

# BetMakers Technology Group Ltd

## Q1FY23 Results Analysis and Corporate Developments

### Q1 FY23 solid, adds Punting Form to bolster tech

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. The company is rapidly on a path to become a key player in the transforming US horse racing industry, which is in the throes of adopting fixed-odds wagering, initially in New Jersey where BET has a 15-year exclusive licence with New Jersey Thoroughbred Horsemen Association and Darby Development LLC to deliver and manage fixed odds thoroughbred horse racing. BET reported a 19% increase in Q1 FY23 revenue to \$23.9m and a 13.4% increase in Q1 FY23 cash receipts to \$23.8m. Q1 FY23 saw a 36% rise in costs, year-on-year, entirely due a combination of a 14% increase in COGs to \$6.9m and to a significant rise in staff costs which included annual bonuses and contractor costs associated with setting up the Betr platform. An estimated \$3m of the \$17.69m in staff costs reported for the quarter won't repeat in Q2 and another \$1m will ease off over the next six months. All other costs were flat for the period. BET reported operating cash outflows of \$5.9m for the half, which we expect to see mostly reverse in Q2 FY23. The company ended the quarter with net cash of \$64.1m, compared with \$87.6m at Q4 FY22, having utilised \$11.68m in its share buyback and investing \$5.8m for the rights to Penn National Gaming's racing content outside the US and Canada. Post the quarter, BET has acquired the Punting Form for an upfront payment of \$3m and up to \$17m over the next three years, subject to performance hurdles. The Punting Form's proprietary IP is expected to strengthen the integrity and depth of BET's platform.

### Business model

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

### Minor adjustments for H1, incorporating Punting Form

We have incorporated some higher short-term costs in our H1 FY23 forecasts which has had a minor impact on our overall earnings forecasts for FY23. We have also incorporated the just completed acquisition of Punting Form and assumed that the earn-out targets are achieved and paid out.

### Base-case DCF valuation \$2.06/share (previously \$2.28/share)

Our base-case DCF valuation is \$2.06/share on the current share count of 934.6m and \$1.89/share fully diluted for all in-the-money options and performance rights on issue. Our forecasts capture estimates for the broader US fixed-odds wagering opportunity, the Betr wagering platform, and assumptions for growth for the Global Racing Network division which will service the Penn National Gaming deal and other data and vision opportunities. We have also incorporated the recent Punting Form acquisition designed to strengthen the integrity and depth of BET's racing data. We see key catalysts as evidence of take up of fixed-odds wagering in the NJ and other US states, the ongoing rollout of the Betr wagering platform, and growth in GRN revenue from Penn National Gaming and other ventures.

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

Year end	Revenue	EBITDA adj.*	NPAT adj.*	EPS adj.* (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
06/22a	91.7	2.2	(1.0)	(0.11)	1.7	nm	nm
06/23f	124.5	14.1	2.5	0.26	1.4	12.8	99.5
06/24f	175.3	41.3	22.6	2.10	0.9	3.9	12.4
06/25f	221.5	63.7	38.7	4.14	0.6	2.0	6.3

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

### Software & Services

7 November 2022

#### Share details

ASX code	BET
Share price (4-Nov)	\$0.265
Market capitalisation	\$243.0M
Shares on issue	934.6M
In-the-money options	11.2M
Performance rights	73.3M
Net cash 30-Sept-2022	\$64M

#### 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 takes hold in NJ
- Rollout of Betr in Australia and NZ

#### Board of Directors

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

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#### RaaS Advisory Contacts

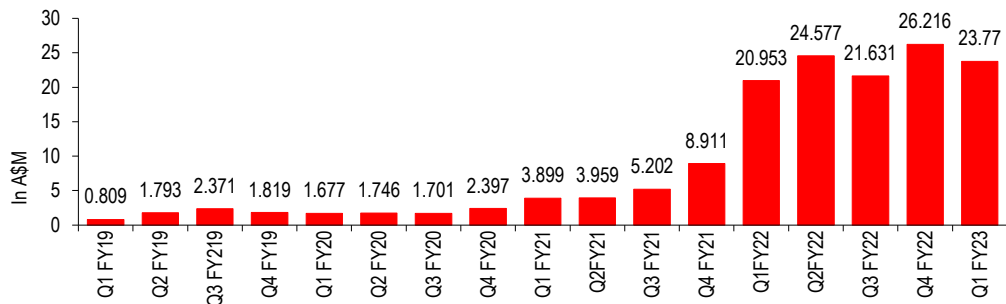
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## Q1 FY23 Results Analysis

