

Better Collective

Sector: Digital Entertainment/Gambling

Moving into Peak Season

Redeye updates its estimates and valuation for Better Collective post Q2-results where revenue was in line with estimates while profit was lower than expected. The start of Q3 was strong however, supporting a solid outlook for H2 which is peak season for the company. We make limited changes to our estimates.

Revenue as expected in Q2, profit impacted by growth investments

Better Collective reported Q2 revenue of EUR56.0m which was in line with our estimate of EUR56.4m. EBITDA came in lower than expected as the company invested for growth with an outcome of EUR12.9m compared to our estimate of EUR15.5m.

Q3 starting off well as Better Collective moves into peak season

Coming to the start of Q3, the company saw EUR17m of revenue in July which gives a good start to the quarter. With the company now moving into peak season we expect sequential growth in Q3 and further increase in Q4 supported by US coupled with the FIFA WC and the release of the new FIFA game.

Unchanged financial targets for 2022 and limited estimate changes

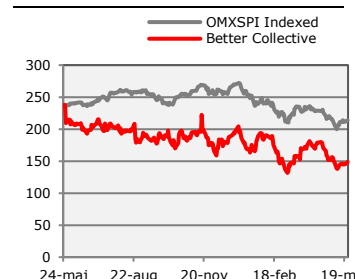
While Better Collective's Q2 EBITDA was lower than we forecasted the company reiterates its guidance of EUR85m in EBITDA for the full year. As such we have made limited changes to 2022E estimates while we also leave our 2023-24E estimates largely unchanged. Our fair value range also remains unchanged with a base case of SEK300.

Key Financials (EURm)	2020	2021	2022E	2023E	2024E
Sales	91	177	267	313	358
Sales growth	35%	94%	51%	17%	15%
EBITDA	38	56	85	110	130
EBIT	30	45	72	97	117
EBIT Margin (%)	33%	26%	27%	31%	33%
Net Income	22	17	51	71	88
EV/Sales	8.1	6.4	3.4	2.7	2.1
EV/EBITDA	19.4	20.5	10.7	7.6	5.8
EV/EBIT	24.4	25.1	12.5	8.6	6.4

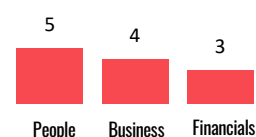
FAIR VALUE RANGE

BEAR	BASE	BULL
160	300	420

BETCO VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BETCO.ST
Market	Nasdaq
Share Price (SEK)	141.5
Market Cap (SEKm)	7,700
Net Debt 2021 (EURm)	92
Free Float (%)	50
Avg. daily volume ('000)	50

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Moving into Peak Season

Revenue as expected in Q2, profit impacted by growth investments

Better Collective reported Q2 revenue of EUR56.0m which was in line with our estimate of EUR56.4m. On a regional basis, revenue in Europe & RoW was much stronger than expected while US revenue was lower than forecasted illustrating the high seasonality in US. The company reiterates its full year target for the US business which it expects to generate revenue in excess of USD100m for 2022. On EBITDA, the outcome was lower than expected with an outcome of EUR12.9m compared to our estimate of EUR15.5m. The lower-than-expected profitability was driven by growth investments increasing both direct costs and staff costs while a transition from CPA to revenue share contracts in US also impacted negatively.

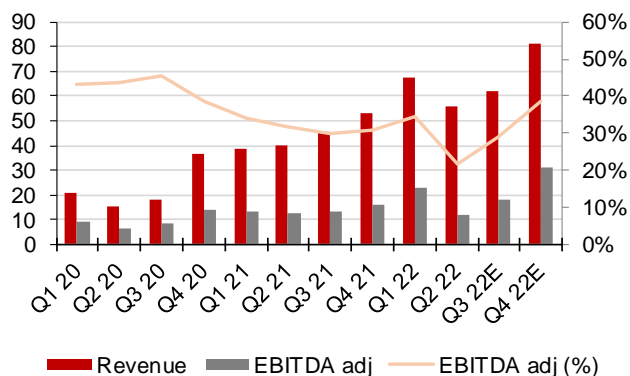
Better Collective results outcome				
EURm	Q2 21	Q2 22E	Q2 22A	Diff, %
Revenue	40.0	56.4	56.0	-0.6%
OW US	7.0	20.0	13.2	-34.1%
OW RoW	33.1	36.4	42.9	17.9%
 <i>Direct costs</i>	 -14.2	 -19.2	 -20.8	 0.0
Gross profit	25.8	37.2	35.3	-5.2%
 <i>Staff costs</i>	 -9.5	 -16.2	 -17.7	 9.2%
<i>Other costs</i>	-3.7	-5.5	-5.4	-0.9%
 EBITDA adj	 12.7	 15.5	 12.9	 -17.0%

