



Institute for the Study of Gambling
and Commercial Gaming
College of Business Administration

University of Nevada, Reno

THE FUTURE OF GAMBLING IN EUROPE AND NORTH AMERICA: COMPARISONS AND CONTRASTS OF ECONOMIC AND POLITICAL TRENDS, AND OF SOCIAL PRESSURES

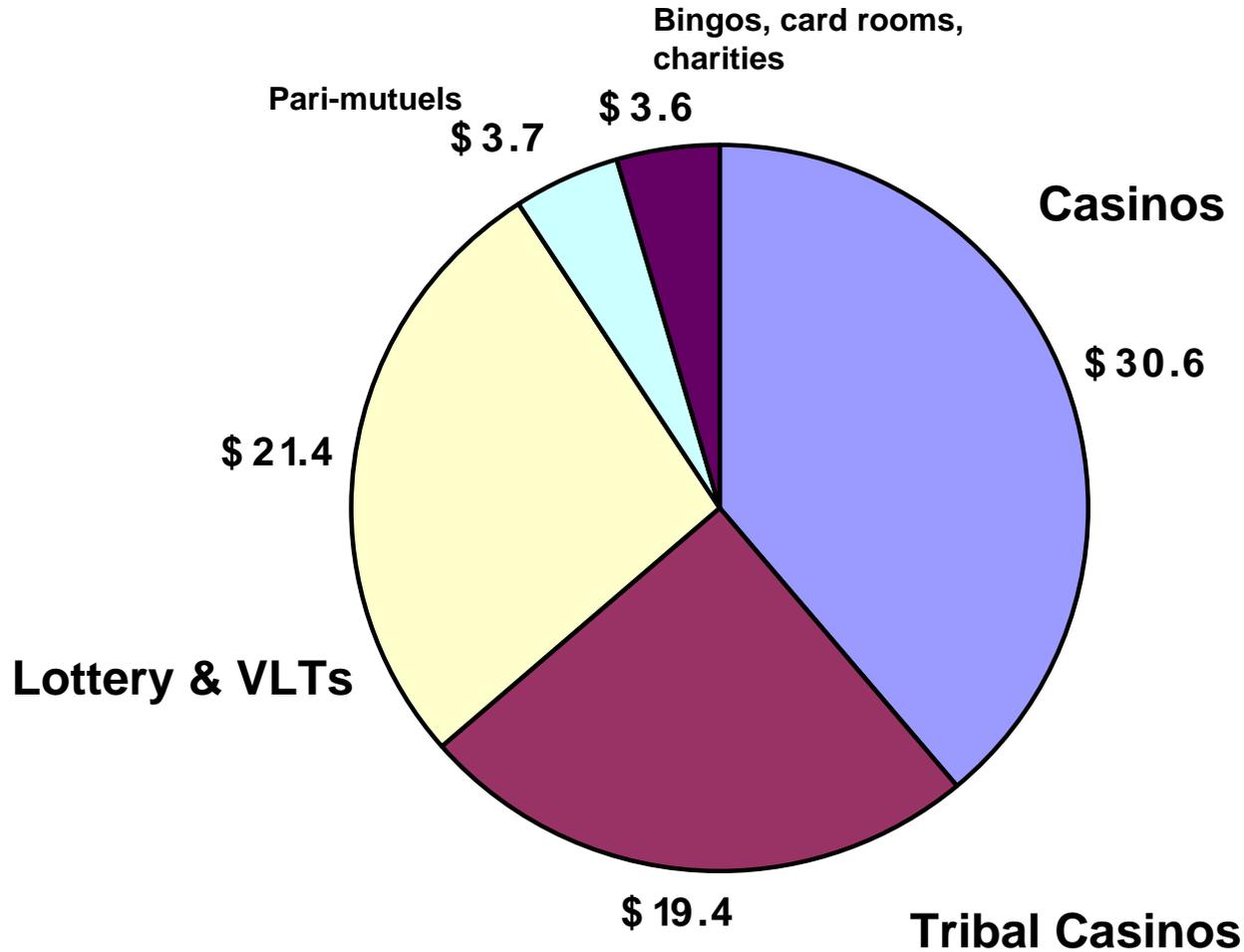
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UPDATE ON IMPORTANT ECONOMIC TRENDS IN THE AMERICAN GAMING INDUSTRY

