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State Legislative Update on U.S. Sports Betting & Online Gaming – July 2021

In partnership with Truist Securities, Global Market Advisors publishes a monthly legislative update on sports betting and online gaming throughout the United States. This provides insights and commentary on several key aspects of the market and the surrounding political narrative effecting the legalization of sports betting, gaming, and other issues. A link to the full Truist Securities report can found [here](#).

The Halftime Report

Over the last 18 months, the world has faced serious challenges. The paradigm has been turned upside down again and again with the impacts of SARS-CoV-2 and government mandates that have altered the landscape. These challenges continue as events such as the Olympics will proceed for the first time without fans in the stands, including international visitors that bring significant economic benefit and global attention to the host nation. This was one of the goals of showcasing the country of Japan to the world, but now the Games will also be without locals. This has further angered local residents that did not want to host the games during the pandemic as they now will not be able to attend.

The year of 2021 in sports betting will be known for its one-upmanship, and this is not because the legislation for sports betting was improving and becoming more refined in using best practices achieved in other states. It is instead the polar opposite, where the next state tries to one-up the others' ability to craft a more unique market that often does not bode well for operators and, in the end, the consumers. Each state that will be highlighted in further detail below has shown an unconventional and ineffective path toward crafting their market, including tax rates set at upwards of 50 percent, ambiguity in the law that has caused the regulator to question key elements of their license structure, and in one case a compact that likely violates the constitutional amendment that was pushed by the same tribe.

As the sports betting schedule comes close to returning to normal, with the exception of events such as Euro 2020 or the Olympics that normally take place every four years, sports betting is

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starting to normalize with a host of new states set to launch operations in the fall. Most states continue to see an uptick in numbers, but there are some states such as Iowa that remain steadier. As the media continues to focus on how quickly a state can reach the \$1 billion mark, the more stable metric is sustained growth in capturing the illegal market initially and then growing the legal market.

U.S. Sports Betting Comparables - Select Markets								
State	Timeframe	Handle (\$MM)	Sports Betting		Taxes Collected (\$MM)	Total Gaming Revenue (\$MM)	Sports Betting % of Total Gaming	Sports Betting Win per Adult
			Revenue (\$MM)	Hold %				
Nevada	TTM May'21	\$ 4,965.6	\$ 326.7	6.6%	\$ 22.1	\$ 7,775.6	4.0%	\$140.42
Delaware	TTM May'21	\$ 75.7	\$ 12.3	16.2%	\$ 6.6	\$ 396.6	3.0%	\$16.52
New Jersey	TTM May'21	\$ 8,751.3	\$ 606.8	6.9%	\$ 75.2	\$ 1,912.7	24.1%	\$89.60
Mississippi	TTM May'21	\$ 503.2	\$ 62.8	12.5%	\$ 7.5	\$ 2,452.8	2.5%	\$29.15
West Virginia	TTM May'21	\$ 495.0	\$ 33.4	6.7%	\$ 33.4	\$ 547.9	6.1%	\$27.90
Pennsylvania	TTM May'21	\$ 5,100.3	\$ 317.5	6.2%	\$ 100.4	\$ 2,486.6	11.3%	\$32.82
Rhode Island	TTM May'21	\$ 325.6	\$ 48.5	14.9%	\$ 24.7	\$ 396.0	10.9%	\$59.95
Arkansas	TTM May'21	\$ 49.8	\$ 7.5	15.1%	\$ 1.1	\$ 557.2	1.3%	\$3.40
Iowa	TTM May'21	\$ 997.8	\$ 75.3	7.5%	\$ 5.1	\$ 1,422.6	5.0%	\$29.34
Indiana*	TTM May'21	\$ 2,702.3	\$ 262.6	9.7%	\$ 20.5	\$ 1,613.9	14.0%	\$53.67
Michigan*	TTM May'21	\$ 258.3	\$ 28.4	11.0%	\$ 2.4	\$ 820.7	3.3%	\$3.81
Illinois	TTM May'21	\$ 3,606.5	\$ 105.0	2.9%	\$ 15.7	\$ 445.4	23.6%	\$11.16
Colorado	TTM May'21	\$ 2,280.6	\$ 154.2	6.8%	\$ 7.2	\$ 756.8	16.9%	\$35.64
New Hampshire	Since Launch (Jul'20)	\$ 511.4	\$ 35.1	6.9%	\$ 16.1	N/A	N/A	\$36.49
Washington D.C.	Since Launch (Jul'20)	\$ 113.6	\$ 16.8	14.8%	\$ 1.7	N/A	N/A	\$33.53
Tennessee	Since Launch (Nov'20)	\$ 131.4	\$ 13.2	10.1%	\$ 2.4	N/A	N/A	\$31.58
Virginia	Since Launch (Jan'21)	\$ 1,092.1	\$ 85.0	7.8%	\$ 5.6	N/A	N/A	\$40.14
Average Without Nevada				6.9%			12.6%	\$31.03

