

Managed Trading Services delivering new revenue streams

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 forged three new transactions which we anticipate will significantly progress its Managed Trading Services joint venture with Tom Waterhouse. Two of Australia's largest on-course bookmakers Rob Waterhouse and Mark Sampieri as well as international gaming company Pronet Gaming have engaged BetMakers to manage their online wagering presence, on terms which include fixed fee, turnover and profit share models. We anticipate that with racing still operating without on-course patrons, more of Australia's ~90 on-course bookmakers will seek out BET's online solution. We have included new estimates for conversion of on-course bookmakers to BET's Managed Trading Services solution which provides a full turnkey 24/7 online racing platform with pricing and trading solutions. Our forecasts have also been adjusted to reflect our revised view that Tom Waterhouse's 80,000 subscribers will open at least one new trading account with bookmakers in the next two years, adding to the revenue pool for BET. These changes have resulted in a significant upgrade to our FY21 and FY22 forecasts. Our DCF valuation has also increased to \$0.39/share, fully diluted (previously \$0.30/share). In our view, there is also potential for this model to be adopted in the US racing market but have not incorporated into our forecasts.

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 ~55-60% as the company expands its racing data and informatics platforms and new integrity platforms in both Australia and offshore.

Upgrading forecasts for more Managed Trading Services deals

We have upgraded our FY21 and FY22 forecasts to assume that Managed Trading Services (MTS) together with lead generation revenue from Tom Waterhouse's subscribers will add an additional \$19m in revenue by H1 FY22, delivering on the recently struck 94.7m, \$0.18/options agreement. **It is important to note that these are RaaS's forecasts, not the company's, and are based on our assessment of the turnover generated by on-course bookmakers and expectation of online conversion.**

DCF valuation is \$0.39/share fully diluted

Our DCF valuation has increased to \$0.39/share (previously \$0.30/share) on the back of our longer-term upgrade. In our view, BET is well placed both from a market position and cash position, to ride this current volatility. We see potential upside from our current forecasts for BET's role in the development of the fledgling US fixed odds wagering market.

Earnings History and RaaS' 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)	(3.6)	(1.26)	16.59	na	na
06/20e	9.2	0.5	(1.3)	(0.26)	14.01	nm	na
06/21e	29.5	7.0	2.4	0.70	4.36	18.29	38.1
06/22e	43.1	12.2	7.6	1.42	3.51	10.52	18.7

Source: RaaS Advisory Estimates, Company Data

Software services

18th May 2020

Share details

ASX Code	BET
Share price (May 15)	\$0.265
Market Capitalisation	\$125.3M
Shares on issue	473M
In the money options	60.5M
Enterprise value	\$127.0M
Net debt 31 March	\$1.7M

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 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 for positive EBITDA
- Continued evidence that the Global Tote and GRN are being adopted by corporate bookmakers/racing authorities
- Demonstrated expansion in US wagering market

Board of Directors

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

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Q3 result and new guidance

BetMakers has reported Q3 cash receipts of \$1.7m and operating costs of \$2.0m including \$0.1m in interest on the \$4m convertible note outstanding to the DynamicOdds vendors. Cash receipts are tracking a little lower than our expectations but we anticipate this is due to customers stretching terms in this COVID-19 environment. Costs are tracking significantly below our expectations for the half year, particularly SGAA costs. The company ended the quarter with \$2.279m in cash.

BET also noted that COVID-19 had delayed the launch of its fixed odds business at Monmouth Park in New Jersey, due to the racing season being rescheduled to commence on July 4, rather than the previously announced commencement date of May 2. The company had previously expected that the May 2 racing start would generate about \$1.0m in revenue for the group in Q4 FY20. As a result, BET now anticipates its revenues will be ~\$9m for FY20, rather than its previous guidance for \$10m. The company has reiterated its previous guidance that it expects to return a positive EBITDA for FY20.