- **Casinos** increasingly dominate the American gambling scene (both commercial and tribal)
- **Growth rates** had historically been driven by new state jurisdictions and capital investments in new casino properties, but both have slowed
- **State Lotteries** are for the most part in mature or sometimes declining markets
- **Horse Racing** continues to decline rapidly with very little indication that long term trends might reverse
- “**Convenience gambling**” (VLTs, video pokers, and slots in bars and taverns) legally remains a very limited product (OR, SD, LA, MT, NV)
- **Growth of Internet gambling** has been slowed considerably by the Unlawful Internet Gaming Enforcement Act of 2006

U.S. GROSS GAMING REVENUES, 2004 (Billions)

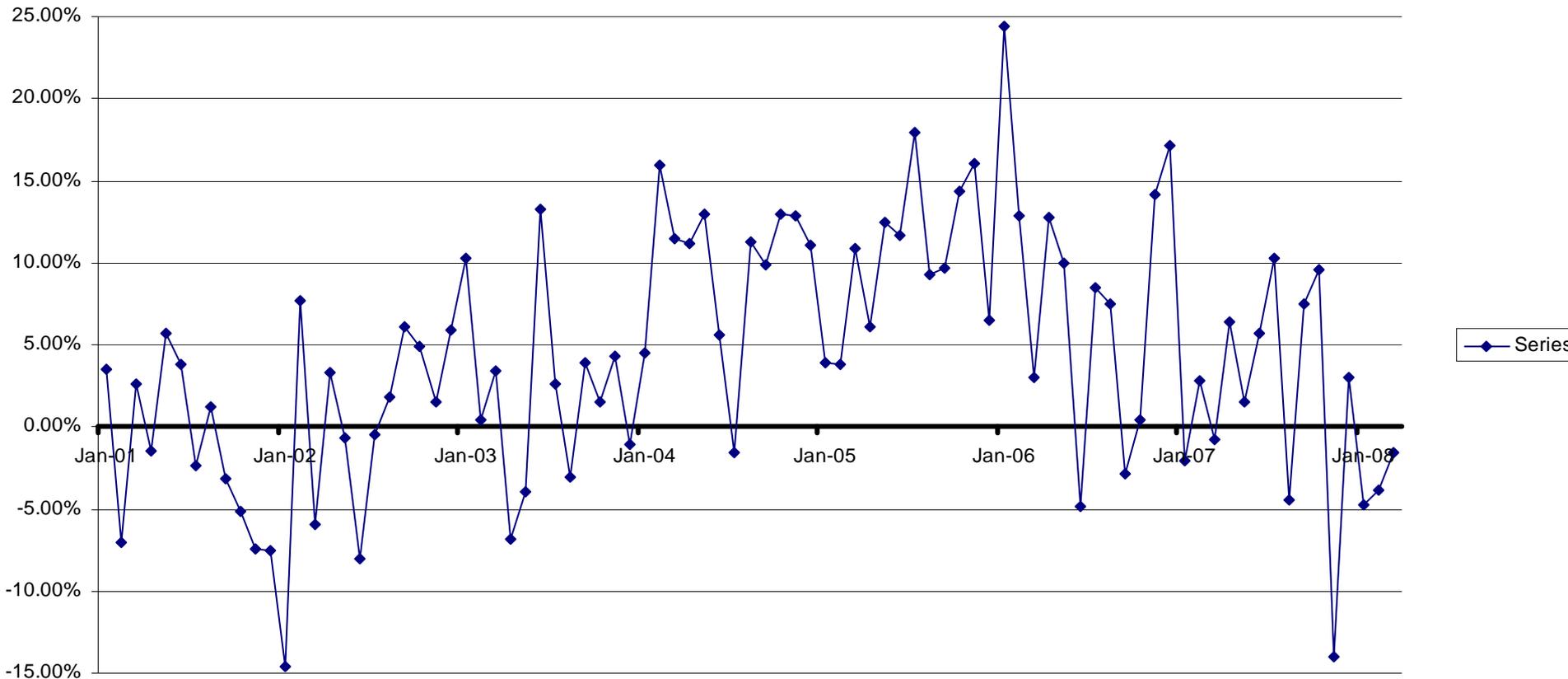


UPDATE ON IMPORTANT ECONOMIC TRENDS IN THE AMERICAN GAMING INDUSTRY

- **Casinos increasingly dominate the American gambling scene => 2/3 commercial; 1/3 tribal**
- **Limited new jurisdiction opportunities => PA, KS, possibly MA, MD, OH, KY, TX**
 - **Fiscal crises in various states are increasing examination of options (but options limited)**
- **The effects of the current economic slowdown/recession have been more significant than prior economic slumps**
- **Changes in gasoline and airline ticket costs have impacted casino revenues in general and destination resort casino jurisdictions in particular**
- **Privatization via leveraged buy-outs have put many companies in a risky high-debt position**
- **Smoking bans have had a disproportionate effect on gaming revenue performance**

