

ZEAL Network SE

Others - Germany



Buy (old: Buy)

10.11.2023

EUR 51.00 (old: EUR 50.00)

Q3 review: superb Games kick-off, chg. est & PT

Topic: ZEAL released better than expected Q3 results with strong billings and sales driven by heightened jackpots and user activity. More importantly, the Games roll-out came in strong.

The **first-time impact of Games** came in much stronger than anticipated with **€ 16.7m in billings** (vs eNuW: € 2.5m), showing that demand for the new product is high. This impact should further increase as **Q4 Games billings are seen at € 19m** (eNuWold: € 4.5m). Consequently, we also **significantly raise our FY'24e billings estimate to € 80m** (old: € 46m), but stay at a € 10m sales contribution due to a reduced gross margin estimate.

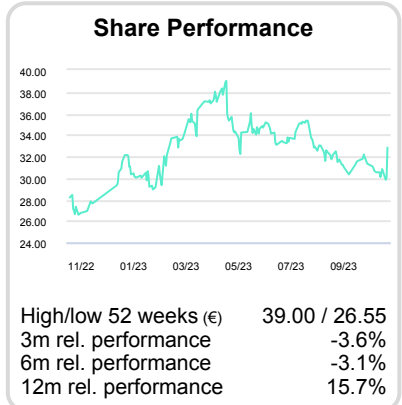
Billings from Lottery came in at € 221m, up 19% yoy (eNuW: € 213m; 9M: € 633m, +16% yoy) thanks to an increased user activity of 1.22m monthly active users (eNuW: 1.15m MAU) coupled with average monthly lottery revenues per user of € 7.44 (eNuW: € 7.99). The increase in user activity was driven by the strong Lotto 6aus49 in Q3, which peaked twice in a row.

Sales arrived at € 31m, +24% yoy (eNuW: € 29m; 9M: € 86m, +16% yoy) thanks to the strong Lottery billings as well as the **stellar debut of Games** (€ 1.2m, 7% gross margin; eNuW: € 0.6m, 22% gross margin). The lower than expected Games gross margin was due to the still small portfolio of only 28 games so far and is expected expand to 12.5% in FY24e thanks to the continuous addition of higher margin games (see p. 2 for details).

The **EBITDA of € 9.4m**, +68% yoy (eNuW: € 8.1m; 9M: € 23.1m, +5% yoy), **came in much better than expected** thanks to **operating leverage** as total OpEx (including personnel & marketing expenses) only rose by 11% yoy to € 22m (eNuW: € 21.5m).

Against this backdrop and given an average jackpot development in Q4, the **FY23 guidance seems well in reach**: Lottery billings of € 800-830m could even be exceeded (eNuW: € 841m), whereas sales of € 110-120m (eNuW: € 115m) and an EBITDA of € 30-35m (eNuW: € 33m) should be reached between mid-point and the upper end.

Hence, we reiterate our **BUY recommendation** for the **structural outperformer** with lots of **growth potential** in the German lottery market and raise our **PT to € 51.00** (old: € 50.00) based on DCF.



Market data

Share price (in €)	32.80
Market cap (in € m)	731.6
Number of shares (in m pcs)	22.3
Enterprise value (in € m)	728.6
Ø trading volume (6 months)	15,022

Identifier

Bloomberg	TIMA GR
Reuters	TIMAn
WKN	ZEAL24
ISIN	DE000ZEAL241

Key shareholders

Günther Group	35.2%
Working Capital	20.2%
Marc Peters	4.5%
Jens Schumann	3.6%
Free Float	36.6%

Estimates changes

	2023e	2024e	2025e
Sales	0%	2%	1%
EBIT	6%	-0%	4%
EPS	6%	-0%	4%

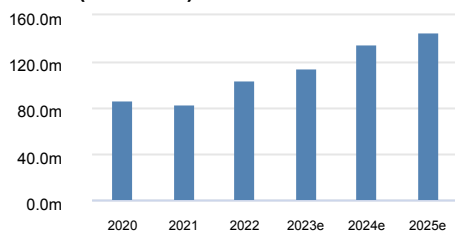
Comment on changes

- FY'23e sales slightly changed to reflect lower expected gross margin on Lottery, but better than expected Games impact.
- FY'24 & '25e estimates now reflect the changed Games impact

