

Daily Fantasy Sports

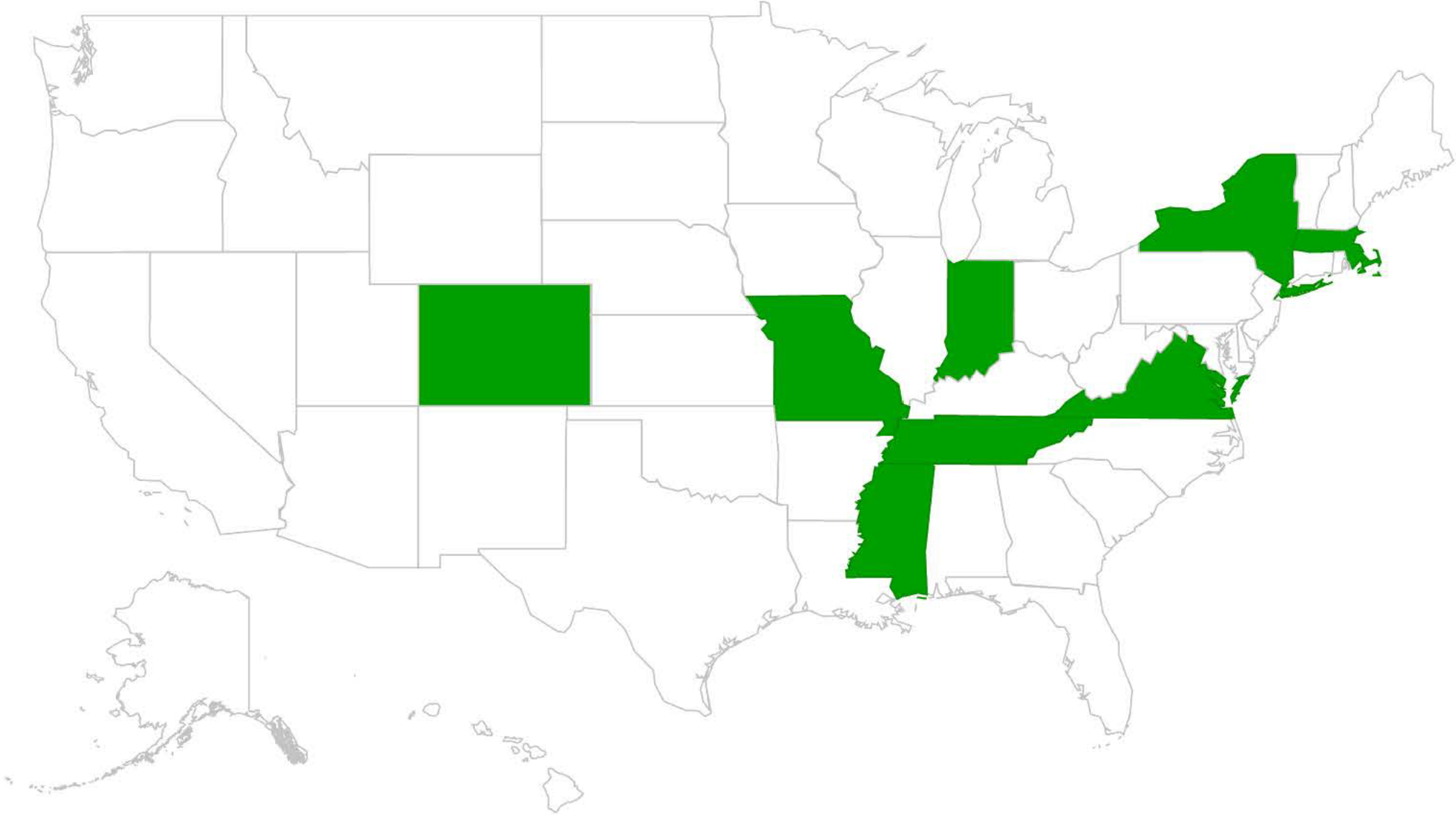
The evolving regulatory approaches to DFS in the U.S. market

