

bet-at-home

A year of consolidation

bet-at-home (BAH) is an established European online sports betting and casino gaming provider. It largely operates in regulated markets and seeks formal licences in markets where it already operates when possible. The formal regulation of a market is typically positive for the operators in the long term, but can lead to short-term disruption to the revenue growth and profitability of the operators. Management expects FY22 will be a year of consolidation as BAH restructures following the challenges presented in FY21 and the decision to withdraw from Austria. There is potential better news flow towards the end of the year if BAH is awarded new licences in Poland and the Netherlands, where it already has high brand awareness.

H122: Underlying growth offset by losses in Austria

On an underlying basis, BAH's gross gaming revenue (GGR) increased by 9% to €59.3m and EBITDA grew by 6% to €14m in FY21. Rapidly rising legal claims from the Austrian online casino offering and an unfavourable legal ruling led management to cease the offering to mitigate against further potential losses. The discontinued activities generated an EBITDA loss of €27.1m (FY20: €17.8m profit). The withdrawal from Austria leads to BAH's continuing revenue base (€59.3m in FY21) being significantly lower than previously (ie total revenue of €126.9m in FY20).

Management guiding to a challenging FY22

Management guides to a further challenging year in FY22. The guidance for GGR of €50–60m, a reduction of c 7% y-o-y at the mid-point, and EBITDA between a €2m loss and a €2m profit compares with FY21 profit of €14m. The guidance reflects lower GGR from Poland and the Netherlands ahead of BAH's application for licences in FY22, a further reduction in Germany due to further regulation changes, the costs of a restructuring programme as well as the upfront legal costs for licence applications.

Valuation: Cash equivalent to 35% of market value

Consensus expectations, specifically revenue, do not fully reflect management's guidance for FY22. The expected low profitability in FY22 and uncertainty thereafter means BAH's multiples are elevated relative to its peers. Clarity on new potential licences could provide a more optimistic outlook into FY23. BAH's net cash position excluding client money at the end of FY21 represents 35% of its current market capitalisation.

Consensus estimates

Year end	Revenue* (€m)	EBITDA (€m)	EPS (€)	DPS (€)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/20	54.6**	13.2**	1.28	2.5	1.9	11.4	17.0
12/21	59.4	14.0	1.52	0.0	2.2	9.6	N/A
12/22e	67.9	1.5	(0.08)	1.0	44.9	N/A	6.8
12/23e	75.5	4.0	0.22	0.0	16.89	66.8	N/A

Source: Refinitiv. Note: *Gross gaming revenue. **Restated financials.

Travel and leisure

16 May 2022

Price €14.7
Market cap €103m

Share price graph



Share details

Code	ACXX
Listing	XETR
Shares in issue	7.0m
Net cash (€m) at end December 2021 (excluding client money)	36.6

Business description

Founded in 1999, bet-at-home is an online sports betting and gaming company with 260 (end December 2021) employees. It is licensed in Malta and headquartered in Düsseldorf, Germany. Since 2009 bet-at-home has been part of BetClic Everest, a privately owned gaming company, which currently holds 53.9% of bet-at-home's shares.

Bull

- The company has a strong record of growing its registered customer base as it expanded geographically and developed new products across sports betting and casino.
- Online gaming is a growing market.
- Potential new licences in FY22 could lead to a more favourable medium-term growth outlook.

Bear

- Regulatory risk is high in the majority of its markets, albeit regulated market exposure should increase over time.
- The company operates in competitive markets that require high marketing spend.
- The company has been subject to punitive taxes and customer litigation.

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Online sports betting and casino gaming across Europe

BAH was founded in Austria in 1999 as a pure online sports betting operator. Its headquarters are in Düsseldorf, Germany. The company listed in Germany in 2004. In 2009, BetClic Everest, a private French online gaming and sports betting company, acquired a 49.2% stake, and by the end of FY21 it had a 53.9% stake. The company's co-founders include Franz Ömer, who was co-CEO until February 2022, when both co-CEOs left the company, to be replaced by a new CEO, Marco Falchetto.

Benefiting from the growth in the online gaming market throughout Europe, BAH's portfolio expanded to include online casino, live casino, Vegas games, poker and virtual sports. The mix of GGR (amounts wagered by players less winnings paid out) in FY21 from continuing operations was 95% sports and 5% gaming. This represented a significant change from prior years due to the discontinuation of the company's online casino activities in Austria in 2021 (see later), when the mix was more evenly split (57% gaming, 43% sport in FY20).