Y/E 31.12 (EUR m)	2020	2021	2022	2023e	2024e	2025e
Sales	87.0	83.3	105.2	114.8	134.9	146.2
Sales growth	-23.3%	-4.2%	26.2%	9.1%	17.6%	8.4%
EBITDA	17.3	27.7	31.7	33.4	47.3	56.7
Net debt (if net cash=0)	-86.1	-38.5	-2.4	-3.1	-12.6	-24.4
FCF	4.8	26.0	27.1	26.7	34.0	38.6
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0
EPS pro forma	0.37	0.48	0.72	0.70	1.09	1.36
EBITDA margin	19.9%	33.3%	30.1%	29.1%	35.0%	38.7%
ROCE	1.6%	5.0%	5.8%	6.9%	11.9%	15.2%
EV/sales	7.3	10.5	7.0	6.3	5.3	4.8
EV/EBITDA	36.8	31.6	23.2	21.8	15.2	12.5
PER	89.8	68.0	45.9	47.1	30.0	24.1
Adjusted FCF yield	3.0%	1.8%	3.5%	3.8%	4.9%	5.9%

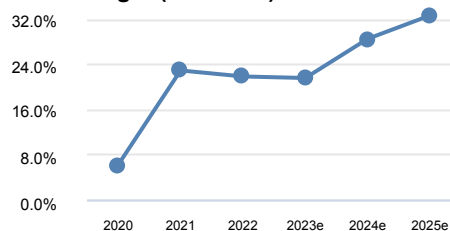
Source: Company data, NuWays, Close price as of 09.11.2023

Sales (2020-25e)



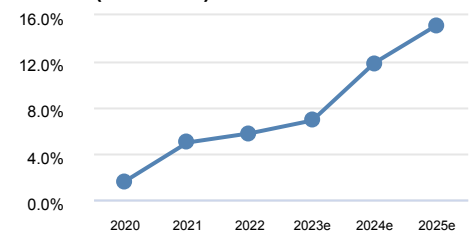
Source: NuWays Research

EBIT margin (2020-25e)



Source: NuWays Research

ROCE (2020-25e)



Source: NuWays Research

Company description

ZEAL brokers lottery products via the internet under two well-known web-domains: Lotto24.de and Tipp24.de and receives brokerage commissions from the lottery operators. In addition, the company also operates charity based lotteries.

Guidance

- FY 2023 Billings: € 800-830m
- FY 2023 Sales: € 110-120m
- FY 2023 EBITDA: € 30-35m

ZEAL Network SE

Preview / Review - 10.11.2023



Games estimate changes	Q3 23	Q4 23e	FY23e	FY24e	FY25e	CAGR 23e-25e
Billings - old	2.5	4.5	7.0	46.0	50.6	
Billings - new	16.7	19.0	35.7	80.0	88.0	57%
% chg.		322%	410%	74%	74%	
Sales - old	0.6	1.0	1.5	10.1	11.1	
Sales - new	1.2	1.9	3.1	10.0	13.2	106%
% chg.		92%	101%	-1%	19%	
gross margin - old	22%	22%	22%	22%	22%	
gross margin - new	7.2%	10.0%	8.7%	12.5%	15.0%	
pp. chg.		- 12.0 pp	- 13.3 pp	- 9.5 pp	- 7.0 pp	
EBITDA - old	0.5	0.8	1.3	8.6	9.5	
EBITDA - new	1.0	1.6	2.6	8.5	11.2	106%
% chg.		92%	101%	-1%	19%	
EBITDA contr. margin - old	85%	85%	85%	85%	85%	
EBITDA contr. margin - new	85%	85%	85%	85%	85%	
pp. chg.		+ 0.0 pp	+ 0.0 pp	+ 0.0 pp	+ 0.0 pp	

