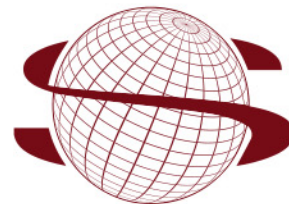


Sports Wagering at Prospective Racetrack in Palmer, MA

Prepared for Commonwealth Racing LLC

February 18, 2022



SPECTRUM
GAMING GROUP®

About Spectrum Gaming Group

- Founded in 1993.
- Specialize in studying, analyzing the economics, regulation and policy of legal gambling worldwide.
 - Wrote strategic plan and consulted for Massachusetts Gaming Commission (“MGC”).
 - Assessed racing industry as MGC prepared to absorb State Racing Commission.
- Policy of non-partisanship: We neither advocate for nor oppose legalized gambling.
- Policy of independent research and analysis: We do not accept engagements that seek a preferred result; we tell clients what they need to know, not necessarily what they want to hear.
- We have provided expertise in 40 US states and territories and in 48 countries on six continents. Clients include 22 US state and territory governments, six national governments, 22 Native American entities, numerous gaming companies (national and international) of all sizes, financial institutions, developers and other gaming-related entities.
- We have testified or presented before 40 governmental bodies worldwide.
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Scope of Study

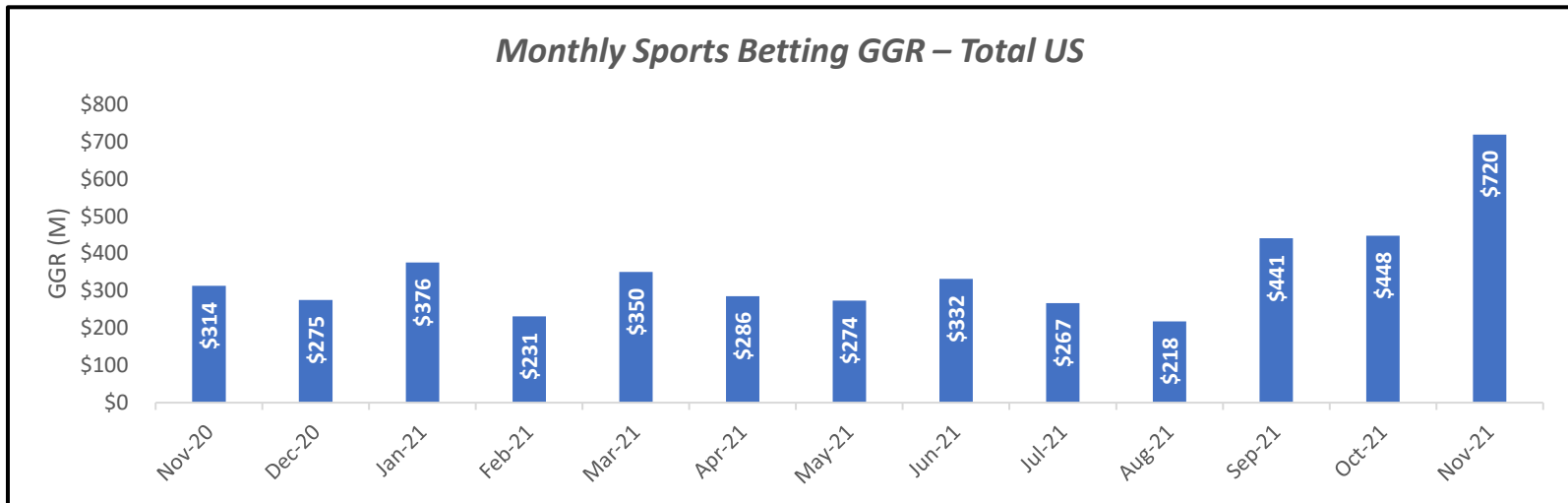
- Spectrum Gaming Group (“Spectrum”) was retained by Commonwealth Racing LLC (“Client”) to analyze and evaluate the potential for retail and digital sports betting at a proposed Thoroughbred racetrack development in Palmer, MA.
- Specifically, the Client wants Spectrum to examine whether the proposed racetrack investment can be economically viable only if another form of gaming is also offered – in this case sports betting in both digital (i.e., online) and retail (i.e., on-site) formats.
- To illustrate the gross gaming revenue (“GGR”) potential for sports betting at the proposed racetrack, we employed the following methodology:
 - Reviewed revenue for newly established US markets and established global markets for insight into the potential market size for the US (at maturity) on a per capita basis (sports betting GGR per US adult).
 - We adjusted the results across total US for the income and population demographics in Massachusetts. By doing this, we arrived at a statewide estimate (assuming both retail and digital betting are authorized).
 - Next, we produced an in-depth analysis of results in New Jersey – which is the most advanced US market for both retail and digital sports betting – for recency and current insight.
 - We then estimated the GGR potential for retail and digital betting operation at the proposed racetrack in Palmer.

