

Has the currency to be the top dog

Mad Paws Holdings Ltd (ASX:MPA) is an Australian-based and -focused pet services business operating an online marketplace that matches and connects pet owners with pet service providers. The marketplace comprises proprietary technology that has been custom-built for local pet services, is optimised for web, mobile and app, manages payments and provides reviews/ratings. The site was founded in 2015 and since then has facilitated ~117k bookings. Unlike most online marketplaces, MPA does not benefit from online migration during COVID-induced restrictions as the business currently relies on dog sitting, hosting and visits for ~89% of revenue generation, which in turn is driven by pet owner travel plans. While easing travel restrictions has and will see a booking rebound, there are a number of other compelling medium-term themes driving customer/revenue growth including increased pet ownership, the “humanisation” of pets and the addition of new verticals to capitalise on a growing customer base. Rover in the US provides a good roadmap for MPA’s potential growth and profitability and provides solid valuation support at current prices.

Business model

MPA operates an online marketplace which connects service providers with pet owners, predominantly for dog hosting, dog sitting and dog visits. MPA charges a 7% booking fee to “customers” and a 20% commission on the total service fee (less the booking fee) for service providers. The group operates a negative working capital model, with payment received pre-service provision and released post-service provision. The group has had ~110k unique customers since launch in 2015 and is looking to utilise this growing database to offer other pet services such as food delivery and insurance to capture a greater share of a conservatively estimated \$4.0b addressable market.

New business streams & the cycling of COVID positive for CY22

From a customer base of ~117k and growing (~38k new customers added in a disrupted FY21 alone) MPA is looking to offer new products and services on its platform to increase recurring transactions/revenue. Food subscription and insurance were introduced over FY21, while the Waggly Club (treats and toys) was acquired late FY21. As a result, subscription ARR in Q1FY22 has grown by 32% and subscriber numbers by 42% on the back of cross-selling. Over the medium-term our implied market penetration for all these services is generally <5% of our estimated cumulative customer pool, which itself is only forecast to reach ~5% of all dogs in Australia by FY25.

Valuation of \$0.35/share or \$76m market cap

Based on our earnings assumptions we derive a DCF valuation for MPA of \$0.35/share diluted for all in-the-money options. The combination of a growing customer pool, growing penetration of this pool for new products/services, and lower longer-term customer acquisition costs drives this valuation and offers significant upside for both penetration rates and new products/services. FY21 EV/Revenue peer comparisons suggest MPA is trading in-line with our selected peer group, a 42% discount to closest peer Airtasker (ASX:ART) and a 42% discount to US peer Rover (NASDAQ:ROVR).

Historical earnings and RaaS estimates (in A\$m unless otherwise stated)

Year end	GMV*	Revenue	EBITDA reported	NPAT adjusted	EPS (adj) (c)	EV/Sales (x)
06/21a	13.1	2.9	(4.7)	(5.1)	(0.04)	6.6
06/22e	14.7	8.7	(6.8)	(7.1)	(0.03)	5.1
06/23e	23.0	14.4	(3.5)	(3.7)	(0.02)	3.3
06/24e	33.0	22.4	0.6	0.2	0.001	2.1

Source: Company data, RaaS estimates FY22e, FY23e and FY24e *Gross Merchandise Value

Software & Services

4th November 2021

Share Details

ASX code	MPA
Share price (3 Nov)	\$0.225
Market capitalisation	\$49.0M
Shares on issue	219.4M
Net cash at 30 Sep 21	\$9.9M
Free float	~44.3%

Share Performance (since listing)



Upside Case

- International travel returns to a larger client base
- New product offerings exceed expectations as a % of the existing client base
- Industry consolidation

Downside Case

- Industry competition accelerates and/or offshore player enters
- New product offerings fail to gain scale
- Peer multiples contract, impacting valuation

Board of Directors

Jan Pacas	Non-Executive Chairman
Justus Hammer	CEO/Executive Director
Mike Hill	Non-Executive Director
Josh May	Non-Executive Director
Vicki Aristidopoulos	Non-Executive Director

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Mad Paws Holdings Ltd

Mad Paws Holdings Ltd (ASX:MPA) listed on the ASX in March 2021, raising \$12m at \$0.20/share. The funds raised will be used for working capital across marketing and sales, product development and building the operational team, together with funding the cost of the IPO. Since launch in 2015 the site has been used by ~117k customers. MPA is looking to increase the recurring nature of customer transactions by offering new products and services including premium food subscriptions (Dinner Bowl), pet insurance and dog treats/toys via the recently acquired Waggly Club. The core marketplace was severely impacted by COVID-related lockdowns between February and October CY20 and between June and October CY21 to date as travel restrictions reduce the need for pet minding/sitting services. Bookings have shown strength out of lockdowns in the past (November 2020 to April 2021 for example) providing significant leverage opportunity off easy comparatives when mass lockdowns become less of a tool due to vaccinations. In the interim, lockdowns have been a beneficiary for the subscription parts of the business with significant growth in recent quarters.

Investment Case

The investment case for MPA has both near-term and long-term drivers, and is summarised below:

- Unlike most “on-line” ecommerce sites, lockdowns are a net negative for MPA as less travel and more working from home reduces the need for the core services of pet hosting, sitting and visits. Ex-lockdown bookings have been strong offering revenue leverage opportunities for much of CY22;
- The return of international travel offers further upside for MPA given the higher average days per booking relative to domestic travel. We have not assumed a return for international travel (in the form of higher average transaction values) until FY23;
- MPA has built a database of both pet owners (~117k using this site since 2015) and pet service providers (~30k vetted suppliers on the platform) who are regularly sent pet content to continue engagement and provide a ready audience for additional pet products and services. The current customer base represents a fraction (~1.7%) of the estimated 6.3m dogs in Australia as at 2021;
- New products/services marketed to existing customers are in their infancy but already showing promise with 32% ARR and 42% subscriber growth in Q1FY22 alone. The Waggly Club (treats and toys subscription business) in particular has accelerated subscriber numbers since being acquired in June 2021;
- The group is well funded to deliver on its expansion plans with ~\$9.9m net cash as at September 2021. Being listed on the ASX also provides both currency and transparency for industry consolidation, be it as an acquirer or target, as the Waggly Club acquisition has proven;
- Our medium-term earnings forecasts assume a “cumulative customer pool” equivalent to just 4.8% of the estimated number of dogs in Australia by FY25 or 300k. Our implied penetration of this customer pool across new product/services in general is 5% or below, providing plenty of upside in our estimates.

