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A Report by UNITE HERE

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Red Rock Resorts Silent on Sports Betting

Red Rock Resorts has not made any significant moves to bolster its position in sports betting following the overturn of the PASPA in May 2018. The Fertittas private investment in The Action Network not only presents a potential conflict of interest but also potential risk. Investors should ask if management has plans to pursue sports betting markets outside of Nevada.

Red Rock Resorts, Inc. (NASDAQ: RRR) has not made any significant moves to bolster the company's position in sports betting following the overturn of the Professional and Amateur Sports Protection Act (PASPA) in May 2018. Other gaming companies, in comparison, have acted quickly by partnering with sports leagues and teams, betting and data firms, and even with competitors in order to build strong foundations for emergent sports betting markets. While the sports betting opportunity was not lost on Red Rock's principals Frank and Lorenzo Fertitta—who invested in The Action Network via their family office Fertitta Capital—it appears that Red Rock Resorts and its investors are at risk of missing out on a new growth segment. Red Rock management often speaks of the importance of maximizing shareholder value during its quarterly earnings calls.¹ Investors should ask the company if it has plans for establishing a presence in sports betting markets outside of Nevada.

PASPA Overturn Opens New Markets for Sports Betting

PASPA—enacted in 1993—prevented sports betting from expanding outside of Nevada.² The U.S. Supreme Court's decision to strike down the law on May 14, 2018 cleared the way for states to regulate sports betting and open up new markets for casinos operators and sportsbooks.³ Sports betting is expanding rapidly with thirteen states now offering some form of regulated sports betting and another six states close behind.⁴

Estimates about the potential size of a mature, national U.S. sports betting market vary from \$67 billion to \$287 billion in annual wagers.^{5,6} Legal sports betting in the U.S. has amounted to \$763 million of gaming win over the last twelve months.⁷ Over half of the gaming win in the last twelve months (\$430 million) was generated outside of Nevada.⁸ New Jersey sports books outpaced Nevada in gaming win in three of the last six months (May-Oct 2019)—a sign Nevada's once dominant position in sports betting will wane as markets expand.⁹

Gaming Companies Secure Sports Betting Opportunities

While Red Rock Resorts has not announced any sports-betting initiatives since PASPA was overturned, other major gaming companies have entered into partnerships to secure their positions in the many new U.S. sports betting markets.

MGM partnered with GVC Holdings—a leading sports betting and gaming group—in July 2018 to create a sports betting and online gaming joint venture.¹⁰ At the same time, MGM executed a market access agreement with Boyd Gaming, which allows either company to offer online and

mobile gaming in jurisdictions where the other has a license to operate.¹¹ Next, MGM entered into partnerships with the NBA, NHL, MLB, and MLS that provide it with league and team logos, “official partner” titles, and coveted official league data and exclusive data that will allow for real-time prop bets during gameplay.¹² MGM has also entered into other types of sports betting-related agreements with professional sports teams, a California tribe, Sportradar (a leading sports data provider), Buffalo Wild Wings, and Yahoo Sports.¹³

Caesars Entertainment entered into partnerships with the New Jersey Devils, Philadelphia 76ers, Baltimore Ravens, and the Las Vegas Stadium (the future home of the Raiders) in 2018 that include cross-promotional marketing opportunities and a Caesars Club restaurant and bar at Prudential Center, the home of the New Jersey Devils.¹⁴ Caesars announced in January 2019 that it landed a deal to be the first-ever Official Casino Sponsor of the NFL, which grants it exclusive rights to use NFL trademarks in the U.S. and U.K.¹⁵ The announcement also disclosed that Caesars has relationships with other NFL franchises including the Falcons, Bears, Colts, Saints, and Eagles. Caesars has also inked deals with the Bleacher Report and ESPN to build media studios at two of its Las Vegas casinos and create sports betting content.¹⁶ The company also entered into a multi-state partnership with DraftKings.¹⁷

Penn National entered into an agreement with Kambi Group—a leading global sports betting supplier—in July 2019 to provide the former with both on-property and online sports betting platforms.¹⁸ At the same time, Penn National executed multi-year agreements with sports betting operators DraftKings, PointsBet, theScore, and The Stars Group, providing them with access to Penn National’s markets in exchange for revenue-sharing and equity stakes.¹⁹

