



**SPORTS BETTING and
ARCHITECTURE FOR A
C.A.R.F. NETWORK**

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FAST FACTS

Horse racing was the original and most popular sports betting game which converted to the relatively no risk pari-mutuel wagering platform in the 1930's. All other sports, with few exceptions, operated in underground, illegal markets through independent bookmakers (bookies) who operated as the "house". Consequently, these markets developed as "fixed-odds" propositions where bets were set with a small mathematical advantage (vigorous) to the bookmaker. The odds, or pricing of the bets were fixed and remained unchanged for the bettor at the placement of the bet.

Prior to the recent Supreme Court repeal of the 1992 federal sports betting prohibition, the state of Nevada was the only operating legal jurisdiction in the United States offering full scale, regulated sports betting. It's estimated by the American Gaming Association that Nevada's legal bets only comprised about 3.5% of all sports bets placed in the United States. During calendar year 2019, Nevada handled \$5.32 Billion in sports bets, over half via intra-state mobile devices. Nevada handle has doubled over the last 10 years.

- 1) Demographics from research conducted by the American Gaming Association:
 - a. 39% of adult Americans are either current or potential future sports bettors.
 - b. Men represent 69% of core sports bettors, who have placed a sports bet with a casino or online or through a bookie in the last 12 months
 - c. 45 percent of core bettors are ages 23-34
- 2) California revenue projections – intrastate wagering only, per the 1961 Federal Wire Act.
 - a. \$2.5 billion annual gross revenue in a mature market, recently estimated by industry analyst Eilers and Krejcik Gaming, LLC, translating to around \$45 billion in handle.

3) Betting popularity by sport in Nevada - 10-year average

		<u>Calendar Season</u>
a. Football (Pro, NCAA)	40%	August-February
b. Basketball (Pro, NCAA)	30%	October-June
c. Baseball	22%	April-October
d. Other*	8%	Year round

*Hockey, MMA/Box, Golf, Soccer, NASCAR, Tennis, Olympics, horse racing matchups/futures

- 4) Types of bets, risk – theoretical hold% (takeout)
 - a. Straight Bet - Team A vs. Team B – A point spread is typically used where the oddsmakers rate the relative strengths of the teams against each other, (example S.F. 49ers minus 3 points versus L.A. Rams). In this example, the 49ers are favored and required to win the game by more than 3 points to win the bet. Equally, a Rams bet is won by either winning the game or losing by less than 3 points. Ties refund. Payoffs are a ratio of 10/11, or a bet of \$110 would win the bettor \$100. The most popular bet type. Hold, 4.5%
 - b. Money line – a variation of the straight bet without a point spread. A money line bet is one of the easiest bets you can make at a sportsbook. Simply put, it means betting on a specific team to win a game. While betting on a point spread is about who wins and by how much, a money line bet is solely about who wins. Using the example above, the 49er's, would translate to around (\$) -1.50, as the game favorite using the money line, meaning the bettor will win \$100 for every \$150 bet. If the Rams were to win the game as the underdog and were the chosen bet, a \$100 bet would win \$130, (difference in

pricing is the house advantage, or vigorish) plus the original \$100 stake for \$230. This is the typical bet type offered in Baseball, MMA and horse race match races. Hold, 2-10%

- c. Over/under – straight bet on the total score of a game, or game segment, as in the first half. If oddsmakers posted a total game score on the 49er/Ram game as 49, the bet would be on either over the 49 total points scored in the game, or under. Ties refund. Hold, 4.5%
- d. Game propositions – a variation of money line bet, typically involving the personal performance of an athlete(s) such as yards gained, strikeouts, etc. Hold, 4.5%
- e. In run propositions – bets offered after the start of a game. Examples are adjusted points spreads or over/under, money lines, player performance, etc. Imagination is the only boundary. Hold, variable but typically 5-10%
- f. Parlay - Multi-selection propositions – like racing’s pick (n) bets, these betting selections require a minimum of two bets linked to another. The more bets selected, the higher the fixed odds payout. All propositions must win. Historically affiliated with a “card”, these bet types are rapidly converting to electronic format through mobile, or kiosk devices. Popular for “jackpot” type winnings. Roughly, 25% of handle. Hold, 12-40%
- g. Teaser – multi-selection bet type where points spreads are adjusted in favor of your selected team. Example, in a 6-point teaser the 49ers receive 6 points to their advantage, switching from being a 3-point favorite to receiving 3 points added to their final game score. Conversely, the Rams add 6-points to their underdog status of 3 points to now having 9 points added to their final game score. Not surprisingly, the fixed odds payoffs are reduced significantly versus the traditional parlay bet. Historical hold, 5-25%
- h. Future bets – popular in racing using a pari-mutuel format, usually affiliated with the Kentucky Derby, sports betting posts future field bets for a large variety of sporting events or athletic performances. Weekly future bets are posted as odds against winning the weekly PGA, or NASCAR event. The most popular sports betting example would be odds against teams winning the Super Bowl. Related, The Super Bowl as a major single game event has led oddsmakers to exploit the game into hundreds of potential outcomes using both future field bets and money line formats. Future bets are often bet able for months prior to outcome, consequently the entries are developed with high theoretical takeout, compensating for the evolving market and, candidly, human error. Historical hold, 25%

