

BetMakers Technology Group Ltd

Q1FY22 Results Analysis

FY22 off to a stunning start

BetMakers Technology Group (ASX:BET) is a B2B software services business providing racing, wagering and integrity data, software and hardware products to bookmakers, racing authorities and rights holders globally. The company is rapidly on a path to become a key player in the transforming US horse racing industry, which is poised to introduce fixed odds wagering, initially in New Jersey where BET has a 10-year exclusive licence with New Jersey Thoroughbred Horsemen Association and Darby Development LLC to deliver and manage fixed odds thoroughbred horse racing. BET reported Q1FY22 cash receipts of \$20.95m, up more than four-fold on the cash receipts reported in Q1FY21 and 135% ahead of the cash receipts reported in Q4FY21. Excluding estimated cash receipts from the recently acquired Sportech business, underlying cash receipt growth was around 130% on Q1FY21 and 33% on Q4FY21, demonstrating the leverage this business benefits from as it adds new customers. The company reported an operating cash loss of \$1.49m for the quarter following an increased investment in human capital to drive the opportunities BET is chasing in the US and internationally. We expect to see this investment translate into additional cash receipts and revenue in the coming quarters. BET has delivered 61% of our forecasted H1FY22 cash receipts and 53% of the costs we have factored into H1FY22 cashflow forecasts. We have increased our forecasts for employee and operating costs for FY22 resulting in a reduced EBITDA forecast but factored in the end of the MTS revenue share from July 1, 2022 which has had the effect of lifting our base case valuation to \$2.35/share (previously \$2.31/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 three years' duration. 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 recently acquired Sportech business delivers additional SaaS-style revenues from its tote technology as well as a share of turnover from its tote operations. It also establishes BET as a pari-mutuel operator across 100 US racetracks, casinos and other venues in 36 states ahead of the opportunities to develop a fixed odds wagering business initially in New Jersey, which has been one of the leading states in the introduction of fixed-odds sportsbetting.

Tracking to an annualised revenue run rate of \$84m

Based on the cash receipts delivered in Q1, BetMakers is tracking to an annualised revenue run rate of \$84m, up from the ~\$70m the company noted in July. Our revenue forecast for FY22 of \$94.4m includes our expectation that fixed odds wagering will commence in New Jersey before the end of Q2FY22. In our view, our revenue forecasts for FY22 could prove conservative. We have made adjustments to our forecasts to reflect the capex on the new Betline terminals and additional staff hires which should translate to longer term sales.

Base case DCF valuation is \$2.35/share (\$2.01b)

Our base case DCF valuation is \$2.35/share (previously \$2.31/share) on the current share count and \$2.09/share fully diluted for all options and performance rights on issue. Our forecasts capture estimates for the broader US fixed odds wagering opportunity and assumes that BET maintains the ~25% share of market currently commanded by the Sportech tote business except in NJ where it holds exclusivity for the next 10 years. We see key catalysts as the commencement of fixed odds wagering in New Jersey once the rules are defined by the relevant government agency and demonstrated expansion in both the US and international wagering markets.

Earnings history and RaaS' estimates

| Year end | Revenue (A\$m) | EBITDA (A\$m) | NPAT (A\$m) | EPS (c) | EV/Sales (x) |
|----------|----------------|---------------|-------------|---------|--------------|
| 06/21a | 19.5 | (2.9) | (17.5) | (0.33) | 48.1 |
| 06/22e | 94.4 | 8.8 | 5.4 | 0.62 | 10.8 |
| 06/23e | 115.0 | 22.6 | 14.8 | 1.62 | 8.8 |
| 06/24e | 156.8 | 45.8 | 31.1 | 2.84 | 6.4 |

Source: RaaS estimates for FY22e, FY23e, and FY24e; Company data for historical earnings

