

# HOKUTOU HOLDINGS INTERNATIONAL, INC.

## Internet Gaming Company's Stock Set to Launch

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January 15, 2014

### HOKUTOU HOLDINGS INTERNATIONAL, INC. (OTC:PK – HKTU - \$0.30)

Price Target: \$2.00

Rating: Speculative Buy

#### COMPANY SNAPSHOT

**Hokutou Holdings International, Inc.'s** wholly-owned subsidiary, Platinum Pari-Mutuel Group, is developing an online experience designed to enable users to follow and share information regarding the fast paced global financial marketplace and to compete against each other in a traditional racing format. The Firm's objective is to be a leading social gaming financial markets destination, and our vision is to be the intersection of global financial markets, fantasy sports, horse racing and online gaming community. The system is based on pari-Mutuel wagering systems where the operator takes a percentage of the sales to pay the cost and the rest is paid back to the players.

#### KEY STATISTICS

Price as of 1/15/14	\$0.30
52 Week High – Low	\$1.48 – 0.10
Est. Shares Outstanding	277.1M
Market Capitalization	\$81.7M
3 Mo Avg Vol	146,000
Exchange	OTC:PK

#### COMPANY INFORMATION

Hokutou Holdings International, Inc.  
1046 E. University  
Mesa AZ 85203  
480.459.5833  
<http://www.FinancialRaces.net>

#### INVESTMENT HIGHLIGHTS

**Hokutou Holdings International's** wholly-owned subsidiary, Platinum Pari-Mutuel Group is set to introduce a novel approach to Internet gaming with a first-mover offering that should shake up the global online gaming and gambling segments.

**The Company is leveraging management's deep experience in gaming to quickly penetrate the estimated \$33 billion global Internet gaming market.** In essence, the Company is set to launch a service that serves as the intersection of global financial markets, horse racing, fantasy sports, and the online gaming community.

**The service enables players to "race" stocks, indices, commodities and currencies based on relative price movements against each other or selected stocks in the associated industry group, with stated odds for win/place/show, exactas, etc. via a typical pari-mutuel wagering system.** Depending upon the user's domicile, one can win money gambling (where it is legal) or earn points and prizes in a gaming format (where it is not).

**The model is designed to combine fundamental and technical financial data with a social media platform to encourage users to personalize and connect as well as compete against each other in a new and exciting environment.**

**With a first-mover advantage and a combination online gambling/online gaming approach, HKTU could potentially sign up millions of players following its 1H14 launch, and trade at a premium to the high-multiple online gaming group, which includes Zynga (NASDAQ – ZNGA).** As HKTU achieves milestone events including the launch of specific games, player sign-ups and revenue from fees, we believe that the stock could reach the \$2.00 level. We rate these shares Speculative Buy.



## HOKUTOU HOLDINGS (OTCPK - HKTU)

### COMPANY OVERVIEW

For the past three years, Hokutou Holdings International Inc. has operated as a development stage holding company. Earlier this year, the Company completed the acquisition of Platinum Pari-Mutuel Group (PPMG) as a wholly owned subsidiary, which also serves as the primary operating company inside the Firm. PPMG was formed in March, 2011 with the primary purpose of developing a central computer facility (the "Hub") to handle the wagering transactions for the financial products of PPMG. The Hub is complete and was activated for several months in order to test the system and network configurations.

PPMG is a software development company specializing in development of an online experience designed to enable users to follow and share information regarding the fast paced global financial marketplace and to compete against each other in a traditional racing format. PPMG is developing a new way for individuals to interact with the public markets. The Company's objective is to emerge as a leading social gaming financial markets destination by serving at the intersection of global financial markets, fantasy sports, horse racing and online gaming community. PPMG has developed a Hub computer system located in Saint Kitts to facilitate transaction processing. The location provides the ability to service both U.S. and international markets. The system is based on pari-Mutuel wagering systems where the operator takes a percentage of the sales to pay the cost and the rest is paid back to the players. As noted in the bios below, the executive team has many years of experience in this space, in creating new business models on the Internet as well as exposure to the capital markets sector, which bode well for investors.

