

Market Report

The Sports Wagering (Betting) and Fantasy Sports Markets

May 2020

This report describes the sports wagering and fantasy sports markets, with a specific focus on the markets in Australia, USA and India. This report has been commissioned from Frost & Sullivan by PlayUp Limited (**PlayUp** or **the Company**).

1. Introduction and Background

PlayUp is an Australian online wagering company with operations in Australia, India and the US. PlayUp owns and operates its innovative Sportsbook, Racebook and Daily Fantasy Sports (**DFS**) platforms. In May 2019, PlayUp obtained an Advance-deposit Wagering (**ADW**) license in the state of North Dakota in the US, allowing it to offer wagering services allowed by this license to consumers in 19 US states, and the territories of Puerto Rico and the US Virgin Islands.

This report describes the sports wagering and fantasy sports markets in Australia, US and India, the principal markets where PlayUp operates or intends to operate.

References to dollars (\$) in this report are to Australian dollars, except as otherwise stated. When converting from other currencies, the exchange rate at October 2019 has been used.

2. Definitions

2.1 Sports Wagering

Sports wagering (also referred to as sports betting, with the two terms used synonymously in this report) is one of two forms of gambling, and involves the placement of a wager on the outcome of a sporting event. For the purposes of this report, sports wagering includes wagering on racing (horses and greyhounds) and wagering on other sports, including sporting events and other events deemed to be a 'sporting event' by a regulator. (The Australian Gambling Statistics separates wagering on racing (horses and greyhounds) from others sports wagering, however both categories have been included in "sports wagering" as defined in this report).

The other form of gambling is gaming, which involves placing a wager on an event of pure chance, or mixed skill and chance, including electronic gaming machines (**EGMs**), lotteries, Keno, casino games etc.

In sports wagering, wagers may be placed through offline (including physical outlets or telephone) or online channels. The online channel involves placing of a wager through the Internet using a computer, Internet-enabled mobile phone or some other connected device. This is sometimes known as interactive wagering.

The size of gambling markets is measured in two main ways: **turnover** (also known as the handle) is the total amount gambled, before payment of winnings, and **expenditure**, which, as defined in this report, is the total amount lost by gamblers on gambling activities and equates to the **revenue** (after payment of winnings) for gambling service providers, before payment of taxes or operating costs. It is sometimes referred to as net wagering revenue (**NWR**).

ADW is a wagering format in the US in which a participant deposits funds into an account held by a licensed US-based entity, with funds from the account used to place wagers on horse or dog races, and any winnings are deposited back into the account. ADW is sometimes called “telephone wagering,” but most wagers are placed over the Internet. ADW allows **pari-mutuel** wagering. Pari-mutuel is defined as “player-banked betting with all the bets pooled and prizes awarded from the pool”¹, and is a wagering model in which all wagers on an event are placed in a pool, taxes and the house-take are deducted, and the pool then distributed across all winning wagers in proportion to the size of the wager. Unlike fixed-odds betting, the participant is effectively gambling against other participants in the pool rather than against the wagering service provider, with the actual odds being unknown until the prize pool is distributed. In some countries, pari-mutuel wagering is more commonly known as totalisator (or Tote) wagering. Revenue for ADW service providers comes from a percentage of the pool (house-take).

2.2 Fantasy Sports

Fantasy sports are events in which participants assemble a virtual team or teams from players in actual sporting events. Fantasy sports events are generally conducted online. The participants compete against each other on the basis of the actual statistical outcome achieved by their players from teams in real events. Fantasy sports are played free-of-charge, or for a cash entry fee. Free-to-enter fantasy sports have traditionally been offered by sporting codes or media organisations as a means of driving consumer engagement and was originally designed to be played over the duration of a sports playing season (known as traditional leagues). In the US and Canada, almost 60 million people are estimated to have played fantasy sports in 2018, an increase from 27 million in 2009, most commonly participating in American football fantasy competitions.² However, a more recent development has been the emergence of Daily Fantasy Sports (**DFS**), for which the relevant period is much shorter, often only one day, and which involves an entry fee for participants. The entry fee is allocated largely to the prize pool for the competition. DFS organisers derive revenue from taking a service fee as a percentage of the entry fee (sometimes known as the hold rate) which typically averages 10-11% of total entry fees. The DFS market can therefore be quantified on two dimensions – total **entry fees** paid (equating to the total amount paid by participants) and **revenue** for DFS service providers (equating to their hold of the entry fees after payment of prizes).

In most jurisdictions fantasy sports with an entry fee and cash prizes are regarded as a gambling service, with the service provider required to hold a gambling license. In Australia, fantasy sports services are offered under corporate bookmakers’ licenses, with all service providers currently licensed in the Northern Territory (**NT**).

¹ William N. Thompson, *Gambling in America: An Encyclopedia of History, Issues and Society* (Santa Barbara, CA, 2001)

² Fantasy Sports and Gaming Association, Media Kit

However, in the largest DFS market of the US, the situation is more complex, with DFS generally categorised as a game of skill rather than gambling, for example being exempt from historic restrictions in the US on online gambling transfer of funds in the Unlawful Internet Gambling Enforcement Act of 2006 (**UIGEA**). This act “prohibits gambling businesses from knowingly accepting payments in connection with the participation of another person in a bet or wager that involves the use of the Internet and that is unlawful under any federal or state law”.³ Since the UIGEA defines gambling as participation in a game of chance, fantasy wagering has been generally excluded from prohibition under the UIGEA, as in most jurisdictions, it is considered a game of skill, and the UIGEA excludes from its scope “participation in any fantasy or simulation sports game” subject to certain conditions.⁴ Consequently, DFS have been offered in most US states and the DFS market has grown significantly over recent years. DFS has also developed in other markets, such as Australia and India.

3. Australian Online Sports Wagering Market

3.1 Regulatory Status

Under Australia’s constitutional system, the Commonwealth constitution does not give the Commonwealth Government power expressly to regulate gambling, and traditionally gambling legislation was the preserve of the state and territory governments. This has resulted in different regulatory regimes in each state and territory. However, in 2001 the Commonwealth Government enacted the first federal law on gambling, the Interactive Gaming Act 2001 (**IGA**), which prevails to the extent of any inconsistency with state or territory legislation. The development of the IGA at federal level was due to recognition by policymakers that interactive gaming was a new type of gambling activity for which legislation at a national level was needed.

The regulation of online sports wagering is considered an expansion of the existing legal framework at state and territory level, and online wagering services are therefore still subject to state and territory legislation. The IGA prohibits operators from providing specified interactive gambling services to persons resident within Australia and in other designated countries (although no other countries have yet been designated). However, the IGA differentiates between online gaming (e.g. online casino games) and online wagering on sports or other events. According to the IGA (section 8A(1)) online wagering (i.e. betting on racing, or other sports or events) is not prohibited in Australia, however the Act only permits online wagers on sports being placed before an event has started. Services that contemplate a wager on sports being accepted after the event has commenced, or for contingencies within the event (other than in racing), known as in-play betting, are prohibited by section 8A(2). The Minister for Communications has clarified the application of the in-play betting rules to cricket matches, golf tournaments and cycling events that take place over multiple days. The effect of this determination is that online betting on these events is permitted from the end of play or racing on one day to the start of play or racing the next day.

In 2017, the Interactive Gambling Amendment Bill 2016 was passed which made amendments to the IGA, including requiring anyone providing a regulated interactive gambling service in Australia

³ Examination Handbook Section 770. U.S. Treasury Department

⁴ <https://www.law.cornell.edu/uscode/text/31/5362>

to hold a licence under Australian State or Territory laws; prohibiting 'click-to-call' in-play betting services (functionality within the service provider's app allowing an automated call to place a bet within the app); and prohibiting wagering operators from providing lines of credit either directly, or via a third party, to persons present in Australia.

Each state and territory allow the provision of a wagering service as long as the service provider has a wagering licence. However, the licensing frameworks of most states/territories only contemplate the licensing of that jurisdiction's totalisator agency board (**TAB**) (which in most cases holds a monopoly licence) as well as on-course bookmakers. However, the NT licenses multiple online wagering service providers. Service providers other than TABs offering online wagering services in Australia are licensed predominantly in the NT. In April 2020, of the 35 licensed interactive wagering service providers (including TABs, corporate bookmakers and betting exchanges, but excluding on-course bookmakers who can also provide interactive wagering services), 23 were licensed by the Northern Territory Racing Commission (**NTRC**).⁵ Many of the larger service providers in this category are known as corporate bookmakers, to distinguish them from the TABs and on-course bookmakers, which are associated with individual bookmakers (or their families).

In the NT, online wagering licenses are granted following receipt of a submission by the operator which proves that the operator is a suitable person or company to hold such a licence and has the financial and business capacity to operate an online gaming business. Evidence is required in areas such as reputation, financial background, financial resources, business ability and management reputation. An application fee of 20,000 revenue units (currently \$24,200) is required.⁶

3.2 Taxation of Wagering

The legal, regulatory and taxation arrangements applicable to wagering differ by jurisdiction in Australia. Winnings from gambling are not assessable for income tax (unless the gambler operates a betting or gambling business), with taxation being paid by the wagering service provider, effectively as an operating cost. The growth of online wagering services, particularly through service providers licensed in the NT, has led to a likely loss of wagering taxation revenue for other states and territories, which previously had been only collected from operators licensed in the individual state or territory on a point of supply (**POS**) basis. Consequently, all states and territories except the NT have recently introduced point of consumption tax (**POCT**) arrangements, which seek to levy tax on the NWR of wagering operators above specific thresholds, based on the location of the bettor at the time of placing the bet.

Table 1: Point-of-Consumption Taxes, Australia, 2019

State / Territory	PCT Rate	Threshold	Comments
ACT	15%	\$150,000	Effective from 1 January 2019.
NSW	10%	\$1,000,000	Effective from 1 January 2019.
NT	No announced plans		
QLD	15%	\$300,000	Effective from 1 October 2018.

⁵ <https://www.acma.gov.au/theACMA/register-of-licensed-interactive-wagering-services>

⁶ <https://nt.gov.au/industry/gambling/licences/online-gaming-licence/how-to-apply>

State / Territory	PCT Rate	Threshold	Comments
SA	15%	\$ 150,000	Effective from 1 July 2017.
TAS	15%	\$ 150,000	Effective from 1 January 2020.
VIC	8%	\$ 1,000,000	Effective from 1 January 2019.
WA	15%	\$ 150,000	Effective from 1 January 2019.

Sources: Government websites, press release and budget papers

3.3 Market Size and Growth

Australia reportedly has the highest per capita gambling expenditure in the world, with expenditure per capita 40% ahead of the next country (Singapore) and about double the average of Western Europe.⁷ Based on a 2015 survey, there were 6.8 million regular gamblers (39% of adults), defined as gambling at least once per month. Approximately 975,000 people (or 5.6% of the adult population) participate regularly in racing betting and 574,000 people (3.3% of the adult population) participate regularly in other sports betting (excluding racing). There is likely to be significant overlap between these two groups, with gamblers in each group typically participating in between 2.65 and 2.82 different forms of gambling each month.⁸

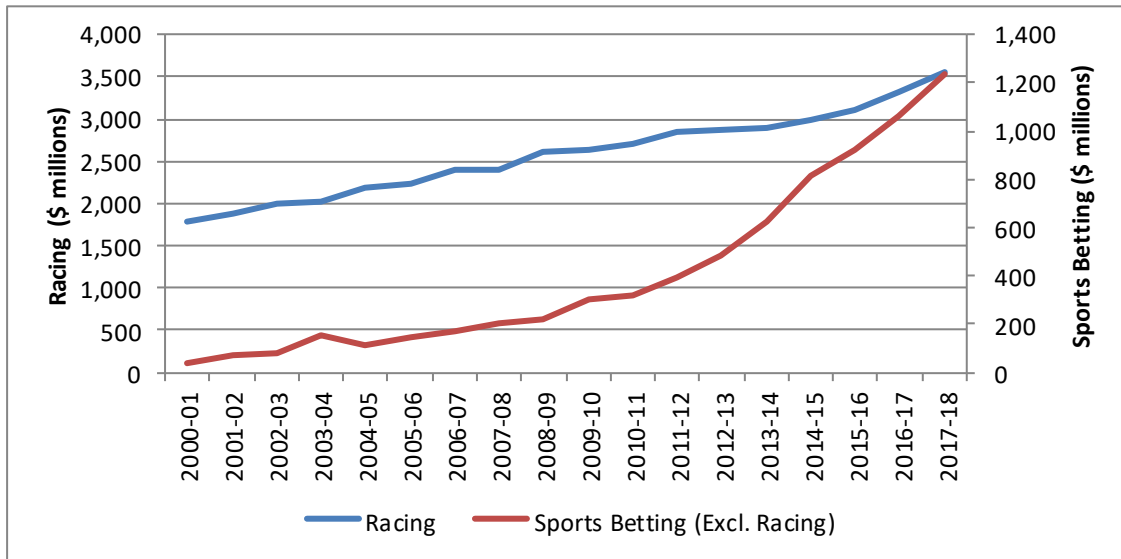
Statistics on gambling in Australia are collected by the Queensland Government through the annual Australian Gambling Statistics, with data currently available up to 2017-18 (35th edition). In 2017-18, total gambling turnover was just under \$219 billion, or \$11,361 per capita. The bulk of gambling turnover is derived from gaming (particularly gaming machines), with racing accounting for \$25.8 billion and other sports betting (excluding racing) \$11.61 billion. In expenditure terms, total gambling expenditure was \$24.9 billion (\$1,292 per capita), with racing \$3.55 billion and other sports betting \$1.24 billion. Total sports betting (including racing) therefore generated expenditure of \$4.79 billion in 2017-18, 19% of total gambling expenditure. Since 2000-01, total sports betting expenditure (including racing) has increased at a CAGR of 5.8%. By the far the fastest growth has been in non-racing sports betting expenditure, which has increased at a CAGR of 22.0% over this period, compared to 4.1% for racing.⁹

⁷ <https://www.economist.com/graphic-detail/2017/02/09/the-worlds-biggest-gamblers>

⁸ Australian Gambling Research Centre, Gambling Activity in Australia (accessed from <https://aifs.gov.au/agrc/publications/gambling-activity-australia/2-gambling-participation>)

⁹ Australian Gambling Statistics, 2017-18, Summary Tables

Figure 1: Sports Betting Expenditure by Type, Australia, 2000-01 to 2017-18



Source: Australian Gambling Statistics, 2017-18, Product Tables

Data on wagering by channel (online, offline, etc.) is not specifically captured in the Australian Gambling Statistics, and hence information on online wagering expenditure is not available from this source. However, estimates have been made by industry analysts who estimate that in 2014 online wagering expenditure was \$1.4 billion, having grown 289% since 2004.¹⁰ This equates to approximately 40% of total wagering expenditure in 2014 (based on total wagering expenditure of \$3.53 billion¹¹). The same source forecasts that online wagering expenditure would increase to \$2.5 billion by 2019.¹²

Frost & Sullivan has applied the growth rate in Internet wagering participation to the online wagering market estimate for 2014 to obtain an estimated online wagering expenditure of \$2.35 billion in 2018. In 2018, online wagering was estimated to account for 49% of total wagering expenditure, based on total wagering expenditure of \$4.78 billion.¹³

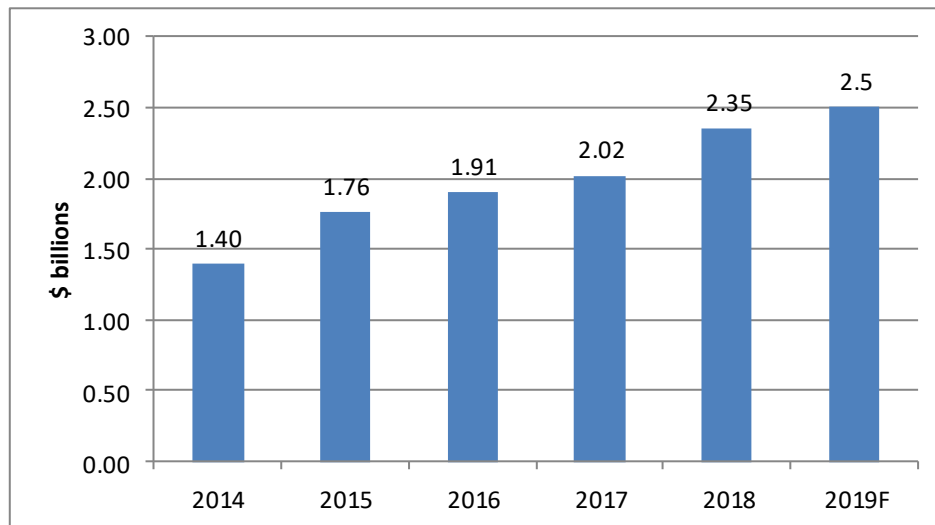
¹⁰ Commonwealth of Australia (Department of Social Services) 2015, Review of Illegal Offshore Wagering Report

¹¹ Australian Gambling Statistics, 35th edition, 2017-18, Product Tables

¹² Commonwealth of Australia (Department of Social Services) 2015, Review of Illegal Offshore Wagering Report

¹³ Frost & Sullivan estimates; Australian Gambling Statistics, 35th edition, 2017-18, Product Tables

Figure 2: Estimated Online Wagering Expenditure, Australia, 2014 to 2019F



Source: Frost & Sullivan estimates

Over the period 2014 to 2018, online wagering expenditure is therefore estimated by Frost & Sullivan to have increased at a CAGR of 13.8%.

3.4 Market Drivers

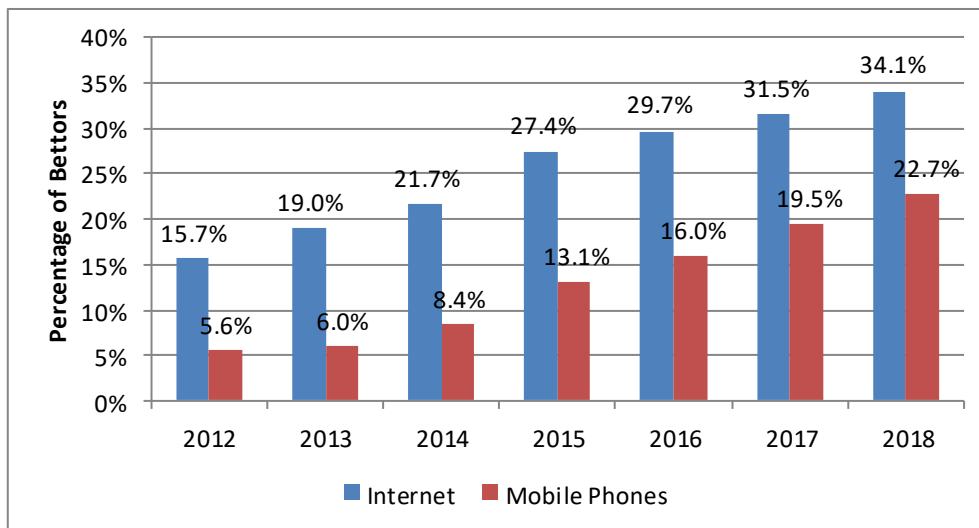
The principal market driver for online sports wagering is the convenience offered when compared to other channels, particularly when the wager is conducted through a connected mobile device such as a smartphone. Australia has one of the highest penetrations of smartphones globally, with 90% penetration at the end of 2018.¹⁴

Approximately 3.4 million Australians placed a bet on a racing or other sporting event over the 12-month period to March 2018, of which 34% (or 1.16 million) used the Internet to place a bet, including through computers, smartphones and other connected devices. The proportion of bettors who place a bet using the Internet has more than doubled from 2012 to 2018.¹⁵ The main driver for growth has been in use of smartphones to make bets, increasing from 5.6% of bettors in 2012 to 22.7% in 2018, whilst the percentage using a computer has remained relatively stable over this period.

¹⁴ Deloitte 2018 Technology, Media and Telecommunications Predictions, quoted in <https://www.businessinsider.com.au/deloitte-smartphones-technology-media-telecommunications-predictions-2-2018-2>

¹⁵ Roy Morgan Research, Increase in mobile betting drives growth in online wagering, June 2018

Figure 3: Percentage of Bettors Placing Bets through the Internet and Smartphones, Australia, 2012 to 2018



Source: Roy Morgan, Single Source Australia (accessed from <http://www.roymorgan.com/findings/7624-mobile-betting-users-march-2018-201806172313>)

A further driver to online wagering is product innovation by online sports wagering service providers which increases the appeal of the online channel to consumers. For example, many service providers have launched mobile apps which improve the user experience for consumers, and the introduction of new product features such as “cash out” has also made the online channel more appealing. Some service providers are also introducing features such as “cash in” which enables customers to deposit money into their wagering account at outlets such as newsagents, using a code generated on the consumer’s smartphone.

3.4 Competitive Environment

The participants in online sports wagering in Australia can be categorised into two main groups: TABs and corporate bookmakers (such as Sportsbet, BetEasy, bet365, etc.). In total, there are 35 licensed interactive wagering service providers as at April 2020 (excluding on-course bookmakers). The leading online wagering participants in terms of share of usage are Sportsbet, TAB/UBET, BetEasy (formerly CrownBet), Ladbrokes and bet365. Major licensed interactive wagering service providers are listed below.

A major trend over recent years has been market entry to the Australian sports wagering market by major international wagering services providers, including Stars Group, Bet365, Flutter Entertainment and Ladbrokes. The pending merger between Stars Group and Flutter Entertainment would lead to additional consolidation in Australia, with the merged entity controlling BetEasy and SportsBet, two of the largest Australian interactive wagering service providers.¹⁶

¹⁶ <https://www.smh.com.au/business/companies/sportsbet-beteasy-merger-to-take-the-fight-to-tabcorp-20191003-p52x9d.html>

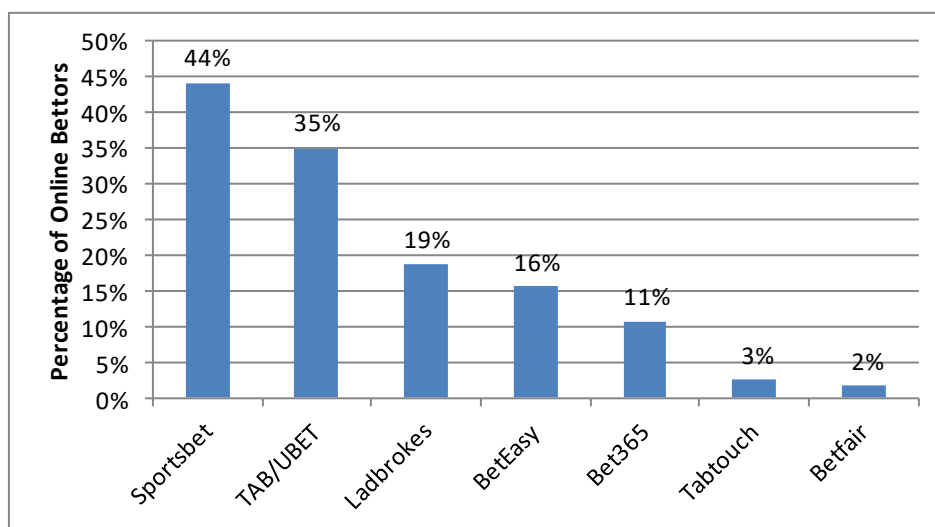
Table 2: Major Interactive Wagering Services Providers, Australia, 2019

Company	Ownership	Comments
Bet365	Bet365 (UK)	
BetEasy	Majority owned by Stars Group (Canada)	Formerly CrownBet. Renamed following purchase of majority stake from Crown Resorts. Plans for Stars Group to merge with Flutter Entertainment announced in October 2019
Betfair	Flutter Entertainment (UK)	Operates Australia’s only betting exchange
Ladbrokes	GVC Holdings (UK)	Entered Australian market in 2013
Palmerbet	Palmer Bookmaking (Australia)	Online business established by on-course bookmaking family
PlayUp	PlayUp Ltd	
PointsBet	PointsBet Holdings (Australia)	Listed on ASX in May 2019
Sportsbet	Flutter Entertainment (UK)	Acquired by Paddy Power in 2010, rebranded as Flutter Entertainment in 2019
Tabcorp Holdings	Publicly listed (ASX)	Main online wagering properties are Tab.com.au and UBET

Sources: company websites and presentations

The largest interactive wagering service providers by usage are Sportsbet and TAB/UBET. Sportsbet was used by 44% of online bettors in the past 12 months, and TAB/UBET by 35%.¹⁷

Figure 4: Usage of Interactive Wagering Service Providers in Past 12 Months, Australia, 2019



Source: Roy Morgan Research, Sportsbet/BetEasy merger would dominate online betting market, October 2019 (accessed from <https://www.roymorgan.com/findings/8164-gambling-tie-up-to-grab-more-than-half-the-online-betting-market-june-2019-201910140153>). Multiple selections allowed

¹⁷ Roy Morgan Research, Sportsbet/BetEasy merger would dominate online betting market, October 2019 (accessed from <https://www.roymorgan.com/findings/8164-gambling-tie-up-to-grab-more-than-half-the-online-betting-market-june-2019-201910140153>). Multiple selections allowed

4. US Sports Wagering Market

Following recent regulatory change, the US market for sports betting is growing significantly as individual states introduce legislation that legalises the activity. This has led to the introduction of sports wagering services, both through physical retail outlets (in casinos, retail premises, racetracks, etc.) and online channels (in states where online sports betting is legalised). Unlike Australia, however, current regulation permits service providers to only operate intrastate. This restriction **excludes** pari-mutuel wagering (including through ADW) which is an established wagering format in the US, and pari-mutuel wagering is excluded from the definition of sports betting as described in this section.

The potential of the US sports betting market will be determined by the number of individual states that ultimately legalise the activity, as well as the restrictions around it (e.g. whether online sports betting is allowed and, if so, whether an online sports betting account can only be opened in person). Industry analysts have developed a number of forecasts for the US sports betting market, using various assumptions about the number of states that legalise the activity and the nature of the regulatory regime.

4.1 Historical Regulations Governing Sports Wagering

4.1.1 Sports Betting

Individual game sports betting in the USA had been effectively illegal following the passage of the Professional and Amateur Sports Protection Act (**PASPA**) of 1992. PASPA made it unlawful for a state to sponsor, operate, advertise, promote, license or authorise sports betting, and for private individuals to do the same if done pursuant to the law or agreement of the state, except in states where sports betting was legal at the time the law was enacted (1992), or which legalised sports betting within a year of that date. Four states qualified under this exemption, primarily Nevada which was the only state where true sports betting was allowed (there were also limited exemptions in Oregon, Delaware and Montana). Pari-mutuel betting on horse racing, dog racing and Jai Alai (a pelota-like game played with large rackets) was exempted from the restrictions imposed by PASPA.

The act of sports betting itself, however, was not made illegal under PASPA. This had created an offshore and illegal onshore sports betting market in the US. Although there is no reliable data on the size of this market, one analyst estimates annual turnover of US\$70 billion (\$98 billion) in illegal sports betting, with US\$3.5 billion (\$5.15 billion) in revenue.¹⁸ Legalisation of sports betting is likely to result in a significant switch of wagering revenue from illegal and offshore operators to legal operators.

Following a legal challenge by the state of New Jersey, in May 2018, the US Supreme Court declared that PASPA was unconstitutional, allowing individual states to decide whether to legalise sports betting. Following then, a number of states have legalised sports betting and commercial services have been launched.

It should be noted that the striking down of PASPA will only allow intrastate sports wagering schemes to operate. Interstate schemes are prohibited under the 1961 Federal Wire Act

¹⁸ Eilers & Krejci Gaming, Legal Sports Betting, Defining the US Opportunity, April 2019

(previously the Interstate Wire Act) that prohibits any person from using wire communication in interstate or foreign communication of bets or wagers or information assisting in the placing of bets or wagers (interstate wagering on horse racing using the pari-mutuel system was subsequently excluded from the restriction, allowing service providers to offer services interstate).

The UIGEA allows the processing of payments for legal online gambling activities, and hence once a state has provided a legal framework, the UIGEA will no longer apply to the gambling activities legalised in that framework.

4.1.2 Pari-mutuel Wagering and ADW

Pari-mutuel wagering on horse racing, dog racing and Jai Alai was exempted from the restrictions imposed by PASPA. Pari-mutuel wagering on horse racing is currently legal in 43 states (the exceptions are Alaska, Georgia, Hawaii, Mississippi, North Carolina, South Carolina and Utah), and in a lesser number of states on greyhound racing and Jai Alai.¹⁹ States differ as to whether off-track pari-mutuel betting is permitted, including simulcasting (the broadcasting of races from more than one track at a single venue).

Over recent years, the total turnover (handle) from pari-mutuel wagering on horse racing in the US has remained roughly stable at around US\$11 billion (A\$16.2 billion) per year.²⁰

Figure 5: Pari-mutuel Horse Racing Turnover, US, 2010 to 2018



Source: Equibase, Thoroughbred Racing Indicators (sourced from <http://www.equibase.com/news/11pressarchive.cfm>)

Interstate pari-mutuel wagering on horse racing is exempted from the restrictions on interstate wagering from the 1961 Federal Wire Act as a result of the 1978 Horse Racing Act.²¹ This act authorised interstate wagering on horse racing, including the use of simulcasting. Consequently,

¹⁹ <https://www.onlinegamblingsites.com/betting/pari-mutuel/>

²⁰ Equibase, Thoroughbred Racing Indicators (sourced from <http://www.equibase.com/news/11pressarchive.cfm>)

²¹ <https://uscode.house.gov/view.xhtml?path=/prelim@title15/chapter57&edition=prelim>

ADW licensees in one state are able to offer services to residents of other states where pari-mutuel wagering is legal.

ADW has increased significantly over recent years, as states have sought to address declining attendance at horse racing venues. The legal status of ADW differs by state, including several states where its legal status is ambiguous, however ADW service providers currently offer services in 31 states.²²

4.2 Regulatory Change

Following the overturn of PASPA, individual states may legislate to allow sports betting, and even prior to the Supreme Court decision several had made moves to enact legislation which would permit sports betting in one form or another in the event PASPA was overturned, including New Jersey, Delaware, West Virginia and Mississippi. State-based legislation may include legalisation of land-based (offline) as well as online sports betting. As at April 2020, 19 states, with a cumulative population of around 108 million, have legalised sports betting to some extent, with online sports betting currently permitted or likely to be permitted in 13 (Nevada, New Jersey, West Virginia, Pennsylvania, Iowa, Indiana, Illinois, Maine, Montana, New Hampshire, Tennessee, Oregon and Colorado). Sports betting services have currently been launched in 16 states (as at April 2020). Additionally, sports betting through tribal casinos is available New Mexico (although not online).

Licenses to offer sports betting have so far largely been restricted to existing gambling license holders (such as casino and racetrack operators), who may enter into partnership agreements with sports wagering operators.

Table 3: States with Legalised Sports Betting, USA, April 2020

State	Population (millions)	Comments	Online Sports Betting Permitted?
Nevada	3.0	Legalised sports betting in 1931, and benefitted from grandfathering clause in PAPSA	Yes
Delaware	1.0	Previously partially exempted from PAPSA, single-betting games were legalised in June 2018	No
New Jersey	9.0	Legalised from June 2018, for both offline and online channels	Yes
Mississippi	3.0	In-person sports betting legalised from August 2018	No (unless the participant is physically within a licensed casino)
West Virginia	1.8	Authorised from August 2018	Yes
Pennsylvania	12.8	Sports betting legalised at casinos	Yes
Rhode Island	1.0	Authorised from June 2018	No
Arkansas	3.0	Available from July 2019	No
New York	19.5	Available from July 2019	No
Iowa	3.1	Legalised sports betting in May 2019	Yes
Indiana	6.7	Available from October 2019	Yes
Illinois	12.7	Legalised June 2019, launched from March	Yes

²² <https://www.thelines.com/breeders-cup-betting-online-2019/>

State	Population (millions)	Comments	Online Sports Betting Permitted?
		2020	
Maine	1.3	Bill passed 2019 but vetoed by Governor subject to further review, House vote in February 2020 failed to override veto	Yes
Montana	1.1	Legalised May 2019 and launched in March 2020 by Montana Lottery	Yes
New Hampshire	1.4	Legalised June 2019, launched February 2020	Yes
North Carolina	10.4	Legalised July 2019, limited to two casinos	No
Tennessee	6.8	Legalised May 2019, yet to be implemented	Yes
Oregon	4.2	Legalised August 2019, launched in September 2019	Yes
Colorado	5.8	Legalised November 2019, due for implementation May 2020	Yes

Source: <https://www.legalsportsreport.com/sportsbetting-bill-tracker/> ;
<https://www.worldatlas.com/articles/us-states-by-population.html>

Several other states also currently have pending legislation. Only eight states currently have no legislative activity to legalise sports betting.²³

4.3 Taxation of Wagering

The US differs from Australia in that winnings from gambling are fully taxable and must be included in an individual's tax return (losses can be deducted if itemised, up to the value of winnings). Typically, for gambling winnings over US\$5,000, the service provider deducts a withholding tax of 24%.

A federal excise tax on sports wagers (legal and illegal) was introduced in 1954, originally set at 10% but reduced to 0.25% in 1983 for legal wagers. This is payable by the wagering service provider as a percentage of the handle (turnover).

As part of the legalisation of sports betting, individual states are also introducing taxes (the potential for sports betting to provide additional revenue to states was the major reason for the challenge to PASPA). New Jersey has introduced an 8.5% tax on winning bets made at retail outlets, and 13% on online bets. An additional 1.25% tax will be introduced in December 2018, with the proceeds going to the Casino Reinvestment Development Authority (**CRDA**). West Virginia has introduced a sports wagering tax of 10% of NWR, Mississippi 12%, and states such as Delaware, Pennsylvania and Rhode Island operate revenue-sharing arrangements on the NWR of licensed operators. Taxes in Nevada are 6.75% on gross gaming win (the equivalent of NWR). In Iowa, taxes will be 6.75% of NWR. In New York, the tax rate is 8.5%.

4.4 Market Drivers

The US market has similar potential to Australia for take-up of sports wagering. A particular market driver in the US is the potential for conversion of bettors currently using illegal service providers to switch to legal providers once these services are available. One analyst estimates

²³ <https://www.legalsportsreport.com/sportsbetting-bill-tracker/>

that 14 million Americans undertake illegal sports betting in any given year, with 56% of these individuals reporting that they would make over 75% of their bets through legal/regulated channels if these were available. Total illegal sports wagering revenue is estimated at US\$3.5 billion (\$5.15 billion) annually.²⁴

The potential for growth particularly in online wagering is likely to be strong, given similar levels of online access to Australia. 81% of Americans own a smartphone, and 37% use the smartphone as the primary device to access the Internet.²⁵

Another market driver is likely to be the significant number of Americans already participating in online sporting contests analogous to sports betting through DFS. Existing DFS players are 3.5 times more likely to bet on sports compared to non-DFS players, with around 80% claiming to bet at least once a month.²⁶ This “cross-over” potential is further described in section 4.7.

4.5 Market Entrants and New Business Models

The growing legalisation of sports betting in the US is attracting new entrants, including established global sports wagering providers. Generally, sports wagering licenses in the states where sports betting has been legalised are restricted to existing legal gambling services providers, including casinos and racetracks. In many cases, there have been partnerships between these bodies and new entrants, which provide technology platforms and business expertise in sports wagering.

Amongst the earliest new entrants were the main DFS providers FanDuel and DraftKings (in partnership with Kambi) who started offering sports betting services in New Jersey in August 2018, in partnership with Meadowlands and Resorts Atlantic City respectively. These companies are likely to benefit from access to their user bases of DFS participants. The attraction of FanDuel’s user base is the main reason behind its acquisition by Paddy Power Betfair in 2018, and William Hill and bet365 have also entered the US market through partnerships. Australian company PointsBet Holdings has entered the US market with services launched in 12 states as at February 2020.²⁷

The online wagering sites established by DraftKings and FanDuel are the most commonly used by sports bettors in the US.

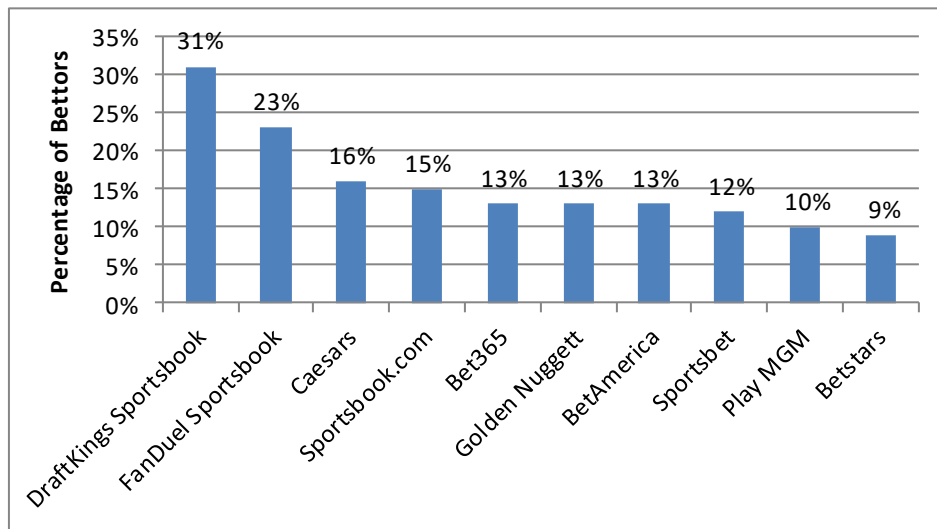
²⁴ Eilers & Krejci Gaming, Legal Sports Betting, Defining the US Opportunity, April 2019

²⁵ Pew Research Center, Mobile Technology and Home Broadband 2019, June 2019

²⁶ Paddy Power Betfair, US Business Overview, March 2019

²⁷ PointsBet Holdings, H1 FY20 Results presentation

Figure 6: Usage of Online Sports Betting Sites in Past 12 Months, US, 2019



Source: Fantasy Sports and Gaming Association (FSGA), Understanding the National Fantasy/Sport Betting Market, June 2019

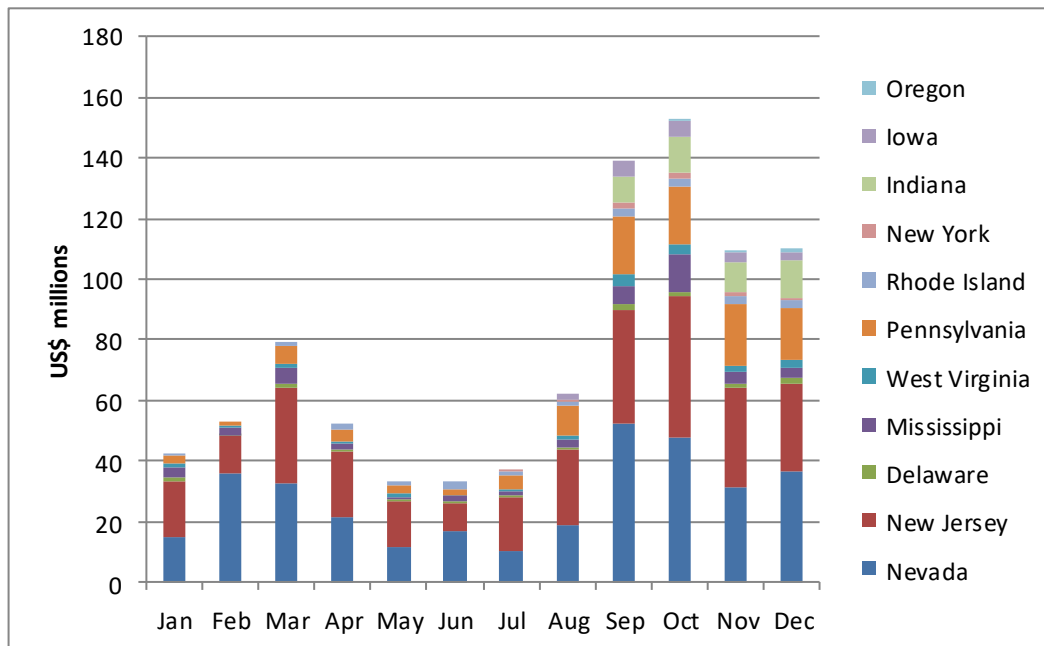
4.6 Potential Market Size

In 2018, the US sports betting market reached US\$429 million (\$630 million) in revenue. Whilst Nevada had legal sports betting throughout 2018, it was introduced progressively in other states (New Jersey, Delaware, Mississippi, West Virginia, Pennsylvania, Rhode Island) through the year. In July 2019, sports betting was also introduced in New York, in Iowa in August 2019, Indiana in September 2019, and Oregon in October 2019, with total national sports betting revenue of US\$904 million (\$1,329 million) for 2019.²⁸ Whilst this represents an increase of 211% on 2018, the numbers are not directly comparable as the number of states allowing sports betting has increased through 2018 and 2019.

Sports betting revenue fluctuates by month, with typical peaks in March, September and October, reflecting the sporting calendar (National Collegiate Athletic Association tournament in March and the opening of the American football season in September).

²⁸ UNLV, Center for Gaming Research, US Sports Betting Monthly and YTD Revenue Results

Figure 7: Sports Wagering Revenue by Month by State, US, 2019



Source: UNLV, Center for Gaming Research, US Sports Betting Monthly and YTD Revenue Results

Given the unpredictable regulatory situation in individual US states, the potential market opportunity for sports betting is uncertain. Consequently, market analysts have tended to develop forecasts under differing regulatory scenarios, using assumptions on which states legalise sports betting, and the channels permitted under that legalisation. In total, the overall US gambling market is estimated at approximately 6.4 times that of Australia in 2016, reflecting the fact that although the US population is 13.2 times larger than Australia, per capita gambling expenditure in the US is less than half that in Australia, which has the world’s largest per capita gambling expenditure.²⁹

One market analyst estimates that if all 50 US states fully legalise sports betting, including through online channels, the US sports betting market (across all channels) would be worth US\$17.3 billion (\$25.4 billion) in revenue. This estimate is based on adjusting data from Nevada and the UK for the populations and economic output of all 50 states.³⁰ This is approximately 5.3 times larger than the Australian wagering market in 2018.³¹

However, full legalisation across all 50 states is unlikely, and the actual market is therefore likely to develop to a smaller size than under this scenario. The same analysts have forecast that the actual US sports wagering market will reach US\$5.7 billion (\$8.38 billion) by 2023. This forecast is based on the assumption that 36 states and Washington, D.C. authorize sports betting by 2023,

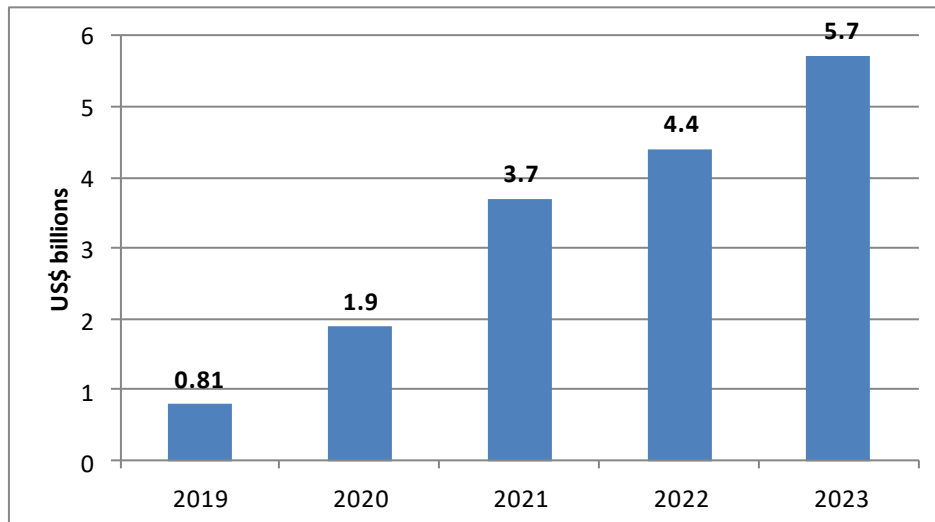
²⁹ The Economist, the World’s Biggest Gamblers, <https://www.economist.com/graphic-detail/2017/02/09/the-worlds-biggest-gamblers>, accessed October 2019

³⁰ Eilers & Krejcik Gaming, Legal Sports Betting, Defining the US Opportunity, April 2019. Sourced from PointsBet Holdings, Investor Presentation, August 2019

³¹ Based on Australian racing and sports wagering revenue of \$4.78 billion (Australian Gambling Statistics, 35th edition, 2017-18)

and that those states vary on key policy terms such as tax rate, license fee, availability of licenses and the ability to offer sports betting online.³²

Figure 8: Sports Betting Market, USA, 2019 to 2023



Source: Eilers & Krejcik Gaming, Legal Sports Betting, Defining the US Opportunity, April 2019. Sourced from <http://wffunds.com.au/wp-content/uploads/2019/08/Leading-Edge-June-2019.pdf>

4.7 Cross-over Potential from Fantasy Sports

Based on a recent survey, 19% of the US adult population (45.9 million individuals) have participated in fantasy sports in the past 12 months, and 19% have also wagered on a sporting event over the same time period. Participation in fantasy sports has increased from around 6% of the adult population (13.3 million individuals) in 2007. There is significant cross-over between these two groups, with 78% of fantasy sports players having also bet on a sporting event in the past 12 months, most commonly American Football (NFL) (49%), baseball (32%) and basketball (NBA) (32%). Similarly, 75% of sports bettors also play fantasy sports, most commonly NFL (58%), baseball (33%) and NBA (17%).³³ This provides a strong opportunity for market participants with both sports betting and fantasy sports offerings to market services to both groups, as indicated by the leadership in sports betting of the dominant DFS participants, DraftKings and FanDuel.

5. India Sports Wagering Market

5.1 Regulatory Situation

In India, the legal status of gambling is still largely based on the Public Gambling Act, 1867, which prohibits the operation of gambling houses, visiting a gambling house, as well as being in the possession of a gambling device. However, the Act explicitly exempts ‘games of skill’ where the skill and knowledge of the player can influence the outcome of the result, as opposed to ‘games of chance’ where the results are predominantly determined by luck. Games of chance are

³² Eilers & Krejcik Gaming, Legal Sports Betting, Defining the US Opportunity, April 2019. Sourced from <http://wffunds.com.au/wp-content/uploads/2019/08/Leading-Edge-June-2019.pdf>

³³ Fantasy Sports and Gaming Association (FSGA), Understanding the National Fantasy/Sport Betting Market, June 2019

prohibited. Hence, whilst sports wagering is largely illegal in India, the courts have made a distinction in the case of games that they have categorised as involving a level of skill (as opposed to chance). For example, the Supreme Court of India has ruled that betting on horse racing and rummy involve skill and is categorised as legal. However, betting on horse racing is restricted to the racetrack itself.

Under the Government of India Act, 1935, states are allowed to enact their own laws concerning gambling. Whilst most state laws follow the same approach of skill versus chance, there are variations. For example, Assam and Telangana prohibit games for money even if skill-based; the state of Goa, Daman and Diu allows casinos and other games of chance; Sikkim allows casinos and some online sports betting (the Sikkim Online Gaming (Regulation) Act, 2008 allows certain online games including betting on sports. However, an amendment to the Act in 2015 restricts these games to the physical premises of gaming parlours through intranet gaming terminals within the geographical boundaries of the state); and Nagaland allows certain activities under a relevant license, under the Nagaland Prohibition of Gambling and Promotion and Regulation of Online Games of Skill Act, which was introduced in 2015 and signed into law by the governor a year later. This act gives authority to the state government to allow for “games of skill” to be allowed and regulated on an online platform. Online games like rummy and poker, strategy games, and virtual sports (cricket, football, racing games) fall in the ambit of “games of skills” as per the definition adopted by the Nagaland assembly. These will be allowed in the state of Nagaland and applicable in territories in India where games of skill are permitted.

However, in general online sports wagering, including on racing, remains illegal in India as it has not been expressly regulated in any states, or at the national level.

