

Get into Formation:

The Innovation Group's Sports Betting Playbook

Abstract: *The Supreme Court of the United States has the case Christie v. National Collegiate Athletic Association on its 2017-2018 calendar. This ruling could have major implications for lotteries, commercial gaming operators, and tribal enterprises as it relates to offering sports wagering as part of their product set. The Innovation Group, as a 25-year leader in supporting the gaming industry, is uniquely positioned to assist clients to better understand what the legislation means for them and to implement a plan to maximize new opportunities in sports wagering. The following document provides interested parties with:*

- *Background on potential legislation*
- *What state governments are doing in anticipation of the Supreme Court ruling*
- *The opportunities for entry into the sports wagering space*
- *Business models tailored to fit the objectives of those eligible to enter*
- ***How The Innovation Group can help you strategically prepare today for potential regulation in your market***

Background: PASPA and Christie v. NCAA

The Professional and Amateur Sports Protection Act ("PASPA") was passed in 1992, functionally outlawing sports betting in the U.S. at both a federal and state level other than for a few niche exceptions. As both state governments and sports leagues have understood the demand for sports betting in the United States and observed the results in regulated markets both domestic and international, there has been a push to revisit regulating sports gambling.

An opening to overturn PASPA arose when the Supreme Court of the United States ("SCOTUS") released its calendar in June for their 2017-2018 case schedule, and New Jersey's campaign to be permitted to regulate sports betting was selected (*Christie v. National Collegiate Athletic Association*). Oral arguments will begin on December 4, 2017. If SCOTUS rules in favor of *Christie*, the doors would be open for states to regulate sports betting. Given that many states will be quick to act on sports betting legislation as budget shortfalls are crippling many state governments, it is imperative that lotteries, commercial gaming operators, and tribal enterprises act quickly to develop a plan to maximize the opportunity to enter the sports betting space.

Key Dates Relating to SCOTUS:

- ✓ October 1, 2017: SCOTUS 2017-2018 term begins
- ✓ December 4, 2017: Oral arguments for *Christie v. National Collegiate Athletic Association* begin
- ✓ End of June 2018: All court cases decided before summer recess

A Changing Landscape: Support and Legislation

Support for overturning PASPA has been driven by (1) state governments looking for additional rights and revenue streams and (2) sports leagues that have realized that illegal bookmaking poses a greater risk to the integrity of their leagues than regulated gaming. Regulated sports wagering also serves to increase fan engagement.

No fewer than 20 states have filed amicus briefs with SCOTUS in favor of New Jersey and, even further, several states have already passed legislation permitting sports betting if Congress repeals PASPA or if federal courts declare the sports betting ban to be unconstitutional:

- ✓ Pennsylvania: **Passed HB 271 (November 2017)** - casinos may offer sports betting at a facility or online for a license fee of \$10 million
- ✓ Connecticut: **Passed HB 6984 (June 2017)** - would allow Foxwoods and Mohegan Sun to operate legal sports books out of their casinos
- ✓ Mississippi: **Passed HB 967 (June 2017)** - an amendment to 1990 Mississippi Gaming Act to legalize sports betting
- ✓ New Jersey: **Passed S-2460 (October 2014)** - allows casinos and race tracks to take sports bets

Additionally, the views of sports leagues have evolved on the subject. In the past, former NBA commissioner David Stern had been one of the leading voices opposing sports gambling. However, current NBA commissioner Adam Silver not only believes that regulated sports betting is a preferred alternative to illegal gambling as it relates to the integrity of the league but that it promotes interest in the sport. He states, "People want to bet throughout the game. It results in enormous additional engagement with the fans." Even NFL commissioner Roger Goodell, who has been one of the staunchest opponents to regulated sports betting, acknowledges in a recent quote that, "Society in general has a little bit of a change with respect to gambling in general."

What this means is that if your business is in one of the states supporting New Jersey's campaign, it is likely to encounter its own debate on sports betting. If this debate ends positively for sports betting, you will have a new business opportunity. Even if your business is not in a state currently pushing to expand gaming, due to the ability to operate in another state through a relationship with a license holder (the "Market Access Model" – explored further herein), a new business opportunity in sports betting can be created for your business regardless.

