Bragg Gaming Group

Q120 results

Delivering operationally and financially

Technology

Bragg's Q120 results demonstrated strong revenue growth (44% y-o-y), adjusted EBITDA margin expansion (to 8.7%) and improved free cash flow generation. Operationally, it continues to win new customers in new geographies and enhance product functionality, which should continue to improve the customer offer, drive growth and de-risk the business. Management has reiterated FY20 guidance for revenue and EBITDA growth of at least c 32% and 349%, respectively, vs FY19. The key drivers of share price performance will be continued strong operating performance and financing the Oryx deferred consideration, part due in September 2020.

Year end	Revenue (€m)	Adj. EBITDA* (€m)	EPS* (€)	DPS (€)	P/E (x)	EV/EBITDA (x)
12/18**	0.8	(0.4)	(0.01)	0.0	N/A	N/A
12/19	26.6	1.2	(0.02)	0.0	N/A	61.9
12/20e	36.6	5.4	0.01	0.0	37.0	13.3
12/21e	40.9	6.1	0.02	0.0	18.5	11.8

Note: *EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Nine months.

Q120: Strong growth, margin delivery and cash flow

Bragg's Q120 revenue growth of 44% y-o-y to €8,784k was its highest quarterly rate of growth since Q119 (when the growth rate was 85%). It reflects strong customer growth, organic growth and some seasonality. Adjusted EBITDA margin improvement of 220bp to 8.7% reflects strong revenue growth, good cost control and the natural leverage that the business should enjoy as it scales. Operating cash flow and free cash flow generation improved significantly, leading to an improved cash position (€2,487k from €682k at the end of FY19) and offsetting some of the increased liability for the Oryx earnout, which increased by €5,022k to €28,754k.

FY20: Management guidance reiterated

Management has reiterated its guidance for FY20 revenue of €35–38m (at least 31.6% growth on FY19) and adjusted EBITDA of €5.2–5.6m (at least 349% growth). Relative to this guidance, Bragg is ahead of where it was at a similar stage in FY19, with a strong Q220 expected due to COVID-19 as online casino gaming has increased during lockdowns, and EBITDA delivery that will require ongoing operational gearing as revenue grows. We have changed our forecasts to euros from Canadian dollars to be consistent with the change in Bragg's functional currency. Our new forecast for adjusted EBITDA in FY20 is c 5% higher than our previous forecast, using the current Canadian dollar/euro exchange rate.

Valuation: 13.3x EBITDA for FY20e

Following the strong share price performance, on our new forecasts, the stock trades at 13.3x and 11.8x EV/EBITDA in FY20e and FY21e, respectively. Beyond delivery on financial operating guidance, the key catalyst for the share price is financing and payment of the Oryx earnout, due in September 2020 and June 2021, which is critical given the low but improving free cash flow.

6 July 2020

Price	**C$0.57**
Market cap	**C$46m**
	€0.65/C$
Net debt (€m) at 31 March 2020 ex IFRS 16	26.3
Shares in issue	79.9m
Free float	60%
Code	BRAG
Primary exchange	TSX.V
Secondary exchange	OTC.QX

Share price performance

%	1m	3m	12m
Abs	52.0	200.0	35.7
Rel (local)	51.8	148.9	44.2
52-week high/low		C$0.58	C$0.17

Business description

Bragg Gaming Group (formerly Breaking Data Corp) is a Toronto-based B2B online gaming holding company. The core asset is Oryx Gaming, a predominantly European B2B online gaming platform.

Next events

Q220 results	August 2020
Q320 results	November 2020

Analysts

Russell Pointon +44 (0)20 3077 5700

Richard Williamson +44 (0)20 3077 5700

gaming@edisongroup.com

Edison profile page

Bragg Gaming Group is a research client of Edison Investment Research Limited

Q120 results: Strong growth and improved profitability

Bragg's Q120 results demonstrated strong top-line growth, adjusted EBITDA margin expansion and improving cash flow generation. Exhibit 1 highlights the company's quarterly and annual financial performance for its continuing operations since FY18.

Below adjusted EBITDA, the most notable expense was the increase in deferred consideration liability for the Oryx earnout of €4,968k, a reflection of the strong growth the business is delivering, and the financial accretion of the liability. The significant improvement in adjusted EBITDA since Q319 is notable as the company builds customers.

