



XST CAPITAL GROUP LLC

CAPITAL. M&A. STRATEGY

The Rise of Digital Gaming: Implications for Land-Based Hospitality

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Introduction



Joel Simkins brings a reputation for trusted industry insights, market relationships, and a rare track record of success advising both sell-side and buy-side clients for more than 25 years across the land-based and digital gaming (casino) industries. Prior to his recent tenure at Houlihan Lokey, Mr. Simkins was Head of Gaming & Leisure Investment Banking at Truist Securities, growing its business from a nascent state in 2016 to a top-seven platform during his tenure through March 2022. He is a known thought leader in the industry, having being named Best Up & Coming Analyst in the 2009 Institutional Investor Poll, ranked No. 6 overall in 2012, and is a repeat expert guest on CNBC, Bloomberg, Fox Business, Yahoo Finance and many industry conferences.



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BY XSTCAPITALGROUP OCTOBER 25, 2024

**WHAT'S NXST
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INTERVIEW SERIES**

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WHAT'S NXST

Mission Statement:

Launched in May 2024, XST Capital is a boutique investment bank focused exclusively on the digital gaming industry. We leverage our extensive connections and expertise to deliver capital raising, M&A, and other strategy solutions for clients in the online gaming and sports betting industries.

What's NXST?

US Digital Gambling is in the Early Innings

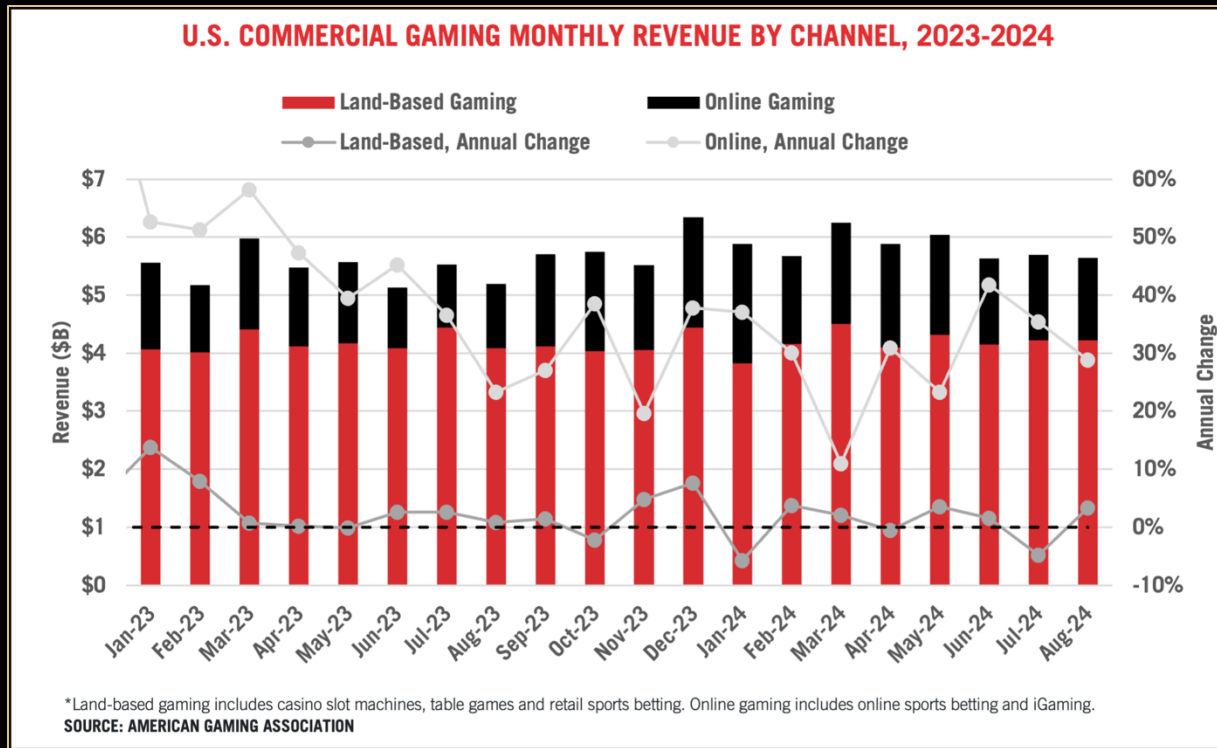
- Digital gaming is in the early innings of a massive rollout in North America, mirroring the success of the industry in Europe (where the digital gambling space is 20+ years old)
 - PASPA Supreme Court ruling in 2018 opened the door for digital expansion
 - Fully regulated OSB (online sports betting) is legal in 38 states
 - Fully regulated online casinos (slot machines, table games, etc.) are legal in 7 states
- State governments seek to drive additional tax revenues and service the Gen Z, Millennial and Gen X demographics as baby boomers begin aging out of land-based gaming

