

BET's tech to power News Corp's wagering play

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 announced it has been selected as the exclusive technology and services provider in Australia and New Zealand for a new wagering venture backed by News Corp (NASDAQ:NWS). The consortium, comprising News Corp Australia, Matt Davey's Tekkorp Capital LLC, and TGW, a trust whose investors include Matt Tripp, has engaged BET on a 10-year contract with both fixed- and revenue-share arrangements worth a minimum \$80m and up to an estimated \$313m in revenues (after the initial establishment and launch fee payments). We expect the transaction to add material top-line growth to our forecasts for FY23 to FY25. It also underscores BET's credentials as a tech platform for large-scale operators wanting to establish a market presence quickly and efficiently. BET will retain the intellectual property from the platform and is likely to replicate similar arrangements in international markets. We have yet to incorporate the deal into our base-case valuation of \$2.28/share but see it as accretive to both earnings and valuation.

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, which monetise horse racing for stakeholders. BetMakers operates in more than 30 countries globally with greater than 200 customers, and processes more than \$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.

A blueprint for other potential deals

BET has entered into an exclusive 10-year agreement with NTD Pty Ltd, a new wagering venture formed by News Corp Australia, Tekkorp Capital LLC and TGW, a trust which counts Matt Tripp as an investor. NTD retains a right to extend the agreement for up to five years beyond the initial 10-year arrangement. NTD has agreed to pay BET \$2m in a platform establishment fee and \$500,000 per month in launch development fees up to the go-live date. BET anticipates the go-live date to occur within six months. After go-live, NTD will pay an annual minimum \$7.5m development and service fee, which will increase by CPI. The parties will revenue share with a maximum annual fee payable of \$20m to BET in the first year with total fees payable, after the go-live fee, of \$313m over the 10-year life of the deal. If successful, BET hopes to take the model to international partnership arrangements. NTD will apply for a sports bookmaker licence to operate in Australia and New Zealand with plans for product launch to punters to bet on racing and sports in the second half of CY2022.

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

Our base-case DCF valuation, excluding the new wagering venture, is \$2.28/share and derived from a discount rate of 11.4%. On a fully diluted basis for performance rights and in-the-money options, our valuation is \$1.98/share. Our current 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 on May 7, 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, rollout of the NTD partnership and further evidence of international expansion.

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

Year end	Revenues	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

22nd April 2022

Share Details

ASX code	BET
Share price (21-Apr)	\$0.78
Market capitalisation	\$704.7M
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 (May 7)
- Demonstrated expansion in US wagering market
- Rollout of NTD platform in Australia
- Commence pari-mutuel racing services at Caesars

Board of Directors

Nicholas Chan	Non-Executive Chairman
Simon Dulhunty	Non-Executive Director
Anna Masson	Non-Executive Director
Rebekah Giles	Non-Executive Director
Todd Buckingham	Managing Director/CEO

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*Analyst holds shares

Potential Material Uplift In Revenues

The deal with NTD has three separate sources of revenue for BET with a maximum of \$317.6m to be earned over the 10-year life of the deal:

- A platform establishment fee of \$2m and launch development fee of \$500,000 per month between signing and the go-live date. BET expects the go-live date to occur within six months;
- An annual development and service fee of \$7.5m with CPI increases, establishing a minimum base fee of \$75m (excluding CPI increases) over the life of the contract; and
- An annual fee based on a revenue-sharing basis starting at 25% of ongoing net gaming revenues, reducing by 1% a year as the business scales, and less the development and service fee. The annual fee is capped at \$20m a year initially, growing at 10% a year for the first eight years and 5% a year thereafter to \$43m at the end of the 10-year period.

Exhibit 1 sets out the estimated revenues by year and the potential uplift this will have on our current revenue forecasts for BET.

Exhibit 1: Estimated revenues from NTD venture and potential impact on current revenue forecasts												
	Pre-go-live	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
Fixed fee	5.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	80.0
Maximum revenue share		20	22	24	27	29	32	35	39	40.9	43.0	312.6
Total possible revenues	5.0	20.0	22.0	24.2	26.6	29.3	32.2	35.4	39.0	40.9	43.0	317.6
Estimated revenue uplift on current forecasts	5%	16%	13%	11%	9%	8%	6%	5%	4%	3%	2%	

Source: RaaS analysis

The transaction will also see Matt Davey step down from the BET board, where he has been a non-executive director since 2018. He has, however, committed to remaining a BET shareholder. Tekkorp currently holds 12.7% of BET.

The deal has also triggered the “strategic deal” component of Matt Tripp’s strategic advisory agreement with BET (announced 17 February 2021) in which an introduction by Mr Tripp increases the company’s revenues by more than 10% on a pro-forma basis. As a consequence, 35m in performance rights vest. Mr Tripp has agreed to escrow the Class A performance rights and shares issued on conversion for three years in return for \$15m. The face value of the performance rights, based on yesterday’s closing price of \$0.78/share, is \$27.3m.

We have not yet incorporated the transaction in our forecasts as it is dependent on NTD securing a sports bookmaker licence and on the timing of the go-live plan. We will look to incorporate estimates as more concrete details emerge.

