bet-at-home

A cautious tone ahead of German regulation

FY19 results and outlook

Travel & leisure

bet-at-home (BAH) is an established European online sports betting and e-gaming provider. It largely operates in unregulated grey markets that are characterised by strong cash flow, although they also carry commensurately higher regulatory risks. Upcoming legislation in Germany will provide clarity but will likely result in responsible gambling restrictions and potentially higher taxes. FY19 results were above our estimates but management has guided to a more conservative outlook for FY20 and we now forecast a revenue decline of 10.7% in FY20. The FY19 dividend is more modest than previous years (€2 vs our €4), as BAH is clearly being prudent in view of regulatory uncertainties. BAH trades at 7.4x EV/EBITDA, 12.3x P/E for FY20, with a 7.0% dividend yield.

Year end	Revenue (GGR**) (€m)	EBITDA (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	143.4	36.2	4.65	6.50	7.4	19.0
12/19	143.3	35.2	4.26	2.00	8.1	5.8
12/20e	128.0	26.2	2.79	2.40	12.3	7.0
12/21e	130.5	27.3	2.93	2.88	11.7	8.4

Note: *EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **GGR are gross gaming revenues

Navigating Europe's grey markets

BAH's main markets are Germany (35% of gross win), Austria (30%) and Eastern Europe (17%). In FY19, the mix of gross gaming revenue (GGR) between sports and e-gaming (casino, poker) was 41/59%, demonstrating a successful cross-selling strategy. Formal licensing has not been introduced in many of its main markets, where BAH pays taxes and VAT as applicable and operates under its EU licence. Regulatory risks are high, as shown by IP blocking for e-gaming in Poland and Switzerland. There is still uncertainty in Germany until regulation in mid-2021.

German e-gaming (casino) is single largest variable

Over the past few years, BAH maintained stable levels of EBITDA (€33–36m) despite the ongoing regulatory challenges. However, guidance for FY20 (€120–132m GGR and €23–27m EBITDA) indicates a significant step change and we have reduced our FY20 GGR and EBITDA forecasts by 10% and 20% respectively. The FY19 dividend reflects this cautious outlook and we now forecast a €2.4 dividend in FY20 (vs €4 previously). Prospects for German e-gaming (20% of net gaming revenues) remain the single largest variable but, given the lack of clarity, our forecasts (and guidance) assume no major changes to the current regime.

Valuation: 7.0% dividend yield for FY20

BAH trades at 7.4x EV/EBITDA and 12.3x P/E for FY20e, which is towards the top of the peer group, with a 7.0% dividend yield. Regulatory uncertainty has weighed on sentiment and greater clarity surrounding German e-gaming would be a key catalyst for the stock, although a key risk is higher than expected tax rates for German e-gaming, or a ban in the interim period (until July 2021). Another key risk is clearly the potential banning of sports events due to the coronavirus.

11 March 2020

Price	**€34.3**
Market cap	**€240m**

Net cash (€m) at December 2019	46.8
Shares in issue	7.0m
Free float	47.3%
Code	ACXX
Primary exchange	XETR
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(27.9)	(33.2)	(39.2)
Rel (local)	(7.2)	(16.6)	(33.5)
52-week high/low		€73.60	€33.50

Business description

Founded in 1999, bet-at-home is an online sports betting and gaming company with c 300 employees. It is licensed in Malta and headquartered in Dusseldorf, Germany. Since 2009 bet-at-home has been part of Betclic Everest, a privately owned French online gaming company.

Next events

Q120 results	4 May 2020
Q220 results	3 August 2020

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Edison profile page

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Investment summary

Well-established online gaming operator

BAH is an online sports betting and gaming company, licensed in Malta and headquartered in Dusseldorf, Germany. It was co-founded in 1999 in Austria by Franz Ömer and Jochen Dickinger, who have a 1.0% and 2.8% stake respectively. The company listed in Germany in 2004 and in 2009, Betclic Everest, a private French online gaming and sports-betting group, acquired a 49.2% stake. At end FY19, Betclic Everest had a 51.7% stake.

BAH's core markets are Germany, Austria and Eastern Europe. Most of these countries have limited formal gaming regulation and BAH operates through its sports betting and gaming licences issued in Malta. The company pays taxes and VAT as applicable, but regulatory risks are very high and there is particular uncertainty surrounding the impact of regulation on German e-gaming (estimated 20% of EBITDA). We provide a fuller analysis of German regulation on page 7.

Investment considerations and sensitivities

- **Strong market positioning:** as evidenced by its 5.2 million customers, BAH benefits from strong brand recognition and an attractive product offering across its core markets. The company has successfully cross-sold into e-gaming (casino), which now comprises 59% of GGR.
- **FY19 figures above guidance, but FY20 more conservative:** BAH reported €143.3m FY19 GGR and €35.2m EBITDA, which was above guidance (€130–143m and €29–33m respectively). This equated to flat revenues, not helped by the lack of major sporting events in FY19, as well as IP blocking in Switzerland. Management has issued new guidance for FY20 (€120–132m GGR and €23–27m EBITDA), which is lower than our previous estimates and reflects the loss the Swiss market (from mid-2019) and continuing challenges in Poland.
- **Secular growth:** the European online gambling is a secular growth market, with a CAGR of 6.5% to 2023 (source: H2 Gambling Capital (H2GC), 2019). Following a more cautious outlook for FY20 (as above), we forecast 2% revenue growth in FY21 as BAH participates in general market momentum. Our forecasts include more restrictive terms for German sports betting, but assume there is no ban on e-gaming until full regulation in July 2021 (where there is some uncertainty for the period between January 2020 and June 2021). We assume an unchanged German tax regime and we are not including any major impact from the coronavirus (eg cancellation of key sports fixtures).
- **High cash conversion and 7.0% dividend yield**: the online gaming industry is characterised by a capital light model and high cash flow generation; BAH has historically delivered strong operating cash flow (cash conversion of c 80%). This is despite ongoing regulatory changes and increases in local taxes, which have affected revenue growth and EBITDA margins. Including one-off additional taxes of €13.9m, the company reported end FY19 net cash of €46.8m (excluding €8m estimated customer balances) and we estimate operating cash flow of c €20m per year in future. This underpins a strong dividend yield; we estimate 7.0% for FY20. In our view, the dividends are an important feature for BAH's parent company, Betclic Everest (Betclic), which has been investing heavily in technology. BAH's FY19 dividend of €2 is lower than previous years as the company is being cautious in the light of regulatory uncertainty and our forecasts assume a modest growth in the dividend from this point.
- **Competitive markets:** the online gaming market is highly fragmented and successful companies typically need to invest heavily in marketing. BAH has been no exception and marketing spend has historically been over 30% of revenues (25–30% more recently), with higher levels of spend ahead of critical sporting fixtures (eg FIFA World Cup). To maintain its