DCF Valuation \$0.35/share (market cap of A\$76m)

We have sense checked our \$0.35cps DCF valuation against:

- Domestic peer EV/Revenue multiples for FY21, with \$0.35/share implying a multiple in-line with Airtasker (ASX:ART) if we adjust for Waggly revenue, which is reasonable considering the relative COVID impacts of the two group in FY21;
- US listed peer Rover (NASDAQ:ROVR), which is currently trading at 15.4x EV/Revenue, and \$0.35/share for MPA representing a multiple in-line with FY21. In our view MPA trails ROVR in market penetration by at least three years.

The Origins of Mad Paws

Mad Paws was co-founded by Justus Hammer, Alexis Soulopoulos and Jan Pacas in 2014. Initially offering holiday pet-sitting services, Mad Paws expanded into dog walking, day care and house visits in 2016 to complement existing services.

In 2018 the new technology platform was launched to allow future scalability.

The business listed in March 2021, raising \$12m at \$0.20/share.

The Mad Paws Online Platform

The current technology platform was launched in 2018 with the architecture built to allow future scalability. Not only does this give MPA a platform to grow, but also deploy within acquisitions to improve their technology offering. Key features of the platform include:

- Proprietary algorithms that match the key requirements of customers with available/suitable pet service providers in the local area
- Service provider profiles including photos, experience and reviews
- Real-time chat functionality
- Secure confirmation and payment
- Service provider application, vetting and onboarding process.

The Mad Paws Business Model

Marketplace

The core marketplace app/website offers a simplified process for pet owners to find pet service providers across a range of activities when the owner is unavailable. In return for connecting pet owners with service providers MPA charges:

- A 7% booking fee charged to the owner on the Gross Merchandise Value (GMV)
- A 20% commission on the GMV less the booking fee
- The resulting gross revenue is then adjusted for refunds, chargebacks and discounts to derive reported revenue.

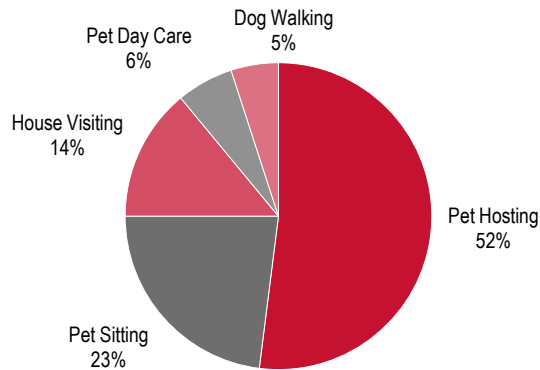
The table below summarises the revenue generation for MPA on a \$100 transaction between the pet owner and pet service provider.

Exhibit 1: MPA revenue metrics for a \$100 GMV transaction				
Workings	Booking fee (\$)	Commission (\$)	Total (\$)	Comments
Transaction	100.0	100.0	100.0	The agreed transaction fee
7% booking fee	7.0	7.0		7% of GMV
GMV (and customer cost)	107.0	107.0		Resulting customer payment
Ex booking fee		100.0		Base from which to apply commission
20% commission		20.0		20% of GMV less booking fee
Gross revenue	7.0	20.0	27.0	
Adjustments	0.8	2.40	3.2	Discounts, chargebacks etc (est at 12%)
Reported revenue	6.2	17.6	23.8	Reported revenue in ASX accounts
Take rate			23.8%	Reported revenue/GMV
Source: Company financials and RaaS estimates				

The FY20 revenue mix highlights the importance of both pet hosting, pet sitting and visits for MPA, which combined represented 89% of group revenue in FY20. These activities are typically used when pet owners are

away from home, which is driven by both domestic and overseas travel. Overseas travel tends to be longer in duration than domestic and therefore involves higher average transaction values.

Exhibit 2: MPA FY20 revenue mix

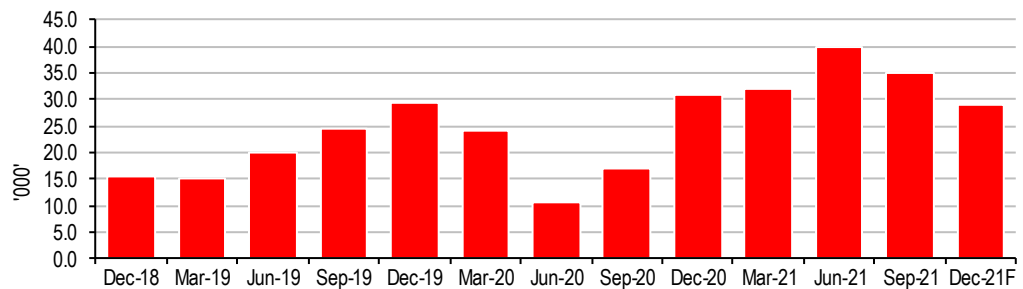


Source: MPA Prospectus

COVID-related lockdowns and travel restrictions, particularly for overseas travel, have clearly had a negative impact on MPA booking numbers and total transaction values which can be seen in Q4FY20 and Q1FY21.

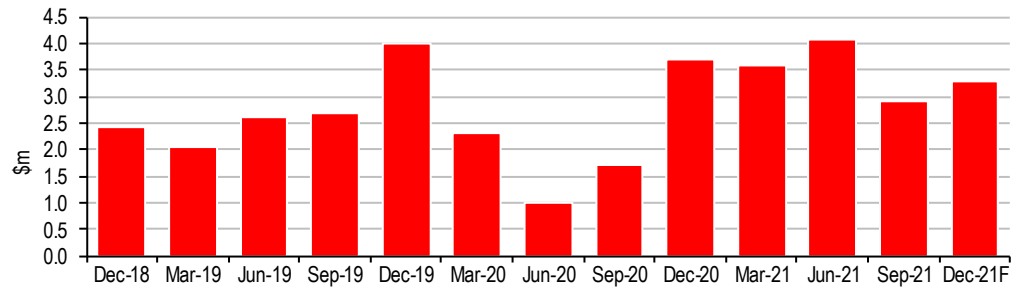
Ex-lockdown recovery can be seen in Q2FY21 and was led by domestic travel given the international border closures, and has resulted in generally higher booking numbers but lower average GMV/transaction, due to the longer average duration of international travel against domestic travel. Booking numbers were strong in Q1FY22 despite lockdowns, but resulting cancellations impacted revenue conversion. Signs are positive leading into Q2FY22 as lockdowns ease, albeit Q2FY22 was a high base.