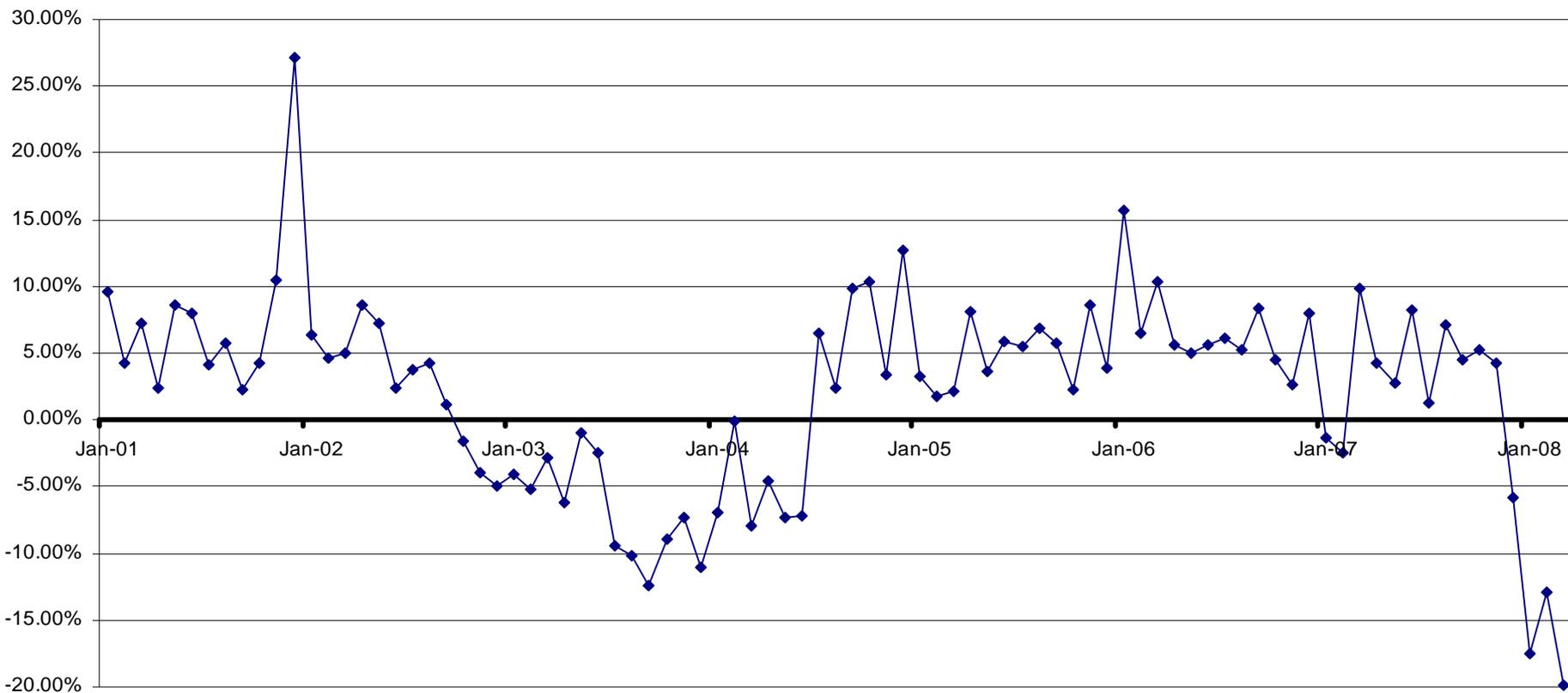
A NUMBER OF MAJOR GAMING STATES ARE BECOMING INCREASINGLY CONCERNED: NEVADA

NEVADA YEAR OVER YEAR GROWTH RATES, SAME
MONTH PRIOR YEAR COMPARISONS 2001-2008



AND ILLINOIS

ILLINOIS YEAR OVER YEAR GROWTH RATES, SAME MONTH PRIOR YEAR COMPARISON 2000-2008

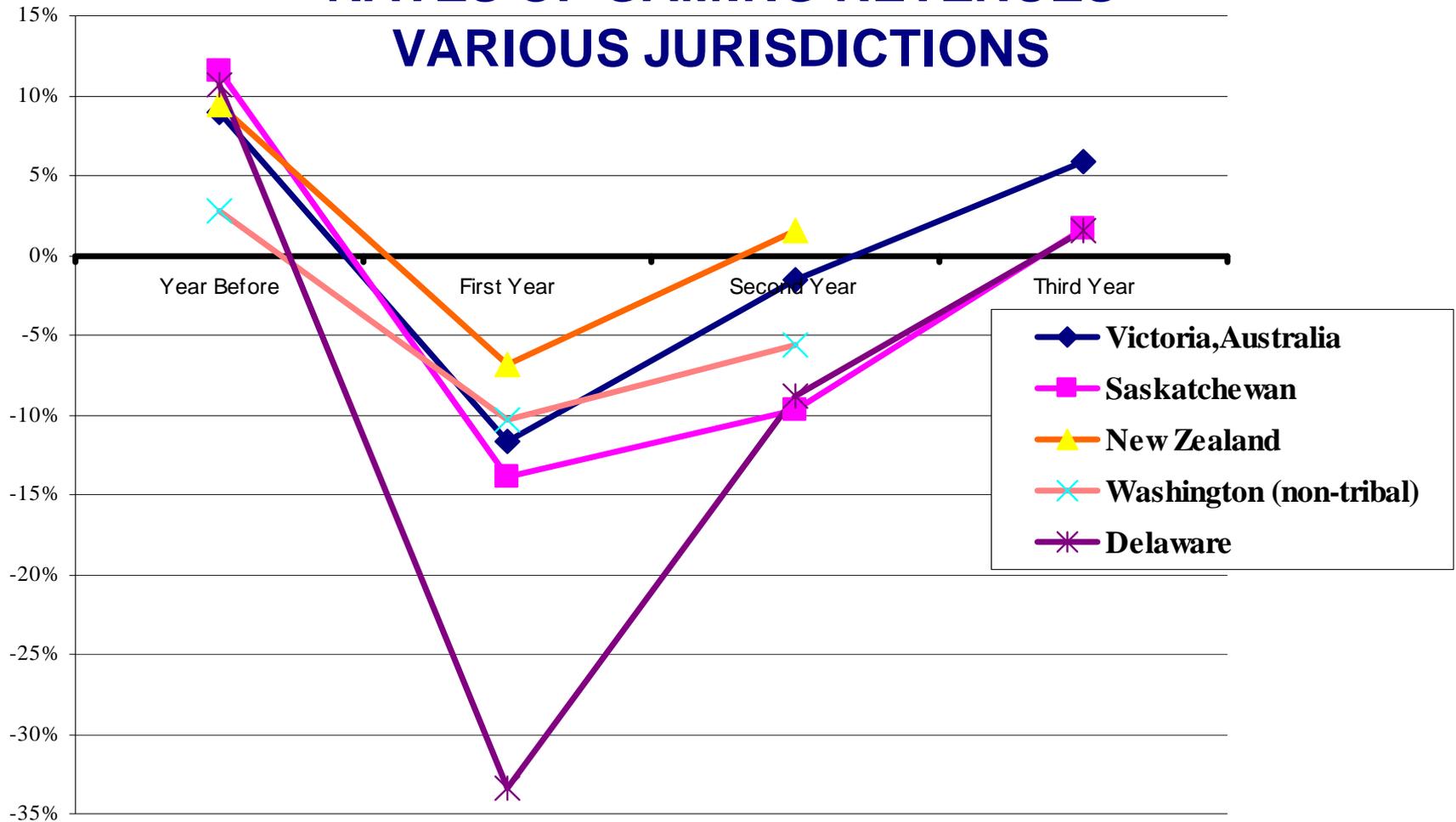


WHAT ARE THE CAUSES OF LOW OR NEGATIVE GROWTH IN GAMING REVENUES?

- **Cross-border competition**
- **General economic factors**
- **Lower levels of consumer confidence**
- **Household budget squeezes leading to greater economizing**
- **High gasoline and oil prices deterring even short trips, airline travel**
- **Changes in policies: smoking bans**