More details of the Tom Waterhouse deal

BET has provided more details on the JV with Tom Waterhouse which shareholders have been asked to vote on at an extraordinary general meeting scheduled for May 22. The deal allows for BetMakers to issue performance rights which convert into up to 94.74m options, at a strike price of \$0.18/option and expiry two years after issue. To qualify for the options, the agreements between BetMakers and Tom Waterhouse Punting and its associated businesses must generate at least \$17m in revenue for BetMakers. We have factored this into our forecasts and discuss on the following page.

MTS deals

BET announced in late April that leading on-course bookmakers Rob Waterhouse and Mark Sampieri had signed with BET to launch their individual betting operations into the online wagering market. The company also has entered into a commercial partnership with international gaming company Pronet Gaming to provide BetMakers' racing solution of more than 250,000 horse and greyhound racing events to Pronet's customers, sitting alongside its sports, casino and retail offerings. These are the first deals for the Managed Trading Services venture and are on terms that include fixed fee, turnover and profit share models. We anticipate that with racing still operating without on-course patrons, more on-course bookmakers will be encouraged to look for online solutions for their businesses while the dearth of other professional sports being made available could encourage other sportsbetting companies to look to add horse-wagering to their offering. BET provides the only white-label, ready-made solution with managed trading in the market and should be a beneficiary of this shift.

Earnings upgrade

We have incorporated the impact of the delayed start to the New Jersey racing season and have included new forecasts to reflect our expectation that the JV with Tom Waterhouse which includes the Managed Trading Services platform could generate some meaningful revenues from managing Australia's on-course bookmakers' online presence. This is in addition to our previous upgrade for more on-course bookmakers to subscribe to BET's pricing solutions. **For the avoidance of any doubt please note that these are RaaS's forecasts, not the company's and the fact that company engages RaaS to produce research on it is not an endorsement of our forecasts nor should it be construed as company guidance.**

Key assumptions used in our forecasts are as follows:

- We now anticipate that over the next two years, Tom Waterhouse's existing subscribers add at least one new bookmaker account, generating an estimated \$200 per lead for the JV;
- Separately we anticipate that that the app will attract another 2,000 subscribers in FY21, growing to 43,300 by FY29 with 75% of these opening at least one new account with a bookmaker, delivering \$200 per lead to the JV;
- We have assumed BET reports 100% of the revenue from the JV and that Tom Waterhouse's 50% share is treated as a cost of goods sold;
- Our forecasts add another \$18m in revenues from the JV by H1 FY22, delivering on the \$17m, \$0.18/options agreement that expires on 31 December 2022;
- We anticipate that initially around 35% of active on-course bookmakers on BET's platform convert to using MTS, with this rising to 50% over the next nine years;
- We estimate that the base-case turnover available to this market is \$1.5b per annum of the \$25b wagering turnover generated in Australia;
- We have assumed a net margin of 10% after racecourse fees and that MTS retains 25% of this;
- 50% of MTS's revenues will be retained by BetMakers, 50% to Tom Waterhouse.
- We have factored in some estimates for the New Jersey fixed odds wagering market to incorporate the deal struck with the NJ Horsemen's Association and Monmouth Park to sell their racing content both in New Jersey and beyond. Our forecasts assume this content will secure 3% of turnover from bookmakers (in this case we are only including our estimates for NJ turnover) with 1% retained by BetMakers. The payments to the racecourse and association have been incorporated in cost of sales.
- We have already factored in a significant uplift in costs, particularly R&D and staffing to create the platform.
- Beyond New Jersey, we have not included any estimates for the US fixed odds wagering market, which we see presenting a significant opportunity for Managed Trading Services in the future. This represents additional potential upside to our forecasts.

The impact on our forecasts is set out in the following table.