In the near term, the Company plans to provide a new mix of financial content related to public companies, financial indices, commodities and currencies and the model is designed to combine fundamental and technical financial data with a social media platform to encourage users to personalize, connect and apply impersonal financial services information and data. Moreover, this service essentially brings the real-time excitement of the financial markets to a wider audience with content and games both entertaining and engaging. Using existing pari-mutuel technology, previously used predominantly for the horse and dog racing industries, PPMG plans to host online games and races to enable users to compete against each other in a new and exciting environment. The Company just hired Epic Web Solutions to create the user experience and graphic representations for the players. This will integrate into a backend system that provides for transaction processing and an extensive production menu for real time wagers. Once this is complete, an initial soft launch is slated for the first half of 2014.

It should be noted that PPMG entered into an agreement with famed industry provider AmTote, whereby AmTote has agreed to provide its services on an exclusive basis for its proprietary financial markets-based technology. The AmTote system will be the core of the back-end and middle office infrastructure. Also, management negotiated a global agreement with Sungard Financial Systems business segment, a distributor for real-time data feeds, to provide pertinent information for the project. Sungard provides information and data from the major exchanges throughout the world, including those in Hong Kong, Japan, Germany, France, England and the U.S. PPMG also negotiated agreements with NASDAQ and New York Stock Exchange for data feeds to distribute their content.



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The core target markets for the Company are affluent self-directed investors, fantasy sports, online gaming, social gaming and online community and PPMG is in discussions with multiple Internet marketing companies regarding distribution as part of enhancing its reach. Moreover, it is expected that PPMG will leverage relationships with existing, licensed operators that already have large active player bases that are seeking content. Those operators will receive a percentage of sales (affiliate revenue) from the business relationship as well as provide content to their players.

Plus, other players may come from marketing to people who have interest in the market and want “action” during the day. From day traders to investment clubs, this covers a large spectrum of players. A great feature of the service is the fact that players involved in social networking and gaming will be able to play with multiple devices.

The size of the market opportunity to combine social networking with financial markets gaming is huge. The Springer Gambling Report estimates that the size of the market is \$33 billion in online gaming alone. But that may just be the tip of the iceberg. According to PPMG there are:

- 22 million mass affluent households in the U.S.
- 34 million potential U.S. and Canada-based players
- 100 million social gamers
- 1 billion Facebook users

### Games Overview

In addition to providing a social media platform where the user community will be able to discuss the financial markets and financial instruments, users will be able to compete against each other in contests that involve picking the best or worst performing racers. PPMG will host contests where stocks, indices, commodities or currencies race against each other. This is similar to the horse racing industry. Down the road, users will be able to play single-race and multi-race contests

Due to current Internet gambling laws in the U.S., PPMG plans to offer U.S. users the opportunity to play “for fun” contests that are comprised of multiple races. Plus, U.S. players can expect a portfolio contest structured like fantasy football, but instead of drafting players, users will draft securities, and instead of competing against other users with a fantasy team of players, users will compete with their fantasy portfolios of securities.

The primary offering is the ability to “race” stocks, indices, commodities and currencies based on relative price movements. The scoring or payout is driven by individual race odds that are generated by a Pari-Mutuel wagering system. Players can bet Win/Place/Show or Exactas, Trifectas, etc. and games can consist of a single race or a series of races.

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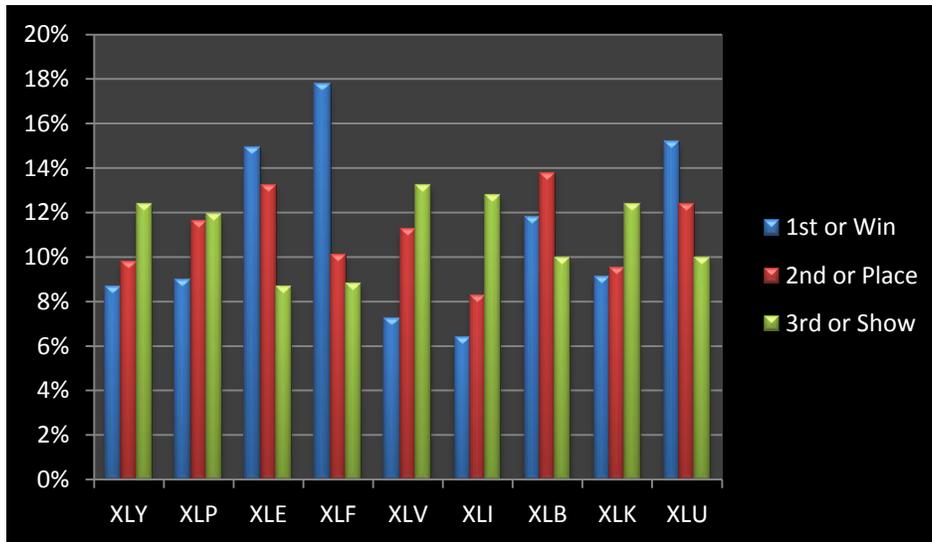


