Gambling.com Group, Ltd.
Fourth Quarter and Full Year 2022 Earnings Results Call
March 23, 2023

<u>Presenters</u>
Charles Gillespie, Chief Executive Officer and Co-Founder
Elias Mark, Chief Financial Officer
Peter McGough, Vice President of Investor Relations

<u>Q&A Participants</u>
Barry Jonas - Truist Securities
Jeffrey Stantial - Stifel
David Katz - Jefferies

Operator
Greetings. Welcome to Gambling.com Group's Fourth Quarter 2022 Earnings 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 today should require operator assistance during the conference, please press star, zero from your telephone keypad. Please note, this conference is being recorded.

At this time, I will turn the conference over to Peter McGough, Vice President of Investor Relations. Peter, you may now begin.

Peter McGough
Good morning, everyone, and welcome to Gambling.com Group's Fourth Quarter and Full-Year 2022 Results Call. I am Peter McGough, Vice President of Investor Relations. I will be joined by Charles Gillespie, Chief Executive Officer and Co-Founder, 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 a downloadable version of the presentation is available there as well. A webcast 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 of the date the statements are made, and the company assures 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 their 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
Thank you, Peter, and welcome, everyone. This morning we reported fourth quarter and full-year 2022 results. As a reminder, the two most important quarters of the year by far for us are Q4 and Q1. With today's market update, we are giving full details on Q4 and significant color on Q1. I am very pleased to report that we delivered an all-time record revenue performance in Q4 and that we expect another record performance in Q1. These results have enabled us to exceed full-year 2022 revenue expectations and set us up for another record revenue and adjusted EBITDA year in 2023.

I will now turn to a review of the business highlights from the fourth quarter. For those with the slide deck, I'm on Slide 4. Fourth quarter revenue rose 107 percent to $21.3 million, reflecting a more than 300 percent increase in North American revenue and continued strength in the U.K. and Ireland, with revenue growth of 54 percent.

We generated $6.9 million of adjusted EBITDA and $6.2 million of operating cash flow. We continued to deliver both extremely high growth and high profitability in the quarter, which makes us unique among many companies, particularly those within online sports betting, media, and iGaming in the United States.

We delivered over 82,000 new depositing customers for our online gambling operator clients, an increase of 193 percent over Q4 2021. The terrific growth in NDCs continues to be driven by an increase in the footprint of our portfolio of assets, our improving ability to monetize our audience to a proprietary technology, and our entry into new markets.

Now, on Slide 5. For full-year 2022, revenue increased 81 percent. On a constant currency basis, the figure is even more impressive at over 100 percent. I am delighted with this overall result but most impressed with our continued ability to deliver industry-leading organic growth, which is the foundation of these overall figures. We delivered a tremendous performance, with

39 percent year-on-year organic growth, which on a constant currency basis was well clear of 50 percent.

This is in line with our organic growth CAGR from 2017 to 2021, which was also 50 percent, and substantially higher than our industry peers over the same period. Our long-term organic growth rate highlights our consistent ability to create shareholder value through capital-efficient growth of our core business. Overall, our record 2022 results again validate our strategy and market position, our investment in our people, and our multiyear investment in our industry-leading websites and technology stack.

Onto Slide 6. Progress with our strategic objective to grow our North American business was again evident in Q4. After growing almost 300 percent year-over-year in Q3, fourth quarter North American revenue grew 364 percent year-over-year to $10 million. The increase in North American revenue was driven by both strong growth from existing North American markets during the U.S. sports season as well as the successful launch of sports betting in Maryland. We expect North America will continue to be our primary growth driver in 2023 and will represent a majority of group revenue for the full year, complemented by continued growth in our more mature markets outside North America.

Revenues from the U.K. and Ireland grew 54 percent year-over-year to a quarterly record $8.1 million. It is notable that we achieved this growth more than 10 years after we entered into regulated markets in Europe, which illustrates a key investment theme we continue to highlight, that as online gambling markets mature, performance marketing affiliates are increasingly important to consumers in those markets and thus increasingly critical and valuable to operators.

