

CALLING THE BLUFF: FanDuel's Break-Even Analysis for Sports Prediction Market Entry

A Strategic Analysis of FanDuel's Break-Even Decision Point
to Enter Sports Prediction Contracts Across America's Five
Largest Sports Betting Markets

Adam Robinson, American Bettors' Voice

adam@bettorsvoice.org

X: @squirrelsigma

November 4, 2025

INTRODUCTION: States Fire the Warning Shot

In mid-September 2025, Arizona Department of Gaming Director Jackie Johnson sent a letter to sports betting licensees warning that offering prediction market products—even in other jurisdictions—could trigger license reviews and potential revocation in Arizona. The threat was explicit: prediction markets, despite operating under federal CFTC jurisdiction, would be treated as violations of state gaming law if offered by Arizona-licensed operators.

Pennsylvania then escalated the conflict. On October 3, 2025 Pennsylvania Gaming Control Board Executive Director Kevin O'Toole sent formal letters to Congressional leadership protesting the "regulatory arbitrage" created by prediction markets. The letters detailed Pennsylvania's concern: CFTC-regulated prediction markets operating tax-free while competing directly with state-regulated sportsbooks paying 34% tax rates.

Ohio delivered its own cease-and-desist actions against Kalshi and other prediction market platforms, warning licensed operators that any involvement with prediction markets could jeopardize their state gaming licenses.

Illinois joined the offensive in late October 2025, with gaming regulators issuing pointed warnings to licensed operators about prediction market activities—going further than other states by suggesting that even non-sports event contracts could constitute illegal gambling under state law. Given Illinois' aggressive 40% progressive tax structure and newly implemented per-wager fees, state officials view prediction markets as a direct threat to a tax regime that extracted over \$200 million annually from sports betting operators.

New York delivered the most forceful blow on October 24, 2025, when the New York State Gaming Commission sent Kalshi a cease-and-desist letter ordering the platform to "cease and desist immediately from illegally advertising, promoting, administering, managing, or otherwise making available sports wagering and/or a mobile sports wagering platform in New York." The letter explicitly threatened both civil penalties and criminal enforcement action. Kalshi responded by filing a federal lawsuit two days later, arguing that federal CFTC jurisdiction preempts state authority.

These are not idle threats. The five states that have issued formal cease-and-desist orders or enforcement warnings—Arizona, Pennsylvania, Illinois, New York, and Ohio—represent \$65.7 billion in combined annual handle, generating \$2.7 billion in operator revenue and over \$800 million in state taxes. All five states have made clear they view prediction markets as existential threats to regulated gaming revenues, worth defending through the nuclear option: license revocation.

The Core Strategic Question

The emergence of sports prediction markets creates massive risk for FanDuel: if they stand down on entering sports prediction markets, they risk missing what may be the biggest shift in the industry since the repeal of PASPA. On the other hand, entering these markets could jeopardize their state-regulated business model.

This analysis addresses a precise decision point for FanDuel, the market leader with 40% national market share: What prediction market trading volume would allow FanDuel to effectively “call the bluff” and transition from its top five state sportsbook markets to prediction markets while maintaining equivalent profit?

We focus on the five largest competitive markets where both operators maintain significant presence:

New York: \$22.7B total handle, 51% tax rate, \$10.4B FanDuel handle, \$970M FanDuel GGR

Illinois: \$14.0B total handle, 40% progressive tax, \$6.4B FanDuel handle, \$560M FanDuel GGR

New Jersey: \$12.8B total handle, 19.75% tax rate, \$5.4B FanDuel handle, \$459M FanDuel GGR

Pennsylvania: \$8.4B total handle, 34% tax rate, \$6.5B FanDuel handle, \$394M FanDuel GGR

Ohio: \$7.9B total handle, 20% tax rate, \$3.2B FanDuel handle, \$324M FanDuel GGR

Combined: \$65.7B total market handle, \$31.97B FanDuel handle, \$2.71B FanDuel GGR

These states are the crown jewels of regulated sports betting - and the most valuable targets for prediction market substitution. Based on our analysis, it will take just 1.26x FanDuel's current five-state aggregate sportsbook handle of \$31.97 billion to replace their current profits from state-regulated sportsbooks in their top 5 states.

Methodology Overview

We employ a three-step analytical framework to arrive at this conclusion:

Step 1: Sportsbook Profit Calculation- For each state, we calculate FanDuel's net profit by applying Flutter's disclosed 14% EBITDA margin to revenue after state taxes and obligations. This represents the annual profit that must be replaced through prediction market operations to achieve parity.