Parallels to the rise of e-commerce and its impact on land-based retail in the early 2000s:

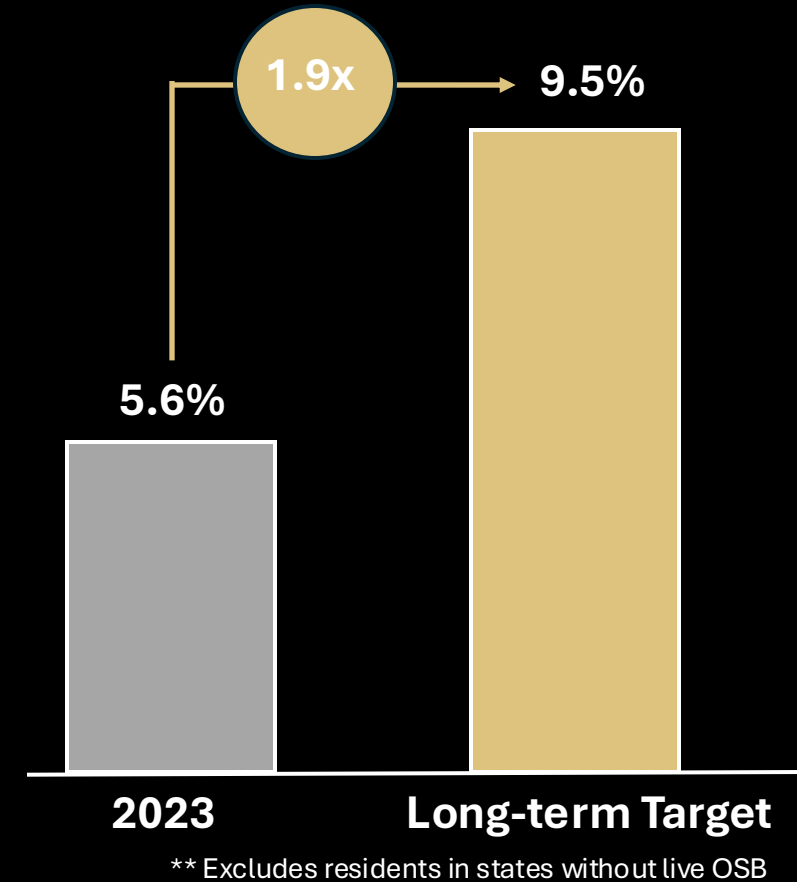
- Capital flooded into the sector in 2020-2022, mirroring the dotcom bubble for inexperienced players/first-time founders
- Early disruptors such as FanDuel and DraftKings were able to capture strong market share and brand reputation (ironically, these players were “moving fast and breaking things” in 2014-2016 period)
- Incumbent operators (MGM, PENN/ESPN Bet, Caesars) have had mixed results given inertia, corporate bloat and protecting legacy assets
 - Unlike land-based retailers (Sears, Kmart, etc.), most land-based casino operators will not be “**Amazoned**” given that they can leverage their licenses, sub-concessions and “skins” to startups and hedge their inherent risk

Land Based Still King; But Digital is Accelerating

Digital Gambling encompasses online platforms and mobile applications that allow users to engage in various forms of gambling, such as sports betting and casino games



FanDuel OSB Population Penetration



Sports Betting is Leading the Way

iGaming:

