



Regulated Sports Betting: Sizing The U.S. Opportunity

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Tribal Alliance of Sovereign Indian Nations
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About Us

Eilers & Krejcik Gaming, LLC is a boutique research & advisory firm focused on servicing the gaming equipment, technology, and interactive gaming sectors within the global gaming industry. Products and services include market research, company research, and advisory services designed specifically for traditional land based & online casino companies, gaming technology providers, digital & interactive gaming companies, and institutional investors.

- **Market Research** - proprietary market research offering includes multiple surveys and internally developed reports that are designed specifically to track key industry and product demand drivers, operating metrics, market share trends, and technology adoption rates.
- **Company Research** - company research offering includes the active coverage of all major gaming equipment and technology providers, as well as social gaming companies.
- **Consulting & Advisory Services** - consulting & advisory services division provides a wide range of customized research products and advisory services for both gaming companies and investors including, but not limited to, M&A advisory, customized surveys, new market analysis, asset valuation, and competitive landscape analysis.



U.S. Regulated Sports Betting Projections – Headline Numbers

\$ **7.4** BN

The total annual revenue we expect to be generated if all 50 states regulate online sports betting but **restrict sports betting** to highly-licensed land-based environments such as casinos and racetracks.

\$ **16** BN

The total annual revenue we expect to be generated if all 50 states regulate sports betting and **allow unfettered access** to a robust online sports betting product as well as land-based sports betting.

32

The number of states we expect to offer regulated sports betting by 2023 should PASPA be fully repealed.

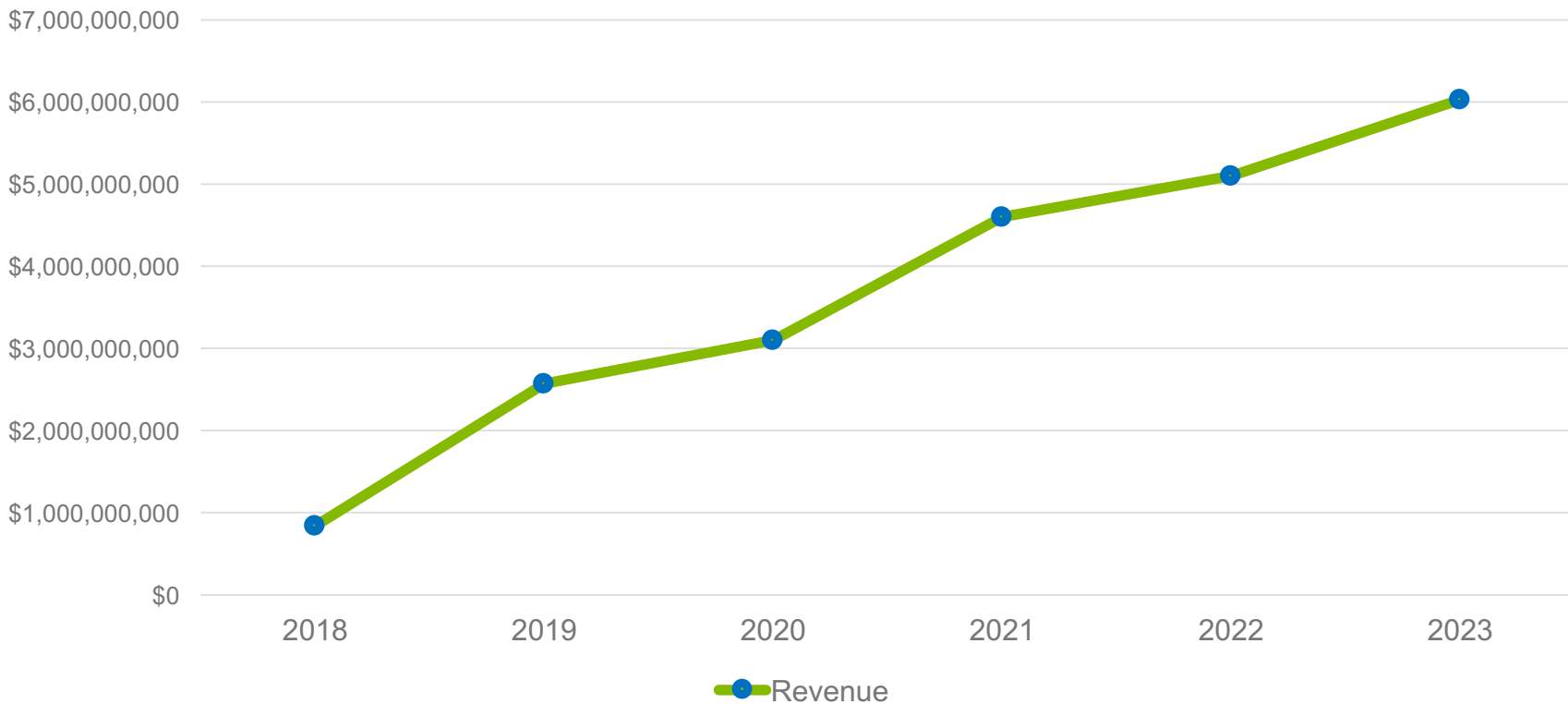
44 MM

The number of Americans we believe would participate in a 50-state market for regulated sports betting that included both land-based and robust online sports betting products.