BET reported Q1 FY23 cash receipts of \$23.8m, a 13% increase on Q1 FY22 cash receipts but down 9% on the seasonally stronger Q4 FY22. Revenue for the quarter almost matched cash receipts at \$23.9m, an increase of 19% on the pcp. The company has now booked 45% of our projected cash receipts for H1 FY23 with Q2 seasonally the strongest quarter for the group. The company noted that it saw significant growth in its Australian platform and Managed Trading Services (MTS) operations in the quarter with 24 customers now live across these platforms, six added in the quarter. Combined annualised turnover of these clients in the quarter was more than \$2b per annum and BET estimates that its combined client base represents ~20% of traditional Australian wagering app downloads. This excludes Betr which was launched in October 2022.

### Exhibit 1: Cash receipts breakdown by quarter



Source: Company reports

Operating costs for the quarter were higher than forecast, predominantly due to higher employee costs at \$17.7m. These costs included an estimated \$2.8m in annual bonuses which won't repeat in the next three quarters and around \$1m in contractor costs associated with the launch of Betr. We anticipate that this cost will fall away over the next two quarters. Admin and corporate costs remained well contained in the quarter relative to the pcp. BET ended Q1 with \$64m cash in hand, having bought back 29.13m shares at \$11.66m, paid the first tranche of \$1.25m for the previously announced purchase of TexBet, \$0.28m to acquire Form Cruncher, and \$5.8m for the rights to PENN National Gaming's racing content outside the US and Canadian markets. This content delivers the data and race vision to more than 900 race meetings a year for BET to distribute to its global wagering customer base.

### Exhibit 2: Q1 FY23 versus Q1 FY22 and Q4 FY21 (in A\$m unless otherwise stated)

	Q1 FY22	Q4 FY22	Q1 FY23
Cash receipts	20.95	26.22	23.77
Product manufacturing and operating costs	(6.09)	(7.17)	(6.97)
Employee costs	(10.48)	(13.53)	(17.69)
Admin, corporate and other costs	(5.15)	(4.87)	(4.97)
Net interest	-	-	-
Taxes	0.01	(0.00)	0.05
Other	(0.74)	(0.24)	(0.11)
Operating cashflow	(1.49)	0.42	(5.92)
Net cash at the end of the period	108.79	87.55	64.04

Source: Company data

During the quarter, BET invested another \$2.1m in the betting terminal hardware range, Bet Line, which was developed with Australian company Neo Self Service Solutions, and is destined for BET's US operations. This is the tail-end of an investment in ~650 betting terminals and was factored into our forecasts for the year.

Other key developments in the quarter:

- BET negotiated to increase the annual maximum fee from NTD Pty Ltd, owner of Betr, to \$2m a year over 10 years for a total increase of \$20m in exchange for funding part of the acquisition of TexBet. As part of this agreement, BET contributes \$2.5m in two tranches, the first made in Q1 FY23;
- The company commenced global distribution of US horse racing content into the UK and Australian market as part of the PENN racing deal; and
- Monmouth Park racetrack in New Jersey launched online fixed-odds wagering for account holders in August 2022. Currently, monmouthbets.com subscribers can only use fixed odds for races at that venue but more racetracks are expected to be included over the coming months. BET has taken a careful approach given many US states regulate against fixed odds.

### Launch of Betr

On October 12, post-quarter end, Betr was launched ahead of the Melbourne Cup carnival. The online platform has reportedly taken more than 1m bets since launch and captured around 10% market share. This is significantly ahead of reported expectations. We estimate that if Betr can hold 4% market share, the maximum cap comes into play for BetMakers as the platform operator and this is factored into our current forecasts.

### Acquisition of Punting Form

Post-quarter end, BetMakers announced the acquisition of ABettorEdge Pty Ltd which trades as the Punting Form for \$20m in total, including \$17m over a three-year earn out. The initial consideration for the group is \$3m, with another \$3m payable if the platform is launched in the US in the next 12 months, \$5.0m payable in year one on a \$2.75m revenue and 50% EBITDA target, \$4.0m in year two on a \$3.75m revenue and 50% EBITDA target, and \$5.0m payable in year three on a \$5.0m revenue and 50% EBITDA target. The revenue and profit targets only apply to that generated with external customers and the consideration payable is at BET's discretion on whether it is cash or shares. We have incorporated the transaction into our forecasts and assumed that the consideration is paid in shares.

