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ASPIRE.ST - Q3 2019 Aspire Global PLC Earnings Call

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CORPORATE PARTICIPANTS

Tsachi Maimon *Aspire Global plc - CEO & Director*

CONFERENCE CALL PARTICIPANTS

Jonas Amnesten *Redeye AB, Research Division - Equity Analyst*

PRESENTATION

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

All right. Good morning and a warm welcome to Aspire Global's quarter report presentation and Q&A live from Redeye's office in Stockholm.

My name is Jonas Amnesten, and I'm an equity research analyst at Redeye with focus on the online gambling industry. I will also be the moderator during the Q&A session that will follow after the presentation in about 20 minutes.

For those of you viewing the live stream, you're welcome to send in your questions already at this point, and that is done through the form on the live streaming website, just below the live stream.

And without any further ado, I will leave the floor to Aspire Global.

Tsachi Maimon - *Aspire Global plc - CEO & Director*

Thank you. Thank you, Jonas and the Redeye team, for hosting me. So I'm happy to present Q3 presentation for Aspire Global. I am Tsachi, the CEO of the company for the last 7 years.

So Aspire Global from this quarter officially, even though the numbers will be presented in Q4 with Pariplay, but officially, we joined Pariplay, so Aspire Global group is the combination of Aspire Global company and also Pariplay. Pariplay is a supplier of games and also an aggregation for other leading game suppliers. So I will have some slides explaining about this strategic acquisition further on in the presentation.

So Aspire Global is a platform provider, and this is the platform that we have and the products that we sell. We have several products, one of them is the platform services. So we have partners, operators that want to take this platform and start their gaming brand in several jurisdictions. So one is platform services.

The second is the games product that we have. The games product divided into 2: one is the proprietary games of Aspire Global and Pariplay; and second is the aggregation product, which is an access to thousands of games that we can resell through Pariplay. Third product that we are selling is Karamba, and Karamba is our own B2C, and we are selling it to the end users.

This is a brief of financial highlights of Q3. So you can see that the revenue were 16% up, with EUR 33.2 million in revenues. The EBITDA was EUR 5.2 million, a decrease of 16% compared to last year. The B2B revenues was almost EUR 23 million. This is representing a 32% increase year-over-year. The EBITDA margin was decreased to 15.7%, we will see further on where the decrease came from, mainly from the Karamba operation. So the B2B business is already representing 63% of the total income of the group. And the B2B EBITDA is already 82% of the total EBITDA of the group, which is, for us, a focus in the B2B.

When we take the first 9 months and compare those 9 months of 2019 to 2018, we can see that in revenue, the company already delivered what it delivered in the full year 2018, so reaching almost EUR 100 million in revenues. This is almost 40% increase; in EBITDA, EUR 17.4 million compared to EUR 14.6 million. And what we can see very impressive is the B2B revenue jumping from EUR 37 million to EUR 60 million in revenue. Also, the EBITDA of the B2B from EUR 8 million to EUR 12.5 million. So we can clearly see the focus on the B2B business line.

Some operational highlights that we have. So we launched during the quarter 6 new brands that came from new partners that we signed. We also received the bingo license in the U.K. And the Swedish license was extended to 3 years after we won the appeal with the Swedish authorities.

I will start with the Karamba highlights and afterwards move to other business lines. So this is our own B2C, Karamba. So we can see that there is a decrease year-over-year of 8% in revenue and 60% in EBITDA. This is something that was affected from several reasons. One of them, last year, we had the sport event; and this year, we didn't. And we know that Karamba was very strong last year in the World Cup. There were some adjustment, regulation adjustment in the U.K. compliance adjustment and also offering adjustment in the Netherlands market. And we see that those 2 markets, the adjustment that we had, affected very much the returning players in Karamba.

We had higher expense in marketing because we are wanting to open more markets for Karamba. So even though we will see it delivered in 2020, we can see higher expense in marketing in Q3. Karamba is expected to go back to growth in Q1 2020.

When we zoom in on the B2B, so it's a strong quarter for the B2B arm. We have a more than 30% increase in revenue. And the EBITDA was increased as well with 15% year-over-year. As I said before, 6 brands were launched. During the first -- the last 4 weeks of October, we signed 2 new partners that will be live probably during Q4.

Mr.play, one of our partners, soft launched its sportbook. And we have an update of Vipps Casino, Codere and Digibet, the new brands that we launched in the previous quarter that we see that their marketing starting to gear up as we speak.

This is the rolling 12 months of Aspire Global, still without the Pariplay group integrated to the company, but it's only what we are familiar with. So in the last 12 months, the revenues are around EUR 132 million in revenues, and the EBITDA is EUR 24 million.