In terms of our 2022 acquisitions, BonusFinder was again ahead of plan for the quarter, and their exposure to the Canadian market continues to complement the growth we are achieving in the United States. Our mission to add on incremental, high-margin performance marketing revenue to RotoWire made major progress in the fourth quarter and further accelerated since the since the start of the year.

Now onto Slide 7. Our media partnership initiatives continue to gain momentum. In February, we signed our biggest partnership yet with Gannett, the largest publisher of daily newspapers in the United States and the publisher of USA Today**.** We are proud to call both McClatchy and Gannett partners, and we note that the two organizations have complementary market footprints. We expect to generate material revenue from these partnerships as the U.S. sports season ramps up this autumn.

Onto Slide 8. Our current portfolio of monetized websites is complemented by a large portfolio of websites that are in place with a possible launch of additional regulated markets at the state level. Some examples of the sites that are positioned for future regulation are BetCalifornia, BetTexas, and BetCarolina. We believe that our website portfolio is optimized for the company to continue generating strong organic growth in 2023 and beyond.

Our recent launches in Maryland, Ohio, and two weeks ago in Massachusetts offered great evidence of the return we generate from our strategy to invest in premium domains and the new websites ahead of the launch of sports betting in any new state. We've had great early success in each of these markets, led by our BetMaryland, BetOhio, and BetMassachusetts properties. Each has delivered impressive levels of new depositing customers to our partners in each of these states.

In fact, our strong performance in Maryland and Ohio helped drive record revenue in January. And, while it is still very early days for Massachusetts, given the state's population, rich sports tradition, and the competitive marketplace for operators, we expect our operations there will similarly contribute to our growth trajectory this year. As Elias will highlight in his review of our guidance for the full year, we are not currently projecting any additional states to come online for either sports betting or iGaming over the balance of 2023, yet we have multiple levers to drive organic growth over the record 2022 levels.

Now, I'd like to turn the call over to our CFO, Elias Mark, to discuss our fourth quarter and full-year financial performance in greater detail.

Elias Mark

Thank you, Charles, and welcome, everyone. As Charles discussed, we saw a strong finish to the year with a record fourth quarter. Revenue of $21.3 million increased 107 percent compared to the prior year. The increase in revenue was driven by strong growth in NDCs in North America as well as in the U.K. and Ireland, and a slight sequential currency tailwind.

New depositing customers in the quarter grew 193 percent to more than 82,000 compared to 28,000 in Q4 last year and 68,000 in the 2022 third quarter. The increase was again led by strong growth in North America and the U.K. and Ireland**.** As a reminder, we began recognizing cost of sales during the first quarter as a result of our our new media partnerships and the subscription business of RotoWire. In the fourth quarter, this amounted to $0.6 million.

Total operating expenses were $21 million, an increase of $11.4 million, inclusive of $4.3 million of fair value movements in contingent consideration related to the BonusFinder acquisition. Adjusted for the fair value movements, adjusted operating expenses were $16.7 million. On a constant currency basis, adjusted operating expenses increased by $8.1 million. The increase was driven primarily by additional headcount across marketing product sales and technology functions, public company expenses, as well as increased amortization related to our Q1 acquisitions.

During the full-year 2022, we incurred total amortization of approximately $4.7 million related to the Q1 acquisitions. We continued to prudently invest and hire to build out our growing organization during the quarter. However, our pace of recruitment has moderated significantly, and we ended the year and moved into 2023 as we are nearing the staffing levels necessary to support our near and longer term growth objectives. We continue to expect our profitability and free cash flow will organically support our investment plans, going forward, including the investments we are undertaking this year for the development of casinos.com and our new media partnership with Gannett.

Adjusting for fair value movements and contingent and preferred consideration, net income in the quarter was $0.6 million, or $0.02 per diluted share compared to net income of $0.9 million, or $0.02 per diluted share in the prior year. Net income and adjusted net income were affected by partial reversal of the net forex gains booked in the first nine months of the year. The forex movements within financial outcomes primarily relate to balances held in currencies other than our functional currency. We will continue to adjust operating profit and net income in this manner until the end of the earn-out period for BonusFinder at the end of 2023.

