

Bragg Gaming Group

German regulation

German regulation looks positive (at last)

After years of uncertainty, all 16 German states have agreed in principle that the July 2021 Gambling Treaty will include a unified approach to allowing e-gaming (casino and poker). This follows recent news that e-gaming was to be banned altogether. This new development is clearly a very positive step forward for the industry. The announcement is particularly important for Bragg, which derives c 40% of revenues from German facing operators. We will update our estimates at the FY19 results, when we expect further clarity.

Year end	Revenue (C\$m)	EBITDA (C\$m)	EPS* (C\$)	DPS (C\$)	P/E (x)	Yield (%)
12/18**	12.2	(3.3)	(0.05)	0.0	N/A	N/A
12/19e	39.4	1.5	0.01	0.0	18.5	N/A
12/20e	48.6	3.5	0.02	0.0	9.8	N/A
12/21e	55.6	5.3	0.02	0.0	9.7	N/A

Note: *EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments. **FY18 results are largely from GiveMeSport (not Oryx).

Moving towards e-gaming regulation in 2021

To date, gaming regulation in Germany has been very confusing, with a high level of disagreement. As recently as December 2019, the interior minister of Hesse (the state in charge of licensing) indicated that online gaming would be prohibited as part of fulfilling the temporary betting licence obligations. Somewhat to the contrary, this new announcement has confirmed that all 16 states have agreed in principle that the permanent regime (from July 2021) would include e-gaming (casino and poker), not just betting as originally envisaged. This is clearly a hugely positive step forward for the e-gaming industry, although there are still doubts regarding the legality of e-gaming in the interim period (from January 2020 to June 2021).

Hugely helpful in Bragg's main market

Bragg (through the Oryx business) operates its German operations from Schleswig-Holstein (where licences have been extended) and the ability to operate with legal certainty throughout the rest of Germany would be a huge positive for the company. During 2019, Bragg's German revenues (c 40% of total) growth was lagging the rest of the business and we expect this announcement to contribute to confidence and momentum for its Germany facing customers. See our [initiation report](#) for further details. We note that German e-gaming is subject to a 19% VAT and we would expect this rate to be reviewed in due course. As a comparison, sports betting (not offered by Bragg) is taxed at 5% of turnover, which is equivalent to c 45% tax on gross gaming revenue.

Valuation: 9.8x FY20e P/E

Bragg Gaming has a limited reporting history and has yet to generate net profit or positive net cash. However, the core Oryx business is growing very strongly and there should be upside to our figures from the US and increased momentum in Germany. On our current forecasts, Bragg trades at 14.5x EV/EBITDA and 9.8x P/E for FY20e. We note that the potential sale of GiveMeSport could provide significant upside to our DCF valuation of C\$0.36/share: every C\$1m of sale proceeds would equate to C\$0.013/share upside.

Technology

23 January 2020

Price **C\$0.22**

Market cap **C\$18m**

€0.686/C\$

Adjusted net debt (C\$m) at 30 September 2019 32.6

Shares in issue 78m

Free float 60%

Code BRAG

Primary exchange TSX.V

Secondary exchange OTC.QX

Share price performance



% 1m 3m 12m

Abs (4.4) (6.4) (72.8)

Rel (local) (7.0) (12.8) (76.5)

52-week high/low C\$0.78 C\$0.19

Business description

Bragg Gaming Group (formerly Breaking Data Corp) is a Toronto-based B2B online gaming holding company. The core asset is Oryx Gaming, a predominantly European B2B online gaming platform. Bragg's online sports media outlet is under strategic review, including a possible sale.

Next events

FY19 results Est March 2020

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Exhibit 1: Financial summary