Prepared by Chris Grove of Narus Advisors for the Nevada Gaming Policy Committee

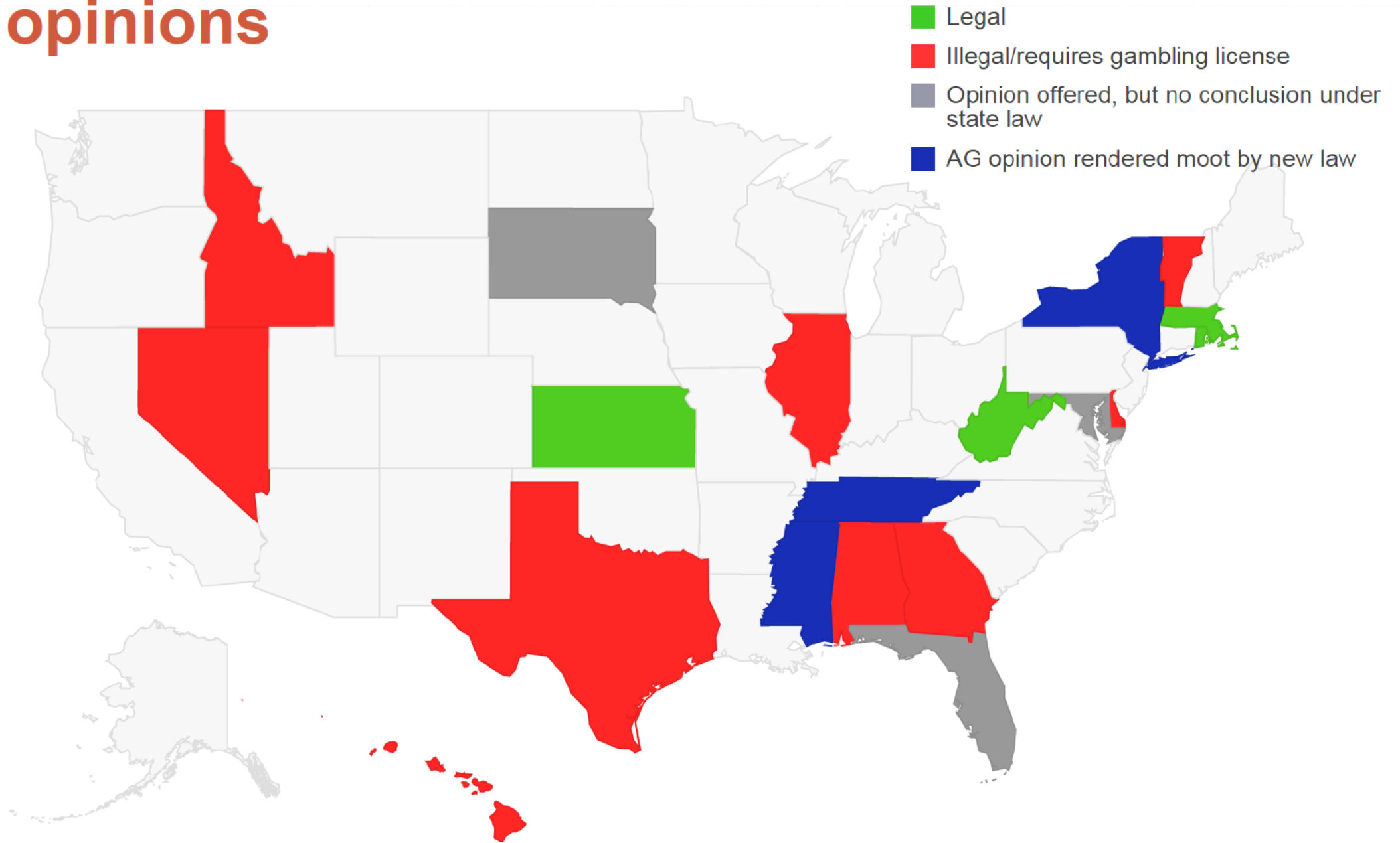
Section One

The legal landscape for daily fantasy sports

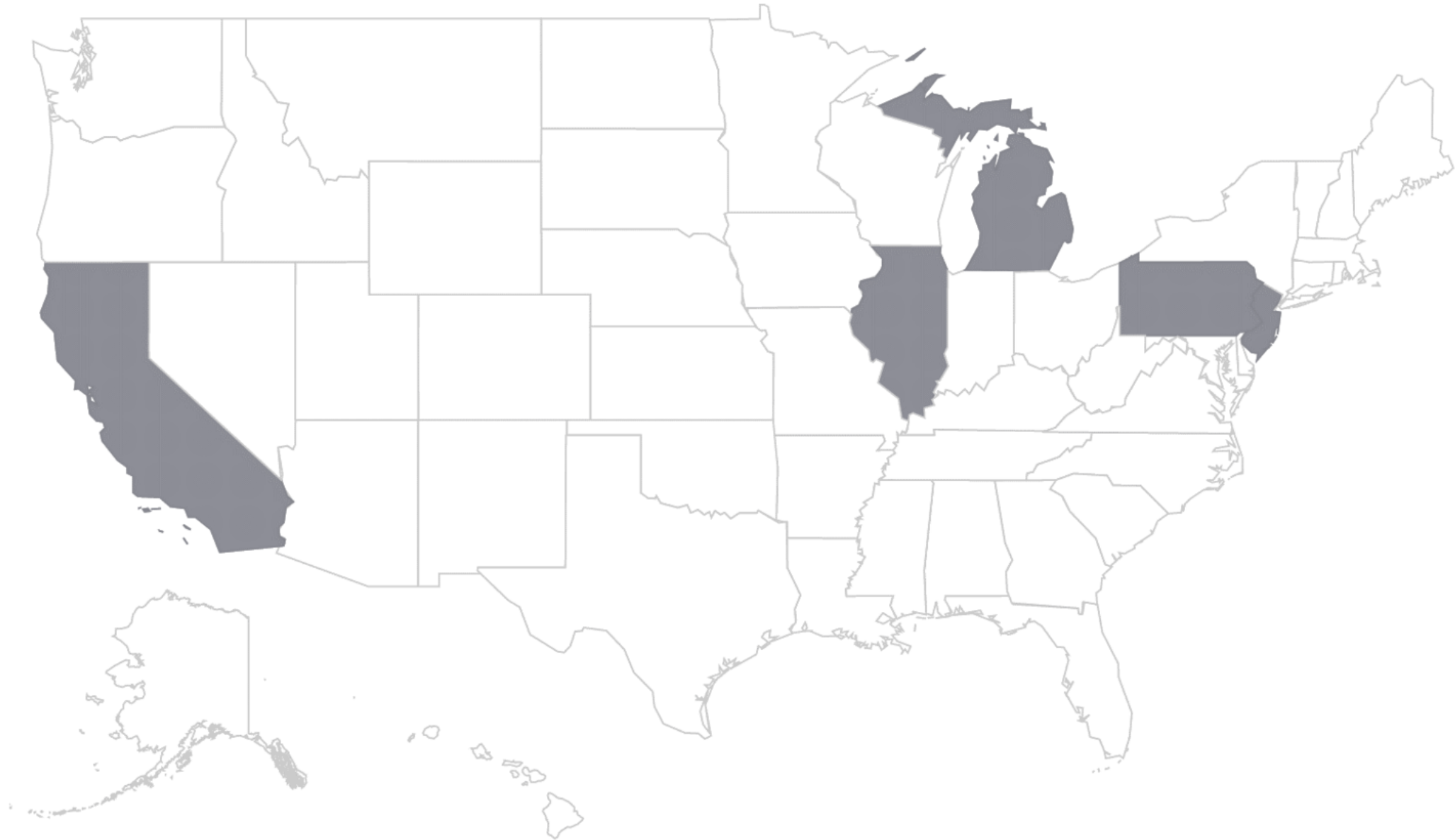
States that passed DFS bills in 2016



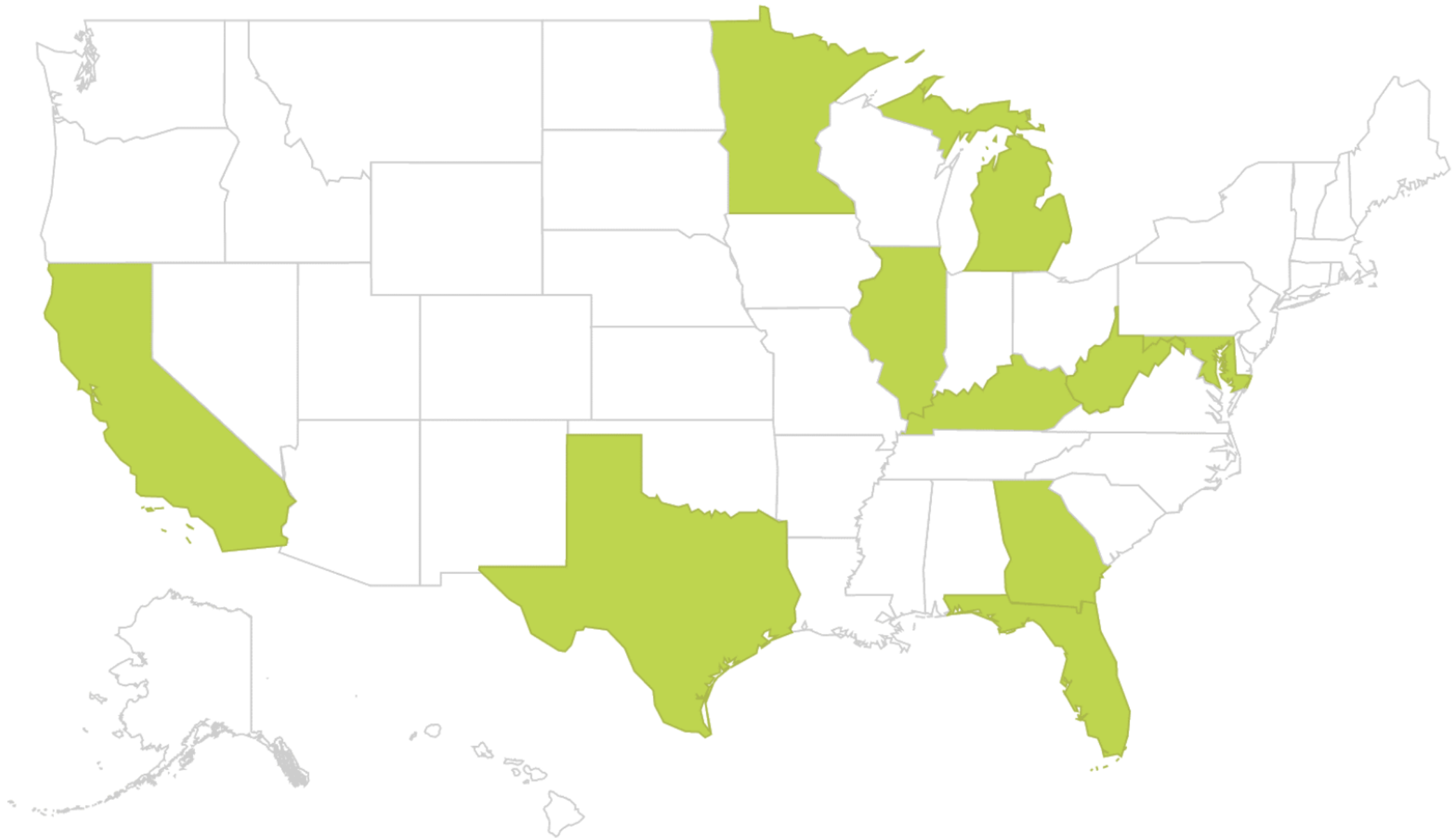
AG opinions



States with active bills



Focus states for 2017



Where the bills converge

- Similar definitions of “fantasy sports contests”
- “Fantasy sports contests” not considered gambling
- No “under the hood” access to the software for regulators

Where the bills diverge

- License fee and tax rate
- Suitability
- Potential depth of regulatory oversight

SUMMARY

The U.S. is divided on the classification of DFS as gambling. Momentum is in the direction of treating fantasy sports as non-gambling contests of skill. But many key states have yet to resolve the question.

Section Two

Implications and options for Nevada

Impacts on Nevada