Step 2: Prediction Market Economics Model- We model prediction market fee revenue (averaging 1.25% of trading volume) minus operating costs to achieve net margins ranging from 30% (conservative) to 40% (optimistic), reflecting the dramatically lower cost structure of prediction markets versus traditional sportsbooks

Step 3: Break-Even Volume Calculation- Required prediction market volume equals: $(\text{Target Profit} \div \text{Net Margin}) \div \text{Fee Rate}$. We then express this as a multiple of current sportsbook handle to assess feasibility, with further adjustments for sharp bettor volume recovery (25% lift from previously restricted customers).

PART I: THE REGULATORY LANDSCAPE AND COMPETITIVE DYNAMICS

State Regulatory Threats and Licensing Leverage

Gaming license reviews represent the nuclear option in state regulatory arsenals. Unlike fines, compliance orders, or market access restrictions, license revocation terminates an operator's ability to conduct business entirely. States wield this power to enforce boundaries of acceptable conduct - and increasingly, to prevent - competitive threats from adjacent markets.

Federal Preemption and CFTC Exclusive Jurisdiction

Prediction markets operate under radically different legal authority than state-regulated sportsbooks. The Commodity Exchange Act grants the Commodity Futures Trading Commission exclusive jurisdiction over derivatives contracts, including event contracts (prediction markets). This federal preemption is not concurrent with state authority - it is exclusive and complete - but there are substantive questions about whether "sports event contracts" meet the definition of an event contract.

This legal uncertainty cuts both ways. Operators cannot confidently assume courts would strike down state license restrictions on federally regulated sports betting activity. But states cannot confidently assume courts would uphold such restrictions against preemption challenges. The standoff creates strategic ambiguity that favors the status quo until economics ultimately force resolution.

Kalshi's Growth Trajectory and Market Validation

Kalshi, the current volume-leading CFTC-approved prediction market exchange, provides empirical evidence that sports-focused prediction markets can achieve massive scale rapidly. The platform's volume growth validates both customer demand and operational feasibility.

Conservatively, Kalshi's Q4 2025 trajectory suggests \$8-10 billion annualized volume exiting 2025, growing to \$20-30 billion in 2026.

These volumes remain fractional compared to the U.S. sports betting market's \$150 billion in annual handle. But they demonstrate several critical proof points:

- **Sports events drive liquidity:** 90%+ sports concentration proves prediction markets aren't limited to elections and novelty events. NFL, NBA, and soccer provide sufficient market depth for material scaling.
- **Retail participation:** Kalshi's user growth (450,000 funded accounts by October 2025) validates that retail customers, not just institutions, will trade sports event contracts at scale.
- **Pricing efficiency:** Bid-ask spreads on Kalshi NFL markets trade 1-3% wide on liquid games, comparable to sportsbook vigorish of 4-5%. Market-making technology can achieve competitive pricing.
- **Regulatory stability:** Despite state protests, CFTC has not retreated from event contract approval. The D.C. Circuit's October 2024 ruling affirming CFTC authority creates judicial precedent protecting prediction market operations.

Most importantly, Kalshi's growth occurred despite having zero existing brand recognition in sports betting. The platform competed against FanDuel and DraftKings' massive marketing budgets, established customer relationships, and integrated same-game parlay technology, yet still grew 200x year-over-year.

If Kalshi can achieve \$15+ billion annualized run-rates from a standing start, what could FanDuel accomplish by redirecting its 10 million active customers, \$2 billion marketing budget, and industry-leading technology platform toward prediction markets?

Competitive Dynamics: Why FanDuel and DraftKings Hold Structural Advantages

While this analysis focuses primarily on FanDuel's economics, it's important to examine the competitive dynamics between the market's two dominant operators, as their strategic interactions will shape the timing and execution of any prediction market entry.

The prediction markets opportunity is not equally accessible to all sportsbook operators. Market concentration and technological capabilities create winner-take-most dynamics that favor industry leaders.

FanDuel and DraftKings control approximately 75% of U.S. sports betting revenue. This duopoly reflects durable competitive advantages:

- **Technology sophistication:** Same-game parlay pricing engines, real-time odds compilation, and high-frequency trading infrastructure required for prediction market market-making.
- **Customer base quality:** FanDuel maintains 40-45% market share across top states despite aggressive promotional competition, indicating superior customer retention and lifetime value. High-value bettors concentrated on leading platforms would migrate to prediction markets offered by trusted brands.
- **Balance sheet strength:** Flutter Entertainment (FanDuel's parent) generated \$3.5 billion in U.S. revenue with 14% EBITDA margins in 2024. DraftKings produced \$4.6 billion revenue with positive EBITDA. Both can fund prediction market liquidity provision and technology development. Smaller operators cannot.
- **Marketing scale:** FanDuel and DraftKings spend \$2-3 billion annually on customer acquisition and retention. This creates brand recognition that transfers to prediction markets. A FanDuel-branded prediction market inherits immediate credibility; a startup does not.

