Gambling.com Group Ltd.
Fourth Quarter 2023 Earnings Conference Call
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Presenters
Charles Gillespie, Chief Executive Officer & Co-Founder
Elias Mark, Chief Financial Officer
Peter McGough, Senior Vice President of Investor Relations

Q&A Participants
Jeff Stantial - Stifel Financial Corp.
Ryan Sigdahl - Craig-Hallum
Barry Jones - Truist Securities
Sam - Macquarie
Clark Lampen - BTIG

Operator
Greetings. Welcome to Gambling.com Group's Fourth 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 star, zero on your telephone keypad. Please note this conference is being recorded.

I will now turn the conference over to Peter McGough, Senior Vice President of Investor Relations. Thank you. You may begin.

Peter McGough
Good morning, and hello, everyone. And welcome to Gambling.com Group's fourth quarter and full-year 2023 results call. I am Peter McGough, Senior VP of Investor Relations. I am joined by Charles Gillespie, Gambling.com Group's Co-Founder and Chief Executive Officer; and Elias Mark, Chief Financial Officer.

This call is being webcast live through the Investor Relations section of our website at Gambling.com/corporate/investors, and the downloadable version of the presentation is available there as well. A webcast replay will be available on the website after the conclusion of this call. You may also contact Investor Relations Support by e-mailing 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, consists 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 to 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 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 earlier this morning, and reconciliations of these non-IFRS financial measures to the most directly comparable IFRS measures are included in the appendix to 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
Thanks, Pete. This time a year ago, I said that we had started 2023 with great momentum and that I was confident we would be able to continue on our growth trajectory. As you can see from the results we reported this morning, our momentum from earlier 2023 continued at full speed into the end of the year.

We reported record fourth quarter and record full-year 2023 results. While full-year revenue rose 42 percent year-on-year, revenue in Q4 grew 52 percent year-on-year. We increased full-year adjusted EBITDA by 53 percent, and we generated 71 percent more free cash flow than in 2022, all while continuing to invest in the business to drive growth in 2024 and beyond.

Gambling.com Group is a founder-led business with a high performance culture that operates according to clearly defined values. While our financial performance has been impressive and industry-leading for years, it is our culture of execution which should excite our investors most. When we put our collective shoulder into something, we win, and there are a vast number of opportunities in our industry.

We have built one of the largest performance marketing businesses in North America over the past four years, having taken revenue from $7 million in 2021 to over $60 million in 2023. While our two acquisitions in early 2022 helped grow our presence in North America, the vast majority of our revenue in the region is produced by assets we have developed ourselves. Fundamentally, we built it in a capital-efficient way instead of buying our way into the market.
In North America, revenue topped $20 million for the first time in Q4.

Ohio, Massachusetts, and Kentucky launched in 2023, and we have previously discussed at length how these new state launches drive revenue growth. Excluding these three launches, our North American business grew more than 30 percent in 2023. I'm going to say that again to make sure nobody missed it.

Our North American growth in 2023 was over 30 percent, even when you exclude the contribution from all of the year's new state launches. This growth is consistent with our previous comments about how online gamblers become more sophisticated as markets bed in after regulation is introduced and is also consistent with our experience in all of the markets where we have a longer operating history.

Total revenue growth in North America in 2023 was driven by three things, the three new state launches, by consumers opening more accounts per individual, and our accelerating media partnership initiatives, which ramped faster than initially expected, demonstrating the efficacy of our performance marketing platform to drive new revenue for the owners of leading legacy media brands.

We expect continued growth from North American region in 2024, driven by increases in market share and the addition of online sports betting in our home state of North Carolina, where we are off to a strong start following the market's launch on March 11. We expect N.C. will be one of the strongest sports betting markets in North America. Our co-founder and COO, Kevin McCrystle, and I, started the business while at university in Chapel Hill.

For us, the North Carolina launch is just the latest highlight of a journey around the world that started in North Carolina and has now brought us all the way back home. We are very well positioned with our portfolio of assets, especially with BetCarolina.com, to lead in driving new customers to online sports book operators across the state. Our new state launch playbook is well honed at this stage, and while N.C. holds a special place in our hearts, it is very much business as usual.

Our growth in North America will be complemented by continued growth in our international markets. While revenues from the U.K. and Ireland were down modestly in Q4 compared to the year-ago period, for the full year, these revenues rose 11 percent, which outpaced the overall market growth. Even considering the challenging comps we have for the first half of this year, we expect to achieve double-digit revenue growth in the U.K. and Ireland this year, once again outpacing the expected overall market growth.