Source: NuWays

Zeal Network SE	Q3 2023	Q3 2023 eNuW	Q3 2022	yoy	9M 2023	9M 2023 eNuW	9M 2022	yoy
Billings from Lottery	222.1	212.5	186.1	19.4%	633.2	624.2	544.4	16.3%
Billings from Games	16.1	2.5	0.0	n.a.	16.7	2.5	0.0	n.a.
Total Billings	238.2	215.0	186.1	28.0%	649.9	626.7	544.4	19.4%
Sales from Lottery	27.1	27.6	23.9	13.8%	79.4	79.9	71.0	11.9%
Sales from Games	1.2	0.6	0.0	n.a.	1.2	0.6	0.0	n.a.
Other sales	5.1	0.8	1.2	323.4%	7.8	3.3	3.5	124.8%
Total Sales	31.1	29.0	25.1	24.2%	86.0	83.8	74.5	15.5%
Gross margin (Lottery)	12.2%	13.0%	12.8%	- 0.6 pp	12.5%	12.8%	13.0%	- 0.5 pp
Gross margin (Games)	7.1%	22.0%	0.0%	n.a.	7.2%	22.0%	0.0%	n.a.
Average gross margin	11.9%	13.1%	12.8%	- 0.9 pp	12.4%	12.8%	13.0%	- 0.6 pp
EBITDA	9.4	8.1	5.6	67.4%	23.1	21.8	22.0	5.1%
EBITDA margin	30.0%	27.9%	22.3%	+ 7.8 pp	26.9%	26.0%	29.5%	- 2.7 pp
Lottery - Monthly Active Users (MAU)	1.22m	1.15m	1.05m	15.7%	1.15m	1.13m	1.03m	11.5%
Games - Monthly Active Users (MAU)	0.02m	0.01m	0.00m	n.a.	0.01m	0.01m	0.00m	n.a.
Monthly Active Users	1.24m	1.16m	1.05m	17.4%	1.17m	1.14m	1.03m	12.8%
Lottery - Average Revenue per User (ARPU)	€ 7.44	€ 7.99	€ 7.56	-1.7%	€ 7.65	€ 7.85	€ 7.63	0.3%
Games - Average Revenue per User (ARPU)	€ 22.02	€ 28.00	€ 0.00	#DIV/0!	€ 19.52	€ 28.00	€ 0.00	#DIV/0!
ARPU	€ 7.64	€ 8.09	€ 7.56	1.0%	€ 7.68	€ 7.84	€ 7.63	0.7%

Source: NuWays

Financials

Profit and loss (EUR m)	2020	2021	2022	2023e	2024e	2025e
Net sales	87.0	83.3	105.2	114.8	134.9	146.2
<i>Sales growth</i>	-23.3%	-4.2%	26.2%	9.1%	17.6%	8.4%
Increase/decrease in finished goods and work-in-process	0.0	0.0	0.0	0.0	0.0	0.0
Total sales	87.0	83.3	105.2	114.8	134.9	146.2
Other operating income	8.5	4.6	2.3	1.6	1.3	2.2
Material expenses	0.0	0.0	0.0	0.0	0.0	0.0
Personnel expenses	21.9	19.0	18.9	20.4	22.9	23.8
Other operating expenses	56.3	41.2	57.0	62.5	66.1	67.9
Total operating expenses	69.7	55.6	73.5	81.4	87.6	89.5
EBITDA	17.3	27.7	31.7	33.4	47.3	56.7
Depreciation	3.0	0.7	0.7	0.0	0.0	0.0
EBITA	14.3	27.0	31.0	33.4	47.3	56.7
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	9.0	7.9	8.1	8.7	8.9	9.0
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (inc revaluation net)	5.4	19.0	22.9	24.7	38.4	47.6
Interest income	3.5	0.2	1.4	1.2	1.2	1.1
Interest expenses	1.0	2.0	0.7	1.8	1.7	1.6
Investment income	-0.0	-0.3	-0.2	0.1	0.0	0.0
Financial result	2.5	-2.4	-0.1	-0.5	-0.5	-0.5
Recurring pretax income from continuing operations	7.9	16.7	22.8	24.2	37.9	47.1
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	7.9	16.7	22.8	24.2	37.9	47.1
Income tax expense	0.0	5.3	6.2	7.7	12.1	15.1
Net income from continuing operations	7.9	11.4	16.6	16.4	25.8	32.1
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
Net income	7.9	11.4	16.6	16.4	25.8	32.1
Minority interest	-0.3	0.6	0.6	0.9	1.4	1.7
Net profit (reported)	8.2	10.8	16.0	15.5	24.4	30.3
Average number of shares	22.4	22.4	22.3	22.3	22.3	22.3
EPS reported	0.37	0.48	0.72	0.70	1.09	1.36

