Research as a Service

BetMakers Technology Group

Positional paper

Embedded in the DNA of racing

Software & Services

10th September 2019

BetMakers Technology Group (ASX:BET) is a B2B software services business focussed on servicing the wagering market and race operators globally. In our view, BetMakers has positioned itself uniquely in the industry, having developed the technology to deliver real time data feeds, fixed odds and derivatives pricing to wagering companies and the platforms to provide integrity, official pricing, and race day controls to the principal racing authorities. 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. We see opportunities for the company to further leverage its fee for service offerings and to expand its footprint globally with the development of its Global Racing Network and Global Tote platforms. Our base case DCF valuation of $0.22/share includes modest assumptions for the Global Tote and estimates that the company's core SaaS revenues account for 70% of total revenues long term. We dimension a downside case ($0.06/share) and two upside cases which contemplate 1% ($0.55/share) and 2% ($1.21/share) of Australian turnover equivalent.

Scope

This report has been commissioned by BetMakers Technology Group Ltd to present investors with an explanation of the business model and to explore the value created from a range of possible outcomes.

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. We estimate that 80% of FY19's $6.2m in revenue 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. Over time we expect the SaaS revenue share to average ~70% as the company expands its racing data and informatics platforms and new integrity platforms in both Australia and offshore.

Base case valuation is $0.22/share

We have used the discounted cashflow methodology to value BetMakers, arriving at a base case valuation of $0.22/share, fully diluted for in the money options. Our $101.8m base case valuation is generated from a WACC of 14.0%, terminal value 2.2% and a CAGR of free positive cashflows from 2020 of 38.5%. Our terminal value accounts for $0.12 of our valuation. We have spoken to key customers who endorsed BET's technology platforms. Our forecasts and valuation are based on our expectations for further industry adoption of the platforms. In our view, demonstrated success with the strategy and delivery of FY20 guidance should underpin BetMaker's share price performance.

Historical earnings and RaaS Advisory estimates

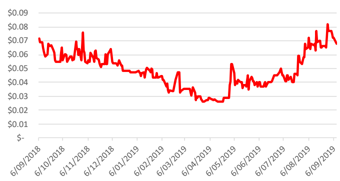
Year end	Revenue (A$m)	EBITDA* (A$m)	NPAT* (A$m)	EPS* (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
06/19a	6.8	(2.1)	(2.9)	(1.26)	4.64	na	na
06/20e	11.9	3.5	0.6	0.14	2.56	8.66	49.5
06/21e	18.4	7.3	2.2	0.91	1.40	3.53	7.5
06/22e	24.2	10.5	6.4	1.55	0.78	2.46	4.4

Source: Company data, RaaS Advisory Estimates for FY20e, FY21e and FY22e *adj for one-time items

Share details

ASX Code	BET
Share price	$0.068
Market Capitalisation	$28.1M
Shares on issue	413.5M
In the money options on issue	56.5M
Net debt at 30 June 2019	$3.5M
Free float	~90%

Share performance (12 months)



Upside Case

- Embedded in the racing clubs' integrity systems
- Strong relationships with corporate bookmakers in both Australia and UK
- Opportunity to leverage relationships to develop its Global Racing Network and potentially the Global Tote

Downside Case

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

Board of Directors

Nicholas Chan	Non-Executive Chairman
Todd Buckingham	Managing Director/ CEO
Simon Dulhunty	Non-Executive Director

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RaaS
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BetMakers Technology Group Ltd

BetMakers Technology Group was listed in December 2015 after raising $6m at $0.20/share. At the time of float, the company was known as TopBetta (ticker TBH) and was focused on developing its bespoke technologies including a wagering platform, a fantasy wagering game and a wholesale only tote. It had its own customer facing brand TopBetta which utilised its technologies, and acquired a second brand, MadBookie, in April 2017. One month later, it launched the Global Tote, a wholesale only tote pool, which validated the business model over the remainder of the calendar year with ~$90m in turnover generated across almost 1,400 race meetings. In January 2018, the Northern Territory Racing Commission (NTRC) declined to approve a commercial agreement between Ladbrokes and the Global Tote. In April 2018 the TopBetta and MadBookie fantasy gaming and wagering businesses were sold to PlayUp for $6m. In turn, BET expanded its B2B software services business with the acquisitions of Global Betting Services and DynamicOdds each for $10m. In October 2018, NTRC approved for Global Tote to enter a commercial agreement with Ladbrokes-owned Neds. While the Global Tote provides optionality for BET, we also see significant upside in the company's core SaaS business and expect the focus to be there in the short-term. Having recapitalised in April/May 2019 with a $1.68m share placement to strategic investor Tekkorp and a one-for-1.28 non-renounceable entitlement offer at $0.03/share to raise $3m, the company is now well-placed to achieve its FY20 guidance for net revenue of $10m and EBITDA of $3.4-$3.7m.

Investment case

In our view, BetMakers Technology Group Ltd has the opportunity to achieve success for the following reasons:

- Over the last five years, BetMakers and its companies have established themselves as the leading Racing Software Solutions Company to Principal Racing Authorities and rights holders, bookmakers and wagering operators;
- The company's products and services are being endorsed by global wagering companies and racing authorities, with contracts being renewed and upgraded as they expire;
- Racing authorities are seeking ways to generate more income and BetMakers is presenting new opportunities to co-develop technology platforms that improve user experiences and generate income;
- BetMakers has forged strong partnerships with leading racing authorities keen to see the rollout of their jointly developed technology;
- The company is unique in that all main racing authorities in Australia use its official price solutions, race day management and data distribution;
- The company has proven the business case for its Global Tote product over the course of 2017 and 2018. We have included modest assumptions, in our view, for the Global Tote in our base case valuation and have stretch-tested it in our upside cases, which contemplate the Global Tote securing 1% and 2% equivalent share of Australian wagering turnover at the end of 10 years with 3-4% returning to BET;
- BetMakers has developed relationships globally with rights holders, racing clubs and corporate bookmakers which we expect to see leveraged into the development of the Global Racing Network;
- Structural change in the UK and US industries present opportunities for BetMakers to leverage off the relationships and partnerships it already has in place to develop a more meaningful presence in these jurisdictions;
- The company is able to deliver tangible savings to its corporate bookmaker customers in terms of reduced trading staff requirements/costs related to developing in house solutions;

- BetMakers has a board and senior management team with experience in the wagering markets, making them well-placed to understand the business needs of their customers;
- The company has secured the support of an internationally recognised gaming sector investor committed to assisting BetMakers with its international expansion plans;
- The company has commenced trading profitably in Q4 FY19 and on track to deliver its guidance for $10m in net revenue and EBITDA range of $3.4m-$3.7m in FY20.

DCF Valuation at $0.22/share (market capitalisation of $101.8m)

We have considered the following valuation methods:
- Discounted cash flow
- Expected cash flow profile implicit in the current share price
- SaaS Peer EV/Sales multiple using "The Golden Rule"

Our base case DCF is $0.22/share, a downside case is $0.06/share (which is based on ~35% revenue underperformance and ~60% EBITDA underperformance), an upside case (which assumes 5 more large bookmakers and 6 more small bookmakers, that more racing authorities engage with BET's products and that the Global Tote generates turnover of 1% equivalent of Australian wagering turnover by FY28) and a second upside case (which assumes 11 more large and 12 more small bookmakers and 2% equivalent of Australian wagering turnover by FY28). Our DCF valuation includes the dilutionary impact of in the money options and the earnout payment payable to the owners of GBS and DO in October 2019. We have not factored in any additional capital raises but note that there was not a huge buffer at the end of FY19 ($0.45m in cash) and that an equity raise in FY20 may help offset any near-term cash restraints.

The current share price of $0.068/share implies a CAGR in free cashflows of 8.2% from FY20 to FY29, which is below the 11.8% CAGR in online wagering generated in Australia from FY14-18. We have examined a group of 15 SaaS companies which are in various points in their life cycles. A defining feature is that historical sales revenue growth for the past seven years has averaged 22% CAGR, which compares similarly to the 21% CAGR in revenues in our base case DCF valuation. Using the Golden Rule formula of Current price to sales = Stable margin X Price Earnings Ratio X Sales uplift/Price uplift, and applying it to our Compco group, we arrive at a SaaS Adjusted EV/Sales multiple of 3.9x which in turn gives us a compco valuation of $46.4m or $0.11/share. A summary of our valuation methodologies is set out below.

Exhibit 1: Valuation methodologies addressed in this report

Valuation method	Discount rate	Implied CAGR in FCF from FY20-29	SaaS Adj EV/Sales (X)	Value in A$m	Value per share
Base case DCF valuation ^	14.0%			101.8	$0.22
An upside case DCF ^	14.0%			256.5	$0.55
A second upside case DCF^	14.0%			570.1	$1.21
A downside case DCF ^	14.0%			27.6	$0.06
Reverse DCF*	14.0%	8.2%		28.1	$0.068
Compco Analysis using SaaS company multiples*			3.9	46.4	$0.11

Source: RaaS analysis ^Uses fully diluted share count of 469.96m inc in the money options *Uses current share count of 413.49m shares

New Name and Code to reflect Strategy

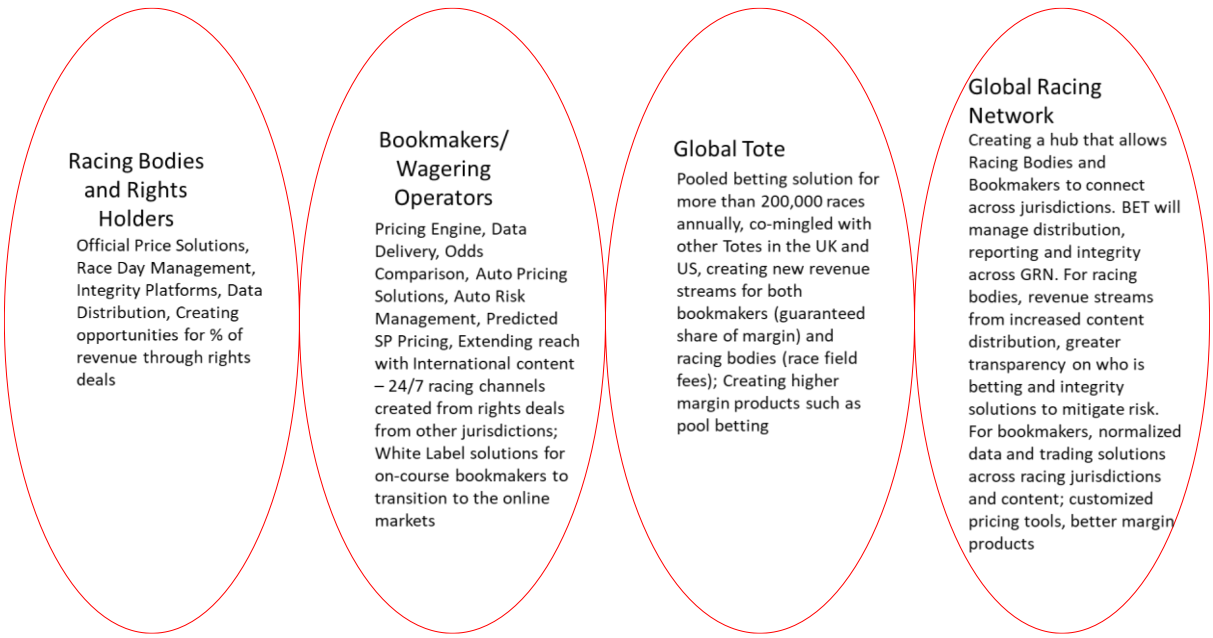
BetMakers Technology Group changed its name from The BetMakers Holdings and its stock code to BET from TBH in June 2019 to reflect the technology focused business strategy of the group. Having divested its wagering and fantasy gaming operations in 2018, with final payments delivered in April 2019, the company's transformation into a B2B technology business is now largely complete.
The company's mission is to power racing around the world by connecting racing bodies with wagering operators through innovative products and platforms.

