A View From the Top (Off the Record)

Canadian Gaming Summit

April 30th, 2008

CANADIAN
GAMING
ASSOCIATION

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Background and Context

- Structure of gaming in Canada is unique
- Extent of public-sector involvement
  - Balancing a range of policy with revenue
  - Political overlay
- A few large service providers/suppliers
- How to surface issues and generate dialogue?

What We Did

- Enlisted support of the CGA
- Set up interviews with public and private sector representing:
  - Gaming products
  - Geographies
  - Operators, regulators and suppliers
- Consolidated views and noted points of convergence and divergence

Who We Talked To

- 15 interviews with senior executives in every region of Canada
- All gaming sectors (e.g., lottery, casino)
- All gaming participants:
  - Provincial crown corporations
  - First Nation
  - Regulators
  - Service providers
  - Suppliers

The Issue Categories

1. Market Supply and Demand
2. Governance and structure
3. Operations
4. Legitimization of gaming

Market Supply and Demand

- Flattening growth curve
  - Source of future growth?
  - Less R.O.I. for public sector
- Adapting product to meet customer demand:
  - Supply mix
  - VLTs
  - Internet

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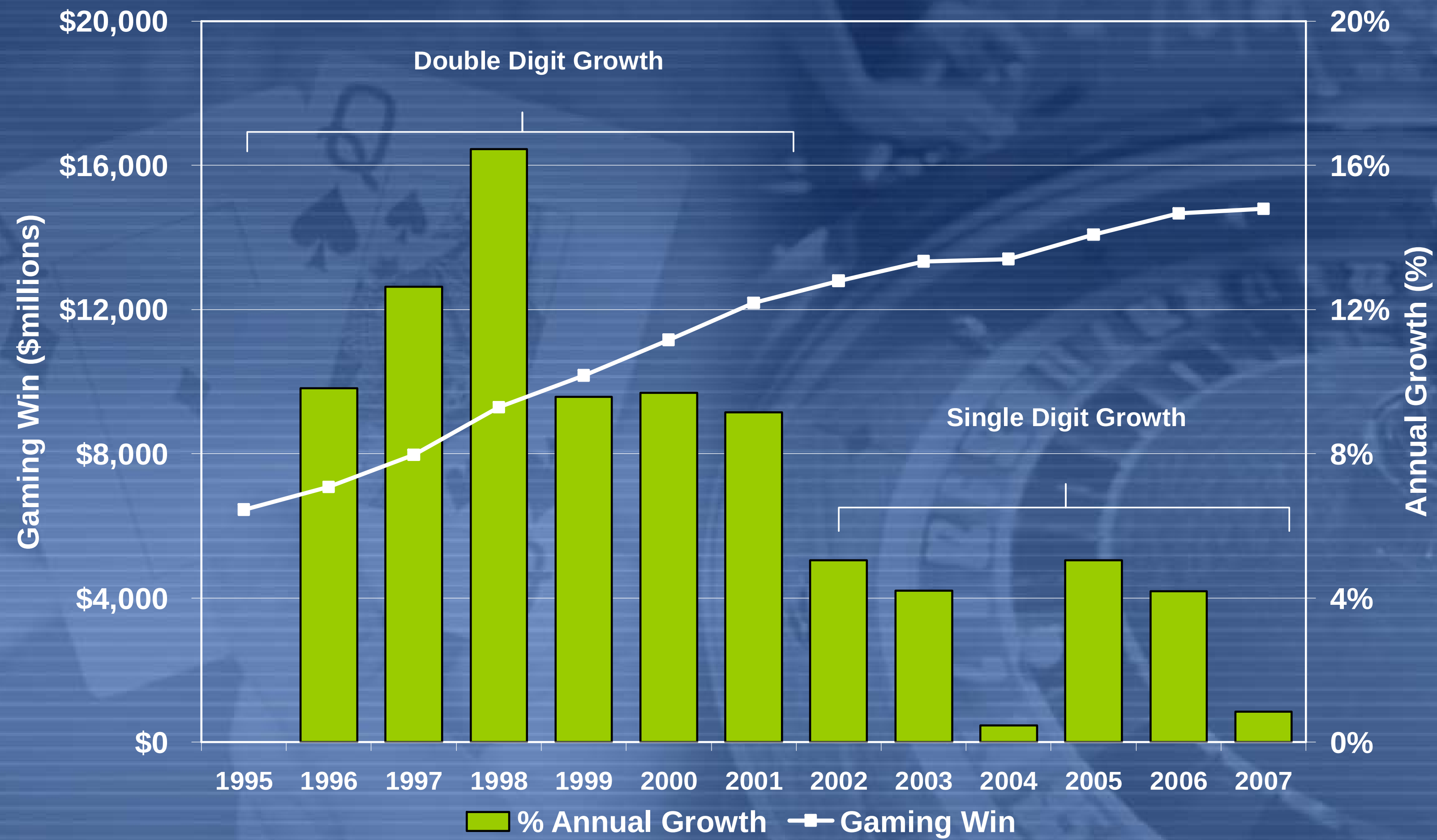
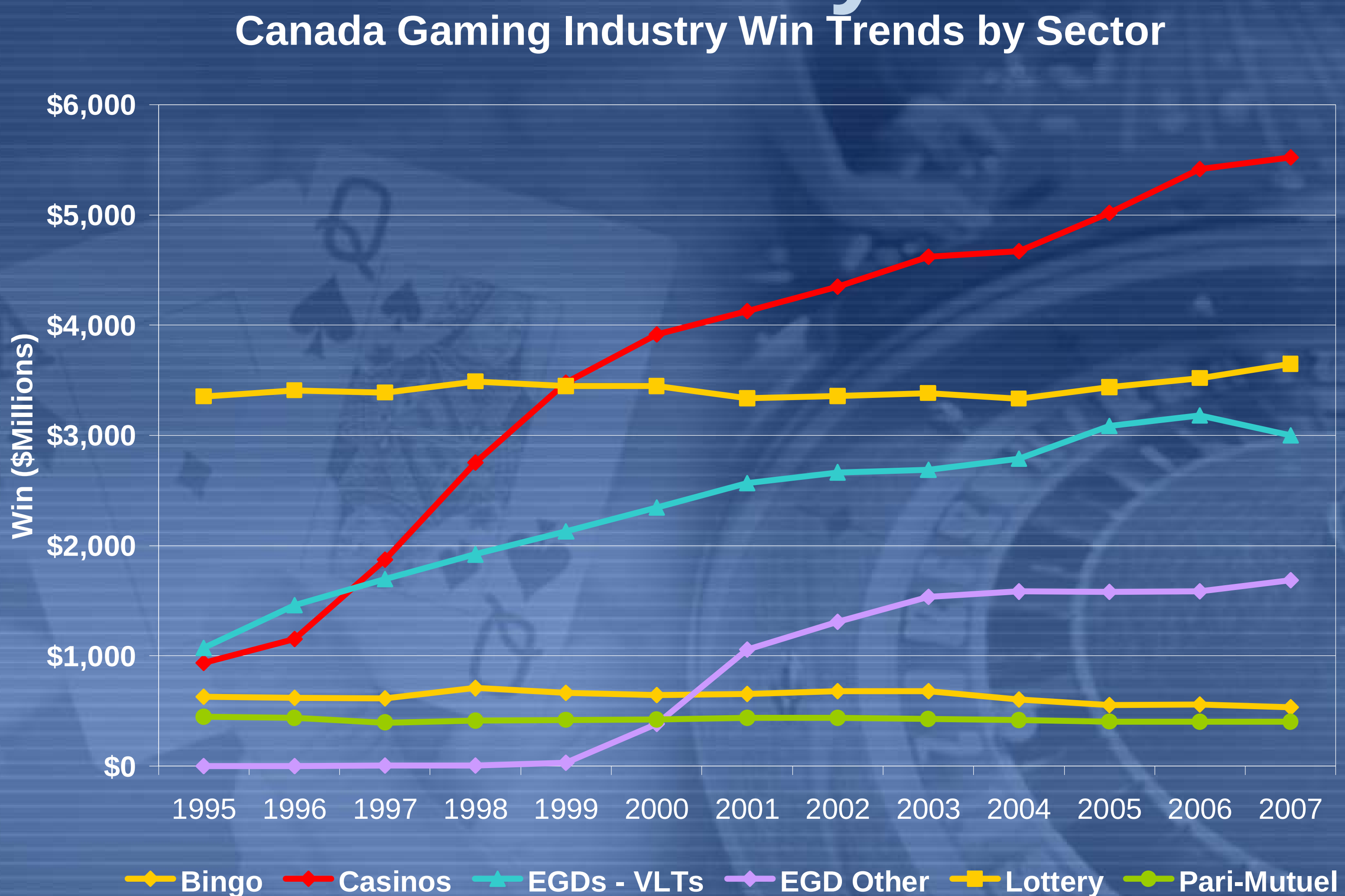
A Flattening Growth Curve

