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Simply Alpha Capital, LLC

An Unmatched Opportunity

Adding Sports betting to Cryptocurrencies Exchanges

www.simplyalpha.com

- Crypto users are likely to cross over to all forms of gambling; many may already be active gamblers
- Crypto can easily be adopted as a betting currency – it's the ideal medium for wagering
 - Fiat Gambling has transparency problems due to banking
 - Gambling has trust problems that cryptocurrencies solve
- Crypto users are most likely to prefer games they believe they can beat – skill driven games such as poker, sports betting, fantasy, etc. over casino (but DAPP based casinos have had some success, but create real regulatory risks since they don't offer regulatory controls)
- Crypto users are highly social (DAPP Casinos showcase the power of this – they function like live ICOs)
- Crypto users believe in crypto, so gambling sites can be centralized (and should be), but can offer blockchain transparency
- In a crypto gambling platform, payments can be instant (not possible in a fiat system)
- Crypto exchanges have access to millions of potential players

- Globally regulated
 - USA (partial, but expanding)
 - Europe (country by country)
 - Eastern Europe (developing)
 - Asia (grey or partially regulated)
 - Has special characteristics not found in “regulated” crypto
 - Age verifications required
 - Self exclusions
 - Monitor responsible gambling
- The “cash” global sports betting market was valued at around USD 104.31 billion in 2017 and is expected to reach approximately USD 155.49 billion by 2024, growing at a healthy CAGR of 8.83% between 2018 to 2024
- Sports betting websites are destination websites to all other forms of gambling (poker, virtual sports, slots, casino, live casino, etc.)
- Sports betting is available in both exchange and bookmaking formats to players
- Gross margins runs between 6-7% and 1-3% for exchanges (including some market making)
- 100s of active markets available 24/7, but player activity is very regional

- Why hasn't adding gambling to crypto currency exchanges happened yet?
 - Crypto exchanges haven't needed new sources of revenues
 - Regulated and traditional fiat only destination gambling sites would have to purchase crypto players – now it's too expensive
 - Crypto gambling websites that do not already have players, must buy new crypto players – its even more difficult and expensive
- Cryptocurrency exchanges are potential destination websites for crypto gambling players
 - The crypto exchanges can easily send existing crypto players to their own gambling platforms - with sports betting leading the pathway
 - Crypto exchanges can buy an existing operator or partner with major B2B partner companies (BWIN, Playtech, etc...)
 - The addition of futures increased global turnover (it didn't cannibalize existing business) – in a world where turnover is declining otherwise – the same will happen with gambling – total revenues per user/player will increase as you increase product offerings
 - We believe that the crossover potential is similar to sports betting sites that cross over 10-30% of players to other forms of gambling – so it could be as high as 30% of active players generating new revenues for an exchange
- A sports betting platform (which can be both regulated and offer both fiat and crypto) also offers additional pathways to fiat entry and exit (as well as the potential to onboard new crypto players who cross over from fiat gambling)
- If an operator is acquired, its possible to take advantage of local betting shops for crypto onboarding (creating new revenue opportunities for shops)
- Gambling is growing at 8% CAGR globally and even faster in regions where crypto is growing

- Global book making revenue far exceeds global sports betting exchange market – for a very long time
 - Sports books usually offer in game cash outs (profit from line movements) – similar to lay options on exchanges
 - Defined liquidity (sports books can set their risks)
 - Retail players dominate over professional
 - Pricing markets are already very efficient
 - Sports books margins are higher and can offer sticky promotions and incentives
 - Betfair is largest exchange and charges 5% (vs. apx 7% for sports books) – Match Book and Smarkets 1-2% - lower pricing hasn't attracted new players (Smarkets is struggling in the US and switching to sports book model there)
- Exchanges haven't really taken market share from book makers in a meaningful way despite lots of efforts – disruption hasn't happened – customers & economics have spoken for the market (Smarkets is offering book making model in the US, since it can't scale, Betfair hasn't offered sports exchange in the US - just horse racing in NJ)
- Book making model is better for providers (especially since players don't care)
 - Higher margins
 - Risk model combined with analytics allows culling professional players and keeps margins high (T&Cs allow player culling)
- Risk model vs low fee exchange model is fake (in sports markets since exchanges compete with established book makers, to gain liquidity a provider makes markets but usually gives up the best lines to other professionals who compete for market making when it's optimal for them – this fact reduced the overall profits for sports books)
 - A good comparison is the NYSE specialist system vs over the counter markets – only effective if the scale is large enough

- Futures on sports is a misnomer – there is no physical or non-physical asset (bond, bill, etc...) – only a prediction of an event that is binary – no cost of carry.
 - Such futures will trade like a bond instrument from zero- 100, with zero being a default or loss– similar to a credit default swap.
- In most instances, the betting line is efficient and in-game volatility is very low compared to most physical futures contracts (trades more like a bond)
- Future have a very limited life - lots of expense needed to maintain close to 100K active sports betting markets globally
- Global players are not used to the idea – why reinvent a wheel that has been tried and hasn't been accepted by traditional players?
- The actual equivalent is the predication market (futures on betting events)
 - InTrade developed the first successful prediction market
 - InTrade never successfully scaled or even challenged traditional wagering
 - Cantor Launched the Hollywood Exchange – failed
 - CFTC has consistently denied predication markets can be listed on exchanges as futures
 - In the UK prediction markets exist legally – they have never scaled – players are not using them (except in FX, where they compete (called contracts for difference) head to head with futures on FX)
 - Cantor has a new "Stealth" proposal in front of the CFTC now
 - But this is a backdoor attempt to make sports betting legal using futures on a national level – there is no real innovation
 - Auger tried it in Crypto –players are not interested – not scaling
- No reason to reinvent the wheel, players have spoken – players prefer traditional betting lines and book makers
- Traditional sports books are the dominant form and so far exchange or prediction wagering hasn't managed to take meaningful market share

