

# iGaming in Indiana

Highlighting the Opportunity



Global Market Advisors

Denver • Las Vegas • Singapore

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Prepared for:



# Executive Summary

## • Market Potential

- GMA expects the Indiana iGaming market to be robust, projecting it to generate roughly \$575.8 million in gross gaming revenue in Year 3 of the market's operations.
- The iGaming market is not expected to have an impact on land-based gaming revenue generated in the state, as this has not been experienced in other U.S. jurisdictions.
- With this level of gaming revenue generation, and an assumed 15% tax rate, the iGaming market is projected to generate approximately \$86.4 million in new gaming tax revenue for the state.
  - As a firm, GMA has long held that the optimal tax rate for iGaming is at 15% of GGR to maximize the revenue opportunity for operators, states, and offer consumers the best product.
- Under the proposed 2022 Legislation with an 18% tax rate, the iGaming market is projected to generate approximately \$103.6 million in new gaming tax revenue for the state.

## • Regulatory Recommendations

- Indiana should create a regulatory environment that is consistent with other comparable, strictly regulated markets that only allow suitable operators into the market.
- Consumer protections, like those in existence for Indiana online sports betting, must be present to ensure integrity in iGaming operations from both an operator and consumer perspective. These include, but not limited to, Know Your Customer ("KYC") standards, Anti-Money Laundering ("AML") standards, responsible gaming measures, cashless wagering considerations, and geo-compliance standards.
- As Indiana looks to set the tax and license structure, it must balance the structure for existing land-based operations with the costs associated with iGaming operations and a consideration of surrounding jurisdictions.



## Major Assumptions

- Indiana will rely on online regulatory models similar to other markets in the U.S. that are respected nationally and internationally, such as New Jersey.
- Online gaming licenses will only be granted to respected operators with experience in online gaming, which may be done in partnership with a land-based entity.
  - Numerous licenses (and potentially skins) will be offered in the market by reputable/popular brands, providing a mature and competitive operational environment with appropriate levels of marketing spend.
  - For this assessment, it is assumed that there are a minimum of 10 reputable operators in the market.
- Revenues will only stem from patrons within the geographic borders of the state of Indiana (assumes appropriate geo-compliance measures are deployed so revenues for the State of Indiana will originate from patrons within the geographic borders of the state).
- The iGaming product offering will be diverse, including a slot product featuring countless titles/themes, table games (house-banked and player-banked), and live dealer online (“LDO”) offering.
- For modeling purposes, GMA assumed its optimal tax rate of 15 percent and the proposed 2022 Indiana Legislation tax rate of 18 percent.



## Existing U.S. iGaming Market Overview – The Offering



### **RNG**

*Random Number Generator Based Games – includes virtual slot machines, wheel & dice games, skill games, and arcade games generated from a random sequence by a software program*



### **Tables Games**

*House-banked and player-banked card games including roulette, blackjack, baccarat, poker, rummy, and others*