Canadian Gaming Industry Win Growth (1995-2007)



Source: HLT Advisory Inc. based on various provincial government/agency annual reports.

Win Trends by Sector



Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports and HLT estimates.

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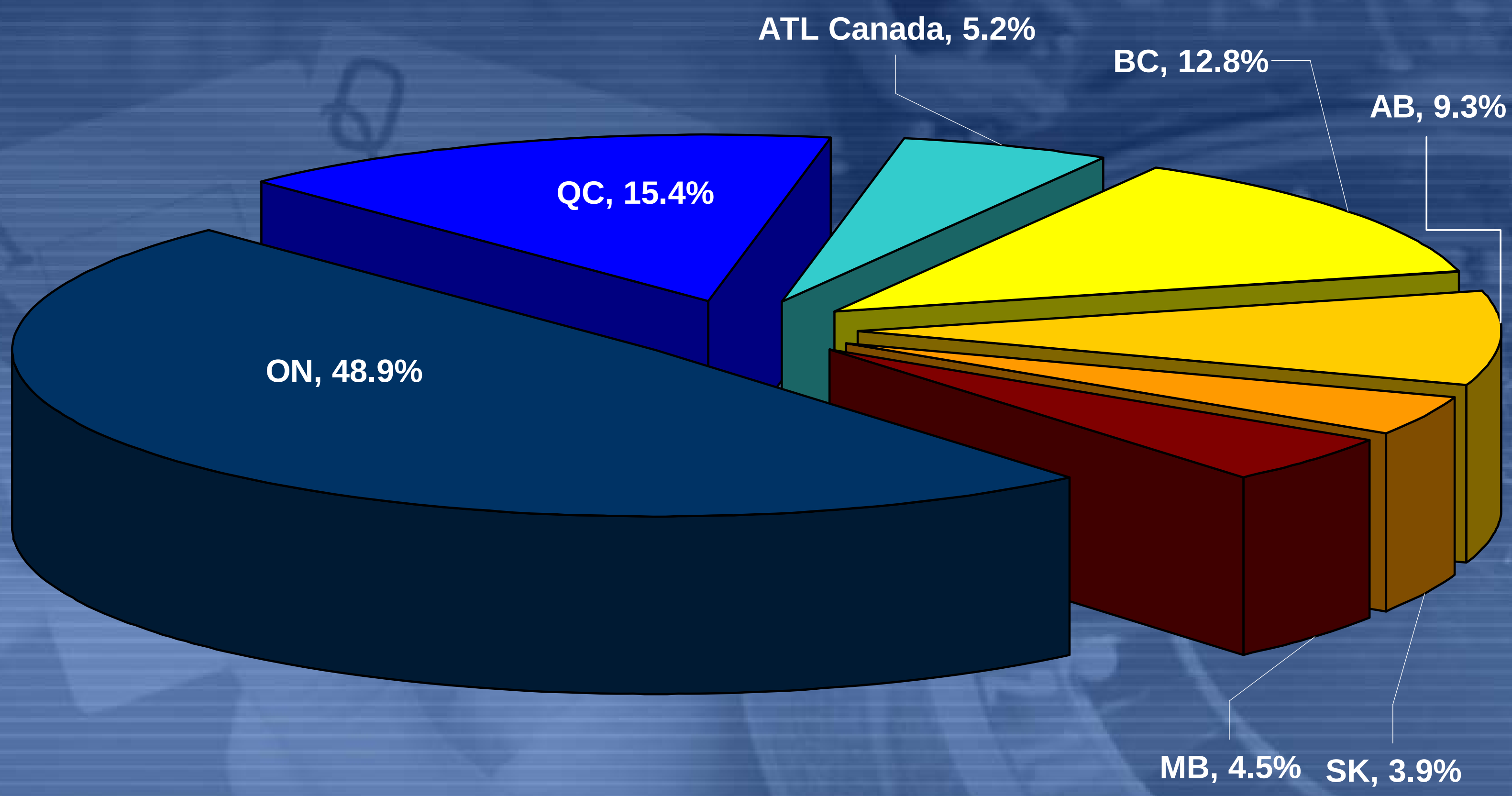
Market Supply and Demand

