

# Betting Slip



## Ending Macau's sports betting monopoly could boost revenue and enliven gaming floors

By **Muhammad Cohen**

**T**HE sports wagering world is changing fast. Several US states are looking into legalizing sports betting, potentially breaking the last wagering monopoly of Nevada, where the sports book lounge—with TV monitors showing contests in progress and wagering by handheld devices—has become as much a Las Vegas staple as the sequined showgirl. North American sports governing bodies' solid front of opposition to betting began to crack last November on the *New York Times* op-ed page when National Basketball Association Commissioner Adam Silver urged regulating and

legalizing the estimated \$400 billion US illegal betting market. That would bring Uncle Sam into line with Europe where sports betting is bigger and utterly ubiquitous, with major wagering brands dominating the sideline advertising and even blazoned across player kit. Daily fantasy sports, booming on websites such as DraftKings and FanDuel, built \$1 billion valuations, attracting investors such as Disney and Fox Sports, mainstream website imitators such as Yahoo, sports leagues as sponsors and sports fans by the millions forking out entry fees equivalent to Nevada's sports betting handle in a pursuit that, but for a loophole in US law, would be called proposition betting.

The revolution in sports wagering stretches far beyond the US. The digital age has made betting online and by phone app possible as well as introducing new ranges of wagering. In-running (or in-game) betting with odds calculated with the real-time precision of financial trading and provided by the likes of investment bank Cantor Fitzgerald's CG Technology, has revolutionized the sports wagering menu and is estimated to account for 75% of the betting handle. eSports, featuring professionals playing combat games such as Defense of the Ancients and League of Legends, are parlaying their massive viewership—League of Legends 2014 Finals had 30 million global viewers, better numbers than this year's NBA Finals did on US TV—into conventional and fantasy betting, with mainline



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bookmakers coming on board. More than half of eSports betting comes from Asia, a quarter from China, according to an Eilers Research white paper issued in August. Across the globe, driven by intense competition among savvy entrepreneurs, sports wagering is racing ahead faster than Usain Bolt (at 0.25:1 to win) stretching for the tape.

But not in Macau. As in Hong Kong, sports wagering in Macau remains under a monopoly. SJM Holdings affiliate Macau Slot takes bets on football (soccer to Americans) and basketball at 10 locations around Macau, five in or around casinos operated by SJM or its satellites, as well as through phone and online accounts. Last year Macau Slot delivered revenue of 736 million patacas (\$92 million), equivalent to less than 1% of the HK\$78.2 billion bet on football alone with its cross-delta counterpart, the Hong Kong Jockey Club. Macau's government seemingly finds Macau Slot's performance acceptable

since it extended the monopoly for a year, just ahead of the 30th June expiration date.

#### DOUBLE PLAY

Gaming regulation experts agree Macau's monopoly is a bad idea. "No tourist will take a taxi or walk miles across the city to place a bet on tonight's soccer game," Macau gaming law expert Jorge Godinho says. "At a time when there is concern about the slowing revenue of games of chance, sports betting seems to be the obvious easy way to raise additional revenue." University of Macau Associate Professor of Business Economics Ricardo Siu estimates sports wagering in casinos would double the current take. Considering what ending the monopoly has done for casino revenue, that estimate appears conservative.

The lack of sports betting in casinos costs Macau more than



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just money, Mr Siu believes. “More variety of different games made available to players may be quite likely to elevate the atmosphere of the casino resort as an integrated entertainment venue, hence attracting different type of customers.”

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“The goal of the casino operator is for the customer to spend as much time and money as possible there,” FoorballBet.com Chairman and CEO David Leppo says. His firm operates sports books in casinos in Cambodia and Laos as well as online betting through its website. He says casinos and sports books complement each other, and expanding sports wagering in Macau “benefits everybody,” particularly with new Cotai resorts built for hundreds more tables



than they’re likely to get under the government’s table cap. “Sports book lounges fill up space, attract new clientele, plus keep clientele on the floor longer,” Mr Leppo says. “With limits on tables, they need to fill the space.”

