

Upgrading valuation on NJ Racing Commission endorsement

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 is now taking its technology to the US market where fixed odds horse wagering is in its infancy. The company received a significant endorsement last week when the New Jersey Racing Commission approved a Fixed Odds pilot program for Grade 1 stakes races from January 1, 2021. The approval is separate to and supportive of the Bill currently before the New Jersey legislature to allow Fixed Odds wagering on horse races through Fixed Odds wagering system. The legislation once passed and in law, will allow anyone in New Jersey over the age of 18 to bet on fixed odds horse racing. With so much surety lining up for BetMakers' US expansion, we have taken the opportunity to reduce our discount rate to 11.9% from 13.6%, resulting in our base case DCF valuation increasing to \$0.80/share fully diluted for all in the money options (previously \$0.60/share). On the current share count this equates to \$0.96/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. Over time we expect the SaaS revenue share to average ~45-50% as the company expands its racing data and informatics platforms and new integrity platforms in both Australia and offshore.

Pilot program on Grade 1 races ahead of Bill being passed

BET announced last Thursday that the New Jersey Racing Commission had approved a Fixed Odds pilot program for Grade 1 stakes races to commence from 1 January 2021. We see this as a significant endorsement of the Fixed Odds wagering opportunity in that state and BET's partnership with the NJ Thoroughbred Horsemen Association and Darby Development LLC, operator of the Monmouth Park racetrack. The pilot program will operate separate to the current legislative process for the bill to enable Fixed Odds horse racing in New Jersey. With 108 Grade 1 horse races across the United States each year, the pilot program provides an early start for BET and its wagering partners to provide New Jersey punters with Fixed Odds wagering across these races.

Base case DCF valuation upgraded to \$0.80/share fully diluted

We have upgraded our base case DCF valuation to \$0.80/share (previously \$0.60/share) fully diluted for all in the money options, on the basis that BET's foray into the US wagering market has been substantially de-risked by the endorsement of the NJ Racing Commission's approval for a pilot program. On the current share count, our base case DCF valuation is \$0.96/share. In our view, BET is well placed to deliver on its stated opportunities. We see potential upside from our current forecasts for BET's role in the development of the fledgling US fixed odds wagering market beyond New Jersey.

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)	28.1	na	na
06/20a	9.2	0.8	(2.1)	(0.33)	24.8	nm	na
06/21e	30.0	8.0	3.8	0.81	9.5	35.7	65.4
06/22e	44.7	12.0	8.1	1.30	7.4	23.7	40.9

Source: RaaS Advisory Estimates, Company Data for historical earnings

Software services

23rd November 2020

Share details

ASX Code	BET
Share price (20 Nov)	\$0.53
Market Capitalisation	\$318.1M
Shares on issue	600.25M
In the money options	27.8M
Waterhouse Group options conversion	94.7M
Enterprise value	\$285.3M
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

Board of Directors

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

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Fixed Odds horse wagering pilot

The NJ Racing Commission has approved a pilot program to conduct Fixed Odds wagers to be accepted in New Jersey on Grade 1 stakes races. This is the first time that any state in the US has approved Fixed Odds horse wagers and provides a good starting point for Fixed Odds wagering in New Jersey. The pilot program commences on 1 January 2021. We see it as a significant endorsement by the racing commission for Fixed Odds horse wagering and a flag that the commission expects the legislation currently before the New Jersey Legislature will be passed.

To recap, the legislation, to authorise “fixed odds wagering on horse races through fixed odds wagering system” has been introduced in the NJ Legislature with bi-partisan support. It will now be put to public hearings before the Senate State Government, Wagering, Tourism and Historic Preservation Committee. Once the Bill is approved by a majority of both the Senate and General Assembly, it will be sent to the NJ Governor for consideration and, if approved, signature to become law, allowing anyone in NJ aged over 18 years to bet on fixed odds horse racing (versus 21 years for sports betting). We anticipate that this process will take around four to six months.

In the meantime, the pilot program will allow BET, its NJ racing partner Monmouth Park, and BET’s wagering partners including PointsBet (ASX:PBH) to offer fixed odds on Grade 1 horse races where agreements are in place with the host racetracks.