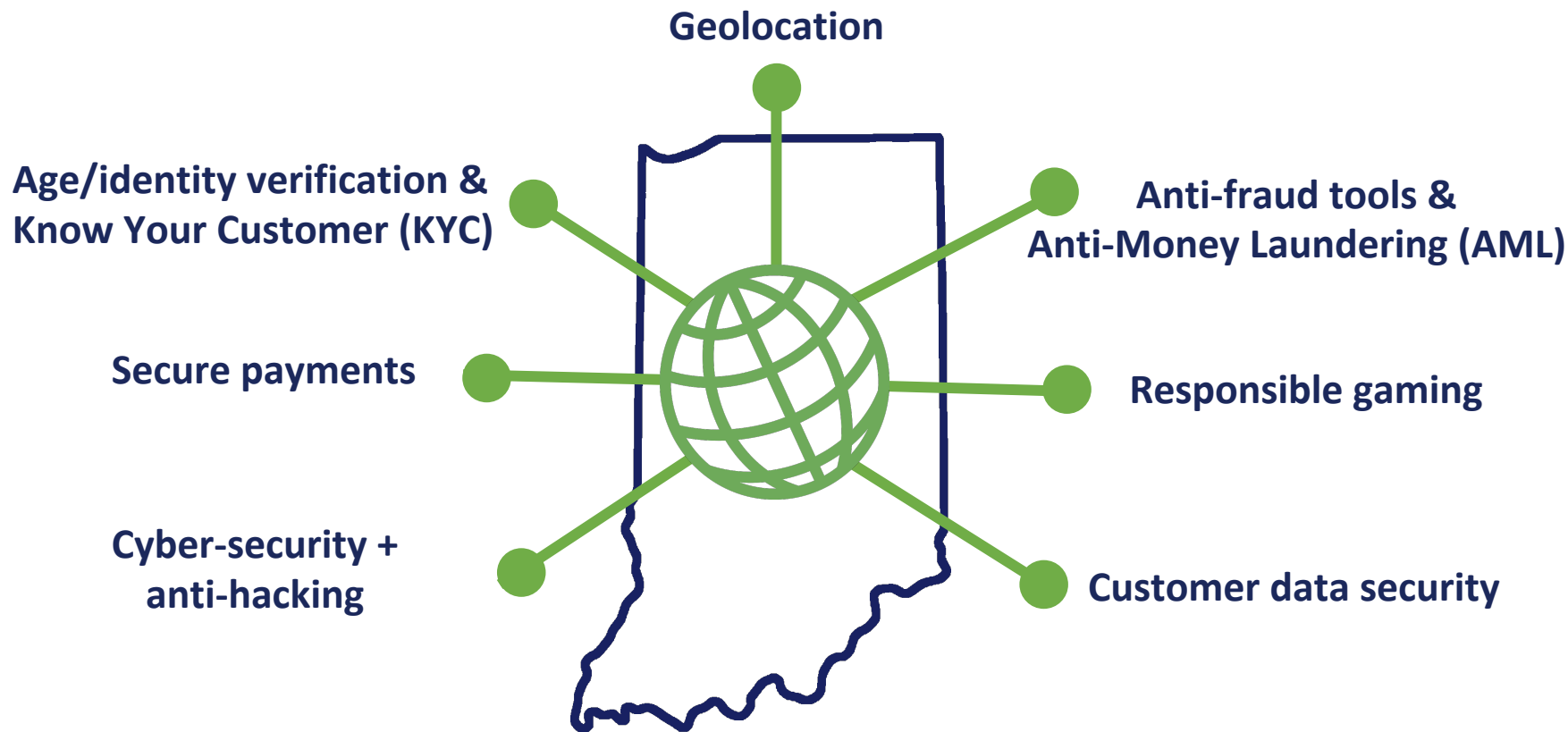
### **Live Dealer Online (LDO)**

*House-banked table games with a live dealer conducting games in real time in front of video cameras in live studios. This attracts players that like the feel of the gaming floor experience*

***iGaming is a complement to the existing online sports betting market and an extension of land-based gaming if crafted properly***



# Keys to the iGaming Market



**Indiana already has the experience and infrastructure in place through online sports betting to support iGaming**



## Expenses and Tax Considerations

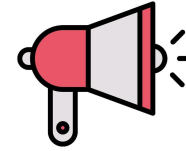
Key operating expenses include, but are not limited to:

- Platform Development
- Front office and back-office capabilities
- Customer service
- Geo-fencing
- Marketing
- Staffing
- Payment processing
- Responsible gaming

**Taxes are an additional expense that cut into an operator's ability to reinvest in the market, grow the business, and create a greater base of taxable revenue.**

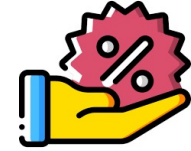
**Because of these factors, GMA believes that a tax rate above 15% on GGR could limit the ability of iGaming operators to cover their expenses, innovate and reinvest in their product, and reinvest in their players.**

### Major Operating Costs



24%

Marketing & Advertising Costs\*



20%

Player Promotions & Retention Costs



18.5%

Compliance (KYC, Payments, etc.)



12.5%

Administrative Costs Staffing

*\* Marketing & Advertising Costs can be dramatically higher in the first few years based on patterns from existing markets. This number is likely to be significantly higher for player acquisition.*

## Consumer Expectations

Indiana consumers currently have access to dozens of *illegal* online gaming sites that provide no consumer protections and zero state tax revenue. Indiana lawmakers can meet consumer demand for iGaming by establishing a legal, competitive market that benefits the state economy and allows consumers to thrive while also protecting them with regulatory safeguards.

Consumer desire:

- A market that offers diverse product choices including numerous slots, tables, live dealer, and poker.
- Payment processing to allow for secure, convenient flow of money into and out of the product.
- Player rewards programs that can transfer into brick-and-mortar facilities.
- Customer protections ensuring that the game is played properly and technology is used to benefit the market.
- Continued innovation so that the product continues to improve.
- Responsible gaming tools such as self exclusion and others.

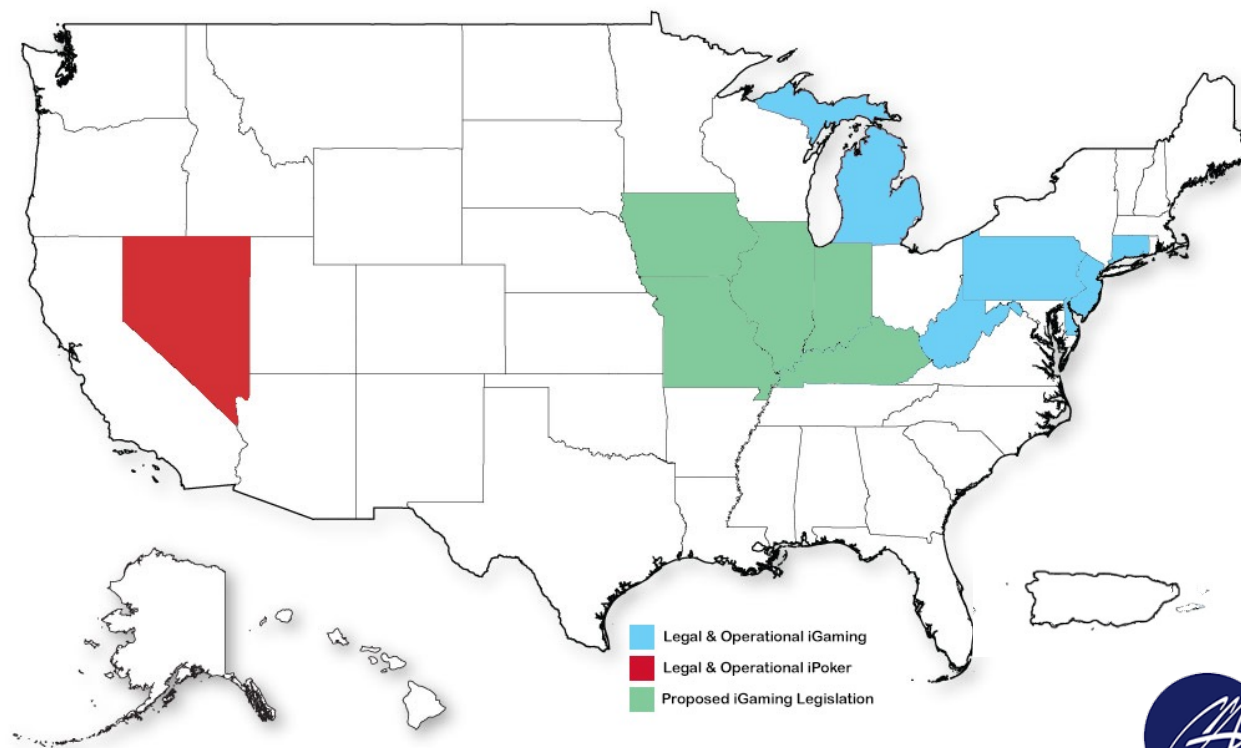
**This can only be accomplished by establishing a market that allows competition, allows operators to innovate, and forms a strict regulatory structure that only allows reputable operators to compete in the marketplace.**





