

US Wagering Industry

Fixed Odds Presents An Opportunity To Scale

Wagering Industry

22 June 2021

The US parimutuel horse racing market delivered handle of US\$10.9bn in 2020. The industry growth rate has been low over the past decade, and the advent of sports betting creates additional risk to the horse racing industry. The racing industry is at risk of being left behind in the gold rush for new recreational punters. Evidence in Australia is that when fixed odds betting on horse racing became widespread and readily available online (from c.2003 onwards), it became extremely popular with punters and delivered meaningful industry growth and significant additional funds for the racing industry. BetMakers Technology Group (ASX:BET) is uniquely positioned to capitalise on the introduction of fixed odds to the US racing industry as it provides bookmakers with the data and right to bet on fixed odds racing, with few other independent technology suppliers focusing on this arena. We postulate that all existing US parimutuel wagering markets will offer fixed odds betting within 10 years, and if BET is able to maintain Sportech's share in states in which it operates, this could conservatively deliver additional annual revenues of \$308m by Year 10.

New Jersey – Leads The Field In Fixed Odds Wagering

The New Jersey General Assembly and Senate have now both passed identical Bills unanimously to “authorise fixed odds wagering on horse races through fixed odds wagering systems”. Bill A4909 was sponsored by Assembly Gaming Committee Chairman Ralph Caputo (Democrat) and Deputy Republican Leader Assemblyman Ronald S. Dancer and passed in the General Assembly on May 18. On June 21, the New Jersey Senate voted 40-0 in favour of the Fixed Odds Bill being passed. As part of the formal legislative process, the Bill will now go to the Governor of New Jersey for approval to become law. New Jersey has been an agenda setter for fixed odds gaming and wagering, having been the state to challenge the Professional and Amateur Sports Protection Act (PASPA), which paved the way for fixed odds sports betting.

Fixed Odds – Racing Eyes the Prize

Market attention has been focussed on the growth of fixed odds sports betting in the US, however little attention is being focussed on the potential implications for horse racing. Unlike sports betting, US horse racing is already online in many states. The industry benefited from a carve-out for horse racing on the unilateral ban on sports wagering imposed by federal authorities, through PASPA. PASPA was recently overturned by the US federal government, paving the way for states to expand legal betting markets. Online wagering on horse racing is legal in 37 US states, however, remains exclusively parimutuel. In this paper, we examine the opportunities that are being presented by the introduction of fixed odds wagering in the US to Racing and to BET. In the Australian market, funding to Racing has increased by c.A\$500m p.a. largely as a result of the introduction of legalisation of online fixed odds wagering. Significant funding opportunity exists for Racing in the US as states move to enable fixed odds betting on Racing.

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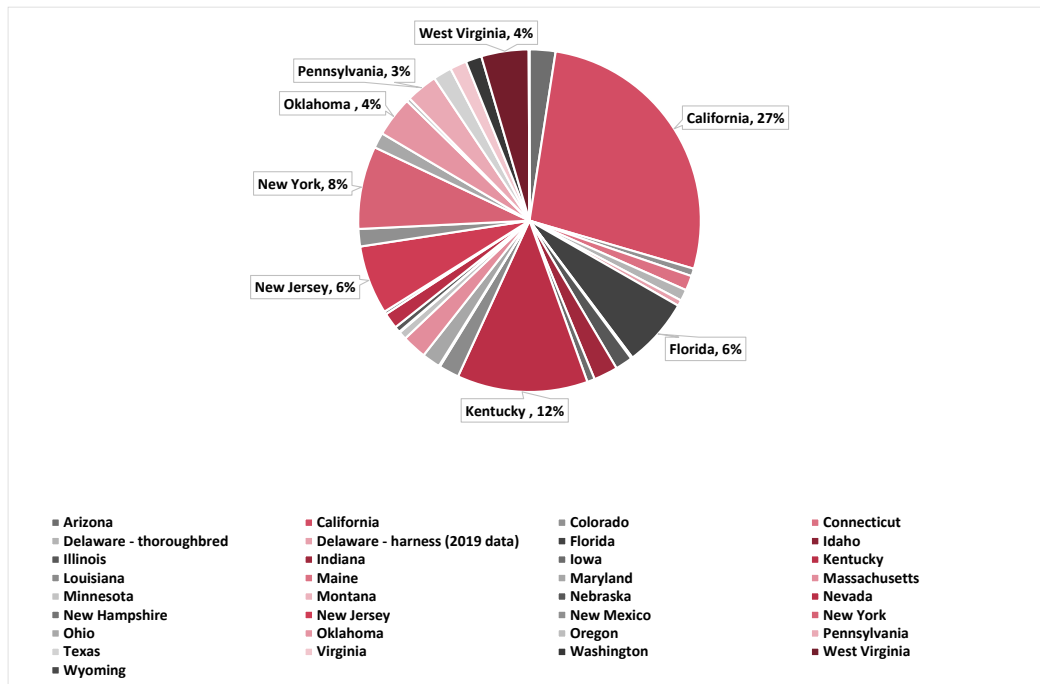
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Market Size of Horse Racing in the US by State

The total market for pari-mutuel wagering in the US on Racing in 2020 was US\$10.9bn. Eight states, being California, Kentucky, New York, New Jersey, Florida, Oklahoma, Pennsylvania and West Virginia together comprise 70% of the total US parimutuel wagering market.