It is a multi-pronged strategy that aims to:

- Scale its products and platforms with racing authorities including the integrity solution and Barrier Tech innovation developed with Racing Victoria;
- Deliver share of revenue opportunities to both Australian and offshore racing bodies and rights holders through global distribution;
- Continue to be an integral part of bookmakers' offerings by delivering advanced racing products such as auto pricing and auto trading;
- Provide platforms for smaller on-course bookmakers to move online;
- Deliver high margin products such as the Global Tote to help bookmakers and racing authorities gain/improve their share of tote turnover;
- Expand the relationships it has built with the UK bookmakers and distribution networks to find opportunities to participate in the evolution of the UK and US wagering markets.

We set out graphically below the connections that we see developing from BetMakers' strategy.

Exhibit 2: Connections created by BetMakers' strategy



Source: RaaS Analysis

Capital raised to date

BetMakers has raised $32.2m in equity since its IPO in August 2001 and $38.2m in total following the sale of its TopBetta and MadBookie retail and fantasy wagering businesses to PlayUp. Its last capital raising round was in April/May 2019 when it made a $1.68m share placement to strategic investor Tekkorp and a one-for-1.28 non-renounceable entitlement offer at $0.03/share to raise $3m. The entitlement offer was oversubscribed and required a scale-back. BetMakers used the proceeds of the placement and entitlement offer to pay $3.4m for the acquisition of Global Betting Services (GBS) and CDK and DynamicOdds (DO), and for working capital. The company has arranged $4m in deferred payments for these acquisitions until June

2024 with 10% interest payable monthly. There is also an earn-out provision of up to $6m due by 31 October 2019 which BET can choose to pay in shares, cash or a combination of both. We have set out the capital raised to date in the following exhibit. We note that the company ended FY19 with cash in hand of $0.45m and an expectation that the September quarter will generate positive net cashflow of ~$0.2m. Our forecast is for continued positive cashflow generation ongoing which should negate the need for additional capital raisings. However, we acknowledge that there may be merit in a near term equity event to help buffer the company in the event it wants to scale up its IT development team or business development staff to take advantage of opportunities that may come to hand.

Exhibit 3: Capital Raised to Date

Year	Transaction	Amount $M
Dec-15	IPO at 20 cps	6.0
Aug-16	Placement at 18 cps	2.6
Nov-16	Placement at 20 cps	3.0
May-17	Placement at 16 cps	1.5
May-17	SPP oversubscribed at 16 cps	0.6
Aug-17	Placement at 42 cps	9.0
Dec-17	Placement at 28.5 cps	1.0
Jul-18	Placement at 8 cps	1.0
July-Oct 2018	Shortfall offer at 8 cps	3.4
Apr-19	Non-renounceable entitlement offer of for 1.28 at 3 cps	3.8
Option exercises		0.3
Total Funds raised through ordinary equity		**32.2**

Source: Company data

BetMakers' customer base

BetMakers services both the racing bodies and the bookmakers, as highlighted in Exhibit 2. It holds the unique position of calling every Australian racing authority a customer and has developed a deep commercial partnership with Racing Victoria which we will explore later. We set out the Principal Racing Authority (PRA) customers in the following Exhibit.

Exhibit 4: BetMakers' Racing Authority customers

OFFICIAL PRICE .com.au

RACING QUEENSLAND

tasracing.com.au DATA DRIVEN

Racing NSW

Racing Victoria

THE RACES THOROUGHBRED RACING SA

TRNT THOROUGHBRED RACING NORTHERN TERRITORY

CANBERRA RACING CLUB

Source: Company data

Presently, BetMakers earns a monthly fee from delivering its race day management and official price solutions to racing authorities but over time, we see additional revenue being generated as part of its commercial relationships with the PRAs and potential share of turnover being shared on international deals.

In exhibit 5 below, we set out the several of the commercial bookmakers that BetMakers services with its Price Manager product. We estimate that BetMakers services around 22 or more than half Australia's online bookmakers. The company has renewed its contracts with several of these clients (Ladbrokes, Neds, William Hill) and in the course of doing so has managed to increase its contracted fees through expanded product offering.

Exhibit 5: BetMakers' corporate bookmaker clients

Source: Company data

Recent operating performance

BetMakers reported FY19 revenue of $6.2m and a normalised net loss of $2.9m. Significantly there was a marked improvement in the company's 2HFY19 performance with the underlying EBITDA loss shrinking to $0.1m from a first half operating loss of $1.9m in H1FY19 and an operating loss of $0.6m in the H2FY18. This suggests that BET was at operational breakeven sometime in Q4FY19. Note that the content and integrity revenues grew strongly year on year and half on half, reflecting the traction that BET is getting with the racing authorities. Wholesale wagering also grew strongly H2 on H1 (19%) but declined half on half in large part to the company's decision to scale back its Global Tote operations while it waited for the Northern Territory Gaming Commission to approve its capacity to operate in Australia. This approval was forthcoming in October 2018 (NTRC confirms agreement between NEDS.com.au & Global Tote can proceed, 30 October 2018). We have set out the FY19 results in half year detail in the following Exhibit.

Exhibit 6: Half year results analysis

	2H18	2H19	% chg on PCP	1H19	2H chg on 1H
Wholesale Wagering	11.7	3.1	(74%)	2.6	19%
Content and Integrity	0.1	0.3	402%	0.2	54%
Total Sales revenue	**11.7**	**3.4**	**(71%)**	**2.8**	**22%**
Gross Margin	2.3	3.0	32%	1.6	90%
EBITDA underlying	(0.6)	(0.1)	(76%)	(1.9)	(93%)
EBIT underlying	(0.7)	(1.7)	144%	(2.1)	(18%)
NPAT normalised	**(2.9)**	**(0.8)**	**(73%)**	**(2.1)**	**(64%)**
NPAT reported	(5.2)	(1.2)	(77%)	(2.4)	(49%)

Source: Company data, RaaS analysis

BetMakers currently operates predominantly in Australia but see growing opportunities to expand its footprint globally through the delivery of its integrity platforms and price manager systems to other jurisdictions, the development of its Global Tote ambitions and the opportunity to connect racing authorities, rights holders and bookmakers globally through its Global Racing Network. In this context, we examine the Australian, UK and US markets in the following sections.

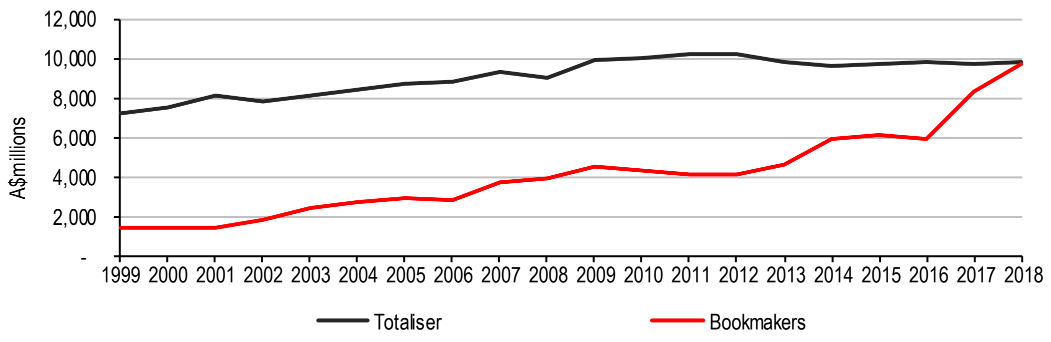
Industry structure and growth

Australia

Australia reportedly[1] has the highest per capita gambling expenditure in the world, with an estimated 39%[2] or 6.8m Australia adults gambling regularly (regularly is defined as being at least once a month). Of this population, 14.3% or 972,000 participate regularly in racebetting. The Queensland Government produced, *Australian Gambling Statistics, 34th Edition*, estimates that in FY17, gambling turnover in Australia was $208.6b or $11,018 per person, based on a mean population of 18.9m people, while total gambling expenditure was $1,251 per person or $23.7b. Australian Gambling Statistics estimated that racing turnover (thoroughbred, harness and greyhounds) had grown to $23.9bn[3] by FY17, a CAGR of 3.0% since 1992, and a much slower pace than 7.6% CAGR in total gambling turnover over the same period.

In part this lower growth is due to stagnation on the totaliser's part. As the following exhibit demonstrates, over the past 20 years, thoroughbred racing's growth has been predominantly due to the turnover generated by corporate bookmakers, in particular online bookmakers. The CAGR in wagering turnover collectively has grown at 7% over the 20 years to 2018, but turnover handled by bookmakers has grown at a CAGR of 17.6% while totaliser CAGR has grown at just 2.6%, according to the 2018 Australian Racing Blue Book.

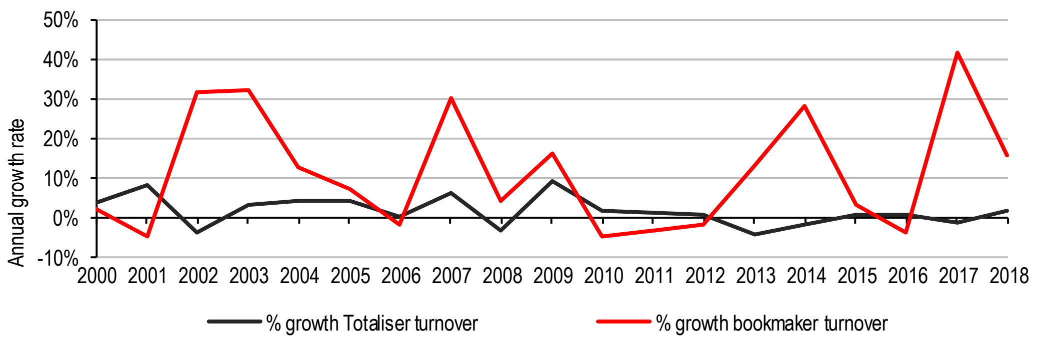
Exhibit 7: Australian Thoroughbred Wagering Market 1998-2018



Source: Australian Racing Blue Book 2018

Below is the annual percentage change in turnover experienced by the thoroughbred racing industry.