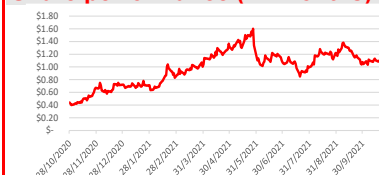
Software & Services

28th October 2021

Share details

| | |
|--|----------|
| ASX code | BET |
| Share price (27 Oct) | \$1.23 |
| Market capitalisation | \$1,055M |
| Shares on issue | 857.6M |
| In-the-money options | 46.3M |
| Performance rights inc Waterhouse Group/Matt Tripp | 107.05M |
| Net cash 30 Sept 2021 | \$108.8M |

Share performance (12 months)



Upside Case

- Embedded in racing clubs' integrity systems
- Strong relationships with corporate bookmakers in Australia, UK and US
- Opportunity to deliver its Managed Trading Services and GRN 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

- Fixed- odds wagering commences in NJ
- 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/CEO |

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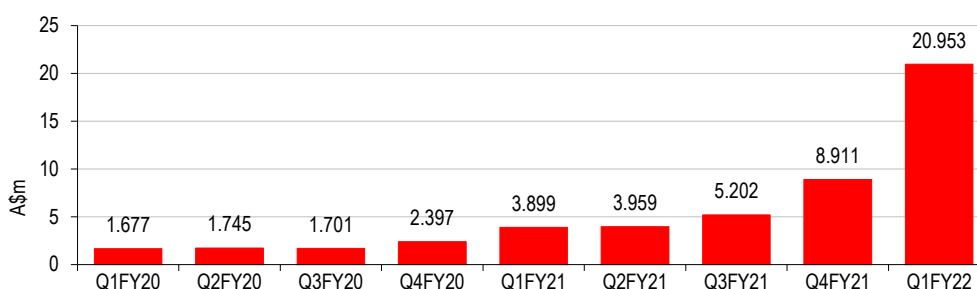
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Q1FY22 Results Analysis

BET reported Q1FY22 cash receipts of \$20.95m, a 135% increase on Q4FY21 cash receipts and a four-fold increase on the cash receipts reported in the previous corresponding period. BET delivered 61% of our H1FY22 forecasted cash receipts with this result. We estimate that the recently acquired Sportech business contributed \$12m of the total, which suggests cash receipts of \$8.95m from the underlying business, compared with \$3.9m in Q1FY21. The company noted that it saw significant growth in its Australian platform and Managed Trading Services (MTS) operations in the quarter and that this growth is expected to continue for the remainder of FY22 as the company delivers services to its expanded contracted customer base.

Exhibit 1: Revenue breakdown by half year



Source: Company reports

Operating costs for the quarter were higher across the board but incorporated 100% of Sportech's employees for the first time in a quarter and were largely in line with our expectations. Employee costs were \$10.75m in Q1FY22 and also included additional investment in human capital to execute on the company's global racing technology strategy. Product manufacturing and operating costs include payments to Amazon Web Services and to the Waterhouse Group for the Managing Trading Services revenue sharing arrangement which comes to an end in June 2022.

Exhibit 2: Q1FY22 versus Q1FY21 and Q4FY21 (in A\$m unless otherwise stated)

| | Q1FY21 | Q4FY21 | Q1FY22 |
|---|--------|--------|---------|
| Cash receipts | 3.90 | 8.91 | 20.95 |
| Product manufacturing and operating costs | (1.22) | (2.81) | (6.09) |
| Employee costs | (1.37) | (3.24) | (10.75) |
| Admin, corporate and other costs | (1.18) | (2.13) | (4.88) |
| Net interest | (0.02) | - | - |
| Taxes | (0.01) | (0.08) | 0.01 |
| Other | (0.16) | (0.01) | (0.74) |
| Operating cashflow | (0.05) | 0.65 | (1.49) |
| Net cash at the end of the period | 32.82 | 120.61 | 108.79 |

Source: Company data

New wagering technology investment

During the quarter, BET invested \$6.6m in wagering technology including a new betting terminal hardware range, Betline, which was developed with Australian company Neo Self Service Solutions, and is destined for BET's US operations. This investment will translate into around 650 betting terminals, with much of this investment upfront. We expect additional capex requirements of \$1m in each of the remaining quarters of FY22 to complete this programme. BET also partnered with EML Payments (ASX:EML) to launch the Bookies Card, a pre-paid, reloadable Mastercard that allows cardholders to transfer money between their bookmaker accounts via the www.bookiescard.com website and withdraw funds using this card from any ATM. The card is designed to help smaller bookmakers compete against similar products offered to punters by Ladbrokes and Sportsbet. We anticipate that the Bookies Card will be rolled out both in Australia and the US.

