



Tuesday, December 10, 2019

Maintaining the Critical Mass in Racing: The Owners/The Players

Moderator:

Jim Mulvihill, Sr. Director of Betting Information, Churchill Downs Incorporated

Speakers:

Michael Behrens: Founder and CEO, MyRacehorse.com

Jake Henson: COO, The Betmakers

TK Kuegler: Founder and Managing Partner, Wasabi Ventures Stables Club

Jason Neave: CEO, Punt

Ms. Jane Murray: First of all, I'd like to thank CHRIMS and PGSI for sponsoring the beverage break. We really appreciate all the sponsors' help over the symposium.

Our next panel will deal with maintaining the critical mass in racing, and it will be moderated by Jim Mulvihill, who's the senior director of betting information for Churchill Downs Inc. Jim?

Mr. Jim Mulvihill: Thank you, Jane. Thanks, everybody, for being here.

When we started thinking about this panel, I was reading up on our guests here, and thinking about how our sport is far more accessible now than, really, at any time in history. You think about pools that used to only be open to on-track players are now offered around the world.

The volume of races to run in or bet on is absolutely staggering. In a pursuit like racehorse ownership that was traditionally for the wealthy now has several entry points for investments of all sizes.

All of our panelists today play important roles in keeping the various audiences of horse racing involved, be it as gamblers or owners, or as we'll talk about increasingly, both. You may have noticed this panel was initially conceived as two separate panels, with the owners and — or about the owners, and also about the gamblers.

It ended up being combined into two, and I'm really pleased that that happened, because, as I talked to these guys earlier today, I found a lot of commonalities in their mindsets. They're all very innovative thinkers, and I think there are a lot of parallels between what they're doing, even if they're coming at it from different parts of the sport.

Without further ado, I'd like to introduce them all to you. I'm going to run down a little bit about their background, and then we'll come back and talk to them each individually.

Going down the row here, right next to me is Michael Behrens, Founder and CEO of MyRacehorse.com. The first ever fully securities-compliant micro share racehorse ownership platform.

You might remember they got a lot of press this year after investing in and selling shares in Street Band, who was the Fairgrounds Oaks winner at the time that they bought into her and was a contender in the Kentucky Oaks and the Breeders' Cup distaff.

A former marketing and advertising executive with Castor, one of the fastest-growing direct to consumer brands, ever. Michael turned his attention to Thoroughbred ownership in 2017, and as CEO of My Racehorse, his responsibilities include securities compliance, owner relations, track and industry partnerships, and product development.

Next, we've got — Mike, thanks for being here, by the way.

Mr. Michael Behrens: Appreciate it. Glad to be here.

Mr. Jim Mulvihill: Next we've got TK Kuegler, Founder and Managing Partner of Wasabi Ventures Stables, a company dedicated to breeding and racing world class Thoroughbreds and bringing that ownership experience to new fans in an affordable, transparent manner.

Wasabi uses technology and modern marketing initiatives to grow its member base to over 400 active members in just two years. TK has spent the last 25 years founding and investing in technology startup companies. He's the cofounder of Wasabi Ventures, one of the most active venture capital firms in the US, and TK is

also a lifelong fan of Thoroughbred racing, and currently serves on the executive committee of the Maryland Horse Breeder's Association.

TK, thank you for being here.

Mr. TK Kuegler: Thanks.

Mr. Jim Mulvihill: We've also got Jake Henson, COO of Betmakers Technology Group, a wagering technology and data partner for some of the world's most recognized and respected book makers and rights holders.

They offer tote services, fixed odds, racing data, trading software and more. Jake has more than 10 years experience in the sports and wagering industries, and most recently, he oversaw the integration of Betmaker acquisitions Dynamic Odds and Global Betting services. Jake Henson, thanks for being here.

Mr. Jake Henson: Yeah, no problem.

Mr. Jim Mulvihill: Finally, we've got Jason Neave, who maybe you've seen at the symposium before.

He was up here with me a couple years ago. He's the founder and CEO of the social sports betting startup Punt Club, a web and mobile platform that lets people run their own hunters' clubs online, without any of the admin effort.

Jason spent five years on the board of Australia's Association for Data-Driven Marketing and Advertising. He owns digital agency The Distillery, and he's a cofounding director of the startup incubator the Moonshine Lab.

Jason, thanks for being back at the symposium.

Mr. Jason Neave: Okay.

Mr. Jim Mulvihill: Starting with Michael, I think we'll just go down the row, and I'd like to give everybody just five minutes to give us an overview of why you're here today, what you're doing in your particular area of racing that is especially innovative and of interest to these people.

Michael?

Mr. Michael Behrens: Perfect.

I'll start with a little bit of context. Like you mentioned, my background is not professionally in racing. I grew up 15 miles from Santa Anita, so I'm a fan of the

aces. It's digital iTechnology, marketing. He said I was a CMO of Casper. That was exciting, disruptive startup in the mattress industry. A little bit of a theme today.

As a CMO I had just under \$100 million budget. We were very digitally-centric. We wanted the younger demographic. I had an entrepreneurial itch. What I couldn't quite understand was the inaccessibility to ownership.

I mean for a sport that's predicated on the convergence between the gambling, the experiential, and the horse, getting people to have that participation, and get a taste of ownership is something, I think, could bring tremendous scale. Every industry needs trial.

At Casper, we were about the 100 nights in your home. We put the bed there, we pick it up, it was all free. I mean every consumer product, Netflix, 30 days free.

This industry didn't really have a trial. I went out there, I actually started my endeavor by coming to this conference in 2015 to start meeting people, because I didn't know where to go. I googled how to learn about horse racing. It said come here.

We basically had found out very quickly that it actually was not just a marketing problem, but it was a securities problems.

The Securities Exchange Commission basically deems it to be an investment. If you want to build a big brand, you've got to advertise. If you advertise, you lose your exemption to be able to sell securities to unaccredited investors.

