Gambling.com
Third Quarter 2021 Results - Earnings Call
November 18, 2021

Presenters
Ryan Coleman - Investor Relations
Charles Gillespie - Chief Executive Officer and Co-Founder
Elias Mark - Chief Financial Officer

Q&A Participants
Patrick Scholes - Truist Securities
David Katz - Jefferies
Jeff Stantial - Stifel

Operator
Greetings. Welcome to the Gambling.com Group Third Quarter Financial Results 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 "*", "0" on your telephone keypad. Please note this conference is being recorded.

I will now turn the conference over to your host, Ryan Coleman, with Investor Relations. Thank you. You may begin.

Ryan Coleman
Hello, everyone and welcome to Gambling.com Group's third quarter 2021 earnings results call. I'm joined by Charles Gillespie, Chief Executive Officer and Co-Founder, as well as Elias Mark, Chief Financial Officer.

This call is being webcast live within 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 also be available on the website after the conclusion of this call, and you may contact Investor Relations support by e-mailing investors@gdcgroup.com.

I'd 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 future results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable 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, this morning.

And reconciliations of these non-IFRS financial measures to their most directly comparable IFRS measures are included in the appendix of the presentation and press release, both of which are available in the Investors tab of our website.

I will now turn the call over to Charles.

Charles Gillespie
Thank you, Ryan, and welcome, everyone. This morning, we reported our third quarter financial results, which continue to demonstrate the unique strengths of the affiliate model within the broader online gambling industry.

For those following with slides, I am now on Slide 4. Our third quarter revenue grew by 37%, compared to the prior year.

And despite the third quarter being the seasonally slowest quarter of the year, we delivered adjusted EBITDA of $3.5 million and an adjusted EBITDA margin of 34%. Identical to last quarter, all of our growth was organic, and we remain well-positioned to increase growth further, through acquisitions.

Net income totaled $4.7 million, or $0.13 per diluted share, compared to $2.3 million, or $0.08 per diluted share, in the prior year. We generated free cash flow of $0.8 million compared, to $3.9 million in the prior year.

The decline is mainly due to non-recurring payments associated with the IPO. Our successful IPO on the NASDAQ global market in July was, indeed, the highlight of the third quarter.

We also took important steps in Q3 to solidify our foundation for strong future organic growth in the United States.

We launched BetArizona.com in time for the NFL season to provide sports betting fans in Arizona with comprehensive state specific betting information.

We also launched Marylandbets.com and two new websites for the Netherlands to establish our positions in these new markets and provide local betters with trusted and up-to-date gambling information to help them place safe and secure legal wagers.

And importantly, after the seasonally quiet months of July and August, we delivered the strongest revenue month in the company's history in September. We saw a significant uplift in our U.S. revenue in September and our U.S. performance exceeded our internal expectation.

We have been encouraged to see that strength carry over into the start of the seasonally stronger fourth quarter.

Our main--now, I'm on Slide 5. Our main markets today are the UK, Ireland, the U.S. and Canada. And we also serve several other European markets.

Globally, and in particular within North America, we continue to see strong momentum from legislators to further legalize the increasingly normalized activity of online gambling.

Our top priority is to continue to grow our market share in the U.S., where we will see--where we still see the nascent U.S. market becoming the world's largest online gambling market in the coming years.

During and after the quarter, we have continued to add additional domains to our portfolio to prepare for the launch of online gambling in additional U.S. states.

Connecticut's online casino and sports betting is now live, as of October 12, and Louisiana is now issuing licenses and grants and waivers for affiliates to do business. We expect Louisiana to launch in early 2022.

New York regulators have now also approved nine sportsbooks to launch online in time for Super Bowl 56. We believe we are well positioned to service the New York market with multiple media assets. Florida went live on November 2 with a single operator.

While the Florida market structure is not ideal for consumers, we still expect to generate affiliate revenue in Florida in the future.

In Canada, Ontario was previously expected to launch regulated online gambling during Q4, but that is now expected to take place in early 2022.

In the Netherlands, regulated online casino and sports betting is now live, having recently soft launched in October.

However, many of the most important international online gambling operators have yet to receive licenses in the Netherlands and therefore, we expect to see a positive financial impact in 2022 as more operators go live and the market gains momentum.

The German Interstate Treaty went live at the beginning of Q3 on July 1. We believe the German market remains viable, but we have seen revenue volatility and lower NDC values as a result of the legal uncertainties and regulatory restriction.

