

BetMakers Technology Group Ltd

Turning point

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. BET announced a significant restructure of its senior management team and board with the appointment of the company's largest shareholder and gaming tech investor Matt Davey to the position of President and Executive Chairman; the transition of chairman Nick Chan to non-executive director; the promotion of COO Jake Henson to the position of Chief Executive Officer and the appointment of CEO Todd Buckingham to Chief Growth Officer. Mr Buckingham also steps down from the board and has surrendered 10m of his performance rights. Concurrently, BET reported record quarterly cashflows for Q2 FY23 of \$26.9m, an increase of 9% on the pcg and up 13% on Q1 FY23. Q2 FY23 saw a 46% rise in costs, year-on-year, and a 10.7% increase on Q1 FY23 costs due to heavy investment in new business areas including betr and the Global Tote Hub. Receipts were a little below our forecast for the quarter and half year while costs were higher than our expectations driven by a 64% increase in product manufacturing and operating costs and a 42% uplift in staff costs. The company noted that the investment made in growth opportunities in H1 FY23 is expected to result in negative earnings for the full year but that it was aiming for positive operational cashflows in H2 FY23 and earnings growth in FY24. We have adjusted our forecasts to reflect the company's commentary and for conservatism have pushed out some of our forecasts for betr and the US, resulting in our base-case valuation trimming to \$1.51/share (previously \$2.06/share on a lower share count).

Business model

BetMakers provides racing, wagering and integrity data, software and hardware products to bookmakers, racing authorities and rights holders globally. These include the supply of an international tote and other betting product engines, and services for bet types, including fixed odds, that monetise horse racing for stakeholders. BetMakers operates in more than 30 countries globally with greater than 225 racing partners, 60+ online wagering operators and processes over \$15 billion of wagering turnover annually. The company holds a 15-year exclusive deal to operate fixed-odds horse wagering in New Jersey, positioning BET to be a significant player in the transforming US wagering market. Its technology is also underpinning the Betr platform, driving both its front and backend, which is aiming for a significant position in the Australian wagering and sports-betting markets.

Adjusting for company guidance for FY23

We have adjusted our forecasts to reflect the company's guidance for negative earnings for FY23 but a return to profitability in FY24. The Q2 costs were substantially higher than our estimates which were based on our expectation that one-time employee costs in Q1 would not recur in Q2 and product manufacturing costs also outstripped our forecasts. Our cash receipts forecast, however, was less than 5% above reported. Our revised forecasts see a return to positive cashflow in H2 FY23 with strong (30%) earnings growth delivered in FY24.

Base-case DCF valuation \$1.51/share (previously \$2.06/share)

Our base-case DCF valuation is \$1.51/share on the current share count of 942.1m and \$1.49/share fully diluted for performance rights on issue. Our forecasts capture estimates for the broader US fixed-odds wagering opportunity, the betr wagering platform, and assumptions for growth for the Global Racing Network division which will service the Penn National Gaming deal and other data and vision opportunities. We see key catalysts as evidence of the transformation of US fixed-odds wagering, the ongoing rollout of the betr wagering platform, and growth in both the Global Racing Network and Global Tote

Earnings history and RaaS' estimates (in A\$m unless otherwise stated)

Year end	Revenue	EBITDA adj.*	NPAT adj.*	EPS adj.* (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
06/22a	91.7	2.2	(1.0)	(0.11)	1.3	nm	nm
06/23f	105.4	(11.0)	(14.9)	(1.61)	1.5	nm	nm
06/24f	136.0	11.1	1.7	(0.02)	1.2	14.7	nm
06/25f	185.1	33.8	17.9	1.90	0.8	4.4	11.7

Source: RaaS estimates for FY23f, FY24f and FY25f; Company data for historical earnings; *Adjusted for non-cash and one-time items

