

New Mexico Consortium

New Mexico Sports Betting Market Study

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PRIVATE AND CONFIDENTIAL



Contents

| | |
|---|----|
| Introduction..... | 4 |
| Methodology | 4 |
| About Union Gaming..... | 4 |
| Executive Summary..... | 6 |
| Market Opportunity for New Mexico Sports Betting..... | 6 |
| Potential Incremental VGM Revenue for Licensed Operations | 6 |
| Sports Betting Landscape in the US | 7 |
| PASPA | 7 |
| Wire Act..... | 7 |
| Nevada..... | 7 |
| New Jersey..... | 8 |
| Delaware | 8 |
| Other US Markets..... | 9 |
| Offshore Sports Books | 10 |
| Illustrative Sports Betting Markets | 11 |
| Nevada | 11 |
| UK..... | 15 |
| Australia..... | 17 |
| Market Demographics in Nevada..... | 18 |
| Market Size and Participant Estimates | 18 |
| Market Demographics in the UK..... | 19 |
| Market Size and Income Allocation | 19 |
| Market Demographics in Australia | 20 |
| Market Size and Income Allocation | 20 |
| Sports Betting Market by Activity | 21 |
| Existing Operating Model | 21 |
| Customer Sourcing Models..... | 22 |
| Strategic Considerations | 22 |
| New/Emerging Developments..... | 23 |
| Daily Fantasy Sports | 23 |



E-Sports 24

Interactive Betting..... 24

Virtual Sports..... 24

New Mexico Market Strengths and Weaknesses for Sports Betting..... 26

 Strengths 26

 Infrastructure in Place..... 26

 Potential for Cross-border Play..... 26

 Favorable Business Model for Locations 26

 High Income Allocation to Gaming..... 26

 Weaknesses 27

 Smaller Population 27

 Distributed Market 28

New Mexico Gaming Market with Sports Betting 29

 Assumed Model and Regulations 29

 Potential tax revenue for the State from sports betting 29

Projected Sports Betting Revenue 30

 New Mexico Market Revenue Projections – Base Case Scenario 31

 Total Revenue for New Mexico sports books..... 35

 Crossover and F&B Business Increase..... 36

 New Mexico Market Revenue Projections – Expanded Case Scenario 41

 Total Revenue for New Mexico sports books..... 44

 Crossover and F&B Business Increase..... 45

Union Gaming Suggested Strategies..... 47

 Tax Rates 47

 Wagering Platforms 48

 Registration Methods 48

 Integrity Fees 48

 Wagering Products Offered..... 49

Concluding Thoughts..... 50

 Betting Primer 51

 From William Hill US – Sports Wagering 101 52

 Terminology..... 52



Introduction

Union Gaming Analytics has been engaged by the New Mexico Consortium (“Consortium”) to perform an independent gaming market study related to the potential for sports betting in New Mexico across all potential operators. Our report is intended to measure the expected total revenue to operators from offering sports bets through all licensed casinos and the potential tax revenue which may be realized by state and local governments.

Methodology

We first set out to study the status of sports gambling in the US, starting with its history and the major events which have shaped the landscape up until today. We then spent an extensive amount of time reviewing data for the three sports betting markets with the most information available publicly: Nevada, the UK, and Australia. We reviewed net win, participation trends, income and population trends and read over past, current and expected trends which will change the industry in the coming years. We noted where the three jurisdictions were similar, but also areas where they have diverged and followed different operational paths. We then looked at where New Mexico stands today as a gaming market and economically to set some baseline expectations for the scale of the market.

We then assembled the data into comparable parts to see which would yield the best insights into the likely evolution of the sports betting market in New Mexico should it be approved to open in the near future. We reviewed in what ways it would resemble Nevada and its current market, and the ways where it would have its own unique participation and spending trends. We used this analysis to construct our model which assumes the most comparable sizing and development path can be found in Nevada. We also worked in participation levels and other operational similarities we found from the UK and Australia, but in recognizing how different those markets are in history, acceptance of gaming, and sports offerings, we found limited insights which could drive our New Mexico model. Lastly, we looked at the trends of the New Mexico racetrack casino market, to determine how much crossover play and taxation could be expected to be generated.

About Union Gaming

Union Gaming is a boutique investment bank and advisory firm focused exclusively on the global gaming industry, which we define as the \$500 billion-plus market to include land-based casinos, lottery, online, and pari-mutuel wagering. The company specializes in global equity and high yield research, securities dealing, investment banking, and advisory. Through its Union Gaming Analytics subsidiary, the company conducts gaming, feasibility, and economic impact studies for government and corporate entities. The company also provides legislative and regulatory support for gaming related activities globally. Founded in 2009, the company is headquartered in Las Vegas, with offices in Hong Kong, Macau, and New York, NY.

Union's study is solely for the use and information of the Consortium and is only to be used in considering the matters to which this study relates. Such study may not be relied upon by any other person, including, but not limited to, any security holder, employee or creditor of the Consortium, and may not be used or relied upon for any other purpose without obtaining Union's written consent, with such consent not to be unreasonably withheld by Union.



In addition, the Consortium agrees that any reference to Union in any release, communication, or other material is subject to Union's prior written approval, which may be given or withheld in its reasonable discretion, for each such reference.

Any questions regarding the contents of this report should be directed to Rich Baldwin, Managing Director or Bill Allsup, Director at (702) 866-0743.



Executive Summary

Market Opportunity for New Mexico Sports Betting

Union Gaming projects that after full rollout and ramp up in 2020, sports betting throughout New Mexico casinos could generate approximately \$1.2bn in handle, or bets placed, and \$61.1m in net sports betting revenue annually should it be allowed throughout the state through bricks and mortar sports book locations in the state's casinos and also through mobile channels where patrons can bet anywhere within state borders. We calculate spending on sports betting in such a scenario could capture 0.11% of New Mexico resident per capita income, which is similar to levels seen in Nevada, where a similar model for sports betting has been in place for a number of years. We believe these strong levels of interest in sports betting are likely to occur due to a demonstrated propensity to gamble by state residents and a likely continue lack of competition for sports betting revenues from neighboring states for years to come. To reach these levels, we assume mobile betting options, which are highly popular in most jurisdictions with regulated sports betting activity, will be allowed.

In its early years, a lesser distributed model with betting only allowed on casino properties was also projected in our base case. This model sees about half as much sports betting net revenue but generates significant revenues to casino floors and non-gaming amenities such as food and beverage outlets. In order to obtain easier legislative and regulatory approvals, and to allow the industry to establish itself in the crowded gaming market in New Mexico, this base case may be preferable for the first few years until patrons begin to demand easier access to betting products without the restriction of having to be on a casino property.

In either scenario, we believe casino revenues would be supported by newly built sports books at many of the state's casinos, which can attract patrons into a casino and lead to them not only wagering on sporting events, but also increase their spending on slots and table games. We envision a regulatory system which would require patrons to sign up at a casino or racetrack and then to return for any deposit or withdrawals. As we expect most of the betting volume created by sports bettors is incremental to the gaming market and will not cannibalize existing gaming revenue, this potential expansion will be beneficial for gaming operators, generate more tax revenue for the state and the horse racing industry, and satisfy a large amount of demand for such a product which is largely being served by illegal and unregulated options such as offshore sports books.

Potential Incremental VGM Revenue for Licensed Operations

Potential crossover from incremental visits to the state's casinos to patronize the sports books and collect their winnings represents an incentive for the state's casinos to add sports betting. Even with the modest assumption of creating just one additional visit every other month from regular sports betting customers could create \$38m in additional gaming revenues annually, or a 5% uplift to existing estimated New Mexican resident gambling revenues, along with additional tax revenues to the State. In addition, sports betting can create additional activity at all casino locations through more food and beverage sales and increased attendance at entertainment events. These will result in additional profit for each casino and more jobs in the state as non-gaming revenues tend to strongly support employment levels at casinos.

In total, under our expanded scenario where bettors are allowed to place wagers through their mobile devices anywhere in New Mexico, we project the state's casinos could generate an incremental \$103.2m in new revenues from all sources, the state could see \$11.3m in new tax revenues and the horse racing industry could see \$1.8m in new purse support amounts.



Sports Betting Landscape in the US

The landscape covering legal sports betting in the US is complex and has seen major changes recently. Below are the leading issues which impact the offering of sports betting and several key jurisdictions which have been involved in the industry leading up to a recent Supreme Court ruling which will greatly change the sports betting landscape over the next few years.

PASPA

The Professional and Amateur Sports Protection Act of 1992 (“PASPA”) has dominated the landscape of sports betting in the US since its passage. PASPA intended on blocking any new jurisdiction from allowing sports betting that was not operating such activity before its passage. All states that had some form of sports betting before 1992 (Nevada, Delaware, Oregon, and New Mexico were specifically cited) were allowed to continue to offer whatever activity they had been operating, but not to expand those offerings post 1992. New Jersey was also given the opportunity to have full sports betting similar to Nevada, but largely due to the efforts of Bill Bradley, a Senator from New Jersey and the main sponsor of PASPA, the state never held a vote to approve sports betting for its casinos or race tracks, so it was banned from offering it.

Having seen their casino industry cut by more than half due to competition from casinos in neighboring states, New Jersey began making efforts to allow sports betting in the late 2000’s. A challenge to PASPA was first filed in 2009 stating it was not constitutional to bar one state from an activity which another state is free to offer. After a series of challenges and the passage of a state constitutional amendment in 2011 by voters still led to federal courts ruling New Jersey could not legally allow sports betting, the Supreme Court agreed to decide the matter. In May 2018, the Supreme Court ruled PASPA conflicted with the 10th Amendment of the Constitution, with its ruling essentially removing it from federal law. States are now free to legalize and regulate sports betting, with a few states already moving forward.

Wire Act

The Interstate Wire Act of 1961 (“Wire Act”) was implemented in an attempt to give federal authorities the ability to prosecute those involved in the business of illegal bookmaking. The law was originally intended to stop the transmission of betting odds and results for horse racing in the US as it prohibits the transmission of such data across state lines. Businesses that had a legal purpose, such as a race track with off-track betting locations, were not expected to be impacted since those businesses were always expected to be exclusively operated in one state. Legal betting in Nevada was however impacted, as obtaining horse race results in real time was now technically a crime, so many exemptions to the laws were implemented over time.

Nevada

Nevada has long been the standard-setter for sports betting in the US. Since 1975 when the first sports book opened at the Plaza Hotel in Las Vegas, the betting world has looked to Las Vegas for its betting lines. Today there are over 100 sports book licensees operating in the state and revenues have been increasing in recent years thanks to mobile betting on phones and other devices. The betting model in many regards is held in the highest regard by other jurisdictions, especially the elevated level of competition and the ability of sports books to draw in patrons for big events that lead to crossover play in the casino and strong spending for non-gaming resort amenities. While these are positive factors for other states to hope to replicate, they are not genuinely applicable as no other market is the destination that Las Vegas and Nevada are. What hopefully most other



jurisdictions take away from the Nevada model is that a modest tax rate and open competition lead to stronger business levels and significant innovation.

New Jersey

Beyond New Jersey's role in bringing about the demise of PASPA, the state appears ready to have a significant impact on the sports betting landscape. While the state's casino industry is limited to Atlantic City, the state also allows its licensed racetracks to offer sports betting. With a track located in the Meadowlands, just a short distance from New York City along with the rollout of mobile and online betting, the state may have a market which rivals or exceeds that found in Nevada within a few years. With a population about three times larger than Nevada and the ease of access for New York City residents to visit New Jersey, the market will likely be the new leading jurisdiction. Nevada's current operators are expected to play a key role in the expansion, but due to Wire Act restrictions, the new operations must operate independently of their Nevada operations.

Although Figure 1 shows only the preliminary revenues for sports betting in New Jersey, the opening gross revenues promise potential. Since the legalization, there are five locations reporting their revenues for sports betting and the tax rate is set at 8.5% for bets placed at the casinos and racetracks. Tax rates are higher for bets received online or through mobile apps, at 13% for the casinos and 14.25% for the racetrack operations. Betting apps have just begun to roll out and the first online betting option started in early August. We would expect the combination of football season beginning and more distribution channels operating will lead to significantly higher revenue from sports betting in New Jersey in the coming months.

Figure 1: New Jersey Sports Betting History

| New Jersey Sports Betting Revenue 2018 | | |
|--|------------------|------------------|
| | June | July |
| Bally's Park Place | - | 17,788 |
| Borgata Hotel Casino & Spa | 986,831 | 562,830 |
| Ocean Resort Casino | 192,671 | 1,036,766 |
| New Meadowlands Racetrack | - | 1,357,477 |
| Darby Development | 2,279,166 | 856,280 |
| Total | 3,458,668 | 3,831,141 |

Source: New Jersey Division of Gaming Enforcement, Union Gaming Analytics

Delaware

Delaware began offering a parlay type game in 1976 through its state lottery but ended the offering after just one year. Facing competitive pressures for gaming revenues, the state resurrected betting on sporting events in 2009 and had planned to have full sports book offerings similar to Nevada. However, a federal court ruling limited the offering to parlay games using 3 or more NFL outcomes in line with the offerings in 1976. These bets have been offered at the state's three racetrack/casino facilities since fall 2009 with some creating mini-sport book type lounges, but with the repeal of PASPA, full single-bet sports book activity covering most sporting events commenced in June 2018.