Global Racing Network expands with new partnerships

During the quarter, BetMakers also further validated its Global Racing Network (GRN) model with the integration of US race track Kentucky Downs into the GRN to deliver and monetise the track's racing content into the expanded markets of Europe, South America, Turkey and Australia through both Global Tote and fixed odds models. This has provided significant proof of concept for BetMakers to approach other racetracks around the world to feed content into and generate revenue from the GRN.

Additionally, BetMakers signed a multi-year live streaming agreement with Sports Information Services Limited and Racecourse Media Group for the distribution of live horse-racing vision and wagering content from Britain and Ireland to approved corporate bookmakers in Australia.

US fixed odds wagering catching on

While fixed odds wagering regulations are still being finalised by the New Jersey Racing Commission, Colorado has emerged as the second US state to consider the merits of fixed odds wagering.¹ Cobets.com reports that the Colorado Department of Revenue in conjunction with the state's division of racing and division of gaming is hosting meetings of stakeholders on November 3, 5, 6, 7, and 10. We understand BetMakers has been invited to attend these meetings. Colorado currently generates around US\$73m in turnover from pari-mutuel horse wagering, making it one of the smaller states for wagering. Interestingly, Colorado was one of the later adopters of fixed odds sports betting, commencing in May 2020, but it has been one of the fastest growing in terms of handle, generating cumulative handle of US\$3.2b from May 2020 to September 2021, in large part due to its low tax rate (6.7%).

Earnings Adjustments

We have adjusted our FY22 forecasts to reflect the higher-than-expected Q1 cash receipts and higher-than-forecast employment and operating costs. We expect the investment in human capital to generate additional sales in FY23 and beyond. Our forecasts from FY23 have been adjusted to reflect the end of the 50% revenue share arrangement on MTS which will result in higher gross profit margins for the company going forward. We have lifted our forecast for FY22 employee costs to \$44.7m from \$41.6m and operating costs to \$15.7m from \$11.5m previously. This has resulted in the earnings adjustments as set out in Exhibit 3.

| Exhibit 3: Earnings adjustments to FY22, FY23 and FY24 | | | | | | |
|---|----------|----------|----------|----------|----------|----------|
| | FY22 old | FY22 new | FY23 old | FY23 new | FY24 old | FY24 new |
| Revenue | 94.0 | 94.4 | 113.7 | 115.0 | 154.3 | 156.8 |
| Gross profit | 68.9 | 69.2 | 83.9 | 89.7 | 108.5 | 118.4 |
| EBITDA | 15.8 | 8.8 | 23.3 | 22.6 | 43.0 | 45.8 |
| NPAT | 8.9 | 5.4 | 14.8 | 14.8 | 29.3 | 31.1 |

Source: RaaS estimates

Base Case DCF Valuation is \$2.35/share (\$2.01b)

Our base case DCF-derived valuation is \$2.35/share (previously \$2.31/share). On a fully diluted basis, for all options and performance rights (ie 1,011m), the valuation is \$2.09/share.

| Exhibit 4: Base case DCF valuation | |
|---|---------------|
| | Parameters |
| Discount rate (WACC) | 11.4% |
| Terminal Growth Rate | 2.2% |
| Beta | 1.4 |
| Present value of free cashflows (\$m) | 535 |
| Terminal value (\$m) | 1,367 |
| Plus net cash at 31 December (\$m) | (109) |
| Equity value (\$m) | 2,012 |
| Shares on issue (m) | 857 |
| Equity value per share | \$2.35 |