## Existing U.S. iGaming Market

- iGaming in the United States is currently available in seven (7) jurisdictions:
  - Online slots, tables, and poker offered in New Jersey, Pennsylvania, Delaware, West Virginia, Michigan, and Connecticut.
  - Nevada iGaming offering is limited to poker games.
- Strong revenue levels achieved in New Jersey, Pennsylvania, and Michigan feature a wider range of operators and skins that offer diverse iGaming products.
- Strong and short ramp up experienced in newer markets due to lessons learned from New Jersey.
  - Includes the addition of LDO and increasing the number of skins permitted for each licensee in New Jersey.





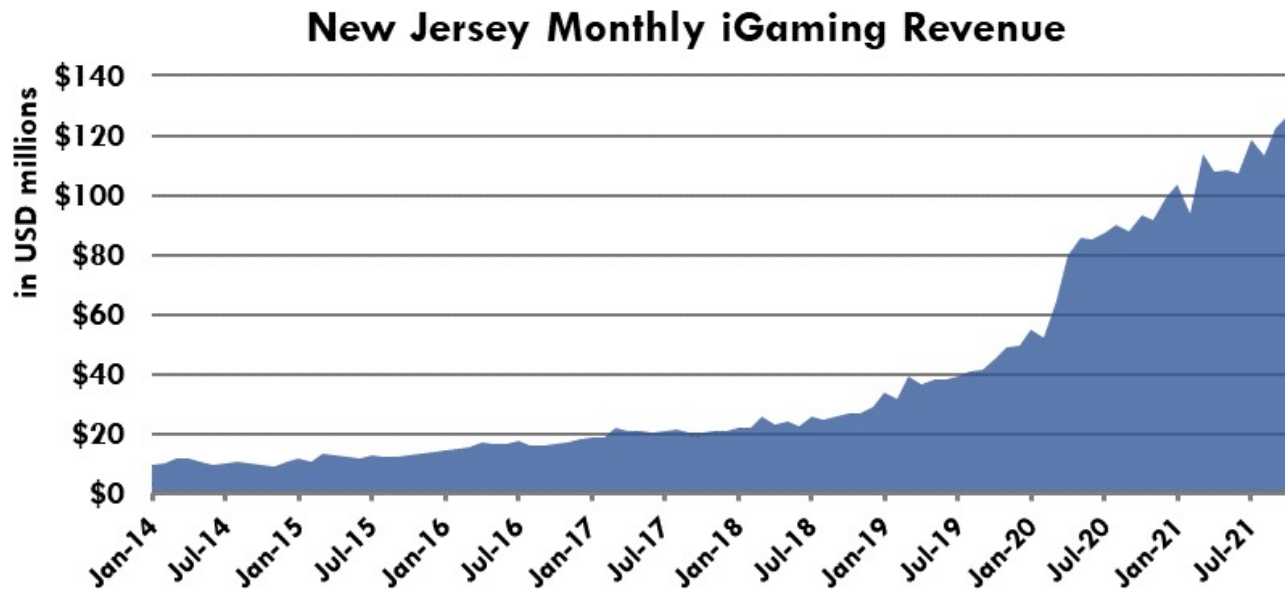
## Existing U.S. iGaming Market Overview – New Jersey

- New Jersey authorized licenses for online gaming sites partnered with existing land-based Atlantic City casinos on February 26, 2013.