The newly opened Delaware market is a bit of a hybrid. If a customer wants to make parlay bets (see Appendix), they can continue to visit any of the state's hundreds of lottery sales outlets which have been



offering these bets for a number of years. These bets are generally small with a large return if they win, but require 3 teams to be selected and are only offered on NFL games. If a customer wants to make any other type of wagers, including single wagers on one team or proposition, they must visit one of the three sites listed below in Figure 2 to place their wagers.

Figure 2: Delaware Sports Betting Update

| Delaware Sports Betting Revenue 2018 | | |
|--------------------------------------|----------------|----------------|
| | June | July |
| Delaware Park | 653,277 | 331,295 |
| Dover Downs | 143,952 | 91,196 |
| Harrington Raceway | 77,987 | 38,735 |
| Total | 875,216 | 461,226 |

Source: Delaware Sports Lottery, Union Gaming Analytics

Other US Markets

Recently, **Mississippi** began accepting bets but they are limited to bets placed on licensed casino properties with geofencing required for activity placed through a mobile app. The first bets were placed on August 1st at the Beau Rivage in Biloxi and Gold Strike in Tunica. Following their steps, many, but not all of the state's licensed casinos are expected to have operational sports betting by early September in time for the start of the NFL season.

West Virginia saw its first regulated sports bet placed on August 30th at Hollywood Race Casino at Charles Town. Most other casinos are expected to begin offering sports books and betting on approved mobile apps by early September. The state had already approved sports books at licensed casinos and on mobile apps in the hopes of PASPA repeal so it had already undertaken many regulatory decisions to enable it to go live.

Pennsylvania has so far had two operators, Penn Gaming and Parx, pay \$10m each for a sports betting license and are expected to start accepting bets once regulations are approved in the coming months, possibly by November. Once allowed, the licenses will allow for operators to open on-site sports books, allow betting on mobile apps and through online sites, and possibly add sports books accepting wagers at associated sites such as OTB facilities. Due to the nation's highest tax on sports wagering revenue at 36%, it is unclear if other eligible casino licensees will also acquire a betting license.

The **Rhode Island** Lottery has been approved to accept sports bets and has signed services agreements with sports betting operator William Hill and major gaming supplier IGT. The start date of sports betting operations is still unclear in the state, but it will only be allowed at the state's two casinos which are run for the benefit of the Lottery. Mobile betting will also be allowed, but with similar limitations as those seen in Mississippi with bets only able to be placed while within the footprint of the casino.

Oregon began offering "Sports Action" in 1989 through the state lottery, which allowed for parlay bets (see Appendix) to be placed on 3 or more NFL or NBA games. The lottery reportedly made only a minimal amount of revenue and discontinued the offering in 2006 under pressure from the NBA and NCAA. Due to its prior operation Oregon was exempted to a degree by PASPA and could begin to offer sports betting through the Oregon Lottery with minimal regulatory approvals. These have not been approved as of yet.



Montana also had a limited exemption from PASPA due to its offering of special sports betting pools. The laws however would not allow for a quick start-up of sports betting and will require full legislative approval to begin.

Offshore Sports Books

The largest sports betting operations serving the US market are actually located “offshore”, which is a term used to indicate any sports book operating outside of the laws of the US. Most are located in friendly countries which desire the financial impact, the jobs and the taxes/license fees they bring. Key countries hosting offshore operations include Costa Rica, Curacao, and Antigua. Some European jurisdictions have in the past allowed their licensees to serve US customers, but those have all but ended due to concerns of actions the US government has taken against some high-profile sports book operations. In a limited number of cases, the US Attorney General and Department of Treasury have taken actions to seize funds used by offshore sports books and have arrested or issued warrants for key individuals operating the businesses, especially if they are US citizens.

Offshore sports books have two main business models. The first model is “post up” betting, where customers send money on account and bet against their account balance, but due to US government actions, this model has been more difficult to operate and is reportedly declining in size. The second model is a “credit/agent” model. In this model, patrons bet on credit with wins and losses settled on a weekly basis through their personal agent, often an acquaintance. This model is similar to earlier forms of the illegal bookie business, with many bookies now acting as agents. Since none of the offshore sports books are highly regulated, there are no official figures available, but reliable estimates put business levels from offshore operators at anywhere between 10 and 20 times higher than Nevada, with much of the size of the business due to the ease for patrons to place bets from anywhere in the US and from the availability of credit which limits the need to do complicated and costly money transfers which could be subject to seizure by US authorities.



Illustrative Sports Betting Markets

Nevada

Nevada has allowed betting on sports since the legalization of gambling in the state in 1931. However, most of the betting in the early days of the state's gaming business consisted of horse race betting as sports betting done in a commercial setting is a relatively recent phenomenon. Prior to 1974, there were few places in Las Vegas or Reno to legally place a bet, with only a few standalone operations which were known for mostly handling illegal bets from out of state and undervaluing the real wagers placed, both of which were not fully reported to gaming authorities to avoid paying taxes. Assisted by tax reductions and regulatory changes, sports betting in Las Vegas and Nevada gained national prominence beginning in the 1970s when betting odds became more widely disseminated and has grown to record levels in recent years, with 2017 seeing the State's operators netting a profit of nearly \$250 million from a record betting handle (total bets placed) which reached \$4.9 billion.

In 1951 the federal government had imposed a 10% excise tax on sports bets in an effort to stamp out illegal betting done across the country. The 10% tax was "off the top", so bettors would have to make their bets with some house edge built in and then pay a 10% tax on the amount bet as the tax rate was too high for the bookmakers to absorb and still profitably operate. Many participants at the time report that bets were written for 10% of the real amounts wagered, so a \$110 bet would be written as an \$11 bet with tax only due on the lower amount, but the bettors paid the full amount for the ticket and the bookmakers would pay out the real amount staked if the bet won. Due to the taxes and the competition from bookmakers taking illegal out of state bets, no resort casinos were willing to offer sports betting.

In 1974 the federal government lowered the excise tax rate to 2%, an amount which some bookmakers felt was sufficient to run their betting operations above-board. Soon after casinos begin to open the first sports books as the gaming business was seeing declines due to the economy in the mid-1970s and due to expected losses coming from the opening of casinos in Atlantic City, which was slated for 1978. The casinos reasoned they needed new activities to draw patrons to Las Vegas and Reno and sports betting was one of the lone advantages they would hold. The Stardust Casino opened the first large sports book in 1978, but the largest growth in the industry came after 1983 when the excise tax was lowered further to 0.25%, its current rate. With the additional reduction, the business of bookmaking became a profitable endeavor for all casinos and they gradually built the availability of sports betting into their marketing strategies, seeing it as a way to drive visitation for major sporting events and as a way to attract different audiences to visit Nevada's casinos, especially as the US saw a major growth spurt in casinos beginning in the late 1980s.

Today, sports betting is tightly regulated by the Nevada Gaming Control Board (NGCB), which since the 1970s has taken its regulatory duties far more diligently. Under the current regulatory regime, illegal bets and bets written for different amounts would not be tolerated and lead to large fines for operators. The NGCB closely monitors all sports betting operations to ensure they operate fairly and within their posted rules. They also do regular financial checks to make sure that no sports book takes wagers they cannot pay and that all financial regulatory rules are followed, especially in regard to filings made for large cash transactions. Another change in the modern industry is that odds from all sports books are allowed to be transmitted to other jurisdictions even if bets can only be accepted inside Nevada. This has led to the "line" being well known by the media and casual observers through a variety of sources, which has increased the interest in sports betting even before



PASPA was repealed. Figure 3 illustrates the trends of sports betting in Nevada since 2005. Sports betting in the state saw an intermediate peak level in 2006 and then fell off significantly beginning in 2007 due to the financial recession. Sports betting revenues did not begin to recover until 2012 when William Hill joined Cantor Gaming (now CG Technology) in offering a sports betting app for mobile devices. Since that time other casinos began to offer mobile betting apps and currently 13 different apps are available to be used by those who are inside state borders at the time of placing their wagers. Growth in sports book win is largely attributed to growth in wagers placed through the app, having gone from having a single digit share of the market in 2012 to now having somewhere between 40% and 50% of the value of total wagers placed. The exact data between wagers placed through the apps and at counters is not provided by the NGCB, but all major operators now offer the app and they are actively marketing its availability to players in hopes they can drive further revenue growth and also help reduce waiting times to place wagers during major sports events. We note the percentage hold is consistent at just above 5% in most years. According to operators, the hold has gone down slightly in recent years due to more savvy players using the apps and the competition in the market they have fostered.

Since most sports books are now “networked” and part of a group of locations, similar to the distribution networks of the betting apps, the number of licenses is becoming less important as some operators such as William Hill are increasingly offering kiosks which allow patrons to add fund their accounts in locations outside of sports books, such as in local licensed bars and even in select convenience stores. While most casinos still are hoping to keep the opening of accounts and adding funds/taking payouts inside casino locations to drive incremental casino visits, competitive pressures may lead to more options for bettors who don’t want to set foot in a full casino in order to make transactions on their sports betting accounts.

**Figure 3: Nevada Sports Betting History**

| Nevada Sports Betting Revenue Trend | | | |
|-------------------------------------|-----------------|--------------|--------|
| Year | Sports Book Win | YOY % Change | % Hold |
| 2005 | \$ 126,176 | 12.2% | 5.59% |
| 2006 | \$ 191,538 | 51.8% | 7.89% |
| 2007 | \$ 168,363 | -12.1% | 6.49% |
| 2008 | \$ 136,441 | -19.0% | 5.29% |
| 2009 | \$ 136,380 | 0.0% | 5.31% |
| 2010 | \$ 151,096 | 10.8% | 5.47% |
| 2011 | \$ 140,731 | -6.9% | 4.89% |
| 2012 | \$ 170,062 | 20.8% | 4.93% |
| 2013 | \$ 202,838 | 19.3% | 5.60% |
| 2014 | \$ 227,045 | 11.9% | 5.82% |
| 2015 | \$ 231,787 | 2.1% | 5.47% |
| 2016 | \$ 219,174 | -5.4% | 4.86% |
| 2017 | \$ 248,777 | 13.5% | 5.11% |
| LTM* | \$ 281,639 | 13.2% | 5.71% |

Note: LTM indicates period from 7/1/17 to 6/30/18

Source: NGCB, Union Gaming Analytics



In Figure 4 we have the detail NGCB provides by sport. The “parlay” category is for parlay cards which have much higher hold rates and tend to attract more tourist and casual player action, especially in the resorts of Las Vegas. Football win has been volatile in recent years as the shorter season and fewer games lead to less certainty in hold for the operators, while the long seasons and thousands of games contested in basketball and baseball have led to their results being fairly predictable for operators. Other is a combination of hockey, soccer, golf, tennis, and racing, as well as other non-traditional betting markets. The spike in “other” in 2017 is believed to be from a major boxing match, Mayweather vs. McGregor, and from the arrival of the Las Vegas Golden Knights of the NHL, which reportedly has led to strong growth in hockey betting in Las Vegas.

Figure 4: Nevada Sports Betting Types

| Nevada Sports Betting Win by Type (\$000s) | | | | | | |
|--|----------|------------|----------|--------|--------|---------|
| Year | Football | Basketball | Baseball | Parlay | Other | Total |
| 2013 | 80,815 | 59,186 | 29,079 | 19,967 | 13,789 | 202,838 |
| 2014 | 113,732 | 54,239 | 21,294 | 21,281 | 16,500 | 227,045 |
| 2015 | 82,546 | 72,976 | 39,392 | 15,983 | 20,890 | 231,787 |
| 2016 | 91,243 | 66,632 | 32,204 | 10,412 | 18,648 | 219,174 |
| 2017 | 76,896 | 87,431 | 36,815 | 15,177 | 32,325 | 248,777 |
| LTM* | 88,027 | 98,794 | 36,853 | 21,166 | 36,717 | 281,557 |

| Nevada Sports Share of Total by Sport | | | | | |
|---------------------------------------|----------|------------|----------|--------|-------|
| Year | Football | Basketball | Baseball | Parlay | Other |
| 2013 | 40% | 29% | 14% | 10% | 7% |
| 2014 | 50% | 24% | 9% | 9% | 7% |
| 2015 | 36% | 31% | 17% | 7% | 9% |
| 2016 | 42% | 30% | 15% | 5% | 9% |
| 2017 | 31% | 35% | 15% | 6% | 13% |
| LTM* | 31% | 35% | 13% | 8% | 13% |

Note: LTM indicates period from 7/1/17 to 6/30/18

Source: NGCB, Union Gaming Analytics



UK

The UK has allowed sports betting through “off-course bookmakers” since 1960. Before the regulatory change, virtually all sports betting was done on horse races through bookmakers who had established betting stands at all racetracks. This makes the UK one of the longest standing markets for legal and regulated sports betting in the world, and the UK remains one of the most well-supported markets based on spending per capita by residents. UK bookmakers such as William Hill, Ladbrokes Coral, and Paddy Power are among the largest sports betting operations in the world and Bet 365 is believed to be the world’s largest online-only sportsbook as well.