Source: Redeye Research

Q3 starting off well as Better Collective moves into peak season

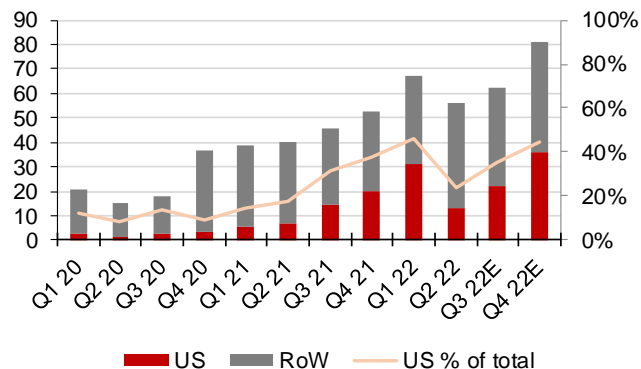
Coming to the outlook for the rest of 2022, Better Collective highlights that it expects an action packed H2 with high season in the US sports betting market coupled with the new FIFA game launch in September and the FIFA World Cup in Q4. The start of Q3 has also been solid with revenue of EUR17m in July while we expected around EUR14-16m. Considering that August and September should be stronger with a more active sports calendar in Europe coupled with the start of the NFL season in September we forecast revenue of EUR62m for the full third quarter. The ramp up should continue into Q4 where we also expect strong profitability from operating leverage.

Better Collective: Revenue and EBITDA



Source: Redeye Research

Better Collective: Revenue per region and US share

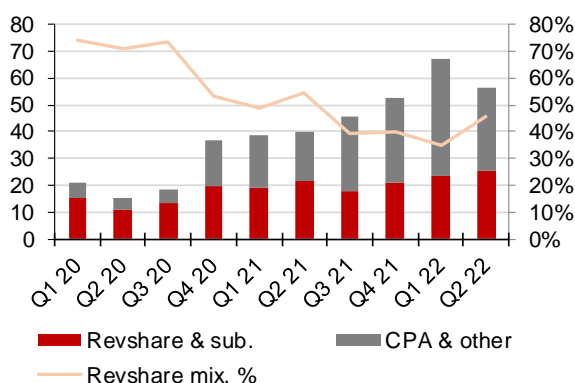


Source: Redeye Research

Solid growth of NDC's on revenue share

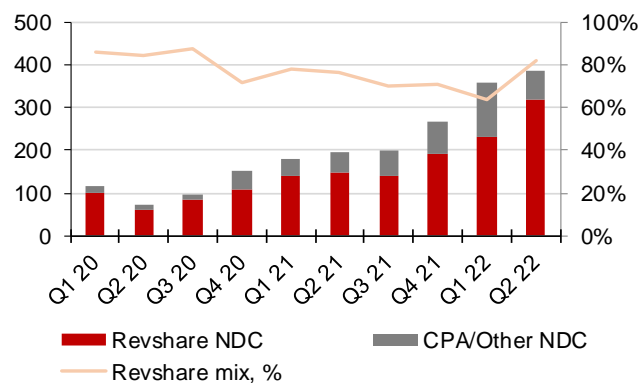
Better Collective's increased mix of revenue from US has resulted in a higher share of CPA revenue during 2022 as the US market has been dominated by CPA contracts. Still, looking at the overall NDC intake the clear majority of contracts continues to be on revenue share which also saw an increased mix in Q2 22 (up to 82% vs 64% in Q1 22 and 76% in Q2 21). The continued strong NDC growth rate of 93% in the quarter also implies continued revenue growth ahead as it lags behind NDC intake on the revenue share contracts. Better Collective furthermore states in the Q2-report that it is starting to transition contracts from CPA to revenue share in US which should result in more stable revenue from the US in the coming years. While this can have some short term negative impact on revenue the company reiterates that it expects to achieve more than USD100m in revenue from US in 2022.

