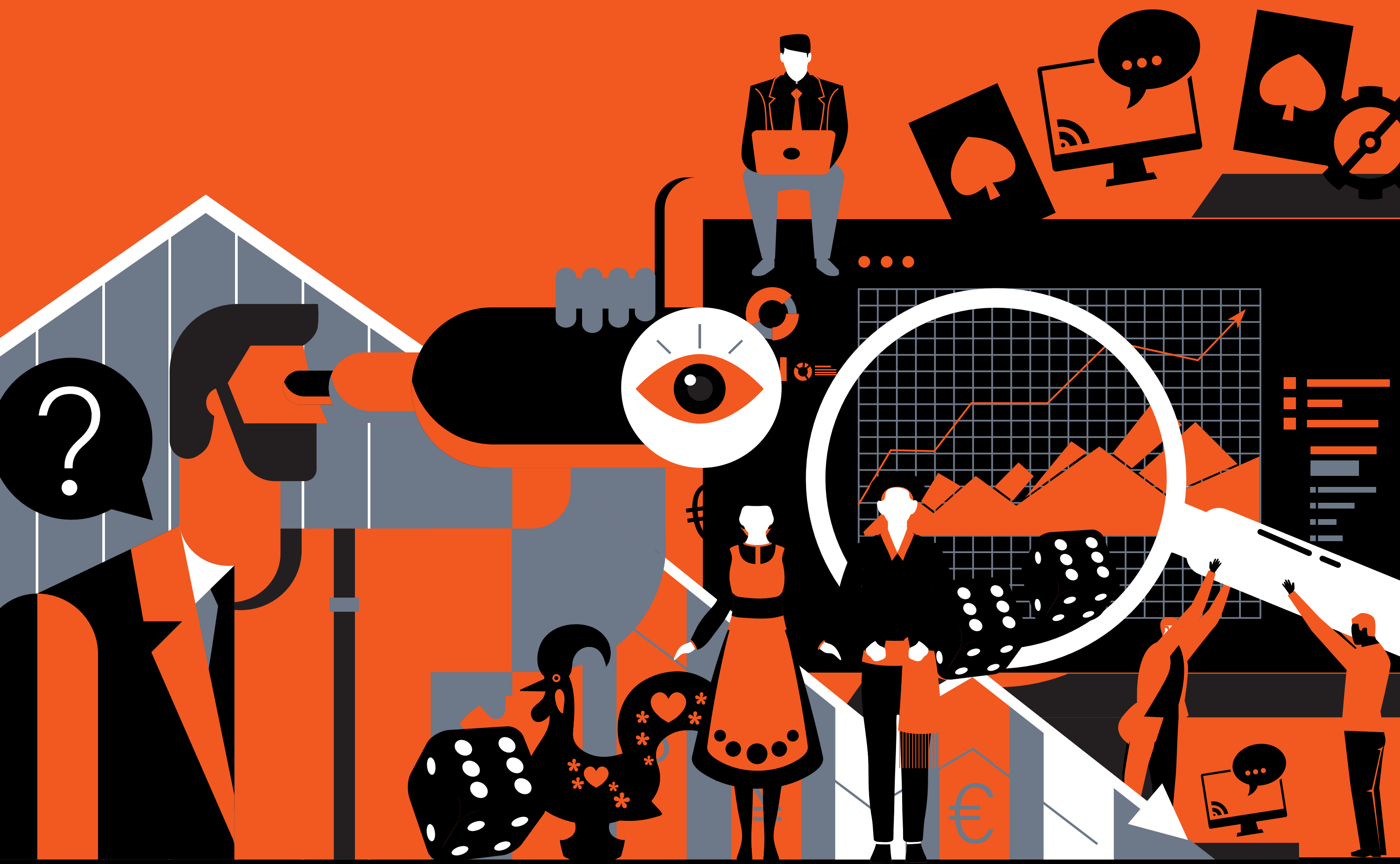
Affiliate Monitor

January 2021

written by Clear Concise Media for iGB



Executive summary • Paid media analysis • Third-quarter results by company

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Affiliate Monitor, January 2021

Written by Clear Concise Media

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Editor's Letter

Putting paid to all that

As the affiliate industry starts to put the worst period of the pandemic in its rear-view mirror, a key trend that predated it has come to the fore again, that of the divergence of the big players when it comes to paid media.

For some time there's been a growing divide in the sector, with some of the big names piling into paid media while others move away from it to focus more on SEO.

The news shortly after the end of the third quarter that Better Collective was investing €44m in paid media specialist Atemi made clear which side of the fence the sports betting-heavy affiliate is on.

Raketech seems to be taking a similar position, having acquired the paid media-led Lead Republik earlier this year, and GiG's third-quarter results show the company's paid media revenues are steadily rising. Catena, on the other hand, seems to be moving in the opposite direction, with its enthusiasm for paid media waning over the past couple of years.

The other big topic occupying affiliates right now is the increasing likelihood of deposit limits spreading further across Europe. Though proposals for spending caps in the UK have been widely criticised, many feel it's almost inevitable some curbs will be introduced.

As for the impact on affiliates, that's less clear. Over the long term the changes are unlikely to be positive, especially for those operating only in regulated markets as draconian rules often drive players towards unlicensed offerings.

But as the bonus and deposit limits in Sweden have demonstrated, affiliates can sometimes enjoy a short-term boost when clampdowns push players to shop around within the regulated markets.

Stephen Carter
Editorial director, iGB

> **"For some time there's been a growing divide in the sector, with some of the big names piling into paid media while others move away from it to focus more on SEO"**

WELCOME

Executive summary

PAID IN FULL

Better Collective's Atemi buyout at the very start of the fourth quarter is significant in a number of ways, in particular the extent to which this points the new owners more heavily towards paid media as a source of revenue. The deal transforms Better Collective's future earnings profile and will see revenue rise from about $89.5m (£66.6m) in 2020 to a forecast $162.5m in 2021.

Moreover, the deal sees the Copenhagen-based business heading in the opposite direction to major rival and soon-to-be-ex-market leader Catena Media, where paid media revenues are a minor element of the company's income. In return for the lower profitability of paid media over natural search – in short, AdWords have to be paid for upfront – there is arguably a big benefit to being a client of Google rather than simply profiting off the back of its search efforts. This potentially counts for a lot, especially in an environment such as now, with Google changing its algorithm and harming the positioning of the inventories of gambling affiliates.

THE UK AND SPENDING CAPS

One issue sure to gain more prominence now that the UK government's review of the Gambling Act is under way is that of spending caps. According to a consultation document already released by the UK Gambling Commission, big changes could be afoot and they are sure to affect the affiliate sector.

While some think that affiliates could benefit – spending caps might see more players taking up multiple accounts – the long-term prospects for UK online gambling are cloudier than ever. In such circumstances, the possibility that marketing budgets might be cut as operators seek to stabilise their UK operations will certainly affect the affiliate space.

COMPANY-BY-COMPANY REVIEW

Broadly, the third-quarter results from the listed affiliates show the sector has weathered the storm of Covid-19 and the effect the pandemic response had on the gambling space. Most clearly coming out of the crisis stronger and bigger than it entered it is Better Collective. Also in expansionary mode is Raketech, while Acroud too is seeking to acquire its way out of trouble. Gambling.com Group is benefiting from its focus on the US and GiG's media business is now firmly back on the road to growth. Lastly, both Catena Media and XLMedia are still measuring the impact that changes to the Google algorithm are having on their businesses.

$162.5m (£13.1m)

Better Collective's forecast future earnings profile in 2021

PART ONE

Paid media to the fore

• Paid versus organic • Scale matters
• GiG economy• Improved relationship with Google

PAID VERSUS ORGANIC

The big news in the gambling affiliate sector in the fourth quarter – and the biggest piece of M&A to affect the sector for quite some time – came at the start of October when Better Collective unveiled the buyout of Atemi.

The deal is huge and not just in terms of the headline buyout figure of €44m (£40m). It will immediately propel Better Collective to the top of the listed affiliate sector, with revenues that will dwarf even those of erstwhile market leader Catena Media.

But more than that, the deal also marks the point where there is a divergence of strategy evident within the sector. In buying Atemi, Better Collective is placing a huge bet on paid media, a wager that not everyone else would be willing or able to make.

Noting Better Collective's track record on acquisitions, including its last big deal for esports affiliate HLTV.org at the start of 2020, analysts at Redeye in Stockholm suggested that adding Atemi would bring instant expertise.

"The paid media segment requires a considerable amount of relevant data and an excellent platform to make the best decisions swiftly," the analysts wrote. "The pay-per-click (PPC) business is highly competitive and has significantly lower margins than for Better Collective's other operations.

"However, Atemi Group is one of the largest paid media companies focusing on online gambling and should therefore have a competitive advantage. The paid media segment will also help Better Collective to test new markets with minimal investments before making larger investments in those markets with the right conditions."

As detailed in the analysis of Better Collective later in this report, it also brings instant scale. Redeye estimates paid media will now represent circa 45% of Better Collective's revenues going forward.

SCALE MATTERS

Analysts Redeye dismissed the fact that paid media is inevitably lower margin. "We believe there should be substantial synergy opportunities, such as improving the commission fees on smaller markets and lower admin expenses," the analysts wrote. "It is a low-margin business, but we argue that Better Collective should be able to improve the EBITDA margin with a couple of percentage points."

There was also "large potential" with the untapped markets of the US and Germany. "We believe that Atemi Group has strong growth potential in 2021 as Google has opened for AdWords in the US and likely will open for AdWords in Germany."