Ninety-five percent of the people that go to the track are an unaccredited investor, according to the FCC. Which means they make less than 250,000 or a million bucks in the bank. It's a very difficult situation, when the fact that you want your quarter customer, 19 out of every 20 customers, you're unable to basically sell one of your best possible products.

We decided to tackle the issue. Many before me have tried it, as well. We've worked with a great law firm.

We're able to actually develop the qualified offering. We've got a \$50 million offering approved, and what that allowed us to do was to build a brand, very digitally native, to offer great quality. I think the average horse for the last few has been a half a million dollars in value, but we bought it, and then we sell it for less than \$100.00.

Basically, people can come in, whatever level they're comfortable with. Some people will come in for one share on one horse, or \$60.00, and others will come in for something more significant. We're signing up thousands of people that are coming in, and it really winds up being what we believe, from a marketing perspective, to be what we needed.

We needed simple trial. We needed people to experience that side of the product. We needed people to do it in a way that basically was digitally-centric. Now they're sharing with their friends. It's achieving some real scale.

We've had days in which over 100 people, for the first time, have become an owner of a racehorse. That scale is starting to really show up in our ability to acquire new customers.

I think, from a critical mass perspective, we need a trial. I think, potentially, this is an actual product that is really proving out to bring in trial. It's bringing lots of people to the track. We'll talk a little bit more about from there, but that's the general gist of MyRacehorse.

Mr. Jim Mulvihill: Excellent. To maybe give us a more real-life example, can you just describe the year that you had with Street Band, how you came to select her after the Fairgrounds Oaks, why her, what appealed to you about her?

Then how it worked, and how many partners you ended up with.

Mr. Michael Behrens: Yeah, so I'm glad you brought that up.

One of the things about the model was we wanted fans to be able to be part of organizations and connections that they've grown up watching on TV and being a part of, and they've celebritized in their minds.

The way our model works, we never take 100 percent of a horse. We partner with people that you've seen as a fan, that you've trusted, that you've seen win the big races, and campaign the great horses.

In that situation, we had partnered with Taylor Made. They love the horse. They love the horse. We went through the entire process about why they like the horse, what we thought the value would be. It goes through a pretty exhaustive diligence process. Plus, we have to submit it to the FCC to prove that the diligence went through with all the checks and evaluations.

Came to a place in which we really liked the work. We thought it was a great opportunity. We put it out on the website, and basically, I think it was in three-and-a-half hours, it was sold out. She had won the race, and you basically had

the opportunity — basically, you knew you were going to the Oaks. For a couple hundred bucks, that's what people are looking for.

We had a similar horse, Lazy Daisy, at the Breeder's Cup. We had the same situation in that one. I think we had over 562 individual owners that bought a little over 1,250 shares of the horse. We sold over 400 hats. You saw them all over Santa Anita running around in Lazy Daisy hats. It was phenomenal. It was a really, really great experience.

They consume half — I mean a few people did travel out to go watch the Oaks, great experience. A lot of the people just enjoyed it in social, enjoyed it on their app environment.

The satisfaction on those has been phenomenal. I mean to compete at the highest level in the game for a few hundred bucks is definitely seems to be a void that existed for a lot of people.

Mr. Jim Mulvihill: Very good.

Well, we've got a lot more to talk about, but I want to give TK a chance to weigh in here and tell us about Wasabi Ventures Stables and what you're doing.

Mr. TK Kuegler: Thanks. Yeah, so I'll start, first of all, everybody always tells the story that it's crazy to get into horseracing, so by definition I must be nuts.

My great grandfather was a trainer, and he lived to be 98 years old, so I got to hear his stories and romanticize the game.

No one between him and me in any generation had anything to do with racing. I promised myself when I would go out, make enough money and get enough free time, that I would actually start a racing stable.

In between that period and two years ago, which is when I started, I was a startup guy. I built a bunch of software companies in the 90s.

I actually built my very first company at 15 and sold it at 18. I've been a builder of companies my whole life. Then I became a venture capitalist and built the firm that became very active. We had a lot of great success. I learned the startup chops, if you will, over the last 25 years.

I took some of that and said, "Well, what would I do?" I'm going to tell one side story there. You might say, "Why did it take you so long?"

Well, the deal I have with my wife was, I was not allowed to start a racing stable until our youngest graduated from high school. The joke is literally, as she walks across the stage, I'm buying our first horse. It wasn't really — candidly, it wasn't far from that. I actually had to take a call with somebody at an auction the next day. It sounds better if it was happening while she was going across the stage.

Anyway, about two years ago, I started Wasabi Ventures Stables, and I'm a Maryland guy. I grew up in Maryland, but I haven't lived there in 25 years.

I live in beautiful tax-free New Hampshire. No sales and no income tax, if you're looking for a place that has no sales and income tax.

Anyway, if I was going to start something, I was going to go back to Maryland.

We started off as a simple — two years ago, with three tenants when I started. One, I was going to build something that was completely honest, open, and transparent.

Two, I was going to do something where anyone could be a part of it, very similar to what Michael's talking about, and then the last thing was, I was going to build something that actually grew new fans.

I wanted net, positive, new people coming to the game. Specifically, on the owner side. For a few years I wrote an article called "The Bookends: Bring More Owners, Bring More Betters, Everything in the Middle Works."

That's what we did. I can remember actually someone, a pretty well-known trainer, in Maryland, when I told them that I was going to bring 3,000 new owners to the game in 5 years said, "Yeah, that's impossible." Literally, his words, exactly, to me were, "That is impossible."

Two years later, we start off as a simple claiming operation. Claiming nickels and dimes in the mid-Atlantic. Two years later I have 27 horses in training. We're easily, probably, the largest broodmare brand.

We expanded to the breeding side, too, in the mid-Atlantic, and we just brought a stallion to the state of Maryland, as well. We race all over the mid-Atlantic to Florida. We're going to have a string at Oaklawn. We're going to have a string at Canterbury. We'll be at Saratoga. In two years, we went from that to this.

