

15th May 2019

The BetMakers Holdings

Data analytics now the mane business

The BetMakers Holdings (ASX: TBH) is a B2B data analytics business focussed on servicing the wagering market and race operators globally. In the past two years the company has completely transformed from a B2C fantasy gaming play to providing a real-time data engine for bookmakers in the racing industry and integrity controls for the racing bodies across Australia. In conjunction with its Q3 result, TBH has announced a \$1.68m strategic investment at \$0.03 a share by Tekkcorp Capital, a Las Vegas based international wagering and gaming industry investment firm headed by Matt Davey, an industry leader who in late 2017 sold NYX Gaming to Scientific Games for C\$775m. TBH concurrently renegotiated the outstanding \$8.4m in payments due on the acquisitions of DynamicOdds, CDK Software and Global Betting Services, deferring \$4m to 30 June 2024 with 10% interest payable, and converting \$1m of the CDK payment to shares at \$0.03/share. The company has also announced a \$3m non-renounceable entitlement offer at \$0.03/share, underwritten to \$2m by two existing shareholders with firm commitments from shareholders for the remaining \$1m. These funds will help fund the \$3.4m due to GBS and DynamicOdds in June 2019 and for working capital. Significantly, BetMakers reported its first quarter of positive cashflow in the March 31 quarter, in line with guidance provided at the company's 2018 AGM.

Business Model

The BetMakers Holdings has developed the technology platform to deliver real time data feeds to wagering companies globally. It also has developed a platform which provides integrity, official pricing and distribution services to the principal racing authorities. Every major wagering operation in Australia is using TBH's platform to manage their wagering books. TBH's Price Manager product allows wagering companies to manage the odds and risks across thousands of markets simultaneously. Every racing authority in Australia uses TBH's "official price" and race data. The opportunity is for The BetMakers to expand its platform, through its relationships with global wagering companies operating in Australia, to the UK and US markets.

Q3 result and restructure

The BetMakers' reported Q3 operating cash receipts of \$2.37m and operating cashflow of \$0.18m. Ending cash for the quarter was \$0.34m, up from \$0.29m in Q2. The company announced that it had renegotiated the final payments for its DynamicOdds, CDK Software and Global Betting Services acquisitions. It will now pay \$3.4m by June 30, and converted \$4m to debt, payable by June 2024 with an annual 10% coupon. Importantly its concurrently announced \$3m non renounceable entitlement issue has been partly underwritten (\$2m) and fully subscribed for by shareholders, a big tick, in our view.

Reverse DCF implies negative growth in cashflows in current price

We have undertaken a reverse DCF of TBH using the company's guidance for \$4m EBIT in FY20 to determine what CAGR in free cashflows is implied in the current share price of A\$0.04/share. We've assumed \$1m will be spent on ongoing product development delivering after tax free cashflows of \$1.8m in FY20. We used a discount rate of 15% and 2% terminal rate. Our analysis yields a negative 1% CAGR in 10-year FCFs, which in our view does not reflect the company's substantial repositioning as a data engine for the global racing industry or the recurring streams of revenue the company has now created. The stock is trading on an EV/EBIT Of 5.0x FY20 EBIT guidance.

Earnings history (A\$m)

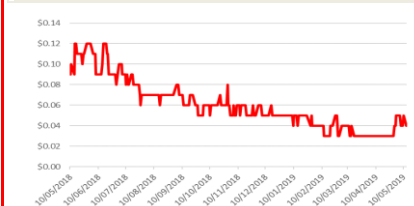
Y/E	Revenue	Gross Profit	EBITDA Adj*	EBIT Adj*	NPAT*	EPS(c)*	PE (x)	EV/EBITDA (x)
06/17	1.4	0.6	(5.9)	(6.1)	(5.5)	(4.62)	n.a	n.a
06/18	12.7	1.6	0.2	(0.2)	(0.3)	(0.19)	n.a	117.8

Source: Company data *Adj for discontinued businesses

Share details

ASX Code	TBH
Share Price	\$0.04
Market Capitalisation	\$17.4M
Number of shares (post entitlement offer and share issues)	413.6M
Net debt post issue and payments	~\$3.0M
Sector	Technology

Share price performance (12 months)



RaaS RAP 5-point score* = 3/5

Revenue increasing (1); EPS increasing (1), Return on Capital Employed [ROCE] (1); EBIT interest cover >3x (0) Gross Operating cash flow/EBITDA >90%(0)

Upside Case

- Company transformation now largely complete
- Strong relationships with bookmakers in both Australia and UK
- Opportunity to participate in horse racing restructure in the US through its current bookmaker partnerships

Downside Case

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

Catalysts

- Delivering FY20 guidance of \$10m rev, \$4m EBIT
- Development of its presence in UK and US markets
- Development of its Global Tote product

Comparative companies (Australia & NZ)

3DP, VGL

Substantial Shareholders

Tekkcorp Capital, Industry Super Pty Ltd, RBW Discretionary Trust, Ryder Capital, Buckingham Family Trust

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FINANCIAL SERVICES GUIDE

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