Boyd Gaming—a Red Rock competitor in the Las Vegas locals market—not only secured a market access agreement with MGM Resorts, but also entered into a partnership with bookmaker and daily fantasy sports provider FanDuel to pursue sports betting opportunities.²⁰ The two companies have launched FanDuel sportsbooks and online betting platforms in Pennsylvania, Iowa, and Indiana.²¹

Fertitta Capital Privately Invests in The Action Network

While Red Rock Resorts has not made any significant moves to capitalize on the overturn of PASPA, its principals Frank and Lorenzo Fertitta reportedly led a \$17.5 million investment round in The Action Network via their family office, Fertitta Capital in February 2019.²² The Action Network is a subscription-based sports betting media company formed by the Chernin Group in 2017, combining the Mark Cuban-backed FantasyLabs, Sports Insights, and SportsAction.²³ The Action Network has made significant moves to set itself up as a leader in the sports betting media industry by hiring ESPN veterans Chad Millman as its Head of Media and Darren Rovell as its Senior Executive Producer and teaming up with Sirius XM and ESPN+ to produce content.^{24,25,26} Other investors include David Blitzer, part-owner of the Philadelphia 76ers and New Jersey Devils; Joe Ricketts, the owner of the Chicago Cubs; and Stephen Ross, the owner of the Miami Dolphins.²⁷

The Action Network describes itself as a sports analysis and media company “mixing premium content, proprietary tools and in-depth analytics to make sports fans with something at stake smarter about betting.”²⁸ Its Sports Insight segment claims to give subscribers a “real-time betting

advantage” with public betting data it gathers from over 50 sportsbooks including “Stations” listed under Las Vegas & Nevada Sportsbooks.²⁹ Red Rock Resorts has not disclosed to investors the potential conflict of interest that exists from the Fertitta Capital-backed The Action Network providing data to subscribers that give them a betting advantage at Station Casinos’ sportsbooks.

Fertitta’s investment in The Action Network not only presents a potential conflict of interest to Red Rock Resorts public shareholders, but also a potential risk. As the controlling shareholders of Red Rock Resorts, Frank and Lorenzo Fertitta could sell their stake in The Action Network to the Company if the investment underperforms—similar to what happened with their online poker business.

Fertitta Interactive, which owned the Ultimate Gaming and Ultimate Poker brands, was controlled by the Fertittas before they sold 50.1% of it to Station Casinos LLC for \$20.7 million in November 2012.³⁰ Ultimate Gaming launched in Nevada and New Jersey in 2013 but ended operations in 2014 citing shortfalls in poker revenue projections and contractual breaches by Trump Taj Mahal, its New Jersey partner.^{31,32,33} Station Casinos recognized \$21.5 million of impairment charges to write off Fertitta Interactive’s assets in 2014.³⁴

Red Rock Resorts Missed a Full House

Red Rock Resorts, which is landlocked in Nevada, may have been a perfect suitor to operate mobile sports betting for Full House Resorts—a small regional gaming company with five casinos in Nevada, Colorado, Indiana, and Mississippi. Red Rock Resorts has been a leader in the Las Vegas locals sports betting market under its Station Casinos brand and its Vice President of Race and Sports Operations, Art Manteris—inducted into the Sports Betting Hall of Fame in 2019—is credited with major developments in the industry.³⁵ Red Rock’s predecessor Station Casinos, Inc., began operating a sports betting website in 2001 and developed a mobile betting app in 2013.³⁶

Full House Resorts President and CEO Daniel Lee explained the company’s rationale for seeking sports betting partners during its Q3 2019 earnings call:

Being a relatively small company not having the kind of specialized expertise for it, not having the diversity of locations or a large sports book in Las Vegas where people make bets all over the place, we have chosen to do it in partnerships with others.³⁷

