ALIGN
RESEARCH

www.alignresearch.co.uk

Gaming Realms – Full Year Results

3rd May 2022

Strong profit growth in 2021 driven by high margin licensing focus

Gaming Realms is a creator and licensor of innovative games for mobile, operating in the UK, US, Canada and Europe. 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.

High margin, licensing focused strategy drives growth in 2021

Revenues for 2021 grew by 29% to £14.7 million, mainly as the Licensing division put in growth of 47% to £11.1 million. This came after a range of new distribution and partner deals and launches in new markets helped unique players grew by 48%. Meanwhile, the non-core Social Publishing division's revenues fell by 8% to £3.6 million, or by just 1% on a constant currency basis, after the mainly dollar denominated business experienced currency headwinds.

Operational gearing drives profits

At the adjusted EBITDA level (adding back share option and related charges) profits surged by 71% to £5.7 million, ahead of our expectation for £5.4 million. This was driven by the company's strong operational gearing, along with head office costs falling from £2.9 million to £2.5 million.

Growth continues into Q1 2022, with trading ahead of expectations

Licensing revenue was up by 43% in Q1 to £3 million and unique players increased by 39% to over 1.5 million. This was against a very strong comparator, with licensing revenues up by 60% in Q1 last year. Management noted that while still early in the year, trading is currently ahead of expectations and that they have confidence in the full year outlook.

Further expansion in 2022 set to see strong growth continue

For the rest of the year the growth strategy will continue to focus on; international expansion; adding new distributors, operators and licensors; and further penetration with existing distributors and operators driven by new games. We are looking for revenues of £20.8 million and adjusted EBITDA of £8 million for the year. Updating our valuation we set a target price of 53.66p and retain our stance of **Conviction Buy.**

This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.

CONVICTION BUY
Price target – 53.66p

Key data

EPIC	GMR
Share price	30.5p
52 week high/low	45p/22.5p
Listing	AIM/OTC
Shares in issue	291,873,443
Market Cap	£89.1m
Sector	Travel & Leisure

12 month share price chart

Analyst details
Richard Gill, CFA
richard.gill@alignresearch.co.uk

IMPORTANT: Gaming Realms is a research client of Align Research. For full disclaimer & risk warning information please refer to the last page of this document.

2021 Full Year Results

P&L

Revenues for the year increased by 29% to £14.7 million, largely as a result of the Licensing division's contribution growing by 47% to £11.1 million. This came after a range of new distribution and partner deals and launches in new markets helped unique players grew by 48%. By product offering, Content Licensing revenue grew by 36% to £9.1 million, with Brand Licensing up by 137% to £2 million following the completion of a major deal. Demonstrating the strong growth, since Q1 2018 Content Licensing has seen quarterly compound growth of 18%. Meanwhile, the non-core Social Publishing division's revenues fell by 8% to £3.6 million, or by just 1% on a constant currency basis after the mainly dollar denominated business experienced currency headwinds.

At the adjusted EBITDA level (adding back share option and related charges) profits surged by 71% to £5.7 million, ahead of our expectation for £5.4 million. This was driven by the company's strong operational gearing, along with head office costs falling from £2.9 million to £2.5 million. Profit after tax was £1.3 million compared to a loss of £1.5 million in 2020.

Reflecting the high margin nature of the Licensing division, its adjusted EBITDA contribution was £6.37 million, representing a margin of 57%. The margin was up from 50% in 2020, demonstrating the geared nature of the business. Meanwhile, Social Publishing contributed just over £1 million to EBITDA, down from £1.39 million in 2020, but still showing its valuable contribution to group profits.

Gaming Realms revenue, games and customer growth. Source: Company

Balance Sheet & Cash Flow

On the balance sheet the year-end cash balance increased to £4.4 million from £2.1 million. This was driven by a near £5 million net cash inflow from operations, a £1 million deferred consideration payment from River Tech plc, offset by the deduction of £3.4 million of capitalised development costs. One other major balance sheet item was the £3.5 million convertible loan from Gamesys Group. In February this year, £0.5 million worth of the loan was converted into 2,170,817 new shares, with the remaining £3 million due on 14th December 2022.