Yet paid media is clearly not

Better Collective's strategic objectives in buying Atemi

- Access to key traffic acquisition channels and competencies within paid media across search platforms
- Access to key social media marketing platforms as an approved advertiser on popular networks Facebook and Instagram
- Opportunity to swiftly expand into new markets, i.e. the emerging US market, where for instance, Google has recently provided the opportunity to buy AdWords related to online betting and casino
- Significant uplift in NDC volumes for Better Collective's partners across markets
- Opportunity to harvest synergies from Better Collective's assets within organic traffic acquisition, sports betting and paid media
- Significantly reduced risk towards organic traffic acquisition

Fig 1: Catena Media's paid search progression 3Q18-3Q20

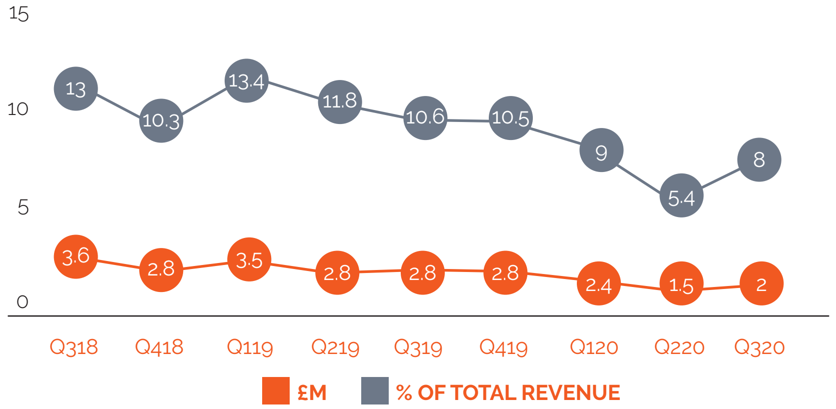
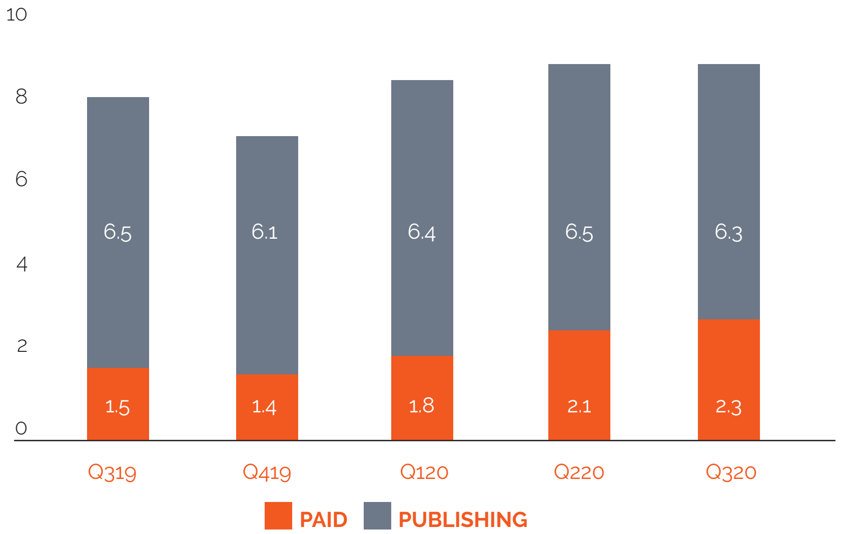


Fig 2: GiG media division – paid vs. publishing 3Q19-3Q20 (€m)



Source: Company reports

for everyone. At Catena Media, paid media revenues have been drifting down, both as an absolute number and as a percentage of total revenues.

Catena rarely says much about its paid media operations and only noted in its most recent report that the costs associated with its PPC efforts had decreased from the same period last year. It added that of its paid media revenues, €1.8m was sports betting-based, while only €0.2m was related to casino.

GIG ECONOMY

The other company to be making more of paid media is GiG. In the third quarter of last year, its media division revenues show that at €2.3m, paid was creeping towards being worth a quarter of total revenues.

The company said in its results statement that paid media represented an "important longer-term growth opportunity due to regulation, as regulated markets allow using the paid channel to attract new players. This adds to the future potential for media services and reduces the potential for volatility since the paid channel in regulated markets is considered more stable".

Others with substantive paid media elements to their business include Raketech, which bought the paid media-led Lead Republik last year. Like Better Collective, Raketech noted at the time that the acquisition would bring in lower-margin business, though as noted in its results review, it has helped drive top-line revenues.

Raketech chief executive Oskar Mühlbach said at the time it also brought a "high-quality platform" alongside "competence with conversion optimisation and paid media".

BETTER RELATIONSHIP WITH GOOGLE

A clear benefit from paid media is that it makes an affiliate a client of Google rather than simply a company making a living through playing the SEO and natural search game. As has been stated in previous editions of Affiliate Monitor, protecting a business against adverse changes in SEO – such as alterations in the Google algorithm, for instance – could look like a smart move in the future.

But it remains risky. Paid media is much more high-risk and expensive than SEO, with thinner margins being the reward even for those that are good at the game.

PART TWO

Affiliates and spending caps

• Warning signs in the UK

WARNING SIGNS IN THE UK

The GB Gambling Commission gave notice in a recent consultation document that it is minded to introduce spending caps in the UK, a move that will be as disruptive as it is controversial.

One of the sectors to be affected will be gambling affiliates. To be clear, we are as yet only at the consultation stage, but the direction of travel of the Commission's recent interventions has clearly been towards ever harsher regulations.

In other words, the sector should be braced for big changes. In the consultation document, the Commission indicated that £100 would be the likely level of accepted losses per month before a player would have to provide evidence of affordability.

As identified by Regulus Partners, the move towards spending caps in the UK is part of a trend across Europe of regulators introducing mandatory limits on aspects of deposits and bonusing.

This includes Sweden, where the deposit limits have had a clear impact on the affiliate sector, and Germany, which will be introducing a series of measures next year that will have a meaningful and detrimental effect on affiliate marketing.

Clive Hawkswood, speaking before his departure as chief executive of Responsible Affiliates in Gambling, said there are two schools of thought on how the measures – which many presume will involve seeking evidence of affordability from a large cohort of customers – will impact the sector.

- The industry will contract as costs go up so more pressure will be put on marketing budgets, which would negatively impact affiliates; or
- Rather than share personal and private data with an operator, a proportion of the customers approached will simply abandon the companies asking for it and open multiple accounts elsewhere so they can stay below the thresholds. If that's the case, then it could create a mini-boom for affiliates as operators compete for this new market of experienced punters.

Hawkswood suggests the Commission's aims with regard to affordability bring to mind the phrase about the road to hell being paved with good intentions.

"I think they've seriously underestimated the pushback from ordinary punters who will be faced with invasive checks. Most of them won't be problem or high value gamblers (who should be caught by existing AML checks). They will think it's mad."

He added that average consumers never respond to public consultations so "their voice never gets heard".

Referencing the lived experience individuals who are being consulted by the Commission, Hawkswood said that "a group of former problem gamblers is not representative".

Meanwhile, Regulus Partners was scathing on what it feels will be the net result of the Commission's plans on spending caps.

"Catastrophic [...] accurately describes the Commission's affordability plan in terms of its likely efficacy and impact as well as proportionality. Consequently, the idea that this is therefore just regulatory maintenance rather than a swingeing and far-reaching policy change is as risible for the Commission to suggest as it is cowardly for legislators to accept."

Affiliates won't be the only ones caught in the middle of the fight over spending caps, but the impact on their business models is worthy of further examination.

> **"I think they've seriously underestimated the pushback from ordinary punters who will be faced with invasive checks. Most of them won't be problem or high value gamblers (who should be caught by existing AML checks). They will think it's mad"**
>
> CLIVE HAWKSWOOD, RESPONSIBLE AFFILIATES IN GAMBLING

PART THREE

Company-by-company third-quarter results analysis

● Better Collective ● Catena Media ● XLMedia ● Raketech ●
Gaming Innovation Group (GiG) ● Gambling.com Group ● Acroud

Third-quarter KPI comparison

Metric	Catena Media	Better Collective	Raketech	Gambling.com	GIG (media services)	Acroud	XL Media 1H20 ($m)
Revenue (€m)	24.9	18.3	7.4	6.33	8.6	2.4	27.7
YoY revenue variance (%)	-5.7	7	24.4	52.2	7.5	-31	-35
EBITDA	12.2	8.3	2.9	3.31	4.0	1	5.1
YoY EBITDA variance (%)	7	18.6	7.4	604	-4.8	-49	-73
EBITDA margin (%)	49	44	39.8	52	n/a	Not discl.	Not discl.
Pre-tax profit (€m)	4.1	6.5	1.3	2.79	n/a	0.3	0.2
YoY organic growth rate (%)	-68	-3	3.2	52	n/a	Not discl.	Not discl.
NDCs	95,000	97,000	52,344	28,108	30,315	Not discl.	Not discl.
YoY NDCs variance (%)	-4	14.1	95.4	52.7	12.7	Not discl.	
Rev share proportion (%)	46	65	42.5	Not discl.	Not discl.	62	56

Source: Company reports

BETTER COLLECTIVE

A MIXED PICTURE

Assessing trading in the third quarter is necessarily tricky due to the ongoing Covid-19 uncertainties. As can be seen from Chart 1, until the disruptions caused this year by the pandemic, Better Collective's best quarter was the first quarter of 2020, when it hit €20.9m. Subsequently, we saw a drastic drop-off in the second quarter as its largely sports-based business fell off a cliff, before recovering as the quarter progressed and then moved into a more recovery-like third period.

