XST CAPITAL GROUP LLC

CAPITAL, M&A, STRATEGY

December 2024

THE NEXT

SPECIAL EDITION

2024 Private Capital Roundtable

From the desk of Joel Simkins: *Being a first time founder has been incredibly thrilling since I launched XST Capital in May 2024. While I thought that my career as an investment banker and equity research analyst at large investment banks gave me plenty of "situational awareness" around the opportunities/challenges founders experience, I now intimately understand the day-to-day nuances that these executives must navigate! At XST Capital, we look forward to supporting the burgeoning digital gaming industry in 2025 which figures to be another pivotal year for inflection as the sector continues to grow across regulated and pre-regulated channels. The more than a dozen content pieces we have published with CEO's and other industry leaders from some of the most exciting and fastest growing companies in the gaming industry have been exceptionally well-read, achieving readership rates far exceeding financial industry newsletters, so we thank you for your support! I believe this speaks to the quality of companies that have been open to sharing their journey in this forum. Given that we talk to capital providers daily, I wanted to survey some of the thought leaders in the sector and get their candid takes on what has transpired over the last few years, assess key trends in the industry, and what lies ahead. We look forward to delivering some fresh and exciting content in 2025 and showcasing some of the unique companies as well as executives shaping the future of the sector. Enjoy the read. - Joel*

Participants:

ASTRALIS CAPITAL

Evan Meyer, Co-Managing Partner

Coral Tree Partners

Alan Resnikoff, Co-Founder/Partner

DISCERNING CAPITAL

Davis Catlin, Managing Partner

BETTOR CAPITAL

David VanEgmond, Managing Partner
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Roundtable Synopsis

The 2020-2022 period witnessed a surge in investments in the digital gaming and sports betting industries, but returns have broadly lagged despite a few successful exits. This underperformance is attributed to factors such as overvalued opportunities, unrealistic projections about B2B integration, and the challenges of customer acquisition in the B2C space. As the industry moves towards 2025, there's a noticeable shift from aggressive growth strategies to a focus on profitability. The capital-raising landscape is expected to remain challenging, with investors exercising greater discipline and caution compared to the 2020-2022 period. Exits are most likely to occur through strategic acquisitions rather than IPOs or sales to financial sponsors. The rise of sweepstakes, due to its lack of regulatory restrictions, could attract significant investment, potentially drawing funds away from the regulated industry.

Looking ahead to 2025, the most promising areas for investment could lie in B2C companies operating in newly legalizing jurisdictions and innovative B2B companies that can deliver substantial value to the market leaders. There is a growing consensus that the B2B supply chain offers compelling opportunities, given the highly competitive nature of the B2C market. Emerging trends such as AI, particularly its application in personalization and player engagement, are expected to attract investment, although investors are wary of overhyped technologies. The focus on customer retention and reactivation, fueled by the slowing pace of new state launches, is another trend gaining traction. The industry anticipates a rise in rollups, particularly among venture-backed media and product-focused companies seeking to leverage synergies and drive value. While macroeconomic factors are considered, investors remain bullish on the long-term growth prospects of online gambling and gamification, believing these trends will outweigh any macroeconomic headwinds.

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Takeaways from the 2020-2022 Investment Boom

Investment Performance: Given the substantial capital inflow into the sector during 2020-2022, how have the returns from those investments materialized so far? What factors drove the performance of your biggest winners versus your biggest losers?

Evan Meyer, Astralis Capital: Luckily at Astralis we started deploying capital on the back end of the boom but what we saw were a lot of investment dollars chasing promising opportunities that in retrospect were wildly overvalued at the time. Separately, we believe that projections around B2B integration times and size of market skewed potential return expectations. We emerged having invested in 3 businesses at this market top, with 1 having already failed and two that are thriving.