Q2 FY23 Results Analysis and Corporate Developments

Software & Services

7 February 2023

Share Details

ASX code	BET
Share price (6-Feb)	\$0.22
Market capitalisation	\$207.2M
Shares on issue	942.1M
Performance rights	17.5M
Net cash 31-Dec-2022	\$61.0M

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

Company Interviews

[BetMakers Technology Group \(ASX:BET\) RaaS President and Executive Chairman Interview 6 February 2023](#)

[BetMakers Technology Group \(ASX:BET\) RaaS 2023 Outlook Interview 2 Feb 2023](#)

Board of Directors & Management

Matt Davey	President/Executive Chair
Nicholas Chan	Non-Executive Chairman
Simon Dulhunty	Non-Executive Director
Anna Massion	Non-Executive Director
Rebekah Giles	Non-Executive Director
Jake Henson	Chief Executive Officer

Company Contact

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RaaS Advisory Contacts

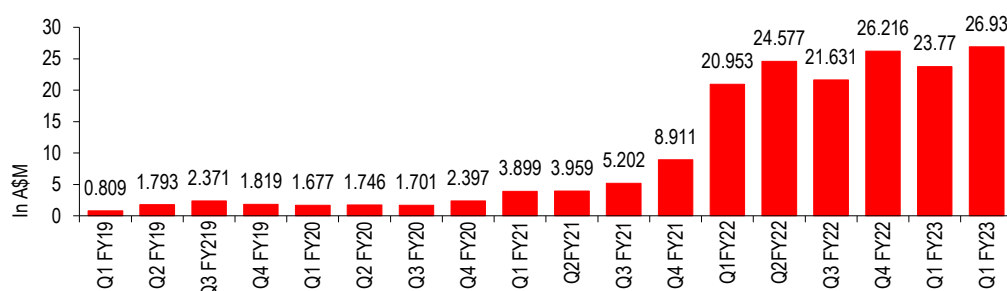
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Q2 FY23 Results Analysis

BET reported Q2 FY23 cash receipts of \$26.9m, a record quarter for the company and a 9% increase on Q2 FY22 cash receipts and 13% increase on Q1 FY23. H1 cash receipts were \$50.7m, up 11.4% on H1 FY22 but a little below our estimate for \$53m. The company noted that Q2 marked significant operational progress for the company as it launched the betr platform in October, navigated its largest ever Spring racing carnival in Australia and launched the Global Tote Hub. BET also completed a deal for the distribution of racing.com and Greyhound Racing NSW in Australia and launched international fixed odds in Jamaica through Caymanas Park.

Exhibit 1: Cash receipts breakdown by quarter



Source: Company reports

The group's investment in its platforms and international expansion is evidenced in the increased cash outgoings on staff and product development, both of which were higher than we had anticipated in Q2. Product manufacturing costs for the quarter were \$10.45m, up 64% on the pc and 50% on the prior quarter while staff costs remained at the same levels as Q1. We had anticipated that about \$3.8m in one-off costs in Q1 would not repeat in Q2. Operating costs for the quarter were higher than forecast, predominantly due to higher employee costs at \$17.7m. Admin and corporate costs remained well contained in the quarter relative to the pc. BET ended Q2 with \$61m cash in hand.

Exhibit 2: Q2 FY23 versus Q2 FY22 and Q1 FY23 (in A\$m unless otherwise stated)

	Q2 FY22	Q1 FY23	Q2 FY23
Cash receipts	24.58	23.77	26.93
Product manufacturing and operating costs	(6.39)	(6.97)	(10.45)
Employee costs	(12.24)	(17.69)	(17.32)
Admin, corporate and other costs	(3.78)	(4.97)	(5.01)
Net interest	-	-	-
Taxes	(0.09)	0.05	0.05
Other	0.69	(0.11)	(0.11)
Operating cashflow	2.77	(5.92)	(5.92)
Net cash at the end of the period	110.88	64.04	60.96

Source: Company data

During the quarter, BET completed the acquisition of Punting Form with a final payment of \$2.8m and invested another \$2.38m in the betting terminal hardware range, Bet Line, which was developed with Australian company Neo Self Service Solutions, and is destined for BET's US operations. This is the tail-end of an investment in ~650 betting terminals and was factored into our forecasts for the year. At quarter end, the company was also holding \$9.58m in customer funds on deposit in relation to the launch of the Global Tote Hub with the restricted cash balance at 31 December at \$15.6m.

