LOCAL EQUITY REPORT

SUPREME VENTURES LIMITED

Barita Investments Limited
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Company Overview

Supreme Ventures Limited (SVL) is a Jamaican-based company whose primary business is betting, gaming, and lottery operations, which is inclusive of horse racing and video lottery terminals as well as the sale of cell phone credit pin codes. The Company is the first local provider of a multijurisdictional lottery, the super lotto which is offered in eight Caribbean countries and currently operates with over 1,400 retail terminal locations. The Company and its subsidiary, Supreme Ventures Racing & Entertainment Limited (SVREL) signed an agreement for the operations of Caymanas Track Limited effective March 2017. The Company also expanded outside Jamaica with its multijurisdictional license for the first time In December 2018 with the opening of the Guyana operations through the iBet Supreme brand.

Stock	SVL
Close Price	J$19.16
Estimated Fair Value	J$19.16
YTD Return	7.70%
Trailing PE	22.06X
Forward PE	18.43X
Dividends Yield	4.18%
Potential Upside	0.0%
Total Returns	4.18%
Recommendation	**MARKETWEIGHT**
Date	April 1, 2022

Analyst Outlook

SVL is currently the market leader in the lottery and gaming industry. In recent years, the Group has taken steps to strengthen its position and drive further growth by diversifying its revenue stream through various acquisitions within the gaming industry such as Champion Gaming (2020), and Post to Post Betting (2019). The Group has also made acquisitions in the financial services industry via its acquisition of 51% of Mckayla Financial Services (2021) as well as a 10% stake in Main Event Entertainment Group Ltd., increasing its exposure to the entertainment sector in the non-gaming segment. In addition to these acquisitions, the Group has expanded to new territories such as its expansion into Guyana and the offering of its primary lottery product in the South African Market.

Despite these developments, the Group's growth was impacted by the pandemic, primarily in the sports betting segment with the temporary closure of Caymanas Park and restrictions implemented to slow the spread of COVID-19. Therefore, with the reopening of the economy and the subsequent improvement in economic activities, we expect to see some recovery in the Company's profitability in the short term. In the long term, however, we note the entry of several competitors in recent years, namely Goodwill Gaming and Mahoe Gaming (both approved by the regulators in 2020). With these new competitors, SVL will likely lose some market share and some margin as it aims to remain competitive in an industry that had previously been highly uncompetitive. Given its history among customers and its reach, however, we expect that SVL will remain the market leader for the foreseeable future, albeit with the caveats highlighted.

The above considerations have impacted the considerations we made in the inputs when arriving at our forecast and hence inform our **MARKETWEIGHT** rating. Possible factors that might warrant a better than originally forecasted performance include a quicker than projected expansion in external markets such as Guyana, a faster than projected pickup in sports betting activity especially as the company invests in making the gaming industry more digitalized, and lastly a weaker than expected market penetration from newcomers, Mahoe and Goodwill Gaming, which might place less pressure on gross margins and payout for SVL as any lack of significant competition would make it easier for SVL to maintain its market share.

Business Economics

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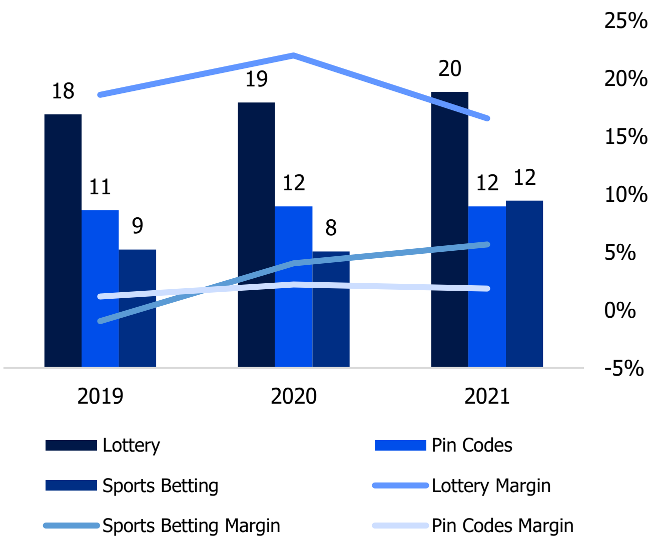
SVL is a regulated entity under the gaming act, with the Betting, Lottery, and Gaming Commission (BGLC) as the regulator. SVL essentially operates within the gaming industry, offering services within the betting, gaming, and lottery operational segments given their large network of retail sellers and continued acquisition strategy of additional operators (retailers who sell their lottery products). The Company's segments include:

- **Sports betting:** Relates to wagers on local and international sporting events offered through SVL's network. This includes horseracing (from the company's Caymanas operation) and video lottery terminals offered at gaming lounges and food and beverage operations Revenue represents the net winnings from bets taken on the local and international sporting events at all branches and agents, net of refunds.
- **Pin Codes:** This segment represents the sale of phone credit from telecommunications providers. These pin codes are sold to the public by contracted retail agents.
- **Lottery:** Lottery games comprise non-fixed odd wagering and fixed odd wagering games for both of which income is recognized on a draw-by-draw basis, at the point the draw takes place. Lottery games are offered through the agents' network and include popular names such as Cash Pot, Money Time, Lotto, and Super Lotto[1].

As can be seen from the detailed 2019 breakdown (the latest available breakdown) the Group's main revenue source has been the lotteries segment as stated prior. However, what becomes more evident from this is that when the lotteries category is broken down further, it can be seen that the Cash Pot games contributed 66.8% of all lotteries revenue and 47.8% of total revenues. From the audited 2021, financial statements we see that the lottery segment is still the largest while the sports betting segment has enjoyed the largest growth over the 2019-2021 period with a CAGR of 18.8% compared to 4.3% and 1.2% for the Lottery and Pincodes segments respectively. Hence, from this, the key takeaway is that the lottery segment is currently the largest revenue generator while the sports betting segment is the fastest-growing segment (Management has also noted their intention to focus heavily on this segment going forward as a key performance driver in the long term). The Pincodes segment is a low-margin business but provides synergies as customers tend to purchase lottery tickets in the places where they also buy pin codes.

Segment Income and Margins



Market Overview

Much of 2020 and 2021 were impacted by the COVID-19 pandemic. The most direct inhibitor of growth included the lockdown measures, which varied from curfew days, to complete no-movement days. These impacted both the operations of racing tracks, as well as sports betting particularly in gaming lounges as the entertainment sector suffered due to the lockdowns. To analyze developments in the gaming/gambling/lotteries industries we utilized data from the Betting Gaming and Lotteries Division, the industry regulator. Unfortunately,

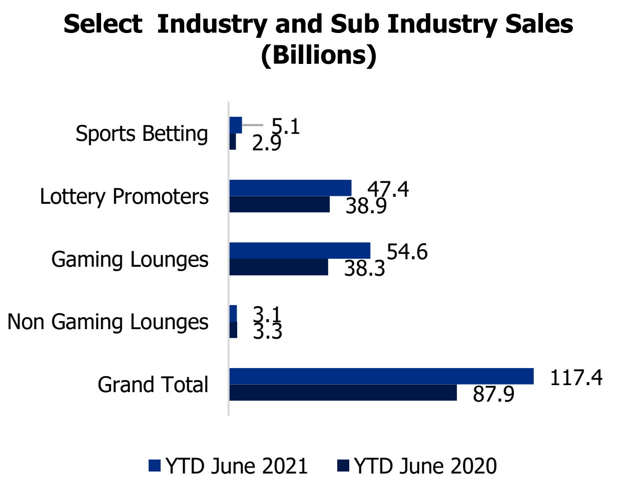
[1] Fixed odd games refer to ones where the winning amounts is known prior to the player prior to the time of play while for non-fixed odd games the winning amount is unknown to the player prior.

annual data between the period 2017-and 2020 is currently not available, however, data for the YTD quarter 3 for 2021 and 2020 is accessible.