Interesting stats for you, on that net new positive. Seventy-eight percent of our people have never owned a racehorse. We have about 600-plus people now in the group. That's a lot of new people. The really interesting stat, though, is 26 percent of our people have never been to a racetrack. Never been to a racetrack at all, and

their first experience is to jump in as an owner. We do that, in some ways, our model is unique. When I explain it, you're going to say, "How do you make money?" I'll get to that part at the end.

On our racing horses, if we claim a horse or buy a horse at auction, absolutely no markup of any kind. There are no ongoing bills. You might say, "Oh, they're all deal horses." We do no deal horses. We pay all of our trainer's day rates, just like they normally get paid. I absorb all the ongoing bills. It's just about bringing new fans to the game.

Then you'd ask, "Well, how the hell do you make money?" The answer is, "I can't possibly make money, is the short answer."

Didn't get into this to make money off the people. We'll make money just the way any way other should make money, which is if the horse is run well.

We never sell 100 percent of a horse. We actually never sell more than 80 percent of the horse. The last 20 percent is us. We are in the boat with them, rowing. If we pick shitty horses, we lose lots of money. That's just the way the game should be.

Anyway, it's not a model, I understand, out there that can work for everyone, but it's got to work for some people, because we have to build new fans. We have to start with owners and handicappers. Because everything else will happen on its own.

Mr. Jim Mulvihill: There's a little bit more about this I want to understand, because you're bringing in new owners, which is great, we all want that.

If it weren't for you shouldering so much of the burden, you'd be losing money. Are your owners losing money? Just tell us more about that. How this is working.

Mr. TK Kuegler: Yeah, so first of all, we got really dumb and lucky. Sixty-three percent of our horses have actually been profitable. That's a pretty good number, for sure.

Part of that is, is that I looked at the entire business, and figured out ways to cut expenses. For example, most of our trainers, we took over all of their supply ordering. They don't order any of their supplies anymore. We buy all their supplies in bulk. Feed, hay, straw, you name it, we buy it en masse and get better terms. Then save money on that. I looked at the cost side of ways to save money as well.

Mr. Jim Mulvihill: Are those trainers then private trainers, or you just do that for the horses that they have of yours?

Mr. Michael Behrens: Yeah, just for our horses, but we figure out a model so it works for all of their horses.

The other thing is we pick trainers that were young in their careers, generally speaking. People that the rest of the industry was forgetting, and we saw sparks in them, so we could figure out ways to work with them. That was also a piece of the puzzle.

One other piece to really think about, because a lot of racing people will hear our story and say, "That's really great." To your point, "That's really great, TK, you're bringing these people in, but they're not really owners, because they don't feel all the pain."

A big piece of what you have to do is education. Just like Michael, we use a lot of technology. You can't have that many people. I guarantee you right now, we built a platform where our people talk to each other. We call them club members. It's not a club, but from an association standpoint, we think of it like a club.

They talk all day, literally all day to themselves. We built a platform that lets them chat with each other all day. They have their own communication, and then we layer in education.

We've actually had 26 people now graduate, as we like to call it. Instead of just buying a half of a percent of a horse, or one percent of a horse, they decide to go out, now that they feel educated, and buy a whole horse for themselves. They become owners. It's about growing owners. I'm not entangling people into my system. I don't need to own them.

As a matter of fact, Michael and I were talking, we probably have 20 percent overlap in our group and his group. I don't care. It's not a competition. I need to grow the — we need to grow the business. It's not about I want to own the people. I want them to just get a great experience.

Mr. Jim Mulvihill: That's fantastic, all right. We're going to come back and talk more to our ownership guys about the experience a little bit later, but Jake, I wanted you to tell us about Betmakers and what's happening there that is innovative right now.

Mr. Jake Henson: The easiest way to think of Betmakers as a business is the conduit between wagering operators and rights holders, content owners, racetracks. Traditionally, they're to help brokers that struggle to get into the same room and come to conclusions that are mutually beneficial for the industry. I

guess our remit is to create software products and pieces of technology that can make both their lives easier.

A few recent examples, we're starting to work with principle racing authorities in Australia and globally to distribute their content into other jurisdictions, via our connections with wagering operators, and racing that we also developed an integrity solution for racing Victoria, which is essentially centralizing one of the processes they have in managing their product and bringing it into the 21st century and utilizing that technology stack.

The beauty of the network, from a rights holder, and a content owner perspective is you get access to all the wagering operators, and you get a standardized fee, and a standardized rate where everyone's on the same playing field.

It's being able to gain confidence from both sides of the wheel, and in turn, the wagering operators are now providing a lot more data back to the content holders, the rights holders than they have before. They get insights into the handle, and what type races are working, time zones that are more beneficial for turnover and handle compared to other ones.

Yeah, we're essentially Switzerland, and we want the UN table to all get along. The more products and software solutions we can bring into the mix to connect those two key stakeholders, obviously that's our endgame.

Whether that be a white label sports book platform, an automated software tool that managed fixed odds, race day controls, on/off scratchings, silks, form, speed maps, runner comments, intuitive comments. That's our wheelhouse.

Mr. Jim Mulvihill: You give these partners a lot of power, a lot of data back to them that they maybe didn't have access to before. Do you also help them to interpret all of that information? What can you offer them, in terms of insights?

Mr. Jake Henson: Globally, as most people in the room would know, racing as a data set differs country to country.

We've got metric systems.

We've got different forms of handicapping, different jurisdictions required, different in to bet hunters in different jurisdictions, and motivate to that in different ways.

Globally, the third party and the rights holder deliver data in different ways. Our service on the data side is more of an amalgamation, and centralization of those fees. We standardize all that information on a per jurisdiction basis.

If you're a William Hill in the UK, all these feeds globally from racing are coming through in a UK format, UK odds. It's seamless, one integration point. It's breaking down barriers to distribute content internationally, because obviously it's low-cost.

They don't need a tech team to manage these third-party feeds. Then, obviously, we're incentivized to overly that with the pricing tools and stimulate wagering, because we're working with the rights holders to grow that piece of the pot.

Mr. Jim Mulvihill: What's the history of this company?