Exhibit 3: MPA total booking numbers by quarter



Source: Company presentations and RaaS estimates

Exhibit 4: MPA Gross Merchandise Value by quarter



Source: Company presentations and RaaS estimates

New products/services

Utilising the established Mad Paws brand name, customer trust and the ~117k unique users since launch, MPA is looking to add complementary products and services to the marketplace, encouraging more recurring visits and in the process earning additional commissions/margins. Newly launched and potential offerings include:

- Frozen pet food subscription service Dinner Bowl (launched August 2020), with Dinner Bowl Kibble launched in Q4FY21 and Lightly Cooked launched Q2FY22
- Pet insurance (launched August 2020)
- Pet treats and toys (via the recently acquired subscription service Waggly Club).

The Market Opportunity

In what appears to be the most recent authority for pet ownership rates in Australia, the 2021 household survey conducted by Newgate Research on behalf of Animal Medicines Australia suggests 47% of Australian households own a dog and 30% own a cat. If the results of the survey are extrapolated across all Australian households it implies there were 6.3m dogs and 4.9m cats in Australia representing the Total Addressable Market (TAM).

The 2021 survey has seen a 24% increase in the implied number of dogs and a 30% increase in the implied number of cats since the 2019 survey. The increase has been attributed to COVID-induced lockdowns with this survey providing the first guide to the quantum of the impact.

Exhibit 5: Number of pets in Australia

Animal	Household penetration (%)	Total owner households ('000)	Animals per household	Total animals ('000)
Dogs	47.0	4,644	1.4	6,344
Cats	30.0	3,031	1.6	4,903

Source: Animal Medicines Australia - 2021

In the same survey, the total self-reported expenditure by category during 2021 was also estimated, with the key categories as they relate to MPA listed below.

The \$1.1b boarding and minding category is ~75% of MPA's GMV/Revenue currently with FY21 GMV estimated at \$10.5m, which only represents 1.0% of the estimated market size for this category. The "grey market" of family and friends minding pets is not included in this number but logically could be at least this size again.

MPA has negligible market share in most other categories including treats and toys (~0.1% with the acquisition of Waggly Club), walking (0.1%) and insurance, offering significant upside.

Exhibit 6: Total household expenditure by key MPA category - 2021

	\$m	Est MPA GMV (\$m)	Comments
Products/accessories	1,103	1.5	0.1% market share (Waggly)
Boarding/minding	1,036	10.5	1.0% market share ex the "grey market"
Pet insurance	1,143	nm	1 st year of launch
Walking	744	0.5	0.1% market share
TOTAL ADDRESSABLE MARKET	4,026		Ex-food

Source: Animal Medicines Australia, Company financials, RaaS estimates

Competitive Landscape

There are several other app/website players in the domestic market including:

Pawshake is a very similar offering to MPA connecting pet owners with service providers across an app/website for pet sitting, dog walkers, day care and home boarding. Founded in 2013 by Tanguy Peers and Dries Coucke, the business now has more than 30,000 pet sitters on its books. Pawshake charges a 19% commission on the GMV to the pet owner and is backed by AirTree Ventures (who first invested in 2014), which also has a stake in on-line pet retailer Pet Circle.

Petcloud is an app/web-based site offering a more extensive range of pet services relative to MPA including pet sitting, house sitting, home visits, day care, pet taxis, dog walking, dog training and dog washing. Petcloud is partnered with Greencross Vets and the RSPCA in most states, with the RSPCA providing sitter support and an optional two-hour, \$75 Accredited Pet Care Training course. RSPCA Queensland is a part-owner in the business. The group is in the process of trying to raise \$2m via crowd funding.

Don't Fret Pet is a web-based site offering a boarding kennel alternative for dog owners. Founded in 1993 by Jenny Brearley, the differentiating factor for Don't Fret Pet is the personal screening and background/police checks of all minders and the fact that minders can only mind one dog at a time. The largest providers of pet sitting and house sitting/visits sitting are the traditional boarding kennels and good-old "family and friends".

Family and friends. Intuitively, the largest provider of pet sitting and house-sitting services for owners, and one suspects this is particularly the case for weekend trips, and less so for overseas travel.

Traditional boarding kennels. Vary significantly in terms of cost and services relating to space, exercising and food provided to pets. In major cities the kennels tend to be on the outskirts of town and require a long drive or a pick-up/drop-off service.

Key Mad Paws Financials

Gross Merchandise Value (GMV)

GMV is described by management as “the most important operating metric to manage and predict the overall performance of the business”. GMV is a non-IFRS measure and represents the total value of transactions processed by Mad Paws on the marketplace, on a cash basis before deducting cancellations, pet service provider payments, refunds chargebacks, discounts and GST. GMV represents the basis to apply both booking fees and commissions to derive marketplace revenue.

Revenue

Our revenue calculations vary depending on the category involved, and we summarise each approach below:

- **Marketplace.** We add an assumption of new customers each year (driven by ad spend and prior year history) to the cumulative customer base in order to frame our potential customer pool. We then assume ~90% of this customer pool use MPA once per year at an average spend assumption which takes into account history, seasonality and cycle. This establishes our GMV from which we deduct ~12% for chargebacks, discounts etc and apply the 7% booking fee and 20% commission to derive reported revenue (lockdowns have seen this number higher in FY20 and FY21).
- **Food subscription.** We assume the “potential customer pool” described above as the addressable market for the food subscription service. We make an assumption of the percentage of this pool that will use this service and assume \$189/month as the subscription price.
- **Insurance.** We assume the “potential customer pool” described above as the addressable market for the pet insurance market. Using a weighted average spend between dogs and cats based on the Animal Medicines Australia survey of \$180 per annum we apply this spend to our customer assumptions and assume a 20% commission for MPA as revenue. We note that the Animal Medicine Australia survey suggests only 25% of dog/cat owners take out insurance.
- **Waggly Club.** As a starting base Waggly had ~2,000 subscribers (with a 92% monthly retention rate) which represented 70% of its \$1.5m revenue in FY21, with other on-line transactions representing the balance. Relative to the >117k customer pool of MPA there is significant upside for Waggly customer conversion over the medium-term. We assume an average \$49/month subscription and \$65 per average on-line transaction.