Exhibit 8: Annual growth rate of thoroughbred wagering by totaliser/bookmakers



Source: Australian Racing Blue Book 2018

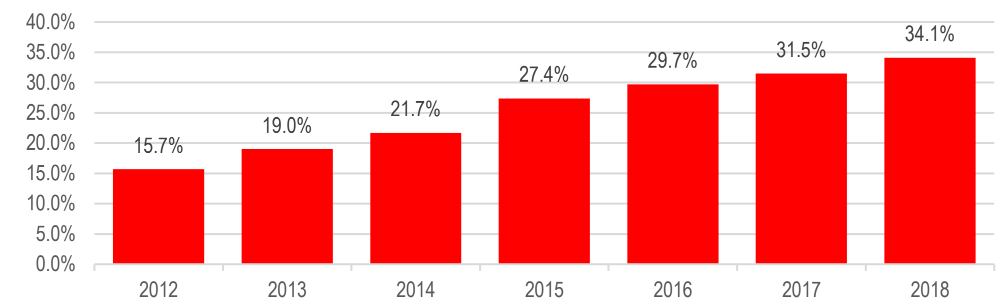
1 The Economist, The World's Biggest Gamblers, https://www.economist.com/graphic-detail/2017/02/09/the-worlds-biggest-gamblers

2 Australian Gambling Research Centre, Gambling Activity in Australia, November 2017

3 Australian Gambling Statistics, 34th Edition

A key driver of bookmaker turnover growth has been the ability of punters to place their bets over the internet using either the PC devices or their mobile phones. Anecdotally, industry sources estimate that between 70-80% of punters bet in this way but it is difficult to find any formal stats confirming this. Roy Morgan estimates that the proportion of bettors who use the internet to place bets (both wagering and sports betting) has more than doubled from 2012 to 2018 as the following exhibit shows.

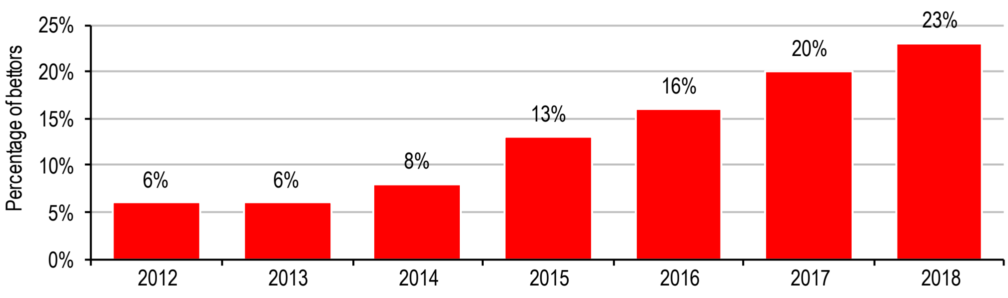
Exhibit 9: Proportion of bettors who use the internet to place bets, Australia 2012-2018



Source: Roy Morgan Research June 2018, from PointsBet prospectus

As the following Exhibit demonstrates, according to Roy Morgan, there has been a near four-fold increase in the use of mobile phones for betting since 2012.

Exhibit 10: Proportion of bettors who use mobile phones (app or internet) to place bets, Australia 2012-2018



Source: Roy Morgan Research June 2018, from PointsBet prospectus

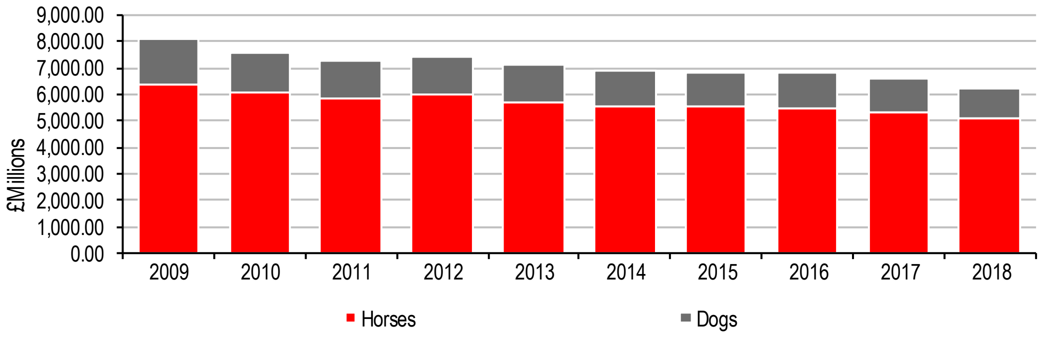
At December 2018, there were 41 licensed interactive wagering service providers in Australia, excluding on-course bookmakers. Including on-course, there are more than 400 bookmakers in Australia. The leading online wagering participants in terms of share of online bettors are Tabcorp (ASX:TAH), Sportsbet (owned by Paddy Power Betfair (ISE:PPB)), BetEasy (majority owned by Stars Group (TOR:TSGI)), Ladbrokes (GVC Holdings – LON:GVC) and Bet365, according to Roy Morgan.

As a key supplier of systems and analytical tools for the bookmakers, BetMakers is well positioned to benefit from this continued shift to online mobile betting and to provide differentiated revenue share options to rights holders and racing clubs.

United Kingdom

The UK racing domestic market has been in decline for the past decade, with turnover generated by all horse racing, including harness, declining by a CAGR of 2% and dogs dropping by a CAGR of 4%. We demonstrate this decline in Exhibit 11 below.

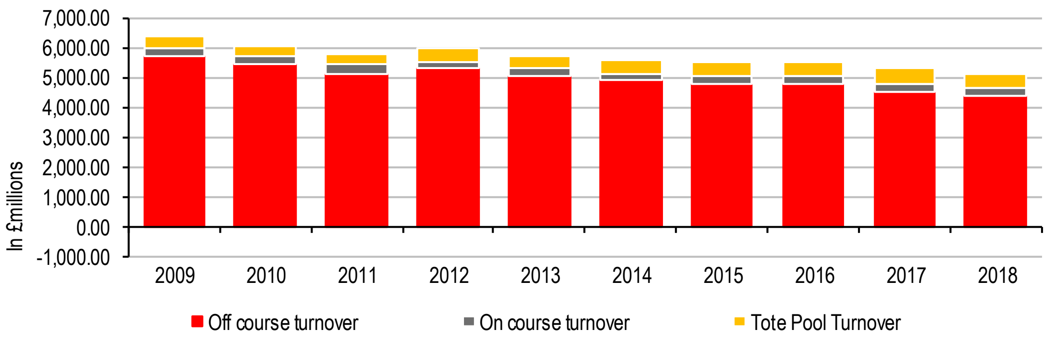
Exhibit 11: Turnover generated by horse and dog races in the UK (years to March 31)



Source: UK Gambling Commission

A further read into these numbers paints an even tougher picture for the off-course bookmakers. Tote pool horse racing turnover is the only category which grew over the past decade, lifting by a CAGR of 3%, while off course turnover for horse racing declined 3% and on course declined by a CAGR of 2%. BetFred's acquisition of the Tote from the UK government in 2011 is the likely driver of this growth.

Exhibit 12: UK Horse racing turnover by source



Source: UK Gambling Commission

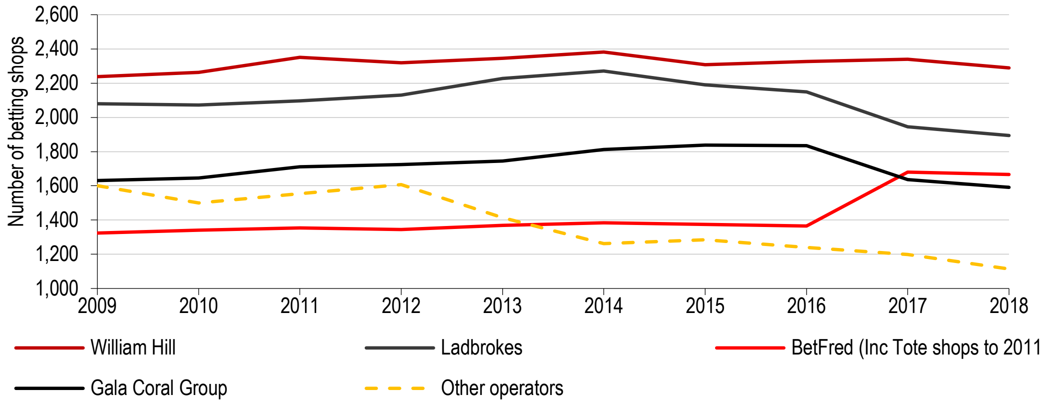
The dogs fared worse with a 4% CAGR decline in off-course turnover, an 8% CAGR decline in on course turnover and 3% CAGR decline in tote turnover.

A deeper issue however has emerged for the UK racing industry with changes to the maximum bet allowed by punters in betting shops potentially leading to further closures.

UK racing derives its revenue from "fixed fees" from bookmakers and focus from betting shops which are owned by the corporate bookmakers, William Hill, Ladbrokes, BetFred, Coral and many independents. Each betting shop pays UK racing around £30,000 a year for vision, data and betting rights.

Betting shops, a big traditional driver of off course turnover, have been in gradual decline since they peaked at 9,128 in 2012. This decline in the number of shops has already put pressure on the UK racing bodies. We set out the number of betting shops owned by each of the corporate bookmakers in the following exhibit.

Exhibit 13: Number of betting shops in the UK from 2009 to 2018



Source: UK Gambling Commission

Now after the introduction of restrictions to cut the maximum stake on fixed-odds betting terminals (FOBTs) from £100 per spin to £2 in April, the industry is bracing for significant closures.

A report in the Guardian4 in July, estimates that an many as one-quarter of betting shops on UK high streets have been slated for closure. William Hill was reportedly the latest bookmaker to blame job cuts on stricter regulation of FOBTs, estimated that it could close 700 high street shops.

Ladbrokes' owner, GVC, has already said 900 shops could close, threatening 5,000 staff, while Betfred has predicted up to 500 closures, which would reduce its headcount by 2,500.

The extended impact of the closures is that the UK racing clubs are facing as much as £100m a year in lost revenue from content and betting rights.

We see this adding pressure to racing clubs to look for additional sources of income, such as the percentage share of revenue model, in order to survive. BetMakers is well placed to take advantage of the structural shifts taking place in the UK for the sale of its GBS and DO products. BET already has signed a global deal with William Hill and we expect more corporate bookmakers to follow suit.

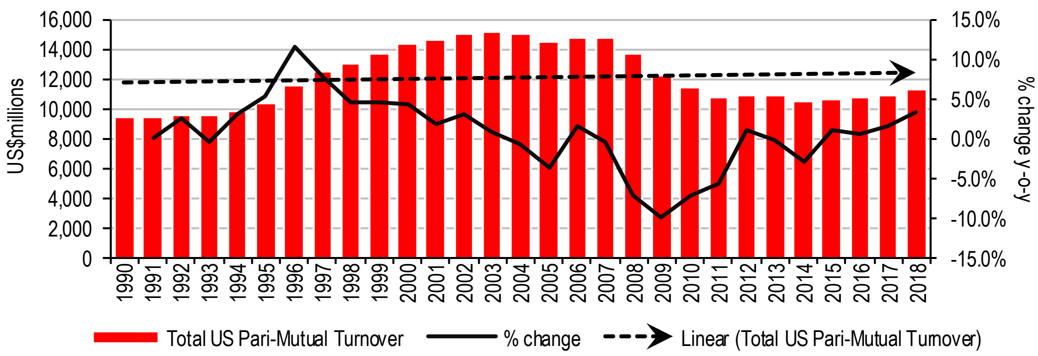
The company also already has corporate relationships with Totepool (owned by BetFred); BetGenius to deliver access to BetMakers' proprietary fixed pricing and enhanced data packages for more than 250,000 races per year; and has signed distribution deals with Sports Information Services (SIS) to deliver UK Greyhound vision and data to Australian and NZ bookmakers.

United States

The US horseracing market is fragmented by law and ownership structure. There are 150 racetracks in the US but state boundaries can prevent cross border online wagering. Unlike online sports betting, online wagering on horse races is legal in many (but not all) states in the USA. It is regulated by the state with simultaneous broadcast betting allowed across state lines within the pari-mutuel framework of the operator's wagering licence. A 'take' from each betting pool (typically ~15-17%) is distributed between the state, racetrack and operators.

