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The Machine is Built, let's Operate the Machine

"Our ultimate financial measure, and the one we most want to drive over the long-term, is free cash flow per share."
— Jeff Bezos

The second quarter of FY2024 saw the completion of phase two of BetTube's strategy. The Machine was built, and it was time to operate The Machine.

From January FY2024 onwards, our strategy moved from a growth/building phase to one focused on long term positive cash flow and profitability.

FY2024 was a hard year. We had BetStop, a slowing economy and competitors seemingly willing to drive themselves out of business in desperate measures to buy turnover and clients, at the expense of profitability, through big marketing spends and big bonuses. All of which put pressure on the business.

Thankfully big marketing spends, and big bonuses (to clients) greatly impact the service offered by operators going down that path. Bet Right was able to hold ground and then take ground.

In this letter, I will strive to explain what we did, how we performed and whether the ultimate financial measure, according to *Jeff*, is now within our sights.

FY2024 Form Guide

BetTube continued with the ethos of "client focus" and here are the results for FY2024:

- Turnover contracted from \$306m in FY2023 to \$295m in FY2024 – a 3.6% decrease.
- Sports turnover grew from \$86m in FY2023 to \$88m in FY2024 – a 2.3% increase.
- Racing turnover contracted from \$220m in FY2023 to \$207m in FY2024 – a 5.9% decrease.
- Gross Margin (before rewards) contracted from \$30.7m in FY2023 to \$27.5m in FY2024 – a 10.4% decrease.
- Net Margin (after rewards) contracted from \$21.3m in FY2023 to \$19.6m in FY2024 – a 7.9% decrease.
- Rewards reduced from 3.1% of Turnover in FY2023 to 2.7% of Turnover in FY2024 – a decrease of 11.4%
- Bet count contracted from 4.146m in FY2023 to 3.638m in FY2024 – a 12.2% decrease.
- Bet count in Racing contracted from 3.587m in FY2023 to 3.067m in FY2024 – a 13.9% decrease.
- Bet count in Sports grew from 559k in FY2023 to 570k in FY2024 – a 2.21% increase
- Average Saturday Bet count contracted from 17,177 in FY2023 to 15,167 in FY2024 – a 11.7% decrease.
- Average bet increased from \$77 in FY2023 to \$85 in FY2024 – a 10.1% increase.
- Average daily active clients increased from 925 in FY2023 to 950 in FY2024, an increase of 2.7%

Based on the above, if you're not thinking FY2024 was a very bad year, then you haven't read them properly. Here's some context for FY2024.

BetStop was introduced on 20 August 2023. BetStop allows clients to effectively exclude themselves from all online bookmakers. We support this initiative and apply the highest standards of compliance to prevent those registered on BetStop from betting on Bet Right.

The impact of BetStop was significant and the decreases in turnover and bet count can be attributed to BetStop, which impacts small operators more than the larger operators.

Also, as prefaced in last year's letter, we were expecting a contracting economy, and it did contract with December 2023 showing signs that people were turning their spending away from recreational betting.

So, were there any positives?

A Game of two Halves

Let's split the year into two halves and see what happened.

- Turnover decreased 19.5% from H1 to H2.
- Gross Margin (before rewards) grew 1.5% from H1 to H2.
- Net Margin (after rewards) grew 7.93% from H1 to H2.
- Net Margin (after rewards) percentage increased by 34.5% from H1 to H2.
- Net Margin after product fees and taxes increased by 12.07% from H1 to H2.

There were three reasons why turnover decreased. Two were outside our control and that was BetStop and the general contracting economy (as mentioned above).

The third reason was a switch from a strategy of generating turnover for growth to a strategy of maximizing margin and cashflow.

As stated in the FY2024 half-year report, H1 loss was \$3.7m, while H2 shows a profit of \$0.8m.

The profit was boosted by the recognition of additional income from R&D (see Note 6 to the Accounts).

As a result of the focus on maximizing margin, married with implementing significant cost savings, FY2024 generated a loss of \$2.9m against a loss for the previous year of \$5.86m.

Now let's run through the optics of the business.

The Bet Right Promise

You will recall we introduced the Bet Right Promise last year's shareholder letter:

"Bet Right is a low-cost operator focused on expenses so we can give the best possible prices with the best service and best platform. We do all our own development and own everything you see. We must be focused on cost efficiencies to maintain the best possible pricing, service, and platform."

How we price now

Bet Right's philosophy of allowing clients access to markets at the best possible price is exemplified by Right Price Execution (RPX).