> *We saw a lot of investment chase great products residing with management teams that could not figure out how to effectively acquire customers.*

Broadly speaking on the B2C front (in gaming and more broadly in the DTC consumer space) we saw a lot of investment chase great products residing with management teams that could not figure out how to effectively acquire customers. Most of that capital raised flowed directly to Meta, TikTok, Google and Amazon in the form of Ad Spend and you'd have been better off investing in those businesses given public market liquidity (or private secondary market liquidity in the case of ByteDance).

Despite raising at valuation metrics in late 2021 that were stretched, our biggest winner, PrizePicks, executed brilliantly during this time, creatively acquiring customers via alternative pathways and built a product that resonated with the next generation of fantasy players. It's impressive how much Adam and team accomplished with the capital they raised (other competitors in the space raised >5x the capital). We believe these capital constraints caused them to stay focused on creative and value add spend which ultimately played a significant role in their success.

Investor Expectations: Have returns generally met investor expectations, or have there been areas where performance fell short? Which sub-verticals within digital gaming outperformed expectations, and which underperformed? Have your expectations around the typical holding period shifted from what was initially anticipated during this time?

Davis Catlin, Discerning Capital: The majority of deals done during the 2020-2021 period had to have underwhelmed return expectations given that valuations are down probably 50% or more in the space. I always point to DraftKings as the best example - the business has grown substantially during the last three years & yet its stock is in half from the peak. We are seeing the same sort of valuation adjustments in the private markets.

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Takeaways from the 2020-2022 Investment Boom

Peter Heneghan and David VanEgmond, Bettor Capital: We are focused on B2B suppliers to the gaming space, and we have seen strong performance across the portfolio. As the U.S. market has continued to mature and operators focus on product enhancements and marketing efficiency, there has been significant opportunity for technology suppliers in the space. Our expectations around the typical holding period have not shifted, but multiple portfolio companies have seen inbound interest from strategic acquirers, and we have worked with these companies to evaluate on a case by case basis.

> *The majority of deals done during the 2020-2021 period had to have underwhelmed return expectations given that valuations are down probably 50% or more in the space.*

Evan Meyer, Astralis Capital: I generally think returns have broadly lagged in the sector despite a few wildly successful exits. Naively speaking, we anticipated B2B products would have significantly led return performance across the space. That largely has not been the case given typical product integration times and the fact that the OSB and iGaming markets have consolidated to levels that if you don't land at one of the core platforms, then return expectations likely weren't aligned with the valuations and risk assumed in the investments.

Lessons Learned: What key takeaways are investors and companies drawing from the period of loose monetary policy and lighter due diligence during COVID compared to the increased rigor today? How might these insights shape capital allocation strategies moving forward? In essence, what went right, what went wrong, and how are you pivoting your investment strategy going forward?

Peter Heneghan and David VanEgmond, Bettor Capital: While it is possible that some investors did "lighter" due diligence during COVID, we (and other institutional investors) were completing highly similar diligence processes in 2021 as we are today.

Since our inception we have tried to take a "growth equity approach to venture capital", which by nature requires deeper diligence, more concentrated positions, and being an active, involved shareholder in all of our portfolio companies.

Additional Funding and Bridge Capital: How have you evaluated the need to provide additional investment or bridge capital, particularly for businesses facing down rounds or attempting to realign for long-term success?

Davis Catlin, Discerning Capital: We are primarily providing first time funding, so we are often delivering the first outside mark in a couple of years. In our experience, the founders have very reasonable expectations on valuation in the last year or so. We have seen a few insider-led flat rounds where they are kicking the can down the road and that can work well if you have insiders who are well capitalized with access to additional capital. It feels like things have largely reset at this point.

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Monetization Path for the 2020-2022 Vintage

Shift in Strategies: Have companies started shifting from aggressive growth strategies—like ample spending on user acquisition and marketing—to a prioritized focus on profitability?

We've seen more businesses focused on "profitable growth" and wanting to avoid difficult positions where a business is constantly in need of raising additional capital.

Peter Heneghan and David VanEgmond, Bettor Capital: We've seen more businesses focused on "profitable growth" and wanting to avoid difficult positions where a business is constantly in need of raising additional capital. Fundraising can be very time-consuming and distracting, and we have seen strong founders and CEOs find ways to extend runway without sacrificing long-term growth.