We possess widely recognized brands, including Bookies.com and the iconic Gambling.com and the technology platform that allows us to go to market, quickly and efficiently, when new markets go live, helping us to build upon our established leading positions across the markets where we currently operate.

I'm on to Slide 6, now. Our capital allocation framework is outlined on this slide. Our investment plans center around our organic investment initiatives, but also involve M&A.

Organic investment. We invest in our existing consumer-facing websites and our technology platform to continue to drive organic growth, both in our existing markets, where we expect to take market share and by entering newly regulated markets.

Organic growth is the foundation of our business strategy. Our organic growth in Q3 was, again, the highest among our publicly traded peers, which have reported, thus far.

Asset acquisitions. As part of the ordinary course of business, we evaluate and acquire useful assets, which in the hands of our team can drive additional organic growth. Examples include domain names and small independent websites, which our team can take over.

These are, typically, small deals of approximately 1 million or less, and are not included in our M&A guidance.

M&A. We are well-positioned to make attractive approaches to the midsized targets to drive inorganic growth, by integrating their complete businesses and teams into our group.

We evaluate a broad range of targets on an ongoing basis and seek to execute an average of one to two deals a year in an approximate range of $20 million to $50 million, each. Since the IPO, we have been very busy evaluating and advancing discussions on multiple opportunities.

Despite continuing to invest heavily for organic growth, we remain highly profitable and are not reliant on external financing to fund our organic growth. This gives us a distinct advantage in the online gambling industry and also allows our free cash flow to fund our inorganic growth strategies.

With that, I'd like to turn the call over to our CFO, Mr. Elias Mark, to discuss our third quarter financial performance in greater detail.

Elias Mark
Thank you, Charles, and welcome, everyone. I will start with a review of our third quarter and year-to-date financial performance, before going into our outlook.

Total revenue of $10.1 million grew 37% or 30% on a constant currency basis, compared to $7.4 million in the same period of the prior year.

The increase was driven by improved monetization of NDCs, and we attribute that to a combination of technology improvements and changes in the product and marketing.

Total operating expenses grew by $3.8 million, or $3.5 million on a constant currency basis, to $7.7 million, compared to $3.9 million in the prior year.

This increase was driven, primarily, by expanding headcount across the entire organization, as we invest in the company's organic growth initiatives, as well as increased administrative expenses associated with operating as a public company.

Sales and marketing expenses totaled $3.6 million, compared to $1.8 million in the prior year. Technology expenses totaled $1.1 million, compared to $0.6 million in the prior year.

General and administrative expenses totaled $3 million, compared to $1.4 million in the prior year.

Operating profit in the third quarter decreased 31% to $2.4 million, compared to $3.5 million in prior year. This decrease was driven, primarily, by higher operating expenses, including increased share-based payment expenses and was partly offset by the higher revenue.

Net income in the third quarter totaled $4.7 million, or $0.13 per diluted share, compared to net income of $2.3 million, or $0.08 per diluted share, in the prior year. This increase was, primarily driven by the recognition of deferred tax assets in the quarter.

And adjusted EBITDA decreased by 14% to $3.5 million, compared to $4 million in the prior year. And this represents an adjusted EBITDA margin of 34%. The decrease was driven, primarily, by the increased operating expenses, which again was partly offset by increased revenue.

Total cash generated from operations of $1.4 million decreased 65%, compared to the $4 million in the prior year. This decrease was driven, primarily, by the lower EBITDA and non-recurring payments related to the IPO, as well as income taxation.

Our free cash flow totaled $0.8 million, compared to $3.9 million in the prior year. This decline was the result of decreased cash generating preparations, as discussed above, as well as increased capital expenditures consisting, primarily, of acquisition of domains and capitalized development costs.

Our new depositing customers in the third quarter decreased 4% to approximately 27,000, compared to the roughly 28,000 in the prior year. Cash balances as of September totaled $53.2 million. This is an increase of $45 million, compared to $8.2 million at the end of December.

This increase was driven by the IPO proceeds, which totaled $42 million, before associated expenses, as well as the net income generated by the company in the period.

Our borrowings, including accrued interest, totaled $5.9 million, compared to $6 million at the end of December.

On to Slide 8. Through the first nine months of the year, revenue grew 81% to $32 million, compared to $17.7 million in the prior year. Our total operating expenses grew 95% to $21.3 million, compared to $10.9 million in the prior year.

This increase was driven by increased headcount across the board, as well as cost coming from both the IPO and the expenses associated with operating as a public company. The operating profit of $10.8 million increased 59%, compared to $6.8 million in the prior year.