Image I. Sampling of ETF Race Back=Test

Source: PPMG

For example, a race comparing stocks in a given industry (consumer, autos, tech) in a long or short holding format is expected to be very popular. Indices or ETFs can also be used to wager in a racing format. A major proof of concept for PPMG is a sampling of 700 contests when comparing ETFs. In all 700, there was no consistent winner which bodes well for future revenue and profitability. In the typical pari-mutuel world, the favorite wins 30% of the time.

## THE EXECUTIVE TEAM

### James A. Egide, CEO/Director

Mr. Egide is the Chief Executive Officer and a director of the Company. From 1960 to 1975 he was in the commercial real estate development business in Phoenix, Arizona and Marin County, California, specializing in developing small strip shopping centers and fast food outlets.

In 1975, Mr. Egide and a partner started CARME, Inc. (“CARME”), which developed hair and skin care products. Mr. Egide was CEO of CARME when it went public in 1982. CARME’s stock was listed on the NASDAQ National Market System (“NMS”) and was traded by more than ten market makers. The share price of CARME’s stock reached \$11 per share before the market crash in October 1987. CARME’s revenues were about \$15 million and after-tax profits reached \$700,000 when CARME was sold in 1989 to another public company, at a price that gave investors a five- fold increase on their investment.

From 1992 to 2000, Mr. Egide was a director of a direct mail company called DataMark Holding, Inc. DataMark expanded its business to include credit card processing and changed its name to Digital Courier



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Technologies, Inc. ("DCTI"). He became Chairman of DCTI and was instrumental in raising \$20,000,000 equity for its expansion from such investors as George Soros and GE Capital. DCTI went public through a reverse merger, with the stock trading around \$3 per share. The stock had risen to \$7 per share prior to the capital raise. Mr. Egide resigned from his position at DCTI in June 2000.

From 2002 to 2010 Mr. Egide was involved in the horse racing industry as CEO of GPRM. In December 2010, GPRM merged with Bermase, a new company funded with \$2,500,000 to develop a new financial product. A new management team was hired to run GPRM and Mr. Egide resigned. In March 2011, he and his partners started the PPMG

Mr. Egide graduated from Marquette University with a degree in business.

### **Michael D. Bard, CFO/Director**

Mr. Bard is the Company's Chief Financial Officer and a director. He is responsible for managing the overall financial operations of the Company. Mr. Bard has over 40 years of experience as a financial executive, primarily with public companies. Mr. Bard has worked for companies in the Internet environment for the past 16 years, principally with companies involved with credit card processing, a key method of funding for internet gaming. Prior to working for Internet companies, he served as a controller for software development companies whose principal clients were the U.S. Government. Mr. Bard obtained his CPA license in 1973.

Mr. Bard has served as a director and Chief Financial Officer of PPMG since 2011. Mr. Bard served as a director and principal accounting officer of GPRM from 2003 to 2010. From 1996 to 2002 Mr. Bard served as the Controller for DCTI. From 1971 to 1996 Mr. Bard served as Controller for various publicly-traded and private government services firms, principally with CACI, Inc., a publicly-traded company, from 1976 to 1991 as Senior Vice President and Controller.

