

5 July 2021

BetMakers Technology Group

Goliath walks away from offer, but still wants to deal

BetMakers Technology Group (ASX:BET) is a B2B software services business focussed on servicing the wagering market and race operators globally. In May, the company submitted an indicative proposal to acquire Tabcorp's (ASX:TAH) wagering and media business for \$4b, including \$1b cash and \$3.0b in BetMakers shares. Today, BET noted it had received notification from Tabcorp (ASX:TAH) that it had decided to pursue a demerger strategy for its businesses. TAH has rejected other offers for its wagering business, but stated that, as a result of the engagement with BET, TAH will continue discussions on commercial opportunities in international markets with BET. BET noted that it believed these opportunities to be significant. As we highlighted in our report of 22 June, [Eyeing the prize in the US wagering market](#), BET is in the box seat to benefit from the introduction of fixed odds wagering in the US, a market which we estimate will grow to US\$86b a year within 10 years. Our DCF valuation of \$2.42/share incorporates this potential.

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. BetMakers also generates revenue from the content distribution deals it has in place with international racing authorities such as US Greyhounds and US Horse Racing and UK Greyhounds which are more aligned to share of turnover. The acquisition of Sportech delivers additional SaaS-style revenues from its tote technology as well as a share of turnover from its tote operations. It will also establish BET as a pari-mutuel operator across 100 US racetracks, casinos and other venues in 36 states ahead of the opportunities to develop a fixed odds wagering business initially in New Jersey.

Strategically placed to capitalise on new US fixed odds opportunity

As we highlighted in our 22 June report and concurrently published industry report, [Fixed Odds Presents an Opportunity to Scale](#), BET, through its exclusive 10-year Fixed Odds agreement on thoroughbred horse racing in New Jersey, is strategically placed to capitalise on this emerging opportunity in the US. The Fixed Odds Bill has now progressed through both the New Jersey Senate and General Assembly and has been sent to the NJ Governor for approval. New Jersey was the first state to introduce Fixed Odds Sports Betting in 2018 and is now the leading state in the US in terms of handle. We see a similar pattern emerging in the US with BET being a key player in the market. PointsBet Holdings (ASX:PBH) has already recognised this, appointing BET as its exclusive supplier of Fixed Odds betting on horse racing in New Jersey. TAH likely recognises the stronghold BET has created in the US.

DCF valuation is \$2.42/share (\$1.99b), focus on the US opportunity

Our base case valuation is \$2.42/share and captures the broader US fixed odds wagering opportunity. We assume BET maintains the ~25% share of market currently commanded by the Sportech tote business, except in NJ where it holds exclusivity for the next 10 years.

Historical earnings and RaaS Advisory estimates (in A\$m)

Year end	Revenue	EBITDA rep	NPAT rep.	EPS* (c)	EV/Sales (x)
06/19a	6.8	(2.1)	(3.6)	(1.26)	63.9
06/20a	9.2	0.8	(2.1)	(0.33)	61.4
06/21e	19.8	(4.2)	(5.5)	(0.53)	38.5
06/22e	94.0	15.4	8.3	1.02	9.2

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

Share details

ASX Code	BET
Share Price (2 July)	\$1.045
Market Capitalisation	\$848.9M
Shares on issue	812.3M
In the money options on issue	60.6M
Performance rights on conversion	186.7M
Net cash 31 March	\$125M
Free float	~67%

Share price performance (12-months)



Upside Case

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

Downside Case

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

Catalysts

- NJ Fixed Odds horse wagering bill becomes enacted
- Evidence of growth in US fixed odds wagering

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FINANCIAL SERVICES GUIDE

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- how we are paid, and
- complaint processes

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