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GAN Schedules 2018 First-Half (H1) Conference Call Transcript
September 28, 2018

Company Participants

- Richard Santiago, Chief Financial Officer
- Dermot Smurfit, Chief Executive Officer

Other Participants

- Michael Mitchell, Analyst

Presentation

Operator

Greetings and welcome to the GAN 2018 First Half Financial Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. (Operator Instructions)

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Richard Santiago, Chief Financial Officer. Thank you sir, you may begin.

Richard Santiago, Chief Financial Officer

Thank you very much, Christine. Good day, everyone. Welcome to GAN first half 2018 Earnings Conference Call. I'm Richard Santiago, the CFO and I joined GAN's about three months ago. With me today is Dermot Smurfit, our CEO. We posted a slide presentation and issued a press release reviewing our key operational and financial highlights for the first half of 2018. This information can also be found on our website at GAN.com under the Investor Relations link. Now I will quickly cover our Safe Harbor. Today's call is to provide you with information regarding our first half 2018 performance, in addition to our general business outlook for the second half of 2018 and 2019. This conference call includes forward-looking statements, any statement that refers to expectations, projections or other characterization of future events including financial projections or future mark-to-market conditions is a forward-looking statement based on assumptions today.

Actual results may differ materially from those expressed in these forward-looking statements. Please keep in mind that we are not obligating ourselves to rising or publicly releasing results of any revision to these forward-looking statements in light of new information or Future events. Our commentary today will also include non-GAAP financial measures such as clean EBITDA. We believe that the use of these non-GAAP financial measures provide an additional tool for investors to use in evaluating ongoing operating results and trends. These non-GAAP measures should not be considered in isolation form or at the substitute for the financial information prepared in accordance with IFRS (International Financial Reporting Standards). Please refer to our first half results publications for more information. And now, I'll turn it over to our CEO Dermot Smurfit.

Dermot Smurfit, Chief Executive Officer

Thank you, Richard. Turning now to page five of the presentation. As an opening remark and on behalf of my fellow directors I'll take the opportunity to thank all of our employees in Las Vegas, in London, in Sofia, in New Jersey and Tel Aviv for their individual and collective contributions to our enterprise software and services business throughout an exciting year-to-date. A year in which the Supreme Court of the United States repealed a longstanding federal ban on sports betting, which paved the way for down to launch Internet sports betting for its clients a subject to which I will return later in this presentation.

By way of introduction on GAN to new members of our investor audience. GAN is a market-leading software as a service provider of Internet gambling solutions to the traditional bricks and mortar casino industry in the United States. With a focus on developing high quality recurring revenues, which in the first six months of this year, comprised 92% of total revenues up from 80% in the full calendar year 2017. It is and remains our stated mission to bring American casinos online. There is a timeline of GAN's history, which is presented for review in the Appendix which visualizes our multi-year journey establishing ourselves in the United States. As a leading vendor of our highly specialized technology and the supporting services required by our clients to operate their Internet gambling business in America.

Before moving through this presentation, I will take this opportunity to articulate a key perspectives for existing and prospective investors. We brought GAN to America five years ago, launching real money Internet gaming in the November 2013 for PaddyPower Betfair in the state of New Jersey. This was the beginning of a hot marathon which we have had to run in order to be positioned in the US market at exactly the right point in time. That point in time was May 14 2018, just a few months ago. The data Supreme Court overturned a federal ban on sports betting which have been in effect for more than 25 years. The scale of this incremental and material economic opportunity for GAN is now becoming fully apparent as early data points from GAN's online sports betting activities in New Jersey provide strong support for the generally accepted forecasts available today in the market, some of which have been set out in this presentation. Furthermore, the end the prohibition on American sports betting occurred relative moments after Pennsylvania passed legislation to regulate Internet gambling in October of last year to become the fourth US state to regulate online gambling. We can now state with growing confidence the recent events of Pennsylvania and Sports Betting heralds the recommencement of intrastate Internet gambling regulation in America, creating a broad framework of long-term economic opportunity for GAN as a market-leading vendor of relatively scarce technology and skills surfaces.