Source: Global Market Advisors
*excludes tribal gaming revenues

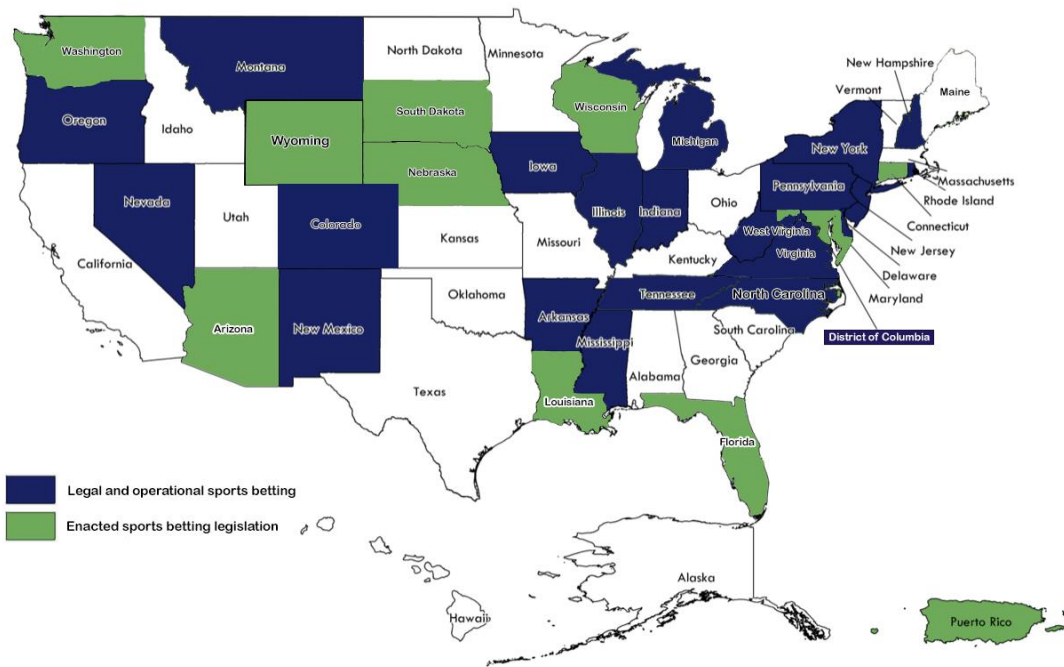
iGaming revenue continues to push forward as well. However, some industry analysts have said that iGaming may be stunting the recovery of land-based gaming in some states. While the U.S. has a limited iGaming market, a strong product can and should supplement, not supplant, a land-based market. While it is yet to be determined, Florida still will have to gain approval for its compact under the Indian Gaming Regulatory Act and then sustain a host of court challenges. Illinois has just released a study to look at its potential iGaming market. While the study is a soft benchmark, it does not provide a robust analysis of the full market potential or any cannibalization that may occur with implementation. This was a big source of consternation during the hearing in May with the potential impact on VGTs that continue to grow the market overall. Until this is fully addressed by a proper entity, it will be challenging to get all legislators the answers they are seeking. Michigan and New Jersey continue to a solid model with its iGaming product that complements the brick-and-mortar industry.



U.S. iGaming Revenues				
State	Timeframe	Revenue (\$mm)	Adult Pop. (mm)	Win Per Capita
New Jersey	TTM May'21	\$ 1,118.2	6.8	\$164.61
Delaware	TTM May'21	\$ 8.8	0.7	\$11.88
Pennsylvania	TTM May'21	\$ 847.8	9.7	\$87.74
West Virginia	Since Launch (Jul'20)	\$ 29.1	1.4	\$24.20
Michigan	Since Launch (Jan'21)	\$ 299.0	7.5	\$122.00
Average Win Per Capita:				\$88.52

Source: GMA

Legal Status of Sports Betting in the United States



Source: Global Market Advisors

CURRENT LANDSCAPE

Thirty-three jurisdictions in the United States have legalized sports betting, including the District of Columbia and Puerto Rico. Of those that have legalized, 22 are operational today in some form, while a handful of others are looking to launch by this fall. Many of these are hoping to launch in time for football season. Market expansion is not yet done for the year, as a number



of states pushed forward with sports betting in the first half of this year and a handful of states that may still move in the second half of this year. Of the active markets that are still working toward operations, there are a number that are working through the regulations or just starting their process. Below provides some of the highlights (or lowlights) from each state.