- New Jersey Division of Gaming Enforcement (“NJDE”) regulates all casinos

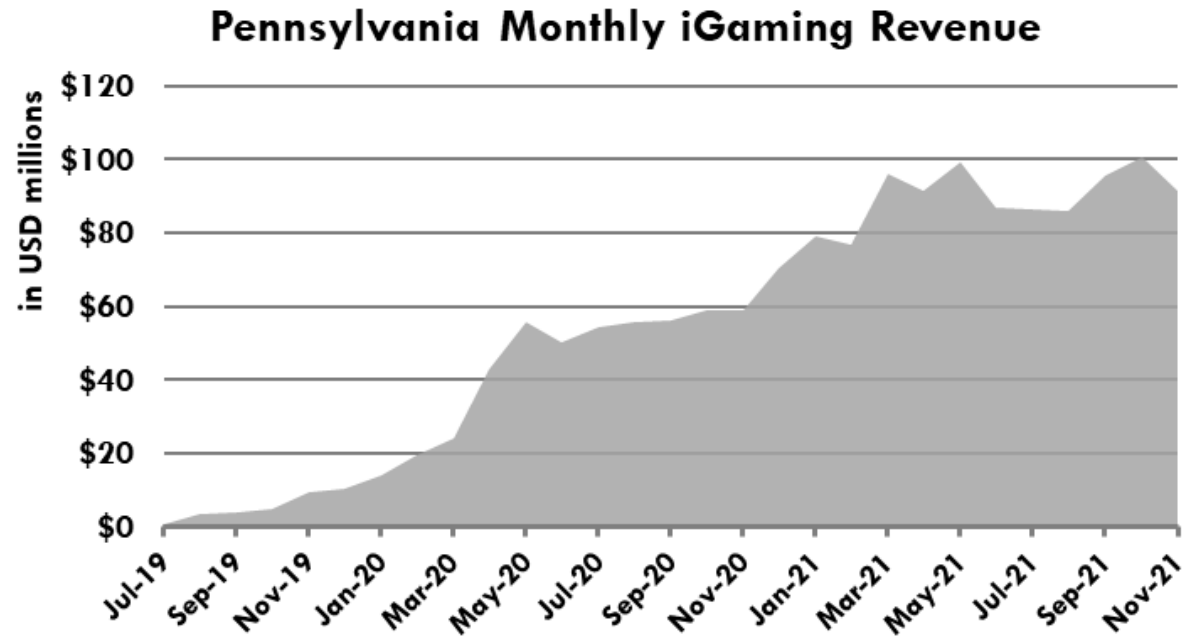
in Atlantic City is also responsible for authorizing and regulating all online gaming sites.

- As of January 2022, 33 regulated online gaming sites.
  - With the introduction of live dealer in 2016, the iGaming table game market continues to expand.
- iGaming revenue has continued to grow since launch but accelerated with the introduction of sports betting in 2018.



## Existing U.S. iGaming Market Overview – Pennsylvania

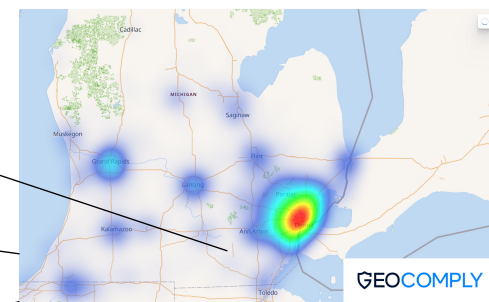
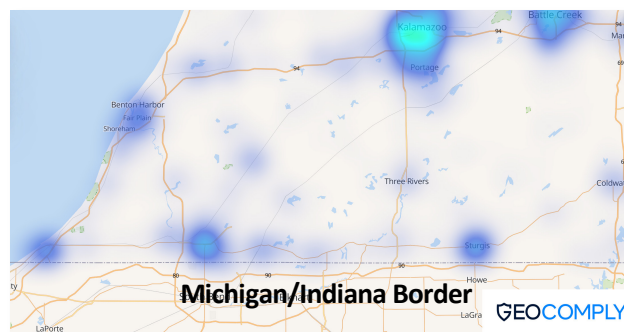
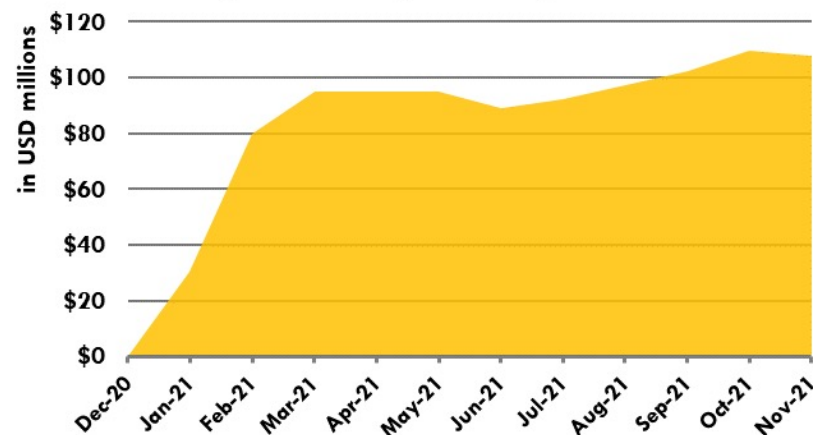
- On October 30, 2017, Governor Tom Wolf of Pennsylvania signed legislation which officially legalized online gaming within the state.
- Pennsylvania Gaming Control Board (“PGCB”) oversees regulation of iGaming.
- **HB 271**: legalized online poker, slots and table games.
  - 12 total licenses available, each broken into three categories (poker, slots, and table games).
- There are 15 online gaming operators within Pennsylvania as of August 2021.