We generated fourth quarter adjusted EBITDA of $6.9 million compared to $2.3 million in the prior year. This 202 percent increase represents the benefit of the top-line growth, partially offset by higher operating expenses. Adjusted EBITDA margin in the quarter was 32 percent. Cash generated from operations of $6.2 million increased from $1.2 million in Q4 of 2021, driven by the strong year-over-year revenue growth.

We generated fourth quarter free cash flow of $0.4 million as cash was deployed in the fourth quarter to round out the Group's website portfolio with the acquisition of the casinos.com domaining. I would reiterate that we remain able to entirely fund our organic growth initiatives from operating cash flow while continuing to generate positive free cash flow.

During the fourth quarter, we repurchased 38,708 ordinary shares at an average price of $8.98 and for a total consideration of a little more than $0.3 million. Cash as of December 31, 2022 totaled $29.7 million, a $5.4 million quarter-on-quarter decrease due to the retirement of our debts and the acquisition of casinos.com, partly offset by our strong operating cash flows. The Group is comfortable with its banking relationships around the world and has had no exposure to any of the financial institutions recently making headlines.

Turning to the financial results for the full year, revenue grew 81 percent to $76.5 million, or by 103 percent in constant currency, inclusive of a $4.6 impact from currency headwinds. We delivered over 273,000 new depositing customers, representing growth of 133 percent compared to 2021. We recorded net income of $2.4 million, or $0.06 per diluted share compared to $12.5 million, or $0.37 per diluted share in 2021.

Adjusted net income was $14.2 million and adjusted earnings per diluted share was $0.37 last year-over-year. Net income and adjusted net income benefited from $2.1 million of net forex gai. Adjusted EBITDA increased by 31 percent to $24.1 million, reflecting an adjusted EBITDA margin of 31 percent. Free cash flow for 2022 was $9.5 million compared to $8.4 million in

2021. The increase was even after we invested $3.4 million more in our domain portfolio in 2022 compared to 2021.

Turning to our outlook for the business in 2023, we continue to see significant growth opportunities ahead for the Group. Our primary focus on organic growth remains unchanged. Our previous investments and continued investments in our technology platform, website portfolio, and our team will continue to drive growth in North America and elsewhere in 2023. For the first two months of the year, we have not seen any deterioration of customer or consumer demand for online gambling.

From our perspective, demand for performance marketing services for the online gambling industry remains strong. Our value proposition is enhanced as online operators continue to rationalize their marketing spend towards channels with tangible ROI. We are issuing our 2023 guidance for revenue in the range of $93 million to $97 million, representing growth of 22 percent to 27 percent, and adjusted EBITDA between $32 million and $36 million, representing growth of 33 percent to 50 percent.

Our guidance assumes an average euro to USD exchange rate of 1.075 throughout 2023. Our guidance also assumes no additional U.S. launches or contributions from any future acquisitions.
The revenue and adjusted EBITDA guidance contemplates an expected full-year margin of 35 percent to 36 percent at the midpoint despite a higher proportion of revenue from our lower margin media partnerships.

We expect to see operating leverage, with revenue growth outpacing growth in operating expenses in 2023, despite ongoing levels of healthy investments in the business. Operating expenses this year will reflect investments into the development of casinos.com as well as to service our media partners such as Gannet. For our partnership with Gannett, we do not anticipate meaningful revenue from that partnership until September when the Autumn sports season starts in the United States.

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

Charles Gillespie
Thank you, Elias. Before we wrap for questions, I'd like to provide some additional perspective on the market today and going forward. The business is well positioned for continued growth in 2023, starting with what we expect to be yet another all-time record quarter in Q1. The 2023 legislative season has kicked off in January, and sports betting legislation is being actively considered in Texas, North Carolina, Georgia, Kentucky, Missouri, Vermont, and Minnesota. We also believe that iGaming could be up for a vote in the legislatures of Illinois and Iowa. I want to highlight again that our current guidance does not assume any additional sports betting or iGaming markets coming online.

Our long-term outlook for broad-based expansion of regulated online gambling in North America remains unchanged. We continue to expect states to regulate online sports betting where retail sports betting exists and states that have online sports betting to move towards regulated iGaming. And we continue to believe that we will grow our market share in the states we are already active in as we further refine and optimize our websites.

