

Gambling.com Group
First Quarter 2023 earnings Conference Call
May 18, 2023

Presenters

Charles Gillespie - Co-Founder and CEO

Elias Mark – Chief Financial Officer

Peter McGough – Vice President, Investor Relations

Q&A Participants

Ryan Sigdahl - Craig-Hallum

Jeff Stantial - Stifel

Barry Jonas - Truist Securities

David Katz - Jefferies

Operator

Greetings, and welcome to the Gambling.com Group's First Quarter 2023 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press “*”, “1” on your telephone keypad.

As a reminder, this conference is being recorded.

At this time, I'd turn the call over to Peter McGough, Vice President of Investor Relations. Thank you. You may begin.

Peter McGough

Thank you. Hello, everyone, and welcome to Gambling.com Group's first quarter 2023 earnings results call. I am Peter McGough, Vice President of Investor Relations. I am joined by Charles Gillespie, Chief Executive and Co-Founder, and Elias Mark, Chief Financial Officer.

The call is being webcast live through the Investor Relations section of our Website at gambling.com/corporate/investors, and a downloadable version of the presentation is available there, as well. A webcast replay will be available on the Web site after the conclusion of this call. You may also contact Investor Relations support by emailing investors@gdcgroup.com.

I would like to remind you that the information contained in this conference call, including any financial and related guidance to be provided, consist of forward-looking statements as defined by securities laws. These statements are based on information currently available to us and

involve risks and uncertainties that could cause actual future results, performance and business prospects and opportunities to differ, materially, from those expressed in or implied by these statements.

Some important factors that could cause such differences are discussed in the risk factors section of Gambling.com Group's filings with the Securities and Exchange Commission.

Forward-looking statements speak only as of the date the statements are made and the company assumes no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information except to the extent required by securities laws.

During the call, there will also be a discussion of non-IFRS financial measures. A description of these non-IFRS financial measures is included in the press release issued earlier this morning, and reconciliations of these non-IFRS financial measures to their most directly comparable IFRS measures are included in the appendix to the presentation and the press release, both of which are available in the Investors tab of our Website.

I'll now turn the call over to Charles.

Charles Gillespie

Thank you, Peter, and welcome, everyone. Gambling.com Group is off to a tremendous start in 2023 as this morning we reported another quarter of all-time record results.

These record results were driven by continued outstanding execution of the key fundamentals of our business, complemented by the launch of sports betting in Ohio and Massachusetts.

With these results, we have again demonstrated that we are leading the way in terms of organic growth among our publicly traded peers.

With this great start to the year, we continue to expect that 2023 will be another year of record financial performance, driven by strong organic growth and are resulting in attractive levels of free cash flow.

That last point, attractive free cash flow, highlights a very significant differentiator with Gambling.com Group and most of the other publicly traded companies in the U.S. targeting the high growth online gambling industry.

Although we do not currently have clarity on any additional U.S. state launches for sports betting before January 2024, we are today raising our guidance for full year 2023, as Elias will detail later in the call.

First quarter revenue rose 36% to 26.7 million, reflecting a more than 30% increase in North American revenue and continued strength in the UK and Ireland with revenue growth of 36%.

We generated 10.7 million of adjusted EBITDA and 6.2 million of free cash flow.

Our first quarter results benefited from sports betting launches in Ohio and, to a lesser extent, Massachusetts, as well as strong results for iCasino across both North America and in a number of our European markets.

We delivered over 88,000 new depositing customers for our online gambling operator clients, an increase of 31% over Q1, 2022.

Our Q1 2023 NDC growth is even more impressive when you consider that last year's first quarter strongly benefited from New York's massive sports betting launch. Our growth in NDCs continues to be driven by an expansion of our portfolio of assets, as well as our continuously improving ability to leverage our proprietary technology and data science systems to convert and monetize high-intent traffic.

Our focus on organic growth paid off again, with the first quarter of North American revenues increasing 33%, year-over-year, to 14.1 million. Revenues from the UK and Ireland increased 36%, year-over-year, to 8.5 million. This was our fifth consecutive quarter of record revenues in the UK and Ireland, despite having operated in these markets for over 10 years.

Last month, we got the long awaited white paper on the review of the online gambling industry in the UK. Many of the proposals in the white paper have already been implemented by the industry, and we expect no meaningful impact on our business from the proposed measures.

