

ZEAL Network SE
Analysts Earnings Call Q2 2023
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O Operator.

JM Jonas Mattsson

HB Helmut Becker

H Henry

M Marius

O [00:00] Hello ladies and gentlemen. Welcome to the Q2 results, 2023. At this time, all participants have been placed on a listen only mode. The floor will be open for questions following the presentation. And let me now turn the floor over to your host, Jonas, Mattsson.

JM Good morning, everyone, and welcome to ZEAL's earnings call. I hope you all have access to the presentation, but if you don't, it's accessible on our homepage and the investor relations section as well. On this content slide, we will talk about today's agenda, and we will start off with a summary of the first six months of the year, followed by business and a financial update. We'll then reiterate our guidance for the year before we are finishing off with the key takeaways. After the presentation, we'll give you the opportunity to ask questions. I'll now hand over to our CEO, Helmut Becker. [01:00].

HB Good morning, and welcome. So on the summary page for the first half of 2023, we're going to go through some highlights. We continue to grow the business and we do that by using opportunities for efficient growth investments. As a result, we've been able to significantly increase our billings volumes by 15% compared to last year. We do this in line with our marketing strategy. And what I mean by that is that we have accelerated customer acquisition, particularly during a high jackpot phase in June that was a Eurojackpot phase. And on top of that, another significant highlight for [02:00] the first six months of the year was the long-awaited receipt of the license for virtual slot machine games in Germany that we received from the national regulator. We were well prepared and launched our offering very quickly with an initial portfolio in June. We will now step by step expand our games portfolio.

And the final highlight for the third time this year, one of our customers won a very large jackpot. That happened very recently in August, and we are very excited to have so many of our customers win big jackpots. I actually have the privilege to talk to these customers, and that's always a highlight for me, and often there's a great [03:00] story that we can tell the world. Jonas. Oh no, I think I am continuing. And now, we are talking about a particular new business that we've launched, that's the games business. As I mentioned before, we were able to launch our games business in a very short period of time after receiving the license already in June. With our brands, we are a front runner in the lottery segment. To date, no state lottery company has

launched a comparable games business. We launched our first six games in the first half of the year, and since then we've actually launched 12 more games in two phases. So we are now at 18 games and we expect to continuously expand our games portfolio in the second half of the year, [04:00] adding a lot of games in 2024 on top and constantly refreshing our games portfolio. The business is ramping up nicely but for the first half of the year, we've only had two weeks of data and only six games live initially, and so it's a bit premature to already draw detailed conclusions or forecast this business for the rest of the year. Jonas, over to you.

JM Thank you, Helmut. Let's go to the next page and I will start describing the jackpot situation for the year because it has such an impact on our performance. So on this slide, you can see the jackpot development for our two main products, Lotto 6aus49 on top and Eurojackpot below. For Lotto 6aus49, the jackpot situation has been significantly weaker than comparable time last year. The average [05:00] jackpot is slightly lower, but more importantly is that we only had one peak jackpot in the period versus four last year. This has of course, an impact on both customer acquisition and billings number for the period. For Eurojackpot, but it was the other way around. The average size is similar, but we had two 120 million draws in June fuelling our growth while last year we had none. So what does that tell us? In summary, slightly better jackpot compared with last year, but still below the statistical average.

Let's now move into the income statement that you will find on next slide. Thanks to the strong performance and especially in June, we grew revenues by 11%. Due to the intensive marketing investment, total costs increased by around 20%. But let me break this down for you. Personal costs are in line with the year despite a slightly [06:00] larger workflows. Marketing expenses, this is where we made significant investment to capture as many customers possible, especially in June. In total, for the first six months, we have spent 20 million, which is a step up from last year by 44%. As we've explained before, the marketing investment is short-term suppressing our EBITDA, but long-term highly value created for the company. Direct operating expenses only grew by 9% while the volume grew by 15%.