Profit and loss (common size)	2020	2021	2022	2023e	2024e	2025e
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Sales growth</i>	-23.3%	-4.2%	26.2%	9.1%	17.6%	8.4%
Increase/decrease in finished goods and work-in-process	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other operating income	9.7%	5.5%	2.2%	1.4%	1.0%	1.5%
Material expenses	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Personnel expenses	25.1%	22.9%	18.0%	17.8%	17.0%	16.3%
Other operating expenses	64.7%	49.4%	54.1%	54.5%	49.0%	46.4%
Total operating expenses	80.1%	66.7%	69.9%	70.9%	65.0%	61.2%
EBITDA	19.9%	33.3%	30.1%	29.1%	35.0%	38.7%
Depreciation	3.4%	0.9%	0.6%	0.0%	0.0%	0.0%
EBITA	16.5%	32.4%	29.5%	29.1%	35.0%	38.7%
Amortisation of goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortisation of intangible assets	10.3%	9.5%	7.7%	7.6%	6.6%	6.2%
Impairment charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT (inc revaluation net)	6.2%	22.9%	21.8%	21.5%	28.5%	32.6%
Interest income	4.0%	0.2%	1.4%	1.0%	0.9%	0.8%
Interest expenses	1.1%	2.4%	0.7%	1.6%	1.3%	1.1%
Investment income	-0.0%	-0.4%	-0.2%	0.1%	0.0%	0.0%
Financial result	2.9%	neg.	neg.	neg.	neg.	neg.
Recurring pretax income from continuing operations	9.0%	20.0%	21.7%	21.0%	28.1%	32.2%
Extraordinary income/loss	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Earnings before taxes	9.0%	20.0%	21.7%	21.0%	28.1%	32.2%
Tax rate	0.0%	31.5%	27.4%	32.0%	32.0%	32.0%
Net income from continuing operations	9.0%	13.7%	15.7%	14.3%	19.1%	21.9%
Income from discontinued operations (net of tax)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	9.0%	13.7%	15.7%	14.3%	19.1%	21.9%
Minority interest	-0.4%	0.7%	0.6%	0.8%	1.0%	1.2%
Net profit (reported)	9.4%	12.9%	15.2%	13.5%	18.1%	20.7%

