

bet-at-home

H119 results

A closer look at German regulation

Online gaming legislation varies widely across Europe and bet-at-home (BAH) focuses predominantly on grey (or ambiguous) markets. At H119, the company's core markets were Germany (35% of gross win), Austria (c 30%) and Eastern Europe, and this report provides further detail on recent regulatory changes (particularly in Germany). BAH is a strong brand with 5m customers, a capital light model and high cash generation. The stock trades at 9.9x EV/EBITDA and 13.0x P/E for FY20e with an attractive 9.6% prospective dividend yield.

Year end	Revenue (GGR**) (€m)	EBITDA (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	145.4	36.4	4.81	7.50	10.8	14.4
12/18	143.4	36.2	4.65	6.50	11.2	12.5
12/19e	136.9	32.1	3.97	5.00	13.1	9.6
12/20e	140.3	32.4	4.00	5.00	13.0	9.6

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

German legislation continues to evolve

Gaming legislation is a key feature for determining both market size and risk potential for online gaming companies and BAH focuses mainly on grey markets, with ambiguous regulation. By gaming volume, these comprise Germany (35% of gross win), Austria (c 30%) and Eastern Europe (17%). While the company pays taxes in both Germany and Austria, the advantage of many grey markets is that they are untaxed and hence generate higher cash flow. The flipside, however, is that operators can be subject to sudden IP blocking (eg Poland in 2017 and Switzerland in 2019). This report summarises the current regulatory situation in BAH's key markets, with a particular focus on Germany, where licensing for online sports is on track for mid-2021 (but e-gaming regulation remains uncertain).

Continued strong cash flow

Within its Q219 trading update in July, management reiterated FY19 guidance of €130–143m GGR and an EBITDA of €29–33m. This compares to €71.1m GGR and €21.3m EBITDA already achieved in H119 and therefore assumes a significant negative impact from Swiss IP blocking (effective from July 2019). We are leaving our forecasts unchanged as, although we acknowledge that our estimates could be conservative, BAH continues to face regulatory uncertainty across its key markets. Nonetheless, the business model is very capital light, with high cash flow generation. We forecast net cash of €49.8m at FY19.

Valuation: 9.6% dividend yield

BAH trades at 9.9x EV/EBITDA and 13.0x P/E for FY20e, which is towards the top end of the peer group, but its healthy net cash position and 9.6% prospective dividend yield are very attractive. In our view, a major catalyst would be concrete evidence of positive regulation in core markets, especially for German e-gaming (casino).

Travel & leisure

10 September 2019
Price €52.00

Market cap €365m

Net cash (€m) at 30 June 2019 43.1

Shares in issue 7.0m

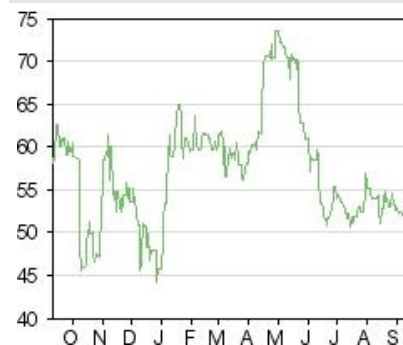
Free float 47.3%

Code ACXX

Primary exchange XETR

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (1.1) (8.7) (7.9)

Rel (local) (5.4) (10.1) (9.9)

52-week high/low €73.60 €44.30

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 Betclix Everest, a privately owned French online gaming company.

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A grey market operator

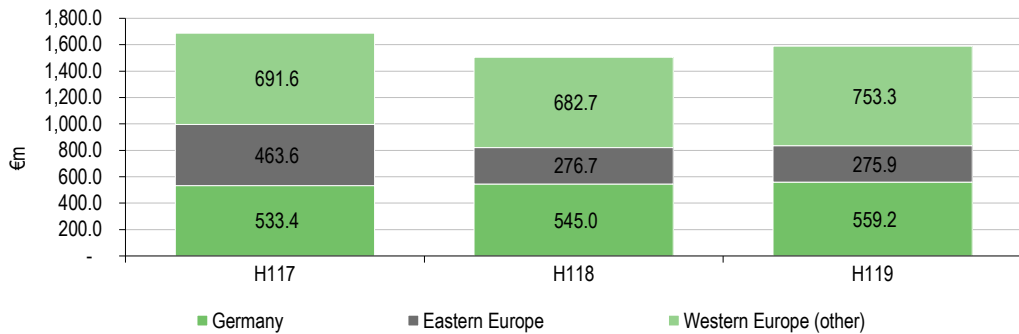
Overview

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).