Exhibit 1: Earnings forecasts revision						
Period ending June 30	FY20 old	FY20 new	FY21 old	FY21 new	FY22 old	FY22 new
Sales	9.6	9.0	20.7	29.5	31.3	43.1
Total Revenue	9.9	9.2	20.7	29.5	31.3	43.1
EBITDA Adj	0.5	0.5	6.8	7.0	13.6	12.2
EBIT Adj	(1.8)	(1.3)	3.3	4.4	12.4	11.2
NPAT Adj	(1.6)	(1.3)	1.6	2.4	8.5	7.6
NPAT reported	(1.6)	(1.3)	1.6	2.4	8.5	7.6
EPS Adj	(0.32)	(0.26)	0.61	0.70	1.59	1.42

Source: RaaS estimates

DCF of \$0.39/share fully diluted

We believe the discounted cashflow methodology is the most appropriate method to value BET, given the relatively early stage of the company's life. We arrive at a base case valuation of \$0.39/share (previously \$0.30/share) after applying a WACC of 14.3% (previously 15.0%) and terminal growth rate of 2.2% to our base case free cashflows. We have adjusted the beta from 2.0 to 1.9 to reflect the market's estimate that BET's 5-year monthly beta is 1.82.. This derives a valuation of \$0.39 per share, fully diluted for in the money options. Of the 63.5m options on issue, 60.5m are currently in the money, with expiry dates predominantly in 2022. We have also included Tom Waterhouse's in the money 94.7m, \$0.18/options and assume these will

be converted on 31 December 2022, delivering \$17m to BET. The terminal value accounts for \$0.22/share of our valuation. On the current share count, the DCF valuation is \$0.52/share.

We set out the DCF valuation in the following exhibit.

Exhibit 2: Base Case DCF valuation	
	Parameters
Discount rate (WACC)	14.3%
Terminal Growth Rate	2.2%
Beta	1.9
Present value of free cashflows (\$m)	98.9
Terminal value (\$m)	131.9
Less Net Debt March 31 (\$m) plus \$17m from Tom Waterhouse options conversion	(15.3)
Equity value (\$m)	246.1
Fully diluted shares (inc in the money options and full conversion of Waterhouse options)	628.7
Equity value per share	\$ 0.39
Source: RaaS estimates	

Scenario analysis

We incorporate in our model upside and downside estimates to stretch test our valuation. Our estimates for MTS on a downside and upside basis include the following:

- A downside case assumes only a much slower take-up of new accounts by existing Tom Waterhouse subscribers and 50% of new subscribers opening accounts, that the turnover pool available to on course bookmakers is \$750m, that 20% of BET's on-course customers take up MTS, the net margin is 8% and MTS retains 15% - this gives us a DCF valuation of \$0.10/share;
- One upside case assumes that 75% of Tom Waterhouse's subscribers open one new account in the FY21 and the remaining 25% in FY22, that 85% of new subscribers open an account, that the turnover pool available to on course bookmakers is \$2.0b, that 40% become MTS customers, the net margin from turnover is 13% and that MTS retains 35% - this gives a DCF valuation of \$1.40/share;
- A second upside case assumes that 100% of Tom Waterhouse's subscribers open one new account in FY21 and 95% of new subscribers open one account, that the turnover pool available to on course bookmakers is \$2.5b, that 50% of the on-course bookmakers using BET's pricing solutions also contract for MTS; that the net margin from turnover is 15% and MTS retains 50% - this generates a DCF valuation of \$2.73/share.

Our scenario analysis demonstrates that the valuation is sensitive to the development of this platform.

Exhibit 3: Scenario analysis		
	DCF per share	\$M
Base case valuation	\$0.39	246.1
Downside case	\$0.10	60.2
Upside case	\$1.40	882.9
Upside 2 case	\$2.73	1,715.9
Source: RaaS analysis		