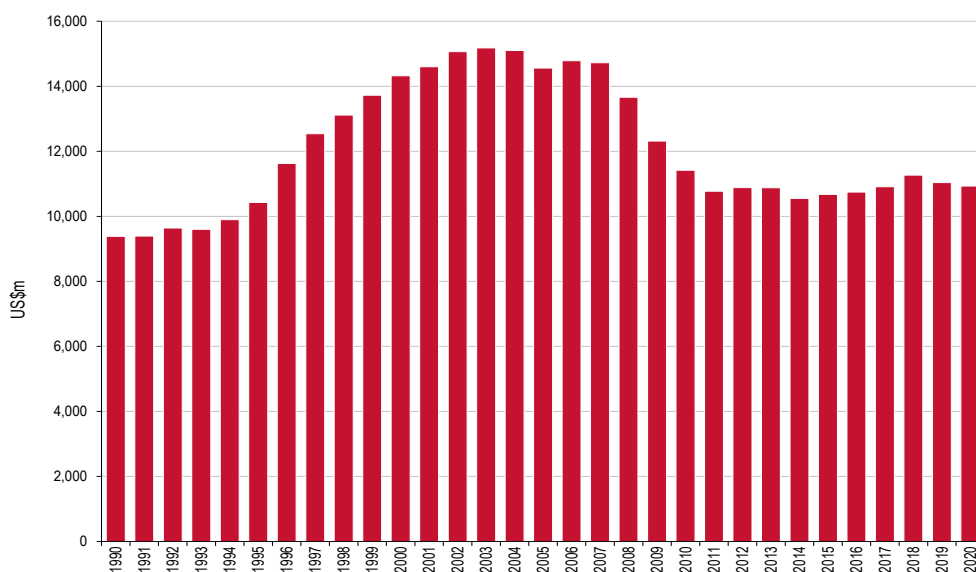
Exhibit 1: US Parimutuel Racing by State



Source: State Racing Commissions

Handle in the US Horse Racing industry began to fall from 2003. While the decline appears to have plateaued, growth remains anaemic.

Exhibit 2: Turnover (Handle) on US Horse Racing (US\$M)



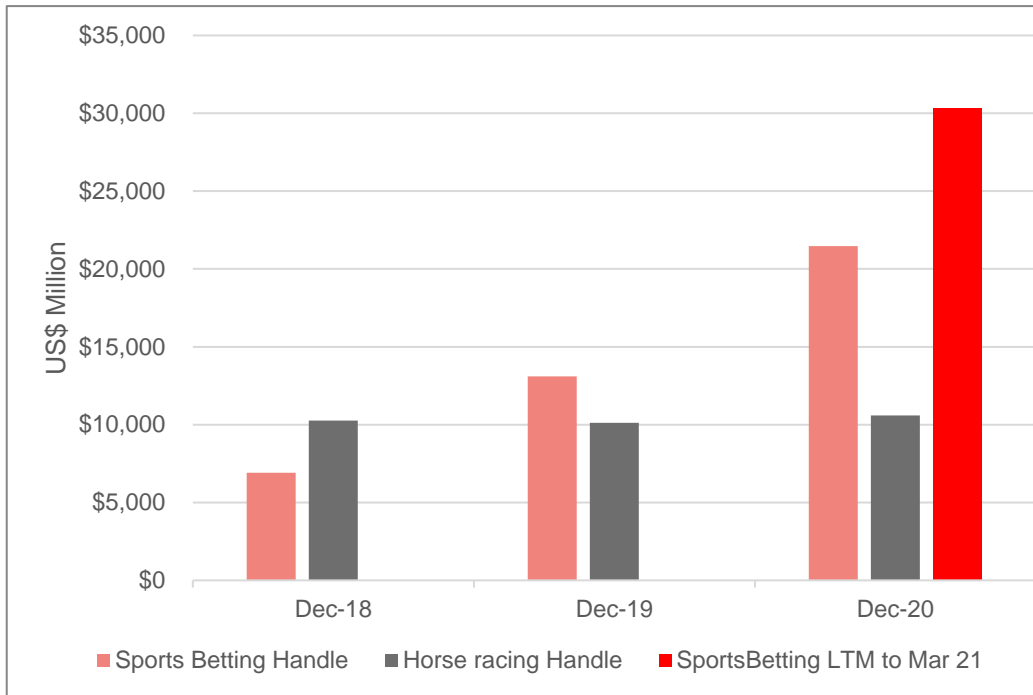
Source: US Jockey Club

Industry growth is at further risk from the introduction of legal fixed odds betting on sports in many states.