As a result of its long history and the deep integration of sports betting with almost all European professional soccer and basketball leagues, the UK sports betting market is the most penetrated in the world. The high level of patronage and the extreme amount of competition has led to the UK having a sports betting culture that is far different than what is found in the US and it may take decades for it to be matched. Not only are there advertisements on live broadcasts to bet on matches before and during the action, many teams have the logos of sports betting operators on their jerseys, and the side boards visible to TV viewers often display advertisements and even live betting odds in an effort to encourage more wagering. A recent survey found 1 in 5 advertisements during live sporting events in the UK were related to sports betting, while in the US sports betting ads are currently not allowed except for daily fantasy sports, but this situation figures to change in the near future.

Sports betting has traditionally been done in betting shops in the UK, but that is slowly becoming a dated practice for patrons today. More betting is now done through mobile or internet channels, with fewer patrons each year making the effort to go into a bet shop. The ease of online/mobile betting in the UK is far different than the US. Funds for online and mobile betting accounts can be added and withdrawn through normal banking channels with the only requirement to enter a bet shop usually being to set up the account. Bet shops have responded by reorienting their businesses towards fixed odds betting terminals (“FOBT”), which appear somewhat like slot machines, but largely generate revenue on virtual versions of roulette.

These machines have drawn significant scrutiny in recent years, and in May 2018 regulatory changes were announced limiting the maximum bet on these machines to £2, or about \$2.70, down from £100 or \$135. These are expected to drastically change the profitability of FOBTs and in turn, possibly lead to many bet shops being rationalized. With the new bet limits, many shops will become obsolete leading to an expected painful rationalization of the business with perhaps half of the bet shops closing once the regulations take effect in 2020. Currently, it is estimated that most bet shops make about 55% of their net win from FOBTs, 25% from sports betting, and a little under 20% from racing (Figure 5).

**Figure 5: Estimated UK Bet Shop Model**

| United Kingdom - Bet Shop Model (in USD) | | | |
|--|----|-------------|-----|
| Bet Shops (2017) | | 9,000 | |
| Total Sports | \$ | 820,000,000 | |
| Total Racing | \$ | 585,000,000 | |
| Average Shop - Net Win | | | |
| FOBTs | \$ | 200,444 | 56% |
| Sports | \$ | 91,111 | 26% |
| Racing | \$ | 65,000 | 18% |
| Total Net Win | \$ | 356,556 | |

Source: UK Gaming Commission, Company Reports, Union Gaming Analytics

Betting through online and mobile channels has now well surpassed the net win coming through bet shops. We estimate approximately \$2.5 billion of net win for the UK's bookmakers in 2017, which includes all the online offerings of the betting shops and the wins of online-only bookmakers who operate out of other jurisdictions but have acquired a license to offer their services in the UK. According to many reports, "in-play" wagering, bets placed on the outcome of events after a match has started, generates much greater net sports betting revenue for online bookmakers than "pre-game" bets placed before a match begins. This real-time component is more difficult to offer in land-based bet shops and will likely lead to online/mobile betting continuing to expand its lead over land-based revenue from sports in the coming years.

In Figure 6 we detail our estimates of sports betting net win for the UK for 2012 to 2017 based on a variety of sources. The trend shows land-based bet shop net win is about flat for the period while online/mobile has nearly doubled over the period. Mobile betting was nearly zero in 2010 and was under \$100m in 2012 but has since grown to be nearly 40% of the online/mobile "interactive" category in 2017, or approximately \$645m. Based on these trends, mobile betting may surpass land-based win in the next few years. Online betting matched land-based in 2012 and has surpassed it every year since 2013.

Figure 6: UK Sports Betting Estimates – 2012 to 2017

| UK - Sports Betting Estimates (USDm) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Land-Based | \$ 805 | \$ 800 | \$ 795 | \$ 805 | \$ 810 | \$ 820 |
| Online/Mobile | \$ 900 | \$ 1,055 | \$ 1,150 | \$ 1,380 | \$ 1,490 | \$ 1,690 |
| Total | \$ 1,705 | \$ 1,855 | \$ 1,945 | \$ 2,185 | \$ 2,300 | \$ 2,510 |
| Share Land-Based | 47% | 43% | 41% | 37% | 35% | 33% |

Source: UK Gaming Commission, Company Reports, Union Gaming Analytics



Australia

Australia is seen as one of the premier gaming destinations in the world. It is home to one of the highest levels of gambling per capita in the world and has virtually all types of gambling on offer. An estimated 1.5% of the national GDP is spent on gambling in the country, about double the levels seen in the US or the UK. The local market is highly served with “pokies”, machines that are in some ways similar to what’s offered in New Mexico route locations. Pokies are offered in smaller club and hotel settings usually with under 50 machines and are widely found throughout the country except for the state of Western Australia.

The open attitude towards gambling is also found in sports betting. Online sports options began appearing in Australia in the early 1990s, placing it among the first markets targeted in the world due to the popularity of gambling. Bet shops similar to the UK also compete for the business, but without the ability to offer FOBTs they are less profitable and therefore nowhere near as widespread as what is seen in the UK. In fact, with the regulatory changes in the UK limiting bets on FOBTs to under \$3 per outcome, UK bet shops may soon be rationalized down to a level more commensurate with the Aussie market.

In Figure 7 we have our estimates of sports betting net win for Australia from 2012 to 2017 based on a variety of sources. The trend shows land-based bet shop net win was steadily growing until 2015 when it went flat, while online/mobile has more than doubled over the period. Mobile betting statistics are harder to find compared to the UK, but we believe they were almost zero until 2013 and the growth seen in 2014 to 2017 in online/mobile is largely due to mobile betting. Based on these trends, mobile betting is probably equal to or greater than online win. Regulatory changes limiting or banning in-play betting and advertising for sports betting during the games may cause the strong online/mobile trend to slow drastically in the coming years.

Figure 7: Australia Sports Betting Estimates – 2012 to 2017

| Australia - Sports Betting Estimates (USDm) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Land-Based | \$ 155 | \$ 180 | \$ 230 | \$ 275 | \$ 275 | \$ 270 |
| Online/Mobile | \$ 200 | \$ 225 | \$ 300 | \$ 400 | \$ 500 | \$ 650 |
| Total | \$ 355 | \$ 405 | \$ 530 | \$ 675 | \$ 775 | \$ 920 |
| Share Land-Based | 44% | 44% | 43% | 41% | 35% | 29% |

Source: Queensland Treasury, Company Reports, Union Gaming Analytics



Market Demographics in Nevada

Market Size and Participant Estimates

Figure 8 shows the population and income statistics for Nevada and the approximate income allocated by Nevada residents on sports betting. The actual amount spent by state residents is difficult to ascertain due to the large amount of visitation to the state and the large contribution visitors make to the sports betting market. Tourist contribution to sports betting win is more significant around major sporting events such as the Super Bowl and NCAA basketball tournament when Las Vegas sees a surge in high-value customers on casino floors and in the sports books.

We assumed 60% of the state's net win is generated by state residents based on discussions we had with market participants who believe the share varies by operator. They stated a large amount of land-based and mobile bets are placed through three operations that are almost exclusively Las Vegas local-focused: William Hill, Boyd Gaming, and Stations Casinos. The volume of these three operators, who all have robust mobile platforms and many large sports books around Las Vegas, likely tip the balance in favor of more resident than tourist volume.

The local contribution to sports betting outside of major events is important to their viability as year-round operations. As most residents would prefer not to have to go into a large resort casino to make bets, the ability to bet on their mobile devices and make deposits through kiosks in taverns located throughout the state is important and is likely behind the surge in net win in recent years from sports. Now having a local NHL team in Las Vegas and the coming of an NFL team in a few years will likely further drive up local income allocation to sports betting.

Figure 8: Nevada Income Allocation to Sports Betting

| Nevada | |
|---|--------------|
| Population (2017) | 2,998,000 |
| Per Capita Income | \$ 44,626 |
| Total Income (in mm) | \$ 133,789 |
| 2017 Total Sports Win (in mm) | \$ 248.8 |
| Estimated % State Residents | 60% |
| 2017 NV Sports Win (in mm) | \$ 149.3 |
| Income Allocated to Sports Betting | 0.11% |

Source: Census, Bureau of Economic Analysis, NGCB, Union Gaming Analytics



Market Demographics in the UK

Market Size and Income Allocation

Figure 9 shows the population and income statistics for the UK and the approximate income allocated by UK residents on sports betting. While the amount of income allocated to sports betting is lower than Nevada, we believe the wider distribution of gaming in the UK plays a role in this outcome. While gambling is fairly accessible to Nevada residents, it is far more penetrated in the UK. Between local bet shops with FOBTs, bars and arcades with low-stakes gaming machines, numerous bingo halls in every community, over 60 racecourses with competitive betting options and online gambling with full casino offerings, UK residents have far more choices to gamble than Nevada residents. We believe the online casino is a key differentiator as Nevada casinos are limited to poker games only in their online offerings. Further, UK residents can play regulated full casino games on their mobile devices. This wider distribution of gaming likely reduces the casual bets many sports bettors in the US make for “action”, as in the UK the same type of bettor may play for a few minutes on their phone or computer a casino game or a virtual slot machine.

Figure 9: UK Income Allocation to Sports Betting

| United Kingdom - Landbased Sports | | United Kingdom - Total Sports | |
|---|--------------|---|--------------|
| Population (2017) | 65,648,054 | Population (2017) | 65,648,054 |
| Per Capita Income | \$ 43,857 | Per Capita Income | \$ 43,857 |
| Total Income (in mm) | \$ 2,879,127 | Total Income (in mm) | \$ 2,879,127 |
| 2017 Estimated Sports Win (USDmm) | \$ 820.0 | 2017 Estimated Sports Win (USDmm) | \$ 2,510.0 |
| Income Allocated to Sports Betting | 0.03% | Income Allocated to Sports Betting | 0.09% |

Source: UK Office for National Statistics, OECD, UK Gambling Commission, Union Gaming Analytics



Market Demographics in Australia

Market Size and Income Allocation

Figure 10 shows the population and income statistics for Australia and the approximate income allocated by Australian residents on sports betting. Income allocated to sports betting is below Nevada and the UK but has been steadily rising in recent years. The culture of sports is different in Australia as soccer is nowhere near as popular overall, but it is believed to generate the highest sports betting volume in the country, closely followed by the NBA and other basketball betting. The more popular sports in the country such as rugby, cricket, and Australian Rules Football are seen as not as conducive to sports betting but do attract many wagers for big events such as championship matches. While gambling is ingrained in the Aussie culture, regulators and lawmakers have been keen to reduce its popularity somewhat and that has led to more restrictions on online offerings and attempts to ban advertising during live sporting events. The result has been a market that is not quite as robust as what is found in the UK.

Figure 10: Australia Income Allocation to Sports Betting

| Australia - Landbased Sports | | Australia - Total Sports | |
|---|--------------|---|--------------|
| Population (2017) | 24,598,933 | Population (2017) | 24,598,933 |
| Per Capita Income | \$ 49,113 | Per Capita Income | \$ 49,113 |
| Total Income (in mm) | \$ 1,208,127 | Total Income (in mm) | \$ 1,208,127 |
| 2017 Estimated Sports Win (USDmm) | \$ 270.0 | 2017 Estimated Sports Win (USDmm) | \$ 920.0 |
| Income Allocated to Sports Betting | 0.02% | Income Allocated to Sports Betting | 0.08% |

Source: OECD, Queensland Treasury, Company Reports, Union Gaming Analytics

The main obstacle to higher sports betting in Australia is the remaining popularity of race betting. In Figure 11 we show the income allocated to race betting is more than triple the level of sports betting, as betting on races, especially on track, remains a popular pastime. Of the approximately \$2.5 billion bet on races in 2017 in Australia, nearly 60% was bet at either the courses or in land-based bet shops. Unlike the US, betting on racing has been increasing in recent years, with all growth occurring through online/mobile channels. Should the trend of betting on racing turn negative as it has in the US and the UK, we would expect the income allocated to sports betting to increase more in line with UK levels.

Figure 11: Australia Income Allocation to Sports Betting

| Australia - Racing | |
|---|--------------|
| Population (2017) | 24,598,933 |
| Per Capita Income | \$ 49,113 |
| Total Income (in mm) | \$ 1,208,127 |
| 2017 Estimated Racing Win (USDmm) | \$ 2,450.0 |
| Income Allocated to Race Betting | 0.20% |

Source: OECD, Queensland Treasury, Company Reports, Union Gaming Analytics



Sports Betting Market by Activity

Existing Operating Model

Sports books serving a North American clientele, both legal and regulated as seen in Nevada and those operating offshore without regulation, generally follow similar operating models albeit with significant differences for those with land-based betting counters or kiosks.