On the next two pages, we simplify and amplify a complex but entirely logical decision we made in the second quarter of this year. To raise capital, to deploy that capital and pivot hard and fast to add sports betting to serve our clients critical business objectives and to position GAN as a leading vendor of Technology and Services encompassing the delivery of both Internet gaming and Internet sports betting. This decision has already proved to be correct, with Internet sports betting substantially integrated in the first half-year period and the cost of significant engineering resources and short-term revenues in exchange for the significant upsides which I'll provide an insight on later in this presentation and as part of our Q&A.

Moving on to page nine, we set at our stated strategy. To expand engineering resources in order to stop turning away new clients and we simply could not accommodate in the first half of this year. To strengthen our balance sheet, to remove a competitive disadvantage. To raise our profile in America, which continues to represent a core geography of our opportunity. To capitalize on our early mover advantage harder in these past five years and of course, to deliver multiple options for integrated sports betting to our clients. This strategy is a product of our deep understanding of the US casino industry. The needs of our clients and our relentless commitment to building at the fundamental technical infrastructure is required by all of our clients in order to conduct Internet gambling in some of the most highly regulated and therefore technically challenging markets such as the state of New Jersey and in the short term, the State of Pennsylvania.

I will now hand back to our Chief Financial Officer, who will take us through the half-year financial highlights starting on page 11. Richard, back to you.

Richard Santiago, Chief Financial Officer

Thanks, Dermot. Slide 11 to 13 in the presentation and the first half results announcement posted to GAN.com will provide the comprehensive operational summary. But before we get into the numbers, I want to provide a brief business overview. Our business activity in the first half has been executed with the sole purpose of setting the foundation to maximize long-term growth for 2019 and beyond and to become a long-term profitable company.

Our goal just to become just to be the top independent tech integration content and services platform for both simulated gaming and real money gaming by having the most robust technology, best in class value-added services as well. Our goal is to prioritize what's best for our partners and players. With the recent capital raise and continued Tech Resources growth in Sofia and Las Vegas we will be well positioned to realize its vision for the company.

As we enter the seasonally strong fall and winter periods. We are in a great position to drive additional growth from our two core product vertical. Simulated gaming in the US market and regulated real money gaming for both the US and Italian markets. First let's talk about simulated gaming. We expect simulated gaming to experience of seasonal ramp for our existing partners plus the addition of the Mississippi Band of Choctaw Indians to launch in late Q4. Simulated gaming also provides a clear inroads to real money gaming opportunities in states before they actually regulate. All the while providing our partners and clients and opportunity to utilize GAN online platform. We have a solid sales pipeline and will continue to focus on opportunities in states that have the highest probability of regulating in the future.

Now onto real money gaming. Real money gaming which includes casino gaming and sports is projected to be our number one growth engine for 2019 and beyond. Given the current sales pipeline, early momentum on Ocean Resort Casino, Sports betting in New Jersey, overseas Internet casino and the upcoming launch of Parx Casino -- the number one market share in Pennsylvania as of today. Many of these propositions will be ramping up during the second half of 2018. Additionally, the Italian market continues to outperform our expectations as revenues have grown 39% year-over-year. The growth opportunity in the Italian market remains significant and we expect continued success for the remainder of 2018.

Impact the upcoming 2019 advertising bans and delete is unknown at this point. However, we will provide an update on this during our next earnings call. Additionally, as we ramp resources in cost friendly Sofia Bulgaria and Las Vegas Nevada, we expect to start seeing the economies of scale impact in 2019. As -- shares and services revenues start to become realized as our new real money gaming partners begin to scale. As -- upon earlier, our group continues to make progress against our stated goal building our recurring revenue base in each of our key markets. Today in revenue -- recurring revenues in these markets have grown 19% year-on-year and now make up 92% of our overall group revenue. Recurring revenues are important because they are contractually bound. Well, non-recurring revenues such as dev costs for custom work is less predictable and more adhoc in nature. Now on to Slide 11 and I'll take you through the financial slide. Starting with slide 11, gross income for the period came in at GBP23.8 million, which is up 28% from the prior year and net revenues for the period has increased to GBP4.6 million. We posted a first half clean EBITDA loss of 467,000 compared to a gain of 24,000 in the comparative period last year, as we made a conscious decision to invest for the long run. Net assets grew year-over-year driven by the oversubscribed capital raise and pay-down of existing debt as we are now debt free.