“The operator would need to evaluate the profitability of the space that the slot machines take up versus the space that a sports book would take up, if they are trading out space,” The Innovation Group CEO David Rittvo notes. “If they were to use previously underutilized space on the casino floor, then the evaluation would be different. Sports books represent an interesting opportunity to explore a new market in Macau, but like most of the other gaming products, it should be catered to the market.”

**MORE JOY**

Sports wagering in casinos could provide some particular benefits for Macau beyond filling floor space. “It’s disappointing that there are no really good sports books in Macau because I would very much like to put down a small wager and then spend a few hours watching a game,” says *South China Morning Post* Sports Columnist Tim Noonan. He believes sports book lounges would enliven the “almost joyless” atmosphere on Macau gaming floors and make them more welcoming. “The key element for a good sports book is it has to create a buzz, there has to be a fun vibe. They are, after all, the ultimate sports bars.”

The Las Vegas version of these sports-fan fantasy lands include “movie theater size projection screens, lounge seating, ambience, even VIP seating with bottle service normally found in nightclubs,” Global Market Advisors Partner Andrew Klebanow, a Las Vegas resident, says. Sands China’s parent company Las Vegas Sands has state-of-the-art sports books in its Venetian and Palazzo resorts in Las Vegas, operated by CG Technologies, formerly Cantor Gaming.

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# Making Book

**FOOTBALLBET.COM CHAIRMAN AND CEO DAVID LEPP** has been a bookmaker for decades, first in Santo Domingo and Mexico, now in Asia. In addition to online wagering on football and a full suite of international and US sports, FootballBet.com has nine locations in casinos in Cambodia and Laos.

“A presence in the casino is a natural channel for sports books to customers,” Mr Leppo says. “It’s a self-marketing product. The operator benefits from the relationship with a percentage of bet profit [earned in the casino] and from those clients betting online. They can see the numbers generated through their portal.”

FootballBet.com has a land and internet gaming license from North Cagayan Gaming and Amusement Corporation in the Philippines. “Unfortunately, licensees in the Philippines are not recognized anywhere else except in the Philippines,” Mr Leppo says. “Currently, there are no Asia regional licenses.” That forces online betting into a “gray area” legally.

Estimates of the Asian sports gaming market are all over the map. Some put it around \$70 billion. Global online players such as Bet365 and Pinnacle are big in the region along with Asia-focused MaxBet. Online sports wagering is closely tied to online casinos. “We’re finding online casino gambling a natural segue to sports betting,” Mr Leppo says. Macau’s slowdown has boosted revenue in both categories. Chinese “want to gamble, but do it online now that it is harder for mainlanders to get into Macau,” he says.

The biggest Asia sports betting action is on European football. So-called sports lotteries, such as Singapore, that require players to pick the winners of a pre-selected slate of games tend to encourage players to graduate to real sports betting, where they can choose their own action, according to Mr Leppo.

For FootballBet.com, he says 75% of the betting comes from in-running wagering during games, betting on a vast menu of



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propositions from goals to red cards to corners. “It’s not two, three, four dimensional, it’s 20 dimensional,” Mr Leppo says, in comparison to pre-kickoff wagering. In-running wagers are based on constantly updated real time algorithms. Big operators may compile their own algorithms, while smaller companies use specialists such as Bet Radar and Don Best.

FootballBet.com accepts bets up to US\$100,000 on major tier events, \$10,000 on lower tier events. “If we’re overloaded on one side, we’ll trade off the excess if moving the line or odds does not entice business to come in on the other side, no different than a commodities broker,” Mr Leppo says. [iag](#)

The Venetian lounge features a 100 x 10 foot (30.5 x 3.05 meter) video screen capable of showing one event or divisible into up to 42 separate ones, plus a separate screen dedicated to racing. The lounge has 118 personal betting stations with computer screens and takes wagers on all major race and sporting events. Most operators offer wagering on handheld device provided by the lounge or on your own phone from your seat at the bar or anywhere within Nevada, restricted to that state by geolocation software.