U.S. Regulated Sports Betting Projections – The Market At 2023

The chart below represents our baseline estimates for the total annual revenue that regulated sports betting would generate in the U.S. during the first five years of operation (assuming a full repeal of PASPA in early 2018). Our projection assumes 32 states come online within the first five years, and that those states vary on key policy terms such as availability of licenses and the ability to offer sports betting online.

U.S. Regulated Sports Betting Market Size Post-PASPA



Source: Eilers & Krejcik Gaming, LLC



The California Sports Betting Opportunity

Status quo

Sports betting: California does not currently allow any type of traditional sports betting.

Daily fantasy sports: California does not currently regulate daily fantasy sports and the state AG has yet to provide a formal opinion.

CA is the largest state for DFS accounting for an estimated 12% of total revenues. Any adverse regulation would have a material negative impact on the industry. Some tribes have voiced concerns about DFS representing a new form of gambling.

Enabling legislation: In 2017 California introduced one piece of enabling legislation related to sports betting:

- **ACA 18** Some tribes have voiced opposition to the bill. Issue is likely to re-emerge next year.

Probability of regulation post-PASPA

We believe that California will be among the second wave of states to authorize regulated sports betting should PASPA fall.

The timing and form of regulation will likely be dependent upon major stakeholders (including tribal casinos) working together. This has proven to be a problematic issue in the past (i.e. online poker) and arguably remains the biggest headwind for unlocking the biggest market in the U.S.

Market opportunity: Sports betting

Annual sports betting revenue (land-based only)

\$930mm / \$991mm

(baseline / bullish)

Annual sports betting revenue (land-based + online)