## Existing U.S. iGaming Market Overview – Michigan

- Michigan legalized online gaming on December 20, 2019. However, internet casinos and sportsbooks did not open until January 2021.
- Lawful Internet Gaming Act:** Authorized online casino games in licensed casinos.
  - Costs include a \$50,000 application fee, \$100,000 for a five-year license, and \$50,000 to renew.
  - Graduated tax rate starting at 20% of adjusted gross receipts (“AGR”) under \$4 million, going up to 28% for AGR greater than \$12 million; Detroit casinos also pay 1.25% to the city of Detroit.
- Lawful Sports Betting Act:** Created as a work around to receive lower tax rates on sports betting.
  - Costs are \$50,000 for an application fee, \$100,000 for a one-year license, and \$50,000 annually to renew.
- 14 online casinos as of September 2021.
- One of the most successful launches in the U.S. in terms of number of casino openings.
  - 8 online casinos
  - 10 sports betting sites

Michigan Monthly iGaming Revenue



*Data shows activity occurring just on the other side of the Michigan border*

## Existing U.S. iGaming Market Overview – Other U.S. Markets

- **Delaware:**

- In 2012, Delaware became the first state to legalize online poker.
- In March 2015, it signed a deal with Nevada to share online poker liquidity.
  - This is where everyone plays in the same pool; however, state revenue is retained based on individual player's location.

- **West Virginia:**

- West Virginia became the fourth state to offer iGaming in July 2020.
- There are five casinos in the state which are eligible to offer online slots, blackjack, and video poker.
- DraftKings, FanDuel, and BetMGM all offer iGaming (and sports betting) within the state.

- **Connecticut:**

- Launched sports betting and internet wagering on October 12, 2021.
- The two tribal casinos and the state's quasi-public lottery will offer online sports wagering and retail sports betting.
- In the first month of this soft launch, geolocation specialist GeoComply has shown that more than 1.2 million transactions have occurred.

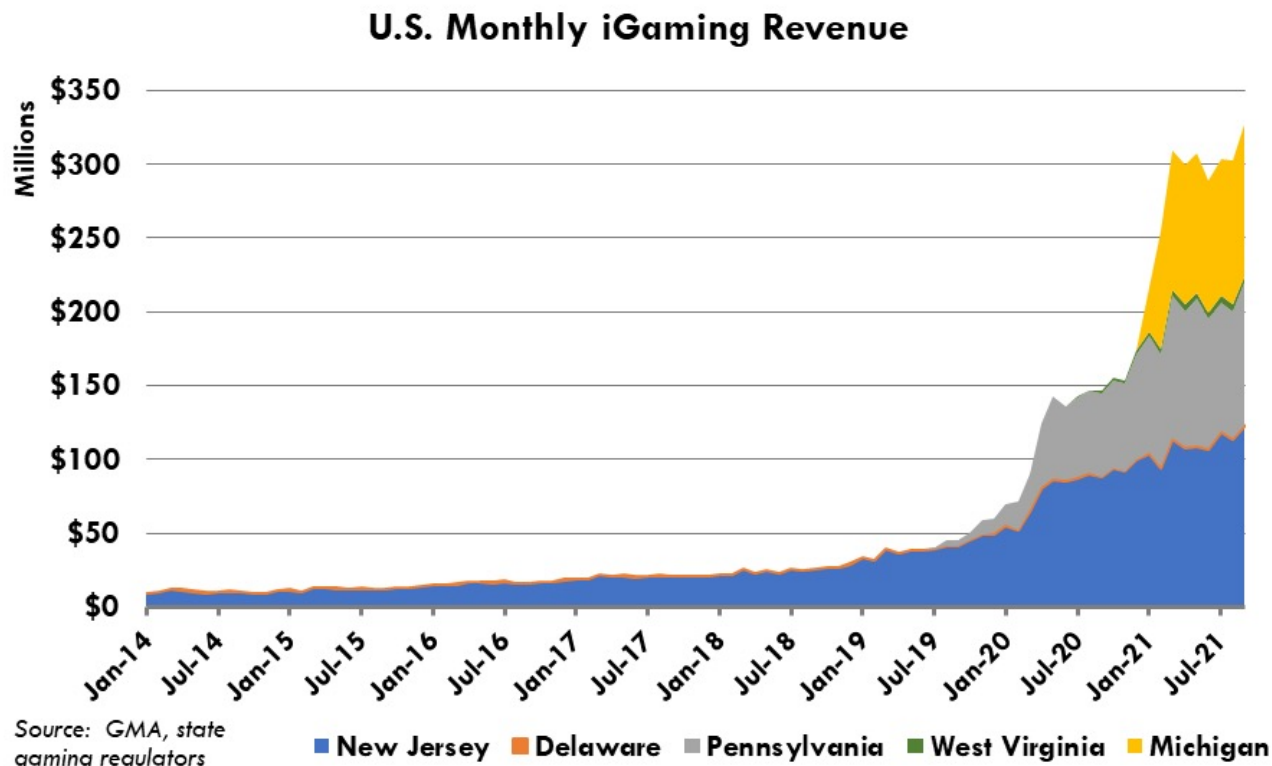
- **Nevada:**

- Nevada has legalized online poker and sports betting.