Our media partnership with McClatchy performed as expected during the seasonally stronger winter sports calendar. We continue to expect meaningful revenue from our Gannett partnership this autumn, as the NFL season gets underway. And we have already launched our new section on USA TODAY, which is available at usatoday.com/betting.

BonusFinder.com continued to perform well and in line with our expectations for the quarter. RotoWire had healthy growth overall, with performance marketing revenues and subscriptions continuing to grow in the first quarter. KPIs from the RotoWire subscription business were at record levels and the business, overall, continues to deliver on our strategic objectives for the acquisition.

Our continued focus on the positioning of our Web sites and leveraging the business intelligence capabilities of our technology stack has created an execution gap between Gambling.com Group and our publicly traded peers.

There is no change to our plans to continue to invest, prudently, in the business to further improve our owned and operated Websites, as well as to optimize our media partnerships.

We've made great progress with the development of Casinos.com, which we expect to launch this summer.

Development and optimization of both McClatchy and Gannett partnerships will continue throughout the remainder of 2023. It's noteworthy that these two very large news organizations chose Gambling.com Group among all of our peers to monetize the immense opportunity in U.S. sports betting available to them.

I believe that our partnerships speak to their understanding that, among all of the online gambling affiliate companies, we have separated ourselves in terms of how we leverage our digital expertise and proprietary technology to maximize outcomes for our Website visitors and gambling operator clients.

Further optimizing the footprint of our media partnerships will create yet another competitive gap, compared to our competition.

The national and local brands footprint of Gannett U.S. is unmatched by any other daily newspaper publisher, and we look forward to unlocking the full potential of both partnerships, over the coming years.

Now, I'd like to turn the call over to our CFO, Elias Mark, to discuss our first quarter results in detail.

Elias Mark

Thank you, Charles, and welcome, everyone. As Charles mentioned, we saw a record quarter of financial results, during the first quarter.

Revenue increased 36% to 26.7 million compared to the prior year or 40% in constant currency. The increase in revenue was driven by strong growth in NDC in both North America, UK and Ireland and the rest of the world.

New depositing customers in the quarter grew 31% to more than 88,000. Also, sales during the first quarter from our media partnerships and the subscription business of RotoWire.com amounted to 1 million.

Total operating expenses were 17.5 million, an increase of 3.5 million. Total operating expenses included 0.9 million of fair value movement on contingent consideration related to the BonusFinder acquisition.

Adjusted for this fair value movement, adjusted operating expenses were 16.6 million, an increase of 22% in constant currency. The increase was driven primarily by additional headcount across marketing, product sales and technology functions, as well as public company expenses.

Amortization expenses decreased to 1.4 million as shown in assets from the RotoWire and BonusFinder acquisitions are now fully amortized. For the full year 2023, we expect to incur amortization of approximately 1.6 million.

Hiring in the first quarter continued at a more moderate pace and was well below our pace in 2022. Current staffing levels are close to being able to support our near and longer term growth objectives.

While we expect to continue to hire selectively, we expect operating leverage from revenue to outflow operating expenses for the full year. We expect to continue to deliver a substantial free cash flow.

Net income totaled 6.6 million or \$0.17 per diluted share, compared to net income of 4.5 million, or \$0.12 per diluted share in the same period in the prior year.

Adjusted for fair value movement in contingent and preferred consideration, adjusted net income in the quarter was 7.6 million and adjusted earnings per share was \$0.20 per diluted share. We will continue to adjust net income in this manner until the end of the earn-out period for BonusFinder, at the end of 2023.

We generated first quarter adjusted EBITDA of 10.7 million, compared to 7.2 million in the same quarter in the prior year. This 49% growth represents the leverage we gain when our top line growth outpaces spending growth.

Adjusted EBITDA margin was 40% compared to 37% in the first quarter of 2022.

Total cash generated from operations of 7.1 million increased from 3.6 million in Q1 22, driven by the strong year-over-year revenue growth.

We generated first quarter free cash flow of 6.2 million, as CapEx normalized following the expansion of our domain name portfolio in 2021 and 2022 to include such new marketing names as casinos.com.

We remain able to entirely fund our organic growth initiatives, operating cash flow while continuing to generate positive free cash flow.

Cash as of March 31, 2023, totaled 33.6 million, a \$3.9 million sequential increase. In respect of the great performance in 2022, we were pleased to pay the bonus for our team, the maximum

amount possible under the terms of the agreement at the beginning of Q2 2023. The consideration was 20 million of which 50% was paid in unregistered shares.

