

Possible Options for the Implementation of Sports Wagering in the Commonwealth

October 12, 2018



Background

- In May 2018: U.S. Supreme Court overturned a federal law (PASPA – Professional and Amateur Sports Protection Act) which prohibited sports wagering.
- States can now decide whether to offer sports wagering within their own borders.
- Nevada and Delaware: offered sports wagering prior to PASPA and were grandfathered in.
- Sports wagering has been offered for many years internationally.
- The KLC currently is prohibited by statute from offering sports wagering. KRS 154A.063(2)
- Two current vendors of the KLC (IGT & SG) provide sports wagering systems and services both in the U.S. and globally.

States Now Offering Sports Wagering

State

- Delaware
- Mississippi
- Nevada
- New Jersey
- Rhode Island (Nov. launch)
- West Virginia

Note: Globally, lotteries regulate 70% of sports wagering

Oversight Agency

- Lottery
- Gaming Commission (lottery in 2019)
- Gaming Control Board (no lottery)
- Division of Gaming Enforcement
- Lottery
- Lottery

States that have passed sports wagering laws, but not offering yet.

- Pennsylvania (Gaming Control Board): five (5) applicants for the license; any of the 12 existing casinos/racinos could apply; 1 mobile and Internet site also available.
- New York (Gaming Commission): a pre-PASPA law allowed sports wagering; work on temporary regulations is underway for 4 sites (existing casinos).

Basic Decisions for the General Assembly

- Where will sports wagering be available?
 - “Brick and mortar” venues: horse racetrack-owned facilities, appropriate lottery retailers, all?
 - The Internet, mobile sites?
- What will be the license fee, if any; one-time or annual?
- What sports will be included or not (e.g., collegiate sports)?
- What will be the tax rate on gross gaming revenues?
- What will be the state’s share of the fees and taxes based on different models?
- What will be the responsible gaming measures?
- What entity will be charged with oversight and/or operation of sports wagering?

Sports Wagering Estimated Annual Tax Revenues For the Commonwealth of KY

- **Estimated annual KY tax revenues from sports wagering range from: \$6.7 million to \$26 million**

Variables that impact gaming revenues:

- **Availability of places to wager:**
 - Number of locations that offer sports wagering.
 - Is mobile allowed?
- **Hold percentage:**
 - Ratio of gaming revenue to handle, also referred to as win percentage.
- **Gaming tax rate:**
 - Lower rates allow better odds, customer experience, more marketing and technology investments.
- **Sports included and types of wagers offered:**
 - Ability to wager on a variety of events and place a variety of wagers.

