Gambling.com Group
First Quarter 2022 Earnings Results Call
May 31, 2022

Presenters
Josh Carroll, Investor Relations
Charles Gillespie, Co-Founder and CEO
Elias Mark, CFO

Q&A Participants
Barry Jonas – Truist Securities
Jeff Stantial – Stifel
David Katz – Jefferies

Operator
Greetings, and welcome to Gambling.com Group First Quarter 2022 Earnings 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.

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Josh Carroll, Investor Relations for Gambling.com Group. Thank you. You may begin.

Josh Carroll
Hello, everyone, and welcome to Gambling.com Group's first quarter 2022 earnings results call. I'm joined by Charles Gillespie, Chief Executive Officer and Co-Founder; and Elias Mark, Chief Financial Officer. This call is being webcast live within the Investor Relations section of our website at gambling.com/corporate/investors. A 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 contact Investor Relations support by emailing investors@gdcgroup.com.

I'd like to remind you that the information contained in this conference call, including any financial and related guidance we 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 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 security 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.

With that, I'll now turn the call over to Charles.

Charles Gillespie

Thank you, Josh, and welcome, everyone. This morning we reported our first quarter results that showed the best single quarter financial performance in the Group's 15-year history. If you're following along with the slide deck, now I'm on slide four. Our core business performed brilliantly all quarter. Continued strong organic growth combined with the performance of our recent acquisitions helped drive 70% revenue growth against Q1 2021, which was our previous best quarter.

We delivered adjusted EBITDA consistent with the prior year, as substantially higher revenue offset the increased investments in the organization, we are making to support our organic growth initiatives. Our adjusted EBITDA margin in the quarter was 37% and we delivered positive free cash flow, despite continued investments in our domain portfolio. We delivered a record 67,000 new depositing customers, an increase of 91% against Q1 2021. This increase was driven by the expansion of our portfolio domain names, websites and partner sites. The investments we are making in technology and data science continue to benefit us organization wide.

Now I'm on slide five. We continue to deliver on our strategic objective to grow our North American presence with North American revenue growing over 500% to $10.6 million, representing for the first time a majority of Group revenue. Online sports betting in New York launched in January, well ahead of the anticipated launch date and we delivered a master class performance in the Empire State. According to our clients, we have been among the market leaders in terms of the number of new depositing customers delivered to them.

In anticipation of the launch, we developed two New York specific websites where sports bettors can find trusted, comprehensive and up-to-date information on sports betting in the state. These state's newyorkbets.com and empirestates.com complement our flagship U.S. sports betting website, Booking.com and Gambling.com.

Shortly after the launch in New York, we successfully entered the Louisiana market, which was followed by the launch of Ontario shortly after quarter end. We believe additional new market launches will continue to be a key driver of revenue growth over the coming years. Trading outside of North America was also solid and comfortably ahead of levels seen in Q4 2021. The U.K. saw strong trading, especially when considered that during the comparable period last year, we saw temporary demand increases during restrictive COVID measures.

Our media partnership with McClatchy, announced in January, got off to a strong start in the quarter and delivered meaningful revenue and new depositing customers. Likewise, our recent acquisition of BonusFinder.com is already proving to be a great acquisition, delivering strong new depositing customer numbers in Q1 and providing a great platform to expand in the Canadian market and beyond. Work on applying our performance marketing platform to RotoWire.com, acquired at the beginning of the quarter, is also progressing nicely in preparation for the seasonally stronger fall sports season in the U.S. where RotoWire is well positioned to drive incremental revenue.

Now on slide six. Our first quarter has served a strong validation of the investments we're making to drive organic growth in North America. Our portfolio of premier domain names for the U.S. market has already demonstrated its value and we possess many more domain names and assets on standby awaiting legalization of online sports betting in iGaming in additional states. New sites on these premium domains are being developed in-house on our technology platform, which will maximize the ROI for these capital investments over time.

