Siddharth Rajeev, B.Tech, MBA, CFA

Anthony de Ruijter, BA. Econ

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Bragg Gaming Group Inc. (TSXV: BRAG): Building an Integrated Gaming Solutions Company – Introductory Note

Sector/Industry: Online Gaming **www.bragg.games**

Market Data (as of May 13, 2019)

Current Price	**C$0.42**
Fair Value	**N/A**
Rating*	**N/A**
Risk*	**N/A**
52 Week Range	C$0.46 - C$1.39
Shares O/S	77,863,851
Market Cap	C$32.70 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.5x
YoY Return	-63.48%
YoY TSXV	-24.15%

*see back of report for rating and risk definitions
**all $ amounts are C$ unless otherwise specified.



Investment Highlights

- Bragg Gaming Group Inc. ("Bragg", "company") is an online gaming company that owns significant assets in turn-key gaming solutions and sports media. Bragg features a strong leadership team with a CEO who has some of the largest names in gaming on his track record.
- The company recently acquired Oryx, a turn-key gaming solutions provider which gives operators access to leading casino content as well as end-to-end operational support. The company acquired Oryx at a deep discount to market valuations, and the addition of Oryx is expected to spur revenues in Q1-2019 to between $8.8 to $10.4 million, which is a huge YoY growth compared to just $2.7 million in Q1-2018.
- Bragg also owns a leading sports media platform, GIVEMESPORT ("GMS"), a website with approximately 33.60 million unique Facebook (Nasdaq: FB) users per month in Q1-2019 (YoY growth of 23%). Bragg intends to leverage GIVEMESPORT's large following to its new sports betting GIVEMEBET platform. **We believe this could address a market opportunity of up to $306 million per annum, based only on the company's captive audience of GMS fans who also frequent betting sites.**
- The company' strategy is a proven one – Sky Betting & Gaming, a similar company that built a comparable platform, was acquired for $5.94 billion in 2018 by The Stars Group Inc. (TSX: TSGI).
- **Based on the average EV/R in comparable sectors, we estimate that Bragg should be trading at 187% over its current market capitalization.** A comprehensive valuation will be conducted in our initiating report.
- We will be initiating coverage on the company in the coming weeks, upon completion of our due diligence.

Key Financial Data (FYE - DEC 31) (C$)		2018
Cash	$	8,571,701
Working Capital	$	-387,117
Assets	$	70,812,786
Total Debt	$	585,264
Revenues	$	8,810,273
Net Income	$	-21,514,473
EPS (basic)	$	-0.73

**Reflects only last nine months of 2018*

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Company Overview

Forged through the amalgamation of two gaming assets, Bragg is an online gaming company focused on identifying trends and developing gaming solutions to capitalize on them. In December 2018, the company acquired Oryx Gaming International LLC. ("Oryx"), a gaming technology company that provides turnkey gaming solutions for operators worldwide. In addition to Oryx, the company also has a previously acquired asset, GIVEMESPORT ("GMS"), a high-traffic sports media platform which has over 33.60 million Facebook unique users visiting each month. By utilizing their recent acquisition of Oryx, the company has also developed a proprietary gaming platform, GIVEMEBET ("GMB"), that is expected to leverage GMS' following and monetize users who may transition into online gaming and sports betting.

The company features an executive team with an established track record in the media, betting, and gaming industries. In particular, Bragg's CEO Dominic Mansour, was most recently the managing director of Full Tilt Poker, a Dublin-based online poker and casino site that was acquired (along with PokerStars) by Stars Group Inc. (TSX: TSGI) in 2014, for C$4.90 billion in cash. The biographies for the company's key management are provided below:

Dominic Mansour – CEO & Director
Dominic Mansour has a track record spanning nearly 20 years in the gaming and lottery industry. Most recently, he was Managing Director of Rational Group's Full Tilt and is credited with evolving the business into recreational poker and introducing casino products. Mr. Mansour was also the CEO of the U.K.-based Health Lottery and has worked closely with government lotteries around the world at GTECH, where he was the Vice President of Product. Mr. Mansour also built bingos.com, which was sold to NetPlay TV where he became CEO and a director.

Akshay Kumar – CFO & Director
Akshay Kumar has over 12 years' experience in the betting and gaming sector, and previously served as CFO of NetPlay TV. At NetPlay TV, Mr. Kumar worked with Bragg's CEO and eventually orchestrated the sale to Betsson AB (STO: BETS-B) in 2017. Prior to this he was the Financial Controller at Sporting Index, a U.K.-based sports spread betting company. Akshay is a Fellow Chartered Accountant having qualified with PwC, holds an MBA and is a member of the ICSA.