These advantages suggest prediction markets will replicate sportsbook concentration rather than fragment market share. If FanDuel puts their New York license at risk to launch prediction markets, it will likely retain most FanDuel Sportsbook customers and can attack DraftKings' customer base for any new sports prediction market offering. DraftKings must follow or cede market position.

This dynamic creates first-mover advantage with strategic risk. The first operator to enter sports prediction markets bears regulatory retaliation and execution risk. But it also captures the high-value customer segment most motivated to migrate (OBBD tax avoiders, sharp bettors, high-volume professionals, those in states where regulated mobile sports betting remains illegal). Second movers find a depleted customer pool.

The prisoner's dilemma structure forces action: FanDuel cannot wait for DraftKings to validate the sports prediction markets model, because doing so surrenders the most valuable customers. DraftKings cannot allow FanDuel first-mover advantage in capturing bettor migration. Both face pressure to move simultaneously or risk permanent competitive disadvantage.

Summary: The Strategic Context

States hold licensing leverage to threaten operators entering sports prediction markets. But federal preemption limits enforceability, and Kalshi's growth demonstrates market viability at scale. The duopoly structure of U.S. sports betting means FanDuel and DraftKings control the strategic decision. When economics favor prediction markets entry, they will move; regulatory threats become irrelevant.

The question is not whether operators will call the bluff, but when volume growth and margin efficiency make exit economically rational. Part II quantifies that decision point.

PART II: METHODOLOGY, ASSUMPTIONS, AND ANALYTICAL FRAMEWORK

Three-Step Analytical Framework

Step 1: Sportsbook Net Profit Calculation

For each state, we calculate FanDuel's annual net profit using their annualized EBITDA rate of 14%.

Step 2: Prediction Markets Economics Model

We model prediction market profitability using fee-based revenue minus operating costs:

Prediction Market Net Profit = (Trading Volume x Fee Rate x Net Margin %)

Where:

- **Trading Volume:** Total dollar value of all trades executed
- **Fee Rate:** Percentage of trading volume captured as fees (1.25% base case)
- **Net Margin %:** Percentage of fee revenue retained after all operating costs

Fee Rate Assumptions:

- Base case uses 1.25% average effective fee rate, aligned with Kalshi's disclosed fee structures, analogous to brokerage commissions.
- **Kalshi charges:**
 - **Market average entry fees:** 0-2% of position value depending on liquidity and probability of outcome
 - **Market average exit fees:** 0-2% of position value depending on liquidity and probability of outcome

Net Margin Assumptions:

We model two margin scenarios:

- **Conservative (30% net margin):** Mature operations with scale economics
- **Optimistic (40% net margin):** Wall Street-level operational efficiency (i.e. Citadel, Jane Street)

Kalshi's actual margins are not publicly disclosed (private company).

Step 3: Break-Even Volume Calculation

Required prediction market volume to match sportsbook profit:

Required Volume = (Sportsbook Net Profit / Net Margin %) / Fee Rate

Hypothetical Example: If FanDuel generates \$128.7M annual profit from New York operations, and prediction markets achieve 30% margins at 1.25% fees:

Required Volume = (\$128.7M / 30%) / 1.25%

Required Volume = \$428.9M / 1.25%

Required Volume = \$34.3B

We then express this as a multiple of current sportsbook handle to assess feasibility:

Volume Multiple = Required Prediction Market Volume / Current Sportsbook Handle

Critical Adjustments: Sharp Bettor Volume Recovery

Current sportsbook handle is artificially suppressed because operators systematically limit winning customers.

DraftKings CEO Jason Robins explicitly stated: “People doing this for profit are not the players we want.” FanDuel implements similar stake factoring, progressively reducing maximum bet sizes for customers with winning track records.

Prediction markets reverse this dynamic entirely. Market-making models thrive on both retail and professional order flow. Sharp bettors provide price discovery and liquidity. No account limitations exist because the marketplace welcomes all participants regardless of win rate or ability to beat market pricing.

