

BetMakers Technology Group Ltd

H1 FY22 Results Analysis

Global growth strategy emerges in H1 FY22 result

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. BetMakers has reported a 473% increase in H1 FY22 revenues to \$43.5m, a seven-fold increase in gross profit to \$32.0m and its best-ever adjusted EBITDA result of \$2.3m, up from a loss of \$1.68m in H1 FY21 and ahead of our forecasts. The result marks a step-change in BET's operational performance, with its global growth strategy now clearly evident in the uplift in revenues from both its global tote and global betting services operations. Some of this uplift has come about through the acquisition of the Sportech tote and digital assets, but the growth in managed services business, assisted by the Waterhouse venture, has also made a significant contribution to top-line growth. We have incorporated this better-than-expected result into our forecasts, resulting in small positive adjustments to our FY22 and FY23 forecasts. Our base-case valuation has incorporated the higher share count from the conversion of the Waterhouse option and is now \$2.28/share (previously \$2.35/share). On a fully diluted basis, our valuation is \$1.98/share.

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 200 customers, and processes over \$15 billion of wagering turnover annually. This, combined with BET's 15-year exclusive deal to operate fixed-odds horse wagering in New Jersey, positions the company to be a significant player in the transforming US wagering market.

Step-change evident in growth in tote and betting services

Divisionally, BET recorded significant jumps in revenues from its Global Tote and Global Betting Services business. BET reported a 105% half-on-half increase in revenues to \$18.0m from Global Betting Services, which includes its Managed Trading Services (MTS) business. The company noted that \$8.26m in MTS revenues were generated with the support of the Waterhouse Group. The Global Tote posted \$23.2m in revenues, up from \$1.7m in H2 FY21, and generated predominantly in the northern hemisphere, following the integration of the Sportech technology stack into BetMakers' offering. The Global Racing Network grew revenues to \$2.3m from \$1.8m in H1 FY21 and \$1.4m in H2 FY21. This division is poised to grow significantly from H2 FY22 with the introduction of fixed-odds wagering in NJ, where BET has already signed 15+ tracks ready for the launch and further deals emerging with international racing bodies and companies seeking to distribute content globally.

Base-case DCF valuation is \$2.28/share (\$2.06b)

Our base-case DCF valuation is \$2.28/share (previously \$2.35/share) after taking into account the 45m shares issued to the Waterhouse Group as part of the conversion of its equity-based payments for the Managed Trading Services partnership. On a fully diluted basis for performance rights and in-the-money options, our valuation is \$1.98/share. Our forecasts capture estimates for the broader US fixed-odds wagering opportunity particularly in New Jersey where BET holds exclusivity for the next 15 years. We see key catalysts for the stock as the commencement of fixed-odds wagering in New Jersey in Q4 FY22, progression of its Heads of Agreement with Caesars Retail Sportsbooks to be the exclusive provider of pari-mutuel racing services at bricks-and-mortar locations in Nevada, and further evidence of international expansion.

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

Year end	Revenue	EBITDA adj.*	NPAT adj.*	NPAT rep.	EPS adj.* (c)	EPS rep. (c)	EV/Sales (x)	EV/EBITDA (x)
06/21a	19.5	(2.9)	(2.2)	(17.5)	(2.59)	(0.33)	18.6	nm
06/22e	93.5	5.8	(3.6)	(28.8)	(3.38)	(0.42)	4.3	62.1
06/23e	125.6	24.8	9.0	9.0	1.00	1.00	3.1	15.8
06/24e	163.7	50.9	26.9	26.9	2.51	2.51	2.2	7.2

Source: RaaS estimates for FY22e, FY23e and FY24e; Company data for historical earnings; *Adjusted for non-cash and one-time items

Software & Services

1st March 2022

Share Details

ASX code	BET
Share price (28-Feb)	\$0.56
Market capitalisation	\$505.9M
Shares on issue	903.5M
In-the-money options	14.3M
Performance rights	107.05M
Net cash 31-Dec-2021	\$110.8M

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

Catalysts

- Fixed-odds wagering commences in NJ
- Demonstrated expansion in US wagering market

