

BetMakers Technology Group Ltd

Update note

Cleaner balance sheet post raise and performance payout

BetMakers Technology Group (ASX:BET) is a B2B software services business focussed on servicing the wagering market and race operators globally. The company's technology and systems are used by every racing authority in Australia and most of the major online bookmakers. BetMakers is not a gaming company, it is a technology company that is facilitating commercial opportunities for racing authorities, rights holders, and corporate bookmakers while providing an improved racing experience for punters. The company has issued 60m shares, incorporating the final performance payments owed for the Global Betting Services and Dynamic Odds acquisitions and a share placement to institutional and sophisticated investors. The share placement, priced at \$0.146/share, has raised \$2.76m before costs. We have incorporated the share issues into our financial model, resulting in a ~12% reduction in EPS due to the increased share count. Our base case DCF valuation, which previously discounted for the \$6m earnout, remains unchanged at \$0.21/share.

Business model

BetMakers operates a SaaS style model for its Racing Data and Informatics platforms: Global Betting Services and DynamicOdds. Racing bodies and bookmakers pay a monthly recurring fee for access to the platforms with contract periods usually of 3 years' duration. 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 75% as the company expands its racing data and informatics platforms and new integrity platforms in both Australia and offshore.

Share placement and performance earnout

BET announced on November 1 that the \$1.5m EBIT performance targets associated with the acquisition of DynamicOdds and CDK Software and the acquisition of the parent company of Global Betting Services had been satisfied. As a consequence, BET was required to pay \$3m each to the shareholder of CDK and the shareholders of GBS and elected to pay this in shares. BET has issued 41.096m shares at a deemed issue price of \$0.146, being the 15-day volume weighted average price prior to the issue. The company also took the opportunity conduct a share placement with sophisticated and institutional investors at \$0.146/share raising \$2.76m before costs. BET intends to use the proceeds for growth initiatives, working capital and to strengthen its balance sheet.

DCF valuation is \$110.6m or \$0.21/share

We have factored in the additional 41.1m shares that have been issued to the shareholders of GBS and CDK in lieu of cash and the 18.9m shares issued under the placement. This has had the effect of reducing EPS by ~12% given the increased shares on issue. Our DCF valuation, however is unchanged at \$0.21/share our valuation has previously incorporated an expectation that BET would pay the earnout. Our DCF valuation (WACC 14%, Beta 2.0 and terminal growth rate of 2.2%) also includes the dilutionary effect of 56m in the money options. On the current share count, our per share valuation is \$0.234/share.

Earnings History and Estimates

Year end	Revenue(A\$m)	EBITDA(A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
06/19a	6.8	(2.1)	(3.7)	(1.31)	9.61	na	na
06/20e	11.9	3.5	0.6	0.10	5.96	20.1	145.0
06/21e	18.4	7.3	2.2	0.80	3.60	9.05	18.7
06/22e	24.2	10.5	6.5	1.36	2.44	6.29	11.0

Source: RaaS Advisory Estimates, Company Data

Software services

4th November 2019

Share details

ASX Code	BET
Share price	\$0.15
Market Capitalisation	\$71.0M
Shares on issue (post share issue)	473M
In the money options	56M
Enterprise value	\$71.8M
Net debt post raise	~\$0.8M

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

Catalysts

- Delivery on FY20 guidance of \$10m net revenue and EBITDA of \$3.4-\$3.7m
- Continued evidence that the Global Tote and GRN are being adopted by corporate bookmakers/racing authorities

Board of Directors

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

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*Analyst's superannuation fund holds shares

DCF of \$0.21/share fully diluted

We have used the discounted cashflow methodology to value BET, applying a WACC of 14.0%, beta of 2.0, and terminal growth rate of 2.2% to our base case free cashflows. This derives a valuation of \$0.21 per share, fully diluted for in the money options. Of the 63.5m options on issue, 56.5m are currently in the money, with expiry dates predominantly in 2022. The terminal value accounts for \$0.11 of our valuation.