We also expect to achieve strong growth elsewhere in Europe in international markets where we have tactically invested in localized products for our leading brands for years. We have been building great consumer-facing products for over a decade, but behind all of the pretty websites is a purpose-built platform, where our team translates their culture of execution into real-world processes, which give us a superior capacity to deliver with enhanced efficiency, speed, and quality.

I am delighted to announce the addition of some new assets into our portfolio today. We have signed a definitive agreement to acquire complementary assets in a highly accretive transaction, which gives us additional scale. With the addition of Freebets.com and its related European casino assets, we expect to be able to drive additional growth in the U.K. and Ireland and substantial growth in the rest of Europe. We look forward to welcoming our new team members, who will join us in early April when the transaction closes.

We expect the acquisition to be highly accretive to our adjusted EBITDA and free cash flow immediately upon closing. We are confident that over time, we will scale the revenue and cash flow-generating capabilities of the acquired assets as we put our operating excellence and technology platform to work just as we have done with our earlier acquisitions of BonusFinder and RotoWire.

We are excited to hit the ground running on day one following the close at the beginning of April, and we are very confident that this investment will deliver a strong return on investment and create substantial shareholder value. This latest transaction is a perfect example of how we can use acquisitions to further leverage our performance marketing platform. We also continue to evaluate other potential acquisitions for complementary return-focused opportunities that would allow us to bring additional value to both our B2B and B2C customers as well as to our shareholders.

On the B2B side, this includes businesses that create marketing and advertising value for our online gambling operator clients in addition to performance marketing. And we see strong opportunities in B2C as consumers are more willing than ever to pay for premium content, as evidenced by the accelerating growth of our RotoWire B2C subscription products as a result of recent product launches.

Our expertise and excellence in performance marketing is the engine that has propelled us past $100 million in revenue, and we remain laser-focused on continuing to fuel that growth engine, while simultaneously evaluating opportunities to layer on new channels of accretive growth. We will continue to prudently and efficiently allocate capital to new growth opportunities in newly regulated markets, like in Latin America, and to existing regulated markets where there is a clear case for attractive returns on invested capital.

Our portfolio of big B2C gambling brands stands alone at the top of the industry, and we will continue to invest in all of them, Gambling.com, Casinos.com, Bookies.com, RotoWire.com, BonusFinder.com, and now Freebets.com, to take full advantage of all of the opportunities available to them in this high-growth global industry.

Our 2023 results speak for themselves, and I want to thank our entire team for another year of superb execution. The competitive spirit and grit of our team is really unique in our field.

Despite our increasing size, I remain confident in our ability to continue to deliver the high-performance growth we are known for.

I will now turn it over to Elias to discuss the financial figures in depth.

Elias Mark
Thank you, Charles. As discussed, we saw a very strong finish to the year, with all-time quarterly record revenue and record Q4 adjusted EBITDA. Full-year 2023 results were ahead of street consensus for both revenue and adjusted EBITDA and significantly ahead of our initial guidance of $95 million and $34 million, respectively, at the midpoint.

Q4 revenue of $32.5 million increased 52 percent compared to the prior year, or 45 percent in constant currency. North America led the way with revenue growth of 103 percent to $20.3 million, driven largely by continued strong growth from our media partnership initiatives. Revenue benefited from the launch of sports betting in Kentucky in late September and the entry of ESPN BET into the market in November.

New depositing customers in the quarter grew 95 percent compared to the prior year, to more than $159,000. NDC growth was faster than revenue growth as sports betting made up the highest percentage of our quarterly NDCs yet. Q4 cost of sales were $5.1 million, which, as we have previously discussed, reflect the significant ramp in our media partnership revenue.

Total operating expenses were $19.3 million, down $1.8 million from the year-ago period. Fourth quarter 2022 operating expense included $4.3 million of fair value movements on contingent consideration. Adjusted for this fair value movement, operating expenses grew 15 percent year-over-year, or 10 percent in constant currency, even as revenue rose 52 percent, reflecting the operating leverage from our platform of technologies and brands.

Net income in the quarter adjusted for unwinding of deferred consideration was $6.8 million, or $0.18 per diluted share, compared to adjusted net income of $600,000, or $0.02 per diluted share in the prior year. Adjusted EBITDA rose 54 percent to $10.6 million, compared to $6.9 million in the prior year. Adjusted EBITDA margin in the quarter was 32 percent. We continued to invest in our portfolio in the fourth quarter with the purchase of some casino domains and websites for $6.4 million, which will enable us to accelerate growth for Casinos.com in our Other Europe segment.