SMOKING BANS HAVE BEEN SURPRISING IN THEIR IMPACTS

EFFECTS OF SMOKING BANS ON GROWTH RATES OF GAMING REVENUES VARIOUS JURISDICTIONS

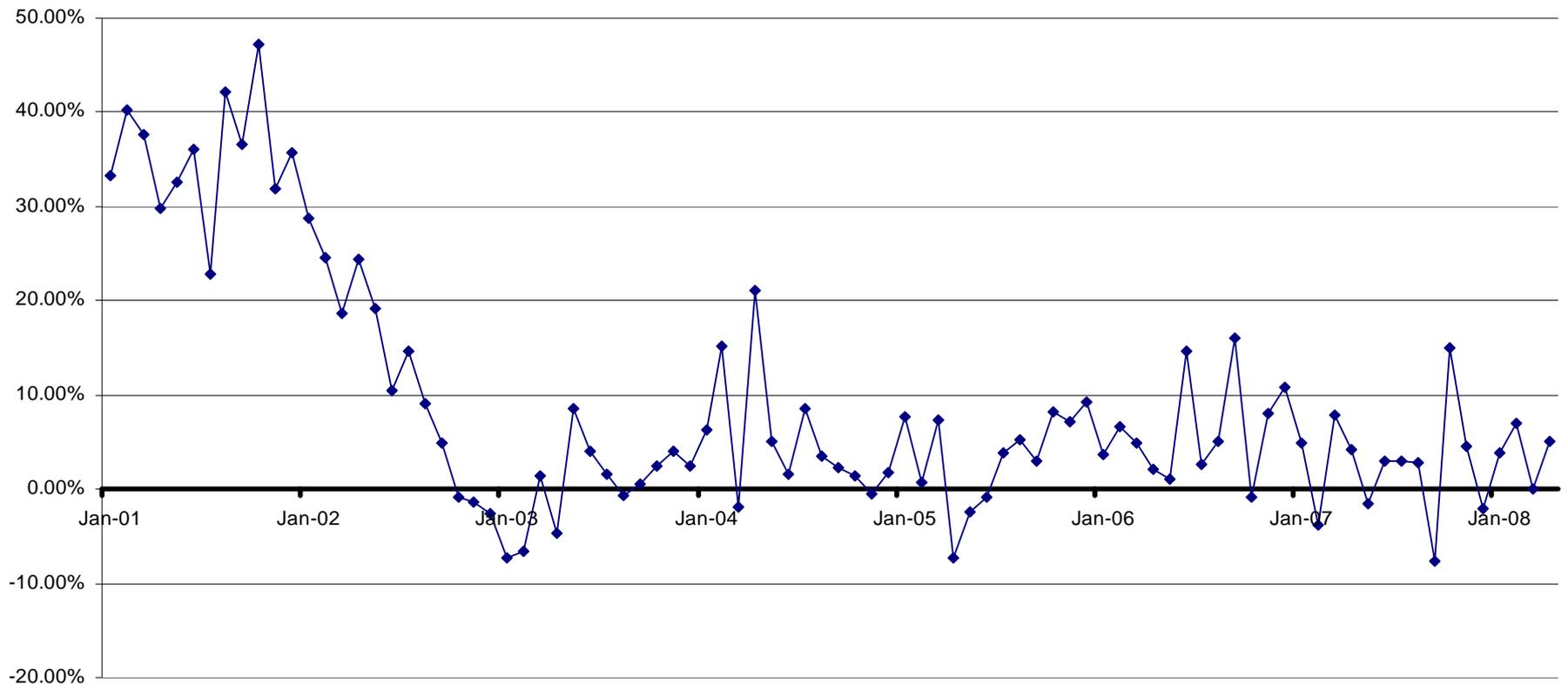


ECONOMIC FACTORS AFFECTING CASINO INDUSTRIES

- A high proportion of customers and gaming revenues will come from the local/regional market, within a 75 or 100 mile radius of the gaming venues
- In mature markets with stable competitive conditions, gaming revenue growth will parallel growth in *Aggregate Personal Income* in the primary market area
- Restricted markets can create substantial profit opportunities that can prevail for relatively long periods
- Brand new casino markets can typically expect three to five years of rapid revenue growth, followed by “mature market conditions”

MICHIGAN CASINO GROWTH PATTERNS ARE TYPICAL OF RAMP-UP PHASE AND MATURITY PHASE

MICHIGAN YEAR-OVER-YEAR GROWTH RATE, SAME
MONTH PRIOR YEAR COMPARISONS 2001-2008



WHY THE ECONOMIC CONDITIONS OF 2008 ARE DIFFERENT FOR U.S. CASINOS THAN EARLIER SLOWDOWNS

- **Unprecedented increases in gasoline prices and airline ticket prices, as well as increasing food prices**
 - Family budget constraints are more important than in prior years
 - This affects some households much more dramatically than others
- **Low levels of consumer confidence with respect to the National economic outlook**
 - Declines for past 6 months; lowest level since 1992
 - Consumers in general are going to be more cautious about discretionary spending under such circumstances
- **Corporations are typically much more cost conscious in recessionary times => Less generous for expense account conventions in Las Vegas or elsewhere**
- **The sub-prime mortgage crisis has adversely affected specific groups in society who are no longer able or willing to participate in the marketplace**
 - Households who are in, or facing, foreclosure
 - Construction workers, realtors, others in financial services
 - Others who fear job loss or related cut-backs in income

OTHER LIKELY IMPORTANT ECONOMIC FACTORS

- **With challenging economic times, there are fewer visits per customer per year (related to trip costs), and lower individual gambling budgets per visit (related to tighter household budgeting)**
- **The relative absence of new gaming facilities or attractions in many markets**
 - **New facilities create a “must-see” effect; as they become older, a portion of the market goes away and is not replaced by curious newcomers**
 - **Over time, fewer customers with a higher spend per visit (encouraged by strong “loyalty” programs)**
- **Financial institutions are increasingly more conservative in lending to casino companies, which might slow down expansion plans even more**

