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RESEARCH

Gaming Realms

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Interim results show full year expectations on track with further international growth opportunities to come

Gaming Realms is a creator and licensor of innovative games for mobile, operating in the UK, US, Italy and Canada. Flagship brand Slingo® is a popular and unique game genre combining elements of slots, bingo and table gameplay. These games are licensed by some of the world's biggest online gaming operators, including DraftKings, Sky Betting & Gaming and GVC, and distributed directly to operators or via global partners such as Scientific Games using the company's proprietary Remote Game Server platform.

Strong numbers posted for H1 2021, in line with expectations

Revenues for the six months to 30th June 2021 rose by 50% to £7.7 million. This was mainly driven by the Licensing division, where revenues grew by 73% to £5.8 million. This was complimented by a 7% revenue increase in the smaller Social Publishing division to £1.9 million. Boosted by the operational gearing, adjusted EBITDA profits (before share option and related charges) grew by 144% to £3.1 million.

Pennsylvania launch and Michigan expansion set to boost H2

Following the award of relevant licences, Gaming Realms' Slingo games went live in the US state of Michigan in late June and in Pennsylvania in early September, both with partner BetMGM. Further launches are expected with additional operators across all US territories, boding well for further content licensing growth in H2. The outlook is positive, with revenues up by 28% in the two months since June and the full year numbers set to be in line with market expectations.

Further international growth opportunities provide long-term potential

New licensing opportunities are being pursed within the US as new states announce their intention to regulate iGaming. Alongside further European launches, the company will shortly commence the process of obtaining an iGaming licence in Ontario, Canada, a market believed to have the potential to be bigger than any one of the US states that have been regulated so far.

No changes to forecasts, shares remain undervalued

With FY2021 expected to be in line with expectations we are retaining our forecast for £5.4 million of EBITDA this year, rising to £8 million in FY2022. Making small updates to our valuation model our target price rises from 51p to 53.13p, implying upside of 42%. We update coverage of Gaming Realms and retain our stance of **Conviction Buy.**

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CONVICTION BUY
Price target – 53.13p

Key data

EPIC	GMR
Share price	37.3p
52 week high/low	47p/17.75p
Listing	AIM/OTC
Shares in issue	288,702,626
Market Cap	£107.7m
Sector	Travel & Leisure

12 month share price chart

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2021 Interim Results

P&L

Gaming Realms has posted results for the six months to 30th June 2021 which show total revenues up by 50% at £7.7 million. The performance was mainly driven by another strong showing from the Licensing division, where revenues grew by 73% to £5.8 million. This was complimented by a 7% revenue increase in the smaller Social Publishing division to £1.9 million. We note these numbers were delivered against strong comparables in H1 last year, a period which saw total revenues up by 66% after the firm significantly increased its games distribution and benefitted from people gambling more at home during the worst of the pandemic lockdown restrictions.

Boosted by the company's relatively fixed cost base (total expenses only grew by 19% despite the revenue increase) the operational gearing kicked in, with adjusted EBITDA profits (before share option and related charges) up by 144% at £3.1 million. The statutory pre-tax profit was £0.8 million compared with a pre-tax loss of £0.7 million in H1 2020.

Divisional performance

Licensing

The rise in Licensing segment revenues came on the back of a further increase in game distribution, an expanded games portfolio and a significant increase in brand licensing revenue. The 26 partners that went live during 2020 and further 11 partners which went live during the period helped drive revenue growth, along with the release of four new Slingo games.

By segment, **content licensing** grew by 39% to £4.1 million due to an increase in distribution from an expanded games portfolio. **Brand licensing** saw a significant deal completed which resulted in a 298% increase in revenues to £1.7 million. In terms of the growth seen, there was a £0.5 million organic increase in content licence revenues from existing partners, a £0.6 million increase in content licence revenues from partners that went live after 30th June 2020, with the brand licence growth being a significant £1.3 million. Adjusted EBITDA for the Licensing division was up from £1.73 million to £3.37 million.

