

### Abstract:

As states look to create policies to legalize and regulate sports betting, some lawmakers in states with commercial casinos have expressed concerns that online sports betting will cannibalize existing gaming revenue. However, in the small sample size since the repeal of the Professional and Amateur Sports Protection Act (PASPA) in May of 2018 by the U.S. Supreme Court, gaming revenue at brick and mortar casinos has actually increased significantly in correlation with the expansion of legal online sports betting. In addition, the framework adopted by most states requires that online sports betting operators either obtain a gaming license or partner with existing gaming license holders, thereby creating an entirely new source of revenue for casinos. Finally, online sports betting allows brick and mortar casinos to expand their marketing reach to a demographic that is organically less interested in visiting a casino, creating new promotional opportunities to increase their customer base.

### Sports Betting Operators and Casinos Are Natural Operating Partners

Since May 2018, state legislatures have been moving very quickly to pass legislation to allow online sports betting. In states with commercial casinos, the legalization of online sports betting has been a welcome addition to the gaming market, despite concerns to the contrary.

*“There was a fear, concern, expectation or whatever you want to call it that people would walk out of the casino and go home and play on their phones, never to return. What we have found is that exactly the opposite has occurred.”* - Melanie Gross, VP of online casino and sports, Caesars Interactive Entertainment<sup>i</sup>

Among states with commercial casinos that have recently authorized online sports betting, one policy has remained consistent throughout – online operators must have a gaming license to offer sports betting. Because gaming licenses are very difficult and costly to obtain, companies that specialize in sports betting are typically ineligible or unable to procure their own gaming license to offer sports betting. Therefore, sports betting operators have sought partnerships with brick and mortar casinos that have existing gaming licenses in order to satisfy the state legal and regulatory requirements<sup>1</sup> necessary to offer online sports betting. This relationship benefits the casino license holder, who gets a relatively turnkey foothold in the online sports betting marketplace and is compensated for the use of their license – typically in the form of a sports betting revenue sharing agreement with the sports betting operator<sup>ii</sup>.

### Sports Betting Revenue Sharing Benefits Casinos

Under operating agreements between online sportsbooks and casinos, the casino benefits directly from revenues generated by their online sportsbook partners. This is typically done through a revenue sharing agreement, in which the online operator pays a percentage of revenue directly to the casino. Aside from the cost of the license, the casino must do very little to benefit from this passive

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<sup>1</sup> Sports betting operators must also obtain a specific online provider license or register as a casino industry supplier.

income stream – as the owner of the gaming license, they simply grant the online sportsbook operator the rights to use the license for the duration of the agreement.

In many states, a casino can partner with more than one online sports platform or brand, allowing them to benefit from a diverse array of products that will create more revenue opportunities. Casino licensees in New Jersey, Indiana and West Virginia can offer up to three unique online sportsbook platforms, while Iowa allows each of its 19 commercial casinos to offer up to two. For example, Penn National, a gaming company with casinos in 19 states, has already partnered with four distinct online sports betting brands to run sports betting in the various states in which they operate or will prospectively operate<sup>iii</sup>.

Through September 2019, New Jersey generated over \$190 million in sports betting revenue. The overwhelming majority of this sports betting activity has come from online sports betting, which consistently comprises over 80% of the total amount bet<sup>iv</sup>. In addition to direct revenue sharing profits for casinos, online betting translates to other forms of revenue for casinos, as discussed below.

### **Online Sports Betting Increases Brick and Mortar Casino Revenues**

While some states<sup>v</sup> are still in the process of adopting regulations necessary to allow online sports betting operators to begin taking wagers, a few states have already seen significant positive impact from online sports betting.

Not only has the addition of sports betting provided a new revenue stream for casino operators, it has bolstered revenues from existing gambling offerings, including brick and mortar casinos. The numbers in New Jersey speak for themselves – as of September 2019, New Jersey’s casinos experienced a \$433 million dollar increase in total gaming revenue, a 20.2% increase year-over-year<sup>vi</sup>. Of this \$433 million increase in total gaming revenue, \$159.9 million was attributed to brick and mortar casino, a growth rate of 8.5% over the previous year.

In contrast, Mississippi, which authorized sports betting but does not allow it to occur online, has seen much less total gaming revenue growth than New Jersey. Through September 2019, Mississippi casino revenues grew by only \$44.6 million over the same period in the previous year, or approximately 2.8%<sup>vii</sup>. While having the in-casino amenity of a sportsbook increases revenue from sports betting, in Mississippi, sportsbooks do not appear to be driving revenue increases in other parts of the casino – non-sportsbook revenue only increased \$19.7 million, or 1.2%. This is minimal compared to the remarkable growth that New Jersey has experienced on the strength of its online sports betting market, which not only generates more revenue but generates more foot traffic and incidental revenue for brick and mortar casinos.