NEW YORK

The clock is ticking on the New York State Mobile Wagering RFA for operators to figure out how they can contort themselves to go with “the people’s plan,” as Governor Cuomo put it. The official Request for Application (“RFA”) came nine days late after its prescribed deadline that was put forth in the budget legislation approved back in April. This also set back the timeline in deciding the potential winner of the RFA to conduct mobile sport wagering in New York State. The RFA further allows flexibility in the timeline after the 30 days allowed for the response.

One of the challenges with New York continues to be the ability for operators to provide a good product in a robust market despite an RFA that forces operators to put forth a tax rate of 50 percent or higher if they want to score well. The RFA outlines the following scoring for the proposed tax rates:

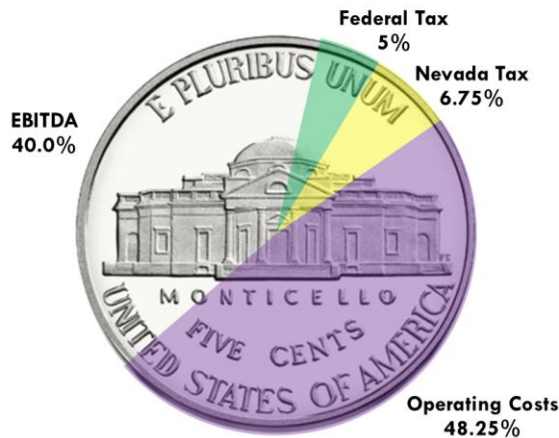
Tax Rate	Scoring Value
12.5 percent up to 30 percent	3 points
30 percent up to 40 percent	10 points
40 percent up to 50 percent	15 points
50 points	20 points

Bidders responding with a rate higher than 50 percent receive an additional point for each full percentage point over 50 percent. The other bonus is that if the application provides a revenue share opportunity with a compacted tribe, the bidder gains another five points. This section tries to circumvent some of the challenges associated with the original legislation that had virtually shut out the tribes.

As a reminder, sports betting margins are inherently slim. Operators only retain roughly a nickel out of every dollar wagered, from which the operator still must cover its operating costs, marketing, and taxes. As illustrated below, the Nevada model leaves roughly 40 percent in EBITDA that leaves roughly 2¢ in profit out of every \$1.00 wagered.



From Revenue to Profit



Source: Global Market Advisors, Photo Credit: US Mint

At the 50 percent rate that has been proposed by the Governor, there is no wiggle room for profit. Operators will need to significantly trim costs and limit their marketing potential. In an article following the release of the RFA last week, an industry expert told the publication Sports Handle the following, on the condition of anonymity:

“This RFA is all about the political class trying to further take a blender to the potential New York State mobile sports betting market.”

To date, this may summarize the process and the understanding in New York on how sports betting can be operationalized better than what several other experts have stated about the market, including GMA. While Cuomo is focused on the tax revenue to the state, these revenues won't come without a market that works. As with the many other struggles to get to this point in the process, it's a challenge to make this work in New York. Some operators may still bid just to have a stake in one of the largest U.S. markets, but many operators in neighboring states may choose to stay out of New York and may end up the true winners in this process. Ultimately, it is the consumers that will not likely have a robust market.

WELCOME TO THE CIRCUS!

Florida continues to push forward with approval from the Department of Interior for the compact that was approved by the state legislature through negotiations with the Seminole Tribe and the Governor. Meanwhile, a flurry of activity would make P.T. Barnum proud in the three-ring circus that has emerged. West Flagler Dog Track, which operates Magic City Casino, has filed suit against the compact.

Additionally, there now may be up to three ballot measures to compete against the Seminole Compact. One of these is coming from the Magic City Casino group. DraftKings and FanDuel



were the first to announce a ballot measure that would direct the money toward education, and their proposed language is out there. Las Vegas Sands later entered the race and is likely looking for both a brick-and-mortar location as well as a sport betting/iGaming solution. However, language has not been submitted. The Seminoles have also put money into a ballot committee to likely fight these challenges to their current monopolistic compact. In total, \$62 million is sitting in ballot committees today in preparation for the 2022 ballot. While it is too early to tell what may or may not make it through because of language and voter opinions, Florida has turned into a gaming circus. Between the court challenges and the ballot measures, this game is only in the first quarter and may well go into overtime.