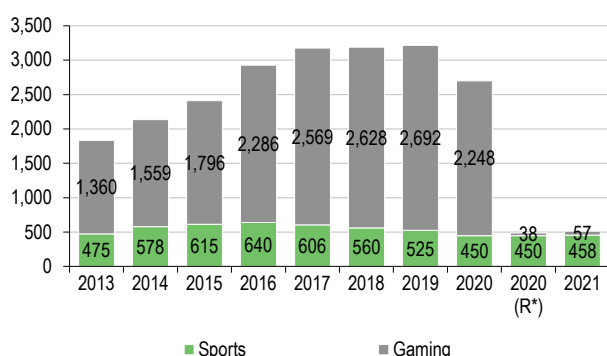
The BAH brand name is strong, the number of registered customers (5.5 million at end FY21) has consistently grown (there is no disclosure with respect to the activity of the customer base) and is testament to its attractive product offering and competitive odds. Over the long term, the company has gained new customers despite regulatory changes that have led to the company's activities being curtailed in certain countries, for example Poland and Switzerland in recent years.

BAH has online gaming and betting licences in Germany, Malta, the UK and Ireland. Its most important market is Germany (37% of FY21 betting volume from continuing activities) with the balance split across Western Europe (51%: Austria, Belgium, Ireland, Netherlands, Portugal, Switzerland and the UK) and Eastern Europe (11%: Bosnia and Herzegovina, Croatia, Poland and Slovenia). The main markets are fully regulated or in the process of becoming regulated (eg Germany, Netherlands, UK), but formal licensing has not yet been introduced in some of its markets, where it pays taxes and VAT as applicable and operates under its EU licence (Malta). BAH aims to obtain additional licences in the countries where it operates as the markets regulate, with new licences expected in the Netherlands and Poland from the end of FY22. Regulatory risks are high as shown by the recent (July 2021) full regulation of the German gaming market, which has so far reduced BAH's revenue and profitability and is expected to do so again in FY22; increasing lawsuits with respect to online casino in Austria from FY20 and through 2021; and IP blocking for casino in Poland in 2017 and similar measures in Switzerland in 2019. We provide a fuller analysis of regulatory risk across the main markets later. Typically, the regulation of an online gaming market is positive for the operators, with greater clarity with respect to the operating environment and expected lower customer spend, with black market operators offsetting increased costs of operating.

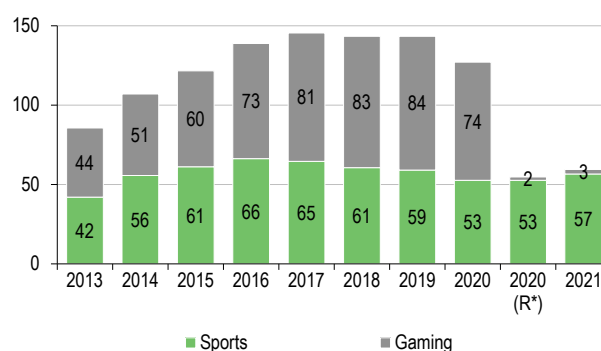
In terms of technology, BAH has developed its own front-end (CRM etc) capabilities and outsources much of the 'back-end' to other platform providers. These include Net Entertainment (casino, slots), Microgaming (sports), Evolution Gaming (live casino) and Playtech (poker). As is typical for gaming companies, these arrangements are based on revenue-sharing agreements.

Products: More focused on sports betting than previously

In FY21, gaming and betting volumes from continuing operations increased by c 6% to €515m, and GGR by c 9% to €59m. BAH restated FY20 results on the publication of FY21 results to reflect the discontinuation of its activities in Austria.

Exhibit 1: Betting and gaming volume (€m)


Source: bet-at-home. Note: *Restated.

Exhibit 2: Gross gaming revenue (€m)


Source: bet-at-home. Note: *Restated.

Sportsbook (95% of FY21 GGR)

BAH is one of the largest sports-betting providers in Europe. In 2021, the sportsbook generated GGR of €56.6m, growth of 8% from FY20, and comprised 95% of total group GGR. During the year, sports bets were placed on more than one million events in over 50 types of sport, ranging from football to tennis, volleyball and ice hockey to motorsports. Bets range from single bets to combi-bets and c 60% of the sportsbook is from in-play. BAH's products are available in nine different languages.