Scope of Study (cont.)

- We also provided an overview of trends and economics of the racing industry to provide context as to why sports betting is critical for the economic viability of racetracks.
- Glossary of terms used throughout this report:
 - **Digital** – Sports betting and other gaming via internet channels, including computer desktop and mobile devices
 - **Gross Gaming Revenue (“GGR”)** – The amount left for the operator after all winning bets are paid; GGR represents top-line revenue – not to be confused with handle
 - **Handle** – Total amount wagered, expressed in dollars
 - **Hold Percentage** – The percentage of money the operator retains after all bets have been settled.

Sports Wagering is Undergoing Rapid Expansion Across the United States

- Currently active in 30 states plus DC, and legal but not yet activated in 3 more states.
 - In early 2018, only Nevada was active in sports betting.
- For the LTM period ended November 2021, sports betting generated \$4.2B in GGR across 25 states plus DC.



Sports betting states: AZ, AR, CO, CT, DE, DC, IL, IN, IA, MD, MI, MS, MT, NV, NH, NJ, NM, NY, OR, PA, RI, SD, TN, WV, WY, VA.

Source: State regulatory authorities

Competition and Digital Wagering are Needed for Robust Sports Betting Markets

- Competitive/unrestricted markets – defined by large populations, low tax rates, served by multiple operators, with digital wagering – are generating ~\$50 GGR per adult on average; New Jersey is highest at \$89.
- Monopoly/restricted markets – defined by smaller populations, higher tax rates, with only 1-2 operators and limited/no digital wagering – generate only \$25 of GGR per adult on average; Mississippi is highest at \$43.
- Other insights:
 - In competitive markets, digital accounts for ~90% of GGR vs. ~10% for retail; in restricted markets, digital is less than 40%.
 - Hold percentage is much higher in restricted markets vs. competitive markets, suggesting that operators can offer much less competitive odds to customers in restricted markets due to lack of competition.
- ***Spectrum projects GGR per adult from sports betting across the US will be \$70 to \$90 at maturity***
- ***If Massachusetts were to adopt a competitive market model similar to IL, IN, NJ and PA, GGR per adult could be \$90 to \$115 (adjusted for Massachusetts's higher average household income).***

Competition and Digital Wagering are Needed for Robust Sports Betting Markets (cont.)