In its July 2018 report, 'Legal Framework: Gambling and Sports Betting Including in Cricket in India', the Law Commission of India recommended that since it is not possible to prevent illegal gambling, effectively regulating it is the only viable option. This, the Commission suggests, can be done by (among other things):

- Expanding exemptions from the betting prohibition to other skill-centric games beyond horse racing
- Putting in place restrictions that protect vulnerable sections of the public from the ill effects of gambling
- Improving communication of responsible betting by portals/platforms³⁴

Since that report, there have been other efforts to move towards providing greater clarity on the legal status of sports betting in the country, however, the current Central Government has not moved to act specifically on this; instead leaving it to the states to make their own decisions in this respect.

5.2 Market Potential

The expansion of sport leagues beyond cricket (Indian Premier League) to now include Hockey (Hockey India League), Football (Indian Super League), Kabaddi (Pro Kabaddi League), Badminton (Premier Badminton League), Wrestling (Pro Wrestling League), Basketball (UBA Pro

³⁴ 'Legal Framework: Gambling and Sports Betting Including in Cricket in India', Law Commission of India, July 2018

Basketball League), and Volleyball (Pro Volleyball League) is expected to be a major driver of sports wagering in the country as it expands the addressable user base and will support year-round wagering activity when legitimised.

Another market driver is increased digital maturity in the country. Smartphone user numbers in India are expected to double from 468 million in 2017 to 859 million by 2022; growing at a CAGR of 12.9%.³⁵ In terms of Internet users, the country has 451 million users as of Q1 2019, a figure that is set to climb rapidly as geographic coverage improves, plans become more affordable and the under-penetrated rural market increases uptake.³⁶

The addressable market opportunity in India is currently equivalent to the scale of illegal sports betting (with participants expected to switch to licensed platforms when it is legitimised). The illegal sports betting market in India is estimated at around US\$150 billion a year in gross betting revenue.³⁷ The opportunity to minimise match-fixing through increased transparency in betting and the opportunity to derive revenue from legalised betting (the Federation of Indian Chambers of Commerce & Industry (**FICCI**) estimates that the Indian government can earn \$2.45 to \$3.88 billion a year from taxes on the value of bets) is likely to see moves towards legitimising sports betting in the country.³⁸

6. Fantasy Sports Markets

6.1 US Fantasy Sports Market

6.1.1 Current Regulatory Environment

In the US, the regulation of DFS differs by state. The UIGEA only regulates the transfer of funds related to online gambling, does not define illegal Internet gambling, and does not impact existing state laws on gambling. In most states, games or contests which collect real money entry fees to join and provide a competition with the opportunity to win real money prizes, traditionally needed to be games or contests of skill to be legal. However, the definition of “games of skill” can differ by state, and in some cases states have interpreted the law in a way which suggests that DFS events are not games of skill. In some states, the state Attorney General has issued an opinion on the legality of DFS, although the weight and meaning of these opinions may differ by state. Additionally, as sports wagering is increasingly legalised in US states, DFS operators may be able to offer a service in a state where DFS was traditionally illegal but where sports wagering is legalised (e.g. Nevada) if they obtain the appropriate license.

As at April 2020, DFS services are available in 43 US states. In the other seven states (Washington, Montana, Idaho, Nevada, Arizona, Hawaii, Louisiana) DFS is regarded as illegal, or operators are

³⁵ ‘Video on Demand: Entertainment reimaged’, ASSOCHAM-PwC joint study, May 2019,

<https://www.assocam.org/newsdetail.php?id=7099>

³⁶ India Internet 2019, IAMAI, Nielsen, <https://cms.iamai.in/Content/ResearchPapers/d3654bcc-002f-4fc7-ab39-e1fbeb00005d.pdf>

³⁷ International Centre for Sports Security, quoted in Hindustan Times, January 2016,

<https://www.hindustantimes.com/business/with-200-million-on-every-odi-match-illegal-betting-thrives/story-5CDuIlgCrykqM2smIPn7dI.html>

³⁸ With \$200 million on every ODI match, illegal betting thrives in India, Hindustan Times, January 2016,

<https://www.hindustantimes.com/business/with-200-million-on-every-odi-match-illegal-betting-thrives/story-5CDuIlgCrykqM2smIPn7dI.html>

required to hold a gambling license to offer DFS services, and no services are currently available.³⁹

6.1.2 Competitive Environment

The DFS market in the US is dominated by two companies, FanDuel and DraftKings, which together account for an estimated 85-90% share of DFS turnover and revenue. Smaller service providers include Yahoo Daily Fantasy and FantasyDraft.

Table 4: Major DFS Service Providers, US, 2019

Company	Ownership	Comments
DraftKings	Private	Founded in 2011. Raised almost US\$900 million (\$1,323 million) in funding to date. DFS revenue estimated ~US\$150 million (\$221 million)
FanDuel	Flutter Entertainment (UK), (formerly Paddy Power Betfair, merged with FanDuel 2018)	Founded in 2009. Merger with Paddy Power Betfair valued FanDuel at US\$465 million (\$684 million). DFS revenue of US\$163 million (\$240 million) in 2018 ⁴⁰
FantasyDraft	Private	Founded 2014
Yahoo Daily Fantasy	Verizon Media	Founded 2015

Sources: company websites, news articles; Frost & Sullivan estimates

6.1.3 Market Size and Growth

Based on data provided by DFS service providers to the New York Gaming Commission, total national entry fees for DFS was US\$3.19 billion (\$4.69 billion) in the year ended March 2018, with total revenue for DFS operators of US\$335 million (\$493 million), representing a hold average of 10.5%.⁴¹ The same source indicates revenue of US\$327 million (\$481 million) in the year ended August 2017, and industry analysts estimate revenue of US\$350 million (\$515 million) in 2016.⁴²

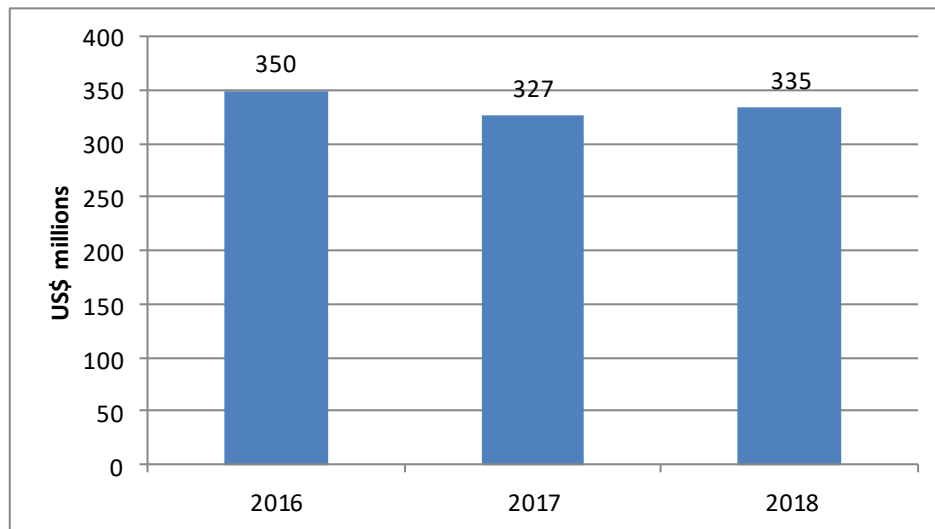
³⁹ Legal Sports Report, April 2020 (accessed from <https://www.legalsportsreport.com/daily-fantasy-sports-blocked-allowed-states/>)

⁴⁰ Paddy Power BetFair, US Market Overview, March 2019

⁴¹ NY Gaming Commission, Interactive Fantasy Sports, Summary of Monthly Tax, Fiscal Year 2017/18

⁴² <https://www.legalsportsreport.com/16152/draftkings-fanduel-dfs-revenue/>

Figure 9: DFS Revenue, US, 2016 to 2018



Sources: NY Gaming Commission, Interactive Fantasy Sports, Summary of Monthly Tax; <https://www.legalsportsreport.com/16152/draftkings-fanduel-dfs-revenue/>

6.2 Australian Fantasy Sports Market

6.2.1 Competitive Environment

Paid fantasy sports services have been available in Australia for around five years. Operators provide services under corporate bookmakers licenses held in the NT, with four licensed operators currently offering services.