Key market penetration assumptions for each service modelled are listed in the table below. As a general comment our assumptions look conservative relative to the estimated market size in FY25, namely:

- A cumulative customer pool equivalent to 4.9% of the estimated total dog market;
- ~90% of the customer pool transact once a year in the marketplace;
- 1.2% of the cumulative customer pool subscribes to the food subscription service;
- 3.5% of the cumulative customer pool subscribes to the insurance product;
- 4.1% of the cumulative customer pool subscribes to the Waggly Club.

Exhibit 7: MPA implied market penetration by revenue stream

Year-end June	2020A	2021A	2022F	2023F	2024F	2025F
Beginning customers (k)	49	71	110	156	206	268
Add new customers (k)	23	39	46	50	62	40
Cumulative customer pool (k)	71	110	156	206	268	308
% total dog market	1.2%	1.7%	2.5%	3.2%	4.2%	4.9%
Marketplace booking numbers (k)	89	120	149	212	276	300
Adjusted for cancellations (k)	66	96	131	186	243	264
% of cumulative pool	93%	87%	84%	90%	91%	86%
Food subscription cust. (no.)	0	270	503	1,210	2,177	3,843
% cumulative pool	nm	0.2%	0.3%	0.6%	0.8%	1.2%
Insurance customers	0	92	1,541	3,670	7,411	10,692
% cumulative pool	nm	0.1%	1.0%	1.8%	2.8%	3.5%
Avg Waggly subscribers		1,700	4,000	6,850	10,400	12,480
% cumulative pool			2.6%	3.3%	3.9%	4.1%

Source: Company financials and RaaS analysis

Exhibit 8: MPA revenue summary by stream

Revenue stream	2020A	2021A	2022F	2023F	2024F
Marketplace	2.00	2.36	3.20	5.17	7.42
Dinner Bowl	0.00	0.43	2.28	3.94	7.20
Insurance	0.00	0.00	0.08	0.15	0.31
Waggly	0.00	0.07	3.20	5.10	7.43
Total Revenue	2.00	2.86	8.75	14.37	22.36

Source: Company financials and RaaS estimates

Gross Profit Margin

Our gross profit assumptions vary depending on revenue stream, and are summarised below:

- **Marketplace.** We assume the revenue derived from net GMV is essentially gross profit, and any costs associated with deriving such revenue such as marketing and support is incurred at the operating cost line.
- **Food subscription.** We have assumed a GP% of 25% medium-term improving to 30% by FY24 as higher volumes improve operating efficiency. Most of the COGS involved are third-party related.
- **Insurance.** We assume the 20% commission derived from insurance contracts is essentially gross profit, and any costs associated with deriving such revenue is an operating cost.
- **Waggly Club.** On acquisition Waggly had a GP% of ~40%, and we assume this level holds FY22 before improving modestly with scale into FY23 (42%) and FY24 (45%) as subscriptions grow.

Operating Costs

Most of the funds raised in the March 2021 IPO were earmarked for working capital, predominantly in operating costs relating to marketing/sales (\$4.5m), the operating team (\$2.8m) and product development (\$2.7m). Add ASX listing costs and we forecast costs to increase significantly from the \$5m annualised base reported in 1H21. Assumptions relating to key operating cost line items are detailed below:

- **Employees.** From an annualised base of \$2m in 1H21 we forecast an increase to \$6.0m in FY22.
- **Marketing.** From an annualised base of \$1.8m in 1H21 we expect growth in spend to accelerate in FY22 on the back of a customer subscription drive, particularly for Waggly, peaking at \$3.3m before a decline in absolute dollar spend into FY24 as customer acquisition costs decline on the back of more “organic” advertising. This has been the experience of Rover in the US;

- **Other.** From an annualised base of \$0.6m in 1H21 we forecast an increase to \$1.6m in FY22, mainly in the form of ASX listing costs.

Exhibit 9: MPA forecast P&L summary

Line item	2020A	2021A	2022F	2023F	2024F
Revenue	2.00	2.86	8.75	14.37	22.36
COGS	0.00	0.55	3.68	5.92	9.13
Gross profit	2.00	2.30	5.07	8.45	13.24
GP%	100%	81%	58%	59%	59%
Operating costs	4.30	7.00	11.91	11.93	12.63
EBITDA	-2.30	-4.70	-6.84	-3.48	0.61
Depn and Amort	0.20	0.25	0.29	0.32	0.32
EBIT	-2.50	-4.95	-7.13	-3.80	0.29

Source: Company financials and RaaS estimates

Other Financial Commentary

Cash Flow

In addition to R&D spend at the P&L line, MPA capitalise ~\$0.4m per annum of software development expenses, which we have as ongoing in the forecast period. MPA receive an R&D tax credit on this spend in the order of \$0.2m, and we forecast this credit until FY24, when MPA forecast revenue exceeds the \$20m threshold.

Outside of this capitalised software MPA runs a negative working capital model, with customers paying in advance of providers receiving their payment.

Shares Options

MPA has a range of share options from both the legacy corporate structure and arising from the IPO, the details of which are summarised in the exhibit below. For dilution purposes we only adjust for the legacy ESPO options which are well in the money and represent ~8.2% of current issued capital.

Exhibit 10: MPA option and performance rights

Option	Number (m)	Strike price (\$)	Expiry date	Nature	% of current shares
Legacy ESPO	17.5	0.0022-0.023	Oct-23	Tenure	8.0%
Bombora	10.0	0.20	Mar-24	Standard	4.6%
IPO	17.5	0.34	Mar-27	Tenure	8.0%
Joint Lead Manager	2.0	0.30	Mar-26	Standard	0.9%

Source: Company announcements

Peer Comparisons

We see peers for MPA as businesses operating “marketplaces” for services ideally, but goods as well if such goods are not owned/warehoused by the marketplace. Such marketplaces typically have no inventory, operating a negative working capital model, rely on ad searches for new customer generation and derive revenue by charging a service fee on the gross transaction fee. Of those businesses listed Airtasker (ASX:ART) is most comparable, albeit much larger, more horizontal in nature and with offshore operations/aspirations.

Airtasker (ASX:ART)

ART is Australia’s leading online marketplace for local services, often described as a horizontal offering with almost infinite service offerings. As a result, the TAM is large with the company estimating \$52.3b in FY19 and a market share of just 27 basis points.