Exhibit 4: Financial Summary

BetMakers Technology Group Ltd (BET)						Share price (15 May 2020)						A\$	0.27				
Profit and Loss (A\$m)						Interim (A\$m)						H119A	H219A	H120F	H220F	H121F	H221F
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Revenue											
Sales revenue	12.7	6.2	9.0	29.5	43.1	EBITDA	(1.9)	(0.1)	0.6	(0.0)					3.0	4.0	
Total Revenue	17.8	6.8	9.2	29.5	43.1	EBIT	(2.1)	(1.7)	(0.4)	(0.9)					2.3	3.4	
Gross Profit	1.6	4.6	7.6	17.5	24.8	NPAT (normalised)	(1.5)	(1.4)	(0.6)	(0.7)					1.5	2.2	
EBITDA	0.5	(2.1)	0.5	7.0	12.2	Minorities	0.0	0.0	0.0	0.0				0.0	0.0		
Depn	(0.2)	(0.2)	(0.1)	(0.0)	(0.0)	NPAT (reported)	(1.8)	(1.8)	(0.6)	(0.7)					1.5	2.2	
Amort	(0.2)	(1.6)	(1.7)	(1.3)	(1.0)	EPS (normalised)	(0.9)	(0.4)	(0.1)	(0.2)					0.3	0.5	
EBIT	0.2	(3.9)	(1.3)	4.4	11.2	EPS (reported)	(0.9)	(0.4)	(0.1)	(0.2)					0.3	0.5	
Interest	0.0	(0.0)	(0.4)	(0.4)	(0.4)	Dividend (cps)	0.0	0.0	0.0	0.0				0.0	0.0		
Tax	(0.5)	1.0	0.4	(1.6)	(3.2)	Imputation	30.0	30.0	30.0	30.0				30.0	30.0		
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(2.8)	(0.3)	(0.2)	(2.1)				(0.2)	0.4		
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(2.8)	(0.3)	(0.3)	(2.1)				(0.2)	0.4		
NPAT pre significant items	(0.3)	(2.9)	(1.3)	2.4	7.6	Divisions	H119A	H219A	H120F	H220F	H121F	H221F					
Significant items	(5.7)	(0.7)	0.0	0.0	0.0	Wholesale Wagering	2.6	3.1	3.2	3.7	9.9	12.1					
NPAT (reported)	(6.0)	(3.6)	(1.3)	2.4	7.6	Content & Integrity	0.2	0.3	0.9	1.2	3.4	4.1					
Cash flow (A\$m)						Other income	0.3	0.4	0.0	0.0	0.0	0.0					
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Total Revenue	3.0	3.8	4.0	4.9	13.3	16.2					
EBITDA	0.5	(2.1)	0.5	7.0	12.2	COGS	1.4	0.8	0.4	1.0	5.5	6.6					
Interest	0.1	(0.0)	(0.4)	(0.4)	(0.4)	Gross Profit	1.6	3.0	3.6	4.0	7.8	9.7					
Tax	0.0	(0.1)	(0.0)	(1.6)	(3.2)	Employment costs	1.8	1.6	2.0	2.6	3.3	4.1					
Working capital changes	(12.0)	(0.9)	(2.5)	(4.9)	(5.7)	Selling General & Admin Costs	1.6	1.6	1.3	1.4	1.4	1.5					
Operating cash flow	(11.4)	(3.1)	(2.3)	0.2	2.9	Other Opex	0.1	(0.0)	0.0	0.1	0.1	0.1					
Mtce capex	0.0	(0.0)	(0.1)	0.0	0.0	Total Operating Costs	3.5	3.1	3.3	4.0	4.8	5.7					
Free cash flow	(11.4)	(3.1)	(2.3)	0.2	2.9	EBITDA	(1.9)	(0.1)	0.3	(0.0)	3.0	4.0					
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)	(2.3)	0.2	2.9												
Equity	10.1	9.1	2.8	0.0	0.0	Margins, Leverage, Returns		FY18A	FY19A	FY20F	FY21F	FY22F					
Debt	0.0	(0.3)	0.0	0.0	0.0	EBITDA		n/a	(30.5%)	5.8%	23.8%	28.4%					
Dividends paid	0.0	0.0	(0.1)	0.0	0.0	EBIT		n/a	(56.9%)	(14.6%)	14.8%	26.0%					
Net cash flow for year	(1.3)	(1.0)	0.3	0.2	2.9	NPAT pre significant items		n/a	(42.7%)	(14.6%)	8.1%	17.6%					
Balance sheet (A\$m)						Net Debt (Cash)		1.5	(3.5)	- 3.5	- 3.3	- 0.4					
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Net debt/EBITDA (x)	(x)	2.692	n/a	- 6.451	- 0.470	- 0.035					