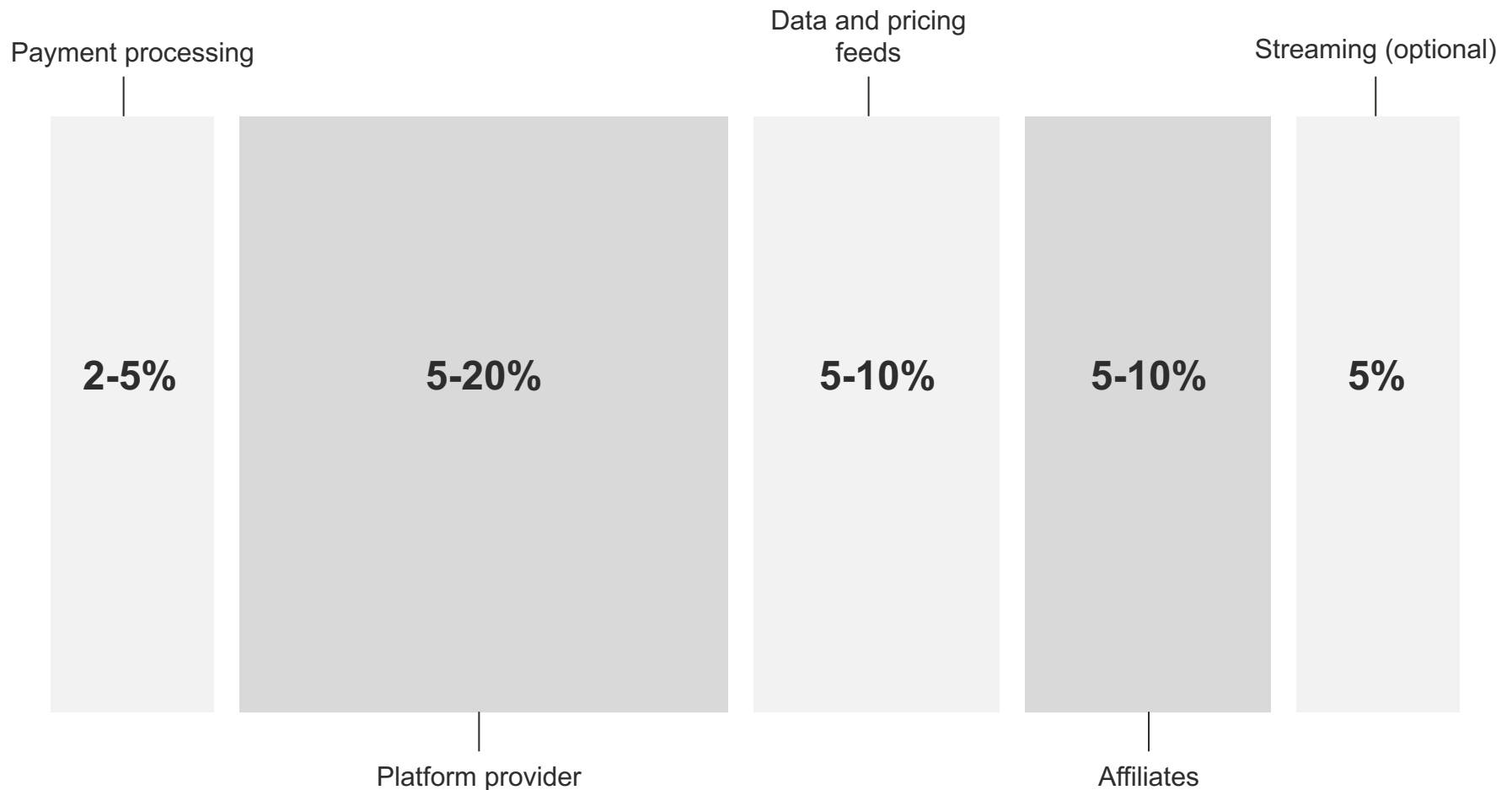
\$1.19bln / \$2.15bln

(baseline / bullish)



Regulated Sports Betting Value Chain – Ongoing Platform Costs

The following costs are estimates and can vary significantly based on supplier / operator needs. All percentages are on post-tax revenue.

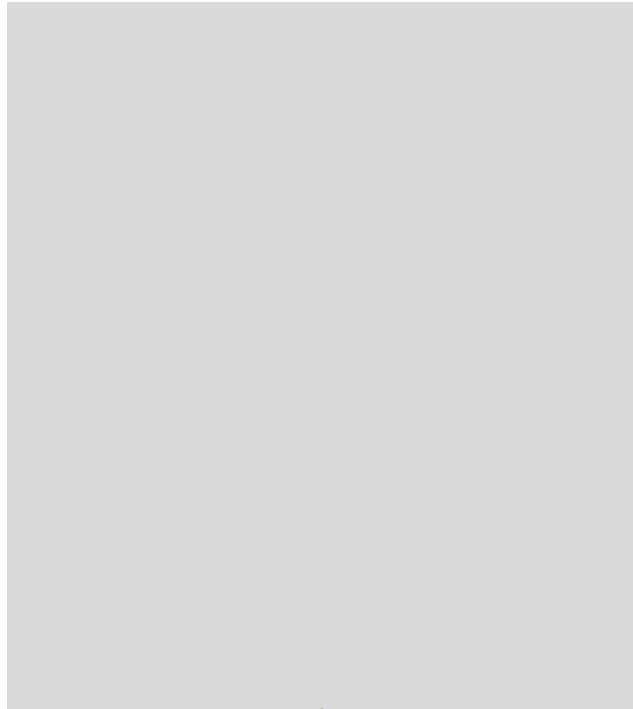
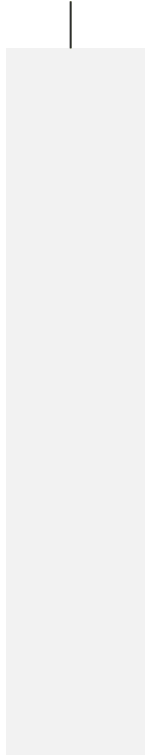




Regulated Sports Betting Value Chain – Other Costs

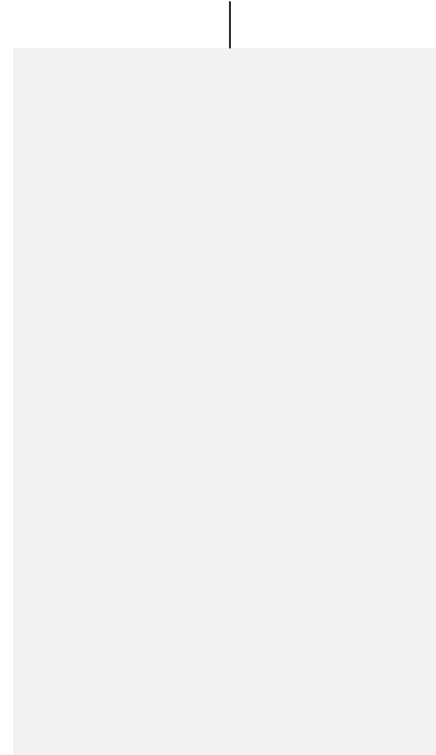
The following costs are too speculative to provide estimates; below we offer a sense of the relative magnitude we expect in a typical U.S. market.

