Eilers&Krejcik Gaming

Impact of Social Casinos With Sweepstakes in California

Prepared for the Social Gaming Leadership Alliance

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Executive Summary

Eilers & Krejcik Gaming was engaged by the Social Gaming Leadership Alliance to research and model the economic impact of social casinos with sweepstakes in California. A summary of our findings is below; these topics are explored in detail throughout this report, and details on methodology are available towards the end of this report.

- **Social casinos with sweepstakes** are social casinos (online apps that sell in-game currency that users can use to play casino-styled game content) that leverage sweepstakes promotions to award users with real cash and/or prizes. Operators of these types of games must comply with sweepstakes laws, including providing an alternate method of entry (AMOE) through which users can request free contest entries; no purchase is necessary to participate or win prizes. Major payment processors require operators to run KYC checks, geolocate users, and comply with relevant AML laws.

- **Market size and background.** We estimate social casinos with sweepstakes will generate $14.31bln in sales in 2025, of which California accounts for $2.42bln. Our estimate for total market net revenue (removing the cost associated with player prizes) is $4.68bln - about $790.5mm from California. The market has existed since at least 2012 and has grown substantially over the past several years due to a combination of factors that notably include 1) a spike in consumer awareness in 2020 during quarantine market conditions which benefitted online gaming broadly, and 2) increased investment capital into the space. The market is overwhelmingly USA-based (about 98% of total revenue, per our estimates).

- **Current economic benefit to California.** The social casinos with sweepstakes industry generates more than $1bln in combined direct and indirect benefit to California annually. This includes $802mm in direct economic flows through 1) marketing spend with California-based platforms like Meta and Google which we estimate at $732mm, 2) payment processing fees to California-based businesses including Visa which we estimate at $36mm, and 3) cloud hosting fees spent with California-based data centers which we estimate at $34mm. The industry supports an additional $208mm in estimated indirect household earnings, supporting 1,191 California-based jobs at companies throughout the supply chain. Our methodology (described in more detail towards the end of this report) uses Bureau of Economic Analysis RIMS II economic multipliers for each respective part of the supply chain and consistently leans towards conservative assumptions, leading to estimates that we believe are more likely to understate than overstate the aggregate economic impact to California.

- **Additional potential revenue streams.** California has additional opportunities to capture increased economic value from social casinos with sweepstakes via regulation. We estimate that the introduction of operator licensing, coupled with a tax on player purchases, could generate $200-$300mm in new annual revenue to the state while simultaneously enhancing consumer protections. A regulatory framework would make it easier to audit operators, enforce compliance with consumer protection laws, and ensure players have reliable recourse if issues arise.

