

Jumbo Interactive Limited (JIN)				CASE:	BASE	DATE:	1/06/2021			
The Story										
JIN's value relies on the transformation of the business from a single customer online lottery operator (Tabcorp contract) into a diverse online lottery solution in Australia and the UK, plus US opportunities. Runs are on the board for this change, the restructuring of reporting in FY21 shows the Lottery Retailing, SaaS and Management segments separately to highlight that the future for the business is in the new business units. The base valuation is around current value and shows what assumptions are priced in, the Bull case of higher growth is nearly 3x the current price, while the Bear case is about a third and assumes lower growth and the loss of the Tabcorp contract. Margins will drop initially due to increasing fee charges from the renewed Tabcorp contract but increase in the long run as the high margin SaaS business out grows the legacy lottery business which is the current										
The Assumptions										
What	Base Year	Terminal Year	Link to story							
TTV	348,601	2,234,343	SaaS business drives over 60%+ of TTV growth, large TAM over limited current lottery TAM.							
Revenue	8.2%	3.0%	High revenue growth rates tailing to terminal rate in year 10 but business segments vary							
Gross Margin %	92.7%	75.9%	Change in Margin allocation occurred in FY21, margins expected to grow due to SaaS growth							
EBITDA Margin %	59.9%	56.4%	Margins dip until FY24 when the full Tabcorp fee is payable but then increase due to SaaS							
Tax	30.8%	27.5%	Australia based							
Capital Spend	6,697	19,107	Based on FY20 with 10% growth each year, almost all intangibles (R&D)							
Share Count Changes	62,449	69,644	Low level of dilution, assume 1% share count growth due to ESOP's							
Discount% : EV/EBITDA	10.0%	10.0%	Market risk, low bar terminal multiple, equates to around P/E of 16.4							
The Cash Flows (A\$'000)										
Year	Dilution	TTV	Revenue	Gross Margin	%	EBITDA	%	Tax	Capex	FCFF
1	63,048	516,028	87,276	74,253	85.1%	55,915	64.1%	13,566	7,367	34,982
2	63,678	648,097	99,680	80,617	80.9%	59,488	59.7%	14,367	8,103	37,017
3	64,315	827,209	115,168	88,938	77.2%	64,246	55.8%	15,477	8,914	39,856
4	64,958	1,046,146	133,115	97,986	73.6%	69,230	52.0%	16,628	9,805	42,797
5	65,608	1,274,242	151,596	112,699	74.3%	79,998	52.8%	19,348	10,786	49,864
6	66,264	1,494,782	169,537	126,971	74.9%	90,752	53.5%	22,041	11,864	56,847
7	66,927	1,714,446	187,300	141,118	75.3%	101,692	54.3%	24,758	13,051	63,884
8	67,596	1,913,921	203,648	154,103	75.7%	112,091	55.0%	27,296	14,356	70,439
9	68,272	2,071,995	217,229	164,788	75.9%	121,102	55.7%	29,422	15,791	75,889
10	68,955	2,169,265	226,802	172,129	75.9%	127,896	56.4%	30,902	17,370	79,624
Terminal	69,644	2,234,343	233,606	177,293	75.9%	131,733	56.4%	31,829	19,107	80,797
The Value (A\$'000)										
Terminal Value (Diluted)		1,181,223	Cashflows discounted for dilution							
PV (Terminal Value)		451,741								
PV (FCFF of next 10yrs)		292,089								
Value of Operating Asset		743,830								
Adjustment for Distress		-	Failure Probability = 0% Strong cash position and FCF							
Adjustment for Future Options		148,766	Option Case = 20%, Acquisitions, Product development an upsell opportunities.							
- Debt & Minority Interest		-								
+ Cash & Equivalents		61,999	Just under \$1.00 of current value is cash on the balance sheet.							
Value of Equity		954,595								
Value per share (Base Currency)		\$ 15.29	Insider Holding%: 15.3%; 8p Rem Report; GlassDoor: Rec 93%, CEO 100% (25 Rev)							
FX Rate		1.000	Current Price	%	Bull Valuation = \$43.42 (\$686m FY30 Revenue)					
Value per share (A\$)		\$ 15.29	\$ 14.86	3%	Bear Valuation = \$6.51 (\$33m FY30 Revenue - loss of Tabcorp)					
Source: Methodology and Format are based on that done by Aswath Damodran (see: aswathdamodaran.blogspot.com)										
Disclaimer: Valuation is not to be relied on as financial advice of any sort and is prepared for personal use of the author only.										