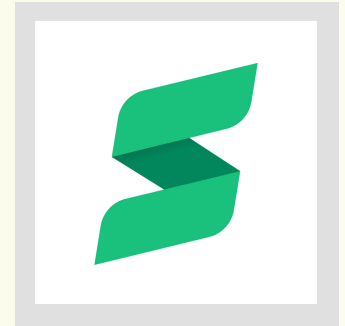


THE NEXT WITH XST CAPITAL

DIGITAL GAMBLING: CEO INTERVIEW SERIES

Volume 1: We talk to Sporttrade CEO Alex Kane



Alex, while I expect most of our industry readers are very familiar with the Sporttrade journey over the last few years; can you give us a quick overview of your business model and how you fit into the digital gambling ecosystem?

Sure Joel. Thanks for this opportunity, and congrats on the successful launch of XST.

Sporttrade is a licensed OSB operator in New Jersey, Colorado, and Iowa. We're available on the Apple and Google Play stores. Players can bet main lines, alt lines, game/player props, and futures on Sporttrade, but really what sets us apart is stellar prices, a next-gen player experience, and concierge-level player support.

Our customer is the premium sports bettor. Chris Grove has used the phrase "Black Card of Betting", and I think that's a good way to describe Sporttrade in our current state. Our average player bets about \$500 per bet, fifty times per month. In other words, our average player is probably considered a "VIP" at traditional sportsbooks.

Sporttrade is for the premium player because the experience is a bit cleaner, in-play bets are instantly accepted, and we allow you to interact with your portfolio of existing bets with more control. Additionally, we offer the sort of prices (think -104/-104) that other sportsbooks wouldn't even consider offering.

What really sets us apart is stellar prices, a next-gen player experience, and concierge-level player support.

Sporttrade raised ~\$45m of capital in the go-go days of the US OSB market successfully launched in NJ (September 2022), CO (August 2023) and now IA (April 2024); how have you managed to roll out the product against robust competition on what looks like a modest budget? Given the still tight funding environment, what are the key lessons you have learned to refine your operations and continue executing on your vision?

I think one mistake I made was scaling up the company a bit too quickly. I didn't fully appreciate the challenge of developing technology from scratch into a hyper-regulated environment, and the time challenges to get to scale in more than a handful of states. I sort of failed to trust my gut on the terminal value of market access, but thankfully we really only cracked one or two extra eggs there, whereas others really got out over their skis. When we launched in 2022, I had the team that I would probably want when we're in fifteen states, not one.

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I've always thought you are wise beyond your years and a great voice for the next generation of the sector; given the zigs and zags of your journey more recently, what advice would you give to Alex Kane a few years ago and perhaps other young founders today navigating their startups and having to make very challenging decisions about their businesses?

The best advice I could give to young founders in this space is to never give up... To start your own business, especially in this space, you must be a tad crazy.

The best advice I could give to young founders in this space is to never give up. You'll get a lot of feedback from folks who probably have never tried to start anything themselves, and it might not be a bad idea to sort of ignore that advice. To start your own business, especially in this space, you must be a tad crazy. Don't get dejected if you get bad feedback from those who don't think outside the box.

In terms of what I'd tell myself, outside the more obvious stuff, would be to be thoughtful about what parts of my vision not to give up, or yield. The great challenge of Sporttrade is balancing the needs of existing sportsbook players, versus creating and defining an entirely new category within betting. Without players and adoption, it's hard to bring in capital into the business. But without a unique vision for what the product can be, you can't define that new category and truly have long-term advantages versus the competition. And that's precisely where we want to be.

As you know, I've been a huge champion of the exchange betting market here in the US. I'm sticking to my thesis that this product will continue to gain steam as savvy bettors look for better pricing, execution, and value with brand increasingly commoditized longer-term. Can you give us your latest take on the future of the category particularly when it appears that your other exchange peers are pivoting their businesses into sweepstakes for instance, why not follow their lead?

Yeah it would not surprise the reader to know that I think about this a lot. I suppose I'd start here: if you are reading this and you have any historical knowledge of 'exchange betting,' I suggest you completely wipe your hard drive. That prior knowledge almost certainly won't apply to Sporttrade.

