

BetMakers Technology Group Ltd

Company Update

Game changing acquisition, valuation upgraded

BetMakers Technology Group (ASX:BET) is a B2B software services business focussed on servicing the wagering market and race operators globally. The company's technology and systems are used by every racing authority in Australia and most of the major online bookmakers. BetMakers is not a gaming company, it is a technology company that is facilitating commercial opportunities for racing authorities, rights holders, and corporate bookmakers while providing an improved racing experience for punters. The company has announced a transformational acquisition of the tote assets and technology of UK wagering technology peer, Sportech Plc (LON:SPO) for A\$56.2m in cash. In our view, this is a game changing acquisition for BET, expanding its footprint into the global tote market and positioning it to rapidly rollout its managed trading services business as part of its fixed odds wagering ambitions. The acquisition will be funded by way of a fully underwritten \$50m share placement at \$0.60/share and a share purchase plan (SPP) to raise up to \$10m. We have incorporated the capital raising and earnings estimates for the Sportech assets into our model which has had the effect of lifting our base case DCF valuation to \$1.00/share fully diluted for in the money options and performance shares. Excluding in the money options and based on the share count post placement (assuming full SPP take up), the valuation is \$1.17/share.

Business model

BetMakers operates a SaaS style model for its Racing Data and Informatics platforms: Global Betting Services and DynamicOdds. Racing bodies and bookmakers pay a monthly recurring fee for access to the platforms with contract periods usually of 3 years' duration. Of its \$9.2m in revenue in FY20, 67% was generated under the SaaS model. BetMakers also generates revenue from the content distribution deals it has in place with international racing authorities such as US Greyhounds and US Racing and UK Greyhounds which are more aligned to share of turnover. The acquisition of Sportech will deliver additional SaaS-style revenues from its tote technology as well as a share of turnover from its tote operations.

Transformational acquisition

BET announced yesterday that it was acquiring the US, UK and European racing and digital assets of UK listed wagering peer Sportech Plc (LON:SPO) for A\$56.2m, in a transaction which on a FY20 combined pro forma basis would have seen BET deliver revenues of \$56.1m and EBITDA of \$7.7m (versus respectively \$9.2m and \$0.8m). The transaction, done on an implied EV/revenue multiple of 1.2x and EV/EBITDA multiple of 8.1x, will accelerate BetMaker's international growth plans, particularly in the US where Sportech currently commands an estimated 30% of the US\$12.4b pari-mutuel handle. We see the acquisition as a significant step up for BET's position in the global wagering market and complementary to its ambitions to build a fixed odds wagering business in the US. The acquisition requires shareholder approval from Sportech's shareholders which will be sought the week commencing December 21.

Base case DCF valuation upgraded to \$1.00/share fully diluted

We have upgraded our base case DCF valuation to \$1.00/share (previously \$0.80/share) fully diluted for all in the money options, after incorporating our assumptions for the Sportech assets under BET's stewardship. On the post-transaction share count, our base case DCF valuation is \$1.17/share. We have incorporated little in our forecasts for potential synergies or growth uplift derived from potential upsell opportunities.

Earnings History and RaaS' Estimates

Year end	Revenue(A\$m)	EBITDA(A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
06/19a	6.8	(2.1)	(3.6)	(1.26)	45.4	nm	nm
06/20a	9.2	0.8	(2.1)	(0.33)	42.5	nm	na
06/21e	35.3	3.8	(2.8)	0.03	13.9	nm	nm
06/22e	86.7	18.5	8.9	1.23	6.5	26.6	60.3

Source: RaaS Advisory Estimates, Company Data for historical earnings

Software services

2nd December 2020

Share details

ASX Code	BET
Share price (30 Nov)	\$0.74
Market Capitalisation (post raise)	\$518.2M
Shares on issue post raise inc SPP	700.25M
In the money options	27.8M
Waterhouse Group options conversion	94.7M
EV post transaction	\$485.4M
Net cash 30 Sept 2020	\$32.8M

