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North America

THE VOICE OF EGAMING FOR NORTH AMERICA

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IS VITAL FOR US
POKER
GROWTH



UNLOCKING THE KEYSTONE STATE

IS EGAMING COMING TO PENNSYLVANIA IN 2015?

PLUS: SPORTECH GEARS UP FOR NEW JERSEY CASINO LAUNCH



Unlocking Pennsylvania

The Keystone State made significant steps towards legalizing and regulating gaming in 2014. Martyn Hannah asks if this year a bill will finally get across the line

Pennsylvania has long been seen as a main contender for becoming the next state to legalize and regulate online gaming. Last year momentum was moving in the right direction; an official study commissioned by the state and conducted by Econsult Solutions found that regulated egaming would be beneficial for Pennsylvania and predicted annual revenues of \$307m after five years. Many thought progress would drive forwards into 2015, but the government elections back in November have changed the political climate and egaming has slipped down the pecking order. But that's not to say a bill can't and won't get across the line this year.

The study, which also looked at the health of Pennsylvania's land-based gaming industry, showed state lawmakers

were, and are, taking online gaming seriously. And while a couple of casino operators remain unsure of the potential of regulated online gaming, others such as Parx Casino have launched freeplay sites to players and seem more convinced of the long-term benefits. What's more, with neighboring New York currently vetting applications for four new casinos, and New Jersey already live with regulated internet gambling, Pennsylvania is being forced to consider other ways to safeguard its future. But rather than surging ahead with online gambling plans, delays look ever more likely.

The November elections ushered in a new Governor with incumbent Tom Corbett (a Republican) replaced by Tom Wolf (a Democrat), who voiced opposition to legalizing online gaming during his election campaign. Pennsylva-

nia's Republican senate majority also received a shakeup, and is now under the leadership of state Senator Jake Corman, who voted against establishing casinos in Pennsylvania in 2004 and the subsequent table games expansion legislation in 2006. The change in political mind-set will be one of the greatest hurdles to clear in this year's push for progress.

"The administration will need about six months to settle and shake out," says Barbara DeMarco, vice president of Porzio Governmental Affairs. "New people will be coming in with new roles more reflective of Governor Wolf's agenda. Although the Republicans retained control, there will be changes in leadership and potentially in committee chairs too. It also means there could be new bills or the re-introduction of old bills. Given the change in administration and the change in political party, I would be more apt to believe something will happen in 2016 rather than this year," she adds.

Party politics

Some observers have also hinted that Governor Wolf may be mulling plans to operate online gaming through the Pennsylvania Lottery in a bid to direct more taxes into state coffers. The lottery is one of the largest and most powerful in the US, and such plans would receive incredible pushback leading to major delays in getting an egaming bill over the line. But Wolf should learn from Corbett's mistakes. During his tenure as Governor, Corbett tried to bring the lottery under private control, with UK lotto operator Camelot in the running for the contract. The plans, which made Corbett one of the most unpopular politicians the state has ever seen, fell through last year after both parties failed to agree terms.

The shift in political power doesn't mean lawmakers and lobbyists won't work hard to build momentum in the coming months. Online gaming consultant Joe Brennan believes that if

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Joe Brennan, egaming consultant

the state "isn't active right now" then legislation could easily "get lost down the line" as the new Governor focuses on tackling big theme issues during the next 12 months. "It has to be part of the conversation and planning now," he says. "Coming late to the party when planning budgets and further gaming legislation of any sort are already under discussion would likely push egaming law even further down the road," Brennan adds.

Unlike New Jersey, Pennsylvania does not need to pass egaming legislation in a last-ditch attempt to save its land-based gaming industry. While slots revenues dipped 4% year-on-year in November 2014 to \$2.3bn, the sector is in rude health (*see boxout*). In fact, Pennsylvania is one of the largest gaming states in the US, second only to Nevada. But lawmakers and politicians would be unwise to ignore growth and increased sustainability, especially with the increasing threat from New York.

FIGHTING FIT – PENNSYLVANIA'S LAND-BASED GAMING INDUSTRY

- Number of casinos/race tracks: 12
- 2013/2014 revenues:
 - Table games: \$732m
 - Slots: \$29bn
- Number of slots machines: 26,000
- Number of tables: 1,126

Brennan says this is why the state should move online now and reach out to a new, younger player base. "The typical bricks-and-mortar customer is 50 and aging steadily while people under 35 are playing games on their mobile phones," he says. "Unless the casino industry wants to see a long, slow demographic death of its business, looking to channels like egaming makes sense in the long term."

