

DEFINING THE FUTURE OF LOTTERY



**1 JANUARY–
31 MARCH 2023**
QUARTERLY STATEMENT



ZEAL

ZEAL Network SE is the leading German online broker for state lotteries and other licensed lottery and gaming products. Our aim is to innovate and drive change in the lottery sector while further expanding our online market leadership.

OUR MISSION

To define the future of lottery!

As a technology company, we constantly strive to enrich our offerings with new innovations. To achieve this, we leverage our many years of experience in the e-commerce sector, our lottery expertise and our knowledge of our customers' wishes, aims and gaming behaviour.

OUR GOAL

We let people dream. We make a contribution to society.

Our work enables people to dream big. And with every lottery ticket sold, we are helping society by supporting good causes via our charity lotteries or via our customers playing the state-run lotteries.

Contents

Q1 2023 at a glance	3	Results of operations and financial position	6
Business review	4	Selected financial information	9

Q1 2023 AT A GLANCE

€201.2m

BILLINGS
(Q1 2022: €181.2m) +11%

143k

NEW REGISTERED CUSTOMERS
Germany segment
(Q1 2022: 154k) -7%

€26.7m

REVENUE
(Q1 2022: €25.1m) +6%

1,100k

MAU (MONTHLY ACTIVE USERS)
Germany segment
(Q1 2022: 1,036k) +6%

12.4%

GROSS MARGIN
Germany segment
(Q1 2022: 12.9%) -0.5pp

€9.3m

EBITDA
(Q1 2022: €8.9m) +4%

€36.77

COST PER LEAD, CPL
Germany segment
(Q1 2022: €38.09) -3%

Ready to launch our online games



- Licence for offering virtual slot machine games received
- Further strong billings growth
- Steady increase in customer base
- Operating result improved once again

Definitions of the financial measurements and indicators disclosed above can be found in the Management System section of the Group Management Report on pages 74 and 75 of the Annual Report 2022.

BUSINESS REVIEW

DEAR SHAREHOLDERS,

Following a successful 2022, during which we achieved ambitious growth targets and important milestones for the expansion of our business, 2023 has also got off to a positive start with some significant developments.

There were high jackpot phases in the first quarter of the new year once again, which we used to expand our business volume and gain additional new customers. Although neither the 'Eurojackpot' nor the German lottery 'LOTTO 6aus49' reached their maximum jackpot levels in the last three months (2022: none for 'Eurojackpot', twice in a row for 'LOTTO 6aus49'), the top jackpots reached in the first quarter of 2023 were only slightly below the respective maximum amounts of both lotteries. In January, the 'Eurojackpot' reached €104 million. The 'LOTTO6aus49' jackpot grew steadily throughout March and the maximum amount of €45 million was reached directly after the end of the first quarter in the first draw of April.

As a result, the jackpot environment was slightly weaker than in the previous year. Nevertheless, we increased billings by 11% to €201.2 million¹ (2022: €181.2 million). This rise in billings resulted in revenue of €26.7 million. This represents year-on-year growth of 6% (2022: €25.1 million). Due to the product mix, our gross margin of 12.4%² was 0.5 percentage points below the prior-year level (2022: 12.9%). With 143 thousand new registered customers (2022: 154 thousand), we also continued to expand our customer base – thus driving the long-term development of our business.

Due to the slight reduction in new customer acquisition and cost per lead (CPL), which amounted to €36.77 in the first quarter of 2023 (2022: €38.09), marketing decreased by 4% to €7.0 million (2022: €7.3 million). Despite significantly higher billings, our efficiency gains and economies of scale meant that other operating expenses increased by just 1% to €12.5 million (2022: €12.4 million). The 23% rise in personnel expenses to €5.1 million (2022: €4.1 million) was mainly due to the increase in provisions for share-based payments resulting from the encouraging growth in our share price.

All in all, we raised EBITDA by €0.4 million to €9.3 million (2022: €8.9 million). EBIT of €7.1 million also exceeded the prior-year figure (2022: €6.8 million). Due to an increase in the tax expense of €0.8 million, net profit fell to €4.4 million (2022: €5.0 million).

In the first few months of the year, our players also took advantage of the exciting jackpot phases for 'Eurojackpot' in January and for 'LOTTO 6aus49' in March. This was particularly rewarding for our first record winner of the year: in January, a 61-year-old LOTTO24 player from Bremerhaven won the €107.5 million 'Eurojackpot' and thus achieved the highest winnings for a single player in the history of LOTTO24.