- Lack of legal / regulatory harmony creates ambiguity for existing licensees
- Lack of legal / regulatory harmony has an adverse economic impact
- DFS is part of a larger product trend, so the impacts will expand in scope and severity over time

The rise of skill-based P2P contests



> \$4bn

In total estimated handle during 2016



What's driving P2P skill contest growth?

- Low cost of entry
- Legally permissive climate
- Smartphone penetration passing critical mass
- Growth of casual gaming

SUMMARY

Skill-based contests are legally considered not gambling by most states, but likely compete with gambling for consumer wallet share and mindshare.

PROPOSAL

Regulators could utilize the mandate provided by Senate Bill 9 to create a new, non-gambling, device class in Nevada's gaming regulations:

“Contest Devices”

How would a “contest device” be defined?

- Peer-to-peer only (no house-banked games)
- Skill-dominated
- Played for a real-money entry fee, predetermined prize
- Hosted by an operator for a fee
- Conducted online

What would regulations accomplish?

- Investigate and approve contest devices
- Establish standards and oversight
- Require licensure for contest device operators
- Stipulate that activity conducted on approved devices is not gambling under Nevada law
- Stipulate that activity conducted on unapproved devices is subject to civil or criminal penalties

How would regulations be implemented?

- SB 9 provides mandate and has already been used to make sweeping regulatory changes
- Existing regulations (Reg 14, Technical Standard 6) provide strong regulatory foundation
- Existing law recognizes some delineation between contests and gambling games

What are the benefits?

- Current licensees: Reduction in ambiguity
- State of Nevada: Regulatory leadership, economic development
- Consumers: Greater product protections (all), greater product choice (Nevadans)

Questions?

chris@narusadvisors.com