12 Billion Reasons to Act Now

The revenue opportunity for sports betting operators in the U.S. varies depending on the number of states that regulate and the distribution models they condone (retail and/or online). Consensus estimates range from \$6 billion to \$12 billion in gaming revenue (house win) from legalized sports betting. The Innovation Group utilizes an advanced market forecast model to help clients determine revenue potential in their specific markets.

Prospective sports betting operators should position themselves now to act if PASPA is overturned next year, which means developing a view, a strategy, and ultimately an operational model and solution. Time to market will be crucial, especially for casino operators, who risk losing not only the opportunity of early adoption in sports betting but also market share in traditional bricks and mortar gaming, as patrons flock to the competitor's new sportsbook whether in a rival casino or online.

Participation in the topic now will also mean businesses can become educated on the issues now. Thus, they will be well-positioned to lobby for legal and regulatory outcomes that support their ambitions. Many of the key regulatory issues are still undetermined in many jurisdictions, including key ones such as:

- Who will get the operator licenses?
- Will the licenses permit retail alone or will online sports betting be allowed?
- What will the cost of licensing be and how will revenues from sports betting be taxed?

This debate presents a tremendous opportunity for operators in these jurisdictions to open conversations with regulators about ways that regulation of sports betting can bring a sizable stream of tax receipts to the state and what that can mean with existing budget shortfalls. Being part of the debate now could also present an opportunity to avoid potential threats including, for example, who gets the operator licenses and what the tax rate is. By way of example, in the most recent piece of gaming legislation passed in Pennsylvania, legislators set the tax rate for online slots at a nearly unworkable 54% of gross gaming revenue, an outcome that market participants will want to avoid as new markets begin to regulate.

Build, Buy, or License: Which Structure Works for You?

One of the most important questions prospective operators must answer when exploring entry into sports betting is the method of accessing the opportunity.

There are four potential business models that are common to both retail and online distribution:

Three relate to accessing the industry for your own brand:

1. **Build** – Hire a team of developers and sports book traders to build a proprietary service.
2. **Buy** – Acquire an existing sportsbook operator or supplier and deploy that locally.
3. **License** – License in sports betting technology / services via a supplier.

The fourth relates to monetizing via a third-party brand:

4. **Sell Market Access** – Rent your sports book opportunity to a third party.

While the Build model may seem like an attractive option for those operators looking for a custom solution, it is important to consider the significant financial and time commitment it would take to develop a platform. Thus, building will not be an option for most operators because of the high cost and delayed time to market.

The Buy option is one that may work for certain operations if they have the capital. Operators that wish to buy will need to work with experts in evaluating targets and those targets are likely few and far between.

The License model will be attractive to many operators who wish to maintain their brand in the sports betting space. Additional advantages to the License model is that the time to entry is short because the platform exists, the technology is proven, and the suppliers have experience supporting a sports book.

Finally, there is an option to sell market access. This model would be attractive for operators who can find the most value in utilizing the betting license as an asset for sports book companies or large national casino brands who wish to enter a market they would not be eligible for otherwise. This option might be particularly attractive for operators who have limited capital, small databases, or do not want to hire the expertise to manage a License relationship.

Within each of these models, there are pros and cons, significant financial and organizational implications and, crucially, relationships the business likely does not have today.

The Innovation Group: Your Partner in Sports Betting Success

The Innovation Group has supported global gaming industry research, expansion, and product diversification for more than 25 years. As regulators and technology have combined to open new product and supply channels that compete for the player's wallet, we have been at the forefront of helping our clients understand their opportunity and capitalizing on it. We developed the earliest demand models for traditional gaming products, like casinos, pari-mutuels, and lotteries, beginning in the early 1990s. These are the "gold standard" in the industry today. Subsequently we have studied, modeled, and developed a business context for each new form of gaming as it has emerged – VLTs and distributed systems, online poker and casino games, and most recently, sports betting – allowing our clients to thoughtfully capitalize on new business opportunities.

As sports betting emerges in the U.S., we are focused on leveraging our experience to support both public and private client enter into this new, exciting space. We are poised to serve our clients in three key areas related to the emergence of sports betting: **strategy**; **business planning**, which includes developing a business model and forecasting its potential; and **government relations**, which utilizes industry and economic impact data to encourage a public-sector sports betting regulatory model that meets your strategic goals.

Regulated sports betting is coming to the U.S. How will you and your company capitalize on that opportunity? The Innovation Group is available to assist you with all of your sports betting questions and needs. To schedule a meeting, please contact the team at The Innovation Group:

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