Punting Form adds to BET's technology edge with more accurate data, improved pricing and margins, and the ability to improve liquidity. The platform uses proprietary IP and AI to create sectional times and benchmarks for time-based rating systems in horse racing. BET expects to see improvements in pricing and margins across all its platforms from the integration. These synergies will accrue entirely to BET and are not included in the Punting Form earn-out calculations.

### Earnings Adjustments

We have adjusted our H1 and H2 FY23 forecasts to reflect the higher cost base in Q1 driven by human capital costs. We do expect some of this to come off in H2 and this is reflected in the shift in costs in our forecasts across the year as reflected in Exhibit 3 below.

<b>Exhibit 3: Earnings adjustments to FY22, FY23 and FY24</b>					
	H1 FY23 old	H1 FY23 new	H2 FY23 old	H2 FY23 new	
Revenue	52.9	53.1	71.7	71.4	
Gross profit	42.4	42.6	55.5	56.2	
EBITDA	2.3	(0.1)	13.5	14.1	
NPAT	(1.7)	(3.4)	6.2	5.9	

Source: RaaS estimates

On a full-year basis, our forecasts in FY24 and FY25 have been adjusted to capture the Punting Form acquisition, although we have not tried to add the potential upside that could come from pricing and margin improvements. We have also incorporated some of the increased employee costs captured in Q1.

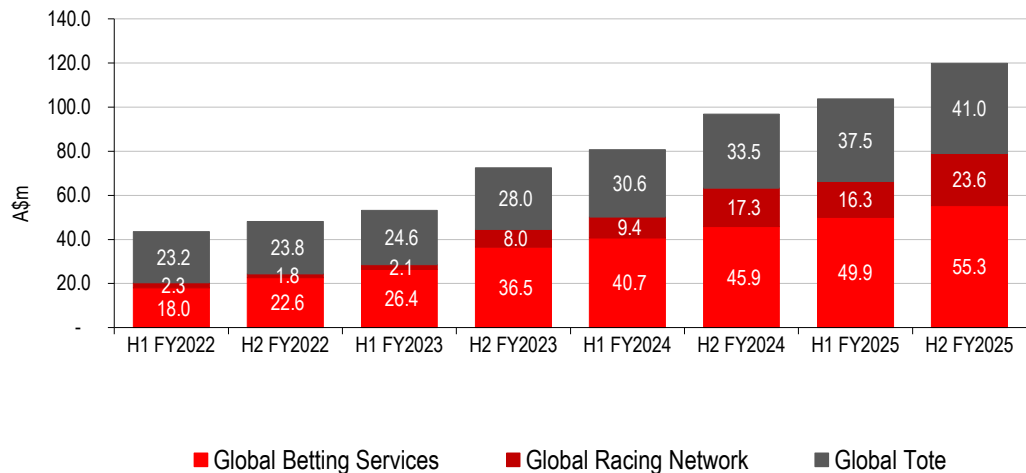
#### Exhibit 4: Earnings adjustments to FY22, FY23 and FY24

	FY23 old	FY23 new	FY24 old	FY24 new	FY25 old	FY25 new
Revenue	124.6	124.5	174.7	175.3	220.0	221.5
Gross profit	97.9	98.8	130.4	130.7	159.5	160.4
EBITDA	15.9	14.1	41.3	41.3	63.1	63.7
NPAT	4.5	2.5	23.6	22.6	40.3	38.7

Source: RaaS estimates

Our forecasts for revenue by division had largely remained unchanged with global betting services, which incorporates the Managed Trading Services business, remaining the biggest revenue driver in the business along with the global tote, which is predominantly the business BET acquired from Sportech.

#### Exhibit 5: Revenues by division and by half year (actual for FY22 and forecasted for FY23-FY25)



Source: Company data for actuals, RaaS estimates

### Base Case DCF Valuation is \$2.06/share

Our base-case DCF-derived valuation is \$2.06/share (previously \$2.28/share on a lower share count). On a fully-diluted basis, for all in-the-money options and performance rights (ie 1,019m), the valuation is \$1.89/share.