Successful Monetization Strategies: Which monetization strategies are proving most successful for online gaming and sports betting firms transitioning to a more mature stage? Do you foresee the most likely exits being to strategic buyers, other venture capital groups/sponsors, or through IPOs?

Evan Meyer, Astralis Capital: The majority of exits we have seen in the gaming space have been to strategic buyers and we see no reason for that to change. While great to get liquidity, these processes don't typically lead to all out bidding wars from multiple acquirors that maximize deal value and thus investor return. What we've seen is that some tend to resemble acqui-hirings for tech and management talent.

Davis Catlin, Discerning Capital: The only real way to monetize an investment recently has been to strategic buyers. We have seen pretty muted PE movement in the space (except at the $500M+ deal size) and the public markets have not been kind to sub-scale gambling operators. I think strategic buyers are the only viable option right now.

Peter Heneghan and David VanEgmond, Bettor Capital: For the vast majority of startups, the most likely successful exit outcome is a sale to a strategic acquirer (including the two announced exits within our portfolio). An exit to a financial sponsor is unlikely until a business has reached significant scale and likely profitability, and IPOs are likely to remain rare exceptions for startups in the gaming space.

Capital Raising Outlook

Future Landscape: Looking ahead to 2025 and beyond, how do you see the capital-raising landscape evolving in the online gaming, sports betting, and casino sectors? What are the bull and bear case arguments from your perspective?

Evan Meyer, Astralis Capital: I believe capital raising by startups in these sectors will continue to be challenging over the foreseeable horizon. You may have a thawing of these conditions should iCasino legislation start to sprout green shoots in multiple states but I believe investors will be more disciplined and cautiously approach that period than we were in 2020-2022.

Davis Catlin, Discerning Capital: So long as there are heavy regulatory burdens, raising money in gambling will remain difficult. Every time a generalist investor learns about the licensing requirements in gambling, their interest pretty quickly heads to zero. I think the capital raising outlook for the industry as a whole comes down to how about 20 total investors (from seed to PE) feel about individual deals & their ability to raise capital for them. I actually think that's a part of the reason we have seen such success in sweepstakes & DFS+ as you can raise money so much more effectively, which allows you to grow much faster.

I think the capital raising outlook for the industry as a whole comes down to how about 20 total investors feel about individual deals & their ability to raise capital for them.

Investor Enthusiasm: With the sector's rapid growth and maturation in certain respects, do you expect investor enthusiasm to remain high, or could we see a cooling-off period?

Peter Heneghan and David VanEgmond, Bettor Capital: We expect investor enthusiasm to remain high due to the fact that online gaming continues to be a large, growing global market with significant investment opportunity. That being said, there are likely to be some macro headwinds to the broader venture capital market that could potentially affect capital availability within gaming.

Davis Catlin, Discerning Capital: I don't think the enthusiasm for gambling is currently that high with investors based on the down rounds & then the public market performance. I would think that it begins to grow as the industry begins to show more profits in the US and globally.

Evan Meyer, Astralis Capital: I believe we are already in the cooling off period. From an investor standpoint, we see value in a shift from a venture capital led environment to hybrid Venture / Private Equity style investing. There will always be amazing businesses to back with venture dollars in the space, but they will need to be real innovators in order to make the return math for a venture fund work.

However, given our screening process, we see potential synergies across startups and existing cash flowing

Capital Raising Outlook

businesses in the space and believe that in a continued environment where capital is scarce, a more traditional PE rollup strategy could yield significant returns for all stakeholders.

Market and Regulatory Impacts: Are there specific markets (e.g., the rise of sweepstakes) or regulatory trends (e.g., tax hikes) you believe will significantly impact investor interest—either positively or negatively?