This is due that we were able to make savings in, for example, age verification cost that helps offsetting the general increase that would normally come from a transaction volume increase. Similar to what I explained in the first quarter, indirect operating expenses are driven by more consultants in other external costs linked to the projects that we are currently running. And as I just said, [07:00] the additional market investment has short-term suppressed the EBITDA for the first six months and is standing at close to 14 million for the period. This equals to 25% EBITDA margin for the period, which is lower than what we normally have, but fully explained, but is exception investment we made in the period. And finally, EBITDA is at 9.3 million and net profit close to six million. Both are down from last year, which were the same reason for EBITDA, the increased marketing investments.

In the coming three slides, we will look closer at some KPIs. So look so let's go to slide ten. Our billings grew by 50% to 412 million for the period. This is an impressive growth fuelled by the peak jackpot, especially the one we had in June. Gross margin of 12.5% is slightly down versus last year, and it's driven by the product mix. [08:00] Last year we had a comparable more sales of charity products with a high margin than this year. But this is nothing that is worrying me since the product mix is always changing over the course of the year.

On the next slide, we've highlighted net cash and new registered customers. Let's first talk about net cash, which is down 34%, fully reflected the large dividend payment we made in June of close to 80 million to our shareholders. And we still have a healthy net cash of 23 million even after this dividend payment. And as you can see from the chart, we have made a fantastic acquisition number by bumping up newly registered customers by almost 20%, resulting in us acquiring 349,000 new customers for the year so far. Moving on to slide 12. Here we'll find some additional KPIs. The general increase in media cost and more [09:00] intensive online advertising by our competitors pushing up the bidding price for keywords in combination with our strong push in the customer acquisition resulted in a high cost per lead. The cost for the first half of the year is 45 euros and nine cents, an increase by 20% versus last year. The monthly active users are up 9% for the first six months, and standing now at 1.1 million monthly users on average. And finally, average billing per user is continuing to increase and now at 61 euros, 5% up from last year. This is indeed very satisfactory, but I don't expect this to go further up until the games are fully ramped up. But we do expect high level of cannibalization with our Lotto product with what the customer spends on games.

Let me now reiterate the outlook for the years [10:00] that you will find on slide 14. So the guidance that we reiterate for the year is that we continue to have billings around 800, 830 million euros, revenues of around 110 to 120, and EBITDA of around 30 to 35 million yearly, mostly depending on how much we ultimately invest in marketing. And we are planning a step change, as you saw from the first six months, and have assumed marketing spend in the range of 34 to 39 million for the year. For the games business, we have assumed a low single digit EBITDA impact for the year. Obviously, the business is expected to continue to grow in the coming years. And the down numbers indicated double-digit revenue growth, which is also our expectation for the mid-term. And as always, this is based on the average jackpot for the rest of the year. Over to you, Helmut to bring us home. [11:00].

- HB Thank you, Jonas. Let me summarize the first six months of the year. We continue to grow the business. We have successfully launched our games business already in June, and we are now step by step expanding the games portfolio. And we've successfully accelerated our customer acquisition with significant marketing investments, particularly in high jackpot phases. Thank you very much. And we can now move on to questions and answers.
- O Ladies and gentlemen, if you would like to ask a question, please press nine followed by the star key on your telephone keypad. If you wish to cancel your question, please press nine, followed by the star key again. So now you can already press nine and start to state your question. And we already have two questions. [12:00] So the first one is from (Henry Vandesh? 12:04) from (New Way? 12:04) You can ask your question now.
- H Hello. Good morning, everybody. Thank you so much for your presentation. I have a couple of questions. Shall we do them all at once or shall we do one question and then you answer then the next question?
- JM As you prefer. So just state the questions and we'll take them in the order of issues.
- H All right. Okay. So first one on the average billing per user, it was up a little bit above my expectation and what I would like to know is do you see there an impact of the strong Q2 jackpot especially the Eurojackpot, or would you say that it is a general increase in user spending that you

can see that is independent of the jackpot environment that you are facing? And then second question is on the marketing expense, which is also above my **[13:00]** expectation, it was probably your most expensive marketing quarter so far. I one would like to know if there are any one-time expenses concerning your newly launched TV commercial or is it just that you are generally really pushing marketing and then as you said before, the cost per lead are also up. so that that's explaining the high marketing expenses? And then the third and fourth questions on the instant win game rollout. Now you're online for the instant win games for about one month so far, and obviously the contribution for Q3 is not very high, but are you satisfied so far with how instant win is going so far and is it according to your expectations? And then the follow up questions on that is you said so far, you're at 18 games, and if I understand it correctly, you expect 200 games by the end of the year or within the first year, so by 1st of July, **[14:00]** 2024. That would be my question. So if it's by the end of this year, the end of '23, you would need nine to ten games on average per week to be launched to reach that goal, and I would like to know if you're comfortable with that.