Mr. Jake Henson: There's a few different parts. Head Co is an ASX listed entity in Australia. You touched on it before, we acquired two businesses last year. Global Betting Services and Dynamic Odds.

The quick way to overview them would be Dynamic Odds worked really closely with the racing bodies in Australia and created on-track systems to bring their race day controls into the 21st century.

We have a computer unit that sits on each racetrack in Australia that drives all of the on-screen monitoring, in terms of official price and race day controls. We also distribute that back out to the wagering operators.

Global Betting Services was aligned with the wagering operators, in terms of that data amalgamation and pricing service.

Pairing the two together with our — at the time, we had a white label sports book platform, and a wholesale tote.

Pairing all together, hopefully we have an end-to-end race book solution where someone can plug and play a full suite of 4,000 races a week from racing all around the globe.

Product bet type as far as you can see, and they can pick and choose their shopping list, as it were, across the remit. Then we share those revenues back with the rights holders and the content holders.

Mr. Jim Mulvihill: Wow, excellent. We're going to come back, talk more about that, but I want to hear from Jason and Punt Club, and not only what it is, but where it's come from since you were last hear at the symposium.

Mr. Jason Neave: Yeah, I want to throw that up on the screen, if I can.

Mr. Jim Mulvihill: Yes, please.

Mr. Jason Neave: It's easier to show, sometimes, than tell. I was here a couple of years ago, I don't know how many people in the room were here at that point, and we were just getting started back then. In the couple of years since, things have grown, and we're hopefully looking to come to the US at some point, shortly. Punt Club doesn't mean much — or the word Punt doesn't mean much to Americans, typically. Punt Club is a syndicate management platform. It frames run syndicates together.

That's not working so well. I'm going to just carry on. Technology, yeah? Every football club I ever played for would use a syndicate or a punter's club to save money for the end-of-season trip.

It might seem counterintuitive to think you can save money through gambling, but we would all tip in \$20.00 or \$50.00 a week, and you would take turns to bet that money as a group. You would be a hero or a zero depending on how that bet went.

People would get pretty nasty when things go poorly, and pretty enthusiastic when things go well.

Typically, because of the margins, no one ever loses all the money unless they're really, really bad. I've never seen any group lose all their money.

At the end of a season or a year of playing sport as a group, you would have a pile of untraceable funds sitting there to do with as you wish, and they would typically be spent going away on a trip or buying into a horse or some other ill-gotten kind of gains and poor purchasing decisions.

We fundamentally did life experiences with it. A group of us from one football team, 20 people, we put in 20 bucks a week for two-and-a-half years, and this was when we were in our early 20s.

No one was that flush, but at the end of a two-and-a-half year period, we had 50 grand sitting in the account, and 20 of us went to the West Indies to watch the World Cup, cricket. We had a life experience together.

Back then, things were done with spread sheets and bank accounts and chasing people for money, which was never that effective. When I got home from that trip, and I subsequently got into — I've been in digital marketing for a long time and started an agency. I just completely destroyed the profitability and productivity of my business by using all my developers and designers to build thing that I was a customer for.

Then we let it loose on the world, and things are growing, and people are using it.

Again, you talk about net new kind of impact. We find one person only invites 5 or 10 of his or her friends, and invariably some of those people are new to racing and new to wagering in general.

More broadly, what we're talking about today, I was looking at the similarities between the US market and Australia. Culturally, I think we're quite similar people. We like doing the same sort of things.

The main difference is that we've had fixed odds on the racing side, and licensed book makers and sports betting now for 20 years.

In that time, racing certainly thought they were going to be in for a very hard time. We thought that the hoards were on the doorstep. That was going to take away all the handle.

That hasn't happened. It hasn't happened for a number of reasons. Partially because fixed odds and a bunch of other promotional kind of content that the book makers put together typically a lot of people contributing to turnover, and handle, and the fact that there's inventory.

We're racing a — the race jumps every minute or two, it's a dimensionally limitless inventory, compared to sport. I think there's lots of opportunity for the racing sport to live happily side-by-side.

The industry here shouldn't get too petrified of it, I think there's lots of work to do on the innovation side of things to keep the product fresh and keep it attractive.

Pari mutuel on its own may struggle to maintain market share over time. You can get sports race books into the sportsbooks and look at the exotics. A bunch of opportunity there too.

Mr. Jim Mulvihill: You mentioned potentially expanding into the US. I don't know how much you can tell us about that, but can you just talk about your growth and future plans?

Mr. Jason Neave: Yeah, so transparently, what we've — I've spent some time here in the new year. I've been making a couple of trips a year for the last little while, and just in our startup kind of landscape in Australia. We come over and partake of the Silicone Valley experience. The business looks to be translatable and transferrable, because it's just a social experience with a group of friends.

We'll probably change the name. I don't want to tell you what the new one is. Then, in such case of either partnering or acquiring a license here.

In Australia, we partner. We don't have our own license; we partner with Ladbrokes and we partner with Tech Corp.

Our engine is basically a front-end, customer acquisition engine that gets customers, and then we've just got deep API integration with the operators, where we'd create accounts, credit the wallets as the payments come in. We then notify as soon as you put a bet on for your group, everyone in the group gets a push notification on the app. They can start replying with GIFs and, "Are you insane," or "What are you thinking," and lots of other complimentary things.

It creates a lot of banter. We see people just piling into conversations. We've got customers who say they have to keep a separate phone, which is their Punt Club phone, because they're constantly on it.

They don't want to see the family to see the sheer amount of conversation and wagering that's been going on. It's all small amounts of money, bet transparently with your friends. No one's sitting there in the dark with a bottle of Jack, putting the mortgage on the next race.

Mr. Jim Mulvihill: Very cool. I'm always curious about the nitty gritty of the business side of these things.

TK already shared a little bit with us of his model and his struggles, but I would just to go down the row and learn a little bit more about your expectations for your business growth.

How do you make money off of what you do?

Are you a full-time employee of your venture?

Are you getting commissions?

Tell us how the business of this works, starting with Michael.

Mr. Michael Behrens: Sure.