An expansion of sport betting in Macau would have similar restrictions to ensure that operators don’t take bets from China or other jurisdictions where sports wagering remains illegal. Macau Slot (and the Hong Kong Jockey Club) currently operate phone and online betting restricted to players physically within the territory. Proponents of sports betting contend geolocation blocking works; skeptics say there’s always a way around to beat the software; realists

observe that illegal sports betting is happening now online, without Macau casinos in the mix.

Sports book lounges in casinos will extend Macau’s destination appeal, Mr Klebanow suggests. “First, it broadens the demographic mix of gaming customers by attracting people who may not be attracted to a casino by traditional games of chance.” The sports bettors skew younger and male, and can also broaden the casino’s ethnic mix.

“Today Macau does not do a very good job in attracting gamers from India, primarily because Indians do not feel particularly comfortable at Macau’s baccarat tables,” Mr Klebanow says. “Indians are rabid sports bettors, particularly on cricket. Sports betting would allow Macau casino operators to target the gamers in that country with a suite of sports wagering products unavailable in their home country.”

Gaming analysts said the FIFA World Cup last year helped start



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## Dream Teams

**DAILY FANTASY SPORTS ARE MAKING SPORTS BETTING** mainstream in the US, getting ahead of policymakers and the gaming industry to let sports fans test their skills as team owners using the actual performance of real professional players. Sports bodies that shun betting on their contests have nevertheless embraced daily fantasy sports (DFS).

In fantasy sports, players create their own teams, usually within a budget, and their athletes are rated based on their statistics in selected categories. The phenomenon emerged from less formal arrangements during the mid-1980s in the US with Rotisserie Baseball, named for the restaurant where a group of New York media types met and formalized their version of season-long fantasy play. The idea soon expanded to other sports, but baseball, with its wealth of individual player statistics that are widely available, and daily play, is still a huge component. Leagues often include an entry fee, with the top teams receiving prizes at the end of the season. The growth of the internet expanded

fantasy sports, mainly as a form of social gaming on sports news websites, with an estimated 46.2 million players, according to Eilers Research Partner Adam Krejciak.

The fantasy game changed as an unintended consequence of the US Unlawful Internet Gaming Enforcement Act, passed in 2006 to prevent offshore processing of US players' online gambling transactions. The law, enacted to curb online poker and traditional sports betting, included provisions to allow fantasy sports leagues to continue operating as games of skill with predetermined prizes. By 2009, daily fantasy sports appeared, with rules similar to the season-long games. Some states have moved to ban DFS for money, but the constituency that won the fantasy sports exemption in the first place has only expanded thanks to DFS. Estimates of DFS players range up to 8.9 million; Eilers research suggests 3.9 million unique paying DFS players at present, or 8% of the total fantasy sports universe.

"We estimate \$3.7 billion in entry fees—equivalent to sports wagering handle—for DFS in calendar year 2015, which compares to expected Nevada sports betting handle of about \$4 billion, of which Las Vegas accounts for around \$2 billion," says Mr Krejciak, who spoke to overflow crowds at the Global Gaming Expo in Las Vegas last month, and at the International Association of Gaming Advisors conference in Vancouver in June. Revenue is based on a rake model, similar to poker, "so it's all about liquidity and volume," Mr Krejciak explains. Entry fees typically range from \$2 to \$20. For golf, fantasy competitions run over the course of a tournament with points awarded for statistics such as birdies, deductions for bogies, and an additional award for standing at the end of the tournament.