This creates volume recovery from previously restricted accounts. We model a moderate lift, under the following scenarios:

- **Conservative (0% lift):** No sharp bettor migration, volume must come entirely from existing retail customers
- **Moderate (25% lift):** Previously restricted accounts return, adding 25% to effective volume
- **Optimistic (40% lift):** Full professional syndicate participation, adding 40% to effective volume

Applied to break-even calculations:

Adjusted Volume Multiple = Required Volume / (Current Handle x (1 + Sharp Bettor Lift %))

Using New York example with 25% sharp bettor lift:

Adjusted Multiple = \$34.3B / (\$8.85B x 1.25) = 3.10x (vs. 3.88x unadjusted)

Meaning, FanDuel would need 3.1x their current regulated handle in prediction market trading volume to replace profits from losing their ability to operate in New York. As we will show later, the actual number is far lower than calculated in this example.

Limitations and Scope Boundaries

What This Analysis Includes:

- FanDuel-specific break-even calculations
- State tax and fee structures as of October 2025

- Operating cost estimates based on Flutter disclosures and industry benchmarks
- Sensitivity analysis across reasonable parameter ranges

What This Analysis Excludes:

- Market-level aggregation beyond FanDuel's operations
- Dynamic competitive response modeling (assumes static market structure)
- Regulatory response scenarios beyond license revocation threat
- Offshore/unregulated market cannibalization effects
- Consumer welfare analysis or social impact assessment

Critical Unknowns:

- Kalshi's actual unit economics (private company, not disclosed)
- State willingness to follow through on license revocation threats
- Speed of customer migration to prediction markets at scale - Federal regulatory stability (CFTC could restrict event contracts)
- Liquidity depth requirements for institutional participation

These unknowns create genuine uncertainty about timing and execution. But they do not undermine the core finding: at sufficient scale and margin efficiency, prediction markets economics dominate state-regulated sportsbook economics across all major markets.

Critical Note on Conservative Assumptions:

This analysis focuses exclusively on fee revenue from customer trading volume. We do not factor in potential profitability from FanDuel operating its own proprietary market-making and trading operations (analogous to Kalshi's KalshiEX trading arm). If FanDuel enters prediction markets with an internal trading infrastructure - capturing both fee revenue and market-making spreads - the break-even volumes calculated here would decrease substantially. Our volume-only approach represents the most conservative case for prediction market economics.

PART III: STATE-BY-STATE BREAK-EVEN ANALYSIS

NEW YORK: The \$970 Million Prize with 51% Tax Burden

Market Overview

New York is the most prized asset of U.S. sports betting and the most compelling prediction market opportunity. In FY 2024-25 (April 2024-March 2025), the state generated \$22.7 billion in handle and \$2.11 billion in GGR, producing \$1.07 billion in state tax revenue at the nation's highest online sports betting tax rate of 51%

Nine operators compete for New York's massive market, but concentration is extreme. FanDuel captured \$8.85 billion in handle (39% share) and \$970 million in revenue (46% share), maintaining the #1 position continuously since launch in January 2022. FanDuel's 10.9% hold rate - 162 basis points above market average - reflects same-game parlay dominance and superior product execution.

DraftKings holds #2 position with 34% revenue share. Together, the duopoly controls approximately 80% of New York's sports betting market, with third-tier operators struggling to achieve profitability against the 51% tax burden and promotional spending arms race.

Sportsbook Profitability Calculation

Gross Gaming Revenue: \$970,000,000

Calculation: \$10.44B total handle x 9.3% market hold

State Obligations:

State GGR Tax (51%): \$494,700,000

Regulatory Compliance: \$1,000,000

Total State Obligations: \$495,700,000

Net After State Obligations: \$474,300,000

Operating Costs (based on 14% EBITDA): \$407,898,000

FanDuel New York Net Profit: \$66,402,000

Prediction Markets Break-Even Analysis

Base Case Scenario (30% net margin, 1.25% fee rate):

Required Fee Revenue: \$221,340,000 (\$66.4M / 30%)

Required Trading Volume: \$17,707,000,000 (\$221.3M / 1.25%)

Multiple of Current Handle: 1.70x (\$17.7B / \$10.4B)

Sharp Bettor Volume Adjustment (25% lift scenario):

Adjusted Base Volume: \$13.05B (\$10.4B x 1.25)

Adjusted Multiple: 1.36x (\$17.7B / \$13.05B)

Decision Framework:

Under optimistic but achievable conditions (40% margins, 1.5% fees, 25% sharp bettor lift):

Required Volume: \$11.1B

Adjusted for Sharp Lift: \$13.05B effective base

Volume Multiple: 0.85x

Timeline Assessment:

Aggressive but feasible within 6-12 months given Kalshi's demonstrated ability to scale.

ILLINOIS: Progressive Tax Structure Targeting High-Volume Operators

Market Overview

Illinois operates the nation's second-largest sports betting market with \$14.0 billion in 2024 handle and \$1.21 billion in GGR. But Illinois' regulatory environment underwent radical transformation in July 2024 when the state implemented a progressive tax structure explicitly designed to extract maximum revenue from market leaders.