Cash	1.5	0.5	0.6	0.8	3.7	ND/ND+Equity (%)	(%)	n/a	15.6%	11.5%	9.8%	1.1%					
Accounts receivable	5.4	1.2	1.5	4.9	7.1	EBIT interest cover (x)	(x)	(0.2)	n/a	n/a	0.1	0.0					
Inventory	0.0	0.0	0.0	0.0	0.0	ROA		n/a	(16.7%)	(4.3%)	12.8%	27.2%					
Other current assets	0.1	0.1	0.1	0.1	0.1	ROE			(22.6%)	(5.9%)	8.4%	22.2%					
Total current assets	7.0	1.8	2.3	5.8	10.9	ROIC		1.1%	(49.2%)	(14.4%)	36.5%	65.1%					
PPE	0.3	0.2	0.2	0.1	0.1	NTA (per share)		0.07	0.01	0.03	0.03	0.04					
Intangibles inc Goodwill	2.0	14.5	14.5	14.5	14.5	Working capital		2.6	0.1	1.3	2.9	4.1					
Investments	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		14.8%	1.3%	13.6%	9.8%	9.6%					
Deferred tax asset	5.4	6.5	7.0	7.0	7.0	Revenue growth		n/a	(61.6%)	34.9%	221.1%	45.7%					
Other assets	1.3	7.7	7.6	9.5	13.0	EBIT growth pa		n/a	n/a	n/a	(425.7%)	156.1%					
Total non current assets	9.0	28.8	29.2	31.7	34.6	Pricing		FY18A	FY19A	FY20F	FY21F	FY22F					
Total Assets	15.9	30.6	31.5	37.0	45.6	No of shares (y/e)	(m)	162	413	473	473	568					
Accounts payable	2.8	1.2	0.2	2.0	3.0	Weighted Av Dil Shares	(m)	162	232	534	534	534					
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(3.68)	(1.55)	(0.28)	0.78	1.60					
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(0.19)	(1.26)	(0.26)	0.70	1.42					
Other current liabilities	0.3	6.2	0.3	0.3	0.3	EPS growth (norm/dil)		n/a	n/a	n/a	-364%	104%					
Total current liabilities	3.1	7.4	0.6	2.3	3.4	DPS	cps	-	-	-	-	-					
Long term debt	0.0	4.0	4.1	4.1	4.1	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Other non current liabs	0.1	0.1	0.1	0.1	0.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Total long term liabilities	0.1	4.1	4.2	4.2	4.2	Dividend imputation		30	30	30	30	30					
Total Liabilities	3.2	11.4	4.8	6.5	7.6	PE (x)		-	-	-	33.8	16.6					
Net Assets	12.7	19.2	26.7	30.4	38.0	PE market		15.2	15.2	15.2	15.2	15.2					
Share capital	32.5	42.4	51.1	51.1	51.1	Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	122.3%	8.9%					
Accumulated profits/losses	(21.2)	(24.0)	(25.3)	(21.5)	(14.0)	EV/EBITDA		76.8	(54.4)	240.1	18.3	12.3					
Reserves	1.4	0.7	0.9	0.9	0.9	FCF/Share	cps	(7.0)	(0.7)	(0.5)	0.0	0.5					
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(3.8)	(35.8)	(55.9)	795.1	52.3					
Total Shareholder funds	12.7	19.2	26.7	30.4	38.0	Free Cash flow Yield		(26.5%)	(2.8%)	(1.8%)	0.1%	1.9%					

Source: RaaS Advisory



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

Effective Date: 26th November 2018



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

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 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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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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