Comparison of Growth In Horse Racing With Sports Betting

Until mid-2018, only Nevada offered any meaningful fixed odds betting markets. States have progressively legalised sports betting, which is all fixed odds, and the growth has been dramatic, quickly outstripping the parimutuel horse wagering market. In 2020, betting turnover on horse racing was US\$10.9Bn and had been flat for the past three years, compared to total sports wagering handle of US\$21.4Bn, up from US\$6.9Bn in 2018.

Exhibit 3: Comparative Turnover: Sports Fixed Odds Betting vs Horse Racing Parimutuel Betting



Source: State Gaming Commission, US Jockey Club

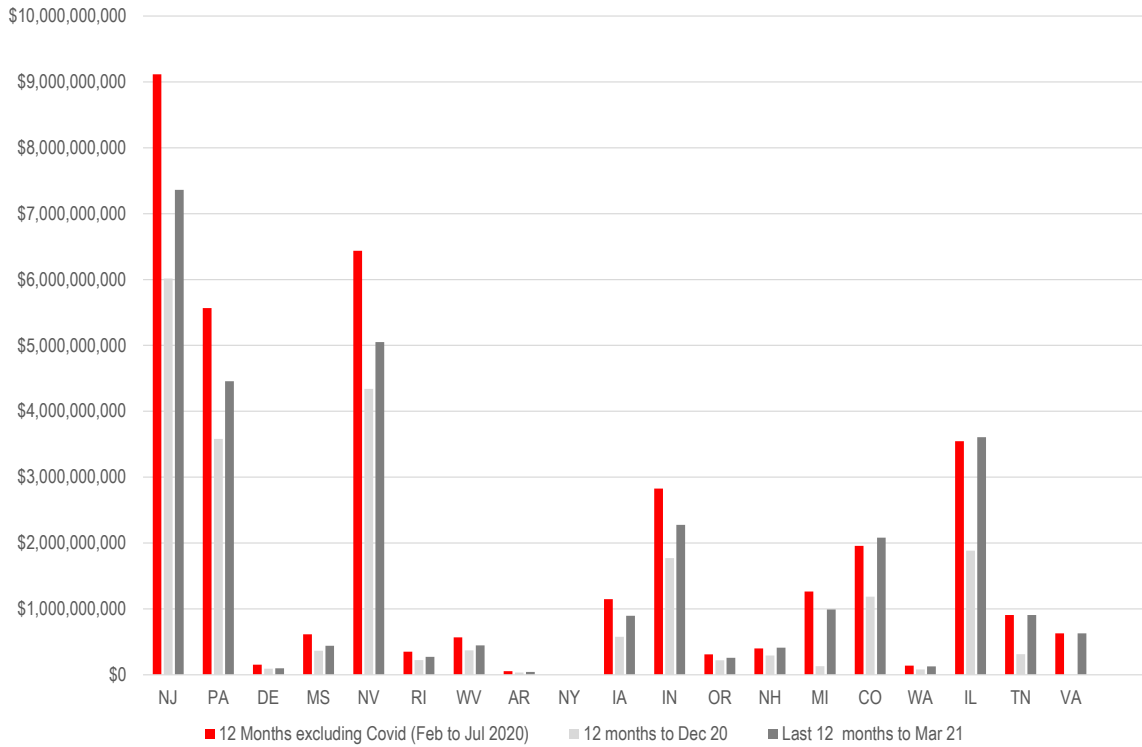
Recent industry data on US sports betting handle to end March 2021 shows a dramatic recovery from COVID-19 shutdowns. Recreational punters continue to adopt sports betting in large numbers. Total Handle for the 12 months to end March 2021 was \$30.3Bn, while still including 4 months of COVID impact.

When removing the months of February to July 2020, and totalling the last twelve months excluding that period, it is apparent that much room for further growth is possible as the industry cycles through the pandemic recovery. Refer Exhibit 4.

What is also interesting, but unsurprising, is the growth is strongest in states with large populations but also lower betting taxes (Refer Exhibit 5). Lower taxes enable more promotional spending to be directed towards customer acquisition and player bonusing. We expect these trends to become more significant over time.