Davis Catlin, Discerning Capital: The rise of sweepstakes is likely going to be phenomenal relative to regulated gambling given it has no regulatory restrictions on the investors (meaning no licensing required of the partners or the investors). I think that will likely drum up interest in that category and likely pull investment dollars from the regulated industry. Raising tax rates on unprofitable sportsbooks does not seem like a great recipe for positive market sentiment, but those impacts are muted. I believe that FanDuel, BetMGM, and DraftKings reaching cash flow positive will be the biggest catalyst for the industry.

We've seen a significant uptick in investor interest and deal flow in recent months, driven by the League's growth, increased popularity, and expansion plans.

Wayne Kimmel, SeventySix Capital: At SeventySix Capital, we've seen a significant uptick in investor interest and deal flow in recent months, driven by the League's growth, increased popularity, and expansion plans. The media, advertising, and sponsorship deals that were signed have been a tremendous boost for the $3T asset class of sports. This has also spurred private investors, Private Equity, and Venture Capitalists to invest across the asset class of sports into teams, leagues, and the enabling sports technologies, data solutions, and analytics companies.

Dry Powder Assessment: How would you assess the overall dry powder within your fund and among peers, especially as many funds have been asked to support portfolio companies with incremental investments in recent years?

Evan Meyer, Astralis Capital: We are coming to the tail end of our deployment window for Fund I with a few bullets remaining for new or additional investments in existing portfolio companies. We are in the process of initiating fundraising for our Fund II and there is sufficient interest and dry powder from LPs to enable us to add to the general levels of capital available in the sector.

Peter Heneghan and David VanEgmond, Bettor Capital: We have a significant amount of dry powder available, and while some portion of that may be used to follow-on in high-performing portfolio companies, we are actively looking for new investments.

Davis Catlin, Discerning Capital: We raise on a deal by deal basis, but I can say that we have seen more funds begin to pull back as they allocate capital to the existing portfolio of companies vs. net new companies.

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Areas of Interest for Deployment in 2025

Capital Deployment Opportunities: As we approach 2025, where do you see the greatest potential for capital deployment in the digital gaming and sports betting sectors?

Davis Catlin, Discerning Capital: Scaling leaders. If 2018-2021 was the wild west when even bad ideas got funded, we are now approaching a period of time where the leaders are beginning to reach escape velocity. We get excited to see that companies in the industry are reaching positive cash flow in their core and looking to build on that leadership. Those situations get us very excited.

There have been multiple recent acquisitions of B2B suppliers by both strategic acquirers and financial sponsors, and we expect there to be ample exit options for successful suppliers going forward.

Evan Meyer, Astralis Capital: We believe the best areas to invest are in B2C companies that are in the process of legalizing and super innovative B2B companies that can pierce the 3-4 market leaders by driving significant value to them. We continue to believe in the longer term thesis of iGaming expansion in the United States, the legalization of OSB and iGaming in Brazil and the potential for inroads to legalization throughout Asia / Ex-China.

Peter Heneghan and David VanEgmond, Bettor Capital: We continue to believe that the most compelling investment opportunities are across the B2B supply chain. While much of the focus for both public and private markets has been on B2C operators, it is a highly competitive environment that requires significant capital investment (even in successful scenarios). There have been multiple recent acquisitions of B2B suppliers by both strategic acquirers and financial sponsors, and we expect there to be ample exit options for successful suppliers going forward.

Wayne Kimmel, SeventySix Capital: This is the time to invest in passionate entrepreneurs that are transforming the gaming industry through innovative technology, data, and analytics companies.

Emerging Trends: What emerging trends or niche technologies are currently underexplored but could experience substantial growth in the next few years?

Peter Heneghan and David VanEgmond, Bettor Capital: One trend we expect to see over the coming years is a greater focus on customer retention and reactivation. Especially in an environment with a slowing pace of new state launches, we have seen multiple operators comment publicly on their decreased usage of affiliates, paid media and other traditional customer acquisition sources, while making substantial investments into their products and retention strategies. As regulated gaming markets continue to mature, we expect this trend to continue.