ROI on Capital Investment

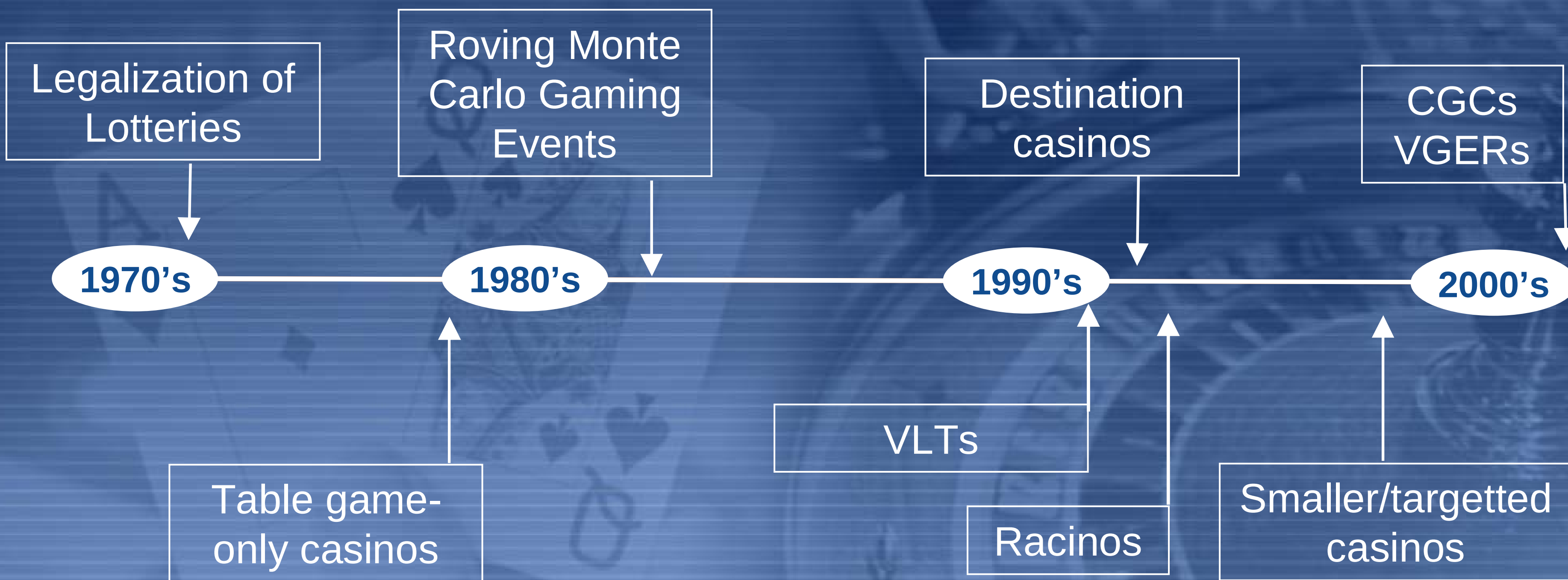
Almost $10 billion in Capital Investment



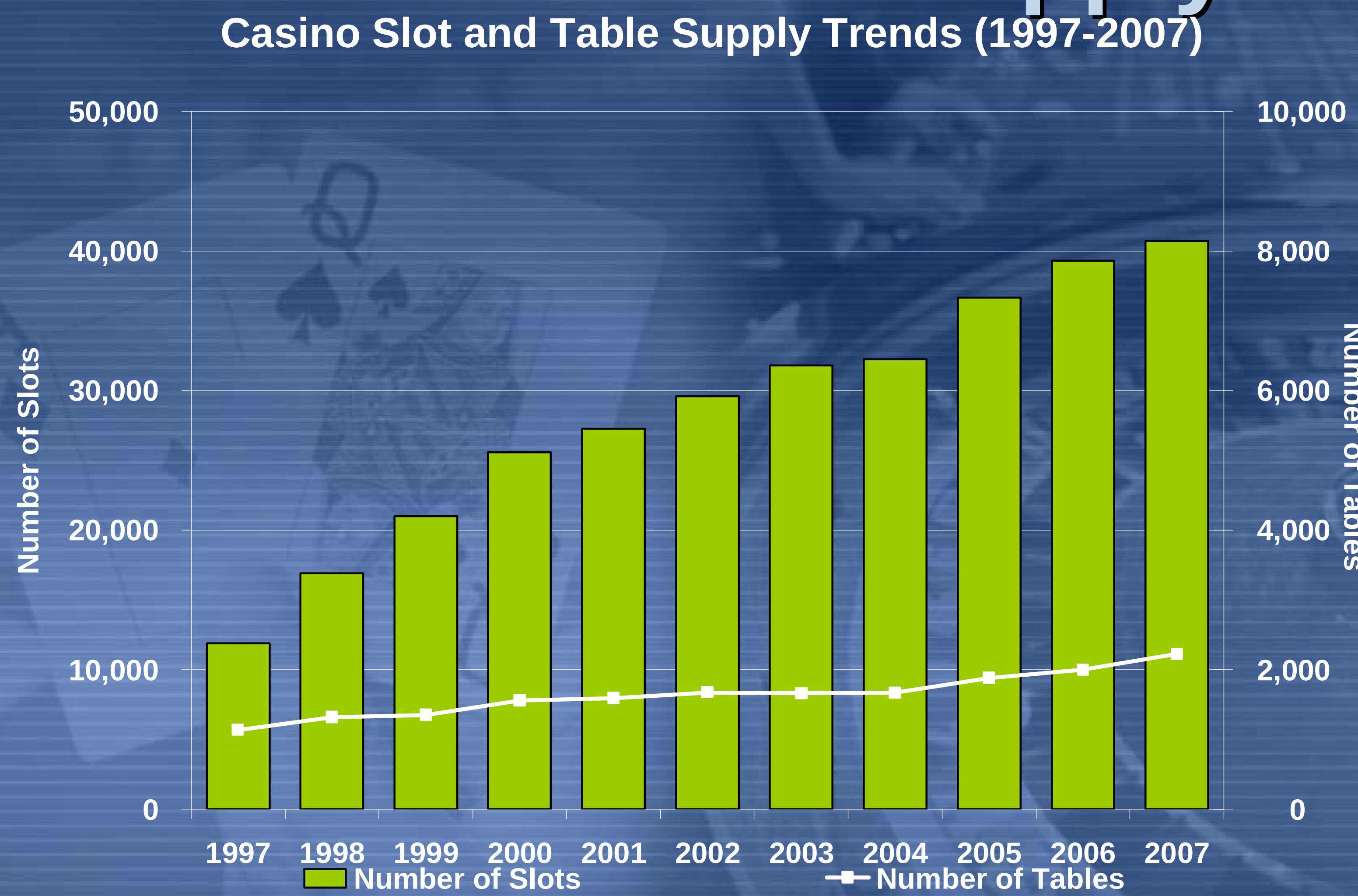
Plus sustaining Capex of $100 - $300 million/year

Source: HLT Advisory Inc. based on data from various government agency/corporation annual reports and HLT

Evolution of Gaming Product



Slot and Table Supply



Source: HLT Advisory Inc. based on various provincial government/agency annual reports and HLT estimates.