California's Share of Social Casinos With Sweepstakes Market

Key Takeaway: We estimate **California's social casinos with sweepstakes player purchases at $2.42B in 2025**, roughly 17.3% of the total U.S. market. Our estimate for California is driven by a large eligible population of ~29 million adults aged 21 and over, as well as strong disposable income ($93,992 per eligible player) and widespread internet access (92.5% of households have broadband internet).
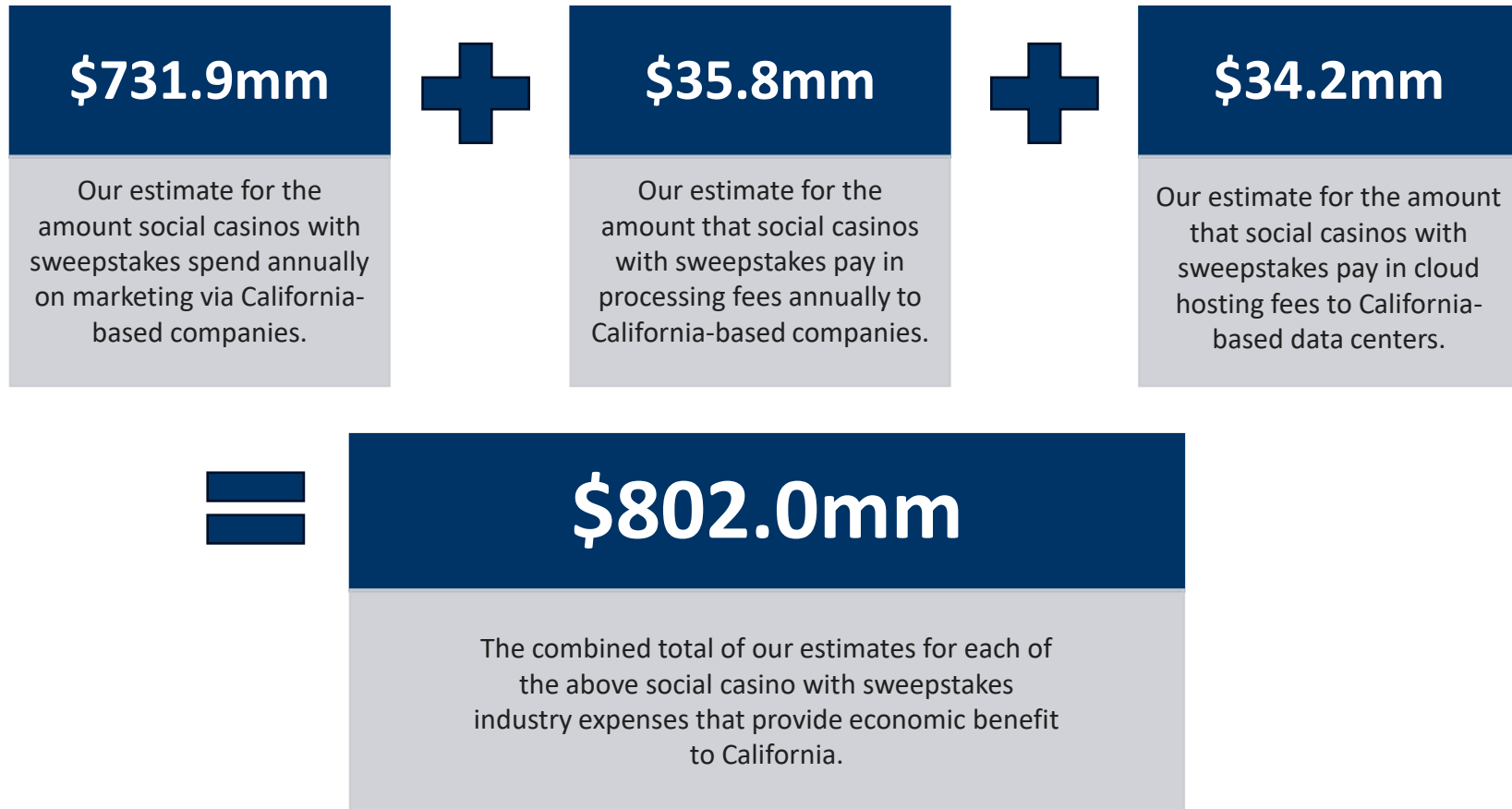
Sweepstakes Gaming Market Size – California as Share of Total USA Revenue (in Billions of USD)

California, $2.42

Rest of USA, $11.61
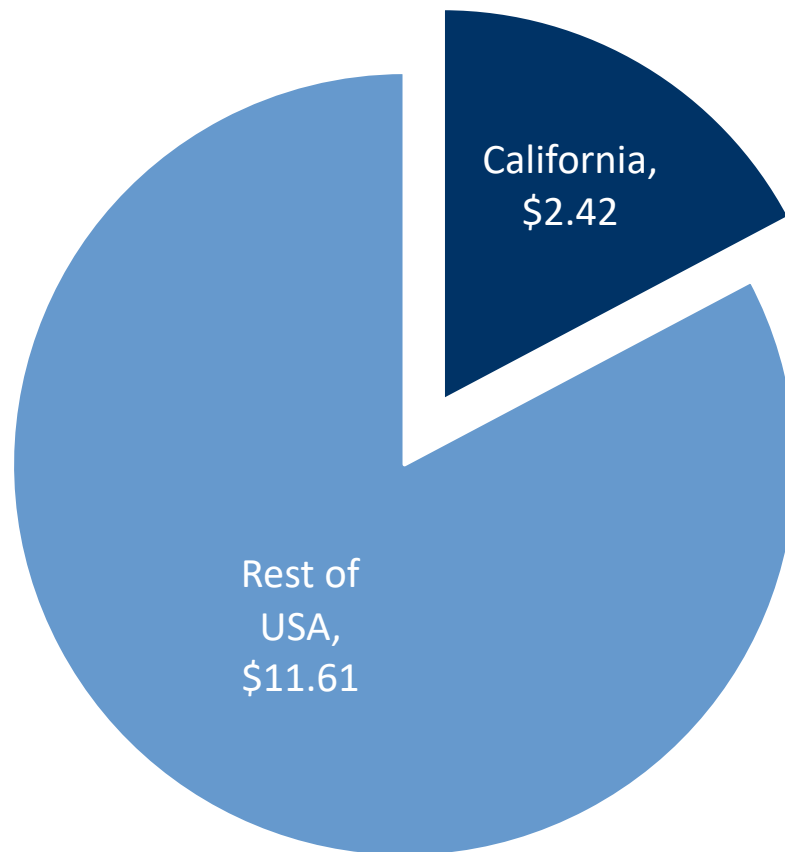
Noteworthy Inputs/Details:

- **Operator Data**: Operators representing a majority of the total market provided data reviewed by Eilers & Krejcik Gaming.

