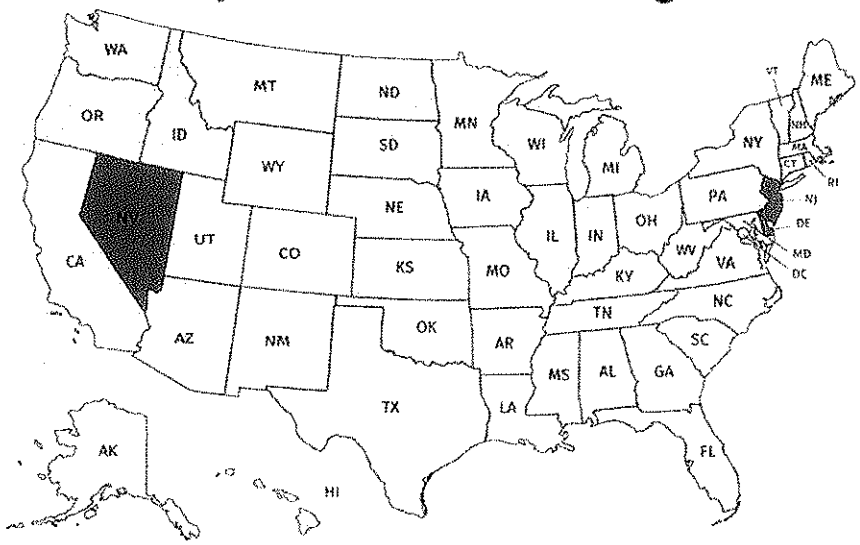


Database and Interactive Clients

	Project	Client
Interactive & Technology	Impact of Online Gaming PA	Amaya
	Bermuda Internet Gaming Feasibility	Pettingill Group
	CA iGaming Market Analysis	Commerce Club
	Interactive Advisory Services - Feasibility	Sandia Resort & Casino
	iGaming Market Impact Analysis - Spain	LVS (Las Vegas Sands Corp.)
	Due Diligence European Tech	Clarivest Group, LLC
	Expert Witness Internet Gaming	Poker Stars
	Interactive Advisory Services - Feasibility	San Manuel Bingo & Casino
	Strategic Business Plan – CMS	WIN Systems
	Start-up iGaming Profile	Shakopee Community
	Social Gaming Impact Analysis	Conf. Tribes of Grand Ronde
	iGaming Impact Analysis	Foxwoods Interactive
	Illinois Internet Gaming Demand	Rungood, LLC
	CA Mega-Bingo Analysis	Lowen Bingo Innovations
	Website Development Support	Bear River Casino Hotel
	Due Diligence Sever System Acquisition	Gores Group
	iGaming Feasibility	Potawatomi Business Development
	Start-up iGaming Profile	Osage Nation Gaming Ent.
	OTG Management	iPad Gaming Feasibility

iGaming Background

- September 2006 both the House and Senate passed the UIGEA
- Many of the top real money gaming platforms suspended operations in the US
- In late 2011 DOJ issued opinion on the Wire Act which allowed states to legalize iGaming within their boundaries.
- New Jersey was the first to do so followed by Nevada and Delaware
- To date they remain the only three states with legalized online gambling



Cardplayerlifestyle.com

iGaming in the US

- Of the three states to legalize online gaming only New Jersey and Delaware report monthly data
- New Jersey has become the benchmark for comparable markets around the US due to its:
  - Population size; and
  - Competitive land based casino environment.
- Online gaming officially launched in November 2013
- Gaming revenues started out sluggish, but have grown at a rate in excess of 30% as of recent

iGaming Projections

- Model calibrated to Actual New Jersey Revenues

2016 NJ Calibrated Penetration Model	
Total 2016 NJ Population	8,978,670
Initial Market Penetration	4.1%
Gamers	370,370
Spend per Gamer	$520
2016 Market Size	$192,592,472

- Forecasted revenues to estimate market statistics moving forward

NJ Calibrated Penetration Model and Forecast

Year	NJ Population	Initial Market Penetration	Gamers	Spend per Gamer	Initial 2016 Market Size	YoY Change
2016	8,978,670	4.1%	370,370	$520	$192,592,472	
2017	9,012,060	4.5%	401,037	$565	$226,585,719	17.7%
2018	9,045,574	4.8%	434,188	$585	$253,999,718	12.1%
2019	9,079,213	5.1%	458,500	$620	$284,270,159	11.9%

iGaming Projections Cont.

