



Online gambling and sports betting in America: The 2017 landscape



EXECUTIVE SUMMARY

- ★ Gambling is a highly dynamic issue in the United States, a universe populated by a long list of stakeholders and a dense web of agendas and alliances.
- ★ In this report, we attempt to cut through the complexity and provide a simple snapshot of where the U.S. is today – and where the market is headed – on seven key emerging gambling verticals.
- ★ Together, these verticals represent a mix of the present and the future for the American gambling industry. As you'll soon see, achieving progress on any – let alone all – is a tall task given the diverse array of opinions from operators, lawmakers, and other economic interests.





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VERTICAL:

**Real-money online
casino & poker**



WHERE WE ARE NOW

- ★ Three states have regulated (DE, NJ, NV)
- ★ Total revenue in 2016: \$200mm (est)
- ★ Regulatory structures appear effective at controlling for underage access, out-of-state play, AML, and other core concerns



LOOKING AHEAD

- ★ Legislative progress has stalled, but active efforts remain in several states (most notably PA, MA, MI, NY)
- ★ Casino revenue continues to grow, but poker is declining



COMMERCIAL CASINOS

**GENERAL POSITION
ON REAL MONEY
CASINO & POKER:**

**MIXED –
LEAN OPPOSE**

- ★ Some operators are concerned that online play will cannibalize live casino revenue
- ★ Vegas operators split on issue
- ★ Regional / smaller operators tend to be neutral / opposed



TRIBAL CASINOS

**GENERAL POSITION
ON REAL MONEY
CASINO & POKER:**

LEAN OPPOSE

- ★ Tribes generally lack the multi-state presence that would allow them to realize maximum value from online gambling
- ★ Threat of disruption to compacts or land-based revenue drives opposition



STATE GOVERNMENTS

**GENERAL POSITION
ON REAL MONEY
CASINO & POKER:**

OPPOSE

- ★ Modest amount of perceived financial upside limits state government interest
- ★ Fragmentation of industry stakeholders feeds state government inaction
- ★ States lack confidence in tech and safeguards

GAMBLING SUPPLIERS

**GENERAL POSITION
ON REAL MONEY
CASINO & POKER:**

**LEAN
SUPPORT**

- ★ Suppliers stand to benefit significantly from online
- ★ Fragmentation of industry stakeholders makes it unlikely that suppliers will be vocal advocates for online regulation



STATE LOTTERIES

**GENERAL POSITION
ON REAL MONEY
CASINO & POKER:**

**NEUTRAL –
LEAN OPPOSE**

- ★ Many state lotteries believe that online expansion could eat into lottery revenue
- ★ Lotteries tend not to be overly vocal in their opposition due to political considerations

RACE TRACKS

**GENERAL POSITION
ON REAL MONEY
CASINO & POKER:**

**LEAN
SUPPORT**

- ★ Race tracks generally voice opposition to ensure some sort of cut or ability to participate in regulated online gambling
- ★ Horse racing is arguably the largest form of legal online gambling in the status quo

FEDERAL GOVERNMENT

**GENERAL POSITION
ON REAL MONEY
CASINO & POKER:**

**NEUTRAL –
LEAN OPPOSE**

- ★ Legislative efforts over last decade have been a mix of prohibition and regulation
- ★ Bills banning online gambling have gained more traction than bills regulating

VERTICAL:

Online lottery



WHERE WE ARE NOW

- ★ Four states offer (GA, IL, KY, MI)
- ★ Michigan has been most aggressive about product and marketing
- ★ Contentious issue in several states
- ★ Firm numbers of performance not available



LOOKING AHEAD

- ★ States likely to introduce bills both to permit and prohibit
- ★ Lotteries increasingly looking at alternative products like fantasy sports, online poker



GAMBLING SUPPLIERS

**GENERAL POSITION
ON ONLINE
LOTTERY:**

SUPPORT

- ★ Suppliers recognize revenue potential and opportunity to reach new audience
- ★ Online expansion opens up a new range of lottery product iterations that aren't possible with a physical ticket



RETAILERS

**GENERAL POSITION
ON ONLINE
LOTTERY:**

OPPOSE

- ★ Retailers believe that online sales would cannibalize traffic to retail locations
- ★ Groups can wield significant political power at state level



LOTTERY COMMISSIONS

**GENERAL POSITION
ON ONLINE
LOTTERY:**

LEAN SUPPORT

- ★ Commissions recognize revenue potential and opportunity to reach new audience
- ★ But commissions are also cognizant of the complex political environment surrounding online expansion



STATE GOVERNMENTS

**GENERAL POSITION
ON ONLINE
LOTTERY:**

LEAN OPPOSE

- ★ Legislative efforts over last decade have been a mix of prohibition and regulation
- ★ Fragmentation among stakeholders makes it difficult to secure sufficient political support

VERTICAL:

Daily fantasy sports



WHERE WE ARE NOW

- ★ DFS sites will generate about \$4bn in handle (amount wagered) in 2016
- ★ 8 states affirmatively authorized / regulated “fantasy contests” in 2016
- ★ Major sites active in ~45 states
- ★ Underlying business model unproven



LOOKING AHEAD

- ★ Another 5-10 states likely to pass “fantasy contest” bills
- ★ New forms of “fantasy contest” betting that closely resemble sports betting likely to emerge under state regulatory regimes
- ★ PASPA challenge may develop thanks to state regulation



LOOKING AHEAD

- ★ DraftKings / FanDuel merger will reshape market
- ★ Casinos likely to move more aggressively into “fantasy contests”
- ★ “Fantasy contests” likely to spur development of other quasi-gambling verticals