Social Publishing

The Social Publishing division saw modest revenue growth as a result of an increase in new Slingo content, as well as improved player management and new player engagement features. Adjusted EBITDA slipped from £0.83 million to £0.6 million, mainly as marketing spend was upped from £30,000 to £200,000 to drive player activity and revenues.

Balance Sheet & Cash Flow

On the balance sheet, cash at the period end stood at £3.9 million, up by £1.8 million since the year end in December. This was mainly driven by a £2.3 million cash inflow from operating activities and the receipt of £1 million of deferred consideration from River Tech Plc for the 2019 real money assets sale, offset by £1.6 million of capitalised development costs. The other major balance sheet item remains the convertible loan of £3.5 million owed to Gamesys Group (previously JackpotJoy) due for repayment on 31st December 2022.

Operating highlights

In early January 2021, Gaming Realms was granted a provisional iGaming supplier licence in **Michigan** by the US state's Gaming Control Board. This allowed the company to provide its Slingo Originals game content to Michigan's licensed online casino operators following the subsequent approval of iGaming. Just before the period end, in late June Gaming Realms launched its Slingo Originals content in Michigan with partner BetMGM via a direct-integration agreement. BetMGM is a leading US sports-betting and online gaming operator and is the iGaming market leader in Michigan.

Meanwhile in **Pennsylvania**, Gaming Realms was awarded an Interactive Gaming Manufacturer Licence by the Pennsylvania Gaming Control Board in May, making this its third US state licence after New Jersey and Michigan. Again, the licence allows Gaming Realms to provide its Slingo Originals game content to licenced online casino operators, with the first game going live with BetMGM in early September. In Europe, Gaming Realms entered the regulated **Italian** market in February, with the Slingo portfolio live with iGaming operators Goldbet and Sisal Group via partner Scientific Digital's Opening Gaming System platform.

A number of further partnership agreements were also signed in the period. This included a licensing agreement with International Game Technology, a multinational gaming and lottery company, for GMR to produce Slingo games based on some of the highest-performing slots brands within IGT's game library, including the Cleopatra® and Da Vinci Diamonds® brands. An extended agreement was also signed with existing partner Scientific Games, with a four year licencing deal confirmed for SG to offer Slingo branded retail and digital lottery products in the North American, European, UK, New Zealand and Australian markets. In terms of content, four new games were released into the market during the half, including Slingo Starburst and Slingo Lobstermania, taking the total to 48.

Slingo Lobstermania. Source: Company

Outlook

The outlook for the rest of the current financial year is positive, with revenues having grown by 28% in the two months since the half year end. In Pennsylvania, Gaming Realms is now live with operators including BetMGM, Draftkings and Rush Street Interactive and in Michigan has further launched with Draftkings and Rush Street Interactive. Early appetite for the full Slingo portfolio is said to have been promising, with further launches expected with additional operators across all its US territories to fulfil strong market demand. Also, two new Slingo games have been released, Slingo Big Wheel and Redhot Slingo. Within the Licensing segment, revenues from the content launches in Michigan and Pennsylvania are expected to grow substantially in the second half. Overall, trading for the full year is expected to be in line with market expectations.

International Expansion Opportunities

As shown in the half year results, the US continues to be a key area of focus for Gaming Realms given the growth opportunities being seen as individual states regulate and launch their online gambling markets. According to the company, the US online gaming market is expected to grow at a compound annual rate of 17.3% from 2020 to 2025, with gross gaming revenues forecast to rise to a value of $6.1 billion by 2025. Meanwhile, a recent investor presentation from the company's US listed partner DraftKings suggested that the US iGaming market could be worth $40 billion a year if all states legalised it.

Across the company's three current states of operation (New Jersey, Michigan and Pennsylvania), growth is generally continuing on a year-on-year basis but seems to be consolidating somewhat month by month. This comes after the closure of land based casinos during the most restrictive pandemic lockdowns in 2020 saw online casinos benefit from new customer sign ups.

