

# ZEAL Network SE

Investor Call

Annual Report as of 31 December 2019

26 March 2020

BETTER 2GETHER

ANNUAL REPORT 2019

**ZEAL**



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After a long period of legal uncertainties, we are looking forward to focussing on the sustainable and further growing German online lottery brokerage business.



*Jonas Mattsson, CFO, ZEAL*

12M  
2019

- Exciting and successful year for ZEAL
  - Reintegration of Lotto24
  - Business model change and
  - Relocation
- Rise in billings
- Significant cost savings realised
- Adjusted EBITDA in line with guidance
- Market share expanded
- Proposal of attractive dividend policy

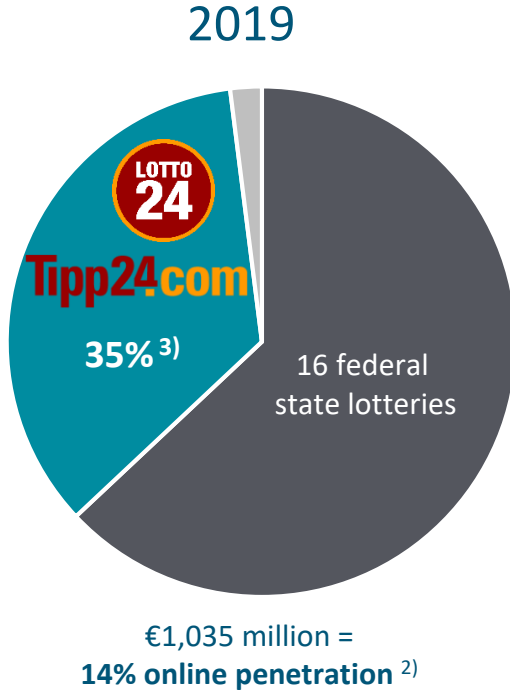
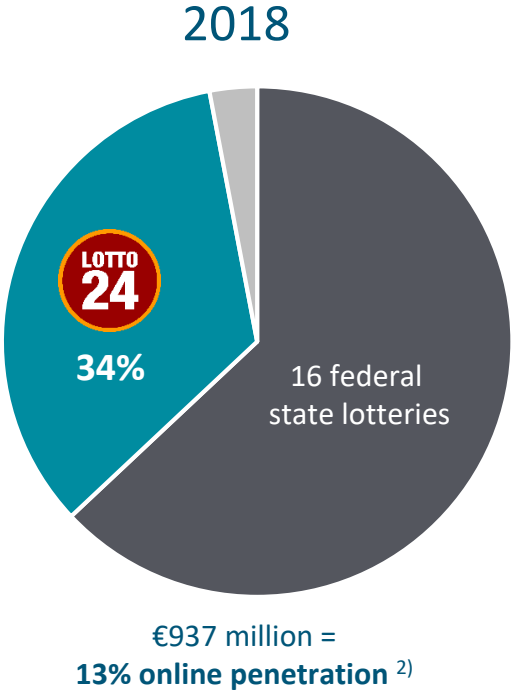
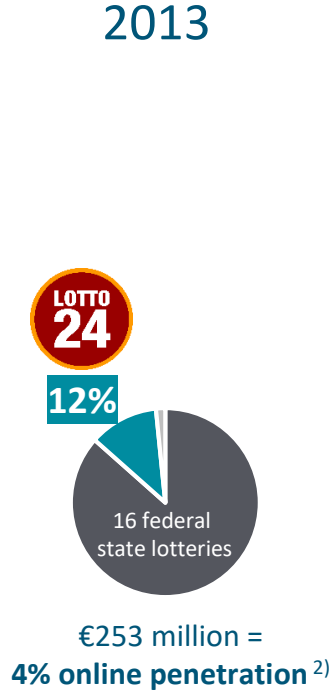




