The Rise of Sports Gambling in the US

Liz Bowyer: Hi Stephen.

Stephen Grambling: Hi Liz.

Liz Bowyer: You and your team at Goldman Sachs Research recently hosted the Digital Evolution of Global Gaming Conference. And a big focus was on sports gambling. How are clients thinking about that sector?

Stephen Grambling: So, overall sentiment was positive. And not surprising, given sports betting represents one of the largest growth opportunities over the next ten years across consumer. And this is not only from as you think about traditionally bets on your favorite team or favorite player, but also how sports media will be distributed going forward.

Liz Bowyer: And what's driving this enthusiasm?

Stephen Grambling: Really, it all started with the overturning of the Professional and Amateur Sports Protection Act, or PASPA. This was back in 2018. Which opened the door for legislation on a state by state basis. What you should keep in mind though, is that there was a large gray market, primarily offshore operators, that had already developed prior to PASPA being overturned. So, in many ways, legislation is really just tapping into an existing market. But you also have increased awareness and marketing that's going to drive adoption over time.

Liz Bowyer: And what's the market size opportunity for sports gambling that you and your team are forecasting?

Stephen Grambling: So, we forecast a $39 billion online sports betting market by 2033 at maturity. That is based on a state by state build. This TAM would equate to a 40 percent keiger [PH] over a decade. To put this in perspective, e-commerce grew an 18 percent keiger over the past ten years with no individual category growing faster than 22 percent.

Liz Bowyer: And how are you arriving at this market size? What's driving your forecast?

Stephen Grambling: So, this is based on a state by state build that's based on share of spend or share of personal consumption expenditure. So, this is the gross gaming revenue, that's the amount that the operator, effectively, the casino, is winning from you that, the consumer, is losing. And we're going to benchmark that spend as a percentage of your overall share of wallet spend. And we look at that versus other mature markets.

We also tier each state so that if they have existing legislation, they're going to be at a higher tier with a higher probability of legislation happening and it becoming legalized. If we have a lower tier, it's usually where there aren't existing laws for traditional gambling or even, you know, brick and mortar casinos or any legislation that's even in process.

Liz Bowyer: Well, in your research you mentioned places like the UK and Australia where sports gambling has been legalized for some time. How does that weigh into your analysis?

Stephen Grambling: Right. So, those markets were legalized over a decade ago. So, thinking the early 2000s. And they started off at about ten basis points of overall personal consumption expenditures. And they ramped over a seven year window, which looks very consistent with other forms of e-commerce when you look at the share of e-commerce as a percentage of total brick and mortar or total, you know, overall retail sales, for example. You have this S curve or adoption curve which we look at and we say it will grow in the US in each market once it legalized on that same path moving from effectively that ten basis points to, now they're running at more like 24 basis points.

Of course, the US could prove to be larger or smaller than these markets. It really depends on how the propensity to gamble in the US compares to those markets. And right now, we obviously have more types of sports that people watch. So, there's football, baseball, and basketball, whereas in other markets it might just be or predominantly be soccer or football.

And then the other thing that we look at is where they're tracking right now. And so far, what we've seen is that in the State of New Jersey, for example, we've been tracking ahead of those markets. So, it looks like there could be, even if we adjust for New York potentially coming over to New Jersey, a market that could even be larger than that benchmark that we've been using.

Liz Bowyer: So, traditionally when we think about gambling, places like casinos and Las Vegas might come to mind, but here the digital apps are the platforms for gambling. Talk about this blurring of lines between operators and media companies.

Stephen Grambling: This is where sports betting gets really interesting because the traditional brick and mortar casino customer is over 50 years old. Whereas the traditional sports betting customer is under 40 years old. And the reason why this is important is that the leagues and media companies have both talked about cord cutting and having a more difficult time both attracting younger consumers and keeping them engaged with sports going forward.

So, as we think about the sports betting apps attracting this younger customer, they could over time embed content directly into the app and circumvent any intermediary. So, just to put this in perspective, we think that at maturity there could be 50 million people who are betting on sports in the US. For the top players in the space that generate about 30 to 35 percent market share currently, that means that they could have over 15 million people on their device. That 15 million people is roughly the same number that watch NFL Football Sunday today, meaning they could circumvent the entire intermediaries and be really that direct-to-consumer channel for sports media.

Liz Bowyer: And as we move further up the adoption curve, how are the market leaders responding to the growth that we're seeing?

Stephen Grambling: What most people have probably noticed is there's a little bit of a land grab going on with very, very heavy promotions. People are clearly trying to acquire customers. And the way that they're doing that is not only through those promotions, but also investing in technology, which is usually focused on in-game betting. So, that's betting on things that are happening really live. And then other forms of differentiation.

These efforts are running in parallel with a shift or a blurring of line towards content and developing partnerships with media companies. And this moves beyond just traditional advertising to really being embedded with them. As I referenced, they're not only going to be trying to advertise, but they're actually going to try to over time create their own content and be that place that consumers are looking towards. And they can then leverage that to monetize their content and the sports betting together in a new revenue stream, which is really advertising.

Liz Bowyer: So, Stephen, even with this bullish view, legislation remains a key challenge for this industry. New York, for example, just put new limits on sports gambling. What do you make of that?

Stephen Grambling: This has become, you know, probably the biggest question over the past few weeks. As we've seen the New York budget's saying that they want to have more of a lottery type system. So, the exact rules are evolving. But what's been laid out as we see it right now in the budget has been that you will have two operators who then get to choose at least two more operators based on over 12 different factors that will pick who are effectively the operators in that state. And that's going to be under a 50 percent plus tax rate. And there will also be a licensing fee up front. So, that's much more stringent than the average states right now which can range from just under ten percent to over 25 percent. You know, the only states that have actually had a 50 percent plus tax rate are states like New Hampshire where you have a single operator.

What that means is that in New York, especially, you could end up with, either less marketing, or just lower margins for those businesses. And I think that the big question is will other states follow suit? Or will they wait to see what happens in New York? Because what you could see is that customers, if they're not getting the same level of promotions or customer acquisition tools in New York, they might stay on the offshore channel. So, they might not want to go through the legitimate markets, which might actually reduce the revenue that could be brought in.

Liz Bowyer: And how could legislation like this potentially impact your outlook for the sports gambling industry?

Stephen Grambling: So, I don't want to belittle or make less of a big deal out of what is effectively one of the top three largest states from a personal consumption expenditure standpoint. But, if you were to quantitatively look at our TAM, including New York in totality, because we were previously assigning an 80 percent probability, would move our $39 billion TAM that I referenced to more of a $40 billion TAM. But if we exclude it because people don't win that market or otherwise, it really just moves to $36 billion.

So, when we think about that market sizing for New York, whether it's a $40 billion or $36 billion market, it still is a huge market regardless of New York.

Liz Bowyer: Thanks Stephen.

Stephen Grambling: Thanks Liz.