Operating highlights

2021 was a further year of expansion for the business with the portfolio increased from 44 to 53 proprietary games on the group's remote game server. International expansion saw launch in two regulated iGaming markets in the U.S., Michigan and Pennsylvania, along with Italy, Romania and the Netherlands in Europe. The flagship Slingo's Original content was launched with 35 new partners including Wynnbet, Sisal, Aspire Global and Goldbet, with inward brand licensing deals signed with the likes of Everi, Discovery Channel, IGT, Play AGS and Pragmatic Play.

Outlook

Into the current year and growth continues, with licensing revenue up by 43% in the first quarter to £3 million and unique players increasing by 39% to over 1.5 million. We note that the revenue figure is against a very strong comparator, with licensing revenues up by 60% in Q1 last year. **Management noted that while still early in the year, trading is currently ahead of expectations and that they have confidence in the full year outlook.**

For the rest of the year the expansion strategy will continue to focus on; international expansion; adding new distributors, operators and licensors; and further penetration with existing distributors and operators driven by new games. Already in Q1 the company launched in Spain with Gamesys and Yo Bingo (part of Rank Group) and also with Loto-Québec in Canada. Gaming Realms was awarded an iGaming Supplier licence in Ontario, Canada, in March, with the Slingo Originals content having launched in early April following the opening of the regulated iGaming market in the country's most populous province. The games portfolio also continues to expand with the release of four new Slingo games: Slingo Superspin, Slingo Fire & Ice and Slingo Racing.

Slingo Fire & Ice: Source: Company

International Expansion Opportunities

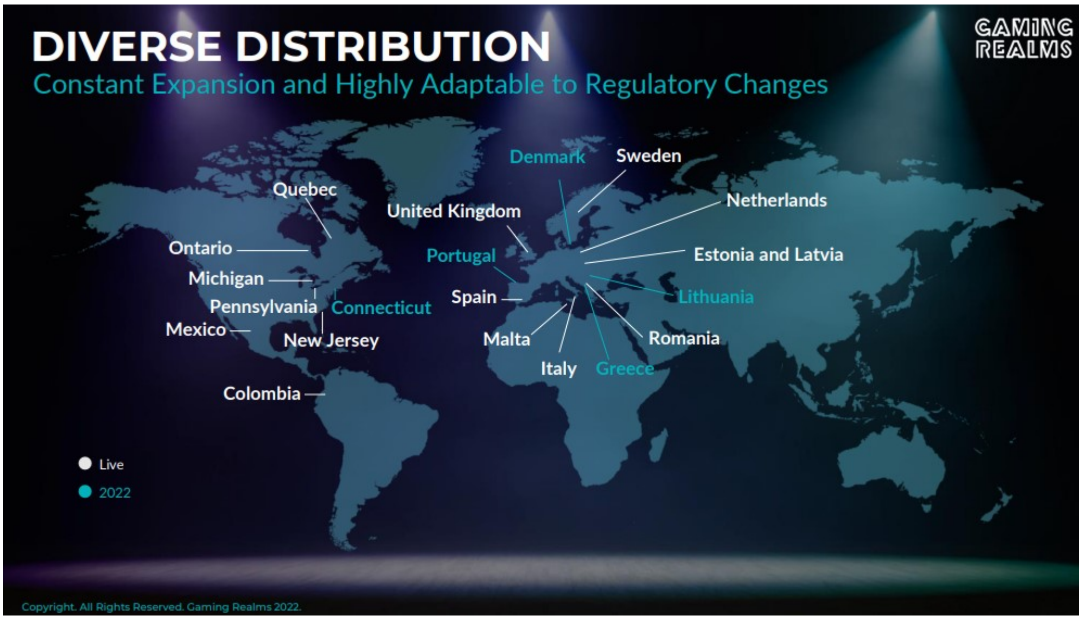
As we have previously highlighted, the U.S. continues to be a key area of focus for Gaming Realms given the growth opportunities being seen as individual states regulate and launch their online gambling markets. The wider U.S. gaming industry had another record year in 2021, with the American Gaming Association reporting total industry revenues of $53 billion. This was driven by continued growth in online gambling and as more states legalised and regulated the industry. There are now 33 regulated states (and the District of Columbia), with 23 of them setting full-year revenue records in 2021. **A recent report from analysts at Mordor Intelligence suggested that the online gambling segment in the U.S. was worth $2.2 billion in 2020 and it is expected to grow at a CAGR of 17.34% from 2022-2027.**