Acquire an exchange business or book maker with software and integrate crypto

- eGambling industry has been in consolidation for a decade, very few small companies that still own technology available to purchase
- Benefits:
 - Ideal solution for the long term if you can find an operator for sale at a reasonable price (less than \$250M)
 - You get a full management team
 - An existing brand
 - Fiat players you may crossover to crypto exchange
- Challenges:
 - With due diligence it could take 6 months to 1 year to complete a deal
 - Add another 3 to 6 months to add crypto and incorporate player crypto wallets from exchanges
 - Gambling companies are unfamiliar with crypto – and crypto exchanges with gambling – adding a cultural issue to a merger
 - Existing operators won't offer global markets – most operators are very regional – will need to develop trading for global markets to match diversification of players on crypto exchanges
- Challenges are overall worth it to ultimately control technology and have an established fiat brand, licensing knowledge and understanding of gambling, but time frames make acquisitions challenging for crypto since the industry is developing quickly

Partner with a B2B Sports Betting Provider (Simply Alpha has several options available)

- Benefits:
 - Very fast solution
 - Integration can be 1 month (but realistically for a crypto exchange 2-3 months due to non-technical issues discussed below)
 - B2B operator trade sports markets covering the globe
 - Have established casino, poker, live dealer, bingo and slot agreements in place (crypto might need new agreements for these ancillary markets)
 - B2B operators can easily add crypto betting (they are designed to be multi-currency in fiat)
 - B2B operators do everything a crypto exchange needs:
 - Risk management
 - Pricing games
 - Offer full front-end and back-end accounting systems
 - Offer player analytics
 - Users can be easily transferred to a new sports website – creating instant revenue
- Challenges:
 - Crypto exchange will need to hire some management teams (planning, accounting, customer services, marketing, web developers, analytics reporting, compliance & licensing, project management (for B2B integration))
 - Crypto exchanges will need to obtain licensing (but some white markets are now open – for grey there are many options)
 - Crypto exchanges are unfamiliar with gambling and will require an experienced gambling CEO or partner they can empower and trust
 - Don't get a new brand
 - Will need to develop banking relationships for gambling
 - Don't have control over technology (but there are many companies B2C companies in this position (Sky Bet in the UK) in this position and B2B is now a commodity service)

Joint Venture Agreement Between Simply Alpha, B2B Provider and Exchange

- Benefits:
 - All the benefits of doing a B2B deal described in Option 2
 - Simply Alpha will choose the most optimal B2B partner(s)
 - Simply Alpha provides:
 - Business Plan plus internal control systems
 - Project Management
 - Hires all staff (planned with management of exchange)
 - Brings knowledge of bookmaking and gambling to the exchange
 - Brings regulatory knowledge to the exchange – knows where and how to get all licensees and how to be regulatory compliance
 - Our team also understand crypto – bridging the knowledge gaps
 - Better than partnering with a Sports Betting company that isn't a B2B operator
 - Third party internal audit verification on all revenue (don't need to trust anyone)
 - B2B providers offer global markets (matches needs of a crypto exchange immediately)
 - We have banking relationships for gambling
 - Simply Alpha will co-invest in the project
 - Simply Alpha will offer a future buy out arrangement; eventually the exchange operator will own everything with a reasonable sunset provision
- Challenges:
 - Need to create new brand
 - Won't have fiat players from the start – but they will come
 - Don't have control over technology (but there are many companies B2C companies in this position (Sky Bet in the UK) in this position and B2B is now a commodity service

- We have actively promoted the concept of adding sports betting to both the gambling and crypto industry
 - Have several B2B platforms on board and ready to incorporate crypto wagering
 - Have several Exchanges in early stages of setting up gambling
- We have the knowledge to assist in all aspects of gambling
 - We can set up a sports book
 - We can introduce those who can manage a sports book
 - We can co-invest in a JV deal and manage everything with future buyout provisions and short sunset
- We bring insights to both crypto and gambling businesses
- We understand licensing issues from grey markets to white markets
 - We can help/advise with all the aspects related to licensing
 - We can assist/advise with all aspects associated with regulation
- We understand and can advise/consult on all industry specific questions or running a gambling website

- Gambling and Crypto have tremendous crossover opportunities
 - Exchange users will cross over to gambling (historically it's up to 30%)
 - If fiat is offered, some players from fiat will cross over to crypto
 - Adding gambling will not cannibalize existing business, in fact, it will maximize user revenues
- Sports betting marketing will help cross market crypto exchanges business
- Creates legal regulated fiat to crypto back or front door pathways (exchanges can offer fiat and crypto gambling exchanging crypto for fiat on the gambling site)
- Potential for ICO or unique token for play – or offer BTC or other coins
- Gambling is more regulated than crypto, no need to fear gambling which is growing at 9% CAGR globally (faster in many parts of the world, specially in areas where crypto is strong)
- Gambling and financial markets are growing closer every year (high speed market makers are already involved)
 - Regulation is similar (internal controls, probity, AML, KYC, etc)
 - Gambling has some specific new requirements
- Exchange model has not successfully captured market share from book making model
- Futures (prediction markets) have failed to attract players
- Plenty of B2B Providers will offer sports betting to Crypto exchanges covering all important legal and grey markets
- Simply Alpha can do everything you need to get started – pick your option

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