

**ZEAL Network SE**  
**Analysts Earnings Call Q1 2023**  
**Transcript**  
**May 11, 2023**

**Moderator:** Good morning ladies and gentleman and welcome to the ZEAL Network conference call regarding the Q1 results 2023. At this time, all participants have been placed on a listen only mode. The floor will be open for your questions following the presentation. Let me now hand the floor over to Jonas Mattsson.

**Jonas Mattsson:** Thank you so much and good morning, everyone and welcome to ZEAL's Earnings call. I hope you all have access and can see the presentation on the webcast, but if not, it's also accessible on our homepage under the investor relations section. So, on the content slide you will find today's agenda and we will start off with a summary of the first three months of the year followed by financial updates. We will then reiterate our guidance for the year before we are finishing off with the key takeaways. After the presentation, we will give you the opportunity as always to ask questions. I will now hand over to our CEO Helmut Becker.

**Helmut Becker:** Thanks Jonas. Good morning. So first of all, we are happy that we've received the games license from the German regulator. I would touch on the games business plan in a second. We've also made a good start in 2023 with double digit top line growth. We have increased our EBITDA compared to previous year. Furthermore, the world lottery association, the WLA, has accepted ZEAL as a member. This is a great signal towards to our key stakeholders, our partners and potential partners in the industry. As the German market leader for lotteries, we take our responsibility in the areas of compliance, security, and risk management very seriously and attach great importance to social commitments as well. So, we are pleased to be part of that important organization. Two days ago, ZEAL was able to hold again a physical general meeting in Germany first time after nine years. Among other things, the dividend proposal of €3.60 was approved. The payment of the dividend will start next week on May 17th. So, page five, let me give you an update on regulation. As you know, we are now operating under the new German state treaty and we've already talked about the extension of our broker permission until 2029. Let me go straight to the games license or virtual slot machine license, which is probably the most interesting for you. As I already mentioned, at the beginning of April, we received the permission to operate virtual slot games. This is an important milestone in our business strategy. The permit is valid for five years. After that, we have to apply again for the continuation of that permit, which should most certainly be an administrative act. I've now jumped to slide six to tell you a little bit more about the games business. We expect our games business to go live in May or June this year. However, with a smaller number of games than originally expected, as the regulators simply cannot keep up with a flood of games submitted by all providers that require approval. Nevertheless, we will be the front runner in the lottery segment with our brands. In the second half of the year, we expect a rapid expansion of our game's portfolio, adding a lot of games in 2024 and constantly refreshing the games portfolio. Let's now go to slide seven. Looking at other markets that already offer virtual instant win games, it becomes clear what a great potential our new business field offers in terms of potential and perspective going forward. In other markets, instant win games already account for almost half of total lottery revenues. By the way, this is also very much the case for our business in Spain. Therefore, the German market has a lot of catch-up potential in this area in combination with a significantly higher gross margin than our brokerage business. However, there are regulatory limiting factors that make it difficult to predict the speed of the ramp up and probably will limit the total size of the potential somewhat compared to the leading markets. Back to you Jonas.

**Jonas Mattsson:** Thanks Helmut. Let's now go to the next page and we will start describing the jackpot

situation for the year. And I'm now on slide nine. As you can see, this is the jackpot development for our two main products. Lotto 6/49 is on top and the Eurojackpot graph is below. Follow the 6/49, the jacket situation has been weakened and a comparable time last year. The average output is slightly lower, but more importantly is that we did not have a single jackpot peak in this quarter, but as you can see, we at least got close at the end of March. And this to compare with last year, we had two peaks and this have of course an impact on both, customer acquisition and billings number for the period. For Eurojackpot, it was in power with last year. The average jackpot was a bit higher, but no period to experience any peak jackpot, but at least we got close with 104 million euros in late January. So, in summary, a slightly weaker jackpot compared to last year and also to mention is the lack of true peak jackpot for the quarter, which is actually below the historical statistical average. Let's now move to the income statement that you will find on next slide. The revenues grew by 6%, despite lack of good jackpot development. The revenue growth is somewhat lower than the corresponding billing growth that I will talk about in a moment. But basically, it's due to less favour product mix in the quarter, total cost followed the revenues and increased by 7%. Personal cost have increased as a result of higher provisions for our long term incentive schemes. We also had four more head counts in the company, but that has less impact. Marketing expenses slightly down versus last year and in line with the jackpot situation. Direct operating expense are in line with the increase of the transaction volumes with 11%. Indirect operating expense are up to 10% with the main driver being more consultancy cost for the quarter. Combined this has led to an EBITDA that is 4% higher than last year and now at 9.3 million euros. This equals to a 35% EBITDA margin for the period. And finally, EBITDA is up by 5% while profit after tax is 12% lower due to more tax charges. The left is explained by the reversal of deferred tax asset that has an impact on the tax number for the quarter. In the coming three slides we'll look closer at some KPIs. So, let's go to slide 11. Our billings grew to 201 million euros or by 11%. This growth is supported by the strong customer acquisition as of last year. Gross margin of 12.4% is down versus last year, but due to the less favourable product mix as I had mentioned. This is however nothing that worries me since the product mix is always changing over the course of the year. On the next slide, we have highlighted net cash and new register customers. Let's first talk about net cash, which is up 45% since last year and now standing a hundred million euros. This is mainly due to the strong operating profit in combination with the inclusion of the 56 million VAT receivable offset by the last year dividend payment of 48 million euro. Regarding acquisition of new customers were 7% below last year, which is explained by the higher acquisition number we have in the beginning of '22 when 6/49 reaches peak two draws in a row. Moving on to slide 13, he'll find some additional KPIs. The CPL or cost per lead is reduced by 3%. The main explanation is that we had some specialty campaign last year which have increased the number for those periods. Besides this, nothing material has changed but of course happy with the lower CPL. The MAU or monthly active users are up to 6% for the quarter and now at 1.1 million monthly users. And finally, average billing per user is still very high and up by 5% to 61 euros. This is indeed very satisfactory, but I don't expect this to go further up until games are launched, which could have a positive effect. But we do also expect high level cannibalization with this product. Let me now reiterate on the outlook for this year that you will find on slide 15. So, our guidance for the year is that we expect the billings of around 800 to 830 million euros, revenues of around 110 to 120 million and EBITDA of around 30 to 35 million, mostly depending on how much we ultimately invest in marketing. We are indeed planning a step change and have assumed 34 to 39 million in marketing investments for the year. For the games business. We have assumed a low single digit EBITDA impact of this year. Obviously, the business is expected to continue grow in the coming years. And if our numbers indicated double digit revenue growth, which is always our expectation for the midterm. And as always, this is based on the average jackpot for the rest of the year. For this I am back to you Helmut.