customer base, we would expect this level of spend to continue (we forecast 27.5% annually). Online gaming is also maturing in many European markets and there is a risk the company will not be able to grow at the expected rate without increasing marketing spend.

- **Regulatory uncertainty, particularly in Germany**: the key sensitivity for BAH is regulatory uncertainty across all core markets. The most drastic scenario is a situation where governments implement IP blocking (eg e-gaming products in Poland and Switzerland) or where taxes are significantly increased. At present, the framework remains unclear in Germany (35% of GGR), where full regulation for both sports and e-gaming is expected from July 2021 (e-gaming is currently illegal). Legislation will provide clarity but will almost certainly bring responsible gambling restrictions and could also result in higher taxes. More generally, online regulators have been imposing fines, injunctions or both on a number of companies for a variety of different reasons (social responsibility measures, anti-money laundering (AML), advertising breaches etc.) and it is very likely BAH will continue to receive occasional fines (currently the company is disputing injunctions in the Netherlands and Germany).
- **Corporate tax increases:** due to the Maltese operating structure, BAH has historically been able to pay an effective tax rate of c 8%. In September 2019, however, the company announced it was in tax discussions with the Austrian tax authorities, which culminated in €11.9m of back payments for 2013 to 2018 (paid in Q419). Excluding one-off payments, the effective tax rate for FY19 was 18.2% and we assume a similar level in future.
- **Betclic majority ownership:** at a corporate level, we note the company is majority owned by Betclic and although this certainly brings many benefits (in the form of better purchasing power etc), it is important to note that a majority shareholder may not always have the same interests as outside investors.

Valuation: 7.0% dividend yield for FY20e

BAH's shares have declined by 35%year to date with regulatory ambiguity in Germany a major investment consideration. At present, there is a great deal of uncertainty on the legality of German e-gaming and, in our view, a major catalyst for the shares would be concrete evidence of positive regulation in Germany.

The most straightforward way to value BAH is via a peer group comparison and Exhibit 9 compares it to many of the European gaming operators. For FY20e, BAH trades at 12.3x P/E and 7.4x EV/EBITDA, which is towards the top end of the peer group.

We note that although its closest competitor in Germany is bwin (GVC), GVC's scale and retail business make the overall comparison slightly less relevant in our view. Within the group, we believe the nearest peers are the Scandinavian players (Kindred, Betsson), which operate throughout Europe and have relatively high exposure to grey markets (unregulated, but not illegal).

We have also performed a DCF with a terminal growth rate of 2% and a terminal EBITDA margin of 20%, vs 24.5% in FY19. Using a WACC of 8.0% produces a value per diluted share of €48. Our valuation assumes there are no major negative changes to the current trading environment. If we flex the WACC to 9% to account for a higher risk profile, our DCF would be €42. Our core €48 DCF valuation equates to 11.1x EV/EBITDA and 17.2x P/E for FY20e, which is clearly at the top end of the peer group, but still equates to a dividend yield of 5.0% for FY20e.

Financials: Strong operating cash flow and dividends

FY19 GGR were flat, not helped by the lack of major sporting events (vs FIFA world cup in FY18) as well as IP blocking in Switzerland from mid-July 2019 (c 2% of GGR). For FY20, the company should benefit from UEFA Euro 2020, although the impact of Switzerland's IP blocking will only be lapped in H220 and BAH has provided revenue guidance of €120–132m for FY20.

As required by the regulator, BAH has recently applied for a sports-betting licence in Germany and our forecasts assume that German sports-betting will be affected by new licence restrictions (eg wagering limits and no in-play betting). Importantly, we assume that there is no interim ban on German e-gaming ahead of next year's regulation and we further assume that the tax rates will not increase going forward.

Altogether, for FY20 we forecast a GGR decline of 10.7% and EBITDA of €26.2m as the company continues to feel the impact of the closure of the Swiss market, as well as continuing challenges in Poland. For FY21 we forecast 2% GGR growth as restrictions in Germany are offset by general market growth.

In line with recent trends, we forecast overall marketing spend of c 27.5% of GGR and our forecast EBITDA margin is 20.4% for FY20. Altogether we estimate that adjusted EPS will decline by 34% in FY20, before returning to c 5% annual growth for FY21 and FY22.

BAH ended FY19 with net cash of €46.8m (excluding estimated €8m customer balances) and has proposed a €2 dividend to be paid in May 2020 (this is lower than our previous estimate of €4). In line with the company's cautious outlook, we have also lowered our dividend estimates for FY21 to €2.4 (from €4 previously).

Following the publication of FY19 results, our estimate changes are shown in Exhibit 1.

Exhibit 1: Estimate changes

	GGR (€m)			EBITDA (€m)			EPS (€)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2019	142.9	143.3	0.3	32.9	35.2	7.0	3.31	4.26	28.7
2020e	143.1	128.0	(10.6)	33.1	26.2	(20.8)	3.37	2.79	(17.2)
2021e	146.0	130.5	(10.6)	34.5	27.3	(20.9)	3.52	2.93	(16.8)

Source: Edison Investment Research

Generating cash flow across grey markets

BAH was founded in Austria in 1999 as a pure online sports betting operator. Benefiting from the growth of the online gaming market throughout Europe, its portfolio has expanded to include online casino, live casino, Vegas games, poker and virtual sports. The current mix of GGR between sports and e-gaming is 41/59%, demonstrating successful cross-selling into gaming. The BAH brand name is very strong and its 5.2 million customers are testament to an attractive product offering and competitive odds.