Alan Resnikoff, Coral Tree Partners: Compliance and regulatory technology: sports betting has grown substantially since the repeal of PASPA in 2018, but cracks within the infrastructure have been on full display over the last few

Areas of Interest for Deployment in 2025

years, with a number of gambling-related violations across the major professional sports leagues and colleges. Organizations are struggling with how to properly educate its constituents around the legalities of sports betting, and operators have to become more sophisticated around how to monitor and catch potentially illegal activity on their platforms. As operators are normalizing their marketing and user acquisition efforts, we believe that they will turn the focus towards bolstering their compliance and backend technologies to avoid substantial losses or fines. Further, sports teams and leagues are seeing their needs evolving and as these needs become more complex and nuanced, they'll likely need to rely on independent third parties to appropriately support.

As operators are normalizing their marketing and user acquisition efforts, we believe that they will turn the focus towards bolstering their compliance and backend technologies.

Next Big Opportunities: Do you see casual/social gaming, lottery, sweepstakes, peer-to-peer platforms, or VR/AR experiences as the next big opportunities? Are there other emerging trends we should monitor?

Evan Meyer, Astralis Capital: One area to highlight is the social / political wagering market given the recent legal rulings. Companies like Kalshi, Polymarket and the next generation of companies that can leverage markets or events that people care greatly about and are willing to wager on them should come into favor and expose a rather large TAM.

Another anticipated trend is the likelihood of rollups in the sector. There are a lot of venture backed media and product-focused companies that would benefit from combining with peers and/or a visionary management team that together would drive significant value across the entity for all stakeholders.

Davis Catlin, Discerning Capital: We continue to take a very hard look at sweepstakes, but we have yet to get really excited about an opportunity there. We are excited to further explore the opportunities for private debt in the space given it has lower regulatory requirements and can generate substantial returns for investors.

Risk Assessment in Investments: From a venture capital perspective, how do you weigh investments in newer, riskier verticals versus more established areas of gaming?

Evan Meyer, Astralis Capital: Being a venture investor should lead to taking calculated swings at risky opportunities in new verticals. Given the need to find those opportunities that can yield the outcomes to allow healthy fund returns, this is a necessity. When we look at portfolio construction in our sector-focused approach, we like being stage agnostic and will look to invest in more established areas of gaming should the risk-adjusted return line up with portfolio needs.

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AI and Its Implications for Gaming

Promising Applications: What are the most promising applications of AI in terms of personalization, player engagement, and monetization within this sector?

Peter Heneghan and David VanEgmond, Bettor Capital: One of the most promising applications of AI within gaming is the opportunity for increased personalization. Personalization is more than just having someone's favorite teams show up at the top of the sportsbook lobby – it is understanding in real-time what is happening during a player's session in order to deliver the most compelling content, optimize marketing and promotions, and dynamically monitor for any potential responsible gaming issues. While this can be done manually for a small subset of players (such as VIPs), AI can allow operators to deliver personalized experiences at scale to their players.

Navigating AI Hype: Do you view the hype surrounding AI as comparable to the dot-com boom of the late 1990s? How are you factoring this into your investment strategy to avoid overvalued or overhyped technologies?

Davis Catlin, Discerning Capital: I have heard AI used as a buzz word in this industry probably 1000+ times, but I have only seen a few tangible examples of where "real" AI was required. We are intrigued by any business that helps this industry be more efficient, so we will continue to look at any company in the space.

> *We believe a few highly resourced winners will emerge and many will fall into the typical bust cycles that normally accompany these manias.*

Evan Meyer, Astralis Capital: AI is a seismic shift in compute and will impact our lives daily for years to come. However, given that these tectonic shifts typically lead to significant FOMO and "name your own valuation" scenarios, we believe a few highly resourced winners will emerge and many will fall into the typical bust cycles that normally accompany these manias.

Peter Heneghan and David VanEgmond, Bettor Capital: There is always the potential for new and emerging technologies to be "overhyped", but that doesn't mean that all startups in a category are overvalued. When making investment decisions we continue to focus on the specific use case, tangible KPIs and unit economics, whether or not a Company is using (or claiming to use) AI or other emerging technologies.