# Business Update

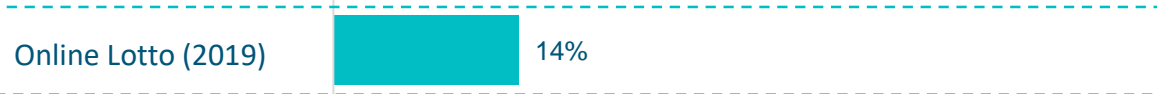
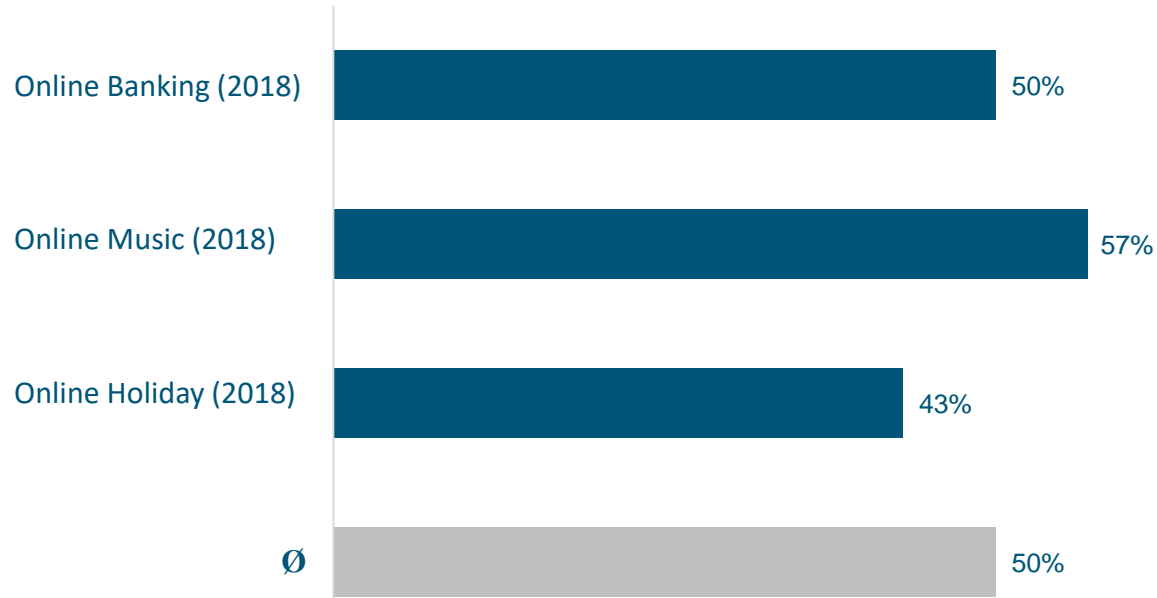
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# Market Leadership Extended <sup>1)</sup>

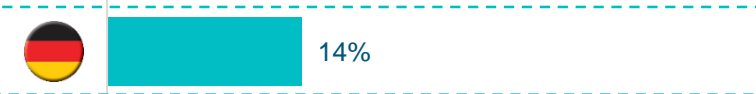
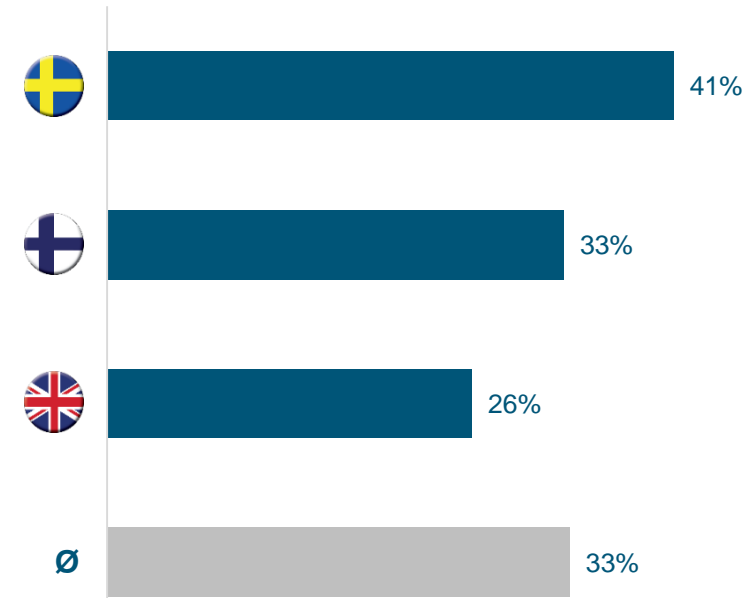


<sup>1)</sup> According to information of the German Association of State Lottery Companies (»Deutscher Lotto- und Totoblock, DLTB«) and calculations of the German Lottery Association (»Deutscher Lottoverband, DLV«)  
<sup>2)</sup> Total sales of the DLTB lottery market: 2013: €7.0 billion/ 2018: €7.3 billion, 2019: €7.3 billion  
<sup>3)</sup> Full year Lotto24 billings as well as Tipp24 billings only since the business model change on 15 October 2019