From this, we can determine that the coronavirus pandemic did have an impact on the sector, most noticeable for the Gaming lounge sector which we noted before would have been hurt by the lockdown measures. This subsector had a decline in overall revenues from $23.7 billion for the March 2020 quarter to no revenues recorded for the June 2020 quarter at the peak of the pandemic when travel was heavily restricted (including tourist travels). Sports betting likewise declined by 53% from March 2020 to June 2020 (from $1.0 billion to $481.5 million). The important thing to note, however, is that the lottery segment was surprisingly resilient during the pandemic hit quarters, at least relative to other sectors. This is evident by it only declining by 3.5% or $456.0 million. The pandemic also temporarily limited the operation of Caymanas Park and hence between March 2020 and June 2020, this business inclusive of local and simulcast horse racing declined by 88.9% (from $1.9 billion to $210.8 million). The overall lottery/gaming/betting sector has, however, witnessed some amount of recovery when we look at the latest September 2021 quarterly report from the BGLC (assuming negligible seasonality given a lack of extended quarterly data). Total industry sales were $36.5 billion which is still below the relative pandemic free March 2020 ($41.3 billion) but above the June 2020 lows of $13.2 billion.

Of note, other developments in the sector include the introduction of new competitors, Goodwill Gaming and Mahoe Gaming, who were granted licenses to operate in 2020. Therefore, there will likely be a greater deal of competition in the industry. Notwithstanding, SVL has the advantage of being the incumbent market leader with an already established distribution network and stable asset base after operating profitably for several years. However, there still exists risks that the increased competition would necessitate higher payout for games as SVL attempts to retain market share in a space with relatively homogenous products (particularly the lottery segment). We note that the industry's payout ratio for the lottery segment has increased (65.3% in March 2020 to 68.2% during the pandemic ravaged June 2020 quarter) which SVL's management attributed to them "giving back" to the consumer during the heights of the economic downturn. However, the payout ratio has remained relatively high compared to historical levels, at 72.3% for the latest September 2021 quarter and we believe some of this might be because of price competition in the space.

Our outlook is for a continued recovery in the sector as the government announced an end to the lockdown and curfew-related restrictions. This would be highly beneficial for the gaming lounge which is heavily linked to the performance and therefore, the opening of the entertainment and tourism sectors. This is coupled with a generally positive macroeconomic outlook with the real GDP growth projected to be 4.3% for 2022 according to the IMF, which is well above-trend growth as the economic rebound continues. We do, however, expect that at minimum in the short to medium term (approximately the next 5-years) there will continue to be heightened competition between the different lottery operators which will negatively impact the profitability of individual operators in the space.



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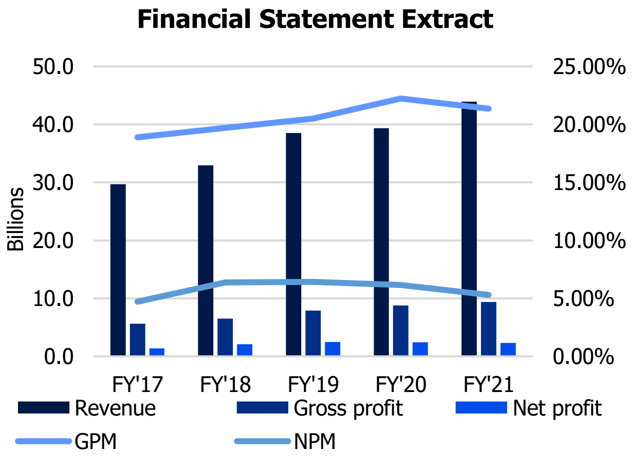
Financial Performance Summary (Financial Year End is December)



For the review period December 2017 to December 2021, SVL has grown its revenues by a CAGR of approximately 10.3% from $29.7 billion in 2017 to $43.9 billion in 2021. Of note, if we looked at the growth year by year, we could see that the Company had strong double-digit growth in 2018 and 2019 before seeing a sharp decline in the growth rate for 2020 to 2.19% before rebounding to double-digit growth in 2021. Management attributed the slowdown in 2020 to the overall decline in economic activity and lockdown measures that were faced in 2020. Taking a disaggregated look at the results, we see that the growth in the lottery segment for 2020 came in at 4.7% while there was a decline in the sports betting total gaming income of 1.8%. (This compares to growth in 2019 of 14.1% and 26.7% for the lottery and sports betting segments respectively) This coincides with industry data stated prior, depicting lottery sales as being relatively more resilient.