The new tax regime:

- 20% tax on first \$30M in adjusted gross revenue
- 25% tax on AGR between \$30M-\$50M
- 30% tax on AGR between \$50M-\$100M
- 35% tax on AGR between \$100M-\$200M
- 40% tax on AGR exceeding \$200M

FanDuel and DraftKings both exceed the \$200M threshold, paying the maximum 40% marginal rate on most of their Illinois revenue.

More dramatically, Illinois implemented a per-wager fee starting July 1, 2025:

- \$0.25 per wager for first 20 million wagers annually
- \$0.50 per wager for wagers exceeding 20 million

While these per-wager fees are technically passed through to customers rather than paid directly by FanDuel, they create strong incentives for customers to seek alternatives. A high-volume bettor placing 10,000 wagers annually would face \$2,500-\$5,000 in additional fees, providing further motivation to migrate to prediction markets where no such fees exist.

Sportsbook Profitability Calculation

Gross Gaming Revenue: \$560,000,000

Calculation: \$6.44B FanDuel handle x 8.6% market hold

State Obligations:

State GGR Progressive Tax (weighted avg 38%): \$212,800,000

Cook County Tax (2%): \$11,200,000

Regulatory Compliance: \$750,000

Total State Obligations: \$224,750,000

Net After State Obligations: \$335,250,000

Operating Costs (based on 14% EBITDA): \$288,315,000

FanDuel Illinois Net Profit: \$46,935,000

Prediction Markets Break-Even Analysis

Base Case Scenario (30% net margin, 1.25% fee rate):

Required Fee Revenue: \$156,450,000 (\$46.9M / 30%)

Required Trading Volume: \$12,516,000,000 (\$156.6M / 1.25%)

Multiple of Current Handle: 1.94x (\$12.05B / \$6.44B)

Sharp Bettor Volume Adjustment (25% lift scenario):

Adjusted Base Volume: \$8.05B (\$6.44B x 1.25)

Adjusted Multiple: 1.55x (\$12.5B / \$8.05B)

Decision Framework:

Under optimistic conditions (40% margins, 1.5% fees, 25% sharp better lift):

Required Volume: \$7.08B

Adjusted for Sharp Lift: \$8.05 effective base

Volume Multiple: 0.97x

The timing of parity likely follows New York by 6-12 months, using New York as proof of concept for customer migration and operational execution.

NEW JERSEY: The Mature Market with Moderate Taxation

Market Overview

New Jersey operates the nation's oldest legal mobile sports betting market (launched August 2018) with \$12.8 billion in 2024 handle and \$1.09 billion in GGR. Despite being among the first states to legalize following PASPA repeal, New Jersey ranks third nationally by volume, overtaken by New York and Illinois' larger populations.

The market's maturity shows in stable competitive dynamics and declining growth rates. 2024 handle grew just 8.7% year-over-year, compared to 20%+ growth in Illinois and Ohio.

New Jersey's 19.75% tax rate (raised in 2025 from 13% previously) represents the moderate middle ground among major markets. Not punitive like New York's 51%, but not as favorable as Arizona's 10%.

Sportsbook Profitability Calculation

Gross Gaming Revenue: \$459,000,000

Calculation: \$5.37B FanDuel handle x 8.54% market hold

State Obligations:

State GGR Tax (19.75%): \$90,653,000

Annual Licensing Fee: \$100,000

Regulatory Compliance: \$500,000

Total State Obligations: \$91,253,000

Net After State Obligations: \$367,747,000

Operating Costs (based on 14% EBITDA): \$316,262,000

FanDuel New Jersey Net Profit: \$51,485,000

Prediction Markets Break-Even Analysis

Base Case Scenario (30% net margin, 1.25% fee rate):

Required Fee Revenue: \$171,617,000 (\$51.5/ 30%)

Required Trading Volume: \$13,729,000,000 (\$171.6M/ 1.25%)

Multiple of Current Handle: 2.55x (\$13.7B/ \$5.37B)

Sharp Bettor Volume Adjustment (25% lift scenario):

Adjusted Base Volume: \$6.72B (\$5.37B x 1.25)

Adjusted Multiple: 2.04x (\$13.7B/ \$5.37B)

Decision Framework:

Under optimistic conditions (40% margins, 1.5% fees, 25% sharp bettor lift):

Required Volume: \$8.6B

Adjusted for Sharp Lift: \$6.72B effective base

Volume Multiple: 1.28x

OHIO: Recent Tax Increase and Growing Market

Market Overview

Ohio launched mobile sports betting in January 2023, making it one of the newest major markets with just two full calendar years of operation. Despite this, Ohio rapidly scaled to \$7.9 billion in 2024 handle and \$899 million in GGR, ranking fifth nationally.

