

Fantasy Sports Overview

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Presentation Overview

- History of Fantasy Sports
- Synopsis of traditional season long fantasy sports
- Synopsis of daily fantasy sports (DFS)
- State-by-State overview
- Staff recommendation on fantasy sports legislation

Season Long Fantasy Sports

(Video excerpts taken from Matt Johnston – You Tube)



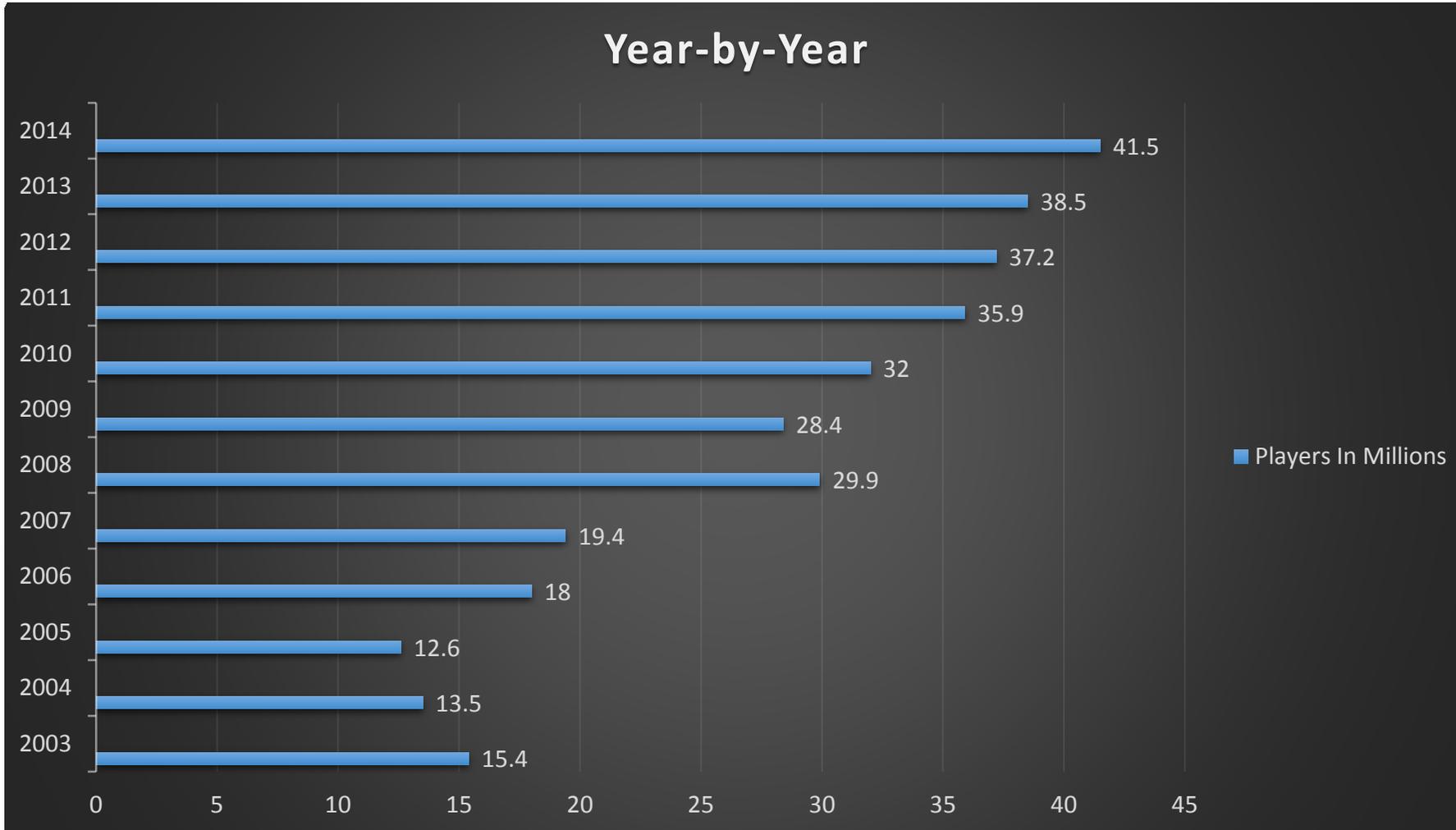


History of Fantasy Sports

- First iterations traced back to the 1960's
- First known fantasy football league started in 1969
- 1980: Big boom in fantasy Sports, start of Rotisserie Baseball
- In the 1990's, fantasy sports started to really grow amongst the masses
- In 2006 the Unlawful Internet Gambling Enforcement Act (UIGEA) was passed. Exception in UIGEA for fantasy sports exempting them from the prohibition on internet gambling.
- By 2009, Daily Fantasy Sports (DFS) had been introduced and began gaining popularity