- New Jersey forecasted metrics were then applied to Michigan

2019 MI Penetration Model Mature Market	
Total 2019 MI Population	9,959,752
Mature Market Penetration	5.1%
Gamers	502,967
Spend per Gamer	$620
Mature 2019 Market Size	$311,839,825

- Two other methods were also used to help validate our initial findings
  - Spend per Adult Method ($43.50)
  - % of GDP (0.06%)

Comparison of 3 Projections Methods and Average GGR Projection for Mature MI Online Gaming Market

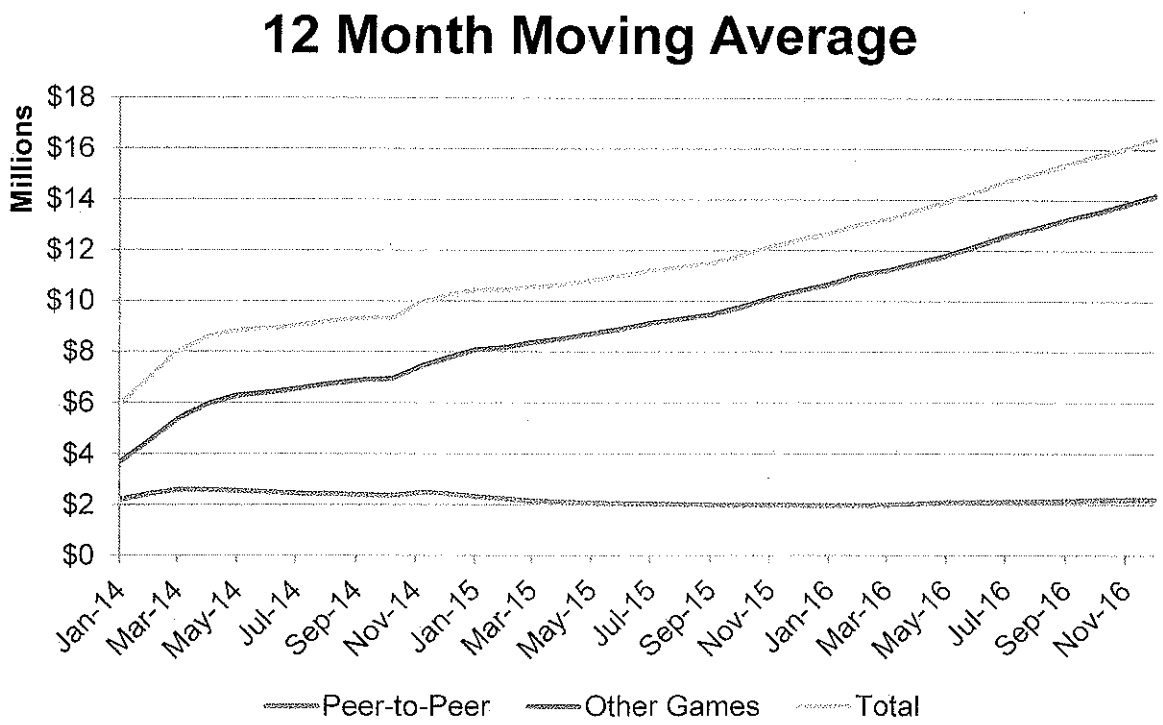
Method	Penetration Method	Spend per Adult Method	% of GDP Method	Average
2019 MI Online GGR	$311,839,825	$322,132,554.92	$324,956,983	**$319,643,121**

iGaming Projection Cont.

- Tax estimate for mature year
  - Assumed 10% tax rate generates $32 million
- Assumed initial year licensing fee
  - For primary license (casino)
    - $200,000 initial fee
    - $100,000 each year after
  - For platform provider
    - $100,000 initial fee
    - $50,000 each year after
  - For vendors
    - $5,000 initial fee
    - $2,500 each year after
- Value of Compacting – majority for poker liquidity
  - With NJ: 2.5%
  - With PA: 4.9%
  - With NJ & PA: 7.4%

New Jersey iGaming Revenues

- Growth dating back to inception
  - Including 32% overall growth in 2016
- iGaming revenues helped fuel Atlantic Cities first annual revenue gain in a decade



What We Learned?

- Age control works
  - No reported cases of underage gambling
- Geo-location controls work
  - Early refinements actually made it so patrons in the state had problems visiting the websites
  - According to the NJ Division of Gaming Enforcement, Amaya had just two (2) geolocation failures out of about 190 million hits (.000001%)
- Major banks were declining credit card charges
  - New designated code for legal online gambling
- Marketing efforts were not effective
  - Was low awareness statewide
  - Many brands were relying on current land based brand awareness
  - Affected those who did not gamble at land based casinos

Cannibalization?

- An early concern for many land based operators
- However…
  - Primary research conducted among operating states suggest cannibalization is a non-issue
    - Caesars executives stated some 90% of online signups in NJ were not previously in their database program, many of which later visited the land based property
  - VP of Online Gaming at Golden Nugget Casinos stated:
    - "…online and land based players are generally from two different stocks, via effective cross-promotional strategies online players can be coerced to supplement their play at a brand's land based locale"
    - "80 percent to 85 percent of their online customers — who can play dozens of different traditional casino games on their smartphones or laptops — are not regular visitors to their casinos"
  - The Innovation Group surveys highlighted similar findings
    - Overall, more survey participants stated their spend and frequency to land based casinos would increase with the ability to play online than those who said they would spend and visit less

Benefits

- To land based operators
  - New players are attracted to the casino via online play
  - Expansion of player database
  - Provides another, albeit relatively small, revenue stream for the casino
  - Provides cross marketing opportunities for the land based operator for gaming product as well as the array of other amenities offered

Benefits Cont.

- To the State
  - Creates new tax revenues
  - Creates both high paying technical jobs and low entry requirement jobs in the state
  - Regulates an industry which is currently available to residents through off shore web sites
  - Strengthens the viability and profitability of land based casino operators

Thank You

Question?