Oryx: End-to-End Gaming Solution Bridging Gap Between Developers and Operators

The company's main line of business is built upon the acquisition of Oryx. Oryx is a gaming technology company that provides turnkey, end-to-end solutions aimed at online gaming operators. Oryx's main products and services include:

- **Third Party Content and Content Aggregation:** In addition to developing their own gaming content, Oryx also has contractual relationships with leading third-party gaming developers. Through these relationships, Oryx aggregates the most in-demand gaming content onto their own platform, providing operators with access to a multitude of the most popular content through a single point of integration.
- **iGaming Platform:** In addition to content aggregation, Oryx also provides operators

with an omni-channel and cross-product platform called the "iGaming platform". This platform provides operators with a single shared account and wallet for the entirety of their operations, including casino, lottery, sportsbook, bingo, poker, and other types. In addition, it also incorporates Oryx's games as well as the aggregated third-party content mentioned in the point above, providing for an all-encompassing gaming solution for operators.

- **Turnkey Solutions:** Apart from gaming content and operations management, Oryx also provides a full-suite of back office functions, including customer relationship management, marketing, hosting, security, gaming know-how, Know Your Client ("KYC") due diligence, payment solutions, risk management and data analytics. Oryx supports operators across the spectrum, embodying the definition of a turnkey gaming solution.

The above services form the cornerstone of Bragg's ambition to become a next-generation gaming solutions provider. We believe that the Oryx platform is an enticing offering to operators as it is essentially a **"one-stop shop"**, with support across the full spectrum of gaming operations, as well as access to over 8,000 games. In exchange for access to the iGaming platform content, Oryx charges clients an undisclosed one-time integration fee as well as ongoing aggregation fees charged as new content becomes available on Oryx's iGaming platform. Based on our discussions with management, the recurring aggregation fees are expected to be based on a spread, specifically between the net revenues from the operator and the cost to acquire content from game developers. However, specific percentages or yields have not been disclosed by the company. In addition to integration fees and aggregation fees, the company also derives revenue from the provision of services such as player management, customer support, customer relationship management, fraud and payments processing. However, the contribution of these services to total revenues is undisclosed. With regard to licensing, as online gaming is a highly regulated sector, Oryx is licensed to operate in Malta, Schleswig Holstein (Germany), Spain, Romania, and Colombia. In addition, Oryx is in the process of applying for licensing and/or registrations in the U.K. and Sweden.

Bragg acquired Oryx in a €7.50 ($11.25) million transaction that closed on December 20, 2018. The transaction was broken down as follows:

- Initial cash consideration of €1.50 million upon signing of the initial purchase agreement in August 2018.
- Cash consideration of €4.13 million was paid on December 20, 2018.
- The remaining balance (€1.88 million) of deferred consideration was paid via €0.64 million in cash and the issue of 2 million common shares (undisclosed deemed value).
- In addition to the above, there will be future EBITDA-based earnouts paid to the vendor, though details have not been disclosed.

Based on financials disclosed by the company, it would appear that the company acquired Oryx at a major discount to market valuations, based on various valuation multiples. Bragg

reported that Oryx generated revenue of $29.25 million (up 239.13%) and net income of $2.81 million (compared to a net loss of $17.47k in 2017) during 2018. EBITDA was undisclosed. **Based on the $11.25 million purchase price, this implies that the company acquired Oryx for 0.38x revenues and 4x earnings.** This implies a deep discount to the valuation multiples exhibited industry-wide in the below comparable sectors:

Sector	EV/R	EV/EBITDA	P/E
Online Gaming Operations	2.60	11.10	16.70
Online Casinos	2.50	12.60	16.70
Gaming Operations	2.70	11.30	20.60
Casinos	3.00	11.70	19.20
Average	**2.70**	**11.68**	**18.30**

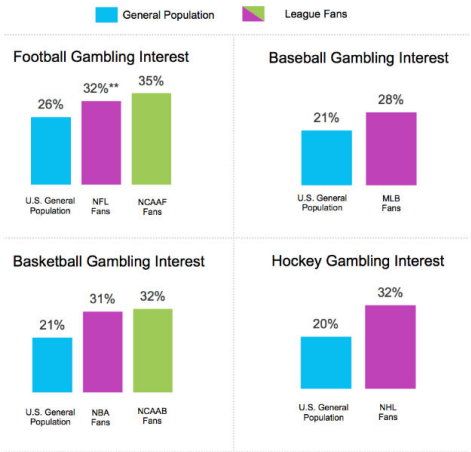
Source: FRC, Capital IQ

Based on the table above, if Oryx was to be valued at market multiples, Bragg's most recent acquisition could be valued at $78.97 million enterprise value (based on the above EV/R) or $51.46 million equity value (based on above P/E). Though we acknowledge that a risk premium was likely factored in, we still view the acquisition as reflecting on management's ability to identify and secure value. More importantly, based on the disclosed financials and the purchase price paid by the company, we believe that Bragg has acquired a high-growth asset at exceedingly cheap valuations in Oryx.

GMB: Converting Sports Fans into Online Gamers

Oryx is not the only growth driver of the company and Bragg has a legacy asset in GMS, which in turn has led to the development of GMB. Applying the expertise of Oryx's team, GMB is being developed with the expectation of leveraging GMS' large existing user base (33.60 million Facebook unique users per month) and monetization of this user base through conversion to sports betting. GMB's value proposition is built on a simple premise – people who follow sports and enjoy related sports media tend to enjoy betting too. When it comes to sports fans and sports gambling, the obvious linkage translates to empirical results, with the chart below showing that fans of certain sports show higher interest in gambling in those same sports compared to the general population.

