



TopBetta Holdings Ltd (TBH)

4Q16 revenue growth beats previous guidance.

Event:

- TBH reports quarterly activity for 4Q16 ending 30 June 2016.

Investment Highlights:

- **Total revenue including Wagering, Tournament, Content and other for the quarter was \$1.4M, up 73% from \$0.8M in the March quarter.** This is solid growth in wagering turnover and revenue, which is slightly ahead of the preliminary revenue number of \$1.3M that was released on 5 July. This quarterly result will bring total revenue for FY16 to \$3.48M, a 209% growth on FY15 revenue of \$1.1M.
- **Gross turnover from Wagering and Tournaments was \$11.1M, up 49% from \$7.5M in the March quarter.** This is a strong indication of the increasing popularity of the company's wagering and tournament platform and its ability to grow market share. Wagering turnover has shown strong growth in consecutive quarters during FY16, up 144% over the 12 month period.
- **Active users grew by 40% during the quarter from 4,427 at 31 March to 5,945 at 30 June.** The next two quarters will include seasonal events like NRL and AFL finals and the spring carnival, which we expect to drive significant user growth. It is the key period for customer acquisition in the sector. TBH continued to achieve strong ARPU during the quarter of circa \$100 per month.
- **TBH's net operating cash outflow during the quarter was higher than we had anticipated at \$1.2M.** We understand this was due to some costs related to licensing applications in Northern Territory and the UK. We estimate that approximately \$0.3M has been incurred in additional licensing costs as the company looks to expand its jurisdictional reach into the UK, as well as provide itself with an alternative to the Norfolk Island Gaming Authority. TBH also settled on its strategic stake in Modern Wagering Systems (MWS) during the quarter which further impacted cashflow. We have not assumed any revenue contribution from MWS in our forecasts for the time being.
- **Cash on hand at 30 June was \$2.4M, which we believe is sufficient funding to reach profitability, with breakeven point expected during spring carnival at around the 7.5k user mark.** We have however assumed that some further equity funding (\$2.5M) is raised as we believe the company will want to maintain ample balance sheet capacity. TBH has demonstrated 4 successive quarters of impressive growth in all key metrics. We maintain our forecast of 10k active registered users by the end of CY16.

Earnings and Valuation:

- **To reflect stronger growth, we have increased our revenue forecast to \$10.4M in FY17e from our previous estimate of \$8.3M and for NPAT from \$1.1M to \$3.1M in FY17e.** However, our valuation has decreased from \$0.40 to \$0.36 per share, as we have applied a higher WACC of 12% versus 10% previously.

Recommendation:

- **We maintain our SPECULATIVE BUY rating on TBH and have lowered the price target from \$0.40 to \$0.36 in line with our valuation.** The key catalysts for the share price are fantasy tournaments and online wagering growing.

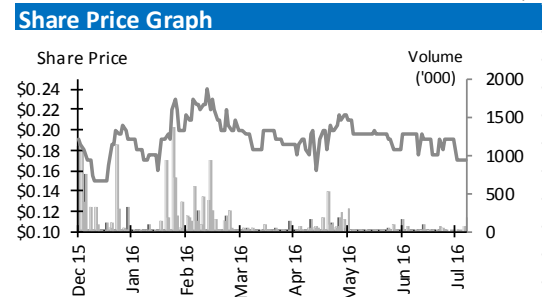
Rating	Speculative Buy
Previous	Speculative Buy
Price Target (A\$)	
Price Target	0.36
Previous	0.40
Share price	A\$ 0.155
ASX Code	TBH
52 week low - high (A\$)	0.15-0.25

Capital Structure	
Shares on Issue (M)	96
Market Cap (A\$M)	14.9
Net Debt (cash) (A\$M)	-2.4
EV (A\$M)	12.5
Options on issue (M)	29
Performance shares	0
Fully diluted mkt cap (A\$M)	19.4
1mth Av Daily Volume ('000)	25

Y/e Jun (A\$M)	2015a	2016e	2017e	2018e
Revenues \$M	1.1	3.5	10.4	15.1
EBITDA \$M	-1.9	0.2	4.2	7.3
NPAT \$M	-1.3	-1.1	3.1	5.1
EPS c	-1.9	-0.9	2.5	4.1
PER x	N/A	N/A	6.2	4
EV/EBITDA x	N/A	N/A	3.0	2

Board of Directors	
Nicholas (Nick) Chan	Chairman
Simon Dulhunty	Director
Matthew Cain	Director
Todd Buckingham	Managing Director

Major Shareholders	
RBW Nominees	10.6%
Todd Buckingham	5.0%
Christopher Rowe	4.5%
Steven Gillard	2.7%



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Foster Stockbroking was the lead manager to TBH's \$6M IPO (30M shares at \$0.20) in December 2015 for which it earned fees



Topbetta Holdings Ltd(TBH)

