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New York State Senate Standing Committee on Racing, Gaming, and Wagering

**TO EXAMINE POTENTIAL REVENUE AND EDUCATION FUNDING
THROUGH THE EXPANSION OF SPORTS WAGERING IN NEW YORK**

Written Testimony of PointsBet in Support of Mobile Sports Wagering

Chairman Addabbo and members of the Racing, Gaming & Wagering Committee, my name is Seth Young, Chief Innovation Officer at PointsBet Sportsbook, a licensed sports betting operator in the state of New Jersey. Thank you for the opportunity to appear in front of you and provide testimony today. I am here to express PointsBet's support for legal sports gambling in New York – specifically in an environment that would include mobile wagering with multiple sub-licensees per authorized master license holder – in order to maximize tax revenue within the state to fund public policy initiatives, and to recapture a prolific black market that was created after the implementation of the unconstitutional Professional and Amateur Sports Protection Act of 1992 – a law that was supported by the same professional sports leagues advocating for a mandated percentage of sports wagering revenue – until its repeal by the U.S. Supreme Court in May of 2018.

We appreciate that there is significant interest in sports gambling within the state of New York given the recent U.S. Supreme Court decision. This is not surprising, given that New Yorkers are no strangers to betting on sports in a massive black market. With a population of nearly 20 million people, New Yorkers make up roughly 16% of the total population of this great country. The American Gaming Association estimates that \$150 Billion is wagered illegally on sports each year, and it would stand to reason that New Yorkers are wagering 16% of that amount, or roughly \$25B annually. We estimate that the sports betting market in New York is worth over \$1.3B in annual revenue if mobile wagering is authorized in a competitive, multi-license environment alongside retail sports wagering at New York's casinos. Without mobile wagering, the total market is likely worth a very small fraction of that impressive number, and New York's inability to authorize a mobile operating environment would do very little to incentivize its citizens to move their existing activity away from the illegal black market and into a safe, regulated environment.

One state over in neighboring New Jersey, early market results have shown that mobile sports betting makes up roughly 80% of all monies wagered on sports, with the remaining 20% confined to retail locations. Further, nearly 70% of all retail sports betting revenue to date in New Jersey has been driven by the Meadowlands – just a short hop from New York City. As New York’s commercial casinos are located a long way from major population centers, I believe that mobile wagering will represent over 90% of all total sports betting revenue within the state of New York – a number that most industry experts suggest New Jersey will also reach in a steady state environment. By this math, I would suggest that a retail only sports wagering option in New York State would create a market of merely \$130M annually, as opposed to the \$1.3B mobile-enabled market. With current proposed tax rates of 8.5% on retail and 12% on mobile, this represents new tax revenue of just over \$11M annually with a retail only environment, and over \$140M annually in a mobile-enabled environment. If I were aiming to implement a law with the purpose of funding education initiatives, I would rather create a framework that drives \$140M than \$11M. Speaking for PointsBet, it would be our great privilege to have the opportunity to help.

Simply put, with such an easily accessible black market that offers mature sports betting products in an untaxed, unregulated environment, New Yorkers are unlikely to drive hours to a physical location to place a sports bet if they have an option that lets them do it from their couch. This may sound scary to you, but let’s face it – all signs suggest they’re doing that anyway. Sports betting is mainstream. If baseball is America’s favorite pastime, betting on baseball is a close second. If I were a betting man, I’d bet that each and every person sitting in this room today has a mobile phone, though you may not have had one ten years ago. Times change. Ignoring reality doesn’t change reality.

New Jersey’s early success with mobile wagering is highlighted by the fact that the sports betting market features open competition. New Jersey regulations permit each master license holder to sub-contract 3 skins – or sub-licensees – to operate sports betting on its behalf. With many different groups spending money on marketing in many different ways to reconvert New Jersey’s black market to a regulated environment, it is the state that wins through the realization of new tax revenues and the creation of new jobs. Its constituents also win with competitive pricing and promotions from a diversified group of stakeholders. New York is much larger than New Jersey, and in addition to doing a disservice to the citizens of New York, it would be counterintuitive to New York’s public policy initiatives to discourage competition by supporting a limited competitive environment with one brand per licensee. I would suggest an optimal environment for New York is to authorize at least two skins – or sublicenses – per master license. The more groups that are encouraged to invest in the state, the more that the \$25B in annual wagers made by New Yorkers will be recaptured in a legal environment.