Share performance (12 months)



Upside Case

- Embedded in racing clubs' integrity systems
- Strong relationships with corporate bookmakers in Australia, UK and US
- Opportunity to leverage relationships to develop the Global Racing Network and its Managed Trading Services on a global scale

Downside Case

- Dependent on volumes, clipping a very small portion of the wager
- Sensitive to regulation
- Potential backlash from incumbent totalisers

Catalysts

- Attorney-General signs Bill for NJ fixed odds
- Demonstrated expansion in US wagering market
- Completion of the Sportech acquisition

Board of Directors

Nicholas Chan	Non-Executive Chairman
Simon Dulhunty	Non-Executive Director
Matt Davey	Non-Executive Director
Todd Buckingham	Managing Director

Company contact

Anthony Pullin (CFO)	+61 476 167 127
anthony.pullin@thebetmakers.com	

RaaS Advisory contacts

Finola Burke*	+61 414 354 712
finola.burke@raasgroup.com	

*Analyst holds shares

Transaction detail

BET has entered into a binding sale and purchase agreement to acquire the global assets of listed UK wagering technology company Sportech Plc for £30.9m (\$56.2m) with an initial payment of £6.18m payable on Sportech shareholder approval of the transaction. The assets come unencumbered to BET and include:

- Sportech's Americas Tote business which supplies betting solutions, hardware (betting terminals) and operational services to more than 200 racetrack, casino and betting venues to more than 50 corporate customers in the US, Canada and Latin America;
- Americas digital business which provides white label digital betting solutions to more than 25 customers in North America;
- UK and European tote business which provides betting technology, pari-mutuel and co-mingling services to more than 35 customers across the UK, Ireland, Europe and Asia;
- Sportech's Quantum™ tote technology which is a tote betting engine currently used internationally and including for events such as the US Breeders Cup series and Royal Ascot race meetings.

BET noted in its release that the acquisition will deliver a substantial revenue and EBITDA uplift for its operations. Based on FY20 reported accounts, the combined business would have generated \$56.1m in revenue and \$7.7m in EBITDA, substantially higher than the \$9.2m in revenue and \$0.8m in EBITDA reported by BET. It's important to note that Sportech has been a company in transition over the past three years with several divestments and a focus on restructuring. It reports on a December year end and its CY19 results were a step down from CY18. H1 CY20 tote revenues and earnings were impacted by COVID-19 due to the suspension of racecrowds at the track, particularly in the US which is still in its infancy in online wagering.

Acquisition Funding

BET will fund the acquisition through a fully underwritten \$50m placement priced at \$0.60/share, which represents a 9.1% discount to the last close of \$0.66/share and a 6.6% discount to the five-day weighted average price of \$0.64/share.

We set out below the details of the shares that will be issued under the placement and accompanying \$10m SPP.

Exhibit 1: Sportech asset acquisition detail	
Transaction detail	Result
\$50m placement at \$0.60/share (shares issued M)	83.3
SPP up to \$10m (shares issued) M	16.7
Total new shares on issue (M)	100.0
Total shares on issue post transaction (M)	700.3
Implied market cap at issue price (\$0.60/share) (A\$M)	420.2
Less net cash post transaction (A\$M)	31.3
Enterprise value based on \$0.60/share (A\$M)	388.8
Source: Company announcement, RaaS analysis	

Settlement of the placement is expected to take place three days after Sportech's shareholders approve the transaction at a general meeting (on or about 21 December), while the SPP will be offered after the meeting takes place.

Impact of acquisition

BET is paying 1.2x EV/Revenue and 8.1x EV/EBITDA for the Sportech businesses based on its reported FY20 results. These are modest multiples on our view, especially given the scale that the Sportech operations will lend to BET. Based on a post transaction EV of \$388.8m (at \$0.60/share), the implied FY20 pro forma EV/Revenue multiple of the combined entity is 6.9x.