**MAJOR AMERICAN
PUBLICLY TRADED
CASINO
COMPANIES HAVE
LOST MORE THAN
HALF THEIR SHARE
VALUE SINCE LAST
FALL**

LAS VEGAS SANDS CP
as of 27-Jun-2008



MGM MIRAGE
as of 27-Jun-2008



POLITICAL AND SOCIAL TRENDS IN AMERICAN GAMING

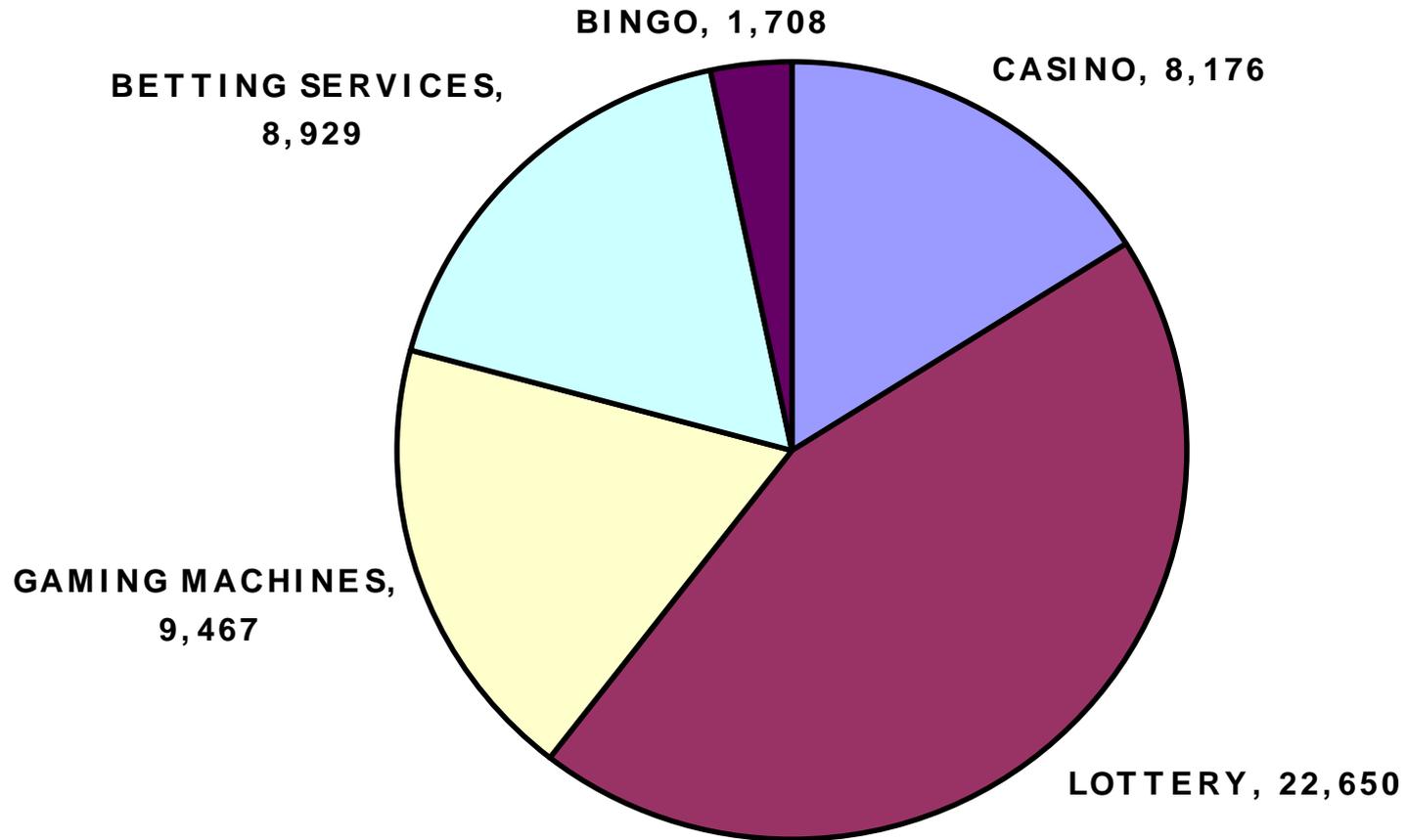
- **Growing willingness of Governors and other political leaders to consider gaming as a fiscal tool**
 - Given current economic conditions, gambling will likely be on the agenda in many states in 2009-2010
 - However, the greatest revenue potential is in slot machines; there is not much fiscal power in other forms of gambling
- **Increasing attention being paid to dealing with problem gambling as a serious externality associated with expanded legal gambling**
 - More states are “earmarking” moneys for prevention, treatment, research, education and public awareness
 - Regulatory bodies and gaming companies are pushing problem gambling higher in terms of priorities (Enlightened self-interest)
- **It is still contentious to change the law related to legalization and permission of gambling**
- **Morality-based and church-based opposition groups are still significant players in opposition to expanded gambling**