Now on slide seven. Over the past few months, we have seen new state launches in the U.S. greatly expand the total addressable market. New York's launch was followed by Louisiana's launch of online sports betting on January 28th in time for the Super Bowl and Arkansas launched online sports betting on March 4th in time for March Madness. Shortly after the end of Q1, Ontario officially launched its newly regulated online casino and sports betting market on April 4th.

The highly successful New York launch happened earlier than previously anticipated in the quarter and exceeded our expectations. Likewise, the Group had a successful market launch in Louisiana. The market in Arkansas has been slow to develop with only one mobile operator live at time of launch.

In Ontario, we are well positioned, but given that online gambling has been readily available in Canada for years, we did not see the same spike in demand around the launch date typically seen in well managed U.S. state launches. Initial conversion rates with our partners in Ontario have been below expectations as our operators work out the kinks in their new customer acquisition pipelines. With the acquisition of BonusFinder.com we are well positioned across Canada and expect the market to thrive at scale.

For the rest of 2022, all of the focus is on Ohio and Maryland, which have already legislated sports betting, but have not yet launched their regulated markets. We now do not expect that either state will launch in time for the NFL season in September, as we had previously anticipated at the start of the year. We see these states launching in late Q4 or even in Q1

2023. Likewise, the launch date of online sports betting Kansas, which recently legislated, is not yet clear.

Now I would like to turn the call over to our CFO, Elias Mark to discuss our first quarter financial performance in greater detail.

Elias Mark
Thank you, Charles, and welcome everyone. As Charles mentioned, we saw our investments in the business during the second half of 2021 really start to pay off and we delivered the best quarterly performance in the Group's history. First quarter revenue of $19.6 million increased 70% compared to the prior year or 84% on a constant currency basis ahead of market consensus. The growth was primarily organic, complemented by growth from our recent acquisition. The increase in revenue was driven by growth in new depositing customers primarily within North American Sports.

We began recognizing cost of sales in January as a result of our new media partnerships vertical and the subscription business of the recently acquired RotoWire.com. In the first quarter we incurred $1.2 million. Total operating expenses increased $7.1 million to $13.3 million. On a constant currency basis, operating expenses increased $7.5 million. This increase was driven primarily by additional headcount across marketing, product and sales functions, as well as increased amortization related to our recent acquisition.

During 2022, we expect to incur additional amortization of approximately $4.5 million related to the acquisition. We have also increased administrative expenses associated with operating as a public company in the Group. We continue to invest into our business, that we see a clear path to substantial return on that investment over the coming years as existing states grow and new states launch. We are able to do so while retaining high margins and generating positive free cash flow. Like the rest of the world, we are experiencing some inflationary pressures and we seek to mitigate those pressures by increasing the proportion of our operating expenses for more cost-efficient jurisdictions as we expand.

We generated adjusted EBITDA of $7.2 million, compared with $7.1 million in the prior year. This represents an adjusted EBITDA margin of 37%, as our investments in scaling the organization are offset by higher revenue. Net income totaled $4.5 million or $0.12 per diluted share compared to net income of $4.5 million and $0.14 per diluted share in the prior year.

Looking forward, we expect net income and net income per diluted share to be significantly impacted by fair value movements as a result of revaluing our contingents' considerations related to the acquisitions. That's it in comparability. We will present net income and net income per diluted share adjusted for fair value movements beginning in the second quarter and continuing until the end of the BonusFinder.com earn-out period at the end of 2023.

Total cash generated from operations of $3.6 million decreased compared to $6.7 million in Q1 2021. This was because of working capital expansion primarily driven by the rapid revenue growth, as well as the increased proportion on North American revenue with slightly longer average credit period. We expect the cash conversion to gradually improve over the coming months.

We generated free cash flow of $1.4 million despite working capital expansion and our continued investments in our domain portfolio. We remain able to entirely fund our organic growth initiatives from operating cash flows and still remain free cash flow positive. New depositing customers in the quarter grew 91% to 67,000, compared to 35,000 in the prior year. This was driven by North American sports, as well as the solid performance in the U.K. and other.