## Existing U.S. iGaming Market Performance

- \$1.5 billion in U.S. iGaming revenue generated in 2020 – nearly threefold increase over 2019
- Average of more than \$300 million in monthly iGaming revenue nationwide in the last six months
  - Less than \$50 million per month prior to 2019
- New Jersey, Pennsylvania, and Michigan collectively generate a vast majority of revenue
- iGaming revenues supplement, rather than supplant, land-based casino revenue in these markets
  - Strong iGaming performance in 2020 kept operators in a position to cover their land-based revenue losses due to pandemic-related closures



## Tax Structure Comparisons

- **New Jersey:**
  - 15% tax applied to iGaming gross revenues
  - 2.5% community investment alternative tax
- **Pennsylvania:**
  - Rates are consistent with their land-based counterparts which include:
    - 16% tax rate on poker games (14% to the State, 2% allocated to local governments)
    - 16% tax rate on table games (14% to the State, 2% allocated to local governments)
    - 54% tax rate on slot games (52% to the State, 2% allocated to local governments)
  - Promotion play deduction is allowed which reduces the effective tax rate.
- **Delaware:**
  - iGaming tax rates roughly the same as land-based
  - 15.5% tax rate on table games, with a 4.5% purse supplement
  - 42.5% tax rate on interactive VLTs, with a 10% purse supplement
- **Michigan:**
  - Tax rate varies from 20% - 28% based on yearly adjusted gross receipts
  - Promotion play deduction is allowed which reduces the effective tax rate.
- **West Virginia:**
  - 15% tax rate for aggregate revenue
- **Connecticut**
  - 18% tax rate for gross gaming revenue, increases to 20% in 2026

**Tax rates need to be set at a reasonable level to allow the market to operate effectively and generate the most tax revenue for the state. Setting rates too high, can allow the illegal market to thrive and reduce the amount of tax revenue that could be generated.**



## Tax Rate & Gaming

- Tax Rates are one of the keys to the success or failure of any gaming jurisdictions.
- Land-based gaming operations have not faced the same level of competition that exists today for online sports betting and iGaming markets.
  - Land-based competition spans across borders from neighboring states because of proximity to facilities.
  - iGaming markets can face similar cross-border challenges, but it also competes with illegal websites operating out of the country.
  - Off-shore, illegal websites enjoy the benefit of not paying taxes to any jurisdictions while they continue to operate in the shadows of legal markets.
- Operators in new and emerging jurisdictions must compete with these operations while paying taxes to the jurisdiction in which they operate along with the increased market costs for player acquisition and compliance.
- Higher taxes inhibit the ability of both land-based and online operators to reinvest in their product
  - If allowed, promotional play, such as slot or other bet incentives, may be over-inflated to reduce the tax burden on an operator.

**GMA has long held that a tax rate above 15% of GGR will limit the ability of iGaming operators to cover their expenses, innovate and reinvest in their product, and reinvest in their players.**

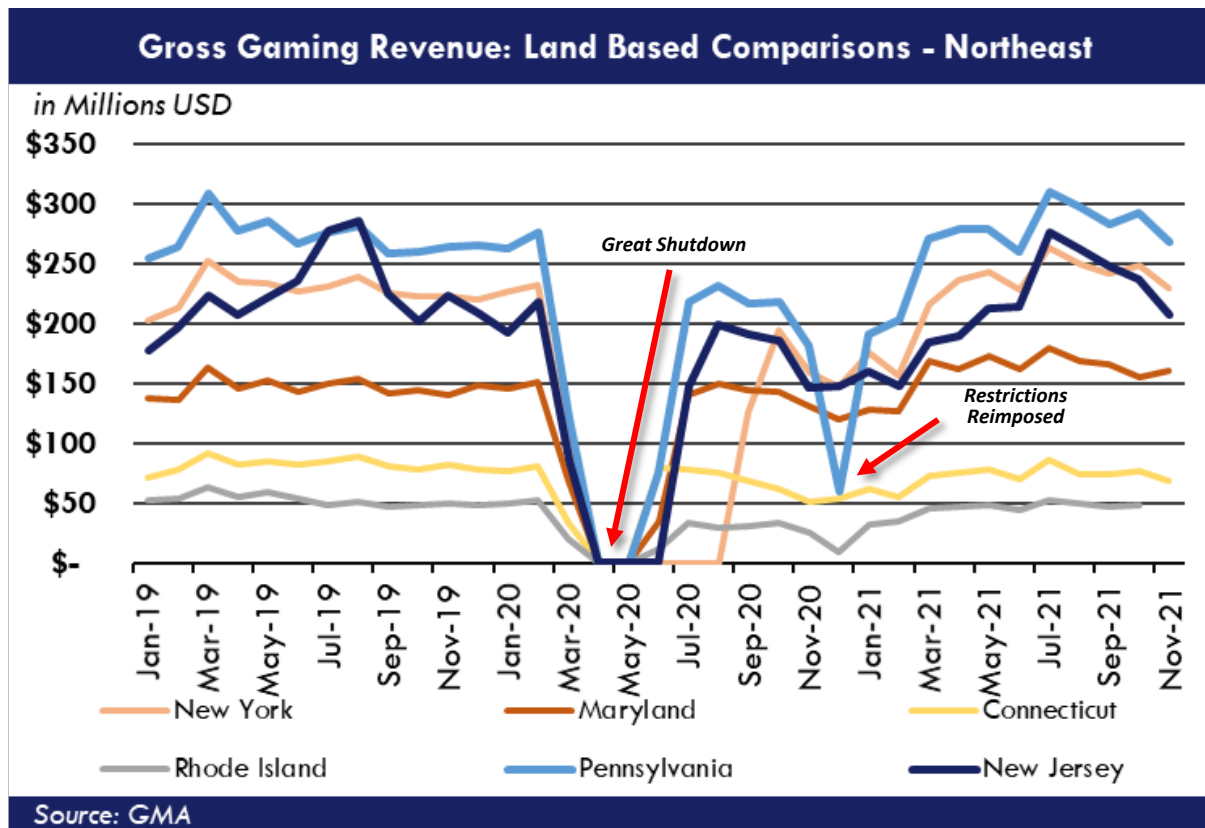
**Tax rates matter. Every bit of additional expense in the form of taxes will cut into an operator's ability to reinvest in the market and grow the business.**