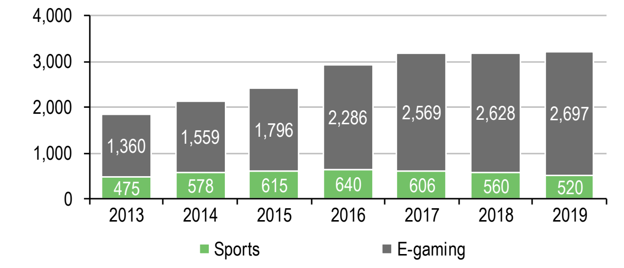
In terms of technology, BAH has developed its own front-end (CRM etc) capabilities and outsources much of the 'back-end' to other platform providers. These include Net Entertainment (casino, slots), Microgaming (sports), Evolution gaming (live casino) and Playtech. As is typical for gaming companies, these arrangements are based on a revenue-sharing agreement, with costs reflected in 'other operating expenses'. One major advantage of the Betclic relationship seems to be better purchasing power as the third-party provider fees appear to be slightly lower than peers.

The company's core markets are Germany (35% of gross win), Austria (c 30%) and Eastern Europe (17%). A few of its smaller markets are fully regulated (eg UK), but formal licensing has not yet been introduced in many of its main markets, where it pays taxes and VAT as applicable and operates under its EU licence (Malta). Regulatory risks are high, as shown by IP blocking in Poland and Switzerland and there is continued uncertainty surrounding the future of e-gaming in Germany (see pages 7 and 8).

Products: Successful cross-sell into e-gaming

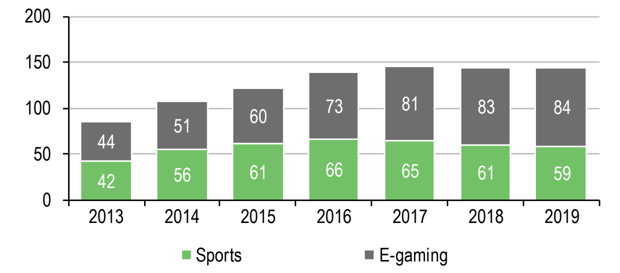
For FY19, gaming and betting volumes grew by 0.9% to €3,217m, with GGR flat at €143.3m. The lack of growth was predominately due to the absence of any major sporting events (vs FIFA World Cup in FY18), as well as IP blocking in Switzerland, which became effective in mid-2019.

Exhibit 2: Betting and gaming volume (€m)



Source: bet-at-home. Note: 2019 breakdown is estimated.

Exhibit 3: Gross betting and gaming revenue (€m)



Source: bet-at-home

Sportsbook (41% of GGR)

bet-at-home.com is one of the largest sports-betting providers in Europe. In 2019, the sportsbook comprised 41% of GGR. During the year, sports bets were placed on more than 473,000 events in over 80 types of sport, ranging from football to tennis, volleyball and ice hockey to motorsports. Bets range from single bets to combi-bets or system bets and c 60% of the sportsbook is from in-play. BAH's products are available in 11 different languages.

In 2019, GGRs (Hold) for the product sports betting amounted to €59m.

E-gaming: 59% of GGR

E-gaming comprises 59% of total GGR, indicating a successful strategy to cross-sell from sports to e-gaming. The product suite includes casino, poker, Vegas games and virtual sports. This strategy is similar to peers such as bwin (GVC) and, by contrast, pure casino operators are rarely able to meaningfully replicate the cross-sell in the other direction (from casino to sports).

- **Casino (over 50% of GGR):** after the introduction of sports betting, casino was launched in 2005 as the second product. Casino includes classic games such as roulette, blackjack, baccarat and slots. Live casino was introduced in 2011 on the Evolution Gaming platform and comprises c 20% of e-gaming.
- **Virtual sports:** BAH launched virtual sports betting in April 2015, a type of betting that revolves around virtual simulations on various sports types. This includes high-quality 3D videos as well as authentic teams for a realistic gaming experience. A random generator ensures reliability of the results. Products within this segment include virtual football league, virtual basketball league, virtual tennis open, virtual dog racing and virtual horse classics.
- **Vegas:** this offering replaced the Games channel in 2017 and is intended to be an introduction to online gaming, requiring limited experience or skills. Products include table and card games, slots and real casino classics. Slots that are based on well-known TV shows or Hollywood blockbusters are especially popular.
- **Poker:** through a second-tier subsidiary, BAH is part of one of the world's largest poker networks (i-Poker, Playtech). Games include Texas Hold'em, Six Plus Hold'em, Omaha High, Omaha Hi/Lo and Speed Poker. From this product, BAH also effectively cross-sells into casino, with slots and blackjack available on the poker software.

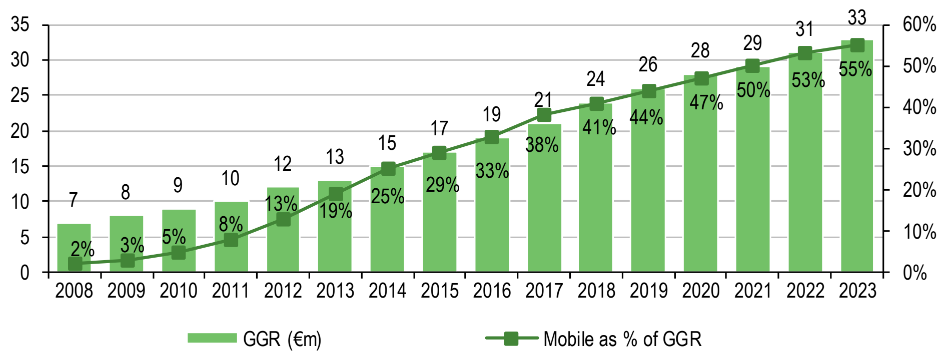
European gaming markets

6.5% CAGR in European online gaming

According to H2GC, the European online sports betting and gaming market is expected to grow at a 6.5% CAGR between 2018 and 2023, to c €33bn. Europe comprises approximately half of the global online betting and gaming market.