Turning to outlook. We are now ready to see an increasingly strong period of the fall and winter sports calendar. We expect a normal seasonal pattern in the second and third quarters as a result of fewer sporting events in comparison to the fourth quarter of last year and the first quarter of 2023.

In our view, demand for performance marketing services for the online gaming industry remains strong and it's even more valuable for operators, as they continue to make progress towards delivering profitability.

As we continue to gain additional scale, particularly through increased delivery of NDCs for our customers, that scale gives us additional pricing power.

We will continue to monitor consumer behavior closely in both Europe and North America that's reflecting our Q1 and the strong start to Q2, and we're not seeing any pullback from consumers, to date.

Given these factors and on the back of our strong Q1 performance, this morning we raised our 2023 full year revenue and adjusted EBITDA guidance.

The new ranges are for revenue in the range of 95 million to 99 million, compared to the prior range of 93 million to 97 million. The new range represents year-over-year growth of 24% to 29%. We now expect adjusted EBITDA to be between 33 million and 37 million, as compared to our earlier expectations of 32 million to 36 million.

The new range represents year-over-year growth of 37% to 54% and the full year margin of 36% at the midpoint of the respective revenue and adjusted EBITDA ranges.

As we highlighted when we provided our initial outlook for the year, our 2023 guidance assumes no new market launches or impact from any future acquisitions.

Our guidance for 2023 now assumes the euro to USD exchange rate of 1.085.

Under the company's authorized share buyback program, we have purchased a total of 107,836 shares at an average price of \$9.48 to date, representing about 10% of the total (inaudible) top line.

We will continue to opportunistically repurchase shares, when we see value and are able to be in the market.

in September, we filed an S-3 registration statement to enable the company to issue up to 100 million in securities. As a result, the company is able to raise additional capital requirements on certain transactions that support our goal of increasing shareholder value.

Earlier this morning, we filed an additional S-3 registration statement to enable some of our long-term pre-IPO shareholders to sell a portion of their shares in the future. This will increase the value for our free float for the benefit of shareholders.

With that, I will turn the call back to Charles.

Charles Gillespie

Thank you, Elias. Regarding the S-3, I'd just like to quickly note that the Board and the major pre-IPO shareholders are all in alignment regarding the benefits of a potential structured trade to responsibly increase the company's free float, which should help improve liquidity for the benefit of all shareholders. We expect that the outcome of such a transaction would make investing in Gambling.com Group easier for larger institutional investors.

Before we wrap up for your questions, I'd like to zoom out, stop talking about a single quarter and give some big picture perspective. We continue to be in a great position to deliver strong organic growth and gain market share in many of our markets, as we move through the balance of spring and into summer.

The strong momentum for Q1 has carried over into the start of Q2.

The 2023 legislative season has kicked off and the first successes are in Kentucky where they have successfully regulated sports betting. Vermont is more or less a done deal with sports betting legislation only waiting the Governor's signature. We believe that North Carolina is also likely to succeed with sports betting legislation in the coming months.

In Minnesota and Texas, the legislators continue to debate, and there is a chance of a positive outcome. Texas would, of course, be an immense market. But despite early signs of progress, it is still long odds for success, this year.

As Elias highlighted, we are not yet suggesting any revenue from additional state launches, this year. Once we have full clarity on the launch timeline for any new states, we will adjust our guidance.

While the unending expansion of regulated online gambling in the U.S. captures most peoples' attention these days, the combined opportunity of newly regulating markets outside of North America and Europe is equally compelling and thoroughly underappreciated.

Likewise, the ability for the world's largest regulated online gambling markets to continue to be drivers of growth for GAMB is remarkable. I was delighted to see exceptional growth in the UK

and Ireland continue and actually surpass North America during the quarter, highlighting our ability to still deliver impressive growth in established markets, as well as how truly early it remains in North American online gambling.

We're looking forward to the launch of Casinos.com in the next few months and expect the site to be a tremendous vehicle to drive revenue growth over the coming years. We believe the domain is as good as it gets and fully expect it to become a dominant brand in the online gambling affiliate world, in due course.

I will end by once again thanking the brilliant team at Gambling.com Group for their exemplary efforts in delivering yet another record quarter.

With that, we'd be happy to open up the line for your questions. Operator.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

One moment, please, while we poll for your questions.

Our first question is coming from the line of Ryan Sigdahl with Craig-Hallum. Please proceed with your questions.