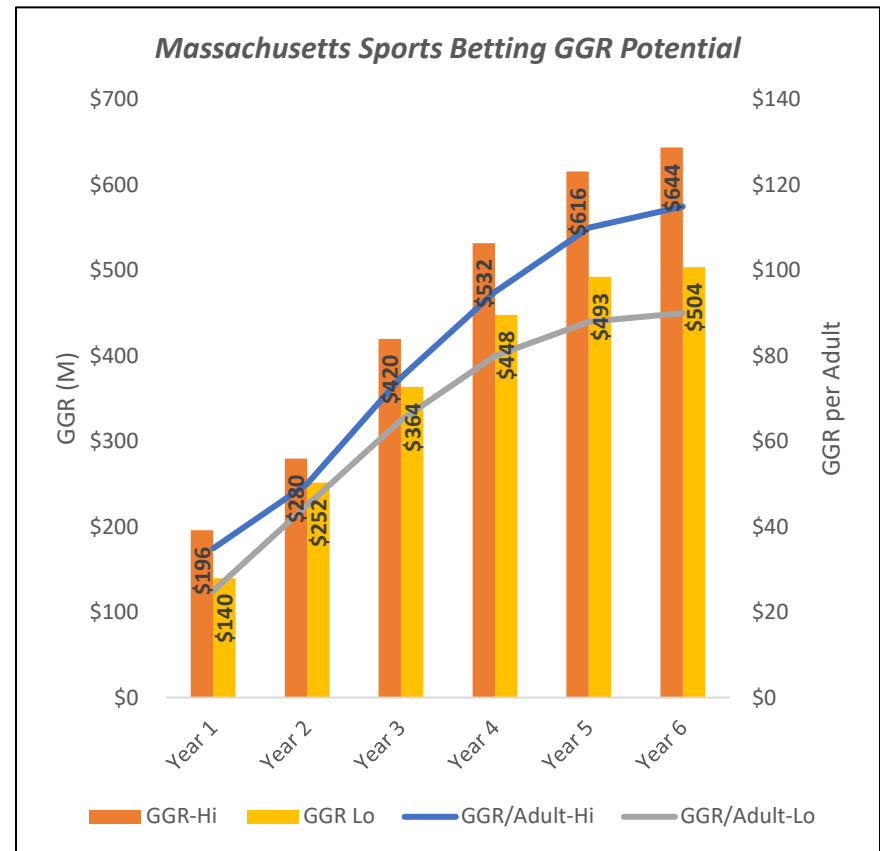
| State | Adult | Household | Start Date | | Tax Rate | | Retail (\$M) | | Digital (\$M) | | LTM Results (\$M) | | | Digital/Total | | GGR/Adult | |
|---|----------|--------------|------------|---------|----------|---------|--------------|-----|---------------|-----|-------------------|-----|--------|---------------|------|-----------|-------------|
| | Pop. (M) | Income (HHI) | Retail | Digital | Retail | Digital | Hdle | GGR | Handle | GGR | Hdle | GGR | Hold % | Hdle | GGR | Actual | Adj. (3) |
| Competitive/Unrestricted Markets | | | | | | | | | | | | | | | | | |
| New Jersey | 7.0 | \$82,545 | Jun-18 | Aug-18 | 8.5% | 13.0% | 934 | 80 | 9,768 | 743 | 10,702 | 823 | 7.7% | 91% | 90% | \$118 | \$89 |
| Indiana | 5.2 | \$56,303 | Sep-19 | Oct-19 | 9.5% | 9.5% | 419 | 53 | 3,261 | 252 | 3,680 | 306 | 8.3% | 89% | 83% | \$59 | \$66 |
| Pennsylvania | 10.0 | \$56,951 | Nov-18 | May-19 | 36.0% | 36.0% | 473 | 51 | 5,607 | 423 | 6,080 | 474 | 7.8% | 92% | 89% | \$47 | \$52 |
| Iowa | 2.4 | \$60,523 | Aug-19 | Aug-19 | 6.8% | 6.8% | 249 | 28 | 1,634 | 80 | 1,883 | 108 | 5.7% | 87% | 74% | \$44 | \$46 |
| Illinois | 9.9 | \$65,886 | Mar-20 | Jun-20 | 17.0% | 17.0% | 227 | 23 | 5,748 | 444 | 5,975 | 467 | 7.8% | 96% | 95% | \$47 | \$45 |
| Colorado | 4.5 | \$72,331 | Jul-20 | May-20 | 13.8% | 18.0% | 57 | 2 | 3,369 | 222 | 3,426 | 224 | 6.5% | 98% | 99% | \$50 | \$43 |
| West Virginia | 1.4 | \$46,711 | Sep-18 | Jan-19 | 10.0% | 10.0% | 147 | 17 | 397 | 29 | 544 | 46 | 8.4% | 73% | 63% | \$33 | \$44 |
| Tennessee | 5.4 | \$53,320 | NA | Nov-20 | | 20.0% | NA | NA | 2,335 | 201 | 2,335 | 201 | 8.6% | 100% | 100% | \$37 | \$44 |
| Michigan (1) | 7.8 | \$57,144 | Mar-20 | Jan-21 | 8.4% | 9.7% | 290 | 28 | 3,171 | 203 | 3,461 | 231 | 6.7% | 92% | 88% | \$29 | \$32 |
| Virginia (2) | 6.6 | \$74,222 | NA | Jan-21 | 10.0% | 15.0% | NA | NA | 2,393 | 206 | 2,393 | 206 | 8.6% | 100% | 100% | \$31 | \$26 |
| Median | | | | | | | 270 | 28 | 3,216 | 214 | 3,444 | 228 | 7.8% | 92% | 90% | \$46 | \$44 |
| Mean | | | | | | | 350 | 35 | 3,768 | 280 | 4,048 | 309 | 7.6% | 92% | 88% | \$50 | \$49 |
| Monopoly/Restricted Markets | | | | | | | | | | | | | | | | | |
| Mississippi | 2.3 | \$45,081 | Aug-18 | NA | 12% | | 585 | 70 | NA | NA | 585 | 70 | 12.0% | 0% | 0% | \$31 | \$43 |
| Rhode Island | 0.9 | \$67,167 | Nov-18 | Sep-19 | 51% | 51% | 189 | 19 | 215 | 21 | 404 | 40 | 9.9% | 53% | 53% | \$44 | \$42 |
| Wash. DC | 0.6 | \$86,420 | Jul-20 | May-20 | 10% | 10% | 156 | 20 | 49 | 8 | 205 | 28 | 13.8% | 24% | 28% | \$47 | \$34 |
| N. Hampshire | 1.1 | \$76,768 | Aug-20 | Dec-19 | 50% | 50% | 133 | 10 | 500 | 34 | 633 | 44 | 7.0% | 79% | 77% | \$40 | \$33 |
| Montana (4) | 0.9 | \$54,970 | Mar-20 | NA | | 6% | 49 | 7 | NA | NA | 49 | 7 | 14.3% | 0% | 0% | \$8 | \$9 |
| Oregon (5) | 3.4 | \$62,818 | NA | Oct-19 | | | NA | NA | 325 | 31 | 325 | 31 | 9.5% | 100% | 100% | \$9 | \$9 |
| Arizona | 2.3 | \$47,597 | Jul-19 | NA | 20.0% | | 64 | 9 | NA | NA | 64 | 9 | 13.8% | 0% | 0% | \$4 | \$5 |
| Median | | | | | | | 144 | 15 | 270 | 26 | 325 | 31 | 12.0% | 24% | 28% | \$31 | \$33 |
| Mean | | | | | | | 196 | 23 | 272 | 23 | 323 | 33 | 11.5% | 37% | 37% | \$26 | \$25 |