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Impact of Macroeconomic Trends on Gaming Investments

Macroeconomic Assessment: With inflation moderating and interest rates showing signs of decline, how are you weighing macroeconomic indicators against broader concerns when making gaming-related investments?

Evan Meyer, Astralis Capital: These factors should lead to capital seeking higher returns by going further out on the risk curve which would normally mean more money going into venture capital and private equity. However, we are seeing broader shifts in allocation patterns amongst institutional investors given lack of liquidity within existing VC and PE portfolios and more capital turning to Private Credit strategies.

Peter Heneghan and David VanEgmond, Bettor Capital: While macroeconomic conditions can be an important driver of potential returns (both due to impacts on valuations and M&A activity), it will at most be a secondary consideration. For earlier-stage growth businesses, there can be significant opportunity against both stronger and weaker macro backdrops, and so we don't expect macro conditions to be a primary concern in our evaluation processes.

Davis Catlin, Discerning Capital: I think the implied discount rate remains fairly high on gambling deals, so we are seeing valuations come down across the board.

Recession Resistance: Gaming has often been seen as "recession-resistant." Does this make the digital gaming sector more appealing relative to other consumer-based verticals?

Davis Catlin, Discerning Capital: I believe the secular trend towards online gambling & gamification will overwhelm any macroeconomic driven issues over any reasonable investment horizon.

Evan Meyer, Astralis Capital: I wouldn't go as far to say gaming is resistant to pressures from standard recessions. Even if there is resilience, valuation multiples take significant hits during downturns and investing in front of those valuation cliffs is not particularly fun or a great time to allocate capital. We've been very lucky in the US with the FED guiding us adeptly through the last 8-10 years but the pain of investing in front of and through significant downturns is very different than the recent allocating environment and we all should remind ourselves of that.

The secular trend towards online gambling & gamification will overwhelm any macroeconomic driven issues over any reasonable investment horizon.

Investment Focus: As the economy stabilizes, are venture capitalists focusing more on resilient business models, or are they still pursuing high-growth opportunities that may be vulnerable to volatility?

Alan Resnikoff, Coral Tree Partners: Whether evaluating gaming investments specifically or other companies in our broader ecosystem, we focus on secular trends relating to consumer engagement and discretionary income

Impact of Macroeconomic Trends on Gaming Investments

allocation and less so on macroeconomic elements. From our standpoint, this is more within our control and is more in-line with our expertise.

Interest rates, even with projected declines, are still going to be meaningfully higher than where they were at during the 2020-2021 era, which should curtail the aggressive investment behavior that was on display.

Where macroeconomic elements factor into our investment decision is from a valuation perspective. We rely on our experience in our targets sectors and aim to invest at valuation levels that are consistent with historical trends, or where there is a justifiable reason for a change (e.g., maturing industry, new growth dynamics, etc.).

That said, I think that the era of investing in large, money-losing operations is largely behind us. Interest rates, even with projected declines, are still going to be meaningfully higher than where they were at during the 2020-2021 era, which should curtail the aggressive investment behavior that iwas on display. In addition, many investments from that time frame have realized valuation restructuring or business model changes, which likely will further deter such behavior on behalf of investors.

Shift Toward Debt Financing: With interest rates potentially declining, do you see startups moving toward traditional debt financing? How do you think this shift will affect the broader investment landscape in gaming?

Peter Heneghan and David VanEgmond, Bettor Capital: For the majority of startups, traditional debt financing will not be a viable option until they reach a scale where they are at or near-breakeven profitability. The exception may be later stage startups who may be able to raise debt financing rather than equity to fund growth prior to an eventual exit.

Davis Catlin, Discerning Capital: Yes. We are interested in pursuing debt financing for a few reasons: 1) you can generate above average returns 2) you are senior in the capital stack and 3) the regulatory hurdles to being a lender to gambling companies are much lower. The cost of equity remains very high for company's in this space, so I believe the opportunity on the credit side is compelling.