And the Econsult report made one thing very clear – Pennsylvania has the potential to be a significant player in regulated online gaming in the US, and could generate sizeable revenues. The report estimates that in the first year of regulation the state could attract \$184m – \$77m from poker and \$107m from casino. That would increase to \$307m in subsequent years, with \$129m from poker and \$178m from casino. Those figures are supported by the latest report from Eilers Research, which estimates the state's first year revenues (poker and casino) to be \$165m, increasing to \$214m by year five.

IS THIS JUST FANTASY?

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The potential of social gaming has been well explored in the US, but the rise and rise of daily fantasy sports (DFS) is providing a new opportunity for operators to enter the online space. The Econsult Report noted the increasing popularity of DFS, and clarified that the activity is legal under Pennsylvania state law, and at a federal level with a carve-out in the Unlawful Internet Gaming Enforcement Act 2006 classifying fantasy sports as a game of skill. Still, operators – especially those with a multi-state presence – have erred on the side of caution. Some fear haemorrhaging money going after market leaders FanDuel and DraftKings, while others are still uncertain of the legal foundations.

But David Galan, CEO of fantasy sports platform provider PickLive US, says there are “few legal options” available to “monetize online traffic with legal gaming products”. DFS, he argues, “is the obvious tool” to monetize such traffic and “build engagement with online audiences.” For operators in Pennsylvania, he says there is “a large cross-sell opportunity between land-based gaming and online DFS” and that “there is a natural propensity for people who like to gamble to also like to play skill games for money on sport.” He adds that DFS “can help to grow the brand of land-based operators and also provide them with great promotional incentives and a way of engaging with their player bases when they are not actually on premises.”

Number crunching

The figures suggest the bulk of revenue will come from online casino, and current markets prove that operating a poker-only business is tough. In New Jersey, which has a population of around 9m, there are just two operators offering poker with a total of four sites between them. And while Pennsylvania’s population of 12.7 million is well above the threshold of the five million required for at least a couple of sites to be profitable, it will likely lead to a situation similar to the Garden State where only the operators and suppliers with the deepest pockets will be able to keep their heads above water in the long run.

“Almost 80% of the New Jersey online gaming market is from casino play and I would expect Pennsylvania would likely be similar,” says bwin.party’s director of poker, Jeffrey Haas. “If Pennsylvania does not regulate online casino it just keeps that activity in the black market, which is bad for consumers, operators, regulators and the state’s tax revenues. If the state is a poker-only regime, and we are fortunate enough to be granted permission to participate in the market, we will still press ahead. But I don’t think that would be the best approach for the state,” he adds.

Previous legislation has favored legalizing both poker and casino. In April 2013, Represent-

tative Tina Davis introduced HB 1235 to allow existing land-based casinos with a slots permit to offer online gaming to players in the state. License fees were set at \$5m with tax rates at 28% of gross gaming revenue. While HB 1235 stalled, it was used as the blueprint for two poker-only bills introduced to the Senate and Assembly by Senator Edwin Erickson and Representative Nicholas Miccarelli last year. Those bills are now dead, but can be reintroduced in this legislative session.

The question remains whether legislation introduced in the coming months will include a carve-out for casino, or remain poker only. Brennan says that Pennsylvania is a “go-slow” state when it comes to gaming expansion and that he expects to see the same strategy deployed with online gambling. “I wouldn’t be surprised to see them roll out poker-only with casino games to follow in the future once the state is convinced it’s viable and not cannibalistic to the existing casino industry.” But other observers think the state will go back to Representative Davis’ bill and push for a multi-product market.

“Representative Davis’ bill will likely be re-introduced either in its current form or slightly revised,” says Eric Frank, attorney with law firm Duane Morris. “This will be the foundation to build on if internet gaming legislation has any opportunity for passage as the bill required egaming sites to be tied to bricks-and-mortar operators. The legislature will also likely rely heavily on the experience, depth of knowledge, and well-established operations of the Pennsylvania Gaming Control Board for guidance on whether the Commonwealth is ready to move forward with internet gaming,” he adds.