Most sports books expect to operate with just a 4% to 6% operating margin of wagers placed. Theoretically speaking, a sports book operator offering standard -110 or 10/11 odds (see Appendix) has a theoretical edge of 4.55% of every dollar bet. That advantage varies somewhat based on the game as some bets placed on baseball games can have an advantage of less than 2%, while other parlay wagers and bets with higher house advantage have an expected advantage for the sports book of over 10%.

Land-based regulated sports books have significant cost structures compared to online-only operations. Staffing is a large expense for most sports books due to the nature of betting being last minute, with large crowds often standing in line just before major sporting events. To serve these crowds, large numbers of ticket clerks must be on hand along with numerous line supervisors to oversee the betting and to approve of some bets. Management staff is also a key cost, with managers who oversee customer service issues, managers who oversee the financial aspects of the operation, and managers who oversee the setting and adjustment of lines are all specialized talents, requiring multiple heads in most sports book organizations. Further to the cost is the high option value of space in resort casinos. As sports betting has lower net win and lower margins than other casino departments, a theoretical “rent” is considered by most casino organizations. Most casinos would likely make more money on a space basis if they replaced the sports book with more slot machines or table games. However, smart managers understand sports books are beneficial marketing tools that drive customer traffic to the entire casino floor and vice versa, and sports books have far higher business volumes due to the natural marketing that comes from leading casino customers into the sports book.

Offshore and online sports books have much lower costs structures as they can spread out managerial functions across larger customer bases and most of the lower level staffing needs have slowly been in decline. Offshore sports books used to be mostly phone-based, with patrons calling in their wagers. This created a cost structure more like a land-based operation, but these days very few bets are called in. Most of the staff today are technical and customer service oriented allowing the operations to have low headcounts. This advantage has led to most of the bet shops in the UK and Australia to incentivize patrons to move their activity online. Once online, patrons are more easily marketed other activities with higher margins such as casino games, bingo, and racing. For New Mexico, there is an option to allow mobile betting statewide with no requirement to visit the casino in order to place wagers. This allows for several benefits, such as: reducing lines before games, ensuring they are in a legally allowed location through the use of geofencing, and most importantly, emphasizes the need for customers to visit casinos more often to access the financial aspects of their accounts. This system will only allow cashouts from casinos where the player has an established account, leading to potentially more visits to the casino and occasions where the player has cash winnings in hand possibly leading to more casino play.



Customer Sourcing Models

Sports books are a unique operating model for a gaming offering. They are levered to higher volume and generally operate with low margins. They take on more risk compared to most casinos or other forms of gaming as customers can often win, leading to operators having losing days and even losing months. For this reason, their development has followed a somewhat fortunate path in Nevada as until recent years, virtually all handle on sporting events was bet through a department of a larger casino operation which helped absorb the occasional poor month of results and also provided the largest source of customers often with minimal advertising or marketing needed by the sports book. Even with the advent of the William Hill model in Nevada and the emergence of betting by mobile apps, most customers are still originally sourced through casino locations.

The UK and Australia, among other countries, have followed a much different operating model through their development to today's current market. Due to the widespread legality of sports betting in those countries, sports book operators mostly had their roots in horse race betting and transitioned over time into a focus on sports betting as tastes have changed. The UK and European based sports books had the added benefit of being allowed to offer full online casino options which are extremely profitable once a customer is acquired. Between casino games, online poker, online bingo, fixed odds betting terminals, and horse racing, all with greater operating margins than booking most sporting events, UK and some EU-based sports books have had the benefit of not needing to be highly profitable from their sports betting operations. Their business models have been more focused on acquiring customers, earning their trust, and then offering them ancillary products which now comprise the majority of their profit. Offering sports betting in a sense became a cheaper form of customer acquisition than businesses who started out as an online casino or online poker room, for example.

Since few US-based operators are likely to be afforded the full optionality of a UK bookmaker, the Nevada model is more relevant for consideration in how a new operator can develop and grow a sports business in the post-PAPSA repeal years. In an environment where getting a customer's attention is more difficult and more expensive, having an existing business with some cross-over potential is a key advantage. In New Mexico, it is likely enough of an advantage to make it difficult for a company to enter the market without a partnering business to source customers at a financially feasible level.

Strategic Considerations

Taxation is another tricky issue that will be more complicated in the future as new states begin to allow sports betting. Nevada sports books are taxed at an effective rate of about 10% of net win. Other states are looking to charge a higher net win tax which will make profitability for those operations more difficult. From the small margins afforded by most sports bets, operating costs and marketing are the largest expenses. As we have seen in other types of gaming markets, taxation, and marketing/promotional expense are generally connected expenses. Markets with lower taxes tend to be more promotional, often trying to lure players from neighboring higher tax jurisdictions. Tribal casinos nationwide are among the largest buyers of advertising in the markets they operate in and much of this is believed to come from their cost advantage where they share little of their net win with governments. In markets with very high taxes, marketing and promotional expenses are carefully considered because any new revenues brought in must pass a higher bar considering the taxes that will have to be paid.



Another consideration for New Mexico and any new jurisdiction opening up to sports betting is to recognize that sports books tend to be less active operations and the operators must consider how to modify their business models to generate more revenue from patrons who come to watch/bet on entire games. Casino patrons often come to gamble for a brief period and then leave, maybe having a drink or a meal in the process. Sports bettors will come for hours and some may have little interest in playing in the casino while the games are on. This less active customer is much different from the typical gaming patron; they are more like a bar customer.

Locations offering sports betting may consider whether they want to segregate these customers to certain areas where they can be sold more food and drink at decent margins, while leaving open the casino operation to those who are going to be more active customers and who will likely generate more net profit for the location. We would not be surprised to see some New Mexico operators opening sports book type operations to service and sell to these customers, in turn minimizing the sports betting aspects of their locations in order to remain attractive to the current customer base who prefer to play the slot machines. In some locations, the operator may even choose to direct customers to make their bets through ADW accounts through their phones or online, making only a customer service area necessary to sign up new players and offer cashier services to fund and pay out of accounts. We lastly note the ability to serve customers 18 and older, similar to what's allowed for horse race bettors, which may encourage a segregation of the casino and sports betting areas in all New Mexico casinos.

New/Emerging Developments

A number of new and emerging developments have been seen in recent years which indicate the strong demand for sports betting in the US, while other potential developments provide upside opportunity in the coming years as the regulated market begins to spread over more states.

Daily Fantasy Sports

Daily Fantasy Sports (“DFS”) was the precursor to full sports betting now that PASPA has been repealed. DFS had a short phase of a few years where it saw high market interest and was seen as a viable alternative to full sports betting. In its initial stages in 2012 and 2013, total entry fees for DFS were under \$300 million, with operators holding about 10% of the fees as revenue. In 2014 the industry began to see larger distribution as industry leaders Draft Kings and Fan Duel began rolling the products out to a national audience. The category received a boost from having major credit card issuers allowing deposit transactions to be made showing the importance of the financial system in allowing for industry growth in products such as sports betting.

In 2015, the first set of states began issuing rulings that DFS was gambling and was either outlawed or needed to be licensed. Despite negative setbacks, entry fees reached nearly \$2.5bn and many other operators began entering the space to compete with the two market leaders. During the Fall of 2015, the industry probably reached its peak awareness as the first few weeks of the NFL season saw unprecedented levels of advertising from DFS operators, demonstrating the elevated level of demand for a product that was seen as being a form of “skilled” sports betting by many.

In 2016, the advertising and expansion of the industry reached peak levels with entry fees coming in just over \$3bn. Interest in the product appeared to begin to decline later in the year with more states outlawing its offering and many patrons complaining about how difficult it was to win contests. Since that time entry fees have leveled off at around \$3bn annually as 18 states have approved DFS operations, which has helped give it



key markets on which to build around. Many operators have shut down in the meantime, but since the repeal of PASPA both of the leading companies appear likely to transform themselves into sports betting companies.

E-Sports

E-Sports, a large category of competitive events based on video games, has grown into an over \$1bn market, up from under \$100m in 2012 and \$490m in 2016. This amount is impressive in that much of it is relatively not monetized, just competition between players with no financial value involved. The valued market is mostly from sponsorships and paid content, including major events worldwide where spectators pay to watch top-level competitive teams compete.

The potential for E-Sports as a betting proposition has been talked about for a number of years. Being unpredictable competitions between elite competitors often earning salaries have given it the possibility of having wagering interest. A number of issues have prevented wider betting on events, including a lack of coordination between events/competition, inconsistent televised distribution of the events, and perception issues of the games mostly being competitions between young adults and minors not of full gambling age. As the industry grows and normalizes, and actually embraces the interest and ratings that gambling could provide, it seems likely in a few years betting on these events will become more mainstream. There is already significant betting going on with virtual items between competitors, but this betting is less prevalent among third-party observers.

Sports books have shown interest in taking action on these events and some major events held in large sports arenas have seen betting lines in the UK and with major offshore bookmakers. With new E-Sports arenas in Las Vegas, the major sports leagues setting up virtual “e-leagues” with paid players competing in video game versions of their sports, and other developments which will make E-Sports more recognizable to the general public, it seems only a matter of time before they reach the same level of acceptance as betting on any regular sporting contest.

Interactive Betting

Betting through more convenient channels such as with one’s remote at home on their television has long been touted as the future of gambling. The level of penetration of “smart” TVs and smartphones has been growing and leads many to believe this next step is only a few years away. The ability to bet with a remote on a TV has been available for over a decade in the UK, New Zealand, and a few other countries.

It has not made a major dent in the sports betting market as it’s seen as less convenient than just opening a laptop or a smartphone. When a gambler with an established account is watching a game, his TV could suggest a bet on the outcome of the final two minutes of a game for example. Interactivity will be the key, the betting operator will have to know its customer and his likes/interests well before this will be a major category of betting. Bettors currently search out bets of their choosing, when artificial intelligence reaches a higher level, bettors may make more wagers suggested to them than those they search out.

Virtual Sports

Another area which may be of greater current interest to New Mexico and other newly opened states to sports betting are virtual sports events. These events are made to look like realistic video footage of sporting events but are randomly generated events on which patrons can place bets on, similar to a regular sporting event. Horse racing is another popular application of this product, but designers/distributors of content are highly focused on expanding their offerings into all major sports. Part of their appeal for sports events is they tend to



have condensed “highlights” versions where instead of a real game taking 2-3 hours to complete, a virtual game is completed and dispensed every 5 to 10 minutes. These events have begun to see distribution in Nevada, the UK and in European markets in bet shops and sports books, and major online sports books have been offering them for years to customers eager to always have something to bet on.

The greatest appeal of this product is that it can be offered during off hours, say in the morning on a day when all sports action is to be played in the evening. Current offerings have some celebrity endorsers, but the content is all fictional including the teams and players competing in the virtual events. There is the possibility with the changes in sports betting and the sports leagues interest in generating revenue from their content that real players and real data could be integrated into the offerings by license with the leagues. For example, in the hours before a Monday Night Football game a virtual matchup could be played every hour and distributed state-wide for bettors to wager on with the same teams and same betting line as the game to be played that night, but with event to event randomness ensuring no two games are the same.



New Mexico Market Strengths and Weaknesses for Sports Betting

Strengths

Infrastructure in Place

New Mexico benefits from the existing casino infrastructure it has in place. With potentially over 30 locations already operating casinos and having the systems, cash handling/security, and existing relationships with gaming patrons having ADW accounts, adding in sports betting should be a fairly easier process than in most other states. Additionally, New Mexico tribal casinos and racinos are well distributed throughout the state. Gamblers throughout New Mexico already know where they can go to gamble; once they know sports betting is available, they will likely continue going to the same places they are familiar with.

Potential for Cross-border Play

Casinos such as those at Sunland Park and Zia Park already attract casino play from Texas residents and we believe other locations throughout the state will have success in drawing sports betting action from non-New Mexico residents. The likelihood of sports betting being approved in Texas and Arizona appears fairly low at this time, and Colorado will require a process that could take four or more years to approve. We believe residents of all these states could be highly interested in betting on sports and options which require them to just be within state borders will make it possible for them to participate more easily. While we believe outside of the potential to draw money from the El Paso market this may be a fairly minimal contribution, it can provide an attractive amenity bringing in more casino visitors during major sporting events and other busy periods knowing they can bet on sporting events in state sanctioned sports books.

Favorable Business Model for Locations

Requiring recurring visits to casino locations to open accounts, fund accounts, and cash out winnings will provide a traffic boost to current locations which offer gaming in New Mexico. While many patrons will make a quick stop to place bets or to collect their winnings, a few will likely linger in the location and may play on gaming machines that will ultimately drive up play volumes. Additionally, the offering of machines may be welcomed by those betting on sporting events as a diversion at the start and during the game breaks. This may lead to more regular visits by patrons who also enjoy watching and betting on sports. And maybe most importantly, when players win, they are paid out in cash, and with cash in hand, patrons are more likely to play in the casino.