The company noted that from mid-September, it had seen a rebound in activity, including in NDCs, which, it added, had returned to the levels seen in the first quarter. In fact, the company said October – outside of the reporting period – was particularly

Chart 1: Better Collective revenues 3Q18-3Q20 (€m)

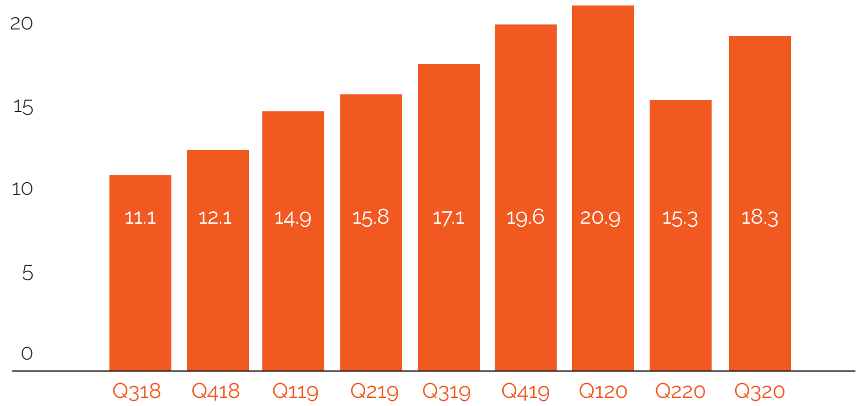
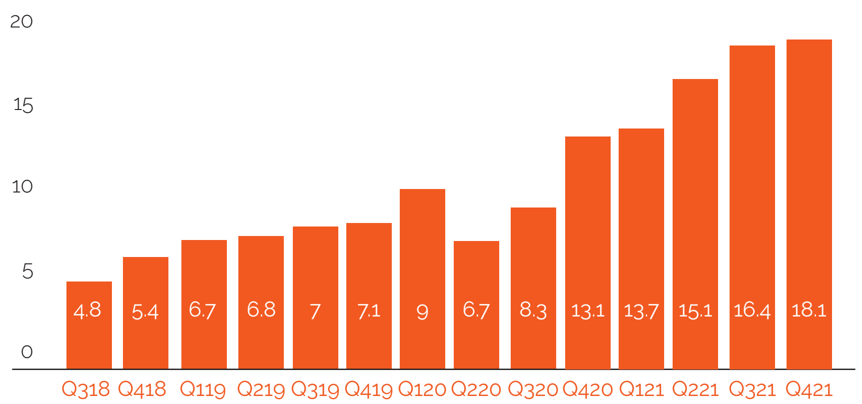
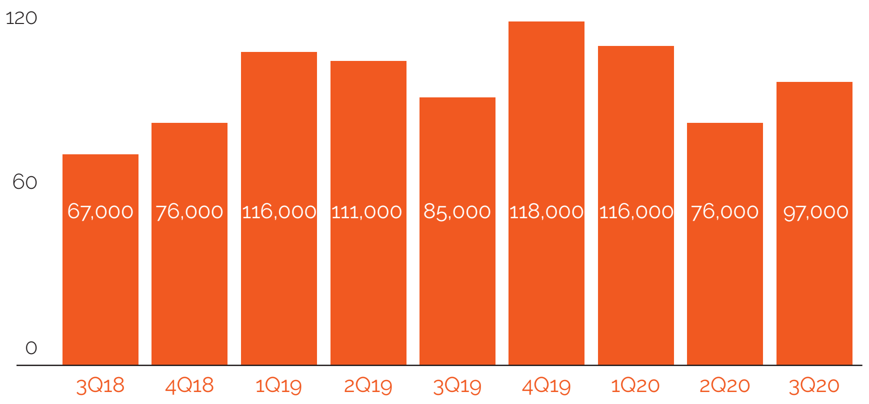


Chart 2: Better Collective EBITDA 3Q18-4Q21(e) (€m)



Source: Company reports and Redeye forecasts

Chart 3: Better Collective NDCs 3Q18-3Q20



Source: Company reports

impressive, with revenues of €12.4m, up 87% on the same period last year (which included the first month of Atemi Group being included). The company said 33% of the growth was organic growth. Excluding Atemi, organic growth was 20%.

The company is clearly happy to maintain its targets for 2020 and 2021 on the basis that the calendar will be filled with high-profile sporting events and high levels of betting activity.

ATEMI ACQUISITION 'TRANSFORMATIONAL'

The big news from Better Collective was the acquisition of Atemi Group for up to €44m just after the period's close. The deal propels Better Collective into the paid media arena and will substantially alter the earnings profile for the group as a whole.

Following the Atemi acquisition, the €20.9m quarterly revenue record of Q1 will soon be eclipsed. According to analysis from analysts at Redeye in Stockholm, fourth-quarter revenue will hit €35m and this will continue to rise to hit €45m by the last quarter of next year. This means annual revenues are predicted to rise from €89.5m this year to €162.5m next year, an increase of more than 80%.

EBITDA, meanwhile, is also forecast to rise, from an estimated €37.2m for this year to €63.3m in 2021 (again, 80%-plus growth) and €81.9m the year after, a further 22% year-on-year rise.

It will also significantly move the dial for new depositing customers. In the press release announcing the deal, Better Collective said Atemi is on course to send more than 180,000 NDCs to its partners. Over the past four quarters, Better Collective has achieved NDCs of more than 400,000. Consequently, it is likely it will be hitting somewhere close to 600,000 for 2021, or about 150,000 per quarter, depending on seasonality.

At present, most of the Atemi traffic will be casino customers, but as was noted at the time of the deal, Atemi was working on developing sports betting comparison platforms.

In other words, the Atemi deal is truly transformational. "The price is attractive, the synergies should be substantial, and Better Collective has an excellent track record of making value-adding acquisitions," the Redeye analysts concluded. "All in all, Atemi Group seems to be another impressive acquisition by Better Collective."

The only downsides, they added, were what the deal meant for Better Collective's casino footprint – seen by the Redeye team as being more problematic on the regulatory front than sports betting – and the "substantial exposure" to the UK market, one that is likely to see further regulatory action sooner rather than later (see above analysis on spending caps in the UK).

'DEDICATED' TO THE US

Better Collective said it remained "dedicated" to playing its part in the emerging US markets and has upgraded two of its US-facing sites, ScoresandOdds.com and VegasInsider.com. In the case of the latter, it said it believed it has the "long-term potential" to become the "home of US sports bettors". Of the states to have come online, it singled out Illinois, saying it has seen more and more operators enter the market as the temporary remote registration scheme looks to be extended once again.

UNCERTAINTY IN GERMANY

The regulatory situation in Germany is moving slowly towards some sort of conclusion, although the situation for affiliates remains cloudy, at least until next summer.

On the earnings calls with analysts, chief executive Jesper Søgaard said: "For now we have the interim regime, that has set some limits for casino and slots. Operators have changed their businesses to be compliant with that but that hasn't affected us."

"Next summer, the final regime comes into operation and we are in dialogue about how to work together at that point in time," he added. "Overall, we are quite optimistic about the outcome of that but with deposit limits and different changes we will wait to see what impact it will have."

MEDIA PARTNERSHIPS PAYING OFF

As part of its US push last year, Better Collective signed up with NJ.com in New Jersey to deliver betting-related content, signing a similar deal with the Telegraph Media Group in the UK. In the earnings statement the company said that having "run the solutions" for more than a year, the concept has proved to be a success in terms of NDCs but also "with learnings related to the structure and monetisation of such partnerships".

"In the third quarter, we concluded the first stage proof-of-concept for our collaboration model," the statement added. "The ambition is to enter more of this type of agreements going forward based on the learnings from our proof-of-concept partnership."

CATENA MEDIA

UNDERWHELMING TRADING

The current market leader by revenue – though soon to be displaced by Better Collective – Catena Media has seen its revenue performance in the past two quarters follow an inverse pattern to its rival.

The 10.4% fall between the second and third quarters of 2020 feels like a significant drop, particularly given the 4.1% rise between the first and second.

There is an obvious explanation for the situation: the ending of the first-wave lockdowns in the summer led to a drop-off of casino activity and the late starts to both European and US league seasons meant the reignition of sporting activity came too late for affiliates.

Speaking to analysts, now-departed CEO Per Hellberg made the point that the "world is quite different from previous quarters". While the second quarter had gone better than expected, the third didn't quite see the sports return that was predicted, while casino also underperformed compared with the previous three months.

As can be seen, sporting revenue in the third quarter has climbed back to somewhere near the levels seen pre-pandemic as far as its percentage of revenues goes. Casino has also resumed its percentage share path.

In a statement, the company said several markets were "still not showing the same levels of search volumes and traffic quality as last year".

Though the company was understandably cautious about forecasting for the last three months of the year, Hellberg did issue a positive response when asked whether the final quarter would see a return to quarter-on-quarter growth.

"Normal is quite different from what it used to be," he said. "We need to define normal. But if we expect a better quarter in the fourth quarter compared to the third quarter, then I would say yes."

In response, analysts were also optimistic. "While the quarterly volatility in Catena Media's results continues, the growth potential over the next years looks solid, thanks to the US market," said Hjalmar Ahlberg, analyst at Kepler Cheuvreux in Stockholm.