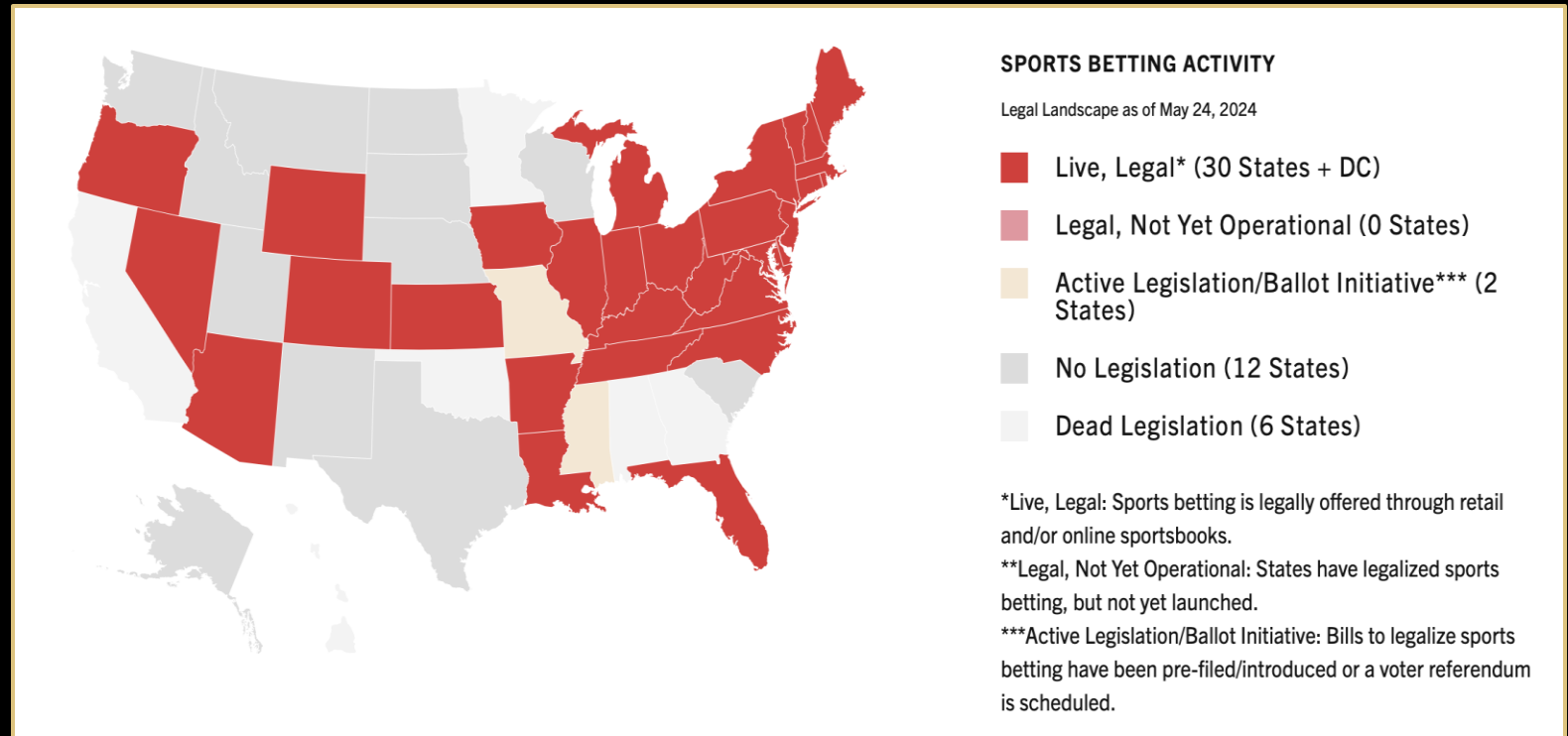
- Online casino-style games

Regulated Online Sports Betting:

- Following the Supreme Court decision in 2018 to allow for regulated sports betting, the Trojan horse has been deployed

Emerging Forms of Gaming:

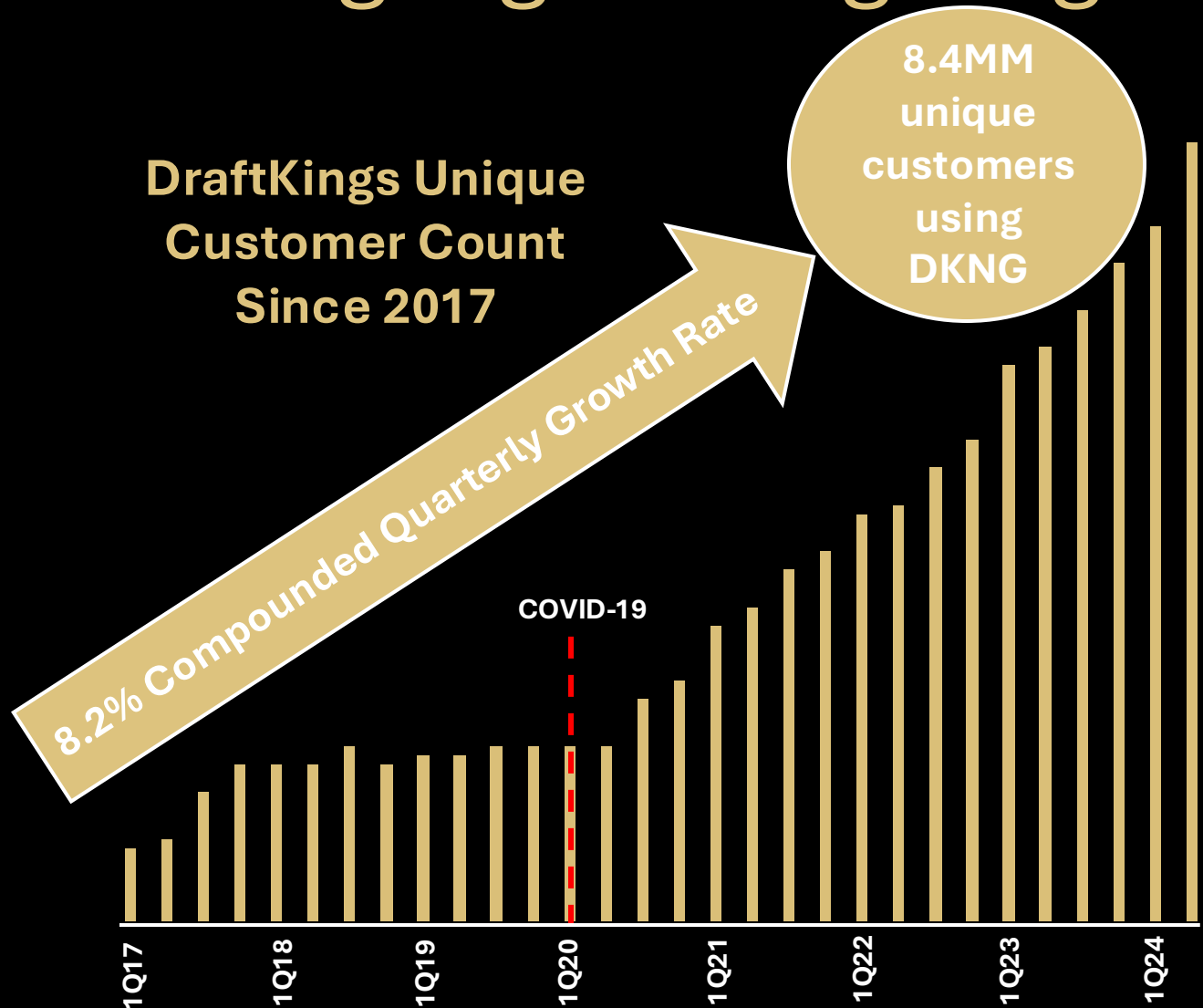
- Beyond the regulated markets, there are “pre-regulated/unregulated” digital gaming businesses like Daily Fantasy Sports (“DFS”) and sweepstakes
- Provide social gaming experiences and are generating billions in revenue annually



Consumers are Embracing Digital Wagering

- Total sports betting revenue in the U.S. has experienced a ~52% CAGR since 2021
- Covid period drove more rapid adoption
- Relative to Europe, parlay betting (multi-leg wagers) has become immensely popular with players looking for a “lottery” like outcome
- In more mature gambling markets outside the U.S., in-play betting accounts for a significant portion of total wagers, ranging from 70-80%
- U.S. in-play betting market is projected to reach \$14B by 2030

DraftKings Unique Customer Count Since 2017



The Rise of In-Play Betting

What is In-Play Betting?