Exhibit 2: Financial Summary

BetMakers Technology Group Ltd (BET)						Share price (21 April 2022)						A\$	0.78
Profit and Loss (A\$m)						Interim (A\$m)		H121A	H221A	H122A	H222F	H123F	H223F
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Revenue	7.6	12.3	43.5	50.0	60.1	65.5	
Sales revenue	8.6	19.5	93.5	125.6	163.7	Gross profit	4.0	6.6	32.0	35.9	42.6	52.5	
Total Revenue	9.2	19.5	93.5	125.6	163.7	EBITDA	(1.7)	(0.8)	2.3	3.5	8.4	16.4	
Gross Profit	6.3	10.2	67.9	95.1	126.1	EBIT	(2.8)	(1.9)	(3.8)	(2.4)	1.6	9.3	
EBITDA	0.8	(2.9)	5.8	24.8	50.9	NPAT (normalised)	(1.4)	(0.9)	(2.6)	(1.0)	1.8	7.2	
Depn	(0.3)	(0.5)	(3.9)	(6.5)	(8.2)	Minorities	0.0	0.0	0.0	0.0	0.0	0.0	
Amort	(1.9)	(2.2)	(8.2)	(7.3)	(6.5)	NPAT (reported)	(4.4)	(13.0)	(27.8)	(1.0)	1.8	7.2	
EBIT	(1.3)	(5.6)	(6.2)	10.9	36.2	EPS (normalised)	(0.8)	(1.9)	(3.3)	(0.1)	0.2	0.8	
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)	0.0	0.0	0.0	0.0	0.0	0.0	
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	(1.3)	(0.7)	1.8	14.5	9.1	13.1	
NPAT pre significant items	(1.5)	(2.2)	(3.6)	9.0	26.7	Free Cash flow	(1.4)	(2.6)	(8.5)	2.7	1.9	6.4	
Significant items	(0.6)	(15.3)	(25.2)	0.0	0.0	Divisions	H121A	H221A	H122A	H222F	H123F	H223F	
NPAT (reported)	(2.1)	(17.5)	(28.8)	9.0	26.7	Global Betting Services	5.8	9.2	18.0	19.2	22.6	26.0	
Cash flow (A\$m)						Global Racing Network	1.8	1.4	2.3	5.5	10.7	11.4	
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Global Tote	0.0	1.7	23.2	25.3	26.8	28.1	
EBITDA	0.8	(2.9)	5.8	24.8	50.9	Total Revenue	7.6	12.3	43.5	50.0	60.1	65.5	
Interest	(0.4)	(0.0)	0.8	1.9	2.0	COGS	3.6	5.7	11.5	14.2	17.5	12.9	
Tax	(0.0)	(0.1)	(0.1)	(3.8)	(11.5)	Gross Profit	4.0	6.6	32.0	35.9	42.6	52.5	
Working capital changes	(1.0)	1.0	9.8	(0.6)	(1.5)	Employment costs	3.3	5.8	21.3	23.3	24.7	26.1	
Operating cash flow	(0.5)	(2.0)	16.4	22.2	39.9	Selling General & Admin Costs	1.3	2.4	8.1	8.7	9.1	9.6	
Mtce capex	(0.2)	(1.9)	(19.6)	(8.8)	(3.7)	Other Opex	1.1	(0.8)	0.4	0.4	0.4	0.4	
Free cash flow	(0.7)	(4.0)	(3.3)	13.4	36.2	Total Operating Costs	5.7	7.4	29.7	32.3	34.2	36.1	
Growth capex	(0.0)	(0.7)	(10.2)	(7.9)	(7.9)	EBITDA	(1.7)	(0.8)	2.3	3.5	8.4	16.4	
Acquisitions/Disposals	0.0	(44.1)	0.0	0.0	0.0								
Other	0.0	0.0	(3.1)	0.0	0.0								
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		FY20A	FY21A	FY22F	FY23F	FY24F	
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)		0.08	0.18	0.17	0.18	0.21	
Intangibles inc Goodwill	14.5	44.3	44.3	44.3	44.3	Working capital		0.7	(8.5)	(9.4)	(8.8)	(7.3)	
Investments	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		7.8%	(43.8%)	(10.1%)	(7.0%)	(4.5%)	
Deferred tax asset	7.3	12.3	14.7	14.7	14.7	Revenue growth		39.3%	112.3%	380.7%	34.3%	30.3%	
Other assets	6.9	27.7	22.9	20.6	19.2	EBIT growth pa		n/a	n/a	n/a	(276.7%)	231.0%	
Total non current assets	28.9	95.7	111.9	119.7	121.6	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F	
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		0	0	0	0	0	
Total Liabilities	2.2	34.9	37.5	40.4	43.7	PE (x)		-	-	-	79.8	31.8	
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%)	343.5%	76.4%	
Accumulated profits/losses	(26.1)	(43.5)	(72.4)	(63.4)	(36.7)	EV/EBITDA		nm	nm	104.6	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

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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- how we transact with you
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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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