Source: Company data, NuWays

Balance sheet (EUR m)	2020	2021	2022	2023e	2024e	2025e
Intangible assets	303.7	298.0	289.6	280.9	272.0	263.0
Property, plant and equipment	0.9	0.6	1.2	1.7	2.2	2.7
Financial assets	68.5	16.6	22.5	22.5	22.5	22.5
FIXED ASSETS	373.0	315.2	313.2	305.0	296.6	288.1
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	1.3	1.8	1.4	1.6	1.8	2.0
Other assets and short-term financial assets	16.5	82.9	75.4	18.7	18.7	18.7
Liquid assets	86.1	90.1	61.2	57.9	63.4	71.2
Deferred taxes	16.9	11.9	6.9	6.9	6.9	6.9
Deferred charges and prepaid expenses	0.0	1.5	1.5	1.5	1.5	1.5
CURRENT ASSETS	121.2	188.6	146.5	87.1	92.9	100.9
TOTAL ASSETS	494.3	503.8	459.7	392.1	389.5	389.1
SHAREHOLDERS EQUITY	387.7	378.2	328.0	262.3	259.8	260.1
MINORITY INTEREST	7.9	6.7	6.1	7.0	8.4	10.1
Provisions for pensions and similar obligations	0.0	0.4	0.1	0.1	0.1	0.1
Other provisions and accrued liabilities	5.6	4.0	4.0	5.5	6.5	7.0
Short-term liabilities to banks	0.0	1.1	4.7	4.7	4.7	4.7
Accounts payable	3.6	3.7	3.8	3.8	4.4	4.8
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities (incl. from lease and rental contracts)	32.1	6.5	6.9	6.9	6.9	6.9
Deferred taxes	50.6	48.8	46.3	46.3	46.3	46.3
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0
CURRENT LIABILITIES	35.7	10.2	10.7	10.7	11.3	11.7
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	494.3	503.8	459.7	392.1	389.5	389.1
Balance sheet (common size)	2020	2021	2022	2023e	2024e	2025e
Intangible assets	61.4%	59.2%	63.0%	71.6%	69.8%	67.6%
Property, plant and equipment	0.2%	0.1%	0.3%	0.4%	0.6%	0.7%
Financial assets	13.8%	3.3%	4.9%	5.7%	5.8%	5.8%
FIXED ASSETS	75.5%	62.6%	68.1%	77.8%	76.2%	74.1%
Inventories	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts receivable	0.3%	0.4%	0.3%	0.4%	0.5%	0.5%
Other assets and short-term financial assets	3.3%	16.5%	16.4%	4.8%	4.8%	4.8%
Liquid assets	17.4%	17.9%	13.3%	14.8%	16.3%	18.3%
Deferred taxes	3.4%	2.4%	1.5%	1.8%	1.8%	1.8%
Deferred charges and prepaid expenses	0.0%	0.3%	0.3%	0.4%	0.4%	0.4%
CURRENT ASSETS	24.5%	37.4%	31.9%	22.2%	23.8%	25.9%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SHAREHOLDERS EQUITY	78.4%	75.1%	71.3%	66.9%	66.7%	66.9%
MINORITY INTEREST	1.6%	1.3%	1.3%	1.8%	2.1%	2.6%
Provisions for pensions and similar obligations	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
Other provisions and accrued liabilities	1.1%	0.8%	0.9%	1.4%	1.7%	1.8%
Short-term liabilities to banks	0.0%	0.2%	1.0%	1.2%	1.2%	1.2%
Accounts payable	0.7%	0.7%	0.8%	1.0%	1.1%	1.2%
Advance payments received on orders	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other liabilities (incl. from lease and rental contracts)	6.5%	1.3%	1.5%	1.8%	1.8%	1.8%
Deferred taxes	10.2%	9.7%	10.1%	11.8%	11.9%	11.9%
Deferred income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CURRENT LIABILITIES	7.2%	2.0%	2.3%	2.7%	2.9%	3.0%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, NuWays

Cash flow statement (EUR m)	2020	2021	2022	2023e	2024e	2025e
Net profit/loss	7.9	11.4	16.6	16.4	25.8	32.1
Depreciation of fixed assets (incl. leases)	3.0	0.7	0.7	0.0	0.0	0.0
Amortisation of goodwill & intangible assets	9.0	7.9	8.1	8.7	8.9	9.0
Others	-2.8	-8.7	-1.2	0.0	0.0	0.0
Cash flow from operating activities	4.4	19.4	27.3	26.7	34.0	38.6
Increase/decrease in inventory	-4.2	0.0	4.3	0.0	0.0	0.0
Increase/decrease in accounts receivable	13.1	-0.5	0.4	-0.1	-0.3	-0.2
Increase/decrease in accounts payable	-0.2	0.1	0.1	-0.0	0.7	0.4
Increase/decrease in other working capital positions	0.0	-0.1	-1.2	2.4	0.0	0.0
Increase/decrease in working capital	8.7	-0.5	3.5	2.3	0.4	0.2
Cash flow from operating activities	5.4	26.4	28.5	27.4	34.7	39.3
CAPEX	0.6	0.4	1.4	0.7	0.7	0.7
Payments for acquisitions	1.2	1.2	0.6	0.0	0.0	0.0
Financial investments	51.4	0.0	5.4	0.0	0.0	0.0
Income from asset disposals	1.4	1.0	1.2	54.3	0.0	0.0
Cash flow from investing activities	-51.9	-0.6	-6.2	53.6	-0.7	-0.7
Cash flow before financing	-64.4	5.7	-24.7	0.7	9.5	11.8
Increase/decrease in debt position	0.0	7.0	16.9	-4.0	-4.0	-4.0
Purchase of own shares	0.0	0.0	20.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.1	0.0	0.0	0.0
Dividends paid	17.9	20.1	47.0	80.3	24.5	26.8
Others	-2.8	-8.7	-1.2	0.0	0.0	0.0
Effects of exchange rate changes on cash	-2.9	0.0	-0.0	0.0	0.0	0.0
Cash flow from financing activities	-20.7	-21.8	-51.2	-84.3	-28.5	-30.8
Increase/decrease in liquid assets	-70.1	4.0	-28.9	-3.3	5.5	7.8
Liquid assets at end of period	94.4	90.1	61.2	57.9	63.4	71.2