4 https://www.theguardian.com/business/2019/jul/04/william-hill-may-axe-700-shops-as-fobt-reform-bites

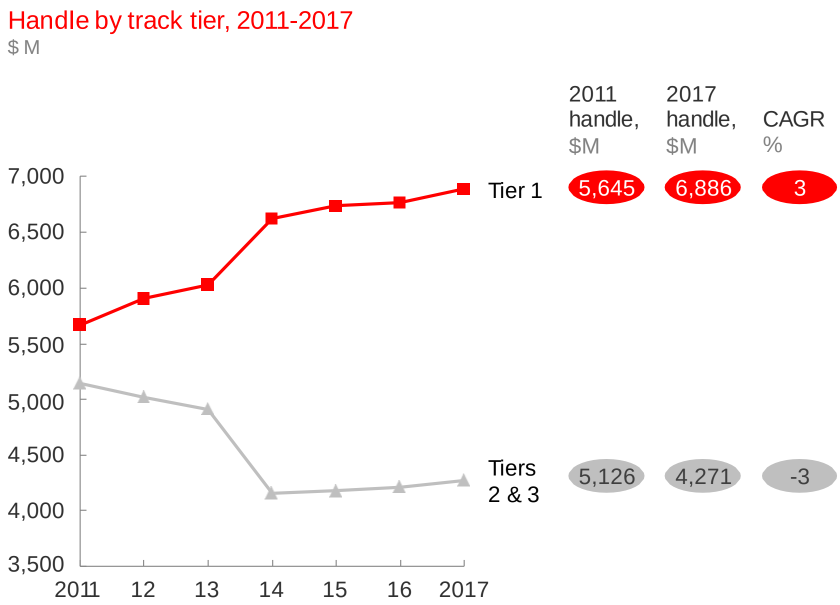
Exhibit 14: US Pari-Mutuel Handle (US$M) and percentage change on prior year



Source: Equibase Company LLC, CHRIMS (Comprehensive Horse Racing Information Management Systems)

As highlighted in the exhibit above, the US pari-mutuel handle has tracked sideways over the past almost 30 years. However, there has been a shift to tier one clubs. The Jockey Club estimates that the US handle in 2017 was US$11.2bn with tier 1 tracks accounting for 62% of total handle in 2017 versus 52% in 2011. Tier one tracks have grown handle by a CAGR of 3% from 2011-2017, compared with a 3% decline in CAGR at tier 2 and 3 tracks. We have highlighted the divide in the following Exhibit.

Exhibit 15: US Handle by track tier 2011-2017



Source: The Jockey Club Round Table August 2018/Equibase Note:12 tracks in Tier 1, 27 tracks in Tier 2, 57 Tracks in Tier 3

There is no federal law against horse racing betting online and as long as a particular state sanctions bets from other states, interstate betting is permitted. The Interstate Horse Racing Act of 1978 allowed horse and dog race-tracks to broadcast their races to other locations and accept bets. In 2000 the impact of changing technology was recognised and bets over the phone or the internet were allowed. In 2006 the Unlawful Internet Enforcement Gaming Act (UIEGA) which shut down online poker playing and casino gaming ensured that horse racing betting online remained legal. The only caveat is that the particular state has to agree to allow interstate horse bet wagering. There are four specifically categories of legislation in the landscape:

- States that have pari-mutuel statutes permitting account wagering;
- Partially regulated states that may require Advance Deposit Wagering (ADW) operators to meet conditional requirements;
- States which allow Pari-Mutuel States but no licencing framework for ADW operators;
- States that allow no online wagering.

We have set out the states under each category in the following Exhibit.

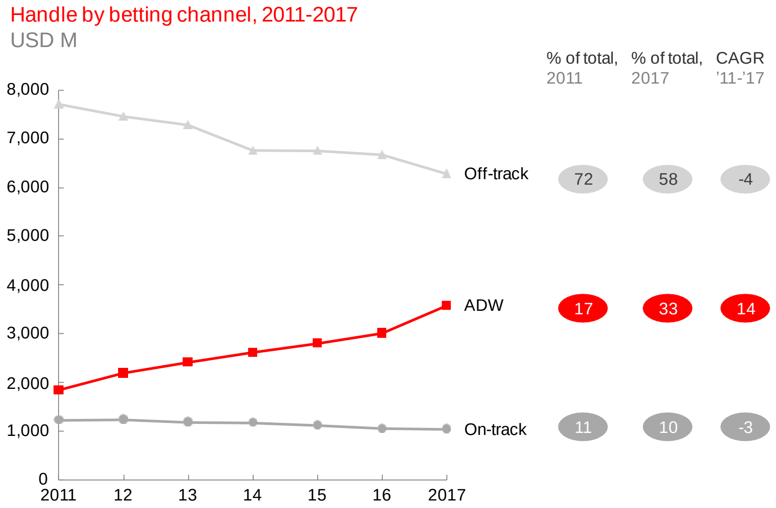
Exhibit 16: US States online horse racing legal position

Account wagering permitted	Partially regulated	States with no mechanism for ADW	Prohibition on wagering
Arizona	Arkansas	Alabama	Alaska
California	Louisiana	Delaware	Georgia
Colorado	Maryland	Florida	Hawaii
Connecticut	Massachusetts	Michigan	Indiana
Idaho	New Mexico	New Hampshire	Kansas
Iowa	Pennsylvania	Ohio	Mississippi
Illinois	Rhode Island	Tennessee	Missouri
Kentucky		Vermont	Nebraska
Maine		West Virginia	Nevada
Montana			North Carolina
Minnesota			Oklahoma
New Jersey			South Carolina
New York			Texas
North Dakota			Utah
Oregon			Wisconsin
South Dakota			
Virginia			
Washington			
Wyoming			

Source: bettingusa.com, RaaS analysis

As in other horse racing markets, US customer wagering behaviour has shifted online. In 2008, 9% (or ~US$1.2bn) of the US$13.6bn market was wagered online, 11% at the track where the race was held and 80% elsewhere. According to the Jockey Club, by 2011, ~ 17% was wagered online, 11% at the track where the race was held and only 72% elsewhere. By 2017, this had shifted to 33% being wagered online, with 10% at track and 58% elsewhere. This is demonstrated in the following exhibit.

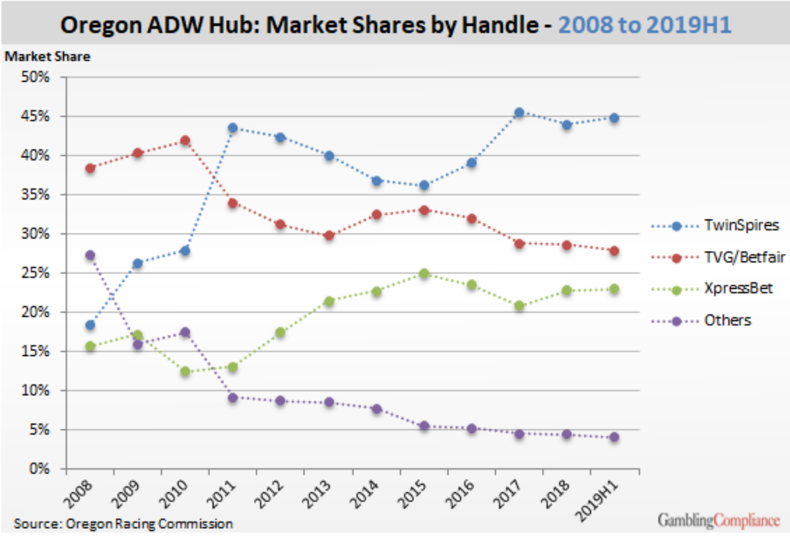
Exhibit 17: ADW Handle now commands at least 33% of total handle



Source: The Jockey Club Factbook, State Racing Commissions (extracted from The Jockey Club Round Table presentation August 2018)

The main operators in the US ADW market are Churchill Downs which owns TwinSpires, BetFair which is owned by UK's TVG, and the Stronach Group's XpressBet. As we highlight in the following exhibit derived from the Oregon Racing Commission (one of the first states to develop a relationship with ADW operators, charging a 0.25% Hub licence on wagering).

Exhibit 18: Oregon ADW hub market breakdown



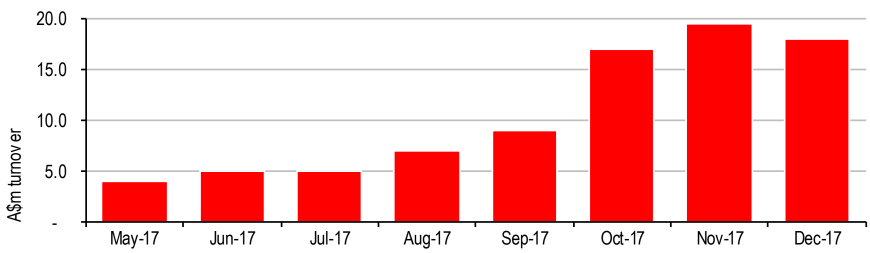
Source: Oregon Racing Commission, Gambling Compliance, released August 22, 2019

BetMakers has already developed commercial relationships with race-track operators, rights holders (US Greyhounds, US Harness) and ADW licence holders including WatchandWager and XBNet, which is owned by XPressBet.

The Global Tote History

BetMakers has stated ambitions to rollout the Global Tote and as it could be a significant part of the business longer-term we have set out some of its history here. The company launched the Global Tote in May 2017, securing its licence to operate from Alderney, United Kingdom. The aim of the Global Tote was to provide additional, no-risk margin opportunities for bookmaker customers, deliver more revenue to racing clubs via race field fees, and provide customers and punters with the opportunity to connect and wager on races around the world. In addition to its B2B licence from Alderney, the Global Tote was also licenced to accept bets both within the US via its distribution deal with WatchandWager.com and the UK through its distribution deal with Totepool, owned by BetFred. From May to December 2017, the Global Tote built its turnover to approximately $85m from around 1,400 race meetings from the UK, Ireland and South Africa. We set this out graphically in the following exhibit.

Exhibit 19: Global Tote monthly turnover generated in 2017



Source: Company presentation 25 January 2018

The company decided to slow the rollout and pivot its strategy after hitting roadblocks with the Northern Territory Racing Commission (NTRC) on the format of its Global Tote deal with Ladbrokes. This resulted in BET selling its wagering and fantasy games businesses, TopBetta and MadBookie, to focus on its B2B strategy. With NTRC approval achieved in October 2018, the Global Tote should be clear to pursue its plans.

RaaS Advisory's forecasts for BetMakers

Our forecasts for BetMakers have taken into account our expectations for rollout with large and small bookmakers, the continuation of its subscription service to around 1000 professional punters, our expectation that the content and integrity platform will continue to be used by Australian racing authorities, and modest assumptions, in our view, for the rollout of the Global Racing Network and the Global Tote. We present our forecasts in Exhibit 20 and provide more detail on the inputs following.