We also tactically deployed cash to repurchase shares that we are confident represent excellent value to our shareholders. During the fourth quarter, we repurchased approximately 206,000 ordinary shares at an average price of $9.70 for total consideration of approximately $2 million. Cash as of December 31 totaled $25.4 million, a $1.5 million quarter-on-quarter decrease, as strong operating cash flow of $6.9 million was offset by the capital expenditures and share buybacks in the fourth quarter.

Turning to the financial results for the full year, revenue grew 42 percent or 38 percent in constant currency to $108.7 million. Adjusted net income was $26.3 million, and adjusted earnings per diluted share was $0.68, compared to $0.37 in 2022. Adjusted EBITDA increased by 53 percent to $36.7 million, reflecting an adjusted EBITDA margin of 34 percent. Free cash flow grew 71 percent to $16.2 million, and 2023 free cash flow includes $9.2 million in CapEx compared to $9.3 million in 2022.

We keep prudently investing in our products and technologies with a firm focus on return of investments, although we have significantly eased the pace of our hiring. We remain able to entirely fund our organic growth initiatives solely from operating cash flow, while also continuing to generate significant positive free cash flow. This flexibility enables us to be opportunistic and pursue acquisitions and share buybacks to enhance shareholder value. Our recently announced $50 million credit facility with Wells Fargo gives us additional liquidity and financial flexibility.

We continue to see strong consumer demand to sign up for new player accounts and operate the demand for performance marketing services. We expect to drive organic growth across all our geographical segments in 2024, including in North America, despite starting with a higher base of revenue than ever and with only one new state launch versus three in 2023. This will be complemented by incremental contribution from the acquisition of Freebets.com and related assets announced today and expected to close in the beginning of April.

This morning, we introduced our 2024 guidance for revenue in the range of $129 million to $133 million, with a midpoint representing growth of 21 percent over 2023, and adjusted EBITDA of between $44 million and $48 million, with a midpoint representing growth of 25 percent over 2023. The guidance assumes an average Euro to USD exchange rate of 1.09 throughout 2024. It also assumes no additional U.S. state launches beyond the recent launch in North Carolina.

We expect cost of sales related to our media partnerships to be approximately $10 million, with the distribution falling primarily in the first, third, and fourth quarter in alignment with sports seasonality. The guidance includes expected revenue from the acquisition of Freebets.com and related assets of approximately $10 million and incremental adjusted EBITDA of approximately $5 million for the nine-month period from April to December. Our guidance does not include contributions from any other acquisitions.

With that, I will turn back to Charles.

Charles Gillespie
Thank you, Elias. We are delighted to announce all the positive news today, including our record fourth quarter and full-year results, a highly accretive acquisition, and guidance for the full year, which continues our high-growth trajectory. We are tracking toward a strong Q1 that

will show year-on-year growth and set us up to deliver on our full-year guidance, all while taking incremental market share from our peers.

Operator, please open up the line for questions.

Operator
Thank you. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. And for participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Jeff Stantial with Stifel. Please proceed.

Jeff Stantial
Hey, good morning, Charles, Elias. Thanks for taking our questions. Maybe starting off here on the Freebets acquisition, it seems like logical, fits your historical strategy here with M&A, but, Charles, could you just expand a bit more on kind of where you see the asset as being perhaps under-monetized previously, or in other words, where there's the most opportunity to plug it into your systems and yield it up?

As a follow-up, to the extent you could give us a sense for where you think that $5 million of incremental nine-month adjusted EBITDA could ultimately go longer term, that would help as well. Thanks.

Charles Gillespie
Sure. Hey, Jeff. There's a lot of potential. It's all the things, right? So, it's slightly better deals, it's better conversion rates, it's more traffic, it's higher quality traffic, it's faster websites, it's incremental improvements across every single point in the conversion funnel. And that's what we are great at, so very confident that we can narrow the focus on those assets and drive growth.

And as you have correctly surmised, we do expect 2025 contribution from these assets to be quite substantially better than what we have indicated for the first nine months of the acquisition.

Jeff Stantial
Great. That's really helpful. Thank you, Charles. And then, turning to full-year 2024 guidance, it looks like the midpoint implies about 35 percent adjusted EBITDA margins. Elias, I think last quarter, if I recall, you talked to a structural 35 percent to 40 percent margin profile for the business fluctuating by quarter. Is the decision to guide to the low end of this range mostly just conservatism? Are you seeing more mix shift to media partnerships than perhaps you previously anticipated? Just how should we think about some of the puts and takes here for that margin guidance relative to the prior 35 percent to 40 percent long-term range? Thanks.