We retained cash balances as of March 31, 2022, totaling $33 million. The decrease compared to the $51 million at the end of last year as a result of the cash consideration paid for the recent acquisitions of RotoWire.com and BonusFinder.com, as well as domain acquisition and this was partly offset by our operating cash flow. We are very pleased by the strong start to the year, and we continue to expect another year of record financial performance for the Group, as both our core business and our acquisitions are performing well.

As we look to the balance of 2022, given our growing exposure to North American sports calendar, we are subject to deeper natural seasonality patterns than we have experienced historically. The second quarter is the seasonally weakest with negative sports seasonality continuing into the first two months of the third quarter. This is followed by a seasonally stronger period starting with the launch of the NFL season and continuing throughout April with September and March being the strongest months.

Our growth expectations are also affected by the timing and the quality of new market launches. The very successful New York market launched earlier than we initially expected, forcing some pull-forward of revenue initially expected in April into the first quarter. Looking towards the second half of the year, we expect that market launches in Ohio and in Maryland are now looking more likely to occur towards the end of Q4 or in Q1 2023 rather than September. This pushes some expected revenue from Q3 and Q4 into 2023.

On to slide nine. We reiterate our guidance for 2022. So we expect revenue in the range of $71 million to $76 million representing growth of 68% to 80%. We also expect adjusted EBITDA between $22 million and $27 million representing growth of 20% to 47%.

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

Charles Gillespie
Thank you, Elias. We are now at the end of the slide deck, and I will leave you with a bit of additional perspective on where we see the market today and in developing in the medium-

term. From a slightly longer time horizon we see exciting developments in California with a November ballot initiative to legalize online sports betting. We are also hopeful that Texas will seriously consider sports betting in 2023 when the state legislature reconvenes. As to the most populous states in the U.S. with some of the largest market professional sports teams in the world, the expansion of our TAM to include either California or Texas would be very significant indeed. We have already launched the websites BetCalifornia.com and BetTexas.com in anticipation of the potential regulation of the states, and we believe that we would be in a very strong position to capitalize on these opportunities. We are also watching developments closely across the Carolinas where we are positioned with BetCarolina.com.

I would also like to reiterate how we believe we offer a clear path to profitability to B2C operators in the U.S. with our pure pay-for-performance model. As a reminder, when we deliver traffic to our B2C online gambling operator clients, every customer interaction can be tracked, leading to perfect clarity on where customers really come from and what they are actually worth. With this attribution operators know their ROI and can therefore have confidence to invest heavily in the affiliate channel. Going forward, we expect affiliate marketing spend from U.S. B2C operators to remain robust even where overall marketing spend is reduced.

We saw similar trends among European operators in years past. We are confident that has U.S. operators grow increasingly conscious of the efficiency of their marketing spend, they will increasingly choose to bet on a short thing with their affiliate marketing partners. Finally, I'd like to thank our absolutely fantastic team for delivering another record performance during what was surely our busiest quarter ever.

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

Operator
Thank you. If you'd 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. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Our first question comes from the line of Barry Jonas with Truist Securities. Please proceed with your question.

Barry Jonas
Great. Hey, guys. Can you maybe talk about the level of EBITDA contribution you saw from recent M&A and maybe just how same-store trends were in the quarter?

Elias Mark
Yeah. I think it came in as expected, and as we have previously talked about, the growth. We acquired Roto business at lower contribution margins in their subscription business. And our plan is to gradually improve that contribution margin through applying performance marketing.

And if we look at our other acquisition, BonusFinder.com, that has a contribution margin in line with our more mature organically developed affiliate marketing assets.

Barry Jonas
Got it. Got it. And then in terms of the guidance, can you just clarify the difference between the high end and the low end? Is that largely timing of new jurisdictions or is there anything else you could comment which drives the difference?