As shown in Exhibit 4 below, a key driver for online gaming growth has been increased mobile penetration rates and H2GC estimates mobile usage in Europe for gaming will rise from 41% in 2018 to 55% in 2023. In this context, BAH derived 60% of its GGR in FY19 from mobile users and is clearly a beneficiary from increased mobile penetration.

Exhibit 4: Development of the European online gaming market



Source: H2 Gambling Capital 2019 (November 2019 BAH presentation)

bet-at-home's key markets

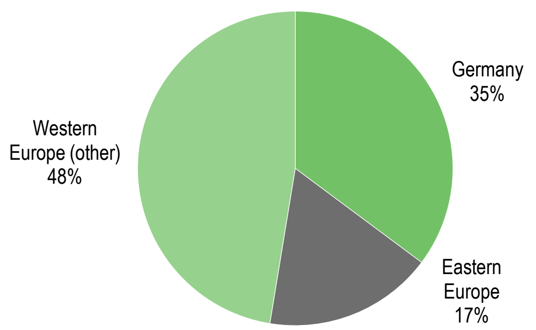
Gaming legislation varies widely across Europe and BAH is focused mainly on grey markets, which are characterised by ambiguous regulation. By gaming volume, these markets comprise Germany (35% of gross win), Austria (c 30% of gross win) and Eastern Europe (17% of gross win).

In terms of NGR, we estimate that Germany comprises 30% (20% gaming and 10% betting) and Austria comprises 24% (14% gaming and 10% betting). See below for further details on both these markets.

Given the lack of formal legislation across most of its markets, BAH typically operates through its sports-betting and gaming licences issued in Malta. Under EU law, these licences are effective in all EU member countries due to the freedom of movement within the EU, as long as online gaming and sports betting is legal in the respective member country.

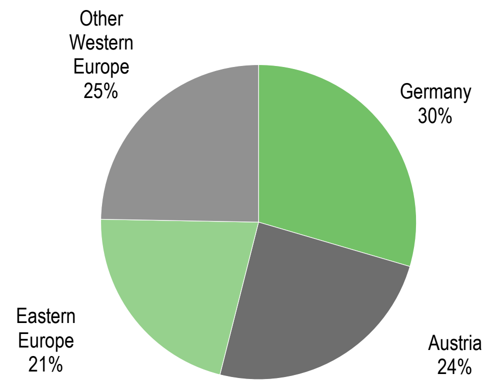
In some markets (such as Poland), BAH has been subject to IP blocking for e-gaming, which is generally considered a violation of EU law. Switzerland has also blocked online gaming and BAH exited the market in mid-2019. Because Switzerland is not part of the EU, it is therefore not bound by the EU free-trade laws and international operators are not likely to dispute the legality of this ruling.

Exhibit 5: Estimated gaming volume by country FY19



Source: bet-at-home. Note: Eastern Europe comprises Bosnia and Herzegovina, Croatia, Montenegro, Poland, Serbia, Slovakia and Slovenia. Western Europe comprises Austria, Cyprus, Finland, Ireland, Liechtenstein, Malta, Netherlands, Sweden, Switzerland and the UK.

Exhibit 6: Estimated NGR breakdown for FY19



Source: bet-at-home, Edison estimates. Note: Eastern Europe comprises Bosnia and Herzegovina, Croatia, Montenegro, Poland, Serbia, Slovakia and Slovenia. Western Europe comprises Cyprus, Finland, Ireland, Liechtenstein, Malta, Netherlands, Sweden, Switzerland and the UK.

Germany: Uncertainty around e-gaming (35% of gross win)

- **Tax rate**: 5% turnover tax on sports; 19% VAT on e-gaming.
- **Estimated market size**: €1.7bn.
- **Regulatory bodies**: Schleswig-Holstein, ITG Licence Authority.

Germany is BAH's largest market, comprising 35% of total turnover. At the moment, it is a grey market, where online gaming companies operate through either a Schleswig-Holstein licence or another European licence (typically Maltese) and pay VAT on casino revenues and a turnover tax on betting. To date, legislation has been very confusing and there has been a high level of disagreement among Germany's member states. The most recent industry consensus is that there will be full regulation of both sports and e-gaming from July 2021, although there are a number of restrictions and tax implications.

- **Sports-betting licences with restrictive terms**

In March 2019, German state ministers approved amendments to the Interstate Treaty, establishing an interim sports betting licensing regime from January 2020. The amendments also lifted the cap on licences in preparation for a future agreement on a more permanent regime from June 2021. It is important to note that these licences carry restrictive terms, particularly an interim ban on e-gaming (see below) and restrictions on live play betting, as well as the setting of monthly wagering limits for players (€1,000 per month across all sites).

Despite these restrictive terms BAH has applied for sports-betting licences and the State of Hesse has stated that it has already achieved a high channelisation rate (ie moving from unregulated to legal). It is notable that Mr Green (William Hill) has ceased its betting offering in Germany and bet365 has applied for a betting licence and ceased all e-gaming operations in Germany.

- **E-gaming will be regulated from mid-2021, but illegal in the interim period**

The biggest area of confusion surrounds online gaming (c 20% of BAH's total net gaming revenues), with online casino and poker technically illegal under the current reading of the Interstate Treaty. In March 2019, the draft amendments maintained a federal ban on online casino set in 2012, with the exception of Schleswig-Holstein (see below) and in December 2019, the interior minister of Hesse (the state in charge of licensing) confirmed that online gaming will be prohibited as part of fulfilling the temporary betting licence obligations. Somewhat to the contrary, an announcement in January 2020 confirmed all 16 states have agreed in principle that the permanent regime (from 1 July 2021) would include e-gaming (casino and poker), not just betting as originally envisaged. Although this is clearly far better than a total ban, there will be staking limits and potential tax increases and there are still doubts over the legality of e-gaming in the interim period (from January 2020 to June 2021).