Net income of $11.6 million or $0.35 per diluted share was significantly higher than the $6.6 million, or $0.22 per diluted share in the prior year. Our year-to-date adjusted EBITDA totaled $16.1 million, an 89% increase, compared to the prior year.

The adjusted EBITDA margin was 50% compared to 48% in the prior year. Cash from operations grew 74% to $12.9 million, compared to $6.7 million in the prior year. And our free cash flow of $10.3 million increased 41%, compared to $7.3 million in the prior year.

Lastly, our new depositing customers increased 29% from approximately 69,000 to roughly, 89,000.

On to Slide 9, for the years 2021 to 2023, we are targeting our average annual revenue growth to exceed 40%. In our European business, we target growth faster than European gambling market over a business cycle. In the United States, we expect to take market share and be significant after in the markets, over the longer term.

At the same time, we are targeting an average annualized adjusted EBITDA margin of no less than 40%. It is important to note that our adjusted EBITDA margin may deviate from that target from quarter-to-quarter, due to seasonality and due to investments to support organic growth, primarily, focused on the U.S. markets.

Lastly, we target the net debt to EBITDA leverage ratio of under 2.5x. At the moment, we have negative net debt and very significant cash balances. These longer-term targets include potential consolidated results from future M&A.

On to Slide 10. For the full year 2021, we are on track to exceed our 40% revenue growth target, and we expect to achieve our 40% adjusted EBITDA margin target. The outlook is based on information currently available to us and does not factor in potential acquisitions, nor that it's factoring incurring additional borrowing.

It is also important to keep in mind that the first and fourth quarters are, seasonally, our strongest quarters based on weather in the Northern Hemisphere and the calendar of international sporting events.

We've remained focused on executing our growth strategy, which includes establishing the group as a leading player in the U.S. market as the top priority and also continuing to grow our market share in our more mature European markets, and to enter new markets, including new the regulated USA, Canadian provinces, and international markets, such as the Netherlands, as and when they open.

With that, we will be happy to take your questions.

Operator
At this time, we will 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 you line is in the question queue. You may press "*", "2" if you would like 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 pull for questions. Our first question is from Barry Jonas of Truist Securities. Please proceed with your question.

Patrick Scholes
Hey, guys, good morning, Patrick Scholes here for Barry Jonas. You talked a bit about M&A earlier, but just wanted to follow-up there. Are you thinking about M&A in terms of expanding the current scope of your business at all, or more so just bolstering what you already offered? Thanks.

Charles Gillespie

The current M&A strategy is basically focused on acquiring under-monetized or under-optimized media assets, which where we can run our existing business model, which we know and love so much.

So, that would include affiliates, other companies that do exactly what we do and also digital media properties online that are kind of tangential to the affiliates space, basically, web properties to, essentially, would be in a reasonably good position to look at it monetizing and running the same business model that we do.

But we're not looking at anything else, at the moment.

Patrick Scholes
Okay, that's great. And if I could sneak a follow-up in, just any thoughts on the New York market launching and how you think the high tax rates will affect affiliates, if at all? Thanks.

Charles Gillespie
I think it's an open question for the whole industry, what those high tax rates will really mean in practice. We are very thankful that there are going to be nine different operators in New York to create the necessary competitive dynamic.

We--at the end of the day, we offer a comparison-shopping products and more operators is a good thing. So, I think people won't be too focused on the tax rate at the start, as they aim for market share and a successful launch. And they will really see the effects of that tax rate at the end of 2022 and, beyond.

Patrick Scholes
Okay. That's great. I appreciate the color, guys. Thanks so much.

Charles Gillespie
No problem.

Operator
Our next question is from David Katz of Jefferies. Please proceed with your question.

David Katz
Hi, gentlemen. Good morning. Thanks for taking my questions. I wanted to go back to the M&A discussion, if I may. And to the degree that we could sort of feel likelihood, that say within a quarter or two, we'll see more than one deal.

And I was hoping maybe we could discuss just the $20 million to $50 million size range and talk about the landscape of opportunities out there. Why is it at kind of the target size? Are there bigger ones that would be out there? And why are they not the targets, etc.?

Charles Gillespie
Good morning, David.

David Katz
Good morning.

Charles Gillespie
Happy to comment on that. So, in terms of frequency, or really timing, we don't want to put any firm stakes in the ground because we think that somewhat undermines our ability to negotiate these deals.

So, all I will say on that is that we are extremely busy. And we look forward to updating everyone when we can.