The market's explosive growth trajectory shows in year-over-year metrics: 2024 handle grew 35% compared to annualized 2023 volume.

Ohio's tax environment underwent significant change in July 2023 when the state doubled its tax rate from 10% to 20%, citing need for additional revenue to fund problem gambling programs and youth sports facilities. This tax change created immediate margin compression for operators and foreshadowed potential for future increases.

Sportsbook Profitability Calculation

Gross Gaming Revenue: \$324,000,000

Calculation: \$3.23M FanDuel handle x 10.1% market hold

State Obligations:

State GGR Tax (20%): \$64,800,000

Annual Licensing Fee: \$500,000 (est.)

Regulatory Compliance: \$750,000

Total State Obligations: \$66,050,000

Net After State Obligations: \$257,950,000

Operating Costs (based on 14% EBITDA): \$221,837,000

FanDuel Ohio Net Profit: \$36,113,000

Prediction Markets Break-Even Analysis

Base Case Scenario (30% net margin, 1.25% fee rate):

Required Fee Revenue: \$120,377,000 (\$36.1M / 30%)

Required Trading Volume: \$9,630,000,000 (\$120.4M / 1.25%)

Multiple of Current Handle: 9.11x (\$34.0B / \$3.73B)

Sharp Bettor Volume Adjustment (25% lift scenario):

Adjusted Base Volume: \$4.66B (\$3.73B x 1.25)

Adjusted Multiple: 2.97x (\$9.6BB x \$4.05B)

Decision Framework:

Under optimistic conditions (40% margins, 1.5% fees, 25% sharp bettor lift):

Required Volume: \$6.0B

Adjusted for Sharp Lift: \$4.05B effective base

Volume Multiple: 1.48x

PENNSYLVANIA: The Congressional Protest State with 36% Taxation

Market Overview

Pennsylvania operates the sixth-largest U.S. sports betting market with \$8.4 billion in 2024 handle and \$511 million in GGR.

FanDuel captured \$394 million in revenue (47% share) in 2024, maintaining dominant #1 position since market launch in 2019.

Pennsylvania's strategic importance extends beyond its market size. The Commonwealth's formal Congressional protest of prediction markets in April 2025 revealed state regulators' acute awareness of the threat. Pennsylvania Gaming Control Board Chairman David Barasch's letters to Senate Majority Leader Thune and Speaker Johnson explicitly identified regulatory arbitrage as existential threat to state gaming revenue.

This makes Pennsylvania the bellwether for state regulatory response. If FanDuel exits Pennsylvania for prediction markets, expect coordinated multi-state retaliation.

Sportsbook Profitability Calculation

Gross Gaming Revenue: \$394,000,000

Calculation: \$6.468B FanDuel total handle x 6.1% market hold

State Obligations:

State GGR Tax (34%): \$133,960,000

Regulatory Compliance: \$750,000

Total State Obligations: \$34,710,000

Net After State Obligations: \$259,290,000

Operating Costs (based on 14% EBITDA): \$222,989,000

FanDuel Pennsylvania Net Profit: \$36,301,000

Prediction Markets Break-Even Analysis

Base Case Scenario (30% net margin, 1.25% fee rate):

Required Fee Revenue: \$121,003,000 (\$36.3M / 30%)

Required Trading Volume: \$9,680,000,000 (\$121M / 1.25%)

Multiple of Current Handle: 1.50x (\$9.7B / \$6.47B)

Sharp Bettor Volume Adjustment (25% lift scenario):

Adjusted Base Volume: \$8.09B (\$6.47B x 1.25)

Adjusted Multiple: 1.20x (\$9.7B / \$8.09B)

Decision Framework:

Under optimistic conditions (40% margins, 1.5% fees, 25% sharp bettor lift):

Required Volume: \$6.1B

Adjusted for Sharp Lift: \$8.09B effective base

Volume Multiple: 0.75x

PART IV: COMBINED ANALYSIS AND STRATEGIC DECISION FRAMEWORK

Aggregate Break-Even Requirements Across Five States

FanDuel's combined operations in New York, Illinois, New Jersey, Ohio, and Pennsylvania represent \$31.97 billion in annual handle (approximately 49% of the \$65.8 billion total market handle across these states) and generate \$2.05 billion in gross gaming revenue.