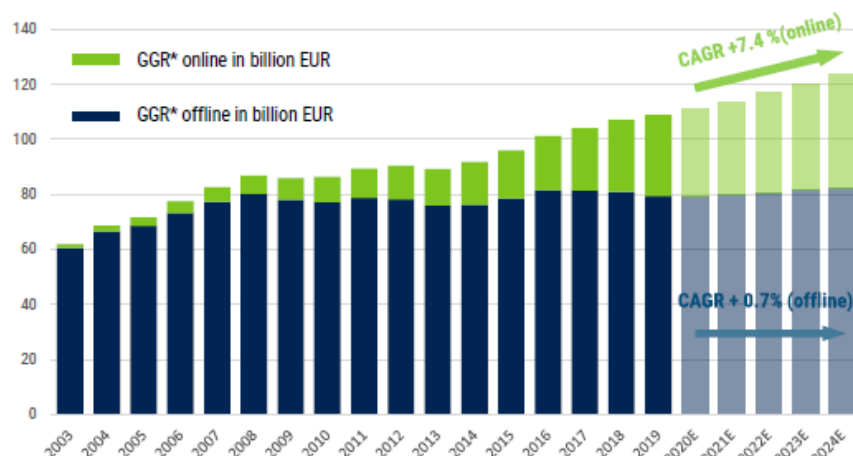
Gaming (5% of FY21 GGR)

Gaming generated GGR of €2.8m in FY20, representing 5% of total GGR. BAH's strategy of cross-selling from sports to gaming is similar to other online peers. By contrast, pure casino operators are rarely able to meaningfully replicate the cross-sell in the other direction (from casino to sports). The product suite includes casino, poker, Vegas games and virtual 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, slots and jackpots. Live casino was introduced in 2011 on the Evolution Gaming platform.
- **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 network (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

According to H2 Gambling capital (H2GC), the European online sports betting and gaming market was expected to grow at a CAGR of 7.4% between 2019 and 2024, while the offline market was predicted to at a lower CAGR of 0.7%.

Exhibit 3: Development of European gaming


Source: H2 Gambling Capital (BAH presentation March 2021)

A key driver for growth in online gaming has been increased mobile and tablet penetration rates. BAH launched its mobile service in 2013 and it has grown quickly since then; mobile represented 63% of GGR in FY21 so it has been a clear beneficiary from increased mobile penetration.

bet-at-home's key markets

Gaming regulation varies widely across Europe and BAH's main markets are regulated or in the process of becoming regulated. BAH's geographic exposure for its betting and gaming volumes in FY21 was Germany 37%, Western Europe 51% and Eastern Europe 11% with no other disclosure for the countries therein.

Given the lack of formal regulation 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 states due to the freedom of movement within the EU, as long as online gaming and sports betting are legal in the respective member country. BAH aims to obtain additional national licences in the individual EU member countries in which it operates as the markets become regulated. In FY22, management intends to apply for licences in Poland and the Netherlands as those markets become regulated or continue offering licences following regulation. BAH has already established brand awareness and a valuable customer base in both countries. To indicate the future potential of the new licences, in FY16, before the gaming law changes in Poland (see below), it represented c 30% of group GGR (ie over €40m).

In some markets (such as Poland in 2018), BAH has historically been subject to IP blocking for gaming, which is generally considered a violation of EU law. Ahead of the Polish market becoming regulated in 2022, BAH temporarily withdrew its offer. Switzerland also blocked online gaming and BAH exited the market in 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. It is possible that other countries initiate similar blocking measures to suppress gaming offers, which could negatively affect BAH's profitability in the medium term while it seeks legal redress.

Germany: Fully regulated since July 2021

Germany was BAH's largest market in FY21, representing 37% of betting and gaming volume. Germany became a fully regulated market when the new online gaming regulations, the Interstate Treaty on Gambling 2021, came into force from 1 July 2021. The new regulations formalised the licensing structure and provided greater clarity with respect to how the individual companies must operate (ie with rules covering advertising and tax rates). Prior to then, there had been many years

of confusing legislation and disagreement among the 16 Lander (member states), which each have to implement regulations in their own states. The lack of agreement between the states and, therefore, formal regulation led to many customers using the black market and the loss of important tax revenue. Therefore, a key aim of the new regulations is to eliminate the black market. Ahead of the new regulations coming into effect, transitional requirements became effective in October 2020. The transitional requirements necessitated the existing operators that were applying for a licence (including BAH) or already have a licence to comply with the new future regulations as if they were already in place, otherwise it would be counterproductive to the ongoing licence approvals.