**Helmut Becker:** Thank you Jonas. So, these are the key takeaways from our presentation today. We continue to grow the business. We have received our long-awaited games permission. Despite the turbulent times, our business is remarkably resilient and we continue to pursue our goal to continue growing the business and gaining market share. With our approved dividend for the 2022 financial year,

we have now returned approximately 186 million euros to our shareholders in the form of dividends or share buybacks since the business model changed. Thanks everybody for listening. We are now closing the presentation and I think I give it back to the operator to take questions.

**Moderator:** Thank you very much. Ladies and gentlemen, if you would like to ask a question, please press nine and \* key on your telephone keypad. In case you wish to withdraw your question, please press nine and \* again. Please press nine and \* to register for a question. And first up we have Henry Wendisch from Nuways over to you.

**Henry Wendisch (NuWays):** Hi everybody. I hope you can hear me fine and thank you so much for the presentation and congratulations on the good results. You briefly talked about average billing per user that it increased quite a lot and both my expectations actually. What was in particular if you won the driver for that if you could elaborate on that would be really helpful. And also, I saw that the tax rate has increased to 30%. We also briefly touched it but can we assume that kind of tax rate for the rest of the year? Those are my two questions. Thank you.

**Jonas Mattsson:** Thank you so much for your question. Let's start with the tax question. Yes the future tax rate will be very normal. The tax expenses are mainly influenced by the reversal of deferred tax expenses. So going forward you should just assume the normal German tax rate. And that will be approximately 32%. Obviously, the paid tax is less, but what we charge the income statement is more or less in line with the German tax rate. On the average billing per user, yes, it's continue going up and it has impact when related to the jackpot situation and as I said, games could actually positively impact that one, but we also know that games money spend on games maybe be a year less spend on other product. So, we want to be a little bit careful that it will not continue too much, but at least have a positive development over the years. And if you go back a few years; we were probably 10% lower than we are today. So, it's a nice development we have had. I hope this explains to you your two questions.

**Henry Wendisch (NuWays):** Yes. Perfect. Thank you

**Moderator:** Next up is Marius Fuhrberg from Warburg Research. The floor is yours.

**Marius Fuhrberg (Warburg Research):** Yeah. Hi, thanks. One question from my side. Could you give us an update regarding the progress of the billing in the owned lotteries and how is your current strategy to increase those billings or are you actually in the progress of introducing new lotteries or so? That would be helpful, thanks.

**Jonas Mattsson:** So, when you say own lotteries, so let me trying to explain it. So, we have the majority of our billings or transaction volumes comes from the lotteries that we are brokered that officially owned by the state lotteries meaning 6/49 and Eurojackpot and so forth, so on. But we also have other lotteries that we are self-operator. We have developed them like the freiheit+, we have also, the Traumhaus lottery so we are adding more lotteries to our portfolio. These are relatively new. Freiheit+ was launched two years ago. The Traumhaus lottery was last year. And we hope that these also will take effect and becoming an even bigger part of our portfolio because they comes with a higher margin. So that's why we want to push these lottery products to our customers well as continue brokering our standard products. On top of that we have the games as we talked about, where we develop some games and other games, we do in source from third party suppliers. Was that answering your question?

**Marius Fuhrberg (Warburg Research):** Yeah, I was little bit more pointing the direction of how your current strategy looks like of convincing more people of playing those lotteries. Or do you spend especially a little bit on of your marketing spend towards promoting those lotteries as they come with your higher take rates?

**Helmut Becker:** Yeah, so we see potential to further grow these lotteries on our current customer base. We also are refining the products themselves and the value propositions of these lotteries. So, we are learning as we are going and yes, you have a point there. We do plan to also invest into customer acquisition with these offers but this is something where we also are a test and learn model right now.

**Marius Fuhrberg (Warburg Research):** Okay, thank you.

**Moderator:** At the moment there are no further questions, so if you would like to raise another question, please press nine and the \* key. Nine and \* if you have any further questions. There are no further questions.

**Jonas Mattsson:** Okay. Then I would like to say thank you for everyone that participated and took the time to listen to our presentation. As we said in the beginning, it was a very good start for ZEAL and the group companies in the first quarter and we expect a nice future as well. So, thank you so much for taking the time and should you have any more questions, feel free to reach out to us directly. I'm happy to support you with any kind of explanation. Thank you so much.

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