Fixed platform costs (KYC, etc.)



Marketing

Taxes and license fees



Regulatory and compliance costs



U.S. Regulated Sports Betting Projections – The Big Questions

**1. The Pace Of
Regulation**

**2. Availability Of
The Product**

**3. Quality Of
The Product**

**4. Black Market
Capture Rate**

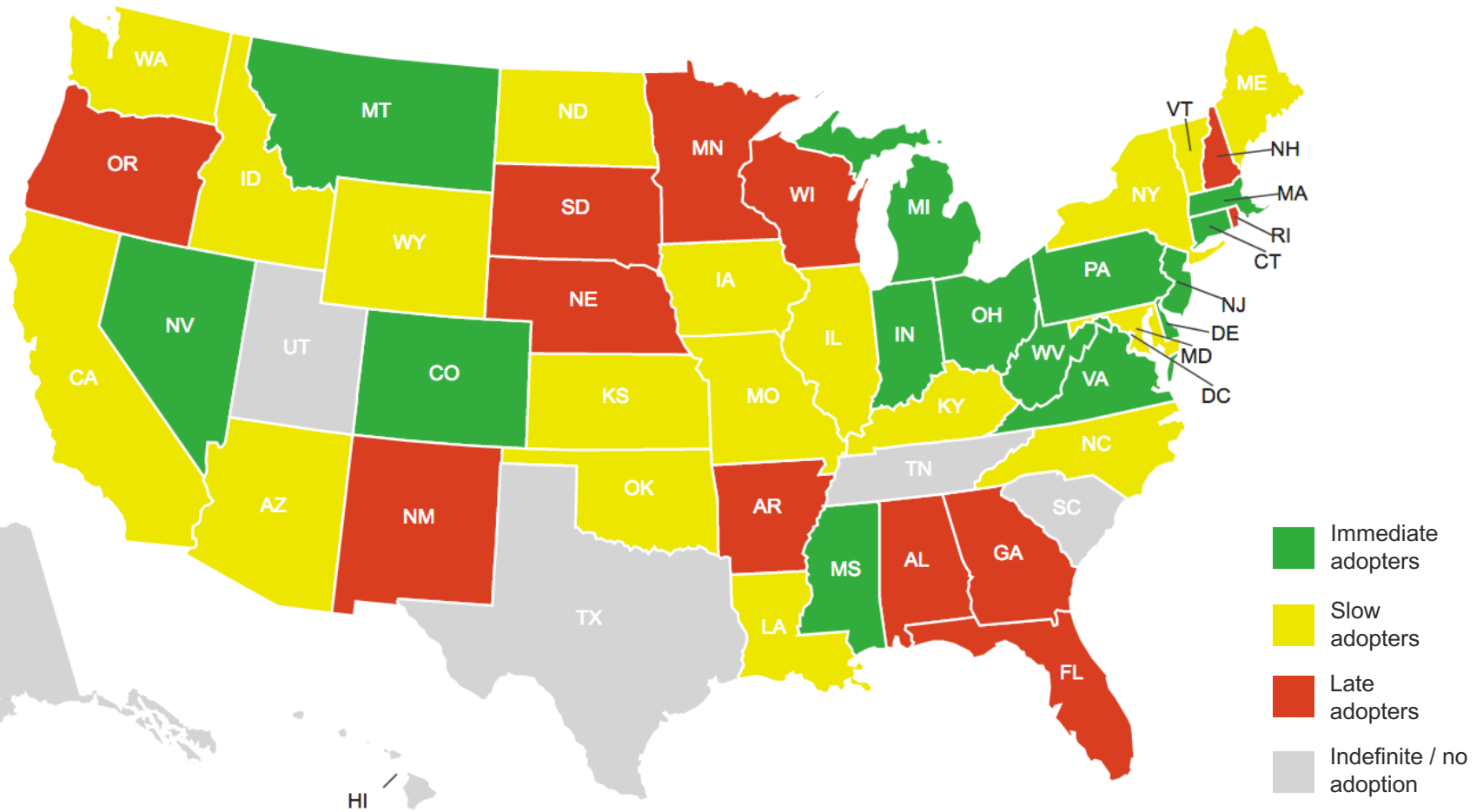


U.S. Regulated Sports Betting Projections – The Big Questions

1. The Pace Of Regulation