RPX, the world exclusive price matching service was launched on the website on 19 September 2023 and then on the iOS and Android apps in the last week of October 2023.

When we introduced RPX, many outsiders believed that RPX would have a negative impact on our racing margin percentage. We were challenged by those with conventional thinking, but as non-conventional thinkers, we knew that this would not be the case.

Client obsession is BetTube's primary driver for all its decisions. If it doesn't benefit the client, we won't do it.

From the introduction of RPX on 19 September 2023, on all Australian fixed price racing, Bet Right paid its clients on aggregate either:

1. \$1.2m MORE than they would have received had they bet with Sportsbet (an additional 4.5%); or
2. \$1.1m MORE than they would have received had they bet with Ladbrokes (an additional 4.0%); or
3. \$1.2m MORE than they would have received had they bet with TAB (an additional 4.5%).

Apart from the additional returns Bet Right clients received via fixed price racing, RD+ and Best Tote Exotics also yielded Bet Right clients better paying dividends.

And -whilst providing greater value to our clients, Bet Right's racing margin percentage increased by 9.4% from H1 to H2.

Our sports' margins increased dramatically from H1 to H2 (427%). Some of the poor results in H1 were due to the Penrith Panthers being solidly backed by the public in the 2023 Grand Final. However, other factors in our control greatly influenced the solid performance of sport.

For the highly taxed markets of NRL and AFL, Bet Right reverted back to the market on 1.90 lines resulting in reduced turnover and increased margin. With the Price Watch service, clients were still afforded best in market prices on key sporting events on a weekly basis. Clients were still able to enjoy 1.93 lines on NBA and NFL.

H2 saw Bet Right offer market leading product and prices for prop markets in NRL such as anytime try scoring markets that were promoted via industry experts. Bets written on NRL try derivatives outweighed bets on "traditional" head-to-head betting by more than 30%. In addition, we implemented strategies based on market liquidity and depth together with improvements in profiling clients which are all centred around laying bets at the Right price.

The strategy of best price (providing value) across both sport and racing is finding an audience with the betting public. As Bet Right's liquidity increases, the margins will move closer to the actual market percentages we are making markets to, as recreational money is balanced more evenly against sharper clients. This increased liquidity will increase Bet Right's margin.

Key to this strategy is frugality. Monitoring costs as well as being cost efficient. Our technology and staff structures provide us with an advantage against the Big 3 (ie Sportsbet, Ladbrokes and Tabcorp), all of whom have large cost bases.

How we spend now

With phase two of the infrastructure project completed with the release of the native apps and the launch of RPX, it was time to “operate The Machine”. There were costs that the business had incurred in completing phase two that, while could have accelerated the next phases of development, were not essential to the operation of the business.

As the long-term strategy is to maximize free cash flow per share, it was time to focus on “operating The Machine”.

Given the declining demand due to BetStop and a contracting economy, the decision to reduce all non-essential operational costs was clearly the Right decision.

Our cost base decreased by \$3.1m from FY2023 to FY2024 (reduction of 17.5%).

When we compare the cost base from H1 to H2, the long-term impact of the cost rationalization is self-evident. The cost base from H1 to H2 decreased by 34.2%.

While overall advertising and marketing expenses increased 24.0% (total spend \$769k) from FY2023 to FY2024, H1 to H2 decreased 45.8%.

The reduction in spending did not adversely affect overall acquisitions. The biggest impact on costs between H1 and H2 was the decision not to renew our sponsorship deal with Newscorp. In the growth phase, part of the strategy was to be visible on price comparison sites while we built racing turnover and established credibility as being aggressive on price. Bet Right’s “XO” stood out on both Punters.com.au and racenet.com.au as having fantastic prices. With the completion of RPX, the price comparison sites had done their job. The ocean had already been trawled for Newscorp racing community. This was a significant cost saving.

As we reduced our marketing spend from H1 to H2, here’s what happened to the client metrics:

- Client acquisitions increased by 6.89% (H2 to H1) as we innovated alternative acquisition methods.
- Cost per Acquisition (CPA) for H2 was \$29 compared with the overall CPA for the year at \$43.
- Cost per First Time Depositor (CFD) for H2 was \$52 compared with overall CFD for the year at \$65.
- Average Annual Client Value for FY2024 was \$1,127.

Bet Right’s closest comparable competitor in Australia is BlueBet which is listed on the ASX. BlueBet had a four year start on Bet Right.