ART was founded in 2012, has been operating in the UK since 2018 and recently moved to set up operations in New Zealand, Ireland, the US and Singapore. The group acquired Zaarly in the US for \$3.4m in June 2021.

ART introduced a sliding commission/service fee in 2019 based on customer ratings and tasker earnings over the preceding 30 days. The rate ranges from 10% (\$4,800 in the last 30 days with excellent ratings) to 20% (\$800 in the last 30 days and fair ratings). A booking fee of 4.4% to the customer was introduced in 2019.

Exhibit 11: ART revenue model



Source: Airtasker blog

MyDeal.com.au (ASX:MYD)

MYD was founded in 2011 and listed on the ASX in October 2020. MYD operates an on-line marketplace specialising in household goods such as furniture and homewares, effectively acting as an intermediary, facilitating transactions between consumers and sellers (brand owners). The group has been a major beneficiary of COVID-related lockdowns, with sales over FY21 up 111% on the PCP. Active customers (customers that have used the site once in the past 12 months) are said to be 894,225 while the FY20 “take rate” was 16.3%.

HiPages Group Holding Ltd (ASX:HPG)

Hipages is Australia largest on-line “tradie” marketplace connecting tradies with residential and commercial consumers. HPG estimates its TAM at A\$83b and a market share of 2%, with ~29.8k of the estimated 257k (12%) registered tradies in Australian subscribing to the platform. The group has had 3.3m unique users use the website since launch. HPG operates a subscription-only model (having transitioned from a pay-per-lead model), offering seven packages with an average monthly subscription fee of \$126 over FY20. The service is free for customers.

Exhibit 12: HPG revenue model

Subscription Package Feature	Starter Packages	Advanced Packages	Premium Packages	Premium Plus Packages
Monthly Subscription Fee 6 or 12 month contract term.	\$49 or \$99	\$199 or \$299	\$399 or \$499	\$599+
Standard Lead Credit Allowance Issued monthly with 2 month expiry from issue date.	\$60 / \$125	\$250 / \$375	\$500 / \$625	\$750+
Access to Get Quote service Receive job lead invitations, from hipages' matching algorithm, in relevant trade category and service locations.	✓	✓	✓	✓
Directory Listing and included Postcodes Advanced and Premium tiers receive an enhanced directory presence.	1	3	5	10
Loyalty Reward (Bonus Lead Credit) 5% of subscription fee in additional monthly Lead Credit every 6 months. Capped at 25% bonus.	✓	✓	✓	✓
Contract Pause Feature Ability to pause contract for 14-31 days once per contract. Extends contract for length of pause period.	✓	✓	✓	✓
Dedicated Account Manager		✓	✓	✓
Extended Lead Credit Expiry 3 month expiry from issue date (Starter and Advanced package expiry is 2 months).			✓	✓

Source: HPG Prospectus

Red Bubble (ASX:RBL)

RBL operates “print on demand” marketplaces Redbubble.com and TeePublic.com. Independent artists sell uncommon designs on high-quality, everyday products such as apparel, stationery, housewares, bags and wall art via the market. The group fulfils orders from a network of 41 locations across the globe and pays the artist a licence fee. The group had 572,000 artists on the marketplace at February 2021 with 6.2m customers, predominantly in the US (69%) but also across Europe (14%), the UK (11%) and ANZ (6%).

Exhibit 13: RBL revenue model



Source: Company presentation

The below table summarises key peer business model attributes.

Exhibit 14: MPA listed peer comparisons – business model				
Variable	ART	MYD	HPG	MPA
Founded	2012	2011	2004	2015
Est. Australian TAM (\$b)	52.0	na	83.0	4.0
FY21 revenue (\$m)	26.3	30.9	55.7	2.6
Revenue model	Tiered fee on GMV	Fee on GMV	Tiered subscription	Fee on GMV
Service fee	15%		n/a	20%
Booking fee	4.4%	n/a	Free	7%
Subscription fee (year)	n/a	n/a	\$650	n/a
Take rate	17.2%	14.3%	nm	22.1%
Service providers	n/a	2,900	29,800	20,000
Active customers	1,000,000	883,397	3,300,000	110,000
Country focus	Australia/UK	Australia	Australia	Australia
Market focus	Ad-hoc services	Furniture and homeware	Renovations	Dog sitting
COVID impact	Neutral	Positive	Neutral	Negative
Source: Company financials and RaaS Advisory estimates * Since launch				

From a financial viewpoint exhibit 15 below summarises some key variables for the FY22 forecast period. As noted above all operators in the space start with a net cash position at year-end June 2021, some of which represents customer payments. As a result, every peer selected has “negative working capital”, also aided by little to no inventory (although MYD is increasing due to private label).

RBL and HPG were profitable at the EBITDA line in FY21, while the average enterprise-value-to-revenue multiple for the peer group is 8.2x but ranges between 4.1x to 16.3x.

Exhibit 15: Peer group financial comparison										
Company name	Ticker	Share price (cps)	Mkt cap (A\$m)	Net cash @ 30/6/21 (A\$m)	FY21 GMV (A\$m)	FY21 Revenue (A\$m)	FY21 Take rate	Working capital/sales	EV/ Revenue (x)	FY21 EBITDA
Redbubble	RBL	3.87	1,059	-99.0	701.0	223.0	31.8%	-19.2%	4.30	53.0
Airtasker	ART	1.09	458	-46.0	153.1	26.6	17.2%	-22.8%	15.51	0.0
hipages	HPG	3.78	491	-32.5	2,600.0	55.8	2.9%	-10.4%	8.22	11.7
Mydeal	MYD	0.79	204	-42.7	218.1	38.3	17.6%	-35.2%	4.22	-4.0
AVERAGE							16.6%	-19.3%	8.06	
Rover (Nasdaq) *	ROVR	12.25	1,927	-306.0	570.0	105.0	18.4%	-48.5%	15.44	2.0
Mad Paws #	MPA	0.35	77	-12.5	13.1	4.1	18.0%	-42.3%	15.56	-4.7

Sources: Company financials, Refinitiv Eikon, Prices at 28 October 2021 *CY21F Financial year # Waggly GP\$ added to revenue

From MPA’s viewpoint we would highlight the following:

- MPA is the smallest company by market cap in the peer group by some margin, which will limit some investment mandates;
- The MPA “take rate” was equal to peers in FY21 despite significant cancellations impacting revenue;
- MPA is trading in-line with the average peer EV/Revenue metric (prorated for Waggly GP), and a 40% discount to closest peer ART. We would highlight MPA Y21 revenue has been more impacted by COVID than the peer group;
- MPA had net cash and negative working capital, in-line with the peer group.