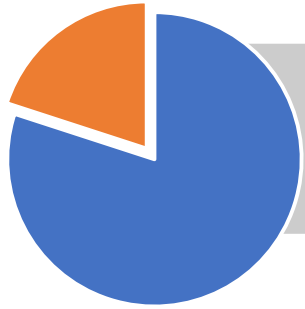


Sports Betting in Kentucky

- October 12 2018
- Charles Cohen, Vice President, Sports Betting



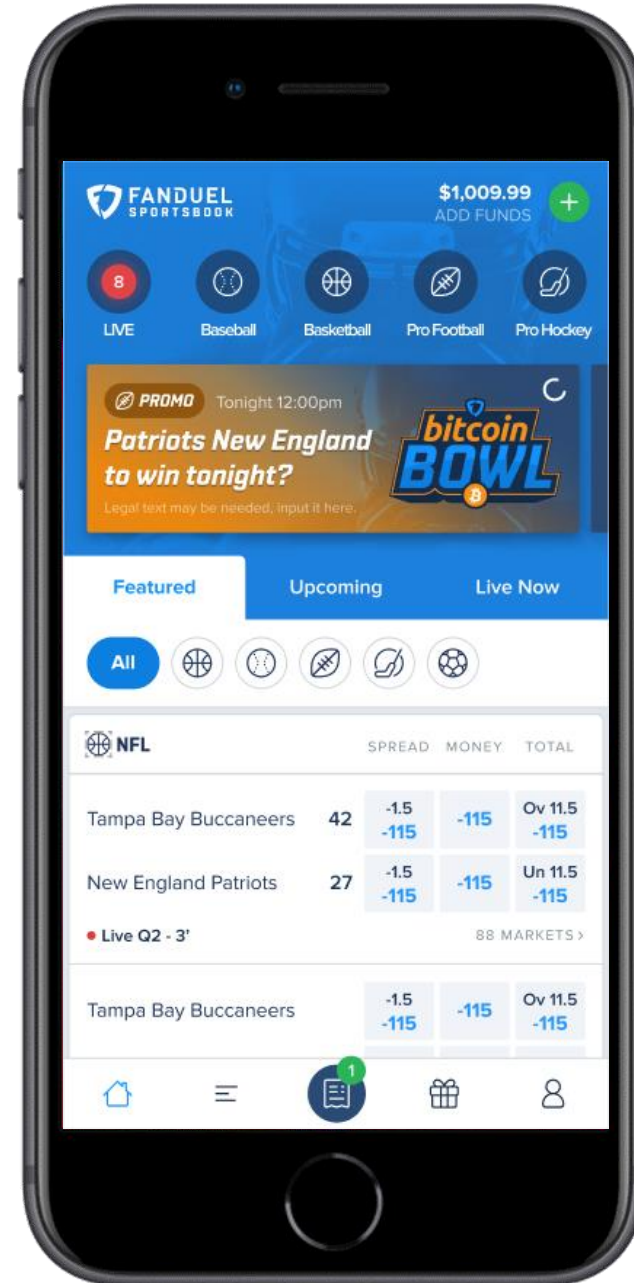
Mobile Sports Betting



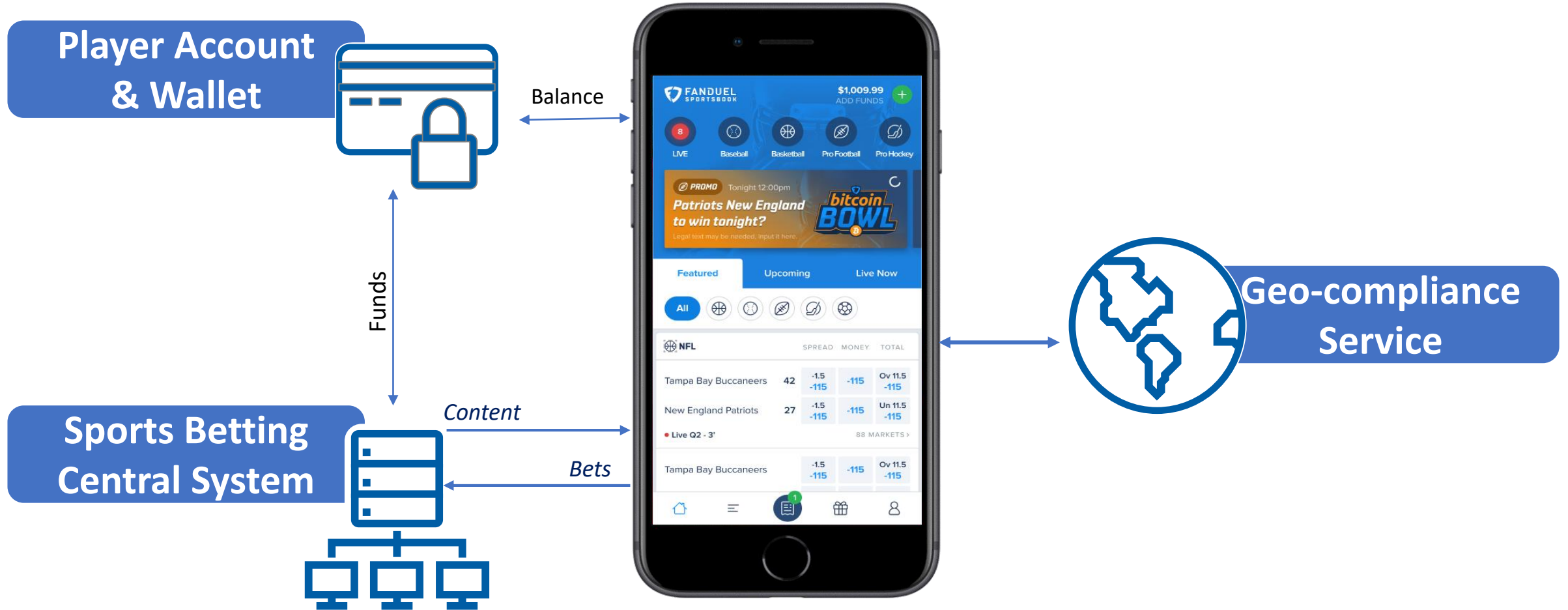
Up to 80% of sports wagering in the UK is through mobile.