Charles Gillespie
It really is, Barry. All eyes are on Ohio and Maryland, and based on when those markets really go live, that's going to be the biggest determinant of where we land in the range.

Barry Jonas
Okay. Great. And if I could just sneak in one more. Can you maybe talk about the mix of CPA versus rev share versus hybrid in the quarter?

Elias Mark
Yeah. We have an increasing proportion of CPA on the back of a higher proportion of U.S. revenue, which is largely driven by CPA.

Barry Jonas
Okay. And presumably, we should expect that trend to continue?

Elias Mark
Yes. When we look at the U.S., it's almost exclusively CPA. That market dynamic could well change over the next coming years, but that's where the market is at, at the moment. In Europe, we have more of a mix.

Charles Gillespie
And I'll add, the quarters, which are more seasonally heavy for U.S. sports will thus kind of by definition be more CPA heavy. So Q2 and parts of Q3 with less sports happening, it would be less CPA driven.

Barry Jonas
Got it. Thanks so much, guys.

Operator
Thank you. Our next question comes from line of Jeff Stantial with Stifel. Please proceed with your question.

Jeff Stantial
Hey. Good morning, guys. Thanks for taking the questions and congrats on a nice quarter here. I wanted to drill into the decision to reiterate guidance a bit more, specifically on the margin

front. You came in around 37% in the quarter. Intuitively, I would think that stays fairly stable, if not accelerating in the coming quarters as you roll out performance marketing into the acquired RotoWire assets. With that in mind, just curious on the decision to leave guidance and tax, which implies, I think, 31% to 36% margins. Is this just conservatism or are there seasonality headwinds on a cost front that we should be considering? Thanks.

Charles Gillespie
Yeah. With regards to the margin improvements on the RotoWire business, we expect that we would plan to really roll this out in time for the NFL season, so that's really an H2 effect and it will be a gradual. We might not be quite up to the same contribution margin that we are for our other business verticals, but towards the end of the year, we should definitely be a lot closer.

We have been scaling OpEx already. If we compare Q1 2022 to Q1 2021, we're at a significantly higher run rate. We continue to hire and invest collectively, that you should not expect to see the same growth rates in OpEx throughout 2022, as you did in 2021. We are flagging--if we look into the next couple of quarters, we're flagging that they're going to be subject to natural negative seasonality, which would imply lower revenue and with a largely fixed cost base that would imply lower margin. I think that --

Jeff Stantial
Got it. Understood.

Charles Gillespie
It's already -- that's largely factored into market expectations.

Jeff Stantial
Understood. Thank you. That's helpful. And then maybe just taking a step back in a more thematic one, there's a prevailing view in the broader digital advertising space that performance marketing should take market share in a recessionary environment just given you see more tangible ROI on that marketing spend. Just curious your thoughts on that argument and if you think you're seeing any evidence of that behavior thus far across your client base, kind of reacting to some of the panic we're seeing in the equity markets.

Charles Gillespie
I think that makes perfect sense, Jeff, and is exactly what we would expect to see. And in practice day-to-day with the clients, virtually all of our kind of main clients are already doing everything we can to maximize their affiliate relationships. They can only kind of prioritize it so much, but when it turns into a bidding war and they're being outbid by other operators, then you really see the model thrive and those prices come up. I think it's just such an easy choice for these marketing departments to prioritize affiliate marketing, and clearly the market in the U.S. right now is really--investors seem to really care about a path to profitability and performance marketing is how you get there.

Jeff Stantial
Great. That's helpful. Thanks, Charles. And then, maybe if I can just squeeze in one more. I'd just be curious to get your latest thoughts on the pending U.K. regulatory review. Sounds like the lawmakers there are taking a pretty rational approach to potential changes, but just any color on what's the latest you're hearing would be helpful.