# Online market shares



Source: Bankenverband, Bundesverband Musikindustrie , DRV, German Association of State Lottery Companies (»Deutscher Lotto- und Totoblock, DLTB«), German Lottery Association (»Deutscher Lottoverband, DLV«)

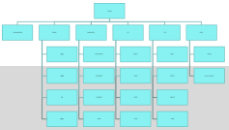


Source: H2 Gambling Capital, Goldmedia; Broker Research



# ZEAL: Reunification with Lotto24

## Organisation



- Internal organisation structure defined
- Reduction of employees to 190



DONE

## Governance



Contracts governing the future cooperation between ZEAL and Lotto24 signed



DONE

## Business model change



Lotto24 now also brokers lottery tickets to the state lottery companies via the domains Tipp24.de and Tipp24.com



DONE

## Relocation



- ZEAL is back in Hamburg
- ZEAL shares switched to the new ISIN DE000ZEAL241 / WKN ZEAL24



DONE

## Restructuring



€14.9m already incurred of the total expected (non-recurring) implementation costs of €15-20m

WELL ON TRACK

## Synergies



- €57m Synergies p.a.
- 60% related to the business model change
- 40% related to personnel and other operating costs
- Fully achievable at the end of year 2 after completion of the offer

WELL ON TRACK



# Lottery broker business model

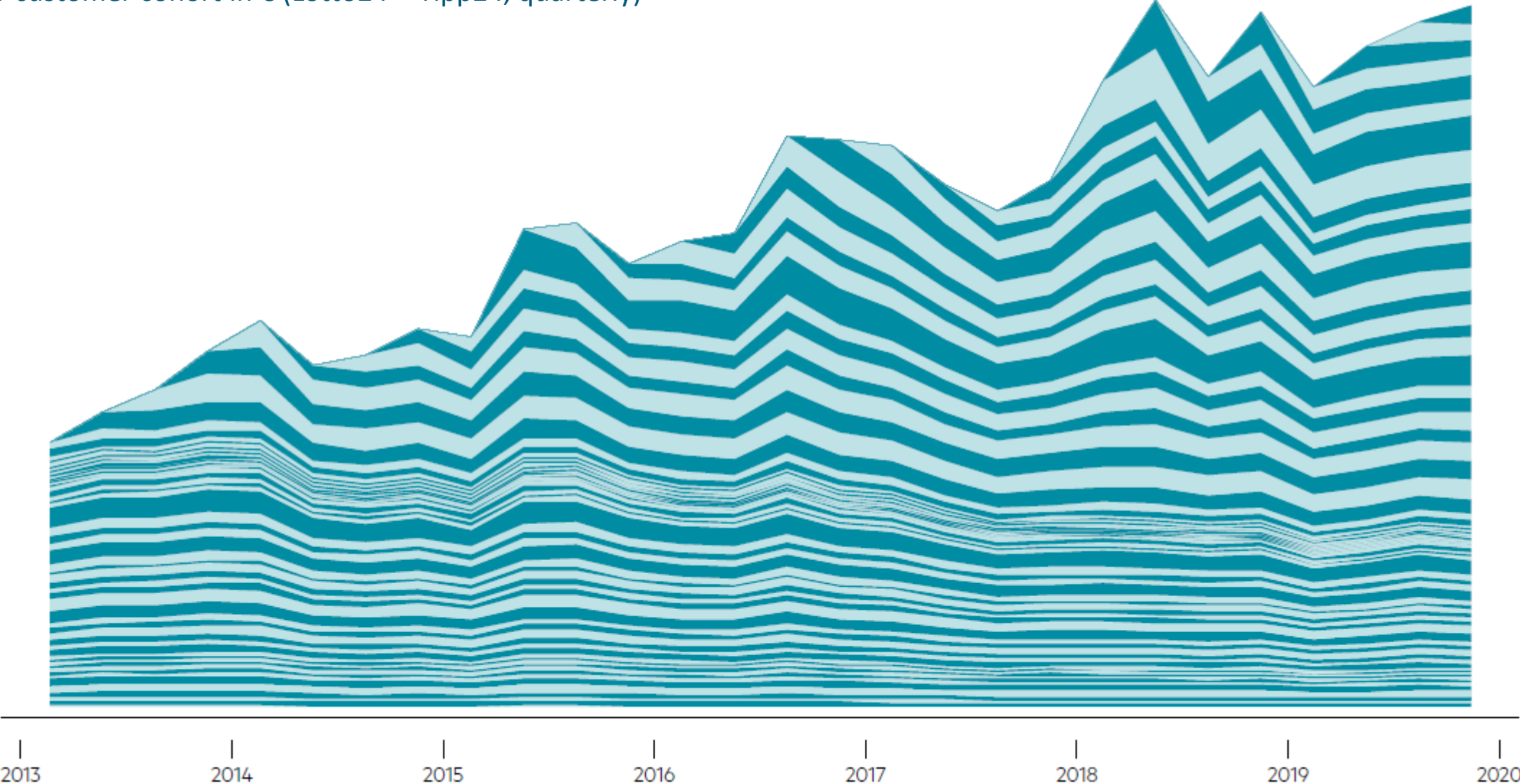


- ✓ Established products
- ✓ No jackpot risk

<sup>1)</sup> 16 state lottery operators from German Association of State Lottery Companies («Deutscher Lotto- und Totoblock, DLTB«)

# Customers are very loyal

Billings per customer cohort in € (Lotto24 + Tipp24, quarterly)







# Financial Update

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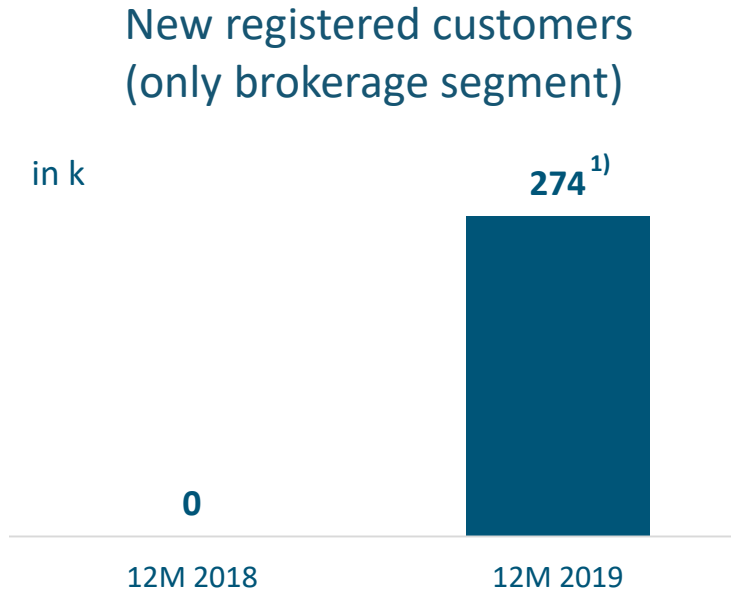
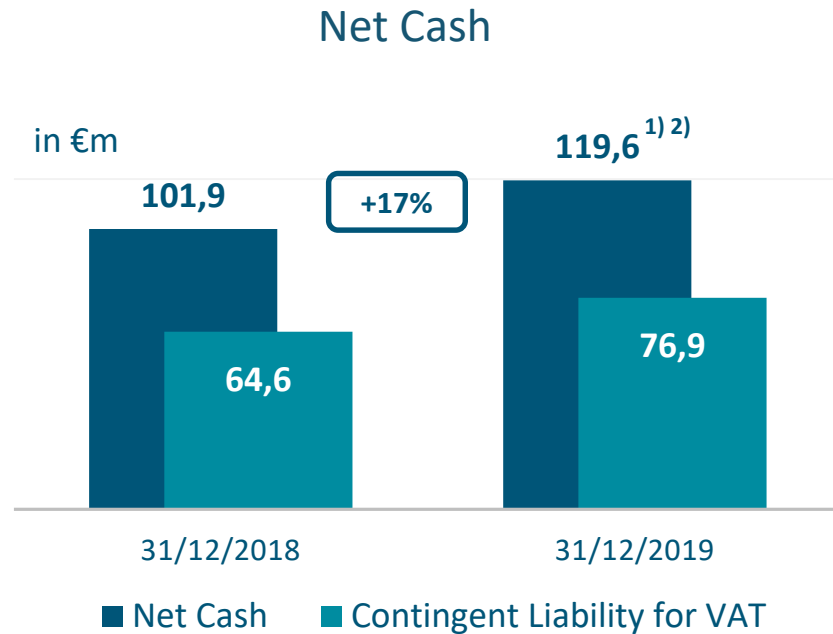
# 12M 2019 – Fully consolidating Lotto24 since 14 May 2019

