

While the sports world has been put on pause due to COVID-19, it has started to reemerge as UFC events began last week. NASCAR is also returning this weekend at Darlington, and other major professional and amateur sports are working on their plans to either complete their season or host partial or modified seasons, ideally by Fall 2020. Meanwhile, this pause has also introduced new sports and leagues from around the world to a global audience. No one would have assumed that Taiwanese baseball, Russian ping pong, and Belarusian soccer would be able to find new homes in the hearts and minds of sports bettors across the globe. Sports has been and always will be a source of unification. Sports betting through the repeal of PASPA has only enhanced that fever for the activity to occur in a legal and regulated fashion.

While ESPN may be televising cherry pit spiting or rock skipping during the Great Shutdown, those sports have been unopen to wagering as operators and regulators have not determined whether or not wagers should be offered for these events. Snooker, bandy, darts, and other games are now commonly found on sports betting apps, along with esports and offshoots thereof that are being developed as these events allow for further wagering opportunities. Overwatch, League of Legends, and others similar games have provided a new set of options to sports bettors. This has also caused other sports leagues to get in on the action. Most notable is the iRacing Series that NASCAR has adopted to allow their drivers to compete and race through an online, simulated version of a racetrack.

REVENUE TAKES A PAUSE

The revenue growth that has been experienced in states across the country will begin to trail off as there have only been a limited number of major sporting events on which customers can wager on (with the exception of the NFL Draft that occurred in April). The following table illustrates the sports betting revenue that was generated across several jurisdictions in the US through March 2020, which would have been significantly higher had March Madness taken place.

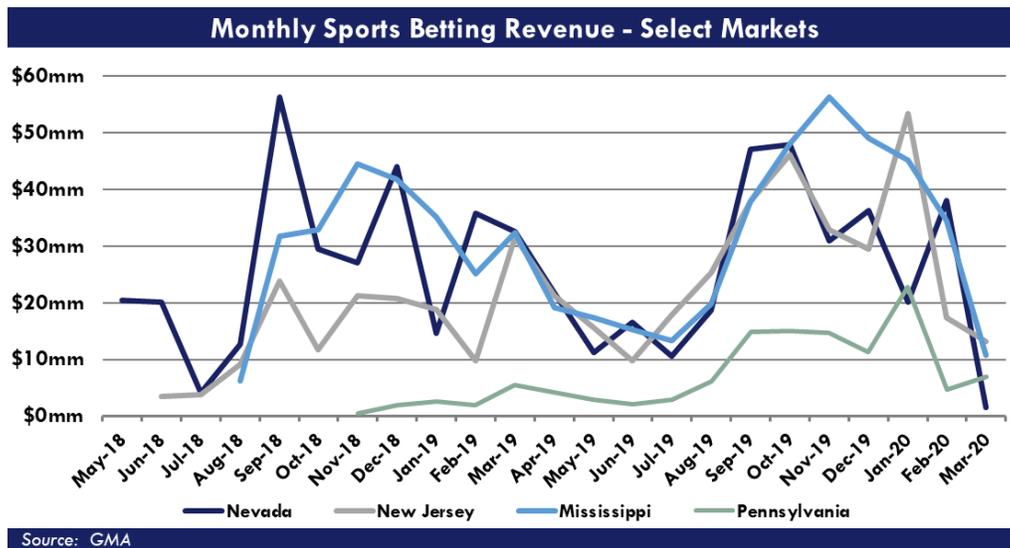
U.S. Sports Betting Comparable Summary								
State	Timeframe	Handle (\$MM)	Sports Betting		Taxes Collected (\$MM)	Total Gaming Revenue (\$MM)	Sports Betting % of Total Gaming	Sports Betting Win per Adult
			Revenue (\$MM)	Hold %				
Nevada	TTM March'20	\$ 4,514.8	\$ 305.6	6.8%	\$ 20.6	\$ 11,710.9	2.5%	\$132.22
Delaware	TTM March'20	\$ 88.8	\$ 13.0	14.7%	\$ 7.3	\$ 400.4	3.1%	\$17.77
New Jersey	TTM March'20	\$ 4,721.6	\$ 320.0	6.8%	\$ 39.4	\$ 2,585.0	11.0%	\$47.28
Mississippi	TTM March'20	\$ 366.8	\$ 41.4	11.3%	\$ 5.0	\$ 2,029.0	2.0%	\$19.21
West Virginia	TTM March'20	\$ 182.4	\$ 14.4	7.9%	\$ 1.4	\$ 571.9	2.5%	\$10.51
New Mexico (1)	TTM March'20	--	--	--	--	--	--	--
Pennsylvania	TTM March'20	\$ 2,191.6	\$ 108.5	5.0%	\$ 39.0	\$ 3,686.4	2.9%	\$11.22
Rhode Island	TTM March'20	\$ 246.5	\$ 23.4	9.5%	\$ 12.0	\$ 593.8	3.8%	\$29.01
Iowa	Since Launch (Aug'19)	\$ 346.7	\$ 24.4	7.0%	\$ 1.7	\$ 924.6	2.6%	\$15.88
Indiana (2)	Since Launch (Sept'19)	\$ 868.8	\$ 70.8	8.2%	\$ 6.7	\$ 1,162.4	5.7%	\$24.91
Average Without Nevada				6.8%			5.2%	\$23.66

Source: Global Market Advisors

(1) New Mexico is tribal only, no publicly available statistics; (2) Indiana revenues are exclusive of tribal gaming



The revenue pattern for sports betting continues to be seasonalized, with revenues peaking roughly from September to March. Many states that have emerged in the post-PASPA world are following this trend while generating significant levels of sports betting revenue. New Jersey and Mississippi, for example, have generated revenue levels comparable to Nevada within only two years of launching in those states. The following chart illustrates monthly sports betting revenues achieved in select markets since May 2018.