Exhibit 3: H1 FY23 operating cashflow versus H1 FY22 and RaaS forecast (in A\$m unless otherwise stated)

	H1 FY22	H1 FY23	RaaS Fct
Cash receipts	45.53	50.70	53.11
Payments to supplier & employees	(44.38)	(62.41)	(53.53)
Net Interest	(0.14)	-	(0.23)
Tax	(0.08)	0.10	-
Other	0.90	(0.22)	(0.11)
Operating cashflow	1.83	(11.84)	(0.76)
Cash at end of the period	110.88	60.96	65.10

Source: Company data. RaaS estimates

Other key developments in the quarter included:

- BET launched fixed odds betting in Jamaica at Caymanas Park, which while in its early stages, extends the company's ambitions to play a significant role in the fixed odds wagering market within the global horse racing market. BET noted that MonmouthBets, which is the New Jersey platform, and Caymansas online and mobile applications are expected to move to a full commercial launch in H2 FY23;
- BET launched the Global Tote Hub, a centralised licensed entity using the company's proprietary tote technology to establish international pools and commingling gateways for wagering operators to access more parimutuel markets. The hub aims to service BET's global network of more than 300 racing and wagering partners; and
- The successful launch of the platform to drive betr in October and subsequent signing of more than 300,000 customers to the wagering platform and testing with more than 8,000 bets per minute at peak during the Spring Racing Carnival.

Corporate Restructure

In tandem with the quarterly result, the company announced a board and management restructure designed to position the company for its next phase of growth. The company's largest shareholder, Matt Davey has been appointed to the board as President and Executive Chairman and will provide strategic direction, oversight and prioritization. The former Non-Executive Chairman Nick Chan has stepped into a Non-Executive Director position and will continue to deliver his expertise and corporate knowledge to the board. Former CEO Todd Buckingham has been appointed to the new position of Chief Growth Officer with a global project remit to develop and execute on international opportunities. He also stepped down from the board. Former COO Jake Henson has been appointed Chief Executive Officer and will focus on optimising profitability.

The company noted that the management restructure was designed to allow it to maximise and increase profits on its more developed businesses through operational efficiencies and scalable processes while delivering a more agile team to focus on developing the emerging international opportunities. In our view the restructure makes sense and is a testament to the succession planning within the group that it has been able to appoint talent from within.

Our interviews with Matt Davey, President and Executive Chairman, and Jake Henson, CEO, and Todd Buckingham, CGO, can be accessed here:

[**BetMakers Technology Group \(ASX:BET\) RaaS President and Executive Chairman Interview 6 February 2023**](#)

[**BetMakers Technology Group \(ASX:BET\) RaaS 2023 Outlook Interview 2 Feb 2023**](#)

Earnings Guidance

The company has announced it expects that the investment in growth opportunities made in H1 FY23 will result in negative earnings in FY23. BET announced that management would focus on reducing and normalising the cost base in H2 FY23 and was aiming to deliver positive operating cashflows for the half and set the business up to deliver earnings growth in FY24..