Exhibit 20: RaaS Base Case forecasts for BetMakers

Year ending June 30	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Wholesale Wagering	9.8	14.9	19.2	24.0	28.6	33.6	38.4	43.3	48.8
Content & Integrity	2.0	3.5	5.0	6.5	7.8	9.1	9.8	10.4	11.0
Total Revenue	**11.9**	**18.4**	**24.2**	**30.5**	**36.4**	**42.7**	**48.3**	**53.7**	**59.8**
COGS	2.5	4.8	6.8	9.0	10.7	12.4	13.4	14.1	14.8
Gross Profit	9.3	13.5	17.4	21.5	25.7	30.3	34.8	39.6	45.0
Gross Profit margin %	79%	74%	72%	71%	71%	71%	72%	74%	75%
Employee costs	3.1	3.5	4.0	4.6	5.3	5.9	6.7	7.4	8.2
Other costs	2.7	2.7	2.8	2.9	3.0	3.1	3.2	3.3	3.4
Total Costs	5.8	6.2	6.9	7.5	8.3	9.0	9.8	10.7	11.6
EBITDA	3.5	7.3	10.5	14.0	17.5	21.3	25.0	28.9	33.4
NPAT	**0.6**	**2.2**	**6.4**	**9.2**	**12.0**	**15.2**	**18.0**	**21.1**	**24.6**

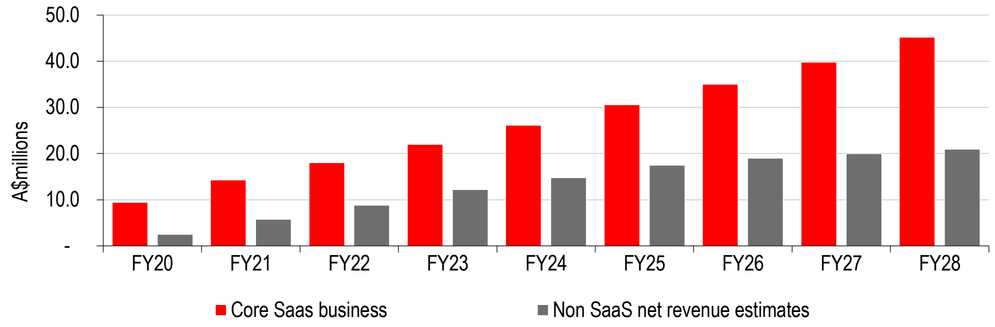
Source: RaaS Estimates

Our base case forecasts reflect the following assumptions:

- Large corporate bookmakers will continue to pay ~$420,000 per year with annual CPI increases to access the GBS and parts of the DO platform;
- Smaller online/offcourse bookmakers will pay ~$180,000 per year;
- Professional punter subscribers pay $420 per year, churn of 6% per year due to seasonality with races;
- COGS are Amazon Web Services (AWS) and AAP data feed charges;
- The new integrity platform RVIP and Barrier Tech generate more than $2m in gross revenue by year 3 for the JV with Racing Victoria, half this will fall through to BET;
- The Global Racing Network will initially grow from $300,000pa to generate $6.3m in revenue in FY28, a CAGR of 40%;
- The Global Tote is forecast to grow modestly ($1m in turnover in the current half, $12m in turnover in H2FY20, $33m in turnover in FY21 and $52m in FY22, with an estimated 11% of turnover available to pay the bookmaker margin of 8%, race field fees of 3% and 1% retained by BET);
- Employment costs will grow at a CAGR of 11% to 2028 which includes new hire estimates;
- Other costs will grow on average at 2% per annum.

A defining feature of this business is the SaaS-like nature of its revenue base. Thus far all customer agreements have renewed and many with uplift in monthly fees with additional features taken on. We set out in the following exhibit, our forecasts for SaaS revenue growth (19% CAGR to FY2028) versus non-SaaS revenue growth (27% CAGR to 2028), albeit off a much lower base.

Exhibit 21: Revenue forecast breakdown, SaaS revenues versus Non-SaaS Revenues



Source: RaaS estimates Note non-SaaS includes Global Tote revenue

Customer feedback

We undertook interviews with two of BetMakers' customers, Racing Victoria and Ladbrokes. Below is a summary of their feedback on the business.

Ladbrokes

Ladbrokes initially engaged with Global Betting Services for its price manager and has subsequently, under BetMakers' ownership of GBS, upgraded and extended its and Neds' contracts to include Racing Data Delivery, Price Manager Premium as well as DynamicOdds' grids and risk management platform. Ladbrokes Australia's Trading Director David Horne noted that "to this day, GBS still offers the best complete solution for bookmakers".

"Without the system we would have to employ significant number of extra staff or build our own inhouse solution," Horne said. "Dynamic Odds has the best odds comparison system in the market."

Horne said that while Ladbrokes currently only uses the platforms in Australia, he saw scope for Ladbrokes to extend the arrangement to other markets.

Asked about the opportunities for the Global Tote, Horne commented that it would need one or two large corporate bookmakers to support it so that it could scale up enough to have a meaningful enough pool.

"In Australia, the current tote product is out of our hands and we don't contribute to the pools," Horne said. "Our clients' turnover is not going into that pool, so yes there could be a lot more upside if there was an alternative offering."

Racing Victoria

Racing Victoria (RV) has been partnered with DynamicOdds since 2016, initially focused on the official price algorithm and distribution, which is now utilised by every racing authority in Australia.

Recently the partnership evolved to develop a Barrier Tech system and RV's Integrity Platform (RVIP), both of which will be jointly commercialised by RV and BetMakers.

Andrew Jenkins, RV's Commercial Partnerships Manager, said the relationship with BetMakers has been mutually beneficial, and over the years the company had shown "responsiveness and agility" in all its dealings with the Victorian racing industry.

"DynamicOdds are the specialists and best credentialled in the field of pricing controls for thoroughbred racing. It is testament to the quality of their work that every Australian racing authority uses their systems.

"We see the RVIP becoming the global standard platform for the digital evolution of analysing form data," Jenkins said.

The introduction of the RVIP (a custom-built technology solution which BetMakers developed and delivered) includes features such as:

- real-time tracking of data (price movements and associated betting patterns);
- a host engine that ingests ratings and performance indicators and matches these with actual performances;
- an alerts system to flag inconsistencies;
- database and library functionality that stores and recalls any integrity comments associated with individual horses, jockeys, trainers, owners and wagering movements;
- video analysis and management portal for tracking past performances; and
- linked to betting patterns and comments for recording and recall capabilities.

RV and BetMakers have agreed to an exclusive two-year arrangement, with options for extensions and renewal, licence to sub-licence the RVIP to any racing authority in Australia, with RV's approval.

Recently BetMakers and RV also launched the Barrier Tech system, which is aimed at enhancing wagering in the last two minutes before a race.

Jenkins said, the Barrier Tech product has been deployed for an eight-week trial at metropolitan race meetings.

"Ultimately it's about providing a differentiated racing experience for punters and demonstrating to our corporate bookmakers that RV is thinking about opportunities that can be derived from our digital assets.

"The Barrier Tech product was delivering greater vision, angles and data to punters in the two minutes prior to race starts, and that this potentially could drive more wagering opportunities," Jenkins said.

Interview with strategic investor, Matt Davey, Tekkorp Capital LLC

We posed some questions to Matt Davey, CEO of Tekkorp Capital Plc, which holds 19.99% of BET:

(1) *What attracted you to invest in BET? Where do you see their competitive advantage?*

"We watched their pivot from Bookmaker to content and market access connectivity in the wagering industry. That segment of the market looks highly attractive to us as we see greater expansion of regulated wagering around the world. It's also a segment that is highly fragmented and under serviced. We felt the team at BET had a collection of interesting products and yet were held back by a challenged balance sheet. With the balance sheet now in better shape BET can focus on scaling the business."

(2) *Where do you see the greatest opportunities for BET in the US – is it in partnering with ADW companies, the race-tracks, tote companies?*

"The US is potentially the largest sports betting market in the world. However, it will take time to develop. Wagering on horses, in contrast, is quite a mature industry in the US and has suffered from lack of investment of the last couple of decades. We believe the expansion of sports betting in the US will drive demand for additional content, including horse racing, and thus investment and innovation in the industry. We believe BET can play a part in this expansion through the rollout of their products and improving market access for both operators and owners of content."

(3) *What opportunities do you see for BET beyond wagering, is there a sports betting opportunity?*

"BET has developed an interesting suite of products within the wagering space, however their underlying technology and integration infrastructure are content agnostic so we believe they have an excellent opportunity to capture market share in the broader sports betting space."

SWOT analysis

In our view the strengths and opportunities for BetMakers outweigh the weaknesses and threats.

Exhibit 22: SWOT Analysis

Strengths	Opportunities
Strong relationships with leading UK and Australian bookmakers; BET's Price Manager allows them to manage the odds and risk across thousands of races and markets	Opportunity to leverage its relationship with bookmakers and racing authorities to build a Global Racing Network
Partnered with all Australia's principal racing authorities (PRAs) and providing integrity, official pricing and distribution services	White label opportunities with on-course bookmakers looking for a digital solution
Integral part of the racing system through its Integrity Platform developed with Racing Victoria	Prospect of delivering additional revenue streams to racing authorities through vision/data delivery in other jurisdictions
Supportive major shareholder in Tekkorp (20%)	Opportunity to rollout Global Betting Services and DynamicOdds to other jurisdictions - US, UK, Asia
Largely fixed cost base so leveraged to scale	Opportunity to become the main B2B hub for racing authorities and wagering operators globally
Global Tote platform is fully licenced in UK and approved to operate in Australia	Potential to help arrest the decline in thoroughbred racing handle in the UK and US
Core underlying revenue streams from subscriptions and fee for service are sticky and renewing at higher rates	
Weaknesses	**Threats**
Small operator in a market dominated by global and national players	Incumbent totalisers will try to shut BET down
Reliant on partners in some instances to verify the turnover and hence revenue share	Operating in highly regulated markets where lawmakers can change the boundaries with little notice
Market still positions BetMakers as a retail wagering and fantasy business	Parties with deeper pockets could seek to replicate the platforms/systems
Company did not meet previous guidance for profitability in FY19	
Global Tote has been challenged previously forcing the company to reassess its business strategy	

Source: RaaS Analysis

Sensitivities

- Regulatory risk is the biggest risk to gambling markets, while BetMakers is not a gaming company its clients derive their income from the sector and any regulatory moves to curb gambling could impact on BET to generate future contracts;
- There is potential key man risk if BET loses its CEO Todd Buckingham, who is driving the vision for the company. BET would also suffer if it lost key executive team members;
- Our forecasts for FY20 are predicated on the company's guidance. Any unforeseen costs blowout is likely to impact on our forecast for $3.5m EBITDA for the year;
- There is potential competitive risk from existing partners cutting BET out of key arrangements. For example, SIS reportedly[5] recently sealed a deal for a greyhound tote pool with WatchandWager.com. Both are BetMakers customers;
- There is a risk to our earnings forecasts in our upside cases if the Global Tote fails to secure the turnover we have indicated; however, it should be noted that these forecasts are struck on the expectation that the SaaS revenues will account for the majority (70%) of revenues going forward;
- As we have previously flagged, there is the risk that the company will require more capital and seek a further near-term capital raise which is potentially dilutionary to current shareholders.

5 https://calvinayre.com/2019/07/25/press-releases/sis-seals-greyhound-tote-pool-deal-with-us-operator-watchandwager/

Board and management

Directors

Nicholas (Nick) Chan, Non-Executive Chairman, has more than 32 years' experience in the Australian media sector, having held senior leadership positions in both listed and unlisted market leaders. He most recently was CEO of Bauer Media ANZ, and previously Group Chief Operating Officer at Seven West Media. Prior to taking on the COO role at Seven West Media in 2013, Nick ran Pacific Magazines, a subsidiary, for more than 9 years. He joined Pacific Magazines from Text Media where he was CEO. He held several positions at ACP Publishing but most notable the COO and Group Publisher positions. Nick holds 407,142 shares and 5m options over shares.