We set out the DCF valuation in the following exhibit.

Exhibit 1: DCF valuation	
	Parameters
Discount rate (WACC)	14.0%
Terminal Growth Rate	2.2%
Beta	2.0
Present value of free cashflows inc terminal value (\$m)	111.3
Less Net Debt (including November placement) (\$m)	(0.8)
Equity value (\$m)	110.6
Fully diluted shares (inc in the money options)	534.0
Equity value per share	\$ 0.21
Source: RaaS estimates	

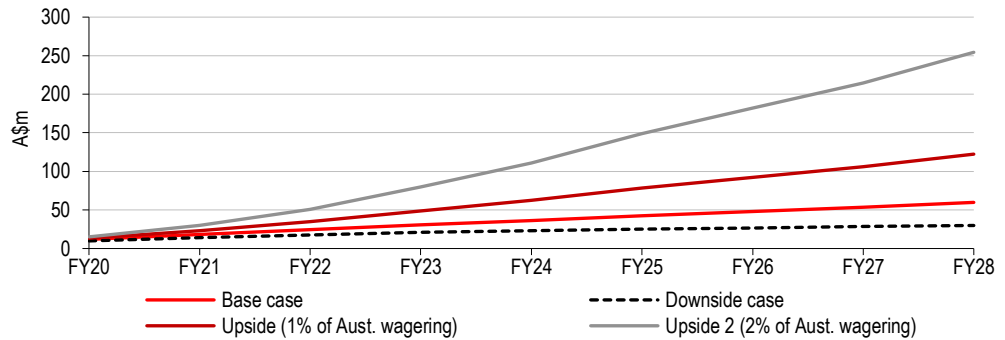
Scenario analysis

As we highlighted in our recent initiation report on BET entitled [Embedded in the DNA of Racing](#), we have explored a downside case and two upside cases in our financial model. The parameters for our base case and these other scenarios are set out below:

- 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.
- 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 around 10% of off-course and on-course bookmakers in Australia become customers by 2028; our first upside case sees this rise to 15%. 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 20% of total Australian bookmakers. 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%.

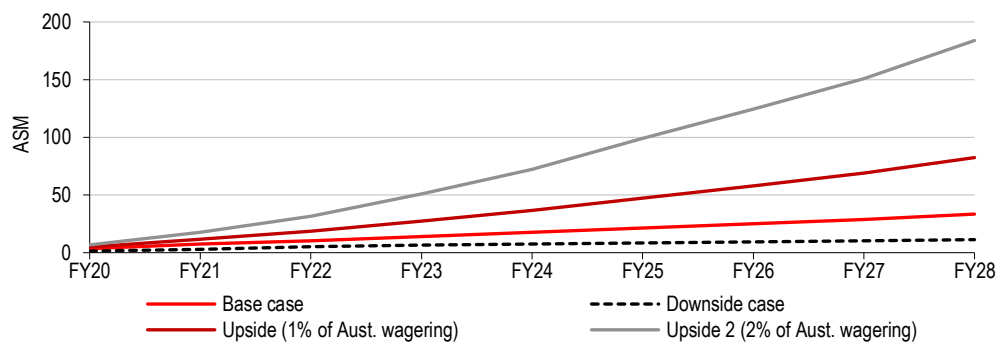
The following two exhibits set out the impact of these scenarios in graphical format while Exhibit 4 highlights the per share valuation for each of these scenarios.