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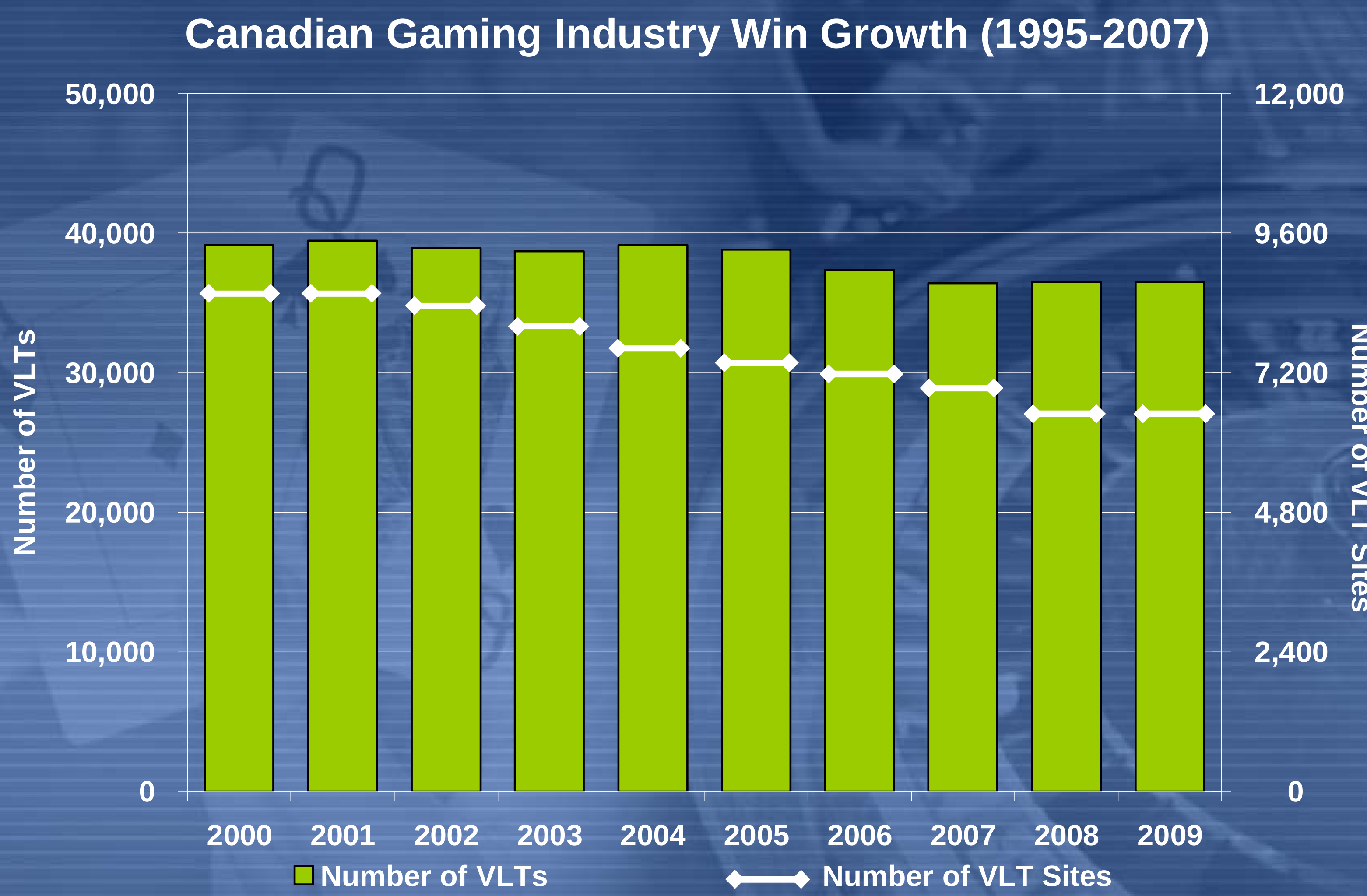
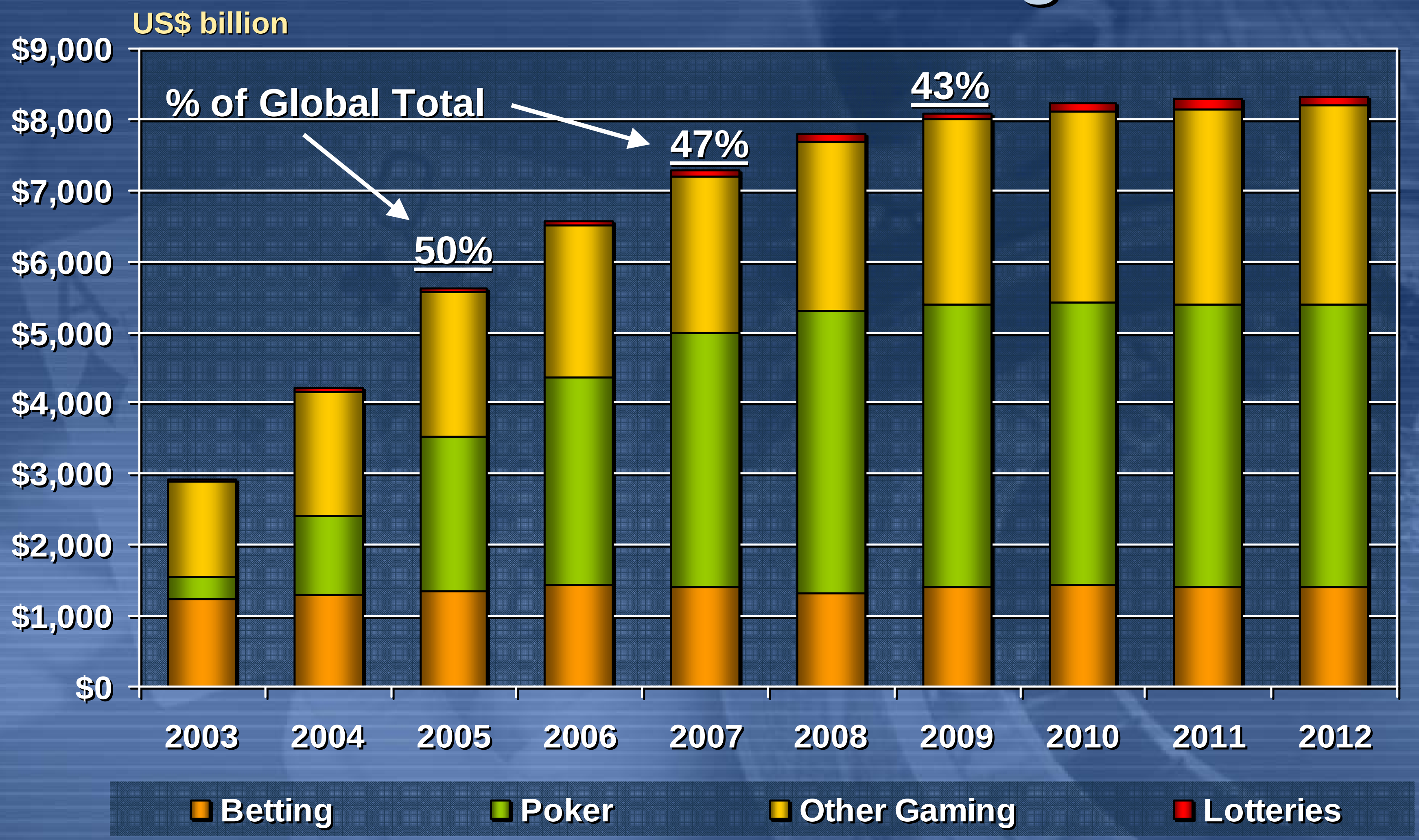
Video Lottery Terminals