Canada has also recently increased in importance for Gaming Realms. The company first flagged its proposed entry into Ontario in its interim results last year and attracted attention with the statement 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".* With a population of 15 million Ontario is larger than any state within the U.S. that is currently licensed for iGaming. A recent report from analysts at VIXIO GamblingCompliance suggested that the Ontario online market will see gross gaming revenue of C$3.27 billion (US$2.6 billion) by its fifth year of operation in 2026. That would make it the third-largest regulated online market in North America behind the more mature U.S. markets of New Jersey and Pennsylvania.

Revenues from North America amounted to £4.5 million in 2021, up from £2.4 million in 2020, representing 40% of total licensing revenues. This is expected to rise further this year given the first full year contribution from Michigan and Pennsylvania, as well as the recent launch in Ontario. Gaming Realms also expects to launch in the Connecticut market later in 2022.

The company is very well prepared to take advantage of the North American opportunities having signed a number of direct integration and multi-state deals, having licensing agreements with the majority of the U.S. iGaming market. Multi-state partners include with BetMGM, Draftkings, Fanduel, Rush Street Interactive, Golden Nugget, Poker Stars, Barstool/PNG, Kindred, Wynn Interactive, Parx, Tropicana/Gamesys and Caesars Entertainment. Direct integration partners include BetMGM, Draftkings, Rush Street Interactive, Fanduel, Golden Nugget, Gamesys, Wynn Interactive and 888.

Outside of the U.S., the company's recent results presentation highlighted additional regulated European markets targeted for launch in 2022 including Portugal, Greece, Denmark and Lithuania.



Gaming Realms: live and planned markets. Source: Company

Forecasts & Valuation Update

Despite the record set of results, shares in Gaming Realms continue to trade well below last April's all time high of c.47p but well ahead of lows of 4.45p seen at the depths of the pandemic inspired sell off in March 2020. At the current price of 30.5p the company is capitalised at £89.1 million.

In terms of forecasts, despite current trading said to be ahead of expectations we are making no changes to our numbers for 2022 at present. We decide to err on the side of caution given the early stage of the year but do see potential for outperformance. As further partnership deals come on line and Gaming Realms expands in North America, for FY2022 we continue to look for revenues of £20.8 million and adjusted EBITDA of £8 million. Introducing 2023 forecasts, we are looking for revenues to rise to £23.9 million and EBITDA to £10.4 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. We use the current share price of Activision Blizzard but note that it is in the process of being acquired by Microsoft for $68.7 billion (£54.8 billion) in cash.

	Market Cap (£m)	Net cash (£m)	Historic EBITDA (£m)	EV/EBITDA
Evolution Gaming	15,606	355	619	24.7
Activision Blizzard	47,874	5,581	2,691	15.7
Electronic Arts	27,942	907	978	27.6
NetEnt - acquisition data	1,677	-185	73	25.4
Codemasters - acquisition data	945	50	18	49.2
			AVERAGE	**28.5**

Gaming Realms peer analysis – share prices and exchange rates as at 27th April 2022
Data sources: Sharepad, xe.com and individual company accounts

Our updated peer analysis shows an average EV/EBITDA ratio for the sector of 28.5 times, down from 42.6 times at the time of our last research note in September 2021, mainly as share prices have drifted and profit growth slowed. Considering the current peer group and Gaming Realms' growth profile we believe that a multiple of 20 times EBITDA is an appropriate and justifiable figure to use in our valuation.

Applying the multiple to our 2023 forecasts and using current net cash figures implies an equity valuation of £208.9 million. Discounted back to the present day at 12% derives a value of £172.72 million, or a price per share of 59.18p.