A step in the right direction

There are currently 108 Grade 1 races in the US, more than any other country in the world. To qualify for a Grade 1 race, the prize money must exceed US\$75,000, the race must have been operating for at least two years and the post-race drug testing must be conducted by a government authority. So essentially Grade 1 races attract the best trainers, best horses, and most punters. One third of Grade 1 races are run from January to June each year with the bulk of the races in the second half of the calendar year. We have listed the races according to which half of the calendar they are run and prize money on the following page.

We see this as a step in the right direction for opening up fixed odds horse wagering as the pilot program will extend to the Grade 1 races on each race day. We expect BET to continue its current strategy of seeking to strike deals with every US racetrack for its racing content with the pilot program potentially allowing some early monetization of the Grade 1 races in New Jersey while providing all the racing content from the race day into other jurisdictions including the UK and Australia.

The announcement has not changed our BET forecasts, rather it underpins the opportunity that we have modelled in New Jersey. It should be noted that we have only incorporated the rollout of fixed odds horse wagering in NJ in our forecasts.

Exhibit 1: US Grade 1 races by half year and by prize money (in US\$m)

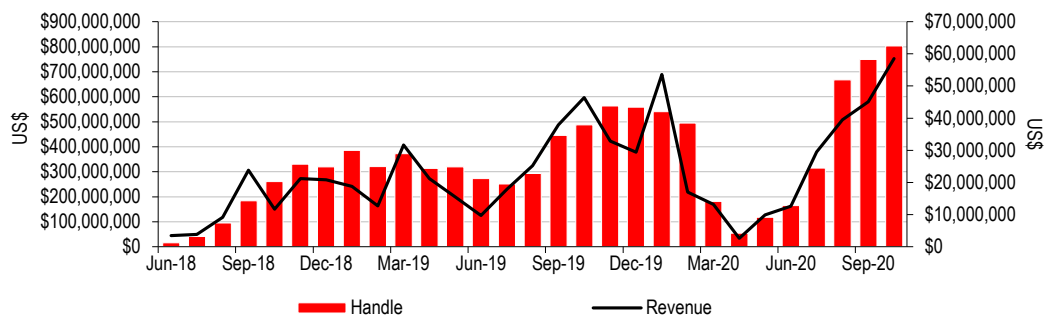
January-June	July-December
Pegasus World Cup \$12m	Breeders' Cup Classic \$6m
Kentucky Derby \$2m	Breeders' Cup Turf \$4m
Preakness Stakes \$1.5m	Breeders' Cup Juvenile \$2m
Belmont Stakes \$1.5m	Breeders' Cup Juvenile Fillies/ Breeders' Cup Distaff \$2m
Arkansas Derby \$1m	Breeders' Cup Mile/ Breeders' Cup Filly & Mare Turf \$2m
Florida Derby \$1m	Breeders' Cup Sprint \$1.5m
Kentucky Oaks \$1m	Whitney Handicap \$1.25m
Santa Anita Derby \$1m	Belmont Derby \$1.25m
Ogden Phipps Handicap \$1m	Travers Stakes \$1.25m
Manhattan Handicap \$1m	Pennsylvania Derby \$1m
Santa Anita Handicap \$1m	Cotillion Stakes \$1m
Acorn Stakes \$0.7m	Haskell Invitational Stakes \$1m
Just a Game Handicap \$0.7m	Belmont Oaks \$1m
Apple Blossom Handicap \$0.6m	Breeders' Cup Juvenile Turf \$1m
Ashland Stakes \$0.5m	Breeders' Cup Juvenile Fillies Turf \$1m
Stephen Foster Handicap \$0.5m	Jockey Club Gold Cup Stakes \$1m
Turf Classic Stakes \$0.5m	Pacific Classic Stakes \$1m
Gold Cup at Santa Anita Stakes \$0.5m	Breeders' Cup Turf Sprint \$1m
Donn Handicap \$0.5m	Breeders' Cup Dirt Mile \$1m
Santa Anita Oaks \$0.4m	Shadwell Turf Mile Stakes \$1m
Shoemaker Mile \$0.4m	Arlington Million Stakes \$1m
Carter Handicap \$0.4m	Sword Dancer Invitational Stakes \$1m
Vanity Invitational Handicap \$0.4m	Breeders' Cup Filly & Mare Sprint \$1m
Man o' War Stakes \$0.4m	Cigar Mile Handicap \$0.75m
American Oaks Invitational Stakes \$0.4m	Personal Ensign Stakes \$0.75m
Frank E. Kilroe Mile Handicap \$0.4m	Delaware Handicap \$0.75m
Santa Margarita Invitational Handicap \$0.4m	Beverly D. Stakes \$0.7m
Gulfstream Park Turf Handicap \$0.35m	Forego Stakes \$0.7m
La Troienne Stakes \$0.3m	Alabama Stakes \$0.6m
Gamely Stakes \$0.3m	Woodward Stakes \$0.6m
Triple Bend Invitational Handicap \$0.3m	Champagne Stakes \$0.5m
Maker's 46 Mile Stakes \$0.3m	Breeders' Futurity Stakes \$0.5m
Jenny Wiley Stakes \$0.3m	Los Alamitos Futurity \$0.5m
Humana Distaff Handicap \$0.3m	Starlet Stakes \$0.5m
Madison Stakes \$0.3m	Queen Elizabeth II Challenge Cup Stakes \$0.5m
	Fourstardave Handicap \$0.5m
	Clark Handicap \$0.5m
	Diana Stakes \$0.5m
	Spinster Stakes \$0.5m
	Flower Bowl Invitational Stakes \$0.5m
	King's Bishop Stakes \$0.5m
	Joe Hirsch Turf Classic Invitational Stakes \$0.5m
	Test Stakes \$0.5m
	Ballerina Stakes \$0.5m
	Secretariat Stakes \$0.45m
	Frizette Stakes \$0.4m
	Alcibiades Stakes \$0.4m
	First Lady Stakes \$0.4m
	Beldame Stakes \$0.4m
	Vosburgh Stakes \$0.4m
	Hopeful Stakes \$0.35m
	Spinaway Stakes \$0.35m
	Alfred G. Vanderbilt Handicap \$0.35m
	Chandelier Stakes \$0.3m
	FrontRunner Stakes \$0.3m
	Del Mar Oaks \$0.3m
	Hollywood Derby \$0.3m
	Del Mar Debutante Stakes \$0.3m
	Del Mar Futurity \$0.3m
	Matriarch Stakes \$0.3m
	Clement L. Hirsch Stakes \$0.3m
	Zenyatta Stakes – \$0.3m
	Bing Crosby Handicap \$0.3m
	Santa Anita Sprint Championship Stakes \$0.3m
	Malibu Stakes \$0.3m
	Awesome Again Stakes \$0.3m
	United Nations Stakes \$0.3m
	Coaching Club American Oaks \$0.3m
	La Brea Stakes \$0.3m
	Rodeo Drive Stakes \$0.3m