Earnings Adjustments

We have adjusted our H1 and H2 FY23 forecasts to reflect the higher cost base in H1 driven predominantly by human capital costs. We previously had expected some of this to come off in H2 but have now adjusted our forecasts to maintain similar staff costs in H2 FY23. Our H2 forecasts now assume that the company gets to a cashflow and operating break even (respectively \$0.4m in operating cashflow and \$0.77m in EBITDA) which will now result in a full year operating and cashflow loss. We have assumed that the reported cash costs will closely match operating costs. We have also trimmed our cash receipts and revenue expectations for FY23 to reflect the slightly lower than forecast H1 cash receipts and this flows through to our forward forecasts. Our H2 revenue forecasts have also been pared back to reflect our expectation that the betr platform revenue share of 25% of net gaming revenue up to a cap of \$20m a year will take longer to come into play. We now assume this kicks in in H2 FY24 in full.

Exhibit 4: Earnings adjustments to FY22, FY23 and FY24

	H1 FY23 old	H1 FY23 new	H2 FY23 old	H2 FY23 new
Revenue	53.1	50.1	71.4	55.3
Gross profit	42.6	34.0	56.2	45.1
EBITDA	(0.1)	(11.8)	14.1	0.8
NPAT	(3.4)	(11.6)	5.9	(3.4)

Source: RaaS estimates

We have pushed back our forecasts for betr, Managed Trading Services and the US fixed-odds wagering business by three quarters resulting in the earnings adjustments set out in the following exhibit.

Exhibit 5: Earnings adjustments to FY22, FY23 and FY24

	FY23 old	FY23 new	FY24 old	FY24 new	FY25 old	FY25 new
Revenue	124.5	105.4	175.3	136.0	221.5	185.1
Gross profit	98.8	79.0	130.7	106.1	160.4	138.1
EBITDA	14.1	(11.0)	41.3	11.1	63.7	33.8
NPAT	2.5	(14.9)	22.6	1.7	38.7	17.9

Source: RaaS estimates

Base Case DCF Valuation is \$1.51/share

Our base-case DCF-derived valuation is \$1.51/share (previously \$2.08/share on a lower share count). This incorporates estimates for the broader US fixed-odds wagering opportunity, the betr wagering platform, and assumptions for growth for the Global Racing Network division which will service the Penn National Gaming deal and other data and vision opportunities. Our earnings adjustments which pushed expectations further into the future have resulted in the valuation being trimmed.

Exhibit 7: Base-case DCF valuation

	Parameters
Discount rate (WACC)	11.6%
Terminal Growth Rate	2.2%
Present value of free cashflows (\$m)	358
Terminal value (\$m)	1,007
Plus net cash at 31-Dec (\$m)	(61)
Equity value (\$m)	1,425
Shares on issue (m)	942
Equity value per share	\$1.51