Football and the fall season continue to dominate, with the popularity of the NFL and College Football seasons in addition to the tail end of baseball season. This is demonstrated by the large bump in revenue in 2019 in Mississippi, when the state handled a high volume of wagers with the Houston Astros in the World Series. On the other hand, Pennsylvania continues to lag. While the state has a large base of consumers and several professional and college teams, they have been limited in the amount of revenue generated. This is due largely in part to onerous tax rates and licensing fees that have prevented operators from pursuing the opportunity further. Other states have had similar experiences with high tax rates and an improper structure in place to allow the market to meet expectations.

As the industry looks upon the last two years, there have been some leaders, some challenges, and some struggles in the states that have legalized sports betting. There are also some states that continue to balk on the issue and have held the same debate over the last three legislative sessions.

GMA continues to monitor both existing and emerging markets, as well as those that could emerge in the coming year. There are many important considerations as new markets look to legalize sports betting, including but not limited to tax rates, licenses and fees, mobile and online wagering, and consumer protections.



TAX RATES MATTER

Taxes are one of the most important issues that can lead to the success or failure of a market. As GMA has completed numerous studies across the country for operators, tribal organizations, associations, and governments, GMA has learned that anything above a 15% blended tax rate can make it difficult for sports betting operators to effectively compete in the market. This blended rate includes various tax scenarios that have been introduced in states to address brick-and-mortar, mobile, and online rates. Mobile tax rates tend to be slightly higher than, if not the same as, the brick-and-mortar rates in a given jurisdiction, but the operating costs are also lower, with a faster and more convenient delivery to the player. The table below illustrates sports betting tax rates in select markets across the United States.

U.S. Sports Betting Tax Rates	
Nevada	6.75%
Iowa	6.75%
New Jersey	8.5% - 14.25%
Indiana	9.5%
West Virginia	10%
New York	10%
Mississippi	12%
Pennsylvania	36%
Rhode Island	51%
Delaware	60%

Source: GMA

Pennsylvania, Rhode Island, and Delaware have some of the highest rates, which has been a part of creating some of the most challenging markets for both operators and the states themselves. States like Nevada, New Jersey, and Iowa offer some of the lowest tax rates and also have some of the most competitive and open markets. A competitive market is key to the development of a robust legal sports betting market that can compete effectively with the illegal market.

One of the biggest issues that has somewhat faded over the last six months has been the professional leagues desire for 'integrity fees.' However, the leagues have more recently tried to backchannel this fee through its data feeds to pick up additional revenue. Legislatively, this has been their continued focus as a way around the integrity fee debate. GMA firmly believes that data feeds should not be mandated under the legislative framework. Anything that has been done and continues to be done between two private parties should not be mandated through legislative means.



SOCIAL DISTANCING THROUGH MOBILE AND ONLINE

One movement that has been gaining momentum throughout the Great Shutdown has been the desire to move forward with mobile wagering and online gaming. New Jersey and Pennsylvania continue to lead the revenue charge in the iGaming space. In New Jersey, trailing 12-month online gaming revenue through March increased by almost 65% year-over-year. Pennsylvania, which is still in its infancy in the eye of the online gaming world, saw an online revenue increase of nearly 25% in the same period. Michigan and West Virginia are the next states that will move online. Look for other states and operators to start this movement as they experience revenue shortfalls resulting from the Great Shutdown. The 800-pound gorilla in the room remains in the Coalition to Stop Internet Gaming and how they may try to silence any initiative to legalize online gaming. GMA believes that this will catch more fire in future legislative sessions across the United States.

THE ROAD AHEAD

There are some states that are still having active conversations on sports betting. In addition to the states that are bringing sports betting to the ballot this fall, Louisiana is considering adding sports betting to the ballot. This initiative will move forward in a similar fashion as fantasy sports in the state, which was approved in the state in 2018. The quandary continues to be whether the legislature will pass the regulatory structure so that the process can move forward. Should sports betting be on the ballot in 2020 in Louisiana, GMA believes that the legislature will move in 2021 with enabling legislation.

New York, which already has land-based sports betting, is awaiting the results of a study that (at the latest) is supposed to be released to the public by June 1st. The report, which has had two draft deadlines pass and has been held in secrecy amongst the gaming commission, is part of a larger gaming study that is supposed to also look closely at mobile sports betting. While it is not likely that the legislature will take up the issue until later in the year at the earliest, stakeholders will likely have to procure their own studies that take a deeper look at the market across all forms of gaming. Legislative champions for sports betting continue to push forward in their attempt to recoup money that is being lost to operators across the border. GMA continues to believe that the quickest path to mobile wagering in New York would be through the ballot to avoid further legal challenges.

As states look to fill budget gaps, sports betting and online gaming will likely creep into the conversation. For those states that already have legalized sports, an increase in the tax rate should not be seen as a solution to fill a budget gap. In a high volume, low margin business, this would only hinder an already pressured market. Sound policy and insights from experts are needed to provide states with realistic projections that consider the impacts of COVID-19.



As GMA reflects on the two years since the post-PASPA journey began, the future looks bright for sports betting in the United States. The states' rights argument that overturned PASPA will likely lead to nearly 50 unique markets across the U.S. As this expansion unfolds, it will be important for each market to create a regulatory structure based on best practices, allowing for each market to compete effectively with the existing black market. By setting an appropriate tax rate, allowing for mobile wagering, and by implementing consumer protections and responsible gaming initiatives, a strong sports betting market can provide significant revenue to the states. Game On!



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