We're definitely in it to build a business of significance. We are approaching it very much with a startup mentality.

We did a small raise, a few million dollars to be able to fund the business, that allowed me to be full-time, hire some staff members, build the tech.

Definitely, the goal here is not to make money off the transaction. Our goal is to get as many people as possible. If you look at a lot of the big business that've been built, they build marketplaces, they build communities, they build environments in which they captivate a lot of people. That's what we're looking for, we're looking for scale.

We try to basically have our fees be as low as possible, to just keep the business afloat. That, obviously, lower fees are going to bring more people into the platform, more people in the platform gets us more page views, more people sharing with their friends.

The viral coefficient takes over, which is what we so aspire to do, is to create a very viral, exciting product that you share. That's exactly what you see in social.

We have Facebook groups with tons of posts. Each ad we put out there has hundreds of comments. People come in there and have great conversations about their horses, that they disagree with training, and they tell you that they would've done it different than Bedford and all that stuff. They tell you exactly how it'd be.

It's fun to see a community come together.

The business model let's build a very vibrant, large community of people who love racing. I'm sure there are some monetization strategies that all of you will help us think about, if I have hundreds of thousands of people that are in our environment, and they're sharing, and they're buying and they're betting, and they're coming to the tracks.

That's what's happening.

We're creating a lot of energy.

A lot of people show up to the tracks.

We're renting out rooms. We're buying lunches.

We're betting all day.

We're putting pools together.

A lot of value is created when you bring a community together around a passion.

I think that has to take more of a long-term vision of business model valuation, but we're comfortable with that. It's been my background.

At Casper we went from zero to a \$1 billion valuation in four years. It was much more we were looking to take on significant market share, and we were rewarded down the road.

Mr. Jim Mulvihill: TK, what's the end game for your venture?

Mr. TK Kuegler: I'm hoping I'm alive to see the end. It's interesting, see, I came in with some advantages.

Michael and I actually talked about this early on. I had 26 full-time software engineers that worked for me. It's pretty easy for me to put an app together, because well, we do that all day.

I borrow all of my finance and accounting and legal staff. Well, I just slid them over from the venture capital world and borrowed them. Not everybody can go do that.

Mr. TK Kuegler: It was easy to do that and borrow that out.

To your question, what's the end game, I mean my vision here is I got into this because I wanted to own horses. I mean I think part of the story is that I wanted a great racing stable. That's why we moved to the breeding side. I'm building a breeding side, because I want to breed to race.

We're doing interesting stuff on the syndication side, on the breeding side. Let's people buy into a brood mare for 50 bucks. I actually have a brood mare up right now that's a dollar, if you wanted to be a part of her. I mean it provides a very interesting perspective.

We've got an app you can go buy just like that. It's an interesting sort of approach, but I think the key thing for me, as I did not get into this to make money off of it.

I mean literally, I'm probably the only business guy anywhere who's saying I'm happy to get it as big as I need to — as it can possibly get, and I don't want to make money at it.

Mr. Michael Behrens: I'm glad you're my competitor.

Mr. TK Kuegler: Yeah, exactly. I mean interesting enough, because we got lucky in our racing, and we picked some decent horses who were profitable, and we did some interesting thing on the cost side, we've run a lot of profitable horses.

That made us profitable, when you own 20 percent of the horse. That can do it. From an entity standpoint, I'm trying to break even.

When I say I don't want to make money? It's not that I don't want to run it like a business. You run it like a business, because you make smart business decisions, which allows you to do more things, and provide more benefits to the people that you're trying to attract.

That's what it comes down to.

Mr. Jim Mulvihill: Jake, yours is a little easier to understand, but very quickly, maybe you can just tell us what areas do you guys find the most success in?

Mr. Jake Henson: Yes, certainly. We're a for-profit organization. The pursuit of profit comes from growing the existing revenues of our two key customer segments, I guess.

Funnily enough, at the moment, the wagering operators are probably as loud as they ever have been in terms of taxation and pressure on their bottom line. At the same time, content holders and racetracks are also probably as loud as they have been about new customers to the sport, more people at the track to handle those sorts of things.

Our upside certainly comes from helping both those parties solve those issues. Whether that be on the wagering side for improving their margin on their current wagers, whether it be creating new products that potentially bring new customers onboard, and certainly on the content and racetrack owner side, it's about distributing that existing content, and getting more value from it globally, and looking beyond the domestic pie in all markets.

Then, what are ways that we can help modernize those betting propositions from a racetrack perspective?

I think we're in a unique position, being in the middle, but we do get a lot of insights from the wagering operators as to what works, what doesn't, what they need for their bottom line to make a commercial decision to spend \$10 million marketing a product.

I think, as a whole, over the last 10 years, racing has probably done a poor job in aligning themselves with their providers of their product.

At the end of the day, if they do a good job in aligning themselves, they don't have to spend money on marketing, because the GVCs, the Bet 365s, the William Hills, that'll be the best promoter of your product possible.

They'll acquire all your customers, and you just need to make sure that your product is sticky enough that they stay around.

I think that's the real opportunity, particularly in America, given the growing sports betting and infiltration of European PLCs is how can you position a product that's attractive to their bottom line so they spend money marketing it?

You can piggy-back off that.

Mr. Jim Mulvihill: Very good. We want to talk more about that. Jason, Punt Club is free to play. Where are you getting your cut?

Mr. Jason Neave: Yeah, that's a good question. Very much in the business of doing this to make money.

Also, if you do something you love, you never work a day in your life. It's good fun.

We are an affiliate of the wagering operators. If one of my customers loses 100 bucks, I get 40 bucks, is the simplest way of describing that. Over the time in the wash, our margins are obviously not [unintelligible 00:39:06]. We probably do around three or four percent on turnover comes to us.

We also package up the junkets that people go on, and we also earn a clip on those, and we would earn a clip on any racehorse indication that we do as well.

I typically get stuck, instead of taking commission, I just keep it here on the horse, which is not that clever in hindsight, but it's good fun. My accountant thinks I do anything stupid, but it's nice to race horses with your customers .