Income Statement	in € million	12M 2019	12M 2018	Change in %	Comments
	Billings	466,650	296,286	+57.5	➤ <b>Billings:</b> – Billings increased due to the Lotto24 takeover
	Revenue	113,475	154,751	(26.7)	➤ <b>TOP:</b> – Revenue decreased due to a high prize pay-out owed to the old secondary lottery business and the announced revenue dis-synergies from the business model change
	Total operating performance (TOP)	121,571	159,652	(23.9)	
	Personnel expenses	(22,964)	(28,837)	(20.4)	➤ <b>Personnel expenses &amp; other operating expenses:</b> – Reduced by more than €21m despite absorbing Lotto24 costs of €22m
	Other operating expenses	(68,963)	(83,690)	(17.6)	
	Marketing expenses	(21,706)	(19,666)	+10.4	
	Direct operating expenses	(29,311)	(44,323)	(33.9)	➤ <b>Personnel expenses:</b> – Reduction of employees to 190 FTE's (2018: 228 FTE's excl. Lotto24)
	Indirect operating expenses	(17,946)	(19,701)	(8.9)	➤ <b>Direct costs:</b> – Removal of hedging costs and non-deductible VAT after business model change
	<b>Adjusted EBITDA <sup>2)</sup></b>	<b>29,350</b>	<b>47,742</b>	<b>(38.5)</b>	➤ <b>Other costs of operations:</b> – Decrease mainly driven by the adoption of IFRS 16, recruitment and other personnel costs
Amortisation and depreciation	(8,845)	(1,147)	+671.1		
Non-recurring expenses	(11,438)	(8,288)	38.0		
<b>EBIT</b>	<b>9,067</b>	<b>38,307</b>	<b>(76.3)</b>	➤ <b>Adjusted EBITDA:</b> – In line with guidance	
<b>Profit after tax</b>	<b>1,718</b>	<b>26,663</b>	<b>(93.6)</b>	– Negatively impacted by a significant prize pay-out in September	



<sup>2)</sup> Result from operating activities before amortisation, depreciation and non-recurring expenses

# ZEAL: Other performance indicators I

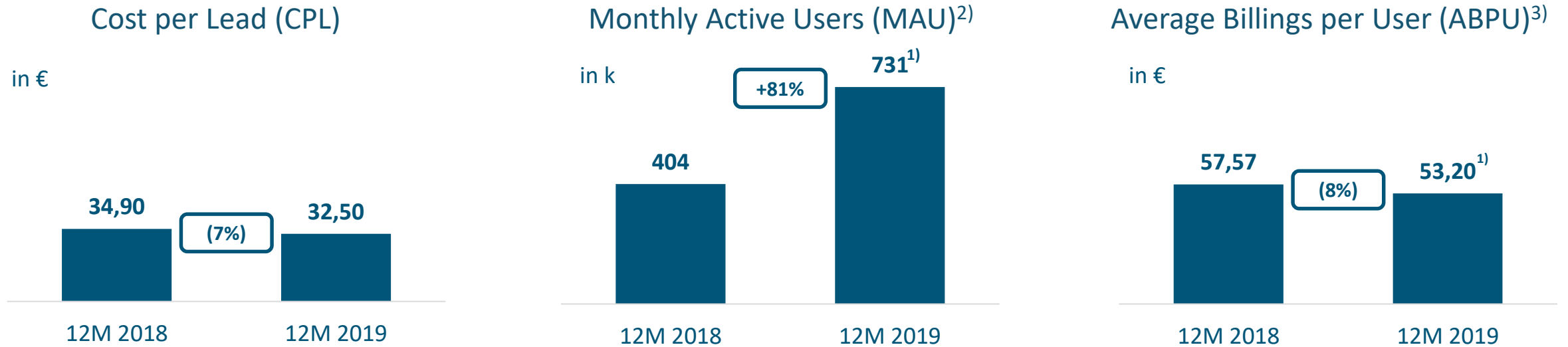


<sup>1)</sup> Including Lotto24

<sup>2)</sup> In January 2020, myLotto24 Limited made an interim VAT payment of €54 million to the German tax authorities, which has a direct impact on net cash



# ZEAL: Other performance indicators II



<sup>1)</sup> Including Lotto24

<sup>2)</sup> MAU: is the average of the monthly active users in each month in 2019. Up to 14 May 2019, this includes Tipp24 users only. Both Lotto24 and Tipp24 customers are included from 15 May 2019 to the end of the year.