- 5) Contests – not considered a “bet” by Nevada regulations, pay to play contests – typically football contests held during the full regular season are standard offerings that continue to grow in popularity. Entrance fees range from free to \$5,000. In a network environment these contests can work as effective marketing tools to promote weekly participation and build impressive prizes.
- a. Daily Fantasy Sports (DFS) – a close cousin to sports betting but legally considered non-gaming skill contests in over 20 states and tolerated, though not specifically authorized in more than 20 additional states, including California. Contests typically include player propositions derived from real time game events, not to include any specific game outcome. The contest development from fantasy “team” contests to player proposition contests blur the line between DFS and sports betting even further. Many of the restrictions daily fantasy self-imposed just 5-years ago are gone, seemingly because sports betting has become the new focus. The following is why it would be wise to keep DFS on the radar screen:
 - a. The major DFS companies, Fan Duel and Draft Kings, have both added sports wagering to their offerings and are DOMINATING in emerging states sports betting jurisdictions. Clearly, their existing DFS contestant database and first to market technology has translated into a HUGE advantage.
 - b. Fantasy sports participation continues to grow in markets where sports betting has been authorized and operating over the last year.

- c. Fantasy sports pools are not restricted to intra-state play as are sports bets due to the 1961 Federal Wire Act. During the NFL and other major events this enables individual DFS prize structures over \$1 million.
- d. DFS essentially, operates more similarly to racing, using guaranteed minimum prizes and paying out in a Pari-mutuel format.
- e. Arguably, DFS is a more interactive game as the final contest scoring is critical up until the very end of the real time events as opposed to betting on a lopsided game event.

Key components for a successful sports betting operation

- 1) **Risk management** - Significantly, the key operational difference between wagers in a traditional sports books and pari-mutuel horse racing is the fixed odds format. With fixed odds, the bettor receives the price, as defined by a point spread, odds against or money line at the time of the bet. The Sports Book and bettor are locked into the terms at the time of the bet, regardless of final pricing at game start, or wagering shut off time.

The risk manager, commonly known as the “bookmaker”, is essentially responsible for the sports betting hub operations to include the following functions:

- a. Daily, creating a competitive wagering menu on all major sports and events.
- b. Developing and posting odds, or competitive prices on opposing propositions intended to divide the public wagering activity. Entering and grading the above information into the sports wagering system hub for broadcast dissemination to each location.
- c. Monitoring all wagering activity in real time, adjusting odds, or prices as necessary with the goal of balancing the pool of event wagers.
- d. Setting wagering limits on the various sports betting activities while closely monitoring house (facility, or network) liability.
- e. Report suspicious wagering activity to appropriate authorities

Contrasting with pari-mutuel wagering where an automatic margin (“takeout”) is extracted from wagering volume (handle), typically at a legislatively mandated percentage, the sports bettor is playing against the house in the fixed odds wagering format, albeit with a small theoretical disadvantage. Sports books can, and do, lose money from a day’s events but historically have never lost over an annual period. Historical hold (takeout) in Nevada over the last 10-years has been 5.46%, with an annual low of 4.86% (2016) and high of 6.19% (2019).

A discussion on integrating risk management into a unique CARF network (outsource, in-house) can be complex when considering all factors. Considering the historically thin revenue margins from sports wagering, coupled with risk manager effectiveness, strategy and contract costs, decisions can significantly impact the bottom line.

2) **Wagering Systems**

- a. Teller issued – all major U.S. sport wagering systems, to date, are based off existing horse racing technology, consequently the method for making wagers is very similar. California’s current tote provider, Amtote, has sports wagering software which can be integrated into existing teller and self-bet terminals. Europe and Australia have mature sports wagering markets, and most of their systems have the ability to wager on U.S. sports, including unique bet types atypical to European sports bets. Independent (from AmTote) sports wagering systems operate similarly to Tote systems servicing a network with a hub station processing all wagering information to, and from, satellite locations.