High Income Allocation to Gaming

New Mexicans already allocate a relatively high percentage of their incomes to gambling (Figure 12), with our estimates showing an income allocation level of 1.68% for slots at racetracks and in tribal casinos. To reach our estimates of New Mexican gaming spend, we took the amount spent at racetrack and tribal casinos and removed much of the estimated revenue at Sunland Park and Zia Park as we believe both mostly draw Texas resident spend. We then also assumed a small percentage of the rest of the locations in the state also see some out of state resident spending on their casino floors and removed that to come to our estimate of what is spent just by New Mexico residents at New Mexico casino locations. Most states with casinos see income



allocation for all types of non-lottery gambling at 0.3% to 0.7% so New Mexico residents appear to gamble at levels well above average.

Figure 12: New Mexico Income Allocation to Gambling

| New Mexico | |
|--|--------------|
| Population (2017) | 2,087,540 |
| Per Capita Income | \$ 20,767 |
| Total Income (in mm) | \$ 43,352 |
| FY17 Estimated New Mexican Resident Gaming | \$ 727.5 |
| Income Allocated to Video Gambling | 1.68% |

Source: Census, New Mexico Gaming Control Board, Union Gaming Analytics

The one market outside of New Mexico we contemplate in our model is El Paso County, TX. With only two nearby casinos and a population that lives close to the two gaming operations in the area, we were able to estimate income allocation to gaming in this one market as well and found that while the allocation level is slightly lower than New Mexico's as a whole, at 1.22%, county residents are still gambling well above levels seen in most US gaming markets (Figure 13).

Figure 13: El Paso County Income Allocation to Gambling

| El Paso County (Texas) | |
|---|--------------|
| Population (2017) | 843,283 |
| Per Capita Income | \$ 19,414 |
| Total Income (in mm) | \$ 16,371 |
| FY17 Video Gambling Revenue | \$ 199.4 |
| Income Allocated to Video Gambling | 1.22% |

Source: Census, New Mexico Gaming Control Board, Union Gaming Analytics

Sports betting is likely to increase visitation to gambling outlets, and patrons are likely to increase their income allocation for sports bets since they are a much different activity than what is currently offered. Knowing that residents are already highly interested in gambling and willing to spend more than residents of most states is a positive sign that sports betting will be well received in the state.

Weaknesses

Smaller Population

Sports betting requires as large of a market as possible to limit the potential risks from volatility. Unless federal laws are changed in the future, New Mexico will be unable to share in the liquidity of other states and it will make the market more difficult to develop. Operators of sports betting may limit bets on many events, or not offer them at all, out of concerns that many events will only get the interest of "smarter" bettors and lead to unprofitable offerings. The modest population of just over 2m residents and the large size of the state also make marketing to a wider audience costlier than it may be able to generate in profit for operators. For an activity such as sports betting, wider marketing is likely necessary because growth needs to come from what are likely casual gamers or non-participants currently. While we believe sports bettors probably enjoy other forms of gambling, they may have tired of the offerings of video gambling and their limited product offerings.



Engaging these potential patrons and convincing them to come into a licensed facility will take some wider marketing efforts than just targeting existing patrons.

Distributed Market

Related to the issue of lower population, with the exception of the few concentrated areas of population in the state, casino operators may see further liquidity issues develop if each operator attempts to offer sports betting independently of each other. While competition is good to a degree; too much competition will likely lead to not enough liquidity for many offerings and not enough profits to make the business model work for others. Having a choice of three or four operators is likely good in fully developing the potential market but seeing much more may actually lead to issues from being too widely distributed. These issues could include operators over-incentivizing patrons to gain market share. While these eventually can be sorted out, they can delay the full development of the marketplace and lead to reduced revenues, profits, and taxes for a number of years after startup.



New Mexico Gaming Market with Sports Betting

As the potential operating model and regulations for New Mexico vary, projections for revenues and market size depend to a great degree on what business model regulators allow. The requirement of in-person betting common in the past would have severely limited the market, but with the emergence of mobile betting and online betting options much higher levels of betting are occurring with more frequent activity in those markets which offer more distribution channels. We firmly believe bettors would rather place wagers through regulated outlets and receive the protections regulations insure, but the lack of full distribution options would sway some to keep offshore accounts for the times when a bettor cannot easily place a bet otherwise.

Assumed Model and Regulations

- Existing age requirements in place remain, 18 or older to place wagers on sports in racetracks, with some casino locations potentially requiring patrons to be 21 due to the presence of alcohol
- Mostly account-based betting facilitated through the betting apps and online accounts, but the ability of locations to sell betting tickets to patrons should they choose at betting windows or through kiosks
- Online or external mobile betting allowed, but all bets must be placed within the state of New Mexico's borders as confirmed by geo-fencing programs
- No credit will be extended to patrons to make wagers
- In-play wagers allowed with minimal regulatory restrictions
- All sporting events, college and professional, to be offered with the potential exception of college sporting events involving New Mexico schools or taking place in New Mexico (although we would not suggest this be done)
- Betting and account information allowed to be shown online or on mobile phones when outside of New Mexico, but bets must be placed within state borders
- Due to low margins, promotional activity around sports bets expected to be commercially limited, but anticipate no restrictions coming from gaming regulators

Potential tax revenue for the State from sports betting

To calculate the potential tax revenue to the State of New Mexico, we make an assumption for what the tax rate could be on net win and propose a reasonable rate of 10%. Nevada charges 6.75% base gaming tax rate so our 10% assumption is higher than Nevada, but still reasonably allows for operators to generate a profit. We assume 15% is the highest rate which can reasonably be levied and provide that projection as the highest amount the state could hope to generate legalizing sports betting. Rates higher than that would likely lead some potential operators to pass on offering sports betting as the taxes would be too high to profitably offer the amenity to their patrons.



Projected Sports Betting Revenue

Our projections for the New Mexico sports betting market are predicated on two likely scenarios based on the availability of sports betting in the state. Both scenarios assume in-person betting is only allowed onsite at a casino or racetrack in the state, with no internet-based betting allowed. The base scenario assumes that mobile betting is allowed, but geofencing is put in place limiting activity to those who are physically present within casino or racetrack property lines. The moderate scenario assumes a more expansive mobile betting model, where geofencing is expanded to allow bets to be placed on a mobile app anywhere in the state of New Mexico. The results of our analysis have been tailored for these two scenarios.

Nevada has long shunned betting through internet channels due to concerns about violating the Wire Act. As the internet uses wiring worldwide to send its “traffic”, a bet placed a block away from the casino server could actually see the internet activity around that transaction be sent to another state or country before it arrives at its intended destination. With the repeal of PASPA, most states have taken the position that sending such activity outside of state lines would not violate the Wire Act since sports betting is no longer a banned activity.

Mobile apps are clearly showing the strongest growth rates wherever in the world they are offered and it seems likely they will eventually comprise the majority of the betting activity in the future. Some states have decided they do not want the convenience of a mobile app as it might encourage betting, while others have ruled they can be used but only on licensed casino properties. These decisions seem largely commercial in nature, to help ensure greater visitation to the existing casino operations and perhaps some bit of control to prevent problem gaming concerns. However they come into place, they act as a deterrent to placing bets and we would expect the results to yield lower sports betting revenue.

The most restrictive outcome would be if sports betting was only allowed on casino sites and in-person at sports books or other approved betting counters, or on betting kiosks which have proliferated for years in Nevada and the UK. These restrictions are also somewhat for commercial benefit, but also come from the view that the regulator must maintain complete control to insure no bets are placed from outside the state's borders and that minors and problem gamblers are definitely restricted from making bets. So far this view has been applied to Delaware and could be implemented in other states. There have been opinions which backed this concept stating that the industry is new and the regulators and participants are going to be learning the process for some time, so until it's a more mature industry the most restrictive regulations should be maintained.



New Mexico Market Revenue Projections – Base Case Scenario

In Figure 14 we calculate an estimate of how many New Mexicans are likely to participate in sports betting in video gambling establishments. To estimate participation rate, we considered survey data from other international markets. Australia shows a “regular” 3.3% participation rate with a full variety of distribution options. Data for the UK indicates nearly 7% of the respondents to surveys regularly bet on sports, a result that is not surprising considering the amount of advertising and amount of betting options for UK residents. We don’t expect New Mexico to see the level of promotion for sports betting as seen in the UK so we would expect participation rates to be more muted.

To help form our projections, we broke our projected participant count into two categories, “regulars” and “occasional” participants and projected their spending patterns differently. “Occasional” participants captures patrons who may make bets only on big sporting events or may make infrequent bets when the mood strikes them. In the occasional group we also capture the activity of the many patrons who might only make a few bets a year, but as with most gambling activity the most frequent customers are going to generate 60% of the revenue while the wider public consists of much larger numbers of participants generating a smaller portion of the total revenue.

Figure 14: Projected Sports Betting Participants - New Mexico

| Sports Betting Participation - Base Scenario | |
|---|----------------|
| New Mexico Population (2020) | 2,095,984 |
| Approximate % 18+ | 76.6% |
| Potential Participants | 1,605,524 |
| Projected Participation % "Regulars" | 2.0% |
| Projected Participation % "Occasional" | 8.0% |
| Projected Sports Betting Participants | 160,552 |

Source: Census, Union Gaming Analytics

We also projected participation for El Paso County residents but assumed much lower participation levels due to the need to drive into New Mexico to do any transactions with their accounts and to place their bets (Figure 15). We believe for those who live on the eastern side of El Paso or further away, the distance to New Mexico will deter regular participation. These patrons may, however, go to a New Mexico casino occasionally and enjoy the sports book and casino amenities, and their contributions are captured in the “occasional” category. While their numbers are much smaller than New Mexico residents, we note the large population of El Paso County. At nearly half the population as the entire state of New Mexico, El Paso County residents represent a material share of the total projected market.


Figure 15: Projected Sports Betting Participants – El Paso County

| Sports Betting Participation - Base Scenario | |
|---|---------------|
| El Paso County Population (2020) | 846,694 |
| Approximate % 18+ | 72.5% |
| Potential Participants | 613,853 |
| Projected Participation % "Regulars" | 1.5% |
| Projected Participation % "Occasional" | 6.0% |
| Projected Sports Betting Participants | 46,039 |

Source: Census, Union Gaming Analytics

In Figure 16 we made assumptions on how many bets a month projected “regular” participants will make and how much their bets will average. Recent data indicates average bet size through mobile betting in Nevada (a proxy for locals betting) is \$45, which we inflated to \$65 to reflect expected 2020 levels and a higher bet size for regulars as compared to the average bettor. Lastly, we project 5% hold for operators, in line with what is seen in Nevada and just slightly above the theoretical 4.55% for most straight bets. Our projection for 11.3 bets per month is a blended average amount reflecting our expectation that regulars in New Mexico will bet more often than regulars in El Paso County.

Figure 16: Sports Betting Spend – Total Market Base Scenario

| Sports Betting Spend - Regulars | |
|--|-------------------|
| Participants | 41,318 |
| Avg Number of Bets Per Month | 11.3 |
| Avg Bet Size | \$ 65 |
| Projected Hold for Operators | 5.0% |
| Projected Revenue for Operators | 18,259,639 |

Source: Union Gaming Analytics

In Figure 17 we do similar math for occasional patrons. We expect few bets on average from this larger group, people who likely are primarily casino patrons but could be attracted to visit for big sporting events. This group may even prove to be a higher percentage of New Mexico adults but bet less frequently. We also note these estimates are also blended as they reflect the rest of the population as a whole excluding the regulars. It is likely that more than 165,273 people will bet and they probably will make more than 2 bets during February when the Super Bowl is played, but far fewer participants will be active in July so our estimates are a reflection of average numbers over the course of a year.


Figure 17: Sports Betting Spend – Total Market Base Scenario

| Sports Betting Spend - Occasional | |
|--|------------------|
| Participants | 165,273 |
| Avg Number of Bets Per Month | 2 |
| Avg Bet Size | \$ 50 |
| Projected Hold for Operators | 5.0% |
| Projected Revenue for Operators | 9,916,385 |

Source: Union Gaming Analytics

In Figure 18 we estimate future income allocation to sports betting. We use 2020 projections, which we assume to be the first fully ramped year. We find that with our projection of \$22.7m for sports betting spend in the proposed operational model in New Mexico that New Mexicans would spend 0.05% of their income. This is less than half the income allocation currently spent in Nevada by local patrons due to the requirement that patrons visit a casino location to place their wagers, a major inconvenience which will suppress betting volumes during weekdays and slower periods without any marquee events to drive visitation to the casino sports book.

Figure 18: Projected Sports Betting Income Allocation – New Mexico

| Base Scenario | |
|---|---------------|
| Population (2020) | 2,095,984 |
| Per Capita Income | \$ 22,038 |
| Total Income (in mm) | \$ 46,192 |
| Projected Sports Betting Spend | \$ 22,734,216 |
| Income Allocated to Sports Betting | 0.05% |

Source: Union Gaming Analytics

We also assume at lower capture rates New Mexico sports betting offerings will be popular with El Paso county residents (Figure 19). While other areas of Texas and neighboring states may also provide some small contribution to New Mexico sports betting revenues, we assume they will be relatively small and include them in our projections at sports book operations found at the state's casinos in the next section. Because El Paso County residents will have to travel to New Mexico casinos to sign up for accounts, make financial transactions for those accounts and to be able to place wagers, we believe the capture rate of these patrons will be at lower rates than for New Mexico residents as noted in our projection of income allocation at just 0.03% compared to 0.05% for New Mexico residents.