BAH received notification that it had been awarded a sports betting licence in November 2020, along with 15 other companies at the time (there are more than 25 licences now). Its licence is valid until 31 December 2022 but should continue thereafter. The new regulations introduced significant changes and restrictions to protect customers and ensure responsible gaming. These included a monthly deposit limit of €1,000 per customer (across all forms of online gaming) that may be increased up to €10,000 or €30,000 for a limited number of customers; the abolition of in-event betting; and limitations on live bets.

With respect to casino gaming, prior to the new regulation, there was a federal ban on German operators hosting an online casino gaming site, however it was legal for companies outside of Germany to host online gaming sites and offer the games into the country. The new regulations for online casino gaming include strict measures to protect customers and minimise gambling problems, such as limits on stakes and advertising by brands, as well as the banning of popular online table games such as roulette and blackjack.

The combined effect of the above new regulations (ie loss of blackjack and roulette games, restrictions on monthly deposits coupled with a complicated registration process (all players had to ((re-)register with the individual operators)) had a negative effect on BAH's financial results for Q420 and most of FY21, albeit the latter was negatively affected by a smaller boost from the quadrennial UEFA European Football Championship than expected.

The management of BAH expects to be awarded a casino licence in H122, but there is uncertainty about the timing of the award of the licences. The uncertainty stems from the individual federal states having to decide whether they wish to award licences to the local land-based or private operators, and in addition the infrastructure to ensure compliance with the new responsible gaming regulations (ie monthly cross-platform deposit limits) is not yet operational. BAH's working assumption is the database will be operational from Q422 and will lead to a further reduction in GGR.

Austria: Sports betting licence expected end FY22

Austria is a gaming-friendly nation with the majority of laws and regulations focused on the licensees (ie with a view to protecting the players). Simplistically, Austria's regulatory framework leads to a federal monopoly on 'games of chance' (ie lotteries and casino games), whereas 'betting' is regulated at the individual state (there are nine states) level where each state has different rules and regulations. The casino game monopoly stems from regulations that make it difficult for operators to gain a licence, especially so for overseas companies as only those who are located within the country are permitted to offer gaming activities. The online (and offline) casino gaming monopoly is held by Casinos Austria with the current licence extending to 2027. Casinos Austria has a presence in 15 other countries, and it is partially owned by the state and by Allwyn Entertainment.

Many offshore companies have continued to operate in the country despite not being welcome by the regulations. In recent years, customers who have made gaming losses from these overseas 'unlicensed' operators have been able to seek reimbursement of the losses suffered from the operators. BAH maintains the casino monopoly in Austria is contrary to European law. The Court of Justice of the European Union has determined the casino monopoly is incompatible with the EU in

a number of cases, but the Austrian courts continue to reach conflicting decisions. Based on a negative decision of the Austrian Supreme Court in October 2021, it was unclear whether BAH would be able to enforce its legal position in the foreseeable future. Therefore, management decided to temporarily remove its online casino offer in Austria in order to mitigate against future potential customer liabilities. A decision as to whether the casino offer will be re-introduced in Austria will be made in future depending on the development of the legal framework. By the end of FY21, BAH had provided €24.2m for the legal claims to date (€20.9m versus €4.8m end FY20) and legal and ancillary costs for the claims of €3.3m.

In addition to closing down the Austrian casino offer, it was not possible for the subsidiary, bet-at-home Entertainment Ltd, which was responsible for the online casino gaming offer, to be sustained as a going concern and a winding up position was applied for at the end of December 2021. At an initial hearing in February 2022, there was no resolution, and therefore the next hearing was due to take place on 13 May 2022, there was no update at the time of writing this report. The subsidiary was treated as a discontinued activity in BAH's FY21 accounts and the prior year comparatives were restated accordingly. Exhibit 4 below highlights the significant change in performance of the discontinued activities in FY21 versus FY20 (c 50% reduction in GGR and net gaming revenue (NGR) and move from profit to loss), and the significance of the discontinued activities in the group context (equivalent to c 57% of FY20's GGR and EBITDA).