(1) 11 months for digital. (2) 10 months. (3) Adjusted for US median HHI. (4) Mobile on-premises only. (5) Tribal retail only.

Source: State regulatory authorities, US Census, Spectrum Gaming Group

MA Statewide Potential GGR at Maturity: \$500M to \$650M (Assuming \$70 to \$90 per Adult)

- Based on Spectrum's estimate of \$70 to \$90 of GGR per adult across the United States, we can estimate the GGR potential for Massachusetts by employing the following methodology:
 - Adjust for higher household income observed in Massachusetts vs. total US (\$81K vs. \$63K), which yields a range of \$90 to \$115 per adult
 - Multiplying the \$90 to \$115 range by the adult population of 5.6 million suggests that Massachusetts could generate \$504 million to \$644 million of sports betting GGR
 - These estimates assume both retail and digital betting are offered
 - We assume ~90% of GGR will be generated via digital and ~10% via retail (retail spend of \$9 to \$12 per adult and digital spend of \$81 to \$104 per adult)



Source: Spectrum Gaming Group

Impact from Digital Wagering will Better Position Palmer Racetrack to Become Profitable

- Spectrum estimates digital betting can account for between \$454 million and \$580 million of GGR statewide.
- To quantify the potential market share for the proposed Palmer racetrack, we made the following assumptions:

| Proposed Sports Wagering Facility | Location | Facility Type | Market Share | Digital GGR | |
|-----------------------------------|-------------|---------------|--------------|--------------|--------------|
| | | | | Low | High |
| MGM Springfield | Springfield | Full casino | 30.00% | \$136 | \$174 |
| Encore Boston Harbor | Everett | Full casino | 30.00% | \$136 | \$174 |
| Plainridge Park | Plainridge | Slots only | 15.00% | \$68 | \$87 |
| Suffolk Downs | Boston | Racetrack | 8.33% | \$38 | \$48 |
| Commonwealth Racetrack | Palmer | Racetrack | 8.33% | \$38 | \$48 |
| Raynham Park | Raynham | Racetrack | 8.33% | \$38 | \$48 |
| Total | | | 100% | \$454 | \$580 |

- Each casino and racing facility would qualify for a digital sports betting license
- Because the state's two casinos carry greater brand recognition and awareness, they would each generate 30% of statewide digital market share
- Plainridge Park would generate 15% market share
- The remaining 25% market share would be evenly divided among three racetracks

- Thus, a Palmer racetrack could generate \$38 million to \$44 million of digital sports betting GGR
- ***Given the challenges facing the horse racing industry (discussed in the next section), digital sports betting could be a critical line of business for a racetrack to be economically viable***