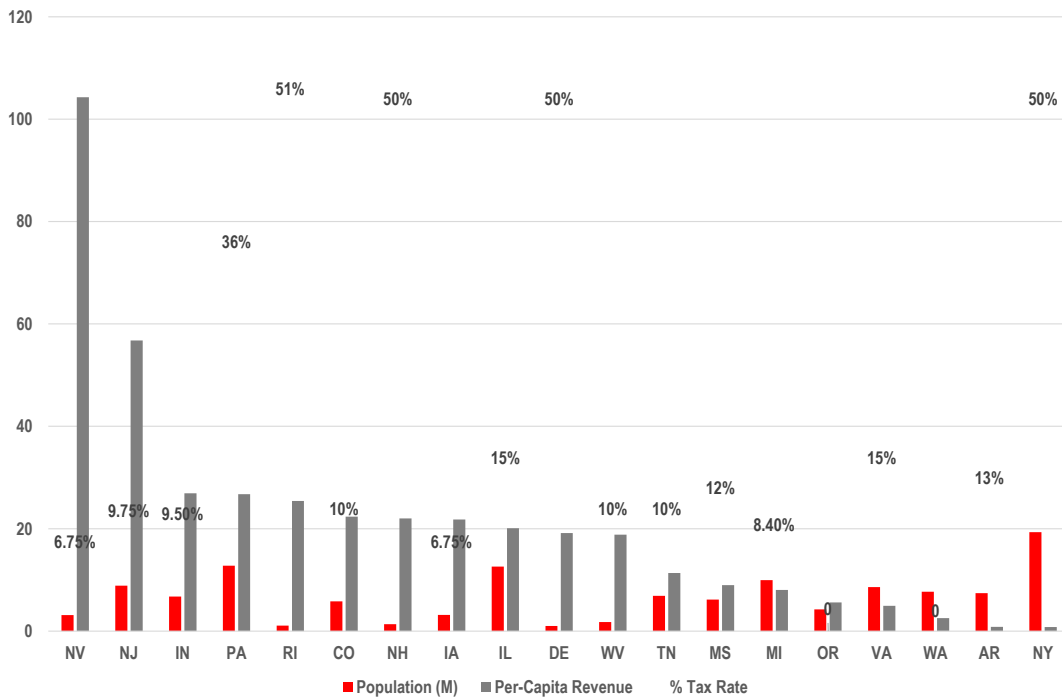
At some point, states may realise that the overall tax collected is a more important metric than a punitive tax rate which stymies growth.

Exhibit 4: US Sports Betting Handle



Source: legalsportsreport.com

Exhibit 5: US Sports Betting: Impact of Taxes on Revenues



Source: legalsportsreport.com

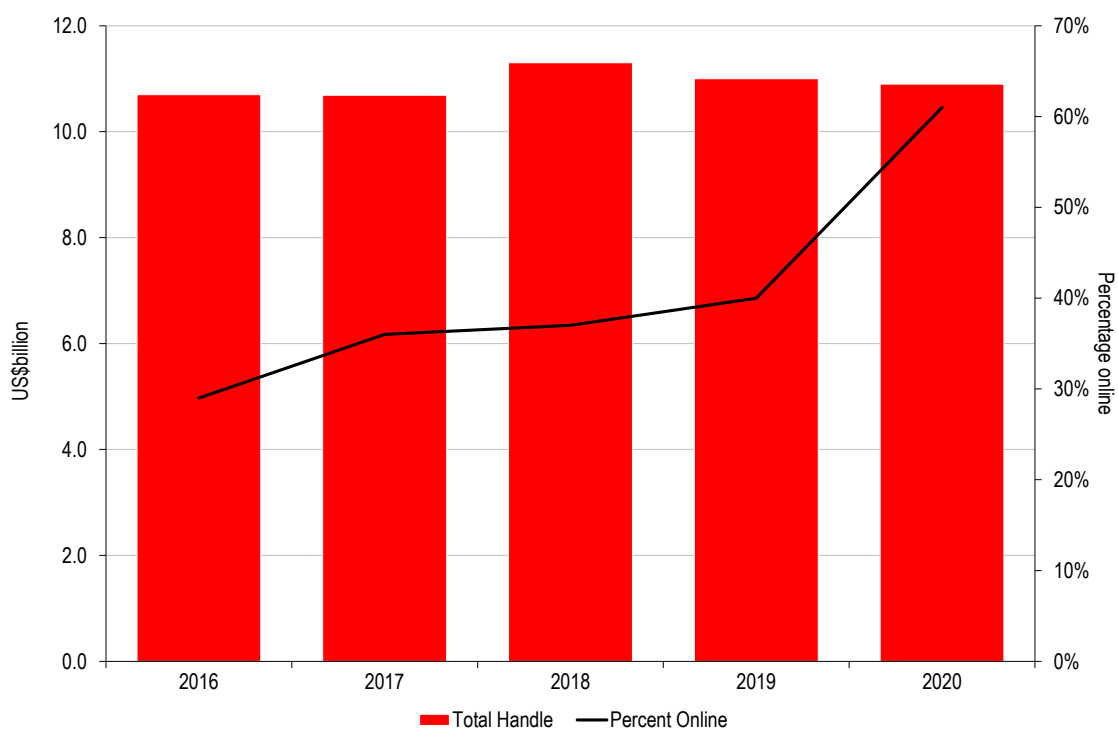
The emergence of the legal sports betting market creates risk for the Racing industry in that the growth of sports could cannibalise existing punters, as the ease and simplicity of fixed odds betting on sports becomes more evident.