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.

Exhibit 1: BAH's betting and gaming volume (€m) by region



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

Germany (35% gross win)

At the moment, Germany 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.

In March 2019, German state ministers approved a process towards a licensing regime for online sports betting, although the framework for online casino remains unclear. At present, it appears that entirely new regulations for online sports are to come into effect in mid-2021 and some of the federal states (led by North Rhine Westphalia) have plans to open up the online casino market. It is uncertain whether or not all the federal states will follow suit. BAH believes that the most likely scenario is a licensing model for online sports as well as online casino (at least in some states), from mid-2021 and BAH is optimistic that it will be able to maintain its entire product suite.

We summarise the current online sports and casino situation below:

- **Sports betting: Licensing regime in sight**

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.

While the regulatory progress is a positive in general, it is important to note that live play betting will

be restricted under the current plans and there will also be a setting of monthly wagering limits for players.

- **E-gaming: Federal ban still in place**

The biggest area of confusion surrounds the issue of online gaming (over 50% of BAH's online GGR), 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).

Reinforcing the negative stance, in June 2019, a large international payments provider was prevented from participating in payment transactions in connection with "illegal gambling" in Germany. However, as noted above, there are a number of states that appear to be committed to the provision of online gaming within the next couple of years and BAH remains optimistic that it will be able to maintain its entire product suite.

- **Schleswig-Holstein**

The Federal State of Schleswig-Holstein went down a different route and issued licences for sports betting and casino as early as 2012, including to BAH. These licences expired at the end of 2018 and could not be extended due to Schleswig-Holstein becoming a party to the Revised Interstate Gambling Treaty. Essentially, operators with both online sports betting licences and online casino licences (issued by Schleswig-Holstein) are particularly exposed, with regulators requiring sports betting licensees to stop offering casino games alongside sports betting. BAH therefore resolved to discontinue the casino products.

In March 2019, the Ministers authorised Schleswig-Holstein to extend its existing casino licences until a new national regulation comes into effect (this is for operators with casino-only licences). BAH is currently implementing the licensing conditions and plans to commence the casino offers in this federal state again no later than in the first quarter of 2020. We assume this means that BAH will split its licences, thereby receiving a casino-only licence.

- **Injunctions: possible fine from Hesse in 2019**

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, but management has stated that it may face a penalty in Hesse later this year.

Austria: Business as usual (30% gross win)

There is limited formal gaming regulation in Austria and online gaming is dominated by Casino Austria, which is partially state-owned. On 27 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.

Poland: Operating sports betting without a licence

Until 2017, BAH operated in Poland via its EU licence for both sports betting and e-gaming. However, in April 2017, an amendment to the gambling laws of Poland became effective and the state monopoly (Totalizator Sportowy) was granted exclusive rights to operate remote casinos and poker. Although the enforcement measures (such as IP and payment blocking) are generally considered a violation of EU law, the appeals by international operators to the European Court of

Justice have been unsuccessful. We therefore assume there will be no liberalisation of the Polish e-gaming market. BAH continues to offer online betting in Poland without a licence and is taking action against the discriminatory regulations.

Switzerland: Completely blocked from July 2019

In June 2018, a Swiss referendum resulted in local Swiss casinos receiving exclusivity to apply for e-gaming licences for six years, essentially barring all international operators. The new Money Gaming Act came into effect in January 2019 and international operators are now required to agree a deal with a local land-based operator in order to continue serving players. BAH does not have any such deal.

In addition, the act requires Swiss ISPs to block international sites, with the ISPs being compensated for doing so. Unlicensed operators have been blacklisted from July 2019. Since 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 recent ruling.

Financials

We are leaving our forecasts broadly unchanged following the H119 results and include a summary income statement below. As before, our forecasts assume no Swiss revenues from July 2019 and no further major regulatory changes from this point.