Source: Group1. racing

The opportunity

New Jersey is somewhat of a trailblazer when it comes to adopting legal betting methods. It was the first state to introduce Fixed Odds sports betting in June 2018. FO sports betting has subsequently generated more than US\$9.9b in handle, US\$675m in revenue and US\$87.5m in taxes for the state of New Jersey. Outside of Nevada, NJ has highest Fixed Odds sports betting handle in the US, which as a country has thus far generated more than US\$30b in handle and US\$2b in revenue in just over two years. As the following exhibit shows, despite the impact of the COVID-19 pandemic earlier in the year, handle and revenue has reverted to record levels from August to October, topping more than US\$800m in handle in October.

Exhibit 2: New Jersey sports betting handle and revenue since commencement



Source: legalsportsreport.com

If Fixed Odds horse wagering follows the same path, there will be significant opportunity for BetMakers to deliver both its Managed Trading Services, DynamicOdds and Global Betting Systems platforms in that market. Our current forecasts only deal with the New Jersey opportunity with potential upside if more states adopt Fixed Odds horse wagering.

Base Case DCF valuation upgraded to \$0.80/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 valuation of \$0.80/share (previously \$0.60/share) after applying a WACC of 11.9% (previously 13.6%) and terminal growth rate of 2.2% to our base case free cashflows. We have adjusted the beta from 1.8 to 1.6 to reflect the lower volatility in BET's share price. We are also of the view that the endorsement by the NJ Racing Commission and bi-partisan support for the Bill removes some of the risk we had applied to our valuation. This derives a DCF valuation of \$0.80 per share, fully diluted for in the money options. Of the 60.2m options on issue, all are currently in the money, with expiry dates predominantly in 2022. We have also included the Waterhouse Group's in the money 94.7m, \$0.18/options and assume these will be converted on 31 December 2022, delivering \$17m to BET. The terminal value accounts for \$0.49/share of our valuation. On the current share count, the DCF valuation is \$0.96/share. We set out the DCF valuation in the following exhibit.