Exhibit 4: Summary financials – continuing and discontinued activities

€m	Continuing			Discontinued		
	FY21	FY20	Change y-o-y %	FY21	FY20	Change y-o-y %
GGR	59.3	54.6	9%	37.7	72.3	(48%)
NGR	47.6	44.9	6%	26.7	55.7	(52%)
EBITDA	14.0	13.2	6%	(27.1)	17.8	N/A
EBIT	11.7	11.2	5%	(27.1)	17.8	N/A
Net income	10.7	9.0	19%	(27.0)	14.3	N/A

Source: bet-at-home

Netherlands: Sports betting licence expected end FY22

The Remote Gambling Act came into force in the Netherlands at the start of April 2021 following a number of delays, introducing regulation for the Dutch online gaming market for the first time and opening the market to foreign-owned gaming companies. The licence application process began on the same day and the first licences (10 operators including companies such as bet 365) went live at the start of October 2021. As is typical before the regulation of a market, the existing unlicensed operators all withdrew their online gaming offers prior to the new regulation in order for their applications to not be prejudiced.

BAH used to offer a Dutch language offer for sports betting and casino in Netherlands but was blacklisted by in September 2019 and censured. Following the expiration of the required two-year 'cooling off' period, BAH has applied for a licence, and management expects it will be awarded by the end of FY22.

Poland: Sports betting licence expected end FY22

Changes to Poland's gaming laws in 2017 led to the award of a single online casino licence (excluding poker, which is banned) to a government provider, which BAH's management believes represents illegal discrimination under EU law. The new law also enabled private companies to apply for a sports betting licence, albeit with uneconomic restrictions, therefore BAH did not apply for a sports betting licence, and also led to many leading companies to leave the market. Since that time, BAH continued to operate its sports betting offering and has been subject to IP (internet protocol, ie identification) and payment blocking, as have many other leading gaming companies. In May 2021, BAH withdrew its online offering so as not to be excluded from the potential future award of a new licence, which is expected to happen at the end of 2022. This withdrawal had a natural

negative affect on results in FY21 and will continue to do so for most of FY22 before the expected award of a licence.

Management, organisation and corporate governance

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 now holds a 53.9% stake. BetClic is a leading French group specialising in online gambling and sports betting, for which BAH provides regional strength in Central/Eastern Europe.

Structured to operate via Maltese licence

BAH 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 5: Corporate structure (2021)



Source: bet-at-home

Management and board

BAH's management board consists of the CEO, who reports 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. Instead, BAH's major shareholder (BetClic) has approved variable compensation for the members of the management board.

Exhibit 6: Supervisory board

Name	Role	Background
Marco Falchetto	CEO (since 21 February 2022)	After graduating in international business administration and business informatics, Marco Falchetto worked as managing director of sports betting for bwin.party digital entertainment, a leading listed online gaming group, until December 2014. In recent years, he has led strategic transformations for various online gaming companies as an independent expert. As of 21 February 2022, Mr Falchetto was appointed sole member of the management board of bet-at-home.com AG Group. He is also the founder and CPO of Znipier.
Martin Arendts	President of the supervisory board	Attorney Martin Arendts, MBL-HSG, is the founder and owner of ARENDTS ANWÄLTE law firm. He specialises in capital investments as well as gaming and betting laws.
Véronique Giraudon	Deputy chairman	Véronique Giraudon is a senior finance and operations executive with proven leadership and track record of execution across start-ups and multinational companies. Since 2013, she has been corporate director and group CFO of BetClic Everest Group covering the business areas of finance, operational performance, risk, fraud, compliance and legal.
Francois Riahi	Member of supervisory board (since 18 May 2021)	Francois Riahi started his career in the French public service in 2001, first in the Ministry of Finance where he held several positions during six years, then as an advisor to Nicolas Sarkozy at the Presidency of the Republic. After 2009, he joined the banking sector within the BPCE group, where he led the strategy department, the Asia-Pacific business, the corporate and investment banking business, before becoming the CEO of Natixis, the listed subsidiary of the group. Since November 2020, Francois Riahi has served as CEO of Financiere LOV.

