March 2, 2021

TESTIMONY TO THE CONNECTICUT PUBLIC SAFETY AND SECURITY COMMITTEE BY JEFF MORRIS, VICE PRESIDENT, PUBLIC AFFAIRS & GOVERNMENT RELATIONS FOR PENN NATIONAL GAMING, RE: COMMITTEE BILL 146, *AN ACT AUTHORIZING SPORTS WAGERING, ONLINE CASINO GAMING, ONINE LOTTERY AND ONLINE KENO*

Good afternoon Chairman Bradley, Chairwoman Horn and Members of the Public Safety and Security Committee. My name is Jeff Morris and I am the Vice President of Public Affairs and Government Relations for Penn National Gaming, the nation's largest regional gaming operator, with 41 casinos and racetracks in 20 states throughout the country. We have retail sportsbooks at nearly half of those casino or racino properties. In addition, we currently offer online wagering on sports in two states – Pennsylvania and Michigan – and anticipate we'll be operational with our mobile sportsbook app in at least 10 states by the end of this year.

Almost exactly a year ago today, Penn National acquired a 36% stake in Barstool Sports, which is a leading digital sports, entertainment and media platform that delivers original content across blogs, podcasts, radio, video and social channels, with a base of approximately 54 million monthly unique visitors. This partnership has led to the rebranding of our retail sportsbooks to "Barstool Sportsbooks", including our Barstool Sportsbook mobile app. To date, we have also contributed approximately $4 million to our partners for the Barstool Fund, which was created to help sustain small business owners around the country that have been hard hit by the pandemic. As of today, the Barstool Fund has raised over $36 million and is actively supporting 295 businesses, 11 of which are located in Connecticut.

We believe legal sports betting has the potential to provide a meaningful shot in the arm to Connecticut's gaming industry and to provide a new revenue stream to Connecticut's strapped bottom line. If successful, Connecticut would join twenty-five other states and Washington, DC that have moved to authorize sports betting in the wake of the May 2018 U.S. Supreme Court decision striking down the Professional and Amateur Sports Protection Act, or "PASPA."

The repeal of PASPA and the subsequent passage of sports betting legislation around the country could not have come at a better time for the gaming industry. Regional casinos, such as those that operate here in Connecticut, have been continuing to face increased competition and cannibalization from gaming expansion and a rampant proliferation of illegal slot machines both within our states and across the border in neighboring states. And that was before the pandemic hit, which closed our casinos for months and continues to greatly restrict our operations across the country. Yet despite the endless trials and tribulations we (like most of the business owners out there) have faced, we used this unprecedented time as an opportunity to completely re-evaluate and re-imagine our operating model and product offerings, and accelerate the digital transformation of our Company.

An example is the implementation of a new generation of cashless, cardless and contactless technology at our casinos that will improve efficiency and guest service, while also attracting a newer, younger demographic who are accustomed to using an app on their phone to pay for everything and earn rewards. Starbucks has a 10+ year headstart on our industry in this regard. Retail and especially mobile sports wagering fits in the sweet spot of this movement towards technology and new product offerings that attract a younger demographic – and by that I mean the 25-40 year old age group. In fact, the average age of our Barstool Sportsbook customer is 29, whereas the average age of a typical slot customer is north of 55 years old. And, notably, nearly 80% of all bets in those markets that allow retail and mobile sports betting are made online or through an app. To not allow mobile wagering would severely restrict the revenue potential in this state.

On the subject of what an appropriate tax rate would be for sports betting, I want to emphasize that sports betting is a low margin, highly volatile business. On an average \$100 wager (or "handle"), \$95 goes back to the bettors, with the casino receiving \$5 (or "hold"). We must then pay a federal excise tax, state tax, and an array of operating expenses: betting data, data analytics, labor, marketing, etc., resulting in approximately \$1 in actual revenue. The majority of states with legal sports betting have tax rates that fall between 6.75% and 15%, which strikes the right balance to allow for legal sports betting operators to compete with neighboring jurisdictions and the illegal market, which pays zero taxes and will continue to siphon gaming and tax revenue from the legal market.

We have found in the states in which we're currently operating sports betting that it has become a very effective customer acquisition tool. Since launching our Barstool Sportsbook app in Pennsylvania last September, we have registered over 72,000 customers in the state, the vast majority of whom were either brand new customers or had been inactive in our database. As for the notion that sportsbooks will cannibalize our existing casinos and traditional gaming revenues, the reality is quite the opposite. In Indiana, for example, we've seen an incremental boost of nearly 27% to our table games and slot volumes in the areas adjacent to our retail Barstool Sportsbook at our property in East Chicago, which obviously strengthens the overall gaming tax revenue for the state.

Importantly, the states with the most successful legal sports betting industries to date include robust competition via the use of skin partnerships with existing licensed casino operators. By way of background, a "skin" is an online sportsbook license that is typically tethered to a casino license. And while the number of skins permitted varies by state, New Jersey, Indiana, Iowa, and West Virginia each allow at least 3 skins per casino licensee, ensuring a competitive market. Allowing two or three skins per license in Connecticut will also result in more upfront license fees and tax revenues to the state. Notably, New Jersey with 22 active skins, and Indiana with 10 – even when adjusting for population -- are the leading revenue producing states, along with

Pennsylvania which also allows has 10 active skins. Currently, the states of of Arizona and North Carolina are considering a hybrid version of skins in draft legislation, where the tribal facilities can offer retail and mobile sports betting and the state lottery will award 10 mobile-only licenses to ensure competition and higher revenues for their respective states.

In closing, I'd like to take the opportunity to update you on the latest information on the debate of whether to include "Official League Data" in your sports betting legislation. Most, if not all, of the leagues have sold their data to the major suppliers like Sportradar and BetGenius whom the operators are compensating for the data feeds they provide our sportsbooks. In addition, many gaming operators, including Penn National, have signed commercial deals with the Leagues for specialized, proprietary in-game data -- such as how fast a puck is traveling or who had the hardest slap shot -- to grow interest in sports wagering. This proves that these deals can be reached privately and should not be Legislatively mandated at what third parties declare to be "commercially reasonable" terms. What may be "commercially reasonable" to the leagues – who face no competition – may be inconsistent with the thin margin reality of sportsbook operators in a hyper competitive environment.

I want to thank you for your time this morning and look forward to working with you on sports betting legislation that is balanced by a strong regulatory structure and principled policy. With that I'd be happy to answer any of your questions.

Thank you.