Chart 4: Catena Media quarterly revenues 3Q18-3Q20 (€m)

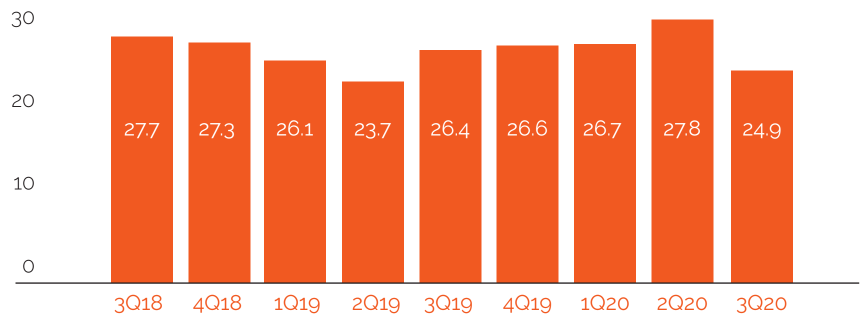
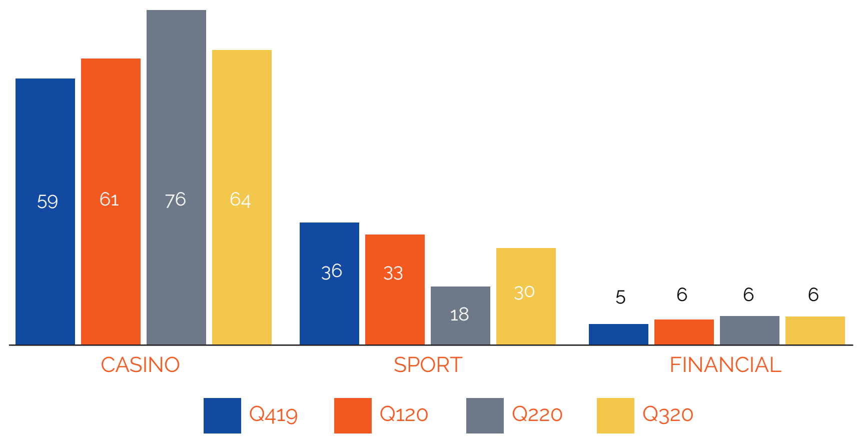


Chart 5: Catena Media segment split 4Q19-3Q20



Source: Company reports

> **"While the quarterly volatility in Catena Media's results continues, the growth potential over the next years looks solid, thanks to the US market"**
>
> HJALMAR AHLBERG, KEPLER CHEUVREUX

STRONG SHOWING IN THE US

Catena Media's position as the number one affiliate provider in the US market remains unchallenged for now and the company said that the performance during the quarter was strong despite the late start to the NFL season (and the lack of any pre-season).

Still, an interesting dynamic is clearly apparent in the US. Due to the cost-per-acquisition nature of deals in the US, Catena said that while it benefits from new states coming on stream, it tends to underperform once the initial burst of marketing has faded. Hence, it pointed out that Pennsylvania suffered a "performance dip" similar to that which occurred in New Jersey in the second year after launch.

The company did not quantify either of these dips, however it maintained that the US was worth about 30% of total revenues in the third quarter. On an annualised basis, Affiliate Monitor estimates the US is now worth circa €30m and rising.

BIGGER GOOGLE IMPACT THAN PREDICTED

Catena admitted that the most recent changes instigated by Google in May had impacted the company "more than initially predicted". The company said this was particularly true of the company's German-facing sites, where both sports and casino traffic were "negatively impacted". On the earnings call, Hellberg made the point that this "didn't just affect us". "You need to work through it," he said. "It was quite a strange update. Google will continue to update.

"After vigorous interventions, including revisiting the content quality and structure with both internal and external expertise, we saw the traffic and performance from most of the impacted sites turning around from decline to growth by the end of the quarter, even though not yet back to previous levels," the company said.

LEGACY EUROPEAN DECLINE

Likely partly due to the Google update, Catena said its European casino business – which it now calls its legacy business – experienced a decline in the third quarter. Somewhat cryptically, the company said this was due to "short-term changes in traffic trends and user behaviour".

In response, Catena said restructuring was underway to return the European business to growth, including moves to be more cost-efficient. In part, the company said it now had more "room to manoeuvre" following the refinancing earlier this year.

HIT EXPECTED IN GERMANY…

On the earnings call, the company addressed the issue of the market structure that will come into force in Germany next summer, which will see revenue-share affiliate deals banned. Hellberg noted that Germany currently represents 15% of Catena Media revenues (circa €15-16m on LTM numbers) and that it was expecting an impact on next year's numbers, firstly in terms of operational resource.

"You need to adapt," he told analysts. "That has meant a tremendous amount of work. Revenue-wise we don't see a large hit yet. We will definitely see a negative impact in Germany in 2021. We won't be able to do revenue-share from next July. We have now worked on a lot of actions to circumvent that."

…BUT JAPAN AND LATIN AMERICA MAY COMPENSATE

Among the mitigating actions Catena is undertaking to minimise any impact from the German market is to continue to mine newer markets. Japan and Latin America were given a nod and in the case of the first, that is now rapidly growing to be one of Catena's most important markets.

Again, without giving out any specific numbers, Hellberg mentioned that Japan was now worth more than 5% of total revenues, which on the past four quarters' data would suggest it is worth about €5m. AskGamblers is the leading brand for Catena in Japan. "For Japan, there is a big demand," Hellberg commented. "A lot of operators want traffic there."

> **"We will definitely see a negative impact in Germany in 2021. We won't be able to do revenue-share from next July. We have now worked on a lot of actions to circumvent that"** PER HELLBERG, CATENA MEDIA

M&A MOOTED

There were questions from the analysts regarding reports in the Swedish media that Catena might be involved in a potential "mega-affiliate" deal involving major rival Better Collective. Hellberg remained somewhat non-committal, repeating the message that any deal would be done with the "best interests" of shareholders as the guiding principle. "If that is buying, merging or doing other actions with the funds we have that will provide long-term value, then we will look at it," he added.

However, he did somewhat question the premise of the apparent rumours. "But one plus one doesn't always become two or three. And we don't want to make a move just to move quarterly revenues. As every proposition comes up, we will always review."

The other potential option would be to pursue a separate float for the US business and all Hellberg would say there was that the company was "always looking at ways to expand the reach" of its shareholder base.

XLMEDIA

REVENUE, PROFITS UNDER PRESSURE

XLMedia is clearly still struggling to bottom out under the pressure caused by the various actions taken by Google against what would appear to be quite a large number of its sites.

Revenues for the first half were down 35% year-on-year to $27.7m, while adjusted EBITDA fell an alarming 73% to $5.1m. Pre-tax profits were slashed from $13.7m to $171,000.

The company said the second half had started positively with an uptick in the financials side and a "stabilisation of the casino vertical". However, it did indicate that the second wave of the pandemic in countries in which it operates "could impact the recovery".

THE GOOGLE HIT

As has been detailed before, while XLMedia is not the only firm in the sector to be hit by Google's regular updates, it is certainly – at least publicly – the worst hit in the gambling affiliate space. The company said the hit had cost it about $2m per month in revenue since March.

Chief executive Stuart Simms explained what mitigating efforts the company was undertaking to remedy the situation, which looks all too perilous. In effect, the CEO admitted, large swathes of XLMedia's sites have now fallen foul of Google's rules and he said there were no simple solutions.

"We have continued to learn as we go along," he said. "There is no perfect recipe for how to mitigate Google's manual penalties at the scale we encompass. We have done a lot of testing, a lot of trials and we have come up with a number of different paths in order to get the casino business back on track with a reduced reliance on one critical path to success; rather we are now trying a number of different ones."

Laid out, these approaches now include:

- Continuing to engage with Google in the hope of getting sites reconsidered. "This has to be [on] a site-by-site basis," Simms said. "We have continued to enhance the content with a view to resubmitting to Google."
- Consolidation of XLMedia sites. "If we consolidate sites to a

fewer number of premium sites we believe this will get us back to similar levels of traffic and revenue and back to growth. If you apply the 80/20 rule, then 80% of our revenues come from 20% of the sites."

- Partnership. The company said it has identified two "premium websites" where a joint venture partner will lead the efforts. The company said these sites will be resubmitted in the coming weeks.
- Sales and closures. Finally, Simms said the company was looking to either offload sites it no longer saw as being core, or close them. In the first instance, he pointed to the potential sale of some Finnish-facing casino sites, which were going through an "evaluation process" ahead of a disposal.