<sup>3)</sup> ABPU: Average billings per user, is calculated as the total billings in the year divided by total monthly active users. It includes Tipp24 users and their billings up to 14 May 2019. Both Lotto24 and Tipp24 customers and their billings are included from 15 May 2019 to the end of the year.



# Outlook

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# Consolidated Guidance 2020

Comparative figures for 2019 are difficult to compare with those forecast for 2020 due to the Lotto24 takeover in May 2019 and the business model change from a secondary lottery to an online lottery broker in Germany in October 2019.

in €m	2020 Guidance	2019 <sup>1)</sup> Actual
Billings (€ million)	550-570	466.7
Revenue (€ million)	70-73	113.5
Gross margin (%)	Approx. 12	24.3
Adjusted EBITDA (€ million)	5-8	29.4
CPL (German business, €)	Lower than previous year	32.50
New registered customers (German business, thousand) <sup>2)</sup>	Nearly twice as many new customers	274

<sup>1)</sup> Including Lotto24 since 14 May 2019, secondary lottery business up to 15 October 2019 and Tipp24 brokerage business beginning with 15 October 2019.

<sup>2)</sup> Related to the Germany business of the ZEAL Group. 2019: incl. Lotto24 since 14 May 2019 and Tipp24 only since the business model change on 15 October 2019.

# Dividend Policy

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- Based on the continuing positive liquidity situation of the ZEAL Group in 2019 and the expected increasing profitability
- Proposal of a total amount of pay-out of €17.6 million (2018: €8.4 million) to the Annual General Meeting on 17 June 2020
- Corresponds to a dividend of €0.80 per share for 2019 (2018: €1.00)
- Intention to increase the dividend annually – with the aim of reaching €1.00 per share in 2022 (depending on the economic development)





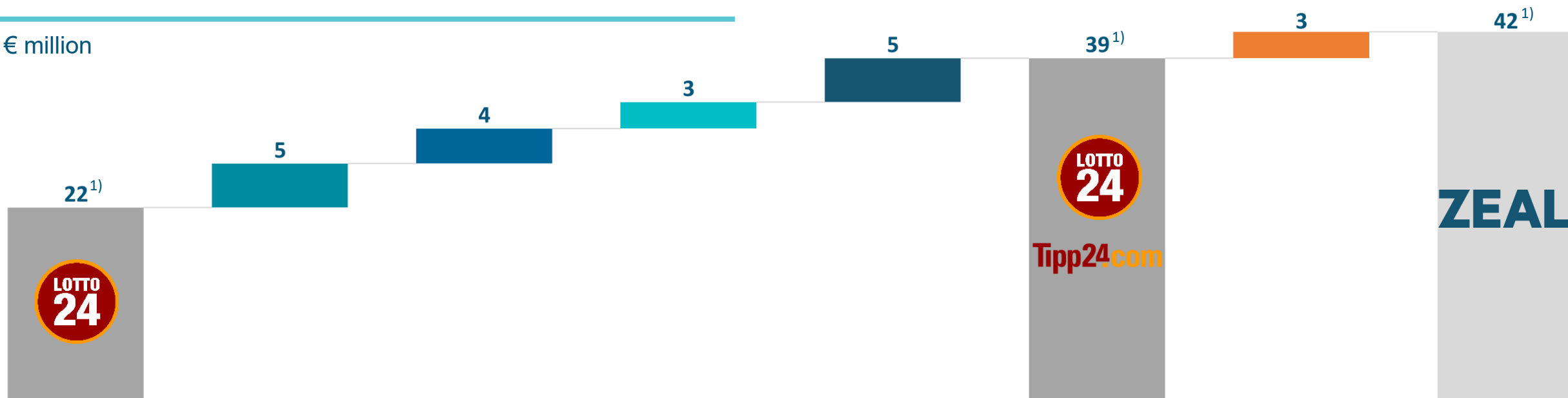
# Cost Comparison

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# Reconciliation of Lotto24 cost base to ZEAL target cost structure<sup>1)</sup>

€ million



## Cost base Lotto24

- Based on full year 2018 numbers <sup>2)</sup>
- Adjusted for inflation & cost increases
- Including reclassification of marketing cost into direct costs

## Volume effects

- Increase of billings (depending on jackpots) leads to higher direct costs
- Additional marketing staff to manage higher acquisition/ marketing investment

## Platform investments

- Stable, versatile and state of the art platform that can quickly add new products and functionalities
- Reflected in increased number of IT staff & other operating expenses

## New products / functionality

- Improved product offering like IWG's and social lotteries, leading to increase in billings & margin
- Reflected in personnel costs & other operating expenses