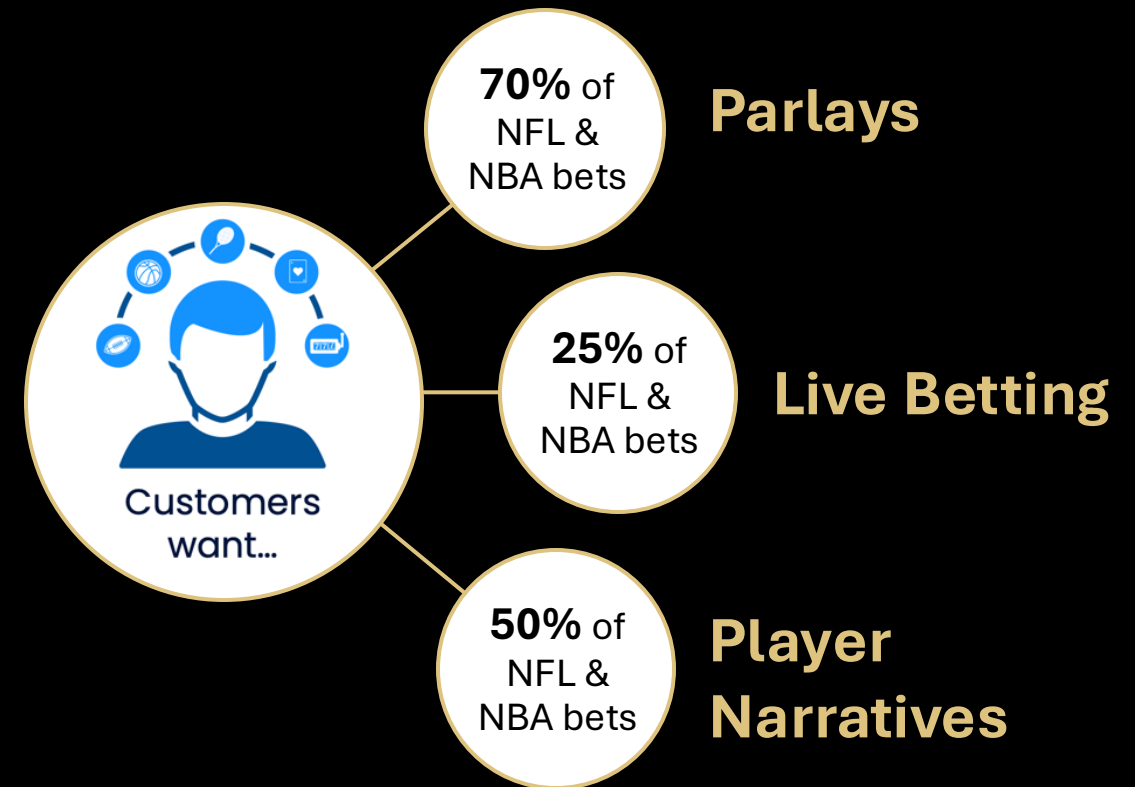
- Also known as *live betting*, allows users to place wagers while a game is in progress, with **real-time odds** based on the unfolding action

Why consumers love In-Play Betting?

- Thrill intensification- Betting on the next play (Football: *run, pass, touchdown*, Baseball: *single, double, home run*)
- Dynamic and interactive experience that appeals to tech-enabled/younger consumer who wants action and have a shorter attention span
- Consistent opportunities available to wager on

Trajectory of In-Play Betting

- In-play betting is expected to grow at ~39% CAGR from 2024 to 2030
- Micro-betting, a subset of in-play betting, is projected to make up 20% of the In-play betting market by 2030



BETR: Bridging the Digital and Land-based Experiences

Who is Betr?

- BETR is at the forefront of the digital gambling evolution
- Having raised ~\$100m, BETR is an omnichannel OSB, daily fantasy sports, and media platform (podcasts) primarily targeting Gen Z/Millennial gamblers

What sets Betr apart?