To add a certain degree of caution to our valuation, we factor in potential dilution from the company's remaining convertible loan with Gamesys Group. 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 additional shares to be issued under the loan terms is 30 million assuming full conversion. This scenario would effectively reduce our valuation to 53.66p, a figure we adopt as our new target price.**

Conclusion

The last financial year was the first which really saw the benefits of Gaming Realms' decision a few years ago to focus on the licensing side of the business. As the chart on page 3 shows there has been pretty much consistent quarterly growth for almost five years, with the company now having a solid reputation for meeting or even beating expectations. EBITDA margins in the high 50% levels, combined with the operational gearing, demonstrate the potential for how profits could continue to grow as the company seeks to add further games, partners and international markets to its portfolio.

We also continue to see the attraction of Gaming Realms as a potential acquisition target for a larger gaming industry player looking to expand its games portfolio and improve margins. To give one deal example, U.S. gambling giant Draftkings is working through the final stages of a $1.56 billion agreement to acquire Golden Nugget Online Gaming. The deal values Golden Nugget at some 54 times its historic EBITDA, a price being influenced by the identification of $300 million worth of synergies. This highlights that acquirers are willing to pay a premium price for strategic and synergistic reasons. Just for illustration purposes, applying the same multiple to our valuation for Gaming Realms would result in a price of 144.5p per share.

We update coverage of Gaming Realms with a target price of 53.66p and a stance of Conviction Buy.

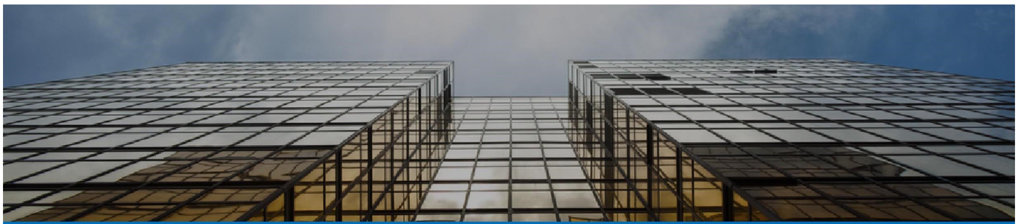
DISCLAIMER & RISK WARNING

It is the policy of ALIGN Research to only cover companies in which we have conviction in the investment case. Our "Conviction Buy" recommendation is derived from our conviction in either taking equity as payment for our research services, or applying our fee to the purchase of equity in a covered company whilst absorbing the cash cost of our freelance analyst payments. Gaming Realms is a research client of Align Research. Full details of our Company & Personal Account Dealing Policy can be found on our website http://www.alignresearch.co.uk/legal/

ALIGN Research has made every reasonable effort to ensure the accuracy of the information in our research reports and on our website, although this can not be guaranteed. Our research reflects the objective views of our team of analysts. As we actively seek to take the majority of our fees by the way of equity payment in the companies we cover, we believe that we are aligned with both investors and the subject company. Additionally, we only write about those companies that we have conviction in. However, as a consequence of this alignment, our vested interest is in an increase in value of the subject company's equity. As such, we can not be seen to be impartial in relation to the outcome of our reports.

ALIGN Research has both a personal & company dealing policy (covering staff & consultants) in relation to the dealing in the shares, bonds or other related instruments of companies that we follow & which adhere to industry standard personal account dealing (PAD) rules. ALIGN Research may publish follow up notes on these securities/companies but has no scheduled commitment and may cease to follow these securities/companies without notice. Our reports are not subject to any prohibition on dealing ahead of their dissemination by staff members. Additionally, you should assume, given that we look to take our fees almost wholly in equity, that Align will actively manage its cash position, not least for general administration and taxation purposes and that equity divestments will take place as and when we deem, in our sole discretion, it appropriate.

Your capital is at risk by investing in securities and the income from them may fluctuate. Past performance is not necessarily a guide to future performance and forecasts are not a reliable indicator of future results. Nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell securities by us. As we have no knowledge of your individual situation and circumstances the investment(s) covered may not be suitable for you. You should not make any investment decision without consulting a fully qualified financial advisor. The marketability of some of the companies we cover is limited and you may have difficulty buying or selling in volume. Additionally, given the smaller capitalisation bias of our coverage, the companies we cover should be considered as high risk.



Align Research Limited
Cornwell Main Street
Amotherby
Malton
YO17 6UN

Tel: 0203 609 0910
E: info@alignresearch.co.uk