Exhibit 2: Scenario analysis impact on revenue forecasts



Source: RaaS Estimates

Exhibit 3: Scenario analysis impact on EBITDA forecasts



Source: RaaS Estimates

Exhibit 4: Valuation by scenario (uses fully diluted share count of 534m)

Valuation method	Value in A\$m	Value per share
Base case DCF valuation	110.6	\$0.21
An upside case DCF	265.2	\$0.50
A second upside case DCF	578.9	\$1.08
A downside case DCF	36.4	\$0.07

Source: RaaS analysis

Exhibit 5: Financial Summary

BetMakers Technology Group Ltd (BET)						Share price (1 November 2019)							
						A\$ 0.15							
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	H119A	H219A	H120F	H220F	H121F	H221F		
Revenue	17.8	6.8	11.9	18.4	24.2	3.0	3.8	4.6	7.3	8.5	9.9		
EBITDA	0.5	(2.1)	3.5	7.3	10.5	(1.9)	(0.1)	1.0	2.5	3.3	4.0		
Depn	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)	(2.1)	(1.7)	(0.3)	1.5	2.4	3.3		
Amort	(0.2)	(1.6)	(2.3)	(1.6)	(1.1)	(2.1)	(0.8)	(0.4)	0.9	1.6	2.2		
EBIT	0.2	(3.9)	1.2	4.2	9.4	(2.1)	(0.8)	(0.4)	0.9	1.6	2.2		
Interest	0.0	(0.0)	(0.4)	(0.3)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0		
Tax	(0.5)	1.0	(0.2)	(1.6)	(2.8)	0.0	0.0	0.0	0.0	0.0	0.0		
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	(2.4)	(1.2)	(0.4)	0.9	1.6	2.2		
NPAT pre significant items	(0.3)	(3.0)	0.6	2.2	6.5	(1.2)	(0.3)	(0.1)	0.2	0.3	0.5		
Significant items	(5.7)	(0.7)	0.0	0.0	0.0	(1.2)	(0.3)	(0.1)	0.2	0.3	0.5		
NPAT (reported)	(6.0)	(3.7)	0.6	2.2	6.5	(1.2)	(0.3)	(0.1)	0.2	0.3	0.5		
Cash flow (A\$m)						Divisions							
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	H119A	H219A	H120F	H220F	H121F	H221F		
EBITDA	0.5	(2.1)	3.5	7.3	10.5	Wholesale Wagering	2.6	3.1	4.0	6.3	7.2		
Interest	0.1	(0.0)	(0.4)	(0.3)	(0.2)	Content & Integrity	0.2	0.3	0.6	1.0	1.3		
Tax	0.0	(0.1)	(0.4)	(1.6)	(2.8)	Other income	0.3	0.4	0.0	0.0	0.0		
Working capital changes	(12.0)	(0.9)	(1.5)	(0.7)	(0.6)	Total Revenue	3.0	3.8	4.6	7.3	8.5		
Operating cash flow	(11.4)	(3.1)	1.3	4.7	6.9	COGS	1.1	0.8	0.7	1.9	2.2		
Mtice capex	0.0	(0.0)	0.0	0.0	0.0	Gross Profit	1.9	3.0	3.9	5.4	6.3		
Free cash flow	(11.4)	(3.1)	1.3	4.7	6.9	Employment costs	1.8	1.6	1.5	1.6	1.7		
Growth capex	(0.1)	0.0	0.0	0.0	0.0	Selling General & Admin Costs	1.6	1.6	1.3	1.2	1.3		
Acquisitions/Disposals	0.3	(5.8)	0.0	0.0	0.0	Other Opex	0.1	(0.0)	0.1	0.1	0.1		
Other	(0.2)	(0.9)	0.0	0.0	0.0	Total Operating Costs	3.5	3.1	2.9	2.9	3.0		
Cash flow pre financing	(11.3)	(9.8)	1.3	4.7	6.9	EBITDA	(1.6)	(0.1)	1.0	2.5	3.3		
Equity	10.1	9.1	2.8	0.0	0.0								
Debt	0.0	(0.3)	0.0	0.0	0.0	Margins, Leverage, Returns		FY18A	FY19A	FY20F	FY21F	FY22F	
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBITDA		n/a	(30.5%)	29.6%	39.7%	43.4%	