Ryan Sigdahl

Hey, Charles, Elias, nice job, guys. Good quarter. Curious, I want to start with the new states that launched, Massachusetts, Ohio. Obviously, a lot of spending, we've heard some pull forward of spend from some of the big operators into those states into Q1, but curious kind of how the quarter was in those states. And then how trends and results have been kind of subsequent to quarter end in April and May so far.

Charles Gillespie

So, Ohio was a very important state, lots of operators, meaningful population, good competition, all-in-all came in a very successful state launch. I think the most kind of surprising thing about Q1 for us was Massachusetts, and how our expectations for Massachusetts were certainly not as high as Ohio, but kind of uniquely among all the U.S. state launches so far.

Month two in Massachusetts was actually better than month one. And that had something to do with kind of the sporting calendar and some of kind of momentum around the initial launch day. But those are two great states and they will continue to be very good markets for us, going forward.

Peter McGough

Just to clarify, Charles, April was better than March for Massachusetts.

Charles Gillespie

Yes.

Ryan Sigdahl

Got you. Curious then kind of as you look to the second half of this year, what you're hearing from your customers and partners, operators, etc., but on user acquisition, spend and budgets and kind of plans for the rest of this year. How much visibility and if any of that dialogue has changed?

Charles Gillespie

It doesn't tend to meaningfully change quarter-to-quarter or year-to-year, or even these aren't really happening even further. The demand for affiliate services remains rather constant. The CPA rates may have been slowed slightly. But the perspective from our clients and the operators, in general, is they want to buy as much traffic as they possibly can from the affiliates.

And those discussions really center around kind of market share within the affiliates. How can they get more exposure? How can they get more NDCs? If they're ranked two or three on our operator list, how can they be ranked number one? And that's partially a commercial discussion.

And it's really--there really is no kind of meaningful trend, either positive or negative, in terms of demand for the services. We see this as very reliable content.

Ryan Sigdahl

Great. I'll turn it over to the others. Nice job, guys, on the performance.

Charles Gillespie

Thank you.

Operator

Thank you. Our next question is coming from the line of Jeff Stantial with Stifel. Please proceed with your questions.

Jeff Stantial

Great, thanks. Good morning, Charles, Elias. Thanks for taking our questions. And starting off, Charles, I was hoping you could give us an update on what you're seeing in some of the core markets within other Europe and just some of the initiatives in play that are kind of helping you take share in some of the more mature markets.

And then for some of the more regulatory challenged markets, you're talking about Germany, Netherlands, things of those nature, so just what are you seeing there in terms of progress towards normalcy? Thanks.

Charles Gillespie

We've seen some strengths, obviously, in the UK and Ireland, but in the other markets in Europe, Italy has been good. Netherlands has been good. We're still optimistic that Germany will come out with some regulations, which are more consumer friendly, and we'll see more growth in that market.

But what's been driving the business is really just execution. It's not really kind of market level factors so much as it is us just delivering on Web site plans, store front gains, yield enhancement, the kind of bread and butter of running a business.

Jeff Stantial

Great, that's helpful. And then, Elias, switching gears, can you just talk about how you see margins sort of progressing sequentially, through 2023, taking into mind from the puts and takes your operating leverage on the investments called out in the press release, things of that nature? Thanks.

Elias Mark

Yes. If you look at our guidance, we're guiding towards margin expansion for the full year. But the vast majority of our costs are fixed. The margin will vary between quarters as a function of seasonality.

Jeff Stantial

Okay. So is it fair to assume your seasonality for margins should basically mirror the seasonality you called out in your prepared remarks on guidance? Or should we think about other--some of the investments instead of the growth initiatives, some other dynamics at play?

Charles Gillespie

I think that's it, Jeff. It's really driven by the sports calendar and, to a lesser extent, somewhat by weather in the northern hemisphere. People in the height of summer, people spend less time on their computers.

So whether that's betting on sports, that has more of kind of effect on online casino than it does on sports betting. So that's the other kind of seasonal factor, but it's far less pronounced than the sports calendar dimension.

Jeff Stantial

Great, that's helpful. Thank you both and nice quarter.

Operator

Thank you. Our next question is coming from the line of Barry Jonas with Truist Securities. Please proceed with your questions.

Barry Jonas

Hi, guys. I want to ask a bit about media partnerships. It seems like many U.S. operators are maybe trying to get out of some of their deals. And on the affiliate side, you're seeing some partner swaps and even litigation. So can you maybe talk about your media strategy, how you structured deals and how good you feel about them being successful? Thanks.

