



MECN
Media & Entertainment Consulting Network

Online Poker – Driving Gambling to New Heights

Detailed industry report including results of a survey conducted among industry experts.

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London/Munich, February 2005

Introduction

Gambling reinvents itself constantly, and online poker is the product that seems to be the current guarantor of future growth. Online poker is the perfect symbiosis of two mega trends in gambling: online gambling and poker. What began as triumphant advance in the US is now leading to a global poker wave on the Internet with tremendous potential.

- The amount gambled on poker websites around the world is estimated to be more than USD 60 billion for 2005.
- More than 60% of the industry experts surveyed believe that online poker will be the dominant offer in online gambling in 2-3 years.
- 75% of the industry experts surveyed believe that the global annual rake/commission in the 2-3 years will be more than USD 4 billion.

An important reason for the rapid growth of online poker is the increasing number of successful TV shows featuring poker. There are many examples of successful poker TV coverage, among them the World Series of Poker on ESPN, Celebrity Poker on Bravo, and the European Poker Tour on Eurosport.

Online poker has also gone up in the estimation of the global business and financial community. Betting heavyweight Sportingbet just recently bought poker site Paradise Poker for about USD 300 million - not a bad price for a site launched in 1999, but more than 53% of the experts surveyed believe this price to be appropriate.

But the MECN study also points out that the online poker market will become a tougher market in the future. With decreasing revenues per active player and growing competition, the poker operators have to find successful strategies for the future. The industry insiders surveyed recommend as the most important strategies for the future the creation of poker networks, the entry into the market by more betting brands such as Ladbrokes, and the consolidation of poker sites.

When it comes to geographical expansion, Europe seems to be the place to go; 52% of the experts believe that Europe offers the greatest future potential for online poker. Market leader PartyPoker, for example, is planning to launch its presence on television throughout Europe very soon and already operates its site in one other language besides English - German.

Sample pages of report

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4 Overview of relevant online poker

4.1 Matching on the frontier for a valuing

When poker players choose a particular site, some making that selection, these criteria can be its leading game features, security issues, and user game features

Game Features

- Liquidity, number of available tables and important factors determining the quality of game, number of tables and players available. As in liquidity, number of available tables, and different game variants.
- Real money ring players - This is the number of real money in the tournament players.
- Real money tournament players - Indicates if players always play for real money.

Table 10: The biggest online poker sites

Table 11: Evaluation of the biggest online poker sites

Site	Game Features	Security	User Game
PartyPoker	5	4	5
Fulltilt	4	3	4
PokerStars	3	2	3
888	2	1	2
PlanetPoker	1	0	1
RealMoney	1	0	1
RealMoney	1	0	1
RealMoney	1	0	1

Table 12: Minimum average size of pot - Most poker: the average size of the pot of tables available

Table 13: Security and user game

Table 14: Security and user game

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5 Entertainment and poker - The part

5.1 Poker - The new star in the live and on

The entertainment business seems to be poker, an other game, is often featured on the big screens as well as in a street uncountable number of poker scenes, developed into live shows. TV poker shows: Poker no longer is gambling to being considered entertainment unique make original, still celebrities, exclusive a lot home for entertainment.

Initially, the recent media hype was triggered mainly by poker tournaments, such as the World Poker Tour, more poker shows are on the air, and most expert media coverage in the near future as the increase in popularity brings tournament with higher prize amounts, attract more players, celebrities, and more media coverage.

Online poker profits no longer increase as media coverage. Most limited by experts expect online poker to profit in media coverage. As a manager of an online poker site covered in the media, its the online poker sites. Especially the live player can really learn the opportunity with popularity.

Examples of successful Poker TV coverage are numerous

The recent poker hype started in the US, and that is it expected here that one can find numerous TV shows relating poker. In January 2005 more than one hundred such shows were broadcast on TV (see exhibit 21). Among the most important TV shows are the World Series of Poker and the World Poker Tour (see exhibit 22).

World Poker Tour on Travel Channel - These changes in covering the World Poker Tour on a weekly basis. The WPT consists of 7 European High Roller poker tournaments that of various locations throughout the world, including the Bellagio Casino in Las Vegas and the Adlon Club de France in Paris. Unlike other TV shows, the WPT is a live event, allowing the viewers to see the players' cards.

Founded in February 2002, the WPT is a joint venture of CEO Steven Lassus and CEO Entertainment, Inc. owns approximately 50% of WPT. Its common shares are traded on the Nasdaq.

Early in 2004 MECN decided to broadcast a WPT special "Battle of the Champions" on Super Bowl Sunday - an annual prime-time TV event in the US - and was able to achieve a national rating, for a show running parallel to aired by its competitor CBS. Because of this, the show has been chosen for 2005. As MECN put it, it

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3.4 Elements of good poker sites

As competition in the online poker market becomes tougher, established sites as well as new market entrants need to focus on the key elements that make up a good poker site.

The study by experts surveyed consider liquidity, the live features of the operator, and tournament offers the most important features of good online poker sites (see exhibit 11). In addition to the characteristics we offered for selection, we believe that the following elements named by participants could also be of relevance: Award for celebrities playing online, ability to play against professional players, and Bonus offer/seasonal promotions.

Liquidity - The key to success

The value of any interactive network platform depends on the number of people using it. The effect is quantified by Metcalfe's Law, which states: the utility of a network is the square of the number of users. So the more players, the more poker games, types of games, and limit can be offered. The more active the poker site will be, especially for customers who are new players.

Because of its effect the first movers usually become dominant market players in the network market. For example, no other auction site was ever able to defeat the first mover eBay although one offered better usability and lower commission fees. Today eBay dominates the online auction market as an 80% dominant in the being exchange market, and the network effect guarantees their continuous growth rates: even years after their first movers were launched.

As leading poker sites have over 1 million registered users and liquidity becomes a crucial factor for survival in the market, we asked experts what they consider to be the minimum number of registered users a good poker site should have.

It is important to distinguish between registered users and active players. Since many registered users do not play regularly after their initial registration, and the average customer plays on about 25 sites (see exhibit 12), the number of active players is in general about 20% - 30% that of the registered users.

Table 11: Most important elements characteristics of a good poker site - Results of MECN survey

Table 12: Number of active players per poker site - Results of survey among online poker players

Table 13: Number of active players per poker site - Results of survey among online poker players

Table 14: Number of active players per poker site - Results of survey among online poker players

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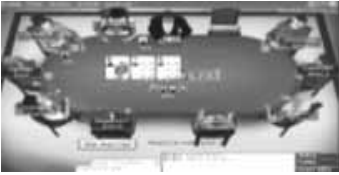
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Companies mentioned in this report

- | | |
|--------------------------------|-----------------------------|
| American Gaming Association | Kahnawake Gaming Commission |
| Anheuser-Busch | Ladbrokes Poker |
| Apex Poker Network | Merrill Lynch |
| Bellagio Casino | Microgaming |
| BetandWin | Pacific Poker |
| Betfair | Paradise Poker |
| Boss Media | PartyPoker |
| Bravo Network | Pizza Hut |
| Cassava Enterprises | Playtech |
| Challenge TV | Poker Rook |
| eBay | PokerStars |
| Empire Poker | PricewaterhouseCoopers |
| ESPN | Random Logic |
| European Poker Tour | Sportingbet |
| Eurosport | Sunset & Vine |
| FHM | Travel Channel |
| GAT | Tribeca Tables |
| Golden Palace | Ultimate Bet |
| Harrah's | Victor Chandler |
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