Secrets to success

- ✓ On-device registration & verification.
- ✓ Statewide play.
- ✓ Frequent upgrades and new features.



How Mobile Sports Betting works



Market configuration – the main models

Single Supplier

One supplier operates Sports Betting from a single platform and pool for the whole State.

Economic Potential



Regulation efficiency



Accessibility



Who does it:

RI

DE

Trusted Participants

Any existing regulated gaming provider may participate on an equal footing, with freedom to select their own platform.

Economic Potential



Regulation efficiency



Accessibility



Who does it:

NV

MS

WV

Fully Open

Any entity may secure a license or sub-license to operate sports betting (primarily online) in the State.

Economic Potential



Regulation efficiency



Accessibility



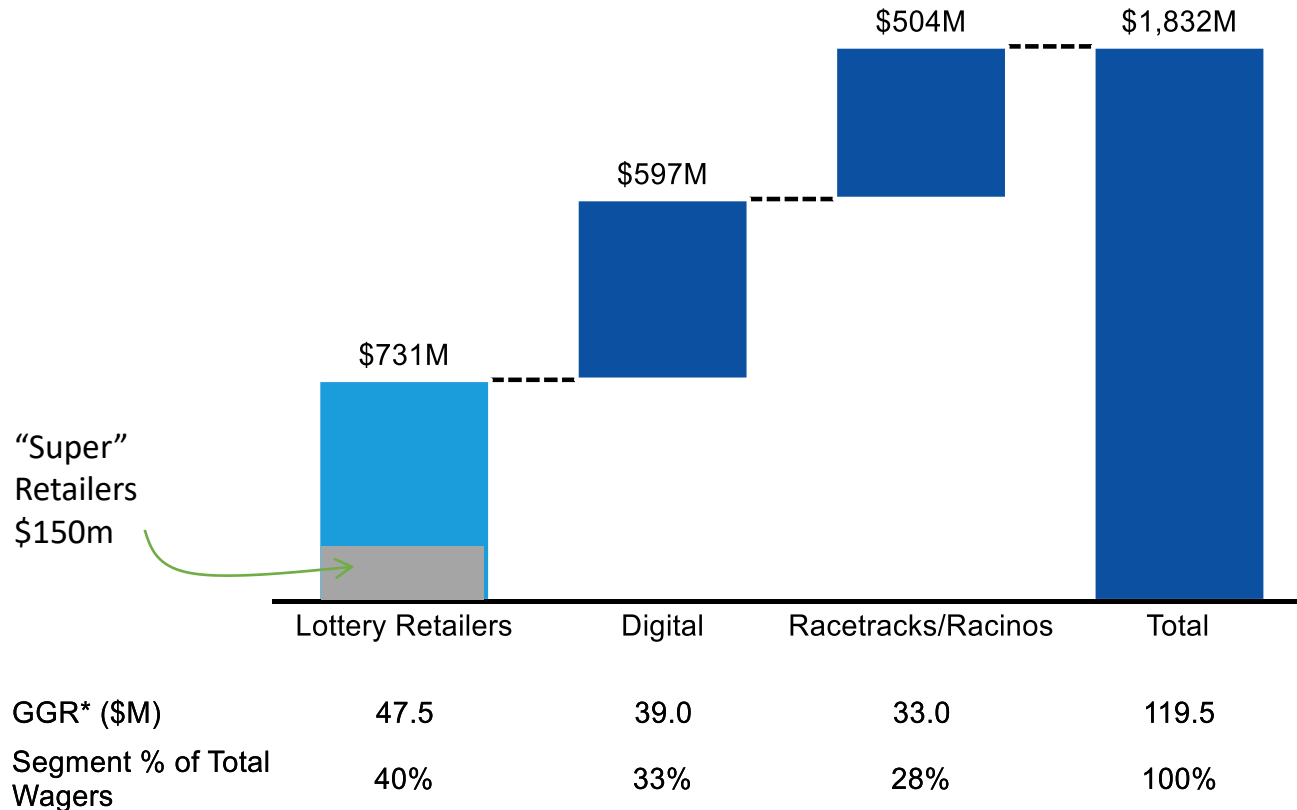
Who does it:

NJ

PA

Market outlook under Trusted Participants model

- Lottery and Tracks operate independently; mobile betting state wide.
- Total annual GGR: \$119.5m