Better Collective: Revenue mix per contract type



Source: Redeye Research

Better Collective: NDC mix per contract type



Source: Redeye Research

Unchanged financial targets for 2022 and limited estimate changes

Better Collective reiterate its financial targets for 2022 which is to achieve organic growth of 20-30% and EBITDA of c. EUR85m. This implies a strong outlook for H2 22 and we slightly lift our revenue estimates for 2022E on the back of the strong start to Q3. While profitability was lower than expected in Q2 we have raised our EBITDA estimates for Q3 and Q4 on the back of the higher revenue estimate while our 2022E EBITDA remains largely unchanged. Our outlook for 2023-24E also remains strong and we make limited changes to estimates for 2023-24E.

Better Collective: Estimate changes			
EURm	2022E	2023E	2024E
Sales new	267	313	358
Sales old	259	307	352
Change, %	3%	2%	2%
EBITDA new	85	110	130
EBITDA old	85	110	129
Change, %	0%	0%	0%
EBIT new	72	97	117
EBIT old	74	98	116
Change, %	-3%	-1%	1%

Source: Redeye Research

Quarterly and annual financials 2019-2024E

Summarizing our financials, we remain positive towards Better Collective's growth outlook over the coming years. For 2022, we expect total growth of 51% in 2022 which we estimate to imply an organic growth of 28% which is in the high-end of Better Collective's guidance of 20-30%. We expect growth to continue in 2023-34E driven by the US market coupled with Canada and South America. The recent acquisition of Futbin also adds growth potential while it also diversifies revenue streams from subscription and non-betting related revenue.

Better Collective: Financial forecasts														
EURm	2019	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	Q3 22E	Q4 22E	2022E	2023E	2024E
Revenue	67	91	39	40	45	53	177	67	56	62	81	267	313	358
Growth Y/Y (%)	67%	35%	86%	162%	148%	44%	94%	74%	40%	37%	54%	51%	17%	15%
US	0	10	6	7	14	20	47	31	13	22	36	102	130	152
RoW	67	81	33	33	31	33	130	36	43	40	45	165	183	206
US Growth Y/Y (%)	n.a.	n.a.	120%	426%	463%	471%	370%	435%	90%	53%	81%	117%	27%	18%
RoW Growth Y/Y (%)	67%	20%	81%	137%	97%	-1%	60%	10%	30%	30%	37%	27%	11%	13%
Direct costs	-8	-20	-15	-14	-16	-20	-65	-23	-21	-21	-26	-90	-101	-116
Staff costs	-21	-24	-8	-9	-12	-12	-41	-16	-18	-18	-18	-70	-77	-85
Other costs	-10	-8	-3	-4	-4	-5	-16	-5	-5	-6	-6	-22	-24	-27
EBITDA adj	28	38	13	13	14	16	56	23	12	18	31	85	110	130
EBITDA adj (%)	42%	42%	34%	32%	30%	31%	32%	34%	22%	29%	39%	32%	35%	36%
EBITDA	27	38	13	7	2	17	39	21	13	18	31	84	110	130
EBITDA (%)	41%	42%	34%	18%	4%	31%	22%	32%	23%	29%	39%	31%	35%	36%
EBIT adj	22	30	11	11	11	12	45	20	9	15	28	72	97	117
EBIT adj (%)	32%	33%	29%	27%	25%	23%	26%	30%	16%	24%	34%	27%	31%	33%
EBIT	21	30	11	5	0	13	29	19	10	15	28	71	97	117
EBIT (%)	31%	33%	29%	13%	-1%	24%	16%	28%	17%	24%	34%	27%	31%	33%
Net income adj.	15	22	8	7	8	11	34	15	6	10	20	52	71	88
Net income	14	22	8	2	-4	11	17	14	7	10	20	51	71	88
EPS adj, EUR	0.3	0.5	0.2	0.1	0.1	0.2	0.6	0.3	0.1	0.2	0.4	1.0	1.3	1.6
EPS, EUR	0.3	0.5	0.2	0.0	-0.1	0.2	0.3	0.3	0.1	0.2	0.4	0.9	1.3	1.6

Source: Redeye Research

DCF-Valuation

We leave our valuation range unchanged with a base case of SEK300, a bull case of SEK420 and a bear case of SEK160. Better Collective currently trades at c. 8x 2023E EBITDA while it would trade at 19x 2023 EBITDA on our base case valuation.

