

# BetMakers Technology Group Ltd

## Company Update

### Strong operational performance while growing the stack

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 has reported H1 FY21 revenue of \$7.6m, up 88% on the prior period. Underlying EBITDA, excluding non-cash employee share payments and one-time costs associated with the Sportech and investment in the US, was \$0.04m, compared with underlying EBITDA of \$0.57m in H1 FY20. We have incorporated some adjustments to our FY21 forecasts based on timing of the Sportech acquisition completing and in FY22 have incorporated additional costs into our forecasts for both capital investment and people investment into the US market. Our base case valuation is unchanged at \$1.16/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. The acquisition of Sportech will deliver additional SaaS-style revenues from its tote technology as well as a share of turnover from its tote operations.

### H1 FY21 result commentary

BET has announced an 88% increase in interim revenue to \$7.6m, and underlying EBITDA (ex non-cash employee share payments, one time acquisition costs and costs associated with the US expansion) of \$0.4m, compared with underlying EBITDA of \$0.57m in H1 FY20. Reported EBITDA was a loss of \$1.68m. Revenue from content & integrity more than doubled in the half to \$1.82m and was ahead of our forecast for \$1.57m while wholesale wagering increased 82.5% on the previous corresponding period to \$5.77m, although was a little lower than our forecast for \$6.63m. Underlying costs were in line with expectations. We have incorporated some forecast changes to take into account a later inclusion of the Sportech acquisition in FY21 (previously included from March but we have pushed out to May) and in FY22 we have incorporated additional capital and people investment in the US over and above our previous estimates. We have not offset this with revenue upside at this point given that the fixed odds opportunity in the US is still to be defined although we noted that the Sportech relationships and contracts in the US should open doors for BetMakers as it educates the US market on the benefits of fixed odds wagering in a broader, more robust wagering market.

### Base case DCF valuation of \$1.16/share unchanged

Our base case DCF valuation of \$1.16/share remains unchanged. Our valuation incorporates the Sportech acquisition and the rollout of a fixed odds business in New Jersey. We note that there is a broader opportunity in the US which is minimally captured in our current forecasts.

#### 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)	52.1	na	na
06/20a	9.2	0.8	(2.1)	(0.33)	49.3	nm	na
06/21e	29.4	(0.1)	(2.6)	(0.11)	19.3	nm	nm
06/22e	83.1	9.9	4.4	0.57	7.8	57.7	148.6

Source: RaaS Advisory Estimates for FY21e and FY22e, Company Data for historical earnings

### Software services

1st March 2021

#### Share details

ASX Code	BET
Share price (25 Feb)	\$0.87
Market Capitalisation	\$673.0M
Shares on issue	773.5M
In the money options	60.6M
Waterhouse Group options conversion	94.7M
Net cash 17 February 2021	\$110M

#### 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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## H1 FY21 result

BetMakers has reported an 88% lift in H1 FY20 revenues to \$7.6m, driven by strong growth from both its content & integrity and wholesale wagering SaaS businesses. Underlying EBITDA for the half year was \$0.04m, after excluding one-time costs associated with the Sportech acquisition and costs associated with establishing the US business (so as to give a like for like comparison). These costs respectively were \$0.831m and \$0.884m. Reported EBITDA was a loss of \$1.678m. Also included in the result was the non-cash impact of \$3.01m in share based payments to employees. Excluding these, underlying NPAT was a loss of \$1.35m.

### Exhibit 1: H1 FY21 versus H1 FY20 and RaaS forecast

	H1 FY20	H1FY21	% change	RaaS fct
Revenue	4.04	7.59	88.1%	8.20
Gross Profit	3.85	4.00	4.1%	4.92
EBITDA underlying	0.32	0.04	(88.5%)	0.71
NPAT reported	(0.56)	(4.44)	697.2%	0.30
EPS	(0.13)	(0.75)	485.7%	0.04

Source: Company data, RaaS estimates

The company's two key revenue platforms, content & integrity and wholesale wagering delivered strong growth over the prior period, respectively up 108% and 83%.

### Exhibit 1: Revenue breakdown

	H1 FY20	H1FY21	% change	RaaS fct
Content and Integrity	0.87	1.82	108.3%	1.57
Wholesale wagering	3.16	5.77	82.5%	6.63
Total Revenue	4.04	7.59	88.1%	8.20

Source: Company data, RaaS estimates

## Earnings adjustment

We have adjusted our earnings for the second half of FY21 to reflect a later inclusion of the Sportech business, an increase in development costs for the US business and additional investment in human capital and capital equipment upgrades in Sportech's terminals entering into our FY22 forecasts as set out below.