Offshore Comparison – Rover (US)

Rover is the world’s largest online marketplace for pet care operating in the US, and a model that undoubtedly has inspired MPA. The group listed on the NASDAQ in August 2021 under the ticker ROVR via a business combination with a special purpose acquisition company supported by True Wind Capital Private Equity which raised US\$240m. Rover was only True Winds eighth tech investment. Recent presentations reveal some operating metrics and business influences that are remarkably similar to MPA, which we detail and contrast below:

- Founded in 2014, a year before MPA;
- 2m users against ~117k for MPA, twice the penetration of US households on a per-capital basis;
- 87% repeat bookings, roughly in-line with our estimates for MPA (90%);
- Remarkably similar revenue mix and average price per service between activities as the table below demonstrates:

Exhibit 16: Revenue mix and average price per service of Rover vs MPA

Marketplace	Boarding	House sitting	Visits	Dog walking	Day care
Revenue mix					
Rover	54%	14%	14%	12%	5%
Mad Paws	52%	23%	14%	5%	6%
Avg price/day					
Rover (US\$)	35	30	15	20	30
Mad Paws (A\$)	37	41	26	21	33

Source: MPA prospectus and Rover February 2021 presentation

- CAGR GMV growth of 94% between 2014-2019 (~91% for MPA);
- Rover booking and GMV declined in 2020 on the back of COVID restrictions and reduced travel, with GMV down 57% and GMV down 53%. MPA saw a ~40% decline in GMV and ~30% decline in bookings between July and October 2020;
- Rover has seen a recovery in bookings and GMV as restrictions ease, with Q2CY21 GMV 309% above the PCP and 18% above Q2CY19 levels. We have 44% MPA marketplace growth in FY22 and 80% in FY23;
- CY21 guidance for revenue and EBITDA was upgraded post-Q2 with Rover now forecast to reach adjusted EBITDA breakeven on revenue of between \$102-\$110m in CY21. A capital raising presentation in February implied long-term margin expectations are 30%+. We forecast MPA’s first year of profitability in FY24 at an EBITDA margin of ~23%, albeit with a slightly different mix than Rover given new business verticals;
- Marketing costs as a % of GMV for Rover have declined from 16% in 2016 to 8% in FY20 and just 3.5% in 1HCY21 as “word of mouth” spreads, reducing the need for paid advertising. From 14% in FY20, we have MPA marketing/GMV reaching 9% in FY23 and 5% in FY24 for the same reasons.

DCF Valuation

Based on our earnings assumptions our valuation of MPA using a DCF methodology is \$0.35/share, fully diluted for in-the-money options. Using the current share count, this equates to a market capitalisation of \$76m.

We would highlight the following as being key drivers/assumptions of this valuation:

- A discount rate of 11.0% incorporating a beta of 1.3x, risk-free rate of 2.0% and market risk premium of 7.0%;
- Medium-term growth beyond the forecast period (FY26-FY30) of 15%;
- Terminal growth rate of 2.2%;
- Potential customer pool of 300k by FY25, up from ~117k today. This customer pool drives the customer base for all products and services offered by MPA;
- A 10%-20% recovery in average transaction values on the marketplace post the return of international travel;
- 10% operating cost base growth outside of marketing from FY23;
- Declining customer acquisition/marketing costs from FY23 as more “organic” marketing programmes are implemented;
- Limited working capital additions from new products/services as such products/services are assumed to be provided by third parties/contractors.

Exhibit 17: MPA base case DCF valuation (in A\$m unless otherwise stated)

Parameters	Outcome
Discount rate / WACC	11.1%
Beta	1.3x
Terminal growth rate assumption	2.2%
Sum of PV	\$17.5
PV of terminal value	\$56.0
PV of enterprise	\$73.5
Debt (cash) as at September 2021	(\$9.9)
Net value – shareholder	\$83.4
No of shares on issue*	237
NPV	\$0.35

Source: RaaS estimates *Diluted for in-the-money options

SWOT Analysis

We see the strengths and opportunities for MPA outweighing weakness and threats, with our SWOT analysis summarised below.

Exhibit 18: Strengths, Weaknesses, Opportunities, Threats	
Strengths	Opportunities
Experienced management with “skin in the game”	Utilise ASX currency and cash at bank for acquisitions/growth
ASX listed transparency and currency, evidenced via Waggly acquisition	Offer new/more recurring services/products to its growing customer base
Net cash balance sheet of ~\$9.9m post Waggly	Cycling COVID-induced slowdown/disruptions
107k customer base and growing strongly despite COVID disruptions	The return of international travel promises higher average GMV
Market leader in chosen marketplace	Grow newly acquired Waggly Club subscriptions
Operates a negative working capital model	
Weaknesses	Threats
Limited free float reduces liquidity	Pricing pressure in terms of competitor fees
Small market capitalisation limits investor universe	Other online marketplaces with greater household penetration decide to add pet services to their offering
Still loss making and cashflow negative	International players decide to enter the Australian market
Reliant on third parties for most new service offerings	
Source: RaaS analysis	

BOARD & MANAGEMENT

Directors

Mr Jan Pacas, Non-Executive Chairman. Jan was appointed Director in December 2020 following the acquisition of Mad Paws Pty Ltd. He is currently Senior Vice President and General Manager, Ecolab ANZ, a division of Ecolab Inc. Jan is also Chairman of Bit-sized Innovations and serves on the advisory board of the University of Sydney Business School.

Mr Justus Hammer, Executive Director, CEO and Co-founder. Justus has more than 15 years’ experience in retail and e-commerce specialising in online marketplaces, online marketing and business process. Justus was an early advisor and investor in Airtasker and advisor and first investor in VICE Golf. Justus has also advised Mon Purse and DocBook, and was Chief Marketing Officer at Mint Wireless.

Mr Mike Hill, Non-Executive Director. Mike is a co-founder of Bombora Group, a pre-IPO and listed equities boutique growth investor based in Sydney. He was a former operational partner of Ironbridge from 2004-2014, a private equity firm with \$1.5b under management. Prior to this he was a partner at Ernst & Young. Mike’s current ASX board experience includes Janison Education (ASX:JAN), Pacific Knowledge Systems Limited (ASX:PKS) and Design Milk Co. Ltd (ASX:DMC).