- b. Advanced Deposit Wagering – one of the few consistent growth areas for horse racing over the last 20 years has been with Advanced Deposit Wagering (ADW), where a consumer deposits cash into a unique account and uses mobile, or internet devices as their self-serve wagering device. Clearly, ADW has quickly established as the preferred method for sports wagering in authorized jurisdictions commonly handling over 80% of all sports wagers. ADW operates more cost effectively from the operator perspective but has its own challenges. Professional wagering bettors and syndicates enjoy the convenience of ADW which allows them to “shop” competing sports books to their advantage. Consequently, both historical hold percentage and limits are typically lower for ADW play.
- c. Kiosks – akin to racing self-bet terminals, several start up sports betting operations in authorized states are using self-bet kiosks in addition to teller service. Individual state compliance requirements will guide the effective use. Example: In Nevada, all kiosks are required to integrate camera’s and microphones to communicate with the user. Typically, only installed in remote locations unable to support a staffed sports book.
- d. “In-run, or in-play” – a growing segment in U.S. sports betting, primarily through ADW operations, are wagers accepted after the start of the event. Very popular in Europe, particularly in low scoring soccer or lengthy cricket matches where events within the game can be wagered on. Example: “Which team will draw the next yellow card”. Faster moving American sports commonly offer adjusted game pricing after the start of a game utilizing service providers who develop proprietary algorithms based on the event’s current status. Viewed as a vast potential wagering growth area as data suppliers, in conjunction with the major sports leagues, rapidly accumulate and distribute data during the course of real time events.

Contracting for a sports wagering system is, roughly, in line with pricing offered from horse racing totes systems. Add-ons, such as mobile or in play are usually negotiated separately. The growing U.S. sports betting systems market is dynamically changing as several European and mobile providers are competing for limited business creating a buyer’s market.

- 3) **Sports Viewing** – Without televised simulcasting, CARF’s wagering facilities would likely not exist. The visualization and socialization of sporting events, too, appreciably raise the entertainment value of sports wagering, induce wagering and contribute to food and beverage revenues. A modernly designed sports book is the next best thing to attending a live sporting event in excitement, interaction and participation. Venues vary from the \$15 million-dollar Las Vegas Westgate SuperBook (left photo) to a more modest, recently developed sports book (right photo).



Crossover betting from Race to Sports bettors in Nevada is proprietary information and it’s too early in the national rollout to realistically understand sports wagering’s impact on racing facilities. Colloquially, a 10-

20% crossover figure is often used. In Nevada, horse players are inclined to wager as they do in horse racing; playing multi-leg bet types. Cannibalization of existing race players should be expected, given the lower comparative takeout percentages, but there are opportunities to introduce horse racing to a new, younger crowd if sharing space with an existing satellite wagering facility.

As a personal recommendation: Do not mix sports viewing with race viewing!! If possible, separate the areas into unique spaces for two good reasons:

- f. Major sports league viewing packages enable the comprehensive broadcast of all league games and are an expected necessity for a full-scale sports entertainment wagering venue. Subscription packages are based on the facilities fire occupancy code for the building as a whole. However, if an area is sequestered inside of the facility with a separate, smaller fire occupancy code, subscription pricing is tailored for the area, potentially saving thousands of dollars.
 - g. Imagine the sports fans erupting with screams as their local (or betting) favorite team scores while the average aged 70-year-old horse player is quietly, and intently studying their racing materials nearby. Guaranteed not to have happy customers. Competition for overhead broadcast sound is an additional issue.
- 4) **Marketing** – Outside of CARF’s own racing product, springtime’s Triple Crown and fall’s Breeders Cup demand the most awareness from the general public and racing venues logically focus marketing on promoting these well attended events.

Sports betting offers notable events all year, excepting the long summer baseball days, sporadically interrupted by major golf, tennis and fighting events. The NCAA “March Madness” basketball tournament is the most popular event in Nevada over a two-week period. As a single event, the NFL’s Super Bowl is easily the most popular. NFL’s weekends should all be considered events and offer great marketing opportunities, especially when coupled with contests featuring jackpot sized prizes.

- 5) **Compliance** – Each state, or sovereign nation, is responsible for setting sports betting rules, regulations, minimum compliance standards, oversight and protocol. Federal compliance includes, but not limited to, currency transaction reports and the timely payments of a .0025% federal tax on sports wagering handle.
- 6) **Problem Gaming** – An alliance and awareness with problem gambling service providers is a natural support for a sports wagering enterprise.

This document was developed to give a brief overview of sports wagering operations and their critical requirements which likely raises many additional questions and topics, all of which I can hopefully answer with additional detail, or research.

Thanks,
Mike Knapp