For the latest financial statements, which is the full year of 2021, the company grew revenues by 11.6% to $43.9 billion from $39.4 in 2020 with much of this growth being driven by the rebound in the fast pace of growth seen in the sports betting segment (total gaming income of $12.0 billion compared to $8.4 billion in 2020 or a 43.7% growth) which would have been greatly impeded in the previous year due to the inability to keep races at the Caymanas track for some parts of the year and the stricter restrictions on travel and entertainment. We note that 2021 would still have been impacted by Covid restrictions albeit arguably to a lesser extent and the company would have increased their payouts for their lottery games which would have adversely affected total gaming income (recorded net of payouts)

Gross Profit and Margin

The Company has enjoyed robust gross profit growth over the 2017-2021 period with a CAGR of 13.7%, outpacing the revenue growth (10.3%). Gross profit in FY2021 was $9.4 billion compared to $5.6 billion at the end of 2017 and $8.8 billion at the end of 2020. The annual gross profit growth slowed somewhat in the last two years with growth rates of 10.8% and 7.2%, respectively, for FY2020 and FY2021 compared to the average annual growth of 24.7% in the 3 years before (2017-2019). This was due to the slowdown in revenue growth stated prior coupled with direct expenses remaining relatively high. In FY2021, while revenues rebounded modestly (11.6%) direct expenses grew at a faster pace (13.0%) which led to the slowest year of gross profit growth (7.2%) in the last five years. Likewise, the gross profit margin which has been trending upwards since 2017 saw its first year of decline, moving down from 22.24% in FY2020 to 21.4% in FY2021.

The increase in direct expenses which has weighed on gross profit growth in FY2021 has mainly been linked to the Group's horse racing operations. Specifically, the group paid out additional

1. $2.0 billion in horse racing dividends,
2. A 45.9% increase, a 20.7% or $808,0 million increase in agent's commissions

3. A $406.5 million or 21.0% increase in Good cause fees.

These three categories account for 80.4% of the $4.0 million increase indirect expenses for FY2021 relative to FY2020. The increase in the payout for horse racing dividends is a result of greater activities in the horse racing segment which has turned positive segment results for this year. Hence, we expect that this increase in expenses isn't a one-off occurrence and will likely continue as the activity at Caymanas increases and as the group carries out its commitment to link payouts to jockeys with profitability. SVL's commitment to share a greater portion of its revenues with stakeholders also means that it is likely that the increased spending on agent commission will remain elevated especially as the group aims to aggressively push sales, particularly in the more competitive betting segment. The increased good cause fees relate to payments for "good causes" such as payments to the Chase Fund which was established to receive some of the taxes foregone from the gaming sector that would have gone to the consolidated fund to invest in Sports, Early Childhood education, health and art, and culture. Hence this expense is mandated by law (1% of aggregate gross profit as stipulated by the Betting, Gaming and Lotteries Act) and is likely to increase with revenue growth.

Operating Expenses and Net Profit

The Group has seen operating expenses grow at a CAGR of 15.8% over the FY2017 to FY2021 period, with the latest increase in 2021 being to the tune of 24.3% (from $5.0 billion in FY2020 to $6.2 billion in FY2021). The bulk of this increase was due to higher staff costs as well as greater spending on Marketing and business development. This is in line with the Company currently trying to expand and diversify its revenue lines through several acquisitions which would necessitate increased spending on staff and marketing of the new business lines. This resulted in an increase in the operating expense ratio from 12.6% in 2020 to 14.0% in 2021.