#### Exhibit 6: Base-case DCF valuation

	Parameters
Discount rate (WACC)	11.6%
Terminal Growth Rate	2.2%
Present value of free cashflows (\$m)	569
Terminal value (\$m)	1291
Plus net cash at 30-Sept (\$m)	(64)
Equity value (\$m)	1,924
Shares on issue (m)	935
Equity value per share	\$2.06

Source: RaaS estimates

### Exhibit 7: Financial Summary

BetMakers Technology Group Ltd (BET)						Share price (4 November 2022)						A\$	0.26				
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123F	H223F	H224F	H224F
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	Revenue	43.5	48.2	53.1	71.4	79.6	95.7					
Sales revenue	19.5	91.7	124.5	175.3	221.5	Gross profit	32.0	34.3	42.6	56.2	61.0	69.7					
Total Revenue	19.5	91.7	124.5	175.3	221.5	EBITDA	2.3	(0.1)	(0.1)	14.1	17.2	24.1					
Gross Profit	10.2	66.3	98.8	130.7	160.4	EBIT	(3.8)	(3.7)	(4.6)	8.6	12.9	19.9					
EBITDA	(2.9)	2.2	14.1	41.3	63.7	NPAT (normalised)	(2.6)	1.6	(3.4)	5.9	8.8	13.8					
Depn	(0.5)	(3.4)	(4.9)	(4.9)	(4.8)	Minorities	0.0	0.0	0.0	0.0	0.0	0.0					
Amort	(2.2)	(6.3)	(5.1)	(3.5)	(3.1)	NPAT (reported)	(27.8)	(61.4)	(3.4)	5.9	8.8	13.8					
EBIT	(5.6)	(7.5)	4.0	32.8	55.8	EPS (normalised)	(0.3)	0.2	(0.4)	0.6	0.9	1.5					
Interest	(0.1)	(0.5)	(0.5)	(0.5)	(0.5)	EPS (reported)	(3.3)	(6.9)	(0.4)	0.6	0.9	1.5					
Tax	3.5	7.1	(1.1)	(9.7)	(16.6)	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	1.8	(20.1)	(0.8)	9.2	10.5	16.4					
NPAT pre significant items	(2.2)	(1.0)	2.5	22.6	38.7	Free Cash flow	(8.5)	(25.3)	(3.8)	6.2	9.0	14.9					
Significant items	(15.3)	(88.3)	0.0	0.0	0.0	<b>Divisions</b>						H122A	H222A	H123F	H223F	H224F	H224F
NPAT (reported)	(17.5)	(89.2)	2.5	22.6	38.7	Global Betting Services	18.0	22.6	26.4	36.5	40.7	45.9					
<b>Cash flow (A\$m)</b>						Global Racing Network	2.3	1.8	2.1	8.0	9.4	17.3					
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	Global Tote	23.2	23.8	24.6	26.9	29.5	32.5					
EBITDA	(2.9)	2.2	14.1	41.3	63.7	Total Revenue	43.5	48.2	53.1	71.4	79.6	95.7					
Interest	(0.0)	(0.5)	(0.5)	(0.5)	(0.5)	COGS	11.5	13.9	10.6	15.2	18.6	26.0					
Tax	(0.1)	(0.1)	(2.5)	(9.7)	(16.6)	Gross Profit	32.0	34.3	42.6	56.2	61.0	69.7					
Working capital changes	1.0	(19.8)	(2.6)	(4.2)	(3.4)	Employment costs	21.3	25.5	31.9	31.1	32.6	34.2					
Operating cash flow	(2.0)	(18.2)	8.4	26.9	43.2	Selling General & Admin Costs	8.1	8.9	10.3	10.5	10.7	10.9					
Mtce capex	(1.9)	(15.6)	(6.0)	(3.0)	(3.0)	Other Opex	0.4	(0.0)	0.5	0.5	0.5	0.5					
Free cash flow	(4.0)	(33.8)	2.4	23.9	40.2	Total Operating Costs	29.7	34.4	42.6	42.1	43.8	45.6					
Grow'th capex	(0.7)	(0.6)	(15.5)	(1.0)	(1.0)	EBITDA	2.3	(0.1)	(0.1)	14.1	17.2	24.1					
Acquisitions/Disposals	(44.1)	(6.0)	(6.0)	(5.0)	(4.0)	EBITDA margin (%)	5.3	n.m	-0.2	19.8	21.6	25.2					
Other	0.0	(0.6)	(0.7)	0.0	0.0	<b>Margins, Leverage, Returns</b>						FY21A	FY22A	FY23F	FY24F	FY25F	
Cash flow pre financing	(48.8)	(41.0)	(19.7)	17.9	35.2	EBITDA	(14.8%)	2.4%	11.3%	23.5%	28.8%						
Equity	142.8	8.8	0.0	0.0	0.0	EBIT	(28.7%)	(8.2%)	3.2%	18.7%	25.2%						
Debt	0.0	0.0	0.0	0.2	0.4	NPAT pre significant items	(11.3%)	(1.1%)	2.0%	12.9%	17.5%						