Key Assumptions

- Distribution would be widespread across lottery retailers, racetracks / racinos and through websites/ mobile apps
 - **Lottery retail wagers would be the highest, given proximity to a wider range of Kentuckians** and the convenient experience of making purchases at lottery retailers
 - Digital estimates based on minimal limits to player registration, topping up of accounts and making withdrawals, advertising and marketing spend, and product advancements
- Estimated hold is 6.5% and implied tax rate is ~19% which would amount to **annual tax revenue of ~\$22m at peak to the state of Kentucky**

Keys to Success for Kentucky



Risk areas

Underage play
Responsible gaming
AML

Compliance Overhead
Integrity fees & Taxes
Product restrictions



Benefit areas

Convenience
Trust
Choice

Mobile
Innovation
Good prices

The tradeoff:

Balance accessibility with
responsibility

Balance safety and
competitiveness



OVERVIEW OF LOTTERY SPORTS WAGERING

OCTOBER, 2018



U.S. LOTTERIES ARE POSITIONED TO REGULATE THE SPORTS BETTING SALES CHANNEL

- Full Regulated Sales Channel
- Large Distributed Retail Sales Network
- History of Support for Good Causes
- WLA Responsible Gaming Framework Certification
- Non-U.S. Lotteries Regulate Today
- Existing administrative and corporate structure avoids cost of creating a new entity.

Source: WLA, NASPL

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219,68

8

U.S. Lottery Retailers

14

U.S. Lotteries
WLA Responsible
Gaming Certified

\$22.5B

Lotteries Contribution
To Beneficiaries
(2016)

70%

Global Legal Sports
Sales Thru Lottery
Today

SCIENTIFIC GAMES

MARKET LEADING SPORTS BETTING SUPPLIER

PRIVATE CUSTOMERS

sportsbet
com.au

CORAL

sky bet

PADDYPOWER.

Ladbrokes

betfair

William HILL

LOTTERY CUSTOMERS



15



28

Sports Customers Globally

Local sports solutions teams across the globe
on 4 continents



20+

Years Experience

20+ years with a history of successful sports
solutions and customer
growth



100%

Regulated

We have only ever done business with lotteries
and operators
working in regulated markets

CASE STUDY: UK SPORTS BETTING AND SCIENTIFIC GAMES

UNDISPUTED MARKET LEADER OF \$6BN MARKET

2016-2017 MARKET SHARE

(54% Mobile / 80% Retail)

ONLINE UK MARKET SHARE	Market Share %	Platform Supplier
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BET365	16.0%	PROPRIETARY
PADDYPOWER BETFAIR	15.0%	SG DIGITAL
SKY BETTING AND GAMING	14.1%	SG DIGITAL
LADBROKES CORAL	13.5%	SG DIGITAL
WILLIAM HILL	11.0%	SG DIGITAL



26,000



PEAK BETS PER MINUTE




DAILY PRE GAME & IN-PLAY LINES

WilliamHILL skyBET Ladbrokes

120K

PRICE CHANGES PER MINUTE

RESULTS

	Renewed in 2017 (Initial Go Live: 2001)
	Renewed in 2018 (Initial Go Live: 2000)
	Renewed in 2017 (Initial Go Live: 2008)
	Renewed in 2017 (Initial Go Live: 1998)

U.S. SPORTS LEGISLATIVE BEST PRACTICES

TO RESPONSIBLY REGULATE & MAXIMIZE STATE PROFITS

Primary Recommendation

Open the sports betting market by legalizing an activity that state residents engage in on a regular basis, keep statutory framework simple and set sports betting details in regulations, eliminate illegal operators through a proper tax and regulatory structure, bring substantial tax revenue to the state, block black market operators, and institute consumer protections

Enact a legal framework for sports betting with the following best practices:

- Establish licensing, responsible gaming and consumer protection guidelines
- Broad scope of gaming operators to engage in sports betting (e.g., casinos, lotteries, OTBs, tracks, Native American casinos)
- Betting on any sport or event, including professional and collegiate sports, and all forms of bet types, including pregame and live wagering
- Statewide retail and digital (web/mobile) distribution.
- Licensing and testing reciprocity with other states and jurisdictions
- Inter-jurisdictional compacts between other states and countries with legalized sports betting
- Adopt regulation allowing for best practices in deployment of technology and services allowing out-of-state operations and placement of technology
- Reasonable licensing fees for operators, manufacturers and providers of services
- Adopt common sense gaming tax provisions allowing gaming operators to compete against illegal operators. Nevada has a gaming tax of 6.75% of NGR





DISCUSSION