## Transitional costs

- Reflecting transition, e.g. technology cost until platform unification & org restructuring completed
- Higher costs due to 2 stock-listed companies & complexity

## Cost base Germany



## Cost base International

- Also revenue contribution
- Expected to be profit neutral in 2020

## Cost base ZEAL Group

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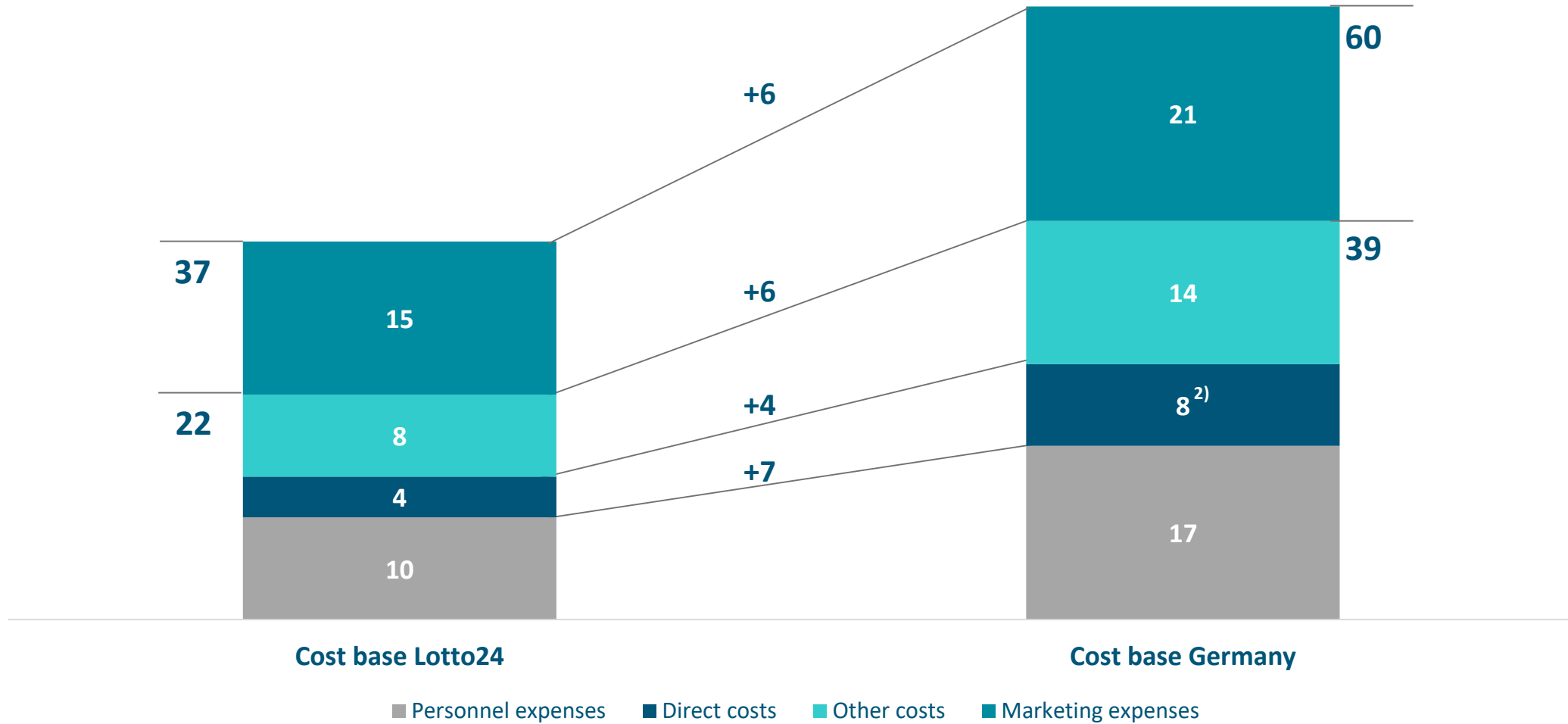


<sup>1)</sup> Operational costs excluding marketing expenses, amortisation, depreciation and non-recurring expenses

<sup>2)</sup> Annualized Q4 2018 cost run rate would suggest a Lotto24 cost base of €24 million as starting point for comparison

# Reconciliation of Lotto24 cost base to ZEAL target cost structure related to the P&L <sup>1)</sup> (incl. Marketing)

€ million



<sup>1)</sup> Operational costs excluding amortisation, depreciation and non-recurring expenses