Exhibit 2: EV/Revenue and EV/EBITDA analysis

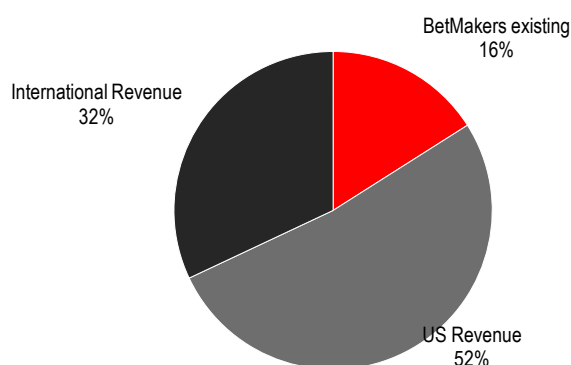
Details	A\$m
Tote and Digital business acquisition price	56.2
Revenue Y/E June 2020	46.9
EV/Revenue multiple paid (x)	1.2
EBITDA Y/E June 2020	6.9
EV/EBITDA multiple paid (x)	8.1
Combined group	
Combined FY20 pro forma revenue	56.1
Implied EV/Revenue multiple (x)	6.9
Combined FY20 pro forma EBITDA	7.7
Implied EV/EBITDA multiple (x)	50.5
Source: RaaS analysis	

The transaction substantially extends BET's footprint in the US and UK/Europe. Following the acquisition:

- BET will operate in 36 US states and more than 200 venues. Sportech's US tote and digital business handles more than US\$2.7b in turnover each year across more than 9,000 self-service and retail betting terminals and more than 25 Advance Deposit Wagering (ADW)/Online Racing Bookmaker digital outlets;
- The acquisition will position BET as a top 3 tote operator in the US alongside AmTote (owned by the Stronach Group) and United Tote (owned by Churchill Downs Inc). This year, despite the COVID-19 lockdown, Sportech has expanded its contracts with several key partners including UK Tote Group, Macau Jockey Club, Emerald Downs in Washington State, Monmouth Park (BET's fixed odds wagering partner), and Penn National Gaming which operates 13 racetracks across the US and is a national ADW operator. BET expects to derive significant synergy and cross-sell opportunities from combining Sportech's tote operations with its fixed odds wagering business;
- Sportech's UK/European tote business, which generates around 30% of revenues, delivers a higher margin opportunity. European operators tend to acquire the tote terminals and systems outright or buy access to Sportech's tote system software and maintain the terminals themselves. This lends itself to a higher margin than the US operations;
- The acquisition positions BET to be a significant beneficiary of the international trend towards commingling (pooling different sources of bets to create greater liquidity). The acquisition delivers more than 20 global comingling connections including the Hong Kong Jockey Club, Tabcorp, and PGI. The global Quantum data and operations centre in New Jersey provides hosting, settlement, comingling, and pari-mutuel pool management to tote customers worldwide.

Based on the FY20 pro forma revenues of the combined group, BET emerges with more than half its revenues being generated in the US as the following exhibit sets out.

Exhibit 3: FY20 pro forma revenue composition of BET and Sportech assets



Source: BetMakers Technology Group 1 December presentation

Following the transaction, Sportech will continue its B2C Venues business, which operates legal betting on horseracing, greyhound racing and Jai alai under an in-perpetuity licence in Connecticut through 12 physical

retail locations and an online platform, www.mywinners.com; its draw-based lottery platform; and Bump 50:50 which supplies in-stadia, web and mobile electronic lotteries to major league sports teams, collegiate sports organisations, and entertainment venues. Venues is likely to be a BET customer as it rolls out its fixed odds wagering business in the US.