Historically, the racing industry struggled to grow in many states, and as a result in the early 1990's several states permitted gaming machines (slots) at racetracks. Eleven states now permit these "Racinos". Some of the profits from slots were directed to the horse racing industry, but the slots became a much more important and profitable segment for the track operators and did nothing to grow the customer base of racing fans. Thus, despite the additional funding, racing has been in decline since 2004 across the US market. Should the racing industry not adapt and move to offering fixed odds betting, the risk of further declines is almost inevitable.

BET is working with the New Jersey racing industry to facilitate adoption of legal fixed odds horse race betting in that state. As noted above, identical Bills have now passed in both Houses to enable legalisation.

Another promising development over the past twelve months for Racing has been the strong shift to online wagering, driven by crowd restrictions at racetracks and closure of retail betting outlets/Racinos due to CV19.

Exhibit 6: Take up of Digital in US Horse Racing



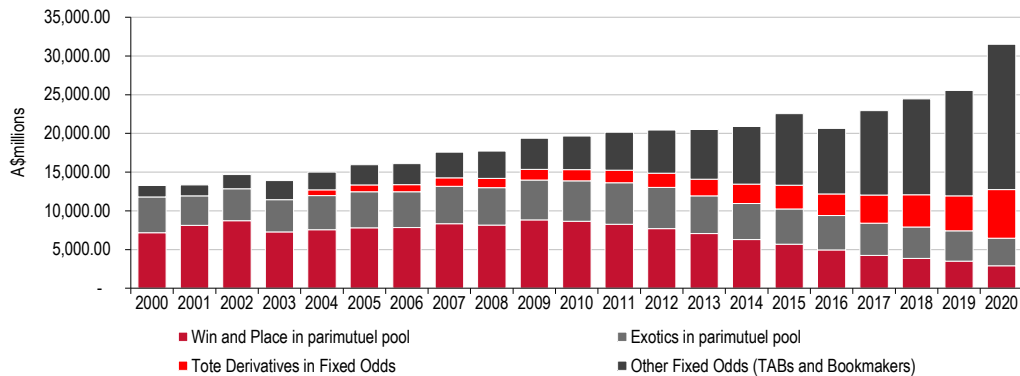
Source: US Jockey Club, Oregon Racing Commission

Case Study: Impact of Fixed Odds Betting on Australian Wagering Handle and Industry Funding

We understand that there are some stakeholders in the US racing industry that are concerned that the introduction of fixed odds to racing could cause the decline in tote pools. Evidence from the Australian market would counter that concern.

Fixed odds betting on Racing emerged in Australia in the early 2000s as a growing segment. By 2020, it has become the dominant form of betting on Racing, growing the overall handle to more than A\$30b. While the "vanilla" win and place bets in the parimutuel pools have declined, the exotics in the parimutuel pool have remained relatively stable and tote derivatives in fixed odds have been a growing contributor to overall handle. The chart below shows the dramatic growth in overall turnover, and the mix shift within the sector.

Exhibit 7: Australian Turnover - All Racing Codes



Source: Racing Australia Fact Books, Owen Gaming Research analysis for RaaS

While Corporate Bookmakers were unable to offer true parimutuel betting, which was the exclusive domain of the TABs, Bookmakers began to offer “tote derivatives” on TAB win and place pools and exotics such as trifectas, quinellas, exacta etc, where the payout to punters was based on the best price of the various totalizator pools the TABs ran. This proved popular with punters and now accounts for an estimated 25% of fixed odds wagering in Australia¹.

The US market does not allow operators to have the monopoly over parimutuel wagering which exists in Australia. All parimutuel markets are open to Wagering Operators who are licensed by the relevant state Racing Commission, although there are some existing monopolies in place in some states (such as TVG holding a five year digital monopoly of parimutuel in New Jersey). However over time as these agreements come to an end, we expect all wagering operators to offer both fixed odds and parimutuel betting.

There is no evidence in the Australian market that growth in fixed odds led to a reduction in industry revenues. In fact, overall revenues have grown significantly in the past two decades. Fixed odds betting captured a whole new customer base, who found fixed odds simpler to understand, and without the risk of price fluctuations in the lead-up to an event after the punter placed their bet. Intense competition among wagering operators also stimulated strong take-up by punters, driven by promotions and generosities.