Source: RaaS estimates

¹ <https://www.cobets.com/colorado-agency-examine-fixed-odds-horse-racing/>

Exhibit 5: Financial Summary

| BetMakers Technology Group Ltd (BET) | | | | | | Share price (27 October 2021) | | | | | | A\$ | 1.23 | | | | |
|--------------------------------------|--------|--------|--------|--------|--------|-----------------------------------|-------|----------|----------|----------|----------|---------|-------|-------|-------|-------|-------|
| Profit and Loss (A\$m) | | | | | | Interim (A\$m) | | | | | | H120F | H220A | H121A | H221A | H122F | H222F |
| Y/E 30 June | FY20A | FY21A | FY22F | FY23F | FY24F | Revenue | 4.3 | 4.9 | 7.6 | 12.3 | 45.5 | 48.9 | | | | | |
| Sales revenue | 8.6 | 19.5 | 94.4 | 115.0 | 156.8 | Gross profit | 3.6 | 3.1 | 4.0 | 6.6 | 33.1 | 36.1 | | | | | |
| Total Revenue | 9.2 | 19.5 | 94.4 | 115.0 | 156.8 | EBITDA | 0.3 | 0.3 | (1.7) | (0.8) | 4.0 | 4.8 | | | | | |
| Gross Profit | 6.3 | 10.2 | 69.2 | 89.7 | 118.4 | EBIT | (0.4) | (0.8) | (2.8) | (1.9) | 2.5 | 3.2 | | | | | |
| EBITDA | 0.8 | (2.9) | 8.8 | 22.6 | 45.8 | NPAT (normalised) | (0.6) | (0.9) | (1.4) | (0.9) | 2.5 | 2.9 | | | | | |
| Depn | (0.3) | (0.5) | (0.8) | (1.1) | (1.2) | Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Amort | (1.9) | (2.2) | (2.4) | (2.4) | (2.4) | NPAT (reported) | (0.6) | (1.5) | (4.4) | (0.9) | 2.5 | 2.9 | | | | | |
| EBIT | (1.3) | (5.6) | 5.7 | 19.2 | 42.3 | EPS (normalised) | (0.1) | (0.3) | (0.8) | (0.1) | 0.3 | 0.3 | | | | | |
| Interest | (0.5) | (0.1) | 2.1 | 2.0 | 2.2 | EPS (reported) | (0.1) | (0.3) | (0.8) | (0.1) | 0.3 | 0.3 | | | | | |
| Tax | 0.3 | 3.5 | (2.3) | (6.4) | (13.3) | Dividend (cps) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Imputation | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | | | | | |
| Equity accounted assoc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Operating cash flow | (0.2) | (0.3) | (1.3) | (0.7) | (6.8) | (0.7) | | | | | |
| NPAT pre significant items | (1.5) | (2.2) | 5.4 | 14.8 | 31.1 | Free Cash flow | (0.3) | (0.4) | (1.4) | (2.6) | (7.2) | (1.1) | | | | | |
| Significant items | (0.6) | (15.3) | 0.0 | 0.0 | 0.0 | Divisions | | | | | | H120F | H220A | H121A | H221A | H122F | H222F |
| NPAT (reported) | (2.1) | (17.5) | 5.4 | 14.8 | 31.1 | Wholesale Wagering | 3.2 | 3.2 | 5.8 | 10.9 | 38.0 | 40.8 | | | | | |
| Cash flow (A\$m) | | | | | | Content & Integrity | 0.9 | 1.4 | 1.8 | 1.4 | 7.6 | 8.1 | | | | | |
| Y/E 30 June | FY20A | FY21A | FY22F | FY23F | FY24F | Other income | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| EBITDA | 0.8 | (2.9) | 8.8 | 22.6 | 45.8 | Total Revenue | 4.0 | 4.9 | 7.6 | 12.3 | 45.5 | 48.9 | | | | | |