Todd Buckingham, Managing Director and CEO founded TopBetta (BET's original company name) in 2010. Todd has more than 23 years' experience working in the sports and wagering industry. While teaching secondary education for five years at Hunter Sports High School, Todd was simultaneously working as a sports manager for NRST, a sports management company, where he negotiated more than $20m in sports contracts. There, Todd managed Rugby League athletes, negotiated contracts, managed budgets, crisis management and sourced sponsorships. He holds 6,488,808 shares and 16.667m options over shares.

Simon Dulhunty, Non-Executive Director, has more than 27 years' experience in management and operational roles in print and digital media in both metropolitan and regional media groups. He was an award-winning Editor for The Sun-Herald newspaper and a former General Manager of Fairfax Media's mobile development team responsible for the iPad apps for The Age, The Sydney Morning Herald and The Australian Financial Review. He now runs his own media consultancy. Simon holds 844,045 shares and 5m options over shares.

Management

Jake Henson, Chief Operating Officer, joined BetMakers as Head of Operations in 2014 and has since held the roles of Head of Business Development and Chief Commercial Officer before being appointed Chief Operating Officer 12 months ago. Prior to joining BetMakers, Jake spent nine years as a freelance sportswriter and had a stint as a sports and racing trader for a private company.

Oliver Shanahan, Chief Information Officer, was the lead IT developer for TopBetta's and 12Follow's systems and has been in his current position since 2013. He brings more than 20 years' experience in developing and managing IT systems. Prior to joining BetMakers, Ollie spent 9 years with Pulse Mining Systems where he focused on clients such as Xstrata and Centennial Coal.

Karl Begg, **Chief Technology Officer**, co-founded DynamicOdds in 2006 as a platform for punters and industry professionals to analyse and monitor the betting markets for Australian racing codes.

Anthony Pullin, Chief Financial Officer has more than 17 years' experience in finance and investment, with long stints at UK investment manager White Cloud Capital where he was an investment manager and as finance director for UK private equity firm Duke Street Capital. Anthony commenced his career at KPMG.

Institutional and Investor Support

BetMakers received a significant endorsement from Matt Davey's Tekkorp Capital LLC when it took a 19.99% ($1.68m @ $0.03/share) strategic stake in the company in April 2019. Tekkorp President and CEO Matt Davey is an international wagering and gaming industry leader with more than 20 years' experience. As CEO of NYX Gaming, Davey led the company for more than 15 years and sold it to Scientific Games in mid-2018 for US$631m. Tekkorp is focused on investing in private and public companies in the gaming and wagering space.

BetMakers has also had long time institutional support from Ryder Capital which agreed to co-sub underwrite the company's entitlement offer in April 2019. Ryder currently holds around 2.45% of the company. BetMakers has also recently received institutional support from JM Financial Group, which announced its 8.45% holding in August 2019. This follows the departure in August 2019 of long-time holder IFM Investors from the register.

We have set out the current top 10 largest shareholders in the following Exhibit.

Exhibit 23: Top 10 shareholders

Shareholders	Number of shares	% holding
Tekkcorp (Matt Davies)	82,656,649	20.0%
JM Financial Group	34,940,905	8.5%
Christopher Begg (CDK)	33,333,333	8.1%
RBW Nominees	24,995,366	6.0%
Ryder Capital	8,272,222	2.0%
James Spenceley	9,243,216	2.2%
Steve Gillard	6,384,000	1.5%
Lobster Beach	6,305,547	1.5%
IFM Investors	5,098,000	1.2%
Todd Buckingham CEO	4,750,000	1.1%

Source: Company annual report, shareholder filings subsequent

Options on issue

BetMakers has 63.5m options on issue, 56.5m of these have a strike price of $0.06 so are currently in the money. We have included all in the money options in our DCF valuation and our EPS calculations. We note that at the June 21 EGM, shareholders voted overwhelmingly (99.83%) to change the terms of Todd Buckingham's options including reducing the strike price to $0.06 from $0.25 each. The new options is that they will vest the earlier of 1) the company achieving EBITDA of at least $1 million over a period of three consecutive months prior to the new expiry date of 21 June 2022; 2) that the 20 day VWAP of shares being at least $0.15 on or before the new expiry date; and 3) a change of control event takes place on or before June 21 2022. The company noted that the revised price and conditions was necessary to align the CEO, who is critical to the company's short- and long-term success, to the company's revised B2B wholesale business strategy.

Exhibit 24: Options on issue

Options	Number (m)	Price	Expiry
Todd Buckingham	16.67	$ 0.06	21/06/2022
Various holders	2.95	$ 0.29	31/10/2020
Various holders	4.00	$ 0.12	30/11/2020
Nick Chan and Simon Dulhunty	10.00	$ 0.06	27/06/2022
Employees	19.80	$ 0.06	31/12/2022
Canaccord options*	10.00	$ 0.06	21/07/2022
Total Options	**63.42**		
Options in the money	56.50		

Source: Company data *these will be granted conditions precedent on satisfying any issue of equity to complete the GBS, DO and CDK acquisitions

RAAS Research as a Service

Peer Comparison

BetMakers operates in the wagering and gaming market, but it is not a wagering or gaming company. It is a facilitator. Therefore, while it might be tempting to include the gaming sector as peers, in our view, it would be the wrong peer group. We have set out the Australian-listed Australian wagering and gaming companies in the following exhibit. With the exception of Ainsworth Gaming Technology, this group of companies is focused on the consumer market in either Australia or offshore.

Exhibit 25: Wagering and Gaming Companies, Australia

Company	Code	Last Price	Market Cap A$m	EV A$M	PE ttm	PE 12 mths fwd	EV/ Sales	EV/ EBITDA ttm	ROCE %	Gross Margin %
Gaming sector										
Ainsworth Game Technology	AGI	$0.71	237	231	16.9	22.7	1.0	6.0	1.2	59.7
Aristocrat Leisure	ALL	$29.59	18,889	21,318	27.6	22.3	5.2	15.3	17.4	54.9
Donaco International	DNA	$0.07	54	64	n.a	1.3	0.7	0.0	-85.1	94.5
Pointsbet Holdings	PBH	$2.86	315	322	n.a	n.a	18.0	n.a	n.a	54.6
Tabcorp Holdings	TAH	$4.72	9,528	12,774	23.9	22.8	2.3	12.5	6.2	n.a
Median					**23.9**	**22.5**	**2.3**	**9.2**	**3.7**	**57.3**

Source: Stockopedia, Thomson Reuters Prices as at 6 September 2019

SaaS peers

We have instead turned to predominantly SaaS or recurring revenue models for our peer comparison and sought out those that are profitable. While these companies are operating in other sectors, they are all predominantly focused on B2B or B2G solutions and have recurring revenue models. We acknowledge that the multiples in this peer group have huge variance, reflecting the different stages these companies are at and the market's appetite for high growth tech stocks. However, it is also worth noting that the gross margins generated by this group of companies are largely reflective of the fixed cost nature of SaaS companies. Our base case forecasts for BET assume gross margins of ~85%. If we were to take the median 12-month trailing EV/EBITDA multiple of 39x and apply this to our FY20 EBITDA forecast of $3.4m, the implied compco valuation is $122m or $0.296/share. However, this doesn't really capture the earlier stage nature of BET's business and we are reluctant to just apply an arbitrary discount of 10-20% without putting some more thought into it.

Exhibit 26: Listed Australian SaaS compcos

Company	Code	Last Price	Market Cap A$m	EV A$M	PE ttm	PE 12 mths fwd	EV/ Sales TTM	EV/ EBITDA ttm	ROCE %	Gross Margin %	NPAT Margin%
SaaS Companies											
Altium	ALU	$37.95	4,812	4,676	61.6	53.8	18.4	50.0	28.1	na	30.6
Appen	APX	$26.33	3,092	3,045	54.7	54.1	6.7	39.0	13.5	39.5	10.1
Bravura Solutions	BVS	$4.84	1,154	955	31.9	28.8	3.7	18.5	14.0	92.6	12.7
Citadel	CGL	$4.03	196	197	56.4	18.7	2.0	8.8	13.9	44.6	8.0
Class	CL1	$1.29	151	133	17.1	24.5	3.5	7.6	40.1	na	23.2
Gentrack	GTK	$5.85	540	536	55.0	40.2	5.4	71.8	1.5	na	na
Integrated Research	IRI	$3.04	526	515	24.0	22.6	5.1	13.2	37.4	na	21.7
Iress	IRE	$12.54	2,140	2,387	32.7	28.9	5.0	19.3	12.4	92.3	13.1
Nearmap	NEA	$2.79	1,201	1,121	na	na	14.2	66.5	na	0.0	na
Praemium	PPS	$0.46	189	175	56.8	31.0	4.0	27.2	19.1	0.0	5.8
Pushpay Holdings	PPH	$3.15	850	827	31.0	41.3	5.9	369.6	na	60.5	19.6
Senetas	SEN	$0.07	77	59	0.0	17.8	2.7	13.9	1.4	78.7	na
Serko	SKO	$4.49	350	334	219.4	169.7	15.3	155.1	4.7	na	7.0
Wisetech Global	WTC	$38.47	12,073	11,771	218.1	142.1	33.8	108.9	8.3	80.9	15.5
Xero	XRO	$67.28	9,158	9,108	na	459.9	17.6	134.0	na	83.6	na
Median					**54.7**	**35.6**	**5.4**	**39.0**	**13.7**	**69.6**	**13.1**

Source: Stockopedia, Thomson Reuters Share prices as at 6 September 2019

This compco group generated an average CAGR of revenues from 2013 to 2019/20 of 22%, set out on the exhibit on the following page. We note that our forecasted CAGR in revenues for BetMakers from FY20 to FY28 is 20%.

Exhibit 27: CAGRs in revenues generated by Australian/New Zealand tech compcos

Company	7-year CAGR in revenues from 2013/14
Altium	15%
Appen	29%
Bravura Solutions	4%
Class	41%
Citadel	15%
Gentrack	15%
Infomedia	8%
IRESS	12%
Integrated Research	11%
Nearmap	22%
Praemium	35%
Pushpay	35%
Senetas	10%
Serko	21%
Wisetech Global	34%
Xero	49%
Average	**22%**

Source: Company reports, Consensus from Stockopedia, RaaS Analysis

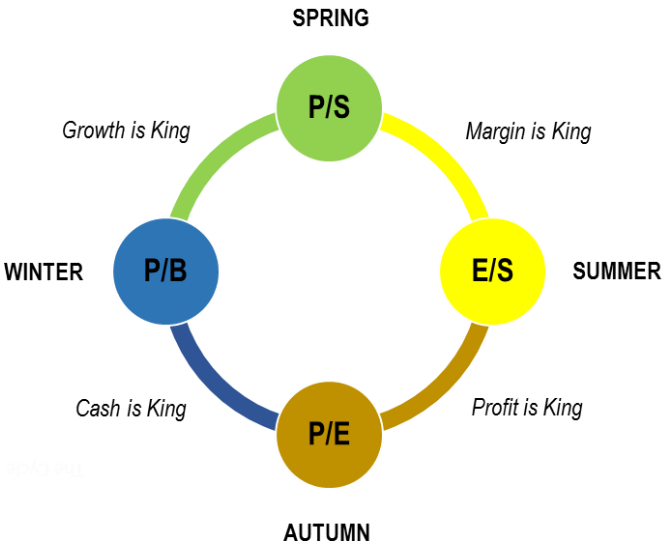
Valuation of early stage tech companies

Revenue and user multiples

Where a company is early stage, with revenues but still operationally loss making, the challenge is to determine whether it is securing appropriate value for its shares.