	C\$'000s	2018	2019e	2020e	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		12,226.1	39,422.1	48,585.6	55,575.1	60,975.9
Cost of Sales		(6,123.2)	(21,704.7)	(26,755.1)	(30,566.3)	(33,536.8)
Gross Profit		6,102.9	17,717.4	21,830.5	25,008.8	27,439.2
EBITDA		(3,333.1)	1,529.7	3,471.7	5,292.0	6,765.9
Normalised operating profit		(3,385.6)	1,110.4	3,045.7	4,859.0	6,325.9
Amortisation of acquired intangibles		(22,944.9)	(2,722.7)	(2,722.7)	(2,722.7)	(2,722.7)
One-off items inc changes in fair value of contingent/ deferred consideration		(3,882.0)	(4,250.4)	0.0	0.0	0.0
Share-based payments		(5,128.3)	(1,900.0)	(1,400.0)	(1,400.0)	(1,400.0)
Reported operating profit		(35,340.9)	(7,762.8)	(1,077.1)	736.3	2,203.1
Net Interest		(249.4)	(47.2)	(587.6)	(1,469.3)	(1,909.3)
Profit Before Tax (norm)		(3,635.0)	1,063.2	2,458.0	3,389.8	4,416.5
Profit Before Tax (reported)		(35,590.3)	(7,810.0)	(1,664.7)	(733.0)	293.8
Reported tax		(3.1)	(234.3)	(196.6)	(271.2)	(353.3)
Profit After Tax (norm)		(3,635.4)	978.1	2,261.4	3,118.6	4,063.2
Profit After Tax (reported)		(35,593.4)	(8,044.3)	(1,861.4)	(1,004.2)	(59.5)
Discontinued operations		0.0	(2,380.0)	938.2	0.0	0.0
Net income (normalised)		(3,635.4)	978.1	2,261.4	3,118.6	4,064.2
Net income (reported)		(35,593.4)	(10,424.3)	(923.2)	(1,004.2)	(59.5)
Basic average number of shares outstanding (m)		78	79	97	133	152
EPS - basic normalised (C\$)		(0.05)	0.01	0.02	0.02	0.03
EPS - diluted normalised (C\$)		(0.05)	0.01	0.02	0.02	0.03
EPS - basic reported (C\$)		(0.46)	(0.13)	(0.01)	(0.01)	(0.00)
Dividend (C\$)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		14.2	222.4	23.2	14.4	9.7
Gross Margin (%)		49.9	44.9	44.9	45.0	45.0
EBITDA Margin (%)		-27.3	3.9	7.1	9.5	11.1
Normalised Operating Margin		-27.7	2.8	6.3	8.7	10.4
BALANCE SHEET						
Fixed Assets		55,367.7	56,308.7	54,159.9	52,004.2	49,841.4
Intangible Assets		55,075.2	54,317.5	52,214.7	50,112.0	48,009.2
Tangible Assets		292.5	1,991.2	1,945.2	1,892.2	1,832.2
Investments & other		0.0	0.0	0.0	0.0	0.0
Current Assets		15,445.1	8,682.4	9,929.4	12,278.4	15,301.4
Debtors		6,414.8	7,914.8	8,414.8	8,914.8	9,414.8
Cash & cash equivalents		8,571.7	309.0	1,076.0	2,945.0	5,488.0
Other		458.6	458.6	438.6	418.6	398.6
Assets classified as held for sale		0.0	1,362.8	0.0	0.0	0.0
Current Liabilities		(15,832.2)	(25,566.2)	(26,707.3)	(9,234.5)	(8,734.5)
Creditors		(12,453.1)	(9,500.0)	(9,000.0)	(8,500.0)	(8,000.0)
Deferred and contingent consideration		(3,038.0)	(15,331.7)	(16,972.8)	0.0	0.0
Short term borrowings		(151.0)	(584.5)	(584.5)	(584.5)	(584.5)
Other		(190.1)	(150.0)	(150.0)	(150.0)	(150.0)
Long Term Liabilities		(30,113.1)	(20,577.5)	(11,329.9)	(20,113.5)	(20,133.5)
Long term borrowings		(434.2)	(1,021.0)	(8,746.2)	(17,529.8)	(17,549.8)
Contingent Consideration		(27,095.2)	(16,972.8)	0.0	0.0	0.0
Other long term liabilities		(29,678.9)	(19,556.5)	(2,583.7)	(2,583.7)	(2,583.7)
Liabilities classified as held for sale		0.0	(2,301.0)	0.0	0.0	0.0
Net Assets		24,867.5	17,909.3	26,052.1	34,934.6	36,274.8
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		24,867.5	17,909.3	26,052.1	34,934.6	36,274.8
CASH FLOW						
Op Cash Flow before WC and tax		(2,969.4)	1,529.7	3,471.7	5,292.0	6,765.9
Working capital		5,457.0	(4,453.1)	(1,000.0)	(1,000.0)	(1,000.0)
Exceptional & other		(3,208.2)	(50.0)	0.0	0.0	0.0
Tax		(3.1)	(234.3)	(196.6)	(271.2)	(353.3)
Net operating cash flow		(723.6)	(3,207.7)	2,275.1	4,020.8	5,412.6
Capex		(223.7)	(2,500.0)	(1,000.0)	(1,000.0)	(1,000.0)
Acquisitions/disposals		(5,772.2)	(1,755.0)	(15,331.7)	(16,972.8)	0.0
Net interest		(248.6)	(27.2)	(567.6)	(1,449.3)	(1,889.3)
Equity financing		12,839.0	800.0	7,665.8	8,486.4	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		0.0	(1,635.4)	0.0	0.0	0.0
Net Cash Flow		5,870.8	(8,325.4)	(6,958.4)	(6,914.8)	2,523.2
Opening net debt/(cash)		(2,368.5)	(7,986.4)	1,296.4	8,254.8	15,169.6
FX		(252.9)	(241.0)	0.0	0.0	0.0
Other non-cash movements		0.0	(716.5)	0.0	0.0	0.0
Closing net debt/(cash)		(7,986.4)	1,296.4	8,254.8	15,169.6	12,646.4
Adjusted net debt/(cash)		22,146.7	33,600.8	25,227.6	15,169.6	12,646.4

Source: Bragg Gaming Group accounts, Edison Investment Research

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