Source: HLT Advisory Inc. based on various provincial government/agency annual reports and HLT estimates.

North American “I” Gaming Revenue



Source: HLT Advisory; Dresdner Kleinwort Wasserstein; Global Betting and Gaming Consultants

Internet Gaming

"Safe Sex" versus "Abstinence"

Pro:

- Just another form of gaming
- Not a land-based customer
- Better operated by those who know gaming
- Provides additional revenue stream (new products)
- Cannot keep up with technology designed to prevent

Con:

- Inherently bad
- Same customer
- Better not operated at all
- Revenue not worth risk
- Can prevent people from playing

Internet Gaming

Governance and Structure

- Criminal Code implications
  - Provincial approach
  - Charities
  - First Nations
- Governance relationships
- Role of public and private sectors
- How does strategy relate to policy?
- Responsible Gaming

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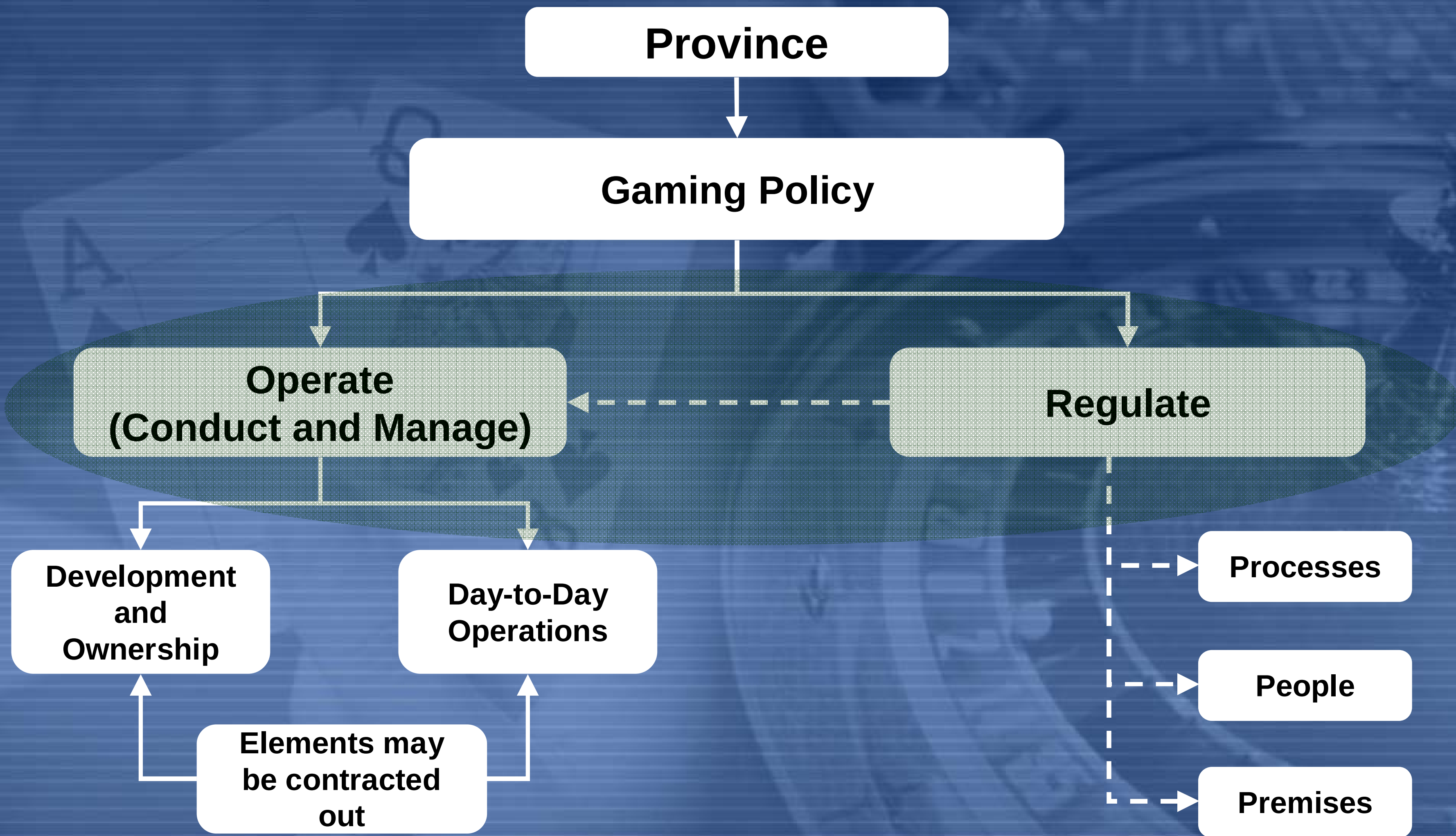
Criminal Code Implications

- Gaming is illegal except . . .
- Creates role for provinces/charities
  - Interpreted differently in each Province
  - Role has evolved over time
  - Size and scale has changed considerably
- Links scope/scale to population base
- Forces First Nation /Province interaction
- Horse racing addressed separately