  - California estimates account for all major tracked operators with no significant exclusions.

- **Population**: 29.0M eligible adults (21 and over).

- **Income**: $93,992 average disposable income per eligible adult (2023 Bureau of Economic Analysis data).

- **Broadband**: 92.5% household access (US Census ACS).

- Note that the difference between the market size in the chart to the left and the market size on the prior slide is because this pie chart displays USA revenue, which we estimate to be 98% of total revenue.
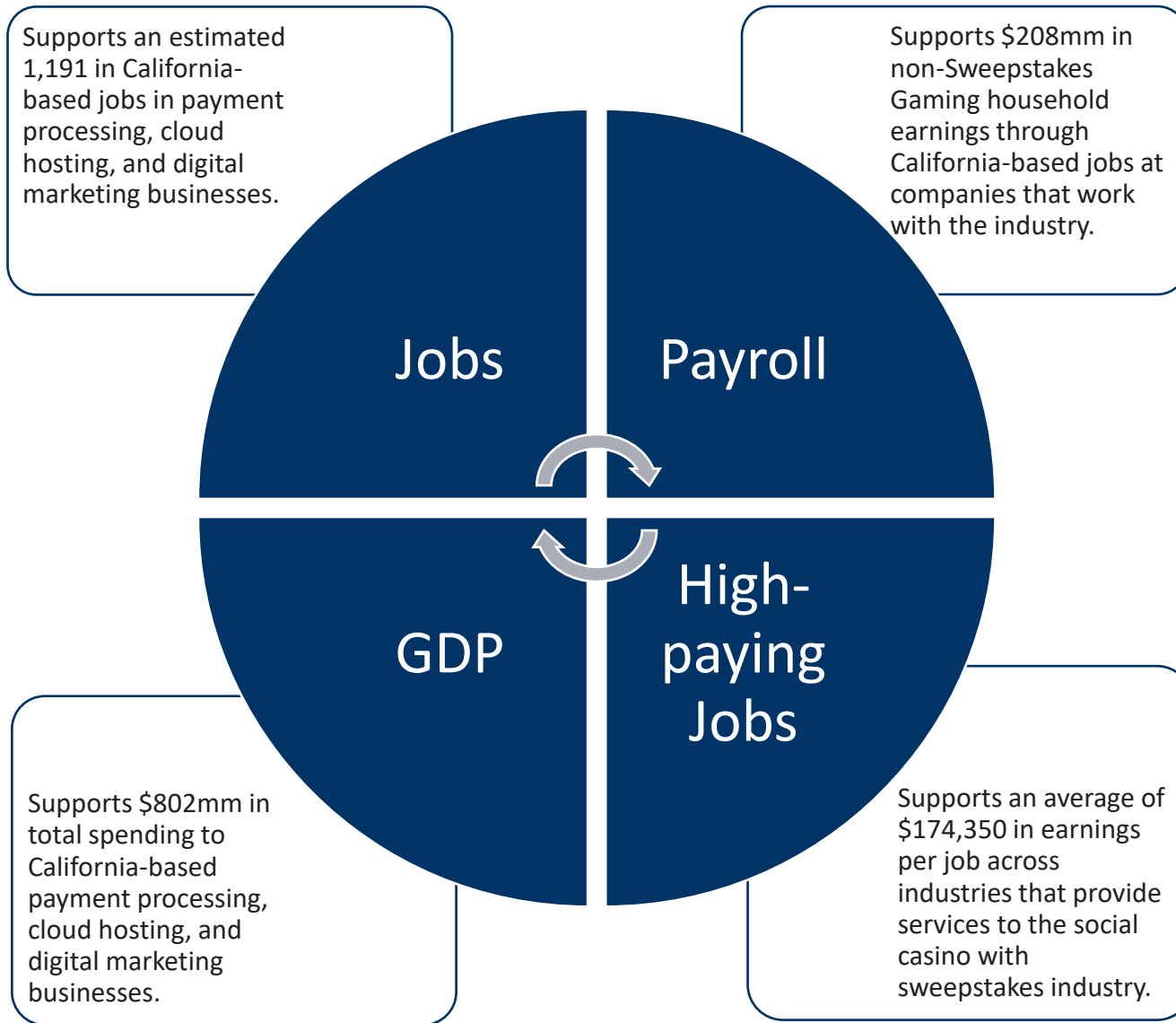
California Economic Impact: Total

$731.9mm

Our estimate for the amount social casinos with sweepstakes spend annually on marketing via California-based companies.