The cash position of the company continue to be very strong. We generated almost EUR 5 million from the activity in the quarter. And out of the total cash balance, around EUR 36 million is available for future M&A. So this is already taking into consideration the acquisition cost that we had with Pariplay. So after that, we have available EUR 36 million for more acquisitions.

The operating expenses, we can see that distribution expenses decreased -- excuse me, increased compared to 2018, and this is mainly to the marketing expenses in Karamba in our B2C arm.

The financial position, we can see that total assets are EUR 110 million. And something that is an outstanding number in the industry, at least in the gaming industry, is that the retained earnings representing 48.5%, which is a strong number, and this is representing the quality and the efficiency of the business.

So a few slides on who is Pariplay, the strategic acquisition that we did a few weeks ago. So Pariplay is a leading games provider. They have their own state-of-the-art studios to produce games, and they are also acting as an aggregator, which leading to an access for a lot of more game suppliers out there. So this is truly a strategic move of Aspire Global that will contribute more and more as we speak. And it's completing the solution of what we have currently with additional arm in the B2B.

Those are just some examples of what they are selling. So Pariplay have their own 60 proprietary games, premium content that they are selling, in addition to more than 2,500 games through other suppliers. So from one integration to Pariplay, the operators can have access not only to Pariplay content but also to the third party, other suppliers out there. So this is the Tier 1 operators that Pariplay currently is serving. We can see 888, William Hill, Svenska Spel and GVC. So it's truly high-performing Tier 1 operators.

Some of the premium content that Pariplay produced, we can see some examples of the game. They are producing 2 new games every month, which is very impressive for the size of the company that they are. And this is just an example of Svenska Spel website where we can see the Pariplay games represented there. And we are very much proud of the development of Pariplay.

Last week, we announced a very strong deal that Pariplay signed with 888 in order to serve them not only in Europe, but also in the U.S.-regulated market. And this is a breakthrough for Pariplay. They have several more deals in the pipe for the U.S. market. And we are happy because Pariplay is one of the few content providers and aggregators that have a license in the U.S., and we are going to use this as much as we can.

So now when we talk about Aspire Global as a group, Aspire Global and Pariplay, we can see that this acquisition was not only strategically to have more in the value chain of the offering as a B2B company, but also giving us a much broader presence in more jurisdictions that Aspire wasn't before. So we can see that even if Pariplay exists in some of the markets that Aspire exists, they give us an access to Gibraltar, to Romania and, of course, to the U.S. market. So Aspire Global is stronger, more flexible and allow companies to be active in much more jurisdictions than before. So this is something that is important for the future.

This is a slide to share a little bit about the numbers of Pariplay as a company by themself. So in the first 9 months of 2019, we can see that the revenues were EUR 7.5 million and the EBITDA, EUR 1.2 million. And when we zoom in only on Q3 2019, we can see that the revenue were EUR 2.75 million and the EBITDA, EUR 600,000. The numbers of the last 9 months, the first 9 months of 2019, are around 16%, 17% increase from 2018. So this is also very good development by themself without even having Aspire Global promoting Pariplay content as of yet.

Going forward. So we have some projects on the pipe for Aspire Global, all of them or most of them are related to our B2B offering. So in the U.K., we know that it's almost impossible to work in the U.K. without multi-vertical offering for our partners, for the operators that want to operate in the U.K. So we are readying in a few weeks from now the bingo vertical for the U.K. market, strategically important move for the U.K. It's the biggest market in Europe.

We have Pariplay, which is now, as we speak, is being integrated technologically to Aspire Global platform. So it means that Aspire Global partners will be able to be exposed to the Pariplay content as of Q1 2020. So everything that you see will probably have a much bigger effect on Pariplay numbers because they will have the power of Aspire promoting the games.

Also Denmark, another regulated market that we are active. We understand that it's not possible to work only in casino vertical, so we are adding also the sport vertical in Denmark. So we believe that all of our partners and also new potential one that want to operate in Denmark, the offering will be now complete with casino and sport, which represent more than 95% of the bets in Denmark.

And of course, Pariplay was only the first acquisition that Aspire Global did. We have more in the pipeline, and this is what we intend to do more and more in order to have the Aspire Global group serving not only the platform and games, but more and more companies, more and more professionalism in the value chain of the gaming. So this is for the focus ahead, more for Aspire Global in the focus going forward.