<sup>2)</sup> Including costs of approx. €3 million, that were reflected in Lotto24 in other cost positions and therefor lead to an increase of % of billings (now approx. 1.4%)



# Recent Developments

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# Recent Developments

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- Launch of new charity lottery “freiheit+” to support educational projects
- Political developments on reforming the current State Treaty on Games of Chance (GlüStV)
- COVID-19





# Key Take-Aways

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# ZEAL: Key take-aways

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Attractive, sustainable business model

Well positioned for growth

Clear focus on costs, cost synergies well on track

Proposal of attractive dividend policy

# ZEAL

Questions

Answers



# Disclaimer

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# Appendix



# ZEAL: Consolidated Income Statement and Balance Sheet in €k

Income Statement		31/12/19	31/12/18	Change in %
	Revenue		113,475	154,751
Total operating performance		121,571	159,652	(23.9)
Total costs of operations		(92,221)	(111,910)	(17.6)
Adjusted EBITDA		29,350 <sup>1)</sup>	47,742 <sup>1)</sup>	(38.5)
EBIT		9,067	38,307	(73.3)
Earnings before taxes		8,328	37,985	(78.1)
<b>Profit</b>		<b>1,718</b>	<b>26,663</b>	<b>(93.6)</b>

Balance Sheet		31/12/19	31/12/18	Change in %
	Current assets		173,998	162,280
Non-current assets		347,135	6,932	+4,907.7
<b>ASSETS</b>		<b>521,133</b>	<b>169,212</b>	<b>+208.0</b>
Current liabilities		49,909	42,096	+18.6
Non-current liabilities		65,499	3,918	+1,571.7
Equity		405,725	123,198	+229.3
<b>EQUITY &amp; LIABILITIES</b>		<b>521,133</b>	<b>169,212</b>	<b>+208.0</b>

<sup>1)</sup> Result from operating activities before amortisation, depreciation and non-recurring expenses

# ZEAL: Business Unit Segment Reporting as of 31/12/19 in €k

	Lottery betting	Lottovate	Brokerage	Business unit total	Normalisation adjustments	Other adjustments	Statutory
Revenue from secondary lottery	81,830	–	–	<b>81,830</b>	(28,496)	177	<b>53,511</b>
Revenue from instant win games	8,857	–	–	<b>8,857</b>	3,829	–	<b>12,686</b>
Revenue from ticket sales and commission	13,242	4,718	30,656	<b>48,616</b>	–	–	<b>47,278</b>
Other operating income	1,933	885	215	<b>3,033</b>	4,783	280	<b>8,096</b>
<b>Total operating performance</b>	<b>105,862</b>	<b>5,603</b>	<b>30,871</b>	<b>142,336</b>	<b>(19,884)</b>	<b>(881)</b>	<b>121,571</b>
<b>EBITDA</b>	<b>35,797</b>	<b>(5,510)</b>	<b>3,624</b>	<b>33,911</b>	<b>(19,884)</b>	<b>3,885</b>	<b>17,912</b>
Depreciation/amortisation	(1,414)	(760)	(952)	<b>(3,126)</b>	–	(5,719)	<b>(8,845)</b>
<b>EBIT</b>	<b>34,383</b>	<b>(6,270)</b>	<b>2,672</b>	<b>30,785</b>	<b>(19,884)</b>	<b>(1,834)</b>	<b>9,067</b>
Financial result	–	–	–	–	–	(727)	<b>(727)</b>
<b>EBT</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(19,884)</b>	<b>(2,573)</b>	<b>8,328</b>
Income tax	–	–	–	–	–	(6,610)	<b>(6,610)</b>
<b>Net Profit/loss</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>30,785</b>	<b>(19,884)</b>	<b>(9,183)</b>	<b>1,718</b>



# ZEAL: KPIs

Billings (in €m)	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
	72.4	68.3	65.5	67.8	77.7	67.4	112.0	153.3	134.0

ABPU (in €)	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
	59.7	58.0	53.3	58.0	60.4	57.5	60.5	57.3	48.4

MAU (in k)	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
	405	392	410	384	427	375*	365	917	925

\*Restated based on prior quarter correction

# ZEAL + Lotto24: Financial Calendar 2020

Publication of Annual Report 2019	26 March 2020
Publication of Q1 Report	14 May 2020
Annual General Meeting	17 June 2020
Publication of Q2 Report	13 August 2020
Publication of Q3 Report	12 November 2020

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