+

$35.8mm

Our estimate for the amount that social casinos with sweepstakes pay in processing fees annually to California-based companies.

+

$34.2mm

Our estimate for the amount that social casinos with sweepstakes pay in cloud hosting fees to California-based data centers.

=

$802.0mm

The combined total of our estimates for each of the above social casino with sweepstakes industry expenses that provide economic benefit to California.

EKG Insight: We used conservative approaches to arrive at each of the individual components above, and our list of those components does *not* represent a comprehensive list of areas through which economic benefit is provided to California. That said, the figures certainly help demonstrate that the industry provides substantial direct and indirect economic value to the state.

Economic Impacts Extend Beyond the Consumer Experience

Supports an estimated 1,191 in California-based jobs in payment processing, cloud hosting, and digital marketing businesses.

Supports $208mm in non-Sweepstakes Gaming household earnings through California-based jobs at companies that work with the industry.

Key Takeaway: Due to the nature of the supply chain of the social casino with sweepstakes industry, and the technology-focused California economy, **we expect that there are large and meaningful indirect economic impacts in the state as a result of economic activity by California-based vendors and the employees of those vendors within their local communities**.

Jobs

Payroll

GDP

High-paying Jobs

Supports $802mm in total spending to California-based payment processing, cloud hosting, and digital marketing businesses.

Supports an average of $174,350 in earnings per job across industries that provide services to the social casino with sweepstakes industry.

Note: We conducted due diligence on actual suppliers for several key operators (e.g., hosting via AWS/Google, marketing via Meta/Google, payment processing via Visa). These align within the bounds of Bureau of Economic Analysis RIMS II economic multipliers for the appropriate industries for each component of this analysis, supporting the validity of these impact estimates, but we note that the social casino with sweepstakes industry is unique and may not be perfectly represented by aggregate values that appear for businesses in its North American Industry Classification System category.

Details on methodology are available in the Methodology section at the end of this report.

Potential Revenue via License Fees

If California were to issue licenses to social casinos with sweepstakes, license fees could provide a variety of benefits:

- Direct revenue generation for the state
- Ability to audit operators for compliance with existing laws and any newly introduced regulations
- A cleaner path to enforcing penalties against any non-compliant operators
- Ability to introduce a framework for monitoring and collecting additional revenue from any other new related taxes

How much potential revenue could license fees produce?

Proper introduction of a license fee would require a dedicated study that includes communicating with potential license holders to understand how many applicants exist and how much they would reasonably pay for market access. However, we can produce a simpler estimate via looking at examples of online casino license fees and leveraging our knowledge of social casino with sweepstakes operators.

In online casino markets, initial fees (in states with open licensing processes) range from $150,000 in Michigan to $4-12mm in Pennsylvania (it costs $4mm for a license to operate slots, and another $4mm each for table games or peer-to-peer licenses).

Elsewhere in this report we mentioned that a typical EBITDA margin for a sweepstakes operator is about 15% - but some major operators may have as low as a ~10% margin, and any potential fee would ideally be palatable for those operators to avoid too few license holders. Inversely, if the fee is too inexpensive, the number of potential licenses could escalate to an undesirable level that creates more regulatory overhead than is desirable.

We ran figures with several price points; in the absence of a more robust study, we believe a **$500,000/year license per brand** (not per operator) is a reasonable fee that 1) would not be a deterrent for major operators, 2) is in the range that would maximize revenue generation for the state, and 3) would deter smaller operators that may be undesirable to work with.

At that price point, an operator with a 10% EBITDA margin would need to earn $5mm per year in California sales for a given brand to break even; if the operator does 17.3% of their business in California (our est. of CA share of the nationwide market), operators generating $28.9mm annually or greater could reasonably consider applying. Due to the top-heavy distribution of revenue in this market between brands, we believe most top-10 operators would acquire 2-3 licenses to support a few brands – and that **total revenue generation would likely fall into the $15-25mm/year range**. This is a low confidence estimate due to the simplistic methodology used to arrive at it.