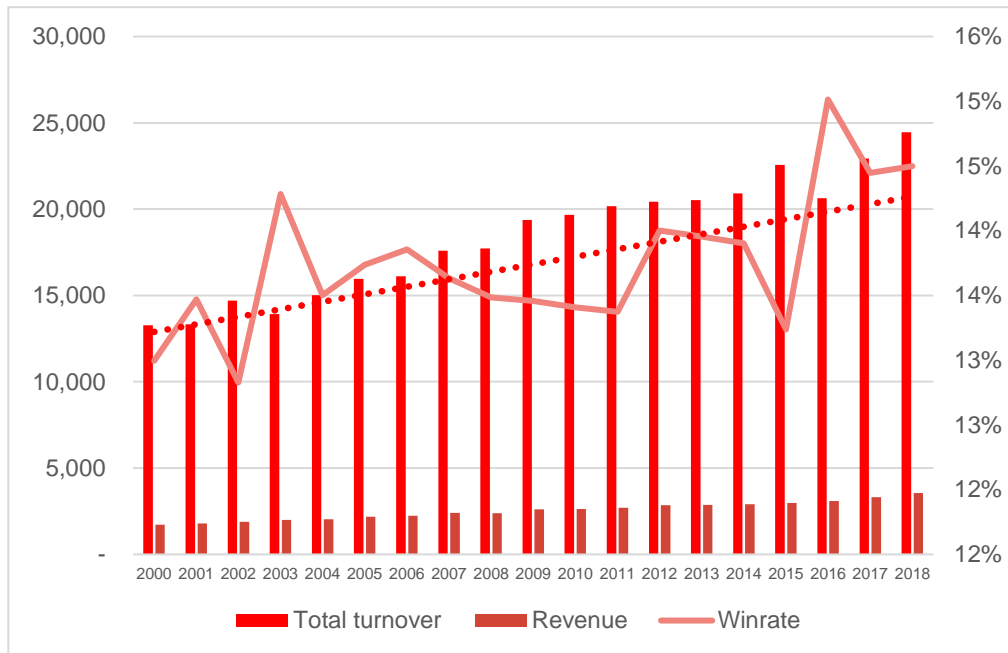
Bookmakers faced rising costs for racing content and higher taxes imposed by states on the new entrants over time and as a result, increased pricing. Despite the increase in wagering margin by Operators, overall market size continues to grow, as recreational punters embraced the sport.

As is the case in any trading market, growth begets growth. Increased depth and liquidity allowed better price discovery, more betting options, more promotion and more player rewards. More activity and varying Bookmaker and TAB prices on the same events allowed more arbitrage opportunities for punters as well.

For the Operator, liquidity is very important in racing markets given the risk assumed by bookmakers in fixed odds betting, and sophisticated trading platforms are important to manage pricing and risk effectively. BET provides fixed odds betting solutions to many in the Australian market and is at a strong advantage in the US market, where few other independent platforms are available for bookmakers to manage the particular risks around a fixed odds racing book.

1 <https://www.smh.com.au/sport/racing/tabs-to-reopen-rv-keen-to-turn-punters-back-to-tote-20200614-p552em.html>

Exhibit 8: Australian Racing Turnover and Win %



Source: Australian Gambling Statistics, Queensland Treasury, 2019, Racing Australia Fact Books

Funding to Racing Grew Strongly

The Australian Racing Industry has historic funding agreements in place with state TABs which obligated the TABs to provide a share of revenue to their host state's Racing industry.

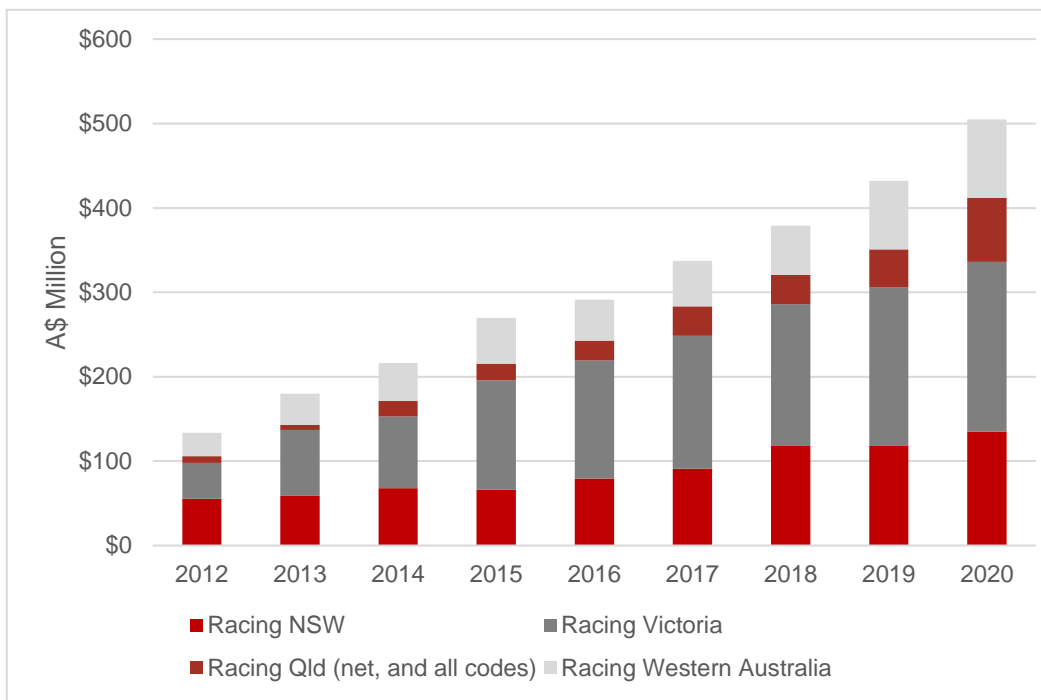
From the early 2000s, legal online wagering was affirmed under the Interactive Gambling Act, and the size of the market attracted the larger UK and Irish operators to enter. The advent of online wagering proved a boon to the Bookmakers, who based themselves in a low-tax jurisdiction and competed aggressively with the TABs. As a result, the total wagering market grew rapidly.