STATE GOVERNMENTS

**GENERAL POSITION
ON DAILY FANTASY
SPORTS:**

SUPPORT

- ★ DFS has brought together a number of powerful, non-traditional legislative advocates
- ★ Fantasy sports seen by many lawmakers as innocuous and conceptually distinct from gambling



SPORTS LEAGUES / TEAMS

**GENERAL POSITION
ON DAILY FANTASY
SPORTS:**

SUPPORT

- ★ Leagues have ownership (NBA, MLB) or deep integration (NFL)
- ★ Roughly 80% of the “big four” pro sports teams have had a marketing partnership with a DFS site
- ★ DFS “lounges” at 10+ stadiums



COMMERCIAL CASINOS

**GENERAL POSITION
ON DAILY FANTASY
SPORTS:**

**NEUTRAL-
LEAN SUPPORT**

- ★ Casinos have evolved on the issue – previously opposed
- ★ Now more see it as an opportunity to expand (at best) or as a non-competitive product (at worst)
- ★ Expect to see more participation as regulation continues to advance



TRIBAL CASINOS

**GENERAL POSITION
ON DAILY FANTASY
SPORTS:**

OPPOSE

- ★ DFS has met fierce resistance from tribes, especially in states where compacts include a concept of exclusivity
- ★ That opposition is likely to increase in the year ahead
- ★ A handful of tribes have launched DFS sites



RACE TRACKS

**GENERAL POSITION
ON DAILY FANTASY
SPORTS:**

**NEUTRAL-
LEAN OPPOSE**

- ★ Tracks see potential for fantasy (there are a few race-based DFS sites)
- ★ Opposition driven by lack of an obvious way to exploit the broader market

STATE LOTTERIES

**GENERAL POSITION
ON DAILY FANTASY
SPORTS:**

NEUTRAL

- ★ Lotteries have been generally absent from the political conversation around DFS
- ★ Some lotteries (most notably MA) have floated the idea of fantasy-themed lottery products



VERTICAL:

Social casino



WHERE WE ARE NOW

- ★ \$3.8bn in global revenue industrywide for 2016 (est)
- ★ No regulation, available in all 50 states
- ★ Leading social casino company sold for \$4.4bn in August



LOOKING AHEAD

- ★ Increasing integration with commercial casinos
- ★ Increasing integration with tribal casinos
- ★ Regulators starting to examine the vertical



VERTICAL:

Online skill gambling



WHERE WE ARE NOW

- ★ Legal (but unregulated) in ~36-42 states depending on opinion
- ★ Rise of casual and competitive video gaming has fueled growth in skill-based contest gambling
- ★ Little reliable data on hand; our estimates suggest \$500mm - \$1bn in 2016



LOOKING AHEAD

- ★ More products for larger amounts of money
- ★ Spread of DFS will likely fuel additional expansion and product iteration
- ★ Casinos likely to tap vertical online as skill-based gambling becomes more popular on casino floor



VERTICAL:

Online horse betting



WHERE WE ARE NOW

- ★ Allowed in ~36 states (with some restrictions)
- ★ Likely the largest form of online gambling by handle in the U.S.



LOOKING AHEAD

- ★ Racing operators will likely attempt to layer new online products on top of racing (despite past failures)
- ★ Revenue and handle are likely to decline in the aggregate; online may increase in short-term as consolidation continues



VERTICAL:

Sports betting



WHERE WE ARE NOW

- ★ Some form legal in 4 states - vast majority of the market is Nevada (~\$4.5bn in 2016)
- ★ Nevada has online sports betting (can bet from anywhere in state)
- ★ Online sports betting accounts for 35%-50% of total handle in Nevada



LOOKING AHEAD

- ★ Nevada handle will continue to gravitate toward more mobile play
- ★ “Fantasy contest” bills may open door for PASPA challenge
- ★ “Fantasy contests” may organically evolve into nationwide (or close) legal sports betting over time



COMMERCIAL CASINOS

**GENERAL POSITION
ON SPORTS
BETTING:**

**LEAN
SUPPORT**

- ★ Some Vegas operators are not keen on surrendering monopoly
- ★ Casino operators also split on sports betting as an online product
- ★ Chance to expand customer base likely outweighs concerns



TRIBAL CASINOS

**GENERAL POSITION
ON SPORTS
BETTING:**

**UNCLEAR—
LEAN OPPOSE**

- ★ Tribal organizations have by and large yet to weigh in on sports betting legalization
- ★ Opposition to DFS may be a preview of position on sports betting
- ★ Position likely to come into focus in 2017

GAMBLING SUPPLIERS

**GENERAL POSITION
ON SPORTS
BETTING:**

SUPPORT

- ★ Sports betting represents a significant opportunity for suppliers, many of whom already have a product suite developed



SPORTS LEAGUES / TEAMS

**GENERAL POSITION
ON SPORTS
BETTING:**

**MIXED—
LEAN OPPOSE**

- ★ Spectrum of public positions run from NBA (support) to NFL (oppose), but weight is heavier on oppose side
- ★ Fantasy sports likely to serve as a sort of bridge for leagues to accepting sports betting
- ★ Macro cultural trends may accelerate support



STATE GOVERNMENTS

**GENERAL POSITION
ON SPORTS
BETTING:**

NEUTRAL

- ★ A handful of states have advanced some sort of “preparatory” sports betting legislation (CA, PA)
- ★ Success of “fantasy contest” bills suggests that state legislatures are willing to take at least incremental steps toward legalization

GLOBAL GAMBLING INDUSTRY

**GENERAL POSITION
ON SPORTS
BETTING:**

SUPPORT

- ★ Sports betting is a sophisticated and mature product in international markets like the UK
- ★ A universe of suppliers (data, pricing, platforms, etc) is eager to participate in what is assumed to be one of the most lucrative potential markets for sports betting



Questions or feedback?

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