Sports Fans and Relative Interest in Sports Gambling



Source: Nielsen Sports

To satisfy licensing requirements, the company has entered into an agreement with Argyll Entertainment, an online gaming operator that holds a UK betting license and will operate the site (financial details of the agreement undisclosed). Management has not disclosed the current number of GMB users, nor have they disclosed average user acquisition costs. However, management have disclosed that approximately 1.10 million of GMS' visitors are individuals who also frequent betting sites. Based on this information, we see this as an internal captive audience, and prospective convertible users to the GMB platform. Though converting a large portion of this captive audience may prove difficult in the near-term, it does provide some indication of the potential addressable market opportunity available to the company through GMB.

The U.K. Gambling Commission reported that between April 2017 and March 2018, there were 33.58 million active customer accounts across the U.K. Furthermore, the U.K. Gambling Commission also reported that the remote gambling industry's gross gambling yield (dealer's income minus payouts to players) was £5.35 billion for the year ended March 31, 2018. As a result, the implied average gross gambling yield per user in the U.K. was £159.32 per annum for the period. **If we apply this average gross gambling yield per user, GMB's potential captive audience of 1.10 million users would imply a total addressable market of £175.25 million ($306 million) per annum.** However, note that this does not constitute a revenue forecast and we acknowledge that it may be years before the company is able to build up GMB's following to that level.

Precedent Transactions

The company's belief in the upside value of GMB is not unwarranted. There are a number of significant transactions, which have resulted in betting/gaming companies being acquired for significant valuations. Most notably amongst these was Sky Betting & Gaming. Sky Betting & Gaming, which is focused on the UK and comprises a variety of online casino brands as well as a fantasy football league, and a football online prediction game, originally sold 80% of its shares to private equity firm CVC Capital Partners on March 19, 2015, giving Sky Betting & Gaming a post-money valuation of £800 million ($1.40 billion). On July 10, 2018, it was then acquired by the Stars Group for £3.40 billion ($5.94 billion), a total return of 325% based on its previous valuation of $1.40 billion. A business acquisition filed by the Stars Group showed that Sky Betting & Gaming reported revenue and EBITDA of £670.47 million and £157.93 million, respectively. This implies transaction value (largely identical to enterprise value) to revenue ("EV/R") of 5.07x and relative to EBITDA ("EV/EBITDA") of 21.53x. Compared to the valuations in our sector comparables table further above, these are rich valuations.

Financials

The following table outlines the financial highlights of the company for 2018. Note that previously, the company's fiscal year ended March 31, and the company recently adjusted their fiscal year dating. Because of this, the table below only reflects the nine months ended December 31, 2018.

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EPS (basic)	$	-0.73

**Reflects only last nine months of 2018*
Source: FRC, Company Financials

Note that the company's financials only reflect a small portion of Oryx's results during the same period, as Oryx was only acquired late December 2018. According to management, if Oryx has been consolidated into the company's financials, **then Bragg would have reported pro-forma revenue of $31.83 million, and a net loss of $19.06 million for the nine-month period constituting the company's adjusted 2018.** In addition, the company has provided guidance for their Q1-2019 financials, and expects Q1-2019 revenue of between $8.8 million and $10.4 million – far surpassing Q1-2018's revenue of $2.7 million.

In addition to the above, the company reported that it is currently undergoing a complete restructure of the GMS subsidiary. As a result, the company reported that, in addition to the user growth highlighted earlier, it had significantly reduced the cost base of GMS. This is expected to result in annual cost savings of $1.60 million. Whilst our discussions with management do not indicate that GMS is a main growth driver of the company, GMS as a standalone asset is attractive given its large user base and leading status as a source of sports media. In the hands of an adept management team, we believe that GMS can be restructured and primed for major growth.

Undervalued Based on EV/R

Though an in-depth, comprehensive valuation of the company will be outlined in our initiating report, we believe that it is pertinent to provide investors with a preliminary representation of Bragg's value. The below table, which was provided earlier, demonstrates valuation multiples for comparable sectors that we believe Bragg could be considered a constituent of, and which Bragg may begin to emulate in the long-term.

Sector	EV/R	EV/EBITDA	P/E
Online Gaming Operations	2.60	11.10	16.70
Online Casinos	2.50	12.60	16.70
Gaming Operations	2.70	11.30	20.60
Casinos	3.00	11.70	19.20
Average	**2.70**	**11.68**	**18.30**

Source: FRC, Capital IQ

Based on the above metrics and 2018 pro-forma revenue of $31.83 million, the valuation multiples above suggest that Bragg should be trading at a market capitalization of $93.93 million, based on the above EV/R and adjusting for cash and debt. **Bragg is currently trading at a market capitalization of $32.70 million, implying an upside of 187.21%.**

Whilst this does not capture the entire picture, and further analysis will be required before we provide a definitive rating, it does point to the potential value of Bragg.

We are conducting due diligence on Bragg and will be initiating coverage shortly.

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Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
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Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

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2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

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