Number of Fantasy Sports Players



<http://fantasy-sport.net/fanduel-vs-draftkings/>



Numbers Perspective

- 353,000,000 Inhabitants in US and Canada
- 41,500,000 or 12% play fantasy sports
- \$111 is the average spent by each fantasy player annually
- This equals a total market volume of \$4.6 Billion

Season Long Fantasy Sports

- Draft players before the start of the season
- League setting applied before season starts
- Compete in a league of other participants, usually 8-16
- Real-life players accumulate points based on their actual statistics
- Numerous formats to set up leagues
- Winner crowned at the end of the season



Season Long Fantasy Sports



Daily Fantasy Sports



Daily Fantasy Sports

(Video excerpts from The Sports Geek – You Tube)





How to play Daily Fantasy Sports (DFS)

- As the name suggests games are one day or one week, NFL
- Scoring format similar to season long fantasy sports
- Real life player assigned a DFS salary
- Players selected with a salary cap, usually \$50,000
- DFS rosters made-up similar to that of season long fantasy
- Depending on league type, owner with most points for that day/week wins predetermined amount
- Numerous leagues in DFS, head to head, low dollar, high dollar, certain number of participants, etc... (Free to thousands of dollars)



Who plays DFS?

Fictional character: *Mr. Joe Fantasy*, a 31-year old, male, single, middle-class, working professional, lives in a major metropolitan city, tech-savvy, and loves sports. **A day in the life of Joe “Knows” Fantasy:**

- Uses a car service app to get to work (doesn't need a car anymore), responds to a couple emails from his Phone, checks social media (tagged in an awkward childhood photo by his mom, who thinks social media is so cool!).
- Starts his day in the office, couple of routine tasks then reads a few stories on fantasy sports, while listening to online streaming on his computer. Back to work for another hour and then onto his favorite fantasy sports site to check his season long NFL lineup (little to do since its mid-week and he's already hit the waiver wire), so he logs onto DFS to set up a few NBA lineups.
- Off to lunch with co-workers, checks his social media timeline on the way and reads a couple of Tweets from his favorite DFS info site followers about who to start in NBA daily cash games. Leaving the restaurant he takes picture of the outside (hard to get reservations) and posts it on his social media account.



Continued..

- Back at work he's now thinking about what he would do if he won \$1 million, so he logs onto a DFS site and sets his NFL "Millionaire Maker" line-up (third one of the week).
- On his way home and back in a car booked online, he logs into a dating app, but no new connections, so opens *a* mobile strategy game before arriving at home.
- Once at home he orders dinner through an online food service/delivery app and then sets up a few NBA lineups for the night on DFS. Watches NBA games on his new HD TV (he ordered online) while simultaneously has 3-screens open; laptop (live scoring from his DFS account), tablet (switching between DFS and mobile strategy game), and Phone (texting friends, posting pictures, and reading social media).
- Ends up cashing on the 50/50s but doesn't place in any GPPs that night (if only Kobe Bryant didn't have one of his worst performances of the year), and goes to bed thinking about upcoming NFL Sunday and whether he should pay up for the Peyton Manning-to-Demaryious Thomas stack.