Board of Directors

Nicholas Chan	Non-Executive Chairman
Simon Dulhanty	Non-Executive Director
Matt Davey	Non-Executive Director
Rebekah Giles	Non-Executive Director
Todd Buckingham	Managing Director/CEO

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RaaS Contact

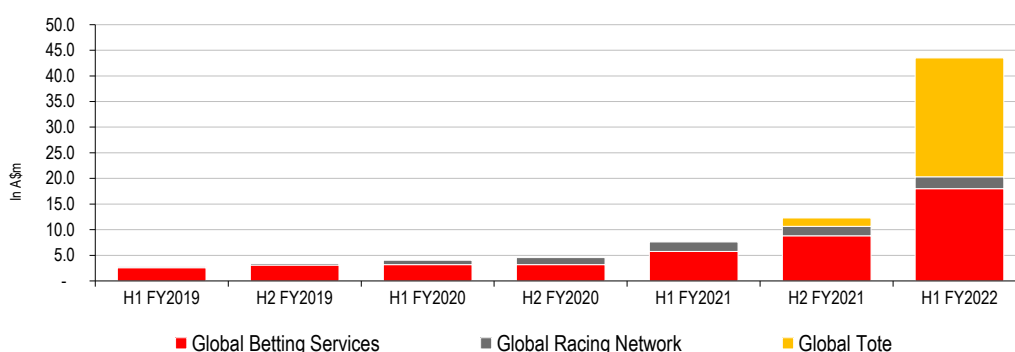
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*Analysts hold shares

H1 FY22 Results Analysis

BET reported a 473% increase in H1 FY22 revenues to \$43.5m, driven by significant acquired and organic growth from its Global Tote and Global Betting Services businesses. The Global Tote generated revenues of \$23.2m in the half, well ahead of the \$1.7m generated in H2 FY21, while Global Betting Services reported revenues of \$18.0m, up from \$5.8m in H1 FY21 and \$8.8m in H2 FY21. The overall result was in line with our forecasts, but we had forecast \$15.4m from Global Betting Services and \$25.8m from the Global Tote. Not insignificantly, the Global Racing Network generated \$2.3m in the half, ahead of the \$1.8m reported in both H1 FY21 and H2 FY21, and just below our forecast for \$2.4m. This division is poised to become a much greater contributor to revenues, given its partnership with Monmouth Park and the New Jersey Thoroughbred Horsemen to exclusively manage fixed-odds wagering in New Jersey for the next 15-years.

Exhibit 1: Revenues by half year and by source



Source: Company reports

BET reported better-than-forecast underlying EBITDA of \$2.3m in H1 FY22, its best-ever interim operating profit, on the back of a 473% increase in revenue to \$43.5m. Revenues were in line with our forecasts, but costs were lower, resulting in better-than-expected gross profit and EBITDA margins, respectively 74% and 5%, for the half. Employee costs and COGS were lower than we had forecast for the half. We had forecast employee expenses of \$21.8m, versus the reported \$21.3m, and COGS of \$13.3m versus the reported \$11.5m. Both were up substantially on the same period in FY21, due to the Sportech acquisition and growth in the MTS business. BET now has 450 employees across 10 locations. Pleasingly, the Gross Profit margin expanded to 74% from 53% in the pcp and was ahead of our forecast for 70%. Non-cash depreciation and amortisation charges resulted in an adjusted NPAT loss of \$2.59m, an increase on the net loss of \$1.35m reported in H1 FY21 and below our forecast for NPAT of \$0.46m. Reported NPAT was impacted by \$15.2m in non-cash share-based payments which included accounting for Waterhouse VC, Tripp Investments and employee payments.

Exhibit 2: H1 FY22 versus H1 FY21 and RaaS forecasts (in A\$m unless otherwise stated)

	H1 FY21	H1 FY22	% chg	RaaS forecast
Revenue	7.59	43.50	472.8%	43.65
Gross profit	4.00	32.03	700.2%	30.39
Gross profit margin	53%	74%	39.7%	70%
EBITDA (adjusted)	(1.68)	2.31	(237.8%)	1.03
EBITDA margin	(22.1%)	5.3%	(124.1%)	2.4%
NPAT (adjusted)	(1.35)	(2.59)	91.8%	0.46
NPAT (reported)	(4.44)	(27.82)	527.2%	0.46
EPS (adjusted)	(0.23)	(0.30)	32.5%	0.05
EPS (reported)	(0.75)	(3.26)	333.3%	0.05

Source: Company data, RaaS estimates

Earnings Adjustments

We have adjusted our FY22 forecasts to reflect the higher-than-forecast non-cash D&A charges which has impacted our NPAT and EPS forecasts but had no impact on operating profit expectations.

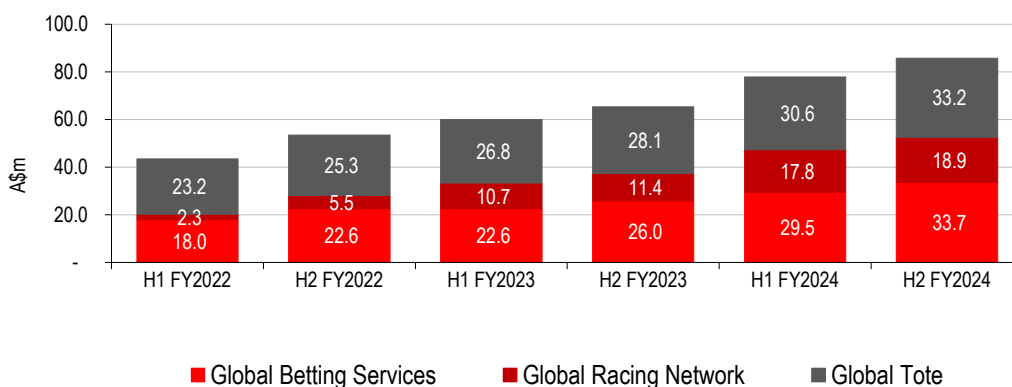
Exhibit 3: Earnings adjustments to FY22, FY23 and FY24

	FY22 old	FY22 new	FY23 old	FY23 new	FY24 old	FY24 new
Revenue	93.5	93.5	123.9	125.6	160.2	163.7
Gross profit	67.1	67.9	94.2	95.1	121.4	126.1
EBITDA	5.7	5.8	24.7	24.8	47.1	50.9
NPAT	3.3	(5.5)	15.8	9.0	31.4	26.9

Source: RaaS estimates

As we flagged earlier, we expect the Global Racing Network to become a much greater contributor to revenues over time, in large part due to BET's exclusive 15-year deal to operate fixed-odds horse wagering in New Jersey and the broader opportunity to be a significant player in the development of the US's fixed-odds wagering industry. The exhibit below sets out our revenue forecasts by half-year by division for the next six halves.

Exhibit 4: Forecasted revenues by half year and by source



Source: RaaS estimates

Base Case DCF Valuation is \$2.28/share (\$2.0b)

Our base-case DCF-derived valuation is \$2.28/share (previously \$2.35/share on a lower share count), after taking in to account the additional 45m shares issued to Waterhouse VC. On a fully diluted basis, for all options and performance rights (ie 1,039m), the valuation is \$1.98/share. Our terminal value is \$1.65 in our \$2.28/share valuation.

Exhibit 4: Base-case DCF valuation

	Parameters
Discount rate (WACC)	11.4%
Terminal growth rate	2.2%
Beta	1.4
Present value of free cashflows (\$m)	535
Terminal value (\$m)	1,412
Plus net cash at 31-December (\$m)	(111)
Equity value (\$m)	2,059
Shares on issue (m)	904
Equity value per share	\$2.28

Source: RaaS estimates

Exhibit 5: Financial Summary

BetMakers Technology Group Ltd (BET)						Share price (28 February 2022)						A\$	0.56
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Revenue	H121A	H221A	H122A	H222F	H123F	H223F	
Sales revenue	8.6	19.5	93.5	125.6	163.7	Gross profit	7.6	12.3	43.5	50.0	60.1	65.5	
Total Revenue	9.2	19.5	93.5	125.6	163.7	EBITDA	4.0	6.6	32.0	35.9	42.6	52.5	
Gross Profit	6.3	10.2	67.9	95.1	126.1	EBIT	(1.7)	(0.8)	2.3	3.5	8.4	16.4	
EBITDA	0.8	(2.9)	5.8	24.8	50.9	NPAT (normalised)	(2.8)	(1.9)	(3.8)	(2.4)	1.6	9.3	
Depn	(0.3)	(0.5)	(3.9)	(6.5)	(8.2)	Minorities	(1.4)	(0.9)	(2.6)	(1.0)	1.8	7.2	
Amort	(1.9)	(2.2)	(8.2)	(7.3)	(6.5)	NPAT (reported)	0.0	0.0	0.0	0.0	0.0	0.0	
EBIT	(1.3)	(5.6)	(6.2)	10.9	36.2	EPS (normalised)	(4.4)	(13.0)	(27.8)	(1.0)	1.8	7.2	
Interest	(0.5)	(0.1)	0.7	1.9	2.0	EPS (reported)	(0.8)	(1.9)	(3.3)	(0.1)	0.2	0.8	
Tax	0.3	3.5	1.9	(3.8)	(11.5)	Dividend (cps)	(0.8)	(1.9)	(3.3)	(0.1)	0.2	0.8	
Minorities	0.0	0.0	0.0	0.0	0.0	Imputation	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	30.0	30.0	30.0	30.0	30.0	30.0	
NPAT pre significant items	(1.5)	(2.2)	(3.6)	9.0	26.7	Free Cash flow	(1.3)	(0.7)	1.8	14.5	9.1	13.1	
Significant items	(0.6)	(15.3)	(25.2)	0.0	0.0		(1.4)	(2.6)	(8.5)	2.7	1.9	6.4	
NPAT (reported)	(2.1)	(17.5)	(28.8)	9.0	26.7	Divisions							
Cash flow (A\$m)						H121A	H221A	H122A	H222F	H123F	H223F		
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Global Betting Services	5.8	9.2	18.0	19.2	22.6	26.0	
EBITDA	0.8	(2.9)	5.8	24.8	50.9	Global Racing Network	1.8	1.4	2.3	5.5	10.7	11.4	
Interest	(0.4)	(0.0)	0.8	1.9	2.0	Global Tote	0.0	1.7	23.2	25.3	26.8	28.1	
Tax	(0.0)	(0.1)	(0.1)	(3.8)	(11.5)	Total Revenue	7.6	12.3	43.5	50.0	60.1	65.5	
Working capital changes	(1.0)	1.0	9.8	(0.6)	(1.5)	COGS	3.6	5.7	11.5	14.2	17.5	12.9	
Operating cash flow	(0.5)	(2.0)	16.4	22.2	39.9	Gross Profit	4.0	6.6	32.0	35.9	42.6	52.5	
Mtce capex	(0.2)	(1.9)	(19.6)	(8.8)	(3.7)	Employment costs	3.3	5.8	21.3	23.3	24.7	26.1	
Free cash flow	(0.7)	(4.0)	(3.3)	13.4	36.2	Selling General & Admin Costs	1.3	2.4	8.1	8.7	9.1	9.6	
Growth capex	(0.0)	(0.7)	(10.2)	(7.9)	(7.9)	Other Opex	1.1	(0.8)	0.4	0.4	0.4	0.4	
Acquisitions/Disposals	0.0	(44.1)	0.0	0.0	0.0	Total Operating Costs	5.7	7.4	29.7	32.3	34.2	36.1	
Other	0.0	0.0	(3.1)	0.0	0.0	EBITDA	(1.7)	(0.8)	2.3	3.5	8.4	16.4	
Cash flow pre financing	(0.7)	(48.8)	(16.5)	5.5	28.4								
Equity	37.8	142.8	8.7	0.0	0.0	Margins, Leverage, Returns							
Debt	0.0	0.0	0.0	0.0	0.6	EBITDA		9.1%	(14.8%)	6.2%	19.7%	31.1%	
Dividends paid	(0.2)	(0.5)	0.0	0.0	0.0	EBIT		(14.3%)	(28.7%)	(6.6%)	8.7%	22.1%	
Net cash flow for year	36.9	93.6	(7.8)	5.5	29.0	NPAT pre significant items		(16.5%)	(11.3%)	(3.9%)	7.1%	16.3%	
Balance sheet (A\$m)						Net Debt (Cash)		31.3	118.5	106.6	107.2	130.6	
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Net debt/EBITDA (x)	(x)	37.543	n/a	18.299	4.325	2.566	
Cash	31.6	120.6	109.7	110.2	134.2	ND/ND+Equity (%)	(%)	(107.4%)	(154.0%)	(112.8%)	(104.1%)	(122.8%)	
Accounts receivable	2.0	9.0	10.3	13.8	18.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	0.2	0.1	
Inventory	0.0	0.0	0.0	0.0	0.0	ROA		(0.7%)	(3.8%)	(2.6%)	4.5%	13.6%	
Other current assets	0.1	5.0	6.8	6.8	6.8	ROE		(5.4%)	(13.7%)	(14.5%)	4.4%	12.0%	
Total current assets	33.7	134.6	126.7	130.8	158.9	ROIC		(2.3%)	(2.8%)	(3.0%)	5.1%	14.4%	
PPE	0.2	11.4	29.9	40.1	43.4	NTA (per share)							
Intangibles inc Goodwill	14.5	44.3	44.3	44.3	44.3	Working capital		0.08	0.18	0.17	0.18	0.21	
Investments	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		0.7	(8.5)	(9.4)	(8.8)	(7.3)	
Deferred tax asset	7.3	12.3	14.7	14.7	14.7	Revenue growth		7.8%	(43.8%)	(10.1%)	(7.0%)	(4.5%)	
Other assets	6.9	27.7	22.9	20.6	19.2	EBIT growth pa		39.3%	112.3%	380.7%	34.3%	30.3%	
Total non current assets	28.9	95.7	111.9	119.7	121.6	Pricing							
Total Assets	62.6	230.3	238.6	250.5	280.5	No of shares (y/e)	(m)	568	858	918	918	918	
Accounts payable	1.3	17.6	19.7	22.6	25.3	Weighted Av Dil Shares	(m)	457	675	896	918	918	
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(0.47)	(2.59)	(3.38)	0.98	2.46	
Tax payable	0.0	0.1	0.2	0.2	0.2	EPS Normalised/Diluted	cps	(0.33)	(0.33)	(0.42)	0.98	2.46	
Other current liabilities	0.4	4.4	4.2	4.2	4.2	EPS growth (norm/dil)		n/a	n/a	n/a	-333%	151%	
Total current liabilities	1.7	22.1	24.1	27.0	29.7	DPS	cps	-	-	-	-	-	
Long term debt	0.4	2.1	3.1	3.1	3.6	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Other non current liabs	0.2	10.7	10.4	10.4	10.4	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Total long term liabilities	0.5	12.8	13.4	13.4	14.0	Dividend imputation		30	30	30	30	30	
Total Liabilities	2.2	34.9	37.5	40.4	43.7	PE (x)		-	-	-	57.3	22.8	
Net Assets	60.4	195.4	201.1	210.1	236.9	PE market		18	18	18	18	18	
Share capital	84.9	226.0	242.0	242.0	242.0	Premium/(discount)		nm	nm	(100.0%)	218.4%	26.6%	
Accumulated profits/losses	(26.1)	(43.5)	(72.4)	(63.4)	(36.7)	EV/EBITDA		nm	nm	69.9	0.0	0.0	
Reserves	1.6	12.9	31.5	31.5	31.5	FCF/Share	cps	(0.1)	(0.0)	3.9	3.4	4.7	
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		nm	nm	nm	nm	nm	
Total Shareholder funds	60.4	195.4	201.1	210.1	236.9	Free Cash flow Yield		nm	nm	nm	nm	nm	

Source: 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

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

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