After state taxes, licensing fees, and operating costs, these five states produce estimated \$241.5 million in combined annual net profit:

New York: \$66.4M

Illinois: \$46.9M

New Jersey: \$51.5M

Ohio: \$36.1M

Pennsylvania: \$36.3M

TOTAL: \$237.2M

To replace this profit via prediction markets under optimistic assumptions (40% net margins, 1.5% fee rates):

Required Combined Prediction Market Volume: \$39.5 billion

This represents just 1.24x FanDuel's current five-state aggregate sportsbook handle of \$31.97 billion.

Competitive Dynamics: The Prisoner's Dilemma

FanDuel's decision to exit states for prediction markets cannot be made in isolation. DraftKings holds 25-35% market share across all analyzed states, creating strategic interdependence:

Scenario 1: FanDuel Moves First

- FanDuel enters sports prediction markets in 2026
- Captures high-value customers (sharp bettors, OBBB tax avoiders)
- **DraftKings faces adverse selection:** remaining customers are lower value
- DraftKings forced to follow or cede competitive position
- **Outcome:** First-mover advantage, but bears regulatory retaliation risk

Scenario 2: DraftKings Moves First

- DraftKings enters sports prediction markets in 2026
- Captures sharp bettor migration and professional volume
- FanDuel left with depleted customer pool in prediction markets
- FanDuel forced to follow or lose high-value segment permanently
- **Outcome:** Second-mover disadvantage, potentially fatal to prediction market entry

Scenario 3: Simultaneous Move

- Both operators announce prediction markets entry Q2 2026
- Regulatory retaliation distributed across both operators
- Customer migration split based on brand preference and product quality
- **Outcome:** Prisoner's dilemma equilibrium, likely actual result

The game theory strongly favors simultaneous or near-simultaneous movement. Neither operator can afford to let the other capture first-mover advantage in prediction markets, as sharp bettor and professional customer concentration means the first mover captures the most valuable 20% of the customer base.

Expect FanDuel and DraftKings to announce sports prediction market entry within 3-6 months of each other. This approach minimizes regulatory ability to single out one operator for retaliation, and effectively "calls the bluff" to terminate licenses. These states cannot afford to follow-through on these threats.

CONCLUSION: THE STRATEGIC IMPERATIVE FOR PREDICTION MARKET TRANSITION

The Regulatory Response: Why State Threats Become Irrelevant

State-level threats to revoke gaming licenses represent the maximum state regulatory leverage. Yet these threats face three fatal weaknesses:

- **Legal Weakness:** Federal preemption under the Commodity Exchange Act prevents states from regulating CFTC-approved prediction markets. License revocation for offering federally-legal products in other jurisdictions faces serious preemption challenges in federal court, and this matter likely reaches the Supreme Court. This leaves a window of opportunity for Prediction Market operators to generate massive scale and market share.
- **Economic Weakness:** Once prediction markets prove more profitable than regulated sportsbooks, threatening to revoke licenses helps operators by forcing a decision they would make anyway. New York's threat to revoke licenses if FanDuel enters prediction markets is equivalent to threatening to fire an employee who just received a better job offer.
- **Political Weakness:** States cannot afford to drive major gaming operators out of their markets entirely. New York collected \$1.07 billion in sports betting taxes in FY 2024-25, and losing FanDuel entirely (not just sportsbook, but potentially poker, casino, and DFS too) would create a budget catastrophe. States will bluster but ultimately accommodate.

The endgame: states renegotiate rather than retaliate. Once FanDuel enters prediction markets successfully, states will offer tax concessions to prevent further migration. New York may reduce its 51% rate to retain operators. Illinois may eliminate per-wager fees.

But these concessions will come too late. Once prediction markets achieve critical mass and brand recognition, the superior economics (zero state taxes, no customer limitations, favorable federal tax treatment) make the model dominant. States that reduced taxes to retain operators would simply slow inevitable industry transition, not prevent it.

The question is not whether FanDuel and DraftKings will call the bluff. The question is when.

Prediction: FanDuel announces sports prediction market entry by Q2 2026. The transformation from state-regulated to federally regulated sports wagering will be substantially complete by 2028.

The regulated sports betting industry as currently structured has 12-18 months remaining before prediction markets fundamentally reshape competitive dynamics, regulatory relationships, and profit pools. The economics are unambiguous. The timeline is compressed. The strategic imperative is clear.

The only question is which operator moves first and whether states recognize the threat in time to compete through tax reduction rather than retaliate through license revocation.

The financial realities suggest it may already be too late.

SOURCES

Arizona Department of Gaming, "Notice to Licensees Regarding Prediction Market Activities," October 2024.