Battle of the brands

One encouraging sign for land-based operators in Pennsylvania is the performance of their peers in New Jersey’s online gambling market. In the

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Jeffrey Haas, bwin.party

Garden State it is the land-based brands such as BorgataPoker.com and GoldenNuggetCasino.com that have led the charge over the likes of partypoker.com and BetfairCasino.com. The power of the bricks-and-mortar sites in attracting players and generating revenues has taken many by surprise, but gamers have displayed a clear preference for egaming sites linked to casinos with a physical presence in Atlantic City.

However, Hass thinks it may be a different story in Pennsylvania. “Many of the land-based operators in Pennsylvania don’t have the same brand awareness as the New Jersey operators due to when bricks-and-mortar gaming opened in the state, and the regional diversity of its casino locations. Being a land-based operator remains a local advantage for certain, but economies of scale start to apply if companies can distribute their marketing across a broader geographical footprint and population. That means the large state-wide operators like Caesars will likely grow quite strong, but I wouldn’t expect complacency from anyone. It will be a competitive market,” he adds.

Bwin.party has already started marketing to potential players in Pennsylvania through its \$10m sponsorship deal with the Philadelphia 76ers basketball team and the New Jersey Devils ice hockey squad. Haas says this forms part of a marketing strategy to help establish the partypoker brand “nationally”. Other operators are also reaching Pennsylvania players through TV commercials and radio adverts aimed at driving border residents into New Jersey and onto their sites.

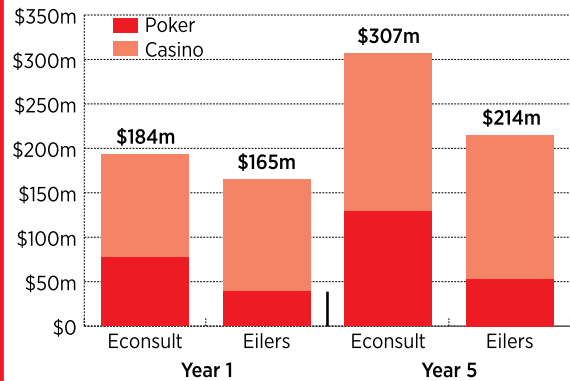
But land-based casinos will clearly play a significant role in the market, especially with their large databases, local marketing know-how, and perhaps most crucially, player trust. Those likely to lead the charge are Caesars, which already has a large online presence in the US, Rush Street, which has invested in social gaming and poker TV, Penn National, and Parx Casino, which has already launched a free-to-play site with GameAccount Network and Williams Interactive. It’s a shrewd move from Parx, with the operator able to use its freeplay site as a test bed for the appetite for online gaming in the state and among its players.

Finding the formula

The Parx site is monetized through the sale of virtual currency, but more importantly Parx can learn which games are popular with players, the bonuses that lead to the greatest signups, how to drive cross-sell between land-based and online products, and how best to market its internet



PENNSYLVANIA MARKET PREDICTIONS



gaming platform. GameAccount Network CEO Dermot Smurfit says he “hopes” Parx will be among the first across the line when Pennsylvania regulates, but adds he can’t believe anyone still thinks Americans in any state don’t want to play casino games online just for fun. “The social gaming market is \$1bn per annum in the US and speaks to that notion,” he adds.

Those operators serious about making a long-term commitment to online gaming should also be mindful that social/freeplay and daily fantasy sports (*see boxout*) sites would be protected should anti-egaming warrior Sheldon Adelson win his crusade against the industry. Adelson, who owns the Las Vegas Sands Corp, has vowed to “spend whatever it takes” to restore the Wire Act and ban internet gaming at a federal level. But Adelson, part owner of the Sands Bethlehem Casino in Pennsylvania, has been notable by his absence in the state’s debate on egaming thus far. DeMarco says that if egaming becomes “active” on Governor Wolf’s agenda, she expects Adelson to “hire guns” or lobbyists “to stop it”.

Despite a raft of new challenges this year, Pennsylvania still remains joint favorite with California to pass egaming legislation in 2015. Eilers Research says the chance of a bill getting across the line is “less than 50%” but expects the introduction of an “online poker only” bill “at some point” during the year. New legislation would certainly kick-start the debate, with the Econsult report providing a solid foundation to work from. And combined with the lessons learnt in New Jersey, the state has all the ingredients required to construct a solid online gaming industry. Progress may be slower than some would like, but one thing is for sure: if it gets done, it will be done right. ■