Source: bet-at-home

Financials

Income statement

Between 2011 and 2017, BAH generated a strong CAGR in GGR of c 12% reaching an all-time high GGR of €145.4m in FY17. The growth was due to a relatively consistent increase in the number of registered members (to 4.6 million from 2.7 million in FY11) and an increase in BAH's offer, which led to good progress in GGR for both Sports and Gaming in most years.

Exhibit 7: Summary income statement

€m	2016	2017	2018	2019	2020	2020R	2021
Gross gaming revenue	138.7	145.4	143.4	143.3	126.9	54.6	59.3
Betting fees and gaming levies	(16.5)	(18.8)	(21.0)	(20.9)	(22.4)	(9.5)	(11.7)
VAT on electronic services	(9.2)	(8.8)	(7.3)	(4.9)	(4.0)	(0.2)	(0.0)
Net gaming revenue (NGR)	112.9	117.8	115.1	117.5	100.6	44.9	47.6
Personnel costs	(17.3)	(18.1)	(18.7)	(20.0)	(19.9)	(19.7)	(18.6)
Marketing	(44.0)	(42.0)	(38.3)	(39.8)	(30.5)	(8.8)	(11.9)
Other costs	(18.6)	(22.3)	(21.9)	(22.5)	(19.2)	(3.2)	(3.1)
EBITDA	33.0	35.5	36.2	35.2	30.9	13.2	14.0
Net income continuing operations	31.0	32.8	32.6	18.0	23.3	9.0	10.7
Net income reported	31.0	32.8	32.6	18.0	23.3	23.3	(16.3)
EPS (continuing operations) (€)	4.4	4.7	4.6	2.6	3.3	1.3	1.5
EPS reported (€)	4.4	4.7	4.6	2.6	3.3	3.3	(2.3)
DPS (€)	7.5	7.5	6.5	2.0	2.5	2.5	0.0
As % of GGR							
Betting fees and gaming levies	(11.9)	(12.9)	(14.6)	(14.6)	(17.6)	(17.5)	(19.8)
VAT on electronic services	(6.7)	(6.1)	(5.1)	(3.4)	(3.1)	(0.3)	(0.1)
Net gaming revenue (NGR)	81.4	81.0	80.3	82.0	79.2	82.3	80.1
Personnel costs	(12.5)	(12.4)	(13.1)	(13.9)	(15.7)	(36.0)	(31.3)
Marketing	(31.7)	(28.9)	(26.7)	(27.8)	(24.0)	(16.2)	(20.0)
Other costs and income	(13.4)	(15.3)	(15.2)	(15.7)	(15.1)	(5.9)	(5.3)
EBITDA	23.8	24.4	25.3	24.5	24.4	24.1	23.5

Source: bet at home

The regulatory issues in Poland (IP blocking in 2018) and Switzerland (IP blocking in 2019 and BAH's withdrawal from the market) led to overall modest year-on-year reductions in GGR in FY18 (€143.4m) and FY19 (€143.3m). The negative effects of the outbreak of the COVID-19 pandemic (eg delayed and fewer sporting events) and the initial negative impact of the proposed regulation changes in Germany from Q420 led to a more meaningful reduction in GGR of c 11% in FY20 (€126.9m).

As already highlighted, the petition to wind up the Maltese subsidiary and cease the online casino offering in Austria had a dramatic effect on the scale of the group.

BAH's total (continuing and discontinued operations) GGR of €97m and EBITDA loss of €13.1m for FY21 compare with management's revised guidance from [October 2021](#) for the year of GGR of €93–98m and an EBITDA loss of €10–14m.

On an underlying basis, FY21 GGR for continuing operations grew by 8.6% y-o-y to €59.3m including growth for Sports of c 8% to €59.6m and Gaming to €2.8m, which is encouraging despite the adversities elsewhere. Management highlights an elaborate registration process and limited betting offering post the new regulations negatively affected growth in Germany in FY21, as well as the UEFA European Championship falling short of expectations more broadly. In addition, the withdrawal of BAH's offer in Poland (more significant) and the Netherlands (less significant) ahead of applying for licences also negatively affected growth. The company does not disclose GGR by geography, however BAH discloses betting and gaming volume (ie wagers placed by customers) for the main geographies. In FY21, betting and gaming volume for continuing operations increased by 26% in Germany and by 10% in Western Europe, but declined by 38% in Eastern Europe to give total growth of 6%.