Elias Mark
Yeah. The 35 percent to 40 percent, you can think of that as more of a long-term goal, and 2024 is very near-term. And the guidance, as you well know, assumes no further M&A, no additional U.S. state launches. We could easily be in a situation before the end of the year where we see one or more of those opportunities come into focus, and then naturally we would probably see that ticking up.

Jeff Stantial
Perfect, very helpful. Thanks, Charles. I'll pass it on.

Operator
Our next question is from Ryan Sigdahl with Craig-Hallum Capital Group. Please proceed.

Ryan Sigdahl
Hi. Good morning, guys. I want to start in North America or the U.S. Some of your competitors, I guess, have noted lower CPA rates, more competition. To that tune, we've seen kind of losing traffic, losing authority for those same domains. So, I guess, the exact opposite seems to be happening for Gambling.com. So, I guess, how important, when you think about CPA and negotiations with your customers and sports books and operators, is authority and traffic and kind of that share gains you guys are seeing?

Charles Gillespie
Yeah. Hey, Ryan. Look, I think it's important to compare like for like here. There's--we sell a lot of different types of traffic in different markets, different cohorts. Some of it goes into kind of a special situations bucket. So, if you look at kind of the launch of ESPN BET, right, like enormous consumer demand for that and quite different to what we have seen with new state launches. In a new state launch, you've got a bunch of different operators all launching in the same state at the same time. The ESPN BET was like the opposite.

It was one operator launching in multiple states at the same time. So from our perspective, and theirs, it's not quite as competitive of a situation as a new state launch. And there's a huge amount of consumer demand. So, we were able to drive fairly spectacular numbers of NDCs with ESPN BET in Q4. And naturally, it's only fair and reasonable that they would not pay the same kind of full market rate, if you will, for a competitive situation with lots of operators contesting the same players. A lot of those players were looking for an ESPEN BET specifically.

You can also talk about the Super Bowl here. The Super Bowl is similar to what we see in the U.K. with the Grand National Horse Race. Some of these--a lot of these people that sign up for sports books around the Super Bowl or around the Grand National horse race, they bet--they sign up, and they bet once a year, so it's just not the most valuable cohorts. And we effectively operate with a dynamic pricing model, right, so we're not going to try to sell traffic to our clients for a price that's dislocated against the value.

And we are constantly having these discussions with them. And when you have these special situations, yeah, the CPA rates can be different, but I wouldn't confuse that with any sort of change in overall pricing power across the whole market, across situations where it's more competitive, and the player value is known to be high. In that kind of bread-and-butter situation for us, the CPA rates haven't meaningfully changed.

Ryan Sigdahl
Very helpful. For my follow-up, you mentioned you expect double-digit revenue growth in the U.K. and Ireland this year. Is that organic, or is that inclusive of the Freebets acquisition?

Charles Gillespie
That would include a small contribution from the recent acquisition.

Ryan Sigdahl
Got you. Thanks, guys. Good luck.

Operator
Our next question is from Barry Jonas with Truist Securities. Please proceed.

Barry Jones
Hey, guys. I wanted to start with revenue share. In the past, I think you've maybe alluded to maybe the percentage in the U.S. possibly increasing over time. Any new thoughts there? Any new discussions with operators in North America? Thank you.

Charles Gillespie
Hey, Barry. So when we spoke about this previously, we merely wanted to indicate the direction of travel, not that there was a significant shift afoot. I think some of those comments might have been over interpreted. If you look at our portion of rev share in North America, it's virtually unchanged.

I mean, the change is very small when you look at quarter-to-quarter last year. And when you look in Q4 specifically, we had such a special situation with ESPN BET really driving growth on a CPA basis that the portion of revenue share actually fell substantially. But, that's not indicative of the future run rate. That was specific to Q4. So, it's just not a meaningful change.

Barry Jones
Perfect. That's helpful. Thanks for that. And then, just as a follow-up, I think fantasy is a part of the business that's talked about less, but curious if you could talk about how meaningful it is for you guys. And are there risks with increasing scrutiny in some states towards fantasy? Thanks.