REGULATORY STATES

A host of jurisdictions that passed sports betting have now entered the regulatory phase in hopes of launching sports betting operations before the start of the football season. This includes but is not limited to Wyoming, Washington, South Dakota, Nebraska, Maryland, Louisiana, Connecticut, and Arizona. Many will fall short of the initial kickoff but some will come close. Here is a quick update on the process in each of these states:

WYOMING

The Cowboy State just announced its licensing process to begin moving forward toward a September launch of sports betting. The commission also just received background on what a potential cryptocurrency market may look like since this was included in the original legislative language. While it is yet to be determined how many entrants will jump into the Wyoming market that does offer full mobile sports wagering, those that are already in other states will have a leg up in approval and can get started by September should the Commission be ready.

WASHINGTON

With the compacts approved and signed by the Governor, Washington can start moving forward with the licensing of operators in the market. Many have pre-filed their applications with the Commission so that the process could begin sooner. With Washington as a tribal-only market, it will likely be a combination of both white-labeled tribal sports books as well as entrants from the major sports betting operators. Washington has a good chance to be ready for football season but may miss the initial kickoff.

SOUTH DAKOTA

The Gaming Commission met earlier this week to approve regulations for sports betting, cashless wagering, and advanced deposit wagering. The next step is that this will now need to be approved by the legislature's Rules Committee on August 2nd. Provided that the regulations are approved, the Commission scheduled their next meeting for September 8th which would allow



operators to kick off the season the following day if licensees are approved. While there is still much work to do in Deadwood to get ready for sports betting, this may be the most likely market to be ready for kickoff.

NEBRASKA

The Cornhusker State recently hired a consultant to review its regulatory process, a process that to date has been driven by the existing stakeholders in the market. The initial window is eight weeks before there may be a public hearing to review the draft regulations and allow for a 30-day public comment period. Two market entrants from the six original tracks include Elite, which is at Fonner Park, and Caesars, which is investing \$75 million into Columbus. These are the only two solid operators in the market. The other locations that have announced an operator are trying the home-grown approach that will still have to pass suitability. Additionally, five more tracks have submitted applications across the state that will saturate a market that may have already been saturated with six locations. If it were up to some of the existing stakeholders, temporary licenses would be approved sometime in Q4. If rationality kicks in and a prudent process is followed, it should be 2022 Q4 when these licenses are issued, but without some intervention into the process, the cow may already be out of the barn.

MARYLAND

In the state that has up to 90 total licensees (60 mobile and 30 land-based), the regulations were just released this week. In a meeting, the Board pushed forward with more than 200 pages of material, but there will be a public comment period. Maryland's process will be unique because of the desire to add new market entrants with a focus on diverse businesses. This will likely slow the process since many of these parties have not been through suitability screening. The Board meets again at the end of August to proceed forward with the process, but midseason looks like a better start date, if not later into the second half of the football season.

LOUISIANA

While many have said this process will be delayed because of the lack of a chair to the Gaming Control Board, all systems point to the regulator being ready for sports betting this fall. The rule making process continues with launch set for this fall. Betting in the Bayou will likely further pull Texans across the border, especially those that have previously gone to Mississippi to place wagers. It may additionally force Mississippi's hand to move to a mobile wagering market.



CONNECTICUT

DraftKings and FanDuel are set as partners with the two existing tribal operators in Foxwoods and Mohegan, respectively. The unknown is the Connecticut Lottery provider at this point, but the push to get sports betting going by this fall is in overdrive, and it is just a matter of getting all of the pieces into place.

ARIZONA

Arizona has released its second draft of regulations but still has a lot of work to do with approvals on both the sports team and tribal side of licensure. One of the main points at this stage is that each license might have two available skins. In a New York type of model, there is a scenario where teams, such as the Coyotes that also own the Tucson Road Runners, would be able to have two skins under the same platform. The law left ambiguity in several spots, not just this one that puts the burden on the regulator for interpretation. A September start is unlikely with many of these questions left to answer, but in this different structure, it will be about learning the mistakes crafted in the legislation to avoid repeating them in other states along the way. At some point, a clean-up bill may develop to clear up the haze that has been left to the regulator to decipher.

THE SECOND HALF

As bizarre as legislation has been in 2021, there is still time for some movement. Massachusetts and Ohio will likely continue their discussions into the fall as they may finally get over the edge to offer legal sports betting. Maine still has a bill pending in the Senate after passage in the House. North Carolina continues to talk about sports betting but has not been serious about passing something.

Canada is also progressing forward with the passage of Bill C-218. The Ontario Government has said they look forward to launching sports betting this fall, but the market will have a mixture of legal and illegal operators out of the gate. It is yet to be determined how this will work in the future and how the market will shift to a legal, regulated environment.



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