Exhibit 1: Financial performance (continuing operations)

€'000s	Q118	Q218	Q318	Q418	FY18	Q119	Q219	Q319	Q419	FY19	Q120
Revenue				767	767	6,084	5,928	6,738	7,842	26,592	8,784
Growth y-o-y (%)									922%	3,367%	44%
Adjusted EBITDA		(211)	(99)	(93)	(403)	395	(88)	(16)	868	1,159	760
Margin (%)				(12.1%)	(52.5%)	6.5%	(1.5%)	(0.2%)	11.1%	4.4%	8.7%
Growth y-o-y (%)							(58%)	(84%)	N/M	N/M	92%
EBITDA		(278)	(238)	(4,206)	(4,722)	(350)	(4,227)	58	(1,482)	(6,001)	(4,296)
Margin (%)				(548.4%)	(615.6%)	(5.8%)	(71.3%)	0.9%	(18.9%)	(22.6%)	(48.9%)
Operating loss		(278)	(238)	(4,246)	(4,762)	(837)	(4,725)	(455)	(2,064)	(8,081)	(5,080)

Source: Bragg Gaming Group accounts

Exhibit 2 illustrates Bragg's financial performance on a pro forma basis, ie as if the acquisition of Oryx had been completed on 1 January 2018 and fully settled in cash and equity at that time.

Exhibit 2: Financial performance (pro forma)

€'000s	Q118	Q218	Q318	Q418	FY18	Q119	Q219	Q319	Q419	FY19	Q120
Revenue	3,296	4,532	5,065	6,015	18,908	6,084	5,928	6,738	7,842	26,592	8,784
Growth y-o-y (%)						85%	31%	33%	30%	41%	44%
Adjusted EBITDA	(130)	(103)	(361)	(139)	(733)	395	(88)	(16)	868	1,159	760
Margin (%)	(3.9%)	(2.3%)	(7.1%)	(2.3%)	(3.9%)	6.5%	(1.5%)	(0.2%)	11.1%	4.4%	8.7%
Growth y-o-y (%)						N/M	(15%)	(96%)	N/M	N/M	92%
EBITDA	(530)	(503)	(761)	(539)	(2,333)	(350)	(4,227)	58	(1,482)	(6,001)	(4,296)
Margin (%)	(16.1%)	(11.1%)	(15.0%)	(9.0%)	(12.3%)	(5.8%)	(71.3%)	0.9%	(18.9%)	(22.6%)	(48.9%)
Operating loss	(1,030)	(1,003)	(1,261)	(1,039)	(4,333)	(837)	(4,725)	(455)	(2,064)	(8,081)	(5,080)

Source: Bragg Gaming Group accounts

Q120 revenue growth of 44% y-o-y to €8,784k was Bragg's highest quarterly growth rate since Q119, when revenue grew by 85%. This reflects the strong increase in customer numbers and organic growth with some inherent seasonality due to weather, etc. The key driver of growth was from Games & Content (c 58% of total revenue), which grew by 54.6%, and Software Platform Licensing (35% of total revenue), which grew by 43%.

Management attributes its success in winning new customers to two things: superior content and functionality relative to its competitors that is available through a single API, which ultimately enables Bragg to drive more revenue through its most profitable customers; and the speed of integration. For example, during the COVID lockdowns, a new customer in Latin America was live within two weeks from the initial conversations between Bragg and the client. This compares with the typical six to nine months that competitors would require.

Management highlights high customer retention (never losing a customer other than as a result of the customer's own financial difficulties) as a clear indication of customer satisfaction. Bragg signed nine new customers (including Gamesys, SkillOnNet, Leon, Casino Secret and Hub 88) during Q120, which will help growth through the remainder of FY20 and in future years. Client concentration has reduced year-on-year, with the top five clients representing 48% of revenue in Q120 vs 68% in Q119. Looking to Q2 and beyond, management points to very advanced conversations with 20 potential new customers. These are likely to increase its exposure to Latin America and new countries in Europe, which should help to reduce client concentration and de-risk the business.

During Q120, the company enhanced its technology and product offering. A key launch included the Data Analytics Platform, which will enable Bragg's customers to better segment and target their own end customers to grow. In addition, the new Player Engagement Platform, which was launched with a view to increasing the lifetime value of a customer, has been well received.

Gross margin deteriorated by 220bp from 47.4% in Q119 to 45.2%, which is solely attributable to mix, ie the revenue streams outside Games & Content typically do not have material cost of goods sold.

Adjusted EBITDA increased by 92.4% to €760k as strong revenue growth, control of costs and the natural gearing to margin that should be enjoyed as Bragg scales fed through to greater profitability. The adjusted EBITDA margin increased from 6.5% in Q119 to 8.7% in Q120. Net staff costs, the most significant element of costs, fell by 4.5% to €2,167k. Within staff costs, share-based payments, which are excluded from adjusted EBITDA, declined by 93% y-o-y to €51k, an absolute cost saving of €695k or 7.9 margin points. On a gross basis, employee costs increased by 34.9%. Elsewhere, there were absolute declines in other costs such as corporate, sales & marketing, and travel entertainment, which, although not significant in absolute terms, reflect management's focus on improving profitability and cash flow generation while growing the business.