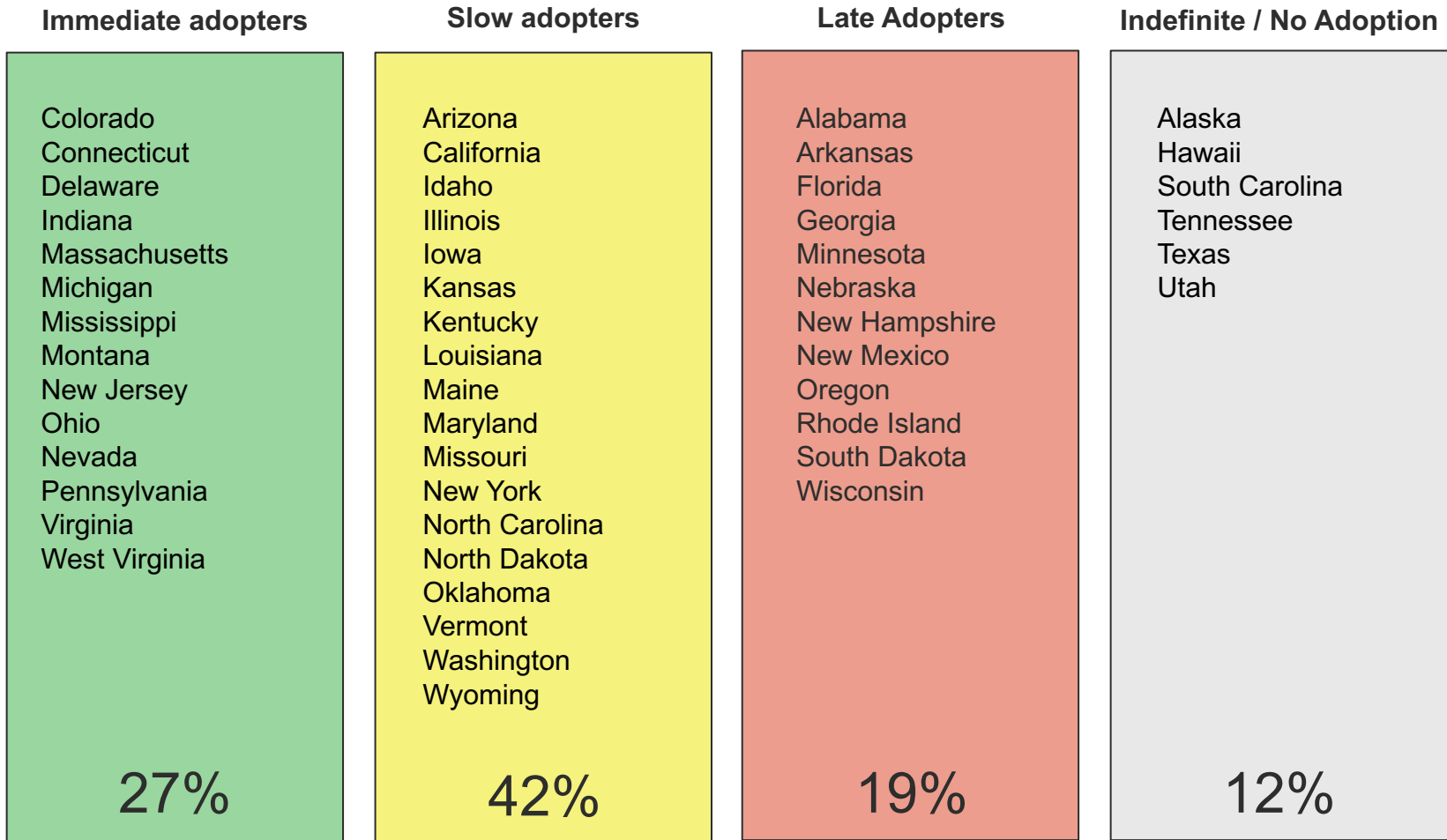


Outlook: States Most Likely To Legalize Sports Betting





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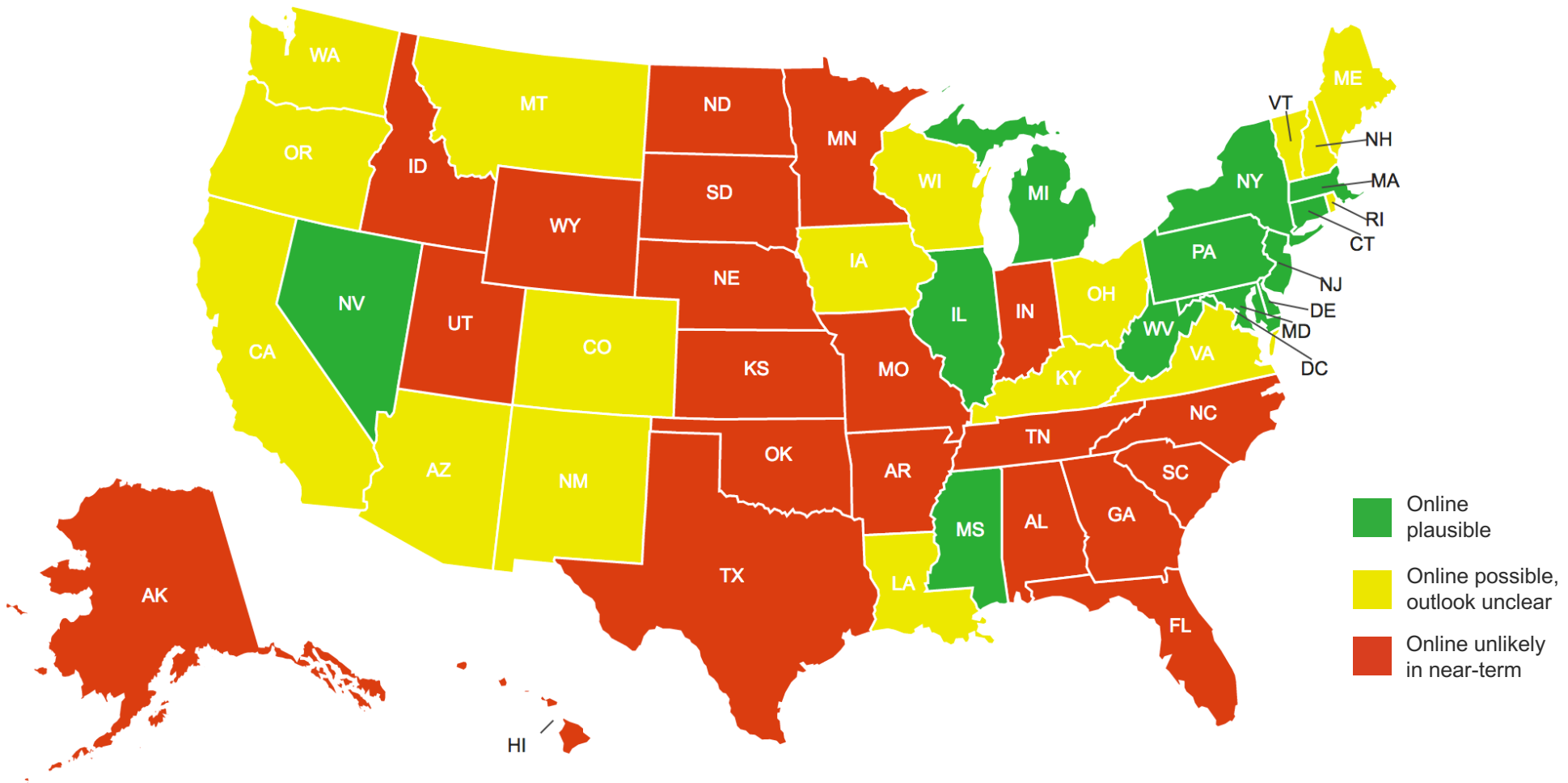


