

DAILY FANTASY SPORTS

A presentation for the MSLC

The Lottery Today



Fiscal Year 2015

- Over \$5 billion in total sales
 - ▣ 70.2% from Instant Games
 - ▣ 17.0% from KENO

- Generated over \$985 million in net profit to remain the single largest source of local aid for the 351 cities and towns in the Commonwealth.

- Over \$3.6 billion paid out in prizes. At 72.6% of all sales, return to players is highest in the U.S.

The Lottery Today



- Statewide network of 7,500 retail sales agents, including chain stores, supermarkets, gas stations, package stores, restaurants, bars, convenience and corner stores.
- These retailers earn commissions on Lottery sales, and bonuses on prizes claimed.
- The average retailer earned approximately \$38,000 in income from selling Lottery in FY15.

The Lottery Today



- According to a UMass “Social and Economic Impacts of Gambling in Massachusetts (SEIGMA)” survey, two groups that were significantly more likely to be Lottery players were adults age 35 to 64 and males.
- Adults age 35 to 79 were significantly more likely than younger (18-24) or older (80+) adults to have played Lottery.
- The Lottery-playing population is skewing toward an older demographic.

Source: UMass SEIGMA Baseline Population Survey
<https://www.umass.edu/seigma/reports>

The Lottery Today



- The biggest current challenge facing the Lottery is the daily fantasy sports industry.
- The immediate protection and responsible growth of the Lottery is a must given that it is the single largest source of unrestricted funds – nearly \$1 billion – to the Commonwealth's 351 cities and towns.

Fantasy Sports Industry

- 56.8 million people play some form of online fantasy sports in the United States and Canada.
- Daily fantasy players have doubled in the last two years.
- 66% of these players are male, with an average age of 37.
- 57% have a college degree or higher, and 47% report a household income of \$75,000 and above. 66% enjoy full-time employment.
- The average annual spending per fantasy player is \$465. This is up from \$80 in 2012.

Source: Fantasy Sports Trade Association

<http://fsta.org/research/industry-demographics/>

Fantasy Sports Industry

- There is an available market to attract players to fantasy games, and websites such as DraftKings and FanDuel are penetrating it.
- In Q3 2015, DraftKings media buy was \$173 million
- 56% of their players use a mobile device to engage the sites.
- DraftKings is valued at \$1.2 billion. FanDuel is valued at \$1.275 billion.
- MLB, NFL, and NBA all have operating or funding deals with the sites.

Source: Business Insider, "Billion-dollar fantasy sports startup DraftKings just blew through ~\$20 million in one week"

<http://www.businessinsider.com/draftkings-fantasy-sports-startup-blew-20-million-in-a-week-2015-9>

Fantasy Sports Industry

“If there is a statistic that puts dollar signs in the heads of league commissioners, it's this one: Fans consume 40% more sports content — across all media — once they start playing FanDuel.”

“With money on the line every day, daily fantasy participants want to see the results as they happen. So they watch more live games until the end, boosting advertising and television viewership, which fatten the golden goose of American sports: TV rights contracts.”

“In addition to television, it leads to ‘increased consumption of our digital content and overall interest in our sport,’ said Sal LaRocca, the NBA's president of global operations and merchandising.”

“Not only does it increase viewership, it increases live viewership, which is the reason these TV contracts are so valuable, because it's one of the few things you don't DVR.”

USA Today, January 1, 2015, “Leagues see real benefits in daily fantasy sports,” by Brent Schrottenboer

Fantasy Sports Industry

“It also shows that the gambling environment in Massachusetts a decade from now could look far different from what anyone planned.”

“Unlike casino resorts, daily fantasy sports websites can launch without government doing anything on their behalf. So they’ve had little incentive up to now to engage in behind-the-scenes intrigue.”

“But even if DraftKings disappeared tomorrow, it won’t be the last startup to probe the limits of what state and federal gambling laws allow.”

Boston Globe, October 22, 2015, “DraftKings bodes ill for glitzy casino,” by Dante Ramos

Fantasy Sports and the Lottery

- The introduction of a fantasy sports platform to the Mass. Lottery embraces an emerging market while protecting the Lottery's 7,500 retailers.
- It does not cannibalize existing products.
- By engaging a next-generation player, Lottery will be creating a new revenue source as opposed to eroding existing offerings.

Lottery Product Innovation



1974 Massachusetts becomes the first state to sell Instant Lottery Tickets as an alternative to the weekly jackpot game.

1993 The Lottery launches KENO, becoming the seventh state in the U.S. to offer the game.



2006 The “Red Sox Instant Ticket” is the first instant game in the U.S. to feature a Major League Baseball team logo



2009 The “New England Patriots Instant Ticket” is the first instant game to feature a National Football League team logo.



Launch of KENO



News coverage as the Lottery was considering introducing KENO

Boston Globe, January 3, 1993

“When a traditional business is faced with a mature market, strategies are developed to change the product mix. Lotteries must respond in similar fashion.” (*W. Bruce Turner, Gaming Analyst, Raymond James & Associates*)

“So far, that's what the Massachusetts Lottery has been able to do. But the job is getting tougher...to increase revenues, the lottery has to continue coming up with exciting products.”

Boston Globe Editorial, June 23, 1993

“The introduction of keno, an unskilled game of chance, might increase state revenues. But there is no reason keno could not be administered within the framework of the lottery...”

Launch of KENO



News coverage as the Lottery was considering introducing KENO

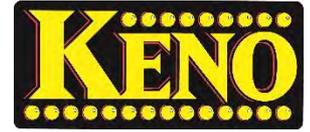
Boston Globe Editorial, June 25, 1993

“Will gamblers really contribute \$50 million in keno wagers to the state?”

Boston Globe, September 26, 1993

“Fifty-two percent of Massachusetts residents called the game a bad idea, while just 30 percent supported it.”

Launch of KENO



News coverage after the Lottery introduced KENO

Boston Globe, March 29, 1994

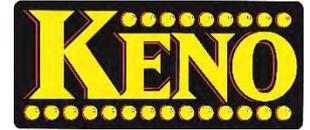
“...some analysts wonder whether the novelty of keno will have worn off by the time it’s fully introduced in Massachusetts.”

Boston Globe, December 18, 1994

“Others said the game was too complicated and would never catch on.”

“When the game was first introduced, officials projected gross sales of \$25 million for the remainder of the fiscal year and a net income of \$7 million. In fact, gross sales were \$63 million with a net income of \$18 million.”

KENO Performance



KENO sales, FY1995 - FY2015

FISCAL YEAR	KENO SALES	PCT. INCREASE	vs. FY1995
1995	\$299,535,000	---	---
2000	\$572,442,000	91.1%	---
2005	\$742,007,000	29.6%	147.7%
2010	\$753,832,000	1.6%	151.7%
2015	\$850,487,000	12.8%	183.9%

FY1995 was the first full Fiscal Year in which KENO was offered

A Proven Model



- The Lottery has over 40 years of experience in the gaming market
- The Lottery operates within a comprehensive system of internal controls to protect game integrity
- Lottery profits aid cities and towns across the Commonwealth.

The Path Forward



- The Lottery should issue an RFI to better understand the daily fantasy sports market and identify what technology and resources would be necessary to pursue the introduction of a fantasy sports offering.
- We should engage the Legislature to make it clear that the Lottery offers a venue for daily fantasy sports that protects the consumer and preserves fundamental fairness within the game, while creating a new source of revenue for local aid.