

Insight: The Future of Daily Fantasy Sports

DFS is popular, growing, and despite some regulatory/legal issues, not going away

- Since 1988, the number of participants in fantasy sports has grown at a CAGR of 20%
 - DFS, a recent subset of fantasy sports currently has approximately 9M participants and \$1B of entry fees
 - By 2020 entry fees are expected to reach \$18B, a 78% CAGR
- DFS companies are recipients of approximately \$1B of investment capital
- Investment funds and technology companies including KKR, Google, NBC Sports, Comcast Ventures and Bullpen Capital are investors
- Four major American sports leagues (NFL, MLB, NBA, NHL) are also partners and investors

Owners of Casinos have a desire to participate and monetize the industry

- Participants of fantasy sports are younger, better educated and wealthier than the typical casino customer

Attribute	Fantasy sports	Casino Patron
Gender (male)	66%	49%
Average age	37	45
Attained college degree or higher	57%	48%
Household income >\$75,000	47%	32%
Full-time employment	66%	64%
Source: Fantasy Sports Trade Association; Las Vegas Visitor Profile 2014		

- Possibly the number one challenge facing land based casino companies is: How to engage millennials?
 - Approximately 80% of gross gaming revenue is generated from playing slot machines
 - Slot player demographic skews older, with less disposable income
- To continue growing, the industry needs to get younger so DFS is an opportunity not a threat

The Legality of DFS

- Unlawful Internet Gaming Enforcement Act has a carve-out for fantasy sports; but only state law determines if it is legal
- Five states (AWA, AZ, LA, IA, MT) have classified fantasy sports as illegal, while it is becoming less clear in other states after the recent DraftKings “insider trading” scandal
- Four specific tests in gambling law exist to help states determine whether an activity is gambling
 - “Predominance” – Is the activity predominantly skill based?
 - “Material element” – How dependent is the outcome of the game on chance?
 - “Any chance” – Any element of chance associated with the outcome; sets a very low threshold to classify as illegal
 - “Gambling instinct” – Does the activity appeal to a players “gambling instinct”; this test is rarely employed
- If DFS were to be granted legalization at the federal level, it may pave the way for legal sports betting in the US

Coming Soon: Regulation

- Important issues relating to DFS regulation will be around appropriate consumer protection
- Fairness of games
- Underage play
- Employee controls
- Geolocation
- Anti-money laundering
- Gaming/Lottery commission involvement
- Licensing requirements
- Tax policy

Based on a webinar hosted by Spectrum Gaming Capital, Spectrum Gaming Group and Clarion Events on November 5, 2015.

The replay can be accessed by visiting: <http://www.spectrumgamingcapital.com/blog/>

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