



Global Market Advisors

Economics of Sports Betting

October 12, 2018

Kentucky Legislature

Interim Joint Committee on Licensing, Occupations, and Administrative Regulations

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About Global Market Advisors

Leader in Gaming and Hospitality Consulting

Strategic Planning • Public Policy • Tourism Development
Integrated Resorts and Gaming Market Assessments
Sports Betting • Internet & Social Gaming
Market Research • Operations Analysis
Government Relations • Legal • Responsible Gaming
Crisis Communications • Community Development

Las Vegas • Bangkok • Taipei • Denver

About Global Market Advisors

Brendan Bussmann

- ▶ Partner, Director of Government Affairs
- ▶ Background in government relations, political operations, crisis communications, community outreach, and development
- ▶ Clients include gaming and hospitality, healthcare, energy, higher education, and sports
- ▶ Completed projects in the Americas, Europe, and Asia with local, state, and federal officials
- ▶ Operator experience at Las Vegas Sands – successfully won licenses in Pennsylvania and Singapore. Formulated global responsible gaming and community development programs
- ▶ Speaker at University of Nevada, Las Vegas, number international conferences
- ▶ Contributor to several publications and peer review of academic journals/white papers
- ▶ B.A. in Political Science from the University of Nebraska - Lincoln

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Economics of Sports Betting

- How did we get to today?
- The Sports Betting Dollar
- Current U.S. Market
- U.S. Outlook
- Market Considerations
- Key Aspects of Legislation and Regulation
- Q&A

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Murphy Vs. NCAA Decision

- States Rights Issue
 - State of New Jersey attempted to legalize sports betting in 2012
 - Sued by NCAA and Professional Leagues
 - New Jersey argued that PASPA violated the Tenth Amendment and states should have the right to enforce sports betting laws
- U.S. Supreme Court Decision
 - On May 14, 2018, SCOTUS ruled 6 – 3 that PASPA was unconstitutional
 - An additional vote of 7 – 2 on the anticommandeering principle
 - Allowed States to move forward independently

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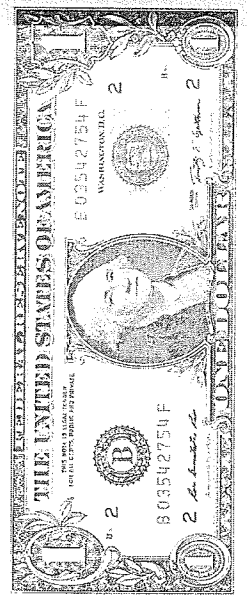
The Sports Betting Dollar

- High volume, low margin business
 - Capital expenditure
 - Know Your Customer (“KYC”)
 - Risk management expertise
 - Compliance reporting
 - Systems cost
 - Marketing
 - Data feeds
 - Bankroll and reserve accounts
 - Licensing
 - Internal controls

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The Sports Betting Dollar

From Handle to Revenue



\$0.95

\$0.05

- In Nevada, roughly \$5 billion in sports betting handle
- \$250 million in revenue in 2017

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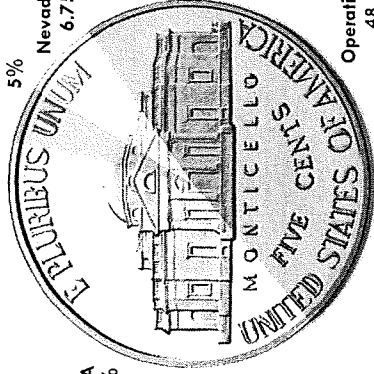
The Sports Betting Dollar

From Revenue to Profit

Federal Tax
5%

Nevada Tax
6.75%

EBITDA
40.0%



Operating Costs
48.25%

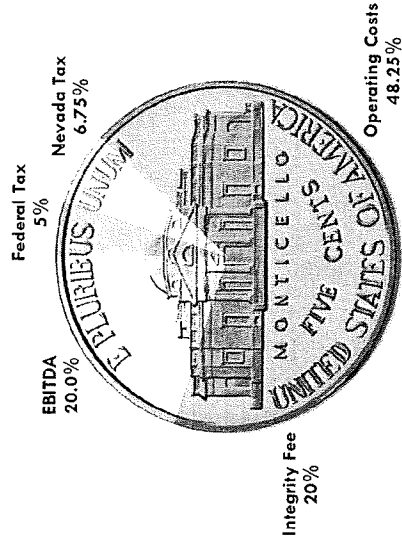
- Nevada tax 6.75% of all gaming revenue
- Federal tax 0.25% of handle, roughly 5% of revenue
- Operating costs 2.4% of handle, roughly 48.25% of revenue
- EBITDA of 40.0%
- 2¢ of every \$1.00