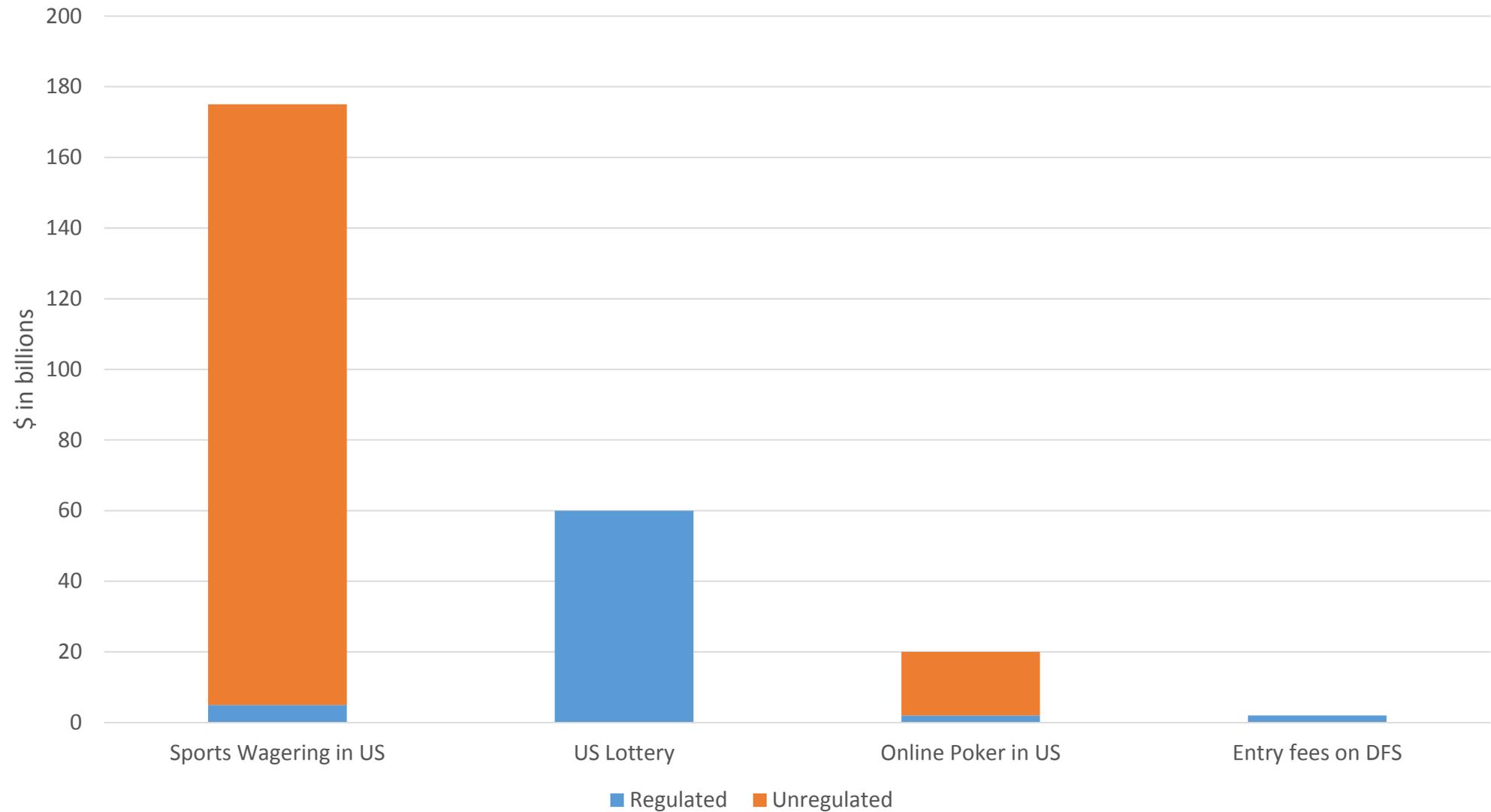
Recent Surge in Daily Fantasy Sports

- Growing consumption of Sports in the U.S. fueled by TV -> web -> print -> social -> fantasy = virtuous circle.
- Can provide instant gratification & engaging 2nd screen experience.
- Serves as a viable alternative for some players who do not have access to sports wagering.
- Attracting a number of casual & professional poker players given similarities in underlying game mechanics and revenue model.
- Substantial sales & marketing budgets from major DFS operators have helped drive overall awareness in the last 12-months.
- Increasingly large Guaranteed Prize Pools (GPPs) are also attracting new users & serving as a new alternative for some instant ticket / lottery players.





DFS Market Relative to Other Industries CY14E (\$ in Billion)



Source: Eilers Research, LLC, NV Gaming Control Board, NJ DGE, Fanduel.com

Notes: Regulated sports wagering turnover is derived from NV Gaming Control board monthly revenue reports, unregulated sports betting turnover is based on Eilers Research, LLC estimates. Regulated online poker turnover is derived using reports from NJ DGE, DE lottery, and NV Control Board and assumes 4% effective hold rate. Unregulated online poker turnover is based off Eilers Research estimates and assumes 4% effective hold rate. US lottery sales is derived from individual state lottery reports. Entry fees on DFS are based on company reports and Eilers Research, LLC estimates.