Charles Gillespie
The latest chatter I have seen is that it's being watered down. But we weren't particularly concerned about it to begin with. So it's kind of like the never-ending story. Hopefully they'll just finally release something, and everyone can stop asking the questions about when it's coming. But we are quite relaxed about it and recent headlines suggest that we can be even more relaxed about it.

Jeff Stantial
Great. Helpful and encouraging. Thank you both. I'll pass it on.

Operator
Thank you. Our next question comes from the line of David Katz with Jefferies. Please proceed with your question.

David Katz
Hi. Good morning, everyone. Thanks for taking my questions. I wanted to just delve a little deeper into Other Europe. We seem to remember at one point, Netherlands was going to be somewhat of a tailwind for other Europe and sort of what is embedded in the guidance with respect to the U.K. And if you could just help us unpack that non-U.S. portion, that would be helpful.

Elias Mark
Yes. If we look at our performance in Q1, we had a very solid performance in the U.K. and Ireland, where our revenue was less compared to an exceptionally strong Q1 in 2021. Our U.K. business is doing very well. Other Europe was down and that's on the back of the regulatory changes in Germany that were implemented in July. We see that kind of continuing.

The other components within Other Europe, particularly Sweden was strong. We have not really seen an uptick in trading in the Netherlands, and there are still a lot of the big expected market leaders in the Netherlands who still don't have their licenses. It remains unclear when they're going to get it. I've seen in some of the operator guidance, they expect it in Q3 or Q4. It remains to be seen. The Netherlands is a very small part of our business at this stage, but it has some potential in the future.

David Katz
So if I can just follow that up. The discussion point about the Netherlands, right, that is effectively, conservatively baked into your guidance. And if it does accelerate, right, and come

to pass that, I think, what you're suggesting is that would be potential upside if it were to occur?

Elias Mark
Yeah. We have not factored in any significant business from the Netherlands in the guidance.

David Katz
Okay. Perfect. And I wanted to go back to Ontario, if I may, which is, frankly, it's an unusual market, right? It doesn't seem to be comparable to what we're seeing in the U.S. And I think you may have said, Charles, that it has underperformed your expectations a little bit, just help us understand what the expectations really are for Ontario for you.

Charles Gillespie
It was that the conversion rates that we have seen with our operator partners have underperformed expectations. Basically, because, as you say, it's kind of a new and unique market, and it's the first regulated Canadian market. There's been some just teething pains and just kinks that the operators have had to work out. And frankly, we saw this in the U.S., when the first states were launching in the U.S.

So all those issues are minor and get fixed and things improved, conversion rates go up and then everybody makes more money. So we're very positive and confident about the future of Ontario and Canada, but it wasn't a blowout like New York. But the numbers are very healthy and our expectations for the future are equally healthy.

David Katz
Understood. One last one, if I may. Can you just give us a bit more window into whether there could or would or wouldn't be any more M&A next 12 months?

Charles Gillespie
We're not providing any specific guidance on M&A at this point. I will say that we were very focused on M&A last year and we are very happy to do the two deals we've done and think those are fantastic deals. So at this point, we don't feel any specific pressure to do another deal and we're going to be very opportunistic and picky about the next one we do. Plus, we're up, we've got our hands full just integrating the two businesses we bought recently. So the focus is really on making those deals as successful as they can possibly be before we race after the next one.

David Katz
Understood.

Elias Mark

I think there could be opportunities to open up in this market environment and we continue to be very carefully monitor the industry, but I wouldn't expect anything too close in the next couple of quarters.

David Katz
Perfect. Thank you.

Operator
Thank you. Ladies and gentlemen, that concludes our question and answer session. I'll turn the floor back to Mr. Gillespie for any final comments.

Charles Gillespie
Thanks again to everyone for joining us today. We appreciate your support and interest in Gambling.com Group. We've had an absolutely fantastic start to the year, record quarter and we are extremely excited about our prospects for the rest of the year, both in the U.S. and outside the U.S. So we look forward to updating everybody again when we report Q2 in August. Thank you very much.

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