

The Racing Situation

- **Stagnant Domestically**

- **Facing major competition from all sides**

- Casinos, poker, and online gambling sites all mushrooming
 - Losing its place in a crowded sports market full of niches
 - Competes for the entertainment dollar in an increasingly competitive world

- **Handle (amount wagered) barely increasing**

- Total handle of \$17.3B in 2004; projected at \$17.5B for 2008

- **Strong political position however assures industry's stature**

- Key horse racing industries in California and New York
 - Made significant efforts for a “carve out” in recent legislation aimed at online gambling
 - Estimated that racing industry consists of 193,000 employees and generates economic impact of \$13.1B



The Racing Situation

- **An International Behemoth**
 - **Worldwide pari-mutuel wagering estimated at over \$120B**
 - Major economic driver and taxpayer
 - Japanese and Hong Kong governments receive over \$1B annually
 - Approximately 350,000 races are run annually
 - **Business is much larger outside the U.S.**
 - U.S. handle less than 20% of worldwide total
 - Per capita bet annually only \$50 in U.S.; \$500 in Australia and over \$1,000 in Hong Kong
 - **Despite size the industry is not well organized**
 - Few organizations work across international borders
 - Internationally co-mingled pools are fairly limited
 - **Industry could use uniform products worldwide to cross barriers and generate greater interest levels and prize pools**

How PAI fits in

- **Horse Racing Tournament**
 - **A truly differentiated product for ADWs**
 - Provides liquidity to attract regular players
 - Offers excitement and payoff sufficient to garner additional play from occasional customers
 - Offers poker-style game play to bring in new customers
 - **Can be used to drive attendance at tracks or on big event days**
 - **A better choice than existing tournaments**
 - Current offerings are fairly similar; contestants must beat a large field in a limited timeframe
 - **Easy to use for season or year-long contests**
 - **Poker interest is worldwide; tournament could lead to worldwide competitions and circuit events similar to poker**
 - Largest existing racing tournament has over 35 regional qualifying events to gain eligibility in World Championship event

How it works

- **Horse Racing Tournament**
 - **Can cover varying timeframes**
 - ADWs likely start out with a couple weekly, but can ramp up to multiple tournaments daily running during live racing hours
 - Tracks would ideally have one or two a week
 - **Flexible scale**
 - Can be run with 10-1,000 contestants per tournament
 - Ability to run qualifiers for very large “championship” events
 - **Financially flexible**
 - Buy-in can be small or large: even \$20 buy-in could yield five figure payouts
 - In most cases winners will get one of the largest weekly payouts
 - Payouts larger than most existing wagers
 - **Most importantly: Mixes skill and luck to create an exciting way to play the races and possibly win a large payoff**

How it works

- **Horse Racing Tournament**

- **Embodies the spirit of highly popular poker tournaments**

- Contestants are assigned to groups of 5-10 players
 - Contestants make trifecta or superfecta selections for 2 or 3 races per round
 - Scoring using the patent-pending Pascal method
 - Winner of each group advances to next round, most tournaments to have three rounds
 - Final round consisting of 10 contestants, all receive prize money
 - Theoretical prize pool for just a \$20 buy-in with \$5 entry fee
 - 1st \$7,000
 - 2nd \$4,000
 - 3rd \$3,000
 - 4th-6th \$1,200
 - 7th-10th \$600

Based on 1,000 entries



Advanced Deposit Wagering (ADW)

- **What is it?**

- **Betting done on account, player deposits funds to bet against**
 - Betting can be done on the phone, internet or using mobile devices such as cell phones or PDAs
- **Either legal or “unspoken” in 40 U.S. States**
- **Generally allowed in foreign jurisdictions which offer racing**

- **Why is it so attractive?**

- **Enviably demographics:**
 - Youbet's average customer is 41-50 and earns over \$100,000
 - Fastest growing segment is 21-30



Potential

- **Opportunities over next 12 months**
 - **ADWs other than Youbet.com**
 - Youbet is currently working on their Kingcontest.com site.
 - Main competitors to Youbet: AmericasTab, TVG, and Xpressbet
 - ADWs growth demographics match poker's growth segments
 - **Foreign Operations**
 - U.S. is less than 15% of total world pari-mutuel market
 - Per capita annual handle in U.S. is low at \$50
 - Australia \$500, HK \$1000
 - Fewer restrictions on internet and mobile betting internationally
 - **Major legal online operations are based in Europe**
 - PAI working with Orbis to distribute to major licensed online betting operations



Hypothetical Example

- **Revenue Estimate - ADW**

- According to Youbet.com, total handle for first nine months of 2006 was \$581M; rest of advanced deposit wagering (ADW) industry had \$703M. Projects to \$1B annual for other operators
- Assuming PAI doesn't serve Youbet.com for the time being a reasonable goal is 3% of the \$1B handle
- Assume half the revenue is cannibalization from existing
 - **Reasonable considering product's potential to bring in new players and to generate higher handle from occasional customers**
- Assuming tournaments earn standard 7% commission
 - Operators generate \$70M handle from tournaments
 - Margin contribution for operator from tournament: \$2.1M, \$1M of it incremental
 - **At 20% of net margin, license fee revenue to PAI: \$420,000**
- Revenue just for US ADW market: The tip of the iceberg!

Investment Needed

- **Software/Hardware Costs**

- **Depending upon operator**

- For online operations likely minimal; operator will build upon current platform
 - Minimal costs might be charged for development costs, \$5-10,000 at high end
 - For tracks, depends upon need to run on existing pari-mutuel system or outside of system on networked kiosks
 - Cost varies, likely under \$10,000 per location

- **Pascal is working to identify potential partners**

- Arrangements will limit upfront cost through revenue sharing and exclusivity agreements
 - Software development is a highly competitive field serving worldwide gaming operations



Investment Needed

- **Advertising**

- **Investment in process of customer acquisition through trade channels**
 - Most advertising anticipated through word of mouth and direct sales efforts
- **Once acquired most operators will cover advertising expense**
 - Might run occasional promotional efforts to increase revenues
 - Advertising content will be tightly controlled by operator
- **Branding efforts likely to consist of efforts through main trade channels**
 - Daily Racing Form: depending upon scope could be \$5-50,000
 - Sponsor contests through informational or posting websites, costs likely to be minimal and conditional, likely less than \$500
 - Prizes acquired well under market value, cross-promotion
 - Non-racing channels: poker rooms, sports news sites, other Pascal products, costs to vary

Bottom Line

- **Giant worldwide industry with significant government backing**
- **Excellent geographic diversity**
- **Helps industry answer competitive challenge from poker and other gambling games**
- **Significant opportunities with emerging technologies**
- **Modest investment by players can yield large payoff while offering a fun new way to play the races**
- **Financial model is licensing with revenue sharing resulting in very high margins, close to 100%**
- **Ongoing expenses easily met by cash flow**
- **Net opportunity: potential for over \$1M net revenue in two years for a \$50,000 or less initial investment**