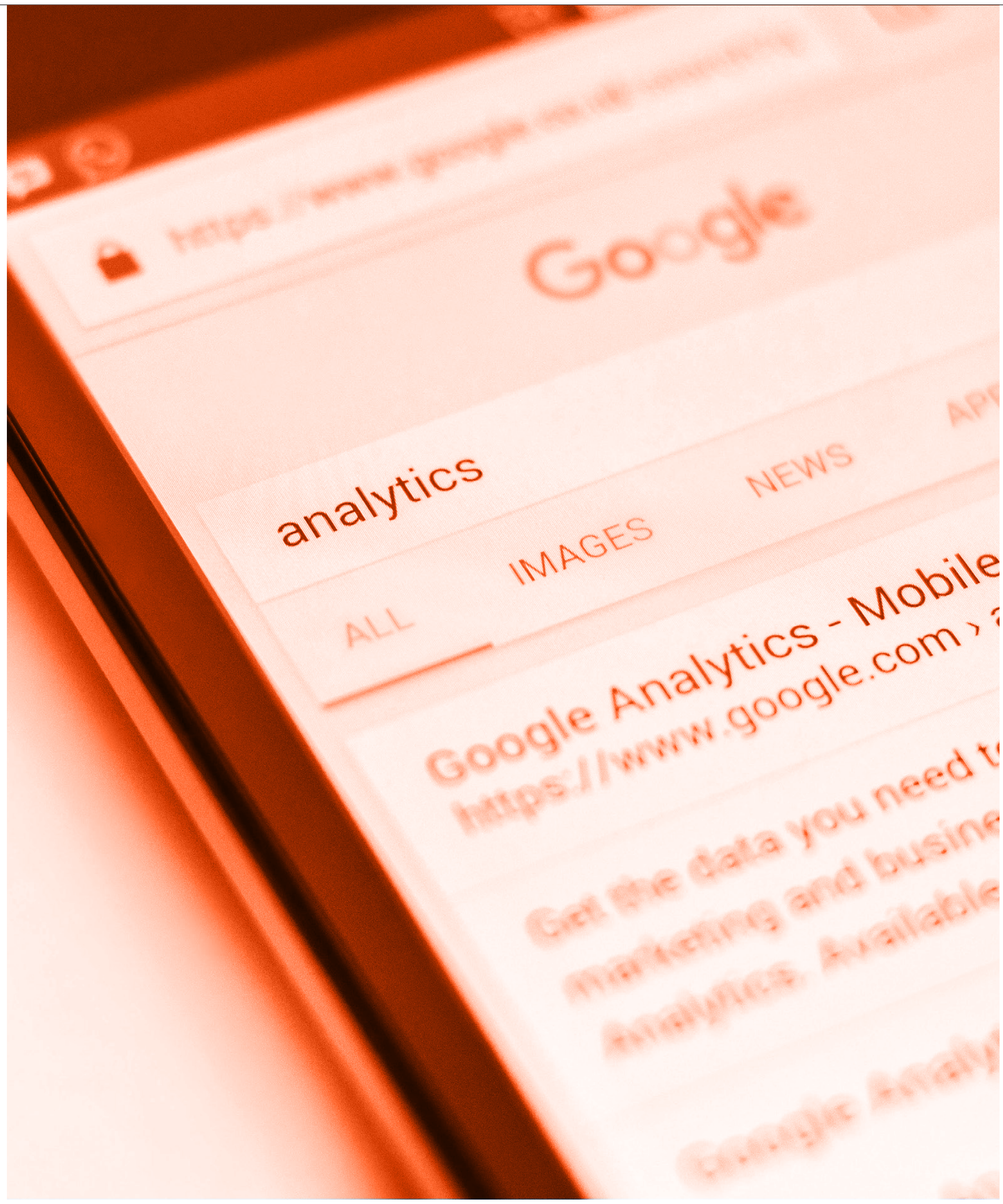
What the statement made clear is that Google is an unforgiving master. The company pointed out that in July it had resubmitted a small number of the sites hit by the downgrading only for them to fail again.

"We believe this test was not successful because the assets remained on our proprietary technology platform, rather than having been fully rebuilt on an open-source technology suite, as we plan to do; however no significant feedback or clarity is provided on the reasons for such an outcome."

The company said this

"There is no perfect recipe for how to mitigate Google's manual penalties at the scale we encompass. We have done a lot of testing, a lot of trials and we have come up with a number of different paths in order to get the casino business back on track"

STUART SIMMS, XLMEDIA



highlighted the risks of pursuing "only one route to recovery", particularly in light of the resources that had necessarily been dedicated to an ultimately pointless task. Moreover, with the evident possibility of the "manual penalty never being removed in certain instances", it meant that strategically it made no sense to continue hammering at a door that wouldn't shift.

"Also, as time passes, the domain authority on some of the original websites is eroding due to lack of traffic, and with it the new revenue potential, gradually reducing the advantage over entirely new websites," the company said.

BREAKING DOWN THE REVENUES

To better help shareholders understand the predicament for XLMedia, the company produced an intriguing chart of revenues by website cohort.

As can be seen in Chart 6, just five sites produced 25% of XLMedia's revenues and 18 produced the next 25%. That then tails off markedly so that 373 sites produced the next 25% and the remaining 82% – classed as other but representing approximately 1,800 sites – were responsible for the remaining 25%.

The threat for XLMedia, then, is clear. If any of the 23 sites that make up 50% of revenues are hit by Google, it will have a major impact on revenues. In fact, it is likely given what the company has said previously that it was indeed penalties on sites that were big earners that did a lot of the damage. The question likely being addressed within the company is whether that long tail of sites is doing more harm than good.

Chart 6: XLMedia revenues from websites breakdown, 1H20

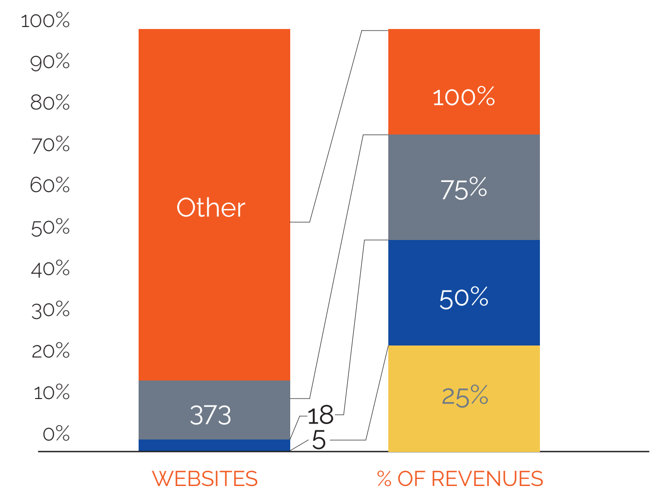
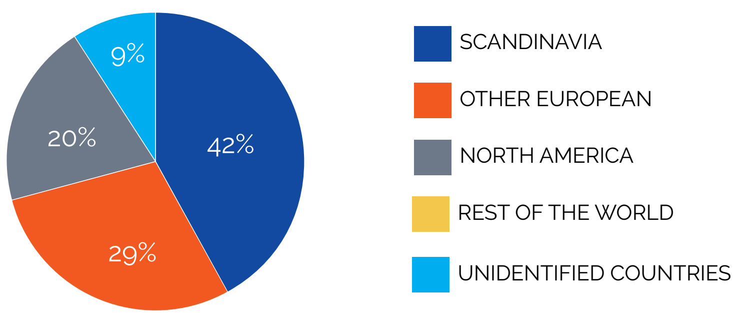


Chart 7: XLMedia revenues geographic split 1H20 (%)



Source: Company reports

GEOGRAPHIC DRAWBACK

Another problem for XLMedia is its heavy geographical focus on what is so clearly a problematic region, Scandinavian.

Notably, while the US is at 20%, this actually represents a drop from 24% in the first half of 2019. Unlike many of its competitors, XLMedia has said little about the US sports betting and online gaming opportunity. Indeed, it did not merit a mention in the results.

RAKETECH

TRADING BOOSTED BY M&A

Raketech said it had enjoyed strong trading in the third quarter despite the clearly volatile macro backdrop. Revenues rose strongly, up 24% to €7.4m, and while to a large extent this was due to acquisitions made during the year, it also said organic growth was 3.2%. The company said the majority of the growth was driven by the Lead Republik acquisition earlier this year.

Indeed, Chart 8 shows that Raketech has produced steadily improved numbers since the nadir in the second quarter of 2019, when quarterly revenues stood at €5.7m.

Profitability, however, is lagging somewhat. EBITDA has fallen back to €2.9m after dropping to a low of €1.6m in the fourth quarter of 2019.

The clearest indication of the success the company has had in reigniting its business comes with its NDC numbers, which have soared over the course of this year. Indeed, from the relatively recent low of just under 25,000 in the second quarter of 2019, NDCs had doubled to more than 52,000 by the third quarter of this year. Year-on-year, the increase was 60%, while quarter-on-quarter it represented a 28% rise.

SWEDEN BOOSTED BY RULE CHANGES

The company attributed the healthy NDC figure in part to the Swedish market, where the new bonus and deposit limit rules clearly had an impact.

"In the beginning of the quarter we registered large movement of users shifting between casino operators due to the new Swedish legislation," the company said. "This initially led to slightly increased NDC volumes and related revenues. However, during August and September, the Swedish market stabilised somewhat, at the same time as the total market most certainly lost share to unregulated alternatives."

M&A CONTINUING

Just ahead of the results, Raketech announced its entry into the US market via the acquisition of American Gambler. The purchase price was €5m, which it said represented a multiple of 3.9 times EBITDA and 3.5 times revenues. The company added that following this deal, revenues from the US would comprise 5-10% of revenues from the fourth quarter onwards. There is no earnout attached to the deal, but the vendors of American Gambler will enjoy an unspecified profit share for the next two years.

"With this acquisition in place our global footprint is significantly widened, and the US has shifted from a strategic target to a strategic market," the company said.

Meanwhile, Raketech also offloaded its consumer finance websites for €4.2m to ROI Media in the UK. It said this divestment was in line with Raketech's strategy of focusing on gambling affiliate marketing. The deal marks a profit for Raketech. The company bought the consumer finance assets in February 2017 for €3.6m. It said that including cash contributions from the consumer finance business, it had doubled its investment over the period of ownership.