Furthermore, in states with single-operator monopolies, we have noted increased desire to revisit the licensing regime and create a competitive market with multiple operators. This is undoubtedly the best way for these states to increase their online gaming tax revenue. This would also expand our TAM in these states, such as Delaware, which are technically regulated but not addressable in their current form.

The acquisition of casinos.com domain name is a capstone to our portfolio of websites. We are very optimistic about the potential for this new project, particularly as it relates to customer acquisition for iGaming operators. As many of you know, the iGaming market in Europe is significantly larger than the sports betting market, and we expect the same will be true for North America as more jurisdictions come online. In our view, the long-term, strategic value of this domain could surpass Gambling.com. We will have an update soon on the formal launch of the new website, which is expected this summer.

In closing, our 2022 results validated our ongoing commitment to our bespoke technology stack and our strategy of launching best-in-class affiliate sites on big, branded domain names. These two factors, combined with our world-class expertise and SEO have translated into strong customer acquisition for our operator partners, which, in turn, drove industry-leading organic and total growth. Our low-risk, high ROI value proposition will continue to grow in value for U.S. online gambling operators as they increasingly focus on generating EBITDA-positive results while fighting harder for each incremental new customer.

I will end once again by thanking the absolutely brilliant team at Gambling.com Group for their exemplary efforts in delivering yet another record quarter as well as record full-year results.

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

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

Thank you. And we'll pause a moment to poll for questions. Thank you. And our first question is from the line of Jeff Stantial with Stifel. Please proceed with your questions.

Jeffrey Stantial
Great. Thanks, morning to all. Elias, thanks for taking the questions. Maybe I'll start off here with one on full-year guidance. Elias, can you just expand a bit more on some of the assumptions that drive the low versus the high end of guidance?

Elias Mark
Yeah. If you look at this year, there have been two main growth drivers. One is taking market share in the U.S. The second one is the strong growth that we've seen in the U.K. and Ireland. We definitely expect to see growth in the U.S. and wider North America to persist and be the main growth driver. So (inaudible) I would say in the range will be to what extent we can maintain that substantial growth in our U.K. and Ireland casino business.

Jeffrey Stantial
Great. That's helpful. Thanks. And switching gears a bit, a key talking point this earning cycle for most of the U.S. operators has been ongoing improvements in product, Parlay's more efficient modeling, etc. Given the U.S. skews heavier to CTA compensation versus rev share, Charles, just curious if you have any thoughts on how you see sort of structurally higher hold rates ultimately impacting demand, really if at all, for affiliate traffic.

Charles Gillespie
I think to the extent that those hold rates go up, the player value goes up, and the ROI goes up. So, all things equal, they would be able to spend more money on players than they otherwise would. You mentioned revenue share, we continue to look at revenue share in a very kind of neutral or agnostic way. It can make a lot of sense. It can also be not optimal.

But, having said that, we've signed lots of revenue share deals in the U.S. and are starting to send more traffic to our partners on that basis. It's not like -- you shouldn't think of it as a major shift. It's more with some of the kind of Tier 2, Tier 2 operators that are really fighting hard to move up in the world, but it's certainly a part of our revenue model at this stage in the United States.

Jeffrey Stantial
That's great. Thanks. And if I could just squeeze in one more quick one, about a month and a half since you announced the partnership with Gannett. Now that you've had the opportunity to really dig in here, Charles, just curious to get your initial thoughts on the opportunity. Anything particularly surprising so far as you go through the early integration efforts? Thanks.

Charles Gillespie
I think it's way too early to give any more kind of specific color than we already have. But, I will say that Gannett has been a brilliant partner so far. They have been very helpful and cooperative with the kind of key initial setup phase for a lot of things. So, we're off to a great collaborative start, and we definitely expect to put up some interesting numbers with the partnership in the second half of the year.

Jeffrey Stantial
Great. That's helpful. Thank you, both, and I'll pass it on.

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

Barry Jonas
Hey, guys, appreciate your comments on the high end versus low end of guidance, but could you maybe talk more about the most material absolute components of the organic growth as you bridge 2022 to your expectations for 2023?