Figure 19: Projected Sports Betting Income Allocation – El Paso County

| Base Scenario | |
|---|--------------|
| Population (2020) | 846,694 |
| Per Capita Income | \$ 20,602 |
| Total Income (in mm) | \$ 17,444 |
| Projected Sports Betting Spend | \$ 5,441,808 |
| Income Allocated to Sports Betting | 0.03% |

Source: Union Gaming Analytics

Sports book generated business – out of state residents

Our last piece of projected revenue is fairly theoretical and could develop much differently than we are projecting based on how much investment New Mexico casinos put into sports book construction and operation, and how many casinos embrace the sports book model. We believe 2-4% of New Mexico casino's patrons currently are out of state residents (except for Sunland Park, Zia Park and Ruidoso Downs which all attract many Texas residents), but if casinos begin to offer sports betting that share may increase somewhat as that additional amenity could drive increased visitation.

In Figure 20 we assume 20 casinos will embrace the sports book model in the base scenario and attract on average 200 customers a day. Of those customers, we estimate 5% will be on average out of state residents. As sports books are low margin businesses, we assume just a \$30 net spend (assumes \$600 in bets placed) by those out-of-state residents on sports betting and from that we believe New Mexico casinos can generate an additional \$2.2m of sports betting revenue. We note this excludes the contribution of El Paso County residents as they are accounted for separately and also note that the small amount of revenue generated from these customers is typical for most casino businesses that have sports books. Sports betting revenue will always be a small share of the total gaming revenue, as crossover business into slots and tables will always attract more spending from patrons, even those who are drawn by the option to bet on sports.

Figure 20: Sports betting revenue from out-of-state visitors

| Sports Book Business - Base Scenario | |
|---|---------------------|
| Casinos | 20 |
| Daily Customers Per Location | 200 |
| % non-New Mexico Residents | 5% |
| Spend Per Day | \$ 30 |
| Estimated Sports Book Rev Non-NM Residents | \$ 2,190,000 |

Source: Union Gaming Analytics



Total Revenue for New Mexico sports books

Putting the pieces together, in the base scenario we project the state's casinos will generate \$30.4m in sports betting revenue once the market is fully developed (Figure 21). The market will likely take years to fully ramp as large amounts of systems and technology need to be put in place, customers need to be made aware of the offerings, and casinos will need to build out and integrate sports books and sports betting into their offerings.

Figure 21: Total New Mexico Sports Betting Revenue by Source

| Total Market - Base Scenario | |
|---|-------------------|
| Revenue from Regulars | \$ 18,259,639 |
| Revenue from Occasional Patrons | \$ 9,916,385 |
| Revenue from Out of State Residents at Sports Books | \$ 2,190,000 |
| Projected Sports Betting Spend | 30,366,025 |

Source: Union Gaming Analytics



Crossover and F&B Business Increase

We assume there will be some additional crossover business for casino operators from the presence of sports betting kiosks. Part of our assumptions built into our view on crossover business is that offshore sports books and illegal bookmakers already exist, and we think those who are more serious sports bettors are probably already patronizing them. The less serious bettors are the target market for New Mexico's sports betting rollout, most who won't go to such efforts to place a bet but may do so if it's legally offered by a nearby business or more conveniently through their phone or computer. This type of player likely already gambles at times in casinos, so they should be familiar with the businesses already. We only project for these regulars each month to make 11 modest wagers of \$65, with a likely loss (net win to the operator) of under one wager a month, so they are far from serious sports bettors. We assume this person also makes occasional visits to the casino and has a modest gaming budget. As mentioned, this is likely not a serious gambler on casino games or for sports with average casino spend of \$65 per casino visit.

The key detail is how many times will this patron now come in since he won a bet and wants to collect his winnings? We assume the bettor, in his activity to place sports bets and collect his winnings, makes one additional trip to the casino every other month spending his same \$65 average visit spend. The overall impact of every "regular" doing this would yield an incremental 6.0% in casino revenues statewide (Figure 22).

Figure 22: Uplift to New Mexico casino revenue from "regular" customers

| Incremental Casino Win - Regular | |
|-------------------------------------|---------------|
| Extra Visits Per Month | 0.5 |
| Spend per Visit | \$ 65 |
| "Regulars" | 41,318 |
| Incremental Casino Visits Per Month | 20,659 |
| Spend per Month | \$ 1,342,844 |
| Spend per Year | \$ 16,114,126 |

Source: Union Gaming Analytics

We also project an uplift from occasional bettors, which is a much larger subset of participants. However, our belief that many will place bets while they are making their normal number of visits to the casino will lead to fewer incremental visits per patron (Figure 23), with our assumption that occasional bettors will visit just two more times each year as a result of having the ability to bet on sports. The larger number of occasional bettors lead to a slightly more incremental casino visits in total and we assume the same \$65 per visit spend.


Figure 23: Uplift to New Mexico casino revenue from “occasional” customers

| Incremental Casino Win - Occasional | |
|--|---------------|
| Extra Visits Per Month | 0.2 |
| Spend per Visit | \$ 65 |
| "Occasional" | 165,273 |
| Incremental Casino Visits Per Month | 27,546 |
| Spend per Month | \$ 1,790,458 |
| Spend per Year | \$ 21,485,502 |

Source: Union Gaming Analytics

In total, we expect about a 5% uplift to statewide casino revenues driven by additional visits made by sports betting patrons (Figure 24). While modest in uplift, we note the increased casino spend is higher than the net win for operators from sports betting.

Figure 24: Uplift to New Mexico casino revenue from all regular and occasional customers

| Incremental Casino Win - Base Scenario | |
|---|----------------|
| Extra Visits Per Month | 48,205 |
| Spend per Visit | \$ 65 |
| Spend per Year | \$ 37,599,628 |
| FY17 Estimated New Mexican Resident Gaming | \$ 727,490,000 |
| Projected % Uplift | 5.2% |

Source: Union Gaming Analytics

We also anticipate that sports books will provide an uplift to casinos' food and beverage business as sports betting patrons tend to have much longer stays compared to slots customers due to the length of games and their interest in watching multiple games when they visit. Sports books in other jurisdictions used to cater to these patrons with free drinks and complimentary offerings, but over time due to the lower margins and the higher value of non-gaming amenities, these patrons now are mostly required to purchase their beverages and meals. As a result, the revenues in Figure 25 should generate incremental profit for the casinos as they will be utilizing existing bar and restaurant offerings and should mostly not be receiving comps for their sports betting action.


Figure 25: Uplift to New Mexico F&B Revenue

| Incremental F&B Spend | |
|---|---------------------|
| Extra Visits Per Month | 48,205 |
| % of Visits with Food Purchase | 20% |
| Per Cover Spend | \$ 12 |
| Incremental Food Spending/Month | \$ 115,691 |
| Incremental Food Spending/Year | \$ 1,388,294 |
| % of Visits with Beverage Purchase | 50% |
| Per Cover Spend | \$ 6 |
| Incremental Food Spending/Month | \$ 144,614 |
| Incremental Food Spending/Year | \$ 1,735,367 |
| Incremental F&B Revenue/Year | \$ 3,123,661 |

Source: Union Gaming Analytics

We conservatively project casinos in New Mexico will see a total of \$71.1m in incremental revenues from all potential sources driven by increased visitation (Figure 26). This visitation is expected to come due to sports betting's ability to attract different segments of each casino's target market, many of whom may not be regularly visiting due to their lack of interest in current casino or racetrack offerings. We believe this revenue is almost all incremental with virtually all of the spending not cannibalizing existing casino spending by patrons as we believe sports betting is fundamentally a different form of entertainment and patrons who choose to participate will be spending funds that would have gone to other forms of leisure and entertainment.

We note we don't anticipate a material increase to other forms of revenues for New Mexico casinos such as horse racing handle or entertainment revenues. We believe there may be some slight increases to each of these revenue lines for locations who offer them, but they are too small to attempt projections. Our view is that sports betting customers are incremental visitors to a casino who are already betting on the races if they have an interested so we expect very minimal incremental crossover. For entertainment events, we don't expect casinos to give comp tickets to sports bettors due to the low margins on their bets, so they are unlikely to attend more shows just from coming to the casino property more often. Additionally, we would expect sports bettors to help fill hotel rooms and drive room rates higher during major sporting events at any casino with an attached or associated hotel, but an analysis of uplift in hotel revenue is beyond the scope of this report.

**Figure 26: Total Uplift to New Mexico Casino Revenue**

| Total Crossover and Incremental - Base Scenario | |
|--|----------------------|
| Revenue from Sports Betting | \$ 30,366,025 |
| Revenue from Incremental Casino Visits | \$ 37,599,628 |
| Revenue from Incremental F&B | \$ 3,123,661 |
| Projected Revenue Increase by Adding Sports Betting | \$ 71,089,314 |

Source: Union Gaming Analytics

The state will also benefit from the implementation of sports betting even in this base scenario from a tax revenue standpoint, an amount we estimate at \$8.0m (Figure 27). We used our projected revenues to estimate the benefit to New Mexico's government from the incremental revenues. We used a sports betting tax rate of 10%, a blended gaming tax rate of 13% (based on 75% of gaming revenues being tribal at a revenue share rate of 8.7% and 25% gaming revenue at racetracks at a gaming tax rate of 25%) and assumed a 5% state sales tax rate on the incremental F&B sales. In our economic impact section later in this report we'll illustrate other ways the state can benefit from approving sports betting that will drive more tax revenues, mostly from increased economic activity and from additional income taxes from new jobs being created.

Figure 27: Uplift to State of New Mexico Tax Revenue

| State Tax Impact | |
|---|---------------------|
| Sports Betting Tax - @10% | \$ 3,036,602 |
| Casino Revenue Tax - @13% | \$ 4,887,952 |
| Revenue from Incremental F&B | \$ 156,183 |
| Projected State Tax Increase From Sports Betting | \$ 8,080,737 |

Source: Union Gaming Analytics

Lastly, we see incremental benefit to the New Mexico horseracing industry through increased purse supports. The racing industry will see increased purses from higher casino revenues and possibly could receive a portion of the sports betting tax as well, either a couple of percent taken out of the state's share or a few percent could be added on to the 10% rate to support racing in the state.

In Figure 28 we assume 25% of the casino revenue uplift is generated by the state's racetrack casinos and those revenues are subject to the existing 19% share of gaming revenues that are paid into racing purses. While just a modest \$1.8m will be added to horse racing purses in the base case scenario, this represents an additional 4% in racing purses based on FY18 purse support amounts coming from the state's five racetracks. Additionally, while we don't expect much crossover revenue increases to racing handle from sports bettors visiting casinos, inevitably there will be some modest benefit to horse racing in the state if the racetracks which host and support the sport in New Mexico see more foot traffic and higher total revenues.

**Figure 28: Uplift to New Mexico Racing Purses**

| Impact on Racing Purses | |
|---|---------------------|
| Revenue from Incremental Casino Visits | \$ 37,599,628 |
| Share of Revenue at Racetrack Casinos | 25% |
| Revenue Share Paid into Purses | 19% |
| Projected Increase Purse Support From Sports Betting | \$ 1,785,982 |

Source: Union Gaming Analytics



New Mexico Market Revenue Projections – Expanded Case Scenario

Similar to our base case we projected out how many regulars and occasional players New Mexico casinos could attract from New Mexico residents in Figure 29. We expect a higher share in each category in the expanded scenario as patrons will react positively to the ability to use their mobile devices to make bets without having to drive to a casino. We believe the increase will be somewhat modest from our base scenario as those who really want to place bets probably already are with offshore accounts or through bookmakers and they likely will not switch over all their activity to regulated sports books operated by casinos.

Figure 29: Projected Sports Betting Participants - New Mexico

| Sports Betting Participation - Expanded Scenario | |
|---|----------------|
| Population (2020) | 2,095,984 |
| Approximate % 18+ | 76.6% |
| Potential Participants | 1,605,524 |
| Projected Participation % "Regulars" | 3.0% |
| Projected Participation % "Occasional" | 15.0% |
| Projected Sports Betting Participants | 288,994 |

Source: Census, Union Gaming Analytics

We also projected participation for El Paso County residents but assumed the change from the base case would be even less significant than for New Mexico residents as the location of the state borders relative to Sunland Park would lead them to just visit the track instead of driving across the border and then placing bets there (Figure 30). Where the increase may occur for El Paso residents is when they travel to other casinos in New Mexico during vacation or business trips and take advantage of the convenience of mobile device betting.