We estimate that c 20% of BAH's net gaming revenues are derived from German e-gaming and therefore the ability to operate with legal certainty throughout Germany would be a huge positive for the company. We note that German e-gaming is subject to 19% VAT; we expect this rate to be reviewed in due course. In comparison, sports betting (c 10% of BAH's NGR) is taxed at 5% of turnover, which is equivalent to c 45% tax on GGR.

- **Injunctions: potential legal action for sports and casino**

BAH is subject to a couple of e-gaming related injunctions (Berlin, Federal State of Hesse), although it has continued to offer casino products in those regions as it believes the injunctions are a violation of EU law. There has been no conclusive result to any of these injunctions.

Austria: Business as usual (30% of gross win)

- **Tax rate**: 2% turnover tax on sports; 40% tax on e-gaming GGR.
- **Estimated market size**: €330m.
- **Regulatory body**: Federal Ministry of Finance.

There is limited formal gaming regulation in Austria and online gaming is dominated by Casino Austria, which is partially state owned. In February 2018, the Austrian Ministry of Finance published a draft bill on the amendment of gambling laws. This draft envisaged that online gaming providers without an Austrian licence would be blocked by ISPs from October 2018. However, the draft was subsequently repealed days later and no amendment has since been published.

The government intends to include online sports bets in the gambling law, with the tax income directed towards sport. A new regulation for online casinos in Austria is also being discussed but there is no clarity on when a new draft law will be published.

Management and group structure

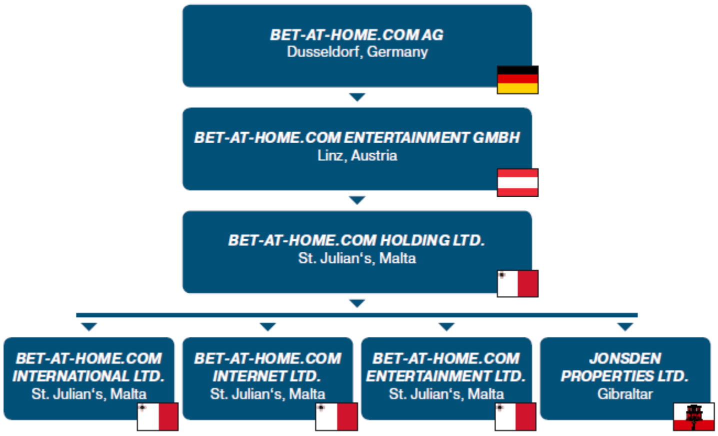
Betclic Everest is majority shareholder

bet-at-home.com was founded in 1999 in Austria and listed on the Frankfurt Stock Exchange in 2004, with the founders selling 3.5m shares. In 2009, Betclic Everest (Betclic) acquired a 49.21% stake from the founders and it holds a 52% stake. Betclic is a leading French group specialising in online gambling and sports betting, for whom BAH provides regional strength in Central/Eastern Europe.

Structured to operate via Maltese licence

bet-at-home.com is based in Düsseldorf. The company holds 100% of bet-at-home.com Entertainment, which is based in Linz, Austria, and is essentially the main operating company in charge of the technology. The business in Malta is part of bet-at-home.com and Maltese licences enable BAH to operate throughout the EU, due to freedom of trade.

Exhibit 7: Corporate structure



Source: bet-at-home

Management and board

BAH's management board consists of two co-CEOs who report directly to a three-member supervisory board, some of whom are closely linked to the parent company, Betclic.

Unlike many of its European peers, BAH does not operate any share incentive schemes for employees and management and the only member of the board and management team that holds stock is co-CEO Franz Ömer, with a 1% stake. Instead, BAH's major shareholder (Betclic) has approved variable compensation for the members of the management board.

Exhibit 8: Board and management team

Name	Role	Background
Franz Ömer	Founder and co-CEO	Franz Ömer has founded several technology and gaming companies, including bet-at-home.com and previously worked in international consulting for business process reengineering.
Michael Quatember	Co-CEO	Michael Quatember worked for 11 years at KPMG Austria focusing on auditing and business advisory. From February 2009 until October 2012 he was head of finance at bet-at-home.com and in November 2012 he was elected to the management board.
Martin Arendts	President of the supervisory board	Martin Arendts is the founder and owner of ARENDTS ANWÄLTE law firm. He specialises in capital investments as well as gaming and betting laws.
Isabelle Andres	Supervisory board member	Isabelle Andres is CEO of Karina Square, a company providing consultancy services in the digital and media sector. She was previously CEO of Betclic Everest Group and has held positions in the digital and media sector.
Jean-Laurent Nabet	Supervisory board member	After heading M&A at Vivendi Universal, Mr Nabet was an investment banker at Deutsche Bank in Paris. Since January 2008 he has been the director of the investment department at Financiere Lov. Financiere Lov is a holding company of Stephane Courbit's and key shareholder of the Betclic Everest Group.

Source: bet-at-home

Sensitivities

As detailed above, the key sensitivity for BAH is the changing regulatory framework within the sector and across all markets. The most drastic scenario is where governments implement IP blocking (eg e-gaming products in Poland and Switzerland) or where taxes are significantly increased. At present the main regulatory risk comes from restrictions and uncertainty within the Germany market. Additional sensitivities include:

- **Injunctions and increased scrutiny by regulators:** BAH has been subject to a number of injunctions in Germany and the Netherlands. Although the company is disputing the fines and continues to trade, there is a risk it could be forced to cease its product offerings in the respective regions. More generally, the gaming sector has been subject to increased scrutiny by regulators globally. This has been particularly seen in mature regulated markets such as the UK, which has been enforcing fines for social responsibility, know your customer, source of funds and AML. Although BAH is not heavily invested in the UK, there are signs that other countries could follow suit.
- **Online gaming growth is slowing in mature markets**: BAH has historically grown its business across numerous unregulated markets, which continue to show signs of expansive growth. However, as these markets mature, it is possible that growth rates will slow (similar to the UK).
- **Competitive markets:** BAH operates in highly competitive and fragmented markets and some of its peers have far greater scale (eg GVC, Kindred, Betsson). To maintain momentum, it is possible BAH will likely need to raise its marketing spend and thereby depress margins and cash flow.
- **Major shareholder:** BAH is majority owned by Betclic Everest SAS, a private French gaming business. Although there are clearly many associated advantages (better purchasing power etc), there is a risk that Betclic's interests may not be aligned with other shareholders. Another by-product is the relative lack of liquidity in the shares.