Sporttrade is a premium betting app that has two unique advantages; you can get big size down at incredible prices, and your existing bet will always have a fair liquid value. I think if we only had great prices and size, wrapped in an average or sub-par UX, we'd probably be looking at 2-3% long-term market share in the US. It's on that second point where there's just so much room to expand and create a foundationally different user experience. I think the ceiling for what we want to achieve is probably in the range of 30% of all betting volume in the US, recognizing that we're talking about a long-term plan.

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In terms of why stay in the regulated market, there are lots of answers to this, but I think the most important of which is that for the player we're addressing, the premium, VIP player, it's going to be easier to bring the player on as a regulated operator. There's of course a lot of nuance and without revealing too much of our strategy, I would say we're always evaluating where we can deploy our business model and understanding our legal means of doing so.

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So lets talk about the Sporttrade product; when you started the business it's fair to say you aimed to be the Robinhood of sports betting; delivering a clean easy to use interface which you have delivered. Now a few years in and particularly as we head to football season, what are the key product features and innovations you expect to deliver near-term; what can players expect to see from you soon and why will they be critical to growing the business?

I don't think we quite yet delivered on that vision to be "the Robinhood", if you will. Our first eighteen months have been a balance of launching in new states, responding to where we have current PMF (bigger, sharper players), and of course delivering some of those features that make us truly unique.

One feature we've delivered recently that's in the "create an entirely new product experience" category is The Tape. The Tape is a real-time feed of ALL trades made on Sporttrade. The long-term goal of this feature is to follow the trajectory of popular retail trading apps - to give players the ability to tail, fade, comment and react to big trades. We want players opening our app, even if it's just to get a feel for what's going on in the game. That's just not where any of our competitors want to be. In terms of what's next, I'm looking forward to delivering significantly more liquidity for football season. This is crucial for our target player who needs to see big size available at great prices on NFL markets to really trust that Sporttrade is the venue for them.

Outside of new states and other things, I'm really looking forward to delivering the critical features that will bring users along a journey to discovering that their bets indeed do always have a fair, liquid value. Features like simple, historical charting come to mind. "Wow I can see on The Tape that someone put \$10k on the 76ers to Win at 20% odds thirty minutes ago. I wonder what that bet is worth right now?" Telling this story using a super simple, interactive chart is critical to showing users how Sporttrade is unique. Once a player starts thinking like that, Sporttrade becomes the only real viable venue for them.

I've always felt the "legitimacy line" in terms of the number of states was somewhere around six or seven. With scale and a more mature product comes the ability to lean a bit more into our uniqueness, as it becomes significantly more feasible to then spend on brand and awareness at that point.

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Your operations in CO and NJ are now approaching 12/24 months since going live; can you share some color on your unit economics and how well these markets are performing for you around average bet size and revenue per player vs the mainstream OSB's? Given that you seem to have a sophisticated, serious player base how does your churn compare with that of the industry as well?

Absolutely. At nineteen months, we're starting to get a real picture of our unit economics and related statistics. One thing I will note is that we optimize for net revenue as a business, not number of players. In this industry specifically, user count is sort of a vanity metric, and so we largely ignore it.

Put another way, even as players of a cohort churn MoM, our data shows that the total monthly revenue of each cohort increases 62% from month one to month three.

We've gotten pretty good at acquiring high-intent players and we do almost no recurring bonuses to keep players on. As we approach football season, we expect to spend roughly 2-3x what we're spending now to acquire new players, and expect those players to be of the same quality we are acquiring now.

We're very aware of our target customer, and we're also realistic about what our product can, and can't produce in terms of happy, recurring players.

I'm going to put you on the spot here; we have had plenty of conversations around the DFS and sweepstakes markets which have become substantial categories; what is your take on the state of these segments? How do you juxtapose their success versus your strategy of staying in the more heavily regulated lanes that you compete in? Some of the key players in these categories are operating in regulated OSB markets so do you potentially see these groups as acquirers of your business longer-term as they take a multi-category strategy?