CHANGING THE GEOGRAPHIC SPREAD

The deal will help Raketech to wean itself off its reliance on the Nordic markets. As of the end of the first quarter 2020, 80% of Raketech's revenues came from the Nordics, but the company hopes that by the end of the fourth quarter this will be down to 75%. "Besides the lowered dependency on the Nordics and Sweden in particular, with the American Gambler acquisition, Raketech also now has a solid footprint in the US and our commercial offering has been broadened to include much more than what normally is regarded as traditional affiliation," the company said in its earnings statement.

Raketech noted that it has also already launched its TVsportsguide product in the US. On the earnings call with analysts, chief executive Oskar Mühlbach said that launch was "perhaps extra interesting in the US because it is a proven business model in Europe".

Chart 8: Raketech revenues 3Q18-3Q20 (€m)

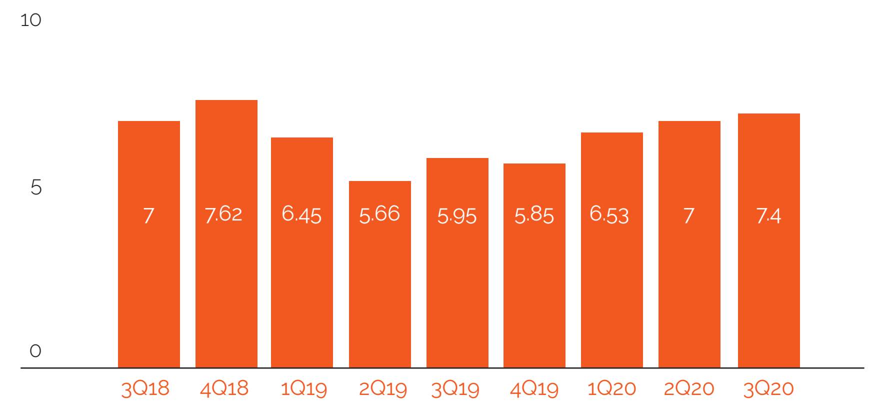


Chart 9: Raketech EBITDA 3Q18-3Q20 (€m)

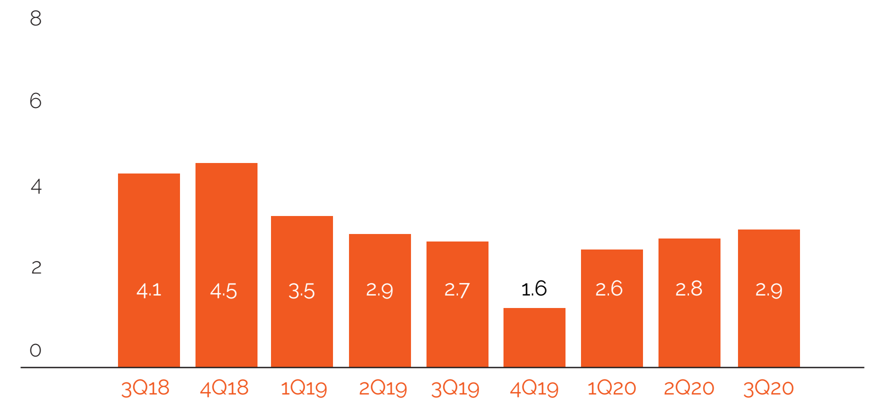
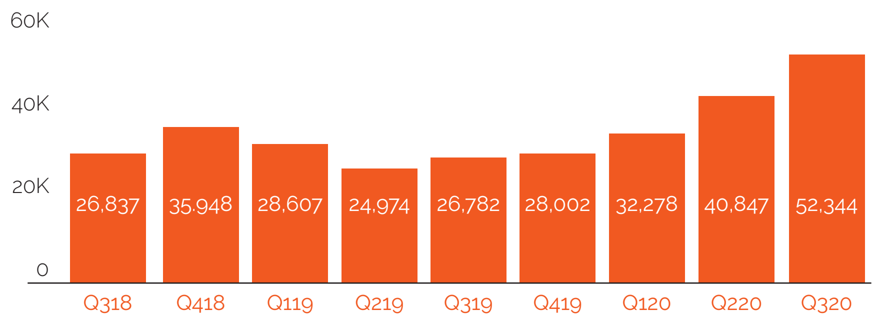


Chart 10: Raketech NDCs 3Q18-3Q20



Source: Company reports

GAMING INNOVATION GROUP (GIG)

PAID MEDIA AIDS RECOVERY

GiG's media services division saw a "return to normality" in its core markets. Revenues for the third quarter came in at €8.6m, which was a flat result on a quarter-on-quarter basis, but represented a 7% year-on-year rise.

As discussed earlier in this report, much of the growth came from paid media, where revenues rose 9.5% quarter-on-quarter and 53% year-on-year to €2.3m.

In terms of profitability, the company noted that the fall in EBITDA, of 6% year-on-year and 17% quarter-on-quarter, was due to the reallocation of central expenses following the sale of the B2C business. It added that marketing expenses and people costs were 30% ahead year on year as media services "continue to invest into long-term growth projects and diversification of revenue streams". That 30% rise includes a near-doubling of paid media costs from €0.5m to €0.9m.

CONTINUED EXPANSION IN THE US

GiG's leading property in the US is the World Sports Network (WSN.com). GiG said this continued to see growth, adding that the company received licences to operate in West Virginia during the period.

Post the period close the company also received a licence to operate in Tennessee and this now brings the number of states where GiG is both operational and licensed to nine. "This enables expansion in the US, reflecting the ambition to be an influential player in the US market," the company said.

LONGER-TERM VIEW

The recent investment note from Symmetry Invest in Denmark made the point that in the past GiG had clearly "neglected" the media services arm of the business and used it as a cash cow in order to fund expansion into other areas, notably B2C operations.

"Along with the Swedish regulation that came into effect in 2019 it started to put pressure on the revenue growth that started to decline," the analysts wrote. Indeed, between the first and fourth quarters of 2020 revenues declined 17.5%, bottoming out at €7.5m.

However, that phase has clearly come to an end within the last year or so following the sale of the Rizk assets to Betsson.

"As can be seen, the business quickly turned around and entered a good growth trajectory again," wrote the Symmetry analysts. "Based on the current guidance there is a good chance that the media business will hit a new all-time high in revenue in the fourth quarter 2020."

BRUSHING OFF GOOGLE UPDATE

In contrast with some of its peers, GiG said the Google updates earlier in the year were something of a glancing blow. "Publishing sees positive developments after slightly negative effects from the Google algorithm update in May, and player intake is going back to performance on level with intake in start of 2020," the third-quarter report suggested.

As can be seen from GiG's first-time deposit metric (new depositing customers), the third quarter saw an 11.7% drop in FTDs compared with a 22% rise between the first and second quarters. Year on year, the third-quarter figure represented a near-13% rise.

PAID FTD INCREASE

As detailed earlier in this report, GiG has renewed its focus on paid media in recent quarters and this effort is clearly shown in the number of FTDs that are being directed via this channel.

In the fourth quarter, paid media FTDs rose by more than 56% year-on-year, compared with a sub-1% rise for publishing FTDs. The trend

Chart 11: GiG media services revenues 3Q18-3Q20 (€m)

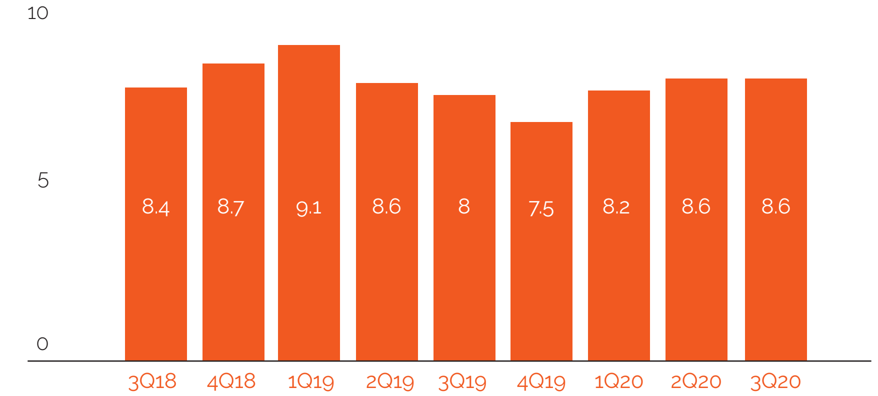


Chart 12: GiG media services EBITDA 3Q18-3Q20 (€m)

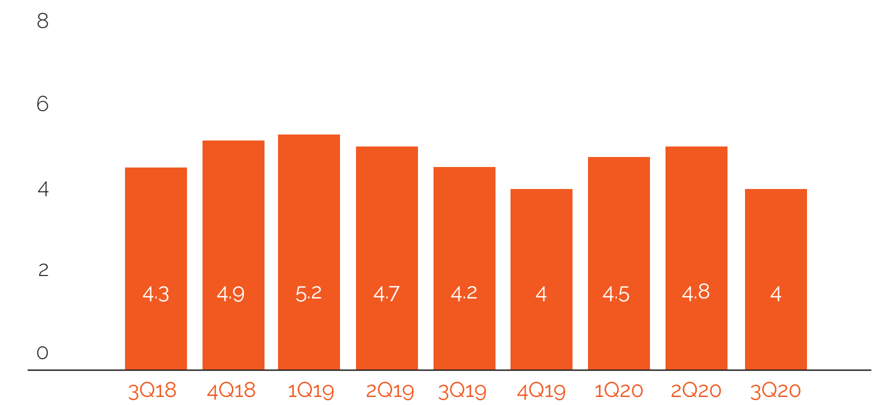
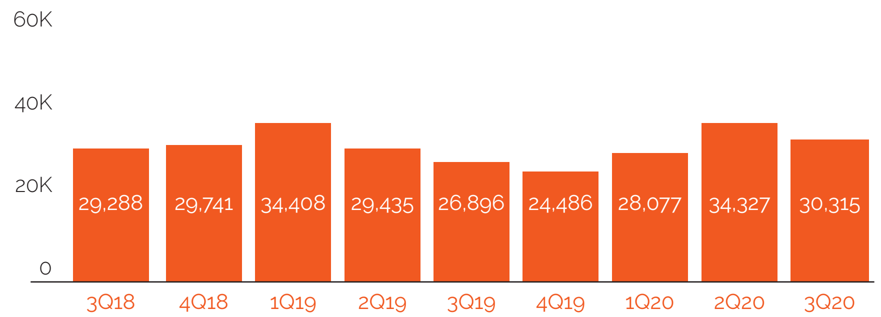


Chart 13: GiG media division FTDs 3Q18-3Q20



Source: Company reports

line for paid media is therefore clear and it will likely amount to one-third of all FTDs sooner rather than later.