| Interest | (0.4) | (0.0) | 2.1 | 2.0 | 2.2 | COGS | 0.4 | 1.8 | 3.6 | 5.7 | 12.5 | 12.8 | | | | | |
| Tax | (0.0) | (0.1) | (2.3) | (6.4) | (13.3) | Gross Profit | 3.6 | 3.1 | 4.0 | 6.6 | 33.1 | 36.1 | | | | | |
| Working capital changes | (1.0) | 1.0 | (16.1) | (18.2) | (22.0) | Employment costs | 2.0 | 2.1 | 3.3 | 5.8 | 21.6 | 23.1 | | | | | |
| Operating cash flow | (0.5) | (2.0) | (7.6) | 0.1 | 12.7 | Selling General & Admin Costs | 1.3 | 0.6 | 1.3 | 2.4 | 5.2 | 5.6 | | | | | |
| Mtce capex | (0.2) | (1.9) | (0.8) | (0.9) | (0.9) | Other Opex | 0.0 | 0.0 | 1.1 | (0.8) | 2.3 | 2.5 | | | | | |
| Free cash flow | (0.7) | (4.0) | (8.3) | (0.8) | 11.8 | Total Operating Costs | 3.3 | 2.8 | 5.7 | 7.4 | 29.1 | 31.2 | | | | | |
| Growth capex | (0.0) | (0.7) | (9.5) | (2.9) | (2.9) | EBITDA | 0.3 | 0.3 | (1.7) | (0.8) | 4.0 | 4.8 | | | | | |
| Acquisitions/Disposals | 0.0 | (44.1) | (5.2) | 0.0 | 0.0 | Margins, Leverage, Returns | | | | | | FY20A | FY21A | FY22F | FY23F | FY24F | |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EBITDA | | 9.1% | (14.8%) | 9.3% | 19.7% | 29.2% | | | | | |
| Cash flow pre financing | (0.7) | (48.8) | (23.1) | (3.6) | 8.9 | EBIT | | (14.3%) | (28.7%) | 6.0% | 16.7% | 26.9% | | | | | |
| Equity | 37.8 | 142.8 | 0.5 | 10.8 | 0.0 | NPAT pre significant items | | (16.5%) | (11.3%) | 5.7% | 12.9% | 19.8% | | | | | |
| Debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | Net Debt (Cash) | | 31.3 | 118.5 | 105.4 | 115.5 | 127.3 | | | | | |
| Dividends paid | (0.2) | (0.5) | 0.0 | 0.0 | 0.0 | Net debt/EBITDA (x) | (x) | 37.543 | n/a | 11.960 | 5.103 | 2.777 | | | | | |
| Net cash flow for year | 36.9 | 93.6 | (22.5) | 7.2 | 9.5 | ND/ND+Equity (%) | (%) | (107.4%) | (154.0%) | (109.9%) | (103.6%) | (97.3%) | | | | | |
| Balance sheet (A\$m) | | | | | | EBIT interest cover (x) | (x) | n/a | n/a | 0.4 | 0.1 | 0.1 | | | | | |
| Y/E 30 June | FY20A | FY21A | FY22F | FY23F | FY24F | ROA | | (0.7%) | (3.8%) | 2.4% | 7.6% | 14.9% | | | | | |
| Cash | 31.6 | 120.6 | 107.6 | 117.6 | 130.0 | ROE | | (5.4%) | (13.7%) | 2.7% | 6.9% | 12.8% | | | | | |
| Accounts receivable | 2.0 | 9.0 | 10.4 | 12.6 | 17.2 | ROIC | | (2.3%) | (2.8%) | 2.8% | 8.4% | 16.8% | | | | | |
| Inventory | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | NTA (per share) | | 0.08 | 0.18 | 0.17 | 0.20 | 0.23 | | | | | |
| Other current assets | 0.1 | 5.0 | 5.0 | 5.0 | 5.0 | Working capital | | 0.7 | (8.5) | (8.8) | (8.1) | (7.7) | | | | | |
| Total current assets | 33.7 | 134.6 | 122.9 | 135.2 | 152.2 | WC/Sales (%) | | 7.8% | (43.8%) | (9.4%) | (7.0%) | (4.9%) | | | | | |
| PPE | 0.2 | 11.4 | 20.9 | 23.5 | 26.1 | Revenue growth | | 39.3% | 112.3% | 385.3% | 21.7% | 36.4% | | | | | |