Now onto to the next slide. Slide 12, real money gaming revenues have increased to GBP2.5 million sterling which includes 2.1 million of Rev Share and 400,000 of development fees. Simulated gaming Rev Share is up to 2.1 million, up from 1.8 million in the first half of 2017. Associated gain and platform development fees or simulated gaming are down 300,000 year-over-year. We had some development fees that were realized in 2017, that we're not really lies in 201 given the launch of five new simulated gaming partners in the first half of 2017.

The US remains the primary market but Italian revenues remained strong at 38% of total net revenues with a 39% growth rate for the first half. Now onto slide 13, we will cover distribution and administrative expenses. Overall, our cost base has increased by GBP1.1 million to GBP7.6 million. Distribution costs have increased year-over-year by GBPL700,000 to 4.3 million for the first half of 2018. The primary drivers are two --. First, royalty expense

related to the distribution of third-party content providers was 400,000 higher than the prior year due to higher revenues in Italy.

Secondly, we had an increase in bandwidth costs related to the growth of Italy. Additionally, we also incurred additional regulatory testing costs for -- in New Jersey in anticipation for the launch of oceans casino resort. These two items drove a 200,000 increase in distribution costs. Now onto administrative expenses, administrative expenses have increased by GBP400,000.3 million. Personnel related expenditures have increased by GBP400,000 and this is due to the increased debt levels in Las Vegas Tele Aviv, New Jersey and Sofia to support the growth of new and existing contracts. Finally, as stated earlier, the company remains focused on growing clean EBITDA primarily from the higher margin US market in addition to expected future growth in Italy. In order to organically funded the Group through the expected positive cash flow in 2019. This will allow us to be in the best possible position to capitalize on the immediate opportunities open to GAN. For further details on the financials. Please refer to the first half 2018 interims announcement that was recently posted to GAN.com or the Investor Material. I will now hand you back to Dermot, who will walk you through the rest of the presentation.

Dermot Smurfit, Chief Executive Officer

Thank you, Richard. I will take the opportunity to offer investors a slightly more in-depth insight into US sports betting and the significance on GAN's outlook as we move into the last quarter of 2018 and of course beyond. Turning to page 15, there -- presented a historical timeline of sports betting prohibition in America starting in 1992 and ending earlier this year, but perhaps of more interest is the potential future of sports betting, which is best illustrated on page 16 by the American Gaming Association's estimate that Americans wager \$150 billion every year through illegal bookmakers operating on the streets or online. On the same page our range of industry forecasts for the number of US states anticipated to rapidly regulate and tax sports betting within the next five years. There is ample evidence today of regulatory appetite for Sports Betting in support of these forecasts. Diverse American states are now moving rapidly to draft and propose legislation regulating both retail and online sports betting many with Internet gaming attached as a logical revenue kind of bars. As New Jersey's market develops and the scale of Internet sports betting revenues become simply too large to ignore. We can see how the regulatory doldrums of 2014 to 2017 become a distant memory, several states now move rapidly to capture their share of sports betting it's material economics.

Moving ahead two pages please to page 18. We set out our preferred forecast for New Jersey's Internet Sports Betting market in the first 12 months, provided to us by Regulus partners and international and highly respected gambling consultancy. In the first 12 months, which started last month in New Jersey, Internet sports betting is forecast to generate more than \$150 million in gross sports revenue in addition to the forecast \$300 million in online gaming revenues our first client in New Jersey to launch Internet sports betting was PaddyPower Betfair's enlarged large US business identified as FanDuel group. They launched on September 1, in the State of New Jersey operating on the gaming platform and have been equipped with major assets to leverage in the form of the National sports brand FanDuel together with the vast underlying database of US sports enthusiast. Perhaps more importantly, FanDuel group of the immense support of the European owner PaddyPower Betfair who represent complementary sports trading experience developed over several decades. We invite you to consider the key question -- market share is FanDuel group capable of winning in the State of New Jersey. This question will be answered next month of September's Internet sports betting numbers are published by the New Jersey regulators and every month thereafter. We invite our shareholders to monitor their progress due to the asymmetrically significant impact on GAN for whom sports betting represents a high margin revenue stream once operational. On the next page, and by way of final comments on GAN's outlook, we are continuing our longstanding operational focus on New Jersey in order to consolidate our market position and grew three distinct Internet gambling brands currently online on GAN's technology platform in the second half of 2018. In parallel, we are also preparing for Pennsylvania, Internet gambling to commence early next year.