JM Thank you so much for the questions and I think we will be able. I will take this first two questions and Helmut can cover the games question. So the average billing per user as we talked about the increase now to 61 euros, 5% up, is a very nice number. I expect this to be not continuing up that much. I think that the driver is the high jackpot phases where people were spending more. So I would say to your point, it's a jackpot driven increase in the average billing per user and we cannot expect that, even if it would be nice for the future. So that is average billing per user. The marketing expense is predominantly the push **[15:00]** for the acquisition of customers. We have some media cost as you said, but it's mostly preparatory preparing the TV launch and so forth. But we are talking rather hundreds of thousand than millions. So the majority of the marketing spend is for performance marketing, meaning acquiring new customers. So with this, we take the games to Helmut.

HB Let me tackle the remaining two questions. So we launched with an initial portfolio of gains which was six games. That's a very, very small portfolio. Since then, we have expanded the portfolio step by step. We went to 12 games as of yesterday, and as of today we stand at 18 games, which is still a very, very small portfolio. **[16:00]** So we are looking forward to further expanding the games portfolio. The performance of those games is as expected. But of course, it's very early days and the real impact of the games business we will only see once the portfolio is significantly grown. And also, some of the further initiatives for growth we will only start when the portfolio is a bit bigger than it's today. So it's a step-by-step process. The 200 games is a rough target number. The size of the portfolio is important, the refreshment of the portfolio is important and of course the right mix of gains is important going forward. And so we are improving that step-by-step. And **[17:00]** also, dependent on the regulator approving our games, which is also happening step-by-step and takes some time. The 200 as a rough target number is a number for the first 12 months. So it's probably not the number we will achieve by the end of the year but it is a number that we aim to achieve within the first 12 months.

H All right. Thank you. I somehow got the mix that it's for end of this year, so that really helps assessing the situation. Thank you and have a good day.

O Our next question comes from (Marius Vobeck? 17:48) from (Verbod Research? 17:49). You can ask your question now.

M Yeah. Hi. Thanks for taking my question. Basically, just one left. With regards to your marketing, especially the TV campaign, [18:00] correct me if I'm wrong, but I think that you started to the campaign some years ago already, and that was of mediocre success, to put it this way, and that you in the past mentioned that TV is not the best way for marketing for you. And so my question is, what makes you confident with this current campaign that is of more success than it was in the past and that it should help you gain any market shares, especially given the rather high CPL that it's created in your P&L?

JM Thank you for your question, Marius. And I think it's fair, the campaign we did a couple of years ago was mediocre as you as you say. We have completely redone the strategy behind this. And we are also [19:00] doing what we call a full funnel marketing campaign. Which means that it's not only TV, it's in combination with direct to consumer, out of home. You have maybe seen in Hamburg, we have had a lot of advertisement on bus stops, et cetera, et cetera. This could also be internet, it could be radio. So trying to reach a much wider audience in combination with the performance marketing. Also, we have made learnings over the years, so we are pretty bullish that this will be value creative and highly value creative, I would say. Everything we run the internal numbers, we see this is a very highly creative investments that we are doing. So I'm pretty optimistic that this will pay off in the medium term.

M Okay. Thank you very much. [20:00].

O So at the moment, there seem to be no further questions. If you have any additional questions, please press nine and the star key now. So Mr. Mattsson, there are no further questions coming in.

JM If there is no further questions, I would like to thank everyone on the call for taking the time and listening to us. You know we have also shared our full document that you should have access to. And should you have any further questions, please reach out to Frank Hoffmann or myself and we are more than willing to jump on a call or answer any kind of questions you may have. So thank you so much and have a wonderful day. Thank you.