

Thanks Michael and thank you to Chair Addabbo and Chair Pretlow for having me here today. I am here to present some analytical insight on some of the specific trends I am seeing in the digital sports wagering market in NY relative to other states. After that I will share our estimates for Igaming in New York.

Spectrum Gaming Group released a study in January 2021 for the New York Gaming Commission. In that report we estimated the revenue from sports betting would range from \$820M-\$1.1B skewing toward the high end of the range ~\$1.1B.

New York just completed its first full year of digital wagering, starting in January 2022, and generated \$1.35B in GGR from digital only, exceeding our estimate by 23%. A few observations:

- On a per capita basis and in terms of total wagering volume, New York is the largest sports wagering market in the country, as compared to all other states with legal wagering – this is no surprise given the size of NY’s population, presence of teams from all major sports and high-income demographic
- New York is clearly an important market for sports wagering operators and their long-term business prospects
- However, among competitive markets NY’s 51% gaming tax rate is highest and is more comparable to monopoly markets that have only 1 operator and where competition is more restricted
- Under the current gaming tax rate and with 9 operators competing for market share we believe it will always be a challenge for operators to generate a profit in this market
- Although the sample size is only 12 months we are seeing some important trends that suggest the NY market is somewhat anomalous as compared to other competitive markets including the following:
  - NY started off very strong generating ~\$1,250 of wagering handle/adult during its first 3 months (Jan-Mar of 2022) trending down to ~\$1,030 after 12 months, a decline of 21%
  - We are not seeing similar declines in other competitive markets; in other markets, which have between 2-4 years of data, we are seeing

multi-year increases wagering volume or handle, and GGR as these markets ramp-up

- We compared the % distribution of wagering volume by quarter during the first calendar year (CY) of sports wagering in NY vs the first CY of other states like NJ, PA, IN, IL, IA and MI; all other states generated 21%-24% of total wagering volume in Q1, followed by a softer Q2 and Q3 when the sports calendar is lighter and in Q4 these same markets generated between 35%-49% of wagering volume
  - The big increase in Q4 leads to continued ramp up going into year 2 in all of these markets; however in NY we observe a different somewhat anomalous trend. Q1 generated 30% of wagering volume, followed by a softer Q2 and Q3 (23% and 18%) and Q4 generated just 29% of total wagering volume
  - We believe this is happening because operators are pulling back on promotional spend in this market relative to the promotional blitz in Q1
  - We expect that under the current tax structure, operators will continue to limit promotional spending and so in year 2 it is possible that the NY market could decline in terms of overall wagering volume putting the states tax revenue at risk
- Other insights
    - Market share is concentrated in all competitive markets but in NY it is more concentrated than others with 4 operators generating 94% of handle and 96% of GGR; in comparative markets that percentage is closer to 80%-85% for the top 3-4 operators
    - There is an inverse relationship between tax rate and handle, a higher tax rate will burden wagering volume and a lower tax rate will enhance wagering volume over the long term
    - There is a strong correlation between promotional spend and overall wagering volume; PA releases data on promotional spend by operator and we observed a strong correlation between these two metrics among the top operators

- To conclude – NY had a very strong year in terms of handle and GGR for sports wagering; there are warning signs that year 2 could be a down year for the market as a whole
- With 9 total operators but only 4 generating meaningful business volumes there could be diminishing interest in the market, making it look more and more like a monopoly market

## Igaming

- Spectrum recently updated our estimates for Igaming in NY and we project the market could generate between \$2.3B - \$3.1B of GGR in year 1 increasing to between \$3.6B-\$4.4B in year 5
- For context:
  - NJ (7M adults) is generating \$1.66B of GGR from internet gaming after 9 years of operations
  - PA (10M adults) is generating \$1.36B after 4 years
  - MI (6M adults) is generating \$1.6B after 2 years