Our simple valuation approach described below is a way of taking into account the ultimate profitability of each company. In a buoyant financial market where growth is king investors will tend to focus on revenue (the spring season). The next stage will be a focus on margins followed by an autumn period where the focus turns to profit before entering the depressed winter stage where cash is king. In our view the market seems to have turned its attention more to profitability or at least the path to profitability rather than revenue growth. Investor mood changes are illustrated in the chart below:

Exhibit 28: The seasons of valuation



Source: Jevons Global – Valuation for Early-Stage Technology Companies (P/S – Price/Sales; E/S – Earnings/Sales; P/E – Price/Earnings; P/B – Price/Book)

Current price to sales using stable margin

In our view, user metrics and revenue multiples used in isolation can be problematical because they are not anchored to profit margins or to earnings multiples. We have applied a simple valuation rule taken from a research paper by Dr Kingsley Jones, principal of Jevons Global. This simple valuation rule takes into account profit margins and earnings multiples and is defined as:

Current price to sales = Stable margin X Price Earnings Ratio X Sales uplift/Price uplift[6].

The price that the market will pay at a given time is dependent on the cyclicality of markets. When the market favours growth then the emphasis is on revenue multiples with seemingly little regard for profitability. However, as this enthusiasm cools the market will turn its attention to profitability and return on funds employed.

If we apply the simple valuation rule explained above and make the following assumptions:

- Sales uplift (defined as the expected growth in sales over the investor's investment horizon) dividend by price (to the investor) uplift (defined as the investor's expectations of return over the investor's investment horizon) is assumed to be 1. We have neutralised the impact of this assumption by setting the ratio to 1, however, in a growth company such as BET it is possible that the sales uplift could be greater than price uplift which would mean a reduction in the implied PE.
- A long run profit margin for the industry of 13% which we have based on the average NPAT/Sales margins achieved by the SaaS peer group we have outlined. We have used these comparable growth companies as they have all been listed for five or more years, are mostly profitable and they demonstrate the historical performance of early stage technology companies as they move to maturity. Exhibit 20 demonstrates their NPAT/Sales margins by year.
- The third component to this calculation is Price Earnings Ratio. The long-term PE ratio of the ASX is 15x and the current market PE is 15.6x. However, to be fair, the comparative peer group above has consistently traded at a premium to the broader market, reflecting investor expectations for superior earnings growth and returns. As we have highlighted in Exhibit 26, the median PE 12 trailing months (TTM) is 54.7x while 1 year forward is 35.6x.

On this basis, it is more appropriate to apply a higher than market PE ratio similar to that delivered by the peer group discussed above. Assuming a ~20% discount to that median 12 months forward PE for BET's earlier stage nature, we arrive at a 29.7x PER., which translates into an EV/Revenue multiple of 3.9x (stable Net Profit After Tax margin of 13% x discounted peer PE of 29.7x = EV/Revenue multiple of 3.9x). Applying this to the FY20e forecasted net revenue of $11.9m gives us an indicative valuation of $46.4m or ~$0.11/share.

DCF valuation

We are of the view that the discounted cashflow methodology is the most appropriate methodology for valuing companies in their early stage of profitability. Our base case DCF valuation of BetMakers is $0.22/share and uses a WACC of 14.0% (terminal value of 2.2% which is the inflation adjusted long term growth rate of the Australian economy) to reflect the business and the competitive landscape. Note that we have included in the money options in our calculation. Based on the current share count of 413m shares, our valuation would be $0.25/share.

[6] Valuation for early stage technology companies, Dr Kingsley Jones, Jevons Global, March 2016

Exhibit 29: Base Case DCF valuation

Parameters	Outcome
Discount Rate / WACC	14.0%
Beta	2.0
Terminal growth rate assumption	2.20%
Sum of PV	50.6
PV of terminal Value	60.7
PV of Enterprise	111.3
Debt (Cash) includes company estimated earnout payment of $4.5m	9.5
Net Value - Shareholder	101.8
No of shares on issue*	470
NPV	$0.22

Source: RaaS estimates *We have diluted for 57m in the money options

Reverse DCF

Using our base case WACC of 13.4% and a terminal growth rate of 2.2% the current share price of $0.07 is pricing in a CAGR of free cashflows of 8.2% from FY20 to FY29. This factors in substantially lower growth than experienced on average by its SaaS peers over the past seven years as highlighted in exhibit 26.

Exhibit 30: Reverse DCF

Parameters	Outcome
Discount Rate / WACC	14.0%
Beta	2.0
Terminal growth rate assumption	2.20%
Sum of PV	23.3
PV of terminal Value	14.4
PV of Enterprise	37.7
Debt (Cash)	9.5
Net Value - Shareholder	28.1
No of shares on issue	413.0
NPV	$0.068

Source: RaaS estimates

Scenario analysis

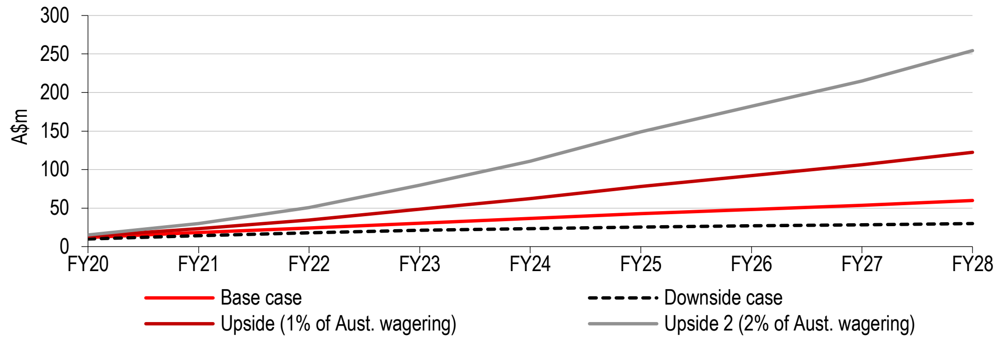
We set out some of the parameters we have used to reach our base, an upside, a second upside and a downside case and highlight these graphically in the next two exhibits.:

- Base case revenues are forecast to grow at a CAGR of 21% from 2020-2028 with SaaS revenue growing at a CAGR of 20% for the same period and non-SaaS revenues (essentially the Global Racing Network) growing at 27%. We assume employment costs growth of ~11% across the period but for these costs as a proportion of revenue to decline from 30% in FY20 to 19% in FY28, demonstrating the leverage this business has to increasing revenues;
- A downside case has assumed a lower rate of growth (CAGR of 10%) in revenues while we have assumed a CAGR of 5% for employment costs. The EBITDA margin averages 45% in our downside case, versus 59% average in our base case. We have included negligible estimates for the Global Tote in this scenario;
- An upside case has been developed to flex the share of bookmakers, take up of racing technologies by racing clubs and the expansion of the Global Racing Network. We assume in our base case that 42 bookmakers, roughly 10% of off-course and on-course bookmakers in Australia become customers by 2028; our first upside case sees this rise to 53. We estimate that racing technology revenues from clubs will grow at a CAGR of 36% while the Global Racing Network's revenues grow at a CAGR of 52% from 2020-2028. We have assumed that the Global Tote secures an equivalent turnover by FY28 of 1% of the Australian wagering market and that its share of turnover is 4%;
- A second upside case has been explored to expand growth of bookmakers to 65 on a global scale. The Global Racing Network revenues are forecasted to grow at a CAGR of 69% to 2028 and racing technology revenues from clubs grow at a CAGR of 38%. We have assumed the Global Tote

secures an equivalent turnover by FY28 of 2% of the Australian wagering market and that its share of turnover is 4%.

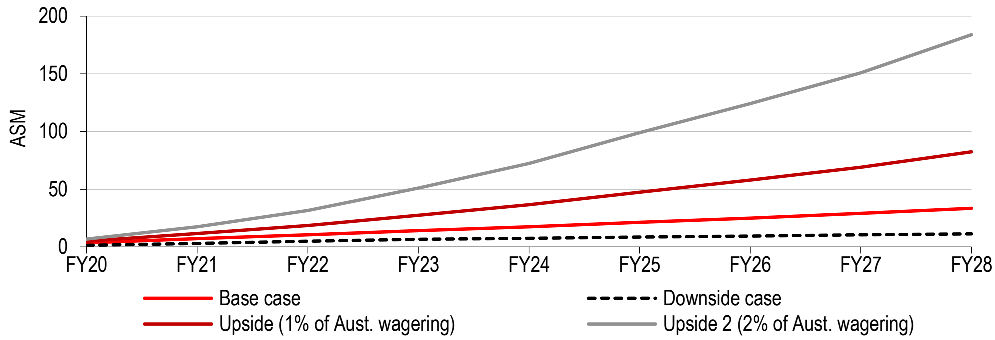
The following two exhibits set out the impact of these scenarios in graphical format while on the following page we provide a detailed P&L breakdown of the estimates we have used in each case.

Exhibit 31: Scenario analysis impact on revenue forecasts



Source: RaaS Estimates

Exhibit 32: Scenario analysis impact on EBITDA forecasts



Source: RaaS Estimates

Exhibit 33: P&L Impact of A Downside Case ($0.05/share)

Year ending June 30	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Wholesale Wagering	8.3	11.5	13.5	15.6	17.2	18.7	20.0	21.2	22.5
Content & Integrity	1.6	2.6	4.4	5.5	6.0	6.6	6.9	7.2	7.4
Total Revenue	**9.9**	**14.1**	**17.8**	**21.1**	**23.3**	**25.3**	**26.9**	**28.4**	**29.9**
COGS	2.5	4.6	6.1	7.5	8.4	9.1	9.5	9.8	10.0
Gross Profit	7.4	9.5	11.8	13.6	14.9	16.2	17.4	18.6	19.8
Gross Profit margin %	75%	67%	66%	64%	64%	64%	65%	66%	66%
Employee costs	3.2	3.6	3.8	4.0	4.2	4.4	4.6	4.9	5.1
Other costs	2.8	2.9	3.0	3.0	3.1	3.2	3.3	3.3	3.4
Total Costs	**6.0**	**6.5**	**6.7**	**7.0**	**7.3**	**7.6**	**7.9**	**8.2**	**8.5**
EBITDA	1.4	3.0	5.0	6.6	7.6	8.6	9.5	10.4	11.3
NPAT	(0.9)	(0.8)	2.5	3.9	4.8	5.9	6.7	7.5	8.3

Source: RaaS Estimates

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Exhibit 34: P&L Impact of An Upside Case ($0.55/share)

Year ending June 30	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Wholesale Wagering	11.1	18.9	27.3	37.8	48.7	61.4	73.5	86.0	100.8
Content & Integrity	2.3	4.5	7.3	10.6	13.5	16.7	18.7	20.1	21.6
Total Revenue	**13.4**	**23.4**	**34.5**	**48.4**	**62.2**	**78.1**	**92.1**	**106.1**	**122.4**
COGS	2.5	5.3	8.6	13.0	16.9	21.2	23.9	25.7	27.6
Gross Profit	10.9	18.1	25.9	35.4	45.3	56.9	68.2	80.3	94.7
Gross Profit margin %	81%	77%	75%	73%	73%	73%	74%	76%	77%
Employee costs	3.1	3.5	4.1	4.7	5.3	6.0	6.8	7.6	8.5
Other costs	2.9	3.0	3.1	3.2	3.4	3.5	3.6	3.7	3.9
Total Costs	**6.0**	**6.6**	**7.2**	**7.9**	**8.7**	**9.5**	**10.4**	**11.3**	**12.3**
EBITDA	4.9	11.6	18.7	27.4	36.6	47.4	57.8	69.0	82.4
NPAT	1.6	5.2	12.2	18.8	25.6	33.9	41.7	50.2	60.3