Betting fees and gaming levies have increased relative to GGR since FY18 due to a greater proportion of revenue from regulated markets, which tend to have higher taxes and levies relative to

unregulated markets. VAT on electronic services has declined due to elimination of the blackjack and roulette offer in Germany.

BAH's EBITDA margin has gradually declined from the peak of 25.3% in FY18 to 23.5% in FY21. From a cost perspective, personnel expenses have gradually increased from 12.5% of GGR in FY16 to 15.7% in FY20 (including discontinued operations), which reflects a relatively stable number of staff, inflationary per head cost increases and some modest deleveraging against lower GGR in later years. In FY21, personnel expenses fell by 5% due to the absence of executive bonuses and a reduction in the number of employees (year-end employees of 260 versus 284 at the end of FY20). By the end of FY22, management anticipates headcount will reduce to around 180 following the introduction of the restructuring plan.

Marketing expenses have gradually reduced from €44m in FY16 to €31m in FY20 (prior to restatement for discontinued activities), with a gradual reduction in marketing expense (relative to GGR) as management claims increased marketing efficiency, albeit annual movements are influenced by the phasing of major sporting events. The low marketing expense on an absolute and relative basis in FY20 was due to the influence of the outbreak of the COVID-19 pandemic and the delay of the UEFA European Championship from FY20 to FY21. Under the new reporting structure, marketing expense grew by 34% in FY21 due to a fuller sporting calendar and the playing of the delayed UEFA European Championship. At 20% of GGR in FY21, it should be considered this will increase at a greater rate than GGR when operations normalise.

Other costs and income include payments to third-party platform providers, legal and financial costs, as well as forex changes.

BAH has typically had a high dividend payout ratio, with dividend per share (DPS) greater than EPS from 2016–18. Following the declared dividend for FY20 of €2.5/share, no dividend was declared for FY21 given the reported loss for FY21 and expected low EBITDA profit/loss expected for FY22.

Management is expecting a further challenging year in FY22 with GGR guidance of €50–60m, a year-on-year decline of 16% to growth of +1% at the extremes of the guided range. The revenue guidance reflects the expected implementation of the new cross-product betting limit in Germany (when the regulators central database is functional), and further negative impacts from withdrawing the gaming offer in Poland and the Netherlands for a greater part of the year than in FY20 ahead of the new licence awards. The lower GGR, expected higher legal costs for licence applications in Poland and the Netherlands and restructuring costs for the winding up of the Maltese subsidiary, bet-at-home Entertainment Ltd lead to management guidance for FY22 EBITDA of a loss of €2m to a profit of €2m. This does not take into account any deconsolidation effects associated with bet-at-home Entertainment Ltd (ie the settling of outstanding assets and liabilities at the date of the winding up).

At this stage, we believe management's guidance makes the resumption of the dividend in FY22 unlikely.

Balance sheet and cash flow

Despite the historically high dividend payments, BAH typically has a robust balance sheet, with no debt and a net cash position. At the end of FY21 BAH had gross cash of €42m and net cash excluding client deposits (ie pending bets €5.4m) of €36.6m. We note the cash balance has generally reduced since FY16.

The company has low fixed capital investment requirements with capex/GGR ranging from less than 1% to 2–3% in more recent years.