Improved cash flow, higher deferred consideration

The company's cash flow generation improved significantly in Q120. At €2,540k, operating cash flow improved from the outflow of €2,737k in Q119 and €98k for the whole of FY19. The important drivers of improved operating cash flow generation were the higher adjusted EBITDA margin mentioned above and positive working capital of €1,861k in Q120 versus an outflow of €3,115k in Q119, which reflects the ongoing growth profile of the business and better management of working capital.

Free cash flow generation also improved to an inflow of €2,178k versus outflows of €2,990k in Q119 and €1,757k in FY19, driven by improved operating cash flow generation. Management therefore believes that operational activities are self-funding.

The cash position of €2,487k has improved from €1,828k at Q119 and €682k at the end of FY19. Gross debt of €28,754k (excluding leases) is solely the deferred consideration for the acquisition of Oryx, which has increased by €5,022k since FY19. Net debt excluding leases has therefore increased by €3,217k at the end of FY19 to €26,267k.

There is no further news on how the deferred consideration for the Oryx acquisition is likely to be settled. Previously, management disclosed that the first instalment of the deferred consideration, which was payable in June 2020, has been delayed to September 2020 with the agreement of the vendor. Management has engaged Canaccord Genuity to provide financial advisory services in connection with financing the earnout. This is critical given the low but improving free cash flow.

FY20 guidance: Strong growth reiterated by management

The company has reiterated its guidance for revenue of €35–38m (C$59.3–64.4m) and adjusted EBITDA of €5.2–5.6m (C$8.8–9.5m) in FY20. This would represent year-on-year growth for revenue of 31.6–42.9% versus FY19 and adjusted EBITDA growth of 349–383%. The middle of both ranges implies an adjusted EBITDA margin of 14.8% versus 4.4% in FY19.

The revenue booked by Bragg during Q120 represents 23.1–25.1% of management's guided revenue range for FY20. This compares with Q119 revenue, which represented 22.9% of total revenue earned in FY19, and the Q120 performance is therefore encouraging in this context. As shown in Exhibit 2, comparative growth rates ease through the remainder of the year and management has indicated that Q220 is likely to demonstrate strong growth, as the online gaming industry has been a beneficiary of the lockdowns due to COVID-19. In addition, management points to increasing interest in online casino games as businesses begin to emerge from the lockdowns.

Forecasts

We have moved the functional currency of our model and forecasts from Canadian dollars to euros to be consistent with the recent change in Bragg's functional currency.

Our new model reflects higher growth in FY20 for Games & Content of 45% and for Software Platform Licensing of 35%, and lower growth for other revenues (c 2% in aggregate) given the growth rates recorded in Q120. In aggregate, our FY20 revenue forecast of €36.6m is in the middle of management guidance of €35–38m. This represents growth of 37.5% y-o-y vs our prior estimate of 35.6%. For FY21, we assume 12% revenue growth vs c 18% previously, reflecting the higher base and a slightly more conservative forecast. Our absolute revenue estimate for FY21 of €40.9m is c 6% higher than our prior Canadian dollar forecast at the current exchange rate of €0.65/C$ versus €0.62/C$ previously, a like-for-like increase of c 11%.

The higher growth rate from Games & Content is likely to dilute gross margin in FY20, before better growth from other higher-margin revenues improves in FY21. We forecast a modest deterioration in gross margin of 20bp to 45% in FY20, and an increase of 200bp to 47% in FY21.

Our new FY20 adjusted EBITDA forecast of €5.4m is also in the middle of management's guidance for FY20 of €5.2–5.6m. This represents a margin of 14.8% versus 4.4% in FY19. The margin is lower than our previous forecast of 15.6% due to gross margin decline as a result of mix and higher operating expenses as growth has accelerated. Our FY20 adjusted EBITDA forecast of €5.4m is equivalent to C$8.3m and compares to our prior forecast of C$7.9m. For FY21, our adjusted EBITDA estimate is €6.1m and we assume a flat margin of 14.8%.

Our forecasts show positive operating cash flow of €4.4m in FY20 and €4.8m in FY21, which covers investment in tangibles and intangibles of €1.8m and €2.2m respectively. Free cash flow pre-interest is forecast to be €2.6m in both FY20 and FY21. We forecast free cash flow post interest of €0.5m in FY20 and €1.5m in FY21. We continue to assume that half of the deferred consideration for the earnout, due in September 2020 and June 2021, is funded by an equity raise at the same time as payment of the consideration. We assume that equity is raised at a 20% discount to the current share price, which is the maximum discount permitted by the Canadian exchange. We assume the remainder is funded by debt with an interest rate of 6%.

We forecast the net debt position excluding leases to be €23.0m at the end of FY20.

Valuation

The share price performance has been strong since reaching C$0.17 in April. On our new forecasts, at the current share price of C$0.57, the stock trades at 2.0x and 1.8x EV/sales in FY20e and FY21e, respectively. The EV/adjusted EBITDA multiples are 13.3x and 11.8x, respectively.