Valuation: 7.0% dividend yield

Peer group valuation

BAH's shares have declined 35% in the year to date, with regulatory uncertainty in Germany the main negative drag on sentiment (apart from general market malaise due to coronavirus). For the industry in general, it is clearly positive that Germany looks set to regulate both sports betting and e-gaming, but the restrictions surrounding regulation could result in lower revenues (eg if in-play betting is not allowed). Furthermore, should the coronavirus result in the cancellation of sports fixtures, this will impact all sports betting companies. Our forecasts do not assume this will happen.

The most straightforward way to value BAH is via a peer group comparison and Exhibit 9 compares it to many of the European gaming operators. Following the recent share price declines across the sector, BAH trades towards the top of peer group on a P/E and EV/EBITDA basis, although its 7% dividend yield is higher than average for the group.

Although its closest competitor in Germany is bwin (GVC), GVC's scale and retail business make the overall comparison slightly less relevant in our view. Within the group, we believe the nearest peers are the Scandinavian players (Kindred, Betsson), which operate throughout Europe and have significant exposure to grey markets.

Exhibit 9: Peer group valuation

Name	Quoted Currency	Market cap (m)	EV/EBITDA FY20 (x)	EV/EBITDA FY21 (x)	P/E FY20 (x)	P/E FY21 (x)	Div Yield FY20 %	Div Yield FY21 %
888 Holdings	GBp	369	4.8	4.3	9.1	8.4	6.7	7.3
bet-at-home	**EUR**	**240**	**7.4**	**7.1**	**12.3**	**11.7**	**7.0**	**8.4**
Betsson	SEK	5,427	4.3	4.4	7.2	7.4	6.9	6.7
Flutter	GBp	6,365	16.0	14.0	24.3	21.0	2.5	2.6
GVC Holdings	GBp	4,127	7.5	6.7	9.0	7.3	5.6	6.1
Kindred Group	SEK	9,576	5.5	5.7	8.4	8.9	9.3	10.2
Playtech	GBp	679	3.1	2.9	6.0	5.3	7.4	7.8
William Hill	GBp	1,121	6.4	5.6	10.6	8.4	6.4	6.7
Average			**6.9**	**6.3**	**10.9**	**9.8**	**6.5**	**7.0**

Source: Refinitiv Note: Priced at 11 March 2020.

DCF

We have also performed a DCF with a terminal growth rate of 2% and a terminal EBITDA margin of 20%, vs 24.5% in FY19. Using a WACC of 8.0% produces a value per diluted share of €48. Our core forecasts assume there are no major negative market changes (such as further IP blocking and/or higher taxes in core markets, specifically in Germany). We also assume no major sports match cancellations due to the coronavirus. If we flex the WACC to 9% to account for a higher risk profile, our DCF would be €42.

Our core €48 DCF valuation equates to 11.1x EV/EBITDA and 17.2x P/E for FY20e, which is at the top end of the peer group, but still equates to a dividend yield of 5.0% for FY20e.

Financials

Earnings: Returning to growth in FY21

FY19 results were above guidance, with flat GGR compared to FY18. Over the past few years, BAH has managed to maintain stable levels of EBITDA (€33–36m) despite the ongoing tax increases and other regulatory challenges. This includes IP blocking in Poland and Switzerland. However, guidance for FY20 (€120–132m GGR and €23–27m EBITDA) indicates a lower level of

EBITDA and we have lowered our FY20 revenue forecast by 10% and our EBITDA forecast by 20%.

The upcoming regulation of the German market will bring clarity but is also likely to negatively impact revenues in the near term, due to responsible gambling measures (see above). Including these restrictions, we forecast a GGR decline of 10.7% in FY20 before returning to growth of 2% thereafter, as the company participates in general market growth. We have assumed there is no ban on German e-gaming ahead of full regulation. On our estimates, German e-gaming comprises 20% of NGR and therefore a ban would likely impact EBITDA by c 10% for both FY20 and FY21.

Our forecast EBITDA margin is 20.4% in FY20 and 20.9% in FY21 and we forecast an adjusted EPS decline of 34% in FY20 before returning to a 5% growth in FY21.

- **Revenues:** as discussed above, FY19 revenues were affected by the lack of any major sporting events, as well as IP blocking in Switzerland (2% of GGR), which was effective from mid-2019. As a result, sports GGR fell by 2.5% and e-gaming grew by only 1.8% in FY19. This led to a flat GGR in FY19. Considering management's guidance, we forecast a 10.7% GGR decline in FY20 before returning to a 2% growth in FY21. Similar to prior periods, we forecast a sports win margin of c 10.5%. Our forecasts assume no major regulatory changes from this point and specifically we have not excluded German e-gaming.
- **Gaming taxes and VAT:** gaming taxes and VAT amounted to €25.8m in FY19, which represents 18% of GGR. The key components are sports turnover taxes in Austria and Germany (2% and 5% respectively), a 40% GGR tax for Austrian e-gaming and 19% VAT on German e-gaming. Our forecasts assume these rates remain stable, although there could be increased taxes from other markets, as they begin to regulate and impose GGR taxes (eg Netherlands from FY21).
- **Marketing costs**: due to numerous targeted marketing campaigns, BAH has an impressive roster of 5.2 million customers and the company historically spent over 30% of revenues on marketing. We would expect continued high levels of marketing spend to sustain brand awareness (albeit at a lower rate than previous years). Generally, we forecast marketing spend of 27.5% of revenues, although this is likely to fluctuate depending on sporting fixtures (eg Q218 had 40% marketing/revenue ahead of the FIFA World Cup and we expect high levels in Q220 ahead of the UEFA Euro 2020).
- **Other operating costs:** these include payments to third-party platform providers, such as Evolution Gaming and Microgaming. For FY19, total other operating costs (including other income) were €22.5m, of which we estimate €6–7m was for third-party providers. We believe this level is lower than some peers, given the better purchasing power via Betclic.
- **EBITDA**: FY19 EBITDA of €35.2m equates to a margin of 24.5%. Looking ahead, our forecasts assume a largely unchanged tax environment (no major changes in Germany), marketing expenses of c 27.5% and stable other operating costs (as an absolute figure). Taxed markets are expected to become a higher percentage of the total and we forecast a lower near-term EBITDA margin of c 20%.
- **Tax:** BAH reported total corporate tax of €15.1m in FY19, which includes a €11.9m payment for historic liabilities in Austria (this is removed from our adjusted EPS). Excluding the one-off payment, the effective tax rate was 18.2% and we forecast a similar level for future years (vs 8% previously).