### TWO HORSE RACE

Leading DFS companies FanDuel and DraftKings currently hold a combined 95% market share, Eilers estimates. FanDuel, the overwhelming market leader through last year, has \$362.5 million in backing from affiliates of media companies Comcast, TimeWarner and NBC Sports and venture capital all-stars like KKR. DraftKings has raised \$426 million from the likes of Fox Sports, sports franchise owner and broadcaster MSG, Major League Baseball

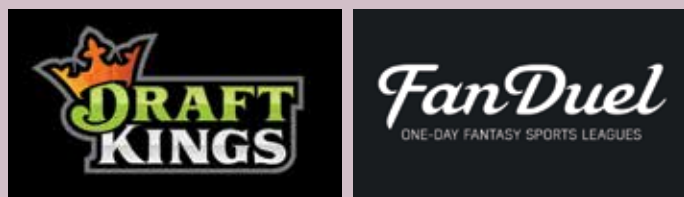
Macau's revenue decline. But with sports betting in casinos the World Cup and other events on the sports calendar create opportunities for promotions to encourage bettors to come to Macau and wager legally. "In the United States casinos use the Super Bowl [the American football championship game] as the basis for creating a party weekend," Mr Klebanow says. "They invite their best players to the property and build a weekend event around the game. Formula One racing, football, cricket, rugby, all have large appeal in Asia and championship games and tournaments allow the casino to create parties built around those events."

Mr Rittvo adds that the opening weekends of America's college and professional football seasons, as well as NCAA college basketball's championship tournament known as March Madness bring big crowds to Las Vegas betting lounges. It's largely a mass market crowd that comes for the atmosphere of watching a big game

on big screens with other fans, making bets, buying drinks and meals as they enjoy the scene.

Given the legal situation, Macau operators are cautious about broaching the issue of sports betting. "The company would certainly evaluate the opportunity should it materialize at some point," Las Vegas Sands Senior Vice President for Global Communications and Corporate Affairs Ron Reese says. The Macau government has the ball on sports wagering. Putting sports betting licenses in play could unleash new waves of excitement on casino floors and a new stream of revenue. It looks like time to take a shot. *iag*

Editor at large **Muhammad Cohen** also blogs for *Forbes* on gaming throughout Asia and wrote "Hong Kong On Air," a novel set during the 1997 handover about TV news, love, betrayal, high finance and cheap lingerie.



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(including an exclusive partnership), the National Hockey League and Major League Soccer, and Eilers believes it passed FanDuel this year. Eilers estimates each privately held company has a \$1 billion valuation.

Yahoo's entry into the field this year has been "underwhelming," Mr Krejcik says. Eilers is also skeptical about Amaya/PokersStars taking meaningful market share from the top two. CBS Sports joined the fray in August, hoping to exploit DFS interest during the US professional football season. At a G2E press briefing, American Gaming Association CEO Geoff Freeman characterized DFS as a "gray area" in the current regulatory environment. "If it's legal, our casinos need to be involved," Mr Freeman said, adding that casinos see DFS "not as a threat, but as a partner we hope to work with in the future."

Global Market Advisors Partner Andrew Klebanow says, "Casinos in the US are still trying to understand this phenomenon, how to

integrate it into their product offering and how to monetize it."

"DFS players are not hard core gamblers, in fact most do not go to Vegas or visit a casino more than once a year," Mr Krejcik says, citing an Eilers DFS player survey released in July. "The number one reason players cite for participating in DFS is excitement/thrill factor and [that it] makes games more fun to watch/engaging. Very few said they do it for monetary reasons."

DFS offerings remain largely focused on the major North American sports—baseball, American football, basketball and hockey, plus US soccer, NASCAR racing and mixed martial arts on DraftKings. "It's largely a North American centric experience right now, but no reason for it not to take off in overseas markets," Mr Krejcik says.

"Fantasy sports has made a little bit of a splash in Asia," FootballBet.com Chairman and CEO David Leppo says. He expects the trend to take hold in the region over the next three to five years.

"If there is a way to tap into some of the international basketball leagues, soccer [football] leagues and cricket leagues, then the markets would grow substantially," The Innovation Group CEO David Rittvo says. And don't forget Japanese baseball. *iag*

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