Exhibit 2: BAH income statement								
€m	2014	2015	2016	2017	2018e	2019e	2020e	2021e
Sports	55.7	61.2	66.2	64.6	60.5	52.7	54.0	55.1
E-gaming	51.4	60.4	72.5	80.8	82.8	84.2	86.3	88.1
Gross gaming revenue (GGR)	107.0	121.6	138.7	145.4	143.4	136.9	140.3	143.1
Cost of sales (VAT and fees)	(12.3)	(21.3)	(25.8)	(27.6)	(28.2)	(25.8)	(26.7)	(27.2)
Net gaming revenue (NGR)	94.7	100.3	112.9	117.8	115.1	111.1	113.6	115.9
% of GGR	88.5%	82.5%	81.4%	81.0%	80.3%	81.2%	81.0%	81.0%
Personnel costs	(14.4)	(15.5)	(17.3)	(18.1)	(18.7)	(19.8)	(19.9)	(20.0)
% GGR	-13.5%	-12.8%	-12.5%	-12.4%	-13.1%	-14.5%	-14.2%	-14.0%
Marketing	(41.1)	(36.5)	(44.0)	(42.0)	(38.3)	(37.1)	(37.9)	(38.6)
% of GGR	-38.4%	-30.0%	-31.7%	-28.9%	-26.7%	-27.1%	-27.0%	-27.0%
Other	(12.5)	(16.7)	(18.6)	(21.3)	(21.9)	(22.1)	(23.4)	(23.5)
% of GGR	-11.6%	-13.7%	-13.4%	-14.7%	-15.2%	-16.1%	-16.7%	-16.4%
total operating costs (ex DA/SBP)	(67.9)	(68.7)	(79.9)	(81.4)	(78.9)	(79.0)	(81.2)	(82.2)
EBITDA	26.8	31.6	33.0	36.4	36.2	32.1	32.4	33.7
EBITDA margin (%)	25.0%	26.0%	23.8%	25.0%	25.3%	23.5%	23.1%	23.6%
Normalised operating income	25.9	30.7	31.9	35.1	34.9	30.2	30.4	31.7
Operating income	25.8	30.8	31.9	34.1	34.9	30.2	30.4	31.7
Net finance costs	1.7	2.2	2.2	1.5	0.0	0.1	0.1	0.1
Normalised PBT	27.5	32.9	34.1	36.6	35.0	30.3	30.5	31.8
PBT	27.5	32.9	34.1	35.7	35.0	30.3	30.5	31.8
Tax	(1.8)	(2.3)	(3.1)	(2.8)	(2.4)	(2.5)	(2.4)	(2.5)
Normalised net income	25.7	30.6	31.0	33.8	32.6	27.9	28.1	29.3
Profit after tax	25.6	30.7	31.0	32.8	32.6	27.8	28.1	29.3
Reported EPS (€)	3.65	4.37	4.42	4.68	4.65	3.97	4.00	4.17
Adjusted EPS (€)	3.66	4.36	4.42	4.81	4.65	3.97	4.00	4.17
Dividend per share (€)	0.60	2.25	7.50	7.50	6.50	5.00	5.00	5.00