BlueBet’s announced that its CFD in FY2024 was \$308 with an Average Annual Customer Value of \$898.

Bet Right was able to acquire clients at 20% of the cost incurred by a comparable competitor and the value of that client to the business was over 25% more.

Employee-related (including contractors) costs decreased by 43.7% H1 to H2 on the back of a 30% reduction in headcount. This reduction resulted in \$1.4m decrease from FY2023 to FY2024 or 15.2%

As many business owners will attest to, when staff reductions occur because of redundancies, one is left with the best of the best. I said this last year:

“To build things you need people. To build great things you need great people. Thankfully BetTube has great people.”

The effort of the team in FY2024 was simply amazing. BetTube truly has great people as we will see later. The reduction of staff may have slowed the innovation; however, the roadmap of products has grown, innovation has not stopped, service levels to clients were maintained (and were lauded by our clients) and our markets and offerings grew.

Total administration costs decreased by 42.3% H1 to H2 which resulted in a 20% year-on-year reduction.

How we reward now

Bet Right doesn't rely on "free money" to retain its client base. Bet Right clients are rewarded with better prices, better products, better service and a better (different) platform.

LOOT continues to be our primary rewards driver. In FY2024, we were able to reduce promotional bonuses from 3.1% of turnover in FY2023 to 2.7%. These efficiencies meant that loyal Bet Right clients were rewarded at the same level as previously, and we made it harder for "bonus hunters" to use our infrastructure for non-recreational use.

Daily we are educating our clients on the benefits of price/cash over bonuses, and we are slowly winning the war. We have introduced new types of LOOT in FY2024 that also cater to clients who enjoy "stake back" types of rewards that our competitors offer their clients.

For explanation of LOOT and other rewards, my FY2023 Shareholder Letter explains all.

How we innovate now

In my last CEO Letter, I foreshadowed the release of the new native apps. Across all platforms we have over 8,000 logged in clients per month with between 20% and 35% of those clients engaging with the platform on any one day.

Our native apps (iOS and Android) now account for over 65% of signed in clients.

Learning from our clients is paramount. As I say in emails to clients, "it's the only way we'll learn". Complaints are far more important than praise. And thankfully, betting is emotional, affective behaviour, and with our receptive Client Advocacy team, when there is a complaint, we hear it and learn from it.

With Bet Right 2.0 made available on all channels (web, iOS and Android) with the inclusion of our feedback system from early FY2024, this has seen an improvement in our ability to capture client feedback and sentiment. The enhancement includes the ability to capture onboarding and specific area scores and sentiment.

Net Promoter Scores (NPS) were captured immediately following both FY2024 Q3 and Q4 with scores of 67 and 62 from 375 and 447 respondents respectively (a response rate of 50% of those who saw the survey on both occasions). It is difficult to simply state what a score means generically as this can vary quite considerably across industries, B2B vs B2C etc. What is known is that two separate scores of 67 and 62 indicate this is a baseline and are excellent scores regardless of different industry and business model considerations.

The scores indicate a loyal client base that is appreciating what Bet Right is providing to them. These scores are a trend that will continue to be measured moving forward.

The release of our apps was an integral step in allowing BetTube to leverage new technology and a foundation to build from. As stated last year, all our new client interfaces are built on an underlying Content Management System. The CMS is the foundation for personalization. Not cohort personalization that is shoveled to the masses by some of our competitors, not personalization that is used solely to market to clients to extract more margin from them, but personalization that is individually designed to give clients greater utility.

The innovations of FY2024 have been achieved in a timely, robust and successful manner. The following are the highlights.

RPX - The Best of the Big 3 or Better

If you are a shareholder or you are reading this letter and you have not sampled this, a world first innovation, stop reading, go to the www.betrigh.com.au and try this exclusive price matching service.

Inspired by Amazon Market Place and Best Execution Policy in share trading, RPX allows the most novice of bettor s to get the best price on all fixed price Australian racing.

Pro Trades – Want to Follow the Pros in? Real Bets, Real Value

This year, Sportsbet’s big innovation was “Sportsbet’s Feed”, where you get to follow the bets placed by Sportsbet clients, staff and celebrity tippers. There are no statistics of the Profiles on the Feed, you don’t know their value, only that they bet with Sportsbet (but if they had bet with Bet Right, they’d be getting better prices).

We would say Pro Trades is the opposite of Sportsbet’s Feed.

It’s not just anyone. It’s not celebrities. It’s not Bazza on the couch eating a pizza in his underpants.

Pro Trades allows our clients to follow “trades” (bets) from clients we call “Pro Traders” who have placed a minimum of either 500 single fixed win or fixed place cash bets in that race type (thoroughbred, greyhound and harness) AND they must have a place strike rate greater than or equal to 50% in that particular race type.

In short, they are all long team winners. That’s Right. Winners.

To maintain privacy, Bet Right displays each Pro Trade with a pseudonym of the Pro Trader, their selection for an upcoming race, and importantly, details about their strike rate.

72% of app users have interacted with Pro Trades on the apps and website and on Saturdays, we have hundreds of clients using Pro Trades with consistent repeat usage.

Deposit methods - Apple Pay and Google Pay

These two payment methods now account for over 45% of deposits and this percentage is constantly increasing, showing that they meet the desired experience of the current and target client base and a clear preference over previous options.

Back Office Improvements

A major infrastructure build which is continuing is the upgrading of back-office functionality of our core engine. As these improvements are not client facing, they don’t receive public attention, however that does not mean that they’re not as important. These enhancements assist in being more efficient with client-faced activities as well as B2B functionality.

Other Changes

There were many other UX improvements that give users greater control over their multi-bets, enhanced information regarding their bets, and the ability to share bets across various platforms and refer clients.

There were many projects that were in the works during FY2024 that were released before the 2024 racing spring carnival.

- Personalized racing recommendations.
 - BetTube has been able to take the first step in achieving its goal of providing users with a personalized experience with Bet Right. Personalized race runner and race venue recommendations based upon a user's past behaviour has allowed users to more easily find and interact with what is of interest to them.
- Enhanced racing form highlights to easily view important form factors.
- Mixed Multis.
 - The most requested digital experience product from users prior to its introduction .
 - Used by just under 10% of Active Clients in the short time since release and tracking as predicted for key success factors.
- Unique user referral code - an integral method of acquisition for Bet Right.
- Regulatory compliance for new pre-verification requirements.

How we comply now

FY2024 was a massive year for regulatory compliance enhancements to the infrastructure. These included:

a. BetStop

We have discussed the impact of BetStop. The way that the Federal Government has imposed BetStop specified specific breaches but provided no specific guidance or examples on what was considered reasonable efforts to comply. As such, Bet Right decided to send requests to the BetStop database before every deposit, every bet, every login and every signup.

The effectiveness of BetStop is dependent on the data that the client provides. In other words, the fact that clients can change emails, mobile numbers and addresses means that a client registered on BetStop can by choice, mask themselves and intentionally seek to circumvent the self-exclusion protection offered by BetStop.

BetStop regulations allow returning BetStop registered client to open new accounts but to implement this required significant changes to our infrastructure. Wagering systems were designed originally not to allow duplicate data points (preventing cases of one person having two accounts). The BetStop framework requires that when a BetStop registered person returns, having been identified by our database as being previously registered with BetStop but is no longer registered with BetStop at the end of their temporary period of self-exclusion, they are not allowed to re-use their old betting account but must open a new account, with their previous data. This presented significant challenges and Bet Right was one of the first operators to have a compliant system for returning BetStop clients.

b. Prohibition of credit card usage

All payment systems required modification to implement these changes, with the government not providing guidance on how to distinguish a payment from Apple Pay and Google Pay being sourced from a debit card or a credit card. The work was completed on time and Bet Right has fully complied.

c. Zero day verification

From 29 September 2024, all online gambling service providers must complete verification of a client before creating an online gambling account. Bet Right completed enhancements to its systems to comply and now, before opening a gambling account, all persons must be verified for AML/CTF purposes.

How we grow now

We still believe that there will be changes in the industry in Australia. Already, you would be aware of the Federal Government announcement of proposed bans on all marketing for gambling companies.

The banning of advertising in Australia (whatever form it takes) is an opportunity for BetTube.

Any proposed bans on advertising will greatly impact those who rely on advertising and marketing. Those who are spending millions of dollars and whose acquisition costs are high. For too long bookmakers have behaved like marketing companies relying on ad spend to feed the funnel. They really don't know any other way.

From the outset, BetTube's strategy was not to rely on advertising and marketing. Whilst Bet Right undertakes marketing, BetTube is not a marketing company. BetTube is a technology and infrastructure business built to capture a broad cross-section of the risk entertainment market.