Yeah, we also have just started doing pay and play contests. Syndicates play against other syndicates for the right to claim the title of the greatest syndicate in the land. We often act as a pay to play situation, as well.

Mr. Jim Mulvihill: That's cool, got it. Now I want to talk about a couple topics that apply to all of you. One of those is transparency. You're asking people to invest with you, and partner with you. How are you convincing everybody that everything is being done with integrity, that their money is being treated as it should?

Earlier, we were talking about the news about Phoenix Thoroughbreds, and how that sort of news can give potential partners some trepidation. What are some of the things that you've done to give all your partners confidence? Michael.

Mr. Michael Behrens: I'll start with that. Especially considering that the FCC is basically our govern steward, we're pretty transparent.

Basically, the way it works, with the FCC, we have a qualified offering. All of our financials have to be audited. We have a third-party company that has to come in every six months and check every financial. We have a registered agent that has to make sure that every cap table is correct.

I can't sell 601 shares if I have 600 shares, so everyone knows they own the shares they own.

That's a broker dealer licensed broker dealer that actually takes financial liability to make sure that they're being a good steward of that. I think that is what has caused our ability, as an unknown brand — I mean being in marketing for a long time, you know it takes a long time to build a brand that's trusted.

You have to have a good product. You have to consistently deliver. You have to surprise and delight your customers.

I think the reason that we're growing so quickly is we inherently have this transparency and this protection of the consumer. In an industry in which, I think, a lot of people go into it a little bit leery, that maybe it is more opaque than they feel comfortable with.

I mean that's completely opposite in the world in which the FCC is where you get your governance.

Mr. Jim Mulvihill: That's an awesome setup. TK, people are putting a lot of trust in you when they buy a horse with you.

Mr. TK Kuegler: Yeah, a lot of it the same. Some of the similar things with Michael, but some of it is also just really being transparent.

Meaning we built a technology system, so that anybody in our group can actually see every single bill that comes in. The actual bill. It gets scanned, it's in an app. If you want to log in, and you actually want to see the actual bill from a Ferrier, go ahead and knock yourself out. Then you can really find out how bad their business is.

I think part of It — I think the other thing about transparency is it's a word that gets bantered around a lot lately in this business. I'm going to speak to all of you, since you're all here, racetrack operators or owners, you're in the management of racetracks.

I went to West Point. One of the things that's interesting about that is if you see something going wrong, you can't turn a blind eye to it. Even if it's your friend. That's part of transparency is that it's brutal transparency. It's brutal honesty. It's not just when it's convenient. It's all the time.

This is a true story from a week ago. I was sitting at a table with a group of five trainers, all very well-known.

I won't say where geographically, and they literally were openly talking about how they'd been ripping off an owner, collectively, for years.

I know some of you know that happens. You can't allow that to happen. I don't care how famous or how good that trainer is, that trainer, those trainers, those people need to have something happen to them.

That's the only way we can run an honest game. We all know the stories of new person comes in with a lot of money. What do they do? They go to a sale, and they get taken for a ride. We all know those stories.

In three years, that person busts out, and they leave, and we lost that person forever.

Not only did we lose that person forever, we lost all of their friends, because they will tell their friends, "Oh, don't go in the racing game. You know what happened to me in the racing game?" That's what happens.

It's our responsibility. It's not any one person's responsibility. It is our responsibility to call that out when we see it. Don't allow it to happen.

I'm off the soapbox.

Mr. Jim Mulvihill: No, that was great. We are running a little bit late. I'm just going to touch on two more quick things, and then we'll get everybody to the lunch, but we got a late start, so I think we're okay to take a little bit extra time.

I wanted to talk about how the racetrack experience plays into what you're selling. Because we're talking about some innovative ways to offer shares of ownership, or ways to bet, and yet you all are also pushing the access at the racetrack, and the experience of being there live.

I'd like each of you to talk about how that's integrated into what you're doing, your experiences dealing with racetracks that may or may not be cooperative

when you say that you're going to bring 200 people in to their paddock for your race.

Michael, do you want to start on that one?

Mr. Michael Behrens: Yeah, so when I set out on this journey, I was met with a lot of, I don't know, cautious optimism that this would, indeed, be able to be facilitated based on how the track's capacity and infrastructure is set up.

I mean we're not set up to handle one horse that has 1,100 investors in it. We're not set up there. It's a great product, they're enjoying it. It's been, we think, anywhere from 75 to 80 percent of their entire experience in digital environments and social [unintelligible 00:45:58].

That does, eventually, after all the trending, after all the works, it manifests itself in a race day. That's the exciting part.

If we don't have a good experience when they come to the race, then we don't fully capture what makes this so special. Honestly, it was tough. In the very beginning, the tracks were not as supportive as I would've hoped.

I thought they were going to be so impressed that we had the wherewithal and the time to go ahead and get the FCC approval and bring hundreds if not thousands of new people in, but there was definitely skepticism, there was concerns.

Over time, when we used our technology to run nightly lotteries. All thousand people will enter in. They'll be notified on who gets a paddock pass.

You'll go to will call. You'll pick up your badges. You'll meet a concierge there. If you're wearing that badge today, then it's an \$800,000.00 horse, there's only three of you, it's almost like you put down a third of \$800,000.00, because that day you're going to all the places.

We then basically work on winner's circle lotteries. The tracks, over time, have been like, "You know what, we'll take two pictures for your group if we have to. We'll bring the horse out to the track if we have to."

Because we're bringing out hundreds of people on race day. They're renting out rooms. They're drinking \$20.00 Coors Lights.

They're having a really good time. It's hard to stay away if you own a horse. Actually, I would say, in the last 90 days — and we've only been national since June of this year, the last 90 days, it's been a transformation.

They've embraced us, they're given perks, they're given incentives, and you're seeing that be a catalyst to just more local customers.

Because the way that this business grows, one owner spends 100 bucks on a horse, they bring three friends out to the track to go see their horse.

Two of them hopefully walk away, and they own a horse now, and talk about a viral product. The fact that it's truly catalyzing it.