Key ratios (EUR m)	2020	2021	2022	2023e	2024e	2025e
P&L growth analysis						
Sales growth	-23.3%	-4.2%	26.2%	9.1%	17.6%	8.4%
EBITDA growth	-41.0%	60.0%	14.1%	5.5%	41.6%	19.8%
EBIT growth	-40.7%	254.3%	20.4%	7.7%	55.5%	24.1%
EPS growth	284.7%	32.0%	48.4%	-2.6%	56.9%	24.4%
Efficiency						
Sales per employee	540.5	530.8	649.4	687.1	784.4	835.4
EBITDA per employee	107.6	176.6	195.4	200.0	274.9	323.7
No. employees (average)	161	157	162	167	172	175
Balance sheet analysis						
Avg. working capital / sales	1.5%	5.8%	-2.0%	-1.4%	-1.6%	-1.3%
Inventory turnover (sales/inventory)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Accounts receivable turnover	5.4	7.8	5.0	5.0	5.0	5.0
Accounts payable turnover	15.1	16.2	13.2	12.0	12.0	12.0
Cash flow analysis						
Free cash flow	4.8	26.0	27.1	26.7	34.0	38.6
Free cash flow/sales	5.5%	31.2%	25.7%	23.3%	25.2%	26.4%
FCF / net profit	60.7%	227.9%	163.4%	162.7%	131.9%	120.4%
Capex / sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Solvency						
Net debt	-86.1	-38.5	-2.4	-3.1	-12.6	-24.4
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio	246.5%	435.7%	503.3%	157.9%	109.8%	109.8%
Interest paid / avg. debt	1879.2%	3.8%	1.3%	3.4%	3.1%	3.2%
Returns						
ROCE	1.6%	5.0%	5.8%	6.9%	11.9%	15.2%
ROE	2.1%	2.9%	4.9%	5.9%	9.4%	11.7%
Adjusted FCF yield	3.0%	1.8%	3.5%	3.8%	4.9%	5.9%
Dividend yield	2.7%	6.4%	11.0%	3.4%	3.7%	4.6%
DPS	0.9	2.1	3.6	1.1	1.2	1.5
EPS reported	0.37	0.48	0.72	0.70	1.09	1.36
Average number of shares	22.4	22.4	22.3	22.3	22.3	22.3
Valuation ratios						
P/BV	1.9	1.9	2.2	2.8	2.8	2.8
EV/sales	7.3	10.5	7.0	6.3	5.3	4.8
EV/EBITDA	36.8	31.6	23.2	21.8	15.2	12.5
EV/EBIT	118.7	46.0	32.1	29.5	18.7	14.8

Source: Company data, NuWays

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Company	Disclosures
ZEAL Network SE	2

Historical target price and rating changes for ZEAL Network SE

Company	Date	Analyst	Rating	Target Price	Close
ZEAL Network SE	05.12.2022	Wendisch, Henry	Buy	EUR 49.00	EUR 26.90

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According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published under: www.nuways-ag.com

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