As a result of the dramatic growth of the fixed odds market, driven largely by the Corporate Bookmakers, an additional funding model was developed to ensure Racing was paid by Wagering Operators other than the host-state TAB. The payments (called "race field fees"), now account for at least \$500m of additional Racing Industry funding each year.

Thus, the Australian Racing Industry has been a significant beneficiary of the growth of the fixed odds betting market. Race field receipts for the four major racing states are presented in the chart below.

We see a similar funding model evolving in the US racing market with the racing industry benefitting from fees from wagering operators paying a fee for Race Wagering rights with BET taking a fee for distribution.

Exhibit 9: Increased Funds to Racing from Fixed Odds Betting



Source: State Racing Authorities Annual Reports

Potential US Market For Fixed Odds Horse Racing

Based on the Australian experience from 2010 to 2020, we could expect the US horse racing market to grow strongly with the introduction of fixed odds betting.

We postulate a set of forecasts, where we assume that New Jersey is the first state to legalise fixed odds betting on horse racing, closely followed by other east coast Racing markets. Nevada will shortly follow suit, and this will then incentivise west coast states to adopt fixed odds race betting. We assume that all horse racing states are offering fixed odds betting within 10 years.

The reality is that progress on legislation can be slow, however we expect that as the Racing Industry sees the benefits being earned by Racing in states which have legalised fixed odds betting, they will also actively lobby their own state governments to pass legislation quickly.

One important pre-requisite for increased competition in wagering markets is the ability for Wagering Operators to manage risk, and to lay-off excessive risk which emerges in their books from time to time. Parimutuel pools perform this important function, thus we see the opportunity for tote pools to grow and benefit from the growth of fixed odds.

We assume that the fixed odds category grows by 30% in the first year, with growth increasing by 5% p.a. as players become more familiar with the betting type. Parimutuel handle in those states which permit fixed odds betting will also grow, we assume by 15% p.a., as Wagering Operators will gain access to all parimutuel markets, not simply that of the state which has legalised fixed odds. We assume that parimutuel markets for Wagering Operators in states which have not legalised fixed odds will be flat.

On this basis, total US horse racing market grows to US\$85.8bn by Year 10, from \$10.9bn at 2020.

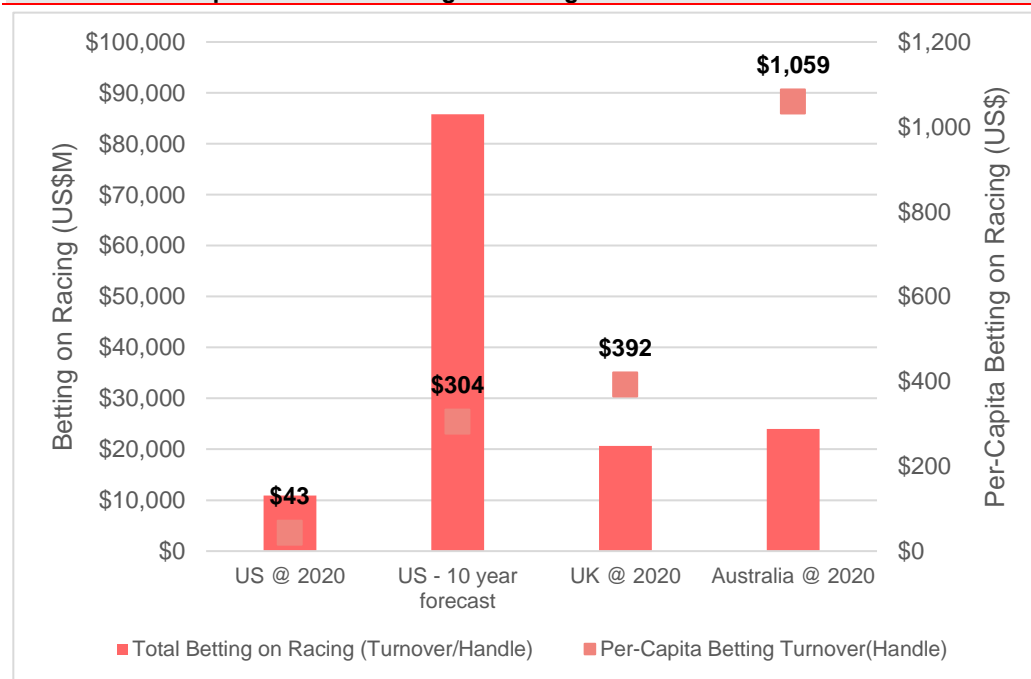
Exhibit 10: Forecast US Racing Market with Fixed Odds Betting