Looking at sweeps specifically, I think competitors pivoting to sweeps is good for Sporttrade. Number one it's good for the player both from an awareness and competition perspective. As players start to use innovative, exchange-based, better-priced options, that rising tide will lift the Sporttrade boat - drastically increasing our addressable market in new markets before we even arrive.

Sporttrade is one of, if not the only, venture-backed businesses operating solely in the regulated space. Of course, it shouldn't be this way. There should be healthy competition among numerous operators all competing to deliver the best product. To date, laws and regulations really have thwarted that potential, which hurts the customer.

The emergence of sweeps allows us to go to legislatures in states where the barriers are too high and say; 'we want to be a viable alternative to non-regulated options for players in your State.

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The emergence of sweeps allows us to go to legislatures in states where the barriers are too high and say; "we want to be a viable alternative to non-regulated options for players in your State. Your current licensing/tax regime doesn't currently allow us to do that, but here's a license fee and tax rate that does."

This strategy won't yield overnight results, but I'm confident that this is an effective pitch, and I wouldn't rule out an Illinois, a Pennsylvania, or a Massachusetts-sized market ever introducing an "innovators track" licensing category. Innovative companies in this space need a voice in legislators, and we want to step up and be that voice.

Its been a little over 6 years since the PASPA ruling that paved the way for sports betting and what a wild ride it has been for the gaming industry. As an industry participant for 25 years, I'm amazed by the changes we have seen in such a short timeframe. Clearly there are some real concerns around problem gaming, sports integrity, and aggressive customer acquisition strategies; what's your take around the risk of increased negative legislation that might negatively curtail the industry and future growth? How are you choosing to manage Sporttrade to lead the industry in compliance, responsible gambling, and trying to be a good steward for the sector?

Sporttrade is uniquely positioned as one of the very few regulated venues that does not limit winning players.

This area is probably the most important thing for us. The biggest challenge is that we're nowhere near the reason why there is such negativity, yet all operators are understood by legislators as the same sort of operator - that we're all doing the same thing. Sporttrade could not be more different, and as such, we will be working hard in select states to ensure that distinction is recognized, if not codified into law.

Sporttrade is uniquely positioned as one of the very few regulated venues that does not limit winning players. Roughly two-thirds of our players have placed an offshore bet in the last twelve months, but critically those players have begun betting less at unregulated venues because Sporttrade is a regulated option that fills that void for them. We serve a critical purpose for why legislators want to regulate sports betting.

One area that makes just too much sense when you think about it is this concept of a progressive tax rate based on your hold %. Perhaps it's as simple as: your tax rate = your hold % x 3. E.g. if you hold 4% for a given month, you pay a 12% tax on your revenue. If you hold 15%, you pay a 45% tax on your revenue.

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It allows states to collect more tax revenue when operators begin holding twelve to fifteen percent on players via SGP/exotic offerings, yet it also allows states to welcome innovative operators to come in and be a real viable alternative to non-regulated options already operating in their jurisdiction.

Here comes my selfish personal question, you have seen me place hundreds of trades on Sporttrade since you went live in my home state of New Jersey, based on my activity; would you profile me as retail, recreational plus, a sharp or just a terrible gambler? Am I actually up on Sporttrade life to date? Should I stop betting on the Jets?

Recreational plus. Given all the stuff you've got going on, it's impressive that you're a lifetime winner on Sporttrade. Seriously Joel - we have appreciated your support of our product, and the constructive feedback you give us to improve it. I hope we can continue to deliver for you!

Alex, thanks so much for your time today and being our first CEO interview at XST Capital as we profile thought leaders driving change within the digital gambling sector!

Alex Kane - Biography

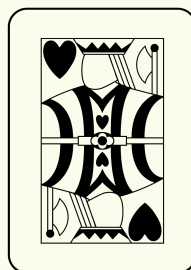
Alex is the CEO and Founder of Sporttrade. Sporttrade is a licensed OSB operator in Iowa, New Jersey, and Colorado. Alex has a singular vision to create a fair and efficient sports betting market for all players. Sporttrade is a vehicle for that vision, offering players an incredibly innovative betting experience with stellar prices, high limits, and genuine human support. Alex is getting increasingly involved in helping to shape OSB legislation and regulation in a new direction; one that puts the player first.

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