Exhibit 10: Summary income statement

€m	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Sports	55.676	61.186	66.152	64.6	60.5	59.0	51.5	52.5	53.6
E-Gaming	51.351	60.421	72.522	80.8	82.8	84.3	76.5	78.0	79.6
Gross Gaming Revenue (GGR)	**107.0**	**121.6**	**138.7**	**145.4**	**143.4**	**143.3**	**128.0**	**130.5**	**133.2**
Cost of Sales (VAT and fees)	(12.3)	(21.3)	(25.8)	(27.6)	(28.2)	(25.8)	(24.0)	(24.4)	(24.9)
Net Gaming Revenue (NGR)	**94.7**	**100.3**	**112.9**	**117.8**	**115.1**	**117.5**	**104.0**	**106.1**	**108.2**
% of GGR	88.5%	82.5%	81.4%	81.0%	80.3%	82.0%	81.3%	81.3%	81.3%
Personnel costs	(14.4)	(15.5)	(17.3)	(18.1)	(18.7)	(20.0)	(20.1)	(20.2)	(20.3)
% GGR	-13.5%	-12.8%	-12.5%	-12.4%	-13.1%	-13.9%	-15.7%	-15.5%	-15.2%
Marketing	(41.1)	(36.5)	(44.0)	(42.0)	(38.3)	(39.8)	(35.2)	(35.9)	(36.6)
% of GGR	-38.4%	-30.0%	-31.7%	-28.9%	-26.7%	-27.8%	-27.5%	-27.5%	-27.5%
Other	(12.5)	(16.7)	(18.6)	(21.3)	(21.9)	(22.5)	(22.6)	(22.7)	(22.8)
% of GGR	-11.6%	-13.7%	-13.4%	-14.7%	-15.2%	-15.7%	-17.7%	-17.4%	-17.1%
total operating costs (ex DA/SBP)	(67.9)	(68.7)	(79.9)	(81.4)	(78.9)	(82.3)	(77.9)	(78.8)	(79.7)
EBITDA	**26.8**	**31.6**	**33.0**	**36.4**	**36.2**	**35.2**	**26.2**	**27.3**	**28.5**
EBITDA margin	25.0%	26.0%	23.8%	25.0%	25.3%	24.5%	20.4%	20.9%	21.4%
Normalised operating income	25.9	30.7	31.9	35.1	34.9	33.2	24.2	25.3	26.5
Operating income	25.8	30.8	31.9	34.1	34.9	33.2	24.2	25.3	26.5
Net finance costs	1.7	2.2	2.2	1.5	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Normalised PBT	**27.5**	**32.9**	**34.1**	**36.6**	**35.0**	**33.1**	**24.0**	**25.2**	**26.4**
PBT	27.5	32.9	34.1	35.7	35.0	33.1	24.0	25.2	26.4
Tax	(1.8)	(2.3)	(3.1)	(2.8)	(2.4)	(15.1)	(4.4)	(4.7)	(4.9)
Normalised Net income	25.7	30.6	31.0	33.8	32.6	27.1	19.6	20.5	21.5
Profit after tax	25.6	30.7	31.0	32.8	32.6	18.0	19.6	20.5	21.5
Reported EPS (€)	3.65	4.37	4.42	4.68	4.65	2.56	2.79	2.93	3.06
Adjusted EPS (€)	3.66	4.36	4.42	4.81	4.65	4.26	2.79	2.93	3.06
Dividend per share (€)	0.60	2.25	7.50	7.50	6.50	2.00	2.40	2.88	3.46

Source: bet-at-home, Edison Investment Research

Balance sheet and cash flow

Despite the increased tax charges and historically high dividend payments, BAH has a robust balance sheet, with no debt and net cash of €46.8m at end FY19 (excluding estimated customer deposits of €8m). The company will provide full balance sheet details with the annual report in late March and therefore our FY19 balance sheet figures are largely estimates at this point.

- **Strong operating cash flow:** assuming no major changes in the regulatory environment (ie more IP blocking and tax increases), we forecast annual operating cash flow of c €20m.
- **Lower prospective dividends**: including special dividends, BAH's pay-out ratio has been in excess of 150% for the past couple of years. However, the company now appears to be taking a more cautious approach given the regulatory uncertainties. BAH announced a €2 dividend for FY19, payable in May 2020 and we forecast a dividend payment of €2.40 for FY20.