In addition to the recent improvement in Bragg's share price, we note the recent strength in the share prices of peers such as GAN and DraftKings. For the year-ended December 2021, the companies trade on EV/sales multiples of 95.9x and 15.4x respectively, per Refinitiv.

Exhibit 3: Financial summary

€000s	2018*	2019	2020e	2021e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	767	26,592	36,561	40,948
Cost of Sales	(416)	(14,562)	(20,094)	(21,686)
Gross Profit	351	12,030	16,467	19,262
Adjusted EBITDA	(403)	1,159	5,411	6,060
EBITDA	(4,722)	(6,001)	183	5,800
Normalised operating profit/(loss)	(252)	804	4,221	4,850
Amortisation of acquired intangibles	(40)	(1,725)	(1,770)	(1,770)
One-off items inc changes in fair value of contingent/deferred consideration	(2,168)	(5,513)	(4,968)	0
Share-based payments	(2,302)	(1,647)	(260)	(260)
Reported operating profit/(loss)	(4,762)	(8,081)	(2,777)	2,820
Net Interest	(1)	(1,754)	(2,150)	(1,090)
Profit/(Loss) Before Tax (norm)	(253)	(950)	2,071	3,760
Profit/(Loss) Before Tax (reported)	(4,763)	(9,835)	(4,927)	1,730
Reported tax	(2)	(541)	(1,340)	(1,473)
Profit/(Loss) After Tax (norm)	(255)	(1,491)	731	2,287
Profit/(Loss) After Tax (reported)	(4,765)	(10,376)	(6,267)	257
Discontinued operations	(9,086)	(1,571)	(160)	0
Net income (normalised)	(255)	(1,491)	731	2,287
Net income (reported)	(13,851)	(11,947)	(6,427)	257
Basic average number of shares outstanding (m)	29.5	73.0	83.9	113.0
EPS - diluted normalised (€)	(0.01)	(0.02)	0.01	0.02
EPS - basic reported (€)	(0.47)	(0.16)	(0.08)	0.00
Revenue growth (%)		3367.0	37.5	12.0
Gross Margin (%)	45.8	45.2	45.0	47.0
Adjusted EBITDA Margin (%)	(52.5)	4.4	14.8	14.8
Normalised Operating Margin	(32.9)	3.0	11.5	11.8
BALANCE SHEET				
Fixed Assets	35,503	35,543	34,383	33,603
Intangible Assets	35,207	34,499	33,339	32,459
Tangible Assets	187	163	163	263
Right-of-use assets	0	843	843	843
Investments & other	109	38	38	38
Current Assets	9,765	8,337	11,125	13,664
Debtors	4,101	6,180	8,497	9,516
Cash & cash equivalents	5,480	682	1,153	2,672
Other	184	1,475	1,475	1,475
Current Liabilities	(10,121)	(20,801)	(13,932)	(15,173)
Creditors	(7,982)	(8,857)	(11,470)	(12,711)
Deferred and contingent consideration	(1,942)	(9,482)	0	0
Short term borrowings	(97)	0	0	0
Leases	0	(185)	(185)	(185)
Other	(100)	(2,277)	(2,277)	(2,277)
Long Term Liabilities	(19,251)	(16,463)	(26,378)	(16,590)
Long term borrowings	(278)	0	(4,590)	(14,377)
Leases	0	(674)	(674)	(674)
Deferred and contingent consideration	(17,321)	(14,250)	(19,575)	0
Liabilities classified as held for sale	(1,652)	(1,539)	(1,539)	(1,539)
Net Assets	15,896	6,616	5,198	15,503
Minority interests	0	0	0	0
Shareholders' equity	15,896	6,616	5,198	15,503
CASH FLOW				
Op Cash Flow before WC and tax	(4,725)	(8,296)	(3,307)	3,237
Working capital	3,004	(660)	296	222
Exceptional & other	2,454	8,636	7,432	1,350
Tax	0	222	0	0
Net operating cash flow	733	(98)	4,421	4,809
Capex	0	(1,659)	(1,800)	(2,200)
Acquisitions/disposals	(3,690)	(639)	(9,179)	(19,575)
Net interest	0	(12)	(2,150)	(1,090)
Equity financing	8,301	0	4,590	9,788
Other	0	(509)	4,590	9,788
Net Cash Flow	5,344	(2,917)	471	1,519
Opening cash	1,859	5,480	682	1,153
FX	(579)	(276)	0	0
Other non-cash movements	(1,144)	(1,605)	0	0
Closing cash	5,480	682	1,153	2,672
Net debt/(cash) (excl. leases)	14,158	23,050	23,011	11,705

Source: Company accounts, Edison Investment Research. Note: *Nine months.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia