



ESPORTS & GAMBLING: WHERE'S THE ACTION?

VERSION 2: 8.15.2016

Photo by Roman Kosolapov / Shutterstock.com

Analyzing the intersection of the gambling and esports industries

WHAT'S NEW IN THIS UPDATE

Why we updated

Our decision to update our report only two months after publishing was driven by an event we suggested as a possibility in our original report: [Valve's decision to crack down on skin gambling sites](#) in July of 2016.

After concluding that the crackdown was genuine and that a material number of skin gambling sites were acting in response, we saw little choice but to overhaul the report.

Skin gambling sites accounted for more than 90% of our projected esports gambling activity in 2016, and over half of our projected total activity by 2020. With the precipitous drop in skin gambling that we observed following Valve's crackdown, we knew that those projections were no longer defensible, and that our outlook for the cash gambling vertical required significant revision as well.

What's changed

Revised skin gambling projections. Our projections for total skin gambling handle in 2016 and through 2020 have been revised downward to a significant degree in the wake of Valve's decision, with our base case calling for an 85% drop into 2017 and our 2020 number sitting at roughly 5% of our original projections.

Revised cash gambling projections. Based on our analysis regarding the likely crossover from skin gambling to cash gambling, we have revised our projections for total cash gambling on esports in 2016 and through 2020. While cash gambling did receive a boost, it was nowhere near enough to offset the decline in our skin gambling projections.

Revised overall esports gambling projections. Declines in skin gambling will easily outpace gains in cash gambling. While we believe alternative products will arise to fill the void left by the absence of skin gambling, the chance of another product rivaling the size and scope of skin gambling is minute. The net impact is a 60% reduction in our projection for total esports gambling activity by 2020.

Analysis of Valve's crackdown. A new slide in our revised presentation breaks down Valve's crackdown, reviews the timeline of events that surrounded the crackdown, and offers thoughts on the primary impacts stemming from the crackdown and accompanying controversies.

Esports casino case study: Downtown Grand. A new slide in our revised presentation offers a view into the Downtown Grand's approach to esports. As the first Las Vegas casino to embrace a permanent esports integration, DTG is at the vanguard of the esports and casino collision.

EXECUTIVE SUMMARY

KEY NUMBERS

\$5.5 BILLION

Our base case estimate for the total value of money / items wagered around major esports titles in 2016

\$12.9 BILLION

Our base case projection for the total value of money / items wagered around major esports titles by 2020

6.5 MILLION

Our base case projection for the number of unique customers placing esports wagers by 2020

There is already a significant market for gambling around esports

Despite the relatively low profile of esports gambling, the current market - made up of sites where you can bet with cash and sites where you can bet with virtual items ("skins") from popular games - is already a significant one that spans a variety of products (sports betting, casino-style gaming, head-to-head betting). We estimate that over \$5.5bn total in cash and items will be bet by some six million unique players across all products in 2016. The majority of that activity will take place at unregulated skin betting sites, but major online bookmakers - led by Pinnacle, bet365, betway, and other regulated market brands - are poised to realize a larger share of the esports betting market in the near term, especially in the wake of Valve's crackdown.

Demand for esports and gambling appears set to grow in tandem

The esports phenomenon stretches back some two decades, but is effectively still in early days in terms of transitioning from a substantial subculture to a global mainstream phenomenon. Expected growth and maturation for esports on the content and live event fronts (aided by the recent entrance of titans like Amazon, Alibaba, and ESPN) will provide powerful fuel for the growth of esports gambling. Concurrently, the betting products around esports will enjoy accretive growth driven by product innovation, marketing pushes, and deeper partnerships between gambling and esports industry stakeholders.

Hitting \$12 billion is easier than it sounds

While our base case for total amount wagered around esports in 2020 (\$12.9bn) sounds lofty, the conditions required to achieve that level of handle are actually quite modest. The total unique players our model calls for (~6.5m) is a fraction of the projected size of the global esports fan community in 2020. The annual average handle (total amount bet, not lost) required from each (~\$2,000) is far below the handle of an average traditional sports bettor, poker player, or casino customer. And the actual annual spend (i.e., loss) that handle represents (~\$100) is both (i) lower than the typical annual loss for many traditional online gambling customers and (ii) a relatively small portion of the substantial wallet esports fans have already devoted to gaming (e.g., hardware, peripherals, live events, games, in-game items, merchandise).



Photo by Roman Kosolapov / Shutterstock.com



OVERVIEW

Gambling is a central part of the stick-and-ball sports landscape, and there's little reason to believe that gambling won't play a similar role when it comes to esports. In fact, we believe that gambling may become more ubiquitous in esports than in traditional sports.

In this report, we present a data-driven view of the current esports gambling market, a survey of the current key verticals, projections for market size in the years ahead, analysis of headwinds and tailwinds surrounding the product, and an exploration of the broader intersection between esports and the commercial gambling industry.

The full report, which includes a 50-page appendix filled with additional detail, analysis, and resources is available for purchase from Eilers & Krejcik Gaming.

TABLE OF CONTENTS

Credits / About the author

ESPORTS FAN GAMBLING: LARGE, AND GROWING	1
Total esports gambling handle through 2020	2
Cash gambling: How big is it / major types	3
Cash betting: Focus on esportsbook betting	4
Cash gambling: Projections / what drives demand	5
Skin gambling: Product overview	6
Skin gambling: A product under fire	7
Skin gambling: Projections / what drives demand	8
TAILWINDS AND HEADWINDS	9
Tailwind: Strong demand already exists	10
Tailwind: Demand is growing	11
Tailwind: Mainstream integrations	12
Tailwind: Event explosion	13
Tailwind: The tremendous potential for in-play	15
Headwind: Legal & Regulatory	17
Headwind: Developer ambivalence	18
Headwind: Match integrity	19
LAND-BASED CASINOS AND ESPORTS	20
Case study: DTG	21
Commercial gambling industry attitudes toward esports	22
Why live esports events make sense in the casino environment	23
Envisioning integration of esports into casinos	24
APPENDICES	25



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A boutique research firm servicing the equipment, technology, and interactive gaming sectors of the global gaming industry.

EKGamingLLC.com



A consultancy offering guidance to clients at the intersection of esports, online gambling, and land-based gambling.

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ESPORTS FAN GAMBLING: **LARGE, AND GROWING**

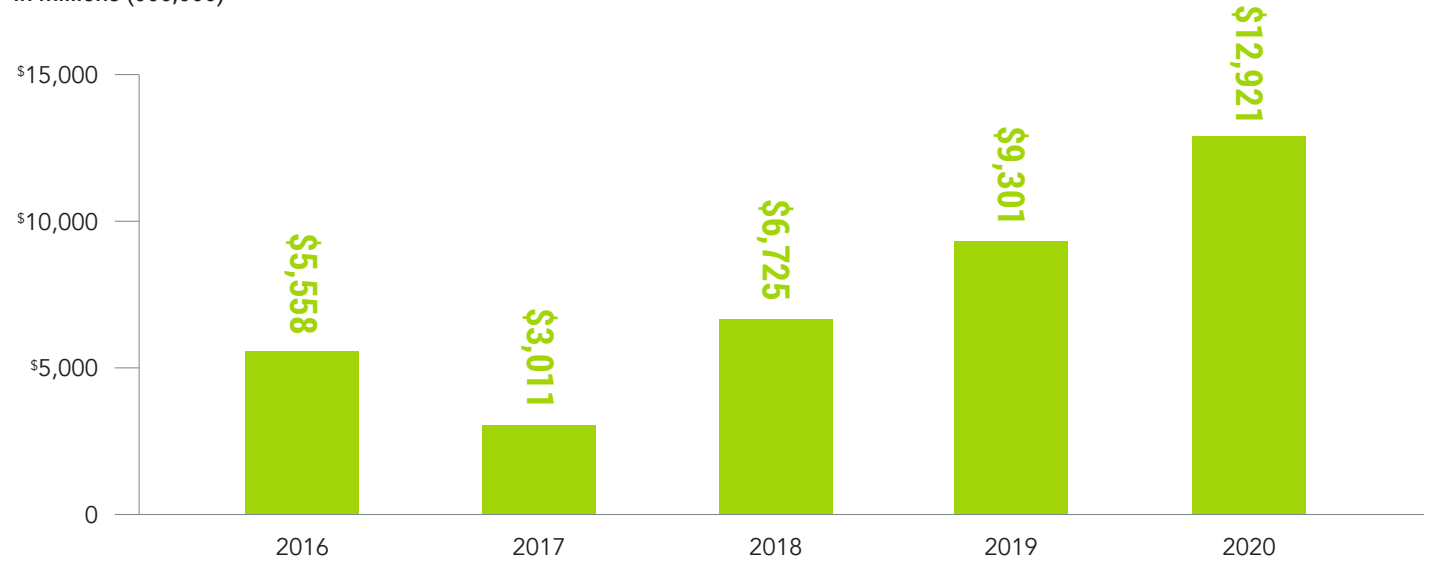
Overview of the core markets for gambling around esports

The market for esports betting is larger and spans a broader range of products than many assume. While betting on esports matches is popular, it's only one part of the product mix that sits at the locus of esports and gambling. In this section we'll examine the two core classes of esports gambling: cash gambling and skin gambling.



Total esports gambling handle through 2020

In millions (000,000)



Source: Narus Advisors / Eilers & Krejcik Gaming

What changed from our previous projections?

The crackdown by Valve caused us to essentially gut our previous (June 2016) projections for the overall esports gambling market. Prior to the crackdown, we saw a world where \$30bn in handle was an achievable goal by 2020; now we expect the market to generate less than half of that.

While cash gambling will absorb some of the demand left adrift by Valve's crackdown and the subsequent scaling back or shuttering of many skin gambling sites, much of the demand will remain unserved or simply dissolve. We do expect new forms of alternative-currency gambling to emerge within the esports community, an assumption reflected in our above projections for the overall esports gambling market.

A series of small booms on the cash betting side and continued (albeit dramatically reduced) activity around alternative currency products like skin gambling will combine to vault esports gambling toward the upper tier of online gambling verticals by 2020.

Notably, our projections call for a modest adoption rate of gambling products by esports fans compared to similar rates in the general population, and require an average annual spend per esports bettor that is far below the average spend of a typical online casino or sportsbook customer.

Read more in Appendix E

CASH GAMBLING: MARKET SIZE/ MAJOR PRODUCTS

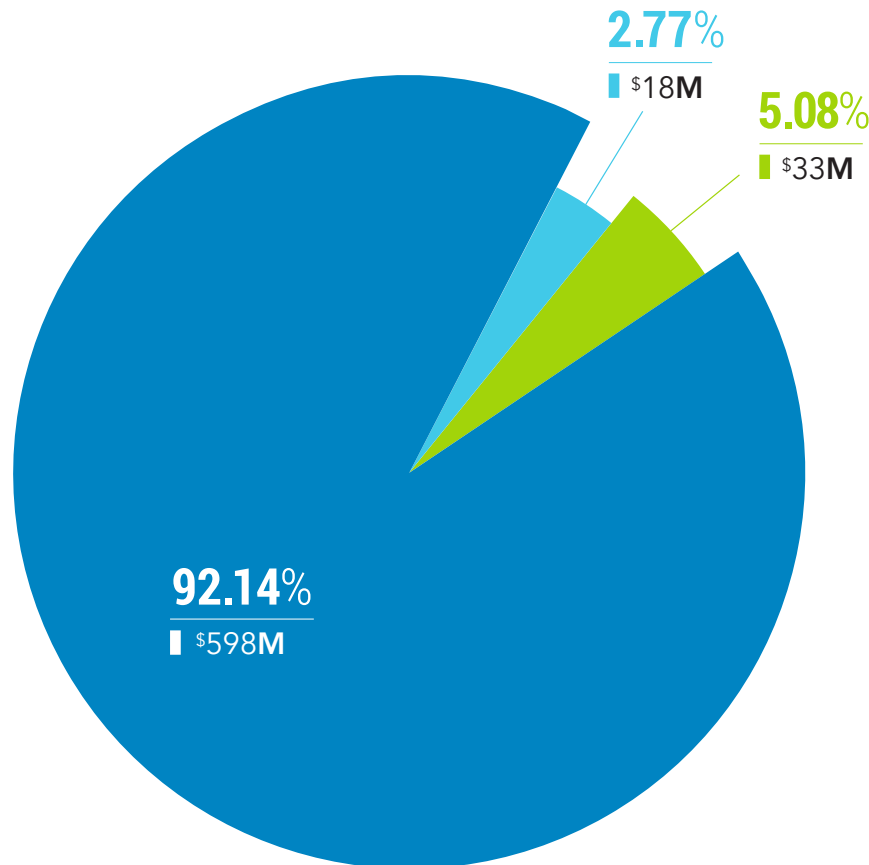
As the name implies, cash gambling involves a group of products where players wager cash around esports (as opposed to skins). The bulk of this product class involves betting on esports matches, an activity that broadly echoes the ways that people bet on traditional sports.

Cash gambling is currently a fraction of the size of skin gambling. We already expected that gap to steadily shrink before Valve's crackdown; post-crackdown, we believe the gap will disappear within the next two years.

Read more in Appendix B

Esports cash gambling market size

The chart below shows our estimates for total amount wagered by product type. The numbers represent handle (total bets), not revenue.



TOTAL TURNOVER | \$649M

Source: Narus Advisors / Eilers & Krejcik Gaming

\$649 MILLION

2016

Total Amount
Wagered on Cash
Gambling Sites

Product type

- Esportsbook betting:** Akin to traditional sports betting.
- Fantasy esports:** Akin to traditional fantasy sports / DFS.
- Head-to-head:** Players wager on outcomes of esports matches that they participate in.

CASH GAMBLING: FOCUS ON ESPORTSBOOK BETTING

Esportsbook betting happens at a mix of traditional sportsbooks and esports-only sportsbooks. Most online sportsbooks offer some esports markets, but the amount, frequency, type, and limits can vary greatly from book to book.

Unikrn

Arguably the best-known of the esports-only sportsbooks. Operated in partnership with Australian bookmaker Tabcorp, Unikrn has received investments from Mark Cuban, Binary Capital, and Ashton Kutcher.

Pinnacle

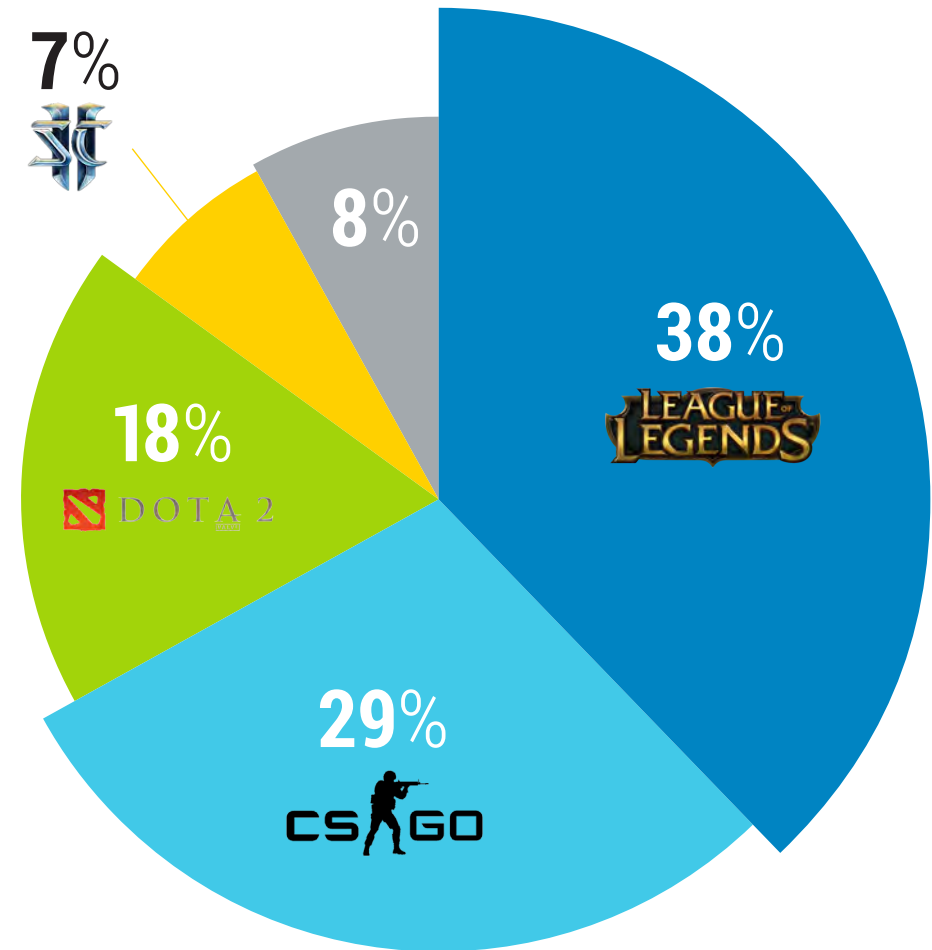
We believe Pinnacle is the market leader by volume for cash betting on esports. The site has one of the few in-house esports trading teams in the industry and has been the most aggressive in terms of markets and limits for esports matches.

Sportsbooks
that offer
esports include



Esportsbook betting volume by game

■ League of Legends ■ CS:GO ■ Dota 2 ■ Starcraft 2 ■ Other



Source: Narus Advisors / Eilers & Krejcik Gaming

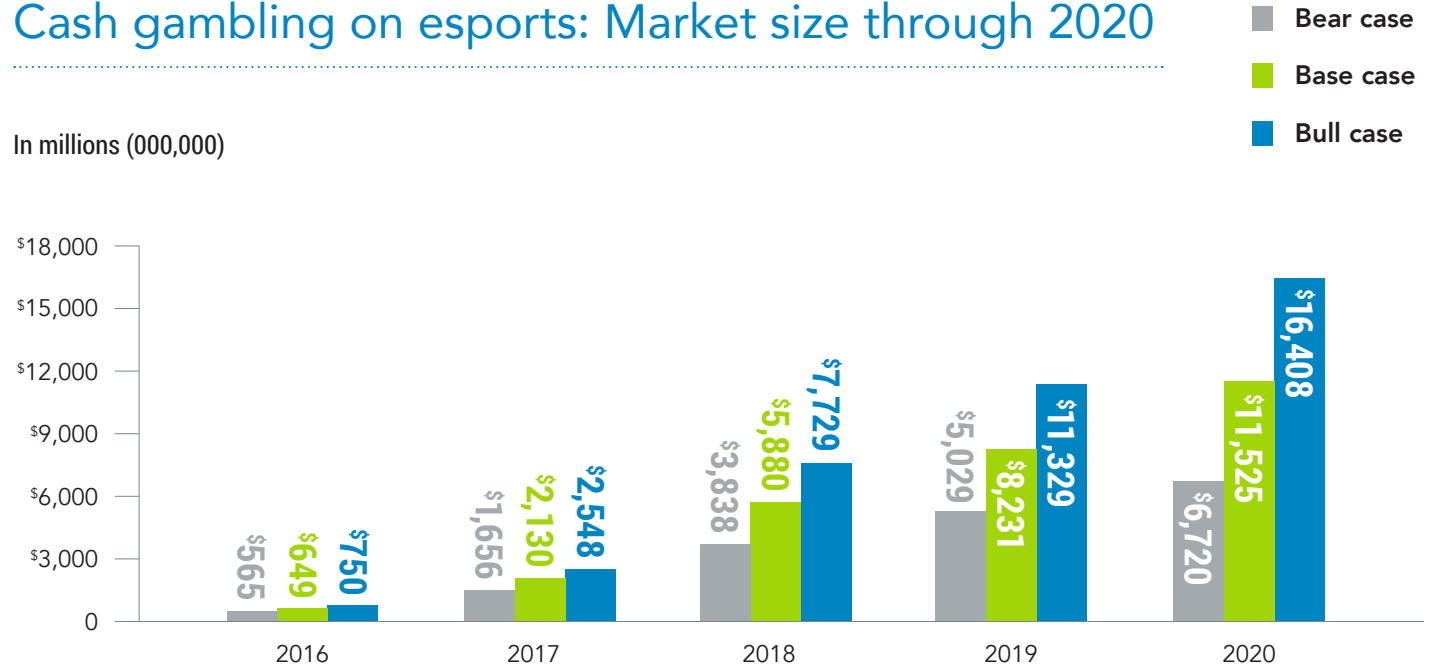
CASH GAMBLING: PROJECTION/ WHAT DRIVES DEMAND

Cash gambling on esports is at a nascent stage. The product pales in sophistication relative to stick-and-ball betting products. The economic incentives for online gambling operators and esports stakeholders should drive cooperation and innovation that will help to fuel growth in the years ahead.

We believe that skin gambling's struggles will translate into significant near-term growth for cash gambling products. But we do not expect cash gambling to capture all - or even most - of the demand for skin gambling.

Cash gambling on esports: Market size through 2020

In millions (000,000)



Source: Narus Advisors / Eilers & Krejcik Gaming

Key demand drivers

Product expansion: More sportsbooks will offer a greater range of bets across a greater range of events.

Better data: The ability of sportsbooks to acquire more robust, reliable data feeds for esports will lead to an increase in the type and amount of available events.

Event growth: A dramatic increase in the number of esports events will generate a surge on both the demand and supply side for cash betting on esports.

Key challenges

Pricing: The lack of a pool of experienced esports traders will continue to artificially limit the number of esports markets sportsbooks are willing to offer.

Marketing: Traditional online betting companies are still honing their approach to reaching esports fans.

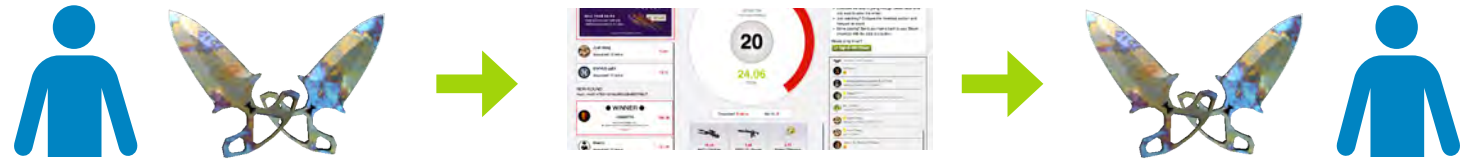
Game integrity: Match-fixing and other integrity questions are definitely dampening bookmaker appetites for offering esports.

SKIN GAMBLING: PRODUCT OVERVIEW

Skin gambling is simple: Instead of gambling using cash, players bet using “skins” - virtual items that can be used within a video game, usually for cosmetic purposes (e.g., changing the color of a gun). Game publishers don’t allow skins to be exchanged for cash (only game credit), but secondary markets do allow players to convert skins to cash. Skins can range in cost from a few cents to thousands of dollars. The market for skin gambling was growing rapidly until CS:GO publisher Valve - whose platform was used to facilitate the transfer of skins from players to gambling sites - cracked down on the activity.

Read more in Appendix A

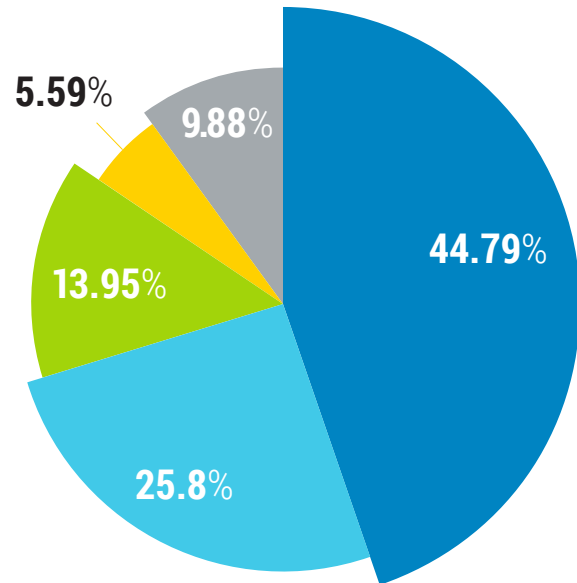
How skin gambling works



1. The player deposits a skin at a gambling site by “trading” the skin to the gambling site. The skin is then available in the player’s gambling site account.
2. The player wagers the skin on games as you would a casino chip. For winnings, players receive skins or internal currency that can be redeemed for skins.
3. The player can “cash out” their balance at the gambling site by requesting that the site trade skins back to the player on Steam.

[Read more about how the skin betting ecosystem functions in this free white paper.](#)

Skin betting market by product (pre-Valve crackdown)



Product type

- Sportsbooks:** Players bet skins on the outcome of esports matches, or on events within those matches.
- Jackpot:** Players bet skins in lottery-style games.
- Roulette:** Players bet skins in roulette-style games.
- Coin flip:** Players bet skins on the flip of a virtual coin.
- Other:** Raffles, rock-paper-scissors, mystery boxes, blackjack.

One insight of particular note for the casino industry:

We surveyed over 100 skin gambling sites in the course of our research and found only a handful that offered slots or slot-like games. The slot format appears to be not just unpopular with, but fundamentally rejected by this demographic.

SKIN GAMBLING: A PRODUCT UNDER FIRE

The skin gambling vertical went from high flying to under siege in the space of just a few weeks in the summer of 2016. While numerous events populate the timeline to the right, the most damaging was the decision by CS:GO publisher Valve to take action against skin gambling sites. Valve's distribution platform - Steam - is the mechanism by which CS:GO and Dota 2 skins can be traded from account to account. Skins for those two games make up nearly all of the skin gambling market. Valve's willingness to continue to apply pressure, or to increase pressure, on skin gambling sites is the single biggest question facing the future of the vertical.

Timeline of recent issues impacting the skin gambling market

MAY 2016	Skin gambling site CSGOStakes closes with no notice, failing to reimburse players who had skins or site credit still on deposit.
JUNE 2016	A popular CS:GO streamer paid to promote a skin gambling site reveals that he was told in advance by site owners when he would win or lose. This was done to make his streaming of gambling on the site "more entertaining."
JUNE 2016	A lawsuit seeking class-action status is filed against CS:GO publisher Valve, asserting that Valve is complicit in the operation of skin gambling.
JULY 2016	Two popular esports personalities who aggressively promoted a skin gambling site are revealed to be owners of said site, a fact that was not obviously disclosed in their promotion of the site.
JULY 2016	Valve requests that skin gambling sites stop utilizing some aspects of the Steam platform.
JULY 2016	Twitch announces a ban on streams containing skin gambling on the basis that such streams violate Valve's TOS.
JULY 2016	Valve issues cease-and-desist notices to 23 skin gambling sites. A handful comply, but many continue to to operate.
JULY 2016	Esports journalist Richard Lewis raises allegations that another major esports personality maintained an undisclosed ownership stake in a skin betting site while promoting said site.
AUGUST 2016	CSGOLounge, the largest skin betting site by handle, announces plans to withdraw from several markets - including the US and UK - while seeking a gambling license. The site continues to operate in other markets despite being named in Valve's C&D.
AUGUST 2016	Valve issues an additional cease-and-desist targeting another group of sites. Some respond, others ignore. Fanobet, the second largest skin-based sportsbook, announces plans to remove skins as a deposit option.

The fallout from controversies surrounding skin gambling

- 1. Supply constriction.** A number of skin gambling sites - including some of the largest by volume - immediately shuttered in the wake of Valve's C&D.
- 2. Marketing channels vanishing.** After Valve's decision, Twitch blocked streams involving skin gambling. Pro endorsements are a rapidly-dying channel thanks to numerous scandals.
- 3. Player confidence waning.** The numerous scandals are chipping away at demand, as is Valve's implied threat to seize skins at sites that don't comply with the C&D.
- 4. Cash gambling accruing some benefit.** Our conversations with cash gambling operators suggest some demand is now flowing away from skin gambling and toward cash gambling.

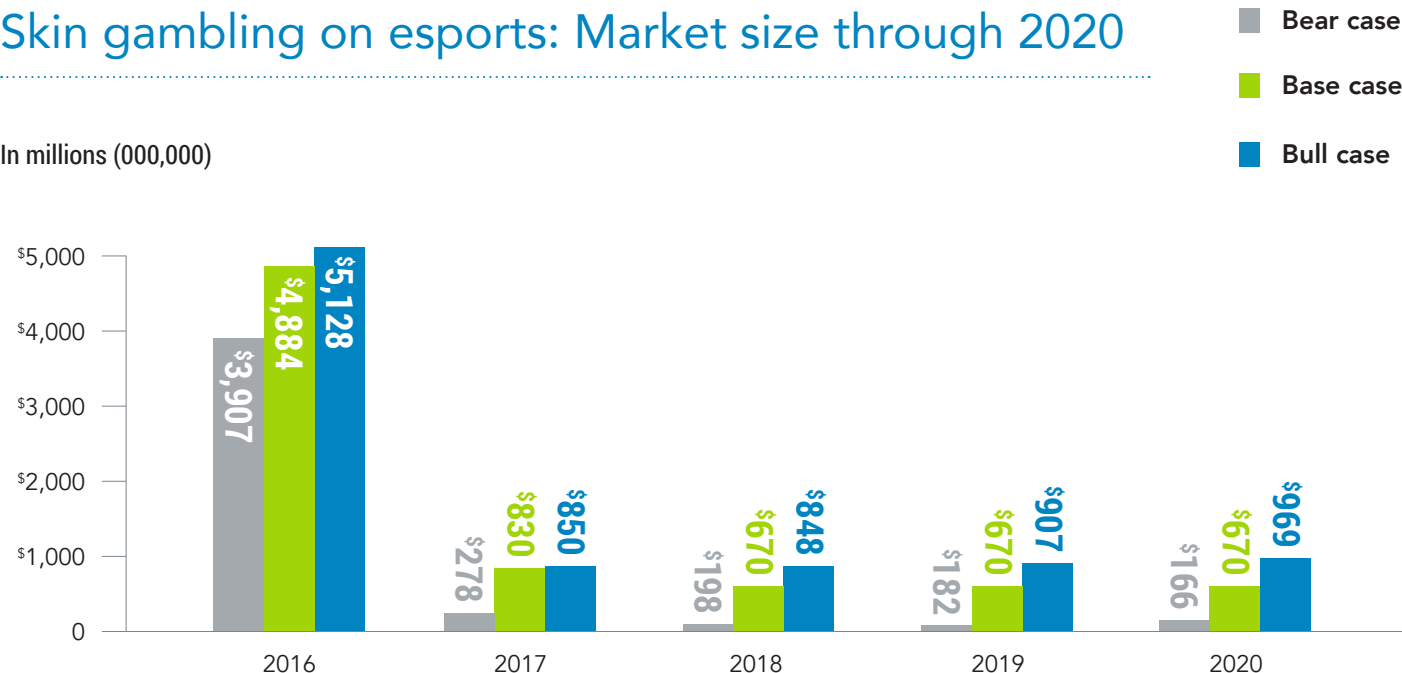
SKIN GAMBLING: PROJECTIONS

Prior to Valve's crackdown, our forecasts called for steady growth from the skin gambling vertical, rising from \$7.4bn in 2016 to nearly \$20bn by 2020. At the time, we noted that intervention from Valve "could cripple" the market for skin gambling.

Now that said intervention has arrived, our outlook for skin gambling has changed dramatically. We do note that even a relatively aggressive crackdown from Valve is unlikely to completely eliminate the vertical - as long as players can trade skins, some level of skin gambling activity will exist.

Skin gambling on esports: Market size through 2020

In millions (000,000)




Source: Narus Advisors / Eilers & Krejcik Gaming

Skin gambling projections

Bear case: In this scenario, Valve accelerates its crackdown and starts aggressively freezing accounts / filing trademark takedowns against skin gambling sites. Under these conditions, activity dips to a small fraction of current levels and is driven largely underground.

Base case: Valve keeps the crackdown at the current level of intensity. Skin gambling sites play a game of cat-and-mouse with Valve, operating at far lower volumes and with much lower profiles. Activity dips dramatically under these conditions, but not as severely as the bear case.

Bull case: Valve does little to actively pursue low-profile sites, taking severe action against only largest and most flagrant operators. These conditions would allow skin gambling to return to modest growth after a steep decline that finds a bottom in 2017-2018.



TAILWINDS & HEADWINDS

The opportunities for, and challenges facing, gambling around esports

Photo by Roman Kosolapov / Shutterstock.com

The trajectory for esports gambling products will be shaped by a variety of forces, some of which fall within the influence of the industry, but many of which do not. In this section we'll articulate the key trends that will provide support for, and the primary hurdles that could derail, the growth of gambling around esports.

TAILWIND: STRONG DEMAND ALREADY EXISTS

Photo by Artbur / Flickr

Available data suggests that there is both a strong interest among esports fans in native gambling brands and a strong propensity for gambling among esports fans. That base of demand will make it easier for operators to invest aggressively in the space, instigating a virtuous cycle of supply and demand for esports gambling.

Read more in Appendix C

The amount of searches for skin gambling brands exceeds traditional wagering brands

The chart below contains data from Google Trends showing search volume for the world's leading online poker site (blue), the world's leading DFS site (green), and the leading skin gambling site (yellow).



Source: Google Trends

27%

of esports fans track team or player stats to help with esports fantasy or betting decisions.

SuperData, 2016

60%

of U.S. esports fans use fantasy / betting sites; hardcore viewers 3x more likely than casual fans.

SuperData, 2016

2x

esports fans are two times as likely to have gambled online as the average Internet user.

NewZoo, 2015

35%

of esports enthusiasts bet on real-time events at online sites "more than a few times a week."

NewZoo, 2015

TAILWIND: DEMAND IS GROWING

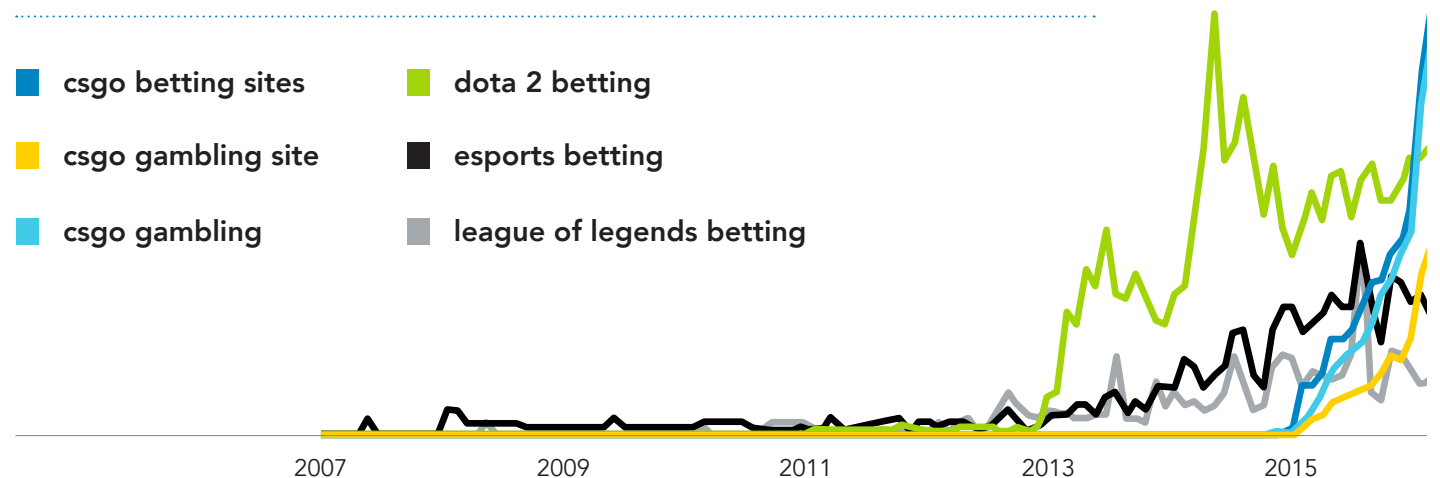
While comprehensive data is hard to come by, available evidence indicates that demand for esports gambling is currently growing organically, suggesting that demand gains from improved product, increased number of events, and other tailwinds will be incremental.

[Read more in Appendix C](#)

Strong anecdotal indicators of growing demand

300%	The amount Pinnacle expects its esports volume to grow year-over-year in 2016
500%	The amount average bet sizes have increased at Unikrn over the past year
100%	The year-over-year growth in number of sportsbooks offering esports in 2016
150%	Estimated year-over-year growth in League of Legends betting at bwin (Source: bwin)

Search interest in esports gambling increasing



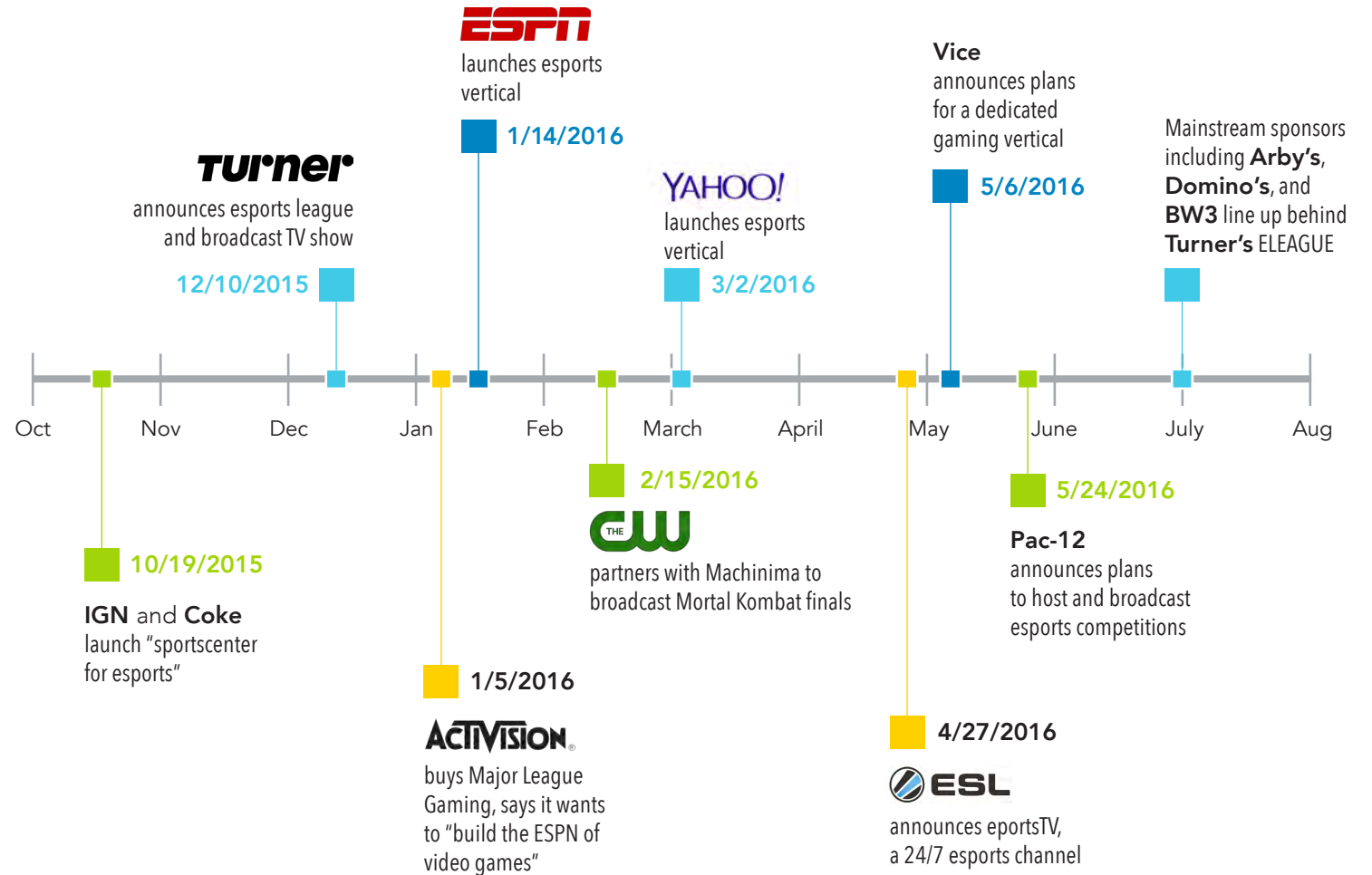
Source: Google Trends

TAILWIND: MAINSTREAM INTEGRATIONS

Photo by Jakob Wells

2016 was the year that esports transitioned from a novelty to a must-have for a number of major media companies. The focus on esports from outlets such as ESPN ensures greater awareness among a broader base of existing fans, and the entry of broadcast partners such as Turner will bring a level of storytelling to esports that can expand the addressable audience. Both trends will drive esports viewership, which traditionally drives interest in betting.

A flood of mainstream esports integrations



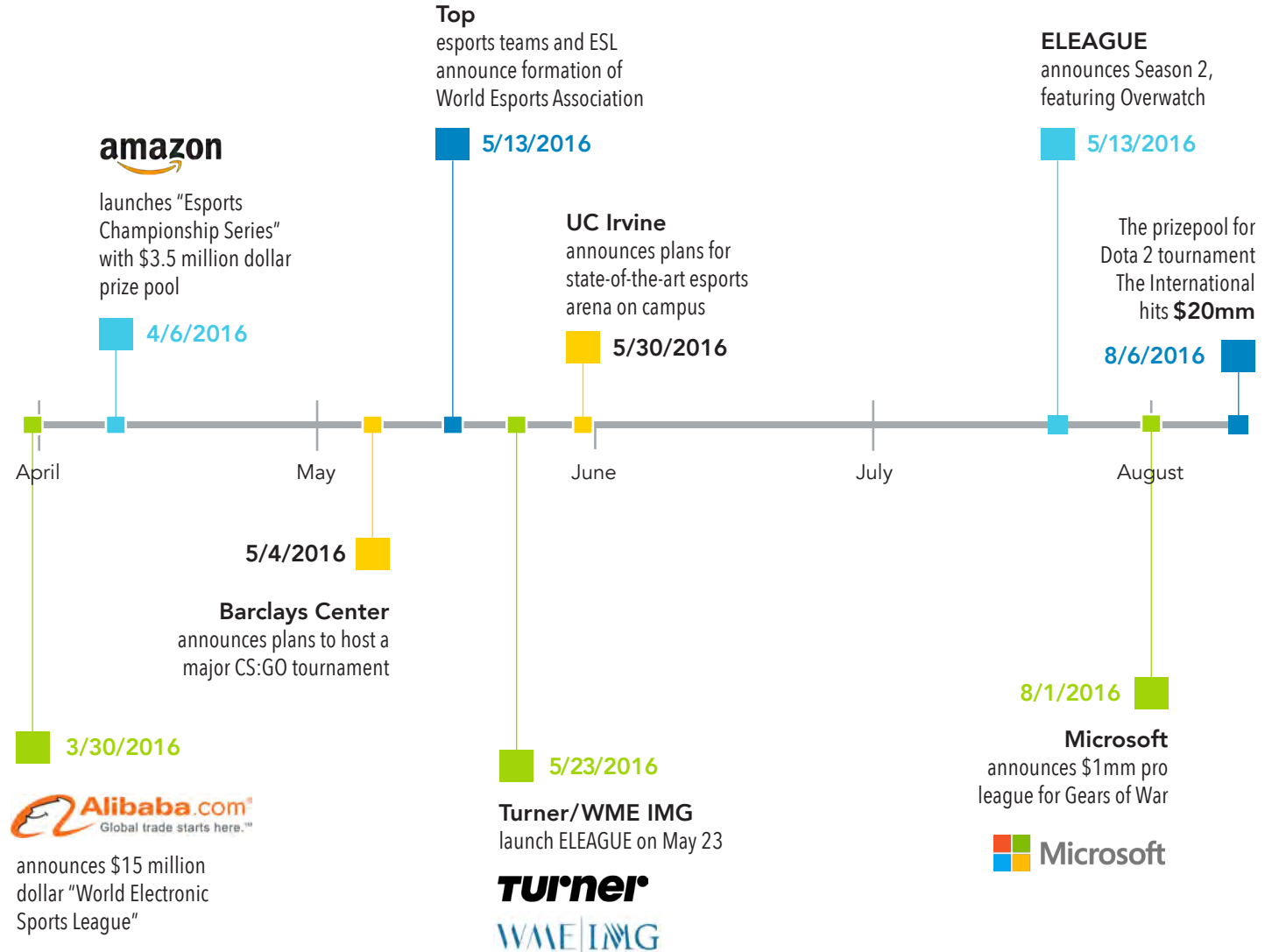
TAILWIND: EVENT EXPLOSION

Photo by Carsten Witzke / Flickr

Growth in esports events - especially marquee events - is arguably the single most direct driver of betting volume. Compared to a sport like soccer, esports has a relatively thin major event schedule, but the proliferation of new leagues backed by big names such as Amazon and Alibaba will help to close that gap.

Read more in Appendix C

Timeline of recent esports event developments



TAILWIND: EVENT EXPLOSION

Photo by Igor Nazario / Flickr

Forces driving event growth

In addition to the establishment of new leagues, some other key forces will drive increased esports event supply. The steady march of non-endemic sponsors like Bud Light into esports will result in more marquee event development. Buy-in from major arenas like Barclays and the Golden 1 Center will spur additional growth. And the entrance of new game titles that are built as esports from the ground up will provide additional power to event expansion.

Projected growth for esports events and total prize money



Source: Narus Advisors / Eilers & Krejcik Gaming



TAILWIND: THE TREMENDOUS POTENTIAL FOR IN-PLAY

In-play betting (also known as “live” betting) on esports is in early days, and there are a number of hurdles that may further delay its development. Should those hurdles be surmounted, the potential for in-play esports betting is difficult to overstate. In-play betting revolutionized traditional sports betting, growing the market several times over in the space of a few years. As a natively digital product, esports could see even more in-play markets on a typical match than, say, a game of basketball where game data must be at least partially recorded via analog devices.

In-play esports betting remains a work in progress

“Market depth is understandably small for such a new sporting ecosystem. A typical CS:GO match may only have 7-8 live markets available; a game of Dota 2 might have 15. Bookmakers have focused quite heavily on traditional markets to start with, which is once again to be expected given the sheer complexity involved in successfully modelling matches.”

75%

of bet365's 2015 online sportsbook handle (£34 billion) was generated by in-play wagers.

bet365, 2015

50x

is the estimated multiple of unique events in a Dota 2 match versus a typical Premier League match.

Sportradar, 2016

13%

of online sportsbooks that offer esports betting have so far offered live betting markets for esports.

Sportradar, 2016

James Watson
Product Owner,
Esports

sportradar
driven by facts

Milestone: ESL and Sportradar ink data partnership

sportradar
driven by facts



“Our partnership with ESL allows us to have a scout-free solution providing us with direct access to the servers where matches are played. This means we can tap directly into the data stream and receive fast, accurate and reliable data without interruption. It is difficult to see how anyone can offer a professional level of service without that kind of data stream.”

TAILWIND: THE TREMENDOUS POTENTIAL FOR IN-PLAY

Esports fans appreciate the steady flow of kinetic activity in games like CS:GO, and in-play betting only adds to that immersive quality. The ability for sportsbooks to instantaneously import game data into pricing systems enables a world where literally every aspect of an esports competition is potential fodder for a wager.

Spotlight: Betgenius

In September 2015, Betgenius announced the launch of the "first comprehensive pre-match and in-play esports betting product." Betgenius powers the esports in-play product for several top European sportsbooks, and is one of a handful of companies that will likely be instrumental in the realization of the potential for in-play esports betting.



How much bigger could esports betting be with in-play?

In April 2016, Malmo, Sweden played host to the 2016 Dreamhack Masters, a major Counter-Strike: Global Offensive tournament. Below we illustrate the difference between the total possible betting markets in the status quo for Dreamhack Malmo and the possible betting markets with a robust in-play betting product - a thirty-fold difference.



Source: RTSMutiny

Source: EsportsPools.com

*"One of the things we appreciate about esports is the accuracy of the data and the endless amount of betable moments based on that data versus traditional sports. Over the last year we've tracked **over 3.2 million betable moments** at major CS:GO tournaments."*

Scott Burton
CEO, EsportsPools.com





HEADWIND: LEGAL & REGULATORY

As with much of esports, the rules of the road for esports gambling have yet to be written. A host of significant legal and regulatory questions surround esports and betting.

Negative answers to each of the four questions presented to the right are certainly plausible. Such answers would have material impacts on the growth story for esports gambling.

1.

How does the law treat gambling in virtual environments? Products like skin gambling and in-game casinos raise new legal issues that have yet to be settled.

.....

2.

Will esports betting be regulated like sports betting? Regulators have to decide whether to treat esports more like the NFL or like gaming devices.

.....

3.

What about minors as consumers and players? Unique regulatory, political, and cultural questions arise due to the involvement of minors in esports.

.....

4.

Where's the enforcement? Esports is a global, highly-fragmented industry. How do you regulate, and, more importantly, enforce under those conditions?

.....

HEADWIND: DEVELOPER AMBIVALENCE

In the global market for traditional sports, links between betting and sports companies are common and generally uncontroversial. But the climate for such relationships is different in esports, where some developers and leagues have actively sought to keep gambling at arm's length. That dynamic could stunt growth for esports gambling, especially given that developers have a stronger control over game data and other IP than traditional sports leagues.

Gambling is a complicated topic for game developers

PRO	CON
Increased revenue for developers	New liability for company and brand
Increased sponsorship support for teams/events	Integration with gambling may attract additional political/regulatory scrutiny
Better ability to monitor betting and investigate irregularities	Amplifies concerns regarding game integrity
Increased fan base and engagement of that fan base	May negatively impact community and culture

"For publishers, if we can help increase engagement through betting, that's a big thing for them. There hasn't been a lot of pushback. It's like the NFL or the NBA. They have their own opinions on it, but they're not pushing back against people betting on their product. It just increases the adrenaline and the enjoyment of watching the game."

Rahul Sood
CEO of Unikrn



HEADWIND: MATCH INTEGRITY

Photo by Roman Kosolapov / Shutterstock.com

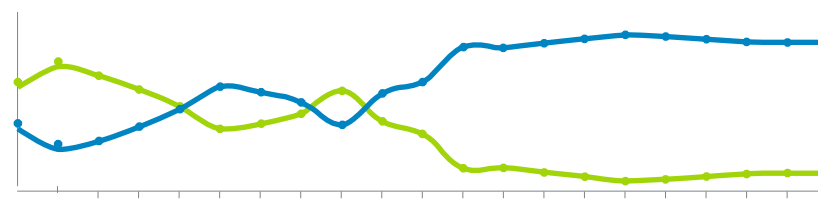
Threats to esports match integrity come in some traditional forms (e.g., match fixing) and some non-traditional forms (DDoS attacks and platform hacks). While all sports experience integrity questions, the newness of esports and the uniqueness of the threats will likely motivate most operators (and many regulators) to take a cautious approach until integrity questions are sufficiently mitigated.

Read more in Appendix D

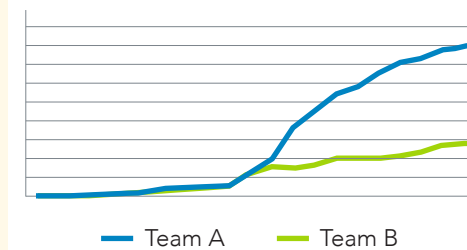
Anatomy of an esports match fixing incident

In March 2016, SportIM identified suspicious betting patterns on an esports match that were later confirmed as a match fixing incident. What looked off?

1) Unusual wager distribution. SportIM's tracking of the distribution of bets on each team on CSGO Lounge (a tote betting system) revealed a highly unusual pattern.



2) Unusual influx of wagers. As evidenced by the graph to the right, there was one distinct period in the development of the wager total in which the money placed on Team A was significantly higher than that on Team B.



"The prize pool of many competitions is dwarfed by the average wagers on any event of the tournament. We see this as very problematic for competitions that have a very small or even no monetary prize pool and the participating teams are often newly formed rosters. The betting volume in comparison with the incentive to win the entire tournament is at a concerning ratio."

Moritz Maurer
Head of Esports, Genius Sports



Possible mitigators of the match fixing threat

Increased player compensation:

As esports mature, salaries and compensation for the average player should increase, providing an economic check against match fixing.

Industry consolidation:

Fewer leagues and event producers will help to bring a standardization to esports events that will increase the difficulty of illicit behavior.

Better monitoring:

Companies like SportIM and others with esports data products provide invaluable tools for monitoring, investigating, and prosecuting incidents.



ESPORTS INSIDE LAND-BASED CASINOS

A mutual, multi-pronged opportunity

While the intersection of esports and gambling to date has been largely around online gambling, the future is likely to bring an increasing amount of crossover between esports and land-based casinos. In this section we'll explore the current - and possible - points of opportunity for bringing esports into the casino environment.

Photo by Roman Kosolapov / Shutterstock.com

DOWNTOWN GRAND: ESPORTS CASE STUDY



In 2016, Las Vegas casino The Downtown Grand took the unprecedented step of converting its high-limit table games room into a full-time esports lounge. Following

the conversion, the Downtown Grand began hosting regular competitive events with cash prizes in the lounge, and used the lounge - known as The Downtown Underground - as the foundation for a broader esports effort that stretches across nearly every aspect of the property

FEATURES OF THE ESPORTS LOUNGE

- Located on casino floor
- Hosts three weekly competitions with cash prizes
- Fully automated tournament execution
- Can support 1v1 to 6v6 competitions
- Doubles as team "boot camp"
- Social areas with viewing screens
- Supports console and PC games

GAMES FEATURED AT DTGU

MARIOKART™



OVERWATCH™



"We don't have enough analytics to specifically quantify the conversion rate, but there's no question that when we have a lot of people at our esports contests we see more people in the pit, we see that crossover"

Seth Schorr – Chairman of Downtown Grand Hotel & Casino

THE FUTURE FOR DTGU

The lounge is set to undergo a total renovation in summer 2016. Longer-term, Schorr plans to create "an experience on the casino floor similar to a poker room, where anybody who feels they have some skill in esports can enter a game and bet against another player and the house takes a rake." The company is working on an application that will head to regulators in 2017.

WHAT THEY'VE LEARNED

In the first year of the lounge's operation, Schorr and the DTG have learned a number of lessons. Some have been small but significant - such as the realization that gamers prefer "food on a stick" to traditional casino F&B fare as it keeps their hands clean for gaming. Others have run against conventional wisdom: The average age of a contestant at the DTGU is 28, and 14% are over 30.