Letter from David Barasch, Chairman, Pennsylvania Gaming Control Board, to Senate Majority Leader John Thune and Speaker Mike Johnson, April 15, 2025.

Legal Sports Report, "Kalshi Weekend Trading Volume Surges to \$303 Million," September 2025.

Arizona Gaming Department Annual Report 2024.

KPMG, "Analysis of OBBB Tax Implications for Sports Betting Customers," 2025.

Top 6 US Sports Betting States Financial Data, American Bettors Voice Research, October 2025.

Eilers & Krejcik Gaming, "U.S. Sports Betting Market Share Analysis," 2024.

Flutter Entertainment FY2024 Annual Report, U.S. segment performance and EBITDA margins; Q4 2024 Earnings Call.

Kalshi fee schedule, publicly available on platform; CEO Tarek Mansour, Bloomberg interview, June 2024.

Tom, M., LaPlante, D., & Shaffer, H. (2014). "Does Pareto Rule Internet Gambling?" Journal of Gambling Business and Economics, 8(1), 73-100.

Deng, X., Lesch, T., & Clark, L. (2021). "Pareto distributions in online casino gambling." *Addictive Behaviors*, 121, 106995.

Massachusetts Gaming Commission regulatory filings showing account limitation data, 2025.

DraftKings CEO Jason Robins, investor call Q2 2023.

Internal Revenue Code § 1256, mark-to-market treatment of regulated futures contracts.

New York State Gaming Commission, FY 2024-25 Annual Report and monthly reports, 2024-2025.

Illinois Gaming Board 2024 Annual Report; Illinois Compiled Statutes, sports wagering tax provisions as amended July 2024; Illinois per-wager fee legislation, effective July 1, 2025.

New Jersey Division of Gaming Enforcement 2024 Annual Report and monthly reports; New Jersey Statutes § 5:12A-1 et seq., sports wagering tax provisions; New Jersey operator exit announcements, various dates 2024.

Ohio Casino Control Commission 2024 Annual Report and monthly reports; Ohio Revised Code § 3770, sports gaming tax rate amendment effective July 2023; Ohio legislative session records, 2024 budget negotiations.

Pennsylvania Gaming Control Board 2024 Annual Report and operator revenue reports; Pennsylvania gaming statutes, 36% sports wagering tax provisions.

State gaming commission aggregated data across five states.

Kalshi volume characteristics analysis based on platform observation and industry reporting.

Claude Sonnet 4.5 and ChatGPT 5.0 were used to assist with research, financial model calculations and minor edits for tone and consistency.

APPENDIX: GLOSSARY OF TERMS

Gross Gaming Revenue (GGR): Total amount wagered minus total amount paid out to customers as winnings. Also called “hold” or “revenue.” The primary metric states use for taxation.

Handle: Total dollar amount wagered by customers. Distinguished from GGR, which nets out winnings paid.

Hold Rate: Percentage of handle retained as revenue ($GGR \div \text{Handle}$). Typical sportsbook hold rates range from 6-11% depending on product mix and customer sophistication.

Fee Rate: In prediction markets, the percentage of trading volume captured as fees. Typically 1.0-1.5% of volume traded.

Net Margin: Percentage of fee revenue retained after all operating costs. Target range 30-40% for mature prediction market operations.

Trading Volume: In prediction markets, total dollar value of all executed trades including position entries, adjustments, and closures. Typically 2.5-4x equivalent sportsbook handle due to position management trading.

Sharp Bettor: Professional or sophisticated bettor with proven track record of identifying mispriced lines and winning long-term. Sportsbooks typically limit or ban sharp bettors; prediction markets welcome them.

Stake Factoring: Practice by sportsbooks of progressively reducing maximum bet sizes for customers identified as sharp or winning bettors.

Section 1256 Treatment: IRS tax treatment for regulated futures contracts and commodity options. Provides 60/40 long-term/short-term capital gains rates and mark-to-market accounting. Prediction markets receive this favorable treatment; sportsbooks do not.

OBBB: One Big Beautiful Bill Act (H.R. 1, 119th Congress), enacted July 2025. Limits gambling loss deductions to 90% of gambling winnings, creating phantom income taxation for break-even bettors.

Phantom Income: Taxable income created by OBBB limitations where bettors owe taxes despite no net gambling winnings. Example: \$1M wins, \$1M losses = \$0 net, but \$100K taxable income under OBBB.

CFTC: Commodity Futures Trading Commission, federal agency with exclusive jurisdiction over derivatives markets including prediction market event contracts.

DCM: Designated Contract Market, CFTC registration category for prediction market exchanges. Required for legal operation of event contracts.