Once the track stepped up and said, "We need to do what we need to do, to give them a great experience, you're seeing our growth rate really hit a new trajectory, which is coming through for them in increased handle, increased bev and food.

Mr. Jim Mulvihill: Let's give a shout out to the tracks that have been especially accommodating, or the executives that you feel like are embracing what you're doing and bringing these people in.

Mr. Michael Behrens: Yeah, I mean we started down in Southern California. We operated it in a pilot program under a permit from the state of California.

Nate over at Santa Anita was phenomenal. Joe Harper and the whole team over at Del Mar definitely warmed up to it. They were very basically straightforward.

We've got a busy summer meet, you got to make sure you can operate in a way that doesn't affect the welfare and the safety of our animals. That was number one to them. They saw our process, and then went out to NYRA and David's been amazing over there.

We sat down for breakfast. We told them the idea. There was so much creativity and innovation from that team, and they've done phenomenal things. When we were at Saratoga on a Saturday, you couldn't move. They opened up the winner circle and let 200 people go watch the race from there so they could all be together, in the middle of summer, in Saratoga on a Saturday. It was awesome.

Yeah, those tracks in particular have really stepped up, and they're making the experience exponentially better than it was just 45 days ago.

Mr. Jim Mulvihill: TK, how are you dealing with all of these different partners?

Mr. TK Kuegler: Yeah, it's tricky. I mean obviously use of technology, just like Michael mentioned. It's impossible, otherwise. I mean I think we have people in 47 states. You got people all over the place, time zones and everything.

Technology is key. I think, once again, speaking to the audience, I think there are two things that you can do. If you want more owners, I think there are two things.

One, I call it ease of use. If you don't have — and I don't know too many tracks that do, you should have a new owner concierge.

I'm not talking about making sure I get my table as an owner, or I get my lunch, I'm talking about when I first want to become an owner, one person to talk to, so that I don't have to deal with the bookkeeper and licensing, and this, and that, and 12 other people to actually be an owner. It'll blow most people's mind away, the number of different people they have to do, just to run a horse.

Let that person reach out to bring new owners in. Like you want a shout-out. We had no intention, I had negative 16 percent chance of running a string at Canterbury this coming summer.

Why am I going to have a string at Canterbury? Because they reached out already and said, "We love what you're doing, what's it going to take to get you to come here?"

That's what your concierge should be doing. I was sitting at a table this morning for breakfast, and I won't call out the person, but they were on a track somewhere, and they said — they were chit chatting amongst the professionals there, and they were like, "How's it going to look for you next year?" "I don't know, when the stall apps come in, I'll know." What the hell? That can't be your answer.

I mean if I ran other businesses like that, well, like, whatever might come in is going to be damn good, I don't know, maybe it's gonna suck. No, you should know.

You should've already spoken to every single owner that you wanted and made sure they were coming. Don't wait. You should be talking to them now, if you're six months away. Canterbury started talking to me three months ago. That's nine months before they were starting to run. They started talking to me.

The second piece is that brutal transparency. In everything that you do, be brutally honest and transparent. That's the other thing you have to do, if you're going to be any part of this industry.

Mr. Jim Mulvihill: Going to make a bit of an abrupt shift for our final topic here, but one of the initial concepts for this was getting more of the opinions of our

Australian cohorts of the expansion of sports betting here in the US and having Pari-mutuel wagering side by side with sports betting.

Jake, especially, I'd love to hear your thoughts on how those two coexist, and what we need to, in the states, be on the lookout for, as far as making sure that they coexist to the benefit of horseracing.

Mr. Jake Henson: Sure. There's actually a lot of similarities between both markets and where Australia was at 10, 12, 15 years ago. The total handle in Australia at that stage was somewhere around \$10 billion annually, which is somewhere around the mark here.

Fixed odds was a niche product that was done either through an SP bookie, or in certain events.

There was a legislation passed, summer, end of 2007, 2008 range, which was a race field legislation which was essentially the product owners and the racetrack owners saying, "Yeah, we're okay with fixed odds, but you need to pay a fee back to the industry." Since then we're seeing the fixed odds pie in that 12-year bracket, it's now about \$14 billion.

Mr. Jim Mulvihill: Without cannibalizing the pari-mutuel betting.

Mr. Jake Henson: The total market is still the same, more or less, round numbers. Office standing start, that's been the growth of fixed odds.

That fixed odds growth has come from, obviously, incumbents expanding their offering, and then also international operators like what the US is now starting to face in New Jersey, and some of these other states that are opening up, coming into the market and promoting this product, so that it started out as a really profitable way to acquire customers, and run promotions, like money back and bonuses on payouts and things like that. Fixed odds was the product as a beneficiary of that.

As a result, prize money in Australia, in that 10 to 12 year gap has doubled. The return to industry, return to player, and as an owner, as we speak about that, and the challenges facing the US, 10, 15 years ago in Australia, if you were a hobby or a multimillionaire, you could be an owner.

Now, the break-even point for an everyday racing fan is much more realistic to hit. There's obviously a tipping point in product fees.

There's obviously a tipping point in prize money.

In my opinion, Australia's probably gone a little bit too hard, in terms of the stress they've put on the wagering operators. I think that's something the US can learn from in terms of growing with the pie.

It's like any negotiation. The best result is when both parties are a little bit pissed off about the outcome. At the moment, in Australia, I think one side of the fence is a lot louder than the other. That's something that we need to learn from now, in an asteroid-like growth, now we need to think about sustainability.

There's new concerns hitting the market around animal welfare. How do we attract new players under the age of 40? That's not just a concern in the US. That's a global concern.

The principal racing authorities in Australia who are having the most success are the ones who are on the front foot for these issues. They're creating Gen Y, Gen X products.

As you say, to remain transparent about their animal welfare and socially responsible gambling in these concerns. They're getting on the front foot. I think that's a society-led issue, where people don't sit in the dark about these things anymore.

Whether it be sports betting, whether it be horse racing, whether it be trading securities these things are becoming more transparent one way or another. It's better to be on the front foot and put in place practices to address that.