Source: Global Market Advisors, Photo Credit: US Mint

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The Sports Betting Dollar

Impact of Integrity Fee



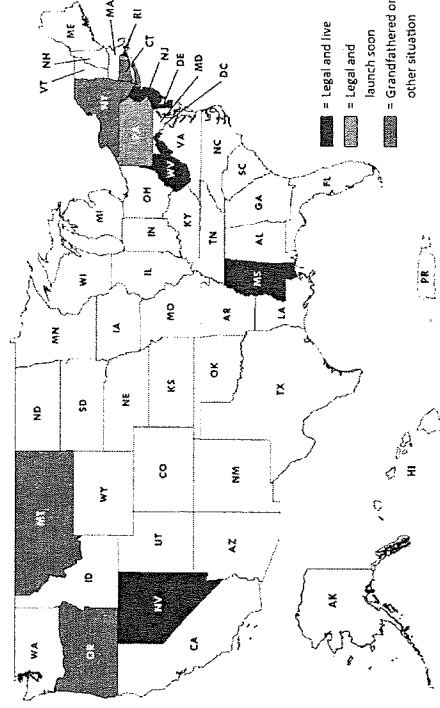
Source: Global Market Advisors, Photo Credit: US Mint

- Some sports leagues are asking for 1% of sports betting handle as an “integrity fee”
- 20% of sports betting revenue
- EBITDA cut from 40% to 20%
 - 1¢ of every \$1.00
- No integrity fees are currently paid in any legal jurisdiction
- Nevada has never paid an integrity fee in its nearly 50 year history of sports betting

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The Current Market

Legality of Sports Betting in the United States



Source: Global Market Advisors

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The Current Market

U.S. Sports Betting Tax Rates

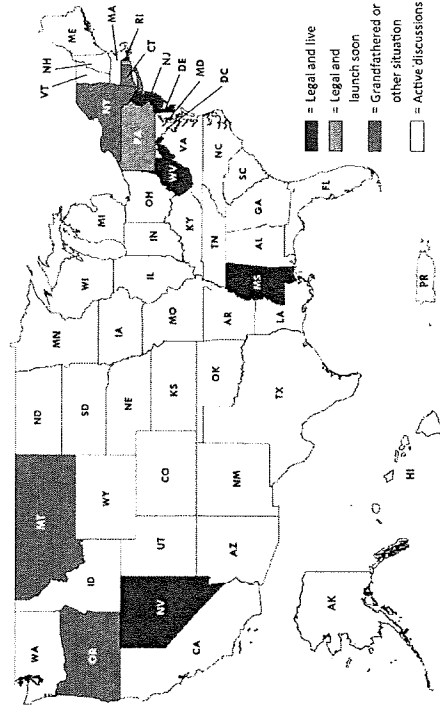
Nevada	6.75%
Delaware	60%
New Jersey	8.5% - 13%
Mississippi	12%
West Virginia	10%
Pennsylvania	36%
Rhode Island	51%

Source: GMA

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U.S. Market Outlook

Legality of Sports Betting in the United States



Source: Global Market Advisers

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U.S. Market Outlook

- The United States has long been considered the “holy grail” of sports betting
- GMA is actively engaged and currently tracking over 30 states and territories with active sports betting discussions
- Brick and mortar casinos, lotteries, racetracks, and other gaming outlets all are looking at sports betting
- Nearly 500 tribal casinos nationwide, represents great potential for sports book operators
- GMA estimates up to \$138.0 billion in handle if maximum convenience and availability is realized
 - \$9.0 billion nationwide sports betting revenue

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Market Considerations

- Operators could be in-house, third-party operators, hybrid model
- Operations, bankroll, and reserves will vary by state
- Varying bet requirements and limits
 - May or may not allow mobile betting or online wagering
 - May or may not allow in-play wagering
 - May or may not allow bets on eSports or College/Amateur Sports

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Market Considerations

- Certifications and Approvals
 - In-depth testing for the integrity of a gaming system
 - States must validate and verify that operators maintain hardware and software to avoid glitches
- Customer acquisition costs and marketing

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Key Considerations for Legislation & Regulations

- Existing jurisdictions
- Understand your market
 - Feasibility
 - Locations and Modes
- Tax rates
- Licensure

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Integrity, first and foremost, is in the legislation and regulations that you establish for sports betting. It is never in a fee that is paid to anyone.

Q & A



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