Elias Mark
Yeah. So, we do expect healthy continued growth from North America. We see fewer state launches. Although we've had a very healthy Q1, we don't foresee or forecast any further state launches this year, which means that the growth would come from the bigger base of active markets and us being able to take market share in the coming three quarters.

We give some guidance on the relative sites of our U.S. and North American business, and we do expect North America to represent the majority of revenue this year. And, like I said, as (inaudible) in the range will be largely driven by our continued ability to generate substantial growth in the U.K. and Ireland.

Barry Jonas
Got it, got it. And then, we've talked in the past about the strong pricing outlook for affiliates to scale. That's despite the push by more operators for profitability. I'm curious if you've seen any changes since we've spoken last in terms of the pricing outlook.

Charles Gillespie
No, I wouldn't say that there's been any meaningful shift in any direction. It's business as usual.

Jeffrey Stantial
Great, great. And then, if I could just get one more in there, curious on how the M&A environment is right now, a lot of stuff of interest out there for you, and sort of our bid-ask spread is looking with potential sellers. Thanks.

Charles Gillespie
We continue to be extremely active on the M&A front. We spend a lot of time examining deals. We spend capital investigating the feasibility of various things. And we're looking at things of all different shapes and sizes. We also remain as picky as ever. But, that doesn't mean we're not doing the work in the background to evaluate everything we can.

I think that expectations from sellers have become slightly more rational. But, having said that, the cost of capital has also gone up pretty significantly, so it's kind of different. That's both a bit of a positive and a negative. But, as I've said, we're very actively considering things that we think would create shareholder value.

Jeffrey Stantial
Appreciate all the color. Thanks, guys.

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

David Katz
Good morning, everyone. Thanks for taking my questions. I just wanted to talk about the U.K. and Ireland growth because if we're reading this correctly, right, you're getting this growth into what are somewhat, I think, unarguably more mature markets in the U.S. but clearly not fully mature. Can you just talk about kind of how you're getting growth into existing markets that way and into more mature markets and what that growth profile can look like longer term?

Charles Gillespie
Yeah. Hey, David. So, I'll give you the answer that our Co-Founder and COO, Kevin McCrystle, typically gives me when I ask him similar questions. And he says it's all of the things, Charles. So, it's a little bit better search rankings. It's a little bit better deals. It's a little bit better conversion. It's a little bit better machine learning that optimizes our yield on these websites by pairing the right operator with the right user at the right time to inch up that conversion rate.

It's slightly better content, more engagement, wider net, more key words. It's just bread-and-butter, day-in-and-day-out quality execution. And, obviously, we've come a long way recently in the U.K. and Ireland. Our growth expectations for next year for those markets are not as high as they were last year, but we do continue to expect it to be a great market for us.

David Katz
Understood. And can I just touch on the guidance for a minute, please, if I may, and specifically on the EBITDA margin, right, where, if I'm just looking at the slides here. I see you finished the year at 31 percent, and we knew that there were some other aspects, go-lives and integrations, etc. But, the guidance obviously has a ramp back up in the EBITDA margin. And I, is that just a function of operating cost scale? Or is there some other mix issue at play? And where does this normally settle in one day? I would imagine normal for you is quite a ways away.

Elias Mark
Yeah, it's a reflection of operating leverage where we expect our revenue to grow significantly faster than the ramp-up of OpEx. As you recall, we've invested very heavily in scaling our

organization in the past 18 months, and that's slowing down, as we continue to invest what we have, a much larger and well-functioning organization asset, so we don't have the same needs to accelerate the ramp-up.

It's difficult to define a normal. I think with the current setup of the business, around a 35 percent, 36 percent market is a reasonable expectation, but it depends a little bit about the mix of revenue, what proportion comes from search driven and what proportion comes from media watch (sp).

David Katz
Okay. That will do. Thanks very much.

Operator
Thank you. At this time, I'll turn the floor back to Charles Gillespie for closing comments.

Charles Gillespie
Thanks, again, to everybody for joining us today. We appreciate your support and interest in Gaming.com Group. And 2022 was another record year for the Group, and we believe we will deliver more of the same throughout 2023. We look forward to our next update when we will report full March quarter results in May.

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