Evan Meyer, Astralis Capital: I think private credit is a beneficiary of significant recent capital flows from allocators and it should be a source of financing to companies in our sector going forward.

Long-Term Perspectives on Regulation

Regulatory Risk Assessment: Given the evolving regulatory landscape for online gaming and sports betting, how are you assessing regulatory risks both in the U.S. and internationally?

Evan Meyer, Astralis Capital: We have a driving belief that innovation far outpaces the backward looking and slow to respond regulatory environments. We therefore look for companies that can color within the existing lines but also push the boundaries of what is acceptable given consumer interest. This is where innovation occurs. Look at founding players in Las Vegas, the innovators at Draftkings / Fanduel who would go on to become the online industry titans. We'd argue that the current iteration is no different when looking at DFS 2.0 and Social and sweepstakes gaming.

We therefore look for companies that can color within the existing lines but also push the boundaries of what is acceptable given consumer interest. This is where innovation occurs.

Given I live in Sao Paulo, I'm excited to see what the post-legalization regulatory enforcement looks like in Brazil. It's been one of the biggest question marks in an otherwise enticing investment environment. Everything works a little differently down here and it's going to be interesting if true transparency is the new pathway.

Peter Heneghan and David VanEgmond, Bettor Capital: Given the regulated nature of the online gaming industry we continue to actively monitor developments across all jurisdictions. While there will be occasional short-term tailwinds in certain jurisdictions, we continue to see increasing opportunity as more markets enact local regulation frameworks as we have seen recently seen in Brazil and Alberta.

Impatience with Legalization Timetables: As an investor in the gaming sector, is there growing impatience with the timetable for iGaming to be legalized in states where online sports betting has been operating for several years? How are you evaluating the timetable for markets like California and Texas to transition to regulated online sports betting and iGaming?

Peter Heneghan and David VanEgmond, Bettor Capital: While increased legalization will be a key part of the growth story for North American online gaming over the next decade, it is important to note that even with the slower pace of legalization over the past two years we are still seeing significant organic growth in "maturing" markets such as New Jersey and Pennsylvania. Legalization takes time and each state has a unique group of stakeholders and considerations, so it is difficult to predict specific timelines in states like California or Texas.

Balancing Profitability and Regulatory Risk: How are your limited partners viewing investments in pre-regulated or grey-market businesses versus heavily regulated companies? Are they willing to trade faster profitability for increased regulatory risk?

Long-Term Perspectives on Regulation

> *If you can find a grey market and get to scale quickly, then I believe you will be able to reach escape velocity where regulatory actions likely limit vs. eliminate your business.*

Davis Catlin, Discerning Capital: The last two decades have taught us that regulatory risk is by and large not that high for grey market operations with the notable exception being what happened to online poker. DraftKings & FanDuel were 'grey' initially and they are now the leaders in the regulated space. DFS+ took the rules towards their limits and those businesses are now extremely profitable and accepted. I believe we are seeing the same thing with sweepstakes. If you can find a grey market and get to scale quickly, then I believe you will be able to reach escape velocity where regulatory actions likely limit vs. eliminate your business.

Importance of Regulatory Clarity: When evaluating new ventures, how critical is regulatory clarity to your investment decision? Does market uncertainty impact your long-term strategy and exit multiples in this space?

Alan Resnikoff, Coral Tree Partners: Regulatory certainty is important in our evaluation of investment opportunities. Overhangs certainly can impact our exit from a multiple standpoint, but the inability to operate and related legal expenses could outright materially impair a company, which is a risk that we are not willing to underwrite.

We have reviewed numerous grey-market businesses, many of which would fit our typical profile in terms of revenue/EBITDA, but the ambiguity relating to exit and potential for restrictions that could materially impact the financial profile of the business have always dissuaded us from pursuing in earnest.