### **Bruce H. Benedict, CTO and CIO**

Mr. Benedict is our Chief Technology and Information Officer and has been involved in the gaming industry his entire career. He has worked with some of the most creative development teams in the gaming industry and has been involved with implementing some of the most innovative products in the industry. Mr. Benedict has been instrumental in the development of the Company's technology platform. Prior to joining the Company, Mr. Benedict formed a gaming consulting company, Global View Enterprises, LLC. He has also served as Executive Vice President of International Sales at United Tote Company. During his time as Executive Vice President of United Tote Company, he traveled to over 40 countries selling and implementing multiple multi-million dollar installations in various countries in the world. Prior to working for United Tote Company, he was a Program Director for Control Data Corporation's Automated Wagering Division. Mr. Benedict implemented many innovative products (touch-tone, internet wagering) and was instrumental in developing inter computer communications for co-mingling wagering data. He has extensive experience in the account wagering process, which is the basis for all online gaming operations today.

He began his career in computer operations with Control Data Corporation's Automated Wagering Division and became a senior manager for the company's pari-mutuel wagering business, primarily servicing the



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upstate New York OTB customers. He was involved with many innovative ideas and solutions for the technological challenges throughout his career as well as instrumental in game designs for the CDC AWI lottery division including the development of PowerBall®. His overall knowledge and perspective of online wager processing and distribution of products provides for a great resource for our company. Mr. Benedict received an AAS degree in Data Processing from Alfred State College in New York in 1971.

### **Keith Cannon, Director**

Mr. Cannon has been involved in the securities industry for over 40 years. He has had extensive experience in all phases of the industry, including underwriting, trading, sales and general management as a registered principal and owner of a broker-dealer. He founded and operated Cannon Securities, a FINRA registered company, from 1981 to 1986 until it merged with another firm. There were as many as 25 brokers working at the firm during this time. He was a branch manager of Wilson- Davis, Inc. in San Diego, Ca. until August 2005, when he resigned his license. He is currently a director of JLM Couture, Inc. a publicly-traded company based in New York City. He has been a director of several companies in a wide variety of industries including gaming (lottery ticket dispensing machines), mining and mineral development, foreign manufacturing, computer marketing and servicing, and real estate development. He is currently an active participant in several venture capital projects. He is an owner of a racehorse training and breeding operation in New Mexico. He has been active in several industry associations. He received a B.S., and M.S. in Journalism and Business from the University of Utah.

Mr. Cannon has served as a director of the Company since April 2011. Mr. Cannon's experience in the financial markets provides a valuable resource for greater understanding of the global financial market environments.

## **RISK FACTORS**

In our view, the biggest factors in impeding HKTU's success would be delays in its prospective launch and a potentially slow ramp-up of players to the service. While it is expected that the early adopters and curious users would dominate the ranks of the players in the weeks following the launch, ensuring that they return by offering a compelling and not just novel set of offerings is critical. Moreover, the greater the feature-set on the front-end, the more likely the attraction will be for the gamer. Plus, management must use its experience to ensure that there is a steady slate of winning players among key spheres of influence that can drive traffic, players, and thus, revenue and future profits. Other risks could include a decline in popularity of the company's products, or glitches in the systems. Risks such as those posed by larger firms or newer entrants with exciting new offerings are typical obstacles facing companies of HKTU's size and status.



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### CONCLUSION

Hokutou offers a unique opportunity to invest in a company that has the first mover advantage with a novel approach to online gaming that is sure to attract players following its launch in the first half of 2014. If the offerings prove to be as popular as they appear, management could potentially sign up millions of players from around the globe. With fees from gaming and the typical pari-mutuel system whereby the operator takes revenue off of the top to pay for expenses, investors can expect meaningful generation in the near term.

From the valuation perspective, we should note that major online gaming companies such as Zynga (NASDAQ – ZNGA) are afforded high price/revenue multiples. However, given the convergence and unique nature of the Company's offerings and business model structure, we believe that HKTU can comfortably trade at a premium to the group. As HKTU achieves milestone events including the launch of specific games, player sign-ups and revenue from fees, we believe that the stock could reach the \$2.00 level. We rate these shares Speculative Buy.



## HOKUTOU HOLDINGS (OTCPK - HKTU)

### Senior Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

### Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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