- Leverages popularity and reach of co-founder Jake Paul, to connect with wider and younger audiences
- Jake Paul is frequently involved in national news and Professional PPV boxing matches, offering BETR a chance to connect with fans and showcase its digital platform (November 15th fight with Mike Tyson)
- Bringing the show: Similar to the Taylor Swift effect on travel demand, these events have had a smaller, albeit substantial impact on tourism in Tampa, Dallas, and other venues (AT&T Stadium expected to sell out)
- BETR uses on-site promotions to encourage attendees to explore its platform and access exclusive events
- Additional media outlets & influencers attend these matches, helping to engage attendees on both BETR's land-based and digital platforms

betr 



Impact of Digital Gambling on Land-Based Hospitality

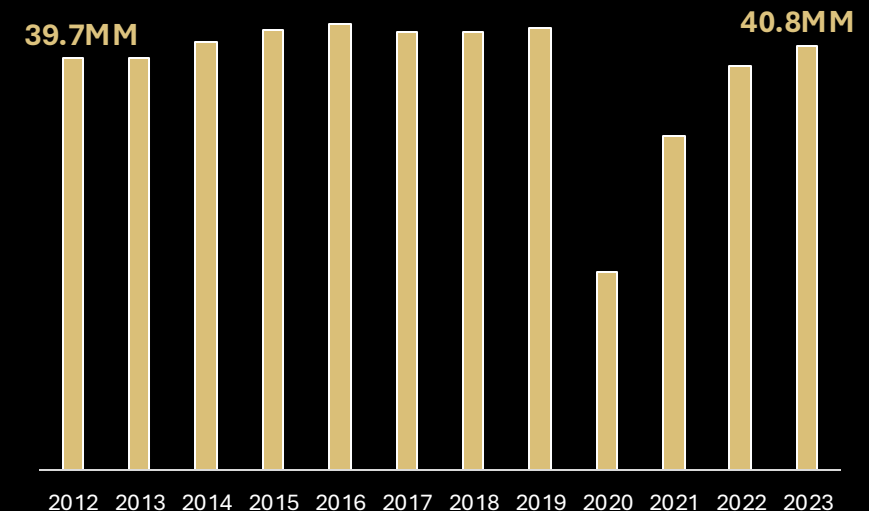
	Online Casino	Land-Based Casino
Time Investment	Lower	Higher
Stake Levels	Broader	Narrower
Overall Experience	Narrower	Broader

- The shift to digital gambling is expected to reduce foot traffic and revenue for land-based casinos, pushing them to adopt digital strategies and initiatives
- Digital platforms offer unmatched convenience, allowing users to place bets anytime, anywhere

Diversification Mitigates Vegas' Risk

- Las Vegas rebounded by expanding beyond casinos to include sports, conventions, and non-gaming attractions
- Major leagues (NFL, NHL, WNBA, and soon MLB) have transformed Vegas into a sports hub, drawing more visitors
- Visitation numbers have trended back upward following the recovery from COVID-19

Las Vegas Visitation Trends



Convenience Gaming Regional Markets at More Risk

Peak Land-Based Casino Revenue (2006):

- Atlantic City casino revenue peaked at **\$5.2B in 2006**, but has declined due to increased competition from neighboring states and the rise of digital gambling platform
- Rise of Gaming REIT's (OPCO/PropCo) structure and substantial rent payments may limit CAPEX budgets for tenants to maintain and keep regional assets fresh/compelling with non-gaming attractions