Horse Racing's Changing Market Fundamentals

- **Most states that permit pari-mutuel wagering now also permit some form(s) of alternative gaming at the racetracks. The other forms of gaming support racing and are crucial to making the horse racing financially viable.**
 - AR, CO, DE, FL, IL, IN, IA, KY, LA, ME, MD, MA, MN, NJ, NM, NY, OH, OK, PA, VA, WV, WY
- A few states do not allow other gaming, and in most of those jurisdictions those tracks are struggling to be competitive.
 - AZ, CA, MI, TX
 - A few states not listed (with smaller populations) either stopped racing due to the economics of the business or have very few race days of “minor league,” state-fair-type racing. As examples, most live racing in ID and NH has ceased.
- The competition for the gaming dollars has grown significantly over the past three decades with the expansion of casino-style gaming.

Horse Racing's Changing Market Fundamentals (cont.)

- Producing live horse racing content is very expensive due to the need for large facilities and the supply-side costs.
- Wagering continues to shift to account wagering.
 - In 2019, approximately 50% of the national handle was through account wagering entities. From 2010 to 2018, the account wagering at the Oregon hub (which represents a major portion of all account wagers in the US) increased by 191%.
 - Due to the continuing trend of shifting dollars to account wagering, in addition to the COVID-19 pandemic, account wagering in the second quarter of 2020 at the Oregon hub increased 47%.
 - The three largest account wagering operations licensed in Oregon in 2019 accounted for almost 95% of all the handle wagered through the Oregon account wagering hub.
- Racing's market share is dominated by large racing companies such as Churchill Downs, The Stronach Group and the New York Racing Association.

Case Studies: Racing without Alternative Gaming

- Handle trends of significant racing states without alternative gaming at racetracks:
 - Arizona handle declined 41% from 2008 to 2018.
 - Arizona Downs reopened in 2019 (after being closed for several years) but did not finish its racing meet, suspending the balance of the live racing season in 2019.
 - California handle declined 31% from FY 2003 to FY 2019.
 - Michigan handle declined 50% from 2012 to 2018.
 - The most recent racetrack built in Michigan was Pinnacle Race Course, which opened 2008 and closed in 2010. Pinnacle Race Course, believed to be the only horse racetrack built in the United States in the last 15 years as just a racetrack without other gaming revenue, was a failure.
 - Texas handle declined 54% from 1999 to 2018.

Case Studies: Racing without Alternative Gaming (cont.)

- Indiana handle declined 63% from 2005 (when handle peaked after a second track opened) to 2018.
 - Hoosier Park, the first Indiana track to open (in 1994), received subsidies from riverboat casino admission taxes.
 - Indiana Grand, the second track, opened in 2002.
 - State approved slot machine wagering at the two racetracks in 2007, and both are currently in operation.
- Virginia handle peaked in 2007 with one track Colonial Downs (opened in 1997) and several off-track wagering facilities.
 - Account wagering was permitted in 2004, and by 2013, 46% of all wagering was through account wagering platforms. Colonial Downs ceased operations in 2014.
 - Colonial Downs reopened in 2019 (with 19 race days) once historical horse racing machines (akin to slot machines) were approved for installation at the racetrack and at off-track wagering facilities.

Conclusion

- Massachusetts has great potential as a sports wagering market; Spectrum forecasts from \$350 million to \$500 million in annual gross gaming revenue at maturity.
- Where both retail and digital wagering are allowed, digital wagering is the overwhelming choice for bettors.
 - We assume 80% of Massachusetts bets would be made via digital channels.
- Most states that permit pari-mutuel wagering also permit some form of alternative gaming – whether slots, full casinos, or sports betting.
 - Alternative gaming options are necessary to ensure overall profitable operation, thus sustaining the horse racing industry.
 - Tracks in states that do not allow alternative gaming are struggling.
 - Last new racetrack to open without alternative gaming closed after two years.
- Digital + retail gaming at new Commonwealth Racetrack would likely ensure success of overall operation.

Racing Journalist Ray Paulick, Discussing the 2010 Closure of Pinnacle Race Course in Michigan:

“

I don't want to say that only a fool would do it, but only a gambler would start up a horse track today without some additional form of gaming.

”

Ray Paulick, former editor, *Thoroughbred Times*,
as reported by the *Detroit Free Press*

John Wisely, “How Wayne County lost millions on horse track in Huron Township,” Delaware Online, *Detroit Free Press*, December 19, 2019. <https://www.delawareonline.com/story/news/local/michigan/2019/12/19/former-race-track-property-sold/2687466001/>