| Intangibles inc Goodwill | 14.5 | 44.3 | 44.3 | 44.3 | 44.3 | EBIT growth pa | | n/a | n/a | (201.7%) | 238.1% | 120.3% | | | | | |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Pricing | | | | | | FY20A | FY21A | FY22F | FY23F | FY24F | |
| Deferred tax asset | 7.3 | 12.3 | 12.3 | 12.3 | 12.3 | No of shares (y/e) | (m) | 568 | 858 | 918 | 918 | 918 | | | | | |
| Other assets | 6.9 | 27.7 | 37.5 | 49.7 | 66.1 | Weighted Av Dil Shares | (m) | 457 | 675 | 858 | 918 | 918 | | | | | |
| Total non current assets | 28.9 | 95.7 | 115.0 | 129.8 | 148.7 | EPS Reported | cps | (0.47) | (2.59) | 0.62 | 1.62 | 2.84 | | | | | |
| Total Assets | 62.6 | 230.3 | 237.9 | 265.1 | 300.9 | EPS Normalised/Diluted | cps | (0.33) | (0.33) | 0.62 | 1.62 | 2.84 | | | | | |
| Accounts payable | 1.3 | 17.6 | 19.2 | 20.7 | 24.9 | EPS growth (nom/dil) | | n/a | n/a | -291% | 161% | 75% | | | | | |
| Short term debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | DPS | cps | - | - | - | - | - | | | | | |
| Tax payable | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | DPS Growth | | n/a | n/a | n/a | n/a | n/a | | | | | |
| Other current liabilities | 0.4 | 4.4 | 4.4 | 4.4 | 4.4 | Dividend yield | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | | | | | |
| Total current liabilities | 1.7 | 22.1 | 23.7 | 25.2 | 29.4 | Dividend imputation | | 30 | 30 | 30 | 30 | 30 | | | | | |
| Long term debt | 0.4 | 2.1 | 2.1 | 2.1 | 2.7 | PE (x) | | - | - | 198.4 | 76.1 | 43.4 | | | | | |
| Other non current liabs | 0.2 | 10.7 | 10.7 | 10.7 | 10.7 | PE market | | 18 | 18 | 18 | 18 | 18 | | | | | |
| Total long term liabilities | 0.5 | 12.8 | 12.8 | 12.8 | 13.4 | Premium/(discount) | | nm | nm | 1002.2% | 322.7% | 140.9% | | | | | |
| Total Liabilities | 2.2 | 34.9 | 36.5 | 38.0 | 42.8 | EV/EBITDA | | nm | nm | 116.1 | 0.0 | 0.0 | | | | | |
| Net Assets | 60.4 | 195.4 | 201.3 | 227.0 | 258.1 | FCF/Share | cps | (0.1) | (0.0) | (0.7) | 0.1 | 1.5 | | | | | |
| Share capital | 84.9 | 226.0 | 226.5 | 237.4 | 237.4 | Price/FCF share | | nm | nm | nm | nm | nm | | | | | |
| Accumulated profits/losses | (26.1) | (43.5) | (38.1) | (23.3) | 7.8 | Free Cash flow Yield | | nm | nm | nm | nm | nm | | | | | |
| Reserves | 1.6 | 12.9 | 12.9 | 12.9 | 12.9 | | | | | | | | | | | | |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | | | | | | |
| Total Shareholder funds | 60.4 | 195.4 | 201.3 | 227.0 | 258.1 | | | | | | | | | | | | |

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021



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- how we transact with you
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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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