In **Pennsylvania**, July 2021 saw the fifth straight month of more than $100 million in gross revenues being generated from online casinos. The total figure was $104.5 million, up from $54.4 million in the same month last year but down slightly from $110.7 million in June 2021 and a record $111.6 million in March 2021.

In **Michigan**, online gambling revenues hit $92.3 million in gross receipts for July 2021, up 3.5% compared to June. The market has expanded quickly since launch in January 2021, seeing monthly revenues around or over the $90 million level every month since March. In **New Jersey** meanwhile, there was a new monthly online casino record of $118.7 million in July, beating the March record of $113.7 million and up from $87.5 million in July 2020.

With a number of agreements with a range of leading US based operators, we believe Gaming Realms continues to looks very well placed to take advantage of the move towards regulation and as more established markets grow and mature. The company now has direct integrations and multi-State deals with the majority of the key US iGaming market operators including the likes of BetMGM, Draftkings, Fanduel, Rush Street Interactive, Golden Nugget, Poker Stars, Barstool/PNG, Kindred, Wynn, Twinspires and Caesars Entertainment. Further licensing opportunities are being pursed within the country as new states announce their intention to regulate iGaming.

Providing further international growth opportunities, alongside its Pennsylvania launch announcement in early September Gaming Realms said that it will shortly commence the process of obtaining an iGaming licence in **Ontario, Canada**. In November 2020 the Government of Ontario announced that the province will conduct and manage a regulated iGaming market, with a specific subsidiary of the Alcohol and Gaming Commission launched in July this year to manage commercial relationships between Ontario and private iGaming operators. The province plans to create a safe, regulated and competitive internet gaming market.

According to analysts at VIXIO GamblingCompliance, Ontario is set to be one of the largest online gambling markets in North America over the next few years., Assuming a late 2021 or early 2022 market launch, it expects that Ontario's online gambling market could generate a gross revenue of US$795 million in its first year, rising to $1.5 billion by 2026. Gaming Realms' Executive Chairman Michael Buckley commented in the interim results that Ontario, "… *has the potential to be a bigger market for Gaming Realms than any one of the U.S. states that have regulated so far.*"

Following the successful launch in the Italian regulated market earlier this year, Gaming Realms has evaluated further **European** expansion opportunities and is preparing for launches in additional regulated markets in the second half of the year. No further detail was given in the interims but previous statements have hinted at potential launches in Denmark, Spain and Portugal.

Forecasts & Valuation Update

Investors took well to the interim results, with Gaming Realms shares rising by 6% to 37.3p on the day of their release. While they remain off this April's all time high of c.47p they are still well ahead of lows of 4.45p seen at the depths of the pandemic inspired sell off in March last year.

With the interim results in line with expectations we are making no changes to our forecasts at this stage but are tweaking our valuation model, mainly to take time factors into account.

As further partnership deals come on line and Gaming Realms expands in the US, for FY2021 we continue to look for revenues of £14.9 million. We believe this is a conservative figure given that 52% of this was delivered in the first half alone. Our adjusted EBITDA forecast for the year remains at £5.4 million, again with more than 50% of this already delivered in H1. In FY2022 we expect growth trends to continue and are looking for £20.8 million of revenues and adjusted EBITDA of £8 million.

Peer derived valuation multiple

For valuation purposes, we retain adjusted EBITDA as the most appropriate measure of performance as Gaming Realms' has high non-cash charges associated with amortisation and interest. To provide a sound basis as to what kind of valuation Gaming Realms could command if it meets our forecasts we again look to several globally listed games licensing/development companies which provide similar services and some recent transactions in the sector.

Given the higher growth profile of the licensing sector compared to gambling, the sector to which Gaming Realms used to belong to before the disposal of its B2C assets, companies can command much higher valuations. With that in mind, we note that corporate activity in the US gambling sector continues to be strong. Perhaps the most significant recent deal is that of Draftkings' $1.56 billion all-share agreement to acquire rival Golden Nugget Online Gaming. That values Golden Nugget at some 54 times its 2020 adjusted EBITDA – a high valuation maybe but Draftkings sees significant strategic benefits as well as $300 million of synergies between the two firms at maturity.

