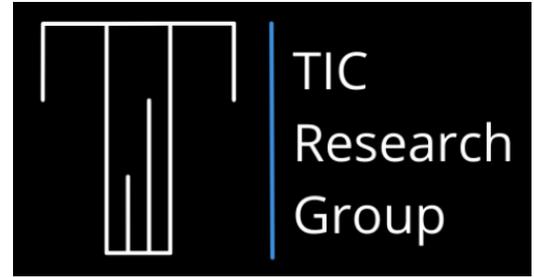


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Investing in The Gambling Market

For many investors, gambling is an extremely difficult industry to navigate due to the complexity of its different forms and the fractured state that the laws surrounding gambling itself are in on a state-to-state basis. Many forms of gambling, such as the state lottery or tribal casinos, are closed off to the public to invest in. States typically use these forms of gambling to raise revenue, and the laws surrounding them vary widely based on the state you reside in. However, there is a new trend in the market of sports gambling that many have yet to realize as the future of the industry: the proliferation of online casino games and live-betting sports books through apps such as FanDuel, Stake, and DraftKings.

The catalyst for this movement was The Supreme Court’s reversal of the 1992 federal ban on sports betting in 2018 through *Murphy v. National Collegiate Athletic Association* (1). States have been returned free reign over their sports betting laws, and because of this, online “books”, or websites where you can bet on live odds, have exploded in popularity among sports fans in states where it is legal.

The numbers are very telling of the prospects that this industry holds. According to the American Gaming Association (AGA), 2022 Q3 earnings for U.S. commercial gaming reached an all-time high, accruing 15.17 billion in revenue. iGaming, or any form of online poker, casino games, or sports betting, only made up 8%, or about 1.21

billion USD, of that revenue (2). In-person casinos still dominate much of the revenue produced in the gaming association (80.9% or 12.27 billion) (3), as 44 states allow for some form of casino, commercial or tribal, to exist in their state (4). Yet, as of 2022, only 30 states and Washington D.C. have legalized live sports betting (5), with 27 states allowing for online sports betting (6).

However, the market share of iGaming is guaranteed to grow with expanding user bases and prospects of further legalization on the horizon. Data supports this notion as well, as iGaming extended its growth into the third quarter, generating nearly \$1.21 billion in revenue, or an increase of 28.5 percent year-over-year (7). Additionally, online sports books have engaged in aggressive advertising campaigns, offering plenty of “free play” - free money to gamble with - as an incentive for first-time users to sign up.

Some companies have engaged in massive publicity drives across the country. For example, social media-savvy companies like Barstool Sports visit state colleges on big football game days and use founder Dave Portnoy’s social media fame and popular likeness to attract crowds and advertise their new sports book. Other companies such as Stake, an online casino, partner with massive celebrities such as Drake. Drake livestreams himself on Twitch gambling on Stake, betting millions at a time to hundreds of

thousands of viewers, often winning jaw-dropping jackpots.

These social media campaigns target an extremely young audience and have captivated a large proportion of young people. Sports betting has morphed into a social activity, adding an additional layer to watching sports with friends. Everyone compares their parlays, sharing takes on what big bet will cash out next. Especially now that placing can be done instantaneously through your phone, you can be certain of the amount of people betting online to grow. Consumers also will be younger due to the nature of the technology, as mobile betting lends itself to a more comfortable with the internet or “tech-savvy” audience.

So what do I invest in to capitalize off this trend? Personally, my top three picks are Flutter Entertainment (PDYPY), MGM Resorts International (MGM), and DraftKings (DKNG). Flutter Entertainment is the result of a 2018 merger between gambling giants Paddy Power and Betfair, with popular subsidiary sportsbooks such as FanDuel. Flutter Entertainment earned 8.14 billion in revenue for 2021 (8). Within the US market alone, “FanDuel claimed a 51% share of the market and number one position in 13 of 15 states.” (9) This is a very safe pick, expected to grow over the next five years with their international focus and pushing into new markets such as the United States.

MGM Resorts International isn’t solely based on online sports betting, but also

in-person casinos and resorts. MGM is a good pick for their name recognition and iconic history within the sports world and boisterous Las Vegas gambling scene. The MGM Grand Resort in Las Vegas is known for hosting only the biggest names in entertainment and sports. Iconic fights with big-name boxers, such as Evander Holyfeld vs. Mike Tyson II, occurred at the MGM Grand. Their sportsbook, BetMGM, will surely be able to secure big name deals and branding due to their parent company being so influential in the sports world and having the capital to back them up.

My final pick, DraftKings, is a little more risky. JPMorgan analyst Joseph Greff announced a \$12 price target, citing a recent revelation that DraftKings expects an adjusted EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization) loss between \$475 and \$575 million, while competitors are expecting to break even or profit. Despite Joseph Greff’s recommendation of 12 USD per stock, it is currently trading roughly around 14 USD per stock as of December 8th, 2022. This leads me to believe that other investors have faith in the name of the brand, despite company pitfalls: generally, it implies that it could be higher on the risk-versus-reward scale. The competitive nature of the sports betting industry requires them to differentiate their product, which some analysts do not believe they have done this enough. Regardless, I believe DraftKings has the name recognition to succeed at least for the next couple years and will be keeping an eye on that ticker’s price.

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