Red Rock Resorts could have operated Station Casinos-branded mobile betting sites on Full House Resorts skins in Indiana and Colorado in exchange for a nominal annual market access fee and a revenue-sharing agreement.³⁸ While we have not seen any indication that there was any communication between Full House Resorts and Red Rock Resorts about this opportunity, such a partnership could have expanded Red Rock Resorts’ customer base and market reach outside of Nevada with the potential to increase visitation to its Las Vegas properties and drive revenues in other segments. Of course, this assumes that gaming regulators in other states would approve the company, in spite of what happened in Missouri in 2000.³⁹ Instead, Full House Resorts entered into partnerships with Churchill Downs, Smarkets, and Wynn for its sports betting skins in Indiana and Colorado.⁴⁰

Same Name, Different Company, New Questions

Red Rock Resorts has changed significantly since the mired Palms investment. The company no longer is a “pure-play”⁴¹ on the Las Vegas locals market with its hybrid property category. Public investors in Red Rock Resorts should ask: Does management at Red Rock Resorts have plans to pursue sports betting or other gaming opportunities outside of Nevada? If not, why not?

Notes

¹ “[W]e are always going to look at opportunities to maximize shareholder value.” Red Rock Resorts’ CFO Stephen Cootey, “Red Rock Resorts, Inc. (RRR) Q2 2019 Results - Earnings Call Transcript,” Seeking Alpha, August 6, 2019, <https://seekingalpha.com/article/4284324-red-rock-resorts-inc-rrr-q2-2019-results-earnings-call-transcript?part=single>.

² “Nevada – the only state at the time the bill became law that had widespread state-sponsored sports bettors – and three other states with more limited betting (Oregon, Delaware and Montana) were grandfathered in.” A.J. Perez, “What it means: Supreme Court strikes down PASPA law that limited sports betting,” USA Today, May 14, 2018, <https://www.usatoday.com/story/sports/2018/05/14/supreme-court-sports-betting-paspa-law-new-jersey/440710002/>.

³ Brett Krendall, Chris Kirkham, and Andrew Beaton, “Supreme Court Ruling for New Jersey Opens Door to Sports Betting,” Wall Street Journal, May 14, 2018, <https://www.wsj.com/articles/supreme-court-ruling-for-new-jersey-opens-door-to-sports-betting-1526308430?mod=mktw>.

⁴ Legal Sports Report, “Legislative Tracker: Sports Betting,” updated September 4, 2019, <https://www.legalsportsreport.com/sportsbetting-bill-tracker/>.

⁵ \$67 billion estimate. Jay L. Zagorsky, “Opinion: The U.S. market for sports betting is far smaller than the \$150 billion proponents claim,” MarketWatch, May 15, 2018, <https://www.marketwatch.com/story/the-us-market-for-sports-betting-is-nowhere-close-to-150-billion-no-matter-what-proponents-say-2018-05-15>.

⁶ \$287 billion estimate. Oxford Economics, “Economic Impact of Legalized Sports Betting,” American Gaming Association, May 2017, p. 5, <https://www.americangaming.org/wp-content/uploads/2018/12/AGA-Oxford-Sports-Betting-Economic-Impact-Report1-1.pdf>.

⁷ Last twelve months refers to November 2018 through October 2019. Gaming win data come from state government gaming agencies or lotteries. Reference links below:

Delaware: <https://www.delottery.com/Sports-Lottery/Monthly-Net-Proceeds>

Iowa: <https://irgc.iowa.gov/sports-wagering-revenue>

Indiana: <https://www.in.gov/igc/2363.htm>

Mississippi: http://www.msgamingcommission.com/index.php/reports/monthly_reports

Nevada: <https://gaming.nv.gov/index.aspx?page=149>

New Jersey: <https://www.nj.gov/oag/ge/swrtaxreturns.html>

New York: <https://www.gaming.ny.gov/gaming/index.php?ID=1>

Pennsylvania: <https://gamingcontrolboard.pa.gov/?p=247>

Rhode Island: <https://www.rilot.com/en-us/financials.html>

West Virginia: <https://wvlottery.com/secured-portal-reporting/?hash=5be9f594>

⁸ According to state government gaming agency reports. Last twelve months refers to November 2018 through October 2019.