Bet Right has operated with marketing spends well below industry averages as is evident by Bet Right's CPA and CFDs. Bet Right is not reliant on marketing spends to attract clients. A compelling and different platform with exclusive products and features, industry leading prices and 24/7 excellent client service are all designed to obtain maximum client referrals.

In FY2024 we made the process of referral easier. We have shown that, despite Bet Right not offering any inducement to clients to refer another person to Bet Right in compliance with the strict regulations, due to best possible prices and excellent service, Bet Right clients are willing to spread the word. We are building a community. The client referrals are one of the major reasons for Bet Right's low CPA. We will leverage this even further in the future.

You will recall that we executed a PaaS agreement with the Daily Mail. Overall, the arrangement was a failure and like all failures provided valuable lessons on what was required to succeed. The experiment cost very little and we are satisfied with the outcome. There were major learnings from the Daily Mail deal which we can apply in the immediate uncertain future where the reliance of media companies and other platform companies on revenue from advertising spend from sports betting companies is a real opportunity if there is a full digital advertising ban.

The next phase of our development, we will not make public, just yet. It will leverage all the experience of our team across a variety of industries. We will be pursuing PaaS arrangements with new kind of partners, including those not currently considered, outside of traditional media companies, many of whom have clients and sunken marketing costs already with proven appetite for risk entertainment. We will be considering global partners, not just partners located in Australia.

Our ultimate financial measure

In our half year accounts we stated:

"Upon completion of phase two of the betting platform infrastructure build, the company implemented cost efficiency measures that will position the company to achieve a positive monthly cash flow from mid to late H2 FY2024."

All prominent business leaders, from Jeff Bezos, Charlie Munger, Sam Zell, Sam Walton to James D Sinegal, all preach and practised the business virtues of frugality. Focusing a business on efficiencies from the top-down builds a culture that doesn't waste. It motivates employees to look at a problem through the lens of "what resources do you have now to solve this problem" rather than "what can we get to solve this problem".

The metrics for H1 and H2 clearly shows the culture of BetTube:

- The cost base from H1 to H2 decreased by 34.24% while Net Margin after product fees and taxes increased by 12.07%.
- Marketing spends from H1 to H2 decreased by 45.8% and client acquisitions increased by 6.89%.
- The loss in H1 loss was \$3.7m, while H2 shows a profit of \$0.8m. and FY2024 was a loss of \$2.9m against a loss for FY2023 of \$5.9m, a reduction of 51%.

We can also report from the audited accounts that the business goal of a positive cash flow for the mid to late H2 FY2024 has been achieved. The period March 2024 to June 2024 was cash flow positive.

It would be simplistic to just look at the performance of the last year as a sudden turnaround. It wasn't.

It's the result of BetTube's culture that has been built since Day One. It was the hard work that allowed us to innovate and build The Machine, our discipline to operate The Machine with cost efficiencies at the forefront of our minds, and it's the relentless focus on client obsession.

BetTube is still about the long term. We are building long term value.

We have adapted our mission statement to encompass the future of BetTube and our clients remain the focus.

BetTube: The world's most Client-obsessed platform for risk entertainment.

What is Risk Entertainment? Watch this space.

In last year's CEO letter, I quoted the late great Charlie Munger who said:

"You're looking for a mispriced gamble. That's what investing is. And you must know enough to know whether the gamble is mispriced. That's value investing".

In the last audited half year, we were able to deliver on our commitment to produce positive cashflow. That has continued into the first quarter of FY2025. We are edging ever closer to our long-term objective of "free cash flow per share". The loss of FY2023 was halved and every metric from H1 to H2 improved.

So, is BetTube a "mispriced gamble"? That's up to you to determine and as BetTube is publicly traded, you can act on your decision.

Since we started BetTube with no staff, no technology, no world exclusive products, only a promise of the lowest client acquisition costs, has value been created or eroded?

Investment is about seeing something others have missed. Do you know enough to know whether BetTube is a mispriced gamble?

As always, none of this is possible without our clients, our shareholders and the extremely talented and hard-working team.

I would also like to thank publicly former BetTubers who were made redundant during FY2024. For everyone at BetTube it was an emotionally challenging time. Those who departed also made great contributions and all handled the difficult time with dignity and poise. For the BetTubers who remained, FY2024 has demonstrated their mettle and as a shareholder, I am extremely proud and grateful for their efforts.

How we bet now.

A handwritten signature in black ink, appearing to read 'A Waller', with a long horizontal flourish extending to the right.

Anthony Waller

BetTube Corporation Ltd