Source: RaaS estimates

Exhibit 8: Financial Summary

BetMakers Technology Group Ltd (BET)						Share price (6 February 2023)						A\$	0.22
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	Revenue	H122A	H222A	H123F	H223F	H224F	H224F	H224F
Sales revenue	19.5	91.7	105.4	136.0	185.1	Gross profit	43.5	48.2	50.1	55.3	62.4	73.6	73.6
Total Revenue	19.5	91.7	105.4	136.0	185.1	EBIT DA	32.0	34.3	34.0	45.1	48.4	57.8	57.8
Gross Profit	10.2	66.3	79.0	106.1	138.1	EBIT	2.3	(0.1)	(11.8)	0.8	2.3	8.8	8.8
EBIT DA	(2.9)	2.2	(11.0)	11.1	33.8	NPAT (normalised)	(3.8)	(3.7)	(16.3)	(4.6)	(1.9)	4.8	4.8
Depn	(0.5)	(3.4)	(4.7)	(4.7)	(4.6)	Minorities	(2.6)	1.6	(11.6)	(3.4)	(1.5)	3.2	3.2
Amort	(2.2)	(6.3)	(5.1)	(3.5)	(3.1)	NPAT (reported)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	(5.6)	(7.5)	(20.9)	2.9	26.1	EPS (normalised)	(27.8)	(61.4)	(11.6)	(3.4)	(1.5)	3.2	3.2
Interest	(0.1)	(0.5)	(0.5)	(0.5)	(0.5)	EPS (reported)	(0.3)	0.2	(1.3)	(0.4)	(0.2)	0.3	0.3
Tax	3.5	7.1	6.4	(0.7)	(7.7)	Dividend (cps)	(3.3)	(6.9)	(1.3)	(0.4)	(0.2)	0.3	0.3
Minorities	0.0	0.0	0.0	0.0	0.0	Imputation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Operating cash flow	1.8	(20.1)	(11.8)	0.4	(0.1)	6.0	6.0
NPAT pre significant items	(2.2)	(1.0)	(14.9)	1.7	17.9	Free Cash flow	(8.5)	(25.3)	(18.4)	(2.6)	(1.6)	4.5	4.5
Significant items	(15.3)	(88.3)	0.0	0.0	0.0	Divisions						H122A	H224F
NPAT (reported)	(17.5)	(89.2)	(14.9)	1.7	17.9	Global Betting Services	18.0	22.6	23.4	25.4	30.3	37.5	37.5
Cash flow (A\$m)						Global Racing Network	2.3	1.8	2.0	2.8	4.7	5.7	5.7
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	Global Tote	23.2	23.8	24.7	27.1	27.4	30.3	30.3
EBIT DA	(2.9)	2.2	(11.0)	11.1	33.8	Total Revenue	43.5	48.2	50.1	55.3	62.4	73.6	73.6
Interest	(0.0)	(0.5)	(0.2)	(0.5)	(0.5)	COGS	11.5	13.9	16.2	10.2	14.1	15.8	15.8
Tax	(0.1)	(0.1)	0.1	(1.4)	(7.7)	Gross Profit	32.0	34.3	34.0	45.1	48.4	57.8	57.8
Working capital changes	1.0	(19.8)	(0.3)	(3.4)	(3.5)	Employment costs	21.3	25.5	35.0	33.4	35.0	37.7	37.7
Operating cash flow	(2.0)	(18.2)	(11.4)	5.9	22.1	Selling General & Admin Costs	8.1	8.9	10.3	10.4	10.6	10.8	10.8
Mtce capex	(1.9)	(15.6)	(9.5)	(3.0)	(3.0)	Other Opex	0.4	(0.0)	0.5	0.5	0.5	0.5	0.5
Free cash flow	(4.0)	(33.8)	(21.0)	2.9	19.1	Total Operating Costs	29.7	34.4	45.8	44.3	46.1	48.9	48.9
Growth capex	(0.7)	(0.6)	(9.5)	(1.0)	(1.0)	EBIT DA	2.3	(0.1)	(11.8)	0.8	2.3	8.8	8.8
Acquisitions/Disposals	(44.1)	(6.0)	(3.0)	(5.0)	(4.0)	EBIT DAmargin (%)	5.3	n.m	-23.5	1.4	3.6	12.0	12.0
Other	0.0	(0.6)	8.9	0.0	0.0	Margins, Leverage, Returns						FY21A	FY25F
Cash flow pre financing	(48.8)	(41.0)	(24.6)	(3.1)	14.1	EBIT DA		(14.8%)	2.4%	(10.5%)	8.2%	18.2%	18.2%
Equity	142.8	8.8	2.7	0.0	0.0	EBIT		(28.7%)	(8.2%)	(19.8%)	2.1%	14.1%	14.1%
Debt	0.0	0.0	0.0	0.2	0.4	NPAT pre significant items		(11.3%)	(1.1%)	(14.2%)	1.3%	9.7%	9.7%
Dividends paid	(0.5)	(0.9)	0.0	0.0	0.0	Net Debt (Cash)		118.5	82.9	50.2	47.1	61.2	61.2
Net cash flow for year	93.6	(33.1)	(21.9)	(2.9)	14.5	Net debt/EBIT DA (x)	(x)	n/a	37.7	n/a	4.2	1.8	1.8
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	(154.0%)	(78.0%)	(39.7%)	(35.8%)	(45.3%)	(45.3%)