Exhibit 3: Base Case DCF valuation

	Parameters
Discount rate (WACC)	11.9%
Terminal Growth Rate	2.2%
Beta	1.6
Present value of free cashflows (\$m)	199.9
Terminal value (\$m)	327.3
Plus Net Cash at 30 June (\$m) + \$17m from Waterhouse Group	(48.6)
Equity value (\$m)	575.8
Fully diluted shares (inc in the money options and full conversion of Waterhouse options)	722.8
Equity value per share	\$ 0.80

Source: RaaS estimates

Exhibit 4: Financial Summary

BetMakers Technology Group Ltd (BET)						Share price (20 November 2020)						A\$	0.53				
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	13.6	16.4					
Sales revenue	12.7	6.2	8.6	30.0	44.7	EBITDA	(1.9)	(0.1)	0.6	0.3	3.6	4.4					
Total Revenue	17.8	6.8	9.2	30.0	44.7	EBIT	(2.1)	(1.7)	(0.4)	(0.8)	2.9	3.8					
Gross Profit	1.6	3.9	6.3	17.7	26.4	NPAT (normalised)	(1.5)	(1.4)	(0.6)	(0.9)	2.2	2.8					
EBITDA	0.5	(2.1)	0.8	8.0	12.0	Minorities	0.0	0.0	0.0	0.0	0.0	0.0					
Depn	(0.2)	(0.2)	(0.3)	(0.0)	(0.0)	NPAT (reported)	(1.8)	(1.8)	(0.6)	(1.5)	2.2	2.8					
Amort	(0.2)	(1.6)	(1.9)	(1.3)	(1.0)	EPS (normalised)	(0.9)	(0.4)	(0.1)	(0.3)	0.4	0.5					
EBIT	0.2	(3.9)	(1.3)	5.4	11.0	EPS (reported)	(0.9)	(0.4)	(0.1)	(0.3)	0.4	0.5					
Interest	0.0	(0.0)	(0.5)	0.6	0.6	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0					
Tax	(0.5)	1.0	0.3	(2.2)	(3.5)	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)	(0.6)	1.5					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(2.8)	(0.3)	(0.3)	(0.4)	(0.6)	1.5					
NPAT pre significant items	(0.3)	(2.9)	(1.5)	3.8	8.1	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	10.2	12.2					
NPAT (reported)	(6.0)	(3.6)	(2.1)	3.8	8.1	Content & Integrity	0.2	0.3	0.9	1.4	3.4	4.2					
Cash flow (A\$m)						Other income	0.3	0.4	0.3	0.3	0.0	0.0					
Y/E 30 June	FY18A	FY19A	FY20A	FY21F	FY22F	Total Revenue	3.0	3.8	4.3	4.9	13.6	16.4					
EBITDA	0.5	(2.1)	0.8	8.0	12.0	COGS	1.4	0.8	0.4	1.8	5.8	6.5					
Interest	0.1	(0.0)	(0.4)	0.6	0.6	Gross Profit	1.6	3.0	3.8	3.1	7.8	9.9					
Tax	0.0	(0.1)	(0.0)	(2.2)	(3.5)	Employment costs	1.8	1.6	2.0	2.1	3.5	4.6					
Working capital changes	(12.0)	(0.9)	(1.0)	(5.5)	(6.2)	Selling General & Admin Costs	1.6	1.6	1.3	0.6	0.7	0.8					
Operating cash flow	(11.4)	(3.1)	(0.5)	0.9	3.0	Other Opex	0.1	(0.0)	0.0	0.0	0.0	0.1					
Mtce capex	0.0	(0.0)	(0.2)	0.0	0.0	Total Operating Costs	3.5	3.1	3.3	2.8	4.2	5.5					
Free cash flow	(11.4)	(3.1)	(0.7)	0.9	3.0	EBITDA	(1.9)	(0.1)	0.6	0.3	3.6	4.4					
Growth capex	(0.1)	0.0	(0.0)	0.0	0.0												
Acquisitions/Disposals	0.3	(5.8)	0.0	0.0	0.0												
Other	(0.2)	(0.9)	0.0	0.0	0.0												
Cash flow pre financing	(11.3)	(9.8)	(0.7)	0.9	3.0												
Equity	10.1	9.1	37.8	0.0	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%	26.7%	26.9%					
Dividends paid	0.0	0.0	(0.2)	0.0	0.0	EBIT		n/a	(56.9%)	(14.3%)	17.9%	24.6%					