The increase in paid FTDs is also showing through in the revenues breakdown. Paid now accounts for €2.3m of total revenues, compared with €1.5m in Q4 2019. At the same time, publishing is worth slightly less this year at €6.3m. In fact, publishing revenues have been largely static in the last four quarters, with paid being the driver of any growth seen.

"Looking at the FTD growth it is worth looking at the strong growth in paid channels," said the Symmetry note. "The paid channels are a significant growth area for GiG going forward and they expect further growth."

NEW ADVENTURES IN B2B

The company said it would continue to expand its geographical footprint and diversify its revenue base. "Cost optimisation will continue within SEO, content management and tech development as well as maintaining focus on developing business further outside current core markets."

Symmetry identified one new route for media services, suggesting there would be a greater tie-up between new services deals.

"There are a lot of synergies between the two segments," the analysts wrote. "One of the

Chart 14: GiG paid vs. publishing FTDs 3Q19-3Q20

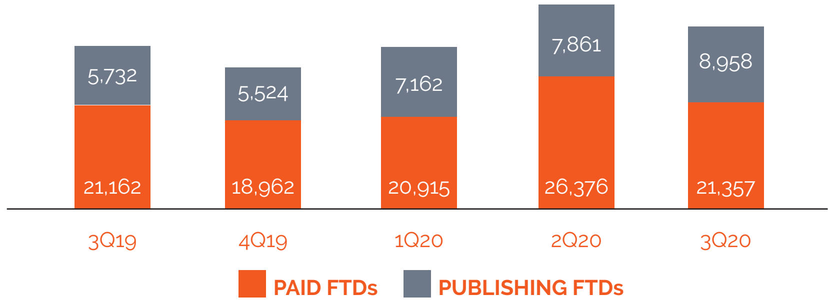
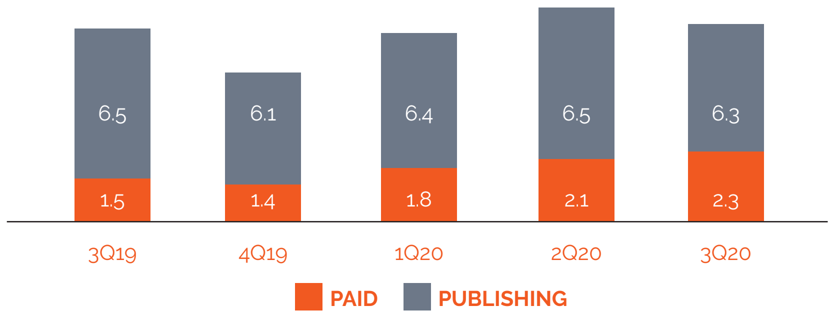


Chart 15: GiG media division – paid vs. publishing 3Q19-3Q20 (€m)



Source: Company reports

main ones is that GiG media can send traffic to operators on the platform where GiG also gets a revenue share. But the media know-how is also a strategically important part for GiG in winning platform deals."

The analysts added: "Remember who the target customers for GiG are. Land-based retail casinos moving online. It's not enough just to move online, you need to understand how you attract customers, how you retain them, how you run campaigns, etc. Most land-based casinos are not scaled for this nor have the know-how to do it. GiG, therefore, offers media managed services where they help with the running of the marketing budgets, SEO campaigns and paid initiatives."

The team point to the example of Sky City, New Zealand's only casino. "It is our understanding that Sky City only have one to two

"The paid channels are a significant growth area for GiG going forward and they expect further growth"

SYMMETRY INVEST

people employed working on their online part. Everything else is outsourced to GiG. GiG runs the platform service, managed services (customer support, reporting, compliance), media campaigns, and the media budget."

"It takes both time and scale for land-based casinos to launch an online casino and be ready to handle everything in-house. That GiG is able to help operators bridge that gap and earn money on it is a big advantage."

VALUATION GAP

Another option spoken about by the Symmetry analysts is the potential to split the media services from the rest of GiG's B2B business. A key reason for this comes down to the differing valuation metrics being ascribed to listed competitors in both areas.

Symmetry suggested there is a "real chance" that some "strategic initiatives to unlock value" might be considered. This is due to high-margin software-as-a-service (SAAS) companies being valued at a higher multiple than affiliate service providers. "This huge valuation gap between GiG and listed competitors will be unlocked in some way or the other over the coming time."

GAMBLING.COM GROUP

US DRIVES STRONG GROWTH

Gambling.com Group is going through a purple patch. Revenues for the three months to September 2020 soared by 52% to €6.33m off the back of a similarly impressive 53% rise in NDCs to 28,108.

This contributed to a hugely impressive recovery since the revenue low of €3.44m in the fourth quarter of 2019.

As Charles Gillespie, chief executive, pointed out, this was a record performance for the group, and one largely driven by the US.

Year-on-year EBITDA has quadrupled and the €3.31m figure for the third quarter also represents a 5% rise on the prior quarter.

The figures represent the end result of the "significant investments" in product and technology over the past few years with, said Gillespie, "improved performance across virtually every KPI".

Specifically, Gillespie said the technology platforms that went live earlier this year have improved site metrics and operational efficiencies. "As a result, we are now in a position to scale investment in product and marketing with a particular focus on the fast-growing US markets and the expansion of our sports offering."

VIRUS SHIFTS HABITS

Gillespie pointed out that the various pandemic lockdowns had driven further change in consumer gaming habits.

"We conclude that we are in the midst of a secular acceleration in the adoption of online gambling, at the expense of offline, rather than a temporary demand spike," he said.

"We can also point to a number of company-specific initiatives which have come together at the right time to help the business take maximum advantage of the market tailwinds." This is likely to continue in the fourth quarter, he said.

The momentum towards further regulation in the US is clear, despite the disruption to legislative agendas caused by the pandemic response. Gambling.com Group now has offices in Tampa, Florida, and Charlotte, North Carolina, and is pursuing licensing in all states that have either gone live or are set to launch early this year. "The market is still in its infancy and very significant growth is expected over the coming years both from already regulated and from newly regulated states," said Gillespie.

CHANNELLING CHALLENGES

The company said that 68% of total revenues derived from regulated markets in the third quarter. It noted the recent developments in Sweden and said it anticipates they will "negatively affect player values in the Swedish regulated industry that the group services and will lead to unregulated operators increasing their share of Swedish gamblers".

The company also made mention of Germany and said that while the group had a positive view on local regulation, it anticipates that the new limitations proposed from July onwards "will negatively affect player values for regulated operators and will lead to a lower channelisation of players to regulated operators than would otherwise be the case".

Chart 16: Gambling.com Group quarterly revenues 3Q18-3Q20 (€m)