U.S. Regulated Sports Betting Projections – The Big Questions

2. The Availability Of The Product

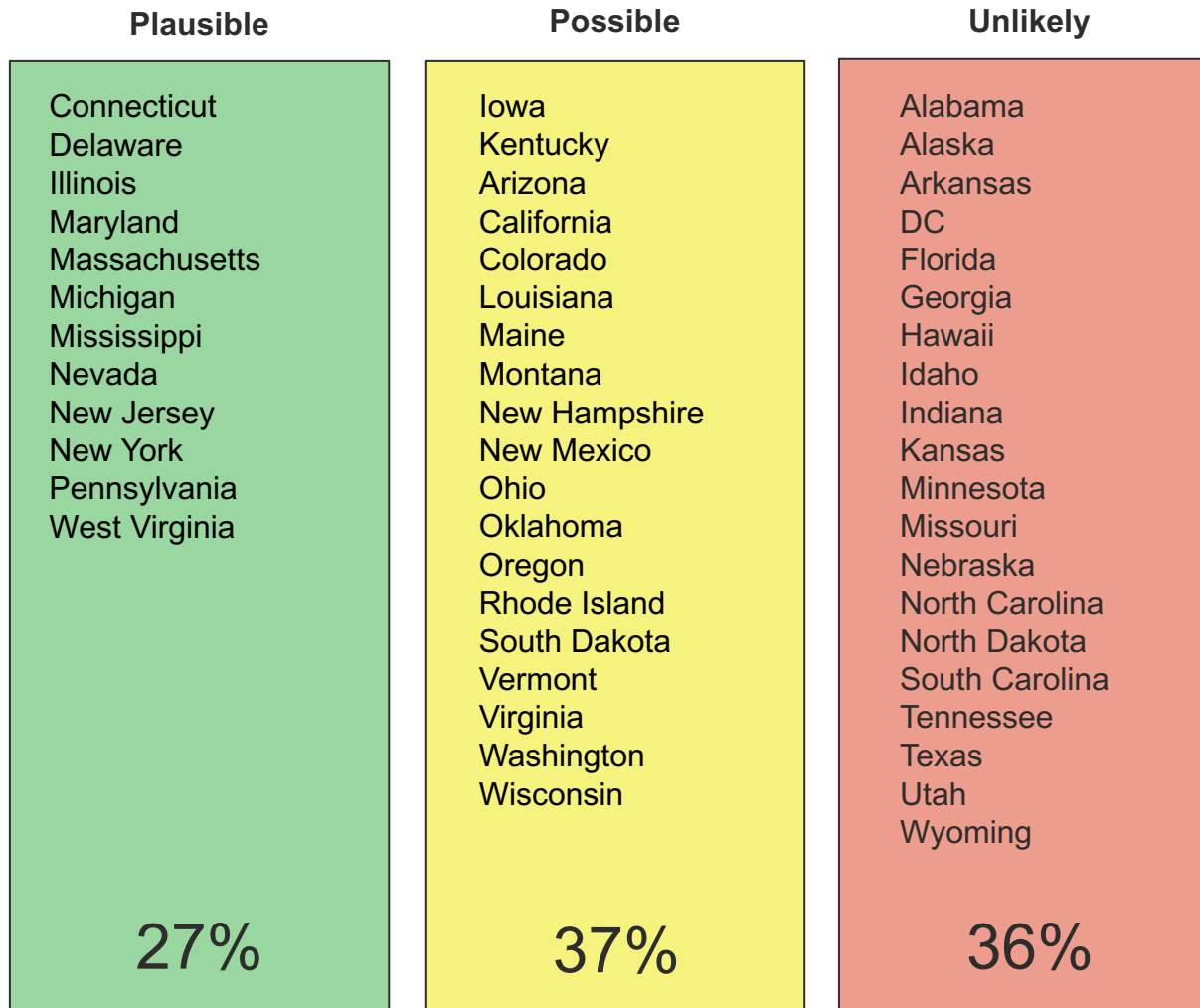


Outlook: States Most Likely To Adopt Online Sports Betting





Outlook: States Most Likely To Adopt Online Sports Betting



Retail Availability Can Mean A Lot Of Things



Commercial and tribal casinos are the most likely retail outlet for land-based sports betting, and may argue for exclusivity / gatekeeper status in states where they hold significant political power. Unlikely to be shut out of the conversation in any state.



Route outlets (VGT / taverns / truck stops) will likely provide fertile ground for debate, especially in states like Illinois where the industry has a significant political voice. Lawmakers will face choices here that will prove thorny in states with multiple gambling stakeholders.



Racetracks / racinos will also mount a strong claim to key license or similar gatekeeper status when it comes to sports betting, based on extensive experience with similar products and, in many states, an argument grounded in economic need.



Lottery retailers could be an unexpected front in the sports betting distribution debate, especially in states that lack a strong commercial gambling industry. How lottery POS operators would handle sports betting is an open question.



OTBs will no doubt push to be part of the retail equation, but here is around the line where politicians and policy makers will need to start making interesting calls regarding retail availability – and where powerful gambling stakeholders like casinos could push back.



New type of outlet We could certainly see the creation of outlets similar to route outlets or OTBs – small storefronts designed to accommodate sports betting – brought into existence by legislation in some states.



U.S. Regulated Sports Betting Projections – The Big Questions

3. The Quality Of The Product



Quality Of Product: Key Variables

Pricing

Depending on tax rates and regulatory costs, along with competitive pressures, it's possible regulated sports books could end up offering a value proposition that isn't appealing to many customers.

Sports covered

There's the possibility that college sports could be kept off the board in some states, or that more niche sports might not show up in all markets.

Types of markets offered

Will regulated books match international / offshore books in terms of in-play betting and innovative betting features such as cashout?

Interface

Will regulated books offer a consumer-friendly interface, efficient payment funnel, and other features that define successful consumer experiences?



Quality Of Product: Driving Forces

Tax rate

High tax rates will leave little room for product development or reinvestment, creating a negative cycle that will further reinforce low product quality and depress demand.

Licensing approach

Restrictive licensing approaches could diminish competition in the market or leave little room for suppliers to innovate.

Market potential

In addition to tax rates and licensing, other factors – such as population size or availability – could depress the attractiveness of the market, leading to a lower-quality product.

Regulatory approach

Regulatory restrictions above and beyond those already mentioned could undermine a dynamic market, decreasing the incentives for or ability of operators to offer a high-quality product.