Bear Case SEK 160

Average sales growth of about 10% between 2023-27 with EBITDA-margin of 30%.

Terminal growth of 2% with terminal EBITDA-margin of 25%.

Our bear case assumes a higher number of competitors and higher investment needs to maintain and update products that impact profitability negatively.

Base Case SEK 300

Average sales growth of about 13% between 2023-27 with stable EBITDA-margin of c. 35%.

Terminal growth of 2% with terminal EBITDA-margin of 30%.

Our base case scenario assumes solid growth in all markets with stable profitability and a stable competitive landscape.

Bull Case SEK 420

Average sales growth of about 16% between 2023-27 with gradually expanding EBIT-margin to c. 38%.

Terminal growth of 2% with terminal EBITDA-margin of 33%.

Our bull case scenario assumes strong growth driven by the US and other new markets and an expanding margin on the back of scalability.

Valuation and Estimate -trend

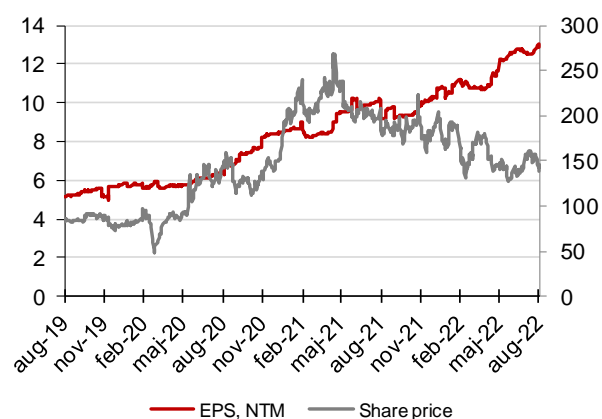
Better Collective has declined in the last 12 months while EPS revisions has been positive. The share currently trades in the lower end of the EV/EBITDA trading range in the last three years.

Better Collective: EV/EBITDA NTM



Source: Factset

Better Collective: EPS NTM and share price



Source: Factset

Summary Redeye Rating

We have changed the rating in this report on the back of an updated model for the rating system. The new ratings are People 4 (5), Business 3 (4) and Financials 3 (3).

People: 4

We regard management as capable, with notable industry experience. Impressively, Jesper Søgaard and Christian Kirk Rasmussen have taken Better Collective from a single site to the world's leading sports betting affiliate. However, board members average a relatively short history with the company. The founders, who are also part of top management, hold the majority of the shares. We consider this positive as this creates long-term alignment with shareholders. Chairman of the board Jens Bager holds over 2%, while several other board members and the CFO also have significant shareholdings. This strengthens the ownership structure further. Moreover, Better Collective has several institutional investors among its largest owners, which we view as a further stamp of quality.

Business: 3

The bulk of sales are generated from regulated markets, which mitigates regulatory risk. The US market and several large South American markets offers a large potential for Better Collective, as they are being regulated. The operations are also highly scalable, and the gross margin is above 60%, including Paid Media. Better Collective's community sites create network effects and barriers against new competitors. Moreover, much of the sites' traffic is direct, leading to low dependence on Google and expensive paid media compared to peers. On the negative side, Better Collective is still exposed to regulatory risks and potential margin pressure. Furthermore, despite its rapid growth pace Better Collective still has strong EBIT margin of above 30% with strong cash flow.

Financials: 3

Better Collective is a very active and successful industry consolidator with several acquisitions carried through in the last years. While this can increase leverage in the short term the company's strong cash generation means this quickly improves and opens for further growth by acquisitions.