Table 5: Licensed Fantasy Sports Service Providers, Australia, 2019

Company	Ownership	Comments
DraftKings	DraftKings (US)	Launched services in Australia in 2018. Primarily offer services based on US sporting events
DraftStars	PlayUp Ltd	Founded 2016. Acquired from CrownBet in 2018
Moneyball	Private	Founded 2014, services offered from February 2015
PlayON	PlayON (Ireland)	Offers services in Australia, Ireland, UK

Sources: company websites and press articles

6.2.2 Market Size and Growth

Data specifically on turnover and revenue from fantasy sports is not available in Australia, as fantasy sports are included within the sports betting category in the Australian Gambling Statistics, and none of the Australian fantasy sports service providers have released financial data or user numbers.

6.3 India Fantasy Sports Market

Fantasy sports platforms in India provide users the option of a single match free-to-play game (or practice game) or pay-to-play daily fantasy sports (with entry fees and monetary returns).

6.3.1 Regulatory Situation

Whilst sports betting is technically largely illegal (with some exceptions such as on-track horse racing and rummy and some variations in some states), the view of fantasy sports as a game of skill has allowed this sector to flourish in India. This view has been supported by the 2017 ruling of the High Court of Punjab and Haryana (in the case of ‘Shri Varun Gumber vs. Union Territory of Chandigarh and others’) which concluded that Dream11's fantasy sports game involved skill and is therefore a legitimate activity.⁴³ In 2019, the Bombay High Court held that Dream11's fantasy game “is undoubtedly a game of skill and not a game of chance” and it does not amount to gambling.⁴⁴ These rulings have increased industry confidence and have led to further investments into fantasy sports platforms in the country.

6.3.2 Competitive Environment

The Indian fantasy sports industry has its origins around the 2001 launch of ‘Super Selector fantasy game’ by ESPN-Star Sports. A number of fantasy sports platforms have partnered with official sports leagues and this is expected to result in increased maturity of market offerings to the public. These operators generally offer a ‘freemium’ model whereby users can participate free-of-charge, but pay-to-enter games with cash prizes are also available. Dream11 is the current market leading fantasy sports platform in the country, accounting for 90% of the Indian market.⁴⁵ 85% of Dream11's total user base plays for free;⁴⁶ suggesting that the majority of the total market user base is still engaged via free-to-play models.

The main paid fantasy sports platforms in the country are:

Table 6: Fantasy Sports Service Providers, India, 2019

Company	Ownership	Comments
Dream11	Kalaari Capital, Think Investments, Multiples Alternate Asset Management, Tencent	Founded in 2008. Sports: Cricket, kabaddi, NBA, football, hockey
Fantain	BookMyShow	Founded in 2013. Sports: Cricket, football, kabaddi
FanMojo	--	Founded in 2016. Sports: Cricket, football, kabaddi
Halaplay	Kae Capital, Nazara Games	Founded in 2017. Sports: Cricket, football, kabaddi
MyTeam11	--	Founded in 2017. Sports: Cricket, football, kabaddi, volleyball, basketball
Starpick	Angel Investors	Founded in 2018. Sports: Football, basketball, cricket, tennis, kabaddi

⁴³ The evolving landscape of sports gaming in India, KPMG, March 2019

⁴⁴ Dream11 does not amount to gambling, is game of skill: Bombay High Court, The Indian Express, October 2019, <https://indianexpress.com/article/india/dream-11-does-not-amount-to-gambling-is-game-of-skill-bombay-high-court-5793755/>

⁴⁵ From rummy to e-sports, its boom time for digital gaming in India, Techcircle, November 2018, <https://www.techcircle.in/2018/11/12/from-rummy-to-e-sports-it-s-boom-time-for-digital-gaming-in-india>

⁴⁶ Dream11: How a fantasy gaming app became a brand, Afaqs!, January 2019, https://www.afaqs.com/news/digital/54171_dream11-how-a-fantasy-gaming-app-became-a-brand

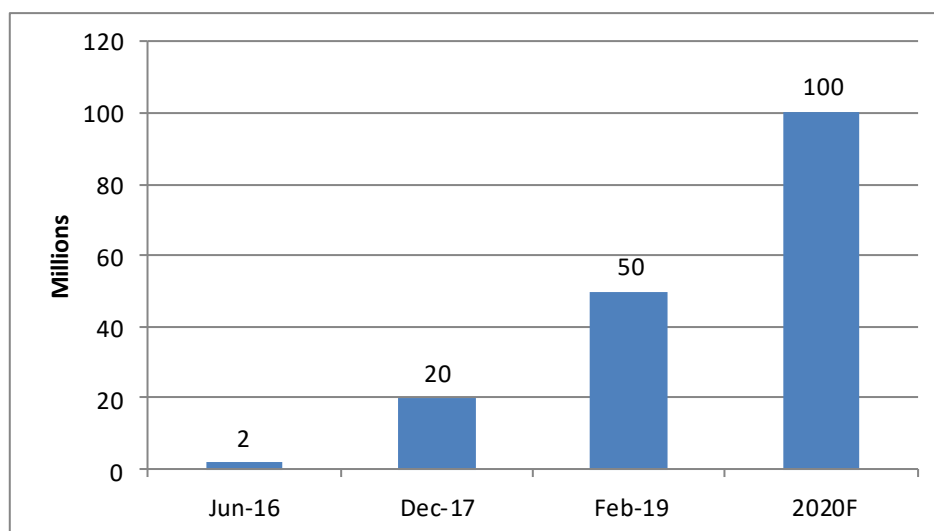
Company	Ownership	Comments
11Wickets	--	Founded in 2018. Sports: Kabbadi, football
FanFight	Head Digital Works	Founded in 2018. Sports: Cricket, football, kabaddi
BalleBaazi.com	--	Founded in 2018. Sports: Cricket, football, kabaddi

Sources: The evolving landscape of sports gaming in India, KPMG, March 2019 and Company websites

6.3.3 Market Size and Growth

The Indian fantasy sports market has seen massive growth, with the number of users growing by around 25 times between June 2016 and February 2019, although the vast majority are still non-paying users.⁴⁷ The presence of national and international stars in the various sports leagues is expected to support public engagement with fantasy platforms moving forward.

Figure 10: Fantasy Sports Users, India, 2016 to 2020



Source: Fantasy sports to have 100 million users in India by 2019, the journey has just begun, Financial Express, June 2018

7. Conclusion

Whilst racing wagering is a relatively mature market in Australia, wagering on non-racing sports is growing rapidly, leading to growth in overall sports wagering of 5.8% CAGR between 2001 and 2018, over double the rate of economic growth over this period. A rapidly increasing proportion of sports betting occurs online, with online share of total sports betting close to 50% in 2018 and growing at a CAGR of almost 14% between 2014 and 2018. Paid fantasy sports are an emerging business in Australia, though with significant market potential based on the experience in the US.

In the US, legal sports betting is growing rapidly as states progressively legalise the activity following the striking down of PASPA. 19 states have currently legalised sports betting (as at April 2020), although it is yet to be launched in some of these, and many others are currently

⁴⁷ Fantasy sports to have 100 million users in India by 2019, the journey has just begun, Financial Express, June 2018

undertaking a legislative process to legalise it. The market potential in the US is estimated at US\$5.7 billion (\$8.38 billion) by 2023, which is approximately twice the size of the Australian market in 2017.⁴⁸ The rapidly growing US market presents opportunities for new entrants with sports wagering expertise, particularly in partnership with established gambling service providers.

DFS services in the US represent an established market, with national entry fees for DFS operators of US\$3.2 billion (\$4.7 billion) in the year ended March 2018, with total revenue for DFS operators of US\$335 million (\$493 million), representing a hold average of 10.5%.⁴⁹

India represents a potentially significant market opportunity for both sports wagering and paid fantasy sports. Whilst the legal status of sports betting is still developing, the huge size of the illegal sports betting market in India indicates the market opportunity should sports wagering be legalised. Paid fantasy sports are currently offered in India as they have been generally recognised as a game of skill, and the market is likely to develop further as players switch from free to paid games.

8. Disclosure

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⁴⁸ Eilers & Krejcik Gaming, Legal Sports Betting, Defining the US Opportunity, April 2019. Sourced from <http://wffunds.com.au/wp-content/uploads/2019/08/Leading-Edge-June-2019.pdf>. Based on Australian sports wagering revenue of \$4.37 billion in 2017

⁴⁹ NY Gaming Commission, Interactive Fantasy Sports, Summary of Monthly Tax, Fiscal Year 2017/18