In Italy, we continued to experienced rapid growth from both seasonality and the launch of new online games content derived from popular retail based slot machines. Our ninth client GOLDBET will launch in Q4 and the advertising ban in Italy starting in 2019 may actually advantage our Italian clients who are predominantly land based sports betting operators with retail customer acquisition channels unavailable to online only competitors.

With simulated gaming in the US and Australia, our expanded engineering team will enable us to launch our latest client told Mississippi online in Q4. We anticipate that revenue growth in 2018 will be driven by new game launches for simulated gaming from major manufacturers every and AGS together with increased marketing by existing clients to their patrons. Windstar.com the real money overseas in casino is now fully operational with marketing strongly under way through GAN digital in Israel. Our new team of digital marketing specialists with deep industry experience. When it comes to financial and operational matters, we are sufficiently capitalized to continue executing on our existing strategic plan with positive cash flow anticipated in 2019 alongside record levels of gross income, net revenue and EBITDA flowing from existing clients under long-term contracts. By way of clear affirmation, our Board of Directors remains committed to the equity capital markets strategy of re-listing part All of GAN's equity on NASDAQ in the medium term and as another preparatory step we anticipate moving to US dollar based financial reporting in the New Year. We are extremely well positioned with our major clients as the US rapidly expands regulated Internet gambling. The Marathon has ended. Now we are sprinting at full speed. Thank you everybody for listening to our presentation today. Operator, we are now happy to take any questions.

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from Michael Mitchell with Davy. Please proceed with your question.

Michael Mitchell, Analyst

Yes, good afternoon, good morning, gents. Thanks for taking a couple of questions please, if that's okay. And first of all, I was wondering, could you give us little more detail in terms of the engineering resource expansion that you are undertaking over the course of the next 12 months. I guess specifically trying to understand what pace that engineering team is going to grow, at what pace the kind of cost base is likely to grow and probably importantly what capacity that will equip you with in light of the that a pretty significant opportunity that you've laid out over the last half an hour or so.

Secondly, if I could ask and somewhat related. At what point you think you'll be able to actually actively targeting new customer acquisitions again, or even as you say, stop turning away in band request that you're receiving at the moment.

And then thirdly, maybe you could just talk a little bit more about Simulated gaming and I was clear from the presentation, the role it will pay in the group over the medium term. But given the liberalization of the of the real money markets, maybe you could help us to understand what percentage of that real money market is likely to be accessed via Simulated gaming or versus the contrary, where you can go directly to your money. Thank you.

Dermot Smurfit, Chief Executive Officer

Okay, thanks. Thanks, Mike. I will breakout those questions in a variety of different ways. The first part, I will address, then I'll ask Richard to comment as well. In terms of our engineering expansion plan, we are expanding in both Las Vegas for highly specialized resources relevant to the specific requirements of the US market in order to have effectively our network operating center function in Las Vegas to cover the relevant time zones. That's a relatively modest in terms of headcount increased certainly less than more than one, less than 10 to keep guide. The core of the growth in engineering resource is turning taking place in so Year Bulgaria where we have established over the last 2.5 years. It's a very significant part of GAN's human infrastructure, which is proved to be highly successful at relatively low cost relative to either the UK or the US. And we in broad strokes, we have an expansion plan, which encompasses the entire second half period 2018 and extends into and to the end of the first half of 2019. The plan on expanding engineering resources established in Q2 doubled the number of engineers available to deliver for a significant number of incremental demands from our existing clients and also to put us in a position in the second half of the year to capture and serve perishable opportunities represented by new clients. So we expect new client acquisition corporate client acquisition to recommence in the current second half 2018 period and of course we have a very significant sales pipeline and any consummation of any new client win will

be announced publicly to the market. I'll take a minute just ask Richard to comment on the cost impact is obviously engineering resources and severe are broadly 40% cost of the equivalent in the United Kingdom, Richard?