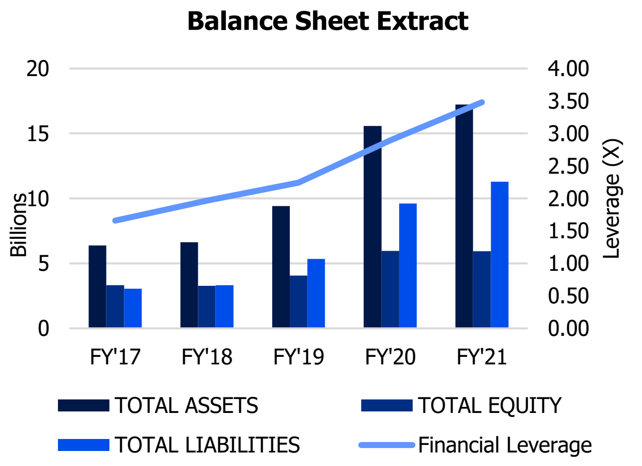
The Group recorded a net profit after tax attributable to shareholders of $2.3 billion in FY2021. This represents a decline of 2.0% compared to FY2020 ($2.4 billion) and is lower than the CAGR between 2017-and 2021 of 14.2%. This decline in net profit is a result of reduced gross margins as stated earlier coupled with higher operating costs. Taking a segmented view indicates that despite the overall decline in profitability (as shown by segmented results before the subtraction of taxes, finance costs, and revaluation gains), the sports betting segment which includes horse racing grew by over 100% returning a segment result of $681.3 million compared to $338.5 million in 2020 and a loss of $10.0 million in 2019.

Going forward, we expect that the Company will continue to face competition in the lottery segment of its business as the competition increases and margins decline as the payout ratio remains elevated. This would have a material impact on profits given that this is the largest business segment. It is also our expectation that operating expense will remain elevated as the company returns to operating Caymanas at full capacity and diversify its revenue streams which will require greater spending (e.g., its venture in the Guyanese market). However, we expect some of these negatives to be offset by greater sports betting revenue which continues its rebound, an improvement that coincides with the improved economic activity along with the Company's recent acquisitions adding to top-line growth.

Liquidity and Solvency

As of December 2021, the Group had total assets of $17.2 billion which represents a growth of 10.6% relative to 2020 and a CAGR of 28.2% over the 2017-2021 period. Current assets represent 43.8% of the Company's total assets while noncurrent assets represent 56.2%. Currently, the Company's largest asset holdings are cash and cash equivalents (25.4%), goodwill, and intangibles of 24.6% of total assets followed by property plant and equipment (24.4%). The Company's largest asset holding which is cash is due to the very liquid nature of the business it operates (dominated by cash sales) but we also note that the cash balance of $4.4 billion is down from the $6.3 billion in the prior period of 2020. This was due to cash considerations for additional acquisitions inclusive of an additional 29% stake in Post-to-Post Betting Limited, a 10% stake in Main Event Entertainment Group, and the finalization of the purchase of assets of ICE Jamaica Limited. In line with these acquisitions, the Company has also seen an increase in intangible assets on the balance sheet due to bargain purchases.

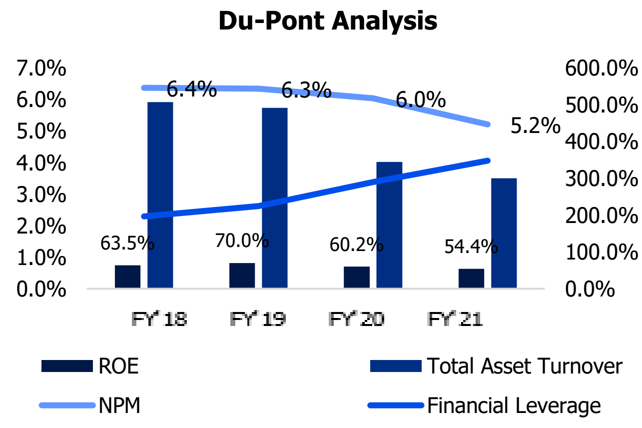
Total liabilities totaled $11.3 billion, of which $6.1 billion comprised current liabilities. Total liabilities as of December 31, 2021, grew by 17.5% which compares to the CAGR over 2017-2021 of 38.7%. The group's largest holding of liabilities represents Long-term payables (30.1% of total asset base or $5.1 billion) and Trade and other payables (18.3% of asset base or $3.5 billion). The growth in long-term liabilities from $1.4 billion in 2019 to $5.1 billion in 2021 represents the group's use of debt to fund its acquisitions throughout the last three years. For December 2021 the Company's Current ratio was 1.5X, down from 2.0X in 2020. This is due to lower cash holdings coupled with greater holdings of current liabilities (trade and other payables). We however still believe this ratio is adequate, especially when coupled with a cash ratio of 0.8X (noted this is down from the 1.5X in 2020 due to additional acquisitions as stated prior).