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Participant Biographies

BETTOR CAPITAL

David VanEgmond, Managing Partner

Dave is the Managing Partner of Bettor Capital and founded the firm in 2020. Most recently was Head of Strategy & Corp. Dev. at Barstool Sports where he facilitated the sale of a minority stake in the business to Penn National Gaming. Previously was EVP and Head of Strategy at FanDuel where he oversaw corporate development including leading the sale of the company to Flutter. Began his career as an investment banker with Barclays in Silicon Valley. Graduated with a B.B.A. in Finance with an Int'l Business certificate from the University of Notre Dame.

Peter Heneghan, Principal

Peter is a Principal at Bettor Capital and joined the firm in 2021. Previously worked as an investment banker at Portico Capital and M. Klein and Company. Graduated with a B.B.A. in Finance with a supplementary major in Chinese from the University of Notre Dame.

Coral Tree Partners

Alan Resnikoff, Co-Founder/Partner

Alan has spent his career investing in lower middle market companies in the media, entertainment, communications and related business services sectors. Prior to founding Coral Tree Partners, Alan was a partner with LA-based private equity firm Shamrock Capital, where he worked for 14 years, sourcing, leading, and driving transformational investments. Alan currently serves on the board of Loaded, a Santa Monica based gaming influencer platform, and AMI Entertainment, a leading digital jukebox network serving the US, UK, and Canadian markets, and previously served on the boards of numerous companies across the sports, media, and entertainment sectors including Ad Results Media, Pixellot, Appetize, Maple Media, Silvergate Media, Recorded Books, FanDuel, Giant Creative/Strategy, Learfield Communications, and Screenvision Media. Alan began his career at Bain & Company in Los Angeles as a management consultant.

SEVENTYSIX CAPITAL

Wayne Kimmel, Managing Partner

Wayne Kimmel is a sports tech venture capitalist, entrepreneur, podcast host, and author. He is the Managing Partner of SeventySix Capital, the venture capital company he founded in 1999 that invests in sports betting, gaming, and sports tech companies. The Sports Business Journal named Kimmel a Sports Tech Power Player, Insider named him a Top Sports Venture Capitalist and was awarded the Most Admired CEO award from the Philadelphia Business Journal. Kimmel also hosts the SeventySix Capital Sports Leadership Show. He is the Chairman of SeventySix Capital Sports Advisory agency, which consults with teams, leagues, family offices, and brands on the future of sports. Kimmel was named a Top Innovator by Philadelphia Magazine, Philadelphia Business Journal's Power 100 list and the 2022 Titan 100 list. He's served on the Boards of Einstein Healthcare Network, Jewish Federations of North America, Jewish Federation of Greater Philadelphia, and the Kimmel Center for the Performing Arts. Kimmel is a graduate of the University of Maryland at College Park and the Delaware Law School. He is passionate about innovating the sports industry and making the world a better place.

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Participant Biographies

Evan Meyer, Managing Partner

Evan Meyer co-founded Astralis Capital in 2021, alongside his Co-Managing Partner Tisno Onggara. Prior to Astralis, he was a Partner at Glade Brook Capital Partners and worked in investment banking at Lehman Brothers, Macquarie Capital and CLSA. Evan serves as a Board Member of Georgetown Angel Investor Network, Minds-In-Motion, Smart Moves Academy Tampa, and Blue BirdShoes. Evan earned a BA in American Government at Georgetown University as well as an MBA in Finance from the Kelley School at Indiana University. Evan lives with his wife Paula and three children in Sao Paulo, Brazil.

Davis Catlin, Managing Partner

Before co-founding Discerning Capital, Davis served as the Senior Managing Director of Digital Investments at Las Vegas Sands Corp ("LVS"). While at LVS, Davis was responsible for leading the organization's venture investments and corporate development functions as it related to real-money wagering online and next generation entertainment. Prior to LVS, Davis was a Partner, Senior Analyst, and Consumer Sector Head at Sands Capital, a DC-based investment manager with $50B+ in AUM, for over 14 years. Davis earned a BS in Business Administration from Washington & Lee University, an MBA from both Columbia University and London Business School, and the Chartered Financial Analyst ("CFA") designation. Davis lives in Las Vegas with his wife, Shea, and 3 kids.

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