U.S. Regulated Sports Betting Projections – The Big Questions

4. Black Market Capture Rate



Black Market Analysis - Headline Numbers

\$ **50 - 60** BN

Our estimate of the total handle that flows through the illegal market for sports betting in the U.S., not including social bets, March Madness office pools, and other “casual” illegal betting. See the Appendix at the end of this report for more details.

35 %

Our estimate of the total share of that handle accounted for by pay-per-head shops (SaaS companies that provide independent bookies with a robust online platform).

\$ **2.5 - 3** BN

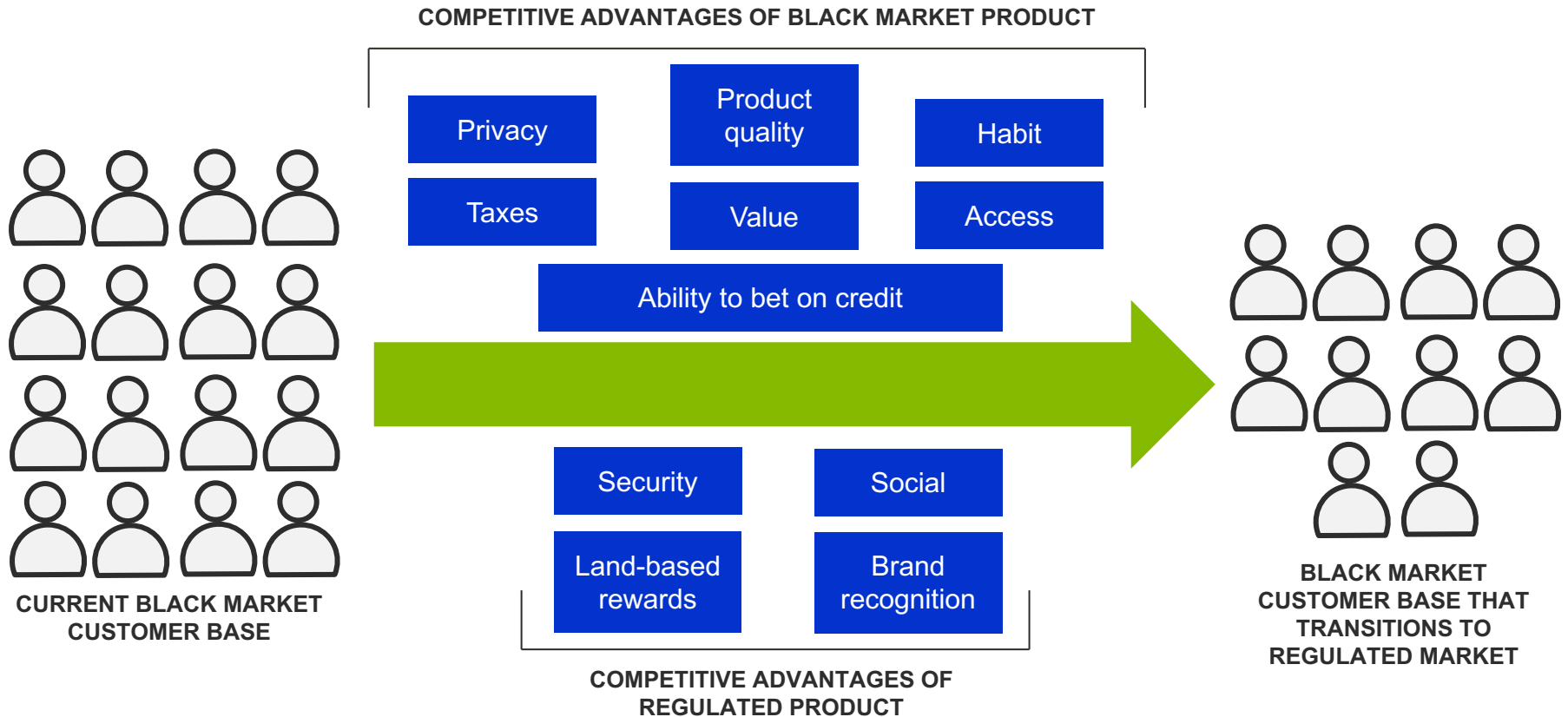
Our estimate of the total revenue generated annually by the black market for sports betting in the United States (does not include “social / casual” bets).

12 - 15 MM

The number of Americans we believe are active illegal sports bettors in any given year (does not include “social / casual” bets).

Black Market Analysis – Will Demand Flow To Regulated Markets?

We believe that the black market sports betting product will enjoy a number of competitive advantages over the regulated product. Some of these advantages will dissipate over time (e.g., product quality) while others will persist (e.g., privacy, credit betting). But in any case, we contend that a significant part of the current black market customer base will stick with that market post-regulation. The illustration below is meant to provide a rough approximation, not a precise estimate.





Questions?

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