### **Sports Betting Increases Other Online Gaming Revenues**

Looking at New Jersey, which also allows casinos to offer online platforms for casino games (I-Gaming) such as slot machines and table games, the addition of sports betting has significantly increased the revenue potential of these offerings. Through September 2019, I-Gaming revenues in New Jersey had increased by \$123 million, a 57% increase year-over-year.<sup>viii</sup>

In Pennsylvania, the state’s casinos saw a 144% increase in sports betting revenue from August to September 2019. This increase in sports betting activity also contributed to a significant increase in I-Gaming revenue, which was up 20.6% over the same period<sup>ix</sup>. This illustrates how customers who come

for sports betting end up exploring other online gaming options on the same platform. To capitalize on this, sports betting operators often integrate casino functionality into their platform or provide prominent links to associated I-Gaming offerings.

### **Casinos Benefit from Marketing Opportunities Through Sports Betting**

The demographics of sports betting and brick and mortar casinos are different in significant ways. While traditional casino offerings such as slot machines remain popular with an older demographic, there are widespread concerns that younger generations do not have the same affinity for casino games and slot machines<sup>x</sup>. Casinos are actively looking for ways to attract the next generation and compete for their entertainment dollars<sup>xi</sup>.

Market research shows that the sports betting demographic is younger, more educated, and have a higher income than the general population<sup>xii</sup>, which makes it a very valuable target market for casino operators. By reaching these players online and through their engagement with sports betting apps, casinos have a momentous opportunity to reach this new customer base. Sports betting platforms can be used for cross marketing and promotion to incentivize millennial sports bettors to visit the brick and mortar casino, where they will partake in additional entertainment spending including food, beverage and other casino games.

### **Conclusion – Casinos Win with Online Sports Betting**

Sports betting is happening across the country, and states seeking to authorize this activity and reap the economic rewards of business growth and taxable revenue should take note of the trends in these early adopter states. Just shy of two years into the expansion of sports betting, it is clear concerns that brick and mortar casinos would suffer as a result of online sports betting have been unfounded. As states study this issue, they must look not only at the direct revenue potential of online sports betting, but how online sports betting complements and enhances the revenue potential of existing forms of gaming. Without online sports betting, consumers, casinos and state governments are missing out.

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<sup>i</sup> Numbers Show New Jersey Casinos Thriving From Sports Betting – Gambling Compliance, June 13, 2019 Tony Batt and James Kilsby, [https://gamblingcompliance.com/premium-content/insights\\_analysis/numbers-show-new-jersey-casinos-thriving-sports-betting](https://gamblingcompliance.com/premium-content/insights_analysis/numbers-show-new-jersey-casinos-thriving-sports-betting)

<sup>ii</sup> Penn National Offers Skins In The Game For U.S. Sports Betting, Gambling Compliance, James Kilsby August 1, 2019 [https://gamblingcompliance.com/premium-content/insights\\_analysis/penn-national-offers-skins-game-us-sports-betting](https://gamblingcompliance.com/premium-content/insights_analysis/penn-national-offers-skins-game-us-sports-betting)

<sup>iii</sup> <https://www.legalsportsreport.com/35890/penn-national-gaming-sports-betting-partner/>

<sup>iv</sup> <https://www.nj.gov/lps/ge/docs/Financials/PressRel2019/September2019.pdf>

<sup>v</sup> As of October 10, 2019, Tennessee, Illinois, and New Hampshire have passed authorizing legislation but no sports betting operators are currently authorized to do business in these states.

<sup>vi</sup> <https://www.nj.gov/lps/ge/docs/Financials/PressRel2019/September2019.pdf>

<sup>vii</sup> [http://www.msgamingcommission.com/index.php/reports/monthly\\_reports](http://www.msgamingcommission.com/index.php/reports/monthly_reports)

<sup>viii</sup> Id.

<sup>ix</sup> <https://gamingcontrolboard.pa.gov/?pr=881>

<sup>x</sup> See NPR Casinos' Demographic Problem: How To Replace Older Slot Players Elizabeth Kulas December 16, 2016 <https://www.npr.org/2016/12/16/505811899/casinos-demographic-problem-how-to-replace-older-slot-players>

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<sup>xi</sup> Will Skill-Based Games Change U.S. Casinos? Executives Say It's Too Early To Say, Gambling Compliance, Chris Sieroty June 14, 2018 [https://gamblingcompliance.com/premium-content/insights\\_analysis/will-skill-based-games-change-us-casinos-executives-say-its-too](https://gamblingcompliance.com/premium-content/insights_analysis/will-skill-based-games-change-us-casinos-executives-say-its-too)

<sup>xii</sup> Fantasy Sports Gaming Association Understanding the National Fantasy/Sport Betting Market June 2019