	Market Cap (£m)	Net cash (£m)	Historic EBITDA (£m)	EV/EBITDA
Evolution Gaming	25,293	171	283	88.8
Activision Blizzard	44,765	4,050	2,344	17.4
Electronic Arts	29,852	1,331	887	32.2
NetEnt - acquisition data	1,677	-185	73	25.4
Codemasters - acquisition data	945	50	18	49.2
			AVERAGE	**42.6**

Gaming Realms peer analysis – share prices and exchange rates as at 13th September 2021.
Data sources: Sharepad, xe.com and individual company accounts

Our updated peer analysis shows an average EV/EBITDA ratio for the sector of 42.6 times, down slightly from 45 times at the time of our last research note in May, mainly as share prices have drifted. As such, we continue to believe that a multiple of 25 times is an appropriate and justifiable figure to use in our valuation for Gaming Realms given that the company remains in the relatively early stages of its new licensing focused strategy, and considering its smaller size.

Applying the multiple to our 2022 forecasts and using current net debt figures implies an equity valuation of £199.89 million. Discounted back to the present day at a rate of 12% derives a value of £172.35 million, or a price per share of 59.7p. This is up slightly from 57.26p at the time of our last note due to the lower time factor discount used as we move closer to our reference date.

Again, to add a certain degree of caution to our valuation, we note the £3.5 million convertible loan due to Gamesys Group will be due for repayment in December 2022. Under the terms of the loan, Gamesys may elect to convert all or part of the principal amount into ordinary Gaming Realms shares at any time after the first year at a discount of 20% to the share price prevailing at the time of conversion. However, Gaming Realms may need to pay back part of the borrowings in cash if the price per share at conversion is lower than the nominal value of 10p, with the cash payment equal to the shortfall on the nominal value payable. But with the shares currently trading well above the nominal value a cash payment is looking unlikely. **The maximum dilution to shareholders under the loan terms will be c.11% assuming the loan is converted in full, which would effectively reduce our valuation to 53.13p, a figure we have chosen to adopt as our new target price.**

Conclusion

With these results Gaming Realms has continued to show that its licensing focused strategy is delivering consistent growth and strong margins. While some of the US state launches were a few months later than expected, the stage is now set for a good second half as the company enjoys the benefits of its existing partnerships and as new deals go live. With the top line expected to continue seeing double digit growth we remain attracted to the company's strong operational gearing and profit generating potential.

We must point out that our current forecasts do not take into account any launches in additional US states, nor in Ontario where we have outlined the potential that the company sees. As such, we see the possibility of upward revisions to our forecasts in due course. Speculating once again, given the growth being seen in the US markets, and considering the high levels of corporate activity in the sector, we believe Gaming Realms could be on the radar as a potential target for a larger player looking to expand its games portfolio and improve margins. The Draftkings/Golden Nugget deal highlights that acquirers are willing to pay a premium price for strategic and synergistic reasons.

We update coverage of Gaming Realms with a target price of 53.13p and a stance of Conviction Buy.

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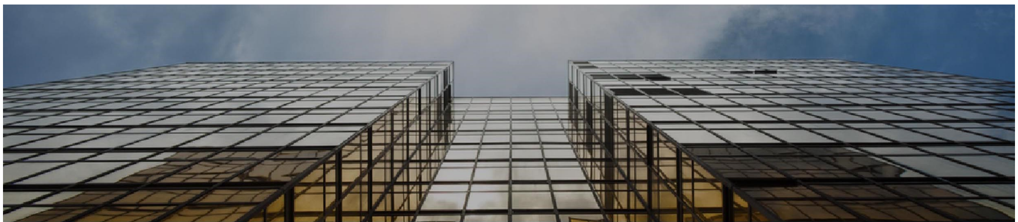

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