Total Shareholders' Equity stood at $4.2 billion as of December 31, 2021, and has increased by 0.7% over FY2020. Over the FY2017-FY2021 period, this equity balance has increased by a CAGR of 6.2%. The main driver of this historical growth in shareholder's equity has been the continued profitability of the company with retained earnings standing at $2.3 billion at the end of December 2021 (representing a CAGR of 15.5%). The financial leverage ratio increased from_1.9X in 2017 to 3.7X in 2021 due to the higher debt load undertaken by the company as it continued its inorganic growth strategy.

DuPont Analysis

To determine the main drivers of the Group's performance, we've conducted a DuPont analysis. Looking specifically at 2021, we see that the Company had a return on average shareholders' equity of 54.4%, an asset turnover rate of 300.0%, a 348.0% financial leverage ratio, and a net profit margin of 5.2%. Of note since 2019, the Group's ROE has declined from 70.0% to 54.4% at the end of 2021. This decline was a result of the slowdown in revenue growth as mentioned prior (partly explained by external factors such as the pandemic) which when coupled with the expansion of the Company's asset base through the utilization of debt financing for acquisitions, has resulted in an ROE that is largely debt-driven while net profit margin and asset turnover have been on a declining trend.



The decline in net margin follows the continued rise in expenses (particularly relating to the operation of Caymanas and increased lottery payouts). This decline would have only been partially offset by the increased use of leverage by the Group. Given the current industry dynamic and the potential for much stronger competition from the new industry participants, SVL may find it difficult to drive ROE reminiscent of FY2019's level of 70.0%.

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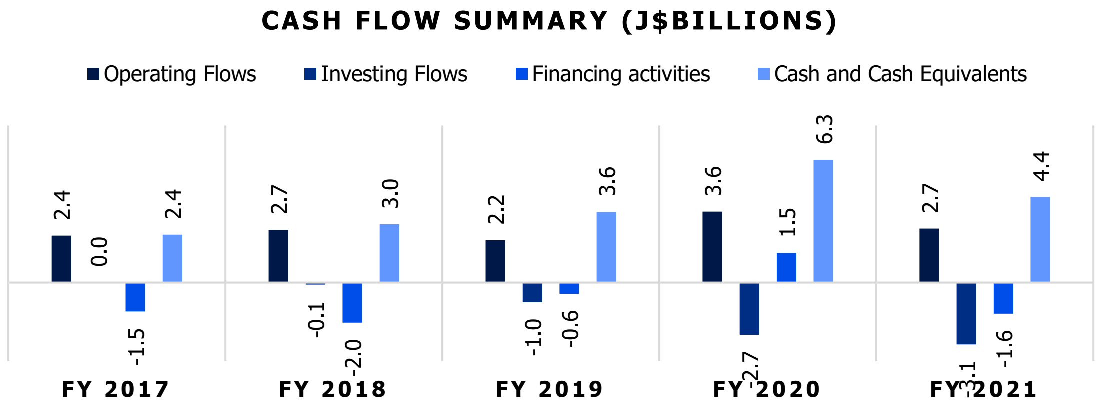
Cashflow Statement

The group is a mature company with relatively stable cash flows that track net profits closely. In 2021 the group generated operating cash flows of $2.7 billion ($859.3 million lower than 2020). The decline relative to last year represents the group's increased use of credit sales with trade and other receivables increasing by $1.2 billion in 2021.

Of note, the company has been utilizing an increasing amount of its cash resources in investing activity. This is evident by investing cash outflows moving from $995.8 million in 2019 to $3.1 billion in 2021. This increase in investment spending reflects numerous additions over the last 3-years with the acquisition of property and equipment moving from $627.4 million in 2019 to $1.9 billion in 2021.

The group had financing cash outflows of $1.6 billion in 2021 compared to a cash inflow of $1.5 billion in 2020. The group historically over the 2017-2021 period has typically had negative financing outflows as they consistently payout dividends. The positive cash flow from last year was because of the company taking on additional loans to finance its recent acquisitions.