So if you remember this slide from the past, we said that Aspire Global is focusing on the medium operator in any market. So if this is a market, any market, GGR, so we know that 70% of the bets are being played by the big large operator, and 30% of the bets are played on the medium-level operators. And we said that those 30% bets that represented on the medium-level companies, most of them, they don't have platform.

So Aspire Global, this was the focus of Aspire Global for years. We now understand that we are the dominant player in this segment. We're probably, if not one of the biggest in this segment, probably the biggest in this segment. And now we decided that we want to expand to the other segment of the big operators. It doesn't mean that we are shifting focus, but we are expanding to more and more big operators out there.

We know that it's a process that takes time, but we believe that we have the ability to do so because if you remember the slide of the platform in the beginning of the presentation, so what we did with the platform, we just plugged in the services that they can be now plugged in and plugged out. So any big operator that would like to have a platform that is active in so many jurisdictions, regulated jurisdictions, can take the PAM, the platform and do a plug-in of any service that they want in-house or outsourced. And this is a key. This flexibility is a key for this success. And we believe that even if it will take a little bit to bring those big deals in to Aspire Global, the platform is able to do it, and we will be happy to announce if there is any progress in this segment as well.

When we took -- talk about the targets of 2021, so we still believe strongly in the targets that we put for ourself to be in EUR 200 million revenues in 2021 and EUR 32 million in EBITDA. This is something that we will achieve organically and through acquisitions.

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And that was all. Thank you very much.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

All right. Perfect. That gave us a very good view of your quarter report.

Tsachi Maimon - *Aspire Global plc - CEO & Director*

Thank you.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

But let us follow up with some questions. And once again, for those of you viewing the live stream, you're welcome to send in your questions, and that's easiest done through the form on the live streaming website, so just below the live stream.

QUESTIONS AND ANSWERS

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

But let's start with our audience. Do we have any questions from our audience? All right. In that case, we'll start with our online questions.

What is the growth driver behind the strong B2B growth?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

We have strong B2B partners. And I believe that they see that we are acting as partners with them and not only as a supplier. So if there is a challenge in a market or a challenge in any service that we provide, we act, we want to think that we are acting fast in order to solve those issues. We learned a lot from the way other suppliers acting in the market as a supplier client, and we don't want to act as a supplier client. And this is something that I believe connect more and more the relationship and make the platform and us a sticky solution for those partners.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

All right. And what's your view of the B2C segment? Is the slower performance in that segment a result of your increased B2B focus? Or how should we view it?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

The company is a B2B focus for some time now. And of course, we will see the effect on the B2C on Karamba. Although specifically, there is some challenges in some of the markets that Karamba is operating. And I think that those challenges, as some of the other industry peers are experiencing, probably will bring Karamba to growth again in 2020 in Q1. But Aspire Global is a B2B company. This is where the focus is. This is where our day-to-day routine is even though if Karamba have their own team. This is where the acquisitions that we will have will be in the B2B segment. So it's a strong mindset to the B2B.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

Yes, fair. And these challenges that you're mentioning, what were these challenges in the third quarter?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

So there is some requirements, regulatory compliance requirements in the U.K. market that we can see that the players that, if before the operation, not only for Karamba, but as a whole, was based mainly on VIP players, so now, as it's going through, there is limitation how much a VIP player can play without having being stopped and being questioned a lot than before, which is something that we are happy to serve. And we believe that for the long term, it's much more healthy. So this is one thing that Karamba experienced. And also in the Netherlands market, where we removed the ideal payment method, which is very popular, and we see that this is affecting the return in players over there.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

And what is Aspire's strategy for the Swedish market? Is it only B2B focus now? Or how should we view the Swedish market?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

The Swedish market, we have the platform certified for the Swedish market. So currently, we have active brands in the Swedish market, but without focusing. I believe that -- and I see and I hear noises from the regulator that there is a little bit slowing down in stress on the operators. And as we said in the beginning, every regulated market have its stress in the first year or 2. We see that Sweden started to understand that it's affecting badly on the market, and companies are moving to the black market. We are not moving to the black market. So once we see that it's stable, we will enter with full power. But the platform is certified. So any company that would like to take the platform to Sweden is able to do it.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

Okay. And you mentioned Pariplay having a deal with Svenska Spel, for example. Is the Swedish market an important market for Pariplay? Or how should we view the market mix for Pariplay?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

It's a growing market for Pariplay, but it's something that started from 0, too, so it's not something that was one of their main markets. But we were happy to show the premium content in the last few months. And even Svenska Spel, which is a leading operator, is taking the content.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

Yes. That's really impressive. And looking at the Pariplay deal with 888, what potential do you see for this deal in the U.S. market?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