Gaming Industry Governance Components



Public Sector Roles

- Lack of consistency across Canada
  - Conduct and Manage
  - Regulations
    - How to keep up with technology?
    - Driven by need to address specific issues
- Limited information and standards sharing
- Provincial policy development has broad implications:
  - Responsible gaming
  - Size, scale & business approach

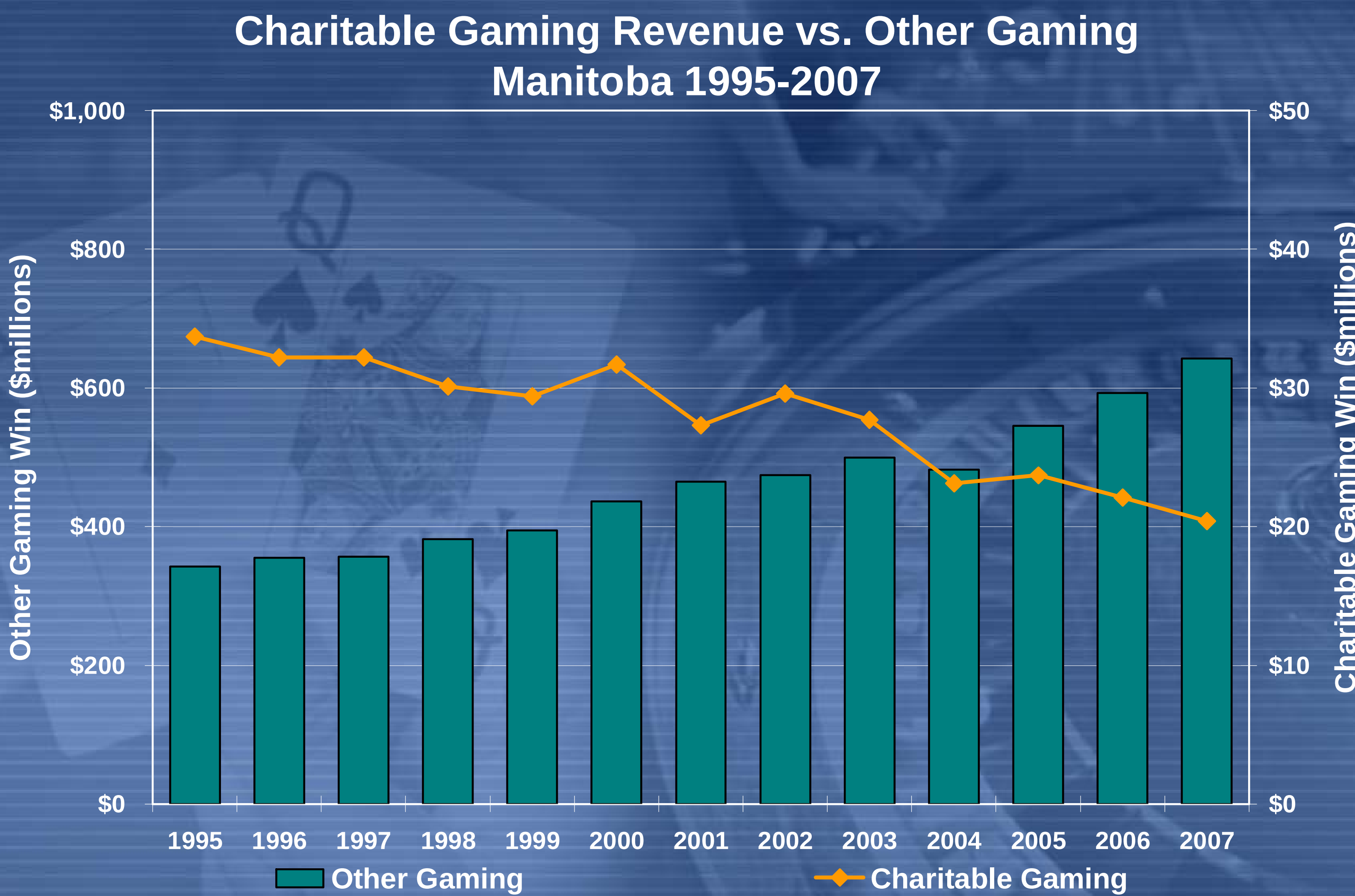
Private Sector Roles

- Provision of services
- Greater involvement <u>could</u> lead to:
  - Operating efficiencies
  - Greater protection of /separation for public sector
  - Greater ingenuity & creativity
  - Decisions made on a business not political basis
    - Government worries about what “might be” vs. “what is”
- Concerns relate to:
  - Ability to generate greater returns
  - Relinquishing control

Gaming Strategy

- Two types of strategy
- Crown Agency level:
  - Policy implications on development and operation (number, size, new products)
  - Revenue sharing
  - Success measures
- Provincial (market) level:
  - Supply and demand
  - Implications across all gaming types

Revenue Relationships



Source: HLT Advisory Inc. based on data provided by MGCC, MLC and CPMA annual reports.

Charity Gaming

- **What obligation:**
  - Delivery of product on a for-profit basis?
  - Income stream?
- **Should charity gaming:**
  - Be used as a platform for growth (CGCs)?
  - Be permitted to deliver new products (poker)?
  - What role does the private sector play?
- **To the customer gaming is gaming:**
  - Charity is "conducting and managing"
  - How does regulatory overlay differ?

First Nations

- Operations vs. Income stream
- Marketplace conflict
- Operational Differences
  - Smoking
  - Revenue sharing
  - Taxation

Responsible Gaming

- Industry is <u>totally</u> behind Responsible Gaming, but:
  - At what point is RG seen as anti-gaming?
  - Can government(s) be seen as neutral?
- Definition:
  - Duty of care
  - Individual responsibility

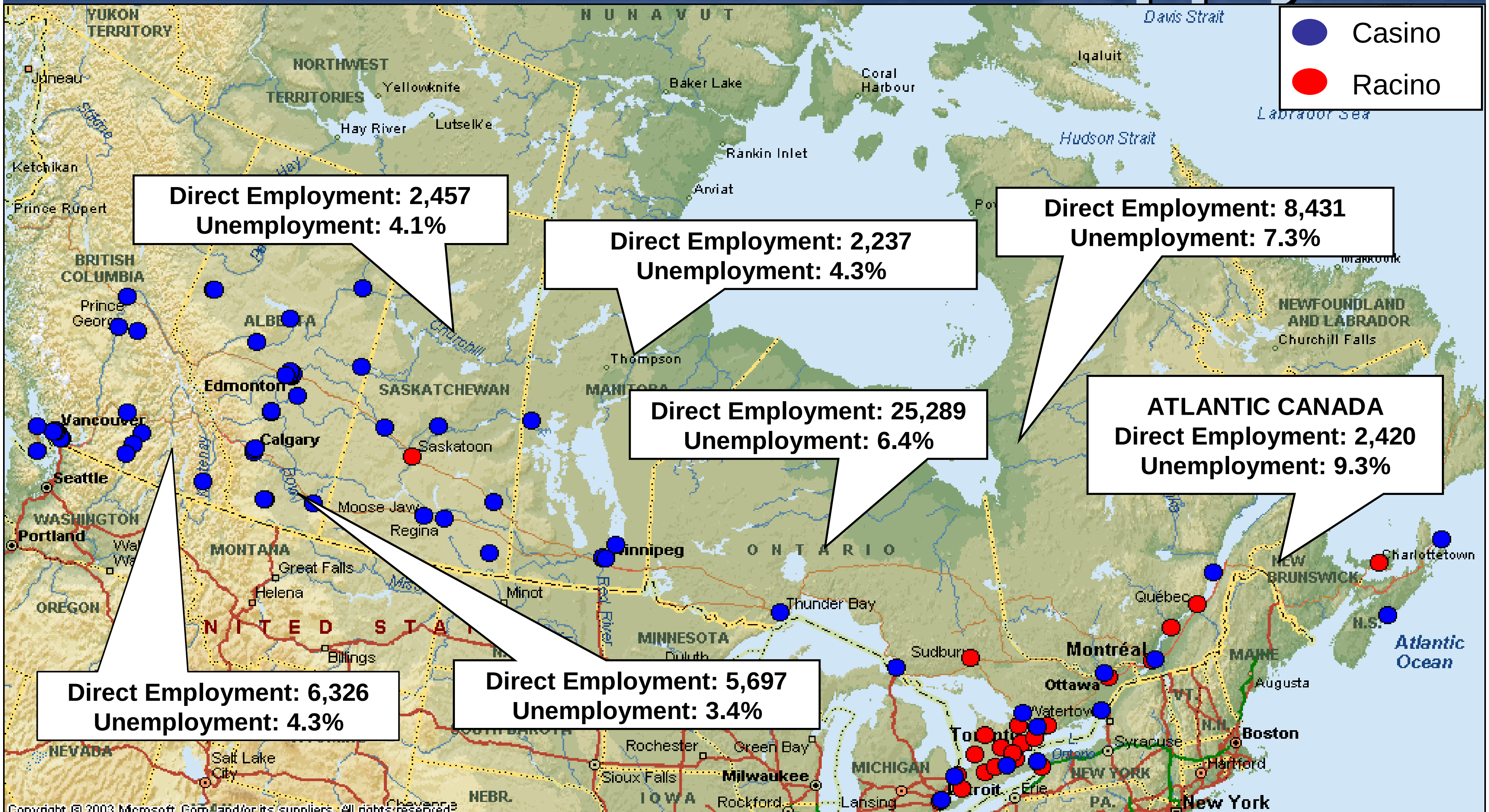
Operations

- Human resources
- Customer focus

Human Resources

- Finding, training and maintaining
- Turnover rates as high as 30%
- Competition for labour
- Constraints for public service employees (top/bottom pay scales)
- Artificial constraints (staffing levels)

Casino and Racino Supply



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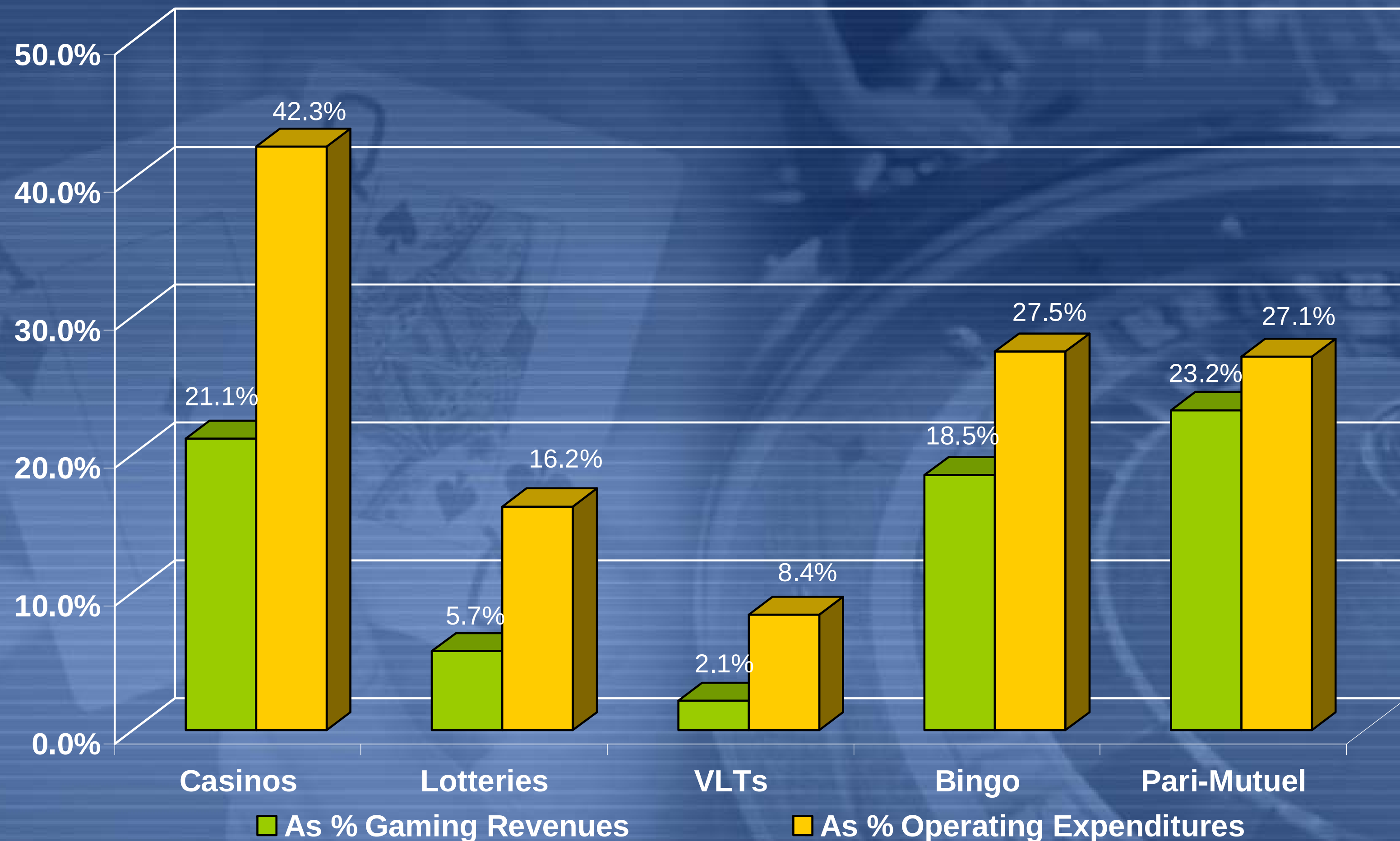
Proportion of Labour Cost