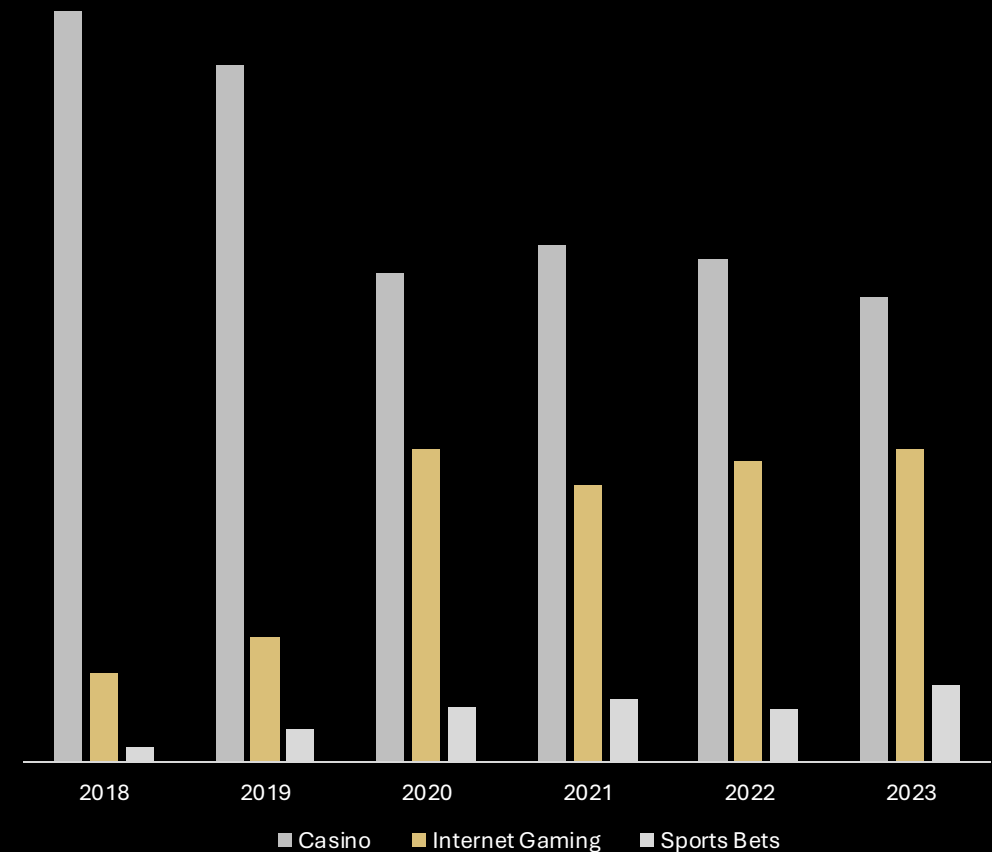
Digital Revenues in New Jersey Have Surged:

- As of 2018, iGaming had made up just ~10% of total gambling revenues in Atlantic City. 5 Years later, iGaming is generating as much as ~37% of total revenues
- Hand in hand, Casino revenues have fallen from ~88% to ~54% over this time

Native American Gaming Market is Huge, Albeit these Groups' Mixed Adoption:

- Native American Gaming is roughly 50% of the US land-based gaming market
- Many of these groups have very substantial businesses and protections against competition from digital and commercial operators, leading to a reluctance to “upset the applecart”
- Some groups, like Seminole (FL) and Mohegan (CT) are developing substantial and highly profitable online gaming businesses

Proportion of Revenue's in Atlantic City



Challenges for Land-Based Venues

Competition

- Heightened competition between land-based casinos and digital gaming platforms
- The accessibility and ease of online gambling pose a threat to physical venues in attracting and retaining customers
- Land-based venues must come up with create solutions to leverage digital to drive in-person events

Shifting Consumer Habits

- There is an ongoing shift towards younger demographics who prefer digital gaming versus land-based
- Will lead to significantly lower foot traffic within land-based venues; granted, Boomers have 10-15 years of peak spend remaining
- Gen X still coming into their prime years of land-based gaming visits

In-Person Amenities Need to Evolve

- Land-based casinos need to adapt to the ever-changing entertainment landscape to remain competitive
- Failure for land-based businesses to adapt may lead to lost market share compared to their digital counterparts

Opportunities for Land-Based Venues

Integrating Digital Gambling presents various opportunities:

Mobile Betting

- Allow guests to place bets via their smartphones while enjoying other on-site amenities or leveraging betting kiosks

Exclusive Offers

- Provide loyalty members with exclusive online bonuses and rewards for visiting physical assets, bridging digital and physical experiences

Interactive Events

- Host E-Sports tournaments or VR gaming experiences that combine in-person and digital experiences

Blended Entertainment

- Create hybrid experiences and promotions (ex: promote on Instagram/TikTok) that combine in-person social interactions with digital gambling features to provide a unique offering

Diversify Attractions

- Invest in high-quality dining, live shows, and other attractions that appeal/resonate with a younger audience

Speak to Your Consumers Where They Are At

- Mirroring broader media trends (cord cutting), younger gamblers aren't watching TV, you can find them on social media
- Use viral marketing and social media to promote events that resonate with younger audiences

Conclusion

Growth: Digital gambling market is experiencing significant growth, and is poised to continue taking additional market share from land-based options

In-Play Betting: (“*Live Betting*”) continues to drive market expansion on digital platforms

Hybrid Experience: Consumers still want to have offline/in-person experiences, but just want to add to the experience with digital offerings

Existing Opportunities: Despite all the headwinds, land-based hospitality businesses have opportunities to adapt to the changing landscape



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