⁹ Last six months refers to May–October 2019. New Jersey outpaced Nevada in May, July, and August according to state government gaming agency reports. Also see:

Weston Blasi, “New Jersey passes Nevada in sports gambling — should Las Vegas be worried?” MarketWatch, November 5, 2019, <https://www.marketwatch.com/story/new-jersey-passed-nevada-in-sports-betting-last-month-should-las-vegas-be-worried-2019-11-04>.

¹⁰ Maryam Cockar, “GVC, MGM Resorts to create U.S. sports betting JV,” MarketWatch, July 30, 2018, <https://www.marketwatch.com/story/gvc-mgm-resorts-to-create-us-sports-betting-jv-2018-07-30>.

¹¹ MGM Resorts International, “MGM Resorts, Boyd Gaming Partner to Expand Mobile, Online Gaming Throughout The United States,” July 30, 2018, <https://investors.mgmresorts.com/investors/news-releases/press-release->

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¹² MGM Resorts International press releases:

NBA: <https://investors.mgmresorts.com/investors/news-releases/press-release-details/2018/MGM-Resorts-International-Becomes-Official-Gaming-Partner-Of-The-NBA-In-Historic-Alliance/default.aspx>.

NHL: <https://investors.mgmresorts.com/investors/news-releases/press-release-details/2018/National-Hockey-League-Announces-Landmark-Sports-Betting-Partnership-With-MGM-Resorts/default.aspx>.

MLB: <https://investors.mgmresorts.com/investors/news-releases/press-release-details/2018/Major-League-Baseball-And-MGM-Resorts-International-Form-Wide-Ranging-New-Partnership-In-US-And-Japan/default.aspx>.

MLS: <https://investors.mgmresorts.com/investors/news-releases/press-release-details/2018/Major-League-Baseball-And-MGM-Resorts-International-Form-Wide-Ranging-New-Partnership-In-US-And-Japan/default.aspx>.

¹³ MGM Resorts International press releases:

New York Jets: <https://investors.mgmresorts.com/investors/news-releases/press-release-details/2018/New-York-Jets-Announce-Partnership-With-MGM-Resorts/default.aspx>.

Boston Red Sox: <https://investors.mgmresorts.com/investors/news-releases/press-release-details/2019/MGM-Resorts-International-Named-Official-Exclusive-Resort-Casino-Of-The-Boston-Red-Sox/default.aspx>.

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Sportradar: <https://investors.mgmresorts.com/investors/news-releases/press-release-details/2018/MGM-GVC-Interactive-Announces-Sportradar-As-An-Exclusive-Supplier-Of-US-Sports-Data/default.aspx>.

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Yahoo Sports: <https://investors.mgmresorts.com/investors/news-releases/press-release-details/2019/Yahoo-Sports-and-BetMGM-Announce-Exclusive-Partnership-Offering-Fans-Unprecedented-Experiences/default.aspx>.

¹⁴ Caesars Entertainment press releases:

New Jersey Devils and Philadelphia 76ers: <https://investor.caesars.com/news-releases/news-release-details/caesars-entertainment-becomes-first-gaming-entertainment-company>.

Las Vegas Stadium: <https://investor.caesars.com/news-releases/news-release-details/caesars-entertainment-becomes-first-founding-partner-las-vegas>.

Baltimore Ravens: <https://www.baltimoreravens.com/news/horseshoe-casino-baltimore-and-ravens-announce-pioneering-partnership>.

¹⁵ Caesars Entertainment, "National Football League Selects Caesars Entertainment as First-Ever Official Casino Sponsor," January 3, 2019, <https://investor.caesars.com/news-releases/news-release-details/national-football-league-selects-caesars-entertainment-first>.

¹⁶ Caesars Entertainment, "Caesars Entertainment & Turner Sports Announce Groundbreaking Agreement for Development of Gaming-Themed Sports Content & Caesars Sponsorship Opportunities," February 7, 2019, <https://investor.caesars.com/news-releases/news-release-details/caesars-entertainment-turner-sports-announce-groundbreaking>.

Caesars Entertainment, "ESPN and Caesars Entertainment Announce Innovative Collaboration for Sports Betting Content," May 14, 2019, <https://www.caesars.com/corporate/newsroom/press-releases/espn-and-caesars-entertainment-announce-innovative-collaboratio>.

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