Exhibit 8: Summary cash flow

€m	2016	2017	2018	2019	2020	2020R	2021
Operating activities	30.2	30.8	24.8	29.9	18.1	18.2	10.5
- Profit before/ (after) tax	31.4	35.7	35.0	33.1	28.8	11.0	11.4
- Discontinued activities						14.3	(27.0)
- Depreciation and amortisation	1.2	1.3	1.3	1.9	2.0	2.0	2.3
- Working capital	(1.6)	(3.0)	(7.5)	6.0	(1.1)	(1.1)	6.0
- Tax paid		(3.4)	(5.0)	(10.2)	(11.4)	(7.9)	3.0
Investing activities	26.9	29.0	(0.7)	(2.5)	(1.2)	(1.2)	(1.9)
- Capex	(1.3)	(0.6)	(0.7)	(2.5)	(1.2)	(1.2)	(1.9)
Free cash flow	29.0	30.3	24.1	27.4	16.9	16.9	8.6
Financing activities	(15.8)	(52.6)	(52.6)	(46.4)	(14.9)	(14.9)	(18.4)
- Dividends	(15.8)	(52.6)	(52.6)	(45.6)	(14.0)	(14.0)	(17.5)
Change in cash	41.3	7.2	(28.5)	(19.0)	2.1	2.1	(9.8)
Closing cash	90.1	97.3	68.8	49.8	51.8	51.8	42.0
Closing cash and short-term deposits ex client money	80.6	93.5	70.6	47.4	50.9	50.9	36.6
As % of GGR:							
Operating activities	21.8	21.2	17.3	20.9	14.3	33.2	17.7
- Profit before/ (after) tax	22.6	24.5	24.4	23.1	22.7	20.2	19.3
- Discontinued activities						26.1	(45.5)
- Depreciation and amortisation	0.8	0.9	0.9	1.3	1.6	3.7	3.9
- Working capital	(1.2)	(2.0)	(5.2)	4.2	(0.9)	(2.0)	10.1
- Tax paid	0.0	(2.4)	(3.5)	(7.1)	(9.0)	(14.4)	5.0
Investing activities	19.4	19.9	(0.5)	(1.7)	(1.0)	(2.2)	(3.2)
- Capex	(0.9)	(0.4)	(0.5)	(1.7)	(1.0)	(2.2)	(3.2)
Free cash flow	20.9	20.9	16.8	19.1	13.3	31.0	14.5
Financing activities	(11.4)	(36.2)	(36.7)	(32.4)	(11.7)	(27.2)	(31.0)
- Dividends	(11.4)	(36.2)	(36.7)	(31.8)	(11.1)	(25.7)	(29.6)

Source: bet-at-home, Edison Investment Research

Valuation

BAH's share price has been weak during the last 12 months as management reduced its financial guidance for FY21 as the legal claims in Austria increased. The expected low profitability in FY22 and uncertainty thereafter means BAH's multiples are elevated relative to its peers. BAH's net cash position excluding client money at the end of FY21 represents 35% of its current market capitalisation.

Exhibit 9: Peer valuation

Company	Year-end	Share price (local ccy)	Currency	Market cap (€m)	Sales growth CY22 (%)	Sales growth CY23 (%)	EBITDA margin CY22 (%)	EBITDA margin CY23 (%)	EV/ EBITDA CY22 (x)	EV/ EBITDA CY23 (x)	P/E CY22 (x)	P/E CY23 (x)
888 Holdings	Dec	188.8	GBp	989	1.5	8.2	28.3	16.4	2.9	4.6	8.8	6.0
Betsson	Dec	64.7	SEK	740	5.9	10.4	19.4	19.0	0.5	0.5	10.2	9.0
Entain	Dec	1,300.5	GBp	8869	14.3	5.8	22.8	24.3	9.6	8.5	16.9	12.2
Flutter Entertainment	Dec	8,468.0	GBp	17507	13.6	16.4	15.9	19.4	16.3	11.4	27.6	16.7
Kindred Group	Dec	95.7	SEK	2050	(10.3)	19.5	16.3	18.4	9.3	6.9	14.4	10.4
Average					5.0	12.1	20.5	19.5	7.7	6.4	15.6	10.9
bet-at-home	Dec	14.8	EUR	104	N/A	11.2	2.2	5.3	42.4	15.9	N/A	67.3
Premium/(discount) to average									550%	249%	N/A	619%

Source: Refinitiv. Note: Priced 12 May 2022.

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. Additional sensitivities include:

- **Injunctions and increased scrutiny by regulators:** BAH has been subject to a number of injunctions in recent years including fines and disruptions to operations. 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 anti-money laundering. Although BAH is not heavily invested in the UK, there are signs that other countries could follow suit.

- **Online gaming growth is slowing in some 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 Entain, Kindred, Betsson). To maintain momentum, it is possible BAH will likely need to raise its marketing spend and thereby depress margins and cash flow.
- **Increasing macroeconomic pressures:** BAH is exposed to the outlook for consumer disposable incomes and spending in many different countries, which are likely to come under greater pressure as a result of the economic consequences of the current war in Ukraine and wider inflationary pressures (eg food and utilities costs). These influences have been relatively benign in most recent periods.
- **Management changes:** BAH announced the departure of its long-standing co-CEOs, Franz Ömer (also the co-founder of the company) and Michael Quatember from the end of February 2022. They have been replaced by Marco Falchetto, who has broad experience in online sports betting and online casino, working as a consultant and manager for various companies in the industry.
- **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.

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