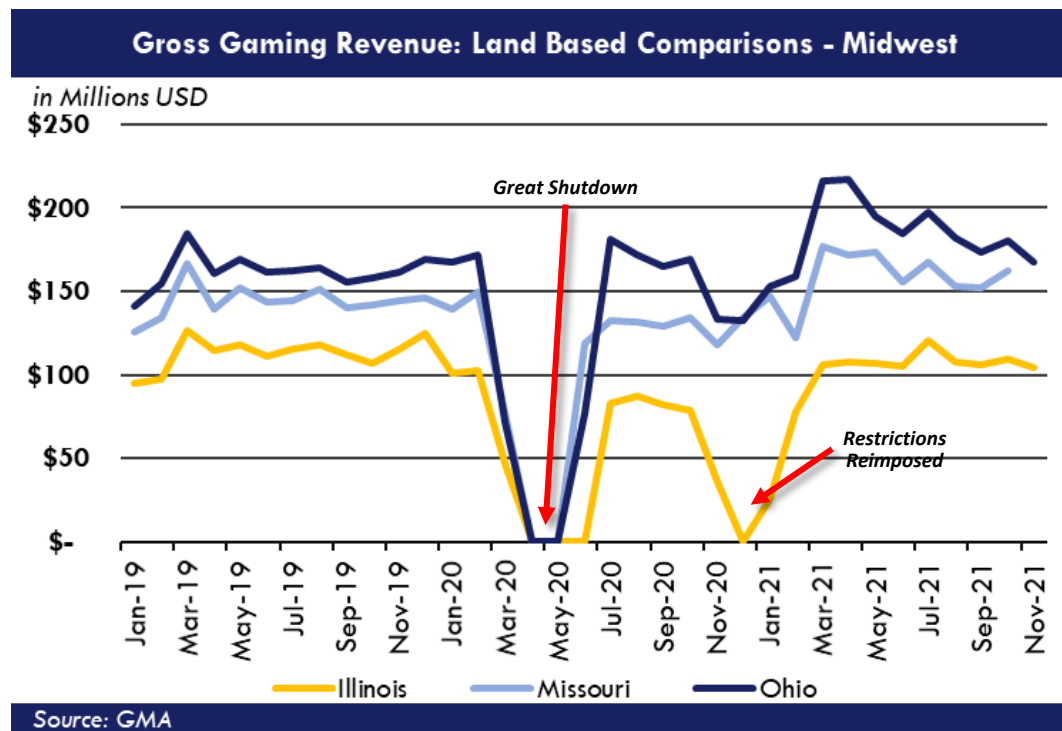
## Impact on Land-Based Operations

- GMA evaluated the historical performance of land-based casinos when iGaming offerings were introduced within the market.
  - Specifically, GMA compared the land-based revenues in Pennsylvania (which introduced iGaming in July of 2019) to other markets across the country.
  - From January 2019 to November 2021, a very similar fluctuation in land-based gaming revenue occurred across all analyzed markets (with some minor fluctuation due to variations in regional pandemic restrictions).
  - During this time period, iGaming did not have an observed impact on land-based operations in Pennsylvania.
  - This may be due to the fact that iGaming and land-based gaming offer two completely different experiences and appeal to different types of players.



## Impact on Land-Based Operations (continued)

- GMA used this same analysis to compare other land-based jurisdictions to see if there was any impact on their gaming revenue.
  - Specifically, GMA compared the land-based revenues in Illinois, Missouri, and Ohio to determine if their revenue levels recovered in a different pattern other than resulting from local restrictions.
  - Market recovered in the same fashion highlighting that iGaming had little to no impact on land-based revenues.