Charles Gillespie

Yeah. Hi, Barry, with pleasure. So I think the first thing to point out is when an operator does a media partnership and when an affiliate does a media partnership, those are two very different beasts.

And the affiliate model has been the model which you'd seen succeed and grow. And yeah, there's lots of--new deals are still being done on that basis, whereas the kind of operator tie up with a big media brand, those deals are by and large just not being renewed or cancelled, and you're not really seeing any new ones.

And that is a perfect example of the superiority of the affiliate model in a media context. If you are a large media owner, you can make more money by partnering with an affiliate that can help you monetize with all of the operators versus trying to monetize with one single operator. It's kind of obvious in retrospect. But this affiliate media partnership model is simply fundamentally superior, certainly from our perspective.

So, I wouldn't really compare the two. But the way we thought about this is the same way we thought about M&A. We want to do fewer, bigger deals and we're going to be really picky. It's just easier to concentrate our finite resources on two big media partnerships than it would be to focus the same resources on 10 smaller medium-sized partnerships.

So, we put really a lot of effort into both our McClatchy and Gannett partnerships, and we've got great relationships there. And I think it's just easier to manage when you develop a deeper relationship with your partners.

Barry Jonas

Got it. And then just for my follow up, apologies if I missed this in the remarks, but how much of the guidance raised is attributable to FX versus just underlying strength? And can you also remind us what the difference is at this point between the high end and the low end?

Elias Mark

Yeah, so the majority of the change in guidance is on the back of strong trading. We have the FX assumption from 1.075 to 1.085. If you look at the ranges, the difference between the low and the high range will be in our ability to continue to outperform in the UK and Ireland market

where we've seen tremendous growth and the quantum of success will rather just be on the success of the ramp up of the Gannett function.

Barry Jonas

Understood. Thank you so much, guys.

Operator

Thank you. Our next question is coming from the line of David Katz with Jefferies. Please proceed with your questions.

David Katz

Hi. Good morning, everyone. Thanks for taking my questions. I wanted to just talk about the M&A landscape. We've seen a couple of deals just within the past week that aren't necessarily directly related to Gambling.com. But it does imply some changes in the landscape.

And our imaginations can carry us toward further consolidation of things. How do we think about the degree to which that's either positive, negative or neutral for you, as we move forward?

Charles Gillespie

I think anytime a company that's in your exact sector, that's also a significant B2B supplier, is acquired at a premium in excess of 100% ,that can only reflect positively on the companies in the peer group. So we take our hats off to NeoGames on a fantastic transaction.

And it will, hopefully, also just bring some more attention back into the online gambling side of the equity market. This industry was obviously very in favor a couple of years ago, and people then realized, okay, they're not going to--the whole world shifted to focus on companies which were profitable and critical out of favor, right. It does feel like maybe that's going to swing back the other way again.

These companies are now either profitable or on the brink of achieving profitability, at least from the operator side. Obviously, the B2B suppliers have been there for some time. And hopefully, deals like the one that was announced earlier this week will further catalyze the investor perception of the industry.

And I think at the end of the day, the cash flow is hard to ignore. These are going to be some very great businesses in the U.S. market, not only in the next couple of years but in the next 20 or 30 years.

David Katz

All right. And just if I can carry that one step further, right, the degree to which does it--does it affect, I assume it would, efforts you might make to acquire more things, does that rising tide

lift all boats or do you still see opportunities for you to acquire here and there to bolster what you have?

Charles Gillespie

Well, we haven't had anyone double the price they were talking about since Monday, thankfully. But look, we were very focused on M&A. We're having a lot of conversations. We're having a lot of good conversations. There's no shortage of things out there to consider. And I'm hopeful that we'll be able to announce something at some point. But we also remain as picky as ever.

We feel like we're under absolutely no pressure to do M&A. So, we are only going to do the big deals back to kind of fewer, better, bigger transactions. We're going to do the deals, which we think really just makes so much sense that we have kind of very, very high convictions, moving forward. And we look forward to updating everybody when one of those comes into focus.

David Katz

Got it, 100% premiums, good for everyone.

Charles Gillespie

Indeed.

Operator

Thank you. There are no further questions at this time. I would now like to turn the floor back over to Charles Gillespie for any closing comments.

Charles Gillespie

Thank you again to everyone for joining us, today. We appreciate your support and interest in Gambling.com Group. We've had a strong start to the year and expect more of the same solid performance for 2023. We look forward to updating everyone again when we report our Q2 results in August.

Operator

Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.