Labour Income Generated by the Gaming Industry

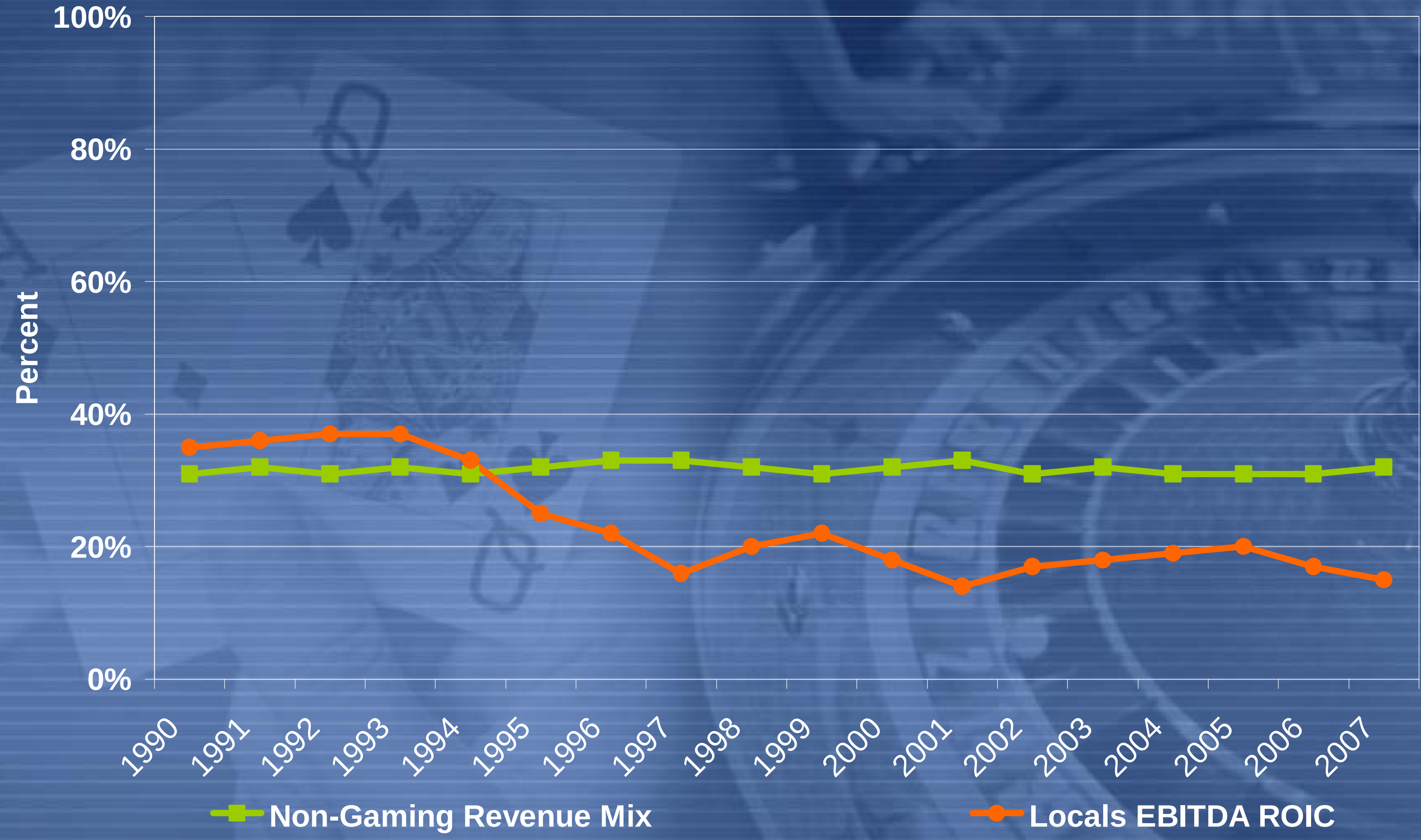


Source: HLT Advisory Inc. based on various provincial government/agency annual reports and HLT estimates.

Customer Focus

- Selling experience versus product
- Competitiveness intensity varies across Canada (border, destinations)
- Broadening customer base through:
  - Non-gaming amenities
  - Entertainment
  - ???
- Justifying capital investment

LV Locals Casinos
Revenue Mix and ROI



Source: HLT Advisory Inc. based on Nevada Gaming Control Board, Deutsche Bank.

Legitimization of Gaming

- Two thoughts:
  - Justification through "the Facts"
  - Justification through evolution
- Both have merit…not divergent

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Legitimization of Gaming

The Facts

- About $16 billion in revenue
- Employment:
  - Direct operating employment of 50,000
  - Total employment of 260,000
- Operating in every region of Canada
- Over $10 billion in capital invested

Public Acceptance of Alcohol

- **1920's** – Prohibition on sales lifted
- **1930's** – Government liquor retailers
- **1940's** – Sales allowed in restaurants, taverns and public places
- **1950's** – Permit cards for purchase of alcohol implemented
- **1960's** – Hours of sales (on premises) extended to 12/day
- **1970's** – Un-segregated seating of men & women allowed in licensed establishments
- **1980's** – Happy hours permitted
- **1990's** – Sunday sales; Beer and wine sales in arenas & stadiums

Outright Ban → Loosening rules/regulations → Individual Responsibility & Self Regulation

What's Next?

- Continued focus on Responsible Gaming
- More strategic view of gaming:
  - Intensity
  - Redefining stakeholders
- More customer-focused view of gaming:
  - Experience
  - Broader market base has implication on revenue sharing

What's Next? (cont'd.)

- Use of Internet as a gaming channel
- Greater role for private sector:
  - Infrastructure development/management
  - Non-gaming amenities
- VLT restructuring:
  - Fewer machines
  - Fewer sites…enhanced facility standards
  - Reaction to public opinion

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To Be Resolved…

- Regulatory alignment
- Human Resource challenges
- Approach to charity gaming
- Approach to horse racing
- Addressing unmet market demand
- Infrastructure replacement

Questions?

Lyle Hall
lylehall@hlta.ca

Rob Scarpelli
robertscarpelli@hlta.ca

HLT Advisory Inc.
(416) 924-7737