Earnings adjustments

We have incorporated Sportech into our earnings forecasts for BET and applied the following assumptions:

- Starting point for Sportech's US handle is US\$2.7b. We have assumed that Sportech grows its share of handle by 2% a year, ahead of the 0.2% growth rate experienced by the industry since 2011. We have assumed a conversion to revenue rate of 1%.
- We have applied a 2% growth rate to the UK/European tote business and the US digital business
- BET's FTE count will increase by 290, mostly in the US.
- Other costs are forecast to more than double in the near term as BET takes on Sportech's administration.
- We have adjusted our near-term forecasts for the existing BET business to allow for absorption and transition of the acquisition.
- We have not assumed synergies or cross selling in our forecasts but see this as potential upside.

The effect has been an upgrade to our revenue, gross profit and, in FY22, EBITDA forecasts as set out in the following table. In FY21, we anticipate that the contribution from Sportech to kick in from Q4 FY21 with \$12.7m in revenue, \$9.7m in employment costs (from 290 additional employees) and another \$3.1m in additional COGs and administration costs. Higher depreciation and amortisation charges are also expected from Sportech's terminals hardware and the acquisition. Our FY21 forecasts have also been adjusted to assume that the New Jersey fixed odds opportunity commences in FY22, once the proposed Bill is passed.

Exhibit 4: Earnings adjustments post transaction

	FY21 old	FY21 new	FY22 old	FY22 new
Revenue	30.0	35.3	44.7	86.7
Gross Profit	17.7	24.9	26.4	67.7
EBITDA	8.0	3.8	12.0	18.5
NPAT	3.8	-2.8	8.1	8.9

Source: RaaS estimates

Base Case DCF valuation upgraded to \$1.00/share fully diluted

We believe the discounted cashflow methodology is the most appropriate method to value BET, given the relatively early stage of the company's life. We arrive at a base case valuation of \$1.00/share (previously \$0.80/share) after applying a WACC of 11.9% (previously 13.6%) and terminal growth rate of 2.2% to our base case free cashflows. This valuation includes the 27.8m options on issue, all are currently in the money, with expiry dates predominantly in 2022 and the Waterhouse Group's in the money 94.7m, \$0.18/options. The terminal value accounts for \$0.62/share of our valuation. On the post transaction share count, the DCF valuation is \$1.17/share. We set out the DCF valuation in the following exhibit.

Exhibit 5: Base Case DCF valuation

	Parameters
Discount rate (WACC)	11.9%
Terminal Growth Rate	2.2%
Beta	1.6
Present value of free cashflows (\$m)	288.7
Terminal value (\$m)	482.6
Plus Net Cash at 30 June (\$m) + \$17m from Waterhouse Group	(48.6)
Equity value (\$m)	820.6
Fully diluted shares post transaction and inc in the money options/conversion of Waterhouse options	822.8
Equity value per share	\$1.00