On size, the thinking, internally, is in many respects, a bigger deal of $50 million or $50 million plus deals, is the same amount of work as the $5 million or $10 million deal.

And in certain respects actually less work, because you're probably getting a bigger team, which is--which has more experience. So, if it's the same amount of work to do a bigger deal than a smaller deal, we, all things are equal, we prefer to do bigger deals. And that's why we have kind of come out with this guidance of $25 million to $50 million.

But we would certainly consider things under $25 million, if they were very strategic or relevant, something we wanted to achieve. And we would certainly consider things over $50 million. And again, if it kind of ticked all the right boxes.

And then the idea of one to two is just kind of to say that we're not going to try to do too many. If you look at our peers, they've done 30, 40 plus acquisitions; that is not our objective. We're not trying to go up to that quantum of acquisitions in neither the short or really the long-term.

David Katz
Thank you. And if I can follow-up in another direction, please, which is just understanding the landscape for operators. I think you're in a unique position to understand what their hunger is for incremental market share, given that you help them to capture that?

What have you seen, over the past quarter or so? We on the Street are, increasingly, focused on share and operators' ability to capture it and what it costs them to do so? What are you seeing over the past couple of quarters from your operators and hearing from them that might be helpful for us, in that regard?

Elias Mark
I think it's largely unchanged. We haven't seen any big change in behavior in the established markets and, particularly, in this quarter what we have seen is in the market launch.

If we look at Arizona, people are extremely hungry to take share as and when the new markets open, and that will greatly increase our business for us and our affiliates. But there is, in the U.S., there's ample demand for player acquisition, but that's nothing new.

That's continued from the previous quarter and going forward.

David Katz
Okay. Thank you.

Operator
Our next question is from Jeff Stantial of Stifel. Please proceed with your question.

Jeff Stantial
Great, thanks. Good morning, Charles. Thanks for taking our questions and congrats on another nice set of results, here. I wanted to start on the promotional environment in the space, right now.

A couple of your peers did call out low sports hold in July and August and, anecdotally, into October, largely factoring the degree of promotional spend, dragging down net gaming revenue?

What--was this a headwind that you've been experiencing, as well? And if so, do you have a sense for how much it has impacted results during the quarter?

Charles Gillespie
Yeah, that's a great question. And we saw those comments, as well. I think the key thing to keep in mind with us is that sports is a relatively small part of our business. And where we are increasing sports market share is the U.S. And the U.S. is really driven by CPA deals. So, our Gambling.com Group, specifically, its exposure to sports betting rev share is not very high.

So, there is low sports betting margins, that is just absolutely a thing. That's a valid comment from our peers. And then you see that between the operators and the software in the sports with software suppliers and the affiliates.

So it's--I think those are valid comments, but it's not one that really affects us.

Jeff Stantial
Okay, great, that's helpful. And then for my follow-up, I want to drill into the Other Europe geography a bit more, revenues more than doubled year-on-year once again. Can you just talk about which markets are driving the strength?

And then an update on how the results are faring in Germany. They opposed converting to a white market will be helpful, as well. Thanks.

Elias Mark
Yes. If we look year-on-year, we have our significant growth in Other Europe, and largely driven by Germany and Scandinavia. We have to bear in mind that the comparative period in the previous year, we didn't have substantial German revenue.

We saw pretty steep growth in our German business from Q3 '20 until Q2 '21. So, if you look sequentially, that segment was roughly flat, and that's indicative of values and you see bad news and volatility in the German market being up.

Jeff Stantial
Okay, perfect. I might just squeeze in one more, if that's alright. I do think talking about Scandinavia, some of the temporary rules on deposit limits in Sweden, I want to say rolled off, recently. If I'm correct here, do you expect this to prove impactful to your results on a sequential basis?

Elias Mark
Yeah, I think the relevant date is November 14, when that temporary restriction was lifted in the Swedish market. We see that as a net loss a bit. We think that's going to have a positive effect on our Scandinavian or, particularly, Swedish revenue. All things being equal, it's not going to have a massive impact, but it's definitely a positive.

Jeff Stantial
Okay, great. Appreciate all the color. Thank you both.

Elias Mark
Thank you.

Operator
We have reached the end of the question-and-answer session. I will now turn the call back over to Charles Gillespie for closing remarks.

Charles Gillespie
Thank you to everyone for joining us, today. It's a pleasure to present our business and our results of Q3 with everyone here on the call, today. And we look forward to updating everyone on the next quarter. Have a fantastic day. Bye-bye.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and have a great day.