DFS Site Affiliations

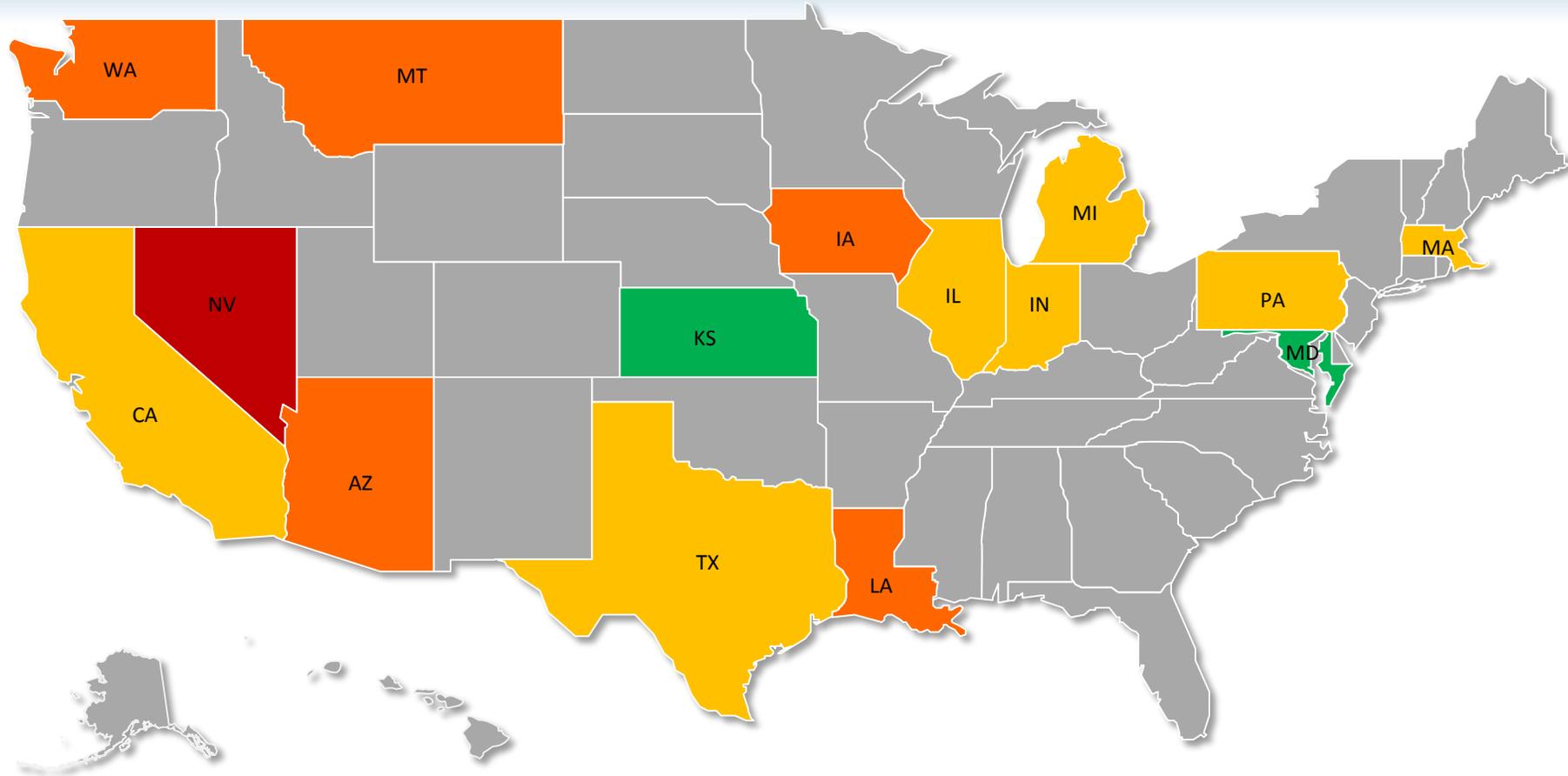
- DFS sites have received millions of dollars from notable investors
- Current investors include: National Basketball Association (NBA), Comcast, NBC Sports, Time Warner, Fox Sports, Major League Baseball (MLB), National Hockey League (NHL), and Kraft Group
- DFS sites also have sponsorship agreements with most professional sports teams: 28 NFL teams, 28 MLB teams, and 23 NBA teams.
- Also have sponsorship deals with other sports leagues