Figure 30: Projected Sports Betting Participants – El Paso County

| Sports Betting Participation | |
|--|---------------|
| Population (2020) | 846,694 |
| Approximate % 18+ | 72.5% |
| Potential Participants | 613,853 |
| Projected Participation % "Regulars" | 1.8% |
| Projected Participation % "Occasional" | 8.0% |
| Projected Sports Betting Participants | 60,158 |

Source: Census, Union Gaming Analytics

In Figure 31 our assumptions projected “regular” bets increase from the base case with a slight drop in average bet size. With the convenience of betting on mobile devices from anywhere in the state, bet counts are



almost certain to increase as patrons will not have to make a trip to the casino to make their bets. This ease of placing bets also increases the number of participants who become “regulars”.

Figure 31: Sports Betting Spend – Total Market Expanded Scenario

| Sports Betting Spend - Regulars | |
|--|-------------------|
| Participants | 59,215 |
| Avg Number of Bets Per Month | 18.1 |
| Avg Bet Size | \$ 60 |
| Projected Hold for Operators | 5.0% |
| Projected Revenue for Operators | 38,657,081 |

Source: Union Gaming Analytics

In Figure 32 we do similar math for occasional patrons. Once again, we expect more bets per month and far more patrons to occasionally play due to the ability to place bets away from the casino. The bet size for occasional players goes down further as we expect occasional players to make more frequent small bets for entertainment driven by the calendar of big sporting events.

Figure 32: Sports Betting Spend – Total Market Base Scenario

| Sports Betting Spend - Occasional | |
|--|-------------------|
| Participants | 289,937 |
| Avg Number of Bets Per Month | 2.8 |
| Avg Bet Size | \$ 40 |
| Projected Hold for Operators | 5.0% |
| Projected Revenue for Operators | 19,696,853 |

Source: Union Gaming Analytics

In Figure 33 we calculate income allocation for New Mexico residents in the expanded scenario at 0.11%, which is in line with current levels seen in Nevada. As the expanded model is very similar to the model approved in Nevada with accounts being signed up in casinos, but bets allowed to be placed on mobile apps from anywhere in the state, we believe this projection seems in line with a reasonable expectation for the New Mexico market.

**Figure 33: Projected Sports Betting Income Allocation – New Mexico**

| Expanded Scenario | |
|---|---------------|
| Population (2020) | 2,095,984 |
| Per Capita Income | \$ 22,038 |
| Total Income (in mm) | \$ 46,192 |
| Projected Sports Betting - New Mexico | \$ 52,018,969 |
| Income Allocated to Sports Betting | 0.11% |

Source: Union Gaming Analytics

We expect income allocation from El Paso County residents will only slightly tick up in the expanded scenario (Figure 34). The requirement of driving into New Mexico to place bets will discourage many potential bettors, with those who choose to participate nearly as likely to go into a casino location as placing bets on mobile devices. As mentioned earlier, we believe having mobile betting statewide in New Mexico will mostly be utilized when visiting New Mexico during overnight trips.

Figure 34: Projected Sports Betting Income Allocation – El Paso County

| Expanded Scenario | |
|---|--------------|
| Population (2020) | 846,694 |
| Per Capita Income | \$ 20,602 |
| Total Income (in mm) | \$ 17,444 |
| Projected Sports Betting Spend | \$ 6,334,965 |
| Income Allocated to Sports Betting | 0.04% |

Source: Union Gaming Analytics

Sports book generated business – out of state residents

In Figure 35 we assume 25 casinos will embrace the sports book model in the expanded scenario as we expect the ability to serve customers outside of the casino will make opening a sports book more attractive to smaller locations with a smaller local population to serve, therefore our expectation that 5 additional casinos decide to open a sports book. Due to the ability to place bets on mobile devices and a few more casinos offering sports books, we expect slightly fewer customers on average, at 175 customers a day. Due to more casinos and the ability of local residents to place bets away from the casino, we estimate 7% of visitors will be out of state residents, up from 5% in the base scenario. With more locations, we lowered expected spend by out of state residents to \$25 per day, but with more locations and a higher share of out of state residents, we expect sports books to be able to generate \$2.8m from non-New Mexico residents, up from \$2.2m in the base case.

**Figure 35: Sports betting revenue from out-of-state visitors**

| Sports Book Business - Expanded Scenario | | |
|---|-----------|------------------|
| Casinos | | 25 |
| Daily Customers Per Location | | 175 |
| % non-New Mexico Residents | | 7% |
| Spend Per Day | \$ | 25 |
| Estimated Sports Book Rev Non-NM Residents | \$ | 2,794,531 |

Source: Union Gaming Analytics

Total Revenue for New Mexico sports books

Putting the pieces together, in the expanded scenario we project the state's casinos will generate \$130.2m in sports betting revenue once the market is fully developed (Figure 36). This represents slightly more than a 100% increase in sports betting revenue compared to the more limited base scenario. A similar growth trend occurred in Nevada since the addition of mobile device betting statewide (Figure 3).

Figure 36: Total New Mexico Sports Betting Revenue by Source

| Total Market - Expanded Scenario | | |
|---|----|-------------------|
| Revenue from Regulars | \$ | 38,657,081 |
| Revenue from Occasional Patrons | \$ | 19,696,853 |
| Revenue from Out of State Residents at Sports Books | \$ | 2,794,531 |
| Projected Sports Betting Spend | | 61,148,465 |

Source: Union Gaming Analytics



Crossover and F&B Business Increase

Despite higher revenue from sports betting and higher participation rates, we project the uplift in casino revenue to only be slightly more than \$1m more (Figure 37). With the addition of mobile betting, we reduced the rate of incremental visits to the casino as we would expect for some to make most of their bets on the mobile app and lead to fewer additional stops into the casino.

Figure 37: Uplift to New Mexico casino revenue from all regular and occasional customers

| Incremental Casino Win - Expanded Scenario | |
|--|----------------|
| Extra Visits Per Month | 49,834 |
| Spend per Visit | \$ 65 |
| Revenue Per Year | \$ 38,870,264 |
| FY17 Estimated New Mexican Resident Gaming | \$ 727,490,000 |
| Projected % Uplift | 5.3% |

Source: Union Gaming Analytics

As a result of our projection for just a modest increase in extra visits compared to the base case, F&B revenue will also be up just slightly (Figure 38) in the expanded case.

Figure 38: Uplift to New Mexico F&B Revenue

| Incremental F&B Spend | |
|---|---------------------|
| Extra Visits Per Month | 49,834 |
| % of Visits with Food Purchase | 20% |
| Per Cover Spend | \$ 12.00 |
| Incremental Food Spending/Month | \$ 119,601 |
| Incremental Food Spending/Year | \$ 1,435,210 |
| % of Visits with Beverage Purchase | 50% |
| Per Cover Spend | \$ 6.00 |
| Incremental Food Spending/Month | \$ 149,501 |
| Incremental Food Spending/Year | \$ 1,794,012 |
| Incremental F&B Revenue/Year | \$ 3,229,222 |

Source: Union Gaming Analytics

In the expanded case, we project casinos in New Mexico will see a total of \$103.2m in incremental revenues from all potential sources driven by increased visitation (Figure 39). Most of the increase in this scenario comes from net win to sports betting, as one might expect due to the additional capability to place bets outside



the casino. While this scenario might not be ideal for increasing other business at casinos, it is likely a step that patrons will ask for shortly after the New Mexico market opens up.

Figure 39: Total Uplift to New Mexico Casino Revenue

| Total Crossover and Incremental - Expanded Scenario | |
|--|-----------------------|
| Revenue from Sports Betting | \$ 61,148,465 |
| Revenue from Incremental Casino Visits | \$ 38,870,264 |
| Revenue from Incremental F&B | \$ 3,229,222 |
| Projected Revenue Increase by Adding Sports Betting | \$ 103,247,951 |

Source: Union Gaming Analytics

The state's benefit from taxes increases by just over \$3m, mostly driven by increased taxes paid by casinos on sports betting win (Figure 40). As mentioned earlier, the benefit of \$11.3m is just part of the increased taxes and economic activity the state will see from adding sports betting and implementing regulations that we would expect patrons to demand. Residents of New Mexico are already avid gamers as evidenced by their well above-average income allocation to gaming. We expect New Mexicans to strongly support sports betting as well but expecting them to significantly increase their casino budgets might be difficult due to the already high levels of casino revenues generated by the state's tribal and racetrack casinos.

Figure 40: Uplift to State of New Mexico Tax Revenue

| State Tax Impact | |
|---|----------------------|
| Sports Betting Tax - @10% | \$ 6,114,847 |
| Casino Revenue Tax - @13% | \$ 5,053,134 |
| Revenue from Incremental F&B | \$ 161,461 |
| Projected State Tax Increase From Sports Betting | \$ 11,329,442 |

Source: Union Gaming Analytics

Impacts to horse racing purses in the expanded scenario are nearly unchanged from the base scenario due to the minimal incremental casino visits and corresponding incremental casino revenue. To see a greater benefit and share in the increased business levels from having sports betting allowed statewide through mobile apps, horsemen and all horse racing interests in the state would need to negotiate to receive a share of the sports betting tax or have an additional tax levied on sports betting revenue generate by the state's racetrack casinos.



Union Gaming Suggested Strategies

We believe sports betting will prove to be quite popular with New Mexico residents and believe it also has the ability to attract residents of other states, especially Texas, into New Mexico's casinos. However, it must be acknowledged that sports betting is a low margin business with some risk to casino operators of occasional losing results and months where net revenues will be minimal. Wise commercial decisions must be made to generate profits from the business and they can be supported by intelligent regulatory decisions to make this a sustainable business for all casinos in New Mexico who choose to offer it.

Sports betting can best be looked at as a great complementary asset for a casino or racetrack to offer, one which resonates well with current customers and can help bring in new customers for whom casino offerings aren't well received. The industry to succeed long term needs to be set up with reasonable expectations and regulations and in a few years of operation the shake out of winners and losers will lead to a sustainable model that all participants can benefit from.

Tax Rates

Our assumptions call for a 10% gaming tax rate which we believe is fair and reasonable, allowing for operators to make a sustainable profit while giving the state enough incentive to approve sports betting in all licensed casinos. Tax rates on sports betting range from 6.75% in Nevada up to 34% in the soon to open Pennsylvania market. New Jersey has been fairly enlightened in this process, approving an 8.5% rate for bets placed at the state's sports books, while charging a higher tax for bets placed online or through mobile channels reflecting that virtually placed bets should allow for operators to earn a higher margin. From a blended rate perspective, New Jersey's sports betting operators will likely see an effective tax rate around our suggested 10%. Due to uncertainty around how much patrons would bet in person versus their mobile devices makes such a dual rate more difficult to set, but we would agree that it might be the most enlightened policy the state's regulators could put in place.

On the other hand, the 34% rate in Pennsylvania (and \$10m license fee) would be completely unsustainable in New Mexico. Pennsylvania's casinos are among the country's most successful (the state has the nation's second highest level of casino gaming revenue behind Nevada) and most operators who have considered acquiring a sports betting license have intimated they will not make money off of sports betting. So far only two of the state's 12 casinos have applied for a license and both have stated they are entering the business only because they don't want to lose existing casino customers to offerings in other states, especially New Jersey, and not because they feel sports betting will be a valuable driver of new business. In fact, we'd argue a rate over 15% would be difficult for operators in New Mexico to make money from, especially if betting on mobile devices outside of casino properties is not allowed. New Jersey has seen a bit of a rush by all operators to enter the market because they believe the open regulatory environment and the lucrative neighboring states' markets (especially New York City) will lead to profits. New Mexico does not have such advantages and will have to generate more revenue through higher cost locations, many of which will not have a robust local market to serve. This further makes us believe a tax rate of 10%, in line with New Jersey is reasonable, but by no means beneficial to the profit margins of any casino which chooses to offer sports betting.



Wagering Platforms

Bets on sports are generally placed on one of four platforms: cashier, kiosk, mobile or online. As bets placed through a cashier are the most expensive for a sports book, cashiers are becoming limited in number and are generally needed less than ever. In order to assist novice customers and to serve long-time patrons who prefer a cashier, a small number of betting windows with cashiers are recommended, but they should be managed over time and phased out to the degree possible. These bets have largely been replaced by bets done on betting kiosks. Kiosks can handle either printed tickets similar to those sold by cashiers or can serve as betting terminals for customers with betting accounts. The kiosk can also help facilitate transactions for mobile and online accounts as they can accept deposits and some kiosks can pay out patrons from their existing accounts. Kiosks are cost effective and allow for casinos to offer round-the-clock betting and customer service options.

Bets placed on mobile and online platforms require an additional layer of security from geofencing software. Geofencing can be costly in some cases, especially when the requirement is to restrict activity outside of property lines or the footprint of a casino as it requires placements of Bluetooth based equipment. Geofencing for state borders is done with different equipment and is less costly and easier to implement as it relies on the location functionality of the mobile devices with a secondary check done based on the cellular signals received by the devices.