In January, we launched the 'Play with Friends' feature, thus enabling our customers to enjoy an exceptional gaming experience also outside the high jackpot phases. The feature allows players to set up private lottery clubs so they can play together with family and friends – from work, the pub or the football club. After all, most games are more fun when you play with others – and lotto is no exception! We have adapted the idea of playing lotto together for the digital world with our 'Play with friends' feature and are delighted to have made it easier for our customers to share the lottery experience.

¹ For contractual reasons, the billings of our ONCE business in Spain are not included in this total.

² As the Spanish ONCE business is not included in billings but only in revenue, our margin trend is better reflected by the Germany segment than at Group level.

A further milestone for us is our membership of the World Lottery Association (WLA). The WLA is a global organisation of state-licensed lotteries, sports betting providers and suppliers. Being accepted into this group is a testament to our strong industry reputation and represents a commitment for us to comply with the WLA standards for social responsibility, responsible gaming, security and risk management.

As the market leader for online lotteries, we are aware of our responsibility and status as a role model with regard to ESG (Environmental, Social and Governance). Over the past few months, we have therefore invested in the comprehensive expansion of our ESG strategy and also presented our Sustainability Report with the publication of our Annual Report in March. At the same time, we are committed to supporting the agreement to combat climate change adopted at the UN Climate Change Conference in Paris in December 2015. The corresponding targets and KPIs will be announced in the current fiscal year 2023.

In the first quarter of 2023, we also met the high standards we set ourselves with regard to shaping the future of the lottery sector. In February, for example, our subsidiary ZEAL Ventures invested in the UK-based games start-up Circl Gaming Ltd. The development of the gaming industry has been gathering pace in recent years and given rise to numerous visionary technical innovations. This is crucial for our sector, as the future of the market is online. We are therefore looking forward to working together with Circl and sharing ideas for an even more diverse gaming and entertainment experience in the future.

Probably the most important highlight for the ZEAL Group was the long-awaited issue of a licence to offer virtual slot machine games (online games) from Germany's national gaming regulator ('Gemeinsame Glücksspielbehörde der Länder' – GGL). We received it shortly after the end of the first quarter. Based on this licence, our subsidiary LOTTO24 AG will offer online games via its web shops (LOTTO24, Tipp24). Our diverse portfolio is expected to go live in spring after intensive examination of the individual games by the GGL. With the receipt of this licence, we will enter a new market segment and achieve an important milestone for the further expansion of our business.

Our guidance for billings, revenue and EBITDA remains unchanged. In our fiscal year 2023, we still aim to extend our position as the leading online provider of lottery products and to launch new products, including the online games described above. Depending on the general conditions – and an average jackpot development – we continue to anticipate billings in the range of €800 million to €830 million for the Germany segment. Moreover, we still expect revenue to be in the range of €110 million to €120 million in the fiscal year 2023. EBITDA is expected to be in the range of €30 million to €35 million. Compared to the previous year, we plan to invest significantly more in the acquisition of new customers again and expect marketing expenses of €34 million to €39 million.

Hamburg, 10 May 2023

The Management Board



Helmut Becker
Chief Executive Officer



Paul Dingwitz
Chief Technology Officer



Sönke Martens
Chief Operations Officer



Jonas Mattsson
Chief Financial Officer

RESULTS OF OPERATIONS AND FINANCIAL POSITION

Summary of financial results	Q1 2023	Q1 2022	Change in %
in € thousand			
Revenue	26,699	25,114	6%
Other operating income	200	270	-26%
Personnel expenses	-5,078	-4,116	23%
Other operating expenses	-12,516	-12,354	1%
Marketing expenses	-7,001	-7,284	-4%
Direct operating expenses	-2,730	-2,479	10%
Indirect operating expenses	-2,784	-2,591	7%
Exchange rate differences	16	17	-6%
EBITDA	9,320	8,932	4%
Amortisation and depreciation	-2,194	-2,140	3%
EBIT	7,126	6,792	5%
Financial result	-293	-158	86%
Share of loss from associates	-38	-43	-12%
Net profit before taxes	6,795	6,591	3%
Income taxes	-2,421	-1,584	53%
Net profit	4,374	5,007	-13%
Earnings per share for profit attributable to shareholders of the parent company			
Basic and diluted earnings per share (in €/share)	0.20	0.22	-12%
Other financial KPIs and other indicators			
Billings (in € thousand)	201,194	181,185	11%
Gross margin (%), Germany segment	12.4	12.9	-0,5pp
Number of new registered customers (thousand), Germany segment	143	154	-7%
CPL (€), Germany segment	36.77	38.09	-3%
MAU (thousand), Germany segment	1,100	1,036	6%
ABPU (€), Germany segment	60.99	58.31	5%

REVENUE

In the first quarter of 2023, revenue increased by 6% (€1,585 thousand). This increase was due to the strong growth of our billings (by 11%).