Dividends paid	(0.5)	(0.9)	0.0	0.0	0.0	Net Debt (Cash)		118.5	82.9	63.2	81.1	116.3					
Net cash flow for year	93.6	(33.1)	(19.7)	18.1	35.6	Net debt/EBITDA (x)	(x)	n/a	37.7	4.5	2.0	1.8					
<b>Balance sheet (A\$m)</b>						ND/ND+Equity (%)	(%)	(154.0%)	(78.0%)	(49.4%)	(61.2%)	(85.5%)					
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	EBIT interest cover (x)	(x)	n/a	n/a	0.1	0.0	0.0					
Cash	120.6	87.5	67.8	85.9	121.5	ROA	(3.8%)	(3.3%)	1.8%	13.7%	20.4%						
Accounts receivable	9.0	15.4	18.9	26.6	33.7	ROE	(13.7%)	(46.4%)	1.3%	11.2%	16.6%						
Inventory	0.0	0.0	0.0	0.0	0.0	ROIC	(2.8%)	(4.2%)	2.5%	17.4%	23.0%						
Other current assets	5.0	6.1	6.1	6.1	6.1	NTA (per share)	0.19	0.18	0.17	0.18	0.22						
Total current assets	134.6	109.1	92.8	118.7	161.3	Working capital	(8.5)	(0.3)	2.2	6.4	9.8						
PPE	11.4	24.8	41.4	40.5	39.6	WC/Sales (%)	(43.8%)	(0.3%)	1.8%	3.7%	4.4%						
Intangibles inc Goodwill	44.3	30.5	36.5	41.5	45.5	Revenue growth	126.7%	371.2%	35.8%	40.7%	26.4%						
Investments	0.0	0.0	0.0	0.0	0.0	EBIT growth pa	n/a	n/a	(153.9%)	713.3%	69.9%						
Deferred tax asset	12.3	18.5	19.9	19.9	19.9	<b>Pricing</b>						FY21A	FY22A	FY23F	FY24F	FY25F	
Other assets	27.7	40.1	35.0	31.5	28.4	No of shares (y/e)	(m)	813	904	935	935	935					
Total non current assets	95.7	114.0	132.9	133.4	133.5	Weighted Av Dil Shares	(m)	675	874	935	935	935					
Total Assets	230.3	223.1	225.7	252.1	294.8	EPS Reported	cps	(2.59)	(10.21)	0.26	2.10	4.14					
Accounts payable	17.6	15.7	16.7	20.2	23.8	EPS Normalised/Diluted	cps	(0.33)	(0.11)	0.26	2.10	4.14					
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	n/a	-335%	705%	97%					
Tax payable	0.1	0.3	0.3	0.3	0.3	DPS	cps	-	-	-	-	-					
Other current liabilities	4.4	5.2	5.2	5.2	5.2	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total current liabilities	22.1	21.3	22.2	25.8	29.4	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Long term debt	2.1	4.6	4.6	4.8	5.2	Dividend imputation		0	0	0	0	0					
Other non current liabs	10.7	7.9	7.9	7.9	7.9	PE (x)		-	-	99.5	12.4	6.3					
Total long term liabilities	12.8	12.5	12.5	12.7	13.1	PE market		15.0	15.0	15.0	15.0	15.0					
Total Liabilities	34.9	33.8	34.7	38.5	42.5	Premium/(discount)		nm	nm	563.4%	(17.6%)	(58.1%)					
Net Assets	195.4	189.3	191.0	213.6	252.3	EV/EBITDA		nm	69.3	12.8	3.9	2.0					
Share capital	226.0	252.5	252.5	252.5	252.5	FCF/Share	cps	(0.0)	(0.3)	1.5	3.2	4.9					
Accumulated profits/losses	(43.5)	(132.7)	(130.2)	(107.6)	(68.9)	Price/FCF share		nm	(0.9)	0.2	0.1	0.1					
Reserves	12.9	69.5	68.7	68.7	68.7	Free Cash flow Yield		nm	(1.1)	5.9	12.3	19.0					
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	195.4	189.3	191.0	213.6	252.3												

Source: RaaS Advisory



# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**



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- how we are paid, and
- complaint processes

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If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

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.

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