Source: BAH, Edison Investment Research

Exhibit 3: Financial summary

	€m	2014	2015	2016	2017	2018	2019e	2020e	2021e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue (GGR)		107.0	121.6	138.7	145.4	143.4	136.9	140.3	143.1
Cost of Sales		(12.3)	(21.3)	(25.8)	(27.6)	(28.2)	(25.8)	(26.7)	(27.2)
Net Gaming Revenue		94.7	100.3	112.9	117.8	115.1	111.1	113.6	115.9
EBITDA		26.8	31.6	33.0	36.4	36.2	32.1	32.4	33.7
Normalised operating profit		25.9	30.7	31.9	35.1	34.9	30.2	30.4	31.7
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(0.1)	0.1	0.0	(0.9)	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	0.0
Reported operating profit		25.8	30.8	31.9	34.1	34.9	30.2	30.4	31.7
Net Interest		1.7	2.2	2.2	1.5	0.0	0.1	0.1	0.1
Profit Before Tax (norm)		27.5	32.9	34.1	36.6	35.0	30.3	30.5	31.8
Profit Before Tax (reported)		27.5	32.9	34.1	35.7	35.0	30.3	30.5	31.8
Reported tax		(1.8)	(2.3)	(3.1)	(2.8)	(2.4)	(2.5)	(2.4)	(2.5)
Profit After Tax (norm)		25.7	30.6	31.0	33.8	32.6	27.8	28.1	29.3
Profit After Tax (reported)		25.6	30.7	31.0	32.8	32.6	27.8	28.1	29.3
Minority interests		0.0	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	0.0
Net income (normalised)		25.7	30.6	31.0	33.8	32.6	27.8	28.1	29.3
Net income (reported)		25.6	30.7	31.0	32.8	32.6	27.8	28.1	29.3
Basic average number of shares outstanding (m)		7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
EPS - basic normalised (€)		3.66	4.36	4.42	4.81	4.65	3.97	4.00	4.17
EPS - diluted normalised (€)		3.66	4.36	4.42	4.81	4.65	3.97	4.00	4.17
EPS - basic reported (€)		3.65	4.37	4.42	4.68	4.65	3.97	4.00	4.17
Dividend (€)		0.60	2.25	7.50	7.50	6.50	5.00	5.00	5.00
Revenue growth (%)		25.0	13.6	14.0	4.8	(-1.4)	(-4.5)	2.5	2.0
Gross Margin (%)		88.5	82.5	81.4	81.0	80.3	81.2	81.0	81.0
EBITDA Margin (%)		25.0	26.0	23.8	25.0	25.3	23.5	23.1	23.6
Normalised Operating Margin		24.2	25.2	23.0	24.1	24.4	22.1	21.7	22.2
BALANCE SHEET									
Fixed Assets		4.5	4.8	4.9	4.0	3.4	7.3	6.3	5.3
Intangible Assets		2.4	2.2	2.0	2.0	2.0	2.1	2.3	2.5
Tangible Assets		2.1	2.6	2.9	2.0	1.4	5.2	4.0	2.8
Investments & other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets		89.9	123.3	140.5	120.6	99.9	85.3	80.3	76.5
Stocks		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors		57.9	70.7	47.9	16.9	20.1	25.1	30.1	35.1
Cash & cash equivalents		21.8	40.7	82.3	94.4	70.6	49.7	39.7	30.9
Customer cash		9.7	9.4	9.5	7.5	7.7	9.0	9.0	9.0
Other		0.5	2.5	0.7	1.8	1.5	1.5	1.5	1.5
Current Liabilities		(27.0)	(32.7)	(35.7)	(35.3)	(34.0)	(41.0)	(42.0)	(43.0)
Creditors		(1.3)	(1.0)	(0.5)	(1.8)	(3.3)	(4.3)	(5.3)	(6.3)
Short term provisions/ tax liabilities		(14.1)	(19.9)	(21.4)	(22.6)	(19.2)	(25.2)	(25.2)	(25.2)
Short term borrowings		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(11.5)	(11.8)	(13.9)	(10.9)	(11.5)	(11.5)	(11.5)	(11.5)
Long Term Liabilities		(0.1)	(0.0)	(0.1)	(0.0)	(0.0)	(3.5)	(3.5)	(3.5)
Long term borrowings		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(0.1)	(0.0)	(0.1)	(0.0)	(0.0)	(3.5)	(3.5)	(3.5)
Net Assets		67.5	95.3	109.6	89.3	69.3	48.1	41.1	35.3
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		67.5	95.3	109.6	89.3	69.3	48.1	41.1	35.3
CASH FLOW									
Op Cash Flow before WC and tax		26.8	31.6	33.0	36.4	36.2	32.1	32.4	33.7
Working capital		(4.4)	(3.6)	(0.1)	(2.4)	(6.5)	(4.0)	(4.0)	(4.0)
Exceptional & other		5.8	5.9	0.4	(0.4)	0.0	0.0	0.0	0.0
Tax		(1.8)	(2.3)	(3.1)	(2.8)	(5.0)	(2.5)	(2.4)	(2.5)
Net operating cash flow		26.4	31.7	30.2	30.8	24.8	25.7	26.0	27.2
Capex		0.0	0.0	0.0	0.0	(0.7)	(1.0)	(1.0)	(1.0)
Acquisitions/disposals		(2.4)	(1.1)	(1.3)	(0.5)	0.0	0.0	0.0	0.0
Net interest		2.2	2.2	0.3	1.5	0.0	0.1	0.1	0.1
Equity financing		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends		(2.8)	(4.2)	(15.8)	(52.6)	(52.6)	(45.6)	(35.1)	(35.1)
Other		(15.0)	(9.6)	28.2	33.0	4.7	0.0	0.0	0.0
Net Cash Flow		8.4	19.0	41.6	12.1	(23.8)	(20.9)	(10.0)	(8.8)
Opening net debt/(cash)		(13.4)	(21.8)	(40.7)	(82.3)	(94.4)	(70.6)	(49.8)	(39.7)
FX		0.0	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	0.0
Closing net debt/(cash)		(21.8)	(40.7)	(82.3)	(94.4)	(70.6)	(49.8)	(39.7)	(30.9)

Source: bet-at-home, Edison Investment Research

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