CURRENT ISSUES OF SIGNIFICANCE IN EUROPEAN GAMING INDUSTRIES

- **Most gaming markets in European Union remain protected and constrained by national law**
 - Protected gaming companies and Member State governments have been trying to avoid the implications of harmonization and competition
- **Continuing legal challenges regarding opening of cross-border competition within the EU**
 - British bookmakers and internet gaming companies are the fly in the ointment
- **Substantially different composition of gambling spend in Europe as compared to the United States**
 - Casinos relatively unimportant; lotteries are far more entrepreneurial; convenience gaming much more prolific

EU GROSS GAMING REVENUES, 2003

(€ millions)



AGGREGATE GGRs: €51.6 m

POLITICAL DYNAMICS FOR GAMING IN EUROPE

- **There is heavy reliance on protected gaming industries to provide fiscal benefits to governments as a primary purpose for permitted gaming**
 - Perhaps 70% of gross gaming receipts in EU are captured as economic rents; Compares to about 30% in the U.S.
- **The dilemma in many Member States is the requirement that any deviations from the principles of harmonization must be justified by providing protections to one's citizens, but the reality is that the governments need the Economic Rents**
 - This has pushed mitigation of problem gambling to the policy forefront
 - Does the Member State provide protections, and are these more effective than alternative arrangements that do not violate the Harmonization Principle?

POLITICAL DYNAMICS FOR GAMING IN EUROPE (Continued)

- **Proposed changes in legislation can be challenged by current benefactors who are more often successful in preventing change than not**
 - **Two excellent recent examples are the Gaming Act 2005 (UK) and the failed 2007 attempt to change Slovenian gaming law**
 - **Opponents to change can be economic interests, political interests, even the Church**
- **The forces of harmonization will continue to push more competitive dimensions on EU gaming and wagering industries**
 - **Justifications for protections from competition must lie in the provision of protections for one's citizens, not in the revenue generating benefits for the public good**
 - **European Court of Justice and the European Commission will likely continue to push for more open competition in the future?**

WILL THERE BE A CONVERGENCE OF GAMING INDUSTRIES BETWEEN THE US AND THE EU?

- **The US model can be summarized as a hybrid between gaming-centric casinos serving local markets and integrated resort casinos catering to more diverse, dispersed, and discriminating clientele**
 - **Experience of Las Vegas and Atlantic City versus riverboat and tribal casinos in the Midwest**
- **The EU model is much more varied, but includes small and relatively insignificant casinos and most gaming devices outside of casinos**
 - **Casinos Perla and Park are among the largest casinos in Europe, but would be insignificant operations in Las Vegas or Atlantic City**
- **So far, there has not been successful legislation passed that would authorize Integrated Resort casinos in Europe, though larger and more open gaming-centric casinos are emerging**