The casino has also learned a lesson that escapes many on the outside of the esports industry: "esports" means many things to many people, and each game attracts a unique, diverse audience. While the DTGU had its highest turnout with an Overwatch competition, "Classic Game Night" - featuring Mario Kart 64 - was also among the most successful of the dozens of competitions DTGU has hosted.

What they've hosted

SOCIAL EVENTS

Esports has filled various spaces at the DTG, including an after-party for a major tournament hosted by Team Liquid that attracted over 1200 people to the casino's rooftop pool.

ESPORTS COMPETITIONS

DTGU has hosted dozens of real-money esports competitions involving hundreds of competitors that have paid out thousands of dollars in prize money.

TEAM INTEGRATIONS

The Downtown Grand has served as a second home and "bootcamp" for many top-tier esports teams training for major competitive esports events.



COMMERCIAL GAMBLING INDUSTRY ATTITUDES TOWARD ESPORTS

We surveyed over 200 stakeholders in the commercial casino industry to craft a picture of the general industry attitude toward esports. Some of the highlights from that research are to the right. The general picture that emerges is of an industry broadly aware of the esports opportunity, but not yet fully committed to pursuing that opportunity.

Read more in Appendix F

How the commercial gambling industry views esports

Source: Narus Advisors / Eilers & Krejcik Gaming

15%

Amount of respondents who have attended a live esports event

39%

Amount of respondents among those who have not attended an event that plan to in the near future

52%

Amount of respondents who believe esports events will be “effective” to “incredibly effective” at getting esports fans to engage with casino brands

82%

Amount of respondents who believe that regional casinos should explore hosting esports events

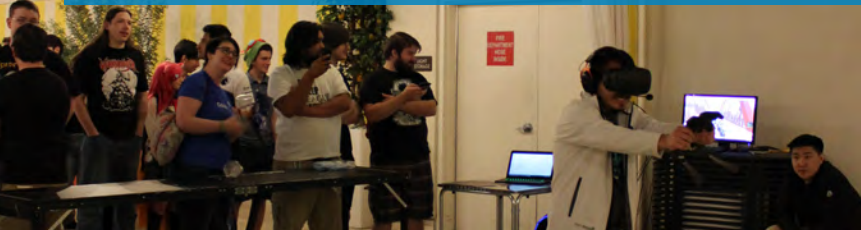
76%

Amount of respondents who believe esports betting will involve the same or less regulation than traditional sports betting

49%

Amount of respondents who said their company is not devoting any resources to esports

ESPORTS LIVE EVENTS ARE NATURAL FITS FOR CASINOS



The sheer range of live esports events that could be hosted in the casino environment and the relatively soft learning curve associated with hosting most both make a strong argument for land-based casinos of almost all sizes and locations to investigate the esports event activity. Likewise, esports developers and leagues would be wise to piggyback off of the facilities, expertise, and peripheral fan activity options casinos offer.

Why esports work for land-based casinos

Desirable audience: Esports fans are well-off and largely new to the land-based casino experience.

Multi-day events: Major esports events usually take place over several days, offering ancillary event and revenue opportunities for casinos.

Range of event possibilities: Esports events come in a buffet of formats and sizes.

Why land-based casinos work for esports

Flexible spaces: Casino event spaces are designed to be flexible and can accommodate anywhere from dozens to tens of thousands.

World-class event infrastructure: Commercial casinos host a greater number and variety of events than any other industry.

Geographic diversity: Commercial casinos are a convenient trip for the majority of Americans. Many casinos have properties in multiple states.

Alternative event formats

Official competitive events are only one of the many event possibilities for casinos looking to integrate esports. Some other examples:

- Fantasy camps
- Celebrity meet & greets
- Conventions
- Viewing parties

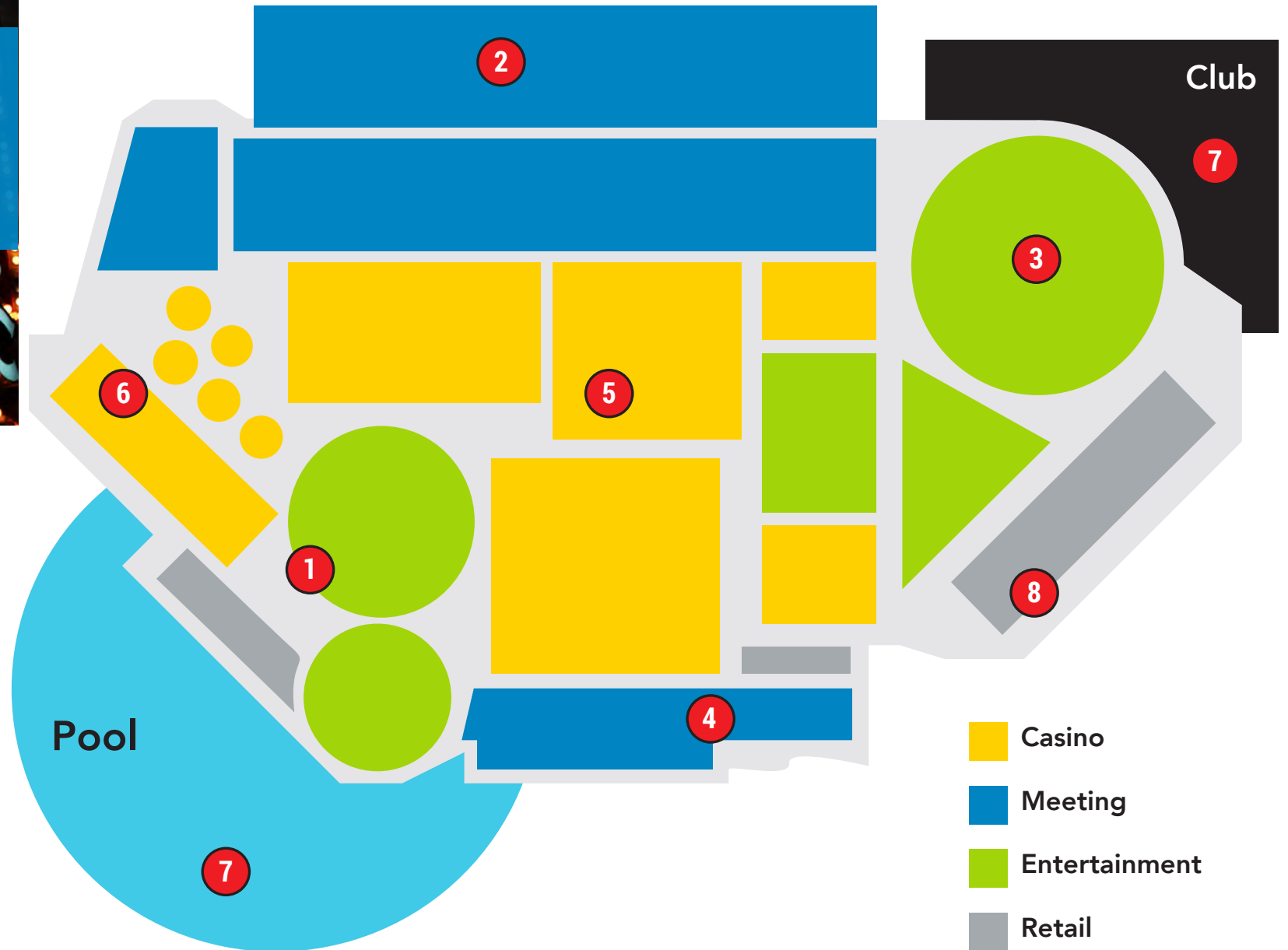




ENVISIONING INTEGRATION OF ESPORTS INTO CASINOS

This floor plan for a hypothetical casino imagines how esports might be integrated into various aspects of the casino experience.

1. Viewing parties for major events at bar
2. Fantasy esports camp in convention center
3. Live competitions hosted in theatre
4. Small-scale PvP esports competitions for prizes
5. Skill-based slots with esports themes
6. Sportsbook offers lines on esports matches
7. After-parties for local live events
8. Retail carries gaming peripherals, fan merch





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