Current Fantasy Sports News

- DraftKings employee wins \$350,000 at FanDuel (9/27/2015)
- New York Attorney General investigating “insider trading” at DFS sites (10/2015)
- Class action lawsuit filed against DraftKings and FanDuel (10/8/2015)
- US Department of Justice and FBI investigating whether the business model of DFS violates Federal Law (10/2015)
- Multiple states taking a look at DFS
- DFS sites status around the US very fluid
- Regulation of some kind seem imminent

Map of Fantasy Sports



- States where major fantasy sports operators do not operate but Legislative bills authorizing Fantasy Sports have been introduced
- States where Fantasy Sports are authorized by statute
- States where legislative bills authorizing Fantasy Sports have been introduced
- States where Fantasy Sports operators were ordered to cease and desist until licensed



State-By-State Overview

- 44 states where major fantasy sports operators are operating fantasy sports
- 6 states where major fantasy sports operators are NOT operating:
 - Arizona, Iowa, Louisiana, Montana, Nevada, Washington
- 2 states where fantasy sports have been authorized in statute:
 - Kansas, Maryland
- 3 states have Attorney General Opinions or regulations addressing fantasy sports:
 - Florida, Nevada, and New Jersey



States Authorizing Fantasy Sports

- Kansas

- HB 2155 was introduced in January 2015.
- Put fantasy sports on list of exceptions to the definition of what constitutes an illegal bet.
- The Bill passed and was effective July 1, 2015.
- Kansas AG issued opinion in April 2015 determining fantasy sports as defined in UIGEA and HB 2155 is more so a game of skill and advised legislature can exempt fantasy sports from their definition of a bet.
- Minimum age appears to be 21.

- Maryland

- In 2012, HB7 passed amending its criminal laws to exempt fantasy sports competitions from their gaming prohibitions against betting, wagering, and gambling.
- Defined fantasy competition in a similar manner as UIGEA.
- Minimum age appears to be 21



Washington

- Washington State Constitution prohibits all forms of gambling unless specifically authorized by statute.
- Fantasy Sports has not been authorized by the Legislature and remains prohibited.
 - Prohibition is based upon the definition of a contest of chance and the prohibition of transmitting gambling information over phone or internet.
- Washington State Gambling Commission has a Sports Wagering brochure citing fantasy sports as illegal.
- HB 1301 and SB 5284 were introduced in January 2015
 - Would have declared fantasy competitions as games of skill and exempted from any classification as gambling.
 - Bills died in the 2015 legislative session, but remain alive in the 2016 legislative session.



Nearby States

- Oregon/Idaho
 - Major fantasy sports operators appear to be operating in Oregon and Idaho.
 - Both states appear silent on fantasy sports.
- Montana
 - Montana Gambling Control Division states on their website fantasy sports are “legal” because they are games between players who are not betting against the “house”.
 - Montana Code Annotated 2015 section 23-5-802 states “fantasy sports are lawful under a pari-mutuel system of wagering”, but it is “unlawful to wager on a fantasy sports league by telephone or internet.”
- California
 - SB 1437 introduced February 2015 would require fantasy sports operators to be regulated
 - Defines what games licensed daily fantasy sports operators can offer
 - Requirements resemble UIGEA exemption
 - Minimum age would be 21
- Nevada
 - Instructed all fantasy sports operators to cease operations in Nevada (October 2015)
 - Now requires fantasy sports operators to be licensed.



Moving Forward with Fantasy Sports

ISSUES TO CONSIDER:

- Skill vs. Chance
- Gambling/Something other than gambling
- Season Long Fantasy vs. Daily Fantasy Sports
- Social vs. Commercial
- Wagering thresholds



Regulatory Approach

- Allow season long fantasy sports played for social purposes (Unlicensed)
 - Pros: Many currently playing, social aspects, removing uncertainty
 - Cons: Setting parameters, regulatory program, WSGC costs, no revenue
- License DFS and other fantasy sports played online
 - Pros: Appease demand, set parameters, license, regulate, revenue
 - Cons: Time and effort to develop effective regulations, federal stance may change



Questions, Comments.....

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