Exhibit 11: Financial summary

€'m	2016	2017	2018	2019	2020e	2021e	2022e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue (GGR)	138.7	145.4	143.4	143.3	128.0	130.5	133.2
Cost of Sales	(25.8)	(27.6)	(28.2)	(25.8)	(24.0)	(24.4)	(24.9)
Net Gaming Revenue	112.9	117.8	115.1	117.5	104.0	106.1	108.2
EBITDA	33.0	36.4	36.2	35.2	26.2	27.3	28.5
Normalised operating profit	31.9	35.1	34.9	33.2	24.2	25.3	26.5
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(0.9)	0.0	0.0	0.0	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit	31.9	34.1	34.9	33.2	24.2	25.3	26.5
Net Interest	2.2	1.5	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	34.1	36.6	35.0	33.1	24.0	25.2	26.4
Profit Before Tax (reported)	34.1	35.7	35.0	33.1	24.0	25.2	26.4
Reported tax	(3.1)	(2.8)	(2.4)	(15.1)	(4.4)	(4.7)	(4.9)
Profit After Tax (norm)	31.0	33.8	32.6	29.9	19.6	20.5	21.5
Profit After Tax (reported)	31.0	32.8	32.6	18.0	19.6	20.5	21.5
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	31.0	33.8	32.6	29.9	19.6	20.5	21.5
Net income (reported)	31.0	32.8	32.6	18.0	19.6	20.5	21.5
Basic average number of shares outstanding (m)	7.0	7.0	7.0	7.0	7.0	7.0	7.0
EPS - basic normalised (€)	4.42	4.81	4.65	4.26	2.79	2.93	3.06
EPS - diluted normalised (€)	4.42	4.81	4.65	4.26	2.79	2.93	3.06
EPS - basic reported (€)	4.42	4.68	4.65	2.56	2.79	2.93	3.06
Dividend (€)	7.50	7.50	6.50	2.00	2.40	2.88	3.46
Revenue growth (%)	14.0	4.8	(-1.4)	(-0.0)	(-10.7)	2.0	2.0
Gross Margin (%)	81.4	81.0	80.3	82.0	81.3	81.3	81.3
EBITDA Margin (%)	23.8	25.0	25.3	24.5	20.4	20.9	21.4
Normalised Operating Margin	23.0	24.1	24.4	23.2	18.9	19.4	19.9
BALANCE SHEET							
Fixed Assets	4.9	4.0	3.4	7.1	6.1	5.1	4.1
Intangible Assets	2.0	2.0	2.0	2.1	2.3	2.5	2.7
Tangible Assets	2.9	2.0	1.4	5.0	3.8	2.6	1.4
Investments & other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets	140.5	120.6	99.9	74.3	81.8	87.5	90.8
Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors	47.9	16.9	20.1	18.0	21.0	24.0	27.0
Cash & cash equivalents	82.3	94.4	70.6	46.8	51.3	54.0	54.3
Customer cash	9.5	7.5	7.7	8.0	8.0	8.0	8.0
Other	0.7	1.8	1.5	1.5	1.5	1.5	1.5
Current Liabilities	(35.7)	(35.3)	(34.0)	(35.8)	(36.8)	(37.8)	(38.8)
Creditors	(0.5)	(1.8)	(3.3)	(6.7)	(7.7)	(8.7)	(9.7)
Short term provisions/ tax liabilities	(21.4)	(22.6)	(19.2)	(17.1)	(17.1)	(17.1)	(17.1)
Short term borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	(13.9)	(10.9)	(11.5)	(12.0)	(12.0)	(12.0)	(12.0)
Long Term Liabilities	(0.1)	(0.0)	(0.0)	(4.0)	(4.0)	(4.0)	(4.0)
Long term borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	(0.1)	(0.0)	(0.0)	(4.0)	(4.0)	(4.0)	(4.0)
Net Assets	109.6	89.3	69.3	41.6	47.1	50.8	52.1
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Shareholders' equity	109.6	89.3	69.3	41.6	47.1	50.8	53.1
CASH FLOW							
Op Cash Flow before WC and tax	33.0	36.4	36.2	35.2	26.2	27.3	28.5
Working capital	(0.1)	(2.4)	(6.5)	5.5	(2.0)	(2.0)	(2.0)
Exceptional & other	0.4	(0.4)	0.0	0.0	0.0	0.0	0.0
Tax	(3.1)	(2.8)	(5.0)	(15.1)	(4.4)	(4.7)	(4.9)
Net operating cash flow	30.2	30.8	24.8	25.5	19.7	20.7	21.6
Capex	0.0	0.0	(0.7)	(1.0)	(1.0)	(1.0)	(1.0)
Acquisitions/disposals	(1.3)	(0.5)	0.0	0.0	0.0	0.0	0.0
Net interest	0.3	1.5	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Equity financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	(15.8)	(52.6)	(52.6)	(45.6)	(14.0)	(16.8)	(20.2)
Other	28.2	33.0	4.7	(2.6)	0.0	0.0	0.0
Net Cash Flow	41.6	12.1	(23.8)	(23.8)	4.5	2.7	0.3
Opening net debt/(cash)	(40.7)	(82.3)	(94.4)	(70.6)	(46.8)	(51.4)	(54.1)
FX	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash movements	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)	(82.3)	(94.4)	(70.6)	(46.8)	(51.4)	(54.1)	(54.3)

Source: bet-at-home, Edison Investment Research

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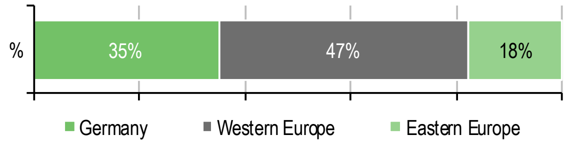
GGR by geography



Management team

Founder and co-CEO: Franz Őmer

Franz Ömer has founded several technology and gaming companies, including bet-at-home.com, and previously worked in international consulting for business process reengineering. He studied software engineering at the Software Park, Hagenberg, Germany.

Co-CEO: Michael Quatember

Michael Quatember worked for 11 years at KPMG Austria focusing on auditing and business advisory. From February 2009 until October 2012 he was head of finance at bet-at-home.com and in November 2012 he was elected to the management board. He studied business management at the Johannes Kepler University in Linz, Austria.

President of supervisory board: Martin Arendts

Martin Arendts is the founder and owner of ARENDTS ANWÄLTE law firm. He specialises in capital investments as well as gaming and betting laws.

Supervisory board member: Isabelle Andres

Isabelle Andres is CEO of Karina Square, a company providing consultancy services in the digital and media sector. She was previously CEO of Betclic Everest Group and has held diverse positions in the digital and media sector.

Principal shareholders	(%)
Betclic Everest	51.7
Union Investment Luxembourg	3.1
BDC Capital Management	3.0
Jochen Dickinger	2.8
JP Morgan	1.4
Allianz	1.0
Franz Őmer	1.0

Companies named in this report

GVC Holdings (GVC): Betsson (BETS); Kindred Group (KIND)

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