### Exhibit 2: Earnings adjustments

	FY21 old	FY21 new	FY22 old	FY22 new
Revenue	35.30	29.45	86.49	83.12
Gross Profit	24.90	19.14	67.84	64.43
EBITDA	3.80	(0.09)	18.50	9.86
NPAT	(2.80)	(2.56)	8.90	4.43

Source: RaaS estimates

## Base Case DCF valuation unchanged at \$1.16/share

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 case valuation of \$1.16 after applying a WACC of 11.4% and terminal growth rate of 2.2% to our base case free cashflows. The terminal value accounts for \$0.77/share of our valuation.

### Exhibit 4: Base Case DCF valuation

	Parameters
Discount rate (WACC)	11.4%
Terminal Growth Rate	2.2%
Beta	1.6
Present value of free cashflows (\$m)	263.5
Terminal value (\$m)	520.3
Plus Net Cash at 17 February (post Matt Tripp placement)	(110.0)
Equity value (\$m)	893.7
Shares on issue	773.5
<b>Equity value per share</b>	<b>\$1.16</b>

Source: RaaS estimates

## Exhibit 5: Financial Summary

BetMakers Technology Group Ltd (BET)						Share price (26 February 2021)					A\$	0.85	
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	4.0	4.9	7.6	21.9	
Sales revenue	12.7	6.2	8.6	29.4	83.1	Gross profit	1.6	3.0	3.8	3.1	4.0	15.1	
Total Revenue	17.8	6.8	9.2	29.4	83.1	EBITDA	(1.9)	(0.1)	0.6	0.3	(1.7)	1.6	
Gross Profit	1.6	3.9	6.3	19.1	64.4	EBIT	(2.1)	(1.7)	(0.4)	(0.8)	(2.8)	0.5	
EBITDA	0.5	(2.1)	0.8	(0.1)	9.9	NPAT (normalised)	(1.5)	(1.4)	(0.6)	(0.9)	(1.4)	0.8	
Depn	(0.2)	(0.2)	(0.3)	(0.2)	(1.2)	Minorities	0.0	0.0	0.0	0.0	0.0	0.0	
Amort	(0.2)	(1.6)	(1.9)	(2.0)	(4.0)	NPAT (reported)	(1.8)	(1.8)	(0.6)	(1.5)	(4.4)	0.8	
EBIT	0.2	(3.9)	(1.3)	(4.4)	4.7	EPS (normalised)	(0.9)	(0.4)	(0.1)	(0.3)	(0.8)	0.1	
Interest	0.0	(0.0)	(0.5)	0.6	1.6	EPS (reported)	(0.9)	(0.4)	(0.1)	(0.3)	(0.8)	0.1	
Tax	(0.5)	1.0	0.3	1.2	(1.9)	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	(2.8)	(0.3)	(0.2)	(0.3)	(1.3)	(4.3)	
NPAT pre significant items	(0.3)	(2.9)	(1.5)	(2.6)	4.4	Free Cash flow	(2.8)	(0.3)	(0.3)	(0.4)	(1.4)	(4.6)	
Significant items	(5.7)	(0.7)	(0.6)	0.0	0.0	Divisions	H119A	H219A	H120F	H220A	H121F	H221F	
NPAT (reported)	(6.0)	(3.6)	(2.1)	(2.6)	4.4	Wholesale Wagering	2.6	3.1	3.2	3.2	5.8	19.9	
Cash flow (A\$m)						Content & Integrity	0.2	0.3	0.9	1.4	1.8	1.9	
Y/E 30 June	FY18A	FY19A	FY20A	FY21F	FY22F	Other income	0.3	0.4	0.3	0.3	0.0	0.0	
EBITDA	0.5	(2.1)	0.8	(0.1)	9.9	Total Revenue	3.0	3.8	4.3	4.9	7.6	21.9	
Interest	0.1	(0.0)	(0.4)	0.6	1.6	COGS	1.4	0.8	0.4	1.8	3.6	6.7	
Tax	0.0	(0.1)	(0.0)	(0.4)	(1.9)	Gross Profit	1.6	3.0	3.8	3.1	4.0	15.1	
Working capital changes	(12.0)	(0.9)	(1.0)	(5.8)	(11.4)	Employment costs	1.8	1.6	2.0	2.1	3.3	10.0	
Operating cash flow	(11.4)	(3.1)	(0.5)	(5.6)	(1.8)	Selling General & Admin Costs	1.6	1.6	1.3	0.6	1.3	2.0	
Mtce capex	0.0	(0.0)	(0.2)	(0.4)	(1.3)	Other Opex	0.1	(0.0)	0.0	0.0	1.1	1.6	
Free cash flow	(11.4)	(3.1)	(0.7)	(6.0)	(3.1)	Total Operating Costs	3.5	3.1	3.3	2.8	5.7	13.6	
Growth capex	(0.1)	0.0	(0.0)	(2.5)	(5.0)	EBITDA	(1.9)	(0.1)	0.6	0.3	(1.7)	1.6	
Acquisitions/Disposals	0.3	(5.8)	0.0	(67.2)	0.0								
Other	(0.2)	(0.9)	0.0	0.0	0.0								
Cash flow pre financing	(11.3)	(9.8)	(0.7)	(75.7)	(8.1)								
Equity	10.1	9.1	37.8	132.4	0.7	Margins, Leverage, Returns		FY18A	FY19A	FY20A	FY21F	FY22F	