Potential Revenue via a Player Purchases Tax

Taxing player purchases at social casinos with sweepstakes is a simple way to expand the economic benefit of the industry to California – and it's an approach that scales alongside growth of the space.

Applying a player purchases tax to license holders could additionally prevent the tax from being applied broadly to other industries that sell digital items which aren't required to pay sales tax within the state. We nonetheless believe that the same rate as California's statewide sales tax – 7.25% – is a very reasonable amount that would create healthy revenue for the state without being overly burdensome to operators.

The math on what that would generate is simple:

$2.42bln in California revenue * 7.25% player purchases tax = $175.4mm in annual tax revenue

As a point of comparison, a 7.25% tax on player purchases equates to a higher effective average tax rate if viewed relative to net revenue. For example, our total market estimate for 2025 was $14.312 billion in total player purchases, but $4.675 billion in net revenue. Applying a hypothetical 7.25% tax on player purchases would yield revenue equal to about 22.2% of net revenue.

If California taxed player purchases at a rate equal to the highest sales tax rate anywhere in the state, 11.25%, the annual tax revenue generated would exceed $272mm – equal to about 26.3% of net revenue. We note that operator appetites for acquiring a license may decline, potentially dramatically, at that rate.

Summary of Potential California Revenue Streams

By charging operators license fees and taxing player purchases at social casinos with sweepstakes, California could generate north of $200mm in annual revenue based on current market levels. It's easy to imagine that figure going north of $300mm via 1) operators developing relationships with local businesses for promotions, 2) operators gaining access to advertise on marketing channels that require proof of a license to advertise casino-styled content, and 3) more social casino operators deciding to leverage sweepstakes contests.

Key Takeaway: Combined with the direct and indirect economic benefits that the industry already provides to California, introduction of a license fee and player purchases tax – both of which would largely be paid by operators who are based out-of-state – could bring the total economic benefit of the social casino with sweepstakes industry to California to more than **$1.2 billion.**

About the Authors

Matt Kaufman is Managing Director of Digital & Interactive Gaming at Eilers & Krejcik Gaming. In his role at EKG, Matt leads the firm's production of syndicated research on mobile gaming. He is a frequent strategic advisor for some of the largest social gaming operators and has acted as an advisor on billions of dollars' worth of M&A transactions in the space. Matt previously held roles at social poker operator Z4 Poker and with several of the largest online casino affiliate companies, including PokerStrategy.com and Catena Media. He is a partner at online casino affiliate Media Techs and was named to Global Gaming Business' 40 Under 40 list for 2023.

Kahlil Simeon-Rose, Ph.D. is an economist and senior consultant at Eilers & Krejcik Gaming. He currently serves as a tenured Associate Professor at Washington State University's Carson College of Business. His research spans topics such as regional economic forecasting, taxation policy, and the socioeconomic outcomes of the gaming industry. Dr. Simeon-Rose's academic background includes a Ph.D. in Hospitality Administration from the University of Nevada, Las Vegas, with a dissertation centered on the economic impact of tax policy. Dr. Simeon-Rose's research portfolio includes 40 peer-reviewed publications in top-tier journals such as Cornell Hospitality Quarterly, Journal of Gambling Studies, and Tourism Management, alongside numerous industry reports.

Adam Krejcik is a Principal at Eilers & Krejcik Gaming. Adam has over 20 years of market and equity research experience primarily covering the global interactive entertainment industry. He's appeared on CNBC, Bloomberg, and is a frequent guest speaker at industry conferences. His work is regularly cited by public companies, researchers and major media and news outlets. Mr. Krejcik started his career at Banc of America Securities, LLC as an Equity Analyst and prior to founding EKG was a Sr. Research Analyst at Roth Capital Partners.

Eilers & Krejcik Gaming LLC is an independent research and consulting firm headquartered in Orange County, California. The firm's focus is on product, market, and policy analysis related to the global gaming market, inclusive of regulated real money gambling, social gaming, and a variety of adjacent verticals.

The firm's market estimates and research on social gaming have been cited in mainstream media and throughout operator earnings reports. Clients include operators, suppliers, private equity and venture capital firms, institutional investors, and state governments. EKG is a trusted partner of several active funds and has advised on commercial due diligence processes for billions of dollars' worth of deals within the mobile gaming space.

Firm executives Adam Krejcik and Matt Kaufman work closely alongside many of the largest mobile gaming firms to help identify targets and execute on M&A, make investments in startups, develop and improve on products, and adjust business strategy in a rapidly changing global marketplace.