Richard Santiago, Chief Financial Officer

Yeah. And I think I'll address the question by focusing on head count. I think at the end of June 30, 2017, we had 17 heads in Bulgaria, and we have since doubled that to around 33-34 at the end of June and we're targeting to end around the mid 40s at the end of fiscal 2018. So, and then when you take a look at London where we're essentially holding relatively flat. The key here is we want to grow and grow profitably and we feel like growing engineering resources in Sofia will allow us to really realize the economies of scale. So if you take a look at headcount trend, you can see that we are investing heavily in Sofia and we double headers we've double headcount year-over-year, but we do expect that ramp obviously on a percent basis to slowdown as we start getting these partners fully integrated up and running, but then obviously the rate we hire going forward, we'll obviously always depend on the sales pipeline, which today is continues to be robust.

Dermot Smurfit, Chief Executive Officer

Thank you and Michael, just the last part of your question I will hope I've got the right interpretation. So please correct me if required that there is a significant interplay between simulated gaming and real money gambling. So for Ocean Resort Casino in July, we launched our real money in a casino at oceanonlinecasino.com. We've also launched a social casino website at oceansocialcasino.com. Now, this demonstrates the very real requirement for land based casinos in the US in individual states to have The real money casino website and a social casino website obviously accompanied by counterpart mobile apps. There is a very real overlap between real money casino gamers and simulated gamers and they are not substitutional, they are highly complementary, particularly when you consider that most casinos in America have got a substantial number of that patrons living outside the state, which is particularly true in a destination casino market like Atlantic City. So broadly similar to gaming is complementary and accretive to real money gambling and vice versa. And there's no question of substitution and it's widely reported within the industry that since the launch of real money gambling in New Jersey, social casino revenues from New Jersey residents has in fact increased substantially, which gives you a guide of how the market is going to develop in the future. So our core premise for casinos is you don't just need a real money gambling website, but you also need a social equivalent to serve the same customers and a incrementally larger audience within the same markets your brand reaches into. Michael, have I got that right.

Michael Mitchell, Analyst

Yeah, that's very clear gentlemen. Thanks very much. If I could just maybe one follow-up please, just thinking about the strength of the pipeline, the strength of the market opportunity. I mean is there a sensible target in terms of the number of kind of real money recurring customers you can add over on an annual basis or you know, is there another way of thinking about the pace of which you can you kind of rise up to meet that market opportunity?

Dermot Smurfit, Chief Executive Officer

Yeah, I mean I think in 2019 in broad strokes, we would hope and believe that we did add two new real money government clients in a state like New Jersey or Pennsylvania, potentially both those are significant demand for services that cross those particular state lines, recognizing the way that Pennsylvania residents will go and vacate and new Jersey and vice versa, which is (inaudible) I think is not terribly well understood or explained, there in the marketplace. For simulated gaming, I think a very solid number two Perhaps three simulated gaming clients during the course of 2019 would be within our expectation and certainly, highly deliverable based on our sales pipeline today.

Michael Mitchell, Analyst

That's right. Thank you very much.

Operator

(Operator Instructions) Gentlemen, it appears we have no further questions at this time. I would now like to turn the floor back over to you for closing comments.

Richard Santiago, Chief Financial Officer

Thank you everybody for the patience to listen to both the narrative and Q&A. It's greatly appreciated and we very much look forward to updating all of our shareholders early in the New Year. I'll take this opportunity to

Dermot Smurfit, Chief Executive Officer

thank Richard Santiago, for joining us three months ago. It's been a very successful business partnerships so far, and we look forward to jointly building this business together. Thank you to all the GAN employees worldwide. Keep up the good work. Thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day