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	EBIT interest cover (x)	(x)	n/a	n/a	n/a	0.2	0.0	0.0
Cash	120.6	87.5	54.9	51.9	66.5	ROA		(3.8%)	(3.3%)	(9.6%)	1.4%	11.5%	11.5%
Accounts receivable	9.0	15.4	16.0	20.7	28.1	ROE		(13.7%)	(46.4%)	(8.2%)	1.0%	9.5%	9.5%
Inventory	0.0	0.0	0.0	0.0	0.0	ROIC		(2.8%)	(4.2%)	(14.5%)	2.1%	16.3%	16.3%
Other current assets	5.0	6.1	6.1	6.1	6.1	NTA (per share)		0.19	0.18	0.15	0.15	0.16	0.16
Total current assets	134.6	109.1	77.0	78.7	100.7	Working capital		(8.5)	(0.3)	(1.6)	1.8	5.3	5.3
PPE	11.4	24.8	39.1	38.4	37.8	WC/Sales (%)		(43.8%)	(0.3%)	(1.5%)	1.3%	2.9%	2.9%
Intangibles inc Goodwill	44.3	30.5	36.5	41.5	45.5	Revenue growth		126.7%	371.2%	15.0%	29.0%	36.1%	36.1%
Investments	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		n/a	n/a	n/a	(114.0%)	793.6%	793.6%
Deferred tax asset	12.3	18.5	24.8	25.5	25.5	Pricing						FY21A	FY25F
Other assets	27.7	40.1	35.0	31.5	28.4	No of shares (yle)	(m)	813	904	942	942	942	942
Total non current assets	95.7	114.0	135.6	137.0	137.3	Weighted Av Dil Shares	(m)	675	874	942	942	942	942
Total Assets	230.3	223.1	212.5	215.7	238.0	EPS Reported	cps	(2.59)	(10.21)	(1.61)	(0.02)	1.90	1.90
Accounts payable	17.6	15.7	17.6	18.9	22.9	EPS Normalised/Diluted	cps	(0.33)	(0.11)	(1.61)	(0.02)	1.90	1.90
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	-11446%	-11446%
Tax payable	0.1	0.3	0.3	0.3	0.3	DPS	cps	-	-	-	-	-	-
Other current liabilities	4.4	5.2	5.2	5.2	5.2	DPS Growth		n/a	n/a	n/a	n/a	n/a	n/a
Total current liabilities	22.1	21.3	23.1	24.4	28.4	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long term debt	2.1	4.6	4.6	4.8	5.2	Dividend imputation		0	0	0	0	0	0
Other non current liab	10.7	7.9	7.9	7.9	7.9	PE (x)		-	-	-	-	11.7	11.7
Total long term liabilities	12.8	12.5	12.5	12.7	13.1	PE market		15.0	15.0	15.0	15.0	15.0	15.0
Total Liabilities	34.9	33.8	35.6	37.1	41.5	Premium/(discount)		nm	nm	(100.0%)	(100.0%)	(21.8%)	(21.8%)
Net Assets	195.4	189.3	176.9	178.6	196.5	EV/EBIT DA		nm	54.1	(14.5)	14.7	4.4	4.4
Share capital	226.0	252.5	255.2	255.2	255.2	FCF/Share	cps	(0.0)	(0.3)	(0.2)	0.9	2.7	2.7
Accumulated profits/losses	(43.5)	(132.7)	(147.6)	(145.9)	(128.0)	Price/FCF share		nm	(0.8)	(1.1)	0.2	0.1	0.1
Reserves	12.9	69.5	69.4	69.4	69.4	Free Cash flow Yield		nm	(1.3)	(0.9)	4.2	12.0	12.0
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	195.4	189.3	176.9	178.6	196.5								

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

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Effective Date: 6th May 2021

About Us

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

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 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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Our dealing service

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?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

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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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