	2021	2022	2023	2024	DCF Valuation Metrics	Sum DCF (EURm)			
INCOME STATEMENT					2023-2026				277
Revenues	177	267	313	358	2027-2037				743
Cost of Revenues	65	90	101	116	Terminal				793
Gross Profit	112	177	211	242	Firm Value				1,813
Operating Expenses	56	92	101	112	Net Debt				144
EBITDA	56	85	110	130	Equity Value				1,669
Depreciation & Amortization	10	13	13	13	Fair Value per Share				300
EBIT	45	72	97	117					
Net Financial Items	-3	-3	-2	0		2021	2022	2023	2024
EBT	26	68	95	117	CAPITAL STRUCTURE				
Income Tax Expenses	9	16	24	29	Equity Ratio	0.6	0.5	0.6	0.6
Non-Controlling Interest	0	0	0	0	Debt to equity	0.4	0.5	0.4	0.4
Net Income	17	51	71	88	Net Debt	92	144	78	-11
					Capital Employed	542	593	665	752
BALANCE SHEET					Working Capital Turnover	-8.4	452.4	28.7	27.2
Assets									
Current assets					GROWTH				
Cash & Equivalents	29	52	118	207	Revenue Growth	94%	51%	17%	15%
Inventories	0	0	0	0	Basic EPS Growth	-32%	195%	39%	23%
Accounts Receivable	30	53	63	72	Adjusted Basic EPS Growth	34%	53%	36%	23%
Other Current Assets	4	19	31	36					
Total Current Assets	63	124	211	314	PROFITABILITY				
					ROE	7%	14%	17%	17%
Non-current assets					ROCE	8%	12%	15%	16%
Property, Plant & Equipment, Net	2	1	1	1	ROIC	8%	10%	12%	14%
Goodwill	178	178	178	178	EBITDA Margin (%)	32%	32%	35%	36%
Intangible Assets	342	424	419	415	EBIT Margin (%)	26%	27%	31%	33%
Right-of-Use Assets	3	3	3	3	Net Income Margin (%)	0%	0%	0%	0%
Shares in Associates	0	0	0	0					
Other Long-Term Assets	10	10	10	10	VALUATION				
Total Non-Current Assets	534	616	611	607	Basic EPS	0.3	0.9	1.3	1.6
					Adjusted Basic EPS	0.6	1.0	1.3	1.6
Total Assets	597	740	822	921	P/E	30.8	14.5	10.6	8.7
					EV/Revenue	6.4	3.4	2.7	2.1
Liabilities					EV/EBITDA	20.5	10.7	7.6	5.8
Current liabilities					EV/EBIT	25.1	12.5	8.6	6.4
Short-Term Debt	0	75	75	75	P/B	3.0	1.9	1.6	1.4
Short-Term Lease Liabilities	1	1	1	1					
Accounts Payable	18	27	31	36	SHAREHOLDER STRUCTURE			CAPITAL %	VOTES %
Other Current Liabilities	36	43	50	57	Christian Kirk Rasmussen			19.4%	19.4%
Total Current Liabilities	55	146	158	169	Jesper Søgaard			19.4%	19.4%
					Chr. Augustinus Fabrikker A/S			4.6%	4.6%
Non-current liabilities					Tredje AP-fonden			4.5%	4.5%
Long-Term Debt	121	121	121	121	Andra AP-fonden			3.8%	3.8%
Long-Term Lease Liabilities	2	2	2	2					
Other Long-Term Liabilities	75	75	75	75	SHARE INFORMATION				
Total Non-current Liabilities	197	197	197	197	Reuters code			BETCO.ST	
					List			Nasdaq	
Non-Controlling Interest	0	0	0	0	Share price			141.5	
Shareholder's Equity	345	396	467	555	Total shares, million			54.7	
Total Liabilities & Equity	597	740	822	921					
					MANAGEMENT & BOARD				
CASH FLOW					CEO			Jesper Søgaard	
NOPAT	30	55	73	88	CFO			Flemming Pedersen	
Change in Working Capital	22	-22	-10	-2	Chairman			Jens Bager	
Operating Cash Flow	32	42	74	98					
					ANALYSTS				
Capital Expenditures	-1	-1	-2	-2				Redeye AB	
Investment in Intangible Assets	-12	-20	-6	-7	Hjalmar Ahlberg			Mäster Samuelsgatan 42, 10tr	
Investing Cash Flow	-219	-94	-8	-9	Douglas Forsling			111 57 Stockholm	
Financing Cash Flow	189	75	0	0					
Free Cash Flow	19	21	66	89					

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Redeye Rating (2022-08-25)

Rating	People	Business	Financials
5p	32	15	4
3p - 4p	155	138	48
0p - 2p	5	39	140
Total	192	192	192

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Hjalmar Ahlberg owns shares in the company : Yes

Douglas Forsling owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.