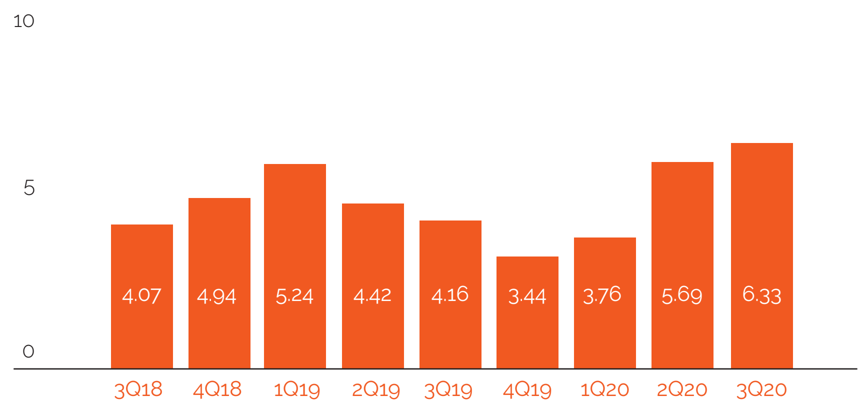


Chart 17: Gambling.com Group NDCs 3Q18-3Q20

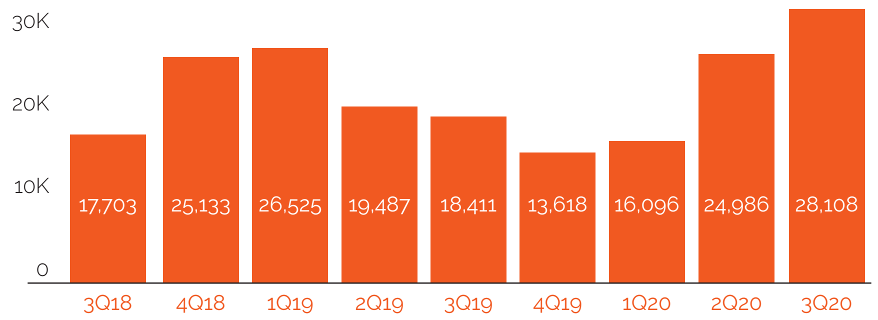
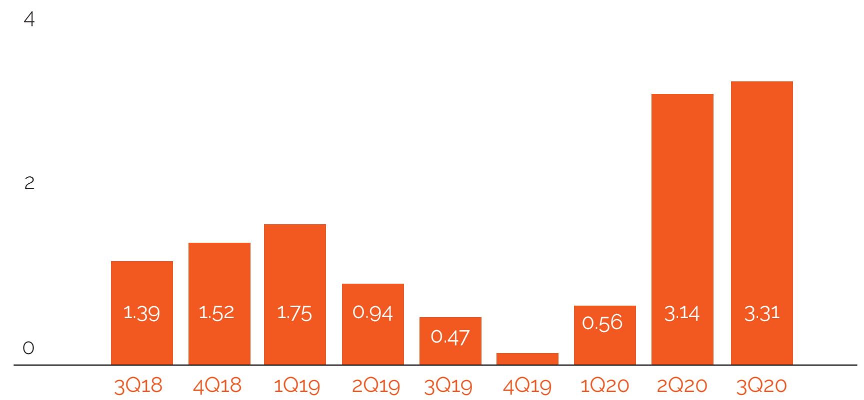


Chart 18: Gambling.com Group EBITDA 3Q18-3Q20 (€m)



Source: Company reports

> **"We conclude that we are in the midst of a secular acceleration in the adoption of online gambling, at the expense of offline, rather than a temporary demand spike"**
>
> CHARLES GILLESPIE, GAMBLING.COM GROUP

ACROUD

LAGGING THE COMPETITION

Acroud is the company most clearly suffering in the current market. While the company remains a turnaround case, the new management team led by chief executive Robert Andersson would appear to have its work cut out.

After the false dawn of the second quarter 2020, when revenues broke a year-on-year losing streak for the first time in more than two years, there was a return to declining revenue in the third quarter.

Indeed, the drop to €2.4m, from €3.5m in the same period the previous year, was the most severe fall for a year at more than 31%.

In line with the revenue drop, profitability has also clearly suffered and is now down to less than €1m.

On the conference call with analysts, Andersson said revenue and profitability were hit by the exit from the company's previous position in the Netherlands. "For us, the core revenue drop came from the repositioning of ourselves in the Dutch market, in order to reposition for when it is regulated," he said.

"So we are not active anymore and the measures we are taking are to put the focus on other products. This was a choice we made. We wanted to ensure we would be able to operate on day one."

STRATEGIC CHALLENGE

Along with the name change to Acroud (from Net Gaming Europe), the company is going through a restructuring. The major brand for the company is PokerListings.com, one of 30 sites where Andersson said it was concentrating its efforts.

"We have had too many sites before," Andersson told analysts on the third-quarter earnings call. "We are putting our efforts into fewer sites." He also suggested the company would be moving more clearly into sports betting, alongside the clearer move into the US. "We are repositioning ourselves to be more diversified with a stronger focus on sports betting."

As it stands, Acroud is heavily reliant on casino and poker, with sports betting only contributing 5% of revenues in the third quarter.

MULTIPLE M&A PLAYS

To further the hoped-for strategic transformation of the company, Acroud is pursuing three potential acquisitions. The first is with a US-focused betting tips website and would cost the company €2.2m upfront in shares and cash, with a further €2.2m of earnout payable. Acroud said the nature of the service currently offered – i.e. betting tips to consumers – meant it was "not subject to regulations and [could] therefore be offered across the American market". The target company was forecast to generate sales of between €2m and €2.2m in 2021.

The second letter of intent is for an emerging market lead generation company, which has a footprint in sports betting in Latin America, Africa and Asia. Acroud will pay €1.5m for 51% of that business upfront, with a call option on the remaining 49% by the end of either 2023 or 2025. Acroud said the acquisition generated revenues of about €1m in the past 12 months, with EBITDA of circa €0.5m. The company said the acquisition was an "important part of the puzzle" as it looked to build for the future.

Lastly, the final letter of intent regards buying the online gaming-related assets of a company called PMG. It is potentially the biggest deal of the lot, with a purchase price of approximately €5.5m. Revenues for the company will hit

Chart 19: Acroud revenues by quarter Q318-Q320 (€m)

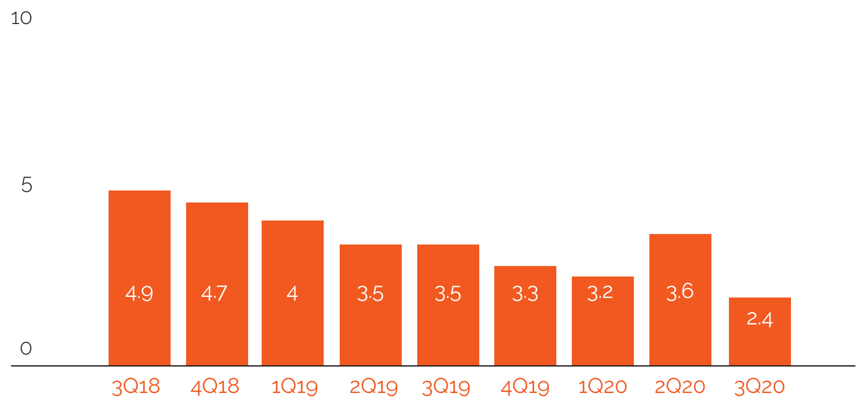


Chart 20: Acroud EBITDA 3Q18-3Q20 (€m)

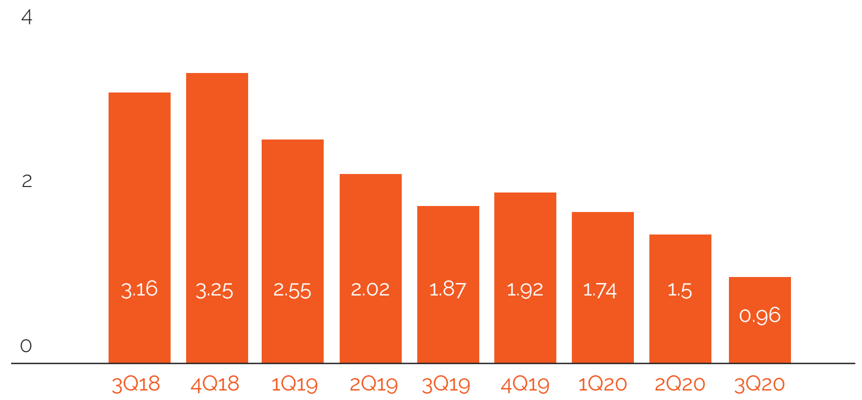
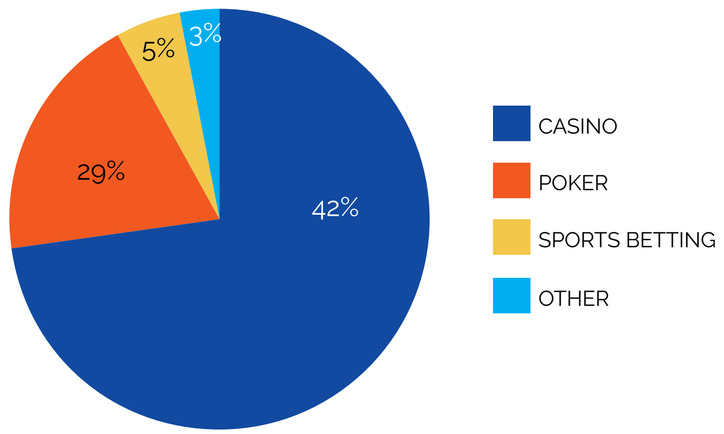


Chart 21: Acroud revenue by product 3Q20 (%)



Source: Company reports

> **"We have had too many sites before. We are putting our efforts into less sites... We are repositioning ourselves to be more diversified with a stronger focus on sports betting."**
>
> ROBERT ANDERSSON, ACROUD

€10-11m this year, with an EBITDA margin of about 10%.

As indicated by the slim margins, PMG isn't strictly an affiliate company. Instead, the bit Acroud will be buying comprises Matching Visions, an affiliate network, online gaming traffic broker Traffic Grid and an SAAS provider called Vonix. Traffic Grid is focused on bringing predominantly online gaming campaigns to mainstream affiliate networks. Acroud said that with the PMG Group assets, the company sees not only a strong financial growth driver but also "significant synergies across the future operational organisation". It said it would outline this further once the deal was completed.

EXPANSION IN THE US

As with the other companies in the sector, the US is very much at the forefront of Acroud's plans. The company said it had seen increased traffic flow in the third quarter and it had initiated the launch of a social gaming offering on PokerListings. It has also, in keeping with its competitors, been gathering up licences to operate in the US, including in upcoming states such as Michigan.

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