I think we've got representatives here from Greyhound Racing Victoria, and Greyhound Racing New South Wales.

They're two demographics I guess they've addressed in Australia in the face of challenges around animal welfare. Those would be two of the fastest-growing vertices in Australia and capturing that millennial player.

Easy to understand product. Consistent colors of the dogs. Entertaining bet types. Fast content. Delivered in a next-to-jump format, where a player in a mobile app can scroll race to race, via the one stream. Not have to navigate his way around a desktop or look at eight different screens in a casino race book.

Mr. Jason Neave: It's always at night when people were generally drinking while they watch the greyhounds.

Mr. Jake Henson: It's a social event, and they position themselves, as I said earlier, about positioning themselves where the marketing dollar is.

It's no coincidence that there've been two of the higher-growing PRAs in terms of market share in Australia.

Mr. Jim Mulvihill: The last thing we'll talk about before we let everyone go to lunch, that you touched on Jake, is the importance of some of these aftercare issues, and caring for the horse.

I know that that is really important to everyone up here. With these models that you've created, you have more of an ability to control what happens with a horse.

You can set policies that your partners feel comfortable with, as far as what the life of the horse will be after the racetrack. How important is that to finding new owners in this climate? Why did you roll it into your business plan?

Maybe Michael, if you want to start.

Mr. Michael Behrens: As you can imagine, in a product that has the mass appeal that our product does, it is extremely high priority. What it comes down to is, I think, two things.

One is, there's a lot of misinformation out there. We have people who are relatively — many people are periphery. They don't spend every day on this. They come out on a few Saturdays and enjoy it, and they don't know what goes on, so they digest information from all across the web and local media, and that becomes their truth.

In many situations, it's not the truth.

We have this phone that literally they're checking incessantly on updates for their horses and all that stuff.

They're now willing to consume the content that we deliver.

We educate a lot more in terms of what's happening on the backside. All the connections that go into a horse. From the very, very beginning of the welfare, I think we have a good responsibility that we didn't even know we had in the beginning, which was to provide the correct information.

Then, fast forward to basically the aftercare.

We have decided that whatever it takes, from a business model perspective, we're going to make sure we have the dollars to make sure that we can retire the horses the right time.

We had a horse that won a few weeks ago, three lengths, it was a vet boy. Basically, it was a private sale offer. We were the minority owner, but we wrote a first refusal in there. We decided to buy the horse, and then retire the horse. We thought it was just the right thing to do.

It's turned out to be one of the most powerful thing we've done for the marketing perspective. The following on social media, the excitement of watching that horse go through the entire process of basically decompressing at the farm for a little bit. Then we found the adoptive parents. He's going to become a jumper. Watch him at the farm now. We're getting tons of content. It's been such an exciting journey, that now you can really see the fan that just wants to — loves the horse.

They want the whole thing. They want them in the very early days of that weanling running around, to I want to see my horse compete and thrive in their second career.

I think because we have them captivated, because we have this communication system of mobile technology, I think we can do some really interesting things there.

Mr. Jim Mulvihill: Now that I'm thinking about it, it does make sense that people who don't have tens of thousands of dollars invested in the horse, they're owners of micro shares, it's easier for them to do the right thing for the horse.

Mr. Michael Behrens: Absolutely. You think about there's nine million self-reported — I don't know, everybody debates this number with me, but I've read a few times, let's say there's nine million self-reported racing fans.

We're talking about a few hundred dollars that each person is putting in on their annual discretionary income. That's 200 bucks would be \$1.8 billion that's coming into the market.

That's a lot of money to be able to do the right thing throughout the process. They're not looking — sometimes they get returns.

We are a security, so when you get luck and that horse stands, your wallet goes way up.

That's awesome.

That's exciting.

That's not why they do it, right?

They do it for the full experience.

They do it for the love of the horse, the love of the sport, and in order for us to protect that, we have to care and focus our energies on the full 360.

Mr. Jim Mulvihill: TK, what happens to a Wasabi horse when it's injured and retired?

Mr. TK Kuegler: Yeah, so we do two things.

One, we created an internal horse Social Security system. Even if a horse gets claimed away from us, we take a piece of the whatever purses they had with us, and we actually donate it to whatever the retirement program is, in the name of that horse.

When that horse is finished, even if it's way later, there's already an account with them at that organization to know that there's some money. Even if the current owners want nothing to do with actually doing it right. That's one piece.

The other thing that we do, and I think Michael was spot-on, is that our people — yeah, everybody likes to make some money on it, and when you have something that goes well.

If you only put \$300.00 in to start with, it's throwaway money, right it's gone, I just want the experience. When there's a return, we allow those people to donate it to aftercare programs, if there is a return.

Since we started this about a year about, 83 percent of the people, when they get a return, actually donate all of the winnings to an aftercare program. They're not even taking the money out. That's another thing that you can do.

Once again, the money is already gone in their mind. What's the difference?

Mr. Jim Mulvihill: That's awesome. Jason, Australia has had some negative publicity for racing similar to what we've experienced here.

How do you manage to convince the public that being involved with Punt Club also means that you're supporting doing right by horses?

Mr. Jason Neave: Yeah, well it was a huge expose, and it was an ad on our national broadcast the night before the Milliman Cup and got an enormous amount of mileage through that process, and deservedly so, because the treatment of the animals in that footage was horrific.

Obviously, as an organization that is on the periphery, we're neither a trainer or a breeder or anything like that, but we certainly partake in the sport and care about how the horses are treated. As is everybody.

I mean I think there was footage of people rucking up at the Milliman Cup saying, "After watching the TV last night, I'm only here because I spent \$1,000.00 on the tickets and didn't feel like chucking them away."

The industry's got to sort that out. We better do what we can to make sure we can help in whatever way we can to sort it out.

Mr. Jim Mulvihill: There's a lot more we could cover here, but everybody's ready for lunch, I'm sure. If you have questions, come up and see these guys. Otherwise, we'll see you all at the luncheon.

Thank you.