Registration Methods

Over time, the market will likely resolve what are the best registration models that sports betting operators should utilize in signing up new accounts and servicing existing account holders. At a minimum, identities must be verified and tax records set up in order to remain compliant with a variety of state and federal regulations that apply to all gambling operations nationwide. Making this process as easy and quick as possible is the goal of many operators, but there are also ways to make the process a part of how casinos can establish a beneficial relationship with patrons that goes beyond just meeting regulatory requirements. In some instances, players can do most of the registration online and only have to visit an official outlet of the sports book in order to sign a few forms and prove their identity. This method may not be the most beneficial for the operator hoping to entice some crossover play however, so it needs to be carefully considered if making the process as easy as possible should be the desired manner.

The most successful sports betting operators in other jurisdictions have designed their player interactions in a way that maximizes the number of visits by customers, while also making the placing of wagers convenient to them. Undoubtedly the casino would love for a patron to come in almost every time they were wanting to make a wager in order to see crossover play on the casino floor and in the non-gaming areas, but there is a delicate balance to be maintained as many sports bettors may have not been visiting the casinos for their own reasons. Registering and serving these accounts in a way that is easy enough to encourage maximum level of signups but comes with some perks that encourage more regular visits should be part of the opening strategy for all casinos who plan to enter the sports betting market.

Integrity Fees

The sports leagues and other interested associations such as those overseeing college athletics and the PGA have been pushing for “integrity fees”, a flat percentage fee of the sports betting handle to be paid by the sports books in return for an assurance of integrity in the sporting events. In reality, the integrity fees are more



akin to a content fee where sports books are paying for the copyrights and products that sporting events are providing. While there may be some validity to the sports leagues arguing they should earn some payment for the content that others are making a profit off of, the proposed integrity fees set difficult precedents for sports books and should be avoided at this time. The primary issue is at 1% of the amount wagered, the proposed amount of the fee, sports books would be paying in effect 20-25% of their expected net win to the sports leagues. In a low margin business with significant costs such as sports betting, this makes the business difficult to operate at a profit. A second issue is the perception problems that would come from an integrity fee. If the leagues are getting paid for the volume of bets, they have a vested interest in seeing betting volumes increase. The cynical observer would question the league's motives in some situations stating they could lose objectivity for events and could take actions to make events more interesting to the betting public.

One solution that appears to be more amenable to sports books and resolves the perception issue is the one recently agreed on between MGM Resorts and the NBA. MGM has agreed it will pay for the league's official data in return for the rights to use league logos and copyrights in their betting offerings. The amount paid has not been revealed, but all reports suggest it's a fixed fee not based on realized betting volume and the net cost to MGM will be nowhere near the cost a 1% integrity fee would have been. Data fees are a logical and reasonable step sports books could agree to pay due to the advances the leagues have begun to implement in tracking players and plays in an official manner. As the items tracked become more detailed and are genuinely exclusive to the league such as putting tracking devices onto the players themselves, their value to sports betting increases. Non-official data would not capture as many data points that might be of interest to bettors and using only official data would likely be preferred by regulators as too many disputes could arise from not relying on official data. As an added benefit, such data would increase the amount of betting by sports bettors but not in a way that an outside viewer would question the league's objectivity.

Wagering Products Offered

We believe sports betting offerings should not be limited unless accepting such activity would subject the sports books and the state to charges of questionable character or involve activities where insiders might have an unfair information advantage. Many states have or are considering banning bets on collegiate events taking place within the state or involving college teams based in the state. While this seems a noble idea to prevent corruption of local amateur athletes, the fact is bets on these events can easily be placed through offshore sports books, in other states, and through illegal bookmakers, all outside the view of local regulators who may be in the best position to spot questionable activities. The integrity of the game is important for regulators, sports book operators and for the betting public. To insure integrity, bets on in-state teams and events should be allowed.

Another emerging segment of the business that has led to controversy in other international markets is in-game betting. This can take the form of any type of bet that starts after the match has begun. In the UK, in-game betting is now far more popular than pre-game betting due to the ability to place bets at any given time on devices convenient to the bettor. In-game betting has had a fairly slow take off in the US because the odds have been poor for the bettors and most of the betting has been limited to in person bets at sports books. We expect in-game betting to take off in the near future in the US as many patrons switch to using mobile devices and computers to place these bets with a couple of taps or clicks, and from more advanced programs for sports books to use in setting dynamic odds instantly. New Mexico sports books would be wise to prepare for this future in



Concluding Thoughts

With our projection for a total revenue increase of \$71m to \$103m from just implementing sports betting in New Mexico points to what we see as a great opportunity for the state to strengthen its gaming and racing industries, create new jobs and generate meaningful new tax revenues. We believe New Mexico residents and those living in bordering states will strongly embrace the option to bet on sports conveniently and will gladly spend more of their income on the activity due to its highly entertaining nature that complements watching sports, something they already enjoy doing. Structured properly, it will generate more trips to the state's casinos, bring in more visitors from other states to bet on sports and other casino offerings and may support casinos in a way that they can build out new facets to their operations supported by new traffic patterns.

While we have specifically projected our numbers based on many assumptions that we have detailed, we believe there is plenty of uncertainty as to the final result due to a myriad of potential factors. Just to name a few will be if the sports betting age is set at 21 instead of 18, if they state puts in a higher tax rate than 10%, if operators decided to aim for much higher hold rates, how the competitive landscape of operators develops and many more factors that may not even be predictable at this time. Therefore, we prefer to say our projection of up to \$103m in incremental revenue and \$11m in taxes for the State should just serve as a preliminary guide to what's possible in this market.

Sports betting potential contributions have their limits and its best to be looked at as a great complementary asset for a casino or racetrack to offer, one which resonates well with current customers and can help bring in new customers for whom casino offerings aren't well received. The industry to succeed long term needs to be set up with reasonable expectations and regulations and in a few years of operation the shake out of winners and losers will lead to a sustainable model that all participants can benefit from.



Betting Primer

The most common sports bets made in North America are called “straight bets”. They are made on one match with the result a choice of two outcomes. The payout, unless stated otherwise, is figured at odds of 10/11. This means that a wager of \$11 would win \$10 and return \$21. This is also called “-110 odds”.

The Point Spread: When betting on basketball and football, the team you bet on must "cover the spread." This means the team must win or not lose by a predetermined margin of points.

Example:

Figure 41: Sample Bet Odds

| Team | Line | Total |
|--------|------|-------|
| Bulls | -3 | |
| Lakers | | 198 |

Source: Union Gaming Analytics

Note: The bottom team is always listed as the home team unless otherwise noted.

The point spread is always placed to the immediate right of the team that is favored. In this example, if you bet the Bulls, the Bulls must win by 4 points for you to win your bet. If you bet the Lakers, either of the following will make your bet a winner:

- (a) The Lakers win the game.
- (b) The Lakers lose the game by not more than 3 points.

If the Bulls win by exactly 3 points, then the wager is declared a “push” (tie) and all money is refunded.

Point spreads change constantly. The listed point spread the time you make your bet may be different from the point spread when the game starts. The point spread that is listed on your ticket is your official spread.

Total: Total points scored in a game. Also called the over/under.

You may wager that the total score of the game will be more or less than the number listed. It makes no difference which team covers the spread. The payout, unless stated otherwise, is figured at odds of 11/10. (-110).

In the above example, the total is 198. If you bet ‘under’ and the final score ends up being 109-88 (109+88=197), your bet is a winner. If the final score is 111-88 (111+88=199), your bet is a loser. Simply add up both team’s final score to determine the total winner.



From William Hill US – Sports Wagering 101

STRAIGHT BET

A straight bet is an individual wager on a game or event that will be determined by a pointspread or money line.

PARLAY

A parlay is a single bet that links two or more wagers; to win the bet, the player must win all the wagers in the parlay. If the player loses one wager, he loses the entire bet. However, if the player wins all the wagers in the parlay, he wins a higher payoff than if he had placed the bets separately.

FUTURES

A futures bet is a wager placed on an event typically far in the future, such as which team will win next year's pro football championship game or pro hockey championship series.

PROPOSITIONS

Proposition bets, or "prop" bets, focus on the outcome of events within a given game. Props are often offered on marquee games of great interest. These include Sunday and Monday night pro football games, various high-profile college football games, major college bowl games and playoff and championship games. An example of a prop bet is "Which team will score the first touchdown?"

TEASER

A teaser is a type of football or basketball wager in which the pointspread is adjusted by additional points in the player's favor on more than one game. In football, a player may move the posted pointspread 6, 6.5, 7, 10 or 14 points. In basketball, 4, 4.5 and 5-point teasers are offered.

ROUND ROBIN

A round robin is a series of parlays. For example, a 3-team round robin consists of three 2-team parlays (A+B, A+C and B+C).

Terminology

POINTSPREAD

The most popular sports bets are based on the pointspread. The pointspread represents the margin of points in which the favored team must win by to "cover the spread." Bets on the pointspread are usually offered at 11 to 10 odds. For example, a player must bet \$11 to win \$10 for a total payout of \$21 or \$110 to win \$100 (-110 odds).

MONEY LINE

The money line represents the odds of a team winning the game outright without the use of the pointspread. The money line is expressed as a 3-digit number. For example, -150 means a player must bet \$150 for every \$100 he wishes to win, \$15 for every \$10 and multiples thereof. The opposing team in this example would likely be +130. The '+' indicates a winning wager will pay more than is bet, in this case for every \$100 bet, a winning wager would pay \$130 plus return the \$100 wager for a \$230 total return.



GLOSSARY OF SPORTS BETTING TERMS

Action – A sports wager of any kind; a bet.

Added Game – A game not part of the typical menu of wagering offerings, often posted as an accommodation to patrons.

Book – A establishment that accepts bets on the outcome of sporting events.

Buy (Points) – A player pays an additional price (lays more money) to receive a half-point or more in his favor on a pointspread game.

Chalk – The favorite.

Cover – Winning by more than the pointspread.

Dime – A \$1,000 sports wager.

Dog – The team perceived to be most likely to lose. Short for underdog.

Favorite – The team considered most likely to win an event.

First-half bet – A bet placed on the score in the first half of the game only.

Future – Odds that are posted well in advance on the winner of major events, including the Pro Football Championship, the Pro Basketball Championship and the Pro Baseball Championship.

Half-time bet – A bet placed on scoring in the second half of a game only.

Handle – The total amount of bets taken.

Hold – The percentage the house wins.

Juice – The bookmaker's commission, most commonly the 11 to 10 bettors lay on straight pointspread wagers; also known as "vigorish."

Laying the points/price – Betting the favorite by giving up points.

Limit – The maximum amount accepted by the house before the odds and/or pointspread are changed.

Line – The current odds or pointspread on a particular event.

Listed pitchers – A baseball bet placed only if both of the pitchers scheduled to start a game actually start. If they don't, the bet is deemed "No Action" and refunded.

Longshot – A team perceived to be unlikely to win.

Middle – To win both sides of a game; wagering on the underdog at one pointspread and the favorite at a different pointspread and winning both sides. For example, if the player bets the underdog +4 ½ and the favorite -3 ½ and the favorite wins by 4, he has middled the book and won both bets.

Money line – Odds expressed in terms of money. With money odds, whenever there is a minus (-) the player lays that amount to win \$100; where there is a plus (+) the player wins that amount for every \$100 wagered.

Nickel – A \$500 sports wager.

No action – A wager in which no money is lost or won, and the original bet amount is refunded.

Off the board – A game in which no bets are being accepted.

Opening line– The earliest line posted for a particular sporting event.

Over – A sports bet in which the player wagers that the combined point total of two teams will be more than a specified total.

Parlay – A single bet that links together two or more wagers; to win the bet, the player must win all the wagers in the parlay. If the player loses one wager, he loses the entire bet. However, if he wins all the wagers in the parlay, he wins a higher payoff than if he had placed the bets separately.

Pick or Pick 'em – A game when neither team is favored

Pointspread – The margin of points in which the favored team must win by to "cover the spread."

Price – The odds or pointspread.



Prop (Proposition) Bet – A bet that focuses on the outcome of events within a given game. Props are often offered on marquee games of great interest. These include Sunday and Monday night pro football games, various high-profile college football games, major college bowl games and playoff and championship games. An example of a prop bet is “Which team will score the first touchdown?”

Push – When the contest ends with no winner or loser for wagering purposes; a tie for wagering purposes.

Round Robin – A series of parlays.

Run line – In baseball, a spread used instead of the money line.

Sides – The two teams playing; the underdog and the favorite.

Sports book – A physical location that accepts sports bets.

Straight bet – An individual wager on a game or event that will be determined by a pointspread or money line

Straight-up – Winning the game without any regard to the pointspread; a money-line bet.

Take the points – Betting the underdog and receiving its advantage in the pointspread.

Take the price – Betting the underdog and accepting money odds.

Teaser – A type of parlay in which the pointspread or total of each individual play is adjusted. The price of moving the pointspread (teasing) is lower payoff odds on winning wagers.

Tie – A wager in which no money is lost or won because the teams’ scores were equal to the number of points in the given pointspread.

Total – The combined amount of runs, points or goals scored by both teams during the game, including overtime.

Under – The player bets that the total points scored by two teams will be less than a certain figure.

Underdog – The team perceived to be most likely to lose. Also known as the “dog.”

Vigorish – The bookmaker’s commission; also known as juice.