PERSONNEL EXPENSES

In the first quarter of 2023, personnel expenses rose by 23% (€963 thousand). This increase resulted mainly from the development of provisions for share-based remuneration, which is dependent on the ZEAL share price: in the first quarter of 2023, the share price rose strongly while it fell in the first quarter of 2022. As a result, these costs increased by €661 thousand compared to the previous year. Moreover, the average number of employees (FTEs, excluding students and temporary staff) rose from 156 to 160 (3%).

OTHER OPERATING EXPENSES

Other operating expenses rose by 1% in the first quarter of 2023 (€162 thousand):

- Marketing expenses fell by 4% (€283 thousand). Although the jackpot situation was less favourable compared to the previous year, we continued to deploy targeted marketing activities to acquire new customers.
- Direct operating expenses increased by 10% (€251 thousand). This development reflects the increase in billings of 11%.
- Indirect operating expenses rose by 7% (€192 thousand), mainly due to an increase in costs for consulting and external staff (€164 thousand), as well as for travel, training and entertaining costs (€95 thousand). By contrast, we were able to save €130 thousand in insurance premiums for charity lotteries.

ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

Segment reporting 'Germany'	Q1 2023	Q1 2022
in € thousand		
Revenue	25,417	24,038
Other operating income	199	270
Personnel expenses	-4,643	-3,726
Other operating expenses and exchange rate differences	-11,905	-11,847
EBITDA	9,069	8,734

Thanks to the strong growth of our billings, revenue in the Germany segment rose by 6%. Efficiency enhancements and economies of scale enabled us to keep other operating expenses stable and improve EBITDA by €388 thousand, despite a 23% increase in personnel expenses.

EBITDA

Despite the significant increase in personnel expenses, our revenue growth led to an increase in EBITDA of 4% (€388 thousand).

KEY PERFORMANCE INDICATORS

Billings of our online brokerage business grew strongly by 11% (€20,009 thousand) in the first quarter of 2023 despite a less favourable jackpot development than in the previous year. This growth was attributable to the continued expansion of our customer base. Due to a detrimental change in the product mix, our gross margin of 12.4% was 0.5 percentage points below the prior-year figure (2022: 12.9%). Thanks to our strong growth, however, we were still able to raise revenue.

With the aid of further targeted marketing activities, we succeeded in gaining 143 thousand new registered customers (2022: 154 thousand) for a slightly cheaper CPL of €36.77 (2022: €38.09). The average number of active users per month (MAU) and average monthly billings per user (ABPU) in the Germany segment also rose to 1,100 and €60.99, respectively, in the first quarter of 2023 (2022: 1,036 thousand and €58.31).

Segment reporting 'Other'	Q1 2023	Q1 2022
in € thousand		
Revenue	1,282	1,076
Other operating income	0	1
Personnel expenses	-436	-389
Other operating expenses and exchange rate differences	-596	-490
EBITDA	252	197

We further expanded our business in Spain and succeeded in raising revenue of the Other segment by 19% (€207 thousand). This led to an increase in EBITDA of 28% (€55 thousand).

CASH FLOW

	Q1 2023	Q1 2022
in € thousand		
Main cash flows		
Cash inflow from operating activities	6,327	8,482
Cash inflow from investing activities	54,298	239
Cash outflow from financing activities	-853	-820
Other changes in available funds	-	-
Total change in available funds	59,772	7,901
Available funds at the beginning of the period	61,209	90,100
Available funds at the end of the period	120,989	98,001

In the first quarter of 2023, available funds rose by €59,772 thousand. This development is mainly due to the following factors:

- Positive EBITDA of €9,320 thousand.
- Increase in net current assets from operating activities of €2,194 thousand, mainly due to bonus payments in March.
- Refund of the advance payment made in 2020 of €54,316 thousand from the Hannover-Nord tax authority. The repayment of the related interest amounting to €2,028 thousand was still outstanding on 31 March 2023 and received in April 2023.