Mr Josh May, Non-Executive Director. Josh has more than 20 years’ experience in corporate advisory including working at Ernst & Young. He is the portfolio manager of the Bombora Special Investment Growth Fund and serves as Chair of LVX Global, is a Non-Executive Chairman of Valory Resources (Canada) and Director of Bombora Investment Management Pty Ltd.

Ms Vicki Aristidopoulos, Non-Executive Director. A recent addition to the board, Vicki was the founding Chief Marketing Office for Afterpay (ASX:APT), and prior to that held executive roles at News Corp, Fairfax Media, Commsec and Foxtel, delivering digital transformation programmes to defend brands facing disruption while designing new customer experience strategies.

Exhibit 19: MPA Financial Summary

Mad Paws (MPA.AX)						Share price (3 November 2021)						A\$	0.225						
Profit and Loss (A\$m)						Interim (A\$m)						H121	H221	H122	H222	H123	H223		
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Revenue	1.0	1.8	3.8	5.0	6.4	8.0	EBITDA	(1.4)	(3.3)	(3.7)	(3.2)	(2.1)	(1.4)
Revenue	2.0	2.9	8.7	14.4	22.4	EBIT	(1.6)	(3.4)	(3.8)	(3.3)	(2.3)	(1.5)	NPAT (normalised)	(1.6)	(3.5)	(3.8)	(3.3)	(2.2)	(1.5)
Gross profit	2.0	2.3	5.1	8.5	13.2	Minorities	0.0	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	(1.6)	(3.5)	(3.8)	(3.3)	(2.2)	(1.5)
GP margin %	100.0%	80.8%	57.9%	58.8%	59.2%	EPS (normalised)	(0.011)	(0.025)	(0.017)	(0.015)	(0.010)	(0.007)	EPS (reported)	(0.011)	(0.025)	(0.015)	(0.015)	(0.010)	(0.010)
Underlying EBITDA	(2.3)	(4.7)	(6.8)	(3.5)	0.6	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000	Operating cash flow	na	na	na	na	na	na
Depn	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	Free Cash flow	na	na	na	na	na	na	Divisionals	H121	H221	H122	H222	H123	H223
Amort	0.0	0.0	0.0	0.0	0.0	Marketplace	1.0	1.4	1.3	1.9	2.4	2.8	Dinner Bowl	-	0.4	1.0	1.2	1.6	2.3
EBIT	(2.5)	(4.9)	(7.1)	(3.8)	0.3	Dinner Bowl	-	0.4	1.0	1.2	1.6	2.3	Insurance	-	0.0	0.0	0.0	0.1	0.1
Interest	(0.0)	(0.1)	0.1	0.1	0.1	Insurance	-	0.0	0.0	0.0	0.1	0.1	Waggly		0.1	1.3	1.8	2.3	2.8
Tax	0.0	0.0	0.0	0.0	(0.1)	Waggly		0.1	1.3	1.8	2.3	2.8	Total Revenue	1.0	1.9	3.8	5.0	6.4	8.0
NPAT	(2.5)	(5.1)	(7.1)	(3.7)	0.2	Total Revenue	1.0	1.9	3.8	5.0	6.4	8.0	Gross profit	1.0	1.3	2.1	2.9	3.8	4.7
Adjustments	0.0	0.0	0.0	0.0	0.0	Gross profit	1.0	1.3	2.1	2.9	3.8	4.7	Underlying GP Margin %	100.0%	70.7%	56.8%	59.8%	60.2%	58.8%
Adjusted NPAT	(2.5)	(5.1)	(7.1)	(3.7)	0.2	Operating Costs							Operating Costs						
Abnormals (net)	0.0	(1.0)	0.0	0.0	0.0	Employment	1.0	2.2	3.0	3.0	3.3	3.3	Employment	1.0	2.2	3.0	3.0	3.3	3.3
NPAT (reported)	(2.5)	(6.1)	(7.1)	(3.7)	0.2	Marketing	0.8	1.3	1.5	1.8	1.2	1.3	Marketing	0.8	1.3	1.5	1.8	1.2	1.3
Cash flow (A\$m)						Other	0.6	1.0	1.3	1.3	1.4	1.4	Other	0.6	1.0	1.3	1.3	1.4	1.4
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Total costs	2.4	4.6	5.8	6.1	5.9	6.0	Total costs	2.4	4.6	5.8	6.1	5.9	6.0
EBITDA (inc cash rent)	(2.4)	(4.8)	(7.0)	(3.6)	0.5	EBITDA	(1.4)	(3.3)	(3.7)	(3.2)	(2.1)	(1.4)	EBITDA	(1.4)	(3.3)	(3.7)	(3.2)	(2.1)	(1.4)
Interest	(0.0)	(0.1)	0.1	0.1	0.1	EBITDA margin %	(147.8%)	(173.4%)	(97.2%)	(63.8%)	(33.4%)	(16.9%)	EBITDA margin %	(147.8%)	(173.4%)	(97.2%)	(63.8%)	(33.4%)	(16.9%)
Tax	0.3	0.3	0.1	0.3	0.0	Margins, Leverage, Returns		FY20A	FY21A	FY22F	FY23F	FY24F	Margins, Leverage, Returns		FY20A	FY21A	FY22F	FY23F	FY24F
Working capital changes	(0.1)	0.9	(0.1)	0.7	0.8	EBITDA margin %		(115.1%)	(164.9%)	-78.2%	-24.2%	2.7%	EBITDA margin %		(115.1%)	(164.9%)	-78.2%	-24.2%	2.7%
Operating cash flow	(2.2)	(3.7)	(6.9)	(2.6)	1.3	EBIT margin %		(125.1%)	(173.5%)	-81.5%	-26.4%	1.3%	EBIT margin %		(125.1%)	(173.5%)	-81.5%	-26.4%	1.3%
Mtce capex	(0.4)	(0.3)	(0.7)	(0.8)	(0.9)	NPAT margin (pre significant items)		(127.0%)	(178.1%)	-80.8%	-25.9%	1.1%	NPAT margin (pre significant items)		(127.0%)	(178.1%)	-80.8%	-25.9%	1.1%
Free cash flow	(2.6)	(4.0)	(7.6)	(3.4)	0.4	Net Debt (Cash)		-1.0	-12.5	-5.1	-2.1	-2.8	Net Debt (Cash)		-1.0	-12.5	-5.1	-2.1	-2.8
Growth capex	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	0.4 x	2.7 x	0.8 x	0.6 x	-4.6 x	Net debt/EBITDA (x)	(x)	0.4 x	2.7 x	0.8 x	0.6 x	-4.6 x
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	48.0%	47.1%	42.7%	39.4%	44.4%	ND/ND+Equity (%)	(%)	48.0%	47.1%	42.7%	39.4%	44.4%
Other	0.0	(1.1)	0.0	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	-0.2x	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	-0.2x
Cash flow pre financing	(2.6)	(5.0)	(7.6)	(3.4)	0.4	ROA		(113.9%)	(52.0%)	(54.0%)	(46.2%)	3.9%	ROA		(113.9%)	(52.0%)	(54.0%)	(46.2%)	3.9%
Equity	0.0	0.0	0.0	0.0	0.0	ROE		nm	nm	nm	nm	nm	ROE		nm	nm	nm	nm	nm
Debt	0.0	0.0	0.0	0.0	0.0	ROIC		nm	nm	nm	nm	nm	ROIC		nm	nm	nm	nm	nm
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	NTA (per share)		0.00	0.07	0.02	0.00	0.00	NTA (per share)		0.00	0.07	0.02	0.00	0.00
Net cash flow for year	(2.6)	(5.0)	(7.6)	(3.4)	0.4	Working capital		-0.3	-1.0	-0.7	-1.2	-1.6	Working capital		-0.3	-1.0	-0.7	-1.2	-1.6
Balance sheet (A\$m)						WC/Sales (%)		(13.0%)	(34.9%)	(8.1%)	(8.1%)	(7.4%)	WC/Sales (%)		(13.0%)	(34.9%)	(8.1%)	(8.1%)	(7.4%)
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Revenue growth		26.7%	42.6%	207.0%	64.2%	55.6%	Revenue growth		26.7%	42.6%	207.0%	64.2%	55.6%
Cash	1.0	12.5	5.1	2.1	2.8	EBIT growth pa		nm	n/a	n/a	n/a	(107.7%)	EBIT growth pa		nm	n/a	n/a	n/a	(107.7%)
Accounts receivable	0.0	0.1	0.2	0.3	0.4	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F
Inventory	0.0	0.2	0.4	0.6	0.9	No of shares (y/e)	(m)	114.6	139.0	219.4	219.4	219.4	No of shares (y/e)	(m)	114.6	139.0	219.4	219.4	219.4
Other current assets	0.2	0.4	0.2	0.3	0.3	Weighted Av Dil Shares	(m)	114.6	139.0	219.4	219.4	219.4	Weighted Av Dil Shares	(m)	114.6	139.0	219.4	219.4	219.4
Total current assets	1.2	13.2	6.0	3.3	4.5	EPS Reported	cps	(0.022)	(0.044)	(0.032)	(0.017)	0.001	EPS Reported	cps	(0.022)	(0.044)	(0.032)	(0.017)	0.001
PPE	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(0.022)	(0.037)	(0.032)	(0.017)	0.001	EPS Normalised/Diluted	cps	(0.022)	(0.037)	(0.032)	(0.017)	0.001
Goodwill	0.8	3.6	3.6	3.6	3.6	EPS growth (norm/dil)		nm	65%	n/a	n/a	-107%	EPS growth (norm/dil)		nm	65%	n/a	n/a	-107%
Right of use asset	0.2	0.0	0.0	0.0	0.0	DPS	cps	0.000	0.000	0.000	0.000	0.000	DPS	cps	0.000	0.000	0.000	0.000	0.000
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	DPS Growth		n/a	n/a	n/a	n/a	n/a	DPS Growth		n/a	n/a	n/a	n/a	n/a
Other	0.0	0.1	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Total non current assets	1.0	3.7	3.6	3.6	3.6	Dividend imputation		30	30	30	30	30	Dividend imputation		30	30	30	30	30
Total Assets	2.2	16.8	9.6	6.9	8.1	PE (x)		nm	6.2	7.0	13.3	201.1	PE (x)		nm	6.2	7.0	13.3	201.1
Accounts payable	0.3	1.3	1.3	2.1	3.0	PE market		18	18	18	18	18	PE market		18	18	18	18	18
Short term debt	0.0	0.0	0.0	0.0	0.0	Premium/(discount)		nm	nm	nm	nm	nm	Premium/(discount)		nm	nm	nm	nm	nm
Contract liabilities	0.0	0.1	0.1	0.1	0.1	EV/EBITDA		(10.8)	(4.0)	(6.5)	(13.6)	0.0	EV/EBITDA		(10.8)	(4.0)	(6.5)	(13.6)	0.0
Lease liabilities/other	0.6	1.4	1.3	1.5	1.5	FCF/Share	cps	(2.251)	(2.857)	(3.347)	(1.398)	0.340	FCF/Share	cps	(2.251)	(2.857)	(3.347)	(1.398)	0.340
Total current liabilities	1.0	2.8	2.6	3.6	4.5	Price/FCF share		(9.996)	(7.876)	(6.722)	(16.090)	66.248	Price/FCF share		(9.996)	(7.876)	(6.722)	(16.090)	66.248
Long term debt	0.0	0.0	0.0	0.0	0.0	Free Cash flow Yield		(5.2%)	(8.0%)	(14.9%)	(6.2%)	1.5%	Free Cash flow Yield		(5.2%)	(8.0%)	(14.9%)	(6.2%)	1.5%
Other non current liabs	0.2	0.1	0.1	0.1	0.1														
Total long term liabilities	0.2	0.1	0.1	0.1	0.1														
Total Liabilities	1.1	2.9	2.7	3.7	4.6														
Net Assets	1.1	14.0	6.9	3.2	3.5														
Share capital	10.1	36.9	36.9	36.9	36.9														
Reserves	0.7	(1.3)	(1.3)	(1.3)	(1.3)														
Retained Earnings	(9.7)	(21.7)	(28.7)	(32.5)	(32.1)														
Minorities	0.0	0.0	0.0	0.0	0.0														
Total Shareholder funds	1.1	14.0	6.9	3.2	3.5														

Source: Company data, RaaS estimates

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

Effective Date: 6th May 2021

About Us

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

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- provide general advice to retail and wholesale clients in relation to
 - Securities
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 - Securities

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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?

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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.

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