So currently, it's for New Jersey. But any jurisdiction, any state that Pariplay will want to be active and operate, they will probably take Pariplay onwards. And this is something that we believe will create even more stickiness between 888 and Pariplay. They have very strong connection in Europe, and I believe that this stable ground for the U.S. market is something that Pariplay will only benefit from. And because of this entry, I believe that other operators active in the U.S. will want this access to content immediately in order to differentiate in the U.S. market. So it's only the beginning of Pariplay.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

Yes. And can you elaborate a bit more on how Aspire Global will continue to expand on the U.S. market?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

So we are going to do it through Pariplay. And as I said, we have a lot of room, Aspire Global, to grow in Europe and not yet in the U.S. We are now expanding to bigger operators, mainly in Europe, but also in other jurisdictions. U.S. will wait for the second wave. We're not yet in the second wave.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

All right, all right. And what region do you expect will be the main or the most important growth driver for Aspire Global going forward? Is it still Europe that is the key region?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

Europe and outside of Europe, but not U.S. in the coming years. Yes.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

Yes. Okay. And we have another question. Will you leave the B2C market in the long run due to the growth of the B2B? Or will you still keep it in order to have a flagship brand and things like that?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

We will still keep it. It's important for us. We learn a lot from being connected to the end user. And it's benefiting not only our profitability but also our relationship with the B2B partners because when we know and feel the players, we know how to act with our customers, with the B2B customers. So we believe that it will still be strong contribution to Aspire.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

And what about the pay and play product, is that something that you're going to launch? Or what's your view on that functionality?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

Since we saw Sweden is not a stable market at the moment and the pay and play is mainly a solution for Sweden, so currently it's on hold. We have a lot of other things to do for the B2B offering to be able to offer our partners and operators much more market to operate in, much more verticals and not only to zoom in on Sweden, which is not stable currently.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

And jumping back to the U.S. market. What other states will be rolled out during 2020?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

So we have a license for different jurisdictions. So the approval in the U.S. market is going in a different mode. You need first to sign a contract and then you will be able to go live in jurisdictions. So the games are certified. We can go in almost any jurisdictions that is currently active.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

Cool. And could you tell us a little bit about how actively are you looking for more acquisitions now after Pariplay deal? Or is the focus to migrate or like to migrate the organizations? Or...

Tsachi Maimon - *Aspire Global plc - CEO & Director*

We are very much focused in additional acquisitions. There are a lot of targets on the table from different aspects. This is a lot of my time is being spent on finding and evaluating the right target.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

And we have one final online question, and that's also regarding to acquisitions. What part of the value chain do you think is most interesting for Aspire?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

Sport.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

Sport. So a B2B product for sport?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

Yes.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

Okay. And would you -- now when you acquired the Pariplay, would you be interested to acquire more content, slot content and so on?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

It is interesting. But as we have Pariplay, it's not a focus. If a good opportunity will come, we can do that. And we want to hold more and more elements in the value chain. So we have Pariplay with the games and aggregator, now we want to move to other verticals.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

All right. And the sport that you mentioned, why sport? Could you elaborate a little more on that?

Tsachi Maimon - *Aspire Global plc - CEO & Director*

Sport is the biggest vertical in gaming, active in a lot of jurisdictions. And the advantage that Aspire Global have compared to other sport companies that we know and also listed here in Sweden is that Aspire have a PAM, a player account management. This is the heart of where the players are kept. Other sport companies, most of them, they don't have a PAM. They are only a sport solution, like a content provider. So the stickiness of those sport companies to the player almost don't exist. So we believe that with the PAM that we have, the platform, plus a sport solution, will be a much more strong offering to the market, and this is where we want to be.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

And will -- since Pariplay is the aggregator, will you have any synergies with that? Or...

Tsachi Maimon - *Aspire Global plc - CEO & Director*

A lot of synergies. As I said, we are going to integrate Pariplay now in Q4. So from Q1, we are going to roll out games of Pariplay and also through Pariplay aggregator. So we are going to cost save a lot of what we are currently expending -- expensing.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

Cool. All right. That was our final question. Do we have a final question from our audience?

All right. In that case, we will wrap this up. I'd like to thank Aspire Global with Tsachi.

Tsachi Maimon - *Aspire Global plc - CEO & Director*

Thank you.

Jonas Amnesten - *Redeye AB, Research Division - Equity Analyst*

I'd like to thank our audience and our viewers for watching and asking questions. And I hope to see you all next time. And until then, take care, and have a great day. Bye.

Tsachi Maimon - *Aspire Global plc - CEO & Director*

Thank you very much.