Net cash flow for year	(1.3)	(1.0)	36.9	0.9	3.0	NPAT pre significant items		n/a	(42.7%)	(16.5%)	12.6%	18.2%					
Balance sheet (A\$m)						Net Debt (Cash)		1.5	(3.5)	31.3	32.2	35.2					
Y/E 30 June	FY18A	FY19A	FY20A	FY21F	FY22F	Net debt/EBITDA (x)	(x)	2.692	n/a	37.543	4.019	2.923					
Cash	1.5	0.5	31.6	32.6	35.6	ND/ND+Equity (%)	(%)	n/a	15.6%	(107.4%)	(96.8%)	(91.7%)					
Accounts receivable	5.4	1.2	2.0	5.0	7.4	EBIT interest cover (x)	(x)	(0.2)	n/a	n/a	0.1	0.1					
Inventory	0.0	0.0	0.0	0.0	0.0	ROA		n/a	(16.7%)	(2.8%)	8.2%	15.1%					
Other current assets	0.1	0.1	0.1	0.1	0.1	ROE			(22.6%)	(5.4%)	6.0%	11.7%					
Total current assets	7.0	1.8	33.7	37.6	43.0	ROIC		1.1%	(49.2%)	(3.0%)	6.5%	15.5%					
PPE	0.3	0.2	0.2	0.2	0.2	NTA (per share)		0.07	0.01	0.08	0.09	0.09					
Intangibles inc Goodwill	2.0	14.5	14.5	14.5	14.5	Working capital		2.6	0.1	0.7	2.9	4.4					
Investments	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		14.8%	1.3%	7.8%	9.8%	9.8%					
Deferred tax asset	5.4	6.5	7.3	7.3	7.3	Revenue growth		n/a	(61.6%)	34.4%	227.3%	49.1%					
Other assets	1.3	7.7	6.9	8.9	12.6	EBIT growth pa		n/a	n/a	n/a	(508.1%)	105.6%					
Total non current assets	9.0	28.8	28.9	30.8	34.5	Pricing		FY18A	FY19A	FY20A	FY21F	FY22F					
Total Assets	15.9	30.6	62.6	68.4	77.6	No of shares (y/e)	(m)	162	413	568	600	695					
Accounts payable	2.8	1.2	1.3	2.0	3.0	Weighted Av Dil Shares	(m)	162	232	457	628	628					
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(3.68)	(1.55)	(0.47)	0.85	1.36					
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(0.19)	(1.26)	(0.33)	0.81	1.30					
Other current liabilities	0.3	6.2	0.4	0.4	0.4	EPS growth (norm/dil)		n/a	n/a	n/a	-344%	60%					
Total current liabilities	3.1	7.4	1.7	2.4	3.4	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	2.9	3.9	PE (x)		-	-	-	62.5	39.1					
Net Assets	12.7	19.2	60.4	65.5	73.6	PE market		18.2	18.2	18.2	18.2	18.2					
Share capital	32.5	42.4	84.9	84.9	84.9	Premium/(discount)			(100.0%)	(100.0%)	243.7%	114.6%					
Accumulated profits/losses	(21.2)	(24.0)	(26.1)	(21.0)	(12.9)	EV/EBITDA		156.3	(107.0)	324.2	35.7	27.7					
Reserves	1.4	0.7	1.6	1.6	1.6	FCF/Share	cps	(7.0)	(0.7)	(0.1)	0.1	0.4					
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(7.5)	(71.7)	(945.9)	356.4	122.5					
Total Shareholder funds	12.7	19.2	60.4	65.5	73.6	Free Cash flow Yield		(13.3%)	(1.4%)	(0.1%)	0.3%	0.8%					

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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Effective Date: 26th November 2018



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Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

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Complaints

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.

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