Source: RaaS estimates

Exhibit 5: Financial Summary

BetMakers Technology Group Ltd (BET)						Share price (2 December 2020)						A\$	0.74				
Profit and Loss (A\$m)						Interim (A\$m)		H119A	H219A	H120F	H220A	H121F	H221F				
Y/E 30 June	FY18A	FY19A	FY20A	FY21F	FY22F	Revenue	3.0	3.8	4.3	4.9	10.6	24.8					
Sales revenue	12.7	6.2	8.6	35.3	86.7	EBITDA	(1.9)	(0.1)	0.6	0.3	1.9	1.9					
Total Revenue	17.8	6.8	9.2	35.3	86.7	EBIT	(2.1)	(1.7)	(0.4)	(0.8)	1.3	(1.6)					
Gross Profit	1.6	3.9	6.3	24.9	67.7	NPAT (normalised)	(1.5)	(1.4)	(0.6)	(0.9)	1.1	(0.9)					
EBITDA	0.5	(2.1)	0.8	3.8	18.5	Minorities	0.0	0.0	0.0	0.0	0.0	0.0					
Depn	(0.2)	(0.2)	(0.3)	(1.0)	(1.9)	NPAT (reported)	(1.8)	(1.8)	(0.6)	(1.5)	1.1	(0.9)					
Amort	(0.2)	(1.6)	(1.9)	(3.1)	(4.3)	EPS (normalised)	(0.9)	(0.4)	(0.1)	(0.3)	0.2	(0.1)					
EBIT	0.2	(3.9)	(1.3)	(3.3)	12.3	EPS (reported)	(0.9)	(0.4)	(0.1)	(0.3)	0.2	(0.1)					
Interest	0.0	(0.0)	(0.5)	0.6	0.5	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0					
Tax	(0.5)	1.0	0.3	(0.1)	(3.8)	Imputation	30.0	30.0	30.0	30.0	30.0	30.0					
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(2.8)	(0.3)	(0.2)	(0.3)	(1.0)	(3.6)					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(2.8)	(0.3)	(0.3)	(0.4)	(1.1)	(4.1)					
NPAT pre significant items	(0.3)	(2.9)	(1.5)	(2.8)	8.9	Divisions	H119A	H219A	H120F	H220A	H121F	H221F					
Significant items	(5.7)	(0.7)	(0.6)	0.0	0.0	Wholesale Wagering	2.6	3.1	3.2	3.2	9.0	22.8					
NPAT (reported)	(6.0)	(3.6)	(2.1)	(2.8)	8.9	Content & Integrity	0.2	0.3	0.9	1.4	1.6	1.9					
Cash flow (A\$m)						Other income											
Y/E 30 June	FY18A	FY19A	FY20A	FY21F	FY22F	Total Revenue	3.0	3.8	4.3	4.9	10.6	24.8					
EBITDA	0.5	(2.1)	0.8	3.8	18.5	COGS	1.4	0.8	0.4	1.8	4.5	6.0					
Interest	0.1	(0.0)	(0.4)	0.6	0.5	Gross Profit	1.6	3.0	3.8	3.1	6.1	18.8					
Tax	0.0	(0.1)	(0.0)	(0.5)	(3.8)	Employment costs	1.8	1.6	2.0	2.1	3.5	14.3					
Working capital changes	(12.0)	(0.9)	(1.0)	(8.4)	(16.3)	Selling General & Admin Costs	1.6	1.6	1.3	0.6	0.7	2.5					
Operating cash flow	(11.4)	(3.1)	(0.5)	(4.5)	(1.1)	Other Opex	0.1	(0.0)	0.0	0.0	0.0	0.2					
Mtce capex	0.0	(0.0)	(0.2)	(0.7)	(0.9)	Total Operating Costs	3.5	3.1	3.3	2.8	4.2	16.9					
Free cash flow	(11.4)	(3.1)	(0.7)	(5.2)	(2.0)	EBITDA	(1.9)	(0.1)	0.6	0.3	1.9	1.9					
Growth capex	(0.1)	0.0	(0.0)	0.0	0.0												
Acquisitions/Disposals	0.3	(5.8)	0.0	(56.2)	0.0												
Other	(0.2)	(0.9)	0.0	0.0	0.0												
Cash flow pre financing	(11.3)	(9.8)	(0.7)	(61.4)	(2.0)												
Equity	10.1	9.1	37.8	60.0	0.0	Margins, Leverage, Returns	FY18A	FY19A	FY20A	FY21F	FY22F						
Debt	0.0	(0.3)	0.0	0.0	0.0	EBITDA	n/a	(30.5%)	9.1%	10.7%	21.3%						
Dividends paid	0.0	0.0	(0.2)	0.0	0.0	EBIT	n/a	(56.9%)	(14.3%)	(9.4%)	14.2%						