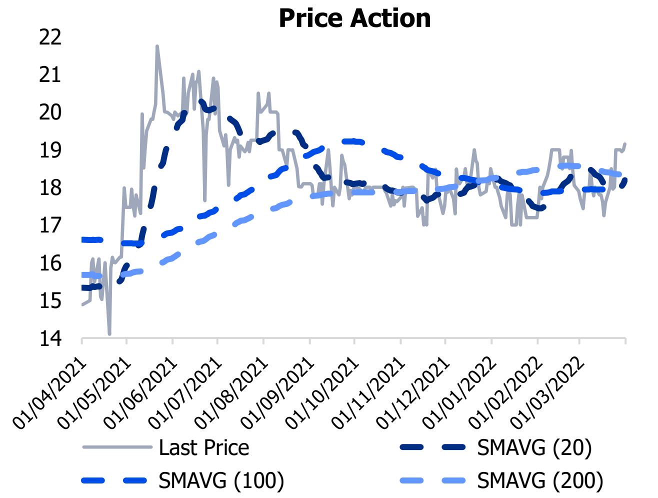


Technicals

As seen from the chart, a significant portion of SVL's share capital is considered Stagnant shares (58.64%). Stagnant shares are shares that don't typically trade on the Market. Therefore, SVL's float percentage is approximately 41.37% which represents an approximate value of $20.9 billion. While in percentage terms SVL's float size isn't large we believe that the stock has adequate liquidity for the retail investor, especially in comparison to Junior Market Stock. This is evidenced by the fairly large absolute value of the float and the fact that over the last year the stock has traded at an approximate value of $5.65 million daily.

SUPREME VENTURES LTD (SVL JA Equity)
Calculation of Float
Current Shares Outstanding - Stagnant Shares

Components	Position	% Out
Float	1,090,894,362	41.365
Shares Outstanding	2,637,254,926	100.000
Stagnant Shares	1,546,360,564	58.635



Looking at price action we see that over the last 6 months SVL has traded relatively flat in a $17-$19 range with a high of $19.16 as of April 1, 2022. We note, however, the stock has some amount of short-term momentum as evidenced by the 20-day moving average price ($18.12) being above the 100-day moving average ($18.01) but still below the 200-day moving

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average of $18.32. Hence, based on its current price action, the stock has a small amount of short-term momentum but hasn't shown signs of a longer-term breakout yet.

Valuation Summary

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Total Returns	4.18%
Recommendation	**MARKETWEIGHT**
Date	April 1, 2022

To value SVL, we utilized two approaches, the Justified P/E, and a Dividend Discount Model (DDM). For both methods, we assumed a cost of equity of 11.43% which was derived from a "build-up" approach adding an equity risk premium to an estimate of the company's cost of debt.

For the justified PE approach, we forecasted an EPS of $1.04 per share for the 2022 financial year. This compares with the Group's latest earnings per share of $0.87 for the 2021 financial year. Key considerations that went into this EPS forecast include continued improvement in the betting segment which was materially held back by eternal factors in 2020 and some portions of 2021 as well as a slight erosion of margins as the Group pays out a larger portion of prizes to stakeholders (greater winning pay-outs and horse purse fees, as well as a continuation of the elevated lottery pay-outs partially due to competitive forces as the Group aims to maintain market share). Utilizing the aforementioned cost of equity, an estimated payout ratio of 89.6% and a justified P/E multiple of 20.51x, we arrived at a fair value estimate of **$21.32**.

For our DDM valuation, we forecasted earnings further into the future, with 3 years of continued strong growth and improvement in the betting and lottery segment (which we would have seen in the group's latest quarters) which then tapers off into our estimate of the long-term growth rate. This estimate was derived fundamentally by considering the Group's return on equity over the last 4-years and the approximate pay-out ratio to arrive at a growth rate of 6.77%. From this 2-stage DDM, we derived a fair value estimate of **$17.00**. Utilizing an average of both results, we arrived at our final estimate of fair value, **$19.16**, which based on the current market price, implies that the Company is fairly priced. Considering the results of our valuation coupled with the details of the analysis provided above, we've issued a **MARKETWEIGHT** recommendation for SVL.