*Based on current available data, both group comparisons recovered in a similar fashion highlighting that iGaming had little to no impact on land-based revenues.*



## Revenue Projections – Methodology

- GMA evaluated the performance of existing markets in comparable jurisdictions today, focusing particularly on markets in the United States, including New Jersey, Delaware, Pennsylvania, Michigan, and West Virginia.
  - Specifically focused the analysis on markets that have similarly-sized population and comparable income levels to Indiana (e.g., Michigan).
  - However, relied on the historical experience of markets like New Jersey to understand market ramp-up periods.
  - Also, observed the lack of iGaming penetration in certain markets due to lackluster products/marketing (e.g., Delaware).
  - Connecticut does not have enough relevant data to date because of its recent launch.
- Deduced win per adult capita metrics achieved in each jurisdiction.
  - Estimated percentage of revenue that stemmed from out of state sources (in New Jersey, some revenue stems from residents of New York, where iGaming is not legal).
- By applying appropriate win per adult capita metrics to the subject jurisdiction, accounting for a small portion of revenue that is expected to stem from out-of-state sources, GMA was able to project the expected size of the iGaming market in Indiana.



## Projected Revenue (Y0 – Y5)

- In Indiana, local win per adult metrics are estimated to range between \$83.00 and \$116.92 in the first five years of iGaming operations.
- The outer market is expected to contribute 3% of market iGaming revenue.
- Gross iGaming Revenue projected at \$575.8 million in the stabilized year (which was assumed to be Year 3 of operations).

Projected iGaming Revenue, Indiana					
	2023	2024	2025	2026	2027
iGaming	\$ 420,021,072	\$ 539,370,788	\$ 575,761,244	\$ 599,199,369	\$ 611,541,535
% Change, iGaming	N/A	28.4%	6.7%	4.1%	2.1%
Adult Population (in millions)	4.9	4.9	5.0	5.0	5.1
% Outer Market, iGaming	3.0%	3.0%	3.0%	3.0%	3.0%
Win Per Adult, iGaming	\$83.00	\$106.00	\$111.30	\$115.20	\$116.92
iGaming Tax Rate	15.0%	15.0%	15.0%	15.0%	15.0%
iGaming Tax Revenue	\$ 63,003,161	\$ 80,905,618	\$ 86,364,187	\$ 89,879,905	\$ 91,731,230
iGaming Tax Rate (Per 2022 Legislation)	18.0%	18.0%	18.0%	18.0%	18.0%
iGaming Tax Revenue (Per 2022 Legislation)	\$ 75,603,793	\$ 97,086,742	\$ 103,637,024	\$ 107,855,886	\$ 110,077,476

Source: GMA

- Based on a 15% tax rate, iGaming tax revenue would be \$86.4 million in the stabilized year (Y3)
  - Based on HB 1356 from 2021 that proposed a tax rate of 18%, iGaming tax revenue would be \$103.6 million in the stabilized year (Y3). However, this higher rate could reduce marketing spend resulting in lower total market revenue and taxes.



*Indiana has been a leader in the regulation of gaming with long-term success in land-based gaming in addition to implementing a successful industry model with sports betting.*

*By applying the recommendations put forth in this report, Indiana can ensure that it continues its strong regulatory tradition with the introduction of iGaming.*



## Legislative and Regulatory Recommendations

In 2021, through Senate Bill 417, the Indiana General Assembly discussed a tax rate of 18%. This is lower than the graduated tax rate that is used for commercial casinos (15-40%) and racetrack casinos (25-35%) which is applied to levels of gross gaming revenue. Sports betting is taxed at a rate of 9.5%.

As Indiana explores the opportunity to join its neighbor to the north as an iGaming state, it should consider the following legislative and regulatory recommendations:

- Tax rates should consider the operational and marketing costs that are associated with iGaming.
  - Throughout the years, GMA has remained steadfast that sports betting and iGaming tax rates above 15% strain the market by limiting available marketing dollars, innovation, and product reinvestment. While some operators have agreed to enter jurisdictions with higher rates, this has been done in exchange for “first to market” status. In the long term, operators (and states) will only succeed if reasonable tax environments are imposed, allowing the market to grow and tax revenue to grow along with it.
- One key aspect of a solid regulatory structure is consumer protections, which includes KYC, AML, and responsible gaming procedures and programs. Regulations should create an environment where licensed operators work to effectively eradicate the illegal market by providing consumers with a superior and safer product.
- New jurisdictions must create a strict regulatory environment that only allows suitable operators into the market (and keeps bad actors out), allowing for the conduct of business in a responsible manner.
- Regulators do not need to reinvent the wheel. New markets can garner existing best practices from operational iGaming markets and adapt them appropriately for the Indiana market.
- Indiana should allow an open market that permits multiple operators to compete effectively with marketing strategies and innovation. Sports betting expansion has provided a good example of this effort.



## About Global Market Advisors

Global Market Advisors is the leading international provider of consulting services to the gaming, entertainment, sports, and hospitality industries with offices located in Las Vegas, NV; Denver, CO; and Singapore. The company's market experience extends throughout all regions of the Americas, Eastern and Western Europe, Australia, and Asia. GMA provides clients with strategic planning, market feasibility studies, primary research, due diligence, general counsel, payroll control, operations analyses, government relations, responsible gaming initiatives, business and marketing plans, and reward program design. GMA's clients consist of the majority of public gaming companies, more than 80 Native American tribes, commercial and investment banks, and government agencies from around the world. GMA's capabilities include:

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- Public Policy
- Tourism Development
- Integrated Resorts and Gaming Market Assessments
- Sports Betting
- Internet & Social Gaming
- Market Research
- Operations Analysis
- Government Relations
- Legal
- Responsible Gaming
- Communications
- Community Development

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