Debt	0.0	(0.3)	0.0	1.0	2.0	EBITDA		n/a	(30.5%)	9.1%	(0.3%)	11.9%	
Dividends paid	0.0	0.0	(0.2)	(0.1)	0.0	EBIT		n/a	(56.9%)	(14.3%)	(14.8%)	5.7%	
Net cash flow for year	(1.3)	(1.0)	36.9	57.6	(5.4)	NPAT pre significant items		n/a	(42.7%)	(16.5%)	(8.7%)	5.3%	
Balance sheet (A\$m)						Net Debt (Cash)		1.5	(3.5)	31.3	88.2	85.8	
Y/E 30 June	FY18A	FY19A	FY20A	FY21F	FY22F	Net debt/EBITDA (x)	(x)	2.692	n/a	37.543	n/a	8.698	
Cash	1.5	0.5	31.6	89.6	89.2	ND/ND+Equity (%)	(%)	n/a	15.6%	(107.4%)	(86.0%)	(77.9%)	
Accounts receivable	5.4	1.2	2.0	1.8	5.1	EBIT interest cover (x)	(x)	(0.2)	n/a	n/a	n/a	- 0.3	
Inventory	0.0	0.0	0.0	0.0	0.0	ROA		n/a	(16.7%)	(2.8%)	(3.4%)	2.4%	
Other current assets	0.1	0.1	0.1	11.3	11.3	ROE			(22.6%)	(5.4%)	(2.0%)	2.3%	
Total current assets	7.0	1.8	33.7	102.7	105.6	ROIC		1.1%	(49.2%)	(3.0%)	(2.5%)	2.2%	
PPE	0.3	0.2	0.2	39.9	40.0	NTA (per share)		0.07	0.01	0.08	0.23	0.21	
Intangibles inc Goodwill	2.0	14.5	14.5	14.5	14.5	Working capital		2.6	0.1	0.7	1.2	3.9	
Investments	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		14.8%	1.3%	7.8%	3.9%	4.7%	
Deferred tax asset	5.4	6.5	7.3	9.5	9.5	Revenue growth		n/a	(61.6%)	34.4%	221.3%	182.2%	
Other assets	1.3	7.7	6.9	27.0	31.8	EBIT growth pa		n/a	n/a	n/a	n/a	(208.3%)	
Total non current assets	9.0	28.8	28.9	90.8	95.6	Pricing		FY18A	FY19A	FY20A	FY21F	FY22F	
Total Assets	15.9	30.6	62.6	193.5	201.2	No of shares (y/e)	(m)	162	413	568	773	868	
Accounts payable	2.8	1.2	1.3	0.6	1.2	Weighted Av Dil Shares	(m)	162	232	457	690	773	
Short term debt	0.0	0.0	0.0	0.0	0.0								
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(3.68)	(1.55)	(0.47)	(0.64)	0.57	
Other current liabilities	0.3	6.2	0.4	0.6	0.6	EPS Normalised/Diluted	cps	(0.19)	(1.26)	(0.33)	(0.11)	0.57	
Total current liabilities	3.1	7.4	1.7	1.2	1.7	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	-604%	
Long term debt	0.0	4.0	0.4	1.4	3.4	DPS	cps	-	-	-	-	-	
Other non current liabs	0.1	0.1	0.2	0.2	0.2	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Total long term liabilities	0.1	4.1	0.5	1.6	3.6	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Total Liabilities	3.2	11.4	2.2	2.8	5.3	Dividend imputation		30	30	30	30	30	
Net Assets	12.7	19.2	60.4	190.7	195.9	PE (x)		-	-	-	-	148.6	
						PE market		18.2	18.2	18.2	18.2	18.2	
Share capital	32.5	42.4	84.9	216.7	217.4	Premium/(discount)			(100.0%)	(100.0%)	(100.0%)	716.3%	
Accumulated profits/losses	(21.2)	(24.0)	(26.1)	(29.8)	(25.3)	EV/EBITDA		252.2	(170.6)	542.5	(6,367.7)	66.1	
Reserves	1.4	0.7	1.6	3.8	3.8	FCF/Share	cps	(7.0)	(0.7)	(0.1)	(0.7)	(0.1)	
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(12.1)	(115.0)	(1,517.1)	(126.6)	(1,319.5)	
Total Shareholder funds	12.7	19.2	60.4	190.7	195.9	Free Cash flow Yield		(8.3%)	(0.9%)	(0.1%)	(0.8%)	(0.1%)	

Source: RaaS Advisory



# 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: 26<sup>th</sup> November 2018**

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

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  - Securities
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  - Securities

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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