For the record, I’d also like to bust a few myths in regard to online gaming. Online gaming is safe. Regulated sports betting operators restrict underage access effectively by performing “know-your-customer” checks with advanced technologies, as is currently being done in New Jersey. Regulated sports betting operators can safeguard against money laundering, fraud, cheating, and unauthorized access. Regulated sports betting

operators can effectively “geo-locate” their customers, ensuring legal compliance within the borders of the jurisdiction in which it operates. Regulated sports betting operators can manage responsible gaming programs, and a nationwide study conducted a decade apart by the University of Buffalo found no significant increase in the rates of problem gambling in the US, despite a nationwide increase in gambling opportunities. Regulated sports betting operators can create jobs. The regulated New Jersey online gaming market has had no reports of replacing people with computer servers. In fact, dozens of jobs were created directly as required by regulation, along with hundreds of additional jobs to support the market. Further, as online gaming revenue has proven to be incremental to land-based operations, it is more likely that additional jobs will be created within a casino or racetrack to manage both an online business and to address the needs of the brick-and-mortar establishment because of the online offering. Technology has come a long way.

Now I’d like to address the proposition of an integrity fee – which I’d prefer to call a royalty fee – pitched by the representatives from Major League Baseball and the National Basketball Association. This proposed 0.2% royalty fee, which equates to roughly 5% of the revenue derived by a sports gambling operator, goes directly against the interest of good public policy and social responsibility in any state considering sports gambling legislation. The leagues’ position is somehow premised on the illogical assumption that it will cost more to ensure the integrity of a fully transparent regulated market than it does to ensure that level of integrity in the black market they’re currently facing; that’s simply absurd. Operating a sports gambling business is already a low margin proposition. A royalty fee payable to the leagues would drive sports gambling margins even lower and offer little incentive for licensed operators to invest in product and marketing, which will adversely affect a trusted, regulated operator’s ability to recapture a large black market from unregulated, unlicensed operators. To be clear and speak without any ambiguity, a royalty fee payable to the leagues will have the direct result of not allowing New York to recapture the full potential of its currently illegal sports gambling market, which will directly and negatively influence the revenue opportunity for both the operators and the state.

Further, when pressed in a hearing in Connecticut where I testified just one year ago on behalf of Foxwoods Resort Casino and the Mashantucket Pequot Tribal Nation, one of the league representatives stated that they would not support sports gambling legislation if it did not include a royalty fee payable to their league. What I heard is that regulating a black market activity in the interest of good public policy and social responsibility is only supportable if they get a cut of the action, which is unfortunate. While every operator would like to work with the leagues to support their efforts to fight any game integrity issues, we support regulation for sports gambling with a prudent tax rate and structure that makes it possible to run a business optimally and serve the residents of New York with a world-class product, while maximizing the opportunity to recapture the illegal black market and support state tourism. In reality, this is also good for the leagues. In fact, a recently conducted Nielsen study showed that the sports leagues stand to add more than \$4B in revenue, annually, on the back of legalized sports wagering.

Additionally, allowing the leagues any optionality to restrict wagering on their contests essentially allows each league to dictate whether or not it would like to bring sports gambling out of the black market. By allowing any league to dictate wagering restrictions on its contests, New York may find itself at the mercy of a third party in order to accomplish its goals of combating illegal sports gambling, which is already happening within its borders. I cannot imagine this is within the interest of the state, or even in the interest of a league committed to monitoring game integrity and match fixing on its contests. Any prudent, regulated sports gambling operator will be monitoring suspicious betting activity, and would likely be pleased to cooperate with leagues on league-led investigations. In a similar vein, the prospect of codifying into law or regulation that sports gambling operators must only use official league data will create a structure that may drive up hard costs for operators, when there are many additional options within the market that a sports gambling operator can leverage to fit their business needs. .

Lastly, I'd like to speak to the importance of brand trust in a market. Since PointsBet launched operations in New Jersey, it has been heralded as having the best pricing and promotions in order to compete with the black market, and a customer-first, fair approach to operating for its clients. Without a multi-skin operating environment, brands like PointsBet will not be able to bring their market leading products and transparent operating methodologies and advertising practices to this great state.

In reality, this testimony is fighting for the state of New York. Sports betting is woven into the fabric of our culture. By engaging people through legal sports betting with brands that can be trusted, and recapturing an unregulated black market, New York stands to create good public policy and much needed new revenues for the state and its constituents by working together to embrace the future. I welcome the opportunity to answer any questions.