Source: RaaS Estimates

Exhibit 35: P&L Impact of Upside 2 Case ($1.21/share)

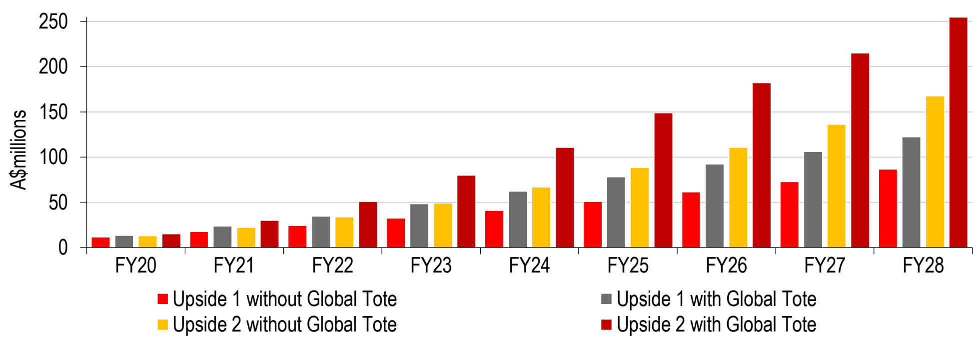
Year ending June 30	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Wholesale Wagering	12.4	23.7	39.0	60.2	83.7	113.1	140.6	169.1	204.2
Content & Integrity	2.7	6.2	11.7	19.5	27.0	35.8	41.6	45.7	50.2
Total Revenue	**15.1**	**29.9**	**50.7**	**79.7**	**110.6**	**148.8**	**182.2**	**214.8**	**254.4**
COGS	2.5	6.1	11.9	20.4	28.9	39.4	46.3	51.0	56.1
Gross Profit	12.6	23.9	38.8	59.3	81.7	109.5	135.9	163.8	198.3
Gross Profit margin %	83%	80%	77%	74%	74%	74%	75%	76%	78%
Employee costs	3.1	3.7	4.4	5.2	6.2	7.2	8.3	9.5	10.8
Other costs	2.7	2.7	2.8	2.9	3.1	3.2	3.3	3.5	3.6
Total Costs	**5.8**	**6.4**	**7.2**	**8.2**	**9.3**	**10.4**	**11.6**	**12.9**	**14.4**
EBITDA	6.8	17.5	31.6	51.1	72.5	99.1	124.3	150.9	183.9
NPAT	2.8	9.4	21.3	35.5	51.2	70.9	89.6	109.5	134.2

Source: RaaS Estimates

What is the impact of the Global Tote in the Upside Cases

Our financial model has been built to be able to include/exclude Global Tote estimates for turnover and percentage of turnover margin kept back to pay bookmakers (8%) and racing clubs (3% for race field fees). We have set out graphically below the impact of excluding or including the Global Tote on our two upside cases. This clearly demonstrates that we are forecasting strong underlying SaaS revenues in both cases.

Exhibit 36: Upside case revenues both with and without Global Tote



Source: RaaS Estimates

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Exhibit 37: Financial Summary

BetMakers Technology Group Ltd (BET)					
Profit and Loss (A$m)					
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F
Revenue	17.8	6.8	11.9	18.4	24.2
EBITDA	0.5	(2.1)	3.5	7.3	10.5
Depn	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)
Amort	(0.2)	(1.6)	(2.3)	(1.6)	(1.1)
EBIT	0.2	(3.9)	1.2	4.2	9.4
Interest	0.0	(0.0)	(0.4)	(0.3)	(0.2)
Tax	(0.5)	1.0	(0.2)	(1.6)	(2.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre significant items	(0.3)	(2.9)	0.6	2.2	6.4
Significant items	(5.7)	(0.7)	0.0	0.0	0.0
NPAT (reported)	**(6.0)**	**(3.6)**	**0.6**	**2.2**	**6.4**
Cash flow (A$m)					
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F
EBITDA	0.5	(2.1)	3.5	7.3	10.5
Interest	0.1	(0.0)	(0.4)	(0.3)	(0.2)
Tax	0.0	(0.1)	(0.4)	(1.6)	(2.8)
Working capital changes	(12.0)	(0.9)	(1.5)	(0.7)	(0.6)
Operating cash flow	(11.4)	(3.1)	1.3	4.6	6.9
Mtce capex	0.0	(0.0)	0.0	0.0	0.0
Free cash flow	(11.4)	(3.1)	1.3	4.6	6.9
Growth capex	(0.1)	0.0	0.0	0.0	0.0
Acquisitions/Disposals	0.3	(5.8)	0.0	0.0	0.0
Other	(0.2)	(0.9)	0.0	0.0	0.0
Cash flow pre financing	(11.3)	(9.8)	1.3	4.6	6.9
Equity	10.1	9.1	0.0	0.0	0.0
Debt	0.0	(0.3)	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	(1.3)	(1.0)	1.3	4.6	6.9
Balance sheet (A$m)					
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F
Cash	1.5	0.5	1.7	6.4	13.2
Accounts receivable	5.4	1.2	2.0	3.0	4.0
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	0.1	0.1	0.1	0.1	0.1
Total current assets	*7.0*	*1.8*	*3.8*	*9.5*	*17.3*
PPE	0.3	0.2	0.1	0.1	0.1
Intangibles inc Goodwill	2.0	14.5	14.5	14.5	14.5
Investments	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	5.4	6.5	6.7	6.7	6.7
Other assets	1.3	7.7	5.4	3.8	2.8
Total non current assets	*9.0*	*28.8*	*26.7*	*25.1*	*24.0*
Total Assets	15.9	30.6	30.4	34.6	41.3
Accounts payable	2.8	1.2	0.4	0.8	1.1
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
Other current liabilities	0.3	6.2	1.7	1.7	1.7
Total current liabilities	*3.1*	*7.4*	*2.1*	*2.5*	*2.8*
Long term debt	0.0	4.0	4.0	4.0	4.0
Other non current liabs	0.1	0.1	0.1	0.1	0.1
Total long term liabilities	*0.1*	*4.1*	*4.1*	*4.1*	*4.1*
Total Liabilities	3.2	11.4	6.2	6.6	6.9
Net Assets	**12.7**	**19.2**	**24.2**	**28.0**	**34.4**
Share capital	32.5	42.4	46.9	46.9	46.9
Accumulated profits/losses	(21.2)	(24.0)	(23.4)	(19.6)	(13.2)
Reserves	1.4	0.7	0.7	0.7	0.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**12.7**	**19.2**	**24.2**	**28.0**	**34.4**

Share price (9 Sept 2019)					A$	0.07
Interim (A$m)	H119A	H219A	H120F	H220F	H121F	H221F
Revenue	3.0	3.8	4.6	7.3	8.5	9.9
EBITDA	(1.9)	(0.1)	1.0	2.5	3.3	4.0
EBIT	(2.1)	(1.7)	(0.3)	1.5	2.4	3.3
NPAT (normalised)	(2.1)	(0.8)	(0.3)	0.9	1.5	2.2
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	(2.4)	(1.2)	(0.3)	0.9	1.5	2.2
EPS (normalised)	(1.2)	(0.3)	(0.1)	0.2	0.4	0.5
EPS (reported)	(1.2)	(0.3)	(0.1)	0.2	0.4	0.5
Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0
Imputation	30.0	30.0	30.0	30.0	30.0	30.0
Operating cash flow	(2.8)	(0.3)	(0.2)	1.5	2.0	2.6
Free Cash flow	(2.8)	(0.3)	(0.2)	1.5	2.0	2.6
Divisions	H119A	H219A	H120F	H220F	H121F	H221F
Wholesale Wagering	2.6	3.1	4.0	6.3	7.2	8.2
Content & Integrity	0.2	0.3	0.6	1.0	1.3	1.7
Other income	0.3	0.4	0.0	0.0	0.0	0.0
Tottal Revenue	3.0	3.8	4.6	7.3	8.5	9.9
COGS	1.1	0.8	0.7	1.9	2.2	2.6
Gross Profit	1.9	3.0	3.9	5.4	6.3	7.2
Employment costs	1.8	1.6	1.5	1.6	1.7	1.8
Selling General & Admin Costs	1.6	1.6	1.3	1.2	1.3	1.3
Other Opex	0.1	(0.0)	0.1	0.1	0.1	0.1
Total Operating Costs	3.5	3.1	2.9	2.9	3.0	3.2
EBITDA	(1.6)	(0.1)	1.0	2.5	3.3	4.0

Margins, Leverage, Returns		FY18A	FY19A	FY20F	FY21F	FY22F
EBITDA		n/a	(30.5%)	29.6%	39.7%	43.4%
EBIT		n/a	(56.9%)	10.2%	22.6%	38.9%
NPAT pre significant items		n/a	(42.7%)	4.8%	12.0%	26.6%
Net Debt (Cash)		1.5	- 3.5	- 2.3	2.4	9.2
Net debt/EBITDA (x)	(x)	2.692	n/a	- 0.650	0.323	0.879
ND/ND+Equity (%)	(%)	n/a	15.6%	8.6%	(9.2%)	(36.6%)
EBIT interest cover (x)	(x)	- 0.2	n/a	0.3	0.1	0.0
ROA		n/a	(16.7%)	3.9%	12.8%	24.8%
ROE			(22.6%)	2.6%	8.4%	20.6%
ROIC		1.1%	(49.2%)	13.9%	28.4%	37.2%
NTA (per share)		0.07	0.01	0.02	0.03	0.05
Working capital		2.6	0.1	1.5	2.2	2.9
WC/Sales (%)		**14.8%**	**1.3%**	**13.1%**	**12.2%**	**11.9%**
Revenue growth		n/a	(61.6%)	74.0%	54.7%	31.7%
EBIT growth pa		n/a	n/a	(131.0%)	245.1%	126.5%
Pricing		FY18A	FY19A	FY20F	FY21F	FY22F
No of shares (y/e)	(m)	162	413	413	413	413
Weighted Av Dil Shares	(m)	162	232	470	470	470
EPS Reported	cps	(3.68)	(1.55)	0.14	0.91	1.55
EPS Normalised/Diluted	cps	(0.19)	(1.26)	0.14	0.91	1.55
EPS growth (norm/dil)		n/a	n/a	(110.9%)	562%	71%
DPS	cps	-	-	-	-	-
DPS Growth		n/a	n/a	n/a	n/a	n/a
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Dividend imputation		30	30	30	30	30
PE (x)		-	-	49.5	7.5	4.4
PE market		15.2	15.2	15.2	15.2	15.2
Premium/(discount)			(100.0%)	225.7%	(50.8%)	(71.2%)
EV/EBITDA		17.7	(15.2)	8.7	3.5	1.8
FCF/Share	cps	(7.0)	(0.7)	0.3	1.1	1.7
Price/FCF share		(1.0)	(9.2)	22.3	6.1	4.1
Free Cash flow Yield		(103.4%)	(10.9%)	4.5%	16.5%	24.4%

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMERS and DISCLOSURES