SELECTED FINANCIAL INFORMATION

Interim Consolidated Statement of Financial Position

	31 March 2023	31 December 2022
ASSETS in € thousand		
Non-current assets		
Property, plant and equipment	1,114	1,155
Right-of-use assets	2,526	2,661
Goodwill	158,585	158,585
Intangible assets	126,390	128,350
Deferred tax assets	5,104	6,948
Interest-bearing bond	5,000	5,000
Other investments	15,192	15,424
Shares in associated companies	809	675
Receivables from finance lease	1,120	1,399
Total non-current assets	315,840	320,197
Current assets		
Income tax receivables	118	118
Trade receivables	1,608	1,433
Receivables from finance lease	1,005	894
Prepaid expenses	1,740	1,454
Other financial assets	16,159	17,694
Other assets	2,424	56,736
Cash and cash equivalents	120,989	61,209
Total current assets	144,042	139,538
ASSETS	459,882	459,736

	31 March 2023	31 December 2022
EQUITY & LIABILITIES in € thousand		
Non-current liabilities		
Deferred tax liabilities	45,778	46,314
Interest-bearing loans	21,144	22,938
Other financial liabilities	4,202	4,272
Provisions	3,572	3,983
Lease liabilities	3,255	3,630
Total non-current liabilities	77,950	81,137
Current liabilities		
Trade payables	3,949	3,792
Interest-bearing loans	5,925	4,675
Other financial liabilities	19,976	21,786
Other liabilities	5,770	6,904
Income tax liabilities	6,561	5,810
Provisions	59	104
Lease liabilities	1,514	1,492
Total current liabilities	43,754	44,562
Equity		
Subscribed capital	22,396	22,396
Capital reserves	279,952	279,952
Treasury shares	-21,250	-21,250
Other reserves	10,834	11,066
Retained earnings	39,929	35,785
Equity attributable to shareholders of the parent company	331,862	327,950
Non-controlling interest	6,316	6,087
Total equity	338,178	334,037
EQUITY & LIABILITIES	459,882	459,736

Interim Consolidated Statement of Cash Flows

	Q1 2023	Q1 2022
in € thousand		
Net profit before tax	6,795	6,590
Adjustments for		
Amortisation/depreciation	2,059	1,952
Depreciation of right-of-use assets	135	188
Share of loss from associates	38	43
Interest income from finance leases and gains from the disposal of right-of-use assets	-23	-26
Other income from financial activities	-44	-161
Expenses from financial activities – from lease liabilities	47	62
Other expenses from financial activities	325	65
Translation differences	-23	-6
Other non-cash income/expenses	-76	8
Changes in		
Trade receivables	-175	32
Prepaid expenses	-286	-581
Other financial assets ¹	1,584	16,871
Other assets ²	-4	13
Trade payables	157	-705
Other financial liabilities	-1,919	-14,329
Other liabilities	-1,096	-219
Provisions	-457	-1,245
Interest received	22	-
Interest paid	-372	-65
Income taxes paid	-363	-6
Net cash inflow from operating activities	6,327	8,482

	Q1 2023	Q1 2022
in € thousand		
Cash flow from investing activities		
Receipt from a refund of advance tax payments	54,316	-
Receipts from the repayment portion of subleases (finance lease)	211	355
Payments for the acquisition of intangible assets	-17	10
Payments for the acquisition of property, plant and equipment	-41	-126
Payments for the acquisition of associated companies	-172	-
Net cash inflow from investing activities	54,298	239
Cash flow from financing activities		
Payments for the repayment portion of lease liabilities	-310	-820
Payments for the redemption of loans	-543	-
Net cash outflow from financing activities	-853	-820
Net increase/decrease in cash and cash equivalents	59,772	7,901
Exchange rate-related changes in cash and cash equivalents	8	-
Available funds at the beginning of the period	61,209	90,100
Available funds at the end of the period	120,989	98,001
Composition of available funds	-	-
Cash and cash equivalents according to the statement of financial position at the end of the period	120,989	98,001

¹ Excluding accrued interest from an interest-bearing bond of €39 thousand.

² Excluding receipts for the refund of advance payments made in 2020 to the Hannover-Nord tax authority amounting to €54,316 thousand, disclosed as a cash inflow from investing activities.

Basis of Reporting

This Quarterly Statement pursuant to Section 53 of the Exchange Rules of the Frankfurt Stock Exchange covers the period from 1 January 2023 to 31 March 2023. The date of the Interim Consolidated Statement of Financial Position is 31 March 2023. This Quarterly Statement is not an interim report pursuant to IAS 34 nor does it constitute financial statements pursuant to IAS 1. It has not been reviewed by an auditor. This Quarterly Statement should be read in conjunction with the Annual Report 2022 and the additional information about the Company contained therein. You can find the Annual Report 2022 on our website at zealnetwork.de. The accounting policies and valuation principles applied in this Quarterly Statement are based on those used in the Consolidated Financial Statements for the fiscal year 2022.

Financial Calendar

10 August 2023	Publication of Half-Year Report
9 November 2023	Publication of Quarterly Statement Q1–3

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Cover (clockwise): Marc Hohner, iStock/vgajic,
iStock/skynesher, unsplash/Brooke Cagle

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