Full Year Ended 30 June

Profit and Loss A\$M	2015a	2016e	2017e	2018e
Operating revenues	1.1	3.5	10.4	15.1
Gross profit	0.4	2.8	8.4	12.1
Total operating Costs	-2.3	-2.6	-4.2	-4.8
EBITDA	-1.9	0.2	4.2	7.3
D&A	0.0	0.0	0.0	0.0
EBIT	-1.9	0.2	4.2	7.3
Net Interest exp / (income)	-0.1	0.0	0.0	0.0
Other non-operating income	0.4	0.5	0.0	0.0
Profit before tax	-1.6	-0.9	4.2	7.3
Tax exp / (benefit)	-0.3	-0.2	1.0	2.2
NPAT before minorities	-1.3	-1.1	3.1	5.1
Minority interest	0.0	0.0	0.0	0.0
Rep. NPAT	-1.3	-1.1	3.1	5.1
Significant items	0.0	0.0	0.0	0.0
NPAT attributable reported	-1.3	-1.1	3.1	5.1
EPS diluted (c)	-1.9	-0.9	2.5	4.1
Cashflow A\$M	2015a	2016e	2017e	2018e
Net income	-1.3	-1.1	3.1	5.1
Depreciation & amortisation	0.0	0.0	0.0	0.0
Change in WC	0.0	-0.7	-0.6	0.0
Other items	0.0	-1.6	0.0	0.0
Operating Cashflow	-1.3	-3.4	2.5	5.1
Net change in PP&E	0.0	0.0	0.0	0.0
Other items	0.0	-0.4	0.0	0.0
Investing Cashflow	0.0	-0.4	0.0	0.0
Equity proceeds	1.4	5.8	2.5	0.0
Change in debt	0.3	0.0	0.0	0.0
Financing Cashflow	1.7	5.8	2.5	0.0
Net Cashflow	0.4	2.0	5.0	5.1
Balance Sheet A\$M	2015a	2016e	2017e	2018e
Cash	0.4	2.4	7.4	12.5
Receivables	1.0	1.8	2.6	2.7
Inventories	0.0	0.0	0.0	0.0
Net PPE	0.0	0.0	0.0	0.0
Other fixed assets	4.3	6.3	6.5	6.7
Total Assets	6.5	11.3	17.2	22.6
Accounts payable	0.3	0.3	0.5	0.6
Other current liabilities	1.2	0.4	0.7	0.8
Non-interest bearing liabilities	0.0	0.0	0.0	0.0
Long term debt	0.0	0.0	0.0	0.0
Total Liabilities	1.5	0.7	1.1	1.4
Reserves and capital	8.1	14.7	17.2	17.2
Retained earnings	-3.1	-4.2	-1.0	4.0
Total Equity	5.0	10.5	16.1	21.2

Source: IRESS, Company; Foster Stockbroking estimates

Financial Metrics	2015a	2016e	2017e	2018e
Sales growth %	nm	209%	200%	45%
EPS growth %	nm	54%	383%	62%
EBITDA margin	nm	4%	40%	48%
EBIT margin	nm	4%	40%	48%
Gearing (ND/E)	16%	-19%	-42%	-55%
Interest Cover (EBIT/net int)	nm	1x	17x	32x
Average ROE %	nm	-11%	19%	24%
Average ROA %	nm	-10%	18%	22%
Wtd ave shares (M)	96	96	109	109
Wtd ave share diluted (M)	125	125	138	138

Valuation multiples	2015a	2016e	2017e	2018e
P/E x	N/A	N/A	6.2	4
EV/EBITDA x	N/A	N/A	3.0	2
EV/EBIT x	N/A	N/A	3.0	2
EV/sales x	11.1	3.6	1.2	0.8
Dividend yield %	0.0	0.0	0.0	0.0

Valuation	A\$M	A\$/share
Discounted Cash Flow		
12.25% WACC, 3% terminal growth:		
Enterprise Value	44.3	0.32
Net cash(debt)	2.4	0.02
Equity capital raising FY17e (assumption)	2.5	0.02
Equity value	49.2	0.36
Diluted shares assuming FY17e (M)	138	

Valuation based on PERx multiple of 20x	
FY17e EPS (cents)	2.50
Enterprise Value (\$M)	50.0
Equity value (\$)	0.36

Blended Valuation (50:50 DCF:PERx multiple) (\$)	
	0.36

Segment analysis (A\$M)	2016e	2017e	2018e
Revenues from Wagering	2.0	6.8	9.8
Revenues from Fantasy Tournaments	1.0	2.1	3.0
Revenues from contents and others	0.5	1.6	2.3

Shares on issue	M
Ordinary shares	78.3
Options	29.0
Escrowed shares	18.0
Equity capital raising FY17e (assumption)	12.5
Fully Diluted	137.8

Major shareholders	Interest
RBW Nominees	10.6%
Todd Buckingham	5.0%
Christopher Rowe	4.5%
Steven Gillard	2.7%



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