Net cash flow for year	(1.3)	(1.0)	36.9	(1.4)	(2.0)	NPAT pre significant items	n/a	(42.7%)	(16.5%)	(8.0%)	10.3%						
Balance sheet (A\$m)						Net Debt (Cash)											
Y/E 30 June	FY18A	FY19A	FY20A	FY21F	FY22F	Net debt/EBITDA (x)	(x)	2.692	n/a	37.543	7.136	1.346					
Cash	1.5	0.5	31.6	27.3	25.2	ND/ND+Equity (%)	(%)	n/a	15.6%	(107.4%)	(28.7%)	(23.8%)					
Accounts receivable	5.4	1.2	2.0	5.9	14.4	EBIT interest cover (x)	(x)	(0.2)	n/a	n/a	n/a	-					
Inventory	0.0	0.0	0.0	0.0	0.0	ROA	n/a	(16.7%)	(2.8%)	(3.6%)	9.6%						
Other current assets	0.1	0.1	0.1	0.1	0.1	ROE		(22.6%)	(5.4%)	(3.1%)	7.1%						
Total current assets	7.0	1.8	33.7	33.2	39.7	ROIC		1.1%	(49.2%)	(3.0%)	(3.1%)	13.7%					
PPE	0.3	0.2	0.2	39.2	38.2	NTA (per share)		0.07	0.01	0.08	0.15	0.14					
Intangibles inc Goodwill	2.0	14.5	14.5	14.5	14.5	Working capital		2.6	0.1	0.7	4.1	11.2					
Investments	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		14.8%	1.3%	7.8%	11.7%	12.9%					
Deferred tax asset	5.4	6.5	7.3	7.7	7.7	Revenue growth		n/a	(61.6%)	34.4%	285.7%	145.1%					
Other assets	1.3	7.7	6.9	28.7	33.6	EBIT growth pa		n/a	n/a	n/a	n/a	(468.0%)					
Total non current assets	9.0	28.8	28.9	90.1	93.9	Pricing							FY18A	FY19A	FY20A	FY21F	FY22F
Total Assets	15.9	30.6	62.6	123.3	133.6	No of shares (y/e)	(m)	162	413	568	700	795					
Accounts payable	2.8	1.2	1.3	1.7	3.1	Weighted Av Dil Shares	(m)	162	232	457	728	728					
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(3.68)	(1.55)	(0.47)	0.03	1.28					
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(0.19)	(1.26)	(0.33)	0.03	1.23					
Other current liabilities	0.3	6.2	0.4	0.4	0.4	EPS growth (norm/dil)		n/a	n/a	n/a	-109%	4020%					
Total current liabilities	3.1	7.4	1.7	2.1	3.5	DPS	cps	-	-	-	-	-					
Long term debt	0.0	4.0	0.4	0.4	0.4	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Other non current liabs	0.1	0.1	0.2	0.2	0.2	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Total long term liabilities	0.1	4.1	0.5	0.5	0.5	Dividend imputation		30	30	30	30	30					
Total Liabilities	3.2	11.4	2.2	2.6	4.1	PE (x)		-	-	-	2,389.2	58.0					
Net Assets	12.7	19.2	60.4	120.6	129.6	PE market		18.2	18.2	18.2	18.2	18.2					
Share capital	32.5	42.4	84.9	144.9	144.9	Premium/(discount)			(100.0%)	(100.0%)	13027.5%	218.6%					
Accumulated profits/losses	(21.2)	(24.0)	(26.1)	(25.9)	(17.0)	EV/EBITDA		219.2	(148.7)	467.5	130.2	30.5					
Reserves	1.4	0.7	1.6	1.6	1.6	FCF/Share	cps	(7.0)	(0.7)	(0.1)	(0.6)	(0.0)					
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(10.5)	(100.1)	(1,320.7)	(134.2)	(3,380.3)					
Total Shareholder funds	12.7	19.2	60.4	120.6	129.6	Free Cash flow Yield		(9.5%)	(1.0%)	(0.1%)	(0.7%)	(0.0%)					

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS, 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

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