Charles Gillespie
Yeah, there's lots of different types of fantasy. RotoWire has season-long fantasy products. I imagine you're talking about these player prop-type fantasy sites. It's an extremely small portion of our business. It's not a meaningful driver of revenue. It is an interesting area. And some of the recent product launches on RotoWire have been designed to cater to that audience, and those products, as we mentioned on the call, are growing very healthily. So, it's an area of opportunity for us where we could do more in the future, but it's not a meaningful driver of revenue today.

Barry Jones
Great. Thanks so much.

Operator
Our next question is from Chad Beynon with Macquarie. Please proceed.

Sam
Hi. This is Sam on for Chad. Thank you for taking our questions. Just wanted to ask about Brazil. What are your plans for that market? Is that a market you want to lean into pretty heavy once it's regulated? Any color on strategy and expectations would be great.

Charles Gillespie
Yeah, it's a very exciting market. We're delighted that the regulation is now more or less finalized and that they did online casino in addition to sports betting. We have a Brazilian version of Gambling.com. We will no doubt do something with Casinos.com as well in time. We are not going all in on the first round like some of our peers are. We consider Brazil very similar to the kind of overage non-U.S. market, if you will, where the first mover advantage is not particularly significant.

So, we'd like to see a few things kind of settle in in terms of how the market develops before we push it harder, but it certainly has the potential to be another growth driver for the business. On an M&A front, we would consider opportunities in Brazil. But again, we have an organic strategy for Brazil with our existing branded assets, so there's no pressure for us to do a deal in Brazil. But, we're here to be opportunistic if the right thing pops up.

Sam
Awesome. Thanks. And then, as a follow-up, maybe back in the U.S. What are you guys hearing in terms of iGaming legislation? There's lots of talk around Maryland, New York, or Alberta. Just any color on the impact to your business in the coming years?

Charles Gillespie
Yeah. I mean, the addition of any iGaming state will be massive for us. If you look at the handful of iGaming states which are live now, they produce, broadly speaking, about the same amount of revenue as all the sports betting states. I think the presidential election this year is a

little bit of a headwind for iGaming, and iGaming obviously is a more challenging political sale than sports betting.

So, I think a lot of these iGaming initiatives will start to fly in 2025. And on the sports betting side this year, Georgia and Missouri are the two that we have our eye on. They--things could come together, and it is possible that you have an additional state launch this year, although we're certainly not planning on that at this stage.

Sam
Great. Thanks for the color.

Operator
Our next question is from Clark Lampen with BTIG. Please proceed.

Clark Lampen
Thanks very much. I wanted to, Charles, I guess, maybe backtrack to your sort of comment during the prepared remarks around 30 percent growth in North America. Could you give us a sense, I guess if it's possible, of maybe, inclusive of North Carolina, inclusive of ongoing increases in penetration, where do you think that rate lands in 2024?

Charles Gillespie
Well, that 30 percent figure, that was--it was calculated in a very simple way, where we just excluded all the new state revenue from 2023 in the calculation. You can do a more intricate analysis of the same state sales, a more like-for-like analysis, and the figure is substantially higher than 30 percent.

If you look at North America as a whole this year, with only one new state launch compared to three new state launches last year, growth will obviously moderate for the entire sector, but we still expect to see growth in North America. And if you were to take out the effect of North Carolina, we--it's just one state, so it's not going to make a massive difference overall in the full-year North American results.

Clark Lampen
That's helpful. And maybe, I guess, just kind of a derivative question. As we think about, I guess, the mix of revenue for 2024 in total, should we think about more of the business sort of continuing the--this media partnerships business that you guys have been building has been growing, I think, very nicely, as you guys noted in the release. Is that expected to continue, or did we see sort of an inflection point maybe in 4Q in that sort of rate of revenue? I guess if you guys would be willing to quantify it, it would be helpful, I guess, in the absence of the filing. Does that sort of persist throughout 2024? Thank you, guys.

Charles Gillespie

Yeah. Due to the quite quick launch of ESPN BET, a lot of that value was captured by our media partners, so the media partnership proportion in Q4 would be meaningfully higher than where we would expect to see it on a kind of normal run-rate basis. So, that's--I wouldn't look to Q4 to inform you for full-year 2024. It will be a good bit less. I think we're estimating about 15 percent of revenue in 2024 to come from media partnerships.

Clark Lampen
Thank you again.

Operator
We have reached the end of our question-and-answer session. I would like to turn the conference back over to management for closing remarks.

Charles Gillespie
Thanks, everybody, for joining us today. It's been a pleasure to share all this positive news with you, and we look forward to catching up in May when we will share our Q1 results.

Operator
Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.