Year		1	2	3	4	5	6	7	8	9	10
Fixed Odds Growth Rate	%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%
Parimutuel Growth Rate - States with Fixed Odds	%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Parimutuel Growth Rate - States without Fixed odds	%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Market Size of States Legalising Fixed Odds this period - Parimutuel Handle	US\$M	657	-	942	1,300	3,068	2,492	-	1,570	873	-
Parimutuel Handle at end of period - states with Fixed Odds	US\$M	755	868	1,940	3,531	7,128	10,690	12,293	15,706	18,935	21,776
Parimutuel Handle at end of period - states without fixed odds	US\$M	10,243	10,243	9,302	8,002	4,934	2,442	2,442	873	0	0
Total Parimutuel Handle	US\$M	10,998	11,112	11,242	11,533	12,063	13,132	14,735	16,579	18,935	21,776
Fixed Odds Handle this period	US\$M	197	266	749	1,671	4,040	7,633	12,212	21,171	36,601	64,052
Total Racing Handle	US\$M	11,195	11,378	11,991	13,204	16,103	20,765	26,948	37,750	55,536	85,827
Fixed Odds As % of Total	%	2%	2%	6%	13%	25%	37%	45%	56%	66%	75%

Source: Owen Gaming Research on behalf of RaaS

We note that these assumptions still see the US horse racing market as relatively small on a per-capita basis compared to the UK and Australian Horse racing markets. On our forecasts, betting per adult in the US in 10 years will still be well below the levels seen in these more mature markets.

Exhibit 11: Per Capita and Total Betting on Racing



Source: Owen Gaming Research analysis for RaaS

Implications For BET

The Sportech acquisition has allowed BET to enter almost all existing parimutuel betting markets and to establish relationships with tracks to demonstrate the opportunity that fixed odds betting can deliver.

In the twelve months to December 2020, Sportech’s technology handled US\$2.7bn in horse racing turnover in the US, giving it a market share of c.25%. Sportech’s main totaliser competitors are Amtote (owned by unlisted, US headquartered Stronach Group) which is the dominant technology platform in US pari mutuel wagering, claiming it processes 70% of all

North American pari-mutuel pools², and United Tote, owned by Churchill Downs (NASDAQ:CHDN). Churchill Downs reported in 2020 that its assets, which include United Tote and twinspace, handled US\$1.997bn of US pari-mutuel wagers.³

We note that these two key technology platform competitors have relationships with existing racetracks, for example United Tote and the Churchill Downs racetrack (host to the Kentucky Derby) are both owned by CHDN, while Stronach Group also owns six racetracks across California, Florida and Maryland. These relationships will likely be useful for those competitors in contracting for provision of fixed odds betting when it becomes legal, however, these relationships may also potentially hinder further market share gains by those operators for contracts at racetracks which they do not control. Equally, Amtote and United Tote will be forced to use BET's services for distribution in New Jersey, where BET has 10-year exclusivity.

We estimate that wagering operators will pay a fee of 4% on turnover with BET retaining 1% for distribution services and the racing industry receiving the balance. At this point, we have assumed that beyond the New Jersey market where BET will have 100% of the fixed odds market due to its 10-year exclusive deal with the NJ Horsemen and Darby Developments, BET/Sportech will retain its current share of the US wagering market. Potential exists for further share gains over time. On this basis, by Year 10, BET net revenues of A\$308m are estimated.

Exhibit 12: Forecasts for BET's US Fixed Odds Revenues

Year	Fixed Odds Handle in States where BET Operates (US\$M)	Total Racing Handle (US\$M)	Wagering operators racing fees (4%)	Racing Industry Revenue - all Fixed Odds (US\$M)	BET Market Share (%)	BET distribution fee (1%)	BET Net Revenue from US Fixed Odds Horseracing in A\$ (@0.76)
1	197	11,195	4.0%	7.9	100%	2.0	\$2.6
2	266	11,378	4.0%	10.6	100%	2.7	\$3.5
3	749	11,991	4.0%	26.2	62%	4.7	\$6.1
4	1,671	13,204	4.0%	58.5	49%	8.2	\$10.8
5	4,040	16,103	4.0%	141.4	40%	16.2	\$21.3
6	7,633	20,765	4.0%	267.1	37%	28.5	\$37.5
7	12,212	26,948	4.0%	427.4	37%	45.6	\$60.0
8	21,171	37,750	4.0%	741.0	37%	77.8	\$102.3
9	36,601	55,536	4.0%	1,281.0	37%	133.7	\$176.0
10	64,052	85,827	4.0%	2,241.8	37%	234.1	\$308.0

Source: Owen Gaming Research for RaaS

² <https://www.amtote.com/product/parimaxtm>

³ <https://ir.churchilldownsincorporated.com/static-files/2d0fbe0a-9003-4b25-9d01-cdd6f1d682dd>



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