Net cash flow for year	(1.3)	(1.0)	4.0	4.7	6.9	EBIT		n/a	(56.9%)	10.2%	22.6%	38.9%	
Balance sheet (A\$m)						NPAT pre significant items							
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Net Debt (Cash)		1.5	-	3.5	0.4	5.0	11.9
Cash	1.5	0.5	4.4	9.0	15.9	Net debt/EBITDA (x)	(x)	2.692	n/a	0.102	0.691	1.138	
Accounts receivable	5.4	1.2	2.0	3.0	4.0	ND/ND+Equity (%)	(%)	n/a	15.6%	(1.3%)	(18.5%)	(44.6%)	
Inventory	0.0	0.0	0.0	0.0	0.0	EBIT interest cover (x)	(x)	-	0.2	n/a	0.3	0.1	0.0
Other current assets	0.1	0.1	0.1	0.1	0.1	ROA		n/a	(16.7%)	3.8%	11.8%	23.1%	
Total current assets	7.0	1.8	6.4	12.2	20.0	ROE			(23.5%)	2.6%	7.4%	18.2%	
PPE	0.3	0.2	0.1	0.1	0.1	ROIC		1.1%	(49.2%)	9.9%	20.0%	31.2%	
Intangibles inc Goodwill	2.0	14.5	14.5	14.5	14.5	NTA (per share)		0.07	0.01	0.03	0.04	0.05	
Investments	0.0	0.0	0.0	0.0	0.0	Working capital		2.6	0.1	1.5	2.2	2.9	
Deferred tax asset	5.4	6.5	6.7	6.7	6.7	WC/Sales (%)		14.8%	1.3%	13.1%	12.2%	11.9%	
Other assets	1.3	7.7	5.4	3.8	2.8	Revenue growth		n/a	(61.6%)	74.0%	54.7%	31.7%	
Total non current assets	9.0	28.8	26.7	25.1	24.1	EBIT growth pa		n/a	n/a	(131.0%)	245.1%	126.5%	
Total Assets	15.9	30.6	33.1	37.3	44.1	Pricing							
Accounts payable	2.8	1.2	0.4	0.8	1.1	No of shares (y/e)	(m)	162	413	473	473	473	
Short term debt	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	162	232	534	534	534	
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(3.68)	(1.61)	0.10	0.80	1.36	
Other current liabilities	0.3	6.2	0.2	0.2	0.2	EPS Normalised/Diluted	cps	(0.19)	(1.31)	0.10	0.80	1.36	
Total current liabilities	3.1	7.4	0.6	1.0	1.3	EPS growth (norm/dil)		n/a	n/a	(107.9%)	675%	70%	
Long term debt	0.0	4.0	4.0	4.0	4.0	DPS	cps	-	-	-	-	-	
Other non current liabs	0.1	0.1	0.1	0.1	0.1	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Total long term liabilities	0.1	4.1	4.1	4.1	4.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Total Liabilities	3.2	11.4	4.7	5.1	5.4	Dividend imputation		30	30	30	30	30	
Net Assets	12.7	19.2	28.4	32.2	38.7	PE (x)		-	-	145.0	18.7	11.0	
Share capital	32.5	42.4	51.2	51.2	51.2	PE market		15.2	15.2	15.2	15.2	15.2	
Accumulated profits/losses	(21.2)	(24.0)	(23.5)	(19.7)	(13.2)	Premium/(discount)		(100.0%)	854.3%	23.1%	(27.6%)		
Reserves	1.4	0.7	0.7	0.7	0.7	EV/EBITDA		42.3	(31.5)	20.1	9.1	5.6	
Minorities	0.0	0.0	0.0	0.0	0.0	FCF/Share	cps	(7.0)	(0.7)	0.3	1.0	1.5	
Total Shareholder funds	12.7	19.2	28.4	32.2	38.7	Price/FCF share		(2.1)	(20.3)	55.4	15.2	10.3	
						Free Cash flow Yield		(46.9%)	(4.9%)	1.8%	6.6%	9.7%	

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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

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

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